Comments on "The Distribution of Crisis Credit and Firm Indebtedness"*

Gustavo Leyva[1]

[1]Banco de México, Research Department

CEMLA-FRBNY-ECB Conference, July 2021

* The views expressed here are my own and do not necessarily reflect those of Banco de México or its Board of Governors.

What I like about the Paper

- Touches upon a relevant topic
- Fantastic job at constructing and merging data
- Data could be “readily” updated
- It is a bold paper

This Paper

Argument is straightforward:

1. PGP attracted risky firms
2. These firms increased their debt (beyond the obvious)
3. Therefore, ready credit but at a cost of exposing the economy

PGP attracted risky firms ...

- How good is your default model at predicting? What is a risky firm?
- One standard deviation may tell something of the default rate distribution, but what does it mean?
- Looking at the results differently, the supply-side did play a crucial role:
  - Policy easing the provision of cheap/generous credit (incentives matter after all)
  - Exploit the link between firm's size (the smaller, the higher the guarantee) with the approval ratio
- In some sense results not surprising. Cheap credit now and expectation of cheap credit in the next 1 or 2 years (still low policy rates plus inflation slightly above the target by the end of 2021 - IPoM June 2021)
- What is the average default rate in 2019 of firms applying and not getting the credit and those applying and getting the credit?
- Want to carry these findings beyond COVID-19
  - Not persuaded. Was not the size of the guarantee (60 percent for larger and 85 for smaller firms) unprecedented?
  - Comparison with the EP program seems off unless it is used to stress the adverse selection induced by PGP. EP attracted less risky borrowers. Fine, so?

These firms increased their debt (beyond the obvious) ...

- Beyond the obvious
  - Of course, firms increased their debt (obvious)
  - Beyond the obvious: debt measured relative to sales
  - But now, this requires taking a **stand** on the role played by sales
  - Implicit story: easy financing led to higher sales and profits. Then we should not expect a large excess in debt in 2020/2019. But
    - PGP as an insurance (designed to finance working capital)
    - What if sales did not increase (as you *expected*) because of weak aggregate demand? - But Chile already close the output gap (IPoM June 2021), so why would not sales follow suit? domestic versus external demand playing a role here?
    - Why is a 6 percent increase in this ratio alarming? Compared to what? - The smallest firm among the largest that did not get the credit actually saw this ratio *decrease*
  - Exploit different phases of the recovery to shed light on the role of sales
- RDD
  - Be aware that the "causal effect" is localized at very large firms (not representative)
- Comparison with EP is again off
  - EP did not increase firms' debt. But why would it in the first place?

Therefore, ready credit but at a cost of exposing the economy ...

- It *may be* ... it is still a "maybe" after reading the paper
- Looking forward to the new version