Commercial and financial debt network in Uruguay

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Discussion by Bernardus Van Doornik, Banco Central do Brasil
Highlights

• Contribution:
  • The literature has focused on contagion between either banking institutions or the financial system
    • The likelihood of direct contagion within the banking sector is small in Uruguay (how small compared to other countries?)
  
  • Research on the effects of contagion through commercial indebtedness among different industries or economic sectors has deserved less attention (Acemoglu et al., 2005)

  • The paper contributes in filling that gap by building a novel dataset, characterizing the indebtedness structure network at sector level in Uruguay, and testing the propagation of a default shock
Summary

• The authors:
  • build a commercial and financial debt network at the sector level in Uruguay
  • provide a series of measures of the indebtedness structure, and identify the most central sectors in terms of commercial debt, as well as the most central banks in the network
  • perform a stress test consisting in the propagation of a default shock to analyze the vulnerability of the network

• Results:
  • “commerce”, “manufacturing” and “transportation, storage, and communication” are the most central sectors in the commercial debt network, while “real estate” is the least central one
  • “transport, communication and storage” and “hotels and restaurants” are the most exposed sectors in terms of contagion
  • “manufacturing” and “commerce” are the most central and have the highest level of indebtedness, but they have a large amount of liquid assets in the short term, which allows them to survive all the shocks coming from other sectors
Comments

• How the sample of 240 Uruguayan firms in 2018 is representative of the universe of firms with more than 50 employees for each sector?

• How important are commercial debts and credits owned by the three major debtor and creditors?
  • When does default become relevant?
  • Focus on intra-sector contagion?

• How robust are the results for inter-sector contagion (after intra-sector adjustments)?

• Is it possible to go further? One possible venue:
  • Contagion through Global Value Chain (i.e.: Commercial and financial debt network with other countries)