**Liquidity Forecasting in the Inter Bank Market**

The exercise is daily undertaken as the first step in determining the type of OMOs to be conducted in a given day.

* 1. **The forecast of overnight excess/deficit liquidity interbank market**

Overnight liquidity in the banking system depends on the actual balances maintained by banks’ in their reserve accounts with the Central Bank vis-a-vis, the reserves to be maintained under the SRR. The banking system is considered in excess (excess liquidity) on a given day if its cumulative aggregate deposit balances with the Central Bank is higher than the balance that it would need to maintain in the reserve account under SRR. The Banking system is considered short (short liquidity) on a given day if its cumulative aggregate deposit balances with the Central Bank is lower than the balance that it would need to maintain on account of SRR.

Overnight market liquidity forecast is prepared based on changes in factors that affect the inter bank market liquidity.

As each LCB maintains a settlement account with the Central Bank, every morning the CBSL possess the aggregate opening balance of all LCBs with the CBSL. This forms the first step in the liquidity assessment. The net effect of the following factors are then added to this aggregate opening balance

**Liquidity enhancing factors**

* + 1. Purchase of Treasury bills from the (Primary market and government securities from secondary market by the CBSL
		2. Purchase of foreign exchange from the market by the CBSL.
		3. Purchase of foreign currency denominated loan receipts of the government by the CBSL.
		4. Deposits of currency with the CBSL by the LCBs.
		5. Release of CBSL profit to the government.
		6. Grant of provisional advances to the government by the CBSL.
		7. Retirement of it’s securities by the CBSL

**Liquidity reducing factors**

1. Sale of Treasury bills by the CBSL on outright basis
2. Maturing of Treasury bills held by the CBSL.
3. sale of foreign exchange in the market by the CBSL
4. Sale of foreign exchange by the CBSL to the government for repayment of foreign currency denominated loans of the government .
5. Currency withdrawals by LCBs from the CBSL.
6. Issuance of securities by the CBSL.

which provides an estimate of the closing balance of the banks with the CBSL. Overnight surplus or deficit is computed by adjusting this amount with the SRR required to be maintained by the LCBs.