

## Indian Banking Sector

**GST rate cuts to support consumption,  
which along with surplus liquidity  
would drive bank's credit growth**

**SEPTEMBER 2025**



## 1 Deposit and Lending Rate Movements



## 2 Credit and Deposit Growth Trends



## 3 Trend in Advances – PSBs & PVBs



## 4 Asset Quality and Profitability Trends



## 5 Capital Position and Requirements



## 6 ICRA's Outlook, Coverage on the Banking Sector and Sector Aggregates





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*ICRA expects the profitability to trend downwards in FY2026; however, the return indicators are likely to remain comfortable, leading to ICRA's Stable outlook for the sector.*

*ICRA expects the GST rate cuts to support consumption. This, along with surplus liquidity, would drive the credit growth of banks.*

While the pace of incremental bank credit growth in the current year lags at Rs. 5.5 trillion for YTD FY2026 (till September 5, 2025) compared to Rs. 6.1 trillion for the previous year, the recent goods and services tax (GST) rate cuts to spur domestic demand and to partly offset the tariff impact on exports would support credit expansion for banks in the near term. With the upcoming cash reserve ratio (CRR) cut\* and GST rationalisation, ICRA expects credit growth to pick-up in H2 FY2026 and accordingly retains its non-food bank credit growth estimate of Rs. 19.0-20.5-YY trillion or 10.4-11.3% for FY2026. Further, the gradual downward repricing of the deposit base is likely to improve the competitive positioning of banks vis-à-vis debt capital markets for the rest of the year. Additionally, the easing of the credit-to-deposit ratio and abundant liquidity in the banking system shall be supporting factors for the credit growth.





However, the faster downward yield movement compared to deposit repricing has impacted the net interest margins (NIMs) of banks. Though the deposit repricing is picking up, the lag effect of the same is expected to keep the margins under pressure during the year. Thus, ICRA expects a slight moderation in the return indicators in FY2026, though the same would remain sufficient to meet the anticipated growth requirements of the sector.

Notwithstanding the expected improvement in economic activity and the outlook on credit growth, ICRA remains watchful about the asset quality. Lenders have been facing loan quality risks and are susceptible to the uncertainties emerging from the evolving geopolitical conditions. Loans to micro, small and medium enterprises (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.

- The YoY credit growth was lower at 10.2% as on September 5, 2025 (10.9% as on March 21, 2025), while the YoY deposit growth stood at 9.8% as on the same date.
- The headline asset quality metrics remained steady and comfortable with the gross non-performing advances (GNPAs) and net NPA (NNPAs) at 2.3% and 0.5%, respectively, as on June 30, 2025 (2.3% and 0.5%, respectively, as on March 31, 2025).
- Profitability remained healthy on the back of benign credit costs and healthy treasury income, with the annualised return on assets (RoA) at 1.3% in Q1 FY2026 (1.4% in FY2025).
- The solvency (NNPAs/core equity capital) level stood at 3.8% as on June 30, 2025 (4.9% as on June 30, 2024).

*\*One tranche has already been implemented and rest three will be done in due course*

## Stable outlook reflects ICRA's expectation of comfortable asset quality, capital position and earnings

	<b>Credit growth to pick up in H2 FY2026</b>	<ul style="list-style-type: none"> <li>▪ YoY credit growth moderated to 10.2% as on September 05, 2025; ICRA retains its credit growth estimate of 10.4-11.3% for FY2026 with growth expected to pick up in H2 FY2026</li> <li>▪ Challenges in mobilising deposits and stress in the retail unsecured segment to continue weighing down growth while regulatory measures and GST rate cut would support liquidity supply and credit growth, respectively</li> </ul>
	<b>Asset quality to stay comfortable despite uptick in slippages</b>	<ul style="list-style-type: none"> <li>▪ Absolute GNPA's and NNPA's expected to witness YoY uptick</li> <li>▪ Given moderate credit growth, headline asset quality metrics to stay range-bound despite increasing slippages</li> <li>▪ However, these are likely to be granular, unlike bulky corporate slippages in the past</li> </ul>
	<b>Manageable credit costs to support profitability</b>	<ul style="list-style-type: none"> <li>▪ NIMs to remain under pressure on account of faster transmission of rate cuts on assets than liabilities coupled with slowdown in growth (primarily towards high-yielding unsecured advances)</li> <li>▪ Banks cutting down discretionary operating expenses marginally, though tech spend is expected to continue</li> <li>▪ Credit provisions to rise but remain benign, which would help keep RoA/return on equity (RoE) at healthy levels</li> </ul>
	<b>Incremental improvement in capital and solvency position to remain limited</b>	<ul style="list-style-type: none"> <li>▪ Limited regulatory or growth-led fresh capital requirements for most banks in FY2026 and FY2027</li> <li>▪ Capital cushions to remain healthy as slower credit growth would reduce growth-led capital consumption</li> <li>▪ Transition to expected credit loss (ECL) norms remains monitorable; though banks are expected to have built-up cushions by the time ECL is implemented.</li> </ul>



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