



EUROPEAN CENTRAL BANK
EUROSYSTEM

ECB-PUBLIC

Christine LAGARDE
President

Ms Henrike Hahn
Mr Ernest Urtasun
Mr Rasmus Andresen
Members of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 17 March 2023

L/CL/23/65

Re: Your letter (QZ-039)

Honourable Members of the European Parliament, dear Ms Hahn, Mr Urtasun and Mr Andresen,

Thank you for your letter, which was passed on to me by Ms Irene Tinagli, Chair of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 13 December 2022.

The European Central Bank (ECB) is convinced that all policymakers need to take appropriate measures within their respective mandates and areas of competence to address climate change. At the same time, let me recall that parliaments and governments bear the primary responsibility for addressing climate change and have more powerful tools to do so than central banks. While the current higher interest rates may affect the cost of capital for energy projects, ensuring price stability over the medium term and anchoring inflation expectations is the best contribution monetary policy can make to sustainable economic growth and job creation. This, in turn, supports investment dynamics, including the substantial investments in renewable energy and energy efficiency that are needed for the green transition.

During the monetary policy strategy review that was concluded in 2021, the Governing Council of the ECB reflected on a broad range of possible instruments that could be used, within the ECB's mandate, to incorporate climate change considerations into the policy framework. This also included reflections on refinancing operations with a green target, whose operationalisation may involve, but is not necessarily limited to, using a dual instrument rate system.¹ As highlighted in my reply to a previous letter from you, although ongoing

¹ See Section 7.3.5, Climate change and monetary policy in the euro area, *Occasional Paper Series*, No 271, ECB, September 2021, available at: <https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op271~36775d43c8.en.pdf>

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regulatory developments can be expected to improve data availability over time, significant challenges persist specifically in relation to data coverage and quality, as well as verification processes and capabilities.²

Regarding your second question, the measures announced by the ECB to integrate climate change considerations into its monetary policy framework at this stage do not foresee the use of the information to be made available by Pillar 3 disclosures on environmental, social and governance (ESG) risks in accordance with Article 449(a) of the Capital Requirements Regulation (CRR)³. The ECB recognises that the future publication of new qualitative and quantitative data on the climate-related risk exposures of counterparties under Article 449(a) of the CRR, including on their real estate portfolios and their alignment with reference transition scenarios, will improve information on banks' exposures to physical and transition risks. The ECB will analyse the new data as they become available before any measure based on them can be considered for monetary policy purposes. In particular, it will assess the potential impact of their use in monetary policy measures in terms of level playing field issues. However, the envisaged disclosures come with two main caveats. First, the disclosure requirements currently only apply to large institutions with securities traded on a regulated market of any EU Member State. Even though the coverage of the CRR might be extended as an outcome of the ongoing CRR review, these requirements currently exclude relevant monetary policy operation counterparties that do not fall under the scope of Article 449(a) of the CRR. Second, among the many metrics provided by the Pillar 3 disclosures on ESG risks, the green asset ratio (GAR) and the banking book taxonomy alignment ratio (BTAR) will be particularly useful in providing aggregate measures of the progress banks make towards EU taxonomy alignment. However, reliance on such metrics will require a fine balance between the more focused scope of the GAR on exposure to large companies and the possible lower quality of data underpinning the BTAR, which are provided on a best-effort basis. That said, the ECB is actively following all climate-related regulatory initiatives and will continue assessing whether and how these might be useful for its monetary policy framework in the future.

With regard to your third question, as explained above, we continue to monitor progress made in the definition of green targeting criteria, including changes to regulatory requirements for banks, and in the availability of corporate sustainability information. Despite the significant progress made in recent years, the study of the potential uses of the data, which is necessary for the implementation of refinancing operations with a green target, is still under way. What is more, targeted longer-term refinancing operations (TLTROs) have been very effective in supporting lending to the economy during a phase of monetary policy easing. However, in the current environment of high inflationary pressures, conducting TLTRO programmes would conflict with our primary objective to maintain price stability.

² See also *Letter from the ECB President to Mr Rasmus Andresen and Mr Ernest Urtasun, MEPs*, on climate change, ECB, 16 September 2022, available at: https://www.ecb.europa.eu/pub/pdf/other/ecb.mepletter220916_andresen_urtasun_2~1a352d74d2.en.pdf?e7076d2455f43792893ee1316ced7467.

³ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1).

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In conclusion, let me assure you that the ECB is firmly committed to doing its part to address climate change within its mandate. As you well know, the ECB has already taken concrete measures, such as the tilting of our corporate bond holdings, the further incorporation of climate risk aspects into the collateral framework, and the climate-related disclosure requirement for collateral, which will contribute to the greening of Eurosystem credit operations. The ECB's commitment within its mandate involves configuring its monetary policy instruments in a way that is most conducive to mitigating the impact of climate change. We will continue to explore all viable options to green our monetary policy even further.

Yours sincerely,

[signed]

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