

# **Zombie Lending and Policy Traps**

## **by Acharya, Lenzu & Wang**

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Contribution

Key model features

Results

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- ▶ Model matching qualitative facts on zombie lending  
⇒ reg. forbearance effects on economy
- ▶ Formalizes idea of too much reg. forbearance for economy

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- ▶ entry and exit of firms (good and bad) (creative destruction)
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- ▶ Optimal policy depends on shock size

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  - ▶ Begenau, Bigio, Majerovitz, Vieyra (2021): zombie lending due to delayed loss accounting ⇒ non-policy driven forbearance

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But which insights are entirely new?
- ▶ Model could also be used to test & size narrative

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  - ▶ What fraction of zombie firms does the model imply?
  - ▶ What shock size is large?
  - ▶ What bank capital size is considered low vs. high?

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How does it vary with economic conditions?

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- ▶ How large is the zombie firm externality on good firms?  
How does it vary with economic conditions?
- ▶ Incentives for "good" firms to seek funding elsewhere?  
E.g., private equity, shadow banks

- ▶ Very interesting paper with important policy message
- ▶ Key open question  
What is the strength of this bank-centric mechanism in explaining the slow recovery?

## Smaller comments for authors

- ▶ The write up can be sharpened: Examples
  - ▶ Abstract not clear
  - ▶ Question isn't clear after diving into the paper
  - ▶ Some associate "unconventional" policy with bond purchases etc not reg. forbearance
  - ▶ Argument missing why you need a model.
- ▶ Clarify contribution: Empirically the effects have been described & even quantified. Theoretically, some overlap with other work.
  - ▶ Literature on unconventional policy
    - (1) Gertler and Karadi (2011)
    - (2) Curdia and Woodford (2009)
    - (3) Joyce, Miles, Scott, Vayanos (2012)
  - ▶ Recent theoretical literature on zombie lending
    - (1) Faria e Castro et al paper cited has also (at least the version I saw) a theoretical part
    - (2) My paper with Bigio, Majerovitz & Vieyra delivers some of your results (different focus/model)
  - ▶ Other explanations of slow recovery (e.g., Crouzet and Tourre )