

Carbon Pricing and Household Finance: How Banks Price Transition Risk in Auto Loans*

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Abstract

We study the impact of carbon pricing on household finance using European microdata on loans for internal combustion engine vehicles. Exploiting cross-country variation in the same car models with a difference-in-differences design, we find that banks respond to Germany's carbon price announcement by raising interest rates by 0.5 percentage points, with larger increases for loans on fuel-intensive vehicles and for longer maturities. Banks also shorten loan maturity, reduce amounts, and shift to linear repayments, while households choose more fuel-efficient new cars. Captive banks respond more strongly than commercial banks. Collateral and default risk channels jointly explain these adjustments, highlighting household finance as a key transmission channel of climate policy.

JEL codes: G21, G50, G51, Q54, Q58

Keywords: Credit pricing, climate policies, climate transition risk

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