



# 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