

Advantage banks

The MPC has eased norms for credit disbursal

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In line with our expectations, the Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) kept the policy rates unchanged while retaining the policy stance at “neutral”. While the decision on rate action was unanimous, two MPC members voted in favour of a change in stance to “accommodative”, one of the reasons that this policy is being perceived as a dovish pause.

The sharp fall in food inflation along with the awaited cooling to be wrought by the GST rationalisation led to a downward revision in the inflation estimates to 2.6 per cent from 3.1 per cent for FY26 and 4.5 per cent from 4.9 per cent for Q1FY27. While the GDP growth forecast for FY26 has been revised upwards to 6.8 per cent from 6.5 per cent earlier, the growth forecast has been pared for H2FY2026 and Q1FY2027. Given the benign tone of the policy document, another 25 bps rate cut either in December 2025 or the February 2026 meeting can’t be ruled out.

The bigger action of the policy announcements, however, lay outside the rate action. The RBI has announced measures to improve credit growth for banks and provide more flexibility in their operations. Additionally, to strengthen the resilience, the RBI announced the expected credit loss (ECL) based provisioning for banks to be implemented from April 1, 2027.

Among the series of measures announced to provide more flexibility to lenders, the two key ones that stand out were (a) framework for banks to finance the acquisition by Indian corporates and (b) the withdrawal of circular requiring banks to fund larger corporates through the market mechanism.

The expanded lending scope allowing banks to finance corporate acquisitions marks a step in deepening their role in capital market activities. Indian banks can now fund the large Merger and acquisition deals, which were earlier done by foreign banks. Additionally, the relaxation of lending norms against securities will further empower banks in supporting growth.

As per the August 2016 circular of the RBI, banks had to make higher provisions and allocate more capital on incremental loans to large borrowers, which had fund-based exposure exceeding ₹10,000 crore, if such incremental exposure was not partially funded



MPC. For credit boost/ISTOCKPHOTO

through debentures. The withdrawal of this circular shall release the provisions and capital requirements for the banks. It could increase the credit flow towards lower rated large borrowers.

Lastly, more flexibility to banks to carry out businesses through subsidiaries as decided by their boards, provides greater autonomy in decision making to the banks. Certain product segments like used cars, affordable home loans, and gold loans may also require different skillset of employees and branch network.

While providing flexibility to unleash growth, the two key measures announced for the strengthening of the banking sector were (a) implementation of expected credit loss (ECL) based provisioning and (b) risk-based pricing for deposit insurance premium.

The RBI had floated a discussion paper for ECL provisions in January 2023 and ICRA had projected a 300–400 basis point reduction in core capital ratio of banks upon implementation of Ind-AS, primarily owing to ECL effect, assuming implementation from April 1, 2025. However, the current proposal to implement the norms from April 1, 2027 will moderate the impact. The ECL norms are likely to improve bank resilience, as ECL will entail higher provisions on expected losses in future than current incurred loss-based approach.

Similarly, risk-based deposit insurance premium will alter the competitive dynamics between weaker and stronger banks as higher growth by weaker banks would entail greater costs.

While the above measures are positive for the long-term, ICRA has retained the banking sector credit growth at 10.4–11.3 per cent for FY2026, as the positive impact of the above measure will unfold over a period of time.

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