Discussion of "How do Borrowers Adjust in a Household Foreign Currency Debt Crisis?" by Gyöngyösi, Rariga and Verner

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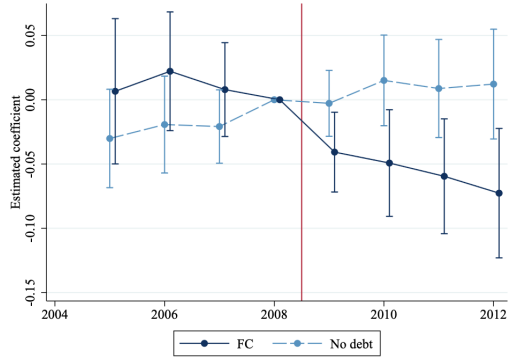
Overview

- Focus on understanding consumption dynamics after foreign currency depreciation
- Findings contribute to much bigger literature on MPCs
- Moments for both open and closed economy macro models
- Implications for thinking about policy:
  - Restrictions on FC borrowing (standard macroprudential)
  - Debt-relief policies for stabilization

Main empirical results



- Compare households with FC debt to LC, also no debt as control
- Significant drops in expenditure for FC exposed households
- Non-borrowers look similar to LC borrowers

Converting to MPCs

- They run an IV regression to get at MPCs
- First stage: P_{it} payment surprise on the FC dummy
- Second stage is consumpton C_{it} on the payment surprise
- Interpretation a bit unclear as consumption should respond to future expectations of payments as well
- Aside: to what extent do payments change due to movements in foreign interest rates?

Propensities to Consume

- In the paper they compare two extremes of PI and HtM households
- Can use sufficient statistic approach of Berger at al (2018) to think about general IM models under the random walk assumption of exchange rates
- Extends debt revalution (in frictionless case):

$$\text{Levels:} \quad \frac{dC}{d\mathcal{E}} = MPC \times \mathcal{E}_{-1}d \qquad \text{Elasticities:} \quad \frac{d\ln C}{d\ln \mathcal{E}} = MPC \times \frac{\mathcal{E}_{-1}d}{C}$$

  where $\mathcal{E}$ is the exchange rate, and d is the foreign face value of the debt

- Given that you see $\mathcal{E}_{-1}d$, would be interesting to run specifications suggested by these measures
- Could be further interesting to compare these to the payment regressions

Cumulative effects

- It wasn't clear to me for the cumulative effects the right comparison was to pre-2008
- Under RW, seems more natural (motivated by previous slide) to compute MPCs period by period, then cumulate total change in C vs total change in debt due to $\mathcal{E}$

Heterogeneity, default, aggregates

- Some results on heterogeneity in appendix, but would be interesting to dive more into the heterogeneity
- Would be interesting to see how the decline in consumption varies with default/delinquency status
- Are households able to smooth consumption via non-payment?
- Have you looked at the effects of the favorable debt repayment plans enacted?
- For stabilization/debt relief, related to "consumption effect of default" (Auclert and Mitman 2022)
- Would be interesting to do a back of the envelope comparing the consumption effects here to effects on employment in your previous work

Expenditure Switching

- Document some of the decline in expenditures 71% due to quantities, 29% due to prices
- Suggestive evidence of moving to lower quality goods
- Try to related to expenditure-switching between domestic vs foreign goods (if possible)
- Could be interesting to look at the dynamics over time
- The "trade elasticity" important moment for understanding whether devaluations are contractionary (Auclert et al 2021)

Conclusion

- Very nice paper
- New, convincing evidence on effect of foreign currency revaluation on consumption
- Important data moments for emerging SOE-HANK literature