Indian Economy · GS - III

Explain the role of floating rate government savings bonds in mobilising household savings and providing financial stability to investors.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 30/10/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

Government borrowing; household savings; inflation and interest-rate changes; investor protection; financial inclusion; monetary policy transmission

Model Answer

Introduction

Floating Rate Savings Bonds (FRSBs) are government-backed investment instruments that offer periodic interest-rate revisions. They provide an alternative avenue for household savings while supporting government borrowing requirements.

Role in the Economy

1. Mobilisation of Household Savings

FRSBs channel household savings into government securities, supporting public expenditure and reducing excessive dependence on other borrowing sources.

2. Protection Against Interest-Rate Changes

Unlike fixed-rate instruments, floating-rate bonds periodically revise their interest rates. This allows investors to benefit when benchmark-linked rates increase.

3. Financial Security

Being government-backed instruments, they carry sovereign credit support, reducing credit-default risk for investors.

4. Diversification of Investment

They provide an alternative to bank deposits and market-linked investments, helping households diversify their portfolios.

Challenges

Interest income may fluctuate, and investors may face liquidity constraints depending on withdrawal conditions. Taxation also affects effective returns.

Way Forward

Greater investor awareness, transparent interest-rate announcements and accessible investment channels can strengthen participation.

Conclusion

Floating Rate Savings Bonds can strengthen domestic savings mobilisation while offering investors periodically adjusted returns. Their effectiveness depends on transparency, accessibility and investor awareness.

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