Green firms are less risky:

results from a preferential capital requirement program in emerging Europe

Discussant note

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Overview

- **Identification of differences in credit risk between green and non-green firms**

- **Based on**
  - ✓ Unique preferential capital requirement program in Hungary (GPCR)
  - ✓ Rich and granular dataset
  - ✓ Robust econometric analysis (2 complementary models with consistent results)

- **Important and timely study**
  - ✓ Central banks are increasingly interested in promoting green finance
  - ✓ Understanding the financial stability implications of green loans is crucial
  - ✓ Lack of empirical evidence in emerging markets

Key findings and policy implications

Green loans exhibit lower default probabilities

- Valid for both renewable energy (RE) and electromobility (EM) loans
- Clear risk reduction even after controlling for other factors

Relevance to policy makers

✓ Findings justify reduced capital requirements for green loans

✓ Encouraging green finance could be beneficial for both financial stability and climate transition

✓ Potential global relevance for regulators considering similar tools

Potential questions (1)

Short observation period

- Data limited to 2020–2023, which might not capture long-term credit risks and might be impacted by Covid-related measures

➢ Continuous monitoring on new data

Low default rate among green firms

- Limited number of default events could affect statistical power (despite robustness analysis)

➢ Biased sample and cross-/out-of-sample validations could be used

Potential questions (2)

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Economic interpretation: Why are green loans less risky?

- Firms with RE loans have lower PD despite they have higher leverage, lower liquidity and are younger
- Models already control for large number of factors

- **Potential issues**
  - Selection bias? (Qualification criteria for GPCR?)
  - Missing variable? (Government support? Better governance?)

- **Potential suggestions:**
  - **Propensity score matching**
    - calculate the probability of entering GPCR and then compare RE and non-RE firms with similar probability
  - **Difference-in-difference**
    - check whether the differences existed even before the GPCR

Conclusions

- This paper provides valuable insights into the risks associated with green financing
- Findings are policy-relevant and support the notion of lower risk for green firms
- Further research in different markets and over longer periods will enhance robustness