The Week | 2021-02-05

RBI opens endless tap for govt to borrow from - retail investors

(Eds: Adding details with governor's quotes and comments from markets) Mumbai, Feb 5 (PTI) Reserve Bank governor Shaktikanta Das on Friday said there is no way the move to allow small investors to directly enter government bonds market will starve banks of their deposits --their cheapest source of funds -- saying the size of the pie is big enough to be pooled.

RBI, tasked with managing a whopping Rs 12 lakh crore of government borrowing next fiscal, in its bid to widen the investor base for government bonds, has made a major policy shift by deciding to allow small investors direct entry into this market to help deepen the financial markets in general and gilt market in particular.

“I don't feel that it (allowing retail investors direct entry into the gilt market) will in any manner cut into bank deposits. I think the size of the pie is too large to support,” governor Das told reporters during the customary post-policy presser.

The move makes India the first Asian country to allow directly entry of small investors in government debt market, while the US and Brazil allow indirect entry, Das said.

As GDP grows and as the economy comes back to a higher growth trajectory, total volume of savings and deposits naturally expands. We feel that it will not undermine the flow of deposits to banks and mutual funds. It is one more avenue which is made available though a much easier process, he noted.

Moreover, even though small savings rates offer much higher rates than bank deposits, bank deposits have grown 11.3 per cent so far this year, the governor argued.

In effect RBI has opened a long, endless tap for the government to borrow from -- just as is done in the stock market now, with the only difference is that this will be under direct the watch of RBI.

Currently, RBI allows small investors to buy gilts via the Gobid platform on BSE and NSE but this has not gained any traction. This is the second major step that RBI is taking to encourage retail investors to enter the gilt market.

Under the new plan, all an investor needs to do is to open a gilt securities account ('retail direct') with the RBI is all what it said, as details of the facility will be issued separately.

It can be noted RBI has been encouraging retail participation in G-secs for long with several initiatives like introduction of non-competitive bidding in primary auctions, permitting stock exchanges to act as aggregators/facilitators for retail investors and allowing odd-lot segment in the NDS-OM (negotiated dealing system-order matching) secondary market, among others, in the past.

He governor described it as a major structural reform as the world over only very few countries have done it.

“As far as I know, very few countries like the US and Brazil allow this. In Asia, we are the first country to do it,” the governor said, adding that it has been RBI's endeavour to make the G-secs market accessible to retail investors.

“We have this aggregator model through stock exchanges and other kinds of access. Now, we are giving a direct access to investors,” he said.

Deputy governor BP Kanungo, said this is a very significant development as for so many years we have been trying to broad-base the G-secs market.

“With the ever growing size of government borrowing, it is absolutely necessary that the investor base is broadened and this is an important step towards that,” he said.

So far, retail investors were in a position to access the NDS-OM through an aggregation model under which the stock exchanges were allowed to aggregate the demand and place it with RBI in the NDS-OM segment, he explained.

“We thought it is time we moved beyond this and you and I can place a direct bid in the NDS-OM home system to buy or sell G-secs,” he said.

Markets and analysts welcomed the move saying this will bring in depth and saliency in the market.

Unmesh Kulkarni, of Julius Baer India said if implemented well it will be a step in the right direction to broaden the market as this segment is currently dominated by banks and institutional investors.

Retail and high networth investors currently access government securities mainly through mutual funds, making it a not very retail friendly, in terms of accessibility and liquidity.

However, to succeed in the long-term, it is necessary to ensure that the trading and settlement process is kept simple like equities trading, and also to ensure sufficient liquidity available to retail investors, so as to draw sufficient investor interest.

Kumaresh Ramakrishnan of PGIM India AMC said the move will help in improving and creating sticky demand over time.

“RBI clearly recognising yield is a 'public good'and should benefit everyone, is a positive which is likely to an actively managed curve especially given the expansion in government borrowing programme,” he said.

Rajee R of **Brickwork Ratings** said allowing retail investors to access the G-Sec market is an interesting and welcome move which may ease the government's fundraising programme and help in deepening the bond markets.

“The effectiveness of this will depend on the attractiveness of the bonds to retail investors. In any case, we do not expect this to make any significant impact on bond yields in the near term,” she said.

Poonam Tandon of IndiaFirst Life said the move signals a structural change and will build up slowly. PTI BEN AA ANS