

# Euro Area and Its Heterogeneities

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REFET S. GÜRKAYNAK  
BİLKENT UNIVERSITY and CEPR

ECB FORUM ON CENTRAL BANKING  
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Sintra



# The object of ECB policy affection

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- ...is the euro area.
- Euro area is a well defined economic entity.
- ECB is its central bank with a legal mandate defined over the EA.
  - *Not* its constituent countries individually.
- When BoJ does policy no one asks «How different are Okinawa and Hokkaido?»
  - Why so different for the ECB?
- A lot of it is our fixation with countries.
- Time to grow out of that.

Altavilla et al. (2024, JME)

## «A research program on monetary policy for Europe»

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«... [a]n exclusive focus on heterogeneity overlooks the euro area as a legitimate unit of analysis. We argue for the importance of treating the euro area as the primary object of ECB policy.

... [h]eterogeneity is not exclusively at the level of countries. Geographically, regions within countries are worthy of study, as are sectors, bank networks, firms by size, households by wealth and income, and many other dimensions of heterogeneity. Europe provides the variation worthy of study and there are unparalleled data sources at the most granular levels of disaggregation for empirical work.»

Altavilla, Bussière, Galí, Gorodnichenko, Gürkaynak, and Rey (2025, JME, p.2)

# Then again...

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- Heterogeneity matters
- Both for economics and for political economy.
- What is the relevant unit of observation to think about heterogeneity in the euro area?
- «Countries» is the default answer.
- It is also the assumed but not tested answer.

Altavilla et al. (2024, JME)

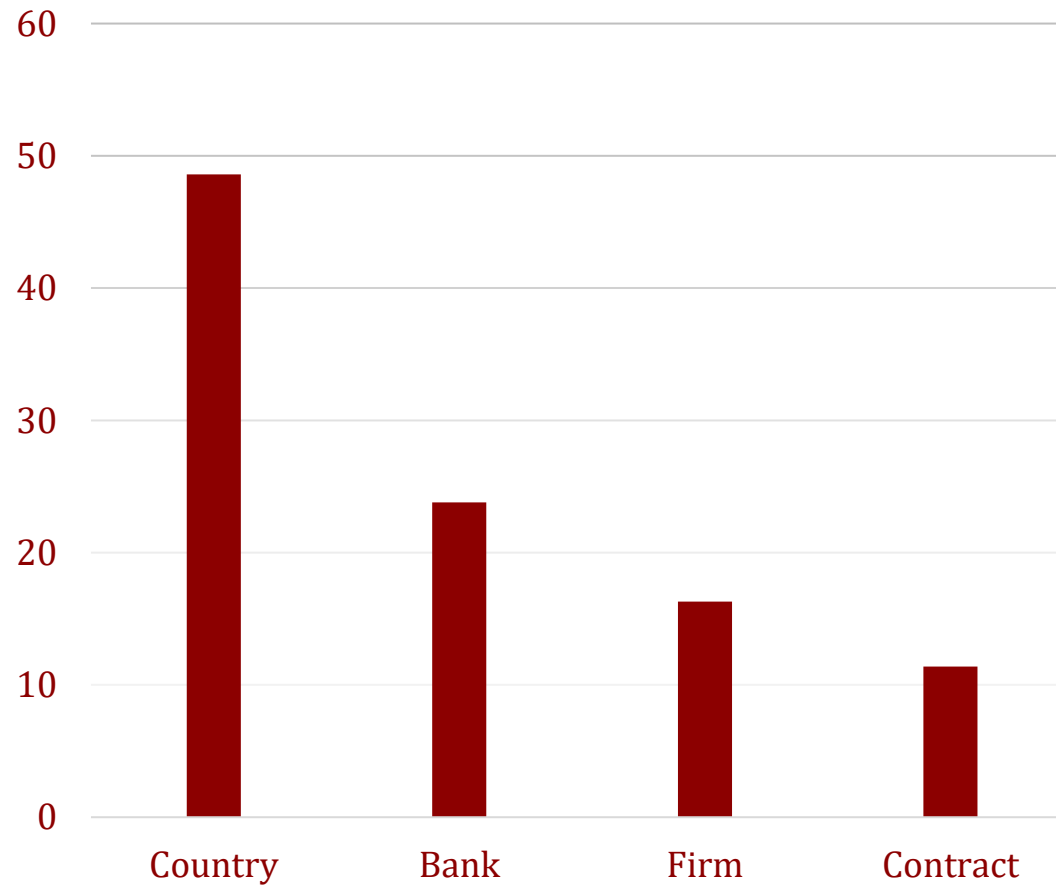
## «Macro and Micro of External Finance Premium and Monetary Policy Transmission»

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- 36 million bank loans to NFC's in the euro area
- At what levels of aggregation are loan spreads (over OIS) common across loans?
- Country, bank, firm, or contract?
- Do bank loan spreads react differentially to monetary policy surprises at these levels?  
Are responses to easing and tightening surprises symmetrical?

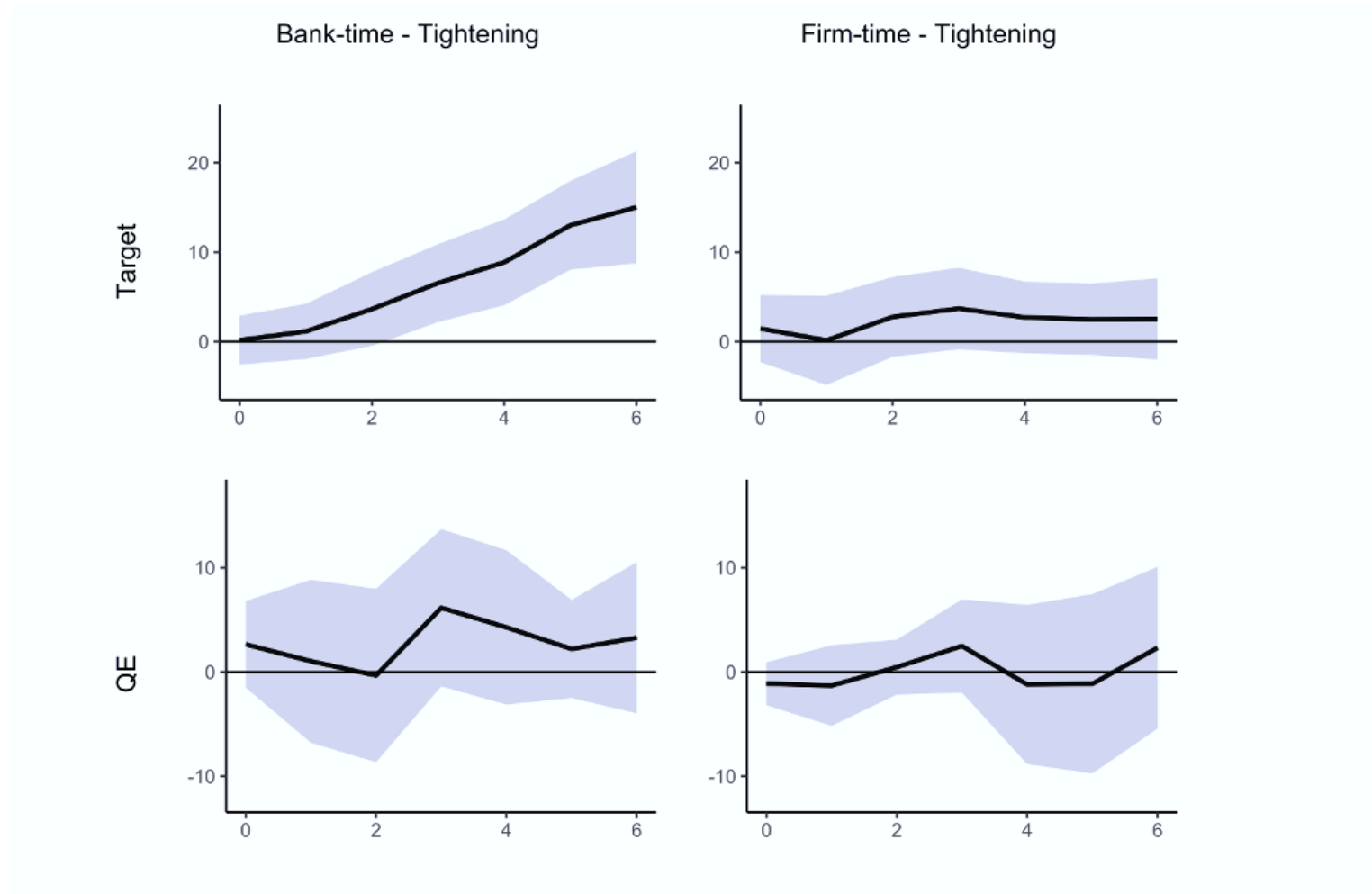
# Decomposition of the bank loan EFP

## Percent of variation common at different levels of aggregation



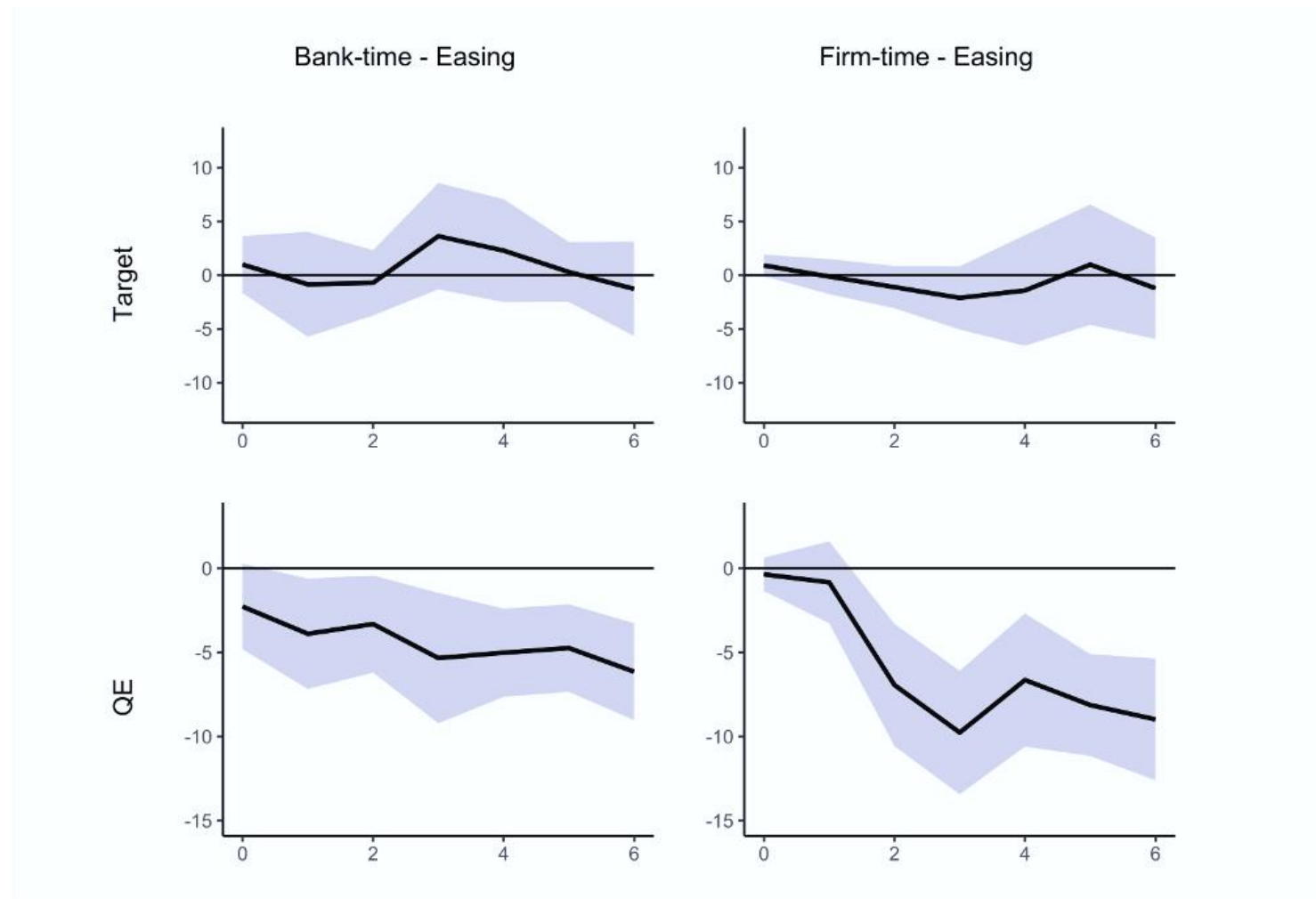
Source: Altavilla, Gürkaynak, Quaedvlieg (2025)

# Response to ECB tightening



Source: Altavilla, Gürkaynak, Quaedvlieg (2025)  
Monetary policy surprises from Altavilla et al. (2019, JME)

# Response to ECB easing



Source: Altavilla, Gürkaynak, Quaedvlieg (2025)  
Monetary policy surprises from Altavilla et al. (2019, JME)

# Euro area bank loan spreads

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- Are primarily determined at the country level.
- Is this a summary statistic for all NFC liabilities?
- Turn to corporate bonds

# Livia Chițu, Sofia Gori, et al. (2025, WP) «External Finance Premium: Market Finance versus Bank Finance»

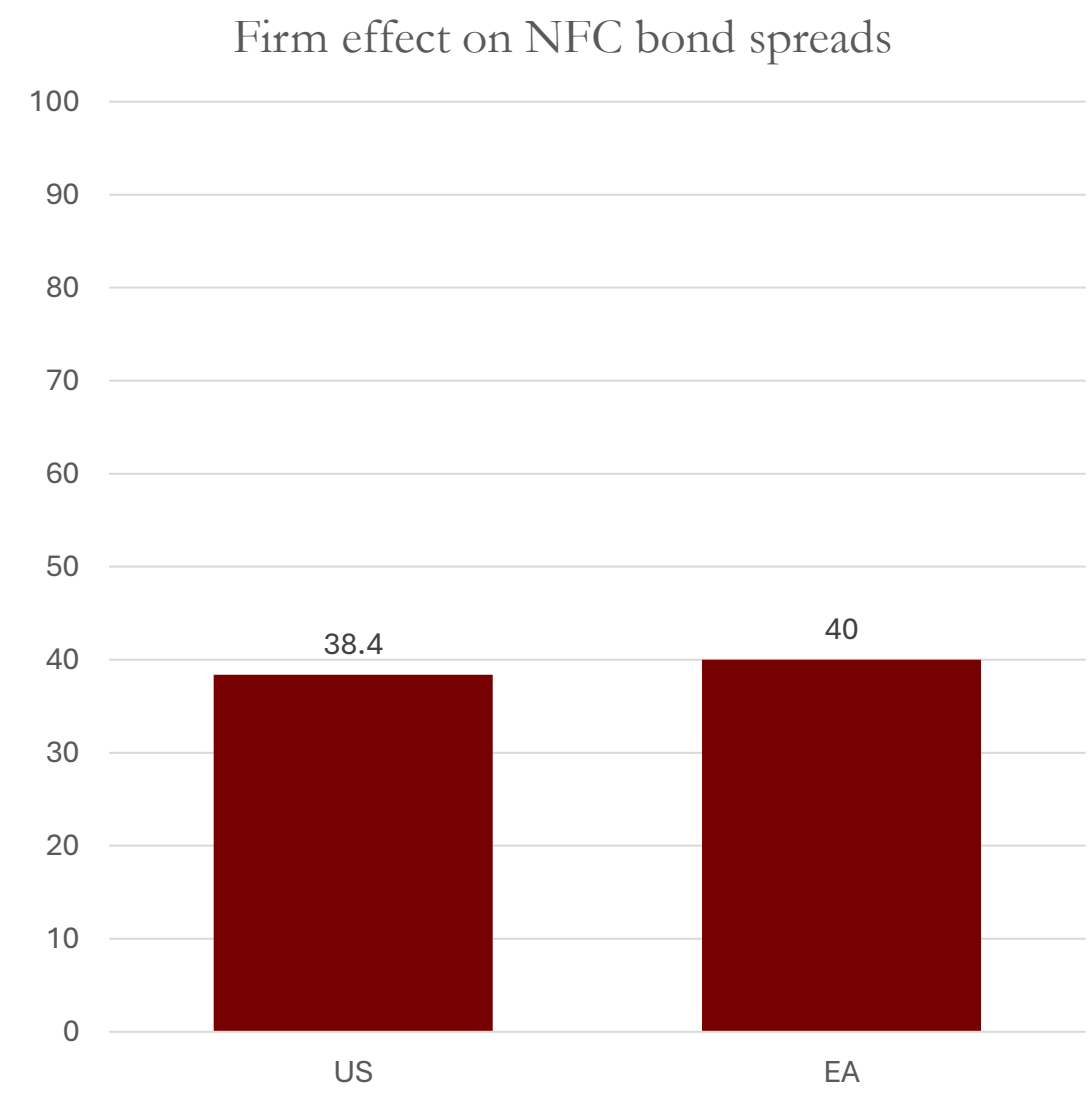
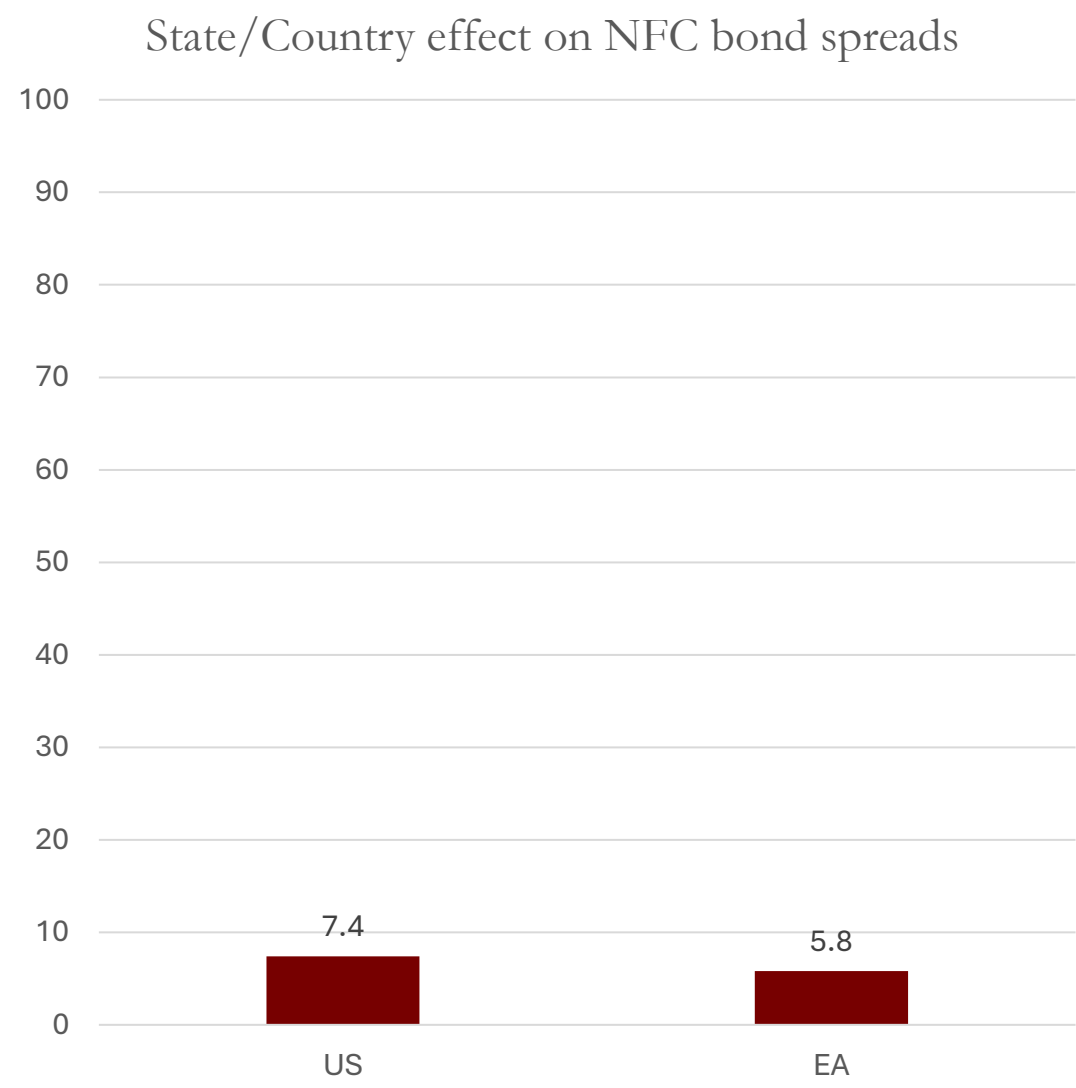
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- Comparative study of EA and US corporate bond markets.
- How important are state/country of risk of issuer?
- Does state/country affect the monetary policy transmission to bond spreads?
- (Answers *not* driven by US/EA issuing firm size differences. See paper)

# Monetary policy transmission to NFC bonds

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- State in US irrelevant
- Country in EA as irrelevant
- Why?

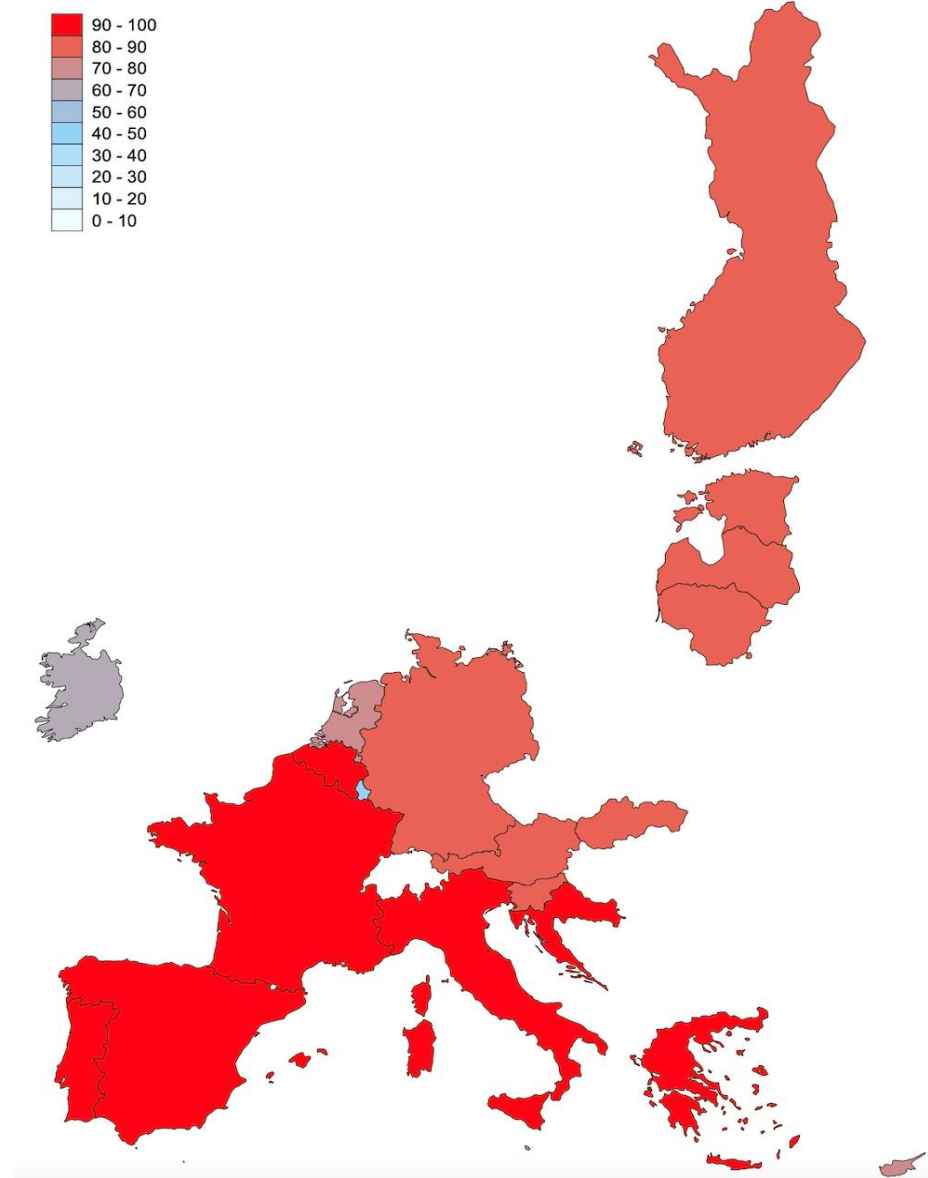


Source: Chițu, Gori, Gürkaynak (2025)

# NFC bonds spreads are not differentiated by geography

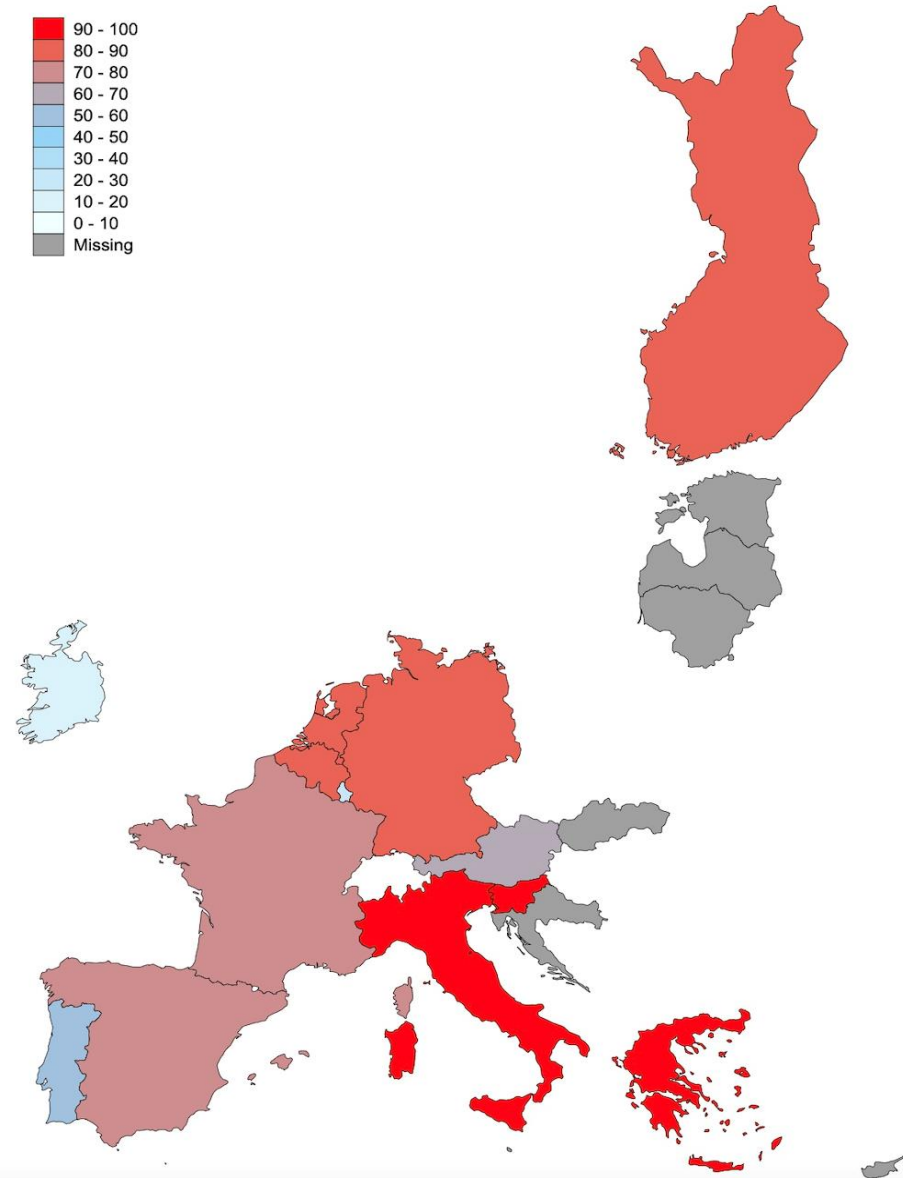
- Why not?
- Are the issuers or the bond market special?
- Study the bank loans of the issuers
- How much does country explain the bank loan spreads of bond issuers?
- **70 percent!**
- What is special is not the bond issuing firms. It is not the bond market either. It is banking.

# Share of loans to firms by local banks



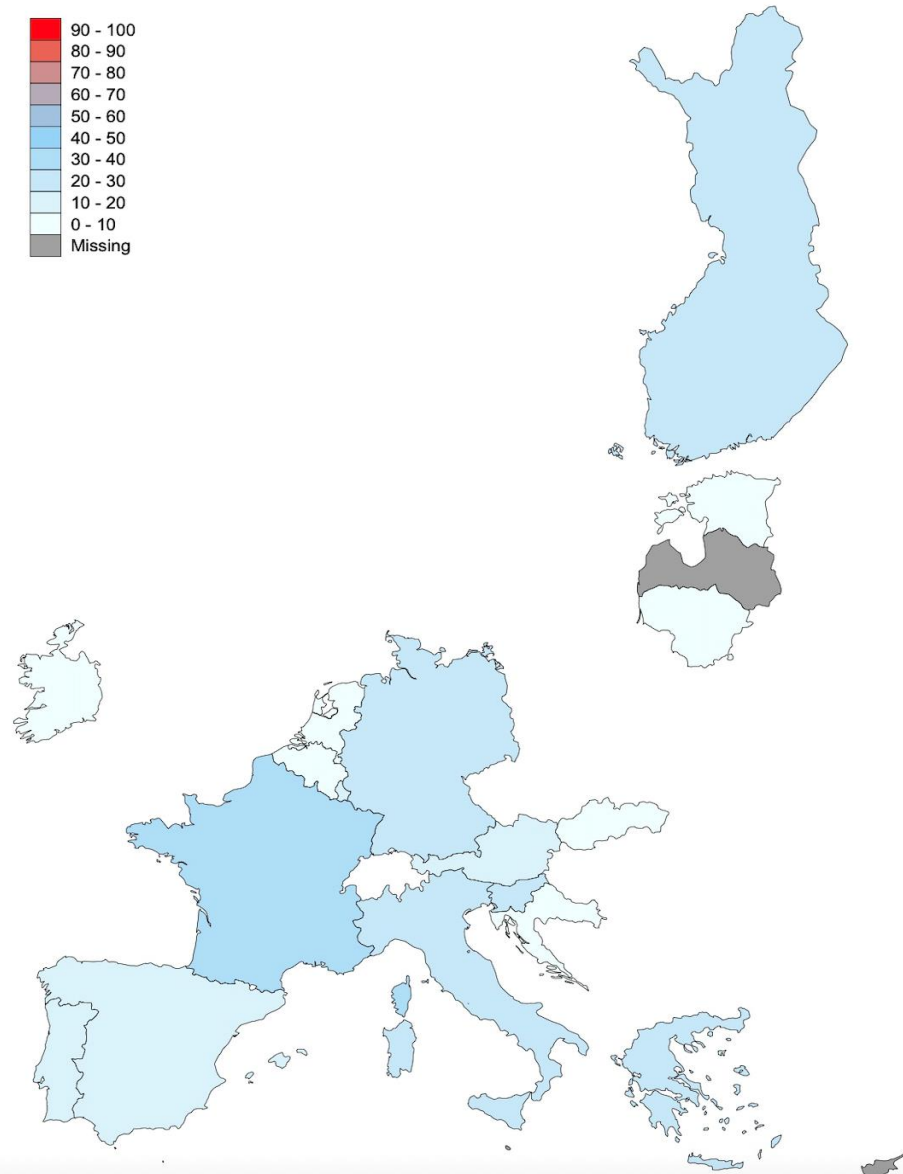
Source: Chițu, Gori, Gürkaynak (2005)  
Loans weighted by amount outstanding.

# Share of loans to bond issuing firms, by local banks



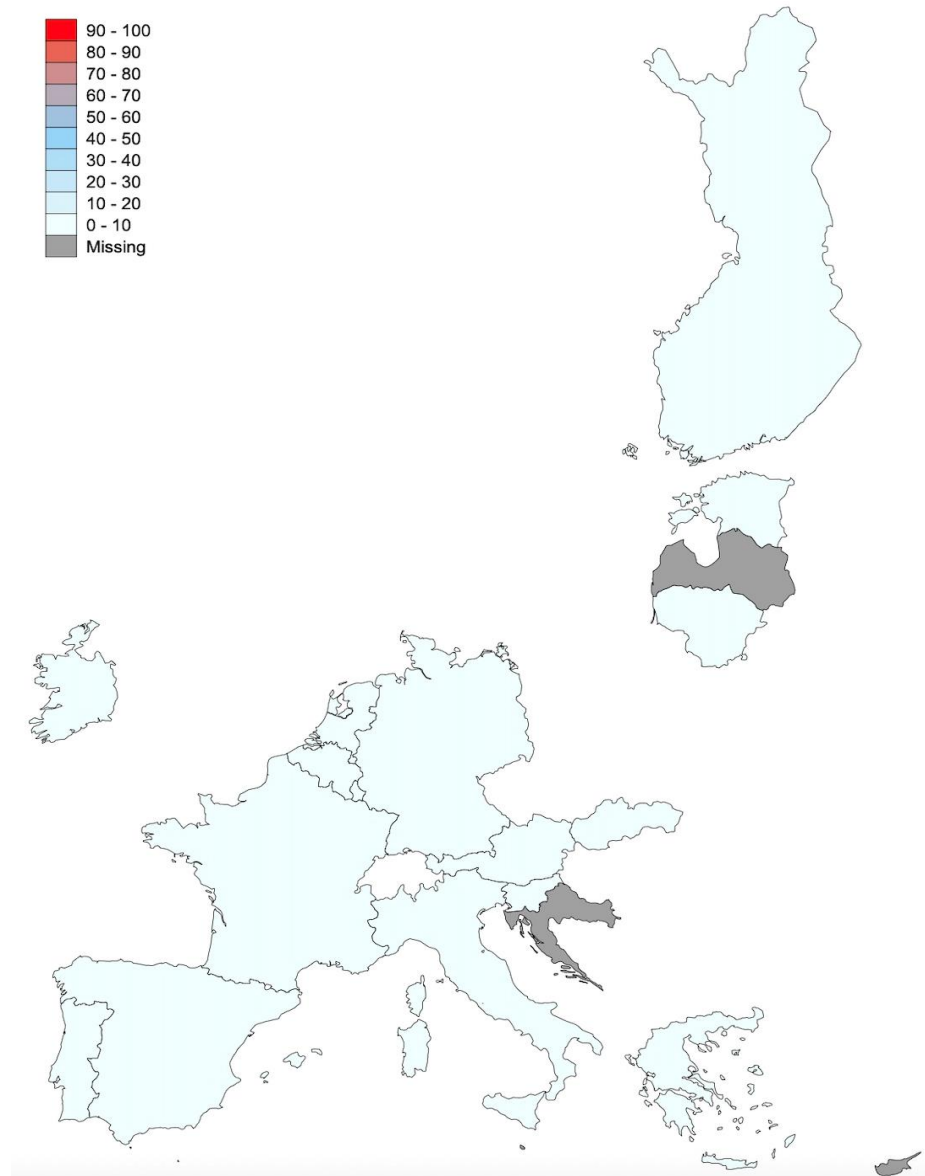
Source: Chițu, Gori, Gürkaynak (2005)  
Loans weighted by amount outstanding

# Share of NFC bonds held inside the country



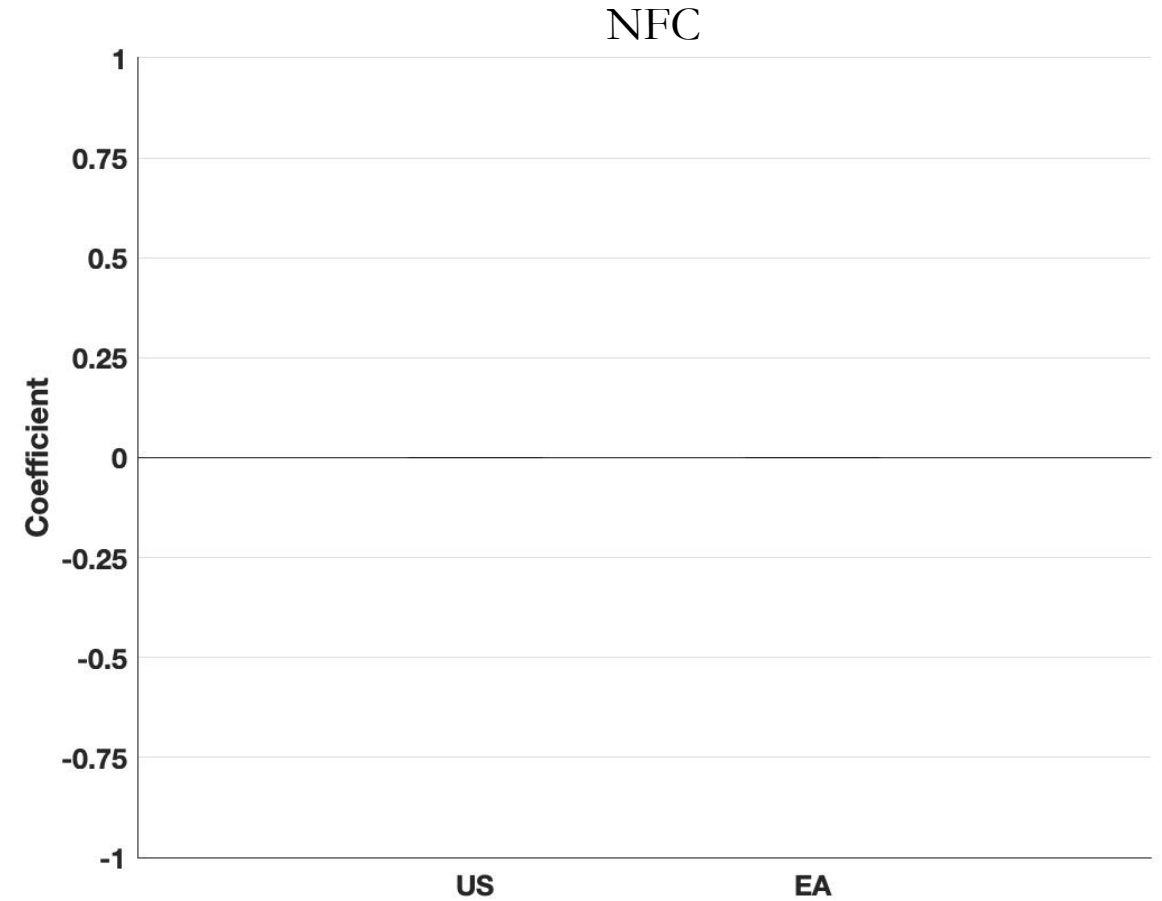
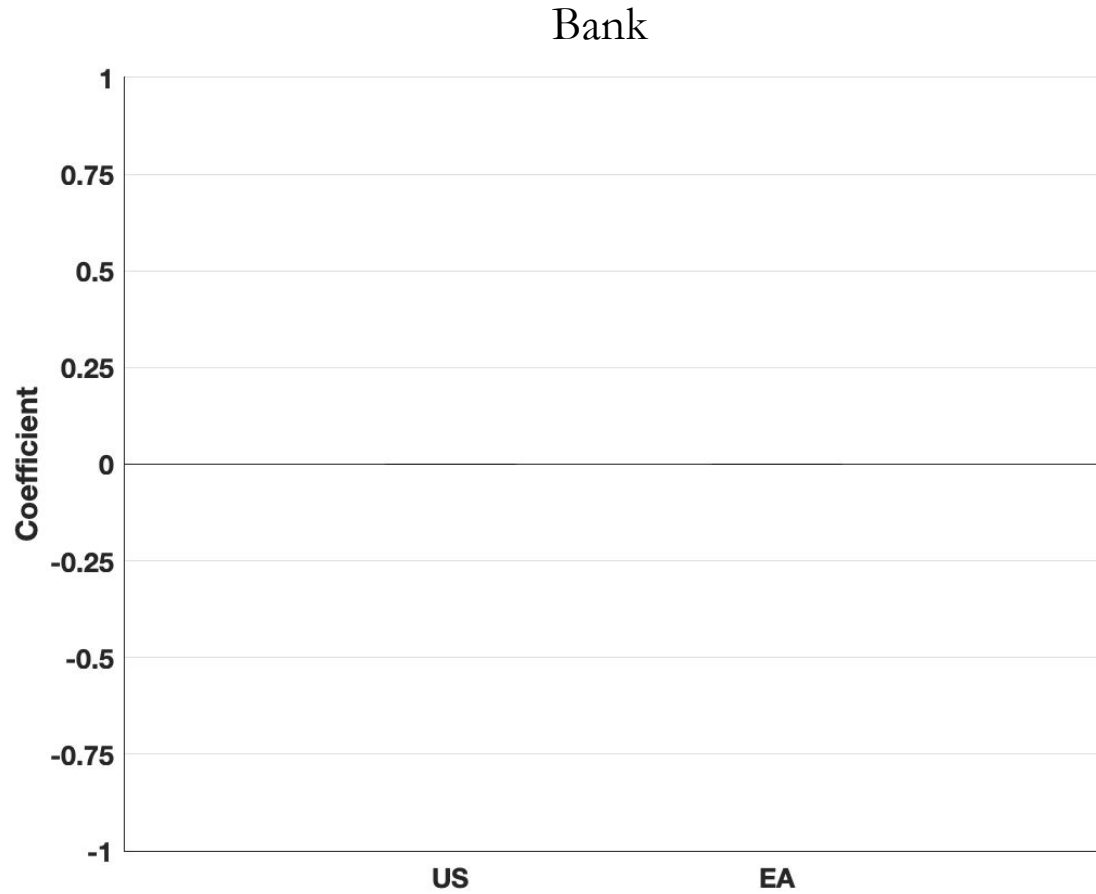
Source: Chițu, Gori, Gürkaynak (2005)  
Fraction of amount outstanding

# Share of NFC bonds held by local banks



Source: Chițu, Gori, Gürkaynak (2005)  
Fraction of amount outstanding

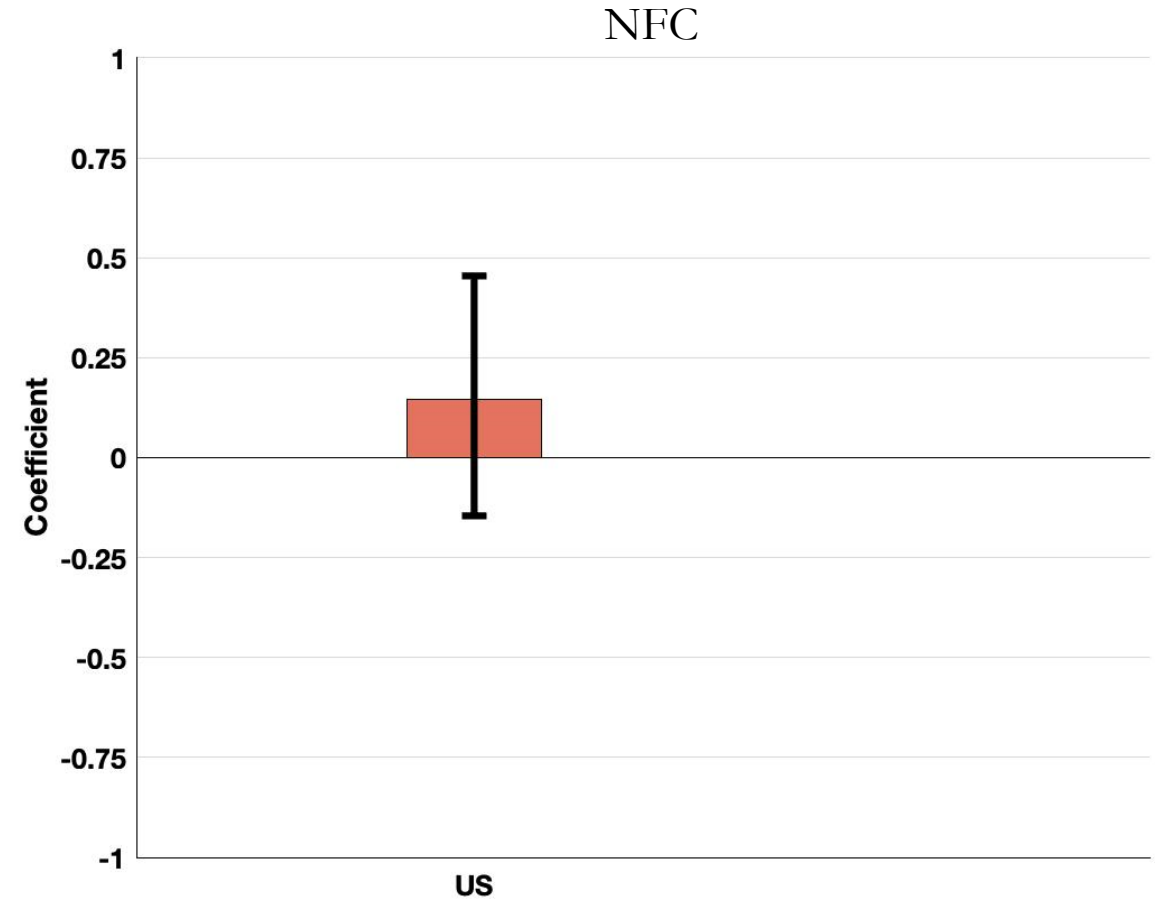
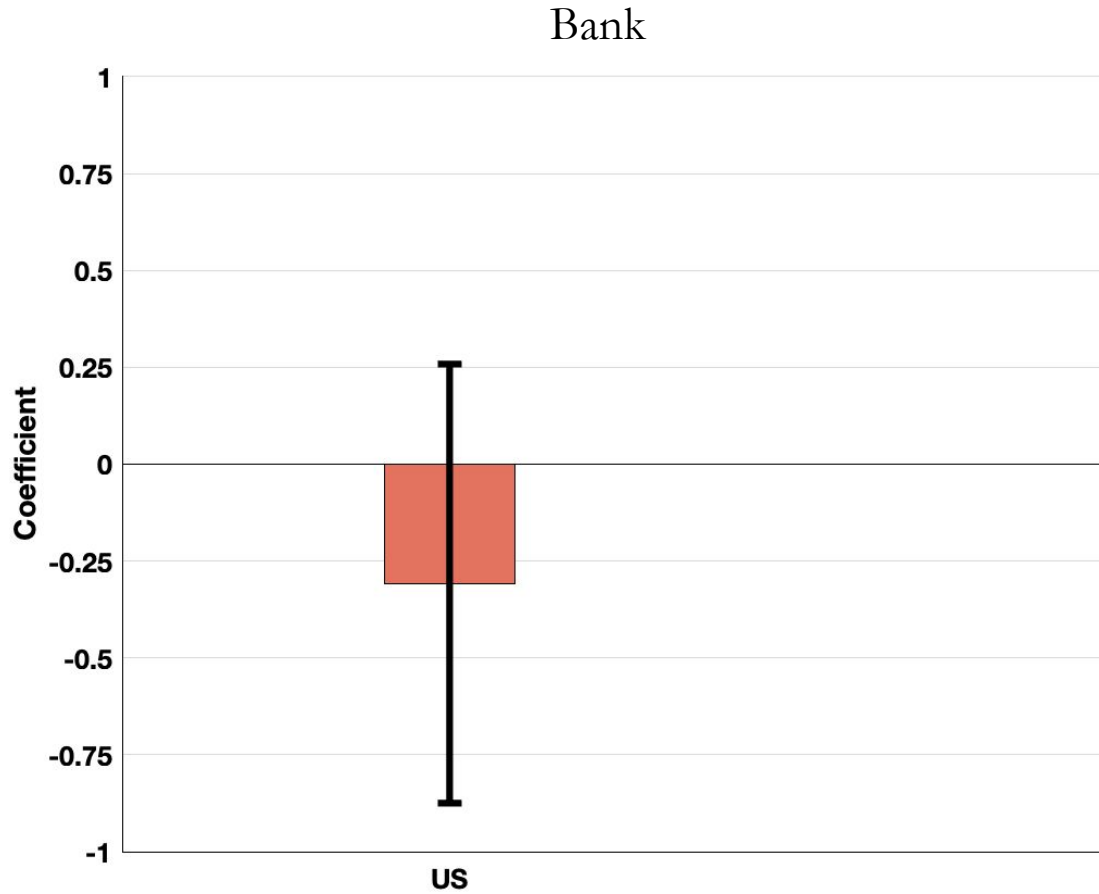
# Sovereign effects on bank and NFC bonds



Source: Chițu, Gori, Gürkaynak (2005)

\*EA excludes euro crisis period

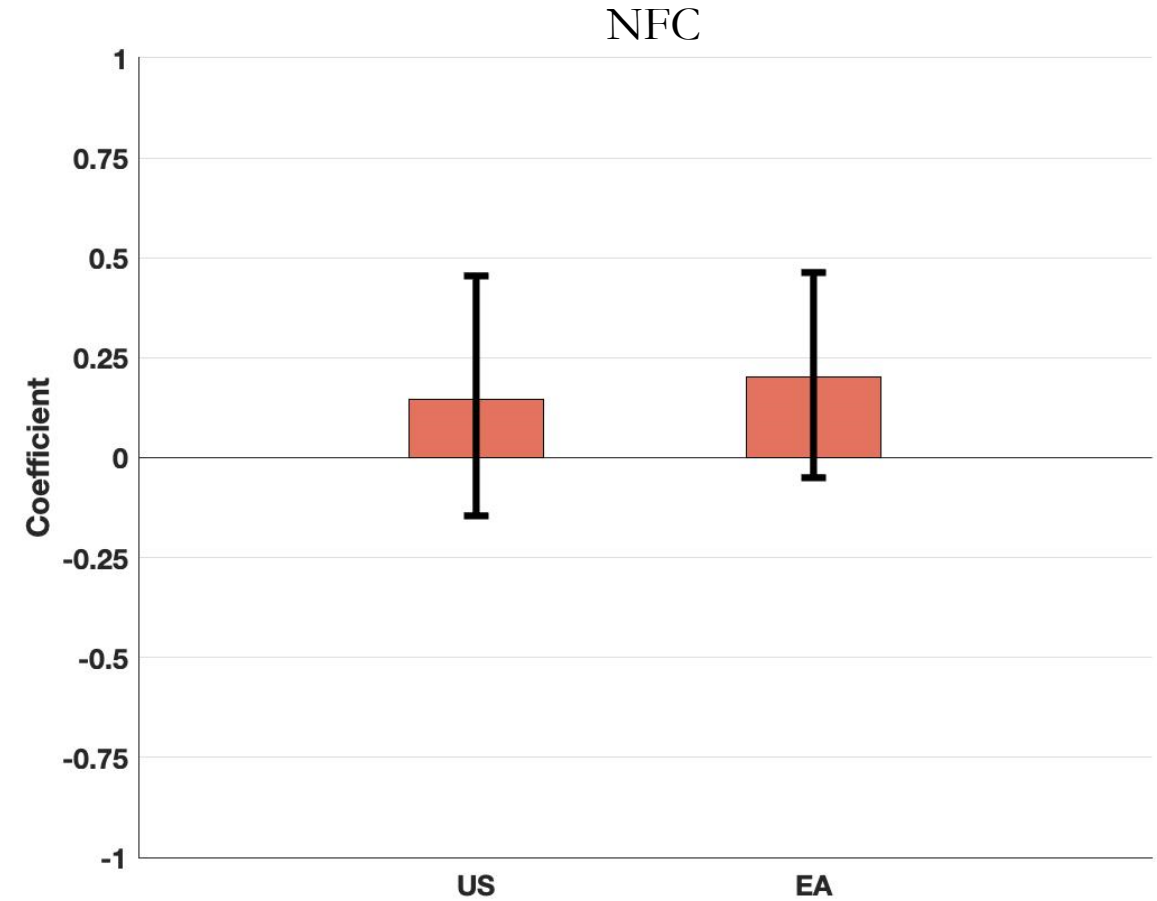
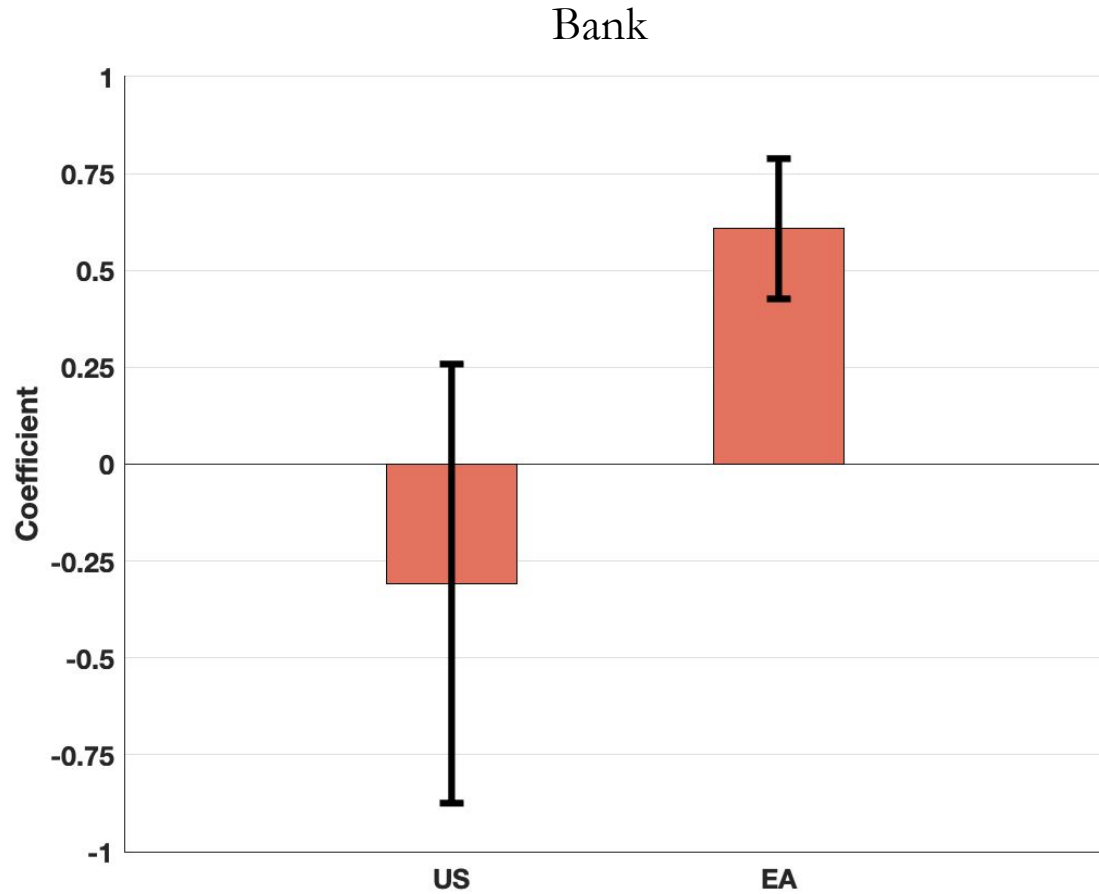
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# Hence

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- Think about the euro area before heterogeneity below it.
- Banking is local business, intimately tied to the sovereign.
- One bank extends the loan, the bank matters
- For monetary policy transmission as well.
- Market finance has many lenders.
- Only the borrowing firm matters.
- For NFC bonds, capital markets unification is already achieved.
- Get more firms to issue bonds to reduce country-based heterogeneity, if that is an aim in itself.