Press Communiqué

Pursuant to the announcement in the Union Budget 2013-14, Government of India in consultation with Reserve Bank of India has decided to launch Inflation Index Bonds (IIBs), as instruments that will protect savings of poor and middle classes from inflation and incentivise household sector to save in financial instruments rather than buy gold.

2. For appropriate price discovery and market development, however, it is necessary to issue comparable instruments through auctions to the institutional investors such as Pension Funds, Insurance, and Mutual Funds etc. This will create demand for IIBs and help in making them tradable in the secondary market. It is therefore proposed to issue initial series for institutional investors (including 20% to retail investors) and later, another series, exclusively for retail investors. First series of IIBs would be issued in H1 of the current FY. With a view to target greater retail participation for this series also, it has been decided to enhance the non-competitive segment for retail investors to 20%, from the present level of 5%.

3. The details for first series of IIBs are as under:

- **Capital Indexed Bonds** (CIBs) have a fixed real coupon rate and a nominal principal value that is adjusted against inflation. Periodic coupon payments are paid on adjusted principal. Thus, CIBs provide inflation protection to both principal and coupon payment. At maturity, the adjusted principal or the face value, whichever is higher, will be paid.
- **Index ratio (IR)** will be computed by dividing ref. index for the settlement date by ref. index for issue date (i.e. $IR_{\text{set date}}$ = Ref. Inflation $\text{Index}_{\text{Set Date}}$ / Ref Inflation $\text{Index}_{\text{Issue Date}}$).
- **Final Wholesale Price Inflation** (WPI) will be used for providing inflation protection in this product. In case of revision in the base year for WPI series, base splicing method would be used to construct a consistent series for indexation.
- **Indexation Lag:** Final WPI with four months lag will be used, i.e. Sept 2012 and Oct 2012 final WPI will be used as reference WPI for 1st Feb 2013 and 1st March 2013, respectively. The reference WPI for dates between 1st Feb and 1st March 2013 will be computed through interpolation.
- **Issuance method:** CIBs will be issued by auction method.
- **Retail Participation:** Non-competitive portion will be increased from extant 5 per cent to upto 20 per cent of the notified amount in order to encourage retail investors' participation.
- **Maturity:** Issuance would target various points of the maturity curve in order to have benchmarks. To begin with, these bonds will be issued for tenor of 10 years.
- **Issuance Size:** Each tranche of CIBs will be for ₹ 1,000 - 2000 crore and total issuance would be for about ₹ 12,000-15,000 crore in 2013-14.
- **Issuance Date:** First such tranche will be issued on June 4th 2013 and the same would be issued regularly through auctions on the last Tuesday of each subsequent month during 2013-14.

4. Second series of IIBs exclusively for retail investors will be issued in H2. First series of the IIBs will help in determining the coupon rate for the Bonds through auction. This will help in benchmarking IIBs. Based on the experience in the initial issuances, second series of IIBs for the retail investors is proposed to be issued around October. Terms of Issuance of IIBs for retail investors would be announced in due course.

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