<u>Project Report</u>

On

"A Study of Impact of RBI's Monetary Policy on Realty Sector' for the period of 2021-22'

Submitted to

DMSR- G. S. College of Commerce & Economics, Nagpur

Affiliated to

Rashtrasant Tukadoji Maharaj Nagpur University

Nagpur

In partial fulfilment for the award of the degree of

<u>Master of Business Administration</u>

Submitted by

Harshal Satokar

Under the Guidance of

Dr. Afsar Sheikh

Department of Management Sciences and Research,
G. S. College of Commerce & Economics, Nagpur
NAAC Re-Accredited "A" Grade Autonomous Institution

Academic Year 2021-22

G.S. College of Commerce & Economics, Nagpur

CERTIFICATE

This is to certify that **“Harshal Chakradhar Satokar “**has submitted the project Synopsis titled “**A Study of Impact of RBI’s Monetary Policy on Realty Sector for the Period Of 2021-22’’,** towards partial fulfillment of MASTER OF BUSINESS ADMINISTRATION degree examination. This has not been submitted for any other examination and does not form part of any other course undergone by the candidate.

It is further certified that he/she has ingeniously completed his/her project as prescribed by **DMSR - G. S. COLLEGE OF COMMERCE & ECONOMICS, NAGPUR** (NAAC Reaccredited “A” Grade Autonomous Institution) affiliated to Rashtrasant Tukadoji Maharaj Nagpur University, Nagpur.

Dr. Afsar Sheikh
(Project Guide)

Dr. Sonali Gadekar
(Co-Ordinator)

Place: Nagpur

Date: 28/07/2022

G. S. College of Commerce & Economics, Nagpur

DECLARATION

I here-by declare that the project with title "**A Study of Impact Of RBI's Monetary Policy on Realty Sector for the Period Of 2021-22**" has been completed by me in partial fulfillment of **MASTER OF BUSINESS ADMINISTRATION** degree examination as prescribed by **DMSR - G. S. COLLEGE OF COMMERCE & ECONOMICS, NAGPUR** (NAAC Reaccredited "A" Grade Autonomous Institution) affiliated to Rashtrasant Tukadoji Maharaj Nagpur University, Nagpur and this has not been submitted for any other examination and does not form the part of any other course undertaken by me.

Harshal Satokar

Place: Nagpur

Date: 28/07/2022

G. S. College of Commerce & Economics, Nagpur

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With immense pride and sense of gratitude, I take this golden opportunity to express my sincere regards to **Dr. N.Y. Khandait**, Principal, G.S. College of Commerce & Economics, Nagpur.

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I would like to thank all those who helped me in making this project complete and successful.

Harshal Satokar

Place: Nagpur

Date:28/07/2022

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INTRODUCTION

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REAL ESTATE - The term ‘real estate’ is defined as land, including the air above it and the ground covers residential housing, commercial offices, trading spaces such as theatres, hotels and restaurants, retail outlets, industrial buildings such as factories and government buildings. Real estate involves the purchase, sale, and development of land, residential and non-residential buildings. The main players in the real estate market are the landlords, developers, builders, real estate agents, tenants, buyers etc. The activities of the real estate sector encompass the housing and construction sectors also. The real estate sector in India has assumed growing importance with the liberalization of the economy. The consequent increase in business opportunities and migration of the labour force has, in turn, increased the demand for commercial and housing space, especially rental housing. Developments in the real estate sector are being influenced by the developments in the retail, hospitality and entertainment (e.g., hotels, resorts, cinema theatres) industries, economic services (e.g., hospitals, schools) and information technology (IT)- enabled services (like call centre’s) etc. and vice versa.

The real estate sector is a major employment driver, being the second largest employer next only to agriculture. This is because of the chain of backward and forward linkages that the sector has with the other sectors of the economy, especially with the housing and construction sector. About 250 ancillary industries such as cement, steel, brick, timber, building materials etc. are dependent on the real estate industry. Indian Real estate sector is one of the most thriving industries of the present times. And if industry experts are to be believed, the prospects of Indian property market are going to attract all major investors to this vast land of opportunities in coming years thereby giving a boost to already raising foreign direct investment. The Government of India has taken positive initiatives by offering the best in terms of real estate investment, by altering its FDI policies from time to time.

RBI- India's central bank is the Reserve Bank of India (RBI). Reserve Bank of India monitors formulates and implements India's monetary policy. Established in the year 1935, Reserve bank of India was nationalized in the year 1949.Owned fully by the Government of India, Reserve Bank has been 22 regional offices in various state capitals of India with its headquarters located in Mumbai. It has a majority stake in the State Bank of India.

MONETARY POLICY: - **Monetary policy** is the process by which the monetary authority of a country controls the supply of money, often targeting a rate of interest for the purpose of promoting economic growth and stability. The official goals usually include relatively stable prices and low unemployment. Monetary theory provides insight into how to craft optimal monetary policy. Monetary policy is referred to as either being expansionary or contractionary, where an expansionary policy increases the total supply of money in the economy more rapidly than usual, and contractionary policy expands the money supply more slowly than usual or even shrinks it. Expansionary policy is traditionally used to try to combat unemployment in a recession by lowering interest rates in the hope that easy credit will entice businesses into expanding. Contractionary policy is intended to slow inflation in hopes of avoiding the resulting distortions and deterioration of asset values.

Monetary policy differs from fiscal policy, which refers to taxation, government spending, and associated borrowing.

KEYPOINTS: -

- Monetary policy is a set of actions that can be undertaken by a nation's central bank to control the overall money supply and achieve sustainable economic growth.

- Monetary policy can be broadly classified as either expansionary or contractionary.

- Some of the available tools include revising interest rates up or down, directly lending cash to banks, and changing bank reserve requirements.

OBJECTIVES OF MONETARY POLICY

The primary objectives of monetary policies are the management of inflation or unemployment and maintenance of currency exchange rates.

1. Inflation

Monetary policies can target inflation levels. A low level of inflation is considered to be healthy for the economy. If inflation is high, a contractionary policy can address this issue.

2. Unemployment

Monetary policies can influence the level of unemployment in the economy. For example, an expansionary monetary policy generally decreases unemployment because the higher money supply stimulates business activities that lead to the expansion of the job market.

3. Currency exchange rates

Using its fiscal authority, a central bank can regulate the exchange rates between domestic and foreign currencies. For example, the central bank may increase the money supply by issuing more currency. In such a case, the domestic currency becomes cheaper relative to its foreign counterparts.

TYPES OF MONETARY POLICIES

Broadly speaking, monetary policies can be categorized as either expansionary or contractionary:

EXPANSIONARY MONETARY POLICY

If a country is facing high unemployment due to a slowdown or a recession, the monetary authority can opt for an expansionary policy aimed at increasing economic growth and expanding economic activity.

As a part of expansionary policy, the monetary authority often lowers the interest rates in order to promote spending money and make saving it unattractive.

Increased money supply in the market aims to boost investment and consumer spending. Lower interest rates mean that businesses and individuals can get loans on favourable terms.

Many leading economies around the world have held onto this expansionary approach since the 2008 financial crisis, keeping interest rates at zero or near zero.

CONTRACTIONARY MONETARY POLICY

A contractionary monetary policy increases interest rates in order to slow the growth of the money supply and bring down inflation.

This can slow economic growth and even increase unemployment but is often seen as necessary to cool down the economy and keep prices in check.

In the early 1980s with inflation hovering in the double digits, the Fed raised its benchmark interest rate to a record 20%. Though the high rates caused a recession, it managed to bring inflation back to the desired range of 3% to 4% over the next few years.

COMPANY PROFILE

COMPANY PROFILE

GODREJ PROPERITES: -

Godrej Properties has been instrumental in the construction of Residential, commercial and township projects such as Real Estates in Mumbai, Flat in Kolkata, Flat in Noida etc.

Godrej Properties Limited is a real estate company with its head office in Mumbai, India.

A subsidiary of Godrej Industries Ltd, the company was established in 1990 under the leadership of Adi Godrej. The company is currently developing projects that are estimated to cover more than 89.7 million square feet.

Date of establishment: - 1990

Corporate address: - 5C, 5th Floor, Godrej One, Pirojshanagar, Vikhroli East, Mumbai - 400 079.

Chairperson: - Mr. Adi Godrej.

Managing Director: - Pirojsha Adi Godrej.

Product: - Residential buildings, Commercial complex, Township;

Vision: We aspire to be the nation's top real estate company, while continuing to be the most trusted name in the industry. We shall deliver superior value to all stakeholders through extraordinary and imaginative spaces created out of deep customer focus and insight.

REVIEW OF LITERATURE

REVIEW OF LITERATURE

The literature pertaining to the real-estate market in India consists primarily of reports published by the Reserve Bank of India and by the National Housing Bank. The Report on Trend and Progress of Housing in India (2012) describes the dynamics of the housing market in India. The National Housing Bank was established by the Reserve Bank of India in 1988 in order to promote private real estate acquisition. The NHB is also responsible for regulating and refinancing social housing programs. In its yearly reports, the organization summarizes the issues concerning housing in India. The primary focus is the availability of affordable housing and some of the impediments include overpopulation of certain areas, the lack of affordable finance, infrastructure and regulatory hurdles. Urbanization has led to demographic changes across the country. According to census data, the percentage of population living in urban areas rose from 28 to 31 percent between 2006 and 2011, and is estimated to have risen further in recent years (NHB, 2012).

Publications by the Reserve Bank of India focus on the deployment of housing finance in India. Mohanty (2013) discusses the future of housing finance in light of the demand-supply gap, favourable demographics and increasing urbanization. He asserts the need to preserve financial stability along with attempts to increase the availability of housing finance and presents evidence from Reinhard and Rogoff (2009) to illustrate that the six major banking crises in advanced economies since the mid-1970s were associated with a housing bust. Mohanty compares the housing market in India with the housing market in the US, observing several crucial differences such as “the predominance of new construction and first-time ownership” in India. Yet, he suggests it is important to apply lessons learned from the sub-prime crisis in order to prevent a financial crisis due to a housing bust.

Gandhi (2012) describes the pressure on house prices in Mumbai over recent years. As the city became a centre for economic and commercial activities, Mumbai experienced a rapid growth in population leading to distortions in the housing markets in India that impede the availability of affordable housing. The paper illustrates a mismatch between household income and house prices evidenced by the fact that "at the present income distribution and institutional rates, only 5-6 percent of households can afford a house in Mumbai" (Gandhi, 2012). It also illustrates a violation of the household's stock and flow principle that is essential for equilibration in the housing sector (Lipsey & Harbury, 2004). When measured against the distance from a city's central business district, most cities in the world have a downward sloping Floor Space Index (FSI) (Bertraud, 2010). However, property prices in Mumbai violate the principle that there is a flat FSI line against distance from the city centre. In these big cities, house developers cater to a small proportion of the population – the rich elite – by focusing on the construction of luxury housing (Gandhi, 2012). Although Gandhi focuses on Mumbai in his paper, he suggests that most Indian cities face "issues of infrastructure, slum proliferation and inefficient urban land management" in the housing sector.

Several pieces of economic literature describe the relationship between residential real-estate and the macroeconomy. Goodheart & Hoffman (2007) examine the effects of house prices on the macroeconomic environment to demonstrate how a contraction in house prices can have "a severe contractionary effect on output" and that house prices reflect changes is beliefs and economic speculation. DiPasquale & Wheaton (1996) distinguish between a micro and a macro approach to real estate markets. The micro approach emphasizes the importance of structural and geographic factors in determining house prices. Wheaton suggests that structural characteristics such as the level of development affect the willingness to pay across different locations.

The macro approach deals with the effect of high-level forces such as growth, industry and competitiveness on real-estate markets in different cities.

Case and Shiller (2004) discuss the role of expectations in causing a bubble in the housing market, identifying this as a situation in which “excessive public expectations of future price increases cause prices to be temporarily elevated.” The rapid growth in house prices that have been seen across several cities in India is considered to be the first sign of a bubble. Yet, this is not conclusive evidence for the existence of a bubble. The extent to which changes in macroeconomic fundamentals, including incomes and interest rates, explain these growth rates can give us insight into whether it is appropriate to speculate a bubble.

Joshi (2006) examines preliminary evidence to suggest the existence of an asset bubble in the Indian housing market. He used a structural VAR model proposed by Blanchard and Quah (1989) to study the shocks to house prices that can be attributed to the monetary variables and income growth. The paper concludes that the Indian housing market was well equilibrated and that the risk of a bubble was not significant at this time. Another important finding was that monetary policy, specifically the interest rate, was the single most important determinant of the future growth of the housing market.

RELEVANCE OF STUDY/PROBLEM DEFINITION

RELEVANCE OF STUDY/PROBLEM DEFINITION

Some of the problems faced by real estate sector in terms of monetary policies are as follows:

The Wrong Classification of Costs – In a real estate business, there are a variety of costs which must be properly classified to ensure the maintenance of proper financial records. Generally, this factor is ignored.

Poor Record Maintenance – The storage and maintenance of records is also an issue. The records have to be maintained at regular intervals of time and have to be stored in a safe place. Real estate accounting services helps in creating a scalable working environment and dealing with the various challenges.

Non-Segregation of Bank Accounts – Some business owners make the mistake of keeping the same accounts for personal and business purpose. This makes an evaluation of profits and expenses difficult.

NEED OF THE STUDY

NEED OF THE STUDY

- To know how the RBI’s Monetary policy effects on realty sector.

- To know how interest rates effects on realty sector.

- To understand the monetary policy of India.

OBJECTIVES OF THE STUDY

OBJECTIVES OF THE STUDY

- Analysis of effect on realty sector by RBI monetary policy.

- To study the effect on business of realty sector by RBI measures.

HYPOTHESIS

HYPOTHESIS

- There is significant impact of continuous increasing of interest rate on the realty sectors growth.

THEORETICAL PERSPECTIVES: -

RBI CONTROL OF INFLATION

- Inflation is the supply of excess money and credit relative to the goods and services produced, resulting in increased prices. As the layman understands it, inflation results in the increase in the price of some set of goods and services in a given economy over a period of time. It is measured as the percentage rate of change of a price index.

- Inflation in India is also a grave issue of concern, given the vast disparity between the rich and the poor on the one hand or the Rural and the Urban on the other. Skyrocketing inflation robs the poor, and hurts others, though much less grievously. The fruits of the much-talked about economic growth have not reached large sections, especially in the rural areas.

- Under extant conditions, the benefit of high prices paid by consumers does not flow back to primary producers, but is siphoned away by middlemen and speculators who enjoy a free run in an economy of shortages. If attention to agriculture has been limited to rendering lip service, Inefficiencies in the physical market remain unattended. With production trailing demand in recent years, shortages of essential commodities have widened. Imports have become expensive because of high global market prices.

 It may be instructive to remember that inflation is not an overnight phenomenon. It is benign to the extent that it allows you time to cover yourself. In India, the onus to control and take control of the situation of inflation is upon the Reserve Bank of India (RBI).

 The Reserve Bank of India (Amendment) Act, 2006 gives discretion to the Reserve Bank to decide the percentage of scheduled banks' demand and time liabilities to be maintained as Cash Reserve Ratio (CRR) without any ceiling or floor. Consequent to the amendment, no interest will be paid on CRR balances so as to enhance the efficacy of the CRR, as payment of interest attenuates its effectiveness as an instrument of monetary policy.

 The Reserve Bank of India (RBI) follows a multiple indicator approach to arrive at its goals of growth, price stability and financial stability, rather than targeting inflation alone. This, of course, leads to criticism from mainstream economists. In its effort to balance many objectives, which often conflict with each other, RBI looks confused, ineffective and in many cases a cause of the problems it seeks to address.

 The RBI has certain weapons which it wields every time and, in all situations, to counter any form of inflationary situation in the economy. These weapons are generally the mechanisms and the policies through which the Central Bank seeks to control the amount of credit flowing in the market.

- **Monetary base**

Monetary policy can be implemented by changing the size of the monetary base. Central banks use open market operations to change the monetary base. The central bank buys or sells reserve assets (usually financial instruments such as bonds) in exchange for money on deposit at the central bank. Those deposits are convertible to currency. Together such currency and deposits constitute the monetary base which is the general liabilities of the central bank in its own monetary unit. Usually, other banks can use base money as a fractional reserve and expand the circulating money supply by a larger amount.

- **Reserve requirements**

Monetary authority exerts regulatory control over banks. Monetary policy can be implemented by changing the proportion of total assets that banks must hold in reserve with the central bank. Banks only maintain a small portion of their assets as cash available for immediate withdrawal; the rest is invested in illiquid assets like mortgages and loans. By changing the proportion of total assets to be held as liquid cash, the Federal Reserve changes the availability of loan able funds. This acts as a change in the money supply. Central banks typically do not change the reserve requirements often because it creates very volatile changes in the money supply due to the lending multiplier.

➢ **Interest rates**

The contraction of the monetary supply can be achieved indirectly by increasing the nominal interest rates. Monetary authorities in different nations have differing levels of control of economy-wide interest rates. In the United States, the Federal Reserve can set the discount rate, as well as achieve the desired Federal funds rate by open market operations. This rate has significant effect on other market interest rates, but there is no perfect relationship. In the United States open market operations are a relatively small part of the total volume in the bond market. One cannot set independent targets for both the monetary base and the interest rate because they are both modified by a single tool — open market operations; one must choose which one to control.

INSTRUMENTS OF MONETARY POLICY

There are several direct and indirect instruments that are used for implementing monetary policy.

- Repo Rate: The interest rate at which the Reserve Bank provides liquidity under the liquidity adjustment facility (LAF) to all LAF participants against the collateral of government and other approved securities.
- Standing Deposit Facility (SDF) Rate: The rate at which the Reserve Bank accepts uncollateralized deposits, on an overnight basis, from all LAF participants. The SDF is also a financial stability tool in addition to its role in liquidity management. The SDF rate is placed at 25 basis points below the policy repo rate. With introduction of SDF in April 2022, the SDF rate replaced the fixed reverse repo rate as the floor of the LAF corridor.
- Marginal Standing Facility (MSF) Rate: The penal rate at which banks can borrow, on an overnight basis, from the Reserve Bank by dipping into their Statutory Liquidity Ratio (SLR) portfolio up to a predefined limit (2 per cent). This provides a safety valve against unanticipated liquidity shocks to the banking system. The MSF rate is placed at 25 basis points above the policy repo rate.
- Liquidity Adjustment Facility (LAF): The LAF refers to the Reserve Bank's operations through which it injects/absorbs liquidity into/from the banking system. It consists of overnight as well as term repo/reverse repos (fixed as well as variable rates), SDF and MSF. Apart from LAF, instruments of liquidity management include outright open market operations (OMOs), forex swaps and market stabilization scheme (MSS).

- LAF Corridor: The LAF corridor has the marginal standing facility (MSF) rate as its upper bound (ceiling) and the standing deposit facility (SDF) rate as the lower bound (floor), with the policy repo rate in the middle of the corridor.

- Main Liquidity Management Tool: A 14-day term repo/reverse repo auction operation at a variable rate and conducted to coincide with the cash reserve ratio (CRR) maintenance cycle is the main liquidity management tool for managing frictional liquidity requirements.

- Fine Tuning Operations: The main liquidity operation is supported by fine-tuning operations, overnight and/or longer tenor, to tide over any unanticipated liquidity changes during the reserve maintenance period. In addition, the Reserve Bank conducts, if needed, longer-term variable rate repo/reverse repo auctions of more than 14 days.

- Reverse Repo Rate: The interest rate at which the Reserve Bank absorbs liquidity from banks against the collateral of eligible government securities under the LAF. Following the introduction of SDF, the fixed rate reverse repo operations will be at the discretion of the RBI for purposes specified from time to time.

- Bank Rate: The rate at which the Reserve Bank is ready to buy or rediscount bills of exchange or other commercial papers. The Bank Rate acts as the penal rate charged on banks for shortfalls in meeting their reserve requirements (cash reserve ratio and statutory liquidity ratio). The Bank Rate is published under Section 49 of the RBI Act, 1934. This rate has been aligned with the MSF rate and, changes automatically as and when the MSF rate changes alongside policy repo rate changes.

- Cash Reserve Ratio (CRR): The average daily balance that a bank is required to maintain with the Reserve Bank as a per cent of its net demand and time liabilities (NDTL) as on the last Friday of the second preceding fortnight that the Reserve Bank may notify from time to time in the Official Gazette.

- Statutory Liquidity Ratio (SLR): Every bank shall maintain in India assets, the value of which shall not be less than such percentage of the total of its demand and time liabilities in India as on the last Friday of the second preceding fortnight, as the Reserve Bank may, by notification in the Official Gazette, specify from time to time and such assets shall be maintained as may be specified in such notification (typically in unencumbered government securities, cash and gold).

- Open Market Operations (OMOs): These include outright purchase/sale of government securities by the Reserve Bank for injection/absorption of durable liquidity in the banking system.

THE MONETARY POLICY PROCESS

- The Reserve Bank has notified Reserve Bank of India Monetary Policy Committee and Monetary Policy Process Regulations, 2016 which came into effect from August 01, 2016. In terms of Regulation 5 of these regulations ibid., the Monetary Policy Process consists of following:

  a) Meeting schedule: The schedule of monetary policy voting/decision meetings for the entire fiscal year is announced in advance

- **b) Meeting notice:** Ordinarily, not less than fifteen days' notice is given to members for meetings of the Committee. Should it be found necessary to convene an emergency meeting, 24 hours' notice is given to every member to enable him/her to attend, with technology enabled arrangements for even shorter notice period for meetings.

  c) Meeting duration: The duration of monetary policy meetings is as decided by the Committee. The policy resolution is publicly released after the conclusion of the MPC meeting keeping in view the functioning and timing of financial markets.

  The Reserve Bank's Monetary Policy Department (MPD) assists the MPC in formulating the monetary policy. The MPC in its meetings reviews the surveys conducted by the Reserve Bank to gauge consumer confidence, households' inflation expectations, corporate sector performance, credit conditions, the outlook for the industrial, services and infrastructure sectors, and the projections of professional forecasters. The MPC also reviews in detail the staff's macroeconomic projections, and alternative scenarios around various risks to the outlook. Drawing on the above and after extensive discussions on the stance of monetary policy, the MPC adopts a resolution.

d) The MPC Resolution: The Bank publishes, after the conclusion of every meeting of the MPC, the resolution adopted by the said Committee. The resolution includes the MPC's decision on the policy repo rate.

e) Minutes of the MPC meeting: On the 14th day after every meeting of the MPC, the minutes of the proceedings of the MPC are published which include: (a) the resolution adopted by the MPC; (b) the voting of each member on the resolution; and (c) short written statements of individual members justifying the vote, consistent with the provisions of Section 45ZL of the RBI Act. Minutes shall be released at 5 pm on the 14th day from the date of the policy day (or next earliest working day, if a holiday in Mumbai).

f) The Monetary Policy Report: Once in every six months, the Reserve Bank publishes the Monetary Policy Report containing the following elements:

a) Explanation of inflation dynamics in the last six months and the near term inflation outlook;

b) Projections of inflation and growth and the balance of risks;

c) An assessment of the state of the economy, covering the real economy, financial markets and stability, fiscal situation, and the external sector, which may entail a bearing on monetary policy decisions;

d) An updated review of the operating procedure of monetary policy; and

e) An assessment of projection performance.

HOW CHANGES IN THE REPO RATE AFFECT INFLATION

The way in which changes in the repo rate affect inflation and the rest of the economy is known as the transmission mechanism.

- The transmission mechanism is actually not one but several different mechanisms that interact.

- Some of these have a more or less direct impact on inflation while others take longer to have an effect.

- It is generally held that a change in the repo rate has its greatest impact on inflation after one to two years.

- The first thing that happens when the Risks bank changes the repo rate is that the so-called overnight rate is affected.

- The overnight rate is the rate at which the banks borrow and lend money to one another during the day.

- The size of the effect that a change in the repo rate has on interest rates with a longer duration depends on how expected the adjustment is.

- The Risks bank aims to make its monetary policy predictable.

- The Risks bank tries to affect expectations of future monetary policy by regularly publishing forecasts for the repo rate. In this way it is easier to avoid changes in the repo rate coming as a surprise.

- Banks' lending rates and interest rates on securities are affected therefore by both the actual and expected repo rate.

- If a raise in the repo rate is fully expected, market rates can begin to rise before the repo rate itself is raised.

- When the repo rate is actually raised, it will not necessarily have any further effect on market rates if it merely confirms market expectations.

RECENT CHANGES IN THE MONETARY POLICY OF RBI

On the basis of an assessment of the current and evolving macroeconomic situation, the Monetary Policy Committee (MPC) at its meeting today (June 8, 2022) decided to:

- Increase the policy repo rate under the liquidity adjustment facility (LAF) by 50 basis points to 4.90 per cent with immediate effect.

  Consequently, the standing deposit facility (SDF) rate stands adjusted to 4.65 per cent and the marginal standing facility (MSF) rate and the Bank Rate to 5.15 per cent.

- The MPC also decided to remain focused on withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth.

  These decisions are in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 per cent within a band of +/- 2 per cent, while supporting growth.

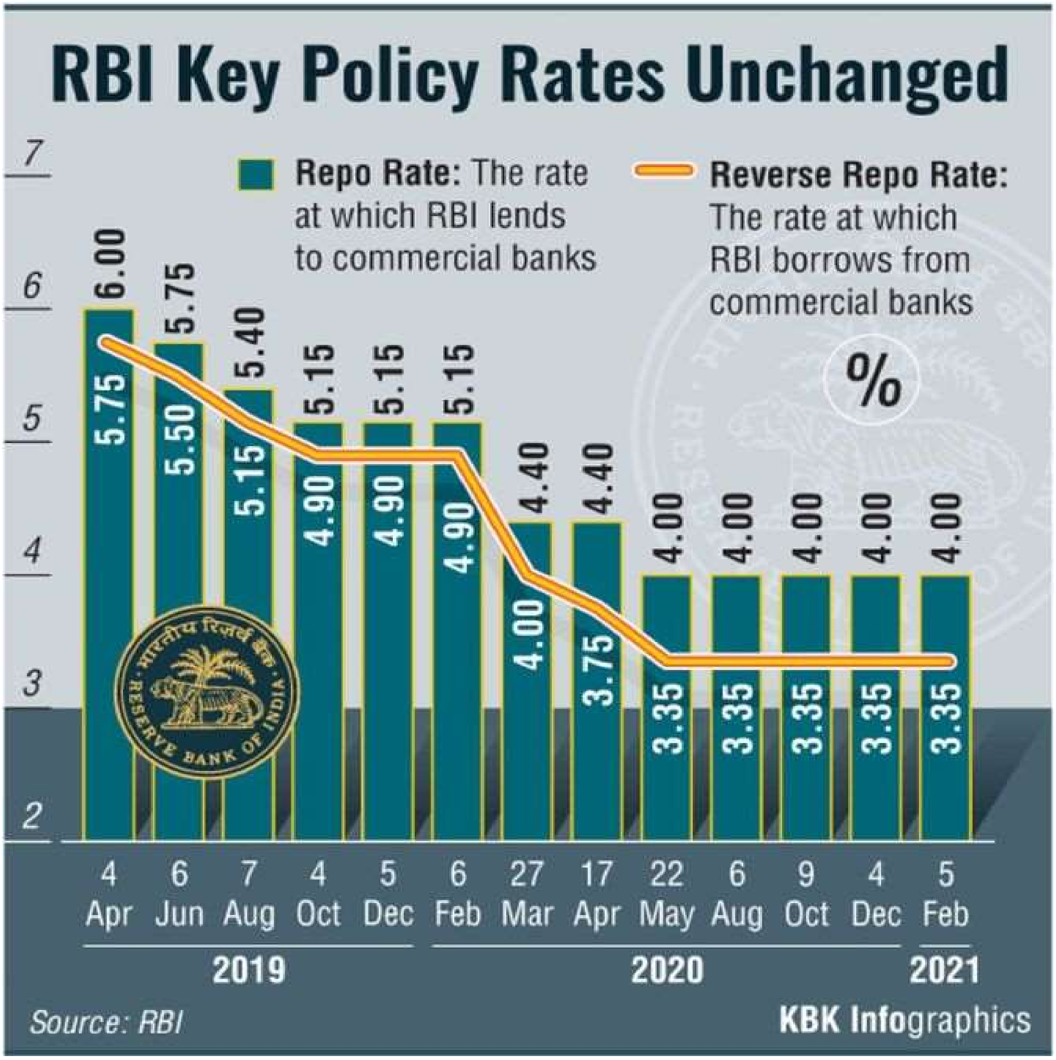
IMPACT ON REAL ESTATE SECTOR

The real estate sector saw signs of revival since the festive season in the second half of 2021. The unsold inventory utilization increased, leading to new project launches across various parts of the country. Consumer sentiment remained upbeat, with demand picking in all segments, from affordable housing to mid-size homes to luxury apartments.

However, developers witnessed margin pressures due to rising commodity prices, construction material, and labor costs. The additional cost was not passed on to the buyers by most developers. Since the sector was just trying to get back on its feet post the pandemic shock, to aid the demand, developers had marginal or no hike in property prices which was the primary reason for margin compression.

For the consumer segment, EMIs will rise after the recent announcement. The industry also anticipates a few more rate hikes in the coming quarters, which will result in higher EMIs, putting pressure on homebuyers. However, this will not dampen demand immediately. Increasing interest rates, on the other hand, will result in higher returns on savings held in fixed deposits, increasing consumers’ purchasing power. Investors have been gripped by the lowest fixed-income rates in recent years, with this being the first-rate increase since August 2018.

Absolute home prices rise over time as housing demand rises because it is a basic necessity rather than a discretionary spend. Buyers would rather buy now than wait and face the double whammy of higher property prices and interest rates later.


RBI Key Policy Rates Unchanged
Repo Rate: The rate at which RBI lends to commercial banks
Reverse Repo Rate: The rate at which RBI borrows from commercial banks
%
7
6
5
4
3
2
6.00
5.75
5.75
5.50
5.40
5.15
5.15
4.90
5.15
4.90
5.15
4.90
4.40
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4.00
3.35
4.00
3.35
4.00
3.35
4.00
3.35
4.00
3.35
4 Apr
6 Jun
7 Aug
4 Oct
5 Dec
6 Feb
27 Mar
17 Apr
22 May
6 Aug
9 Oct
4 Dec
5 Feb
2019
2020
2021
Source: RBI
KBK Infographics

The following are highlights of the Annual Monetary Policy 2021-22:

- **Fake currency:** In 2020-21, counterfeit notes saw a decline but in 2021-22 counterfeit notes witness a 10.7 per cent increase. Rs 500 denomination fake currencies rose by 102 per cent in 2021-22. Also, fake Rs 2,000 notes increased by 55 per cent. According to the annual report of the RBI, the total Fake Indian Currency Notes that were detected in the banking sector were 6.9 per cent at RBI and 93.1 per cent at other banks across the country.
- **Future Growth:** The RBI has stressed that future growth would be conditioned if the supply-side bottlenecks are addressed, and monetary policy is calibrated accordingly to bring down inflation and boost capital spending.
- **Impact of Russia-Ukraine Crisis:** Due to the Russia-Ukraine crisis, the world economy is in the doldrums and it was already battered due to the multiple waves of the pandemic which disrupted logistics and supply chain. The crisis also elevated inflation across the globe as the price of metals, crude oil, and fertilizers skyrocketed.
- **Bank Frauds:** The report highlighted that bank frauds in terms of value more than halved in 2021-22, despite the instances of fraud increasing.
- **Economic Recovery:** The Indian economy can recover from the pandemic in 2021-22, even though it has faced constant interruptions by a second and third wave.
- **Monetary Policy:** The RBI will be following a nuanced approach keeping in mind the inflation and high commodity prices and will be calibrating the monetary accordingly to ensure that there is adequate liquidity to support the needs of the country's productive sectors. The monetary policy remains accommodative to spread the roots of recovery while being vigilant so that the inflation remains within target.
- **Transfer of Surplus:** In 2021-22, the RBI transferred a lower surplus of Rs 30,307.45 crore to the government as compared to Rs 99,122 crore in the previous year.

- **Inflation:** During the year 2021-22, inflation spiked as there were repetitive supply shocks. The Russia-Ukraine crisis caused a spike in commodity prices, thus, increasing global inflation.
- **Indian Economy:** According to the report, the country's economy is relatively in a better place to recover.
- **FinTech:** The RBI has been encouraging innovation but is also factoring in the emerging risks that arise from the FinTech segment. The involvement of Big Techs in the BFSI sector brings along a systemic risk.
- **GDP Estimates:** The monetary policy of the RBI has revised the real GDP GDP growth for 2022-23 to 7.2 percent. This is a 60 basis points decline from the predictions it made pre-war. The GDP has been downgraded mainly due to higher oil prices affecting private consumption and higher imports due to which net exports have reduced.

  To address the above issues, RBI is looking to balance regulation with innovation, without compromising on risk management principles.

RESEARCH METHODOLOGY

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DATA COLLECTION:

PRIMARY DATA

The Main Source of Data IS The Official Website of RBI Where All Updates and Developments Regarding Monetary Policies and Its Amendment Are Published on A Regular Basis. Secondly, Additional Information Can Also Be Collected from **Economic Times.**

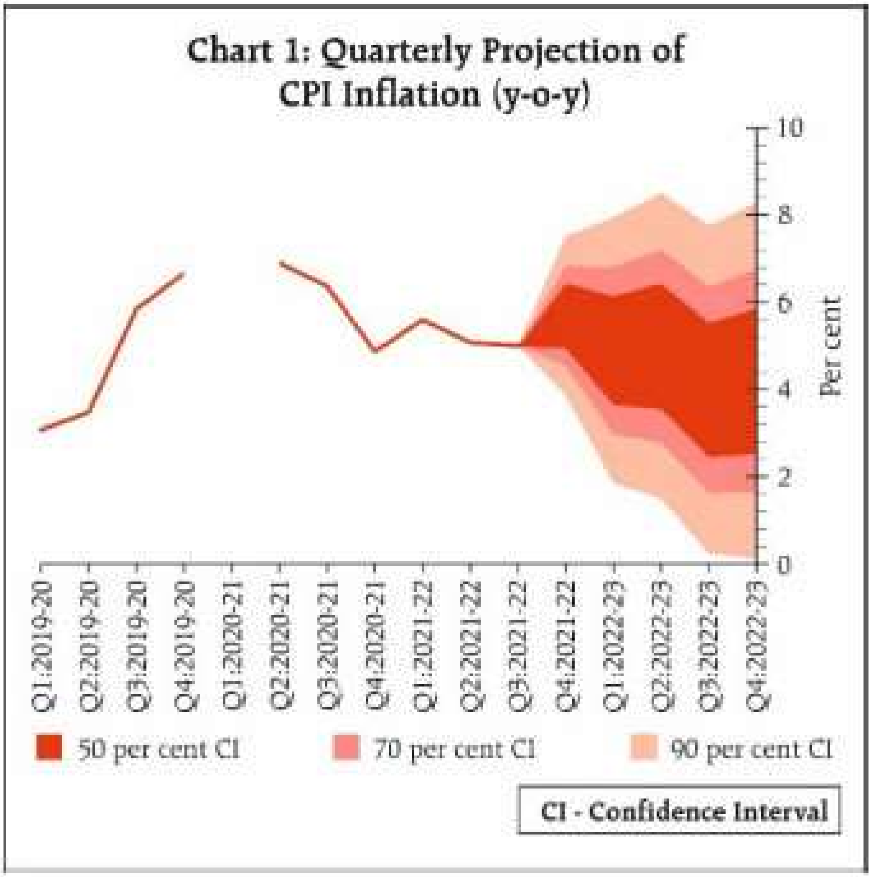
SECONDARY DATA

The Data Will Be Collected from The Websites, Books and All Other Relevant Information or Literary Are Taken as Secondary Source of Data. The Data Thus Collected Will Be Arranged in A Format.

- Reference Books
- Internet

DATA ANALYSIS & INTERPRETATION

DATA ANALYSIS & INTERPRETATION



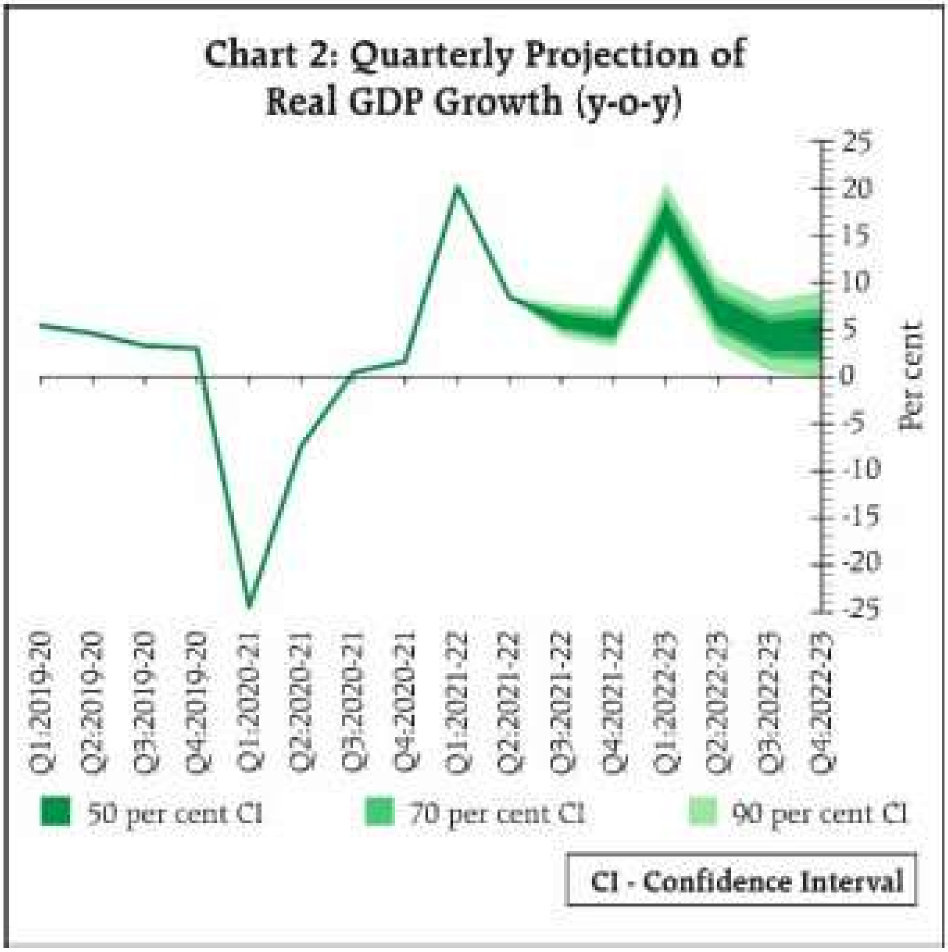


Chart 2: Quarterly Projection of Real GDP Growth (y-o-y)
25
20
15
10
5
0
-5
-10
-15
-20
-25
Per cent
Q1:2019-20
Q2:2019-20
Q3:2019-20
Q4:2019-20
Q1:2020-21
Q2:2020-21
Q3:2020-21
Q4:2020-21
Q1:2021-22
Q2:2021-22
Q3:2021-22
Q4:2021-22
Q1:2022-23
Q2:2022-23
Q3:2022-23
Q4:2022-23
50 per cent CI
70 per cent CI
90 per cent CI
CI - Confidence Interval

SHARE PRICES OF GODREJ PROPERTIES LTD

APRIL2021

BANK RATE	REVERSE REPO RATE	MSF
4.00	3.35	4.25

Date	series	OPEN	HIGH	LOW	PREV. CLOSE	close	52W H	52W L	No of trades
01-Apr-21	EQ	1,380.30	1,406.40	1,361.30	1,406.75	1,391.35	1,572.25	575	37742
08-Apr-21	EQ	1,381.00	1,407.00	1,370.00	1,368.65	1,385.55	1,572.25	575	31921
16-Apr-21	EQ	1,346.00	1,354.85	1,329.00	1,347.75	1,336.90	1,572.25	575	12585
26-Apr-21	EQ	1,316.20	1,375.85	1,316.20	1,312.95	1,366.25	1,572.25	575	37924
29-Apr-21	EQ	1,364.00	1,397.00	1,358.10	1,355.70	1,379.75	1,572.25	575	35251

INTERPRETATION: The above graph shows that RBI Effect is Positive due to some other reason for **GODREJ PROPERTIES LTD.**

JUNE2021

BANK RATE	REVERSE REPO RATE	MSF
4.00	3.35	4.25

Date	series	OPEN	HIGH	LOW	PREV. CLOSE	close	52W H	52W L	No of trades
07-Jun-21	EQ	1,417.00	1,426.00	1,400.70	1,408.95	1,403.80	1,572.25	782.35	19040
15-Jun-21	EQ	1,423.00	1,439.00	1,412.05	1,410.20	1,432.35	1,572.25	796	23041
21-Jun-21	EQ	1,360.00	1,422.00	1,352.00	1,387.10	1,419.60	1,572.25	819.75	24120
25-Jun-21	EQ	1,390.45	1,411.25	1,386.00	1,383.55	1,401.05	1,572.25	819.75	12308
30-Jun-21	EQ	1,410.00	1,414.00	1,387.00	1,406.05	1,397.80	1,572.25	819.75	20337

INTERPRETATION: Above graph shows that RBI effect is negative for GODREJ PROPERTIES LTD.

AUGUST2021

BANK RATE	REVERSE REPO RATE	MSF
4.00	3.35	4.25

Date	series	OPEN	HIGH	LOW	PREV. CLOSE	close	52W H	52W L	No of trades
05-Aug-21	EQ	1,634.00	1,645.30	1,600.00	1,637.35	1,604.70	1,697.85	819.75	24374
11-Aug-21	EQ	1,554.00	1,564.15	1,494.10	1,548.70	1,546.00	1,697.85	819.75	30722
18-Aug-21	EQ	1,530.00	1,530.15	1,496.45	1,522.95	1,507.10	1,697.85	819.75	27179
27-Aug-21	EQ	1,462.00	1,485.00	1,459.35	1,465.25	1,473.70	1,697.85	819.75	28321

INTERPRETATION: Above graph shows that RBI effect is negative for GODREJ PROPERTIES LTD.

OCTOBER2021

BANK RATE	REVERSE REPO RATE	MSF
4.00	3.35	4.25

Date	series	OPEN	HIGH	LOW	PREV. CLOSE	close	52W H	52W L	No of trades
01-Oct-21	EQ	2,312.00	2,340.00	2,205.00	2,311.90	2,233.30	2,410.00	835.55	84561
11-Oct-21	EQ	2,373.50	2,440.00	2,336.40	2,359.50	2,368.95	2,499.80	835.55	86126
19-Oct-21	EQ	2,517.00	2,542.00	2,353.40	2,502.80	2,390.35	2,598.00	870.1	56084
28-Oct-21	EQ	2,389.05	2,389.85	2,255.00	2,383.40	2,270.45	2,598.00	905.55	46932

INTERPRETATION: Above graph shows that RBI effect is negative for GODREJ PROPERTIES LTD

DECEMBER2021

BANK RATE	REVERSE REPO RATE	MSF
4.00	3.35	4.25

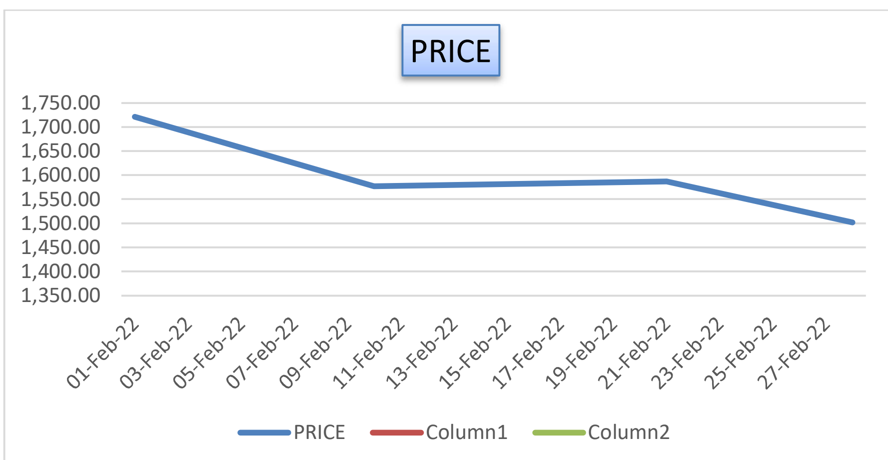
Date	series	OPEN	HIGH	LOW	PREV. CLOSE	close	52W H	52W L	No of trades
06-Dec-21	EQ	2,040.35	2,116.65	1,952.90	2,020.10	1,961.45	2,598.00	1,194.95	109064
14-Dec-21	EQ	2,079.00	2,088.00	2,012.00	2,066.35	2,082.50	2,598.00	1,200.00	39234
22-Dec-21	EQ	1,820.00	1,861.85	1,820.00	1,818.25	1,852.40	2,598.00	1,200.00	32360
30-Dec-21	EQ	1,858.00	1,859.95	1,825.00	1,858.35	1,840.45	2,598.00	1,200.00	17461

INTERPRETATION: Above graph shows that RBI effect is negative for GODREJ PROPERTIES LTD.

FEBRUARY2022

BANK RATE	REVERSE REPO RATE	MSF
4.00	3.35	4.25

Date	series	OPEN	HIGH	LOW	PREV. CLOSE	close	52W H	52W L	No of trades
01-Feb-22	EQ	1,749.85	1,761.00	1,687.30	1,715.15	1,721.50	2,598.00	1,200.00	70498
10-Feb-22	EQ	1,556.65	1,585.00	1,542.00	1,547.15	1,576.70	2,598.00	1,200.00	48511
21-Feb-22	EQ	1,565.00	1,599.45	1,537.35	1,569.00	1,587.20	2,598.00	1,200.00	36431
28-Feb-22	EQ	1,465.00	1,510.70	1,432.00	1,471.45	1,502.15	2,598.00	1,200.00	51489



INTERPRETATION:

Above graph shows that RBI effect is negative for GODREJ PROPERTIES LTD.

FINDINGS

FINDINGS

- Monetary policy actions have sizeable and significant effects on house prices in advanced economies.
- An increase in interest rates tends to lower real (inflation-adjusted) house prices.
- Changes in Policy Rates of RBI, impact on Godrej Properties Ltd.
- A typical estimate is that a 1% loss in GDP is associated with a 4% reduction in house prices.
- This implies a very costly trade-off of using monetary policy to affect house prices when macroeconomic and financial stability goals are in conflict.

CONCLUSION

CONCLUSION

- From the above chart it is prove that continuous increasing interest rate impact negatively on stock of Realty Sector.

  Hence our hypothesis proved.

- The real estate sector saw signs of revival since the festive season in the second half of 2021.

- While changing the monetary policy RBI focused on to reduce Inflation which affects overall industry growth.

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Book

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Website

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