

G-sec Acquisition Programme (G-SAP 1.0)

April 9, 2021

In News: Recently, RBI announced a Government Security Acquisition Programme, GSAP 1.0. Under the programme, the central bank will purchase government bonds of worth Rs 1 trillion (or one lakh crores of rupees).

About GSAP 1.0

- The first purchase of Rs 25,000 crore is to be made on April 15, 2021.
- The GSAP 1.0 will provide more comfort to the bond market.
- Borrowing of the Government increased this year, So RBI has to ensure there is no disruption in the Indian market.
- In the fiscal year 2021, RBI purchased Rs 3.13 trillion worth bonds from the secondary market, in an ad hoc manner.
- Help to reduce the spread between repo rate and the ten-year government bond yield.
- Help to reduce the aggregate cost of borrowing for the centre and states in fiscal year 2022.

Impacts of GSAP

- The BSE Sensex fell in February and March, 2021 due to rising bond yields.
- RBI announced the GSAP in its Monetary Policy announcements, the ten-year G-Sec bond yield dropped by 0.6%. This rise in bond yields led to weakness in the equity markets.
- Now, the yields will once again stabilize. With this, the FPI inflow into equities could regain momentum

What are G-Sec?

- Government Securities are debt instruments.
- Issued by GoI to borrow money.
- Two types namely
 - **short-term** instruments that mature in 91 days
 - **long-term** instruments that mature anywhere between five years and forty years.