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G-SAP 1.0 - Government Securities Acquisition programme

Why in news?

In its recent monetary policy briefing, the RBI announced of Rs one lakh crore Government Securities Acquisition programme (G-SAP 1.0.)

What is G-SAP?

- The RBI periodically purchases Government bonds from the market through Open Market Operations (OMOs).
- The G-SAP is in a way an OMO.
- But there is an upfront commitment by the RBI to the markets that it will purchase bonds worth a specific amount.
- The idea is to give a comfort to the bond markets.
- In other words, G-SAP is an OMO with a 'distinct character.'

What is the rationale?

- The government will mainly be benefited from the G-SAP 1.0. operations.
- The government, notably, has a massive borrowing programme scheduled for FY22.
- It has planned a Rs 12.05 lakh crore borrowing plan for fiscal year 2022.
- So, the RBI's endeavour is to keep the yield down, to lower the borrowing cost of the Government.
- The plan is to enable a stable and orderly evolution of the yield curve amidst comfortable liquidity conditions.
- The endeavour will be to ensure congenial financial conditions for the economic recovery to gain traction.
- For Q1 of 2021-22, therefore, it has been decided to announce a G-SAP of Rs One lakh crore.
- Also, the positive externalities of G-SAP 1.0 operations need to be seen in the context of those segments of the financial markets that rely on the G-sec yield curve as a pricing benchmark.

What is the first phase of operation?

- The RBI has officially notified that it would conduct the first phase of G-SAP 1.0 operations on April 15, 2021.
- It will begin with the purchase of five dated securities for an amount

aggregating to Rs 25,000 crore.

- The first phase of G-SAP purchase will happen using the multiple price method under which the bidders pay at the respective rate they had bid.
- The RBI has notified four securities for the G-Sec purchase in different maturities.
- In addition to the G-SAP plan, the RBI will also continue to deploy regular operations.
- This would be under the LAF, longer-term repo/reverse repo auctions, forex operations and open market operations including special OMOs.
- This is to ensure that the liquidity conditions evolve in consonance with the stance of monetary policy.

What are the concerns?

- **Interest rates** - For the Government, the RBI keeping the yield down is a good news because the overall borrowing costs go down.
- But, the RBI artificially keeping the interest rates lower in the financial system has caused concerns.
- In healthy economic system, the interest rates pricing should be driven by demand-supply.
- It shouldn't be artificially suppressed by the central bank; this might lead to distortions and have other consequences.
- **Savers** - Cheaper rates will be good news to big, top rated companies who can issue bonds to raise money and to the government.
- But low interest rates coupled with high inflation is a systemic worry for savers.
- Already, savers are getting negative returns on their deposits if one takes into account the inflation adjusted rates or real rates.
- **Rupee** - Government resorting to massive bond purchase to keep the rates low is not good news for the local currency.
- The Indian Rupee, notably, came under pressure after the RBI announced the massive Rs 1 lakh crore bond purchase programme.
- The fear of investors pulling capital out of India in a low interest environment is hurting the local currency.

Source: Financial Express