

The Impact of Green Credit Policies on the Financial Performance of Indonesian Banking

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Abstract

This study analyzes the impact of Green Credit Policies (GCP) on the financial performance of Indonesian banking institutions. Utilizing a framework grounded in stakeholder and legitimacy theories, this research examines the extent to which green credit initiatives influence key financial metrics, specifically Return on Equity (ROE) and Earnings Per Share (EPS). The dataset comprises a panel of 33 Indonesian banks observed from 2020 to 2024. Panel data regression models were applied to test the hypothesized relationships. The findings indicate a positive correlation between GCP and financial performance, suggesting that transparency and sustainability practices foster financial resilience and long-term sustainability. To address potential endogeneity bias and reverse causality, robustness checks were conducted to validate the empirical results. This study contributes to the green finance literature by providing empirical evidence regarding the financial benefits of GCP implementation. The implications advocate for regulatory frameworks that promote transparency, highlighting that integrating sustainability into corporate strategies enhances competitive advantage and profitability.

Keywords: banking sector; climate change practices; financial performance; green credit policy; sustainability.

A. INTRODUCTION

Climate change has emerged as one of the most urgent and complex global challenges, with implications that extend far beyond environmental degradation. Rising global temperatures, climate-related disasters, and long-term ecological shifts have increasingly translated into economic instability and financial vulnerability (Ferreira et al., 2018). In this context, the financial sector, particularly banking institutions, plays a pivotal role in managing these risks and supporting the transition toward a low-carbon economy. Through capital allocation and credit portfolio management, banks influence corporate decision-making, thereby becoming central actors in climate mitigation and adaptation efforts. Consequently, sustainable finance has evolved from a voluntary practice into a regulatory and strategic priority (Krueger et al., 2020).

International frameworks such as the Paris Agreement, the Task Force on Climate-related Financial Disclosures (TCFD), and the Corporate Sustainability Reporting Directive (CSRD) underscore the increasing integration of environmental considerations into financial decision-making. These developments have pressured banks globally to incorporate climate-related risks into their lending, reporting, and governance structures (Hui et al., 2024). Specifically for Indonesia, as an emerging market highly exposed to climate hazards, aligning the financial system with sustainability objectives presents unique challenges. According to the OJK's Sustainable Finance Roadmap, the Indonesian banking sector is required to strengthen climate-related disclosures and expand sustainable lending portfolios to support national commitments to emission reduction (Asian Development Bank, 2024).

However, a significant gap remains between regulatory expectations and actual banking practices. Despite ongoing regulatory developments such as POJK 51/2017 and the Indonesia Green Taxonomy 2.0, the penetration of green lending remains limited, with only around 10–12% of total bank financing directed toward environmentally beneficial sectors. This gap raises concerns about Indonesian banks' readiness to manage climate-related risks. Furthermore, empirical evidence regarding the financial implications of green credit policies remains mixed. While some studies report positive effects on

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profitability and risk reduction (Cui, 2025), others argue that sustainability adoption may incur additional short-term costs (ECB, 2020).

In the Indonesian context, research remains sparse and fragmented, particularly regarding how Green Credit Policies (GCP) affect conventional financial performance metrics such as Return on Equity (ROE), Earnings per Share (EPS), and Tobin's Q. To address this research gap, the present study investigates the direct influence of GCP on the financial performance of Indonesian banks without including complex moderating variables. This approach is designed to produce a concise, robust, and policy-relevant assessment (Menicucci & Paolucci, 2016). Grounded in stakeholder and legitimacy theories, this study examines whether adopting sustainability-oriented lending practices enhances profitability and market valuation (Hui et al., 2024). Based on this framework, the research aims to answer the following questions: How do green credit policies influence the ROE, EPS, and Tobin's Q of Indonesian banking institutions?

B. LITERATURE REVIEW

Theoretical Framework

To elucidate the mechanisms through which GCP influences financial performance, this study integrates four complementary theoretical perspectives: Stakeholder Theory, Legitimacy Theory, the Resource-Based View (RBV), and the Triple Bottom Line (TBL).

Stakeholder and Legitimacy Theories

Stakeholder Theory posits that a firm's capability depends on how well it manages the expectations of various stakeholders, including customers, investors, regulators, and communities (Freeman, 1984). In the banking industry, GCP demonstrates a prioritization of environmental and social concerns in financing decisions. This commitment fosters trust among depositors, attracts investors who prefer ESG-aligned institutions, and satisfies regulators who demand climate risk awareness. Consequently, this theory supports a positive relationship between GCP and financial performance, as banks allocating credit to cleaner sectors tend to experience fewer loan defaults and better asset quality, which supports higher earnings and Earnings Per Share (EPS).

Complementing this, Legitimacy Theory argues that companies must ensure their operations are perceived as socially acceptable and aligned with societal norms (Deegan, 2002). Given the intense public awareness surrounding banks, responsible financing practices are essential to maintain legitimacy. By disclosing GCP implementation—signaling alignment with national sustainability objectives such as POJK 51/2017 and the Indonesian Green Taxonomy—banks can reduce reputational risk and minimize potential regulatory penalties. Higher legitimacy can lead to increased customer loyalty and investor confidence, thereby strengthening profitability (ROE) and market valuation (Tobin's Q).

Resource-Based View and Triple Bottom Line

The Resource-Based View (RBV) argues that companies create competitive advantage by possessing strategic resources. In sustainable finance, the ability to assess climate risks and integrate climate data into credit scoring represents a strategic capability. Banks that build these capabilities are better positioned to screen out high-risk borrowers and design profitable, sustainable products. Finally, the Triple Bottom Line (TBL) approach emphasizes the creation of economic, environmental, and social value simultaneously. Under TBL logic, green credit allocation is a strategic tool that mitigates physical and transition risks, lowering long-term credit losses and enhancing financial resilience.

Empirical Literature Review

Global and national regulations, such as Indonesia's POJK 51/2017 and Green Taxonomy 2.0, have established frameworks for GCP. To understand the practical implications, prior studies are synthesized into three conceptual dimensions: policy design, governance capability, and disclosure quality.

Policy Design and Regulatory Frameworks

Green credit policies are designed to guide banks toward financing environmentally beneficial sectors while limiting exposure to environmental harm (Cui, 2025). Various jurisdictions have operationalized these objectives through frameworks like China's Green Credit Guidelines (PBoC, 2012), the IFC's

Performance Standards (IFC, 2020), and Indonesia's POJK 51/2017. Empirical evidence on their effectiveness varies. In China, Mason and Martindale (2023) found that stringent regulatory enforcement and clear supervisory expectations significantly increased green loan issuance and improved credit screening.

Conversely, Indonesian literature highlights a misalignment; while regulations encourage reporting, banks seldom integrate environmental criteria into actual credit scoring models (Tjahjadi et al., 2021). This suggests that without penalties, GCP often remains a symbolic compliance requirement rather than a substantive screening tool (KPMG, 2025). While Throuvala et al. (2021) report that detailed regulatory guidance supports improved credit quality, the inconsistencies in enforcement justify the need for empirical testing in the Indonesian context.

Governance and Institutional Capability

Effective GCP implementation requires robust internal governance. Mechanisms such as sustainability committees and ESG-focused board oversight are essential for embedding environmental considerations into lending decisions. Meraj et al. (2025) suggest that banks with dedicated sustainability committees are more likely to enforce environmental due diligence. However, Tjahjadi et al. (2021) found that in many emerging markets, governance reforms remain symbolic—formal committees exist but lack the technical capacity to influence lending behavior. This contrasts with findings in other regions, reinforcing the argument that governance structures often appear in disclosures but do not always translate into operational decisions.

Disclosure Quality and Transparency

Disclosure is a central dimension of GCP, guided by frameworks such as the TCFD (2017) and GRI. Despite mandates like POJK 51/2017, the literature consistently reveals a gap between disclosure and implementation. Hui et al. (2024) note that international disclosures often lack quantification or sector-specific risk details. Banks tend to highlight positive initiatives while offering minimal transparency regarding exposure to environmentally sensitive borrowers (Calderon, 2020). Evidence regarding the financial impact of disclosure is also mixed. Ferreira et al. (2018) argue that transparent green credit reporting improves investor confidence and reduces funding costs. In contrast, Goswami et al. (2023) find that disclosure alone does not improve financial performance unless accompanied by robust environmental due diligence.

Research Gap

Existing findings remain mixed, with some studies reporting positive effects on profitability and stability, while others suggest short-term costs reduce returns. Furthermore, research in Indonesia is sparse on whether actual GCP implementation—beyond mere disclosure—affects metrics such as ROE, EPS, and Tobin's Q. Most studies provide limited evidence on how Indonesian banks operationalize GCP within their internal credit processes. By applying a structured GCP scoring method to panel data from 2020–2024, this study aims to fill this gap and contribute to the broader sustainable finance discourse.

C. METHODS

Data and Sample Selection

This study utilizes an unbalanced-to-balanced panel of 33 commercial banks listed on the Indonesia Stock Exchange (IDX) over the period 2020 to 2024, yielding a total of 165 bank-year observations. This observation window was selected to capture the nascent implementation of green credit policies following the promulgation of sustainable finance regulations in Indonesia. Sample selection was conducted using purposive sampling based on three criteria: (1) the bank must remain listed on the IDX throughout the observation period; (2) the bank must publish complete annual reports and sustainability reports containing Green Credit Policy (GCP) information; and (3) adequate financial data must be available to compute all dependent and control variables. Banks failing to meet these criteria were excluded from the sample.

Table 1. Sample Selection Process

| Criteria | Description |
|---------------------|--|
| Population | Commercial banks listed on the Indonesia Stock Exchange (IDX). |
| Period | 2020 – 2024 (5 years). |
| Inclusion Criteria | 1. Banks that remained listed on the IDX throughout the observation period (2020–2024). 2. Banks that published complete Annual Reports and Sustainability Reports containing Green Credit Policy (GCP) information. 3. Banks with adequate financial data available to compute all dependent (ROE, EPS, Tobin's Q) and control variables. |
| Exclusion Treatment | Banks failing to meet the criteria were excluded. Observations with data gaps exceeding one year were removed; single-year gaps were handled via listwise deletion. |
| Final Sample | 33 Banks |
| Total Observations | 165 Bank-Year Observations (33 banks x 5 years) |

To maintain data integrity, missing observations were handled conservatively. Bank-year records with data gaps exceeding 1 year were removed, while listwise deletion was applied to single-year gaps. No interpolation methods were employed. Outliers were detected using standardized residuals and leverage diagnostics; manual inspection confirmed that observations exceeding conventional thresholds did not significantly bias the estimates, allowing the final dataset to be retained. It is acknowledged that this sample may reflect a selection bias toward larger, more transparent institutions capable of sustaining detailed reporting.

Measurement of Variables

Green Credit Policies (GCP) GCP is measured using a composite disclosure index comprising 9 indicators (G.1–G.9) adapted from global sustainability frameworks, including UNEP-FI, TCFD, and the PBoC Green Credit Guidelines. Each indicator is scored dichotomously: 1 indicates disclosure, and 0 indicates otherwise. The total GCP score is the sum of disclosed items, ranging from 0 to 9, where higher scores indicate more intensive adoption of green credit practices. This unweighted composite index provides a systematic measure suitable for emerging markets where sustainability reporting remains heterogeneous.

Dependent and Control Variables: Financial performance is measured using three proxies: Return on Equity (ROE) and Earnings Per Share (EPS), representing accounting-based performance, and Tobin's Q, representing market-based valuation. To isolate the effect of GCP, the model controls for Firm Size (FSIZE), Firm Age (FAGE), Asset Growth (AssetG), and Debt-to-Equity Ratio (DER). The operational definitions for all variables are presented in Table 2.

Table 2. Operational Definition of Variables

| Variable | Code | Definition | Measurement |
|----------------------|-----------|--|---|
| Dependent Variables | | | |
| Return on Equity | ROE | Measures a bank's profitability by showing how much profit is generated from shareholders' equity. | $\frac{\text{Net Income}}{\text{Shareholder's Equity}} \times 100\%$ |
| Earnings Per Share | EPS | Indicates the profit earned for each outstanding share, reflecting market attractiveness. | $\frac{\text{Net Income} - \text{Preferred Dividends}}{\text{Average Outstanding Shares}}$ |
| Tobin's Q | Tobin's Q | Reflects market valuation by comparing a bank's assets to their replacement cost. | $\frac{\text{Market Value of Equity} + \text{Market Value of Liabilities}}{\text{Total Asset Replacement Value}}$ |
| Independent Variable | | | |
| Green Credit Policy | GCP | Represents the disclosure and implementation of environmentally friendly lending policies. | Disclosure Index (0-9): Sum of 9 indicators (G.1–G.9). 1 = Disclosed, 0 = Not disclosed. |
| Control Variables | | | |
| Firm Size | FSIZE | Reflects the bank's total resources and capacity to generate profit. | $\ln(\text{Total Assets})$ |
| Firm Age | FAGE | Indicates institutional maturity and experience since incorporation. | Observation Year - Incorporation Year |
| Asset Growth | AssetG | Measures the annual expansion or contraction of a bank's operations. | $\frac{\text{Total Assets}_t - \text{Total Assets}_{t-1}}{\text{Total Assets}_{t-1}}$ |

| | | | |
|----------------------|------|---|---|
| Debt to Equity Ratio | DER | Indicates the proportion of debt financing relative to equity (financial leverage). | $\frac{\text{Total Liabilities}}{\text{Total Equity}} \times 100\%$ |
| Panel Identifiers | | | |
| Bank ID | ID | Cross-sectional unit identifier. | Categorical variable (1, 2, \dots, n) |
| Year | Year | Time dimension identifier. | Annual data (2020 - 2024) |

Model Specification

To test the hypotheses, panel data regression models were estimated. The baseline empirical model is specified as follows:

$$Y_{it} = \alpha + \beta_1 \text{GCP}_{it} + \beta_2 \text{FSIZE}_{it} + \beta_3 \text{FAGE}_{it} + \beta_4 \text{DER}_{it} + \beta_5 \text{AssetG}_{it} + \epsilon_{it}$$

Where:

Y_{it} : Dependent variable (ROE, EPS, or Tobin's Q) for bank i in year t

α : Intercept

β_{1-5} : Regression coefficients

GCP_{it} : Green Credit Policy score

Control Variables: FSIZE (Natural log of total assets), FAGE (Years since establishment), DER (Debt-to-equity ratio), AssetG (Asset growth)

ϵ_{it} : Error term

Diagnostic Tests and Estimation Strategy

Diagnostic tests were conducted to determine the most appropriate estimation technique. The Hausman test was employed to compare Fixed Effects (FE) and Random Effects (RE) estimators. For the ROE model ($X^2 = 4.47$, $p = 0.483$) and EPS model ($X^2 = 5.83$, $p = 0.323$), the results failed to reject the null hypothesis, confirming that the Random Effects (RE) estimator is consistent and efficient. Additionally, the Breusch–Pagan Lagrange Multiplier (LM) test strongly rejected the pooled OLS specification ($p < 0.001$), confirming the presence of significant unobserved heterogeneity and justifying the use of panel data estimation. However, for the Tobin's Q model, the Fixed Effects (FE) specification was preferred due to violations of the RE assumptions and stronger explanatory power. To address heteroskedasticity detected by the Breusch–Pagan test, robust standard errors clustered at the bank level were applied across all models. The Wooldridge test confirmed the absence of serial autocorrelation. Data processing was performed using Stata.

D. RESULTS AND DISCUSSION

Descriptive Statistics

Table 3 presents the descriptive statistics for the study variables. The data reveal significant heterogeneity in financial performance across the banking sector. ROE (Mean = 3.66, SD = 21.85) and EPS (Mean = 133.60, SD = 214.17) exhibit wide variation, reflecting diverse profitability structures among the sampled banks. Tobin's Q shows a mean of 1.021, though most observations fall below 1, indicating generally conservative market valuations. Regarding sustainability practices, the Green Credit Policy (GCP) scores (Mean = 0.503, SD = 0.360) suggest uneven adoption, consistent with the observation that green banking maturity varies significantly in Indonesia.

Table 3. Descriptive Statistics

| Variable | Obs | Mean | Std. Dev. | Min | Max |
|-----------------------|-----|---------|-----------|----------|----------|
| ID | 165 | 17.090 | 9.697 | 1 | 34 |
| Year | 165 | 2022 | 1.418 | 2020 | 2024 |
| ROE | 165 | 3.658 | 21.852 | -154.6 | 27.31 |
| EPS | 165 | 133.597 | 214.169 | -484.441 | 1101.074 |
| TobinsQ | 165 | 1.021 | .425 | .0007 | 4.037 |
| GCP | 165 | .503 | .360 | 0.000 | 1.000 |
| CCP | 165 | .369 | .346 | 0.000 | 1.000 |
| L1 _{GCP} | 165 | .446 | .344 | 0.000 | 1.000 |
| L1 _{GCPxCCP} | 165 | .283 | .334 | 0.000 | 1.000 |

| Variable | Obs | Mean | Std. Dev. | Min | Max |
|----------|-----|--------|-----------|-------|-------|
| FSIZE | 165 | 7.906 | .717 | 6.412 | 9.385 |
| FAGE | 165 | 54.569 | 26.912 | 5 | 129 |
| AssetG | 165 | .088 | .223 | -.885 | 1.378 |
| DER | 165 | .052 | .027 | .000 | .160 |

Correlation and Multicollinearity

The Pearson correlation matrix (Table 4) indicates a positive initial association between GCP and both ROE ($r = 0.239$, $p < 0.01$) and EPS, suggesting that banks with higher green credit disclosure tend to have better accounting performance. To assess potential multicollinearity, Variance Inflation Factors (VIFs) were computed. All VIF values are well below the threshold of 10 (Max VIF = 2.37), confirming that multicollinearity is not a concern for the regression analysis.

Table 3. Pearson Correlation and Multicollinearity Output

| Variable | ROE | GCP | CCP | FSIZE | FAGE | AssetG | DER |
|-----------|----------|--------|--------|---------|--------|--------|------|
| ROE | 1 | | | | | | |
| GCP | 0.239*** | 1 | | | | | |
| CCP | 0.229 | 0.742 | 1 | | | | |
| FSIZE | 0.265 | 0.215 | 0.193 | 1 | | | |
| FAGE | 0.132 | 0.132 | 0.030 | 0.4060 | 1 | | |
| AssetG | 0.119 | 0.112 | 0.066 | -0.0658 | -0.167 | 1 | |
| DER | -0.037 | -0.046 | -0.106 | 0.3515 | -0.146 | 0.003 | 1 |
| Multicol. | 1.53 | 2.34 | 2.37 | 1.53 | 1.37 | 1.27 | 1.03 |

Regression Analysis Results

Table 5 summarizes the panel regression results. Based on the Hausman test, the Random Effects (RE) model was selected for ROE and EPS, while the Fixed Effects (FE) model was deemed appropriate for Tobin's Q.

Table 5. Panel Regression Results

| Variable | ROE | EPS | Tobin's Q |
|--|-----------|---------------|-----------|
| GCP | 8.340* | 56.204* | 0.209 |
| FSIZE | 4.842 | 182.153* | 1.538* |
| FAGE | 0.040 | -0.296 | 0.686* |
| AssetG | 7.021 | -7.385 | -0.349** |
| DER | -30.904 | -135.013 | -0.498* |
| Constant | -40.058 | -1311.005 *** | -6.527 |
| Model Fit | RE | RE | FE |
| R ² (Within) | 0.056 | 0.042 | 0.190 |
| R ² (Between) | 0.146 | 0.532 | 0.004 |
| R ² (Overall) | 0.115 | 0.425 | 0.003 |
| F / Wald Chi2 | 11.97** | 38.82*** | 5.96*** |
| Observations | 165 | 165 | 165 |
| Bank Groups | 33 | 33 | 33 |
| corr(u _i , X _b) | 0 assumed | 0 assumed | -0.986 |

Analysis of Findings

The regression output reveals distinct patterns between accounting-based and market-based performance:

1. GCP and ROE (H1a): The coefficient for GCP is positive and statistically significant ($\beta = 8.340$, $p = 0.032$). This supports H1a, indicating that greater commitment to green credit policies significantly improves Return on Equity.
2. GCP and EPS (H1b): Similarly, GCP exhibits a positive and significant effect on Earnings Per Share ($\beta = 56.204$, $p = 0.084$) at the 10% significance level. This suggests that green credit adoption enhances shareholder earnings, supporting H1b.
3. GCP and Tobin's Q (H1c): In contrast, while the coefficient for Tobin's Q is positive ($\beta = 0.209$), it is not statistically significant ($p = 0.110$). Thus, H1c is not supported, implying that the market has not yet fully capitalized green credit practices into firm valuation.

Robustness Check

To ensure the reliability of the baseline findings, a robustness test was conducted for the Tobin's Q model using robust standard errors clustered by bank ID. This procedure addresses potential heteroskedasticity and ensures that coefficient estimates are not biased by variance inconsistencies across banks. The results of the robustness test (not tabulated for brevity) confirm the baseline model's stability. The direction and magnitude of the coefficients remained consistent; FSIZE and FAGE continued to show significant positive effects, while Asset Growth and DER maintained negative associations. Crucially, the GCP coefficient remained positive but insignificant, reinforcing the finding that market valuation in the Indonesian banking sector is currently driven more by structural factors (size, leverage) than by sustainability initiatives.

Discussion

This study provides empirical evidence that Green Credit Policies (GCP) significantly enhance accounting-based financial performance, while their effect on market-based valuation remains limited in the Indonesian banking sector. These findings clarify the mechanisms through which sustainable lending influences financial outcomes in an emerging market context.

The Impact of GCP on Internal Financial Performance

The positive and significant relationship between GCP and both ROE and EPS suggests that sustainability-oriented lending primarily operates through risk-mitigation and operational-efficiency channels. By integrating environmental considerations into credit allocation, banks effectively reduce exposure to environmentally vulnerable and carbon-intensive sectors, which are increasingly prone to regulatory, transition, and physical risks (Ferreira et al., 2018). This strategic reallocation improves asset quality, lowers the probability of non-performing loans, and stabilizes earnings, thereby enhancing overall profitability. Lower credit risk exposure leads to more predictable earnings, reducing the volatility typically associated with traditional lending portfolios (Krueger et al., 2020).

From a Stakeholder Theory perspective, green credit policies signal responsible risk management and a long-term strategic orientation to key stakeholders (Freeman, 1984). Regulatory compliance and transparent sustainability practices strengthen stakeholder trust and reduce uncertainty, supporting sustained earnings performance. Internal stakeholders appear to respond directly to these improvements in governance quality and risk control, leading to higher ROE and EPS.

These findings also align with Legitimacy Theory, which emphasizes that firms adopt sustainability practices to maintain social and regulatory acceptance (Deegan, 2002). In the Indonesian context, GCP implementation is strongly shaped by regulatory expectations from the OJK and national sustainable finance frameworks. While these practices enhance institutional legitimacy and reduce compliance-related risks, the benefits are currently realized through internal stability and financial resilience rather than immediate market premiums (Tjahjadi et al., 2021).

The Disconnect in Market Valuation

In contrast to internal metrics, the insignificant effect of GCP on Tobin's Q indicates that external investors have not yet fully incorporated green lending practices into valuation decisions. Market-based performance in Indonesia remains heavily influenced by broader macroeconomic conditions, interest rate cycles, and short-term profitability expectations rather than long-term environmental strategies (EBA, 2021). This finding highlights a structural characteristic of emerging markets: sustainability information is still developing in terms of standardization, comparability, and investor familiarity, which limits its immediate relevance in equity pricing. Consequently, GCP currently functions more as a risk management and governance mechanism (internal) rather than a driver of market valuation (external). This divergence is consistent with evidence from other emerging economies. For instance, Hui et al. (2024) similarly found that green credit policies improve profitability and reduce credit risk but exhibit weak or delayed effects on market valuation. Likewise, Song et al. (2022) reported that ESG-related initiatives in developing markets are not immediately reflected in firm value due to limited investor awareness and incomplete integration of ESG data into investment decision-making. This contrasts with developed markets, where higher ESG literacy and more mature disclosure frameworks often yield stronger valuation effects.

Policy and Managerial Implications

The findings imply that for Green Credit Policies to translate into market value, the information environment must improve. From a policy perspective, strengthening the standardization, verification, and comparability of green credit disclosure is essential. Improved regulatory clarity and consistent implementation of the taxonomy would enable investors to assess the financial materiality of green lending activities accurately. For banking practitioners, the results underscore the importance of embedding green credit policies into core credit risk management systems rather than treating them solely as compliance tools. Investments in climate risk analytics, emissions tracking, and scenario analysis can enhance GCP's financial performance. As ESG awareness evolves, these capabilities are expected to become increasingly relevant for market valuation.

E. CONCLUSIONS

This study analyzed the impact of Green Credit Policies (GCP) on the financial performance of Indonesian commercial banks from 2020 to 2024. Using panel data regression, the analysis demonstrates that GCP has a positive, statistically significant effect on accounting-based performance measures, specifically Return on Equity (ROE) and Earnings Per Share (EPS). However, the impact on market-based valuation (Tobin's Q) is positive but not statistically significant. These empirical findings indicate that the financial benefits of green credit policies are currently internalized by financial institutions, manifesting as improved profitability and earnings stability through risk mitigation. Conversely, the market's pricing mechanism has not yet fully capitalized on these sustainability efforts. This suggests that in the Indonesian banking sector, sustainability-based lending primarily serves as a tool for financial risk management and corporate governance rather than as an immediate driver of market valuation.

Limitations and Future Research

This study acknowledges several limitations. First, the observation period is relatively short and captures the nascent stage of green credit implementation. Second, the operationalization of GCP relies on a composite disclosure index, which reflects policy breadth rather than implementation intensity. Future research should consider extending the observation window, employing weighted or continuous indices to measure implementation depth, and conducting cross-country comparisons within the ASEAN region to provide broader insights into the effectiveness of green credit frameworks.

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