RBI to Transfer 'Surplus' to Government

What is the issue?

- The Reserve Bank of India (RBI) Board recently approved a transfer of Rs 1.76 lakh crore to the government and a one-time transfer of excess provisions amounting to Rs 52,637 crore.
- As RBI isn't a company or an organisation that announces a dividend like the banks it regulates, the transfer method would be different.

How does a central bank like RBI make profits?

- The RBI, a central bank makes profits while carrying out the following functions or operations,
    1. Manages the borrowings of the Government of India and of state government.
    2. Supervise or regulate banks and non-banking finance companies.
    3. Manage the currency and payment systems.
- It earns from the **returns on its foreign currency assets** (In the form of bonds and treasury bills of other central banks/top-rated securities and deposits with other central banks).
- It also **earns interest on its holdings** of local rupee-denominated government bonds or securities, and while lending to banks for very short tenures, such as overnight.
- It also **claims a management commission on handling the borrowings** of state governments and the central government.
- **RBI's Expenditures** - On the printing of currency notes and on staff, the commission it gives to banks for undertaking transactions on behalf of the government across the country, and to primary dealers (including banks) for underwriting some of these borrowings.

What is the nature of the arrangement between the government and RBI on the transfer of surplus?

- The RBI isn't a commercial organisation that is owned or controlled by government, so it doesn't pay dividend to the owner from its profits.
- The RBI was promoted as a private shareholders' bank in 1935 with a paid up capital of Rs 5 crore.
- But the government nationalised the RBI in January 1949, making the

sovereign its “owner”.
- So, the central bank is going to transfer the excess of income over expenditure to the government, in accordance with Section 47 (Allocation of Surplus Profits) of the Reserve Bank of India Act, 1934.
- **Section 47 of the RBI Act** - After making provision for bad and doubtful debts, depreciation in assets, contributions to staff and superannuation fund provision is to be made by or under this Act or which are usually provided for by bankers, the balance, of the profits shall be paid to the Central Government.

Does the RBI pay tax on these earnings or profits?

- No. The Section 48 (Exemption of Bank from income-tax and super-tax) of the RBI Act, 1934 provides exemption from paying income-tax or any other tax.
- **Section 48 of the RBI Act** - Notwithstanding anything contained in any enactment for the time being in force relating to income-tax or super-tax, the RBI shall not be liable to pay income-tax or super-tax on any of its income, profits or gains.

Is there an explicit policy on the distribution of surplus?

- No. But the Y H Malegam Committee of the RBI Board, which reviewed the adequacy of reserves and a surplus distribution policy, recommended, in 2013, a higher transfer to the government.
- Earlier, the RBI transferred part of the surplus to the **Contingency Fund**, and the **Asset Development Fund** (to meet internal capital expenditure and investments in its subsidiaries).
- But after the Malegam committee made its recommendation, in 2013-14, the RBI’s transfer of surplus to the government as a percentage of gross income (less expenditure) shot up to 99.99% from 53.40% in 2012-13.

Have the RBI and the government differed on this issue?

- The government has long held the view that going by global benchmarks; the RBI’s reserves are far in excess of prudential requirements.
- The central bank has traditionally preferred to be more cautious and build its reserves (keeping in mind potential threats from financial shocks and the need to ensure financial stability and provide confidence to the markets).
- From the central bank’s perspective, bigger reserves on its balance sheet is crucial to maintaining its autonomy.

How do other central banks manage the transfer of surplus?

- The central banks in both the UK and US decide after consultations with the government. But in Japan, it is the government that decides.
- By and large, with a few exceptions, the quantum of surplus transfer averages around 0.5% of the GDP.

Source: The Indian Express