

# Development Status, Existing Problems and Countermeasures of Green Credit in Commercial Banks

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## Abstract

**Green credit is the core means of China's green financial development. It is an effective method for banks to prevent the flow of loan funds to heavily polluted areas. At the same time, banks can reduce business risks and promote the healthy development of economy through green credit. Firstly, this paper analyzes the development process and current situation of green credit of commercial banks in China. Then, it analyzes the main problems of green credit in China's commercial banks, that is, the lack of innovation ability of green credit and the low proportion of green loans in the total bank loans. Finally, it puts forward some suggestions, such as gradually increasing the proportion of green credit in the total bank loans and improving the innovation ability.**

## Keywords

**Green credit; Commercial banks; SWOT analysis.**

## 1. Introduction

With the continuous and rapid development of economy, experts found that bank loans sometimes improve financial support for polluting enterprises, which virtually aggravates the severity of pollution and brings risks to banks. In order to solve this problem, green credit was born. Green credit is one of the important components of green finance. Taking green credit as the starting point, correctly guide the flow of funds, prevent excessive waste of resources, invest funds in enterprises with low pollution and little impact on the environment, and promote the healthy development of green enterprises. The development of green credit business of commercial banks plays a significant role in promoting China's policy goal of basically achieving carbon neutrality by 2060. Therefore, it is necessary for us to conduct in-depth research and exploration on the development status, existing problems and solutions of green credit, so as to promote the green development of social environment, the high-quality development of economy and the effective realization of national policy objectives.

Scholars from various countries have conducted extensive research on the green credit of commercial banks and achieved rich research results. Twidell, Cabot (2003) believes that green credit is a banking business that provides certain loans to green energy-saving enterprises and charges certain loan fees. Marcel H. A. Jeucken (1999) believes that the intermediary role played by banks in the sustainable development economy is quantitative and qualitative [1]. Cilliers et al. (2010) believe that green credit will constantly adjust its credit business in the process of future development to provide continuous power and support for the development of commercial banks. Eshet (2017) believes that the green credit business of commercial banks can improve the profitability of banks, reduce their own risks, make banks stand out in the process of competition with other banks, and promote more enterprises to develop green industries by providing loan support to green development enterprises [2].

The research on green credit in China began late. In the early 1980s, the central bank issued the notice on implementing credit policies and strengthening green development, which clearly pointed out that green credit is an issue that needs attention in China's current development, and the green credit theory came into being, but the research on green credit was not in-depth at that time. In recent years, domestic scholars began to deeply study the problem of green credit. The research of domestic scholars mainly focuses on the following aspects: Shu Limin (2015) believes that the development of green credit business of commercial banks should be realized through the supervision of information communication system. At the same time, we should improve the innovation ability of green credit and promote the sustainable development of China's banking industry. Ye Li (2020) analyzed the process of tripartite game equilibrium among government, bank and enterprise in the process of green credit from the perspective of differentiated pricing, found its influencing factors, and put forward effective improvement methods for green credit transactions. Guo Jungang (2021) believes that with the rapid economic development, if banks want to rapidly expand development space and reduce development risks, they must develop green credit.

## **2. Analysis of Green Credit Development Policy and Current Situation of Commercial Banks in China**

### **2.1. Green Credit Development Policy of Commercial Banks**

In recent years, China has promulgated a number of policies to support the development of green credit. In 2007, China issued the opinions on implementing environmental protection policies and regulations to prevent credit risks, which promoted the development of green credit. After the policy was issued, all departments responded vigorously [3]. In 2013, relevant national departments issued the notice on submitting green credit statistics, pointing out that commercial banks should submit green credit related data indicators on a fixed date. In 2016, the People's Bank of China and other seven ministries and commissions jointly issued the guidance on building a green financial system, which clearly pointed out that the green financial system mainly refers to the issuance of green credit, green bonds, green stock index and green related products, green development fund, green insurance Financial instruments such as carbon finance and relevant policies support the institutional arrangement of economic transformation to green [4]. In 2021, the People's Bank of China, the national development and Reform Commission and the CSRC jointly issued a new version of the catalogue of green bond support projects, which unified and expanded the scope of domestic green bond support projects.

### **2.2. Analysis on the Current Situation of Commercial Banks**

(1) The scale of green credit is growing. With the promulgation of the green credit policy, the scale of developing green credit by China's commercial banks continues to expand, from about 1.84 trillion yuan at the beginning of 2015 to about 6.59 trillion yuan at the end of 2021, with an increase of about 359.6%. Under the guidance of national policies, all kinds of commercial banks actively advocate and respond to the national call. By the end of 2021, the total amount of green credit in China has reached nearly 1.263 billion yuan. It can be seen that the total amount of green credit is growing rapidly. According to the relevant data released by the central bank, compared with all the non-performing loan ratios of commercial banks, the non-performing loan ratio of green credit of commercial banks in China is much lower, and green credit has a good credit status on the whole.

(2) Green credit access principle. China's commercial banks have basically implemented the one vote veto system for environmental protection, taking whether the enterprise complies with the relevant legal system of environmental protection as the premise of whether to grant

credit. They are not allowed to lend to enterprises that fail to meet the environmental protection standards and violate the environmental protection laws, and do not provide credit support for industrial projects listed as restricted and eliminated by the state [5].

(3) Green credit gradually diversified. According to the data of recent years, China's green credit is mainly invested in green transportation industry, of which about 54% is invested in green transportation and 21% is used for renewable clean energy. At the same time, in terms of the proportion of industry investment, green credit is involved in many industries such as water conservancy, electric power and heat.

### 3. SWOT Analysis of Green Credit of Commercial Banks

(1) Advantages. By issuing green credit, commercial banks carry out risk control on pre loan, in loan and post loan links, and introduce capital flow into green industry. With the increasing improvement of China's green environmental protection law, the punishment of "two high and one surplus" industry is becoming more and more severe, so its development is also subject to more and more restrictions. The losses suffered by such enterprises due to punishment make their own operation difficult, which will lead to the rise of non-performing loan rate of commercial banks and increase the operation risk of commercial banks. When commercial banks implement green credit, they can well identify risk enterprises, avoid risks and enhance the profitability of commercial banks. The implementation of green credit by commercial banks is conducive to establish a good self-image and improve competitiveness. First of all, green credit is in the initial stage of development. Developing green credit business is conducive to banks to form their own brand effect. Secondly, if commercial banks provide loans to polluting enterprises, it will have a bad impact on the public. Therefore, for those enterprises that issue green loans, they will be more trusted by customers. Finally, under the background of strong support from national policies, the development of green credit is conducive to obtaining government financial support and reducing operating costs.

(2) Disadvantages. The implementation of green credit by commercial banks requires the approval of the degree of pollution of enterprise operation in the process of issuing loans, which will increase the operating cost of commercial banks. Green credit is basically based on short-term bank loans. Enterprises' investment in green products has little obvious benefits in the short term, which increases the operating costs of commercial banks. Due to the low short-term profitability of bank green loans, the opportunity cost of commercial banks increases. The development of green credit has raised the loan threshold of commercial banks. Some enterprises with high pollution are difficult to lend in commercial banks, which leads to the loss of customers. However, the government has no relevant policies to eliminate the loss of profit space.

(3) Opportunities. The development of green credit conforms to the trend of the times. The Chinese government has issued a large number of policies to provide a lot of support for the development of green credit. In addition, the successful experience of Inclusive Finance provides a reference for the development of green credit. Due to the imbalance of urban and rural development in China, the development of rural green finance is later than that of cities, and there is a contradiction between rural supply and demand. Commercial banks should seize the opportunity to open businesses in rural areas to promote the development of rural green credit.

(4) Threats. China's "two high and one surplus" industries often provide huge profits to the local economy. Some local governments only value economic benefits and do not care about environmental pollution, which conflicts with the concept of green credit development. Green environmental protection products have not been on the market for a long time and need to be tested by the market. Commercial banks need to bear certain risks when lending to them. If the

product fails to pass the market test, it will have an impact on the loans of commercial banks, resulting in non-performing loans.

### **3.1. Insufficient Innovation Ability of Green Credit Business**

In the process of promoting the development of green credit, although the national level has recognized the important role of green credit, the green credit business carried out by most commercial banks still stays in the superficial part and has not been studied in depth. Due to the lack of national incentive mechanism, there are few types of credit products, and the innovation ability of products is not high.

### **3.2. The Degree of Information Disclosure of Green Credit Business Is Low**

Because the government does not have a standardized standard for information disclosure, the information disclosed by many enterprises in the process of green credit business is not perfect, and enterprises lack the autonomy of disclosure, which is prone to false submission of information. At the same time, there is information asymmetry between environmental protection departments and banks, which may bring huge risks to the operation of commercial banks.

### **3.3. Imperfect Green Credit Management System**

At present, China's green credit market is still in the primary stage, many management systems are not particularly perfect, and there is still a big gap compared with developed countries. For example, some banks, due to their imperfect management system, also passed the loan approval proposed by enterprises that did not fully meet the green credit standards in the process of green credit approval.

### **3.4. The Legal Mechanism of Green Credit Is Not Perfect**

In recent years, the Chinese government has issued a series of laws and regulations regulating the credit of commercial banks, but most of these laws and regulations do not clearly divide the obligations and responsibilities of commercial banks and relevant departments, and no special legal provisions have been formulated for green credit business. Facing the problems existing in the development of green credit, the existing laws and regulations lack certain compulsion, which is difficult to solve the existing problems. For example, for enterprises with bank loans, when they pollute the ecological environment, they can't control the pollution due to the imperfect legal mechanism. In contrast, in western countries, they have issued policies on governance compensation for green credit business, which standardizes the need for commercial banks to deal with the pollution caused by their lending enterprises.

### **3.5. Lack of Green Credit Talents**

The green credit of China's commercial banks starts late, lacks certain experience, and the development of green credit business lacks the participation of professional talents. At present, the professional knowledge reserve of employees in banks and other financial institutions is insufficient and their risk assessment ability is not very accurate. If there is a gap, it will affect the profitability of commercial banks and the processing ability of non-performing loans. In addition, the training of employees in commercial banks is not perfect, so that the staff can not grasp the latest trends in time, which hinders the handling efficiency of green credit business and reduces the efficiency.

## **4. Countermeasures and Suggestions**

### **4.1. Improve the Innovation Ability of Green Credit Products**

Since entering the stage of high-quality economic development, the state should vigorously publicize the concept of "low-carbon and environmental protection", commercial banks should

also strengthen the innovation ability of green credit, and all departments should follow the principles of green development, low-carbon and environmental protection and carry out targeted and innovative research on low-carbon products. In general, commercial banks should be based on their national conditions, learn from foreign successful experience, learn from the lessons of failure, and formulate specific plans for the implementation of green credit from the perspective of differentiated pricing, so as to make a green credit product that can meet the needs of consumers. At the same time, commercial banks should effectively combine green credit business with intermediary business and actively promote the innovation of green credit business.

#### **4.2. Strengthen the Review and Supervision of Green Credit**

In order to provide the review and supervision of green credit of commercial banks, we should strengthen the division and identification of enterprise credit rating. Those with high integrity rating can be divided into green rating, and those with serious dishonesty can be divided into red rating. Before the bank lends a loan, the loan amount limit can be given according to the credit rating of the enterprise. At the same time, government departments should strictly supervise and manage the loan process, strengthen the supervision of green loan enterprises, and strengthen the punishment of illegal enterprises, so as to reduce the generation of non-performing loans. Finally, we should also call on the public to participate in social supervision and strengthen social supervision in an all-round way.

#### **4.3. Improve Relevant Laws and Regulations and Promote Incentive Mechanism**

In order to effectively strengthen the development of green credit and comply with the trend of low-carbon and environmental protection, governments at all levels should introduce more perfect laws and regulations to provide more convenience for "green enterprises". At the same time, they should make corresponding punishment measures for high polluting enterprises, increase punishment, increase the cost of pollution, standardize the behavior of high polluting enterprises and reduce the existence of high polluting enterprises, So as to promote more enterprises to participate in the ranks of green credit. We can also learn from the specific practices of foreign laws to provide treatment schemes for the pollution generated by enterprises receiving green credit. For the green credit incentive mechanism, it is suggested that relevant departments should formulate practical assessment methods and link the assessment results with wages and positions, so as to improve the enthusiasm and initiative of banks in developing green credit business. While encouraging banks' green credit business, the government should also improve the quality of green credit products. We can't ignore one and lose the other. We only require efficiency and don't pay attention to quality [6].

#### **4.4. Pay Attention to the Cultivation of Professional Talents**

Strengthen the professional training of green credit in commercial banks from the following aspects: first, internal staff training should be carried out to improve their ability to review whether enterprises can obtain green credit and increase the knowledge reserve of green credit. Secondly, cultivate high-quality talents, encourage colleges and universities to carry out green credit related courses, cultivate students' interest in green credit, select members with rich working experience and strong working ability to form a core team, and equip professional implementation and guidance personnel to carry out research and development of green credit products and improve their innovation ability. Thirdly, improve wages, introduce international advanced talents, technology and experience, and strengthen exchanges and cooperation at home and abroad. Every year, it can provide employees with the opportunity to study abroad, participate in international green credit projects, and master the latest development trend of green credit. Finally, we should vigorously cultivate compound talents. Commercial banks can

contact major domestic universities to improve students' own quality and cultivate compound talents in line with the development of green credit.

#### **4.5. Strengthen the Green Credit Information Disclosure System**

Commercial banks should gradually build a green credit database. At present, the central bank system has imperfect information and asymmetric information, and financial institutions have no way to obtain information exchange in time. When the perfect database system is built, information can be shared among departments, which widens the communication channels for green credit business, can better obtain enterprise green product information and accurately judge the risk. At the same time, information asymmetry will greatly reduce the work efficiency of commercial banks and increase the risk of green credit business. Therefore, we should speed up the construction of green credit database and strengthen resource exchange. Customers can also find green credit projects consistent with their own development through the database.

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