MONTHLY UPDATE
DECEMBER 2015

GROWTH IS THE PRIORITY

FISCAL AND MONETARY TARGETS CAN WAIT

GLOBAL UPDATE | INDIA UPDATE | INDIA INFRASTRUCTURE UPDATE

After almost 7 years, The US Fed raised the target range for the federal funds rate by a 0.25 percentage point, bringing it to 0.25 to 0.5 per cent. The FOMC remarked, 'It reflects the Committee's confidence that the economy will continue to strengthen'. However, low inflation still continues to be a concern.

GROWTH IS THE PRIORITY

FISCAL AND MONETARY TARGETS CAN WAIT

The US Fed raised the target range for the federal funds rate by a 0.25 percentage point, bringing it to 0.25 to 0.5 per cent. The Federal Open Market Committee remarked, 'This action marks the end of an extraordinary seven-year period during which the federal funds rate was held near zero to support the recovery of the economy from the worst financial crisis and recession since the Great Depression. It also recognises the considerable progress that has been made toward restoring jobs, raising incomes and easing the economic hardship of millions of Americans. It reflects the Committee's confidence that the economy will continue to strengthen'. Indeed, the US unemployment level has fallen to 5 per cent and is closer to the median of the FOMC's estimates of its longer-run normal level. Over 2.3 million jobs have been added to the economy in 2015. The US real GDP has risen at an average pace of 2.25 per cent over the last three quarters. However, low inflation still continues to be a concern. The overall consumer price inflation (CPI), as measured by the price index for personal consumption expenditures (PCE), stands at just around 0.25 per cent.

Between June 2004 and June 2005, the Fed raised rates by 0.25 percentage point at every meeting making a total hike of 4 percentage points in 17 straight hikes while in 1990s the rates were raised by 3 percentage points in just a year. The Fed's move in 90s helped the US economy in globalization while it cautioned others. Would the current move help in a similar manner? Many politico economic factors at work would decide the course. The 90s was a part of the US hegemony phase – a unipolar world, so to speak. Now, after a quarter of a century, there has emerged a struggle for a multipolar global system with an element of considerable assertiveness by developing nations and particularly Asian economies.

With the euro area saddled with low inflation, the European Central Bank (ECB) cut deposit rates, which were already in the negative territory. The quantitative easing norms would continue till the inflation levels approach the targeted level of 'below, but close to 2 per cent'.

In Asia, the Bank of Japan (BoJ) rendered the monetary policy unchanged. It has been keeping interest rates low to avoid a recession and expects to meet its 2 per cent inflation target in the medium term. BoJ also announced that it would enhance its easing programme. China too is pursuing the easing course and has been cutting down interest rates to tackle deflationary pressures and the slowdown.

The World Trade Organization (WTO) meet concluded in Nairobi, Kenya, wherein the preceding Doha Development Agenda of 2001 that favoured developing countries was almost discarded. The WTO opened the way for new issues to be discussed, while the developing countries, including India, had to concede to letting go of the existing unresolved issues in the Doha agenda. India's gains too stayed muted.

The OPEC countries failed to agree on supply cuts during the December 4 meet, while a US legislation lifted a 40-year ban on crude exports. Consequently, oil prices tumbled further touching $35.5/barrel.

The overall global scenario exhibits slow growth, low inflation and a propensity to keep interest rates muted and the fiscal stimulus intact. The scenario in India is, however, marked by growth gradually firming to a stable trajectory and comparatively higher inflation and higher interest rates. The pressing concern is to tame inflation further when surrounded by a low inflationary regime elsewhere. The RBI has rightfully kept the key interest rates steady in its December policy meet. The Indian economy emits mixed signals. With the mid-year review cutting down on growth forecasts for FY16 to 7–7.5% from 8%, there is a need to adhere to a larger time frame for fiscal consolidation and achieving monetary policy targets. The economy is driven by private consumption and public expenditure, while private investments have yet to pick up. Public expenditure on infrastructure needs to be continued for some more time before the investment cycle picks up. Oil prices may not stay muted during 2016 and may add to the bills. Thus, for economies across the globe, including India, growth is the priority, whereas fiscal and monetary targets can be kept on hold for the present.

The winter session of the Parliament concluded without the much-talked-about GST Bill and the crucial Real Estate Bill getting passed. With the Opposition firmly against the GST and the anticipation of similar resistance to the finer details of the Real Estate Bill, the government decided to address them in the next session when it is expected that the Rajya Sabha's composition may favour their passage.

On the infrastructure and real estate fronts, there is an immense push for the development of roads and infrastructure in the country. The recent notification on the Land Bill 2013 has specified the limit of land beyond which compensation needs to be given to the affected persons, though it may prove to be a bone of contention in Centre–State relations, land being an item in the State List. The amendments introduced in the Real Estate Bill also exhibit the reformist initiative required for the cash-starved, opacity-driven sector.

The recently released Kelkar Committee Report on Revisiting and Revitalising the Public Private partnership (PPP) Model of Infrastructure Development pleads for a change in mind-sets for successful functioning of PPP model in India. It prescribes that 'One-size-fits- all' approach in dealing with project specific risks needs to be discarded and replaced by better identification and allocation of risks between stakeholders. It also aptly suggests that contracts should concentrate more on service delivery than on fiscal benefits. The government is expected to act on the report.

Angela Merkel, named 'the indispensable European' by The Economist and the 'Person of the Year' by TIME, was also voted as the most influential figure of 2015 by the Agence France-Presse (AFP). Her metamorphosis from a research scientist into a politician and finally an able stateswoman distinguished her as a de facto leader who sagaciously handled some of the pressing issues currently faced by the European Union.

The attached document deals with the above. I trust you find it in order.

Wishing you a very happy and prosperous 2016!

The overall global scenario exhibits slow growth, low inflation and a propensity to keep interest rates muted and the fiscal stimulus intact. The scenario in India is, however, marked by growth gradually firming to a stable trajectory and comparatively higher inflation and higher interest rates. For economies across the globe, including India, growth is the priority, whereas fiscal and monetary targets can be kept on hold for the present.

GLOBAL UPDATE

(FOMC) raised the target range for the federal funds rate by 0.25 percentage point taking it to 0.25 to 0.50 per cent after almost seven years. The inflation (CPI) in US stands at around 0.25 per cent and is still a concern. However, the US real GDP has risen at an average pace of 2.25 per cent over the last three quarters. The US unemployment level too has fallen to 5 per cent and is closer to the median of the FOMC's estimates of its longer-run normal level.

US Fed raises interest rates

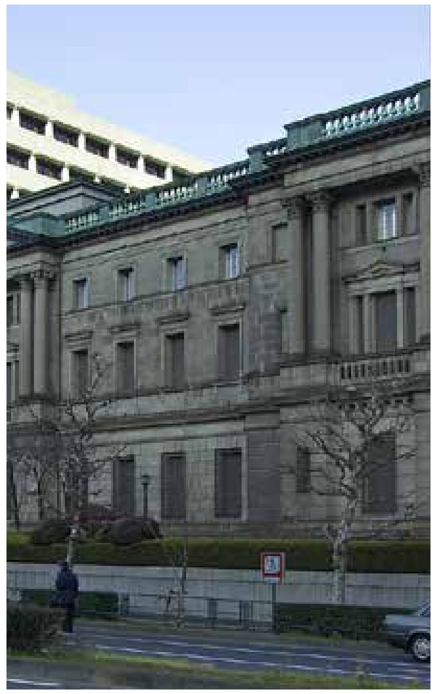
Considering the improvement in the US labour market and the confidence that, over the medium term, inflation would reach its 2 per cent target, the US Federal Open Market Committee (FOMC) raised the target range for the federal funds rate by 0.25 percentage point taking it to 0.25 to 0.50 per cent after almost seven years. The Committee stated that monetary policy would stay accommodative and would support further improvement in labour market conditions and a return to 2 per cent inflation. It also indicated that the Committee would continue to monitor economic conditions relative to employment and inflation.

The current overall consumer price inflation (CPI) in US, as measured by the price index for personal consumption expenditures (PCE), stands at around 0.25 per cent, indicating that low inflation is still a concern. However, the US real GDP has risen at an average pace of 2.25 per cent over the last three quarters. The US unemployment level too has fallen to 5 per cent and is closer to the median of the FOMC's estimates of its longer-run normal level. Over 2.3 million jobs have been added to the economy in 2015. Over the last three months, 218,000 jobs have been added on an average per month.

European Central Bank (ECB) cuts deposit rates

In its efforts to beat low inflation and ensure price stability, the ECB cut the key deposit rate (the rate at which banks receive interest for parking cash overnight at the ECB) by 10 basis points to minus 0.30 per cent, with effect from 9 December 2015. Thus, the ECB aims to promote growth by persuading banks to lend to corporates and households rather than holding on to its funds. The interest rate of the main refinancing operations and the rate of the marginal lending facility are also left unchanged at 0.05 per cent and 0.30 per cent, respectively.

Continuing the easing measures, the ECB announced that it will extend its asset purchase programme (APP), i.e. monthly purchases of €60 billion to March 2017 or beyond, till the inflation level approaches the ECB's target of 'below, but close to 2 per cent over the medium term'. Inflation across the euro area is still quite low, at just 0.2 per cent (as of November 2015).



World Trade Organization (WTO) meet concluded in Nairobi, almost discarding the preceding Doha Development Agenda that favoured developing countries

The WTO's tenth Ministerial Conference took place in Nairobi, Kenya, from 15 to 19 December 2015 and was attended by trading representatives from 162 nations. The meet stood divided on the issue of the continuation of the Doha Development Agenda of 2001 that pleaded for improving trading prospects of developing countries. The WTO allowed the opening of new issues to be discussed in the future. While many developing countries, including India, did not appreciate it, given the existing unresolved issues in the Doha agenda, they had to concede. The developed countries, led by the US, asserted that new approaches are necessary and could introduce issues of their choice which may not be a priority for developing countries. India's gains stayed limited to acquiring protection in case of a sudden rise in imports or cuts in tariffs, though the Nairobi Declaration does not speak of any mechanism or triggers for invoking the Special Safeguard Mechanism (SSM). India also had to concede on the issue of export subsidies, which now have to be discontinued by 2023, against the earlier deadline of 2030.

Bank of Japan (BoJ) renders the monetary policy unchanged

The Bank of Japan (BoJ) rendered the monetary policy unchanged. Keeping interest rates at virtually zero for quite some time, to avoid a recession, the bank expects to meet its 2 per cent inflation target in the medium term. The current CPI inflation in Japan stands at below 0.5 per cent. The bank also extended the maturity of Japanese government bonds from the current 7–10 years to 7–12 years. It further announced that it would not cut down the fiscal stimulus and continue with the easing programme, wherein apart from the annual purchase of three trillion yen worth of exchange-traded funds (ETFs), the bank launched a new programme to buy 300 billion yen in ETFs.

Angela Merkel – the most influential figure of 2015

Agence France-Presse (AFP) has chosen Angela Merkel, the Chancellor of Germany as the most influential figure of 2015 and placed Russian President Vladimir Putin at number two on its list of people who most influenced world affairs over the year. Merkel has also been voted as TIME's Person of the Year. Describes as 'the indispensable European' by the Economist, Merkel has emerged as the de facto leader of Europe for confronting Russia over its involvement in Ukraine, handling the Greek financial crisis and for her absorbent policy on the European migrant crisis.

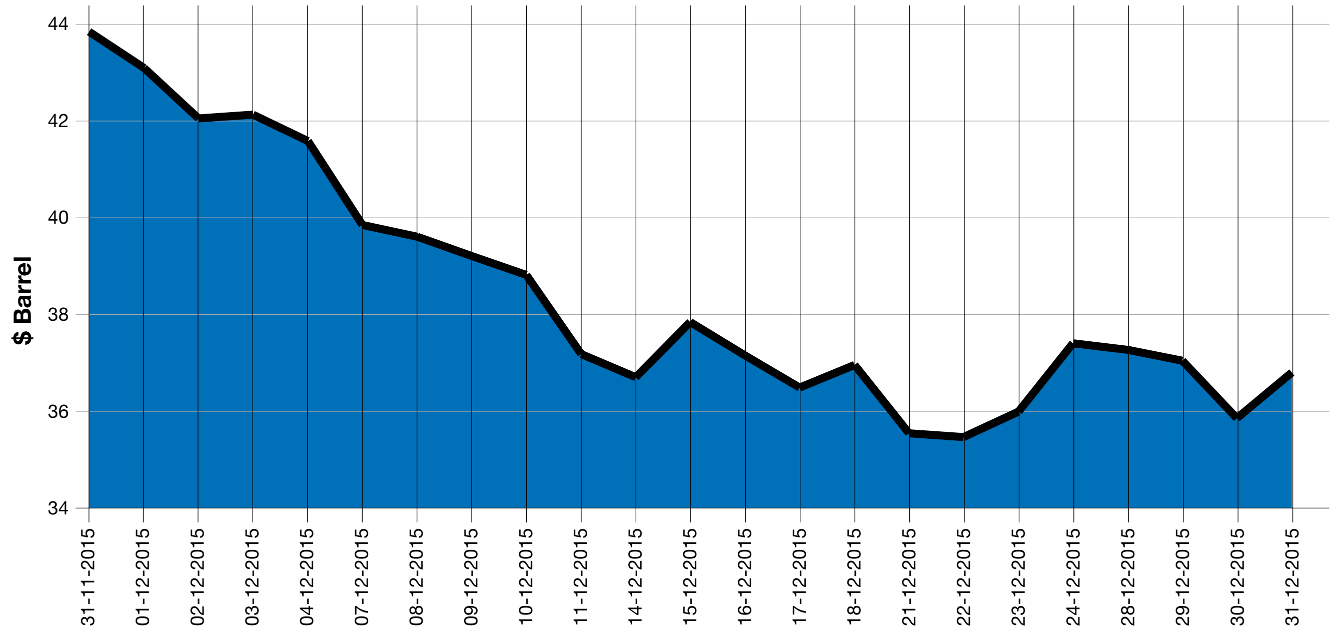
India's gains stayed limited to acquiring protection in case of a sudden rise in imports or cuts in tariffs, though the Nairobi Declaration does not speak of any mechanism or triggers for invoking the Special Safeguard Mechanism (SSM). India also had to concede on the issue of export subsidies, which now have to be discontinued by 2023, against the earlier deadline of 2030.

OIL

Oil prices tumbled 15.2% during the month touching $35.5/barrel. Brent crude slipped to its lowest price since mid-2004. Earlier in December 2015, the OPEC members failed to agree on a supply cut, which led to speculations that excess supply would hurt prices. The month also saw a US legislation lifting a 40-year ban on crude exports. In the aftermath, producers are reported to be reducing costs.

There has been an oversupply since the OPEC's historical November 2014 announcement to enhance production and defend market share, and also to drive out higher-cost producers, such as US shale drillers, from the market. Currently, there is an excess supply to the tune of 1.3 million barrels per day, while the US crude stocks have increased to 490.7 million barrels – 130 million above the five-year average.

BRENT CRUDE SPOT PRICE (FOB)



Source: U.S. Energy Information Administration

INDIA UPDATE

Mid-year review cuts India's GDP growth forecast for FY16 to 7–7.5% from 8.1–8.5%

The finance ministry's mid-year review cut India's GDP forecast for FY16 to 7–7.5 per cent from 8.1–8.5 per cent. The review observed that the economy has been emitting mixed signals: it is driven by private consumption and public spending, while private investments are yet to pick up. The economy needs fiscal and monetary stimulus for some more time. It cautioned that the FY17 growth may be hurt if fiscal consolidation continues and public spending is cut. Hence, fiscal consolidation needs to be undertaken over a larger time frame. Further, lower oil prices may not stay for long and the Seventh Pay Commission may also strain the finances. The review also underlines the need to reassess the government's fiscal consolidation roadmap, which aims to narrow the fiscal deficit to 3.9 per cent this year and 3.5 per cent of the GDP in FY17.

On the monetary front, the report observed that the inflation target of 4 per cent could also be extended over a larger time frame, with monetary easing allowing the corporate sector to reduce its debt levels.

The report also prescribed supply-side reforms, demand management and realistic disinvestment targets.

Fitch retains India's rating at BBB-/Stable

In its report, Emerging Asia Sovereign Outlook 2016, international rating agency Fitch has retained India's sovereign rating at BBB-/Stable—the lowest investment grade—and observed that India missed the positive rating due to weak public finances. It expressed optimism that the economy is poised for good growth, though the prospects for the Asia-Pacific region stay muted due to the rising dollar strength, lower commodity prices and falling commodity prices.

Fitch forecasts the emerging Asia growth to slip to 6.3 per cent in 2016 from 6.5 per cent in 2015 due to the slowdown in China. Except for China and India, the Asian region is expected to grow at 5.2 per cent in 2016 from 5 per cent – the fastest in any emerging region.

RBI keeps interest rates steady in December 2015 policy meet

With inflation inching up gradually, the RBI kept the benchmark repo rate unchanged at 6.75 per cent. Concerns surrounding the expected hike in interest rates by the US Fed and the likely repercussions on fund flows and currency also weighed in on the decision. The bank noted 'the uptick of CPI inflation excluding food

Mid-year review of the economy cut India's GDP growth forecast for FY16 to 7–7.5% from 8.1–8.5%. The review also underlines the need to reassess the government's fiscal consolidation roadmap, which aims to narrow the fiscal deficit to 3.9 per cent this year and 3.5 per cent of the GDP in FY17. The inflation target of 4 per cent could also be extended over a larger time frame.

In December 2015 policy meet, the RBI kept the benchmark repo rate unchanged at 6.75 per cent. The bank noted 'the uptick of CPI inflation excluding food and fuel for two months in succession warrants vigilance'.

and fuel for two months in succession warrants vigilance'. The reverse repo rate under the LAF has also been left unchanged at 5.75 per cent. The cash reserve ratio (CRR) of scheduled banks also stays unchanged at 4.0 per cent of their net demand and time liabilities.

RBI cuts statutory liquidity ratio (SLR) by 1 percentage point to boost credit

In its efforts to boost credit, the RBI announced a 1 percentage point cut in the statutory SLR (government securities that banks have to mandatorily hold) to be undertaken in four equal stages by January 2017. Currently, the SLR is 21.5 per cent, while most banks have an SLR in excess of the mandated amount. The RBI has mandated that banks reduce their SLR to 21.25 per cent on 2 April 2016; 21 per cent on 9 July 2016; 20.75 per cent on 1 October 2016; and finally, to 20.50 per cent on 1 January 2017. Currently, the collective SLR of banks stands at 29.33 per cent (as of 30 October 2015).

PSU banks at most risk from bad loans – RBI's Financial Stability Report

The RBI's Financial Stability report highlighted that PSU banks are exposed to larger risks from bad loans. Poor credit evaluation and huge dividend payouts also mar such banks.

The report observed that with negligent credit assessment, banks have loaned money to projects with little equity contribution by entrepreneurs or to corporates with weak balance sheets. They have also paid dividends to the tune of ₹20,000 crore to the government and other shareholders in the last four years, while taking more than twice that amount as capital from the government. The report prescribed that the banks' dividend decisions need to be strategic and promote shareholder wealth maximisation. Banks are also advised not to push financial inclusion beyond a certain point.

The report also states that if the macroeconomic conditions deteriorate, bad bank loans should make up 6.9 per cent of the total credit by March 2017 (from 5.1 per cent in September 2015) and that of PSU banks would make up 8 per cent of the total credit by March 2017 (from 6.2 per cent in September 2015). This prompts serious concerns, as the PSU banks' capital adequacy ratio could slip to 9.4 per cent from the current 11.5 per cent.

The report revealed that large borrower contributions to the total banks' bad loans rose to 87 per cent from 78.2 per cent a year earlier, while the share of the top 100 large borrowers in gross NPAs of all banks rose to 3.1 per cent in September 2015 from 0.7 per cent in March 2015. Large borrower contributions to the NPAs of PSU banks rose to 8.1 per cent in September 2015 from 6.1 per cent in March 2015. The report also highlighted that the highest risk to the banking system comes from the engineering, iron and steel, and cement sectors.

67.8% of the budgeted target for indirect taxes in the government kitty during April–November 2015

In the first eight months of the current fiscal, 67.8 per cent of the budgeted target for indirect taxes in 2015–16 has been collected. Indirect tax revenues made up ₹4.38 lakh crore of the budgeted ₹6.462 lakh crore, mostly led by excise duty levied on goods at the factory gate. Against the budgeted monthly growth rate of 18.8 per cent, collections grew at a robust 34.3 per cent monthly.

The rise in indirect taxes during this period was on the back of a 58.3 per cent increase in excise duty collection and a 16.1 per cent growth in service tax collection. Customs duty collection, however, grew by just 1.7 per cent.

Rise in public debt 2.1% QoQ; Government cuts market borrowing by `15,000 crore for H2 FY16

The government's quarterly report on debt management for July–September 2015 revealed that the total public debt (excluding public account liabilities) rose to ₹54.1 lakh crore at the end of September 2015 from ₹53 lakh crore at end of June 2015, resulting in a quarter-on-quarter (QoQ) rise of 2.1 per cent (provisional) compared to a rise of 3.2 per cent in the previous quarter (Q1 FY16). Internal debt constituted 92.1 per cent of the public debt, compared to 92.3 per cent in the previous quarter. The outstanding internal debt constituted 37.4 per cent of the GDP at the end of September 2015, compared to 37.8 per cent at the end of the previous quarter.

The government has cut its market borrowing for the second half of FY16 by ₹15,000 crore. However, there is no reduction in the overall borrowing, as the amount would be raised by the Sovereign Gold Bond and Gold Monetisation Scheme alternatively.

GST Bill takes a backseat; the government is working on a draft GST law

The GST bill could not be passed during the winter session of the Parliament on account of the opposition's firm stance against it. Consultations with the opposition parties went astray. The four conditions laid down by the Congress to support the GST Bill are: i) the rate to be capped at 18 per cent in the Constitution, ii) the 1 per cent levy on inter-state sales to be scrapped, iii) setting up an independent dispute-settlement mechanism and iv) voting power of three-fourths for states instead of the two-thirds suggested.

The government has been working on a draft law on the GST, particularly its structure and levy. The law would determine the tax rate to be levied and mentioned in the schedule, as well as clarify the manner in which tax would be collected. The draft law indicates that all tax-related decisions would be taken by the proposed GST Council and that the states and the Centre would not be able to unilaterally exempt any goods or service from the levy. It provides for full input tax credit flow, proposes a compounding scheme for a turnover of up to `50 lakh and introduces the concept of tax on transaction value.

The government is not ready to impose a constitutional cap on the rate but has provided for the levy of the GST law. A panel, headed by Chief Economic Adviser Arvind Subramanian, has suggested a standard rate of 17–18 per cent and recommended scrapping the 1 per cent additional levy.

Wholesale Price Index (WPI) in the negative for the 13 month, Consumer Price Index (CPI) inflation at a 14-month high

The WPI inflation stood at -1.99 per cent in November 2015 as compared to -3.81 per cent in October 2015 and

The GST bill took a backseat in the winter session. The government has been working on a draft law on the GST, particularly its structure and levy.

-0.17 per cent in November 2014. The WPI is in the negative zone for the 13th consecutive month; however, the year-over-year (YoY) deflation has fallen.

The index for primary articles (food, non-food and minerals) rose by 1.62 per cent month-over-month (MoM) and 2.27 per cent YoY. The index for fuel and power rose by 0.9 per cent MoM and by 11.09 per cent YoY, while that for manufactured products declined by 0.2 per cent MoM and 1.42 per cent YoY. The wholesale inflation of food articles in November 2015 saw a bigger rise, jumping by 2.3 per cent MoM and 5.2 per cent YoY.

Consumer inflation rose to a 14-month high in November 2015 – to 5.41 per cent from 5 per cent in October 2015 and 3.27 per cent in November 2014. The Consumer Food Price Index for the month stood at 6.08 per cent YoY. However, the impact was magnified by the base effect as the headline consumer inflation was 3.27 per cent in November 2014, while the retail food inflation stood at only 1.13 per cent. This signals that the RBI is less likely to cut rates soon.

India's exports fell for the twelfth straight month in November 2015. However, the trade deficit narrowed to $9.7 billion from $16.2 billion on a fall in imports. Imports fell by more than 30 per cent to $29.7 billion from $42.7 billion a year ago. Import bill reduced due to low crude oil prices and muted imports of gold coal and fertilisers.

Exports decline for the 12th consequent month, coupled with a decline in imports by over 30%

Despite various incentive schemes, India's exports fell for the twelfth straight month in November 2015 due to sluggish global economy, poor Chinese demand and the devaluation of the Chinese yuan. Exports fell by over 24 per cent to $20 billion in November from $26.4 billion a year earlier. There was a decline in the export of petroleum products (53.9%), engineering goods (28.6%), rice (37.1%), iron ore (14%), and gems and jewellery (21.5%). However, a steep fall in imports helped reduce the trade deficit.

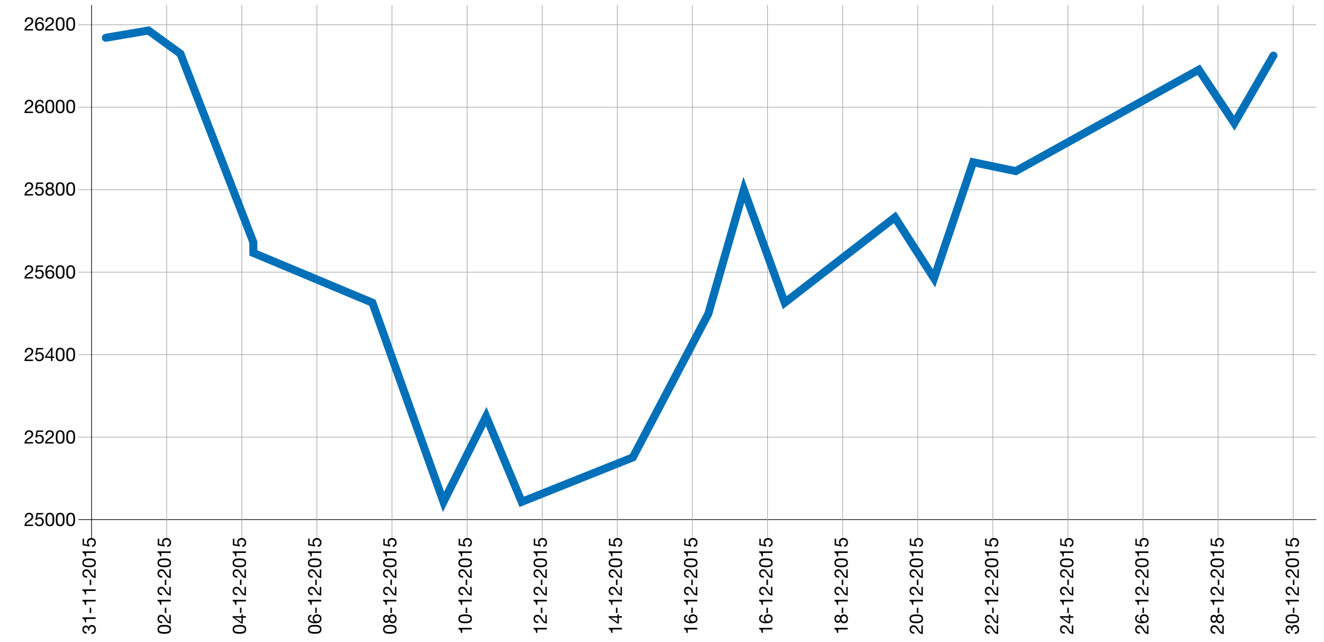
Imports fell by more than 30 per cent to $29.7 billion from $42.7 billion a year ago. Import bill reduced due to low crude oil prices and muted imports of gold coal and fertilisers. The trade deficit narrowed to $9.7 billion from $16.2 billion. Non-oil imports slid 24.7 per cent to $23.3 billion, while oil imports fell as much as 45 per cent to $6.4 billion. Gold imports too fell by 36.5 per cent to $3.53 billion, coupled with a fall in the import of coal, coke and briquettes by over 50 per cent to $876.65 million.

Index of Industrial Production (IIP) at 9.8%, a five-year high

Industrial growth as indicated by the IIP rose 9.8 per cent – a five-year high in October 2015 due to the robust festive demand. This is also higher than the upward-revised 3.8 per cent in September 2015 and the expected growth of nearly 7.5 per cent. However, this has to be considered with caution on account of the festive (Diwali) season and the weak base, as the industrial growth in October 2014 stood at -2.7 per cent. However, the growth is across the sectors, indicating a pickup in the economy.

For the IIP to reflect the current realities, it is necessary to make IIP base year (which is currently 2004-05) and different sectoral weights in the index, abreast of times.

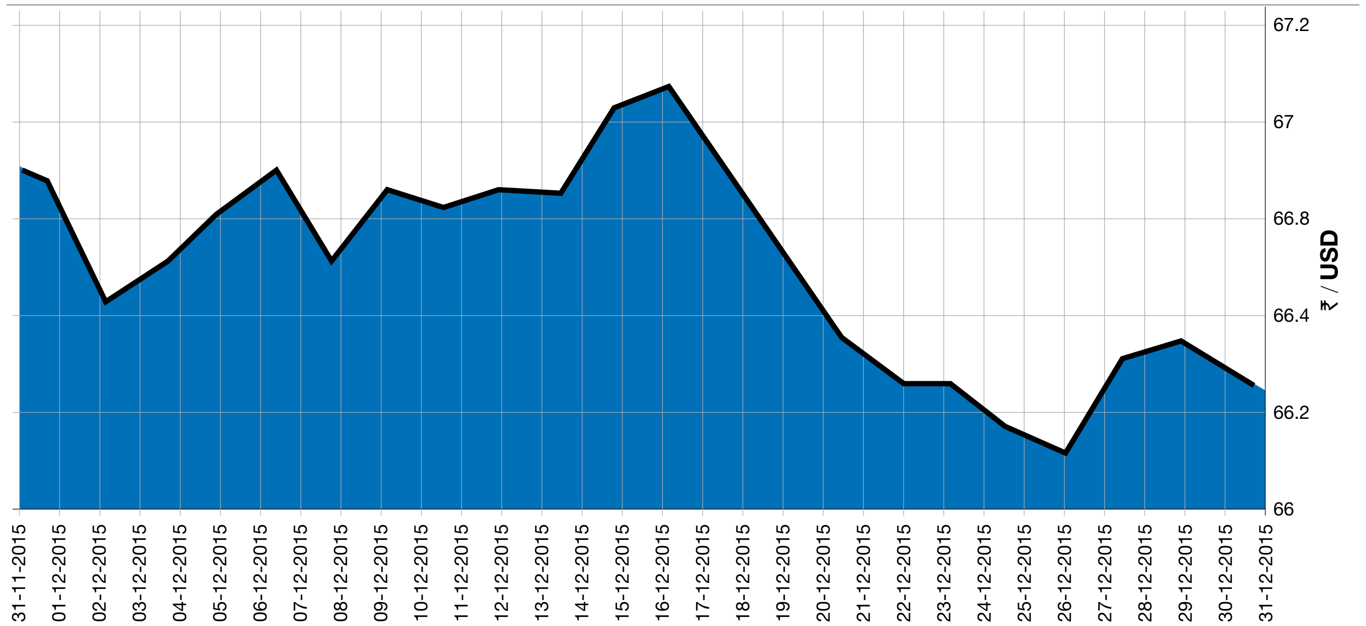
S&P BSE SENSEX



Source: BSE

The Sensex closed at 26.117 - up 0.11% on 31st December 2015 from the closing levels of the previous month, having displayed volatility across the month with a host of factors at work. Falling oil prices, weak trade data from China and the yuan's weakness, anxiety over the US interest rate hike followed by the actual announcement, anxiety over the course of crucial legislations such as the GST Bill in the Parliamentary session, etc. weighed on the Sensex

CURRENCY



Source: RBI

During the month, the Rupee slipped 0.73 per cent against the dollar.

INDIA – INFRASTRUCTURE AND REALTY UPDATE

The Real Estate Regulatory Bill too takes a backseat. However, the Cabinet approved 20 major amendments to it. Now builders need to deposit at least 70 per cent of their sale proceeds, including land cost, in an escrow account to meet construction costs, as against the earlier 50 per cent. Also, aggrieved buyers can now approach consumer courts, instead of only the real estate regulatory authorities, proposed to be set up under the Bill.

Real Estate Regulatory Bill stalled again, though Cabinet approved 20 amendments

The government chose to go ahead with non-controversial bills and stalled the Real Estate Regulatory Bill, anticipating much resistance from the Opposition parties.

The Cabinet approved 20 major amendments to the Real Estate (Development and Regulation) Bill, 2013, based on the recommendations of a Rajya Sabha committee. Some of the amendments are:

i. Projects on at least 500 sq m of area or with eight flats will be required to be registered with the proposed regulatory authority as against the minimum size of 1,000 sq m suggested earlier.

ii. Builders need to deposit at least 70 per cent of their sale proceeds, including land cost, in an escrow account to meet construction costs, as against the earlier 50 per cent. They also need to pay interest to homebuyers in case of default/delays at the same rate they charge the latter.

iii. Builders to be liable for structural defects for five years, instead of the earlier two years.

iv. Carpet area has been clearly defined to include usable spaces such as the kitchen and toilets.

v. Garages will not be included in the definition of an apartment.

vi. The formation of a residents' association within three months of the allotment of the majority of the units in a project would be compulsory.

vii. Aggrieved buyers can approach consumer courts, instead of only the real estate regulatory authorities, proposed to be set up under the Bill.

viii. The regulations in the Bill would be applicable to all projects with on-going sales, while the consent of two-thirds of the buyers in a project would be mandatory to make changes in the original project plans.

ix. There would be arrangements for issuing insurance for land titles.

x. There would be a single-window system of clearances for real estate projects.

xi. Projects and promoters would be graded by the regulatory authorities, besides ensuring the digitisation of land records.

xii. Regulations would be made within three months of the formation of the regulator as against the six months proposed earlier, while states would have to make rules within six months of the notification of the proposed Act as against the one year proposed earlier.

xiii. Allottees would be required to take possession of their houses within two months of the issue of occupancy certificates.

xiv. Additional benches of appellate tribunals would be set up in a state if required for the speedy redressal of grievances.

xv. Tribunals would have to adjudicate cases within 60 days as against the 90 days proposed earlier. Regulatory authorities would have to dispose of complaints within 60 days – no such time limit was stipulated earlier.

xvi. Violation of orders of the appellate tribunals, monetary penalties or both would be punishable by imprisonment of up to three years for promoters and up to one year for real estate agents and buyers.

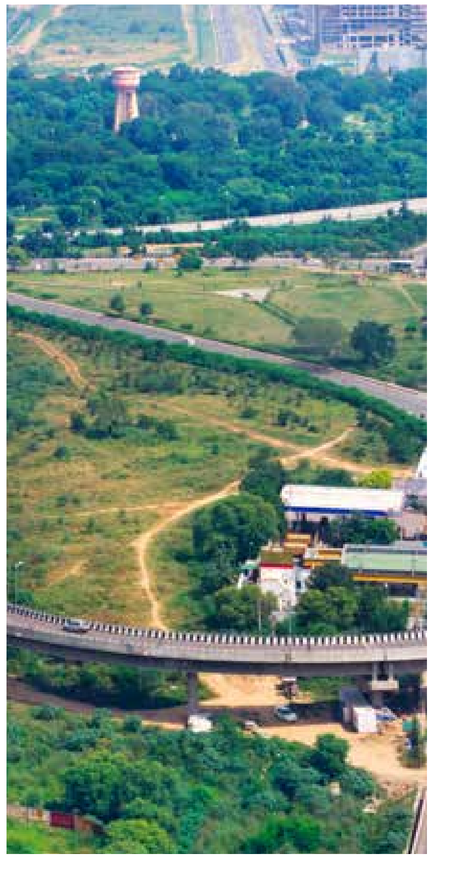
If the Bill becomes a law, it would bring sweeping reforms and transparency in the sector. However, the major concern among stakeholders is that the Bill still does not include the sanctioning and approving authorities, which are crucial in case of delays in getting approvals.

Road projects worth ₹28,000 crore to be awarded in FY16

The government has announced plans to award ₹28,000 crore for 21 highway development projects in FY2016, making it the largest investment under public private partnership (PPP) since 2010. The number of projects is likely to double in FY2017. The projects would follow the hybrid annuity model, wherein 40 per cent of the project cost would be provided by the government as construction support to the private developer during the construction period and the balance 60 per cent as annuity payments over the concession period, along with interest on the outstanding amount to the concessionaire. There would also be separate operation and management payments by the government to the concessionaire. While the project cost would be inflation indexed, the private party would be free of traffic and inflation risks.

Centre notifies rules for the Land Bill 2013

The government has notified rules for the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013. The notification has operationalized the Act. The rules have specified the limit of land beyond which compensation would need to be paid to the affected persons.



The government has announced plans to award ₹28,000 crore for 21 highway development projects in FY2016. The projects would follow the hybrid annuity model, wherein 40 per cent of the project cost would be provided by the government as construction support to the private developer during the construction period and the balance 60 per cent as annuity payments over the concession period, along with interest on the outstanding amount to the concessionaire.

Kelkar Committee Report on Revisiting and Revitalising the Public Private Partnership (PPP) Model of Infrastructure Development observes that 'One-size-fits- all' approach in dealing with project specific risks needs to be discarded and replaced by better identification and allocation of risks between stakeholders. Also, contracts should emphasize more on service delivery than of fiscal benefits.

Accordingly, rehabilitation and resettlement under the Act would be done wherever a private company purchases land equal to or more than 20 hectares (50 acres) in urban areas and forty hectares (100 acres) in rural areas.

The rules also mandate that if the land is unutilised for five years, it should be returned to the owner / legal heirs, while the owner would have to return the compensation amount, excluding solatium. The refundable amount would be used for the development of waste land.

The rules also state that a request for acquisition by a private company should be sent to the collector, who would constitute a committee that would survey the area and submit a report to the collector. The collector would be the final authority to decide on the request and once the request is approved, the private company would deposit the estimated cost of acquisition or a part thereof at the collector's office. This would be followed by the issue of the preliminary notification for acquisition.

The rules are a welcome measure; however, much contention is expected in Centre–State relations, as land use is a subject in the State List in the constitution.

Kelkar Committee Report on Revisiting and Revitalising the Public Private Partnership (PPP) Model of Infrastructure Development released

In his last budget speech The Finance Minister Mr Arun Jaitley had announced that there is a need to revisit the PPP mode of infrastructure development. Accordingly a Committee was constituted under the chairmanship of Dr Vijay Kelkar to look into the matter. The report of the Committee was recently released. It suggests that successful functioning of PPP model would require change in mindsets. Some of the important suggestions/ observations of the Committee are as follows:

i. 'One-size-fits- all' approach in dealing with project specific risks needs to be discarded and replaced by better identification and allocation of risks between stakeholders.

ii. Independent regulators should be established for sectors going for PPP with a unified mandate that would encompass activities in various segments of infrastructure and lead to harmonious functioning of the regulators.

iii. Contracts should emphasize more on service delivery than of fiscal benefits.

iv. There should be improved fiscal reporting practices and careful monitoring of performance.

v. PPP structures should not be adopted for very small projects as the costs may outweigh the ensuing benefits. Also, PPPs should not be looked upon as the first delivery mechanism without checking its suitability for a particular project.

vi. The government should develop a national PPP Policy document as well as set up an institute of excellence in PPP.

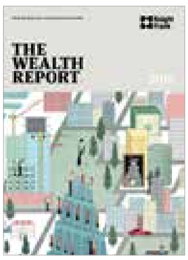
vii. All pending disputes should be disposed of in a time bound manner.

RESEARCH

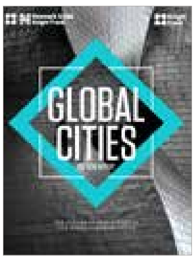
Dr. Samantak Das
Chief Economist &
National Director- Research
samantak.das@knightfrank.com

Kaveri R Deshmukh
Vice President - Research
kaveri.deshmukh@knightfrank.com

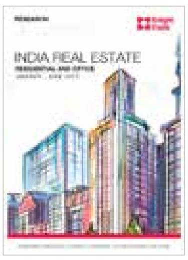
RECENT MARKET-LEADING RESEARCH PUBLICATIONS



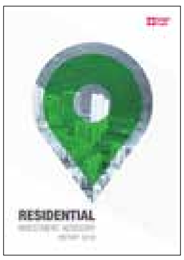
The Wealth Report 2015



Global Cities - The 2016 Report



India Real Estate Outlook - Jan to June 2015



Residential Investment Advisory Report 2016

Knight Frank Research Reports are available at KnightFrank.com/Research

Knight Frank

CIN No. – U74140MH1995PTC093179