

2019



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# CURRENT AFFAIRS

**ECONOMIC DEVELOPMENT**

23<sup>rd</sup> December- 28<sup>th</sup> December



BusinessLine



## **1. Western Freight Corridor**

### **Why in News**

The Dedicated Freight Corridor Corporation of India Ltd. (DFCCIL) has opened more than 300-km section between Rewari (Haryana) to Madar (Rajasthan) for commercial trial runs. This is the first section to be opened on the under-construction western freight corridor.

### **Western Freight Corridor**

- It is 1,504-km long corridor which begins at Dadri in Uttar Pradesh and stretches till the country's largest container port — Jawaharlal Nehru Port Trust, near Mumbai passing through-
  - Uttar Pradesh
  - Haryana
  - Rajasthan
  - Gujarat
  - Maharashtra

### **Dedicated Freight Corridor Corporation of India Ltd.**

- It is a special purpose vehicle under the Ministry of Railways tasked with planning and completion of 3,306 kms of Dedicated Freight Corridors (DFCs), consisting of western freight corridor and eastern freight corridor (1,856 kms).
- The DFC corridor will run only freight trains.
- The construction of Western Dedicated Freight Corridor (DFC) project would enable the decongestion of existing over-saturated paths which, thereby, will effectively improve punctuality of passenger trains.

## **2. Financial Stability Report**

### **Why in News?**

The Reserve Bank of India has recently published Financial Stability Report (FSR). FSR is a biannual publication; published since 2010.

- The FSR reflects the collective assessment of the Sub-Committee of the Financial Stability and Development Council (FSDC) on risks to financial stability and the resilience of the financial system.
- The report also discusses issues relating to development and regulation of the financial sector.

### **Key Findings**

- **Expected Increase in Gross Non-Performing Assets (GNPA) Ratio:**
  - GNPA ratio of banks may increase to 9.9% by September 2020 from 9.3% in September 2019.

- This is due to a change in macroeconomic scenario, marginal increase in slippages and the denominator effect of declining credit growth.
- **Provision Coverage Ratio (PCR):**
  - The aggregate provision coverage ratio (PCR) of all banks rose to 61.5% in September 2019 from 60.5% in March 2019.
  - PCR refers to the prescribed percentage of funds to be set aside by the banks for **covering the prospective losses due to bad loans**.
- **Capital to Risk-weighted Assets Ratio (CRAR):**
  - All banks' CRAR improved to 15.1% in September 2019 from 14.3% in March 2019, following the recapitalisation of PSBs by the government.
  - CRAR is a **measurement of a bank's available capital** expressed as a percentage of a bank's risk-weighted credit exposures. It is also known as the **Capital Adequacy Ratio (CAR)**.
  - $CAR = (Tier\ 1\ Capital + Tier\ 2\ Capital) / Risk\ weighted\ Assets$ .
  - **Tier-1 capital**, or core capital, consists of equity capital, ordinary share capital, intangible assets and audited revenue reserves. It is used to absorb losses and does not require a bank to cease operations.
  - **Tier-2 capital** comprises unaudited retained earnings, unaudited reserves and general loss reserves. This capital absorbs losses in the event of a company winding up or liquidating.
- Reviving the **twin engines of consumption and investment** remains the key challenge even while remaining vigilant about spillovers from global financial markets.

### Financial Stability and Development Council (FSDC)

- FSDC is apex level body constituted by the Government of India in December 2010.
  - **Raghuram Rajan committee (2008)** on financial sector reforms first proposed the creation of FSDC.
- An apex-level FSDC is **not a statutory body**.
- **Objective:** To strengthen and institutionalise the mechanism for maintaining financial stability, enhancing inter-regulatory coordination and promoting financial sector development.
- **Composition:**
  - Its Chairperson is the **Union Finance Minister** and its members are:
    - Governor, Reserve Bank of India
    - Finance Secretary and/or Secretary, Department of Economic Affairs

- Secretary, Department of Financial Services
- Chief Economic Adviser, Ministry of Finance
- Chairman, Securities and Exchange Board of India (SEBI)
- Chairman, Insurance Regulatory and Development Authority (IRDA)
- Chairman, Pension Fund Regulatory and Development Authority (PFRDA)
- In May, 2018 government **reconstituted FSDC** to include:
  - Minister of State responsible for the Department of Economic Affairs (DEA)
  - Secretary of the Department of Electronics and Information Technology
  - Chairperson of the Insolvency and Bankruptcy Board of India (IBBI)
  - Revenue Secretary
- FSDC sub-committee is headed by the Governor of RBI.

### **3. Basel III compliant Bonds**

#### **Why in News?**

Punjab National Bank has raised Rs 1,500 crore by issuing Basel III compliant bonds for business expansion.

#### **Basel III Norms**

- Basel III released in 2010 is an internationally agreed set of measures developed by the **Basel Committee on Bank Supervision (BCBS)** in response to the financial crisis of 2007-09.
  - Basel I (introduced in 1988) and Basel II (introduced in 2004) are the earlier versions of the Basel III, and were less stringent.
- **Objective**
  - To strengthen the regulation, supervision and risk management of banks.
  - To increase the capital requirement to make financial institutions healthy.
- **Basel 3** measures are based on **three pillars**:
  - **Pillar 1:** Improve the banking sector's ability to absorb ups and downs arising from financial and economic instability
  - **Pillar 2:** Improve risk management ability and governance of banking sector
  - **Pillar 3:** Strengthen banks' transparency and disclosures.

#### **Basel Committee on Bank Supervision (BCBS)**

- It is a committee under the Bank for International Settlements.

- It was established in 1930, the BIS is owned by 60 central banks, representing countries from around the world that together account for about 95% of world GDP.
- Its head office is in Basel, Switzerland.
- Its mission is to serve central banks in their pursuit of monetary and financial stability, to foster international cooperation in those areas and to act as a bank for central banks.



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