

Exploring Exclusivity for Primary Dealers in the Issuance of Government of India Securities

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Abstract

The Primary Dealer (PD) system in India plays a critical role in supporting the Government's borrowing programme and maintaining orderly conditions in the Government Securities (G-sec) market. Although PDs underwrite a substantial share of primary issuances—about 64% of dated securities and 70% of Treasury Bills—they have limited influence on secondary market liquidity, which is heavily concentrated in the 10-year benchmark security. This paper investigates the feasibility of introducing exclusivity for PDs in the Indian G-sec market, drawing on a cross-country comparison of PD frameworks in economies such as France, Canada, Germany, the United Kingdom, Hong Kong, Malaysia, and Singapore. In many of these jurisdictions, PDs enjoy exclusive access to primary issuances, enabling them to build inventories, enhance market-making capacity, and improve secondary market liquidity. Using performance data from FY 2013–14 to FY 2023–24, the study identifies shorter-tenor securities (up to 5 years) as the most appropriate segment for targeted exclusivity in India. The analysis finds that such a measure could reduce yield volatility in the primary market, narrow bid-ask spreads, and potentially lower borrowing costs. However, possible challenges—including risks of collusion, front-running, and PDs' capacity constraints—are also discussed, with mitigants drawn from the diversity and regulatory oversight in India's PD ecosystem. The paper concludes by recommending a phased introduction of tenor-specific exclusivity, coupled with robust monitoring to preserve competitive pricing and market integrity.

Keywords: Cross-Country Analysis, Market-Making, Open Auction, Primary Market Issuance, Secondary Market Liquidity