Global Bond Indices

Why in news?

The Indian government has been trying hard to include the government debt in the large global bond indices.

What are global bond indices?

- Global bond indices include the emerging debt markets that closely monitor local currency bonds that are issued by governments of various developing nations.
- JP Morgan and Bloomberg–Barclay's are the popular global bond market indices.
- **Significance**- Global bond indices help investors track the movement in bonds in multiple jurisdictions and aid in relative comparisons.
- Indices are benchmark or guides to investments by mutual funds, pension funds and other large investors that typically prefer to hold onto investments for longer periods.
- In the bond market, there are indices that track high-yield risky bonds, emerging market bonds and government bonds.

What basic criteria is required for index inclusion?

- Conditions that enable easy flow of money into the country is predominant.
- The countries must meet parameters on liquidity, safety, and returns.
- The main parameters include
    - The size of the market
    - The country rating
    - Ease of access
- Country-level criteria for index inclusion includes
    - Absence of restrictive laws on movement of capital
    - Availability of forex
    - Adequate hedging mechanism
    - Tax laws
    - Settlement of trade

What about India's case?

- Despite being the second largest bond market within emerging markets, India is not a part of the global index.

Reasons for non-inclusion

- **Taxation laws**- At present, long-term capital gains is taxed at 20% (excluding surcharge), while short-term capital gains is subject to 15%.
- India is unwilling to discriminate between domestic and foreign investors and place

foreign investors advantageously.

- **Settlement mechanism**- At present, all bonds, whether G-secs or otherwise, if listed as part of the index, are to be settled in Euroclear.
- But, India is batting for local settlement of its government securities, as in the case of China.
- Even if settlement is allowed in domestic clearing houses, the process is cumbersome for foreign investors.

Euroclear Bank is a provider of settlement services for cross-border transactions, whether bonds (domestic or international), equities, derivatives or investment funds.

What are the benefits of being included in global bond indices?

- **Reduced pressure on commercial banks**- The inclusion in the global bond index will reduce the pressure felt by commercial banks to absorb the majority of government bonds.
- **Strengthen the investor base**- Inclusion in global indices would strengthen a key investor base -foreign institutional investors.
- **Surge in investment-** If India is included in the global bond index, it will attract passive inflows, which in turn will result in the surge of active foreign fund inflows.
- **Confidence in Indian rupee**- It will benefit the Indian rupee as there will be increased confidence, resulting in further strength and stability.
- **Equity inflows**- With a stronger rupee, equity inflows are also likely to rise.
- **Stable exchange rate**- A steady flow of dollars keeps the exchange rate from depreciating too much.

A report by JP Morgan estimates that India's inclusion in the global index will increase the foreign ownership in G-Secs to 10% from the current level of less than 2%.

References

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2. https://www.moneycontrol.com/news/business/markets/mc-explains-why-india-should-pursue-inclusion-in-global-bond-indices-9100201.html
3. https://www.fisdom.com/global-bonds-index-why-indias-inclusion-matters/

Quick facts

Passive fund

- A passive fund is an investment vehicle that tracks a market index, or a specific market

segment, to determine what to invest in.
- Example- Tracker funds, such as ETFs (exchange traded funds) and index funds.

