FIRST LIGHT

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RESEARCH

BOB ECONOMICS RESEARCH | INDIA YIELD CURVE

Evolution of India's yield curve post government policy support

BOB ECONOMICS RESEARCH | Q1FY27 GDP PREVIEW

GDP to expand by 7-7.2% in Q1FY27

SUMMARY

INDIA ECONOMICS: INDIA YIELD CURVE

India's yield curve has exhibited considerable volatility this year. Both global and domestic factors resulted in the same. Most importantly, the debt outflow arising from global policy uncertainty further worsened the situation. The gap between India and US 10Y yield is at multi year low level and far below long run average. This may have further aggravated the FPI-debt outflow. Government policy measure to attract durable capital flows came at a very opportune time.

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INDIA ECONOMICS: Q1FY27 GDP PREVIEW

Later this month, MOSPI is expected to announce provisional estimate for growth for Q1FY27. It is expected to come in at 7% (with an upside of 0.2% to 7.2%) compared with 6.8% growth in Q1FY26. This will be helped by pickup in growth in manufacturing, electricity and construction sectors which are projected to report higher growth in Q1FY27 vis-à-vis Q1FY26. Steady improvement in government capex along with healthy credit and deposit growth will push growth higher.

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INDIA YIELD CURVE

21 August 2026

Evolution of India's yield curve post government policy support

Dipanwita Mazumdar
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India's yield curve has exhibited considerable volatility this year. Both global and domestic factors resulted in the same. Most importantly, the debt outflow arising from global policy uncertainty further worsened the situation. The gap between India and US 10Y yield is at multi year low level and far below long run average. This may have further aggravated the FPI-debt outflow. Government policy measure to attract durable capital flows came at a very opportune time.

The policy response was felt across the entire yield curve. The inclusion of new issuances for 15Y, 30Y and 40Y paper in the FAR route has resulted in significant downward correction in yields across these tenors. If we see the net market activity report of Gsec category-wise, there is a clear shift in pattern where foreign banks are gaining momentum post policy support to FPIs.

The short end part of the yield curve has also declined sharply. This may be on account of system liquidity remaining comfortably above the 1% NDTL level. Going forward, we expect steepness in India's yield curve as long end part of the curve might exhibit some upward bias anticipating rate action from RBI and tracking the war situation between US and Iran. Short end yields are expected to get some support from adequate system liquidity conditions post FCNR (B) deposit flows.

Background:

This year saw a lot of volatility in terms of India's yield movement. A number of factors came into play. From global policy uncertainty to domestic factors such as weakening INR, pressure on domestic liquidity and impact of West Asia crisis, all have contributed towards the fluctuating movement of yield. On the other hand, coordinated monetary and fiscal policy response have supported yields broadly. The measures targeted towards retaining durable capital flows at a time when FPI flows were retreating, have been welcome.

Fig 1 shows that the volatility of India's 10Y yield (expressed in terms of standard deviation (SD) of daily change in yield) has peaked in Apr'26; when war related uncertainty took the centre stage. However, with government's efforts aimed at tax rationalisation measures in capital markets, volatility in India's 10Y yield softened substantially. The measures especially expanding the scope of FAR by including new issuances in GSec in tenors of 15Y, 30Y and 40Y years as also Sovereign Green Bonds and exempting interest and capital gains on G-Secs from income tax w.e.f. 01.04.2026, have been very targeted measure.

Q1FY27 GDP PREVIEW

21 August 2026

GDP to expand by 7-7.2% in Q1FY27

Jahnavi Prabhakar
Economist

Later this month, MOSPI is expected to announce provisional estimate for growth for Q1FY27. It is expected to come in at 7% (with an upside of 0.2% to 7.2%) compared with 6.8% growth in Q1FY26. This will be helped by pickup in growth in manufacturing, electricity and construction sectors which are projected to report higher growth in Q1FY27 vis-à-vis Q1FY26. Steady improvement in government capex along with healthy credit and deposit growth will push growth higher.

However, delayed monsoon, aggravated heatwave conditions will pull agriculture growth lower in this quarter. Going ahead for FY27, growth is projected at 6.6-6.8%, as more clarity emerges on account of conflict resolution in the Middle East as well the final outcome of kharif harvest.

Q1FY27 GDP Estimates

India's GDP is estimated to grow by 7% in Q1FY27 against an increase of 6.8% in Q1FY26. Growth in Q1 is expected to be higher than last year on the back of certain sectors outperforming others.

- Agriculture sector is expected to register a growth of 3.5% compared with a growth of 4.4% in the corresponding period last year. The slower growth is on account of extreme heatwave conditions, prevalence of El Nino conditions, delayed onslaught of South-West monsoon, lower reservoir levels witnessed during this quarter. However, in the coming quarters, the sector is expected to perform much better than previous quarter.

- Industrial growth is expected to clock 6.8% growth in Q1FY27, mining sector to grow at 3% against 4.5% growth noted last year for the same period. Manufacturing sector is expected to grow at 7.8% compared with 10.4% growth in Q1FY26. Even though, the growth this year might be lower than last year, it continues to remain strong.

    - This is partly attributable to the IIP growth (manufacturing: 6.3% versus 4.1% last year) and has been further supported by the robust corporate earnings for sectors such as metals, power, infrastructure as they registered improvement in net sales and profit. This also reflected resilience of industries even as they were impacted by the West Asia crisis.

    - However, certain industries did face challenge such as crude oil and consumer goods, wherein the margins were impacted due to higher input costs.

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