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Open Market Operations (OMO)

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Context

- The **Reserve Bank of India (RBI)** conducts **Open Market Operations (OMO)** as a primary tool of **monetary policy** to manage liquidity in the economy.
- OMOs are often in the news in the context of **inflation control**, **liquidity management**, or **government borrowing**.

What are Open Market Operations (OMO)?

- OMOs refer to the **buying and selling of government securities** by the central bank in the open market.
- Objective: To **regulate money supply** and maintain **interest rate stability**.

Types of OMO:

1**Outright Operations**

RBI buys or sells government bonds for **long-term liquidity adjustment**.

Permanent impact on money supply.

2**Repurchase Agreements (Repo/Reverse Repo Operations)**

Short-term liquidity management through **collateralised lending**.

Reversible effect on money supply.

Objectives of OMOs

1**Liquidity Management**

Inject liquidity by **buying government securities**.

Absorb excess liquidity by **selling securities**.

2**Inflation Control**

Selling securities **reduces money supply**, helping to control inflation.

3**Interest Rate Stabilisation**

Maintains equilibrium in the **short-term money market**.

4**Support Government Borrowings**

Ensures smooth **government debt management** by facilitating demand for bonds.

Significance

- OMOs are a key instrument under **monetary policy** as per RBI’s **Liquidity Adjustment Facility (LAF)** framework.
- Help in **maintaining financial stability** and **smoothing volatility in interest rates**.
- Enable RBI to **signal its stance** on inflation and growth.

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