



## RBI to Buy G-Secs

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The Reserve Bank India has announced that it will purchase government securities worth \$120 billion under Open Market Operations to cater for durable liquidity needs.

- The purchase of government securities by the RBI under OMOs will infuse liquidity into the system. In India, liquidity conditions usually tighten during the second half of the financial year (mid-October onwards). This happens because the pace of government expenditure usually slows down, even as the onset of the festival season leads to a seasonal spike in currency demand. Moreover, activities of foreign institutional investors, advance tax payments, etc. also cause an ebb and flow of liquidity.

This could arm banks with more funds for lending, and lead to softer interest rates in the economy. This is good news for both businesses as well as individuals.

- The liquidity requirements, are of two types – temporary and durable.
  - **Short-term or temporary liquidity** arises out of temporary mismatches between assets and liabilities. To meet such a situation, banks approach the money market (In India, the **call money market**).
  - The call money market can, however, be the answer only in situations where some banks have excess liquidity and some others are in deficit. But there can be situations where the temporary need may be felt by the entire banking system. In that situation, the only recourse is to go to the central bank. The various types of repo facilities are meant to meet this requirement.
  - **Long-term or durable liquidity** is met by modulating the net foreign assets and net domestic assets growth over the course of the year.
- The offers will be submitted in electronic format on the Reserve Bank of India Core Banking Solution (E-Kuber) system.

### E-Kuber

- e-Kuber is the Core Banking Solution of Reserve Bank of India which was introduced in 2012.
- Core Banking Solutions (CBS) can be defined as a solution that enables banks to offer a multitude of customer-centric services on a 24x7 basis from a single location, supporting retail as well as corporate banking activities.
- The centralisation thus makes a “one-stop” shop for financial services a reality. Using CBS, customers can access their accounts from any branch, anywhere, irrespective of where they have physically opened their accounts.
- Almost all branches of commercial banks, including the Regional Rural Banks (RRBs), are brought into the core-banking fold.
- The e-kuber system can be accessed either through INFINET or Internet. The INFINET is a Closed User Group Network for the exclusive use of member banks and financial institutions and is the communication backbone for the National Payments System.

## **G-Secs**

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- A Government Security (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.

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