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**RBI Working Paper No. 06/2020:**

**Liquidity Shocks and Overnight Interest Rates in Emerging Markets:  
Evidence from GARCH Models for India**

Today the Reserve Bank of India placed on its website a Working Paper titled "[Liquidity Shocks and Overnight Interest Rates in Emerging Markets: Evidence from GARCH Models for India](#)" under the Reserve Bank of India Working Paper Series.\* The Paper is authored by Bhupal Singh.

This paper examines the role of key frictional and structural liquidity shocks in shaping the movement in call money rates and the pattern of volatility. Using Generalised Autoregressive Conditional Heteroscedasticity (GARCH) models, the author finds that both structural and frictional liquidity shocks are vital in explaining movements in call money rates in India, thus highlighting the need to deal with liquidity shocks in the transmission process. Frictional liquidity shocks are more pronounced in their impact on call money rates *vis-à-vis* structural liquidity shocks. Among the key instruments of liquidity management, open market operations (OMOs) that influence durable liquidity, emerge as a key policy instrument shaping call money rates.

Press Release: 2019-2020/2360

**Ajit Prasad**  
Director

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\* 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 consider its provisional character.