



## RBI and G-secs Market

### Why in news?

The RBI Governor, Shaktikanta Das, recently emphasized that the RBI should continue to remain the regulator for the government securities (G-sec) market.

### What are government securities?

- Government securities (G-Secs) are debt instruments issued by a sovereign government to borrow money.
- The investor buys the bonds and loans money, and in turn, receives fixed interest.
- This is for a defined period of time (till maturity date) and for a variable or fixed interest rate (coupon rate).
- The two key categories are:
  1. Treasury bills - short-term instruments which mature in 91 days, 182 days, or 364 days
  2. Dated securities - long-term instruments, which mature anywhere between 5 and 40 years
- G-secs are considered the safest form of investment because they are backed by the government and the risk of default is almost nil.
- However, they are not completely risk free given the fluctuations in interest rates. Also, G-secs are not tax-free.
- In India, G-Securities are issued by the central government while SDL (state development loans) are issued by the state governments.

### What is the recent concern?

- SEBI's Chairman recently called for unification of corporate and government bond markets under the SEBI.
- The RBI has been facing criticism due to the manner in which it is controlling government bond yields.
- There seems to be a conflict of interest with its other objectives such as inflation management and orderly functioning of the financial market.

## What is the challenge in handling this?

Yield is the amount of return that an investor will realize on a bond.

- The bond prices and yields generally move in opposite directions. This is because, as a bond's price increases, its yield to maturity falls.
- The price of a bond primarily changes in response to changes in interest rates in the economy.
- When the government demands so much money, the price of money (i.e., the interest rate) will move up.
- So, yield management / low bond yields are needed to -
  1. bring down the borrowing cost of government
  2. control the interest burden
  3. kick-start investments
- But at a larger level, this has revived the debate over whether public debt management should still remain with the RBI.

## Why should public debt management remain with the RBI?

- The Union government has planned to borrow Rs 12 lakh crore from the market in financial year 2021-22.
- Also, given the ongoing crisis (amidst the pandemic), the RBI needs all its powers to support the government.
- The market intelligence that comes from this role is an advantage.
- Control over the G-sec market is critical in order to discharge many other RBI's key functions:
  1. management of systemic liquidity
  2. regulating foreign exchange market
  3. maintaining financial stability
  4. keeping exchange rate stable
  5. keeping interest rates across maturities under check
- Other factors are composition of participants, their temperament and behaviour in opting for G-Secs, and risk management and surveillance.

## How is it elsewhere?

- Public debt management is a function under the Bureau of Public Debt under the US Treasury Department.
- In the UK, the Debt Management Office functions under the Treasury department.

## What was the earlier attempt in India?

- There was a proposal in 2018 to set up public debt management cell in the Budget division. But there has not been much progress on this since.
- For now, the RBI should not be disturbed in its functioning and powers.

**Source: Business Line**

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