Q8

With reference to 'IFC Masala Bonds', sometimes seen in the news, which of the statements given below is/are correct? 1. The International Finance Corporation, which offers these bonds, is an arm of the World Bank. 2. They are the rupee-denominated bonds and are a source of debt financing for the public and private sector. Select the correct answer using the code given below (a) 1 only (b) 2 only (c) Both 1 and 2 (d) Neither 1 nor 2 Official key: C.

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Explanation

(a)

Statement 1 only. IFC is the World Bank Group's private-sector arm, but Masala bonds are also rupee paper used for debt finance. 1 alone is incomplete.

(b)

Statement 2 only. Rupee denomination and debt-finance use are right, yet the IFC-World Bank link is also correct. Dropping 1 is not the key.

(c) Official key

Both 1 and 2. The International Finance Corporation belongs to the World Bank Group. Masala bonds are rupee-denominated bonds issued offshore; IFC's issues opened a template for Indian public and private borrowers to raise rupee funds without immediate currency mismatch on the issuer side in the same way as dollar debt. That stored letter is the official key.

(d)

Neither. Both statements match the 2015-16 Masala-bond story, so 'neither' is not the key.

Summary

Official key is (c) both 1 and 2. IFC is the World Bank Group's private-arm lender. Masala bonds are offshore rupee bonds and a debt-raising route. Honour the stored letter (c).

Related possible facts

These can be asked in a future Prelims paper.

IFC parent

World Bank Group

Masala bond currency
Indian rupee, typically listed overseas

First IFC Masala
2014-15 London issues that popularised the name

RBI window
Masala bonds later brought under the external commercial borrowing framework

Currency risk
Investor often bears INR risk versus a dollar bond