Macroeconomics | First cut

Financial conditions ease

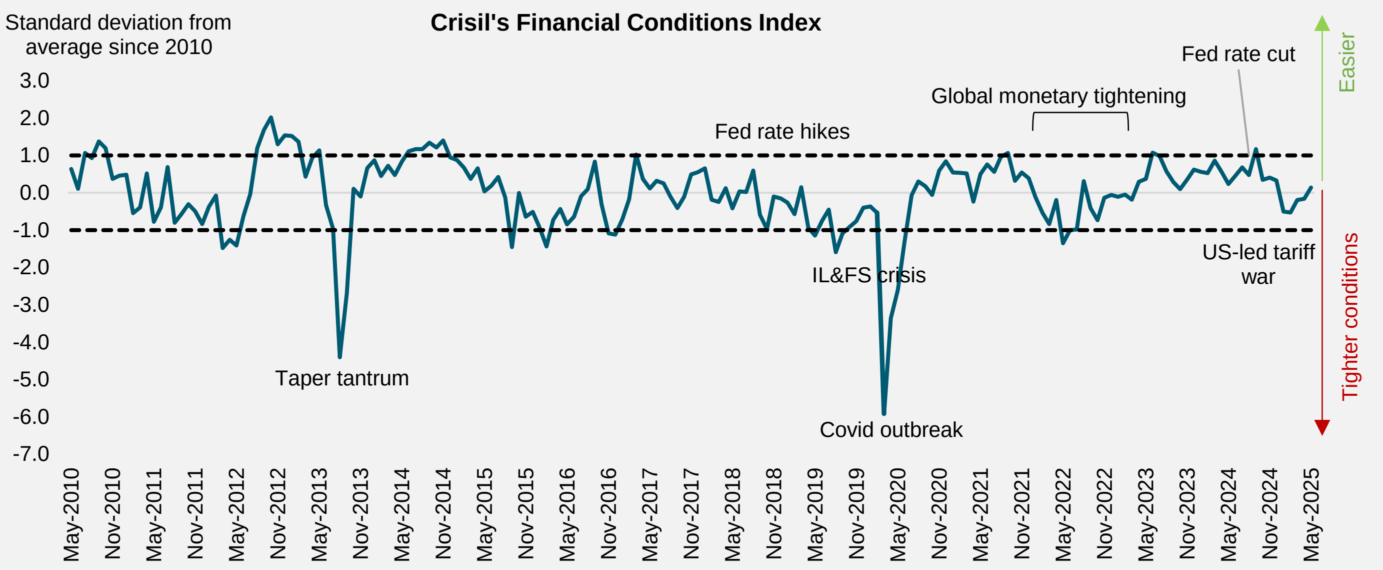
June 2025

FPI inflows, easing interest rates bring relief

Crisil's Financial Conditions Index (FCI) improved to 0.1 in May from -0.2 in the previous month, entering the positive zone after four consecutive months of negative readings.

A higher FCI value suggests an improvement in financial conditions, and a value above zero indicates easier financial conditions than the long period average (measured since April 2010).

Conditions improved in May



Note: A higher value indicates easier financial conditions and vice versa. The index within dotted lines (one standard deviation) represents conditions within the comfort zone

Source: Crisil

Highlights

- The improvement in financial conditions in May can be attributed to a higher surplus in systemic liquidity and increased foreign portfolio investor (FPI) inflows. The surplus in systemic liquidity enabled the continued transmission of the Reserve Bank of India's (RBI) previous rate cuts, resulting in several key interest rates falling below their pre-pandemic five-year averages
- FPIs were net-buyers in Indian markets in May, driving the equity market to its highest level since December 2024. Investor sentiment was boosted by signs of progress on a bilateral trade agreement (BTA) between India and the United States (US), as well as lower domestic inflation, which sparked hopes of rate cuts. India and US announced the Terms of Reference for the BTA on April 21, 2025, post which both sides have been engaged in negotiations. The initial phase of discussions i.e. the first tranche of the BTA is targeted to be completed by fall 2025
- In June, the RBI's Monetary Policy Committee (MPC) front-loaded monetary easing with a steeper-than-expected rate cut of 50 basis points (bps), reducing the repo rate to 5.5%. The MPC also cut the cash reserve ratio (CRR) by 100 bps, which will proceed in four tranches between September and November 2025. These moves are expected to ramp up transmission of monetary easing to broader interest rates and support financial conditions this fiscal

How financial conditions are evolving across segments

		Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25
Policy rate	Repo rate (%)	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.25	6.25	6.0	6.0
	Repo rate, inflation-adjusted (%)	1.4	2.9	2.8	1.0	0.3	1.0	1.3	2.2	2.6	2.9	2.8	-
Liquidity conditions	Net absorption(-)/injection(+) under LAF (% of NDTL)	0.2	-0.4	-0.7	-0.4	-0.6	-0.6	0.3	0.8	0.7	0.5	-0.6	-0.7
Money market	Call money rate (%)	6.6	6.5	6.5	6.6	6.5	6.5	6.6	6.6	6.4	6.3	5.9	5.8
	91 day T-bill (%)	6.8	6.7	6.6	6.6	6.5	6.5	6.5	6.6	6.4	6.5	6.0	5.8
	CP 6-month rate (%)	7.9	7.8	7.8	7.8	7.7	7.7	7.7	7.9	7.9	7.9	7.1	6.9
Debt market	10-year G-Sec (%)	7.0	7.0	6.9	6.8	6.8	6.8	6.7	6.8	6.7	6.7	6.4	6.3
	Term premium (%)	0.5	0.5	0.4	0.3	0.3	0.3	0.2	0.3	0.4	0.4	0.3	0.3
	AAA bond spread' (%)	0.4	0.4	0.4	0.4	0.3	0.3	0.4	0.3	0.4	0.5	0.5	0.5
	AA bond spread" (%)	2.1	2.1	2.3	2.3	2.0	2.1	2.2	2.2	2.5	2.7	2.5	2.6
Lending rates	MCLR (1 year) (%)	8.9	8.9	8.9	9.0	9.0	9.0	9.0	9.0	9.1	9.0	9.0	9.0
	Auto loan rate (%)	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.5	9.4	9.4	9.3	9.3
	Housing loan rate (%)	9.3	9.3	9.2	9.2	9.2	9.2	9.2	9.2	9.0	9.0	8.8	8.9
Credit availability	Bank credit growth (y-o-y,%)	13.9	13.7	13.6	13.0	11.6	10.6	11.2	11.4	11.0	11.0	10.3	9.8
Money supply	M3 growth (y-o-y %)	9.7	10.0	10.2	10.8	11.1	11.1	9.3	9.6	9.6	9.6	9.6	9.5
Equity market	Sensex (%*)	18.2	21.8	20.2	22.5	17.6	13.5	13.9	8.5	6.3	3.9	5.8	9.9
	NSE VIX	15.6	13.5	14.9	13.3	13.9	15.3	14.0	15.9	14.5	13.4	16.8	18.0
Forex market	Rs/USD (m-o-m %)	0.1	0.1	0.4	-0.1	0.3	0.4	0.7	1.5	0.9	-0.5	-1.2	-0.4
Foreign capital	Net FPI (USD bn)	5.0	5.8	3.0	11.2	-11.5	-2.5	3.1	-9.0	-2.8	3.8	-2.3	3.6
Global conditions	S&P500 (%*)	23.6	24.5	21.5	23.1	24.7	25.3	24.8	22.0	21.2	12.6	5.2	12.4
	US 10Y Treasury yield (%)	4.3	4.2	3.9	3.7	4.1	4.4	4.4	4.6	4.5	4.3	4.3	4.4
	Brent ($/barrel)	82.6	85.3	80.9	74.3	75.7	74.4	73.8	79.2	75.2	72.6	67.8	64.2

Favourable

Neutral

Adverse

*Notes: ^Spread over the repo rate; term premium is the 10-year G-sec's spread 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 rupee change implies depreciation against the US dollar, and vice versa; credit data for May-June 2024 excludes the impact of the merger of a bank with non-bank*

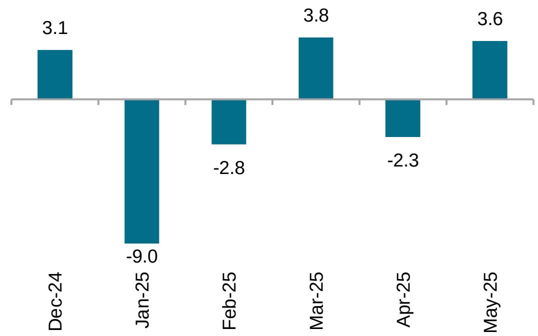
Sources: RBI, National Securities Depository Ltd, US Department of the Treasury, CEIC, Crisil

Factors that supported financial conditions in May

FPI inflows

- FPIs net-invested $3.6 billion in Indian markets in May (vs net outflow of $2.3 billion in the previous month)
- The equity segment saw net inflow of $2.3 billion (vs mild net inflow of $0.5 billion in the previous month), the highest since September 2024, driven by domestic resilience and optimism surrounding a bilateral trade agreement between India and the US
- The debt market experienced net inflow of $1.2 billion (vs net outflow of $2.2 billion in the previous month)

Net FPI inflow ($ billion)

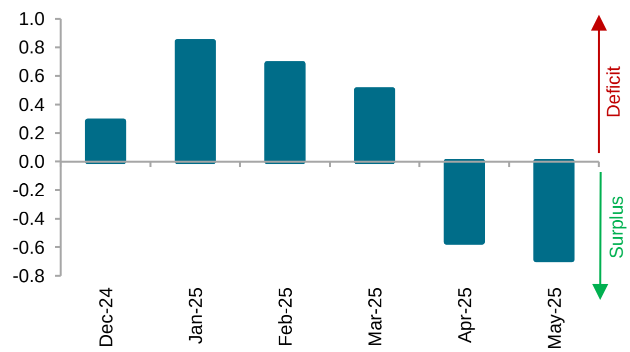


Source: NSDL, CEIC, Crisil

Surplus systemic liquidity

- Systemic liquidity remained in surplus for the second consecutive month in May. The RBI net-absorbed Rs 1.7 lakh crore (0.7% of net demand and time liabilities, or NDTL), compared with Rs 1.4 lakh crore (0.6% of NDTL) in the previous month, implying an increase in liquidity surplus
- Open market operation (OMO) purchases of government securities (G-secs) worth 1.2 lakh crore (similar to the previous month) and FPI inflows led to a slight increase in liquidity surplus in May

Net injection/absorption of liquidity (% of NDTL)

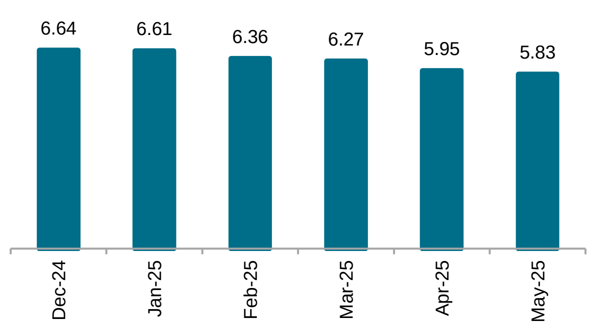


Source: RBI, CEIC, Crisil

Easing money market rates

- Money market rates eased in May owing to the surplus systemic liquidity. The weighted average call money rate, the operating target for monetary policy, stood at 5.83% (vs 5.95% in previous month), below the repo rate (6% in May)
- The rates of the six-month certificate of deposit, six-month commercial paper and 91-day Treasury bill eased 16 bps (to 6.58% on average), 15 bps (to 6.94%) and 21 bps (to 5.75%, lowest monthly average since August 2022), respectively

Call money rate (average of weekly rates, %)

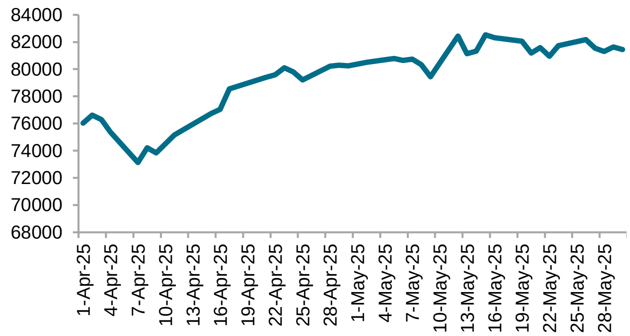


Source: RBI, Crisil

Rising equities

- In May, benchmark equity indices S&P BSE Sensex and Nifty 50 gained 5% and 4.9% on average, respectively, the highest monthly gains since December 2023
- FPI inflows and strong investment from domestic institutional investors (DIIs) supported the equity market. DIIs net-invested $7.9 billion (vs $3.3 billion in the previous month)

S&P BSE Sensex

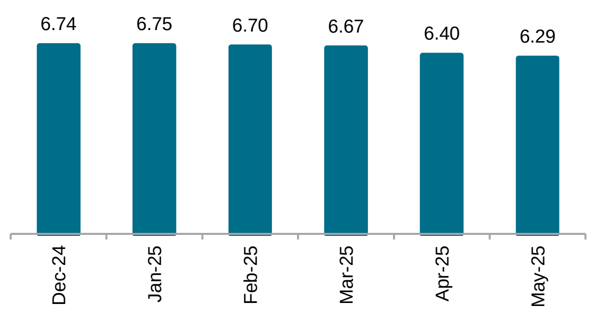


Source: Bombay Stock Exchange, Crisil

Softer bond yields

- The yield on the 10-year benchmark G-sec averaged 6.29% in May, 11 bps lower on-month and the lowest monthly average since September 2021
- Lower crude oil prices, rate cut expectations driven by easing domestic inflation, and surplus liquidity drove down yields

10-year G-sec yield (monthly average, %)



Source: Crisil Intelligence

Lower crude oil prices

- Brent crude oil prices averaged $67.8 per barrel in May, down 5.2% on-month and 21.7% on-year and the lowest since May 2021
- Oil prices declined amid supply hikes by the Organization of the Petroleum Exporting Countries and their allies

Factors that were a drag

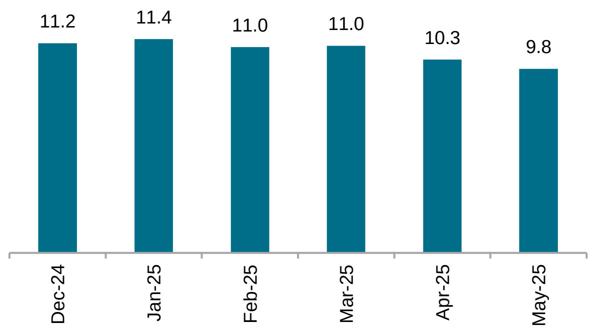
Softening credit growth

- Bank credit growth moderated to 9.8% on-year in May (vs 10.3% in the previous month), its slowest pace since March 2022
- Sectoral data for April indicated credit growth slowed in industry (6.6% vs 7.8% in March), agriculture (9.2% vs 10.4%) and services (10.5% vs 12.4%)

Market volatility

- The NSE volatility index (VIX) averaged a 12-month high of 18 in May (vs 16.8 in the previous month and the 12-month average of 15.1), indicating higher market volatility

Bank credit growth (y-o-y %)



Source: RBI, Crisil

One more rate cut expected this fiscal

The RBI's MPC cut the repo rate by 50 bps at the June policy review to support growth amid benign inflation prospects.

Further, the MPC changed the policy stance to neutral from accommodative, signalling a more data-dependent approach going forward. The MPC statement also mentioned limited monetary space after a 100 bps cut in the repo rate so far.

That said, we anticipate another rate cut this fiscal, amid softer inflation and downside risks to growth, before a pause.

We expect Consumer Price Index (CPI) inflation to remain under control this fiscal, as the India Meteorological Department's forecast of an above-normal monsoon should support healthy kharif production and keep food inflation low. Meanwhile, international commodity prices are expected to remain benign, helping curtail non-food inflation.

We forecast India's gross domestic product (GDP) to grow 6.5% this fiscal, with risks tilted to the downside due to US tariff hikes.

Support to domestic growth will come from the RBI's rate cuts, a healthy monsoon, soft crude oil prices, income-tax reductions and low food inflation.

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