



THEIR VIEW

Mortgage-backed securities: Do not fear a leap into the unknown

India has kept US-crisis lessons in mind as it opens up this market cautiously to help finance fast-growing housing loans



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India's financial ecosystem quietly crossed an important threshold in May 2025 with the launch and public listing of India's first Mortgage-backed Pass-Through Certificates (PTCs), issued by LIC Housing Finance and structured by RMBS Development Company Ltd, on the National Stock Exchange (NSE). The transaction was modest in size but significant in meaning. For the first time, Indian home loans were transformed into a transparent, exchange-listed instrument with market price discovery. In a system long dominated by bank balance sheets, this was a small but meaningful widening of the path for housing finance.

The case for deepening India's mortgage-backed securities market rests on the sheer scale and quality of housing finance itself. Outstanding housing loans now exceed ₹30 trillion, comprising about one-fifth of total non-food bank credit, and have grown at a steady 12–14% annually over the past decade, driven by urbanization, household formation and rising formal incomes rather than speculative excess. Asset quality has remained robust, with home-loan delinquencies typically well below 2% even during stress. However, this large, long-term and stable asset class is funded in a strikingly narrow way, with over 85% of housing credit staying on the balance sheets of banks and housing finance companies, financed largely through deposits and wholesale borrowings. Securitization plays only a marginal role, with total annual volumes of ₹1.5–2.5 trillion across all assets and residential mortgages accounting for just 15–25% of that flow. In stock terms, securitized housing loans are only a low single-digit share of outstanding credit. The result is a growing mismatch in which long-dated, low-risk housing assets are funded primarily through shorter-term though increasingly competitive liabilities, strengthening the case for a gradual market-based complement to balance-sheet funding.

The RMBS listing should not be mistaken for a dramatic shift in policy or philosophy. It does not signal a wholesale embrace of securitization-led housing finance, nor does it mirror the US model where mortgage bonds dominate funding. Instead, it reflects India's instinct for incrementalism by strengthening the financial system step by step, testing investor appetite and expanding cautiously without undermining stability.

A central reason for this lies in regulation. India has deliberately constrained the originate-to-distribute model that underpins large securitization markets elsewhere. Lenders are required to hold housing loans for a minimum period before securitizing them and must retain a slice of the credit risk even after selling securities. For residential mortgage-backed securities (MBSs), minimum risk retention is typically around 5%. These rules



ensure that lenders retain 'skin in the game,' aligning incentives and discouraging careless underwriting. These safeguards also make securitization less lucrative as a volume-driven business.

The contrast with the US market is instructive. In the US, housing finance migrated decades ago from banks to capital markets, supported by government-sponsored enterprises and standardized government-backed mortgage securities. That system delivered deep liquidity and long-term fixed-rate mortgages, and allowed the Federal Reserve to influence housing directly by buying mortgage bonds during crises. It also sowed the seeds of a massive crisis. When underwriting standards eroded, the originate-to-distribute machine amplified risk across the financial system, culminating in the 2008 financial crisis. Cheap credit came at the cost of systemic fragility.

Indian policymakers have drawn clear lessons from that experience. Neither the government nor Reserve Bank of India has shown any appetite for large-scale government guarantees or for turning housing credit into a heavily traded asset class. The emphasis has instead been on resilience through conservative underwriting, balance-sheet accountability and gradual market development.

Are we, then, missing an opportunity by not pushing harder? The answer is both yes and no. A deeper MBS market could recycle bank capital faster, draw in long-term savings and potentially lower mortgage rates. There is also a macroeconomic argument. As housing finance grows larger, its interaction with monetary policy becomes more important. In bank-dominated systems, policy

transmission depends heavily on deposit conditions and bank balance-sheet health. A modest, well-regulated MBS market could support India's vast housing needs and give RBI an additional lever during downturns. These benefits are real, and over time, they may justify gradual expansion. However, the costs of haste are equally real. A large and liquid MBS market could weaken the link between origination and accountability. In an economy where legal enforcement can be slow and income documentation uneven, that separation carries risks. More importantly, India's relatively stable housing cycles and absence of a housing-led financial crises are not accidents; they are the product of conservative design choices.

The RMBS launch, therefore, should be seen as a measured experiment. It suggests that India is ready to deepen its housing finance market as a move towards financial maturity. Executed carefully, such issuances can build confidence, allow standardization and create a modest investor base. If rushed, they could engender stability risks.

For now, India appears to be striking a sensible balance. The move towards market-based housing finance is not a departure from prudence. It is a sign of evolution. The scale that housing loans have reached, funding pressures ahead and the need to mobilize resources before constraints become binding all argue in favour of an MBS market. Its success should not be judged by how quickly volumes grow, but by whether housing finance becomes incrementally more diversified, transparent and durable without courting the vulnerabilities that others have learnt to regret.

European 'mice' must quickly get their inner tigers roaring

Antagonizing the US may not feel so different from being its ally



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European leaders should play hardball if new US tariffs materialize. REUTERS

The Cold War satirical novel *The Mouse That Roared* imagined a tiny European statelet declaring war on the US in the hope of being lavished with American aid after its inevitable defeat. It's a title that came to mind when European nations sent three dozen soldiers to Greenland in response to US President Donald Trump's threats to wrest the island from Danish control. The idea seems to have been: Support Denmark, yes, but don't antagonize the White House when Ukrainian security is also on the line.

Whatever the intent, it hasn't worked. Trump's contemptuous delight in beating up US allies was given free rein over the weekend as he raised the ante over the Arctic territory. It's time for Europe to fight tariff fire with fire.

The US president threatened a 10% duty from 1 February on US imports from the countries sending troops: France, Germany, Sweden, Finland, the Netherlands, Denmark and non-EU members Norway and the UK. That would increase to 25% in June until a deal is reached for his government to buy Greenland. In a grim flashback to last year's EU-US trade deal when the bloc had to swallow a 15% tariff, the underbelly of Europe's trade-dependent, soft-power regime is fully exposed.

The cost of such extra tariffs would be high. Bloomberg Economics estimates they could cut these countries' US exports by up to 50%. Germany, Sweden and Denmark look especially vulnerable. But another timid acquiescence from the Europeans would be disastrous. This is textbook economic bullying. If last year's tariff deal is already being rewritten on the fly by the US, where will it stop? There has to be a point when even mice do more than squeak apologetically and submit to worse trade terms than China.

So even as Germany appears to be shipping its dozen or so soldiers back home, European leaders must be ready to play hardball if these levies materialize. The starting point is bolstering the European Parliament's threat to hold back approval of last year's trade agreement, which was hailed by Trump's administration as providing "unprecedented levels of market access" for American products. The deal has not stopped the US from trying to strongarm Brussels into going easy on the tech barons of Silicon Valley and Seattle over regulations and antitrust issues.

It is time, too, to unbox the EU's 'bazooka' for the fight ahead: The bloc's Anti-Coercion Instrument is explicitly designed to defend member states put

under tariff pressure by foreign powers. It allows retaliation beyond customs duties and can potentially restrict market access for titans like Google owner Alphabet. French President Emmanuel Macron, still nursing his wounds after failing to stop an EU trade deal with Latin America hated by French farmers, favours this trade weapon—and he's been backed by German industrial association VDMA. "Europe must not allow itself to be blackmailed," its president wrote over the weekend.

Then comes the longer-term question of whether Europe can get by on defence and security without American backing—in Ukraine first and foremost—the answer to which was a resounding 'no' last year when the EU had to accept America's 15% levy. But just as those transatlantic trade terms have barely survived the New Year, last year's rush to declare Nato as being back and better than ever under Trump looks wildly premature. Denmark is right to say that a hostile takeover of Greenland would be the end of the alliance as we know it. Trump's new threats go beyond the Nato "brain death" that Macron spoke of a few years back, and towards something like the forced obedience of the Soviet bloc's Warsaw Pact. To avoid this miserable fate, the rearing of Europe is ever more urgent.

European unity will be found wanting. Poland and Italy are not on the tariff list and will try to de-escalate. Trump's continental MAGA allies can be counted on to sow discord. The UK, under the cautious stewardship of Prime Minister Keir Starmer, may pursue its own routes to exemptions.

Nor will Europe be under any illusion: If the White House is determined to take Greenland in the face of opposition from the American public, US Congress, the EU, Nato and the overwhelming majority of Greenlanders, it will succeed.

But if the status of American ally means being subjected to trade and technological subservience rather than being lavished with Cold War-style aid, cutting loose would be preferable. Trump's unnecessary aggression over Greenland may well become that moment. Canada is getting closer to China, even though it shares an 8,890km border with the US.

In today's White House, reality has outpaced fiction. Europe's mice must quickly find their inner tigers. ©BLOOMBERG

MY VIEW | IT MATTERS

IT sector: From cyclical resilience to strategic relevance

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In the unfolding economic narrative of 2026, the Indian IT services industry finds itself at a crossroads that many analysts describe as the Great Integration; a phase of traditional outsourcing models giving way to AI-infused digital transformation engagements. The term captures a broader realignment of enterprise tech spending, where artificial intelligence (AI) is no longer a niche proof-of-concept but a strategic lever for automation, customer experience re-imagination and core operational redesign. This is reshaping revenue streams and talent strategies across IT majors like Tata Consultancy Services (TCS), Infosys and others, and the latest corporate earnings and hiring commentary offer early signals of demand.

Infosys, which reported its results for the third quarter of 2025–26 last week, offered one of the clearest articulations of this shift. Despite a 2.2% fall in profits, it posted an almost 9% on-year revenue rise to ₹45,479 crore, driven in large part by stronger AI and cloud transformation deals, and raised its

2025–26 revenue growth outlook to a range of 3–3.5% in constant currency terms. Its management highlighted large AI-led contract wins across client sectors, including deals that deploy AI-centric platforms which integrate data, workflows and autonomous agents into enterprise environments. This underlines how AI is getting embedded in services that clients are willing to pay for, even as broader demand softness persists.

TCS, leader of the Indian IT services pack, had earlier reported a sizeable profit decline but a 5% on-year revenue growth in its third quarter, underpinned by demand for AI-related services and a rebound in North American markets for the first time in two years. AI contributed an estimated 5.8% of TCS's annualized revenue run rate, illustrating that even for a giant with legacy business lines in application maintenance and infrastructure outsourcing, the pull of AI services is growing. Analysts noted that TCS and its peers are still navigating larger headwinds, including cautious discretionary spending by clients and regulatory costs, even as it realigns its headcount, but the proportion of revenue tied to AI and digital transformation is higher than it was just a few years ago.

These earning outcomes reflect a broader truth: demand is no longer uniformly weak, but in the quality and expectations of talent.

but is unevenly distributed, with AI adoption and cloud modernization emerging as top growth vectors. Traditional services tied to legacy services have seen slower growth, but where businesses can score gains through Generative AI, automation and data-enabled decision-making, they seem prepared to invest. This is consistent with global industry narratives that describe 2026 as a point where AI moves from experimentation to scaling and integration—a shift that can expand both total contract values and the strategic footprint of service providers in client organizations.

Campus hiring trends reflect this recalibration. After several years of contraction and cautious recruitment, reports based on industry surveys and LinkedIn sourced trends indicate that firms such as TCS and Infosys are planning significant fresher onboarding, with far greater emphasis on AI, cloud, security and data-centric skills than before. The uptick is not merely in numbers but in the quality and expectations of talent.

Yet, this positive outlook must be tempered with the broader labour market context. A recent survey of tech hiring intentions showed that overall job openings in India's tech sector slumped sharply in early 2026. This suggests that while demand for AI-related capabilities is rising in pockets, broader hiring stays cautious as recruiters exercise cost discipline. Fresh campus hiring may reflect not only demand optimism but also a strategic imperative to acquire AI-ready talent.

The earnings commentary reinforces this dual narrative. Infosys, while upbeat about its deal pipeline, flagged competitive pressure for specialized skills and noted the impact of labour codes on margins. Investment in reskilling

existing staff and integrating AI tools is a priority, as clients now expect partners that can embed intelligence throughout business processes rather than simply provide code or run services. Across the industry, revenue expectations are still modest in aggregate, but its composition is showing a higher

value shift, thanks to AI-related engagements. Non-Indian IT majors are playing by the same theme. Accenture and others are relying on AI consulting and solutions integration as drivers of future growth, even as they manage geographic and sectoral variability in spending. These players compete with Indian firms for many of the same deals, raising the bar for technical delivery and business outcomes. The competitive interplay is pushing Indian firms to reinforce their AI offerings, invest in partnerships with cloud and platform providers, and retool their market approach accordingly.

In sum, the Indian IT industry's role in the so-called Great Integration of 2026 is defined by a transition from volume-based services to value-based digital and AI integration. The resumption of campus hiring at scale by firms like Infosys and upward revenue-guidance revisions speak of nuanced confidence: demand may still be tender but the AI opportunity is robust enough. What is critical is whether this integration will translate into broader hiring, deeper client partnerships and sustained revenue expansion beyond specialized AI projects. If those pieces come together, the story of Indian IT could well shift from cyclical resilience to strategic relevance as technology evolves.