March 2017, no 40

SNS RESEARCH BRIEF SUMMARY

Unconventional Credit to Firms during the Financial Crisis*

THE GLOBAL FINANCIA CRISIS hit Sweden with full force in the fall of 2008. The confidence in the banking sector suffered and both GDP growth and fixed capital formation fell steeply during 2009. The government, the Central Bank, and the National Debt Office adopted many measures in order to ensure financial stability.

On top of this, there were signs that firms were liquidity constrained. Therefore, the Government launched a temporary law that allowed firms to postpone paying up two months' worth of labor-related taxes and fees. Any delayed payments were treated as a loan from the Swedish government and charged with interest. This report presents an analysis of the loan program.[1]

The loan program had several interesting properties. First, by targeting a firm's labor taxes, firms did not have to be profitable to gain liquidity from the program. Second, the lending facility was accessible through the monthly labor tax form, making it straightforward for the firm to access the funds. Third, firms did not have to post collateral, or go through a formal approval process to gain liquidity from the policy. And, finally, the interest rate was set so as to not crowd out other kinds of loans.

Around 1,000 firms out of 20,000 sampled firms used this emergency lending facility. The increase in liquidity gained from using the lending facility allowed participating firms to increase both net debt levels and real investment spending. The need for liquidity was most pronounced in younger and more leveraged firms.

* This is a summary of a research brief in Swedish "Okonventionell kredit till företag under finanskrisen".

1 Brown, James R., Gustav Martinsson and Christian Thomann (2016), "Can policy mitigate liquidity constraints? Evidence from a temporary lending program", https://ssrn.com/abstract=2506694

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