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The Impact of Economic Policy Uncertainty on Corporate Cash Holdings from the Perspective of Property Heterogeneity

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Abstract

In recent years, the domestic and international economic situation has undergone drastic changes, and economic policies have also changed and adjusted frequently. This paper selects all companies listed in China's A-share market from 2010 to 2019 as research samples, and establishes a panel data model to study the impact of economic policy uncertainty on corporate cash holdings. The effect of certainty on state-owned and private enterprises. The results show that companies will reduce cash holdings when economic uncertainty rises, and this effect is more pronounced for state-owned enterprises. Finally, this paper puts forward relevant reference for companies to smooth out the fluctuation of cash holdings in the environment of economic policy uncertainty.

Keywords

Economic Policy Uncertainty; Corporate Cash Holdings; Property Rights Heterogeneity.

1. Introduction

In recent years, the international economy has undergone many changes, such as the subprime mortgage crisis, the Sino-US trade conflict, and the rise of international trade protectionism, which have had an effect on the economic imbalance. Countries around the world usually use the economic policy uncertainty index to reflect the uncertainty of economic policy, that is, the divergence of the public's estimation of the future trend of the government's economic policy, and the inconsistency between the public's expected economic performance and actual economic events. Due to the turbulent market environment and the occurrence of external time lags, economic decision-making is often volatile and uncertain. This economic phenomenon will affect the development of the country and enterprises. Only by timely launching feasible and reasonable solutions, to deal with the risks posed by economic uncertainty. Since the financial crisis that broke out in 2008 [1], countries around the world have issued a series of policies to carry out economic macro-control. In response to the contradiction between inflation and economic growth, the Chinese government has also implemented various measures to deal with the impact of economic instability. For example, before the new crown epidemic, my country had always pursued an open trade policy, but after the new crown epidemic, it proposed a "dual cycle". "strategy. Under the impact of economic uncertainties, the development of enterprises also faces certain risks. It is very important for enterprises to formulate risk prevention measures in advance, reduce production costs and improve technological innovation. Due to the heterogeneity of property rights, private enterprises and state-owned enterprises will use different means to deal with the "crisis" when faced with the uncertain impact of economic policies. And some private housing companies choose to shrink their business lines.

2. Literature Review

From the perspective of economic policy uncertainty, many scholars believe that corporate cash holdings are closely related to corporate financing, investment and management [2]. Among

ISSN: 2688-9323

them, Wang Xiaoyan and Song Lu (2021) [3] take the nature of corporate property rights and regional differences as the starting point, and believe that the property rights differences and regional differences in corporate investment behavior are positively correlated with economic policy uncertainty. Zhong Kai, Liang Peng and Peng Wen (2021) [4] found that monetary policy uncertainty is mainly reflected through the cash dividend channel. When monetary policy uncertainty increases, companies choose to use part of their cash for cash dividend distribution and reduce cash holdings. Thereby reducing enterprise risk. Sun Jihui and Ma Liang (2020) [5] selected the annual panel data of China's A-share non-financial listed companies from 2007 to 2018, and believed that EPU has a promoting effect on corporate cash holdings, and the business value of the company will be affected by the increased cash. Hold gets boosted [6]. However, when information asymmetry rises, companies will reduce their cash holdings, partly because corporate executives use power for personal gain, sacrificing the opportunity cost of optimal investment, and over-investing in the market, which seriously damages corporate interests. However, for companies with a sound management system, they will strictly resist the excessive investment and profit-making behavior of corporate executives [7], and restrain the increase of corporate cash holdings, so the degree of influence on the level of cash holdings will be weakened. However, when companies face strong financing constraints, Han Tong et al. (2017) [8] believe that when economic fluctuations increase, companies increase their cash holdings more significantly. Li Fengyu and Shi Yongdong (2016) [9] used the mediation effect model to conduct empirical analysis and found that the existing investment opportunities that companies choose to sacrifice will be replaced by the opportunity cost of increasing cash. Because of the existence of preventive motives, companies choose to increase their cash holdings[10] to deal with risk crises, but due to opportunistic behaviors generated by agency motives, the marginal value of the increased cash will fall, so Wang Hongjian et al. (2014) [11] believe that in the In terms of improving the efficiency of cash control and reducing excess cash holdings of enterprises, actively promoting the process of marketization and continuing to stabilize economic policies can play an important role. Korea Gao (2014) [12] used the theoretical model of investment decision-making to find that unstable economic policies will hinder enterprises from conducting investment activities [13]. Reduce the company's prediction of policy instability, thereby weakening the risk that the company takes, and creating an orderly development environment for the company.

This paper mainly uses the panel data of my country's A-share listed companies from 2010 to 2019, and processes 2043 sample data. First, the impact of the EPU index on corporate cash holdings is obtained through benchmark regression. The difference in the degree of influence of cash holdings of enterprises and private enterprises. Based on the heterogeneity of property rights, this paper uses the method of combining empirical analysis and theoretical research to make the research conclusions conform to the actual situation of the government and enterprises, and proposes a feasible reference for enterprises to smooth the fluctuation of cash holdings and avoid the risks of market changes.

3. Research Design

3.1. Data Sources

The data selected in this paper are mainly from the Guotai'an database, and all companies listed in China's A-share market from 2010 to 2019 are used as the research object. The data is processed as follows: (1) Eliminate the missing samples of relevant indicators to ensure the continuity of the data (2) Eliminate financial enterprises to avoid the impact of the particularity of financial industry reports and the characteristics of large liquidity on the experimental results (3) Eliminate abnormal operating companies of ST and PT, and improve the accuracy of the indicators (4) Use the Win-sort method of 1% at the beginning and end to process the data

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of the main continuous variables to eliminate the influence of extreme values. Through data processing, 2043 sample data were finally obtained.

3.2. Variable Description

3.2.1. Explained Variable

Corporate cash holdings Cash is used as the explained variable in this paper. Scholars at home and abroad use different standards to measure the level of corporate cash holdings, mainly including three types: the ratio of the sum of monetary funds and short-term investments to total assets [14], cash equivalents or the ratio of cash to total assets [15], cash equivalents and total assets The ratio of less cash equivalents [16]. This paper uses the widely used "cash ratio" as a measure.

3.2.2. Explanatory Variables

As the explanatory variable of this paper, the economic policy uncertainty index EPU mainly adopts the method that has been widely used by domestic and foreign experts and scholars in recent years: China's economic policy uncertainty index developed by Baker [17] and others, which is obtained by searching for keywords in newspapers. index.

3.2.3. Control Variables

For the selection of control variables, this paper mainly draws on the practice of Li Fengyu [18], Yu Chuanrong and Fang Junxiong [19], and selects company size (Curasset), capital expenditure (Operatingcf), asset-liability ratio (Lev), monetary capital (Lev) and cash flow (Cashflow) as the control variable, all variables are shown in Table 1.

Table 1. Definition of main variables

Variable nature	Variable symbol	Variable name	Specific definition
Explained variable	Cash	Cash holding level	Cash ratio
Explanatory Variables	EPU	Economic Policy Uncertainty Index	Baker's Economic Policy Uncertainty Index
Control variables	Size	Company size	Company total assets
	Operatingcf	Capital expenditure	Difference between current assets and current liabilities
	Lev	Gearing ratio total	Liabilities/Total assets
	Cashflow	Cash flow	The ratio of the company's net cash flow from operating activities to assets

3.3. Model Design

$$\text{Model 1: } Cash_{it} = \alpha_0 EPU_{it} + Controls_{it} + \gamma_{it} + \theta_{it} + \mu_{it}$$

$$\text{Model 2: } PCash_{it} = \alpha_0 EPU_{it} + Controls_{it} + \gamma_{it} + \theta_{it} + \mu_{it}$$

$$\text{Model 3: } NCash_{it} = \alpha_0 EPU_{it} + Controls_{it} + \gamma_{it} + \theta_{it} + \mu_{it}$$

Among them, the subscript *t* represents the period; *i* represents the individual enterprise, Cash represents the level of cash held by the enterprise; EPU represents the economic policy uncertainty index; Controls represents a series of control variables; γ_{it} it represents the fixed individual effect; θ_{it} it represents the fixed time effect; μ_{it} it represents the random error term; PCash represents the cash holding level of state-owned enterprises, and NCash represents the cash holding level of private enterprises.

ISSN: 2688-9323

4. Empirical Analysis

4.1. Benchmark Regression

Table 2 shows the results of regression model 1. It can be seen that the overall holding level of enterprises is negatively correlated with the EPU index. At this time, the t value is -6.41 and the p value is less than 0.001, so the relationship between the two is significant. The EPU coefficient is -7.731, and for every 1 unit increase in the economic policy uncertainty index, corporate cash holdings will decrease by 7.731 units. This means that when economic policy uncertainty increases, companies will choose to reduce cash holdings in response to risk crises. While economic instability brings certain risks to businesses, it also brings investment opportunities. The main reason is that the value of the investment target is volatile, and the degree of volatility will increase with the uncertainty of economic policies. At this time, companies choose to increase investment and expand their scale, which can enhance their competitiveness. For example, during the epidemic period, Haidilao took advantage of the low rent of the store, relying on the company's original cash holding reserves and the effective control of the epidemic in my country, and chose to expand the scale to open branches to increase revenue.

Table 2. The regression results of economic policy uncertainty on corporate cash holdings

Variable	Coefficient	t-value	P
EPU	-7.731	-6.41	0.000
Operatingcf	3.633	15.48	0.000
Size	-2.473	-42.77	0.000
Lev	-0.194	-14.34	0.000
Cashflow	4.286	6.39	0.000
con_	0.741	52.63	0.000

4.2. Group Regression

Table 3. Regression results of economic policy uncertainty on state-owned enterprise cash holdings

Variable	Coefficient	t-value	P
EPU	-12.429	-10.51	0.000
Operatingcf	5.452	18.58	0.000
Size	-4.819	-53.92	0.000
Lev	-2.140	-19.27	0.000
Cashflow	7.832	8.37	0.000
con_	3.821	75.29	0.000

Table 3 shows the results of regression model 2. It can be seen from the results that there is a negative correlation between the holding level of state-owned enterprises and the EPU index. The t value is -10.51, which is significant on the premise that the p value is less than 0.001. At this time, the EPU estimation coefficient It is -12.429, that is, for each unit of economic policy uncertainty index increase, the level of corporate cash holdings will decrease by 12.429 units, and the effect of the coefficient is more obvious than that of the general regression result. It is certain that state-owned enterprises will choose to reduce more cash holdings when economic policy instability increases, because state-owned enterprises have more flexible cash reserves. When faced with the impact of economic policy uncertainty, state-owned enterprises can flexibly operate funds to overcome risks under the background of government support, and can

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scientifically formulate plans to increase investment, add more welfare to society, and provide benefits in times of economic instability. More jobs to ease employment pressure.

Table 4 shows the regression results of Model 3. It can be seen from the results that there is a significant negative correlation between the holding level of private enterprises and the EPU index. Compared with state-owned enterprises, when the instability of economic policies increases, private enterprises reduce cash The ability to hold levels will be diminished. At this time, the t value is -6.41, which is significant on the premise that the p value is less than 0.001. The estimated EPU coefficient is -5.839, that is, for every 1 unit increase in the economic policy uncertainty index, the level of corporate cash holdings decreases by 5.839 units, and there is no The effect of state-owned enterprise regression results is obvious. The main reason is that the capital chain of private enterprises is not as sufficient as that of state-owned enterprises. Therefore, when the economy is uncertain, in order to avoid the risk of capital chain breakage and bankruptcy, enterprises will invest cautiously to ensure that they can make as much money as possible on the premise of being able to overcome the risks. Increase investment to seek higher interests for enterprises.

Table 4. Regression results of economic policy uncertainty on cash holdings of private enterprises

Variable	Coefficient	t-value	P
EPU	-5.839	-6.41	0.000
Operatingcf	1.782	15.48	0.000
Size	-1.281	-34.70	0.000
Lev	-0.140	-11.19	0.000
Cashflow	3.430	4.24	0.000
con_	3.941	43.90	0.000

5. Conclusions and Policy Recommendations

5.1. Conclusion

Through regression analysis of 2043 panel data of companies listed on A-shares in my country from 2010 to 2019, this paper studies the impact of economic policy uncertainty on the level of corporate cash holdings, as well as the impact of economic policy uncertainty on the level of corporate cash holdings under the premise of heterogeneous property rights. Differences in deterministic effect effects. The results show that companies will reduce their cash holdings when economic uncertainty rises, and this has a more pronounced effect on state-owned enterprises. The main reason is that in order to expand the scale and enhance competitiveness, when the uncertainty of economic policies increases, companies choose to take advantage of the low rents of stores to make large-scale investments, thereby reducing cash holdings. Among them, private enterprises will invest cautiously according to the risk and capital operation, and state-owned enterprises will scientifically formulate investment plans to seek more benefits for the society.

5.2. Policy Suggestions

First, the stability of economic policy should be maintained. The market environment is turbulent. Due to the occurrence of external time lags, the formulation of economic policies is often unstable. Enterprises' prediction of economic instability will increase due to frequently mobilized economic policies, and it is impossible to judge the correct corporate behavior. Therefore, for the government, on the one hand, it should adjust economic policies in a reasonable and timely manner according to market changes. Once the adjustment policy is

established, it should try its best to maintain the stability of policy operation, and actively promote the transparency of policy introduction and implementation to ensure the efficiency of policy implementation. On the other hand, attention should be paid to the supervision of corporate accounting information disclosure, so as to promote the implementation of the "anti-corruption policy", prevent rent-seeking behaviors, thereby weakening the risks borne by enterprises and creating a stable economic policy environment for enterprises.

Secondly, in the face of risks brought by economic policy uncertainty, enterprises should formulate risk prevention measures in advance and improve the corporate governance mechanism, so as to seek new development energy in the changing environment. Enhanced understanding of economic development trends and a full understanding of policy instability will help companies make rational use of policy resources and stand out in a changing market environment. In addition, enterprises can also improve their own growth and reduce the impact of external risks on enterprise development by reducing financing costs and increasing innovation. Finally, enterprises should increase their efforts to find partners and investors, and aggregate resources from multiple parties, so as to help the development and transformation of enterprises, and achieve the development trend of vertical breakthrough and horizontal breakthrough.

Finally, the responsibility and ability of corporate executives are very important to the development of the company. When faced with the external environment of economic policy uncertainty, the internal factors of the company can be optimized to reduce the loss of interests. Corporate executives should be role models for employees, make new development decisions based on changing strategies, lead employees to seek corporate innovation during periods of great economic development, and inject new vitality into the further development of the company.

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