STUDY NOTES · BASIC CONCEPT

What is Open Market Operation (OMO) of RBI?

Indian Economy

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Open Market Operations (OMO) are a key monetary policy tool used by central banks, including the Reserve Bank of India (RBI), to regulate the amount of money (liquidity) in the banking system and influence short-term interest rates.

OMO involves the central bank buying or selling government securities (like G-Secs or Treasury bills) in the open market (from/to banks and financial institutions).

- Buying securities → Injects money into the system (increases liquidity).
- Selling securities → Absorbs money from the system (reduces liquidity).

This helps the RBI manage inflation, support economic growth, stabilize the rupee, and ensure smooth credit flow without directly changing rates like the repo rate.

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How OMOs Work and impact liquidity?

1. The RBI announces an OMO auction — Specifies the amount, type (purchase or sale), and dates. Banks and eligible participants bid/offer securities.
2. Transaction happens:When RBI buys G-Secs: It pays banks with new money (credits their reserve accounts at RBI). Banks get more cash to lend → Liquidity rises → Interest rates tend to fall → Encourages borrowing/investment (expansionary policy).
3. When RBI sells G-Secs: Banks pay RBI → Money leaves the system → Liquidity tightens → Interest rates rise → Controls inflation (contractionary policy).
4. Impact ripples through:Affects short-term money market rates (e.g., call money rate).
5. Influences bond yields (buying pushes prices up, yields down; vice versa).
6. Helps transmit broader monetary policy to loans, deposits, and the economy.

Types of OMOs (in India)

1. Outright/Permanent OMO: Direct buy/sell of securities (no repurchase agreement). Used for durable, long-term liquidity adjustment.
2. Repo-based/Temporary OMO: Short-term (e.g., via Liquidity Adjustment Facility - LAF), where securities are bought/sold with an agreement to reverse later.
3. Special variants: Like "Operation Twist" (buy long-term bonds, sell short-term to flatten yield curve) or variable

rate repos.

Recent Examples in India (as of January 2026)

The RBI has been very active with OMOs recently due to tight liquidity from seasonal factors (festive cash demand, advance tax outflows), forex interventions, and credit growth needs In late December 2025, RBI announced ₹2 lakh crore in OMO purchases (four tranches of ₹50,000 crore each: Dec 29, Jan 5, Jan 12, Jan 22, 2026) to inject durable liquidity. Combined with a $10 billion USD/INR buy/sell swap (Jan 13, 2026), this aimed to infuse ~₹2.9 lakh crore overall. Earlier in 2025, RBI conducted record OMO purchases (net ~₹5.16 lakh crore in FY26 so far) to counter deficits and support growth amid global uncertainties. Banks like Bank of Maharashtra sold ₹500 crore G-Secs to RBI in December 2025 OMOs .

Why OMOs Matter?

- More flexible than tools like CRR (Cash Reserve Ratio) changes.
- Used alongside repo rate, forex swaps, etc., for fine-tuning.
- Helps avoid sharp rate volatility and supports India's growth/inflation goals.

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