Panel Discussion on

Monetary Policy and Productivity

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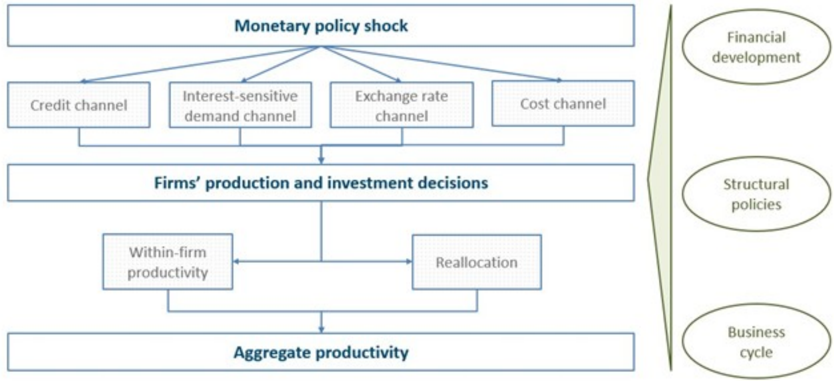
*The views expressed here are those of the author and do not necessarily reflect those of the OECD.

Introduction

- Productivity growth has slowed down significantly across most advanced economies.
- Monetary policy, particularly through interest rates adjustments, can impact an economy's productive potential.
- Monetary policy shocks shape productivity dynamics through:
  - Changes within firm productivity.
  - Reallocation of resources across firms.

Monetary policy and productivity: Main channels



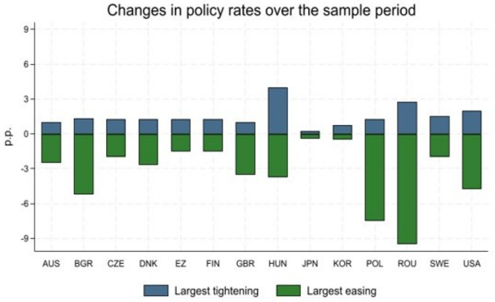
Source: Franco and Unsal (2025).

Effects of monetary policy shocks on productivity

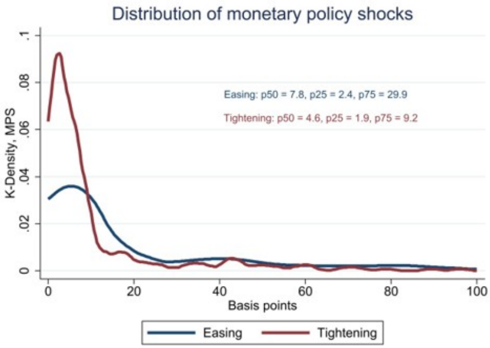
- A 25 bp tightening (easing) MP shock decreases (increases) firm productivity growth by 0.7 pp over 5 years.
- Easing episodes raises misallocation, including by directing more resources to zombie firms.
  - Reduce resource allocation efficiency by up to 7% over 3 years after easing.
- But these impacts depends on:
  - Transmission channels (credit, cost, demand, exchange rate).
  - Structural issues (financial development, product market regulation).
  - Business cycle (pro- vs counter-cyclical alignment of MP).
- Results based on Franco and Unsal (2025).

Monetary Policy Shocks

Policy rates and monetary policy shocks



(Largest) Policy rate changes by region



Monetary Policy shocks distribution

Note: Monetary policy shocks are from Choi et al. (2024, JME).
Source: Franco and Unsal (2025).

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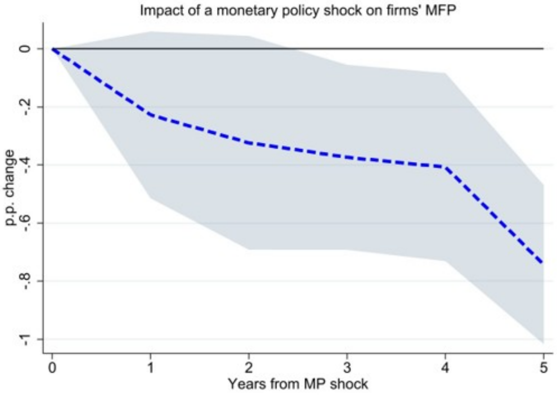
Within Firm Effects

MP tightening (easing) implies lower (higher) firm productivity growth in the medium-term

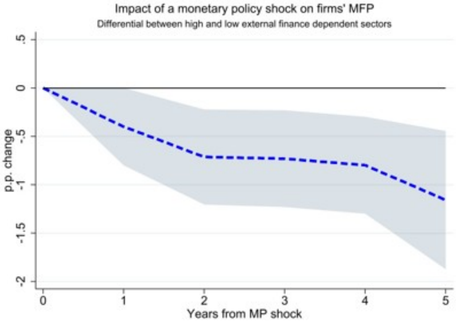


Note: The graph simulates the impact of a 25 basis points monetary policy shock. Positive (negative) shocks stand for tightening (easing) shocks.
Source: Franco and Unsal (2025).

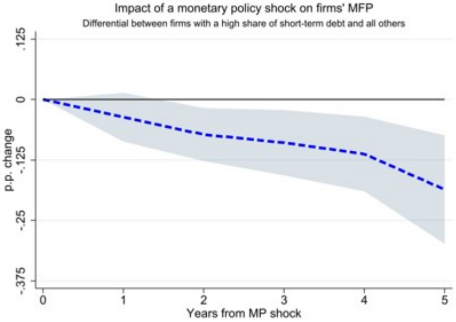
Transmission channels matter

- Credit channel (Strong).
  - Industries dependent on external financing are substantially more affected.
  - Firms subject to roll-over risk are more affected over time.

Credit channel: High-external finance and high-short term debt dependent firms more affected



High- vs low-external finance dependence



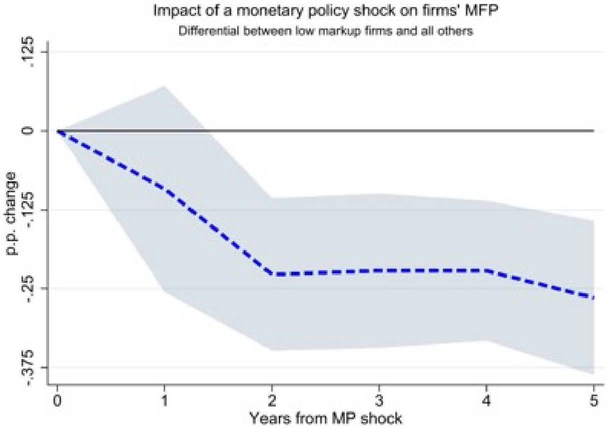
High- vs low-short-term debt

Note: The graph simulates the impact of a 25 basis points monetary policy shock. Positive (negative) shocks stand for tightening (easing) shocks.
Source: Franco and Unsal (2025).

Transmission channels matter

- Credit channel (Strong).
  - Industries dependent on external financing are substantially more affected.
  - Firms subject to roll-over risk are more affected over time.
- Cost channel (Strong).
  - Low markup firms are more affected over time.

Cost channel: Low markup firms more affected

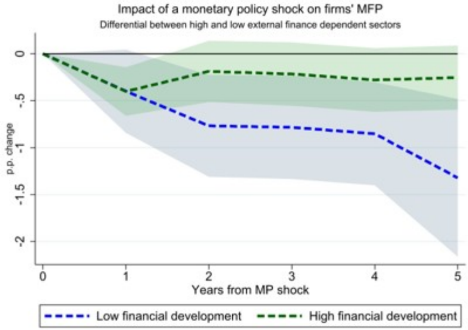


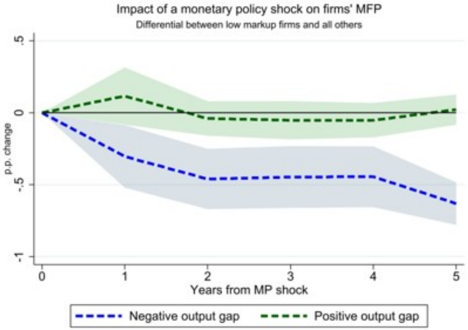
Note: The graph simulates the impact of a 25 basis points monetary policy shock. Positive (negative) shocks stand for tightening (easing) shocks.
Source: Franco and Unsal (2025).

Transmission channels matter

- Credit channel (Strong).
  - Industries dependent on external financing are substantially more affected.
  - Firms subject to roll-over risk are more affected over time.
- Cost channel (Strong).
  - Low markup firms are more affected over time.
- Demand channel (Weak).
  - Durable industries only slightly differentially more affected.
- Exchange rate channel (Weak).
  - Import (Export)-intensive industries only slightly (not) affected.

Role of financial development and business cycle





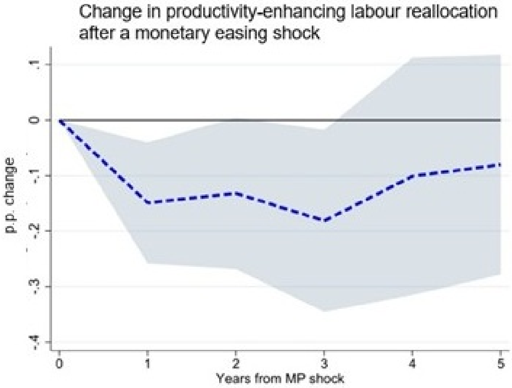
MP shocks have stronger effects on firm productivity in countries with low financial development

The productivity losses following a tightening are significant mainly when monetary policy is pro-cyclical

Note: The graph simulates the impact of a 25 basis points monetary policy shock. Positive (negative) shocks stand for tightening (easing) shocks.
Source: Franco and Unsal (2025).

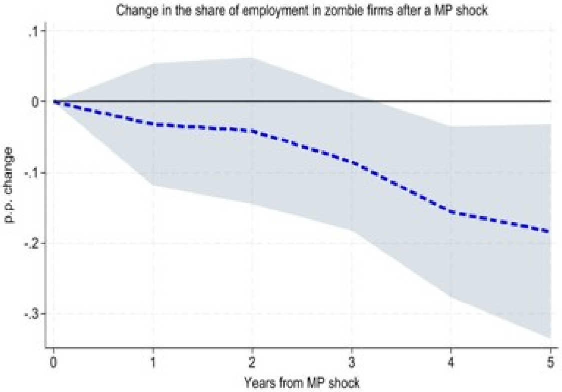
Reallocation Effects

Monetary easing could imply 7 percent loss in the efficiency of labour reallocation over the medium term



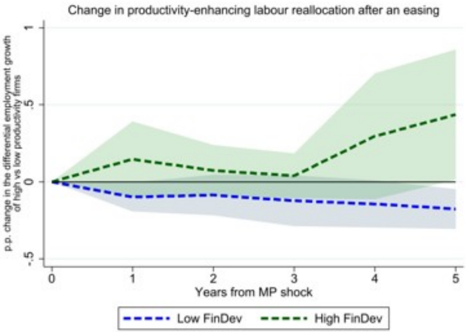
Note: The graph simulates the impact of a 25 basis points monetary policy shock. Positive (negative) shocks stand for tightening (easing) shocks.
Source: Franco and Unsal (2025).

MP tightening (easing) implies lower (higher) resources sunk in zombie firms

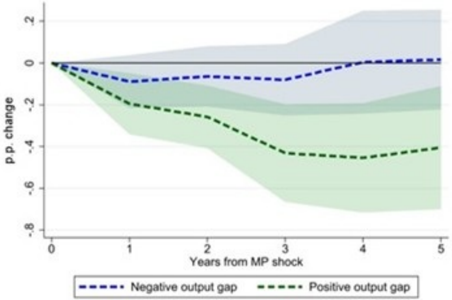


Note: The graph simulates the impact of a 25 basis points monetary policy shock. Positive (negative) shocks stand for tightening (easing) shocks.
Source: Franco and Unsal (2025).

Developed financial markets and economic downturns mitigate the misallocation effects of MP easing



High- vs low-finance development



Negative- vs Positive-output gap

Note: The graph simulates the impact of a 25 basis points monetary policy shock. Positive (negative) shocks stand for tightening (easing) shocks.
Source: Franco and Unsal (2025).

Concluding remarks

- MP shocks significantly influence productivity dynamics.
- A 25 bp MP shock alters firm productivity growth by up to 0.7 pp over 5 years.
- Easing episodes can lead to misallocation, notably increasing resources for zombie firms.
- These effects are shaped by
  - Transmission channels, structural factors, and business cycle alignment of MP.