Discussion of “What Hinders Investment in the Aftermath of Financial Crises?

C. Fritz Foley

HARVARD | BUSINESS | SCHOOL

HARVARD | BUSINESS | SCHOOL

Contribution (1)

- Large depreciations should increase output in the tradable sector, but they do not uniformly have this effect
- Some papers indicate that financing constraints also arise during depreciation and these limit the impact of competitiveness effects
- What is the source of this financing constraint?
- Balance sheet currency mismatch
  - Bleakley and Cowan (2008) present controversial evidence against this
- Banking crisis
  - Kaminsky and Reinhart (1999) present evidence for this
- Access to foreign sources of capital
  - Desai, Foley, and Forbes (2008) present evidence for this

Contribution (2)

- **KKV bring amazing data to bear on this question**
  - Observe local/foreign currency denomination of assets and liabilities
  - Observe firm level exports
  - Observe extent of foreign ownership

- **Find foreign ownership allows firms to overcome financial constraints, regardless of balance sheet currency mismatches**

- **Conclude that limited access to credit, rather than balance sheet currency mismatch effects, plays important role in hindering investment**
  - Foreign firms have better access to global sources of capital
  - If foreign firms hold more dollar debt, this could explain results of Bleakley and Cowan (2008)

HARVARD | BUSINESS | SCHOOL

Interpretation

- **Are the different hypothesized mechanisms behind the financial constraints that different?**
  - Many banking crises are a consequence of balance sheet currency mismatches at commercial banks
  - Other than overcoming balance sheet effects, what does access to foreign capital accomplish?
- **Do the results show that balance sheet effects do not matter?**
  - Access to foreign capital seems to alleviate balance sheet effects, so these still do matter
  - If balance sheet effects do not matter, why are local owned firms constrained?

Explaining Previous Conflicting Results

- **Do the results explain why Bleakley and Cowan (2008) find that firms with dollar debt expand during depreciations?**
    - BC do not control for foreign ownership
    - Would need to be the case that foreign owned firms have more dollar debt
    - But Table 3 suggest foreign firms have less dollar debt
- **Could you rerun some of the Bleakley and Cowan (2008) specifications using your data?**

Main Test

- **Paper emphasizes estimates on coefficient of a triple interaction**
  - Exports * Dollar Debt * Post
- **Find that this coefficient is positive for foreign firms**
- **Hard for me to interpret effects of triple interactions**
  - Understand that foreign firms that are exporters and have dollar debt increase investment more than similar local firms after the depreciation
  - But why would effect be larger if levels of dollar debt are higher?
  - What are effects of each of the variables on their own and each double interaction?
  - Does dollar debt reduce investment for local firms? Does being an exporter increase investment for local firms?

Other Issues

- **How extensive is coverage of foreign firms?**
  - Increasingly, foreign affiliates of MNCs are wholly owned, and they are rarely publicly listed
- **Dollar debt is measured as the ratio of short term dollar denominated liabilities to total short term liabilities**
  - This ratio could be high for firms with very low levels of liabilities
  - Such firms should not be affected by balance sheet effects
- **Survivorship concerns can be addressed more comprehensively**
- **Foreign ownership and exporter status are not randomly assigned**
  - I wish I had a way to address this

Idea for another project

- **One of most striking features of current crisis is contraction in trade**
  - Obvious demand shock
  - But I believe conditions in trade finance market matter a lot too
  - Amiti and Weinstein (2009) look for trade finance effects in Japan
- **KKV data includes proxies for financial constraints and firm level exports**
- **Can KKV test for effects of financial constraints on exports?**

Relevance to Current Crisis

- **Conclusion suggests can learn about what will happen to investment and growth in current crisis from past crises**

- **Some key differences to consider when thinking about KKV results**
  - Few countries have experienced 25% real depreciations
  - Competitiveness effects of depreciations are muted given demand shock
  - Many foreign firms are financial constrained or supported by government
    - Do not have resources to fund foreign operations
    - Politically difficult to send capital abroad
  - Seems to be effort among MNCs to protect the core domestic operations
  - How relevant are result to more developed markets where capital constraints are believed to be less salient?

HARVARD | BUSINESS | SCHOOL

Conclusion

- Paper addresses a fundamental question about the effects of crises
- Hand collected data are very powerful
- Agree with the result that access to foreign capital plays a critical role in supporting investment in countries hit by large depreciations
- Think KKV can push their analysis further in this paper and can teach us much more about crises in their future work