

Liu Guiping: On leveraging the financial market to achieve the goal of carbon peaking and carbon neutrality

Speech by Mr Liu Guiping, Deputy Governor of the People's Bank of China, at the 13th Lujiazui Forum, Shanghai, 10 June 2021.

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Distinguished guests, dear colleagues, ladies and gentlemen,

Good afternoon.

Peaking carbon emissions before 2030 and achieving carbon neutrality before 2060 is an important decision made by the CPC Central Committee with Comrade Xi Jinping at its core after due deliberation. To implement the decisions and arrangements of the CPC Central Committee and the State Council, the People's Bank of China (PBC) has put green finance on its priority list for the 14th Five-Year Plan period and even a far future. The theme of this session is "leveraging the financial markets to achieve carbon peaking and carbon neutrality". It is a very meaningful topic, and I'd like to share with you my views on it.

First, we should be more proactive, both in mind and in action, in promoting green and low-carbon transition.

We should have a holistic and in-depth understanding of the "30·60" goal. Different from developed countries, China is still in the process of rapid industrialization and urbanization, its economy will maintain medium to high-speed growth for quite a long period, and its per capita demand for energy will keep rising. Therefore, we are facing great pressure in carbon emission reduction. As estimated by international organizations and research institutions, the peak of carbon emissions in China will be over 10 billion tons while that in the U.S and the EU stands at 5.7 billion tons and 4.4 billion tons respectively. We only have 30 years to achieve carbon neutrality after reaching the peak of carbon emissions, far less than the Europe and the U.S, who have 50–70 years. Peaking carbon emissions and reaching carbon neutrality don't mean we will sacrifice the economic growth, the national wealth or the people's well-being. Instead, it means that we should achieve high-quality development, make it comprehensive, coordinated, and sustainable, while reducing carbon emissions, and that we should strike a balance between ecological conservation and economic and social development in a thorough and rational way. In the decades to come, green and low-carbon transition will be at the core of our economic activities and become the central logic guiding the decisions for investment, production, consumption, and circulation. The economic development pattern and the people's lifestyles will shift from heavy dependence on resources, which is unsustainable, to the everlasting upgrading of technology and innovation. And the concepts of innovative, coordinated, green, open and inclusive development will be implemented in the process.

Based on our understanding, we should take actions, and be more rational and brave. Peaking carbon emissions and achieving carbon neutrality is an extensive and profound reform for our economy and society. We should rise up to the difficulties, set the target of carbon emission reduction in a scientific way as early as possible, make feasible plans to meet the target, and unveil regulated, specified, and practical measures for green development. The financial sector will go all out to serve the holistic goal of carbon emissions peak and carbon neutrality, put in place clear-cut and practical measures, support green and low-carbon economic transition, and be proactive in guarding against financial risks related to climate change.

Second, we should work towards the goal of peaking carbon emissions and achieving carbon neutrality in a holistic way.

As China faces tight schedules and heavy tasks in achieving carbon neutrality, we should have a holistic view in making the top-level design. There is a close relationship between emissions peaking and carbon neutrality, that is, the earlier the emissions peak, the sooner the neutrality comes; and the higher the peak, the more difficult the neutrality. To reach emissions peak doesn't mean to drive the peak high, but to change the ways of production and living as soon as possible. Carbon emissions are unlikely to plummet after reaching the peak and a plateau period is anticipated. The overall costs of achieving carbon neutrality may vary drastically with the time of peaking, the level of peaking and the length of plateau periods. If we sever the connection between the two goals and fail to focus on the ultimate goal of achieving carbon neutrality from the very beginning, the transition period will be further shortened and the pressure and the unnecessary cost will be increased. Therefore, it is necessary to make top-level design and promote national coordination based on a holistic, rational, and scientific understanding of the intrinsic connection between carbon emissions peak and carbon neutrality. We should make it a priority to promote green and low-carbon development of the energy sector, continue to improve the framework of green and low-carbon policies, and improve laws and regulations and standard systems. We should quicken our pace to chart out timetables, roadmaps and construction drawings for each industry and field, and identify major responsibilities of each party, so as to ensure that tasks are carried out in an orderly, robust and effective way. In the meantime, we will call on regions, institutions and market entities to take a step towards negative carbon emissions if conditions permit.

Third, we should make coordinated planning and full efforts to strengthen the “five major pillars” of green finance.

The PBC has always placed a priority on green finance development. Through years of exploring, the PBC has established a development concept for green finance featuring “three major functions” and “five major pillars,” namely to fully leverage three major functions of finance (resource allocation, risk management and market pricing) in supporting green and low-carbon development, so that the “five major pillars” (a system of green finance standards, supervisory and information disclosure requirements for financial institutions, incentive and constraint mechanisms, green financial products and their market system, and international cooperation on green finance) of the green finance system have been initially set up. These “three major functions” and “five major pillars” will be the focus of the financial sector to robustly contribute to achieving “carbon peaking and carbon neutrality”.

Recently, the PBC, National Development and Reform Commission (NDRC) and China Securities Regulatory Commission (CSRC) jointly issued the Green Bond Endorsed Projects Catalog (2021 Edition) that unified the standards of green bonds and excluded coal and other fossil energy projects from financial support. At the same time, the PBC plans to advance the establishment of a mandatory disclosure system by stages. We will work toward unified disclosure standards and promote information sharing between financial institutions and enterprises. We will also explore ways to carry out stress tests of the climate change risk so as to build a sound environment for achieving the “dual carbon” goals through efforts of the financial sector.

The PBC has launched carbon neutrality debt financing instruments of non-financial enterprises and carbon neutrality financial bonds in the interbank market, focusing on supporting green and low-carbon projects that both meet the criteria of the green bond catalog and show significant carbon emission reductions. By the end of the first quarter of this year, a total of RMB65.62 billion of “carbon neutrality bonds” had been issued in the interbank market.

In order to further mobilize funds to support green development, the PBC issued the Green Finance Evaluation Program for Banking Institutions to conduct comprehensive evaluation of financial institutions' green loans and green bonds. The evaluation results will be incorporated into the central bank's financial institution ratings. By the end of the first quarter of this year, the

outstanding green loans in domestic and foreign currencies nationwide totaled RMB13 trillion, up 24.6 percent year-on-year, which was 12.3 percentage points higher than the growth rate of various loans in the same period.

As required in the Report on the Work of the Government this year, the PBC is working on instruments providing direct support for the reduction of carbon emissions by providing eligible financial institutions with low-cost funds, and thereby encourages them to provide financing at preferential interest rates for projects with significant impact on carbon emission reductions.

To deepen international cooperation on green finance, the PBC has co-chaired with the US Treasury the G20 Sustainable Finance Working Group (SFWG) this year, coordinating the G20 members in the discussion of developing the G20 Roadmap for Sustainable Finance and in working on major issues including information disclosure, green standards, etc. In the meantime, the PBC is closely working with EU counterparts to converge taxonomies regarding green bonds and loans.

Shanghai has great potential and advantages in leading green finance development. It takes the lead in green and low-carbon development transition, i.e., it set up the carbon emissions trading market in 2013 and plans to reach carbon emissions peak before 2025, five years ahead of the country's schedule. In the meantime, Shanghai provides sound foundation for the innovative development of green finance because of its wide coverage of financial factor markets, the aggregation of financial institutions and its developed financial infrastructure. Currently, over 90 percent of green bonds are issued in Shanghai, and over 60 percent of green enterprises' IPOs take place in Shanghai. In the future, Shanghai can further use its advantage to make greater strides in the carbon accounting of financial institutions, the mandatory climate and environmental information disclosure of financial institutions and financing entities, and the evaluation and verification of green financial products, etc. It will not only help Shanghai sharpen its competitive edge in green finance and lead the global trend of sustainable investment and financing so as to help building itself into an international financial center. It will also enhance the capacity of financial service in the transition towards green and low-carbon development, particularly the capacity to support the development of green technologies through financial innovation, in a bid to build Shanghai into a science and technology innovation center.

Fourth, we should enhance financial support for the construction of China's carbon market from an overall view.

The green and low-carbon transition relies on the support of both green finance, which has been mentioned just now, and the carbon emissions trading market. At its core, the carbon market aims at tightening emissions and encouraging emissions reduction through market-based pricing. In the meanwhile, the role of green finance in maturity conversion and risk management should be brought into play so as to guide cross-cycle investment and promote the R&D of low-carbon technology. We need to work in the following two aspects.

For one thing, we should set a clear goal of total carbon emissions as early as possible. With a cap on total emissions, allowance-based transactions of the market will be decided by the supply and demand and send a clear price signal, thus guiding and stabilizing expectations and promoting low-carbon investment.

For another, we should leverage finance to support the building of the carbon market. The underlying logic of carbon market transactions is the transfer of emission rights, including the allocation, registration, trading, verification and evaluation of carbon emissions allowance. The actual operation cost is rather high, which lowered the market efficiency. More financial institutions and products, including carbon derivatives, when introduced, are helpful to fulfill the price discovery function of the carbon market, thus lowering the trading cost. In the meantime, green investment is a typical cross-cycle investment with long investment cycle, high uncertainty and great risks, which urgently requires risk management tools and methods. Since many

matured risk management tools and models have been developed in the financial market, managing the carbon market in line with the logic of financial markets is conducive to effective cross-cycle allocation and hedging. The financial system will actively cooperate with the carbon emissions market and adapt to its construction needs, so as to balance the incentives, cross-cycle allocation and risk management in green and low-carbon investment.

Over the past decade, Shanghai has set up a carbon emissions trading system with “clear institutional arrangements, regulated market, orderly management and effective emissions reduction”. Innovative products including carbon fund, carbon pledge and emissions allowance forward have been developed in an orderly way. Shanghai has gained experience in coordinating supervision of carbon finance. The national carbon trading center, now situated in Shanghai, will form a positive interaction with Shanghai’s endeavor to build itself into an international financial center. This will also improve the price discovery capacity of the carbon market and enhance Shanghai’s position in global carbon pricing.

Fifth, we should stay cool-minded and rational, and promote a stable green and low-carbon transition.

According to the calculation of major institutions both at home and abroad, the investment needed for achieving carbon peaking and carbon neutrality is between RMB150 to 300 trillion, equivalent to an average annual investment of about RMB 3.75 to 7.5 trillion. Such a vast amount of money brings about great investment opportunities, which have drawn the attention of investors in and out of China. It is obvious that green industry is thriving, but we need to stay cool-minded and rational and be wary of “a flash in the pan”.

There are numerous examples of economic and financial risks arising from the irrational exuberance of emerging industries in the international community, such as the bust after railway investment boom in the mid-19th century, the bubble burst of radio, electricity, automobile and petrochemistry in 1929, and the Internet bubble burst in 2001. All the examples revealed potential social and economic costs of irrational investment. On our way towards achieving the “30·60” goal, all parties should stay cool-minded and prudent, make rational decisions and strengthen the risk monitoring and early warning of production capacity, so that smooth, balanced and ordered progress will be made in guaranteeing long-term green development.

“The water’s wide at the full tide; A sail with ease hangs in soft breeze.” In the course towards green and low-carbon development, the financial sector will keep in mind that “a big country shares larger responsibility” and put it into practice. The PBC will join hands with all counterparts to promote the high-quality development of China’s economy and society. We will contribute our financial wisdom and strength to achieving the “30·60” goal.

Thank you.