Centre Plans to Buy Back Bonds Worth ₹40kcr on May 9: RBI

Move to ease liquidity, bring down yields on bonds thereby lowering borrowing costs

Our Bureau

Mumbai: The Reserve Bank of India Friday said the Centre plans to buy back ₹40,000 crore worth of government securities on May 9, a move that is expected to ease the tight liquidity conditions in the banking system. This will be the first such repurchase since 2018.

The unexpected move will also bring down yields on short-term government bonds, as the three securities that the government has chosen to buy back are all maturing within six to nine months.

A fall in government bond yields brings down cost of borrowing for companies as pricing of corporate bonds is benchmarked to sovereign debt. A bulk of corporate borrowing is through short-term papers.

The bonds that the government has announced to buy back are the 6.18% 2024 paper, the 9.15% 2024 paper and the 6.89% 2025 paper.

"The offers for the auction should be submitted in electronic format on the Reserve Bank of India Core Banking Solution (E-Kuber) system on May 9, 2024 (Thursday) between 10.30 am and 11.30 am. The result of the auction will be announced on the same day and settlement will take place on May 10, 2024 (Friday)," the RBI said.

A buyback of securities essentially means that the government is choosing to repay a portion of outstanding debt before the dates of actual maturity of its bonds. Given that banks are amongst the largest holders of government bonds, such buybacks release liquidity into the banking system.

As on May 2, liquidity in the banking system, as measured by banks' borrowing from the RBI, was at a deficit of ₹78,481.39 crore, latest central bank data showed.

"The decision to announce a buyback will lead to improved systemic liquidity and is net-net positive for short-term rates," said Deepak Sood, senior partner and head of fixed income at Alpha Alternatives. "Given that the securities will mature in the same financial year, there is no impact on gross or net supply."

In its role as the government's debt manager, the RBI advises the Centre on steps such as buybacks and switches of government securities. Dealers said the surprise step displays the RBI's commitment towards preventing sharp swings in banking system liquidity, which can affect cost of borrowing across the economy.

Dealers said that while government spending had picked up from February to April, the pace of expenditure will likely be muted before the election results in June, thereby necessitating steps from the RBI to prevent banking system liquidity from dipping into large deficits.