

Highlights of CAFRAL Activities

RESEARCH PUBLICATIONS (New Working Papers)

Dr. Vidhya Soundararajan paper titled “Implementation of Labor Laws and Informality” was conditionally accepted at the Journal of Political Economy: Microeconomics.

Abstract: We present causal evidence on how employment protection legislations (EPL) that penalize firms for hiring contractual workers can have adverse effects in contexts characterized by high levels of informality. While they increase compliance and reduce informality on the “intensive margin” as formal sector firms reduce hiring contract workers, they

increase informality on the “extensive margin”, as firms move to operating in the informal sector instead. This lowers aggregate productivity, wages, and welfare in equilibrium. Counterfactual simulations demonstrate the significance of carefully designing EPL in contexts where informality is prevalent

Dr. Sankalp Mathur paper titled “Markup Heterogeneity, Openness, and the Pro-Competitive Gains from Trade Across Countries” is at the revise and resubmit stage at the Journal of Political Economy: Macroeconomics

Abstract: How does trade affect global competition and how do pro-competitive gains from trade vary across countries? To answer these questions, we develop a multi-country, multi-sector model of international trade with endogenously determined markups in the presence of (i) sector- and country-specific demand elasticities, (ii) responsiveness of import and export markups to the extent of competition, and (iii) rich variation in market shares, productivity distributions, and trade costs. We quantify the relative importance of each of these

factors and document significant cross-country variation in the pro-competitive gains that inversely depend on countries' import shares and the responsiveness of markups to market shares on imports versus exports. Our results suggest that only large countries experience sizable pro-competitive gains from trade and only in the presence of a meaningful degree of variation in demand elasticities. Lastly, we find that the pro-competitive gains from trade are highly sensitive to sectoral variation in tariffs.

OP-ED BOOK CHAPTERS

Dr. Sankalp Mathur published a chapter on “Visions for India in a Fragmented World Trade Order” in the book “India in 2050: Visions for a Superpower”. The book can be purchased at the [Publishing House](#) website or through [Amazon](#).

SEMINAR/CONFERENCE PRESENTATIONS

Dr. Nirupama Kulkarni presented her paper, co-authored with Dr. Yogeshwar Bharat, “Financial Repression, Deposit Rate Deregulation, and Bank Market Power,” at the IIMC-NYU Stern India Research Conference on October 4, 2024

Abstract: Mandating low deposit rates, a form of financial repression, allows banks to raise deposits cheaply and makes investment in government securities profitable but limits credit access. Using regulatory data, we exploit India's 2011 deregulation of savings deposit rates to show that deposit rates increase after deregulation, more so for banks with low market power --- consequently, deposits increase and deposit

maturity contracts. These banks shift from government securities to loans to households and firms; loan maturity shortens. A structural model demonstrates that high-market power banks restrain deposit growth. Overall, deregulation improves financial intermediation, but banks' market power limits gains.

Dr. Sankalp Mathur presented his paper “Climate Change and Food Inflation in India” at the CAFRAL Bi-Monthly Seminar Series on November 13, 2024



Abstract: In the past four years, 57% of the months in India experienced food inflation exceeding 6%. As India encounters extreme temperatures, heat waves, and droughts driven by climate change, food inflation is likely to become a persistent and endemic challenge. The paper examines the cascading effects of extreme temperature days on food inflation across different levels of the supply chain. We utilize monthly price data from 2589 agricultural markets and 486 wholesale and retail centers, with grid level satellite data on temperature and

other climate variables. The results indicate that a one-day increase in extreme temperature leads to a 0.67% increase in year-on-year inflation at agricultural markets, a 0.39% increase at wholesale markets and a 0.43% increase at the retail markets. These findings highlight the critical role of climate change in driving food inflation and provide important insights for monetary policy in addressing the inflation risks associated with climate change

Dr. Vidhya Soundararajan presented her paper “Small Scale Production Dereservation and Product Quality” at the CAFRAL Bi-Monthly Seminar Series on November 13, 2024.

Abstract: Product quality is an important marker of economic growth and development. This paper studies the impact of dismantling product reservation for small-scale industry production on product quality. Exploiting Indian government’s phased dereservation of previously reserved products, we find that dereservation incentivized incumbent firms to produce

better quality products. Large firms that improved the quality after dereservation also experienced an increase in capital intensity and skill intensity. Furthermore, these firms experienced higher marginal costs of production and raised markups on dereserved products.

Highlights of Learning Programs

CAFRAL Advanced Leadership Program (CALP) | Indian leg October 4 - 5, 2024 | Mumbai and Overseas Leg October 7-11, 2024 Washington DC, USA.



CAFRAL had organised the captioned program in collaboration with McDonough School of Business, Georgetown University (GU). The Indian leg was held from October 4 to 5, 2024 in Mumbai while the foreign leg was held from October 7 to 11, 2024 in Washington DC, USA.

This outbound program sought to provide an opportunity to the participants to interact with top researchers and academicians besides interacting with institutions which have been at the forefront of developing advanced concepts & policy formulation in the ever changing financial world. While the participants enhanced their soft skills by getting exposed to professionals from a different cultural ethos, it also enabled them to appreciate alternate and emerging concepts in the financial world. It also provided the participants networking opportunities amongst themselves and with other professionals. Moreover, it aimed to provide world class inputs including emerging financial and technological concepts, soft skills and networking opportunities all at one global place of learning.

Dr. Sitikantha Pattanaik, Former Executive Director, Reserve Bank of India delivered the keynote address while Jyoti Kumar

- Equity Market Structure
- Fixed Income Securities
- AI Applications and the Future of Financial Services
- Business Analytics for Decision-Making in Banking
- Bank Risk Management: How to evaluate credit risk
- ESG Reporting Risk

The speakers for the program were –

Indian Leg –

- Dr. Sitikantha Pattanaik, Former Executive Director, Reserve Bank of India
- Prabir Jha, Founder & CEO, Prabir Jha People Advisor
- Geetha Giddi, Deputy General Manager, Department of Supervision, Reserve Bank of India
- Debasish Mishra, Chief General Manager, State Bank of India
- N Suganandh, General Manager, Department of Supervision, Reserve Bank of India
- Venkat Nageswar Chalasani, Chief Executive, Association of Mutual Funds in India

Pandey, Senior Program Director, CAFRAL gave program overview and opening remarks.

The topics deliberated in the program were s under:

Indian Leg -

- Global Macro-Financial Trends and Policy Issues
- Impact of Leadership on Corporate Governance: Key Challenges and Emerging Issues
- Machine Learning and AI - Implications of Advanced Technologies for Financial Intermediation
- Future of Financial Services & Significance of Business Analytics
- Cyber Security Challenges for Banks
- Capital Markets, Fixed Income & Securities Market – Evolving need of Sustainable Investment
- Risk Management and Emerging Opportunities in Banks

Foreign Leg -

- Global Financial Markets
- Leadership & EI
- Trends and Forces Shaping Financial Markets
- Governance and Uncertainty Management
- Technological Innovation (AI, Quantum Computing)

• Rama Mohan Rao Amara, Deputy Managing Director, State Bank of India

Foreign Leg –

- Prof. Reena Aggarwal
- Prof. Eliot Sherman
- Prof. John Jacobs
- Prof. Gilles Hilary
- Hugh Carney, EVP, Financial Institutions Policy & Regulatory Affairs
- Sayee Srinivasan, Chief Economist
- Jon Bloom, VP, Congressional Relations
- Keshav Gaur, Director of Client Solutions team, IFC
- Atiyah Curmally, Principal Environmental Specialist, IFC
- Aditi Suresh Jagtiani, Consultant, IFC
- Obert Limbani, Associate Financial Officer, Investors Relation
- Prof. Jim Angel
- Dini Ajmani, Deputy Assistant Secretary, Capital Markets, US Treasury Department
- Prof. Francesco D’Acunto
- Prof. Rohan Williamson

Virtual Program on Cyber Risk & Resilience | October 17, 2024 | Online

CAFRAL had organised a one-day virtual program on Cyber Risk and Resilience on October 17, 2024.

This one-day program aimed at contributing to capacity building of senior & top executives of banks / NBFCs / FIs and provided insights into the emerging trends in regulatory landscape of cyber-risks & cyber resilience impacting governance and need for renewed strategy for operations.

C. Sankaranarayanan, Senior Program Director, CAFRAL gave the opening remarks and the program overview.

The topics deliberated in the program were Cyber Risk & Resilience: Emerging Threats and Regulatory Expectations; Impact of Emerging Technologies such as AI/ML and Cloud on Cybersecurity; Responding and Managing Cyber Attack: Cyber Crisis Management Plan; Cybercrime and Trends-

New Tools For Combat: Developing A Robust Threat Intelligence & Resilience Build Up; Data Protection and Privacy: Cyber Risk; Managing Cyber Risk: Audit Perspective & Approach.

The speakers for the program comprised of were viz –

- Pradeep Raj Singh, General Manager, CSITEG, Reserve Bank of India;
- Jegan Vijayarajan, Group Vice President, Project Management, ReBit;
- Amrit Sethi Executive Vice President and Head Cyber Defence, HDFC Bank;
- BVS Saikrishna, Founder & CEO, Divsight, Intelligence Private Limited & Pinaca Technologies;
- Prerna Advani, Senior Manager, Ernst & Young India;
- Atul Gupta Partner and Head - Digital Trust and Cyber, KPMG India.

Virtual Program for Company Secretary and Secretaries on Board of Banks, NBFCs and FIs | October 29, 2024 | Online

CAFRAL had organised a one-day Virtual Learning Program (VLP) for Company Secretary and Secretaries on Board of Banks, NBFCs and FIs on October 29, 2024.

This VLP provided unique learning opportunity to the Company Secretaries (CS) and Secretaries to the Boards (SB) working in the financial sector. The participants were made aware of the significance of the emphasis laid on compliance surrounding LODR and Secretarial Standards and the RBI’s focus on the need for maintaining enhanced Corporate Governance Standards in Banks,

C. Sankaranarayanan, Senior Program Director, CAFRAL gave the program overview.

The topics deliberated in the program were s under:

- Corporate Governance: Role of Company Secretaries in the Emerging Financial Landscape;
- Expectations from Company Secretary/ Secretaries to the Boards: By Chairpersons & Independent Directors;

- Board Meetings & Governance functions: Digital transformation;
- Secretarial Standards: Implementation Challenges;
- Secretarial Audits & Compliance.

The speakers for the program were –

- G. Mahalingam Former Whole Time Member, Securities and Exchange Board of India;
- Amber Gupta, SVP & Legal Head, National Stock Exchange;
- Jitendra Kumar, General Manager, Securities and Exchange Board of India;
- Kiran Chitale, Country Head of Commercial, Innovation and Technology Legal, Barclays Global Service Centre Pvt. Ltd.;
- Harvinder Singh, Partner, DSK Legal;
- Shailashri Bhaskar, Former Deputy General Manager, Securities and Exchange Board of India.

- Corporate Governance & Capital Market Regulation: Role of Company Secretaries;

Virtual Conference of Heads of Inspection and Audit | November 7, 2024 | Online

CAFRAL had organized a one-day Virtual Conference (VC) of Heads of Inspection and Audit on November 07, 2024.

This one-day VC deliberated on emerging business scenarios, changing risk environment and need for redesigning the audit strategies, approaches and tools. It also provided opportunities to the participants to interact with experts & regulators in the areas of audit and audit practices, besides the emerging trends and challenges in internal audit.

S.C Murmu, Executive Director, Reserve Bank of India delivered the keynote address. J.K Pandey, Senior Program Director, CAFRAL gave program overview and opening remarks.

The topics deliberated in the VC were as under:

- Evolving Role and Significance of Audit Functions in the Financial System
- Risk Based Internal Audit of Banks – Supervisory Issues and Concerns

- Changing Role of Internal Audit as an Assurance Function - Static vs Dynamic Approach in Internal Auditing
- Meeting challenges to inspection and audit functions – Resource constraints, technological complexity and Cybersecurity threats
- Supervisory Issues in respect of Internal Audit function, Audit Committee of the Board and Audit Approaches
- Use of Data Analytics in Internal Audit.

The speakers for the VC were –

- S.C Murmu, Executive Director, Reserve Bank of India
- M Farhana, General Manager, Department of Supervision, Reserve Bank of India
- Premnath D, Partner, C Ramachandram & Co.
- Vijay Srinivas Kothapalli, Partner, C Ramachandram & Co.
- Renu Ajwani, General Manager, Department of Supervision, Reserve Bank of India
- Shreekant S, Chief General Manager, Executive Support System, State Bank of India.

Highlights of CAFRAL Research Seminars

CAFRAL invited speakers from leading academic institutions and other central banks. A sampling of the abstracts of papers presented are given below:

Prof. Sonalde Desai, Professor and Center Director at the National Council of Applied Economic Research (NCAER) – National Data Innovation Center, New Delhi and Professor at the University of Maryland presented her research paper “Rethinking Social Safety Nets in a Changing Society” at CAFRAL on October 10, 2024.



Abstract: With a growing economy and declining poverty, India faces a curious challenge in providing a social safety net to its citizens. Using data from three rounds of the India Human Development Survey (IHDS), collected in 2004-5, 2011-12, and 2022-24, this paper shows that households face considerable transition in and out of poverty as the economy grows. Historically, India’s approach to social safety nets has involved identifying the poor and providing them with priority access to various social protection programmes that include both in-kind and cash assistance—however, the nature of poverty changes with economic growth. This churn in households’ economic circumstances makes it difficult to identify and target the poor precisely. Traditional approaches to identifying the poor through

the provision of Below Poverty Line (BPL) cards, now dubbed priority cards, assume long-term stability of poverty and tend to focus on chronically poor households that usually come from poor regions or have enduring characteristics that predispose them to poverty (e.g., belonging to Scheduled Castes and Tribes). The IHDS data shows that with a decline in chronic poverty, transient poverty begins to dominate. This suggests that our approach to social protection must pay greater attention to circumstances of life that push people into poverty rather than circumstances of birth associated with social identity or region of birth. This paper discusses various approaches to providing safety nets and examines the experiences of some critical programs in reaching the poor

Prof. Partha Chatterjee, Professor at the Shiv Nadar University presented his research paper “**Low Labor Force Participation in Emerging Economies: The Role of Macroeconomic Shocks and Intra-Household Dynamics**” at CAFRAL on November 14, 2024



Abstract: What prevents people from entering the job market, particularly in emerging economies with few social security benefits? It is important to understand this, especially in the context of India, where around 49% of the working-age population choose not to work. Among women, about 75% are out of the labor force. We complement existing literature on low labor force participation by looking at how the interaction of the macroeconomic environment with the intra-household disparities in time spent on household work can explain this. We use a new and rich panel dataset, the Consumer Pyramids Household Survey (CPHS) from the Centre for Monitoring Indian Economy (CMIE), to track labor flow movements periodically and estimate transition probabilities between employment, unemployment, and outside the labor force. These probabilities

encapsulate the macroeconomic environment. We develop a continuous-time joint decision household search model and calibrate it to the Indian data. We find that the large share of out-of-labor force population and the associated gender disparities can be attributed to two factors - (i) the macroeconomic environment and (ii) the intra-household difference in time spent on household work. However, a combination of both can explain the data well. We do counterfactual exercises to show how varying macroeconomic environments and intra-household time use impact the decision to enter the labor force. We conclude the paper by demonstrating how a more dynamic labor market with a high probability of finding and losing jobs raises labor market participation.

Dr. Abhishek Bhardwaj, Assistant Professor at Tulane University presented his paper through a webinar on “**How Does Bank Lending To Non-Banks Affect Credit Allocation And Systemic Risk**” at CAFRAL on November 21, 2024

Abstract: Using loan-level administrative data and a regulatory shock that induced some banks to redirect lending from non-financial firms to Non-Bank Financial Institutions (NBFIs), we find that firms dependent on such banks witness a contraction in total borrowing and experience worse real outcomes. NBFIs use additional bank lending to make new loans, increasing lender competition and causing reallocation of credit towards

smaller, younger, and riskier firms. Additionally, we exploit the unexpected failure of a large NBFIs to show that idiosyncratic shocks in the NBFIs sector can spread via bank-NBFI connections, reducing credit availability across the economy. Our findings highlight potential concerns related to the bank-NBFI nexus, underscoring the importance of transparency in these linkages

Upcoming CAFRAL Research Seminars

- Prof. Manju Puri, Professor of Finance at the Fuqua School of Business, Duke University on December 2, 2024
- Dr. Sergey Sarkisyan, Assistant Professor of Finance at the Fisher College of Business at the Ohio State University on December 6, 2024
- Prof. Alok Johri, Professor of Economics, McMaster University on December 9, 2024
- Dr. Deeksha Gupta, Assistant Professor of Finance at the Carey Business School at the John Hopkins on December 11, 2024

If you wish to be included in the mailer list of CAFRAL Research Seminars [please click here](#)

Upcoming Research Conference

CAFRAL Annual Conference: Financial System and Macroeconomy in Emerging Economies | December 12-13, 2024 | Mumbai
CAFRAL Annual Research Conference: The Financial System and Macroeconomy in Emerging Economies | December 12-13, 2024 | Mumbai, India

The CAFRAL annual research conference is scheduled to take place on December 12-13, 2024, in Mumbai. The keynote speakers at the event are Prof. Olivier Coibion (University of Texas, Austin) and Prof. Amiyatosh Purnanandam (Ross School of Business, University of Michigan). In addition to the keynote lectures, there will be 10 academic research paper presentations including one from a CAFRAL researcher. A call for papers for the conference was posted online and circulated among researchers. The final program is posted on the CAFRAL website.

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