

# RBI TO ROLL OUT NEW PHASE OF OPERATION TWIST

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

**MUMBAI** : The Reserve Bank of India (RBI) on Thursday said it will simultaneously buy and sell government bonds, along the lines of the Federal Reserve's Operation Twist, in a bid to lower interest rates on long-term government bonds.

The central bank said that it will conduct the bond-swapping programme under open market operations (OMOs) for 10,000 crore each on 2 July. Typically, the central bank conducts OMO sales to drain liquidity in the financial system and OMO purchases to infuse liquidity.

As part of the programme, the central bank will purchase securities with tenures between 7 and 13 years, and sell short-dated securities maturing in October and April.

The benchmark 10-year bond yield dropped 12 basis points to 5.90% on Monday.

Bankers expect the move to drain liquidity in the system and bring down long-term interest rates.

The central bank's move is expected to stimulate private sector borrowing.

The Reserve Bank last used this tool in April to accelerate the monetary transmission in the system.

With the government borrowing programme for the current fiscal year pegged at 7.8 trillion, banks were expecting RBI to announce more operation twists to lower borrowing costs for the government.

"RBI is trying to manage yields without expanding the balance sheet. They are trying to bring down term structure of interest rates or the longer end of the curve," said Naveen Singh, senior vice-president, ICICI Securities Primary dealership.

Short-term interest rates have been falling as liquidity surplus has been chasing short-dated assets. Last week, yields on 182-day, 364-day treasury bill (T-bill) fell to record lows, while 91-day T-bill yields came close to touching 2009 lows of 3.19%.

Apart from rates on T-bills, state governments and corporates have also seen short-term interest rates fall sharply.

In the last state government auction, Maharashtra borrowed two-year and three-year funds at record low rates.

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