

May 24, 2004

**RBI seeks Comments/Suggestions on
proposed Structure of Capital Indexed Bonds**

The Reserve Bank of India today placed on its website (www.rbi.org.in) the proposed Structure of Capital Indexed Bonds for comments/suggestions. It may be recalled that the Annual Policy Statement for the year 2004-05, announced on May 18, 2004 stated that it would place a discussion paper on the Capital Indexed Bonds detailing the product features in the public domain (para 105).

Comments/suggestions on the proposed structure of Capital Indexed Bonds for any modifications may be forwarded to the Internal Debt Management Department, Reserve Bank of India, Mumbai-400 001 (e-mail: cgmidmc@rbi.org.in)/(Fax 022-22659610) latest by June 12, 2004 or to Deputy Secretary (Budget), Ministry of Finance, Department of Economic Affairs, Government of India, North Block, New Delhi-110 001 (e-mail: chauhan@finance.nic.in)/ (Fax No. 011- 23093273).

The Reserve Bank of India has, over time, taken several measures to develop the Government securities market. Developing a menu of instruments to cater to the diverse investment and hedging needs of investors has been one of the components of these measures. Carrying this effort forward, the Reserve Bank, in consultation with the Government of India, proposes to introduce Capital Indexed Bonds.

One variant of Capital Indexed Bonds, viz., 6 per cent Capital Indexed Bond 2002 was issued on December 29, 1997 for the first time in India. Subsequent to that, Capital Indexed Bonds were not issued on account of the lackluster response of market participants in both primary and secondary markets. One of the main reasons cited for the lackluster response to the bonds was the limited inflation protection they offered. Modified structure of the bond takes into account the past experience as well as the internationally popular structure of Capital Indexed Bonds.