



The Reserve Bank of India today released on its website the DRG Study* titled, "[Risk Premium Shocks and Business Cycle Outcomes in India](#)". The study is co-authored by Dr. Shesadri Banerjee, Shri Jibin Jose, and Shri Radheshyam Verma.

This study investigates the dynamic effects of financial shocks on the business cycle. Against the backdrop of high non-performing assets (NPAs) of banks, a financial shock is conceived to be a shock to the interest rate spread stemming from a change in the default risk of borrowers. It is termed as the risk premium shock and occupies the central stage in this study. Business cycle implications of such a shock have been characterised and quantified in two steps. At the outset, micro-level evidence on the effect of default risk on interest rate spread and credit growth is provided. Then, this micro-level evidence and predictions of dynamic stochastic general equilibrium (DSGE) models have been exploited to identify and estimate the impact of a risk premium shock using a sign-restricted VAR (SRVAR) model. The key findings are as follows:

- Bank-level panel data analysis shows that an increase in default risk leads to rise in interest rate spread and decline in credit growth.
- SRVAR model estimates suggest that a positive shock to risk premium increases the interest rate spread by 30 basis points and contracts credit and output by 75 and 40 basis points, respectively. It causes a downturn in consumption, investment and price of capital goods, while softening consumer prices.
- On the whole, the risk premium shock helps in explaining the cyclical variations in key macro-financial variables.

14. Market Borrowings by the Government of India and State Governments – Dated Securities						
(Face Value in ₹ Crore)						
Item	Gross Amount Raised			Net Amount Raised		
	2023-24 (Up to Jun. 30, 2023)	2022-23 (Up to Jul. 1, 2022)	2022-23	2023-24 (Up to Jun. 30, 2023)	2022-23 (Up to Jul. 1, 2022)	2022-23
	1	2	3	4	5	6
1. Government of India	408000	390000	1421000	249236	255010	1108261
2. State Governments	167700	110240	758392	121795	61761	518829