



EUROPEAN CENTRAL BANK

EUROSYSTEM

From green neglect to green dominance?

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The obligation to act according to the Treaties

Primary mandate: Art. 127(1) TFEU

“The primary objective of the European System of Central Banks ... shall be to maintain price stability.”

Secondary mandate: Art. 127(1) TFEU

“Without prejudice to the objective of price stability, the ESCB shall support the general economic policies in the Union with a view to contributing to the achievement of the objectives of the Union as laid down in Article 3 of the Treaty on European Union.”

Integration obligation: Art. 11 TFEU

Environmental protection requirements must be integrated into the definition and implementation of the Union's policies and activities, in particular with a view to promoting sustainable development.

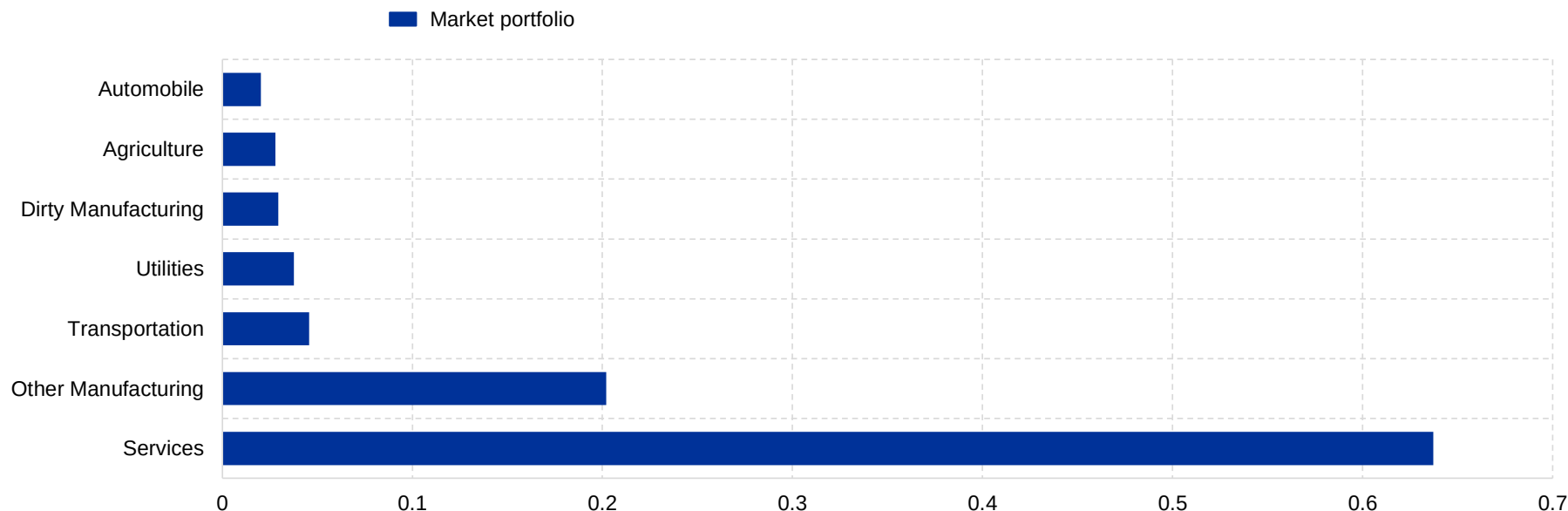
“Principle of an open market economy with free competition, favouring an efficient allocation of resources”

Often equated with “**market neutrality**”.

What does market neutrality mean in the presence of **externalities** (= market failures), which imply that market outcomes do not favour an efficient allocation of resources?

Papoutsis, Piazzesi, and Schneider (2021)

Market portfolio



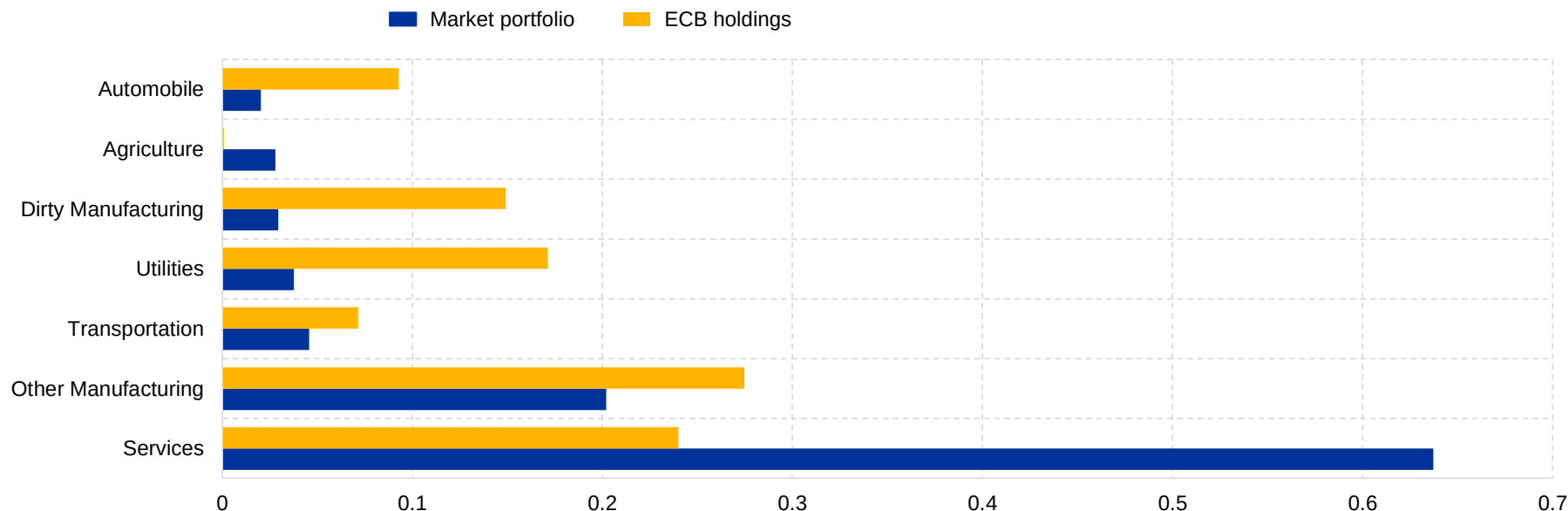
Source: Papoutsis, Piazzesi, Schneider (2021).

Data sources: ECB (SHS & CSDB), Eurostat, Orbis.

Notes: Market shares measured as capital income by sector. "Dirty Manufacturing" = oil & coke, chemicals, basic metals, nonmetallic minerals. Other Manufacturing = food, beverages, tobacco, textiles, leather, wood, paper, pharmaceuticals, electronics, electrical equipment, machinery, furniture, construction, and other manufacturing.

Papoutsis, Piazzesi, and Schneider (2021)

Market portfolio vs. ECB holdings



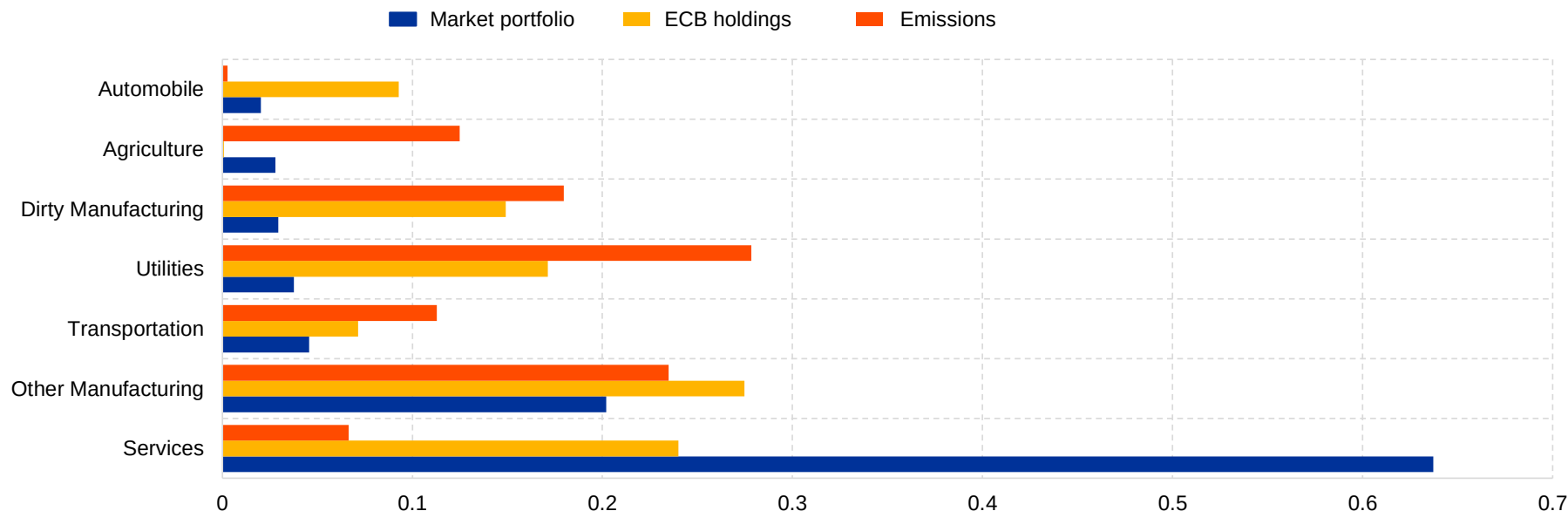
Source: Papoutsis, Piazzesi, Schneider (2021).

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Papoutsis, Piazzesi, and Schneider (2021)

Market portfolio vs. ECB holdings vs. sectoral emission intensity



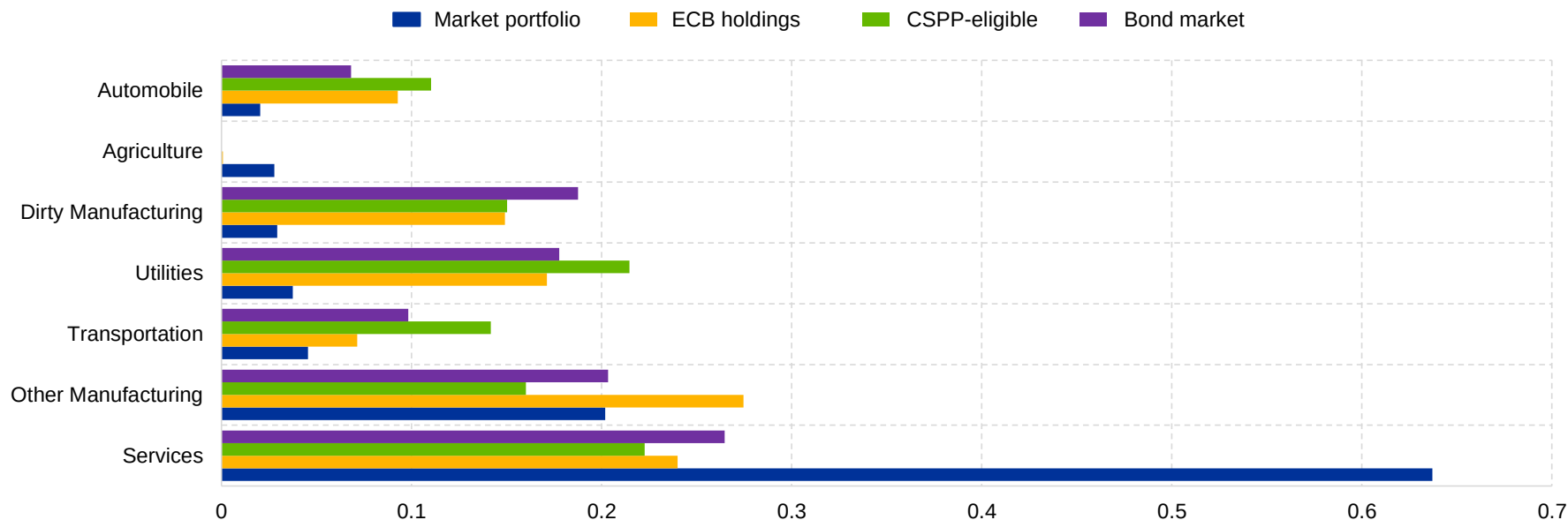
Source: Papoutsis, Piazzesi, Schneider (2021).

Data sources: ECB (SHS & CSDB), Eurostat, Orbis.

Notes: Market shares measured as capital income by sector. Emission intensity measured by Scope 1 air emissions by sector. "Dirty Manufacturing" = oil & coke, chemicals, basic metals, nonmetallic minerals. Other Manufacturing = food, beverages, tobacco, textiles, leather, wood, paper, pharmaceuticals, electronics, electrical equipment, machinery, furniture, construction, and other manufacturing.

Papoutsi, Piazzesi, and Schneider (2021)

Market portfolio vs. ECB holdings vs. CSPP eligibility vs. bond market



Source: Papoutsi, Piazzesi, Schneider (2021).

Data sources: ECB (SHS & CSDB), Eurostat, Orbis.

Notes: Market shares measured as capital income by sector. "Dirty Manufacturing" = oil & coke, chemicals, basic metals, nonmetallic minerals. Other Manufacturing = food, beverages, tobacco, textiles, leather, wood, paper, pharmaceuticals, electronics, electrical equipment, machinery, furniture, construction, and other manufacturing.

“Without prejudice to the objective of price stability”

Climate-related actions must not impede the smooth functioning of monetary policy.

Limits to the “greening” of private asset purchases

- Universe of green bonds still relatively small
- Strict exclusion policies reduce the purchasable space
 - ➔ Transition problem, catalyst role of central banks

Exit from “green” monetary policy

- If monetary policy needs to be tightened to achieve price stability for reasons unrelated to climate change, we must not hesitate to act.

Summary

ECB private bond portfolio is biased towards high-emission firms

- This stands in conflict to the obligation to act
- ECB should work towards reducing this bias

ECB action space is limited

- E.g. small universe of green bonds, lack of reliable data and classifications, lack of “green” ratings,... → **Catalyst role** of central banks
- Price stability has to take precedence

How to preserve legitimacy

- Fulfil the obligation to act while clearly sticking to the primary mandate of price stability