China Banking Sector

Supportive policy on carbon-efficient industry

NOT RATED

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PBOC creates structural monetary policy tool (结构性货币政策工具) to support green firms, which are involved in carbon emission reduction. The new supportive policy will cut financing cost of short-term borrowings. Qualified borrowers should be corporations in clean energy, energy-efficient technology and carbon-efficient technology (碳减排技术).

- **Structural monetary policy tool to support green firms, focusing on reducing carbon emission.** As PBOC mentioned, the nationwide financial institutions (policy banks, SOEs, joint-stock banks) will be qualified banks to approve the new carbon-efficient loan. 60% of loan principle can be borrowed from PBOC with cost of 1.75%. Loan rate will peg 1-YR LPR (3.85%). Banks can approve the loan first, and then get compensation from PBOC. In addition, PBOC requires banks to provide collateral (ex. govt notes) when they get low cost funding from PBOC.
- **No quota limits on new policy; expecting RMB 1tn qualified loan in 2022.** Based on released documents, we think there is no quota limit on the new monetary policy tool. Unlike quota limit on PBOC's re-lending policy, all of the qualified new loan can be benefited by this new policy. The duration of the qualified carbon-efficient loan is 1 year, can be rolled over twice after matured. In Nov and Dec 2021, we think there is not too much qualified loan issued. Banks will use the 2-month time window to plan their carbon-efficient lending strategy in 2022 and get familiar on the detailed procedure of the new policy. According to Robin Xiao, our Renewables and Utilities analyst, there is around RMB 1tn qualified loan issued in 2022. Based on our estimates, assuming original borrowing cost of SOEs and other entities are 4% and 5% respectively, and 50% of the qualified loan is lend to SOEs, average original lending rate is 4.5%. The new policy will save at least RMB 6.5bn interest expense for borrowers in next year. On lenders angle, assuming interbank borrowing cost is 2.8%, the funding provided by PBOC will save RMB 6.3bn financing cost for banks. Impacts on banks' interest income is quite limited.
- In our view, impacts on banks' NII and NIM is limited, there is no materials cost on banks, banks just help PBOC to inject low cost funding to qualified borrowers, encourage them to spend money on carbon-efficient technology innovation and carbon-efficient upgrading.

Estimates on NII change for major banks (RMB bn)

Assumed qualified loan	Original lending rate	Target lending rate	Interest income chg	Interest expense chg	NII chg
1,000	4.50%	3.85%	-6.5	6.3	-0.2

Source: CMBIS estimates

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