



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