

Gilt-edged Market

Policy Measures

24. The policy measures taken in the current financial year have sought to strengthen institutional infrastructure for improving the transactions in Government securities, including secondary market transactions. These include the following:—

- (a) Announcement of notified amounts in respect of all auctions, including 364-day and 14-day Treasury Bills, with effect from April 1, 1998.
- (b) Exclusion of non-competitive bids from the notified amount so as to provide certainty to the amounts acceptable from competitive bidders with effect from April 1, 1998.
- (c) Based on the Monetary and Credit Policy for April-September, 1998, the following measures were taken:
 - Liquidity support against the security of holdings in Subsidiary General Ledger (SGL) Accounts to Primary Dealers (PDs) in place of reverse repos with effect from December 9, 1998.
 - Permission to FIIs to purchase/sell Treasury Bills within the overall approved debt ceilings with effect from April 29, 1998.
- (d) Following the policy decisions taken by RBI/ SEBI and the amendments to SEBI (FIIs)

regulations, 1995, FIIs with a ceiling of 30 per cent investment in debt instruments have been permitted to invest in Government dated securities and Treasury Bills within their overall approved debt ceilings.

- (e) RBI guidelines specifying the manner of transactions by FIIs were amended on June 11, 1998 to enable equity funds to invest in Government dated securities and Treasury Bills both in primary and secondary markets within their 30 per cent debt ceiling.
- (f) Satellite Dealers (SDs) have been permitted to issue Commercial Papers (CPs) with maturity ranging from 15 days to one year with effect from June 23, 1998 subject to (i) specified minimum credit rating, which should not be more than two months old at the time of issue, (ii) renewals to be treated as fresh issue, (iii) issues to be in multiples of Rs. 5 lakh but investment by a single investor not to be less than Rs. 25 lakh (iv) aggregate amount to be subject to the limit approved by the RBI and should be raised within two weeks from the date of RBI approval and (v) issue not to be underwritten or co-accepted in any manner.
- (g) "In-principle" approval was issued to 7 new entities to operate as Primary Dealers (PDs), in addition to the existing 6 entities.
- (h) Based on Mid-term Review of monetary and credit policy for 1998-99, the following measures were taken:

- Restriction on the minimum period for ready forward (repo) transactions in Treasury Bills of all maturities and notified GOI dated securities has been withdrawn.
- Guidelines for risk weights on Government and other approved securities were issued.
- Uniform price auction method was introduced on November 6, 1998 in the auction for 91 day Treasury Bills on an experimental basis.

Yield Trends

25. The implicit cut off yield of 14-day Treasury Bills ranged from 7.3 per cent at the beginning

TABLE 4.4
Net FII Investment
April-December, 1998
(US \$ million)

Month	Equity	Debt	Total
April	-8.4	-16.4	-24.8
May	-124.3	-94.1	-218.4
June	-190.5	-7.5	-198.0
July	22.2	-2.5	19.7
August	-90.1	-16.8	-106.9
Sept.	45.2	-12.0	33.2
Oct.	-135.4	-5.9	-141.3
Nov.	12.9	-60.0	-47.1
Dec.	78.1	-28.8	49.3
April-Dec.	-390.3	-244	-634.3

Source : SEBI

of the current financial year to 8.9 per cent in September, 1998. This declined to 8.4 per cent in November and remained at the same level till mid-December 1998. Subsequently, it rose above 9 per cent and ranged between 9.1 per cent and 9.4 per cent in January, 1999 (Table 4.5). The implicit cut off yield for 91-day Treasury Bills initially declined from 7.33 per cent to 7.17 per cent in April, 1998 but gradually increased to reach a peak of 10.05 per cent in October, 1998 (Table 4.5). The rise in yield reflected the impact of the hike in repo rate by 300 basis points with effect from August 20, 1998. The need to lower the price (*i.e.* raise the yield) was therefore felt in respect of the 364-day Treasury Bills as well. The implicit cut-off yield on this instrument increased from 7.97 per cent to 10.72 per cent in the current financial year (Table 4.6 and Figure 4.3).

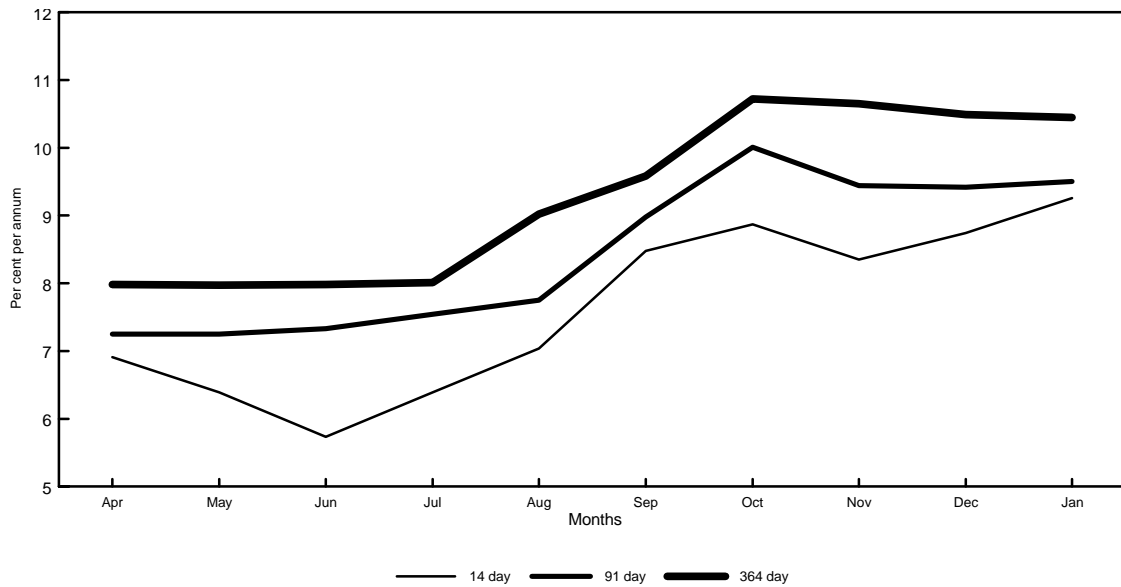
26. The interest rate on Central Government borrowing through dated securities in the current financial year ranged from 11.10 per cent to 11.78 per cent for 5 year paper and from 12.00 per cent to 12.25 per cent for 10 year paper. The Central Government also borrowed through 15 year paper and 20 year paper at 12.40 per cent and 12.60 per cent respectively.

Central Government Borrowings

27. During the earlier part of the current financial year, the Government securities market was affected by the pressure on the foreign exchange market. Uncertainties in market expectations due to domestic and international developments affected the foreign exchange market. However, the policy measures undertaken to counter volatility in the foreign exchange market coupled with relatively easy liquidity conditions enabled the Central Government to raise Rs. 90,953 crore on gross basis and Rs. 59,973 crore on net basis as on February 6, 1999, which exceeded the budgeted levels for 1998-99 at Rs. 79,376 crore (gross) and Rs. 48,326 crore (net) respectively.

28. The Central Government entered the market for dated securities on 32 occasions, including 9 private placements with RBI for Rs. 27,000 crore. The RBI subscription to dated securities amounted to Rs. 38,205 crore, which constituted 45.6 per cent of Central Government borrowing through dated securities.

Month	14-Day		91-Day	
	1997-98	1998-99	1997-98	1998-99
April		7.30	7.21	7.33
		7.30	6.46	7.33
		7.30	5.72	7.33
		7.04	6.22	7.33
		6.52		7.17
May			6.22	
		6.26	6.22	7.17
		6.52	6.75	7.33
		6.52	6.75	7.33
June		6.26	6.75	7.33
	4.95	5.99	6.75	7.33
	4.95	5.99	7.00	7.33
	4.95	5.47	7.00	7.33
July		4.95	7.00	7.33
		4.95	5.73	7.00
		4.95	5.99	6.96
		4.95	6.52	6.83
August		4.95	6.75	7.75
		4.95	6.78	6.71
		4.95	6.78	6.71
		4.95	6.26	7.71
September		4.95	6.67	
		4.95	6.78	6.63
		4.95	8.09	6.59
		4.95	8.09	6.59
October		4.95	6.59	8.00
		4.95	8.09	6.59
		4.95	8.09	6.59
		4.95	8.09	6.59
November		4.95	8.09	8.00
		4.95	8.09	8.00
		4.95	8.09	8.00
		4.95	8.09	8.00
December		4.95	8.87	9.97
		4.95	8.87	9.97
		4.95	8.87	6.88
		4.95	8.87	6.88
January		4.95	6.88	10.05
		4.95	8.87	6.22
		4.95	8.87	6.22
		4.95	8.87	6.22
February		4.95	8.87	10.05
		4.95	8.61	6.22
		4.95	8.09	6.22
		4.95	8.61	6.22
March		4.95	6.22	9.50
		4.95	8.09	6.22
		4.95	8.61	6.22
		4.95	8.35	6.22
April		4.95	6.22	9.54
		4.95	8.61	6.22
		4.95	8.09	6.22
		4.95	8.35	6.22
May		7.04	7.21	9.37
		7.04	8.35	7.21
		7.04	8.35	7.21
		7.04	8.61	7.21
June		7.04	7.21	9.46
		7.04	9.13	7.21
		7.04	9.13	7.21
		7.04	9.13	7.21
July		7.04	7.21	9.54
		7.04	9.13	7.21
		7.04	9.39	7.21
		7.04	9.39	7.21
August		7.04	7.21	9.50
		7.04	9.39	7.21
		7.04	9.39	7.21
		7.04	9.39	7.21
September		7.04	7.21	9.54
		7.04	9.39	7.21
		7.04	9.39	7.21
		7.04	9.39	7.21
October		7.04	7.21	9.54
		7.04	9.39	7.21
		7.04	9.39	7.21
		7.04	9.39	7.21
November		7.04	7.21	9.54
		7.04	9.39	7.21
		7.04	9.39	7.21
		7.04	9.39	7.21
December		7.04	7.21	9.54
		7.04	9.39	7.21
		7.04	9.39	7.21
		7.04	9.39	7.21
January		7.04	7.21	9.54
		7.04	9.39	7.21
		7.04	9.39	7.21
		7.04	9.39	7.21

Fig. 4.3**Implicit Yield of Treasury Bills at cut off price in 1998-99**

Month	1997-98	1998-99
April	9.42	7.98
	8.98	7.98
May	8.98	7.97
	8.98	7.97
June	8.98	7.97
	8.98	7.98
July	8.83	7.98
	8.53	9.03
	8.42	9.02
August	8.33	9.02
	8.33	9.02
September	8.47	9.58
	8.47	9.58
October	8.47	10.72
	7.98	10.72
November	7.98	10.67
	7.98	10.62
December	7.98	10.51
	7.98	10.50
	7.98	10.47
January	—	10.50
	—	10.41

State Government Borrowings

29. The amount of gross borrowings, including repayment during 1998-99, stood at Rs.11,371 crore in contrast to Rs.7,749 crore in 1997-98. The first ever State loan auction was announced by the Government of Punjab on January 7, 1999 to raise Rs. 60 crore on January 13, 1999.