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Q.2 The Launch of the Retail Direct Scheme by the Reserve Bank of India enables broad-based participation in the sovereign bond market by the investors. Explain (200 words).

→ Government or Sovereign Bond is a instrument of indebtedness issued by National Government to support government spending, in the backdrop of this RBI has launched Retail Direct scheme to allow retail investor to purchase or invest in government securities.

The prospect associated with this scheme are

① Economic

- ① Risk Free investment opportunity for small retail investor
- ② Would lower crowding out effect, hence public industry could get loan
- ③ Government could raise money at lower interest rate for long term.

② Social

- ① Increased investment in social infrastructure and physical infrastructure.
- ② Spending by government in health sector, education sector would increase.

③ Capacity building of the rural and backward region.

③ Political

① India being listed at International Exchange securities would improve credit rating.

② Infuse of foreign investment

③ But this opportunities are marred by certain difficult challenges like.

① Economic

a. Increased govt. debt

b. Makes future govt liable to pay for the debt taken today

c. Household would reduce their investment in (Retail invest) Equit market, hence loose opportunity of higher return.

② Political

a. If not able to pay or disliking of security under any circumstance would lower ranking to 'Junk'.

b. International investor would be investing through FDI would reduce.

③ Social

a. Welfare populist policy to win election will be promoted.

b. More demand to loan waiver would increase.

Hence, looking at the current situation of covid it's very important for the govt to infuse govt spending in order to review the economic, hence launch of Retail Direct account scheme would enable broad-basing participation in gov. bond.