Discussion of Covid-19 Shock and Firm financing Government or Market or Both?

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The paper evaluates the impact of the Covid-19 policies implemented in Chile

- **FCIC** phase 1, March 2020: **CB credit line to commercial banks**
  - 4 years at the MPR rate
  - USD 24 Billion (8% of GDP)
  - Conditional on «increasing lending to NFC and Households»
- FCIC phase 2, June 2020
  - USD 24 Billion (8% of GDP)
  - Conditional on increase in CVID-FOGAPE loans
  - 30% of it used
- FCIC phase 3, March 2021
  - Conditional on FOGAPE reactiva
- Pre-existing **gov. credit guarantee FOGAPE program extended** in April 2020
  - threshold for eligibility increased from 350K to 1000K
  - capital increased from USD 0.1 to 3 Billion
  - Rate change from market rate to MPR+300 bp

Data and test

- Merge 5 databases on foreign debt, a credit registry, bank loans, bonds, NFC sales.

- Test: domestic debt/ total debt= β log (sales_2019)+ δ Eligibility

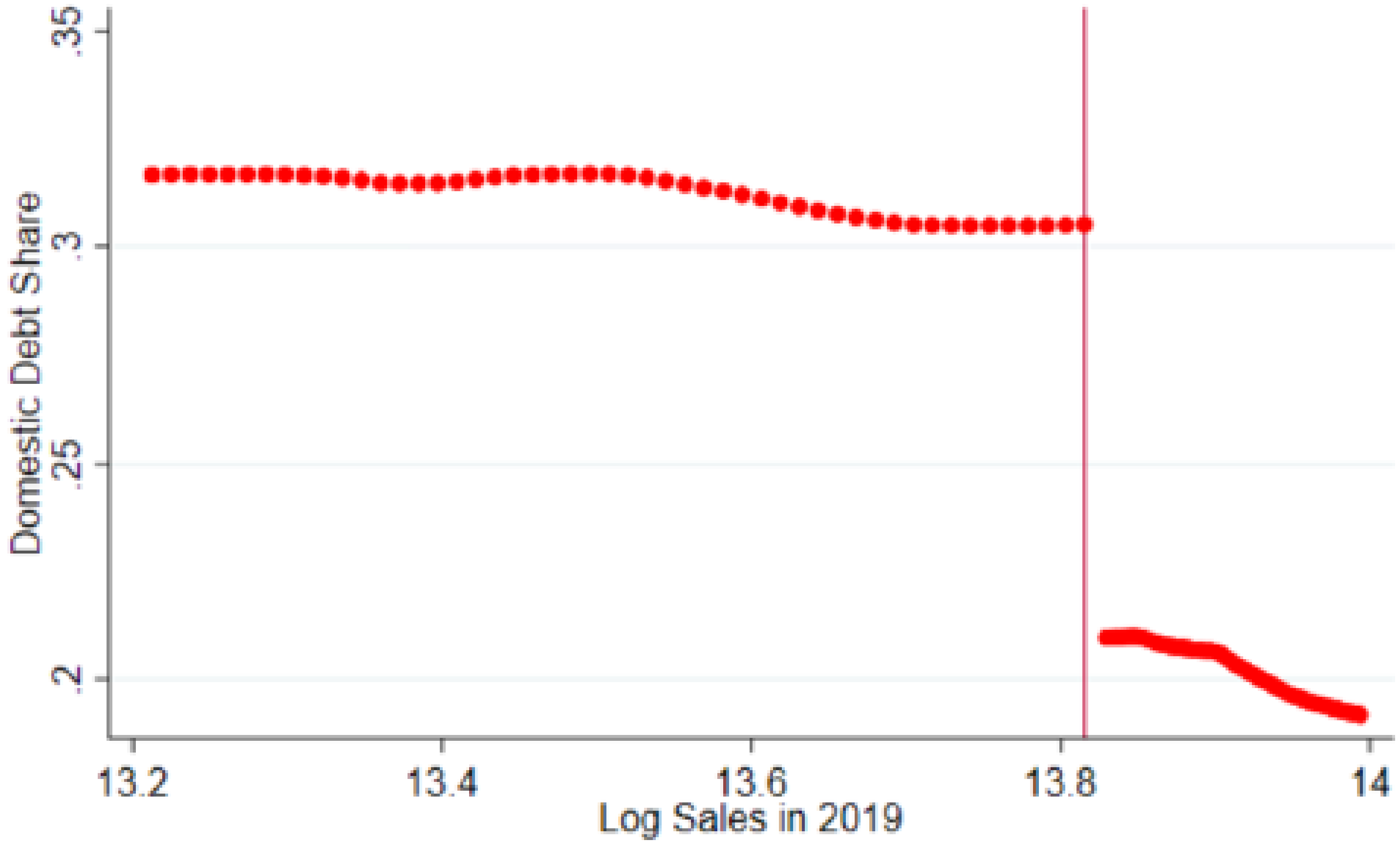
- For 653 firms
  - 430 with sales < 1000K hence eligible
  - 223 with sales > 1000K hence not eligible

- Very unlikely that firms would engeneer sales in 2019 anticipating this program which is set up in March 2020....

  <=> some form of «total immunity / endogeneity police»

Main empirical result

Figure 3: Domestic debt share vs Sales - Estimated polynomial May to July of 2020



- Clear shift in the debt composition
- State of the art robustness tests

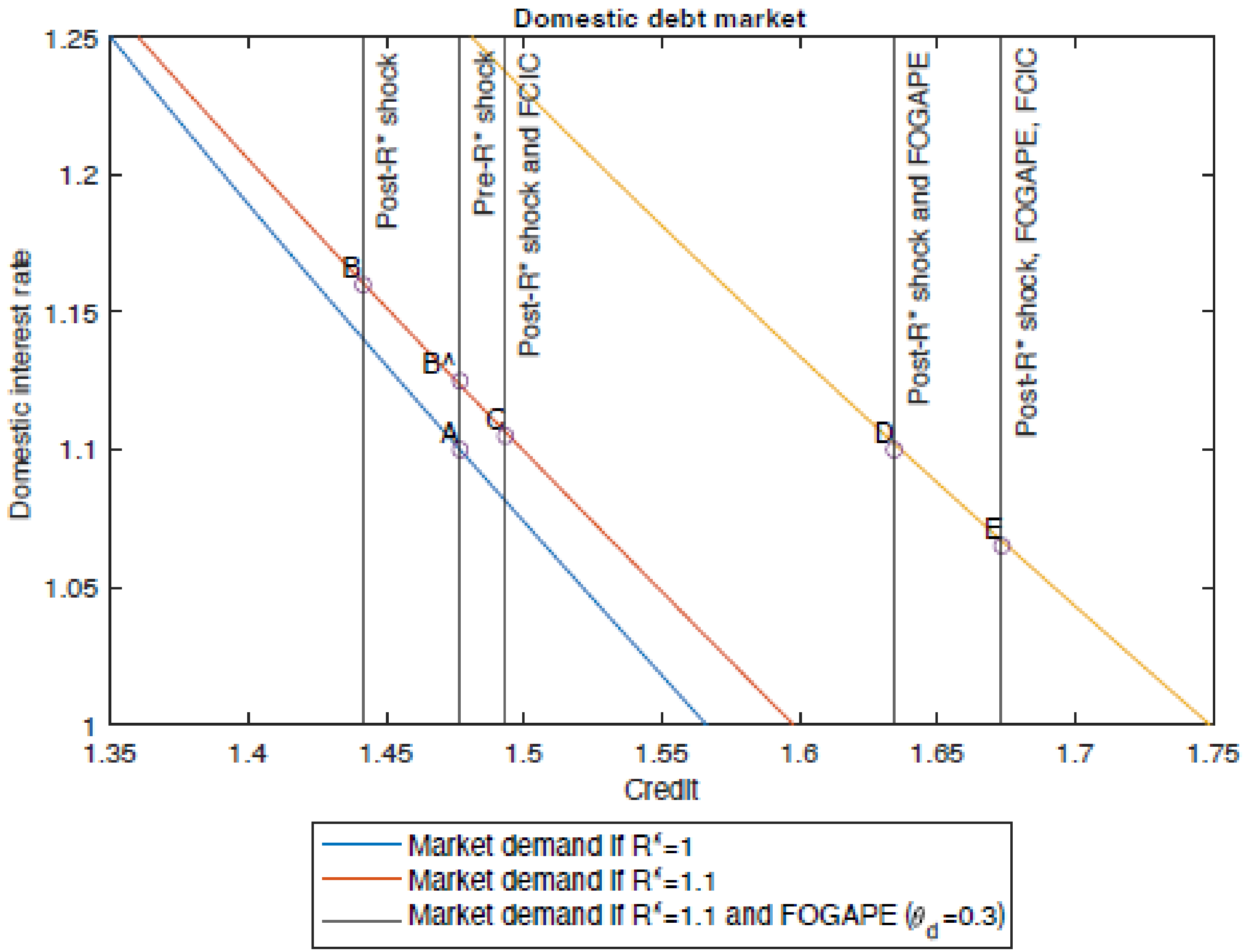
Context of the result

Table 3: Interest rates 2020 vs 2019

	March - July 2019	March - July 2020
Mean i (CHP - %)	15.9	5
Mean i^* (USD - %)	4.3	3.5
Mean i^* (CHP Ex-Post UIP - %)	11.5	22.6
CEMBI (USD %)	2.5	5.1
Number of firms (i)	59479	174010
Number of firms (i*)	64	75
Mean 2019 sales UF (i)	16153	14587
Mean 2019 sales UF (i*)	864459	1360514

A nice model that to rationalize the empirical findings

Figure 7: Effect of a global shock, FOGAPE, and FCIC on the market for domestic debt



- In the model the combination of FCIC and FOGAPE works best

Comment #1 : positive analysis that misses a cost/benefice perspective

- The jury still out / these policies to support corporates have been beneficial
- see previous papers by Sebnem and co-authors where there are attempts to compare various approaches to support SMEs
- See NBER WP 28418 and

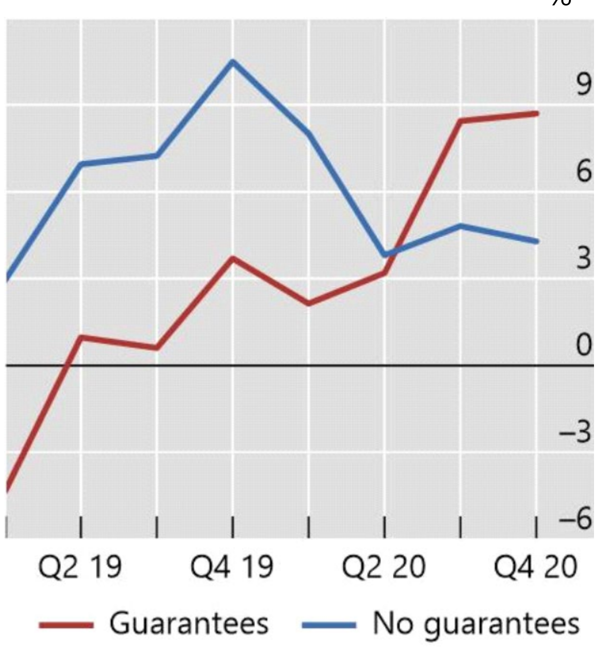
27877 (see table 8 here)

Table 8: The Impact and Costs of Various Policy Options

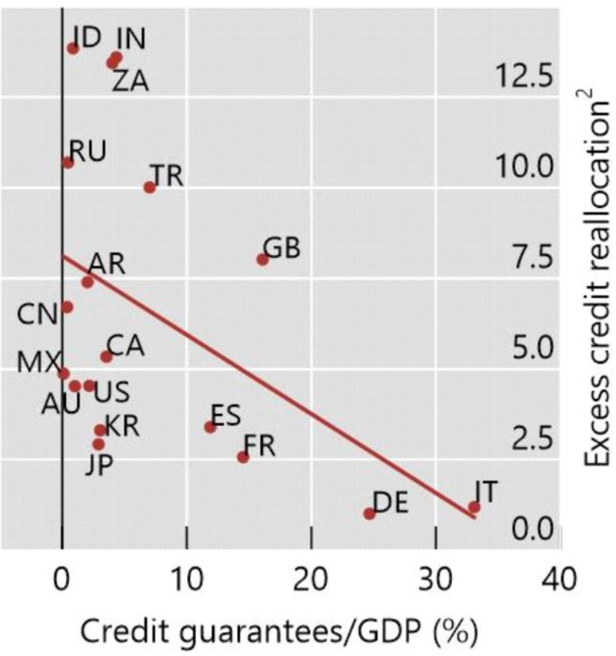
	(1)	(2)	(3)	(4)	(5)
	Firms Saved (% Firms)	Jobs Saved (% Employed)	Wages Saved (% GDP)	Loans Saved (% Loans)	Funds Disbursed* (% GDP)
Benchmark Policy	9.06	4.64	1.12	8.40	0.78
Financial Expenses Waived	1.28	0.52	0.14	4.54	1.29
Tax Waiver	1.90	0.65	0.10	2.63	1.44
Rent Waiver	3.05	1.63	0.40	2.15	3.13
Cash Grant	5.60	3.26	0.74	3.28	2.38
Pandemic Loans	8.56	4.59	1.06	5.79	5.82

Comment #1 : Credit garantees (like COFAGE) imply weak reallocation

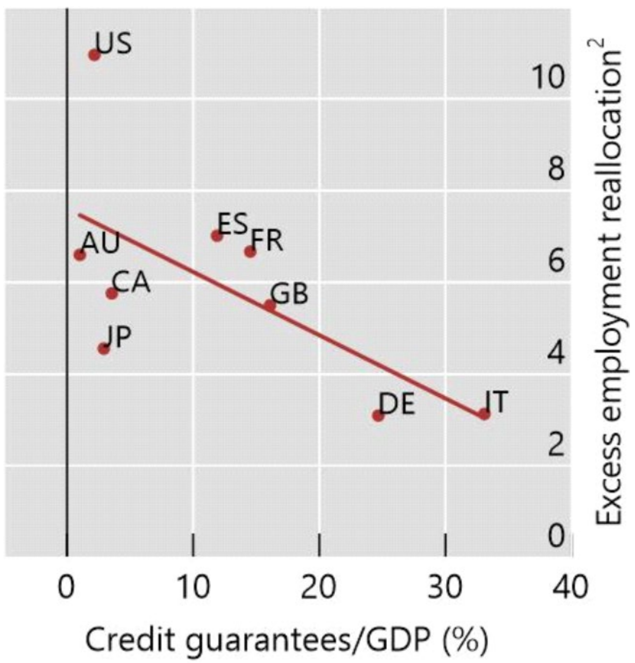
Growth in total loans



Credit reallocation



Employment reallocation

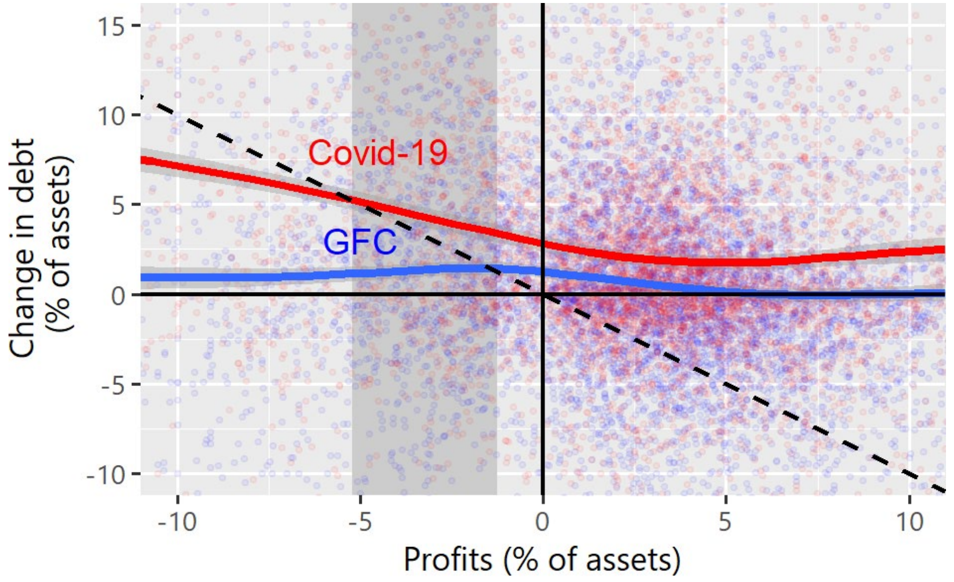


- Credit grew more strongly in economies with government credit guarantees
- But guarantees appear to have held back reallocation

Link to BIS AER 2021

Comment # 2: Business failures, postponed or cancelled?

Credit provision to loss making firms during Covid-19 significantly above GFC[1,2]



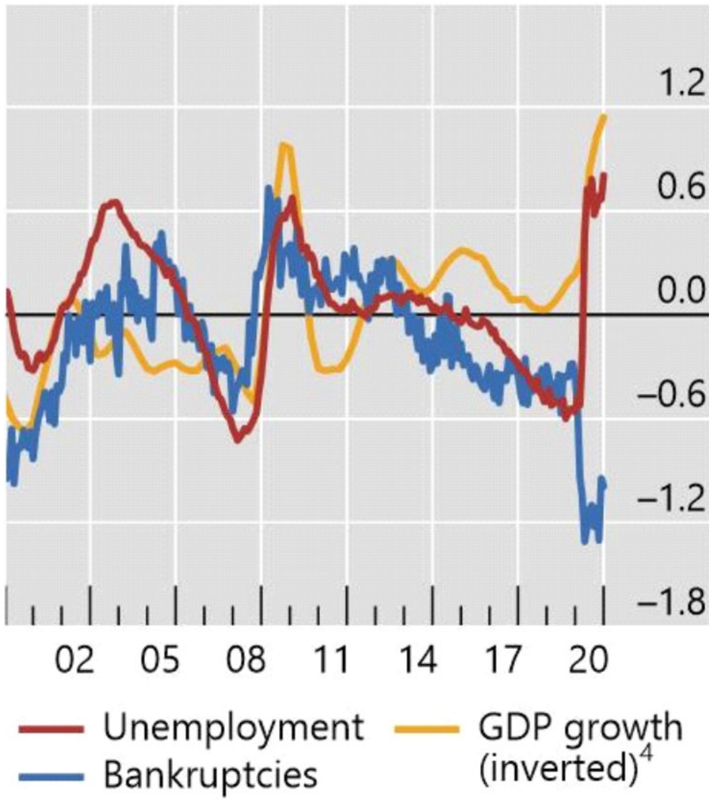
…significantly higher for Covid-19 affected sectors[1,3]

[1] Both panels are based on public and private companies in all non-financial sectors (Consumer Discretionary, Consumer Staples, Energy, Healthcare, Industrials, InfoTech, Materials, Real Estate, Telecom and Utilities) in [2] Covid-19: change between Q4 2019 and Q3 2020. GFC: change between Q3 2008 and Q2 2009. [3] Covid-19 exposed sectors: Airlines, Hotel, Restaurants and Leisure, Entertainment, Textiles, apparel and luxury goods.

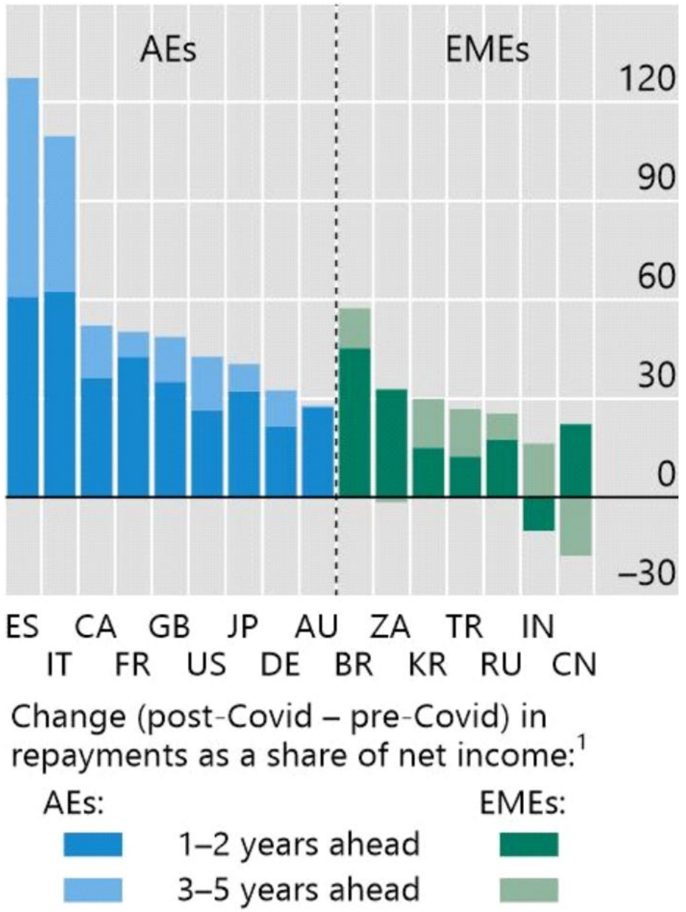
Sources: S&P Capital IQ; BIS calculations.

Comment # 2: Business failures, postponed or cancelled?

Disconnect between activity and bankruptcies



Large rise in short-term debt coming due in next two years

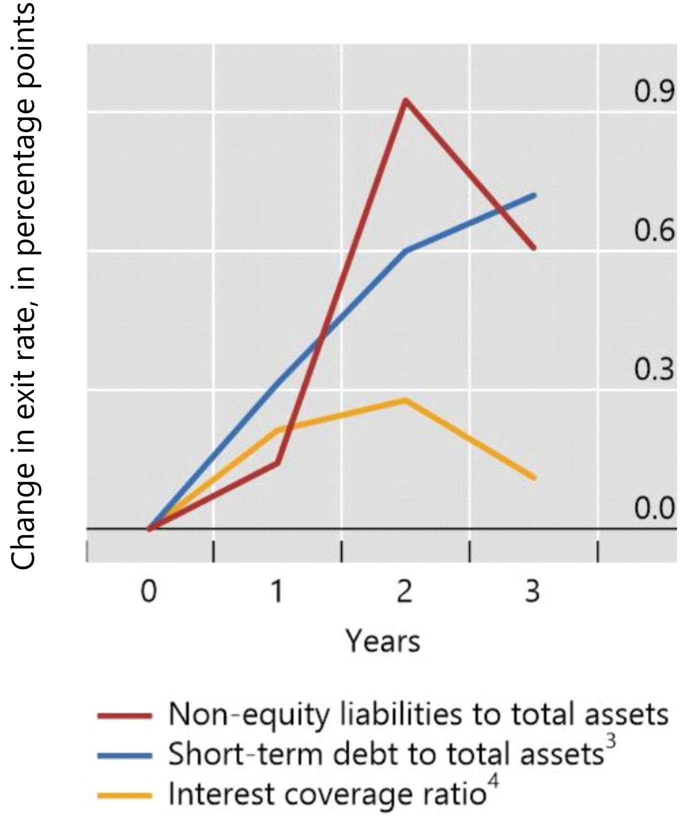


Covid and beyond, Chapter 1, BIS Annual Economic Report 2021

- Failures avoided at cost of higher debt -> higher future rollover risk, but large in Chile

Comment # 2: Business failures, postponed or cancelled? (cont'd)

Delayed impact of financial vulnerabilities on exits



[Link to Banerjee and Kharroubi (2020)]

$$\underbrace{\textit{Cash + cash flow}}_{\text{2020 risk}} < \underbrace{\textit{interest expenses + maturing debt}}_{\text{2022/23 risk}}$$

- Financial vulnerabilities take time before they translate into exits
- Based on historical relationships, danger zone in 2022/2023
- Financial conditions important determinant of this risk

Conclusions

- Amazing data set
- Clear effects of change in the eligibility for the credit guarantee program
- Would be nice to complement with a cost and benefice perspective
  - Clear international evidence that credit garantees limit the reallocation of capital across firms and sectors
- Business failures, postponed or cancelled? We need up-to-date data to understand this. Important analysis on this topic being done within central banks
- Very nice paper. Well done!

Selected references to BIS publications on Covid-19 and the corporate sector

- **Covid-19 and corporate sector liquidity** by Ryan Banerjee , Anamaria Illes , Enisse Kharroubi and José María Serena Garralda, BIS Bulletin | No 10
- **The outlook for business bankruptcies** by Ryan Banerjee , Giulio Cornelli and Egon Zakrajšek, BIS Bulletin | No 30
- **Bankruptcies, unemployment and reallocation from Covid-19** by Ryan Banerjee , Enisse Kharroubi and Ulf Lewrick BIS Bulletin | No 31
- **The financial vulnerabilities driving firms to the exit** by Ryan Banerjee and Enisse Kharroubi, BIS Quarterly Review | December 2020
- **Liquidity to solvency: transition cancelled or postponed?** by Ryan Banerjee , Joseph Noss and Jose María Vidal Pastor BIS Bulletin | No 40
- **Sectoral reallocation, creative destruction and the business cycle** by Enisse Kharroubi, forthcoming
- **Covid and beyond, Chapter 1**, BIS Annual Economic Report 2021