Discussion of

Domestic climate policy and cross-border lending E.Benincasa, G.Kabas and S.Ongena

Glenn Schepens (ECB)

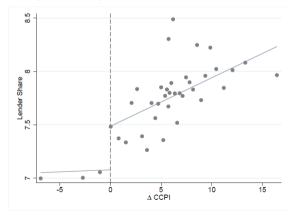
May 3, 2023

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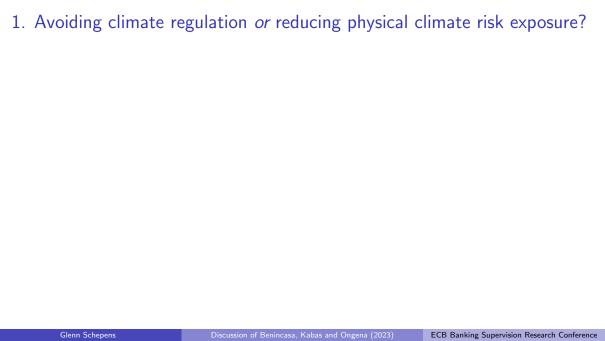
Very interesting paper, well-executed empirical analysis, important findings

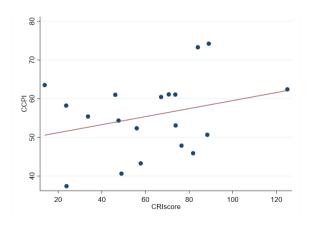
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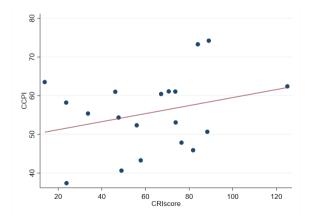
I'll mainly focus on the interpretation of some of the findings





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- ▶ Not sure IV-setup solves this: exposure to climate shocks influences green concerns and voting behaviour (e.g. Hoffmann et al., 2021, Nature Climate Change)
- Consider robustness check that excludes home countries with high physical risk?

2. Mechanism: why does climate regulation lead to \(\ \) cross-border lending

Main mechanism in paper: climate regulation expensive for firms: green investments, stranded assets, taxes... \rightarrow credit risk \uparrow , bank profits \downarrow

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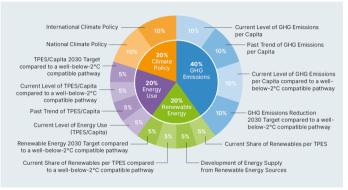
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Alternative explanation: banks following clients abroad?

- Literature on climate policies and firms moving production abroad (E.g. Bartram et al., 2022 JFE; Ben-David et al., 2021 EP)
- Consistent with findings on industry specialisation, reputation, subcomponent analysis
- ► Results partly driven by ↑ in lending to foreign subsidiaries of domestic firms?

3. To what extent is CCPI good proxy for climate policy?

Components of the CCPI

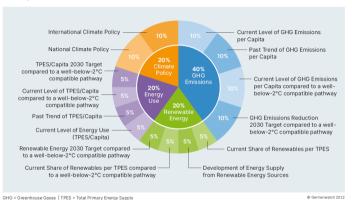


GHG = Greenhouse Gases | TPES = Total Primary Energy Supply

Germanwatch 2022

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Components of the CCPI



- Index mainly captures how green an economy is. Not necessarily 100 % driven by regulation (think e.g. sectoral structure of economy, natural resources,..)
- Why not immediately use climate policy component (as in Table 12)?

Minor quibbles

- Large part of mechanisms' section is rather robustness for main result than actual mechanisms behind result
- List of home countries and relative importance would be useful to better understand which countries are potentially driving results
- Some key results (fig 5, T7) should be moved more forward, as they are crucial to make your main point
- Anything you can say about banks' securities portfolio? Potentially easier to reallocate investments

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