The impact of monetary policy on corporate savings in a low-markup environment: implications for price

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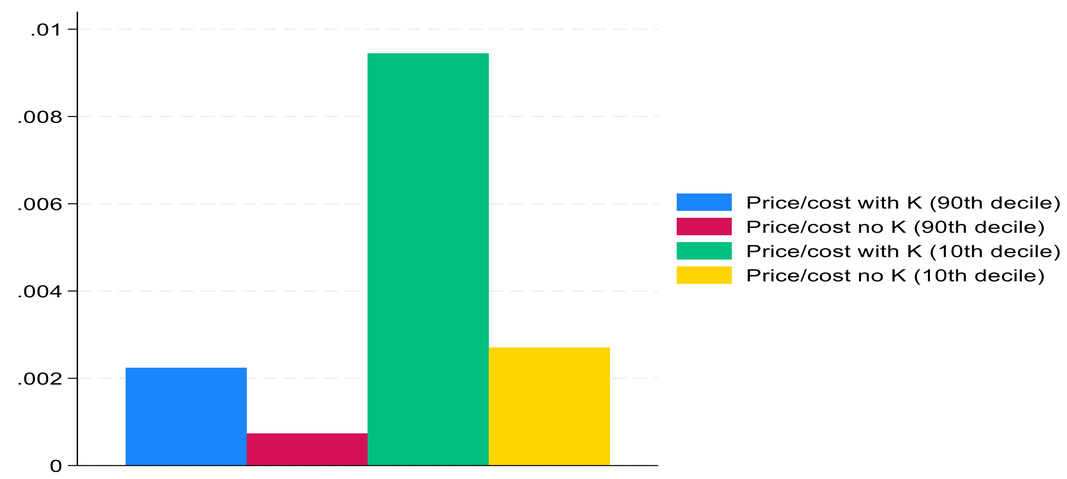
CONTRIBUTION

A. Estimating the effects of the ECB's monetary policy on corporate liquidity demand conditional on the markup environment (10th decile vs 90th decile)
B. Linking the "cash"-effect of the ECB's monetary policy to profit-led inflation *à la* Gilchrist et al (2017)

A. Markups & price-cost margins

Change in price-cost margins (2012-2019)



B1. DATA

- CompNet data (8th vintage): 18 EU countries, 9 sectors, 3 size classes over 2001-2019 or 2004-2016
- Level aggregation: country-industry-size-year variation
- Representative sample with listed and non-listed firms
- Coefficients estimated within country-industry-size var.

B2. ECONOMETRIC APPROACH

Differential effects of the ECB's monetary policy on corporate cash conditional on the mark-up environment (e.g. Ottonello and Winberry 2020):

$$\Delta l_{itsf} = \alpha_0 + \beta_1 l_{it-1sf} + \beta_2 \mu 10_{itsf} * MP_{t-1} + \delta_t + \mu_{isf} + \varepsilon_{itsf}$$

where Δl_{itsf} stands for the change in cash holdings to total assets of cash-poor firms in country *i*, time *t,* two-digit industry *s* and class size *f*; $\mu 10_{itsf}$ is the 10th decile of the markup distribution; MP_{t-1} represents the exogenous monetary shock (i.e. interest rate surprise).

B3. MAIN RESULTS

Table 1 provides results from the static estimation.

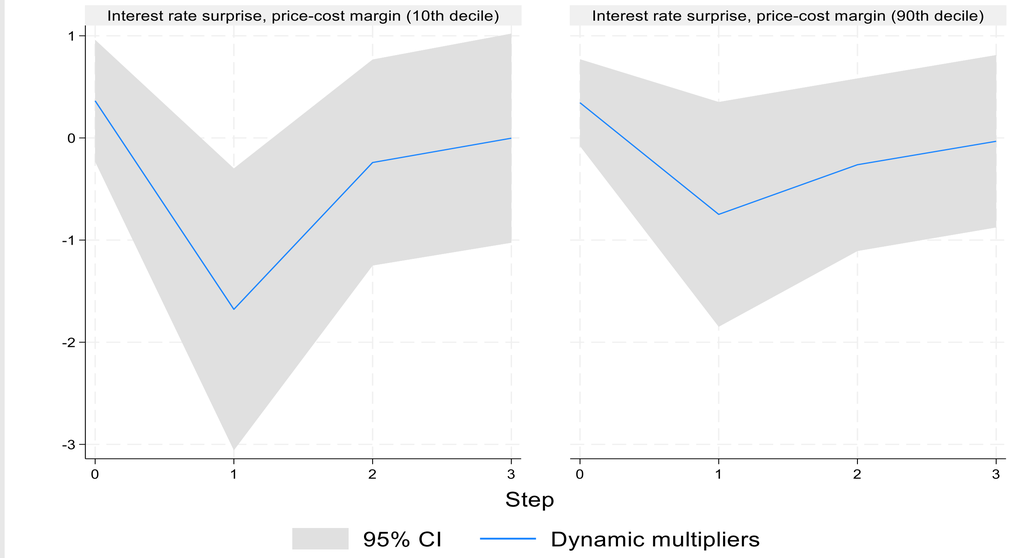
Change in cash and cash equivalents to assets	(1) 50th decile & markups	(2) 10th decile & interest shock	(3) 90th decile & interest shock
Cash and cash equivalents to assets (*t-1*)	-0.0470***	-0.699***	-0.617***
	[0.00911]	[0.0444]	[0.0374]
Markup (intermediate input decision)	5.86e-07***		
	[4.19e-08]		
Markup x interest rate surprise (*t-1*)		-0.000186*	-1.84e-05
		[0.000101]	[0.000137]
Time FE	no	yes	yes
Country *x* sector *x* class size FE	no	yes	yes
Observations	5,934	5,262	5,262
R-squared	0.016	0.355	0.349

Clustered standard errors in brackets
*** p<0.01, ** p<0.05, * p<0.1

Dynamic impact of the ECB's monetary policy on low/high price-cost margins adapting the local projections (Jordà 2005) to FEs panel setting:

$$\Delta pc_{it+hsf} = \beta_h MP_t + \delta_t + \mu_{isf} + \varepsilon_{it+hsf}$$

where Δpc_{itsf} is the change in the price cost margins of the most/least price competitive firms at the country *i*, time *t*, sector-by-size *sf* level and *h* is the forecast horizon set at a maximum of 4 years.



Key: Small-sample degrees-of-freedom adjustment and use Newey–West standard errors to correct for both heteroskedasticity and autocorrelation

CONCLUSIONS

- ECB's monetary policy effective in reducing financial constraints (i.e. impact on low-markup firms)
- Credit-constrained firms release "precautionary" cash in response to positive monetary shocks (robustness tests show: cash falls for investment and dividend payouts)
- The same firms subsequently increase prices to recover ex-post sub-optimal cash reserves

* The results in this presentation are preliminary and aim to stimulate discussion and critical comment. References in publications to this presentation should at this stage be avoided.