1. Title: Estimating the COVID-19 Cash Crunch: Global Evidence and Policy

2. Authors and affiliations and contact emails: Antonio De Vito and Juan-Pedro Gómez, IE Business School, IE University. Emails: antonio.de.vito@ie.edu and juanp.gomez@ie.edu

3. Abstract:
In this paper, we investigate how the COVID-19 health crisis could affect the liquidity of listed firms across 26 countries. We stress-test three liquidity ratios for each firm with full and partial operating flexibility in two simulated distress scenarios corresponding to drops in sales of 50% and 75%, respectively. In the most adverse scenario, the average firm with partial operating flexibility would exhaust its cash holdings in about two years. At that point, its current liabilities would increase, on average, by eight times, suggesting that the average firm would have to resort to the debt market to prevent a liquidity crunch. Moreover, about 1/10th of all sample firms would become illiquid within six months. Finally, we study two different fiscal policies, tax deferrals and bridge loans, that governments could implement to mitigate the liquidity risk. Our analysis suggests bridge loans are more cost-effective to prevent a massive cash crunch.

4. Data description
To examine the liquidity risk of listed firms, we use consolidated firm-level data obtained from the Compustat Global and North America databases for the fiscal year 2018. We start by downloading the accounting data for all firms incorporated and headquartered in one of the 35 OECD countries, plus China. To draw meaningful inferences from our analyses, we require each country to have at least 50 listed firms. This sample requirement excludes 10 of the 35 OECD member countries. We rely on the International Monetary Fund’s website to retrieve exchange rates and to convert each variable into US dollars. Furthermore, we collect the corporate tax rates from the KPMG’s Corporate Tax Guide 2018. We exclude financial firms (SIC codes 6000–6999) and firms with negative equity, cash holdings, sales, or total assets. These restrictions result in a sample size of 14,245 unique firms across 26 countries in 2018.

5. JEL codes for the project: G32; G33; H25; H32; M41

6. Key-words: COVID-19, cash crunch, liquidity risk, business taxes, fiscal policies, bridge loans