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Monetary Policy and the Standard-Asset Securitisation Market in India: Framing an Empirical Research Agenda

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Abstract

Over the past quarter-century, India's standard-asset securitisation market has grown from an experimental niche, occupied by a handful of NBFC originators and a thin investor base, to a market that crossed two lakh crore rupees in annual issuance in FY2025 and is on track to do so again in FY2026. Despite this scale, the relationship between the market and the operating stance of the Reserve Bank of India remains, oddly, one of the least-studied corners of the Indian financial system. This paper sets out the puzzle — record volumes during the sharpest tightening cycle in a decade — surveys the relevant theoretical and empirical literature, and proposes a framework for empirical work that takes seriously the institutional features that make the Indian market distinctive: the dominance of non-bank originators, the priority-sector lending anchor on the demand side, and the continued use of quantitative monetary policy instruments. We argue that the conventional bank-lending-channel framing, useful as a starting point, requires substantial modification before it can speak usefully to the Indian case. Four testable propositions and five outstanding gaps are set out as the basis for a research programme.

Keywords: Securitisation; monetary policy transmission; Reserve Bank of India; non-banking financial companies; priority sector lending; pass-through certificates; direct assignment.

Disclaimer

The views expressed in the paper are strictly personal and not the views of the Reserve Bank of India. Further, the results and findings in the paper have been formed on the basis of data available in the public domain.

1. Introduction

A simple observation makes the puzzle concrete. Between April 2022 and February 2023, the Reserve Bank of India lifted the policy repo rate by 250 basis points — the sharpest tightening cycle India had seen in nearly a decade. Over the same window, and through the year that followed, retail securitisation issuance accelerated rather than slowing. CareEdge places FY2025 volumes at about ₹2.68 lakh crore; the corresponding figure for FY2026 is on track to cross ₹ 2.50 lakh crore (CareEdge , 2026).

That is, on the standard textbook account of monetary transmission, the wrong direction. The bank-lending-channel framework — pieced together by Ben S. Bernanke and Alan S. Blinder (Blinder, 1998),

refined by Kashyap and Stein (Stein, 1994), and applied to securitisation by Loutskina and Strahan (Elena, 2009) and Altunbas, Gambacorta and Marques-Ibanez (2009) (Yener Altunbas a, 2009)— predicts that when policy tightens, the financial system contracts; that loan supply falls; and that originate-to-distribute activity, being a vehicle for funding bank balance sheets, should slow accordingly. The Indian numbers do not fit that picture.

Now, one paragraph of stylised data is not a refutation of any theory. There are obvious candidate explanations for what we are looking at: NBFC funding stress in a tightening cycle, regulatory cycles that overlap with the rate cycle, base effects from the COVID-era contraction, the post-IL&FS rebuilding of investor confidence in pass-through certificates. Several of these are likely to be at work simultaneously. But the point of this paper is not to settle the question. It is to argue that the question has been insufficiently asked.

The relevant literature divides into two streams that, oddly, have rarely been brought together. The first is the international literature on monetary policy and securitisation, which is by now substantial and largely converges on what we might call the attenuation finding: when banks securitise, the bank lending channel of monetary policy weakens [(Loutskina, 2011); (Estrella, 2002)]. The second is the Indian literature on monetary policy transmission, which has identified the bank lending channel as the dominant route within India but has had little to say about the securitisation market specifically [(Mishra, Montiel and Sengupta (Mishra, 2016), Sonali Das (Das, 2016); (Mohanty, 2012)]. The intersection of the two — the interaction of Indian monetary policy with the Indian securitisation market — is occupied almost entirely by industry commentary from ICRA, CRISIL and CARE Ratings, and by passing references in RBI publications. Michael D Patra, then a Deputy Governor of the RBI, has called for systematic work on non-bank channels of transmission; that call, to a large extent, remains unanswered fully (Patra, 2022).

Section 2 lays out what the Indian market actually looks like — particularly the features that make it distinctive — and what the available data permit us to know about its evolution. Section 3 surveys the relevant theory and the international empirical record, and explains why the standard predictions cannot be transposed to the Indian case without modification. Section 4 walks through three regulatory regimes — 2006, 2012, 2021 — and the corresponding shifts in the relationship between policy and market activity. Section 5 sketches a framework: four propositions and a corresponding empirical strategy for the work that needs to be done. Section 6 closes with what we still do not know, and why each of those gaps matters.

2. The market in numbers

Total annual issuance — pass-through certificates plus direct assignments, the two principal routes recognised by the RBI's 2021 Master Directions (RBI, 2021) and (RBI, 2021), later replaced by RBI's 2025 Master Directions (RBI, 2025) and (RBI, 2025)— has risen from approximately ₹3,680 crore in FY2002 to an estimated ₹2,68,000 crore in FY2025 (CareEdge , 2026). That works out to a compound annual growth rate of about 20.49 per cent. The path has not been smooth. The series has a coefficient of variation of roughly 80 per cent over the full period, with three inflection points worth naming. The post-crisis contraction of FY2009–FY2013 took volumes down to a nadir of about ₹27,879 crore. The FY2019 surge — to a then-record ₹2,66,264 crore — followed the IL&FS default and the RBI's relaxation of the

Minimum Holding Period for long-tenor loans. The COVID-related contraction of FY2021 was sharp but short-lived, and the recovery has been continuous since.

Three features set this market apart from its advanced-economy counterparts. The first is the origination structure. Banks dominate the issuer side in the United States, the United Kingdom and Australia; in India, banks are predominantly on the investor side. Origination is overwhelmingly the business of non-banking financial companies — Mahindra Finance, Cholamandalam, Sundaram, Tata Motor Finance in vehicle lending; Bandhan Bank, Equitas and the larger microfinance lenders in microfinance ABS; LIC Housing Finance and (until its merger with HDFC Bank) HDFC Limited on the mortgage side. The second is the asset-class composition. Vehicle-loan ABS has been the dominant retail segment through most of the past decade, with microfinance in third place; mortgage-backed transactions have lost relative share since the HDFC merger of mid-2023.

The third feature is, in our view, the economically most important. The priority-sector lending anchor structurally distinguishes the Indian market from any developed-market analogue. Banks acquire NBFC-originated pools through the direct-assignment route in part to fulfil priority-sector targets that they would otherwise need to meet through in-house origination in segments where they have limited comparative advantage. The DA market is, to a substantial degree, a regulatory market: PSL classification rules, and shifts in them, determine which pools attract bid interest and at what spread. Recent ICRA commentary (ICRA, 2025) shows that banks accounted for roughly 80 per cent of investor demand in rated PTC transactions in FY2025 — the remainder split between mutual funds, family offices and a slowly emerging insurance bid.

These three features have a clear implication for the way we ought to think about monetary policy in this setting. In the textbook framework, the bank is the originator: tightening policy reduces reservable resources, the bank scales back lending, and securitisation either substitutes for funding (in which case volumes expand) or reflects a cool-off in origination (in which case they contract). Neither of those clean predictions applies straightforwardly when origination has been outsourced to NBFCs and demand from banks is anchored partly to a regulatory mandate.

3. Theory and the international record

Three theoretical channels are relevant, none of which on its own captures the Indian setting. We take them in turn.

The bank-lending channel, in its modern form, requires three pieces to fit: bank-dependent borrowers, imperfect substitutability between deposit and non-deposit funding for banks, and central-bank influence over the supply of bank reserves. (Loutskina, 2011) shows that securitisation weakens the second piece: by converting illiquid loans into a fungible funding base, securitisation reduces the sensitivity of bank loan supply to deposit-side shocks. The empirical finding is consistent across pre-crisis US data (Loutskina and Strahan, 2009) and pre-crisis euro-area data (Altunbas, Gambacorta and Marques-Ibanez, 2009): roughly speaking, banks more active in securitisation respond about a quarter less to monetary policy shocks than otherwise-similar banks. The Indian setting, where banks are predominantly buyers rather than originators, inverts the logic — but does not eliminate it. Bank demand for PTCs and DAs is itself sensitive to bank balance-sheet conditions, which in turn are sensitive to policy. The mechanism runs through the demand side rather than the supply side, but it is still present.

The risk-taking channel, developed by Borio and Zhu (Claudio Borio, 2012), works through the effect of policy on the risk-bearing capacity and the risk appetite of financial intermediaries. The cleanest empirical test is Jiménez, Ongena, Peydró and Saurina (Jiménez, 2014) on the Spanish credit register: a 100-basis-point cut in the overnight rate is associated with a 9 per cent rise in lending to borrowers with weaker credit histories. The channel is well-established for advanced-economy banking systems. For Indian standard-asset securitisation, the natural prediction is that periods of low policy rates ought to be associated with looser credit standards in underlying loan pools, longer tenors, and an expansion of non-AAA tranche issuance — predictions that can in principle be tested directly against rating-agency pool data.

The third channel is more specific to the Indian setting and has, to our knowledge, not been formalised in the international literature. We shall call it the quantitative-instrument channel. Suppose the RBI raises the SLR. Banks must then hold a larger share of NDTL in permissible securities, reducing their lendable resources at the margin. The opportunity cost of priority-sector compliance through own-origination rises (because the bank's marginal lending capacity has been compressed); the relative attractiveness of acquiring PSL-eligible NBFC pools through DA correspondingly rises. NBFCs, facing tighter system liquidity in parallel, find it easier to clear securitised pools at higher absolute spreads (because the bank's effective cost of running an in-house PSL operation seems to have gone up). The equilibrium effect is, on this logic, an increase in securitisation volumes during periods of tight quantitative policy. The same argument does not apply with equal force to the CRR, whose direct effect on banks' PSL economics is weaker. And the argument cuts against the standard bank-lending-channel prediction for the policy rate: the rate captures the usual cost-of-funds channel and the regulatory-incentive channel together, with offsetting signs.

We want to be explicit about the implication. The Indian standard-asset securitisation market is not a clean test case for the international attenuation hypothesis. It is a different object, with different drivers, that requires its own theoretical framing. The international literature provides the conceptual scaffolding — and, where this paper draws on it, the empirical methods worth borrowing — but the predictions need to be re-derived for the local case. One ought also to keep in mind the international transmission of monetary policy. Bruno and Shin (Valentina Bruno, 2015) show that US monetary policy moves cross-border bank capital flows; Acharya, Khandwala and Öncü (Viral V. Acharya, 2013) document the spillover to Indian NBFC funding conditions specifically. The risk-taking channel does not stop at the border.

Two further observations are worth making about how the cross-country evidence sits with the Indian case. First, the European experience demonstrates that securitisation, once a feature of an originator's business model, can become a transmission amplifier in stress. Gambacorta and Marques-Ibanez (Marques-Ibanez, 2011), studying the 2008–2009 period, document precisely this reversal: banks that had relied on securitisation to attenuate the bank lending channel in normal times reduced lending more sharply when the market froze. India has not yet experienced a comparable freeze in the standard-asset market, but the FY2021 contraction during the COVID moratorium uncertainty offers a milder version of the same dynamic — and a cautionary observation for the period ahead. Second, the experience of China, Korea and Australia — all bank-mediated economies in which securitisation grew under explicit central-bank or prudential support — suggests that the relationship between policy and securitisation activity in emerging Asia is structurally different from the United States or the United Kingdom. The Indian case is closer to

the Asian experience than to the Anglo-Saxon model on most institutional dimensions, but the existing comparative literature has not engaged with it directly.

4. The Indian case in three regulatory acts

The institutional history of the market can be told as three regulatory moments. Each marks a meaningful shift in the rules of the game.

The 2006 Guidelines on Securitisation of Standard Assets (RBI, 2006) established the basic framework. True-sale tests, accounting treatment, regulatory capital relief and eligibility criteria — the package was substantively in line with international practice as it then stood. Volumes through the late 2000s rose rapidly on the back of NBFC origination growth and a benign macroeconomic environment, peaking at roughly ₹1.02 lakh crore in FY2008 before the global crisis turned the tide.

The 2012 revisions (RBI, RBI, 2012) tightened the regime substantially. Minimum holding period and minimum retention requirement provisions were added to align Indian practice with the post-crisis global consensus on the originate-to-distribute model and its incentive problems. Volumes contracted, reaching a nadir of about ₹27,879 crore in FY2013. That contraction overlapped with subdued macroeconomic conditions and a tighter monetary stance, and disentangling the regulatory effect from the macro effect is a non-trivial identification problem.

The 2021 Master Direction (RBI, RBI, 2021) was the most consequential reform of the entire study period. The PTC and DA frameworks were split into two parallel master directions — direct loan-exposure transfers under one, structured securitisation under the other — clarifying a long-running ambiguity. The framework introduced provisions for Simple, Transparent and Comparable (STC) securitisations, aligning with the BCBS-IOSCO criteria. Eligible asset classes were expanded.

Each of these regimes coincided with a distinct phase of the operating framework of monetary policy. The 2012 revisions came in the middle of the WPI-anchored disinflation that preceded the move to inflation targeting. The 2021 Master Direction was promulgated after many years of the flexible-inflation-targeting regime, with the Monetary Policy Committee in place and a clearer reaction function on display. Any empirical analysis that does not condition on regime is, in effect, averaging across structurally different worlds.

A further institutional point bears emphasis. The CRR and SLR remain active monetary policy instruments in India, in marked contrast to most advanced-economy central banks where reserve requirements have either been abolished or set close to zero. The CRR has been moved across a range from 3 to 7.5 per cent during FY2002 to FY 2025; the SLR has been reduced from 25 per cent to 18 per cent over the same window. Both have been adjusted in response to liquidity conditions and to financial-stability concerns. These instruments interact with the securitisation market through the channels described above, but they have not been studied empirically in that interaction.

5. A framework for empirical inquiry

The framework that emerges from the preceding sections can be stated as four testable propositions, each with a corresponding empirical implication. Table 1 below sets them out in summary form, with

predicted signs, the underlying transmission channel, and the principal empirical proxy through which each may be tested. The paragraphs that follow elaborate each proposition in turn.

Prop.	Instrument	Predicted sign	Channel	Principal empirical proxy
P1	Repo rate	Ambiguous	Bank cost-of-funds vs. NBFC supply	Sign and significance in OLS; varies across regimes
P2	SLR	Positive	Quantitative-instrument / PSL	Coefficient sign in OLS; stronger post-2008
P3	CRR	Small positive	General liquidity	Smaller magnitude than SLR; possibly insignificant
P4	Low-rate periods	Relaxed underwriting	Risk-taking	Non-AAA tranche share; avg. tenor; unsecured ABS share

Table 1: Summary of the four propositions. P2 and P3 are the propositions most particular to the Indian setting; P1 and P4 are continuous with the international literature, though their empirical realisation in the Indian data is itself an open question.

P1. The repo rate exhibits an ambiguously-signed relationship with securitisation volume. Cost-of-funds effects on banks predict a negative relationship; NBFC funding pressure and PSL incentives predict a positive relationship. The net effect is an empirical question, and is likely to differ across asset classes — vehicle versus microfinance versus mortgage — and across regulatory regimes.

P2. The SLR exhibits a positive, statistically significant relationship with securitisation volume, working through the quantitative-instrument channel described in Section 3. The relationship should be more pronounced in the post-2008 period, during which the DA market grew sharply and the PSL anchor on the demand side strengthened.

P3. The CRR exhibits a smaller, possibly insignificant, positive relationship. The direct effect on PSL economics is weaker; the relationship operates primarily through general liquidity conditions, and the channel is likely to be empirically harder to identify.

P4. Periods of low policy rates are associated with relaxed underwriting in underlying pools, consistent with the risk-taking channel. The empirical proxies are the share of non-AAA tranche issuance, the average tenor of underlying pools, and the share of unsecured (e.g., personal-loan) ABS in total issuance.

The natural empirical strategy combines aggregate time-series analysis — Granger-causality testing and multiple regression of total annual securitisation volume on the policy variables and a parsimonious set of macroeconomic controls — with regulatory-regime indicators that allow the slope of the relationship to vary across the three institutional epochs identified in Section 4. Cointegration analysis is, in principle, desirable; the short sample (twenty-four annual observations on FY2002–FY2025) limits what can be

reliably estimated. Quarterly data, where available, ought to be exploited for robustness. Rating-agency pool-level data, where accessible, would permit a sharper test of the risk-taking-channel proposition (P4) than aggregate time-series can on its own.

6. What we still do not know

Five gaps remain, in roughly decreasing order of analytical priority.

The first is structural. There is no integrated empirical model of the Indian monetary policy–securitisation relationship. The Loutskina–Strahan attenuation estimates do not exist for any Indian dataset; the Altunbas-style euro-area exercise has not been replicated. The most basic empirical question — does Indian securitisation expand or contract on a 100-basis-point policy shock — does not have a peer-reviewed answer.

The second concerns the non-bank-financial-company sector. NBFCs are, in the Indian transmission literature, a residual category. Yet they originate most securitisable assets in the economy and rely on the securitisation market for funding. The post-IL&FS stress of 2018–2019 demonstrated how quickly trouble in this sector can transmit to the broader financial system. The corresponding theoretical channel has been articulated by Patra (2022) but has not been empirically modelled.

The third concerns the three regulatory regimes. They have not been formally identified in any econometric work. Industry commentary describes the qualitative effects of the 2006, 2012 and 2021 frameworks; econometric tests with appropriate attention to structural-break inference are absent.

The fourth concerns the unconventional measures deployed during 2020–2022 — long-term repo operations, targeted long-term repo operations, special open-market operations, the moratorium itself — and their interaction with the securitisation market. The European evidence on the ECB's Asset-Backed Securities Purchase Programme provides a model. The corresponding Indian event study has not been done.

The fifth gap is the puzzle with which this paper opened. Record volumes during the sharpest tightening cycle in a decade remain substantially unexplained. The candidate explanations — structural, regulatory, PSL-driven, risk-taking — are not testable against each other in the absence of the data infrastructure and the identification strategies that the preceding four gaps describe.

7. Closing remarks

A short paper of this kind cannot resolve the questions it raises; it can only frame them. Three closing observations, then, by way of conclusion.

First, the Indian standard-asset securitisation market has reached a scale at which it can no longer be treated as a curiosity within the broader analysis of monetary transmission. Annual volumes of more than ₹2.50 lakh crore are not large relative to bank credit aggregates, but they are sizeable relative to the segments of credit — vehicle finance, microfinance, NBFC mortgage origination — that the market predominantly intermediates. The argument that the securitisation market is too small to merit attention is no longer defensible.

Second, the conventional theoretical framings are useful starting points but require substantial modification before they can speak to the Indian case. The bank-lending-channel and risk-taking-channel literatures, both developed substantially on advanced-economy data, can be ported only with care. The institutional features that distinguish the Indian market — NBFC-dominated origination, the priority-sector lending anchor on the demand side, the continued use of quantitative monetary policy instruments — are not edge cases. They are the central features.

Third, the empirical record is thin enough that a thoughtful research agenda has a reasonable chance of moving it. The gaps identified in Section 6 are not buried technicalities. They are the basic empirical questions that the Indian literature has, for reasons of data, attention or framing, not yet engaged. A research programme that sets out to engage them — patiently, with attention to identification, and in dialogue with the international literature — is not, on the available evidence, in any danger of running out of things to do.

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