Thesis Abstract

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Government-Backed Financing and Aggregate Productivity (*Job market paper*)

I study the effects of government-backed financing on aggregate productivity by exploiting an expansion of government loans to firms in Korea after 2017. I show that the borrowing cost decreased more for firms eligible for government loans relative to ineligible firms. Eligible firms with higher pre-policy borrowing costs had larger post-policy increases in investment than eligible firms with lower pre-policy borrowing costs. At the same time, the exit rate of low-productivity eligible firms decreased the most following the policy. To quantify the effect on aggregate productivity, I build a heterogeneous-firm model with endogenous entry and exit, borrowing cost, and investment. In the model, government loans enhance firms' credit access, helping financially constrained firms increase investment but also prolonging the survival of low-productivity firms. This firm-level heterogeneity in responses to government loans in the model well captures the patterns documented with the data, and also summarizes the main trade-off of government-backed financing on aggregate productivity. I find that an expansion of government loans to firms as large as the one observed in Korea decreases aggregate productivity by 0.3% over a span of 10 years, explained by a 0.1% increase coming from higher investment by formally constrained firms and a 0.4% decrease attributed to the reduced exit rates among low-productive firms.

Sovereign Local Currency Debt and Original Sin Redux

I study the role of government debt financing in local currency in insulating emerging economies from fluctuations in global financial conditions. In principle, local currency debt helps emerging economies avoid currency mismatch, a factor known to complicate their debt management. However, borrowing in domestic currency alone is often insufficient to insulate emerging economies from the effects of global financial fluctuations, a phenomenon referred to as the "original sin redux". I document cross-country variations in this phenomenon and provide a theoretical explanation for these differences. I show that the extent to which shocks in the global financial market lead to higher default risks on local currency bonds depends on a country's level of financial development and its debt level. Specifically, I find that banks in a country with low financial development relative to its debt level disrupt private credit more significantly when foreign capital exits from the local currency bond market. This tendency is linked to higher default risks and external vulnerabilities. To understand these patterns better, I build a sovereign default model, incorporating financial intermediaries and endogenous foreign investors' investment in local currency government bonds. The model replicates key patterns observed in the data, related to the relationship between an economy's capacity to maintain private credit during capital outflows, credit risk, and external vulnerability.