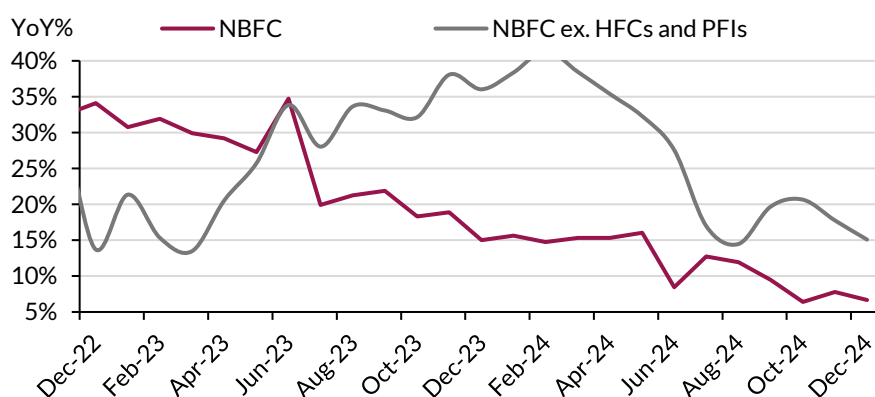


Another signal from the RBI to boost credit growth

RBI's announcement that starting Apr-2025, the Nov-2023 hike in risk weights for loans to NBFCs and MFIs would be completely reversed, is yet another signal that it would like to see stronger credit growth. It has also relaxed some norms for Urban Cooperative Banks on their exposure to mortgages. The sharp decline in system loan growth, though, was broad-based, and not only in segments where risk weights were hiked. In large measure this was driven by a high cost of liquidity, and the regulator's discomfort with high LDRs at some fast-growing banks. While these signals should help revive lending, we believe the binding constraint remains durable liquidity.

February 26, 2025

Credit growth, GDP growth

Exhibit 1 - Weaker loan growth was due to macroprudential tightening


Source: RBI, Axis Bank Research

RBI rolls back higher risk weights on NBFCs/MFI loans

The RBI announced a significant reversal in risk weights for bank loans to NBFCs ([link](#)) and MFIs ([link](#)) effective from 01-Apr-2025: the risk weights are to be lowered from 125% to 75-100%, fully reversing the increase in Nov-2023. This move is expected to boost lending as lower risk weights allow banks to extend more loans with the same capital base. The RBI has also eased some norms for Urban Cooperative Banks (UCBs: these account for ~4% of total commercial bank assets). [Research](#) shows that *the increase in lending that follows a monetary policy easing is larger if the macroprudential environment is accommodative*.

Slowdown in lending growth was driven by LDR caps, tight liquidity, risk weights

Non-food credit growth adjusted for the HDFC-HDFC Bank merger fell from 16.3% in Mar'24 to 12.7% in Dec-2024 (Fig 4) and to 12.4% in the fortnight ended 7 Feb. This sharp slowdown was broad-based (Fig 2, 7), and not only in segments where risk weights were raised. In our view, this was at least initially primarily supply driven, triggered by the regulator's concerns on high loan-deposit ratios (LDR) at some banks and weak base money injection. Over time, the resultant slowdown in the economy likely hurt too as visible in the slowdown in areas like retail trade and vehicle loans (Fig 6-7: 6.5% of total credit).

Strong signals from RBI should encourage banks to plan for faster growth

This step follows several other strong signals from the RBI that it intends to boost credit supply and is likely to encourage banks to focus on growth again. While the reduction in risk weights should help boost lending, we believe [liquidity is currently a binding constraint](#). Our FY26 GDP growth estimate of 7% was conditional on macro-prudential and monetary easing, which has now started. Some stronger steps on improvement in durable liquidity and possibly further relaxation of risk weights on mortgages could accelerate the process. While signs of stabilization are now visible, in our view a meaningful acceleration in credit growth and thence economic momentum is several months away.

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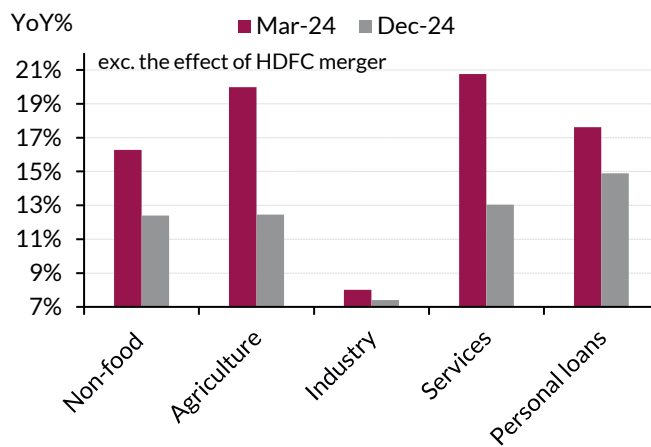
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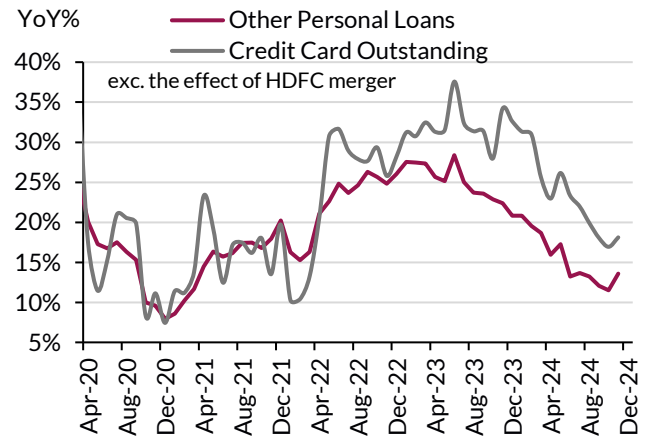
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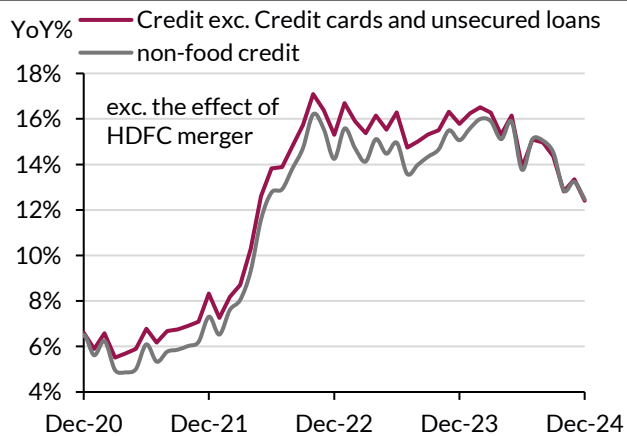
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Exhibit 2 - Credit growth slowdown has been broad-based


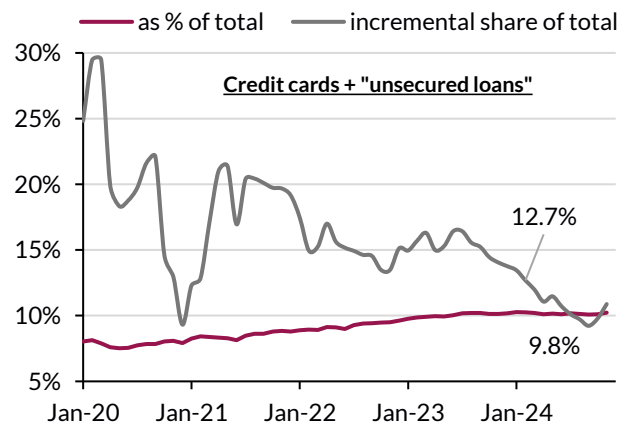
Source: RBI, Axis Bank Research

Exhibit 3 - Intended slowdown was in "Unsecured" lending


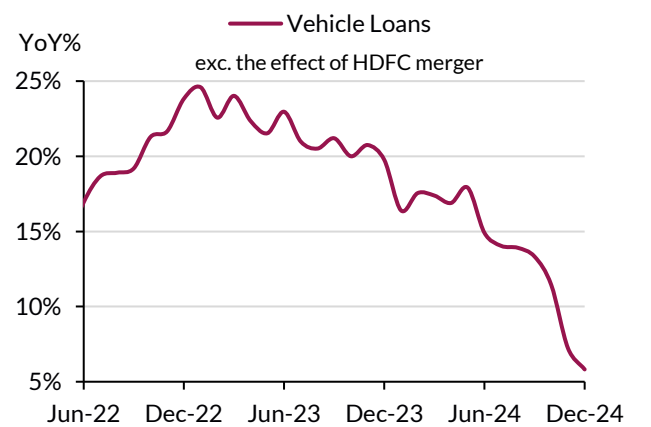
Source: RBI, Axis Bank Research

Exhibit 4 - But credit ex. "unsecured" loans fell too


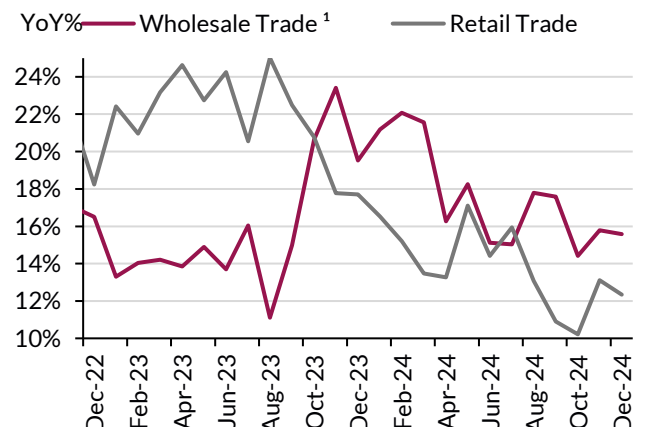
Source: RBI, Axis Bank Research

Exhibit 5 - Visible in stable share of unsecured loans ...


Source: RBI, Axis Bank Research

Exhibit 6 - Strong slowdown in vehicle loans...


Source: RBI, Axis Bank Research

Exhibit 7 - ...as well as in loans to retail trade


Source: RBI, Axis Bank Research

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