



# ABHYUTTHANA FINANCIAL LEARNING CENTRE

**(An institution to Promote Financial Literacy)**

**News Letter : Issue No 9** **Bhubaneswar** **March-2019- June 2019**

**AFLC FLASH**

## *SPRING MEETING 2019 - WASHINGTON DC*

## *WORLD BANK GROUP -INTERNATIONAL MONETARY FUND*

*We are pleased to inform that AFLC was registered as a CSO to attend the 2019 Spring Meetings of the World Bank Group and IMF which included the Civil Society Policy Forum ( CSPF) that took place during April 9 -13, in Washington DC.D Mishra, Managing Partner, AFLC attended the meetings.*

*The CSPF provides an open space for CSOs to engage with the World Bank and IMF, government delegations and other stakeholders on a wide range of topics.*

*The WBG Orientation Opening Remarks was made by Kristalina Georgieva, Interim President & Chief Executive Officer, World Bank. Civil Society Roundtable with World Bank Board of Executive Directors held at MC 13- 121 was an excellent opportunity for CSOs to interact with the principals.*

*CSO Innovation Fair held at MC -Atrium, World Bank, gave an opportunity to CSOs from select countries to showcase their unique activities/ products.*

*At the IMF HQ 1 Atrium, a spectacular session on " One -on-One with Christine Lagarde, featuring Sir David Attenborough: Balancing Nature and the Global Economy" highlighted how the demand of growing economy putting unsustainable pressures on the global climate and ecosystems. The event screened exclusive excerpts from the newly launched OUR PLANET series presented by Sir Davisd Attenborough.*

*In Governor Talk, Shri Shaktikanta Das, Governor, Reserve Bank of India made a presentation on " Global Risks and Policy Challenges for Emerging Marketing Economies".In Chief Economists Roundtable, the three Chief Economists of IMF ( Geeta Gopinath) , World Bank and OECD discussed the ways countries can close the growing gap between rich and poor.*

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## MANY A MINI STEP…

This was a short yet most powerful episode in the World's oldest epic, the Ramayana. Great Ramasetu, the floating bridge across the mighty sea was under construction by the powerful army of Lord Shriram, bringing gigantic loads of stones, boulders and logs and dumping them into the roaring waves. Simultaneous to what was going on and totally undeterredby the rustles and bustles, a small squirrel would come from nowhere, leap into the sands, wrap up a few grains of sand on its furry coat and dust itselfoff on the upcoming mammothSetu and run back quickly again to repeat its efforts. This insignificant, squirrel effort would not escape the all pervasive notice of Lord Shriram, who would hold the dainty squirrel in his hands, pat it and leave a few affectionate parallels of golden lines on its back in appreciation , as if to declare to the mankind that no effort is small. What makes it great is the loads of love, dedication, intentions and the sincerity that it carries on its back.

In the grand army of dedicated agencies which bludgeon to bring financial awareness and literacy in our Country, AFLC's size and efforts are squirrel like. Yet its efforts have, of late, attracted and captured the fancy and recognition of no less the Global Forums than the likesof the IMF and the World Bank. The AFLC, was among a few other Agencies, which was extended invitation of participation at the Spring Meetings 2019 of WB-IMF in April 2019. Shri D Mishra, the Managing Partner, AFLC participated in the coveted Programme in Washington, DC, USA. Indeed , just like the shades of golden parallels on the lovely squirrel and affectionate pats in recognition of its efforts at the Global Forum!! Kudos to Team AFLC.

Against the backdrop of the National Elections 2019, its rustles and bustles, fire and fury, the schedules and events of AFLC took a deliberate lull. Despite this, AFLC took a call to conduct an interactive and participants-driven in-situ Programme in the PG Deptt of Commerce, FM University, Balasore. With conduct of this programme, AFLC is set to put its footprints in northern Odisha.

As it's curtains on the State Assembly and Parliament elections, AFLC looks forward to marching ahead on its chartered course, more energised and more enthused. Looking forward to the continued patronage of the esteemed stakeholders in our efforts to cherry-pick many a coveted accolade in days ahead.

Editorially
T Maharana

# MONETARY POLICY DECIDED A POLICY RATE CUT
## ( April 2019)

On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting decided toreduce the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points to 5.75 per cent from 6.0 per cent with immediate effect. Consequently, the reverse repo rate under the LAF stands adjusted to 5.50 per cent, and the marginal standing facility (MSF) rate and the Bank Rate to 6.0 per cent.

The MPC also decided to change the stance of monetary policy from neutral to accommodative.

These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

**Assessment : Global Economy**

i) . Global economic activity has been losing pace after a somewhat improved performance in Q1: 2019, reflecting further slowdown in trade and manufacturing activity. Among advanced economies (AEs), economic activity in the US strengthened in Q1, supported by higher government spending, increase in private investment and a lower trade deficit. However, factory activity and retail sales moderated in April. Economic activity in the Euro area has remained weak due to muted industrial activity and weak business confidence. Leading indicators point to a further slowdown in the Euro area in Q2.

ii) . Economic activity has slowed in many emerging market economies (EMEs). Brazil's economy contracted in Q1 for the first time since 2016 and there are fears that it could return to recession.

iii) . Crude oil prices remained volatile, reflecting evolving demand-supply conditions underpinned by the production stance of the OPEC plus, rising shale output, weakening global demand and geo-political concerns.

iv) . Financial markets have been driven by uncertainties surrounding US-China trade negotiations and Brexit. In the US, the equity market has experienced some selling pressures since early May on escalation of trade tensions with China and recently, with Mexico

In currency markets, the US dollar strengthened on better than expected domestic economic data for Q1. Most EME currencies have depreciated against the US dollar.

**Domestic Economy**

v) GDP growth for 2018-19 has been estimated at 6.8 per cent year-on-year (y-o-y), down by 20 basis points from the second advance estimates released on February 28

vi) . Retail inflation, measured by y-o-y change in CPI, remained unchanged in April, at its March level of 2.9 per cent, with higher inflation in food and fuel groups being offset by lower inflation in items excluding food and fue

vii) Liquidity in the system turned into an average daily surplus of 66,000 crore ( 660 billion) in early June after remaining in deficit during April and most of May due to restrained government spending. The Reserve Bank injected liquidity of 70,000 crore ( 700 billion) in April and 33,400 crore ( 334 billion) in May on a daily net average basis under the LAF.

viii). Transmission of the cumulative reduction of 50 bps in the policy repo rate in February and April 2019 was 21 bps to the weighted average lending rate (WALR) on fresh rupee loans.

India's foreign exchange reserves were at US$ 421.9 billion on May 31, 2019.

Extract from Minutes of the Monetary Policy Committee Meeting June 3, 4 and 6, 2019
( www.rbi.org.in)

## WORKSHOP ON FINANCIAL LITERACY IN FAKIR MOHAN UNIVERSITY, BALASORE.

On 20 April 2019, AFLC organized a Workshop on Financial Literacy in the PG Department of Commerce and PG Department of Business Management of Fakir Mohan University, Balasore. The workshop was conducted by D Mishra, Managing Partner, S Choudhury, former General Manager, RBI and M M Dash, Manager, Office of Banking Ombudsman, RBI Bhubaneswar.

It is worth mentioning that :Fakir Mohan Senapati (13 January 1843 – 14 June 1918), referred to as Utkala Vyasa Kabi was an eminent writer, poet, philosopher and social reformer. Fakir Mohan Senapati is regarded as the father of Odia nationalism and modern Odia literature. There was a thunderous applause when the participants were informed that the speaker Shri Siladitya Choudhury, is the great grandson of Vyasa Kabi Fakir Mohan.

In the workshop The speakers explained the significance of saving , investment , basics of banking, overview of banking structure, functions of RBI , Monetary policy , complaint redressal system in banks and role of Banking Ombudsman in the grievance redressal system. A financial Quiz was conducted. 10 students were awarded story books by world famous authors like Anton Chekhov, Oscar Wilde, Leo Tolstoy.

The program was co-ordinated by Professor (Dr ) A B Jena of the University.


### Policy Rates

| | |
|---|---|
| Repo Rate | 5.75 |
| Reverse Repo Rate | 5.50 |
| Marginal Standing Facility | 6.00 |
| Bank Rate | 6.00 |

### Reserve Ratio

| | |
|---|---|
| Cash Reserve Ratio (CRR) | 4.0 |
| Statutory Liquidity Ratio (SLR) | 19.00 |

**NON BANKING FINANCIAL COMPANIES (NBFC) IN INDIA – AN OVERVIEW**

*D. Mishra, Managing Partner*

An NBFC is a company registered under the Companies Act, 1956 engaged in the business of loans and advances, acquisition of shares of companies ,securities issued by Government or local authority, leasing, hire-purchase, insurance business, chit business.NBFCs play a complementary role to banks. As the financial intermediaries , they are engaged in the activity of bringing the saving (surplus sector) and investing community (deficit sector) together .

The activities are akin to that of banks; however there are a few differences as given below:

i. NBFC cannot accept demand deposits;
ii. Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs.
iii. NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself.

The scope and activities of NBFCs have expanded significantly over the years, especially so in the 1980s. Further, there was phenomenal growth in 1990s. The number of NBFCs, which stood at 7,063 in 1981 increased nearly four and half times 31,744 as on end- December 1992 and further to 51,929 in 1996. Post 1997, with amendment of Reserve Bank of India Act, 1934 , relatively stringent entry norms and capital structure introduced, leading to consolidation of the sector.

The profile of total number of NBFCs and the deposit-taking NBFCs, registered with RBI, for the last three are as under:

| June end | Total number of NBFCs | Deposit-taking NBFCs |
|---|---|---|
| 2017 | 11,522 | 178 |
| 2018 | 11,422 | 108 |
| 2019 March end | 10,190 | 88 |

[ Source: Reserve Bank of India web-site ( www.rbi.org.in)

NBFCs are classified on the basis of liabilities into two categories, viz, Category 'A' companies, (NBFCs having public deposits or NBFCs-D), and Category 'B' companies, (NBFCs not having public deposits or NBFCs-ND). Since 2006. Non-deposit taking NBFCs with assets of Rs. 100 crore ( increased to Rs 500 crore ) and above were labelled as Systemically Important Non-Deposit taking NBFCs (NBFCs-ND-SI), and prudential regulations such as capital adequacy requirements, exposure norms along with, reporting requirements were made applicable to them.

RBI has its jurisdiction to regulate the NBFCs ; operationally it focused on deposit taking institutions and systemically important NBFC ( with asset size more than Rs 500 crore ). Present policy of RBI does not allow registration of any new deposit-taking NBFCs. The number of deposit-taking NBFCs has also come down due to cancellation of registration, closure or migration to non-deposit taking NBFCs. NBFCs are required to have a minimum net owned fund (NOF) of 20 million. NBFCs, with investment grade rating are allowed to accept fixed deposits from the public for a tenure of 12 to 60 months only with interest rates cap at 12.5 per cent. Prudential norms are applicable to deposit taking and systemically important NBFCs.

The approach to NBFC regulation and supervision has been light-touch, so that they could complement banks with their diverse financial products and reach out to a large cross-section of population through innovative service delivery mechanisms.

The share of NBFCs in total credit extended has increased from around 9.4% in March 2009 to more than 17% by March 2018 .Retail loans of NBFCs grew at a robust 46.2 per cent during 2017-18—on top of a growth of 21.6 per cent during 2016-17 reflecting upbeat of consumer demand, especially in the vehicle loans segment.

Various categories of NBFCs have evolved over time pertaining to specific sector/asset classes. The Committee on Comprehensive Financial Services for Small Businesses and Low Income Households (Chairman: Dr. Nachiket Mor) and Internal Committee (Chairman: G. Padmanabhan ) 2014,had recommended harmonisation of various categories of NBFCs. As a first step in this direction, deposit acceptance regulations were harmonised in November 2014. Recently , in 2019, ECB Norms have been rationalized and harmonised.In February 2019, major categories of NBFCs engaged in credit intermediation, viz., Asset Finance Companies (AFC), Loan Companies, and Investment Companies, merged into a single category. The merger of these categories has reduced to a large extent the complexities arising from multiple categories and also provide the NBFCs greater flexibility in their operations.

In a major policy move, RBI has introduced an Ombudsman Scheme for customers of Non-Banking Financial Companies (NBFCs) in February 2018. The Scheme is an expeditious and cost free apex level mechanism for resolution of complaints of customers of NBFCs, relating to certain services rendered by NBFCs.

FOCUS INCLUSIVE GROWTH

# EQUALITY, THE KEY

*Dasarathi Mishra*

**POLICY MAKERS ARE APPROPRIATELY AIMING AT INCLUSIVE GROWTH AND INTRODUCING SPECIAL GOVERNMENT SCHEMES THAT WILL REDUCE INEQUALITY IN THE COUNTRY**

One striking development in the recent past is that the regional disparity has reduced; the gap between rich and poor states in India has narrowed, as the economically-weaker states have achieved strong economic growth

The IMF Annual Report 2018 observes that "global inequality-income difference among countries has been declining". This is a positive signal. But, intra-country position is not so comforting, as the Report states "the picture within countries varies depending on income group and country-specific factors". It shows the income and wealth inequality in societies is widespread and can hamper growth and impinge on financial stability.

Income inequality refers to differences in the distribution of economic assets (wealth) and income within or between populations or individuals. Income inequality is generally computed within a country to make it meaningful.

An Organisation of Economic Co-operation & Development (OECD) survey shows that income inequality in OECD countries has increased over the last half century. The average income of the richest 10 per cent of the population is about nine times that of the poorest 10 per cent, up from seven times earlier. Another study by World Institute for Development Economic Research reported that 1 per cent of the world's richest persons own 40 per cent of global assets. Notably, the top three richest persons possess more than the combined financial assets of the lowest 48 countries.

Oxfam Inequality Report 2018 released in January 2019 reveals certain startling facts. It reveals that just 26 people on earth in 2018 had the same net worth as the poorest half of the world's population — some 3.8 billion people. The report also states that 2,200 billionaires of the globe saw their wealth grow by 12 per cent, even as the poorest half saw its wealth shrink by 11 per cent.

Many economic studies have gone into the root cause of inequality in a society. The main causes have been identified as globalisation and technological progress, supplemented by widespread deregulation, resulting in increased competition and political economy. Jan Tinbergen, a Dutch economist, winner of the Nobel Memorial Prize in Economy in 1969 stated that inequality is the result of race between technology and education. In rich countries, particularly in the US and UK, rapid change in technology necessitates highly educated workforce to accomplish work and the supply of such workers does not match expanding demand, placing a premium, called "college premium" on such a workforce. China has been experiencing tremendous economic rise after its accession to World Trade Organisation (WTO) and its successful export-led growth model. This has given rise to spectacular development in the coastal belt and urban areas, resulting in increasing disparities in income between urban and rural areas. Government intervention can reduce inequality as is experienced in Latin American countries, particularly in Argentina and Mexico.

The IMF report says inequality perpetuates social polarisation. The lack of social cohesion leads to greater demand from the have-nots on public funds, rent-seeking efforts, scuttling welfare-enhancing measures of the government, meant for long-term inclusive growth.

Even the sub-prime crisis in housing mortgage sector, in the US, which snowballed to the global financial crisis in 2007-08, to a large extent had its origins in growing inequality. Raghuram Rajan in his book 'Fault Lines' puts it very succinctly: "Growing income inequality in the United States stemming from unequal access to quality education led to political pressure for more housing credit. This pressure created a serious fault line that distorted lending in the financial sector."

Successive financial crises such as Asian Financial Crisis (1997), Global Financial Crisis (2007-08) show that inequality can lead to macroeconomic instability or meta-stability.

A recent IMF Paper "Stranded! How Rising Inequality Suppressed US Migration and Hurt Those Left Behind" (Tamim Bayoumi and Jelle Barkema) published June 3, 2019, states: "In USA, increasing house price and income inequality have reduced long-distance migration, the type most linked to jobs. The stunted mobility has diminished the chance of entering into a better job market."

Sustainable Development Goal-10 (SDG-10) of United Nations General Assembly underscores the need to reduce inequality. NITI Aayog observes: On average, income inequality has increased by 11 per cent in developing countries between 1990 and 2010. A significant majority of households in developing countries – more than 75 per cent – is living today in societies where income is more unequally distributed than it was in the 1990s.

OXFAM Inequality Report for India shows that wealth inequality is on the rise. The Gini wealth coefficient in India has gone up from 81.2 per cent in 2008 to 85.4 per cent in 2018, which shows inequality has risen. "Inequality in India: A survey of recent trends" by Parthapratim Pal and Jayati Ghosh says: "One of the reasons behind the increased income inequality observed in India in the post-reform period has been stagnation of employment generation in both rural and urban areas across states." Although there is tremendous employment generation in the services sector for skilled people, the country is set to create vast manufacturing base to deploy unskilled and semi-skilled workers for productive purposes.

There is vast improvement with the launch of Pradhan Mantri Kaushal Vikas Yojana (PMKVY). The Scheme has set the ambitious target for upskilling or reskilling 400 million people by 2022. Eighteen ministries of the government are engaged in various targeted skill development and employment generation programmes. National Skill Development Policy (NSDP) was first launched in 2009 and was revised in 2015 to meet the challenges of skilling at scale, speed and with quality.

One striking development in the recent past is that the regional disparity has reduced; the gap between rich and poor states in India has narrowed, as the economically-weaker states have achieved strong economic growth. However, certain districts remain economically backward. Special schemes of the government are designed to pull them up to reduce inequality. Appropriately, attainment of inclusive growth is what our policymakers are aiming at.

***The writer, a former central banker, is managing partner, Abhyutthana Financial Learning Centre LLP.***

## Extracts from Financial Stability Report – June 2019

### Foreword of Shri Shaktikanta Das, Governor, Reserve Bank of India

Indian banking sector continues to show improvement as impairment ratios decline and credit growth picks up. The Public Sector Banks (PSBs) showed a noticeable improvement with recapitalisation. Both provision coverage as well as capital adequacy improved. Understandably, the significant rise in provisioning has impacted the bottomlines of PSBs. Efforts to improve the balance sheets of banks should therefor continue. Among others, there should be special focus on governance reforms in banks. As far as PSBs are concerned, the proof of the pudding lies in the PSBs' ability to attract private capital through market discipline rather than being overly dependent on the Government for capital.

# MICRO FINANCE INSTITUTIONS (MFIS) IN INDIA

The MFIs in India can be broadly sub-divided into various categories of organizational forms as given below.

i) Non-Banking Finance Companies (deposit-taking and non-deposit-taking)
ii) Not-for-Profit Companies registered under Section 8 of the Companies Act, 2013 (earlier Section 25 of Companies Act, 1956)
iii) NGOs registered as Societies or Trusts
iv) Cooperative Societies under the State Cooperative Societies Acts / Mutually Aided Cooperative Societies Act (MACS)

2. While the NBFC-MFIs came to be regulated by RBI, the question of regulating the other entities (other MFIs such as Societies, Trusts, and Cooperatives), which were actively intomicrofinance, still remained. These institutions were set up under various Central and State laws, such as the Society Registration Act, the Indian Trust Act, and the State Cooperative Societies Act; but their microfinancing activities were not regulated under these laws. A separate legal and regulatory framework was necessary for these MFIs. To bridge this regulatory gap, the Government of India had introduced a bill in the Parliament in the year 2007. However, for various reasons, the Microfinance Development and
Regulation Bill has not been passed so far.

3.It may also be noteworthy that some MFIs are working as Business Correspondents (BCs) of the banks, and are in the process contributing to the banks' microfinance portfolio. In view of the fact that multiple lending has been a key concern in the sector, credit bureaus have been established in the sector to assist the banks and MFIs in borrower selection and credit disbursal. The MFI sector has been playing an important role; its working must continue to be tuned to the ground level realities, and it must regularly review and adjust itself to the needs of the target group, so as to remain viable in long run.

**( Extracts from an article on MFI by Shri R N Dash, former Regional Director, RBI, Hyderabad)**

## Upcoming Event

### Abhyutthana Financial Learning Centre

**Seminar on Investors Education in Capital Market and Pension Products (Empowering Investors)**


**20 July 2019 ( Saturday)**
**Gita Govinda Sadan, Jaydev Bhawan, Bhubaneswar**

*A Glorious Moment for AFLC*

*Managing Partner*

*meets*

***Kristalina Georgieva,***

***Interim President &***

***Chief Executive Officer, World Bank***

*Spring Meeting - 2019, World Bank Group : IMF, Washington DC.*

## Readers' Corner

Readers are encouraged to mail their comments, Feedback, views to Editor:
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