

# DECODING CREDIT

## VOLUME II



## II INDIA'S RETAIL LENDING LANDSCAPE

Assessing Credit Performance in 2025;  
and the Path Ahead in 2026

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# Purpose of the Report

***"After years of rapid expansion, India's lending ecosystem entered CY2025 at a crossroads - where growth began to be tested by risk, regulation, and changing borrower realities."***

The purpose of this report is to present a comprehensive, product-wise assessment of India's lending landscape during CY2025 - a year that represented a meaningful inflection point in the evolution of the country's credit markets. Following several years of rapid post-pandemic expansion, CY2025 marked a phase of growth normalisation, shaped by changing borrower behaviour, recalibrated lender strategies, and a sharper regulatory focus on credit quality and systemic resilience.

Moving beyond aggregate credit growth metrics, the report offers a granular analysis of loan performance across key segments, including housing loans, auto loans, personal loans, credit cards, and microfinance. It examines demand and supply dynamics, key growth and performance drivers, trends in disbursements and asset quality, and segment-specific outlooks, capturing how different lending products responded to evolving economic conditions and policy signals over the course of the year.

The report also situates lending trends within the broader policy, regulatory, and structural developments observed during CY2025. These include the onset of monetary easing, regulatory interventions aimed at moderating unsecured credit risk, enhancements in credit reporting frameworks, and initiatives to deepen financial inclusion. By linking these developments to observed lending outcomes, the analysis seeks to explain not only what changed during the year, but also the underlying drivers of evolving lending behaviour.

Overall, this report is intended to serve as a reference document for lenders, policymakers, and industry stakeholders, offering a fact-based and analytical perspective on India's credit performance in 2025 and supporting informed decision-making as the lending ecosystem transitions into its next phase of development.

# India's Lending Outlook: CY25

## Housing Loans

### Demand and Supply Dynamics

In CY2025, India's housing loan market continued to exhibit resilient demand, supported by improving affordability conditions and sustained household aspirations for home ownership. Residential property demand remained underpinned by a more accommodative interest rate environment and favourable affordability metrics across several metropolitan and non-metro regions. Reports during the year highlighted **cities such as Ahmedabad, Pune, and Kolkata among the more affordable housing markets**, aided by easing borrowing costs that translated into lower effective EMIs for home loan borrowers.

On the supply side, lenders across banks, HFCs, and NBFCs maintained active origination momentum throughout 2025. Public sector banks significantly strengthened their position in the housing credit segment, **capturing 43 per cent of home loan originations by value**, thereby overtaking private sector lenders. This shift reflected a strategic recalibration towards secured retail lending amid heightened competition and moderation in other credit segments. NBFCs and specialised HFCs also continued to expand their footprints, particularly in targeted geographies and niche borrower segments.

Overall lender appetite for mortgage financing remained robust through the year, even as growth normalised following the strong post-pandemic expansion phase. According to CRIF High Mark data, **total home loan originations in FY2025 crossed ₹10.7 trillion**, indicating sustained depth in the market despite a moderation in growth rates relative to previous years.

### Key Growth and Performance Drivers

The performance of housing loans in CY2025 was shaped by a combination of macroeconomic, policy, and industry-specific factors.

India's broader macroeconomic stability supported household credit demand during the year. Reserve Bank of India pursued monetary easing through 2025, cumulatively reducing the policy repo rate to 5.25 per cent by December 2025. This easing cycle lowered system-wide borrowing costs and supported credit transmission to retail borrowers, particularly in the housing segment.

In response to policy easing, lenders adopted competitive pricing strategies to attract incremental demand. Several housing finance providers reduced headline home loan rates for high-quality borrowers, mitigating the impact of earlier interest rate volatility. Industry participants emphasised the direct linkage between policy easing and affordability. As noted by Anuj Puri, Chairman of ANAROCK Group, the reduction in policy rates **"effectively lowers the cost of borrowing, making home loan EMIs easier on the pocket and thereby directly improving affordability for buyers."** Such dynamics played a critical role in sustaining housing loan demand, particularly among first-time and middle-income borrowers.

Structural factors continued to underpin medium-term growth in the housing loan market. Demographic trends, urbanisation, and policy support for home ownership contributed to steady demand across income segments. Floating-rate home loan products continued to dominate origination volumes, reflecting borrower preferences in a declining rate environment.

Competitive intensity remained elevated across lenders. While banks leveraged extensive branch networks and balance sheet strength, HFCs and NBFCs expanded reach through focused distribution strategies, co-lending arrangements, and digital origination platforms. These models enhanced access in semi-urban and underserved markets while improving turnaround times and operational efficiency.

## Performance Trends

A trend-focused review of key metrics in CY2025 reveals a dynamic yet stable performance across the housing loan ecosystem:

Housing loan AUM showed consistent expansion through the year, supported by sustained demand and improved credit conditions. For instance, **Bajaj Housing Finance reported a significant 24 per cent year-on-year growth in AUM in the second quarter of FY2026**, with net interest income rising notably alongside credit expansion. Additionally, by the end of December 2025, the **company's AUM had grown approximately 23 per cent year-on-year to around ₹1.33 lakh crore**, underscoring robust balance-sheet growth in the third quarter.

Industry-wide data similarly reflect solid AUM performance, with **non-bank mortgage portfolios projected to expand in the mid-teens range (roughly 18-19 per cent) during FY2025 and FY2026**, reaffirming broader sector momentum.

New home loan disbursements continued to rise throughout the year, propelled by secured credit demand. Across major cities, **home loan disbursements recorded double-digit growth in both volume and value**, with reports indicating **roughly a 10 per cent rise in volume and a 15 per cent increase in value during FY2025**.

Across the sector, housing loan portfolios maintained stable asset quality relative to other retail loan categories. Notwithstanding competitive pressures and evolving macroeconomic sensitivities, gross NPA levels remained comparatively contained, as reflected in lender disclosures such as those from private housing financiers.

Broader lending trends also support these observations. Outstanding bank credit in India, encompassing housing finance among other segments, surpassed **₹200 lakh crore by December 31, 2025, marking roughly a 14.5 per cent year-on-year increase**. This milestone underscores sustained credit demand and favourable lending conditions in the broader financial system.

Taken together, these data points reflect measured expansion in housing loan AUM and disbursements through 2025, alongside stable credit performance and disciplined risk management across banks, HFCs, and NBFCs.

## **Affordable Housing In India**

Affordable housing remained a key structural pillar supporting housing loan demand in India. Government-led initiatives, including credit-linked subsidy mechanisms and incentives for affordable housing construction, continued to improve access to formal housing finance for economically weaker sections and lower-income groups. These measures, combined with policy rate easing, enhanced the viability of home ownership for first-time buyers.

Lenders increasingly aligned product offerings and underwriting frameworks to this segment, focusing on smaller ticket loans, longer tenors, and targeted risk assessment models. Public sector banks and specialised HFCs played a prominent role in expanding credit penetration within the affordable housing segment, leveraging scale and policy alignment. As affordability improved through lower interest rates and supportive policy interventions, affordable housing emerged as a stabilising driver of housing loan growth.

## **Outlook for FY2026**

The outlook for housing loans in CY2026 remains cautiously optimistic. Demand is expected to be supported by affordable housing initiatives, manageable interest rate conditions, and sustained end-user demand from first-time buyers. At the same time, lenders are expected to prioritise disciplined underwriting, stress testing, and co-lending partnerships to manage portfolio risks and operational costs.

Overall, housing loans are likely to record moderate and sustainable growth in CY2026, supported by structural demand drivers and stable credit fundamentals, even as competitive pressures and macroeconomic sensitivities persist.

# Auto Loans

## Demand and Supply Dynamics

In CY2025, auto loans in India exhibited heterogeneous demand and supply patterns. On the demand side, vehicle financing continued to account for a substantial share of automobile purchases. Industry studies indicate that **approximately 75 per cent of all new vehicle acquisitions in India were financed through institutional credit channels in 2025**, with the proportion exceeding 90 per cent in the **passenger car segment**, underscoring the structural reliance on formal credit for vehicle ownership. This dependence remained intact despite moderation in overall growth momentum. Auto loan origination growth slowed to single-digit levels in FY2025, marking a clear normalisation compared with the strong double-digit expansion observed in earlier post-pandemic years.

On the supply side, lenders maintained broad-based underwriting activity across the auto finance ecosystem. NBFCs continued to play a dominant role, accounting for an **estimated 55-60 per cent of total auto loan disbursements**, supported by extensive dealer-finance networks, quicker turnaround times, and flexible product structures. Banks remained active in larger-ticket and fully secured financing segments, while captive finance arms of original equipment manufacturers continued to support vehicle sales. The combined effect was a market environment in which underlying consumer demand remained intact, but growth moderated as the segment matured.

## Key Growth and Performance Drivers

Macroeconomic conditions continued to support auto loan demand in CY2025, with India's broader economic expansion sustaining consumer expenditure on automobiles, particularly in urban and semi-urban markets. Vehicle industry performance also provided a supportive backdrop, with mid- to high-single-digit growth in vehicle sales during FY2025, according to industry data, helping sustain financing demand despite moderation in credit growth.

The interest rate environment remained a critical influence on auto loan pricing and affordability. While monetary policy actions during the year were aimed at moderating excess leverage in certain retail segments, secured lending categories such as auto finance continued to witness competitive pricing and steady credit availability. Reflecting this environment, ICRA observed that **"auto loan growth is expected to remain moderate, tracking vehicle sales volumes, with competitive intensity continuing to exert pressure on yields."**

Structural and regulatory factors also shaped segment performance. The prevailing GST structure for automobiles continued to influence affordability and financing demand, with differential tax treatment supporting electric vehicles and smaller passenger cars while moderating demand for higher-priced vehicles. At the same time, NBFCs expanded product offerings, particularly in used-vehicle financing, leveraging point-of-sale channels and alternative underwriting models to deepen penetration. This trend supported broader access but intensified competitive pressures across lenders.

## Performance Trends

A trend-based assessment of quarterly performance during CY2025 indicates moderated portfolio growth alongside stable asset quality. Auto loans' AUM continued to expand, though at a slower pace than in previous years, consistent with the **single-digit origination growth reported for FY2025**. Disbursement trends broadly tracked vehicle sales cycles, with stronger performance in quarters aligned with higher automobile sales and more tempered sequential momentum in others.

Credit quality indicators remained relatively resilient through the year. Industry-level data indicate that **90+ days past due delinquency levels in auto loans remained near 0.8 per cent toward the end of 2025**, highlighting stable repayment behaviour among borrowers. Gross NPA ratios across auto loan portfolios also remained lower than those observed in unsecured retail credit segments, supported by collateral backing and established repossession and recovery mechanisms. Reflecting this stability, CRISIL Ratings noted that **"asset quality in auto finance has remained stable, aided by conservative underwriting, improving borrower profiles, and effective recovery frameworks."**

## Outlook for CY2026

The outlook for auto loans in CY2026 is cautiously positive. Rating agency assessments project low-to mid-single-digit growth in auto loan portfolios, with credit costs expected to remain broadly stable in the absence of a sharp macroeconomic slowdown. Growth is expected to be supported by steady consumer demand, increasing formalisation of the used-car market, and continued innovation in distribution and underwriting models. At the same time, lenders are likely to remain disciplined in risk calibration amid competitive pressures, ensuring the sustainability of portfolio performance.

# Credit Cards

## Demand and Supply Dynamics

In CY2025, India's credit card market displayed mixed demand and supply signals. On the demand side, consumer usage of credit cards remained robust, supported by sustained discretionary spending and continued digital adoption. Spending volumes rose meaningfully on a year-on-year basis during key months; for instance, **total credit card spending in August 2025 increased by nearly 14 per cent compared with August 2024**, reflecting resilient appetite for unsecured retail credit. Transaction volumes also continued to expand, supported by private sector banks' dominance in the segment and the steady penetration of digital payment infrastructure. **Outstanding balances and spend levels reached elevated levels during the year, with more than 111 million credit cards outstanding by mid-2025**, underscoring the scale and maturity of the market.

However, lender supply behaviour showed caution in deploying new unsecured credit. Several mid-sized banks moderated new credit card issuances and tightened underwriting, contrasting with larger banks that maintained growth strategies despite stress indicators. This variance reflects heterogeneous risk appetites and reinforces a shift toward selective supply expansion.

The cumulative effect was a dynamic where consumer demand remained solid but supply growth was tempered by risk considerations, leading to moderated expansion in outstanding credit card portfolios relative to preceding years.

## Key Growth and Performance Drivers

Macroeconomic conditions continued to support credit card usage in CY2025, with GDP growth and relatively stable consumer confidence sustaining transactional and retail spending. Rising disposable incomes and discretionary expenditure, particularly in urban markets, contributed to higher card usage volumes, even as lenders exercised restraint in new customer acquisition.

The regulatory and interest rate environment played a critical role in shaping supply behaviour. The Reserve Bank of India maintained a strong supervisory focus on unsecured retail credit, with enhanced capital requirements introduced continuing to influence lending decisions through 2025. This regulatory stance aimed to moderate excessive household leverage and was particularly relevant for segments such as credit cards and personal loans, where early signs of stress had emerged. As a result, while pricing and availability remained competitive for prime customers, overall growth in unsecured portfolios slowed.

Asset quality considerations further shaped lender strategies. Data during the year pointed to rising unpaid credit card dues and increasing portfolio-at-risk metrics, particularly in 2025 relative to earlier periods. These trends exerted downward pressure on lenders' risk appetite and reinforced a focus on tighter underwriting, credit limit rationalisation, and enhanced monitoring of existing portfolios. At the same time, the expanding digital payments ecosystem continued to support transaction growth, with mobile-based and online spending driving usage among younger and digitally active customer segments.

## Performance Trends

A review of quarterly performance during CY2025 highlights moderation in growth alongside emerging asset quality pressures. Outstanding credit card balances continued to rise, but at a significantly slower pace than in previous years. RBI and industry data indicate that **credit card advances grew by around 5.6 per cent year-on-year by July 2025, compared with approximately 22 per cent growth during the corresponding period of the previous year**, signalling a marked deceleration in AUM expansion.

New card issuances exhibited volatility across quarters. While certain months, such as July 2025, recorded relatively higher issuance activity, overall growth was constrained by lenders' selective underwriting and heightened risk sensitivity. This approach limited exponential expansion despite strong underlying demand for credit card products.

Asset quality indicators deteriorated modestly during the year. Data pointed to sharp year-on-year increases in overdue credit card bills, with growth observed in higher delinquency buckets, including the 90+ days past due category, indicating rising stress among a subset of borrowers. Industry and credit bureau insights also suggested a gradual increase in gross and net NPA ratios within unsecured retail portfolios, including credit cards, consistent with broader stress signals across consumer credit markets. Collectively, these trends reflected a shift from rapid growth toward balance-sheet consolidation and risk containment.

## Outlook for CY2026

The outlook for credit card lending in CY2026 points to moderate growth anchored in disciplined risk management. Lenders are expected to prioritise portfolio quality over aggressive expansion, leveraging advanced analytics, tighter underwriting norms, and closer monitoring of early warning indicators. While macroeconomic stability and consumer confidence will remain important demand enablers, regulatory oversight and capital considerations are likely to continue shaping product design, pricing, and risk appetite. As a result, the credit card segment is expected to grow at a measured pace, balancing usage-led expansion with asset quality preservation.

# Personal Loans

## Demand and Supply Dynamics

In CY2025, India's personal loan segment continued to expand, albeit at a moderated pace compared with earlier years of rapid growth. According to CRIF High Mark, **outstanding personal loan volumes reached approximately ₹8.80 lakh crore in 2025**, with the **number of loans increasing by about 8.3 per cent year-on-year, even as the total value borrowed declined by 2.9 per cent**. This divergence points to a shift toward smaller ticket sizes and more cautious borrowing behaviour among consumers. At an aggregate level, unsecured retail credit growth, including personal loans, decelerated during the year amid tighter credit conditions and heightened lender risk sensitivity. Sectoral deployment data published by Reserve Bank of India show that **personal loan growth slowed year-on-year in 2025**, down from significantly higher growth rates recorded in 2024.

Despite this moderation, underlying demand drivers remained intact. Personal loans continued to serve as a flexible source of unsecured credit for expenses such as medical needs, travel, debt consolidation, and life-event financing. Market research projections suggest that, supported by rising incomes and evolving consumption patterns, India's personal loan market is expected to grow at a healthy compound annual growth rate over the medium term.

On the supply side, banks, NBFCs, and fintech lenders remained active, with digital origination, pre-approved offers, and algorithm-driven underwriting gaining traction. Fintech-focused NBFCs played a particularly important role in credit deepening, **disbursing more than 10.9 crore personal loans amounting to over ₹1,06,500 crore during FY2024-25**. This expansion highlights the growing role of alternative lenders in reaching underserved and first-time borrowers. At the same time, emerging stress indicators became more visible in digital personal lending portfolios, with **90+ days past due levels rising to around 3.6 per cent**, a six-quarter high, signalling increasing credit quality pressures in small-ticket unsecured loans. As a result, lenders increasingly calibrated supply strategies to balance growth objectives with risk containment.

## Key Growth and Performance Drivers

Macroeconomic and regulatory factors played a central role in shaping personal loan performance in CY2025. India's relatively stable GDP growth and supportive monetary conditions provided a favourable backdrop for consumer credit demand. However, regulatory measures aimed at strengthening prudential buffers continued to moderate growth in unsecured lending. RBI's tightening of capital requirements and supervisory scrutiny on unsecured retail exposures influenced lender behaviour, reinforcing a more cautious approach to balance-sheet expansion.

Asset quality trends also emerged as a key determinant of strategy. RBI data indicate that the **gross non-performing asset (GNPA) ratio for personal loans increased from 1.03 per cent in March 2024 to 1.18 per cent in March 2025**, consistent with broader stress signals across unsecured retail credit. These developments prompted lenders to strengthen underwriting standards, refine borrower segmentation, and enhance early-warning systems.

At the same time, digital adoption continued to reshape distribution dynamics. Fintech platforms and mobile-first lending models expanded reach in Tier II and Tier III cities, lowering access barriers for new-to-credit customers. Embedded lending and alternative data-based credit assessment supported faster disbursals, even as lenders recalibrated risk frameworks. Consumer behaviour also remained supportive, with demand driven by both salaried and self-employed borrowers seeking unsecured credit for discretionary spending and financial consolidation, supported by increasingly tailored digital product offerings.

## **Performance Trends**

Quarterly trends during CY2025 reflect moderated growth alongside rising asset quality pressures. Personal loan assets under management expanded in nominal terms, but the pace of growth slowed materially compared with the high-growth phase of previous years. CRIF High Mark data point to a **deceleration in loan volumes through FY2025**, consistent with broader trends in unsecured retail lending.

Disbursement activity varied across quarters. While fintech NBFCs reported strong sanctioning volumes during FY2024–25, overall lending activity increasingly reflected selective origination practices. Lenders prioritised smaller ticket loans and applied more stringent credit evaluations in response to evolving risk conditions.

Delinquency indicators showed gradual deterioration relative to prior years. RBI and industry reporting highlight a steady increase in GNPA ratios for unsecured retail portfolios, including personal loans, during 2025. Compared with secured retail products, asset quality in personal loans remained weaker, reflecting the absence of collateral. Nonetheless, banks and NBFCs continued to rely on strengthened collection mechanisms, portfolio-level segmentation, and data-driven monitoring to manage risk exposures. Collectively, these trends underscore a transition from rapid expansion toward more measured growth and tighter risk governance.

## **Outlook for CY2026**

The outlook for personal loans in CY2026 points to measured and selective growth, supported by continued digital expansion and rising demand from younger, aspirational borrowers. Fintech partnerships, alternative data usage, and analytics-driven underwriting are expected to enhance access, while strict regulatory oversight and higher capital requirements are likely to constrain excessive risk-taking. As a result, lenders are expected to focus on balancing credit accessibility with portfolio resilience, positioning the personal loan segment for sustainable, moderate growth in the coming year.

# Microfinance Loans

## Demand and Supply Dynamics

In CY2025, India's microfinance loan segment experienced a pronounced moderation in growth, driven by rising borrower stress, regional over-leveraging, and a cautious recalibration by lenders. While structural credit demand among low-income households remained intact, particularly for consumption smoothing, livelihood support, and small income-generating activities, effective demand weakened in several regions as repayment capacity deteriorated amid inflationary pressures and uneven income recovery. According to CRIF High Mark, **microfinance loan growth slowed sharply during FY2025 following multiple years of rapid expansion, reflecting both borrower-level stress and tighter lender screening.**

On the supply side, NBFC-MFIs, small finance banks, and banks significantly curtailed fresh disbursements through 2025. Lending activity was selectively paused in high-stress geographies, with institutions reducing ticket sizes, tightening borrower eligibility norms, and prioritising repeat borrowers with established repayment histories. Media reporting by Business Standard highlighted that **lenders increasingly adopted a conservative stance as delinquencies rose across several states.** As a result, 2025 reflected a divergence between sustained underlying borrower need and constrained credit supply, leading to subdued portfolio growth relative to earlier years.

## Key Growth and Performance Drivers

Asset quality stress emerged as a dominant influence on microfinance performance during CY2025. Credit bureau data and rating agency assessments pointed to deterioration in repayment behaviour, particularly in the 30+ and 90+ days past due buckets. CARE Ratings noted that **aggressive credit expansion in prior years, combined with borrower overlap across lenders, contributed to elevated stress indicators during 2025, necessitating tighter underwriting and slower growth.**

Regulatory and supervisory oversight also played a critical role. The Reserve Bank of India continued close monitoring of the sector under the revised microfinance regulatory framework, which emphasises borrower-level indebtedness, income assessment, and repayment capacity. In 2025, this framework reinforced discipline across lenders and moderated loan growth in stress-affected regions.

Macroeconomic factors further constrained borrower cash flows. Assessments by NABARD indicated that **elevated food inflation, climatic disruptions, and uneven rural income recovery adversely affected repayment capacity, particularly in agriculture-dependent regions.** In parallel, funding conditions tightened as perceived sector risk increased. According to ICRA, **higher risk perception led to repricing of funding costs**, especially for smaller NBFC-MFIs, prompting a strategic shift toward balance-sheet consolidation rather than growth. Collectively, these factors positioned 2025 as a year of risk containment and portfolio correction rather than expansion.

## Performance Trends

Quarterly performance through CY2025 reflected stress recognition and underwriting recalibration across the sector. Microfinance assets under management continued to grow in absolute terms, but at a significantly moderated pace compared with earlier years. ICRA projected that, **following this slowdown, sector growth could recover to around 10-15 per cent in FY2026**, even as its outlook remained cautious due to lingering asset quality stress and subdued profitability.

Disbursement momentum weakened noticeably across quarters in 2025, particularly during the middle of the year, as lenders curtailed lending in stress-affected states. Business Standard reported that several MFIs reduced fresh loan origination and redirected operational focus toward collections and portfolio stabilisation. Delinquency indicators worsened sequentially, with CRIF High Mark data showing a rise in 90+ days past due ratios across multiple quarters, indicating cumulative stress rather than isolated slippage events. Industry disclosures and media reporting further indicated that several MFIs recorded higher gross NPA ratios during FY2025, with asset quality remaining weaker than long-term averages despite marginal improvements in collection efficiency toward the end of the year. Overall, quarterly trends underscored a shift toward balance-sheet consolidation and tighter risk governance.

## Outlook for CY2026

The outlook for microfinance lending in CY2026 is centred on stability rather than rapid expansion, with growth expected to remain in the low- to mid-teens. Lenders are increasingly prioritising credit discipline through enhanced data usage, stricter borrower-level exposure limits, and improved monitoring to prevent over-leveraging. While long-term demand remains supported by government-led rural development initiatives, the sector continues to face downside risks from inflationary pressures and climate-related shocks that could affect borrower repayment capacity. Overall, CY2026 is expected to represent a phase of stabilisation and gradual recovery, with sustainability, asset quality, and responsible lending taking precedence over aggressive growth.

# Structural Shifts In CY25

CY2025 marked an important phase of policy-led recalibration in India's credit ecosystem, as regulators and policymakers responded to the rapid expansion of credit witnessed in preceding years. Rather than focusing solely on stimulating growth, the emphasis shifted toward improving credit quality, strengthening risk visibility, and reinforcing systemic resilience and governance. This resulted in a series of targeted interventions spanning monetary policy, regulatory supervision, taxation, credit reporting infrastructure, and borrower assessment frameworks.

These developments collectively shaped how credit was priced, distributed, and monitored across the lending landscape. While monetary easing supported borrower affordability and credit sentiment, regulatory measures simultaneously encouraged lenders to reassess risk appetite, particularly in unsecured and high-growth segments. Structural reforms, such as enhanced credit reporting frequency and the introduction of new borrower scoring mechanisms reflected a broader intent to improve data integrity, reduce information asymmetry, and enable earlier identification of stress within loan portfolios.

In parallel, policy instruments outside the traditional credit domain, including the Goods and Services Tax (GST), continued to exert a meaningful influence on credit demand and underwriting practices by affecting affordability, formalisation, and income visibility. Together, these shifts underscore a move away from volume-driven expansion toward a more disciplined, data-driven, and risk-sensitive credit environment.

The following sections examine the key policy, regulatory, and structural developments during CY2025 that shaped credit growth, portfolio quality, and lender behaviour, and assess their implications for the evolution of India's lending ecosystem going forward.

## **Heightened Regulatory Focus on Credit Growth and Asset Quality**

CY2025 was marked by a heightened regulatory focus on credit growth quality rather than pace, particularly in segments showing early signs of stress. Reserve Bank of India maintained close supervision over retail and unsecured lending, continuing measures initiated in late 2023 to curb excessive risk accumulation.

A key regulatory lever was the higher risk weight prescription on unsecured consumer credit, which remained in force through 2025. This measure increased capital requirements for banks and NBFCs, directly impacting portfolio economics and moderating growth in personal loans, credit cards, and small-ticket digital lending. As a result, lenders adopted more selective underwriting practices, tightened borrower eligibility, and recalibrated growth strategies toward secured products.

In parallel, supervisory communication and data-driven monitoring signalled RBI's intent to identify stress early and prevent systemic build-up. The regulator's emphasis on borrower-level indebtedness,

credit bureau data usage, and portfolio granularity reinforced prudent credit expansion across institutions. Reflecting this shift toward balance-sheet resilience, S&P Global Ratings noted that "**Indian banks are well-positioned to absorb higher credit cost and withstand global uncertainties,**" even as stress in unsecured retail and small-ticket lending could push up credit costs over the medium term. This assessment underscores the effectiveness of regulatory interventions in strengthening capital buffers and reinforcing credit discipline across the system.

Looking forward, regulatory focus is expected to remain counter-cyclical and risk-sensitive. While these measures may restrain short-term growth in high-yield segments, they are likely to strengthen balance sheet resilience, improve credit discipline, and support sustainable long-term expansion of the lending ecosystem.

## **Regulatory Simplification and Consolidation**

In parallel with its supervisory and monetary interventions, Reserve Bank of India (RBI) undertook a large-scale regulatory rationalisation exercise aimed at simplifying compliance and improving regulatory clarity across the financial system. As part of this initiative, RBI withdrew or repealed approximately 9,445 legacy circulars, notifications, and instructions, and consolidated the operative regulatory content into 244 Master Directions across function-wise and entity-specific categories covering banks, NBFCs, cooperative banks, and other regulated entities. According to RBI, the objective of this exercise was to "**reduce the compliance burden on regulated entities and improve ease of reference to regulatory instructions**" by eliminating redundancy and fragmentation in the regulatory framework.

The consolidation involved merging nearly 3,800 extant circulars into the new Master Directions on an "as-is" basis, while scrapping over 5,600 obsolete or superseded instructions. This shift from a proliferation of standalone circulars to a structured, principle-based regulatory architecture has materially improved interpretability and reduced compliance complexity, particularly for institutions operating across multiple products and regulatory regimes. Clearer and more consolidated regulations also enhance supervisory effectiveness, allowing both regulators and lenders to focus on substantive governance, risk management, and conduct outcomes rather than procedural compliance.

Looking ahead, regulatory simplification is expected to complement the RBI's broader transition toward risk-based supervision and data-driven oversight. While compliance expectations remain stringent, the streamlined regulatory architecture improves transparency, reduces interpretational ambiguity, and supports a more resilient and scalable financial system - especially as lending models, digital delivery channels, and product complexity continue to evolve.

## Monetary Policy Easing

During CY2025, Reserve Bank of India (RBI) undertook a cumulative 125 basis points reduction in policy rates, marking a decisive shift from the earlier tightening cycle. The rate cuts were aimed at supporting economic momentum amid easing inflationary pressures and moderating global financial volatility. This policy stance signalled RBI's intent to balance growth support with financial stability, particularly as private consumption and investment showed uneven recovery across sectors.

The impact on the lending landscape was asymmetric across loan categories. Secured retail segments such as housing loans and auto loans benefitted from improved affordability, with lower EMIs supporting sustained borrower demand. Industry estimates indicate that, **where rate cuts are fully passed through, a 50-75 basis point reduction in lending rates can lower EMIs on long-tenure home loans by approximately 4-6 per cent**, materially improving borrower affordability and eligibility. However, the extent of this benefit has varied across institutions and products. Corporate and MSME lending saw gradual improvement in credit appetite, particularly among well-rated borrowers, as borrowing costs declined and balance sheet stress eased. At the same time, RBI has acknowledged that monetary transmission remains uneven across sectors and loan categories, reflecting differences in loan pricing frameworks, elevated deposit costs, and banks' continued emphasis on margin protection and selective credit risk assessment - especially in unsecured retail lending.

Looking ahead, the effectiveness of monetary easing will depend on deposit rate normalisation and liquidity conditions, which will determine the extent of pass-through to borrowers. While the rate cut cycle has improved affordability and credit sentiment, lenders are expected to continue prioritising asset quality and risk-adjusted returns. As a result, credit growth is likely to remain measured rather than exuberant, with rate cuts acting as a support mechanism rather than a growth trigger.

## Introduction of Credit Grameen Score: Deepening Rural Credit Visibility

The introduction of the Credit Grameen Score during CY2025 marked a critical step in expanding formal credit assessment frameworks to rural borrowers. Designed to evaluate the creditworthiness of individuals with limited or no traditional credit history, the score incorporates alternative data points such as microfinance repayment behaviour, SHG/JLG participation, and small-ticket loan performance.

This development addresses a long-standing structural gap in India's credit ecosystem, where rural borrowers, despite strong repayment cultures often remained excluded from mainstream lending due to lack of formal credit footprints. The Credit Grameen Score enhances credit visibility and borrower differentiation, enabling lenders to move beyond one-size-fits-all risk assessment in rural markets. For MFIs, SFBs, and banks, this supports more accurate pricing, better borrower segmentation, and reduced dependence on informal proxies.

Going forward, the effectiveness of the Credit Grameen Score will depend on data quality, lender adoption, and integration with underwriting systems. If implemented at scale, it has the potential to improve credit access, reduce over-indebtedness through better exposure tracking, and support

responsible financial inclusion. Over time, this framework could also facilitate smoother graduation of rural borrowers into formal retail and MSME credit products.

### **Strengthening Credit Reporting Mechanisms**

A significant regulatory development during CY2025 was RBI's move to increase the frequency of credit data reporting. On 6 January 2025, the RBI directed lenders and credit institutions to shift from monthly to fortnightly reporting of credit information to credit bureaus. This was followed in November 2025 by the release of an amendment framework mandating weekly credit reporting, signalling a further push towards real-time credit intelligence and systemic risk monitoring.

The move was driven by growing concerns around rapid credit expansion in certain retail segments, borrower over-leveraging, and lagged stress recognition. More frequent reporting enhances the accuracy and timeliness of borrower credit profiles, reducing information asymmetry for lenders. For regulated entities, this enables sharper underwriting decisions, early identification of stress, and improved portfolio monitoring, particularly relevant for unsecured lending, co-lending structures, and digitally originated loans.

Over the medium term, higher-frequency credit reporting is expected to strengthen credit discipline across the ecosystem, though it also increases compliance and operational demands on lenders. Borrowers may experience tighter credit filters and faster reflection of repayment behaviour - both positive and negative - on credit scores. As weekly reporting is formalised, India's credit infrastructure is likely to move closer to near-real-time risk assessment, supporting financial stability but moderating aggressive credit growth.

### **Goods and Services Tax (GST): Impact of Credit Demand**

The GST framework continued to exert a structural influence on India's credit ecosystem during CY2025, particularly through its impact on affordability, formalisation, and borrower assessment. While GST was implemented earlier, its stabilisation and predictable rate structure increasingly shaped lending behaviour across retail and MSME segments.

GST rates on automobiles and consumer durables remain key drivers of loan demand. Under the 2025 reforms, small passenger vehicles and standard consumer durables now attract a reduced GST rate of 18%, while larger luxury vehicles and SUVs are taxed at a flat 40% (with the compensation cess abolished). Electric vehicles continue to benefit from a concessional GST rate of 5%. This differential taxation supported demand for EVs and select small passenger vehicles, indirectly benefiting auto loan growth in these sub-segments, while higher GST incidence moderated affordability for larger vehicles.

Beyond demand, GST played an increasingly shown role in credit underwriting and borrower assessment. GST-linked turnover data and invoice trails enhanced income visibility for self-employed borrowers, MSMEs, and commercial vehicle operators. Lenders leveraged GST filings to validate cash

flows, reduce information asymmetry, and sharpen credit decisioning, particularly in MSME loans, LAP, and commercial vehicle finance.

Looking ahead, GST data integration is expected to further strengthen formal credit penetration, improve risk pricing, and reduce reliance on surrogate income indicators. While GST alone does not eliminate credit risk, its role as a verification and monitoring tool is likely to grow in importance as lenders deepen data-driven underwriting frameworks.

# Vision 2026

**"Vision 2026 sets the course for a resilient lending ecosystem - one that withstands shocks, scales responsibly, and delivers sustainable value."**

CY2025 marked an important phase of policy-led recalibration in India's credit ecosystem, as regulators and policymakers responded to the rapid expansion of credit witnessed in preceding years. Rather than focusing solely on stimulating growth, the emphasis shifted toward improving credit quality, strengthening risk visibility, and reinforcing systemic resilience.

## **Closing the Gap: Passing Rate Cuts to Borrowers**

The first priority in the way forward is ensuring that monetary policy intent translates into borrower-level outcomes. While RBI delivered a cumulative 125 basis points of rate cuts during CY2025, it has acknowledged that monetary transmission to end borrowers has remained uneven, shaped by elevated deposit costs, margin considerations, and lenders' selective risk appetite. As a result, the benefits of policy easing have varied across loan categories and institutions.

Going forward, improved pass-through, particularly in retail and MSME lending can materially enhance affordability, reduce EMI burdens, and support repayment capacity. Industry estimates suggest that, **if lending rate reductions are effectively transmitted, a 50-75 basis point decline in borrowing costs can lower EMIs on long-tenure loans by approximately 4-6 per cent**, strengthening household and enterprise cash flows. More effective transmission would not only stimulate incremental demand but also improve asset quality by easing debt-servicing stress. For borrowers, visible benefits reinforce confidence in the formal credit system; for lenders, improved pass-through serves as a preventive tool against future delinquencies and supports more sustainable credit growth.

## **Building Real-Time, Integrated Credit Infrastructure**

Once affordability is addressed, the next critical enabler is timely and accurate credit information. Despite the shift to fortnightly reporting and then further move to weekly reporting, credit data in India still operates with inherent lags that are misaligned with the speed of digital lending.

The way forward lies in real-time or near real-time data integration through API-based systems, allowing lenders to access up-to-date borrower information at the point of decision-making. This is particularly vital in an ecosystem dominated by instant personal loans, BNPL products, and short-tenure digital credit. Real-time data reduces duplication of exposure, improves underwriting precision, and enables early stress detection.

## **Addressing Credit Score/Rank Divergence Across Credit Bureaus**

Even when the same underlying credit information is reported by lenders, borrowers can experience material differences in credit scores/ranks across bureaus, reflecting variations in scoring models, weighting of variables, and treatment of recent behaviour. Such divergence creates confusion for borrowers and lenders alike, complicating credit decisioning and weakening confidence in credit scores/ranks as a reliable risk signal. Improving transparency around score/rank construction, increasing alignment in core model assumptions, and setting acceptable divergence thresholds can help mitigate these inconsistencies. Greater score/rank comparability will strengthen underwriting outcomes and reinforce trust in the credit reporting ecosystem.

## **Leveraging Unified Lending Infrastructure (ULI)**

Building on real-time data, Unified Lending Interface (ULI) represents the next layer of systemic efficiency within India's broader digital public infrastructure framework. Positioned alongside platforms such as account aggregation and government data systems, ULI enables consent-based data exchange across lenders, public databases, and credit bureaus, significantly reducing friction in loan origination and monitoring.

In the medium term, ULI can help lenders construct a single, consolidated borrower view, particularly for MSMEs and self-employed borrowers where income and liability data is often fragmented. Industry experience with integrated digital data access indicates that **such frameworks can reduce loan turnaround times by approximately 30-50 per cent**, primarily by minimising manual documentation and verification processes. This, in turn, enhances underwriting consistency, improves operational efficiency, and simplifies the borrowing experience, supporting faster and more reliable credit delivery without diluting risk standards.

## **Strengthening Underwriting Through Alternate Data and 360-Degree Assessment**

With infrastructure in place, the focus must shift to how credit decisions are made. Traditional underwriting models, heavily dependent on past credit history are increasingly inadequate in a diverse and digitising economy.

The way forward lies in 360-degree underwriting frameworks that responsibly integrate alternate data such as:

- Utility and telecom payments
- GST filings and cash-flow data
- Platform-based transaction behaviour

Such models enable lenders to assess risk more holistically, especially for new-to-credit individuals, gig workers, MSMEs, and informal sector participants, without materially increasing portfolio risk. When combined with regulatory oversight, alternate data enhances inclusion while preserving credit discipline.

## **Reviving Momentum Under PMAY 2.0**

Despite its policy intent, PMAY 2.0 has yet to gain meaningful traction, with uptake remaining muted in the initial phase following the transition from PMAY-U. Delays in operational clarity around eligibility, subsidy design, and implementation timelines have constrained borrower awareness and lender participation. Going forward, faster rollout, clearer execution guidelines, and stronger coordination with state agencies and lenders will be critical to translate the programme into effective housing demand support. Improved visibility and certainty under PMAY 2.0 can play a meaningful role in stimulating affordable housing credit and reinforcing end-user confidence.

## **Improving Portfolio Quality Through Proactive Risk Management**

As underwriting evolves, lenders must continue to shift from growth-at-scale to portfolio optimisation and resilience. CY2025 underscored the importance of early-warning systems, behavioural analytics, and dynamic risk segmentation.

Higher-frequency reporting, combined with real-time data and advanced analytics, enables lenders to identify stress earlier and take corrective action - through restructuring, collections, or exposure limits - before delinquencies escalate. This approach improves portfolio outcomes while reducing cyclical in credit performance.

## **Expanding Coverage and Classification of Emerging Credit Products**

A resilient credit system also requires completeness of borrower information. Products such as BNPL, payday loans, and short-term digital credit have grown rapidly but remain inconsistently classified or reported.

Establishing clear classification standards and mandatory reporting norms for all credit instruments, irrespective of ticket size or tenure is essential. Comprehensive reporting ensures that borrower leverage is fully visible, enables fairer risk assessment, and allows borrowers to build credit histories responsibly rather than remain partially invisible.

## **Deepening Rural Inclusion Through the Credit Grameen Score**

In parallel, inclusion must move from access-driven to outcome-driven. The Credit Grameen Score offers a pathway to integrate rural borrowers into formal credit assessment by recognising microfinance repayment behaviour and community-based lending participation.

Going forward, widespread adoption can enable graduated credit progression, allowing borrowers to transition systematically from microfinance to mainstream retail and MSME products. This reduces over-indebtedness, improves borrower differentiation, and strengthens rural loan portfolios.

## **Addressing Infrastructure and Sustainability Constraints**

The pace of housing uptake continues to be constrained by persistent infrastructure gaps, particularly in access to roads, water supply, sanitation, and urban services in emerging residential areas. In the absence of adequate physical and social infrastructure, housing supply struggles to translate into effective end-user demand. Sustainability considerations, including environmental resilience and long-term liveability, further influence buyer preferences and project viability. Addressing these foundational infrastructure and sustainability challenges will be critical to enabling durable housing demand and ensuring that housing-led growth is both scalable and sustainable.

## **Strengthening Grievance Redressal and Consumer Protection**

As data usage, automation, and credit penetration increase, borrower protection becomes central to system credibility. Despite regulatory mandates, dispute resolution has often been slow and opaque, eroding trust and creating uncertainty for borrowers. To address this challenge, Reserve Bank of India (RBI) has recently announced a **special two-month customer grievance resolution campaign**, beginning January 1, 2026, aimed at clearing all complaints pending with RBI Ombudsman for more than 30 days and reinforcing accountability across lenders and intermediaries. In announcing the initiative, RBI Governor Sanjay Malhotra emphasised that **"we propose to hold a two-month campaign to resolve all grievances pending for more than a month with RBI Ombudsman"** in order to prioritise customer service and reduce delays in complaint resolution.

The way forward requires time-bound, transparent, and digitally enabled grievance redressal mechanisms, with clear accountability across lenders, credit information companies, and credit bureaus. Faster resolution protects borrowers from long-term credit damage, improves data accuracy, and reinforces trust in the credit ecosystem by ensuring that issues such as reporting errors or scoring disputes are addressed promptly rather than left unresolved. A robust and timely redressal framework will not only enhance consumer confidence but also contribute to the efficiency and resilience of the formal credit system by reducing friction in credit access and strengthening overall service quality.

## **Scaling Financial Literacy and Borrower Awareness**

Finally, infrastructure and regulation must be complemented by informed borrower behaviour. Large sections of the population remain unaware of how credit scores work, how credit behaviour affects long-term outcomes, and how disputes can be resolved.

National-scale financial literacy initiatives, delivered in regional languages and tailored to different borrower segments are essential. Improved awareness encourages responsible borrowing, reduces defaults, and ensures that inclusion does not translate into financial distress.

# The Bottom Line

The analysis of India's lending landscape in CY2025 points to a year defined less by expansion and more by recalibration and consolidation. While credit demand remained structurally strong across most segments, the pace and composition of growth reflected a conscious shift toward risk-aware and sustainable lending practices.

Across loan categories, performance outcomes diverged meaningfully. Secured segments such as housing and auto loans demonstrated relative stability, supported by collateral strength and improved affordability. Unsecured segments, including credit cards and personal loans, exhibited moderation in growth alongside emerging asset quality pressures, prompting tighter underwriting and selective credit deployment. Microfinance lending entered a phase of correction, underscoring the importance of borrower-level discipline and portfolio granularity in high-inclusion segments.

Policy and regulatory developments played a defining role in shaping these outcomes. Monetary easing improved affordability, though transmission remained uneven. Regulatory oversight reinforced prudent credit behaviour, particularly in unsecured lending. Structural initiatives aimed at improving credit information, borrower assessment and inclusion, enhanced risk visibility and data quality, contributing to more disciplined lending outcomes.

Taken together, these trends suggest that India's lending ecosystem is moving toward a more mature phase of development, where growth is increasingly balanced with asset quality, capital efficiency, and borrower protection. The experience of CY2025 reinforces the importance of strong credit infrastructure, data-driven underwriting, and coordinated regulatory oversight in sustaining long-term credit health.

Looking ahead, the durability of India's lending growth will depend on how effectively stakeholders build on the lessons of 2025, ensuring that improved data, policy intent, and innovation translate into responsible credit expansion and resilient loan portfolios. If this balance is maintained, credit can continue to support economic growth while safeguarding financial stability.

# Meet Our Authors



## **Mr. Satish Mehta: Managing Director & CEO**

Satish Mehta is a Chartered Accountant with over four decades of experience across housing finance, consumer finance, credit information systems, and management consultancy. He was the Founding Managing Director of CIBIL (now Transunion CIBIL), where he played a pivotal role in establishing India's credit bureau infrastructure, and later led global credit bureau initiatives at Dun & Bradstreet. He also serves as an advisor to the World Bank on credit information frameworks and financial infrastructure. As the founder of Athena Advisors and Athena CredXpert, he brings deep global and institutional expertise to strengthening credit health, financial awareness, and overall financial well-being.



## **Ms. Mitushi Chaurasia: Executive Director & COO**

Mitushi Chaurasia is a finance graduate with deep expertise in housing finance, credit information systems, and credit bureau operations. With a strong academic foundation in commerce and a proven record of building customer-centric solutions, she plays a key role in shaping Athena Group's vision, strategy, and long-term growth. As Executive Director and Chief Operating Officer of the Athena Group, and Co-Founder of Athena CredXpert, she leads initiatives focused on operational excellence, execution rigor, and organisational scaling, while advancing financial literacy and credit empowerment across India.



## **Ms. Vanshika Jain: Senior Associate**

Vanshika Jain is a Bachelor of Commerce (Honours) graduate in Accounting and Finance, with a minor in Economics, from the University of Delhi, and is currently pursuing ACCA. Her work focuses on business strategy, policy development, and process optimisation for housing finance companies, NBFCs, and banks. She plays a key role in designing credit and operational frameworks that enhance efficiency, resilience, and compliance, while contributing to firm-wide growth through business development initiatives and client partnerships aligned with the firm's strategy-led advisory vision.