GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF ECONOMIC AFFAIRS

LOK SABHA
UNSTARRED QUESTION NO. 4584
TO BE ANSWERED ON MONDAY, 22nd JULY/ ASHADHA 31, 1941 (SAKA)

BOND MARKET

QUESTION

4584. SHRI SHIVAKUMAR C. UDASI

Will the Minister of Finance be pleased to state:

(a): whether India's bond market remains small as compared with other major economies and if so, the details thereof;
(b): whether demand for credit has shifted to banks from the bond market and if so, the details thereof;
(c): whether any concrete policy has been formulated by the Government in this regard; and
(d): if so, the details thereof along with the remedial action planned to meet the eventuality?

ANSWER

MINISTER OF STATE IN THE MINISTRY OF FINANCE
(SHRI ANURAG SINGH THAKUR)

(a): India's corporate bond market has been growing in size over the past 8 years as seen in Table 1.

Table 1: Net Outstanding Corporate Debt

Year (As on March end)	Net Outstanding (INR Trillion)
2011	8.90
2012	10.52
2013	12.90
2014	14.67
2015	17.50
2016	20.19
2017	24.05
2018	27.42
2019	30.67

Source: SEBI

A cross country comparison of daily trading in corporate bonds as a percentage of total outstanding is given in Table 2 below:

Table 2:Daily Trades in Corporate Bonds as % of Total Outstanding

Country	Daily Trades in Corporate Bonds as % of Total Outstanding
Japan	0.05
China	0.07
South Korea	0.20
India	0.23
USA	1.06

Source: CRISIL; Year 2018

With regard to daily trading in corporate bonds as a percentage of total outstanding, it can be seen that India compares favorably than other countries (Japan, China, South Korea), with the exception of USA.
Further, a cross-country comparison of corporate bonds outstanding as percentage of GDP as per Table 3 below indicates that, India ranks higher than Japan. However, China, South Korea and USA rank higher than India as regards this parameter

Table 3: Comparison of size of corporate bond markets

Country	Corporate Bonds Outstanding as a % of GDP
Japan	14.46
India	15.47
China	28.75

South Korea	74.26
USA	118.80

Source: CRISIL; Year 2018

(b): Outstanding volume in corporate bond market has recorded an average annual growth of 16% over the last 5 years while the same number for bank credit is 10%.

During the financial year 2018-19, however, corporate bonds have grown at a slower rate.

Table 4: Comparison of growth rate of Corporate Bond Market and Bank Credit

Year (As on March-end)	Outstanding Volume (INR Trillion)		Yearly Growth Rate (%)	
	Corporate Bonds	Bank Credit	Corporate Bonds	Bank Credit
2014	14.67	59.94		
2015	17.50	65.36	19.28	9.05
2016	20.19	72.50	15.37	10.91
2017	24.05	78.41	19.10	8.16
2018	27.42	86.25	14.03	10.00
2019	30.67	97.72	11.85	13.29

Source: SEBI, DBIE-RBI: Database of Indian Economy

(c) to (d) :Securities and Exchange Board of India (SEBI) in consultation with Government of India has taken various steps for development of corporate bond market. Few recent steps in this regard are as under:

(i) SEBI, vide its circular dated August 16, 2018, reduced the time to be taken for listing, in case of public issue of debt securities, non-convertible redeemable preference shares and securitised debt instruments to 6 working days from 12 working days earlier. Further, it mandated that allotment, refund, unblocking of application monies and credit of the aforesaid securities shall be done electronically. This was done to make the existing issuance process easier, simpler and cost effective for both issuers and investors.

(ii) Amendments for doing away with the requirement of 1% security deposit were notified to SEBI (Issue and Listing of Debt Securities) Regulations, 2008, SEBI (Issue and Listing of Non-Convertible Redeemable Preference Shares) Regulations, 2013 and SEBI (Issue and Listing of Securitised Debt Instrument and Security Receipts) Regulations, 2008 on October 09, 2018.

(iii) SEBI, vide circular dated August 16, 2018 rationalized requirements under electronic book mechanism for issuance of debt securities on private placement basis, by providing provisions for closed bidding, multiple yield allotment, multiple bids, allotment on yield time priority basis, Pay-in of funds through escrow bank account of issuer, depositories to act as EBP.

The following steps have also been taken by the Reserve Bank of India (RBI) in consultation with Government of India for development of corporate bond market:

(i) Investment by Foreign Portfolio Investors (FPIs) in unlisted corporate debt securities and securitised debt instruments was allowed vide RBI circular dated November 17, 2016.

(ii) Repo in corporate bonds was introduced in 2010 while tripartite repo in corporate bonds was introduced in 2017.

(iii) RBI released Guidelines on Enhancing Credit Supply for Large Borrowers through Market Mechanism which introduced a requirement for large corporates with borrowings from banking system above a cut-off level to tap the market for a portion of their working capital and term loan needs.

Further, RBI has issued circular RBI/2016-17/50 DBR.BP.BC.No.8/21.01.003/2016-17dated August 25, 2016 on 'Guidelines on Enhancing Credit Supply for Large Borrowers through Market Mechanism'. In terms of circular, for cases where large borrowers have aggregate exposure from the banking system, in the previous year, beyond a threshold limit (e.g. Rs.15,000 crore at any time during FY 2018-19) prescribed in the circular, a disincentive mechanism in form of additional risk weights and provisioning is applicable if incremental exposure to banking system is more than 50% of incremental funds raised by the borrower during the year. This is aimed at discouraging large borrowers from relying entirely on the banking system and to nudge them to explore alternate sources like capital market including corporate bonds.

Similarly SEBI, vide Circular dated November 26, 2018 issued guidelines on "Fund raising by issuance of Debt Securities by Large Entities". The said Circular, inter-alia, provides a framework forlisted large corporates to mandatorily meet 25% of their financing needs through issuance of debt securities.

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