Global Assessment of Banks' Capacity to Support the Energy Transition

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Abstract

This study investigates the relationship between the share of renewable energy in a nation's energy mix and banks' credit risk, measured by distance-to-default and distance-to-capital metrics. Analyzing panel data from 27 countries over 2009–2022, the findings reveal that increased renewable energy adoption reduces banks' default risks globally but exhibits contrasting impacts in developed and emerging economies. While developed countries benefit from lower default risks due to robust financial systems and regulatory frameworks, emerging economies face increased risks, likely due to unstable economic conditions and insufficient regulatory support. These results emphasize the role of sustainable investment practices in enhancing financial stability, highlighting the need for tailored approaches to renewable energy financing across different economic contexts.

Keywords: Renewable Energy, Bank Risk, Developing Countries, Panel data.
JEL codes: G10, G21, G28, Q01, Q43

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