CHINA’S GREEN FINANCE STRATEGY DURING THE 14TH FIVE-YEAR PLAN

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Dr Lu Li, China Economist, Bank of China London Research Centre

Webinar
Friday, 14 May 2021, 11:00 BST
Today’s Agenda

- 11:00 – 11:05  Chairman’s Introduction
- 11:05 – 11:10  Introduction From The Bank of China – Mr Wenjian Fang
- 11:10 – 11:25  Keynote Presentation – Dr Lu Li
- 11:25 – 11:40  Questions & Answers
- 11:40 – 11:45  Final Words – Dr Gerard Lyons
- 11:45  Close
An Introduction From The Bank of China

Mr Wenjian Fang
General Manager, Bank of China London Branch
Chief Executive Officer, Bank of China (UK) Limited
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China’s Green Finance Strategy During the 14th Five-Year Plan

Dr Lu Li
Bank of China London Research Centre
May 2021
Outline

01 China’s Climate Ambitions

02 Green Finance in China

03 Future Agenda
China’s Climate Ambitions

China Pledges to Be Carbon Neutral by 2060

China will scale up its intended Nationally Determined Contributions (to the Paris agreement) by adopting more vigorous policies and measures. We aim to have CO2 emissions peak before 2030 and achieve carbon neutrality before 2060.

Remarks made by President Xi Jinping at the 75th session of the UN General Assembly, 2020

By 2025
Reduction in Carbon Intensity

By 2030
CO2 Emissions Peak

By 2060
Carbon Neutrality
China Has Made Considerable Progress in Reducing Carbon Emission

China’s CO2 Intensity & Growth Contribution (%)

- Contribution to global GDP growth (%), RHS
- CO2 emission (kg per GDP), LHS

Share of Energy Consumption by Source (%)

- Coal
- Crude oil
- Natural gas
- Non-fossil energy
Green Finance in China

China’s Green Financial System

01. Scope of China’s green finance
- Climate Change
- Resource saving and efficiency
- Environment protection

02. Objectives of China’s Green Finance Development
- Increase financial returns and access to funding for green projects
- Decrease financial returns and access to funding for polluting projects
- Manage financial risks related to climate change

03. 5 Pillars of China’s Green Finance
- Taxonomies
- Information Disclosure
- Policy Incentives
- Financial Products Innovation
- International Cooperation
China’s Green Finance Development Policy Overview

**February 2012**
- Green Credit Guideline

**May 2015**
- China Green Bond Endorsed Project Catalogue

**August 2016**
- Guidelines for establishing the green financial system

**June 2017**
- Approval of establishing pilot zones of green finance reforms and innovation
- Guidelines for promoting investments in and financing for climate actions

**2021**
- Final measures for management and implementation of national carbon emission trading system

**March 2021**
- The 14th Five-Year Plan proposes to build a green development policy system

**February 2021**
- Guidelines for accelerating a comprehensive green, low-carbon and circular economic system

**December 2020**
- Interim measures for management and implementation of national carbon emission trading system

**October 2020**
- The 14th Five-Year Plan proposes to build a green development policy system
Green Finance in China

Green Loans: China was World’s Biggest Supplier of Green Loans in 2020

China’s Green Loans

China’s Non-Performing Loans Ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>Green Loans</th>
<th>Total Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>0.32%</td>
<td>1.00%</td>
</tr>
<tr>
<td>2014</td>
<td>0.20%</td>
<td>1.25%</td>
</tr>
<tr>
<td>2015</td>
<td>0.42%</td>
<td>1.67%</td>
</tr>
<tr>
<td>2016</td>
<td>0.49%</td>
<td>1.74%</td>
</tr>
<tr>
<td>2017</td>
<td>0.37%</td>
<td>1.74%</td>
</tr>
<tr>
<td>2018</td>
<td>0.42%</td>
<td>1.83%</td>
</tr>
<tr>
<td>2019</td>
<td>0.73%*</td>
<td>1.86%</td>
</tr>
</tbody>
</table>

*The increase in NPL for green loans in 2019 was mainly due to different statistical standard. 2013-2018 NPL ratios for green loans cover 21 major banks, while 2019 covers the whole banking sector.
Green Bonds: The Size of China’s Green Bond Market is Immense

China’s Domestic Green Bonds Issuance

China’s Labelled Green Bonds (RMBbn)

Aligned with both Chinese and CBI guidelines
Only aligned with Chinese definition
Green Finance in China

Emissions Trading: China Has Launched the World's Largest Carbon Market

Cumulative Trading Volume and Value of China’s Pilot Carbon Markets

- Shenzhen
- Guangdong
- Beijing
- Hubei
- Shanghai
- Tianjin
- Chongqing
- Fujian

Total trading value (RMBmn, RHS)
Outline

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China’s 14th Five-Year Plan: Key Climate and Energy Targets

14th Five-Year Plan to focus on quality of growth:
- Downplay GDP growth target and put more emphasis on quality

- CO2 Emissions Per Unit of GDP: Drop by 18%
- Energy Consumption Per Unit of GDP: Drop by 13.5%
- Forest Coverage Rate: Increase to 24.1%
- Share of Non-Fossil Energy in Total Energy Consumption: Increase to 20%
Green finance in China Has A Big Investment Gap to Fill

China’s Green Investment (RMB trillion)

![Chart showing China's green investment from 2017 to 2019, including average annual demand for the periods 2021-2030 and 2030-2060.]

- Building China’s green finance system would require an investment of around RMB2.2 trillion per annum during the period of 2021-2030 to achieve carbon emission peak and around RMB3.9 trillion per annum during the period of 2030-2060 to achieve carbon neutrality, which demonstrate a significant gap.

Source: China Green Finance Progress Report
## Facilitate capital to move towards greener sectors

- **Improve green finance standards**
  
  China’s 2021 green bond catalogue will be greener, excluding coal and other fossil fuels from the list of eligible projects.

- **Strengthen information disclosure**
  
  A mandatory information disclosure system will be established.

- **Build an incentive mechanism**
  
  PBOC plan to launch a support toolkit to provide low-cost funds for carbon emission reduction.

## Promote cross-border green capital flows

- **Formulate a common classification standard for green finance**
  
  Implement and standardise a green finance system in China in co-ordination with global partners, e.g. China and EU’s cooperation on green investment standards.

- **Expand the opening up of the financial industry to facilitate the participation of international investors in China’s green financial market**
  
  Expand the two-way opening of the capital market.
The time is shorter and the curve is much steeper for China to achieve carbon neutrality.

**At Central Bank Level**

- Assess the impact of climate change on financial stability and monetary policy.
- Plan to include climate factors in financial stress tests.
- Gradually incorporate climate risks into the macro-prudential policy framework.

**At financial institutions Level**

- Encouraged to make early preparations and actively respond to climate challenges.
- Explore the establishment of a nationwide carbon accounting system.
- Review green loan and green bond performance on a quarterly basis.
**Future Agenda**

### Enhance International Cooperation

#### Regional cooperation in Asia

Asia has broad consensus on the green transformation of the economy

- Major economies such as China, South Korea, Japan, Indonesia, the Philippines, Singapore, etc. have set CO₂ emissions mitigation target.

- Cooperation mechanism between ASEAN and China, Japan and South Korea - green and sustainable infrastructure investment

#### Global cooperation

- The G20 Sustainable Finance Study Group was elevated to Sustainable Finance Working Group

- COP26: opportunity to enhance UK and China’s green finance collaboration

- US-China Joint Statement Addressing the Climate Crisis

- Green Investment Principles (GIP): Continue the good progress on the GIP for the Belt and Road by expanding the number of signatories.
THANK YOU

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Final Words

Dr Gerard Lyons
Non-Executive Director
Bank of China (UK) Limited
Thank You For Listening

Forthcoming Events

• Mon, 17 May (15:30-16:15)  Sequence Risk: The Biggest Investment Risk You've Never Heard Of?
• Tue, 18 May (10:00-10:45)  Financial Centres Of The World 2021: Focus On Moscow
• Wed, 19 May (15:00-15:45)  AI Made Inventions And AI Created Works In Europe. What Does This Have To Do With My Business?
• Thu, 20 May (09:00-10:30)  UK-China-Europe Relationships & Co-operation After Brexit: Rewiring The Connections

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