Though the RBI's transfer is a much needed buffer for the economy, there are risks in depending on these surpluses. Analyse (200 w) | 31 Mar

The COVID-19 pandemic has dealt a severe blow to economic activity in the country which has resulted in the Government's revenue streams running dry. GST collections too are likely to fall in the coming months.

In this dire situation, RBI's dividend payment of more than ₹ 99,000 crore comes as a breath of fresh air for the Union Government.

It can be utilised as follows pushing the demand up & kickstarting a lethargic economy:

1. Boosting of healthcare infrastructure.
2. Acquiring vaccines & other essential drugs & devices from global markets.
3. Extending the social safety net to those vulnerable to sliding down the poverty line & provision of direct fiscal support.

RBI's splendid surplus has resulted from expenditure cuts & exchange gains during forex transactions.

From its income, the RBI is required to allocate funds for various contingencies that may arise in the economy. Hence, though the current transfer is much needed, a habit should not be made of RBI cushioning the govt. coffers.

(1) Reduced reserves may push down the RBI's global credit ratings, making foreign borrowings expensive during an exchange rate crisis.

(2) While the Bimal Jalan committee had recommended a contingency reserve of 5.5 – 6.5% of RBI's income, the central bank has gone with 5.5% leaving little room for flexibility during a crisis.

(3) The government may need to surpass its budgeted borrowings in coming months – for which RBI as a 'lender of last resort' must keep adequate funds.

conclusion – In order to preserve RBI's autonomy & ensure its reliability it is a must that it maintains adequate reserves.