EUROPEAN CENTRAL BANK

EUROSYSTEM

Discussion of:

A geopolitical shock to bank assets and monetary policy transmission

Falko Fecht, Stefan Greppmair, Björn Imbierowicz

Miguel Boucinha

1-2 October 2025

ECMI / NBS / CEPS / SUERF Research Conference 2025

What does the paper do?

Main questions

- ❑ Does a geopolitical shock affect bank funding conditions?
- ❑ Does this affect loan supply?
- ❑ Does it affect the reaction to interest rate changes?

What does the paper do?

Main questions and results

- Does a geopolitical shock affect bank funding conditions?
  - Yes, and the impact is statistically and economically significant
- Does this affect loan supply?
  - Yes, and this is linked to the deteriorated funding conditions
- Does it affect the reaction to interest rate changes?
  - Yes, it amplifies the transmission of monetary policy tightening

How does the paper do it?

Identification

- ❑ Heterogeneity in banks' exposure to Russian invasion of Ukraine
- ❑ Daily data to isolate impact of the shock
- ❑ Granular data allowing for wide range of fixed effects

Data

- ❑ Very rich combination of data on deposits and lending
- ❑ Both granular and representative datasets
- ❑ MMSR, AnaCredit, SHS-G, iMIR, iBSI

Why is it important?

ECB strategy assessment:

- *"The transmission to lending rates and growth in credit to firms was somewhat **stronger than implied by historical regularities**"*

ECB monetary policy statement March 2023:

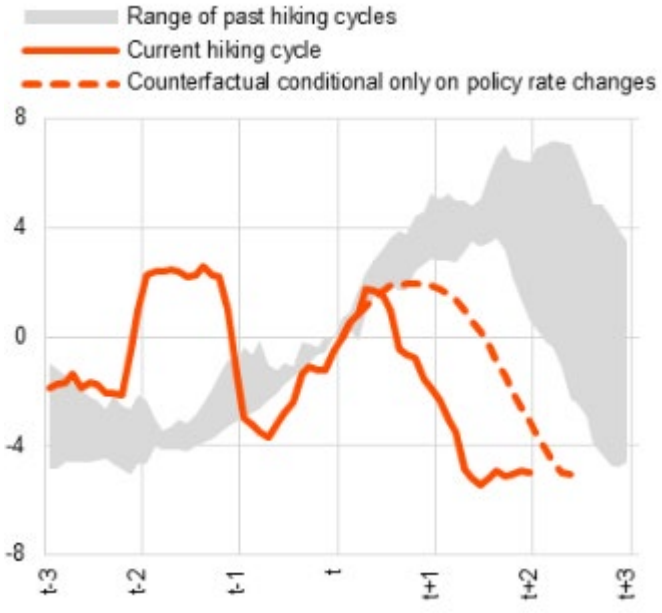
- *"he elevated level of uncertainty reinforces the importance of a data-dependent approach to our policy rate decisions, which will be determined by our assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation, and the **strength of monetary policy transmission**."*

FOMC stated in its November 2022 press release:

- *future rate increases "will take into account the cumulative tightening of monetary policy, the **lags with which monetary policy affects economic activity and inflation**, and economic and financial developments"*

Lending in current and past cycles

(x-axis: years, y-axis: growth rate of credit in deviation from its growth rate at the start of the cycle (t), in pp)



Sources: ECB and ECB calculations..
Notes: The dotted line corresponds to a BVAR counterfactual for lending volumes, taking December 2021 as the latest observation and projecting volumes conditional on the path of monetary policy rates.

Mechanism

- Why do depositors react?
  - Authors focus on credit risk, can reputational risk matter?
- Is it *just* about deposits?
  - Within funding cost channel:
    - other types of funding such as bonds?
    - why lower reaction of ICPF? What about IF?
  - Does geopolitical shock activate other channels beyond funding?
    - Can it reduce banks' risk appetite?
      - Internal risk controls
      - Supervisory pressure
      - Market pressure
    - If so can this further amplify the impact on credit?

Transmission

- The paper is very detailed on the identification of the funding cost shock…
  …but shorter on the impact of lending

- Is the impact different across loan risk/collateral?
- Who are the more impacted firms?
  - Smaller? Younger? More/less productive?
- Can affected firms replace lost credit? (firm-level regressions, bond issuance)
- Are there real effects? (eg investment, employment)
- Are there differences across countries? Can they inform on fragmentation/implicit public support?

Methodology

- Drop loans to exposed firms?
- Include firms with single deposit relationships (use ILS FE as for loans)?
- Include firms with single deposit relationships (now sample N as with firm*time FE)?
- Tighter control for demand in MP results (again ILS)?
- Consider also extensive margin for loans?
- Post*controls robustness for loans?
- Why not use same exposure measure for all LP (continuous vs binary)?
- Idiosyncratic risk proxied by CDS orthogonalised from bank balance sheet characteristics: why not orthogonalised from aggregate benchmark?
- Drop loans with interest rate equal to zero – problem as rates pass by zero in the sample?

Overall

- Very nice paper!

- Definitely topical in the current geopolitical setting
- Clear policy implications
- Granular data supporting identification
- Encompassing data supporting external validity
- Robust methodology

- Main suggestion: exploit more the results on credit
  - Aggregate impact on funding is equivalent to almost 50bps rate hike

  => Might be even more for loans due to risk-taking channel