

योजना आयोग  
भारत सरकार  
**Planning Commission**  
GOVERNMENT OF INDIA

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Communication, IT & Information Division  
Phone # 2525

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*“No matter how carefully you plan your goals, they will never be more than pipe dreams unless you pursue them with gusto”*

*W. Clement stone*

## Polity

- **Vaidik-Saeed meet rocks House:** The meeting between senior journalist Ved Pratap Vaidik and Mumbai attack plotter Hafiz Saeed rocked Parliament for the second day today even as the government strongly condemned the controversial meeting, describing it as a "diplomatic misadventure" of a private individual. "The Government of India not only disapproves of the meeting but condemns it in the strongest terms," External Affairs Minister Sushma Swaraj told agitated members in the Rajya Sabha. She said she had sought a report on the meeting from the Indian High Commissioner in Islamabad and promised to share it with the House once it was received. With the Congress members posing some uncomfortable questions to the government, Sushma asserted that the government had no hidden agenda and no attempt was made to conduct back channel diplomacy with Pakistan through Vaidik. "For us, Hafiz Saeed is the main culprit of the Mumbai attack." She said Vaidik had neither informed the government in advance about his visit to Pakistan nor after returning from there. It was baseless to say that the government had facilitated his meeting with Saeed or anyone else in Pakistan. Earlier in the day, Finance Minister and Leader of the Rajya Sabha Arun Jaitley sought to cool down the tempers over Vaidik's meeting with the JuD chief by dissociating from Vaidik's action or the views expressed by him in an interview to a Pakistani TV channel in which he spoke about giving independence to Jammu and Kashmir. (The Tribune).

## Economy

- **Home loan rates up to Rs 50 lakh to dip as RBI eases bank fund-raising norms:** Housing loans of up to Rs 50 lakh could become cheaper with the Reserve Bank of India relaxing the rules for banks to offer loans for the sector. Taking forward the announcement made in Budget 2014-15 to encourage infrastructure investment, RBI has permitted banks to raise long-term soft funds from the market to finance such loans. The loans will, however, not be applicable to builders. An RBI circular, issued on Tuesday, noted, "housing loans to individuals up to Rs 50 lakh for houses of values up to Rs 65 lakh" in the six metropolitan centres will get the concession. In other cities the upper limit will be Rs 40 lakh for houses of values up to Rs 50 lakh. It added that "RBI will periodically review the definition of affordable housing on account of inflation". Banks had been resisting giving out large and long-term loans for infrastructure sectors including housing as they do not raise long-term finance. The RBI circular has now permitted the banks to raise such funds without being hobbled by restrictive conditions like fulfillment of investing part of the money so raised in safe government securities. The banks can lend the money to people who walk in for home loans into their banks at attractive rates from now. The BJP manifesto promised low cost housing to all by 2022. The RBI has made it clear that its regulatory forbearance "will be restricted to the bonds that are used to incrementally finance long-term projects in infrastructure and loans for affordable housing". (The Indian Express).

## Planning

- **Govt decides to fund highway projects:** Citing no interest of private players in highway sector to pick up projects under public-private partnership (PPP) mode, the NDA government will now roll out projects on cash contract or engineering, procurement and construction (EPC) mode at least for two-to-three years. Under this mode, government bears the construction cost where the developer gets paid for the work. The developer exits the project after building the stretches. Announcing this on Tuesday, road transport minister Nitin Gadkari said his ministry is trying to arrange finances to take up projects on government funding or EPC mode. "Taking up more projects on public-private-partnership (PPP) is not feasible. We have to go ahead with EPC projects for at least next two years," he added, while blaming the issues "created by the previous government". At present, while 160 highway projects are under implementation on PPP mode, entailing an investment of Rs 1.6 lakh crore, there is no progress in case of 65 projects. Out of these 65 projects, 28 have been terminated. CEO of a major highway construction company told TOI, "As such we have not taken any project on PPP mode in the past three years. At present, none is interested, considering the risk and prevailing market condition. We are struggling to complete the already bagged projects." Sensing that government has to create a huge corpus to pay for projects on cash contracts spanning over two-to-three years, Gadkari said his ministry is going to set up a corporation that will deal with financing of such projects. (The Times of India).

## Editorial

- **Temporary reprieve:** For a government under pressure because of the recent sharp rise in onion prices, the numbers for both the Wholesale Price Index (WPI) and the Consumer Price Index (CPI), published on Monday, should come as a relief. Inflation is noticeably lower on both indices compared with the previous month. On the WPI, headline inflation for June was 5.4 per cent, down from six per cent in May and the lowest number in four months. Food inflation was 8.1 per cent, significantly lower than the 9.5 per cent of May and appreciably below the rates over the previous three months. CPI inflation was 7.3 per cent in June, again significantly below the 8.3 per cent recorded in May. This was also significantly due to softening food prices, with food inflation at 7.9 per cent and vegetables, which have been recording double-digit rates for a long time, finally coming in at 8.7 per cent. The headline numbers, particularly on the CPI, may raise hopes that the Reserve Bank of India can finally begin to lower interest rates. But, for a number of reasons, those expectations may be premature. First, the spike in onion prices earlier this month will very likely cause CPI inflation to turn up again in July. For whatever reason, core CPI inflation is itself apparently closely tracking food prices; so, as it turns up, any room that the RBI has to rationalise a rate cut will diminish. In any case, the RBI framework now uses the headline number as a benchmark and will, therefore, take into account the risks of an upturn. But it is not just an onion problem. It is now the third week of July, and there is a question mark over the revival of the monsoon, which so far has remained poor in large parts of the country. (Business Standard)

# RBI signals cheaper housing, infra loans

Banks get bonds boost to raise funds for core sector; up to ₹50 lakh of home loans in metros and ₹40 lakh in other cities not to have CRR, SLR requirements

BS REPORTER  
Mumbai, 15 July

**T**o boost demand for infrastructure and housing, the Reserve Bank of India (RBI) on Tuesday said banks would not have to maintain cash reserve ratio (CRR) or statutory liquidity ratio (SLR) and will not have to meet priority-sector lending targets for funds raised through bonds for extending credit to these sectors.

While the exemption from CRR and SLR requirements was announced by the Finance Minister in his Budget speech, the banking regulator further sweetened the deal by including loans for affordable housing.

Under the new definition of affordable housing, loans of up to ₹50 lakh in metros for houses valuing up to ₹65 lakh and those of up to ₹40 lakh for houses valuing up to ₹50 lakh in all other cities are now part of affordable housing.

Real estate players are happy. "Any easing will be to people's advantage. It will encourage people to go for own homes. It will increase demand for homes," said Rajeev Talwar, executive director, DLF.

The incentives will reduce the cost of funds for banks as they do not have to set aside funds for CRR or investment in low-yielding government

## MEASURES & IMPACT

### Home loan incentives



**MOVE:** No CRR, SLR and no priority-sector lending target for home loans of up to ₹50 lakh for property valued at up to ₹65 lakh in metro cities and home loans of up to ₹40 lakh for property valued at up to ₹50 lakh in all other cities

**IMPACT ON BORROWERS:**  
25-50 bps cheaper loan rate in the medium term

bonds with the funds raised. If banks' cost of fund is reduced, they can pass on the benefit to customers.

Housing companies expect loan rates to come down by 25-50 basis points, but only over the medium term. Retail customers will have to wait for a while to get the benefit, as

### Infra loan push

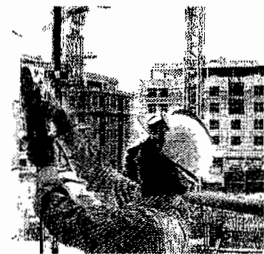
**MOVES:**

- No ceiling or floor on repayment period
- Tenor on amortisation schedule not to exceed 80% of the initial concession period
- Bank offering initial debt facility to sanction loan for 5-7 years
- Amortisation schedule could be modified once during the course of the loan, if it is standard asset
- Refinancing will stop if initial debt facility becomes NPA
- After loan becomes NPA, banks need to make necessary provisions
- Banks to decide pricing at each stage of sanction of the initial debt facility

**IMPACT:** Top-rated companies could get benefit of 50-100 bps on interest rate

most banks offer home loans at base rate or with a marginal spread. So, unless banks decide to cut base rate — which is the function of both policy rate and cost of funds — customers will not have any benefit. Banks are not allowed to lend below the base rate, except for a few segments as

specified by RBI. In addition, banks will get full benefit of the leeway only in 2020, as suggested by RBI.



## RBI tweaks definition of affordable housing

OUR BUREAU

Mumbai, July 15

In a bid to boost the housing sector, the Reserve Bank of India on Tuesday said home loans up to ₹50 lakh in metros and ₹40 lakh in non-metros, given by banks from the proceeds of long-term bonds (of minimum seven years maturity) will qualify as affordable housing loans.

Under the current regulatory regime, loans given by banks to individuals — up to ₹25 lakh

in metros and ₹15 lakh in non-metros — for purchase/construction of a dwelling unit, per family, are considered as affordable housing loans. These loans fall under the priority sector lending category for banks.

The treasury head of a public sector bank said that “interest rates could come down on affordable loans given out of the proceeds of long-term bonds”.

While tweaking the affordable housing definition, the RBI said the cost of a house cannot

exceed ₹65 lakh and ₹50 lakh in the metros and non-metros, respectively. There are six metros in the country: Mumbai, Chennai, Kolkata, Delhi, Hyderabad and Bangalore.

### Periodic review

The RBI said that it will periodically review the definition of affordable housing, on account of inflation.

To give a further boost to lending for affordable housing, the RBI also exempted the mon-

ey raised through these long-term bonds from Cash Reserve Ratio and Statutory Liquidity Ratio requirements.

This means that banks will be able to commit the entire corpus of funds raised through the issue of such bonds for the purpose of affordable housing.

Long-term bonds can be issued with a fixed or floating rate of interest. The floating rate of interest will be linked to market determined benchmark rates.

## Electricity rates bound to increase with hike in fuel costs: NTPC official

Increased cess, rationalisation of import duties will push up coal prices, the principal fuel

DEBABRATA DAS / RICHA MISHRA

New Delhi, July 15

In the coming fiscal, electricity rates are bound to go up with the current policy environment pushing up prices of coal, the principal fuel for power generation in India, a senior NTPC official said.

It is not only coal, but an increase in domestically produced gas price is also in offing. This would mean power generation costs will go up. In the power sector, the increases in fuel prices are passed through to the consumer.

The Budget 2014-15 proposals — increased cess on coal, rationalisation of import duties and the pending increase in mining royalties for States — will increase coal prices.

“So electricity prices are bound to go up once royalty rates are finalised,” the official told *Business-Line*, adding that “people would be ready to pay increased tariffs if there is reliability of power supply.”

Making a reference to the recent CERC order, the official said, at present, it is the producer who is being squeezed to offset tariff

increase at the consumer end. NTPC remained non-committal on the Commission's order, stating that the matter is *sub-judice*.

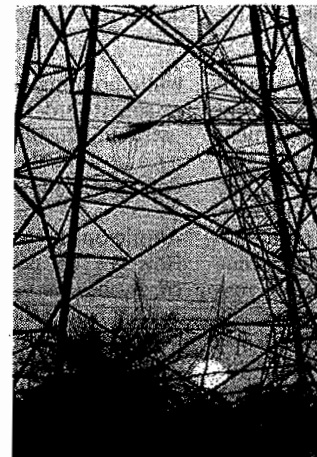
Finance Minister Arun Jaitley has proposed to double the Clean Energy Cess on coal to ₹100 a tonne from the existing ₹50/tonne. Jaitley also rationalised coal import duty for all types of the fuel to 2.5 per cent basic Customs duty and 2 per cent CVD (Countervailing Duty).

### Cost of Imports

Besides, there is also cost of imported coal. To meet its fuel requirement, NTPC has also been importing coal. Last fiscal, NTPC sourced 150 million tonne of fuel from Coal India and its subsidiary, and imported 10 million tonne.

This fiscal also it expected to import 10-12 million tonnes of coal. The imports are also set to increase power generation costs. The power producer's fuel bill had increased 11.5 per cent in fiscal 2013-14 to ₹47,790 crore as against ₹42,827 crore in the previous fiscal.

Meanwhile, NTPC's Chairman and Managing Director Arup Roy



Choudhury called for a coal regulator to be set up.

### Call for regulator

“Coal regulator should come as there needs to be a transparency in coal pricing,” he said, adding that “if there is a power sector regulator then there should a coal regulator also.”

As on March 31, 2014, NTPC had a total installed capacity of 43,019 MW, which includes plants owned by joint venture companies. Of the total capacity, over 75 per cent are coal-based power plants while the remaining is gas-based.

# BRICS nations will not resort to protectionist measures

Trade ministers express concern over slow pace of global economic recovery

**PRESS TRUST OF INDIA**

Fortaleza (Brazil), July 15

BRICS nations, including India, expressed commitment to refrain from taking any protectionist measures and improve policy coordination to enhance trade and investment.

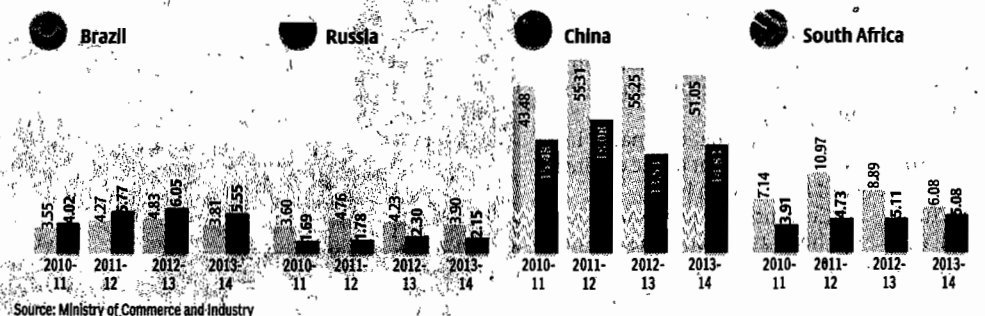
"They (BRICS trade ministers) reaffirmed their commitment to refrain from trade protectionist measures that are incompatible with WTO obligations, while respecting the special and differential treatment for developing countries," said a joint communique on the eve of the sixth BRICS Summit.

Commerce and Industry Minister Nirmala Sitharaman, who is accompanying Prime Minister Narendra Modi, attended the meet of Trade Ministers of BRICS (Brazil, Russia, India, China and South Africa).

**Global growth**

The ministers also expressed concern over the slow pace of global economic recovery and stressed that "the uncertainty regarding economic growth and policy re-

**India's trade with other BRICS countries (\$ bn)**



Source: Ministry of Commerce and Industry

sponses in developed countries could lead to increased volatility in financial markets and further affect the international economy."

They emphasised that updating international governance structures remain a necessity for better policy coordination and for the promotion of global economic prosperity, it said.

In spite of the challenging economic environment, it said the BRICS countries will continue to contribute to the global economic recovery.

The leaders vowed to continue work to further strengthen their economic relations, the statement said.

Further, the Ministers reaffirmed the importance of a continued dialogue on international investment agreements.

The Ministers noted the principles outlined in the document 'A BRICS Perspective on International Investment Agreements' as a voluntary reference for countries to advance a more balanced approach to investment treaties.

The leaders also emphasised on strengthening intra-BRICS cooperation in e-commerce to extend the opportunities for intra-BRICS trade and enhancing closer economic cooperation.

**E-commerce**

"They welcomed the proposal to establish a BRICS Expert Dialogue on Electronic Commerce. They instructed the Contact Group for Economic and Trade Issues to elaborate terms of reference for the Expert Dialogue," it added.

Highlighting the potential for forging closer links between the

Micro, Small and Medium Enterprises (MSMEs) of the BRICS nations, they instructed their officials to explore ways to promote cooperation in this field. This would include sharing information on regulatory framework and promoting business-to-business contacts.

On the progress of WTO talks, the Trade Ministers agreed to pursue vigorously the achievements, objectives and timelines set out in the Bali Ministerial decisions.

"They reaffirmed the importance of an open and rules-based multilateral trading system and underlined the central role of the WTO in setting rules for global trade," the communique added.

Intra-BRICS trade is about \$230 billion and has the potential of more than doubling to \$500 billion by 2015.

# 'Work on stuck road projects worth ₹1.8 lakh cr to start by August 15'

New Delhi, July 15: Stalled highways projects worth ₹1,80,000 crore will be rolled out in a month's span after ironing out hurdles like delays in land acquisition and green nods, road transport and highways minister Nitin Gadkari said here on Tuesday.

Blaming the previous regime for award of projects "without acquiring even 10% of the required land" and causing hardships for road sector, Gadkari also announced that steps were on to launch new projects worth 2 lakh crore soon.

"As many as 189 projects with a cost of ₹1,80,000 crore are stuck due to problems in land acquisition, delays in forest and environment clearances, non-transfer of defence land and hurdles in rail over-



Union transport minister Nitin Gadkari

bridges...hurdles will be removed by August 15 and work will start on these," Gadkari said addressing a summit on Highways by PHD Chamber here.

In a significant shift of policy, he also said that public private partnership (PPP) model was not feasible at present

for award of road projects due to a host of issues "created by the previous government" and that schemes will be bid out on engineering, procurement and construction (EPC) mode.

"Projects were bid out by previous government without even 10% of the required land acquisition. Work could not start on the project where financial closure took place two years back. Banks withdrew financial closure...PPP mode is not possible now. We will work on EPC model for a few years," he said.

Unlike PPP model where the private sector has to fund the road building, in the EPC model, the government funds a highway, with private firms designing and building the road.

PTI

# Govt decision on ONGC stake sale next month

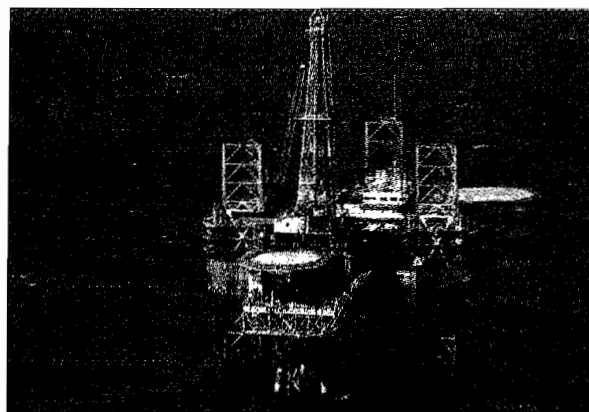
## ■ Sale of 5% stake expected to fetch around \$3 billion

New Delhi, July 15

**P**RIME Minister Narendra Modi's government will decide next month on the sale of a \$3-billion stake in state oil firm ONGC, in a major test of whether he will follow tentative reforms outlined in his first budget with actions.

Modi won May's parliamentary election by a landslide with a pledge to create jobs and revive Asia's third-largest economy, which is beset with the twin evils of weak growth and high inflation.

Yet finance minister Arun Jaitley's maiden budget last week drew criticism that his fiscal arithmetic did not add up. Capitalising on a record-breaking stock market run to complete asset sales could tip the balance.



**If completed, the sale would raise more than a quarter of the \$10.5-billion target for privatisation revenues announced by the finance minister for the current fiscal**

The government will decide next month whether to sell a 5% stake in state-run

Oil and Natural Gas Corp, a senior oil ministry official said, in a deal that would be

worth \$2.9 billion at current market prices.

"The department of divestment has floated a note seeking our comments for a 5% stake sale in ONGC," the official, with direct knowledge of the matter, told Reuters on Tuesday. He added that a decision would be taken in August.

An official at the finance ministry, which houses the divestment department, said the government was interested in selling stakes in ONGC and other state companies given their high market valuations. He did not elaborate.

If completed, the sale would raise more than a quarter of the \$10.5 billion target for privatisation revenues announced by Jaitley for the current fiscal.

Reuters





## NDA manages food prices better

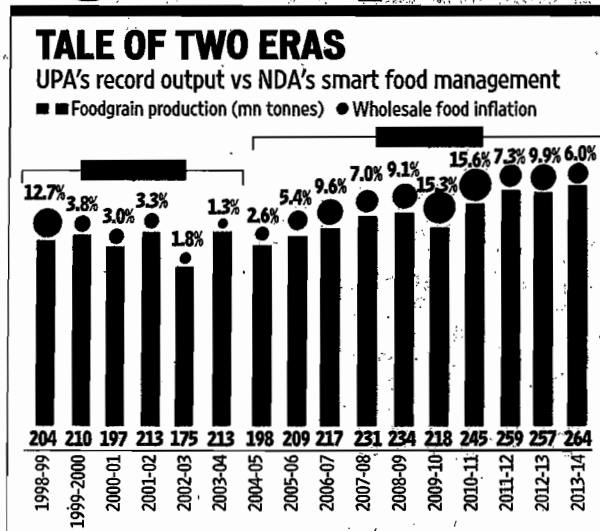
Zia Haq

z.haq@hindustantimes.com

**NEW DELHI:** A harbinger of 'ache din' promised by the Modi government could be just around the corner: easing food prices amid a looming drought. This has prompted analysts to wonder how prices have ended up lower at a time when they could have been even more sticky.

India's wholesale inflation slowed to a four-month low of 5.43% in June. Food prices came in lower at 7.9%, compared to 9.3% in May. Retail prices too eased to 7.31%, their sharpest fall in 43 months.

"More importantly, the fall (in retail prices in June) was broad-based as inflation in all three components - core (7.2% in June down from 7.9% in May), food (7.9% from 9.3%) and fuel (4.6% from 5.0%) - moderated," said Sonal Varma a research analyst with Nomura, a Japanese brokerage firm.



For the two-month-old NDA government, these record-low inflation figures mark an early victory over the price monster. To be sure, the NDA has had a better

record at food management, keeping food inflation at just 1.8% in 2002 when it faced a drought year. By contrast, in 2009-10, when the UPA confronted a drought, food

prices rose 15.3%.

Together, these trends represent the best bet for the Modi government to fix its biggest worry: the economy. Some quick policy decisions and strong administrative measures helped.

Unsure of the monsoon, the government released 5 million tonne of grains in the open market, along with a curb on farm exports, strong warning to hoarders and a lower increase in the support prices offered to farmers for their produce.

This stands in stark contrast to the UPA's policy of sitting on huge grain stocks, while steeply hiking minimum support prices (MSP) of key staple crops. During its previous stint, the NDA government raised MSP by 30%, while the UPA raised it by 130%. According to an RBI study, a 10% MSP hike raises short-term wholesale inflation by 1 percentage point. The difference shows in the latest inflation figures.

# OilMin may seek LawMin's views on Rangarajan panel's gas price formula

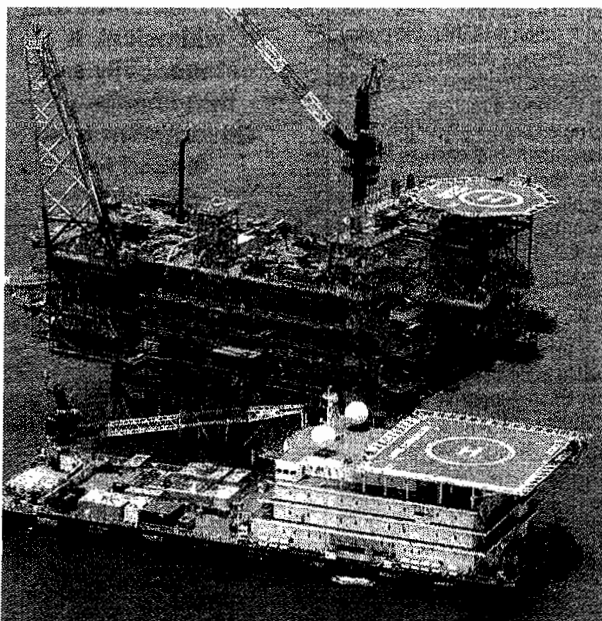
ANIMESH SINGH ■ NEW DELHI

Having postponed the decision of implementing the new gas price regime based on the Rangarajan panel formula till September 30, the Government may seek Law Ministry's views on the matter and according to sources, there is a likelihood that it may rework some aspects of the formula in order to temper down the proposed hike in prices of the natural resource.

Though the Petroleum Ministry is quite guarded on the matter as of now, sources privy to the developments on this front indicated that a final decision is likely to be guided by political considerations, as the common man's interests are involved.

As per the Rangarajan panel's formula, the gas price is to double to \$8 per mmBtu from the existing \$4 per mmBtu, once it is implemented, and this will have a spiralling effect on the domestic economy. The new price was to be implemented from April 1, 2014 onwards, however the then UPA Government, mindful of the impending Lok Sabha polls, had postponed its implementation till after the elections.

The NDA Government last month pushed its implementation further by another three



months till September 30.

In such a scenario, there is a likelihood that the formula suggested by C Rangarajan panel on determining gas prices could be tweaked in order to lessen the impact of hike in prices of gas.

The panel in its report had suggested to the Government taking an average of the US, Europe and Japanese hub crude prices (or market price) and then averaging it out with the netback price of imported liquefied natural gas (LNG) to

determine the sale price of domestically-produced gas.

Sources said that the ministry is apparently not happy over the inclusion of Japanese hub crude prices in the formula, as they are considered to be quite expensive and, therefore, it could go in for a change in the methodology.

The ministry is also mulling seeking Law Ministry's views on whether any changes could be made in the panel's formula.

Though a final call is to be

taken on seeking Law Ministry's advice on the matter, sources said that political considerations are likely to influence any final decision regarding the gas price.

Government's determination to insulate the common man from the impact of implementing the new gas price regime by finding ways of reducing its quantum has in fact given out a strong signal to Reliance Industries Ltd (RIL) and its partner BP Plc of the UK. These entities have given an arbitration notice to the Centre seeking implementation of the delayed gas price rise.

The claim of the companies is that the Government's failure to implement the new price from April 1 onwards, prevented them from sanctioning investments of almost \$4 billion this year.

Amid all this, Petroleum Minister Dharmendra Pradhan on Monday had informed the Parliament that the Government has imposed an additional penalty of \$579 million on RIL for producing less than targeted natural gas from its KG-D6 block.

With this the total penalty on RIL for missing the target in four fiscal years beginning April 1, 2010 now stands at a cumulative \$2.376 billion.

# RBI eases financing norms for infra, affordable housing

**PRESS TRUST OF INDIA**  
Mumbai, 15 July

In order to encourage infrastructure development and affordable housing, the RBI today exempted long-term bonds from mandatory regulatory norms like CRR and SLR if the money raised is used for funding of such projects.

"Banks can issue long-term bonds with a minimum maturity of seven years to raise resources for lending to (i) long-term projects in infrastructure sub-sectors, and (ii) affordable housing," the Reserve Bank of India said.

The RBI said that apart from what is technically defined as infrastructure, affordable housing is another segment of the economy which requires long-term funding.

The central bank said it intends to "ease the way for banks to raise long-term resources to finance their long-term loans to infrastructure as well as affordable housing."

The instructions are in pursuance of finance minister Arun Jaitley's Budget speech in which he had said: "Banks will be encouraged to extend long-term loans to infrastructure sector with flexible structuring to absorb potential adverse contingencies, sometimes known as the 5/25 structure."

Under the 5/25 structure, bank may fix longer amortisation period for loans to projects in infrastructure and core industries sectors, say 25 years, with periodic refinancing, say every five years.

The RBI issued instructions to banks specifying

operational guidelines and incentives in the form of flexibility in loan structuring and refinancing.

It granted exemptions from regulatory pre-emptions such as cash reserves ratio (CRR), statutory reserves ratio (SLR) and priority sector lending (PSL).

As per RBI regulations, banks are required to keep a portion of deposits as cash reserve ratio (CRR) with the central bank and park certain portion in government securities known as statutory liquidity ratio.

"The objective of these instructions is to mitigate the asset-liability management (ALM) problems faced by banks in extending project loans to infrastructure and core industries sectors, and also to ease the raising of long-term resources," the RBI said.

## Centre to shield businesses from 'inspector raj' with new system

DK SINGH  
NEW DELHI, JULY 15

EVEN as the Centre holds consultations with stakeholders to amend various, contentious labour legislation, the NDA regime has decided to strike at the much-dreaded inspector raj introducing a new inspection system that will shield business establishments against frequent harassment and rent-seeking.

Under the new system, which is likely to come in force from September, inspectors will not be authorised to visit factories or business units unless there exists a "prima facie evidence" of wrong-doing. Besides, if the inspectors fail to upload their inspection report within 72 hours on a unified portal, which is being developed, it will "not be deemed legiti-

mate", according to sources.

To this end, the ministry of labour and employment is also developing a single unified web portal for online registration of units, reporting of inspections, submissions of annual returns and redressal of grievances. To start with, it has identified 16 of the 44 labour laws administered by the ministry. Each of them will have a Central Analysis and Intelligence Unit (CAIU). If there is any complaint against any business establishment, the respective CAIU will first go through it and only if there is prima facie evidence of any violation that inspectors will be authorised to carry out an inspection.

"The advantage of the new system is that it will restrain inspectors from carrying out random and wilful in-

spections on the basis of frivolous complaints. If an aggrieved party feels that he or she is being harassed for minor violations, they can ask why they have been picked up for inspection. They can take recourse to the Right to Information Act and find out how many other establishments were targeted or not targeted for the same," official sources told *The Indian Express*.

Earlier, there was no timeframe for the inspectors to submit the inspection report, which gave some of them an opportunity to arm-twist the employers. Now they have to upload their report within a specified period and its veracity or the lack of it will have a bearing on the annual performance appraisal of the inspectors, said sources.

Clubs affordable housing with infrastructure sector; eases CRR, SLR rules  
**Home loan rates up to ₹50 lakh to dip as RBI eases bank fund-raising norms**

ENS ECONOMIC BUREAU  
MUMBAI, JULY 15

**H**OUSING loans of up to Rs 50 lakh could become cheaper with the Reserve Bank of India relaxing the rules for banks to offer loans for the sector.

Taking forward the announcement made in Budget 2014-15 to encourage infrastructure investment, RBI has permitted banks to raise long-term soft funds from the market to finance such loans.

The loans will, however, not be applicable to builders. An RBI circular, issued on Tuesday, noted, "housing loans to individuals up to Rs 50 lakh for houses of values up to Rs 65 lakh" in the six metropolitan centres will get the concession. In other cities the upper limit will be Rs 40 lakh for houses of values up to Rs 50 lakh. It added that "RBI will periodically review the definition of affordable housing on account of inflation".

Banks had been resisting giving out large and long-term loans for infrastructure sectors

(in ₹ billion)	May 18, 2012	Mar.22, 2013	May 31, 2013	Mar.21, 2014	May 30, 2014
Power	3,321	4,158	4,416	4,883	5,012
Telecommunications	992	878	936	904	929
Roads	1,125	1,313	1,389	1,574	1,599
Other Infrastructure	925	948	981	1,036	1,033
<b>Total Infrastructure</b>	<b>6,363</b>	<b>7,297</b>	<b>7,722</b>	<b>8,398</b>	<b>8,573</b>

including housing as they do not raise long-term finance. The RBI circular has now permitted the banks to raise such funds without being hobbled by restrictive conditions like fulfillment of investing part of the money so raised in safe government securities.

The banks can lend the money to people who walk in for home loans into their banks at attractive rates from now. The BJP manifesto promised low cost housing to all by 2022.

The RBI has made it clear that its regulatory forbearance "will be restricted to the bonds that are used to incrementally finance long-term projects in infrastructure and loans for affordable housing".

The shortage of houses in urban India is estimated at close to 19 million as per National

Housing Bank data. Another estimate says that it takes more than five year's annual income to pay for a house in the non-metro cities. Thus, the available housing stock is priced mostly out of reach for even middle income housing groups.

The RBI circular says that those in the lowest income bracket, who are entitled to priority sector lending, will continue to get the support from the government and the banking sector, unchanged. Navin Raheja, chairman of Credai, the apex association of realtors, said, "Giving affordable housing infrastructure status will boost the housing sector in India. This will help developers to mobilise cheaper finance for development of affordable housing and will result into cutting in prices of

housing in long term".

The RBI notification states that the seven-year bonds to be raised by banks must be issued in plain vanilla form without call or put option with a fixed or floating rate of interest. "The floating rate of interest should be referenced to market determined benchmark rates. The bonds may be issued through a public issue or private placement in full compliance with Sebi guidelines/norms including mandatory rating and listing," it said.

In another notification to banks on flexible structuring of long-term project loans to infrastructure and core industries, the RBI also said its instructions do not come in the way of banks' structuring long-term project financing products if the prudential and regulatory framework

is meticulously observed while structuring such products. This means banks are free to project loans with long maturities of 25-30 years. "In order to ensure stress free repayment of such long gestation loans, their repayment tenor should bear some correspondence to the period when cash flows are generated by the asset," it said. The RBI has not prescribed any ceiling or floor on repayment period of loans, except in the case of special regulatory treatment for asset classification on restructuring.

Banks have been representing to the RBI that they are unable to provide such long-tenor financing owing to asset-liability mismatch issues. To overcome the asset liability mismatch, they invariably restrict their finance to a maximum period of 12-15 years.

"It's heartening to see the RBI encouraging financing for affordable housing, on par with infrastructure. This will generate a huge number of jobs in addition to homes for India's aspirational citizens," said Shailesh Pathak, executive director, Bhartiya Group.