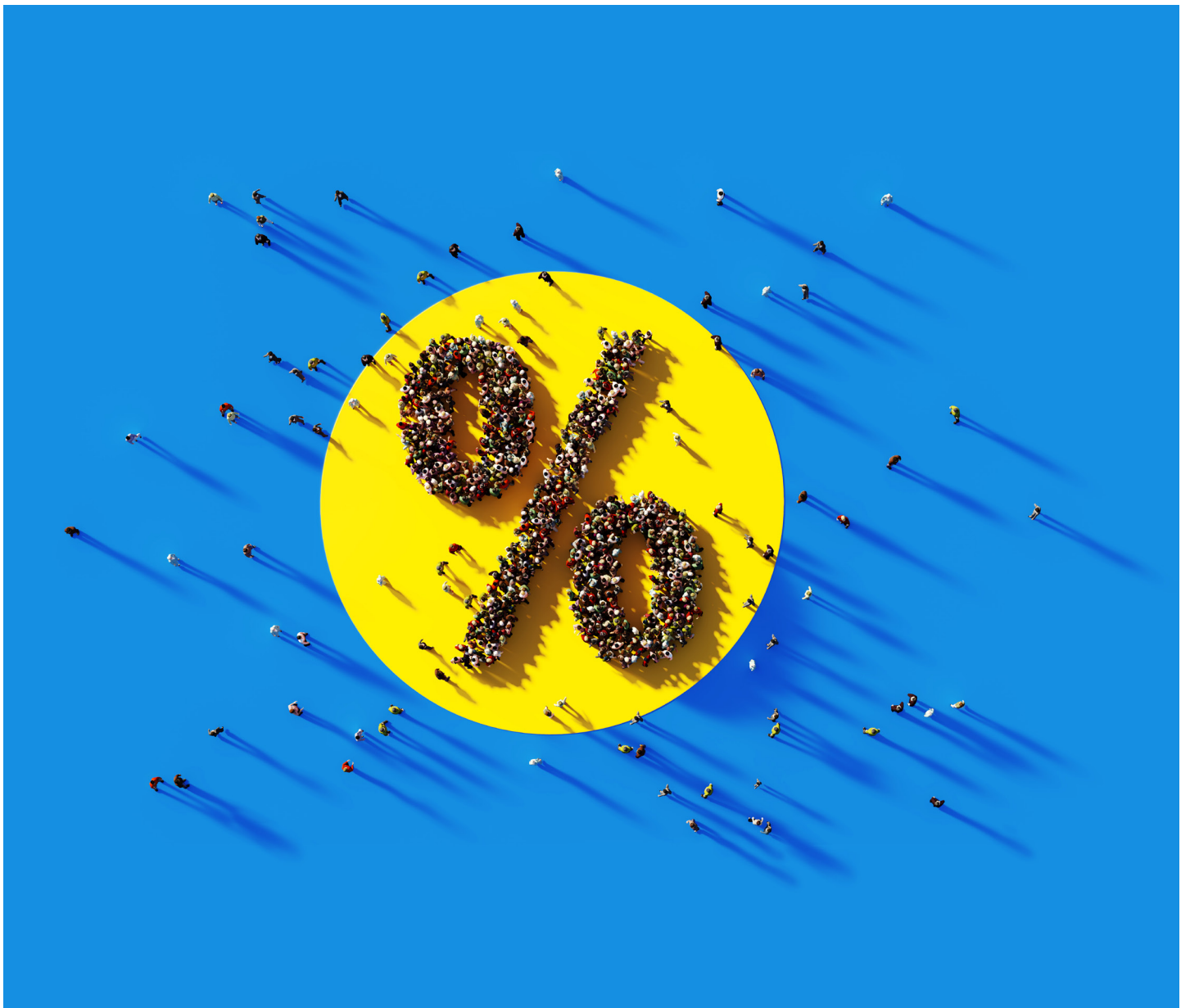


RateView

Crisil's outlook on near-term interest rates

June 2025



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May mirth

The yield on the old 10-year benchmark government security (G-sec; 6.79% GS 2034) ended May 2025 at 6.25%, down 11 basis points (bps) compared with the April close of 6.36%, and outside Crisil's forecast of 6.32–6.42%.

The new benchmark (6.33% GS 2035) closed at 6.18%.

At the start of the first week, domestic bonds traded with a bearish bias as traders trimmed their positions amid escalating tensions between India and Pakistan. However, the Reserve Bank of India (RBI)'s announcement of Open Market Operation (OMO) purchases totalling Rs 1.25 lakh crore through four auctions during the month significantly aided gilt prices. A decline in US Treasury yields also kept the market sentiment upbeat, though concerns over India-Pakistan tensions limited the gains. Consequently, the old 10-year benchmark closed at Rs 103.05 (6.35%) versus the previous week's closing of Rs 102.98 (6.36%).

The second week opened on a positive note as crude oil prices fell. Through the week, volatility persisted as India-Pakistan tensions escalated. A sharp fall in the rupee also weighed on gilt prices. Consequently, the old 10-year benchmark closed at Rs 102.89 (6.38%) compared with Rs 103.05 (6.35%) in the previous week.

During the third week, domestic bonds traded with a positive bias amid the ceasefire announcement between India and Pakistan. Additionally, a lower domestic inflation reading fuelled hopes for more rate cuts, aiding gilt prices. Expectations of a Rs 3 trillion surplus transfer from the RBI to the government kept market sentiment upbeat. Consequently, the old 10-year benchmark closed at Rs 103.65 (6.27%) as against Rs 102.89 (6.38%) in the previous week.

During the last week, domestic bonds tracked movement in US treasury yields. Anticipation of a record-high surplus transfer of around Rs 3 lakh crore to the government by the RBI aided sentiment. A decline in overnight index swap (OIS) rates also aided gilts. However, a significant fall in the rupee against the greenback weighed on gilt prices to some extent. Consequently, the old 10-year benchmark closed at Rs 103.76 (6.25%) compared with the previous week's closing of Rs 103.65 (6.27%).

Crisil's outlook

On interest rates

Benchmark	May 31, 2025 (A)	June 30, 2025 (P)	August 31, 2025 (P)
10-year G-sec yield*	6.25%	6.27%-6.37%	6.25%-6.35%
10-year SDL yield	6.63%	6.60%-6.70%	6.58%-6.68%
10-year corporate bond yield	6.84%	6.87%-6.97%	6.83%-6.93%

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

One-month view

In June, domestic G-sec yields are likely to be influenced by various factors such as the Monetary Policy Committee (MPC)'s interest rate outlook, foreign portfolio investment (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 monsoon on inflation, crude oil prices, global interest rate environment, the Consumer Price Index (CPI) 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).

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

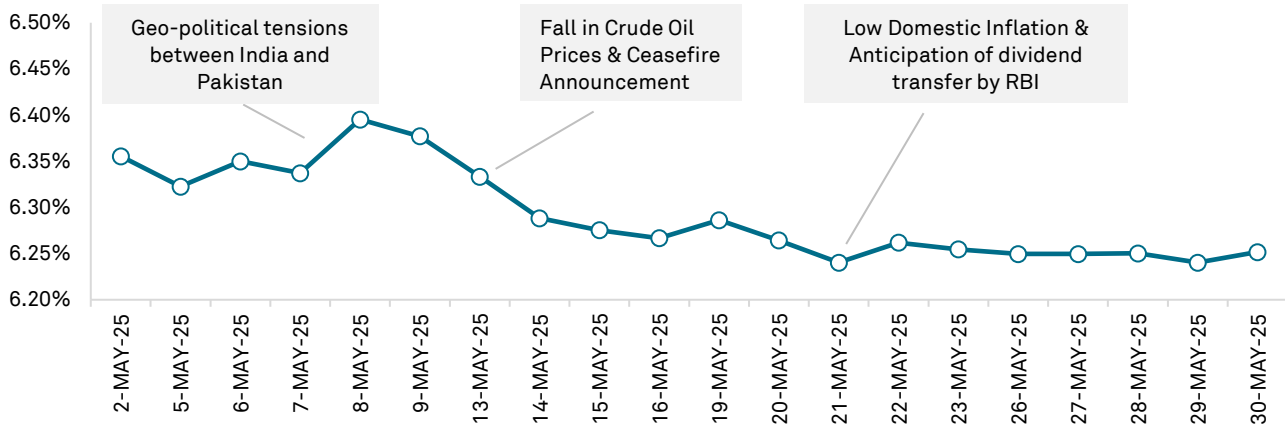
Factors influencing the outlook

Economic parameter	Our view	Impact on yields
GDP growth	<ul style="list-style-type: none"> We expect gross domestic product (GDP) growth at 6.5% in fiscal 2026, with risks on downside US tariff-related global uncertainty is the top risks to India's growth. However, growth will be supported by improving domestic consumption driven by a normal monsoon, income tax relief, and MPC's rate cuts GDP rose to 7.4% on-year in the fourth quarter of fiscal 2025, from 6.4% in the previous quarter Overall, for fiscal 2025, GDP growth estimate was maintained at 6.5% 	↔
CPI inflation	<ul style="list-style-type: none"> We expect CPI inflation to soften to 4% in fiscal 2026 from 4.6% last year An above-normal monsoon is expected to ease food inflation and, consequently, overall inflation. Lower crude oil prices, benign commodity prices will keep non-food inflation in check CPI inflation eased to 3.2% in April from 3.3% in March 	↓
RBI's monetary policy	<ul style="list-style-type: none"> We expect one more rate cut this fiscal and a pause thereafter The MPC cut the repo rate by 50 bps in June, more than the 25-bps cut in the previous meeting. A sharp fall in inflation drove RBI to increase pace of monetary easing The MPC's change in stance to 'neutral' from 'accommodative' highlights the frontloading of rate cuts and data-dependent approach hereon. Cumulatively, repo rate has been cut 100 bps so far The 100 bps CRR cut will take place in four tranches between September and November 2025 	↓
Fiscal health	<ul style="list-style-type: none"> The budget has targeted a reduction in centre's fiscal deficit to 4.9% of GDP in fiscal 2025 from 5.6% of GDP past fiscal. In the first eight months of this fiscal, centre's fiscal deficit stood at 52.5% of the budget target, compared with 50.7% in same period last year. Capital expenditure has been lower this year compared to the same period last year. Gross market borrowing is estimated at Rs 14 lakh crore for fiscal 2025, 9.2% lower on-year. The government plans to borrow 47.2% of the budgeted borrowings in the second half of the fiscal. 	↓
Crude oil prices	<ul style="list-style-type: none"> We expect crude prices average \$80-\$85 per barrel range in fiscal 2025 compared to an average of \$82.7 per barrel previous fiscal. Brent crude oil prices decreased to \$73.8 per barrel average in November, 0.8% lower on-month and 5.2% lower on-year. 	↓

¹Provisional estimate

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 Exports face risks from tariff uncertainties 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 of fiscal 2025 versus 1.1% in the same quarter of 2024 	↑
US Federal Reserve's stance	<ul style="list-style-type: none"> S&P Global expects the United States (US) Federal Reserve to cut rates by 50 bps in calendar year 2025 The US Fed kept its policy rate unchanged at 4.25-4.5% for the third consecutive meeting in May. The US central bank had cut rates by a cumulative 100 bps between September and December 2024 	↓
Liquidity indicators i) Demand and supply	<p>Supply:</p> <ul style="list-style-type: none"> For May, the actual SDL borrowing was Rs 64,772.03 crore RBI announced SDL issuances calendar of Rs 2,73,255 crore for April-June 2025 <p>Demand:</p> <ul style="list-style-type: none"> Constant demand for three-five year tenure non-convertible debentures was seen among mutual funds 	↓
ii) Call rate/ liquidity adjustment facility	<ul style="list-style-type: none"> Liquidity in the Indian banking system remained in surplus in May because of the RBI's proactive measures. Since December 2024, the central bank has infused almost Rs 8.6 trillion through a series of measures, including reduction in the cash reserve ratio (CRR), secondary market debt purchases, foreign exchange swaps and aggressive OMOs. On May 23, the RBI announced a record surplus transfer of Rs 2.69 trillion to the central government. While this was substantially higher than the surplus transfer of Rs 2.1 trillion in the preceding year, it was short of market expectations of up to Rs 3 trillion. The bond market is hoping for additional OMOs in the latter half of this fiscal. Ample liquidity conditions kept the interbank call money rate consistently below the repo rate of 6.0%. The weighted-average call money rate for the month was 5.83% (as of May 30) 	↓

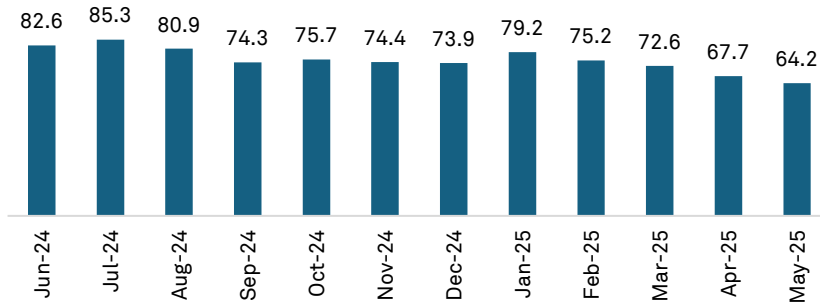
May at a glance



Source: Crisil Intelligence

Crude oil prices fall

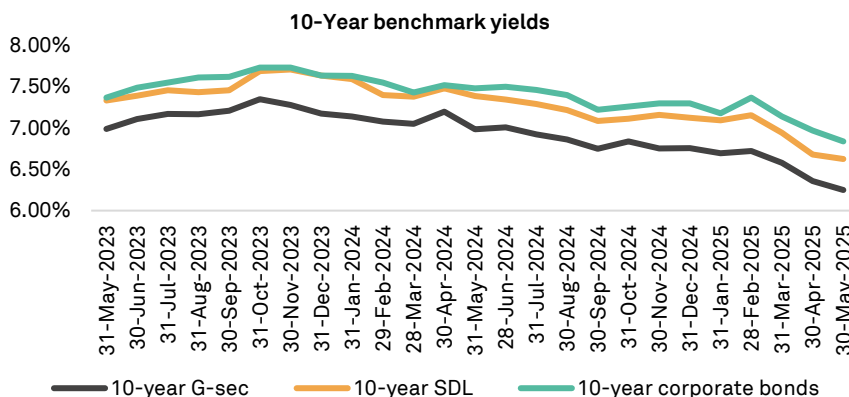
Brent Crude (\$/barrel average)



Brent crude oil prices declined to \$64.2 per barrel on an average in May, down 5.17% on-month.

Source: Crisil Intelligence

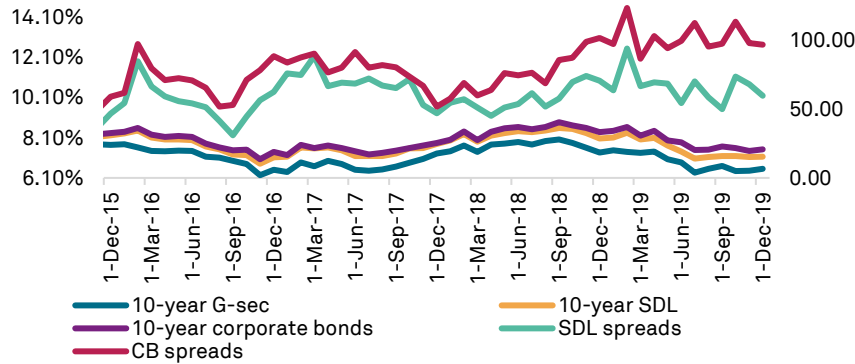
Yields on benchmark G-sec, SDLs and corporate bonds (PSU FI) ease



Yield on the 10-year benchmark G-sec closed at 6.25% in May, down 11 bps from the previous month's close. Yield on the 10-year SDL eased 5 bps to 6.63%, while the same on the 10-year corporate bond (10-year PSU FI) declined 13 bps to 6.84%.

Source: Crisil Intelligence

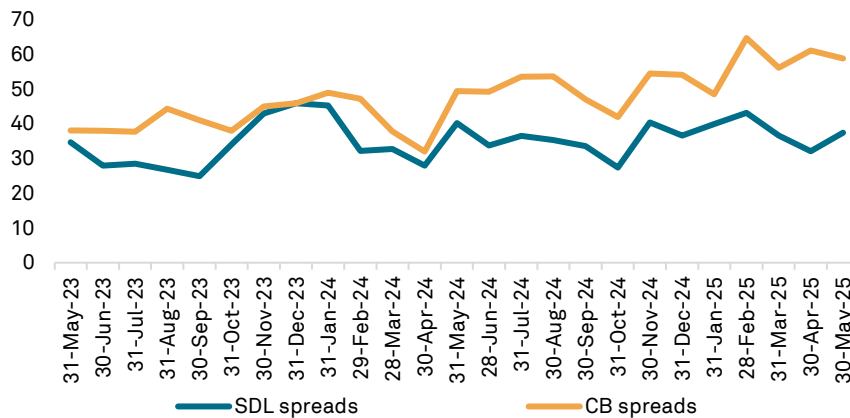
10-year G-sec/SDL/corporate bond benchmark yields



Source: Crisil Intelligence

Yield on 10-year AAA-rated public sector undertaking (PSU) bonds decreased to 6.84% from 6.97%. SDLs ended May at 6.63%, down from 6.68% in April. Yields on bonds issued by housing finance companies (HFCs) declined to 7.15% from 7.23% the previous month, while those on bonds issued by non-banking financial companies (NBFCs) fell to 7.38% from 7.48%.

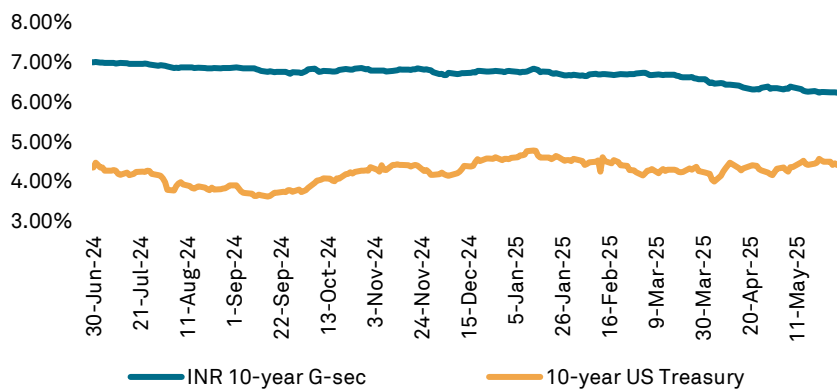
Corporate bond and SDL yield spreads over 10-year benchmark G-sec yield



Source: Crisil Intelligence

The spread of the 10-year benchmark SDL over the 10-year benchmark G-sec closed at ~37 bps in May. Meanwhile, the spread of the 10-year AAA-rated public sector corporate bonds (PSU FI) closed at ~58 bps, down ~3 bps. The 12-month average spreads of the 10-year benchmark SDL and PSU FI over the 10-year benchmark G-sec were ~36 bps and ~53 bps, respectively.

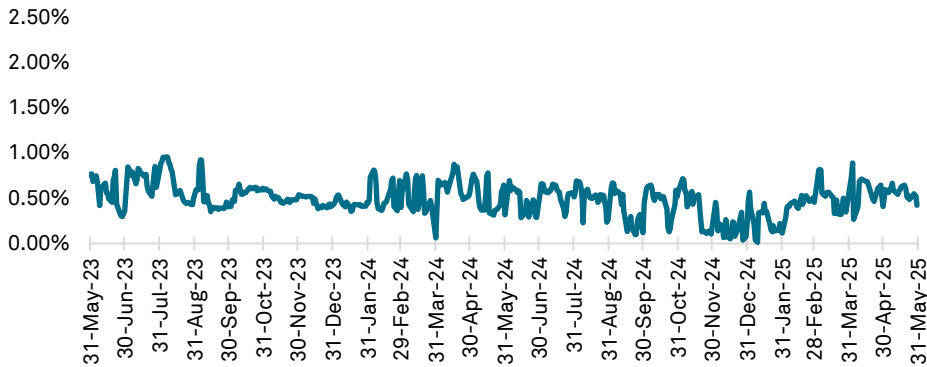
US Treasury and G-sec yield trajectory



Source: Crisil Intelligence

US Treasury yields ended at 4.41% in May, up ~24 bps from April's close of 4.17%. The monthly spread between the domestic benchmark 10-year G-sec and the 10-year US Treasury yield narrowed to 184 bps in May 2025 from 219 bps the previous month.

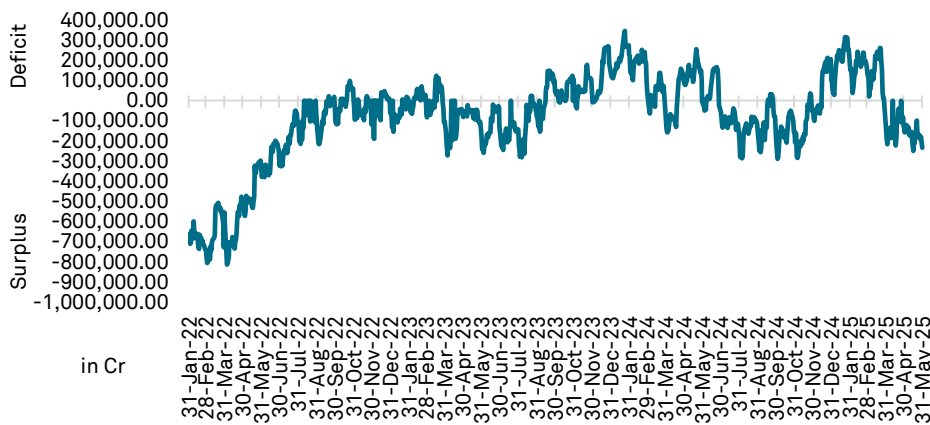
Term premium between 10-year benchmark G-sec and TREPS



The average spread between the 10-year benchmark G-sec yield and the tri-party repo (TREPS) was ~56 bps in May 2025, as against ~57 bps the previous month. The 12-month average spread stood at ~44 bps.

Source: Crisil Intelligence

Systemic liquidity



The average systemic liquidity surplus was ~Rs 1.71 lakh crore in May, compared with Rs 1.41 lakh crore surplus in April. The average liquidity surplus over the past 12 months was Rs 0.21 lakh crore. Liquidity peaked at Rs 2.50 lakh crore in May.

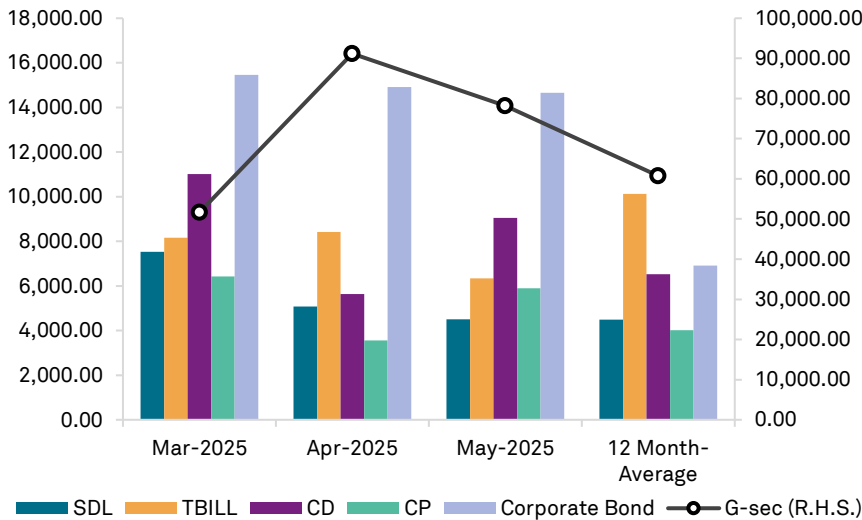
*Net liquidity is calculated as repo + marginal standing facility + standing liquidity facility - reverse repo
Source: Crisil Intelligence

Benchmark spreads over G-secs

Spreads over G-sec*				
Rating category	Date	PSUs / Corporates	NBFCs	Housing finance companies
AAA	30-Apr-25	0.74%	1.14%	0.92%
	31-May-25	0.76%	1.30%	0.98%
AA+	30-Apr-25	1.25%	1.73%	1.63%
	31-May-25	1.27%	1.90%	1.76%
AA	30-Apr-25	1.51%	2.45%	2.16%
	31-May-25	1.53%	2.65%	2.32%
AA-	30-Apr-25	2.15%	3.50%	2.96%
	31-May-25	2.17%	3.68%	3.20%

*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

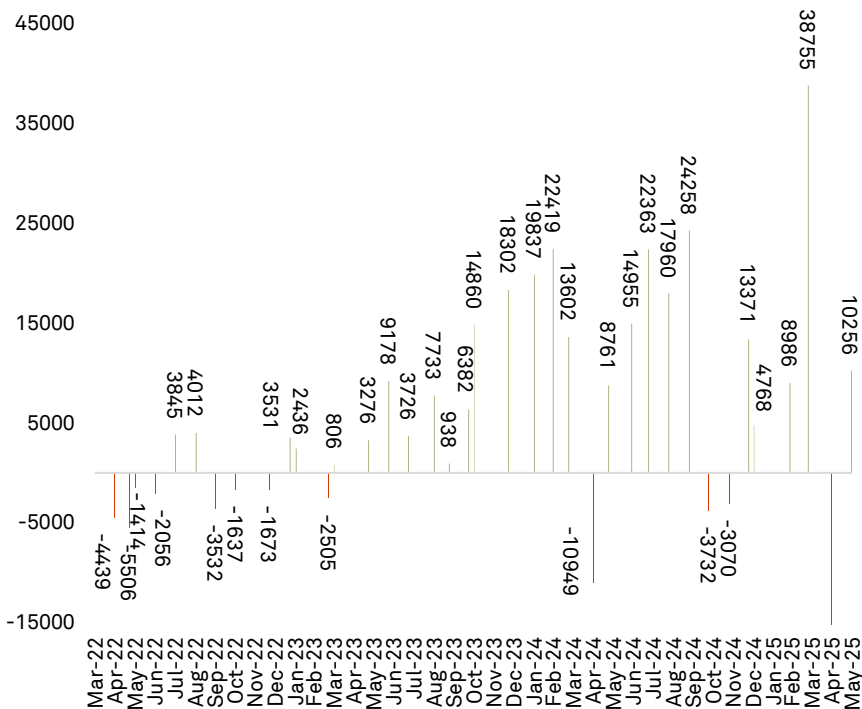
Trading volume decreases across securities, except CPs and CDs



G-sec trading volume in April decreased 14% on-month and T-bills decreased 25%. SDL volume decreased 11%, while that of corporate bonds fell 1.69%. Trading volume in certificates of deposit (CDs) and commercial papers (CPs) increased 61% and 65%, respectively.

Source: Crisil Intelligence

FPI outflows



Net FPI inflow into the debt market was Rs 102,56 crore in May versus an outflow of Rs -18,735 crore in April (debt general limit plus debt fully accessible route [FAR]). Outflows from debt FAR stood at Rs 9,359 crore in April. Foreign portfolio investors were net buyers in equities worth Rs 19,860 crore.

Source: Crisil Intelligence

Rating upgrades in May 2025

Upgrades

Issuer name	Old rating as per CRISIL	New rating
Eris Lifesciences Ltd	IND AA-	IND AA
Fortune Metals Ltd	CRISIL BB+	Crisil BBB
Mizuho Capsave Finance Pvt Ltd	[ICRA]AA+	[ICRA]AAA
Embassy Property Developments Pvt Ltd	ACUITE PP-MLD C	ACUITE PP-MLD BB+
Delhi International Airport Ltd	[ICRA]AA-	[ICRA]AA
Macrotech Developers Ltd	[ICRA]AA-	[ICRA]AA
Ayana Renewable Power Pvt Ltd	[ICRA]AA-	[ICRA]AA+
Delhi International Airport Ltd	IND AA-	IND AA

Downgrades

Issuer name	Old rating	New rating
Resulticks Digitals India Pvt Ltd	CRISIL BBB+	Crisil BB+
Sagar Cements Ltd	IND A	IND BBB+
Wadhwa Group Holdings Pvt Ltd	BWR BB-	BWR B+
Leo	CARE A-(SO)	CARE BBB(SO)
Hella Infra Market Ltd	IND A-	IND BBB+
RDC Concrete (India) Ltd	IND A-	IND BBB+

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