

CORPORATE OFFICE

Delhi Office

706 Ground Floor Dr. Mukherjee
Nagar Near Batra Cinema Delhi -
110009

Noida Office

Basement C-32 Noida Sector-2
Uttar Pradesh 201301



Date: 26 March 2024

GOVERNMENT BONDS

THIS ARTICLE COVERS 'DAILY CURRENT AFFAIRS' AND THE TOPIC DETAILS OF "GOVERNMENT BONDS". THIS TOPIC IS RELEVANT IN THE "ECONOMY" SECTION OF THE UPSC CSE EXAM.

WHY IN THE NEWS?

State governments recently raised a record Rs 50,206 crore through State Development Loan (SDL) Bond auctions, surpassing the Rs 27,810 crore target. This signals a strong demand for state government securities, which are part of Government Securities (G-Sec), issued similarly to Central Government securities.

ABOUT BONDS

- Within the financial system, bonds serve as debt security utilised by governments and corporations to procure capital.
- **Functioning similarly to an IOU** (an informal acknowledgement of debt), a bond represents a loan agreement between the issuer (borrower) and the investor (the creditor).
- By purchasing a bond, the investor extends credit to the issuer in exchange for a predetermined future repayment with interest.

GOVERNMENT BONDS

Government bonds, often called G-Secs in India, Treasuries in the US, or Gilts in the UK, are considered some of the safest investments. This is because they are **backed by the issuing government's guarantee**, reducing the risk of default. Here's a breakdown of **some common G-Secs**:

Treasury Bills (T-Bills): These are **short-term loans** issued **at a discount** and redeemed at face value upon maturity. They don't offer regular interest payments, but you earn a return based on the difference between the purchase price and the redemption value.

Cash Management Bills (CMBs): Introduced in India, CMBs are **ultra-short-term instruments** used by the government to manage temporary cash flow imbalances. Their maturities are even shorter than T-bills, **typically under 91 days**.

Dated G-Secs: These are **longer-term bonds offering fixed or floating interest rates** (coupon rates) paid twice a year. They provide investors with predictable income streams over periods ranging from 5 to 40 years.

State Development Loans (SDLs): Beyond G-Secs, **some states in India may issue State Development Loans (SDLs)**. These function similarly to dated G-Secs but are backed by the creditworthiness of the issuing state instead of the national government.

BOND YIELD

A bond's yield represents the effective annual return an investor can expect to earn on their investment. Unlike some financial instruments, bond yields are not predetermined but rather possess a dynamic nature. This means they can fluctuate based on the prevailing market price of the bond itself.

To delve deeper into bond yields, it's essential to comprehend the fundamental structure of a bond. Each bond is characterised by three key components:

- **Face Value:** This pre-defined sum represents the amount of money that will be repaid to the investor upon the bond's maturity.
- **Coupon Payment:** This signifies the fixed amount of interest distributed to the bondholder at periodic intervals, typically occurring twice a year.
- **Market Price:** In contrast to the face value, the market price of a bond is not fixed. It can deviate based on various factors influencing supply and demand within the secondary market where bonds are traded.

It's important to note that bonds also have a **coupon rate**. This fixed annual interest rate is expressed as a percentage of the bond's face value and serves as the basis for calculating the coupon payment.

THE YIELD CURVE: A GRAPHICAL INSIGHT INTO INVESTOR EXPECTATIONS

- The yield curve is a critical tool in **fixed-income analysis**, presenting a visual representation of interest rates for bonds with varying maturities. In essence, it depicts the returns that investors anticipate for lending their money over different time frames.
- This curve **serves as a valuable economic indicator**, particularly when its shape transforms. A noteworthy shift to an inverted yield curve, where **short-term rates exceed long-term rates**, can signal a potential economic slowdown.
- This inversion suggests that investors may be prioritising the security of shorter-term investments, potentially anticipating future interest rate cuts by the central bank or a weakening economy that could lead to reduced long-term returns.

FACTORS INFLUENCING THE YIELD CURVE

Market Demand and Bond Prices: Consider a scenario where there's only one bond available, but multiple buyers are interested. This competition among buyers can drive up the bond's price during bidding.

Alignment with Economy's Interest Rate: When the prevailing interest rate in the economy differs from the bond's initial coupon payment, market dynamics adjust the bond's yield to align with the current interest rate.

Analogy: When the economy's interest rate exceeds the bond's yield, it's akin to placing a heavier weight on the side, representing the economy's interest rate in a seesaw analogy. This imbalance causes the seesaw to tilt towards the economy's interest rate side, indicating that the bond's yield is comparatively lower.

PRELIMS PRACTISE QUESTIONS

Q.1 In the context of the Indian economy, non-financial debt includes which of the following?

1. Housing loans owed by households
2. Amounts outstanding on credit cards
3. Treasury bills

How many of the statements above are correct?

- (a) Only one
- (b) Only two
- (c) All three
- (d) None

Answer: C

Q.2 Consider the following statements:

1. The Reserve Bank of India manages and services Government of India Securities but not any State Government Securities.
2. Treasury bills are issued by the Government of India and there are no treasury bills issued by the State Governments.
3. Treasury bills offer are issued at a discount from the par value.

Which of the statements given above is/are correct?

- (a) 1 and 2 only
- (b) 3 only
- (c) 2 and 3 only
- (d) 1, 2 and 3

Answer: C

MAINS PRACTISE QUESTION

Q1. Do you think a focus on high bond yields can be detrimental to long-term infrastructure projects in a country? Why or why not?

Himanshu Mishra

POWERS OF THE GOVERNOR : CHALLENGES AND VARIOUS REFORM PROPOSALS RELATED TO THE POWERS GIVEN BY THE CONSTITUTION

SOURCE - THE HINDU AND PIB.

GENERAL STUDIES - POLITICS AND GOVERNANCE OF INDIA, SUPREME COURT, MONEY BILL, PRESIDENT, GOVERNOR, ARTICLE 200, ARTICLE 201, ARTICLE 361, POONCHI COMMISSION, VENKATACHALIAH COMMISSION, ARTICLE 31 A, DIRECTIVE PRINCIPLES OF STATE POLICY, DECISIONS TAKEN BY VARIOUS COMMITTEES POWERS OF THE GOVERNOR RELATING TO RECOMMENDATIONS.

WHY IN THE NEWS ?



- Recently, Tamil Nadu Governor R.N. By Ravi K. The refusal to allow Ponmudi to be re-inducted into the Tamil Nadu Cabinet is a completely inappropriate and unconstitutional example of the Governor's power.
- Following the decision of the Supreme Court of India, Tamil Nadu Governor R.N. Ravi administered the oath of office and secrecy to Ponmudi.
- Ponmudi's conviction in an alleged corruption case was recently stayed by the Supreme Court of India, resulting in his reinstatement of eligibility to be a member of the Legislative Assembly.
- Tamil Nadu Governor R.N. Ravi's stance that reinducting Ponmudi into the Cabinet on the basis of a stay on conviction would be against 'constitutional morality' was not legally sustainable.
- Tamil Nadu Governor R.N. Ravi, the stay imposed by a two-judge bench of the Supreme Court on the verdict of conviction given by the Madras High Court was only a kind of interim relief and meant that the conviction 'remained intact, but unexecuted' and that It was not equivalent to being turned over.
- In India, the legal consequences of a criminal conviction in a corruption case (loss of eligibility to be an MLA and, therefore, to be a minister) are suspended as soon as the conviction is stayed.

- As soon as the conviction is stayed, Parliament and State Legislatures reinstate the convicted person's membership, even if their seats have been declared vacant.
- Tamil Nadu Governor R.N. Ravi's tampering with the validity of the principles of 'ethics' and good governance is being interpreted as an abuse of the Governor's powers conferred by the Constitution.
- The recent action by the Governor of Tamil Nadu is also being seen as an example of accepting the limits of the powers given to the Rajpal and the failure of the Central Government to act on the increasing cases of pulling up of Governors by the Supreme Court. .
- Recently the Supreme Court of India noted that Ravi disposed of the bills pending with him only after it raised questions over his long inactivity.
- The recent high-handedness of the Governor of Tamil Nadu has brought to the fore the debate that "If the Governor does not follow the Constitution, what should the State do except approach a constitutional court?"
- Given the multiplicity of litigations related to the conduct of Governors in India every day, the Center should have provided remedial measures but this recent incident has once again sparked a debate on the conduct of Governors in India. The style of working of the Governor is not governed by the constitutional provisions of India, but at present the style of working of the Governor is inspired by the vested interests of any political party and given to him by the President of India on the advice of his employers i.e. the Central Government. Is running as per.
- The issue related to the Governor of Tamil Nadu has once again highlighted the issue of maintaining the colonial institution called the Governor. The Supreme Court reminded him that he was not an elected authority and he should not have kept the decision of the elected government in abeyance.
- Recently, a special session was called by the Speaker of the Tamil Nadu Assembly and in addition, the State Government's decisions regarding sanctioning prosecution of AIADMK ministers, appointments to the Tamil Nadu Public Service Commission and premature release of prisoners were approved by the Governor. It was retained by the Government for no apparent reason.

MAJOR CHALLENGES RELATED TO THE POST OF GOVERNOR IN INDIA :



APPOINTMENT OF GOVERNORS :

- The Governor is appointed by the President on the advice of the Central Government in India.
- Since the Governor is appointed by the President on the advice of the Central Government, questions always arise on the political neutrality and impartiality of the Governor in India.
- In India, many times an example is seen where a member of the ruling party at the Center was appointed as the Governor or he was removed or transferred due to political reasons. Which shows the dignity of the post of Governor in India and his importance. This itself is seen as a weakness of stability in the state.

POWERS AND ROLE OF THE GOVERNOR IN INDIA :



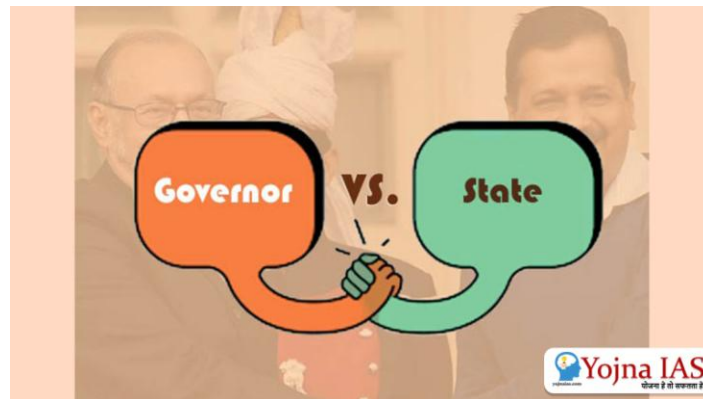
- The Constitution of India has provided various types of powers and various roles to the Governor.
- In India, the Governor has the powers to give assent to the bills passed by the state legislature, appoint the Chief Minister and other ministers, send reports to the President on various subjects of the state and discharge special responsibilities in some states.

- The roles and powers given to the Governor by the Constitution are often at the discretion of the Governor, which sometimes leads to conflict between the elected state government and the Governor in many states in India.

ACCOUNTABILITY AND IMMUNITY OF GOVERNORS :

- The Governor is considered equivalent to the President in the respective state government in India.
- In the context of the Governor, it has often been seen that he is seen acting as an agent of the Central Government.
- Governors in India are often appointed to check the power of the respective elected state governments.
- In India, the Governor can be removed from his post by the President with the consent of the Central Government.
- In reality, Governors in India are confident that as long as they continue to work in accordance with the Central Government, they will remain in office.
- According to Article 361 of the Constitution of India, the Governor of India is not answerable to the courts for his actions while in office as the head of the state.

POWERS OF THE GOVERNOR GIVEN BY THE INDIAN CONSTITUTION :



The Constitution of India mentions the powers of the Governor which are defined by Article 200 and Article 201 of the Constitution with respect to passing of bills.

According to Article 200 and Article 201 of the Constitution, when a Bill is presented to the Governor by the State Legislature, **They have the following options:-**

- He can give assent to the bill, which means the bill becomes an act or law.
- He cannot give his assent to the bill or can stop the bill, which means that the said bill has been repealed.
- He may send back to the State Legislature any Bill other than a Money Bill or some provision of that Bill with a message requesting reconsideration of it.
- If the said bill is passed again by the state legislature with or without amendments, then the Governor has to give his assent to that bill.
- The Governor may reserve a Bill for the consideration of the President, who may either assent to the Bill or withhold his assent, or may direct the Governor to send the Bill back to the State Legislature for reconsideration. .

- If any bill of any state in India can jeopardize the position of the High Court of that state, then it is mandatory for the Governor to stop that bill.
- It is within the discretion of the Governor to decide whether any Bill is against the provisions of the Constitution of India, the Directive Principles of State Policy or the larger interest of the country or is of serious national importance, or relates to compulsory acquisition of property under Article 31A of the Constitution. It happens.

ARGUMENTS TO BE PRESENTED IN FAVOR AND AGAINST ABOLISHING THE POST OF GOVERNOR IN INDIA :

- In India, when Governors behave inappropriately and unconstitutionally, it is often said that the post of Governor should be completely abolished in India. However this argument is both imprudent and unnecessary.
- The reasoning behind this being called imprudent is that because Westminster parliamentary democracy requires the presence of both the head of state and the head of government and abolishing the post of Governor would be tantamount to abolishing that entire parliamentary system. .
- The logic behind calling it unnecessary is that viable alternatives like judicial intervention or constitutional reform already exist. Therefore, it is unnecessary to abolish the post of Governor in India.

VIEWS OF THE MEMBERS OF THE CONSTITUENT ASSEMBLY REGARDING THE POST OF GOVERNOR IN INDIA :



- Some members of the Constituent Assembly in India, such as Dakshinayani Velayudhan, Vishwanath Das and H.V. Kamath was a strong critic of the provisions related to governors. His argument was that since the draft Constitution Government of India Act 1935 Where the center has been given too much power and the autonomy of the states has been reduced. Therefore, they also feared that the Governor would act as an agent of the Center and interfere in the work of the State Governments.

- Chief architect of the Constitution Dr.B.R. Ambedkar Had defended the existing provisions related to Governors. His argument was that there was little time to make changes to the Government of India Act 1935 and that governors were to act only in collaboration with state governments, not to rule or dominate them. The apprehension that the Governor would act according to the Centre, the possibility of which was highlighted by many members of the Constituent Assembly, was rejected by Dr. Ambedkar. He also did not say anything about why no reforms were made in the provisions related to the Governor, whereas many provisions of the Government of India Act 1935 were incorporated in the Constitution with necessary reforms.

IMPORTANT REFORMS RELATED TO THE GOVERNOR AT PRESENT :



JUDICIAL INTERVENTION :

- The Supreme Court can continue to monitor the conduct of governors and issue directions or observations to ensure that they act in accordance with the Constitution and law. This can help in preventing arbitrary or partisan actions of Governors and maintaining the federal principle or federal form of Indian polity.

TO IMPROVE THE CURRENT APPOINTMENT AND REMOVAL PROCESS :

- The existing Constitution of India can also be amended to change the process of appointment and removal of Governors in India, as suggested by the authors of 'Heads Held High'. This could include a more transparent and consultative mechanism, such as a collegium or parliamentary committee, which could select candidates on the basis of merit and suitability. The removal of governors could also be facilitated by requiring a resolution of the state legislature or a judicial inquiry. Can be made difficult.

MAKING THE GOVERNOR ACCOUNTABLE TO THE STATE BY GIVING HIM THE SAME STATUS AS THE PRESIDENT :

- The Governor can be made accountable to the State Legislature in the same way as the President is accountable to the Union Parliament. Arrangements like appointment by election and removal by impeachment can also be made for the Governor in India.

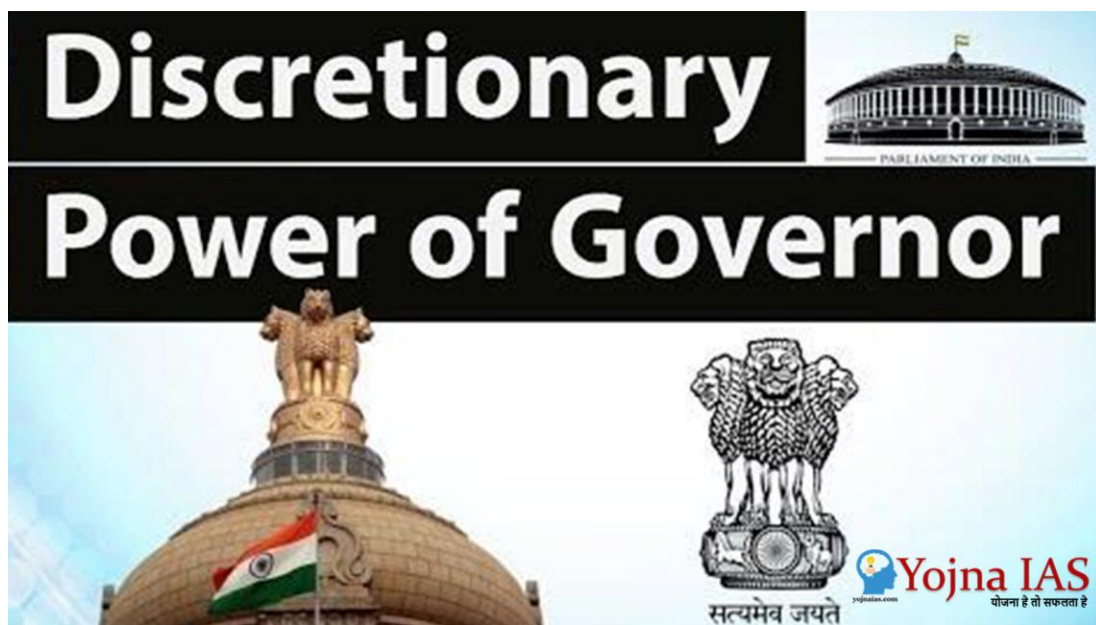
MAKING THE GOVERNOR AN ELECTED REPRESENTATIVE :

- The Governor may be an elected representative of the state rather than a person nominated by the Central Government. This can increase the accountability and legitimacy of this post and reduce the scope for interference or influence by the Centre. The Governor may be elected by the state legislature or by the people of the state, as in the case of the election of the President in India.

TO IMPEACH AND REMOVE FROM OFFICE :

- The Governor can be removed from his office by impeachment by the State Legislature on the grounds of violation of the Constitution or misconduct. By which it can provide checks and balances on the power and authority of the Governor and prevent any misuse of the office of the Governor. The process of impeaching the Governor can be modeled on the same lines as the process of impeaching the President, where a majority of the total membership and a two-thirds majority of the members present and voting in both Houses of the State Legislature are required in India.

CONSTITUTIONAL REFORMS RELATED TO THE GOVERNOR SUGGESTED BY THE SUPREME COURT AND VARIOUS COMMITTEES IN INDIA :



Some constitutional reforms related to the post of Governor have been suggested from time to time by the Supreme Court and various committees in India. Which are as follows –

RECOMMENDATIONS OF SARKARIA COMMISSION (1988) :

- The Governor should be appointed by the President after consultation with the Chief Minister of the concerned state.
- The Governor must be a person of eminence in some field of public life and must not belong to the State to which he is appointed.
- Except in rare and compelling circumstances, the Governor should not be removed before the completion of his term.
- The Governor should act as a bridge between the Center and the State and not as an agent of the Centre.
- The Governor should exercise his discretionary powers in a restrained and judicious manner and should not use them to weaken the democratic process but should use them to strengthen the democratic process of India.

SUGGESTIONS OF VENKATACHALIAH COMMISSION (2002) :

- The process of appointment of governors should be entrusted to a committee, consisting of the Prime Minister, Home Minister, Speaker of the Lok Sabha and the Chief Minister of the concerned state in India.
- The Governor in India should be allowed to serve a full term of five years unless he resigns or is removed by the President on the grounds of misbehavior or incompetence.
- The Central Government must consult the Chief Minister of the concerned state before taking any action related to the removal of the Governor in India.
- The Governor should also not interfere in the daily administration of the state. He should act as a friend, philosopher and guide of the state government and use his discretionary powers sparingly.

SUGGESTION OF PUNCHHI COMMISSION (2010) :

- Punchhi Commission related to Governors in India recommended removing the phrase 'during the pleasure of the President' from the Constitution, according to which the Governor can be removed at the pleasure of the Central Government.
- The Punchhi Commission also suggested that the Governor should be removed from his post only by a resolution of the state legislature, which would ensure greater stability and autonomy for any state in India.

B.P. JUDGMENT OF THE SUPREME COURT OF INDIA IN SINGHAL V. UNION OF INDIA (2010):

- B.P. Supreme Court of India in Singhal v. Union of India (2010) The decision regarding the post of Governor said that the President can remove the Governor at any time and without assigning any reason. This process can happen in India because the Governor holds his office 'during the pleasure of the President' under Article 156(1) of the Constitution of India. However, the Supreme Court also said that the removal of any person from the post of Governor should not be done in an arbitrary manner or on the basis of any improper reasons, but constitutional methods should be adopted for removing the Governor from the post in India.

CONCLUSION / PATH TO SOLUTION :



- The ongoing debate over the role of governors in India highlights the need for very subtle reforms, while complete abolition of the post is considered unwise. Therefore, transparent appointment of Governors in India, increase in their ex-officio accountability and limited discretionary powers will have to be used with restraint.
- It is extremely important to strike a balance between the interests of the State and the Center in India to ensure effective functioning of the office of the Governor without undermining the democratic principles or constitutional values, as the Governor in any State is merely a rubber stamp. Or Rajpal is not just an agent of the Central Government, rather the Rajpal often uses his wisdom and discretionary powers in collaboration with the State Government and the Chief Minister of the concerned State to ensure better administration in that State and to ensure a better, Develop sensible administrative system and also work towards making the state a developed state.
- Therefore, any position is relative to time. If with the changing times there is any attempt to transform the powers related to that post into a state with a better democratic system, then it is an indicator of India's democracy as well as its governance system imbued with constitutional values. Due to which the backbone of a stable, democratic, egalitarian state system in the state will be strengthened and the post of Governor in India will also be able to maintain its dignity, its constitutional values and its prestige. By coordinating with the Chief Minister and Cabinet of the concerned state, the Governor will be able to provide a transparent and just governance system to that state. Because whenever a government is irrational and inclined towards dictatorship, the whip of justice sitting on the post of Governor plays an important role in making that elected government full of judicial character and rational.

PRACTICE QUESTIONS FOR PRELIMINARY EXAM :

Q.1. Consider the following statements regarding the Governor in India.

1. According to the Punchhi Commission, the Governor should be appointed by the President after consultation with the Chief Minister of the concerned state.
2. According to the Sarkaria Commission, the process of appointment of governors in India should be entrusted to a committee, which should include the Prime Minister, Home Minister, Speaker of the Lok Sabha and the Chief Minister of the concerned state.
3. The Governor is appointed by the President on the advice of the Central Government in India.

4. The Governor can send back to the State Legislature a Money Bill as well as any Bill or any Bill with a message requesting reconsideration of certain provisions of that Bill in India.

Which of the above statements is/are correct ?

- (A) Only 1 and 3
- (B) Only 2 and 4
- (C) Only 2
- (D) Only 3

Answer - (D)

PRACTICE QUESTIONS FOR MAIN EXAM :

Q.1. Outlining the process of appointment of Governor in India, discuss in detail the challenges related to the post of Governor in the light of the suggestions of various commissions related to the Governor and also present solutions to those challenges.

Akhilesh kumar shrivastav

