

BUSINESS AS USUAL?

BANK LENDING UNDER CREDIT RELIEF PROGRAMS

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INSTITUTIONAL BACKGROUND AND RESEARCH QUESTION

- COVID-related relief programs for businesses in Portugal
 - public guarantee schemes (“PGS”)
 - double screening process (bank and government)
 - various criteria governing guaranteed amount, max maturity, pricing
 - share of credit to firms guaranteed by PGS ↑ from 5% in 2019 to 10% in 2020
 - bank credit moratorium (“BCM”)
 - pretty much available to every business not-in-default
 - maturity extensions, temporarily halt to loan payments
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- Focus on *policy externalities*: how do banks’ differential exposures to relief programs at the *onset* of crisis affect total and non-guaranteed credit extended by banks
 - *PGExp* and *MoratExp* at bank-level are main sources of variation explored
 - include March-May 2020

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- **Do banks involved in credit relief programs shift their risk appetite?**
 - high PGS (resp. BCM) banks take lower (resp. higher) credit risk

(CONSTRUCTIVE) COMMENTS

Disclaimer: I am usually skeptical and critical (specially of my work)!

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- outcome variable $Credit_{fbt}$
 - is it a “flow” or “stock” variable?
 - if a “flow” variable, are these “net” or “gross” flows?
- instrumental variable strategy
 - what is the main endogeneity concern?
 - why do you think the Bartik instrument you are using works?
 - correction only for $PGExp$ and not for $MoratExp$?

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Data/descriptive statistics: many potential issues

DESCRIPTIVE STATISTICS (TABLE 1)

	Mean	Q1	Median	Q3	Std. Dev.
Bank Sample					
PG Exp.	0.23	0.56	0.00	0.00	0.91
Morat Exp.	6.57	5.99	0.00	5.83	13.99
Bartik Instrument	0.03	0.09	0.00	0.00	0.13
Previous PG Exp.	0.20	0.73	0.00	0.00	0.42
Bank Assets (Billion)	7.53	18.47	0.09	0.68	27.95
Foreign Bank	0.36	0.49	0.00	0.00	1.00
Bank Liquidity	0.02	0.04	0.00	0.00	0.08
NPLs	0.03	0.06	0.00	0.01	0.07
Capital Ratio	0.17	0.20	0.01	0.11	0.39
Credit Ratio	0.69	0.23	0.39	0.73	0.95
Observations	55				
Firm Sample					
Total Credit (thousand)	404.27	4,510.99	1.50	24.23	430.52
Total assets (thousand)	2,104.32	59,569.58	22.42	197.95	2,077.63
Firm Risk	0.11	0.24	0.01	0.03	0.16
Leverage	3.06	652.45	0.00	0.18	0.73
Profitability	-0.64	137.57	-0.22	0.03	0.23
Industry Shock	0.12	0.30	-0.09	0.06	0.46
Regional Shock	0.07	0.12	-0.03	0.05	0.21
Firms with Public Guarantee	0.06	0.23	0.00	0.00	0.00
Firms with Moratorium	0.16	0.37	0.00	0.00	1.00
Firms with No Credit Relief Programs	0.73	0.44	0.00	1.00	1.00
Observations	218,407				

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Investigate the economic mechanisms generating these empirical patterns

- need to discuss how guaranteed loans and loans under payment moratorium affect capital requirements and economics of banks
 - who bears the losses on un-guaranteed portion of guaranteed loans?
 - how are banks compensated for credit risk on un-guaranteed portion?
 - at which rate do unpaid balances of loans under moratorium accrue?
- need to discuss choice of firms to choose one or the other program, since conceptually, these two programs seem similar from a firm's standpoint
 - ignoring interest payments, maturity extension (under moratorium) is identical to firm refinancing non-guaranteed debt with guaranteed debt (under PGS)
 - why exclude firms with both guaranteed credit and a moratorium?