Indian Economy · GS - III

Explain the significance of rising Treasury Bill yields for government borrowing costs, banking liquidity and monetary policy transmission in India.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 29/10/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

Treasury Bills; cutoff yield; short-term borrowing costs; liquidity conditions; monetary policy transmission; government debt management

Model Answer

Introduction

Treasury Bills are short-term, zero-coupon government securities issued to meet the government's temporary financing requirements. Their yields reflect market conditions and expectations regarding short-term interest rates.

Significance of Rising T-bill Yields

1. Government Borrowing Costs

Higher cutoff yields indicate that the government may need to offer greater returns to attract investors, potentially increasing its short-term borrowing costs.

2. Banking Liquidity

Tighter liquidity can raise competition for funds among banks and other financial institutions. This may increase short-term market interest rates and affect banks' funding costs.

3. Monetary Policy Transmission

Changes in short-term yields can influence money-market rates, deposit pricing and lending conditions. However, higher T-bill yields alone do not establish that the RBI has tightened its policy stance.

4. Fiscal and Investment Implications

Higher borrowing costs can increase debt-servicing expenditure and affect fiscal flexibility. They may also influence investors' allocation between government securities and other assets.

Way Forward

The RBI should monitor liquidity conditions and money-market developments, while the government should maintain prudent debt management and predictable borrowing plans.

Conclusion

Rising T-bill yields provide an important signal of short-term financial conditions. Their implications should be assessed alongside inflation, policy rates, liquidity indicators and broader economic trends.

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