Research Statement

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My research tends to connect different disciplines and substantive areas. I carry out data-driven research relying on a variety of disaggregate micro-level data sources to address challenging questions, largely unexplored or with equivocal findings, at the intersection of international economics and finance. My primary research explores the benefits and challenges associated with international capital flows, in an effort to better understand whether foreign funds are channeled by the local banking sector to their more productive use, and if they can bring any collateral benefits for the recipient countries' institutions. My secondary research interest relates to financial markets and the presence of information frictions, in particular on the gradual information diffusion across asset markets. Below are brief descriptions of my current papers and planned future projects.

Risks and Benefits of International Capital Inflows

Cross-border financial inflows may help credit-constrained firms to borrow more and increase their investment. Yet, concerns could arise if capital from abroad is misallocated, especially when inflows are driven by global supply factors and channeled through a financial sector beset by inefficiencies. Funding might not necessarily flow to high-productivity firms that had difficulty accessing credit, which could have long-run implications for a country's growth. So, do inflows end up in the right hands? The available evidence is still limited, and not univocal (e.g. Gopinath et al., 2017; Cingano and Hassan, 2020).

My job market paper, entitled **"In the Right Hands? Capital Inflows and Allocation of Credit Across Firms: Evidence from Emerging Europe"**, aims to shed new light to this debate by exploring how, and through which channels, waves of non-resident financial inflows influence the domestic allocation of credit within industries, across firms that differ in their ex-ante total factor productivity. Leveraging on a large panel of SMEs in manufacturing and services sectors constructed from several ORBIS data vintages, the paper analyzes directly the bank lending channel in the context, rarely studied, of 12 Central Eastern European emerging countries, where credit frictions are more acute and bank intermediation of inflows is pervasive. While loan-level studies can fully control for firms' credit demand shocks, the inclusion of a rich set of fixed effects and firm controls (Degryse et al., 2019) help tease out the credit supply effects induced by capital inflows. On the other hand, the analysis relies on a cross-country sample and goes beyond the minority of firms with multiple bank relationships.

The paper shows that higher debt inflows are associated with relatively more credit volumes towards low TFP firms compared to their more productive industry peers. This differential effect is the result of credit adjustments at the intensive and extensive margins, and occurs symmetrically for both non-resident inflows and outflows. Estimates on a different sample of 10 advanced countries yield significantly smaller differential effects that are limited to episodes of outflows. In line with the size-dependent borrowing constraints observed in Gopinath et al. (2017), debt inflows tend to favor debt accumulation by firms with high preexisting collateral that were financially unconstrained. This provides nonetheless only a partial explanation. In accordance to an observed risk hypothesis, where the use of collateral is positively correlated with borrowers' riskiness, results suggest that risk considerations from banks pursing higher returns contribute ultimately to our core findings, as low TFP firms are relatively riskier and with more collateral.

The results are of relevance for policymakers and draw attention to the financial sector risk-taking incentives brought about by capital inflows, and how credit, if allocated based on risk characteristics, could feed through to a misallocation of capital. The next steps would be to condense the manuscript, potentially motivate the empirical findings with a simple partial equilibrium model, and to submit the paper for publication. I hope for a future project to have the opportunity to analyze this question, and exploit within-country variability in bank characteristics, with the recent cross-country analytical credit register of the European System of Central Banks. In addition, on the premise that there is not necessarily a trade-off between financial stability (bank risk-taking aspect) and allocative efficiency, it would be interesting to study how macro-prudential policies, such as reserve requirements, shape changes in credit allocation associated with capital inflows.

The arrival of foreign capital into a country can nonetheless be a catalyst for indirect benefits such as improvements in the quality of domestic institutions. Foreign investment could strengthen the position of pro-reform groups, and impose greater discipline and monitoring pressure on firms, financial intermediaries and rulers of the state.

Against this backdrop, in a joint work titled **"Capital Flows and Institutions"** with Deniz Igan from the BIS and Damien Puy at the IMF, we seek to investigate the presence of an institutional quality channel of capital flows. Existing evidence is scarce, usually at the country-level where most data is gathered, and is confronted to typical reverse-causality concerns. A key contribution of this paper is to test this channel indirectly, looking at how capital flows affect the within-country performance of industries that are structurally more reliant on good institutions to operate—those identified as contract intensive by the trade literature (Levchenko, 2007; Nunn, 2007). Our analysis relies on a sample of manufacturing industries from UNIDO data in a large panel of 103 countries, and on three decades of capital flows data decomposed by borrowing sector and type.

We find that, on average, industries with higher institutional dependence grow more than others following an increase in capital inflows. This finding remains after controlling for a host of other channels and for potential reverse causality concerns. But, not all forms of foreign capital are equal. It is the case when capital flows into the private sector, but results are reversed when it flows to the public sector, which is consistent with other evidence in the literature wherein the relaxation of government budget constraints generally weakens structural reform incentives. Also, the results are driven by private debt inflows rather than equity flows–ownership might reduce the severity of the information asymmetry, facilitate closer monitoring, and less reliance on intermediaries. Furthermore, the sample one looks at is important. While gains appear stronger in countries that are further away from the governance frontier (e.g. in emerging markets), the differential growth effect disappears and turns negative in countries with very low initial institutional quality, in particular when it comes to law and order. Thus, when certain pre-conditions are not met, an inflow of foreign capital might actually push countries with large institutional deficits to specialize even further in industries that are less reliant on a good institutions.

This project draws important policy implications on the need to sequence capital account liberalization with structural policies. The paper is available since January 2022 as a BIS Working Paper. We are currently strengthening the credibility of the empirical design, and we will present the paper at ASSA 2023 annual meeting, before sending it to a journal.

- Continuing on the theme of financial globalization, I am currently working on a project entitled **"Cross-Border M&As and Aggregate Dynamics"** with Rahul Mukherjee and Christian Probsting. We aim to explore the source of gains from M&As, whether they primarily arise from productivity improvements or the relieving of target firms' financial constraints. We hope to analyze as well how investment, ownership, and reallocation across heterogeneous firms (both foreign and domestic) respond to idiosyncratic (such as own financial position and productivity) and aggregate (like domestic or international financial crises or recessions) economic factors. We have assembled a substantial dataset of European domestic and cross border acquisitions, with balance sheet information and derived measures of productivity and financial constraints of both the acquiring and target firms before and after the acquisition event, as well as characteristics of the deal itself.

Financial Markets and Information Frictions

- My paper with Steven Wei Ho, entitled **"Is There Smart Money? How Information in the Commodity Futures Market Is Priced into the Cross-Section of Stock Returns with Delay"**, is inspired by the literature that finds investors have limited capacity to process information (Cohen and Lou, 2012; Cohen et al., 2020), and tend to specialize in one asset (Van Nieuwerburgh and Veldkamp, 2010), which could cause information to gradually diffuse across segmented asset markets. This paper brings, in a novel setting, more empirical evidence to these salients facts about today's markets.

  Specifically, we investigate whether Money Managers (MM), who are believed to be sophisticated and specialized investors in the commodity futures market, can be deemed as "smart money" with superior information advantage on commodity fundamentals, and whether this information is impounded in a timely manner into the equity price of commodity producers. This is the first study that analyzes the cross-sectional predictability of commodity producers' stocks returns that are matched with the corresponding positions MM took in the commodity futures market, as recorded in the CFTC DCOT reports.

  As the MM are sophisticated and specialized speculators in the futures market, they would by and large react to informational updates regarding commodities relatively fast, and their positions should predict the returns of securities that are more difficult to analyze, the stocks of commodity producers, especially for the stocks of the non-transparent producers. This is exactly the results we find. This lead-lag relationship is consistently confirmed through a number of empirical methods, and translates to large abnormal returns with respect to several asset pricing factors. MM position changes signals capture relevant information beyond the information already contained in past commodity futures returns or in other common commodity futures strategies. Consistent with our main thesis that the predictability stems from costly information processing and investor specialization, thus information frictions, the double sort results reveal that the abnormal returns are more pronounced for firms with higher information asymmetries.

  The paper was recently accepted to the *Journal of Financial and Quantitative Analysis (JFQA)*. It would be interesting to explore in another paper how information diffuses in commodity futures markets, and if there is any heterogeneity in MM predictability across commodities with varying degree of market frictions. Continuing on the theme of costly information processing, investor specialization and return delay, we plan to test, with Prof. Steven Wei Ho, in a novel setting whether information in the currency future markets would be passed-through immediately to the equity market.

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