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RBI's Record Fund Infusion Fails to Lift Loan Growth Amid Weak Credit Demand

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Despite the Reserve Bank of India's (RBI) unprecedented liquidity support to the banking system, loan growth in the country remains sluggish. Economists and analysts attribute this to subdued demand and cautious borrowing behavior across sectors.

Over the past seven months, the RBI has injected more than ₹8.5 lakh crore into the financial system through various measures, including open market operations, repo

transactions, and reductions in the cash reserve ratio (CRR). However, bank credit growth has slowed significantly, from nearly 19% in mid-2024 to below 10% by May 2025.

A recent study by J.P. Morgan highlights that the current surplus liquidity, estimated between ₹3 to ₹4 trillion, has not translated into an uptick in bank lending. The report points out that lower interest rates alone are not enough to stimulate borrowing when economic sentiment remains weak.

“Despite favorable liquidity conditions, the appetite for credit remains limited,” the report said. “Loan and deposit growth are both under pressure, indicating deeper demand-side issues.”

The slowdown in credit growth is further evidenced by weak performance in several key sectors. Passenger vehicle sales, a key indicator of consumer confidence, have dropped to an 18-month low. Similarly, home sales in major cities declined by 20% in the first quarter of 2025. Core inflation also continues to remain soft, underscoring a broader slowdown in economic activity.

In response, the RBI has begun adjusting its liquidity management strategy. While it had previously infused record amounts of funds, it is now withdrawing excess liquidity through reverse repo operations to maintain interbank rates within the policy corridor. This indicates a more cautious approach amid concerns of inflation volatility and global financial uncertainty.

Meanwhile, the central bank is pushing structural reforms to address the slowdown. The rollout of the Unified Lending Interface (ULI), a digital loan processing infrastructure, aims to streamline and expand credit access, especially for small businesses and retail borrowers.

Additionally, recent changes in infrastructure lending rules are expected to unlock new avenues for long-term project financing. Moody's has noted that these changes could contribute to a recovery in loan growth later in the year.

Despite these efforts, experts warn that unless broader consumer and investment sentiment improves, the effectiveness of liquidity measures will remain limited.