

Yi Gang: Join hands in promoting green finance cooperation in Asia

Keynote speech by Mr Yi Gang, Governor of the People's Bank of China, at the Financing Carbon Neutrality Roundtable, organized by the Boao Forum for Asia Annual Conference, 22 April 2021.

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Distinguished guests, Ladies, and Gentlemen:

It is a great pleasure to virtually attend this Roundtable organized by BFA. Today, I would like to share with you my observations on three issues.

The first issue is mobilizing funds for a sustainable transition. Under the leadership of the CPC Central Committee and the State Council, the PBC has been working with relevant departments to improve the top-level design of green finance. More specifically, the PBC issued the taxonomy of green bonds and green credit in 2015 and 2018 respectively. And we are about to finish the revision of the Green Bond Endorsed Project Catalogue, which would remove fossil fuel projects. Financial institutions now are required to disclose the use of funds raised from green financial bonds in the inter-bank market and report the use and allocation of green loans. Going forward, the PBC plans to develop a mandatory disclosure system that would require all financial institutions and firms to follow unified disclosure standards. On top of that, the PBC has included green bonds and green credit into the eligible collateral of central bank lending facilities and would create tools to encourage financial institutions to finance emission reduction. We will step up support for carbon emission reduction by leveraging commercial bank ratings, deposit insurance rates, and a macro-prudential assessment framework.

We will also facilitate cross-border funds mobilization. On the one hand, we will formulate a common taxonomy. We are now working with our EU counterpart to harmonize taxonomies and plan to announce a common taxonomy this year. On the other hand, we will continue to open up the financial sector and facilitate the participation of international investors in China's green finance market. While fully implementing the pre-establishment national treatment plus a negative list approach, we will continue to expand foreign financial institutions' business scope and further promote the two-way opening-up of the capital market.

Next, let me say a few words about the second issue, managing climate-related financial risks. Compared with developed countries, China and other developing countries in Asia are still in the process of industrialization and urbanization. The current announced time between carbon peak and carbon neutrality in China is much shorter than that announced by developed countries in the west and the carbon curve is much steeper. Therefore, we need to double efforts and take action early on.

As the central bank, the PBC will assess the impact of climate change on financial stability and monetary policy. We are looking at the possibility of including climate change factors in the stress test of financial institutions. In foreign exchange reserve investment, we will further increase the share of green bonds, limit investment in carbon-intensive assets, and incorporate climate factors into our risk management framework.

Meanwhile, we will encourage financial institutions to get prepared as early as possible and proactively deal with the climate challenge. The PBC has guided pilot financial institutions to measure the carbon emission and climate risks of their projects. Besides, we are making quarterly green credit assessments of our banks and exploring the development of a national carbon accounting system and an evaluation system of green credit and green bond performance of financial institutions.

Having said that, we still have more work to be done. For example, some asset pricing can't reflect the negative externalities for the environment. This is possibly due to the inadequate information disclosure by firms and many industries not performing carbon pricing yet. Therefore, we will request financial institutions to pursue an orderly and gradual green transition, putting safety first, making energy conservation a priority, and speeding up transition after adequately considering the lifespan and depreciation of existing infrastructures.

The above two issues both call for international cooperation. There is broad consensus on the green transition in Asia. Major economies are already on the move. Japan has issued Green Bond Guidelines, South Korea launched the "Green New Deal" last year, and Indonesia, Malaysia, the Philippines, and Singapore all have announced emission reduction targets. Regional cooperation is also gaining momentum. Under the Executives' Meeting of East Asia and Pacific Central Banks (EMEAP), we are discussing the investment in local green bonds through Asian Bond Fund (ABF). Under ASEAN +3 Finance Process, we are studying green and sustainable infrastructure financing. Recently, ASEAN finance ministers and central bank governors decided to set up a Green Financial Classification Standards Committee to develop a multi-tier green financial classification system tailored to local needs. All this reflects the strong demand for green transition and huge potential for cooperation in Asia.

Strengthening international cooperation will promote green finance in Asia. Resumed under the Italian G20 Presidency this year, the G20 Sustainable Finance Study Group has been upgraded to a working group.

From our perspective, two major tasks require continuous efforts. First, we will continue to implement green investment principles. The Green Investment Principles for the Belt and Road, also known as GIP, encourages financial institutions to fully understand ESG (Environment, Social and Governance) risks, disclose environmental information, and leverage green financial instruments under the "Belt and Road" Initiative. 39 Chinese and foreign financial institutions have joined the GIP. The PBC will continue to encourage financial institutions to implement these principles, in particular, the assessment of environmental and climate risks, and information disclosure. Second, we will take a multipronged approach to strengthen the capacity building. The PBC will continue to help developing countries strengthen their capacity building in green finance to better support their green transition and cope with climate change. We also support multilateral development institutions in tapping their expertise to provide targeted capacity-building assistance to developing countries in need.

The financial system can play a positive role in supporting green transition and managing climate-related risks. Most Asian countries attach great importance to green finance and economic transition. We can work together to actively enhance communication and cooperation in green finance with other countries in the world, contribute Boao Wisdom to global sustainable development, and jointly achieve the goal of carbon peak and carbon neutrality.

Thank you!