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Bond Market in India

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Abstract: *While India boasts a world-class equity market and increasingly important bank assets, its bond market has not kept up. The Government bond market remains illiquid. The corporate bond market, in addition remains restrictive to participants and largely arbitrage-driven. Securitization, which once had the jump on other Asian markets, has failed to take off.*

To meet the needs of its firms and investors, the bond market must therefore evolve. This will mean creating new market sectors such as exchange-traded interest rate and foreign exchange derivatives contracts. It will mean relaxing exchange restrictions, easing investment mandates on contractual savings institutions, reforming the stamp duty tax, and revamping disclosure requirements for corporate public offers. This paper reviews the development and outlook of the Indian bond market. It looks at the market participants—including life insurance, pension funds, mutual funds and foreign investors—and it discusses the importance to development of learning from the innovations and experiences of others.

Vibrant, deep and robust corporate bond markets are essential to enhance stability of financial system of a country, mitigate financial crises and support the credit needs of corporate sector, which is vital for the growth of an economy. Our review of research and policy papers on the corporate debt markets in India reveals a persistent absence of an efficient, liquid and vibrant corporate debt market in India. Our paper seeks to flag this issue and help to fast track the development of the corporate bond markets in India.

Recent trends reinforce the need for strong policy measures to develop the corporate debt markets in India. A study of corporate bond market experiences across developed and emerging markets such as US, EU, Japan, China, Malaysia, Korea and New Zealand further underscores the importance of strong institutional and regulatory framework, along with support from policymakers for building robust corporate debt markets. A review of literature and an analysis of key trends in corporate debt market help us identify the issues with the three pillars of corporate debt markets – institution and regulators, market participants, and instruments. We find that this lack of depth and efficiency in the corporate debt market is mainly explained by inadequate infrastructure, illiquidity, regulatory gaps, limited investor and issuer base, and absence of benchmark yield curve across maturities. Finally, we apply the insights from literature review, the trend analysis and cross-country study to make recommendations to revive the Indian corporate debt markets

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