PRESS RELEASE

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Credit growth of banks and non-banks to stay healthy at ~15.5% and ~20.0%, respectively, in FY2027 despite onset of rate tightening cycle: ICRA

- Surplus liquidity to support banks' cost of funds amid rate hikes; elevated bond yields keep bank borrowing attractive
- Slippages to rise for both banks and non-banks but will remain under control

Rating agency ICRA projects banks' incremental credit flow to rise to Rs. 32.3-33.8 trillion in 2026-27 from Rs. 29.2 trillion in 2025-26. This will translate into a YoY credit growth of 15.1-15.9% for banks in the current fiscal, compared to 15.9% in 2025-26 and 10.9% in 2024-25. The growth outlook for retail-focused non-banking financial companies (NBFCs) remains healthy, with assets under management (AUM) expected to expand by 19-21% in 2026-27 compared with 22% in 2025-26 and 18% in 2024-25.

Credit growth remained robust in YTD 2026-27 as elevated bond yields increased the attractiveness of bank funding. ICRA expects the momentum to continue, driven by retail, micro, small and medium enterprises (MSMEs) along with continued uptick in corporate credit as bank lending remains attractive compared with the bond market.

In addition, sizeable foreign currency non-resident (FCNR(B)) inflows aided by the Reserve Bank of India's (RBI) concessional swap facility, led to surplus liquidity in the banking sector. This provides headroom for credit growth while containing funding costs by reducing reliance on expensive wholesale deposits. With a high share of variable rate loans, lending rates should reprice faster as rates rise.

Ashish Modani, Senior Vice President & Group Head, ICRA said: *"On the margins front, the overall cost of funds benefits from surplus liquidity in the system, while yields are likely to benefit from the onset of the rate hike cycle. While the credit cost is expected to increase marginally, it would remain benign and much lower than the historical levels. Thus, ICRA expects the profitability of banks to remain largely steady and comfortable in 2026-27."*

Following the incremental credit of Rs. 16.1 trillion in H1 FY2027, ICRA's estimate for 2026-27 implies further addition of Rs. 16.2–17.7 trillion in H2 2026-27, lower than the incremental credit offtake seen in H2 2025-26. This reflects the high base and the impact of the reporting date changes, which will lead to moderation in overall growth rate to 15.1-15.9% for 2026-27 compared to 21.4% seen as on September 30, 2026.

The prolonged West Asia conflict remains a source of uncertainty from an asset quality perspective, particularly for Indian MSMEs, due to potential oil shocks, supply chain disruptions and inflationary pressure. The loans to MSMEs and unsecured personal credit account for around 17% of the overall non-food bank credit of Rs. 223 trillion as of August 2026.

For NBFCs, the AUM growth will be supported by sustained momentum in gold loans amid increasing participation and expansion by lenders in the segment, as well as a pick-up in disbursements in the microfinance and unsecured segments. Growth for housing finance companies is also forecasted to remain healthy at 14-16% in FY2027, with the share of non-housing loans likely to increase further thereby supporting portfolio yields and margins. However, higher rates, inflation and geopolitical uncertainty could put pressure on cash flows and funding costs. Monsoon concerns are also driving more calibrated lending in vulnerable segments and geographies.

ICRA expects the effect of higher interest rates on profitability to vary across asset classes. Lower-margin, longer-tenure products such as housing loans and loans against property, which are linked to floating benchmarks, allow lenders to transmit higher funding costs to borrowers. Consequently, spreads could remain resilient and may even expand temporarily during the repricing period. For fixed-rate products such as vehicle finance and gold loans, relatively higher margins, shorter contractual tenures and faster portfolio churn provide meaningful buffers and enable book-level repricing, subject to competitive intensity.

Ashish Modani stated further: *"ICRA does not forecast higher interest rates or inflation to translate immediately into a broad-based deterioration in headline asset quality, particularly as long as credit flows from banks to NBFCs, and onward to underlying borrowers, remain healthy. Nonetheless, some pressure in the softer delinquency buckets cannot be ruled out."*

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