Cautious outlook on interest rates

It will be futile to advice home loan borrowers to choose the floating rate option unless the RBI forces banks and lending institutions to cut rates.

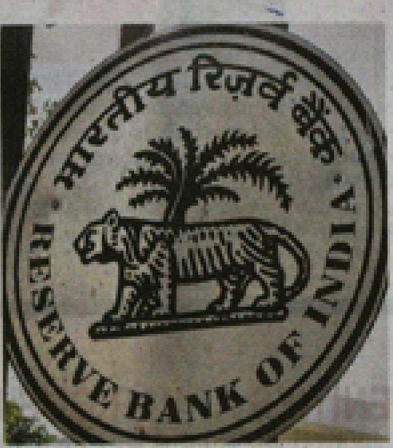
By **BALAJI RAO**

CASHWISE

The monetary policy committee think-tank surprised the market two times in a row; last time the rates were reduced against the market expectation that the rates would remain unchanged, and this time the rates were left unchanged while the market had a strong feeling that the rates would be cut.

The repo rate or the rate at which the Reserve Bank lends money to banks on short-term basis was maintained at 6.25% without tinkering. Due to credit-deposit mismatch (termed as CD Ratio) where the banks would find it difficult to meet the loan demand compared to deposit inflow, they resort to seeking fund assistance from the RBI to bridge the demand gap. The banks have to pay interest to RBI for the loan where approved securities are pledged as part of "repurchase agreement" and that rate is termed as "repo rate."

Since the borrowing quantum runs into several thousand crores this rate becomes the benchmark rate for other lending and borrowing rates on short-term basis. Hence monetary policy announcements become extremely important for banks and more so for industries that need credit to support their businesses.



Trickle down effect

Low borrowing rates lead to lower cost of funds which will reflect in lower cost of production (for the industries) and lower cost of purchase (for the end users/consumers) leading to lower inflation besides industries being able to expand their businesses and generate new employments. The overall growth of an economy hinges on inflation level, interest rates and money supply in the system.

Further, it was evident from the stance of the RBI that the effect of demonetisation is still reverberating and the tone has not been accommodative for future rate cuts either. What was positive was the observation that the borrowers have not been fully benefited from the rate cuts that have happened over the last year; the banks are yet to pass on the benefits.

There has been a growing resentment, particularly among existing home loan borrowers, that lenders have not passed on the benefits. In fact, there is no point in the RBI reducing the rate and the same not being passed on to the borrowers; it becomes counterproductive for the economy.

It will be a wait and watch on the interest rates front for a while; and it becomes a futile effort to advice home loan borrowers to choose the floating rate option unless the RBI cracks the whip on banks and lending institutions.

If only the approval process is speeded up...

BUDGET REACTIONS

Shishir Baijal, Chairman & Managing Director, Knight Frank India:

The real estate sector which was the hardest hit by demonetisation move will be one of the major beneficiaries of this budget. Increased focus on infrastructure especially construction of new roads, improvement of existing roads and coastal connectivity will go a long way to benefit the real estate sector.

Providing infrastructure status to affordable housing, a long standing demand of the real estate industry, will not only bring the cost of financing down but will also open up additional avenues for developers to raise funds. The shift in eligibility criteria for affordable housing from built-up area to carpet area will increase the unit size by 20-30% and will offer home buyers the benefit of owning larger units. This will also encourage leading real estate players to enter the affordable housing segment.

Changes in the taxation aspect of JDA (Joint Development Agreement) will encourage more land owners to partner with developers that will benefit the real estate developers and in turn benefit the end consumers.

Amit Bhagat, MD & CEO, ASK Property Investment Advisors:

The budget will augment supply of affordable homes as per earlier direction laid down by Pradhan Mantri Awas Yojna. Infrastructure status to affordable homes will attract funds at very attractive interest rates from banks, insurance companies and pension funds.

Bijay Agarwal, MD, Salarpuria Sattva Group:

The government'ss step towards improving the existing road infrastructure and the new metro rail policy is right step to enhance connectivity and decongest urban areas.

Relaxation on long-term capital gains on immovable property by reducing the holding period to 2 years and shifting of base year to 2001 for the purpose of indexation will bring down the capital gains liability in the hands of the owner and improve liquidity. However, further reduction in interest rate and increase in exemption limits for home loan buyers would have been appreciated.

Surendra Hiranandani, CMD, House of Hiranandani:

The move to grant infrastructure status for affordable housing will lead to higher participation by private players in this segment as they can have access to institutional funding and other government subsidies. Along with tax rebates for the salaried class which will lead to higher disposable income and interest subventions, this can be a potential winner in the long run. However, the government should redefine affordable housing clearly keeping in view the different geographies in India.

The tax break of one year post receipt of the completion certificate, for the unsold stock, and reduction of long-term capital gains to two years will provide respite to investors and developers alike.

A major impediment to real estate development in India remains the approval process.

While the government has done a lot to ease the functioning of the real estate sector and protect the consumers, it must get the statutory authorities responsible for clearing the projects within the purview of law.

Shrinivas Rao, CEO, APAC-Vestian:

Banks providing loan for affordable housing will make it a lucrative development option for developers and investors alike. The Budget also proposes shortening of the time period for long term capital gains, removal of FIPB and encouragement for land pooling, all of which are positive steps from an investor's standpoint.

These moves aim at revitalising the residential real estate sector which is currently seeing oversupply and depressed demand.

These reforms along with digitisation of land / property records are a step towards eliminating the "black economy" prevalent in the sector and ensuring transparency and accountability.