

The Role of Green Finance and Competition in Shaping Bank Profitability: Cross-Country Evidence from Indonesia and China

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Abstract:

This research seeks to examine the dynamic factors influencing bank profitability from two emerging economies, Indonesia and China, while putting a detailed assessment on the relationship among green credit policy and banking competition and its structural bank characteristics. Exploiting a panel dataset of 43 Indonesian banks and 19 Chinese banks over the period 2018-2022. Bank data in China is sorted based on the availability of financial reports and sustainability reports to ensure completeness of information. This distinction improves the accuracy and relevance of the analysis. The analysis uses Lerner Index to proxy competition and assesses bank profitability through Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM). The study indicates that green credit has a mixed impact: it hinders ROA and ROE, but it boosts NIM as it stretches margins through green financing ventures. Bank competition has a positive effect on ROE as it reflects operational efficiencies in competitive markets. The structural factors, such as size of banks, have a dual impact - economies of scale and diversification are beneficial to NIM. Operational inefficiencies, however, are detrimental to ROE. This study connects sustainable finance with competitive banking and provides tangible benefits for policymakers toward the profitability and sustainability nexus on financial institutions. Thus, it urges policymakers to create regulatory frameworks that are specific to the green finance paradigm yet competitive and stable in financial markets. Industry practitioners can leverage these research outputs to prove the viability of crafting long-term strategies towards profit versus sustainability balance. It takes the sustainability banking discourse further and provides crucial reference for building resilient and innovative banking systems for emerging economies.

Keywords:

Green credit policy, sustainable growth, heteroskedasticity-robust standard errors, bank profitability.