

A Climate Transition Scenario Analysis for European SMEs Loans

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Abstract

We analyse a comprehensive dataset on 1.9 million loans to Small and Medium Enterprises (SMEs) from 2013 to 2022 for seven European countries (Belgium, Netherlands, Spain, France, Italy, Germany, and Portugal). To estimate the SME probability of default (PD), we consider a survival approach with macroeconomic variables to capture the economic cycle. We project the PD of SMEs under different climate transition scenarios up to 2050 provided by the Network for Greening the Financial System (NGFS). We obtain that climate transition risk strongly affects the SME default probabilities for some economic sectors. Our findings contribute to a growing literature highlighting the adverse consequences of the climate transition on the financial system.