RESEARCH STATEMENT

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My research seeks to answer policy-relevant questions in the fields of financial economics, open-economy macroeconomics and monetary economics, and can be divided into three broad themes. The first strand focuses on the unintended effects of regulation on the banking sector. The second work stream analyses monetary policy communication and transmission. The third line of research looks at international transmission of funding shocks to emerging economies, and the role of banks in this process.

My job market paper, titled ***"In the dangerzone! Regulatory uncertainty and voluntary bank capital surpluses"***, co-authored with William Francis and Peter Eckley, fits the first strand of research.[1] In this paper, we use a confidential dataset on UK banks to study the role of regulatory uncertainty in amplifying banks precautionary incentives to hold "surplus" capital. We introduce two new measures of regulatory uncertainty: one at the bank-level based on newly-constructed confidential regulatory data; another at the sector-level based on news-media text. We find that a one standard deviation increase in regulatory uncertainty increases banks voluntary capital surpluses by 0.8 to 2 percentage points on average, and this effect is stronger when surpluses are smaller, that is, for banks in the "dangerzone". We also show that it takes between one to two years for a unit shock to surplus capital to dissipate for safe banks, while for "dangerzone" banks, this falls to one to two months. We draw implications for the calibration of macro-prudential policy.

Continuing the theme of policy evaluation, I have also looked at post-crisis reforms that have aimed to mitigate systemic risks arising from global systemically important banks (G-SIBs). Tirupam Goel, Ulf Lewrick and I study this in our paper, ***"Playing it safe: Global systemically important banks after the crisis"***, which was published in the BIS Quarterly Review in September 2019.[2] We first estimate G-SIBs probability of distress, and note that their resilience has improved in recent years on the back of higher capital ratios. Furthermore, by benchmarking G-SIBs' balance sheet adjustments against those of other major banks, we show that these adjustments are broadly in line with the incentives set by the post-crisis regulatory framework. This suggests that the systemic importance of G-SIBs has declined in recent years.

Another chapter from my thesis also falls within this branch of work. In India, dual regulation of public sector banks has been identified as a major external constraint that prevents a level playing field between private and public sector banks. In ***"Risky business: Corporate governance in Indian banks"***, I study corporate governance of major listed banks in India using a new and unique dataset on board members. I identify several major external constraints for public banks, specially on tenure and compensation. Next, I investigate whether bank valuations respond significantly to appointments and resignations of chief executive officers (CEOs) and independent directors. I observe that shareholders consider turnover of CEOs to be positive news in public banks, but not in private banks. Gender of the CEO plays an important role. For public banks, appointments of independent directors are also considered positively; their resignations negatively. I also show that increasing CEO tenure and age, and decreasing the variable component of pay for CEOs is linked to lower bank risk in public banks. Finally, I also have a new project with Ryan Banerjee and Bipul Ghosh, titled ***"Zombie lending"***, where we look at the effect of the Indian central bank's policies on allocative efficiency in bank lending.[3]

[1] William Francis and Peter Eckley are both at the Bank of England.
[2] Tirupam Goel and Ulf Lewrick are both at the Bank for International Settlements.
[3] Ryan Banerjee is at the Bank for International Settlements and Bipul Ghosh is at the Reserve Bank of India.

I have two papers that fit within the second thematic area. Central bank communication has gained in significance specially since the crisis, but research into communication challenges in emerging economies is less prevalent. In ***"Analysing the monetary policy statements of the Reserve Bank of India"***, Rajeswari Sengupta and I focus on communication by the Indian central bank between 1998 – 2017, across five governor regimes.[4] Our focus on India stems from the transition to an inflation targeting regime in 2016, a cornerstone of which is effective communication. Using natural language processing tools, we show that there has been a persistent semantic shift in RBI's monetary policy communication since the adoption of inflation targeting. Next, we construct measures of linguistic and structural complexity that capture governor-specific trends in communication. RBI's communication is linguistically complex on average, but the length of monetary policy statements has gone down and readability has improved significantly in recent years. We show that lengthier, less readable statements are linked to higher volatility in equity and currency markets.

The credit channel of monetary policy transmission allows for a differential effect of monetary policy depending on firms' access to capital markets and the mix of credit constrained and unconstrained firms. Cristina Manea and I study the existence and role of this channel in a preliminary project, ***"Credit frictions and monetary policy transmission"***.[5]

On the third strand, I currently have a paper with Shekhar Hari Kumar called ***"A fistful of dollars: Transmission of global funding shocks to emerging economies"*** in which we study transmission of global funding shocks to emerging economies (EMs) from the perspective of interbank markets.[6] Money markets enable banks to engage in risk-sharing against liquidity shocks and are sensitive to global funding conditions. Accordingly, we first show that interbank rates better reflect the magnitude of transmission of foreign liquidity shocks to EMs as compared to benchmark short-term bond yields. Next, we disentangle the transmission into its various channels, focusing on two pull factors associated with the domestic banking microstructure: dependence on wholesale funding and share of foreign banks. Our results indicate that money market rates in EMs react to global shocks, and that dependence on wholesale funding has a significant role to play. We provide evidence that tools of macro-prudential policy like reserve requirements can help alleviate liquidity shocks to the EM banking system, weakening this global transmission.

Going forward, I intend to expand my research along the following dimensions. One is on applying natural language processing tools to construct a monetary policy uncertainty index for India and using it in the analysis of central bank communication. I would also like to develop my research on corporate governance in banks further. The areas which I find particularly interesting and promising, especially in the context of risk preferences, are the effects of early-life experiences of board members, and design of incentive mechanisms. I am also interested in how banks have adjusted their business models in response to the low-interest rate environment, and how this may have led to the migration of risks to the non-bank sector.

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[4]Rajeswari Sengupta is at the Indira Gandhi Institute of Development Research.

[5]Cristina Manea is affiliated with Universitat Pompeu Fabra and Bank for International Settlements.

[6]Shekhar Hari Kumar is a PhD candidate at The Graduate Institute of International and Development Studies (IHEID).