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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