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Bonding with the market (also see in Jpeg)

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Bonding with the market

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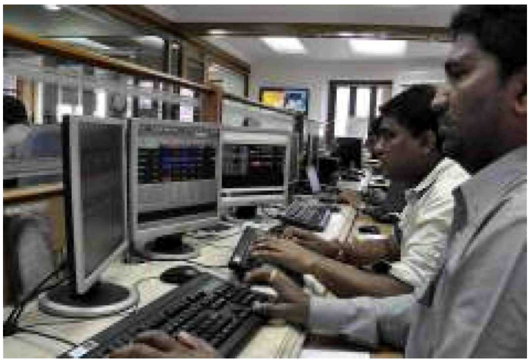

Boost to bond market.

Keeping in with the overall theme of the Budget — that of sustained development — the measures envisaged by the Finance Minister to further growth and development of the bond markets can be viewed as a step in the right direction.

The thrust on increasing and improving infrastructure investments through infrastructure debt funds and infrastructure tax free bonds would help increase supply of papers in the debt markets, which can, to some extent, attract potential investors.

The provision of IIFCL offering credit enhancement is hugely welcome and would provide succour to companies (especially those in the infrastructure space) that do not enjoy high credit rating, to enhance their credit ratings and thereby enable them to tap the bond markets to meet their funding needs.

This would also encourage the otherwise reluctant companies to seek the bond financing route, ultimately adding to the overall liquidity and depth of the market.

DEBT TRADING

The Budget has also provided the much-needed boost to the secondary markets, in terms of facilitating trading in debt instruments.

Stock exchanges would henceforth be allowed to have a dedicated debt segment on the exchange.

This move would go a long way in improving the case of trading in these instruments, a major impediment that has been often identified as impacting liquidity in these markets. The other move involving bonds, that is, permitting FIIs to use corporate and government bonds as collaterals to meet margin requirements is essentially an attempt of the government to increase FII investment in the equity markets.

FII are seen to have to good appetite for government securities and this can be leveraged for increasing their activity in the country's equity markets.

FII PARTICIPATION

Although the Finance Minister has announced measures that would help the bond markets as a whole, the Budget however did not cater to some of the much-anticipated expectations of the market. Increase in the limit of FII participation in debt was once such.

Despite the Finance Minister acknowledging the need and importance of foreign investments in Indian markets, the Budget stopped short of announcing the much-anticipated increase in the limits for FII participation in debt.

The markets were also seeking a reduction in the withholding tax in FII investment in corporate debt, the high rates of which make investments in these instruments un-viable for FIIs, which too did not come by.

In terms of the Government's market borrowing programme for the FY14 fiscal and its impact on the bond market, the same may not exert significant pressure on the markets as the increase in net borrowing of around Rs 17,000 crore would not have much of an impact on liquidity of G-Secs.

However, if major slippages occur on this front or if these is excessive growth in credit with a revival in the economy, overall liquidity in the market would be pressured.

(The author is MD & CEO, CARE Ratings. The views are personal.)