RateView

Crisil's outlook on near-term interest rates

May 2026

Outlook

Benchmark	April 30, 2026 (A)	May 31, 2026 (P)	July 31, 2026 (P)
10-year G-sec yield	7.02%	6.98% - 7.08%	7.03% - 7.13%
10-year SDL yield	7.66%	7.68% - 7.78%	7.73% - 7.83%
10-year corporate bond yield	7.76%	7.68% - 7.78%	7.73% - 7.83%

A – actual; P – projected (6.48% GS 2035)

One-month view

Our May view takes into account several factors that could drive the 10-year benchmark government security (G-sec) yield, including the US Treasury yields, crude oil prices, dollar movement, geopolitical developments, and the risk sentiment of investors. Policy moves by the Reserve Bank of India (RBI) and the US Federal Open Market Committee (FOMC), as well as inflation and liquidity dynamics, are some of the other factors considered.

Three-month view

The movement of the 10-year G-sec yield is likely to depend on the RBI's policy direction, government borrowings, supply of state development loans (SDLs), foreign portfolio investor (FPI) participation, movement of crude oil prices and the rupee, global risk sentiment and the FOMC's decisions. Uncertainties around global trade and geopolitical developments would also influence the yield.

Framework for the outlook

We provide an outlook on key benchmark rates for multiple debt instruments, including 10-year G-secs, SDLs and corporate bonds, based on statistical models and inputs from our experts. We also incorporate our views on policy expectations, macroeconomic outlook, key local and global events, and market factors such as liquidity and the demand-supply dynamics.

Contents

Crisil Intelligence

April see-saw

Monthly summary

The yield on the 10-year benchmark G-sec (6.48% GS 2035) ended April at 7.02%, unchanged from its March close.

Weekly highlights

- **Week 1:** Domestic sovereign bonds in the first week, observed yields easing as market sentiment improved. Traders gradually rebuilt their positions as volatility eased, supported by better demand and a modest increase in risk appetite. The 10-year yield, which was above 7%, dipped below that level during the week, indicating a pause in the upward momentum. This softening was helped by some moderation in crude oil prices and a stable global environment, easing near-term inflation concerns. The results of the bond auction were well received, with cut-off yields aligning with expectations, reflecting healthier demand. Stable domestic liquidity and the absence of any signs of immediate policy tightening further supported the market, allowing for a slight increase in duration appetite. The 10-year 6.48% GS 2035 closed at 6.92%.

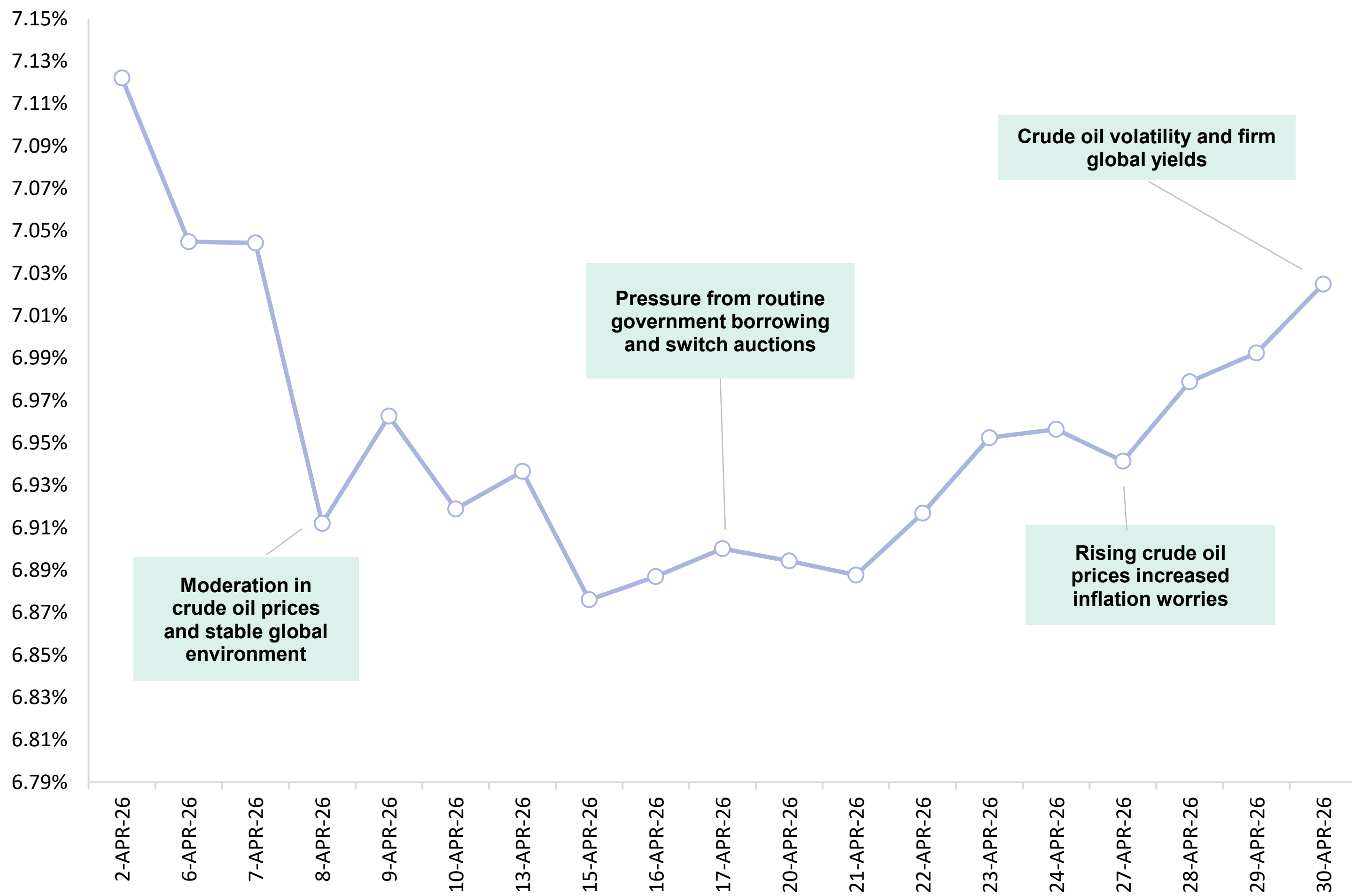
- **Week 2:** Domestic sovereign bonds remained largely stable, with a slight upward bias, as yields consolidated after a sharp decline in the previous week. Market participants stayed cautious, resulting in limited new positions and range-bound trading. The 10-year benchmark yield traded between 6.88% and 6.96%, staying below 7% and not giving space for volatility. A mid-week rebound in crude oil prices and global risk-off sentiment raised inflation concerns, pushing yields slightly higher. Routine government borrowing and switch operations put pressure on longer-term bonds. However, stable domestic liquidity and the absence of any signs of central bank policy tightening balanced out the factors causing pressure. Bond auction results were steady, with cut-off yields meeting market expectations, suggesting continued demand at current yield levels. The 10-year 6.48% GS 2035 closed at 6.90%.

- **Week 3:** Domestic sovereign bonds traded with a mildly bearish to range-bound trend as yields moved higher amid persistent global and domestic headwinds. Market participants remained cautious, avoiding large positions due to volatile crude oil prices and geopolitical tensions. The 10-year yield fluctuated between approximately 6.89% and 6.98%, closing near the upper end, reflecting pressure on bond prices. The rise in yields was mainly driven by a renewed surge in global crude oil prices, which heightened inflation concerns for India, a major oil importer. Elevated oil prices reduced the attractiveness of fixed-income assets at current yields, prompting investors to seek higher returns. Uncertainty around global monetary policy, especially expectations of prolonged higher interest rates, kept market sentiment subdued. Additionally, weak demand ahead of new government borrowing and tight liquidity conditions further dampened the appetite for longer-term securities. The 10-year 6.48% GS 2035 closed at 6.95%.

- **Week 4:** Domestic government securities traded with a cautious and slightly weak tone as yields stayed elevated amid mixed domestic cues and global uncertainties. Market activity remained subdued, with traders avoiding aggressive positions due to the lack of strong triggers and continued external volatility. The 10-year benchmark yield moved in a range of 6.95–7.02%, briefly crossing 7% before closing near that level. This reflected continued pressure on bond prices during the week. The rise in yields was mainly driven by elevated global bond yields and volatility in crude oil prices. Higher crude oil prices kept inflation concerns alive, forcing investors to remain cautious. Uncertainty around the global interest rate outlook also added to the guarded sentiment in fixed-income markets. Overall, investors showed limited appetite for aggressive trades amid the ongoing macroeconomic and global uncertainties. Trading remained moderate as markets closely tracked economic signals and global developments. The 10-year 6.48% GS 2035 closed at 7.02%.

Closing day

The new 10-year benchmark closed at 7.02% on April 30, 2026.



Note: All yields are volume-weighted averages during the last trading hour of that day

Source: Crisil Intelligence

Factors influencing the outlook

Our assessment of the West Asia shock: The downside risks to the economy have begun materializing with over two months of unresolved West Asia conflict. The closure of Strait of Hormuz has created the largest energy shock on record. This will take time to normalise because of the damage to oil and gas infrastructure in West Asia—even after the route reopens. Crisil Intelligence has revised its Brent crude price forecast to $90-95 per barrel for fiscal 2027 from $82-87 per barrel. Additionally, the shock extends beyond energy to freight and insurance costs, supply chains, and fertilisers, which have a multidimensional impact on the economy.

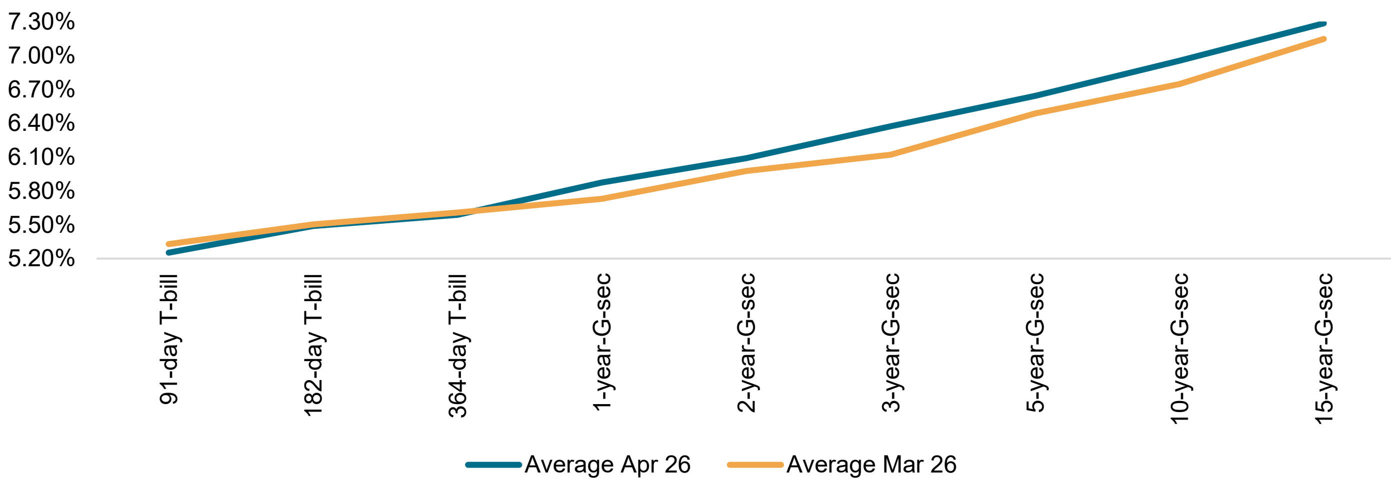
Economic parameter	Our view	Impact on yields
GDP growth	• We expect real gross domestic product (GDP) growth to slow to 6.6% in fiscal 2027 from 7.6% in fiscal 2026 • The spike in crude and natural gas prices, coupled with global supply chain disruptions are expected to hit growth – particularly manufacturing that is heavily import dependent. Weaker global demand and global trade disruptions will further hit exports this fiscal. The onset of El Nino is also expected to impact agriculture production this fiscal. However, growth will continue to be supported by fiscal policy. • The revamped GDP series on 2022-23 base pegs fiscal 2026 real GDP growth at 7.6% compared with 7.1% previous year	↓
CPI inflation	• We expect CPI inflation to rise to 5.1% on average in fiscal 2027, up from 2.0% in fiscal 2026. • While the government has limited rise in retail fuel inflation so far, a persistent rise in global prices could see retail fuel prices for cooking and transportation climb up further. Additionally, a sharp rise in energy and other input costs, as well as those for trade and transportation, is expected to be passed by producers to consumers, raising core inflation. El Nino and heatwaves are expected to put pressure on food inflation. • CPI inflation rose mildly to 3.5% in April from 3.4% in March 2026.	↑
RBI's monetary policy	• We expect the Reserve Bank of India's Monetary Policy Committee to keep rates and stance unchanged in the forthcoming monetary policy. • The MPC kept policy rates unchanged at its April meeting and maintained its neutral stance, giving it flexibility on future monetary policy actions	↔
Fiscal health	• The budget has targeted a reduction in centre's fiscal deficit to 4.3% of GDP in fiscal 2027 from 4.4% of GDP in fiscal 2026 (revised estimates). The government successfully met its fiscal deficit target for fiscal 2026 • Gross market borrowing is estimated to rise to Rs. 16.1 lakh crore for fiscal 2027 from Rs 14.6 lakh crore for fiscal 2026 (RE). 51% of the borrowing will be done in the first half of this fiscal • However, prolonged conflict will increase pressure on government finances through higher oil and fertilizer subsidies. Higher inflation will also shrink monetary space this fiscal.	↔
Crude oil prices	• Crude oil prices are expected to average higher at $90-95 per barrel in fiscal 2027, compared with $70.3 per barrel previous year • Brent crude oil prices picked up to $117.3 per barrel average in April, 13.7% higher on-month and 72.1% up on-year	↑

Economic parameter	Our view	Impact on yields
Current account balance	• We project current account deficit (CAD) to rise to 2.2% of GDP in fiscal 2027 from an estimated 0.8% last fiscal. • The spike in international crude, gas and fertilizer prices is expected to raise import bill significantly while exports are expected to be hit from a global trade disruption and weakening global demand. Remittances face a risk from continuing tensions in West Asia, which accounts for ~38% of remittances to India • The current account narrowed to 1.0% of GDP in the third quarter of fiscal 2026, versus 1.3% in the same quarter of fiscal 2025	
US Federal Reserve's stance	• The Fed left its policy rate unchanged at 3.50%-3.75% during its April 2026 meeting • S&P Global expects the Fed to be on hold for the remainder of the calendar year 2026	
Liquidity indicators i) Demand and supply	**Supply** • The SDL auction calendar for the first quarter of fiscal 2027 was announced at Rs 2,54,509 crore • The SDL auction calendar for April 2026 was announced at Rs 81,109 crore but only 70% (Rs 56,646 crore) was subscribed **Demand** • Demand for longer tenure SDLs was seen among insurance companies and pension funds	
ii) Call rates/ liquidity adjustment facility	• System liquidity was in surplus in April, averaging around Rs 3.8 lakh crore, though conditions tightened progressively during the month • Liquidity surplus rose sharply in early April, from Rs 1.8 lakh crore on April 1 to a peak of ~Rs 5.5 lakh crore during April 10–12, supported by post-fiscal year spending and system-level inflows. However, surplus levels declined steadily thereafter, falling to ~Rs 2.6 lakh crore by April 30. The moderation was driven by advance tax outflows (mid-April), payments of the goods and services tax and currency leakage, which absorbed liquidity. Additionally, the RBI's forex intervention and elevated government cash balances contributed to the tightening bias • Despite remaining in surplus, liquidity conditions turned relatively tight in the second half, as reflected in the sharp decline in surplus. The RBI conducted variable rate repo operations to manage short-term liquidity mismatches and maintain orderly market conditions	

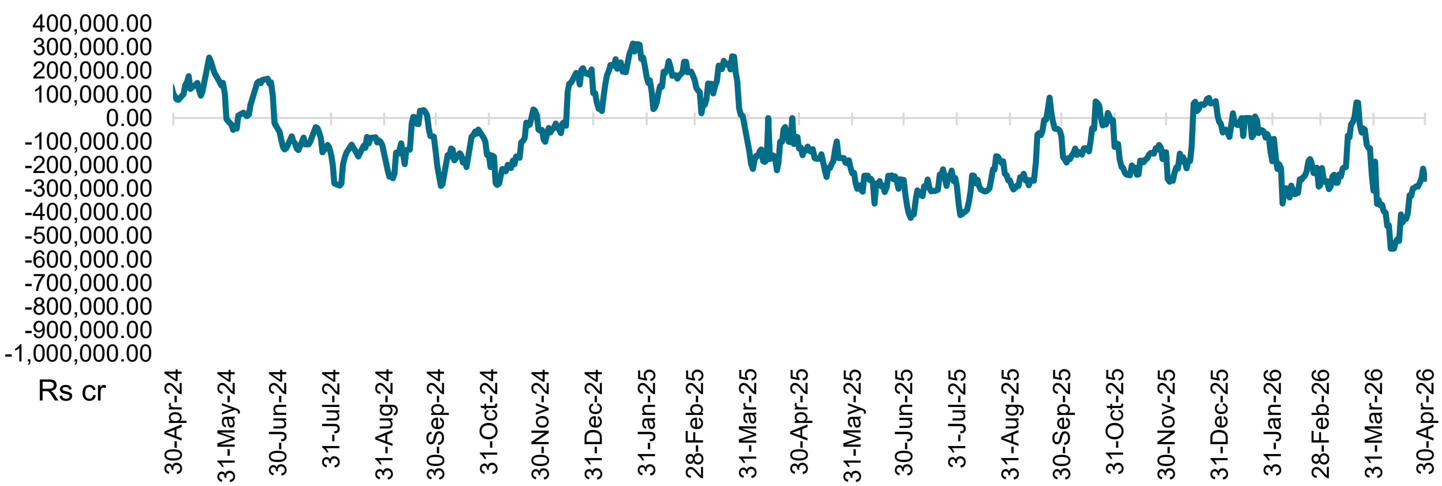
The month at a glance

Yield curve continued to steepen

Debt securities rose on account of global tensions, rising US Treasury yields and crude oil prices, and rupee depreciation



Net Liquidity Injected

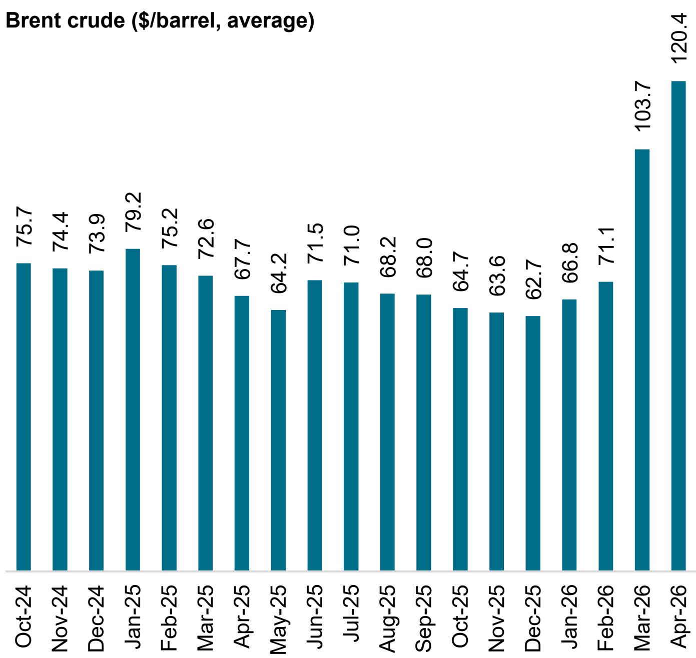


Note: Net liquidity is calculated as repo + marginal standing facility + standing liquidity facility - reverse repo

Source: Crisil Intelligence

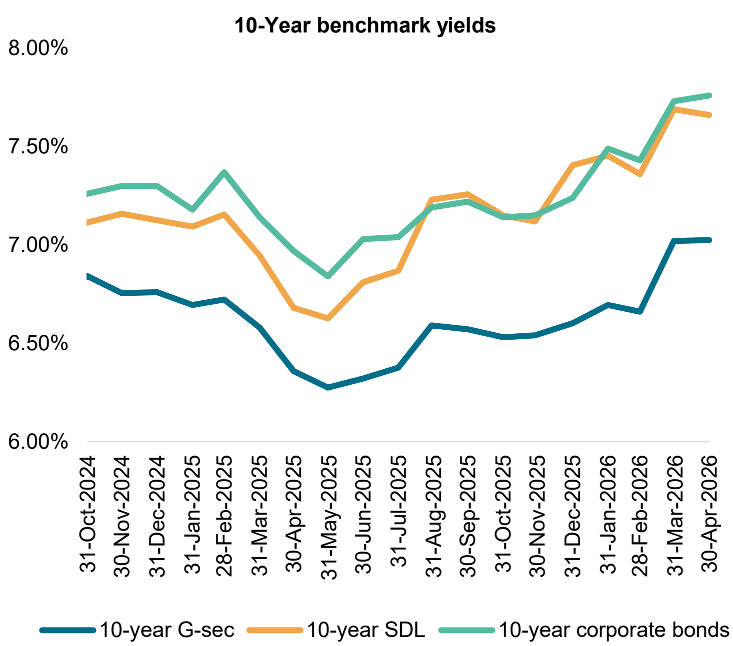
- The average systemic liquidity surplus stood at ~Rs 3.84 lakh crore in April vs ~Rs 1.59 lakh crore in March. Liquidity surplus peaked at ~Rs 5.55 lakh crore
- The average liquidity surplus over the past 12 months was Rs 1.98 lakh crore. In April, the daily average liquidity surplus was 1.4% of net demand and time liabilities (NDTL) vs 0.6% in March

Crude oil prices



- Crude oil prices surged sharply, with Brent crude rising 16.10% to $120.4 per barrel
- The increase was due to rising geopolitical tensions between the US and Iran
- The price remained above the 12-month average of $74.7 per barrel

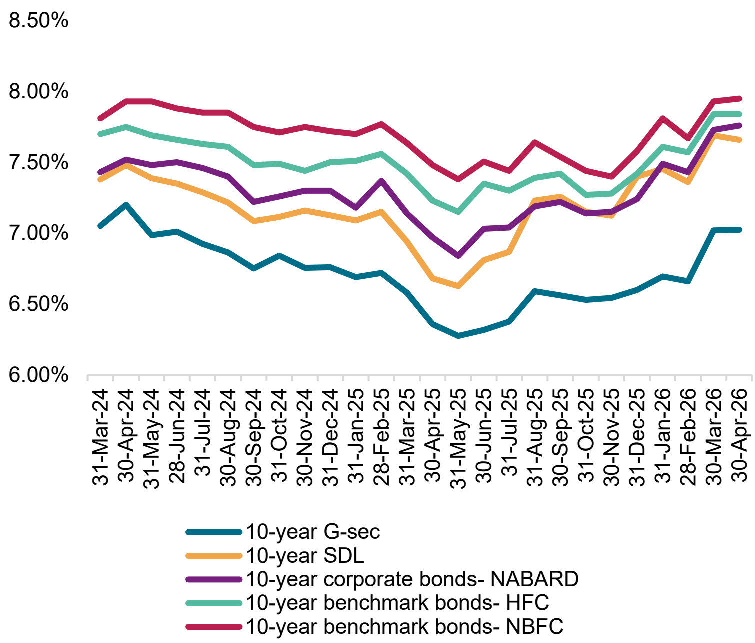
Yields on benchmark G-sec, SDL and corporate bond (PSU FI)



- The yield on the 10-year benchmark G-sec closed April at 7.02%, unchanged from its March's close
- The yield on the 10-year SDL eased 3 basis points (bps) on-month to 7.66%
- The yield on the 10-year corporate bond (10-year PSU) hardened 3 bps to 7.76%

Source: Crisil Intelligence

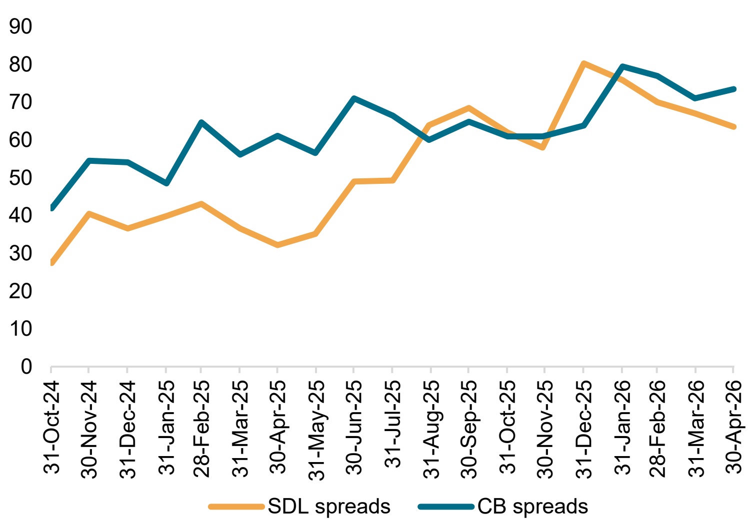
10-year benchmark G-sec, SDL and corporate bond yields



Source: Crisil Intelligence

- The yield on the 10-year AAA-rated PSU bond closed at 7.76% in April vs 7.73% in March
- The yield on the 10-year SDL closed at 7.66% in April vs 7.69% in the previous month
- The yields on bonds issued by housing finance companies closed at 7.84% in April, unchanged from March. The yields on bonds issued by non-banking financial companies (NBFCs) rose to 7.95% in April vs 7.93% in March.

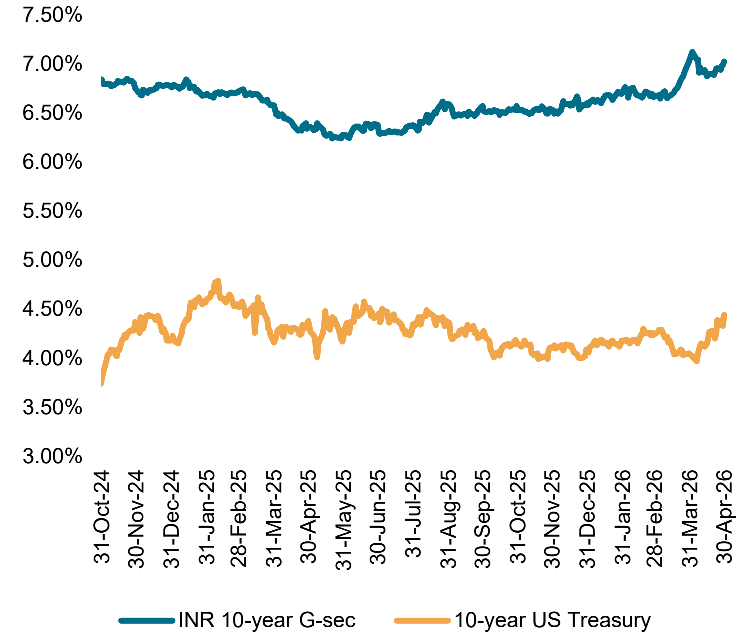
Corporate bond and SDL spreads over 10-year benchmark G-sec yield



Source: Crisil Intelligence

- The spread of the 10-year benchmark SDL over the 10-year benchmark G-sec closed at ~64 bps in April, higher than the 12-month average spread of ~62 bps
- The spread of the 10-year AAA-rated public sector corporate bond (PSU FI) closed at ~74 bps, higher than the 12-month average spread of ~62 bps

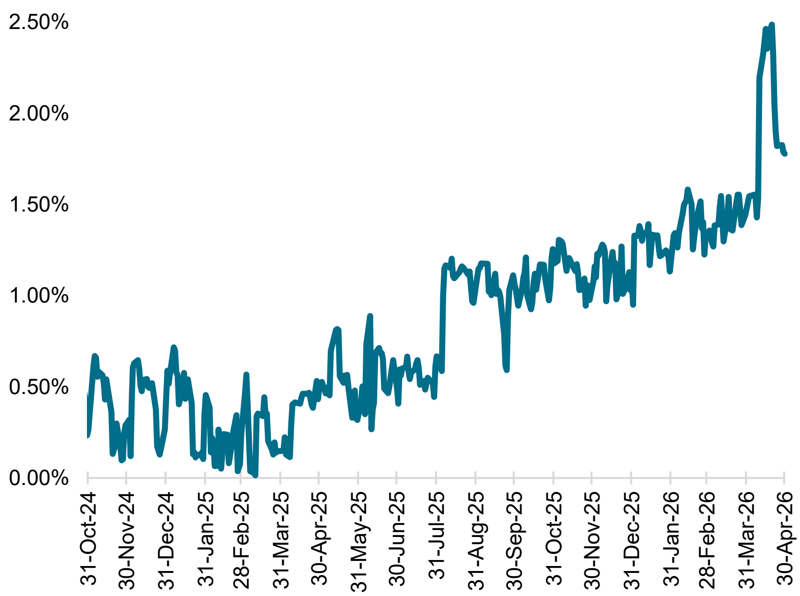
US Treasury and G-sec yield trajectory



Source: Crisil Intelligence

- The US Treasury yields hardened to 4.40% in April from 4.35% in March 2026 on expectation of a longer wait for a rate cut and sticky inflation. The sharp rise in crude oil prices added to the uncertainty over inflation, while increased Treasury supply put upward pressure on yields
- The monthly spread between the domestic benchmark 10-year G-sec and the 10-year US Treasury yields decreased 5 bps on-month to 262 bps in April. However, the average monthly spread stood at 264 bps, higher than the 12-month average spread of 230 bps

Term premium between 10-year benchmark G-sec and TREPS



Source: Crisil Intelligence

- The average term premium between the 10-year benchmark G-sec yield and the tri-party repo (TREPS) increased 34 bps to ~201 bps in March. The 12-month average premium was ~130 bps

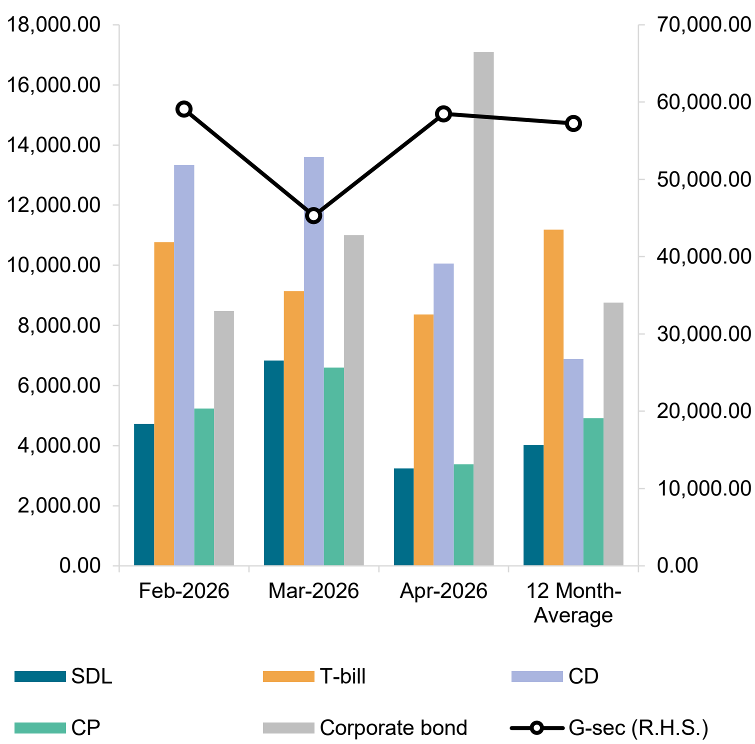
Benchmark spreads over G-secs

Spreads over G-Sec*				
Rating category	Date	PSU/corporates	NBFCs	Housing finance companies
AAA	31-Mar-26	0.68%	0.88%	0.73%
	30-Apr-26	0.84%	1.04%	0.90%
AA+	31-Mar-26	0.98%	1.27%	1.22%
	30-Apr-26	1.19%	1.43%	1.35%
AA	31-Mar-26	1.28%	2.11%	1.86%
	30-Apr-26	1.46%	2.31%	2.04%
AA-	31-Mar-26	1.79%	3.40%	3.10%
	30-Apr-26	1.95%	3.61%	3.26%

Note: Spreads are for five-year securities over the annualised G-sec yield; selection of representative issuers has been re-evaluated as per the periodic review

Source: Crisil Intelligence

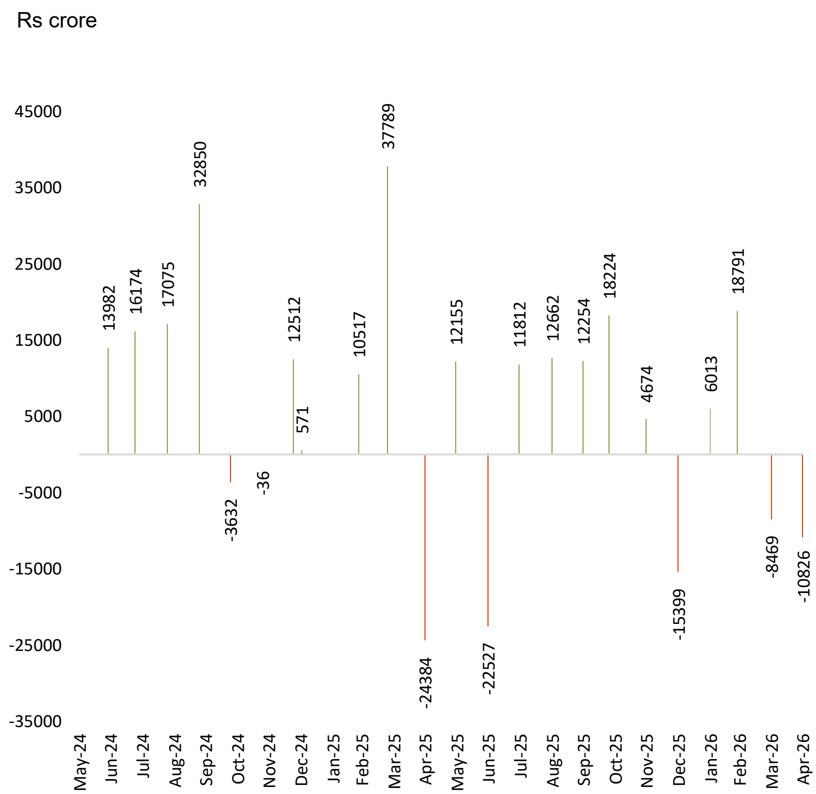
Trading volume



- The trading volume of G-secs increased 29.10% and T-bills decreased 8.51%. SDL decreased 52.52% and corporate bond increased 55.37%. Volume of certificates of deposit (CDs) and commercial papers (CPs) decreased 26.11% and 48.63%, respectively

Source: Crisil Intelligence

FPI flows



Source: Crisil Intelligence

- Net foreign portfolio investment (FPI) outflow from the debt market was Rs 10,826 crore in April vs Rs 8,469 crore in March. Outflow from the debt fully accessible route (FAR) was Rs 147 crore in April vs 11,545 in March
- FPI outflows in equity stood at Rs 60,847 crore

Rating changes in April

Upgrades

Issuer name	Old rating	New rating
Svasti Microfinance Pvt Ltd	CARE BB+	CARE BBB-
Fabworth Promoters Pvt Ltd	CARE BB+	CARE BBB-
SRG Housing Finance Ltd	ACUITE BBB+	ACUITE A-
Akme Fintrade (India) Ltd	ACUITE BBB+	ACUITE A-
Magnite Developers Pvt Ltd	IVR BB+	IVR BBB-
Hero Wind Energy Pvt Ltd	CRISIL A+	CRISIL AA-
Hero Solar Energy Pvt Ltd	CRISIL A+	CRISIL AA-
Sammaan Finserve Ltd	CRISIL AA	CRISIL AA+
Sammaan Capital Ltd	CRISIL AA	CRISIL AA+
Shriram Finance Ltd	CRISIL AA+	CRISIL AAA

Issuer name	Old rating	New rating
Patel KNR Heavy Infrastructures Pvt Ltd	BWR AA+	BWR AAA
Shriram Finance Ltd	IND AA+	IND AAA
Jhajjar Power Ltd	IND AA	IND AA+
Noddy	[ICRA]BBB+(SO)	[ICRA]A-(SO)
Bougainvillea	[ICRA]A-(SO)	[ICRA]AA-(SO)
Crest	[ICRA]A(SO)	[ICRA]A+(SO)
Sentinel	[ICRA]A-(SO)	[ICRA]A+(SO)

Downgrades

Issuer name	Old rating	New rating
Wheelsemi Pvt Ltd	CRISIL BBB	CRISIL BBB-
National Insurance Co Ltd	CRISIL AA-	CRISIL A+

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