

Agriculture GNPA Ratio May Rise to 5.3%-5.6% by FY28 After Weak Monsoon



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Synopsis

- The gross non-performing asset (GNPA) ratio of agriculture loans at scheduled commercial banks (SCBs) stood at 5.11% in June 2026, the highest among major sectors. Agriculture made up 12.9% of SCB advances but accounted for 37.5% of all SCB GNPA in June 2026.
- The 2026 southwest monsoon ended at 87% of the long period average (LPA), the weakest since 2015. The shortfall was concentrated in states that hold most of the banks' farm credit: about 68% of SCB agriculture credit is in states where rainfall was 20% or more below normal, up from 48% in 2015. (The LPA is the average June to September rainfall over 1971-2020, which the India Meteorological Department (IMD) treats as normal.)
- We expect the agriculture GNPA ratio to ease to 4.6% to 4.8% by March 2027 as strong credit growth and write-offs continue. It is then likely to rise to 5.3% to 5.6% by March 2028, as some kharif crop loans in areas hit by the weak monsoon turn bad and are classified as non-performing assets (NPAs). Agriculture GNPA, at Rs 1.41 lakh crore in June 2026, could rise to Rs 1.47 lakh crore to Rs 1.53 lakh crore by March 2027 and Rs 1.9 lakh crore to Rs 2.0 lakh crore by March 2028, with most monsoon-related stress likely to show in bank books in FY28.
- The weak monsoon could add 70 to 80 bps to the agriculture GNPA ratio by March 2028. Public sector banks (PSBs) are likely to bear most of this increase. Including farm loans restructured in drought-hit areas, which stay classified as standard assets, stressed agriculture advances could reach 6.0% to 6.3% of agriculture advances.
- In an adverse scenario, with a poor rabi crop, larger state loan waivers and a sharper slowdown in bank lending as interest rates rise, the agriculture GNPA ratio could reach 6.1% to 6.4% by March 2028. With a good rabi crop and wide use of restructuring under RBI's natural calamity framework, which would keep part of the monsoon-related stress classified as standard assets, it could be 4.7% to 4.9%.

"The agriculture GNPA ratio has improved over the last six years, but mainly because farm lending grew fast while the stock of bad loans has stayed between Rs 1.3 lakh crore and Rs 1.5 lakh crore since March 2021. The weak 2026 monsoon hit most of the states where banks lend the most to farmers, so we expect the stress to show in bank books from early 2027 and build through FY28, as some crop loans stay overdue and turn into NPAs. Public sector banks are likely to carry most of this impact. Restructuring under the new natural calamity framework can soften the hit. In contrast, new state loan waivers remain the larger risk, as they have historically caused the sharpest increases in farm NPAs." - Vineet Jain, Senior Director, CareEdge Ratings.

What to watch: when the weak monsoon reaches bank books

Oct-Dec 2026

Rabi sowing after a dry October

Jan-Feb 2027

Calamity restructuring window closes

Mar 2027 quarter

Monsoon stress starts to show as NPAs

Mar 2028

Ratio up to ~5.5% from ~4.7% a year earlier

Agriculture Has the Highest GNPA Ratio Among Major Sectors of Bank Credit

The agriculture GNPA ratio of SCBs was 5.11% in June 2026, well above industry (1.48%), services (1.47%) and retail loans (0.96%). Agriculture accounted for 37.5% of all SCB GNPA's, and PSBs carry about three-fourths of these agriculture GNPA's.

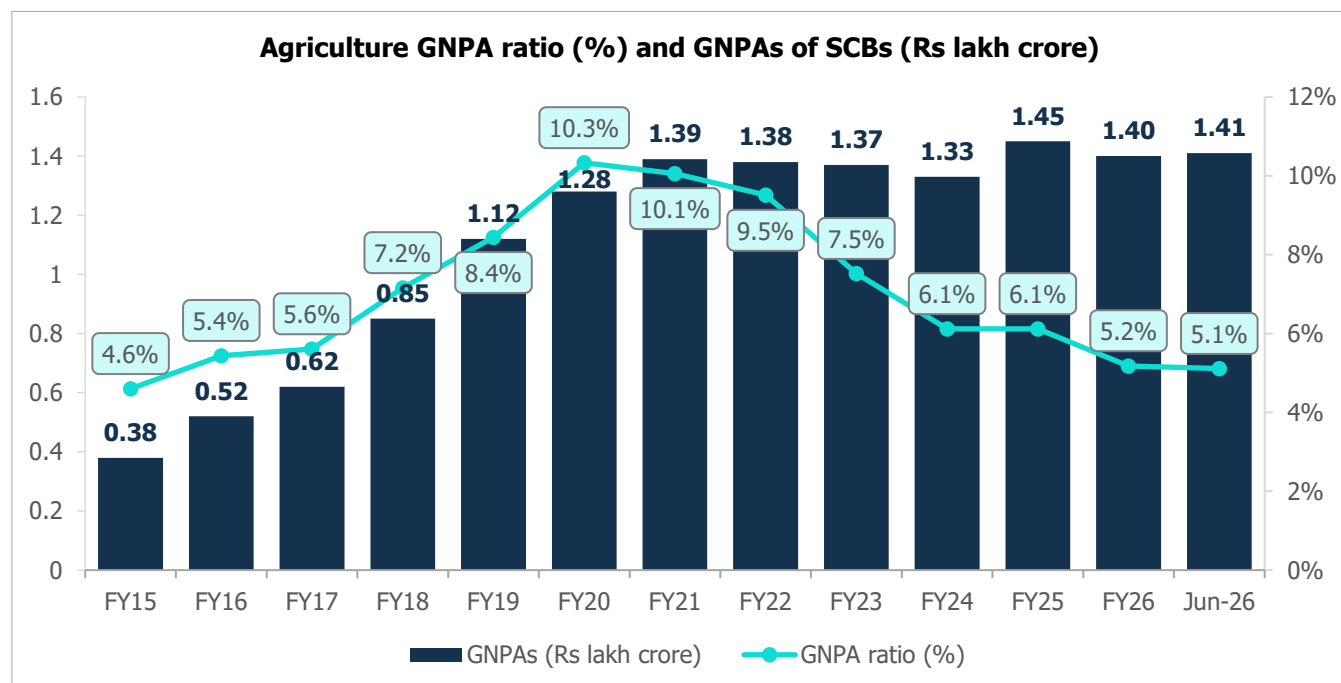
Agriculture Asset Quality by Bank Group, June 2026

Bank group	Agri advances (Rs lakh crore)	Agri GNPA's (Rs lakh crore)	Agri GNPA ratio (%)	Share of SCB agri GNPA's (%)	Agri share of group's GNPA's (%)
PSBs	18.46	1.04	5.65	73.9	44.6
PVBs	8.00	0.33	4.12	23.4	25.8
Others	1.12	0.04	3.39	2.7	26.1
SCBs	27.58	1.41	5.11	100.0	37.5

Source: RBI, CareEdge Calculations. Others: small finance banks and foreign banks

Agriculture GNPA Ratio Halved Since FY20 as Outstanding Credit Grew Faster than Bad Loans

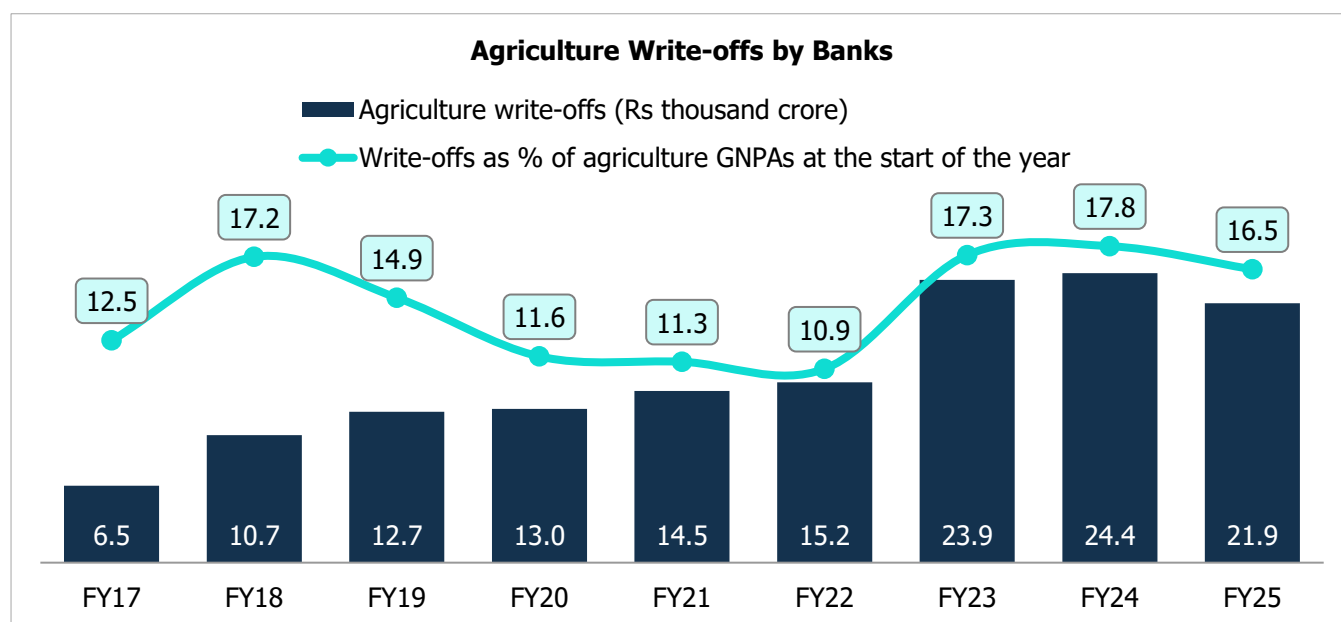
The agriculture GNPA ratio of SCBs rose from 4.60% in March 2015 to a peak of 10.33% in March 2020. The rise of 84 bps in FY16 came after two weak monsoons in a row, at 88% of LPA in 2014 and 86% in 2015. The much larger rise between FY18 and FY20 came during a wave of farm loan waivers. Ten states announced waivers of about Rs 2.4 lakh crore between 2014-15 and 2018-19. Some borrowers who could repay held back payments in hopes of relief. A fall of about Rs 1.05 lakh crore in agriculture advances at one large PSB in the September 2019 quarter, with little change in its agriculture GNPA, also lifted the ratio in FY20.



Source: RBI, CareEdge Calculations

Since March 2020, the agriculture GNPA ratio has fallen by 522 bps to 5.11% in June 2026, even though the agriculture GNPA rose from Rs 1.28 lakh crore to Rs 1.41 lakh crore. The fall in the ratio does not mean that stress in farm loans has eased. Agriculture advances more than doubled over the same period, spreading bad loans over a much larger loan book, and banks wrote off more of their old farm loans, removing them from GNPA even though

they have not been repaid. Banks wrote off 16% to 18% of the agriculture GNPA they held at the start of the year in FY23 to FY25, against 11% to 12% in FY20 to FY22.



Source: Ministry of Finance, Lok Sabha Unstarred Question; CareEdge Calculations.

Weak rainfall was not a factor in this period, as the monsoon was normal or above normal in every year from 2019 to 2025 except 2023. Even the 2023 monsoon, at 94% of LPA, did not stop the decline in the agriculture GNPA ratio, and the ratio fell 140 bps in FY24 as agriculture advances grew 19.1%.

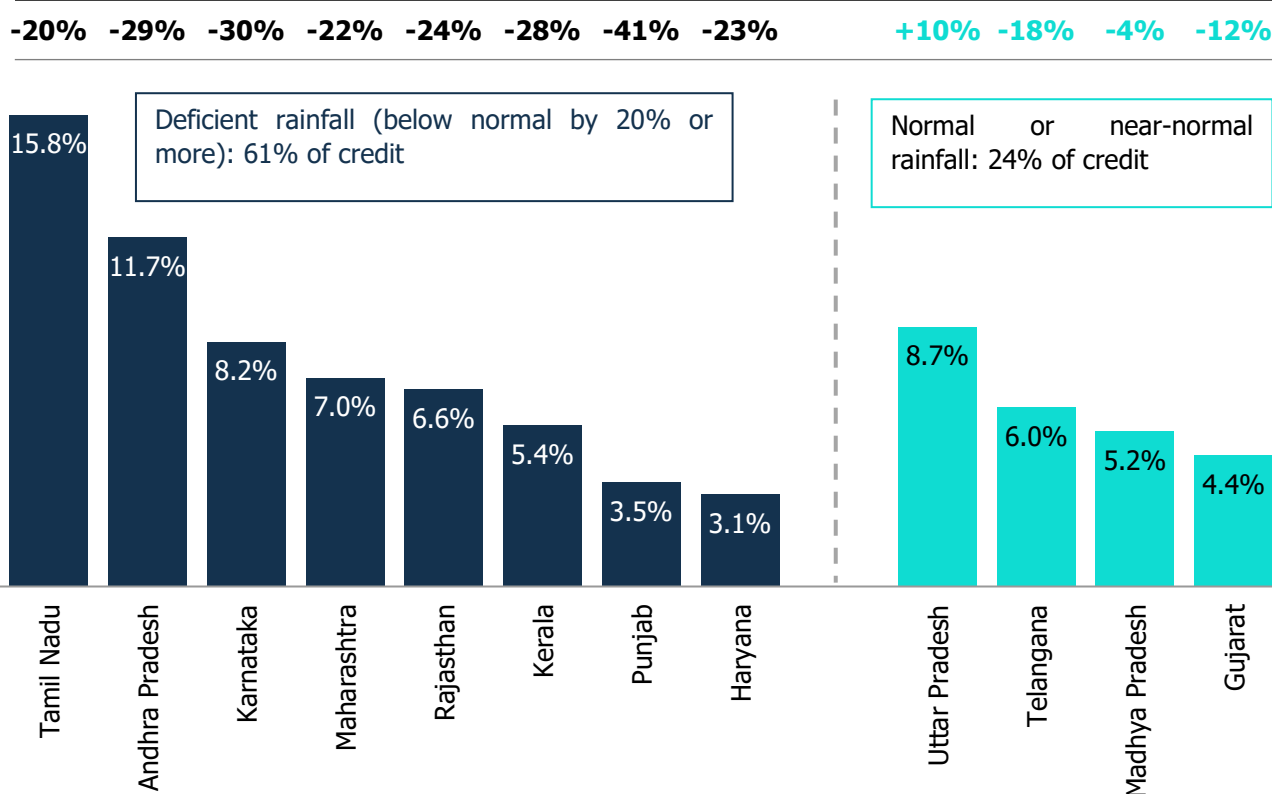
2026 Monsoon Shortfall Hit States With the Most Outstanding Farm Credit

The 2026 southwest monsoon brought 759.4 mm of rain between June and September, or 87% of the LPA of 868.6 mm, the fourth-lowest since 2001, according to the IMD. Rainfall was 76% of normal in the south peninsula and 74% in east and northeast India, the lowest for that region since 1901. June rainfall was only 65% of normal, which delayed kharif sowing. El Niño conditions strengthened through the season. October has also started dry: rainfall from October 1 to 13 was 76% to 98% below normal in Maharashtra, Karnataka, Andhra Pradesh and Telangana. This adds to the risk for rabi sowing and yields, as also noted in the CareEdge Economics report "Monsoon Ends on a Deficient Note and Weighs on Inflation Outlook" (October 9, 2026). However, IMD expects normal October-to-December rainfall in the southern peninsula.

The rainfall shortfall was more pronounced in the states where banks have lent the most to farmers. About 68% of SCB agriculture credit is in states where rainfall was below normal by 20% or more in 2026, which IMD classes as deficient. This is the highest share in the last ten years. Tamil Nadu, Andhra Pradesh, Karnataka, Maharashtra and Kerala, which together hold about 48% of SCB agriculture credit, received 20% to 30% less rain than normal. In the north, rainfall was 41% below normal in Punjab and 23% to 24% below normal in Haryana and Rajasthan.

Share of SCB Agriculture Credit and 2026 Monsoon Rainfall in the 12 Largest States

Rainfall, June-September 2026 (% from normal)



Source: IMD, RBI, CareEdge Calculations

Four states have declared drought so far. Karnataka has declared 217 of its 240 taluks drought-hit, Maharashtra 265 of its 358 talukas, Andhra Pradesh 388 mandals and Telangana 320 mandals in 18 districts, while Rajasthan is still assessing crop losses. These four states hold about a third of SCB agriculture credit. A declaration allows banks to restructure farm loans in the affected areas under RBI's framework for relief in areas hit by natural calamities, in force from July 1, 2026. Only loans that were standard, and not overdue by more than 30 days, when the calamity struck can be restructured. Banks must start the process within 45 days of a state's drought declaration and complete it within 135 days, so the window for the declarations made between August and early October closes between January and mid-February 2027. Restructuring can turn an unpaid crop loan into a term loan repayable over a few years, with a moratorium set by the State Level Bankers' Committee (SLBC). In Karnataka, banks have agreed to a 12-month moratorium for the taluks declared in August. Loans restructured in this way stay classified as standard assets, with banks setting aside an additional 5% provision. They are unlikely to turn into NPAs until the moratorium ends and repayments fall overdue again, likely after March 2028. Still, some may turn bad later, as happened after the 2014 and 2015 droughts.

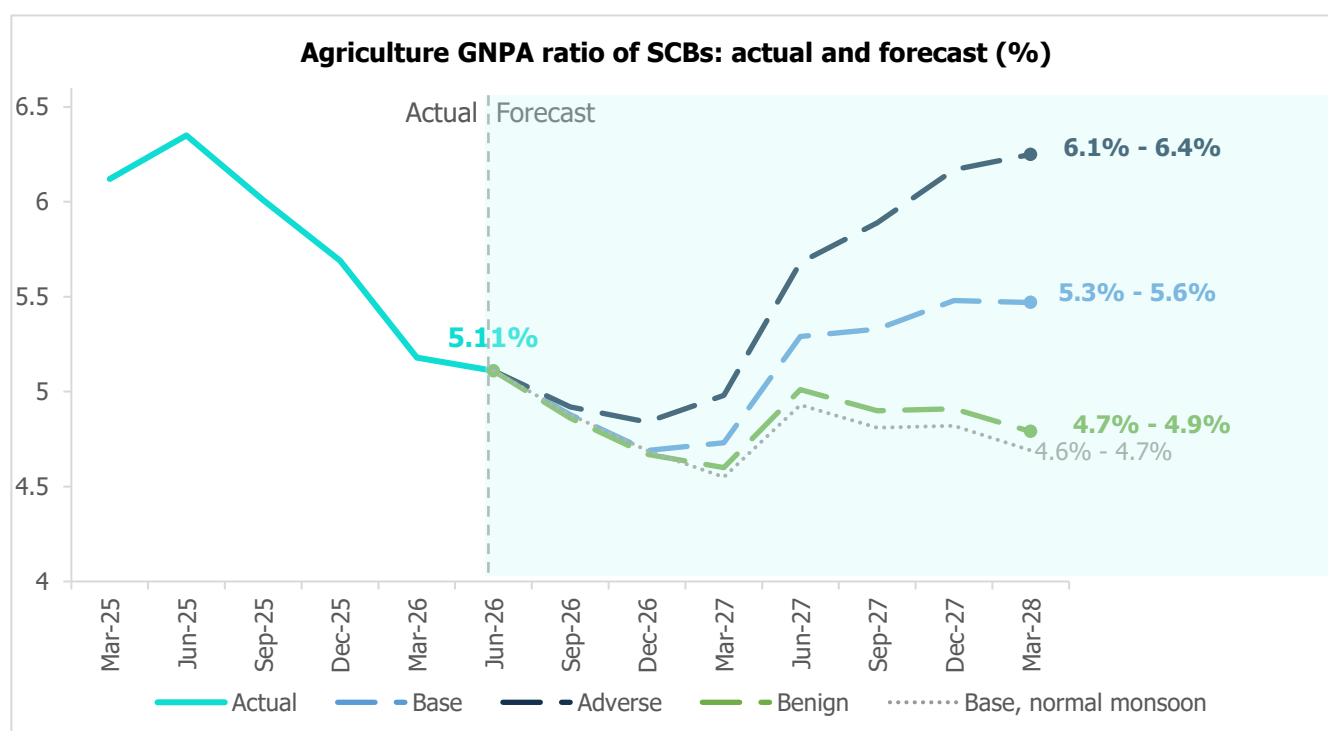
Weak Monsoon Expected to Add About 70 to 80 bps to the Ratio by March 2028

Under RBI's Income Recognition, Asset Classification and Provisioning Directions for commercial banks, issued on November 28, 2025, a crop loan becomes an NPA when a payment stays overdue for two crop seasons, or for one crop season if the crop takes more than a year to grow. Other farm loans, such as those for dairy or poultry, become NPAs after 90 days. As a result, the 2026 shortfall is likely to reach bank books with a lag. Some stress could show from early 2027, but kharif crop loans that are not repaid after the 2026 harvest are likely to turn into NPAs mainly in the second half of 2027.

Based on our forecast model, the agriculture GNPA ratio of SCBs is expected to ease to 4.6% to 4.8% by March 2027 in the base scenario, if farm lending continues to grow fast and banks continue to write off old bad loans. It could then rise to 5.3% to 5.6% by March 2028. Part of the rise in the June 2027 quarter is likely to be seasonal, as the ratio rose in the June quarter in eight of the last 11 years.

The weak monsoon is expected to add close to 70 to 80 bps to the agriculture GNPA ratio by March 2028, or Rs 25,000 crore to Rs 29,000 crore of GNPA in the base scenario. Farm loan waivers are expected to add about 45 to 50 bps more. A waiver does not stop a loan from turning bad. The loan stays due from the farmer until the state pays the bank, and states have usually paid less than half of the announced amount in the first year, while some borrowers who expect relief tend to stop paying. The Maharashtra scheme of Rs 36,585 crore, announced in June 2026, accounts for 23 to 27 bps of this, and the remaining 22 to 24 bps reflects the risk of new waivers in Uttar Pradesh and Punjab. Both states announced farm loan waivers after their 2017 assembly elections and go to the polls again in early 2027. With a normal monsoon, the ratio could be 4.6% to 4.7% in March 2028; without the waivers, it could fall to 4.1% to 4.3%.

Agriculture GNPA of SCBs are expected to rise from Rs 1.41 lakh crore in June 2026 to Rs 1.9 lakh crore to Rs 2.0 lakh crore by March 2028 in the base scenario. In an adverse scenario, with a poor rabi crop if October stays dry, slower farm lending and waivers in both Uttar Pradesh and Punjab, agriculture GNPA could reach Rs 2.1 lakh crore to Rs 2.2 lakh crore and the ratio 6.1% to 6.4%. In a benign scenario, with a good rabi crop and wide use of calamity restructuring, GNPA could be Rs 1.7 lakh crore to Rs 1.8 lakh crore and the ratio 4.7% to 4.9%.

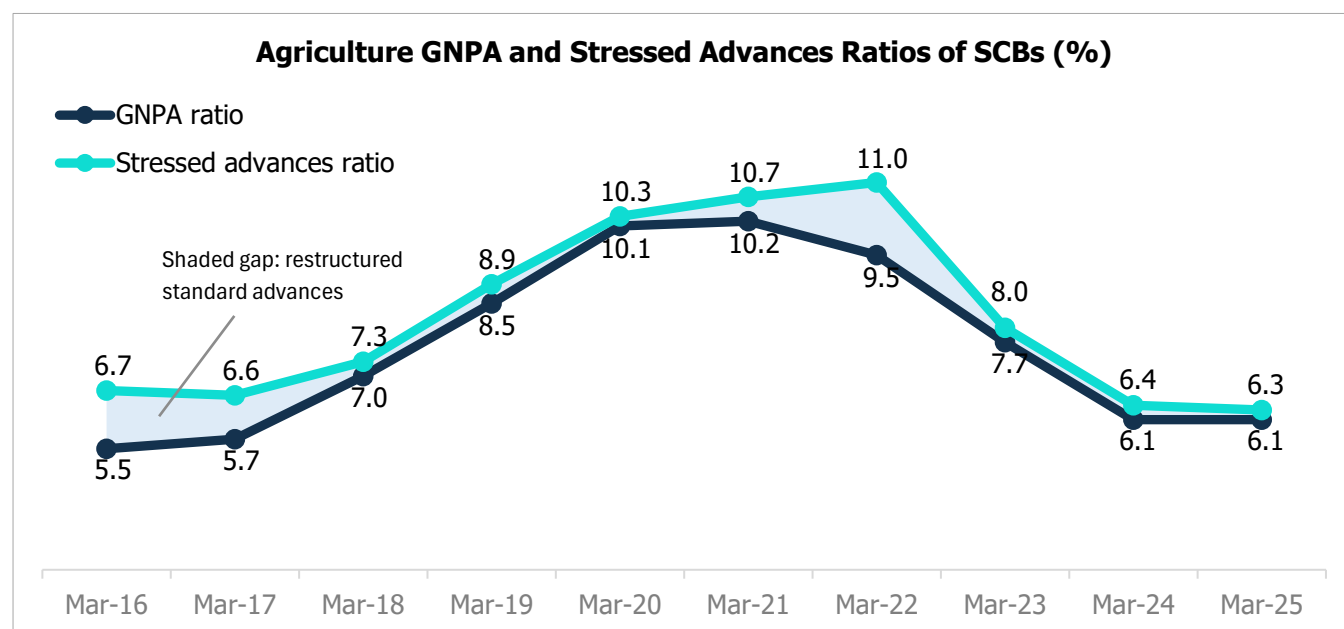


Source: RBI, CareEdge Calculations. Note: Lines show central forecasts.

The agriculture GNPA ratio is expected to rise by only 20 to 50 bps between June 2026 and March 2028 in the base scenario, even though agriculture GNPA are expected to rise by 35% to 45%, from Rs 1.41 lakh crore to Rs 1.9 lakh crore to Rs 2.0 lakh crore. Agriculture advances are likely to grow by about 31% over the same period, to about Rs 36.2 lakh crore. Had GNPA stayed at their June 2026 level, this growth alone would take the ratio down

to about 3.9%. Banks may also write off Rs 50,000 crore to Rs 53,000 crore of agriculture bad loans over these seven quarters if they write off about 19% of their agriculture GNPA's each year, close to the recent rate. Against this, new NPAs of Rs 1.0 lakh crore to Rs 1.1 lakh crore, including the effect of the weak monsoon and the loan waivers, are expected to push the ratio back up.

GNPAs do not capture the entire stress. Loans restructured in drought-hit areas remain classified as standard assets. After the 2014 and 2015 droughts, such loans rose to about 1.2% of agriculture advances, up from 0.2% to 0.4% in most other years, according to RBI data. If restructuring follows a similar pattern after the 2026 drought, restructured standard agriculture loans could reach about 0.7% to 0.8% of agriculture advances, or Rs 25,000 crore to Rs 29,000 crore, by March 2028. Stressed agriculture advances, which are GNPA plus restructured standard assets, could then be 6.0% to 6.3% in the base scenario, 7.1% to 7.4% in the adverse scenario and 5.5% to 5.8% in the benign scenario.



Source: RBI, CareEdge Calculations. Note: Stressed advances = GNPA + restructured standard advances, % of agricultural advances.

Loan Waivers, Rabi Sowing and Credit Growth Are the Key Monitorables

New loan waivers by state governments remain the largest risk to the forecast, as the 2017-18 and 2018-19 waiver waves pushed the agriculture GNPA ratio up far more than any drought. In our model, each Rs 10,000 crore of waivers announced in FY27 would add 6 to 7 bps to the ratio by March 2028, while a waiver announced after the early-2027 elections would add 5 to 6 bps. The assembly elections in Uttar Pradesh and Punjab in early 2027 could be the main test. Waivers in both states, based on their 2017 schemes of Rs 36,360 crore and Rs 10,000 crore scaled up by the growth in each state's farm credit since March 2017, would total about Rs 82,000 crore and could push the ratio to 5.6% to 5.8% by March 2028. Rabi sowing and reservoir levels, after the dry start to October, should show whether farm incomes recover in early 2027 or whether the stress deepens. The use of restructuring under the RBI's new natural calamity framework, in force from July 1, 2026, is likely to determine how much stress is held back as standard assets, and further drought declarations, including in Rajasthan, could widen its use.

The revised Kisan Credit Card (KCC) Directions, effective January 1, 2027, fix crop seasons at 12 months for short-duration crops and 18 months for long-duration crops. Existing loans move to the new rules only at their next

review or renewal, so that the change may delay NPA recognition on some loans. Agriculture advances grew 17.2% y-o-y in June 2026. This fast growth has driven most of the fall in the agriculture GNPA ratio since FY20, so a slowdown in farm lending could raise the ratio even if bad loans do not rise. The supervisory data for the September and December 2026 quarters will be the first check on the forecast.

Conclusion

As per Saurabh Bhalerao, Director, CareEdge Ratings, "We expect the agriculture GNPA ratio to keep easing until early 2027, helped by strong credit growth and write-offs, and then to rise through FY28 as some kharif crop loans affected by the weak monsoon fall overdue. In our base scenario, the agriculture GNPA ratio of SCBs is expected to rise to 5.3% to 5.6% by March 2028, with the monsoon adding 70 to 80 bps, and agriculture GNPA's could rise to Rs 1.9 lakh crore to Rs 2.0 lakh crore. Including loans restructured in drought-hit areas, stressed agriculture advances could be 6.0% to 6.3%. The range of outcomes is wide: a poor rabi crop and larger state loan waivers could take the agriculture GNPA ratio to 6.1% to 6.4%, while a good rabi harvest and wider use of calamity restructuring could hold it at 4.7% to 4.9%. In all three scenarios, the ratio is expected to stay well below its March 2020 peak of 10.33%, and PSBs, which hold about three-fourths of agriculture GNPA's, are likely to carry most of the stress."

Annexure: Methodology

Our forecast is based on a model built from quarterly RBI supervisory data on SCBs' agriculture loans from March 2015 to June 2026. The model tracks the stock of agriculture GNPA's and agriculture advances quarter by quarter: GNPA's rise as loans turn bad and fall as banks recover, upgrade, or write off bad loans, while advances grow with bank lending. The loans that turn bad each quarter are linked to the usual seasonal pattern, to the rainfall shortfall in each state weighted by its share of bank farm credit, and to state loan waivers. The effect of a weak monsoon is spread over the second to sixth quarters after the season, in line with RBI's rules on when an overdue crop loan becomes an NPA, and banks are assumed to write off about 19% of their agriculture GNPA each year, the average of FY25 and FY26.

Part of the drought stress is expected to be restructured under RBI's natural calamity framework and held as standard assets. After the 2014 and 2015 droughts, about half was restructured, and because the areas declared so far in 2026 cover a smaller share of the rainfall shortfall than in 2015, we assume close to 40%. These loans are counted in stressed advances but not in GNPA's, as they are unlikely to turn into NPAs before March 2028. Loan waivers are included at the announced size for Maharashtra and, for Uttar Pradesh and Punjab, at half the size of their 2017 schemes, scaled up by growth in each state's farm credit from the quarter of the early-2027 elections. Agriculture credit growth is linked to bank credit growth outside agriculture, as priority-sector targets tie farm lending to overall lending, with farmers borrowing more in the drought year.

Scenario Assumptions and Forecasts, March 2028

	Base	Adverse	Benign
Agriculture credit growth, FY27 / FY28	17.8% / 13.3%	14.1% / 12%	18.5% / 14.2%
Rabi crop and restructuring	Below normal	Poor rabi crop after the dry October; monsoon effect 50% larger	Good rabi crop and wide use of calamity restructuring; monsoon effect halved
Loan waivers	Maharashtra (Rs 36,585 crore); Uttar Pradesh and Punjab after the 2027 elections, at half their likely size (Rs 41,000 crore)	Maharashtra; Uttar Pradesh and Punjab in full (Rs 82,000 crore)	Maharashtra only
Agriculture GNPA ratio, SCBs	5.3% to 5.6%	6.1% to 6.4%	4.7% to 4.9%
Agriculture GNPA's, SCBs	Rs 1.9–2.0 lakh crore	Rs 2.1–2.2 lakh crore	Rs 1.7–1.8 lakh crore
Stressed agriculture advances ratio	6.0% to 6.3%	7.1% to 7.4%	5.5% to 5.8%

Source: RBI, CareEdge Calculations

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