Recently government used a special zero coupen Bond to recapitalise Punjab & Sind Bank.

Zero coupen Bonds are generally zero interest bonds, which are issued at discount and at maturity 100% capital is transfered. Thus interest is converted into discount.

However unlike corporate or earlier zero coupen bond, which were tradable in secondary market

→ These coupen bonds have no mark to market system and will be parked under Held to maturity category (HTM) within bank.

→ only specified banks by RBI can deal with this bond.

Advantage

→ These bonds generate an illusion of double impact in the market.

→ Thus govt can issue them for certain amount and will benefit for much large.

→ Thus fiscal deficit can be handelled properly.

→ This initiative is in line with western practices.

Concerns

→ This bond will not solve the ~~route~~ root cause of cash crunch, rising NPA and structural issues of bank.

→ Being short term measures, it will generate problems upon maturity.

Being innovative & experimented in western countries, the method is helpful when government is struggling in fund management amid pandemic.