The ChaMP Research Network

An Introduction

Inaugural Conference
Frankfurt, 25 April 2024

ChaMP Board and Network Secretaries
Diana Bonfim, Margherita Bottero, Emmanuel Dhyne, Philipp Hartmann, Maria T. Valderrama, Melina Papoutsi, Gonzalo Paz Pardo

ChaMP mandate and organisation

- **ChaMP**: **Cha**llenges for **M**onetary **P**olicy transmission in a changing world (2023 to 2025)
- Unprecedented shocks, multiple structural changes and the extension of the monetary policy toolkit during the last decade and a half as well as the recent inflation wave and its reversal warrant revisiting monetary transmission in the euro area/European Union
- Core issue of the Network: **how have these factors affected the strength, speed and heterogeneity (across member states) of transmission, incl. potentially new channels?**
- Enough emphasis on firms' price setting and inflation
- Two **workstreams**
  - WS1: transmission through the financial system
  - WS2: transmission through the real economy
- Current **work programme**
  - Individual projects: 196 (111 WS1, 81 WS2, 4 "bridge") by 287 researchers
  - Several coordinated cross-country projects

ChaMP governance in one chart

Governing Council / General Council

Heads of Research

Workstream 1

Workstream 2

Coordinators


Diana Bonfim
BdP, Coordinator


Margherita Bottero
BdI, Coordinator


Philipp Hartmann
ECB, Chair


Emmanuel Dhyne
NBB, Coordinator


Maria T. Valderrama
OeNB, Coordinator

Advisors


Carlo Altavilla
ECB, Senior Advisor


Björn Imbierowicz
Bundesbank, Advisor


Angela Maddaloni
ECB, Advisor


Laura Moretti
CBoI, Advisor


Guido Ascari
DNB, Advisor


Galo Nuño
BdE, Advisor


Gabriel Smagghue
BdF, Advisor

Consultants


Vasso Ionnidou
City University of London,
Senior Consultant


Hans Degryse
KU Leuven,
Senior Consultant


Nicola Pavanini
Tilburg University,
Consultant


Refet Gürkaynak
Bilkent University,
Senior Consultant


Paolo Surico
London Business School,
Senior Consultant


Vasco Carvalho
University of Cambridge,
Senior Consultant


Mishel Ghassibe
Barcelona School of
Economics, Consultant


Elisa Rubbo
University of Chicago,
Consultant

Secretaries


Melina Papoutsi
ECB, Secretary


Raquel Gil-Antona
ECB, Project Management Office


Gonzalo Paz-Pardo
ECB, Secretary

NCB Contact Persons and Contributing Network Researchers

WS1: Transmission of monetary policy through the financial system

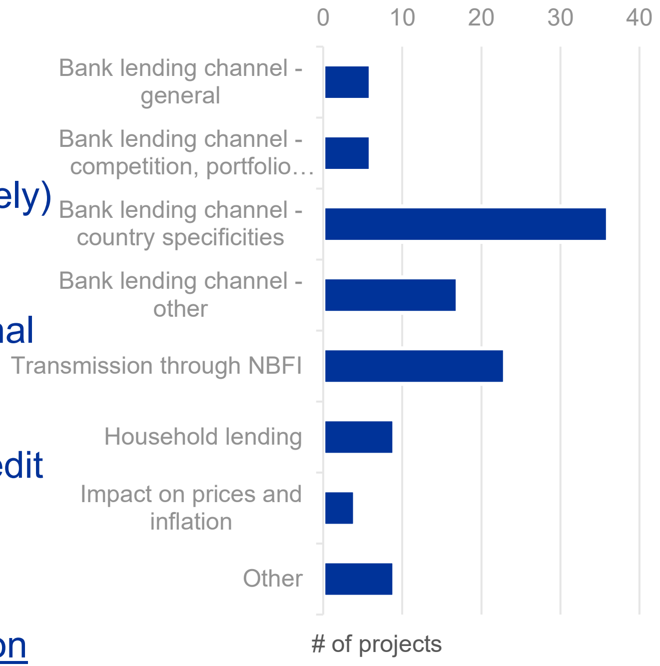
Main areas of interest

1. Transmission to or via non-financial corporations through **banks** (country specificities, competition, portfolio composition, etc.; European credit register **AnaCredit** as key data source to be used more extensively)

2. Transmission to or via **households** through banks or non-bank financial intermediaries (NBFIs; using datasets/credit registers at national level)

3. The role of **NBFIs** in monetary transmission, for example through credit substitution between banks and NBFIs or through NBFI portfolio recompositions

Go beyond credit supply outcomes and extend research to the impact on prices and inflation



WS1: a few initial results of individual projects

Prices and inflation

- Monetary policy shapes prices through bank lending:
- **Quantitative easing** led to an **increase in producer prices** with only **high leverage** firms adjusting (Klein and Zhang, 2023).
- How do **banks' market power** and **consumers' price elasticities** affect the transmission of monetary policy to inflation?

Non-bank financial intermediaries (NBFIs)

- The rise of NBFIs affects monetary policy transmission: **they increase credit supply** after a monetary **tightening**, both relative to banks and in absolute terms. This has **real effects** through firm investment and household consumption (Cucic and Gorea, 2023).

WS1: a few initial results from individual projects and emerging cross-country coordinated projects

Non-financial corporations

- The green transition affects banks' transmission of monetary policy: when monetary policy **tightens**, lending is relatively **less constrained for green firms** (Altavilla et al., 2024).
- Cash holdings are relevant for monetary policy transmission: banks lend more and in cheaper terms to cash-rich companies – Italy, 2003-2017 (Bottero and Schiaffi, 2024).
- **Coordinated cross-country project:** the transmission of monetary policy through banks appears to be weaker in smaller euro area countries. Examine possible reasons, such as market power or foreign bank ownership.

Households

- **Adjustable-rate mortgage share** and **homeownership rate amplify** the effects of monetary policy (Pica, 2023).
- **Coordinated cross-country project:** the transmission of monetary policy through household loans. Establish a set of stylised facts using national credit register data and examine differences in transmission.

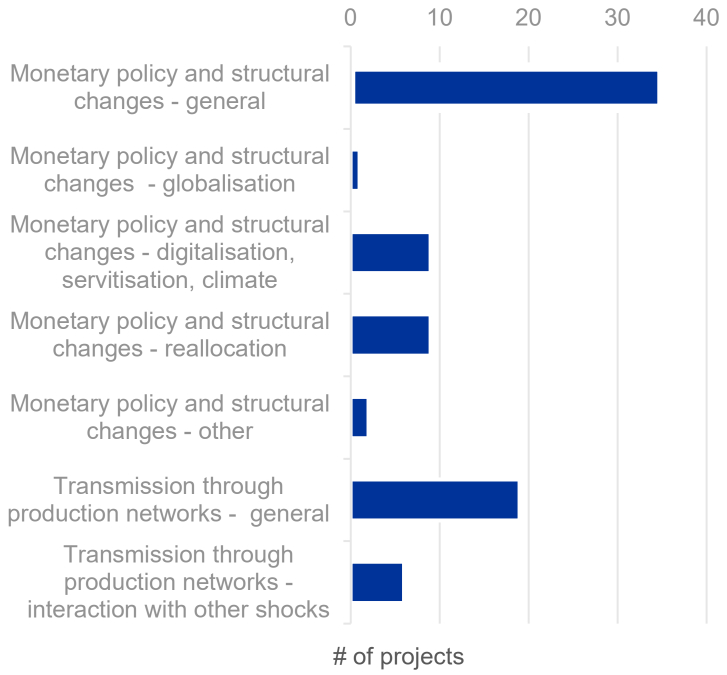
WS2: transmission of monetary policy through the real economy

Main areas of interest

1. **Transmission** of monetary policy **through production networks** in times of the reorganisation of global and local value chains

2. Impact of **structural changes** (digitalisation, servitisation, (de)globlisation, decarbonisation) on **monetary policy transmission**

3. Impact of **monetary policy on** such **structural changes**



WS2: a few initial results from individual projects and emerging cross-country coordinated projects

Production networks

- With imperfectly competitive markets **incomplete pass-through of firm cost changes cumulates through** the network of **input-output linkages**
- This **may dampen and delay the transmission of monetary policy** to inflation (Duprez and Magerman, 2024)
- But the extent to which cost variations are passed on depends on the nature of the shock: **common shocks** such as energy price rises tend to be **more easily passed on** in prices, compared to idiosyncratic cost shocks
- **Global supply chain pressures tend to have a persistent, hump-shaped effect on inflation** due to the persistent / cumulative nature of supply chain disruptions and the difficulty to setup alternative supply chains (Ascari et al., 2024)

<u>Planned or starting coordinated cross-country projects</u>

- 2 initiatives to document heterogeneity in response to monetary policy shocks
  a. Multi-country analysis of large B2B production network datasets
  b. Multi-country NK model with multiple sectors and input-output linkages: Rubbo (Econometrica, 2023) meets euro area countries' data

WS2: a few initial results from individual projects

Real effects

- **Expansionary monetary policy** can increase investment by highly productive **firms,** due to the reduction in financial frictions, helping to **improve capital allocation** **(**Abrizio et al., 2024)
- **Accommodative monetary policy** tends to support the **growth of small / credit constrained firms** more than others (Popov and Steiniger, 2024)
- **Monetary tightening** may **increase concentration** amongst large firms (Ascari et al., 2024)
- **Tightening** monetary policy **amplifies employment fluctuations over the business cycle** significantly **more** than expansionary monetary policy, by a factor of 2 or 3 (Bijnens et al., 2024)

Carbon transition

- **Conventional monetary policy** is an **untargeted climate instrument** and should **focus on price stability** even when carbon taxes are set at sub-optimal levels (Nakov and Thomas, 2024)
- **Tilted central bank corporate bond purchases**, however, **can somewhat accelerate decarbonisation, even though its effects tend to be small** due to purchases typically being focused on investment-grade bonds with limited spreads

Timeline of activities