

Effect of Climate-Related Risk on the Pricing of Bank Loans: Evidence from Syndicated Loan Markets in Asia Pacific

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Summary

Using a novel dataset that combines syndicated loans originated in the Asia Pacific markets with greenhouse gas emission intensity data of borrowers, this study examines whether and to what extent banks in the region have considered climate-related risk in their loan pricing decisions. Our results suggest that the banks in the region have started to price-in climate-related risk for loans to emissions-intensive sector since the Paris Agreement. This probably reflects their increased awareness of a climate-transition risk that such firms face. In addition, banks' environmental attitude is found to be one key factor in determining the extent of transition risk premium in loan pricing. In particular, more environmentally concerned banks (green banks) tend to charge a higher loan rate than their non-green counterparts when lending to the same "brown" firm in the post-Paris Agreement period. Overall, these findings provide evidence that banks in the region have started to incorporate climate risk considerations into their existing risk management framework. Nevertheless, managing climate risks will remain a key challenge for banks due to the different nature from the traditional risk types and data gaps. Banks should therefore keep abreast of the latest developments in climate risk management practices to adjust their own risk management approach.