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**RBI Working Paper No. 4/2021:
Does Offshore NDF Market Influence Onshore Forex Market?
Evidence from India**

The Reserve Bank of India today placed on its website a Working Paper titled "[Does Offshore NDF Market Influence Onshore Forex Market? Evidence from India](#)" under the Reserve Bank of India Working Paper Series*. The paper is authored by Harendra Behera, Rajiv Ranjan and Sajjid Chinoy.

The paper studies the relationship between onshore and offshore markets for the Indian rupee and finds a stable long-run relationship between them. Price discovery usually takes place in onshore market, *i.e.*, spot and forward segments, before the information transmits to NDF market in the long-run. In the post-taper tantrum period, the direction of causality has reversed, and the onshore market mostly derives information from offshore to form price quotation domestically.

Regarding "volatility spillover", the analysis suggests that the spillover between onshore and offshore forex markets is bidirectional during normal periods, but turns unidirectional from offshore to onshore during episodes of intensified global risks. Moreover, the magnitude of volatility spillovers from offshore to onshore markets also rises during periods of stress. Hence, the study recommends a real-time monitoring of the forex markets to contain any substantial spillover from the offshore to onshore markets.

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(Yogesh Dayal)
Chief General Manager

* 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.