

Discussion of:
“Relationship Networks in Banking Around a Sovereign
Default and Currency Crisis”

by: D’Erasmus, Moscoso, Olivero and Sangiacomo

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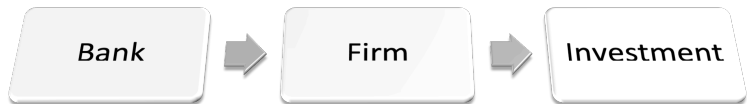
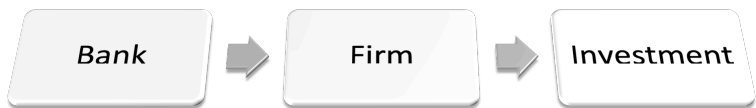
IMF Economic Review Conference
Santiago, July 2019

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Identifying Credit Supply Shocks

Bank lending channel to real activity

- Banks finance firms' productive investment projects



Identifying Credit Supply Shocks

Bank lending channel to real activity

- In a business cycle downturn we cannot distinguish the credit channel from the recession itself



Identifying Credit Supply Shocks

Bank lending channel to real activity

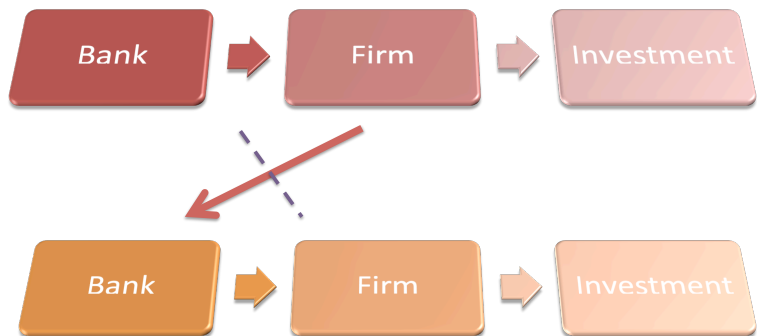
- Bank-specific shocks help with identification



Identifying Credit Supply Shocks

Bank switching frictions

- Bank switching frictions required for identification strategy to work



Identifying Credit Supply Shocks

Brief literature review

Recent empirical studies using micro data matching individual banks and firms (*credit registry*)

- Klein, Peek, Rosengren (2002)
 - Experiment: Banking crisis in Japan in the 90s, affecting differently banks (different exposures to real state)
 - Financial outcome: Lending
 - Real outcome: FDI of Japanese firms
- Kwhaja, Mian (2008)
 - Experiment: Foreign exchange intervention in Pakistan 1998, affecting liquidity of banks differently
 - Outcome: Only financial variables
 - One of the very few looking at interest rates (affected *negatively* by liquidity exposure)

Identifying Credit Supply Shocks

Brief literature review

- Paravisini, Rappoport, Schnabl (2015)
 - Experiment: 2008 capital flow reversal in Peru, affecting differently funding of banks
 - Real outcome: Firms' exports (intensive margin)
- Morais, Peydro, Roldan, Ruiz (2019)
 - Experiment: Monetary policy in country of origin affecting differently funding of foreign banks in Mexico
 - Real outcome: Employment, investment, exit
- Arellano, Bai, Bocola (2019)
 - Experiment: Different exposure of Italian banks to sovereign debt during 2008-10 debt crisis
 - Real outcome: Productivity, capital misallocation
 - Bank/firm match at the regional level

Identifying Credit Supply Shocks

Where does this paper fit in?

- Experiment: Banks in Argentina with different exposures to sovereign debt and currency risk
 - ... affected differently by 2001 default and devaluation
- Outcomes: Lending, exports (extensive margin)
- Contributions:
 - Episode with heterogeneous response of firms (exporters and non exporters)
 - More detail on switching behavior of firms
- Limitations:
 - Not so rich data on firms' real activity
 - ... only export status - $\{0,1\}$ variable

Main Results of the Paper

Results on credit

- More exposed banks (to sovereign debt and to currency risk) cut more their lending after the crisis
... controlling for bank's characteristics
- Credit for firms linked to more exposed banks falls more
... controlling for other bank and firm's characteristics
- Credit contraction is partially mitigated by firms switching banks (*new relationships*)
... mostly due to the behavior of exporting firms
- Even in the case of exporters, switching banks took time
... is it so clear?

Main Results of the Paper

Real effects on exports

- Firms linked to banks with higher exposure (to sovereign debt and to currency risk) are less likely to be exporting after the crisis
- Conclusion: Credit supply affects the extensive margin of exports
- However:
 - No sectoral distinction: a large fraction of firms produce non-traded good, no exporting option
 - Many firms exporting after the crisis were also exporting before
- The outcome variable does not fully capture entry in export markets ... shouldn't we use a *change in export status* variable?

Discussion and Policy Implications

The role of interest rates

- What is the role of interest rates in the adjustment of the credit market?
 - None in this paper (nor in this literature)
- Do firms linked to exposed banks who obtain less credit also pay a higher price for it?
 - Not in Kwhaja, Mian (2008), but more evidence is needed
 - Caveat: heterogeneity in borrowers might imply changes in average interest rates due to composition effects
- Differences in interest rates (across banks and firms) might give us direct evidence on the value of credit for firms and the size of switching costs

Discussion and Policy Implications

The nature of switching frictions

- How important are bank switching costs?
 - According to this paper, low enough for exporters to switch, but high enough for non-exporters to be exposed by exposure of linked banks
- What are these switching costs?
 - Private information?
 - Rigidities in lending portfolios of banks?
- Identifying the nature of these frictions is key for policy implications

Discussion and Policy Implications

Some policy implications

- In the context of the paper, policies should reduce the incidence of switching frictions
- Is that first order? What about other margins of adjustment?
... as interest rates, access to bond and equity markets
- How to reduce switching costs?
 - Make private information public
... could reduce incentives for banks to acquire private information
 - Subsidize credit of exposed banks
... could be highly distorting
- Promoting bank competition can help to reach a market-based solution
... but prudential regulation enforcement might be key