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**RBI Working Paper No. 02 /2024:
Drivers of Commercial Paper Rate Spread - An Empirical Assessment**

Today the Reserve Bank of India placed on its website a Working Paper titled, "[Drivers of Commercial Paper Rate Spread – An Empirical Assessment](#)" under the Reserve Bank of India Working Paper Series¹. The paper is co-authored by Priyanka Priyadarshini, Anshul, Srijashree Sardar, Dipak R. Chaudhari and Sangeeta Das.

The paper analyses the major characteristics of the Indian Commercial Paper (CP) market in comparison with the CP markets across other major economies. The paper empirically investigates determinants of the CP rate spread over the T-Bill rate using daily data.

The findings indicate that:

- i) Surplus liquidity is associated with lower CP spread and *vice versa*. Market volatility measure (VIX) increases the spread, indicating a shift in investors' preference towards safer assets during periods of increased risk.
- ii) Market expectation of interest rates (OIS 1-month) increases the spread, indicating a rise in CP rates with the market expectation of interest rates going up.
- iii) An increase in the share of mutual funds, the dominant investors in the CP issuances, dampens the CP spread. The CP issuers are broadly divided into corporates and NBFCs; the results suggest that spreads trend to increase in tandem with an increase in CP issuances by NBFCs.

Press Release: 2023-2024/2010

(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.