

RBI TO CONDUCT 'OPERATION TWIST' TO MANAGE YIELDS ON DEC. 23

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

The Reserve Bank of India (RBI) will simultaneously buy and sell government securities worth Rs. 10,000 crore each on December 23 under its open market operations — a move aimed at managing the yields.

“On a review of the current liquidity and market situation and an assessment of the evolving financial conditions, the Reserve Bank has decided to conduct simultaneous purchase and sale of government securities under Open Market Operations (OMO) for Rs. 10,000 crore each on December 23, 2019,” the RBI said. The RBI will purchase the longer-term maturities, that are trading at a spread of 150 bps (basis points) over the repo rate, so that the yield of these papers will soften and sell the shorter duration ones.

The central bank said it will buy Rs. 10,000 crore of 6.45% government bonds maturing in 2029 and simultaneously sell Rs. 10,000 crore of short-term bonds maturing in 2020.

“The action of Operation Twist by the RBI today is encouraging. There is indeed a need to bring down the term premium because that remains the driving factor for long-term economic activity and addition of new investment stock,” said Madhavi Arora, economist, FX & Rates, Edelweiss Securities.

Market experts had suggested unconventional steps by the central bank as policy rate cuts are unable to bring down the bank lending rates proportionately.

Operation Twist is a move taken by U.S. Federal Reserve in 2011-12 to make long-term borrowing cheaper.

The central bank will buy and sell securities worth Rs. 10,000 crore

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