

OPEN MARKET OPERATIONS



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**Often while reading the
business news, we come
across the term called
'OMO'.**



OPEN MARKET OPERATIONS

What is OMO?

When there is excess liquidity in the market, the RBI intervenes and sucks it out by issuing bonds, among other means.

At the same time, if the liquidity starts to dry up in the markets, the RBI intervenes and infuses liquidity by buying back the bonds that are with the investors.



**This interaction of the RBI
with the market is termed
'OMO' or 'Open Market
Operations'.**



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What is the outcome on account of OMO?

- ❑ When the RBI buys bonds from the market and infuses liquidity, the consequences are:**
 - It tends to soften interest rates**
 - Fresh bonds can be issued at lower yields and the government can thus borrow at a reasonable cost**
 - It enables corporates to borrow at favorable interest rates**
 - It prevents the rupee from strengthening unnecessarily and thereby protects the interest of exporters**
 - It may tend to increase inflation**



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- ❑ If the RBI were to sell bonds instead and suck out the liquidity, the effect would be exactly the opposite.
- ❑ Thus, OMOs are an important instrument of credit control through which the Reserve Bank of India purchases and sells securities



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To sum up:

What : Open Market Operations (OMOs) are a means by which a central bank controls the nation's money supply by buying and selling government securities and / or other financial instruments.

Why : It helps regulate interest rates and foreign exchange rates



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Hope you have understood
the concept of
Open Market Operations



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