

## **Monetary Policy Implementation**

In accordance with the current monetary policy framework, various instruments are at NBR disposal to achieve the targets set in the price based monetary policy program. These instruments include open market operations, refinancing facilities and changes in reserve requirements ratio.

### **Open market operations (OMO)**

The main function of OMO is to ensure that the banking system's demand for liquidity (reserves) is satisfied. It consists of the NBR intervention on the money market to mop up or to inject liquidity in the banking system and keep the interbank rate within the money market rates corridor of  $\pm 1$  percent around the central bank rate.

These open market operations include notably repos or reverse repos operations, central bank bills, overnight deposits facility, standing lending facility and refinancing facility.

Repo operation is a transaction whereby BNR mops up liquidity from monetary policy counterparties for a period from one day to 7 days while reverse repos, NBR injects liquidity in the system for the same period. A Central Bank Bill is a transaction whereby BNR mops up liquidity from monetary policy counterparties for a period from 28 days, 91 days, 182 days and 364 days.

Overnight deposits facility is an instrument available to monetary policy counterparties for investing their excess liquidity for overnight for remuneration. On other hand, standing lending facility is overnight facility available to monetary policy counterparties to borrow from NBR while a refinancing facility is a borrowing facility for the period up to 30 days.

### **Reserve requirements**

Within the monetary policy operational framework, reserve requirements (RR) have also a role for liquidity absorption. Depository institutions (commercial banks) are obliged to hold minimum reserves against their liabilities, predominantly in the form of balances at the central bank. The reserve requirements ratio is 4.0% since April 2020. Changes in reserve requirements affect the liquidity of the banking system and its capacity to create loans.