

RBI Latest Updates [Dividend Payout to Central Govt]

The Reserve Bank of India (RBI) is India's central bank. It controls the monetary policy concerning the national currency, the Indian rupee. The basic functions of the RBI are the issuance of currency, sustaining monetary stability in India, operating the currency, and maintaining the country's credit system.

RBI Latest Updates

In May 2023, the Reserve Bank approved a Rs 87,416 crore dividend payout to the central government for 2022-23, nearly triple what it paid in the previous year.

Details:

- The decision was taken at the 602nd meeting of the Central Board of Directors of the Reserve Bank of India held under the chairmanship of Governor Shaktikanta Das.
- The board approved the transfer of Rs 87,416 crore as surplus to the central government for the accounting year 2022-23.
- This is a **188% jump from the last year's (2021-22) surplus transfer of Rs 30,307 crore.**
- **It decided to keep the Contingency Risk Buffer (CRB) at 6 per cent.**
- The contingency risk buffer is a specific provision fund kept by the central bank primarily to be used during any unexpected and unforeseen contingencies.
- **The Bimal Jalan Committee recommended that the CRB needs to be maintained at a range of 5.5% to 6.5% of the RBI's balance sheet.**
- The board also reviewed the global and domestic economic situation and associated challenges, including the impact of current global geopolitical developments.
- The dividend could bring in additional revenue of around 0.2 per cent of GDP.

Provisions Regarding Transfer of Surplus by RBI:

- The **Reserve Bank of India Act of 1934** mandates that profits made by the central bank from its operations be sent to the Central Government.
- 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 Reserve Bank of India headed by Y H Malegam (2013), which reviewed the adequacy of reserves and surplus distribution policy, recommended a higher transfer to the government.

How Does RBI Make Profits?

- The RBI is a “full-service” central bank.
- It is mandated to keep inflation in check and also manage the borrowings of the Government of India and of state governments.
- It also supervises or regulates banks and non-banking finance companies and manages the currency and payment systems. While carrying out these functions, RBI makes profits.
- RBI claims a management commission on handling the borrowings of state governments and the central government.
- RBI also earns interest on its holdings of local rupee-denominated government bonds or securities, and while lending to banks for very short tenures, such as overnight.
- RBI’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.

LEF Guidelines

Reserve Bank of India has dismissed worries about the "exposure" of Indian banks to the Gautam Adani-led conglomerate. Click here to read more about the [Adani-Hindenburg issue](#).

What is Final Exposure?

- A bank's counterparty exposures may cause its assets to become concentrated in the hands of a single or network of connected counterparties.

About Large Exposure Framework (LEF) Guidelines:

- The Basel Committee on Banking Supervision (BCBS) released supervisory recommendations on significant exposures in January 1991, titled Monitoring and Managing Significant Credit Exposures. Know more about [Basel III Norms](#) in the link.
- The recommendations on large exposures (LE) for banks were created by the RBI after deciding that Indian banks should properly embrace these standards.
- With rare exclusions, the LEF applies to a bank's exposure to all of its counterparties as well as groups of connected counterparties.
- It is founded on the 2014 Basel guidelines.

- Positive indications include numerous measures of sufficient capital, excellent assets, liquidity, provision coverage, and profitability.

Update on Feb 2021

- On 16th February 2021, RBI has announced an expert committee on primary urban cooperative banks. The chairman of the committee is NS Vishwanathan. (Get the [list of committees with their purpose](#) in the linked article for quick revision for UPSC.)
- On 5th February 2021, RBI Monetary Policy (2021-22) was announced. The central bank kept the Repo Rate at 4 percent while projected the GDP growth in Fiscal Year (FY) 2022 at 10.5 percent. (Understand [Cash Reserve Ration, Repo Rate and Reserve Repo Rate](#) in the linked article.)

What is RBI?



RBI is an institution of national importance and the pillar of the surging Indian economy. It is a member of the [International Monetary Fund \(IMF\)](#).

- The concept of Reserve Bank of India was based on the strategies formulated by Dr. Ambedkar in his book named “The Problem of the Rupee – Its Origin and its Solution”.
- This central banking institution was established based on the suggestions of the “Royal Commission on Indian Currency & Finance” in 1926. This commission was also known as **Hilton Young Commission**.
- In 1949, the Reserve Bank of India was nationalized and became a member bank of the Asian Clearing Union.

- RBI regulates the credit and currency system in India.
- The chief objectives of the RBI are to sustain the confidence of the public in the system, protect the interests of the depositors, and offer cost-effective banking services like cooperative banking and commercial banking to the people.

Reserve Bank of India (RBI) - Timeline

The RBI is an important tool in the development strategy of the Indian government. UPSC has asked several questions regarding RBI functions, objectives, monetary regulations, etc., especially in [UPSC Prelims](#). One of the things to know about RBI is its timeline which is provided in the table below:

Year	Event
1934	The British enacted the Reserve Bank of India Act
1935	Reserve Bank of India was established on 1st of April in Calcutta
1937	Reserve Bank of India was permanently moved to Mumbai
1949	Got nationalized after independence. The bank was held by private before this.

In the year 2016, the original RBI Act of 1934 was amended and that provided the statutory basis for the implementation of the flexible inflation-targeting framework.

The Preamble of Reserve Bank of India

Another thing to know about RBI is its Preamble. It describes the basic functions of the Reserve Bank as:

“...to regulate the issue of Bank Notes and keeping of reserves to secure monetary stability in India and generally to operate the currency and credit system of the country to its advantage.”

Functions of Reserve Bank of India

Reserve Bank of India works as:

Monetary Authority

- Implementation of monetary policies.
- Monitoring the monetary policies
- Ensuring price stability in the country considering the economic growth of the country

Regulator and Administrator of the Financial System

- The RBI determines the comprehensive parameters of banking operations.
- These methods are responsible for the functioning of the country's banking and financial system.

Methods such as:

- License issuing
- Liquidity of assets
- Bank mergers
- Branch expansion, etc.

Managing Foreign Exchange

- RBI manages the [FOREX Reserves](#) of India.
- It is responsible for maintaining the value of the Rupee outside the country.
- It aids foreign trade payment.

Issuer of currency

- The Reserve Bank of India is responsible for providing the public with a sufficient supply of currency notes and coins.
- The quality of currency notes and coins is also taken care of by the RBI.
- RBI is in charge of issuing and exchanging of currency and coins.
- Also, the destruction of currency and coins that are not fit for circulation.

RBI's Developmental Role

- Promotional functions that support national objectives are organized by RBI that encourage rural and agricultural economic development.
- The RBI will regularly issue directives to commercial banks to lend loans to small-scale industrial units.

Composition of RBI

- Reserve Bank of India is controlled by a central board of directors. The directors are appointed for a 4-year term by the Government of India in keeping with the Reserve Bank of India Act.
- The Central Board consists of:
 - Governor
 - 4 Deputy Governors
 - 2 Finance Ministry representatives
 - 4 directors to represent local boards headquartered at Mumbai, Kolkata, Chennai, and New Delhi
- The executive head of RBI is Governor.

- The Governor is accompanied by 4 deputy governors.
- The First Governor of RBI was Sir Osborne Smith and the First Indian Governor of RBI was C D Deshmukh.
- The First woman Deputy Governor of RBI was K J Udeshi.
- The only Prime Minister who had been the Governor of RBI was Manmohan Singh.

The current governor of RBI (2021) is Shaktikanta Das. Get the [list of RBI Governors](#) in the linked article.

Zonal Offices

- RBI has four zonal offices: New Delhi for North, Chennai for South, Kolkata for East, and Mumbai for West.
- The Reserve Bank of India has 19 regional offices and 11 sub-offices at present.
- The bank has two training colleges for its officers:
 - Reserve Bank Staff College at Chennai
 - College of Agricultural Banking at Pune.

Frequently Asked Questions related to the Reserve Bank of India (RBI) and RBI Logo

Q. How many reserve banks are there in India?

There is only one central bank in India called the Reserve Bank of India. It has offices at 31 locations all across the country.

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The main functions of the Reserve Bank of India are as follows:

- Monetary Authority
- Regulator and administrator of the financial system
- Managing Foreign Exchange
- Issuer of currency
- Developmental role

Q. What does the RBI logo mean?

RBI logo is to remind and symbolise not just its governmental status, its links to the country - but also its independence and a critical separation of the RBI from the government. The consideration, according to the RBI, in selecting the logo was, that “the seal should emphasise the Governmental status of the Bank, but not too closely” and that “it should have something Indian in the design”.

Q. What animal is RBI logo?

The official emblem of the apex bank – a palm tree and a tiger – is in many ways a vestige of this colonial past and is derived from the East India Company's original seal and mohur that showed a lion and a palm tree. The tiger, it was decided, would replace the lion. Tigers, at the time, were widespread in India and carried a cultural cache like no other species. The tiger was chosen since it was felt to be more of an 'Indian' animal than the lion. At the time, the tiger was widespread throughout the country, while the lion was virtually extinct.

Q. What is RBI contingency fund?

The RBI also stores a Contingency Fund (CF), which is another provision for tackling unexpected emergencies. Coming to surplus funds, it is the amount RBI transfers to the government after meeting its own expenses. This surplus is basically RBI's income which it earns through interest on securities it holds.

Q. Who owns RBI?

Though originally privately owned, since nationalisation in 1949, the Reserve Bank is fully owned by the Government of India.

Q. How many branches of RBI are there in India?

There are four zonal offices of RBI at Mumbai, Kolkata, Delhi and Chennai. RBI has nineteen regional offices at: Thiruvananthapuram, Patna, Nagpur, Lucknow, Mumbai, Kochi, Kolkata, Jammu, Kanpur, Chennai, Delhi, Guwahati, Bhubaneswar, Bhopal, Hyderabad, Ahmedabad, Chandigarh, Jaipur and Bangalore.