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## [Emerging Markets Debt](#)

# [Egypt and Ukraine Added to Emerging Markets Benchmark — A Major Milestone](#)

By: Hussein Khattab, CFA | & Danat Abdrakhmanov, CFA | October 26, 2021

**Boston & London** - On October 12, JPMorgan announced that Egypt and Ukraine will be added to its Government Bond Index - Emerging Markets (GBI-EM). Egypt government bonds will join the index suite on January 31, 2022, and Ukraine government bonds will be eligible for index inclusion March 31, 2022. JPMorgan also announced that India is on track to be placed on Index Watch for potential future inclusion.

Inclusion in a major index is a significant milestone for emerging markets countries, opening the door to billions of dollars of investment from index funds and from portfolios benchmarked to the GBI-EM.

But from an investor's perspective, the event is essentially backward looking, typically a recognition by the index provider and the investment community of a country's achievements in economic growth, prudent fiscal and economic policy and market liquidity for its debt.

The Eaton Vance Emerging Markets (EM) team believes that the greatest potential value in the sector most often lies not with countries already in the major indexes, but with countries pursuing the right policies to get there — along with the significant increase in demand that goes along with it. Egypt and Ukraine have long been on our radar and offer useful examples of value creation on the path to benchmark inclusion.

## **Egypt**

Egypt was placed on Index Watch in April 2021 and has been on JPMorgan's radar for benchmark inclusion since 2020. However, the EM team began investing in Egypt about 10 years ago, and we were encouraged by the country's initiatives for currency liberalization, lifting subsidies and fiscal consolidation, which put its debt trajectory on a declining trend. Thanks to these recent reform measures, Egypt was in a better position to deal with COVID-19 than it would have been otherwise.

As with many EM countries, Egypt's local currency bonds experienced large outflows when tourism took a big hit. But the country's prior reform initiatives allowed the government to enact timely fiscal and monetary easing. That, plus a lack of lockdowns, provided a significant backstop for economic recovery, as did an agreement with the International Monetary Fund (IMF) at the end of June for additional financing.

A "second wave" of reforms are on the horizon and include reducing the state role in the economy, privatization of state and military owned enterprises, and reducing structural impediments to private sector investment.

## **Ukraine**

The EM team began investing in Ukraine in 2019, after closely following the campaign of President Volodymyr Zelensky, whose platform promised to combat corruption, improve living standards and peacefully end the conflict with separatists in eastern Ukraine.

The country has had a history of high inflation, but managed to decrease it significantly following an economic crisis in 2014 to 2015. Year-over-year inflation hit a recent low in May 2020 of 1.7%, but has since risen to 11% — an experience similar to many countries in the wake of the COVID-19 epidemic.

The Ukraine central bank has responded with four rate hikes this year. And in June 2020, the IMF approved a \$5 billion stand-by arrangement. Even during the two years of the pandemic, market liquidity for the country's debt has improved, and the Ministry of Finance plans to increase issuance of local currency bonds.

**Bottom line:** The EM team devotes significant time, resources and expertise to seek value in countries outside the common EM benchmarks. The recent inclusion of Egypt and Ukraine in the GBI-EM shows why we have always believed strongly in this approach.

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