3. Lending and borrowing in Government Securities (G-sec)

Why in News?

- The Reserve Bank of India has released Draft Reserve Bank of India (Government Securities Lending) Directions, 2023

Highlights

- The RBI proposed introduction of securities lending and borrowing in Government Securities (G-sec) with an aim to facilitate wider participation in the securities lending market by providing investors an avenue to deploy idle securities and enhance portfolio returns. Government Securities Lending (GSL) transactions shall be undertaken for a minimum period of one day and a maximum of 90 days.
- Government Securities issued by the central government excluding Treasury Bills would be eligible for lending/borrowing under a GSL transaction.
- Government securities issued by the Central government (including Treasury Bills) and the state governments would be eligible for placing as collateral under a GSL transaction.
- An entity eligible to undertake repo transactions in government securities, and any other entity approved by the Reserve Bank would be eligible to participate in GSL transactions as lender of securities. A G-Sec is a tradable instrument issued by the Central Government or the State Governments.
- A G-Sec is a type of debt instrument issued by the government to borrow money from the public to finance its Fiscal Deficit. A debt Instrument is a financial instrument that represents a contractual obligation by the issuer to pay the holder a fixed amount of money, known as principal or face value, on a specified date.
- 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.