

### **3. Operation Twist**

**Prelims Level: Banking**

**Main Level: Indian Economy and Issues Relating to planning, mobilization of Resources, Growth, Development and Employment.**

#### **Why in News?**

- Recently, RBI has planned to conduct “Operation Twist”.

#### **About Operation Twist:**

- Operation Twist is actually a move that is used by U.S Federal Reserve in past.
- The central bank uses the proceeds from the sale of short-term bonds to buy long term government bonds, **leading to easing of interest rates on the long-term bonds.**
- It involves simultaneous purchase and sale of government securities under Open Market Operations (OMO) for 10,000 crore each.
- It will purchase the longer (government bonds maturing in 2029), and simultaneously sell the shorter duration ones (short-term bonds maturing in 2020).
- It will be done through electronic platform.

#### **About Open Market Operations:**

- Open Market is known as unrestricted, free access market.
- It aims to regulate the money supply in the economy.
- It is used to adjust the liquidity conditions in the market.
- It is the sale and purchase of government securities and T-bills by RBI.
- During increase in liquidity condition then RBI sells G-secs to Open Market.
- During decrease in liquidity condition then RBI buys G-secs from Open Market.

#### **Repurchase or buyback of G-secs:**

- It is known as buying back the existing securities that are sold in Open Market.
- Sometimes RBI Prematurely buys G-secs.
- The Reasons are to:
  - ✓ Reduce the cost of particular G-secs (High coupon G-secs),
  - ✓ Reduce the number of outstanding G-secs and improve liquidity,
  - ✓ Infuse liquidity in the system

#### **Government Securities (G-Secs):**

- It is a Tradeable Instrument that is issued by the central Government/ State Governments.

- It is also called as risk-free gilt-edged instruments. It has two types, short term bonds and long-term bonds.
- **Short Term bonds** are also known as Treasury Bill. Its maturity period is less than 1 year.
- **Long Term Bonds** are also known as Government Bonds or Dated Securities.
- Central Government issues both Government bonds and Dated Securities.
- In case of State Government either Government bonds or Dated Securities through RBI. It is called as State Development Loan. Its maturity period is greater than or equal to 1 year.
- G-sec is issued through auctions conducted by RBI, by an electronic platform called **E-Kuber**. It is the Core banking Solution platform of RBI.
- RBI issues Indicative auction calendar, which contains details of calendar. It also contains information regarding amount of borrowing, maturity time period and time of auction.

