

## PRESS RELEASE

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### ICRA expects bank credit growth to moderate to 11.0-11.7% in 2026-27

- Credit expansion projected at Rs. 23.5-25.0 trillion in 2026-27 with estimated credit at Rs. 236.4-237.9 trillion
- Bank profitability to remain healthy in 2026-27, supported by moderate operating expenses and manageable credit costs

Rating agency ICRA expects credit growth to moderate to sub-12% in 2026-27 from the significantly high level of 15.9% in 2025-26 amid heightened geopolitical uncertainties and evolving interest rate dynamics. Nonetheless, it would remain healthy at 11.0-11.7% and surpass the growth rate of 10.9% in 2024-25. The West Asia war has disrupted the Strait of Hormuz, raising risks for India's trade and energy supplies. With West Asia accounting for 14-20% of India's trade, higher oil prices could widen the current account deficit (CAD), raise inflation, weaken consumption, and pose downside risks for multiple sectors. This would impact the banking sector's credit growth and potentially increase slippages in various sectors.

**Sachin Sachdeva, Vice President & Sector Head, ICRA** said: *"ICRA expects bank credit growth to ease in 2026-27 following the sharp expansion in 2025-26 as the impact of elevated global uncertainties, including the West Asia war, and higher crude oil prices begin to reflect in macroeconomic and financial conditions. Vulnerable sectors like micro, small and medium enterprises (MSMEs) are likely to bear the brunt of supply chain disruptions. This could make banks cautious in lending to this segment, which was one of the key growth drivers in the recent past."*

Deposit growth continued to lag credit growth in 2025-26. However, it improved towards the end of the fiscal, given the banking sector's push to raise funds. This helped banks fund strong credit expansion and led to a moderation in the system-wide credit-deposit (CD) ratio. Nevertheless, deposit mobilisation at finer rates remains a key challenge. Going forward, the cost of deposits is not expected to decrease materially, keeping net interest margins (NIMs) under pressure. Additionally, ICRA notes that banks had drawn down surplus liquidity buffers in 2025-26, including reduction in excess statutory liquidity ratio (SLR) holdings, to support credit growth, resulting in some decline in the liquidity coverage ratio (LCR) buffers. Thus, their ability to raise deposits at better rates would be important for sustainable credit growth and adequate profitability.

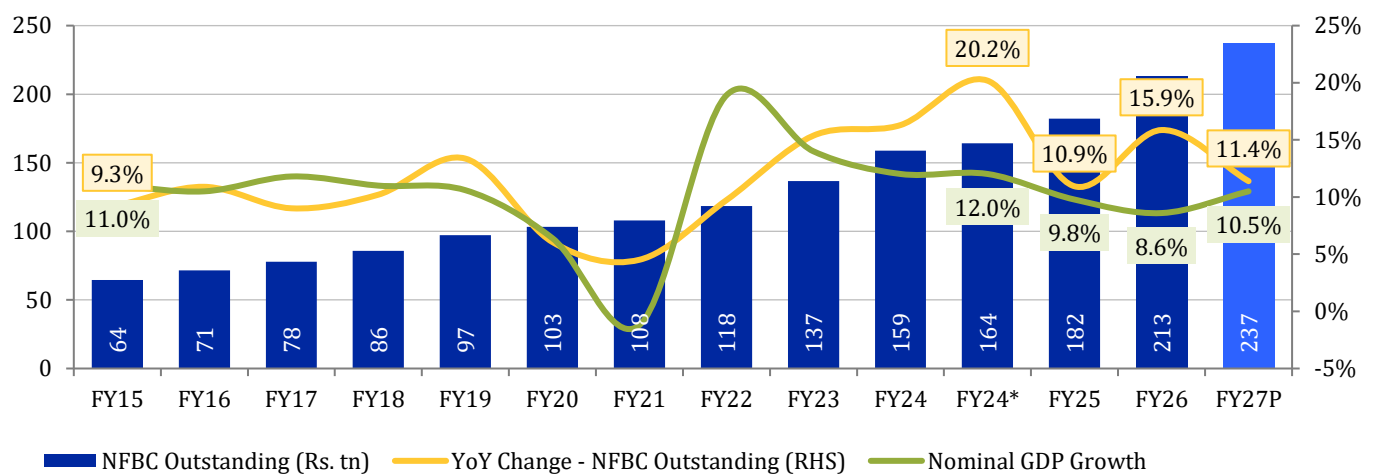
On the asset quality front, banks have been witnessing continued improvement over the years, supported by declining incremental stress and lower credit costs. Despite a slight uptick in the first nine months of 2025-26, the fresh slippage rate remains under control. Going forward, ICRA expects that ongoing geopolitical uncertainties to cast a shadow over MSMEs and unsecured retail loans, which would push up the slippage rate, leading to a slight increase in gross non-performing advances (GNPAs). Nonetheless, GNPAs would stay benign at 2.0-2.1% in 2026-27. Assuming an average crude oil price of \$85 per barrel, ICRA projects India's real GDP growth estimate for 2026-27 at 6.5%.

**Sachdeva stated,** *"While private sector banks continue to report higher slippage rates than public sector banks owing to their greater exposure to unsecured retail and MSME portfolios, the overall asset quality is projected to remain manageable. ICRA expects the incremental provisioning requirement to increase to some extent and the overall credit costs to rise, though the impact is not likely to be material. Nonetheless, if the conflict-induced pressure persists for a longer period, the slippage rate may rise further. As per ICRA's estimate, every 50 basis points (bps) increase in the fresh NPA generation rate reduces the return on average assets (RoA) by 9-10 bps and the return on equity (RoE) by 95-100 bps."*

ICRA expects bank profitability to decline slightly but remain healthy in 2026-27, supported by moderate operating expenses and rising but manageable credit costs. Some pressure on margins may persist in the near term due to competition for deposits, although this is likely to ease towards the later part of 2026-27.

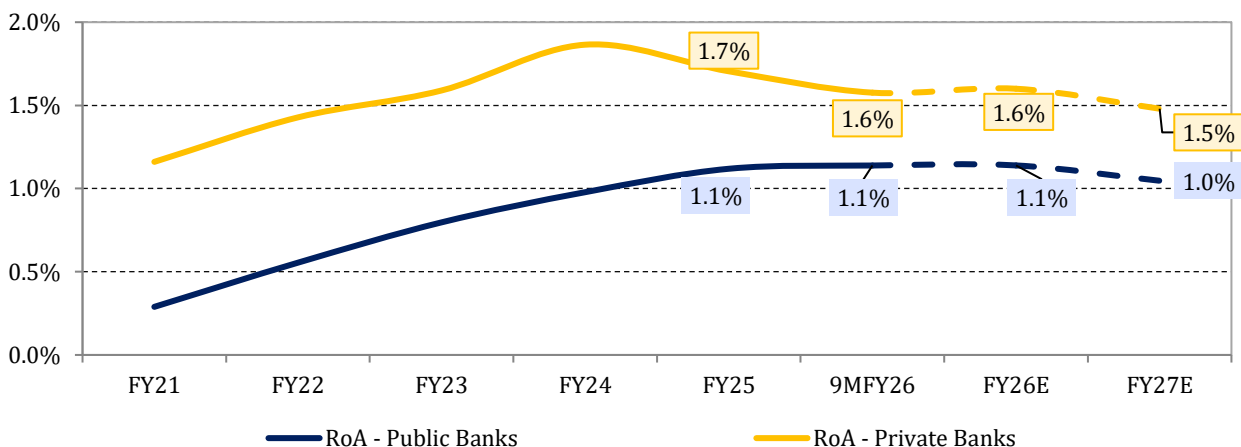
*“Overall, ICRA maintains a Stable outlook on the Indian banking sector for 2026-27, underpinned by comfortable capitalisation, manageable asset quality risks, and steady profitability, even as growth moderates from recent highs amid the complex global macroeconomic environment, leading to pressure on the asset quality. ICRA expects the RoA and RoE at 1.2-1.3% and 12.3-13.2%, respectively, in 2026-27 though this would remain sufficient to fund the sector’s credit growth.” added Sachdeva.*

**Exhibit: Credit growth to decline in 2026-27 after the high in FY2026**



Source: RBI, ICRA Research

**Exhibit: Outlook on RoA**



Source: Aggregate of 13 public sector banks (PSBs; including IDBI Bank) and 19 private sector banks, ICRA Research; 9M FY26 is annualised; E is estimated

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