

**Fixed Investment, Liquidity Constraint, and Monetary Policy: Evidence from
Japanese Manufacturing Firm Panel Data**

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Abstract

We empirically analyze the effects of monetary policy shocks on real fixed investment using panel data from Japanese manufacturing firms to examine the existence of a balance sheet channel. We observe that firms' investment sensitivity to their net worth significantly increases during a tight monetary policy period. The smaller the firm size, the greater are the effects of a contractionary monetary policy. Therefore, our model results support the balance sheet channel. In addition, firms' investment sensitivity to their net worth statistically significantly decreases during the quantitative monetary easing policy (QMEP) period. Specifically, the QMEP relaxes liquidity constraints of large firms, but not those of small firms. Our evidence suggests that although the QMEP transmission operates through the balance sheet channel, the QMEP has a limited effect on the real economy.

JEL classification: E51; E52; G31

Keywords: Monetary policy shock; Real fixed investment; Net worth

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