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Economy This Week (30th Oct to 05th Nov 2021)

TABLE OF CONTENTS

1. RBI central board reviews bank grievance redress system (BL 30/10/21)

- Banking Ombudsman Scheme was launched in 1995 and has served as a flagship alternate grievance redress mechanism to redress the customer complaints against the bank received by the central banker
- There has been launch of Ombudsman scheme for NBFCs and Ombudsman Scheme for digital transactions which were launched in 2018 and 2019 respectively
- An in-house committee to review the scheme was set up which has recommended
    - Merging/convergence of all the three schemes and expanding the ambit of the scheme to all regulated entities which are not covered currently under existing scheme, thus providing a single window for grievance redressal
    - Setting up of centralised receipt and processing centre for receipt and initial processing of complaints under the 'one nation, one jurisdiction' approach
    - Reducing turnaround time (TAT) for redress of complaints
    - Introducing delegation by appointing a deputy ombudsman
- The central board (of RBI) has taken up the survey that was conducted regarding the grievance redressal system and functioning of banking ombudsman scheme

2. Changes proposed to Energy Conservation Act (IE 31/10/21)

- The power ministry has proposed amendments to the energy conservation act 2001 (EC Act 2001)
    - Specify minimum share of renewable energy in overall consumption by industrial units
    - Incentivise use of clean energy through carbon saving certificates
    - Issuance of carbon credits for use of clean technologies
- The proposed amendments are
    - Expected to create carbon market
    - Promote consumption of renewable energy (either directly or through power grid)
- In EU

- The EU Emissions Trading System has set a cap on total emissions per year
- The entities that keep emissions below the prescribed levels will be allowed to sell emissions to entities that have not been able to meet the emission limits

- India has Energy Saving Certificates (ESCert) trading market which implicitly covers carbon emissions and the consumers who achieve their targets of reducing the power consumption are allowed to sell energy certificates to other designated consumers on exchange

3. Informal sector shrank sharply in 2020-21 (TH 1/11/21)

- Informal sector comprises own account or unorganised enterprises which employ hired workers. Highest share of unorganised activity comes from the agriculture sector where the holdings are small fragmented
- The share of the large informal sector in the overall economic activity has dropped in 2020-21
- The informal economy is estimated to have dropped to 20% from about 52% in 2017-18
- There are variations in the various sectors, SBI expects that the informal economy is possibly at a maximum of 15 to 20% of formal GDP in 2020-21
- As per
    - IMF paper
        - Estimated an informal economy contribution was 53.9% in GVA for 2011-12 and improved marginally to 52.4% in 2017-18
    - NSS – 2014
        - 93% of the workforce earned its livelihood as informal workers
    - Agriculture
        - Share of unorganised sector was highest in agriculture sector
        - Since 2017-18 it has been formalised by 22-27% due to increasing penetration of Kisan credit cards
        - The informal share has come down from 97.1% to 70-75%

4. Punjab begins renegotiation of green PPAs (ET 2/11/21)

- Punjab has become the latest state to start renegotiations with the renewable energy contracts seeking lower tariffs
- Last Friday has held discussions with companies supplying about 1000 MW of green power
- The discussions involved the cost/tariffs and the steps that could be taken to reduce the tariffs. Discussions have also been held regarding reducing the tariffs on the PPAs (Power Purchase Agreement) which were signed in 2013-14 at nearly ₹ 7 per unit and the current tariffs are much lower (in December, 2020 the solar power tariffs have hit all time low of ₹ 1.99 per unit)

5. Govt floats 4 tier plan for PSB staff accountability (BS 3/11/21)

- The banks have been cautious in lending to businesses as they fear investigations conducted by the agencies if these accounts became bad debts. As a result the bankers are becoming risk averse

- As a result of this the bank credit to the industrial sector has declined from 42.7% in 2014 to 28.9% in 2021

- Ministry has stated that
  - Staff accountability should not necessarily mean that each and every act will be subject to scrutiny for the sole purpose of punishment
  - If the rise in NPAs are because of the factors which are beyond the control of the banks (change in govt policy, revised environmental norms etc), it should not attract staff accountability
- Govt has come out with a four tier structure for staff accountability in PSBs. This is to allay the fears of the bank employees in extending loans. The policy measure is applicable for loans up to ₹ 50 Cr turning into NPAs on or after 1st April 2022
  - For loans up to ₹ 10 lakh
    - There will not be any staff accountability in case the loan turns bad (excluding fraud loans and facts indicating malafide intentions)
    - Generally such loans are collateral free and are issued to the small units, small traders, small and marginal farmers
    - In case of D-SIBs this threshold has been allowed to be fixed between ₹ 10 lakh to ₹ 20 lakh
  - For loans above ₹ 10 lakh and up to ₹ 1 Cr
    - Mainly housing, car and SME loans
    - Staff accountability will be done by a committee formed at regional or controlling office
    - A clear distinction should be made between administrative action and disciplinary action should be made to ensure that bonafide actions are protected
  - For loans above ₹ 1 Cr and up to ₹ 50 Cr
    - Sanctioned to business units
    - Preliminary examination should be conducted by a committee constituted at one level higher than sanction level
    - The assessment of staff accountability will be done based on the internal control and inspection audit system of the banks
    - This is according to the RBI guidelines from 1996

6. RBI issues revised PCA framework for the banks (TH 3/11/21)

- RBI has issued a revised Prompt Corrective Action (PCA) framework for the banks. This will enable the supervisory intervention at appropriate time and for effective market discipline
  - Once an entity is brought under PCA, it has to initiate and implement remedial measures in a timely manner to restore its financial health
- Henceforth the central banker will be focusing on
  - Capital – CRAR/Common Equity Tier 1 ratio

    - Asset quality – Net NPA ratio
    - Leverage – Tier 1 leverage ratio
- The revised framework will become effective from 1st January 2022

7. RBI panel on ARCs proposes norms for valuers, reserve price (BS 3/11/21)

- The performance of the ARCs has been unsatisfactory as the lenders have been able to recover only about 14.29% of the amount owed by borrowers in respect of stressed assets sold to ARCs in 2004-2013 period
- RBI panel on streamlining the function of the ARCs (headed by Sudarshan Sen) has come out with recommendations
    - Setting up of a platform for the sale of stressed assets
    - Allowing the ARCs to act as resolution applicants during the IBC process
    - Scope of section 5 of SARFAESI act must be expanded to permit the ARCs to acquire financial assets from all regulated entities (AIFs, FPIs, AMCs etc)
    - For accounts over ₹ 500 Cr two bank approved external valuers should carry out a valuation to determine the liquidation value and fair market value