



22nd Meeting of FSDC

 drishtiias.com/printpdf/22nd-meeting-of-fsdc

Why in News

Recently, the **22nd meeting** of the **Financial Stability and Development Council (FSDC)** chaired by the **Finance Minister** was held through a video conference.

The meeting reviewed issues relating to market volatility, domestic resource mobilisation and capital flows in the country in the wake of **Covid-19 pandemic** and the **nation-wide lockdown** imposed to contain it.

Financial Stability and Development Council

- **Establishment:**
 - The Financial Stability and Development Council (FSDC) is a **non-statutory apex** council under the **Ministry of Finance** constituted by the **Executive Order** in **2010**.
 - The **Raghuram Rajan committee (2008)** on financial sector reforms first proposed the creation of FSDC.
- **Composition:**
 - It is **chaired by the Finance Minister** and its members include the heads of all Financial Sector Regulators (RBI, SEBI, PFRDA & IRDA), Finance Secretary, Secretary of Department of Economic Affairs (DEA), Secretary of Department of Financial Services (DFS), and Chief Economic Adviser.

In 2018, the government reconstituted FSDC to include the Minister of State responsible for the Department of Economic Affairs (DEA), Secretary of Department of Electronics and Information Technology, Chairperson of the **Insolvency and Bankruptcy Board of India (IBBI)** and the Revenue Secretary.
 - FSDC **sub-committee** is **headed** by the **Governor of RBI**.
 - The Council **can invite experts** to its meeting if required.

- **Functions:**
 - The objective of FSDC is **to strengthen and institutionalize** the mechanism for maintaining **financial stability**, enhancing **inter-regulatory coordination** and promoting financial sector development.
 - It also intends to monitor macro-prudential supervision of the economy. It will assess the functioning of the large financial conglomerates.

Key Points

- **Covid-19 as a Threat to Global Economy:**
 - The Council has noted that the **Covid-19 pandemic poses a serious threat to the stability of the global financial system**, as the ultimate impact of the crisis and the **timing of recovery remains uncertain**.
 - The pandemic has thrown the global economy into its **worst recession since the Great Depression in the 1930s**, and India is no exception.
- **Projected Domestic Economic Growth:**
 - Domestic economic growth is expected to **contract for the first time in forty years in FY21 (April 2020 to March 2021)**.
 - Crisil, Goldman Sachs and Fitch Ratings have projected the Indian economy to contract 5% during the current financial year.
- **Announced Measures and its Impact:**
 - The Council quoted the various **short term fiscal measures taken by the government** and **monetary measures taken by the Reserve Bank of India (RBI)** to address the liquidity and capital requirements of the financial institutions to manage the economic scenario due to global pandemic.
 - It also reviewed the **liquidity and solvency position** of the **Non-Banking Financial Companies (NBFCs)**, **housing finance companies** and **micro-finance institutions**.
 - Moratoriums on loan payments due to pandemic induced lockdowns have put a pressure on inflows of these companies while banks have turned resistant to lend them in the wake of possible defaults. NBFCs have also sought moratorium on their dues to banks.
- **Role of Government and Regulators:**
 - It highlighted the need for the **government and regulators to remain vigilant** on financial conditions that could expose systemic vulnerabilities in the **medium and long-term**.
 - The Council stressed that the government and regulators would continue to provide **liquidity and capital support** to domestic financial institutions.
 - It is expected to provide comfort to the markets, which are disturbed by the extreme volatility due to pandemic.

Way Forward

- The financial system resilience, fiscal support, regulatory flexibility and liquidity provision announced till date have ensured that the financial system is supportive of economic recovery but **more protracted slowdown may present new risks to the financial system.**
- There is a possibility that the current crisis **may transform from a “liquidity phase” into a “solvency phase”**. Thus, governments need to consider a range of policy tools, including efficient bankruptcy and restructuring systems, government guarantees for private investments, programmes for sector-specific government equity injections, and establishing asset management companies.
- Thus, FSDC is expected to take further appropriate measures to bolster the liquidity and capital base of domestic financial institutions which would stabilize financial sectors for long term.

Source:IE