

**Bank of England**

# Are green loans less risky? Micro-evidence from a European Emerging Economy

## Discussion

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# Outline

- Brief summary of the paper
  - Comments 1: Data
  - Comments 2: Methodology
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## Brief summary of the paper

- Did the green loans granted by Romanian banks over 2010-2020 bear less credit risk compared with the other loans in their portfolio?
  - Loan level data: all green loans granted by 13 banks to NFCs over 2010-2020
  - Three levels of finding:
    - The companies that were granted green loans are of better financial standing
    - The green loans granted have lower credit risk compared to non-green loans
    - Firms with green loans have a lower probability of default when matched to firms with brown loans
  - Policy implication: use of Pillar 2 requirements
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# Comments 1: Data

- Nice paper with clear conclusions out of a novel dataset:
    - Micro-level loan data with the ability to link the lending data to firms' financial statements.
    - Most previous studies rely on aggregate data or bank-level data.
  - Definition of green loans: identified *ex-post* by the scope of project financed.
    - Seven discrete categories, but since the loans were not designed as green loans at time of contract, is this *ex-post* classification robust? E.g. loans do not have the characteristics to prevent greenwashing.
    - Would be nice to see some robustness around this: are the results sensitive to re-categorisation?
  - Maturity of loans: all loans with maturity after 2020 are excluded, except those already in default.
    - Not possible to know whether those excluded will eventually default or not, so could including those that have already defaulted cause bias? Are those excluded predominately green or not?
    - Are the results being driven by certain maturity levels – e.g. majority of green loans > 10 years? Does it hold at different maturity levels? Given the level of granularity available, worth exploring.
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## Comments 2: Methodology

- Supply versus demand effects: green loans have lower credit risk and these firms have better financial standing.
    - Is this because banks were only willing to do this sort of lending to the safest firms? Hence lower credit risk? Descriptive stats show that the average interest rate on brown loans is higher => suggests so
    - Use the granularity of the dataset to explore further: explore subsets of similar loans in addition to average effects. Matching goes somewhat to this, but you could go further.
    - Control for evolving trends, e.g. Sector x time fixed effects
  - Nice firm-level assessment, but it would be interesting to delve deeper into more loan level characteristics beyond the high level green vs brown definition: both price and non-price terms.
    - Interact the green loan dummy variable with additional characteristics.
  - Policy implication: can the results really justify adjustments to capital requirements?
    - Small sample of green loans which may be supply driven. As supply expands, will demand keep up or will lending standards fall.
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