Treasury Bills

October 1, 2020
In News

Treasury bills or T-bills, which are **money market instruments**, are short term debt instruments **issued by the Government of India** and are presently **issued in three tenors, namely, 91 day, 182 day and 364 day.** Treasury bills are **zero coupon securities and pay no interest.** Instead, they are **issued at a discount and redeemed at the face value at maturity.**

Features of Treasury Bills

- For example, a 91 day Treasury bill of ₹100/- (face value) may be issued at say ₹ 98.20, that is, at a discount of say ₹1.80 and would be redeemed at the face value of ₹100/-. The **return to the investors is the difference between the maturity value or the face value** (that is ₹100) **and the issue price.**
- Funds collected through such tools are typically **used to meet short term requirements of the government**, hence, to reduce the overall fiscal deficit of a country.
- They are also **used to regulate the total currency in circulation** at any given point of time. During times of economic boom leading to high and persistent inflation rates in the country, high-value treasury bills are issued to the public, which, thereby, reduces aggregate money supply in an economy.
- T-bills have a maximum maturity of 364 days. Hence, they are categorized as money market instruments (money market deals with funds with a maturity of less than one year).
- The **Reserve Bank of India (on behalf of the government) conducts auctions usually every Wednesday** to issue T-bills.
- Treasury bills are **usually held by financial**

institutions including banks. They have a very important role in the financial market beyond investment instruments. Banks give treasury bills to the RBI to **get money under repo.** Similarly, they can keep it as **part of SLR.**

- As per the regulations put forward by the RBI, **a minimum of Rs. 25,000 has to be invested by individuals** willing to procure a short term treasury bill. Furthermore, any higher investment has to be made in multiples of Rs. 25,000.
- Individuals enjoy comprehensive security on the total funds invested in T-bills as they are **backed by the highest authority in the country**, and have to be paid even during an economic crisis.
- T-bills can be **resold in the secondary market**, thereby allowing individuals to convert their holding into cash during emergencies.
- The primary disadvantage of government treasury securities is that they are **known to generate relatively lower returns** when compared to standard stock market investment tools.