

Discussion of
Bruno, V., Cao, J., Dinger, V. (2025): Covered but
Exposed: Currency Risk in Collateralized Bank
Funding

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Summary

- **Research question**

- Does relying on FX-denominated covered bonds - even if fully hedged against FX and interest rate risk - influence the effect of exchange rate / FX hedging costs on bank lending to corporates?
- Bank-, firm- and loan-level quarterly data for Norway 2010-2023

- **Results**

- Relying on FX covered bonds increases procyclicality in lending due to maturity mismatch-induced rollover risk
- Statistically significant and economically meaningful effect



Comments I

- **Bank balance sheet structure**

- Better picture needed about the structure of assets and liabilities of Norwegian global and non-global banks (in relation to FX covered bonds)
- Share of corporate lending in (consolidated) assets, other lending to private sector (unsecured consumer loans), sovereign bonds, funding pattern (retail/wholesale)
- A better picture of FX exposure and funding: other sources of FX funding, FX assets (incl. FX denominated loans – are there any?), and net open FX position
- Use as control variables and/or for interactions



Comments II

- **Bank soundness**

- Missing information and use of indicators such as capital adequacy, liquidity (LCR, NSFR), risk weights, profitability, interest margins, NPLs and credit costs
- Use as control variables and/or for interactions
- Are more capitalized/liquid/profitable banks less reactive to changes in exchange rate?



Comments III

- **Lending volumes versus price**

- Why banks adjust lending to firms when hedging for FX risk of covered bonds increases?
- What is the particular channel – realized costs/losses, expected costs/losses, something else?
- Can we also see an effect on loan interest rates (risk premium), both corporate loans and (new) mortgages or other lending?



Comments IV

- **Maturity mismatch and rollover risk**

- Average maturity of mortgage loans about 25 years (residual perhaps around 10-15 years) versus covered bonds of 4-5 years
- However, a median level of the mismatch indicator ($\text{avg_maturity_loans}/\text{avg_maturity_covbonds}$) reported to be 0.13?
- Experiment with additional measures of rollover risk if data allows (duration, refinancing needs within the next 3M/6M/12M etc.) within robustness checks



Comments V

- **Heterogeneity in estimated coefficients**

- The regressions show the average effect in interactions
- Perhaps the effect is stronger for banks relying more on FX covered bonds (beyond the linear effect of this variable)?
- Regressions run separately for subsamples by the FX_exposure variable - below median, above median, or by quartiles

- **Terminology**

- Funding exposure or FX exposure (for funding via FX covered bonds, i.e. negative) confusing, perhaps just use the term “FX funding”

