

India's Bond Market Awakens: The Global Rush for Rupee Securities



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“India’s bond market isn’t just rising; it’s redefining the global investment landscape, offering unparalleled opportunities amid a backdrop of economic resilience and transformative growth”

In the intricate and dynamic world of global finance, where every decision is a calculated and every trend a strategic pivot, a profound transformation is captivating the attention of the financial world. Imagine a market once considered peripheral now

emerging as a prime arena for high-stakes investment. *Welcome to the growing Indian bond market, a promising powerhouse that is shifting global capital flows and redefining investment paradigms.*

For decades, the Indian bond market was overshadowed by its more developed counterparts. Historically, rupee-denominated bonds were associated with higher yields due to perceived risks related to currency fluctuations and economic instability. Yet, as we navigate through 2024, this narrative is experiencing a remarkable reversal. The Indian bond market is now attracting unprecedented foreign interest, with international investors holding a staggering ₹1.78 trillion in Indian debt securities under the Fully Accessible Route (FAR). *This shift is not just a statistical trend but reflects India’s evolving economic landscape and rising prominence on the global stage.* More so, India’s robust GDP growth forecast of 7.2% for 2024-25 underscores its position as a leading performer among major economies. The positive economic outlook strengthens the case for investing in Indian debt and highlights India’s emergence as a significant economic player on the global stage.

In the past, Indian rupee-denominated bonds often traded with a higher spread compared to their USD counterparts, reflecting investor concerns about potential rupee depreciation. This spread served as a risk premium, compensating for the perceived volatility and uncertainty associated with the Indian currency. However, the current landscape is witnessing a significant shift. Indian bonds are no longer just holding their ground but are increasingly becoming attractive to investors. This shift is evident as the spread between Indian rupee-denominated bonds and USD-denominated bonds is narrowing. As global investment dynamics change, Indian bonds are demonstrating resilience and offering compelling value, leading to a more favorable comparison in terms of risk-adjusted returns.

A key driver behind this shift is India’s impressive

macroeconomic resilience. Despite the US Federal Reserve’s policy of maintaining elevated interest rates—strengthening the US Dollar—the Indian Rupee (INR) has shown remarkable stability. In 2023, the INR depreciated by a modest 0.8% against the USD, with low volatility highlighting the underlying strength of India’s economy. *This stability, combined with controlled volatility and higher foreign currency reserves, reassures investors by easing concerns over currency risk thereby making rupee-denominated bonds more attractive.*

Significant improvements in India’s financial market infrastructure have also played a crucial role. The Regulators have implemented transformative reforms to support market efficiency and transparency. Enhanced infrastructure, including strengthened central bank reserves and advanced market systems, creates a more conducive environment for investment. *These improvements ensure smoother transactions, greater liquidity, and heightened investor confidence, making Indian bonds increasingly attractive.* India’s advancements in financial technology further boost the attractiveness of its bond market. The RBI’s support for cutting-edge technologies has resulted in a sophisticated financial tech stack that facilitates high liquidity and operational efficiency. Innovations in trading platforms, settlement systems, and real-time data provision ensure that investors can manage their investments with unprecedented ease and cost-effectiveness, making Indian bonds more appealing on the global stage.

We have observed a significant influx of capital into government securities, reflecting strong investor confidence and robust demand for these instruments. It would be encouraging to see this getting equally mirrored across all segments of the debt market. Specifically, state government securities, state development loans, and corporate bonds have yet to experience a comparable level of inflow. These areas are still navigating a path toward similar levels of investment interest and market penetration.

The Indian debt market, once eclipsed by its more dynamic equity counterpart, is now experiencing a profound transformation. *This evolution is a result of several factors coming together at the right time, contributing to the debt market’s ascent as a fundamental pillar of India’s financial infrastructure.* As India’s economy expands and matures, both domestic advancements and global trends are increasingly highlighting the potential of emerging debt markets like India’s. Companies are increasingly turning to bonds for their financing needs, drawn by the competitive terms that often surpass those of traditional bank loans. This trend underscores the growing appeal of bonds as a strategic financing tool for businesses.

India is one of the few countries with a substantial amount of operational infrastructure assets, such as roads, power, and transmission systems. The combination of steady exchange rates and long-term annuities has attracted significant interest from both domestic and global institutions. Building on the transformative momentum in the Indian debt market, the infrastructure bond sector

has seen remarkable growth. This boom in infrastructure bonds not only underscores the expanding opportunities within the debt market but also reinforces the essential role of bonds in advancing national progress and fostering sustainable development.

The Indian government's robust commitment to infrastructure development—evident in transformative initiatives Smart Cities Mission, Golden Quadrilateral ("GQ"). The GQ project managed by the National Highways Authority of India (NHA) under the Ministry of Road, Transport and Highways and many such significant initiatives have substantially driven the growth of the debt market and necessitated substantial financing, predominantly sourced through debt instruments, thereby amplifying both the volume of debt issuances and the overall liquidity and depth of the market.

In parallel, recent advancements in enhancing the municipal bond market have been instrumental. By enabling urban local bodies to issue bonds, the government is adeptly addressing the funding gaps for crucial local infrastructure projects. This initiative not only broadens the investor base but also promotes financial autonomy and accountability at the grassroots level facilitating impactful investment opportunities.

Additionally, regulatory reforms and initiatives by the Securities and Exchange Board of India (SEBI) have significantly bolstered the Indian debt market. Innovations such as electronic trading platforms, streamlined issuance processes, and enhanced disclosure requirements have facilitated greater participation from both issuers and investors. These reforms have improved market

transparency and governance, making it more attractive to both domestic and international investors.

A pivotal development is the inclusion of Indian government securities in major global bond indices. Starting in June 2024, JP Morgan and Bloomberg will incorporate Indian bonds into their widely followed indices. This inclusion is expected to attract between \$20 billion and \$25 billion in foreign inflows, significantly boosting demand for Indian debt. The elevation of Indian bonds to these prestigious indices not only enhances their visibility but also aligns them with global investment benchmarks, drawing substantial interest from institutional investors worldwide.

As global investors increasingly gravitate towards Indian debt, the country's bond market stands poised to lead a new era of financial innovation and growth.

Looking ahead, the Indian bond market is not merely an opportunity; it represents a beacon of potential in the evolving global investment landscape. With its robust economic fundamentals, innovative financial infrastructure, and promising growth outlook, India's bond market is set to become a cornerstone of global investment portfolios. The increasing foreign presence reflects a profound shift in investment strategies and underscores India's rising prominence on the world stage.

Moving towards our dream of \$ 30 trillion economy by 2047, the Indian bond market stands ready to play a pivotal role in shaping the global financial landscape, offering a unique blend of stability, growth, and potential that is hard to find elsewhere.