

## Macroeconomics | First cut

# Financial conditions tighten significantly

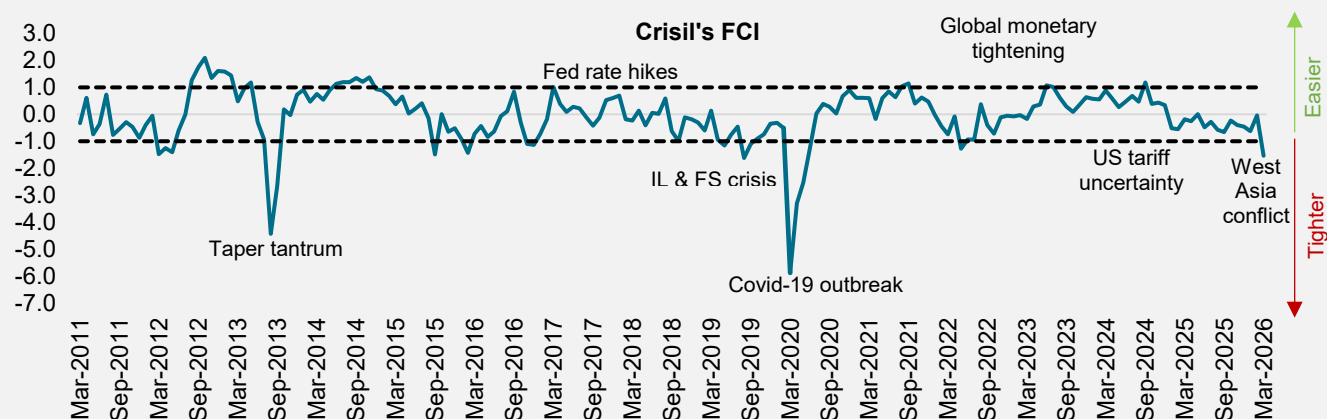
April 2026

## Geopolitical strife impacts most segments

The West Asia conflict led to a significant tightening of India's financial conditions in March, as it triggered foreign portfolio investors (FPIs) outflows, a sharp fall in the rupee and firmed up bond yields. Domestic liquidity also tightened due to tax outflows. The Crisil Financial Conditions Index (FCI) fell outside the defined comfort band, dropping to -1.5 from 0 in February

While the FCI has been negative for 10 of the past 12 months, this is the first time since May 2022 that it has fallen below the comfort zone of one standard deviation from the long-period average (measured since April 2010). This is the lowest FCI reading since the Covid-19 pandemic outbreak.

### FCI nosedives in March



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

- India's financial and currency markets felt the first round of impact of the West Asia conflict in March, as a sharp surge in crude oil prices, given the country's high oil import dependence, particularly from the region, adversely affected investor sentiments
- FPIs recorded their largest monthly net outflow since the Covid-19 pandemic, putting pressure on the rupee, equity markets, the 10-year government securities (G-sec) yield and systemic liquidity. FPI outflows, initially triggered by tariff uncertainty and recently by the conflict, contributed to tighter financial conditions in fiscal 2026, with FPIs net-selling \$16.6 billion in fiscal 2026 compared with a net inflow of \$2.7 billion in fiscal 2025
- The rupee depreciated sharply against the dollar, with a 2.2% average decline in March—the largest in a single month since October 2022. A stronger dollar, driven by safe haven demand, also contributed to the rupee's decline. According to S&P Global, the rise in the dollar was broad-based across most US trade partners<sup>1</sup>
- The benchmark 10-year G-sec yield continued to rise because of fiscal concerns, higher crude oil prices and FPI outflows in debt. The fiscal concerns stemmed from measures to mitigate the impact of the West Asia conflict, including fuel excise cuts and soaring international fertiliser prices (which can impact the subsidy bill)

### Financial conditions across segments

		Fiscal 2025 average	Last 6 months					
			Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26
<b>Policy rate</b>	Repo rate (%)	6.5	5.5	5.5	5.25	5.25	5.25	5.25
	Repo rate, inflation-adjusted (%)	1.8	5.5	5.0	4.1	2.5	2.0	1.8
<b>Liquidity conditions</b>	Net absorption(-)/injection(+) under LAF (% of NDTL)	0.0	-0.3	-0.7	-0.3	-0.2	-0.9	-0.6
	<b>Money market</b>							
	Call money rate (%)	6.5	5.5	5.4	5.4	5.4	5.1	5.2
	91 day T-bill (%)	6.6	5.4	5.4	5.3	5.4	5.3	5.3
	CP 6-month rate (%)	7.8	6.7	6.7	6.8	7.3	7.5	7.7
<b>Debt market</b>	10-year G-sec (%)	6.9	6.5	6.5	6.6	6.6	6.7	6.7
	Term premium (%)	0.4	1.0	1.0	1.3	1.4	1.4	1.5
	AAA bond spread* (%)	0.4	0.5	0.5	0.5	0.6	0.6	0.7
	AA bond spread** (%)	2.2	2.6	2.5	2.5	2.6	2.5	2.6
<b>Lending rates</b>	MCLR (1 year) (%)	8.9	8.6	8.5	8.5	8.4	8.5	8.4
	Auto loan rate (%)	9.8	9.0	9.0	8.9	8.9	9.0	9.0
	Housing loan rate (%)	9.2	8.5	8.5	8.4	8.4	8.4	8.4
<b>Credit availability</b>	Bank credit growth (y-o-y,%)	12.7	11.3	11.5	14.5	14.6	14.5	13.8
<b>Money supply</b>	M3 growth (y-o-y %)	10.3	10.3	9.9	12.1	12.0	12.6	15.3
<b>Equity market</b>	Sensex (%*)	14.9	7.4	8.0	7.8	5.1	4.1	-4.8
	NSE VIX	14.7	11.1	12.3	10.2	11.8	13.0	22.1
<b>Forex market</b>	Rs/\$ (m-o-m, %)	0.4	0.1	0.5	1.4	0.8	-0.1	2.2
<b>Foreign capital</b>	Net FPI (\$ bn)	0.2	4.0	0.3	-4.3	-3.2	4.2	-13.6
	S&P 500 (%*)	21.9	20.7	18.7	18.7	18.2	15.9	10.7
<b>Global conditions</b>	10-year US Treasury yield (%)	4.3	4.1	4.1	4.1	4.2	4.1	4.2
	Brent (\$/barrel)	78.8	64.7	63.6	62.7	66.8	71.1	103.7

	Favourable
	Neutral
	Adverse

Note: 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; Credit growth for March is as on March 15

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

<sup>1</sup> S&P Global, 'Global Economic Outlook Q2 2026: Middle East War Dents the Forecast' (March 2026)

## Most segments see adverse impact

### Sharp FPI outflows

- Following net inflows of \$4.2 billion in February, FPIs recorded net outflows of \$13.6 billion in March, marking the largest monthly outflow since the Covid-19 pandemic. The significant sell-off by FPIs was primarily driven by nervousness due to the West Asia conflict
- The equity segment saw its highest monthly net outflow on record, totalling \$12.7 billion, compared with an inflow of \$2.5 billion in the previous month
- The debt market saw a comparatively milder outflow of \$0.9 billion, following an inflow of \$2.1 billion in February
- FPIs have remained in the red during the first two weeks of April with net outflows at \$6.5 billion till April 13

### FPI flows (\$ billion)

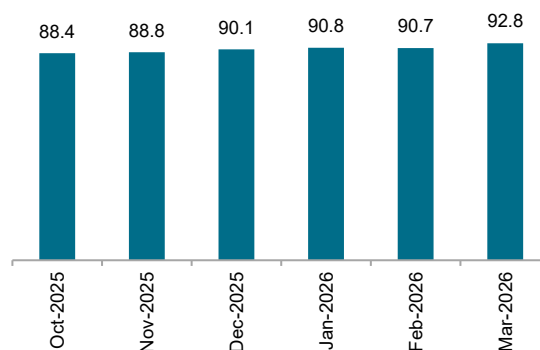


Source: NSDL, CEIC, Crisil

### Depreciating rupee

- The rupee depreciated sharply in March, averaging 92.8 per dollar in March vs 90.7 in February. The rupee hit 94.7 at the end of March compared with 91 at the end of February
- The dollar index, which measures the greenback's performance against a basket of six major currencies<sup>2</sup>, rose 2.1%, indicating a stronger dollar. Safe haven demand for the dollar has risen due to the conflict
- Proactive measures by the RBI such as regulatory actions (including limiting net open positions of banks involving rupee in the onshore deliverable market to \$100 billion and forbidding forex dealers from offering non-deliverable derivative contracts involving INR) have curtailed the fall in the rupee in April with its value per dollar rising to 93.4 by April 13

### Rupee per dollar



Source: RBI, CEIC, Crisil

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



Source: BSE, CEIC, Crisil

### Turbulent equity markets

- Equity markets nosedived on concerns surrounding the West Asia conflict
- The benchmark indices S&P BSE Sensex and Nifty 50 fell sharply by 8.4% and 7.8%, respectively, in March.

<sup>2</sup> The euro, Swiss franc, Japanese yen, Canadian dollar, British pound and Swedish krona

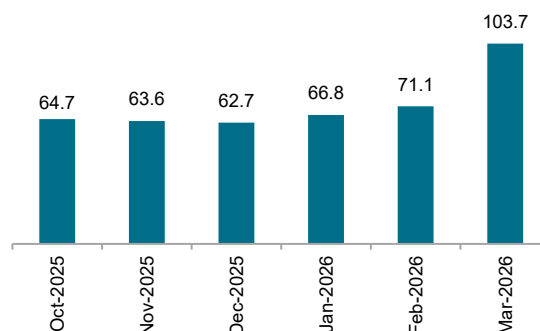
This is the sharpest average decline on-month in S&P BSE Sensex after the start of the Covid-19 pandemic

- Volatility also increased significantly, with the NSE VIX rising to average 22.1 from 13.0, the highest since May 2022

### Higher crude oil prices

- Brent crude prices surged to their highest levels since July 2022 (due to geopolitical uncertainties), to \$103.7 per barrel in March from \$71.1 per barrel in February, reaching \$121 per barrel at the end of March

### Brent crude oil prices (\$ per barrel)

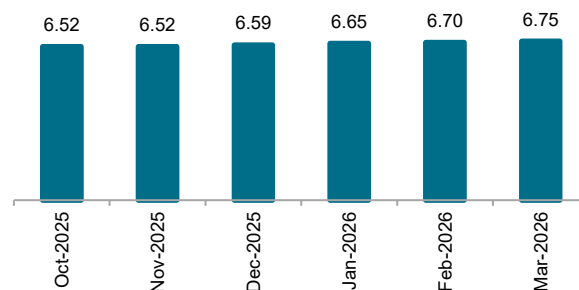


Source: World Bank, Crisil

### Rising 10-year G-sec yield

- The yield on the 10-year benchmark G-sec continued to surge, with March-end at 7.02%, up 36 basis points (bps) since the close of February. This is the first time since July 2024 that the yield has crossed 7%. The yield averaged 6.75% in March compared with 6.7% in February
- Along with the West Asia crisis, which led to fiscal concerns, higher crude oil prices and lower FPIs in debt, lower liquidity and some hardening in retail inflation exerted upward pressure on the yield.
- The first two weeks of April saw yields ease to 6.94% on April 13 aided by lower-than-expected government borrowing plan

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

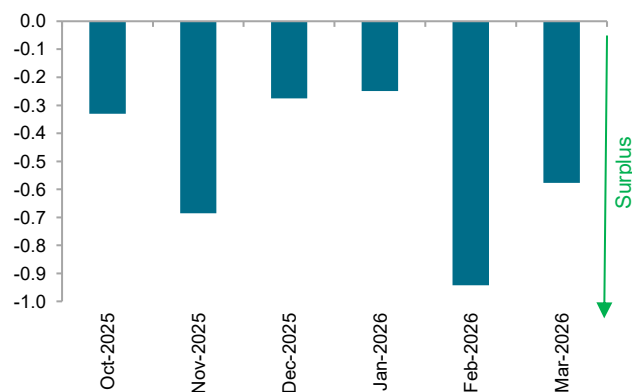


Source: Crisil Intelligence

### Rising money market rates

- Although systemic liquidity remained in a surplus on average in March, it moderated relative to February due to global (FPI outflows) and domestic (tax outflows) factors
- Under its liquidity adjustment facility, the RBI net-absorbed Rs 1.57 lakh crore equivalent to 0.6% of net demand and time liabilities (NDTL), which was lower than the Rs 2.53 lakh crore (0.9% of NDTL) recorded in February
- The RBI conducted open market operation purchases of G-secs worth Rs 1.8 lakh crore in March compared with

### Net injection/absorption of liquidity (% of NDTL)



Source: RBI, CEIC, Crisil

Rs 0.6 in February, which prevented further tightening in liquidity

- Money market rates rose given the moderating surplus in liquidity, with the weighted average call money rate (WACR, the operating target for monetary policy) rising 13 bps on-month to 5.20%. Although the average is close to the repo rate of 5.25%, the WACR rose above the repo rate in the last two weeks of March, averaging 5.37% in the week ending March 27
- Rates on six-month commercial paper and certificates of deposit rose 15 bps and 25 bps to 7.68% and 7.27%, respectively

## Supportive factors

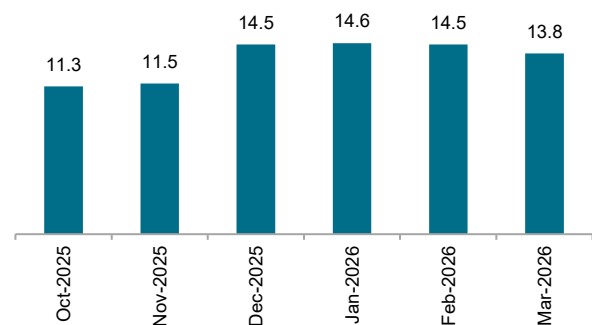
### Higher bank credit growth

- Bank credit growth accelerated to 13.8% (as on March 15), higher than 11% a year ago
- Sectoral data for February indicates services (16.3%) and personal loans (15.2%) are seeing the strongest growth in credit

### Soft lending rates

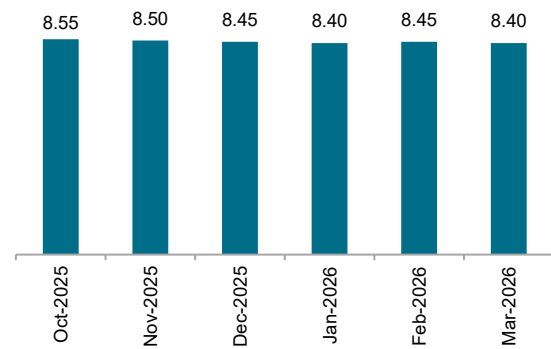
- Auto and housing loan rates were broadly stable in March, remaining below their pre-pandemic levels at 8.95% and 8.35%, respectively
- Deposit rates too were unchanged at 6.29%
- The one-year marginal cost of funds-based lending rate (MCLR) fell to 8.40% from 8.45% in February

### Bank credit growth (%)



Source: RBI, CEIC, Crisil

### One-year MCLR (%)



Source: RBI, Crisil

## West Asia shock calls for strong policy buffers and agility

The RBI's Monetary Policy Committee in its April review kept the policy rates and monetary policy stance unchanged given the ambiguity of the evolving global scenario. The conflict impact though clearly assigns a downside to India's growth outlook and an upside to inflation. Moreover, an expected weakness in the southwest monsoon adds further upside risk to retail inflation. Such a scenario calls for policy prudence and the adoption of a cautious approach. It would be premature to draw firm conclusions on the impact or pre-empt the ultimate outcome of the West Asia conflict. At this juncture, all that is required is keeping ready adequate policy buffers and staying nimble to act as the situation evolves.

Financial markets have responded more to global market volatility than what the real sector indicators suggest so far. Since the West Asia-led tremors began, the RBI has demonstrated its ability to mitigate the adverse impact on India's financial and currency market using multiple instruments, ranging from open market operations to regulatory measures in the forex market. It has kept systemic liquidity in surplus till date despite volatile foreign capital flows.

The MPC's clear commitment "to be proactive and pre-emptive in liquidity management and ensure sufficient liquidity to the banking system" provides further comfort on this front.

Although monetary policy and India's strong macro fundamentals will continue to support financial conditions in fiscal 2027, risks from the West Asia crisis could keep the FCI under pressure and trigger market turbulence until the conflict subsides.

Financial conditions remain vulnerable to sustained high oil prices and heightened global uncertainty. Persistently elevated oil prices could impact several macros, including growth, inflation, the current account deficit (CAD) and fiscal deficit.

Global uncertainty and divergent monetary policies may lead to volatility in foreign capital flows, resulting in increased volatility and depreciation of the rupee.

S&P Global expects the European Central Bank and Bank of England to raise their policy rates as early as the second quarter of 2026, while the US Federal Reserve is expected to cut rates once later this year.

Potential disruptions in remittance income could pose challenges for financing the CAD.

While India's improved fiscal position offers some resilience, a prolonged or intensified conflict could have adverse effects on growth, inflation, private consumption and investment, thereby increasing vulnerabilities.

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