RBI surplus or dividend to the Union government

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Why in News?

While the RBI transferred a lower surplus of Rs 30,307 crore in FY2022 (Rs 99,126 crore in FY2021) to the government, the lowest in 10 years, the surplus this financial year is also likely to be on the lower side. The lower dividend could be due to higher interest payments to banks which parked their surplus liquidity in the reverse repo window.

What is RBI's Transfer of Surplus to Government?

RBI transfers its surplus profits to the Government according to the provisions of Section 47 of the Reserve Bank of India Act, 1934. Section 47 says that surplus profits of the RBI are to be transferred to the government. Surplus profit is the profit left after making various contingency provisions for bad and doubtful debts, depreciation in assets, contributions to staff, and superannuation funds, etc.

Why might RBI Surplus Transfer drop?

The RBI normally pays the dividend from the surplus income it earns on investments and valuation changes on its dollar holdings and the fees it gets from printing currency, among others. The rupee depreciation against the dollar in recent months is also likely to weigh on the surplus transfer.

Why RBI Income may be lower?

Several aspects affect the quantum of surplus generated by the RBI. One is the interest rate the central bank has to pay when banks park their funds with the RBI. Two, rupee depreciation against dollar. Three, as bond prices dropped with rising yields, RBI had to provide for mark-to-market losses.

When RBI transferred High Dividend to Union Government?

Higher dividend transfer by the RBI, especially since 2018-19, had offered some relief to the government as it tackled an economic slowdown even before the pandemic spread its tentacles. Based on the Bimal Jalan committee, which looked into the RBI's economic capital framework (ECF), the central bank transferred an all-time high amount of Rs 1.76 lakh crore to the government in 2018-19 (July-June). The committee recommended that the RBI maintain a minimum Contingency Risk Buffer of 5.5% of its balance sheet.

What is IRA-FS? How it will help?

In the Investment Revaluation Account-Foreign Securities (IRA-FS), the foreign dated securities are marked-to market on the last business day of each week ending Friday and the last business day of each month and the unrealised gains or losses are transferred to the IRAFS.

The balance in IRA-FS decreased from Rs 8,853.67 crore as on March 31, 2021 to (-) Rs 94,249.54 crore as on March 31, 2022 because of increase in yields across the maturities for all major markets. However, this loss was adjusted against the Contingency Fund and the balance in IRA-FS was nil as of March 2022. Bond yields had risen further since then in most overseas markets with the 10-year US bond yield rising by 185 basis points to 3.59 per cent in the last 12-month period. When the yield goes up, the prices of the bond drop, leading to a loss in mark-to-market holdings. The balance in Investment Revaluation Account–Rupee Securities (IRA-RS) decreased from Rs 56,723.79 crore as on March 31, 2021 to Rs 18,577.81 crore as on March 31, 2022, due to net impact of hardening of yields across the yield curve leading to mark-to market losses and booking of unrealised gain into realised gain on sale of rupee securities. India’s 10-year bond yield is now at 7.32 per cent.