

ICRA projects bank credit expanding by ₹50,000 crore in FY26 on rising demand

Our Bureau

Mumbai

ICRA has revised upwards its projection of bank credit expansion in FY26 by ₹50,000 crore, supported by improved demand post Goods and Service Tax (GST) rationalisation and liquidity boosts via the cash reserve ratio (CRR) cuts.

However, it cautioned that the fresh NPA (non-performing asset) generation rate for full FY26 is expected to be slightly higher than that seen in FY25.

The rating agency said the outlook for banks for FY26 remains stable, with no significant capital requirements anticipated.

The projection for bank credit expansion has been revised upwards to ₹19.5-21.0 lakh crore (10.7-11.5 per cent y-o-y growth).

The agency had earlier estimated banks' credit to



grow by ₹19.0-20.5 lakh crore (10.4-11.3 per cent y-o-y growth).

STABLE TRAJECTORY

ICRA has forecast a stable trajectory for FY26 for the Indian banking sector, as banks navigate growth revival amid evolving asset quality and significant regulatory changes.

While banks remain cautious in lending to non-banking financial companies (NBFCs) and corporate demand is yet to see any meaningful revival, growth is expected to be driven by retail and MSME segments.

The agency noted that the episodic shift in large well-rated borrowers' credit demand 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.

Sachin Sachdeva, V-P and Sector Head, ICRA, observed that H1 (first half) FY26 has seen incremental credit off-take of ₹10.1 lakh crore, with a sizeable credit expansion taking place in September 2025, prompting the upwards revision in full year credit off-take projection.

He noted that the robust off-take in H1 was driven by partial upfront of demand from Q3 (October-December) FY26 to Q2 (July-September) FY26, given the early onset of festival season, supported by GST cuts.

As a result, the incremental credit off-take in H2

FY26 (₹9.4-10.9 lakh crore) is seen as flattish relative to the level in H1 FY26, and 9 per cent higher than the level in H2 FY25 (₹9.3 lakh crore).

ASSET QUALITY

On the asset quality front, there had been a slight uptick in the fresh non-performing advances (NPA) generation rate in Q1 FY26, particularly among private banks, due to higher unsecured retail and MSME advances, although the same declined in Q2 FY26.

Barring the reversion seen in Q2 FY26, the overall asset quality trends remain monitorable amid broader macro-economic developments, and the fresh NPA generation rate for full FY26 is expected to be slightly higher than FY25.

Consequently, gross NPAs are forecast to rise slightly in FY26, but stay within a comfortable range (2.1-2.3 per cent).