1. RBI'S Monetary Intervention- Economy

RBI to conduct OMO purchases of Govt. securities of ₹100,000 crore to improve liquidity

The Reserve Bank of India (RBI) has announced a significant dual-intervention strategy to inject durable liquidity into the financial system. This move is designed to address evolving financial conditions through a combination of large-scale Open Market Operations (OMOs) and a USD/INR Swap auction.

Key Highlights of the RBI's Liquidity Infusion

The RBI is deploying two primary instruments to manage liquidity- purchasing Government Securities and conducting a Forex Swap.

Massive Capital Injection via OMOs

Total Quantum- The RBI has committed to purchasing Government Securities (G-secs) worth a total of ₹1,00,000 crore.

Schedule

Tranche 1- ₹50,000 crore is scheduled for purchase on December 11, 2025.

Tranche 2- The remaining balance will be auctioned later in the month.

Objective- To inject permanent liquidity into the banking system by buying back bonds from the market.

Additional Liquidity via USD/INR Swap

Mechanism- A **Buy-Sell swap** involving the US Dollar and Indian Rupee.

Quantum & Tenure- The swap is valued at $5 billion with a tenure of 3 years.

Strategic Intent- This is specifically aimed at injecting durable liquidity into the system without explicitly targeting a specific exchange rate level for the Rupee.

RBI's Liquidity Assurance-The central bank has reaffirmed its commitment to maintaining sufficient durable liquidity.This considers various factors such as the demand for currency circulation, forex operations, and the requirements for reserve maintenance by banks.

Conceptual Analysis- The Financial Instruments Used

To understand the impact of these measures, it is essential to understand the underlying financial instruments.

Government Securities (G-secs)

Definition- These are debt instruments issued by the Central or State governments to borrow funds necessary for public spending.

Nature of the Instrument- They act effectively as loans from investors to the government.

Risk Profile- They carry negligible risk due to sovereign backing (often called "gilt-edged" securities).

Returns- They offer fixed returns and regular interest payments, making them ideal for capital preservation.

Types

Treasury Bills (T-Bills)- Short-term instruments.

Dated Securities/Bonds- Long-term forms that provide principal and interest repayment at maturity.

Open Market Operations (OMOs)

Definition- OMOs are a quantitative monetary policy tool used by central banks to control money supply and liquidity.

The Mechanism

To Infuse Liquidity- The RBI buys securities (paying money to the market).

To Absorb Liquidity- The RBI sells securities (taking money out of the market).

Purpose- They help regulate liquidity, ensure smooth monetary transmission (passing rate cuts/hikes to borrowers), and stabilize financial conditions during volatile periods.

Dollar-Rupee Swap

The Mechanism- The RBI buys US Dollars from banks in exchange for Indian Rupees (injecting Rupee liquidity now) and simultaneously agrees to sell the Dollars back at a future date at a set rate plus a premium.

Purpose- It manages Rupee volatility. It injects Rupee liquidity into the domestic market without permanently depleting the nation's Dollar reserves.

Comparison of Liquidity Tools

The following table differentiates the two major tools RBI is utilizing in this announcement.

Feature	Open Market Operations (OMOs)	Dollar-Rupee Swap (Buy/Sell)
Primary Action	Buying/Selling Government Securities (Bonds).	Exchanging US Dollars for Indian Rupees.
Impact on Liquidity	Permanent/Durable injection of funds (when buying).	Durable (for tenure) injection of funds.
Asset Class Involved	Domestic Debt (G-Secs).	Foreign Exchange (Forex).
Specific Utility	Used to control interest rates and general money supply.	Used to manage currency volatility while injecting domestic liquidity.
Current Measure	₹1 Lakh Crore purchase.	$5 Billion swap for 3 years.

Expected Impact on the Economy

The combined effect of these measures is expected to influence the banking system, exchange rates, and overall economic growth.

Improved Banking System Liquidity- The large-scale OMO purchase alongside the swap will flood the market with durable liquidity.

Result- This eases credit conditions, making it easier for banks to lend, and supports monetary transmission (ensuring RBI policy rates are reflected in bank lending rates).

Exchange Rate Stability (Without Direct Defence)- The RBI has clarified that the swap is a *liquidity tool*, not a *currency defence* measure. This signals confidence in the market-driven valuation of the Rupee and indicates that the RBI believes the external fundamentals are strong enough without aggressive intervention.

Growth Support Amid External Challenges- The enhanced liquidity is positioned to support economic growth while inflation remains within a range that provides policy space.

Key Economic Indicators Supporting this Stance

Current Account Deficit (CAD)- Manageable at 1.3% in Q2-2025-26.

Forex Reserves- Strong standing at 688.1 billion USD.

Exports- Resilience noted in services exports.

Source- https-//www.thehindu.com/business/Economy/rbi-to-conduct-1-lakh-crore-omo-during-december-to-inject-liquidity/article70360863.ece