BFSI – IMPACT OF MONETARY POLICY

SECTOR UPDATE

RBI pushes for growth and resilience

The RBI announced measures to make the financial sector more resilient and facilitate higher growth in housing, residential real estate (RE), infra, MSME and large corporate borrowers.

Introduction of ECL for banks will be negative for MFI banks and state banks, but will be neutral-to-mildly negative for large private banks. The RBI is no longer considering a clause to ensure that a parentco and its subsidiary cannot be in the same line of business, which is a relief for KMB, HDB Financial and Bajaj Housing. The RBI will also implement the revised Basel III from April 1, 2027; this will ensure lower risk weights for MSME and residential RE. Large corporates are no longer stipulated to borrow 50% of incremental funds from capital markets.

ECL: Most negative for MFI banks, PSBs and KMB among large banks

The RBI plans to implement ECL for banks (ex-SFBs/payment banks) on new loans from Apr-1’27 and on existing loans over Apr-1’27 to Mar-30’31. ECL will impact MFI banks: AU, RBL, IDFC First, IndusInd. It will also impact state banks on existing loans. Three years ago, SBI had disclosed a shortfall of INR250bn for existing loans, which in our view would have reduced to below INR200bn. Among large banks, KMB will likely be the most impacted and AXIS will see a very mild impact; KMB will likely be the most impacted among large private banks due to its lower buffer.

RBI will ensure that lower risk weights are passed on

The RBI plans to implement the revised BASEL III framework effective Apr-1’27. This would lead to lower risk weights on residential real estate (including housing) and MSME. The RBI will likely ensure that the lower risk weights are passed on in the form of softer rates through strict monitoring to accelerate growth, in our view.

Relief on subsidiaries: Positive for KMB, HDFC Bank/HDB, CanFin, BAF

Against its earlier intention of not allowing subsidiaries to engage in the same business as its parent bank, the RBI has now decided to drop this clause, which a relief for Kotak, HDFC Bank-HDB Financial, Canfin Homes, PNB Housing and BAF.

Large corporates no longer need to borrow 50% from capital markets

In Apr-17, the RBI introduced the large corporate framework to ensure lower corporate concentration for banks. Effective Apr-19, large corporates have to mandatorily raise 50% of the incremental funding from capital markets. With very low corporate growth, this circular is withdrawn, which is positive for corporate banks. Banks are also now allowed to fund M&A, an added boost for corporate growth.

Deposit insurance based on credit risk premium of bank

From a fixed rate, deposit insurance premium will now be linked to the credit rating/risk profile of the bank, which is positive for large banks: SBI, ICICI, HDFC Bank.

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1. **Strengthening banking sector**

- Expected Credit Loss (ECL) Framework:
  - Applicable to all Scheduled Commercial Banks (excluding SFBs, PBs, RRBs) and AIFIs from April 1, 2027.
  - Glide path till March 2031 for smooth transition.
- Revised Basel III Capital Adequacy Norms: Effective April 1, 2027.
  - Lower risk weights for MSMEs and residential real estate/home loans.
- Risk-based Deposit Insurance Premium: Will replace flat rate (better-rated banks to pay less).
- Removal of restrictions on business overlap between banks and group entities (left to board discretion).

2. **Improving credit flow**

- Corporate acquisitions: Banks allowed to finance Indian corporates’ acquisitions.
- Lending limits raised:
  - Against shares: from INR2mn → INR10mn
  - IPO financing: from INR1mn → INR2.5mn per person
- 2016 Framework withdrawn: That disincentivised lending to very large borrowers (INR100bn-plus).
  - Now, systemic concentration risks will be addressed via macro prudential tools.
- NBFC Infra lending: Lower risk weights for NBFC lending to high-quality infra projects.
- Urban Co-op Banks (UCBs): Discussion paper to be issued for licensing new UCBs (first time since 2004).

3. **Ease of Doing Business (EoDB)**

- Regulatory simplification: ~9,000 circulars consolidated across 11 entity types; drafts for consultation soon.
- Transaction accounts: Greater flexibility for banks in opening/maintaining borrower accounts; restrictions on collection accounts to be withdrawn.
- Export sector measures:
  - Exporters in IFSC can retain foreign currency proceeds for three months (versus one month earlier).
  - Merchanting trade forex outlay period extended to six months (from four).
  - Simplified reconciliation for export/import entries in reporting portals (EDPMS/IDPMS).

4. Foreign exchange management

- Rationalisation of ECB regulations (eligible borrowers, lenders, limits, end-use, reporting).
- Simplification of FEMA rules for non-resident business presence in India.

5. Consumer protection

- Basic Savings Bank Deposit Accounts (BSBDA): Expanded free services, including digital/mobile/internet banking.
- Internal Ombudsman Mechanism: Strengthened to improve grievance redressal.
- RBI Ombudsman Scheme: Revised and extended to cover rural co-operative banks.

Exhibit 1: Breakdown of sectoral credit

Particulars	23-Aug-24	18-Apr-25	22-Aug-25	YoY	YTD
Housing (Including Priority Sector Housing)	28,332	30,089	31,088	9.7%	3.3%
Education	1,261	1,375	1,445	14.6%	5.2%
Loans against gold jewellery	1,404	2,230	3,058	117.8%	37.1%
Vehicle Loans	6,108	6,297	6,478	6.1%	2.9%
Total Retail	**55,555**	**59,809**	**62,134**	**11.8%**	**3.9%**
NBFC	15,222	16,106	15,744	3.4%	-2.2%
Transport operators	2,435	2,601	2,669	9.6%	2.6%
Agriculture & Allied Activities	**21,606**	**23,096**	**23,247**	**7.6%**	**0.7%**
Micro & Small	7,437	7,987	8,988	20.9%	12.5%
Large + Mid corporates	30,125	30,968	31,033	3.0%	0.2%
Total credit	**1,69,452**	**1,81,868**	**1,86,450**	**10.0%**	**2.5%**

Source: Company, Nuvama Research

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