

India's 10-Year Bond Yields Fall: RBI Policy and Market Trends

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India 10-Year Bond Yields Latest News

- Ahead of the RBI's monetary policy review on April 9 and US tariff policy changes, India's 10-year **bond** yields fell by nine basis points to 6.49% after the central bank announced a ₹80,000 crore bond purchase for April.
- A drop in bond yields raises bond prices and signals market expectations of lower future interest rates, though it doesn't guarantee an immediate rate cut.

Indian Bond Market: An Overview

- The Indian bond market is a key segment of the financial system where entities (government, corporations, and financial institutions) raise funds by issuing bonds.
- Investors lend money to issuers in exchange for periodic interest payments and principal repayment at maturity.

Structure of the Indian Bond market

- **Primary Bond Market - In the primary market, bonds are issued for the first time by the government, corporations, or financial institutions to raise funds.**
 - **Government Securities (G-Secs):** Issued by the central and state governments, including Treasury Bills (short-term) and Government Bonds (long-term).
 - **Corporate Bonds:** Issued by companies to raise capital; rated based on creditworthiness.
 - **Municipal Bonds:** Issued by local governments for public infrastructure projects.
 - **Public Sector Undertaking (PSU) Bonds:** Issued by government-owned companies.
 - **Green Bonds:** Used to finance environmentally sustainable projects.
 - **Masala Bonds:** Rupee-denominated bonds issued in foreign markets.
- **Secondary Bond Market (Trading Market) - In the secondary market, previously issued bonds are bought and sold among investors.**
 - **E.g.,** T-Bills; Commercial Papers (CPs); Certificates of Deposit (CDs) etc.

Size of Indian Bond Market

- The Indian bond market is valued at US\$2.69 trillion as of December 2024.
- G-Secs dominate the domestic bond market, constituting over 60% of the market capitalization, while corporate bonds hold a significant share of the remaining segment.

Challenges in the Indian Bond Market

- **Limited Retail Participation:** Retail investors prefer bank deposits over bonds due to lack of awareness and accessibility.
- **Liquidity Constraints:** Corporate bonds have lower trading volumes, making it difficult for investors to buy/sell easily.
- **Credit Risk Concerns:** Defaults by some issuers reduce investor confidence.
- **Regulatory Hurdles:** Multiple regulators (RBI, SEBI) create complexity in market operations.
- **Interest Rate Volatility:** Changes in RBI's monetary policy impact bond yields and prices.

Impact of US Bond Yields on Indian Markets

- Indian bond yields have closely tracked US bond yields, falling 24 bps since March following the RBI's 25 bps repo rate cut in February.
- In FY 2024-25, the 10-year yield has dropped 62 bps—the steepest decline in five years.

US Treasury Yields Decline

- Driven by investors shifting to safer assets ahead of Trump's expected tariff announcement, the yield on 10-year US Treasury notes also fell to the lowest since December 6, 2024.

Improved Liquidity in Indian Banking Sector

- The comfortable liquidity situation as seen by a slight deficit last week has ensured that India's bond yields have come down.
 - There was only a small shortage of money in the banking system last week, which helped bring down bond yields (or the interest rate on government bonds).
 - When liquidity is good (meaning there is enough money flowing in the system), borrowing costs tend to stay low, making it easier for the government and businesses to raise funds.

Key Liquidity Factors and RBI's Measures

- **Upcoming Repayments (VRRs Maturing):**
 - Banks had borrowed about **₹1.81 lakh crore** from the RBI through **Variable Rate Repo (VRR)**, and this money needs to be repaid by April 7.
 - VRR is a monetary policy tool used by the RBI to manage liquidity in the banking system.
 - Unlike the fixed repo rate, which is predetermined by the RBI, the VRR is decided through market-based auctions.
 - This means banks bid for funds, and the rate is determined based on demand and supply.
 - This repayment could reduce liquidity (the amount of money available in the banking system).
- **Counterbalance Through SDF:**
 - However, a lot of money is already parked in the **Standing Deposit Facility (SDF)**—a tool where banks keep excess funds with the RBI.
 - This means the impact of VRR repayments on liquidity will be limited.
- **RBI's Preparedness:**
 - The RBI has planned **four Open Market Operations (OMOs)** of **₹20,000 crore each**, meaning it will buy government bonds to inject liquidity.
 - The VRR auction recently saw fewer bids than expected, meaning banks may not need as much liquidity support.
- The RBI is managing liquidity carefully by balancing **money going out (VRR repayments)** and **money coming in (OMOs and SDF balances)**. This should prevent any major disruption in the financial system.

India 10-Year Bond Yields FAQs

Q1. Why did India's 10-year bond yields drop?

Ans. Yields fell due to RBI's bond purchase, improved liquidity, and expectations of lower interest rates.

Q2. How does RBI's policy impact bond yields?

Ans. RBI's monetary policy, including interest rate changes and liquidity measures, directly affects bond yields.

Q3. What is the role of US bond yields in India's market?

Ans. Indian bond yields often track US yields, as global investors adjust portfolios based on US economic policies.

Q4. How does improved banking liquidity affect bond yields?

Ans. Higher liquidity reduces borrowing costs, leading to lower bond yields and easier access to credit.

Q5. What are the challenges in India's bond market?

Ans. Low retail participation, liquidity constraints, and regulatory complexities limit market growth and efficiency.

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