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Open Market Operations (OMO)

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If the **central bank** of a country, on behalf of the **government**, **raises money** from the open market by selling **government securities**, or **inject money supply** in the market by purchasing the **government securities**, then it will be known as **Open Market Operations (OMO).**

Note the term Open Market Operations: it simply means operations (selling/buying government securities) performed in the Open Market. OMO performs a major role in **Monetary Policy**.

In **India**, **Reserve Bank of India (RBI)**, on behalf of **Union government**, performs this Open Market Operation.

Purpose of OMO

- Adjust the **liquidity condition** in the market on a **durable** basis -
  a. If there is **excess liquidity** in the market - RBI will **sale** the **government securities**, thereby sucking out the **rupee liquidity**
  b. If the **liquidity** conditions are **tight** (i.e., less liquidity) - RBI will **buy** the **government securities** from the market, thereby releasing **liquidity** into the market
- **Government** raises money from the market, when it needs money for governance purpose.

Government Securities

There are several government securities with different **maturity dates,** which are used for different purposes, as follows -

- **Treasury Bills (T-Bills)**
- **Cash Management Bills (CMBs)**
- **Dated Government Securities**
- **State Development Loans (SDLs)**

All these government securities are discussed in past article .

Example

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RBI on November 2014, announced to sell **Rs. 12,000 crore government securities/bonds** through **Open Market Operations (OMO)** to mop up **liquidity** from the market.

As part of the OMO, RBI would sell securities **maturing** in **2017** (bearing interest rate of **8.07 %**), **2020** (**7.8 %**), **2022** (**8.08 %**) and **2027** (**8.26 %**).