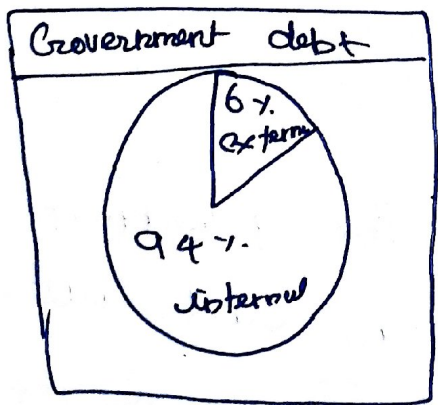


The launch of Retail direct scheme by RBI enables broad based participation in sovereign bond market by investors. Explain.

The Retail direct scheme was launched by RBI to include retail investors in the government bond market. Retail investors have increased to 14 million and retail investors share in NSE is 45%.

Benefits of the scheme

Retail investors can invest in g-sec, T-bills, state development loans and sovereign gold bonds. This can improve government's finance by mobilising household's money. It provides better interest rate than fixed deposit for the concerned tenure.



No fee would be charged from the public to invest in the government bonds. It is a risk free

investment option for the buyer.

It can ease the pressure of the government, the crowding out effect decreases and private can buy from banks that leads to income generation. Also it is lesser volatile than mutual funds as there are no intermediaries.

Challenges

The tenure is higher example 10 years unlike other fixed deposit schemes. If not held till maturity Government bonds can result in interest rate risk

Government needs to educate public to widen its investment base as financial illiteracy is high.

To reap full benefits the government can give unearned tax deductions and double with fully accessible route which is for the NRI's.