

## **ETW 11th to 17th Mar 2019**

- **SWIFT codes - RBI penalises banks (TH 11/3/19)**
  - RBI earlier had warned the banks about the possible misuse of SWIFT infrastructure
  - SWIFT (Society for Worldwide Interbank Financial Telecommunication) is the global messaging software that enables the financial institutions to send and receive information about financial transactions in a secured, standard and reliable environment
  - After the PNB scam, RBI asked the banks to connect/integrate the SWIFT with CBS (Core Banking Solutions). Now the central banker has imposed penalties on these banks for failing to do the same
  - The Banking Regulation act allows RBI to impose a maximum penalty of ₹ 1 Cr for a single breach
  - The FATF may see the step taken by RBI as a negative one. The question raised would be that why the banks are reluctant to implement reforms which will help in regulating the international wire transfers
  
- **PFC and REC merger may put pressure on the discoms (BS 14/3/19)**
  - The final contours of merger between PFC and REC have been finalised. In this situation the Discoms will not be able to borrow from these entities. This is going to intensify the outstanding dues of discoms to the gencos
  - The total outstanding dues of the discoms are ₹ 26437 Cr, of this the exposure to the privately owned units is around ₹ 15000 Cr, to NTPC is ₹ 8344 Cr and to NHPC is ₹ 1387 Cr (apart from this are several other gencos)
  - With implementation of UDAY, it was expected to bring the discoms out of financial stress. As per the recent data, many of the discoms/states (TN, Telangana, UP etc) have incurred losses in the first nine months of this fiscal. The same states also owe high unpaid dues to the gencos
  - Under UDAY, these discoms are not allowed to borrow from the banks as the guidelines prohibit loss funding. On the other hand, they cannot raise money from the market also due to their poor financial conditions
  
- **Renewable - Wind energy (TH 11/3/19)**
  - The capacity addition in the wind energy have plummeted in the recent years. It is estimated at 5500 MW, 1762 MW and 1600 MW for FY17, FY18 and FY19 respectively
  - In India there are eight states, where it is economically viable to set up wind capacity - Tamil Nadu, Gujarat, Karnataka, Maharashtra, Madhya Pradesh, Rajasthan, Telangana and Andhra Pradesh
  - Earlier
    - The developers (solar power generators) would generate solar energy and sell it to discoms at a price fixed by the state regulators (Feed in Tariffs - FiT). the FiT would be given to the developers for the entire period of the power purchase agreement (usually 25 years)
    - Since there was possibility of setting up capacity in only eight states, annual capacity addition used to be 1500 to 3000 MW. it was difficult

to expand the buyer base also as it would mean generating in one state and then selling it to another state

- Centre in 2014, expanded the renewable energy target to 175 GW of which the target for wind energy was set at 60 GW. to achieve this, the centre, through SECI, became a trader wherein it would buy power from those states which installed capacity and sell it to the non-windy states. Apart from this, preference was given to those developers who would sell the electricity at lower prices, while signing the long term PPAs (Power Purchasing Agreements). This meant that the pricing methodology would be shifted from FiT to market determined prices
  - In the first round of auction (2017), the developers agreed to sell electricity at ₹ 3.46 per kWhr (the price under FiT was ₹ 4.16 per kWhr) in Tamilnadu. This led to other states vying for auctioning. In FY18, only two auctions worth 2000 MW was conducted
  - So far six rounds of auctions amounting to 13000 MW capacity has been conducted and the prices have fallen to ₹ 2.44 per kWhr in the third round
  - The developers in order to remain competitive started opting for capacity addition in two states - Gujarat and Tamilnadu. 70% of the auctions conducted, went to these states and the capacity addition that was proposed was more than the ability of substations to take the power
  - In other case, Gujarat government was not happy that they would be providing land for capacity of 5400 MW, which will be sold to other states. So it came with a policy wherein the developers were asked to set up the parks in specific wind parks. This land allocated was not the best place to set up the projects so, there were negotiations held which delayed the implementation of the projects
  - From the fourth round of auctions, the government imposed tariff restrictions on the developers (the highest price that the government would accept)
  - Of the 13000 capacity allocated only 823 MW has been completed and there has been a delay in case of 2000 MW. in such a situation more auctions are supposed to be conducted
  - There are over 3800 SMEs which supply components to the turbine manufacturers and two million employees are employed by these SMEs
- **RBI to inject liquidity via forex swaps (TH 14/3/19)**
- In its first of the kind instrument, RBI has decided to launch foreign exchange swaps worth \$5 bn to inject liquidity into the system
  - RBI would be conducting dollar-rupee buy/sell swap auction of \$5bn with three-year tenure on March 26
  - The dollars mobilised through this will be reflected as a part of the forex reserves for the tenure and as part of RBI's forward liabilities
  - As of March 1st week the forex reserves were more than \$401.7 bn
  - It will add \$ 5 bn to the forex reserves of RBI
  - Banks short on SLR had a limited participation in the current OMO market. These will have an option to participate in the forex swap

➤ **Oil subsidy held back to pay for PM Kisan (BS 16/3/19)**

- The government has allocated ₹ 20000 Cr for the PM Kisan scheme for this fiscal. This allocation has come at the cost of rolling over the excess or outstanding subsidy payment that the government owns to the OMCs
- The excess subsidy is because of the higher crude prices in the international market
- The budgeted petroleum subsidy was ₹ 24933 Cr. The govt had thought of clearing all the outstanding dues to the OMCs and start the next fiscal with a clean slate
- Since the revised estimated for petroleum subsidy is similar to the budgeted one, there will be roll over of the subsidy payments. The budgeted estimates for petrol subsidy for FY20 has already assumed a rollover subsidy payment of ₹ 13000 Cr
- The subsidy expenditure is expected to increase in the month of march as the price difference between non-subsidised and subsidised cylinder increased to ₹ 205 from ₹ 165 (increase of 24%) and the subsidy on kerosene is also expected to increase in march