ICRA

FINANCIAL MARKETS & BANKING UPDATE VOL. 1: FY2025-FY2026

Corporate bond issuances remained buoyant, touching new high in FY2025

APRIL 2025

Abbreviations

AUM: Assets Under Management	FY: Financial Year	NBFC: Non-Banking Financial Company
BSNL: Bharat Sanchar Nigam Limited	G-Sec: Government Securities	NSDL: National Securities Depository Limited
CASA: Current and Savings Account Ratio	GDP: Gross Domestic Product	NSO: National Statistical Office
CAD: Current Account Deficit	GFCE: Government Final Consumption Expenditure	OMO: Open Market Operations
CD: Certificates of Deposit	GFCF: Gross Fixed Capital Consumption	PFCE: Private Final Consumption Expenditure
CDSL: Central Depository Services (India) Limited	GoI: Government of India	PSB: Public Sector Bank
CEA: Central Electricity Authority	GST: Goods and Services Tax	PVB: Private Sector Bank
CIC: Currency in Circulation	GVA: Gross Value Added	QoQ: Quarter on Quarter
CP: Commercial Paper	HFC: Housing Finance Company	RBI: Reserve Bank of India
CPI: Consumer Price Index	IDBI: The Industrial Development Bank of India	RDB: Rupee Denominated Borrowings
CMB: Cash Management Bills	IIP: Index of Industrial Production	SIAM: Society of Indian Automobile Manufacturers
CRR: Cash Reserve Ratio	IPO: Initial Public Offer	SIDBI: Small Industries Development Bank of India
CWP: Currency with Public	IMD: Indian Meteorological Department	SCB: Schedule Commercial Bank
CY: Calendar Year	INR: Indian National Rupee	SDL: State Development Loans
DII: Domestic Institutional Investors	JV: Joint Venture	SLR: Statutory Liquidity Ratio
DIPP: Department of Industrial Policy and Promotion	LAF: Liquidity Adjustment Facility	TLTRO: Targeted long-term repo operations
ECBs: External Commercial Borrowings	LIBOR: London Interbank Offered Rate	T-Bill: Treasury Bill
EM: Emerging Markets	LPA: Long Period Average	TTM: Trailing Twelve Months
FAR: Fully Accessible Route	LRS: Liberalised Remittance Scheme	UAE: United Arab Emirates
FCCBs: Foreign Currency Convertible Bonds	LTRO: Long-term repo operations	$: United States Dollar
FCI: Food Corporation of India	MGNREGA: Mahatma Gandhi National Rural Employment Guarantee Act	VRR: Variable Rate Repo
FDI: Foreign Direct Investment	MPC: Monetary Policy Committee	VRRR: Variable Rate Reverse Repo
FII: Foreign institutional Investment	MSCI: Morgan Stanley Capital International	WoS: Wholly Owned Subsidiary
FPI: Foreign Portfolio Investment	MSF: Marginal Standing Facility	WPI: Wholesale Price Index
FPO: Follow on Public Offer	NABARD: National Bank for Agriculture & Rural Development	WACR: Weighted Average Call Rates
FSB: Fully Serviced Bonds	NDTL: Net Demand & Time Liabilities	YTD: Year to Date

Agenda

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5 Money Supply, Liquidity, and Yields

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Highlights – I

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The 10-year G-Sec yield is likely to trade at 6.0-6.4% in the remainder of CY2025.

FPI outflows stood at $7.8 billion in Q4 FY2025, primarily driven by the equity segment; ICRA remains circumspect around FPI flows in FY2026, amid heightened uncertainty owing to the ongoing US-China trade tension and reciprocal tariff negotiations.

- **India's yield curve shifted downward at the end of March 2025:** Though the yield for the 10-year G-Sec rose to 6.84% on January 13, 2025, following the hardening of US treasury yields, the former softened in Q4 FY2025 closing at 6.58% as on March 31, 2025 (6.72% as on February 28, 2025, 6.69% as on Janaury 31, 2025). The yield movement in Q4 FY2025 was influenced by US treasury yield movements, the rate cut by RBI in February 2025, expectation of further rate cuts in April 2025 and OMO purchase of G-Sec by the RBI in February and March 2025. Looking ahead, the incoming news on rate decisions by the US and India, as well as on tariff actions by the US on various countries, including India, would influence the direction of G-Sec yields. Following the recent liquidity measures taken by the RBI and the improvement in liquidity conditions, the cumulative rate cut of 50 bps in February-April 2025, as well as the high likelihood of another 50 bps rate cut over the next six months, ICRA expects the 10-year G-Sec yield to range between 6.0% and 6.4% until the calendar year-end.
- **Corporate bond issuances remained weak in Q4 FY2025:** Despite cooling off of corporate bond yields, bond issuance remained weak at Rs. 2.7 trillion in Q4 FY2025 (Rs. 3.5 trillion in Q3 FY2025, Rs. 3.0 trillion in Q2 FY2025, Rs. 1.8 trillion in Q1 FY2025). Nevertheless, the total bond issuances of Rs. 10.9 trillion in FY2025 were at an all-time high (Rs. 10.2 trillion in FY2024). Looking ahead, the bond issuances are expected to be driven by the softening of the yields and issuance by NBFCs given cautious approach of the banks towards funding to NBFCs. ICRA expects the conditions to remain conducive for bond issuances and, hence, bond issuances are likely to remain healthy at Rs.10.7-11.3 trillion in FY2026. ICRA expects the corporate bond outstanding to increase to ~Rs. 55.0-55.6 trillion by end of March 2025 (marking a YoY growth of 5.8-6.9%).
- **India witnessed net FPI outflows of ~$8 billion in Q4 FY2025, led by the equity segment**: FPIs withdrew $7.8 billion from the Indian markets (equity, debt and hybrid) in Q4 FY2025, following the net outflows of $10.9 billion in Q3 FY2025. Against the sizeable net inflows of $20 billion in Q2 FY2025, the turnaround in aggregate FPI flows in H2 FY2025 mainly stemmed from outflows in the equity segment (to -$13.4 billion in Q4 from -$11.9 billion in Q3), while net debt inflows improved significantly (to +$5.6 billion from +$1.0 billion) between these quarters. Overall, FPI inflows to the Indian markets fell sharply to $2.8 billion in FY2025 from $41 billion in FY2024, entirely led by the equity segment (-$14.6 billion vs. +$25.3 billion). Looking ahead, ICRA remains circumspect around FPI inflows in FY2026, amid heightened uncertainty arising from the ongoing US-China trade tension and reciprocal tariff negotiations of the US with other countries. Equity flows are likely to remain fickle and reverse direction rapidly based on policy announcements and global developments.

Highlights – II

Gross FDI to India for FY2025 so far has surpassed that for FY2024 but so have the repatriations from India, keeping net FDI flows negligibly low.

LRS remittances are likely to close FY2025 below the FY2024 tally but changes in the TCS limit may prop-up the pace in FY2026.

Gross ECB approvals cross $50 billion in FY2025 led by sizeable traction in December 2024 and January 2025. However, easier liquidity conditions would dampen the pace, going forth.

India's GVA growth is likely to inch up to 6.5% in Q4 FY2025 from 6.2% in Q3, owing to a low base and healthy agri output; FY2026 GDP growth expected to ease to 6.2% from 6.3% in FY2025, amid uncertainty on impact of US tariff hikes.

- **Net FDI inflows (incl. reinvested earnings) dwindle down to $1.5 billion for 11M FY2025:** Gross FDI flows to India totalled $47.8 billion in 11M FY2025 exceeding the FY2024 tally of $45.8 billion. However, following the phase of post-Covid outperformance in the Indian economy, repatriation/divestment rose to record levels, making net FDI to India (excl. reinvested earnings) for 11M FY2025 stand at $4.8 billion ($6.5 billion in 11M FY2024). Meanwhile, net FDI flows by India (excl. reinvested earnings) also witnessed significant improvement of 144% YoY at $18.8 billion with Q4 FY2025 set to be the heaviest quarter for investment activity by India Inc. in recent years. Trade and tariff dynamics along with geopolitical tensions cast a shadow of uncertainty for FDI expectations in FY2026.
- **LRS outflows to settle lower in FY2025:** Remittances under the LRS witnessed moderation during 11M FY2025 at $27.0 billion over $29.4 billion in the corresponding period last year and are likely to settle below the record level set in FY2024 ($31.7 billion). While the moderation was largely owing to the increased TCS requirements for various remittances, a higher threshold for the requirement may push up LRS remittances in FY2026.
- **ECB approvals remained sizeable in FY2025:** Gross ECB approvals for 11M FY2025 totalled $50.1 billion with the addition of $13.5 billion in December 2024 and January 2025. ECB approvals (net of refinancing) stood at $42.1 billion for 11M FY2025, just shy of breaching the $43.2 billion registered in FY2024. With the measures taken by the RBI to ease liquidity in the Indian financial system, the future pace of ECB approvals are expected to remain muted from entities who drove the bulk of approvals during FY2025.
- **India's GDP growth set to rise mildly in Q4 FY2025**: The available data for Q4 FY2025 reveals that the output of most rabi crops saw a robust YoY rise, while industrial volume growth eased, and most service sector indicators weakened in the quarter over Q3 FY2025. Besides, trends for private consumption and investment activity were mixed, while Government spending slowed in Q4 over Q3. On the external sector front, merchandise exports contracted in Q4 FY2025 after expanding in Q3, while service sector exports continued to show double-digit growth. Overall, ICRA estimates GVA growth to rise slightly to 6.5% in Q4 FY2025 (+7.3% in Q4 FY2024) from 6.2% in Q3 FY2025 (+8.0% in Q3 FY2024) amid a low base and healthy growth in agri output. However, GDP growth is expected to witness a much sharper improvement to 6.9% from 6.2% in Q3, aided by a likely surge in net indirect taxes. Looking ahead, ICRA projects GDP growth to ease marginally to 6.2% in FY2026 from 6.3% in FY2025, owing to the adverse impact of the US tariff hikes on merchandise exports and policy uncertainty on investment activity, although greater clarity on the same would emerge as the year progresses.

Highlights – III

CPI inflation corrected to a 22-quarter low of 3.7% in Q4 FY2025, led by the food and beverages sector.

With CPI inflation likely to remain below 4% in the near term, ICRA expects additional rate cuts of 50 bps over the next six months.

Liquidity conditions deteriorated in Q4 FY2025, amid capital outflows and uptick in CWP. ICRA expects liquidity conditions to improve in Q1 FY2026, amid expectations of a large dividend pay-out by the RBI in May 2025, even as persistent capital outflows continue to pose a risk.

- **CPI inflation eased sharply to 22-quarter low of 3.7% in Q4 FY2025**: The headline CPI inflation dipped to 3.7% in Q4 FY2025 from 5.6% in Q3 FY2025, falling below the lower range of the MPC's 4% +/-2% inflation target after a gap of 21 quarters. This was largely led by the food and beverages (F&B) sector (to +4.1% in Q4 FY2025 from +8.5% in Q3 FY2025), amid the steep disinflation in vegetables (+1.1% vs. +32.7%). Amid the continued easing in prices of most food items in April 2025, ICRA expects F&B inflation to remain benign in April 2025 (+2.9% in March 2025), which would keep the headline CPI inflation well under the 4.0% mark in the ongoing month. Nevertheless, above-normal temperatures and heatwave in the country remains a key monitorable in the near term. While the India Meteorological Department's (IMD's) first long-range forecast of above-normal monsoon in 2025 is encouraging, the timing and distribution will be key for the implications for agri output and food inflation, going ahead.
- **High likelihood of a rate cut in June 2025 MPC review**: ICRA continues to expect further monetary easing of 50 bps over the next six months. With the next CPI print expected around 3.5%, a June 2025 rate cut seems highly likely, unless Q4 FY2025 GDP growth (which will be released at end-May 2025) surprises sharply to the upside.
- **Systemic liquidity to remain in surplus in near term**: Liquidity conditions worsened in Q4 FY2025, with the average systemic liquidity turning to a large deficit of Rs. 1.6 trillion (-0.7% of NDTL) from the surplus of Rs. 0.8 trillion (+0.4% of NDTL) in Q3, led by sizeable dollar outflows, a seasonal increase in CWP, and a sharp uptick in the GoI's cash balances. The RBI injected nearly Rs. 51.4 trillion during Q4 FY2025 via VRRs, while also conducting OMO purchase of G-Secs amounting to Rs. 2.8 trillion and forex swaps of ~$25.2 billion in that quarter. Looking ahead, the sizeable durable liquidity injection in Q4, and OMO purchases in April 2025 (Rs. 1.20 trillion) and May 2025 (Rs. 1.25 trillion; as per the RBI's notification), along with the seasonally lower pressure on account of currency leakage augurs well for liquidity conditions in Q1 FY2026, although dollar outflows will remain a key monitorable. While the unwinding of the RBI's net short forward book position (at record high of $88.8 billion by end-February 2025) would drain rupee liquidity, the elongation of maturity profile at end-February 2025 vis-à-vis end-November 2024, implies that the impact would be spread over a relatively longer period and not just concentrated in the immediate term.

Highlights – IV

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YoY deposit growth is estimated at 10.5-11.2% in FY2026. Incremental deposits are projected at Rs. 23.8-25.5 trillion in FY2026 (including HDFC merger).

Incremental credit expansion is projected at Rs. 19.0-20.5 trillion in FY2026 translating to a YoY growth of 9.7-10.3% in FY2026.

- **Deposit accretion picked up in Q4 FY2025**: The deposit accretion picked up in Q4 FY2025* at Rs. 5.1 trillion (Rs. 1.4 trillion in Q3 FY2025, Rs. 3.9 trillion in Q4 FY2024). While the increased intervention by the RBI in the forex market amid high capital outflows led to weak deposit accretion in Q3 FY2025, the OMO for purchase of G-Secs and USD/INR buy/sell swap auction by the RBI led to injection of liquidity in the banking system in Q4 FY2025. Though the deposit accretion of Rs. 21.0 trillion in FY2025 (till March 21, 2025) was lower than Rs. 24.3 trillion (till March 22, 2024), it was healthy considering credit growth of Rs. 18.0 trillion in FY2025 compared to that of Rs. 27.6 trillion in FY2024 (incl. HDFC merger). The deposits outstanding of the banking system rose to Rs. 225.7 trillion (+10.3% YoY growth) as on March 21, 2025 from Rs. 204.8 trillion as on March 22, 2024 (+13.5% YoY growth). ICRA estimates the deposit accretion at Rs. 23.8-25.5 trillion (10.5-11.2% growth) in FY2026 and outstanding deposit (including the impact of the HDFC merger) at Rs. 249.6-251.3 trillion by March 2026.

- **Incremental credit flow moderates in FY2025; expect regulatory easing to support incremental credit growth in FY2026:** Incremental NFBC expansion stood at Rs. 4.6 trillion in Q4 FY2025 (till March 21, 2025); this was slightly weaker than Rs. 4.9 trillion in Q4 FY2024 (till March 22, 2024) but was in line with Rs. 4.6 trillion recorded in Q3 FY2025 (till December 27, 2024). Moreover, the credit expansion, including the merger, during FY2025 (March 21, 2025) was lower at Rs. 18.0 trillion compared to Rs 27.6 trillion during FY2024 (March 22, 2024). Going forward, estimated improvement in liquidity conditions from revised liquidity coverage ratio framework and deferment of addtional provision on infrastructure projects could aid in credit growth. In addition, roll back of higher risk weights on unsecured consumer credit and loans to NBFC would also lead to increased credit flow to these segments. ICRA expects the regulatory easing seen in the recent months to support a credit expansion of Rs. 19.0-20.5 trillion, clocking a growth rate of 10.3-11.4% in FY2026 compared to credit expansion of Rs. 18.0 trillion or a 10.9% growth rate in FY2025. Accordingly, ICRA forecasts credit outstanding at Rs. 201.1-202.6 trillion by March 2026 (including HDFC merger).

Note: Data for Q4 FY2025 is from December 27, 2024 to March 21, 2025, data for Q3 FY2025 is from October 4 to December 27, 2024*

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Thank You!