



In Conversation with

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1. When and why did your institution join the NGFS?

As the Chinese economy transitions from rapid growth to high-quality development, green and sustainable development has become a key priority for China. In this context, recognizing the crucial role of mobilizing private financing in supporting a greener economy, the PBoC set up a green finance policy framework in 2016, which has proved quite successful in facilitating financial flows to green and sustainable economic activities.

As we exchanged experiences with international partners, many felt a strong need for cooperation at the global level, not only on alignment approaches such as taxonomies and disclosure requirements, but also on understanding, assessing and managing financial risks from climate change, which is an important task for central banks and supervisors. In particular, we believed it was important to raise awareness, develop methodologies and tools to capture climate-related financial risks, and enhance experience sharing among the stakeholders. That was why the PBoC worked together with other seven central banks and supervisors and launched the NGFS in December 2017.

It is exciting to see how much the NGFS has achieved over a short time span of six years, especially in terms of the analytical work it has delivered. Both members and institutions outside the membership have benefited greatly from the work done by the NGFS in our joint endeavour to help strengthening the global response to meet the goals of the Paris agreement.

2. Can you share with us the key elements of the People's Bank of China's climate strategy and how it fits into the broader national strategy in your jurisdiction?

China's overall goal is to peak carbon dioxide emissions before 2030 and achieve carbon neutrality by 2060, as announced in September 2020. At the national level, China has decided to improve fiscal, taxation, financial, investment, and pricing policies and systems of standards to accelerate the transition to green development. As part of the whole-of-government efforts, the PBoC has been improving the green finance policy system that we established in 2016, with the aim to support meeting the carbon peaking and carbon neutrality goal.

The green finance policy framework is designed to serve three purposes, underpinned by five pillars.

The three purposes refer to the three areas where we believe the financial system can play a significant role in supporting green development: resource allocation, risk management, and market pricing. **Five pillars** were established to operationalize the framework.

The **first pillar** is green taxonomies and standards. The aim is to define what activities are considered green, which we believe is crucial to provide certainty and avoid green-washing. In this regard, the PBoC updated the *Green Bond Endorsed Project Catalogue* first released in 2015, and encouraged the development of *Chinese Green Bond Principles*¹ issued in 2022.

The **second pillar** is disclosure requirements. The PBOC released the *Guideline on Environmental Information Disclosure for Financial Institutions*² in 2021, defining requirements on the form, frequency, qualitative and quantitative information of the disclosure.

Thirdly, we value the role of policy incentives in setting the stage for private green capital flows. One example is the structural monetary policy facility the PBoC launched in 2021, which mobilizes private capital to support key areas for emissions reduction, such as clean energy, energy conservation and environmental protection, as well as emissions reduction technologies.

Green financial products and market systems is **another pillar**. This is an area where we have seen substantial progress, in terms of the size of green financing (outstanding green lending reached 28 trillion yuan, and outstanding green bonds reached 1.8 trillion yuan at the end of the third quarter of 2023), and the increasingly rich set of green financial products available.

The **last pillar** is international cooperation, which we believe is essential for identifying and implementing key priorities that are most in need of coordination to achieve synergy, as the PBoC has been doing with our partners in multilateral platforms such as the NGFS and the G20. One example is improving comparability and interoperability of taxonomies to reduce the cost of cross-border green capital flows.

It is also worth noting that the PBoC is actively exploring transition finance. We are working on drafting transition taxonomies for four industries (coal-fired power, steel, construction, and agriculture). Transition finance products have also become increasingly diversified, with

¹ www.nafmii.org.cn/ggtz/gg/202207/P020220801631427094313.pdf (pages 8-17 in English).

² chinadevelopmentbrief.org/wp-content/uploads/2021/08/Guidelines-for-financial-institutions-environmental-information-disclosure.pdf.

innovative products such as transition bonds, and sustainability-linked bonds having been launched. We hope these efforts will promote an orderly transition of carbon-intensive industries as an important element in achieving carbon neutrality.

3. To which extent did the People's Bank of China leverage the work of the NGFS in its own domestic journey? Any concrete examples?

The PBoC supports the spirit of the 'coalition of the willing' to exchange experiences and learn from others on how to address the challenges of climate change for the financial system. We benefit enormously from close access to the experience of our peers, participating in early discussions around issues of relevance to China's green finance system while sharing our vision and experience.

One example is climate stress test. The PBoC conducted the first climate risk stress testing in 2021, with the reference to the carbon price scenarios from the NGFS. The climate risk stress test covered thermal power, steel and cement industry, and focused on how transition risks, specifically various levels of carbon price in China's national emissions trading scheme (ETS) affect the capital adequacy level of banks. Efforts were made to look into the experience and challenges in the testing, including in information disclosure, as part of our plan to improve the methodology, develop macroeconomic scenarios, and expand the coverage of industries for future stress tests.

4. One last word?

Climate change is an urgent and serious threat to the survival, development and security of mankind. It requires all countries to work together to deal with it. We would like to take this opportunity to commend the NGFS for its immense contribution to the greening of the financial system. We look forward to working with other NGFS members to make further progress, including on emerging issues such as nature and biodiversity related work, supporting an orderly transition, and stepping up capacity building.