

## China offers cheaper green loans

Green loans are now cheaper in China after the central bank changed its framework. Banks are expected to participate actively. Some see this as an indirect cut in interest rates. We see it differently



### Green loan interest rates are formulated by the central bank

China's central bank, the People's Bank of China, has released a statement to offer all financial institutions in Mainland China cheaper funding for green loans. Any financial institution, including banks and non-banks, are eligible. They can borrow from the PBoC at 1.75% for 60% of the green loan, and offer this to clients at an interest rate similar to the Loan Prime Rate (LPR). For reference, the 1Y LPR is currently at 3.85% with the 5Y at 4.65%. Each green loan needs to be reported to the PBoC, with the CO2 emission reduction information to be verified by a third party for public monitoring.

### Green loans are expected to boom

We see this as a policy tool aimed at reducing CO2 emissions. We don't see this as an effective rate cut because the objective is clear and the follow-up work for financial institutions will have to be monitored. And since the bank still bears the credit risk of the borrower not every loan can become a green loan.

There is a strong possibility that there will be more green loans from now on. The net interest

margin for banks in China reported by the regulator was 2.06% in June 2021, down from 2.09% in June 2020. A green loan can offer a slightly higher interest margin.

For comparison, China has issued around \$66b green bonds in 2021 so far. We expect green loans will complement the issuance of green bonds though competition is unavoidable.

## More green policies to follow

The PBoC's policy on facilitating green loans is just one of many tools that China is likely to implement. China has announced plans to reach peak carbon emissions in or before 2030. This needs a concerted effort from the government, industry bodies, business owners and households. There are likely to be more awards and penalties from the government. We will follow closely.