Let reforms spur India's corporate bond market

This segment of the debt market has been crying out for help. A Niti Aayog report makes yet another attempt to usher in policy changes that are dearly needed for this worthy objective

India's capital markets have grown by leaps and bounds since 1991, when economic liberalization began. Be it in terms of participation or infrastructure, they now compare with the best in the world. But this boom has been all but stolen by the equity market. When it comes to the market for debt, especially corporate bonds, ours lags woefully behind those of not just advanced countries, but many of our peers as well. Globally, the bond market is much larger ($140 trillion) than the equity market ($115 trillion). But India is an exception. Not only is our debt market dominated heavily by government securities (G-Secs), the value of all outstanding bonds is just 50-60% of the country's equity market capitalization. True, our market for corporate bonds has grown in recent years. However, as a *Mint* report indicates, a large slice of bonds issued by companies goes unlisted; according to data from Primedatabase, in 2025 up to 9 December, private firms raised nearly ₹8.6 trillion via bonds listed for trading and a bit above ₹2 trillion through unlisted paper.

Ironically, we do have what it takes for a bond market to thrive: notably, a well-developed market for G-Secs that offers a benchmark yield curve for bond pricing, a legal framework, a trusted depository system and credible rating agencies. Our challenge has been to enlarge corporate issuances, given that banks cannot adequately fulfil the need for long-term finance. Bank deposits are repayable on demand, but loans have longer tenures, which results in an asset-liability mismatch that constrains lending for long spans of time. Corporate bonds could fill this gap. Ever since the pandemic, though, privately placed issuances have surged. While their pace has eased, low costs and operational ease have been drawing issuers down this route. Off-market bonds are often rated lower on safety and they offer higher yields to compensate, but finding takers for such debt and setting bond prices should be the market's job. A market that functions better, thus, is an important aim.

For such reasons and more, the Niti Aayog's recent *Report on Deepening the Corporate Bond Market* must not gather dust, like many others before it; recall reports by panels headed by R.H. Patil (2005), Percy Mistry (2007) and H.R. Khan (2016). If India's economy is to leap from low-middle-income to high-income, our financial system must be able to mobilize long-term capital at low cost; in the Niti report's words, "a deep and diversified corporate bond market is indispensable for that transition." Towards this end, it proposes a three-phased approach: *first*, taxation reforms to fix distortions that currently favour equities and bank deposits; *second*, parity in withholding tax treatment between corporate bonds and securitized debt instruments; and *third*, an extension of capital gains tax deferral rules to limited liability partnerships and direct asset transfers in real estate and infrastructure investment trust structures (to enhance liquidity). A critical element that the report does not emphasize enough is the need for speedy dispute resolution. Long legal delays in default cases do little for investor confidence. We have made some progress with debt mutual funds and bond ETFs that could serve as an option for savers in search of fixed-income avenues that yield more than bank deposits. But we need to do much more if the Niti Aayog's goal of taking India's corporate bond market to ₹100-120 trillion by 2030 from ₹53.6 trillion in 2024-25 is to be met.