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# DOES GREEN CREDIT POLICY AFFECT THE STOCK RISKS OF HEAVILY POLLUTING ENTERPRISES?

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## Abstract

This study analyzes the effect of green credit policies (GCPs) on the stock risks of heavily polluting enterprises (HPEs) listed in China over the period from 2008 to 2020. Employing a difference-in-differences model, the research specifically examines how these environmental regulations influence the financial stability and risk profile of firms that contribute significantly to environmental pollution. The findings indicate that the implementation of GCPs leads to an increase in the stock risks of HPEs. Additionally, it is revealed that both the shareholding structure and earnings management act as mediating factors in the relationship between GCPs and the stock risks of these enterprises. Moreover, further analysis suggests that HPEs with a higher level of green innovation and superior corporate social responsibility (CSR) performance experience a less pronounced impact of GCPs on their stock risks. This implies that companies actively engaged in sustainable practices and responsible business conduct are better positioned to mitigate the adverse effects of green credit policies on their financial risk. Overall, these findings not only contribute to the theoretical understanding of the interaction between environmental policies and financial markets but also offer practical policy recommendations. By highlighting the role of green innovation and CSR, the study underscores the importance of encouraging environmentally responsible practices among HPEs as a means of managing stock risks and promoting sustainable economic development.

*Key words:* difference-in-differences, Green credit policies, stock risk, shareholding structure

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