

CHAPTER I

THE MACRO-ECONOMIC DEVELOPMENT AND HOUSING FINANCE : 2002-03

The importance of housing sector as the 'engine of growth' has been historically acknowledged in most of the developed nations of the world. In India, the housing finance business has assumed significance during the last 4-5 years, spearheaded by the keen interest evinced by the commercial banks in this sector. The growth potential further gathered momentum through continued fiscal and monetary fillips and budgetary provisions. The burgeoning middle class, increasing purchasing power, changing demographics and increasing number of nuclear families, scaling down of the real estate prices and a softer interest rate regime and traditionally low default rate resulting in low non performing assets as compared with the other sectors also enabled the housing finance sector to grow at a phenomenal rate of around 39% on the average during the last 3 years. However, this performance notwithstanding, the mortgage to GDP ratio stood at an abysmal 3% in India in 2001 when compared to 57% in UK, 54% in USA, 40% in EU, 7% in China, 17% in Thailand and 34% in Malaysia.

The Economic Scenario- Fiscal & Monetary stance

The year 2002-03 ushered in an era of turnaround in the Indian economy which successfully combated the global economic slowdown following the 9/11 catastrophe, volatile geo-political situations and challenge of cross-border terrorism. The beginning of 2003-04 also witnessed a good monsoon in most parts of the country providing the much awaited boost for agricultural development. The macroeconomic fundamentals of the Indian economy proved their inherent strength with low inflation, comfortable reserves and stable market conditions. On the monetary front, the economy observed easy liquidity conditions despite a sluggish money supply growth. The increase in foreign exchange assets and cuts in cash reserve ratio (CRR) also added to the liquidity. Besides, the absence of other avenues of investment also led to an increase in bank deposits despite falling deposit rates. The softening of the interest rates continued while the non-food credit showed signs of picking up. A revival in industrial activity is expected to lead to a further increase in the off-take of non-food credit. In the beginning of 2003, the Central Statistical Organisation postulated the gross domestic product (GDP) growth at around 4.3- 4.4 per cent, owing to a decline in the output from agriculture and allied activities. However, the Monetary & Credit Policy of the Reserve Bank of India 2003-04 was announced in April 2003 on the postulation that the secondary and tertiary sectors would continue to grow whereas the primary sector would show signs of revival following a balanced spatial distribution of monsoon resulting in around 6% growth in the real GDP during financial year 2003-04.

Acknowledging the entrepreneurial fervor and creativity of Indians as the cornerstone of basic development, the Government made a conscious effort to make available the budgetary provisions for 2003-04 to the common populace with a renewed progress on the front of agriculture-the nation's life blood. The importance of infrastructural development as the prerequisite for development and the need for private-public participation have also been acknowledged for maximization of social welfare. Upon these foundations, and through strategic encouragement to key sectors, the Government aspires to achieve enhanced growth, improved income level, more employment and exports promotion. For a sustainable growth, fiscal consolidation would be the central pillar. Government also intends to eliminate budgetary drags. An all round growth, with a wider distributive spread of national wealth and greater disposable income to spend would usher a new era of reform in the Indian economy. Although there were no major incremental fiscal or budgetary incentives for housing in the Union Budget 2003-04, the Government, nevertheless, appreciated the prominence of housing as one of the 'life time concerns' of the citizens and included it among the '*Paanch Priorities*'. However, the continuance of the fiscal concessions came as a welcome respite to all home-seekers, extant as well as prospective, particularly in the face of the Kelkar Committee recommendations that opined in favour of removal of such fillips. In his budget speech, the Hon'ble Finance Minister announced that the government would further examine what additional incentives could be given to basic infrastructural developments that must accompany slum up gradation, sewerage system laying and green-field housing projects.

The major monetary policy measures during the year were reduction in cash reserve ratio and bank rate thus infusing additional liquidity in the system. One of the significant announcements was enhancement of limit of direct housing loans for construction of houses by individuals as part of priority sector lending from Rs.5 lakhs to Rs 10 lakhs even for semi-urban and rural areas. This is expected to provide a major thrust in the lending of commercial banks for housing. Another important development was linking banks' prime lending rate (PLR) to actual costs and abolition of the system of tenor linked PLRs which will make the pricing system more transparent and more meaningful. Overall the thrust of the monetary and credit policy has been to support the tepid pick-up in industrial activity, enhance transparency in the banking system and to take the rupee closer to full convertibility.

Housing & Tenth Five Year Plan (2002-2007)

The National Development Council approved the Tenth Five Year Plan in December 2002 which aimed at an ambitious target of 8 per cent annual GDP growth on the average. One of the crucial aims of the Tenth Plan is to promote a balanced and equitable regional development and to advance the necessary policy and

administrative reforms at the State level. The allocation for 2003-04 includes several additional initiatives such as promoting infrastructure by leveraging public money through private sector partnership, provision of hand-pumps in water-scarcity areas and schools, rejuvenation of traditional water sources in villages, research and development (R&D) support in pharmaceuticals, wind and solar energy, among others. The Tenth Five Year Plan estimated the urban housing shortage at 8.89 million dwelling units in 2002. Further, the total number of houses that would be required cumulatively during the Tenth Plan period is estimated at 22.44 million dwelling units. With the continuance of the 2 Million Housing Programme, it is estimated that the investment requirement from public sector institutions would be around Rs.415000 crore. Apart from this, substantial contribution from private players would be required to tackle the growing housing shortage. The major task is to evolve market friendly reforms relating to tax, infrastructure etc to help in increasing investment flow in housing. Emphasis has been laid on need to supply affordable housing to economically weaker section (EWS) and low income group (LIG) through proper programme of allocation of land, extension of funding assistance and provision of support services. Sums of these magnitudes cannot be entirely allocated from within the budgetary resources of Central, State and Local Governments. It is, therefore, a compulsion to access financial resources from the market and induce the private sector to participate in housing and habitat development initiatives. The table below shows the growth in investment requirement for housing over the Plan period:

Table 1.1 Investment Requirement for Housing during 5 Year Plans

(Amount in Rs. crore)

Five Year Plan	Public Investment	Private Investment	Total Investment
1st (1951-56)	250	900	1,150
2nd (1956-61)	300	1,000	1,300
3rd (1961-66)	425	1,125	1,550
4th (1969-74)	625	2,175	2,800
5th (1974-78)	796	3,640	4,436
6th (1980-85)	1491	18,000	19,491
7th (1985-90)	2,458	29,000	31,458
8th (1992-97)	31,500	66,000	97,500
9th (1997-2002)	52,000	99,000	1,51,000
10th (2002-07)*	4,15,000	3,11,300	7,26,300

* estimated figures as per the Plan Document

Table 1.3: Census Houses and Uses to which they are put (million)

	1981			1991			2001		
	Total	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban
Total number of Census Houses (A)	149.44	113.96	35.48	195.02	142.98	52.03	249.10	177.54	71.56
Total number of Vaccum Houses (B)	7.91	5.64	2.27	12.41	7.97	4.44	15.81	9.36	6.45
Total No. of Occupied Census Houses (C)=(A)-(B)	141.53	108.32	33.21	182.61	135.01	47.59	233.29	168.18	65.11
Residential Use (D)	106.52	80.93	25.59	140.08	103.06	37.02	179.27	129.05	50.22
Residential Cum Other use (E)	1.43	0.95	0.48	7.13	5.41	1.72	7.89	6.05	1.84
Non Residential Use (F)	33.58	26.44	7.14	35.40	26.54	8.85	46.13	33.08	13.05
Housing Stock =(D)+(E)	107.95	81.88	26.07	147.21	108.47	38.74	187.16	135.10	52.06

Source: Census 2001

This statistics also shows that housing shortage is more acute in rural areas as compared to urban areas. But, it is not ideal to envisage the housing problem as a mere demand-supply gap and leave the onus on market dynamics especially in a country like India. Because of inequitable income distribution in our country, there is bound to be a wide gap between the demand for the houses and the need for house, because the need is translated into demand only when it is backed by the purchasing power. Hence there is a definite need for intervention through the supply side by making available affordable housing to the people belonging to lower economic strata. But only a supply side intervention will not solve the problem, though it can alleviate the same.

The housing finance sector, however, continued to grow during the year 2002-03, with the banking sector evincing keen interest which in turn could have been fueled by the lack of preferable alternative avenues for investment. In order to increase the market share, the lending institutions are competing with each other by offering very attractive terms to customers in the form of lower rate of interest, liberal collateral requirements, longer repayment period or a very high loan-to-value (LTV) ratio which at times goes up to or even beyond 100% of the value of the house including the cost of land. In recent years, the lending institutions also introduced floating rate products besides the fixed rate ones with the option available to the borrower for conversion against a nominal payment. Besides, the speedier processing and disbursement, efficient advisory services, waiver or reductions in associated up-front fees have also become common tactics of market acquisition.

Thus, acute competition has given rise to continuous innovation in product design as well as processes, with the customers having a wide variety to choose from.

The growth of housing finance in recent years is detailed below:

Table 1.4: Housing Finance Disbursement

(Amount in Rs. Crore)

	1999-2000	2000-01	2001-02	2002-03
Banks**	3597.40	5553.11	8566.41	23553.37
HFCs	9812.03	12637.85	14614.44	17832.01
ACHFs	700.86	867.72	677.58	641.48
Total	14110.29	19058.68	23858.43	42026.86
% Growth	-	35.07	25.18	76.15

Source: IECD, RBI; NCHF; NHB

** Only direct housing finance by banks is taken

Average annual growth(%)between 2000-01 & 2002-03: 45.47

