Environmental and Climate Factors of Corporate Lending in Russia

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Overview

Overview

- This paper investigates whether banks integrate environmental and climate factors into loan pricing decisions in Russia.
- Firms' emissions have a positive but economically modest impact on loan interest rates, indicating that the difference in rates between polluting and green firms is minimal.
- In the absence of stringent "green" regulations, banks do not fully internalize the environmental externalities of borrowers into loan pricing.
- Furthermore, state-owned banks charge lower interest rates to more polluting firms, showing no preference for environmentally friendly firms.
- This paper is highly engaging and well-crafted, offering valuable insights into how green regulations influence public welfare through the lending practices of banks. Its findings underscore the critical role of regulatory frameworks in shaping environmentally conscious financial decisions.

Specific comments

Major comments

- The study defines pollution solely based on CO_2 emissions, which appears to restrict its scope to air pollution.
- This approach likely overlooks firms that contribute to other forms of environmental pollution, such as water or soil contamination.
- If data on water and soil pollution are available, they could be used to test the robustness of the main findings.
- If such data are unavailable, it could be helpful to cite real-world examples demonstrating that firms with significant air pollution often contribute substantially to water and soil pollution as well.

Major comments

- Loan characteristics, such as maturity and loan size, are included as control variables.
- Banks are likely to treat firms heterogeneously when determining loan maturity, approved-to-applied loan ratios, or collateral requirements, rather than focusing solely on loan interest rates.

Major comments

- In the baseline regression (Column (1), Table 3), the interactions between the firm emission indicator and bank ownership types are included. Consequently, the estimated coefficient on *Fuel.share* reflects the effect of firm emissions on loan interest rates for reference banks (i.e., big private banks) rather than the average effects across all banks.
- It is worthwhile to double-check the results before concluding that "banks did price the climate and ecological factors of firms" (page 10).
- The exclusion of the *Export.share*$\times$*Fuel.share* interaction from the estimation makes it difficult to compare the estimates on triple interaction terms to the "reference banks".

Minor comments

- Quotation marks should be uniformed throughout the manuscript. For example, "green" finance in Russia (abstract) and "green meets green" (page 1) use different formats.
- The statement, "39% of all loans are granted by the big state-owned banks, while big foreign banks hold only a 3% share, on average." is unclear. Does this refer to aggregate loan value or the number of loan contracts?
- The tests associated with Table 8 and 9 are introduced in the manuscript before those related to Table 5-7.

Thank you!