Treasury and Cash Management bill

What is a Treasury bill?

- Treasury Bills (T-bills) are the instruments of short term borrowing by the central government.
- They are promissory notes issued at discount and for a fixed period. The interest received on them is the discount which is the difference between the price at which they are issued and their redemption value (zero coupon securities).
- They were first issued in India in 1917.
- T-bill can be issued for tenor of 91,182-days or 364-days. Also T-bill can be issued for 14 days.
- 14-day intermediate T-bills are non marketable and issued only to state governments, foreign central banks and other specified bodies.
- The 14-day bills are a means of financing the needs of the government under ways and means advances (WMA). They tend to peak at the fiscal year end.
- T-bills are available for a minimum amount of ₹ 25,000 and in multiples of ₹ 25,000.

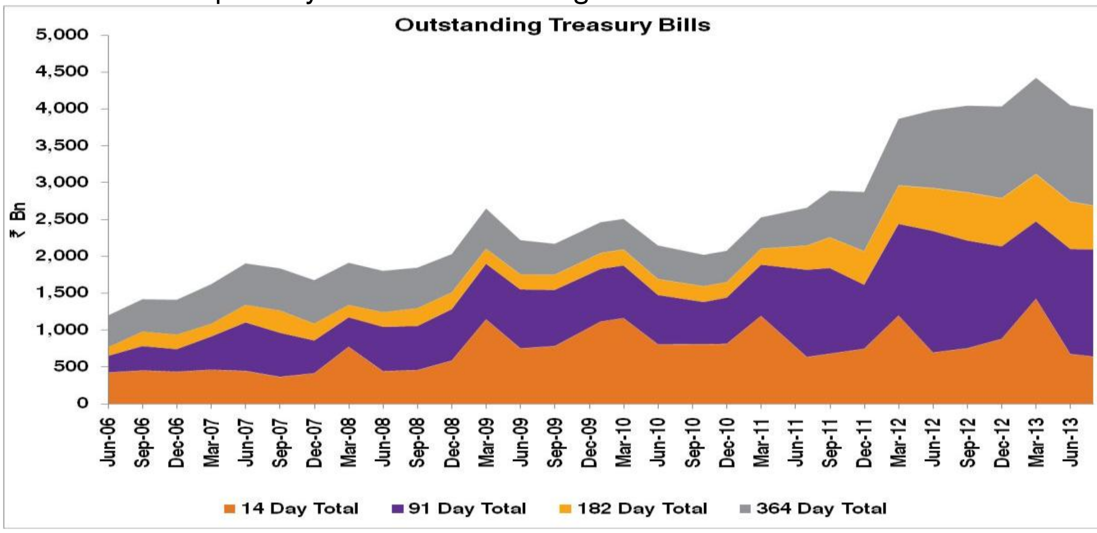
Objective for issuing T-Bill

- Government issues to raise funds for meeting short term expenditure needs.
- To provide outlet for parking temporary surplus funds by investors.
- T-bills are used also as a mechanism to mop up liquidity in the market.

T-bill Auction

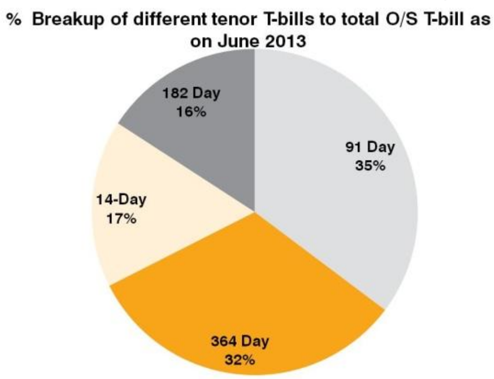
- RBI conducts T-bills auction every Wednesday
- While 91-day T-bills are auctioned every week on Wednesdays, 182-day and 364-day T-bills are auctioned every alternate week on Wednesdays.
- 182-day T bills are auctioned on the Wednesday of a non reporting week.
- RBI issues a quarterly calendar of T-bills auction.
- The calendar for the quarter Jul- Sep 2013 has auctions of ₹ 7000crs of 91-day T-bills and ₹ 5000crs of 182-day or 364-day T-bills every alternate week.

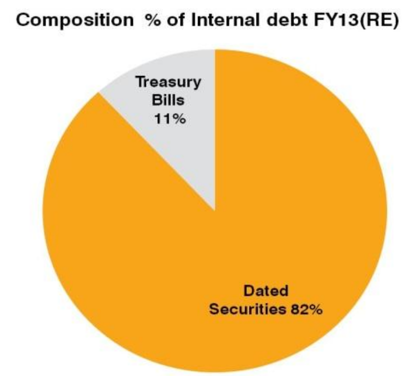
- Chart below shows the quarterly trend in outstanding T-bills.



Source: RBI

- From the chart above, we see that the government short term borrowing through T-bill has grown almost 3 times in the last seven years.
- T-bills account for around 11% of the internal debt and 10% of the government's total debt.
- As on June 2013, total outstanding T-bills stood at ₹ 4052bn.
- Charts below shows the outstanding composition breakup of different tenor T-bills as on June 2013 and composition % of T-bill and dated government securities to internal debt FY13 (RE).





Cash Management Bill (CMB)

- CMBs in India are non-standard, discounted instruments issued by government to meet temporary mismatches in the cash flow of the government.
- First set of CMBs were issued in May 2010.
- CMBs have the generic character of Treasury Bills but are issued for maturities less than 91 days.
- CMB is the most flexible instrument for a central bank because it can be issued when needed, allowing the central bank to have lower cash balances and issue fewer long-term notes. CMBs tend to pay higher yields than bills with fixed maturities.
- As in the present case they may be used to drain liquidity from the banking system.
- The announcement of the auction of the CMB is be made by the RBI through press release issued one day prior to the date of auction.
- Investment in CMB is reckoned as an eligible investment in Government Securities by banks for SLR purpose.