

# Bond market signals limited room for further rate cuts

Abirami Sekar

abirami.s@livemint.com

MUMBAI

India's bond market sees further rate cuts as less likely now, at least according to one indicator.

The gap between India's 10-year government bond yield and the repo rate is at 96 basis points (bps), close to its widest in two years. This spread expanded as the benchmark yield rose on concerns about the near-term fiscal implications of reducing goods and services tax (GST) slabs to 5% and 18% and moving several categories to lower rates.

The yield difference reflects the stage of the rate cycle as spreads are "very narrow" at the start and high towards the end of it, according to Rajkumar Singhal, chief executive of Quest Investment Advisors, an investment advisory firm. "Currently, after having seen deeper rate cuts, the expectation is that going forward, rate cuts will be limited, and that's why spreads are higher."

The monetary policy committee of the Reserve Bank of India (RBI) has cut the repo rate by 100 bps since February to 5.5%. Economists expect further rate cuts, citing tariff shock and its likely impact on the economy, *Mint* reported earlier. However, the yield on sovereign paper has been rising since Prime Minister Narendra Modi's Independence Day announcement of GST relief. The bond market fears a spike in government borrowing to



The monetary policy committee of the Reserve Bank of India has cut the repo rate by 100 bps since February to 5.5%. **REUTERS**

make up for revenue foregone.

After rising from 6.4% on 14 August to 6.6% on 26 August, the yields cooled closer to the GST Council meeting, according to Investing.com data. On 3 September, the council agreed to retain two GST slabs—5% and 18%—while abolishing 12% and 28%. On 5 September, the yield softened 3 bps. It was at 6.51 on 10 September.

But the yields rose not just because of worries about the potential impact of GST cuts.

The 10-year government bond yields have not softened after the latest monetary policy, according to Venkatakrishnan Srinivasan, founder and managing partner of financial advisory firm Rockfort Fincap LLP. "The key reason is that the RBI has retained its monetary policy stance as neutral, which led

the market to believe that subsequent rate cuts may be delayed in the near term."

Pressure on the rupee and tariff uncertainties have also made investors more cautious about potential inflation risks, according to Srinivasan.

He said the fiscal impact of GST cuts is smaller than expected, and the government may not expand its borrowing programme.

The government has pegged the revenue shortfall from GST cuts at ₹48,000 crore a year based on

2023-24 consumption data. Finance minister Nirmala Sitharaman told *Mint* that the expected consumption boost will mean that the Centre will retain its budgeted fiscal deficit target of 4.4% this fiscal.

For an extended version of the story, visit [livemint.com](https://www.livemint.com)

**The gap between India's 10-year government bond yield and the repo rate is at 96 basis points, close to its widest in 2 years**