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India to double offshore rupee bond programme

By James Crabtree in Mumbai

India is set to take a major step toward currency internationalisation with World Bank plans to double its offshore rupee bond programme to \$2bn and push leading Indian companies to raise global rupee-linked debt for the first time.

The International Finance Corporation, an arm of the development lender, told the Financial Times that it would launch the new \$2bn effort later this year, pending final approval from India's finance ministry.

News of the expansion comes as the IFC confirmed on Thursday it had completed the final tranche of its debut \$1bn offshore rupee programme, launched last October, which marked the first occasion global investors had been able to access rupee-denominated debt outside India.

The new \$2bn programme marks a step-up in Indian attempts to tap fresh sources of global capital and heighten the international profile of its currency, at a moment when the rupee has recovered strongly against the dollar after a series of sharp depreciations last year.

The plan also sees India follow a path pioneered by China's so-called "dim sum" offshore renminbi-denominated bonds, as Asia's two largest emerging countries accelerate efforts to integrate their economies within the global financial system.

The IFC's bonds are bought and sold in dollars, but are denominated in rupees and offer returns linked to rupee interest and exchange rates. They also have a triple-A rating, guaranteed by the lender.

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The World Bank's move doubling to \$2bn its offshore-rupee bond programme today marks a significant moment in the international development of India's currency. But it leaves one big question unanswered: what should these new Indian instruments be called?

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Hua Jingdong, IFC vice-president, said the \$2bn effort would encourage larger Indian businesses to issue rupee debt offshore, potentially marking an important development in the country's fledgling corporate bond market.

"This new programme will be a big step up," he said. "We have proved that there is global demand for rupee-linked fixed income assets . . . part of the next phase is helping high quality Indian companies tap international investors in rupees, which would shield them from foreign exchange volatility."

The IFC's plan follows recent statements by Raghuram Rajan, Indian central bank governor, pledging to press forward with rupee internationalisation as an important component of liberalising the country's financial markets.

India has struggled to raise capital to fund badly-needed long-term projects in areas such as power and infrastructure, in part because of the country's underdeveloped domestic corporate bond market.

Some businesses that managed to raise dollar debt abroad also came under strain as the rupee plunged in value last year. Around half of the \$225bn dollar-denominated debt stock held by India's corporate sector is estimated to be unhedged.

The IFC said it would help companies raise offshore rupee debt by guaranteeing an investment grade credit rating and acting as an anchor investor, as it has done in Indonesia and other emerging economies.

Eswar Prasad, economist at the Brookings Institution, said the \$2bn programme marked a significant stage in India's attempts to integrate its currency internationally.

"This is a small step but an important one, to catalyse the development of a rupee corporate bond market outside India," he said.

“India and China are both trying to develop local currency offshore bond markets, and while India is playing catch-up, it is definitely heading down that same road.”

The IFC also confirmed on Thursday it had received permission from India’s finance ministry to begin a separate \$5bn domestic rupee debt programme, which it plans to bring to market by the end of 2014.

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