

MONTHLY UPDATE  
JULY 2017



# MORE ELBOW ROOM TO PUSH FOR LOW HOME LOAN RATES

# GLOBAL UPDATE



## INDIA TOPS THE TABLE AMONG REMITTANCE-RECEIVING COUNTRIES IN 2016

As per the latest report by The World Bank, remittances to developing countries have fallen for a second year in a row in 2016. The silver lining, however, is the fact that India retained its top spot as the largest remittance-receiving country in 2016. In line with the declining trend of remittances to developing countries, remittances to India too went down in 2016 compared to 2015. In 2016, remittances to India amounted to \$62.7 billion which was 8% lower than the same figure in 2015. China was a close second receiving \$61 billion in 2016. Other countries in the top five were the Philippines (\$29.9 billion), Mexico (\$28.5 billion) and Pakistan (\$19.8 billion). The World Bank in its report further stated that going forward, the remittance growth to countries in South Asia is expected to remain muted largely because of low growth and fiscal consolidation in the Gulf Cooperation Council (GCC) countries.

## LIBOR TO BE PHASED OUT BY END 2021

Come end of 2021 and the London Interbank Offered Rate (LIBOR) will be phased out. The head of Britain's financial markets has already stated that a substitute for the LIBOR should be in place by the end of 2021. LIBOR is based on submissions from banks on interest rates that they believe they would be charged by others for borrowing money. Banks on the other hand have been fined on numerous occasions for trying to manipulate the benchmark, thereby forcing a rethink of its future. In the past, there have been instances of six bankers being sent to prison for manipulating the LIBOR. The head of Britain's financial markets further stated that the banks have voluntarily agreed to contribute rates to LIBOR until 2021. However, if this phase out deadline is missed then there will be a push from the authorities.

## US ECONOMY TRUMPS IN SECOND QUARTER

The US economy grew by 2.6% between April–June this year. This increased growth was in line with expectations of economists and was more than double the growth rate witnessed in the first quarter of this calendar year. The increased growth in the second quarter was largely on the back of stronger consumer spending, a strong job market and an increase in personal spending. The economy also benefited during the second quarter from increased federal government spending. The housing market, however, put the brakes on the growth rate. The housing market, which consists of houses and apartments, went down by nearly 7%. Exports too slowed down.

## SECOND REVIEW OF IRAQ'S THREE-YEAR STAND-BY ARRANGEMENT

The Executive Board of the International Monetary Fund (IMF)

recently completed the second review of Iraq's three-year Stand-By Arrangement (SBA), which is designed to support Iraq's economic reform programme and restore fiscal balance over the medium term. The completion of the second review allows the authorities to draw about \$ 0.82 billion, bringing total disbursements to about \$ 2.1 billion. As a part of the completion of the second review, the Board also approved Iraq's request for waivers of non-observance and applicability of performance criteria, and modification of performance criteria. Further, fiscal consolidation was achieved in 2016, but at a slower pace than programmed because of a weak control of investment expenditure and humanitarian needs. To move the programme forward, the authorities are implementing strong corrective measures and are committed to further fiscal measures in 2018 to ensure external and debt sustainability.



### RBI PARES POLICY RATES

Two days before the Reserve Bank of India (RBI) was to announce its monetary policy, the State Bank of India, India's largest bank, reduced its interest rates on savings bank account deposits up to ₹ 1 crore by 0.5% to 3.5%. Interestingly, it is the lowest rate offered by the State Bank of India in six years. With inflation hitting new lows, in recent times, and the core sector growing at a snail's pace, it was largely expected that the RBI would reduce policy rates. As expected, the RBI in its Third Bi-monthly Monetary Policy Statement, 2017–18 reduced the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points from 6.25% to 6.0% with immediate effect. Consequently, the reverse repo rate under the LAF stands adjusted to 5.75%, and the original standing facility (MSF) rate and the Bank Rate to 6.25%. The reduction in policy rates should prompt lending institutions to pass on the benefits of reduced rates to customers. The reduction in interest rate on savings bank account deposits by the country's largest bank is indication

enough that the reduction interest rate in retail loans is not too far. This reduction in interest rate on home loans coupled with policy reforms should boost the fortunes of the real estate sector.

### GOVERNMENT CONSTITUTES A GST FEEDBACK AND ACTION ROOM (FAR)

In order to reply to the queries of the taxpayers and tax officials and to deal with issues related to the implementation of the Goods and Services Tax Network (GSTN), the Government of India has constituted a GST Feedback and Action Room (FAR) w.e.f. 26-06-2017. The main purpose of the FAR is to review the information, calls and media inputs received from ministries, state governments, field formations, social media and news channels. A team of officers monitor various media platforms like newspapers, news channels, social media like Twitter and Facebook, emails received from various government departments and field formations and report them on a real-time basis to the Revenue Secretary

(through an Officer on Special Duty to the Revenue Secretary), Chairperson Central Board of Excise and Customs (through an Officer on Special Duty to Chairperson), Member (Administration), GSTN or any other senior officer for providing the inputs. The FAR has multi-line telephone numbers, which are available in the control room and these numbers have been informed to the Central and States GST officers. The emails received from the ministries, state governments and field formations are forwarded to the respective sections for information and feedback.

### GULF COUNTRIES NO LONGER A FAVOURITE AMONG INDIANS

In recent years, the number of workers from India, emigrating to the Gulf countries has witnessed a drastic decline between 2014 and 2016. During this period, the number of Indians emigrating to the Gulf countries has witnessed a decline of 34%. Interestingly, the highest decline was in the number of Indians moving to Saudi Arabia. From 2014–16, the number of Indians going to Saudi Arabia for employment decreased by 50%. One of the primary reasons for Indians giving the Gulf countries a pass is the fact that the economies in these countries, especially Saudi Arabia, have not been doing well due to low oil prices. The Saudi government on its part has been taking several measures to encourage companies in the private sector to employ Saudi nationals. In the backdrop of falling oil prices, the Saudi government has introduced a number of taxes to boost the government revenue. From this year, the Saudi government has levied the following taxes on non-nationals amounting to approximately ₹1,700 per month on each dependent. This amount will be increased further, per dependent, to Saudi Riyal (SR) 200 in 2018, SR 300 in 2019 and SR 400 by 2020.

### IMPACT OF GST ON AIRFARES

Under the Goods and Services Tax (GST), the applicable tax rate on passenger tickets for economy class has been reduced from 6% to 5% (non-creditable for goods). The tax rate for business and first class has been increased from 9% to 12% (with input tax creditable for both goods and services procured by airlines). With regard to the UDAN Scheme, the applicable tax would also be 5% (non-creditable for goods) on the value of the passenger ticket excluding the subsidies provided by the Central Government and the state

governments. Moreover, since the maximum airfare or cap prescribed for the Regional Connectivity Scheme (RCS) seats is inclusive of the applicable GST and the same is reimbursable to the airline operator(s) concerned at actuals from the Regional Connectivity Fund, there would be no impact on fares charged from passengers booked on RCS seats.

### GST PULLS DOWN NIKKEI INDIA MANUFACTURING PMI IN JULY

The GST is one of the most important tax reforms in the country. However, it was expected that its introduction would cause teething problems. This has been truly reflected in the Nikkei India Manufacturing Purchasing Managers Index (PMI) for July 2017. At 47.9 in July, down from 50.9 in June, the Nikkei India Manufacturing Purchasing Managers Index (PMI) was at its lowest mark since February 2009. The data indicated that the introduction of GST weighed heavily on the Indian manufacturing industry in July. New orders and output decreased for the first time since the demonetisation-related downturn recorded in December last year, with rates of contraction the steepest since February 2009 in both cases. Consequently, companies purchased fewer quantities of inputs for use in the production process, leading to an overall decline in holdings of raw materials and semi-finished items. Cost burdens increased further, but factory gate charges were lowered as firms attempted to win new business. Incoming new work dropped for the first time in the year-to-date and at the steepest pace since early 2009. Anecdotal evidence indicated that the GST launch hampered demand. Discouraged by the downturn in factory orders, companies lowered production in July. The fall ended a six-month sequence of growth, and the rate of reduction was the most pronounced since the global financial crisis.

### BANKING REGULATOR CRACKS THE WHIP

Going forward, banks are going to get much stricter, with regards know your customer (KYC) norms. The banking regulator, Reserve Bank of India, had received a complaint pertaining to huge cash withdrawals from certain accounts maintained by the Union Bank of India. After examination of the related documents and after considering the bank's reply, oral submissions, the RBI came to the conclusion that the complaint received by the banking regulator amounted to non-compliance with its directions and warranted imposition of monetary penalty. Thus, the banking regulator imposed a fine amounting to ₹ 3 crore on the Union Bank of India for non-compliance with regards to directions issued, by the RBI, for KYC norms. The RBI imposed this penalty as per the provisions of Section 47A(1)(c) read with Section 46(4)(i) of the Banking Regulation Act, 1949, taking into account failure of the bank to adhere to certain directions issued by the banking regulator.

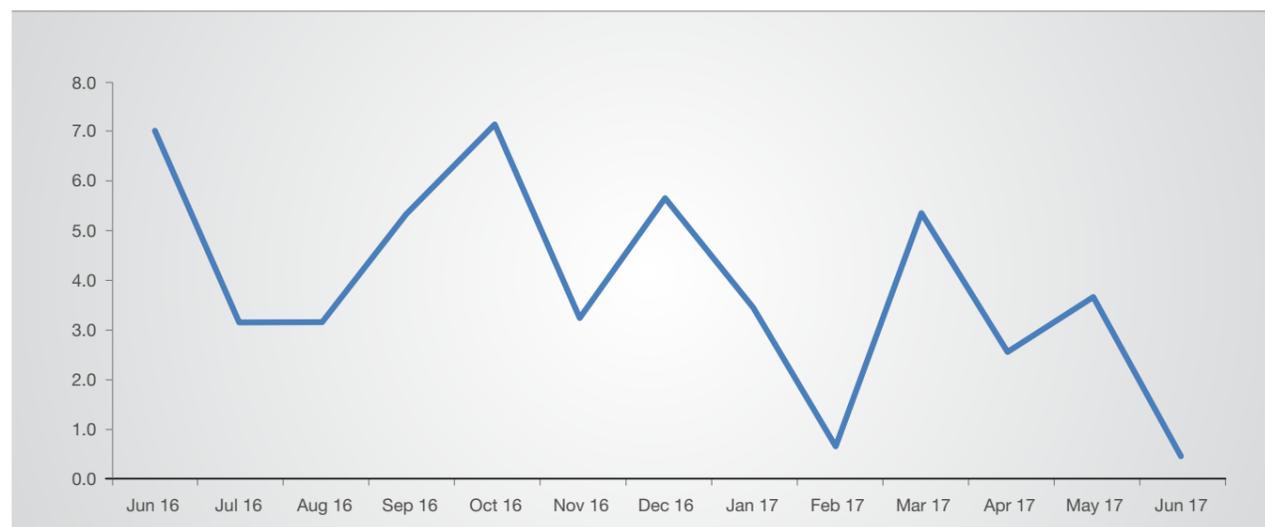
### MEASURES TO CURB CYBER CRIMES WITHIN THE BANKING SYSTEM

In recent years cash has been replaced by other modes of payment like debit and credit cards, virtual wallets and internet banking. With the increase in usage of payment systems other than cash, the number of crimes committed in

the online banking space has also increased. As per data reported by the RBI, the number of cyber crime pertaining to credit card, ATM, debit card and internet banking shows a marginal increase of 4.4% from 13,083 in 2014-15, to 13,653 in 2016-17. To counter cyber crimes in the banking system, the RBI has issued Cyber Security Framework in Banks, mandating banks to put in place a Board-approved cyber-security policy, which covers the risks from cyber threats and the measures to address/mitigate these risks. The RBI has issued instructions to banks for reversal of erroneous debits arising from fraudulent or other transactions, and for a Board-approved bank policy to cover customer protection, the mechanism of compensating the customer for the unauthorised electronic banking transactions, and display of the same on the bank's website, along with the details of grievance-handling/escalation procedure. Under the Banking Ombudsman Scheme, if a customer does not receive any reply within a period of one month after receipt of representation by the bank or is not satisfied with the reply given, he can file a complaint before the Ombudsman, who can ask the bank to pay compensation of up to ₹ 20 lakh to the customer for loss, suffered by the customer due to an act of omission of the bank, and also compensation of up to ₹ 1 lakh for mental agony and harassment.

### CORE SECTOR LOSES STEAM

INDEX OF EIGHT CORE INDUSTRIES



Source: Ministry of Commerce & Industry, Government of India

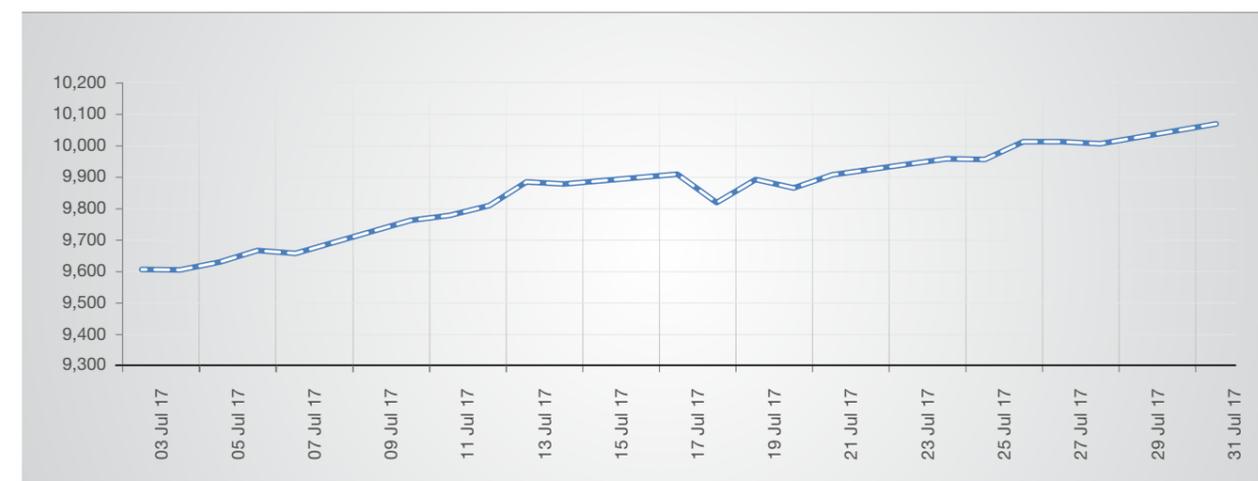
Core sector grew at its slowest pace, in 2017, in June. During June 2017, the core sector grew by a meagre 0.4%. This is quite in contrast to the same period last year when the core sector grew by 7%. Prior to June 2017, the slowest growth in 2017 was in February, when the core sector grew by 0.6%. In June 2017, of the eight core industries four witnessed a decline in production. Coal production that has been on a decline since April 2017 further went down by 6.7%. Petroleum refinery production that had been positive till the very recent past went into the red. Petroleum refinery production went down by 0.2%. Fertilizer production that had shrunk by 6.5% in May 2017 was down by 3.6% in June

2017. Cement production, which had been heading south since December 2016, further went into the red in June 2017 where it declined by 5.8%.

Of the four industries that witnessed a positive growth, two of them just about managed to stay out of the red. Crude oil production increased by 0.6% compared to 0.7% in May 2017. On the contrary, electricity production that witnessed a healthy growth rate of 8.6% in May 2017, grew by only 0.7% in June 2017. Natural gas production grew by a healthy 6.4% and steel production by 5.8%. In both the instances, the growth rate in June 2017 was higher than the previous month.

### NIFTY BREACHES THE 10,000 MARK FOR THE FIRST TIME

NIFTY 50



Source: National Stock Exchange

For the first time in its history, the Nifty 50 closed beyond the 10,000 mark on 26 July and remained above that psychological mark for the remaining part of the month. The NSE, which has moved up by 225 this year, is fuelled by an increased inflow of foreign investments and from retail investors investing into mutual funds for the first time.

Further, going forward the economy is expected to move up from 6.1%, registered in the Jan-March 2017 quarter, which should boost corporate earnings. The benefits of reforms unveiled by the government, like the GST, should also start trickling down into the economy

**SENSEX**

S&P BSE SENSEX

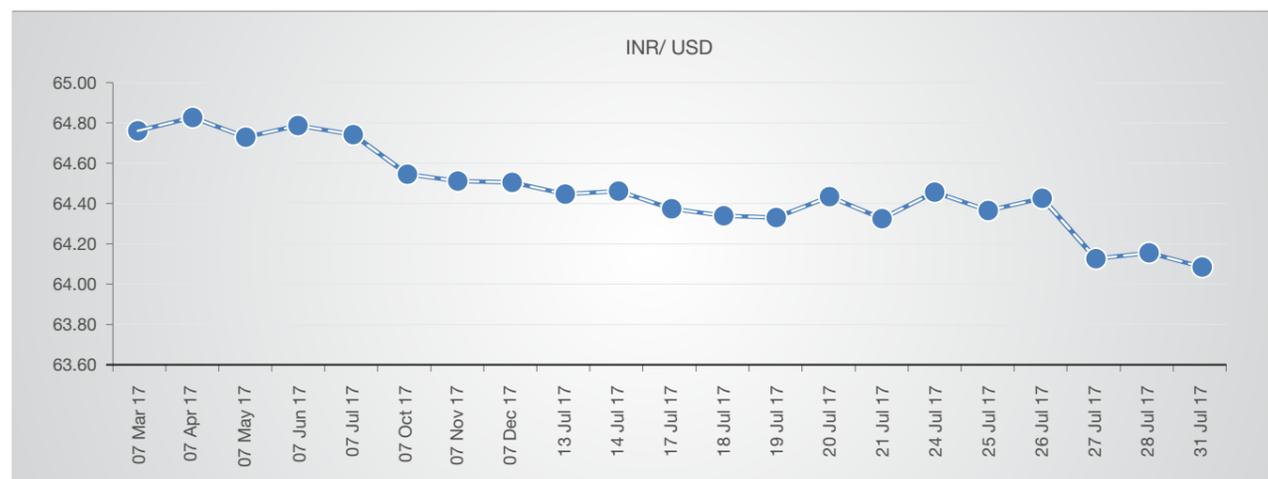


Source: Bombay Stock Exchange

After having breached the 30,000 mark for the first time in April 2017, the S&P BSE Sensex remained above that mark during the entire month of July 2017. During the month (July 2017), the S&P BSE Sensex gained 4.1%.

**CURRENCY**

CURRENCY



Source: Reserve Bank of India

The ₹ gained 1.04% compared to the USD in July 2017



**FOUNDATION STONE FOR THE MUMBAI-AHMEDABAD BULLET TRAIN SOON**

Progress on the much awaited and ambitious Ahmedabad–Mumbai bullet train has been chugging along. A step further in making this project a reality will be laying the foundation stone of the said project. That day is not far. During the visit of the Japanese Prime Minister Shinzo Abe, to India, between 12–14 September 2017, the foundation stone will be laid jointly by Narendra Modi, Prime Minister of India and his Japanese counterpart either in Ahmedabad or in Gandhinagar. Work on the bullet train is expected to be completed by December 2023. This is a ₹1 lakh crore project, which involves construction of a 505-km line using Japan’s Shinkansen technology. India and Japan have agreed on a fully elevated bullet train corridor between Mumbai and Ahmedabad. Earlier in 2016, Japan proposed 25% of the construction to be on an elevated corridor, 64% of the work on surface (mostly embankments) and 6% as tunnels. However, the railway ministry proposed to the Japanese

government to explore the feasibility of converting the entire route running through 12 stations into an elevated corridor to overcome the traffic.

**UPGRADE OF AIRPORTS**

The Airports Authority of India (AAI) is developing Guwahati Airport as an inter-regional hub, while airports at Agartala, Dibrugarh and Imphal are being developed as intra-regional hubs in the north-eastern region. For this, AAI has constructed three hangars at Guwahati Airport. Construction of hangars has commenced at Dibrugarh and Imphal airports and tenders have been floated for award of work for construction of a hangar at Agartala Airport. AAI owns and maintains eight airports in Madhya Pradesh. This includes the five operational airports at Bhopal, Jabalpur, Khajuraho, Indore and the Civil Enclave at Gwalior plus the three non-operational airports at Khandwa, Panna and Satna. The airports at Bhopal, Indore and Khajuraho have already been upgraded to international standards with new integrated terminal buildings and other associated work. AAI has also

finalised the scope of work for extension of the existing runway, construction of a new terminal building and other allied works for operations of A-320 type of aircrafts at Jabalpur Airport. The Gaggal Airport in Kangra and Bhuntar Airport in Kullu in Himachal Pradesh are suitable for operations of ATR-72 and ATR-42 aircrafts, respectively, with load penalty in fair weather conditions. In order to make the airports suitable for operations of aircrafts without load penalty, AAI has projected land requirements of 153 acres and 27.77 hectares, respectively, for extension of runway and other allied works to the state Government of Himachal Pradesh. Further development works are subject to acquisition and handing over of land free from all encumbrances and free of cost by the state government to AAI.

### ROAD WIDENING AND UPGRADE

The Public Private Partnership Appraisal Committee (PPPAC) has cleared the proposal to convert the Bengaluru–Mysuru highway as a National Highway on 31 May 2017 and the draft Cabinet Committee on Economic Affairs (CCEA) note is submitted to the Ministry of Finance for approval. An amount of ₹16.74 crore has been sanctioned for carrying out maintenance work for improvement of the road. The estimated capital cost of this project is ₹6,420.80 crore. Bids have been invited for procurement of the executing agency. Construction work will take about 30 months to complete from the appointed date after completion of the tendering process and finalisation of agency.

The widening work of NH-24 from Delhi to Hapur has been awarded in three stages:

- Stage 1: Nizamuddin Bridge to UP Border,
- Stage-2: UP Border to Dasna, and
- Stage-3: Dasna to Hapur

The scheduled date of completion for stage-1 and stage-3 is June 2019. The contract agreement for stage-2 was signed on 17 April 2017. The completion date is 910 days from date of start/appointed date. For the Uttar Pradesh border to Dasna stretch, the diversion of forest land has been approved.

### INDIA TO HAVE 600 MILLION BROADBAND CONNECTIONS BY 2020

As per information provided by Telecom Regulatory Authority of India (TRAI), there were 422.19 million broadband subscribers and the internet penetration (internet subscriber per 100 populations) was 32.86% in the country as of 31 March 2017. The National Telecom Policy-2012 envisages 600 million broadband connections by the year 2020. The government has planned the BharatNet project to provide 100 Mbps broadband connectivity to all Gram Panchayats in the country. Under the first phase of the project, one lakh Gram Panchayats (GPs) are to be connected by laying underground Optical Fibre Cables (OFCs), which is under implementation. Under Phase-II, targeted to be completed by March 2019, connectivity will be provided to the remaining 1.5 lakh GPs in the country using an optimal mix of underground fibre, fibre over power lines, radio and satellite media. The provision of last mile access to the network and broadband service provisioning shall be through Wi-Fi or any other broadband access technologies in all 2.5 lakh in the country.

### STATUS OF INDUSTRIAL CORRIDORS

#### Delhi Mumbai Industrial Corridor (DMIC)

Construction of trunk infrastructure at four nodes/industrial regions namely, Dholera Special Investment Region (Gujarat), Shendra Bidkin Industrial Area (Maharashtra), Integrated Industrial Township 'Vikram Udyogpuri' near Ujjain (Madhya Pradesh) and Integrated Industrial Township Greater Noida (Uttar Pradesh) is under progress and probable timelines for completion are September 2019, March 2019, June 2019 and June 2019, respectively.

#### Chennai Bengaluru Industrial Corridor (CBIC)

The Perspective Plan for the overall corridor has been completed and three nodes have been identified for development, namely Krishnapatnam in Andhra Pradesh, Tumakuru in Karnataka, and Ponneri in Tamil Nadu.

#### Bengaluru Mumbai Industrial Corridor (BMIC)

The Perspective Plan has been completed for the BMIC Region and has been approved by the respective state governments. Dharwad node in Karnataka has been identified as the priority node for further implementation. The

State Government of Maharashtra has given in principle approval for the development of Sangli/Solapur Node.

#### Amritsar Kolkata Industrial Corridor (AKIC)

The Perspective Plan for the overall AKIC Region has been completed. The respective state governments have identified sites (one each) for developing Integrated Manufacturing Clusters (IMC) along the AKIC. The concept Master Plan for the identified IMCs has been prepared and approved by the states.

#### Vizag–Chennai Industrial Corridor (VCIC)

The Government of India gave its concurrence for engaging the Asian Development Bank (ADB) for carrying out the feasibility study and preparing the Concept Development Plan (CDP) for East Coast Economic Corridor (ECEC) in a phased manner in May 2014. In the first phase, the VCIC segment of ECEC was taken up. The Government of Andhra Pradesh (GoAP) is implementing the project. In September 2016, the ADB approved \$ 0.63 billion (loans and grants) for VCIC. The GoAP is to provide counterpart funding of \$ 0.22 billion. The GoAP has prioritised two nodes, namely Vishakhapatnam and Srikalshasti-Thottambedu for the master planning.

### CONSTRUCTION OF HIGHWAYS ALONG THE COASTLINE OF ODISHA

In June 2015, the Ministry of Road Transport and Highways had proposed the construction of National Highways along

the coastline of Odisha. Consultants were appointed for preparation of a feasibility report and a Detailed Project Report (DPR). The preparation of the DPR from Chatrapur (later extended to Gopalpur) to the Ratanpur section has been assigned to Chaitanya Projects Consultancy and from Ratanpur to Digha section has been assigned to Aarvee Associates. The consultants started preparation of the DPR with effect from 11 February 2016. After a preliminary survey, the proposed alignment of the said stretch was shared with the state government in a meeting held on 3 September 2016 to which they agreed in-principle. Subsequently, the same was approved in-principle by the competent authority of NHAI vide letter dated 24 November 2016. Accordingly, the consultants have undertaken a detailed survey of the stretch for the approved alignment and field investigation and survey works have been substantially completed. The feasibility report for the Ratanpur to Digha section has been received and the same in respect of Gopalpur to Ratanpur is under preparation, and is likely to be submitted by July 2017. The project will involve acquisition of a huge area of private land and forest land apart from existing land under the state government. The land acquisition will start after approval of the DPR. After availability of at least 90% of land, the project will be commenced.



## APPENDIX

## 1. CORE SECTOR

CORE SECTOR GROWTH RATES (in %)									
	Coal	Crude Oil	Natural Gas	Refinery Products	Fertilizers	Steel	Cement	Electricity	Overall Index
Weight	10.3335	8.9833	6.8768	28.0376	2.6276	17.9166	5.372	19.853	100
Jun 17	-6.7	0.6	6.4	-0.2	-3.6	5.8	-5.8	0.7	0.4
May 17	-3.2	0.7	4.5	5.4	-6.5	3.9	-0.4	8.6	4.1
Apr 17	-3.3	-0.6	2.0	0.2	6.2	9.3	-2.4	5.4	2.8
Mar 17	10.6	0.9	9.6	2.0	-3.0	11.0	-6.8	6.2	5.2
Feb 17	6.6	-3.4	-2.1	-2.8	-4.0	8.7	-15.8	1.2	0.6
Jan 17	3.5	1.3	11.6	0.0	-1.2	11.3	-13.3	5.2	3.4
Dec 16	3.6	-0.8	-0.4	5.4	-2.9	15.9	-8.7	6.4	5.6
Nov 16	6.1	-5.4	-2.1	-0.7	4.2	5.4	0.5	9.5	3.2
Oct 16	-1.9	-3.2	-1.5	12.6	0.7	17.4	6.2	3.0	7.1
Sep 16	-6.7	-4.1	-5.9	6.9	0.3	16.1	6.7	5.1	5.3
Aug 16	-9.7	-3.9	-5.9	2.5	2.5	16.7	3.1	2.2	3.1
Jul 16	4.1	-1.8	4.1	8.0	-3.2	0.0	0.7	2.1	3.1
Jun 16	12.1	-4.3	-4.0	5.8	5.9	8.8	10.5	9.8	7.0

Source: Ministry of Commerce & Industry, Government of India



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## RESEARCH

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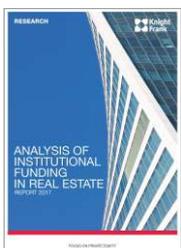
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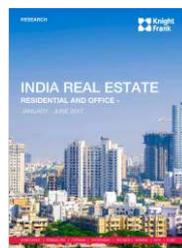
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