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Discussion on the paper ”Mapping financial system interactions with drivers of nature loss: evidence from the Brazilian Amazon and Indonesian peatlands” by Marsden, Ryan-Collins, Abrams & Lenton

7th IWG-MPPG Workshop: “Exploring macroprudential policy to address financial stability risks of climate change and nature degradation”
Vilnius, 15 October 2024

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Summary

- Important and timely topic:
  - Linking ecosystem degradation to company activities and financial flows
- Great data work:
  - Combining different data sources to track the financial flows that support economic activities associated with ecosystem degradation
  - Financial flows across asset classes and time
- Interesting findings:
  - 39 companies linked to significant land use change in the ecosystems
  - Financial flows facilitated by a relatively small group of banks
  - Heterogeneity in financial health of companies
- Important groundwork in order to identify appropriate policy options

Data and Method

1. Ecosystems:
    - Brazilian Amazon rainforest (60 per cent of rainforest)
    - Indonesian peatlands (roughly 1/4 of tropical peatlands)

2. Companies linked to ecosystem degradation
    - Company data on beef and soy exporters (Brazil) and wood pulp and palm oil exporters (Indonesia) – land use/change

3. Financial flows to banks
    - New sources of finance that enable corporate activity over time: loans by banks?; issuing equity or debt;
    - Focus on institutions that manage transactions – own balance sheet vs. facilitation to institutional investors

4. Significant financial flows
    - Dependence on external finance based on balance sheet metrics (debt-to-capital, debt-to-assets, interest coverage ratio)

Main findings

- Small number of companies linked to the land (change) use (39)
  - Multinational companies, diversified across a number of activities
- Financial flows to 24 companies identified
  - Mostly syndicated loans, while equity issuance relatively small proportion
  - Geographical differences:
    - Mostly foreign companies financed ETP-risk companies in Brazil
    - Institutions headquartered in Asia financed ETP-risk companies in Indonesia
  - Top 50 institutions accounted for 86.3% of financial flows
- Financial influence:
  - Can companies' financial structure be used as leverage for transition?
  - Large heterogeneity: some companies highly dependent on external financing while others insulated

The role (and impact) of different policy areas?

Limited role for financial incentives

- Focus in the paper: data identification and mapping of links
  - Economic significance of companies for domestic economies
  - Significance of (bank) exposures for financial stability
- Purpose and reach of different policy areas:
  - Fiscal policies
  - Environmental policies
  - Macroprudential policies
- Definition of financial stability:
  - Narrow vs. broad definition and double materiality

Can policies be effective (enough)?

- **Geographical dimension**: national vs. international actions (e.g. Brazilian beef):
  - Demand for products (China)
  - Physical commodity flows (Brazil)
  - Financial flows (EU)

- **Is there a role for macroprudential policy?**
  - Can and should macroprudential policies target restricting financial flows to ETP-risk companies?
  - Restrictive or supportive measures