

## **RBI's Surplus Transfer to the Government**

### **Why in news?**

The Reserve Bank of India approved the transfer of Rs 99,122 crore as surplus to the central government for the accounting period of 9 months ended March 31, 2021.

### **What helped generate the surplus?**

- The RBI's annual report shows that a sharp 63% contraction in expenditure was a major factor in boosting the surplus.
- This is significant especially as income fell by 11%.
- However, the biggest contributor in real terms was the Rs. 50,629 crore of exchange gain realised by the RBI from its foreign exchange transactions.

### **Why is the transfer significant?**

- The transfer comes as a windfall to the government.
- The second wave of the COVID-19 pandemic has disturbed most projections for the economy including revenue assumptions.
- The payout is almost double the Rs. 53,511 crore that the Finance Minister had budgeted for by way of dividend receipts.
- The RBI has generated a surplus that is over 73% higher than what it posted for the previous 12-month period ended June 2020.
- [Notably, RBI just changed its accounting calendar from July-June to an April-March format.
- It thus had to truncate its last financial year to a 9-month period.]

### **What is the need for caution?**

- The magnitude of economic disruption caused by the pandemic and the uncertainty over its likely cost makes RBI's transfer really significant.
- The transfer is a much-needed buffer to the government's finances.
- However, both the Centre and the RBI need to be cognisant of the risks.
- This is especially in terms of making a habit of banking on these surpluses to cushion the government's coffers.
- After all, just 2 years ago, the RBI had transferred a record Rs. 1.76-lakh crore to the exchequer.
- The RBI has ensured that it maintains contingency reserves at exactly 5.5%

of the overall size of its balance sheet.

- It is thus at the lower end of the 5.5%-6.5% band recommended by the Bimal Jalan committee.
- The level of its reserves provides little room to safeguard against a sudden, unexpected financial crisis.
- Also, higher spending is needed to bolster vaccinations, health care and direct fiscal support.
- Given this, government faces the likelihood of overshooting its budgeted borrowing.
- This might affect the RBI's balance sheet this year too.

### **What does this imply?**

- Policymakers need to remember that the central bank is ultimately the lender of last resort to the nation as a whole.
- It can ill-afford to be less than adequately funded to meet every conceivable contingency.

**Source: The Hindu**