



Memo on monetary policy and climate change, biodiversity loss

1. Democratic legitimacy

It is, indeed, elected politicians who are primarily responsible for addressing climate change. Independent central banks are not to take their place but the ECB and the national central banks are **to support the economic policies in the EU with a view to contributing to the Union's objectives**, several of which clearly relate to sustainability issues, including: sustainable development, a high level of protection and improvement of the quality of the environment, solidarity between generations. With the Union's politicians (European Council,¹ Commission² and Parliament³) clearly choosing an active pro-climate stance, the Eurosystem is Treaty-bound to support these preferences so long as this can be matched with providing price stability, its primary objective.⁴ For the need to include the issue of climate change in the ECB's monetary policy's **primary mandate**, without relying on the secondary objective, I refer to Isabel Schnabel's speeches last summer,⁵ and to Frank Elderson in his recent Blogpost.⁶ (Further arguments for greening

¹ See the [conclusions of the 12-13 December 2019 meeting](#) ("EU leaders endorsed the objective of making the EU climate-neutral by 2050, in line with the Paris Agreement. They underlined that the transition to climate neutrality will bring significant opportunities for economic growth, markets, jobs and technological development"); and the [conclusions of the meeting on 10-11 December 2020](#) ("To meet the objective of a climate-neutral EU by 2050 in line with the objectives of the Paris Agreement, the EU needs to increase its ambition for the coming decade and update its climate and energy policy framework. To that end, the European Council endorses a binding EU target of a net domestic reduction of at least 55% in greenhouse gas emissions by 2030 compared to 1990. It calls on the co-legislators to reflect this new target in the European Climate Law proposal and to adopt the latter swiftly").

² See its [Action Plan on the Green Deal](#), 11.12.2019 (COM(2019) 640 final), and its proposal for a [European Climate Law](#), 4.3.2020 (COM(2020) 80 final).

³ See the [European Parliament resolution of 12 February 2020 on the European Central Bank Annual Report for 2018](#).

⁴ In so far as the 'democracy argument' relates to a green taxonomy, reference is made to Box 1 below.

⁵ Isabel Schnabel, [Never waste a crisis: COVID-19, climate change and monetary policy](#), speech at a virtual roundtable on "Sustainable Crisis Responses in Europe" organised by the INSPIRE research network, 17 July 2020; Isabel Schnabel, [When markets fail – the need for collective action in tackling climate change](#), speech at the European Sustainable Finance Summit, Frankfurt am Main, 28 September 2020

the ECB's function relate to [Article 11 TFEU](#) (environmental consistency)⁷ and [Article 216 \(2\) TFEU](#)⁸ (the binding nature of the Paris Agreement)⁹.

2. Market neutrality 'principle'

The second issue I would like to mention is the reference to the principle of "market neutrality" which is cited in inverted commas as *there is no such principle* in the EU treaties. The "principle of an open market economy with free competition, favouring an efficient allocation of resources" is. Acting in accordance with [this principle](#), an injunction of EU law, requires positive action towards all three elements: open markets, free competition and an efficient source allocation. It is clear that the current economic system provides none of the three in terms of sustainable finance. Therefore, I conclude that the Eurosystem is Treaty-bound, also on this basis, to green its policies.¹⁰

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Box 1 – Overview of EU green taxonomy legislation

- ❑ [Taxonomy Regulation](#): Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088, OJ L 198/13, 22.6.2020;
- ❑ [Sustainable Finance Disclosure Regulation](#) (SFDR): Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector OJ L 317/1, 9.12.2019;
- ❑ [Non-financial Reporting Directive](#) (NFRD): [Directive 2014/95/EU](#) of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups OJ L 330/1, 15.11.2014;
- ❑ [Benchmark Regulation](#) & [Benchmark Regulation Amendment](#): Regulation (EU) 2019/2089 of the European Parliament and of the Council of 27 November 2019 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks OJ L 317/17, 9.12.2019.

⁶ Frank Elderson, [Greening monetary policy](#), THE ECB BLOG 13 February 2021.

⁷ 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.

⁸ Agreements concluded by the Union are binding upon the institutions of the Union and on its Member States.

⁹ [Paris Agreement](#), 12 December 2015, [OJ L 282/4, 19.10.2016, p. 4](#). It includes these obligations: "Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels (...)" (Article 2(1)(a) and "Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development." (Article 2(1)(c).

¹⁰ This memo does not engage with the ECB's prudential supervision function where, on the basis of the risk element central in the Single Rulebook, it has laudably issued its [Guide on climate-related and environmental risks Supervisory expectations relating to risk management and disclosure](#), November 2020.