Credit growth may remain muted despite 100 bps cut

Banks await reduction in CRR, and festival season loan demand

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Even after a cumulative 100 basis points (bps) cut in the policy repo rate between February and June by the Reserve Bank of India (RBI), banks are maintaining their credit growth guidance at 11–13 per cent and deposit growth at 9–10 per cent for the current financial year (FY26). This is similar to the previous year.

They are awaiting the reduction in cash reserve ratio (CRR), which comes in phases, starting from the fortnight beginning September 6, and the festival season loan demand. This is to see if there is a need to revise loan growth projection upward.

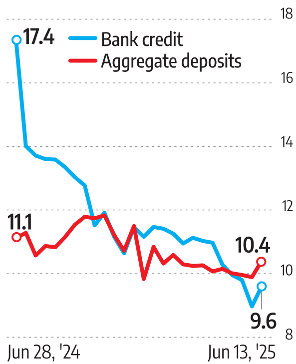
Bank officials cited subdued loan demand and challenges in retail deposit mobilisation as key reasons, particularly in the first quarter, for sticking to their growth projections. They expect only a marginal improvement in credit demand once CRR cuts and festival spending begin in September.

ILLUSTRATION: AJAYA MOHANTY

"There is no revision in credit and deposit growth guidance as market conditions remain uncertain. We will assess how the cut in CRR will pan out as well as liquidity conditions. For the first quarter, credit demand is expected to be sluggish. Once the CRR cut starts in September alongside the festival, we may see credit demand improving," said a senior official at a state-owned bank.

The finance ministry, in an interaction with public sector banks (PSBs) on Friday, emphasised the need to improve loan flows following interest rate reduction by RBI in quick succession.

Slippery slope
Growth (Y-o-Y in %)



Sources: Bloomberg/RBI

Credit growth is expected to remain soft due to lower demand for unsecured loans and mortgages, alongside cautious lending to non-banking financial companies (NBFCs), even though the RBI has eased some norms.

Bankers believe stress in the microfinance sector may begin to normalise from September, potentially supporting credit pick-up.

According to RBI data, bank credit growth was 9.7 per cent as of June 13, 2025, significantly down from 19.78 per cent a year earlier.

For FY25, loan growth stood at 11 per cent and deposit growth at 10.3 per cent, down from 20.2 per cent and 13.5 per cent, respectively, in FY24.

While the RBI has been cutting rates since February and keeping liquidity in surplus, the impact on banks has been uneven. PSBs, with 30–40 per cent of their loans linked to external benchmarks, have seen lending rates drop quickly. Deposit rates have been slower to adjust due to intense competition for retail deposits.

From September onwards, credit demand is expected to improve with the start of the festival season and a phased reduction in CRR — cut in four tranches between September and November.

According to a State Bank of India (SBI) report, CRR cuts could unlock lendable resources, enabling an additional 1.4–1.5 per cent credit growth and boost overall liquidity.