Fixed Income Securities – Bonds

By,

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In common man's jargon, fixed income refers to a type of investment that capitulates a regular or fixed return. An investment that provides a return in the form of fixed periodic payments and the eventual return of principal at maturity. Unlike a variable-income security, where payments change based on some underlying measure such as short-term interest rates, the payments of a fixed-income security are known in advance. Fixed income securities are one of the most innovative and dynamic instruments evolved in the financial system ever since the inception of money. Based as they are on the concept of interest and time-value of money, Fixed income securities personify the essence of innovation and transformation, which have fueled the explosive growth of the financial markets over the past few centuries.

Fixed-income securities such as secured and unsecured bonds, preferred stock, etc. can be contrasted with variable return securities such as stocks. To appreciate the distinction between stocks and bonds, once have to understand a company's motivation. The growth and expansion of a company would determine its uninterrupted and perpetual existence but the lifeblood of such growth being money, a company cannot solely depend o its ongoing operations (selling products or providing services). In order for a company to grow as a business, it often must raise money; to finance an acquisition, buy equipment or land or invest in new product development. The company can either pledge a part of itself, by giving equity in the company (stock), or the company can give a promise to pay regular interest and repay principal on the loan (bond) (bank loan) or (preferred stock).

These are the circumstances when a company may resort to debt financing. When a firm raises money for working capital or capital expenditures by selling bonds, bills, or notes to individual and/or institutional investors. In return for lending the money, the individuals or institutions become creditors and receive a promise that the principal and interest on the debt will be repaid. The biggest advantage of debt financing is that the lending party does not gain any part of ownership of your business and your only obligation to lending party is to repay the debt. Also, repayment of the loan is typically a fixed expense, according the terms of the loan.

The following states the pros and cons of debt finance in comparison to equity financing.

ADVANTAGES OF DEBT COMPARED TO EQUITY

- Because the lender does not have a claim to equity in the business, debt does not dilute the owner's ownership interest in the company.
- A lender is entitled only to repayment of the agreed-upon principal of the loan plus interest, and has no direct claim on future profits of the business. If the company is successful, the owners reap a larger portion of the rewards than they would if they had sold stock in the company to investors in order to finance the growth.
- Except in the case of variable rate loans, principal and interest obligations are known amounts which can be forecasted and planned for.
- Interest on the debt can be deducted on the company's tax return, lowering the actual cost of the loan to the company.
- Raising debt capital is less complicated because the company is not required to comply with state and federal securities laws and regulations.
- The company is not required to send periodic mailings to large numbers of investors, hold periodic meetings of shareholders, and seek the vote of shareholders before taking certain actions.

DISADVANTAGES OF DEBT COMPARED TO EQUITY

- Unlike equity, debt must at some point be repaid.
- Interest is a fixed cost which raises the company's break-even point. High interest costs during difficult financial periods can increase the risk of insolvency. Companies that are too highly leveraged (that have large amounts of debt as compared to equity) often find it difficult to grow because of the high cost of servicing the debt.
- Cash flow is required for both principal and interest payments and must be budgeted for. Most loans are not repayable in varying amounts over time based on the business cycles of the company.
- Debt instruments often contain restrictions on the company's activities, preventing management from pursuing alternative financing options and non-core business opportunities.
- The larger a company's debt-equity ratio, the more risky the company is considered by lenders and investors. Accordingly, a business is limited as to the amount of debt it can carry.
- The company is usually required to pledge assets of the company to the lender as collateral, and owners of the company are in some cases required to personally guarantee repayment of the loan.

Apart from the traditional intake of secured & unsecured loans by companies, the other alternative available is the issue of debt instruments. Debt instruments are a way for markets

and participants to easily transfer the ownership of debt obligations from one party to another. Debt obligation transferability increases liquidity and gives creditors a means of trading debt obligations on the market. Without debt instruments acting as a means to facilitate trading, debt is an obligation from one party to another. When a debt instrument is used as a medium to facilitate debt trading, debt obligations can be moved from one party to another quickly and efficiently.

With reference to the topic discussed in this research, a fixed-income security, is a debt instrument issued by a government, corporation or other entity to finance and expand their operations. Fixed-income securities provide investors a return in the form of fixed periodic payments and eventual return of principal at maturity. The purchase of a bond, treasury bill, Guaranteed Investment Certificate (GIC), mortgage, preferred share or any other fixed-income product represents a loan by the investor to the issuer. Formally, debt instruments with maturity in the one-year to ten-year range are called notes and those with maturities over ten years are called bonds. Informally, all debt instruments which have maturities over one-year are called bonds.

Bonds

Bonds refer to debt instruments bearing interest on maturity. In simple terms, organizations may borrow funds by issuing debt securities named bonds, having a fixed maturity period (more than one year) and pay a specified rate of interest (coupon rate) on the principal amount to the holders. Bonds have a maturity period of more than one year which differentiates it from other debt securities like commercial papers, treasury bills and other money market instruments. While a bond is simply a promise to pay interest on borrowed money, there is some important terminology used by the fixed-income industry:

- The principal of a bond is the amount that is being lent.
- The coupon is the interest that will be paid.
- The maturity is the end of the bond, the date that the amount must be returned.
- The issuer is the entity (company or govt.) who is borrowing the money (issuing the bond) and paying the interest (the coupon).
- The issue is another term for the bond itself.
- The indenture is the contract that states all of the terms of the bond.

But prior to discussion in detail , important terms associated with bonds are as follows:

The most important features of a bond are:

Nominal, principal or face amount—the amount on which the issuer pays interest, and which has to be repaid at the end.

Issue price—the price at which investors buy the bonds when they are first issued. The net proceeds that the issuer receives are calculated as the issue price, less issuance fees, times the nominal amount.

Maturity date—the date on which the issuer has to repay the nominal amount. As long as all payments have been made, the issuer has no more obligations to the bond holders after the maturity date. The length of time until the maturity date is often referred to as the term or tenure or maturity of a bond. The maturity can be any length of time, although debt securities with a term of less than one year are generally designated money market instruments rather than bonds. Most bonds have a term of up to thirty years. Some bonds have been issued with maturities of up to one hundred years, and some even do not mature at all.

Coupon—the interest rate that the issuer pays to the bond holders. Usually this rate is fixed throughout the life of the bond. It can also vary with a money market index, such as LIBOR, or it can be even more exotic. The name coupon originates from the fact that in the past, physical bonds were issued which had coupons attached to them. On coupon dates the bond holder would give the coupon to a bank in exchange for the interest payment.

Coupon dates—the dates on which the issuer pays the coupon to the bond holders.

Indentures and Covenants—An indenture is a formal debt agreement that establishes the terms of a bond issue, while covenants are the clauses of such an agreement. Covenants specify the rights of bondholders and the duties of issuers, such as actions that the issuer is obligated to perform or is prohibited from performing. The terms may be changed only with great difficulty while the bonds are outstanding, with amendments to the governing document generally requiring approval by a majority (or super-majority) vote of the bondholders.

Optionality- A bond may contain an embedded option; that is, it grants option-like features to the holder or the issuer:

> ***Callability***—Some bonds give the issuer the right to repay the bond before the maturity date on the call dates; see call option. These bonds are referred to as callable bonds. Most callable bonds allow the issuer to repay the bond at par. With some bonds, the issuer has to pay a premium, the so called call premium. This is mainly the case for high-yield bonds. These have very strict covenants, restricting the issuer in its operations. To be free from these covenants, the issuer can repay the bonds early, but only at a high cost.
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> ***Putability***—Some bonds give the holder the right to force the issuer to repay the bond before the maturity date on the put dates; see put option. (Note: "Putable" denotes an embedded put option; "Puttable" denotes that it may be putted.)
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> ***Call dates and put dates***—the dates on which callable and putable bonds can be redeemed early. There are four main categories.

- A Bermudan callable has several call dates, usually coinciding with coupon dates.
- A European callable has only one call date. This is a special case of a Bermudan callable.
- An American callable can be called at any time until the maturity date.
- A death put is an optional redemption feature on a debt instrument allowing the beneficiary of the estate of the deceased to put (sell) the bond (back to the issuer) in the event of the beneficiary's death or legal incapacitation. Also known as a "survivor's option".

Sinking fund provision of the corporate bond indenture requires a certain portion of the issue to be retired periodically. The entire bond issue can be liquidated by the maturity date. If that is not the case, then the remainder is called balloon maturity. Issuers may either pay to trustees, which in turn call randomly selected bonds in the issue, or, alternatively, purchase bonds in open market, then return them to trustees. Convertible bond lets a bondholder exchange a bond to a number of shares of the issuer's common stock. Exchangeable bond allows for exchange to shares of a corporation other than the issuer.

But, most things called bonds aren't really bonds at all. Bonds encompass the wide sweep of fixed income securities.

What distinguishes between bonds in a legal sense is the collateral (assets backing up the loan) pledged and the legal rights to this collateral. Most bonds have no specific security attached to them and really should be called "unsecured debentures". This means that in a default situation, the bondholders rank equally with the other unsecured creditors of the company. Since governments do not pledge specific security, most government bonds are actually debentures. An unsecured debenture usually has a "negative pledge" which prevents the issuer from having assets secured ahead of that issue. Any bond issues which have senior issues ahead are "subordinate".

A "secured debenture" has some particular asset attached to it, say a factory, building or shopping centre. If this involves real estate collateral, these bonds are known as "mortgage bonds". A mortgage bond is different than a mortgage, which is a legal document registered against a particular real estate asset. A mortgage bond is a bond with a trust indenture which "secures" its collateral by way of a mortgage. A "first mortgage bond" has the first mortgage and senior claim on an asset or group of assets. Bonds are classified into multiple categories, details of which are discussed as follows:

Types of Bonds Classification on the basis of Variability of Coupon

Zero Coupon Bonds

Zero Coupon Bonds are issued at a discount to their face value and at the time of maturity, the principal/face value is repaid to the holders. No interest (coupon) is paid to the holders and hence, there are no cash inflows in zero coupon bonds. The difference between issue price

(discounted price) and redeemable price (face value) itself acts as interest to holders. The issue price of Zero Coupon Bonds is inversely related to their maturity period, i.e. longer the maturity period lesser would be the issue price and vice-versa. These types of bonds are also known as **Deep Discount Bonds.**

Treasury Strips

Treasury strips are more popular in the United States and not yet available in India. Also known as Separate Trading of Registered Interest and Principal Securities, government dealer firms in the United States buy coupon paying treasury bonds and use these cash flows to further create zero coupon bonds. Dealer firms then sell these zero coupon bonds, each one having a different maturity period, in the secondary market.

Floating Rate Bonds

In some bonds, fixed coupon rate to be provided to the holders is not specified. Instead, the coupon rate keeps fluctuating from time to time, with reference to a benchmark rate. Such types of bonds are referred to as Floating Rate Bonds. Coupon rate in some of these bonds also have floors and caps. On the other hand, a cap (or a ceiling) feature signifies the maximum coupon that the bonds issuer will pay (irrespective of the benchmark rate). These bonds are also known as **Range Notes**. More frequently used in the housing loan markets where coupon rates are reset at longer time intervals (after one year or more), these are well known as Variable Rate Bonds and Adjustable Rate Bonds. Coupon rates of some bonds may even move in an opposite direction to benchmark rates. These bonds are known as Inverse Floaters and are common in developed markets.

Classification on the Basis of Variability of Maturity

Callable Bonds

The issuer of a callable bond has the right (but not the obligation) to change the tenor of a bond (call option). The issuer may redeem a bond fully or partly before the actual maturity date. These options are present in the bond from the time of original bond issue and are known as embedded options.

A call option is either a European option or an American option. Under an European option, the issuer can exercise the call option on a bond only on the specified date, whereas under an American option, option can be exercised anytime before the specified date.

This embedded option helps issuer to reduce the costs when interest rates are falling, and when the interest rates are rising it is helpful for the holders.

Puttable Bonds

The holder of a puttable bond has the right (but not an obligation) to seek redemption (sell) from the issuer at any time before the maturity date. The holder may exercise put option in part or in full. In riding interest rate scenario, the bond holder may sell a bond with low coupon rate and switch over to a bond that offers higher coupon rate. Consequently, the issuer will have to resell these bonds at lower prices to investors. Therefore, an increase in the interest rates poses additional risk to the issuer of bonds with put option (which are redeemed at par) as he will have to lower the re-issue price of the bond to attract investors.

Convertible Bonds

The holder of a convertible bond has the option to convert the bond into equity (in the same value as of the bond) of the issuing firm (borrowing firm) on pre-specified terms. This results in an automatic redemption of the bond before the maturity date. The conversion ratio (number of equity of shares in lieu of a convertible bond) and the conversion price (determined at the time of conversion) are pre-specified at the time of bonds issue. Convertible bonds may be fully or partly convertible. For the part of the convertible bond which is redeemed, the investor receives equity shares and the non-converted part remains as a bond.

Classification on the basis of Principal Repayment

Amortizing Bonds

Amortizing Bonds are those types of bonds in which the borrower (issuer) repays the principal along with the coupon over the life of the bond. The amortizing schedule (repayment of principal) is prepared in such a manner that whole of the principle is repaid by the maturity date of the bond and the last payment is done on the maturity date. For example - auto loans, home loans, consumer loans, etc.

Bonds with Sinking Fund Provisions

Bonds with Sinking Fund Provisions have a provision as per which the issuer is required to retire some amount of outstanding bonds every year. The issuer has following options for doing so:

- By buying from the market
- By creating a separate fund which calls the bonds on behalf of the issuer

Since the outstanding bonds in the market are continuously retired by the issuer every year by creating a separate fund (more commonly used option), these types of bonds are named as bonds with sinking fund provisions. These bonds also allow the borrowers to repay the principal over the bond's life.

Swaps

A swap occurs when an investor exchanges one security to obtain another security. Sometimes swaps involve outright purchase and sale of bonds to save on taxes. An investor who has made capital gains on other investments may own a bond currently worth less than the purchase price. By selling the bond and simultaneously buying an equivalent one, the investor effectively is able to continue owning the bond while realizing a capital loss that can offset capital gain. But the vast majority of swaps involve foreign exchange or interest payment. Most swaps, however, are interest-rate swaps rather than currency swaps. For example, counterparty A may want to hedge-away the risk of changing interest rates. Counterparty B agrees to swap a stream of fixed interest-rate payments from counterparty A in exchange for a stream of floating interest-rate payments for 5 years. The fixed rate of interest will be high enough to compensate counterparty B for the risk of paying a floating rate. Because LIBOR is an international benchmark for market interest, the floating rate might be adjusted every 3-months to the Eurodollar 3-month LIBOR rate for the 5-year period of the swap plus a spread.

Note that in an interest-rate swap there is no exchange of principal, only an exchange of interest payments. Note also that the counterparty paying the fixed interest-rate has assumed greater risk than the counterparty paying the floating rate, and can thus charge a premium (higher rate) to compensate for the assumption of that risk. Of course, the fixed-rate payer gets an additional benefit if market rates fall.

Bond Market in India

The debt market is much more popular than the equity markets in most parts of the world. In India the reverse has been true. Nevertheless, the Indian debt market has transformed itself into a much more vibrant trading field for debt instruments from the rudimentary market about a decade ago. The sections below encompass the transformation of government and corporate debt markets in India along with a comparison of the developments in equity market.

Developments in Government Bond Market

Prior to 1992, money was collected and lent according to Plan. Lacunae in institutional infrastructure and inefficient market practices characterized the government securities market. In fact the sole objective pursued was to keep the cost of government borrowing as low as possible. If planning went awry, the government sent word to its banker. The central bank made a few phone calls to the heads of banks and bonds were issued and the money arranged. No questions asked, no explanations given. The GOI bond market did not use trading on an exchange. It featured bilateral negotiation between dealers. The market thus lacked price-time priority and the bilateral transactions imposed counterparty credit risk on participants. This narrowed down the market into a "club" with homogeneous credit risk. This was the state of the government debt market in India ten years ago.

The major thrust of Financial Reforms commenced in 1992. This was when the contours of the debt market began taking shape. The idea of the financial reform movement was to have more and more different markets and not necessarily have whole financial intermediation left to the banks. The reform process attempted at doing away with regulations in favour of controls based on market forces i.e. an era where the interest rates are governed more by the market forces of demand and supply and less by centralized supervision. Slowly, but steadily, the market grew, adding fresh players and novel instruments. Several measures have added greater transparency and have brought the issuances closer to the market levels.

The major reforms that took place in the 1990's were:

- Introduction of the auction system for sale of dated government securities in June1992. This signaled the end of the era of administered interest rates.
- The RBI moved to computerize the SGL and implement a form of a 'delivery versus payment' (DvP) system. The DvP enabled mitigating of settlement risk in securities and ensured the smoothness of settlement by synchronizing the payment and delivery of securities.
- Innovative products in form of Zero Coupon Bonds and Capital Indexed Bonds (Ex. Inflation Linked) were issued to attract a wider gamut of investors. However, the pace of innovation suffered due to non-sophistication of the markets and lack of persistence with some of the new bonds like Inflation Indexed bonds after the initial lukewarm response.
- The system of Primary Dealers was established in March 1995. These primary dealers have since then acquired a large chunk of share in the GOI bond market and have played the role of market makers.
- The RBI setup "trade for trade" regime, a strong regulatory system which required that every trade must be settled with funds and bonds. All forms of netting were prohibited.
- Wholesale Debt Market (WDM) segment was set up at NSE, A limited degree of transparency came about through the WDM at NSE, where roughly half the trading volume of India's GOI bond market is reported.
- The Ways And Means agreement put an end to issuance of ad hoc treasury bills, the governments favorite instrument of funding its profligacy.
- Interest Income in G-Secs was exempted from the purview of TDS.
- FIIs with 100% Debt Schemes were allowed to invest in GOI Securities and T-Bills while other FIIs were allowed 30% investment in these instruments.
- Dematerialized forms of securities in G-Secs was done through the SGL and Constituents SGL accounts.

The above-mentioned measures have served in bringing about greater market orientation of the sovereign issues. This is particularly important as the sovereign borrowing parameters have a direct bearing on the cost of capital for other non-sovereign issuers. The Primary market for G-Secs registered an almost ten-fold increase between 1990-91 and 1998-99. The broadening of the

market was also apparent from the fact that RBI's participation, as reflected by absorption of primary issues, came down from 45.90% in 1992-93 to 0.74% in 1994-95.

Though significant improvements have been made in the primary market, the secondary market continued to be plagued by certain shortcomings like dominance of a few players (acted as a deterrent to lending width in the market), strategy of holding to maturity by leading players (prevented the improvement in the depth of the market), the pre-1992 "telephone market" continued to exist (prevents information dissemination and hence price discovery is limited) and low retail participation in G-Secs continues to exist even today. Experts believe that there is tremendous potential for widening the investor base for Government securities among retail investors. This requires a two-pronged approach, increasing their awareness about Government securities as an option for investment and improving liquidity in the secondary market that will provide them with an exit route. Also infrastructure is seen as the vital element in the further development and deepening of the market.

Corporate Bond Market

In the last decade, market related borrowings by the corporate sector have remained depressed as a plethora of Financial Institutions were available for disbursal of credit. These Institutions managed to mobilize a significant amount of domestic savings and route them for corporate consumption.

Also the reforms abolished the office of the Controller of Capital Issues (CCI), which meant that companies were free to price their equity issues as per the market appetite. This led to a slew of primary issue of equity and the relative attractiveness of issue of debt yielded way to equities. In fact, even debt issues were made with attached sweeteners like convertible portion of the fixed income instrument. In addition, several relaxations in regulations post 1992 have encouraged Indian corporates to raise debt from overseas capital markets leading to further shunning of the domestic debt market by creditworthy issuers. Therefore, the corporate debt market in India has continued to be dominated by the PSU's.

In the recent past, the corporate debt market has seen high growth of innovative asset-backed securities. The servicing of debt and related obligations for such instruments is backed by some sort of financial assets and/or credit support from a third party. Over the years greater innovation has been witnessed in the corporate bond issuances, like floating rate instruments, zero coupon bonds, convertible bonds, callable (put-able) bonds and step-redemption bonds. For example, step bonds issued by ICICI in 1998, paid progressively higher rates of interest as the maturity approached while the IDBI's step bond was issued with a feature to pay out the redemption amount in installments after an initial holding period. The deep discount bond issued by IDBI in the same year had two put and call options before maturity.

What these innovative issues have done is that they have provided a gamut of securities that caters to wider segment of investors in terms of maintaining a desirable risk-return balance.

Over the last five years, corporate issuers have shown a distinct preference for private placements over public issues. This has further cramped the liquidity in the market. While private placement has grown 6.23 times to Rs. 62461.80 Crores in 2000-2001 since 1995-96, the corresponding increase in public issues of debt has been merely 40.95 percent from the 1995-96 levels.

The dominance of private placement in total issuances is attributable to a number of factors. First, the lengthy issuance procedure for public issues, in particular, the information disclosure requirements, provide a strong incentive for eligible entities to opt for the private placement route. Secondly, the costs of a public issue are considerably higher than those for a private placement. Thirdly, the amounts that can be raised through private placements are typically larger than those that can be garnered through a public issue. Also, a corporate can expect to raise debt from the market at finer rates than the prime-lending rate of banks and financial institutions only with a AAA-rated paper. This limits the number of entities that would find it profitable to enter the market directly.

Thus the public issues market has over the years been dominated by financial institutions, which is exemplified by the fact that ICICI and IDBI accounted for the entire debt offerings in 1998–99 and all but one issue in 1999–20001. Another interesting fact is that inspite of dominating the public issues market even financial institutions have raised significantly larger amounts through the private placement route.

Further the secondary market for non-sovereign debt, especially corporate paper remains plagued by inefficiencies. The primary problem is the total lack of market making in these securities, which consequently lead to extremely poor liquidity. The biggest investors in this segment of the market, namely LIC, GIC and UTI prefer to hold the instruments to maturity, thereby truncating the supply of paper in the market.

The secondary market for corporate did receive a boost with the waiver on stamp duty payment on transfer of debt securities, as long as they are dematerialized debentures, in the Finance Bill 2000.

Development of Equity Market vs. the Debt Market

During this decade of financial reforms development in equity market has been striking as compared to relatively minor changes in the debt market. In terms of sheer market size, the equity market saw a drop from 42% of GDP in 1993–94 to 28.6% of GDP in 2000-01. Over the same period, the GOI bond market saw an increase in market size, fueled by large fiscal deficits, from 28% of GDP in 1993–94 to 36.7% of GDP in 2000–01. Other things being equal, this should have generated an improvement in liquidity of the GOI bond market and a reduction in liquidity in the equity market. Instead, changes in market design on the equity market over this period gave the opposite outcome, where the improvement in liquidity on the equity market

was superior to that observed on the GOI bond market. The reasons for this have been manifold:

- Foreign capital inflows into the GOI bond market are relatively undesirable to policy-makers. This is in contrast with capital inflows into the equity market, where policy-makers seek to have the largest possible capital inflows. Hence, infirmities in the market design on the GOI bond market do not generate an important opportunity cost as far as harnessing foreign capital inflows are concerned.
- In the presence of "development finance institutions" and banks, firms in India are seen as having access to debt financing, access to debt finance was therefore not seen as a major bottleneck hindering investment. Hence, the lack of a liquid bond market was not keenly seen as a constraint in investment and growth.
- In the case of the GOI bond market, the benefits from a non-transparent market with entry barriers accrue primarily to banks and PDs. The PDs are largely the creation of RBI and public sector banks have extremely close ties with RBI. The RBI is the regulator for G-Secs market.

Thus the development of equity markets took precedence over development of debt market in India but the future does seem promising for the debt market.

Bond Market for Indian Companies

For many years now, Indian policy makers have made platitudinous comments about the need to develop a genuine market for corporate bonds in the country. Somehow, they never seem to get around to doing it. The reluctance is neither entirely the result of bureaucratic apathy, nor is it completely irrational.

It's rooted in two beliefs. The first assumption is that the Indian government, which doesn't borrow overseas from commercial lenders, must always have the first claim on domestic savings. Allowing non-state borrowers to tap the same pool of money will leave less for the government, forcing it to pare social spending; the poor will suffer. And what about expanding capital availability with a little sharing of credit risk with foreigners? That's where the second supposition comes in.

In the absence of a large local bond market, India has sought to address the challenge of financing growth by allowing local companies to borrow overseas, nudging them to take on currency risk that at least the smaller corporate treasurer in India doesn't know how to properly hedge. Why should foreigners be prevented from freely holding Indian debt, arresting the development of a local bond market, while Indian companies are permitted to borrow overseas? That's simple enough to answer. The latter source is easy to turn off when inflows get large. That's precisely what was done in August last year when any Indian company borrowing more than $20 million overseas was ordered to keep the money abroad; anyone borrowing less than

that and seeking to bring the money into India was asked to seek permission from the central bank.

The monetary authority needs to manage the exchange rate. For it to do that — and still have any hope of controlling inflation — the central bank must exercise control over capital inflows and outflows. And that objective is greatly helped by keeping foreigners out of Indian debt altogether. That's how the reasoning goes. There is, however, one big obstacle and that is India is a capital-starved country and it simultaneously it wants to grow.
