

# The Effects of Long-term Expansionary Monetary Policy on the Corporate Sector

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## Abstract

*For the last 20 years, for the majority of Europe, the periods of easing the monetary policy were dominating. During the last year, as a result of the rising inflation, several central banks had to tighten monetary policy, ending the low-interest rate policy. The paper aims to analyze the negative consequences for the corporate sector of the remarkably long period of expansionary monetary policy. Four main consequences were identified. Firstly, the low-interest rate environment causes a debt increase, which creates a risk of emerging zombie companies. Secondly, due to the lower rate used for discounting cash flow, long-term investments are relatively more attractive than short-term investment projects. This creates a risk that when the interest rate will rise, many projects will be revaluated and they will have to be liquidated. Thirdly, expansionary policy shifts the economy into a riskier position as a result of the yield targeting in the corporate sector. Fourthly, during the previous years, inflation was observed only through asset prices. The central bank, through the transmission monetary policy mechanism, is impacting each of the identified consequences. All of them could severely impact the economy's availability to recover after the COVID-19 crisis and creates a danger to macroeconomic stability. The research is focused mainly on the polish corporate sector, with additional analysis of the findings for the eurozone.*

**Keywords:** monetary policy, corporate, interest rate, investment, risk, inflation