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ADDRESSING MARKET MICROSTRUCTURE MUST BE A FOCUS NOW:POLICY UNVEILS A BOUQUET OF DEVELOPMENTAL MEASURES

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MPC has unanimously decided to keep repo rate unchanged at 5.25%. The MPC also continued with the neutral stance. Taking into account of factors like GST rationalisation, healthy rabi prospects, benign inflation environment **the GDP growth outlook has been revised to 6.9% in Q1 FY27 and 7% in Q2 FY27. CPI inflation for FY26 is projected at 2.1% with Q4 CPI at 3.2%**. The slight upward revision in FY26 projection is due to increase in prices of precious metals.

Post policy, however, bond yields climbed up by close to 10 basis points, the largest increase since June policy. The bond markets were expecting some sort of largesse like postponement and/or dilution of LCR norms. The large supply of gross borrowings in FY27 is also acting as constraining factor for softening of yields. The LCR of many banks has now dipped below 120 and is facing increasing pressures with a widening gap between deposits and credit. **The dip in LCR is also because of preferences of select banks for wholesale deposit mobilization that has a higher run off factor compared to retail deposits. Against all these developments, we believe that addressing market microstructure is now more important than liquidity management which the RBI again emphasized will continue to be proactive. We believe (a) not conducting VRRR under any circumstances now even though call rates have moved down below policy rate (b) doing more of 90 day VRR that will help banks in LCR computation (c) carefully looking at yield cutoffs at auctions as it gives proper signals to markets and ensuring that the yields are in control (d) RBI does not immediately recoup forex dollars as it might signal a depreciating bias for currency.**

The Governor post policy communication painstakingly emphasized that the net borrowings of RBI has barely moved up in FY27 and it is the metric that the bond markets should look into. Net borrowing of the Centre was Rs 1.4 lakh crore in FY07 and remained almost stable in FY08 at Rs 1.5 lakh crore. It jumped 50% in FY09 to Rs 2.2 lakh crore. Since then it has progressively increased to reach Rs 4.7 lakh crore in FY13. However, it declined thereafter to reach Rs 3.5 lakh crore in FY17. In FY21 owing to pandemic it increased to Rs 11.4 lakh crore and has hardly moved to Rs 11.7 lakh crore in FY27. From that perspective borrowing numbers do not look large. **Market has been expecting some reforms in the SDL market which will possibly happen as stated in the 16th Finance Commission report. Also, the RBI has emphasized that buyback once announced will pull down gross borrowings.**

The rupee also moved up significantly post policy. This was again unexpected. It may be again a better option for RBI to recoup dollars when the rupee has appreciated below 90.

Development and regulatory policies have focused on reforming the current practice on cross selling, methods of loan recovery using agents and framework for compensation in case of small value fraudulent transactions. A Discussion Paper to curb frauds in digital payment will be exploring the introduction of calibrated safeguards in digital payments such as introduction of lagged credits. The number of banking frauds has increased from 13,494 in FY23 to 23,879 in FY25.

RBI has permitted lending to REITs in line with InvITs. Banks can lend to the projects on operational phase through REITs or can take equity. This provision is positive development and furthers Budget announcement for monetizing CPSE assets through REIT structure and flow of fund to the sector.

On NBFCs, RBI has liberalized branch expansion for gold NBFCs. NBFC gold loan AUM is expected to expand by 30-35% in FY26, upheld by the strength witnessed in gold prices. Given that the price of the primary collateral, gold is rising, the current decision to expand the branch network of gold NBFCs is positive. However, it intensifies competition with banks' gold loan portfolios. Furthermore, regulatory treatment of NBFCs not availing public funds and not having any customer interface was pending under the Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs, 2021, the preset announcement exempts these NBFCs from registration requirement, giving necessary clarity.

On the bond market side, introduction of derivatives on credit indices and total return swaps on corporate bonds will provide another route for money to flow into corporate bonds. Investments under the VRR shall now be reckoned under the limit for FPI investments under the General Route, thereby enhancing the liquidity in bond segment.

On the financial inclusion side, Lead Bank Scheme, KCC and Business Correspondents are under lens. Revisions in lead bank scheme will aim at streamlining the operational aspects and launching a unified portal for reporting of Bank-wise LBS data which is currently fragmented across various portals. KCC scheme will be reviewed to expand coverage, streamline operational aspects and extension of KCC tenure to six years. Similarly, BC model will be revised in line with a committee's recommendations. In a major announcement, the RBI has decided to enhance the limit of collateral free loans to MSEs from ₹10 lakh to ₹20 lakh.

In all FY26 has ended on cautious note. The rate pause was dictated by multiple factors besides the macroeconomic. The change of guard in Federal Reserve and impact of geopolitical risk on price formation is still panning out. With new CPI series, the trajectory of inflation needs to be monitored before taking a call in FY27.

MPC KEPT REPO RATE UNCHANGED AT 5.25%

- MPC unanimously decided to keep repo rate unchanged at 5.25%. The MPC also continued with the neutral stance. However, one external member has a view that the stance be changed from neutral to accommodative.
- Taking into account of factors like sustained buoyancy in services sector, GST rationalisation, healthy rabi prospects, benign inflation environment, high capacity utilisation, conducive financial conditions, healthy balance sheets, fresh investments, RBI has revised upwards its Q1 and Q2 real GDP growth projections.
- Regarding inflation, while food supply prospects remain bright on the back of healthy kharif production risks emanate from volatility in energy prices and hence CPI inflation for FY26 is projected at 2.1% with Q4 CPI at 3.2%. The slight upward revision in FY26 projection is due to increase in prices of precious metals. However, release of new series may slightly change the inflation projections and may alter future course of monetary policy.

LIQUIDITY MANAGEMENT

- RBI will remain proactive in liquidity management and ensure sufficient liquidity in the banking system to meet the productive requirements of the economy and to facilitate monetary policy transmission.
- The RBI Governor in the post policy press conference emphasized that the RBI would address liquidity concerns preemptively.

DEVELOPMENTAL AND REGULATORY POLICIES

- **Advertising, Marketing and Sales of Financial Products and Services by Regulated Entities:** The RBI Governor had highlighted the rising instances of **customer** grievances as evident from the complaints filed in RBI banking ombudsman. In line with that announcement the issue of misselling has been addressed in this announcement and RBI will issue comprehensive instructions to REs on advertising, marketing and sales of financial products and services.
- **Conduct of Regulated Entities in Recovery of Loans and Engagement of Recovery Agents:** Currently the guidelines on loan recovery are different for banks and NBFCs. It has now been decided to review and harmonize all the extant conduct related instructions on engagement of recovery agents for better monitoring and control and uniform practices in respect of loan recovery.

RBI Growth & Inflation Outlook for India

CPI Inflation (%)	Q3 FY26	Q4 FY26	FY26	Q1 FY27	Q2 FY27
Feb'26*	0.8	3.2	**2.1**	4.0	4.2
Dec'25	0.6	2.9	**2.0**	3.9	4.0
Oct'25	1.8	4	**2.6**	4.5	-
Aug '25	3.1	4.4	**3.1**	4.9	-
Real GDP Growth (%)	**Q3 FY26**	**Q4 FY26**	**FY26**	**Q1 FY27**	**Q2 FY27**
Feb'26*	7 -7.2	6.8-7.0	**7.4**	6.9	7
Dec'25	7.0	6.5	**7.3**	6.7	6.8
Oct'25	6.4	6.2	**6.8**	6.4	-
Aug'25	6.6	6.3	**6.5**	6.6	-

Source: RBI, SBI Research, for Q3 FY26 is actual, GDP for Q3 and Q4 FY26 is estimated from Fan chart, FY26 is NSO Estimate

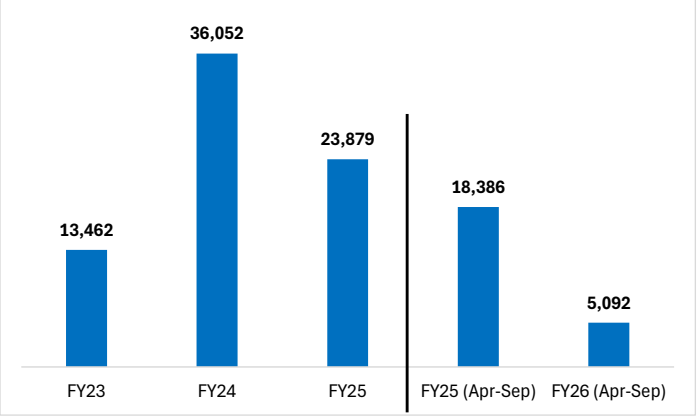
Net Injection in FY26 Till date

Indicators	Rs lakh crore
Forex Sale (till Nov'25)	-3.8
CRR cut	2.5
Buy sell swap	2.3
OMO	6.6
CIC Increment	-2.6
VRR	1.6
Total	**6.6**

- **Review of framework of Limiting Customer Liability in digital transactions:** The number of banking frauds has increased from 13,494 in FY23 to 23,879 in FY25. Against this backdrop the RBI's initiatives to protect customers through various measures (like introduction of lagged credits, additional authentication for specific class of users like senior citizens) including the monetary compensation of Rs 25,000 for small-value fraudulent transactions is laudable.
- Digital frauds particularly using UPI has accelerated. UPI, India's most preferred digital payment mode, has been targeted by fraudsters using compromised mobile numbers, fraudulent QR codes designed to steal money or credentials. Thus, the cyber risk of digital payment has evolved requiring revision in framework for compensation in case of small value fraudulent transactions and other related issues.

- **Bank Lending to Real Estate Investment Trusts:** Currently RBI has permitted bank lending to InvITs. Under the extant guidelines bank can fund operational projects of InvITs. Similarly, the current REIT guidelines of SEBI allow investment of 20% of funds to real estate under operational phase. Total fund mobilized by listed entities in Apr-Dec 2025 is Rs 9300 crore. Banks can lend to the projects on operational phase through REITs or can take equity. This provision is positive development and furthers Budget announcement for monetising CPSE assets through REIT structure and flow of fund to the sector.
- **Review of Lending norms for UCBs:** UCBs cater to capital-intensive needs in agriculture, including land development, farm mechanisation, minor irrigation, rural industries and housing. Given this last mile connectivity, the extant regulatory norms applicable for unsecured loans by UCBs; limits for lending to nominal members; and the tenor and moratorium requirements for housing loans by UCBs will be reviewed to better flow of credit to these sectors. The measure is largely positive for the sector.
- **Exemption from registration to eligible NBFCs not availing public funds and not having customer interface (including 'Type I NBFCs'):** Under the Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs, 2021, the NBFC-BL consists of four NBFC types among which NBFCs not availing public funds and not having any customer interface is one of the types.
- In that guidelines RBI stated that it will come out with separate regulations for such NBFCs in due course. The present announcement fills this gap and exemption from registration requirement clarified this special treatment of this segment.
- **Amendment of NBFC Branch Authorisation Directions-2025:** NBFC gold loan AUM is expected to expand by 30-35% in FY26 upheld by the strength witnessed in gold prices. Given that price of the primary collateral, gold is rising, the current decision to expand the branch network of gold NBFCs is positive. However, it intensifies competition with banks gold loan portfolios.
- **Development of corporate bond market :** Introduction of derivatives on credit indices and total return swaps on corporate bonds will provide another route for money to flow into corporate bonds.
- Corporates yields may not increase much when funds come in through derivatives. With time this can help entities to use a mix of products to hedge their exposures. Some of the operational issues regarding exposure of FPIs, identifying the valuation for illiquid corporate bonds etc. will have to be addressed. Overall, the move is positive for the corporate bond market but much depends on the final guidelines issued for the same.
- **Revised regulatory guidelines for Authorised Dealers (ADs) and Standalone PDs (SPDs):** The revised framework will provide entities greater flexibility with respect to foreign exchange products, risk management and platforms. The draft guidelines will provide more clarity.
- **Review of the Voluntary Retention Route for FPI investment in debt instruments:** Currently, VRR route is available to FPI with certain restrictions, like retention of investments for atleast 3 years, also there are limits of investment amount of ₹40,000 crores for government securities and ₹35,000 crores for corporate debt within overall limit of Rs 2.5 lakh crore, with a mandatory 75% retention of their committed portfolio size. Now they are being provided route with relaxations, with overall limit of Rs 2.5 crore under VRR route being removed but category wise limits retained. In FY26 total investment limits allotted under VRR is Rs 2.04 lakh crore (around 82% of the limit of Rs 2.5 lakh crore).

Number of Banking Frauds



Source: RBI; SBI Research

- RBI is now proposing to consider the VRR investments under the General limit for FPI investments, where the limit is only 17.68% utilised, with the limit for Long Term investors under the general route only 1.84% utilised. This is positive and should bring in more long term FPI investments in G-Secs overtime.
- **Revision in Lead Bank Scheme:** The RBI is revamping the Lead Bank Scheme (LBS) to improve financial inclusion, with a focus on better data management and clearly defined objectives. Key changes include the (i) launch of a unified reporting portal, (ii) streamlined operational processes. The lead bank acts as a leader for coordinating the efforts of all credit institutions in the allotted districts to increase the flow of credit to agriculture, MSE and other economic activities with the district being the basic unit in terms of geographical area. The unified reporting portal will enhance data quality and ensure policy implementation.
- **Review of guidelines relating to use of Business Correspondents (BCs) by banks:** RBI has progressively reviewed and relaxed guidelines regarding the use of BCs by banks to enhance financial inclusion to allow a wider range of entities and enhanced digital capabilities. The draft guidelines are expected to enhance financial inclusion.
- **Enhancement in Collateral free loan limit from ₹10 lakh to ₹20 lakh:** RBI has revised to the limit of collateral free loans to MSEs from ₹10 lakh to ₹20 lakh, which will be applicable to all loans to MSE borrowers sanctioned or renewed on or after April 01, 2026. In the budget, Government has taken many steps for the MSME sector. This limit enhance will ensure higher credit to the sector.
- **Revision in the Guidelines of KCC:** RBI has comprehensively reviewed the KCC scheme and proposed guidelines which will help the 7.7 crore KCC holders.
- **Standardisation of crop season:** In order to facilitate the operation of KCC as a digital product, the crop season is being standardized for short duration crops (crops with crop season upto one year) at 360 days and long duration crops (crops with crop season longer than one year) at 540 days. As multiple crop seasons are prescribed across the states for different crops, it makes operationally difficult for banks to digitalize the product across the country through their Core Banking Solution (CBS) platform. This will help banks to digitalise their product.
- **Extension of KCC loan tenure to six years:** KCC loan tenure is being extended from existing 5 years to 6 years. This move will be applicable in full crop cycles for both nature of crops as under: (i) 4 crop cycles each of 18 months for long duration crops (i.e. 18*4= 72 months) and (ii) 6 crop cycles each of 12 months for short duration crops (i.e. 12*6= 72 months).
- **Inclusion of expenses related to technological interventions:** The expense for technological interventions is being included under the existing 20% component provided for repairs and maintenance expenses of farm assets. However, making it part of existing 20% towards repairs and maintenance, will not make any impact in KCC assessment to farmers.

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