Indian Economy · GS - III

Examine the role of Primary Dealers in deepening India's Government Securities market and strengthening public debt management.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 24/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
15	~250 words

Answer Hint

Primary Dealers, sovereign borrowing, market liquidity, price discovery, retail participation, secondary market, risk management

Model Answer

Introduction

Government Securities (G-Secs) are essential instruments for financing public expenditure and developing the domestic bond market. Primary Dealers (PDs), recognised by the RBI, play an important role in supporting government borrowing and market liquidity.

Role of Primary Dealers

1. **Auction participation:** PDs support primary issuance by participating in government securities auctions and facilitating the distribution of securities.
2. **Market liquidity:** They provide buy and sell quotations in the secondary market, improving trading activity and reducing transaction costs.
3. **Price discovery:** Their market-making activities help establish transparent yields reflecting demand, supply and interest-rate expectations.
4. **Investor diversification:** PDs can facilitate greater participation by banks, insurance companies, mutual funds and retail investors.

5. **Product innovation:** They can support the development of new instruments and trading strategies, expanding investment opportunities.

Challenges

1. Interest-rate volatility exposes dealers to valuation and inventory risks.
2. Limited retail participation restricts the breadth of the investor base.
3. Concentration of holdings and inadequate secondary-market depth can affect liquidity.
4. Growing government borrowing increases the importance of efficient risk management.

Way Forward

1. Strengthen risk-management systems and market-making obligations.
2. Improve retail access through digital platforms such as RBI Retail Direct.
3. Encourage transparent trading, broader investor participation and efficient settlement infrastructure.

Conclusion

A deeper G-Sec market can improve public debt management, strengthen monetary transmission and reduce financing vulnerabilities. Empowering Primary Dealers as active market-makers is central to this objective.

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