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## CORPORATE BOND MARKET

### SYLLABUS:

GS 3 > Basic Economics

### REFERENCE NEWS:

**NITI Aayog Report, Deepening the Corporate Bond Market in India**, released by NITI Aayog CEO Shri B.V.R. Subrahmanyam aligns with India's vision of **Viksit Bharat @2047** by emphasising the need for a **robust, diversified financial ecosystem** to mobilise **long-term capital at scale**.

### CORPORATE BOND MARKET IN INDIA:

The **corporate bond market** is a segment of the capital market where **companies raise long-term funds by issuing debt securities (bonds)** to investors such as insurance companies, pension funds, mutual funds, banks, FPIs and retail investors. Unlike bank loans, bonds allow **market-based, diversified and longer-tenor financing** with better risk-sharing.

### **Evolution and Present Size of India's Corporate Bond Market**

- India's corporate bond market has expanded **significantly over the last decade**. Outstanding corporate bonds increased from **₹17.5 trillion in FY2015 to ₹53.6 trillion in FY2025**, growing at a **CAGR of ~12%**
- The market now accounts for **15–16% of GDP**, compared to **40–80% in economies like South Korea, Malaysia and China**
- Fund mobilisation through bonds during **FY22–FY24 stood at ₹22.2 lakh crore**, nearly comparable to **₹25.4 lakh crore raised through bank credit**, reflecting a shift towards market-based financing
- CRISIL projects that the corporate bond market could reach **₹100–120 trillion by 2030**, if reforms continue

### IMPORTANCE OF CORPORATE BOND MARKET IN INDIA:

- **Mobilisation of Long-Term Capital for Development:** India's vision of **Viksit Bharat @2047** requires **long-term, stable and low-cost capital** for infrastructure, industry, climate action and emerging sectors.
  - As per NITI Aayog, **bank credit alone cannot meet India's long-term investment needs**, particularly for infrastructure and MSMEs
  - Corporate bonds enable **long-tenor financing** suited for projects with long gestation periods such as highways, renewable energy, urban infrastructure and logistics.

- Growth of **InvITs and REITs**, supported by bond financing, has enabled private participation in infrastructure without overburdening banks
- **Reducing Over-Reliance on the Banking System:** India's financial system remains **bank-dominated**, with **domestic bank credit to the private sector at ~50% of GDP**, compared to China (194%) and Thailand (148%). A deeper bond market diversifies funding sources, deduces concentration risk in banks, enhances overall financial stability.
  - Corporate bond fundraising during **FY22–FY24 (₹22.2 lakh crore)** has become **comparable to bank credit (₹25.4 lakh crore)**, signalling a gradual shift to market-based finance
- **Supporting Infrastructure and Long-Gestation Projects:** Infrastructure financing faces a **structural mismatch** when funded by banks due to short-term deposits. Corporate bonds provide long-term fixed-rate funding, better asset-liability matching for investors like pension and insurance fund.
  - India's corporate bond market outstanding rose from **₹17.5 trillion (FY2015) to ₹53.6 trillion (FY2025)**, growing at **~12% CAGR**, reflecting rising infrastructure and corporate capex
- **Enabling MSME and Mid-Sized Enterprise Financing:** MSMEs account for a large share of employment and output, yet receive only **19.3% of total bank credit (ANBC)**. A developed bond market can bridge the **long-term credit gap**, reduce dependence on costly informal finance and enable innovative platforms such as **SME bonds with credit enhancement**
- **Strengthening Monetary Policy Transmission:** A well-functioning corporate bond market develops a **robust yield curve**, improves interest-rate transmission from RBI policy rates to the real economy. Market-based pricing enhances **efficient capital allocation** compared to administered bank lending rates
- **Promoting Green and Sustainable Finance:** Corporate bonds are critical for financing renewable energy, climate adaptation, low-carbon industrial transition. India's corporate bond market complements **Sovereign Green Bonds** by crowding in private capital.
- **Improving Risk Sharing and Financial Resilience:** Corporate bond markets allow distribution of credit risk across investors, development of risk-management instruments (CDS, securitisation, repos). This enhances resilience during financial stress and reduces systemic shocks
- **Supporting Capital Market Deepening and Investor Choice:** Corporate bonds channel **household and institutional savings** into productive uses. Growth in debt mutual funds (23% of total Mutual Fund Assets Under Management). Bond ETFs like **BHARAT. Bond ETF (₹60,775 crore AUM)** reflects rising investor confidence.
- **Catalyst for Economic Growth and Investment:** NITI Aayog projects that with sustained reforms, India's corporate bond market could reach **₹100–120 trillion by 2030**, becoming a **core pillar of India's financial system**.

#### CHALLENGES TO CORPORATE BOND MARKET IN INDIA:

- **Limited Market Depth and Size:** India's corporate bond market is only **~15-16% of GDP**, compared to **South Korea ~80%, Malaysia ~55%, China ~40%+**. This constrains the market's ability to mobilise capital at scale for infrastructure and industrial growth.
- **Excessive Dependence on Private Placements:** Over **98% of corporate bond issuances occur via private placements**. Public issues have declined from **~13% (2013-14) to ~2% (2023-24)**.
- **Narrow and Concentrated Investor Base:** Corporate bonds are primarily held by banks, insurance companies and a few mutual funds. **Limited participation of pension funds, retail investors and foreign investors. Consequences are reduced liquidity and higher borrowing costs for issuers.** NITI Aayog identifies **investor concentration** as a major constraint to market resilience.

- **High Credit Quality Bias (AAA/AA Concentration):** Majority of issuances are AAA or AA-rated, dominated by PSUs, large corporates and NBFCs. **Lower-rated and mid-sized firms face exclusion** due to risk aversion and lack of credit enhancement.
  - MSMEs receive only **~19.3% of total bank credit**, and bond market access is even more limited.
- **Weak Secondary Market Liquidity:** Secondary trading in corporate bonds is **thin and fragmented**. Challenges include lack of market-makers, bond heterogeneity and inadequate repo and lending mechanisms
- **Regulatory Fragmentation and Compliance Burden:** Oversight divided among SEBI (issuance, trading), RBI (liquidity, repo, monetary operations) and Ministry of Corporate Affairs (corporate law). Results in regulatory overlaps, higher compliance costs, delays for issuers, especially mid-sized firms.
- **High Issuance and Transaction Costs:** Costs related to credit ratings, debenture trustees, disclosure and listing requirements. Disproportionately affect **mid-sized firms and first-time issuers**.
- **Inadequate Credit Enhancement & Risk-Hedging Tools:** Limited use of Credit Default Swaps (CDS), partial credit guarantees and bond insurance. Restricts risk sharing and pricing efficiency.
- **Weak Debt Recovery and Enforcement:** Although **IBC, 2016** improved recovery, challenges persist delays in resolution and uncertainty in outcomes. This raises risk perception and pricing of corporate bonds.
- **Underdeveloped Long-Tenor Bond Segment:** Scarcity of bonds with maturities **beyond 10–15 years**. Mismatch between long-term infrastructure needs and shorter-duration bond supply

#### REFORMS SUGGESTED:

NITI Aayog proposes a **sequenced, reform-oriented roadmap** to build a **deep, liquid, resilient and inclusive corporate bond market** capable of financing India's long-term growth and **Viksit Bharat @2047** vision.

#### **Strengthening Legal and Regulatory Framework**

- Harmonise and streamline regulations across **SEBI, RBI and MoCA** to reduce overlaps and compliance burden.
- Improve **legal certainty and enforceability** of bond contracts.
- Strengthen the role, accountability and powers of **debenture trustees**.
- Enhance creditor protection and resolution outcomes under **IBC, 2016**.

#### **Expanding and Diversifying the Investor Base**

- Encourage greater participation of **Insurance companies, Pension and provident funds, Retail investors, Foreign Portfolio Investors (FPIs)**.
- Review investment norms that currently restrict long-term institutional investors from holding corporate bonds.

#### **Facilitating Greater Issuance by Mid-Sized Firms and MSMEs**

- Promote **SME and mid-corporate bond issuance platforms**.
- Reduce fixed issuance costs and simplify disclosure norms for smaller issuers.
- Support first-time issuers through regulatory handholding.

**Credit Enhancement and Risk-Sharing Mechanisms**

- Introduce and scale up **partial credit guarantees, bond insurance and pooled bond issuance structures**
- Encourage development of **Credit Default Swaps (CDS)** and other risk-hedging instruments.

**Improving Secondary Market Liquidity**

- Develop a strong **market-making ecosystem** for corporate bonds.
- Expand **repo and securities lending** facilities in corporate bonds.
- Encourage standardisation of bond issuances to improve tradability.

**Enhancing Market Infrastructure and Transparency**

- Strengthen electronic trading platforms such as **RFQ (Request for Quote)** systems.
- Improve **trade reporting, disclosure standards and data availability**.
- Create integrated, real-time bond market data systems.

**Promoting Product Innovation and Market Depth**

- Expand bond products such as **long-tenor bonds (20–30 years), green bonds, transition bonds and sustainability-linked bonds**.
- Encourage innovation aligned with infrastructure and climate financing needs.

**Leveraging Digital and Technological Innovations**

- Explore **tokenised bonds** and blockchain-based issuance.
- Use digital platforms for faster issuance, lower transaction costs, better investor access.
- Integrate digital KYC and compliance systems.

**Encouraging Retail Participation**

- Expand access through **Bond ETFs (e.g., Bharat Bond ETF)**, user-friendly online bond platforms.
- Improve financial literacy and transparency for retail investors.

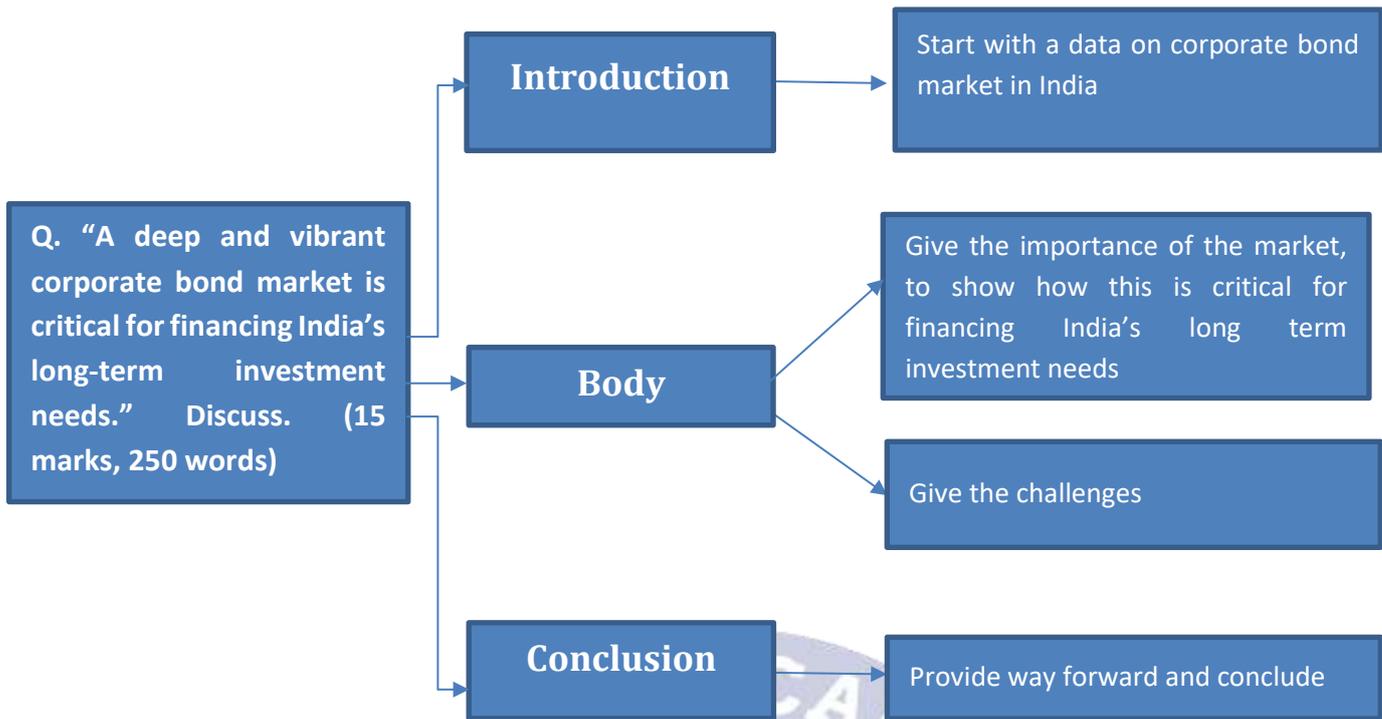
**Aligning with Global Best Practices**

- Benchmark Indian bond market reforms with **advanced Asian and OECD economies**.
- Harmonise Indian disclosure, trading and settlement standards with global norms.

**PRACTICE QUESTION:**

**Q. “A deep and vibrant corporate bond market is critical for financing India’s long-term investment needs.” Discuss. (15 marks, 250 words)**

APPROACH:



MODEL ANSWER:

India’s development ambitions particularly infrastructure creation, green transition and industrial expansion require large volumes of **long-term, stable capital**. Recognising this, the corporate bond market has been identified as a key pillar of India’s financial system. The market remains modest at **15–16% of GDP**, indicating significant untapped potential.

**Importance of the Corporate Bond Market**

- **Mobilisation of Long-Term Capital:** Corporate bonds provide long-tenor financing suited for infrastructure, renewable energy and urban projects, where bank loans face asset–liability mismatches.
- **Reducing Over-Reliance on Banks:** India’s financial system is bank-dominated, with private sector bank credit at about **50% of GDP**. A deeper bond market diversifies funding sources and enhances financial stability.
- **Supporting Infrastructure and Capital-Intensive Sectors:** Bond financing has enabled growth of **InvITs and REITs**, facilitating private investment in infrastructure without overburdening banks.
- **Facilitating MSME and Mid-Sized Enterprise Financing:** MSMEs receive only **about 19% of total bank credit**. A developed bond market can help bridge their long-term credit gap through credit-enhanced instruments.
- **Improving Monetary Policy Transmission:** A liquid bond market strengthens the yield curve, improving transmission of policy rates to the real economy.
- **Promoting Green and Sustainable Finance:** Corporate bonds are essential for financing renewable energy, climate adaptation and low-carbon industrial transition.

**Challenges in India's Corporate Bond Market**

- **Limited Market Depth and Size:** India's corporate bond market stands at only **15–16% of GDP**, significantly lower than global peers such as South Korea (~80%) and Malaysia (~55%). This limits its ability to mobilise capital at scale for infrastructure and industrial growth.
- **Excessive Dependence on Private Placements:** Over **98% of corporate bond issuances occur through private placements**, reducing transparency, price discovery and retail participation, while keeping the market largely institutional and opaque.
- **Narrow and Concentrated Investor Base:** The market is dominated by banks, insurance companies and a few mutual funds. Limited participation by **pension funds, retail investors and FPIs** constrains demand, liquidity and competition.
- **Weak Secondary Market Liquidity:** Corporate bonds are typically held to maturity due to **thin secondary trading**, absence of active market-makers, bond heterogeneity and limited repo and securities lending facilities.
- **Regulatory Fragmentation and Compliance Burden:** Oversight is divided among **SEBI (markets), RBI (liquidity and repos) and MCA (corporate law)**, leading to regulatory overlaps, higher compliance costs and procedural delays, particularly for first-time issuers.

**Way Forward**

- Harmonise legal and regulatory frameworks and strengthen enforcement
- Broaden investor participation, especially pension and retail investors
- Promote credit enhancement mechanisms for lower-rated issuers
- Improve secondary market liquidity through market-making and repo facilities
- Encourage long-tenor, green and sustainability-linked bond products
- Leverage digital platforms for transparency and lower transaction costs

A deep corporate bond market is indispensable for India's transition to an investment-driven, resilient economy. Addressing structural and regulatory constraints will enable the bond market to complement banks, mobilise long-term capital, and support India's development goals sustainably.