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# RBI's Dividend Shock

## What is the issue?

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RBI's dividend that is paid back to the government had about halved from the previous year.

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## What is the crux of the issue?

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- RBI's has slashed its dividend payout to the Centre by half, to Rs. 30,659 crores from around 62,000 crores last year.
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- Various reasons have been stated for this, ranging from the higher interest costs paid by the RBI to banks after demonetisation, a bigger transfer to the contingency reserve & the loss incurred on printing new currency (Seigniorage losses).
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- The last element is a surprise as printing new currency usually results in windfall profits for central banks and governments.
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## What is "Seigniorage"?

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- It is the profits governments make by minting currency.
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- It is the difference between the face value of a currency note or coin, and its actual production cost.
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- For instance, if the cost of printing a Rs. 2,000-note is about Rs. 4, printing one such note and putting it into circulation fetches a profit of Rs. 1,996.
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- While higher denomination notes earning higher profits, things are different in the case of coins where the cost of minting is usually almost equal to the face value and can fluctuate based on the price of base metal.
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- In most countries, the central banks 'earn' this profit and transfer it to the Government.
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## What is unusual about FY-17?

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- Unusually, in FY17, the RBI made a loss from seignorage.
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- **Demonetisation -** When demonetisation was announced, it had to call back and extinguish all the Rs. 500 and Rs. 1000 notes in circulation.
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- Rs. 15.4 lakh crore (face value) worth of currency was demonetised and 90 per cent of it had to be reprinted within the year.
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- Normally the RBI would have made profits on issuing new currencies of high denomination, but instead it made losses as it had to replace older notes.
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- **The Losses -** The lumpy cost of printing and the interest foregone by the RBI to banks that placed their excess deposits (due to demonetisation) are mainly blamed for the lower dividends.
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- SBI's chief economist noted in a recent research report that seigniorage loss and the extra interest that the RBI paid, took out Rs. 26,000 crore from its dividend payout this year.
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- Had the note ban resulted in a lot of money not returning to the RBI, the windfall profit therein could have made up for the seigniorage loss but that didn't happen.

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## Why is this of concern?

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- The Centre has budgeted expecting the RBI's contribution to make up a major chunk of dividend receipts from the financial sector.
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- Last year Rs. 65,876 crore was paid out by the RBI as dividend to the Government.
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- Now, as an approximate 50% fall in such transfers has occurred, this means the Centre's fiscal math could go for a toss.
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- This will have to be made up majorly by better tax collections.
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- The only other option is through borrowing, but that would lead to slippage of fiscal targets, which could easily prove to be inflationary.
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## What are the hopes?

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- The demonetisation exercise and Operation Clean Money are said to have increased the number of direct taxpayers sharply.
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- If these taxpayers help the Government garner additional revenues in the form of taxes, the hole left by RBI dividends could be filled.
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- SBI has estimated such incremental revenue to around Rs. 20,000 crore.
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- The taxes it can collect for 2017-18 fiscal is the only hope for the government to provide it a face saver.
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**Source: Business Line**

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