

# COMMENTS TO “GLOSSY GREEN BANKS: THE DISCONNECT BETWEEN ENVIRONMENTAL DISCLOSURES AND LENDING ACTIVITIES” BY M. GIANNETTI, M. JASOVA, M. LOUMIOTI AND C. MENDICINO

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BANCO DE ESPAÑA. MADRID

29-30 JUNE 2023



... who believes in the key role of the financial sector in the green transition

CONGRATULATIONS TO THE AUTHORS. Very well written and easy to read paper.

A **very necessary paper** to put evidence into the Greenwashing debates and into the value of the information reported by banks to infer their lending policies.

Explores **whether euro area banks' claims of sustainability performance are reflected in greener lending policies**, or if they **aim to greenwash their loan portfolios** by selectively disclosing positive environmental information on their activities.

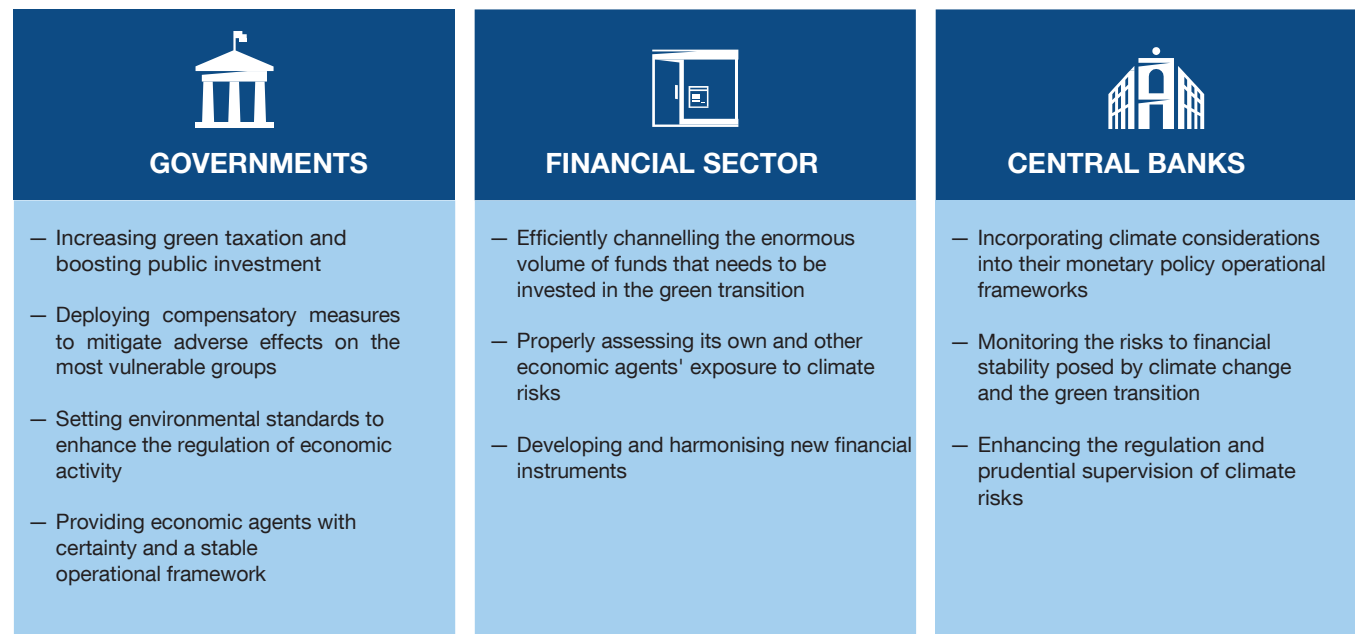
**Very well thought and carefully conducted contribution** to the literature (all robustness checks that came to my mind have been considered by the authors).

A paper that **leaves somewhat worried the central banker** who believes in the key role of the financial sector in guiding the green transition, financing green investments ...

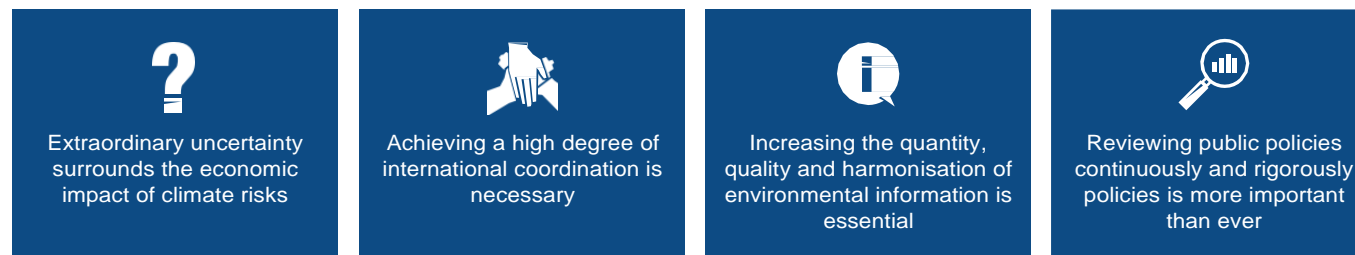
# A THOUGHT PROVOKING PAPER FOR A CENTRAL BANKER ...

## ... who believes in the key role of the financial sector in the green transition

Figure 4.1  
THE ROLE OF KEY ACTORS IN THE FACE OF THE CLIMATE CHALLENGE...



### ... IN A CONTEXT IN WHICH ...

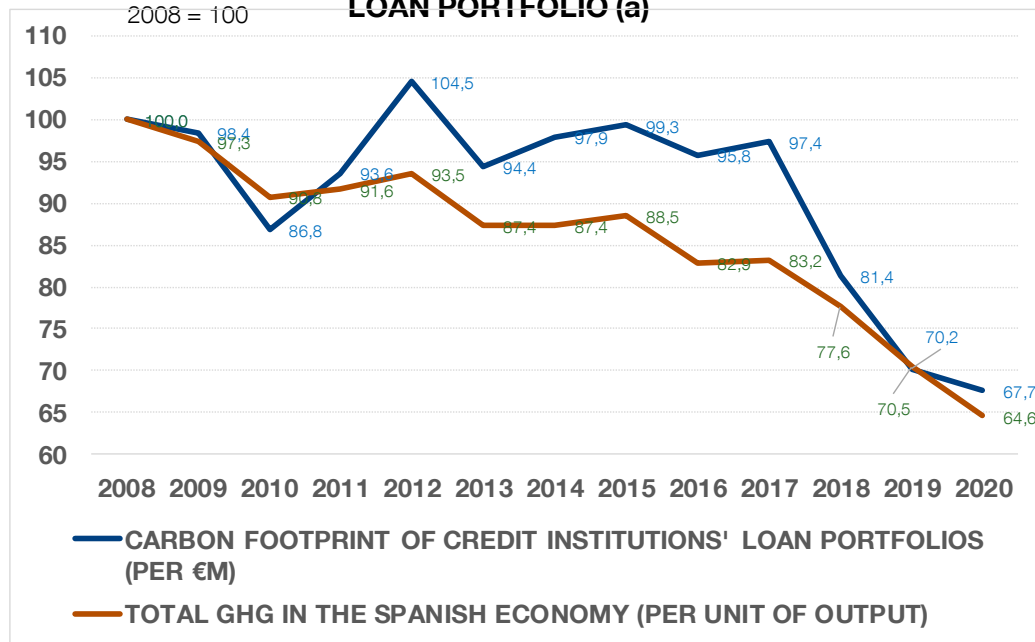


Source: Banco de España (2022) “[The Spanish Economy and the Climate Challenge: A Central Bank View](#)”, Chapter 4, Annual Report.

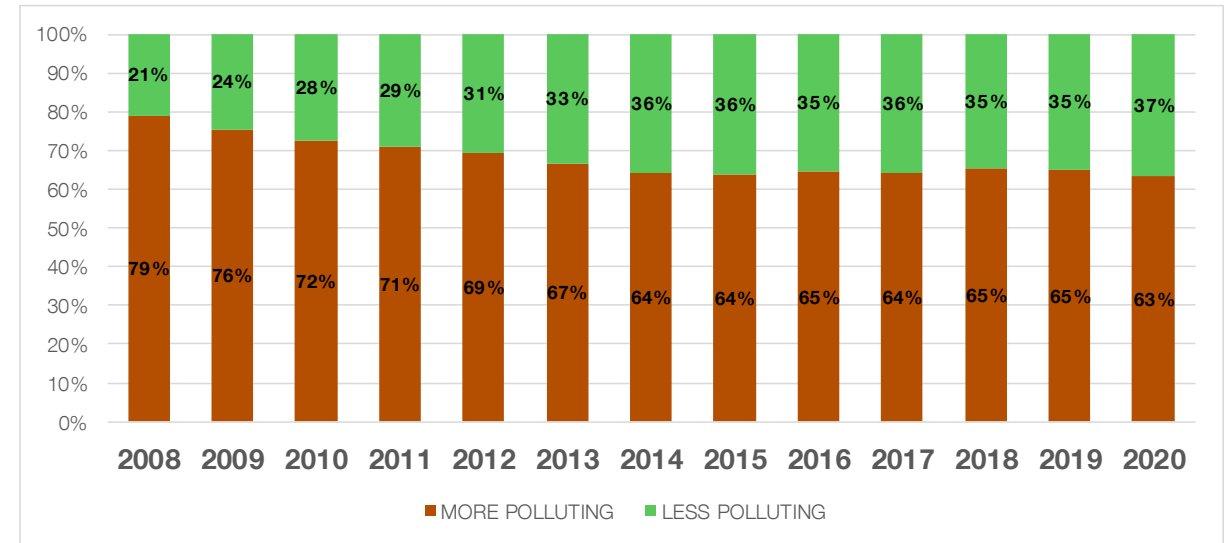
### A general picture of the distribution of lending by credit institutions to firms according to their emissions

The carbon footprint of Spanish banks' loan portfolios exceeds that of the total Spanish economy and has shrunk in recent years, in line with the decline in the country's emissions, but also with a slight restructuring of the loan portfolio towards less polluting industries.

**CARBON FOOTPRINT OF SPANISH CREDIT INSTITUTIONS' LOAN PORTFOLIO (a)**



**STRUCTURE OF SPANISH CREDIT INSTITUTIONS' PORTFOLIO OF LOANS TO PRODUCTIVE ACTIVITIES ACCORDING TO EMISSION INTENSITY (b)**



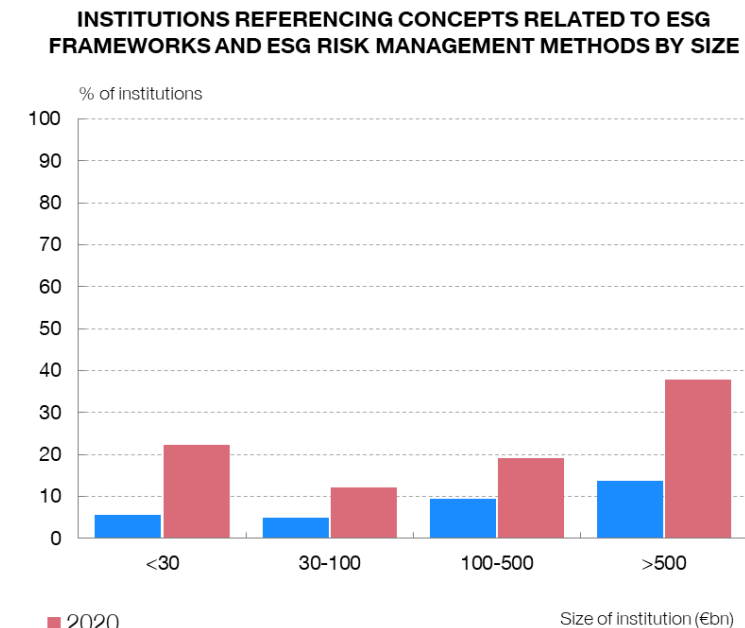
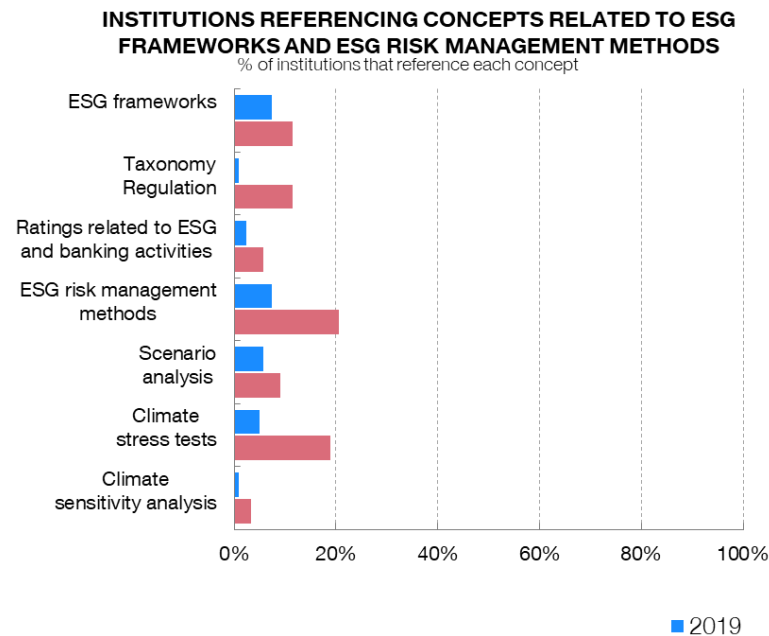
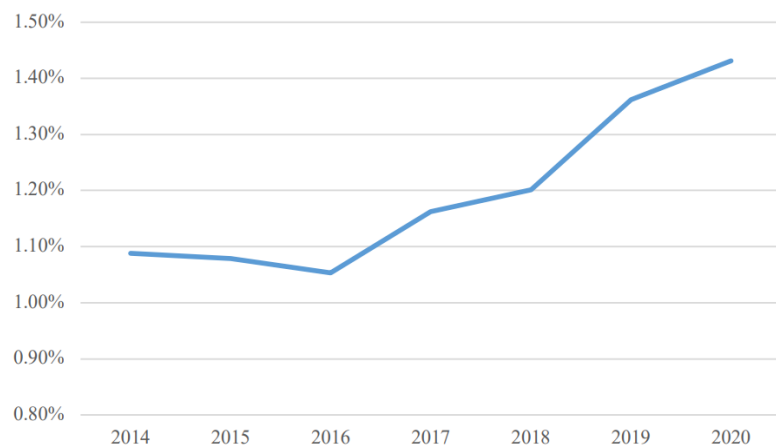
SOURCES: ECB, INE and Banco de España. Update of Banco de España (2022) "[The Spanish Economy and the Climate Challenge: A Central Bank View](#)", Chapter 4, Annual Report.

a. This indicator represents the weighted average of (direct and indirect) emission ratios per unit of output of the productive activities according to the relative weight of each industry in the stock of loans extended by Spanish credit institutions.

b. Industries are classified as more or less polluting on the basis of their emission intensity (2008-2019 average), such that those whose emission ratios exceed the median of the 64 industries analysed are classified as more polluting.

**THIS PAPER: The de-carbonization trend in the banks' loan portfolios does not match the “glossy green” picture portrayed by the increase of environmental disclosures by european banks since the Paris Agreement (by about 27%).**

Figure 1. Environmental disclosures over time.



SOURCE: Moreno and Caminero (2022), “[Analysis of ESG disclosures in Pillar 3 reports. A text mining approach](#)”, Occasional Paper No 2204, Banco de España.

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During 2014-2020, systemic **Euro Area banks with higher environmental-themed disclosures** in their investor reports, compared to the rest of banks:

“higher” meaning in the upper quintile of that year’s distribution of an environmental disclosure proxy constructed applying a tailor-made dictionary over 1397 documents **from 101 systemic banks’** websites and the Corporate Register -validated against several reasonable variables representing social norms, banks financial performance, environmental ratings and disclosures of environmental stewardship-.

- 1. Lend significantly more credit to brown industries** (upper quintile of GHG emissions/VA at industry-country level)
  - **Very welcome extension to firm level** data on brown borrowers (scope 1 and 2 GHG emissions/total assets)
  - How much more? 5,3% more contemporaneously and, 7% more 3 years after being high environmental reporters → **too long “forward-looking Greenwashing”?**
  - This higher credit is **not for the green transition** through R&D investments, higher rates or shorter maturities
- 2. Do not lend significantly more to green industries** sectors (lower quintile of GHG emissions/VA)
- 3. Are less likely to discontinue established credit relationships with brown borrowers.**
  - Even to preexisting “zombie” borrowers, possibly to avoid realizing credit losses if the bank has low capitalization.  
**Why more zombie lending by the high environmental reporters?**

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If environmental disclosures by European banks in 2014-2020 cannot be trusted as reflecting lending policies that support the green transition...

- **Is there no hope for the call for increasing the quantity, quality and harmonization of environmental information?**  
Not much according to Table 10

Factor:	Loan amount				
	Low Tier 1 capital (1)	Mandatory sustain. reporting (2)	Post Paris agreement (3)	Audited sustain. report (4)	Large bank (5)
High env. reporter x Brown	0.0156 (0.0391)	0.0916 (0.0947)	0.000154 (0.0463)	0.0365 (0.0307)	-0.105 (0.0961)
High env. reporter x Brown x Factor	0.0662* (0.0278)	-0.0379 (0.0999)	0.0585 (0.0548)	0.0237 (0.0452)	0.159* (0.0947)
Bank-Time FE	Yes	Yes	Yes	Yes	Yes
Firm-Time FE	Yes	Yes	Yes	Yes	Yes
N	636,085	636,085	636,085	636,085	636,081
R <sup>2</sup>	0.803	0.803	0.803	0.803	0.803

- **What do the authors then suggest that regulators and prudential supervisors of the banking system can do about environmental disclosures?**

TO CONCLUDE,

**Thank you to the authors!**

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THANK YOU

