India government bonds: Why Bloomberg Global Aggregate Index inclusion matters

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Key takeaways

- Bloomberg Global Aggregate Index inclusion could broaden India's investor base beyond emerging market funds, creating a deeper and more durable source of foreign demand.
- Recent reforms in trading, market access and taxation have strengthened India's case for eventual inclusion in the Global Aggregate Index.
- Low foreign ownership and sizeable investor underweights suggest significant room for foreign allocations to Indian government bonds to grow.

Executive summary
India's government bond (IGB) market is moving towards a major structural milestone: inclusion in the Bloomberg Global Aggregate Index, the flagship benchmark for global investment grade fixed income. Although Bloomberg deferred its decision in January and July 2026, it acknowledged India's "meaningful progress" toward meeting the required standards. The timing remains uncertain, but continued market reforms support the case for eventual inclusion.

The most significant long-term impact of inclusion, in our view, would be the expansion of the IGB investor base beyond emerging market (EM) investors to global core bond funds, pension funds, insurers and reserve managers. China's experience suggests that this shift in ownership – not initial index-rebalancing flows – could generate a deeper and more durable source of foreign demand over time.

Background: Where India stands
India is already firmly established across the major emerging market local currency bond indices. Government securities under the Fully Accessible Route (FAR) are included in J.P. Morgan's Government Bond Index-Emerging Markets (GBI-EM), the Bloomberg EM Local Currency Government Index and the FTSE Emerging Markets Government Bond Index (EMGBI), making India a core allocation across all three benchmarks.

Inclusion in the Bloomberg Global Aggregate Index would represent the next and most significant milestone (Chart 1). Bloomberg launched an investor consultation in September 2025 but deferred its decision in January and again in July 2026, citing operational and market infrastructure considerations and the need for recent market reforms to become embedded in day-to-day market practice.

The potential flow impact is expected to be substantial, given the broad pool of assets benchmarked against the Global Aggregate Index. Market estimates point to approximately US$20 to 30 billion of passive demand over the implementation period, before accounting for potential active allocations. With India still under review and any eventual inclusion likely to be phased, we view this as a medium-term structural catalyst rather than a near-term trading event.

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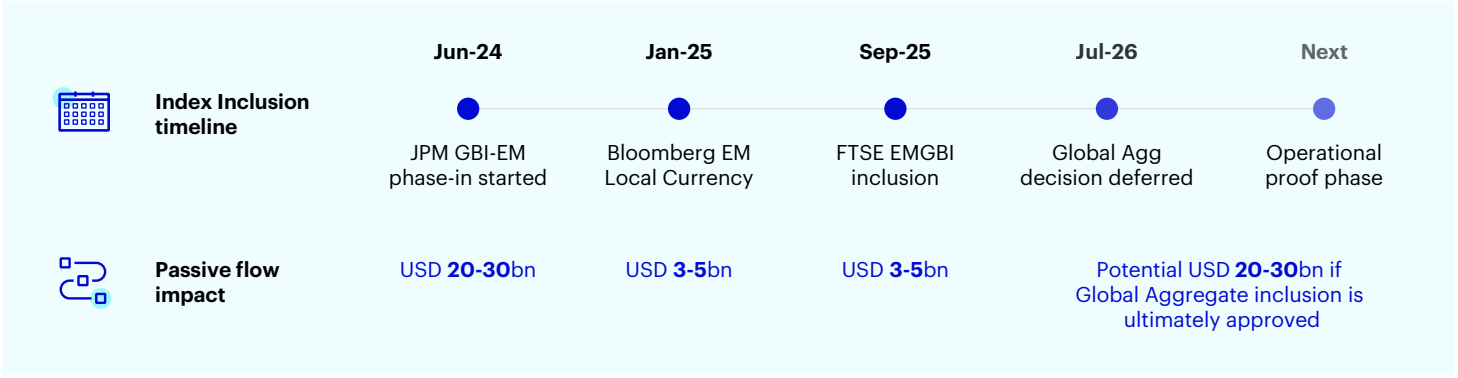
Chart 1 – India's government bond index inclusion roadmap

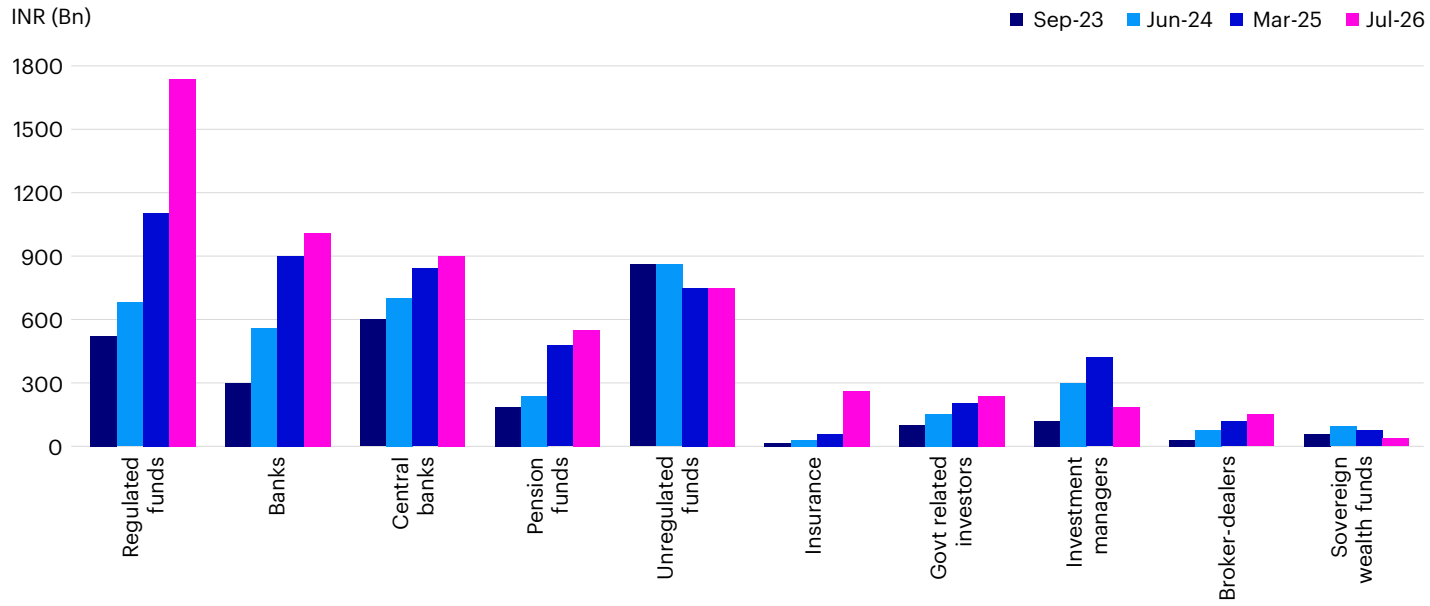


Source: Bloomberg Index Services, Invesco.

Why inclusion matters: Broadened investor base

Index inclusion has been more than a source of benchmark-driven demand. It has accelerated the internationalisation of the IGB market by improving its visibility, credibility and liquidity. Since J.P. Morgan announced India's GBI-EM inclusion in September 2023, foreign ownership has risen steadily, with participation broadening beyond index-tracking funds to banks, central banks, pension funds and insurers.

Chart 2 – Evolution of foreign ownership in Indian government bonds



Source: Deutsche Bank Research, Bloomberg Finance LP, Morningstar Direct.

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Global Aggregate Index inclusion could have a significantly larger and more enduring impact than India's previous EM index entries. It would bring IGBs into the core benchmark universe of global bond funds, pension funds, insurers and reserve managers, opening the market to a broader and more strategic investor base. Once India enters the benchmark, holding no exposure would constitute an active underweight that managers would need to justify, particularly given India's yield premium over most investment grade peers. We therefore expect both substantial passive demand and a gradual accumulation of active positions, creating a more persistent source of foreign inflows than previous EM index inclusions.

Recent reforms strengthen the case for eventual inclusion
Bloomberg's January 2026 review identified three principal barriers to including Indian government bonds in the Global Aggregate Index: the lack of fully automated trading workflows, settlement and repatriation delays arising from post-trade tax procedures, and a lengthy and complex fund registration process. Policymakers have since introduced reforms aimed at raising operational efficiency and addressing investor requirements. Together, these measures have reduced barriers to foreign participation and moved the IGB market closer to the standards required for inclusion.

Electronic trading: In July 2026, Bloomberg facilitated the first fully electronic IGB transaction through its Terminal, linking foreign portfolio investors directly to the Reserve Bank of India's (RBI) Negotiated Dealing System-Order Matching (NDS-OM) platform. Overseas investors can now place, execute and allocate IGB trades through a workflow more closely aligned with those used in other global markets, reducing manual intervention and operational risk.

Fully Accessible Route (FAR): Introduced by the RBI in 2020, the FAR allows non-residents to invest in designated government securities without investment limits, satisfying an important condition for index eligibility. In June 2026, the RBI expanded the framework to include all new 15-, 30- and 40-year government bond issuance, as well as eligible sovereign green bonds. The extension provides foreign investors with broader access to the long end of the curve, which is particularly relevant for pension funds and insurers seeking duration to match long-dated liabilities.

Tax exemption: In June 2026, India exempted eligible foreign investors invested in specified government securities from the 20% withholding tax on interest income and from capital gains tax, including the previous 12.5% levy on long-term gains, with effect from 1 April 2026 (Chart 3). Beyond improving after-tax returns, the reform simplifies post-trade processing and reduces the settlement and repatriation frictions specifically highlighted in Bloomberg's review.

Chart 3 – Withholding and capital gains tax exemptions

Tax item	Before 1 April 2026	From 1 April 2026
Withholding tax on interest	20%	Nil
Short-term capital gains (held ≤12 months)	30%	Nil
Long-term capital gains (held >12 months)	12.5%	Nil

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The China precedent: Global index inclusion and investor base change
China provides a useful precedent for how market access reforms can pave the way for successful global index inclusion. India has followed a broadly similar path (Chart 4), although it must still demonstrate that recent reforms work consistently in daily market practices.

Chart 4 – China and India's paths toward bond market globalization

Investor requirement	China precedent	India latest reforms / status	China	India
Tax clarity / lower friction	Foreign investor interest-income tax exemption extended through 2027.	WHT and capital-gains taxes removed for eligible foreign investors in specified government securities.	✓	✓
Index-eligible access route	CIBM Direct and Bond Connect opened onshore bonds to foreign investors.	FAR framework broadened, including longer tenors such as 15Y, 30Y and 40Y government securities.	✓	✓
Electronic trading / execution	Bond Connect and trading links helped address execution access for offshore investors.	Electronic trading access has expanded; automated platforms support execution across many major investor regions.	✓	◐
Settlement and post-trade	China had to address DVP, block allocation and tax-clarity conditions before Global Agg inclusion.	Bloomberg wants more evidence that onboarding, trading, settlement and post-trade reforms work smoothly day-to-day.	✓	◐
Global index inclusion	Bloomberg Global Aggregate inclusion started Apr-2019, phased in over 20 months.	India already in EM bond indices; Global Aggregate review remains open after Jul-2026 deferral.	✓	◐
Capital-flow support / market depth	Large domestic bond market plus Bond Connect supported foreign participation.	FCNR(B), ECB swap facilities and FPI tax reforms support external confidence and bond demand.	✓	✓

✓ Completed / largely aligned ◐ Partially aligned, needs operational proof

Source: Bloomberg Index Services, Reuters, Business Standard, JPMorgan Asset Management, China MoF/STA, Xinhua, WTS Global, Invesco.

China entered the Bloomberg Global Aggregate Index over 20 months from April 2019, the J.P. Morgan GBI-EM Global Diversified over 10 months from February 2020, and the FTSE WGBI over 36 months from late 2021. Each step progressively broadened the addressable investor base, first to global aggregate investors, then to EM local currency managers and subsequently to World Government Bond Index-benchmarked government bond investors.

Foreign holdings of Chinese government bonds more than doubled between the start of Global Aggregate inclusion and their peak around late 2021 to early 2022 (Chart 5). Just as importantly, the investor base became broader and more diversified. Successful global index inclusion could drive a similar structural shift in India's local bond market.

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Chart 5 – Foreign holdings of China treasury bonds

Source: Bloomberg.

Foreign ownership: Room to grow

Foreign ownership of Indian government bonds remains low. Even within the Fully Accessible Route segment, which was designed to facilitate foreign participation and constitutes the index-eligible universe, foreign portfolio investors hold only around 6.5% of outstanding FAR bonds.

Investor positioning points to a sizeable allocation gap (Chart 6). Although India is already represented in EM benchmarks, active EM local currency managers remained underweight throughout the past year. As of August 2026, their India bond exposure was approximately 350 basis points below benchmark, the largest country underweight across EM, while their FX exposure was around 210 basis points below benchmark. These positions leave considerable scope for foreign allocations to increase through both benchmark convergence and a broader structural reallocation toward India fixed income.

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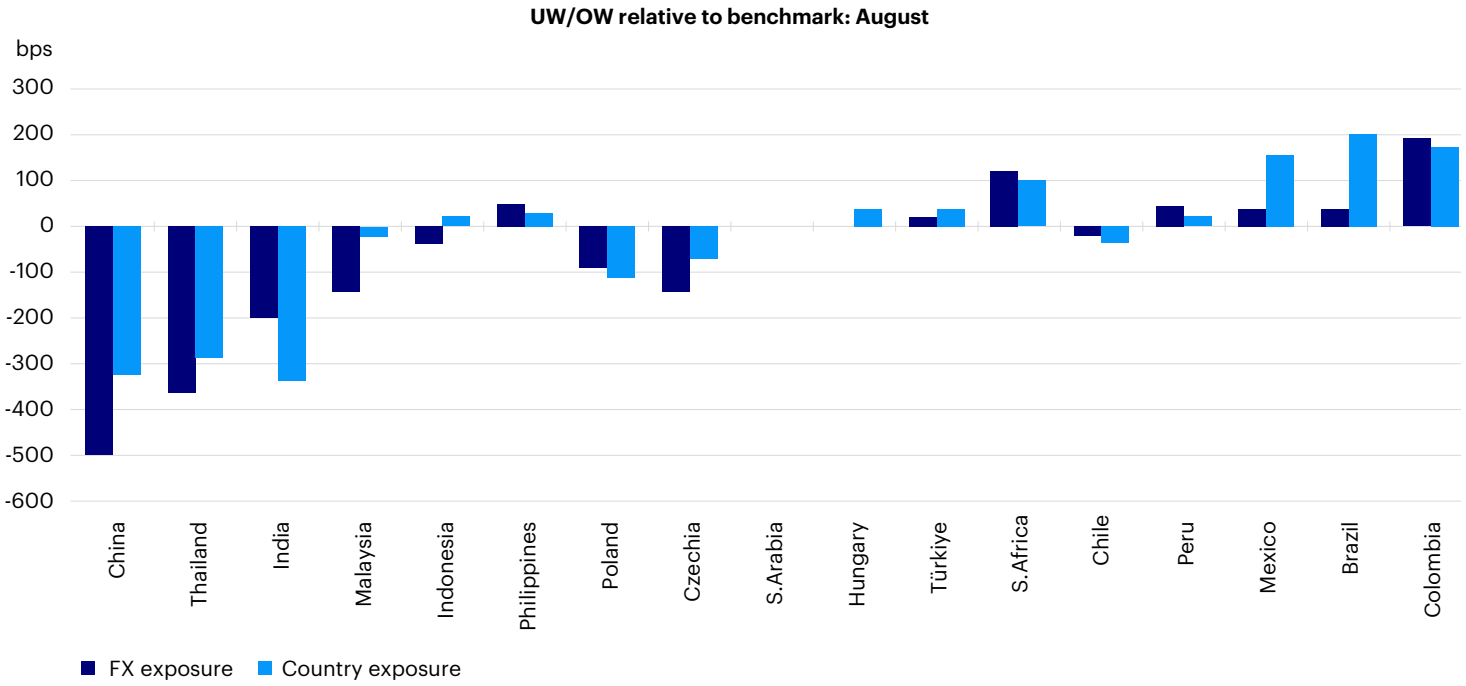
Chart 6 – EM investor's active allocations to duration and FX exposure



Source: CCIL, as of 5th October 2026; Bloomberg; Deutsche Bank Research, Morningstar Direct.

Global index inclusion could prompt a meaningful reassessment of Indian fixed income among international investors. India's economic scale, structural growth, attractive yield premium and diversification potential strengthen the case for a strategic allocation among global fixed income investors.

Conclusion

India has made meaningful progress towards inclusion in the Bloomberg Global Aggregate Index, supported by targeted reforms to taxation, market access, and trading infrastructure. Eventual inclusion could extend ownership of Indian government bonds beyond EM investors to global core bond funds, pension funds, insurers and reserve managers. With foreign ownership still low and EM managers materially underweight, we believe global index inclusion could become a structural catalyst for sustained demand for Indian government bonds well beyond initial benchmark-related flows.

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