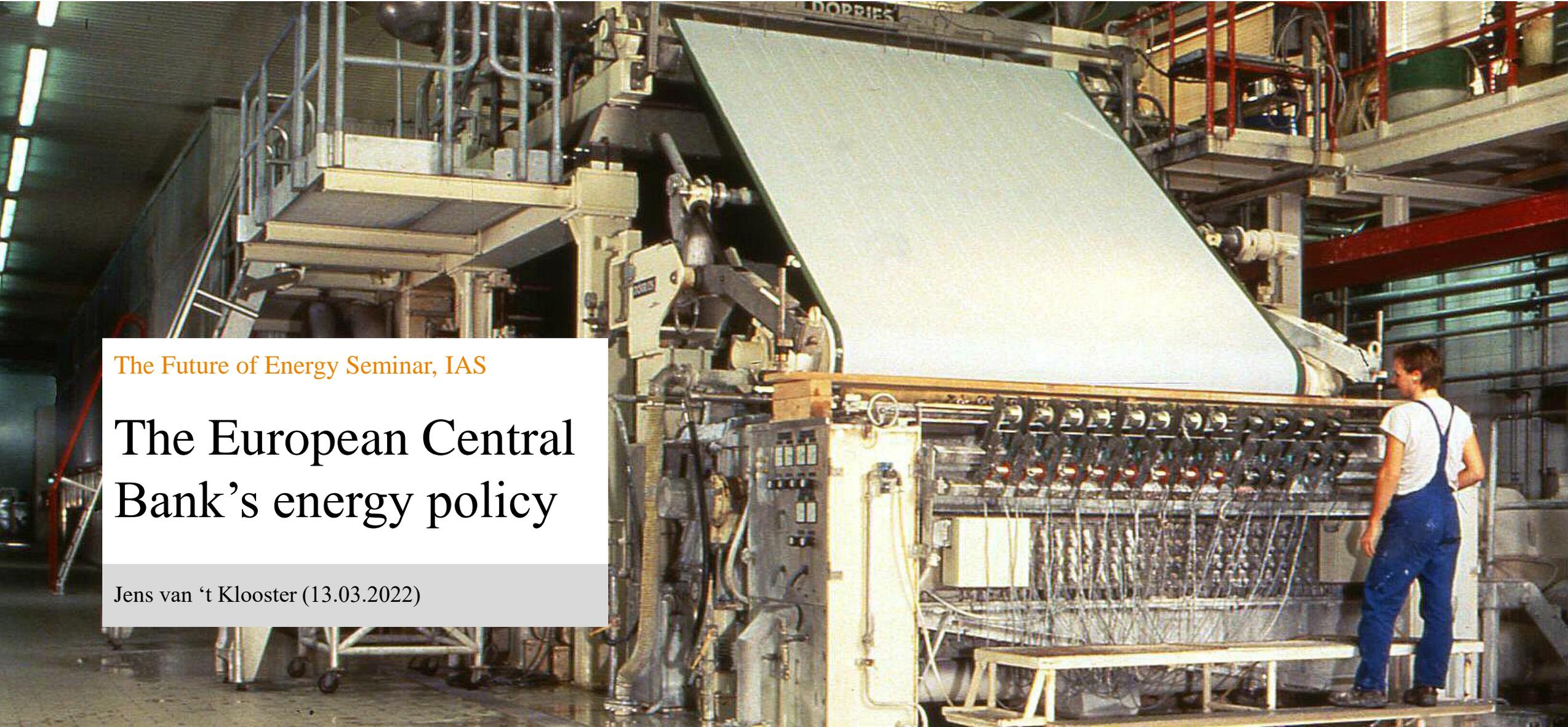




The Future of Energy Seminar, IAS

# The European Central Bank's energy policy

Jens van 't Klooster (13.03.2022)



## Introduction

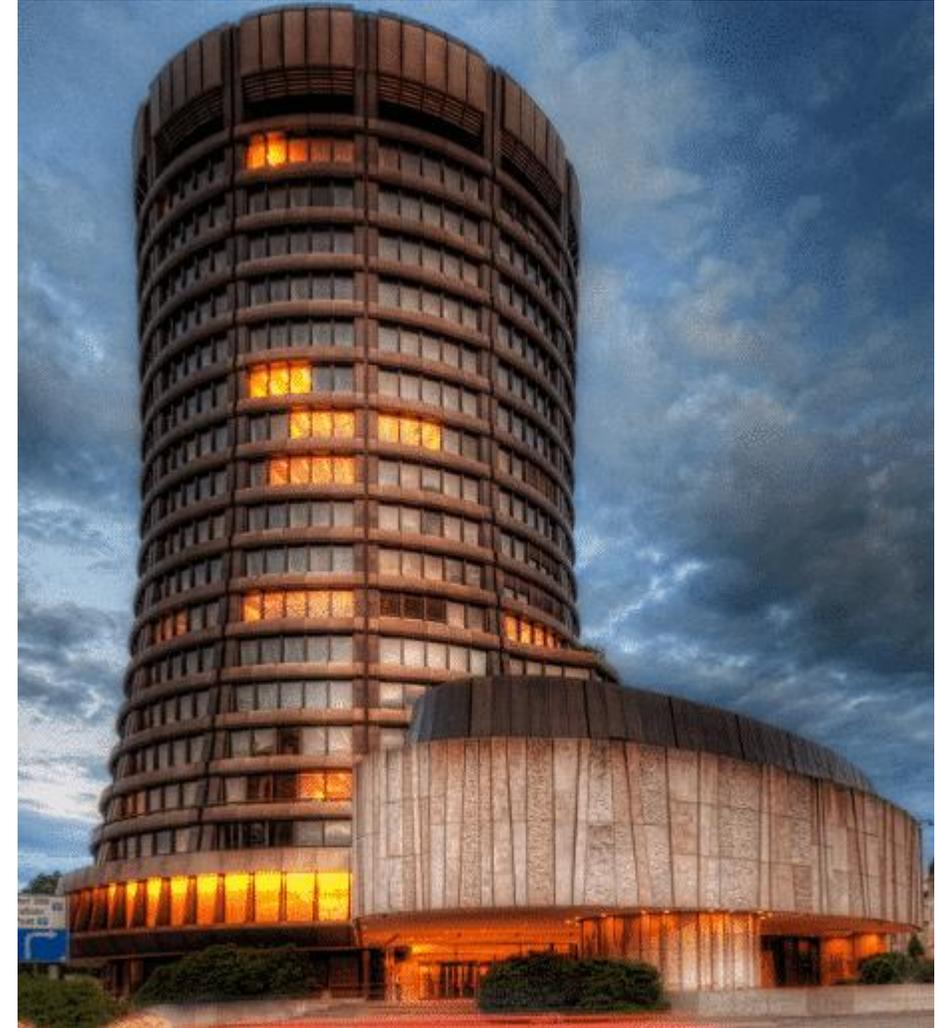
20th century paradigm shifts were democratic

Today's monetary-financial institutions

- Isolated from democracy
- Narrow mandates

How does this shape economic policy?

What new constitutional structures are needed?



## Old paradigm

- 1) Central banks and supervisors outside democratic politics
- 2) Allocation of credit via the profit motive
  - Banking governance
  - Monetary policy
- 3) Clear separation between financial & economic policy



Jacques Delors

## Today: The ECB's energy policy

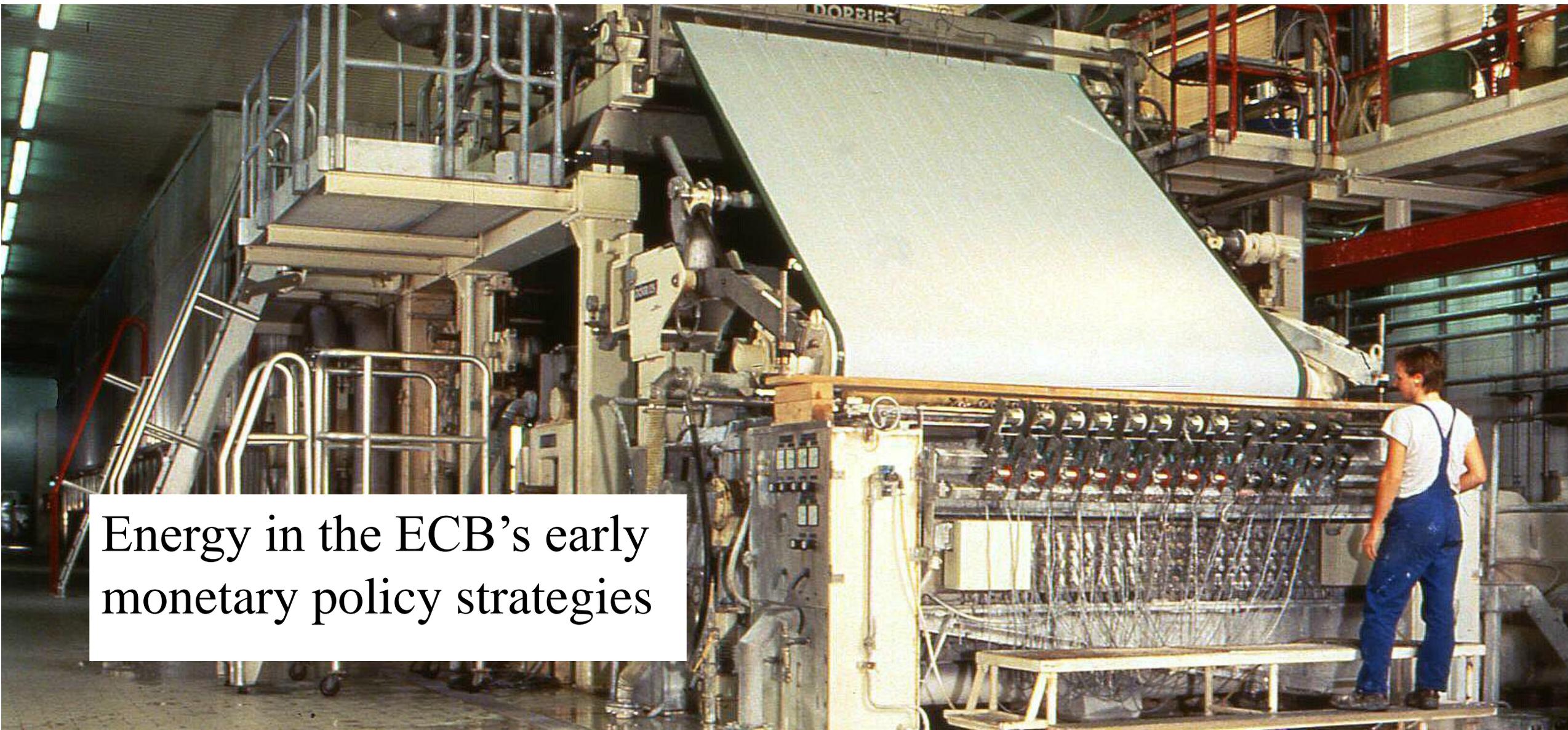
Central bankers pushing new policy while avoiding politicization:

- Public money: Monetary financing
- Private money: Credit guidance & industrial policy

Strategic ambiguity: Policies justified not only with reference to new paradigm but also the old

Academic research: Analysing policy and its inconsistencies



A photograph of a large industrial machine, possibly a textile mill, in a factory setting. The machine is complex, with many rollers and gears. A worker in blue overalls is standing on a platform to the right, looking at the machine. The machine has a large, light-colored, triangular-shaped component. The name 'DORRIES' is visible on the machine. The scene is lit with industrial lights, and there are metal railings and stairs in the background.

Energy in the ECB's early  
monetary policy strategies

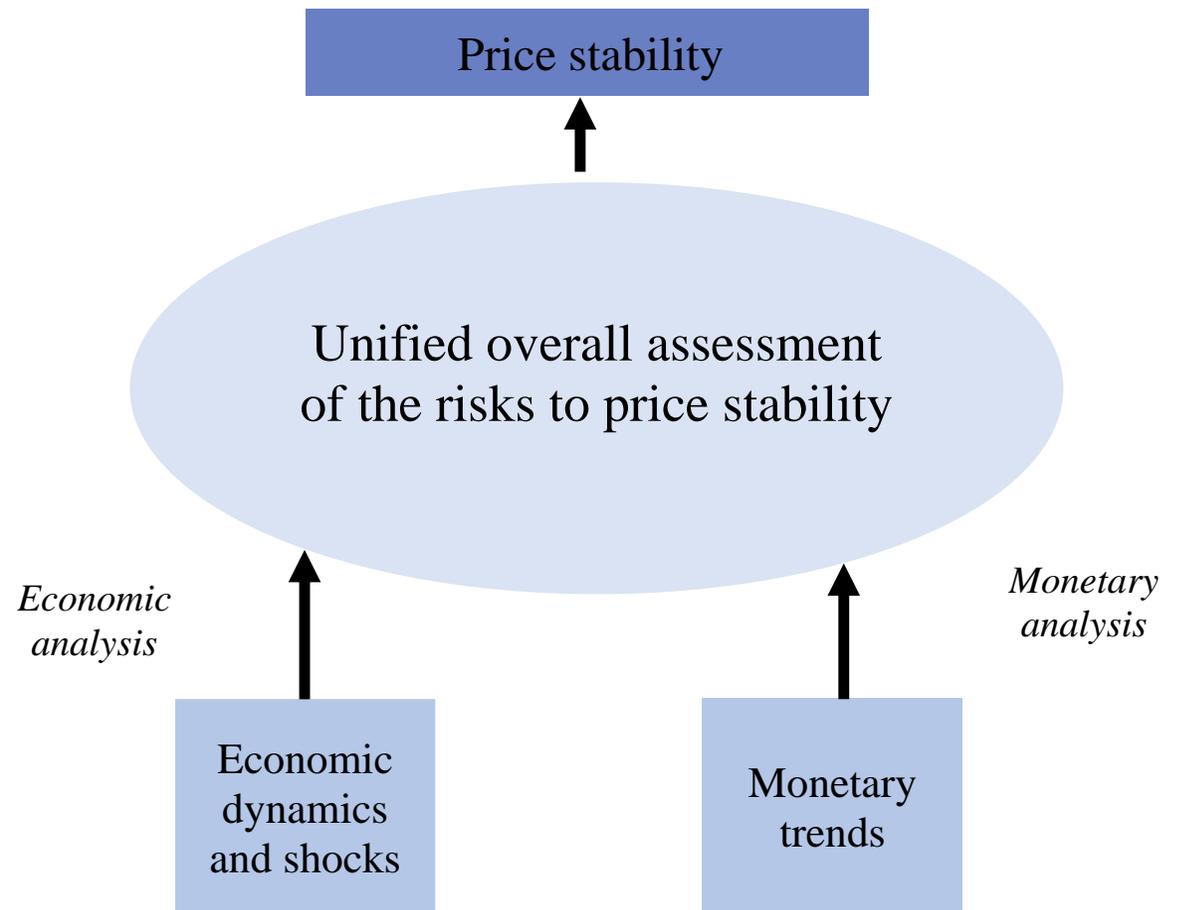
## The 1998 and 2003 ECB strategy

### Simple strategy

- One objective
- One instrument

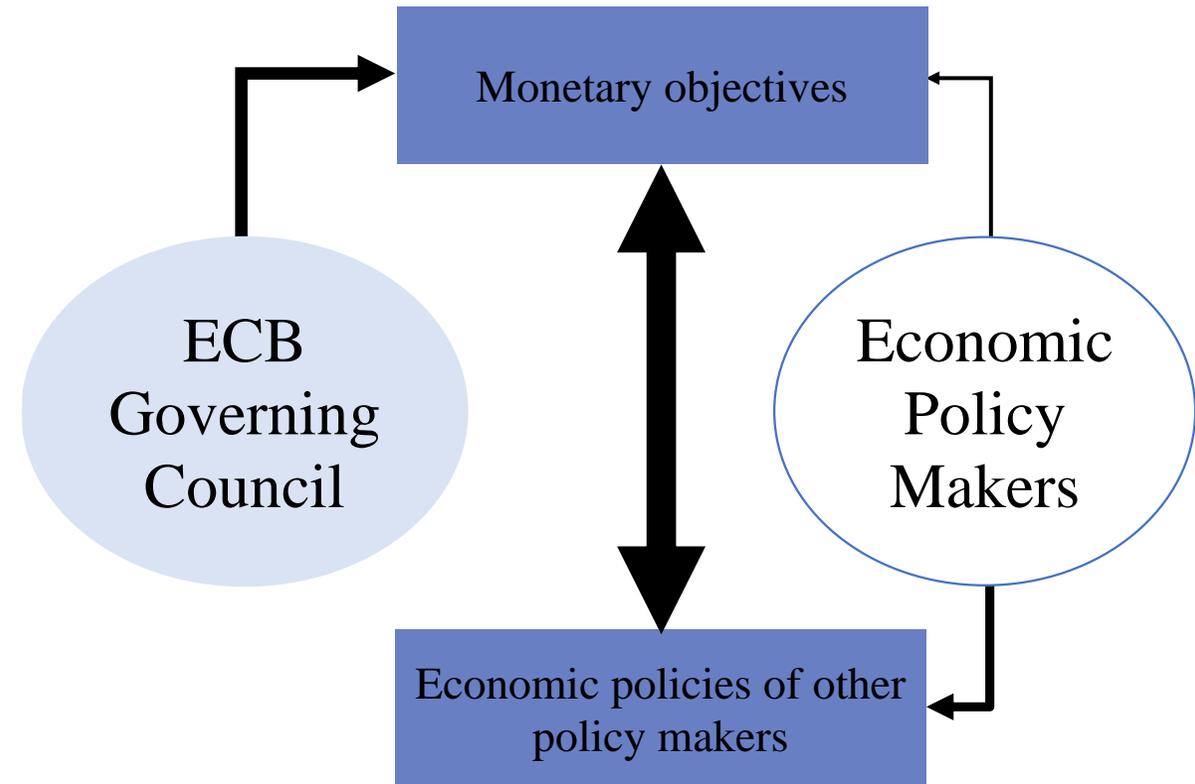
Analysis and deliberation focused on interest rates

No broader economic and monetary considerations (nature, energy, security etc)



## Clear separation between monetary policy and economic policy

“monetary policy needs to be tailored to the nature of the shocks hitting the economy, and their size, source and potential for propagation” (ECB 2003)



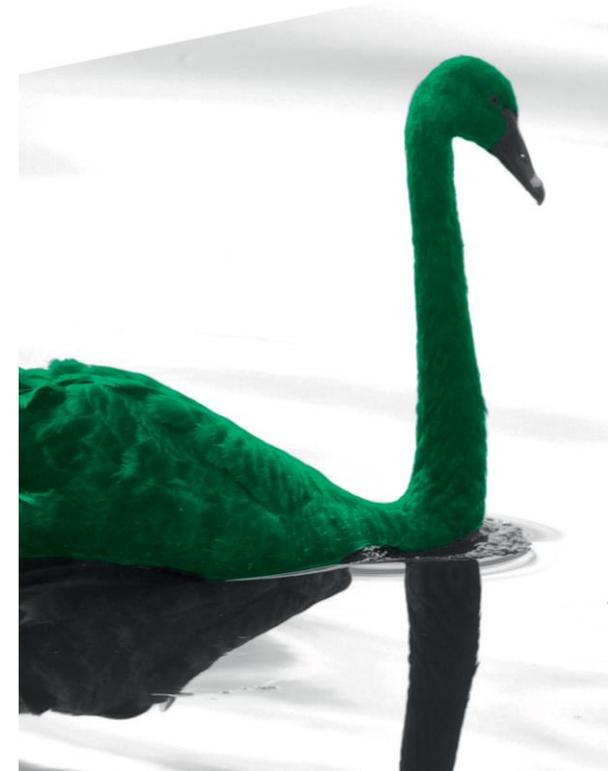
## 2015: Climate & environment as a source of economic instability

### Financial stability

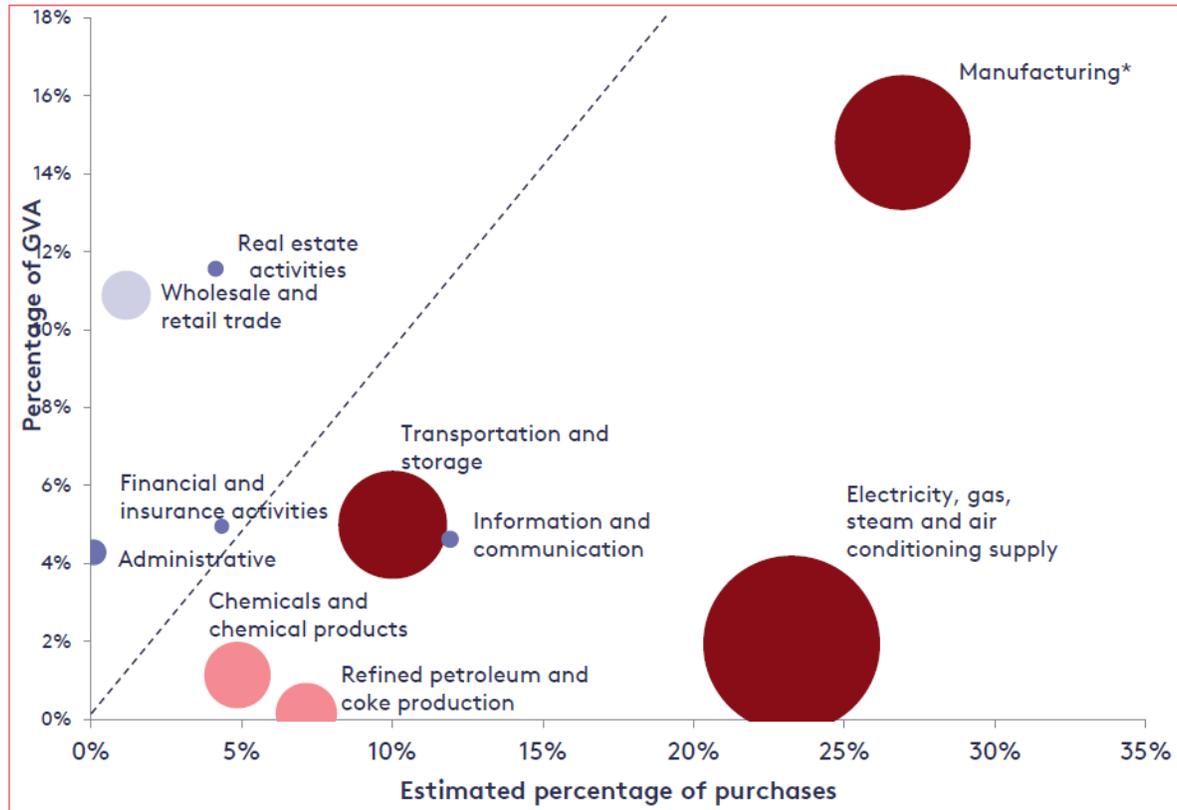
- Physical risk
- Transition risk
- Litigation risk

### Macroeconomic stability

- Physical shocks
- Transition shocks



# ECB 2015 CSPP programme



(Matikainen, Campiglio and Zenghelis 2017; Van't Klooster & Fontan 2020)



## Bank lending to emission intensive sectors

	% of EA GDP real economy	Bank loans % EA real economy)	Bank credit factor	CO2 intensity
<b>Agriculture</b>	1,7%	4,2%	<b>x2,4</b>	4,22%
<b>Other industry (Mining and quarrying, electricity, gas, steam and air conditioning supply, water supply)</b>	3,2%	5,7%	<b>x1,8</b>	<b>82,23%</b>
<b>Construction</b>	5,4%	7,4%	<b>x1,4</b>	2,67%



# Constitutional problem: post-2008 authorization gaps

## **The ECB faces new challenges, but lacks clear guidance in its mandate**

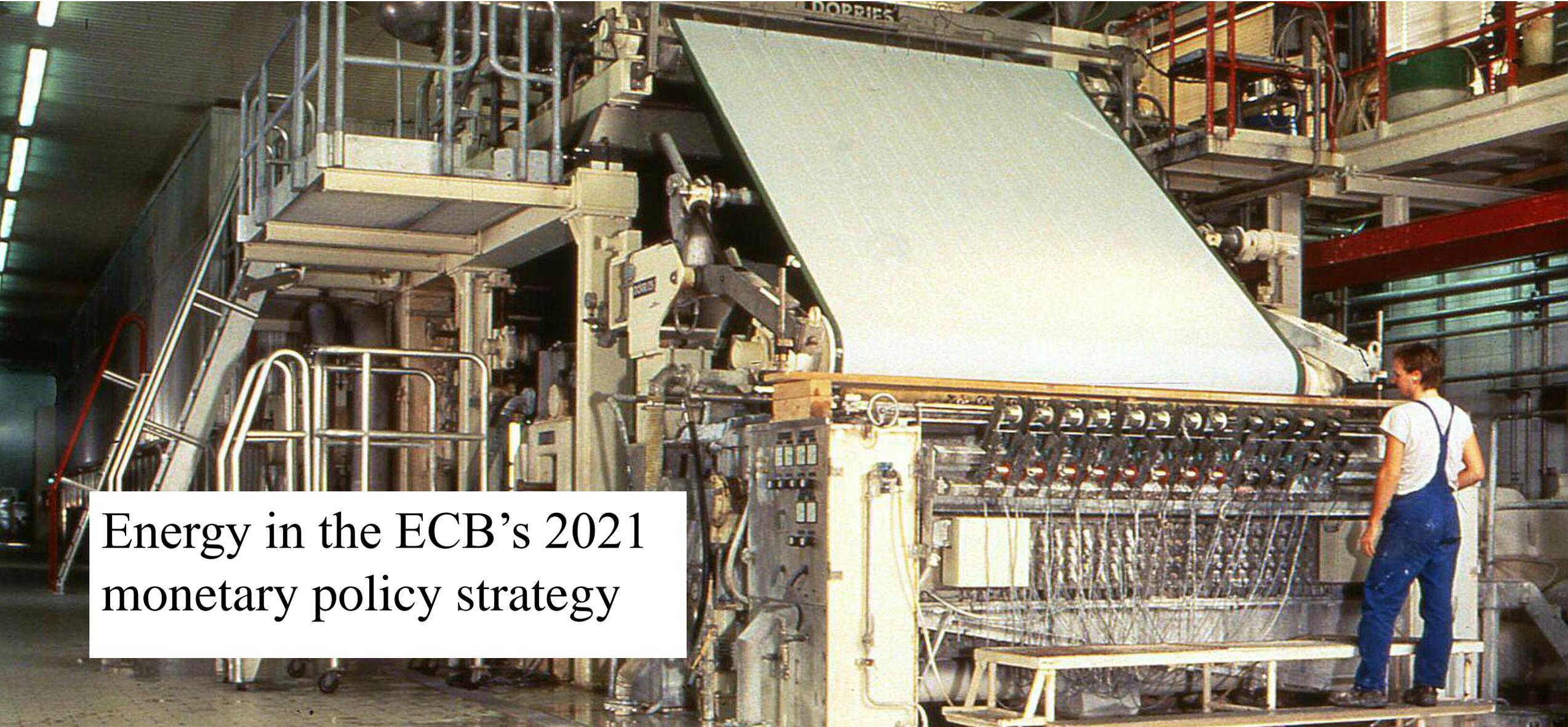
- The ECB mandate is old
- Monetary policy has impact of public and private funding, and hence the economy
- New challenges that are not really about inflation on a 2-5 year time horizon

*Common Market Law Review* 57: 1689–1724, 2020.

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## **THE ECB, THE COURTS AND THE ISSUE OF DEMOCRATIC LEGITIMACY AFTER *WEISS***

NIK DE BOER AND JENS VAN 'T KLOOSTER\*



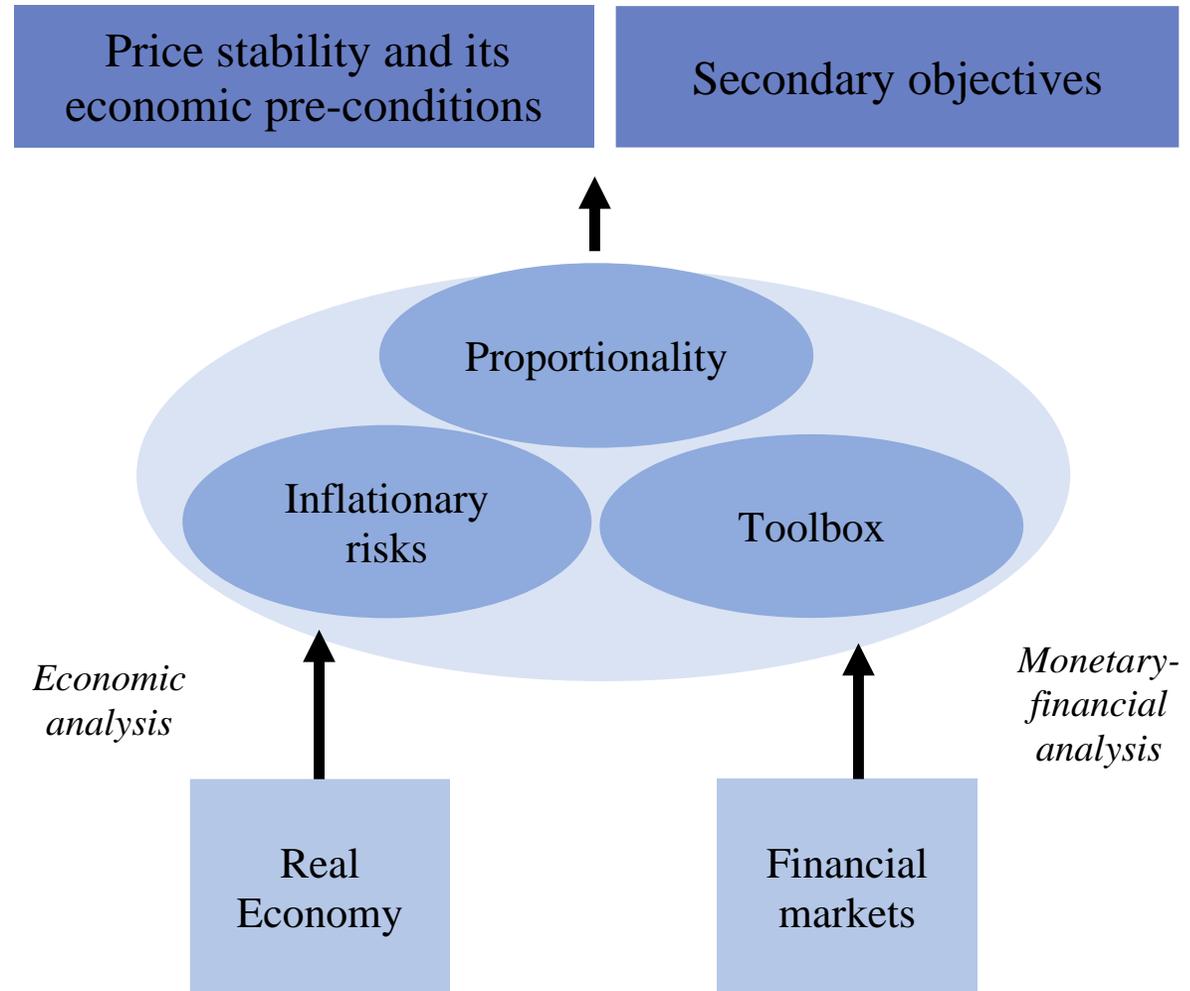
Energy in the ECB's 2021  
monetary policy strategy

## 2021 ECB Strategy

*Objectives*

*Instruments*

*New Ideas*





# The 1990s drafting of the ECB mandate

France “fought a rearguard action when the European Central Bank’s statutes were drafted” and “sufficient ambiguity was incorporated in it to make sure that the issue could be raised again at a later stage” (André Szász, 1999)

DE GRUYTER

Account. Econ. Law 2022; aop



Jens van 't Klooster\*

## **The Case for a European Credit Council: Historical and Constitutional Fine-Tuning**

<https://doi.org/10.1515/ael-2022-0074>

Published online January 3, 2023

# The 1990s drafting of the ECB mandate

The Committee of Governors did not use available legal formulations to prohibit

- 1) Monetary financing, for example by addressing the permissibility of indirect purchases
- 2) Credit guidance instruments, for example by banning them

2.2. Rediscounting at a preferential rate

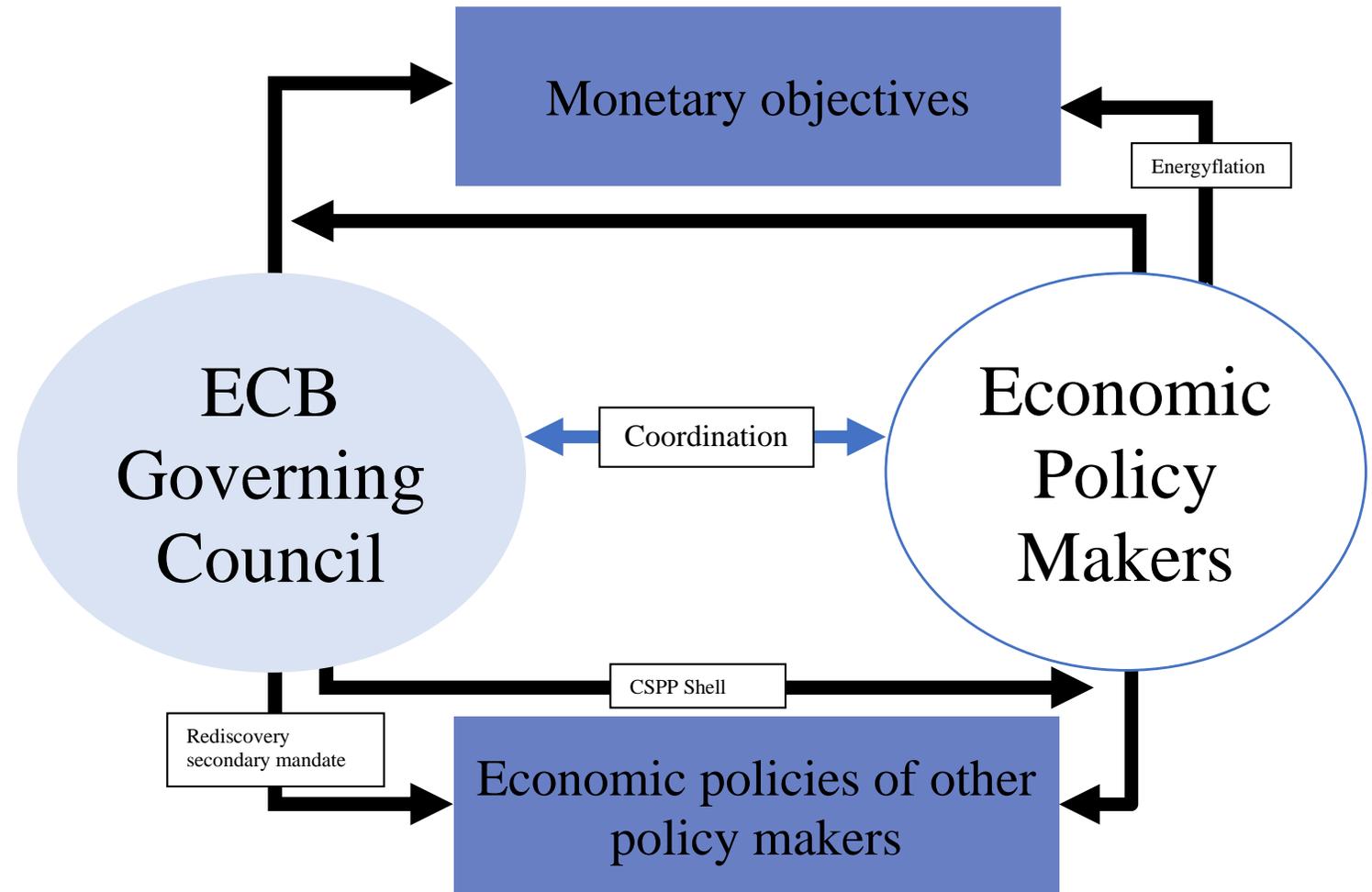
Articles 2.3 and 17.3 of the draft Statute dated 24th July 1990) rule out unequal treatment of between countries. In principle, therefore, if rediscounting at a preferential rate with ceilings by types of credit, it would have to follow the same rule countries.

## 2022 ECB Strategy

*Objectives*

*Instruments*

*New Ideas*





## 2022 climate-related capital market measures

Tilting of CSPP

Collateral eligibility

Disclosure requirement CSRD

External and internal credit ratings





# A Risky Bet: Climate Change and the Microprudential Framework for Banks

Bewildering range of new C&E risk initiatives across regulatory requirements, supervisory practices and disclosure standards.

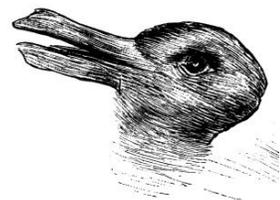
- Awkward fitting of climate and environmental considerations into existing prudential objectives
- Inconsistent riskification
- Deference to banks' judgement and credit rating agencies
- Supervisors across EU and within EMU adopt different approaches
- Uneven incorporation of environmental risks across the Basel pillars

*Journal of Financial Regulation*, 2022, 00, 1–24  
<https://doi.org/10.1093/jfr/fjac002>  
Article

OXFORD

## A Risky Bet: Climate Change and the EU's Microprudential Framework for Banks

Agnieszka Smoleńska\* and Jens van 't Klooster\*\*



# Work in progress: Policy & constitutional implications

1. Consistent greening of ECB toolbox
2. Interpretation of mandate should be coordinated with the EU's democratic institutions
3. Accountable and effective transition planning crucial for monetary and financial policy



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

Jens van 't Klooster

## Net zero transition plans A supervisory playbook for prudential authorities

Simon Dikau, Nick Robins, Agnieszka Smoleńska, Jens van 't Klooster and Ulrich Volz

## Conclusion

Central bankers  
push new  
economic policy  
objectives while  
avoiding overt  
politicization

Work in progress:  
Policy and  
constitutional  
implications

