RBI Surplus Transfer to Government

Why in news?

\n\n

\n
- RBI has transferred a surplus of Rs 50,000 crore to the central government in FY18.
\n
- It has also made a provision of Rs 14,190 crore and transferred it to contingency fund (CF).
\n

\n\n

What are the transfers for?

\n\n

\n
- Contingency Fund is the fund that the central bank has built over the years.
\n
- This is to meet unexpected exigencies and risks
\n

\n\n

\n
i. from sharp fluctuation in the value of securities held by it
\n
ii. from monetary or exchange rate policies of central banks
\n
iii. from other systemic risks
\n

\n\n

\n
- Besides, RBI transfers the surplus generated from its functions to the government at the end of each financial year.
\n
- This is after accounting for any funds transferred to the contingency reserve or the asset development fund.
\n

- It follows July-June financial year.
\n

\n\n

What is the recent trend?

\n\n

\n
- Transfer of surplus to the government has risen by around 63% during the financial year ended June, 2018.
\n
- RBI had transferred a surplus of around Rs 30,600 crore to the government in financial year 2016-17.
\n
- During 2017-18, RBI's balance sheet increased by 9.49% or Rs 3.13 trillion.
\n
- The increase on the asset side was mainly due to rise in foreign investments, and loans and advances.
\n
- On the liability side, the increase was due to increase in notes issued and other liabilities and provisions.
\n
- Domestic assets, foreign currency assets and gold recorded marginal increase from the previous year.
\n

\n\n

Why is the CF contribution laudable?

\n\n

\n
- RBI had been transferring a chunk of its surplus to the contingency fund up to 2012-13.
\n
- However, these transfers temporarily ceased thereafter.
\n
- The transfers resumed from 2016-17 and this prudential policy continues in 2017-18.
\n
- The RBI faces pressure to transfer funds to the Centre, to help bridge the fiscal deficit.
\n

\n\n

\n

- Despite this, RBI has continued to transfer a portion to the Contingency Fund.
\n
- This year's contribution is also slightly higher than the CF transfers of last year.
\n

\n\n

What are the challenges?

\n\n

\n

- There are heightened worries of turbulence in global financial markets due to the ongoing trade war.
\n
- There is also an explosive political situation in the US.
\n
- There is also the threat of value erosion to currencies of emerging economies.
\n
- Given these, the value of the RBI’s foreign currency assets is at a greater risk.
\n

\n\n

\n\n

Source: Economic Times, BusinessLine

\n