

## **Banking regulation, implicit government guarantee and Bank risk taking behavior**

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(Work in Progress)

This study examines the impact of regulatory intervention and implicit government guarantee on the banks' product diversification and risk taking behavior over the period of 2001–2014. We use a panel dataset to study how regulatory interventions and capital support affect the risk taking and liquidity creation of banks. Using instrumental variable techniques, we find evidence that regulatory shocks and capital support both succeed in reducing bank risk taking. The finding suggests that the competitive effects of regulatory interventions and capital support are small or non-existent in the Indian context.

*Keywords: risk taking, liquidity creation, bank distress, regulatory interventions, capital support*  
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