Discussion of Trade Shocks and Credit Reallocation by Stefano Federico, Fadi Hassan, and Veronica Rappoport

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- A nice expansion of the literature on the bank lending channel of contagion for financial shocks, since here the shock is from the real sector.
- A nontrivial channel through which demand shocks can have long-run implications
- Raises questions about appropriate policy responses to large regional and industry shocks due to misallocation arising from credit market frictions

The China shock in Italy

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with s the NACE sector and the period of comparison the 2002-2007 average minus the 1994-2001 average

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  - Watches and clocks
  - Television and radio receivers
  - Games and toys
  - Other organic basic chemicals

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Overlaps with most exposed categories in the United States: Household audio and visual equipment; Games, toys, and children's vehicles; Printing trades machinery; Luggage; and Footwear

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Divided by total loans to firms in the manufacturing sector (or all sectors, still works).

Most convincing table

The spillovers occur regardless of the location of the control firms

Table 9: Geographical heterogeneity

Dependent variable: $\ln C_{ibt}$	*High exposed provinces*		*Low exposed provinces*	
	(1)	(2)	(3)	(4)
	Full sample	Treated vs. Control	Full sample	Treated vs. Control
$Exposure^{IT}_{-i,b} \times Post_t$	-0.122***		-0.097***	
	(0.022)		(0.016)	
$Exposure^{IT}_{-i,b} \times Post_t \times Control_i$		-0.118***		-0.092***
		(0.02)		(0.019)
$Exposure^{IT}_{-i,b} \times Post_t \times Treated_i$		-0.128***		-0.104***
		(0.039)		(0.025)
Bank-firm specialization	✓	✓	✓	✓
Bank controls	✓	✓	✓	✓
Firm-Time F.E.	✓	✓	✓	✓
Firm-Bank F.E.	✓	✓	✓	✓

Questions

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  - A better control group would be firms in the services sector only, in agricultural production only, or the quintile of manufacturing firms with the lowest exposure to the China shock.
  - The coefficient estimates for the treatment and control groups are just so close for all specifications, one wonders what the difference is between a loan to a firm in an industry just above the median versus just below the median.
- More about geography:
  - Does the spillover effect still exist in areas with a high diversity of industries, or areas with the highest (quintile) levels of education and innovation? (Bloom et al. 2019, Fort et al. 2019, Eriksson et al. 2019)
  - Can you control for declines in real estate values that may depress local demand in the most affected areas? (Feenstra, Ma, and Xu 2018)

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- How broad must a shock be to produce lending-channel effects?
  - How many industries are necessary to include to get sufficient bank exposure to the shock? Is it sufficient to use just the upper quintile, for instance?
  - What percentage of the spillover is driven by the top X exposed industries?
- From text on p.27, it looks like the reduction in investment by bystander firms (due to bank lending spillovers) is between 0.5 and 1 percentage point.
  - Is that correct?
  - Can you express this as a percentage of GDP or in Euro? Can you identify how much of the decline in investment occurs in low-exposed provinces, so sure to NOT be linked to declines in real estate prices due to layoffs and closures from the China shock, as in the U.S.?

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I will teach and liberally cite.