NOTES

Banking Sector / Financial Sector

1. RBI's surplus transfer to Government

- The Reserve Bank of India (RBI) transferred a surplus of Rs 99,122 crore to the government. The bank also decided to maintain **the contingency risk buffer** at 5.5 percent.

Provisions in this regard:
The RBI, established in 1935, operates according to **the Reserve Bank of India Act of 1934.** The act mandates that **profits made by the central bank from its operations be sent to the Centre.**
- As the manager of its finances, every year the RBI also pays a dividend to the government to help with the finances from its surplus or profit.

A technical Committee of the RBI Board headed by **Y H Malegam (2013),** which reviewed the adequacy of reserves and surplus distribution policy, recommended a higher transfer to the government.

RBI's Earning:
- **Returns earned 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.
- **Interest on its holdings of local rupee-denominated government bonds or securities,** and while lending to banks for very short tenures, such as overnight.
- **Management commission** on handling the borrowings of state governments and the central government.

RBI's Expenditure:
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, and to primary dealers, including banks, for underwriting some of these borrowings.

2. Inflation targeting

The Centre has decided to retain the inflation target of 4%, with a tolerance band of +/- 2 percentage points for the Monetary Policy Committee of the RBI for the coming five years.

What is inflation targeting?
- It is a central banking policy that revolves around adjusting monetary policy to achieve a specified annual rate of inflation.
- The principle of inflation targeting is based on the belief that long-term economic growth is best achieved by maintaining price stability, and price stability is achieved by controlling inflation.

Inflation Targeting Framework:
Now there is a **flexible inflation targeting framework** in India (after **the 2016 amendment to the Reserve Bank of India (RBI) Act, 1934).**

Who sets the inflation target in India?
The amended RBI Act provides for the inflation target to be set by the Government of India, in consultation with the Reserve Bank, **once every five years.**

Current Inflation Target:
The Central Government has notified 4 per cent Consumer Price Index (CPI) inflation as the target for the period from August 5, 2016, to March 31, 2021, with the upper tolerance limit of 6 per cent and the lower tolerance limit of 2 per cent.