

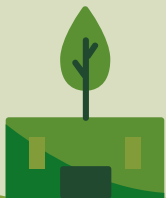


# Green Gold Rush

## Green Rates for a Green Future

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# The Green Deal and its goals

Reach climate neutrality by 2050, with specific goals to be reached also by 2030, and 2040

Specific investments in low-carbon energy sources

Promote a socially just green transition focussing on the wellbeing and stability of workers in a progressively greener future labor market

Implementation of carbon pricing mechanisms to foster the clean transition

Support for regions with the highest vulnerability and exposure to climate change catastrophes

Carry out a reform of the electricity market to ensure higher energy stability, resilience, and strategic autonomy amidst geopolitical challenges



# Achievements so far



## Total investment of euros

1.8 trillion Euros invested in the Green Deal, coupled with the Next-Generation EU and the REPower EU programs



## Cohesion Policy

Whose main goal is to be a hallmark for climate initiatives such as infrastructure and eco-friendly urban transport to energy conservation and renewable power sources



## State Aid

The Commission approved more than 400 billion euros since 2019 for energy measures unrelated to crises (renewable energy, energy storage and infrastructure)



# ECB and monetary policy rates

## Price stability mandate

The ECB discharges the exclusive competence of setting the main monetary policy rates in the eurozone:

- MRO;
- DFR;
- MLFR.

## Transmission mechanism

When deciding the interest corridor, the ECB is bearing an impact on the inter-banking market, which in turn shapes the borrowing costs faced by consumers, investors, and firms;

## Inflation targeting

The ECB strives to achieve an inflation rate below or close to a medium-run benchmark of 2%.



# ECB and the green transition

## Climate risk assessment

The ECB assesses both **physical** and **transition risks**, embedding them in comprehensive stress tests. Thus, eurozone's central banking authority seeks to regularly estimate the impact exerted by extreme climatic events and by a paradigmatic shift towards a low-carbon-intensity economy on market sentiments and the financial system at large;

## Green bonds

The ECB has incorporated green bonds into one of its main asset purchasing programmes (the CSPP pillar of the APP), seeking to inject liquidity in the green sector and thus to sustain environmentally friendly investments;



# Greening monetary policy rates

## Towards a dualised interest rate regime

- In its basic form, the new *green rate* represents a preferential refi rate conceded to eurozone banking actors whose lending operations are targeted predominantly at green investments and projects;
- In particular, situated conveniently below the established MRO, the new GRO (the green refi) would be granted to the banks whose portfolio structure is aligned with the EU taxonomy for sustainable activities; banks would therefore be required to submit regular compliance reports audited by independent third parties under the supervisory coordination of the SSM and the member states' central banks;
- To better differentiated among competing green borrowers, the GRO can be diversified along tiered lending targets (the greener the bank, the lower the GRO down to a certain point).





“The cost of investment must be higher for players in the fossil-fuel sector. We need a green interest rate and a brown interest rate”

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–Emmanuel Macron





Lower interest rates for green projects would make renewable projects more affordable and competitive;

By coupling the lower interest rates with clear regulations, there might be a limitation for greenwashing;

Shift in green growth and competitiveness due to higher investment in R&D and green innovation.

## ADVANTAGES



## POTENTIAL DRAWBACKS

Risk of over-allocation of capital in green but financially sub-optimal projects;

Potential shortcomings in the ex-ante greenness assessment leading to non-green projects benefiting from preferential rates and possible bureaucratic inefficiencies;

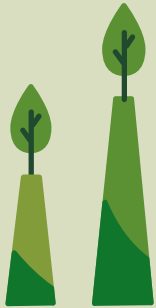
Asset bubbles in the green sector due to inflated asset prices and over-valuation.





# Concluding remarks

- Since environmental action constitutes a fundamentally collective endeavour, for the green rates regime to function properly and effectively, the Eurozone would need to forge political consensus and abide by strict enforcement mechanisms.
- This implies harmonisation of banking practices in line with the EU's regulatory frameworks, as well as a general cross-national coordination.



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