



The Distribution of Crisis Credit: Effects on Firm Indebtedness and Aggregate Risk

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Summary



- ▶ Very interesting and timely paper. Unusually rich dataset.
- ▶ Examines Chilean credit support program during COVID crisis
- ▶ Wealth of data allows to control for firm/bank-level characteristics
- ▶ Main findings
 - ▶ Increased access to credit for unbanked and riskier firms (small)
 - ▶ Relaxed bank capital ratio constraints
 - ▶ Small increase in risk of bank portfolios
 - ▶ Potential impact on fiscal account limited

Comments I: Industries Matter

- ▶ (Presentational): provide greater detail/story on how different sectors were affected and who benefitted from the program
- ▶ Lockdowns have had very asymmetric effects across industries (think restaurants vs video-conference developers)
- ▶ Credit needs and effects of program unlikely to be symmetric (results from sales growth suggest complex dynamics)
- ▶ FE are not enough
- ▶ Suggestion: Split sample in industries that contracted and those that expanded during initial phase of crisis

Figure 2. Estimated Increase in Share of Firms with Liquidity Gap or Negative Equity in 2020: by Industry
(Percentage points)



Source: Díez et al. 2021.
 “Insolvency Prospects among
 Small-and-Medium-Sized
 Enterprises in Advanced
 Economies.” *IMF Staff
 Discussion Note No. 21/002.*

Comments II: Counterfactual



- ▶ Rationale for policy is macro-driven
 - ▶ Lockdowns increase liquidity needs
 - ▶ Massive increase in uncertainty may lead to collapse in credit
 - ▶ Self-fulfilling lending equilibria (Bebchuk/Goldstein RFS 2011)
 - ▶ Potentially large financial and demand multipliers
- ▶ Program curtails tail risk:
 - ▶ Supports credit provision
 - ▶ Contains liquidity-driven bankruptcies
 - ▶ Limits multipliers
 - ▶ Allows for equilibrium with credit to prevail
- ▶ Suggestion: Allow for multiplicative externalities in model (program impact potentially much larger than in current simulations)

Comments III: Regression Design



- ▶ Using risk variable equivalent to restriction on parameters
 - ▶ Robustness test with first round regressors in approval equation
- ▶ Riskier firms apply more, but also are screened out more
 - ▶ Compare with risk screening in commercial lending
 - ▶ Applications endogenous to expected approval rate?
 - ▶ Crisis vs financial inclusion policies?
- ▶ Make greater use of epidemiological data?
 - ▶ Not just lockdowns. Also voluntary decrease in mobility