“Firm-bank linkages and optimal monetary policy in a lockdown”
by Anatoli Segura and Alonso Villacorta

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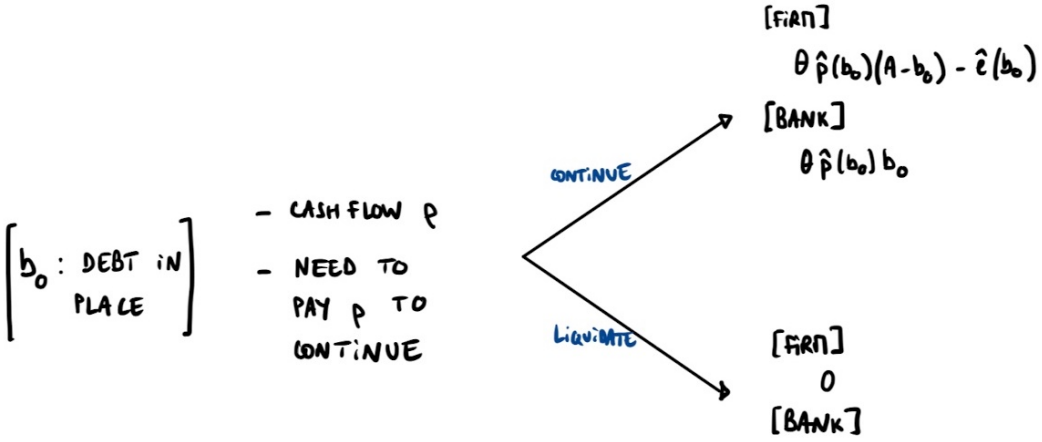
Government interventions in corporate credit markets

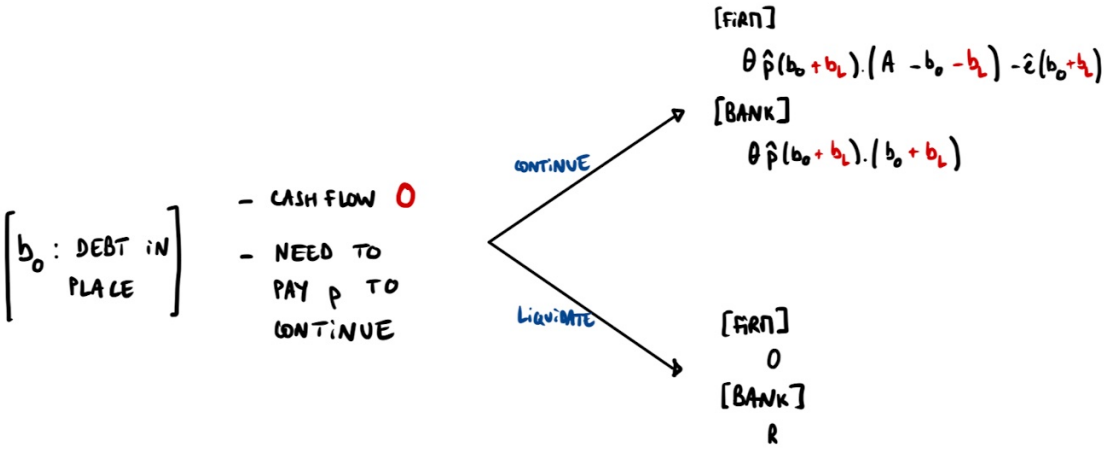
	Why?	How?
Stylized models		
Brunnermeier & Krishnamurthy (2020)	Bankruptcy externalities (?)	Subsidized loans
Hanson, Stein & Sunderam (2020)	Bankruptcy externalities	Subsidized + staged loans
Segura & Villacorta (2021)	Bank risk constraints	Deposit insurance + firm transfers
Quantitative models		
Elenev & al. (2021)	Bank risk constraints (?)	Firms transfers
Crouzet & Tourre (2021)	Sudden stop + deadweight losses	Targeted loans w/ ”strings attached”

The world in 2019



- θ: aggregate shock; $E(\theta) = 1$, $\theta \geq \underline{\theta}$
- $\hat{p}(.), \hat{e}(.)$: "moral hazard"/"debt overhang"

The world in 2020 (without government intervention)



- b_L: repayment promised to bank in exchange for ρ

Option 1: bank finances extra loans with equity

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Constrained optimum s.t.

- "moral hazard"
- external financing = loans (not equity)
- old/new loans pari-passu

Option 2: bank finances extra loans using safe deposits

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- "tax" projects that are successful even in the lowest aggregate state
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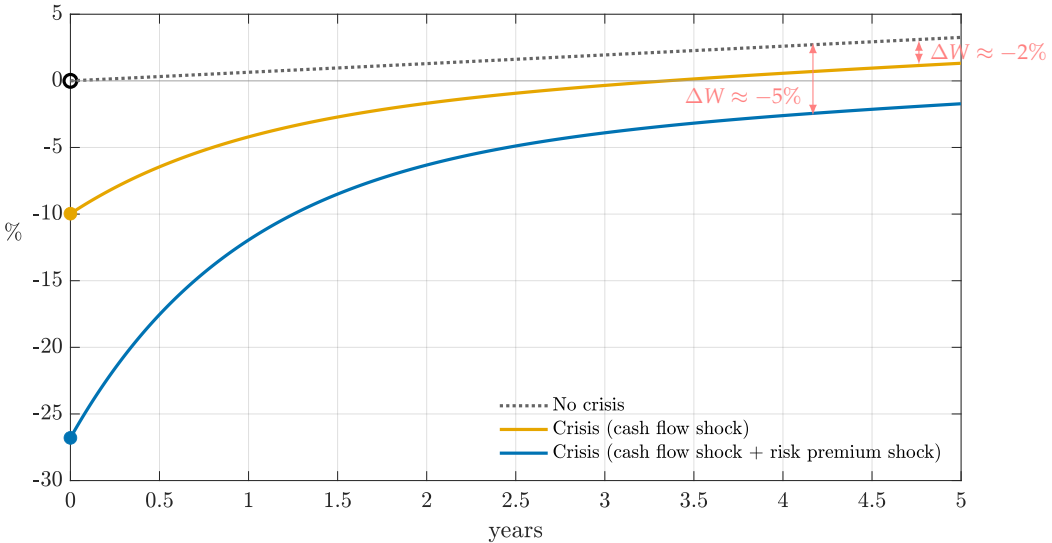
Enterprise value in an estimated model

(Crouzet and Tourre, 2021)



Credit interventions: why?

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because bank need to keep their liabilities safe

Government intervention 1: deposit insurance

$$I(\theta) = \left(d_0 + \rho - \theta\hat{p}(b_0 + b_L^3)\right)^+ \quad \text{[deposit insurance]}$$

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- zero fiscal cost in expectation, but gov't losses state by state ($\theta < \kappa$)

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- fiscal cost X
- in combination with deposit insurance: can restore constrained efficiency ($W_4 = W_1$)

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4. Does the optimal policy map to real-world credit guarantees?

Credit guarantees in Europe

(Véron et al., 2021)

Credit support programs	Number of programs	Envelope of programs (% total)
Guarantee on loans and other non-trade credit	14	92%
Guarantee on trade credit	3	2%
Purchase of debt securities	2	5%
Funding of loans	1	See note
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Wholesale refinancing of loan portfolio	1	0%
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- not indexed by θ (i.e. cover any credit loss, idiosyncratic or aggregate)