Comments on “Credit Misallocation During the Financial Crisis” written by Schivardi, Sette, and Tabellini

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This paper

• This paper studies bank-firm relationship in Italy using unique data
• Banks with low capital are reluctant to cut credit to inefficient firms (during and after the crisis).
• This misallocation of credit increases survival rate of inefficient firms (Zombie firms)
• Excellent paper!
Data and Estimations

• Italian Firm-bank relationship data (unique data)
  – Combined Three data: Firm Register, Credit Register, Supervisory Report

• Main estimations
  – Who lends to Zombie firms

\[ \Delta b_{ijt} = \beta_0 + \beta_1 (Z_{it} \ast \text{LowCap}_{jt} \ast \text{crisis}_t) + \beta_2 X_{ijt} + \text{Dummies} + \eta_{ijt} \]

  – Impact on firm growth of Zombie firms

\[ \Delta y_{ipt} = \beta_0 + \beta_1 \text{ShZ}_{pt} + \beta_2 (1 - Z_{ipt}) \ast \text{ShZ}_{pt} + \beta_3 Z_{ipt} + \text{Dummies}_{ipt} + \eta_{ipt} \]
My Comments

• 1. sample issue
• 2. TFP
• 3. Some more crucial dimensions and controls.
• Sample issue
• **Dropped** sample of mutual banks-firm relations (dropped 600,000 bank-firm-year observations) – (from 5113468 to 4522722 observations)
• However, mutual banks might be also important in terms of misallocation
  – Mutual/regional banks tend to lend inefficient firms and make Zombie firms
    • Limited information
    • Irrationality (Tight human connection in regions)
    • Efficient firms borrow from mega banks
      – Difficult to find good firms
Comment 2(TFP)

• TFP dispersion by misallocation of credit

• Issue 1:
  – measured by TFP dispersion
  – Does TFP (productivity, physical side) reflect Zombie firms (credit)?

• Issue 2:
  – Standard deviation is not perfectly correct to measure TFP dispersion in this case
  – Skewness is more important
Comment 3 (some more dimensions)

• **Sectoral heterogeneity** also important
  – The paper studies firm heterogeneity
  – Sectoral heterogeneity exists. Some sectors are **credit dependent** and some are not.
  – Shocks (level, magnitude, response to shock) are heterogeneous across sectors.
  – Dummy control might be not enough

• **Core-periphery structure** might be influential
  – Firms in urban regions are different from rural areas in bank-relationship during crisis.
  – Agglomeration economies might be easy to recover from shock.
  – Dummies might be not enough

• **Exporters and FDI** (foreign ownership) might mitigate misallocation
Some possible applications

• Similar data in Japan (TSR data)
  – Bank-firm relationship
  – Main banks
  – Manufacturing firms, services, constructions, etc

• Same things might happen in Japan
  – Might be more serious (more misallocation)
  – Misallocation to construction sectors in rural areas

• More and better exogenous shocks—many natural disasters (earthquakes)
  – Exogenous shocks