# GOVERNMENT OF INDIA
# FINANCE
# LOK SABHA

UNSTARRED QUESTION NO:5766
ANSWERED ON:30.04.2010
PRICES OF BONDS
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**Will the Minister of FINANCE be pleased to state:**

(a) the details of factors effecting the rise or fall of prices of the Government bonds;

(b) whether prices of such bonds are falling over the last one year;

(c) if so, the details thereof, reasons therefor alongwith reaction of the Government thereto;

(d) the proportion of such bonds held by 14 nationalized banks, bank-wise; and

(e) the steps taken or proposed to be taken in this regard?

## Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI NAMO NARAIN MEENA)

(a): The market yield and the price of the Government bonds are inversely related. When yields rise, market prices of existing Government bonds fall and vice versa. The market yield in turn is affected by a number of factors. Some of the important factors having influence on the market yield are:
(i) inflationary expectations of the market participants;
(ii) liquidity conditions in the market,
(iii) monetary policy action,
(iv) prevailing demand and supply of Government securities, etc.

(b) and (c): Over the last year, the market yields have broadly followed an upward trend (i.e, the prices of existing Government bonds have come down) as per table given below. However, on a day to day basis the movement of market yields has been in both the directions. The important factors that led to hardening in yields in fiscal 2009-10 were:
(i) increased levels of market borrowings by the Government and
(ii) higher inflationary expectations of the market participants.

Month-end Yield of 10-year Government security

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Date   10-year benchmark yield


31-March-09  7.01


30-April-09  6.23


31-May-09  6.70


30-June-09  7.01


3I-July-09  7.15


3I-August-09  7.44
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30-September-09  7.17

30-October-09  7.31

30-November-09  7.52

31 -December-09  7.59

31-January-10  7.59

28-February-10  7.88

31-March-10  7.87

(d): As at end-December 2009, the holdings of Government of Inflia dated securities by the nationalized banks accounted for 23.36 per cent. The bank-wise holding of Government of India securities as a proportion to the outstanding stock at the end of December 2009 is given below:

| Name of the Bank | Government of India (dated) Securities |
|---|---|
| Allahabad Bank | 0.78% |
| Andhra Bank | 0.65% |
| Bank of Baroda | 1.48% |
| Bank of India | 1.82% |
| Bank of Maharashtra | 0.72% |
| Canara Bank | 2.19% |
| Central Bank of India | 1.69% |
| Corporation Bank | 1.02% |
| Dena Bank | 0.42% |
| IDBI Bank Limited | 2.12% |
| Indian Bank | 0.91% |
| Indian Overseas Bank | 1.23% |

Oriental Bank of Commerce 1.05%

Punjab & Sind Bank 0.54%

Punjab National Bank 2.41%

Syndicate Bank 0.98%

UCO Bank 0.99%

Union Bank of India 0.92%

United Bank of India 0.73%

Vijaya Bank 0.69%

Nationalized Banks(Total) 23.36%

(e): The measures taken by the Government in fiscal 2009-10 are as under:

# The borrowing programme for 2009.-10 was front-loaded as credit off- take by the private sector is usually low in the first half.

# Market Stabilization Scheme (MSS) securities of the order of Rs.33.000 crore were de- sequestered

For the year 2010-11, the net borrowing of the Government is Rs.3,45,010 crore, which is lower than the net borrowing of Rs.3,98,411 crore in 2009-10 by about 13%. The Government is committed to the goal of fiscal consolidation and has committed to lower the Fiscal deficit (which is primarily financed through Market Borrowings) to 5.5% of GDP in 2010-11 from the level of 6.7% in RE 2009-10. In the FRBM document presented to the Parliament along with the Budget, Fiscal Deficit is projected to further go down to 4.8% and 4.1% in 2011-12 and 2012-13 respectively.