Loan guarantees, bank lending and credit risk reallocation

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Discussion by

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Questions and main findings

- **What drives the demand and supply of Covid-related loan guarantees?**

- **Have loan guarantees created new or substituted existing loans?**

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- **These questions are being answered …**
  - … using AnaCredit data for 4 large Euro Area economies
  - … for the period until August 2020
  - … using the Khwaja and Mian (2008 AER) technology.

Questions and main findings

- **What drives the demand and supply of Covid-related loan guarantees?**
  - Demand = small, creditworthy firms in sectors affected by the pandemic
  - Supply = large, liquid, well-capitalized banks

- **Have loan guarantees created new or substituted existing loans?**
  - Most guaranteed loans constituted additional lending – but a small, significant share substituted pre-existing loans.
  - Substitution was strongest for risky, small firms exposed to the pandemic, …
  - … and for borrowing from larger and stronger banks.

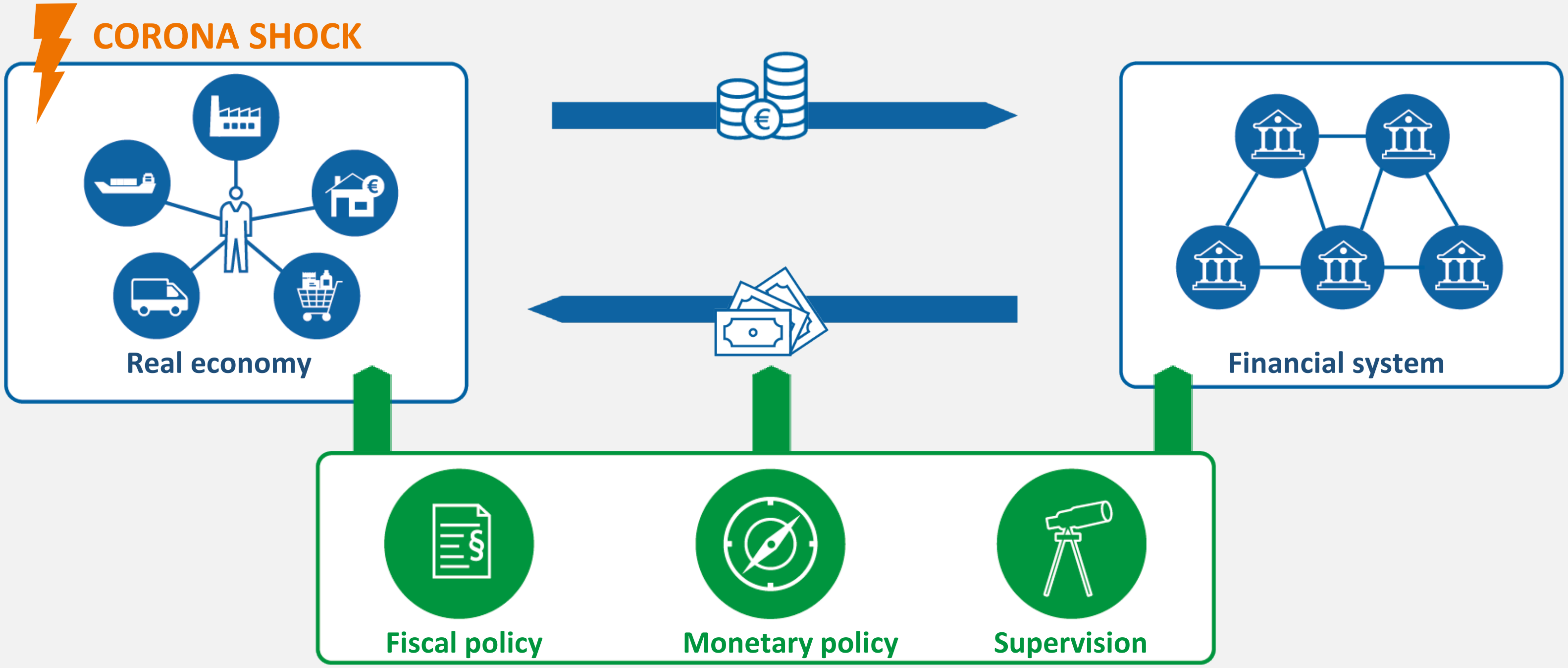
Overall assessment and comments

- **This is a well-written, highly topical paper that uses state-of-the-art empirical techniques and data:**
  - I strongly recommend reading the paper!

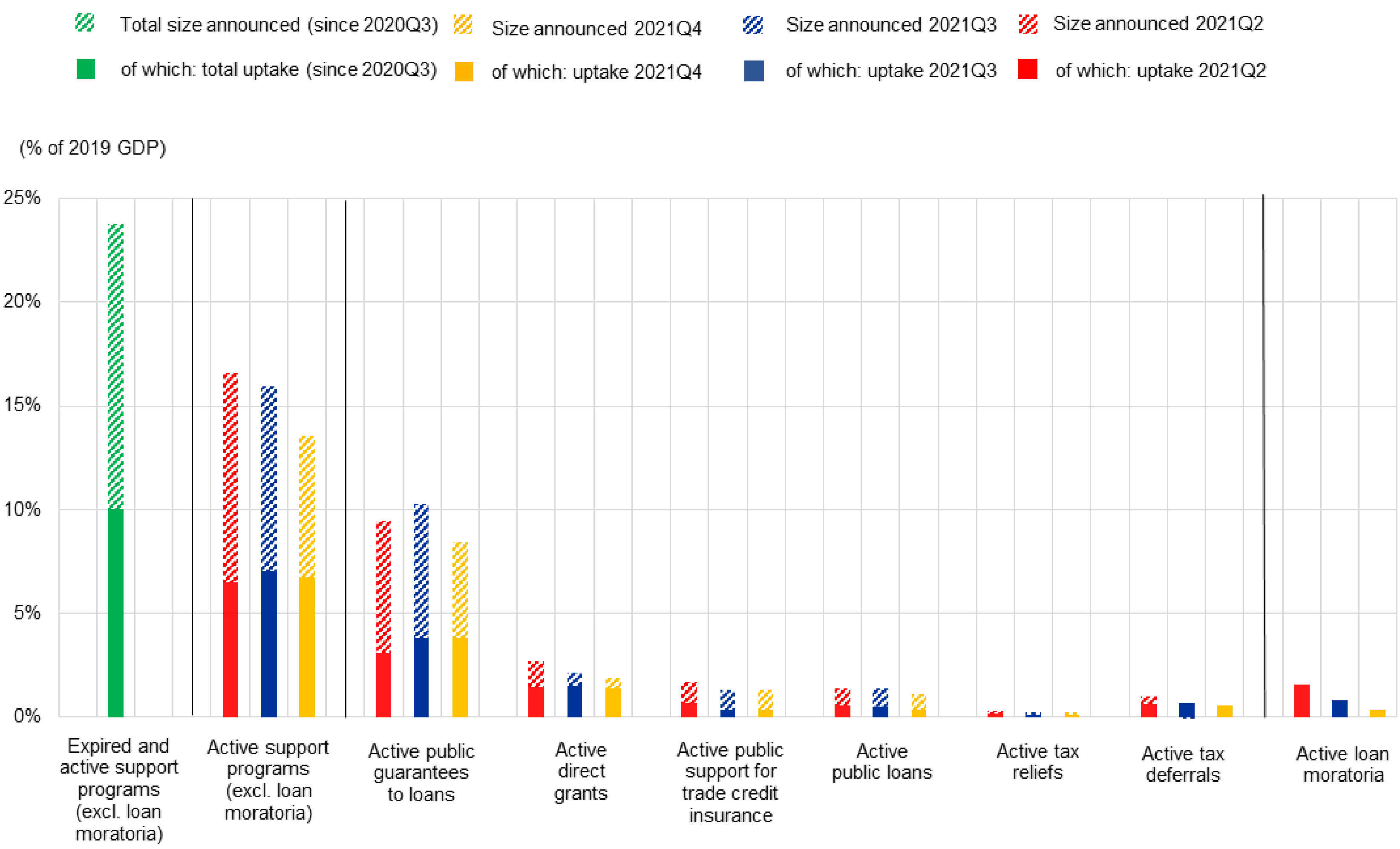
- **My comments are related to the framing and the main narrative:**
  - Does the **type of shock** matter?
  - What has been the **purpose** of fiscal measures – and did they achieve the objective?
  - How to assess the **macroeconomic effects** of loan guarantees and other fiscal measures?

- **Covid-related fiscal measures targeted the real economy – and indirectly stabilized also the financial system.**
  - Future macroeconomic risks could be underestimated!


CORONA SHOCK
Real economy
Risk of a
credit crunch
Financial system


CORONA SHOCK
Real economy
Financial system
Fiscal policy
Monetary policy
Supervision

Fiscal measures during the pandemic reached up to 24% of GDP in terms of volume and 10% in terms of uptake.



Source: Recommendation ESRB/2020/8, as of reference date 31/12/2021.

Does the type of shock matter?

- **The Corona recession differed from previous recessions:**
  - Global, unexpected health shock
  - Little *ex ante* private sector insurance
  - Effects on advanced economies *and* emerging markets
  - Little risk of moral hazard

- **There was a case for *ex post* insurance through fiscal policy:**
  - Coordinated global policy response
  - Coordinated policy response across fiscal, monetary, and regulatory policy (supervision, insolvency regulation)

➢ ***Does the nature of the shock affect the results of this paper?***

➢ ***Do results generalize beyond the special Covid-setting?***

What has been the purpose of fiscal measures – and did they achieve the objective?

- **Loan guarantees have been used extensively across countries to prevent a credit crunch triggered by the pandemic.**

- **Policymakers might pursue different goals:**
  - (Directly) stabilize the real economy and employment
  - (Indirectly) stabilize the financial sector
  - Prevent excessive corporate insolvencies
  - Promote specific sectors

- **Finding evidence in favor or against substitution effects is one metric to analyze the effects (and side effects) of these programs.**

➢ ***Are there other relevant metrics?***

➢ ***Are there implications for future fiscal programs? What to monitor? Which information systems to establish?***

How to assess the macroeconomic effects?

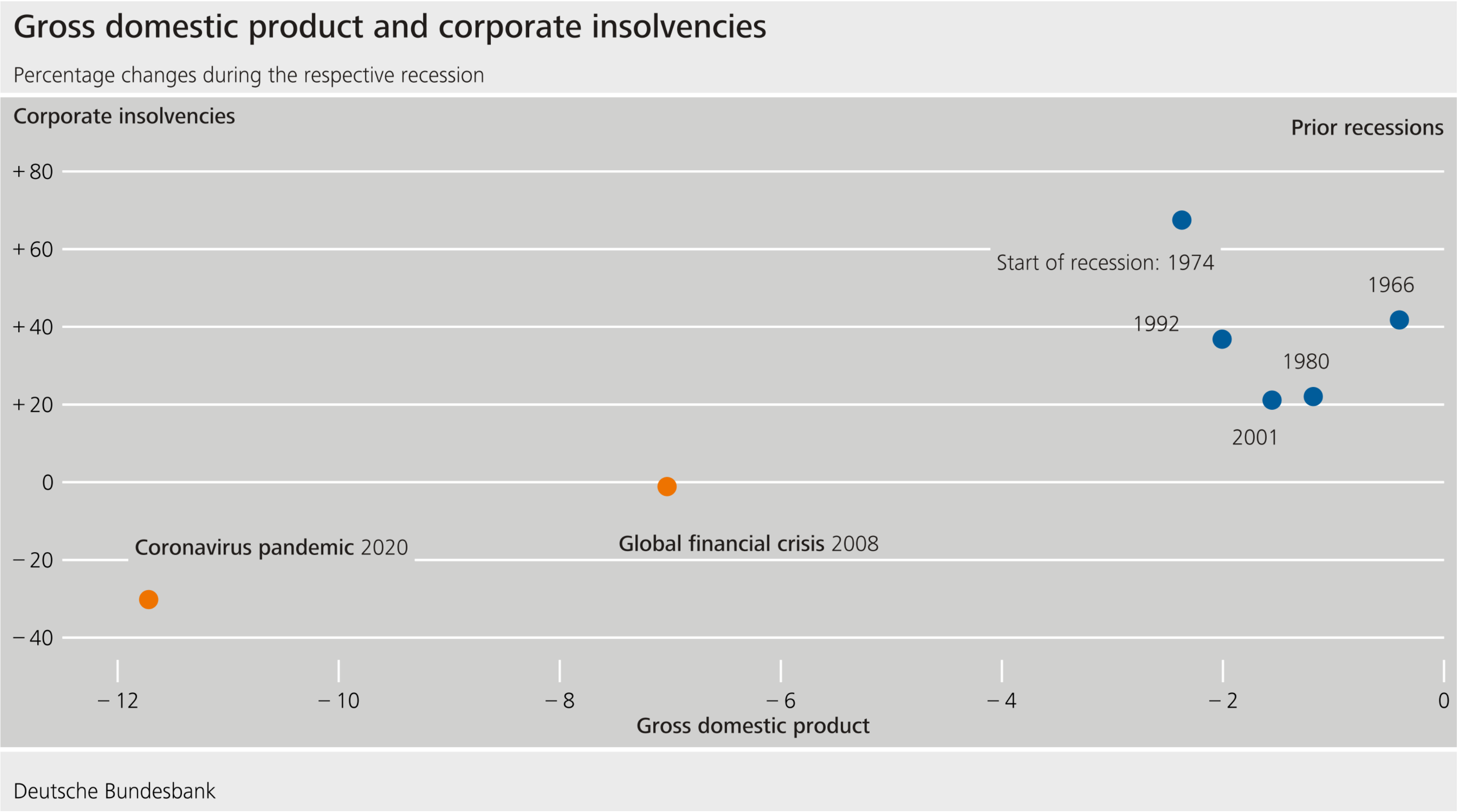
- **The micro-econometric technique used in this paper is highly effective in identifying causal effects.**

- **But identification comes at the price of eliminating macroeconomic factors.**
  - Hence, the results do not tell us much about the aggregate effects of loan guarantees

- **Many relevant policy questions center around aggregate effects:**
  - What are the implications of loan guarantees for employment?
  - What are the financial stability implications?
  - How do fiscal policy, monetary policy, and macroprudential measures interact?

➢ ***Which empirical tools can we use to answer these questions?***

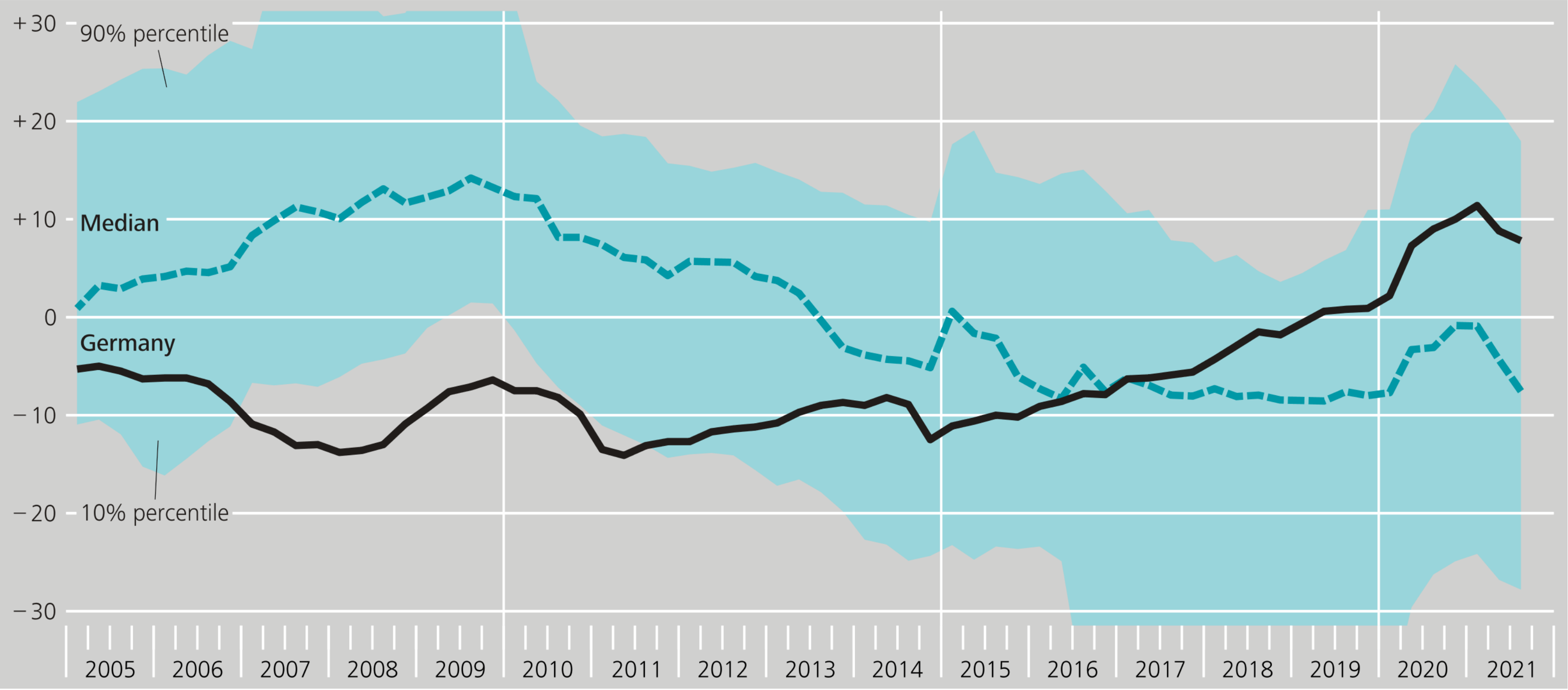
Has this time been different?
Corporate insolvencies in Germany during post-war recessions.



During the pandemic, vulnerabilities have continued to build up – the financial cycle has not been interrupted.

Credit-to-GDP gap in selected advanced economies*

Percentage points



Sources: BIS and Bundesbank calculations. * Based on 27 advanced economies using classification by the IMF.
Deutsche Bundesbank

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