Crisil Intelligence

RateView

Crisil's outlook on near-term interest rates

May 2025

by S&P Global

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April fillip

The yield on the 10-year benchmark government security (G-sec) ended April 2025 at 6.36%, down 22 basis points (bps) from the March close of 6.58% and outside Crisil's forecast of 6.44-6.54%.

The first week opened with a bullish bias, with the benchmark yield at 6.48%, after the G-sec borrowing calendar for the first half of fiscal 2026 came in line with market expectations. Expectations of a policy rate cut and softer stance at the upcoming Reserve Bank of India's (RBI) Monetary Policy Committee (MPC) meeting aided gilt prices. Results aligning with expectations at the weekly G-sec auction also supported gilt prices to some extent. The yield closed the week at 6.47%.

The second week opened on a negative note, tracking an overnight surge in US Treasury yields. The session saw a slight easing of bond yields, with the cut-off rates for state development loans and the open market operation (OMO) purchase auction coming in line with market expectations. Subsequently, domestic bond prices surged, driven by the MPC's decision to cut policy rates by 25 bps and shift to an accommodative stance. Market participants also bet on another rate cut in the June 2025 policy review. An intraday decline in US Treasury yields at the last day of the week's trading provided further support to bond prices. The 10-year benchmark yield closed the week at 6.42%.

In the third week, domestic bonds traded on a bullish note on account of an intraday decline in US Treasury yields. The market likely also saw buying interest from foreign portfolio investors (FPIs) and foreign banks. Trading volume increased ahead of the upcoming Rs 40,000 crore OMO purchase auction of G-secs, scheduled for the latter part of the week. As a result, gilt yields closed 1-9 bps weaker across the curve, with the benchmark ending at 6.37%.

The last week, too, started positively on speculation of additional OMO purchases and the RBI's announcement of Rs 1.25 lakh crore OMO purchases in May, supported by FPI buying. Better-than-expected auction cut-offs also supported gilt prices. However, despite a successful G-sec auction, sentiment turned negative mid-week, owing to terrorist attacks in Kashmir and profit-booking. Hence, the yields rose 1-5 bps across the curve. The 10-year benchmark closed the week at 6.36%.

Crisil's outlook

On interest rates

Benchmark	April 30, 2025 (A)	May 31, 2025 (P)	July 31, 2025 (P)
10-year G-sec yield*	6.36%	6.32%-6.42%	6.31%-6.41%
10-year SDL yield	6.68%	6.68%-6.78%	6.68%-6.78%
10-year corporate bond yield	6.97%	6.97%-7.07%	6.96%-7.06%

A: Actual; P: Projected (6.79 GS 2034)

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

One-month view

In May, domestic G-sec yields are likely to be influenced by various factors such as tension between India and Pakistan, FPI inflows and outflows, market liquidity, OMO purchases, outcome of possible trade negotiations, movement in crude oil prices and rupee-dollar exchange rate.

Three-month view

Movement in the 10-year G-sec yield is expected to depend on FPI flows, impact of higher tariffs on inflation, crude oil prices, global interest rate environment, the Consumer Price Index inflation print, the US Federal Open Market Committee's decisions, the RBI MPC meeting, outcome of possible trade negotiations, global cues and liquidity concerns.

Framework for the outlook

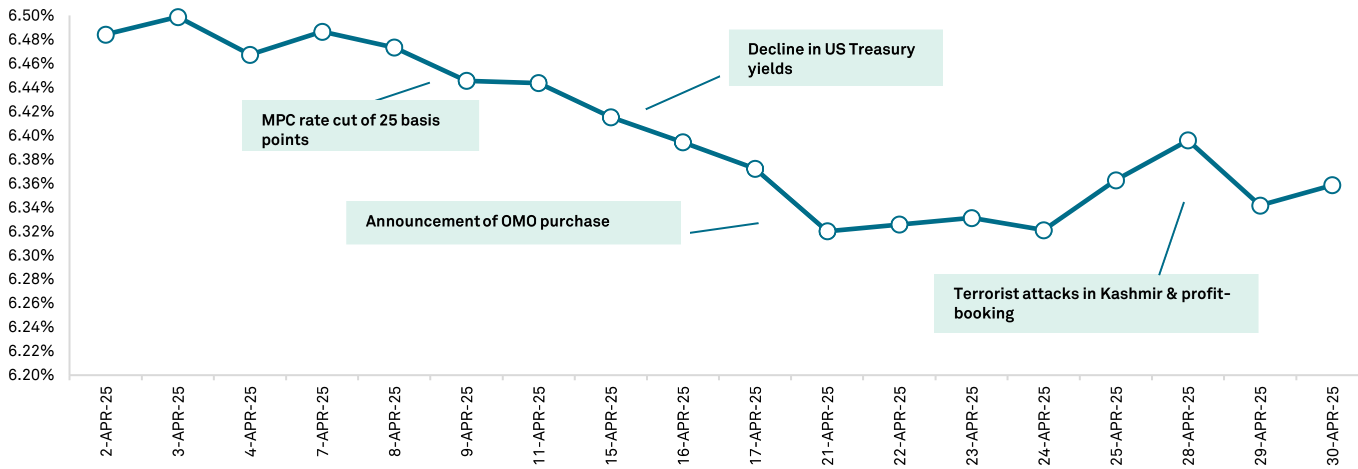
Crisil provides its outlook on key benchmark rates for different debt classes — 10-year G-secs, state development loans (SDLs) and corporate bonds — based on statistical models and inputs from our in-house experts. We also incorporate our views on policy expectations, macroeconomic outlook, key events (local and global) and market factors (liquidity and demand/ supply).

Factors influencing the outlook

Economic parameter	Our view	Impact on yields
Gross domestic product (GDP) growth	• We expect GDP growth to at 6.5% in fiscal 2026, with risks on downside • Downside risks to growth have increased with the sharp and broad-based rise in US tariffs anticipated this year. Slower global growth, along with anticipated reciprocal tariffs on India after 3 months, is likely to hit exports. Uncertainty about the duration and frequent changes in tariffs may hinder investments. That said, income tax cuts, softer inflation, and the RBI's rate cuts are expected to support growth this fiscal • GDP grew 6.2% on-year in the third quarter of fiscal 2025, higher than the 5.6% in the second quarter.	↓
Consumer price index (CPI) inflation	• We expect consumer price index (CPI)-linked inflation to soften to 4.3% in fiscal 2026 from of 4.6% in fiscal 2025 • Food inflation is expected to ease further supported by a healthy rabi crop, forecasts of an above-normal southwest monsoon this fiscal, and soft global food prices. A high base for food inflation this fiscal will also provide some relief. Lower crude prices should help keep non-food inflation in the comfort zone. • CPI inflation eased to 3.3% in March from 3.6% in February	↓
RBI's monetary policy	• We expect at least two more rate cuts of 25 bps each this fiscal. We also expect it to remain proactive in managing liquidity conditions to enable the transmission of rate cuts to the broader economy. • The tariff war has increased downside risks to growth and spurred the need for the RBI to ease monetary policy. Inflation is likely to be less of an issue this fiscal than in the previous one, giving the RBI space to cut interest rates. • The Reserve Bank of India's (RBI) Monetary Policy Committee (MPC) cut key policy rates by 25 basis points (bps) in April for the second consecutive policy meeting, amounting to a cumulative reduction of 50 bps in 2025. • The MPC also changed its stance to accommodative, signalling rate cuts will continue	↓
Fiscal health	• The budget has targeted a reduction in centre's fiscal deficit to 4.4% of GDP in fiscal 2026 from 4.8% of GDP in fiscal 2025 • Gross market borrowing is estimated at Rs. 14.8 lakh crore for fiscal 2026, 5.8% higher on-year. The government plans to borrow 54% of the budgeted borrowings in the first half of the fiscal.	↑
Crude oil prices	• We expect crude prices average \$65-\$70 per barrel in fiscal 2026 compared to an average of \$78.8 per barrel in fiscal 2025. • Brent crude oil prices decreased to \$67.8 per barrel average in April, 6.7% lower on-month and 24.8% lower on-year.	↓

Economic parameter	Our view	Impact on yields
Current account balance	• We expect the current account deficit (CAD) to average ~1.3% of GDP in fiscal 2026 compared to an estimated 1.0% of GDP in fiscal 2025. • The merchandise trade deficit is likely to come under pressure given the export risks from tariff war and softening global growth. That said, lower crude oil prices, healthy services trade balance and robust remittances growth will prevent CAD from widening too much. • CAD was stable at 1.1% of GDP in the third quarter, versus 1.1% in the same quarter of fiscal 2024	↑
US Federal Reserve's stance	• S&P Global expects the Fed to cut rates by 50 bps in calendar year 2025 • The Fed kept its policy rate unchanged at 4.25-4.5% for the third consecutive meeting in May. The Fed had cut rates by a cumulative 100 bps between September and December 2024.	↓
Liquidity indicators i) Demand and supply	**Supply:** • For April, the actual SDL borrowing was Rs 53,870 crore, compared with the budgeted borrowing of Rs 93,250 crore • RBI announced SDL issuances calendar of Rs 2,73,255 crore for Qtr. April-June 2025. **Demand:** • Constant demand for longer tenure G-sec and SDLs from Pension funds and Insurance Companies.	↑
ii) Call rates/ liquidity-adjustment facility	• Banking liquidity levels remained in the positive zone throughout April 2025, sustaining well above the Rs 1 lakh crore level for most of the month. The surplus position was essential to support the transmission of the central bank's recent policy rate cuts and bring about easier lending conditions. Despite this, bankers called for more durable long-term measures, including addressing the slowdown in deposit growth and the widening gap between credit growth and the availability of stable funding. Media reports suggested that several bankers were seeking further cuts in the cash reserve ratio (CRR) rate as a durable means to enhance liquidity and keep rising call money rates in check. Interbank call money rates remained below the newly set repo rate of 6.0% during the latter half of April, with the WACR for the month coming in at around 5.94%.	↓

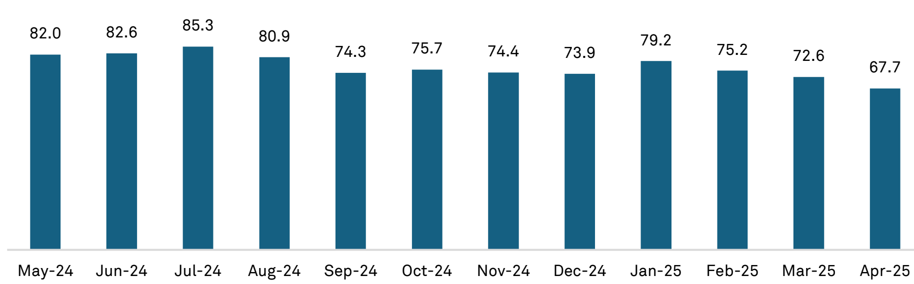
April at a glance



Source: Crisil Intelligence

Crude oil prices fall

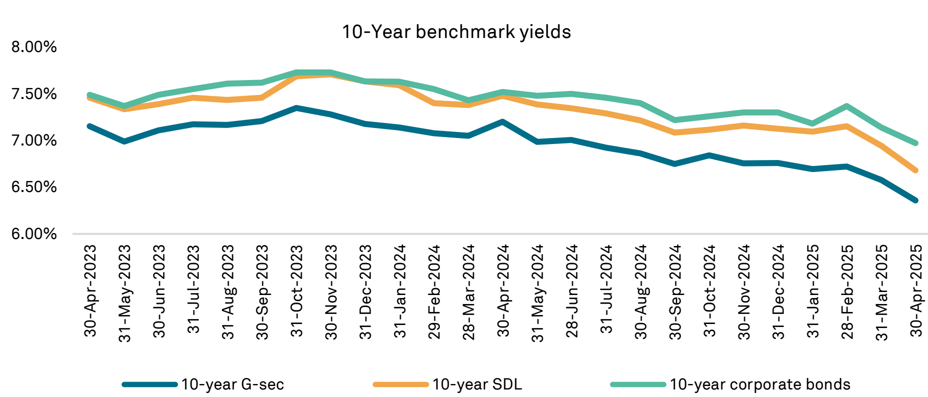
Brent Crude ($/barrel average)



Brent crude oil prices declined to $67.7 per barrel on average in April, down 6.75% on month.

Source: Crisil Intelligence

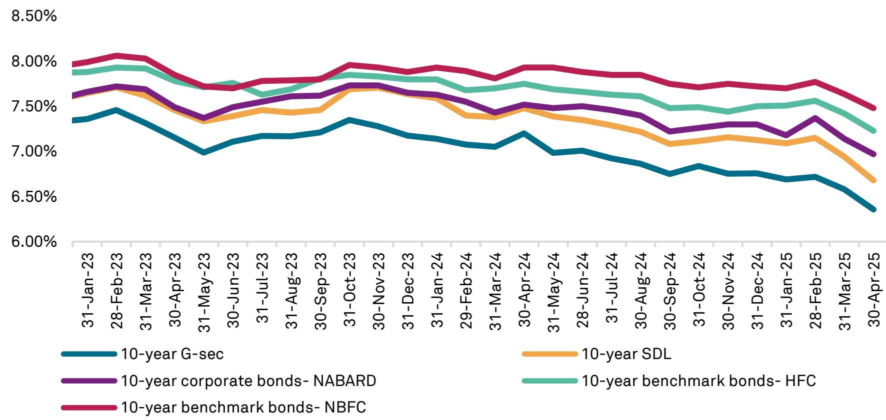
Yields on benchmark G-sec, SDLs and corporate bonds (PSU FI) ease



Yield on the 10-year benchmark G-sec closed at 6.36% in April, down 22 bps from the previous month's close. The yield on the 10-year SDL eased 26 bps to 6.71% and that on the 10-year corporate bond (10-year PSU FI) declined 17 bps to 6.97%.

Source: Crisil Intelligence

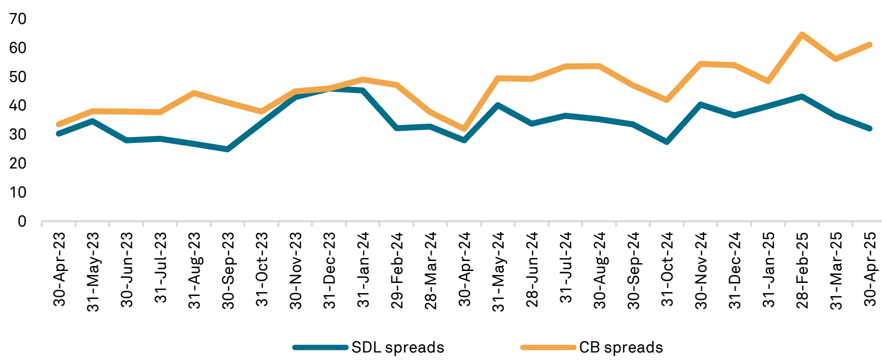
10-year G-sec/SDL/corporate bond benchmark yields



Source: Crisil Intelligence

Yield on 10-year AAA-rated PSU bonds decreased to 6.97% from 7.14%. SDLs ended April at 6.68%, down from 6.94% in March. Yields on bonds issued by housing finance companies (HFCs) declined to 7.23% from 7.42% the previous month, while those on bonds issued by non-banking financial companies (NBFCs) fell to 7.48% from 7.64%.

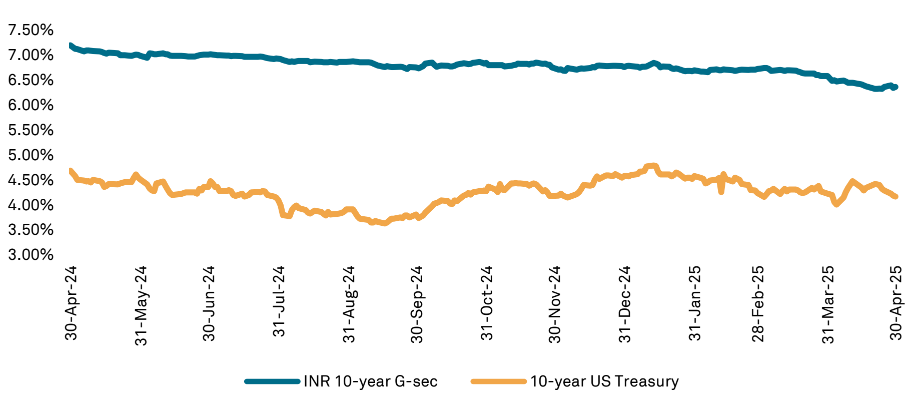
Corporate bonds and SDL yield spreads over 10-year benchmark G-sec yields



Source: Crisil Intelligence

The spread of the 10-year benchmark SDL over the 10-year benchmark G-sec closed at ~32 bps in April, down ~4 bps from the previous month's close. Meanwhile, the spread of the 10-year AAA-rated public sector corporate bonds (PSU FI) closed at ~61 bps, up ~5 bps. The 12-month average spreads on the 10-year benchmark SDL and PSU FI over the 10-year benchmark G-sec were ~36 bps and ~ 53 bps, respectively.

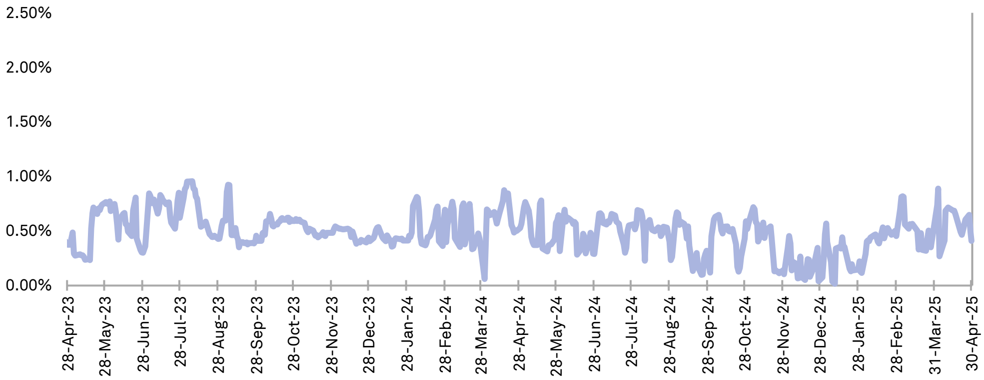
US Treasury and G-sec yield trajectory



Source: Crisil Intelligence

US Treasury yields ended at 4.17% in April, ~6 bps down from March's close of 4.23%. The monthly spread between the domestic benchmark 10-year G-sec and the 10-year US Treasury yield narrowed to 219 bps in April 2025 from 235 bps in the previous month.

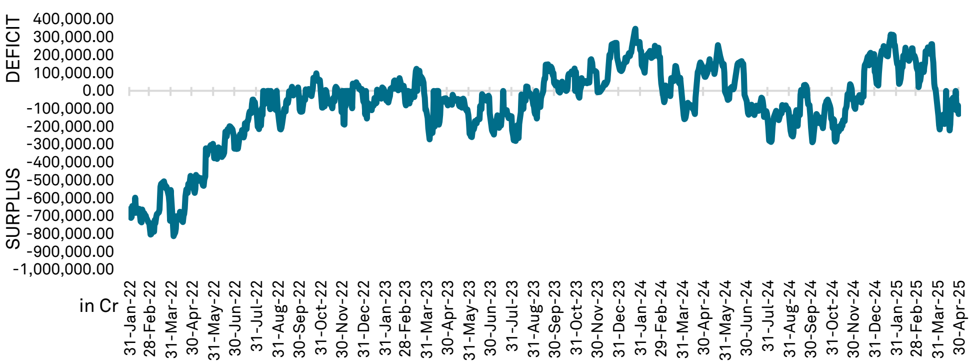
Term premium between 10-year benchmark G-sec and TREPS



The average spread between the 10-year benchmark G-sec yield and the tri-party repo (TREPS) was ~57 bps in April 2025 as against ~53 bps in the previous month. The 12-month average spread was ~43 bps.

Source: Crisil Intelligence

Systemic liquidity



The average systemic liquidity surplus was ~Rs 1.40 lakh crore in April, as against Rs 1.46 lakh crore deficit in March. The average liquidity surplus over the past 12 months was Rs 0.04 lakh crore. Liquidity in April peaked at Rs 2.21 lakh crore.

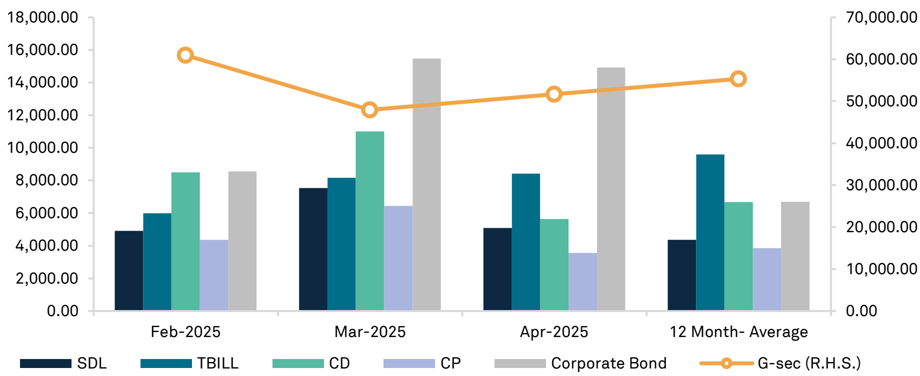
**Net liquidity is calculated as repo + marginal standing facility + standing liquidity facility - reverse repo*
Source: Crisil Intelligence

Benchmark spreads over G-secs

Spreads over G-Sec*				
Rating Category	**Date**	**PSU / Corporates**	**NBFC**	**Housing Finance Companies**
AAA	31-Mar-25	0.62%	1.08%	0.89%
	30-Apr-25	0.74%	1.14%	0.92%
AA+	31-Mar-25	1.07%	1.64%	1.58%
	30-Apr-25	1.25%	1.73%	1.63%
AA	31-Mar-25	1.33%	2.35%	2.10%
	30-Apr-25	1.51%	2.45%	2.16%
AA-	31-Mar-25	2.14%	3.40%	2.84%
	30-Apr-25	2.15%	3.50%	2.96%

**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

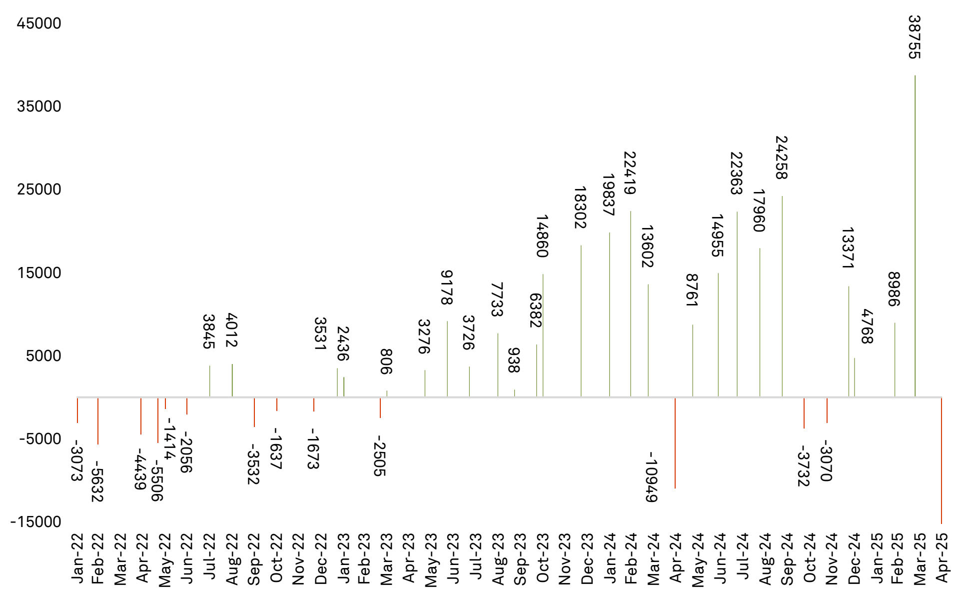
Trading volume decreases across securities except G-sec & T-Bill



Source: Crisil Intelligence

G-sec trading volume in April increased 7.75% on month and T-bills increased 3.10%. SDL volume decreased 32.55% and that of corporate bonds decreased 3.54%. Trading volume in certificates of deposit and commercial papers (CPs) decreased 48.81% and 44.58%, respectively. Trading volume in CPs decreased 24.38%.

FPI outflows



Source: Crisil Intelligence

Net FPI outflow into the debt market was Rs 18,735 crore in April versus an inflow of Rs 38,755 crore in March (debt general limit plus debt fully accessible route (FAR)). Outflows into debt FAR in April stood at Rs 5,421 crore. Foreign portfolio investors were net buyers in equity worth Rs 4,223 crore.

One of the key drivers behind the sell-off in the Indian debt market is the narrowing yield spread between Indian and US government bonds, with the 10-year spread tightening to 219 bps from 235 bps in the previous month.

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Rating upgrades in April 2025

Upgrades		
Issuer name	**Old rating as per Crisil**	**New rating**
Hindustan Construction Co. Ltd.	CARE BB+	CARE BBB-
TVS Credit Services Ltd.	CRISIL AA-	CRISIL AA
Thane Creek Bridge Infrastructure Ltd.	ACUITE AA-	ACUITE AA(CE)
Cholamandalam MS General Insurance Co. Ltd.	CRISIL AA	Crisil AA+
Varroc Engineering Ltd.	IND AA-	IND AA
Inbrew Beverages Pvt. Ltd.	IVR B+	IVR BB-
Andhra Pradesh Capital Region Development Authority	Crisil BB+(CE)	Crisil BBB-(CE)
Deepak Fasteners Ltd	CARE B+	CARE BB+

Downgrades		
Issuer name	**Old rating as per Crisil**	**New rating**
Saisrushti (Kengeri) Projects Pvt. Ltd.	IVR BB-	IVR D
Fortune Metals Ltd.	CRISIL BBB	CRISIL BB+

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