24TH FIMMDA PDAI ANNUAL CONFERENCE – BALI

PDAI Chairman Speech

It is a pleasure to welcome you all to this important gathering of fixed income and money market participants. It is indeed an honour to have the Governor and other dignitaries from the Reserve Bank of India. We are especially grateful to them for their continued guidance and constructive engagement. Their forward-looking regulatory approach has played a key role in fostering more transparent, liquid, and resilient financial markets.

Today's event offers an opportunity to reflect on recent developments in the G-sec market and to look at the role Primary Dealers (PDs) have played in enabling efficient debt management and market functioning. Since their inception in 1995, PDs have supported the government borrowing programme, provided market liquidity, and contributed to the monetary policy transmission process.

As of today, there are 21 Primary dealers, 14 bank PDs and 7 standalone PDs. In the primary market, PDs continue to have a substantial share of government bond issuances. Their auction share has increased from 46% in FY14 to 67% in H1FY25, even as underwriting commissions have declined sharply. For instance average underwriting commissions was ₹8.15 p in FY14 but has declined to ₹0.11 p in FY25. This development reflects broader market participation and a more competitive bidding environment. It is also reflective of the trend towards financialisation of savings which has led to an increased participation from long term institutions such as insurance companies, pension and provident funds towards long end G-secs. In this context, the continued effectiveness of PDs in facilitating timely and orderly auction demand remains important.

In the secondary market, the market share of Standalone Primary Dealers (SPDs) — which had declined from 37% in FY15 to 25% in FY21 — has recovered to 36% in H1FY25. This trend reflects improvements in market-making and liquidity provision. The strength of the secondary market is also evident in transaction efficiency, with bid–ask spreads on Indian G-Secs averaging just 0.3 basis points in 2024 — among the lowest in the region, compared to the 5.7 bps average for Asian EM peers.

Over the past decade, SPD balance sheets have expanded from INR 330 billion in FY15 to INR 1.6 trillion by H1FY25, reflecting the broader deepening of India's fixed income market. There has been a substantial growth in the capital of SPDs, both organically and inorganically.

A welcome regulatory development was the Reserve Bank's decision to allow SPDs to participate in the foreign exchange market in FY23. Three entities have since commenced operations. The forex business will provide SPDs diversification of revenue and make their business models less dependent on the vagaries of interest rate moves. It will also help in hedging the fixed income portfolios when the turbulence in the market emanates from the global side.

There is also growing traction in the market for STRIPS — Separate Trading of Registered Interest and Principal of Securities — with around 2% of outstanding G-Secs now already STRIPed. These instruments offer no reinvestment risks and can serve long-term investment needs, especially for pension and insurance sectors. PDs have played a pivotal role in spreading the awareness about this product among various institutional segments across the tenor spectrum.

Primary Dealers have also contributed to broader policy initiatives — including the Retail Direct Scheme, which is enhancing access to government securities for retail investors. PDs have also been playing an important role in distributing sovereign bonds among retail and mid segment investors.

India's inclusion in global bond indices represents a significant shift in the market landscape. As foreign participation increases, ensuring depth, liquidity, and price discovery will become even more important. PDs are expected to play an important enabling role in this transition.

We also acknowledge the Reserve Bank's recent liquidity support measures — including an increase in the Standing Liquidity Facility limit by ₹50 billion in both FY25 and FY26 — as well as the decision to permit SPD participation in all repo operations, regardless of tenor. This will address a lot of the funding challenges which the SPDs were facing.

As we look ahead, today's conference provides an opportunity to reflect on how all market participants — including PDs — can continue to adapt and contribute to a more efficient, inclusive, and globally integrated fixed income ecosystem.

Thank you once again for your presence. I look forward to the discussions ahead.