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India's Retail Credit Tightening and Gujarat's FDI Trends Highlight Economic Balancing Act

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Indian lenders are restricting access to retail credit just as the Reserve Bank of India (RBI) works to stimulate the economy through interest rate cuts and increased liquidity. This cautious stance comes amid rising household debt and concerns over loan repayment capacity, potentially limiting the central bank's push to boost consumption.

The RBI has lowered interest rates and injected significant liquidity into the banking system to encourage investment and spending. Yet, lending growth in consumer-focused categories, including personal loans, credit cards, consumer durables, and vehicle financing, slowed to single digits in May 2025, down sharply from the 15% to 26% growth seen a year earlier, according to RBI data.

Major lenders such as HDFC Bank, ICICI Bank, Axis Bank, and Kotak Mahindra Bank, along with non-bank financier Bajaj Finance, have reported higher levels of bad loans during the April-June quarter, weighing on profitability. While the RBI tightened small-ticket personal loan rules in late 2023 over concerns about unsecured lending, some restrictions were eased this year to support credit expansion.

Overdue debt remains a significant issue. Credit bureau CRIF High Mark reports that credit card balances overdue by more than 90 days nearly doubled to 338 billion rupees (\$3.9 billion) as of March 2025, compared with March 2023. “For unsecured retail loans, credit cards, or personal loans, lenders have adopted a very cautious approach,” said Sachin Seth, regional managing director at CRIF India and South Asia.

Kotak Mahindra Bank has flagged increasing defaults in its retail commercial vehicle loan book, tightening criteria in response. “We are managing the stress from slowdowns in logistics, infrastructure spending, and delayed government payments,” said Shanti Ekambaram, group president of consumer banking at Kotak Mahindra Bank.

This tightening comes as Gujarat continues to attract long-term investment despite global headwinds. Over the past five years, the state has secured substantial cumulative Foreign Direct Investment (FDI), reinforcing its position as one of India's top investment destinations. However, fresh annual FDI inflows have faced pressure from a weaker global investment climate. Economists caution that year-on-year figures can be misleading, as multi-year cumulative data better reflect sustained investor confidence.

The RBI's *Financial Stability Report* warns that rising household debt, particularly among lower-rated borrowers, warrants close monitoring. Analysts such as Pranav Gundlapalle of Bernstein expect it could take four to six quarters for repayment capacity to normalize. In the meantime, lenders are raising credit-score thresholds, avoiding higher-risk borrowers, and focusing on loans backed by collateral.