

TRU Primer

22 April 2026

When Liquidity Met Borrowing: RBI's OMOs in FY26

RBI's Open Market Operations (OMOs), often described as a simple liquidity tool, took on a much bigger role in FY26: against the Centre's gross borrowing of about ₹14.6 lakh crore, RBI's OMO purchases absorbed a large part of the supply, helping keep bond market conditions orderly and yields from rising too sharply. This note explains how OMOs work, reviews RBI's 10-year OMO history, and then focuses on FY26 to show why the line between liquidity management and indirect fiscal support has become so important for treasury investors.

When Liquidity Met Borrowing: RBI's OMOs in FY26

Introduction

Open Market Operations (OMOs) are one of the RBI's main tools to manage liquidity in the banking system and interest rates in the economy. In recent years, however, OMO purchases have also quietly helped absorb a large chunk of the Centre's bond supply, which has led the market to argue that RBI is, in effect, "funding" the fiscal deficit to some extent.

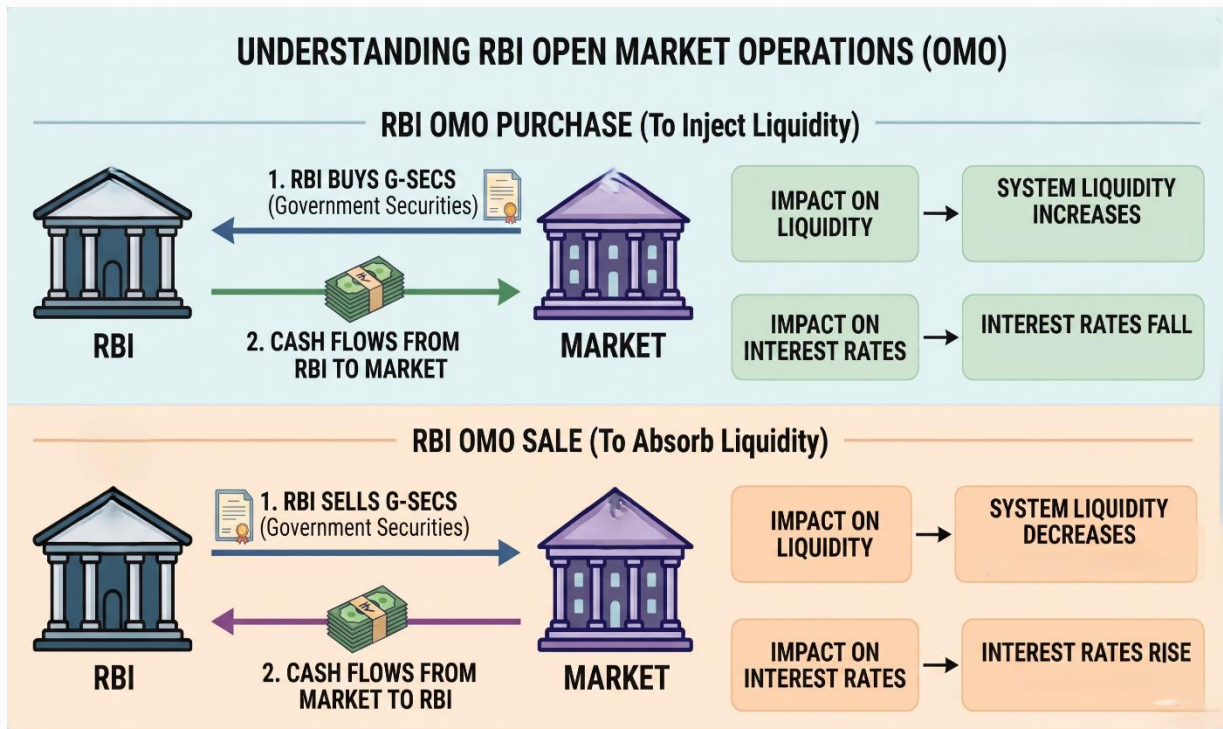
This primer explains:

1. What OMOs are and how they work.
2. What RBI has done in OMOs over the last 10 years.
3. How OMO purchases in FY26 compared with Central Government borrowing.
4. Why the "fiscal funding" argument exists - and how to look at it.

What are RBI's Open Market Operations?

In simple terms, Open Market Operations (OMO) are when the RBI buys or sells government securities (G-Secs) in the secondary market.

- When RBI buys G-Secs, it pays money into the banking system, adding liquidity.
- When RBI sells G-Secs, market pays money to RBI, taking liquidity out.



Source: RBI, HDFC Tru

RBI carries out OMOs mainly to:

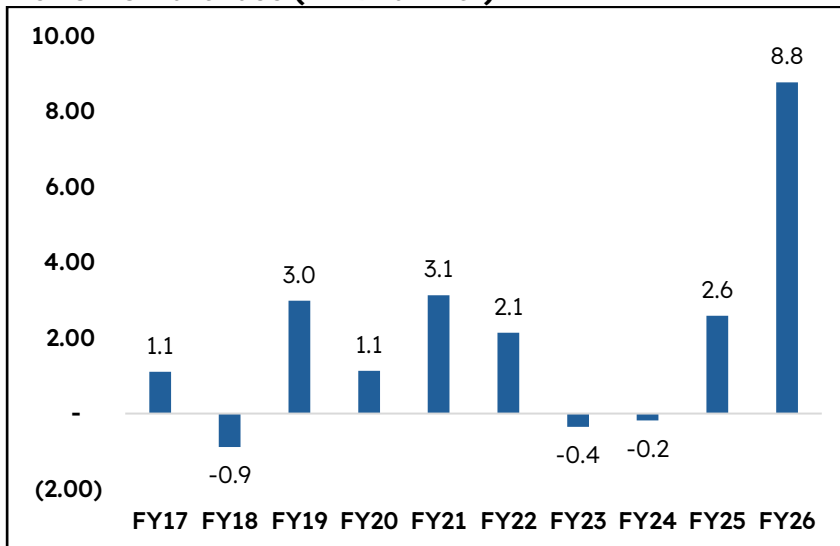
- Manage durable liquidity in the banking system.
- Interest rate stabilization by altering the bond demand supply dynamics.
- Yield curve shaping through simultaneous buy and sale of G-secs.

OMO is technically a monetary-policy / liquidity tool, not a budgeted fiscal-financing route, but the effect on bond markets can look like direct support for government borrowing.

OMOs in the last 10 years – key trends

Over the last 10 years, RBI has used OMOs in different ways, depending on the macro and fiscal backdrop.

Net OMO Purchase (INR Lakh cr)



Net OMO Purchase (INR Lakh cr)	
Apr 2016 – Dec 2024	8.8
Jan 2025 – Mar 2026	11.6
Total	20.5

Source: RBI, HDFC Tru; Note – positive value denotes OMO purchase and vice-versa

- **FY26 is a clear outlier.** Net OMO purchase jumped to INR 8.8 lakh crore, far above every other year in the 10-year series. That shows RBI was exceptionally active in absorbing bond supply in FY26.
- **OMO has mostly been supportive, not restrictive.** In 7 out of 10 years, RBI was a net buyer of government securities; only FY18, FY23, and FY24 saw net sales or near-neutral stance. This reinforces the idea that OMO is often used to support liquidity and smooth borrowing conditions.
- **The post-pandemic pattern is important.** After smaller or negative net OMO in FY23–FY24, RBI turned sharply positive again in FY25–FY26. That suggests the central bank stepped in more aggressively when market absorption of large government borrowing became a bigger concern.

FY26 OMO vs Central Government borrowing

In FY26, the Centre's gross borrowing through issuance of government securities was very high. OMO purchases of INR 8.8 lakh cr accounted for 60% of Centre's gross market borrowing and 82% of net borrowings in FY26.

Centre's Borrowing (FY26)	INR Lakh cr	% share of OMO Purchase
Gross	14.6	60%
Net (adjusted for repayments)	10.7	82%

Source: RBI, HDFC Tru

This had two important effects on the bond market:

- **Less pressure on bond yields** – Without RBI buying such a large share, yields would likely have hardened more sharply due to oversupply.
- **Smoother execution of the borrowing calendar** – Primary dealers and market participants could place bonds more easily, knowing that RBI was a large, steady buyer in the secondary market.

How to read the “fiscal funding” argument

Market participants including economists often say that RBI's OMO purchases in FY26 were effectively a form of fiscal financing, even though RBI officially calls OMO a liquidity-management tool. Here's how to think about this nuance:

Point of view	What it says	What it implies for investors
RBI's stated view	OMO purchases are aimed at managing liquidity, not to fund the government. RBI is just a “buyer” in the market like any other investor.	Operationally, RBI is using OMO as a standard tool, just on a larger scale.
Market's view	Because RBI bought 60% of the Centre's gross bond supply in FY26, it effectively monetised a large chunk of the deficit and helped keep yields lower than they would have been otherwise.	Yield levels and the supply-demand equation are being shaped by RBI's dominant participation, not just “pure” market forces.
Key nuance	RBI is not printing money and giving it to the government's consolidated fund; it is buying bonds in the secondary market and holding them on its balance sheet. This is indirect funding rather than direct budget-line monetisation.	The risk is more about future balance-sheet and policy trade-offs (e.g., exit-path, capital gains/losses, and eventual withdrawal of liquidity) than about an immediate, visible “fiscal monetisation”.

Practical takeaway for fixed income investors

For treasuries and large investors, there are three key messages from this OMO story:

1. **OMO is not just “theory”** – In FY26, RBI’s OMO purchases were a big, active player in the G-Sec market, absorbing almost 60% of the Centre’s gross bond supply and helping keep yields relatively contained despite heavy issuance.
2. **RBI’s liquidity-management is now closely tied to fiscal-financing realities** – When the Centre runs a large borrowing plan, the likelihood of large OMO purchases increases, and this can put a soft cap on yields.
3. **Watch the “fiscal-monetary nexus”** – Even though RBI calls OMO a liquidity tool, the economic effect is that it helps the government place its bonds more smoothly. Over time, the question will be when and how RBI exits this stance (e.g., via OMO sales, longer-term liquidity tools, or balance-sheet adjustments).

Our take:

With budgeted gross central government borrowing elevated at around INR 16 lakh cr in FY27, we expect the RBI to retain a bias toward OMO purchases to smoothen the large supply calendar and support orderly absorption of government securities. While OMOs are officially a liquidity tool, recent experience shows that they can also help the market digest heavy sovereign supply and prevent an abrupt rise in yields.

Disclaimer

This communication is being sent by the Investment Advisory Group of HSL IA., registered under SEBI (Investment Advisors) Regulations, 2013 under the Registration number INA000011538.

This note has been prepared exclusively for the benefit and internal use of the recipient and does not carry any right of reproduction or disclosure. Neither this note nor any of its contents may be used for any other purpose without the prior written consent of HSL IA, Investment Advisory Group (HSL IA). In preparing this note, we have relied upon and assumed, without any independent verification, accuracy and completeness of all information available in public domain or from sources considered reliable. This note contains certain assumptions and views, which HSL IA considers reasonable at this point in time, and which are subject to change. Computations adopted in this note are indicative and are based on current market prices and general market sentiment. No representation or warranty is given by HSL IA as to the achievement or reasonableness or completeness of any idea and/or assumptions. This note does not purport to contain all the information that the recipient may require. Recipients should not construe any of the contents herein as advice relating to business, financial, legal, taxation, or other matters and they are advised to consult their own business, financial, legal, taxation and other experts / advisors concerning the company regarding the appropriateness of investing in any securities or investment strategies discussed or recommended in this note and should understand that statements regarding future prospects may not be realized. It may be noted that investments in equity and equity-related securities involve a degree of risk and investors should not invest any funds unless they can afford to take the risk of losing their investment. Investors are advised to undertake necessary due diligence before making an investment decision. For making an investment decision, investors must rely on their own examination of the Company including the risks involved. Investors should note that income from investment in such securities, if any, may fluctuate and that each security's price or value may rise or fall. Accordingly, investors may receive back less than originally invested. Neither HSL IA nor any of its employees shall be liable for any direct, indirect, special, incidental, consequential, punitive, or exemplary damages, including lost profits arising in any way from the information contained in this material. This note does not constitute an offer for sale, or an invitation to subscribe for, or purchase equity shares or other assets or securities of the company and the information contained herein shall not form the basis of any contract. It is also not meant to be or to constitute any offer for any transaction. HSL IA and its affiliates, officers, directors, key managerial persons and employees, including persons involved in the preparation or issuance of this material may from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein. HSL IA may at any time solicit or provide commercial banking, credit, advisory or other services to the issuer of any security referred to herein. Accordingly, information may be available to HSL IA, which is not reflected in this material, and HSL IA may have acted upon or used the information prior to, or immediately following its publication.

HSL IA neither guarantees nor makes any representations or warranties, express or implied, with respect to the fairness, correctness, accuracy, adequacy, reasonableness, viability for any particular purpose or completeness of the information and opinions. Further, HSL IA disclaims all liability in relation to use of data or information used in this report which is sourced from third parties.

Please note that HDFC Securities has a proprietary trading desk. This desk maintains an arm's length distance with the HSL IA team and all its activities are segregated from HSL IA activities. The proprietary desk operates independently, potentially leading to investment decisions that may deviate from research views.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murlu V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

For grievance redressal contact Customer Care Team Email: customercare@hdfcsec.com Phone: (022) 3901 9400

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193

Investment in securities market is subject to market risks. Read all the related documents carefully before investing.

Mutual Fund Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.

Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

This information is for educational/information purposes only.

**HDFC Tru is the Investment Advisory arm of HDFC Securities Ltd; SEBI Registration No: INA000011538.
Contact Information- Website: www.hdfc-tru.com, Email: tru@hdfcsec.com, Phone: +91 9930203944.**