Climate Risk, Bank Lending and Monetary Policy

Discussion

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Research question/answers

- Do banks price climate risk? (default risk + reputation risk)
  - ✓ Yes, both **current** & **future** exposure
  - ✓ More if **publicly committed** to ‘environmentally responsible lending policies’
- Does current MP tightening heart the green
  - ✓ Yes, it **squeezes** banks’ carbon premiums & decarbonization discounts

In Sum

1. Important question(s)

2. Competently executed empirical analysis

3. Well written: clear & to the point (thank you!)

4. Evidence for the euro-area credit market (AnaCredit)

This discussion

Four suggestions → strengthen

1. Literature

- Due to the nature of your data, you may be in a unique position to inform on why the results from the existing banking literature are mixed

  ✓ Exploit the heterogeneity in your data to inform when carbon premium small (large) vis-à-vis samples used in previous analyses

2. Endogeneity

- Adopting a ‘Target’ → firm choice
- Committing to ‘environmentally responsible lending policies’ → bank choice

- This is a common weakness in the literature
- Progress on this front would be a significant plus

- Some studies use changes in terms to existing customers
- Downside of this approach is that you loose part of the sample & an important one

✓ Your cross-country setting may allow you to make significant pressure on this front
    ✓ E.g., adoption due to ‘external pressure’

3. Mechanism

- What does the coefficient of *Carbon* measures over and above the coefficient of *PD*? Reputation concerns? *PD* inadequacies? Both?

$$r_{f,b,t} = \beta_1 PD_{f,b,t} + \beta_2 Carbon_{f,t} + \beta_3 Target_{f,t} + \beta_4 Carbon_{f,t} \times Target_{f,t} + \theta_{f,b,t} + \epsilon_{f,b,t}, \quad (1)$$

- ✓ More discussion on how to think of these
- ✓ There is a bit in the intro, but more is needed conceptually & empirically
  - ✓ E.g., Do firms with higher Carbon have higher PDs?
- ✓ To unpack, helpful to estimate by type of loan & collateral
  - ✓ E.g., Short-term vs. long-term, loan-specific or collateral-specific climate exposure

4. Substitutes to MP

- The paper findings indicate that the current monetary policy tightening may ultimately slow down the pace of decarbonization

  ✓ Can you exploit heterogeneity in the data to inform when the average “squeezing” of carbon premia and decarbonization discounts is smaller?

    ✓ Climate stress tests, broader regulation, consumers

    ✓ Carbon tax effective policy for decarbonization (Pedersen, 2023)

Thank you!