प्रेस प्रकाशनी PRESS RELEASE

भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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DRG Study on "GDP-Indexed Bonds"

The Reserve Bank of India released a DRG Study entitled, "GDP-Indexed Bonds'. The Study is co-authored by Prof. Errol D'Souza, Professor, Indian Institute of Management, Ahmedabad along with Shri Sanjay Kumar, Assistant Adviser, IDMD, Dr. Kumarjit Mandal, former Research Officer, DEAP and Shri Vineet Virmani, Assistant Vice President, Quantitative Risk Team, Nomura Services India Ltd.

After the wave of financial and debt crisis in a number of emerging markets in the 1990s, there has been a revival of interest in financial instruments that could limit the cyclical vulnerability of developing countries and reduce the likelihood of defaults. GDP-indexed bond is one of such financial instruments. The Study attempts to analyze the role of GDP indexed bonds in containing the repudiation risk and moral hazard in financial markets. The effect of GDP-indexed bonds in stabilizing the path of sovereign debt and the obstacles to the introduction of GDP-indexed bonds especially in terms of pricing of such bonds, have also been analyzed. By making use of the Chamon and Mauro (2006) approach for pricing of the GDP-indexed bonds, the Study attempts to resolve the pricing issue of the GDP-indexed bonds in the Indian context. The Study observes that in case of indexation, the price of GDP-indexed bonds could be below par and the probability of default could also increase depending on the joint distribution of the random variables such as growth rate, real effective exchange rate and the primary budget balance of the Government and other inputs to the model,. The Study also recognizes a number of practical issues related with the GDP-indexed bonds that reduces desirability of this instrument in the Indian context.

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