

# RateView

Crisil's outlook on near-term interest rates

April 2025



## Contents

March moves	3
Factors influencing the outlook	4
March at a glance	6

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## March moves

The yield on the 10-year benchmark government security (G-sec) opened at 6.74% and closed at 6.58%, down 14 basis points (bps) from its February close of 6.72% and outside Crisil's forecast range of 6.65-6.75%.

The first week opened with a bearish bias owing to higher-than-indicated state development loan (SDL) auction amount. States collectively raised Rs 50,500 crores (\$5.80 billion) through bond sales, with cutoff yields exceeding market expectations, signalling weak demand. During the week, gilts tracked movement in US Treasury yields. The 10-year benchmark G-sec closed the first week at 6.69%.

The second week opened on a steady note amid lack of firm cues. Consumer Price Index (CPI) inflation in the country eased to a seven-month low of 3.61% in February 2025, driven by a decline in prices of beverages food, particularly vegetables. It gave rise to hopes of a policy rate cut by the Reserve Bank of India (RBI) in the April monetary policy meeting, which aided the G-sec prices. The 10-year benchmark closed the week at 6.70%.

In the third week, bonds traded with a bullish bias in anticipation of policy rate cuts and softer stance by the central bank at the Monetary Policy Committee (MPC) meeting slated for April. The 10-year US Treasury yields eased 6 bps to close at 4.25%. Also, RBI's announcement of a fresh open market operation (OMO) to purchase G-secs worth Rs 50,000 crore on March 25 to ease market liquidity, aided the bond prices. The benchmark paper closed at 6.63%.

The last week of the month opened on a negative note, tracking a surge in US Treasury yields. As the week progressed, bets on a policy rate cut and softer stance in the April MPC meeting supported market sentiment. Moreover, prices got support from the government's borrowing calendar for the first half of fiscal 2026, which indicated Rs 8 lakh crore borrowing in line with the market expectations. The benchmark paper closed at 6.58%.

Eventually, in a unanimous decision the MPC on April 9 cut the policy repo rate by 25 bps to 6% with immediate effect. More significantly, it changed its stance from 'neutral' to 'accommodative' considering the prevailing global economic uncertainties after the tariff tantrum by the US administration. The RBI also lowered the GDP growth forecast to 6.5% from the earlier projection of 6.7%. The 10-year G-sec closed 2 bps down at 6.45%, after the RBI's announcements.

## Crisil's outlook

### On interest rates

Benchmark	March 28, 2025 (A)	April 30, 2025 (P)	June 30, 2025 (P)
10-year G-sec yield*	6.58%	6.44%- 6.54%	6.41%- 6.51%
10-year SDL yield	6.94%	6.82%- 6.92%	6.84%- 6.94%
10-year corporate bond yield	7.14%	7.02%- 7.12%	7.04%- 7.14%

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 April, domestic G-sec yields are likely to be influenced by various factors such as foreign portfolio investment (FPI) inflows and outflows, liquidity improvement, movement in crude oil prices and rupee-dollar moves.

### 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 CPI inflation print, the US Federal Open Market Committee's (FOMC) decisions, the RBI MPC meeting, global cues and liquidity concerns.

### Framework for the outlook

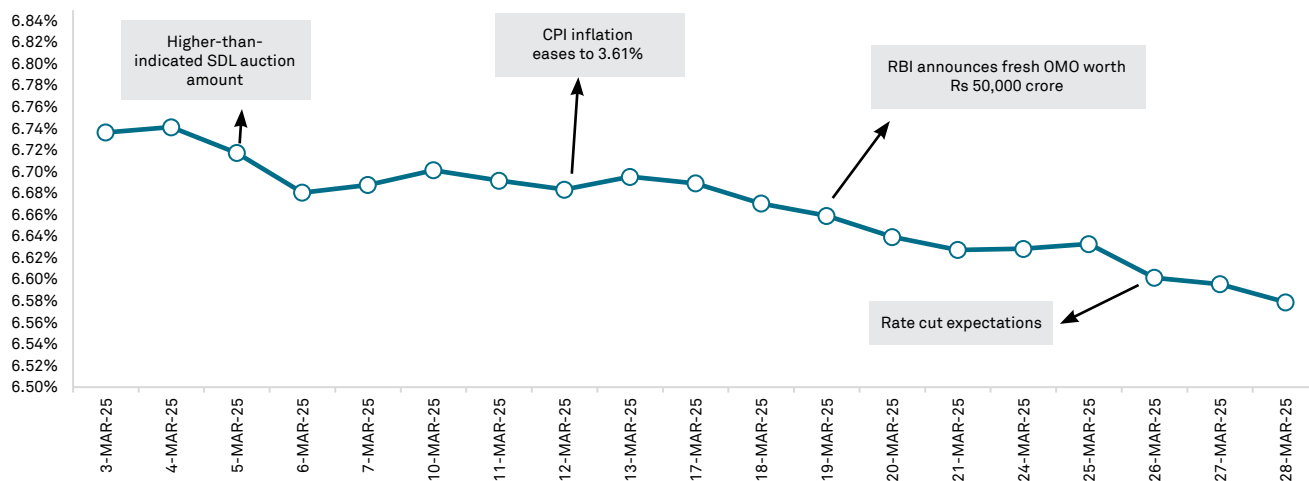
Crisil provides its outlook on key benchmark rates for different debt classes — 10-year G-secs, SDLs and corporate bonds (CBs) — based on statistical models and inputs from our in-house experts. We also incorporate our views on policy expectations, macroeconomic outlook, key events (local and global)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

## Factors influencing the outlook

Economic parameter	Our view	Impact on yields
<b>Gross domestic product (GDP) growth</b>	<ul style="list-style-type: none"> <li>We expect GDP growth at 6.5% in fiscal 2026, with risks on the downside</li> <li>Downside risks to growth have increased with the expected sharp and broad-based rise in US tariffs this year. Slower global growth and the reciprocal tariffs on India that may become effective after three months are likely to hit exports. Uncertainty about the duration of and frequent changes in US tariffs are likely to hit investments. That said, domestic factors like income tax cuts, softer inflation and the RBI's rate cuts are expected to support growth this fiscal</li> <li>GDP grew 6.2% on year in the third quarter of fiscal 2025, higher than the 5.6% in the second quarter</li> </ul>	↓
<b>Consumer price index (CPI) inflation</b>	<ul style="list-style-type: none"> <li>We expect CPI inflation to soften to 4.3% this fiscal from an estimated 4.7% for fiscal 2025</li> <li>Food inflation is expected to ease further supported by a healthy rabi crop, expectations of a 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 oil prices should help keep non-food inflation in the comfort zone</li> <li>CPI inflation dropped to 3.6% in February from 4.3% in January</li> </ul>	↓
<b>RBI's monetary policy</b>	<ul style="list-style-type: none"> <li>We expect at least two more rate cuts of 25 bps each this fiscal. We also expect the central bank to remain proactive in managing liquidity conditions to enable the transmission of rate cuts to the broader economy</li> <li>The US tariff war has increased downside risks to growth and prompted the RBI to ease monetary policy. Inflation is likely to be less of an issue this fiscal than in the previous one, giving the central bank space to cut interest rates</li> <li>The MPC cut key policy rates by 25 bps in April for the second consecutive policy meeting, resulting in a cumulative reduction of 50 bps in 2025</li> <li>The panel also changed its stance to 'accommodative', signalling rate cuts will continue</li> </ul>	↓
<b>Fiscal health</b>	<ul style="list-style-type: none"> <li>The budget has targeted a reduction in the Centre's fiscal deficit to 4.4% of GDP this fiscal from 4.8% in fiscal 2025</li> <li>Gross market borrowing is estimated at Rs 14.8 lakh crore for the fiscal, 5.8% higher on-year. The government plans to borrow 54% of the budgeted borrowings in the first half of the fiscal</li> </ul>	↑
<b>Crude oil prices</b>	<ul style="list-style-type: none"> <li>We expect crude prices to average \$70-75 per barrel in fiscal 2026 compared with an average of \$78.8 per barrel in fiscal 2025</li> <li>Brent crude oil prices decreased to \$72.6 per barrel on average in March, 3.4% lower on month and 15% lower on year</li> </ul>	↓

Economic parameter	Our view	Impact on yields
<b>Current account balance</b>	<ul style="list-style-type: none"> <li>We expect the country's current account deficit (CAD) to average ~1.3% of GDP this fiscal compared with an estimated 1.0% in fiscal 2025</li> <li>The merchandise trade deficit is likely to come under pressure given the risks to exports arising from the 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</li> <li>CAD was stable at 1.1% of GDP in the third quarter of fiscal 2025, versus 1.1% in the same quarter of fiscal 2024</li> </ul>	↑
<b>US Federal Reserve's stance</b>	<ul style="list-style-type: none"> <li>The Federal Reserve's (Fed) dot plot as on March 19 suggests two rate cuts this fiscal. That said, high degree of uncertainty persists owing to continuing changes in US tariff policy and response by other economies</li> <li>The Fed kept its policy rate at 4.25-4.5% at its March meeting. It had cut rates by a cumulative 100 bps between September and December 2024</li> </ul>	↓
<b>Liquidity indicators</b> i) Demand and supply	<p><b>Supply:</b></p> <ul style="list-style-type: none"> <li>For March, the actual SDL borrowing was Rs 224,897 crore, compared with the budgeted borrowing of Rs 174,835 crore</li> <li>RBI conducted OMO for Rs 1.50 lakh crore in March</li> <li>Increased credit demand has boosted the supply of certificates of deposit (CDs) in the month by 74% to Rs 220,510 crore</li> <li>Year-end demand from corporates increased the bond supply by 22% to Rs 123,641 crores in March</li> </ul> <p><b>Demand:</b></p> <ul style="list-style-type: none"> <li>Demand for G secs, SDLs and Treasury bills (T-bills) increased 8%, 54% and 36%, respectively</li> <li>Demand for CDs and bonds increased 153% and 81%, respectively</li> </ul>	↑
ii) Call rates/ liquidity-adjustment facility	<ul style="list-style-type: none"> <li>Despite a slew of RBI measures, tight liquidity conditions continued to prevail in the Indian banking system during March. The central bank has injected liquidity over a two-month period through a mix of durable and transient liquidity measures to address the funds crunch and support credit growth</li> <li>However, the impact of these measures was overwhelmed by the RBI's forex market interventions to curb excessive volatility in the Indian rupee, government tax flow dynamics, currency leakages and persistent FPI outflows. With liquidity conditions remaining tight, interbank call money rates hovered slightly above the repo rate of 6.25% for most of the month, averaging at 6.34%</li> </ul>	↓

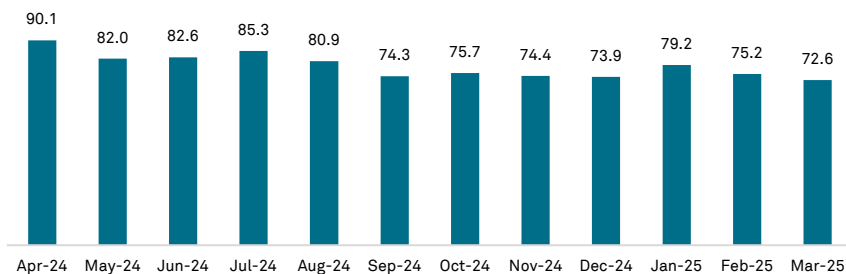
## March at a glance



Source: Crisil Intelligence

## Crude oil prices fall

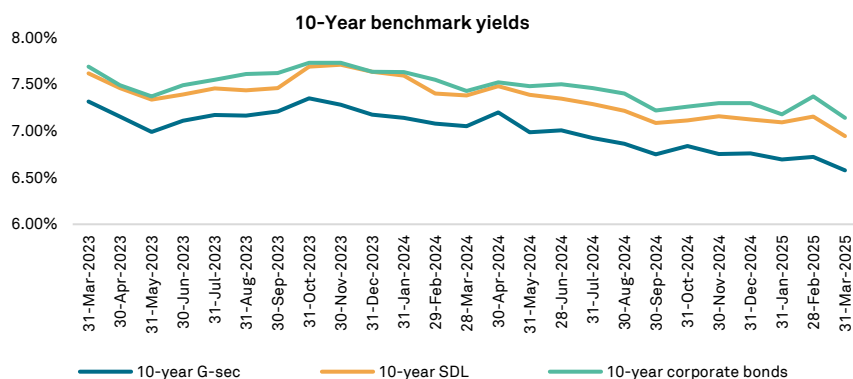
Brent Crude (\$/barrel average)



Brent crude oil prices declined to \$72.6 per barrel on average in March, down 3.4% on month.

Source: Crisil Intelligence

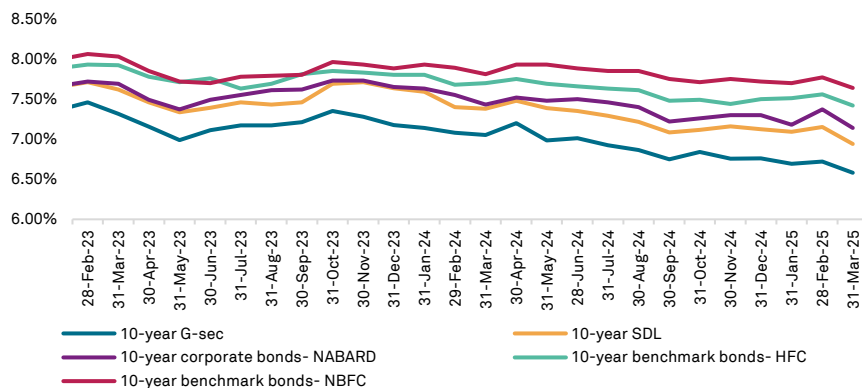
## Yields on benchmark G-sec, SDLs and corporate bonds (PSU FI) ease



Yield on the 10-year benchmark G-sec closed at 6.58% in March, down 14 bps from the previous month's close. The yield on the 10-year SDL eased 21 bps to 6.94% and that on the 10-year corporate bond (10-year PSU FI) fell 23 bps to 7.14%.

Source: Crisil Intelligence

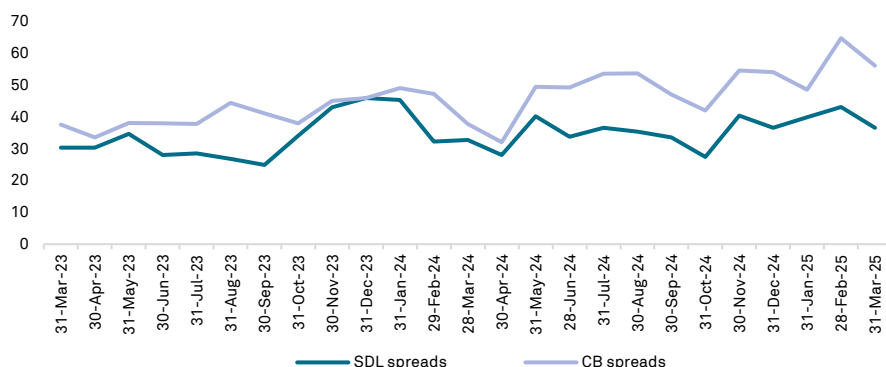
## 10-year G-sec/SDL/corporate bond benchmark yields



Yield on 10-year AAA-rated PSU bonds decreased to 7.14% from 7.37%. SDLs ended March at 6.94%, down from 7.15% in February. Yields on bonds issued by housing finance companies (HFCs) declined to 7.42% from 7.56% the previous month, while that on bonds by non-banking financial companies (NBFCs) fell to 7.64% from 7.77%.

Source: Crisil Intelligence

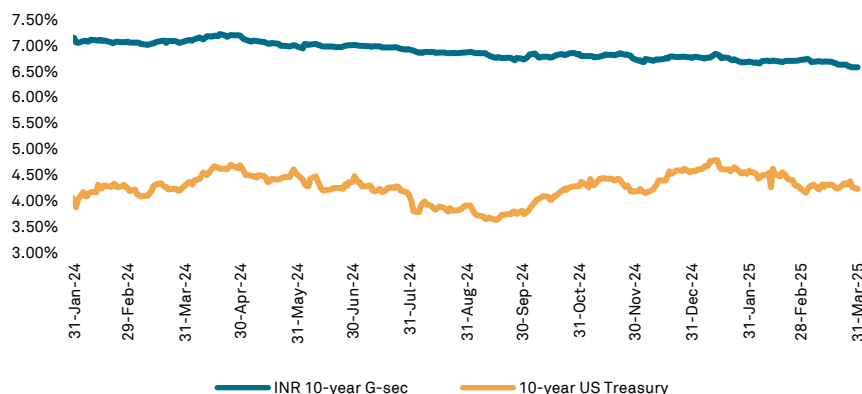
## Corporate bonds and SDL yield spreads over 10-year benchmark G-sec yields



The spread of the 10-year benchmark SDL over the 10-year benchmark G-sec closed at ~37 bps in March, down ~7 bps from the previous month's close. Meanwhile, the spread of the 10-year AAA-rated public sector corporate bonds (PSU FI) closed at ~56 bps, down ~9 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 ~50 bps, respectively.

Source: Crisil Intelligence

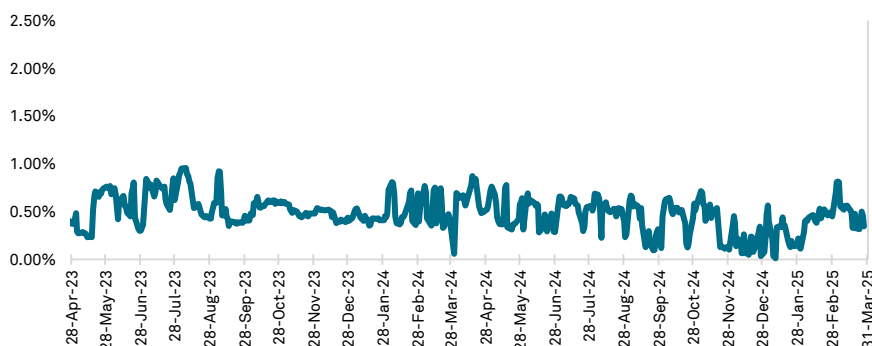
## US Treasury and G-sec yield trajectory



US Treasury yields ended at 4.23% in March, ~1 bp down from February's close of 4.24%. The monthly spread between the domestic benchmark 10-year G-sec and the 10-year US Treasury yield narrowed to 235 bps in March 2025 from 248 bps in the previous month.

Source: Crisil Intelligence

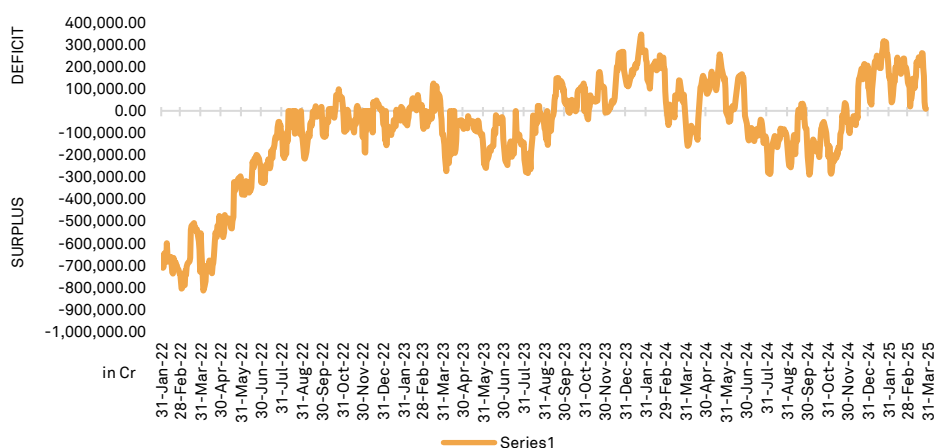
## Term premium between 10-year benchmark G-sec and TREPS



The average spread between the 10-year benchmark G-sec yield and the tri-party repo (TREPS) was ~53 bps in March 2025 as against ~45 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 1.46 lakh crore in March, as against Rs 1.66 lakh crore in February. The average liquidity over the past 12 months was Rs 0.166 lakh crore. The liquidity in March peaked at Rs 2.61 lakh crore. Liquidity conditions in the market saw a significant improvement during the month after RBI bought G-secs worth Rs 1.50 lakh crore through OMO and injected additional funds through USD/INR swap, boosting the rupee supply.

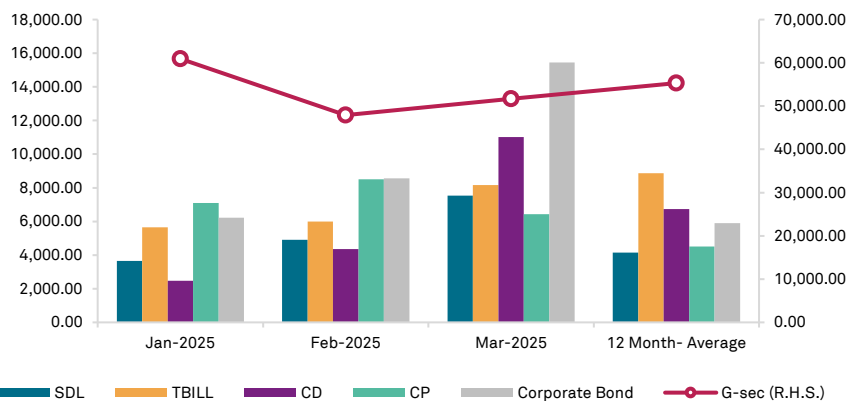
\*Net liquidity is calculated as repo + marginal standing facility + standing liquidity facility - reverse repo  
Source: Crisil Intelligence

## Benchmark spreads over G-secs

Spreads over G-Sec*				
Rating Category	Date	PSU / Corporates	NBFC	Housing Finance Companies
AAA	28-Feb-25	0.62%	0.98%	0.87%
	31-Mar-25	0.62%	1.08%	0.89%
AA+	28-Feb-25	0.99%	1.53%	1.42%
	31-Mar-25	1.07%	1.64%	1.58%
AA	28-Feb-25	1.30%	2.27%	1.93%
	31-Mar-25	1.33%	2.35%	2.10%
AA-	28-Feb-25	2.01%	3.27%	2.74%
	31-Mar-25	2.14%	3.40%	2.84%

\*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

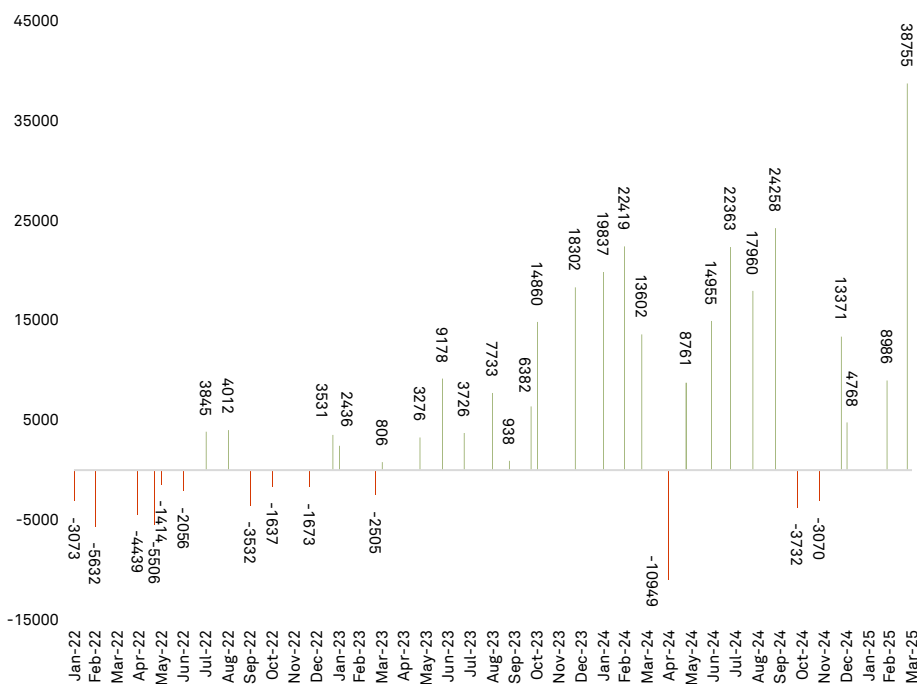
## Trading volume increases across securities



Source: Crisil Intelligence

G-sec trading volume in March increased 7.75% on month, while that in SDLs and T-bills increased 53.53% and 35.35%, respectively, due to increase in year-end issuances. Trading volume in CDs and corporate bonds increased 152.72%, and 80.56%, respectively, owing to year-end supply and increased demand for credit in the economy. Trading volume in commercial papers (CPs) decreased 24.38%.

## FPI net inflows



Source: Crisil Intelligence

Net FPI inflow into the debt market was Rs 38,755 crore in March versus an inflow of Rs 8,986 crore in February (debt general limit plus debt FAR). Inflows into debt FAR in March stood at Rs 29,044 crore. Foreign portfolio investors were net sellers in equity worth Rs 3,973 crore.

The high FPI infusion during the month indicates foreign investors have gained confidence in the domestic debt market. India's inclusion in the JP Morgan Bond Index has encouraged passive investments from foreign investors. Along with that, the expectations of RBI rate cuts, lower domestic inflation and a possible decline in US interest rates have encouraged funds to increase allocations to India.

## Rating upgrades in March 2025

Upgrades		
Issuer name	Old rating	New rating
TVS Credit Services Ltd (Perpetual)	[ICRA]AA-	[ICRA]AA
TVS Credit Services Ltd (NCD)	[ICRA]AA	[ICRA]AA+
Shivalaya Construction Co Pvt Ltd	IND A	IND A+
Strides Pharma Science Ltd	IND A	IND A+
Vajra Trust	[ICRA]AA+(SO)	[ICRA]AAA(SO)
Mahaveer Finance (India) Ltd	CRISIL BBB	CRISIL BBB+
DLF Cyber City Developers Ltd	CRISIL AA+	CRISIL AAA
Deepak Fasteners Ltd	CARE B+	CARE BB+

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