

FINANCIAL MARKETS & BANKING UPDATE VOL. 1: FY2026-FY2027

Bond issuance rose sequentially in Q4 FY2026, bringing full-year volumes in line with ICRA's estimates

APRIL 2026

Abbreviations

AUM: Assets under management	FY: Financial year	NBFC: Non-banking financial company
BSNL: Bharat Sanchar Nigam Limited	G-Sec: Government securities	NSDL: National Securities Depository Limited
CASA: Current account and savings account	GDP: Gross domestic product	NSO: National Statistical Office
CAD: Current account deficit	GFCE: Government final consumption expenditure	OMO: Open Market Operations
CD: Certificates of deposit	GFCF: Gross fixed capital consumption	PFCE: Private final consumption expenditure
CDSL: Central Depository Services (India) Limited	Gol: Government of India	PSB: Public sector bank
CEA: Central Electricity Authority	GST: Goods and Services Tax	PVB: Private sector bank
CIC: Currency in circulation	GVA: Gross value added	QoQ: Quarter on quarter
CP: Commercial paper	HFC: Housing finance company	RBI: Reserve Bank of India
CPI: Consumer Price Index	IDBI: IDBI Bank Limited	RDB: Rupee denominated borrowings
CMB: Cash management bills	IIP: Index of Industrial Production	SIAM: Society of Indian Automobile Manufacturers
CRR: Cash reserve ratio	IPO: Initial public offer	SIDBI: Small Industries Development Bank of India
CWP: Currency with public	IMD: India Meteorological Department	SCB: Scheduled commercial bank
CY: Calendar year	INR: Indian rupee	SDL: State development loans
DII: Domestic institutional investors	JV: Joint venture	SLR: Statutory liquidity ratio
DIPP: Department of Industrial Policy and Promotion	LAF: Liquidity Adjustment Facility	TLTRO: Targeted long-term repo operations
ECBs: External commercial borrowings	LIBOR: London Interbank Offered Rate	T-Bill: Treasury bill
EM: Emerging markets	LPA: Long period average	TTM: Trailing 12 months
FAR: Fully Accessible Route	LRS: Remittance Scheme	UAE: United Arab Emirates
FCCBs: Foreign currency convertible bonds	LTRO: Long-term repo operations	\$: United States dollar
FCI: Food Corporation of India	MGNREGA: Mahatma Gandhi National Rural Employment Guarantee Act	VRR: Variable Rate Repo
FDI: Foreign direct investment	MPC: Monetary Policy Committee	VRRR: Variable Rate Reverse Repo
FII: Foreign institutional investment	MSCI: Morgan Stanley Capital International	WoS: Wholly-owned subsidiary
FPI: Foreign portfolio investment	MSF: Marginal Standing Facility	WPI: Wholesale Price Index
FPO: Follow-on public offer	NABARD: National Bank for Agriculture & Rural Development	WACR: Weighted average call rates
FSB: Fully serviced bonds	NDTL: Net demand & time liabilities	YTD: Year to date

1 Foreign Investment and External Commercial Borrowings



2 Growth



3 Inflation



4 Deposit and Credit



5 Liquidity and Yields



6 Annexures





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The 10-year G-Sec yield is likely to trade at 6.85-7.00% in the near term.

Net FPI outflows surged sharply to \$12.6 billion in Q4 FY2026, largely driven by the conflict-led widening in equity outflows; overall, FPI outflows stood at \$16.9 billion in FY2026, in contrast to inflows seen during FY2024-2025.

- **India's yield curve steepened in Q4 FY2026:** The 10-year G-Sec yields hardened during Q4 FY2026, specially in March 2026. The 10-year yield was already trending higher following higher than expected Government borrowings and global trade uncertainties. Further, in Q4 FY2026, the yields increased on account of the West Asia war, surge in crude oil prices and weakening of the INR amid FPI outflows. The average 91-day T-Bill rates remained range-bound (5.2-5.5%) during Q4 FY2026. The yield hardened slightly to 5.38% as on March 31, 2026 from 5.26% as on December 31, 2025. India's 10-year G-Sec yield surged from 6.66% at end-February 2026 to 7.04% on March 31, 2026, and crossed 7.1% in early April 2026 amid increasing risks of a fiscal slippage owing to the adverse impact of the West Asia conflict. However, following the ceasefire, the yields corrected to 6.92% on April 13, 2026. ICRA expects the 10-year G-Sec yield to trade at a range of 6.85-7.0% in the near term.
- **Bond issuances increased QoQ in Q4 FY2026:** Bond issuances increased to Rs. 3.2 trillion in Q4 FY2026 from Rs. 2.9 trillion in Q3 FY2026 driven by some large deals especially by all India financial institutions (AIFIs) and banks, while trailing the earlier quarterly high of Rs. 3.6 trillion in Q1 FY2026. Bond yields remained elevated throughout Q4 FY2026, specially during March 2026, while the banks offered competitive rates, thereby leading to shift of demand from bonds to banks and hence limiting the bond issuances. The share of NBFCs, corporates and banks (including AIFIs) in issuances during Q4 FY2026 stood at 31%, 45% and 23%, respectively, over 47%, 26% and 26%, respectively, in Q4 FY2025. With yields expected to stay elevated in the near term, bond issuances are likely to remain relatively muted in the next 1-2 quarters, with some growth to come back thereafter. ICRA projects bonds issuance at Rs. 12.8-13.3 trillion in FY2027, with corporate bonds outstanding increasing to Rs. 64.0-64.5 trillion by March 2027 (8.3-9.1% YoY).
- **Sizeable net FPI outflows of \$12.6 billion recorded in Q4 FY2026:** Net FPI outflows (equity, debt and hybrid) from India surged to a six-quarter high of \$12.6 billion in Q4 FY2026, amid a sharp selloff in March 2026 (-\$13.5 billion), owing to the escalation of the West Asia conflict. While FPIs sold a considerable \$14.2 billion from the equity market in Q4 FY2026, the debt segment saw a doubling of inflows in Q4 over Q3 FY2026 (to \$1.8 billion from \$0.9 billion). Overall, FPIs have withdrawn \$16.9 billion in FY2026, against inflows recorded in each of the previous two years (FY2025: +\$2.8 billion and FY2024: +\$41.0 billion), largely driven by geopolitical uncertainty.

Net FDI recorded outflows of \$3.7 billion in Q3 FY2026 and \$1.7 billion in January 2026; nevertheless, it was positive (i.e. inflow) at \$1.7 billion in 10M FY2026.

LRS remittances moderated slightly to \$6.7 billion in Q3 FY2026 compared to \$6.7 billion Q3 FY2025. With the trend building up so far, the LRS remittances in FY2026 are likely to trail the FY2025 levels.

ICRA estimates a steady level of gross ECB approvals at \$40-45 billion in FY2027.

India's GDP growth is expected to ease to 6.5% in FY2027 from 7.6% in FY2026 Second Advance Estimate (SAE), amid downside risks from an escalation of the West Asia conflict and potential development of El Nino conditions.

- **Net FDI inflows (including reinvested earnings) declined sequentially:** Net FDI recorded outflows of \$3.7 billion in Q3 FY2026 and \$1.7 billion in January 2026 after displaying inflows in the previous three quarters. Supported by high net inflows in Q1 FY2026, the net FDI inflows were positive at \$1.7 billion in 10M FY2026 compared to net inflows of \$2.2 billion in 10M FY2025. On a TTM basis, net FDI inflows were marginally positive at \$0.5 billion (till January 2026) compared to \$0.8 till January 2025 and are likely to deteriorate further with the trend of repatriation and disinvestments witnessing an uptick. With the duration of the ongoing West Asia conflict remaining uncertain, the trend of further investments remains monitorable and may affect net FDI flows to India.
- **LRS outflows in FY2026 were tepid:** Total outflows under LRS moderated slightly to \$6.6 billion in Q3 FY2026 from \$6.7 billion in Q3 FY2025. The trend continued in January 2026 with outflows at \$2.7 billion compared to \$2.8 billion in January 2025. As a result, the total for 10M FY2026 eased to \$24.0 billion from \$25.0 billion for 10M FY2025. Overall, LRS remittances in FY2026 are likely to settle lower than the FY2025 tally.
- **ECB approvals in FY2027 to remain steady:** Gross ECB approvals improved sequentially in the last 2-3 months and stood higher YoY in February 2026, but on an aggregate basis they declined to \$37.5 billion in 11M FY2026 compared to \$50.1 billion in 11M FY2025 (record level of \$61.2 billion in FY2025). Given the trend, the tally in FY2026 is likely to settle below the level of FY2025. Further, the ECB market is likely to see limited activity in H1 FY2027 amid the persistent elevated yields; and a meaningful increase in ECB approvals is likely in H2 FY2027. At present, ICRA estimates a steady level of gross ECB approvals at \$40-45 billion in FY2027.
- **India's GDP growth to print at 6.5% in FY2027:** The YoY expansion in industrial output eased marginally during January-February 2026 over Q3 FY2026, driven by weak performance of the manufacturing sector amid tariff-related uncertainty. Nevertheless, the performance of the agriculture (healthy kharif and rabi outputs) and services sectors remained upbeat in that quarter. Overall, the NSO has pegged GDP growth at 7.6% in FY2026, slightly higher than ICRA's expectation of 7.5% for the fiscal. Thereafter, assuming an average crude oil price of \$85/barrel in FY2027, ICRA projects GDP growth for the upcoming fiscal at 6.5%. However, downside risks persist if there is a further escalation of the conflict and tighter availability of inputs, while potential development of El Nino conditions and a below-normal monsoon forecast (92% +/-5% of LPA; lowest estimate in last 25 years) by the IMD would adversely dampen the prospects of the agricultural sector.

CPI inflation averaged at 3.1% in Q4 FY2026. IMD's forecast of below-normal monsoon rains at 92% +/-5% of LPA in 2026 poses upside risks to food inflation. ICRA expects CPI inflation to exceed 4.5% in FY2027.

MPC is likely to keep rates unchanged amid uncertainty on the impact of the West Asia conflict on domestic macros.

Systemic liquidity surplus rose to Rs. 1.6 trillion in Q4 FY2026 from Rs. 1.1 trillion in Q3; with seasonally lower currency leakages likely to support liquidity conditions in Q1 FY2027, even as capital outflows may exert pressure.

- **CPI was up 3.1% YoY in Q4 FY2026:** As per the new base 2024 series, CPI inflation rose to 3.4% in March 2026 from 3.2% in February 2026, largely driven by food (led by vegetables, pulses, and meat), electricity, gas, and other fuel, as well as by restaurants and accommodation services (led by food and beverages/F&B serving services) groups, with the latter two reflecting the impact of the West Asia crisis across LPG and alternative fuels. The core inflation (CPI, excluding F&B, electricity, gas and other fuels) remained largely stable at 3.4% in March 2026 in line with the prior two months. Overall, CPI inflation averaged at 3.1% in Q4 FY2026. The impact of the unrest in West Asia will continue to feed into prices of several items such as alternative fuels, airfares (owing to higher aviation turbine fuel, or ATF, prices), restaurants (amid higher commercial LPG prices), which along with rising input prices is likely to transmit into near-term inflation prints. Besides, the below-normal monsoon forecast for 2026 owing to El Nino poses upside risks to the inflation outlook. ICRA expects CPI inflation to print at 4.5% in FY2027.
- **Extended pause underway:** The MPC expectedly kept the policy rates unchanged at 5.25% and maintained a neutral stance in the April 2026 policy meeting. The tone appeared to be cautious and circumspect, as the West Asia conflict casts a shadow on India's growth-inflation outlook. While ICRA expects the MPC to remain data and development dependent, amid heightened uncertainty, we believe that an extended pause is underway. The next move on rates is likely to be a hike rather than a cut; although the timing of the same would be back ended.
- **Seasonal dip in currency leakage to augur well for liquidity, even as capital outflows exert pressure:** The size of the average systemic liquidity surplus increased to Rs. 1.6 trillion (0.6% of NDTL) in Q4 FY2026 from Rs. 1.1 trillion in Q3 FY2026 (0.5% of NDTL). This was attributed to sizeable liquidity injection via OMO purchases of G-Secs amounting to Rs. 4.6 trillion (over Rs. 1.8 trillion in Q3), outweighing the seasonal currency leakage (incremental uptick in CWP at Rs. 2.2 trillion up to March 15 over Rs. 1.2 trillion in Q3 FY2026) and sizeable capital outflows in Q4 FY2026. Thereafter, the systemic liquidity surplus ballooned to Rs. 5.0 trillion during April 1-12, 2026. Looking ahead, the seasonal moderation in currency demand, along with a lean season for credit (as offtake tends to be lower than that in Q4) is expected to augur well for liquidity conditions in the near term. Simultaneously, capital outflows owing to the West Asia conflict and the consequent stress on the balance of payments position would continue to stress liquidity conditions, which would determine the extent of the support required from the Central Bank.

YoY deposit growth is estimated at 11.0-11.5% in FY2027. Incremental deposits are projected at Rs. 28.8-30.3 trillion for FY2027.

Incremental credit expansion is projected at Rs. 23.5-25.0 trillion for FY2027, translating to a YoY growth of 11.0-11.7%.

- **Deposit accretion jumped up towards end of Q4 FY2026*:** Deposit growth continued to lag credit growth in Q4 FY2026, but banks raised sizeable deposits towards the end of FY2026. The incremental deposits accretion stood at Rs. 1.5 trillion till March 15, 2026; however, the same stood at Rs. 12.2 trillion during March 15–31, 2026, taking the total to Rs. 13.7 trillion in Q4 FY2026 (Rs. 7.6 trillion in Q3 FY2026). However, this is not directly comparable to the same period last year as the current data pertains to the quarter-end figure as per the RBI's revised rule of publishing data during the mid-month and end-month. CD outstanding stood at Rs. 6.9 trillion as on March 31, 2026 (Rs. 5.7 trillion as on December 31, 2025). The CDs as a percentage of total deposits increased to 2.64% as on March 31, 2026, from 2.29% as on April 4, 2025. With the high deposit accretion achieved towards the end of March 2026, the overall deposit base reached Rs. 262.3 trillion as on March 31, 2026 from Rs. 231.1 trillion as on April 4, 2025, registering YoY growth of 13.5%. Nevertheless, attracting deposits at finer rates remain challenging and ICRA expects the deposits growth to moderate to 11.0-11.5% in FY2027.
- **Credit accretion picked up in Q4 FY2026:** The incremental non-food bank credit (NFBC) increased to Rs. 10.6 trillion in Q4 FY2026 compared to Rs. 10.1 trillion in Q3 FY2026 (Rs. 4.6 trillion in Q4 FY2025). Additionally, the demand boost from the persisting spurt in economic activity after the GST rate cuts, and the rise in bond yields over the continuously declining lending rates by banks increased the attractiveness of banks, helping to push credit demand. The reporting date change to end of the month also led to increase in the reported credit outstanding, which reached Rs. 212.9 trillion as on March 31, 2026, registering YoY growth of 15.9% compared to an outstanding credit of Rs. 183.8 trillion as on April 4, 2025. ICRA expects the lending to micro, small and medium enterprises (MSME) and retail sectors to remain cautious in the near term amid the ongoing geopolitical uncertainties and resultant risk of asset quality challenges. Thus, the credit offtake is likely to stay relatively calibrated in the next few months and gather pace thereafter. Accordingly, ICRA estimates credit growth to moderate in FY2027 from the highs seen in FY2026; although the same would remain healthy. ICRA pegs credit growth at 11.0-11.7% in FY2027 with estimated non-food bank credit at Rs. 236.4-237.9 trillion as on March 31, 2027.

Note: Data for Q4 FY2026 is from January 1, 2026 to March 31, 2026; data for Q3 FY2026 is from October 4, 2025 to December 31, 2025*



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