

Discussion of:
Impact of credit constraints
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The views in this discussion are only my responsibility and should not be interpreted as reflecting the views of the Board of Governors or of the Federal Reserve System.

This session

- Firm's access to external finance:
 - Determinants – Canton and van der Zwan: “Financing the real economy: Perceived access to bank loans for EU firms in times of crisis”
- Do financial constraints affect firm's performance?
 - Effect on productivity – Ferrando and Ruggieri: “Financial constraints and productivity: Evidence from euro area companies”
 - Effect on export performance – Buono and Formai: “Bank credit and firm export: Is there really a link?”

Firm's access to external finance

- Canton and van der Zwan: Determinants of access to external finance
 - Size: Larger collateral and access to capital markets
 - Age: Reputation and credit history
 - Growth performance: Ability to repay
 - Product innovation does **NOT** make financial constraint less tight
 - Cyclical conditions: unemployment rate
- Ferrando and Ruggiero: Measure of financial constraints
 - Firm size and age **negatively** related
 - Leverage and interest payment burden **positively** related

Financial constraints and firm's performance

- Ferrando and Ruggiero: Effect of finance on firm-level productivity
 - Measure of productivity: Real valued added / number of employees
 - Financial constraint do **lower** productivity
 - Larger effect for small and micro firms
 - Larger effect for “Energy, Gas & Water Supply” and “R&D, Communication, and Information”
- Buono and Formai: Effect on firm-level export performance
 - Contribution: Exploit M&A episodes as **exogenous** events of bank credit supply shocks: Negative impact
 - Somewhat surprising finding: Export performance **NOT** affected by shock to bank credit
 - Exporting firms less sensitive to credit – Question: Are these firms already large? Splitting sample b/w large and small firms?

How does access to finance affect productivity?

- Firm-level: Use more labor-intensive production process \Rightarrow lower productivity
- More aggregate level: Financial constraints \Rightarrow inefficient allocation (misallocation) of capital \Rightarrow lower measured productivity (Buera, Kaboski, and Shin, AER 2011; Moll, 2012)
- Gilchrist, Sim, Zakrajšek (RED, 2013): Dispersion in borrowing costs to measure TFP losses due to misallocation driven by financial frictions: 3.5% loss in measured TFP
- Jones (NBER WP no. 16742, 2011): Misallocation of inputs within establishments may explain low establishment-level TFP
- RED 2013 Special Issue on Misallocation and Productivity: Editorial by Restuccia and Rogerson
- Midrigan and Xu (AER, forthcoming): Financial frictions reduce TFP through two channels: Small losses from misallocation; Sizable losses from low entry and technology adoption

How does access to finance affect export performance?

- Buono and Formai: Skepticism on importance of finance for exports
- Manova (REStud, 2013): Credit constraints \Rightarrow limited firm entry into exporting and contraction in export sales
- Manova, Wei, and Zhang (NBER WP no. 16905, 2011): Firm-level evidence that credit constraints restrict export performance: Need to finance upfront export entry costs
- Chaney (NBER WP no. 19170, 2012) formalized notion of liquidity-constrained exporters: Small fraction of firms exports – Exporters are large and not liquidity constrained
- Caggese and Cuñat (RED, 2013): Financial constraints reduce aggregate productivity gains from trade liberalization distorting firms' incentives to self-select into exporting.
- Kohn, Leibovici and Szkup (2013): Role of financial frictions in export dynamics – Large gains from financial development due to removal of distortions of export entry decisions.

Finance and exports: The U.S. experience

- 2013 Economic Report of the President:
 - Small firms account for 1/2 of nonfarm private GDP – Less likely to export – Cost of financing export operations pose high barriers
 - National Export Initiative (NEI): Help small firms overcome export barriers – Raise awareness about export opportunities
 - In 2010, nearly 300,000 SMEs exported, up 17,000 from 2009.
- National Export Initiative (NEI)
 - Programs designed to help SMEs finance export transactions, and give capital to carry out export operations
 - SMEs have played a critical role in driving record export growth.
 - Export-Import (Ex-Im) Bank provides financing for U.S. businesses and their customers in foreign markets
 - 2012: Ex-Im Bank helped more than 3,300 SMEs expand export sales; More than 650 SME worked with Ex-Im Bank for the first time