



## Financial Stability Report

The Reserve Bank of India released its **18th Financial Stability Report (FSR)**. **FSR is a biannual publication.**

- The FSRs are periodic exercise for reviewing the nature, magnitude and implications of risks that may have a bearing on the **macroeconomic environment, financial institutions, markets and infrastructure.**
- These reports also assesses the resilience of the financial sector through **stress tests.**
  - Stress tests are used to gauge how certain unfavorable economic scenarios, such as a deep recession or financial crisis will affect a company, industry or specific portfolio. Stress tests are usually **computer-generated simulation** models that test hypothetical scenarios.
- It reflects the collective assessment of the **Sub-Committee of the Financial Stability and Development Council (FSDC)** on risks to the financial stability of the country, as also the resilience of the financial system.

### Findings

- India's financial system **remains stable**, and the **banking sector shows signs of improvement**, even though the global economic environment and the emerging trends in financial sector pose challenges.
  - The reasons for these positive signs include **credit growth of banks** coupled with **improvement in the asset quality of the banks.**
  - Credit growth of scheduled commercial banks (SCBs) has improved between March 2018 and September 2018, driven **largely by private sector banks (PVBs).**
- The global growth outlook for 2018 and 2019 remains steady although the spillover risk to emerging economies because of tightening of financial conditions in Advanced Economies, protectionist trade policies and global geopolitical tension has significantly increased.
- On the domestic front, growth of **gross domestic product (GDP) showed slight moderation** in Q2:2018-19 while **inflation remains contained.** At present, Inflation is at 2% which falls in the comfortable range of 2% to 6%.
- Slowdown in GDP growth to 7.1%, but there is growth in **Gross Fixed Capital Formation** along with the dip in crude oil prices which are positive for a sustained growth going forward.

### Gross Fixed Capital Formation

- Gross fixed capital formation (GFCF) refers to the **net increase in physical assets (investment minus disposals).** It does not account for the consumption (depreciation) of fixed capital.
- It is a component of **expenditure approach** to calculating Gross Domestic Product (GDP).
- GFCF is **not a measure of total investment**, because only the value of net additions to fixed assets is measured, and all kinds of financial assets, as well as stocks of inventories and other operating costs are excluded.
  
- Decline in the ratio of gross non-performing assets (GNPA) to advances since September 2015, with both public sector and private sector lenders posting drops in the key indicator of bad loans.
  - However, State-owned banks continue to have higher levels of bad loans than their private sector peers and are projected to show slower improvements over the second half of the fiscal.

- Recommended solution is **reforms in governance**, while the weaker ones among the public sector banks need to be **supported through recapitalisation**.
- Data on **banking frauds** are also a cause for concern. Close to 95% of the frauds reported in the six months were credit-related, with higher exposure to PSBs.
  - The graph of **both the frauds as well as the amount** involved has been on the **rise steadily** through the four years till FY18.
- In the wake of the crisis at infra-lender **Infrastructure Leasing & Financial Services (ILFS)** and also a few years after chit fund scams, the RBI pitched for **greater coordination** between **financial sector regulators** to plug any possible gaps which may be exploited by players.

### Financial Stability and Development Council (FSDC)

- The Financial Stability and Development Council (FSDC) was set up by the Government as the apex level forum in **December 2010**.
- The objective of FSDC is to strengthen and institutionalize the mechanism for maintaining financial stability, enhancing inter-regulatory coordination and promoting financial sector development.
- The Chairman of the Council is the **Finance Minister** and its members include the heads of all Financial Sector Regulators (RBI, SEBI, PFRDA & IRDA), Finance Secretary and/or Secretary, Department of Economic Affairs (DEA), Secretary, Department of Financial Services (DFS), and Chief Economic Adviser.
  - **In May, 2018** 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.
- The **Raghuram Rajan committee (2008)** on financial sector reforms first **proposed the creation of FSDC**.

## Bangladesh General Elections

Recently, general elections were conducted in Bangladesh.

- The incumbent prime minister, **Sheikh Hasina's party Awami League** including the coalition **won 288 out of the 300 directly-elected seats in the 350-member unicameral Jatiya Sangsad, the Bangladeshi Parliament**. (50 seats are reserved for women which are elected indirectly by Member of Parliaments.)
- With the recent victory, **Sheikh Hasina became Bangladesh's prime minister for the third straight term**. This makes her the **longest-serving head of the government in Bangladesh**.
- Under Sheikh Hasina's tenure, **Bangladesh's economic growth has increased**, averaging over 7% per annum. Bangladesh has become **one of the fastest growing economies in South Asia**. The country has also witnessed a secular polity under the Sheikh Hasina government.
- Sheikh Hasina's victory is seen as a **positive development for India**, which has been a stable ally during her term. The return of a trustworthy **ally in economic cooperation and in the fight against terrorism is good for India**.
- The Sheikh Hasina's government **has shut down camps of terrorist groups operating in India's Northeast from safe havens in Bangladesh**. The insurgency has dipped in Northeastern India, with leaders of militant groups such as the United Liberation Front of Assam general secretary Anup Chetia being handed over to India.

## Importance of Bangladesh

- Bangladesh is **key to India's plans to connect with South-East Asia**, as well as developing the landlocked Northeast.
- India's plans to forge a **viable alternative to the South Asian Association for Regional Cooperation rests on Bangladesh**, given its location bridging South Asia and South-East Asia.
- India's '**neighbourhood first policy**' has focused on Bangladesh, which is a key part in **India's 'Act East Policy'** and sub-regional groupings like **BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation)** and the **BBIN (Bangladesh, Bhutan, India, Nepal)**.

## India-Bangladesh Relations

- **India was the first country to recognize Bangladesh** as a separate and independent state and established diplomatic relations with the country immediately after its independence in December 1971.
  - India and Bangladesh **share more than 4000 km of border**, which is the longest land boundary that India shares with any of its neighbors.
  - **Security & Border Management:**
    - The Coordinated Border Management Plan (CBMP) was signed in 2011 to help both of the Border Guarding Forces for checking cross-border illegal activities and crimes as well as for maintenance of peace and tranquility along the India-Bangladesh border.
  - **Power Projects:** India is poised to export around 1100 MW of power to meet the energy deficit in Bangladesh. Power projects totaling more than 3600 MW are under implementation by Indian companies.
    - India is also a partner in Bangladesh's nuclear power programme, with the beginning of construction at the Rooppur nuclear power plant.
    - In 2017, 13 agreements worth around \$10 billion were signed in the power and energy sectors.
  - **Trade Ties:**
    - Bangladesh is India's largest trading partner in South Asia with an annual turnover of around \$9 billion plus an estimated informal trade of around \$8-9 billion.
    - Indian investment in Bangladesh has reached \$3 billion. To enable the flow of Bangladeshi exports into India, duty-free entry was granted in 2011 under the South Asian Free Trade Area.
  - **River water sharing:**
    - India and Bangladesh share 54 common rivers. A bilateral Joint Rivers Commission (JRC) is working since June 1972 to maintain liaison between the two countries to maximize benefits from common river systems.
  - **Connectivity:**
    - The **Protocol on Inland Water Trade and Transit (PIWTT)** operational since 1972 permits movement of goods over vessels from India through the river systems of Bangladesh on eight specific routes.
    - Apart from this India and Bangladesh also have air, rail and bus connectivity.
  - **Capacity Building and Training:**
    - **India offers a number of training courses for interested Bangladesh officials/nationals** including personnel of administration, police, judiciary, nuclear scientists, teachers etc.
    - **Capacity building** under the **Indian Technical and Economic Cooperation programme** is an important strand in bilateral ties and people-to-people interaction.
  - **New Areas of Cooperation:**
    - Improvement in bilateral ties has led to **newer areas of cooperation such as cyberspace**. Bangladesh has provided cyber connectivity between the international gateway at Cox's Bazar to Agartala for faster Internet connectivity in India's northeastern States.
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# United States and Israel Quit UNESCO

The **United States and Israel** have officially quit the UN's educational, scientific and cultural agency, UNESCO.

- The US filed its notice to withdraw in October 2017 which was followed by Israel.
- The two countries have blamed UNESCO for having an **anti-Israel bias** like **criticizing Israel's occupation of East Jerusalem, naming ancient Jewish sites as Palestinian heritage sites and granting full membership to Palestine in 2011.**
- The United States had pulled out of UNESCO in 1984 as well because it viewed the agency as mismanaged, corrupt and used to advance Soviet interests. The US rejoined in 2003.

## UNESCO

- The **United Nations Educational, Scientific and Cultural Organization (UNESCO)**, formed in 1945, is a specialized agency of the United Nations (UN) based in Paris.
- Its declared purpose is to **contribute to peace and security by promoting international collaboration** through educational, scientific, and cultural reforms in order to increase universal respect for justice, the rule of law, and human rights along with fundamental freedom proclaimed in the United Nations Charter.
- UNESCO has **195 Members (including US and Israel).**

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## Important Facts for Prelims ( 1st January 2019)

### Cinereous Vulture [//](#)



- Recently the **Cinereous vulture** was spotted in Jharkhand, as they **migrate from the mountainous regions of Europe and Asia** to warmer places, including India.
- While earlier records of this migratory bird have revealed that it comes to northern parts of India up to Rajasthan, but this is for the **first time they have been spotted in Hazaribagh in Jharkhand.**
- The Cinereous vulture (*Aegypius monachus*) draws its name from "**monachus**", which means **hooded (like a monk) in Latin.**
- In many countries, this bird is called '**monk vulture**', because of its upright standing neck feathers that resemble the hood of a monk.

- It is a **dark brown and broad-winged species** with a slightly wedge-shaped tail. The bald head and neck are a bluish gray, with a fluffy collar which is lighter in older birds.
- It is classified as **Near Threatened** under the **IUCN Red List**.
- India is home to **nine species of vultures** and with the population of these birds dwindling, the country has launched a **species-recovery plan** through conservation breeding centres in different parts of the country.

## Parivesh Portal

- **Gujarat government and other states** have decided to operationalise '**Parivesh**' (**Pro-Active and Responsive Facilitation by Interactive, Virtuous and Environmental Single-window Hub**) portal by January 15.
- PARIVESH is a **web-based, application which has been developed for online submission and monitoring of the proposals submitted by the proponents for seeking Environment, Forest, Wildlife and Coastal Regulation Zones (CRZ) Clearances from Central, State and district level authorities.**
- It automates the entire tracking of proposals which includes online submission of a new proposal, editing/updating the details of proposals and displays status of the proposals at each stage of the workflow.
- This portal is developed under '**Digital India**' initiative by the **Ministry of Environment, Forest and Climate Change (MoEFCC).**

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