

Highlights of CAFRAL Activities

CAFRAL RESEARCH CONFERENCE

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



Shri B P Kanungo, Director, CAFRAL, Prof. Amiyatosh Purnanandam, Ross School of Business, University of Michigan and CAFRAL Research Team with participants during CAFRAL Research Annual Conference: The Financial System and Macroeconomy in Emerging Economies, Mumbai

The CAFRAL annual research conference was held on December 12-13, 2024, in Mumbai. The keynote speakers at the event were Prof. Olivier Coibion (University of Texas, Austin) and Prof. Amiyatosh Purnanandam (Ross School of Business, University of



Shri B P Kanungo, Director, CAFRAL

Michigan). Prof. Coibion spoke on “The New Causal Macroeconomics of Subjective Expectations and Decisions” and



Prof. Amiyatosh Purnanandam (Ross School of Business, University of Michigan)

Prof. Purnanandam spoke on the “Implications of Deposit Insurance for Depositors and Banks” In addition to the keynote lectures, there were 10 academic research paper presentations including one from a CAFRAL researcher.

The final program of the conference is below:

Paper	Presenter	Affiliation	Discussant
<i>Corporate Runs and Credit Reallocation</i>	Dr. Enrico Sette	Bank of Italy	Dr. Apoorva Javadekar (Indian School of Business)
<i>Geographical Diversification in Banking: A Structural Evaluation</i>	Dr. Venky Venkateswaran	NYU Stern, NBER	Dr. Raj Iyer (Imperial College London)
<i>Trust in Banks and Borrower Behavior: Evidence from Supervisory Actions and Local Information</i>	Dr. Rimmy E. Tomy	Chicago Booth	Dr. Vidhya Soundararajan (CAFRAL)

<i>Endogenous Entry and Two-Sided Price Competition in Banking</i>	Dr. Sonny Biswas	University of Bristol Business School	Dr. Bikramaditya Datta (IIT Kanpur)
<i>Inflation Expectations and Cryptocurrency Investment</i>	Dr. Pulak Ghosh	IIM Bangalore	Dr. Abhiman Das (IIM Ahmedabad)
<i>Public Administration Digitalisation and Microenterprise Productivity in India</i>	Dr. Somnath Sharma	Reserve Bank of India	Dr. Rishabh Aggarwal (Indian School of Business)
<i>Financial Stress and Economic Activity: Evidence from a New Worldwide Index</i>	Dr. Davide Furceri	International Monetary Fund	Dr. Pallavi Chavan (Reserve Bank of India)
<i>Understanding Monetary Policy Transmission in India: Information Content of Central Bank Communications and Market Responses</i>	Dr. Aeimit Lakdawala	Wake Forest University	Dr. Anshumaan Tuteja (Ashoka University)
<i>Distributional Consequences of Monetary Policy: A Continuous Time Heterogeneous Agent Model for India</i>	Dr. Suranjana Kundu	IIT Delhi	Dr. Saroj Bhattarai (UT Austin)
<i>Delegation With Flexible Information Acquisition: Ignoring The Left Tail</i>	Dr. Kaushalendra Kishore	CAFRAL	Dr. Deeksha Gupta (Johns Hopkins)

RESEARCH PUBLICATIONS

Dr. Nirupama Kulkarni and Dr. Kaushalendra Kishore paper titled “Zombie Lending due to Fear of Fire Sales” was accepted at the Journal of Corporate Finance.

Abstract: This paper provides evidence of a new cost of fire sales: zombie lending by banks. Banks with high market share are more likely to internalize the negative spillovers of falling collateral prices during a fire sale. To prevent prices from falling further during a fire sale, these banks do not liquidate defaulted firms and instead give zombie loans to keep them alive. Using structural breaks in real estate prices to identify periods of fir

e sales in different MSAs, we provide evidence that banks with high market share give zombie loans to firms with relatively higher real estate assets during a fire sale. Further, congestion due to zombie firms in an industry reduces the investment and profitability of healthier firms. Overall, we highlight a new mechanism for zombie lending resulting from reduced collateral liquidation in markets prone to fire sales.

SEMINAR/CONFERENCE PRESENTATIONS

Dr. Gautham Udupa presented his paper titled “Desirability of Competition in Currency of Invoicing” at the 19th Annual Conference on Economic Growth and Development, organised at the Indian Statistical Institute, Delhi, on December 19-21, 2024.

Abstract: Two stylized facts underline the US dollar's role in the world financial markets, namely 1) dominance of dollar denomination in the cross-border asset/debt markets as well as for international trade transactions and 2) country- and firm-level dollar invoicing shares are stable. This paper, using transaction-level import data and exploiting an unanticipated US monetary policy action, documents that Indian importers reduce the share of dollar invoiced imports by 11.9% in response to a 1 percentage point decline in the cross-border dollar credit supply, challenging the second stylized fact and providing causal evidence in support of complementarities between dollar-denominated debt and trade contracts.

Importers substitute dollar invoicing with Euro invoicing after the decline in dollar credit. Prior research documents substantial losses to trade volume and relationships following trade credit supply shocks. We establish a novel dollar invoicing channel by documenting that these losses are concentrated among firms unable to substitute away from dollar invoicing. In essence, we highlight that flexibility in trade invoicing currency acts as a shock absorber against currency-specific credit shocks, while inflexibility amplifies the adverse effects of credit shocks on trade. Lastly, global banks shield trade by supporting invoicing in alternate currencies.

Dr. Vidhya Soundararajan presented her paper titled “Public Works, Labor Supply, and Monopsony” 19th Annual Conference on Economic Growth and Development, organised at the Indian Statistical Institute, Delhi, on December 19-21, 2024

Abstract: We propose a theory to show that a firm's wage markdown, a measure of monopsony power—the ratio of MRPL to wages, is a weighted average of markdowns over different workers and that labor supply shock affects the average markdowns via changing the workforce composition. We test the model using India's National Rural Employment Guarantee Act (NREGA) program, which generates non-manufacturing jobs in rural villages and creates variation in

employment structure in manufacturing firms. Consistent with the model predictions, we empirically find that the program leads to higher average wage markdowns at manufacturing firms by attracting mobile workers potentially with rural origin into the rural non-manufacturing firms and leaving immobile workers with low labor supply elasticity employed at manufacturing firms.

Dr. Nirvana Mitra presented a paper titled "A Quantitative Theory of Instalment Loans" at the European Winter Meetings of the Econometric Society, Palma de Mallorca, Spain on December 16-18, 2024.

Abstract: We study a model of consumer debt where the only borrowing instruments are loan contracts with Equated Monthly Installments (EMIs). We calibrate the model to the contract particulars of loan-level administrative data from an Indian non-bank financial company. Indian households are infrequent borrowers and are more likely to stick to their payment schedule once they borrow. Our model accounts for

most of these empirical regularities; it also finds a rationale for the ubiquitous presence of pre-payment penalties in the EMI loan market. Pre-payment penalties mitigate the adverse selection of potential defaulters into the borrower pool by reducing incentives for the pre-payers to close a loan early, thereby improving welfare.

Dr. Gautham Udupa presented his paper titled "Desirability of Competition in Currency of Invoicing" at the 5th Annual Macroeconomics Conference organised at the Shiv Nadar University, Delhi, on January 17-18, 2025.

Abstract: Two stylized facts underline the US dollar's role in the world financial markets, namely 1) dominance of dollar denomination in the cross-border asset/debt markets as well as for international trade transactions and 2) country- and firm-level dollar invoicing shares are stable. This paper, using transaction-level import data and exploiting an unanticipated US monetary policy action, documents that Indian importers reduce the share of dollar invoiced imports by 11.9% in response to a 1 percentage point decline in the cross-border dollar credit supply, challenging the second stylized fact and providing causal evidence in support of complementarities between dollar- denominated debt and trade contracts.

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Dr. Yogeshwar Bharat presented a paper titled "Financial Repression, Deposit Rate Deregulation, and Bank Market Power," at the 4th Annual Macroeconomics conference at Shiv Nadar University on January 18th, 2025

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.

Highlights of Learning Programs

Program on Governance and Assurance for Directors on Board of Banks, FIs and NBFCs | December 6, 2024 | Mumbai



CAFRAL had organized a one-day Program on Governance and Assurance for Directors on the Board of Banks, FIs and NBFCs on December 06, 2024.

The program sought to enhance the awareness of the Board of Directors of regulated entities regarding the regulatory expectations on their roles and responsibilities, to sensitise them

- Emerging Risks in the Horizon including Risks Arising out of Climate Change
 - Behavioural Dynamics in Board functioning
 - IT Security and Resilience – Mitigating Challenges
 - KYC / AML – Regulatory Perspective
- The speakers for the program were –

on issues of current interest, provide practical aspects of Board governance and their role in various sub committees of the Board the emerging challenges in non-financial risks such as cyber risk climate change risk. It offered a platform for peer level discussion and an opportunity to listen to interact with the regulator.

Saurav Sinha, Former 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 program were as under:

- Governance and Assurance Functions in Banks, FIs and NBFCs: Role and Responsibilities of the Board
- Governance Challenges in Use of Advanced Technologies

- Saurav Sinha, Former Executive Director, Reserve Bank of India
- Arun Kumar Singh, Former Chief General Manager, Reserve Bank of India
- Dr. Avdesh Kumar Shukla, Director, Research and Modelling Group, Department of Supervision, Reserve Bank of India
- Dr. Anil Khandelwal, Former Chairman, Bank of Baroda
- Jegan Vijayarajan, Group Vice President – Project Management, ReBIT
- Veena Srivastava, Chief General Manager, Department of Regulation, Reserve Bank of India.

Financial Sector Leadership Program in Collaboration with The Critical Dialogue | January 6-10, 2025 | Mumbai



CAFRAL had organised a five-day Financial Sector Leadership Program in collaboration with The Critical Dialogue from January 06-10, 2025.

The program made the participants understand the Competing Values Framework (CVF) and the eight key leadership roles that are critical for influencing the culture and performance of the organization. It aimed to provide the attributes necessary to develop a positive attitude / orientation, leverage awareness of self and others to upscale influence and trust. The program aimed to develop the capacities and skills required to build a constructive and effective relationships, participate in context specific leadership and behavioral challenges, simulations and develop solutions that deliver results.

Keynote address was given by J K Dash, Executive Director, Reserve Bank of India and C. Sankaranarayanan, Senior Program Director, CAFRAL gave the program overview.

The topics deliberated in the program were as under:

- Transformational Leadership in Banking – Regulatory Perspective
- Current Macro-Economic Environment and Recent Developments in the Banking Sector
- New Age Banking - Challenges of Governance, Leadership and HR;
- Financial Intermediation in the Digital and Disruptive World;

- Johari window and Transaction Analysis;
- Inclusive Leadership: Learning Through Movie;
- Self-awareness and Leadership;
- The Competing Values Framework;
- Big 5 Factors and Facets;
- The 8 leadership Roles – CVF;
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- The 8 Leadership Roles – CVF;
- Leadership Role in Building Organizational Culture;
- Leadership Styles;
- The Authentic Leader; Leadership Communication;
- Conflicts Resolution; Creating A Comprehensive Leadership Development Plan for Action

The speakers for the program were –

- Dr. Anand Prakash, Adviser , Department of Economic Policy and Research, Reserve Bank of India
- Ashwini Kumar Tewari, Managing Director, State Bank of India
- Dr. Vijay Singh Shekhawat, Chief General Manager, Department of Supervision, Reserve Bank of India
- Sree Kumar Palakkal, Founder & CEO, The Critical Dialogue
- Manish Agarwal, Senior Trainer, The Critical Dialogue.

Conference of Chief Human Resource Officers (CHROs) and Chief Learning Officers (CLOs): Emerging Trends and Challenges | January 22, 2025 | Mumbai



CAFRAL had organised a half-day Conference of Chief Human Resources Officers (CHROs) and Chief Learning Officers (CLOs): Emerging Trends and Challenges on January 22, 2025.

This half-day program provided an opportunity for interaction and ideation amongst HR experts on recent trends and developments in the capacity building space and emerging HR challenges.

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

The topics deliberated in the program were as under

- HR Leadership & Strategy—Emerging Trends;
- Role of Technology in HR & Learning;

- Capacity Building: To Build a Resilient Future Ready Workforce;
- Cafral Learning Programs: Approaches & Strategies;
- Bridging Learning Gaps & Meeting Emerging Needs

The speakers for the program comprised of were:

- Sree Kumar Palakkal, Founder & CEO, The Critical Dialogue
- Mrutyunjay Mahapatra, Former CEO, Syndicate Bank
- Soumendra Mattagaja Singh, Group Chief Human Resource Officers, ICICI Bank
- C. Sankaranarayanan, Senior Program Director, CAFRAL

Virtual Program on Data Protection, Data Privacy & Data Localization | January 23, 2025 | Online

CAFRAL had organized a one-day Virtual Program (VP) on Data Protection, Data Privacy & Data Localization on January 23, 2025.

This VP updated the participants on the policy / regulatory updates and sensitized the participants on the significance of sound and robust data management, data protection and data processing policies / capabilities, importance of cyber security framework and need for having in place strong internal control systems and governance standards.

Vivek Deep, Executive Director, Reserve Bank of India delivered the keynote address. C Sankaranarayanan, Senior Program Director, CAFRAL gave program overview and opening remarks.

The topics deliberated in the VP were as under:

- Cyber Security Framework and Emerging Frontiers for Data Protection
- Issues and Challenges in Data Protection and Data Privacy - Relevance, Current Issues and the Road Ahead

- Regulatory Perspective on Data Localisation – Compliance Expectations
- Evolving Trends in Data Privacy & Data Protection - Significance of Data Standardisation in Data Governance
- Data Privacy – Legal Framework and the Evolving Trends
- Emerging Frameworks for Data Protection in Banks

The speakers for the VP were -

- Vivek Deep, Executive Director, Reserve Bank of India
- Maheshwaran Chandrasekaran, General Manager, Department of Supervision, Reserve Bank of India
- Vinit Kumar, Manager, Department of Payment and Settlement Systems, Reserve Bank of India
- Dr. Abhishek Thakur, Assistant Professor & Chief Technology Officer (CTO), IDRBT
- Mohan Venkateswaran K, Deputy Legal Adviser, Legal Department, Reserve Bank of India
- Purna Advani, Director – Technology Consulting, Ernst & Young LLP.

Virtual Program on FinTech and Banking | January 29, 2025 | Online

CAFRAL had organized a one-day Virtual Program (VP) on FinTech and Banking on January 29, 2025.

- Digitalisation: Tackling Emerging Risks and Challenges
- Digital Product Development and Management

This one-day VP aimed at contributing to capacity building of senior top executives of Banks/NBFCs and FIs, providing insights into the dynamic growth of fintechs and into the potential of the emerging technologies to shape the future financial landscape. This VP also facilitated collaborations with fintechs and the requisite technological innovation for enhanced operations, governance and regulatory compliance.

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

The topics deliberated in the VP were as under:

- FinTechs in Financial Intermediation: Regulatory Architecture & Expectations
- Fintech Innovations: Changing the future financial landscape

- Digital Lending- Journey so far
- Unified Lending Interface (ULI)

The speakers for the VP were –

- Suvendu Pati, Chief General Manager, FinTech Department, Reserve Bank of India
- Yashraj Erande, Global Leader – Fintech, Indian Leader- Financial Institutions, Boston Consulting Group
- Lalitha Natarajan, Chief Executive Officer, NPCI BHIM Services Ltd.
- Gaurav Kochhar, Product Head, UPI & Digital Payments, ICICI Bank
- Dr. Goutam Sanyal, Adviser, ICICI Bank
- Brijesh Baisakhiyar, Deputy General Manager, FinTech Department, Reserve 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. Manju Puri, Professor at the Fuqua School of Business, Duke University presented her paper “From Competitors to Partners: Banks’ Venture Investments in Fintech” at CAFRAL on December 2nd, 2024



Abstract: We hypothesize and find evidence that banks use venture investments in fintech startups as a strategic approach to navigate fintech competition. We first document that banks’ venture investments have increasingly focused on fintech firms. We find that banks facing greater fintech competition are more likely to make venture investments in fintech startups. Banks

target fintech firms that exhibit higher levels of asset complementarities with their own business. Finally, instrumental variable analyses show that venture investments increase the likelihoods of operational collaborations and knowledge transfer between the investing bank and the fintech investee.

Dr. Sergey Sarkisyan, Assistant Professor at the Fisher School of Business, the Ohio State University presented his paper “Digital Payments and Monetary Policy Transmission” through a virtual seminar at CAFRAL on December 6th, 2024.

Abstract: We examine the impact of digital payments on the transmission of monetary policy by leveraging administrative data on Brazil’s Pix, a digital payment system. We find that Pix adoption diminished banks’ market power, making them more responsive to changes in policy rates. We estimate a dynamic banking model in which digital payments amplify deposit

demand elasticity. Our counterfactual results reveal that digital payments intensify the monetary transmission by reducing banks’ market power – banks respond more to policy rate changes, and loans decrease more after monetary policy hikes. We find that digital payments impact monetary transmission primarily through the deposit channel.

Prof. Alok Johri, Professor at the McMaster University presented his paper on “Trade, foreign cash-in-advance constraints and default cost” at CAFRAL on December 9th, 2024.



Abstract: I build a sovereign default model in which importers must pay for intermediate imports using foreign currency previously accumulated. This constraint helps to explain why imports and production fall during defaults and generates

endogenous default costs that are increasing in the endowment. This feature helps reduce the reliance on ad-hoc default costs that rise exogenously in good times which were needed in prior quantitative sovereign default models to match the data.

Dr. Deeksha Gupta, Assistant Professor at the Carey Business School at The John Hopkins University presented her paper “Dynamic Green Disclosure Requirements” at CAFRAL on December 11th, 2024.



Abstract: This paper studies the design of green disclosure requirements. We show that dynamic green disclosure requirements that become more stringent over time can dominate full transparency. Less stringent initial requirements can overcome roadblocks in the early stages of the green transition, while more stringent requirements facilitate later

stages. Such dynamic green disclosure requirements may slow down reform for some firms, but can increase the number of firms that eventually reform, highlighting a trade-off between the pace and breadth of the green transition. Our results apply to recent policies mandating green disclosures, many of which become more stringent over time

Emanuela Benincasa from the University of Zurich presented her paper “The Social Effects of Bank Deserts” at CAFRAL on December 16th, 2024.



Abstract: This paper investigates whether bank branch presence affects firm misconduct. Exploiting ZIP code-level variations from staggered branch closures across the USA, I find that firms in bank deserts —neighborhoods without bank branches— are more likely to violate environmental and social laws than those in never-deserted neighborhoods. Misconduct is more

pronounced in environmental offenses, suggesting firms target regulations with lower legal liabilities. Higher misconduct seems driven by reduced morally induced costs for misbehaving, as offenses increase in bank deserts without prior branch fraud or scams. Overall, findings indicate that the absence of bank branches deteriorates firms’ practices in local communities

Dr. Mrinal Mishra, Assistant Professor at the University of Melbourne presented his paper “The impact of the American Dream narrative on business creation” at CAFRAL on December 17th, 2024.



Abstract: We assess the association between the local telling of the American Dream story and local entrepreneurship. We use textual analysis on articles related to the American Dream that were published in local newspapers and assess how different thematic narratives of the story are associated with local

entrepreneurial dynamism. We find that telling the story spurs local entrepreneurship, in total number and per capita. A one standard deviation increase in articles is associated with a 2 to 8% relative increase in new establishments and the thematic narrative of articles highly influences this effect.

Dr. Sangeeta Pratap, Associate Professor at the City University of New York presented her paper “Relationship Lending: Characteristics and Real Effects” at CAFRAL on January 7th, 2025.



Abstract: We evaluate the mechanisms behind relationship lending and its macroeconomic consequences. Using merged credit registry and firm data for Chile, we find that closer bank relationships give firms easier and cheaper access to credit and that more productive firms select into relationships. We build and calibrate a dynamic model where firms choose their relationship status along with investment and borrowing.

Borrowing in relationships allows for greater monitoring, provides implicit guarantees to other creditors and substitutes for physical collateral. Our model can account for about 40 percent of the difference in observed outcomes of firms with bank relationships. Counterfactual experiments indicate that eliminating the benefits of relationship contracts to all firms results in an output loss of about 20 percent.

Vedant Agarwal from Center for Monetary and Financial Studies (CEMFI), Spain presented his paper “Optimal Deposit Insurance in a macroeconomic model with runs” at CAFRAL on January 20th, 2025

Abstract: This paper examines the effects of deposit insurance in a quantitative macroeconomic model that incorporates the risk of deposit runs faced by banks. During systemic panic episodes, alert uninsured depositors tend to withdraw their funds from banks they perceive as vulnerable. While deposit insurance reduces banks’ susceptibility to such runs, it may also weaken their risk management incentives, resulting in a U

shaped relationship between insurance coverage and the risk of bank failure. The model suggests that the welfare-maximizing level of deposit insurance coverage for the U.S. in 2008 closely aligns with the observed level. A moderate increase in coverage may be optimal in contexts of heightened depositor alertness—driven by technological or demographic factors—, greater fiscal capacity or stronger capital requirements.

Khusboo Thakkar from the University of North Carolina presented her paper “Trade Credit under a Pro-Creditor Bankruptcy Regime” at CAFRAL on January 21st, 2025

Abstract: Trade credit provides customers the flexibility to procure goods from their suppliers without immediate cash payment, serving as a fundamental form of short-term financing. If all creditors are granted increased legal protection, does the availability of trade credit increase or decrease? This is an important consideration since an increase in the rights of creditors can influence the lending behaviour (supply) of suppliers and also the borrowing behaviour (demand) of

debtors. Leveraging a recent bankruptcy reform in India which strengthened creditor rights, I find an increase in trade credit usage of firms closer to default. Furthermore, these firms do not experience a corresponding drop in profitability or bank borrowing indicating a supply driven increase in trade credit. These findings suggest that strengthening creditor rights increases the willingness of suppliers to extend more trade credit, thereby aiding the sustenance of distressed firms.

Amol Amol from the University of Minnesota presented his paper “Ramsey taxation under endogenous financial frictions” at CAFRAL on January 29th, 2025

Abstract: How should capital income, labor income, and wealth be taxed in an economy with wealth inequality? Answering this question requires taking a stand on the source of wealth inequality. An extensive literature has argued that returns to capital which are stochastic at the level of individual household portfolios are needed to account for observed wealth inequality. I develop a model in which these stochastic returns arise from optimal incentive-compatible contracts with private information. To provide appropriate incentives, optimal

linear taxes on consumption, capital and labor income and wealth and must use these revenues both to redistribute across agents and to finance government consumption. A quantitative version of the model is consistent with key features of the US data. Starting from a steady state of this model, I numerically solve for the trajectory of optimal policies over time. Capital income taxes are small, and taxes on consumption and labor income are essentially constant. When consumption tax is not available as an instrument to the planner, capital income tax is

contracts expose entrepreneurs partially to the idiosyncratic risk of the firm they manage. The government has access to

at its upper bound for a short duration before dropping close to zero. These results are qualitatively close to neoclassical models without financial frictions.

Dr. Ranjeeta Mishra from the Reserve Bank of India presented her paper “The Impact of Costs on Inward Remittances: Leveraging Digitisation to Bring Costs Down” at CAFRAL on January 29th, 2025

Abstract: The study explores the factors influencing remittances, focusing on costs and analysing how transaction methods and economic conditions in sending and receiving nations affect remittance flows. It highlights the role of digital financial systems in lowering remittance fees, showcasing the cost benefits of digital channels over traditional methods. The findings demonstrate that digital platforms reduce transaction expenses and improve accessibility and efficiency in fund transfers. The research underscores the need to enhance

competition among service providers and capitalise on technological innovations to achieve further cost reductions. Stable economic conditions in both host and home countries are deemed essential for optimising remittance flows and their developmental benefits. Policymakers are encouraged to prioritise digital adoption and promote market competition through regulatory and structural obstacles to ensure widespread access to affordable remittance services. These initiatives are particularly crucial for regions that heavily rely on remittances for economic growth and development.

Anindo Sarkar from the University of California, San Diego presented his paper “Monetary Policy, Price of Risk, and Growth” at CAFRAL on January 30th, 2025.

Abstract: We uncover a novel channel by which monetary policy affects the economy’s supply side through affecting risk premia. In this channel, monetary policy affects the effective risk aversion, that is, the price of risk in the economy. This impacts equilibrium R&D investments and, eventually, TFP growth. Using an asset pricing model, we construct measures of the price of risk shocks and show that increases in the price

of risk decrease aggregate R&D. We then quantify the contribution of our channel to the overall R&D and TFP growth response to monetary policy shocks by constructing an endogenous growth model with time-varying risk aversion. Using the model, we find that the price of risk channel accounts for 20% of reaction of R&D and 33% of the reaction of TFP growth to unanticipated monetary policy.

Prof. Rohini Somanathan, Professor at the Delhi School of Economics presented her paper “Nudging Marriage Norms through Cash Transfers” at CAFRAL on January 30th, 2025.

Abstract: We explore the ability of conditional cash transfer programs to reduce child marriages in the presence of heterogeneous social norms. Contrary to popular belief, we show that strong child marriage norms can sometimes exhibit larger program effects for a given transfer than weak norms. This happens because strong norms result in a large number of households marrying below their preferred age. Transfers allow these households to follow their laissez-faire preferences. We empirically explore this relationship between norms and transfers by combining household data reflecting marriage ages

with administrative data on one of the earliest and largest programs to reduce child marriage in North India. Consistent with our theoretical results, we find that regions and households with strong early marriage norms exhibit larger effects. Our paper shows that the ability of modest financial incentives to influence norms depends on the particular configuration of parameters related to norms and laws relative to household preferences. It is not therefore surprising that attempts to aim to change culturally-driven behavior through transfers have had mixed success.

Upcoming CAFRAL Research Seminars

- Dr. Rohan Ravindra Gudibande, Assistant Professor at the Krea University on February 20th, 2025.
- Dr. Shashwat Alok, Associate Professor at the Indian School of Business on March 7th, 2025.

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

Upcoming Research Conference

The CAFRAL joint conference, titled “The Impact of Digitization on Households and Firms” | March 20-21, 2025 | Mohali, India
CAFRAL will jointly host a conference on “The Impact of Digitalisation on Households and Firms” with the Indian School of Business (ISB). The conference will take place on March 20-21, 2025 in Mohali. Prof. Manju Puri, Duke University, will be a keynote speaker. The conference will, in addition, feature 9 academic presentations and discussions.

Upcoming Learning Program

Program on Know Your Customer (KYC) and Anti Money Laundering (AML) | March 12, 2025 | Mumbai

Background:

In an ever-changing business environment and the increasing level of complexities in the banking and other financial products offered by banks and other regulated entities (REs), there is always a likely exposure to Money Laundering (ML) and Terrorist Financing (TF) risks. The risks are further multiplied with the use of advanced technologies and newer payment systems. The REs are, accordingly, required to have appropriate level of control/mitigation measures, so as to prevent the financial system from being used in money laundering and other unlawful activities. Regulated Entities (REs) are required by the RBI to carry out ‘Money Laundering and Terrorist Financing Risk Assessment’ exercise periodically, update customer risk profile and assess the ML/TF

risks for customers, countries, geographical areas and also for their products/service/transactions/delivery channels. The Boards of REs should have proper oversight on the KYC-AML framework and ensure that effective KYC-AML policies, procedures, systems and controls are in place.

Objective: This program seeks to sensitize the Directors on the Boards of Banks/FIs/NBFCs (REs) about the risk & strategic dimensions which need to be factored in the KYC-AML framework and address the challenges in respect of compliance. After a quick review of extant regulations, it will also provide updates on recent changes in the KYC & AML regulations including the requisite management oversight, systems & controls and related matters.

Participants' Profile:

Directors on Boards of Banks, NBFCs and Financial Institutions.

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