

## *Flow of Financial Resources to Commercial Sector in India during 2024-25*

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*Indian financial system has evolved into a diversified structure since the early 1990s, reflecting the impact of major reforms in the Indian economy including the financial sector. Analysing the flow of financial resources to the commercial sector is vital for macro-financial surveillance and gauging the economy's growth outlook. This article highlights that while bank credit expansion moderated during 2024-25, non-bank sources, both domestic and foreign, played an important role in bridging the funding gap for the commercial sector in India. The increase in funding from non-bank sources during 2024-25 was largely driven by equity issuances amidst buoyancy in the domestic equity market, credit by Non-Banking Financial Companies (NBFCs), and a rebound in short-term external credit. The recourse to non-bank sources by the commercial sector, amidst a moderation in bank credit, reflects the adaptability of the financial system in meeting the evolving funding needs of the economy. The financing from banking system continues to be the most important source, although the flow of financial resources from non-bank sources to the commercial sector increased in recent period. As at end-March 2025, the outstanding non-food bank credit as per cent to GDP increased to 55.1 per cent from 54.5 per cent at end-March 2024. Overall, the outstanding*

*credit from banks and non-bank sources as per cent to GDP increased to 81.9 per cent at end-March 2025 from 80.2 per cent at end-March 2024.*

### **Introduction**

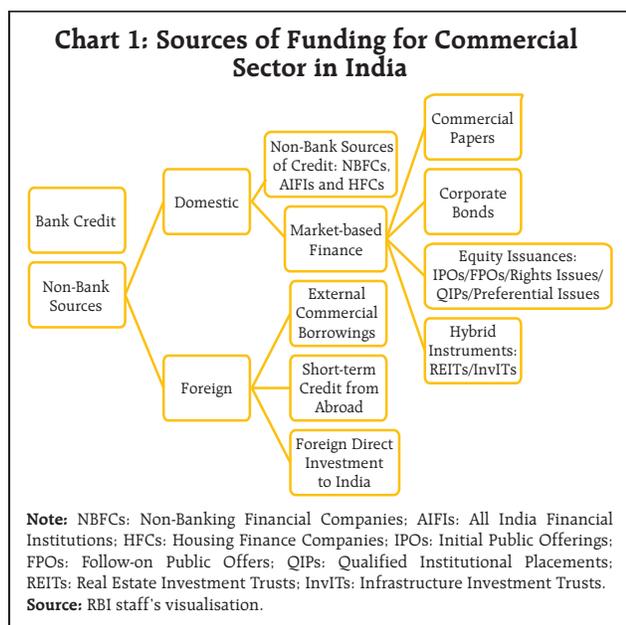
Indian financial system has evolved into a diversified structure consequent to the initiation of a set of reforms in various segments of the economy in the aftermath of the balance of payments crisis in the early 1990s. This evolution of the Indian financial system has largely been driven by successive reforms implemented across its various segments, in response to and supported by the evolving requirements of a growing economy (RBI, 2024a). India's financial system, which has traditionally been characterised by bank-centric intermediation for the provision of credit, has undergone a structural transformation marked by the rising significance of non-bank financial intermediaries (NBFIs) and the growing use of market-based instruments to meet the financing requirements of the commercial sector. Accordingly, the recourse to market-based financing instruments such as corporate bonds and equity issuances as well as external sources such as foreign direct investment (FDI), external commercial borrowings (ECBs), and short-term trade credit has increased appreciably in the recent years, although the financing from banking system continues to be the most important source.

The sources of funding for the commercial sector in India are varied and diverse (Chart 1). These are largely divided into bank credit and non-bank sources (including domestic and foreign).

As the Indian financial system has been largely bank-dominated, bank credit growth is viewed as a key parameter to assess the flow of financial resources to commercial sector and growth outlook of the economy. A softening of bank credit growth is often interpreted as a sign of weak aggregate demand and, therefore, a potential risk to the near-term growth outlook. However, given an increasing role

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of non-bank sources of funding, an assessment of a broader spectrum of flow of financial resources to the commercial sector covering banks, non-banks and other sources, as alluded above, needs to be considered. Against this backdrop, this article analyses the flow of financial resources and outstanding credit to the commercial sector in India during 2024-25, based on multiple sources of funding. The remainder of the article is organised as follows: Section II presents the consolidated statement on flow of financial resources to commercial sector in India. Section III discusses the trends and composition of credit from banks to the commercial sector, followed by an analysis of flows of financial resources from non-bank sources (including domestic and foreign) in Section IV. Section V discusses the outstanding credit from banks and non-bank sources to the commercial sector in India. Section VI draws concluding observations.

## II. Total Flow of Financial Resources to Commercial Sector

The statement on flow of financial resources to commercial sector from banks operating in India and non-banks (including domestic and foreign sources) is prepared to present total flow of financial resources to this sector. The financial flows in this statement are captured on a net basis (*i.e.*, gross flows adjusted for repayments/redemption/repatriation), as net flows

reflect the availability of actual funds and liquidity to the commercial sector and its investment behaviour.

At the aggregate level, it is observed that the flow of non-food bank credit moderated by ₹3.4 lakh crore during 2024-25 (Table 1 and Chart 2). However, an increase in flows of ₹4.5 lakh crore from non-bank sources (both domestic and foreign) during 2024-25 more than offset the moderation in the flow of bank credit, resulting in an increase in total flow of financial resources to the commercial sector by ₹1.1 lakh crore. The flows from non-bank domestic sources rose by ₹3.7 lakh crore during 2024-25, mainly on account of a rise in equity issuances amidst buoyancy in the domestic equity market and an increase in credit by NBFCs. The flows from non-bank foreign sources increased by ₹0.8 lakh crore during the same period, primarily due to an increase in short-term credit from abroad, reflecting a rebound in India's merchandise imports.

## III. Flows from Banks

In India, although market-based sources of finance have grown considerably in recent years, bank credit remains the primary source of funding for a wide range of sectors. The flow of non-food bank credit moderated during 2024-25 following a robust expansion in 2023-24 (Chart 3). It declined to ₹18.0 lakh crore in 2024-25 from ₹21.4 lakh crore in 2023-24.

The Reserve Bank increased the risk weights on unsecured personal loans and bank lending to NBFCs in November 2023 in a move aimed at strengthening financial stability.<sup>1</sup> This regulatory action raised the capital requirements for banks on such exposures,

<sup>1</sup> Risk weights on bank lending to NBFCs and retail loans excluding housing, education, vehicle loans, and loans against gold and gold jewellery were increased on November 16, 2023 (<https://rbidocs.rbi.org.in/rdocs/notification/PDFs/REGULATORYMEASURES8785E7886A044B678FB8AF2C6C051807.PDF>). However, the risk weights on the exposures of SCBs to NBFCs are restored to their pre-November 2023 level *w.e.f.* from April 1, 2025 and the same are as per the external rating. Also, microfinance loans in the nature of consumer credit are excluded from the applicability of higher risk weights and are subject to a risk weight of 100 per cent.

**Table 1: Flow of Financial Resources to Commercial Sector in India**

(₹ crore)			
Source	2022-23	2023-24	2024-25 P
<b>A. Non-Food Bank Credit</b>	<b>18,19,026</b>	<b>21,40,243</b>	<b>17,98,321</b>
<b>B. Non-Bank Sources (B1+B2)</b>	<b>9,03,298</b>	<b>12,63,721</b>	<b>17,10,459</b>
<b>B1. Domestic Sources</b>	<b>5,27,181</b>	<b>10,20,302</b>	<b>13,85,609</b>
1. Equity Issuances by Non-Financial Entities	1,16,111	1,35,008	3,81,161
2. Corporate Bond Issuances by Non-Financial Entities	1,12,822	1,67,374	1,97,795
3. Hybrid Instruments (REITs/ InvITs) by Non-Financial Entities	6,360	39,024	31,442
4. Commercial Paper Issuances by Non-Financial Entities	-78,489	19,712	18,819
5. Credit by Housing Finance Companies (Net of Bank Borrowings)	72,111	1,41,816	1,34,852
6. Credit by RBI-regulated All India Financial Institutions	32,419	73,386	99,501
7. Credit by Non-Banking Financial Companies (Net of Bank Borrowings)	2,65,846	4,43,982	5,22,037
<b>B2. Foreign Sources</b>	<b>3,76,118</b>	<b>2,43,419</b>	<b>3,24,850</b>
1. External Commercial Borrowings by Non-Financial Entities	-10,033	27,916	19,201
2. Short-term Credit from Abroad	51,136	-6,741	58,860
3. Foreign Direct Investment to India	3,35,015	2,22,244	2,46,788
<b>C. Total Flow of Resources (A+B)</b>	<b>27,22,324</b>	<b>34,03,964</b>	<b>35,08,780</b>

P. Provisional.

**Notes:** i) Non-food bank credit pertains to scheduled commercial banks (SCBs) and excludes credit extended by co-operative banks.

ii) Credit extended by banks, NBFCs and HFCs is inclusive of personal loans.

iii) Data on all items are presented on a net basis, except equity and hybrid instruments which are on a gross basis.

iv) All India Financial Institutions (AIFIs) include National Bank for Agriculture and Rural Development (NABARD), National Housing Bank (NHB), Small Industries Development Bank of India (SIDBI), Export-Import Bank of India (EXIM Bank), and National Bank for Financing Infrastructure and Development (NaBFID). Credit extended by AIFIs excludes refinancing to Scheduled Commercial Banks (SCBs), NBFCs, and HFCs, and direct loans to domestic and foreign governments/institutions.

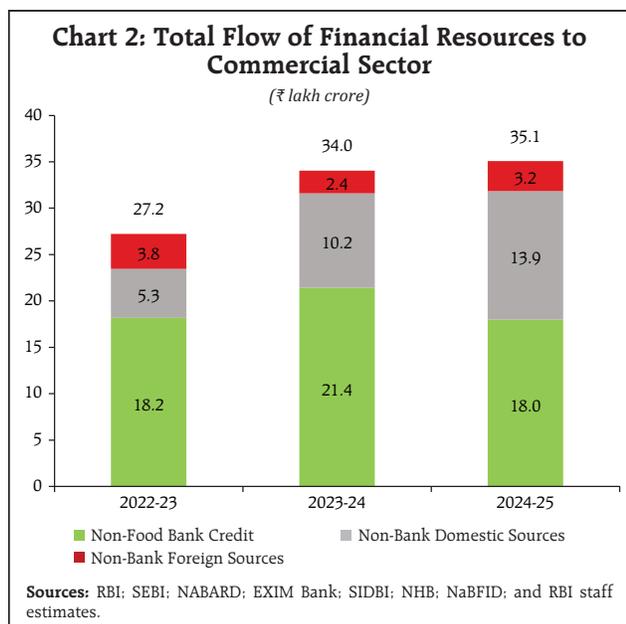
v) Data pertaining to HDFC Limited, which merged with HDFC Bank effective from July 1, 2023, is included under credit by Housing Finance Companies prior to its merger, while it is included under bank credit post-merger.

vi) Data on credit by Housing Finance Companies (HFCs) and Non-Banking Financial Companies (NBFCs) has been adjusted for the conversion of some HFCs into NBFCs.

**Sources:** RBI; SEBI; NABARD; EXIM Bank; SIDBI; NHB; NaBFID; and RBI staff estimates.

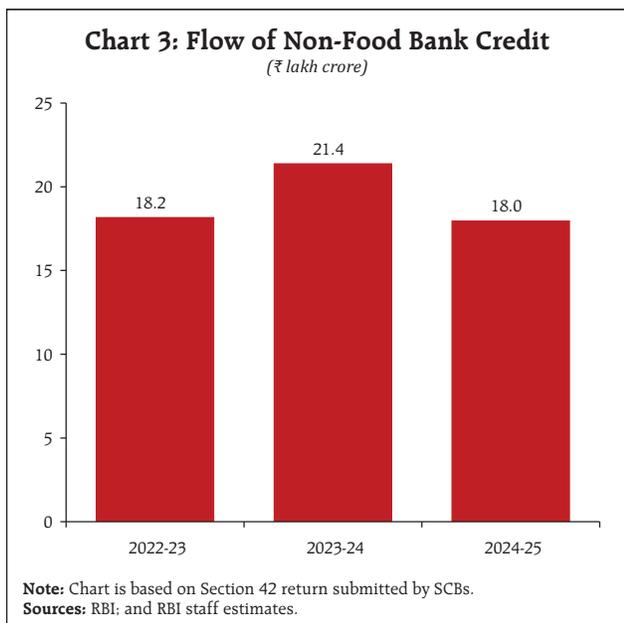
effectively making it more expensive for them to lend in these segments. The decision was driven by

concerns over the potentially unsustainable growth in unsecured credit, which could pose risks if left unchecked.



The break-up of non-food bank credit flow into (a) 'segments with increased risk weight (i.e., targeted segments)', and (b) 'segments with unchanged risk weight (i.e., non-targeted segments)' shows that the credit flow to the targeted segments had increased significantly from ₹2.5 lakh crore in 2021-22 to ₹6.6 lakh crore during 2022-23, while it increased moderately in the case of non-targeted segments (Chart 4a). The share of credit flow to the targeted segments in total non-food credit flow increased from 21.0 per cent in 2021-22 to 38.1 per cent in 2022-23 (Chart 4b).

In 2023-24, the credit flow to the targeted segments reduced to ₹4.7 lakh crore and its share



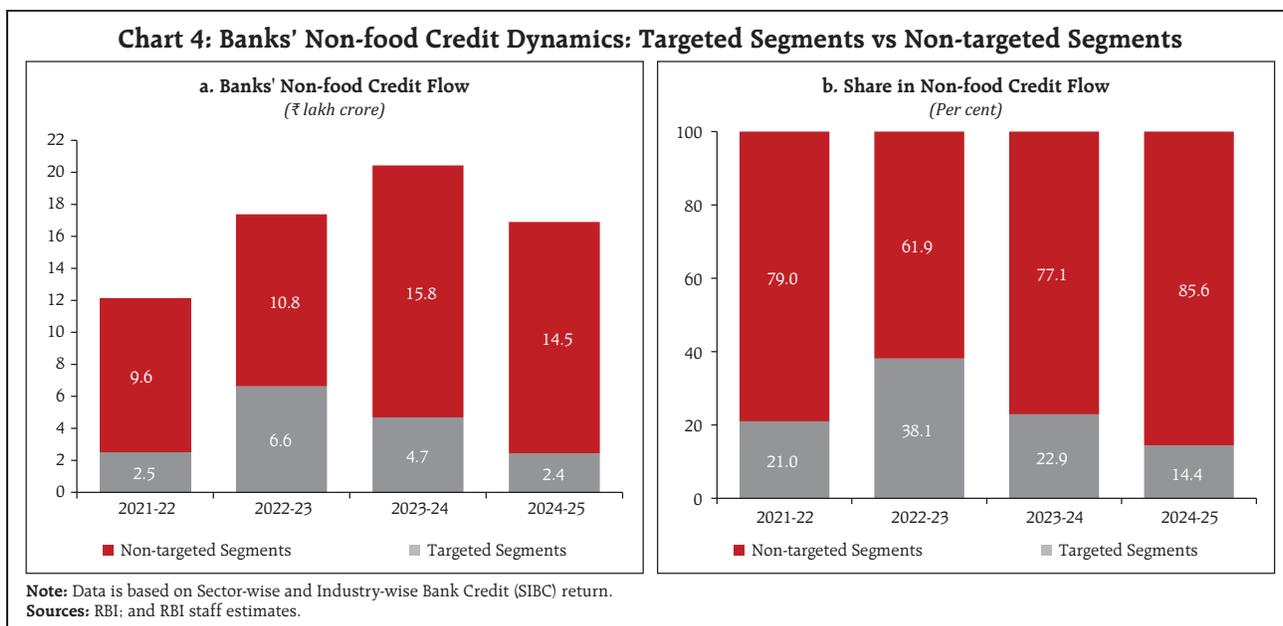
declined to 22.9 per cent in total non-food bank credit, primarily due to the increased risk weights on unsecured credit in November 2023. The credit flow to the targeted segments moderated further to ₹2.4 lakh crore in 2024-25 and its share in non-food bank credit fell to 14.4 per cent, exerting a dampening effect on overall credit flow.

#### IV. Flows from Non-Banks

##### IV.1. Domestic Sources

##### IV.1.1. Market Sources

In recent years, the dynamism of Indian equity markets and the expansion of a robust corporate bond market, particularly for highly rated issuers, have significantly enhanced the access to market-based financing avenues for corporates. Firms with strong credit profiles and robust balance sheets have been well-positioned to leverage favourable market conditions to mobilise resources at competitive costs. During periods of robust performance and subdued volatility in the financial markets, the relative cost of market-based financing tends to decline *vis-à-vis* traditional bank credit, thereby incentivising corporates to raise funds through capital market instruments. During the last three years, commercial sector regularly tapped financial markets, with a rising trend in their contribution (Chart 5a). Reflecting this trend, resource mobilisation through equity issuances by non-financial entities increased sharply during 2024-25 (Chart 5b). This growth was



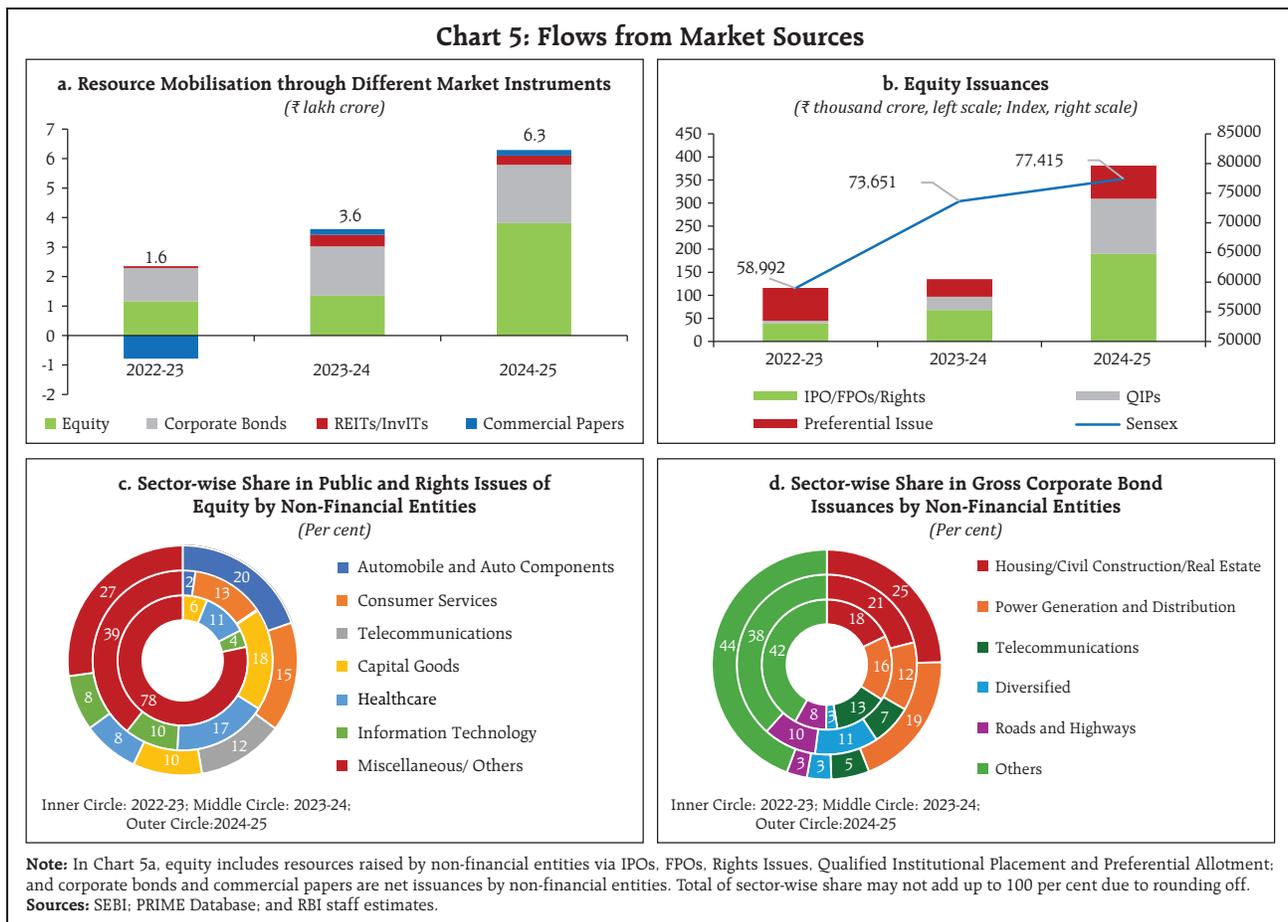
predominantly driven by heightened activity in IPOs and FPOs, spurred by increased retail investor participation and favourable equity valuations in the post-pandemic market environment. The automobile, consumer services, and telecommunications sectors accounted for the largest share of equity-based fund mobilisation, particularly through public issues and rights issues, in 2024-25 (Chart 5c).

Corporate bond issuances from non-financial entities also increased in 2024-25 amidst a moderation in corporate bond yields. The monthly average yield on AAA-rated 3-year bonds of corporates fell by 33 bps in March 2025 vis-à-vis March 2024. Capital-intensive sectors such as housing, civil construction, real estate, power generation and distribution, and telecommunications emerged as major issuers, accounting for about half of the total resource

mobilisation by non-financial corporate sector in the bond market (Chart 5d). This reflects an increased reliance on market-based long-term debt to fund infrastructure and capacity-building projects.

Furthermore, hybrid market instruments such as Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs) have become another avenue of funding. Although smaller in amount relative to equity and bonds, their growing contribution — evident in the increasing issuances over the past three years — indicates increasing investor appetite for asset-backed and income-generating vehicles.

For meeting short-term liquidity and working capital needs, highly rated corporates have continued



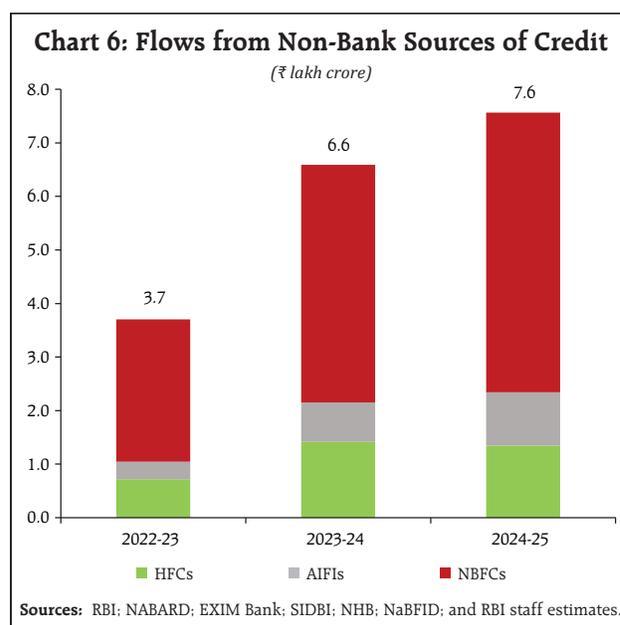
to access the Commercial Paper (CP) segment of the money market. CP issuances, while more volatile than other instruments, are influenced by several interrelated factors, including prevailing short-term interest rates, banking system liquidity, corporate credit ratings, and seasonal working capital cycles. Periods of monetary easing and surplus liquidity in the system generally support greater CP issuance, as corporates take advantage of lower borrowing costs. Conversely, in a tightening interest rate environment, CP issuance is likely to moderate due to rising yields and increased rollover risk. A stable monetary environment in 2023-24 and 2024-25 led to increased CP issuances following a decline in CP issuances in 2022-23 amidst tight monetary conditions.

#### IV.1.2. Non-Bank Sources of Credit

Among the major non-bank sources of credit in India, NBFCs, AIFIs, and HFCs play a pivotal role in complementing traditional banking channel. These entities have become increasingly important in facilitating credit access to sectors and borrower segments that are either underserved or inadequately served by the conventional banking system.

During the last three years, total credit extended by NBFCs, AIFIs, and HFCs witnessed consistent growth, reflecting their increasing role in India's credit ecosystem. However, among these three categories of entities, NBFCs have remained the dominant source of non-bank credit (Chart 6). Industry and retail sectors were extended a larger share of NBFCs' credit, with power sector accounting for bulk of the credit to industries at end-March 2024 (RBI, 2024b).<sup>2</sup> Further, in case of HFCs, housing loans to individuals constitute a significant portion of their credit.

<sup>2</sup> As per latest available data.



#### IV.2. Foreign Sources

External sources of funding, particularly Foreign Direct Investment (FDI), continue to play a critical role in supporting India's external financing needs while fostering long-term economic development. FDI – a stable and non-debt creating source of capital – contributes not only to the augmentation of domestic investment but also to broader structural gains. These include technology transfer, improved managerial practices, enhanced productivity, and increased integration into global value chains. Furthermore, FDI acts as a gauge of investor confidence and institutional credibility, thereby improving market sentiment and liquidity.

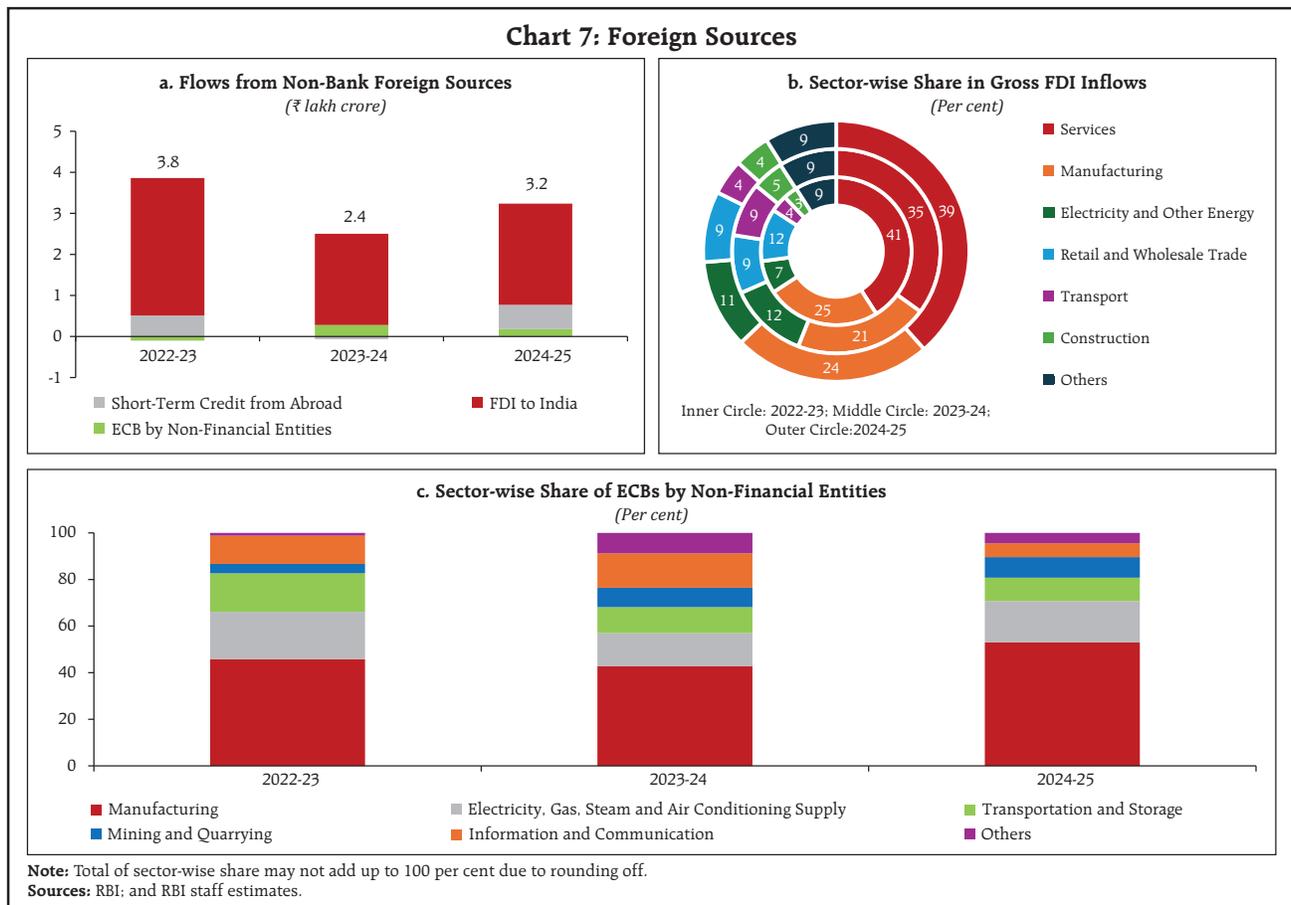
According to India's foreign investment policy, FDI entails investments through equity instruments by non-resident investors in either (a) unlisted Indian companies or (b) 10 per cent or more of the post-issue paid-up equity capital (on a fully diluted basis) of listed Indian companies. During 2024-25, net FDI flows to India increased despite an increase in repatriation (Chart 7a). The services sector accounted for the largest share of gross FDI inflows in 2024-

25, followed by manufacturing, electricity and other energy sectors, retail and wholesale trade, and transport (Chart 7b).

External Commercial Borrowings (ECBs) remain an important channel for corporates to access long-term foreign capital.<sup>3</sup> ECBs mostly require a minimum average maturity of three years and are subject to regulatory ceilings on cost and end-use restrictions. During the last three years, net ECB flows to non-financial entities have exhibited significant variability, reflecting global interest rate cycles, shifting global liquidity conditions and repayment obligations. Among non-financial sectors, manufacturing, and electricity, gas, steam and air conditioning supply

sectors account for the largest share in ECBs (Chart 7c). In terms of end-use of funds, more than half of total ECBs is used on capital or capacity expansion such as import or local sourcing of capital goods, new projects, modernisation and overseas acquisitions, while about a third is used for the repayment of earlier ECBs and outstanding rupee loans.<sup>4</sup>

Short-term credit from abroad (*i.e.*, short-term trade credit) has witnessed a positive correlation with the performance of India's merchandise trade during the last three years. In 2024-25, short-term credit from abroad increased amidst a rebound in India's merchandise imports.



<sup>3</sup> ECBs include loans including bank loans, floating/ fixed rate notes/ bonds/ debentures (other than fully and compulsorily convertible instruments), trade credits beyond three years, foreign currency convertible bonds (FCCBs), foreign currency exchangeable bonds (FCEBs), financial lease, and the plain vanilla Rupee denominated bonds issued overseas (which can be either placed privately or listed on exchanges as per host country regulations).

<sup>4</sup> Based on average for last three years.

## V. Outstanding Credit to Commercial Sector

The outstanding non-food bank credit increased to ₹182.1 lakh crore (55.1 per cent of GDP) at end-March 2025 from ₹164.1 lakh crore (54.5 per cent of GDP) at end-March 2024 (Appendix Table A1). Similarly, the outstanding credit from non-bank sources rose to ₹88.9 lakh crore (26.9 per cent of GDP) from ₹77.6 lakh crore (25.7 per cent of GDP) during this period.<sup>5</sup> Consequently, total outstanding credit from banks and non-bank sources to the commercial sector increased to ₹270.9 lakh crore (81.9 per cent of GDP) at end-March 2025 from ₹241.7 lakh crore (80.2 per cent of GDP) at end-March 2024.

## VI. Conclusion

A gradual liberalisation of the Indian financial system has facilitated the creation of diverse sources of funding for the commercial sector. While banking system remains a major source of financing for the commercial sector in India, non-bank sources (both domestic and foreign) have also emerged as important sources of finance in recent years. Therefore, it is imperative to analyse the total flow of financial resources to the commercial sector taking into account the flows from both banks and non-bank sources.

In 2024-25, although the flow of credit from banks to the commercial sector moderated, the flows from non-bank sources more than offset the moderation in bank credit, resulting in a rise in flows to this sector. The moderation in bank credit flow in 2024-25 may be mainly attributable to a slowdown in credit to the targeted segments emanating from an increase in risk weights on unsecured credit in November 2023 aimed at strengthening financial stability.

The outstanding credit from banks and non-bank sources as per cent to GDP increased at end-March 2025 from their levels at end-March 2024. Consequently, overall outstanding credit to the commercial sector in India as per cent to GDP rose during this period.

## References:

RBI (2024a). The changing nature of the financial system: implications for resilience and long-term growth in emerging market economies. *BIS Papers* No. 148, 159-180.

RBI (2024b). *Report on Trend and Progress of Banking in India 2023-24*.

<sup>5</sup> Data on non-bank sources excludes issuances of equities and hybrid instruments under domestic sources and foreign direct investment in equities under foreign sources.

## Appendix

<b>Table A1: Outstanding Credit to Commercial Sector in India</b>			
(As at end-March)			
(Amount in ₹ crore; Figures in parentheses are per cent to GDP)			
Source	2023	2024	2025 P
<b>A. Non-Food Bank Credit</b>	<b>1,36,55,330</b> (50.8)	<b>1,64,09,083</b> (54.5)	<b>1,82,07,441</b> (55.1)
<b>B. Non-Bank Sources (B1 + B2)</b>	<b>74,43,091</b> (27.7)	<b>77,56,314</b> (25.7)	<b>88,85,434</b> (26.9)
<b>B1. Domestic Sources</b>	<b>53,95,038</b> (20.1)	<b>56,59,037</b> (18.8)	<b>66,37,411</b> (20.1)
1. Corporate Bond Issuances by Non-Financial Entities	16,58,140	18,25,514	20,23,310
2. Commercial Paper Issuances by Non-Financial Entities	89,816	1,09,528	1,28,347
3. Credit by Housing Finance Companies (Net of Bank Borrowings)	10,39,420	5,98,965	6,27,125
4. Credit by RBI-regulated All India Financial Institutions	3,51,224	4,24,610	5,24,111
5. Credit by Non-Banking Financial Companies (Net of Bank Borrowings)	22,56,439	27,00,421	33,34,518
<b>B2. Foreign Sources</b>	<b>20,48,053</b> (7.6)	<b>20,97,277</b> (7.0)	<b>22,48,023</b> (6.8)
1. External Commercial Borrowings by Non-Financial Entities	10,29,403	10,71,240	11,33,592
2. Short-term Credit from Abroad	10,18,650	10,26,037	11,14,432
<b>C. Total Credit (A+B)</b>	<b>2,10,98,421</b> (78.5)	<b>2,41,65,397</b> (80.2)	<b>2,70,92,875</b> (81.9)

P. Provisional.

- Notes:**
- Non-food bank credit pertains to scheduled commercial banks (SCBs) and excludes credit extended by co-operative banks. Including credit extended by co-operative banks (*viz.*, urban co-operative banks, state co-operative banks, and district central co-operative banks), non-food bank credit at end-March 2023 and 2024 stood at ₹1,46,22,252 crore (54.4 per cent of GDP) and ₹1,74,63,724 crore (58.0 per cent of GDP), respectively. Accordingly, total outstanding credit at end-March 2023 and 2024 stood at ₹2,20,65,343 crore (82.1 per cent of GDP) and ₹2,52,20,038 crore (83.7 per cent of GDP), respectively.
  - Data on non-bank sources excludes issuances of equities and hybrid instruments under domestic sources and foreign direct investment in equities under foreign sources.
  - In case of corporate bonds, the outstanding data for end-March 2024 and 2025 are based on SEBI's new series of data on bonds issued by financial and non-financial corporations. The outstanding data for end-March 2023 is worked out by adjusting the flow of 2023-24 from outstanding data for end-March 2024.
  - Flows based on outstanding data may not tally with the flows provided in Table 1 due to:
    - Merger of HDFC Limited with HDFC Bank on July 1, 2023;
    - Conversion of some Housing Finance Companies into Non-Banking Financial Companies; and
    - Valuation effect in case of foreign sources.
  - Data is exclusive of current and non-current trade payables representing domestic liabilities in case of non-financial non-government public and private limited companies as data are not available.

**Sources:** RBI; SEBI; NABARD; EXIM Bank; SIDBI; NHB; NaBFID; and RBI staff estimates.

