



INDIAN BANKING SECTOR

**LIKELY TO WITNESS GROWTH AMID STABLE
ASSET QUALITY**

MARCH 2026





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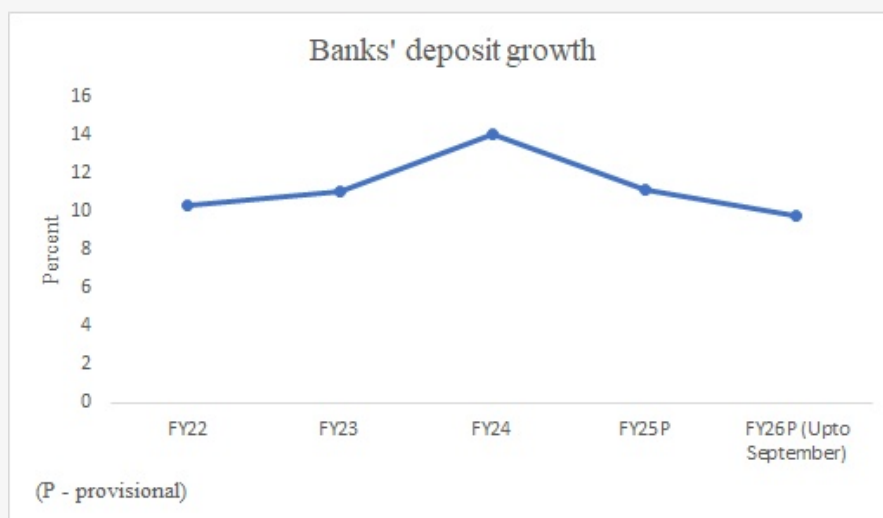
The banking system in India is well established & has been serving the credit & banking needs of the economy. The structure of the Indian banking system can be broadly divided into scheduled banks, non-scheduled banks & development banks. Banks that are included in the second schedule of the Reserve Bank of India (RBI) Act, 1934 are considered scheduled banks. Scheduled Commercial Banks are State Bank of India, Axis Bank, Bank of India, City Union Bank, Bank of Baroda, Catholic Syrian Bank, Bank of Maharashtra, Indian Bank, Indian Overseas Bank, Punjab National Bank, Union Bank of India, UCO Bank, ICICI Bank, HDFC Bank, Federal Bank, Dhanlaxmi Bank, Jammu & Kashmir Bank, IndusInd Bank, Kotak Mahindra Bank, IDFC Bank, IDBI Bank, Karur Vysya Bank, South Indian Bank, Yes Bank, etc. Presently, several scheduled commercial banks are providing banking services in India. In addition, co-operative banks & local area banks are also providing banking services in various segments in different locations of the country. Over the past two & a half decades, Indian banking system has undergone a remarkable transformation - from the early days of ATM networks to the emergence of RTGS, NEFT, IMPS & the revolutionary UPI, now extending its frontier to digital currency. This steady march of innovation has reshaped how India transacts, saves, and invests. Currently, the banking sector stands stronger than ever, with robust capital and liquidity buffers, improved asset quality & sustainable profitability.



BANKS' DEPOSIT GROWTH

SLOWS IN FIRST HALF OF CURRENT FINANCIAL YEAR

Scheduled commercial banks' (SCBs) deposit growth stood at 9.8% (provisional) in first half of FY26 (H1FY26), compared with 11.5% (provisional) same period of FY25. Deposit growth of banks slowed in first half of current financial year, mainly due to a sharp deceleration among private sector banks (PVBs). As of September 2025, deposit growth of private sector banks in India was 10.1% as compared to 15.1% same period of previous financial year, indicating moderation in deposit mobilisation by private banks. Banks have been facing challenges in mobilisation of public money as lower interest rates make bank deposits unattractive.





BANK CREDIT GROWTH

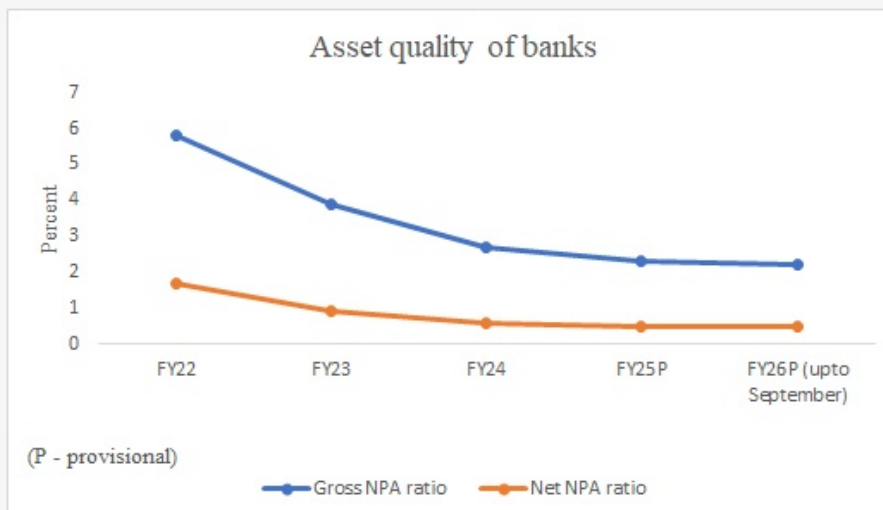
MAINTAINS ROBUST MOMENTUM

Bank credit growth in India continues to remain resilient, reflecting sustained lending momentum across key segments of the economy. Total bank credit stood at Rs195.3 lakh crore as of November 28, 2025, registering a year-on-year growth of 11.5%. Credit growth has consistently remained above 10% in recent months, indicating stable demand conditions and continued flow of credit to productive sectors of the economy. The expansion in bank credit has been driven primarily by robust demand from the retail and Micro, Small, and Medium Enterprises (MSME) segments, supported by improving consumption trends, rural economic activity and the positive impact of recent GST rate rationalisation on demand conditions. Healthy signs of revival in industrial credit and corporate borrowing have also contributed to the overall credit offtake, reflecting strengthening economic activity and business confidence in Indian growth trajectory.



IMPROVING ASSET QUALITY OF BANKS

A significant improvement has been observed in the asset quality of scheduled commercial banks in India. The gross non-performing asset (GNPA) ratio & net non-performing asset (NNPA) ratio have reached a multi-decadal low level as of September 2025. Gross NPA ratio of SCBs was 2.2%, while net NPA ratio of SCBs was 0.5% as of September 2025. This continuous decline in gross non-performing assets of SCBs has led to reduced provisioning by them, which in turn has improved their profitability, thereby causing positive impact on the business growth. A large drop in gross non-performing assets was achieved by Public Sector Banks (PSBs). Gross non-performing assets of PSBs have been declining during the last five financial years- reducing from 9.11% to 2.58% between March 2021 to March 2025.

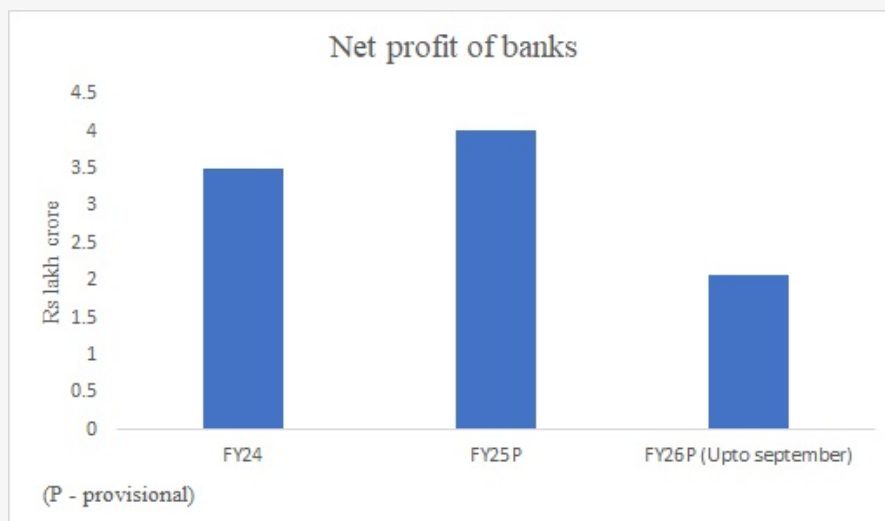




BANKS ACHIEVE

ALL-TIME HIGH NET PROFIT IN FY25

Scheduled commercial banks recorded their highest-ever aggregate net profit of Rs 4.01 lakh crore in FY25 as compared to net profit of Rs 3.5 lakh crore in FY24, driven by significantly improved asset quality and robust credit growth. Further, net profit of scheduled commercial banks during the first half of FY26 was Rs 2.08 lakh crore. Besides, PSBs have also recorded highest ever aggregate net profit of Rs 1.78 lakh crore during FY25. The net profit of PSBs during the first half of FY26 was Rs 0.94 lakh crore.





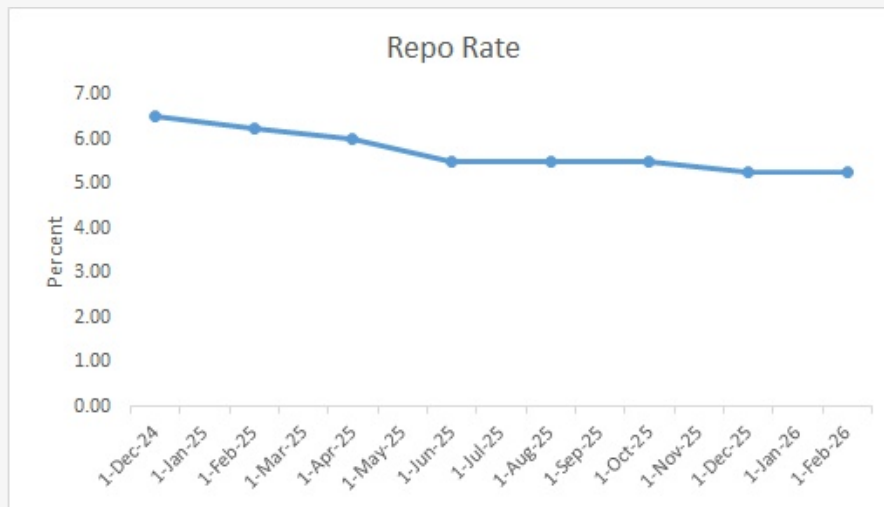
RBI HOLDS REPO

RATE AT 5.25%

The Monetary Policy Committee (MPC) under the Reserve Bank of India (RBI) at its sixth and final bi-monthly monetary policy for the current fiscal (FY26) has unanimously decided to keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 5.25%, citing positive inflation and growth outlook amid evolving economic conditions. Consequently, the standing deposit facility (SDF) rate remains at 5% and the marginal standing facility (MSF) rate and the Bank Rate remains at 5.50%. The MPC also decided to continue with the neutral stance. On the inflation front, it said headline CPI inflation remained low at 0.7% in November 2025 and 1.3% in December, 2025. However, the central bank said geopolitical uncertainty coupled with volatility in energy prices and adverse weather events may pose a upside risk to inflation. Thus, it revised its inflation forecast for FY26 at 2.1% from 2.0% earlier. On the economy front, it said India's real gross domestic product (GDP), as per the First Advance Estimates (FAE), is estimated to grow at 7.4% (y-o-y) in 2025-26. Private consumption and fixed investment contributed significantly to overall growth. Net external demand, however, continued to be a drag, with imports outpacing exports. On the supply side, real GVA growth of 7.3% is driven by buoyant services sector, resilient agricultural sector and revival in manufacturing activity.



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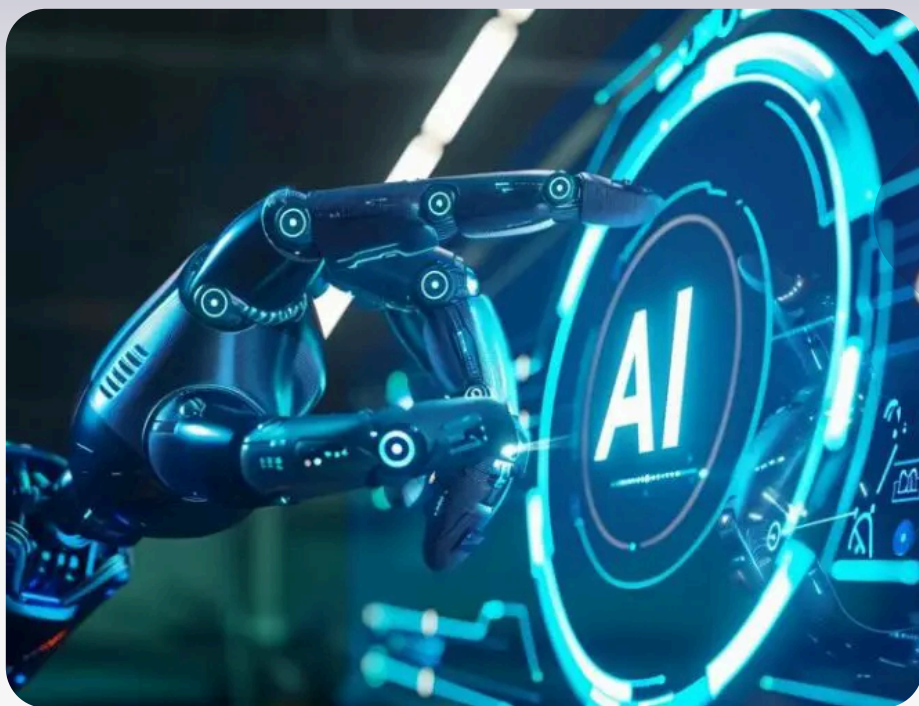




IMPACT OF US - ISRAEL - IRAN

WAR ON INDIAN BANKING INDUSTRY

The US-Israel-Iran war is likely to affect India's banking sector primarily via macro-economic and financial channels, including fluctuations in oil prices, rising inflation, changing interest rates, and increased credit risk. The conflict has pushed global crude oil prices higher due to supply disruptions and threats to key routes like the Strait of Hormuz. Since India imports a large share of its crude oil, higher oil prices increase inflation and the import bill. This may reduce economic growth and increase financial stress on borrowers, indirectly affecting banks' loan portfolios. Higher inflation is likely to force the Reserve Bank of India to keep interest rates higher for a longer period instead of cutting them. This may increase borrowing costs for businesses and households, slowing credit demand and affecting bank profitability. If the conflict slows economic activity - especially in energy-dependent industries - companies may face financial pressure. This could lead to higher loan defaults or stress in banks' corporate and retail loan portfolios.



RECENT DEVELOPMENTS

RBI CAPS BANK DIVIDENDS AT 75% OF NET PROFIT STARTING FY27 :

The Reserve Bank of India has capped the maximum dividend by banks to shareholders at 75% of profit after tax (PAT), with effect from FY27. The central bank issued the Reserve Bank of India (Commercial Banks - Prudential Norms on Declaration of Dividend and Remittances of Profits) Directions, 2026, following consultations with stakeholders. According to the norms, the regulatory capital of the bank should not fall below the applicable regulatory capital requirement even after the payment of dividends. Additionally, a foreign bank operating in India in branch mode should have positive PAT for the period for which the profits are to be remitted to the Head Office.

RBI BUILDS SECURED DATA CENTRE AWAY FROM POTENTIAL ENEMY STRIKES, SEISMIC RISK:

The Reserve Bank of India has built a high-security data centre in Odisha, strategically located well away from potential cross-border threat zones and high seismic-risk regions, as part of efforts to safeguard critical financial infrastructure and strengthen continuity of core systems. This is RBI's second data centre; the Primary Data Centre is located in Kharghar, Navi Mumbai.



RBI PROPOSES EASING FOREIGN EXCHANGE TRANSACTION NORMS :

The Reserve Bank of India has proposed greater flexibility to authorised persons to undertake foreign exchange transactions for hedging their exposures, balance sheet management and market-making, as well as to ease reporting obligations, after a review of the current regulations. Authorised banks and standalone primary dealers access the foreign exchange market for market making, balance sheet management and hedging of risks. The central bank issued draft directions on 'Foreign Exchange Dealings of Authorised Persons' aimed at providing greater flexibility to authorised persons to deal in products and undertake foreign exchange transactions for hedging their exposures, balance sheet management and market-making, as well as to ease reporting obligations. It proposed that an authorised dealer may undertake permitted foreign exchange transactions with other authorised dealers for hedging its exposures, balance sheet management, market-making and proprietary positions. They can borrow and lend in foreign currency.



CGA LAUNCHES GOVERNMENT BANK DASHBOARD & GOVERNMENT BANK MANUAL:

The Controller General of Accounts (CGA) has launched two major initiatives aimed at strengthening the governance and efficiency of banks handling government transactions i.e. the Government Bank Dashboard and the Government Bank Manual. The Government Bank Manual provides a comprehensive and standardized framework for banks for handling government business. It clearly defines operational procedures, reporting obligations, reconciliation timelines, and compliance requirements. Its objective is straightforward: to reduce ambiguity, mitigate operational risk, and strengthen accountability across all stakeholders. The Government Bank Dashboard introduces real-time, data-driven monitoring of critical banking functions related to government business. It tracks key performance indicators such as remittance timelines, scroll compliance, reconciliation status, transaction success rates, and adherence to service-level standards. This represents a significant shift from reactive, post-facto corrections to proactive oversight and performance management. Emphasizing the broader vision behind these initiatives, the CGA highlighted that the reforms institutionalize uniform procedures and objective benchmarks, while reinforcing shared responsibility in safeguarding public funds.



The outlook for the Indian banking industry is positive, supported by a strong operating environment and solid balance sheets. The earnings of the sector are expected to register strong growth in the coming years, driven by improved loan growth, recovery in margins, and stable asset quality. Stable-to-improving asset quality is expected to help reduce credit costs, which will contribute positively to overall earnings growth in the banking sector. Additionally, structural reforms, including the rationalisation of the goods and services tax in September 2025 and earlier personal income tax cuts, are boosting domestic consumption, while stable monetary conditions are supporting credit demand. However, in the near term, India's banks are likely to face rising credit costs, tighter liquidity and pressure on corporate and household borrowers if the Middle East conflict prolongs. Banks may experience an increase in working-capital loans, weaker corporate credit metrics, an increase in credit costs, and a deteriorating loan-to-deposit ratio.



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