

RateView

Crisil's outlook on near-term interest rates

March 2025



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Torpid February

The yield on the 10-year benchmark government security (G-sec) opened at 6.67% and closed at 6.72% in February, up 3 basis points (bps) from its January close of 6.69% and within Crisil's forecast range of 6.65-6.75%.

The first week opened on a positive note, tracking an overnight decline in US Treasury yields. Additionally, likely buying by foreign investors and some ease in the banking system liquidity aided the bond prices. Expectations of a rate cut in the run-up to the Monetary Policy Committee (MPC) meeting supported short-term yields. As the week progressed, measures announced by the Reserve Bank of India (RBI) to infuse durable liquidity by using open market operation (OMO) purchases and 56-day variable repo rate (VRR) auction aided the gilts to some extent. As the week progressed, traders avoided placing aggressive bets following key events such as the Federal Open Market Committee (FOMC) meeting and the Union Budget presentation. The week ended with a rise in US Treasury yields, lower-than-expected cut-off at the weekly auction and the devolvement of Sovereign Green Bond 2034 at the weekly G-sec auction weighing on the bond prices. With this, the 10-year benchmark paper 6.79% GS 2034 closed at 6.70% compared with the previous week's closing of 6.73%.

In the second week, domestic inflation data released showed that inflation based on the Consumer Price Index (CPI) decreased to 4.31% in January from 5.22% in December 2024, in line with market expectations. Traders avoided placing aggressive bets ahead of the RBI MPC meeting outcome announcement. Market sentiments turned negative as the MPC retained the policy stance at 'neutral' while cutting the policy rate by 25 bps, indicating a cautious approach to further rate cuts. The 10-year benchmark paper closed at 6.71% as compared with the previous week's closing of 6.70%.

The third week opened on a tad negative note, following an overnight rise in US Treasury yields following President Donald Trump's threat of imposing new tariffs on imports into the US. The RBI's revision of the notified amount of OMO purchase auction to ₹40,000 crore from ₹20,000 crore supported gilt prices. For most of the week, domestic bonds traded in muted volumes and in a narrow price range amid mixed domestic and global cues. The 10-year benchmark paper closed at 6.71%.

The final week of the month opened on a positive note because of an overnight fall in US Treasury yields. Trade volumes remained muted as traders avoided placing aggressive bets until data on the domestic gross domestic product (GDP) was released. A weaker-than-expected cut-off at the weekly G-sec auction and an upward revision of domestic GDP growth in fiscal 2025 to 6.5% from 6.4% weighed on the bond prices. With this, the 10-year benchmark paper closed at 6.72% compared with the previous week's closing of 6.71%.

Crisil's outlook

On interest rates

Benchmark	February 28, 2025 (A)	March 31, 2025 (P)	May 31, 2025 (P)
10-year G-sec yield*	6.72%	6.65%- 6.75%	6.61%- 6.71%
10-year SDL yield	7.15%	7.05%- 7.15%	7.01%- 7.11%
10-year corporate bond yield	7.37%	7.24%- 7.34%	7.21%- 7.31%

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 March, domestic G-sec yields are likely to be influenced by various factors such as the FOMC meeting, foreign portfolio investor (FPI) inflows and outflows, impact of liquidity tightening due to advance tax flows, movement in crude oil prices and the impact of rupee-dollar moves on the debt market.






Three-month view

Movement in the 10-year G-sec yield is expected to depend on FPI flows, the impact of US reciprocal tariffs, crude oil prices, global interest rate environment, the CPI inflation print, outcomes of the FOMC and RBI MPC meeting, global cues and liquidity concerns.

Framework for the outlook

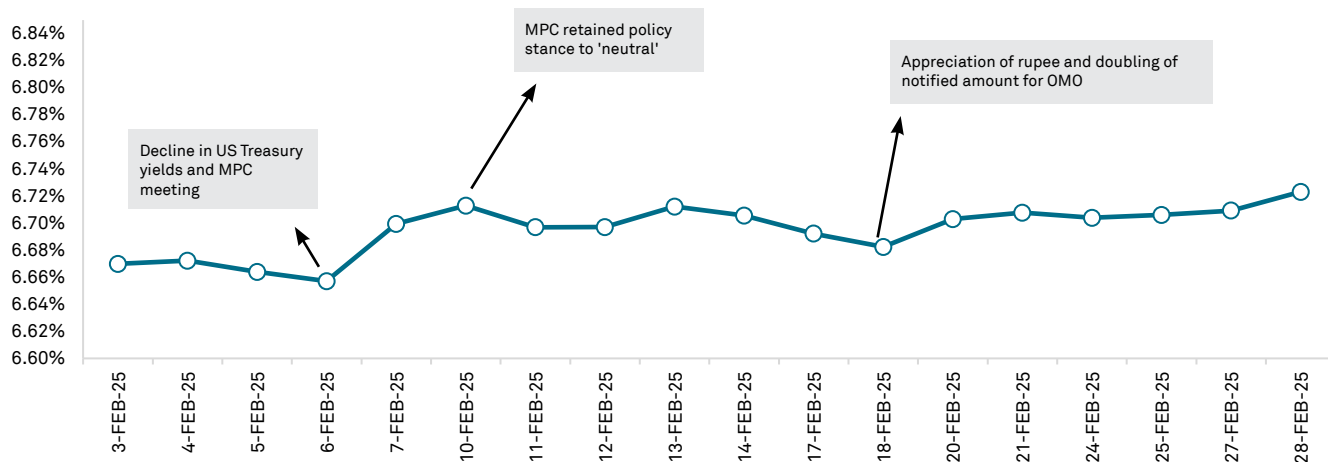
Crisil provides its outlook on key benchmark rates for different debt classes — 10-year G-secs, state development loans (SDLs) and corporate bonds (CBs) — based on statistical models and inputs from our in-house experts. We also incorporate our views on policy expectations, the macroeconomic outlook, 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	<ul style="list-style-type: none"> We expect GDP growth to be steady at 6.5% in fiscal 2026 Income tax cuts, softer inflation (assuming a normal monsoon and lower crude oil prices) and the RBI's rate cuts are expected to lift growth next fiscal. The Union Budget will be mildly supportive of growth, though the overall fiscal impulse will moderate with fiscal consolidation. That said, exports face headwinds from tariff hikes initiated by the US GDP grew 6.2% on-year in the third quarter of fiscal 2025, higher than the 5.6% in the second quarter. The National Statistics Office revised up its GDP growth estimate for fiscal 2025 to 6.5% from 6.4% 	
Consumer price index (CPI) inflation	<ul style="list-style-type: none"> We expect CPI inflation to soften to 4.4% in fiscal 2026 from our estimate of 4.7% in fiscal 2025 Food inflation is expected to ease further supported by a healthy rabi crop, expectations of a normal southwest monsoon next fiscal and soft global food prices. A high base for food inflation this fiscal will also provide some relief. Expectations of benign global commodity prices should help keep non-food inflation in the comfort zone CPI inflation softened sharply to 4.3% in January from 5.2% in December 	
RBI's monetary policy	<ul style="list-style-type: none"> We expect 50-75 bps of further rate cuts by March 2026. However, US tariff hikes, moderating US Federal Reserve (Fed) rate cuts and weather-related risks will have a bearing on the rate-cutting cycle Given the expected easing of inflation, the RBI has space to support growth. Continuing fiscal consolidation has further paved the way for monetary easing. But geopolitical events and weather shocks remain risks The RBI MPC cut policy rates by 25 bps in February, a first since May 2020. However, the MPC maintained its neutral stance, which gives it flexibility to remain data-dependent and respond to any global shock 	
Fiscal health	<ul style="list-style-type: none"> The Budget has targeted a reduction in the Centre's fiscal deficit to 4.4% of GDP in fiscal 2026 from 4.8% of GDP in fiscal 2025 It aims to do this via a moderation in revenue expenditure (pensions, food and fertiliser expenditures have decreased as a share of GDP) while maintaining the share of capex in the GDP. On the receipts front, expectations of strong tax collections and a large dividend from the RBI will help Gross market borrowing is estimated at Rs 14.8 lakh crore for fiscal 2026, 5.8% higher on-year 	
Crude oil prices	<ul style="list-style-type: none"> We expect crude prices to average \$70-\$75 per barrel range in fiscal 2026 compared with an average of \$79.4 per barrel in fiscal 2025, so far (Apr-Feb average) Brent crude oil prices decreased to \$75.2 per barrel on average in February, 5.1% lower on-month and 10.3 lower on-year 	

Economic parameter	Our view	Impact on yields
Current account balance	<ul style="list-style-type: none"> We expect the current account deficit (CAD) to average ~1.3% of GDP in fiscal 2026 compared with an estimated 1.0% of GDP in fiscal 2025 CAD is expected to increase owing to headwinds to exports from US tariff policies. Lower crude oil prices, healthy services trade balance and robust remittances growth will prevent CAD from widening too much India's current account recorded a deficit of 1.2% of GDP in the second quarter of fiscal 2025 vs a deficit of 1.1% of GDP in the previous quarter 	↑
Fed's stance	<ul style="list-style-type: none"> S&P Global does not expect any rate cuts in 2025 (calendar year), based on the tariff position until March 5. It expects the Fed to resume cutting rates in 2026. That said, a high degree of uncertainty persists due to the continuing changes in US tariff policy and response by other economies The Fed kept its policy rate at 4.25-4.5% at its January meeting. It had cut rates by a cumulative 100 bps between September and December 2024 	↔
Liquidity indicators	<p>Supply:</p> <ul style="list-style-type: none"> For February, the actual SDL borrowing was Rs 122,593 crore compared with the budgeted borrowing of Rs 151,585 crore Supply for longer-tenure SDLs increased in to Rs 24,093 crore the fourth quarter of fiscal 2025 from Rs 7,468 crore in the previous quarter Increased credit demand pushed up the supply of certificates of deposit (CDs) and commercial papers (CPs) in February by 28% and 33%, respectively Year-end demand by corporates increased the bond supply by 44% to Rs 1,06,595 crore in February <p>Demand:</p> <ul style="list-style-type: none"> Demand from banks for G-secs may fall because of the implementation of the liquidity coverage ratio (LCR) guidelines being postponed till March 31, 2026, and the tight liquidity conditions Increased demand from insurance and pension funds for infrastructure bonds has resulted in a sharp rise in banks' issuances of these bonds this fiscal. The senior unsecured status of these bonds makes them a safer bet compared with subordinated Tier 2 and AT-1 bonds. This increase has been against the backdrop of deposit growth lagging credit growth. Total issuances have been around Rs 89,000 crore so far this fiscal 	↑
ii) Call rates/liquidity-adjustment facility	<ul style="list-style-type: none"> Liquidity stress continued in the Indian banking system in February as the RBI's measures failed to provide a durable solution. A liquidity crunch in January forced the central bank to take a slew of measures to infuse liquidity into the banking system over several weeks. To inject more durable liquidity into the system and to ensure proper transmission of future rate cuts, the RBI scheduled a three-year dollar-rupee swap auction of \$10 billion on February 28 The tight liquidity conditions kept interbank call money rates above the newly set policy repo rate of 6.25% for most of the month. The weighted-average call money rate averaged at 6.36% during the month 	↓

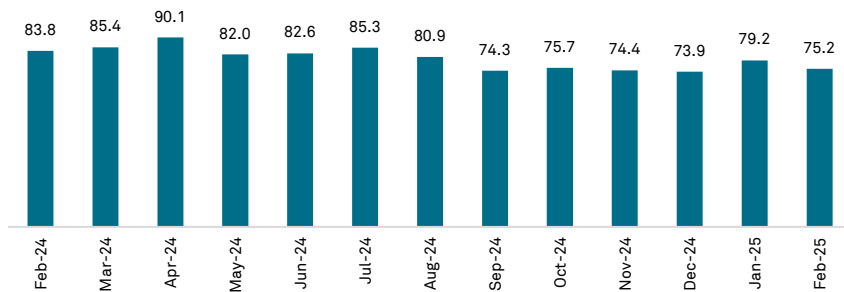
February yield at a glance



Source: Crisil Intelligence

Crude oil prices decreased in February

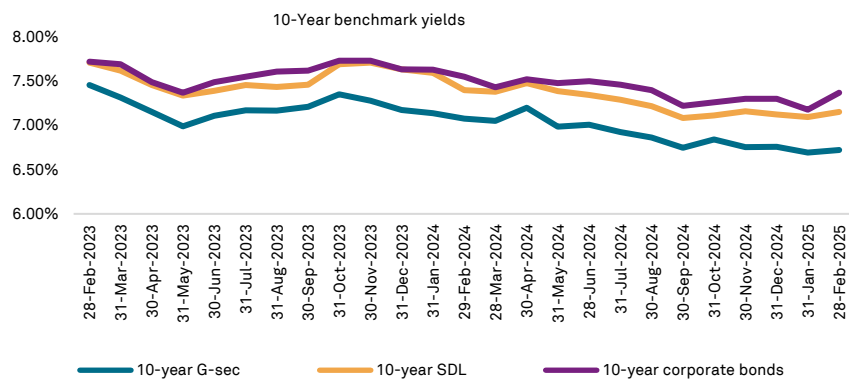
Brent Crude (\$/barrel average)



Brent crude oil prices declined 5.06% on-month to \$75.2 per barrel on average in February, mostly driven by a rise in US crude inventories and the OPEC+ announcement to increase crude oil output starting April 2025.

Source: Crisil Intelligence

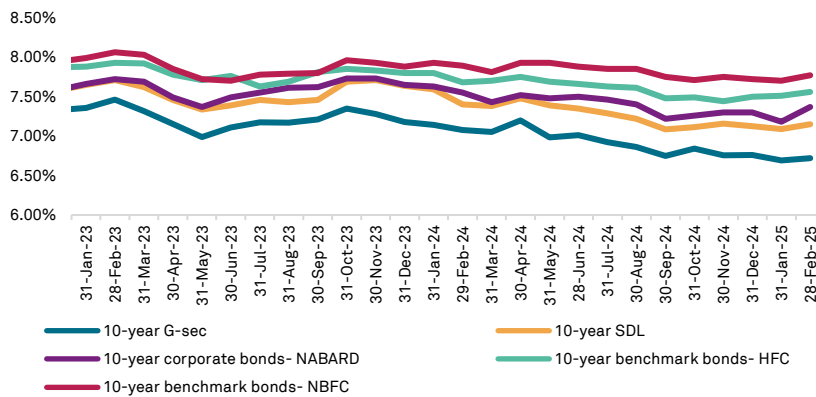
Benchmark SDL yield and corporate bond (PSU FI) yield hardens



Yield on the 10-year benchmark G-sec closed 3 bps higher on-month at 6.72% in February. The yield on the 10-year SDL hardened 6 bps to 7.15% and that on the 10-year corporate bond (10-year PSU FI) closed at 7.37%, up ~19 bps (new issuance of benchmark paper).

Source: Crisil Intelligence

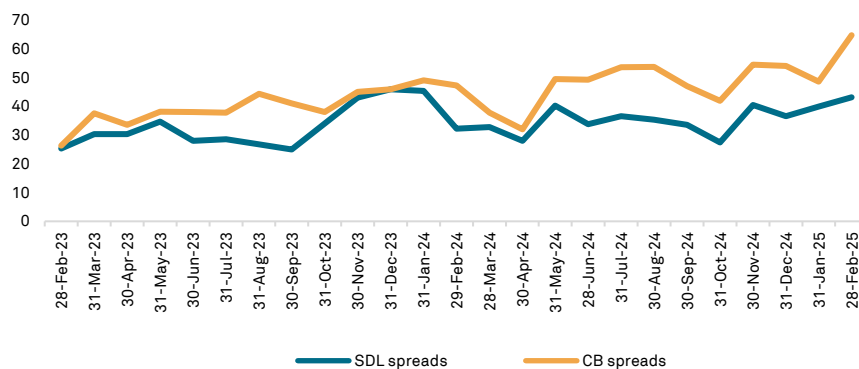
10-year G-sec/SDL/corporate bond benchmark yields



Yield on a 10-year AAA-rated public sector utility (PSU) bond increased to 7.37% from 7.18%. SDLs ended February at 7.15%, up from 7.09% in January. Yields on bonds issued by housing finance companies (HFCs) inched up to 7.56% from 7.51% the previous month and on those issued by non-banking financial companies (NBFCs) closed at 7.77% against 7.70% in January.

Source: Crisil Intelligence

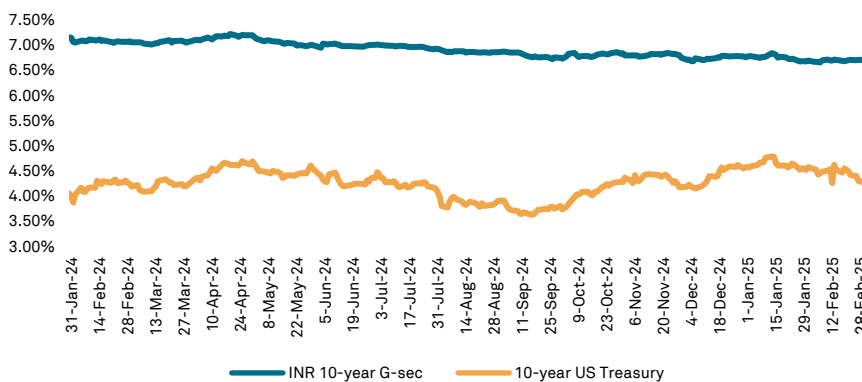
Corporate bonds and SDL yield spreads over 10-year benchmark G-sec yields



The spread on the 10-year benchmark SDL over the 10-year benchmark G-sec closed at ~43 bps in February, up ~3 bps from the previous month's close. Meanwhile, the spread on the 10-year AAA-rated public sector corporate bonds (PSU FI) closed ~16 bps higher at ~65bps. 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 ~ 50 bps, respectively.

Source: Crisil Intelligence

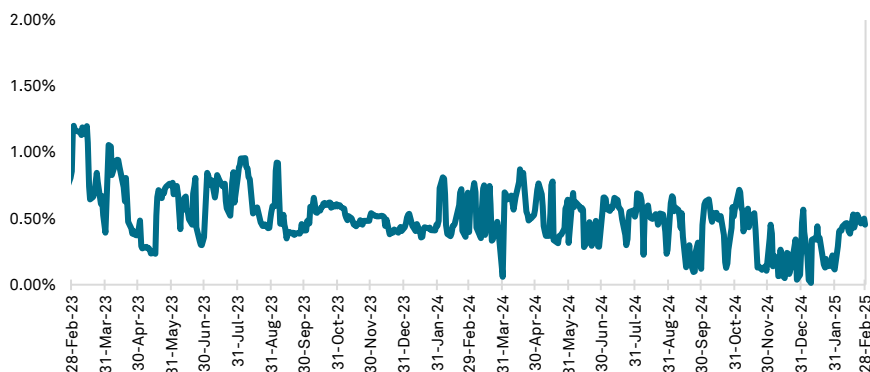
US Treasury and G-sec yield trajectory



US Treasury yields ended at 4.24% in February, ~34bps down from January's close of 4.58%. US yields fell for the six consecutive weeks till February-end, with the 10-year yield hitting the lowest level since December. The yields across tenures were lower than the federal funds rate for most of February on the back of a slowing economy and the market is bypassing the short-term inflationary concerns owing to trade barriers. The monthly spread between the domestic benchmark 10-year G-sec and the 10-year US Treasury yield widened to 248 bps in February from 211 bps in the previous month.

Source: Crisil Intelligence

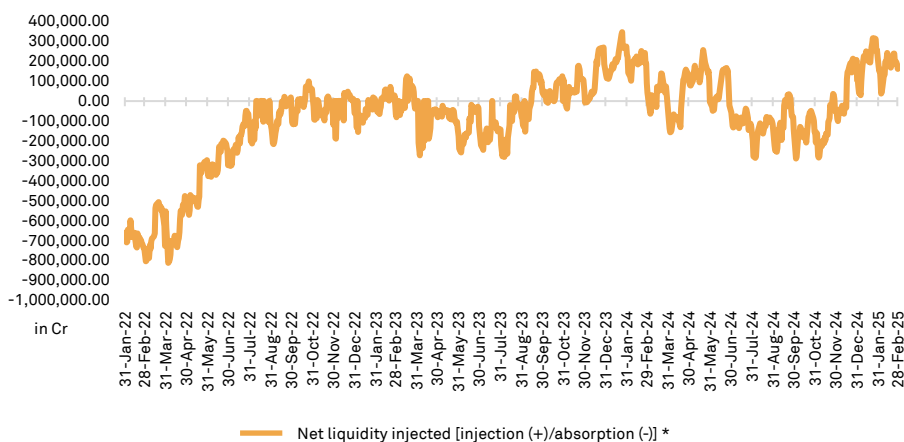
Term premium between 10-year benchmark G-sec and TREPS



The average spread between the 10-year benchmark G-sec yield and the tri-party repo (TREPS) was ~45 bps in February as against ~24 bps in the previous month. The 12-month average spread was ~44 bps.

Source: Crisil Intelligence

Systemic liquidity



The average systemic liquidity deficit was ~Rs 1.66 lakh crore in February against Rs 2.03 lakh crore in January. The average liquidity over the past 12 months was Rs 0.050 lakh crore. The liquidity in January peaked at Rs 2.41 trillion.

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

Source: Crisil Intelligence

Benchmark spreads over G-secs

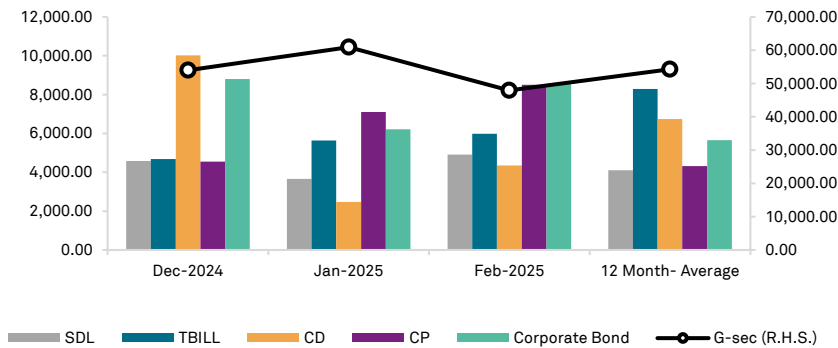
Spreads over G-Sec*

Rating category	Date	PSU/corporates	NBFC	Housing finance companies
AAA	31-Jan-25	0.61%	0.95%	0.84%
	28-Feb-25	0.62%	0.98%	0.87%
AA+	31-Jan-25	0.93%	1.43%	1.38%
	28-Feb-25	0.99%	1.53%	1.42%
AA	31-Jan-25	1.26%	2.30%	1.92%
	28-Feb-25	1.30%	2.27%	1.93%
AA-	31-Jan-25	2.03%	3.25%	2.71%
	28-Feb-25	2.01%	3.27%	2.74%

*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

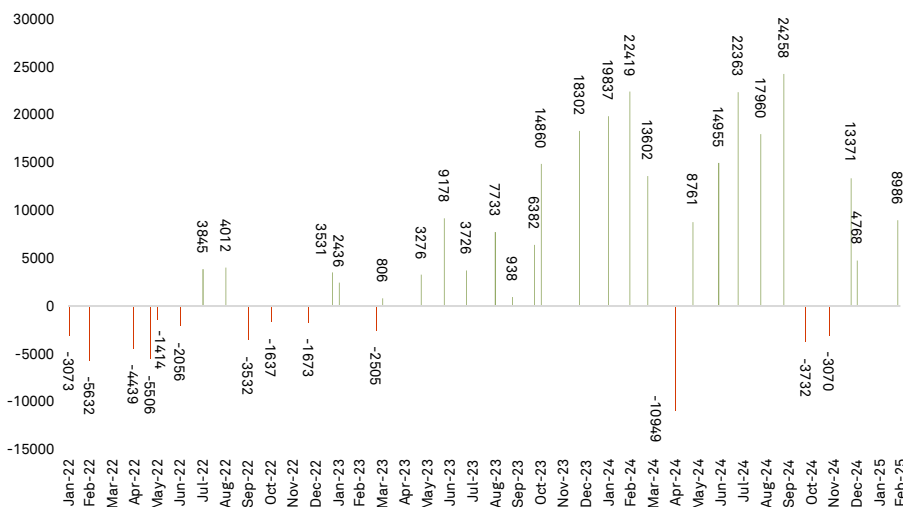
Trading volume increases across securities, except G-sec



In February, trading volume in G-secs decreased 21.29% on-month, while that in SDLs increased 34.40% because of an increase in issuances for the year-end. Trading volume in CPs, CDs and CBs increased 19.84%, 76.28% and 37.59%, respectively due to year-end supply and increased demand for credit in the economy. T-bill volumes increased 6.1%.

Source: Crisil Intelligence

FPIs net buyers in debt



Net FPI inflow into the debt market was Rs 8,986 crore in February versus an inflow of Rs 4,768 crore in January (debt general limit plus debt FAR or fully accessible route). Inflow in debt FAR stood at Rs 14,494 crore. FPIs were net sellers in equity of Rs 34,574 crore due to global economic uncertainties. FPI outflows were seen across key emerging markets in February.

Source: Crisil Intelligence

Rating upgrades and downgrades in February

Upgrades

Issuer name	Old rating	New rating
Sarvagram Fincare Pvt Ltd	[ICRA]BBB	[ICRA]BBB+
Tata Steel Ltd	IND AA+	IND AAA
Macrotech Developers Ltd	CRISIL AA-	CRISIL AA
TVS Credit Services Ltd	BWR AA	BWR AA+
Poonawalla Fincorp Ltd	BWR AA+	BWR AAA
Adani Enterprises Ltd	CARE A+	CARE AA-
The Great Eastern Shipping Co Ltd	CRISIL AA+	CRISIL AAA

Downgrades

Issuer name	Old rating	New rating
Spandana Sphoorty Financial Ltd	CARE A+	CARE A
Criss Financial Ltd	IND A	IND A-
Inbrew Beverages Pvt Ltd	IVR BB-	IVR B+
Satya MicroCapital Ltd	ACUITE BBB+	ACUITE BBB
Fusion Micro Finance Ltd	[ICRA]A	[ICRA]A-
Kinara Capital Pvt Ltd	CARE BBB+	CARE BBB
Punjab Infrastructure Development Board	CARE BBB-(CE)	CARE BB+(CE)
Namdhari Agro-Fresh Pvt Ltd	CRISIL BBB+(CE)	CRISIL BBB-(CE)

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