RBI's Surplus Halved

Why in news?

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- RBI recently approved the transfer of surplus to the Government of India amounting to Rs.30,659crore for the year ended.
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- This is less than half of the surplus transfer in the previous year.
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What is RBI's surplus?

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- The RBI's surplus represents the difference of income over its expenditure.
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- The key source of income for the Central bank is the interest arising from its foreign assets and domestic assets.
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- It includes the interest earned on bond holdings through open market operations or purchase and sale of government securities.
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- The transfer of profits is provided in Section 47of the RBI Act.
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- It states that the balance of the profits of the bank is required to be paid to the Central government.
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- In 2012-13, YH Malegam Committee recommended the central bank to transfer its entire surplus to the government, without allocating anything to its various reserve funds, because it had adequate reserve funds.
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- The RBI has been transferring its entire surplus to the government since 2013-14.
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- The RBI's financial year runs from July to June.
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What are the reasons for the decline?

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- The RBI did not provide any reason for the decline in dividend. The possible reasons could be –
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- **Demonetisation -**RBI's expenses would have gone up on account of the demonetisation exercise, whereby old denomination notes were sucked out of the economy and new denominations were circulated.
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- Also the notes that are not returned remain as the RBI's liability and cannot be passed on to the government.
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- **Reverse repo -**Reverse repo operation is when RBI borrows money from banks by lending securities.
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- The interest rate paid by RBI in this case is called the reverse repo rate.
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- It is done to absorb the liquidity in the system.
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- Multiple Reverse-repo auctions were conducted by RBI to drain surplus liquidity with the banking system after the demonetisation.
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- On an average, RBI paid 6% interest to drain the excess liquidity.
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- **Rupee Appreciation -**The rupee has appreciated by more than 6% against the dollar since January 2017.
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- This had depressed returns, in rupee terms, on the RBI's foreign holdings.
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What will be the impact?

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- In the Union Budget 2017-18, it was assumed that around Rs.75,000 crore would come from the RBI, public sector banks (PSBs) and financial institutions.
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- But the lower surplus will exert pressure on the government to meet its fiscal

deficit (FD).
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- FD might increase from 3.2% to 3.4% this year.
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Source: The Indian Express & Business Standard

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