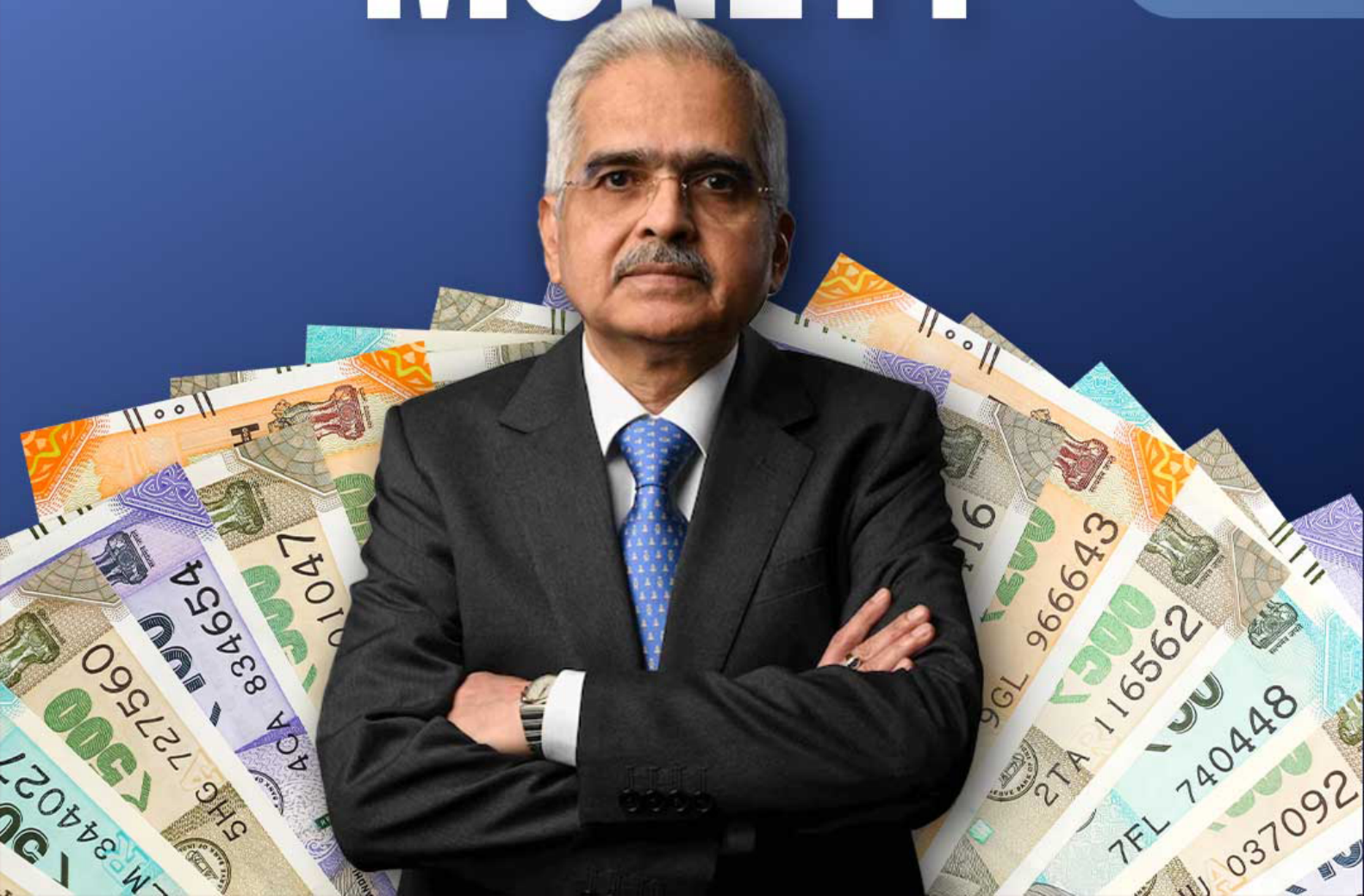


HOW THE RBI MAKES MONEY?

◀ SWIPE



The RBI is a not-for-profit organization.
Yet, it made ₹2.20 lakh crores profit in
FY23!

How on earth did it achieve this?

Well, through something called
'seigniorage'.

Think about it this way—



If the RBI prints a ₹100 note and gives it to a bank for circulation. The bank has to **'buy' the note and transfer the full face value** of ₹100 to the RBI's coffers.

But the only cost the RBI incurred was probably ~₹2 to print the note.



So, it spent ₹2 and created ₹100 in face value and the profit for the central bank is derived from putting that ₹100 to good use. That profit is called seigniorage.

So what does it do with these profits?



Well, it puts the money to work. It earns interest by:

- 1 Lending money to banks
- 2 Buying government bonds
- 3 Investing in foreign assets like US government bonds



Or it can just **buy and hold dollars** by itself. And when the value of the dollar rises, the RBI can sell it and pocket the gains.

In fact, just by buying low and selling high last year, the RBI made **over ₹1 lakh crores** in forex trades



And it doesn't have too many expenses either—

There is the cost to print notes. Then it delegates some government-related work to banks and pays them a fee.

And finally, it needs to pay everyone on its payroll. Put together, this comes up to just about **₹15,000 crores.**



Oh and since the RBI isn't really a 'for-profit' entity, **it doesn't pay any income tax.**

And what does it finally do with these profits?



- 1 It pushes money into its contingency fund. Something it can dip into if there's an unprecedented event that rocks the economy.
- 2 It transfers the rest to the government as a dividend.



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