

Unlocking the Renovation Wave: The case for ECB green discount rate

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Public financing cannot do it alone

- Renovation of 220 million buildings by 2050 - 150,000 buildings a week
- €150-€275 billion needed per year to achieve 55% reduction by 2030 and net-zero by 2050



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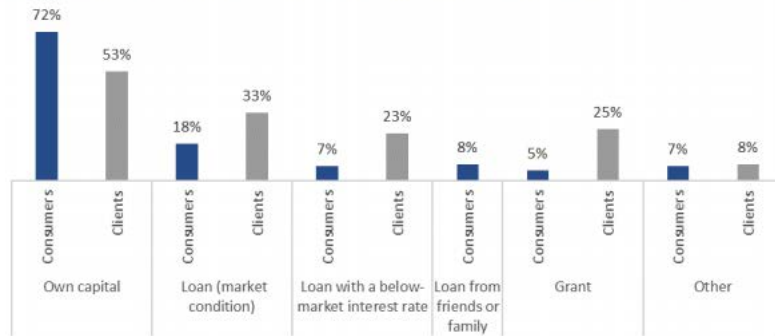
“Public funding cannot achieve our energy and climate goals alone. We need at least an additional EUR 150 billion in energy efficiency investment per year; a strong case for private financing.”



Current barriers to bank financing – cost and complexity

Banks	Clients
Cost	
High administrative costs for loans with small amounts, costs associated with increasing training and capacity of loan officers in energy-related matters.	Lack of availability of savings, lack of disposable income, lack of collateral to take out a renovation loan, cost of credit, cost of energy assessment and other upfront costs.
Complexity	
Lack of expertise in energy renovations, certification and auditing, lack of incentive to reach out to clients for small loans.	Renovations are low priority, lack of information and expertise in energy efficient renovation, certification and auditing processes, complexity in planning; discomfort.

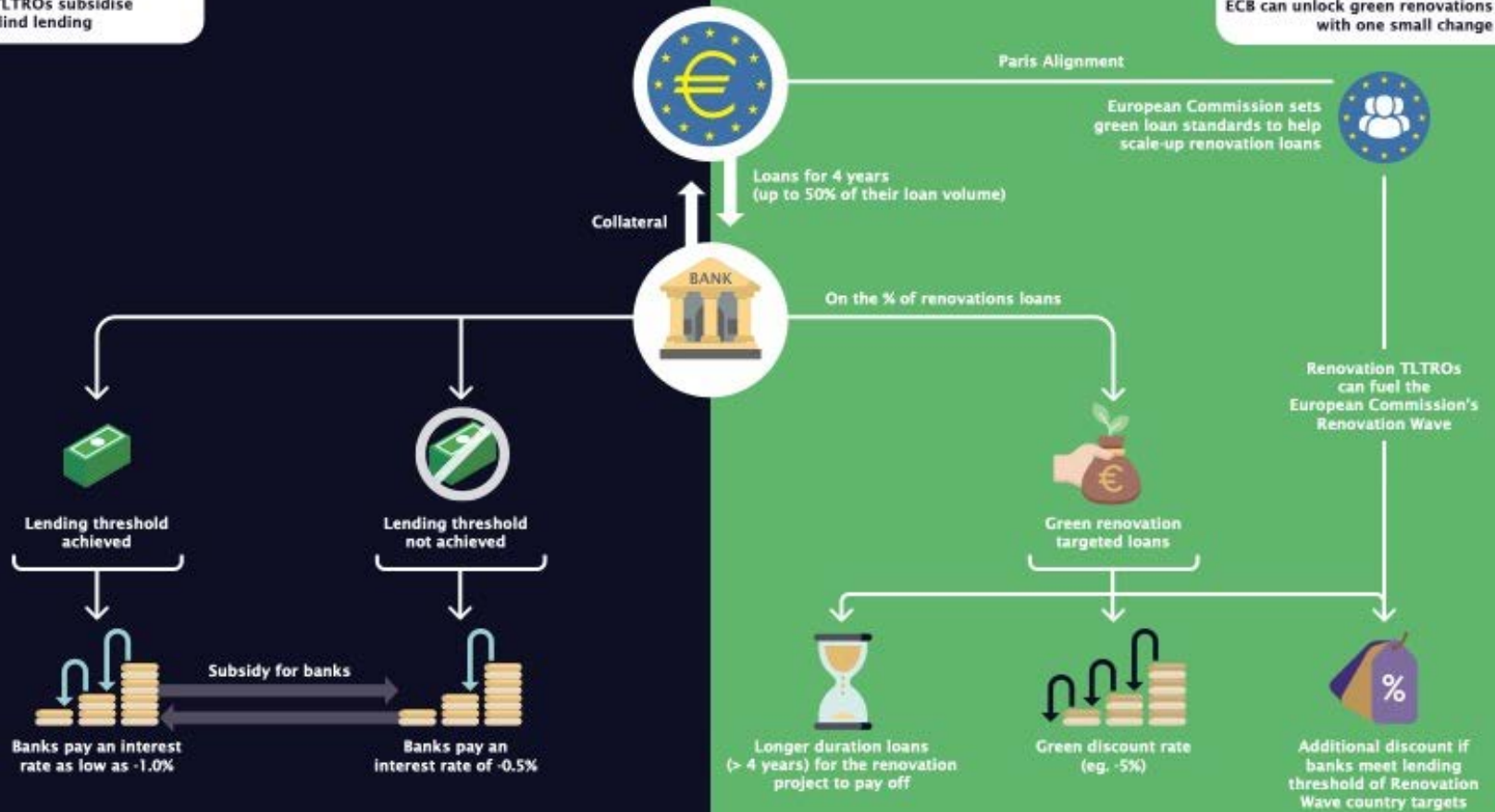
Figure 53: Funding sources of consumers and commercial/public clients of architects



EC (2019) Comprehensive study of building energy renovation activities and the uptake of nearly zero-energy buildings in the EU.

Current TLTROs subsidise climate-blind lending

ECB can unlock green renovations with one small change



Key benefits of the R-TLTROs proposal

For banks:

- Costless access to funding **covers the transaction costs** and scaling up of renovation projects
- Incentive to deploy their network of bank branches – incentive to act from customer perspective **bottom up process**
- **Greening retail portfolio (incl. mortgages)**

For consumers:

- **Facilitate** the process of setting up renovation projects for millions of households and businesses;
- **Increase deep renovations** instead of lighter and insufficient projects

For governments:

- Streamlining and blending of existing subsidies
- Redeployment of existing budgets towards social housing, targeted support for low-income households, with reskilling programmes for workforce development etc.

For the ECB:

- Better transmission of monetary policy towards productive sustainable bank lending

⇒ Both ECB and the Commission get step closer to Paris-alignment and to deliver on the green deal ambitions

Next steps

1. Need for **Green loan standards** to scale up renovations, proper reporting and evaluation
 - Green loans tied to **minimum targets in energy savings achieved as a result of improvement works on a property**. Green loan market ~ €19 billion (EC, 2021).
 - The Commission asked the European Banking Authority for an opinion on the definition and possible supporting tools for **green retail loans and green mortgage by Q2 2022**.
 - Green loans should ensure highest consumer protection and standardized in the revised Consumer Credit Directive (BEUC, 2021)



Next steps

2. Revised Energy Performance of Buildings Directive (EPBD)

36. 'mortgage portfolio standards' means mechanisms incentivising mortgage lenders to increase the median energy performance of the portfolio of buildings covered by their mortgages and to encourage potential clients to make their property more energy-performant along the Union's decarbonisation ambition and relevant energy targets in the area of energy consumption in buildings, relying on the definition of sustainable economic activities in the EU Taxonomy;

4. To support the mobilisation of investments, Member States shall promote the roll-out of enabling funding and financial tools, such as energy efficiency loans and mortgages for building renovation, energy performance contracting, fiscal incentives, on-tax schemes, on-bill schemes, guarantee funds, funds targeting deep renovations, funds targeting renovations with a significant minimum threshold of targeted energy savings and mortgage portfolio standards. They shall guide investments into an energy efficient public building stock, in line with Eurostat guidance on the recording of Energy Performance Contracts in government accounts.

5. Member States shall facilitate the aggregation of projects to enable investor access as well as packaged solutions for potential clients.

Member States shall adopt measures to ensure that energy efficiency lending products for building renovations are offered widely and in a non-discriminatory manner by financial institutions and are visible and accessible to consumers. Member States shall ensure that banks and other financial institutions and investors receive information on opportunities to participate in the financing of the improvement of energy performance of buildings.

Next steps

2. Alignment between the revised **Energy Performance of Buildings Directive (EPBD)** and **Green loan standards** the of the EBA – provides the certification framework and prevents greenwashing



Policy consistency across the ECB, the EBA and the Commission, therefore, will be key to unlocking the financial firepower that the Renovation wave needs to succeed.

Concluding remarks

- There is a **rare alignment of interest** between ECB, Commission, Member States, companies, banks and consumers for boosting the pace of renovations via ECB & bank financing
- 2022 unique opportunity to promote this proposal
- Ongoing efforts:
 - Research survey on the challenges to the banking sector and consumers
 - "Unlock" campaign and petition

The screenshot shows a news article on the EURACTIV website. The article title is "How the European Central Bank can unleash the building renovation wave". The author is listed as "By Various authors" and the publication time is "7:36". The main image shows Christine Lagarde, President of the European Central Bank, speaking at a podium. Below the image is a caption: "European Central Bank (ECB) President Christine Lagarde speaks during a press conference following the meeting of the Governing Council of the European Central Bank in Frankfurt am Main, Germany [Twitter: @ecb]". There are social media sharing icons for comments, print, and various social networks. A sidebar on the right contains an advertisement for Facebook and a "Popular articles" section with a list of five items, each with a number in a red box.

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How the European Central Bank can unleash the building renovation wave

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European Central Bank (ECB) President Christine Lagarde speaks during a press conference following the meeting of the Governing Council of the European Central Bank in Frankfurt am Main, Germany [Twitter: @ecb]

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Trillions are needed for the deep building renovations required to meet Europe's climate targets. To make this happen, EU institutions need to use the network of banks across Europe and incentivise loans for home renovation, argue finance campaigners.

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