

India: The Financially Under-Leveraged Economy



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The Indian financial sector's performance over the Modi decade (2014-2024) tells a story of recovery, restraint, and unresolved issues. In 2014 the financial sector was under acute stress, burdened by the twin balance sheet problem that had paralysed credit, eroded confidence and landed India as a member of the 'fragile five' economies. Over the following years, the central government and the Reserve Bank of India (RBI) focused rightly on repair. Insolvency frameworks were introduced, banks were recapitalised to the tune of more than Rs 3.00 lakh crore, supervision was visibly tightened, and systemic stability restored. Gross non-performing assets had reached 5.95% in March 2014 but rose to 7.3% with RBI implementing its asset quality checks. These were successfully brought down to less than 2% by 2025. Capital adequacy improved, and the immediate risk of contagion receded.

But stability, while necessary, is not sufficient. A financial system ultimately exists not to avoid risk indefinitely, but to intermediate savings into productive investment, price risk intelligently, and support long-term economic transformation. The financial system provides the necessary life support to the economy. Its depth, dynamism and delivery efficiency determine the pace of economic growth.

On this deeper measure, India remains an under-leveraged economy. Despite healthier bank balance sheets, credit-to-GDP ratios at 90% remain materially below those of peer economies. Credit to GDP ratios in China, Vietnam and Korea, for example, are 185%, 130% and 170% respectively. Moreover, the composition of credit (as in Table 1 below) reveals a persistent skew in favour of personal loans. And even during this decade, credit flows to industry declined from 27% of the total in 2022-21 to less than 22% in 2024-25.

Household and consumption credit expanded steadily, particularly in housing and retail lending, while credit to industry and manufacturing lagged, especially for mid-sized firms. This divergence became more visible after 2020. Corporate profitability improved sharply, leverage declined, and liquidity conditions were accommodative. Yet private investment remained cautious. The constraint was no longer the twin balance-sheet stress. It was regulatory overreach and conservatism on part of commercial banks or even the RBI. This needs to be examined and addressed.

Table 1. Share in Non-Food Gross Bank Credit (%)

Sector	2020-21	2021-22	2022-23	2023-24	2024-25
Agriculture and Allied Activities	12.21	12.64	12.64	12.62	12.56
Industry (Micro and Small, Medium and Large)	27.00	26.87	24.65	22.25	21.62
Services	25.39	26.29	27.23	27.98	28.34
Personal Loans	27.63	29.28	30.63	32.48	32.69
Others	7.753	4.90	4.84	4.65	4.77

Source: RBI, *Database on Indian Economy*

The persistence of informal credit highlights this structural weakness in the commercial banking sector. Despite decades of financial inclusion efforts, a significant share of MSME financing is sourced from informal creditors, often at a prohibitive interest cost of more than 30% per annum. This coexistence of formal financial availability and continued dependence on informal creditors points to a mismatch between the structure of India's private enterprise landscape and the design of its financial intermediation.

Formal finance prefers scale, documentation, and predictability. Much of India's productive economy, which exists in the informal sector and does not conform to these conditions. The result is not efficient risk pricing by the formal financial sector, but risk avoidance. And the consequence is the virtual complete lack of access to commercial bank credit for micro and small enterprises, which together account for 99.5% of total private enterprises in the country. Can such credit starvation produce the desired dynamism in the productive sectors, which admittedly are not formally registered?

Regulatory design has played an important role in shaping this behaviour. Post-Covid crisis, RBI supervision has appropriately prioritised asset quality, governance, and capital buffers. Yet an unintended consequence has been heightened risk aversion. Credit decision-making has become defensive, with officers prioritising audit safety over commercial judgement. The fear of retrospective scrutiny has raised the internal cost of failure, even when failure arises from genuine business risk. This is not a failure of intent, but a predictable outcome of extant incentives. When accountability frameworks punish error without distinguishing it from malfeasance, institutions including private enterprise retreat into caution. Growth slows and with it disappear employment opportunities.

Thus, over time, the financial system has itself reinforced this outcome by favouring established borrowers over emerging ones. The under-leveraged nature of the Indian economy is therefore not a sign of optimal prudence. It reflects institutional caution hardening into structural inertia.

TABLE 2: TOTAL UNIQUE REGISTERED INVESTORS (2017-2025)

Region	2017	2018	2019	2020	2021	2022	2023	2024	2025
East India	23.3	26.3	29.3	35.7	59.5	78.7	99.6	131	150.8
North India	65.9	74.4	84.1	106.6	170.2	229.8	297.7	394.6	455.6
South India	57.8	64.7	72.4	90.1	124	151.4	178.7	223.4	261.2
West India	84.2	94.6	104.1	128	183.2	225.9	269.5	331.9	369.1
Others#	7.8	7.8	7.8	7.5	7.9	8.3	8.6	8.5	9.9
Total	239	267.6	297.6	367.9	544.8	694.1	854.1	1089.5	1246.7

(Source: NSE, Market Pulse, January 2026)

Capital markets have partially offset this conservatism in the formal financial sector. Equity markets deepened, and valuations rose, enabling fundraising for a limited segment of firms. The massive expansion of the retail investors' base in India by more than four times (4X) (Table 2 above) over the last ten years has been a remarkable feature of the Modi decade. However, one of the consequences of this massive increase in retail investors in domestic capital markets, in conjunction with fintech, has been a decline in the credit-to-deposit ratio of commercial rose from a comfortable 75% in 2016 to a rather precarious level of 79- 80% in 2024. This is threatening to impair the credit-generating capacities of commercial banks.

One of the positive structural developments of the past decade has been the rise of fintech. Digital payments, account aggregation, alternative credit assessment, and platform-based lending have expanded access, reduced transaction costs, and improved inclusion. Fintechs demonstrated how data, technology, and design can lower barriers where traditional finance struggled. They enabled small merchants to formalise, households to access credit histories, and consumers to interact with finance with greater transparency. In this sense, fintech has acted as an institutional innovation, not merely a technological one.

The reach of Fintechs is so far limited but they are already posing a challenge to the organized large commercial banks. In conjunction with capital markets, they have been successful in attracting household savings away from commercial banks. Moreover, Fintechs have also been less averse to risk taking and expanded their credit to the small and micro enterprises, including owners of taxis for example, which has pushed commercial banks into expanding their credit to personal and housing loans and away from the productive sectors.

Despite the emergence and growth of the Fintech sector and its regional spread, spatial spread of both credit and deposits remains highly skewed in the country. It is quite shocking to note (See Table 3 below) that a mere 11 districts, out of a total of 800 districts, accounted for more than 50% of the total credit flows from commercial banks in 2024.

Table 3: Spatial Distribution of Commercial Bank Credit and Deposits

DISTRICT CONCENTRATION OF CREDIT & DEPOSITS — Q4 2023-24									
Rk	District (Credit)	Share%	Cumul%	State	Rk	District (Deposit)	Share%	Cumul%	State
1	Mumbai	11.287	11.29	Maharashtra	1	Mumbai	9.327	9.327	Maharashtra
2	New Delhi	10.263	21.55	NCT of Delhi	2	New Delhi	9.003	18.330	NCT of Delhi
3	Mumbai Suburban	9.963	31.51	Maharashtra	3	Mumbai Suburban	5.566	23.896	Maharashtra
4	Bengaluru Urban	4.435	35.95	Karnataka	4	Bengaluru Urban	5.484	29.380	Karnataka
5	Chennai	3.713	39.66	Tamil Nadu	5	Chennai	2.832	32.212	Tamil Nadu
6	Hyderabad	2.803	42.46	Telangana	6	Pune	2.492	34.704	Maharashtra
7	Pune	2.350	44.81	Maharashtra	7	Hyderabad	2.231	36.935	Telangana
8	Ahmedabad	1.907	46.72	Gujarat	8	Kolkata	2.205	39.140	West Bengal
9	Kolkata	1.745	48.47	West Bengal	9	Ahmedabad	1.743	40.883	Gujarat
10	Gurugram	1.388	49.85	Haryana	10	Gurugram	1.708	42.591	Haryana
11	Thane	1.120	50.97	Maharashtra	11	Thane	1.501	44.092	Maharashtra
					12	Lucknow	1.262	45.354	Uttar Pradesh
					13	Gautam Buddha Nagar	1.043	46.397	Uttar Pradesh
					14	Jaipur	0.929	47.326	Rajasthan
					15	North 24 Parganas	0.875	48.201	West Bengal
					16	Khurda	0.854	49.055	Odisha
					17	Ernakulam	0.812	49.867	Kerala
					18	Patna	0.800	50.667	Bihar

Source: RBI, Quarterly Basic Statistical Returns (BSR)

Commercial bank credit to industry as a share of total credit outflow has declined from 40% in 2014 to 22 % in 2024. The time is surely ripe for a regulatory overhaul of the financial sector that will bring it in sync with the rising capital requirements of the economy, which is now more complex, diverse, and demands a recalibration of the risk-taking behaviour and administrative structures in the organised financial sector.

Over the next decade, the financial system must evolve from a repair-oriented architecture to a growth-enabling one. A developed economy is not defined by low NPAs alone. It is defined by a financial system that supports innovation and experimentation, absorbs failure, protects consumers, and rewards long-term value creation. India has demonstrated that it can stabilise its financial institutions. The tougher task ahead is to make them confident enough to finance ambition at scale. Without that transition, the financial sector will remain safe and stable but unable to finance the national aspiration to become *Viksit Bharat* by 2047.

Share in national deposits

