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FINANCE

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EMPOWERING CHANGEMAKERS FOR A BETTER SOCIETY

‘ASSET OVERHANG AND TECHNOLOGICAL CHANGE’

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ABSTRACT

Investors face reduced incentives to finance projects that devalue their legacy positions. We formalize this “asset overhang” and study its drivers. We apply our framework to the climate-banking nexus, where the net-zero transition effectively poses a dilemma to banks: while environmental innovation can be profitable, its widespread dissemination risks disrupting the value of legacy positions. Using granular firm-level data on innovation and diffusion of environmental goods & services, we document the presence of asset overhang as innovators (diffusers) of disruptive environmental technologies are approximately 5.9 p.p. (0.5 p.p) less likely to receive bank credit compared to non-disruptive counterparts. Individual investors with less legacy positions at risk mitigate the economywide asset overhang problem, thereby facilitating technological transition.

Keywords: Financial intermediation · Technological change · Innovation · Diffusion · Credit Rationing · Climate change.