प्रेस प्रकाशनी PRESS RELEASE

भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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A technical paper on "Inflation Indexed Bonds (IIBs)"

The Reserve Bank of India has, today, placed on its website a technical paper on 'Inflation Indexed Bonds" for public comments. Comments on the technical note may be forwarded to the Chief General Manager, Internal Debt Management Department, Reserve Bank of India, Central Office Building, 23rd floor, S.B. Road, Mumbai-400001 or emailed latest by December 31, 2010.

Background

In India, a variant of indexed bonds, i.e. Capital Index Bond (CIB), 2002 was issued on December 29, 1997 wherein only principal repayments at the time of redemption were indexed to inflation. Based on the past experience and feedback from market participants, a new version of IIB has been designed with protection from inflation to both interest payments and principal repayments linking them to Wholesale Price Index (WPI) for all commodities.

The technical paper sets out the structure of IIBs including method of indexation (principal or interest), inflation index lag, issuance method, and methodology to compute settlement price.

Salient features

- In the current structure of IIBs, the principal will be indexed and the coupon will be calculated on the indexed principal. This structure is the same as was set out in the discussion paper on Capital Indexed Bond issued by the Bank in 2005.
- Since the objective of the IIBs is to provide protection against actual inflation, the final WPI will be used for indexation.
- Final WPI with a lag of four months will be used as the Reference WPI for the first day of the calendar month in which 'Issue Date' and 'Set Date' falls.
- As and when WPI index is being revised on technical grounds (coverage, base year, etc.), the new WPI index will be used for indexation purpose and past value of new WPI index would be computed through a linking factor.
- In the primary auction, the IIB would be issued at par and investors would quote their bids in terms of **real yield**.
- In case of reissuance, investors would bid in terms of price and settlement price may be computed multiplying the sum of the cut-off price and accrued real interest by the Index Ratio.

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