

Index inclusion spurs demand for offshore rupee bonds

Global institutions, including a World Bank arm, have issued bonds worth \$1.4 bn so far in 2024

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Mumbai, February 21

THE WORLD BANK'S lending arm and other global institutions have issued \$1.4 billion worth of offshore rupee-denominated bonds so far this year to meet strong demand spurred by India's inclusion in JP Morgan's emerging market debt index, two banking sources said.

The bond issuance since January is almost half of \$3.3 billion issued in all of 2023, said the sources, who actively trade these supranational bonds and base their tally on data from several financial institutions.

Most of last year's issuance was in the fourth quarter, the sources said, when foreign investors piled into rupee debt after JP Morgan said India will be part of the Emerging Market Bond Index (EMBI) from June 2024.

These offshore bonds, with maturities ranging from four years to 10 years, are denominated in Indian rupee but settled in US dol-

GAINING TRACTION

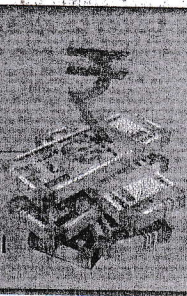
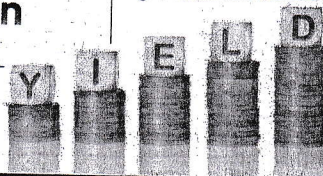
■ Bond issuance since January is almost half of **\$3.3 billion** issued in all of 2023

■ Offshore bonds are denominated in Indian rupee but settled in US dollar

■ Yields on these bonds are usually lower than Indian government bonds

■ Issuers convert rupee bond proceeds into dollars to finance global projects

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The bond yields are usually lower than Indian government bonds. They allow issuers to raise US funds at cheaper rates while giving overseas investors access to rupee debt without having to get a special licence to operate onshore or pay local taxes, investment bankers said.

"The fact that you may just have some investors that don't want to go through the registration process. They may just continue to use the supra market, and to be honest, the supra market is growing quite quickly," Singapore-based Kenneth Akintewe, head of Asian sovereign debt at abrdn, said, adding that global investors are "generally overweight" on India risk.

Mitul Kotecha, head of currency and emerging market macro strat-

egy for Asia at Barclays, said the issuance of rupee bonds offshore has picked up following the JP Morgan inclusion, adding that they were a "straightforward channel" for investors wanting to own debt without having to set up local arrangements.

The World Bank's lending arm, International Bank for Reconstruction & Development (IBRD), has issued several bonds so far, including a 6-year bond issued this month at a yield of 6.89%, lower than the onshore sovereign yield of 7.06%.

Other supranationals, all of them 'AAA' rated, including the European Bank for Reconstruction & Development, Inter-American Development Bank and the Asian Infrastructure Investment Bank, have also issued rupee bonds. JP Morgan, Goldman Sachs, Standard

Chartered Bank and HSBC were among the arrangers, bankers said.

Issuers typically convert the rupee bond proceeds into US dollars to finance global projects. The high demand for rupee debt means dollar funds are 15-25 basis points cheaper than prevailing US rates.

"The appeal for issuers is that they shave off a few basis points of the dollar cost and that it provides them access to a wider set of investors," a managing director for emerging markets at Britain-headquartered bank said.

Long-only traditional asset managers pick up around three-fourths of the total issued amounts, with the rest being absorbed by short-term investors looking to front-run passive investment inflows that index inclusion will spur, the banker said. —REUTERS