

Gilt-edged Market

Policy Measures

4.28 The Reserve Bank of India granted its final approval to three more entities to operate as Primary Dealers (PDs) in the Government securities market, thereby raising the total number of PDs to 14. With a view to increasing the depth and liquidity in the Government securities market, RBI decided to obtain minimum bidding commitment from each of the 14 PDs for auctions of Treasury bills so that they together can absorb 100 percent of the notified amount. PDs were also offered enhanced under-writing option for the entire notified amount in respect of the auction of dated securities. Other decisions/measures include announcement of a calendar for issue of Treasury bills for the entire year, reintroduction of 182-Day Treasury bills, introduction of price-based auction of dated Government securities, etc. The first ever price-based auction was conducted by RBI on May 11, 1999, with two securities namely, 11.19 percent Government stock, 2005 and 12.32 percent Government stock, 2011 aggregating Rs. 3000 crore and Rs. 2000 crore respectively. In a price-based auction, the coupon of the security is predetermined and bidders have to quote the price of the stock based on their yield expectations. The cut off yield or the minimum offered price is decided by RBI. In almost all price-based auctions conducted so far, existing securities have been reissued for sale at the auction.

Dated Securities

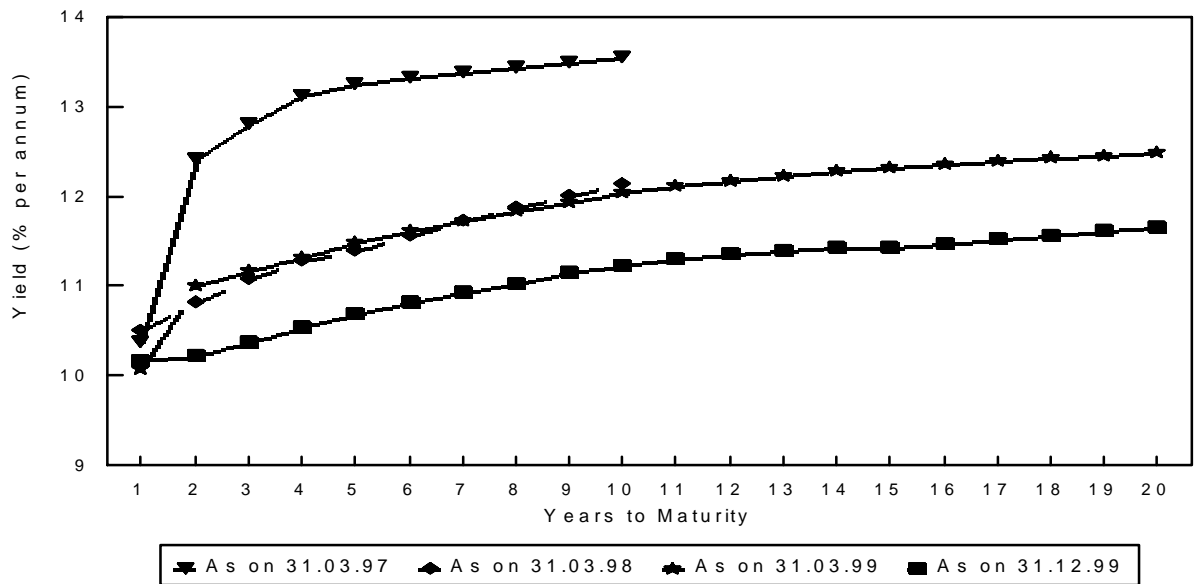
4.29 The fairly comfortable liquidity in the banking system enabled RBI to complete most of the budgeted amount of Central Government borrowing by end-December,1999. The Union Budget for 1999-2000 placed Central Government's gross and net borrowing at Rs. 84,014 crore and Rs.57,461 crore respectively. During 1999-2000 (up to December 31,1999) gross and net borrowings amounted to Rs.83,630 crore and Rs.64,577 crore respectively. With a view to minimising the roll-overs arising from bunching of redemption in the medium term, the maturity structure was lengthened with the introduction of long-term securities of 11,12,15,17 and 20 years during 1999-2000. Of the total securities issued (Rs.73,630 crore), 63 percent (Rs.46,630 crore) were above 10 years maturity. Consequently, the weighted average maturity of Central Government's dated securities increased to 13 years during April-December, 1999 from 7 years during the corresponding period of 1998-99. Reflecting this, the weighted average cut-off yield also increased from 11.81 percent to 11.89 percent during the same period. In order to moderate the impact of large Government borrowing on interest rates, the Reserve Bank accepted private placement of Government stock. The impact of this on monetised deficit was contained through active open market operations. Table 4.6 presents the details of maturity, yield/coupon (interest rate) and amount raised in the primary segment of

TABLE 4.6
Yield/Coupon for Medium and Long-Term
Central Government Securities in 1999-2000 (up to December 31,1999)

Nomenclature of security	Month of issue	Maturity as on issue date (years)	Cut-off yield at issue (%)	Amount raised (Rs. Crore)
11.98%, 2004	June	5.27	11.24	3000
11.19%, 2005	May	6.26	11.36	3000
11.68%, 2006	One each in April &November	6.38-7.00	11.03-11.68	5000
11.90%, 2007	One each in July &October	7.64-7.91	11.35-11.74	5500
11.99%, 2009	One each in April &June, and two in August	9.62-10.00	11.48-11.99	10500
12.29%, 2010	October	10.28	11.65	3500
12.32%, 2011	One each in May, June, July and September	11.34-11.73	11.73-12.05	9000
12.40%, 2013	Two in April and one in June	14.19-14.38	12.14-12.33	11000
11.83%, 2014	November	15.00	11.83	3500
12.30%, 2016	Three in July and one in November	16.62-17.00	11.81-12.30	9630
12.60%, 2018	One each in April, May & October	19.14-19.63	12.05-12.45	10000

Fig. 4.3

Yield Curve : Secondary Market Yields



the Government Securities market.

Yield to Maturity

4.30 An analysis of secondary market yields in respect of Central Government securities as on March 31, 1997 and 1998 (with maturity upto 10 years) and as on March 31, 1999 and December 31, 1999, (with maturity upto 20 years) revealed higher yield range in the shorter maturity range of 1-2 years in 1997, which narrowed down in the subsequent years. This is reflected in the steep upward slope of the

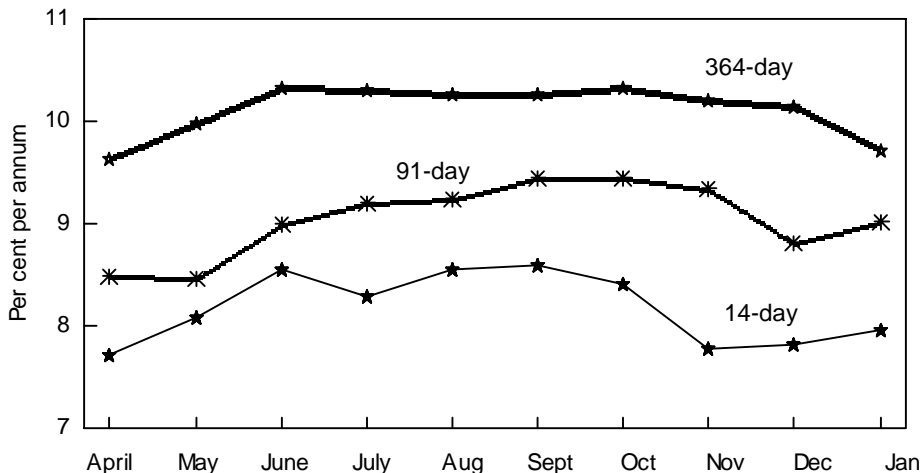
yield curve (Figure 4.3). The yield curve also shows significant softening of yield in subsequent years, especially in the current financial year.

Yield on Treasury Bills

4.31 The trends in the implicit cut-off yield (nominal) on 14-day, 91-day and 364-day Treasury Bills may be seen from Figure 4.4. The chart shows the relatively stable yield at higher level in respect of 364-day Treasury Bills. The 182-day Treasury Bills were reintroduced

Fig. 4.4

Implicit Yield of Treasury Bills at Cut-off Price in 1999-2000



with effect from May 26,1999. As per the calendar, notified amount for 182-day Treasury bills remained constant at Rs.100 at the fortnightly auctions held on Wednesdays preceding the non-reporting Fridays. The yield at cut-off price has remained stable near about 10 percent.

4.32 The significant decline in inflation rate has raised the cost (implicit yield at cut-off price) of short-term (upto one year) borrowing by Government. The trends in real terms in the monthly average implicit yield in respect 91-day and 364-day Treasury Bills may be seen from Table 4.7. As will be seen from the table, in real terms the implicit yield registered substantial increase in respect of both the categories of Treasury Bills in the current financial year.

Month	91-day Nominal	91-day Real	364-day Nominal	364-day Real
April	8.50	1.68	9.95	3.13
May	8.47	1.87	9.99	3.39
June	9.00	2.71	10.33	4.04
July	9.22	3.41	10.31	4.50
August	9.25	3.99	10.27	5.01
September	9.46	4.65	10.27	5.46
October	9.46	5.13	10.33	6.00
November	9.35	5.47	10.21	6.33
December	8.82	5.27	10.15	6.60

4.33 The figures of implicit yield at cut-off price in real terms have been worked out by subtracting the monthly average inflation rate (WPI) from the monthly average nominal yield in respect of each of the two categories of Treasury Bills. The monthly average inflation rate is the simple average of the 52 week average rates for the weeks in each of the months during April-December, 1999 while the monthly average nominal yield is the simple average of the implicit yield at cut-off price for the weeks/fortnights in each of the months during the same period.

Open Market Operations

4.34 Open Market Operations (OMO) undertaken during April-October, 1999 reflected RBI's strategy of off-loading GOI dated securities to the market, which were earlier accepted on private placement basis. The OMOs undertaken by RBI in the current financial year involved mostly the sale of dated GOI Securities. Even in July 1999, which witnessed both purchases and sales, sales exceeded purchases. The net sales of dated securities and Treasury bills by RBI through its OMO window as at end December-1999 amounted to Rs.27, 206 crore, which exceeded the corresponding amount at Rs. 18,391 crore in the corresponding period of the previous financial year.

Operations of Primary Dealers (PDs)

4.35 As against the bidding commitment of PDs amounting to Rs. 35,034 crore in respect of dated securities, actual bids tendered by them amounted to Rs. 53,842 crore as at end November, 1999. Of these, RBI accepted Rs. 25,270 crore, thereby indicating an average success ratio of 42 percent. The success ratio ranged from 33 percent to 69 percent. In the case of Treasury Bills, as against the bidding commitment of 115.5 percent of the issue, successful bids accounted for 37 percent. Success ratio in this case ranged from 37.5 percent to 46.3 percent (except one at 21.7%).

Secondary Market Transactions

4.36. The aggregate volume of transactions (outright as well as Repos) in Central and State Government dated securities and Treasury Bills more than doubled at Rs. 3,13,243 crore as at end November, 1999 (Rs. 1,30,531 crore in the corresponding period of the previous year). The total turnover in Government securities more than doubled to Rs. 6,26,485 from Rs. 2,61,062 crore in the corresponding period of the previous year. The outright turnover aggregated to Rs. 5,44,499 crore compared with Rs. 2,25,453 crore in 1998-99.