

## **Need for a Vibrant Corporate Bond Market**

### **What is the issue?**

As India's corporate bond market is expected to boom and with the vacuum created by erstwhile development finance institutions (DFIs), the time is ripe for developing a deep, liquid and vibrant corporate bond market.

### **What is the status of Indian corporate bond market?**

- Since 2008, corporate bond market has been witnessing higher investment flows.
- It was mainly due to
  - Simplification of procedures
  - Sophisticated clearing and settlement of trades
  - Focus on better disclosure standards
  - Issue of exotic bonds (Masala bonds, Green Bonds, etc.)
  - Raising the quantitative limits for foreign institutional investors
- While primary corporate bond issuances were of ₹7.8 lakh crore during FY2020-21, outstanding corporate debt stood at ₹35.1 lakh crore (18.2 % of India's GDP).
- The Indian bond market has been dominated by sovereign bonds and the corporate bond market has a meagre share of 27% during the last decade.

### **What are the problems in Indian corporate bond market?**

- Crowding out by issuance of G-Secs
- Private placement
- Persistent inflation coupled with higher interest rates
- Information asymmetry
- Limited diversified basket of instruments
- Illiquid secondary market
- Non-availability of repo options
- Absence of broad investor base
- Lack of credit default swaps/insurance

### **What measures can be suggested to overcome this issue?**

- **Financial literacy and education** - Since over 76 % of adults in India do

not even understand the basic financial concepts, audio-visual contents/booklets may be developed as part of the digital literacy drive.

- **Incentives for retail investors** - Indian corporate bond market is dominated by a few institutional investors and professional fund managers, mainly concentrated in financial services sector (72.1 %).
- The government may provide tax incentives to channelise household savings into financial assets such as corporate bonds from real estate and gold.
- **ESG framework** - Corporates following the ESG (Environmental, Social, Governance) framework may have greater strategic freedom and will be the primary choice of market-savvy investors.
- **Credit guarantee enhancement:** At present, credit guarantee fund scheme exists for MSMEs to extend collateral-free credit.
- Similar one can be provided for enhancement of corporate bonds through creation of an earmarked fund by collecting cess from the cash-rich companies.
- **Maintaining price stability** - The government's public debt needs to be gradually downsized for effective transmission of monetary policy in order to crowd in private investment.
- **Enhancing liquidity** - Tri-party repo market may be developed for corporate bonds to provide liquidity for the participants in the market.
- The regulators may act together to allow 'A' rated corporate bonds as collateral to expand the issuers and the investor base.
- **Functional autonomy** - Independent directors and credit rating agencies should have functional independence to improve corporate governance and to boost the investors' confidence.
- **Corporate bond index** - A dedicated corporate bond index enables real time monitoring of the market and fosters price discovery, thereby increasing investor's buoyancy.

## Reference

1. <https://www.thehindubusinessline.com/opinion/we-need-a-vibrant-corporate-bond-market/article37403478.ece>



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