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Understanding the Buying & Selling of Government Securities by RBI and the Bond Yield (GS 3, Economics, The Hindu, Indian Express, RBI)

News: The Reserve Bank of India (RBI) announced that it would conduct open market purchase of government securities under the **Government Securities Acquisition Programme 2.0** for ₹15,000 crore on September 30, 2021. The RBI has also decided for simultaneous sale of government securities under Open Market Operations for ₹15,000 crore on the same day, according to its circular. It will purchase three securities that mature in 2029, 2031 and 2035, and sell three having different maturity dates in 2022.

Context: In the backdrop of the government's elevated borrowing for this financial year (2021-22), which the RBI has to ensure goes through without causing disruption, **Government Securities Acquisition Programme (G-SAP)** aims to provide more comfort to the bond market.

T**he Government-Bond market** – The Government issues government securities (also said as government bond) in the market through RBI to manage the deficit in the budget.

(Deficit in the budget is called fiscal-deficit which means that the Expenditure of the government is more than its Receipt for any financial year). The market (Banks, NBFC etc) Purchase these government securities against payment of annual interest and promise of repayment of principal amount on maturity.

Understanding through an example: If RBI issues government securities of Rs 1cr (face value) having maturity of 10 years with 7.5 % interest in 2021. Say A has bought this Government Security, means A will give Rs 1 crore to RBI. In return A will be getting Rs 7.5Lakh as interest every year and the principal amount Rs 1cr on redemption in 2031.

The amount 1 crore which is collected by RBI from A will be given to the government. The government will use this money until 2031. In 2031, on the redemption of the said government Security (when the issued government security gets mature), the government requires to pay back Rs 1cr to A through RBI. Interest of Rs 7.5L will also be paid by the government (Ministry of Finance) to A annually through RBI. Here RBI is just like mediating between the government and the market. Or it can be said as, RBI is managing the debt for the government from the market.

Now if the said government bond is “tradable” then A can sell the same Government Security to B, further B can sell the same Government Security to C and then C can sell to somebody else. This selling and buying of the same Government Security can take place between 2021 to 2031.

This is nothing but the market of Government-Security or bond market for the Government Security. Market players are purchasing and selling government securities among one another.

In this market sometimes the RBI also gets involved in buying and selling of existing government securities. When RBI buys and sells Government Security from the open market then it is called **Open Market Operations.**

The market price of the said government security will be varying from its face value(1cr). If the price decreases, the bond yield would be increasing and vice versa. Bond yield is defined as percentage return on by the government securities. supposedly in the above example if B buys the Government Security of 1 crore from A in Rs 98L And keep it for 1 year then he will get 7.5 lakh Rupees as interest. The return to B as percentage is 7.6%, which is higher than the original 7.5%. Here the price of the government Security came down from Rs 1cr to 98L and hence the bond-yield (percentage interest) went up from 7.5% to 7.6%.

It can be considered good for B but from the government perspective it will be a concern. It means the demand for Government Security in the market is going down and if the government issues fresh government securities to manage the deficit in the upcoming budget then it will be difficult for RBI to sell the new government securities. Or we can say the market is not supporting the government in debt management. Hence the increasing bond yield raises his concerns for the RBI and the government.

Issue/Concern: The government-bond market has been witnessing high bond-yield for long. It suggests that the market is not interested in buying government securities and that's why the demand for the government securities is going down and hence its price. Price of the government securities and bond-yield are inversely proportional, meaning when the price goes down bond yield goes up and vice versa.

Hence If the bond yield is high it will not be considered as good by the government/RBI as nobody in the market is interested in buying the government securities due to which its price is going down and the bond yield is increasing.

The RBI has decided to support the bond market of the government securities through buying the existing government securities as per its Government-Securities Acquisition Plan (G-SAP) announced in April this year. Through this action of the RBI, more money will go into the market and it will ease the liquidity in the market (Money Supply will increase in the market and hence the interest rate in the market will come down, which can boost the investment).

RBI Governor Shaktikanta Das had announced that the central bank will conduct open market purchase of government securities of Rs 1.2 lakh crore under the **G-SAP 2.0**. Earlier this year under **G-SAP 1.0**. RBI conducted open market purchase of government securities (G-secs) of Rs 1 lakh crore. This is how RBI is supporting the government security market. This can be inflationary.

But The RBI's decision of simultaneous selling and purchasing of government securities worth 15000 Cr is convincing. Atually this time RBI will purchase three securities that matures in 2029, 2031 and 2035, and sell three having different maturity dates in 2022, Both purchasing and selling worth 15000 crore. In this case through purchasing of long term government security (matures in 2029, 2031 and 2035, worth 15000 cr) money will go into the market and the same amount of money will come back into the hand of the RBI when RBI will buy short term government security (2022 worth 15000 cr). This particular action will be not inflationary as it makes no change in money supply in the market.

Way forward: Apart from the support given by RBI the government has to think on other aspects in respect to the increasing bond yield. The government has to work in improving the different macroeconomic indicators upon which the bond yield depends or market speculates, for example the fiscal deficit, exchange rate, inflation, balance of payment taxation and other economic policies etc.

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When global firms exit, employment suffers (GS-III, Economic Development)

CONTEXT– The Centre for Monitoring Indian Economy (CMIE) Report of August 2021 shows that the unemployment rate has increased from approx 7% in July to 8.3% for August 2021.

Sector-wise analysis shows that most of the jobs lost were farm jobs(fell by 8.7 million) ; while non-farm jobs did increase(non-farm jobs increased by 6.8 million) to absorb some of these, but the quality of new jobs generated is a matter of concern.

The manufacturing sector shed 0.94 million jobs. Therefore, much of the labour shed by agriculture has been absorbed in low-end service activities.

Employment sustainability

During normalcy, agricultural labour gets accommodated in the construction sector. But currently, the construction sector itself is shedding jobs, forcing workers to find employment in the household sector and low-end services. This non-availability of sufficient jobs in manufacturing and higher end services could be the dampener for economic recovery in the subsequent quarters of the current fiscal year.

Elementary economic theory suggests that raising the level of investments is the key to output and employment growth. While public investments are important, especially in the current context of sluggish aggregate demand, there is a need to complement public investments with even more private investments.

While inward FDI does generate jobs both directly and indirectly through an increase in production activities (which increases demand for labour), the magnitude of employment generated especially in the manufacturing sector, needs closer scrutiny.

Further, the sustainability of increased employment is often threatened as it depends on the business avenues which other competing economies open up leading to corporate restructuring at the global level and firm exits from erstwhile locations.

While inflow of FDI in India creates jobs, the magnitude and quality of job generation needs to be scrutinised.

An exit and disruptions-

There is a decline in employment growth in the manufacturing sector. Though, some sub-sectors within the manufacturing sector have generated both direct and indirect employment by attracting FDI and entering into global networks of production. For ex.- **auto sector**.

As per, some information, the automobile sector employs 19.1 million workers, both directly and indirectly. Presently, more than 70% of the auto component companies are small and medium enterprises. It is generally expected that by 2022, the employment in the auto sector will touch 38 million with a higher generation of indirect employment.

However, 3 factors have created roadblocks to the expansion of the sector:-

- Firstly, due to the covid pandemic, followed by lockdown, aggregate demand in the economy is low, that is reflected in vehicle sales.
- Secondly, the shortage of semiconductors continues to impact production even when customer sentiments are slowly turning positive.
- Third, **the recent exit of Ford** from the Indian market would release a large number of employees, who will be in search of jobs, difficult to find.

More frequent global production re-arrangements are becoming a part of the strategy of big firms in this phase of globalisation, as markets tend to be more volatile due to repeated demand fluctuations.

Other examples:-

Nokia, shut down its Plant, Sriperumbudur factory (Tamil Nadu) in 2014.

Citibank announced to shut India retail banking business as part of a global decision to exit 13 markets.

Thus, by all these exits, nearly Lakhs of direct and indirect employees are losing their jobs at various levels, creating a massive disruption in the local economy.

Impact on employment generation after exit of Global firms-

The exits of high-profile global firms affect employment generation in two ways:-

First, it creates doubts among potential investors to choose the location for greenfield investments or extend existing facilities. Thus, leading to a 'wait and watch' policy, **affecting private investments** even after an economy being investor friendly. A declining trend in private investments leads to slower employment growth.

Second, the process of the 'destruction' of jobs through exits of Global companies, creates mismatches in the labour market. Such exits also led to a big influx of low-skilled workers to other sectors. Thus aggravating the existing unemployment problem.

A waning of near-permanency of large foreign firms-

With the emergence of modern transnational corporations (TNC) as key players in an industry, a proliferation of mergers and consolidations across national and International borders might be frequent.

Such waves of expansions and contractions are aimed at acquiring new markets and new trade opportunities.

Growing scepticism towards more open trade policies and the rise of protectionism have increased the risk and unpredictability of policy environments, leading to deeper reflection on both existing and new investments by global firms.

TO CONCLUDE– The 'next to near' permanency of large foreign firms operating for decades is slowly fading away and the domestic capital formation along with private investments should step in, to let it survive.

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WHO Global Air Quality Guidelines GS 3 – Government Policies & Interventions, Environmental Pollution & Degradation, Important International Institutions.

CONTEXT:

The World Health Organisation (WHO) has released new Global Air Quality Guidelines (AQGs) after a gap of 16 years. Under these guidelines, WHO has further lowered the recommended levels of pollutants that can be considered safe for human health.AQGs provide clear evidence of the damage air pollution inflicts on human health, at even lower concentrations than previously understood. The guidelines recommend new air quality levels to protect the health of populations, by reducing levels of key air pollutants, some of which also contribute to climate change.

SALIENT FEATURES:

- The guidelines advocate new air quality levels to protect the health of populations, by reducing levels of major air pollutants, some of which also contribute to climate change.
- By striving to achieve these guideline levels, countries will serve a dual role of both protecting health as well as mitigating global climate change.
- WHO move sets the stage for eventual shifts in policy in the government towards evolving newer stringent standards.
- WHO’s new guidelines recommend air quality levels for 6 pollutants, where evidence has advanced the most on health effects from exposure. 6 classical pollutants that cause concern include particulate matter (PM 2.5 and 10), ozone (O_3), nitrogen dioxide (NO_2) sulfur dioxide (SO_2) and carbon monoxide (CO).

COMPARISON BETWEEN AQG’s & INDIA’S NAAQ

AIR POLLUTION AND HUMAN HEALTH

- According to WHO, Air pollution is one of the biggest environmental threats to human health, parallel to climate change.

- Every year, exposure to air pollution is estimated to cause 7 million premature deaths and result in the loss of millions more healthy years of life.
- In children, it inhibits lung growth and function, respiratory infections and aggravated asthma.
- In adults, heart disease and stroke are the most common causes of premature death attributable to outdoor air pollution, and evidence is also emerging of other effects such as diabetes and neurodegenerative conditions.
- This puts the burden of disease attributable to air pollution on a par with other major global health risks such as unhealthy diet and tobacco smoking.
- Disparities in air pollution exposure are increasing worldwide, particularly as low- and middle-income countries are experiencing growing levels of air pollution because of large-scale urbanization and economic development that has largely relied on the burning of fossil fuels.

POLLUTION IN INDIA:

- India continues to remain **one of the world's most polluted countries**, with pollutant levels several times higher than recommended levels.For example, a **Greenpeace study** found the average concentration of **PM2.5 in New Delhi in 2020 to be nearly 17 times higher than the recommended levels**, and even much higher in winters.In **Mumbai**, pollution levels were **eight times** higher; in Kolkata, over nine times higher; and in Chennai, over five times higher.
- According to experts of **Global Burden of Disease study, over 95% of India's population already lived in areas where pollution levels were higher than WHO's 2005 norms.**India's own **national air quality standards are much more lenient**, even compared to WHO's 2005 norms.For example, the recommended PM2.5 concentration over a 24-hour period is 60 micrograms per cubic

metre, compared to 25 micrograms advised by WHO's 2005 guidelines.But even these lower standards are hardly met.

Impact of New Guidelines on India:

- The new air quality guidelines mean that nearly the entire **India would be considered a polluted zone for most of the year.** However, by WHO's own admission, more than **90% of the world's population lived in areas** which did not meet its 2005 pollution standards.
- The new WHO norms **should push India** to work harder to make its air cleaner and safer. However the **feasibility of implementing the new guidelines is questionable**, especially in challenging geo-climatic zones like south Asia, including India.
- Experts point out that this region has **challenging meteorological and climatic conditions**, with the added challenge of haze columns, heat island effects and very high base pollution. However, as the WHO's guidelines are **not binding**, the move doesn't immediately impact India as the **National Ambient Air Quality Standards (NAAQS)** don't meet the WHO's existing standards.
- The government has a dedicated **National Clean Air Programme** that aims for a 20% to 30% reduction in particulate matter concentrations by 2024 in 122 cities, keeping 2017 as the base year for the comparison of concentration.

CONCLUSION

With the present condition of the Air Pollution in India, there is a need to strengthen health data and revise. National ambient air quality standards accordingly. Further, the hard lockdown phases during the pandemic have demonstrated the dramatic reduction that is possible when local pollution and regional influences can be minimised.

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