Credit growth declines to 3-yr low

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Systemic credit growth has declined to 8.97 per cent year-on-year (Y-o-Y) in the fortnight ended May 30, the lowest in three years. This is owing to lenders becoming prioritising asset quality over growth amid higher stress in the microfinance and unsecured space. The last time credit growth in the system was below 9 per cent was in March 2022.

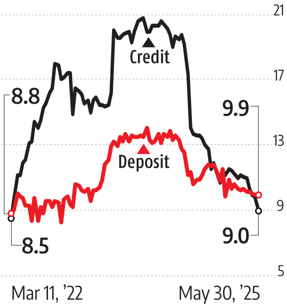
Meanwhile, deposit growth in the system at 9.9 per cent Y-o-Y has outpaced credit growth by 100 basis points (bps).

According to Reserve Bank of India (RBI) data, total deposits in the system stood at ₹231.7 trillion, while total credit was at ₹182.8 trillion. During the fortnight ended May 30, deposits increased by ₹2.84 trillion, whereas credit grew by ₹59,885 crore.

In a report, Motilal Oswal said lenders were tightening the underwriting standards. "We estimate credit growth to remain modest at 11.5 per cent Y-o-Y for FY26 and recover to 13 per cent in FY27," the report stated. Due to the slower pace of credit growth in the system, the outstanding loan-deposit ratio (LDR) moderated to 78.9 per cent, while incremental LDR declined to 72.7 per cent from 98.8 per cent a year ago.

Downward slope

(% change Y-o-Y)



Source: Bloomberg/RBI

During the same period last year, credit growth outpaced deposit growth, with the gap at 700 bps. The gap had pushed the LDR of the system higher, so much so that the RBI had expressed concern time and again and asked the system as a whole to bring it down.

Since July last year, credit growth has moderated from the high double-digit levels witnessed in 2024. This slowdown has been largely driven by measures implemented by the RBI, including an increase in risk weights on bank lending to non-banking financial companies and on unsecured loans such as personal loans and credit card borrowings.

Interest rates remained elevated until February, when the RBI's monetary policy committee (MPC) began its easing cycle. The MPC has cut repo rate by 100 bps since February. As a result, a major chunk of Indian corporates turned to overseas debt capital markets. Better-rated corporates also tapped the domestic markets to borrow long and at cheaper rates than the banks were offering.

Industry insiders suggested that the rate cut in June will aid overall credit growth. But it will take longer for corporate borrowing from traditional banks to pick up, as alternative sources of funding continue to remain attractive.