Credit Grows at 16.5%, Hits Eight-Quarter High in Q1FY27

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Synopsis

Bank credit grew 16.5% year-on-year in Q1 FY27 to Rs 213.6 lakh crore, the fourth straight quarter of acceleration, while deposits grew more slowly by 11.3% to Rs 256.5 lakh crore. A large part of the credit growth came from corporates and NBFCs shifting their borrowing from bond markets to banks. This pushed finance-sector credit up 22.4%, against just 7.0% a year ago. Trade credit also grew well above the system average of 16.5%. Personal loans continued to grow, but at a slower pace. Within industry, growth was uneven — overall industrial credit rose 15.5%, yet infrastructure construction credit shrank 1.1%. PSBs led the credit expansion, with their loan-to-deposit ratio (LDR) jumping over 500 bps in a year to 79%, while private banks' LDR rose just 48 bps to 92.6%; PSBs gained 37 bps of aggregate credit share to 54.1%, and private banks picked up 91 bps of deposit share to 36.6%. On pricing, loans stopped shifting into lower rate brackets for the first time since February 2025, so outstanding lending rates stayed flat even as deposits continued to reprice lower — a mix that supports margins. Deposits are growing slower than loans, and this gap has been widening — to 512 bps in Q1FY27 from 290 bps in Q4FY26. As a result, the system LDR touched a record 83.3%, above the December 2025 peak of 82.7%. With the CASA ratio also slipping 61 bps to 37.6%, FCNR(B) inflows have been an important stopgap source of funds.

"Bank credit growth rose to an eight-quarter high of 16.5% in Q1FY27, while deposits grew 11.3%, widening the credit-deposit gap to 512 basis points and taking the loan-deposit ratio to a record 83.3%. Substantial FCNR(B) inflows are expected to ease near-term funding pressures and support bank liquidity. However, they do not eliminate the structural challenge of credit growth outpacing underlying domestic deposit growth. Improved system liquidity has lowered short-term borrowing costs and reduced certificate-of-deposit issuance. Credit demand remained broad-based, driven by working-capital requirements and large borrowers shifting from bond markets to bank funding as bond yields stayed elevated — a trend that PSL dispensation for FCNR(B) on-lending may further reinforce" - Vineet Jain, Senior Director, CareEdge Ratings

Credit-Deposit Gap Widens To 512 bps in Q1FY27

Credit and deposit growth moved further apart in Q1FY27. Credit grew 16.5% against deposits at 11.3% — a gap of 512 bps, the widest in eight quarters. PSBs continue to account for 54.1% of all-India credit and 57% of deposits, but PVBs gained deposit share.

Figure 1: Deposits and Credit Share (%)

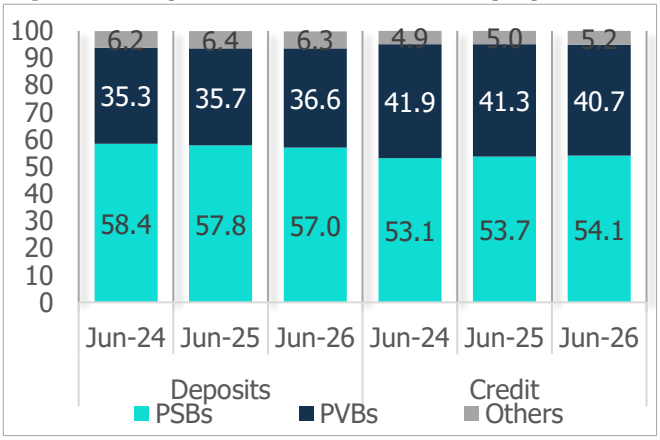
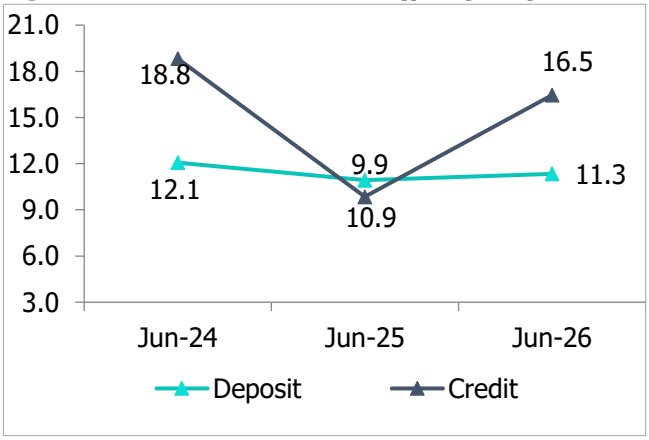


Figure 2: SCBs Growth Trend (y-o-y, %)



Note: Data excluding RRBs; Source: RBI

Analysis Of Credit

PSB Credit growth of 17.3% is 250 bps higher than PVBs; the gap is narrowing

Total credit outstanding grew 16.5% year-on-year to Rs 213.6 lakh crore as of June 30, 2026, up from 9.9% growth a year earlier, while total deposits grew 11.3% to Rs 256.5 lakh crore. Public sector banks (PSBs) expanded credit by 17.3% in Q1 FY27, compared with 14.8% for private sector banks (PVBs). PSBs have shown higher credit growth than PVBs since Q2 FY25, but the gap is narrowing as PVB credit growth has accelerated for four quarters in a row, rising from 8.3% in Q1 FY26 to 14.8% in Q1 FY27 and trimming the PSB–PVB credit growth differential to 250 basis points from 267 basis points a year ago. SBI led the PSB pack, with domestic advances growing 18.2% versus 16.8% for other PSBs, and raised its credit market share by 29 basis points to 20.0%. SBI's deposit growth of 9.6% matched other PSBs but trailed the system, so SBI's deposit market share fell by 35 basis points to 22.5%. The PVB catch-up on credit is supported by faster deposit mobilisation and reduced caution on unsecured retail loans as asset quality in that segment improves. The PSB LDR is now 530 basis points above their 12-quarter average of 73.7% and at the highest level in the series, leaving less headroom within their historical range to fund further strong credit growth.

Figure 3: Bank Group-wise o/s Credit (Rs lakh cr)

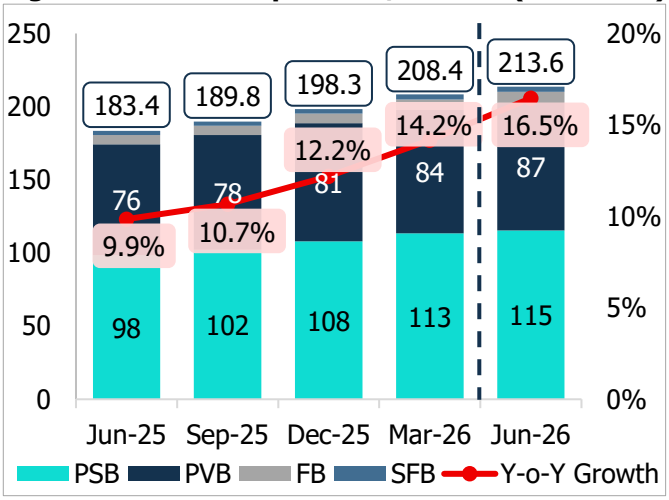
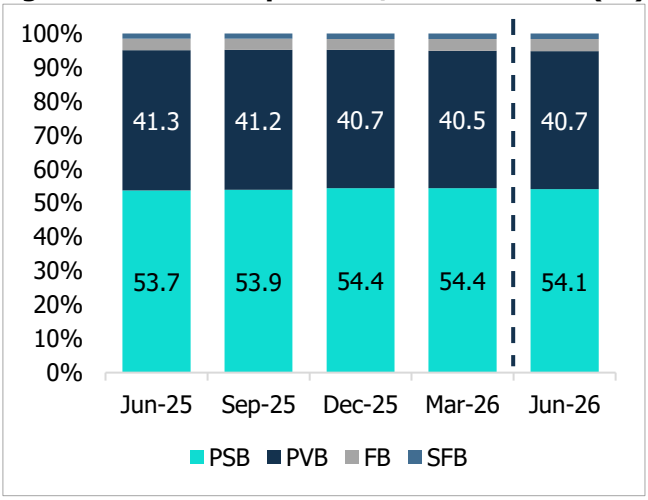


Figure 4: Bank Group-wise o/s Credit Share (%)



Note: Data excluding RRBs; Source: RBI

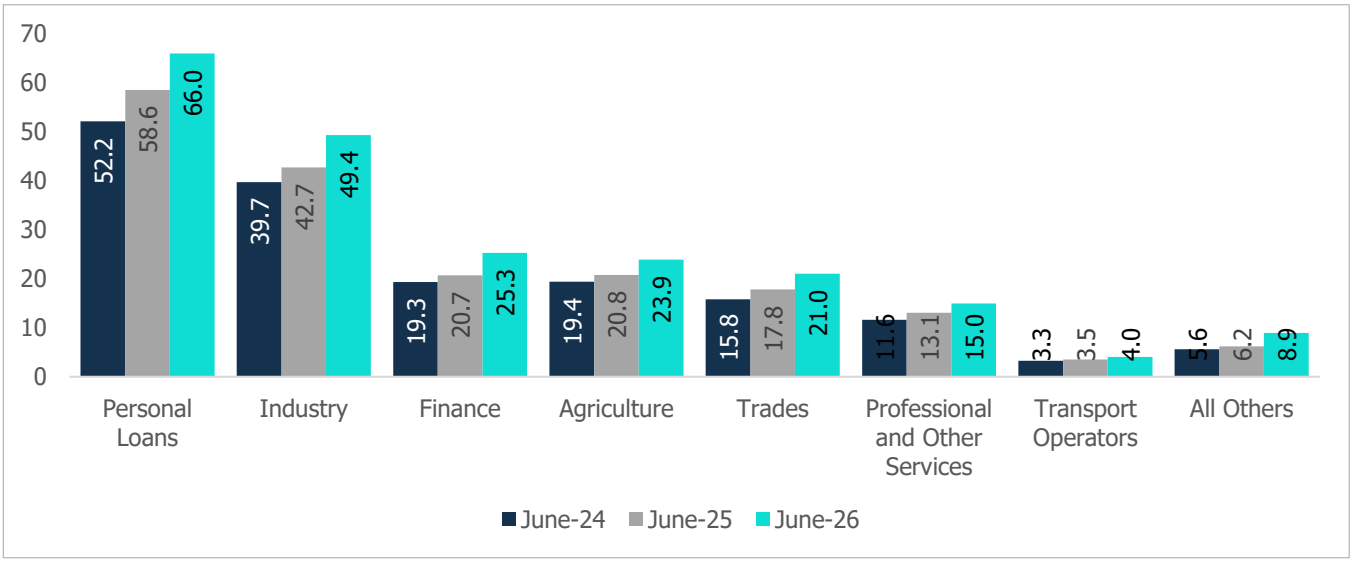
Credit growth is broad-based, but its leadership has moved to the financial sector and trade

In Q1 FY27, the centre of gravity in credit growth has shifted away from personal loans to the finance sector (mainly NBFC lending) and other non-retail categories. Personal loans, which drove the last credit cycle, are now the laggard, while every major category is growing faster than the 9.9% growth the entire system managed a year ago.

Personal loans grew 12.7% (versus 12.3% a year earlier), so the segment did not slow much in growth terms; instead, the other segments accelerated around it, causing its share of total credit to fall to 30.9% from 32.0%. Within the Personal Loan category, housing loans grew 10.7% and credit cards just 4.8%, while "other personal loans" (which includes gold loans) surged 16.9%. SBI mirrors this trend: its retail personal advances grew 15.15% versus 18.15% for its total domestic book, with home loans at 12.75% and personal gold loans jumping 97.54%. Overall, the gold-loan surge was mainly due to existing borrowers leveraging higher gold prices to borrow more and refinance existing debt, alongside a pullback in unsecured personal loans among borrowers who hold both, signalling a shift from unsecured to secured retail lending.

The finance-sector credit (mainly bank finance to NBFCs) surged 22.4% to Rs 25.3 lakh crore, contributing around 15% of incremental system credit—a sharp uptick from just 7.0% growth a year earlier, when it was the biggest drag on overall credit. This rebound reflects two key drivers: the RBI's withdrawal of higher risk weights on bank–NBFC lending (effective April 2025), which freed up bank capital, and hardening bond yields, which pushed NBFCs and even large corporates toward bank funding instead of the bond market.

Figure 5: Occupation-wise o/s Credit Growth y-o-y (%)



Note: Data excluding RRBs; Source: RBI

Industry credit grew 15.5% year-on-year (versus 7.6% a year earlier). Still, this strength masks a sharp divergence within the segment: while manufacturing sub-sectors such as engineering (+26.9%), electrical machinery (+39.1%), vehicles and transport equipment (+37.4%), mining (+33.4%), and petroleum products (+24.6%) posted robust growth, infrastructure construction contracted by 1.1%. This degrowth in credit to infrastructure construction stands out against broader industrial credit expansion and points to a slowdown in infra lending. The pattern across industry, trade, and agriculture is consistent with working-capital and input-cost financing growing rather than fresh capacity creation: trade credit grew 18.1%, led by wholesale trade at 25.7%, and agricultural credit rose 15.1%, with direct finance to cultivators up 16.5% versus just 5.9% for indirect finance. This aligns with listed private manufacturers reporting fixed-asset growth halved to 5.2% in H2FY26 (from 10.3% in H1 FY26), even as cash holdings increased. Meanwhile, the residual "all other" occupations category surged 44.3% to Rs 8.9 lakh crore, accounting for nearly a tenth of the year's incremental credit, further underscoring that the current credit cycle is being driven by operational funding.

Credit growth above 20% in four of six regions; Western region lags at 8.3%

Regional credit growth was broad-based in Q1FY27; Southern (21.3%), Eastern (20.4%) and Central/Northern (20.2% each) all grew faster than the system. The Western region was the exception at 8.3%, reflecting lower reported credit in Maharashtra, where outstanding credit stood at Rs 53.5 lakh crore in June 2026 against Rs 59.4 lakh crore in March 2026, alongside a reduction of 11.7 million loan accounts and Rs 7.4 lakh crore in sanctioned limits. Maharashtra's credit grew 4.4% y-o-y. Excluding Maharashtra, all-India credit growth was 21.1% and Western region growth 26.9%.

Figure 6: Region-wise o/s Credit and Growth

Credit	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Growth %
(Region)	Rs lakh crore					Y-o-Y
Northern	36.5	37.7	39.4	41.0	43.8	20.2
North-Eastern	2.1	2.1	2.2	2.3	2.4	16.5
Eastern	13.1	13.5	14.0	14.7	15.8	20.4
Central	17.3	17.9	18.7	19.4	20.8	20.2
Western	62.0	64.4	67.2	71.4	67.1	8.3
Southern	52.5	54.3	56.8	59.6	63.7	21.3
Total	**183.4**	**189.8**	**198.3**	**208.4**	**213.6**	**16.5**

Note: Data excluding RRBs; Source: RBI

Credit to metropolitan region grows slowest at 13.1%, against 21% for the rest of India

By population group, credit deepening beyond metros continued: urban (21.4%), semi-urban (21.6%) and rural (21.1%) all grew well ahead of metropolitan credit (13.1%), pulling the metro share down 172 bps y-o-y to 58.0%.

Figure 7: Population Group-Wise Outstanding Credit

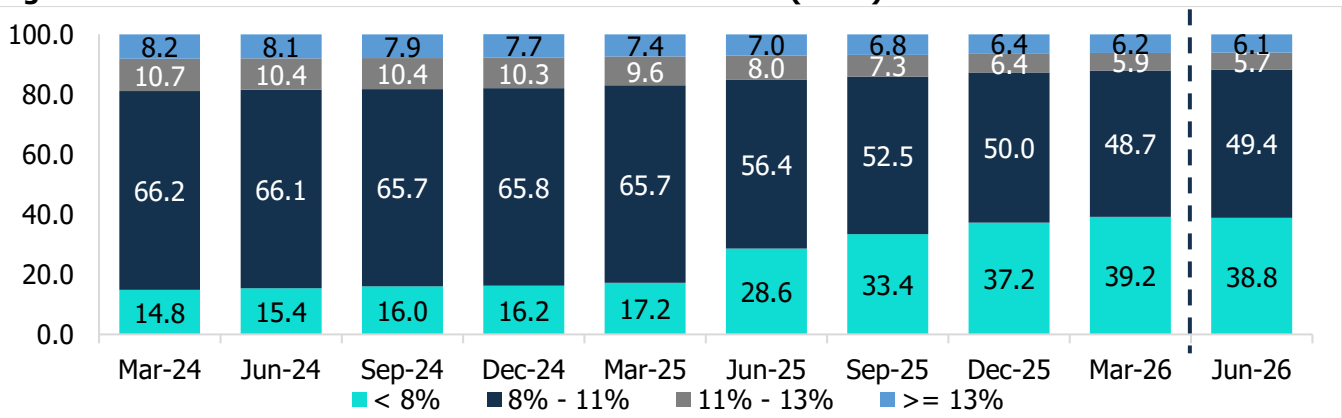
Credit	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Growth %
(Population Group)	Rs lakh crore					Y-o-Y
Metropolitan	109.5	113.4	118.2	124.6	123.9	13.1
Rural	14.5	14.9	15.9	16.5	17.5	21.1
Semi-urban	25.7	26.7	28.1	29.5	31.3	21.6
Urban	33.7	34.7	36.2	37.7	41.0	21.4
Total	**183.4**	**189.8**	**198.3**	**208.4**	**213.6**	**16.5**

Note: Data excluding RRBs. Source: RBI

Lending Rates Stopped Falling This Quarter, and PSBs Turned First

The interest rate profile of bank credit for the last three quarters told a single story of loans migrating into lower rate brackets. The trend reversed in Q1 FY27, as the transmission of earlier policy-rate cuts appeared to have run its course. The 5%-8% lending-rate buckets declined by 39 basis points sequentially to 37.5%, marking its first contraction since the repricing cycle began, while the 8–11% bucket expanded by 71 basis points. This represents a shift towards higher-yielding loans rather than a statistical effect of portfolio growth: the 5–6% and 6–7% buckets contracted by 14.0% and 7.6%, respectively, whereas the 7–8% and 8–9% buckets grew by 6.7% and 9.5%.

Figure 8: Movement in Interest Rate Buckets for Advances (In %)



Note: Data excluding RRBs. Source: RBI

The reversal was driven primarily by PSBs, whose share of loans priced in the 5–8% range fell by 95 basis points sequentially, compared with a marginal 19 basis point increase for PVBs. This divergence reflects differences in loan pricing structures. PVBs have a higher proportion of floating-rate loans linked to external benchmarks. PSBs, by contrast, have a larger share of MCLR-linked loans, whose pricing is more sensitive to aggregate funding costs, which have remained elevated and have begun pushing lending rates higher.

At the aggregate level, the increase in segment-level lending rates has not yet translated into a broad-based rise in lending yields. The weighted average lending rate (WALR) on outstanding credit stood at 9.26%, down 45 basis points year-on-year, while the housing-loan WALR remained broadly stable at 7.75%, down just 2.6 bps quarter-on-quarter from 7.78% in March 2026. Lending rates for finance, transport, trade, and consumer durables, however, increased. Banks have consequently shifted toward secured, better-rated, and lower-yielding assets, keeping the aggregate lending rate range-bound despite higher rates in several segments.

Figure 9: Share of Loans Priced 5-8% (%)

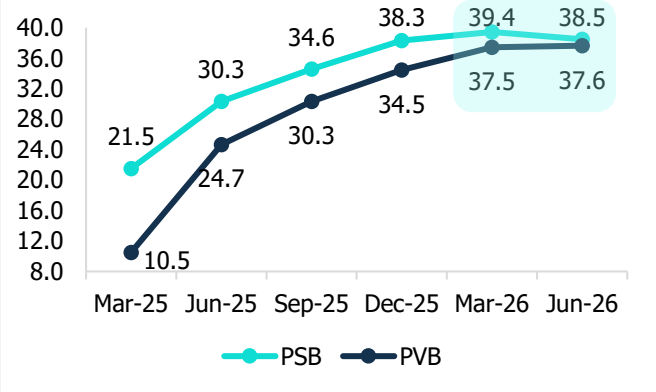
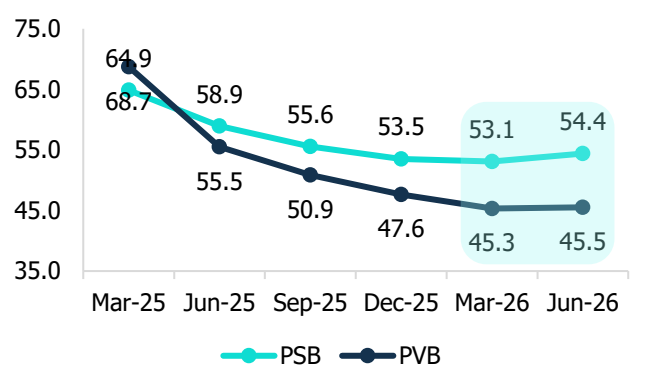


Figure 10: Share of Loans Priced 8-11% (%)



Note: Data excluding RRBs. Source: RBI

Analysis Of Deposits

Deposit growth of PVBs at 14.2% is 450 bps higher than PSBs

Deposits grew 11.3% year-on-year in Q1 FY27, marking the fastest growth in eight quarters. PVBs led deposit growth at 14.2%, significantly ahead of PSBs at 9.7%. As a result, PVBs increased their share of total deposits by 90 basis points year-on-year to 36.7%, marking their largest annual gain since Q2 FY25.

Figure 11: Bank Group-wise Deposits (Rs lakh cr)

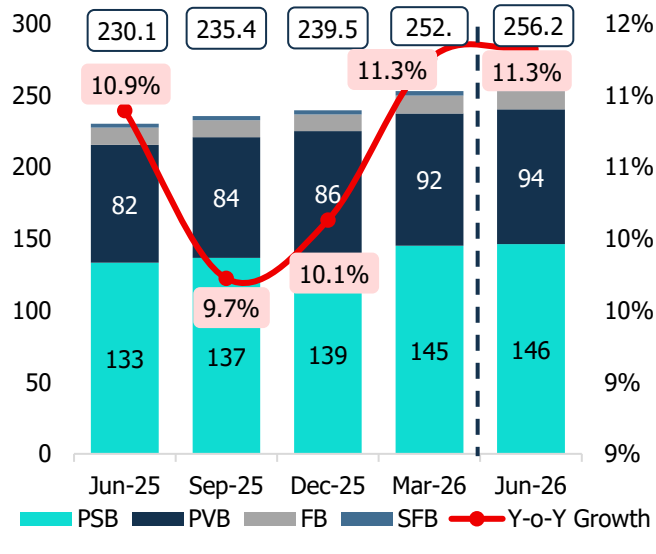
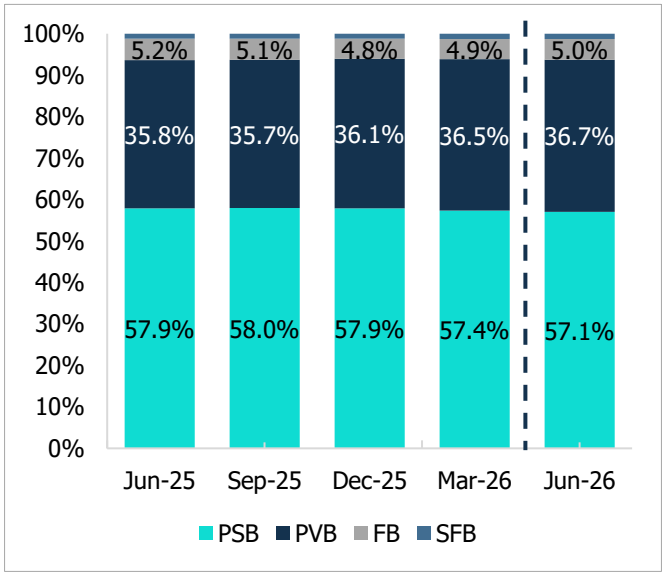


Figure 12: Bank Group-wise Deposit Share (%)



Note: Data excluding RRBs; Source: RBI

Term Deposit growth slows to 12.5%, while Savings Deposit growth picks up to 10.6%

Term deposits continued to drive deposit growth, reflecting depositors' sustained preference for interest-bearing products. Within low-cost CASA deposits, savings deposits gained momentum, while current-account growth moderated. Households remained the largest depositor segment, although their share declined marginally, indicating a continued shift in household savings towards higher-yielding financial assets. This trend is reshaping banks' funding mix and raising funding costs.

Figure 13: SCBs Deposits (Rs Lakh Cr)

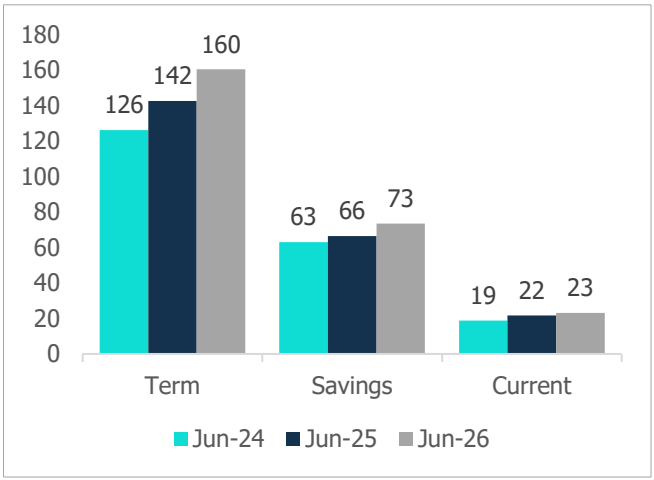
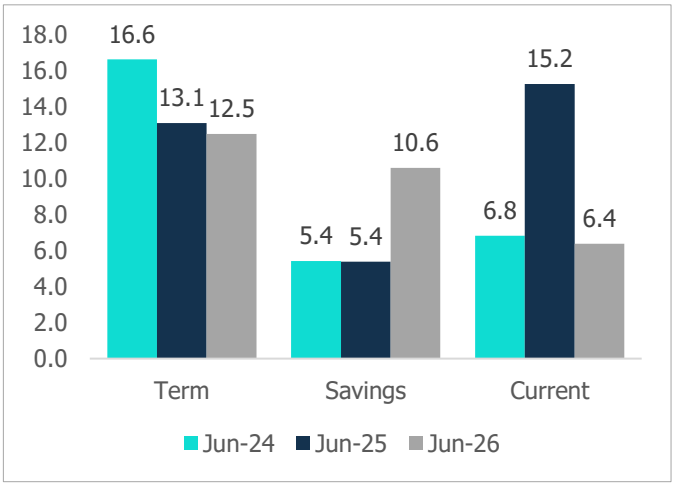


Figure 14: SCBs Deposits Growth (%), y-o-y



Note: Data excluding RRBs. Source: RBI

Although CASA balances continued to increase in absolute terms, their share of total deposits remained under pressure. The pace of this decline has moderated compared with a year earlier, suggesting some stabilisation, but the trend has not yet reversed. PSBs continue to maintain a stronger CASA franchise than PVBs, reflecting greater resilience in mobilising low-cost deposits. The traditional inverse relationship between CASA share and the interest-rate cycle appears to have weakened, suggesting that pressure on low-cost deposits may persist even after interest rates stabilise. FCNR(B) mobilisation will support deposit growth in Q2FY27.

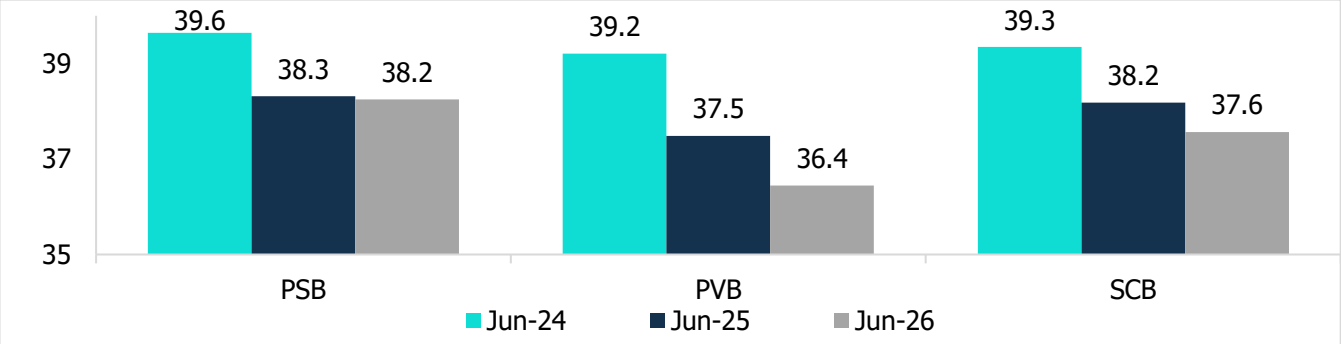
CASA growth for PVB at 11% is 140 bps higher than PSB; SFB CASA grows at 24.6% on a low base

Figure 15: Bank Group – Wise CASA

	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Growth %
	In lakh Crore					Y-o-Y
PSB	51.0	52.5	53.1	56.2	55.9	9.6
PVB	30.8	31.7	32.2	35.2	34.2	11.0
FB	5.0	4.6	4.3	4.8	4.9	-3.2
SFB	0.8	0.9	0.9	1.0	1.0	24.6
All SCB	**88.0**	**89.9**	**90.8**	**97.6**	**96.4**	**9.5**

Note: Data excluding RRBs. Source: RBI

Figure 16: CASA Ratio Trend (%)



Note: Data excluding RRBs. Source: RBI

Southern region deposit grows at 13.9%, 250 bps higher than the national average

Deposit growth remained strongest in the Southern (13.9% y-o-y) and Central (13.0%) regions. By population group, rural (13.2%) and semi-urban (13.0%) deposits continued to grow faster than urban (10.9%) and metropolitan (10.7%) deposits for the fourth consecutive quarter, indicating that the trend is becoming more broad-based and sustained.

Figure 17: Trend in Deposits-Region Wise

Deposits	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Growth %
	Rs lakh crore					Y-o-Y
Northern	47.6	49.3	49.9	52.1	53.1	11.4
North-Eastern	3.6	3.7	3.7	3.9	3.8	6.7
Eastern	26.6	27.4	27.9	28.9	29.1	9.3
Central	29.3	30.2	30.9	32.5	33.1	13.0
Western	67.6	67.7	68.7	73.7	74.0	9.6
Southern	55.7	57.5	58.8	62.2	63.4	13.9
Total	**230.4**	**235.7**	**239.8**	**253.3**	**256.5**	**11.3**

Note: Data excluding RRBs. Source: RBI

Rural/Semi-urban region deposit growth at 13% is at least 200 bps higher than Metro/Urban.

Figure 18: Population Group-wise Deposits

Deposits	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Growth %
	Rs lakh crore					Y-o-Y
Metropolitan	125.8	128.0	129.5	138.4	139.3	10.7
Urban	48.8	50.0	51.0	53.1	54.1	10.9
Semi-urban	35.1	36.3	37.3	38.8	39.7	13.0
Rural	20.7	21.4	22.0	23.0	23.4	13.2
Total	**230.4**	**235.7**	**239.8**	**253.3**	**256.5**	**11.3**

Note: Data excluding RRBs. Source: RBI

The Outstanding Deposit Book Repriced Lower Even as Fresh Deposit Costs Rose

The average rate on banks' outstanding deposits continued to fall in Q1FY27, but for a reason that is running out. This was mainly because high-rate deposits raised in FY26 matured and were renewed at lower rates. As a result, deposits in the 7–9% rate band fell to 33.0%, while deposits in the 5–7% band increased to 61.8%. Deposits below 5% accounted for 5.1%. However, this benefit from older deposits is gradually reducing. Banks offered higher rates on new deposits in Q1FY27 as competition for funds increases. Measured from the start of the easing cycle in February 2025, the cumulative fall in fresh deposit rates stood at 85 bps in April 2026 but only 63 bps by June

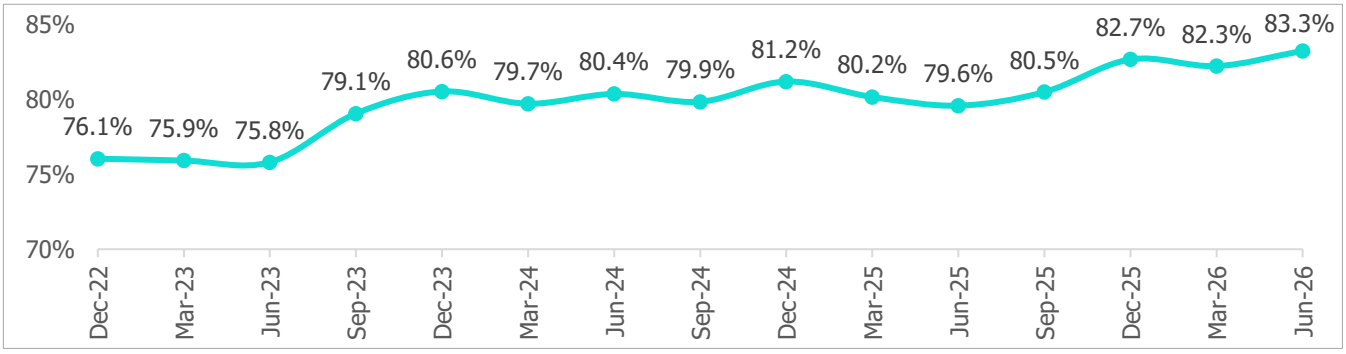
2026, against 125 bps of policy-rate cuts over the same period. In effect, banks raised rates on new deposits between April and June, giving back part of the earlier reduction even as the outstanding book continued to reprice lower. Certificate of deposit issuances also increased to Rs 1.71 lakh crore in June, against the usual seasonal pattern, driven by credit growth outpacing deposit growth.

Analysis Of Loan – Deposit Ratio Trends

A new LDR high of 83.3% in a June quarter - removes seasonality as an explanation

The loan-to-deposit ratio (LDR) rose to a record 83.3% as of June 30, 2026, from 79.6% a year earlier and 82.3% in March 2026. The previous high of 82.7% was recorded in December 2025, when the ratio is usually higher due to seasonal factors. However, the latest peak came in June, a quarter when the ratio is not seasonally elevated. This suggests the current level reflects an underlying funding gap rather than a seasonal effect. The recent rise is driven mainly by public sector banks (PSBs), whose LDR increased to 79.0% from 73.9% a year earlier, compared with an average of 73.7% over the preceding 12 quarters. This indicates that PSBs are operating well above their historical range. The LDR of private sector banks remained broadly stable at 92.6%.

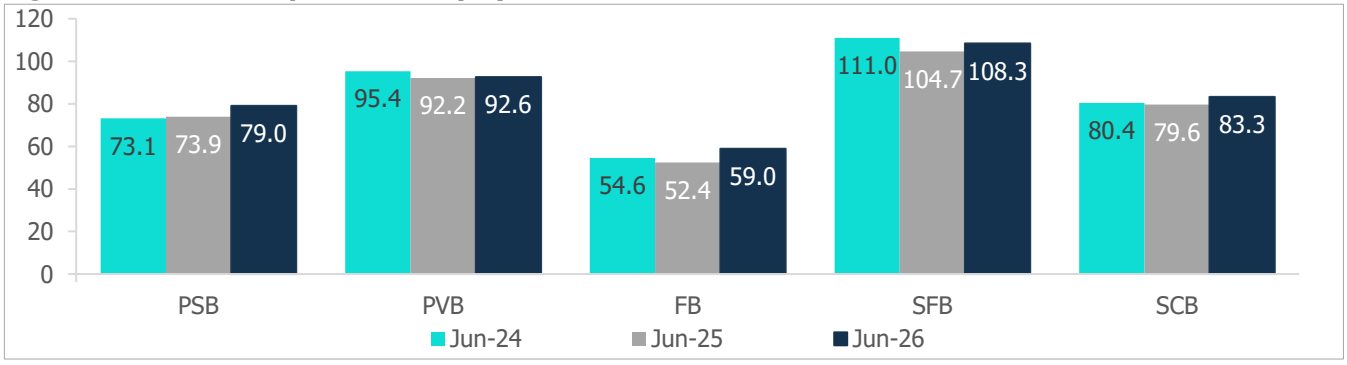
Figure 19: Loan-Deposit Ratio trend - LDR Reached a New High



Note: Data excluding RRBs. Source: RBI

Banks met the funding gap through wholesale borrowings and liquidity buffers. Certificate of deposit issuances increased to Rs 13.5 lakh crore in FY26 from Rs 11.9 lakh crore in the previous year. Banks also reduced their excess statutory liquidity to support lending. As a result, the aggregate liquidity coverage ratio (LCR) declined to 124.2%, while the net stable funding ratio (NSFR) fell to 122.1%. Both ratios remain comfortably above the regulatory minimums, but they are lower than before. Regulatory changes provided additional support. From April 1, 2026, the revised LCR framework introduced a 2.5% additional run-off factor for retail deposits linked to internet and mobile banking, compared with the initially proposed 5%. However, wholesale borrowing, liquidity buffers, and regulatory support are not recurring sources of funding.

Figure 20: Bank Group-Wise LDR (%)



Note: Data excluding RRBs. Source: RBI

LDR for the Southern (100.4%) and Western (90.6%) regions is above the national average

Regionally, the Southern region's LDR crossed 100% for the first time, at 100.4%, while the Western region fell to 90.6%. Both movements reflect the regional credit distribution discussed earlier rather than any change in deposit mobilisation in either region. Across population groups, the ratio rose, with metropolitan centres at 88.9% and rural centres at 74.8%.

Figure 21: Region-wise LDR (%)

Regional Group	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
Northern	76.6	76.3	78.9	78.7	82.6
North-Eastern	57.5	57.8	60.4	58.5	62.8
Eastern	49.2	49.2	50.3	50.8	54.2
Central	59.1	59.2	60.5	59.7	62.9
Western	91.7	95.1	97.9	96.9	90.6
Southern	94.3	94.5	96.6	95.7	100.4
Total	**79.6**	**80.5**	**82.7**	**82.3**	**83.3**

Note: Data excluding RRBs. Source: RBI

Figure 22: Population-wise LDR (%)

Population Group	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
Metropolitan	87.1	88.6	91.3	90.0	88.9
Urban	69.2	69.4	70.9	71.1	75.7
Semi-urban	73.1	73.6	75.3	75.9	78.7
Rural	69.9	69.9	72.0	71.7	74.8
Total	**79.6**	**80.5**	**82.7**	**82.3**	**83.3**

Note: Data excluding RRBs. Source: RBI

The FCNR(B) Swap Facility (Post Quarter)

Funding pressure eased after the RBI introduced dollar–rupee swap windows. These windows supported fresh 3–5-year FCNR(B) deposits, NRE deposits, PSU ECBs and banks' overseas foreign-currency borrowings. By August 31, mobilisation stood at USD 136.4 billion, including USD 127.2 billion through FCNR(B) deposits, USD 5.3 billion through overseas borrowings and USD 3.9 billion through ECBs. However, this was gross mobilisation and included renewed deposits. The FCNR(B) stock increased from USD 32.6 billion in early June to USD 60.6 billion by end-July, with nearly half the inflows arriving in the final ten days. These inflows helped deposit growth rise to 18.6% at the end of August. The credit–deposit growth gap therefore narrowed to around 360 bps from about 500 bps. CD issuance fell to Rs 68,130 crore in August from Rs 1.71 lakh crore in June, as banks repaid costlier wholesale borrowings. Three-month CD rates declined by about 130 bps, while the system liquidity surplus increased to nearly 4% of NDTL. After the FCNR(B) window closed, banks cut deposit rates from around 6.00–6.50% to 3.00–3.50%. This shows that the RBI's subsidy supported a significant part of the earlier rate. The inflows provide temporary relief, but FCNR(B) deposits remain a small share of total deposits. They mature between 2029 and 2031, while RBI's net short forward dollar position reached a record USD 136.8 billion. Thus, the facility buys time but does not change the underlying issue that credit growth is still outpacing deposit growth.

CareEdge Ratings' View

As per Saurabh Bhalerao, Director, CareEdge Ratings, "Deposit mobilisation is now the key thing to watch. FCNR(B) inflows temporarily narrowed the credit-deposit growth gap. Still, the deposit window has since closed, and the one-year median MCLR is already above year-ago levels, suggesting funding costs could firm again. Competition for household savings will likely persist as savers keep favouring higher-yielding alternatives, and the LDR leaves less headroom than at any point in this data series. Asset quality remains a source of comfort, not concern, though geopolitical risks to input costs and export-oriented borrowers could weigh on both credit demand and repayment capacity."

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