

Discussion of
Michael D. Bauer, Alexander Czarnota and Mathias Klein
Prices and Monetary Policy:
The Role of Financial Constraints

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European Central Bank

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The views expressed here are solely those of the authors and do not necessarily reflect the views of the ECB or the Eurosystem

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- ▶ Data: Swedish micro producer prices, 2001–2023, 2,195 public *and private* firms, merged with administrative balance sheets; new HF Riksbank surprises (FRA1–4, 149 events); panel LPs with product and time FE
- ▶ Findings: after a tightening, at $h = 21m$ a firm one s.d. smaller cuts prices 0.7pp less — a $\sim 25\%$ muting; age, leverage and liquidity are flat. Small firms' sales and debt fall more and margins *rise*. Absent constraints the PPI response would be 14–34% larger

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3. From measurement to implications: asymmetry and state dependence

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- ▶ Alternative interpretation: the surprise is contaminated by news released *with* the decision — information effects ([Jarociński and Karadi, 2020](#)) or a systematic response to recent news ([Bauer and Swanson, 2023](#))

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- ▶ How much do the conclusions change?

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- ▶ *“A more direct test would examine the response of credit spreads or lending standards in Sweden.”* ⇒ could some of this be done here?

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- ▶ If such a measure can be constructed: are size, age, leverage and liquidity correlated with it?

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- ▶ Suggestion: split mps_t by sign. Caveat: 149 events, and easings cluster in stressed periods — the sign is confounded with the state

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- ▶ Directly implementable, and identified off the cross-section:

$$\Delta_h \ln P_{i,t+h} = \alpha_{i,h} + \alpha_{t,h} + \beta_h(mps_t \times FC_{j,t-1}) + \delta_h(mps_t \times FC_{j,t-1} \times S_{t-1}) + \Gamma'_h Z_{j,t-1} + u$$

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- ▶ Alternatively, recover it from a calibrated GZS-type model — β_h estimated in tight and in loose states provide natural moments

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 3. Move from the average effect to the implications: sign asymmetry, and in particular state dependence of the strength of transmission

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