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Debt Market in India

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Abstract*:* *The debt market is one of the most critical components of the financial system of any economy and acts as a leverage tool in a financial system.*

The debt market comprises of two segments: government securities market and corporate debt market. Indian debt market is dominated by government securities as compared to corporate debt securities.

Indian corporate bonds market is very underdeveloped and illiquid in comparison with the Government securities market and mostly depends on highly safe AAA rated bonds for both issuance and trading.

This paper presents an overview of the corporate debt market in India. It is concluded that Indian corporate debt market has shown growth trend in primary market and secondary market as well.

There are a lot of challenges available in the market which are major obstacles in the development of the market like lack of information among the investors, high stamp duty charges, lack of innovative debt instruments etc.

Existence of well-developed government (govt.) debt market is critical for investors, market participants and policy makers. Administered interest rates, artificially low coupon rates were some of the dominant features of the market until 1990. Starting 1992, Reserve Bank of India (RBI) has taken several reform initiatives to build a vibrant liquid, competitive and integrated govt.

Debt market with the purpose of:

1.providing a benchmark yield curve whose information content could guide policymakers and investors.

2.making transmission mechanism of monetary policy impulses effective.

3.making a constant source of government borrowing to finance the fiscal deficit. Over the past two decades, the govt. debt market has demonstrated a steady improvement in terms of liquidity and infrastructure enhancements which should convince the investors that it does not function under the manipulation of RBI. The study by Kanjilal (2011) shows that movements in govt. debt market are still a reflection of RBI's policy change. Separation of 'debt management' from 'monetary management', widening both domestic and foreign investors' base and consolidation of regulatory bodies are some vital steps to make govt. debt market globally competitive

Keywords: debt market