

Why are RBI's accounts important?

- Balance sheet of the RBI plays a critical role in the functioning of the country's economy — largely reflecting the activities carried out in pursuance of its currency issue function, as well as monetary policy and reserve management objectives.
- The RBI Act says the central bank “shall undertake to accept monies for account of the Central Government and to make payments up to the amount standing to the credit of, and to carry out (its exchange), remittance and other banking operations, including the management of the public debt”.
- The RBI acts as country's monetary authority, regulator, and supervisor of the financial system, manager of foreign exchange, issuer of currency, regulator and supervisor of payment and settlement systems, banker to the central and the state governments, and also banker to banks.

Why is the system being changed?

- The Committee on Economic Capital Framework (ECF) of the RBI headed by the Bimal Jalan proposed a more transparent presentation of the RBI's annual accounts, and a change in its accounting year to April-March from the financial year 2020-21.
- After changing the accounting period, RBI would be able to provide better estimates of projected surplus transfers to the government for the financial year for budgeting purposes.
- With this change there will be better management of transfer of dividend or surplus to the government.

What will be impact of the change?

Accounting period change will have far reaching impacts-

- Reduce the need for interim dividend being paid by the RBI, and such payments may then be restricted to extraordinary circumstances.
- Remove any timing considerations that may enter into the selection of open market operations or Market Stabilization Scheme as monetary policy tools.
- Bring greater cohesiveness in monetary policy projections and reports published by the RBI, which mostly use the fiscal year as the base.

15th Finance Commission report

In news

- The report of the Fifteenth Finance Commission headed by N K Singh, had submitted its report to the President in 2019 along with an Action Taken Report was tabled in Parliament.
- The government had accepted “in substantial measure” the recommendations of the Commission.

The Finance Commission and its purpose

- Constitution of Finance Commission is required **under Article 280** to recommend the distribution of the net proceeds of taxes between the Centre and states, and among the states.
- **First Commission was set up in November 1951** under the Chairmanship of K C Neogy, a former member of the Constituent Assembly and diwan of a princely state.
- 14 more commissions have been appointed since then by the President.