Discussion of "The Covid-19 shock and firm financing: government or market? Or Both?" by Miguel Acosta-Henao, Andres Fernandez, Patricia Gomez-Gonzalez and Sebnem Kalemli-Ozcan

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This paper

QUESTIONS

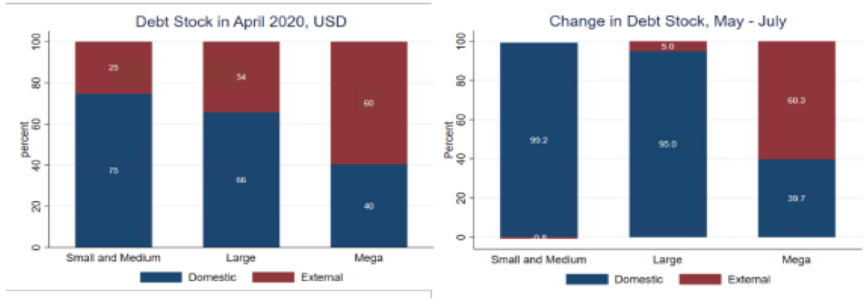
- How did firms respond to unconventional credit expansion policies by governments and central banks?
  - In particular, how did the domestic vs foreign currency finance mix change?
- How did central bank liquidity provision & sovereign credit guarantees interact?

ANSWERS

- Firms have increased borrowing in domestic currency, responding to an increase in availability and decrease in interest rates.
  - Summary graph shows this quite clearly + RDD that exploits eligibility.
- Central bank policies alone without government guarantees would not have worked as effectively.

Empirical result: firms borrowed more in LC.

Figure 2: Stock and change in firms' finance mix - April to July 2020



Notes: The left plot depicts the domestic (blue) and external (red) debt share over total debt for three groups of firms in April 2020: 1) Small and medium (yearly sales of less than 100,000UF. 2) Large (yearly sales greater than 100,000UF and less than 1,000,000UF). 3) Mega (yearly sales greater or equal than 1,000,000UF). The right plot shows the change of each type of debt, domestic and foreign, as a share of the total change for the change in the debt stock between May and July 2020. All calculations are made by measuring the debt in dollars at the spot nominal exchange rate.

- In response to policy changes (FCIC by the CB and FOGAPE-Covid by the government), firms borrowed more in LC.
- Rest of the empirical section is about establishing causality by RDD.
- The result is quite obvious from these summary bars.

Comments on this result on financing mix

- To match currencies, most firms would ideally borrow in domestic currency.
- What policies did was to make something firms like more abundant at a cheaper price. Firms respond to incentives.
- This is an interesting result, but rather obvious. Other important questions are:
  - What are the characteristics of firms that switched more or less to domestic debt?
  - Did these policies shift the decisions of the firms of their currency mix afterwards?
  - What were the long-term implications of this switch?
  - What do these results tell us about firms' corporate financing decisions? If FC borrowing and the resulting mismatches increase risks, should governments continue such programmes beyond Covid?
  - Answering these questions would better place the paper in the literature on firm corporate financing decisions and implications.

Questions about the design

- Authors show that not only quantity available of LC debt increased but also the interest rate decreased reducing the cost advantages of FC debt.
- At the same time, banks' FC borrowing costs decreased quite substantially.
  - Do we see a counteracting force resulting from banks' FC loan supply?
  - Why did banks' FC costs decrease, but firms' didn't?
  - Mega firms did increase FC borrowing. Talk about selection, but only in the passing.
- I would have liked to see more about what banks did and the differences in outcomes of similar firms that increased domestic borrowing vs those ineligible that increased foreign currency borrowing.
- For example, in Eren, Malamud and Zhou (2022), we show that firms that increased FC borrowing prior to crises actually had higher earnings during these episodes. Do you see similar outcomes?

Questions about design - continued

- Foreign and domestic loans are very different in size prior to Covid.
  - Did domestic loans substitute foreign loans adequately?
  - What are the longer term implications?
  - What happened to these firms' borrowing decisions/outcomes when international markets went back to normal?
- I agree that firms could not manipulate the 1 million UF sales cutoff 2019 anticipating the policies, but are there tax-related (or other) discontinuities around 1 million that might result in a selection of firms around 1 million UF?
  - Doing robustness checks on the main equation would have been helpful with additional controls than log(Sales).

Model

- Model shows that central bank and sovereign policies were complementary.
- To place the paper better in international finance:
  - What are the welfare implications of the change in the currency mix?
  - What would have been the optimal design of the policies?
    - Did the government do too much?
    - Should the government have also included the mega firms in the eligibility?
    - What would have been the optimal size of the programmes and the optimal reduction in domestic interest rates given the trade off between advantages of lowering currency mismatches versus higher leverage? Also risks of currency mismatches vs higher contingent sovereign debt?
    - Should the government have reduced the size of these policies since banks had a cost reduction in dollars and could have supplied more dollar loans without increasing exposures of the public sector.
- Estimations could have been more tightly linked to the model to get more mileage from the empirical section and the great data used.

Conclusion

- Great data effort to understand the impact of public policies on firms.
- Model evaluates the policies and their complementarities well.
- My comments focused on suggestions to increase the impact of the paper.

- Empirics:
  - Focus less on debt substitution and the RDD on the debt substitution (as this is quite obvious already looking at summary statistics).
  - More on the medium to long-run implications – two years since the introductions of these policies is a long enough period to see some effects both on firms' future financing decisions and outcomes.
- Model:
  - Leverage the great data better and calibrate the model more tightly.
  - Explore questions about welfare, optimal design of policies and the optimal interaction between governments and banks.