BHARAT SCHOOL OF BANKING

Market Stabilization Scheme (MSS)

MSS Background

In the year **2004**, **Foreign Institutional Investors (FIIs)** started buying **Indian stocks** in **dollars**. This resulted in an **oversupply** of **USD** in Indian market.

To counter this, **RBI** started buying **USD**, and in return, supply **equivalent** amount of **Indian Rupees (INR)** in the market. This action resulted in **over-liquidity** in Indian market (due to **rupee** supply), and at the same time massive increase in **forex reserves** (due to **dollar** purchase).

This **liquidity overhang** situation forced the **government** to mop up the **Rupees** from the market by creating **MSS Bonds**.

Market Stabilization Scheme (MSS)

Under this scheme, **RBI**, on behalf of **government**, raises money from the market by providing government securities, like **Treasury Bills, Dated Securities**, etc.

But the difference is - the **raised money** doesn't go to the **government account** (as in normal cases). Instead, the money is stored in separate **Market Stabilization Scheme Account (MSSA)**. The sole purpose of this scheme is to suck out the **over-liquidity** from the market (as in the above situation), **not** for government expenditure.

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