

## Industry Flash

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# India Banks

## Credit Policy – A Surprise; the RBI Eases Off

- **Surprises; rates untouched, mood more upbeat** — The credit policy is decidedly more upbeat than RBI's cautionary talk and actions this year. Rates are left untouched against market expectations of an increase; more talk of managing growth with price stability rather than an inflation focus only; and upping of loan growth and money supply targets. Our economist sees the potential for one rate hike during the year, but RBI's approach appears markedly more bank supportive: growth, returns and valuations.
- **Growth bias appears back; targets are upped, and risk weightages reduced** — The RBI has raised its loan growth targets from 20% to 24-25%, lowered risk weightages for sub Rs2m mortgages from 75% to 50%, and has not introduced any lending restrictive measures (a market expectation). This suggests the RBI is now more comfortable with structurally higher growth levels. Also suggests, unexpectedly, a potential peaking in regulatory tightening. The RBI is however likely to maintain a close watch – and has given itself the flexibility to intervene if the need arises.
- **Opening the markets; fees and other markets** — The RBI has moved fairly decisively in this policy to further open up the banking market; in currency markets, interest rate futures and credit derivatives. These hold the potential for developing relatively large markets and fee opportunities, particularly for the more aggressive private banks.
- **Maintain Overweight** — The RBI appears to have eased its hitherto cautious approach to strong economic and banking sector growth, along with high inflation. We believe this should lower concerns of further tightening and rate measures, and should be supportive of banking sector growth, returns and valuation outlook. Our strategist maintains an overweight stance on the sector in the India Model Portfolio.

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