IAS VIDEOS.COM
ABCD OF IAS TAUGHT HERE

Date: 28 August, 2019

Pen drive Courses for UPSC CSE preparation

1. RBI accepts Jalan panel report, approves Rs 1.76 lakh crore surplus transfer to govt

- ❑ How does a central bank like the RBI make profits?
- ❑ What is the nature of the arrangement between the government and RBI on the transfer of surplus or profits?
- ❑ Does the RBI pay tax on these earnings or profits?
- ❑ How do other central banks manage the transfer of surplus?

GS paper 3 (Indian Economy)

IAS VIDEOS.COM
ABCD of IAS TAUGHT HERE

Date: 28 August, 2019

Pen drive Courses for UPSC CSE preparation

In this video, you can find detailed answers for all the above questions.

The above article has been retrieved from:

Express Web Desk . (2019, August , 27). Explained: Why and how does the RBI transfer ‘surplus’ to government?. Indian Express. Retrieved from https://indianexpress.com/article/explained/explained-why-and-how-does-the-rbi-transfer-surplus-to-government-5942031/

IAS VIDEOS.COM
ABCD OF IAS TAUGHT HERE

Date: 28 August, 2019

Pen drive Courses for UPSC CSE preparation

What is the context about?

- On Monday, the Reserve Bank of India (RBI) Board approved a transfer of Rs 1,76,051 crore to the government, including a surplus or dividend of Rs 1,23,414 crore, and a one-time transfer of excess provisions amounting to Rs 52,637 crore.

- The excess reserve transfer is in line with the recommendation of former RBI governor Bimal Jalan-led panel constituted to decide size of capital reserves that the central bank should hold.

- The government was represented by Finance Secretary Rajiv Kumar in the panel which finalised its report on August 14 by consensus.

Date: 28 August, 2019

How does a central bank like the RBI make profits?

- The RBI is a "full service" central bank— not only is it mandated to keep inflation or prices in check, it is also supposed to manage the borrowings of the Government of India and of state governments; supervise or regulate banks and non-banking finance companies; and manage the currency and payment systems. While carrying out these functions or operations, it makes profits.

- Typically, the central bank's income comes from the returns it earns on its foreign currency assets, which could be in the form of bonds and treasury bills of other central banks or top-rated securities, and deposits with other central banks.

- Its expenditure is mainly on the printing of currency notes and on staff, besides the commission it gives to banks for undertaking transactions on behalf of the government across the country.

What is the nature of the arrangement between the government and RBI on the transfer of surplus or profits?

IAS VIDEOS.COM
ABCD of IAS TAUGHT HERE

Date: 28 August, 2019

- The RBI isn't a commercial organisation like the banks or other companies that are owned or controlled by the government – it does not, as such, pay a "dividend" to the owner out of the profits it generates.
- RBI transfer the "surplus" – that is, the excess of income over expenditure – to the government, in accordance with Section 47 (Allocation of Surplus Profits) of the Reserve Bank of India Act, 1934.
- The Central Board of the RBI does this in early August, after the July-June accounting year is over.

IAS VIDEOS.COM
ABCD of IAS TAUGHT HERE

Date: 28 August, 2019

Pen drive Courses for UPSC CSE preparation

Does the RBI pay tax on these earnings or profits?

No. Its statute provides exemption from paying income-tax or any other tax, including wealth tax. Section 48 (Exemption of Bank from income-tax and super-tax) of the RBI Act, 1934, says: "Notwithstanding anything contained in [the Income-Tax Act, 1961], or any other enactment for the time being in force relating to income-tax or super-tax, the Bank shall not be liable to pay income-tax or super-tax on any of its income, profits or gains."

IAS VIDEOS.COM
ABCD of IAS TAUGHT HERE

Date: 28 August, 2019

How do other central banks manage the transfer of surplus?

- Like in India, central banks in both the UK and US decide after consultations with the government. But in Japan, it is the government that decides.

- By and large, with a few exceptions, the quantum of surplus transfer averages around 0.5% of the GDP.