



KAMARAJ IAS ACADEMY
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Why Global Money Is No Longer Cheap and How It Impacts India

Published On: 02-06-2026



The Reserve Bank of India (RBI), in its Annual Report 2025-26, expressed concerns over rising global sovereign bond yields and the possibility of major central banks reversing monetary easing due to inflationary pressures arising from geopolitical tensions, particularly in West Asia. Economists have termed the end of the era of ultra-low interest rates and quantitative easing as one of the most significant developments in global financial markets.?

What Are Sovereign Bonds?

A sovereign bond is a debt instrument issued by a national government to borrow money from investors. In return, the government pays periodic interest and repays the principal amount at maturity. Sovereign bonds are generally considered among the safest investments because they are backed by the government's taxing and borrowing powers. Their yields serve as benchmark interest rates for other financial instruments in the economy.

Why Is Global Money No Longer Cheap?

For more than a decade after the 2008 Global Financial Crisis and during the COVID-19 pandemic, major central banks such as the US Federal Reserve, Bank of England, and Bank of Japan followed policies of low interest rates and Quantitative Easing (QE). Under QE, central banks created money and purchased government bonds to inject liquidity into the economy and encourage lending.

However, the situation has changed due to:

Rising global inflation following the COVID-19 pandemic.

Supply-chain disruptions.

The Russia–Ukraine conflict.

Trade tensions and tariff measures.

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Geopolitical instability in West Asia leading to higher energy prices.

As inflation increased, central banks raised interest rates, resulting in higher government bond yields across advanced economies.

Impact on India

India benefited significantly during the era of cheap global money as foreign investors invested heavily in emerging markets in search of higher returns. However, with bond yields in developed countries rising, the attractiveness of investing in emerging markets has declined.

As a result:

Foreign capital inflows into India have slowed.

Foreign Portfolio Investors (FPIs) have reduced investments in Indian markets.

The yield difference between Indian and US government bonds has narrowed.

India may face challenges in attracting foreign investments unless it offers strong economic growth prospects.

Higher global interest rates can increase borrowing costs for governments and businesses.

Significance for India

India's economic growth remains an important attraction for global investors. However, in a world of higher interest rates, foreign investors are likely to be more selective. Sustained GDP growth, macroeconomic stability, fiscal discipline, and structural reforms will become increasingly important for attracting global capital.

Key Facts:

Sovereign Bond: Debt instrument issued by a national government.

Quantitative Easing (QE): Central bank policy of purchasing financial assets by creating money.

Major Central Banks:

Federal Reserve (USA)

Bank of England (UK)

Bank of Japan (Japan)

European Central Bank (ECB)

RBI: Reserve Bank of India

India's benchmark government security: 10-Year Government Bond

Global benchmark bond: US 10-Year Treasury Note

Sovereign bond yields are often considered risk-free benchmark rates.

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India's government bonds have recently been included in major global bond indices, increasing their international visibility.

Quantitative Easing (QE):

First widely used after the 2008 Global Financial Crisis.

Aims to stimulate economic growth and increase liquidity.

Usually adopted when policy interest rates are already very low.

Foreign Portfolio Investment (FPI):

Refers to investments in stocks, bonds, and other financial assets of a foreign country.

More volatile than Foreign Direct Investment (FDI).

Sensitive to interest-rate movements and global risk sentiment.

Government Securities (G-Secs):

Issued by the Government of India.

Managed by the Reserve Bank of India.

Considered sovereign-backed securities with minimal default risk.