Surplus Transfer to Government from RBI

***Prelims**: Current events of national and international importance| Indian Economy*

Why in news?

For the financial year 2024-25, the RBI is expected to transfer a record Rs 2.5-3 lakh crore, that exceeds the previous record of Rs 2.11 lakh crore transferred in 2023-24.

- **RBI's Surplus -** Surplus is the excess of RBI's income over expenditure, after provisioning for reserves and contingencies.
- It is ***not a dividend***, as RBI is not a company but a statutory body owned by the government.
- **Legal Basis** - The transfer occurs under *Section 47 of the Reserve Bank of India Act, 1934*, which mandates that after making necessary provisions, "the balance of the profits shall be paid to the Central Government.
- **Evolution of Transfer Policy –** Initially, the RBI transferred its surplus profits to the government without a structured framework.
- In ***2013***, the ***Malegam Committee*** recommended increasing surplus transfers to support fiscal deficit reduction efforts.
- This led to a significant rise in transfers, with the RBI transferring ***99.99% of its surplus in 2013-14***, up from 53.4% in 2012-13.
- Earlier, part of the surplus was set aside for:
  - Contingency Fund (CF) for unforeseen events.
  - Asset Development Fund (ADF) for capital investments and subsidiaries.
- **Economic Capital Framework (ECF)** - In ***2018***, the *Bimal Jalan Committee* was formed to review the RBI's economic capital Framework.

> *The ECF provides a structured approach to determine the appropriate level of risk provisioning (CRB) and guides the surplus transfer to the government.*

- The committee recommended maintaining a *Contingent Risk Buffer (CRB) between 5.5% and 6.5%* of the RBI's balance sheet.
- Any excess over this range could be transferred to the government.
- The ECF was adopted in August 2019, that provoide a structured approach to surplus distribution.

> *The RBI is exempt from paying income tax or any other tax on its earnings under Section 48 of the RBI Act.*

- **Global Practice -** In countries like the US and UK, the surplus transfer is decided in consultation with the government.
- In Japan, the government unilaterally decides the transfer.
- Globally the surplus transfer typically averages around 0.5% of GDP.

Reference

The Indian Express| Surplus Transfer to Government from RBI