Reserve Bank of India announces steps
to revitalise the Treasury Bills Market

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In the current year, the Treasury Bills (T-Bills) market has been characterised by lower primary market response and reduced secondary market activity even though the yields offered on such bills were attractive. For example, when compared to bank deposit rates the treasury bills consistently offered better returns. Moreover, while reasonably good liquidity and steady call rates fuelled strong buying interest in medium to long dated government paper, the T-bills market continued to remain dormant. Several market players have also been complaining about the lack of liquidity in an otherwise very liquid instrument. The Technical Advisory Committee on Financial Markets deliberated upon these issues on September 18, 1999. A suggestion was also made that the Reserve Bank of India should consider secondary market operations in the T-bills market. Against this background, the constitution of an Internal Working Group to go into the various aspects relating to operations by the Reserve Bank of India in the Treasury Bills market was announced in the “Mid-Term Review of Monetary and Credit policy for the year 1999-2000” on October 29,1999.

The Group submitted its report in December 1999. Among other things, it is felt that there was a case for two-way operations by Reserve Bank in the T-bills market. This would not only narrow down the short-run divergences between the primary and secondary markets but also enable the Reserve Bank to provide “exit” to the market participants at market related rates. Once the players were assured of an exit at times of need, voluntary holding and trading in bills would automatically increase.

The Report of this Group was deliberated upon by the Technical Advisory Committee in the meeting held on December 16, 1999 and also discussed with several market participants including representative bodies such as the Primary Dealers Association of India (PDAI) and the Fixed Income Money Market and Derivatives Association of India (FIMMDA). Based on the deliberations and the feedback received from them, it is felt that it is worthwhile implementing the following measures to impart liquidity in the secondary market in T-Bills.

- As and when considered necessary, Reserve Bank of India would operate in the secondary market in treasury bills through Primary Dealers.
- Reserve Bank of India would either issue a price list with one/two way quotes or act on quotes made by the Primary Dealers in the market.

The operation of the measures will be reviewed from time to time in consultation with the market participants.

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