Masala Bonds

Masala Bonds are rupee-denominated bonds. It is a debt instrument issued by an Indian entity in foreign markets to raise money, in Indian currency, instead of dollars or local denomination.

In 2019, Kerala became the first Indian state to issue Masala Bonds worth Rs. 2,150 crore on the London Stock Exchange. State-owned Kerala Infrastructure Investment Fund Board (KIIFB) had issued the bonds to raise funds in the overseas market.

What are Masala Bonds?

- These are the bonds issued outside India, by an Indian entity, in Indian currency
- The major objectives of Masala Bonds are to fund infrastructure projects, ignite internal growth (via borrowings) and internationalise the Indian rupee
- In case of any risk, the investor has to bear the loss and not the borrower
- The first Masala Bonds were issued by World Bank in 2014 to fund an infrastructure project in India
- The International Finance Corporation (IFC), the investment branch of the World Bank issued a 10-year, 10 billion Indian rupee bonds in November 2014 to increase foreign investment in India and mobilise international capital markets to support infrastructure development in the country
- There are certain rules and regulations which have been set up by the Reserve Bank of India (RBI) regarding Masala Bonds:
    - Any corporate and Indian bank is eligible to issue Rupee denominated bonds overseas
    - Money raised through these bonds cannot be invested in real-estate activities. However, they can be used for the development of integrated township or affordable housing projects
    - Also, the money raised through Masala Bonds cannot be invested in capital markets

To know about the different Types of Bonds in India, candidates can visit the linked article.

Characteristics of Masala Bonds

Discussed below are the major characteristic features of Masala Bond:

1. **Investors**
    - These bonds can only be issued to a resident of such a country which is a member of the Financial Action Task Force (FATF)
    - Also, the security market regulator of the country must be a member of the International Organisation of Securities Commission
    - These bonds can also be subscribed by regional and multilateral financial institutions where India is a member country
2. **Maturity Period**

- The minimum original maturity period for bonds raised up to 50 million US Dollars equivalent in INR per financial year should be 3 years
- The minimum original maturity period for bonds raised above 50 million US Dollars equivalent in INR per financial year should be 5 years

3. **Eligibility**
    - Investors from outside of India who are interested to invest in Indian assets are eligible to invest in Masala bonds
    - HDFC, NTPC, Indiabulls Housing Finance, are a few Indian entities who have raised funds using Masala Bonds

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International Monetary Fund (IMF)	Financial Markets
Major Stock Exchanges of India	Capital Markets

Benefits of Masala Bonds

- Masala bonds have opened up an investment route for global investors who have no access to the domestic market through the Foreign Institutional Investor (FII) or Foreign Portfolio Investment (FPI) route
- The documentation work is also less as the registration does not have to be made as FPI in India
- For borrowers, it is beneficial as the cost of funds is cheaper and is issued below 7% interest rate
- The companies issuing these bonds do not have to worry about the depreciation of rupee
- Since, the interest rates in the US dollar, pound sterling, euro, and yen, are at very low levels, it benefits Indian companies to raise funds via issuing Masala Bonds
- It is an easy medium to internationalise Indian rupee by making it familiar to the International investors
- It will also boost the development of domestic bond markets due to competition with overseas market

For information about the Indian Financial System, visit the linked article.

Limitations of Masala Bond

- RBI has been making periodical rate cuts in Masala Bonds which has made it a bit less appealing to the investors
- The money raised through these bonds cannot be used everywhere. There are fixed fields where the money can be invested

- As per Moody's, the sustainability of financing via Masala Bonds is a challenge as investors are expected to be cautious in taking on currency risks from emerging markets

UPSC aspirants can also refer to the following links:

Foreign Direct Investment (FDI)	Bombay Stock Exchange (BSE)
Financial Inclusion - National Strategy for Financial Inclusion	Types of Non-Banking Financial Institutions
World Development Report	World Investment Report

Masala Bonds - Key Facts

Given below are a few key facts regarding Masala Bonds:

- The name "Masala Bonds" was given by the International Finance Corporation (IFC). Since 'masala' is a Hindi word for spices, it would stimulate the Indian culture at the international platform
- The first Masala bond was issued in 2014 by IFC for the infrastructure projects in India
- 10-year Masala Bonds worth Rs 850 crore had been listed by the Asian Development Bank in February 2020 on the global debt listing platform of India INX. This was done to support local currency and investment in India
- As per reports, until 2020, $5.5-billion equivalent of masala bonds have already been issued
- There are two other foreign-currency-denominated bonds which are similar to Masala Bonds:
    - Dim Sum Bonds (China)
    - Samurai Bonds (Japan)

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