PMC effect! Govt to change law to bolster regulation of cooperatives

By: FE Bureau
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Union Finance Minister Nirmala Sitharaman (File Photo)

Finance minister Nirmala Sitharaman on Friday said the Banking Regulation Act and other relevant laws will be amended suitably, possibly in the upcoming session of Parliament starting next week, to bolster the regulatory regime for co-operative banks and prevent PMC-type crises from recurring. Those cooperatives that are functioning like banks need to be subject to prudential regulations, for which the Banking Regulation Act has to be tweaked, she said. Sources have said the government would amend the Co-operative Societies Act appropriately as well.

Asked about the crisis in the telecom sector that has bled companies like Bharti Airtel and Vodafone Idea (these two suffered massive losses of around Rs 74,000 crore in the second quarter), the minister said:

"Don't want any telecom company to shut shop. I want all companies in all sectors to flourish. The committee of secretaries is seized of the (telecom) matter and a final call will be taken soon."

On the response to the Rs 25,000-crore housing fund (to start with) to bail out stuck projects, the minister said four of them in three cities — Mumbai, Hyderabad and Bengaluru — have approached the government to avail of funding, and more are expected to follow suit. She, however, didn't reveal the names of the projects at this stage.

The finance ministry will shortly move the Cabinet for raising the insurance limit on bank deposits from current Rs 1 lakh, the minister said.

As for the PMC customers, the minister said deliberations are going on and it has to be seen if the attached properties of promoters of the crisis-ridden co-operative bank can be utilised to pay back depositors.

To ensure that the flow of liquidity to the NBFC segment gets a boost, the finance ministry has asked the RBI and state-run banks for segregated data on the credit flow into shadow banks, including those that are not AAA-rated. The idea is to gauge the fund flow and intervene accordingly, if necessary.

Despite an expected shortfall in tax revenue, the finance minister asserted that there would be no compression in welfare expenditure. On the contrary, the government is nudging departments that have not spent much so far this fiscal to improve their expenditure level. The road transport and highway ministry, for instance, spent just 62% of the budgetted target in the first half of this fiscal, against 75% a year before. Similarly, expenditure of the civil aviation ministry stood at only 25% until end-September, against 81% in the same period last fiscal.

Others that have not spent much in the first half of FY20 include agriculture, coal, panchayati raj, Jal Shakti, statistics, tourism and women and child development. Importantly, the agriculture ministry spent only 39% of its full-year budget allocation of Rs 1.39 lakh crore until end-September, against 64% a year before, mainly due to lower outgo on account of the PM-Kisan scheme.