FM nudges PSBs to push credit growth

After slipping to 12% in FY25, loans growth has fallen below 10%

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With credit growth slipping sharply, public-sector banks (PSBs) that have a high capital adequacy ratio, were nudged to increase lending activities during a review meeting with Union Finance Minister Nirmala Sitharaman on Friday, said sources privy to the deliberations.

Scheduled commercial banks' credit growth, after plunging to a three-year low of 8.97 per cent in the fortnight ended May 30, remained in single digits in the subsequent fortnight ended June 13, at 9.6 per cent, shows data released by the Reserve Bank of India (RBI) on Friday. This growth was over 20 per cent till March 2024.

Data compiled by *Business Standard* shows 10 out of 12 state-owned banks had a capital to risk weighted assets ratio (CRAR) of over 17 per cent as of March 2025, against the minimum requirement of 11.5 per cent.

While State Bank of India (SBI) had a CRAR of 14.25 per cent as of March 2025, Canara Bank had a CRAR of 16.33 per cent. All other state-owned banks have a CRAR in the range of 17 per cent to 20.53 per cent, with Union Bank of India, Uco Bank, Indian Overseas Bank, and Bank of Maharashtra having a CRAR of over 18 per cent. Bank of Maharashtra's CRAR stood at 20.53 per cent as of March 2025.

Sitharaman was also apprised that the PSBs were adequately capitalised, with their CRAR standing at 16.15 per cent as of March 2025, a finance ministry statement on the review meeting noted. The minister urged state-owned lenders to proactively identify emerging commercial growth areas, the statement noted, adding that deepening corporate lending in productive sectors was emphasised as well.

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Union Finance Minister Nirmala Sitharaman, with MoS Pankaj Chaudhary (*right*) and Financial Services Secretary M Nagaraju, chairs a review meeting of PSBs, in New Delhi on Friday PHOTO: PTI

Sitting on capital

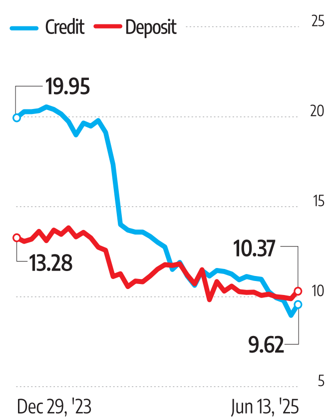
Ten of 12 state-owned banks had a CRAR of over 17% as of end March 2025, against the minimum requirement of 11.5%

	Capital Adequacy Ratio (%)
State Bank of India	14.25
Canara Bank	16.33
Punjab National Bank	17.01
Central Bank of India	17.02
Bank of Baroda	17.19
Punjab & Sind Bank	17.41
Bank of India	17.77
Indian Bank	17.94
Union Bank of India	18.02
Uco Bank	18.49
Indian Overseas Bank	19.74
Bank of Maharashtra	20.53

Source: Capitaline
Compiled by BS Research Bureau

Credit growth in slow lane

Growth rate (Y-o-Y in %)



Sources: RBI, Bloomberg

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Current account swings to a surplus after three quarters in Q4FY25; at 1.3% of GDP

India's current account balance posted a surplus of $13.5 billion, or 1.3 per cent of gross domestic product (GDP), during the fourth quarter of 2024-25 (Q4FY25). This surplus comes after a gap of three quarters of deficit, reflecting the contribution of a surge in services exports, latest data released by the Reserve Bank of India (RBI) showed.

■ India's external debt rises to 19.1% of GDP in FY25

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FM nudges PSBs to raise credit growth

RBI data showed deposit growth stood at 10.4 per cent as on June 13, up from 9.9 per cent in the previous fortnight, and continuing to outpace credit growth. The last time credit growth was below 9 per cent was back in March 2022.

This sluggish lending trend comes despite the central bank slashing the policy repo rate by 100 basis points (bps) since February, and keeping the system flush with liquidity so that the cut in policy rates could be transmitted to lending and deposit rates. The repo rate now stands at 5.5 per cent and net liquidity in the system was in surplus of ₹2.71 trillion as of Thursday.

"The Minister has asked banks to aggressively increase lending following the interest rate cuts. Banks should provide loans to as many people as possible. Banks have been directed to focus on higher lending compared to last year," said another source about the review meeting.

The RBI's June monthly bulletin noted the slowdown in credit growth in April is primarily driven by a moderation in growth of credit to services sector and agriculture and allied activities. An article in the bulletin also attributed the moderation in credit growth to under 10 per cent as of May 30, to weaker momentum as well as unfavourable base effects.

Banks have been cautious in lending, in a bid to prioritise asset quality over growth amid higher stress in the microfinance and unsecured segments.

In FY25, credit growth slowed down to 12 per cent from 16 per cent a year ago, as the pace of bank retail lending sharply to 11.6 per cent in FY25 from 27.6 per cent in FY24 as lenders scaled down disbursements in unsecured loans due to regulatory concerns and high base effect.

According to IndiaRatings, credit growth in the system has lost steam due to the base effect and lower growth in retail and NBFCs' credit. However, with adequate liquidity in the system, reduction in repo rate and future reduction banks' cash reserve ratio (CRR) requirements are likely to bode well for a pick-up in credit growth in the near term.

The rating agency has estimated credit growth in FY26 to be in the range of 13-13.5 per cent Y-o-Y, with the mix likely to change with a continued slowdown in lending to NBFCs and retail. This is likely to be offset by a revival in private capex, benefitting growth of the corporate segment.

"During the review of deposit and credit trends, FM emphasised the need for sustained efforts to improve deposit mobilisation to support ongoing credit growth. PSBs were advised to undertake special drives, make effective use of their branch networks, and deepen outreach in semi-urban and rural areas," the ministry statement said. (With inputs from Harsh Kumar)