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Analysis of Factors Influencing Corporate Financing Costs

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Abstract

This article reviews the literature and analyzes the mechanism of financing cost impact from four dimensions: macro environment, enterprise characteristics, financing methods, and market environment. Macroscopically, it is influenced by interest rate liberalization, monetary policy, and regulatory systems; in terms of enterprises, it depends on credit, risk, and governance structures; in terms of financing methods, new financial instruments reshape the cost structure; at the market level, it is impacted by industry differences, regional financial ecology, and geopolitical risks. Research indicates that various factors interact with each other to jointly affect financing costs. Current research exhibits limitations such as insufficient cross-market analysis, inadequate exploration of dynamic mechanisms, and a need for enhanced research on novel mechanisms. In the future, we can focus on digital transformation, the cost mechanism of green financing under the goal of carbon neutrality, the transformation of financing models in the digital economy, and the quantitative analysis of the coupling effect of multiple dimensions. This article provides a research framework for the academic community and offers references and insights for businesses and policymakers.

Keywords

corporate financing cost, interfering factor, innovation in financing methods, green finance, macro-economic policy

1. Introduction

Against the backdrop of profound adjustments in the global economic landscape and China's economic transition from high-speed growth to high-quality development, corporate financing costs, as an important indicator reflecting the operational efficiency of the capital market, the financial health of enterprises, and the fairness of financial resource allocation, have increasingly attracted widespread attention from both academic and practical circles. In recent years, due to multiple external shocks such as the recurrent COVID-19 pandemic, intensified geopolitical conflicts, restructuring of global supply chains, and the Federal Reserve's interest rate hike cycle, the global liquidity environment has experienced severe fluctuations, and the uncertainty faced by corporate financing has significantly increased. Meanwhile, China has continued to advance the supply-side structural reform of the financial sector, with the process of interest rate liberalization deepening. The reform of the Loan Market Quoted Rate (LPR) has effectively improved the transmission efficiency of credit interest rates, aiming to alleviate the difficulties and high costs of financing for the real economy. However, enterprises of different ownership, industries, and development stages still exhibit significant disparities in terms of financing availability and cost levels, with structural contradictions remaining prominent.

In addition, with the advancement of the “dual carbon” strategic goals, the construction of a green financial system has accelerated, and new financing tools such as green bonds and ESG investment and financing have flourished. The performance of enterprises in environmental, social, and governance aspects has gradually become a new dimension affecting their financing costs. Meanwhile, digital technology is widely applied in fields such as supply chain finance and inclusive finance, driving innovation in financing models and providing a new path for reducing financing costs for small and medium-sized enterprises. Against this backdrop, the influencing factors of corporate financing costs are no longer limited to traditional interest rate policies and credit ratings, but exhibit complex characteristics of multidimensional linkage and dynamic interaction among macro policies, corporate characteristics, financing channel innovation, and external market environment.

Domestic research shows that the People's Bank of China's “Monetary Policy Implementation Report” (2018-2025) mentions the remarkable achievements in interest rate liberalization (the LPR reform in 2020 drove the weighted average interest rate on corporate loans down from 5. 6% to 3. 1%). The “Guiding Opinions on Regulating Credit Service Charges” issued by the China Banking and Insurance Regulatory Commission (CBIRC) (CBIRC [2023] No. 27) mentioned that the pilot program for transparency of non-interest costs covers a credit scale of 1. 53 trillion yuan. However, according to a survey conducted by the People's Bank of China in 2025, private enterprises still face structural obstacles, with non-interest costs accounting for 30%-40% of their total costs. The “White Paper on the Financing Environment for Small and Micro Enterprises in China” (2025 Edition) published by the Digital Finance Research Center of Peking University, indicates that the proportion of corporate credit driven by economic transformation has risen to 65%, highlighting the sensitivity of technology-intensive enterprises to financing costs. At the international level, the section on cross-border capital flows in Chapter 3 of the Bank for International Settlements (BIS) Annual Economic Report (2024) points out that the Federal Reserve's interest rate hike cycle (2022-2024) led to a 120 basis point increase in the spread of emerging market dollar bonds as sovereign ratings were downgraded. The S&P Global “Research on the Correlation between ESG Evaluation and Corporate Financing Costs” (2025) indicates that the bond interest rates of companies with leading ESG ratings are 0. 8-1. 2 percentage points lower than those of their peers, showing that environmental and social governance (ESG) is becoming a key variable in global financing costs. Current research needs to deepen the mechanism analysis of cross-country policy spillover effects and industry heterogeneity (such as the linkage between manufacturing industry upgrading and ESG disclosure).

Therefore, systematically organizing and deeply analyzing the multi-level influence mechanism of corporate financing costs not only helps to enrich and improve the theoretical framework of financial economics but also has practical guiding significance for enterprises to optimize their capital structure and enhance financing efficiency. Meanwhile, this study provides a scientific basis and policy reference for regulatory authorities to further improve the transmission mechanism of monetary policy, strengthen the incentive mechanism of green finance, and promote balanced development of regional finance, thereby contributing to the construction of a more inclusive, efficient, and sustainable modern financial system.

2. The Impact of the Macro Environment on Corporate Financing Costs

2.1 Interest Rate Policy and Market-Oriented Reform

In August 2019, the People's Bank of China initiated the LPR reform, aiming to enhance transmission efficiency and subsequently reduce corporate financing costs. Guo Junjie and Fang Ying found that the higher the external financing dependence of an enterprise, the greater the impact of changes in the external financing environment on the enterprise itself (Guo and Fang, 2023). And Almeida and Campello proposed that corporate financing constraints are an important measure of corporate credit availability(Almeida and Campello, 2007). Based on this, Fang Ying, Wang Huai, and Guo Ye used A-share listed companies from 2018 to 2020 as research samples. That is, by constructing a continuous variable model of corporate financing constraints and employing a series of methods such as continuous DID, they explored the impact of the LPR reform in August 2019 on the financing of the real economy(Fang et al., 2024). Three hypotheses are proposed based on the LPR reform and its impact on the financing costs of the real economy, the LPR reform and its impact on credit allocation efficiency, as well as the heterogeneous effects of the LPR reform on the financing costs of the real economy. During the experiment, reference was made to various economic databases, and based on the research by Liu et al. (2015)Liu et al. (2015))Liu et al. (2015) Hadlock and pierce (Hadlock and Pierce, 2010). The conclusions proposed by Fan Xingjian et al. and those proposed in other literature (Fan et al., 2009). Fang

Ying, Wang Huai, and Guo Ye ultimately concluded through heterogeneity analysis that the impact of LPR reform on the financing costs of the real economy is primarily manifested in low-risk enterprises, strategic emerging industry enterprises, and non-state-owned enterprises, and that LPR reform significantly reduces the financing costs of enterprises (Fang et al., 2024).

2.2 The Regulatory Role of Monetary Instruments

This article primarily introduces and explains the impact of monetary policy tools on financing costs through the use of (MLF). In 2014, the People's Bank of China introduced the Medium-term Lending Facility (MLF), a monetary policy tool that is more flexible and targeted than traditional monetary policy tools in terms of duration and operational methods. Its main function is to provide a medium-term monetary base for the real economy. In their research on the role and effectiveness of domestic innovative monetary policy instruments, Liu Shan and Zhu Senlin believe that the lending facility type of monetary policy instruments plays a significant role in regulating liquidity supply and market interest rates (Liu and Zhu, 2017). Regarding the transmission mechanism of innovative monetary policy instruments, Chu Erming et al. summarized several influencing mechanisms, namely the bank credit channel, credit channel, balance sheet channel, and expectation channel (Chu et al., 2019). Wu Xiao and Cui Yifan believe that innovative monetary policy instruments have played a significant role in economic development. Its inherent precision and targeted nature make it stand out in fields such as agriculture and rural areas, as well as small and micro enterprises (Wu and Cui, 2023).

2.3 Regulatory System and Policy Constraints

Since China's housing reform, the real estate industry has attracted much attention due to its high leverage characteristics. Behind this series of concerns, it further illustrates a series of issues such as the irrational financing structure of real estate enterprises and excessive debt scale. Li Qingyuan, Chen Shilai, and Chen Hao mentioned that the introduction of the “three red lines” has constrained the growth rate of the financing scale of real estate enterprises (Li et al., 2022). Wan Xiaoli, Zhang Bingtao, and Zhang Donghao explained that the introduction of this policy will channel funds into enterprises primarily engaged in manufacturing, in order to facilitate their healthy development (Wan et al., 2023). Ma Yuanheng and Qin Xiuhong took A-share real estate companies as their research subjects, utilizing semi-annual panel data from 2017 to 2022 to construct a difference-in-differences model, exploring the impact of the “three red lines” policy on debt financing of real estate enterprises (Ma and Qin, 2024). Ma Yuanheng and Qin Xiuhong used debt financing scale, commercial credit, and other indicators as dependent variables and combined them with a series of relevant known data from the CSMAR database to set up an econometric model (Ma and Qin, 2024). After analyzing the regression results, Ma Yuanheng and Qin Xiuhong drew four conclusions: the debt scale of real estate enterprises has significantly shrunk since the implementation of the “three red lines” policy. The implementation of this policy has a significant negative impact on commercial credit financing, and the cost of debt financing has increased significantly. State-owned real estate enterprises have experienced a smaller reduction in the integration of bank loans and commercial credit, resulting in a smaller negative effect on financing costs. Enterprises with weaker profitability are more susceptible to policy impacts on their debt financing scale (Ma and Qin, 2024).

3. The Impact of the Enterprise's Own Characteristics on Financing Costs

3.1 The Correlation Between Credit Rating and Financing Interest Rate

Credit rating is particularly important for a company, and it can be said to be one of the company's most important facades. To some extent, it indirectly reflects the current operating status of the enterprise. Gao Shanxin believes that when assessing the credit status of enterprises, credit rating agencies typically focus on key indicators such as the asset-liability ratio and current ratio, which are directly influenced by capital structure (Gao, 2025). A lower debt level and a more balanced capital structure can signal stronger financial stability of the enterprise, thereby contributing to the improvement of the credit rating. An improvement in credit rating signifies an enhanced ability for enterprises to secure financing in the capital market, accompanied by reduced financing costs. Enterprises with high credit ratings can enjoy lower interest rates when issuing bonds or applying for loans. In this way, it can reduce the direct financing costs of enterprises and also cut down some hidden costs.

3.2 The Relationship Between Equity Concentration and Financing Costs

Equity concentration refers to the degree of ownership concentration in a company among its shareholders. As one of the internal governance mechanisms within an enterprise, it has a certain impact on the debt financing costs of the enterprise. Based on the analysis of the correlation between equity concentration and internal governance, as well as among common institutional investors, Shan Mengmeng, Li Lei, and Li Yuanxu have arrived at the hypothesis that the lower the equity concentration of a company, the stronger the inhibitory effect of institutional joint shareholding on the company's debt financing costs (Shan et al., 2023). Subsequently, Shan Mengmeng, Li Lei, and Li Yuanxu employed the Ordinary Least Squares (OLS) model regression to verify the impact of equity concentration on corporate debt financing costs. Meanwhile, through mechanism testing and heterogeneity analysis, it is further concluded that the lower the equity concentration of a company and the lower the level of financial development in its region, the greater the potential and ability for institutional common shareholding to exert its effect, resulting in a stronger inhibitory effect on debt financing costs (Shan et al., 2023).

4. The Impact of Financing Methods and Channels on Financing Costs

4.1 The Cost Effect of Financing Tool Innovation

In September 2023, “new productive forces” first appeared in people's vision, and their emergence successfully promoted the deep integration and development of innovation chains, industrial chains, supply chains, and capital chains. Bu Jun and Zhu Yue mentioned private enterprises, especially small and medium-sized enterprises (SMEs) led by technological innovation, as the backbone of China's innovation activities. The accelerated formation of their new productive forces cannot be separated from the dual support of research and development, innovation, and sufficient capital investment (Bu and Zhu, 2024). As an emerging financing model, supply chain effectively facilitates the smooth flow of innovative resources across various links in the supply chain, leveraging its advantages in capital, credit, and market.

From a macro perspective, Zou Ke et al. pointed out in their research that technology finance can promote industrial transformation and upgrading by enhancing the level of technological innovation breakthroughs, thereby generating new productive forces (Zou et al., 2025). From a micro perspective, the research conducted by Huo Hongqing and Cheng Binheng indicates that the enhancement of artificial intelligence levels is achieved through two key paths: optimizing internal management and improving external marketing strategies. This has not only facilitated enterprises in achieving “cost reduction and efficiency improvement” but also significantly promoted the development of new productive forces (Huo and Cheng, 2024).

Peng Jianping and Han Weiyi empirically analyzed the impact of supply chain finance on enterprises' new-quality productivity and its mechanism of action by selecting financial statement data from listed enterprises on China's Shanghai and Shenzhen A-shares from 2011 to 2022 (Peng and Han, 2025). Research has shown that supply chain finance has a significant promoting effect on the new quality of enterprise productivity.

4.2 Cost Drivers of Green Bonds

Green bonds are a new type of bond instrument can provide certain financial support for green development to a certain extent. From a macro perspective, green bonds help guide social capital towards green and low-carbon sectors, thereby promoting sustainable social and environmental development. From a micro-level perspective, green bonds can also exert a certain influence on the business decision-making behavior of bond-issuing enterprises. Gianfrate and Perib believe that the key for countries to effectively guide capital towards the low-carbon economy lies in the development of green finance, and green bonds are considered a major lever for driving financial resources into sustainable development projects (Gianfrate and Peri, 2019). Zsolt and Attila's research points out that green bonds play a crucial role in both influencing climate change and environmental governance (Mih and Tapaszti, 2018). Some scholars abroad have also studied the correlation and differences between green bonds and other bonds. Juan's analysis from the perspective of the financial market revealed that green bonds are more closely related to other bonds than to the stock market (Reboredo, 2018). Zerbib obtained, through quantitative analysis of empirical data, that compared to green bonds, the data obtained from ordinary bonds through grouped regression showed a positive correlation with yields (Zerbib, 2019).

5. The Impact of Market Environment on Corporate Financing Costs

5.1 The Impact of the Regional Financial Ecological Environment

In recent years, the country has successively introduced a series of preferential policies and measures, such as tax reductions and exemptions, and increased government procurement, to support the development of small and medium-sized enterprises. Although some progress has been made, the financing issues of small and medium-sized enterprises (SMEs) have not been fundamentally resolved due to various factors, such as their relatively small asset size, coupled with opaque information and fierce market competition.

Gong Huiting explored the impact of different regional financial ecological environments on corporate financing costs through normative and empirical research methods. Research indicates that, compared to state-owned enterprises, private enterprises bear higher debt financing costs, and a favorable financial ecological environment helps reduce the debt financing costs of enterprises (Gong, 2021). When the development level of the local regional financial ecological environment is not high, high-quality internal control information disclosure helps to reduce corporate debt financing costs.

Gong Huiting also proposed that relevant government departments should strive to build a harmonious and stable capital market environment and lower the threshold for capital market access. Enhance the financing convenience and diversification of financing methods for listed companies, improve the financing laws and regulations and credit system construction for small and medium-sized enterprises, and establish a sound financial market access mechanism and supervision mechanism(Gong, 2021).

5.2 The Impact of Geopolitics on Financing Costs

With the deepening of global financial integration, the relationship between “geopolitical risk” and corporate investment is becoming increasingly close. It is closely related to wars, conflicts, and political and economic uncertainties. For a long time, the external macroeconomic environment and the stock and bond markets have exhibited a co-movement effect. Under the impact of geopolitical risks, adjustments in financial regulatory policies, and the influence of enterprises' own factors, the debt financing costs of enterprises are also fluctuating accordingly.

Li Jing and Li Boyu concluded through descriptive statistical research and benchmark regression analysis that the increase in geopolitical risks significantly increases the debt financing costs of enterprises (Li and Li, 2025). Secondly, Li Jing and Li Boyu found in their mechanism test that low default events and optimistic sentiment among investors can mitigate the adverse impact of geopolitical risks on corporate financing costs. Through heterogeneity testing, it was found that manufacturing enterprises located in economically active regions are less impacted by geopolitical risks (Li and Li, 2025)].

6. Conclusion

This article conducts a study on the factors influencing corporate financing costs from the perspectives of macro environment, enterprises themselves, financing methods, and market environment. To summarize the conclusions of the full text, there are several points as follows: (1) The impact of LPR reform on the financing costs of the real economy is mainly reflected in low-risk enterprises, strategic emerging industry enterprises, and non-state-owned enterprises, and the LPR reform has significantly reduced the financing costs of enterprises. (2)Innovative monetary policy instruments have played a significant role in economic development. Their precision and targeted nature make them stand out in areas such as agriculture, rural areas, and small and micro enterprises. (3)Enterprises with high credit ratings can enjoy lower interest rates when issuing bonds or applying for loans. This can reduce the direct financing costs of enterprises and also mitigate some hidden costs. (4)The lower the concentration of corporate equity and the lower the level of financial development in the region, the greater the space and ability for institutional joint shareholding to exert its effect, and the stronger the inhibitory effect on debt financing costs. (5)Compared to state-owned enterprises, private enterprises bear higher debt financing costs. A favorable financial ecological environment aids in reducing the debt financing costs of enterprises. When the development level of the local regional financial ecological environment is not high, high-quality internal control information disclosure helps to reduce the debt financing costs of enterprises. (6)The impact of digital transformation on corporate financing costs exhibits heterogeneity.

For enterprises in the eastern and central regions, as well as state-owned enterprises, the reduction effect of digital transformation on corporate financing costs is particularly significant.

Every enterprise has its own characteristics. Every enterprise must propose a decision-making plan that suits its own needs and has certain unique effectiveness, while also being suitable for the current overall environment. Enterprises can make the most suitable choices according to their specific circumstances and local conditions. For example, when the development level of the local financial ecological environment in which the enterprise is located is not high, high-quality internal control information disclosure can help reduce the debt financing costs of the enterprise. For enterprises and state-owned enterprises in the eastern and central regions, digital transformation has a particularly significant effect on reducing their financing costs. In the context of globalization and informatization, the impact of digital transformation on the corporate financing environment is becoming increasingly evident, while innovative monetary policy instruments have played a significant role in economic development. Its inherent precision and targeted nature make it stand out in fields such as agriculture and rural areas, as well as small and micro enterprises.

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