

# Trade, geopolitical issues 'can disrupt India growth story'

**CAUTION.** Financial Stability Report flags weakening asset quality in unsecured retail loans

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Growing trade disruptions and intensifying geopolitical hostilities could negatively impact the domestic growth outlook and reduce the demand for bank credit, which has decelerated sharply, cautioned the RBI's *Financial Stability Report (FSR)*.

Moreover, a deceleration in global growth will act as a drag on domestic output. It is estimated that a 100 basis points (bps) slowdown in global growth can, *ceteris paribus* (with other conditions remaining the same), pull down India's growth by 30 basis points.

## NON-FOOD CREDIT DIPS

These observations come even as non-food bank credit growth of scheduled commercial banks decelerated to 9.8 per cent in May against 16.2 per cent in the same month last year, per latest RBI data.

The slowdown in credit growth was across the board — agriculture and allied activities, industry, services and personal loans.

## MACRO WATCH

- External spillovers and weather-related events pose downside risks to growth
- Economic slowdown, if any, amidst heightened uncertainty could drag credit demand lower
- India's household debt at 41.9% of GDP is relatively low compared to other emerging economies
- At an aggregate level, the per capita debt of individual borrowers increased from ₹3.9 lakh in March 2023 to ₹4.8 lakh in March 2025

The FSR (which is a half-yearly publication, with contributions from all financial sector regulators) also flagged weakening asset quality in unsecured retail loans despite moderation in credit to this segment.

The report underscored that, overall, the risks to the financial system from lending to households remain contained, with easing monetary policy cycle likely to reduce debt service pressures on borrowers going forward. However, the trend in household debt accumulation, especially among lower-rated borrowers, requires close

monitoring. Referring to the many structural shifts that are reshaping the global economy, including growing fragmentation in trade, rapid technological disruption, climate change and protracted geopolitical hostilities, RBI Governor Sanjay Malhotra, in his foreword to the FSR, said: "In this global milieu, the Indian economy remains a key driver of global growth."

## GROWTH OUTLOOK

"Growth momentum is buoyed by strong domestic growth drivers, sound macroeconomic fundamentals and prudent policies. Non-

etheless, external spillovers and weather-related events could pose downside risks to growth."

## BENIGN ON INFLATION

The outlook for inflation, on the other hand, is benign and there is greater confidence in the durable alignment of inflation with the Reserve Bank's 4 per cent target.

The FSR noted that the economy is growing at a healthy pace, with the financial system meeting the financing needs of all sectors of the real economy.

At the same time, domestic financial stability risks remain contained, as reflected in improving asset quality, strong capital and liquidity buffers and robust profitability of banks and non-bank lenders. "The domestic financial system, however, could be impacted by external spillovers.... Moreover, it could also lead to increased risk aversion among investors and further corrections in domestic equity markets which, despite the recent correction, remain at the high end of their historical range," per the report.

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