

RBI allows banks to issue masala bonds

The Reserve Bank of India (RBI) on Thursday allowed banks to issue rupee-denominated bonds, or masala bonds, in the overseas market to shore up their capital base as well as for financing infrastructure and affordable housing.

To strengthen their capital base, banks can raise perpetual debt instruments, which can be considered for calculating a bank's additional tier-1 capital, or debt capital instrument that can go in to calculating a bank's tier-2 capital. These bonds will be issued according to the Basel-III norms and therefore, will have loss absorption clause. Under this clause, a bank can choose not to honour the coupon payment in case of financial stress. For financing infrastructure and affordable housing, the banks can issue long-term bonds, which doesn't have the loss absorption clause.

The central bank had first announced its intention for letting banks tap the overseas market with rupee bonds on August 25 when the RBI announced a slew of measures to develop the bond and currencies market. Companies were already allowed to raise money through masala bonds and a few issuances totaling Rs.7,472 crore have been done.

The rupee bond route will open an additional avenue to raise funds for banks and will help develop the market of rupee-denominated bonds abroad, the RBI said.

The borrowing by the banks would still have to be within the overall limit of foreign investment in corporate bonds, which is pegged at Rs.2,44,323 crore at present. Of this, foreign investors have exhausted Rs.1,66,120 crore so far.

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(Business Standard)