Real Effects of Corporate Debt Collateral Eligibility

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Introduction

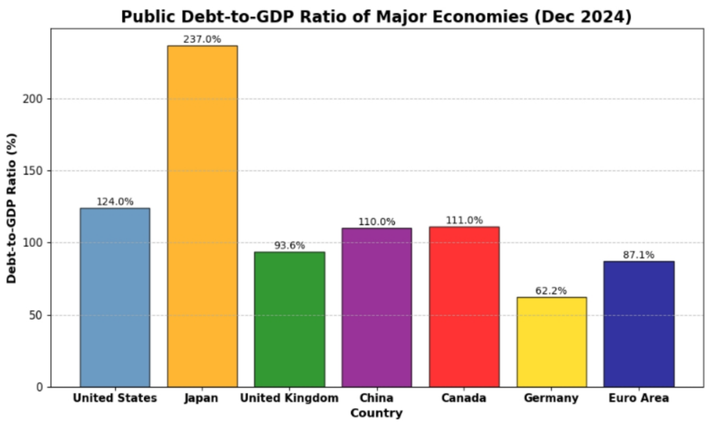
- ECB accepts corporate bonds as collateral since 1999
- Fed introduced similar facilities in March 2020
- ECB policy operates independently from QE programs

Why *Corporate Bonds* as *Collateral*?

- Traditional policy relies on public debt (US, Japan, UK, China)
- Euro Area faces limited public debt supply
- ECB solution: Expand to corporate bonds

Why Study the ECB?

- Longer time series: Policy in place since 1999
- Transparency: Published bond codes (ISINs)
- Clean identification: Separate from asset purchases



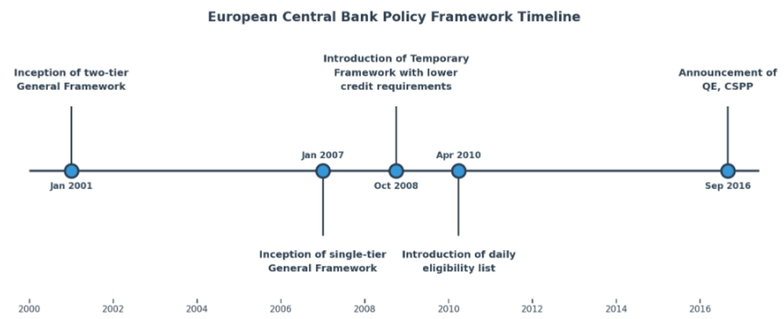
Public Debt-to-GDP Ratios of Major Economies (2024)

Research Questions:

This paper investigates three questions:

- How does collateral eligibility affect a firm's own investment and employment?
- Do effects propagate through supply chain linkages?
- What do firms gain from acting as intermediaries?

Policy Timeline & Data



ECB Policy Timeline

Data Sources

- ECB: Daily eligibility list
- FactSet: Supply chain data

Main Results

	Financing Behavior				Firm Operations	
	(1) Debt Issuance	(2) Debt Cost	(3) SEO	(4) Bank Lending	(5) Labor	(6) Capital Investment
Own_list	0.108***	-0.316**	-0.005	0.067	-0.012	-0.038
	(3.587)	(-2.291)	(-0.240)	(1.176)	(-0.498)	(-1.083)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Firm fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Industry-year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Country-year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Number of observations	26,668	26,087	27,225	13,315	21,589	27,282
R-squared	0.78	0.34	0.96	0.88	0.97	0.97

Inclusion in the EA eligible list significantly increases debt issuance by **10.8%** and reduces debt cost by **31.6** basis points, improving firms' access to financing.

Mechanism:***Shadow Banking*** via ***Trade Credit***

Eligible firms do **NOT** increase their own investment. Instead:

- Issue bonds at ***lower*** costs
- Extend more ***trade credit*** to downstream
- Downstream firms increase investment

Benefits to Eligible Firms:

- Stabilize supply chain relationships
- Capture higher markups
- Act as "***shadow banks***"

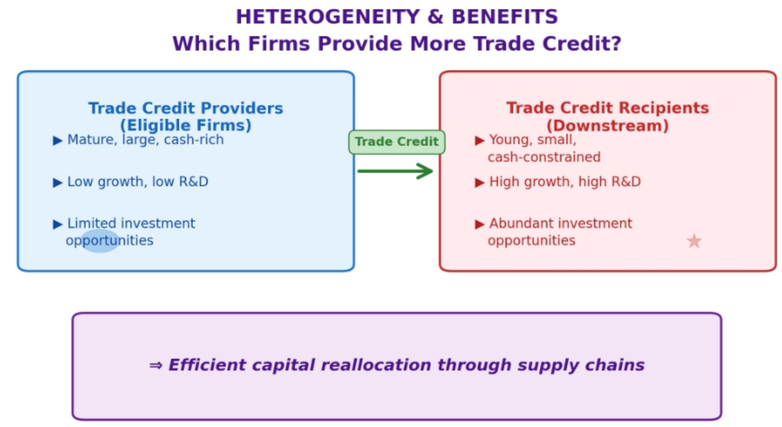
Which Firms Provide More Trade Credit?

Trade Credit Providers (Eligible Firms):

- Mature, large, cash-rich
- Low growth, low R&D
- Limited investment opportunities

Trade Credit Recipients (Downstream):

- Young, small, cash-constrained
- High growth, high R&D
- Abundant investment opportunities



Conclusions

1. Eligible firms do not increase own investment
2. Firms act as intermediaries, extending trade credit
3. Real effects propagate through supply chains
4. Strategic benefits: market power + relationship stability

Policy Implication: Central bank collateral policies affect the real economy through *production networks*, not just *direct channels*.

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