PRESS RELEASE

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Credit growth of banks and non-banks to be supported by GST rate cuts: ICRA

- Downward repricing of deposit base to improve competitive positioning of banks vs. debt capital markets
- Credit cost to rise by up to 13 bps for banks and up to 30 bps for NBFCs in FY2026 over FY2025

Rating agency ICRA expects the incremental credit flow of banks to rise to Rs. 19.0-20.5 trillion in FY2026 from Rs. 18.0 trillion in FY2025. This shall translate into a YoY credit growth of 10.4-11.3% for banks in the current fiscal compared to 10.9% in FY2025 and 16.3% in FY2024. The NBFC credit (excluding the infrastructure-focused entities) is projected to expand at 15-17% in the current fiscal, compared to 17% in FY2025 and 24% in FY2024.

While the pace of incremental bank credit growth in the current year lags at Rs. 3.9 trillion for 5MFY2026 compared to Rs. 5.1 trillion for the previous year, the recent GST rate cuts aimed at spurring domestic demand and to partly offset the tariff impact on the exports would support credit expansion for banks and NBFCs in the near term. With the upcoming CRR cut and GST rationalisation, ICRA foresees credit growth at the higher end of its estimated range of 10.4-11.3% for banks and 15-17% for NBFCs.

Further, the gradual downward repricing of deposit base is likely to improve the competitive positioning of banks vis a vis debt capital markets for the rest of the year. Additionally, the easing of credit to deposit ratio and abundant liquidity in the banking system shall also be supporting factors for the credit growth.

Commenting further, **Anil Gupta, Senior Vice President & Co-Group Head, ICRA** said*: "Asset quality stress in retail and MSME segments resulted in a slower growth for private sector banks as well as NBFCs. With improvement in economic activity post GST rate cuts, the growth appetite shall improve, which will support the credit growth."*

Notwithstanding, the expected improvement in the economic activities and outlook on credit growth, ICRA remains watchful on the asset quality. The lenders have been facing loan quality risks and are susceptible to the uncertainties emerging from the evolving geopolitical conditions. Loans to MSMEs and unsecured personal loans accounted for 17% of the overall non-food credit of Rs. 184 trillion for the banks as of July 2025. Loans to small businesses, and unsecured personal and consumption loans, stand at approximately 34% of the total NBFC credit of Rs. 35 trillion as of March 2025.

While the evolving macro-economic trends are not expected to have a direct, first-order impact on the lenders, their target borrower segments would be impacted by the overall demand weakness or income shocks emerging from these developments, for e.g. transport operators linked to an apparel sector, which is export dependent, would be faced with lower capacity utilisation. Similarly, employees of these units would have liquidity issues to service their existing debt (microfinance, personal loans, home loans) because of the income shock.

Commenting further, **AM Karthik, Senior Vice President & Co-Group Head, ICRA** said*: "We expect the credit cost of banks and NBFCs to go up by nearly 13 bps and 30bps, respectively, vis a vis the previous fiscal, with the impact being more pronounced in the non-housing segments."*

While these headwinds remain, the soothing impact of the reducing cost of funds shall support their margins and overall earnings for the lenders. ICRA maintains a stable outlook for banks and non-banks (except microfinance, where the outlook is negative) in general, on account of the above factors and their current capital buffers, which are adequate to absorb any unforeseen losses. The second-order impact of the macro-trends on the borrower profile remain monitorable, which could be visible from Q3 of the current financial year, in case the growth remains tepid, and the adverse impact of tariffs unfolds.

Some of the small and mid-sized emerging NBFCs face elevated risks, especially the ones with low capital buffers and high overdues from borrowers, which shall impact their earnings. These entities also have relatively limited financial flexibility in terms of refinancing or raising equity capital to absorb losses and may be prone to credit risk as the combined impact of the above-mentioned factors evolves.

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For further information, please contact:

Media Contacts:	
Naznin Prodhani Group - Head Media & Communications ICRA Ltd. Tel: + (91 124) 4545300, Dir – 4545 860 Email: communications@icraindia.com	**Saheb Singh Chadda** Manager - Media & Communications ICRA Ltd. Mob: +91- 9833669052 Email: communications@icraindia.com

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