Bank Credit Growth to Taper as Funding Sources Diversify

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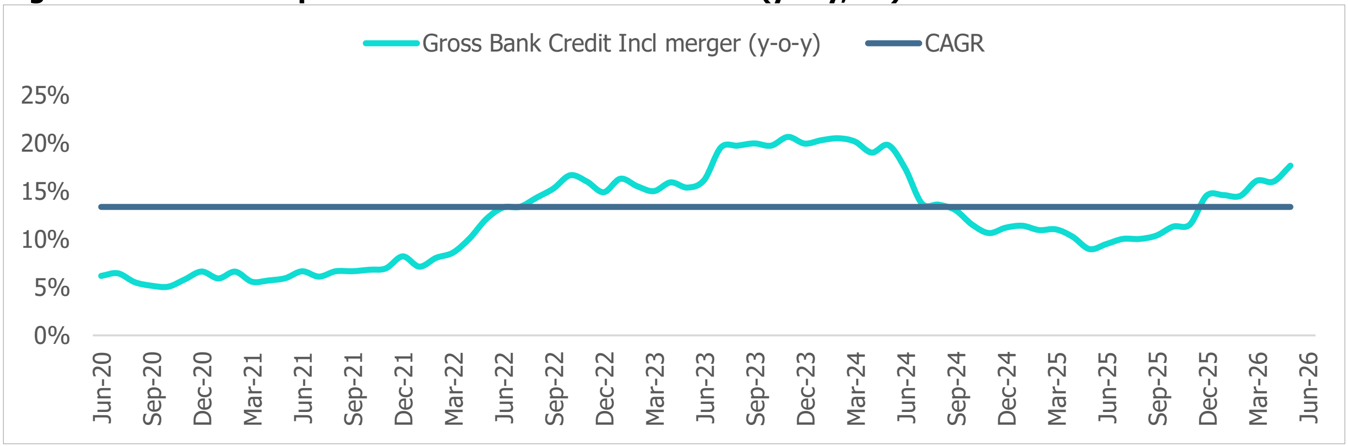
Note: Gross bank credit and non-food credit data are based on the Section 42 return, which covers all scheduled commercial banks (SCBs). In contrast, sectoral non-food credit data is based on sector-wise and industry-wise bank credit (SIBC) returns, covering 41 banks that account for approximately 95% of SCBs' non-food credit. Under the Banking Laws (Amendment) Act, 2025, the definition of fortnight has been revised from alternate Fridays to the 15th and the last calendar day of a month, w.e.f. December 15, 2025.

Synopsis

- Non-food bank credit growth remained strong at 17.4% year-on-year (y-o-y) in May 2026, up from 9.0% a year ago, reflecting broad-based improvement across key sectors. On a sequential basis, credit growth was supported mainly by higher lending to the industrial and services sectors.
- The services sector continued to record the strongest growth, expanding by 20.4% y-o-y, marking the sixth consecutive month in which it outpaced other major sectors. The sustained momentum was led by robust lending to NBFCs. At the same time, industrial credit also strengthened further, supported by higher borrowing from large corporates, MSMEs and infrastructure-related sectors. The recent increase in bank lending also reflects a shift in funding preferences, as higher bond yields have made debt market borrowings relatively less attractive (corporate bond issuances declined by 57.0% month-on-month (m-o-m), and commercial paper (CP) outstanding fell by 4.4% m-o-m), prompting borrowers to rely more on bank financing.
- Within retail credit, personal loans remained resilient, supported by vehicle finance and continued strength in gold loans, while credit card growth moderated further.
- Looking ahead, bank credit growth is expected to remain healthy in FY27, supported by improving liquidity conditions, sustained government capital expenditure, and steady domestic economic activity, although the growth is likely to gradually normalise from the recent elevated pace. The RBI's measures to encourage FCNR(B) deposits are expected to strengthen banks' liability profile by improving deposit mobilisation and funding availability. Separately, lower hedging costs for eligible ECB borrowers, together with softer G-sec yields, are expected to encourage greater use of ECBs and domestic debt markets by large borrowers, reducing their reliance on bank borrowings. Consequently, bank credit growth is expected to moderate gradually as funding preferences increasingly shift towards market-based sources.

Figure 1: Continued Uptick in Gross Bank Credit Growth (y-o-y, %)



Source: RBI, CareEdge, Note: Data since July 28, 2023, includes the impact of the merger of a non-bank with a bank. Note: Under the Banking Laws (Amendment) Act, 2025, the definition of fortnight has been revised from alternate Fridays to the 15th and the last calendar day of a month, w.e.f. December 15, 2025.

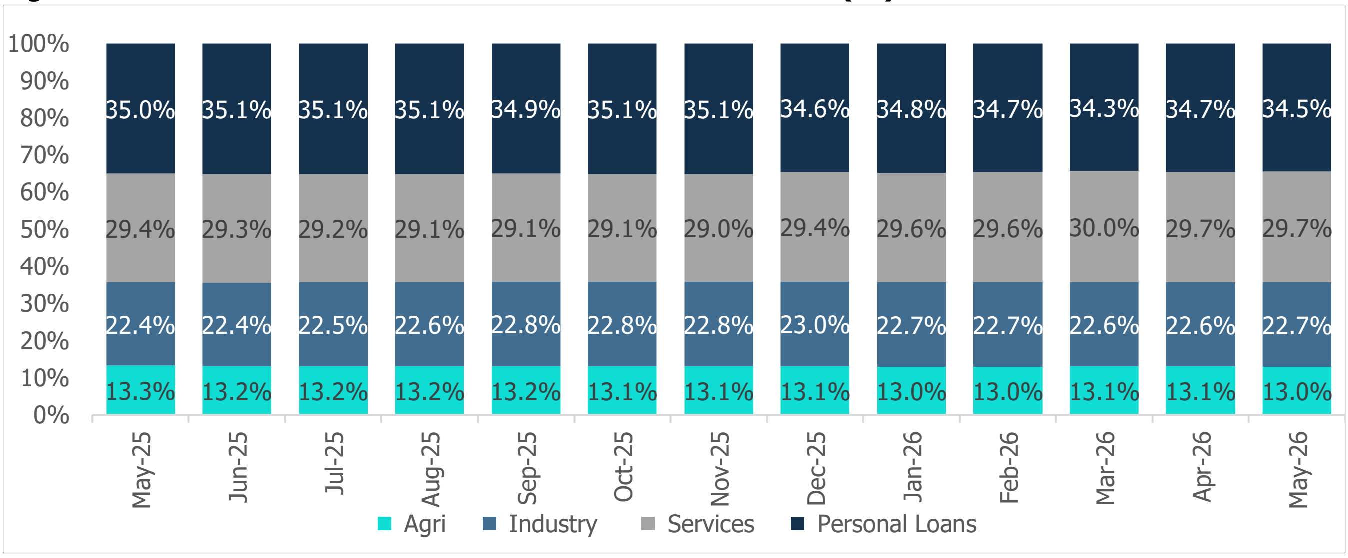
Figure 2: Broad-Based Credit Growth Sustains Momentum Across Key Segments (y-o-y, %)

	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26
Non-food	**9.0**	**9.3**	**9.9**	**9.9**	**10.2**	**11.1**	**11.4**	**14.4**	**14.4**	**14.3**	**15.9**	**15.8**	**17.4**
Agri	7.5	6.8	7.3	7.6	9.0	8.9	8.7	12.1	11.4	12.3	15.7	13.7	14.9
Industry	5.3	5.5	6.0	6.5	7.3	10.0	9.6	13.3	12.1	13.5	15.0	15.1	17.5
Services	8.4	9.0	10.6	10.6	10.2	13.0	11.7	15.3	15.5	16.3	19.0	18.6	20.4
Personal Loans	11.1	12.1	11.9	11.8	11.7	14.0	12.8	14.4	14.9	15.2	16.2	16.0	15.4

Source: RBI, CareEdge, Note: Data since July 28, 2023, includes the impact of the merger of a non-bank with a bank. Note: Under the Banking Laws (Amendment) Act, 2025, the definition of fortnight has been revised from alternate Fridays to the 15th and the last calendar day of a month, w.e.f. December 15, 2025.

Bank credit growth remained broad-based in May 2026, with non-food credit expanding by 17.4% y-o-y. The services sector continued to record the fastest growth, driven by robust lending to NBFCs and commercial real estate (CRE). Industrial credit gained further traction, rising 17.5%, reflecting improving credit demand from infra and large corporates. At the same time, personal loan growth remained resilient at 15.4% y-o-y in May 2026, although it moderated slightly from 16.0% in the previous month. Credit to agriculture sustained its double-digit growth trajectory at 14.9%. Gold loans registered an increase of 105.5% y-o-y increase, supported by higher gold prices, although the pace of growth moderated compared with the previous month, partly due to a higher base effect.

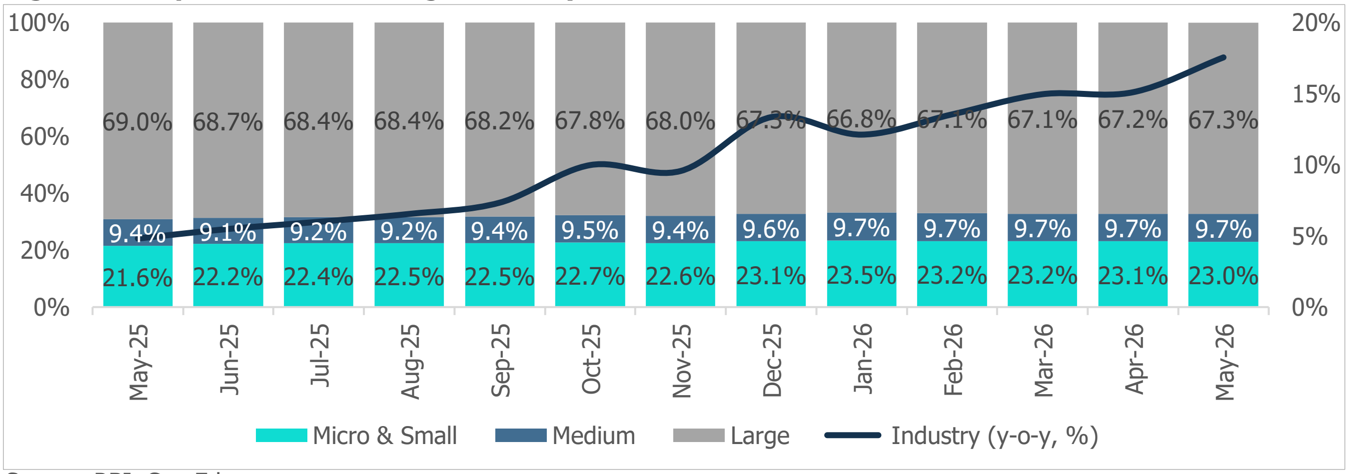
Figure 3: Personal Loans Continue to Dominate the Credit Mix (%)



Source: RBI, CareEdge

Industry Sustains Momentum

Figure 4: Sequential Rise in Large Industry Share



Source: RBI, CareEdge

Industrial credit growth remained robust in May 2026, accelerating to 17.5% y-o-y, up from 15.1% in April 2026 and 15.0% in March 2026, marking a significant improvement from 5.3% a year earlier and reflecting broad-based gains across manufacturing and infrastructure-related industries. Credit expansion was led by sectors such as engineering, gems and jewellery, vehicles and transport equipment, basic metals, chemicals, petroleum products, and infrastructure, indicating continued investment activity alongside higher working capital requirements.

The improvement was driven largely by increased borrowing from large corporates. After remaining subdued for much of FY26, credit growth to large industries strengthened as corporates increasingly turned to bank financing to meet incremental funding requirements. Apart from working capital needs, banks benefited from relatively higher corporate bond yields during Q4FY26 and early FY27, making bank credit more competitive for several issuers. At the same time, ongoing government capital expenditure, infrastructure projects, and continued momentum under manufacturing initiatives supported financing demand across core industries. MSMEs also continued to contribute meaningfully to industrial credit growth, supported by steady domestic demand, improved formalisation, and favourable policy support.

Looking ahead, industrial credit is expected to remain well supported by improving system liquidity following the RBI's recent liquidity-enhancing measures and by incentives for foreign-currency funding through the ECB and FCNR(B). These measures are likely to strengthen banks' funding position, enabling them to support higher credit demand from both corporates and MSMEs while helping narrow the loan-deposit gap. Nevertheless, external risks warrant close monitoring. Elevated geopolitical tensions in West Asia continue to pose challenges for export-oriented industries such as gems and jewellery, textiles, leather, and select engineering segments through higher freight costs, supply chain disruptions, longer receivable cycles, and input price volatility. Although asset quality across the industrial portfolio remains stable, a prolonged disruption could increase working capital stress for exporters during H2FY27. To mitigate these risks, banks have continued to maintain prudent provisioning buffers while preparing for the transition to the Expected Credit Loss (ECL) framework. In parallel, the government's ECLGS 5.0 and CGSMFI 2.0 schemes are expected to support credit availability and liquidity for eligible borrowers, thereby helping preserve credit quality in vulnerable sectors.

Figure 5: Bank Lending to Large Industry Continues to Recover (y-o-y, %)

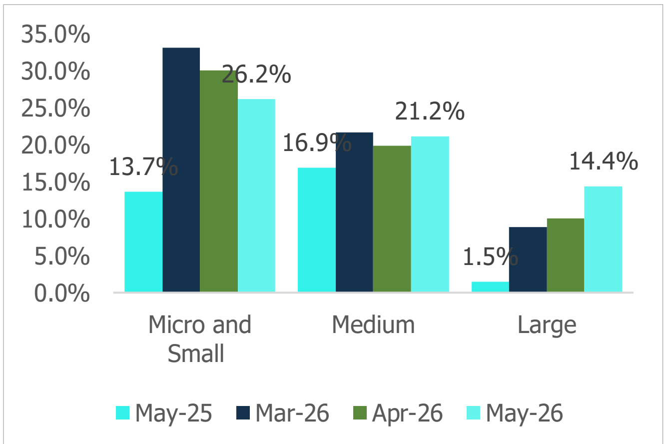
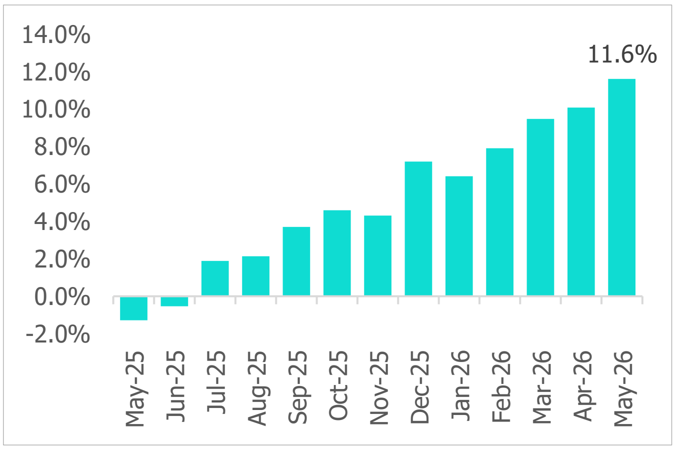


Figure 6: Infrastructure Credit Maintains Double Digit Growth (y-o-y, %)



Source: RBI, CareEdge

Credit to large industries continued to improve, with growth rising to 14.4% y-o-y in May 2026, compared with 1.5% a year ago. The recovery reflects higher borrowing by large corporates, particularly in the engineering, metals, chemicals, power, and transport sectors. While MSME credit remained strong, growth moderated from recent highs, though it continued to outpace growth in large and medium enterprises, supported by healthy domestic demand and government-backed credit.

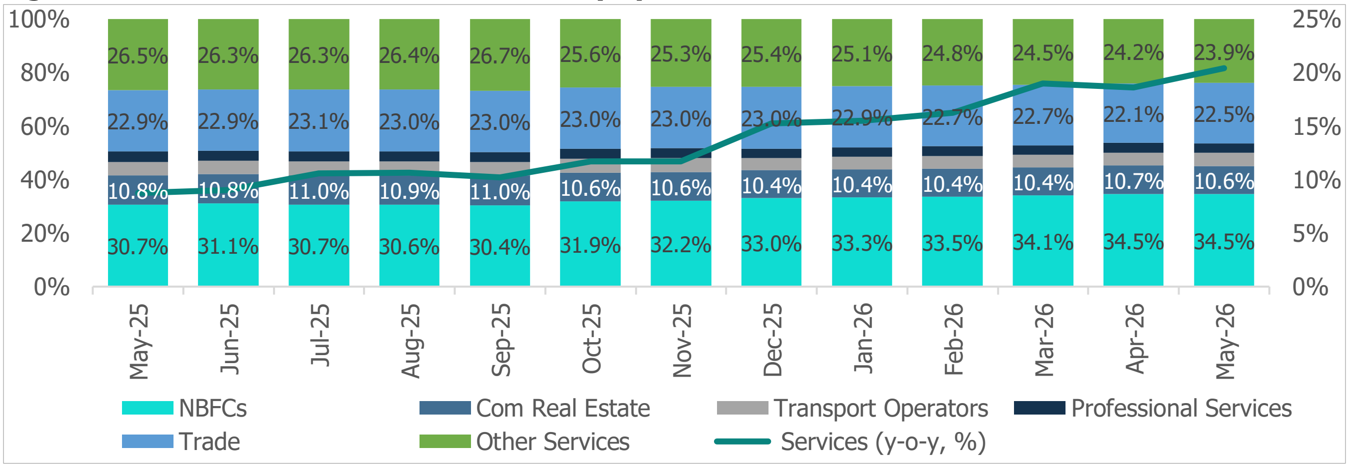
Infrastructure credit maintained its upward trajectory, with growth accelerating to 11.6% y-o-y in May 2026, extending the double-digit expansion witnessed over recent months. The recovery has become increasingly broad-based, supported by sustained public capital expenditure, which increased to Rs 2.51 lakh crore in YTDFY27 from Rs 2.21 lakh crore during the corresponding period last year, reflecting a 14% y-o-y increase alongside the continued execution of large infrastructure projects. The power sector, which accounts for more than half of total infrastructure credit, remained the key growth driver, rising 23.8% y-o-y. This was supported by continued capacity additions across the power sector, as gross installed generating capacity increased by 63.0% y-o-y and 12.5% m-o-m in May 2026, driven by investments in renewable energy, transmission networks, and thermal power projects.

Credit to ports also remained exceptionally strong, grew by 82.8% y-o-y, reflecting ongoing capacity expansion and logistics investments. At the same time, overall infrastructure lending benefited from continued financing of roads, urban infrastructure and industrial projects. However, lending to telecommunications, airports and railways remained relatively weak; their smaller share limited the overall impact on infrastructure credit.

Going forward, Industrial and infrastructure credit are expected to remain well supported over the coming quarters. The Government's continued focus on capital expenditure, manufacturing expansion and energy transition, together with healthy project pipelines, should sustain demand for long-term financing. Freight activity also remained resilient, with cargo handled at major ports increasing by 2.4% y-o-y in April 2026, while registering a ~4.7% CAGR over the past two years, indicating continued momentum in trade and logistics. However, the pace of bank credit growth will also depend on financing conditions in the corporate bond market, as lower bond yields could encourage corporates to raise a larger share of their funding through debt issuance.

Services Sector

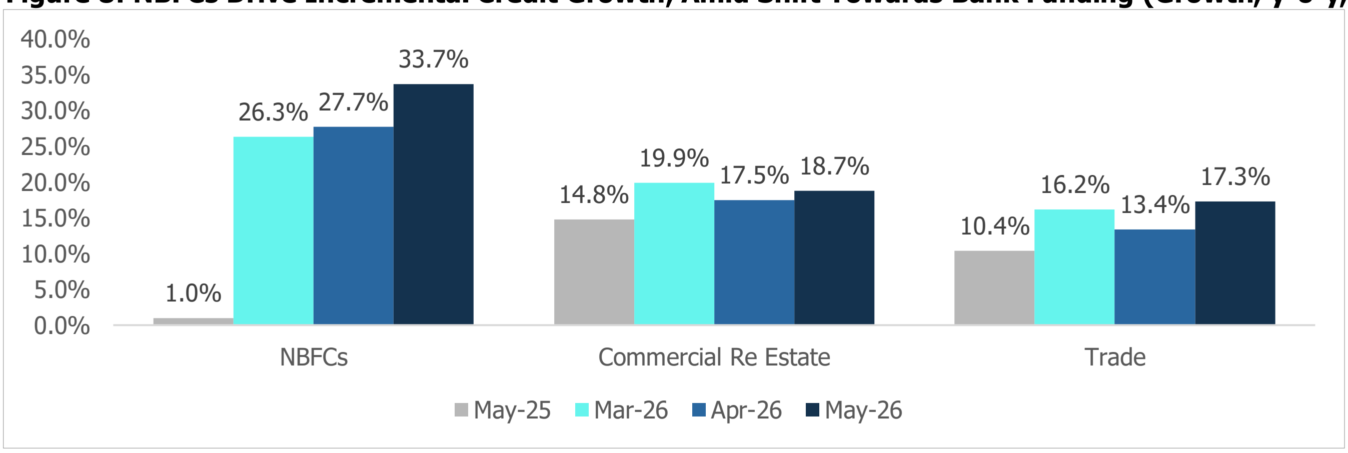
Figure 7: NBFCs Sustain their Market Share (%)



Source: RBI, CareEdge

Credit to the services sector remained the strongest among major segments, expanding 20.4% y-o-y in May 2026, up from 8.4% a year ago. The growth was supported by robust lending to NBFCs, trade and CRE, with NBFCs continuing to account for a larger share of services-sector credit.

Figure 8: NBFCs Drive Incremental Credit Growth, Amid Shift Towards Bank Funding (Growth, y-o-y,



Source: RBI, CareEdge

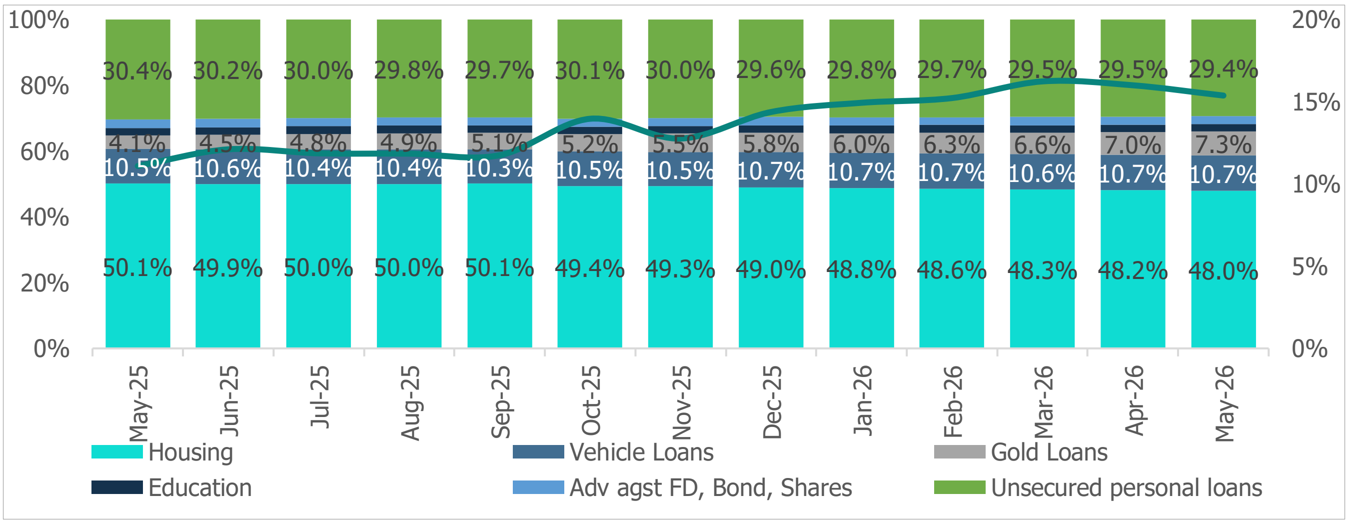
The services sector remained the largest contributor to overall bank credit growth in May 2026, led by strong lending to NBFCs. Bank credit to NBFCs increased to Rs 20.88 lakh crore, an all-time high, with growth accelerating to 33.7% y-o-y from a modest 1.0% a year earlier. As a result, NBFCs' share of services-sector credit rose to 34.5% in May 2026, up from 30.7% a year earlier, indicating greater concentration of credit within the services sector.

The sharp increase in bank lending reflected weaker activity in domestic debt markets. Commercial paper (CP) outstanding declined 4.4% m-o-m in May 2026, while corporate bond issuances fell 57% sequentially, limiting alternative funding avenues for NBFCs. Consequently, many NBFCs relied more on bank borrowings to meet refinancing and funding requirements as bank credit became relatively more attractive. However, this shift is likely to be temporary and could moderate as bond market conditions improve and geopolitical uncertainties, particularly in West Asia, ease.

Beyond NBFCs, credit growth remained healthy across other service segments. Lending to trade increased 17.3% y-o-y, supported by steady business activity and working capital demand, while credit to CRE grew 18.7%, reflecting sustained financing needs. Although lending to transport operators and other services continued to expand, their share of services-sector credit declined marginally due to faster growth in NBFC lending. Going forward, the services sector credit is expected to remain healthy. However, the pace of lending to NBFCs may moderate if debt market conditions improve and bond issuances recover, allowing NBFCs to diversify their funding sources.

Personal Loans

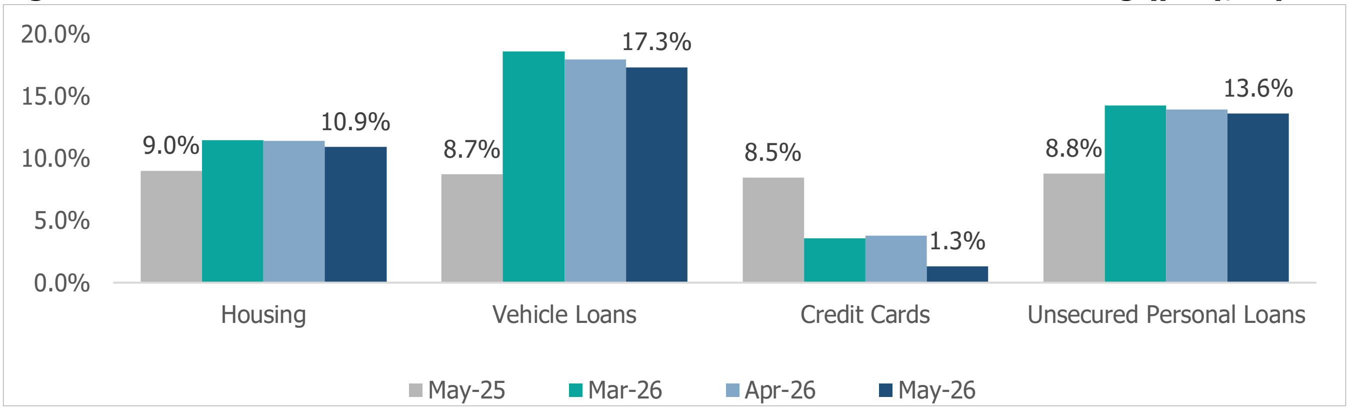
Figure 9: Gold Loans Gain Traction While Housing Share Softens (y-o-y, %)



Source: RBI, CareEdge; Note: Unsecured personal loans consist of consumer durables, credit card o/s, and other personal loans

Personal loans, which account for nearly one-third of total bank credit, remained resilient, growing 15.4% y-o-y in May 2026, up from 11.1% a year earlier, although growth eased marginally from the previous month. The expansion was supported by strong vehicle financing and continued momentum in gold loans. While gold loan growth moderated to 105.5% from 132.7% a year ago, it remained the fastest-growing retail credit segment, aided by elevated gold prices.

Figure 10: Vehicle Loan Demand Offsets Continued Weakness in Credit Card Lending (y-o-y, %)



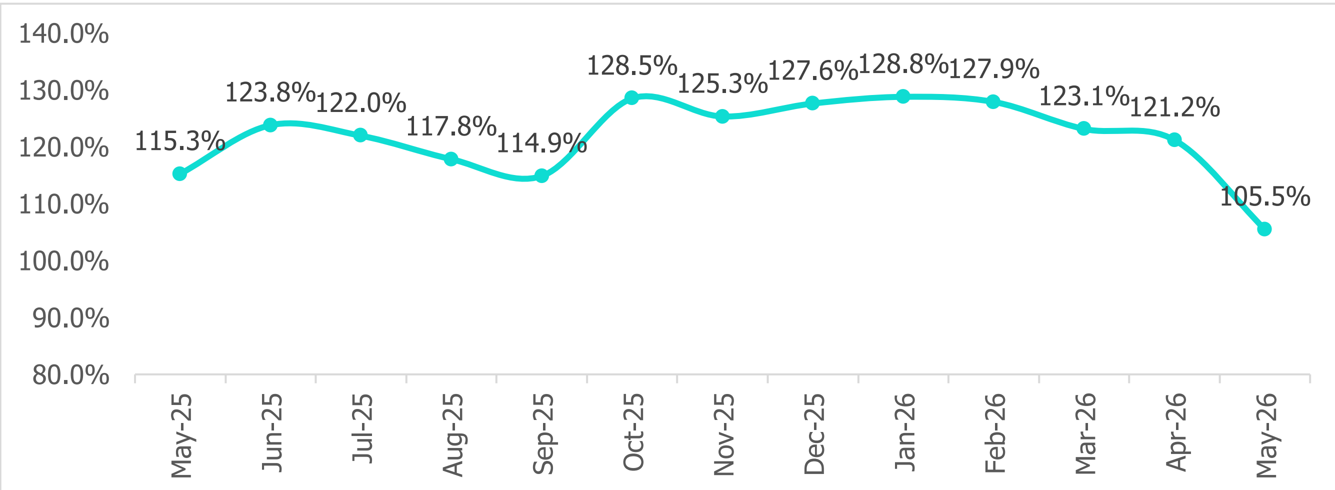
Source: RBI, CareEdge

In May 2026, personal loan growth remained broadly stable across key retail categories, with vehicle loans as the primary driver, while credit card lending continued to slow on y-o-y and m-o-m basis.

- Mortgage loan growth remained steady at 10.9% y-o-y.
- Vehicle loans saw a notable acceleration, growing by 17.3% y-o-y compared to 8.7% a year ago, supported by improved affordability following the GST rate cut and strong consumer sentiment.
- Credit card outstanding recorded a muted growth of 1.3% y-o-y as compared to 8.5% in May 2025.

Personal loan growth is expected to remain resilient over the coming months, driven by sustained demand for vehicle and housing finance and improved liquidity conditions following recent RBI measures. However, tighter underwriting standards and a continued focus on asset quality are likely to keep growth in unsecured retail credit, including credit cards, relatively subdued. Gold loan growth may remain strong, but the pace is expected to moderate as the base effect increases and gold prices stabilise.

Figure 11: Gold Loan Growth Remains Robust Despite Sequential Moderation (y-o-y, %)



Source: RBI, CareEdge

Gold loan growth remained exceptionally strong in May 2026, expanding 105.5% y-o-y, although the pace eased from 121.2% in April 2026. Despite sequential moderation, gold loans remained the fastest-growing retail credit segment, supported by elevated gold prices, sustained demand for secured borrowing, and the reclassification of certain agricultural gold loans into the gold loan category. The sequential moderation indicates a gradual normalisation from the exceptionally high growth recorded in recent months. Going forward, gold loan growth is expected to remain healthy as elevated gold prices continue to support borrowing against gold. However, the pace of growth is likely to moderate further as the high base effect strengthens and growth gradually normalises.

Steady Momentum Continues in Agri Lending

After adjusting for the reclassification of agri-gold loans, credit to agriculture and allied sectors is estimated to have grown by around 15.1% y-o-y in May 2026. This adjusted growth is approximately 20 bps higher than the reported 14.9%, underscoring the continued resilience of agricultural credit.

Conclusion

Bank credit growth remained robust in May 2026, with non-food credit expanding by 17.4% y-o-y, supported by broad-based growth across services, industry, agriculture and personal loans. The services sector continued to lead overall credit expansion, driven by strong lending to NBFCs. In contrast, industrial credit strengthened further on the back of higher borrowing by large corporates in the engineering, metals, chemicals, and infrastructure-related sectors. Personal loan growth remained resilient, supported by vehicle finance and continued strength in gold loans. In contrast, infra lending sustained double-digit growth, led by the power sector amid ongoing public investment and project execution. A significant part of the recent pickup in lending reflects a shift in funding preferences. With domestic bond issuances remaining subdued in May 2026, several NBFCs and large corporates increasingly relied on bank financing to refinance and meet incremental funding needs. At the same time, the government continued. Capex, infrastructure development, and steady domestic demand supported credit growth across sectors. MSME lending also remained resilient, aided by policy support, improved formalisation and sustained financing demand.

Going forward, overall bank credit growth is expected to remain healthy in FY27, with growth gradually normalising over the period following the recent phase of strong expansion, supported by improving liquidity conditions, sustained government capital expenditure, and steady domestic economic activity. The RBI's recent measures to encourage FCNR(B) deposits are expected to strengthen banks' funding base, improve deposit mobilisation, and help narrow the loan-to-deposit gap, thereby supporting further credit expansion. However, the current pace of bank credit expansion is expected to moderate over the coming months. The recent strength in credit growth is partly supported by a favourable base effect, which is likely to fade gradually. At the same time, large borrowers are increasingly diversifying their funding sources towards market-based instruments. The RBI's forex swap facility has reduced the effective hedging cost for eligible borrowers (PSUs, infrastructure, power sector entities, large NBFCs) from around 2.8% to a fixed 1.5%, lowering the all-in cost of overseas borrowings by approximately 129 bps and making ECB funding more attractive, particularly for large NBFCs, infra and power-sector PSUs with significant long-term funding requirements.

In addition, the domestic bond market has become favourable as G-sec yields continue to soften. The 10-year G-sec yield benchmark moderated to around 6.75% at end of June 2026 from 7.00% a month earlier, supported by easing concerns over global fiscal pressures following the announcement of the US-Iran peace agreement. The downward shift in the G-sec yield curve across maturities is expected to improve domestic bond market conditions, with yields likely to average 6.8%–6.9% during FY27, assuming an average Brent crude price of around USD 90 per barrel. Lower benchmark yields are expected to reduce borrowing costs in the domestic debt market, encouraging NBFCs and large corporates to increasingly access bonds and NCDs for incremental funding requirements. Consequently, while overall credit demand is expected to remain healthy, a larger share of financing requirements is likely to be met through ECBs and domestic debt markets rather than bank borrowings, leading bank credit growth to taper gradually from the current elevated levels and normalise over the coming quarters.

However, downside risks remain. Any renewed escalation in geopolitical tensions in West Asia or sustained increase in crude oil prices beyond current assumptions could raise input costs, disrupt trade flows, and weigh on investment activity. Nevertheless, continued policy support, including ECLGS 5.0 for eligible borrowers, is expected to support credit flow to MSMEs and help maintain overall credit quality.

Appendix: Deployment of Gross Bank Credit by Major Sectors

Sector	Rs lakh crore		(Y-o-Y) (%)	
	May 25	May 26	May 25 vs May 24	May 26 vs May 25
Gross Bank Credit	**182.9**	**215.2**	**9.0**	**17.7**
Food Credit	**0.7**	**1.4**	**75.3**	**94.1**
Non-food Credit	**182.2**	**213.8**	**8.8**	**17.4**
Agri and Allied Activities	**23.0**	**26.4**	**7.5**	**14.9**
Industry	**39.3**	**46.2**	**5.3**	**17.5**
Micro and Small	8.5	10.7	13.7	26.2
Medium	3.7	4.5	16.9	21.2
Large	27.2	31.1	1.5	14.4
Services	**50.2**	**60.5**	**8.4**	**20.4**
Transport Operators	2.7	2.9	8.5	7.6
Computer Software	0.3	0.5	32.0	54.9
Tourism, Hotels and Rest	0.9	1.0	8.6	22.0
Shipping	0.1	0.1	12.8	41.0
Aviation	0.5	0.6	1.7	25.8
Professional Services	2.0	2.2	9.1	12.0
Trade	11.6	13.6	10.4	17.3
Commercial Real Estate	5.4	6.4	14.8	18.7
NBFCs	15.6	20.9	1.0	33.7
Other Services	11.2	12.2	14.3	8.9
Personal Loans	**60.8**	**70.2**	**11.1**	**15.4**
Consumer Durables	0.2	0.2	-3.7	-2.6
Housing	30.4	33.7	9.0	10.9
Advances against FDs	1.4	1.5	16.2	8.1
Advances to Ind against share	0.1	0.1	1.6	8.3
Credit Card	2.9	2.9	8.5	1.3
Education	1.4	1.6	14.1	14.0
Vehicle Loans	6.4	7.5	8.7	17.3
Loans against Gold Jewellery	2.5	5.1	132.7	105.5
Other Personal Loans	15.5	17.4	7.2	12.5

Source: RBI

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