



DEBT MARKET

Bond prices and yields

Why a bond's price falls when interest rates rise, and what that does to a debt fund

Market figures as on 1 September 2026

For training and education only. Not investment advice.

A bond is a loan that can be sold to someone else.

The borrower's promise never changes. What changes every day is the price a buyer will pay for that promise. That price depends on what new loans are paying today.

Four words to know first



Face value

The amount the borrower repays at the end. For most bonds discussed here, think of ₹1,000 or ₹100 per bond.



Coupon

The interest the borrower pays on the face value, fixed on day one. A 7% coupon on ₹1,000 pays ₹70 a year.



Maturity

The date the face value is repaid. The time left until then is the bond's remaining life.



Market price

What a buyer pays for the bond today. It can be above or below face value, and it moves every day.

The maturity date is fixed and the time left shrinks every day. Only the market price moves with the market.

The seesaw, with real arithmetic

THE SET-UP

A bond with ₹1,000 face value and a 7% coupon has exactly one year left.

In one year its holder receives ₹1,070 (₹1,000 + ₹70). That amount is fixed.

- 1 New one-year bonds pay 7%: a buyer pays $₹1,070 \div 1.07 = ₹1,000$.
- 2 Rates rise and new one-year bonds pay 8%: a buyer will pay only $₹1,070 \div 1.08 = ₹990.74$.
- 3 Rates fall and new one-year bonds pay 6%: a buyer will pay $₹1,070 \div 1.06 = ₹1,009.43$.
- 4 In each case the buyer earns exactly the going rate. The price adjusts until the old bond is no better and no worse than a new one.

Yields up, price down. Yields down, price up. Nothing about the borrower changed.

Illustration with assumed figures. Not a forecast.

Three numbers that all get called 'yield'

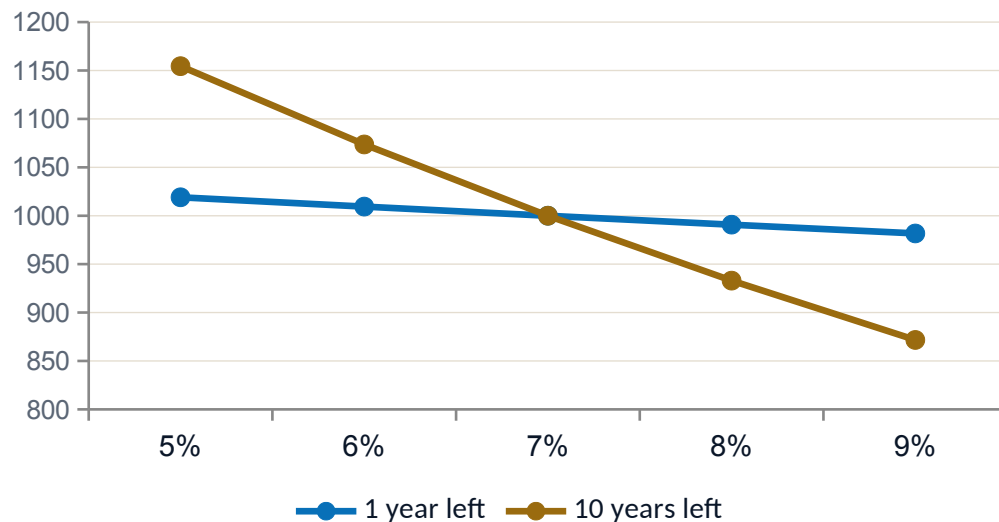
A bond with ₹1,000 face value, a 7% coupon and five years left is bought today for ₹950.

Term	What it measures	On this bond
Coupon rate	Annual interest ÷ face value. Fixed for the bond's life.	$₹70 \div ₹1,000 = 7.00\%$
Current yield	Annual interest ÷ the price paid. Ignores any gain or loss at maturity.	$₹70 \div ₹950 = 7.37\%$
Yield to maturity (YTM)	The yearly return if the bond is held to maturity, every payment arrives on time and each coupon is reinvested at the same rate.	About 8.26%: ₹70 a year plus the ₹50 gain at maturity

Illustration with assumed figures. When a factsheet or a news report says 'yield', it usually means yield to maturity.

The longer the bond, the bigger the swing

Price of a ₹1,000 bond, 7% annual coupon



Read the chart

- At a 7% market yield both bonds are worth ₹1,000.
- If yields move to 8%, the 1-year bond is worth ₹990.74 and the 10-year bond ₹932.90.
- If yields move to 6%, they are worth ₹1,009.43 and ₹1,073.60.
- The same change in yield moves the 10-year bond roughly seven to eight times as much.

Illustration: prices computed from the standard bond-price formula with annual coupons. Assumed figures, not market data.

Where yields stand

Three numbers to know before any conversation about debt funds. They change; check the date.

INDIA 10-YEAR G-SEC YIELD

6.96%

Yield on the 6.94% GS 2036, the 10-year government bond, on 1 September 2026.

RBI POLICY REPO RATE

5.50%

Raised from 5.25% on 7 October 2026. The 10-year yield on 1 September was about 1.7 points above 5.25%.

CPI INFLATION

4.82%

Year-on-year for August 2026 (provisional). RBI's target is 4%, within a band of 2% to 6%.

Sources: RBI Current Rates (10-year yield and repo rate, 1 Sep 2026); RBI Monetary Policy Statement, 7 Oct 2026; MoSPI CPI press release for August 2026.

What moves bond yields

1

RBI's policy rate

The repo rate anchors short-term rates. Expected changes in it are often reflected in yields before they happen.

2

Inflation

Lenders want a return above inflation. When inflation is expected to rise, they ask for higher yields.

3

Government borrowing

When more bonds are being sold than buyers want at the current price, yields rise to draw buyers in.

4

Global yields and flows

Foreign investors compare Indian yields with yields abroad. Their buying and selling moves prices here.

5

Credit risk

For company bonds, doubts about repayment push the yield up over the government bond yield. That gap is the credit spread.

What this does inside a debt fund

A debt fund values nearly all its bonds at market-based prices every day, so its NAV carries these moves.

When yields fall

- Prices of the bonds it holds rise, so NAV gets a lift on top of the interest earned.
- Funds holding longer-maturity bonds gain more.
- New money is invested at the lower yields.

When yields rise

- Prices of the bonds it holds fall, which can outweigh the interest earned for a while.
- Funds holding longer-maturity bonds fall more.
- New money and maturing bonds are invested at the higher yields.

This is interest-rate risk. It is separate from credit risk, which is about whether the borrower repays.

Four things people get wrong



'Government bonds cannot lose money.'

Central government rupee bonds carry no default risk, and face value is repaid at maturity. But the price before maturity moves with yields.



'A higher yield means a better bond.'

A higher yield is payment for something: a longer wait, a weaker borrower, or a bond that is hard to sell.



'The coupon is my return.'

Only if you paid face value and hold to maturity. Your return depends on the price you paid.



'A debt fund is like a fixed deposit.'

A deposit's value does not change day to day. A debt fund's NAV does, and its returns are not assured.

Check yourself

Q1

A bond has a 7% coupon. New bonds of the same maturity now pay 8%. Will the old bond trade above or below its face value, and why?

Q2

Two bonds have the same coupon. One matures in 1 year, the other in 10. Yields rise by one percentage point. Which price falls more?

Q3

A client says: 'My gilt fund holds only government bonds, so how did it fall last month?' What is the explanation?

Sources and disclaimer

SOURCES FOR THE FIGURES IN THIS DECK

- 10-year government bond yield (6.94% GS 2036, 6.9570%) and repo rate of 5.25%, both on 1 Sep 2026: Reserve Bank of India, Current Rates, rbi.org.in (page archived 2 Sep 2026).
- Policy repo rate 5.50% from 7 Oct 2026: RBI Monetary Policy Statement, Press Release 2026-2027/1264.
- CPI inflation 4.82% for August 2026 (provisional, base 2024=100): MoSPI press release dated 14 Sep 2026.
- Inflation target of 4% with a band of 2% to 6%, 1 April 2026 to 31 March 2031: Government of India notification of March 2026.
- All bond prices in the worked examples and the chart are illustrations computed with assumed figures. They are not quotes for any actual bond.

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