

Frontiers of climate and nature conference

ECB strategy and planetary boundaries

Jens van 't Klooster 24.10.2022



ECB, Anthropocene & planetary boundaries

Today's inflation is driven by unforeseen, but dramatic misallocation of capital

2021 review incorporates climate and broader secondary objectives into the ECB strategy

How can the ECB maintain price stability in the face of planetary boundaries?



The European Central Bank's strategy, environmental policy and the new inflation:
A case for interest rate differentiation

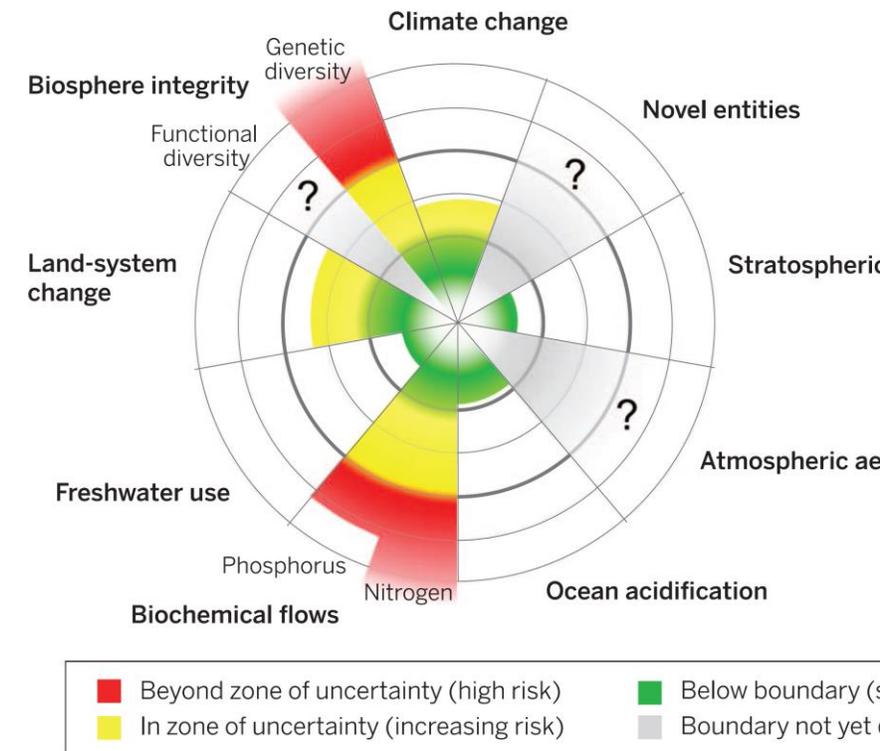
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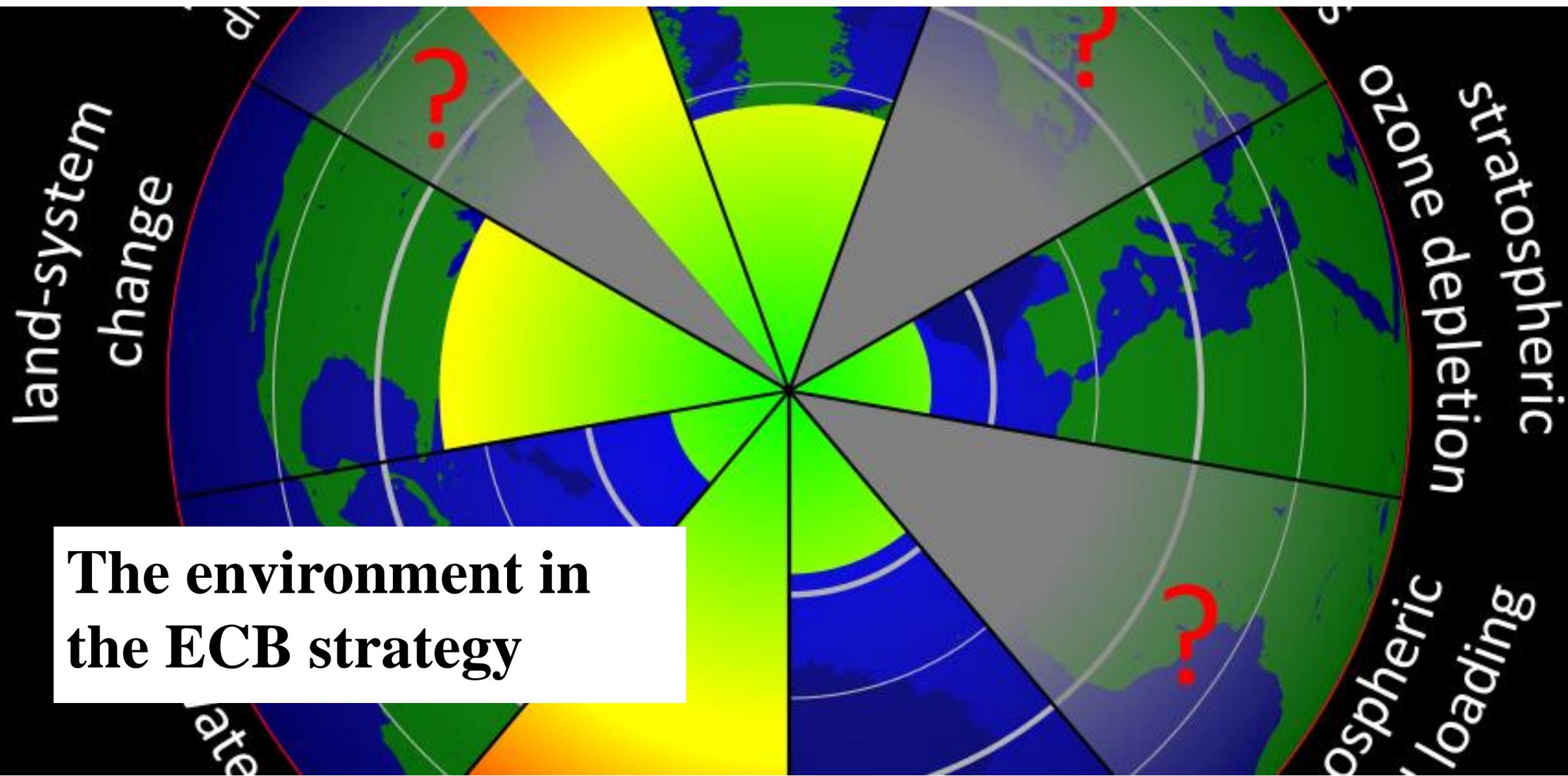


Going beyond 2022 climate measures

Nature is a crucial precondition of price stability, but interactions remain a matter of deep uncertainty

- **Agenda-setting** ECB and Eurosystem should develop a position on a nature-positive allocation of capital
- Support the envisaged allocation of capital, through (i) communication and coordination (ii) design of monetary policy operations





**The environment in
the ECB strategy**

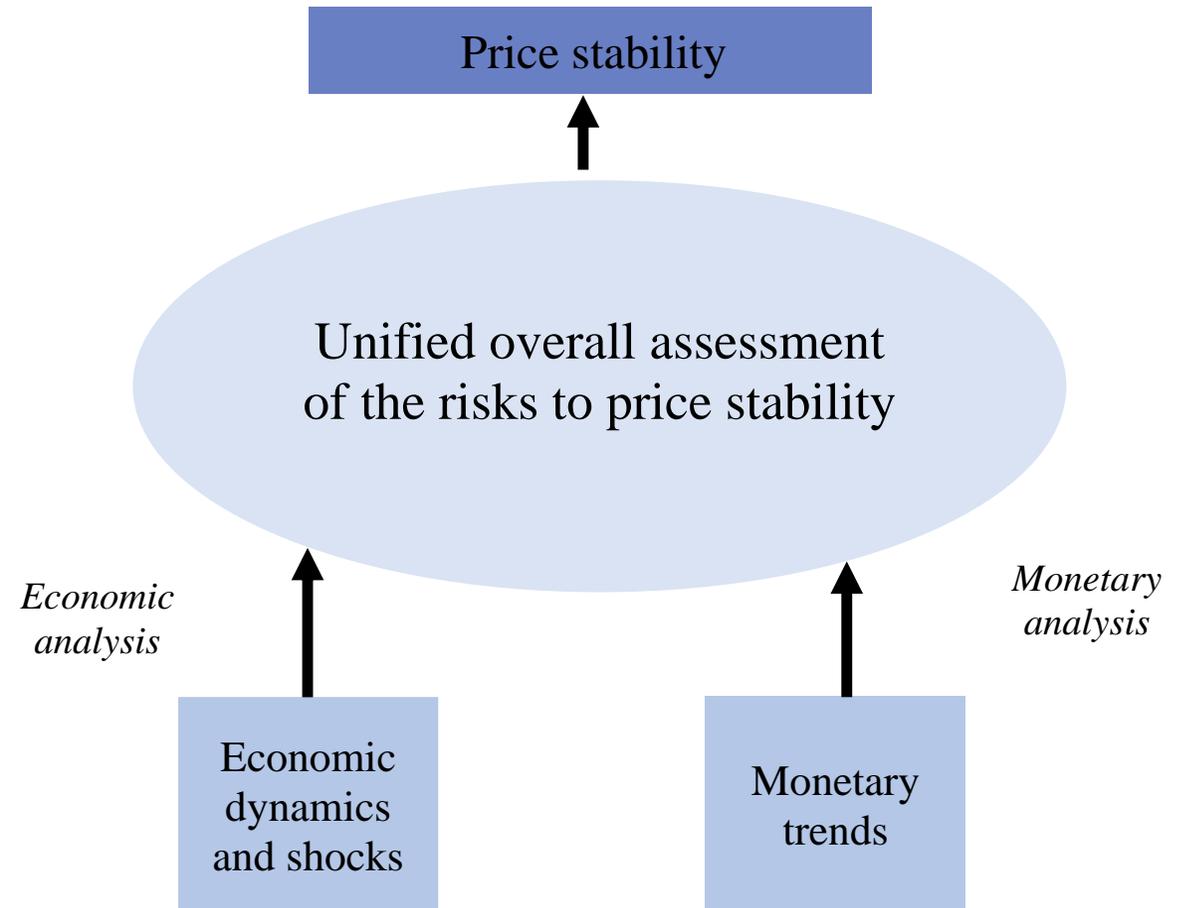
The 1998 and 2003 ECB strategy

Simple strategy

- One objective
- One instrument

Analysis and deliberation
focused on interest rates

No clear view on broader
economic and monetary
preconditions (nature,
energy, security etc)

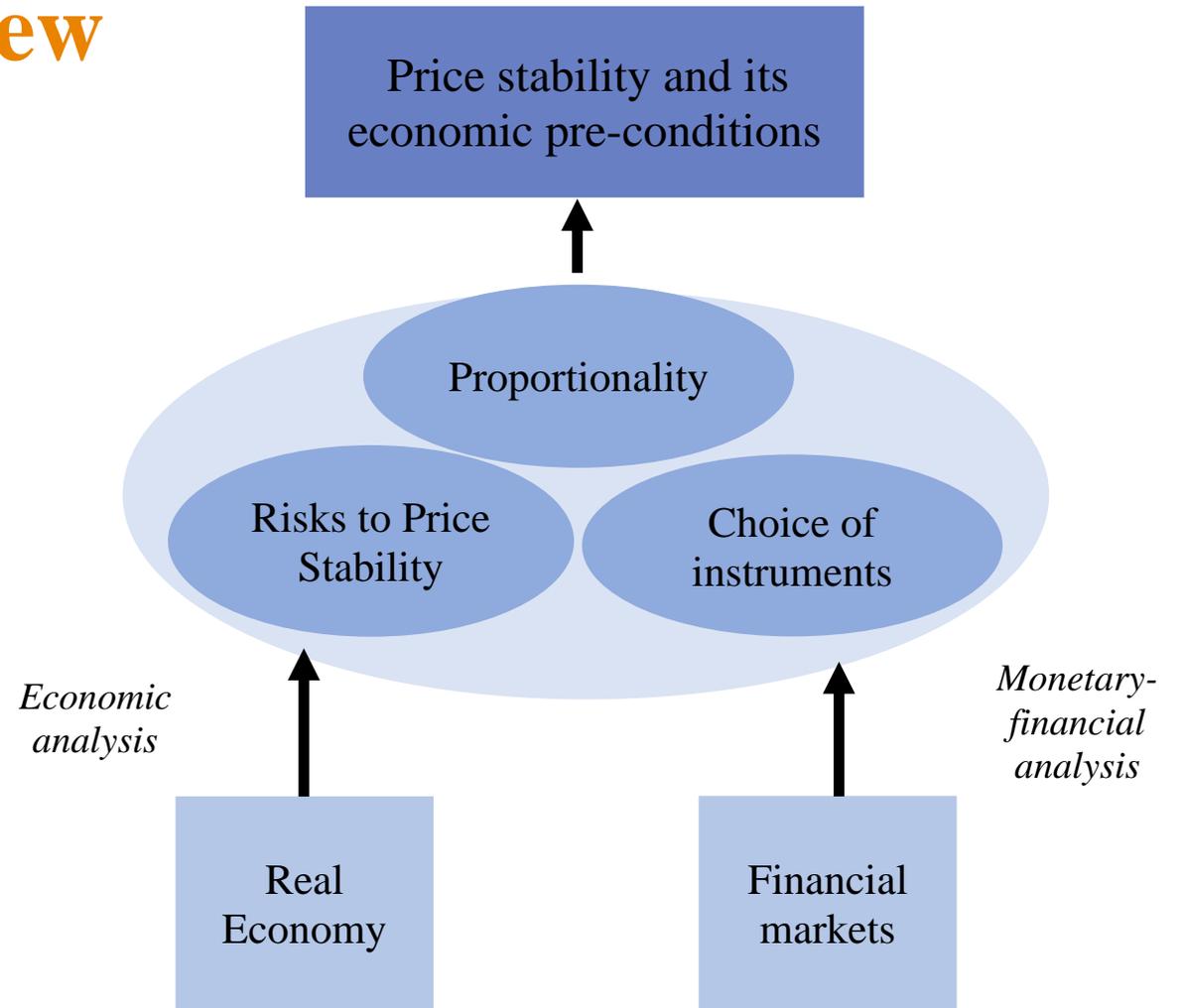


The ECB after the 2021 review

Strategy that goes beyond two to five year consumer price inflation; longer term monetary and financial stability

- Climate change and the carbon transition taken into account as economic pre-condition of price stability
- EU climate agenda as a part of secondary objectives

Action plan: climate-related measures focused on capital markets





Avoiding nature-related disruption of EU economy: Dutch nitrogen crisis

Nitrogen deposition threat to biodiversity

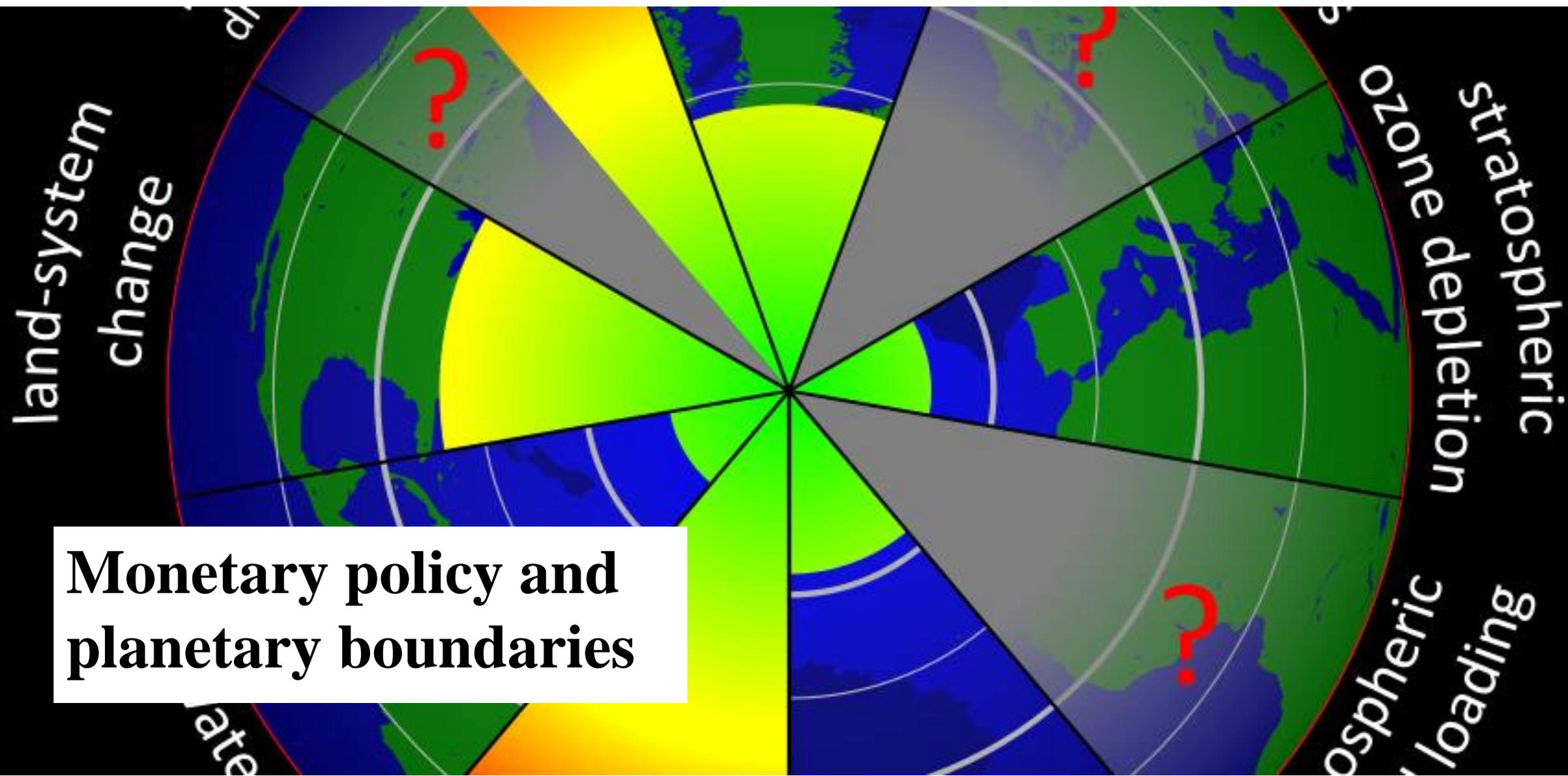
In May 2019, Dutch judges struck down existing permitting rules for nitrogen-emissions.

Large exposures of Dutch banks (Van Toor 2020), in particular Rabobank

2022 nitrogen reduction target leads Rabobank to mark down portfolio

€30 bn government bailout







Environmental impact of monetary policy

Emissions bias of CSPP and collateral framework is driven by two factors (Schnabel 2021)

- Allocation of investment over sectors
- Concentration of ghg emissions in specific sectors

ECB 2022 measures address this bias, but:

- (i) bias extends beyond ghg emissions
- (ii) similar biases holds true for bank lending generally
- (iii) reducing that bias is not sufficient to ensure long-term price stability



Calculation based on
Eurostat
ENV_AC_AINAH_R2
and NAMA_10_A10.

Greenhouse gases

	Share of GDP	Carbon dioxide (%emissions)	Emission intensity factor	Methane (%emissions)	Emission intensity factor
Agriculture, forestry and fishing	1,78%	4,22%	x2,4	57,20%	x32
Manufacturing	16,72%	1,50%	x0,01	26,91%	x1,6
Construction	5,34%	2,67%	x0,5	0,06%	x0,01
Other industry (Mining and quarrying, electricity, gas, etc supply, water)	3,23%	82,23%	x25	7,84%	x2.4



Calculation based on
Eurostat
ENV_AC_AINAH_R2
and NAMA_10_A10.

Nitrogen emissions

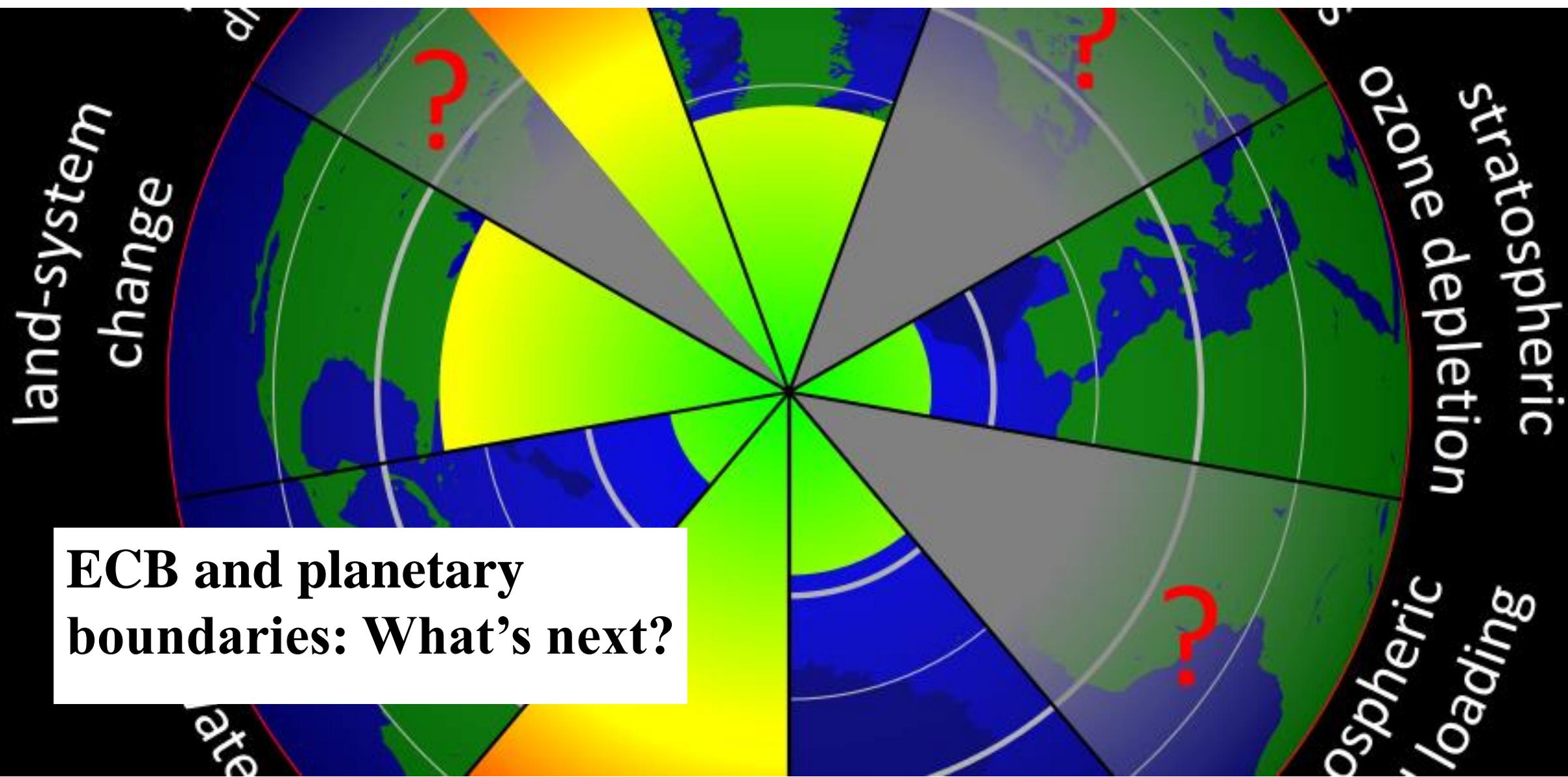
	Share of GDP	Nitrogen oxides (%emissions)	Emission intensity factor	Ammonia (%emissions)	Emission intensity factor
Agriculture, forestry and fishing	1,78%	14,93%	x8,4	96,45%	x54
Manufacturing	16,72%	1,09%	x0,07	1,26%	x0,07
Construction	5,34%	2,43%	x0,5	0,07%	x0,01
Other industry (Mining and quarrying; Electricity, gas, etc supply; Water)	3,23%	74,20%	x23	2,02%	x0,62



Eurostat GDP data
(NAMA_10_A10) and ECB
Statistical warehouse data
(MFI Loans to NFCs by
NACE economy activity)

Bank lending to polluting sectors

	Size (as % of EA GDP real economy)	Bank loans (% of credit to EA real economy)	Bank credit factor
Agriculture, forestry and fishing	1,7%	4,2%	x2,4
Manufacturing	17,3%	14,2%	x0,8
Construction	5,4%	7,4%	x1,4
Other industry	3,2%	5,7%	x1,8

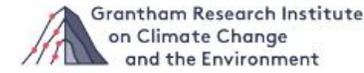


ECB and planetary boundaries: What's next?



What's next?

- **Agenda-setting:** ECB and Eurosystem should develop a position on the allocation of capital in nature-intensive industries compatible with long-term economic stability
- **Deliberation:** Developing that vision should be part of a broader democratic process of EU and member state decision-making
- **Action:** ECB should broaden toolbox to support the envisaged allocation of capital, through interest differentiation on monetary policy operations



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