The economic and environmental effect of China’s green credit policy on polluting firms

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Abstract:

This study examines the economic and environmental effects of the Green Credit Policy (GCP)—one of the representative Green-watch programs—on polluting firms in China. In 2007, the Green Credit Policy was jointly proposed by the Ministry of Environmental Protection (MEP) of China, the People’s Bank of China (PBC), and the China Banking Regulatory Commission (CBRC). It encourages banks to use information from local environmental authorities to learn which firms have the worst levels of environmental performance and restrict credit to them; while, it recommends banks extending credit to environmental friendly enterprises or projects at preferential terms to encourage energy conservation and emissions reductions.

As one of the pilot cities, Jiangyin adopted the GCP in 2005, two years prior to its nation-wide promotion. In order to discover the policy effects, this study empirically examines the economic and environmental performance changes of firms in Jiangyin city from 2003 through 2007; firms in cities without this policy during the sample period are used as controls. The synthetic control method will be used in selecting the comparative control cities. We adopt the difference-in-difference method in modelling.

The findings of this study have strong implications for both financial and environmental economics. First, this study provides clear and unadulterated messages about whether financial constraints can influence the real economy and, if so, in what ways. When examining the effect of financial constraints on the real economy—for example, the kind of financial constraints caused by economic crises—researchers have endeavored to tease out the endogenous factors existing in the sources of financial constraints, while as an exogenous shock, the GCP provides a natural research setting that does not directly relate to the economic situation. Second, this study has important environmental policy implications. There is heterogeneity in the enforcement of this policy among local governments across China. If this policy can be confirmed as a useful tool in reducing pollution emissions, it should be enforced thoroughly and widely throughout the whole country.