

RBI's Dividend Transfer - Fiscal Relief Amid Global Uncertainty

May 23, 2026 • vajiramandravi.com



RBI's Dividend Transfer Latest News

- The Reserve Bank of India (RBI) has approved a record surplus transfer of **Rs 2.87 lakh crore** to the Central Government for FY 2025-26.
- The move comes at a time when rising geopolitical tensions in West Asia, volatile crude oil prices, and pressure on the rupee are straining India's fiscal and external sector position.

Framework of RBI's Dividend Transfer

- **Overview:**
 - The RBI transfers its surplus profits to the Central Government under the **RBI Act, 1934**.
 - Governed by the revised **Economic Capital Framework (ECF)**, the RBI retains funds for risk provisions and transfers the remaining net income to the central government.
- **Legal and policy frameworks:**

- **RBI Act, 1934:** Section 47 mandates that after making provisions for bad and doubtful debts, depreciation in assets, and staff contributions, the net profits of the RBI must be transferred to the government.
- **ECF:** The ECF determines how much of the RBI's capital needs to be held as buffers against risks versus how much can be distributed as dividend RBI 'surplus' transfer to the government.
- **Bimal Jalan committee (2018):** It designed the current framework and recommended categorizing the RBI's reserves into **two parts** –
 - **Realized equity:** Acts as the primary risk buffer ECF of the RBI.
 - **Revaluation balances:** Highly volatile buffers based on currency and gold valuations ECF of the RBI.
- **Contingent Risk Buffer (CRB):** The CRB acts as the RBI's financial **safety cushion** to absorb risks arising from currency volatility, interest-rate shocks, financial instability, market losses, external sector pressures, and operational risks.
- **Mechanics of the transfer:**
 - **Income calculation:** The RBI calculates its gross income primarily from interest on domestic/foreign bonds and revaluation gains on foreign exchange/gold transactions.
 - **Provisioning:** Deductions are made for operational expenses, and the necessary amount is allocated to maintain the CRB.
 - **Surplus distribution:** If the CRB is above the required target, the entire residual net income is transferred to the Government.

Record Surplus Transfer by RBI

- The RBI approved a dividend transfer of Rs 2,86,588 crore, the **highest ever** surplus transfer to the government.
- This is higher (by around 6.7%) than Rs 2,68,590 crore transferred in FY 2024-25, and significantly above the transfers of Rs 2,10,874 crore in FY 2023-24, and Rs 87,416 crore in FY 2022-23.
- The surplus is expected to provide **substantial fiscal support** to the Centre.

Reasons Behind Higher RBI Earnings

- **Forex market intervention and trading gains:**
 - A major contributor was the RBI's large-scale sale of US dollars to stabilise the rupee amid depreciation pressures.
 - These foreign exchange operations generated significant trading gains for the central bank.
- **Higher returns on foreign assets:** Elevated global interest rates increased returns on the RBI's overseas securities and foreign currency assets, boosting its income position.
- **Revised Economic Capital Framework (ECF):**
 - The surplus transfer was calculated under the revised ECF, which allows flexibility in maintaining the Contingent Risk Buffer (**CRB**) between 4.5% and 7.5% of the RBI balance sheet.
 - The RBI maintained the CRB at 6.5%, reflecting a cautious and prudent approach.

Why was the CRB Increased?

- The RBI transferred Rs 1,09,379 crore to the CRB in FY 2025–26, sharply higher than Rs 44,862 crore in the previous year.
- The is due to –
 - Escalating conflict in West Asia
 - Risks of crude oil price spikes
 - Volatility in global bond and currency markets
 - Uncertain global macroeconomic conditions
- Analysts noted that the RBI could have transferred over Rs 3.5 lakh crore to the government if it had maintained last year's lower CRB level.
- However, strengthening the buffer enhances the central bank's ability to intervene during financial stress.

Fiscal Implications for the Government

- **Relief to fiscal deficit management:**
 - The higher dividend provides the government with additional **non-tax revenue**, easing fiscal pressures at a time of rising global uncertainty.
 - The RBI surplus alone constitutes nearly 90.8% of the budgeted non-tax revenue under the “dividend/surplus” category for FY27.
- **Greater fiscal space:** The transfer is expected to support infrastructure and capital expenditure, finance sectors like transport, energy, urban development, and logistics, and reduce pressure for additional government borrowing.
- **Impact on bond market:**
 - Lower borrowing requirements could help **contain bond yields**, reduce upward pressure on interest rates, and support financial stability.
 - The benchmark 10-year government bond yield currently stands around 7.09%.

Broader Economic Significance

- The record transfer reflects the **growing role of the RBI** in supporting macroeconomic stability during periods of external shocks.
- At the same time, the higher CRB indicates the central bank's emphasis on maintaining **institutional resilience** rather than maximising immediate transfers.
- The episode also highlights the **interconnectedness** between monetary policy, exchange rate management, fiscal policy, and global financial conditions.

Conclusion

The balance between supporting government finances and preserving financial stability underscores the RBI's evolving role in safeguarding India's macroeconomic resilience.

Source: **IE**

Source: <https://vajiramandravi.com/current-affairs/rbis-dividend-transfer/>

© Vajiram & Ravi. For personal use only.