Borradores de Economía - Climate Transition Risks and Bank Lending: Evidence from Colombia

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AUTHOR OR EDITOR Bohorquez-Penuela, Camilo Noailly, Joëlle Shehadeh, Naël
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Publication Date: Monday, 30 of December 2024 **Abstract**
How is bank lending to fossil fuel firms affected when risks of stranded assets increase? Using loan-level data from the credit registry of the Colombian Superintendency of Finance, we examine how the introduction of the Paris agreement has affected lending to fossil firms, in a country highly dependent on them. We find evidence that the increased risk of stranded assets implied by the Paris agreement led to a 46\% decrease in bank credit to fossil firms. However, banks have become more selective and have prioritised lending to large and well capitalised fossil firms. Additionally, there is suggestive evidence that "brown" banks (i.e., banks with large lending to fossil fuel firms) have become more selective with their clients: they decreased the size of loans to both fossil and non-fossil clients (-87%), whilst increasing the cost of loans to all clients (via an interest rate of 2.15 percentage point higher), but keeping on lending to large fossil fuel firms (+14.8%).

The increase in stranded asset risk, as implied by the Paris Agreement, correlates with a 46% decrease in bank credit to fossil fuel companies relative to other economic sectors.

Fuente: https://www.banrep.gov.co/en/publications-research/working-papers-economics/climate-transition-risks-bank-lending