Discussion of “What Hinders Investment in the Aftermath of Financial Crises?”

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Contribution (1)

- Large depreciations should increase output in the tradable sector, but they do not uniformly have this effect.
- Some papers indicate that financing constraints also arise during depreciation and these limit the impact of competitiveness effects.
- What is the source of this financing constraint?
  - Balance sheet currency mismatch
    - Bleakley and Cowan (2008) present controversial evidence against this.
  - Banking crisis
    - Kaminsky and Reinhart (1999) present evidence for this.
  - Access to foreign sources of capital
Contribution (2)

• KKV bring amazing data to bear on this question
  • Observe local/foreign currency denomination of assets and liabilities
  • Observe firm level exports
  • Observe extent of foreign ownership

• Find foreign ownership allows firms to overcome financial constraints, regardless of balance sheet currency mismatches

• Conclude that limited access to credit, rather than balance sheet currency mismatch effects, plays important role in hindering investment
  • Foreign firms have better access to global sources of capital
  • If foreign firms hold more dollar debt, this could explain results of Bleakley and Cowan (2008)
Interpretation

- Are the different hypothesized mechanisms behind the financial constraints that different?
  - Many banking crises are a consequence of balance sheet currency mismatches at commercial banks
  - Other than overcoming balance sheet effects, what does access to foreign capital accomplish?

- Do the results show that balance sheet effects do not matter?
  - Access to foreign capital seems to alleviate balance sheet effects, so these still do matter
  - If balance sheet effects do not matter, why are local owned firms constrained?
Explaining Previous Conflicting Results

- Do the results explain why Bleakley and Cowan (2008) find that firms with dollar debt expand during depreciations?
  - BC do not control for foreign ownership
  - Would need to be the case that foreign owned firms have more dollar debt
  - But Table 3 suggest foreign firms have less dollar debt

- Could you rerun some of the Bleakley and Cowan (2008) specifications using your data?
Main Test

- Paper emphasizes estimates on coefficient of a triple interaction
  - Exports * Dollar Debt * Post

- Find that this coefficient is positive for foreign firms

- Hard for me to interpret effects of triple interactions
  - Understand that foreign firms that are exporters and have dollar debt increase investment more than similar local firms after the depreciation
  - But why would effect be larger if levels of dollar debt are higher?
  - What are effects of each of the variables on their own and each double interaction?
  - Does dollar debt reduce investment for local firms? Does being an exporter increase investment for local firms?
Other Issues

• How extensive is coverage of foreign firms?
  • Increasingly, foreign affiliates of MNCs are wholly owned, and they are rarely publicly listed

• Dollar debt is measured as the ratio of short term dollar denominated liabilities to total short term liabilities
  • This ratio could be high for firms with very low levels of liabilities
  • Such firms should not be affected by balance sheet effects

• Survivorship concerns can be addressed more comprehensively

• Foreign ownership and exporter status are not randomly assigned
  • I wish I had a way to address this
Idea for another project

- One of most striking features of current crisis is contraction in trade
  - Obvious demand shock
  - But I believe conditions in trade finance market matter a lot too
  - Amiti and Weinstein (2009) look for trade finance effects in Japan

- KKV data includes proxies for financial constraints and firm level exports

- Can KKV test for effects of financial constraints on exports?
Relevance to Current Crisis

- Conclusion suggests can learn about what will happen to investment and growth in current crisis from past crises

- Some key differences to consider when thinking about KKV results
  - Few countries have experienced 25% real depreciations
  - Competitiveness effects of depreciations are muted given demand shock
  - Many foreign firms are financial constrained or supported by government
    - Do not have resources to fund foreign operations
    - Politically difficult to send capital abroad
  - Seems to be effort among MNCs to protect the core domestic operations
  - How relevant are result to more developed markets where capital constraints are believed to be less salient?
Conclusion

- Paper addresses a fundamental question about the effects of crises

- Hand collected data are very powerful

- Agree with the result that access to foreign capital plays a critical role in supporting investment in countries hit by large depreciations

- Think KKV can push their analysis further in this paper and can teach us much more about crises in their future work