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AUTHOR OR EDITOR

[Kürsat Önder, Yasin Villamizar-Villegas, Mauricio Villegas, Jose](#)

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Abstract

Our study analyzes the impact of debt moratorium policies, possibly the oldest approach to addressing repayment problems. Using Colombian administrative data, we compare firms that narrowly met the criteria for moratoria (eligible firms could not exceed 60 days overdue on their loans) with those that just missed it. Our findings reveal that stressed firms accessing moratoria experience more favorable loan conditions on subsequent borrowing, characterized by higher loan amounts and lower interest rates. This credit relief, in turn, contribute to substantial increases in firm investment and employment. To delve deeper into the implications, we employ a quantitative general equilibrium model of default to assess both short- and long-term effects. While these policies effectively mitigate liquidity concerns, they concurrently elevate default risks. Notably, our research underscores larger welfare gains when debt moratorium policies incorporate interest forgiveness during periods of debt standstill by reducing default risk.