NOTAT

RESPONSE

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On request of Erhvervsministeriet, Danmarks Nationalbank has calculated the impact on the distribution of internal liquidity reserves during 2016 in a counterfactual thought-experiment, in which firms are assumed to hold additional cash equivalent to the amount of profits paid out during that year. These calculations are an addition to the ones described in the Economic Memo "Liquidity Reserves of Danish Firms: implications during the COVID-19 epidemic". Except for the profit-augmented hypothetical cash holdings, the calculations remain the same as in the memo: we calculate the ratio of internal liquidity to fixed capacity costs as defined in the memo, and multiply this ratio by 12 to get a duration measure in months.

In Figure 1, we plot the hypothetical duration measure and the original duration measure used in the note. As expected, internal liquidity reserves augmented with paid out profits are higher than those only based on actual cash reserves, since about 43% of firms pay out profits to their owners during 2016. The overall median increases from slightly below one month in the original calculation to slightly below two months.

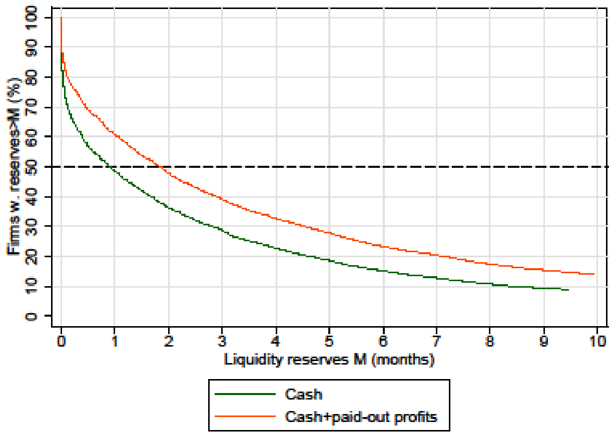

Figure 1: Actual and hypothetical distribution of internal liquidity reserves

In Figure 2, we plot the hypothetical distribution of internal liquidity reserves augmented with paid-out profits by firm size as requested by the ministry. Figure 3 presents the plot of internal liquidity reserves by firm size from the original note for comparison. The medians increase to 2.1 months for very small firms (<10 FTE), 1.7 months for small firms (10--49 FTE), 1.6 months for medium-sized firms (50--249 FTE) and 1.3 months for larger firms.

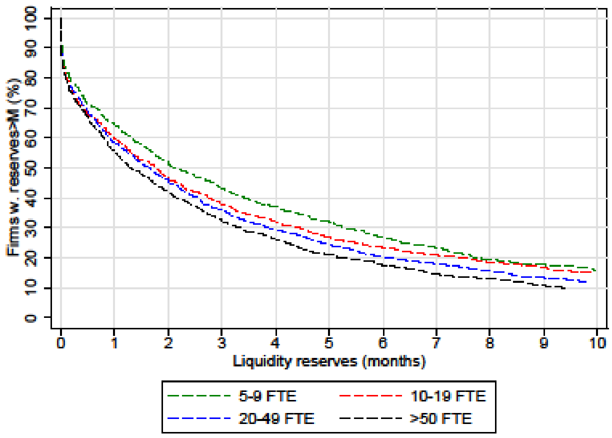

Figure 2: Hypothetical internal liquidity reserves

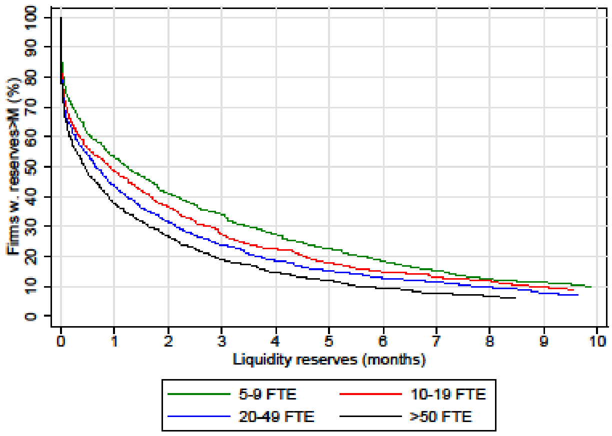

Figure 3: Actual internal liquidity reserves (Original figure)

This calculation does not reflect an assessment of the optimal level of profits that should have been paid out in 2016. We do not expect 2016 paid-out profits to be representative for payouts after the onset of the COVID epidemic in 2020. Data on the level of paid-out profits is not available in the Danish accounting statistics after 2016.

Some important caveats apply to the hypothetical liquidity reserves calculated here. First, we do not symmetrically reduce liquid reserves by equity raised during the year---we only take into account pay-outs, not pay-ins. Second, reduced profit payouts may affect other factors that are important for firms' liquidity, but are assumed to be fixed in our calculation. For example, when subsidiary firms don't pay out profits, this decreases the income of their parent companies, which would in turn affect how much liquidity reserves can be generated in the parent companies if they themselves don't pay out any profits. Furthermore, lower profit payouts may affect the ability of firms to raise liquidity in equity markets, which may also lower the reserves of some firms. We do not attempt to present a complete list of caveats, but want to highlight that second-round effects are not taken into account in this counter-factual scenario.