

Macroeconomics | First cut

Negative vibe

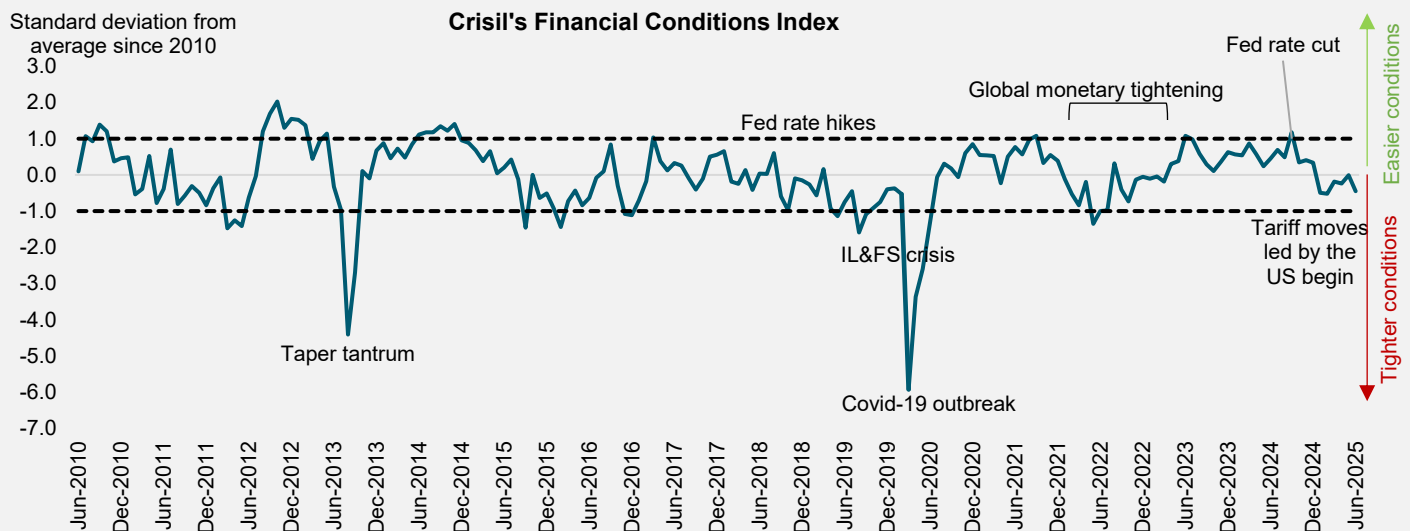
July 2025

Financial conditions run into triple headwinds

Crisil's Financial Conditions Index (FCI) declined to -0.5 in June from 0.0 in May. FCI is a monthly indicator that combines parameters across the money, debt, equity and foreign exchange markets.

A lower FCI value indicates financial conditions were tighter than the previous month, while a negative value implies tighter than the long period average (measured since April 2010). The FCI has been negative in five of the last six months. However, it remained within the stated comfort zone of one standard deviation.

Tough June



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 three reasons for the negative FCI value in June were foreign portfolio investor (FPI) outflows, higher crude oil prices and a depreciating rupee
 - While the equity segment saw lower inflows, overall FPIs were net sellers given debt outflows as US yields remained high amid concerns regarding inflation and debt in the US
 - Global uncertainties led to a surge in crude oil prices which hit \$80 per barrel in June for the first time since January 2025. This put pressure on yields, equity markets and the rupee
 - The rupee depreciated 0.8% on-month after three consecutive months of gaining against the dollar
- On the other hand, actions of the Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) helped cushion financial conditions. The 100 basis points (bps) of rate cuts since February, including a sharper-than-expected 50 bps in June, and surplus systemic liquidity in the past three months (April-June) have led to easing of broader interest rates.
- In our view, softening inflation will allow the MPC to cut the repo rate once again this fiscal. We expect one more rate cut this fiscal followed by a pause. However, global uncertainties could continue to impart volatility to capital flows and currency movements.

Financial conditions across segments

		Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25
Policy rate	Repo rate (%)	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.25	6.25	6.0	6.0	5.5
	Repo rate, inflation-adjusted (%)	2.9	2.8	1.0	0.3	1.0	1.3	2.2	2.6	2.9	2.8	3.2	3.4
Liquidity conditions	Net absorption(-)/injection(+) under LAF (% of NDTL)	-0.4	-0.7	-0.4	-0.6	-0.6	0.3	0.8	0.7	0.5	-0.6	-0.7	-1.1
	Call money rate (%)	6.5	6.5	6.6	6.5	6.5	6.6	6.6	6.4	6.3	5.9	5.8	5.4
Money market	91 day T-bill (%)	6.7	6.6	6.6	6.5	6.5	6.5	6.6	6.4	6.5	6.0	5.8	5.4
	CP 6-month rate (%)	7.8	7.8	7.8	7.7	7.7	7.7	7.9	7.9	7.9	7.1	6.9	6.6
Debt market	10-year G-Sec (%)	7.0	6.9	6.8	6.8	6.8	6.7	6.8	6.7	6.7	6.4	6.3	6.3
	Term premium (%)	0.5	0.4	0.3	0.3	0.3	0.2	0.3	0.4	0.4	0.3	0.3	0.7
	AAA bond spread' (%)	0.4	0.4	0.4	0.3	0.3	0.4	0.3	0.4	0.5	0.5	0.5	0.6
	AA bond spread" (%)	2.1	2.3	2.3	2.0	2.1	2.2	2.2	2.5	2.7	2.5	2.6	2.5
Lending rates	MCLR (1 year) (%)	8.9	8.9	9.0	9.0	9.0	9.0	9.0	9.1	9.0	9.0	9.0	8.9
	Auto loan rate (%)	9.8	9.8	9.8	9.8	9.8	9.8	9.8	9.7	9.7	9.6	9.6	9.3
	Housing loan rate (%)	9.3	9.2	9.2	9.2	9.2	9.2	9.2	9.0	9.0	8.8	8.9	8.5
Credit availability	Bank credit growth (y-o-y,%)	13.7	13.6	13.0	11.6	10.6	11.2	11.4	11.0	11.0	10.3	9.0	9.5
Money supply	M3 growth (y-o-y, %)	10.0	10.2	10.8	11.1	11.1	9.3	9.6	9.6	9.6	9.6	9.5	9.6
Equity market	Sensex (%*)	21.8	20.2	22.5	17.6	13.5	13.9	8.5	6.3	3.9	5.8	9.9	9.7
	NSE VIX	13.5	14.9	13.3	13.9	15.3	14.0	15.9	14.5	13.4	16.8	18.0	14.3
Forex market	Rs/\$ (m-o-m %)	0.1	0.4	-0.1	0.3	0.4	0.7	1.5	0.9	-0.5	-1.2	-0.4	0.8
Foreign capital	Net FPI (\$ bn)	5.8	3.0	11.2	-11.5	-2.5	3.1	-9.0	-2.8	3.8	-2.3	3.6	-0.9
	S&P500 (%)	24.5	21.5	23.1	24.7	25.3	24.8	22.0	21.2	12.6	5.2	12.4	14.9
Global conditions	US 10-year Treasury yield (%)	4.2	3.9	3.7	4.1	4.4	4.4	4.6	4.5	4.3	4.3	4.4	4.4
	Brent (\$/barrel)	85.3	80.9	74.3	75.7	74.4	73.8	79.2	75.2	72.6	67.8	64.2	71.5

	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; 10 year G-sec yield data till May 2025 is for the old benchmark while that for June 2026 is for the new benchmark

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

Why the FCI was negative in June

FPI outflows

- FPIs were net sellers led by outflows from the debt market, while the equity market saw fewer net inflows. Amid the ongoing tariff tiffs, rising geopolitical tensions caused nervousness in financial markets
- The debt market saw outflows of \$1.9 billion as the spread between Indian and US yields remained relatively narrow at 190 basis points compared to 260 bps average in fiscal 2025
- The equity segment saw net inflows, but the quantum moderated to \$1.7 billion from \$2.3 billion in May. US-China trade tensions kept equity FPIs subdued early in the month, but equity inflows rose on positive domestic cues

Net FPI inflow (\$ billion)

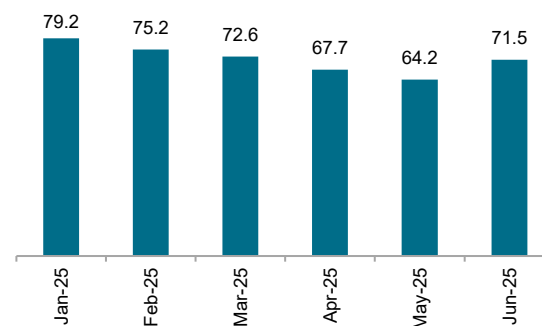


Source: NSDL, CEIC, Crisil

Higher crude oil prices

- After declining for four straight months, crude oil prices rose in June driven by geopolitical uncertainties
- The price of Brent crude was up 11.3% on-month to \$71.5 per barrel in June

Brent crude oil price (\$ per barrel)



Source: RBI, CEIC, Crisil

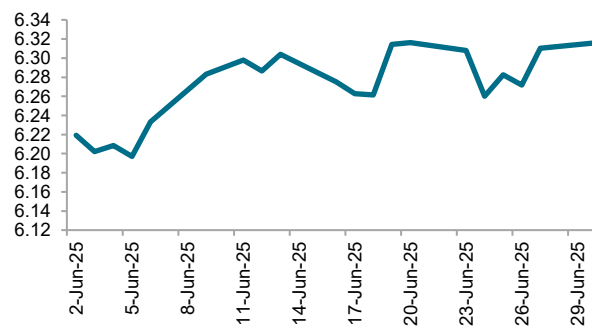
Depreciating rupee

- After gaining for three straight months against the dollar, the rupee depreciated 0.8% on-month dollar in June to 85.9 per dollar driven by higher crude oil prices and net FPI outflows. However, a weakening dollar prevented further decline

Rising bond yields

- Despite the repo rate cuts, the yield on the new 10-year benchmark G-sec (6.33% GS 2035) averaged 6.27% in June, higher than the 6.25% in May
- The MPC mentioned monetary space is limited after the 100 bps repo rate reductions so far, which pushed the yield upwards. Higher crude oil prices, a sharp reduction in open market operation purchases and FPI outflows in debt also put upward pressure

10-year G-sec yield (%)

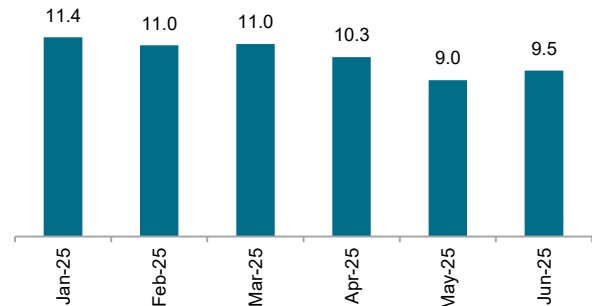


Source: Crisil Intelligence

Continued weak credit growth

- Bank credit growth continued to remain weak. There was a slight pick-up in June, but growth remains lower than the average for fiscal 2025 (12.7%) putting pressure on the FCI
- Sectoral data (available till May) indicates a softening in bank credit growth in the June quarter, driven by industry (5.7% average in April-May vs 7.7% in the March quarter), agriculture (8.3% vs 11.3%) and services (9.6% vs 12.2%). In contrast, credit growth in personal loans remained broadly steady at 11.5% average in April-May compared with 11.7% in the March quarter

Bank credit growth (y-o-y %)



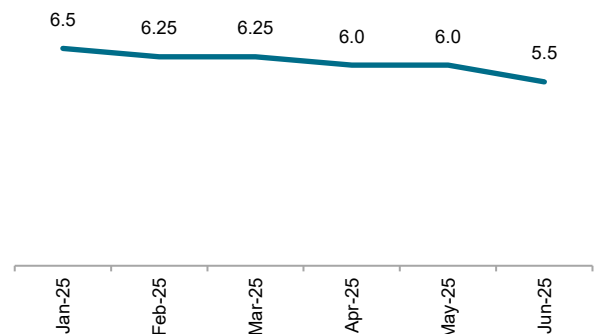
Source: RBI, CEIC, Crisil

Supporting factors

Rate cuts by the MPC

- The MPC cut the repo rate by 50 bps at its June meeting, bringing it to 5.5%
- The cumulative 100 bps reduction in the repo rate this year, along with surplus liquidity has led to softening of broader interest rates. Money market rates have seen a sharp fall
- The policy stance was changed to neutral from accommodative in June

Repo rate (month end, %)

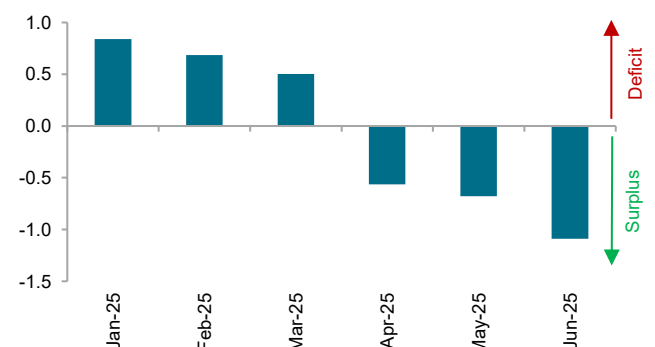


Source: RBI, Crisil

Surplus systemic liquidity

- The surplus systemic liquidity increased further in June, with the RBI net absorbing Rs 2.7 lakh crore (1.1% of net demand and time liabilities, or NDTL), compared with Rs 1.7 lakh crore (0.7% of NDTL) in May driven by a slight pickup in deposit growth and possible RBI intervention in the forex market

Net injection/absorption of liquidity (% of NDTL)



Source: Crisil Intelligence

Easing money market rates

- The higher surplus liquidity drove down money market rates. The weighted average call money rate (WACR), which is the operating target for monetary policy, averaged below the newly set repo rate of 5.5%. The WACR eased

44 bps to average 5.39%

- Rates on other money market instruments, such as the 91-day Treasury bill, eased 35 bps to 5.4%, the lowest since July 2022. Rates on the six-month certificate of deposit and six-month commercial paper eased 43 bps (to 6.16%) and 37 bps (to 6.57%), respectively

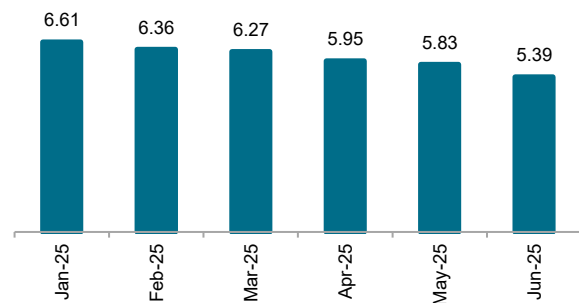
Lower lending rates

- Bank lending rates eased sharply with auto loan easing 31 bps (to 9.26%) and housing loan easing 34 bps (to 8.51%)

Rising equities

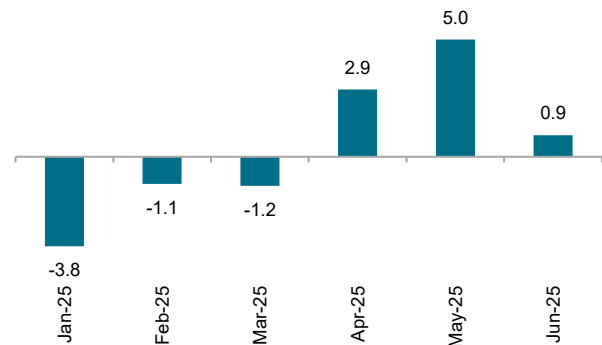
- Domestic equity markets rose moderately in June relative to May. The S&P BSE Sensex and the Nifty 50 were up 0.9% (vs 5% in May) and 1.2% (vs 4.9%)
- FPI inflows and policy moves such as repo rate cut and the RBI's finalisation of revised project finance norms supported the markets in June

WACR (average of weekly rates, %)



Source: RBI, Crisil

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



Source: Crisil Intelligence

Rate cuts to aid financial conditions

The MPC has cut the repo rates by 100 bps in the current cycle. It chose to front-load the easing in June amid heightened growth risks. But the MPC also cautioned monetary space is limited now.

We expect another rate cut this fiscal followed by a pause given the expected inflation trajectory.

Therefore, we forecast:

- The Consumer Price Index (CPI)-based inflation to average 4% this fiscal, compared with 4.6% last fiscal. Food inflation is expected to be softer given forecasts of an above-normal monsoon by the Indian Meteorological Department. Non-food inflation is expected to remain subdued on the back of lower commodity prices
- GDP growth is seen at 6.5% with downside risks. The tariff moves by the US are a risk for exports, but domestic factors, including the repo rate cuts, an adequate monsoon, income tax relief and lower food inflation will be supportive of growth.

The MPC also cut the cash reserve ratio (CRR) by 100 bps during its June policy review, which will be implemented in four tranches between September and November 2025. This is supportive of systemic liquidity, and should support financial conditions. However, we expect volatility in capital flows and the rupee given the global uncertainties. Net-net we expect the FCI to remain within the stated comfort zone of one standard deviation.

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