Finance Ministry looking into how to enhance dividends from RBI

The RBI last year sent a record ₹2.1 lakh crore of dividends to the govt, but the govt is reportedly planning to hike its defence expenditure this year.

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The RBI's officers have been since January this year reviewing the central bank's Economic Capital Framework. File. | Photo Credit: Reuters

The Ministry of Finance is taking a direct interest in the Reserve Bank of India's review of its rules relating to capital buffers, which affect how much dividend it can send to the government, *The Hindu* has learnt.

The RBI's officers have been since January this year reviewing the central bank's Economic Capital Framework (ECF), which was last reviewed in 2018 by a committee headed by former RBI Governor Bimal Jalan. The recommendations of the committee were adopted in 2019.

On Thursday, the RBI further announced that its central board had held its 615th meeting and that it had reviewed the ECF. The Ministry of Finance is conducting a "parallel" review process to arrive at its own findings.

"The RBI's review process is parallel and our review process is running parallel," a government official aware of the developments told *The Hindu*. "There is a perception that the Jalan committee recommendations on the kind of buffers the RBI must maintain were too conservative, and that there might be scope to lower these. Let us see what the RBI decides, but government will also form its view."

The Jalan committee had recommended that the RBI's Contingency Risk Buffer (CRB) — which is basically a precautionary fund against a crisis that could hurt financial stability — should be 5.5-6.5% of the RBI's balance sheet. Once these levels are met, the rest is to be transferred to the government as surplus or dividend.

A lower CRB would mean higher transfers to the government, which is reportedly seeking to hike its defence expenditure this year due to the ongoing tensions with Pakistan.

"The government is not worried about its finances, even if defence expenditure is hiked," the official asserted. "But, if the RBI can send a higher surplus while also maintaining adequate safety buffers as per its own assessment, then this higher surplus would certainly give us [the Government] greater fiscal flexibility."

The RBI already transferred a record ₹2.1 lakh crore to the government in 2023-24, far in excess of the ₹87,416 crore it had transferred the previous year. It is estimated that the dividend for 2024-25 will be in the range of ₹2.5-3 lakh crore.

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