Open Market Operations of RBI

September 1, 2020

The RBI has announced simultaneous purchase and sale of government securities under OMO for an aggregate amount of Rs 20,000 crore in two tranches of Rs 10,000 crore each. The RBI remains committed to conduct further such operations as warranted by market conditions, it said. Simultaneous purchase and sale of government securities under OMOs, popularly known as **Operation Twist, involves purchasing G-Sec of longer maturities and selling an equal amount of G-Sec of shorter maturities.**

Open Market Operations

Open market operations or OMOs are conducted by the Reserve Bank of India (RBI) by **way of sale and purchase of G-Secs (government securities) to and from the market with an objective to adjust the rupee liquidity conditions in the market on a durable basis.** When the Reserve Bank feels that there is excess liquidity in the market, it resorts to sale of securities thereby sucking out the rupee liquidity. Similarly, when the liquidity conditions are tight, RBI may buy securities from the market, thereby releasing liquidity into the market.

The RBI decides on the quantum of sale/ purchase of securities, and has the power to accept or reject any bids either wholly or partially without assigning any reasons. The public debt office (PDO) of RBI, acts as the registry and central depository for G-Secs. They may be held by investors either as physical stock or in dematerialized (demat/electronic) form. It is mandatory for all the RBI regulated entities to hold and transact in G-Secs only in dematerialised (subsidiary general ledger or SGL) form.

G-Secs are issued through auctions conducted by the RBI.

Auctions are conducted on the electronic platform called the **E-Kuber, the Core Banking Solution (CBS) platform of RBI.** The RBI, in consultation with the Government of India, issues an indicative half-yearly auction calendar which contains information about the amount of borrowing, the range of the tenor of securities and the period during which auctions will be held. **The RBI conducts auctions usually every Wednesday to issue T-bills (Treasury Bills) of 91-day, 182-day and 364-day tenors. Settlement for the T-bills auctioned is made on T+1 day** i.e. on the working day following the trade day. Like T-bills, **Cash Management Bills (CMBs) are also issued at a discount and redeemed at face value on maturity.** The tenor, notified amount and date of issue of the CMBs depend upon the temporary cash requirement of the Government. **The tenors of CMBs are generally less than 91 days.**

Repurchase (buyback) of G-Secs is a process whereby the central government and state governments buy back their existing securities, by **redeeming them prematurely, from the holders.** The objectives of buyback can be reduction of cost (by buying back high coupon securities), reduction in the number of outstanding securities and improving liquidity in the G-Secs market (by buying back illiquid securities) and infusion of liquidity in the system. The repurchase is also undertaken for effective cash management by utilising the surplus cash balances.