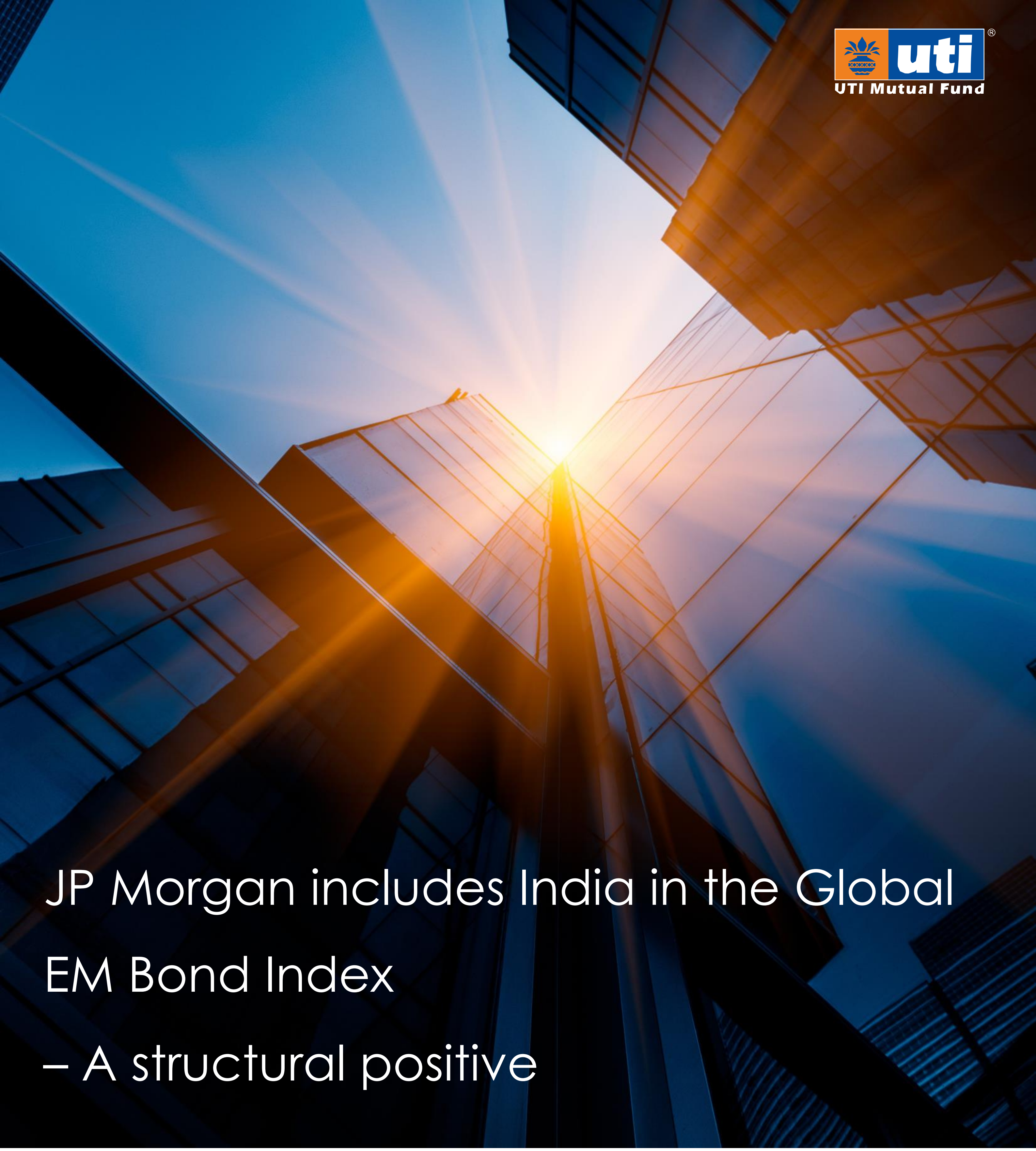

JP Morgan includes India in the Global EM Bond Index – A structural positive

Inclusion of India in global bond indices has been much talked about since 2019. India introduced the Fully Accessible Route (FAR) program in 2020, facilitating foreign portfolio investments to invest in bonds without restrictions and substantive market reforms for aiding FPIs. India has been on the JP Morgan EM Global Indices Positive watchlist since 2021 for inclusion in GBI-EM following these reforms. In 2023 review, 73% of investors in JPM's survey supported India's inclusion.

- JP Morgan confirmed inclusion of Indian Government Bonds (IGB) in the GBI-EM Global index suite starting June 28, 2024
- Expected to reach a maximum weight threshold of 10% in GBI-EM Global Diversified Index (GBI-EM GD) and 8.74% in the GBI-EM Global index, which accounts for US$ 213 bn
- Inclusion to be staggered over a period of 10-months, adding 1% weight each month till March 2025
- Currently 23 IGBs with combined notional value of US$ 330 bn meet inclusion criteria
- India will have the second largest weight in the Index, after China

Country weight projections for GBI-EM series post India inclusion

	GBI-EM Global Diversified			GBI-EM Global		
	Current Wgt (%)	Estimated Wgt (%)	Delta	Current Wgt (%)	Estimated Wgt (%)	Delta
India	-	*10*	*10*	-	*8.74*	*8.74*
China	10	10	-	54.56	49.83	-4.73
Indonesia	10	10	-	6.70	6.12	-0.58
Mexico	10	9.99	-0.01	6.59	6.02	-0.57
Malaysia	10	9.49	-0.51	5.07	4.63	-0.44
Brazil	10	9.00	-1.00	4.84	4.40	-0.45
Thailand	9.79	8.14	-1.65	4.35	3.98	-0.38
South Africa	8.11	6.75	-1.36	3.61	3.29	-0.31
Poland	7.57	6.29	-1.27	3.36	3.07	-0.29
Czech Republic	6.18	5.14	-1.04	2.75	2.51	-0.24
Others	*18.35*	*15.19*	*-3.17*	*8.16*	*7.41*	*-0.76*

Source: JP Morgan, as of Aug 31, 2023

How it may benefit India

- Inflows of ~US$ 21 bn estimated in domestic G-sec market over the scale-in period
- Potentially help India to finance its fiscal and CAD and hence improve the country's BoP in FY25
- Enhanced liquidity and ownership base of G-secs will be a positive development for Indian G-secs.
- Should lower country's risk premia and structurally augur well for INR and FX markets, leading to lower cost of borrowings for the economy at large
- This inclusion paves way for India for inclusion in other major global bond indices such as Bloomberg Aggregate Index, the JADE Global Diversified index, however taxation on FPI capital gains remains a challenge.

Impact on Indian Fixed Income and Forex markets

Near Term

- Immediate impact of the above inclusion is expected to be limited as the market has already factored it in, having anticipated this development. In the near term, the market is expected to remain rangebound, with focus on global macros such as movements in US interest rates, apart from energy and food prices driving the market moves.

Medium to Long Term

- In the medium term, large forex inflows on account of portfolio investments from passive funds are expected to be absorbed by the RBI, providing further comfort on the country's forex reserves. However, any liquidity infusion resulting from the RBI's forex purchases is expected to be sterilized by way of Open Market Operations (OMO) by the RBI, which will limit the downward impact on yields associated with such one-time substantial flows.
- Inclusion in such indices will increase scrutiny of our fiscal and monetary policies and enhances the need for discipline and stability in domestic policies.
- On a continued basis, the annual inflows from global passive funds tracking the above-mentioned indices are expected to offer an additional source of stable demand. This will result in better demand-supply dynamics for G-secs, consequently lowering the term premia for IGBs.

CAD – Current Account Deficit, BoP – Balance of Payment