

Structural Shifts in Debt Market: Emerging Themes



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Foreword by MD & Group CEO

As India moves towards its aspiration of becoming a 'Viksit Bharat' and achieving a USD 30 trillion economy by 2047, the country will require a deep, resilient, and diversified financial system capable of supporting large-scale long-term investments. In this journey, capital markets—and particularly the bond market—will assume a pivotal role. Their importance becomes even more pronounced at a time when rising geopolitical fragmentation is disrupting global supply chains and increasing vulnerabilities in the external sector.

The government has continued to emphasise investment-led growth, especially in critical sectors such as power, energy, data centres, roads, and railways. In this environment, the development of a robust bond market becomes increasingly essential. At the same time, healthier private sector balance sheets, lower non-performing assets, and improving credit demand within the financial system are expected to support the investment cycle, despite persistent global uncertainties posing as headwinds. An investment-driven growth model remains the most effective pathway for India to achieve its long-term growth potential, given its strong multiplier impact on employment generation, productivity enhancement, and economic expansion.

The contribution of capital markets, particularly the bond market, to India's growth trajectory is undeniable. These markets facilitate efficient allocation of financial resources towards productive investments and strengthen public participation in the nation's development process. Over the years, India's corporate bond market has witnessed significant progress, supported by several regulatory initiatives introduced by Securities and Exchange Board of India (SEBI) to improve market transparency, reinforce investor confidence, and strengthen market infrastructure. RBI has further supported in the development of India's debt market.

This knowledge paper examines various dimensions of the evolving bond market from both global and domestic perspectives. It analyses the structural and operational challenges faced across different segments of the bond market and offers recommendations to address these issues. The paper also undertakes a cross-country review of reforms and market practices to identify lessons and best practices from international experiences.

India's debt market has already played an important role in supporting the country's economic growth and holds the potential to emerge as one of the most developed markets globally. However, continued reforms will be necessary to enhance market accessibility for both issuers and investors. A stronger and more efficient bond market can reduce the financing burden on the banking sector, lower the cost of capital, and improve resource mobilisation. This, in turn, can support a higher and more sustainable growth trajectory for the Indian economy in the years ahead.

Mehul Pandya

Managing Director & Group CEO,
CareEdge Ratings

Executive Summary

The world economy is increasingly surrounded by a fresh set of macro-financial risks marked by elevated geopolitical tensions, fragmented trade linkages, volatile capital flows, and weakening fiscal flexibility across major economies. At the same time, total global debt (general government + non-financial corporations + households) remains at historically elevated levels, around 246% of global GDP by Q3 2025. The challenge is no longer limited to debt accumulation alone. The renewed risk of global financial tightening is intensifying concerns around debt affordability, with likely spillover effects on broader financial markets.

Sovereign debt is experiencing the steepest increase. As legacy low-cost debt matures and gets refinanced at current market yields, interest burdens are expected to rise further over the medium term. The implications are particularly visible across advanced economies, where elevated debt levels are increasingly intersecting with slower growth, rising fiscal commitments, and political fragmentation. Further, the advanced economies' debt markets are undergoing a structural transformation in sovereign debt holdings, moving from domestic official institutions to more price-sensitive investor base, along with a shift toward shorter-duration borrowing amid elevated fiscal financing needs. This transition is likely to increase refinancing risks, amplify yield volatility, and make sovereign borrowing costs more sensitive to market sentiment.

At the same time, emerging market economies (EMs) are navigating this transition from a different starting point. Interest burdens for government debt are expected to remain persistently elevated across many EMs. However, the vulnerabilities remain heterogeneous across economies; several large emerging markets have strengthened macroeconomic buffers over the past decade. In a few economies, improving macroeconomic fundamentals, deeper domestic bond markets, and greater market accessibility are enhancing the global attractiveness of local-currency sovereign debt. The inclusion of EM bonds in major global bond indices is further supporting foreign investor participation and strengthening the structural depth of these markets. That said, several economies continue to face structural constraints such as shallow domestic bond markets and elevated borrowing costs, limiting their ability to issue long-term local currency debt at scale.

Global non-financial corporate debt has climbed from around USD 62 trillion in 2015 to close to USD 100 trillion by September 2025, a rise of 55%. Companies borrowed heavily during the low-interest-rate years and again during the pandemic of 2020-21, when they raised cash to stay liquid, refinance maturing debt, and lock in lower funding costs. Since 2021, as interest rates rose, the pace of new borrowing has cooled across developed markets.

Emerging markets have also become more central to the global corporate debt landscape. Over the past decade, non-financial corporate debt relative to GDP in emerging markets has once again converged and, by 2025, marginally exceeded that of advanced economies. This trend has been driven largely by China's credit-intensive growth model, particularly financing linked to infrastructure, property and state-linked enterprises. However, leverage trends across other emerging markets remain more mixed.

Structural shifts are beginning to reshape global corporate credit markets. While bond issuance remains concentrated in traditional sectors, the rapid expansion in AI-driven capital expenditure is likely to increase technology-sector issuance, gradually reshaping the composition and risk profile of global corporate credit markets. Meanwhile, the investor base in corporate bond markets has remained broadly stable and diversified despite changing global financial conditions, supported by continued participation from foreign investors, insurers, banks, pension funds and investment funds.

In the bond market landscape in India, several efforts have been made to improve its accessibility and depth. However, it remains relatively small compared with that of the US and China, which dominate the global bond market. As India advances towards becoming a 'Viksit Bharat' by 2047, it is critical to have a strong, well-developed financial ecosystem capable of large-scale mobilisation of capital at competitive prices. In this context, the development of a deep and robust bond market is paramount.

India's bond market is largely dominated by government securities, with the general government debt securities market accounting for 55.4% of the country's GDP. While this is broadly comparable with some other Asian economies, such as the Philippines (52.1%) and Indonesia (33.6%), it is lower than that of some advanced economies, such as Japan (191.9%), the US (107.5%) and the UK (90.7%). Several structural and institutional improvements, including active debt management and increased global integration, have redefined India's government debt securities landscape. Limited rollover risks, a well-diversified G-sec maturity profile, and evolving investor participation by insurance companies and provident and pension funds are some positives for India's government securities market. Despite these developments, several gaps persist, including limited retail and foreign investor participation, lower secondary-market trading volumes, and limited development of sub-sovereign debt securities markets. These gaps will need to be bridged to strengthen the government securities market and align it with global best practices.

India's corporate bond market has expanded steadily over the years. However, it remains undersized given the commercial sector's heavy dependence on bank credit for resource mobilisation. Furthermore, rising appetite for equity capital among Indian investors has also constrained the resource mobilisation via debt markets. Preference for private placements, limited foreign participation, poor liquidity, regulatory restrictions, less competitive tax regime, etc are some of the challenges faced by the Indian corporate bond market. Several measures aimed at simplifying the regulatory architecture, providing support during periods of financial stress, developing the credit default swap (CDS) market, etc., have been undertaken to strengthen the Indian corporate bond market.

Global Sovereign Debt Landscape

The World is Encountering a Fresh Batch of Macro-Financial Risks

The global economy is facing a renewed phase of macro-financial uncertainty, characterised not only by the magnitude of shocks, but increasingly by their frequency and simultaneity. Over the last few years, the global system has moved from one disruption to another, beginning with the pandemic, followed by inflation shocks, aggressive monetary tightening, supply chain disruptions, and intensifying geopolitical conflicts. The cumulative impact of these shocks has altered the global macro-financial landscape structurally.

Economic policy uncertainty remains elevated across major economies amid a confluence of multiple risks. The multilateral economic order that supported the globalisation cycle is becoming increasingly fragmented. The recent escalation in geopolitical tensions, including the West Asia conflict, has further amplified global risks. Sovereign resilience is now being assessed not only through traditional fiscal and external metrics, but increasingly through geopolitical alignment, strategic dependencies, and access to global capital and trade networks.

As a consequence, the global economy is entering a phase of weaker medium-term growth prospects. Further, contrary to earlier expectations of a broad-based disinflation cycle, inflation risks have re-emerged due to elevated energy costs and supply-side rigidities. Price pressures are already becoming visible across economies globally, with Asian economies particularly vulnerable due to their high exposure to in West Asia.



The resurgence of inflation and rising fiscal risks raise the possibility of a renewed phase of monetary tightening or, at minimum, a higher-for-longer interest rate environment.

This is happening when global debt levels stand high...

Global debt levels continue to remain historically elevated, with global debt¹ estimated at around 246% of global GDP as of September 2025. While the debt increase is broad-based, general government borrowings have experienced the steepest increase over the past decade (Exhibit 1.1).

The sharp increase in public debt reflects

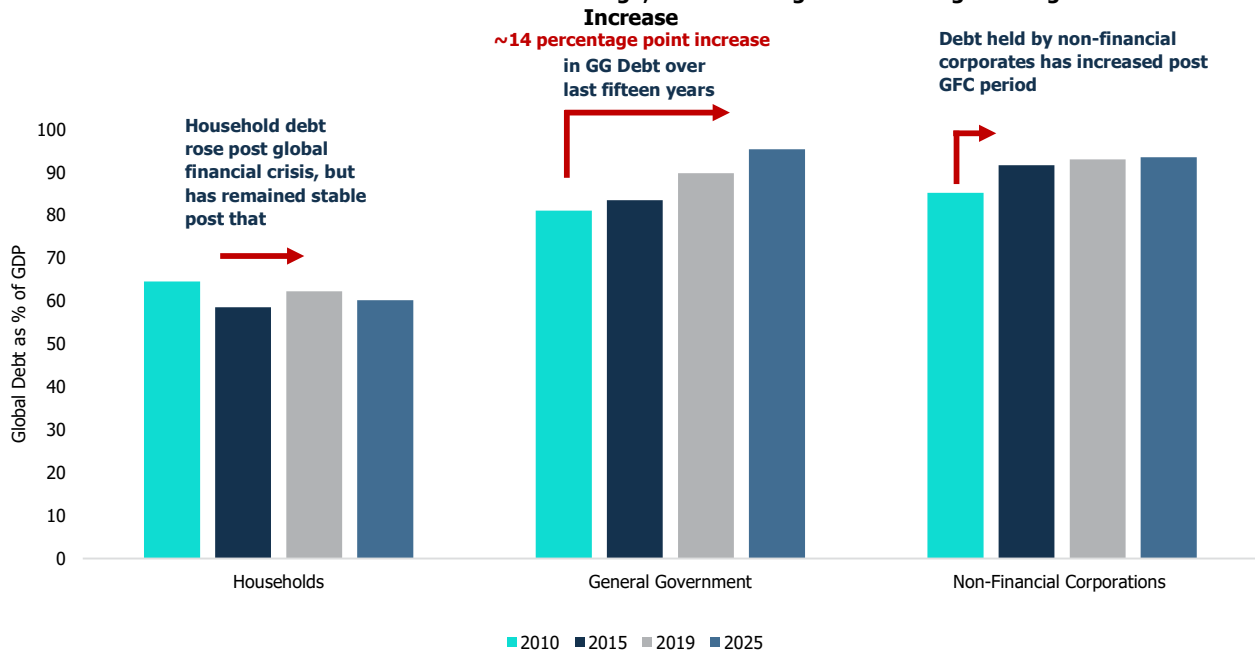
¹Global debt represents debt held by general government, households and non-financial corporations.

successive waves of fiscal expansion following the Global Financial Crisis (GFC), pandemic-related stimulus measures, rising social expenditure, and now increasing defence spending commitments and fiscal support measures across economies. Total debt held by the general government sector has risen by 14 percentage points over the past 15 years to current levels of 95% in Q3 2025. However, debt trajectories continue to differ significantly across economies and regions.

with already elevated debt levels, economies are entering a structurally more challenging refinancing environment. The concern today is no longer limited to the size of debt alone, but increasingly to the rising cost of servicing that debt, alongside evolving maturity structures and refinancing pressures. These risks spill over into broader financing conditions across the economy. Higher sovereign yields, rising risk premia, and tighter liquidity conditions could add risks to broader financial stability.

As global macro-financial risks converge

Exhibit 1.1: Global Debt Levels Remain High, with Sovereign Debt Posting the Largest Increase



Source: BIS (Bank for International Settlements); Data as of September 2025; CareEdge

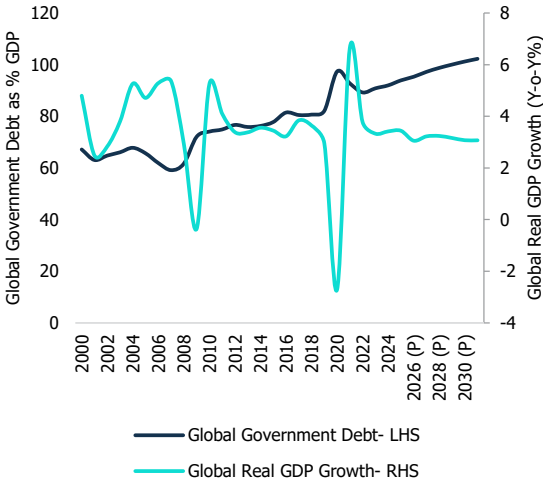
Rising Sovereign Debt Levels Coinciding with Moderate Growth Prospects

Sovereign global debt levels have surged to new highs. With post-pandemic fiscal stimulus, social spending, and extensive government subsidies to revive private consumption, sovereign debt surged to 97.4% of GDP in 2020. This fiscal expansion was followed by a course correction by many economies, leading to a brief period of moderation in debt levels till 2022. However, with global monetary tightening and rising borrowing costs, the debt burden started increasing again. Now the debt levels are expected to climb back to around pandemic levels by 2030 (Exhibit 1.2).

At the same time, fiscal deficits across several economies are expected to remain elevated, reducing the policy flexibility available to governments in responding to future shocks.

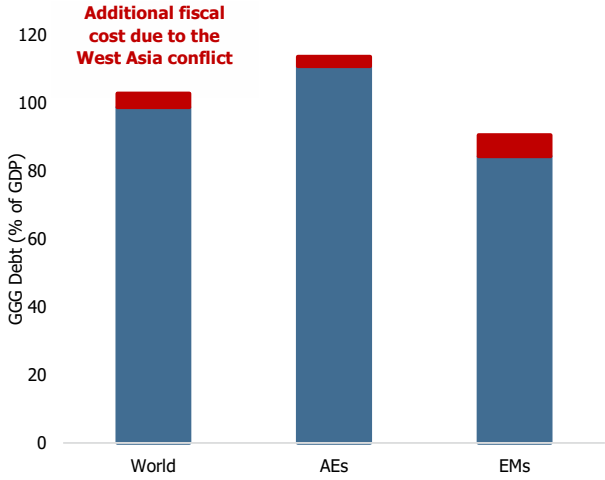


Exhibit 1.2: Rising Sovereign Debt with Moderating Growth



Source: IMF, Haver Analytics, CareEdge; (P): IMF Projections

Exhibit 1.3: Fiscal Cost Projected to Rise Due to the West Asia Conflict



Source: IMF, Haver Analytics, CareEdge; Note: Debt numbers are average of IMF projections for 2026-28; additional fiscal cost considers a prolonged West Asia conflict

Multiple structural pressures are contributing to this trend.

- Geopolitical tensions and prolonged conflict are driving renewed fiscal expansion across economies, particularly through rising defense and security expenditure. What was once viewed as temporary or event-driven spending is increasingly becoming structural. Exhibit 1.3 highlights the additional fiscal costs that could be added in the case of a prolonged scenario of West Asia conflict
- Most Advanced Economies (AEs) are increasingly facing challenges like demographic transitions, which have added to fiscal pressures through ageing-related expenditures and persistently rising healthcare costs. In emerging economies, fiscal rigidities are also rising, though driven more by expanding social expenditure commitments, development needs, and welfare-related spending pressures.
- In addition, the institutional capacity to manage these fiscal and economic headwinds has weakened due to political fragmentation and declining institutional strength. This has reduced policymakers' capacity to manage an increasingly expansionary stance without undermining fiscal credibility.

What makes this even more concerning is that the accumulation of debt coincides with moderate global growth prospects, shaped by a series of recurring economic and geopolitical shocks. Medium-term global growth prospects (Exhibit 1.2) are expected to weaken amid structural factors, including ageing demographics, slower productivity growth, fragmented trade flows, and subdued investment cycles, coinciding with emerging global challenges.

This changing macroeconomic environment is increasingly narrowing the interest-growth differential², commonly referred to as the 'r-g' dynamic across economies. This widening gap increases concerns over debt sustainability.

Globally, yields are soaring. The re-emergence of inflationary pressures and renewed risks of global financial tightening are further pushing up interest rates. The prolonged era of ultra-cheap financing

It's not Merely the Stock of Debt; Affordability Matters More than Ever

that enabled large-scale fiscal expansion across economies is expected to end, with significant implications for sovereign debt sustainability, refinancing risks, and broader global financial stability. The evolving debt landscape, however, presents distinct challenges for advanced and Emerging Economies (EMs).

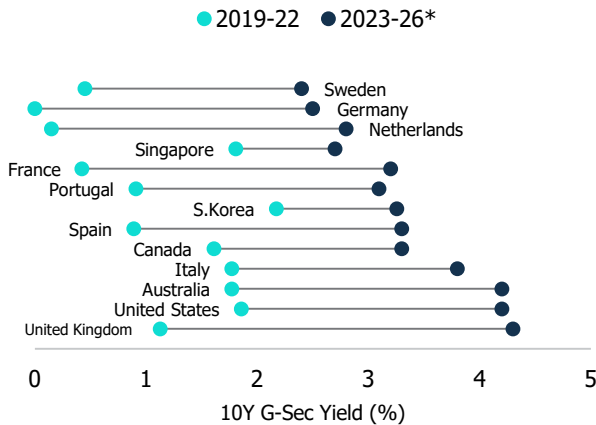
AEs have had elevated public debt for two decades now. What has changed more recently is the cost of carrying this debt. As these economies pursued monetary tightening in 2022 to address inflationary pressures, yields rose across most advanced economies. Most countries have entered easing cycles since then; however, yields remain relatively high compared to the prolonged period of near-zero interest rates seen after the GFC. These persistently high yields also reflect underlying fiscal concerns faced by advanced economies (Exhibit 1.4). Further, amid the West Asia crisis, inflationary pressures have resurfaced, raising the risk of higher interest rates.

The full impact of high yields on interest burden is delayed because most debt was issued at fixed coupons. However, as older, low-coupon bonds mature and are refinanced at current rates, the interest burden will continue to rise in the coming years. Exhibit 1.5 highlights the projected trajectory of interest payments as a share of GDP across AEs and EMs. The increase is expected to be particularly sharp for the United States (US) (Box 1.1), reflecting both elevated borrowing needs the fiscal and institutional risks. Other AEs are also expected to witness a meaningful rise in interest burden, compared to the period of low yields.

At the centre of the current global debt repricing cycle lies the US, where widening fiscal deficits, rising debt levels and elevated

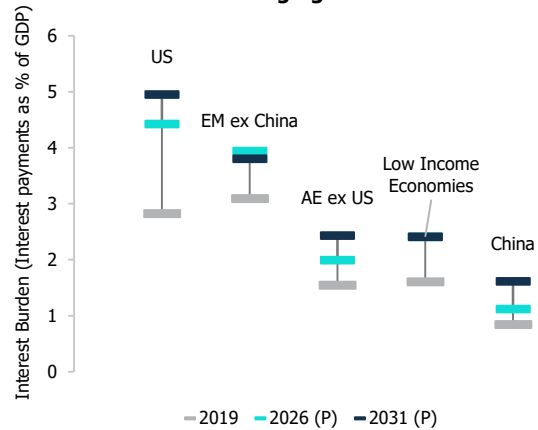
² The interest-growth differential (r-g) is a critical determinant of debt dynamics: debt remains manageable when the effective interest rate on government borrowing is lower than the rate of nominal GDP growth, i.e., the interest-growth differential (r-g) is negative. This negative differential can partly/ fully offset the impact of primary deficits, thus keeping the debt ratio stable.

Exhibit 1.4: Yields Have Risen Sharply for AEs



Source: LSEG Workspace, IMF, CareEdge
 Note: * 2026 data is till April 2026

Exhibit 1.5: Rising Interest Burdens Across Advanced & Emerging Market Economies



Source: IMF, CareEdge; (P): IMF Projections

Box 1.1: The United States (AA+/Negative) - Fiscal Pressures and Rising Debt Affordability Risks

interest costs are increasingly shaping global financial conditions.

US gross general government debt has risen by nearly 15 percentage points since 2019 to around 124% of GDP in 2025 and is expected to increase further over the medium term (Exhibit 1.6).

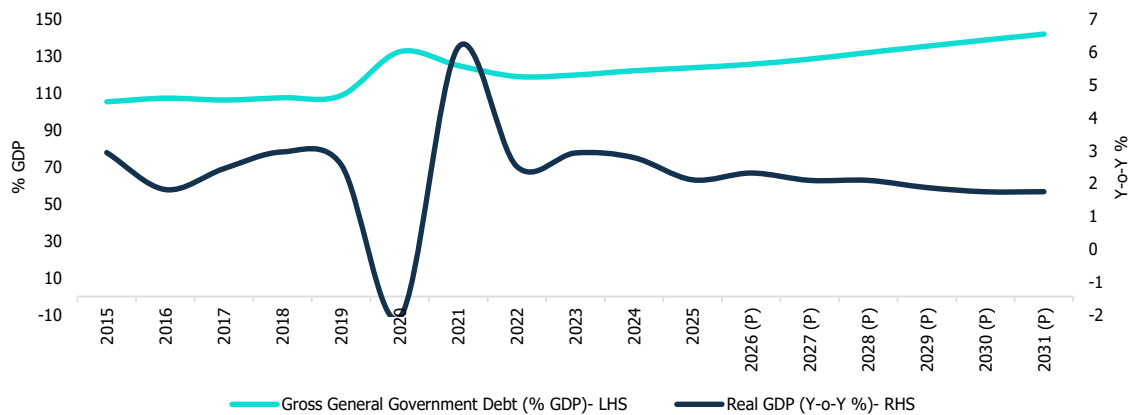
More importantly, the challenge for the US is no longer merely the stock of debt, but the rising cost of servicing it.

Long-term treasury yields remain elevated

amidst persistent fiscal concerns, higher issuance requirements, and inflation risks. Interest payments as a share of government revenue have increased significantly, placing the US among the more interest-burdened advanced economies globally.

These weakening fiscal metrics have been a key driver of our 'Negative' outlook on the US.

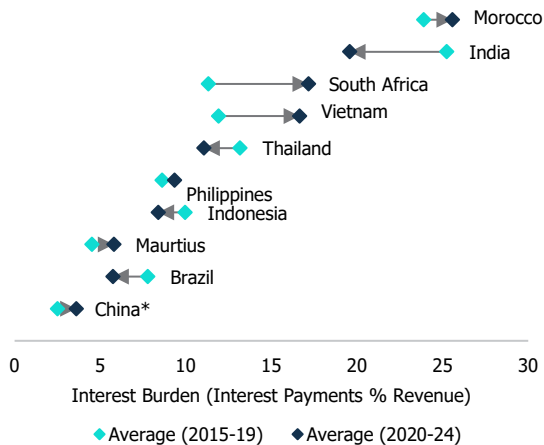
Exhibit 1.6: Debt Levels & Growth Prospects for the United States



Source: IMF, CareEdge; (P): IMF Projections

Interest burdens are expected to remain persistently elevated across many EMs. Debt servicing costs consume a larger share of government revenues and potentially crowd out productive public spending in most emerging economies (Exhibit 1.7).

Exhibit 1.7: Interest Burdens of EMs



Source: IMF, National Sources, Haver Analytics, CareEdge
Note: *For China, data reflects the average for 2020–2023

Exhibit 1.8: Emerging Markets' General Government Debt Dynamics

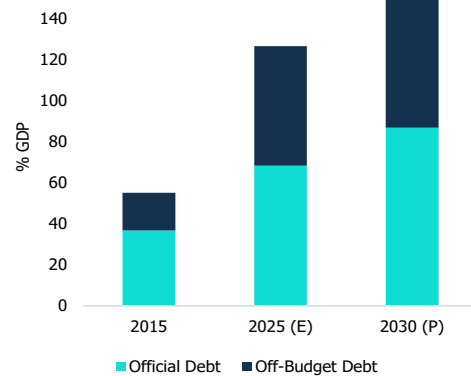
Country	GGG Debt as % of GDP (2025) (E)	Projected Change in GGG debt (2030 vs 2025) (Percentage Points)
China	126.6	27.1
Brazil	93.3	12.2
Thailand	64.7	4.8
South Africa	78.6	3.5
Mexico	61.8	1.6
Indonesia	41.0	1.2
Philippines	59.4	-3.0
Vietnam	30.3	-3.2
Morocco	67.1	-5.2
India	81.8	-5.3

Source: IMF, Haver Analytics, CareEdge; (E): IMF Estimate
Note: Data for India is for FY26; For China, debt refers to augmented debt, which includes liabilities of Local Government Financing Vehicles (LGFVs) and other off budget government funds

Further, debt trajectories across EMs are diverse (Exhibit 1.8). Many emerging economies are expected to pursue gradual fiscal consolidation in the medium term despite tighter global financial conditions and rising external risks. However, vulnerabilities remain pronounced in some cases. Brazil continues to face risks with primary balances insufficient to stabilise debt dynamics, while South

Africa faces mounting contingent liability risks. China stands as an outlier to the emerging markets debt landscape due to its sharp surge in debt trajectory (Box 1.2).

Exhibit 1.9: High Share of Augmented Government Debt (Off-Budget Borrowings) in China



Source: IMF, Haver Analytics, CareEdge
Note: (E) = IMF Estimates; (P) = IMF Projections

Box 1.2: China remains an outlier due to its sharp surge in debt trajectory

China remains a key outlier among major emerging economies due to its elevated off-budget government borrowings and rapidly rising debt trajectory.

According to the IMF, China's augmented government debt, which includes off-budget borrowings by local governments, is estimated at 127% of GDP in 2025 (Exhibit 1.9), sharply up from around 98% in 2020, and is expected to rise further amidst slowing growth.

Fiscal pressures have intensified following the prolonged property sector slowdown, which has weakened land-sale revenues, a major funding source for local governments.

However, risks associated with China's elevated government debt are mitigated by its low interest-to-revenue ratio and low sovereign yields, which support debt affordability. In addition, most government debt is held domestically, which provides financing flexibility.

Nonetheless, elevated debt levels and weaker growth prospects are expected to remain the key structural challenges for China over the medium term.

Structural Shifts in the Global Debt Market

Beyond cyclical pressures, the global sovereign debt market is undergoing a structural transformation in terms of who holds sovereign debt, under what conditions, and across what maturity horizon.

Key structural shifts include:

A. Shift from domestic official institutions to more price-sensitive investor bases in AEs

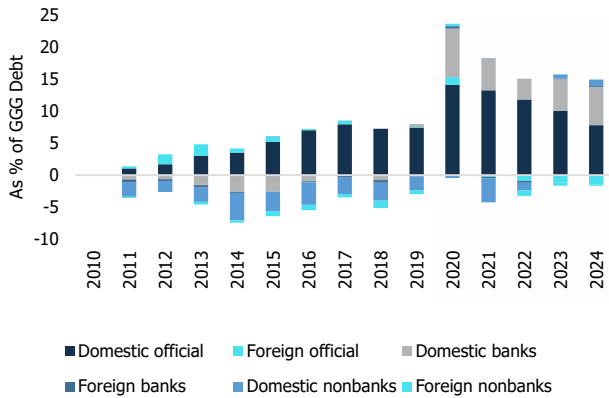
Post pandemic, central banks accumulated government bonds at an unprecedented scale, with a significant increase during the pandemic (Exhibit 1.10). Central banks along with other institutions including insurance companies and pension funds act as price-insensitive buyers (purchasing sovereign bonds not based on return expectations), thereby compressing long-term yields and enabling governments to sustain elevated borrowing at exceptionally low cost for over a decade.

However, post-2022, major central banks across advanced economies have shifted toward quantitative tightening (QT) amid rising inflationary pressures (Exhibit 1.11). This transition is already creating new vulnerabilities in sovereign



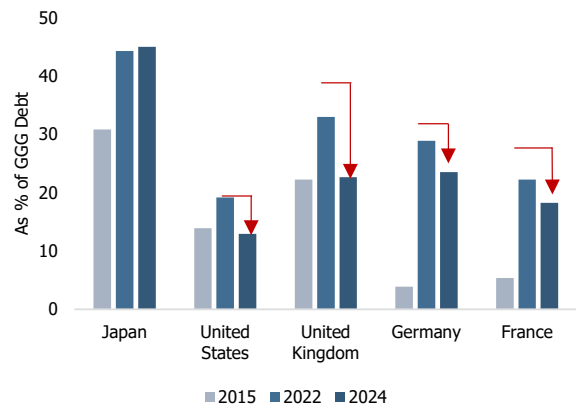
debt markets for AEs. As a result of quantitative tightening, private investors are now absorbing significantly higher sovereign issuance, but at higher yields and with greater sensitivity to fiscal and market risks. Exhibit 1.12 highlights two peculiar cases of the US and UK. In the US, mutual funds are accounting for a growing share of sovereign debt holdings, while in the UK, the share of overseas investors is rising as central banks retreat from bond purchases. Unlike central banks, these investors tend to be more reactive to yield movements, liquidity conditions, and changing risk perceptions. This trend is already visible in economies such as the UK and Japan, where bond yields have witnessed sharper market-driven movements (Boxes 1.3 & 1.4).

Exhibit 1.10: Contribution of Central Banks Toward Absorbing Additional Sovereign Debt Issuance Moderated Globally



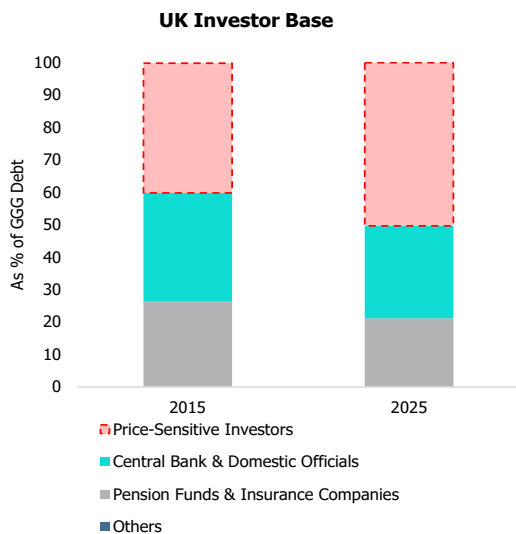
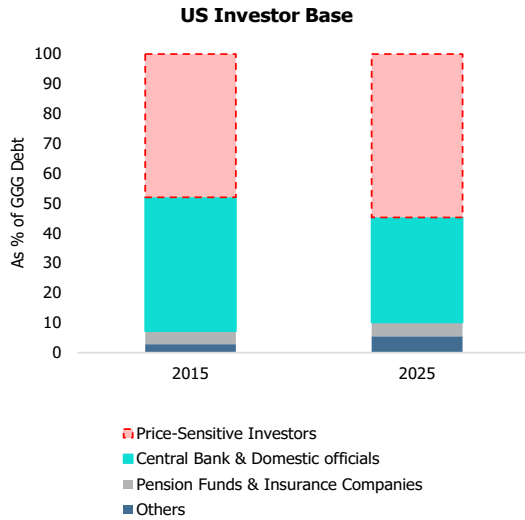
Source: IMF, Haver Analytics, CareEdge

Exhibit 1.11: Central Bank Holdings Dipped after the Pandemic for Key AEs



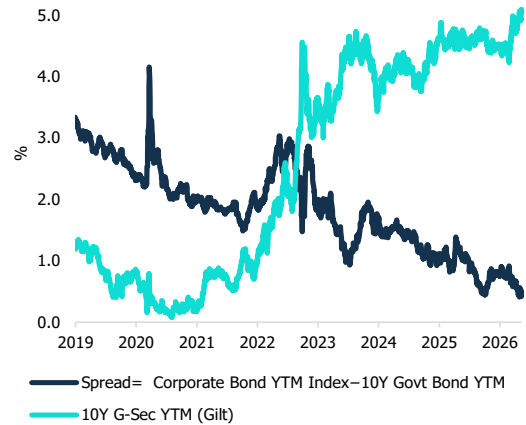
Source: IMF, Haver Analytics, CareEdge

Exhibit 1.12: Increasing Price Sensitive Investor Base for Advanced Economies



Source: BOE, FED, Haver Analytics, CareEdge
Note: Data refers to Q3 for both 2015 and 2025; Price-sensitive investors include hedge funds, households and certain foreign holders, as they are more exposed to market volatility; Others includes depository institutions for the US and private non-financial companies in the UK

Exhibit 1.13: Spread Between Corporate and Sovereign Yields has Narrowed Sharply for United Kingdom



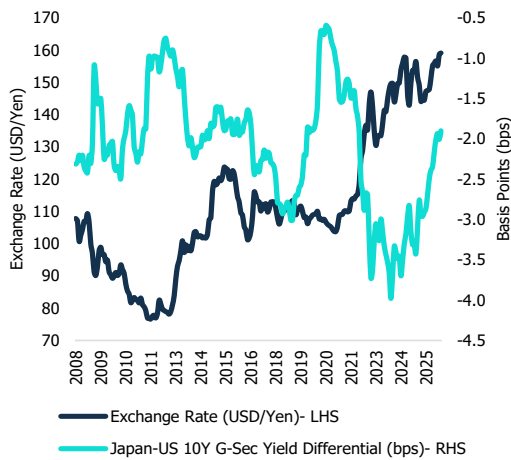
Box 1.3: United Kingdom (AA-/Stable)

UK sovereign bond market has experienced the highest levels of volatility across advanced economies in recent years, reflecting a combination of structural changes in the government holdings towards price sensitive investors along with persistent inflationary pressures, fiscal sustainability concerns, and episodes of weakened policy credibility.

At the same time, the structure of the UK gilt market has been changing. A larger share of government debt is now increasingly held by foreign investors and other more price-sensitive market participants, while the role of traditionally stable long-term domestic investors has moderated. This evolving investor composition has amplified market volatility in bond markets and have become more sensitive to changes in fiscal monetary policy expectations.

An additional sign of these pressures is the narrowing gap between sovereign and corporate bond yields. Traditionally, government securities trade at lower yields than corporate debt due to their perceived safety. However, the compression in spreads for the UK suggests that sovereign borrowing costs have risen due to investor concerns around fiscal situation (Exhibit 1.13).

Exhibit 1.14: Japan's Narrowing Yield Differentials and Rising Currency Volatility Could Weaken the Carry Trade Benefits



Source: Federal Reserve Board, U.S. Treasury, Ministry of Finance Japan, Haver Analytics; CareEdge

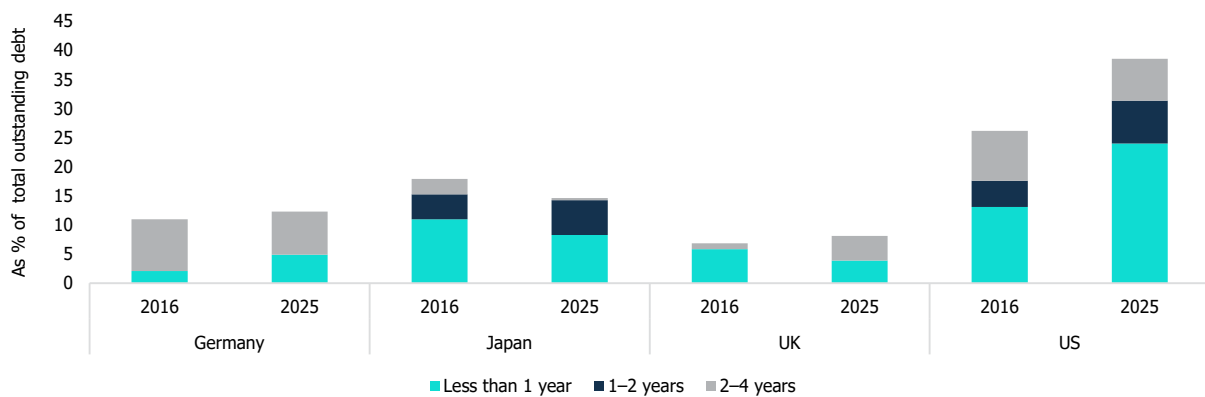
Box 1.4: Japan (AA-/Stable) presents another important structural shift.

For years, the Bank of Japan (BOJ) maintained ultra-low yields through its Yield Curve Control (YCC) policy, that supported carry trade for Japan (borrowing cheaply in Japan to invest in higher yielding assets abroad). However the reversal of the Zero Interest Rate Policy (ZIRP) and rising yields, along with volatile currency could weaken this carry trade (Exhibit 1.14). Further, the BoJ is expected to hike rates further amid rising inflationary concerns. This gradual normalisation of monetary policy and the rise in domestic bond yields has led to Japanese pension funds and insurance companies to prefer investing within Japan. While the share of US Treasuries and European debt remains high in overall reserves held by Japan, this transition matters globally because Japanese investors have historically been among the largest providers of capital to international bond markets.

Further, key advanced economies, including the US, UK, and Germany, have increasingly shifted towards shorter-duration borrowing amid elevated fiscal financing needs and changing investor preferences (Exhibit 1.15). While shorter-maturity issuance may help contain borrowing costs in the near term,

it materially increases refinancing dependence by requiring governments to roll over debt more frequently.

Exhibit 15: Reliance on short term maturity has increased for key Advanced Economies



Source: IMF, CareEdge

Note: Short-term maturity is defined as a period of less than four years

B. Growing Global Integration of EM Bond Markets

Emerging market economies (EMs) have traditionally relied predominantly on local currency-denominated sovereign debt. This has provided an important buffer against exchange rate volatility and external financing shocks. However, the continued dominance of local currency debt also reflects relatively lower foreign investor participation in many EM sovereign bond markets. Several issuers continue to face structural constraints such as shallow domestic bond markets and elevated borrowing costs, limiting their ability to issue long-term local currency debt at scale.

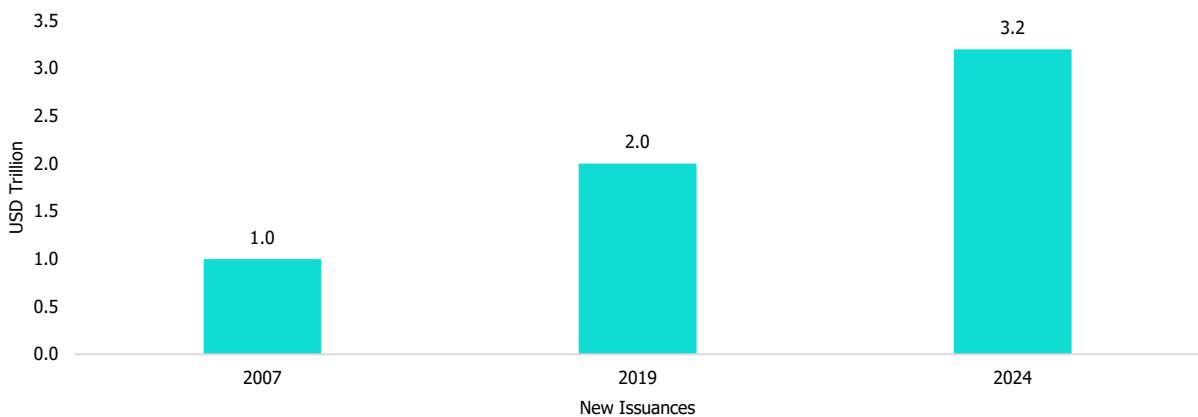
Notwithstanding these constraints, EM sovereign bond markets have expanded significantly over the past two decades, reflecting their growing importance in global fixed income markets. The outstanding sovereign bond debt in EMs increased from less than USD 4 trillion in 2007 to nearly USD 12 trillion in 2024. Annual sovereign issuance rose from around USD 1 trillion to more than USD 3 trillion over the same period (Exhibit 1.16). Although China accounts for a substantial share of this expansion, growth has also been visible across a broader set of emerging economies.

The increasing global attractiveness of EM debt is becoming more visible for a few economies with stronger macroeconomic fundamentals, domestic markets, and improving market accessibility.

This trend is particularly evident in the growing inclusion of EM local currency bonds in global benchmark indices. The JPMorgan Government Bond Index-Emerging Markets (GBI-EM) Global Diversified Index has progressively expanded to include economies demonstrating stronger macroeconomic stability and market development. India’s inclusion in the index beginning in June 2024 marked a major milestone for its domestic bond market and is expected to support significant passive inflows. This was followed by inclusion of India’s government bonds in Bloomberg’s Emerging Market Local Currency Index in January 2025 and the FTSE Russell Emerging Market Government Bond Index from September 2025.

The trend is also broadening across other emerging markets. Economies such as the Philippines and Saudi Arabia are increasingly attracting global investor interest with their expected listing in the global bond indices, amid improving market depth, stronger domestic fundamentals, and deeper integration with global capital markets.

Exhibit 1.16: EM Sovereign Bond Issuances has Tripled Since 2007

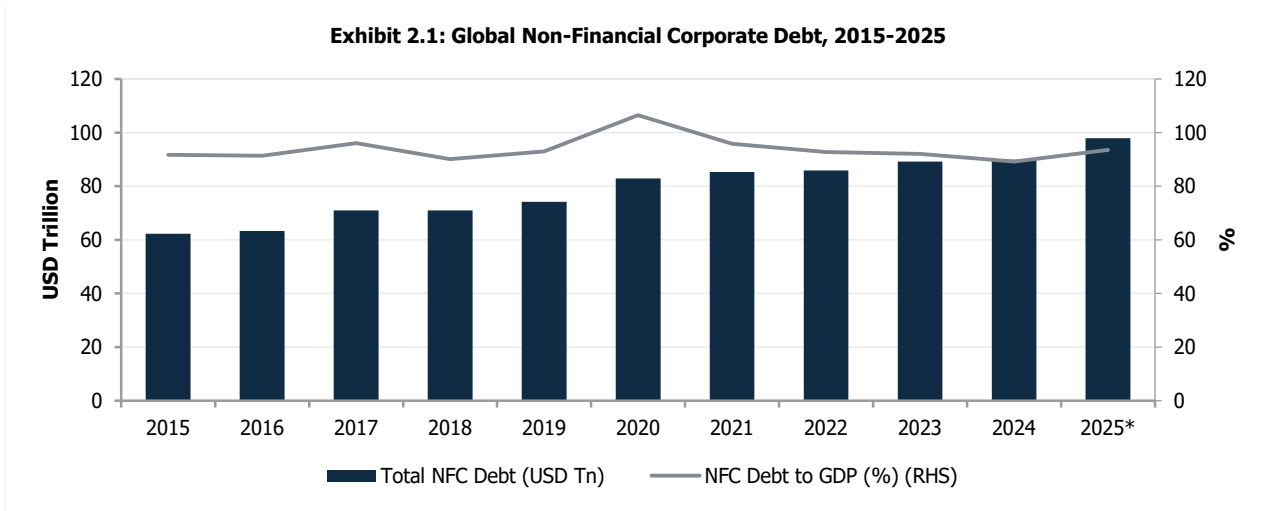


Source: OECD, CareEdge

Global Corporate Debt Landscape

Global Non-Financial Corporate Debt is Near a Record USD 100 Trillion

Global non-financial corporate debt³ has increased steadily over the past decade, from around USD 62 trillion in 2015 to close to USD 100 trillion by Sep 2025 (Exhibit 2.1). Companies borrowed heavily during the low-interest-rate years and again during the 2020-21 pandemic, when they raised cash to stay liquid, refinance maturing debt, and lock in lower funding costs. Since 2021, as interest rates rose, the pace of new borrowing has cooled across developed market.



Source: BIS (Bank for International Settlements); *Data as of September 2025, CareEdge
Note: NFC: Non-financial corporations

³ Includes all borrowings for non-financial corporations

Total non-financial corporate borrowing continues to grow in scale, while its composition is also evolving. Capital-intensive sectors linked to AI infrastructure, semiconductors, clean energy, and power generation are increasingly driving debt issuance, reflecting the significant upfront funding requirements associated with these industries. This suggests that corporate borrowing is becoming more closely tied to long-term structural investment themes rather than short-term cyclical financing needs alone.

Looking ahead, the OECD and IMF expect total corporate debt to keep growing broadly in line with global economic growth rather than outpacing it. Global corporate debt issuance is expected to be higher due to refinancing requirements, as a large share of bonds issued at lower interest rates during 2020-21 matures over the next few years.

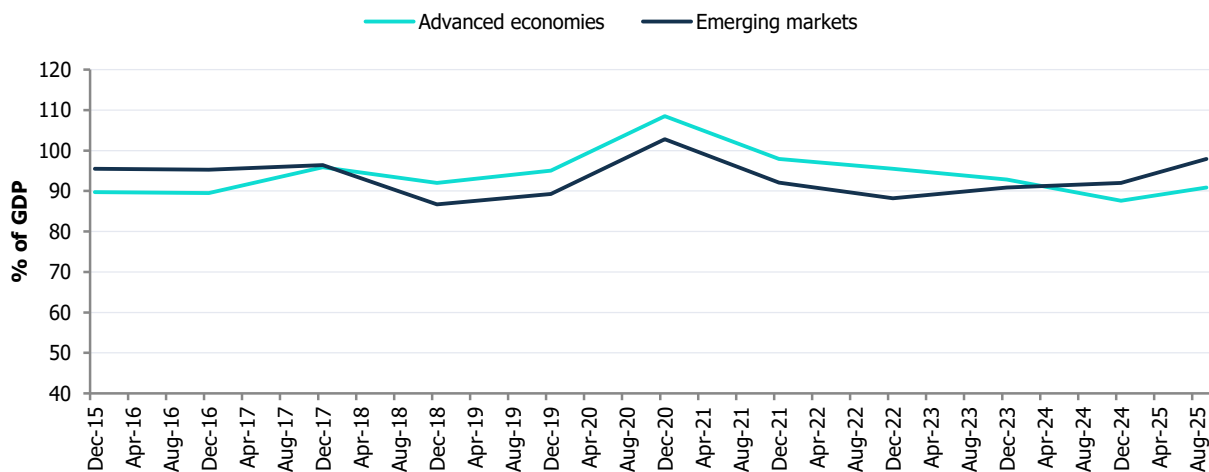
A. Emerging markets corporate debt to GDP gap with advanced economies has closed

Emerging markets and advanced economies began the decade with similar levels of non-financial corporate debt relative to GDP, with emerging markets slightly higher in 2015-16. Over the years, however, the debt-to-GDP ratio in advanced economies grew more rapidly, especially during the periods of low interest rates and the pandemic, stabilising after 2021. Meanwhile, leverage in emerging markets also increased over the decade with debt-to-GDP for emerging economies projected to slightly surpass that of advanced economies by 2025 (Exhibit 2.2).

Importantly, this trend is heavily influenced by China rather than reflecting a broad-based rise across all emerging markets. China’s corporate sector expanded rapidly through credit-intensive investment in infrastructure, property and state-linked enterprises, driving much of the increase in aggregate emerging-market leverage. Although China’s corporate debt-to-GDP ratio has moderated from earlier peaks in recent years, it remains among the highest globally and continues to shape overall emerging-market debt dynamics. Additionally, a decade of low global interest rates also allowed companies in remaining emerging markets to borrow more, often through fast-growing local bond markets.

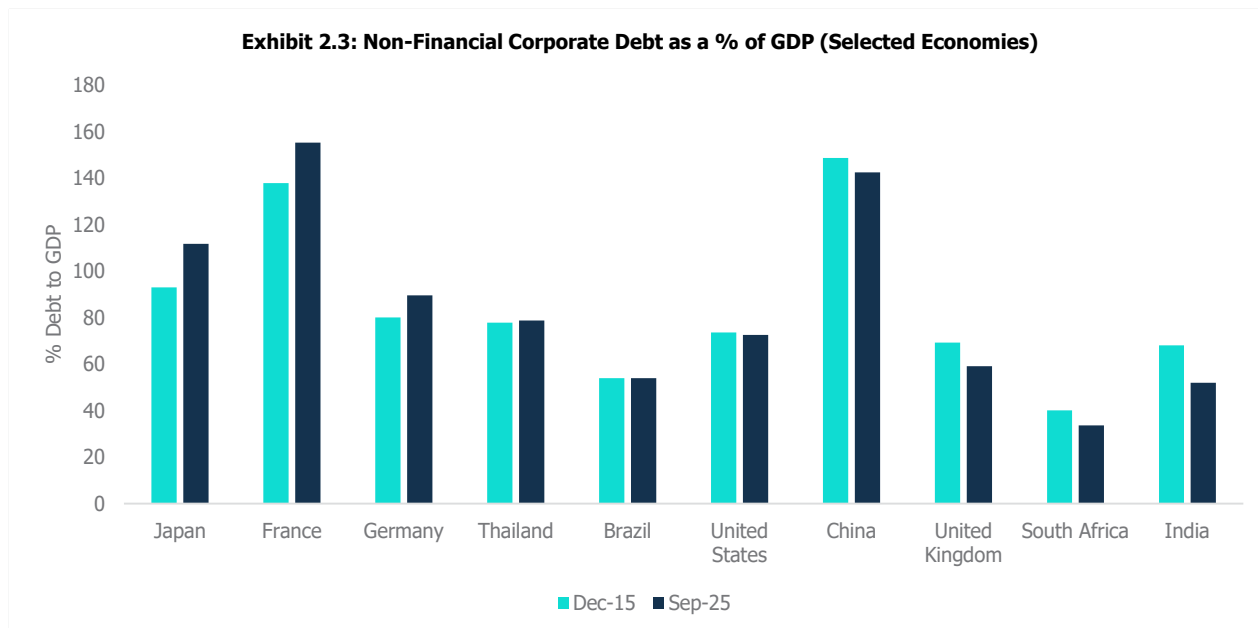


Exhibit 2.2: Non-Financial Corporate Debt / GDP (%) — Advanced vs Emerging Economies



Source: BIS; *Data as of September 2025, CareEdge

B. Corporate Indebtedness Remains Uneven Across Economies



Source: BIS; *Data as of September 2025, CareEdge

France, Germany and Japan have all seen modest increases in corporate indebtedness (Exhibit 2.3). France remained highly indebted, due to intra-group lending and large multinationals headquartered in this market. Japan’s elevated debt levels continue to reflect the long-standing role of relationship-based banking and sustained corporate access to low-cost funding. Germany has also experienced a gradual rise in leverage, supported by strong industrial financing needs and prolonged accommodative financial conditions during much of the past decade.

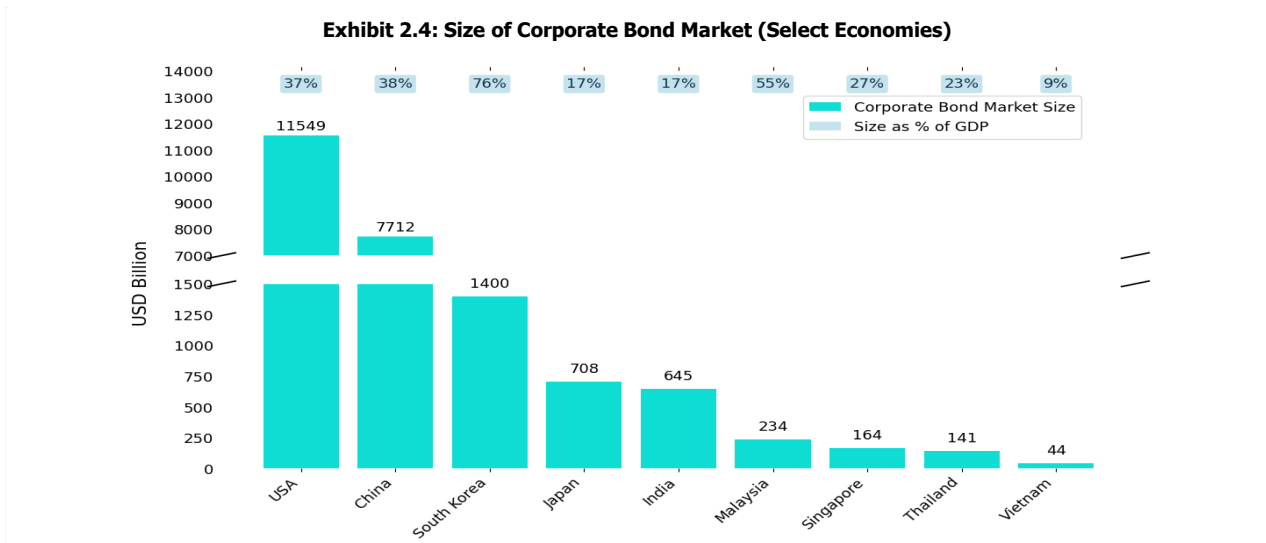
China’s corporate debt-to-GDP ratio has moderated somewhat from earlier peaks. Still, it remains among the highest globally, reflecting the economy’s long-standing reliance on credit-driven investment and financing through state-linked sectors. Meanwhile, the decline in the United Kingdom and South Africa reflects a combination of slower borrowing growth, weaker investment activity and tighter financing conditions over recent years.

Post mid-2010s stress, Indian corporates focused on deleveraging rather than taking on new debt. As a result, balance sheets are now stronger, with greater borrowing capacity and better credit support.

Corporate Bond Markets Vary Widely in Size Across Economies

The United States is a good example of a deep and mature corporate bond market (Exhibit 2.4), combining large scale with broad issuer participation, active secondary-market liquidity, and widespread use of market-based financing across sectors. Importantly, the market is also diversified across the credit spectrum, ranging from highly rated investment-grade issuers to a large and well-developed high-yield segment. This depth allows companies of varying size, rating profile and funding needs to access bond financing efficiently, making the corporate bond market a primary channel of corporate funding in the US economy.

China presents a different dynamic. While its corporate bond market is large in absolute terms



Source: BIS; *Data as of September 2025, CareEdge

and substantial relative to GDP, a significant share of issuance originates from state-owned enterprises (SOEs) and local government financing vehicles (LGFVs). Moreover, much of this debt is ultimately held within the domestic banking and state-linked financial system, either directly on bank balance sheets or through affiliated investment channels. As a result, parts of the market function more as an extension of bank-led credit intermediation than as a fully market-driven mechanism for price discovery and capital allocation. The headline size of the market therefore somewhat overstates the degree of open-market participation and investor diversification.

India's corporate bond market remains relatively small, at around USD 645 billion and roughly 17%

of GDP, with bank lending continuing to dominate corporate financing. Issuance remains concentrated among highly rated financial institutions and public-sector entities, while elevated government borrowing absorbs a significant portion of domestic savings. As a result, access to bond financing remains relatively limited outside highly rated issuers.

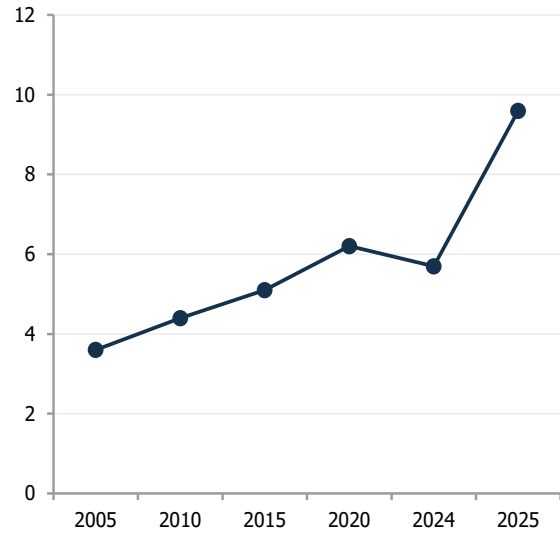
Japan's relatively modest corporate bond market reflects a long-standing institutional preference for relationship-based banking. South Korea, by contrast, demonstrates how sustained policy focus and long-term market development can gradually build a larger, more diversified corporate bond ecosystem.

Industrials and Consumer-linked Sectors Still Borrow Most, but the Technology Sector is Rising Fast

The global corporate bond market remains dominated by traditional sectors such as industrials, consumer businesses, and utilities, which together account for more than half of the outstanding issuance. This reflects the natural tendency of bond financing to concentrate in capital-intensive sectors with stable and long-duration funding needs. Utilities remain significant issuers due to their predictable and regulated cash flows, while industrials continue to represent the single largest share of the market (Exhibit 2.5)

The technology sector has historically been a relatively small borrower in bond markets, as large technology companies typically generated strong internal cash flows and relied more heavily

Exhibit 2.6: Technology Sector — Share of Global Non-Financial Bond Issuance (%)



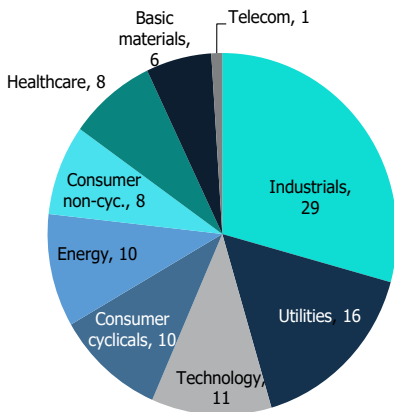
Source: OECD, CareEdge

on equity financing than debt issuance. Unlike traditional capital-intensive sectors such as utilities, infrastructure or industrials, technology firms generally had lower fixed-asset requirements and therefore less need to raise large amounts of long-term debt. That dynamic is now beginning to shift (Exhibit 2.6). According to the OECD, a small group of large technology firms accounted for nearly half of global technology-sector bond issuance in 2025, and the sector’s overall share of bond issuance increased materially in recent years.

These investments are highly capital-intensive, and as a result, debt markets are becoming an increasingly important funding source for large technology companies, providing them with access to long-duration capital needed to support AI expansion. As AI investment accelerates further over the coming years, technology companies are expected to become increasingly important participants in global credit markets.

This shift also has implications for credit risk. Technology-sector borrowing carries a different risk profile from traditional bond-intensive sectors such as utilities or infrastructure, particularly given the pace of technological change and the potential for rapid obsolescence. As issuance increasingly aligns with AI-related investment themes, market participants are likely to pay closer attention to the sector.

Exhibit 2.5: Industry Share of Global Non-Financial Corporate Debt Outstanding (2025)



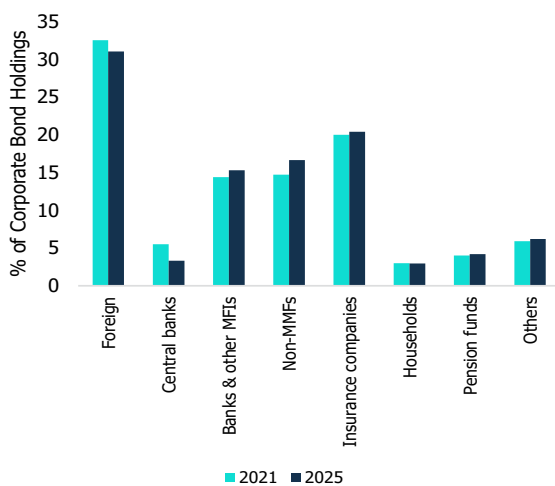
Source: OECD, CareEdge

A Diversified Investor Base Continues to Anchor Corporate Bond Markets

There has been no major disruption to the investor mix in advanced markets despite significant changes in interest rates and global financial conditions over recent years. Instead, the market continues to be supported by a relatively balanced combination of foreign investors, insurers, banks, pension funds and investment funds.

At the same time, the share of non-bank financial investors, particularly investment funds and asset managers, has gradually increased. These investors are generally more responsive to changes in interest rates, credit conditions and market sentiment, which can contribute to greater price sensitivity and fund flow volatility during periods of market stress. However, the continued presence of long-term institutional investors such as insurers and pension funds remains an important stabilising anchor for corporate bond markets across credit cycles.

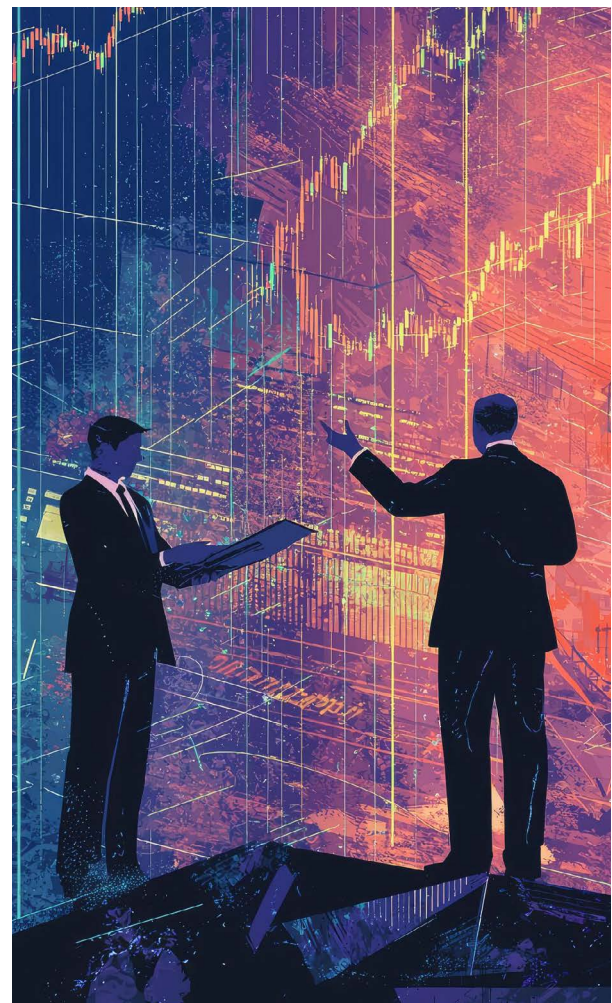
Exhibit 2.7: Investor Base for Corporate Bond Market (Major Advanced Economies)



Source: OECD, CareEdge

Note: Non-MMF: non-money market funds do not invest primarily in short-term, highly liquid instruments, distinguishing them from money market funds

The composition of the corporate bond investor base in major advanced economies has stayed generally consistent from 2021 to 2025, with a diverse group of investors providing ongoing support for market stability (Exhibit 2.7). Foreign investors still hold the largest share, making up about one-third of the market. Insurance companies also remain significant investors, with a long-term investment outlook and relatively stable allocation patterns. Banks and other monetary financial institutions (MFIs) have slightly increased their share over this period, while pension funds' participation has remained mostly unchanged.



India's Debt Landscape

Small but Fast Growing Bond Market in India

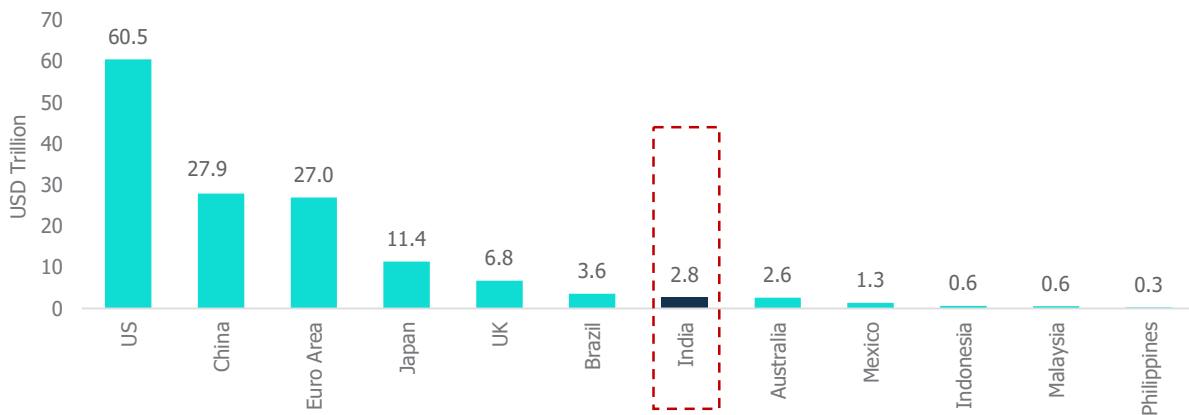
As India advances towards its vision of becoming a 'Viksit Bharat' by 2047 with a USD 30 trillion economy, it will require a robust and diversified financial ecosystem capable of mobilising long-term capital at scale. In this context, capital markets—and more importantly, the bond market—will play a critical role.

Over the past decade, several measures have been undertaken to attract higher investment flows and support the development of the corporate bond market. These include simplifying procedures, establishing sophisticated clearing and settlement infrastructure, improving disclosure standards, and easing limits on overseas participation. However, compared with major developed economies, India's bond market remains relatively small. The global bond market is largely dominated by the US and China, which together



account for nearly 80% of total outstanding debt securities globally (Exhibit 3.1). India's total outstanding debt securities amount to merely 4.5% of that of the US—the world's largest corporate bond market.

Exhibit 3.1: Outstanding Total Debt Securities*



Source: Haver Analytics, BIS, SEBI, RBI and CareEdge. Data as of September 2025; *Represents size of non-financial bond market and includes government and corporate debt

Features of Government Securities Market: Key Trends & Road Ahead

Key Features of the Government Securities Market

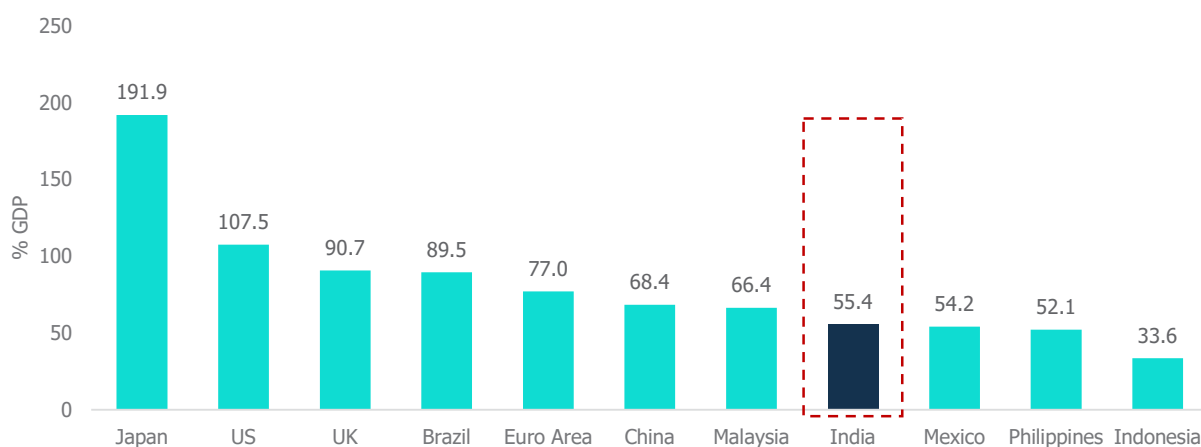
- **Well-Diversified G-Sec Maturity Profile Limits Rollover Risks**

The maturity profile of outstanding Central government debt securities is reasonably well distributed across the different tenors. As of Q3 FY26, the share of securities maturing in over 10 years stood at 39% of the total outstanding Central government debt securities, while those maturing in the next five years stood at 29% (Exhibit 3.3). A long-term assessment of the maturity profile of outstanding Central government debt securities shows the rising share of securities with long-term maturity (Exhibit 3.4). As a result, the weighted average maturity of outstanding Central government securities has shown a rising trend, reaching 13.6 years as of Q3 FY26 compared to 10.7 years a decade ago (FY17) (Exhibit 3.5). The government’s debt management efforts through switches and buybacks have also helped to elongate the maturity profile of the debt portfolio. Overall, a well-diversified maturity profile of outstanding government debt reflects limited rollover risks.

The size of India’s general government debt securities market is at 55.4% of GDP. While this is broadly comparable with some other Asian economies such as the Philippines (52.1%) and Indonesia (33.6%), it is lower than those of Malaysia (66.4%) and China (68.4%). Moreover, India’s government securities market remains significantly smaller compared to the advanced economies – Japan (191.9%), US (107.5%) and UK (90.7%).

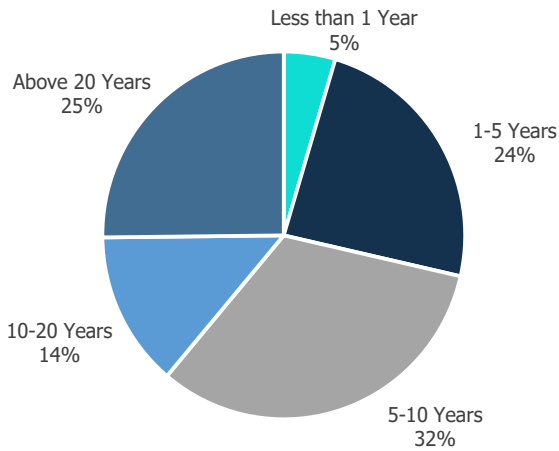
Over the last few years, India’s government securities market has undergone several structural and institutional improvements to strengthen the overall ecosystem. Active debt management efforts, shifts in investor composition, and increasing integration into global markets have been the key trends shaping India’s government

Exhibit 3.2: Size of General Government Debt Securities (% GDP)



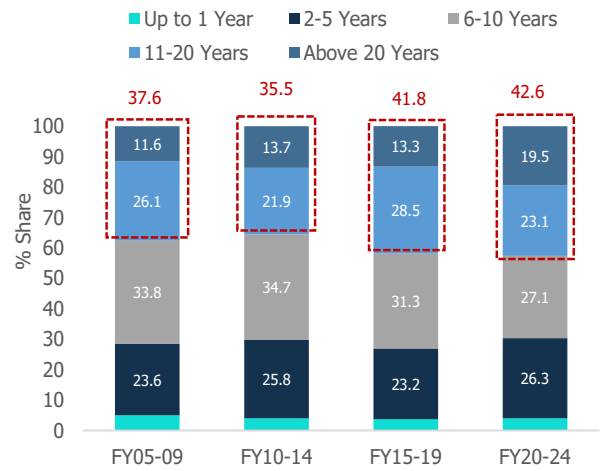
Source: Haver Analytics, IMF, RBI, CareEdge; Note: Data on outstanding government debt securities is for Q3 2025, For India, the outstanding government debt securities data is as of May 2026; Exhibit shows data for marketable debt securities (bonds) and excludes other sources of financing of government debt such as external borrowing, borrowing via small savings, etc

Exhibit 3.3: Maturity Profile of Outstanding Central Government Debt Securities – As of Q3 FY26



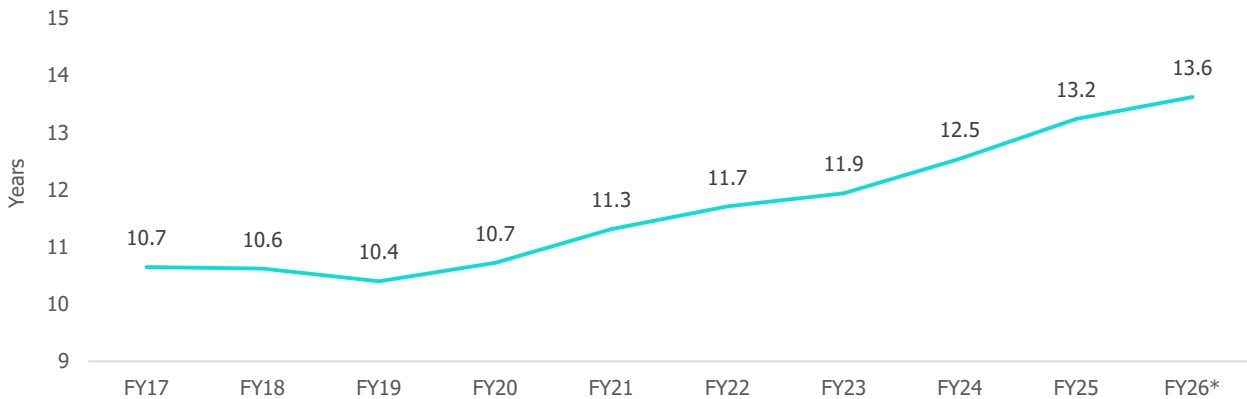
Source: Quarterly Report on Public Debt Management, DEA, Ministry of Finance, CareEdge

Exhibit 3.4: Evolving Patterns in Maturity Profile of Outstanding Central Government Debt Securities



Source: Status Paper on Government Debt (FY24), DEA, Ministry of Finance, CareEdge

Exhibit 3.5: Weighted Average Maturity of Outstanding Central Government Debt Securities

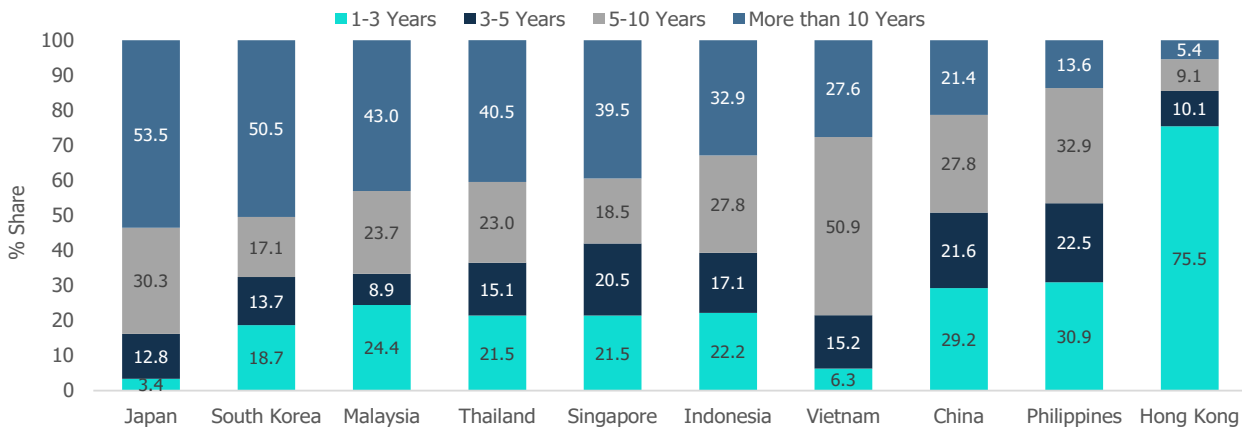


Source: Compiled from the Status Paper on Government Debt, DEA, Ministry of Finance, CareEdge; *Data for FY26 is as of Q3 FY26

A cross-country analysis with other Asian economies points toward a skewed distribution of outstanding Central government debt securities across the different maturity buckets. The outstanding Central government debt securities in the case of Hong Kong are heavily skewed towards short-term, with three-fourths in the 1-3 year maturity bucket. On the contrary, economies like Japan and South Korea have close to 50% of their outstanding Central government debt securities in the maturity bracket of more than 10 years. Comparatively, the maturity profile of India's outstanding government debt securities remains reasonably well balanced.



Exhibit 3.6: Maturity Profile of Outstanding Central Government Securities for Select Asian Economies - 2025



Source: Asia Bonds Online, CareEdge; Note: The data represents outstanding maturity of local currency bonds

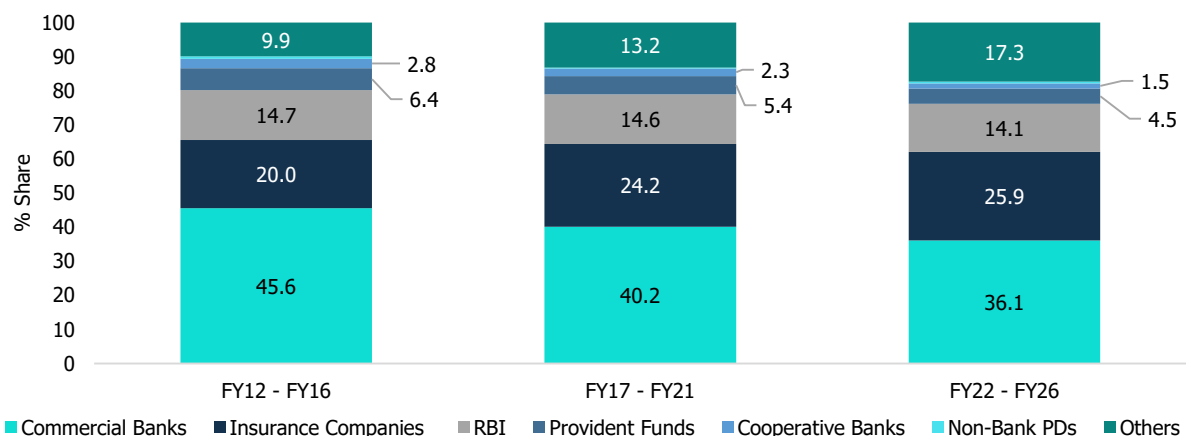
• Evolving Investor Composition, But Retail & Foreign Participation Remains Limited

The share of commercial banks in the ownership of Central government debt securities has declined over the years, while that of insurance companies has gone up. Given their long-term investment orientation, the participation of insurance companies (average share of 25.9% during FY22-26) and provident and pension funds (8.9%) complements the government’s objective of lengthening the maturity profile of central government debt securities (Exhibit 3.7).

While the investor base for Central government debt securities is reasonably diversified with different categories of investors preferring distinct tenors, non-resident investors’ participation remains limited. Policy

reforms aimed at boosting foreign investor participation, such as the introduction of Fully Accessible Route (FAR) Bonds in 2020, have been positive steps. This enabled the inclusion of India’s government bonds in global bond indices such as the JP Morgan’s Government Bond Index-Emerging Markets (GBI-EM) and the Bloomberg Emerging Market (EM) Local Currency Government Index. It is a positive step towards deepening the country’s government debt securities market and its integration with global financial markets. However, increasing the utilisation of investment in government debt securities by FPIs remains critical going forward. As of 11 May 2026, FPIs utilised around 9% of the value of available Central and state government securities under the General Limit, and 6.7% of outstanding securities designated under the FAR.

Exhibit 3.7: Ownership Pattern of Central Government Debt Securities



Source: RBI, CareEdge; Note: Data for FY26 is as of Q3 FY26; Note - The ‘Others’ category includes Pension Funds, Financial Institutions, FPIs, Corporates, Retail Investors and others

Table 3.1: FPI Holdings of Government Debt Securities

Instrument Type	Upper Limit (Rs Trillion)	Investment (Rs Trillion)	% of Limits Utilised
Central Government Securities	4.6	0.5	11.8
State Government Securities	1.5	0.0	0.3
Total	6.2	0.5	8.9

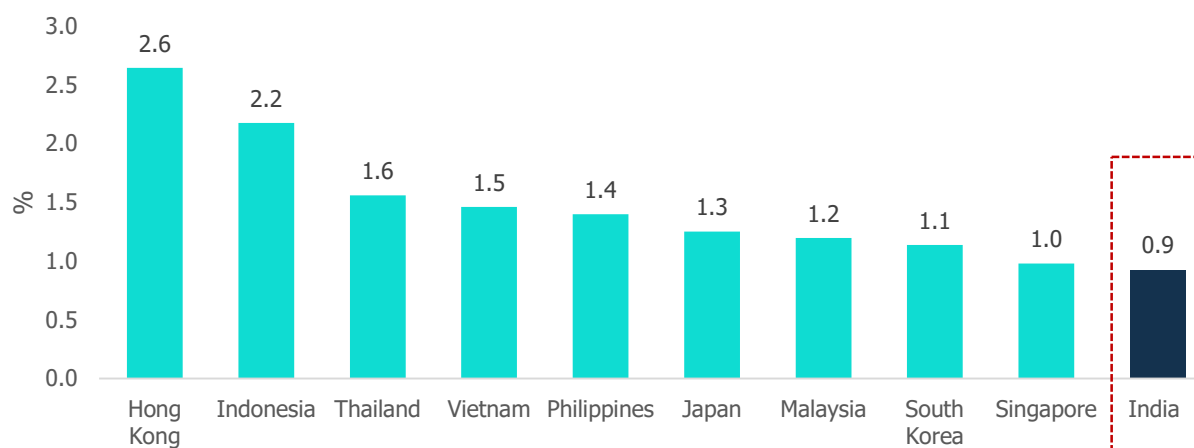
Source: NSDL, CareEdge; Note: Data as of 11 May 2026

Similarly, active retail investor participation remains limited despite the introduction of key measures such as the RBI Retail Direct Scheme, which functions as a one-stop solution to facilitate retail investment in government debt securities - both in primary auctions as well as secondary market trading segments. The number of Retail Direct Gilt Accounts (RDG Accounts) has gradually picked up from around seventy-four thousand as of October 2022 to over 6.3 lakh as of 11th May 2026. Holdings too have increased from Rs 8.1 billion to Rs 35.3 billion over this period. However, this is only 0.02% of outstanding total government debt securities. While direct participation remains limited, retail investors have a higher, albeit indirect, portfolio exposure to government securities through instruments such as mutual funds, provident funds and pension funds.

- **Lower Secondary Market Trading Volumes**

Despite the reasonable size of India's government securities market, the secondary market trading volumes remain low. This is reflected in the government bonds turnover ratio, which measures the extent of trading in the secondary market relative to the amount of bonds outstanding. India's government bond turnover ratio was seen at 0.9% (FY24); this was much lower than other Asian economies such as Hong Kong (2.6%), Indonesia (2.2%), Thailand (1.6%), Vietnam (1.5%) and the Philippines (1.4%). Given most bonds are held-to-maturity (HTM), especially by insurance and pension funds in India, the secondary market activity remains modest. Furthermore, there is a disparity in trading volumes between G-sec and SDLs, with the latter having lower turnover.

Exhibit 3.8: Government Bonds Turnover Ratio



Source: CareEdge, Status Paper on Government Debt FY24, DEA, Ministry of Finance for data on India; Asia Bonds Online for data on other economies. For India, data represents the monthly average for FY24 for Central government securities; Data for other economies is for 2025

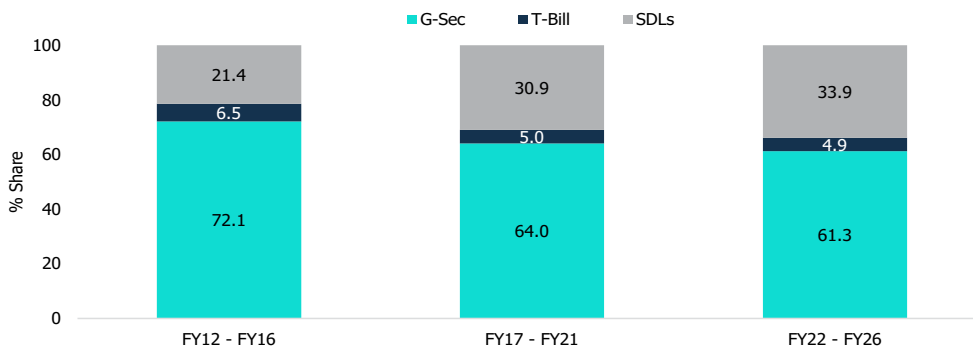
• **Limited Development of Sub-Sovereign Debt Securities Markets**

State Development Loans (SDLs) are a key component of the government debt market. Over the past two decades, outstanding SDLs have increased from Rs 7.4 trillion in FY12 to Rs 72.4 trillion at the end of FY26 (Exhibit 3.10), a CAGR of 16.4%. The share of SDLs in outstanding government debt rose from 16.2% in FY07 to 36.1% in FY26. This reflects the trend of states actively tapping the debt market to fund their spending. Banks, insurance companies and provident funds are the major holders of outstanding state government debt securities, similar to the ownership pattern of Central government debt securities (Exhibit 3.11).

32 Urban Local Bodies (ULBs), the share of municipal bonds in total municipal debt was less than 20% as of March 31, 2025. However, recent measures bode well for municipal bond financing. The government announced a Rs 1 trillion Urban Challenge Fund in the Union Budget FY26, with incentives anchored to strengthen creditworthiness of cities. Bond issuances have seen a revival in FY26 - municipal bonds worth Rs 18 billion were issued in FY26 alone compared to Rs 29 billion over FY18 - FY25. This uptick is likely to continue into FY27 with the Union Government’s announcement of an incentive of Rs 1 billion for a single bond issuance of Rs 10 billion in the Union Budget FY27. To further support the deepening of the municipal bond market, SEBI has also proposed a revamp of municipal bond regulations while tightening disclosure and investor protection norms.

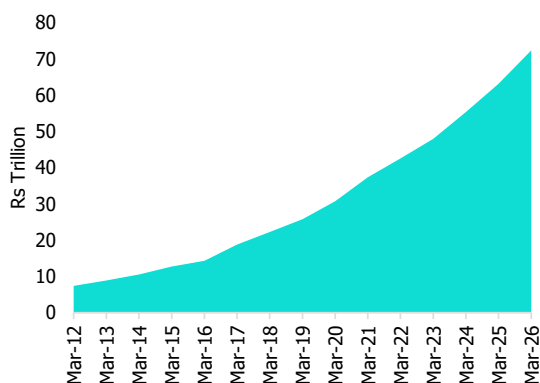
Beyond the Central government and the states, bond financing at the third tier of governance has remained limited thus far but is witnessing a nascent uptick. As per a CareEdge study of

Exhibit 3.9: Composition of Outstanding Government Debt Securities



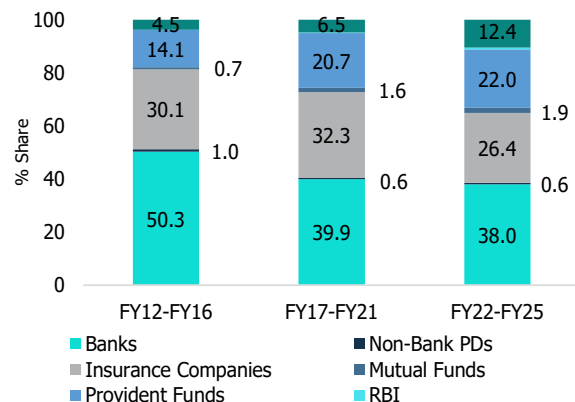
Source: CCIL, CareEdge

Exhibit 3.10: Trend in Outstanding SDLs



Source: CCIL, CareEdge

Exhibit 3.11: Ownership Pattern of SDLs



Source: RBI, CareEdge

Evolving Landscape of Corporate Bond Market in India

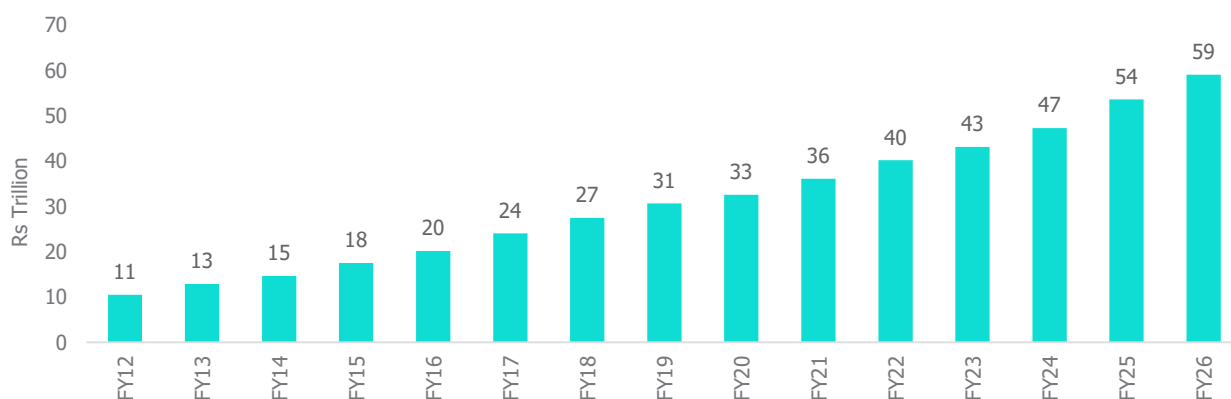
India's corporate bond market has expanded steadily over the years. Outstanding corporate bond issuances increased from around Rs 11 trillion in FY12 to nearly Rs 59 trillion in FY26, registering a CAGR of 13.1% (Exhibit 3.15).

Key Features of the Corporate Debt Market

- **Banks Remain Key Source of Mobilisation of Financial Resources; Equity Gained Momentum**

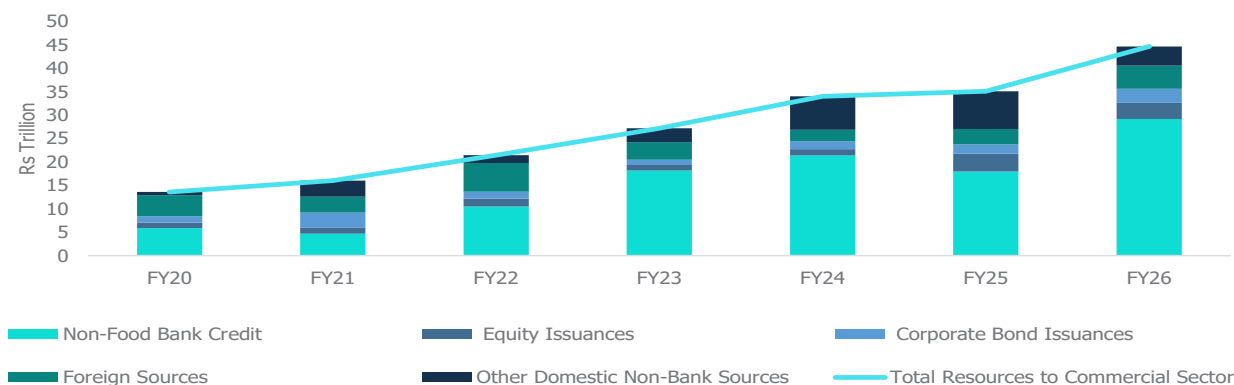
The non-financial commercial sector mobilised nearly Rs 45 trillion in FY26, of which around 65% was sourced from the banking sector through non-food bank credit, 24% came from other domestic non-bank sources and the remaining 11% from foreign sources (Exhibit 3.16). Among non-bank domestic sources, equity issuances and corporate bond issuances accounted for 8% and 7%, respectively, of total resources mobilised by the commercial sector. Despite the growing role of capital markets, the banking sector has continued to dominate resource mobilisation by the commercial sector, with its share averaging around 59% over the past five years.

Exhibit 3.15: Outstanding Corporate Debt in India



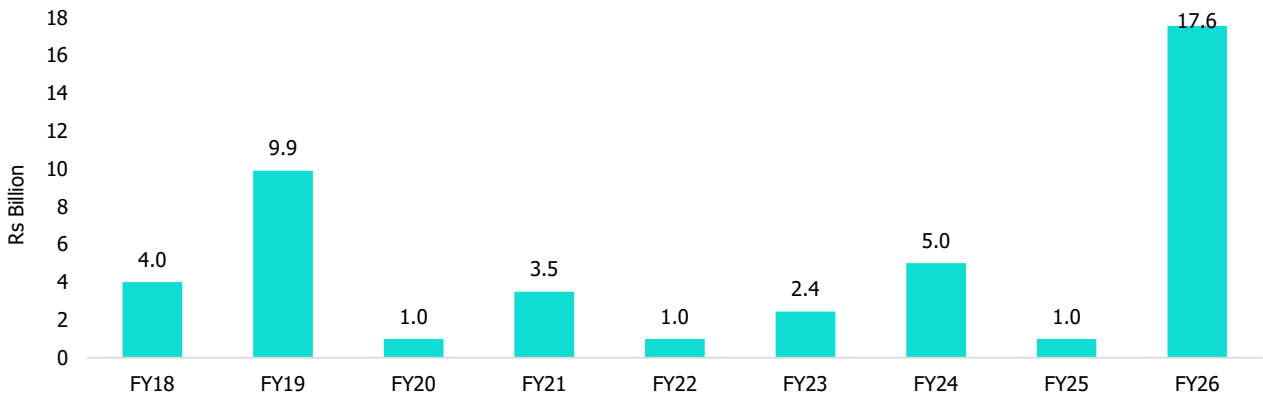
Source: SEBI, CEIC, CareEdge

Exhibit 3.16: Flow of Resources to Commercial Sector



Source: RBI, CEIC, CareEdge; Note: Others include REITs, InvITs, NBFCs and others

Exhibit 3.12: Issuances of Municipal Bonds



Source: SEBI, CareEdge

India’s Government Debt Trajectory

India’s general government debt surged to 89% of GDP in FY21 following the pandemic and the resulting fiscal pressures. The debt-to-GDP ratio has been on a downward trajectory since then, moderating to an estimated 81.8% in FY26. Despite the decline, India’s general government debt remains well above the pre-pandemic average of 68.8% seen during FY15-19. A cross-country comparison reveals that government debt levels remain elevated across several advanced and emerging economies, including Japan (206.5% of GDP), Italy (137.1%), the US (123.9%), and China (augmented debt at 126.6% of GDP) (Exhibit 3.13). In addition to the already elevated levels of general government debt across several economies, an

assessment of their projected trajectories indicates a rising trend in economies such as France, Germany, the US, Thailand and China.

Although India’s debt levels are expected to stay manageable vis-à-vis other major economies, the emerging fiscal pressures amid the ongoing West Asia crisis pose a challenge for the government’s fiscal consolidation trajectory. The state governments were already facing pressure amid rising expenditure on election-related welfare measures and cash transfers, and the crisis could further exacerbate fiscal stress. Given this background, India’s government borrowings are expected to face pressure.

Exhibit 3.13: Gross General Government Debt (% GDP) - 2025

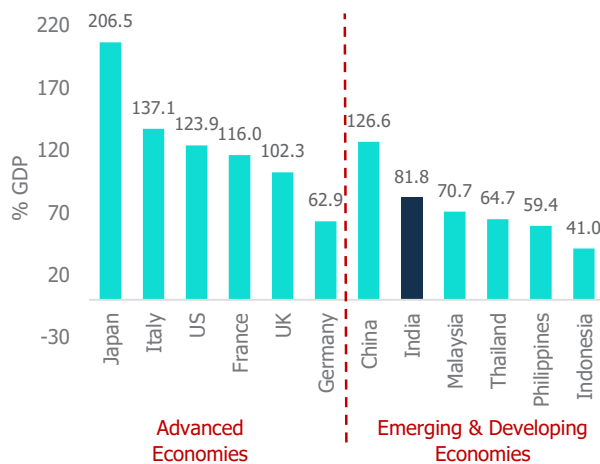
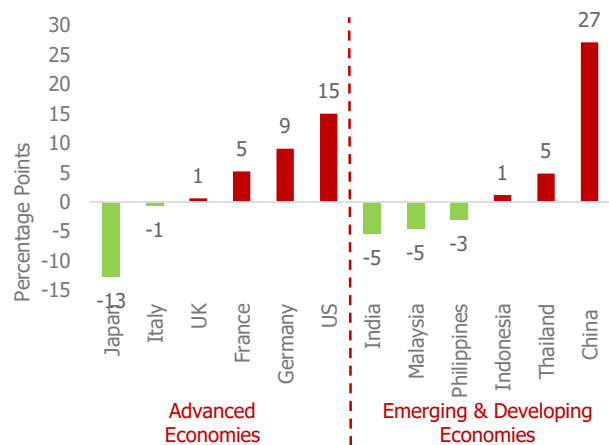


Exhibit 3.14: Projected Change in Gross General Government Debt – 2030 Vs 2025



Source: IMF, RBI, CareEdge; Data for India is for FY26; Data for China represents augmented debt

Source: IMF, RBI, CareEdge; Projected change in debt levels for all economies represent IMF projections; Projected change in debt levels for India represent CareEdge projections for FY31 Vs FY26; Data for China represents augmented debt

The commercial sector’s heavy dependence on bank credit can heighten systemic risks by concentrating sector-specific exposures within the banking system, increasing contagion risks through interconnected channels such as payments and deposits, and amplifying credit cycles during periods of economic stress. Many SMEs continue to face hurdles such as high issuance costs and credit-related constraints, which limit their access to capital markets and increase their dependence on the banking sector.

A well-functioning bond market fosters competition by providing a market-based channel for long-term financing, thereby improving capital allocation efficiency and deepening financial markets. However, issuers with lower credit ratings often tend to avoid bond issuances and instead prefer bank loans, which typically offer greater flexibility in repayment terms along with relatively lower disclosure requirements.

Another important aspect of the evolving capital market dynamics is the rising appetite among Indian investors for equity risk capital over the past few years. The share of equity in financial resources mobilised through domestic non-bank sources has increased significantly, averaging 26% during FY20–FY26 compared with an average of just 5% during FY10–FY19 (Exhibit 3.17).

At the same time, the share of corporate bonds and commercial papers in resource mobilisation has moderated marginally, particularly during FY23–

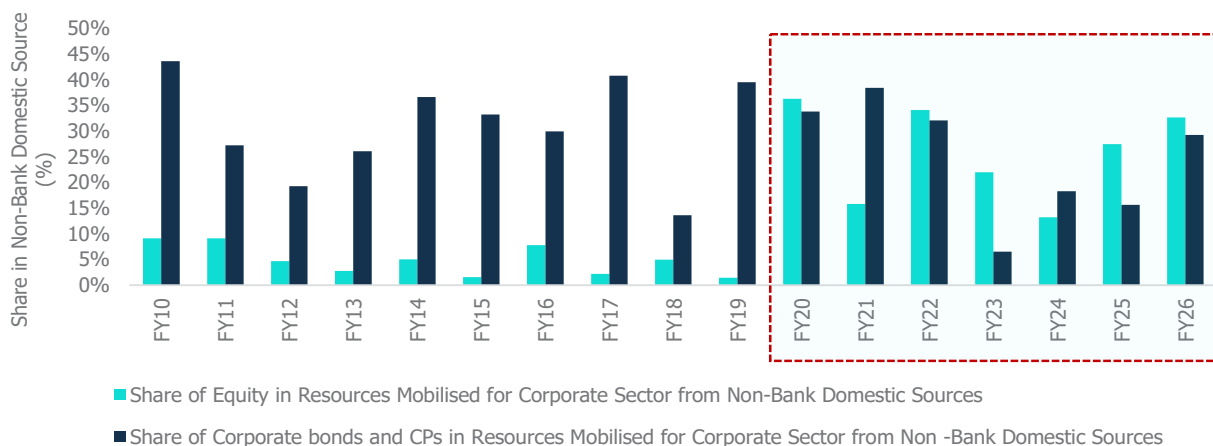
FY25. The combined share of corporate bonds and commercial papers in resources mobilised for the corporate sector from domestic non-bank sources declined to an average of 25% during FY20–FY26, compared with 31% during FY10–FY19.

• **Private Placements Continue to Dominate Bond Issuances**

Private placements continue to dominate corporate bond issuances in India. On average, private placements have accounted for nearly 99% of total corporate bond issuances over the past five years (Exhibit 3.18). The preference for private placements can largely be attributed to their flexibility and ease of structuring, as compared with the relatively standardised ‘one-size-fits-all’ framework associated with public issuances.

A private placement involves the sale of bonds to a select group of investors and institutions rather than through the open market. In addition, disclosure and compliance requirements for private placements are relatively less stringent, making the process more cost- and time-efficient. Faster allocation of securities to investors, the absence of extensive filing requirements with the Securities and Exchange Board of India (SEBI) for smaller issuances, and better price discovery are some of the key advantages associated with private placements of corporate bonds. However, the growing dominance of private placements has also resulted in subdued retail participation in the corporate bond market.

Exhibit 3.17: Commercial Sector’s Resource mobilisation via Domestic Non-Bank Sources: Debt vs Equity



Source: RBI, CEIC, CareEdge; Note: Corporate sector includes non-financial commercial sector

- Investor Profile Remains Largely Domestic; Needs More Foreign Participation**

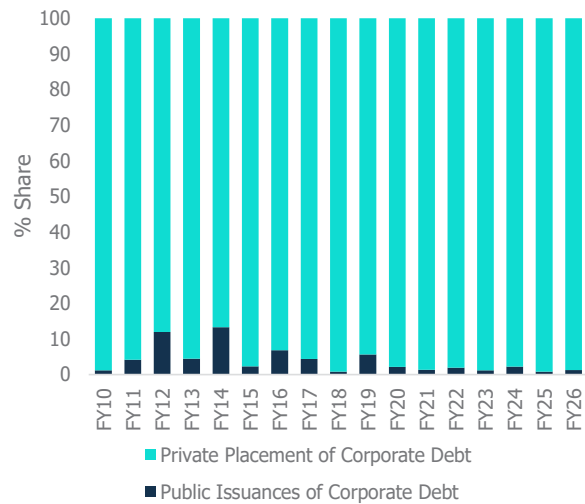
Investors in India’s corporate bond market are largely dominated by domestic institutions, with corporates accounting for around 32% of total holdings, followed by insurance companies (19.5%), mutual funds (12.9%), and banks (9.2%). Foreign participation, however, remains relatively limited, with foreign portfolio investors (FPIs) accounting for only 5.4% of total holdings.

To encourage greater FPI participation, the Reserve Bank of India (RBI) in May 2025 removed the 30% concentration limit and restrictions on short-term investments (with residual maturity of less than one year) in corporate bonds for FPIs, thereby providing FPIs greater flexibility in portfolio management. This move is expected to broaden the investor base and improve liquidity in the corporate bond market.

In terms of issuers, the outstanding corporate bond market is largely dominated by NBFCs, which account for 30.2% of total outstanding issuances, followed by corporates (27.6%), PSUs (20.5%), and banks (13.0%).

Investments in the corporate bond market remain heavily skewed towards highly rated instruments, with AAA-rated papers accounting for 58% of total

Exhibit 3.18: Corporate Bond Issuances: Private Placement vs Public Issuances



Source: SEBI, CareEdge. Numbers denote total issuances (value) of corporate debt

issuances in FY26 (as of November 2025). This was followed by AA-rated papers, which constituted 19% of total issuances, while only 24% of issuances were rated AA or below. Since insurance companies and pension funds are permitted to invest only in instruments rated AA or above, a significant share of issuances remains concentrated within these higher-rated categories. This further accentuates the challenge of a narrower market for lower-rated debt securities.

Exhibit 3.19: Investor Profile of Outstanding Corporate Bonds

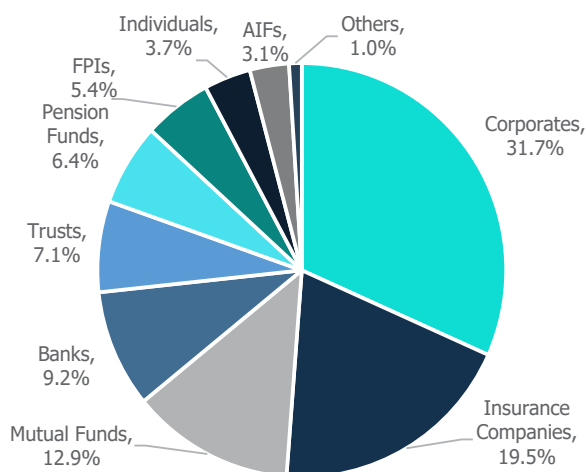
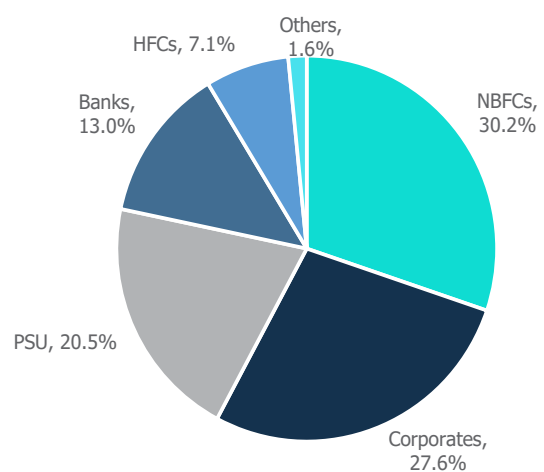
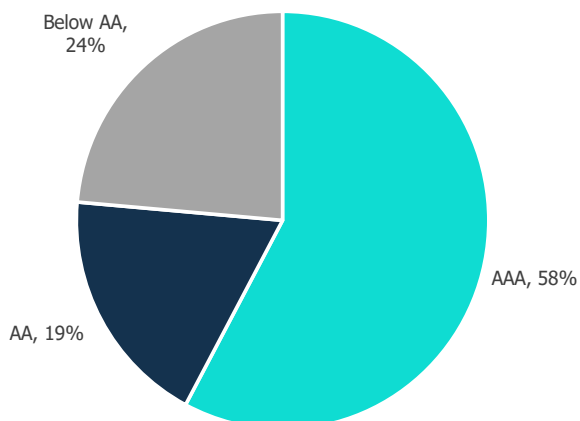


Exhibit 3.20: Issuer Profile of Outstandings Corporate Bonds



Source: RBI Financial Stability Report, December 2025. Data as of November 2025, CareEdge

Exhibit 3.21: Bond Issuances by Ratings



Source: RBI Financial Stability Report, December 2025. Data as of November 2025, CareEdge

• **Secondary Market Activity Rises in FY26**

Several longstanding issues continue to constrain the development of the secondary market for corporate bonds. Secondary market activity has traditionally remained limited due to poor liquidity and limited risk-taking appetite. Since a majority of

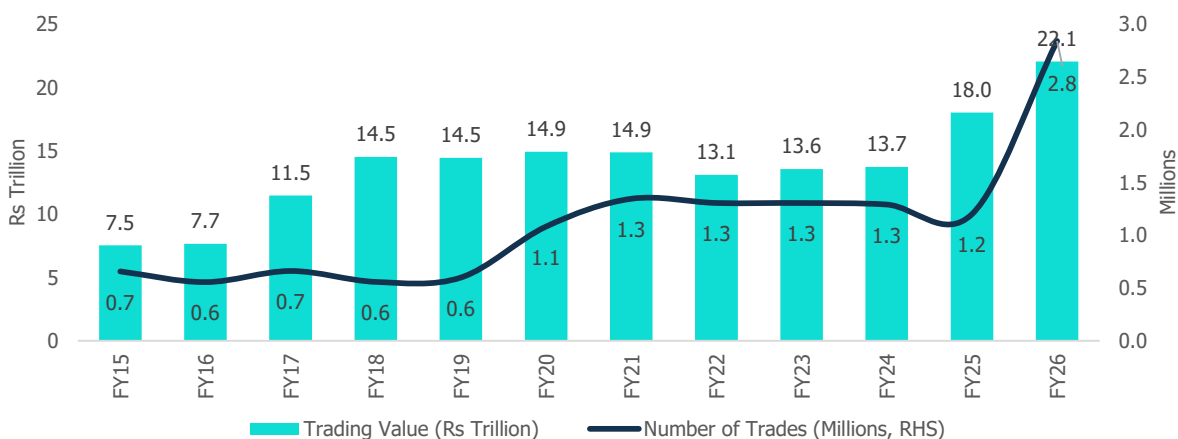
corporate bonds are privately placed and largely held until maturity by pension funds and insurance companies, the availability of securities for active trading in the secondary market remains low. In addition, the participation of retail investors in the corporate bond market is minimal, while investors generally remain reluctant to trade in lower-rated paper, further constraining market depth and liquidity.

However, FY26 witnessed a notable improvement in secondary market activity. Total trading value in the secondary corporate bond market increased by 22.4% to Rs 22.1 trillion, while the total number of trades more than doubled to 2.8 million in FY26 from 1.2 million in FY25.

Trends in Commercial Papers (CP) and Certificate of Deposit (CD) Issuances

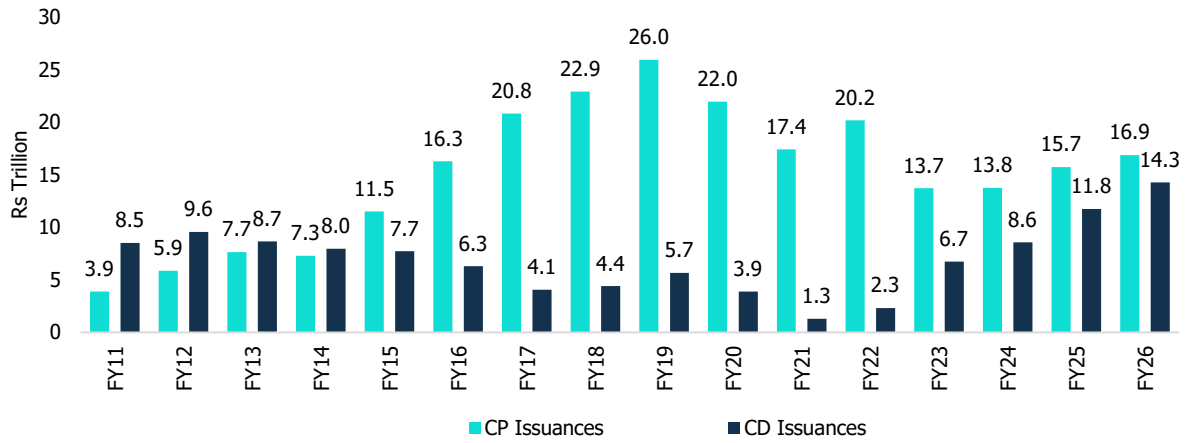
Corporates have been increasingly borrowing via commercial papers to meet their short-term funding requirements. Commercial Paper issuances grew 7.2% Y-o-Y in FY26 to reach Rs 16.9 trillion. Issuances of Certificate of Deposit rose by 21.5% Y-o-Y to Rs 14.3 trillion.

Exhibit 3.22: Secondary Market Activity in Corporate Bond Market



Source: SEBI, CEIC and CareEdge

Exhibit 3.23: CP and CD Issuances



Source: SEBI, CEIC and CareEdge



Key Policy Initiatives by Peer Economies to Strengthen Corporate Bond Markets

This section examines a handful of policy measures adopted by peer economies that have contributed to the development of their corporate bond markets. These international experiences can offer useful insights for shaping India's policy discourse and reform agenda.

- Regulatory Framework:** Simplification and strengthening of the regulatory architecture can significantly reduce compliance costs, improve transparency, and boost investor confidence. Several economies have undertaken targeted regulatory reforms and institutional initiatives that have contributed to the development of deeper and more efficient corporate bond markets. For instance, prior to 2023, regulatory oversight of China's bond market was shared between the China Securities Regulatory Commission (CSRC) and the National Development and Reform Commission, leading to fragmented supervision and regulatory inconsistencies. Subsequently, supervision was consolidated under the CSRC to improve coordination and streamline market oversight. Similarly, the European regulatory framework sought to harmonise financial market regulations across the European Union through the Markets in Financial Instruments Directive II framework, thereby enhancing market integration, transparency, and investor protection. Similarly, the Monetary Authority of Singapore (MAS) pushed for more digitisation by encouraging wider adoption of digital bonds under the Global-Asia Digital Bond Grant Scheme (G-ADBGS) in January 2025.
- Benchmarking of Indices:** Because corporate bonds are predominantly traded in the over-the-counter market, individual securities often suffer from limited liquidity. However, when these bonds are included within an index, passive investment vehicles such as ETFs and index funds are required to hold them in order to replicate index performance. This leads to higher trading activity in the underlying securities, resulting in tighter bid-ask spreads and improved liquidity across the market. Major markets, such as Europe and the US, have indices, including the Europe iBoxx EUR-Corporate Bond Index and the Bloomberg-Barclays US-Corporate Bond Index. In line with this, NSE has introduced bond indices for rating categories A and above.
- Support Measures During Periods of Financial Stress:** Policy support measures during periods of financial stress play a critical role in improving market liquidity, compressing credit spreads, and restoring investor confidence in corporate debt markets. In the United States, authorities introduced the Primary Dealer Credit Facility during episodes of severe market disruption, including the Global Financial Crisis and the COVID-19 pandemic. The facility enabled primary dealers to access short-term collateralised funding, thereby supporting liquidity and stability in financial markets. During the pandemic, the Federal Reserve System also launched the Secondary Market Corporate Credit Facility, under which it purchased corporate bonds in the secondary market to stabilise credit markets and improve market functioning. In Japan, the Bank of Japan utilised its corporate bond purchase programme to support liquidity conditions during periods of stress in domestic credit markets. Likewise, in Europe, the European Central Bank introduced the Corporate Sector Purchase Programme in 2016. Under this initiative, the ECB purchased investment-grade euro-denominated bonds issued by non-bank corporates with the objective of easing financing conditions and supporting the flow of credit within the economy.
- Development of CDS Market:** Economies such as Europe, South Korea, Japan and the United States have actively promoted the

development of financial instruments such as credit default swaps (CDS), bond derivatives, and bond ETFs. These products have strengthened risk management capabilities, improved market accessibility, and enhanced liquidity in corporate bond markets.

- Taxation:** In India, long-term capital gains (LTCG) arising from listed bonds are taxed at 12.5%, while interest income from such instruments is taxed according to the investor's applicable income tax slab. In the case of short-term capital gains (STCG) on listed bonds, gains are taxed at income tax slab rates applicable to the investor. A similar tax treatment applies to unlisted bonds, where both capital gains and interest income are taxed as per the investor's income tax slab, irrespective of the holding

period. Compared with other asset classes, such as equities, the tax framework for bonds remains relatively unattractive. For equities, short-term capital gains on shares held for up to 12 months are taxed at a concessional flat rate of 20%, while long-term capital gains on investments held beyond 12 months are taxed at 12.5%.

From a global perspective, India's tax rates remain relatively favourable compared with those of countries such as China, Japan, and Vietnam. However, India's taxation regime on bond investments is less competitive than markets such as Hong Kong, Singapore, and South Korea, where capital gains on bonds are generally exempt from taxation.

Table 3.2: Comparison of Tax Treatment of Corporate Bonds Across Countries

Country	Tax Treatment on Interest Income	Capital Gains Tax (CGT) on Bonds
China	Individuals: 20% ; Corporates: 25% (with certain exemptions for perpetual bond instruments)	Individuals: 20% ; Corporates: 25%
Hong Kong	0%-16.5% , depending on the applicable two-tier tax structure. Eligible debt instruments may qualify for concessionary treatment or exemptions under the Unified Fund Regime (subject to the 5% threshold).	Exempted
India	Taxed according to the investor's applicable marginal income tax slab	For listed bonds: Short-term gains (holding period up to 12 months) are taxed as per the income slab; Long-term gains (beyond 12 months) attract 12.5% tax without indexation benefits
Japan	20.3%	20.3%
South Korea	Individuals: 15.4% (comprising 14% national tax and 1.4% local surtax)	Exempt
Singapore	10%-17% , with concessional treatment available for qualifying debt securities	Exempt
Thailand	Individuals: 15% ; Corporates: 1% withholding tax , generally creditable against corporate income tax liabilities	Individuals: 0%-15% ; Corporates: either 0% (for qualifying zero-coupon bond exemptions) or standard corporate tax rates
Vietnam	Taxed at the prevailing corporate income tax rate	20%

Source: NITI Aayog (2025)

Developments in Indian Debt Market

While India's bond markets have witnessed steady growth in the last few years, the corporate bond market continues to be overshadowed by the government securities market and bank lending. Despite the progress so far, continued efforts are required to deepen the overall bond markets.

There have been several regulatory and policy reforms in India's bond market over the last few years. These reforms have been targeted at better investor protection, greater transparency and improved governance. SEBI, RBI, and the Government have been at the forefront of these measures to boost bond issuance and deepen bond markets. Some crucial policy and reform measures are highlighted below:

- **Infrastructure Investment Trusts (InvITs) and Real Estate Investment Trusts (REITs):** InvITs and REITs have emerged as important mechanisms for market-based infrastructure financing. They provide an alternative means of raising funds for long-term finance requirements, thereby deepening the existing corporate bond market. Reforms related to InvITs and REITs have been an important step towards strengthening India's infrastructure funding ecosystem. SEBI has introduced several regulations to improve the accessibility of InvITs and REITs and enhance investor participation. SEBI, in 2024, implemented important amendments aimed at promoting the growth of small and medium REITs and introduced provisions permitting privately placed InvITs to issue subordinate units to sponsors upon acquisition of infrastructure projects. Such continued reform measures are critical to simplify regulations, improve overall investor participation, support liquidity in these instruments.
- **Relaxation of Foreign Portfolio Investment (FPI) Norms:** There has been relaxation of certain regulatory norms in case of foreign portfolio investment in order to boost long-term investment in the Indian debt market. One such measure is the increased investment limit under the Voluntary Retention Route (VRR) scheme to encourage long-term investment by foreign investors. Furthermore, policy reforms aimed at boosting foreign investor participation, such as the introduction of Fully Accessible Route (FAR) Bonds in 2020, have paved the way for India's government bond inclusion in the global bond indices. This has been a positive step towards deepening the country's government debt market and supporting its integration with global financial markets.
- **AIFs Allowed to Participate in Credit Default Swaps (CDS):** To deepen the domestic corporate bond market, SEBI permitted alternative investment funds (AIFs) to participate in the CDS market and hedge associated market risks. Under the new norm, Category-I and Category-II AIFs can buy CDS on underlying investment in debt securities only for the purpose of hedging, while Category-III AIFs can purchase CDS for hedging or otherwise, within permissible leverage.
- **Stock Exchanges Allowed to Offer Futures Contracts on Corporate Bond Indices:** With the aim of enhancing liquidity in the bond market and providing investors with an opportunity to hedge their positions, exchanges have been allowed to launch derivative contracts on indices of corporate debt securities rated AA+ and above.
- **Other Policy Measures:** In addition to the above, several other measures and policy reforms have also been implemented - such as the mandatory market borrowing framework (2018) which mandated Large Corporates (LCs) to raise at least 25% of their incremental borrowings during a financial year by issuing debt securities, removal of Held-To-Maturity (HTM) cap on bank investments in corporate and state bonds (2024).

Conclusion

The global debt market is entering a structurally more complex and risk-sensitive phase shaped by elevated sovereign indebtedness, tighter financial conditions, shifting investor behaviour, and growing geopolitical fragmentation. The transition from an era of abundant liquidity and ultra-low interest rates to one of higher borrowing costs and greater market discipline is likely to redefine debt sustainability dynamics across both advanced and emerging economies. Globally, economies face increasing fiscal and refinancing pressures and higher interest payment burden amid slowing growth.

Evolving corporate debt dynamics and the gradual transformation of investor composition are reshaping the global credit landscape. The growing role of market-based financing, increasing participation of price-sensitive investors, and emerging sectoral shifts such as AI-led capital expenditure are likely to influence liquidity conditions, credit allocation, and market volatility going forward. These developments underscore the importance of maintaining sound macroeconomic frameworks, prudent debt management practices, and resilient domestic financial markets.

For India, the evolving global environment presents both opportunities and challenges. India's improving macroeconomic fundamentals, credible policy framework, relatively prudent corporate leverage profile, and increasing global integration position it favourably within the emerging market universe. However, achieving the vision of a 'Viksit Bharat' by 2047 will require a deeper, broader, and more efficient bond market capable of mobilising long-term capital at scale. While significant progress has been made in strengthening the government securities and corporate bond markets, further reforms aimed at enhancing market liquidity, diversifying the investor and issuer base, improving secondary market activity, strengthening sub-sovereign and corporate debt markets, and fostering greater financial innovation will remain critical.

Overall, the continued development of a resilient and well-functioning debt market will not only support sustainable economic growth and infrastructure financing but also enhance the economy's ability to absorb external shocks and maintain long-term financial stability in an increasingly uncertain global environment.

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