

Economic Comment

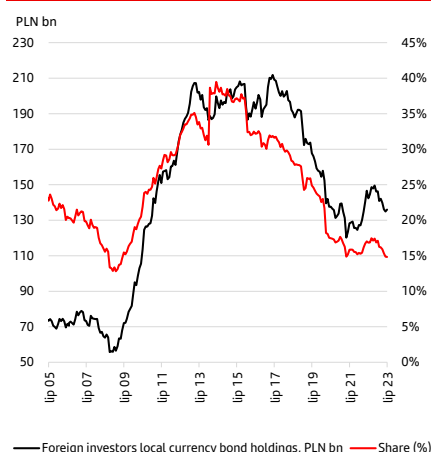
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Polish debt and adding India to bond indices

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We think the addition of India to the international bond indices could be negative for Polish local currency government securities. JP Morgan announced that it will include Indian bonds in its ongoing GBI-EM bond index as of 28 June 2024. The bank assumes India's weighting analogous to China's at 10% and expects the country's weighting to gradually increase at 1pp per month. This could mean a gradual reduction in the weighting of Poland and other countries in the region. We estimate that the weighting of Polish government bonds will decrease from over 7% by about 0.7-0.8 percentage points. Assuming that the JP GBI-EM index is a benchmark for funds with total assets under management of about \$200-240 billion, this would mean a potential outflow of foreign investors from the domestic government bond market of about \$1.5 billion in total, i.e. PLN 7.6 billion against PLN 136 billion at the end of August. Perhaps some investors will be preparing for this change a little earlier. For the moment, the timing of India's inclusion in the other major FTSE Russell and Bloomberg-Barclays indices is unknown, but it is probable. A review of the FTSE Russell index has been scheduled for 28 September. If India is added to the other indices, benchmark outflows could increase by a few billion zloty. With borrowing needs planned to increase significantly next year (PLN 420 billion) and record issuance of treasury securities next year (planned net issuance of local currency marketable bonds of PLN 100 billion and PLN 54 billion of treasury bills), this is negative news for domestic debt, which could contribute to a gradual rise in yields this year and slow their decline in 2024 keeping asset swap spreads elevated.

Foreign investors in the domestic debt market, PLN bn, %



Source: Ministry of Finance, Santander

Bond yield forecast and asset swaps spread forecast, EoP

	22 Sep 23	4Q23	1Q24	2Q24	3Q24	4Q24
2Y (%)	5.10	5.20	5.05	4.90	4.55	4.29
5Y (%)	5.26	5.55	5.50	5.30	5.08	4.97
10Y (%)	5.80	5.90	5.85	5.70	5.53	5.32
ASW 2Y (bp)	45	45	45	45	35	29
ASW 5Y (bp)	82	90	90	90	88	82
ASW10Y (bp)	98	100	100	100	98	92

Source: Refinitiv, Santander forecast

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