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EDITORIAL ANALYSIS

RBI Surplus Transfer Will Not Ease Fiscal Pressure

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CURATED & WRITTEN BY

**Bharat Choudhary**

UPSC Educator & Content Creator

[linkedin.com/in/epicbharat](https://www.linkedin.com/in/epicbharat)

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RBI Surplus Transfer Will Not Ease Fiscal Pressure

Business Standard 25 May 2026 **GS3**

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INTERVIEW ANGLE

"If the Iran war pushes Brent above \$100 for a sustained quarter, should the government cut capex or expand the fiscal deficit beyond the 4.3% FY27 target?"

EDITORIAL SUMMARY:

Business Standard argues that the record ₹2,86,588.46 crore RBI surplus transfer to the Centre for FY26 — approved by the RBI Central Board on May 22, 2026 — was already substantially budgeted, while the West Asia crisis is simultaneously raising the fuel-subsidy outgo and forcing political pressure for excise cuts on petrol and diesel. The Centre must protect capital expenditure and avoid populist excise giveaways, since fiscal slippage risk now turns on the duration of the Iran conflict and oil-price persistence.

THE RBI SURPLUS TRANSFER

The Reserve Bank of India’s Central Board, at its 623rd meeting held in Mumbai on May 22, 2026, approved the transfer of surplus to the Central Government for FY26.

| INDICATOR | VALUE |
|------------------------------|------------------------------------|
| FY26 surplus transferred | ₹2,86,588.46 crore (record) |
| FY25 surplus transferred | ₹2.69 lakh crore |
| Contingent Risk Buffer (CRB) | 6.5% (vs 7.5% earlier) |
| Earlier CRB reset release | ~₹1.09 lakh crore |
| Statutory basis | Section 47, RBI Act, 1934 |
| Framework | Revised Economic Capital Framework |

The Revised Economic Capital Framework was recommended by the **Bimal Jalan Committee**, constituted in November 2018, with its report submitted on August 14, 2019.

WHY THE SURPLUS DOESN'T EASE FISCAL PRESSURE

The headline figure is record, but the fiscal arithmetic is more nuanced.

- **Already budgeted:** The Centre's FY26 budget estimate substantially factored in the RBI dividend
- **Increment is modest:** The rise over FY25's ₹2.69 lakh crore is incremental, not transformative
- **Counterbalancing pressures:** Iran war, elevated crude prices, fuel and fertiliser subsidies, political pressure for excise cuts

The dividend is not new fiscal space — it is the assumed cushion against which existing expenditure has already been pencilled in.

FY27 UNION BUDGET ARITHMETIC

| INDICATOR | VALUE |
|---------------------------------|---|
| Fiscal deficit target (FY27 BE) | 4.3% of GDP (FY26 RE: 4.4%) |
| Capital expenditure (FY27 BE) | ~₹12.2 lakh crore (record) |
| Effective capital expenditure | ~₹17.15 lakh crore (incl. grants to states) |
| Gross market borrowing | ~₹17.2 lakh crore |
| Net market borrowing | ~₹11.7 lakh crore |

The deficit target is tight, capex is record-high, and borrowing is calibrated against assumed receipts that include the RBI dividend. There is no slack.

THE IRAN WAR PASS-THROUGH

The sustained West Asia crisis from June 2025 has structurally elevated India's oil bill and the fertiliser subsidy outgo.

Crude Oil Exposure

- **Crude import dependence:** ~87%

- **Annual crude bill:** ~\$130-140 billion at Brent \$85-95 (May 2026 range)
- **Sensitivity:** Each \$10 per barrel rise adds roughly ₹50,000 crore to the import bill

Fertiliser Subsidy

The FY27 Union Budget pegs the fertiliser subsidy at **₹1.71 lakh crore**, with DAP and urea imports passing through the Hormuz route — a structural exposure that the Iran war directly amplifies.

THE EXCISE CUT PRESSURE

Political demand for excise relief on petrol and diesel is mounting as retail prices stay elevated.

| INDICATOR | VALUE |
|--|-----------------------------------|
| Central Excise + State VAT share of retail price | ~30-50% |
| Centre's excise cuts in 2022 | Two cuts |
| Revenue forgone per ₹1/litre cut | ~₹14,000-15,000 crore (full year) |

Each rupee in excise relief is meaningful at the pump and costly at the exchequer. The arithmetic is asymmetric in favour of fiscal restraint, but the politics is asymmetric in the other direction.

COMPONENTS OF FISCAL STRESS

Revenue Side

- **GST collections:** ~₹2 lakh crore per month in FY26 (record run-rate)
- **Income tax:** Solid
- **Corporate tax:** Still recovering post the 2019 rate cut
- **Disinvestment:** Persistently lagging targets
- **Excise:** Under political pressure to cut

Expenditure Side

- **Capital expenditure:** 4.3% of GDP target in FY26 — record
- **Revenue expenditure:** Food, fertiliser and fuel subsidies are sticky
- **Interest payments:** ~3.6% of GDP — the largest single head

THE FRBM ANCHORS

The **N.K. Singh FRBM Review Committee (2017)** set the long-term fiscal anchors that India has struggled to meet.

| ANCHOR | TARGET | STATUS |
|-------------------------|-----------------------|--------------------|
| General Government Debt | 60% of GDP by 2025-26 | Slipped post-COVID |
| Centre's fiscal deficit | 3% by 2025 | Slipped post-COVID |

Both targets slipped due to COVID and the post-COVID stimulus phase. The glide path back is gradual and depends critically on protecting capex while compressing revenue expenditure.

INTERNATIONAL COMPARISON

| COUNTRY / BLOC | FISCAL DEFICIT |
|------------------------------|----------------|
| United States | 6%+ |
| European Union (SGP ceiling) | 3% |
| China (effective) | 4-5% |
| India FY27 (planned) | 4.3% |
| India FY21 (COVID peak) | ~7.2% |

India's deficit trajectory has been disciplined relative to the US and is converging on Chinese norms — but external oil shocks and political pressure for excise cuts are the variables that could pull it off course.

WAY FORWARD

- ① **Protect capital expenditure** — do not sacrifice capex for excise cuts
- ② **Discom payment discipline** — sustain the RDSS pressure on distribution-sector reform
- ③ **Accelerate disinvestment** — LIC residual stake, BHEL, and the broader pipeline
- ④ **Strengthen the excise base** through GST 2.0 rationalisation
- ⑤ **Long-term substitution** — green hydrogen, ethanol blending, electric mobility to reduce crude dependence

6 Credible FRBM glide path — debt-to-GDP and deficit targets restored once the Iran war stabilises

UPSC MAINS ANALYSIS

GS Paper 3 — Economy, Fiscal Policy, Public Finance

- Fiscal management: deficit targets, FRBM anchors, capex protection
- Monetary-fiscal interface: RBI surplus transfer, Bimal Jalan Committee framework
- External shocks: crude oil pass-through, fertiliser subsidy, Hormuz exposure
- Tax policy: excise revenue, GST 2.0 rationalisation, disinvestment

Keywords: RBI Central Board 623rd meeting May 22 2026, surplus transfer ₹2,86,588.46 crore, Section 47 RBI Act 1934, Revised Economic Capital Framework May 15 2025, Bimal Jalan Committee November 2018 / August 14 2019, Contingent Risk Buffer 6.5%, CRB band 4.5-7.5%, FY27 Union Budget 4.3% fiscal deficit, capital expenditure ₹12.2 lakh crore, fertiliser subsidy ₹1.71 lakh crore, N.K. Singh FRBM Review Committee 2017, RDSS, GST 2.0.

The RBI dividend is not fiscal space — it is bookkeeping. The Centre's FY26 budget already absorbed the assumed transfer, and the increment over FY25 is incremental rather than transformative. The real fiscal variable in 2026 is the duration of the Iran war. Every additional month of elevated crude widens the import bill by roughly ₹50,000 crore per \$10 per barrel, raises the fertiliser subsidy outgo, and intensifies political pressure for an excise cut that costs ₹14,000-15,000 crore per rupee per litre. The discipline is to hold the line on capex, protect the FRBM glide path, and resist the temptation to read a record dividend as a record cushion. Capex is the binding discipline. Excise relief, if it must come, must be targeted, time-bound, and credibly reversible.

Sources: Business Standard, RBI, Ministry of Finance

● KEY ARGUMENTS AT A GLANCE

The record ₹2,86,588.46 crore RBI surplus transfer for FY26 was already substantially budgeted, while the West Asia crisis — Iran war continuation, elevated oil prices, and freight and insurance premia — is simultaneously raising the fuel-subsidy outgo and forcing pressure for excise cuts on petrol and diesel; the Centre must protect capital expenditure and avoid populist excise

giveaways, since fiscal slippage risk now turns on the duration of the Iran conflict and oil-price persistence.

✓ **SUPPORTING**

- The RBI Central Board approved the FY26 surplus transfer of ₹2,86,588.46 crore at its 623rd meeting in Mumbai on May 22, 2026 — a record, but only modestly above the ₹2.69 lakh crore transferred for FY25, with the Contingent Risk Buffer reset at 6.5% (versus 7.5% earlier, which released ₹1.09 lakh crore) under the Revised Economic Capital Framework recommended by the Bimal Jalan Committee (constituted November 2018, report August 14, 2019).
- The FY27 Union Budget targets a fiscal deficit of 4.3% of GDP (down from FY26 RE of 4.4%) with capital expenditure of about ₹12.2 lakh crore and net market borrowing of about ₹11.7 lakh crore (gross market borrowing ₹17.2 lakh crore); the RBI dividend is already largely absorbed into this arithmetic.
- India imports about 87% of its crude oil, with an annual crude bill of around \$130-140 billion at Brent \$85-95 (May 2026 range); every \$10 per barrel rise in crude adds roughly ₹50,000 crore to the import bill, and the FY27 Budget pegs the fertiliser subsidy at ₹1.71 lakh crore (DAP and urea imports are Hormuz-route dependent).
- Each ₹1 per litre cut in Central excise on petrol or diesel costs the exchequer roughly ₹14,000-15,000 crore in full-year revenue forgone; Central Excise plus State VAT together account for 30-50% of retail petrol and diesel prices, leaving political pressure for excise giveaways structurally elevated.

⚠ **COUNTER**

A targeted, time-bound excise cut to insulate vulnerable households and headline inflation can be defended during an external shock, particularly if paired with a credible commitment to restore the levy once crude normalises; some short-term revenue forgone may be macro-stabilising if it prevents a second-round inflation spiral.

→ **WAY FORWARD**

Protect capital expenditure (do not sacrifice capex for excise cuts); enforce discom payment discipline through RDSS; accelerate disinvestment (LIC, BHEL); strengthen the excise base via GST 2.0 rationalisation; pursue the long-term hedge of green hydrogen, ethanol

blending and electric mobility; and adhere to the FRBM Review Committee's debt and deficit anchors with a credible glide path post-Iran-war stabilisation.

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MAINS ANSWER FRAMEWORK

QUESTION

"The record RBI surplus transfer of ₹2.87 lakh crore for FY26 is largely pre-budgeted, while the Iran war is simultaneously raising the fuel-subsidy outgo and creating political pressure for excise cuts on petrol and diesel." Examine the fiscal implications and suggest a sequencing framework that protects capital expenditure. (250 words)

INTRODUCTION

Business Standard argues that the record ₹2,86,588.46 crore RBI surplus transfer for FY26 — approved by the RBI Central Board at its 623rd meeting in Mumbai on May 22, 2026 — will not ease fiscal pressure, because the dividend was substantially pre-budgeted while the Iran war is simultaneously raising the fuel-subsidy outgo and creating political pressure for excise cuts.

BODY

The transfer is governed by Section 47 of the RBI Act, 1934, and the decision was taken under the Revised Economic Capital Framework recommended by the Bimal Jalan Committee (constituted November 2018; report August 14, 2019). The Contingent Risk Buffer was reset at 6.5% against 7.5% previously, releasing ₹1.09 lakh crore.

But the increment over the FY25 transfer of ₹2.69 lakh crore is modest, and the Centre's FY26 budget estimate already factored in a large RBI dividend. The FY27 Union Budget targets a fiscal deficit of 4.3% of GDP (down from FY26 RE of 4.4%), capital expenditure of about ₹12.2 lakh crore, and net market borrowing of about ₹11.7 lakh crore (gross ₹17.2 lakh crore).

Against this, the Iran war has elevated the crude bill — India imports 87% of its crude, the annual bill is around \$130-140 billion, and each \$10 per barrel rise adds roughly ₹50,000 crore. The FY27 fertiliser subsidy is pegged at ₹1.71 lakh crore, with DAP and urea imports passing through the Hormuz route.

Political demand for excise cuts is rising: Central Excise plus State VAT account for 30-50% of retail petrol and diesel prices, and each ₹1 per litre cut costs roughly ₹14,000-15,000 crore in revenue forgone. On the revenue side, GST collections at around ₹2 lakh crore per month are a stabiliser, income tax is solid, corporate tax is still recovering post-2019 cuts, and disinvestment continues to lag.

On the expenditure side, interest payments at 3.6% of GDP remain the largest single head, and revenue expenditure on food, fertiliser and fuel subsidies is sticky. The N.K. Singh FRBM Review Committee (2017) anchored General Government Debt at 60% of GDP by 2025-26 and Centre's fiscal deficit at 3% by 2025 — both slipped post-COVID. Global peers face similar stress: the US runs a 6%+ deficit, the EU's Stability and Growth Pact ceiling is 3%, and China runs an effective 4-5%.

CONCLUSION

The right sequencing is to protect capital expenditure, enforce discom payment discipline through RDSS, accelerate disinvestment, strengthen the excise base through GST rationalisation, and adhere to the FRBM anchors with a credible post-stabilisation glide path. The RBI dividend is not fiscal space — it is bookkeeping.

The Iran war is not a balance-sheet problem — it is a duration problem. Capex protection is the binding discipline.

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CURATED & WRITTEN BY

Bharat Choudhary

UPSC Educator & Content Creator

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