

A GREEN INTEREST RATE FOR THE EUROZONE?

An introduction

Webinar - 17 March 2025



SUSTAINABLE
FINANCE
LAB

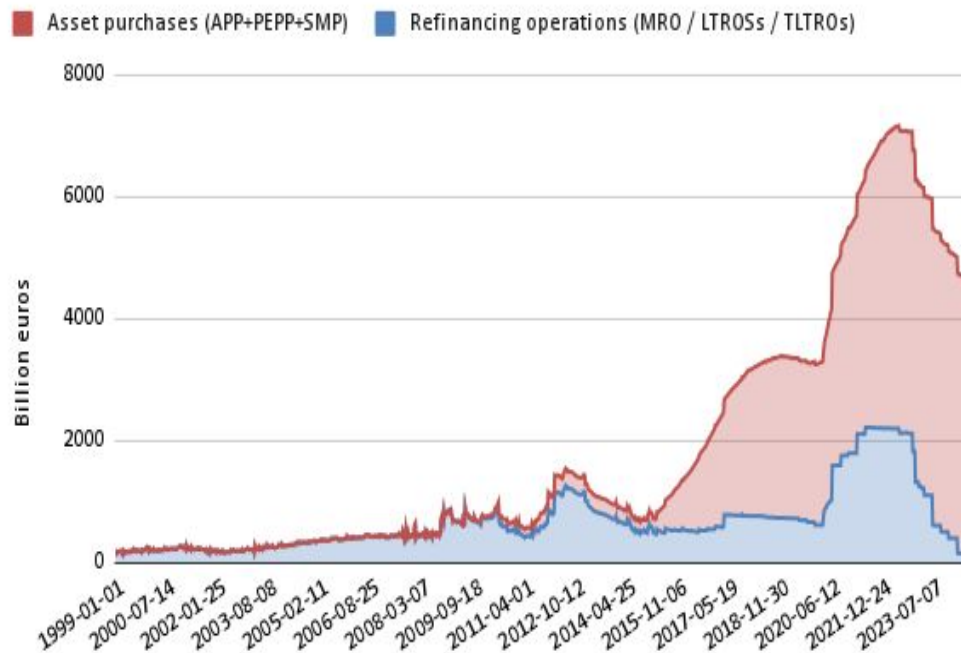




CONTEXT (1/2)

- ❖ During 2014-2022 the ECB has developed massive loans to banks (TLTROs) to stimulate the economy when inflation was too low
- ❖ Under TLTRO III, the interest rate was as low as -1% under conditions that banks sufficiently lent to the real economy
- ❖ They peaked at 2.2 trillion in 2021, but were fully repaid in Dec 2024...
- ❖ ... but ECB will introduce “structural refinancing operations” with climate criteria in the future

Volume of monetary transactions - 1999-2024





SUSTAINABLE
FINANCE
LAB

GREEN REFINANCING OPERATIONS ARE ON THE HORIZON

In March 2024, the ECB announced that it will aim to include climate criteria in its future **structural refinancing operations**. The instruments will be deployed once excess liquidity has been absorbed by the banking sector.

As to including climate-related considerations in our future operational framework, to the extent that different framework configurations are equally conducive to the effective implementation of the monetary policy stance, the framework will also facilitate the ECB's pursuit of its secondary objective without prejudice to the primary objective of price stability. In this context, we will aim to incorporate climate change-related considerations into our future structural monetary policy operations (longer-term refinancing operations and a portfolio of securities).³



SUSTAINABLE
FINANCE
LAB

CONTEXT (2/2)

- ❖ In 2020-21 the ECB opened a discussion to explore its possible role to support the EU's efforts against climate change.
- ❖ In this context, the concept of Green TLTROs was first proposed in 2020 by Positive Money and Sustainable Finance Lab.
- ❖ The proposal was initially met with encouragement from Christine Lagarde, however green TLTRO was eventually not included in the ECB's action plan
- ❖ Main reason was the lack of **reliable data** on green lending

Targeting a sustainable recovery with Green TLTROs

Jens van 't Klooster
Rens van Tilburg

September 2020



TIME FOR RE-ASSESSING GREEN TLTROS

- ❖ Since 2024, banks have started to report on their Taxonomy alignment, so data is finally flowing in.
- ❖ The recent energy driven inflation episode have revealed a dilemma for monetary policy:
 - A faster decarbonation of the energy sector would have supported the ECB's price stability objective thanks to lower and more stable energy prices
 - raising rates does not directly address the root cause of energy shocks, but makes capital-intensive investments (renewables) more expensive
 - The “one size fits all” monetary policy framework seems ill-equipped against supply shocks and risks provoking “stop and go” effects on the transition



Green interest rate: the proposal

- ❖ Key features of a green TLTRO programme:
 - Banks can only borrow up to the volume of their Taxonomy-aligned lending, at say -100bps
 - In addition, banks could be rewarded by an additional “bonus” (eg. -50bps) based on green lending performance
- ❖ Other parameters (collateral, maturity) to be calibrated according to the monetary policy stance
- ❖ The green interest rate would be set relative to the main ECB rates, so it’s a policy for all season
- ❖ To put into perspectives, ECB research found a greenium of 14bps already priced in by markets (Altavilla et al. 2024). Meanwhile the Draghi report suggested that we need to lower the cost of capital by 250bps to finance 4% GDP investments

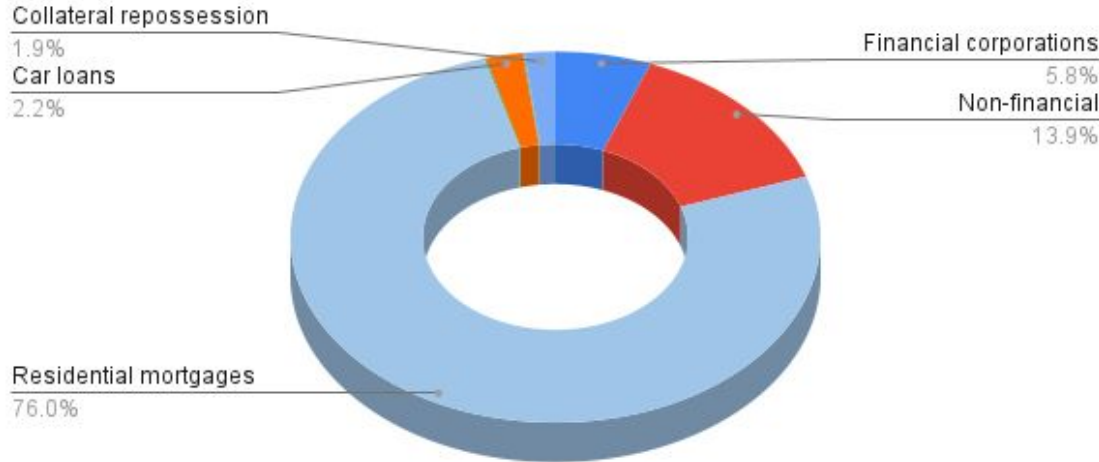


HOW BIG WILL GREEN TLTRO BE?

EU TAXONOMY DATA

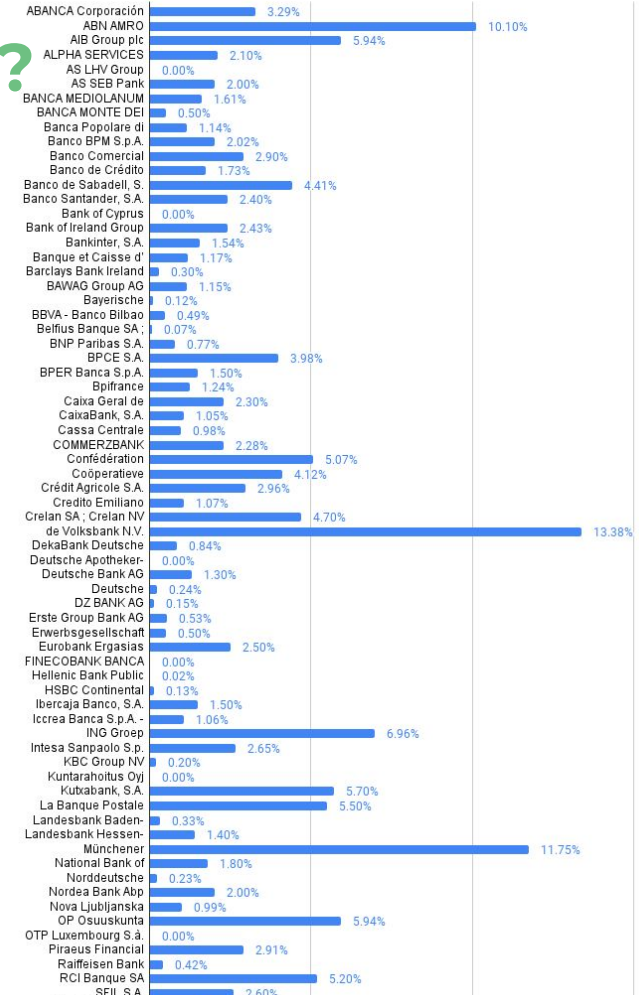
Type of taxonomy-aligned assets held by Eurozone banks

(sample of 73 banks under ECB supervision)



Green Asset Ratio of Eurozone Banks

Sample of 73 EU Banks under ECB supervision



HOW BIG WILL GREEN TLTRO BE?

- ❖ As of end-2023, banks held around 400bn of taxo-aligned green assets.
- ❖ If we exclude mortgages and financial corporations (as under the TLTRO), this leaves us with around 65 billion of eligible assets.
- ❖ However banks can only borrow against newly originated loans. This would leave around **13 billions FY 2023** (assuming a 5 year maturity on corporate loans, as observed in our sample).
- ❖ By contrast banks currently borrow 25 billions from the ECB (MRO and LTROs).
- ❖ Narrowing the scope of green TLTRO to Taxonomy segments that have most disinflationary potential would further reduce the volume of lending

CONCLUSION

- ❖ The data availability issue is being resolved (however the Omnibus review creates uncertainty)
- ❖ The quantitative volumes identified so far are within range of feasibility.
- ❖ To compensate for the future (plausible) shrinkage of corporates falling under CSRD, voluntary reporting should be further encouraged (ie. be made eligible to green TLTROs)
- ❖ Speeding up renewable energy is a key precondition for EU's strategic autonomy and price stability. But stronger political legitimacy is needed for the ECB to adopt more *proactive* green monetary policy instruments (rather than purely risk-based policies).

Thank you!



SUSTAINABLE
FINANCE
LAB

Stan Jourdan
s.m.j.jourdan@uu.nl