

RBI Surplus Transfer to Government

Why in news?

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- RBI has transferred a surplus of Rs 50,000 crore to the central government in FY18.

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- It has also made a provision of Rs 14,190 crore and transferred it to contingency fund (CF).

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What are the transfers for?

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- Contingency Fund is the fund that the central bank has built over the years.

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- This is to meet unexpected exigencies and risks

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- i. from sharp fluctuation in the value of securities held by it

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- ii. from monetary or exchange rate policies of central banks

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- iii. from other systemic risks

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- Besides, RBI transfers the surplus generated from its functions to the government at the end of each financial year.

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- This is after accounting for any funds transferred to the contingency reserve or the asset development fund.

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- It follows July-June financial year.

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What is the recent trend?

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

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Why is the CF contribution laudable?

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

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

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

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