



Discussion of “Securities Losses, Interbank Markets and Monetary Policy Transmission: Evidence from the Eurozone”

James Vickery (Federal Reserve Bank of Philadelphia)

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Overview and general reactions

- Broad question: Which mechanisms drive bank lending channel of monetary policy? E.g.,:
 - Overall bank net worth? (a la Holmstrom-Tirole 1997 etc.)
 - Bank *regulatory* capital?
 - Deposit supply? (Drechsler et al. 2017)
 - Value of pledgeable securities used as collateral for interbank borrowing? [this paper]
- Also: “insurance” role of internal bank capital markets to mitigate liquidity crunch
- Overall: Great paper!
 - Significant contribution to growing literature on role of securities in MP transmission

Comments

1. Measuring collateral constraints
2. Role of regulatory capital constraints
3. Empirical specification

1. Measuring collateral constraints

- Conceptually: collateral utilization =
$$\frac{\text{secured borrowing}}{\underbrace{\sum_i (1 - \text{haircut}_i) \text{ mkt val securities}_i}_{\text{borrowing capacity}}}$$
- Puzzle: Collateral utilization measure in paper often > 100% (even w/o haircut adjustment):

	N	Mean	SD	P10	P50	P90
(ECB + Interbank Borrowing) / Total Security Holdings (in %)	498	90.92	90.08	27.77	55.55	202.89

Suggestions:

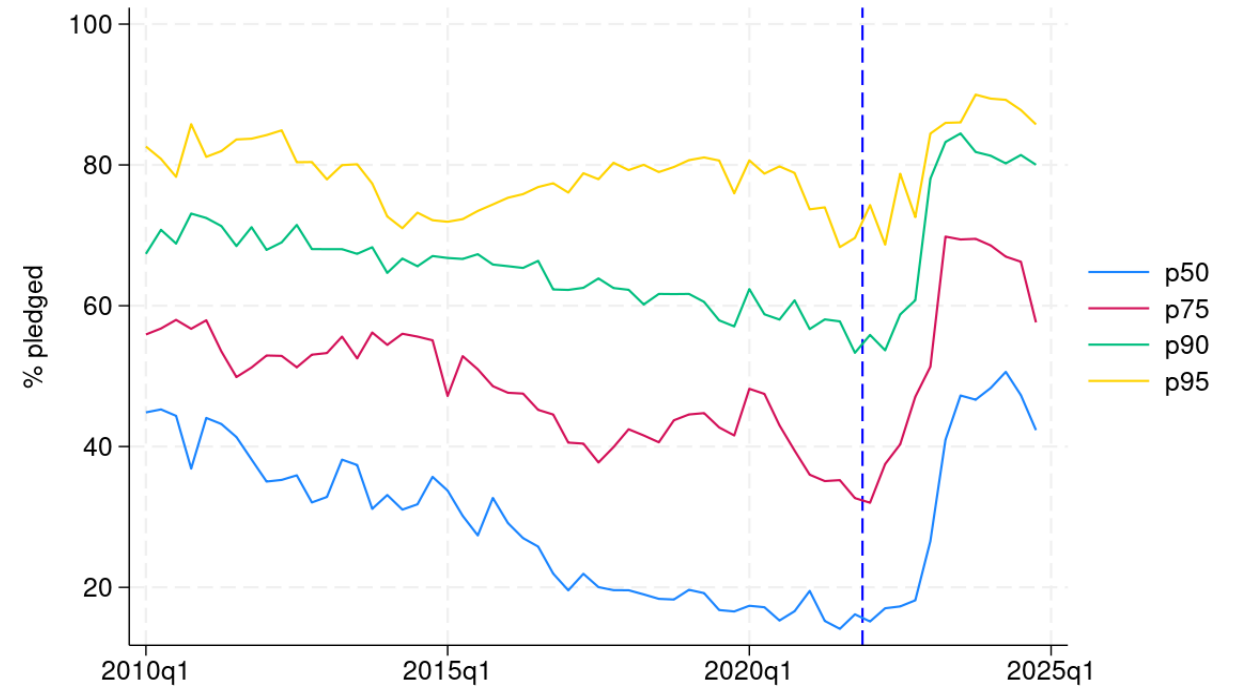
- Refine measure? E.g., exclude unsecured borrowing; secured by loans etc. Haircut data?
- Then: present facts about how collateral constraints evolved over this period
 - Did collateral utilization increase? How many banks are close to full utilization?
 - Did utilization increase more for banks with high sec. losses?

US evidence: how did collateral utilization change as MP tightened?

Aggregate % of securities pledged



Distribution of % of securities pledged



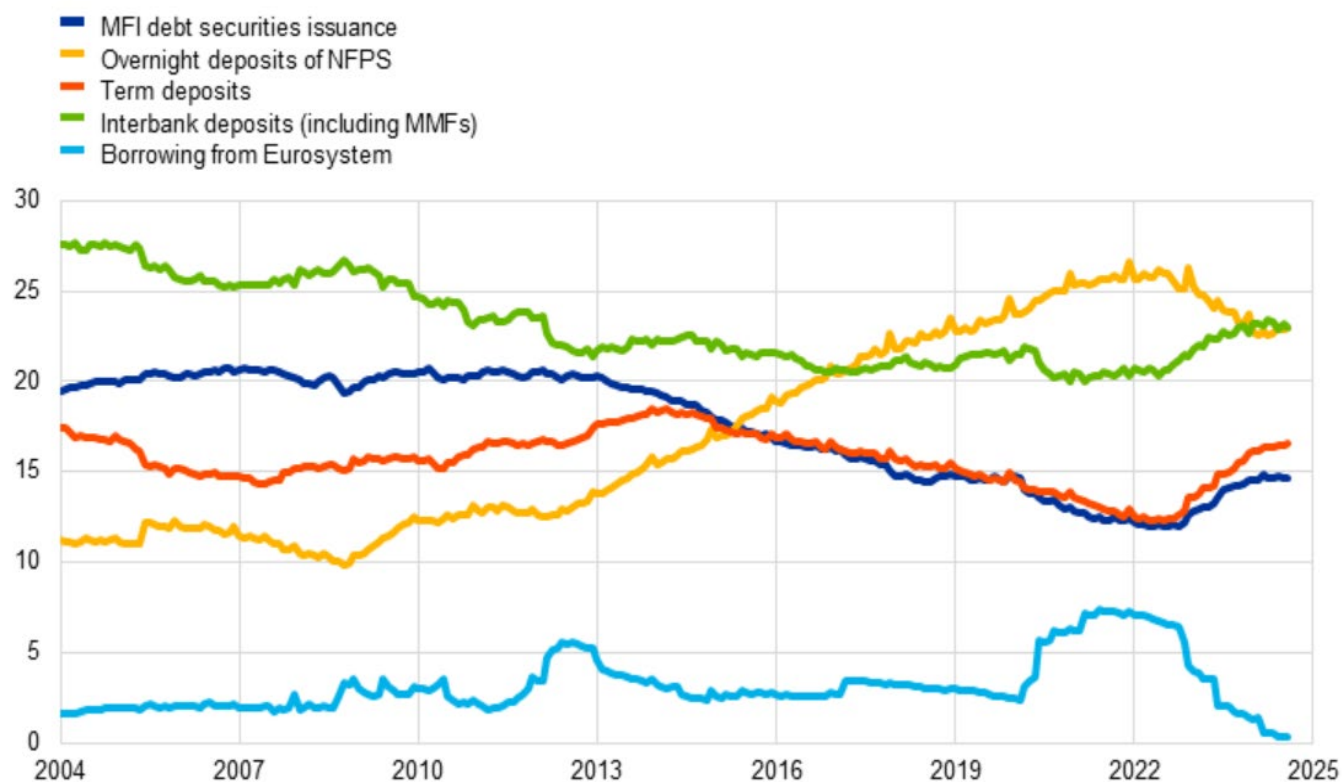
Source: Call reports

- Collateral utilization up sharply post-2022, but particularly driven by Mar 2023 turmoil + BTFP
- Most banks have plenty of spare collateral, but a subset seem fairly constrained

Role of TLTRO exit in amplifying tighter collateral constraints in EU?

Bank liability structure over time

(percentages of main liabilities)



Sources: ECB (balance sheet items (BSI) statistics) and ECB calculations.

1. Large drop in Eurosystem borrowing from 2022-24 due to expiration of TLTRO III
 - Magnitude: ~6% of assets (context: securities losses 0.6% of assets)
2. Offset by a mix of (i) interbank borrowing; (ii) bond issuance; (iii) term deposits

Suggestions

1. Show (in cross-section of banks) that securities losses were key driver of higher collateral utilization post-tightening (“first stage”)
2. Seems like expiration of TLTRO III should be a bigger part of the paper
 - Do TLTRO expiration, securities losses work *together* to tighten collateral constraints
 - Make sure main estimates strip out fx of TLTRO expiration (e.g., control for ECB x time)
3. How exactly does *intra-group* lending overcome collateral constraint?
 - Is the intragroup lending unsecured?
 - Is it secured but with lower haircuts?

2. Monetary transmission through securities portfolio: Europe v US

1. Paper finds no evidence that securities losses have more “bite” if they flow through to regulatory capital:

	Loan Amount		
	(4)	(5)	(6)
Collateral HTM Security Losses _{<i>b,t-1</i>}	-7.120*** (0.838)		-6.489*** (0.872)
Collateral AFS Security Losses _{<i>b,t-1</i>}		-5.727*** (1.069)	-3.868*** (1.048)

← Losses not in capital

2. Stark contrast to US evidence: Greenwald et al. 2024 essentially finds securities losses *only* transmit to lending if they affect regulatory capital
 - Findings also differ from Orame, Ramcharam and Robatto (2025) [Italian data]
3. How to interpret? E.g., do US banks just have much smaller reg. cap buffers?

3. Empirical specification

$$\text{Loan Amount}_{b,g,f,t} = \alpha + \beta \text{ Security Losses}_{b,t} + \gamma X_{b,t} + \delta_{f,t} + \mu_{g,t} + \theta_{b,f} + \epsilon_{b,g,f,t}$$

1. Augment with graphical evidence to show overall trends; visualize dynamics of lending
 - Raw plots of lending volume over time, after sorting banks by e.g., terciles of losses?
 - Replace $\beta \text{ securities losses}_{b,t}$ with $\beta_t \text{ high losses}_b$ and plot time path of β_t
 - Confirm no evidence of differential pre-trends prior to monetary tightening
2. Log model has poor statistical properties, esp. if outcome variable often zero [Chen & Roth QJE 2024; Cohn et al. RFS 2022; Santos Silva & Tenreiro REStat 2006]
 - Literature has proposed various alternatives (e.g., poisson is more robust, and packages available to handle HDFE)

Summing up

1. Very nice paper. Studies important dimension of the bank lending channel. Rich data. New evidence on how lending by affiliates can mitigate liquidity constraints.
2. Scope to “flesh out the details” – many of my comments reflect that
3. Look forward to seeing future versions!