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How will the RBI’s ₹1 trillion bond buying plan impact you?

PREMIUMA worker walks past the logo of Reserve Bank of India (RBI) inside its office in New Delhi, India July 8, 2019. REUTERS/Anushree Fadnavis/File Photo **(REUTERS)***2 min read .* Updated: 20 Apr 2021, 08:09 AM IST**JAGADISH SHETTIGAR**,**POOJA MISRA**

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What is G-SAP 1.0 programme?

G-SAP 1.0 is a programme under which the central bank will purchase government bonds worth ₹1 trillion from the secondary market in the first quarter of 2021-22. This is a variant of the quantitative easing programmes adopted by many advanced economies. Government borrowing plans announced in Union Budget 2021-22 had led to a sharp rise in bond yields. The well-structured G-SAP is expected to calm investor nerves, and quell volatility in long-term bond yields. This unconventional monetary policy tool aims to further build a financial scenario conducive for faster economic recovery.

Much-needed comfort

How's it different from other borrowing plans?

G-SAP 1.0 will be conducted alongside other operations such as liquidity adjustment facility, outright open-market operations and Operation Twist. In FY21, the RBI had purchased bonds worth ₹3.13 trillion in an ad hoc manner. It has now clearly spelt out the amount for the purchase of these bonds, enabling investors to plan better for auctions. This is expected to reduce volatility in bond prices and enable a methodical development of the yield curve. With this, the RBI has also drawn the path for its commitment of an expansion in its balance sheet of a specified amount.

How does the RBI plan to execute the programme?

The first purchase of ₹25,000 crore under the multiple price method on 15 April resulted in bond yields rising to 6.12%. Keeping in mind that the RBI is the debt manager of the Centre and slated to borrow nearly ₹12.06 trillion in FY22 in a non-disruptive manner, G-SAP 1.0 is expected to give the much-needed comfort to the bond market.

What was the immediate impact?

While the bond markets cheered the announcement with the 10-year bond yield falling to 6.08% and 6.03% on 7 and 8 April, respectively, the rupee depreciated to ₹74.587 on 8 April. The depreciation was an outcome of the narrowing of returns on investment between India and the US. US bond yields have been rising in the recent past, thereby narrowing the spread between US and Indian 10-year bond yields, resulting in an outflow of foreign capital, leading to the depreciation of the rupee.

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