PRESS RELEASE

November 12, 2025

ICRA revises incremental bank credit for FY2026 up by Rs. 0.5 trillion

- Projection for credit expansion in FY2026 revised to Rs. 19.5-21.0 trillion (10.7–11.5%) from Rs. 19.0-20.5 trillion (10.4-11.3%)
- Margins to improve in H2 FY2026 after bottoming out in H1 FY2026
- Impact of proposed shift to expected credit loss framework on core capital ratios estimated at sub-150 basis points

Rating agency ICRA Limited has revised upwards its projection of credit expansion in FY2026 to Rs. 19.5-21.0 trillion (10.7–11.5%) from its earlier estimate of Rs. 19.0-20.5 trillion (10.4-11.3%), supported by improved demand post the Goods and Service Tax (GST) rationalisation, and liquidity boosts via the cash reserve ratio (CRR) cuts. While the banks remain cautious in lending to non-banking financial companies (NBFCs) and the corporate demand is yet to see any meaningful revival, the growth is expected to be driven by the retail and micro, small and medium enterprise (MSME) segments. The episodic shift of credit demand from large well rated borrowers from capital markets to banks and vice versa remains opportunistic and sustainability of that remains to be seen, given the expectations of another rate cut by the Monetary Policy Committee (MPC). ICRA forecasts a stable trajectory for FY2026 for the Indian banking sector, as banks navigate growth revival, amid evolving asset quality and significant regulatory changes.

Commenting further, **Sachin Sachdeva, Vice President & Sector Head, ICRA** said*: "H1 FY2026 has seen incremental credit offtake of Rs. 10.1 trillion with a sizeable credit expansion taking place in September 2026, prompting us to revise upwards our full year credit offtake projection. The robust offtake in H1 was driven by partial upfronting of demand from Q3 FY2026 to Q2 FY2026 given the early onset of festive season, supported by GST cuts. As a result, the incremental credit offtake in H2 FY2026 (Rs. 9.4-10.9 trillion) is seen as flattish relative to the level in H1 FY2026, and ~9% higher than the level in H2 FY2025 (Rs. 9.3 trillion)."*

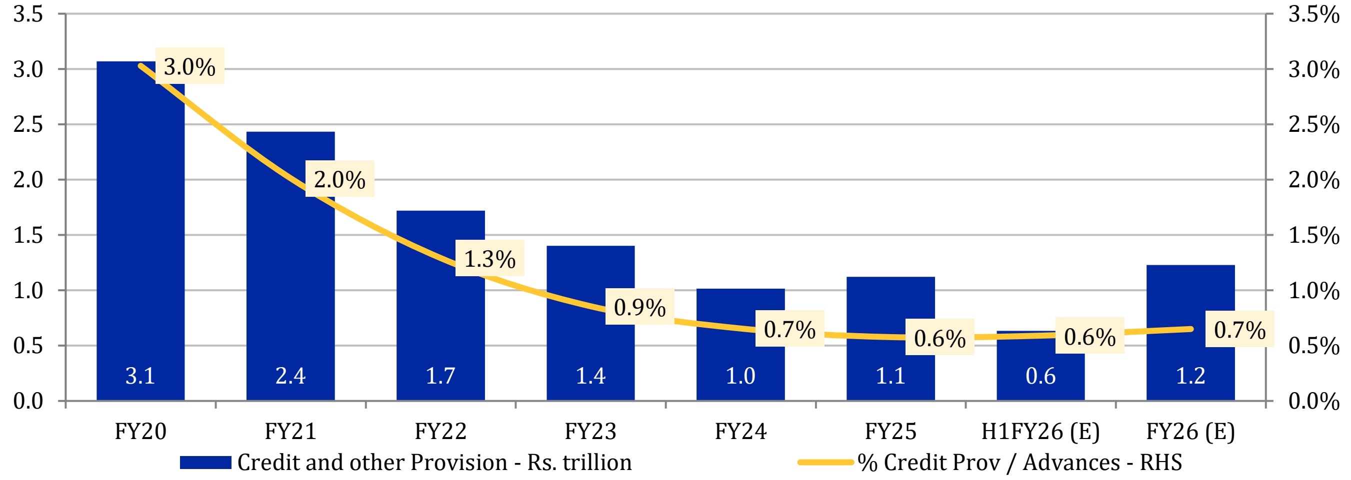
On the regulatory front, the sector remains active with several changes being introduced by the Reserve Bank of India (RBI) including two pivotal draft frameworks, namely the 'Capital Charge for Credit Risk – Standardised Approach' and the 'Expected Credit Loss (ECL) Framework'. These proposals, when implemented, are poised to reshape the capital and provisioning norms for the banks. According to ICRA, these collectively signal a significant evolution in risk management, capital allocation, and resilience for the sector.

"Banks are well positioned to absorb the impact of the changes related to capital charge for credit risk and ECL with resilient capital buffers. The RBI's proposed ECL approach is anticipated to increase the provisioning requirements. However, the proposed reductions in risk weights for certain corporate and MSME exposures are expected to benefit capital ratios, except for commercial real estate exposures, which will see increased risk weights. Nevertheless, the overall impact on core capital ratios is estimated to be below 150 basis points because of ECL changes, which will be partially moderated by a favourable impact on account of capital charge. Further, with the transition path up to March 2031, the sector's capital profile is expected to remain comfortable," **Sachdeva** added**.**

On the asset quality front, there had been a slight uptick in fresh non-performing advances (NPA) generation rate in Q1 FY2026, particularly among private banks due to higher unsecured retail and MSME advances, although the same declined in Q2 FY2026. Barring the reversion seen in Q2 FY2026, the overall asset quality trends remain monitorable amid broader macro-economic developments and the fresh NPA generation rate for full FY2026 is expected to be slightly higher than that seen in FY2025. Consequently, gross NPAs are forecasted to rise slightly in FY2026, but stay within a comfortable range (2.1–2.3%). This will translate into a slight increase in credit costs (credit provisions/average advances) to ~0.7% in FY2026 for the sector from the significantly low levels of 0.6% seen in the recent past.

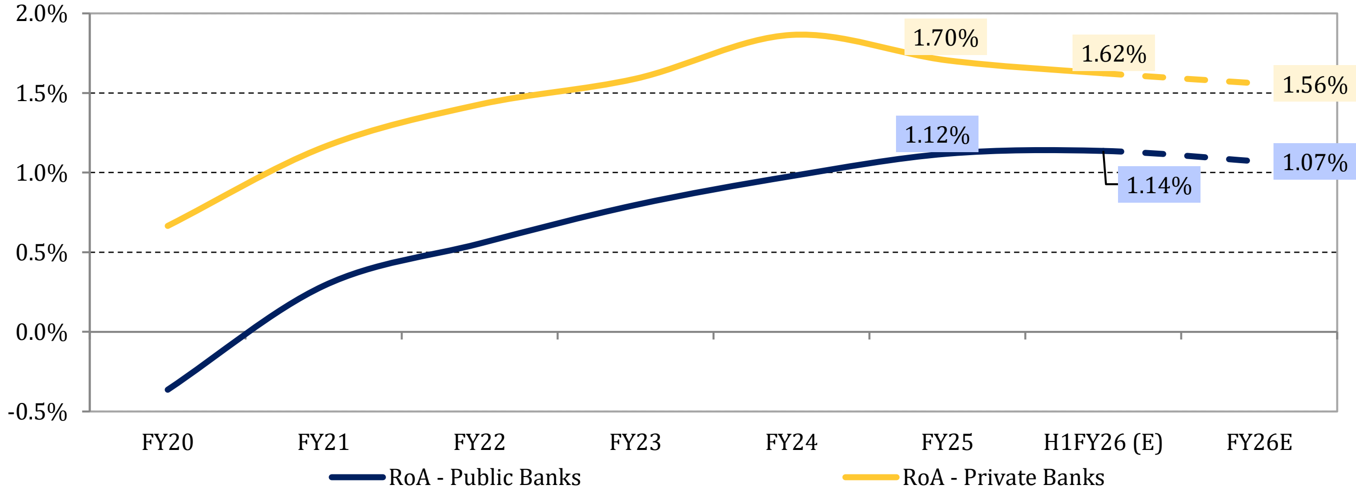
"ICRA's outlook for banks for FY2026 remains stable, with no significant capital requirements anticipated. Both public and private banks are expected to maintain comfortable solvency and asset quality metrics, though a slight rise in credit cost is anticipated in H2 FY2026. The Net Interest Margins (NIMs) appear to have bottomed out in H1 FY2026 and slight recovery is anticipated in H2 FY2026. Primarily driven by compression of NIMs, the return on assets (RoA) and return on equity (RoE) are likely to trend marginally lower in the range of 1.2-1.3% and 13.5-14.4% respectively in FY2026 compared to 1.3% and 15.5% respectively in FY2025", added **Sachdeva**.

Exhibit: Credit cost to rise slightly in FY2026



Source: Aggregate of 13 PSBs (including IDBI Bank) and 19 private banks, ICRA Research; H1 FY26% is annualised; FY24 and H1FY26 is adjusted for impact of sizeable floating provisions created by one large PVB

Exhibit: Outlook on Return on Assets



Source: Aggregate of 13 PSBs (including IDBI Bank) and 19 private banks, ICRA Research; H1 FY26 is annualised

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