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India Eases Taxes for Foreign Investors in Government Securities

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WHY IN NEWS

India has announced a package of tax and access reforms to draw **Foreign Portfolio Investors (FPIs)** into **Government Securities (G-Secs)**. The reforms, reported in early June 2026 with the income exemptions applying with effect from the start of FY2026-27 (April 2026), **exempt FPIs from tax on interest and capital gains** from specified G-Secs and **expand the Fully Accessible Route (FAR)** to cover long-tenor bonds and Sovereign Green Bonds. The aim is to deepen India's bond market and attract stable, long-term foreign capital.

WHAT THE REFORMS DO

REFORM	DETAIL
Capital gains tax	Exempted for FPIs on specified G-Secs (long-term and short-term)
Withholding tax on interest	Eliminated on interest income from these G-Secs
Fully Accessible Route (FAR)	Expanded to include new 15-year, 30-year and 40-year G-Secs and Sovereign Green Bonds
Investment limits	Short-term, concentration and security-wise limits removed for FPIs in FAR G-Secs
Effective	Income exemptions from April 2026 (FY2026-27)

KEY CONCEPTS EXPLAINED

TERM	MEANING
Government Securities (G-Secs)	Debt instruments issued by the RBI on behalf of the Government of India to borrow money; considered risk-free sovereign debt
Foreign Portfolio Investor (FPI)	A foreign investor holding financial assets (bonds, equities) without controlling stakes
Fully Accessible Route (FAR)	A channel (introduced by the RBI in 2020) that lets non-residents invest in specified G-Secs with no investment ceiling
Sovereign Green Bonds (SGrBs)	Government bonds whose proceeds fund green and climate-friendly projects

WHY INDIA WANTS FOREIGN MONEY IN ITS BONDS

- 1. Deepening the bond market.** A broader, more diverse investor base makes the government-debt market deeper and more liquid, lowering borrowing costs.
- 2. Global bond-index inclusion.** Easing access supports India's inclusion in global bond indices (such as the JPMorgan emerging-market index), which channels large, passive foreign inflows.
- 3. Reducing crowding out.** If the government can borrow more from foreign investors, it competes less with private firms for domestic savings, leaving more credit for the private sector.
- 4. Long-term capital.** Long-tenor bonds (30 and 40 years) attract patient, stable investors like pension funds, rather than volatile "hot money."

THE RISKS TO MANAGE

A UPSC-grade answer flags the trade-offs:

- **Capital-flow volatility:** larger foreign holdings of debt can mean sharper outflows during global shocks, pressuring the rupee.
- **Exchange-rate exposure:** foreign investors are sensitive to currency movements and interest-rate differentials.
- **Sovereignty of policy:** heavy foreign ownership of debt can constrain domestic policy space.

The reforms therefore aim to attract **stable, long-term** capital while managing the risks of sudden reversals.

UPSC RELEVANCE

Prelims

- India exempted FPIs from **tax on interest and capital gains** from specified G-Secs; expanded the **Fully Accessible Route (FAR)**
- FAR (introduced by the RBI in **2020**) allows non-residents to invest in specified G-Secs with no ceiling
- FAR expanded to include **15, 30 and 40-year G-Secs and Sovereign Green Bonds**
- **G-Secs** are issued by the **RBI on behalf of the Government of India**
- Supports India's inclusion in global bond indices

Mains Angles

- 1 **GS3 Capital Markets:** Examine how easing FPI access to G-Secs deepens India's bond market, and the risks of capital-flow volatility.
- 2 **GS3 Government Borrowing:** Discuss the benefits of global bond-index inclusion and reduced crowding-out of private borrowers.
- 3 **GS3 Financial Stability:** Analyse the balance between attracting foreign capital and preserving macroeconomic and policy stability.

FACTS CORNER

FACT	DETAIL
Reform	FPI tax exemption on G-Sec interest and capital gains
Access	Fully Accessible Route (FAR) expanded
FAR introduced	2020 (by the RBI)
FAR additions	15, 30, 40-year G-Secs; Sovereign Green Bonds
G-Secs issued by	RBI on behalf of the Government of India
Effective	Income exemptions from April 2026 (FY2026-27)
Goal	Deepen bond market; bond-index inclusion; long-term capital
Risk	Capital-flow volatility; rupee exposure

Sources: *Business Standard, RBI, Ministry of Finance*

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