Growth of Green bonds

Why in news?

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ICRA predicts a stagnant growth of green bonds in 2018.

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What are Green bonds?

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- A green bond is a tax-exempt bond issued by federally qualified organizations or by municipalities for the development of brownfield sites.
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- Brownfield sites are areas of land that are underutilized, have abandoned buildings or are underdeveloped, often containing low levels of industrial pollution.
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- Green bonds are short for qualified green building and sustainable design project bonds.
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What are the findings of the report?

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- ICRA expects gross bond issuance vide Government of India securities (G-sec), State Development Loans (SDL), UDAY bonds and municipal debt to remain stagnant at Rs. 10.7 trillion in FY2018.
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- The gross dated borrowings of the Government of India (GoI) are expected to remain flat at Rs. 5.8 trillion in FY2018, as indicated in the Union Budget.
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- However, ICRA estimates the gross market borrowings of the state governments to rise by 22 % in FY2018, on account of larger fiscal

deficits, a spike in debt repayment from FY2018 onwards and the exclusion of most states (except Madhya Pradesh, Kerala, Arunachal Pradesh and Delhi) from investing in the NSSF from April 1, 2016.
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- ICRA estimates that UDAY bond issuance would decline and the year-on-year (YoY) growth of corporate bonds to remain substantial at 20 to 22 percent in FY2018.
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- This suggests that one last rate cut of 25 bps to bring the repo rate to 6.0 % should not be ruled out.
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- A rate cut would dampen bond yields, as well as foreign institutional investors' (FII's) interest in Indian debt, particularly in the light of the expected rate hikes by the US Federal Reserve.
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- However, banks interest in investing in bonds is expected to remain high, given subdued demand from the private sector for bank credit, in light of sluggish capital spending and less attractive bank lending rates.
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- While ICRA expects bond yields may soften from current levels in the event of a rate cut, higher supply of SDL and corporate bonds may widen their spreads relative to G-sec.
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Source: Financial Express

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