Discussion of:

Security Losses, Interbank Markets, and Monetary Policy Transmission: Evidence from the Eurozone

by Giannetti, Jasova, Mendicino, Supera

Matteo Crosignani
New York Fed

January 5, 2026

AFA Annual Meetings
New Perspectives on Banking and Credit

In a nutshell

- Monetary policy tightening affects banks through valuation effects on securities holdings
- When interest rates rise, banks incur losses in their fixed income security portfolio
- These losses reduce the borrowing capacity in the interbank market (14% of liabilities) $\rightarrow$ reduced ability to absorb liquidity shocks
  - Effect present only for pledgeable securities (for repo market)
  - Stronger results for banks that already pledged a larger share of their securities
  - Losses on both HTM and AFS affect access to interbank market
- New channel, distinct from "hit on capital" and risk of runs
- Security losses in turn cause a reduction in credit supply
  - Sharper reduction for banks with high ex-ante collateral utilization, weaker liquidity position, and less stable funding
  - Losses on both HTM and AFS affect bank lending
- *Domestic* subsidiaries of banking groups are partially shielded (internal liquidity)

Data and empirical setting

- Loan-level data and security-level holdings for eurozone banks
  - Securities accepted as collateral by the ECB defined as "pledgeable"
  - C&I lending: might be interesting to analyze term loans and credit lines separately

- Interbank lending for eurozone banks (secured and unsecured, including internal mkts)

- High-frequency measures of unrealized and realized security losses
  - ECB hikes started in 2022:Q3 + QT in 2023:Q1
  - 2,862 banks subsidiaries (half DE) belonging to 498 banking groups across 19 EA countries from 2022:Q1 to 2023:Q3

- Interbank market outcomes: borrowing, lending, and network connections

- Heterogeneity across banks based on ex-ante securities holdings

Difference-in-differences vs. aggregate time series

- Exploits heterogeneous exposure to interest rate-induced security losses
  i.e., comparison of banks with higher vs. lower duration exposure around MP shocks
- Trace effects on interbank borrowing, lending, and network position
- This is inevitably a cross-sectional comparison. What about the aggregate?
  - Interbank market activity should decline during tightening cycles
  - Without some time-series perspective, it is hard to gauge quantitative importance
  - Aggregate volumes are noisy, but even suggestive patterns would be informative
  - This would help connect the micro evidence to monetary policy transmission at scale

Liquidity contraints vs. counterparty risk

- Banks with larger securities losses might be perceived as riskier
- Reduced interbank activity may simply reflect counterparty discipline
- Other banks lend less to loss-exposed banks, and these banks also lend less to firms
- Reduced interbank volumes alone do not cleanly distinguish supply vs. demand
- Clarifying this distinction matters for interpreting the transmission mechanism

Is this mechanism intended?

- The paper frames security losses as weakening monetary policy transmission
- But higher rates are *meant* to reduce asset values and tighten financial conditions
- Valuation losses may therefore be part of transmission, not a distortion
- The interpretation hinges on a transmission model: efficient vs. excessive tightening?
- Clarifying this distinction matters for interpreting the transmission mechanism

Overall

- Timely paper on security losses and monetary policy transmission
- Comprehensive micro evidence on banks' responses to valuation shocks
- Three main comments:

  1) More aggregate time-series evidence to assess quantitative importance
  2) Balance-sheet constraints vs. counterparty risk
  3) Clarifying whether this is the intended transmission