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