

Gilt-edged Market

34. Efforts continued for promoting an efficient Government securities market with the main focus on integration of internal debt operations with monetary policy. The year 1997-98 was characterized by easy liquidity conditions and softening of interest rates. This was, however, reversed during November 1997-January 1998, when a series of measures were announced by the RBI to protect the rupee from speculative pressures. The measures taken to enhance depth and liquidity of the Government Securities Market included the following:—

- (a) Elimination of automatic monetisation of fiscal deficit.
- (b) Abolition of TDS on interest income on all Government dated Securities.
- (c) Deduction of interest income on Government Securities as part of additional deduction of Rs.3000 under Section 80L of the Income Tax Act.
- (d) Permission to FII in the category of 100 per cent debt fund to invest in Government dated securities.
- (e) Extension of reverse repo in Treasury Bills and Central Government dated Securities to non-bank entities.
- (f) Extension of repo/reverse repo transactions among institutions to all Central Government dated Securities,
- (g) As a part of announcement of the Monetary and Credit Policy for the second

half of 1997-98, the following proposals were announced:

- (i) to introduce uniform price auctions as an experimental measure;
- (ii) to introduce notified amount for all the auctions;
- (iii) to keep 'non-competitive' bids outside the notified amount;
- (iv) to permit the FII with a ceiling of 30 per cent investment in debt instruments to invest in Government dated Securities, in addition to FII in the category of 100 per cent debt funds.
- (v) to permit ready forward transactions in such of the PSU bonds and private corporate debt securities which are held in the depository and the transactions are done in the recognised stock exchanges.
- (h) Registration of 9 companies as satellite dealers (SDs).
- (i) Introduction of Capital Indexed Bond to add to the variety of financial instruments as well as to provide a hedge against inflation,
- (j) Replacement of ad hoc Treasury Bills with Ways and Means Advances with effect from April 1, 1997.
- (k) Decision to make reverse repo facility available to primary dealers (PDs) in Government Securities market at Bank rate.