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**RBI Working Paper No. 07/2023:
Regime-Dependent Determinants of the Uncollateralised Overnight Rate:
The Interplay of Operating Procedure and Market Microstructure**

Today, the Reserve Bank of India placed on its website a Working Paper titled, "[Regime-Dependent Determinants of the Uncollateralised Overnight Rate: The Interplay of Operating Procedure and Market Microstructure](#)" under the Reserve Bank of India Working Paper Series¹. The paper is co-authored by Edwin Prabu A and Indranil Bhattacharyya.

Under the current operating procedure of monetary policy, the Reserve Bank of India has adopted the weighted average call rate (WACR) as the operating target with the objective of aligning it to the policy repo rate through proactive liquidity management. The WACR, however, is determined by the interaction of several behavioural, institutional, market microstructure and other factors which lead to its occasional deviation from the policy repo rate. This paper tries to delineate the key causal factors which drive the WACR out of the bounds of the liquidity adjustment facility (LAF) corridor in either direction, using a multinomial logit model and machine learning techniques based on daily data for the period May 2011 to December 2020.

The key findings from the paper are the following:

1. Liquidity conditions, policy expectations of market participants, short-term interest rate expectations within the reserve maintenance period, structural liquidity, and corridor width were significant in explaining the WACR breaching the upper bound of the LAF corridor.
2. Interest rate expectations within the reserve maintenance period, policy expectations, and liquidity distribution were found to be significant in explaining the WACR breaching the lower bound of the LAF corridor.
3. The results, reported in terms of average marginal effects, were found to be robust even after accounting for the presence of rare events.

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(Yogesh Dayal)
Chief General Manager

¹ The Reserve Bank of India (RBI) introduced the RBI Working Papers series in March 2011. These papers present research in progress of the staff members of the RBI and at times also those of external co-authors, when the research is jointly undertaken. They are disseminated to elicit comments and further debate. The views expressed in these papers are those of the authors and not necessarily those of the institution(s) to which they belong. Comments and observations may please be forwarded to the authors. Citation and use of such papers should take into account its provisional character.