

Macroeconomics | First cut

Financial conditions continue to be tight

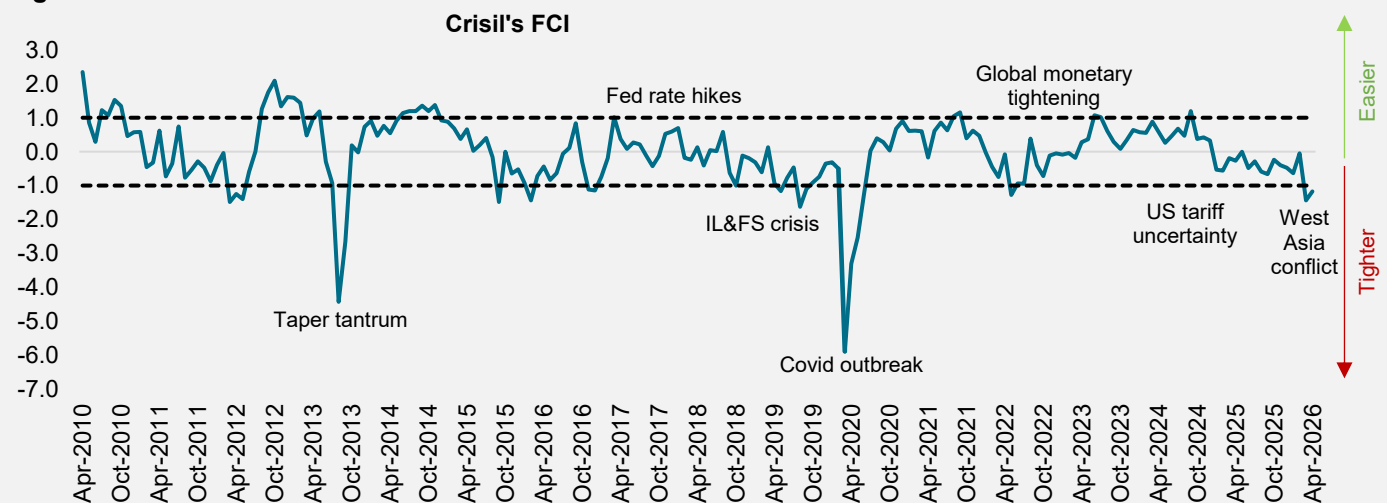
May 2026

Investors turn cautious, rupee hits record low

Financial conditions remained under pressure in April, with the Crisil Financial Conditions Index (FCI) standing at -1.2, a slight improvement from March's -1.4.

A negative FCI value, particularly one that falls outside the comfort band of one standard deviation, indicates financial conditions are significantly tighter than the long-period average (measured since April 2010), while a higher FCI value indicates easier conditions compared with the previous month.

Tight financial conditions



Note: A higher value indicates easier financial conditions, and vice versa. If the index is within the dotted lines (one standard deviation), it means the conditions are within the comfort zone.

Source: Crisil

Highlights

- The West Asia crisis continued to adversely impact foreign portfolio investor (FPI) inflows, the rupee and the 10-year government security (G-sec) yield in April
 - FPIs continued withdrawing from Indian markets, resulting in net outflows of \$7.6 billion in April, driven by surging crude prices and apprehension stemming from the conflict. In addition, hardening US yields further dampened FPI sentiment for debt
 - The rupee continued to depreciate, reaching an all-time low of 95 per dollar at the end of April
 - Fiscal concerns arising from the conflict led to a sharp rise in the 10-year G-sec yield, which rose ~20 basis points (bps) on-month to an average of 6.96%. The yield also faced pressure from rising FPI outflows in debt and surging crude oil prices
- The FCI exhibited a mild improvement, driven by a rise in banking liquidity surplus (which led to softening of some money market rates) and mild gains in equity markets. Investor sentiment improved intermittently due to expectations of de-escalation in geopolitical tensions and periodic softness in crude oil prices. Strong bank credit growth continued to support the FCI

Financial conditions across segments

		May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26
Policy rate	Repo rate (%)	6.0	5.5	5.5	5.5	5.5	5.5	5.5	5.25	5.25	5.25	5.25	5.25
	Repo rate, inflation-adjusted (%)	3.0	3.2	3.9	3.5	4.1	5.5	5.0	4.1	2.5	2.0	1.8	1.8
Liquidity conditions	Net absorption(-)/injection(+) under LAF (% of NDTL)	-0.7	-1.1	-1.2	-1.1	-0.6	-0.3	-0.7	-0.3	-0.2	-0.9	-0.6	-1.4
Money market	Call money rate (%)	5.8	5.4	5.4	5.4	5.4	5.5	5.4	5.4	5.4	5.1	5.2	5.3
	91 day T-bill (%)	5.8	5.4	5.4	5.4	5.5	5.4	5.4	5.3	5.4	5.3	5.3	5.2
	CP 6-month rate (%)	6.9	6.6	6.4	6.4	6.7	6.7	6.7	6.8	7.3	7.5	7.7	7.2
Debt market	10-year G-Sec (%)	6.3	6.3	6.3	6.5	6.5	6.5	6.5	6.6	6.6	6.7	6.7	7.0
	Term premium (%)	0.3	0.7	0.8	1.0	1.0	1.0	1.0	1.3	1.4	1.4	1.5	1.7
	AAA bond spread* (%)	0.5	0.6	0.6	0.5	0.6	0.5	0.5	0.5	0.6	0.6	0.7	0.6
	AA bond spread** (%)	2.6	2.5	2.5	2.3	2.4	2.6	2.5	2.5	2.6	2.5	2.6	2.7
Lending rates	MCLR (1 year) (%)	9.0	8.9	8.8	8.6	8.6	8.6	8.5	8.5	8.4	8.5	8.4	8.6
	Auto loan rate (%)	9.6	9.2	9.2	9.2	9.2	9.0	9.0	8.9	8.9	9.0	9.0	9.0
	Housing loan rate (%)	8.8	8.4	8.6	8.6	8.6	8.5	8.5	8.4	8.4	8.4	8.4	8.4
Credit availability	Bank credit growth (y-o-y, %)	9.0	9.5	10.0	10.0	10.4	11.3	11.5	14.5	14.6	14.5	16.1	16.0
Money supply	M3 growth (y-o-y, %)	9.3	9.5	9.6	9.8	9.2	10.3	9.9	12.1	12.0	12.6	15.3	12.8
Equity market	Sensex (%*)	9.9	9.7	9.3	6.2	6.0	7.4	8.0	7.8	5.1	4.1	-4.8	-4.0
	NSE VIX	18.0	14.3	11.7	12.0	10.7	11.1	12.3	10.2	11.8	13.0	22.1	20.0
Forex market	Rs/\$ (m-o-m, %)	-0.4	0.8	0.2	1.6	0.9	0.1	0.5	1.4	0.8	-0.1	2.2	0.9
Foreign capital	Net FPI (\$ bn)	3.6	-0.9	-0.6	-2.3	-1.4	4.0	0.3	-4.3	-3.2	4.2	-13.6	-7.6
	S&P500 (%*)	12.4	14.9	18.2	18.7	20.0	20.7	18.7	18.7	18.2	15.9	10.7	14.4
Global conditions	US 10-year Treasury yield (%)	4.4	4.4	4.4	4.3	4.1	4.1	4.1	4.1	4.2	4.1	4.2	4.3
	Brent (\$/barrel)	64.2	71.5	71.0	68.2	68.0	64.7	63.6	62.7	66.8	71.1	103.7	120.4

	Favourable
	Neutral
	Adverse

Term premium is the spread of the 10-year G-sec over the repo rate.

*Spread over 10-year G-sec

**Spread over five-year G-sec

*Percentage change with respect to a two-year moving average; a positive percentage change in the rupee implies depreciation against the dollar, and vice versa

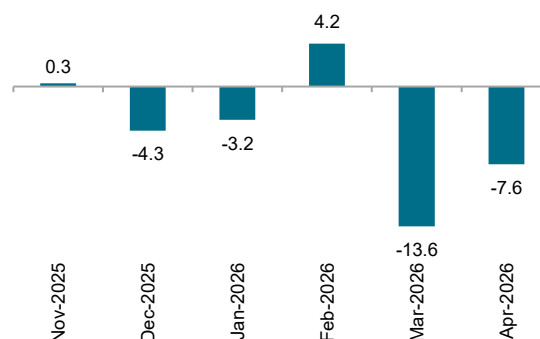
Source: RBI, National Securities Depository Ltd (NSDL), US Department of the Treasury, CEIC, Crisil

Segments under stress

FPI outflows continue

- In April, FPIs remained cautious amid the ongoing tensions in West Asia, resulting in continued outflows. FPIs recorded net outflows of \$7.6 billion during the month, which was lower than the \$13.6 billion net outflow seen in March but significantly above the 12-month average net outflow of \$1.4 billion
- The equity market witnessed net outflows of \$6.5 billion, lesser than the \$12.7 billion outflows seen in March
- Conversely, outflows from the debt market increased to \$1.2 billion, up from \$0.9 billion in the previous month

FPI flows (\$ billion)

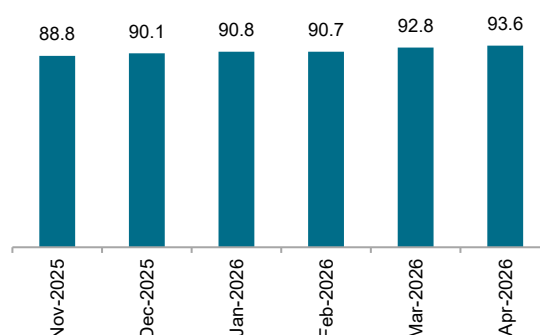


Source: NSDL, CEIC, Crisil

Rupee weakens to record low

- The rupee saw continued depreciation in April, with its average value falling to 93.6 per dollar, down from 92.8 in March
- The rupee surpassed 95 per dollar for the first time by month-end, driven by high FPI outflows and a surge in crude oil prices
- The Reserve Bank of India's (RBI) regulatory measures, such as capping banks' net open rupee positions in the onshore deliverable market at \$100, helped mitigate further rupee depreciation

Rupee per dollar

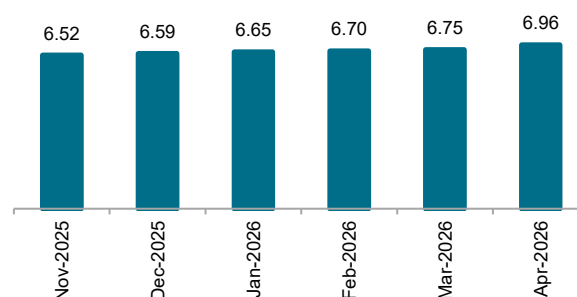


Source: RBI, CEIC, Crisil

Hardening 10-year G-sec yield

- The yield on the 10-year benchmark G-sec averaged 6.96% in April, up from 6.75% in March, driven by fiscal and inflation concerns stemming from the West Asia conflict, rising FPI outflows in the debt market and surging crude oil prices
- The term premium over the repo rate reached ~170 bps, its highest monthly average since September 2022

10-year G-sec yield (on-month average, %)



Source: Crisil Intelligence

Surge in crude oil prices

- The West Asia conflict pushed up crude oil prices further. Brent crude prices reached their highest monthly

average in more than a decade, at \$120.4 per barrel in April, registering a 16.1% on-month increase

- Crude oil prices were volatile, dropping below \$110 per barrel mid-month before rising again

Supportive factors

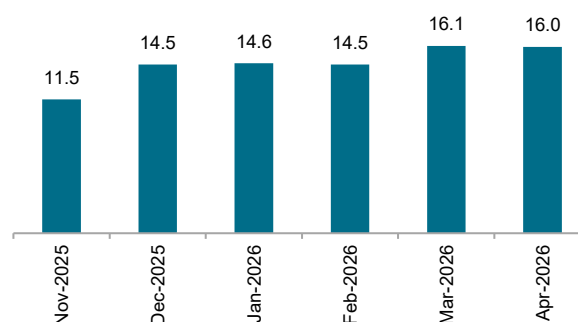
Strong bank credit growth

- Bank credit growth remained robust at 16% in April, mirroring the 16.1% growth recorded in March
- Sectoral data (available with a lag of one month) indicates that credit growth accelerated across all categories in March. Services saw the strongest credit growth at 19%, followed by personal loans at 16.2%

Surging surplus in systemic liquidity

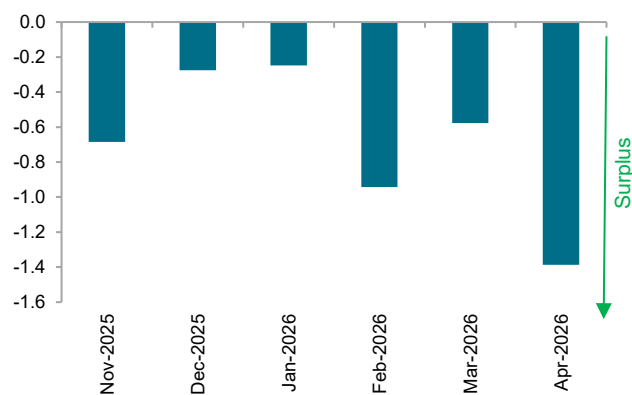
- Systemic liquidity surplus reached a four-year high of Rs 5 lakh crore in mid-April, driven by a surge in government spending and the maturity of G-secs
- The RBI on average net-absorbed Rs 3.8 lakh crore (1.4% of net demand and time liabilities, or NDTL) through its liquidity adjustment facility, significantly higher than the Rs 1.6 lakh crore (0.6% of NDTL) in March. This increase in systemic liquidity contributed to a decline in money market rates
- Rates on six-month commercial paper and certificates of deposit eased 44 bps (to 7.24%) and 40 bps (to 6.87%) on average, respectively
- The weighted average call money rate (WACR), the operating target for monetary policy, rose 10 bps on-month to average 5.31%. This increase was driven by a significantly high rate of 6.04% in the week ending April 3. The WACR eased sharply in the second week, averaging 5.13% for the remainder of April, which was below the repo rate

Bank credit growth (%)



Source: RBI, CEIC, Crisil

Net injection/absorption of liquidity (% of NDTL)



Source: RBI, CEIC, Crisil

Mild gains in equity markets

- Equity markets saw mild gains on average in April, as investor sentiment improved intermittently on expectations of de-escalation in geopolitical tensions and periodic softness in crude oil prices
- The benchmark indices, S&P BSE Sensex and Nifty 50, rose by an average of 1% and 1.2%, respectively
- However, market volatility remained above trend, as reflected in NSE India VIX for the month

S&P BSE Sensex gains (on-month average, %)



Source: BSE, CEIC, Crisil

Mixed trend in lending and deposit rates

- The one-year marginal cost of funds-based lending rate and auto loan rose rates increased 15 bps to 8.55% and 8 bps to 9.03%, respectively, in April
- Conversely, housing and deposit rates remained unchanged at 8.36% and 6.29%, respectively

Challenges mount

Financial conditions are likely to remain tight in the coming months, as the West Asia conflict poses considerable pressure on the economy. Even if the West Asia conflict ends there will be lingering effects and crude oil prices are expected to remain high for rest of the year. We expect crude oil to average \$90-95/US dollar in the current fiscal year. The overall impact on financial conditions can amplify with the rise in scale, duration and intensity of external shock.

At present, the external shock is substantial, and domestic vulnerabilities are on the rise. Persistently elevated oil prices can have an impact on several macroeconomic indicators, including growth, inflation, the current account deficit and the fiscal deficit.

Higher inflation domestically will shrink monetary space this fiscal. We expect retail inflation to rise to 5.1% this fiscal, compared with 2% last fiscal, due to expectations of a below-normal monsoon and higher commodity prices.

We expect gross domestic product growth to weaken to 6.6% from 7.6%, weighed down by higher commodity prices, an unfavourable monsoon, softer global growth and higher inflation, creating a challenging growth-inflation mix.

Elevated global uncertainty may continue to cause nervousness among investors, leading to FPI outflows, adversely impacting equity markets and the rupee.

Monetary space has also shrunk globally. S&P Global expects the European Central Bank to hike rates twice by 25 bps each between the second and third quarters of 2026. It expects the US Federal Reserve to hold rates steady for the remainder of 2026 compared with the earlier forecast of a rate cut.

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