

Finance Ministry Flags Slow Credit Growth and Weak Private Capex as Potential Headwinds to Economic Pace



India's Finance Ministry, in its "Monthly Economic Review" for June, has highlighted slow credit growth and a subdued appetite for private capital expenditure (capex) as potential factors that could restrict the acceleration of economic momentum. While the ministry maintains a "steady as she goes" outlook for the current fiscal year (FY26) with resilient domestic fundamentals, these two areas are identified as key downside risks to India's overall growth trajectory.

The review notes that despite monetary easing by the Reserve Bank of India (RBI), including a 100-basis-point reduction in the repo rate since February, and healthy bank balance sheets, credit growth has slowed. This deceleration is attributed to cautious borrower sentiment and possibly a more risk-averse behavior from lenders. Additionally, a growing preference among corporates for bond markets, particularly commercial papers, due to lower borrowing costs, may also explain a shift away from traditional bank credit. As of July 11, 2025, aggregate banking credit growth improved slightly to 9.8%, up from 9% at the end of May, but remains a point of observation for policymakers.

On the private investment front, the scenario presents a mixed picture. While a government survey projects a 25% decline in private corporate sector capital expenditure to ₹4.88 lakh crore (approximately 58.5 billion USD) in 2025-26 from ₹6.56 lakh crore (approximately 78.7 billion USD) in FY25, the overall aggregate capex from a fixed panel of enterprises still shows an increase over four years. However, the anticipated strong acceleration in private sector investment, particularly after the resolution of the "twin balance sheet" problem, has not fully

materialized. The Finance Ministry's report underscores the importance of corporates leveraging government schemes like the Employment Linked Incentive (ELI) to stimulate investment.

Global factors also contribute to the cautious outlook. The ministry points to a global economic slowdown, particularly a 0.5% contraction in the U.S. economy in the first quarter of 2025, and continued uncertainty surrounding U.S. tariffs. These external headwinds could weigh on India's export performance in the coming quarters, adding to the challenges for economic acceleration.

Despite these concerns, the Finance Ministry reiterates that India is well-positioned to remain one of the fastest-growing major economies, with various agencies projecting GDP growth for FY26 in the range of 6.2% to 6.5%. The ongoing performance of the services sector, improving agriculture due to favorable monsoon progress, and the government's continued focus on public capital expenditure are expected to provide underlying support to the economy. The focus remains on addressing the identified challenges to ensure sustained and robust economic expansion.