

Bank Ownership and Brown Lending: Do State-Owned Banks Impede the Green Transition?

Abstract

This paper examines how state ownership influences bank lending to carbon-intensive (“brown”) sectors, leveraging the Paris Agreement as an exogenous policy shock. We find that state-owned banks allocate 17% more credit to brown sectors (intensive margin) and are significantly less likely to terminate relationships with brown firms (extensive margin) compared with private banks. These lending patterns are driven by three mechanisms specific to state-owned banks: weaker credit risk management, greater politicization, and favoring of state-owned enterprises due to common state ownership. Our results also highlight the environmental repercussions of state-controlled credit allocation: firms that rely more heavily on financing from state-owned banks do not transition to greener practices and continue to produce high greenhouse gas emissions.

Keywords: bank ownership, climate change, brown lending, state-own banks, brown-sector