

**Speech at the Opening Ceremony of the Ecological Finance
Forum in 2014**

Deputy Governor Pan Gongsheng

Dear guests:

Good evening! First of all, on behalf of the People's Bank of China and the China Society for Finance and Banking, I would like to extend warm congratulation to the establishment of the Centre for Eco-financial Studies of the Renmin University of China, and express heart-felt welcome and gratitude to all of you for participating in the Eco-Finance Forum sponsored by the Renmin University and the China Society for Finance and Banking.

Although China has witnessed decades of rapid growth, it has paid a big price in terms of environmental damage. As a result, resource constraints have become more salient, along with grave environmental pollution and ecological degradation. The carrying capacity of natural resources and ecological environment is approaching its limit, and a huge cost will be incurred to remedy the damaged environment.

Environmental issues have become one of the major constraints affecting China's sustainable economic development. Moreover, its severity has gone far beyond the economic sphere to the point of endangering the health and safety of people. There has been an increasing aspiration for fresh air, clean water, a pleasant climate, and a beautiful environment. The blue sky during the APEC meetings in Beijing has left us with good memories, and the joys of the people in those days reflect the urgent desire and real demand of the people. To strengthen environmental protection and build a beautiful China is not only the state's development strategy, but also a national consensus, closely related to the vital interests for each of us.

As a market-oriented institutional arrangement, finance plays an important role in promoting environmental protection and ecological construction. In fact, the financial sector has been involved in all areas of environmental protection and ecological construction, and both the breadth and depth of integration between them are expanding. Internationally, the Equator Principles (EPs) advocated by the International Finance Corporation (IFC) have been widely recognized by the global banking industry. Emission trading market, carbon emission trading market, and the carbon financial market are developing rapidly, while green bonds, green securities, environment funds, as well as other innovative financial products have emerged in large volumes.

However, in terms of financial policy-making, the awareness of the green finance is a gradual process based on China's current economic and social development stage.

After the turn of the century, in line with changes in the industrial policies, financial

policy-makers have gradually adopted restrictive measures against highly-polluting and energy-intensive industries. Efforts were made to restrict loans and investments to polluting industries, to support energy conservation and emission reduction, and to eliminate backward production capacity, through means such as aggregate control, specific industry loan limit, “single vote veto system” in environmental protection, and etc. The PBC has incorporated the administrative law enforcement information of the environmental protection authorities into the credit reference system, to be used by banks as an important factor in offering loans. Besides, the PBC and other relevant departments have actively explored green financial policies including green bonds, market-based carbon emission, and other positive incentive mechanisms.

At present, China has shown unprecedented determination in strengthening environmental and ecological protection. This will be translated into higher requirements and provide a broader space for eco-financial studies and practices. To this end, I would like to propose the following suggestions.

The first is to strengthen basic research. The ecological finance is not only a major practical issue, but also a burgeoning field of research, with profound theoretical and policy implications. Therefore, policy makers and academia should strengthen cooperation on research, and provide pertinent guidance in stepping up financial support for environmental protection and ecological construction. The PBC attaches importance to this work. Recently, the Research Bureau of the PBC and the Sustainable Finance Project of United Nations Environment Programme (UNEP) have jointly established a working group on green finance. Led by Dr. Ma Jun, the chief economist of the PBC Research Bureau, and together with a number of institutions, a research paper has been completed. This is a relatively comprehensive and high-quality paper on ecological financial policy in China.

The second is to improve the financial market mechanisms and the financial policy system. Efforts should be made to establish a market-based emission reduction mechanism and promote the development of a domestic emission trading market, carbon emission trading market, and carbon financial market, as so to build a market mechanism that increases cost for higher emission, encourages emission reduction, and provides returns for investment and financing on emission reduction. At the policy level, continual efforts will be made to implement a restrictive financial policy and strictly control lending to highly-polluting and energy-intensive industries. Meanwhile, positive incentive financial policies will be improved to engage financial institutions and enterprises in the development of green finance and green industries.

The third is to improve the relevant supporting mechanisms. While providing greater fiscal support, the government can use a mix of measures including tax incentive, interest subsidy, risk compensation and etc, to guide more capital into the field of environmental protection. Reform on pricing of resources and energy will be deepened to improve the profitability and cash flow of ecological construction

projects and promote the sustainability of financial support for ecological construction. Efforts will be accelerated to establish an ecology-friendly legal system which can effectively constrain carbon emission and promote green development, circular development and low-carbon development, so as to strengthen the legal obligation of market participants in environmental protection and expand the market space for ecological finance.

The fourth is to strengthen international exchange and cooperation. Addressing climate change, treating air pollution, and reducing carbon emission are high on the international agenda. As forerunners in ecological finance, developed countries have accumulated a wide variety of experiences and good practices in this regard. We need to strengthen international exchange and cooperation to adopt best practices on ecological finance.

The PBC will work with the financial industry, academia, and policy advisory bodies both at home and abroad, to promote the concept of ecological finance, develop ecological financial policies, and spread good ecological financial practices.

To conclude my remarks, I wish the Ecological Finance Forum a great success!

Thank you!