



## Timely windfall

**News:** The Reserve Bank of India's decision to transfer ₹99,122 crores of surplus to the Centre comes as a windfall to the government, at a moment when the ferocious second wave of the COVID-19 pandemic has likely upended most projections for the economy including revenue assumptions.

### Highlights:

1. The RBI's annual report shows that a sharp 63% contraction in expenditure was a major factor in boosting the surplus, especially as income fell by 11%.
2. However, the biggest contributor in real terms was the ₹50,629 crore of exchange gain realized by the central bank from its foreign exchange transactions.
3. The central bank, which admits to intervening in the foreign exchange market to smooth volatility, clearly had a very busy time mopping up the record foreign direct investment inflows that exceeded \$81 billion (at a gross level) in the last financial year, as well as the sizeable portfolio investments from overseas.
4. Still, a 69% increase in exchange gain, over the preceding 12-month period, prompts the question as to whether the RBI's foreign exchange transactions were all entirely aimed only at stabilizing the rupee's value.

### Much Needed Buffer:

1. Given the magnitude of economic disruption caused by the ongoing pandemic and the lack of visibility on the costs that the economy is going to have to bear in the coming months, the RBI's transfer surely provides a much-needed buffer to the government's finances.
2. However, both the Centre and the central bank need to be cognizant of the risks in making a habit of banking on these surpluses to cushion the government's coffers.
3. After all, just two years ago, the RBI had transferred a record ₹1.76-lakh crore to the exchequer. While the Reserve Bank has ensured that it maintains contingency reserves at exactly 5.5% of the overall size of its balance sheet, the level of its reserves provides little wiggle room to safeguard against a sudden, unexpected financial crisis and is at the lower end of the 5.5%-6.5% band recommended by the Bimal Jalan committee.
4. With the government facing the likelihood of overshooting its budgeted borrowing, given the higher spending needed to bolster vaccinations, health



care and direct fiscal support, the RBI's balance sheet could swell in size this year too.

5. It would behoove policymakers to remember that the central bank is ultimately the lender of last resort to the nation as a whole and can ill-afford to be less than adequately funded to meet every conceivable contingency.