

10 Things to Revitalise INDIA's Corporate Bond Market

Connecting India's Growth Aspirations to Its Capital-Raising Constraints



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India's goal to become a developed nation by 2047, known as the Viksit Bharat vision, depends on a financial and structural foundation: effectively channelling the country's extensive savings into long-term, large-scale investments necessary for development. Among all the tools within this framework, the corporate bond market is the most critical yet still underdeveloped. Currently, it constitutes about 18 per cent of GDP, remains chronically illiquid, is predominantly controlled by institutions, and is largely inaccessible to retail investors. This gap signifies a major shortcoming in the alignment of India's financial system with its developmental goals.

The diagnosis is sobering when compared to peers. India's corporate bond market is only one-fifth the size of Malaysia's and just one-quarter of South Korea's. While the government securities market is transparent, electronic, and T+1-settled, with a turnover ratio of 5.9, the corporate bond market — which settles on the same infrastructure — lags behind, with a ratio of only 0.27. It remains mainly voice-brokered over-the-counter, lacks a public real-time price feed, and has about 80,000 retail investors out of 155 million in equities. These are not natural market results but the outcome of specific institutional choices.

The financing case is equally stark. India's infrastructure investment needs from 2025 to 2035. However, the banking sector—constrained by maturity mismatches and capital constraints—can provide only 30 to 40 per cent of this funding. The rest must be raised through the bond market. Insurance companies and pension funds hold about ₹77 to ₹90 lakh crore in long-term liabilities, yet they invest less than 4 per cent in infrastructure bonds, despite an ideal asset-liability alignment. The necessary savings, issuers, and investors are in place; what is lacking is the institutional infrastructure to connect them.

India's bond market is not underdeveloped because India is poor. It is underdeveloped because the institutional architecture to connect its savings to its investment needs has never been built.

The following are ten practical actions, each based on evidence from markets that encountered similar barriers and successfully overcame them. Most of these actions can be implemented through regulatory circulars and budget notifications rather than new legislation. They are organised into three waves: immediate steps to enhance price transparency and establish a functioning secondary market; near-term reforms to mobilise institutional and retail capital; and long-term, structural reforms to secure the market's future.

Wave One — The Immediate Foundations

1. Make Prices Public: India-TRACE

The most effective reform costs the least. Exchanges already collect data on every over-the-counter corporate bond trade under SEBI's 2014 mandate, but this simply is not public. A single SEBI circular requiring exchanges to publish all trade reports — for free, within fifteen minutes, on an India-TRACE portal and via API, with data shared from the central settlement system — would remove the main barrier to retail participation, institutional benchmarking, and market-making: price opacity. The 2002 American TRACE reform reduced bid-ask spreads by 30–50 basis points and saved investors billions annually. India already possesses this data; it just needs the will to publish it.

2. Create Market-Makers: The CBMM Regime

A liquid secondary market requires initial seeding. A regulatory notification appointing about fifteen Corporate Bond Market Makers, tasked with providing two-way quotes on hundreds of benchmark securities during trading hours, subject to specified maximum spreads, would establish the continuous pricing essential to other reforms. Incentives such as reduced risk weights on market-maker inventories, stamp-duty relief, and a modest fee per round-trip trade make this commitment feasible. Additionally, a monthly public scorecard ensures transparency. Without reliable two-way prices, neither retail platforms nor institutional mandates can operate effectively.

3. Lower the Door: A ₹1,000 Minimum Lot

For decades, the ₹1 lakh minimum ticket prevented ninety-nine per cent of India's potential bond investors from participating. While the recent move to lower the floor to ₹10,000 is a positive step, it does not go far enough. A ₹1,000 minimum—aligned with the Bharat Bond ETF—would make bond investing truly accessible to middle-class households, who already invest about ₹500 per month in equity systematic plans. Retail distribution platforms cannot effectively serve these savers until the investment minimum is small enough to be routine and unremarkable.

4. De-Risk Greenfield Projects: A Guarantee Facility

Much of India's infrastructure needs funding, with projects often starting as sub-investment-grade greenfield risks, which long-term investors typically avoid. A ₹25,000–50,000 crore India Infrastructure Bond Guarantee Facility—initially funded modestly by the government with contributions from multilateral partners, offering first-loss and partial credit guarantees—could upgrade BBB-rated project bonds to AA-rated, more attractive bond instruments. With a leverage ratio of eight to twelve times, a ₹50,000 crore fund could support ₹4–6 lakh crore of infrastructure bonds over ten years. No other public expenditure offers a higher multiplier effect for the bond market.

5. Revive Credit Hedging: New CDS Guidelines

India's credit default swap market has remained largely inactive since the restrictive guidelines of 2013. In the absence of active hedging, market-making involves significant unhedged credit risk, making it costly and vulnerable. Updated central bank rules—allowing banks to hedge bond portfolios via CDS without physical holdings and letting insurers and non-bank financiers sell protection on investment-grade entities—could reduce market-maker capital needs by approximately 30–40 per cent and foster a more liquid secondary market, which is essential for institutional investors.

Wave Two — Unlocking the Capital That Already Exists

6. Open the Door for Insurers and Pension Funds

India already has a substantial pool of patient capital; the challenge is ensuring it flows to where it's most needed. A single joint initiative by the insurance and pension regulators to establish a dedicated infrastructure-bond category—permitting, for example, up to 10% of insurance assets and 5% of retirement funds to be invested in credit-enhanced, highly rated listed infrastructure bonds—could generate demand of around ₹6 lakh crore. The IL&FS default, often cited as a concern, was a governance failure of an opaque, unrated holding company, fundamentally different from credit-enhanced, AA-rated, listed infrastructure bonds that are transparently priced. One failure should not hinder numerous successes.

7. Move the Provident Fund Corpus

The Employees' Provident Fund organisation manages approximately ₹22 lakh crore, aligned with an average twenty-year liability—ideal for infrastructure bonds with a fifteen to twenty-year term. A notification from the finance ministry introducing a 3–5 per cent infrastructure-bond category, limited to eligible takeout bonds, could release ₹66,000 crore to over ₹1 lakh crore immediately. This represents the largest single institutional demand opportunity without new legislation. South Korea's similar national pension mandate of 2009 is credited with quadrupling infrastructure bond issuance within five years.

8. Put Bonds in Every Pocket: A Mobile-First Platform

India's advanced digital public infrastructure is globally admired, yet it remains underutilized in the bond market. A retail bond platform based on UPI—featuring a ₹1,000 minimum, Aadhaar-based onboarding, real-time India-TRACE prices, and a market-maker exit guarantee within a few business days—could transform the 800 million UPI users and over 1.3 billion Aadhaar-enrolled citizens into the distribution network for a retail bond market that currently does not exist. In contrast, the Philippines launched its mobile bond app with far less digital infrastructure, and its first retail bond was oversubscribed seventeen times, with most transactions under a few thousand rupees and the average investor just over thirty years old.

9. Make Indian Bonds Worth the Hedge for Foreign Investors

Foreign portfolio investors typically utilise only about a third to two-fifths of their available limits, primarily due to 3–4 per cent annual hedging costs rather than concerns about India's creditworthiness. These costs make an 8 per cent Indian AA bond less attractive compared to a 5.8 per cent US investment-grade bond when fully hedged. Enhancing the onshore three-to-five-year rupee-dollar swap market and reducing the voluntary retention lock-in could lower hedging costs by approximately one percentage point, making Indian corporate bonds more appealing to European pension funds. Notably, Korea's similar reforms tripled foreign corporate bond holdings within five years.

Wave Three — Anchoring the Market's Future

10. Recycle Bank Capital — and Coordinate the Whole Effort

The final reform has two main aspects, as the market's long-term stability depends on both a mechanism and an oversight entity. The mechanism is a National Takeout Financing Protocol: a standardised, regulator-approved framework for transforming construction-phase bank loans into listed infrastructure bonds at operational maturity, managed by a single development institution with a ninety-day processing goal. Every rupee of bank capital recycled through takeout creates three to four rupees of new greenfield lending. With an annual takeout of ₹50,000 crore, this results in about ₹2.5 lakh crore of new project finance capacity, generated not from additional public spending but from recycling existing capital.

The steward is a Bond Market Development Council, a formal sub-committee of the Financial Stability and Development Council. It is chaired by the Finance Secretary, with securities and central bank regulators as co-chairs,

and it meets quarterly to achieve published targets. Without this council, each reform would proceed at different speeds and in various directions, resulting in the fragmented market ecosystem seen today. Malaysia's joint regulator masterplan, which served as a model for such a council, is credited with boosting that country's bond market from 60 to 95 per cent of GDP. Additionally, a futures market for benchmark bonds has been developed to provide market-makers with the tools needed for duration and credit hedging, completing the risk-management infrastructure.

The bond market is not a luxury of developed economies. It is the infrastructure of economic ambition — as essential to Viksit Bharat as the highways, ports and power grids it finances.

Building the bond

Financing Viksit Bharat 2047

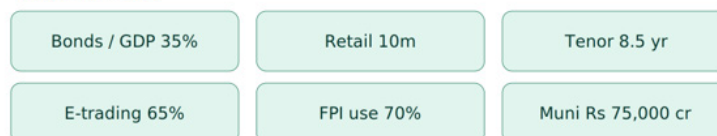
The gap today



Ten reforms, three waves



Targets for 2030



The window is now.

The Window Is Now

India is currently in a growth phase that uniquely supports the development of this market. Corporate investment interest is increasing, infrastructure expenditure is at an all-time high, and foreign investment—spurred by inclusion in global bond indexes—is at its peak in ten years. Retail investors, motivated by their experience with systematic equity plans, are eager to participate in capital markets, and the digital infrastructure is in place to deliver bonds to hundreds of millions of smartphones. Importantly, the regulatory framework is effectively complete: the ten strategies outlined can be executed with existing legal authority—without new laws, extra budgets, or waiting for India to reach higher income levels before developing the market it urgently needs.

None of these barriers is unique. Bank dominance, price opacity, lack of market-makers, retail exclusion, and the absence of long-term instruments have all been addressed previously—in the United States, South Korea, Malaysia, Australia, and the Philippines—via reforms that India can readily replicate. The case has been made, and a plan is in place. The next step is effective execution.

The window is open. The case is made. The plan is written. India's bond market is waiting to be built.