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ECONOMIC DEVELOPMENT

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1. Urban Cooperative Banks

Why in News?

The Reserve Bank of India (RBI) has revised Supervisory Action Framework (SAF) for urban cooperative banks (UCBs) for deterioration of financial position.

- This is in line with the **Prompt Corrective Action (PCA)** framework.
- The move comes in the wake of the recent crisis at the Punjab and Maharashtra Cooperative (PMC) Bank.

Revised Supervisory Action Framework (SAF)

- UCBs will face restrictions for worsening of **three parameters:**
    - net non-performing assets exceed 6% of net advances,
    - incur losses for two consecutive financial years or have accumulated losses on their balance sheets, and
    - capital adequacy ratio falls below 9%.
- RBI can also take action if there are serious governance issues.
- **Corrective action to be taken by RBI:**
    - For breach of such risk thresholds, UCBs will be asked to submit a **board-approved action plan** to correct the situation.
    - The board of the UCB will be asked to **review the progress** under the action plan on **quarterly/monthly basis** and submit the post-review progress report to the RBI.
    - The RBI may also seek a board-approved proposal for merging the UCB with another bank or converting itself into a credit society if **Capital Adequacy Ratio (CAR) falls below 9%.**
    - RBI can impose **restrictions on declaration or payment of dividend** or donation without prior approval if any one of the risk thresholds is breached.
    - Actions such as imposition of all-inclusive directions and **issue of show-cause notice for cancellation of banking licence** may be considered.

Prompt Corrective Action (PCA)

- Prompt Corrective Action (PCA) is a framework under which banks with weak financial metrics are put under **watch by the RBI.**
- The PCA framework deems banks as risky if they slip below certain norms on **three parameters:**
    - Capital ratios
    - Asset quality
    - Profitability
- It has three risk threshold levels based on where a bank stands on these ratios.

- On breach of any of the risk thresholds, the RBI can invoke a corrective action plan:
  - Depending on the threshold levels, the RBI can place **restrictions on dividend distribution, branch expansion,** and management compensation.
  - Only in an extreme situation a bank may **head up for resolution** through amalgamation, reconstruction or winding up.
- PCA does **not** really limit the normal **lending operations of banks.**

Urban Cooperative Banks
- Co-operative Banks were born out of the concept of **co-operative credit societies** where members form a community group together to extend loans to each other at favourable terms.
- Co-operative Banks are broadly classified into **Urban and Rural co-operative banks** based on their region of operation.

Difference between UCBs and Commercial Banks
- **Regulation:**
  - Unlike **commercial banks,** UCBs are only **partly regulated** by the RBI. Their **banking operations are regulated by the RBI,** which lays down their capital adequacy, risk control and lending norms.
  - However, **management of UCBs** and resolution in the case of distress is regulated by the **Registrar of Co-operative Societies** either under the **State or Central government.**
- **Borrower can be a Shareholder:** In general, for a commercial bank, there is a clear distinction between its shareholders and its borrowers whereas in a UCB, borrowers can even double up as shareholders.

2. National Strategy for Financial Inclusion

Why in News?

The Reserve Bank of India has released a National Strategy for Financial Inclusion (NSFI) for the period 2019-2024.
- The NSFI sets forth the **Financial Inclusion policies in India** to expand the reach and sustain the efforts through a broad convergence of action involving all the stakeholders in the financial sector.

National Strategy for Financial Inclusion (NSFI)
- It aims to strengthen the ecosystem for various modes of **digital financial services in all Tier-II to Tier VI centres** to create the necessary infrastructure to move towards a less-cash society by March 2022.
- **Objectives:**
  - Increasing outreach of banking outlets to **provide banking access**

to every village within a 5-km radius or a hamlet of 500 households in hilly areas by March 2020.
    - Ensure that **every adult has access to a financial service provider** through a mobile device by March 2024.
    - Ensure that every willing and eligible adult, who has been enrolled under the Prime Minister Jan Dhan Yojana, be enrolled under an **insurance scheme and a pension scheme** by March 2020.
    - Make the **Public Credit Registry (PCR) fully operational by March 2022** so that authorised financial entities could leverage the same for assessing credit proposals from all citizens.

Classification of Centres (tier-wise) Population (as per 2011 Census)
- Tier I - 1, 00,000 and above
- Tier II - 50,000 to 99,999
- Tier III - 20,000 to 49,999
- Tier IV - 10,000 to 19,999
- Tier V - 5,000 to 9,999
- Tier VI - Less than 5000

Importance of Financial Inclusion
- Financial inclusion is increasingly being recognised as a **key driver of growth and poverty alleviation** world over.
- **Access to formal finance can:**
    - Boost job creation
    - Reduce vulnerability to economic shocks
    - Increase investments in human capital
    - Improve inclusive socio-economic growth
    - Reduce income inequality
- Seven of the United Nations **Sustainable Development Goals (SDG) of 2030** view financial inclusion as a key enabler for achieving sustainable development worldwide.
- **Financial inclusion of women** is particularly important for **gender equality** and **women's economic empowerment.**
- **Government Schemes to promote Financial Inclusion:**
    - PM Jan Dhan Yojana
    - Atal Pension Yojana
    - PM Suraksha Bima Yojana

Public Credit Registry (PCR)
- PCR refers to an **extensive database of credit information of borrowers** that is accessible to all lending and credit decision-making institutions.
- The PCR will be a **single point of mandatory reporting** for all

information about each loan, notwithstanding any threshold in the loan amount or type of borrower.
- PCR will capture all relevant information about a borrower, across different borrowing products in one place.
- Thereby, the PCR will serve as a registry of all credit agreements, duly verified by reporting institutions, for all lending in India and any lending by an Indian institution to a company incorporated in India.

3. <u>Second National GST Conference</u>

Why in News?

Recently the second National GST Conference of the Commissioners of State Tax and Chief Commissioners of Central Tax was conducted under the chairmanship of Revenue Secretary, Ministry of Finance.

Key Points

- Focus was on streamlining Goods and Services Tax (GST) system, plugging revenue leakages and information sharing across government departments.
- **Following measures were decided for necessary action:**
  - To constitute a **Committee of the Centre and State officers** to examine and implement quick measures in a given time frame to curb fraudulent refund claims.
  - The Committee will come up with a **Standard of Procedure** that will become operational by the end of January 2020.
  - A memorandum of understanding would be signed among the Central Board of Direct Taxes (CBDT), the Central Board of Indirect Taxes and Customs (CBIC) and the GST Network to exchange data through the application program interface.
    - The data would be **shared on a quarterly basis,** instead of being shared on a yearly basis.
  - It was also decided to make the GST system aligned with the **Financial Intelligence Unit (FIU)** for the purpose of getting bank account details and transactions and also PAN-based banking transactions.

Financial Intelligence Unit

- Financial Intelligence Unit- India (FIU-IND) was set by the Government of India in 2004 as the central national agency responsible for receiving, processing, analyzing and disseminating information relating to suspect financial transactions.
- FIU-IND is also responsible for coordinating and strengthening efforts of national and international intelligence, investigation and enforcement agencies in pursuing the global efforts against money laundering and

financing of terrorism.

- It is an **independent body** reporting directly to the **Economic Intelligence Council (EIC)** headed by the **Finance Minister.**

4. Cabinet Nod for FDI in Coal Mining

Why in News?

The Union Cabinet has recently approved an ordinance to amend two laws to ease mining rules, enabling **foreign direct investment** in coal mining:

- Mines and Minerals (Development and Regulation) Act, 1957
- Coal Mines (Special Provisions) Act, 2015

Key Decisions

- The Cabinet approved the promulgation of **Mineral Laws (Amendment) Ordinance 2020.**
    - The ordinance allows **coal mining by any company** present in sectors other than steel and power and does away with the captive end-use criteria.
        - Earlier, the government used to auction coal and lignite mining licences **only to companies engaged in iron and steel, power coal washing sectors.**
    - By opening to everyone, the government seeks to **democratize the coal mining sector.**
- It also extended the validity period of mining lease clearances ending in 2020 by two years.
- **Seamless transfer of clearances** would also be facilitated.
- **Advantages:**
    - **Coal India would be strengthened** and the government aims at achieving production of one billion tonnes by 2023-2024.
    - **Boost the ease of doing business** and **increase the growth avenues.**
    - **Strengthen the auction process** of those mines whose leases were expiring on March 31, 2020.
    - **Increase in 'competitiveness'** as the steel industry would get cheaper inputs.
    - Help India gain **access to sophisticated technology** for underground mining used by global miners.
    - Help **create an efficient energy market** and reduce coal imports.

Regulation of Minerals

- **Ownership of Minerals:**
    - The **State Governments** are the owners of minerals located within the **boundary of the State concerned.**
    - The **Central Government** is the owner of the minerals underlying

the ocean within the **territorial waters or the Exclusive Economic Zone** of India.

- **Granting Mineral Concessions:**
    - The State Governments grant mineral concessions for all the minerals located within the boundary of the State, under the provisions of the Mines and Minerals (Development and Regulation) Act, 1957 and Mineral Concession Rules, 1960.
    - However, for **minerals specified in the First Schedule** to the Mines and Minerals (Development and Regulation) Act, 1957 approval of the **Central Government is necessary.**
    - Schedule I contains minerals such as **coal and lignite,** minerals of the "rare earths" group containing **Uranium and Thorium.**
- Also, the Central Government notifies certain minerals as **'minor' minerals** from time to time.
    - The absolute powers regarding minor minerals rest **only with the State Government including:**
        - deciding on procedures of seeking applications for and granting mineral concessions,
        - fixing rates of royalty,
        - dead rent, and
        - power to revise orders.
    - Examples of minor minerals include building stones, gravel, ordinary clay, ordinary sand.

5. <u>GDP Growth Rate</u>

Why in News?

According to the first Advance Estimates (Ministry of Statistics), gross domestic product (GDP) is estimated to grow at 5% for the year 2019-20.

- Nominal GDP growth is estimated at 7.5% for the financial year 2020.

Causes for slowdown

- Private consumption - the prime driver of the economy with about 60% share, is likely to grow at a lower rate than the previous year.
- Gross fixed capital formation - a measure of investments, is estimated to rise less than 1% in FY20, a collapse from near 10% rise in FY19.
- Manufacturing growth is at a 15-year low mark of 2% year on year.

Gross Domestic Product (GDP)

- GDP is the value of all final goods and services produced within the geographic boundaries of a country during a specified period of time, usually a year.
- It is the sum of private consumption, gross investment in the economy, government investment, government spending and net foreign trade

(difference between exports and imports).

- It is the single standard indicator used across the globe to indicate the health of a nation's economy.

Nominal GDP

- Nominal GDP is the market value of goods and services produced in an economy, unadjusted for inflation.
- It is the GDP measured at current prices.
- Since nominal GDP doesn't remove the pace of rising prices when comparing one period to another, it can inflate the growth figure.