

CLIMATE SUPERVISORY SHOCKS AND BANK LENDING: EMPIRICAL EVIDENCE FROM MICRODATA

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Discussion by Diana Bonfim

FINPRO 2024



BANCO DE
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SUMMARY OF THE PAPER

Can supervisors stop climate change?

Maybe not...



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Can supervisors stop climate change?

Maybe not...

Can supervisory expectations change banks' lending to more polluting firms?

Yes!



SUMMARY OF THE PAPER

The paper looks at bank lending in Italy around two episodes:

1. Publication of the SSM Guide in November 2020
2. Announcement of climate stress test for significant institutions (SI) in November 2021

Main findings:

- banks lend less to polluting firms after the first announcement
- no results on the announcement of the climate stress test
- borrowers' climate commitments matter



MY COMMENTS

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ANNOUNCEMENTS

02

TREATED AND
CONTROL BANKS

03

AGGREGATE
EFFECTS AND
TIMING

04

MINOR ISSUES



1. ANNOUNCEMENTS

27 November 2020

- > ECB publishes final guide after considering comments from public consultation
- > Banks to perform self-assessment on ECB expectations in early 2021
- > ECB to fully review banks' practices in 2022
- > Next supervisory stress test in 2022 to also focus on climate-related risks
- > Separately, new ECB report shows that banks' climate-related and environmental risk disclosures lag behind significantly



1. ANNOUNCEMENTS

Stress-tests were announced already in November 2020.

Maybe that's why there are no results in November 2021?

27 November 2020

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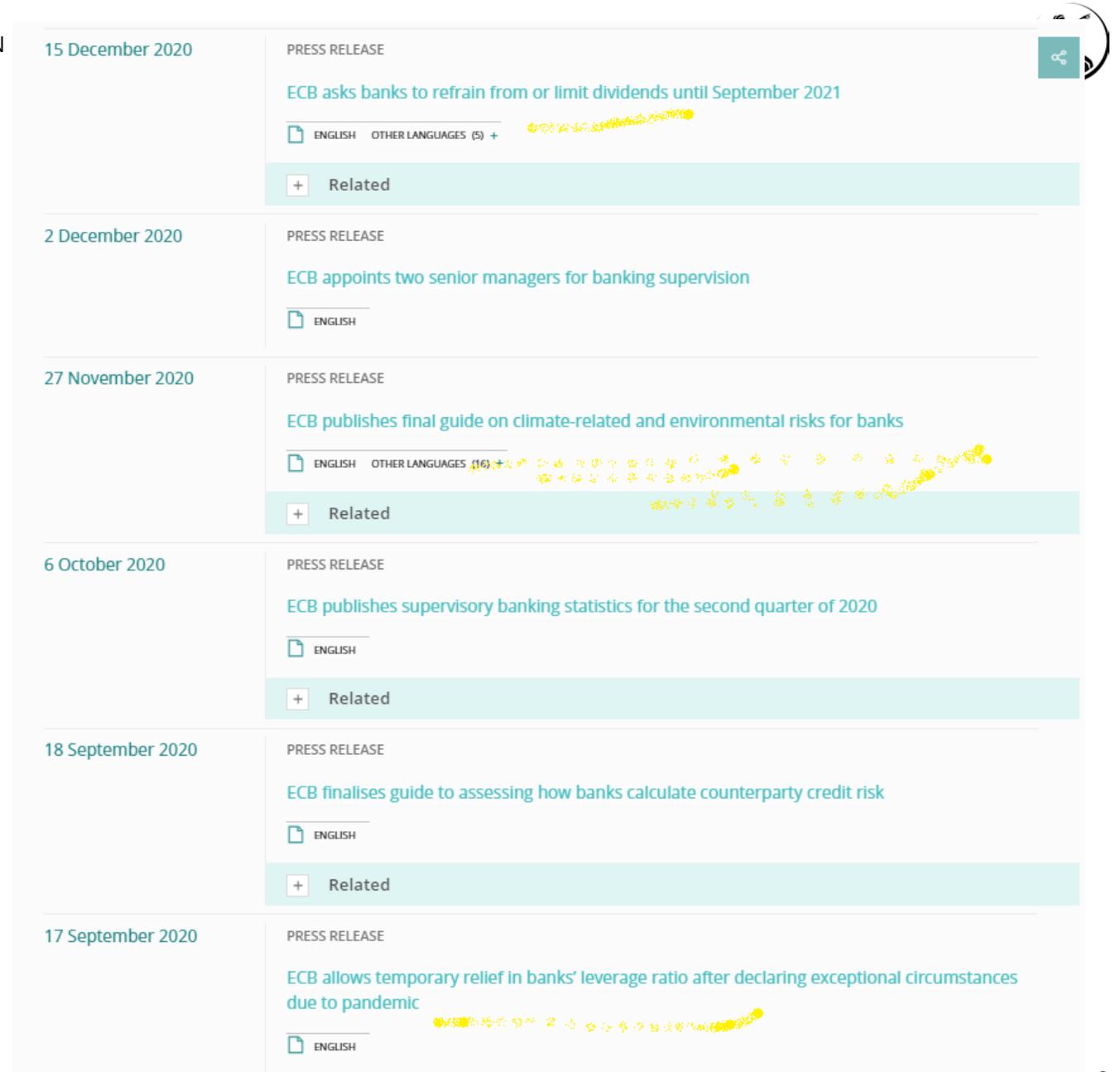
1. ANNOUNCEMENTS

What else was announced around that window?

2020 was a busy year...

But any of this affect polluting and non-polluting firms differently?

Only if they were differently affected by the pandemic. Were they?



The screenshot displays a list of six ECB press releases from 2020, arranged chronologically from top to bottom. Each entry includes a date, the type of release (all are 'PRESS RELEASE'), and a headline. Below each headline, there is a language selection menu (English and other languages) and a 'Related' link. The releases are: 1. 15 December 2020: 'ECB asks banks to refrain from or limit dividends until September 2021'. 2. 2 December 2020: 'ECB appoints two senior managers for banking supervision'. 3. 27 November 2020: 'ECB publishes final guide on climate-related and environmental risks for banks'. 4. 6 October 2020: 'ECB publishes supervisory banking statistics for the second quarter of 2020'. 5. 18 September 2020: 'ECB finalises guide to assessing how banks calculate counterparty credit risk'. 6. 17 September 2020: 'ECB allows temporary relief in banks' leverage ratio after declaring exceptional circumstances due to pandemic'. The interface includes a search icon in the top right corner and a 'Related' button below each item.

Date	Release Type	Headline
15 December 2020	PRESS RELEASE	ECB asks banks to refrain from or limit dividends until September 2021
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1. ANNOUNCEMENTS

“Before the final publication, a **public consultation** on the Guide started on **20 May 2020, and ended four months later, on 25 September 2020**.¹⁰ The final Guide, whose application was immediate, was released in November 2020 on the SSM website and many other future actions were announced.”

The **consultation period** is mostly the pre-treatment period. Wouldn't it make more sense to end the pre-treatment period on April 2020, exclude May-October, and consider the post-treatment period starting in November?

Problem: pandemic.



1. ANNOUNCEMENTS

Pre-period: 3 months before the announcement.

Post-period: 3 months after the announcement.

This avoids bringing in noise in the estimation...

... but it anchors the identification on a very small set of firms that borrow very often, from many banks (only 12% with multiple relationships??)

How representative? **External validity?**

Another challenge: post-period for climate stress test: December 2021 – February 2022.

Energy intensive firms (similar to treated) suffer energy shocks.



2. TREATED AND CONTROL BANKS

The key assumption for identification is that only SI are affected by SSM decisions.

Legally true.

But also in practice?

If yes, good news for identification.



2. TREATED AND CONTROL BANKS

But if we care about mitigating climate change, can this backfire?

What if all the (climate) risk is taken by smaller banks?

- less diversified
- subject to less regulation and more available capital to take risks
- less market power to actually encourage the transition



3. AGGREGATE EFFECTS AND TIMING

What are the aggregate effects?

Can polluting firms borrow from other sources?

Suggestion: Estimate firm-level regressions.



3. AGGREGATE EFFECTS AND TIMING

Why do the banks immediately decrease lending if the consequences are not immediate?

Wouldn't it be enough to decrease the **maturity** of loans to polluting firms, so that banks have more power over the possibility of discontinuing the relationship?

Why not use the time until the event to **finance the transition** for valuable customers?



3. AGGREGATE EFFECTS AND TIMING

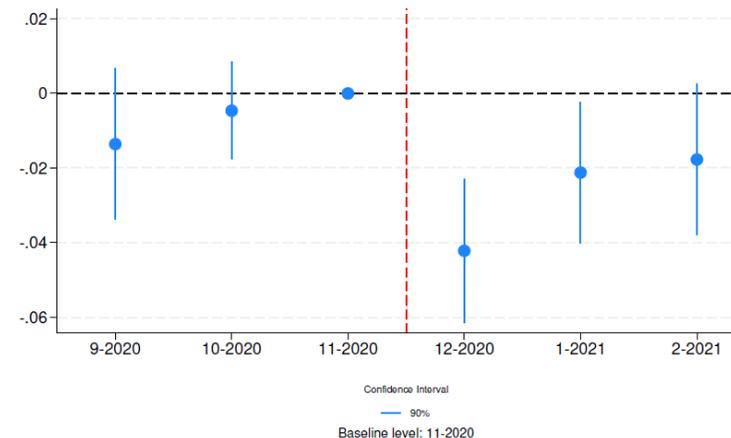
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Why are the effects so short-lived?

Figure 2: Parallel Trends





5. MINOR ISSUES

- Why focus only on **Italian** banks if the data seems to cover all the euro area? Because of the emissions data? Then explain this earlier.
- The announcement of the stress-test does not have effects. But what about the **stress-test itself**?
- The contribution is arguably to include **small firms**, for which emissions data is typically not available. In this case, including an exercise with 130 listed firms seems to be a diversion.
- Are loan-type fixed effects really need? See trade-off between internal and external validity.

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FOR THE AUTHORS

- The first sentences at the top of page 5 seem inconsistent (do the results complement or contradict Sastry et al. (2024) and Giannetti et al. (2023)?)
- Excessive footnotes.
- How does the firm-level emissions estimate correlate with data available for large firms?