

International Spillovers from Euro Area Monetary
Policy to Advanced Small Open Economies: Investment
Behavior of Czech Firms
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December 12, 2025

Contribution To The Literature

1. Novel setting

- Czech economy: 40% of GDP exports to EA, 50% of corporate loans in euros
- Both trade and financial exposure in one country

2. First firm-level evidence on EA spillover channels

- 73,000 firm-quarter observations
- Disentangles trade, balance sheet, and borrowing cost channels

3. Policy-relevant structural break

- Spillovers weakened after 2014
- Speaks to effectiveness of unconventional MP

Where Could This Paper Go Next?

1. Interpret firm heterogeneity

- What does net worth capture?
- Why doesn't age matter?

2. Exploit data richness

- 73,000 observations discretized into binary groups
- Average weakened after 2014 – but did shape change too?

Interpret Firm Heterogeneity: Net Worth

“Firms with low net worth exhibit more profound reaction of investment to contractionary monetary policy shock.” (p. 17)

1. The finding

- Low net worth firms respond more (pre-2014)
- Age has no effect
- Interpretation: balance sheet channel

2. The puzzle

- Hochmuth (2024, WP, US): young firms more constrained
- Mechanism: young firms rely on debt, old firms shift to equity
- Structural, should apply broadly – yet age has no effect here

Interpret Firm Heterogeneity: Net Worth)

3. Alternative interpretation

- Net worth at $t - 1$ reflects shocks at $t - 2, t - 3, \dots$
- Firms persistently exposed to EA → persistently low net worth
- Could capture exposure, not constraints

4. Possible test

- Industry-level financial dependence (Rajan-Zingales, 1998, AER)
- Based on technological characteristics, calculated from US data
- Predetermined – not affected by Czech firm history or EA shocks

Exploit Data Richness

1. What you have

- 73,000 firm-quarter observations
- 2,458 firms tracked over time
- Continuous balance sheet variables

2. What you do

- Discretize: high/low net worth, large/small
- Classify at $t - 1$, estimate group averages

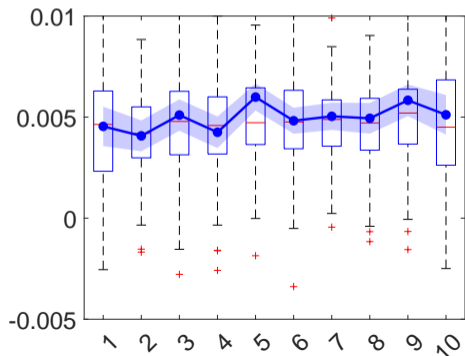
3. What this misses

- Within-group heterogeneity
- Transitions: firm is low net worth at $t - 1$, shock hits at t , firm could be high net worth by $t + 4$
- Shape of distribution, not just group means

Grouping Misses Within-Group Heterogeneity

Simulation from Ettmeier, Kim, Schorfheide (2025)

- Blue line: Panel LP estimate by income decile
- Boxplots: true response heterogeneity within each decile
- LP says everyone responds similarly – reality is different



What Distributional Methods Could Add

1. Your 2014 finding

- Average spillovers weakened after 2014
- But Figure 9: at $h = 2$, durables response stronger post-2014

2. Questions your approach cannot answer

- Did all firms respond less, or just some?
- Did dispersion of responses change?
- Where in the distribution did weakening occur?

3. Functional VAR answers this

- Models entire distribution, not group averages
- Feasible with your data: repeated cross-sections

Chang, Chen, Schorfheide (2024, JPE); Ettmeier, Kim, Schorfheide (2025, work in progress)

Concluding Remarks

- Strengths

- Novel setting with dual exposure (trade + finance)
- Clean trade channel identification
- Policy-relevant 2014 finding

- Suggestions

- Net worth: consider persistent exposure interpretation
- Data richness: distributional methods could deepen 2014 finding

- Overall

- Solid contribution on EA spillovers to small open economy
- Directions for pushing further