

CAN CENTRAL BANKS BOOST CORPORATE INVESTMENT: EVIDENCE FROM THE ECB LIQUIDITY INJECTIONS

Discussion: Christoph Boehm, UT Austin

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OVERVIEW

- **Question:** Can ECB stimulate investment through cheap long-term lending?
- Causal effect is important question

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- Causal effect is important question
- Difficult to isolate sufficient “good” variation
- My comments: Mostly on identification and interpretation

RESEARCH DESIGN

- Sample is a *panel* of non-financial corporations, e.g.

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- Alternative: use cross section only
 - Ideal research design

$$\Delta \text{investment}_i = \alpha \cdot \text{Lender LTRO Uptake}_i + \text{controls} + \varepsilon_i$$

- instrument for Lender LTRO uptake

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- Third possibility: Troubled lenders have greater LTRO uptake and borrowers from troubled lenders have lower investment (Chodorow-Reich, 2014)

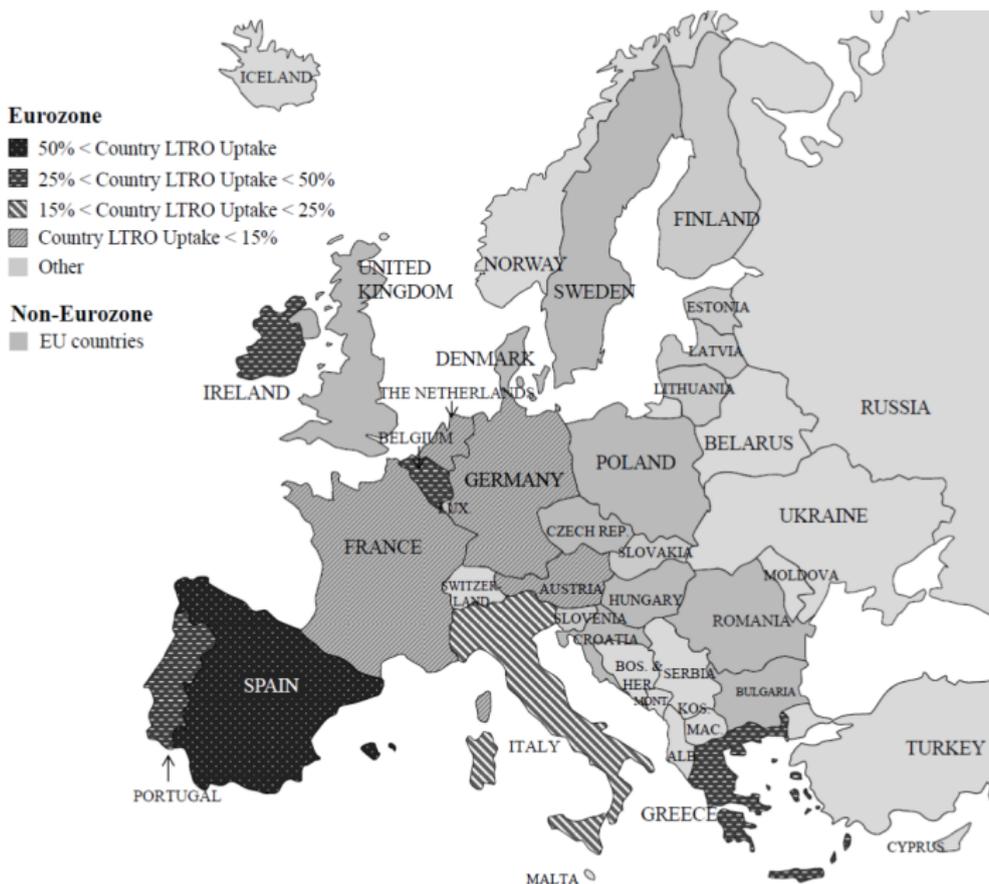
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- No effect on payroll (wages)

COUNTRY LTRO UPTAKE



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- \Rightarrow Evidence for dominance of signalling channel tenuous

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- Authors' interpretation: Consistent with signalling channel
- Also consistent with view that troubled banks borrow more and lend less to their customers which then invest less

FURTHER EVIDENCE

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 1. in late repayment group
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- New loans:

$$\begin{aligned} \text{investment}_{i,t} &= \alpha \cdot \text{Lender LTRO Uptake}_{i,t} \\ &+ \beta \cdot \text{Lender LTRO Uptake}_{i,t} \cdot \text{New Loan}_{i,t} \\ &+ \text{controls} + \varepsilon_{i,t} \end{aligned}$$

- $\hat{\beta} = 0.27^* (0.14)$
- Interpretation difficult due to simultaneity

INTERACTION WITH FISCAL POLICY

- Does the effectiveness of LTROs depend on national fiscal policy?
- Important distinction: discretionary or systematic fiscal policy
 - If discretionary: Effects are independent up to a first order
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However, need to estimate fiscal rule
- Authors estimate

$$\text{investment}_{i,t} = \alpha \cdot \text{Lender LTRO Uptake}_{i,t} + \text{controls} + \varepsilon_{i,t}$$

by country group:

- Corporate taxes increasing (decreasing)
- Government investment increasing (decreasing)

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- $\hat{\alpha} = -1.53^{***} (0.10)$
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- Issues:
 1. Other differences between Eurozone and non-Eurozone firms?
 2. Pre-trends?
 3. Standard errors clustered correctly?
 4. Why look at Compustat firms?
 5. Units?

SUMMARY

- Interesting question
- But difficult to answer
- Paper has a clear objective to estimate causal effect
 - **Title:** Can Central Banks Boost Corporate Investment: Evidence from the ECB Liquidity Injections
 - **Text:** The Eurozone provides an ideal laboratory to study the impact of unconventional monetary policies ...

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 - **Title:** Can Central Banks Boost Corporate Investment: Evidence from the ECB Liquidity Injections
 - **Text:** The Eurozone provides an ideal laboratory to study the impact of unconventional monetary policies ...
- Not clear that the current version of the paper satisfactorily answers question