

ABSTRACT

Ahmad Amir Hamzah, The Impact of Climate Risk on Financial Stability: A Cross-Country Study with the Moderating Role of Environmental Protection Expenditure under the guidance of Rifai Afri, S.E., M.Sc., PhD.

This study aims to analyze the impact of climate risk on financial system stability by examining the moderating role of environmental protection expenditure (EPE). Employing the System Generalized method of moments (System GMM) on banking panel data, this research categorizes climate risk into two dimensions: chronic risk (changes in temperature and precipitation) and acute risk (floods and dry days). The findings reveal a dichotomy of impacts; chronic risk tends to correlate positively with stability, driven by credit expansion in emission-intensive sectors, whereas acute risk significantly negatively affects bank asset quality. Furthermore, EPE is proven to mitigate chronic physical risks, but its effectiveness diminishes when facing acute risks due to fiscal constraints. The interaction between EPE and greenhouse gas emissions also uncovers significant transition costs that pressure stability during the early phases of decarbonization. This study recommends the integration of climate risk into banking prudential frameworks and the strengthening of disaster risk financing mechanisms to safeguard long-term macro-financial stability.

Keywords: Climate Risk, Financial Stability, Environmental Protection Expenditure.

ABSTRAK

Ahmad Amir Hamzah, Pengaruh Risiko Iklim terhadap Stabilitas Keuangan: Studi Lintas Negara dengan Peran Moderasi *Environmental Protection Expenditure* di bawah bimbingan Rifai Afri, S.E., M.Sc., PhD.

Penelitian ini bertujuan untuk menganalisis dampak risiko iklim terhadap stabilitas sistem keuangan dengan menguji peran moderasi dari *environmental protection expenditure*. Menggunakan metode *System Generalized method of moments* (System GMM) pada data panel perbankan, penelitian ini membedakan risiko iklim ke dalam dua kategori: risiko kronis (perubahan suhu dan curah hujan) dan risiko akut (bencana banjir dan hari kering). Hasil penelitian menunjukkan adanya dikotomi dampak; risiko kronis cenderung berkorelasi positif dengan stabilitas yang didorong oleh ekspansi kredit pada sektor emisi-intensif, sementara risiko akut berdampak negatif signifikan terhadap kualitas aset perbankan. Lebih lanjut, EPE terbukti mampu memitigasi risiko fisik kronis, namun efektivitasnya melemah saat berhadapan dengan risiko akut akibat keterbatasan fiskal (*fiscal constraint*). Interaksi antara EPE dan emisi gas rumah kaca juga mengungkapkan adanya biaya transisi (*transition costs*) yang menekan stabilitas pada fase awal dekarbonisasi. Penelitian ini merekomendasikan perlunya integrasi risiko iklim ke dalam kerangka prudensial perbankan dan penguatan mekanisme pendanaan risiko bencana untuk menjaga stabilitas makro-finansial jangka panjang.

Kata Kunci: Risiko Iklim, Stabilitas Keuangan, *Environmental Protection Expenditure*