

# Operation Twist

## [UPSC Notes]

### What is the Operation Twist?

In layman's language, we can say that Operation Twist is a fancy word given for open-market securities.

- In 1961, this term first came into being when the Federal Open Market Committee under the guidance of the Federal Bank initiated this operation to flatten the yield curve in order to promote capital inflows so that the dollar could be strengthened around the world.
- The Federal Open Market Committee sold some of the short-term securities and simultaneously purchased long-term securities.
- Operation Twist was marginally successful as it helped in reducing the spread between short-term maturities and long-term maturities.
- However, at that time, many economists considered it a failure. After proper reexamination of the operation, economists in 2011 finally concluded that Operation Twist was effective.

### Indian Context of Operation Twist

The Reserve Bank of India has conducted several similar operations like Operation Twist in recent years. It was conducted in 2019 as well as 2020.

- When this operation took place in 2020, RBI conducted simultaneous sales and purchases of securities for 10000 crores each under the Open Market Operations.
- The eligible participants can submit offers or bid in electronic format on E-Kuber i.e RBIs Core Banking Solution.

### What are the Impacts of Operation Twist?

The Central Bank buys long-term bonds or securities, and their demands rise which pushes their prices up. But, the bond yield decreases with an increase in price.

- Yield determines the interest rate in an economy.
- The interest rate will be low if the yield is low.
- This will revive the economic growth.

### Advantages of Operation Twist

The following points mentioned below analyze the benefits of Operation Twist.

- The simultaneous buying and selling of government securities can bring down the long-term interest on long-term loans. This can lead to an increase in economic spending.
- The Reserve Bank of India is keen that the banks should allow the borrowers to transmit at lower rates. This is because OMOs ( Open Market Operation ) are primarily set up to maintain liquidity in the system.
- Operation Twist is encouraging the market. This step is considered a driving factor for economic activities particularly long-term and an addition to the new investment stock.

## Some Significant Points to Understand About Operation Twist

Operation Twist is a monetary policy of the Reserve Bank Of India. It is considered an unconventional monetary policy of the Reserve Bank of India. The back-and-forth buying and selling of government securities is the main objective of Operation Twist.

- The Open Market Operation also OMO is a part of the Operation Twist. The Reserve Bank of India sells short-term government securities. While they buy long-term government securities.
- The reduction of long-term government bonds is the main objective of Operation Twist of RBI ( Reserve Bank of India ). Operation Twist can revive the economy. As it reduces the rate of interest, both the government and the public can buy at cheaper rates.