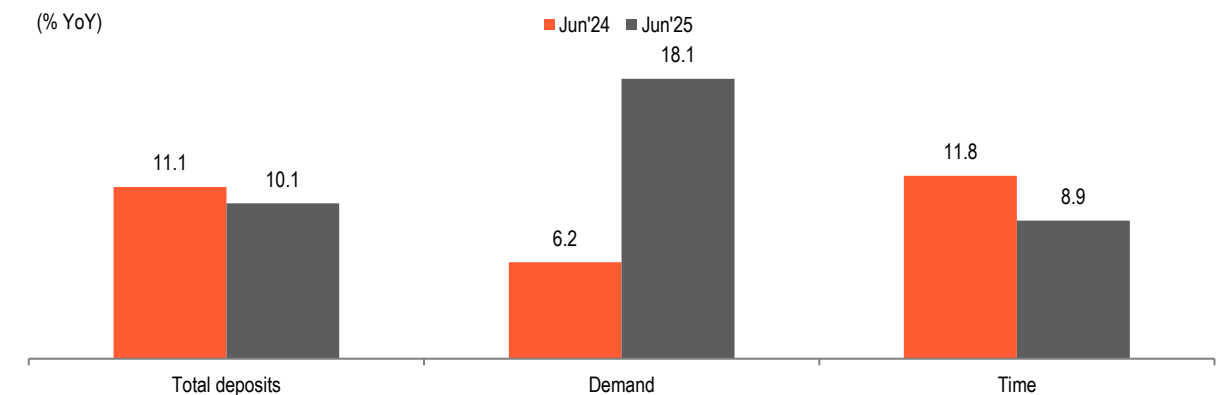


Banking picture in FY26

1. Deposit growth

In FY26 so far (up to 27 Jun 2025), deposit growth has been lower at 10.1% compared with 11.1% in the same period last year. This can be attributed to a slower pace of growth in time deposits which have increased by 8.9% in Jun'25, compared with a growth of 11.8% in Jun'24. Incidentally, time deposits constitute about 88% of total deposits in terms of value. On the other hand, there has been a sharp increase in demand deposits to 18.1% this year, versus a muted growth of 6.2% in Jun'24.

Figure 1: Deposit growth in Jun'25

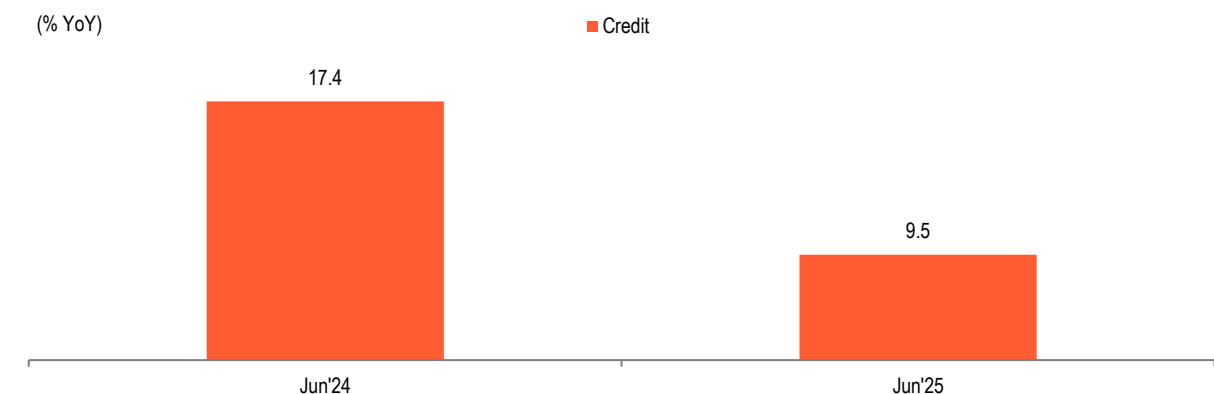


Source: CEIC, Bank of Baroda Research | Note: Data as of 27 Jun 2025. Data classifies deposits into demand and time with savings being apportioned by a fixed formula.

2. Credit growth in FY26:

Credit growth by SCBs moderated to 9.5% in Jun'25 (upto 27 Jun 2025), on a high base of 17.4% in the same period last year. Credit growth this year has been lower than deposit growth in the corresponding period, in stark contrast to the trend seen last year. The credit/deposit ratio stands at 78.9% this year, only marginally lower than 79.3% in the same period last year.

Figure 2: Credit growth in Jun'25

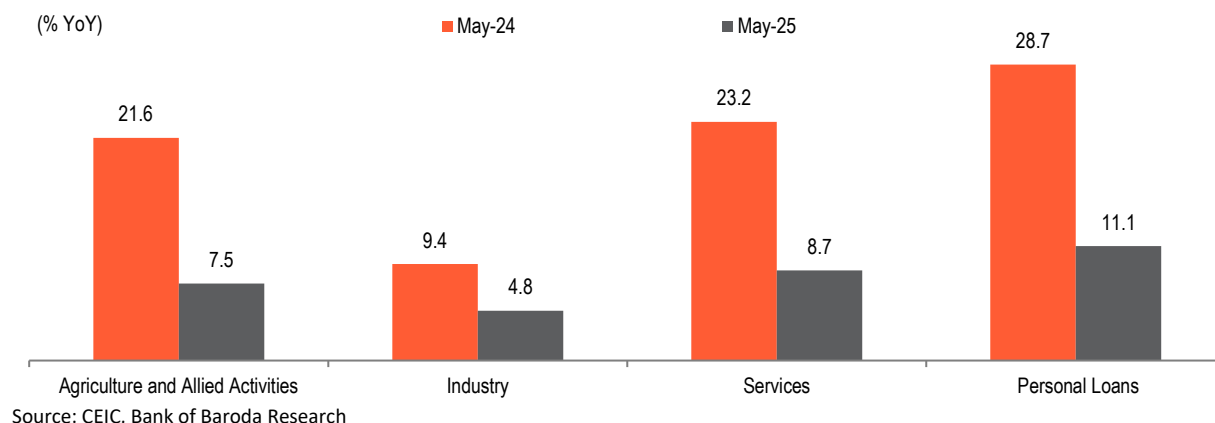


Source: CEIC, Bank of Baroda Research | Note: Data as of 27 Jun 2025

3. Sector-wise growth in credit FY26:

Sectoral breakdown of credit is available upto May'25 and throws some light on the underlying trends in credit demand. The slowdown in credit growth in FY26 appears to be broad-based, with almost all categories noticing a moderation in credit offtake. Credit to the agriculture sector has moderated to 9.8% this year, compared with 19.8% in the same period last year. A part of the decline can be attributed to the high base. Expectations of an above normal monsoon, improved kharif sowing and higher reservoir storage suggest that credit offtake is likely to improve in the coming months.

Figure 3: Sector-wise growth in credit growth



Credit offtake by industry is also lower at 4.8% in May'25 versus 9.4% in May'24. Within industry, large corporates have seen a significant moderation in credit demand to 1% compared with 7.1% in the same period last year. This can be explained by a growing trend of large companies using their own funds for investment as well as increased reliance on the corporate bonds market for raising debt.

Encouragingly, credit growth to the medium industries increased by 16.8% in May'25, building on a growth rate of 15.5% in the same period last year. Also, credit to micro and small enterprises continued to register a smart double-digit growth of 13.7% in May'25, only marginally weaker than 15.5% in the same period last year.

Within industry, contrary signs seen in case of credit to the infrastructure sector. Credit growth to infrastructure sector declined by 2.5% in May'25, compared with an increase of 7.2% in May'24. In infrastructure, credit to power sector has moderated to 3.9% in May'25 versus 6.5% in the same period last year. Incidentally, electricity production too has been lower this year. IIP-electricity has declined by 2% in FYTD26 (Apr-May'25), compared with an increase of 12% last year. For roads as well, credit growth dropped by 5.8% in Jun'25, after increasing by 9.8% in the same period last year. Increased lending through NaBFID, can also possibly explain the decline in credit disbursements to infra sector by SCBs. In fact, almost 35% of loans sanctioned by NaBFID in FY25 belonged to roads, while another 27% were for renewable generation, and 12% for conventional power generation.

Another key industry in terms of share in credit, iron and steel, also noted a moderation in credit growth to 6.5%, compared with 20.5% in May'24. A high base, subdued global demand, and elevated domestic prices have impacted growth in the industry.

Credit growth in the chemicals sector was 4.7% in May'25 compared with 13.6% in May'24, led by lower credit growth to the fertilizer and drugs and pharmaceuticals sector. This is in line with the production data for both these sectors, which has shown a decline FY26.

For textiles as well, growth in credit growth was moderately lower at 6.8% in May'25 compared with 9.4% in May'24. In case of vehicles and transport equipment as well, credit growth has witnessed some deceleration of 5.1% in May'25 compared with 8.8% in the same period last year. This is notwithstanding higher production as indicated by IIP data.

On the positive side, significant traction is visible in credit demand from the electronics sector. Credit offtake by the sector increased at an impressive rate of 20.5% in May'25, up from 10.5% in the same period last year. The sector has benefited from the government's PLI push, leading to increased domestic production and a healthy pace of growth in exports. Apart from this, industries such as leather and leather products, wood, paper, rubber and plastics, as well as construction have also seen a higher rate of growth in May'25, vis-à-vis last year.

There has been some element of moderation in credit growth to the services sector from 23.2% in May'24 to 8.7% in May'25. Within the services sector, the slowdown has largely been led by a sharp deceleration in credit to NBFCs. In fact, credit to NBFCs has declined by 0.3% in May'25, marking the first decline since Sep'21. In May'24, credit to NBFCs had increased by 16%. This is despite the fact that RBI recently rolled back its higher risk-weight requirement for SCB's lending to NBFCs. The lower offtake by NBFCs can perhaps be attributed to the fact that a large number of NBFCs have been tapping into the corporate bond market to finance their operations. Apart from NBFCs, credit to commercial real estate and trade sector has also moderated vis-à-vis last year but continues to register double digit growth.

A similar trend is visible in growth in retail credit. Growth in personal loans moderated from 28.7% in May'24 to 11.1% in May'25. A part of the moderation in personal loans can be explained by RBI's move to increase risk weights on credit cards and unsecured personal loans by 25% in Nov'23, which still remains operational. Growth in credit card outstanding moderated to just 8.5% in May'25 from 26.2% in May'24. Similarly, growth in other personal loans has also moderated to 7.8% in May'25 versus 20.6% in the same period last year. At the same time, growth in credit advanced against gold and jewellery has increased exponentially to 115.3% in May'25 compared with 29.3% in May'24 (RBI data does point to the reclassification of farm loans by one bank as being part of gold loans which has added an upward bias). RBI's revised framework for gold and silver loans, to be applicable from 1 Apr 2026, will provide further impetus to loan growth in this segment.

There has also been a significant slowdown in housing loans (which constitute over 16% of total credit by SCBs), to 9% compared with 38.7% in May'24. This can be attributed to lower demand as private data shows a sharp 20% decline in housing sales in Apr-Jun'25 across 7-major cities in India, even as demand for luxury homes remained strong. Along similar lines, growth in auto loans has moderated from 14.9% in May'24 to 8.7% in May'25. This is consistent with a slowdown in auto sales, especially sales of passenger vehicles. Growth in education loans is also lower at 14.1% in May'25 compared with 24.2% in May'24. A part of this moderation can be attributed to recent changes in US rules for expat students.

4. Conclusion and outlook:

A volatile trading environment, marked by constant threat of protectionist policies by the US has lent a significant degree of uncertainty to companies' investment plans which is also being reflected in slower credit offtake. However, growth is expected to bounce back on the back of a favourable monsoon, resilient service sector activity and government's front-loading of capital expenditure. Private investment should also see a pickup as uncertainty over US policies recede. Retail credit is also likely to inch up due to lower costs and festive demand. Ample liquidity along with a supportive regulatory framework and lower interest costs are likely to spur a pickup in credit offtake in the coming months.

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