2. Economic Capital Framework

Prelims: Economics- Banking

Mains: GS-III- Indian Economy and issues relating to Planning, Mobilization of resources, Growth, Development and Employment.

Why in News?

- The Reserve Bank of India (RBI) has decided to transfer Rs 1.76 lakh crore to the Central government, which may help the government in dealing with the economic slowdown.

Highlights:

- The Rs 1.76 lakh crore includes the central bank's 2018-19 surplus of ₹1.23 lakh crore and Rs 52,637 crore of excess provisions identified as per the revised Economic Capital Framework (recommended by Bimal Jalan Committee).
- The government already had revised downward the fiscal deficit target to 3.4% from 3.3% and initiated a slew of measures that are being dubbed as mini-budget.

Economic Capital Framework:

- The RBI had formed a committee chaired by former Governor Bimal Jalan to review its economic capital framework and suggest the quantum of excess provision to be transferred to the government.
- The panel recommended a clear distinction between the two components of the economic capital of RBI i.e. Realized equity and Revaluation balances.
- Revaluation reserves comprise of periodic marked-to-market unrealized/notional gains/losses in values of foreign currencies and gold, foreign securities and rupee securities, and a contingency fund.
- Realized equity, which is a form of a contingency fund for meeting all risks/losses primarily built up from retained earnings. It is also called the Contingent Risk Buffer (CBR).
- The Surplus Distribution Policy of RBI that was finalized is in line with the recommendations of the Bimal Jalan committee.
- The Jalan committee has given a range of 5.5-6.5% of RBI's balance sheet for Contingent Risk Buffer.

- Adhering to the recommendations, the RBI has decided to set the CBR level at 5.5% of the balance sheet, while transferring the remaining excess reserves worth ₹52,637 crore to the government.
- If CBR is below the lower bound of requirement, risk provisioning will be made to the extent necessary and only the residual net income (if any) transferred to the Government.