Economy This Week
6th Jan to 12th Jan 2020

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1. Stressed UCBs to face PCA like curbs

- The RBI has decided to impose restrictions on the UCBs (Urban Cooperative Banks) on the lines of PCA (Prompt Corrective Action), which is used to impose restrictions on commercial banks.
- This revised framework - Supervisory Action Framework (SAF) would impose restrictions on UCBs based on performance in three parameters:
  - When NPAs rise above 6% of the net advances.
  - If CAR (Capital Adequacy Ratio) falls below 9%.
  - If they are in losses for two consecutive years or they have accumulated losses in their balance sheets.
- Apart from this, action can be taken even when there are serious governance issues.
- Once the UCB falls into any of these risks, the board will be asked to submit an approved plan to address these issues and they will have to take stock of the situation in every quarter.
- Further, the RBI may ask for board approval for merging the UCB with another bank or converting it into a credit society.
- If there is any breach, the RBI can stop the payment of dividend.
- The RBI can impose restrictions on lending activities.
- In other cases, the RBI can issue a show-cause notice for cancellation of the bank license.

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2. Margin for banks to lend ₹ 3.5 tn to end soon

- Banks were supposed to meet the CCB (Capital Conservation Buffer) guidelines under Basel 3 by March 31, 2019. The central banker extended the deadline by one year. Now, the RBI may not extend the relaxation given to banks to comply with the guidelines.
- Under Basel 3, the banks are supposed to have a buffer of 2.5% of RWA (Risk Weighted Assets). This amount will help the banks absorb losses during times of stress.
- The buffer was introduced after the global financial crisis in 2008.
- It also means the central government has to consider this aspect when it is deciding the recapitalisation for the banking sector in the upcoming budget.
- With the relaxation of compliance, the banks had ₹ 37000 cr extra capital, on the back of which they could increase their lending by ₹ 3.5 tn.
- This dread it will not be available unless there is some arrangement done by the banks to meet the norms.

3. Ration card portability rolled out in 12 states

- The government provides subsidised food grains to the beneficiaries under the NFSA (National Food Security Act). So far, more than 81 Cr of the population has been covered under this.
- The Centre has rolled out 'one nation, one card' scheme in 12 states and it wants to expand this to pan-India from June 1, 2020.
- With this, eligible beneficiaries will be able to get food grains from any of the fair price shops (FPS) using the same ration card.

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4. Cabinet nod for FDI in coal mining

- The government is planning to increase the production of coal to 1 bn tn by 2023-24.
- The Union Cabinet has approved an ordinance amending two mining rules to enable Foreign Direct Investment (FDI) in coal mining.
    - Mines and Minerals (Regulation and Development) Act 1957
    - Coal Mines (Special Provisions) Act 2015
- This would boost ease of doing business, increase the growth avenues of coal mining.
- With the amendments, the restrictions on end-use are being withdrawn.

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5. Why export push is critical for doubling the farm incomes

- The value of India's Agri exports increased from $7.5 bn to $43.2 bn between 2003-04 and 2013-14 on the back of global demand for commodities, later it declined to $33 bn by 2016-17 and somewhat recovered to $39 bn in 2018-19.
- Occasionally, there have been instances of spikes in demand for Agri commodities but this demand has been short-lived.
- In order to achieve the objective of doubling the farm incomes, the government has to take certain measures to boost Agri exports. Some reforms needed are:
    - Rather than having multiple authorities to promote Agri exports, there is a need for a single apex authority which could be working under the Ministry of Commerce & Industry.
        - This authority can work with authorities at the state level, and international level to promote more exports.
        - Can formulate a strategy covering all Agri commodities.
        - Can work with other authorities to enter into bilateral or multilateral agreements, dispute settlements, etc.
    - There is a need to put in place a proper infrastructure for sampling, testing, safety assessment, etc. This will help in meeting international standards for perishable and non-perishable exports.
    - We are yet to exploit the potential for exports of fruits and vegetables. Hence, there is a need to look into this area. One useful area could be that exporters source quality fruits and vegetables through e-NAM.
    - There is a need to promote registration, standardisation and promotion of specialty products with proper GI protection.
        - The government has issued GI for 322 items of which 120 are Agri commodities.

        - Darjeeling Tea is the only agri product with GI tag that is being marketed and promoted in the EU market.

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6. Govt may extend the safeguard duties on Chinese solar panels

- The government in 2018 announced safeguard duties on solar imports.
    - The duties will be applicable for a period of two years.
        - 25% for the first 12 months
        - 20% for the next six months
        - 15% for the next six months
    - This affected imports coming from China and Malaysia.
- The government is planning to continue with the safeguard duty on solar panels. This, in spite of the fact that the levies have affected the capacity addition in the sector.
- Domestic manufacturers have argued that China is actively looking into exporting these panels into India as the trade war tensions have increased with the US and the US has imposed tariffs on many of the Chinese exports including electronics.
- Malaysia, which was one of the dominant exporters earlier, has seen a decline in these exports and it is Vietnam on the other hand which has ratcheted up these exports (there is also a concern that Chinese exporters could be routing their panels from this market abusing the liberal trade agreement that India has with Vietnam).
- In the past two years, the imports of cells and modules have come down sharply. Cells imports were $3.8 bn in FY18 and in the current fiscal they stand at $1.4 bn.