THE VISIBLE HAND WHEN REVENUES STOP: EVIDENCE FROM LOAN AND STOCK MARKETS DURING COVID19

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Discussion by Andrea Polo (Luiss, UPF, Barcelona BSE, EIEF, CEPR & ECGI)

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General assessment

- The paper goes after a super important question which is, in fact, the title of this conference : How effective were policy measures in supporting corporate sector and bank lending during the Covid-19 crisis?

- At this stage, we have several papers analyzing this question (papers on interventions with credit register data or quantification exercises with sophisticated models)

- This paper offers a ***different perspective*** by analysing public available data on listed firms across countries with a reduced form

- It is important to have also this evidence to complement existing research

This paper

- Sample
  - European listed firms and banks
- Data
  - standard accounting and stock returns data
  - news at firm level from S&P Market Intelligence (bad news and "halt" news as proxy for liquidity shocks)
  - bank-level exposures to each country from EBA Transparency Exercise
- Takeaway message
  - Public interventions in the form of loan guarantees allow listed firms to borrow more and this helps them to recover from the initial shock
- Several results but let me focus on the two key findings…

Finding 1

	Stock Return					
	(1)	(2)	(3)	(4)	(5)	(6)
$Haltnews_f$	-0.42***	-0.42**	-0.37***	-0.43***	-0.43**	-0.37***
	(-2.90)	(-2.11)	(-3.07)	(-2.99)	(-2.21)	(-3.07)
$Haltnews_f$*$Interventions_c$	0.01*			0.01**		
	(1.87)			(2.39)		
$Haltnews_f$*$Immediate_c$		0.03			0.04	
		(1.20)			(1.61)	
$Haltnews_f$*$Guarantees_c$			0.01*			0.02**
			(1.92)			(2.41)
Observations	1,048	1,048	1,048	1,048	1,048	1,048
R-squared	0.25	0.25	0.25	0.28	0.28	0.28
Firm Controls	NO	NO	NO	YES	YES	YES
Country*Sector FE	YES	YES	YES	YES	YES	YES

The stock returns of firms drop if they are associated with halt news but the drop is smaller if they are in a country with larger loan guarantee programmes

Finding 2

	Panel B: Second Stage					
	All credit			Foreign credit		
	(1)	(2)	(3)	(4)	(5)	(6)
$Badnews'_c$	14.46	15.22	371.01**	14.38	12.46	99.20
	(0.97)	(0.33)	(2.15)	(1.21)	(0.58)	(1.50)
$Immediate_c$	-87.57*	43.42	46.75	-17.42	19.89	-6.02
	(-1.84)	(0.94)	(0.89)	(-0.47)	(0.71)	(-0.22)
$Guarantees_c$	12.05	0.16	19.29	3.63	3.13	8.60
	(1.33)	(0.02)	(1.34)	(0.89)	(0.64)	(1.26)
$Badnews'_c*Immediate_c$			-82.02**			-24.99
			(-2.07)			(-1.63)
$Badnews'_c*Guarantees_c$			7.99*			3.90**
			(1.82)			(2.09)
Observations	546	539	539	433	426	426
R-squared	0.21	0.24	0.25	0.36	0.40	0.41
Country Controls	NO	YES	YES	NO	YES	YES
Bank FE	YES	YES	YES	YES	YES	YES

After aggregating bad news at country level, more bank lending in countries which are associated with more bad news, in particular if in the country there is a larger loan guarantee and support program

My comments

- Two generic comments
  - Loan guarantees for listed companies
  - Other public support measures
- Economic interpretation of Finding 1
- Economic interpretation of Finding 2

Loan guarantees for listed firms

- My prior: loan guarantees mostly to SMEs

Figure 3. Guaranteed loans by firm size (million Euro)

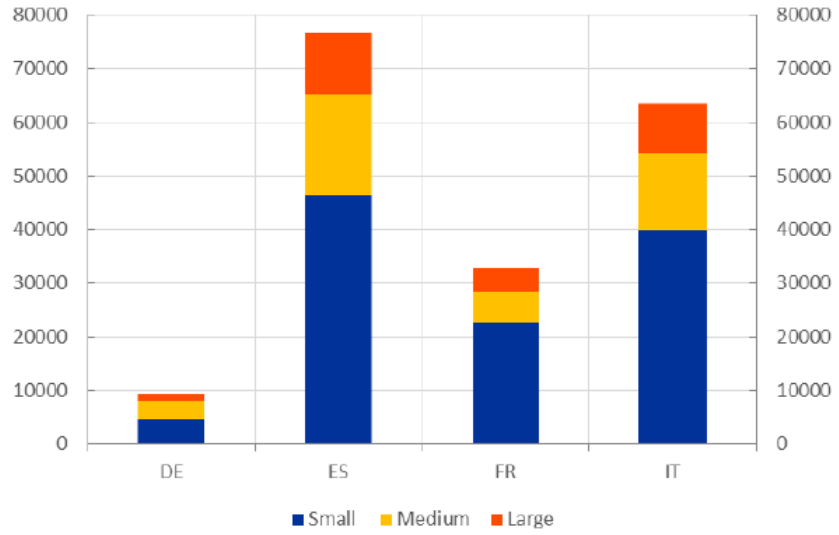
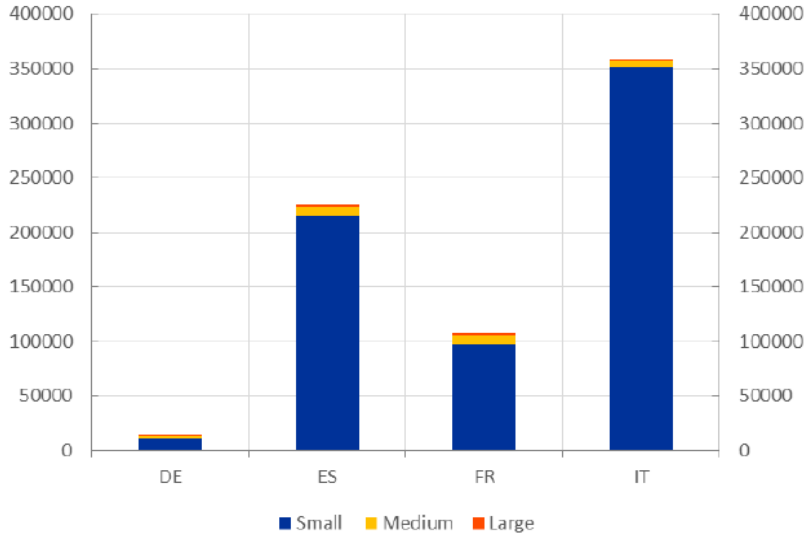


Figure 4. Guaranteed loans by number of firms



Altavilla, Ellul, Pagano, Polo and Vlassopoulos (2021)

Loan guarantees for listed firms

- How relevant is this fiscal tool for listed firms?
  - Famous case of Lufthansa: €6 billion of recapitalisation + state guarantee on a €3 billion loan

- *Authors could document this direct effect in the paper (information available in the 2020 financial statements for listed companies)*

- *If they find that this the percentage of new debt which is state guaranteed is tiny for listed firms, results could still be rationalized via an indirect effect*
  - *For instance, the programme may frees up lending capacity to the banking sector in the country…*

Other public support measures

- Authors focus only on government policies (distinguishing cash transfers and loan guarantees) but other public support measures:
  - Monetary, macro prudential and micro prudential policies (Altavilla et al. 2022)
- Since variation in the support measure is cross-country, variable could capture differences in other support measures

- *Authors could exclude UK firms (37% of the sample) and keep only euro-area firms to have a more homogenous sample relatively to other support measures*

Economic intepretation of Finding 1

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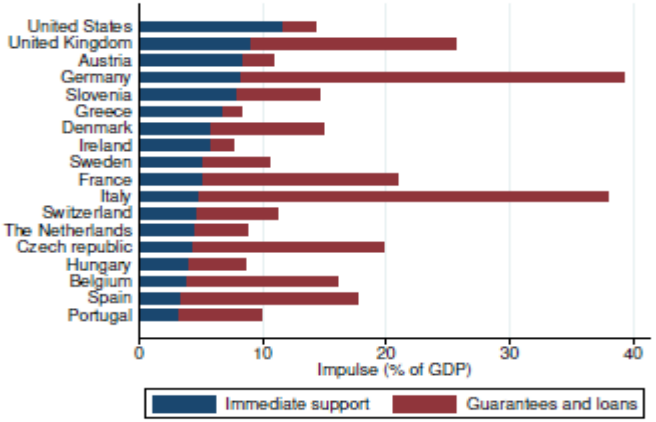
- *The estimate in column 4 implies that the value of firms stopping their operations due to Covid19 drops by 43% in a country with no expenditures for public interventions to support firms"*
- *Then they use this as a baseline to understand the total effect summing the coefficient of the non interacted and interacted variable*

Economic intepretation of Finding 1

- It sounds like "a counterfactual" (the authors never use this expression!)
- There are no countries with zero interventions so I would avoid interpreting this coefficient



To interpret the coefficient of the non interacted variable the authors could just demean the variable "interventions"

$$y_f = \beta_1 \; Haltnews_f + \beta_2 \; Haltnews_f \times (Interventions_c - \overline{Interventions})$$

$$y_f = (\underbrace{\beta_1 - \beta_2 \; \overline{Interventions}}_{\hat{\beta}_1}) Haltnews_f + \underbrace{\beta_2}_{\hat{\beta}_2} \; Haltnews_f \times Interventions_c$$

Economic intepretation of Finding 2

	Panel B: Second Stage					
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- We have banks lending to multiple countries
- By including Bank FE, the authors say they are controlling for supply and are thus identifying credit demand in the spirit of KM (2008)

Economic intepretation of Finding 2

- KM (2008) is about firms borrowing from multiple banks and the inclusion of Firm FE to control for demand by isolating supply
  - … and this is under the assumption of absence of bank-specific credit demand

- Here not only the spirit is different but desantangling demand from supply would require the assumption of absence of country-specific credit supply
  - This seems a stronger assumption

- *I think the authors could discuss these issues and explicitely make a case for the validity of this assumption or abstracting from the issue of desantangling demand and supply*
  - *this would still be a very interesting result*

Conclusions

- Important angle to analyze impact of public support programs post Covid
  - Looking at listed companies is very important and less explored
- Of course, this is a challening exercise since it is difficult to establish counterfactual without granular data or structural model
- But i think that the evidence they bring represents a contribution to our understanding of the effects of these measures
- I made a few suggestions to *hopefully* strenghten the interpretation of the results