RBI’s Government Securities Acquisition Programme

RBI G-SAP [G-SAP 1.0]

WHAT IS RBI G-SAP?

- The Reserve Bank of India on 08 April, 2021 announced Government Securities Acquisition Programme, G-SAP 1.0.

- Under the programme, the Central Bank will purchase Government Bonds worth Rs. 1 Trillion (Rs. 1 lakh crores.)

- The first purchase was made by the Central Bank on 15th April, 2021 that is Quarter 1 of 2021-2022 amounting to Rs. 25000 crores.

WHAT ARE GOVERNMENT SECURITIES?

Government Securities are debt insturments that are issued by Government of India to borrow money.

Types of Government Securities:

SHORT TERM INSTRUMENTS.

MATURITY PERIOD: 91 DAYS

LONG TERM INSTRUMENTS

MATURITY PERIODS: 5 TO 40 YEARS

BENEFITS OF G-SAP 1.0

BONDS ⇄ RETURNS

- The G-SAP 1.0 will provide more comfort to the bond market.
- As the borrowing of the Government increased this year due to pandemic, RBI has to ensure that there is no disruption in the Indian Market.
- In the fiscal year 2021, the Reserve Bank of India purchased Rs. 3.13 trillion worth bonds from the secondary market in an ad hoc manner.
- This programme will help to reduce the spread between repo rate and the ten-year government bond yeild.

IMPACT OF G-SAP 1.0

The Bombay Stock Exchange (BSE) Sensex had fallen in February and March 2021 due to rising bond yields. However, after RBI announced the G-SAP in its Monetary Policy announcements. the ten-yearbond yeild dropped by 0.6%

The rise in the Bond yeilds led to weakness in the equity markets.

Now, after introduction of G-SAP 1.0, the yields will stabilize once again.

With this, the FPI inflow into equities could regain momentum.

DEPRECIATION IN RUPEE

The dollar-rupee exchange rate was oscillating between 73-74 since pandemic.

Post announcement of G-SAP, the exchange rate exceeded 74

Conclusion:

The exchange rate depreciation and G-SAP may not be entirely correlated as claimed by some in recent news articles. Furthermore, a G-SAP-like operation has not been implemented ever in India, so there is no data or precedence to see the correlation between exchange rates and the intervention. Also, depreciation of the currency per se is not all bad. It might lead to increase in exports, which will accelerate the rate of recovery of the economy.

G-SAP AND ZERO INTEREST RATES

According to Economic theories, too much liquidity will drive up inflation and lead to near-zero interest rates. However, how much is too much is yet to be seen.

During 2020-21, RBI made net outright purchases amounting to Rs 3.13 lakh crore through OMOs, which is three times the size of the proposed G-SAP intervention.

This is termed as quantitative easing of sorts or India's Zero Interest Rate Policy moment.

CONCLUSION

"The government is seized of the situation and its programmes like the expanded Production-Linked Scheme or the National Infrastructure Pipeline are steps in the right direction. The capital expenditure earmarked for these schemes is huge, and a structured programme like G-SAP could not have been announced at a more opportune time. The pandemic is an extraordinary situation, and by all means the government needs enormous amount of funding to put the economy back to track. The need of the hour is undoubtedly the revival of the economy and RBI should be appreciated for making this bold move."

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THANK-YOU