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INDIAN BOND MARKET

Driving Balance Sheet Transformation

NOVEMBER 2025

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INDIAN BOND MARKET

Credit and Rates: Navigating Risk and Returns

TOPICS COVERED

GLOBAL MARKET OVERVIEW

Global economic conditions entering late 2025 remain resilient despite policy uncertainty, tariff escalations, and tighter financial conditions. According to the OECD Interim Economic Outlook (September 2025), global GDP expanded at an annualised pace of 3.2% in early 2025[1], even as higher tariffs and tighter financial conditions began to weigh on activity.

However, growth momentum is expected to moderate through 2026 as the full effects of higher tariffs and fading fiscal support take hold. The OECD projects that global growth will slow from 3.3% in 2024 to 3.2 % in 2025 and 2.9% in 2026[1]. Within this, the United States is expected to expand by 1.5 % in 2026 (2.8% in 2024 and 1.8% in 2025)[2], as higher effective tariff rates and policy uncertainty weigh on demand. The Euro Area is projected to grow by 1.0 % in 2026[1](1.2% in 2025)[3], reflecting the drag from tighter trade and fiscal consolidation in large member economies. China's GDP is forecast to ease from 4.9 % in 2025 to 4.4% in 2026[1] as export front-loading unwinds and fiscal support fades. India remains a bright spot, with growth projected at 6.7% in 2025 and 6.2% in 2026[1], supported by monetary and fiscal easing, including recent tax-reform measures.

For bond markets, the key implication of this growth moderation is the shift in inflation and interest-rate expectations across major economies. Slower activity is reinforcing disinflation, and markets are increasingly pricing in a synchronized but gradual rate-cutting cycle through 2026, led by the US Federal Reserve and the Bank of Canada. Yield curves in most advanced economies remain flat to mildly inverted, reflecting expectations of weaker medium-term growth but elevated term premia linked to fiscal risks.

Inflation pressures continue to ease gradually. Headline inflation in G20 economies is projected to decline from 3.4% in 2025 to 2.9% in 2026[1], while core inflation in advanced economies is expected to remain broadly stable at 2.6% in 2025 and 2.5% in 2026[1]. The disinflation trend reflects slower demand growth, easing labour-market pressures, and declining energy prices. However, in several advanced economies, services inflation and wage stickiness are likely to delay the return to central-bank targets.

The monetary-policy cycle is now turning. After nearly two years of tight policy, several major central banks have begun easing. According to Goldman Sachs Asset Management's Fixed Income Outlook 4Q25, the US Federal Reserve cut its policy rate by 25 basis points in September 2025[4], marking the start of a renewed easing phase. The report expects two further cuts by year-end, of which it already delivered one in October, and additional easing in 2026. The Bank of Canada delivered 25 bps cut in October 2025[2], while the European Central Bank and the Bank of England are likely to hold through the remainder of 2025, with scope to ease in early 2026 if inflation undershoots expectations.

Financial conditions have eased since mid-year, but fiscal concerns are rising. The OECD highlights that the real-term premium underpinning 10-year US Treasury yields has climbed to its highest level in over a decade, amid concerns over fiscal sustainability and rising debt-service costs. The same report notes that long-end sovereign spreads have widened in fiscally constrained economies such as France and Japan, underscoring persistent investor sensitivity to debt trajectories.

Looking ahead to 2026, the global bond market faces a delicate balance. Easing inflation and gradual rate cuts should support duration performance, but large fiscal deficits, geopolitical fragmentation, and elevated refinancing needs limit the scope for a sustained rally. Both the OECD and major asset managers emphasise the need for credible fiscal frameworks, transparent trade policies, and strong regulatory oversight to preserve investor confidence. The central challenge remains one of equilibrium—sustaining growth and easing financial conditions without undermining fiscal stability. For investors, this translates into a world of lower policy rates but higher structural risks, where volatility and dispersion are likely to define global fixed-income returns in the year ahead.

INDIAN MARKET OVERVIEW

India's growth momentum remains firm heading into 2026. As per an RBI bulletin, GDP is projected to expand by 6.5% in FY25 and 6.8% in FY26[5], supported by easing monetary and fiscal policy, stable inflation, and continued government spending on infrastructure and manufacturing. According to the IMF's October 2025 World Economic Outlook[6], global activity is moderating amid higher tariffs and trade fragmentation, but India remains one of the fastest-growing major economies, supported by resilient domestic demand, tax reforms, and sustained public investment.

Policy settings mirror this balance. The RBI has gradually shifted from its tightening stance to a measured pause, keeping the repo rate unchanged at 5.50% after earlier rate cuts in 2025. The central bank remains data-dependent but comfortable with the inflation trajectory, which has been below its 4% target since February 2025. The MPC signaled that in light of benign inflation and improved growth outlook, it retains scope for further easing should disinflation persist and global financial conditions remain stable. Inflation outlook has become more benign. CPI inflation is expected to average around 2.6% in FY26[7], reflecting softer food prices and stable energy costs.

The fiscal stance remains expansionary but responsible. The Union government continues to prioritise capital expenditure, particularly in transport, logistics, and energy infrastructure. The fiscal deficit target for FY26, at 4.4% of GDP[8], marks progress toward medium-term consolidation while retaining space for growth-oriented spending. State finances have improved, aided by higher tax devolution and buoyant GST collections. Public debt levels remain stable, supported by nominal GDP growth and prudent issuance management.

INDIAN BOND MARKET

India's bond market has remained resilient through 2025 despite global volatility. Benchmark 10-year government bond yields have traded in a 6.2–6.9 % range[9] (2025).

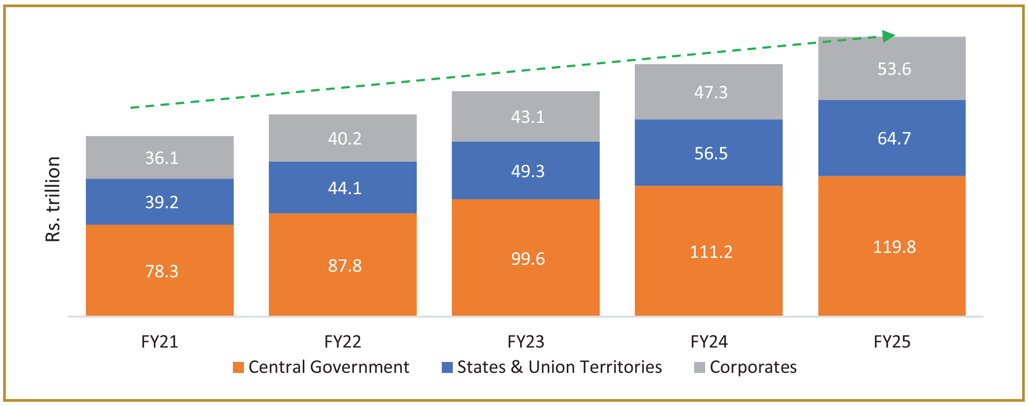
The inclusion of Indian government securities in global bond indices has been a landmark reform shaping the year's flows. JPMorgan began phased inclusion of FAR bonds in June 2024. Bloomberg started including FAR securities in its EM local-currency index from January 2025 with a 10-month phase-in. FTSE Russell began inclusion from September 2025. These moves have broadened India's investor base, encouraging stable foreign participation and reducing reliance on domestic financial institutions. The gradual implementation schedule has allowed smooth absorption without excessive volatility.

Foreign portfolio inflows have strengthened into the second half of 2025[10]. The RBI's decision to maintain FPI limits for FY26 underlines continuity, while operational reforms to settlement and access infrastructure have improved liquidity.

On the corporate side, issuance activity has picked up modestly as borrowing costs stabilised. Large corporates and public-sector undertakings continue to dominate the primary market, while financial institutions have used the window to lock in medium-term funding. An additional growth driver has been the revival of the securitisation market, particularly through direct assignment (DA) and pass-through certificate (PTC) structures. As liquidity improved and risk appetite returned, banks and NBFCs increasingly used securitisation to recycle retail and MSME loan portfolios, diversify funding, and optimise balance-sheet usage. The sustained growth in securitisation volumes through 2025 highlights its re-emergence as a complementary credit channel within India's broader fixed-income ecosystem. India's sovereign and corporate green bond programmes have also expanded, with investors citing transparency and strong project pipelines as key draws.

Looking ahead, the outlook for India's fixed-income market is constructive. Moderating inflation, a cautious central bank, and a robust fiscal anchor should keep yields contained even as issuance remains elevated. Index-related inflows will add structural depth to the market through 2026. While risks from global growth shocks or a stronger dollar cannot be dismissed, India's macro fundamentals and deepening investor participation leave it well positioned among emerging markets.

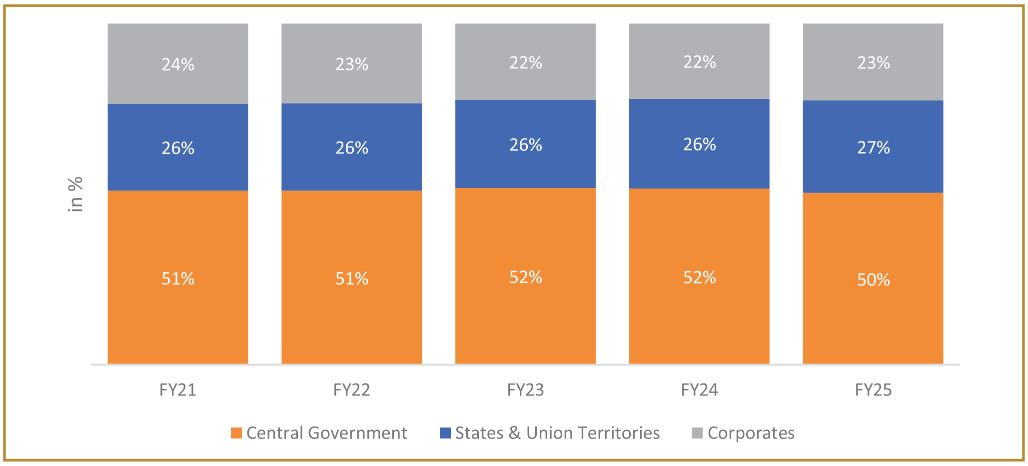
Exhibit 1: Classification of the Indian Bond Market



Source: RBI[11], SEBI[12]

Note: For Central Government, only marketable loans and T-bills have been considered. For State Government and Union Territories, market loans, compensation bonds and other bonds have been considered.

Exhibit 2: Classification of the Indian Bond Market (In % Terms)



Source: RBI[13], SEBI[14]

Note: For Central Government, only marketable loans and T-bills have been considered. For State Government and Union Territories, market loans, compensation bonds and other bonds have been considered.

Over the years, the share of the Central Government in total marketable debt has remained broadly stable at around 50–52%. In FY25, Central Government issuances stood at Rs. 119.8 tn, accounting for 50% of total marketable debt of Rs. 238.1 tn. State governments and Union Territories continued to expand their borrowing programmes, with issuances rising to Rs. 64.7 tn in FY25, representing 27% of total issuances. The steady rise in state borrowings reflects higher capital outlay requirements and increased dependence on market borrowings following the gradual withdrawal of central fiscal support post-pandemic.

Corporate bond issuances, though smaller in relative terms, have grown steadily from Rs. 36.1 tn in FY21 to Rs. 53.6 tn in FY25 — maintaining a share of about 22–23%. Over the same period, securitisation activity has also picked up meaningfully, reflecting stronger investor appetite and renewed balance-sheet optimisation by banks and NBFCs. Total securitisation volumes (DAand PTCcombined) are estimated to have crossed Rs. 2.6 tn in FY2515, marking one of the strongest expansions in recent years. Overall, the composition of India's marketable debt continues to be dominated by sovereign and sub-sovereign issuers, with corporates playing a growing but still limited role.

CORPORATE BOND MARKET

Overview

India continues to be one of the fastest-growing major economies, with GDP projected to expand by 6.8% in FY26[16], following 6.5% growth in FY25[17]. Robust government capital expenditure, fiscal consolidation, and resilient domestic demand have strengthened India's macroeconomic fundamentals, while stable inflation and a manageable current-account position have supported investor confidence. In May 2024, S&P Global Ratings revised India's sovereign outlook from 'Stable' to 'Positive'[18], and on 14 August 2025[19] upgraded the long-term sovereign rating from 'BBB-' to 'BBB', with the short-term rating raised to 'A-2', citing strong economic resilience, sustained fiscal consolidation and improved spending quality.

Against this backdrop, the corporate bond market has emerged as a key pillar of India's evolving credit ecosystem. According to SEBI, the outstanding stock of corporate bonds stood at Rs. 53.6 tn as of end-March 2025 with issuances of ~Rs. 10.0 tn during FY25. This growth underscores the increasing shift toward market-based financing, as corporates refinance high-cost bank loans and fund expansion through bonds rather than traditional credit channels.

From a structural perspective, issuance activity has been led by AAA-rated companies, large NBFCs, and public sector entities, supported by stable yields and strong institutional demand. However, secondary-market liquidity remains thin—average monthly turnover in FY25, which was only about 3.8% of outstanding bonds[20], lower than in mature markets.

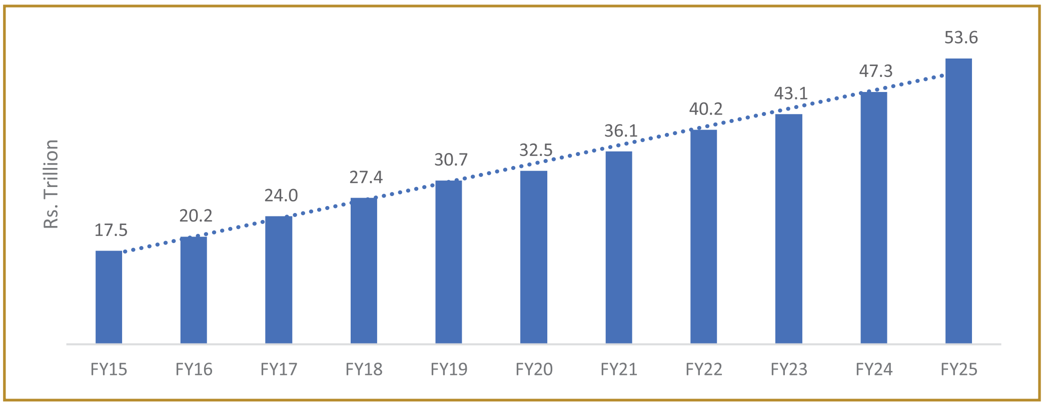
To deepen the market, regulators are implementing several reforms, including the proposed launch of corporate-bond index derivatives, increased retail participation, SEBI's market-making framework, and the RBI's Draft Capital Market Exposure Directions (2025), which give banks greater flexibility to finance market-linked exposures. Together, these measures are expected to improve liquidity, attract new investor classes, and enhance price discovery.

As India's economy transitions toward a USD 7.5 tn size by 2031[21], a deeper and more liquid corporate bond market will be critical to meeting the financing needs of infrastructure, ESG-linked projects, and corporate investment—making it a cornerstone of India's next growth phase.

Trends

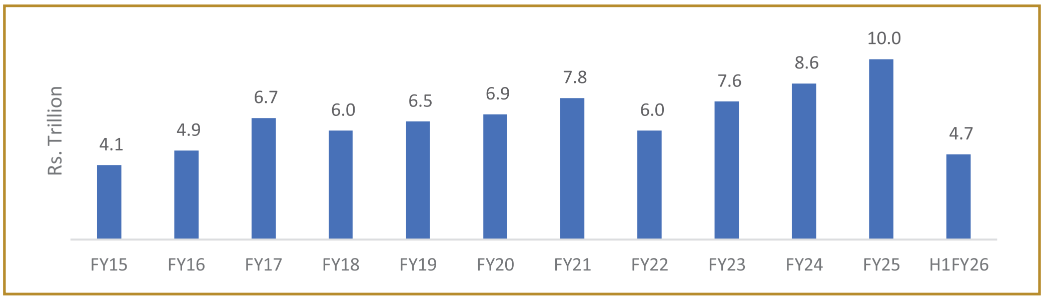
The corporate bond outstanding value has seen a threefold increase, rising from Rs. 17.5 tn in March 2015 to Rs. 53.6 tn in March 2025.

Exhibit 3: Corporate Bonds Outstanding



Source: SEBI[22]

Exhibit 4: Corporate Bonds Issuance



Source: SEBI[23]

SEBI data shows that primary corporate bond issuances (public and private combined) rose to Rs. 10.0 tn in FY25, up from Rs. 8.6 tn in FY24. Growth was led by private placements, which accounted for over 99 % of total issuances. In the current fiscal (FY26), issuances have reached about Rs. 4.7 tn up to September 2025 (H1FY26), indicating that full-year volumes are likely to remain broadly comparable with FY25's record levels. Looking ahead, the medium-term outlook for India's corporate bond market remains robust.

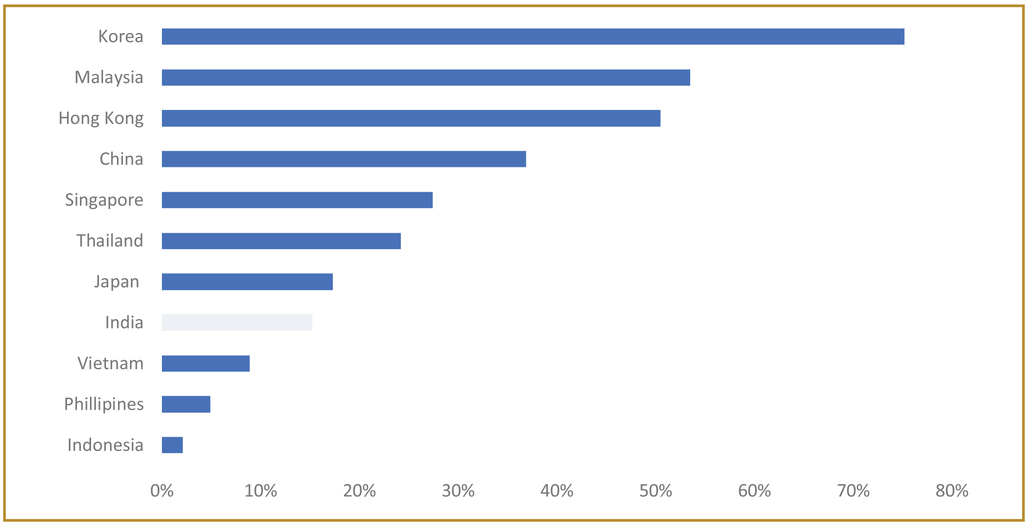
CRISIL Ratings expects the outstanding corporate bond stock to expand to Rs. 100–120 tn by FY30[24], driven by sustained infrastructure and corporate capex, growing investor appetite for infrastructure-linked instruments, and the financialization of household savings. ICRA expects the corporate bonds outstanding to increase to ~Rs. 55.3-56.2 trillion by March 2026[25]. The CRISIL (Bond for Funds, April 2025) study estimates that if top non-financial corporates increase their share of debt raised via bonds from around 25 % currently to 50–66 % of their total domestic borrowings, it could unlock an incremental Rs. 4–7 tn of bond issuances over the medium term[26].

On the supply side, strong corporate balance sheets, high-capacity utilisation, and a favourable macroeconomic backdrop are expected to sustain issuance momentum. CRISIL further estimates that aggregate infrastructure and corporate capex will reach Rs. 110 tn during FY23–27, about 1.7× the level of the previous five years[27], with roughly one-sixth financed through corporate bonds.

INDIA V/S OTHER EMERGING ASIAN ECONOMIES

India's outstanding corporate bond stock has generally hovered in the mid-teens of GDP, though data vary slightly by source. The years of the pandemic (FY21 and FY22) appear to represent exceptions to this range, driven by unusually low interest rates, aggressive liquidity support and heightened demand for capital as the economy began recovering. By contrast, major Asian emerging economies such as Korea (~75% of GDP) and China (~37% of GDP) show far deeper corporate bond markets, illustrating how India lags its peers in market-based financing. A deeper corporate bond market matters because it allows firms to diversify beyond bank loans, access longer-term and more stable funding, and spreads credit risk more broadly through institutional and retail investor pools

Exhibit 5: Country Wise Corporate Bonds Outstanding as a % Annualized GDP* (In %)

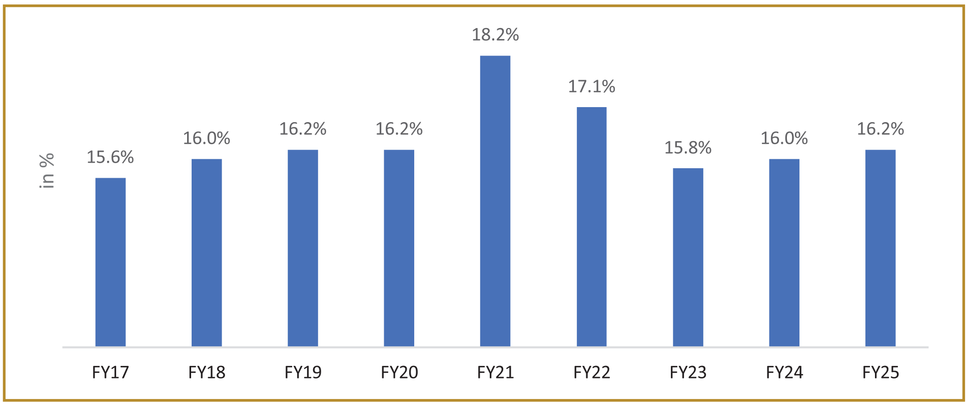


**GDP Refers to annualised Q4FY25 Nominal GDP*

Source: Asian Bonds Online[28], RBI

As noted by central banking commentary, a well-developed corporate bond market can reduce reliance on banks and help absorb shocks. While India is making progress – recent commentary suggests the share may be rising towards ~17% and issuance activity is picking up – significant structural constraints remain, including weak secondary market liquidity, high reliance on private placements, and concentration of issuance in high-rated corporate borrowers.

Exhibit 6: India – Trend of Corporate Bonds Outstanding as a % GDP (In %)



Source: RBI

GROWTH DRIVERS FOR THE INDIAN BOND MARKET

The growth of India's corporate bond market rests on several structural shifts and evolving dynamics.

Corporates Shifting from Bank Loans to Bond Financing

Large-scale infrastructure projects, energy transitions, and corporate capex expansion are driving a structural shift from reliance on traditional bank debt toward bonds. India's top corporates are projected to double their capital expenditure to about USD 800–850 billion over the next five years[29]. Corporate borrowers are increasingly comfortable accessing the bond market as a source of long-term capital, particularly as it offers diversified funding and competitive pricing compared to bank loans (for high rated papers). As of March 2025, the stock of outstanding corporate bonds stood at around Rs. 53.6 tn (≈ USD 627 bn), accounting for roughly 22–23 % of the total Indian bond market[30].

Expanding Role of NBFCs and Housing Finance Firms Tapping Market Funding

Non-bank financial companies (NBFCs) and housing finance firms are increasingly relying on market-based funding routes. Private placements by NBFCs have accounted for a growing share of total corporate bond issuance, as these entities diversify away from bank borrowing. The shift is supported by improving credit conditions, investor appetite for high-quality paper, and regulatory clarity. The participation of NBFCs has broadened the issuer base and deepened the corporate bond market beyond large corporates and PSUs.

Securitisation Emerging as a Parallel Funding Channel

Securitisation has re-emerged as a key market-linked funding avenue for banks, NBFCs, and housing-finance companies. The need to recycle loan books and fund continued credit expansion has led to a surge in PTC and DA transactions. Issuances crossed Rs. 2.6 tn in FY25, with mortgage-backed, vehicle loans, and microfinance pools dominating volumes. Regulatory clarity on minimum retention requirements and risk weight treatment, along with the introduction of standardised reporting templates, has strengthened investor confidence. This deepening securitisation market complements the corporate-bond segment by broadening the fixed-income product universe and linking retail credit growth with capital market investors.

Infrastructure and Retail Lending Growth Fueling Supply and Demand

Alongside this expansion in securitisation activity, investor interest in India's infrastructure sector continues to strengthen corporate and infrastructure capex pipelines. As noted earlier, between FY23–27, aggregate infrastructure and corporate capex is estimated at Rs. 110.0 tn—about 1.7× the level of the previous five years[31]. Concurrently, retail lending growth and higher consumer credit penetration are driving additional funding requirements for financial institutions, much of which is being raised through bond issuances. Household savings are gradually shifting from physical to financial assets, with a rising portion being directed toward market instruments, sustaining long-term demand for bonds.

Global Investor Interest and Index Inclusion

Global investor interest in India's sovereign bond market has strengthened with India being added to all major emerging market local currency bond index families. Indian government securities have been included in the J.P. Morgan GBI-EM suite, Bloomberg's Emerging Market Local Currency Government Index, and FTSE Russell's EMGBI, each through phased inclusion of fully accessible G-Secs. These developments materially broaden the structural channel for foreign portfolio flows into Indian sovereign debt, enhance secondary market liquidity, and support a more favourable pricing environment, with detailed mechanics covered in the dedicated index inclusion section.

Monetary Policy and Inflation Backdrop Supportive of Bonds

The RBI has maintained a balanced stance on growth and inflation. With the repo rate at 5.50% (as of the 1 October 2025 MPC) and headline inflation easing to multi-year lows through Q3-FY26, rate expectations remain supportive for fixed-income. India's 10-year G-Sec has been trading roughly around 6.5% in late October 2025[32], reflecting stable macro conditions and a softening inflation trajectory. If disinflation persists, incremental policy easing would further support issuance and long-duration investment.

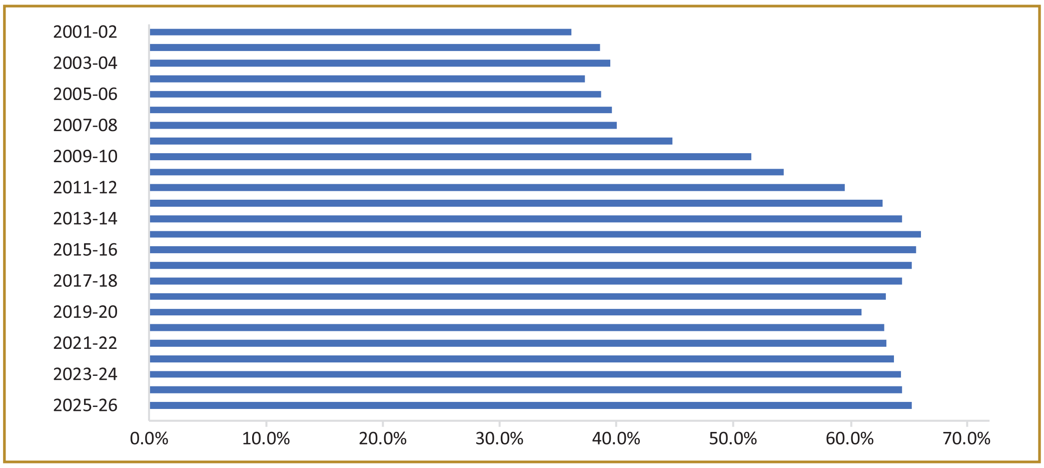
Market Size Growth and Diversification of Instruments

India's bond market has continued to expand in depth and diversity, reflecting stronger participation across government, quasi-sovereign, and corporate issuers. Corporate bonds now form a more meaningful share of the overall market, supported by stable macroeconomic conditions, deeper institutional demand, and greater regulatory clarity. The market is also becoming more sophisticated, with the gradual emergence of new instruments such as sustainable, social, and transition-linked bonds, and the growing securitisation segment that channels retail credit to institutional investors. Recent policy initiatives aimed at improving market transparency, trading efficiency, and investor access have enhanced confidence and liquidity across segments. Collectively, these developments are helping the bond market evolve from a predominantly institutional, government-driven space into a broader ecosystem that supports long-term financing for corporates, infrastructure, and sustainability-linked projects.

GOVERNMENT BOND MARKET

The Central Government Debt encompasses all outstanding liabilities of the Central Government secured against the Consolidated Fund of India. This includes external debt valued at the applicable exchange rates (public debt), total liabilities in the Public Account of India (other liabilities), and obligations from Extra Budgetary Resources (EBR) raised through issuance of fully serviced Government of India bonds. Public debt is divided into internal and external debt. Internal debt includes marketable debt (such as Government Dated Securities and Treasury Bills issued through auctions) and non-marketable debt (which consists of Intermediate Treasury Bills (ITBs) issued to State Governments and Union Territories, special securities linked to small savings, and bonds issued to public-sector banks and international financial institutions). External debt covers liabilities owed to foreign creditors (bilateral, multilateral, commercial) and is reflected in the liability stock at historical exchange rates. Other liabilities comprise obligations under the Public Account of India, such as balances in State Provident Funds, Reserve Funds, Deposits and Advances, Civil Deposits, and other miscellaneous accounts. Extra-Budgetary Resources (EBR) refer to borrowings undertaken outside the regular budget but serviced by the Central Government via bond issuance and are subsumed in the broader liability framework.

Exhibit 7: Proportion of Marketable Debt as a % of Total Liabilities of the Central Government



Source: RBI[33]

India's central government debt structure has seen a significant shift towards marketable securities over the last 25 years. In 2001, these securities represented just 34.6% of the total debt, but by FY25, they had risen to 64.5%. This segment of debt has grown at a compound annual growth rate (CAGR) of about 14.5%, far outpacing the 8.8% CAGR for other debt types.

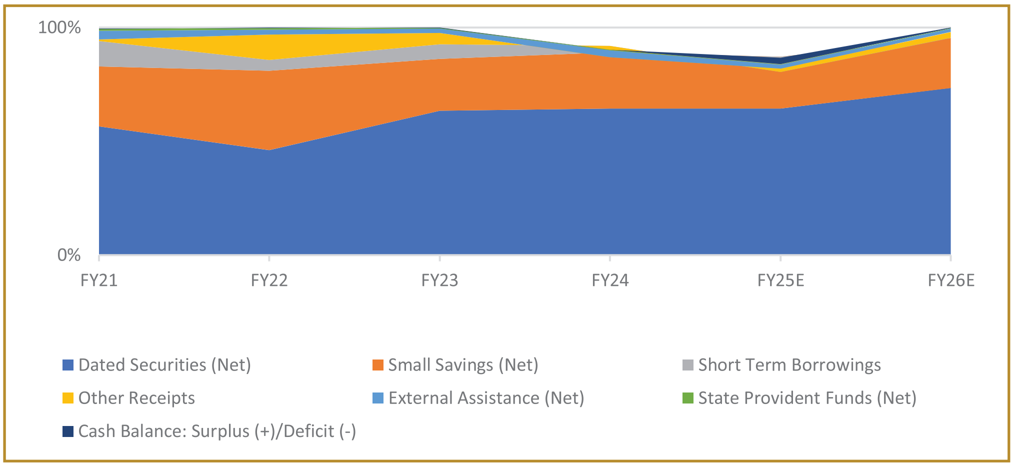
This increased reliance on marketable securities, such as Government Dated Securities and Treasury Bills, reflects a strategic move towards a more transparent, liquid, and market-driven financing approach. By auctioning these instruments, the government has broadened its investor base and created a more sustainable debt structure, aligning with international debt market practices and enhancing investor confidence.

Exhibit 8: Trends in Financing of the Gross Fiscal Deficit (Rs. Bn)

Particulars	FY21	FY22	FY23	FY24	FY25RE	FY26BE
Dated Securities (Net)	10,365.3	7,325.3	11,058.4	11,777.5	11,626.8	11,538.3
Small Savings (Net)	4,837.3	5,512.7	3,958.6	4,514.0	4,118.7	3,433.8
Short Term Borrowings	2,032.1	774.4	1,120.1	532.1	(1,200.0)	-
Other Receipts	133.2	1,742.8	834.6	(886.9)	260.3	407.5
External Assistance (Net)	701.8	361.5	371.2	551.2	319.9	234.9
State Provident Funds (Net)	185.1	103.2	50.9	50.6	50.0	50.0
Cash Balance: Surplus (+)/ Deficit (-)	(71.9)	25.4	(16.1)	7.9	519.5	24.8
Fiscal Deficit	18,182.9	15,845.2	17,377.6	16,546.4	15,695.3	15,689.4
Fiscal Deficit as a % of GDP	9.2	6.7	6.4	5.6	4.8	4.4

Source: Indian budget[34]

Exhibit 9: Proportion of Market Borrowings in Financing of the Gross Fiscal Deficit



Source: Department of Economic Affairs[35]

Treasury Bills are typically issued by the government to meet short-term liquidity requirements, while dated securities are raised to finance long-term fiscal needs. Recent trends indicate a sharper tilt toward market borrowings, particularly through dated securities, which continue to account for the bulk of fiscal deficit financing. Reliance on small savings and short-term borrowings has moderated, with the latter turning negative in FY25E, reflecting net repayments. This shift underscores the government's preference for market-linked instruments over alternative sources such as small savings, provident funds, or external assistance, in line with its objective of improving transparency, lowering borrowing costs, and strengthening fiscal sustainability.

YIELD MOVEMENTS

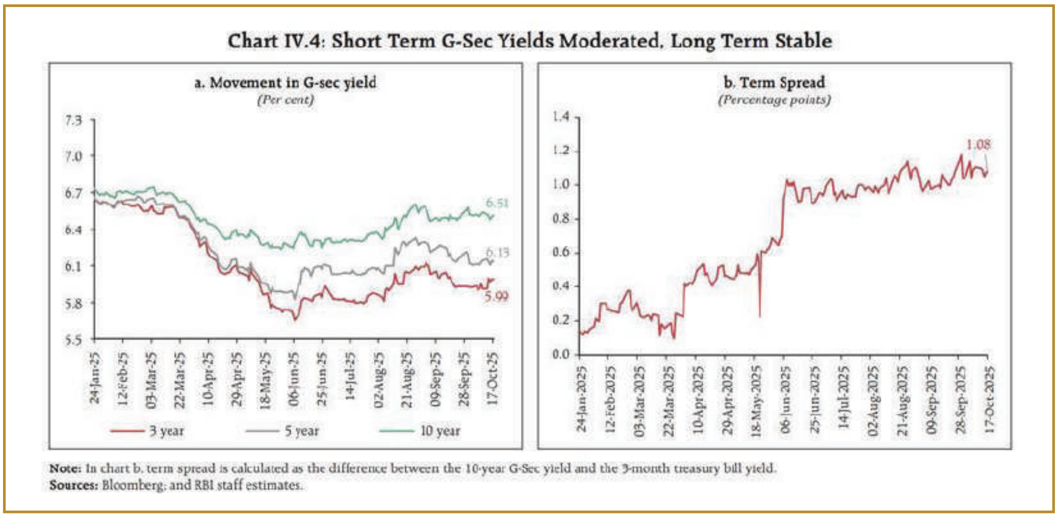
Global financial conditions during the first half of FY26 reflected alternating phases of volatility and easing, shaped by changing monetary policy expectations. According to the RBI Bulletin (October 2025), U.S. Treasury yields hardened between April and September 2025 as investor sentiment shifted amid firmer growth data and deferred expectations of early rate cuts by the Federal Reserve. Yields briefly softened in late September following the Fed's policy easing before retracing amid stronger macroeconomic prints. Subsequently, on 29 October 2025, the Federal Reserve reduced its benchmark rate by 25 basis points to 3.75 – 4.00 %36, marking its second cut of the year. Chair Jerome Powell emphasised that further easing in December was not assured, citing incomplete data and the need to balance inflation control with labour market concerns.

Domestically, G-sec yields followed the two-phase pattern described in the RBI's October 2025 Bulletin for H1 FY26. Yields softened in April, May, and early June following the repo rate cut, the stance change to accommodative, OMO purchases, softening crude prices, and the lower-than-expected April CPI print. After the June policy announcement, yields firmed up as the stance reverted to neutral and expectations of further easing moderated. They remained broadly stable in early July but hardened in late July and August amid US yield movements, uncertainty around US trade developments, and the imposition of additional tariffs on India. Beginning September, yields eased with receding fiscal concerns, softening US yields, and declining crude oil prices. The 10-year G-sec yield traded in the range of 6.19 – 6.77 % during H1, reflecting this volatility. T-bill yields softened in April–June, then hardened in August due to liquidity absorption and an unchanged policy stance, while showing a mixed pattern in September. The RBI reports that the yield curve bear-steepened, with the slope steepening by 116 bps and curvature rising by 92 bps, indicating long-end hardening and a widening (not narrowing) of the term spread.

Corporate bond yields mirrored the softening trend, tracking the decline in benchmark government yields. The RBI Bulletin reports that the average yield on AAA-rated 3-year bonds of public-sector undertakings, financial institutions, and banks fell by 62 bps to 6.86 %, while those of NBFCs and corporates declined by 56 bps (to 7.15 %) and 50 bps (to 7.12 %), respectively, between March and September 2025. However, risk premia showed a mixed pattern—spreads narrowed for PSUs (83 bps → 79 bps) but widened modestly for NBFCs (106 bps → 108 bps) and corporates (98 bps → 105 bps)—amid uneven corporate earnings and persistent global uncertainty.

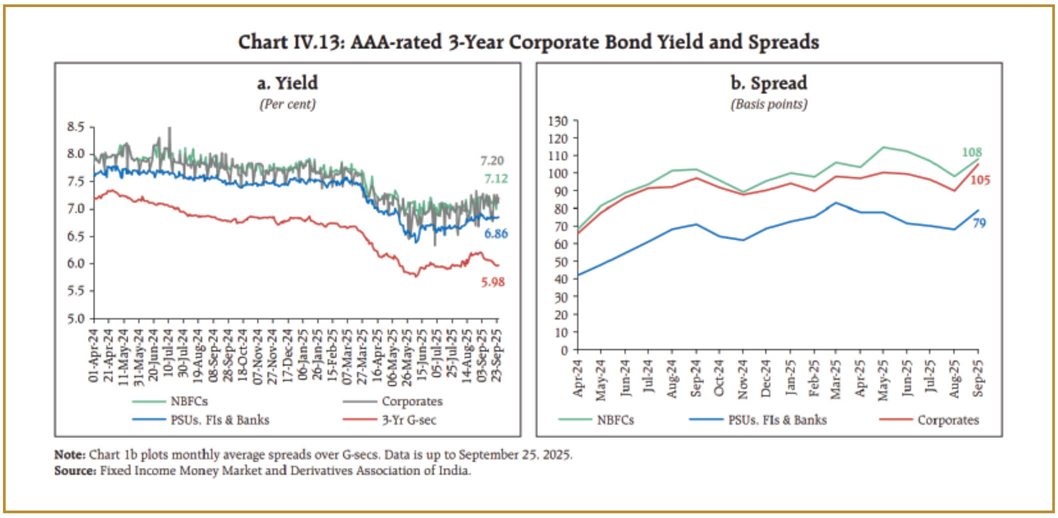
Overall, the yield environment in India during H1 FY26 remained anchored by monetary easing and soft inflation, even as global yields rose intermittently. The October 2025 Fed rate cut is expected to temper upward pressure on global yields and sustain the relative attractiveness of Indian fixed-income assets in the near term.

Exhibit 10: Yield Rate Movement – Government Securities



Source: RBI bulletin – October 2025

Exhibit 11: Yield Rate Movement – Corporate Bonds



Source: RBI bulletin – October 2025

INCLUSION OF INDIA IN BOND INDICES - AN UPDATE

India's inclusion in major global bond indices marks a watershed in the evolution of its sovereign debt market. The process, years in the making, reflects a confluence of domestic reforms and international confidence in India's macroeconomic and market architecture. It represents both recognition of past progress and a catalyst for deeper integration with global capital markets.

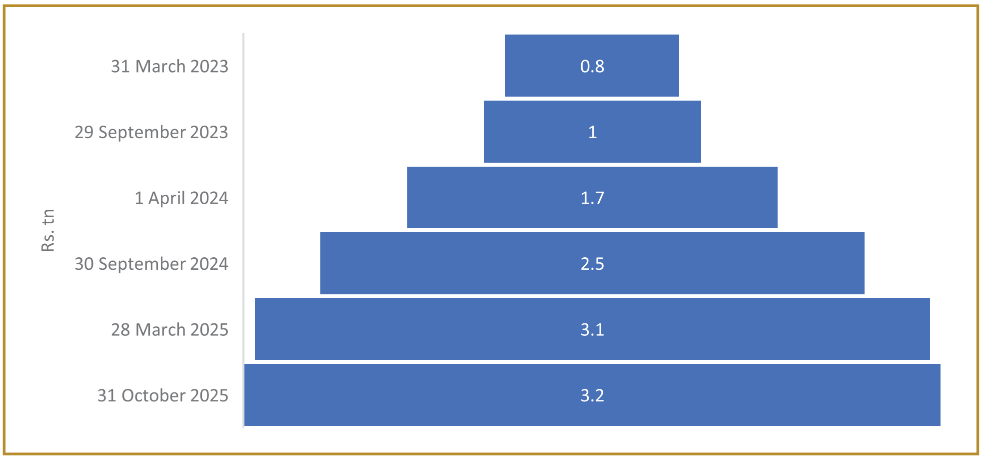
In September 2023, J.P. Morgan Chase & Co. announced that Government of India securities issued under the Fully Accessible Route (FAR), a category open to unrestricted foreign ownership would be included in the Government Bond Index – Emerging Markets (GBI-EM) Global Diversified[37]. The phase-in began on 28 June 2024 and was completed by March 2025, gradually raising India's weight by one %age point each month to reach 10 % of the index (now to be reduced to 9%[38]). This inclusion covered 23 eligible bonds with an outstanding stock of about USD 330 billion[39], marking India's formal entry into a benchmark tracked by the world's largest fixed-income funds.

Following this milestone, FTSE Russell announced in October 2024 that India would join its Emerging Markets Government Bond Index (EMGBI) starting September 2025, citing improvements in accessibility, transparency, and settlement mechanisms. According to FTSE's June 2025 notice, 33 FAR-eligible bonds with an aggregate par value of roughly USD 508 billion are expected to qualify, translating to around 9–10 % of the EMGBI when fully phased in[40]. Meanwhile, Bloomberg Index Services Ltd. has sought investor feedback from investors if Indian bonds under the FAR should be added to the Bloomberg Global Aggregate Index. The index provider had included India in its emerging market local currency bond index in January 2025[41].

Sustaining the benefits of inclusion will depend on the depth and resilience of India's domestic market. Continued reforms in settlement infrastructure, clarity in taxation (particularly on capital gains treatment for non-residents), and consistent fiscal management will be key. Policymakers must also balance the benefits of foreign inflows with the risks of heightened sensitivity to external conditions. In addition, index providers periodically revisit country weights; J.P. Morgan's decision in September 2025 to lower maximum country caps implies that India's share could adjust modestly over time.

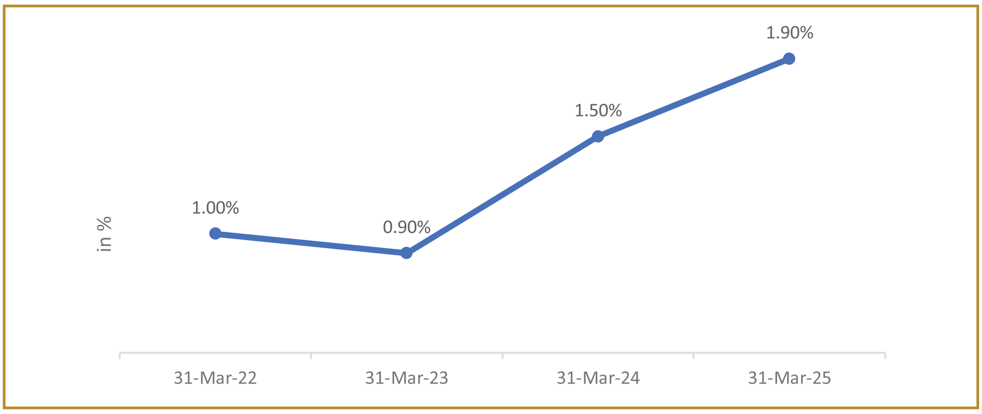
Recently, Reuters reported that foreign ownership of Indian government bonds has reached a record high, with overseas investors holding Rs. 3.11 trillion (≈ USD 35.4 billion) of securities under FAR as of 27 October 2025, accounting for 6.8 % of outstanding issuances. The surge reflects strong appetite for rupee assets following India's inclusion in the JP Morgan, Bloomberg, and FTSE Russell global bond indices, a favourable rate outlook, and the RBI's active currency management. With the central bank having cut policy rates by 100 bps so far in 2025 and signalling further easing, investors are drawn to India's attractive real yields, low inflation, and political stability.

Exhibit 12: Indicative FPI Ownership of FAR Securities



Source: CCIL, NSDL[42]

Exhibit 13: FPI Ownership Trend in Government Securities



Source: RBI[43] (Outstanding on 31 March of each year)
Note: Includes Central Govt. Securities, State Govt. Securities and T-Bills

THE REGULATORY PUSH

India's corporate bond market continues to evolve, supported by steady regulatory and structural reforms that aim to deepen participation and enhance market efficiency. Although the market remains smaller than that of several emerging Asian peers when measured as a share of GDP, recent policy actions reflect a concerted effort to strengthen its foundation and align it with global standards.

During 2025, the RBI and the Securities and Exchange Board of India (SEBI) advanced several measures to broaden access, improve secondary-market liquidity, and enhance transparency. Building on earlier initiatives such as the FAR, the Retail Direct platform, and the Electronic Bidding framework, these reforms collectively mark a shift toward greater flexibility, stronger investor protection, and institutional depth in both government and corporate bond segments. As India's growth increasingly depends on sustained capital formation, these regulatory developments are central to building a deeper, more resilient bond market capable of supporting long-term investment and economic expansion.

Foreign Portfolio Investor (FPI) Reforms: In May 2025, the RBI, via its circular dated 8 May [44]2025, withdrew the cap on short-term corporate debt securities (residual maturity up to one year) of 30% of an FPI's total corporate debt portfolio under the general route, and removed the concentration limit applicable to FPIs (which earlier restricted investment to 15% of the prevailing limit for long-term FPIs and 10% for other FPIs) in corporate debt securities. At the same time, the RBI retained the overall investment ceilings for FPIs for FY26 at 6% of the outstanding stock of central government securities (G-Secs), 2% for state development loans (SDLs), and 15% for corporate bonds (i.e., the existing architecture remains). These changes signal a calibrated liberalization: they broaden FPI flexibility (especially in the corporate bond market) while maintaining the structural ceilings to keep overall foreign exposure within the regulator's prudential view. The move is expected to deepen secondary-market liquidity and enable foreign investors to manage their duration and credit risks more efficiently, aligning India's regulatory framework with other emerging markets that have gradually eased entry restrictions to attract long-term capital.

Draft Regulatory Measures to Improve Credit Flow: In October 2025, the RBI introduced several draft structural reforms to enhance credit flow to productive sectors. Key measures include raising lending limits against shares and IPOs, removing the 2016 disincentive framework on large borrowers, and allowing banks to finance corporate acquisitions. These steps widen the scope of permissible bank lending and help corporates access funds more easily. In parallel, reduced risk weights for NBFCs lending to operational infrastructure projects lower their capital costs, enabling cheaper and more sustained infrastructure financing. Together, these initiatives strengthen the credit channel and deepen the reach of formal finance.

Upcoming Regulatory Reforms on Calibrated Liberalisation and Prudential Strengthening: The next phase of regulatory development builds on these two liberalisation measures to strengthen India's credit and prudential framework. The RBI has proposed the transition of banks to an Expected Credit Loss (ECL) provisioning regime from 1 April 2027, moving away from the incurred-loss model and aligning with global practice. In parallel, Basel III-aligned revisions to credit-risk capital rules are proposed to take effect from 1 April 2027, improving capital quality and system resilience. To ease liquidity, the RBI has finalised recalibration of Liquidity Coverage Ratio norms effective 1 April 2026, which independent estimates suggest could free about Rs. 2.7–3.0 tn of lendable resources. Alongside these prudential steps, digital credit rails are being scaled up — notably the Unified Lending Interface (ULI) and the Account Aggregator framework — to widen MSME and retail access. Collectively, these measures reflect calibrated liberalisation: expanding credit reach, improving transparency, and embedding resilience, subject to final notifications and implementation timelines.

Simplification of RFQ and Disclosure Framework: In May 2025[45], the Securities and Exchange Board of India (SEBI) issued circular to standardize the methodology for yield-to-price computation for non-convertible securities (NCS) traded on the Request for Quote (RFQ) platform by mandating that cash-flow dates be based on the scheduled due dates of interest, dividend, or redemption payments, rather than actual payment dates or day-count adjustments. It also requires issuers to disclose the full cash-flow schedule—including due date and payment date as per day-count convention—in the centralised corporate bond database at the time of ISIN activation, and to update any changes within one working day. These disclosure requirements apply to both new issuances and the residual maturity of existing listed ISINs.

Enhanced Disclosure and Data Transparency: To strengthen investor confidence and price discovery, SEBI mandated detailed disclosures on cash flows, yield-to-price relationships, and payment schedules in the corporate bond database, effective August 2025. These granular reporting norms improve transparency on credit and liquidity risk, allowing investors to assess issuer quality with greater precision. The move aligns disclosure standards with international bond markets and forms part of SEBI's broader effort to enhance data integrity across debt instruments, ensuring that bond valuation and risk assessments are based on consistent and verifiable information.

Secondary Market Liquidity and Market-Making: Despite record primary issuance, trading volumes in the corporate bond secondary market remain limited. To address this structural gap, SEBI is advancing proposals for formal market-making frameworks and encouraging institutions to provide continuous two-way quotes. These initiatives seek to improve price discovery, reduce bid–ask spreads, and build sustained liquidity across rating categories. Over time, a functioning market-making ecosystem is expected to balance issuance growth with tradability, strengthening investor confidence and supporting the evolution of India's bond market into a more liquid and transparent platform.

Retail Participation in Fixed-income Markets Has also Gained Policy Focus. The RBI's Retail Direct Scheme (launched in November 2021) continues to expand retail access to government securities by allowing individuals to open gilt accounts directly with the central bank and invest in both primary issuances and secondary market trades through the RBI Retail Direct portal. The platform has seen a steady increase in account registrations and trading activity through FY25, supported by simplified onboarding, integration with the UPI payment system, and investor-awareness drives. In parallel, SEBI's initiatives—particularly the May 2025 circular on simplifying the RFQ framework—enhance transparency and standardise price discovery, enabling easier retail participation in listed debt instruments. Together, these measures broaden the investor base beyond institutions, improve market liquidity, and foster a more inclusive fixed-income ecosystem.

IMPACT OF ESG ON THE INDIAN BOND MARKET

Globally, the labelled sustainable debt market (green, social, sustainability, sustainability-linked and transition bonds) remains substantial. For example, in 2024 annual issuance reached about US$ 1.1 trillion[46]. That total underscores the large structural backdrop facing all markets, including India.

At the same time, the global regulatory and political environment is evolving. For instance, in the US the Donald Trump-linked policy shift[47] by the U.S. Department of Labor in mid-2025 signalling a rollback of a rule that allowed pension plans to consider ESG factors when making investments illustrates how global sentiment and regulatory posture around ESG are subject to adjustment. (This in turn can influence investor behaviour, capital flows and pricing for labelled debt globally). While this does not imply a collapse of sustainable debt issuance, it suggests a phase of recalibration rather than unbridled growth. That subtle shift matters for emerging markets like India, where the resilience of investor demand, pricing benefits (such as the "greenium"), and liquidity dynamics may be tested in a more muted growth environment.

India: Scale, Growth and Patterns

In the Indian context the ESG-oriented bond market (often described as "GSS+" – green, social, sustainability, sustainability-linked debt) has recorded significant cumulative growth, but recent trends suggest moderation rather than sustained acceleration. According to the Climate Bonds Initiative (CBI) "India Sustainable Debt State of the Market 2024" report, by end-2024 India's cumulative aligned GSS+ issuance had reached US$ 55.9 billion. Within that total, green debt remains dominant — accounting for about 83% of the total issuance. However, the report also notes that fresh issuance volumes moderated in FY24, indicating a plateauing trend after the earlier rapid growth phase. On the regulatory and structural front, India is advancing: the climate-finance taxonomy is being developed, the SEBI has issued green-debt guidelines, and the RBI is including green activities under priority sector lending[48].

Recent developments also point to a more cautious approach at the sovereign level. The Government of India and the RBI paused further sovereign green-bond issuances in 2025, following the cancellation of the June 2025 auction of 30-year green bonds (after an earlier 10-year auction was withdrawn in May 2024)[49].This recalibration suggests that labelled issuance is facing near-term consolidation, reflecting tighter global funding conditions and the need to sustain pricing credibility.

Key Themes and Impact on the Indian Bond Market

Diversification of Issuer-types and Instruments: The issuer base is broadening beyond corporates/financial institutions, and we now see sovereign green bonds, municipal/urban local body issuance, and more sustainability-linked instruments emerging. The instrument set is expanding, while green bonds remain the largest share, social bonds, sustainability-linked bonds (SLBs) and transition-type bonds are increasingly part of the discussion (especially in Asia). For Indian issuers, this means both opportunity (new funding routes) and additional disclosure/impact expectations.

Pricing Behaviour and Investor Demand: Indian issuers may access a broader investor base (domestic plus global) by issuing labelled debt under credible ESG frameworks. Investor demand appears present, though pricing dynamics are nuanced: the "greenium" (yield benefit for labelled bonds) may exist but is not guaranteed and depends on issuer credibility, liquidity, maturity, and macro-risk. Given the global recalibration of ESG issuance and regulatory posture, India's labelled issuance may face slightly higher scrutiny or yield expectations than in the early "rapid growth" phase.

Still Modest Relative to the Broader Bond Market: Although US$ 55.9 billion of cumulative GSS+ issuance is meaningful in absolute terms, in the context of India's overall bond market, the share remains moderate. This means that while the ESG-labelled segment is growing, its impact on the overall fixed-income ecosystem is still incremental rather than transformational.

Regulatory & Structural Enablers and Barriers:

Enablers:

- The taxonomy development, improved disclosure requirements, favourable regulatory signals (Priority Sector Lending - PSL, SEBI guidelines) are positive for growth.

Barriers:

- Investor depth remains limited in some segments (e.g., local government green bonds), liquidity for labelled instruments may be lower, disclosure and verification standards (e.g., use of proceeds, impact measurement) are still evolving, and global macro/yield conditions remain relevant.

Caution:

- The global regulatory shifts (as noted above) underscore that robust frameworks and market credibility will be increasingly important for labelled bonds to maintain investor trust and potentially favourable pricing.

Implications for Issuers, Investors and the Broader Market

For issuers: ESG-labelled debt gives access to diversified funding, may enhance reputation and investor base, but also imposes expectations for transparency, reporting and assurance.

For investors: The expanding supply of labelled debt in India offers new instruments (for ESG-conscious mandates) and portfolio-diversification potential; but they should still evaluate yield/credit trade-offs, impact credibility and liquidity.

For The Fixed-income Market Overall: The growth of ESG-labelled issuance supports market-deepening, introduces new issuer segments (municipalities, state agencies, transition sectors), and helps align capital flows with sustainable outcomes - but the segment is still small enough that broader market dynamics (interest rates, credit spreads, macro risk) remain dominant.

2025 Outlook and What to Watch For

- The global sustainable debt market appears to be entering a consolidation phase rather than an explosive growth phase. For India, however, the tailwinds remain strong: decarbonisation, infrastructure upgrading, regulatory reform, investor awareness all point to a favourable medium-term environment for ESG-labelled debt.
- Key watch-points for 2025 and beyond:
    - Growth of sovereign and municipal-green bonds (especially state/UT/local-body issuers) in India.
    - Diversification of instruments beyond pure green: social bonds, transition bonds, sustainability-linked bonds.
    - Yield/spread dynamics: whether labelled bonds continue to offer pricing advantage or whether yield demands rise.
    - Standardisation and disclosure: more robust frameworks, verification/second-party opinions, reporting of impact metrics.
    - Investor base: whether global institutional investors increase participation in Indian labelled debt, and whether domestic institutional investors (insurance, pension, mutual funds) scale up ESG debt allocations.
    - Cross-border/regulatory translation: how global regulatory shifts (such as US pension-fund ESG rule changes) affect India's labelled debt investor appetite and yield spreads.

To sum up, the ESG-labelled bond market in India is moving from nascent to more mature. With cumulative issuance of US$ 55.9 billion by end-2024 and green bonds dominating at ~83 % of that, the scale is meaningful. The regulatory architecture is improving, issuer/investor awareness is rising, and diversification of instruments and issuers is evolving.

Indian Bond Market: Credit and Rates: Navigating Risks and Returns

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