Shocks to Transition Risk

Christoph Meinerding Yves S. Schüler Philipp Zhang

Discussion by José Nicolás Rosas
Banco de España

5th Annual Workshop of the ESCB Research Cluster on Climate Change

Summary

- Proposes a new measure of **climate transition risk shocks** for the US, UK, and Germany.
- Identifies shocks when **high climate-news attention** coincides with abnormal **green-over-brown equity returns**.
- Finds that transition risk shocks:
  - are largely associated with **political events**;
  - generate **financial stress** and contractions in fossil-fuel sectors;
  - have heterogeneous macro effects: **recessionary and deflationary in the US**, but expansionary for German industrial production.

Strengths

- Addresses a **highly policy-relevant question** for central banks and financial regulators.
- Combines **financial-market information and climate-news attention** in an intuitive identification strategy.
- Extensive **narrative validation, sectoral analysis, and robustness exercises**.
- Provides a plausible framework for interpreting **cross-country heterogeneity** through differences in policy mixes, transition stages, and industrial structures.

Comment: Potential oil-shock confounding

- All four US shocks occur during the **2014–16 oil-price collapse**, but oil prices/shocks are omitted from the identification and baseline BSVAR.
  - Coincide with November 2014 and December 2015 **OPEC announcements**

- The instrument selects months characterized by **substantial oil-market movements**

- **Structural oil shocks** drive BMG spreads (Zhang and Shi, 2026), US shale industrial contractions, energy credit distress, US headline deflation, and positive terms-of-trade effects for net energy importers like Germany (Känzig, 2021; Känzig, Stock, and Zanotti, 2026)

All 4 episodes coincide with 2014-16 oil-price collapse

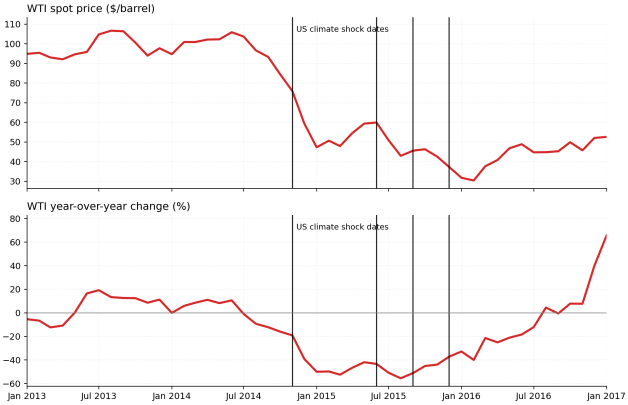


Figure 1: WTI prices, 2014–2016.
Top: levels (US$); Bottom: year-on-year growth (%)

- WTI declined from approximately $106 in June 2014 to $37 in December 2015.

⋆ Test whether the results survive controlling for **oil prices** or identified **structural oil shocks**.

Comment: Cross-country identification is not fully uniform

- Thresholds are adjusted across countries and some events are manually excluded; Germany has only two baseline shocks.
- Identification is constrained by **ad-hoc adjustments**:
  - **Lowering the threshold** from $z \geq 1.0$ in the US to $z \geq 0.66$ in Germany and the UK.
  - **Manually excluding** August 2015 in Germany due to opposing portfolio signs while retaining opposing-sign months elsewhere.

⋆ **Strengthen transparency** by explicitly discussing the implications of comparing the US, Germany, and the UK at a uniform threshold ($z \geq 0.66$ or $z \geq 1.0$)

Comment: Sparse-event BSVAR specification

- A **heavily zero-censored instrument** in a large-dimensional 12-lag recursive BSVAR may create measurement problems

- Even with Minnesota-style shrinkage priors, ordering a censored dummy variable that is **zero in 64 out of 66 months** first in a Cholesky decomposition seems problematic.

⋆ Comparing this approach against **Narrative Sign Restrictions** (Antolín-Díaz and Rubio-Ramírez, 2018) would provide robustness

  - Constrains the **sign** and **historical contribution** of the shock on the identified dates without forcing the structural shock to be identically zero in all other months

Minor comments

- **Reframe contribution in Section 1:** tension between claims of multi-driver generality and shocks actually identified (discrete political events)
- **Conflicting statements on sample period:** start on January 2010 or July 2013?
- **IRF normalization:** mechanically amplify the rescaled magnitudes of the macroeconomic responses: -2% equity price movements is a lot or too little?
- Events vs. *shocks*

To sum up

- Very exciting work, combining **financial-market information and climate-news attention** in an intuitive identification strategy

- Very interesting and policy-relevant result: **transition risk shocks** have major aggregate economic effects and induce **financial instability**

- Valuable input for a more balanced discourse about the costs, but in particular also the **benefits of the net-zero transition**

Thank you!

josenicolas.rosas@bde.es

https://sites.google.com/view/jnrosas

References

- Antolín-Díaz, Juan and Juan F. Rubio-Ramírez (2018). **"Narrative Sign Restrictions for SVARs".** In: *American Economic Review* 108(10). DOI: *10.1257/aer.20161852*.
- Känzig, Diego R. (2021). **"The Macroeconomic Effects of Oil Supply News: Evidence from OPEC Announcements".** In: *American Economic Review* 111(4). DOI: *10.1257/aer.20190964*.
- Känzig, Diego R., James H. Stock, and Luca Zanotti (2026). **"From Importer to Exporter: Oil Shocks and the U.S. Economy".** Brookings Papers on Economic Activity, Fall 2026 Conference Draft.
- Zhang, Shaojun and Zhan Shi (2026). ***Beyond Brown: Oil Shocks and Carbon Premium.*** Working Paper 2024-03-24. The Ohio State University, Fisher College of Business.