4. Report On "Deepening the Corporate Bond Market in India"- Reports

NITI Aayog has released the report titled "Deepening the Corporate Bond Market in India"

Context and Rationale of the Report

The report undertakes a systematic assessment of India's corporate bond market, analysing its current size, structural constraints, reform trajectory, and long-term potential. A well-functioning corporate bond market is a core pillar of modern financial systems, especially for economies transitioning towards market-based financing. For India, strengthening this market is crucial to

1. Reduce excessive dependence on bank-centric credit intermediation
2. Mobilise long-term patient capital
3. Finance national priorities such as infrastructure, climate transition, MSMEs, and innovation-led growth.

The report aligns the development of the corporate bond market with the vision of Viksit Bharat @2047, where India aims to become a $30-trillion economy.

Understanding Corporate Bonds

Corporate bonds are debt instruments issued by private or public sector companies to raise funds from investors.

Key characteristics

1. The investor lends money to the issuing company (issuer).
2. The issuer commits to repay the principal amount on a fixed maturity date.
3. Periodic interest (coupon) is paid, usually semi-annually.

Corporate bonds finance

1. Capacity expansion
2. Capital expenditure
3. Infrastructure projects
4. Business expansion and refinancing

Unlike equity

1. Bondholders do not gain ownership or voting rights.
2. Bonds represent a contractual obligation, making them relatively lower risk than equity, though still subject to credit risk.

Growth and Current Status of India's Corporate Bond Market- Outstanding corporate bonds from ₹17.5 trillion in FY2015 to ₹53.6 trillion in FY2025, registering an average annual growth of around 12%. The market size now stands at 15–16% of GDP, reflecting improvement but remaining significantly below global and Asian peers

1. South Korea
2. Malaysia
3. China

Corporate bond fundraising is now approaching bank credit levels, signalling

1. Gradual diversification of financing sources
2. Early transition towards a market-based financial system

Strategic Importance for India's Growth Trajectory

A deep corporate bond market is indispensable for a $30-trillion economy by 2047, as

1. Banks alone cannot meet long-term financing needs due to asset-liability mismatches.
2. Infrastructure, renewable energy, and climate projects require long-tenor, stable capital.

Systemic benefits include

1. Reduced concentration of risk in the banking system
2. Stronger monetary transmission through market-determined interest rates
3. Greater financial system resilience

The report projects that India's corporate bond market could reach ₹100–120 trillion by 2030 (USD 1.3–1.4 trillion), provided deep structural reforms are implemented.

Equity–Bond Market Imbalance in India- India's financial markets show a pronounced imbalance-

1. Equity market valuation- USD 4.8 trillion
2. Corporate bond market size- USD 642 billion

Equity markets are nearly seven times larger than bond markets.

Implications

1. Over-reliance on equity and bank finance
2. Underdevelopment of debt as a stable financing channel
3. Higher volatility in corporate financing cycles

Structural Limitations Identified by the Report

Issuer-Side Constraints- Market dominated by highly rated large corporates.

Limited participation - MSMEs, Mid-sized firms, New-age sectors

Weak credit enhancement mechanisms for lower-rated issuers.

Investor-Side Constraints

Investor base is highly concentrated

1. Insurance companies
2. Mutual funds
3. Pension funds

Low participation from

1. Retail investors
2. Foreign Portfolio Investors (FPIs)

Risk aversion due to

1. Poor secondary market liquidity
2. Weak recovery mechanisms

Market Structure Issues- Dominance of private placements over public issuances. Thin and illiquid secondary markets. Limited market-making activity.

Regulatory and Institutional Bottlenecks- Overlapping roles of regulators such as SEBI and Reserve Bank of India. High compliance costs and procedural delays. Constraints on insurance and pension funds investing in lower-rated bonds.

Weak Enabling Environment- Inefficient debt recovery and resolution processes. Tax asymmetries between bonds and other instruments. High transaction and stamp duty costs.

Economic Benefits of a Deep Corporate Bond Market

Efficiently channels institutional and household savings into productive investment. Supports development of

1. Derivatives
2. Repo markets
3. Credit risk management tools

Provides long-term finance for

1. Infrastructure and urban development
2. Green transition and climate action
3. MSMEs and start-ups
4. Innovation-driven sectors such as renewables and digital economy

Global Experience and Lessons- Countries such as

1. United States
2. South Korea
3. Singapore

4. Thailand

Demonstrate successful corporate bond markets due to

1. Unified and coherent regulation
2. Robust clearing, settlement, and trading infrastructure
3. Active market-making and deep secondary liquidity
4. Streamlined disclosures and credit enhancement mechanisms

These features promote

1. Investor confidence
2. Issuer diversity
3. Financing depth and resilience

Reforms Undertaken in India

SEBI Initiatives- Introduction of electronic trading via the RFQ platform. Enabling retail participation through online bond platforms. Strengthening governance norms for

1. Credit Rating Agencies
2. Debenture Trustees

Simplification of issuance and disclosure requirements.

RBI Measures- Strengthening settlement architecture. Introduction of

1. Tri-party repos
2. Credit Default Swaps (CDS)

Development of repo and clearing mechanisms to enhance liquidity.

Government Initiatives- Promotion of

1. Infrastructure Investment Trusts (InvITs)
2. Real Estate Investment Trusts (REITs)
3. Green finance instruments

These measures support long-term capital mobilisation and deepen debt markets.

Reform Roadmap- Phased Strategy

Short-Term Priorities- Streamline regulations and improve coordination among regulators. Strengthen digital and market infrastructure. Simplify issuance norms to widen issuer participation. Achieve early liquidity improvements to build market confidence.

Medium to Long-Term Priorities- Move towards a unified regulatory architecture. Strengthen insolvency and resolution mechanisms. Develop deep secondary markets with

1. Active market-making
2. Robust repo facilities

Broaden issuer base

1. Mid-sized firms
2. New asset classes

Promote product innovation

1. Long-tenor bonds
2. Credit-enhanced instruments
3. Sustainability-linked and green bonds

Expand investor base

1. Insurance and pension funds
2. Retail investors
3. FPIs

Leverage digital innovations- Tokenised bonds, Integrated bond data platforms.

Source- https-//www.pib.gov.in/PressReleasePage.aspx?PRID=2202453&reg=3&lang=1