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**RBI WPS (DEPR): 02/2017:
Unintended Side Effects of Basel III Liquidity Regulations on
Operating Target of Monetary Policy**

The Reserve Bank of India placed on its website today a Working Paper* titled "[The Unintended Side Effects of Basel III Liquidity Regulations on the Operating Target of Monetary Policy](#)". The Working Paper is written by Sitikantha Pattanaik, Rajesh Kavediya and Angshuman Hait.

The implementation of Basel III liquidity regulations entails unintended ramifications for the unsecured segment of the money market and therefore for the operating target of monetary policy. Empirical estimates from a dynamic panel model suggest that under the liquidity coverage ratio (LCR) regime, liquidity constrained banks in India tend to borrow and lend at higher rates in the unsecured segment of the overnight money market. As a result, the weighted average call rate (WACR) – the operating target of monetary policy – is pushed up by about 5 to 7 bps. Estimated results also indicate that borrowing/lending spreads and volumes in the unsecured money market are sensitive to overall financial soundness of banks.

* The Reserve Bank of India introduced the RBI Working Papers series in March 2011. These papers present research in progress of the staff members of the Reserve Bank and are disseminated to elicit comments and further debate. The views expressed in these papers are those of authors and not of the Reserve Bank of India. Comments and observations may kindly be forwarded to authors. Citation and use of such papers should take into account its provisional character.

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