**Open Market Operations (OMO)**

OMO generally refer to the buying and selling of financial assets on temporary or permanent basis in the open market in order to expand or contract the amount of money in the inter-bank money market. Under the OMO, CBSL conducts auctions which either injects liquidity to the market or absorbs liquidity from the market, as the case may be, in order to steer the call rate to the required level. Purchases of securities inject money into the banking system while sales of securities do the opposite. The CBSL purchases and sells government securities in the open market as defined in the section 91 of the Monetary Law Act (MLA).

The following are steps that are carried out in conducting OMOs

1. Forecasting overnight excess/deficit liquidity
2. Participating in daily Monetary Operating Committee (MOC) meeting to decide whether to conduct auction,, if so, its type, quantity and maturity.
3. Announcing the decisions of the MOC to the market through the electronic bidding system
4. Receiving bids from the participating institutions (PI) in the case of conducting auction.
5. Making decisions by the MOC on the auction outcome.
6. Making the standing facilities available to PIs to meet their further liquidity requirements.
	1. **Instruments used under OMO**

There are primarily three types of OMO auctions i.e. repo/reverse repo auctions, outright auctions to purchase/sale T-bills and foreign exchange SWAP auctions. The auctions are on a multiple bid, multiple price system. Participants in the money market could make up to three bids at each short term auction and up to six bids at each long term auction and the successful bidders would receive their requests at the rates quoted in the relevant bid.

1. **Repo/ Reverse Repo Auctions**

These are conducted either to inject or absorb market liquidity temporarily. If the market is in a surplus, a repo auction is conducted to absorb excess liquidity and vice versa. The auction is on a multiple bid, multiple price system. The amount of the auction depends on the overall liquidity excess or shortfall, prevailing interest rate level as well as the macroeconomic environment of the country. The tenure of the auction is also determined based on the availability of the market liquidity. In effect, under these auctions CBSL either sells(a repo)/ purchases(a reverse repo) government securities on temporary basis with an agreement to reverse the transaction after an agreed number of days..

In case of repo auctions, when the T-bill stock in the CBSL portfolio is not sufficient, the CBSL uses one of the two options of issuing its own securities called CBSL securities or initiating Bond Borrowing Programme (BBP). Under BBP CBSL borrows bonds temporarily to use from large stakeholders such as Employees Provident Fund (EPF). If the maturity of the auction is 1-7 days, they are termed as short term auctions, and if the maturity of the auction is above 7 days but less than 90 days, they are called long term auctions.

1. **Outright Auctions**
2. These are conducted to address the long term liquidity deficits/excesses and, therefore, to absorb or inject liquidity on a permanent basis. If the market liquidity is relatively a large surplus and is likely to persist for a long period, the MOC decides to sell government securities outright in the secondary market out of the holdings of the CBSL in order to absorb liquidity permanently. Similarly, a long term liquidity shortage would be removed by purchasing government securities in the secondary market. **Forex SWAP auctions**

. A forex SWAP involves the purchase of one currency against another at an initial date with an agreement to reverse the transaction at a future date and at a specified rate. A forex SWAP transaction is similar to a repo transaction where the collateral of a security is replaced by foreign currency. A buy-sell SWAP injects rupees to the market and a sell- buy SWAP absorbs liquidity from the market in the first leg and reverses the effect in the second leg.

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