Indian Economy · GS - III

How can a deeper corporate bond market strengthen India's infrastructure financing ecosystem and reduce excessive dependence on bank credit?

EXAM YEAR	PAPER	SUBJECT
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MARKS	WORD LIMIT
15	~ 250 words

Answer Hint

Long-term capital, institutional investors, infrastructure financing, asset-liability management, market liquidity, credit ratings, corporate bond market

Model Answer

India's infrastructure sector requires substantial long-term capital for roads, energy, ports and urban development. Excessive dependence on bank loans can create asset-liability mismatches because banks often mobilise shorter-term deposits to finance long-gestation projects.

Contribution of corporate bonds

1. **Long-term financing:** Corporate bonds enable companies to mobilise funds with maturities suited to infrastructure projects.
2. **Diversification:** They provide an alternative to bank loans, reducing concentration of credit exposure within the banking system.
3. **Institutional investment:** Insurance companies, pension funds and mutual funds can channel household savings into productive infrastructure assets.
4. **Capital market development:** Greater bond issuance improves financial depth and provides investors with diversified investment opportunities.

Structural constraints

India's corporate bond market remains relatively less developed in terms of secondary-market liquidity and participation by retail investors. Lower-rated companies face high borrowing costs, while inadequate credit information and limited market-making can restrict investor confidence. Rising yields can also increase refinancing pressures.

Reform priorities

1. Strengthen credit-rating transparency and disclosure standards.
2. Encourage market-making and improve secondary-market liquidity.
3. Expand participation of long-term institutional investors.
4. Develop credit enhancement mechanisms and infrastructure investment vehicles.
5. Improve insolvency resolution and investor protection to strengthen confidence.

SEBI's regulatory framework and initiatives such as the Infrastructure Investment Trust (InvIT) framework can complement bond-market development.

Conclusion: A deeper corporate bond market can diversify infrastructure financing, mobilise domestic savings and reduce pressure on bank balance sheets, provided liquidity, transparency and investor protection improve.

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