Economy This Week 5th to 11th October 2018

- **New FPI route - VRR (BS 8 Oct 18)**
  - So far this year, FPIs have pulled out $7 bn from the debt market whereas last year they had invested $23 bn in the debt market
  - The central banker has proposed Voluntary Retention Route (VRR). An entity that is registered with SEBI as FPI will be eligible under this
  - It does away with the regulatory restrictions if the FPIs commit to lock-in two thirds of their investment for a period of at least three years
  - The investment limits under this will be auctioned with key allocation criteria being retention period
  - The limits on these will be above and over other limits set for FPIs in corporate bond and government bonds
  - In April RBI has mandated that
    - FPI cannot invest more than a fifth of their corpus/investments in papers of a single corporate group
    - A corporate cannot have more than 50% of their investment from a single FPI group
    - Another operational guideline has been cap/limit on the short term investments - 20% of portfolio size
  - The VRR route will be ideal for sovereign wealth funds, pension funds, central banks etc who invest for long term
  - The total investment limit for FPIs in the debt market is ₹ 2.9 tn and ₹ 3.6 tn in government securities (total of ₹ 6.5 tn)

- **FPIs may get easier access to Indian markets (ET 10/10/18)**
  - SEBI expert panel is set to propose liberalised rules establishing a fast track process for FPIs besides allowing them to invest in different classes of securities
  - Under this the FPI applications will be processed within few days as against the present time period of three to four weeks
  - The verification of documents will be done post-facto and presently it is done before the license is granted
  - Presently the sovereign wealth funds have easier process of registration and the time consumption is far lesser. The thinking is that the same process should be expanded to cover all the other FPIs (especially those coming from the jurisdictions where the anti-money laundering norms are implemented and are compliant with FATF)

- **Moneylife Foundation (NGO) has filed a petition urging the court to interfere in two areas**
  - Calculate the excess interest charged by the NBFCs and banks by not transferring the benefit in the form of lower interest rates
  - The banks to publish the methodology by which they set the interest rates The NGO has contested that the way the interest rates are calculated are arbitrary and discriminatory. This violates the article 14 and article 21. Since RBI in the name of implementing the MCLR (Marginal Cost of funds based Lending Rate) has not done anything to prohibit this, hence has been an unwilling participant
  - The RBI has to review if the benefits of the rate cuts have been reaching the consumers or not
  - RBI has conveyed to the SC that; it is willing to instruct the banks to reduce the lending rates when repo rate is cut

- RBI has implemented MCLR, before which there was BRR (Base Rate Regime). The issues flagged are
  - As there was no sunset clause for the loans issued under BRR, the banks have been slow in migrating these loans under MCLR
  - The MCLR interest rates have been applied only for the new loans
  - In some cases, switching costs were imposed which prohibited the consumers from shifting their loans from BRR to MCLR

- **<u>The government reduces petrol and diesel prices (BS 8/10/18)</u>**
  1. Though government will not be able to collect ₹ 10500 because of the cut in the excise, it will be bearing ₹ 6100 Cr loss as it has to pass 42% of the proceeds to the centre
  2. Though the tax receipts trends are encouraging it will take more from the government to achieve the fiscal deficit target
     - Going by the trends, the government's revenue may fall short by ₹ 1.5 tn under GST
     - The additional expenditure is going to increase by ₹ 380 bn
  3. The FD has already hit 94.7% of the target in the first five months
  4. The government cut the capital expenditure by 15% for FY18
  5. The government expects an additional expenditure in MSP by ₹ 200 billion as the support prices have been increased (it is above and over the food subsidy bill estimated to be ₹ 1.69 tn)
  6. The fuel subsidy allocated was ₹ 250 bn but the additional burden might be ₹ 125 bn
  7. The government has announced a support of ₹ 20 bn for Air India (apart from ₹ 163 bn announced in the budget)
  8. The outlay for Ayushman Bharat could increase by ₹ 35 bn

- **<u>The government reduces petrol and diesel prices (LM 5/10/18)</u>**
  - The central government has announced a reduction in petrol prices of ₹ 2.50 per litre. Of this centre will reduce the price by ₹ 1.50 and state retailers by ₹ 1. With rupee depreciating on daily basis and sanctions on Iran round the corner, experts are saying that this benefit to the consumers might be short lived
  - With this tax revenue foregone will be ₹ 10500 Cr in the remaining part of this year
  - This also puts the spotlight on two issues
    - Government decision of reaching an FD of 3.3%
    - The fuel prices were not influenced by the government
  - This cut in excise will have an impact of 0.1% on Fiscal deficit but the government is expecting a higher direct tax mop up to counter this. For the first six months, the direct tax collections have increased by 16.7%
  - On the other hand the three OMCs will have to forego profits of ₹ 4500 Cr for the remaining six months in this fiscal

- **<u>Power - amendment to electricity act (TH 9/10/18)</u>**
  - The amendment proposes transfers of subsidy through DBT to any consumer
  - More than one electricity supplier in an area will give the options to the consumer
  - Renewable energy has been mentioned and the bill proposes penalty in case of not meeting the RPOs (Renewable Purchase Obligations). In case of non-compliance of RPOs the penalty that will be imposed will be in the range of ₹ 1 to ₹ 5

    RPOs are decided by the state regulatory body for respective states under which the state discoms have to purchase a percentage of their energy

demand through renewable energy. The state electricity regulatory bodies so far have not imposed penalties in many cases (up to ₹ 1 lakh) or the penalties have been negligible. In some other states the RPOs have been kept at a very low level or the percentage has remained same (for AP it has been kept at 5% since 2011-12 to FY16, only Rajasthan and Gujarat have been achieving their RPOs).
The states are supposed to meet the obligations either by purchasing the renewable energy or by purchasing the RECs (Renewable Energy Certificates). These promote sale of RE from the generator to these discoms at the existing tariffs. The value of RECs are determined by exchange markets.

- Has proposed installation of smart meters to help accounting for power consumption and wastage
- 24*7 power supply is an obligation and the state regulatory authority has the right to penalise the discom, if it fails to meet the target, it will also have the power to revoke the license of the discoms
- Violation of PPAs will attract penalties of up to ₹ 1 Cr per day of fines and may also include suspension/cancellation of licenses by the appropriate commission
- Cross subsidies within a area shall not exceed more than 20% within a distribution area and shall be wiped off in the next three years and the reduction in cross subsidy shall not be greater than 6% a year
- Amend section 25 of the act to have committees at three levels to facilitate efficient, economical and integrated transmission and supply of electricity
    - National Power Committee - established by the centre
    - Regional Power committee - established by the centre
    - State Power Committee - established by the respective state governments

- **Power - amendment to electricity act (TH 9/10/18)**
    - Promotion of multiple electricity suppliers will promote competition in the sector, improved supply and lower bills
    - In the amendment proposed in 2014, the states were mandated to introduce the reforms in a time bound manner, which was resisted by the states but this time the discretion has been given to them
    - If passed then it may lead to suppliers picking areas with high income households to supply electricity and ignore areas with low income households. In which case it will be the duty of the state company to supply the electricity in the ignored areas. In the present scenario the discoms use cross subsidisation to make up for these revenue but the amendment has proposed changing the cross subsidisation hence these discoms may come under lot of financial distress. The amendment has proposed direct support from the states but if there is a delay in providing it, then the supplier will be affected