

GENERAL STUDIES II

RBI Surplus Transfer Framework 2026: Complete UPSC Notes

Faculty/Author: Faculty Editorial Board

Date: 23 October 2026

Platform: Civil Service Gurukul Research Wing

Reading Time: 5 Mins

The Reserve Bank of India's surplus transfer framework determines how much of its annual net income is retained to safeguard financial stability and how much is transferred to the Central Government. Governed by Section 47 of the RBI Act, 1934, and the revised Economic Capital Framework (ECF), the mechanism balances fiscal support with the central bank's need to maintain adequate financial buffers. In May 2026, the RBI approved a record surplus transfer of ₹2,86,588.46 crore for FY 2025–26 while maintaining its Contingent Risk Buffer at 6.5% of its balance sheet. These comprehensive UPSC notes explain the framework, Bimal Jalan Committee, 2025 revisions, economic implications and examination-oriented questions

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UPSC CURRENT AFFAIRS | 23 OCTOBER 2026 | INDIAN ECONOMY

Understand the Reserve Bank of India's Economic Capital Framework, surplus distribution, risk buffers, the Bimal Jalan Committee, revised 2025 rules and the record surplus transfer in FY 2025–26.

Civil Service Gurukul Editorial Team | Published: 23 October 2026

GS Paper III • Indian Economy • RBI • Fiscal Policy • UPSC Prelims 2027

The Reserve Bank of India earns income from its financial operations, but it cannot distribute all of that income without considering the risks on its balance sheet. India's surplus transfer framework establishes how much income the RBI should retain as financial protection and how much can be paid to the Central Government. The revised Economic Capital Framework provides a rule-based approach to this decision,

making the topic highly relevant to fiscal management, central bank independence and financial stability.

1. Why Is RBI's Surplus Transfer Framework Important?

In May 2026, the RBI approved a record surplus transfer of **₹2,86,588.46 crore** to the Central Government for the accounting year 2025–26.

The decision followed an assessment of the central bank's income, financial risks and capital requirements under the revised Economic Capital Framework.

The RBI maintained its Contingent Risk Buffer at 6.5% of its balance sheet.

₹2.87 Lakh Cr.

FY 2025–26 Surplus Approved

6.5%

Contingent Risk Buffer Maintained

Section 47

Legal Basis under RBI Act, 1934

2. What Is RBI Surplus Transfer?

RBI surplus transfer refers to the payment of the central bank's distributable profits to the Central Government after meeting applicable expenses and provisioning requirements.

The RBI performs several functions, including managing foreign exchange reserves, conducting monetary operations, issuing currency and supporting financial stability.

Some of these activities generate income, while others involve financial costs and risks.

Important: RBI surplus is not the same as the government's tax revenue. It is income transferred from the central bank to the Central Government under the applicable legal framework.

3. Legal Basis: Section 47 of the RBI Act, 1934

Section 47 of the Reserve Bank of India Act, 1934 governs the distribution of the RBI's remaining profits.

The RBI must first make appropriate provisions for items such as:

- Bad and doubtful debts.
- Depreciation in the value of assets.
- Contributions to staff and superannuation funds.
- Other provisions required by law or ordinarily made by bankers.

After these provisions, the balance of profits is payable to the Central Government.

4. How Does the RBI Earn Income?

Foreign Currency Assets

Income from investments forming part of India's foreign exchange reserves.

Domestic Securities

Interest and other income associated with eligible domestic financial assets.

Liquidity Operations

Income arising from specified liquidity management and lending operations.

Financial Transactions

Realised gains and other income from permitted financial operations, subject to accounting rules.

5. What Is the Economic Capital Framework?

The Economic Capital Framework, or ECF, is the RBI's risk-management and surplus-distribution mechanism.

It helps determine how much financial protection the central bank should maintain against potential losses and how much of its income can be transferred to the government.

Its Three Main Objectives

- Protect the RBI's balance sheet against financial risks.
- Preserve its ability to carry out monetary and financial stability functions.
- Provide a transparent and disciplined method for surplus distribution.

6. The Bimal Jalan Committee

An expert committee chaired by former RBI Governor **Dr Bimal Jalan** reviewed the RBI's Economic Capital Framework.

The committee submitted its recommendations in August 2019.

The RBI's Central Board accepted its recommendations on 26 August 2019.

Major Recommendations

- Distinguish realised equity from revaluation balances.
- Maintain adequate buffers for monetary and financial stability risks.
- Apply risk-based methods for assessing capital requirements.
- Transfer distributable income after meeting necessary risk provisions.
- Review the framework periodically.

7. Economic Capital: Main Components

Component	Meaning	Importance
Realised Equity	Capital, relevant reserves and accumulated risk provisions.	Provides a financial buffer against specified risks.
Revaluation Balances	Accounting gains or losses arising from changes in asset values, exchange rates and other market factors.	Can absorb relevant market risks but are generally not distributable as ordinary surplus.
Contingent Risk Buffer	Buffer maintained against monetary, financial stability, credit and operational risks.	Strengthens RBI's financial resilience.

8. What Is the Contingent Risk Buffer?

The Contingent Risk Buffer, or CRB, is a provision designed to protect the RBI against significant unexpected financial risks.

Risks Covered

- Monetary stability risks.
- Financial stability risks.
- Credit risks.
- Operational risks.

Maintaining this buffer helps the RBI carry out its public policy functions during periods of financial or economic stress.

9. Revised Economic Capital Framework, 2025

The RBI approved a revised Economic Capital Framework in May 2025, following a periodic review.

The revised framework applies from the accounting year 2024–25 and provides greater flexibility in maintaining risk buffers.

Parameter	Earlier Framework	Revised Framework
CF 3 Range	5.5%–6.5% of balance sheet	4.5%–7.5% of balance sheet
Board Flexibility	Relatively narrower range	Wider flexibility based on risk conditions
Surplus Distribution	Risk provisioning before distribution	Risk provisioning retained, with greater flexibility
Revaluation Balances	Generally non-distributable	Continue to be treated as non-distributable

Prelims Alert: The revised ECF permits a CRB range of **4.5% to 7.5%**. The RBI maintained its CRB at **6.5%** for FY 2025–26. The permitted range and the actual buffer level are different concepts.

10. How Does the Surplus Transfer Process Work?

RBI Earns Income from Financial Operations

?

Operating Expenses and Statutory Provisions Are Considered

?

Required Economic Capital and Risk Buffers Are Assessed

?

Necessary Risk Provisions Are Made

?

Residual Distributable Surplus Is Determined

?

Surplus Is Transferred to the Central Government

The amount available for transfer depends on both income and risk provisioning. Higher income does not automatically mean that the entire increase will be distributed.

11. RBI Surplus Transfer: FY 2025-26

At its May 2026 meeting, the RBI Central Board approved the transfer of ₹2,86,588.46 crore to the Central Government.

Financial Indicator	FY 2025-26
Surplus Approved for Transfer	₹2,86,588.46 crore
Net Income Before Risk Provisions and Statutory Fund Transfers	₹3,95,972.10 crore
Provision Towards Contingent Risk Buffer	₹1,09,379.64 crore
CRB as Percentage of Balance Sheet	6.5%
RBI Balance Sheet Size as at 31 March 2026	Approximately ₹91.97 lakh crore

The decision illustrates the simultaneous importance of government revenue and financial risk protection.

12. Why Does RBI Surplus Matter to the Government?

A. Non-Tax Revenue

RBI surplus transfers form part of the Central Government's non-tax revenue.

B. Fiscal Deficit Management

Higher-than-budgeted non-tax receipts can reduce borrowing requirements, provided other receipts and expenditures remain unchanged.

C. Budgetary Flexibility

Additional revenue can support the government's overall financing position and provide room for budgetary priorities.

D. Debt Management

A larger surplus transfer may reduce the amount the government needs to borrow from markets.

Conceptual Clarification: A larger RBI surplus transfer does not automatically increase public expenditure or reduce the fiscal deficit by an identical amount. The outcome depends on the government's complete budget position and policy decisions.

13. RBI Surplus and Fiscal Deficit: An Example

Consider a simplified illustration in which the government's projected fiscal deficit is ₹15 lakh crore.

If non-tax receipts rise by an additional ₹50,000 crore and all other budget items remain unchanged, the projected deficit could decline to ₹14.5 lakh crore.

This is only an illustration and does not represent India's actual 2026–27 fiscal deficit.

14. Why Can't RBI Transfer All Its Reserves?

The RBI is responsible for monetary and financial stability, not merely profit generation.

Its assets may be affected by exchange rate movements, interest rate changes and other financial risks.

Maintaining appropriate capital buffers enables the RBI to respond to stress without undermining its institutional resilience.

Risks of Excessive Transfers

- Reduced financial buffers against unexpected losses.
- Greater vulnerability during market volatility.

- Potential pressure on central bank independence.
- Lower capacity to absorb exceptional financial shocks.

15. Central Bank Independence vs Fiscal Needs

The government benefits from RBI surplus transfers, while the RBI must retain sufficient financial strength to fulfil its statutory functions.

Government Perspective

Surplus transfers provide non-tax revenue, potentially reduce borrowing needs and improve fiscal flexibility.

Central Bank Perspective

Adequate risk buffers protect the balance sheet and support independent, credible monetary and financial stability operations.

A transparent and rule-based framework helps balance these legitimate objectives.

16. Important Distinction: Fiscal Policy and Monetary Policy

Aspect	Fiscal Policy	Monetary Policy
Primary Institution	Government	Reserve Bank of India
Major Instruments	Taxation, expenditure and borrowing	Policy rates and liquidity instruments
Main Objectives	Public expenditure, resource allocation and macroeconomic management	Price stability while keeping growth in mind, within the statutory mandate
Connection to RBI Surplus	Receives non-tax revenue	RBI retains buffers to support its institutional functions

17. Challenges in Surplus Distribution

- **Income volatility:** RBI earnings can vary with market conditions.
- **Risk uncertainty:** Unexpected events may increase future capital requirements.
- **Budget dependence:** Excessive reliance on RBI dividends can complicate fiscal planning.

- **Accounting complexity:** Realised earnings and valuation gains require careful distinction.
- **Institutional balance:** Government revenue needs must not weaken central bank resilience.

18. Way Forward

Maintain Rule-Based Distribution

Continue applying transparent risk assessments and surplus distribution rules.

Protect Financial Resilience

Ensure that the RBI maintains sufficient buffers against credible financial risks.

Improve Fiscal Planning

The government should avoid assuming that exceptionally large surplus transfers will recur every year.

Strengthen Public Communication

Clear disclosures on risk provisioning and surplus transfers can improve institutional transparency.

Preserve Central Bank Credibility

The framework should support effective monetary operations and confidence in financial stability.

19. UPSC Prelims Quick Revision

- RBI was established under the RBI Act, 1934.
- Section 47 governs the transfer of RBI's remaining profits.
- RBI surplus is part of the Central Government's non-tax revenue.
- ECF stands for Economic Capital Framework.
- Dr Bimal Jalan chaired the expert committee reviewing the ECF.

- The Jalan Committee's recommendations were accepted in 2019.
- The RBI approved a revised ECF in May 2025.
- The revised CRB range is 4.5%–7.5% of the RBI balance sheet.
- RBI maintained a CRB of 6.5% for FY 2025–26.
- FY 2025–26 surplus approved: ₹2,86,588.46 crore.
- Revaluation balances are generally treated as non-distributable.
- Surplus transfers must be balanced against risk provisioning.

20. Original UPSC Prelims Practice Questions

Question 1. With reference to the RBI's surplus transfer framework, consider the following statements:

1. Section 47 of the RBI Act, 1934 provides the legal basis for surplus transfers.
2. The RBI must transfer all its gross income to the Central Government.
3. Surplus transfers are included in the government's non-tax revenue.

Which statements are correct?

- (a) 1 and 2 only
- (b) 1 and 3 only
- (c) 2 and 3 only
- (d) 1, 2 and 3

Correct Answer: (b) 1 and 3 only.

Section 47 provides the legal basis for distribution of the balance of profits after required provisions.

The RBI does not transfer all gross income. Its surplus is a non-tax receipt for the government.

Question 2. Which of the following best describes the Economic Capital Framework?

- (a) A system for setting GST rates
- (b) A mechanism for RBI risk provisioning and surplus distribution

- (c) A framework for allocating Finance Commission grants
- (d) A system for determining commercial bank deposit rates

Correct Answer: (b).

The ECF determines the RBI's required financial buffers and guides the distribution of residual income to the government.

Question 3. With reference to the revised RBI Economic Capital Framework, consider the following statements:

1. The revised CRB range is 4.5%–7.5% of the RBI balance sheet.
2. The Bimal Jalan Committee reviewed the RBI's Economic Capital Framework.
3. Unrealised revaluation balances are ordinarily treated as freely distributable profits.

Which statements are correct?

- (a) 1 only
- (b) 2 and 3 only
- (c) 1 and 2 only
- (d) 1, 2 and 3

Correct Answer: (c) 1 and 2 only.

Statements 1 and 2 are correct.

Statement 3 is incorrect because revaluation balances are generally non-distributable under the ECF.

21. UPSC Mains Practice Question

GS Paper III | 15 Marks | 250 Words

"The RBI's surplus transfer framework must reconcile the government's fiscal requirements with the central bank's financial resilience and operational independence." Discuss in the context of

India's revised Economic Capital Framework.

Model Answer Framework

Introduction

The RBI's surplus transfer framework determines the distribution of residual profits after necessary provisions under Section 47 of the RBI Act, 1934.

Significance

- Provides non-tax revenue to the government.
- Can reduce fiscal financing pressures.
- Promotes transparency in surplus distribution.
- Ensures risk-based financial buffers.

Challenges

- Volatility of central bank income.
- Pressure for large fiscal transfers.
- Uncertainty in market and financial stability risks.
- Need to preserve RBI's institutional credibility.

Way Forward

India should maintain a transparent, risk-based Economic Capital Framework, strengthen financial disclosures and avoid excessive fiscal dependence on volatile surplus receipts.

Conclusion

A credible surplus transfer mechanism should support government finances without compromising the RBI's ability to safeguard monetary and financial stability.

22. Frequently Asked Questions

What is RBI surplus transfer?

It is the transfer of the RBI's distributable profits to the Central Government after meeting required provisions.

Which section of the RBI Act governs surplus transfer?

Section 47 of the Reserve Bank of India Act, 1934.

What is the Economic Capital Framework?

It is a framework for assessing RBI's capital buffers and determining the surplus available for distribution.

Who headed the RBI Economic Capital Framework Committee?

Former RBI Governor Dr Bimal Jalan.

What is the revised Contingent Risk Buffer range?

The revised framework allows a CRB between 4.5% and 7.5% of the RBI's balance sheet.

How much surplus was approved for FY 2025–26?

The RBI approved ₹2,86,588.46 crore for transfer to the Central Government.

Why is the framework important for UPSC?

It connects central banking, fiscal deficit management, financial stability, public finance and institutional independence.

23. Conclusion

The RBI's surplus transfer framework is an important institutional mechanism connecting India's monetary and fiscal systems.

The revised Economic Capital Framework provides flexibility in risk provisioning while maintaining a rule-based process for surplus distribution.

The record FY 2025–26 transfer demonstrates the fiscal significance of RBI earnings, but it also underlines the need to preserve the central bank's financial resilience.

For UPSC aspirants, the framework is an important topic for understanding Indian economic governance and the relationship between financial stability and public finance.



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