Session 2
Climate Finance

Natural disasters and economic growth: The role of banking market structure

Andi Duqi, University of Bologna

Abstract

Following a natural disaster, the rate of economic growth recovers faster in less competitive banking markets. A 10% reduction in competition increases the rate of economic growth by 0.32%. In less competitive markets, banks respond to a disaster by increasing the supply of real estate credit by refinancing mortgage loans but do not lend more to businesses or consumers. Instead, government agencies provide disaster loans to affected businesses and households that banks originate on the agencies’ behalf. The link between market power and increased lending following a disaster reflects these institutions’ profitability which allows them to mitigate information asymmetries and prevent adverse selection.
Climate Change Risk and the Cost of Mortgage Credit

Louis Nguyen, Durham University

Abstract

We show that lenders charge higher interest rates for mortgages on properties exposed to a greater risk of sea level rise (SLR). This SLR premium is not evident in short-term loans and is not related to borrowers’ short-term realized default or creditworthiness. Further, the SLR premium is smaller when the consequences of climate change are less salient and in areas with more climate change deniers. Overall, our results suggest that mortgage lenders view the risk of SLR as a long-term risk, and that attention and beliefs are potential channels through which SLR risk is priced in residential mortgage markets.
Financing Conditions and Toxic Emissions
Martin Götz, Deutsche Bundesbank

Abstract

Exploiting heterogeneity in U.S. firms’ exposure to an unconventional monetary policy shock that reduced debt financing costs, I identify the impact of financing conditions on firms’ toxic emissions. I find robust evidence that lower financing costs reduce toxic emissions and boost investments in emission reduction activities, especially capital-intensive pollution control activities. The effect is stronger for firms in noncompliance with environmental regulation. Examining the ability of regaining regulatory compliance by implementing pollution control activities I find that only capital-intensive activities help firms regaining compliance. These findings underscore the impact of firms’ financing conditions for emissions and the environment.