Municipal Bonds in India

What is the issue?

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- PMC recently succeeded by issuing municipal bonds.
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- It may not be easy to replicate, but it can serve as a role model for local bodies.
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What is municipal bond?

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- A municipal bond is a debt security issued by a state, municipality or county to finance its capital expenditures, including the construction of highways, bridges or schools.
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- Municipal bonds are mostly exempt from federal taxes and from most state and local taxes, making them especially attractive to people in high income tax brackets.
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What is the history of municipal bonds?

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- Between 1997 and 2010, the city corporations of Ahmedabad, Nashik and Bengaluru experimented with bond issues but barely managed to raise Rs.1,400 crore.
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- The poor investor response was due to the fact that these bonds were not tradable and lacked regulatory clarity.
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- SEBI’s detailed guidelines for the issue and listing of municipal bonds in March 2015, clarified their regulatory status and rendered them safer for investors.
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What is the recent incident?

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- The municipal bond market in India is coming alive with
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- Pune Municipal Corporation (PMC) raisied Rs.200 crore in the first set of a proposed Rs.2,264-crore offer.
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- It also listing the bond on BSE recently.
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- It is a ten-year bond offer carrying a coupon of 7.59%.
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- It received a good reception raising hopes that future offers will be well-received.
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What is the significance of municipal bond market?

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- The take-off of the municipal bond market is critical for India’s large cities and towns to upgrade their creaking infrastructure.
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- The ability of municipal bodies to be self-sustaining is also critical to the success of the Centre’s pet projects such as Smart Cities and AMRUT.
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Source: BusinessLine

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