G-sec Acquisition Programme 2.0

Why in News

Recently, the **Reserve Bank of India (RBI)** has announced that it will **conduct an** open market purchase **of government securities of Rs 25,000 crore under the G-sec Acquisition Programme (G-SAP 2.0).**

- Earlier, under **G-SAP 1.0,** the first purchase of government securities for an aggregate amount of Rs. 25,000 crore was made.

Key Points

- **Government Securities Acquisition Programme (G-SAP):**
    - **About:** The G-Sec Acquisition Programme (G-SAP) is basically **an unconditional and a structured Open Market Operation (OMO),** of a much larger scale and size.
        - RBI has called the G-SAP as an OMO with a **'distinct character'.**
        - The word 'unconditional' here connotes that RBI has committed upfront that it will buy G-Secs irrespective of the market sentiment.
    - **Objective:** To achieve **a stable and orderly evolution of the yield curve along with management of liquidity** in the economy.
    - **Significance:** The government will mainly benefit from the G-SAP.
        - By purchasing G-secs, the RBI **infuses money supply into the economy** which inturn keeps the **yield down and lower the borrowing cost of the Government.**
        - The government of India, with its massive borrowing programme (for example, **National infrastructure pipeline project**), can now breathe a sigh of relief as long-term borrowing costs come down.
    - **Issues:** Critics of the G-SAP say that the **rupee might get adversely affected.**
        - They are of the view that the G-SAP announcement has already led to **depreciation of the rupee** (a fall in the value of currency).
        - So, critics are pointing to the fact that there is a **trade-off between a tumbling rupee and lower borrowing costs/low yields.**
        - Further, too much liquidity will **drive up** inflation**.**
- **Open Market Operations:**
    - Open Market Operations (OMO) is one of the **quantitative (to regulate or control the total volume of money) monetary policy tools** which is employed by the central bank of a country to control the money supply in the economy.
    - OMOs are conducted by the RBI by way of **sale or purchase of government securities** (g-secs) to adjust money supply conditions.
    - The central bank **sells g-secs to remove liquidity from the system and buys back g-secs to infuse liquidity into the system.**
    - These operations are often conducted on a day-to-day basis in a manner that balances

inflation while helping banks continue to lend.
    - RBI carries out the **OMO through commercial banks** and does not directly deal with the public.
    - The RBI uses OMO along with other monetary policy tools such as **repo rate, cash reserve ratio and statutory liquidity ratio** to adjust the quantum and price of money in the system.
- **Government Securities:**
    - A G-Sec is a **tradable instrument** issued by the Central Government or the State Governments.
    - It acknowledges the **Government's debt obligation.** Such securities are short term (usually called treasury bills, with original **maturities of less than one year-** presently issued in three tenors, namely, 91 day, 182 day and 364 day) or **long term (usually called Government bonds** or dated securities with original maturity of one year or more).
    - In India, the Central Government issues **both treasury bills and bonds or dated securities** while the State Governments **issue only bonds or dated securities,** which are called the **State Development Loans (SDLs).**
    - G-Secs **carry practically no risk of default** and, hence, are called **risk-free gilt-edged instruments.**
        - Gilt-edged securities are **high-grade investment bonds** offered by governments and large corporations as a means of borrowing funds.

Yield Curve

- Bond yield is the **return an investor realizes on a bond.**
- The **mathematical formula** for calculating yield is the **annual coupon rate** (interest rate promised by the bond issuer) **divided by the current market price of the bond.**
- Movements in yields depend on trends in interest rates, it can result in capital gains or losses for investors.
    - A **rise in bond yields** in the market will **bring the price of the bond down.**
    - A **drop in bond yield** would benefit the investor as the **price of the bond will rise,** generating capital gains.
- A yield curve is a line that **plots yields (interest rates) of bonds having equal credit quality but differing maturity dates.**
- The slope of the yield curve gives an idea of future interest rate changes and economic activity.

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