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Credit Growth Slows Despite RBI's Rate Cuts

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Bank credit growth in India has dipped below 10 percent despite multiple interest rate cuts by the Reserve Bank of India (RBI), signaling persistent weak demand and risk-averse lending behavior.

According to RBI data, year-on-year credit growth stood at 9.8 percent as of early July, compared to over 14 percent in the same period last year. Deposit growth, however, remained steady at 10.1 percent. The slowdown comes even as the central bank reduced the repo rate by 100 basis points since the start of the year.

Retail lending, a major contributor to credit expansion, has shown signs of fatigue. Personal loans, credit card debt, and other unsecured retail credit segments have seen slower growth. TransUnion CIBIL reported that retail credit originations rose just 5 percent in March 2025, down from 12 percent the previous year.

Bankers point to increased caution among lenders due to higher risk weights introduced by the RBI on unsecured loans, such as credit cards and microfinance. This move has tightened capital requirements and reduced banks' willingness to extend risky credit. Many public sector banks have slashed lending rates to stimulate borrowing, but the response from borrowers has been limited.

On the corporate side, loan demand remains muted. Businesses are increasingly relying on internal funds or capital markets rather than bank loans. With fewer large-scale investments or expansion projects, the appetite for credit has stayed low.

Despite a liquidity surplus in the system, the transmission of rate cuts to actual lending remains partial. Marginal cost-based lending rates (MCLR) have fallen only slightly, limiting the benefits of cheaper credit.

Experts say that while monetary easing helps create conditions for lending, it does not guarantee immediate growth without stronger economic confidence. Analysts from India Ratings and other agencies still project a moderate rebound in credit growth to around 13 to 13.5 percent in FY26, supported by infrastructure projects and a potential rise in private investment.

Until then, banks are expected to focus on quality lending, and credit growth is likely to remain subdued. The mismatch between available funds and demand remains a challenge for India's banking sector, despite economic indicators suggesting a gradual improvement in the broader environment.