

Operation Twist, About, Working, Impact On India

February 23, 2026 • vajiramandravi.com



Operation Twist is a policy used by central banks to help the economy by **changing the mix of short-term and long-term government bonds**. Its main goal is to reduce long-term interest rates, making it easier for people and businesses to borrow and invest. It is called **“Twist”** because it **shifts the focus from short-term to long-term bonds**.

About Operation Twist

- Operation Twist is a **monetary policy used by the U.S. Federal Reserve (Fed)** where the central bank **sells short-term government bonds** and uses the money to buy long-term government bonds.
- The policy **helps lower long-term interest rates**, making borrowing cheaper for businesses and individuals and stimulates economic growth.
- It was **first introduced in 1961** to strengthen the U.S. dollar and support the economy and was later **revived after the 2008-09 financial crisis**.
- In June 2012, Operation Twist helped the 10-year U.S. Treasury yield dropped to a 200-year low, showing its effectiveness.

- Unlike quantitative easing (QE), Operation Twist does not increase the total money supply in the economy. It is a gentler way to support growth, as it mainly changes the mix of bonds the central bank holds rather than printing more money. By lowering long-term borrowing costs, it encourages businesses and individuals to borrow, invest, and spend, helping the economy grow without creating inflation pressures.
- By lowering long-term interest rates, it reduces borrowing costs, encourages spending and investment and helps reduce unemployment.

Operation Twist Working

- In Operation Twist, the central bank changes the **mix of government bonds it holds to help the economy**. It sells short-term bonds and uses the money to buy long-term bonds.
- When the central bank buys long-term bonds, **their prices go up, which lowers long-term interest rates**. This makes it cheaper for businesses and people to take long-term loans, like for houses or big investments.
- At the same time, selling short-term bonds can slightly raise short-term rates, but usually the central bank keeps these rates stable. By doing this “twist” in the bond market, the central bank makes borrowing cheaper over the long term without increasing the total money supply in the economy.
- The name “Operation Twist” comes from the way this policy affects the yield curve, a graph that shows interest rates for short-term and long-term government bonds. Normally, the yield curve slopes upward, When the central bank raises short-term yields and lowers long-term rates at the same time, it creates a “twist” in the curve, which is why it got this name.

Operation Twist Impact on the Indian Economy

- Operation Twist, though originally a U.S. policy, can influence India through global financial markets. When long-term U.S. interest rates fall due to Operation Twist, **foreign investors often seek higher returns in countries like India, increasing capital inflows**. This can strengthen the Indian rupee and improve liquidity in financial markets.
- Lower long-term global interest rates can also reduce borrowing costs for Indian businesses and the government, making it cheaper to invest in infrastructure and other projects. Additionally, it can help stabilize domestic financial markets, encourage investment and spending, and indirectly support economic growth.
- However, India needs to carefully manage the impact because sudden foreign fund inflows can cause currency volatility, affect exports and influence domestic interest rates. Overall, Operation Twist highlights how global monetary policies can affect India’s economy even without direct implementation here.

Operation Twist in the Indian Context

- In India, the **Reserve Bank of India (RBI)** carried out Operation Twist through the **Open Market Operations (OMO)**, where it bought long-term government bonds and sold short-term ones. The first operation was done in December 2019, and a larger one of ₹10,000 crore took place in April 2020 to manage liquidity in the economy. The goal was to bring down long-term interest rates, similar to the original U.S. Operation Twist.

- Since business investment, housing, and big loans depend on long-term rates, Operation Twist aimed to make long-term borrowing cheaper.
- The policy works as follows: when the RBI buys long-term bonds, their prices go up and their yields fall, which reduces long-term interest rates. This makes it easier for businesses and individuals to take loans at affordable rates, encouraging spending, investment, and consumption, and ultimately helping to revive the economy.

Operation Twist vs Quantitative Easing

- Operation Twist and Quantitative Easing (QE) are both tools used by central banks to support the economy, but they work in different ways.
- In Operation Twist, the central bank sells short-term government bonds and buys long-term bonds. This mainly lowers long-term interest rates to make borrowing cheaper for businesses and individuals. The total money supply in the economy does not increase; it just changes the mix of bonds the central bank holds.
- In Quantitative Easing, the central bank buys a large amount of government or corporate bonds, which injects new money into the economy. This increases the money supply, lowers interest rates, and encourages people and businesses to borrow, spend, and invest.

Source: <https://vajiramandravi.com/current-affairs/operation-twist/>

© Vajiram & Ravi. For personal use only.