

How to Unlock the Renovation Wave?

The case for an ECB green discount rate



Positive Money Europe



Why buildings renovation is a crucial priority?

36%

of EU GHG emissions from energy is caused
by the buildings and construction sector.

European Commission, 2020

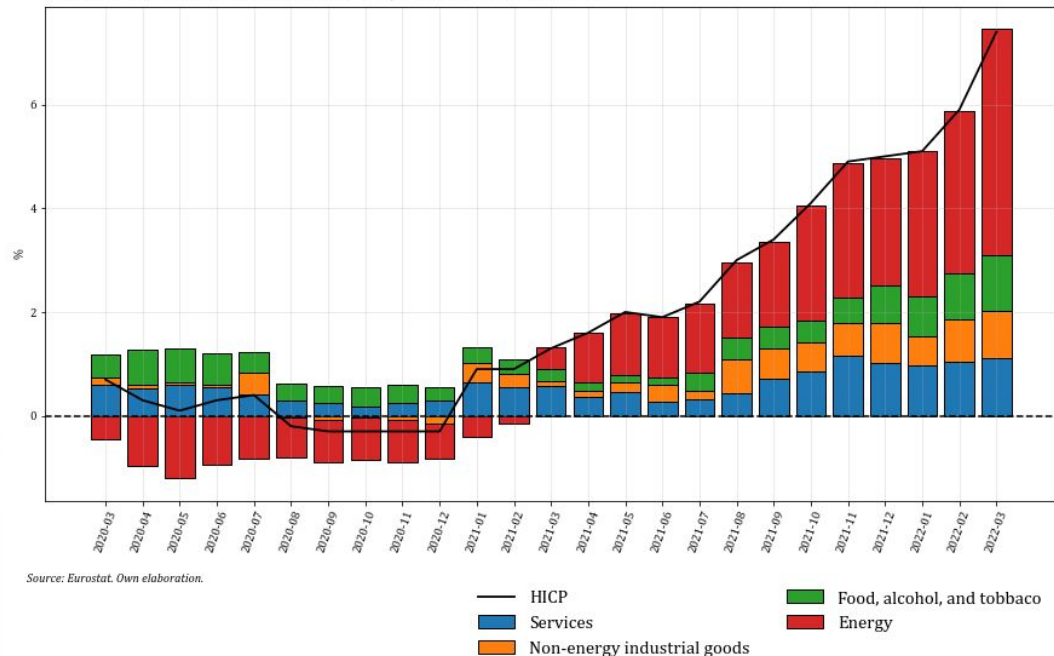
2/3 EU Gas consumption

Is in industrial use and home heating
International Energy Agency, March 2022

A win win for the ECB

PositiveMoney
Europe

HICP - contributions to EA19 annual inflation



Inflation 7.4%
Half due to energy -
fossilflation

Reducing the EU's
reliance on imported
fossil fuels will
contribute to reducing
the impact of energy
prices in the inflation
index (HICP).

220 millions

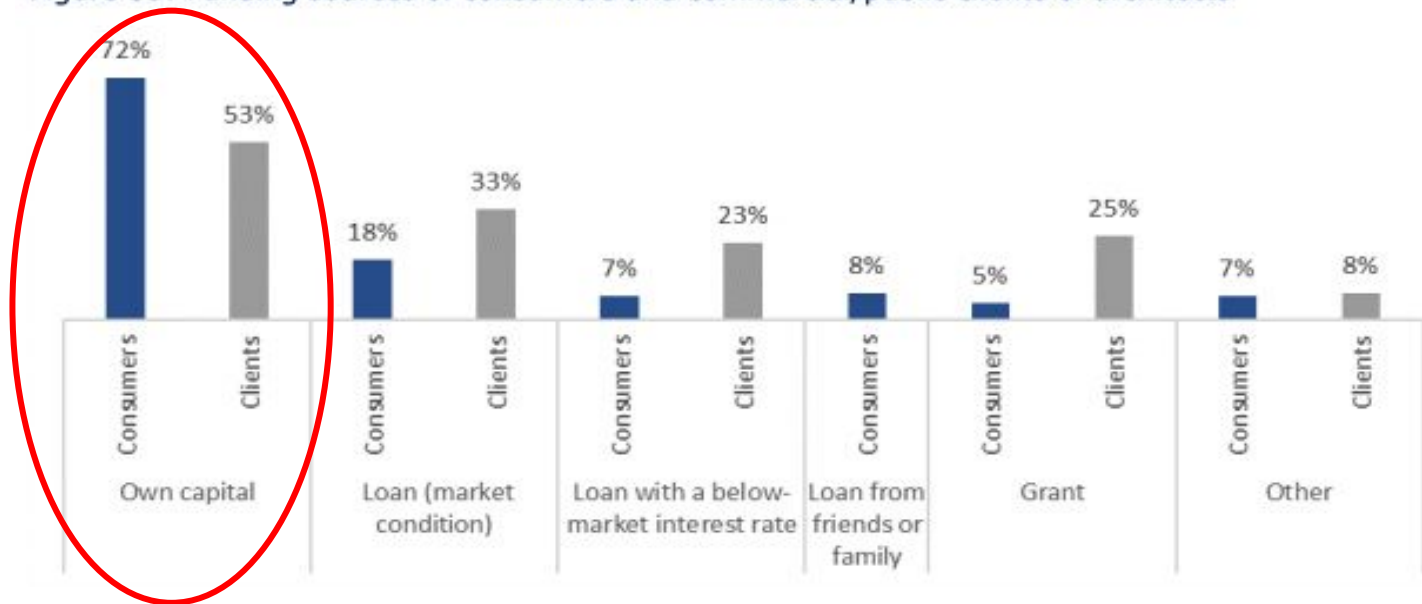
Buildings need renovation by 2050 (that's about 150,000 per week!)
European Commission

150-275 billions

Additional investments needed per year
European Commission, European Central Bank

Most households finance renovation from their own savings

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.

Public funding cannot do it alone. Bank lending will have to step up

- **€224 billion of funding gap** for greening buildings
- **€214 billion** of which need to be financed **through loans**

Projected increased financing needs by sector

	Utility	Energy-intensive manufacturing	Transport	Buildings	Total
Investment gap vs. 2011-2020 average (EUR billion/year)	106	14	48	224	392
Gap/total outstanding debt ratio	0.25	0.02	0.08	0.10	0.10
Currently taxonomy-aligned (EUR billion)	165	30	8	90	293
Gap funded by bonds (EUR billion/year)	45	2	18	10	76
Gap funded by loans (EUR billion/year)	61	12	29	214	316

Source: Update of Table 13 in Alessi et al. (2019).

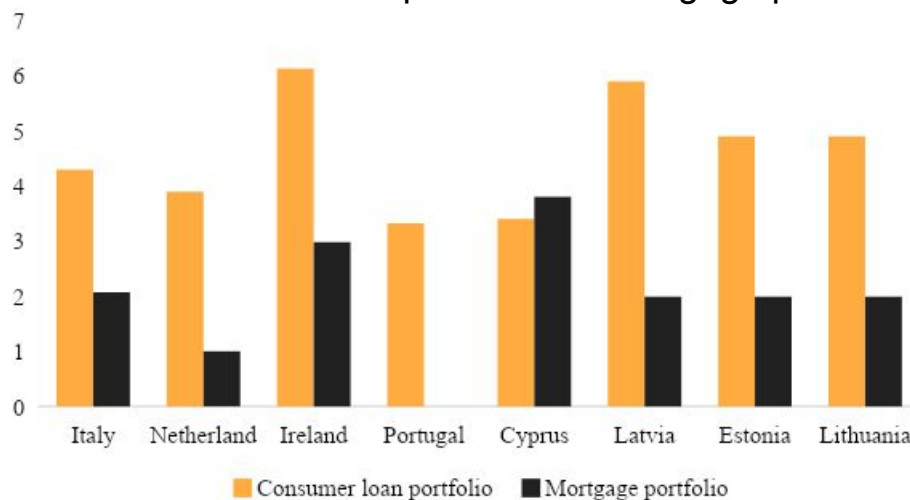
Current barriers to bank financing – cost and complexity

Clients	Banks
<ul style="list-style-type: none">● High cost of credit / not eligible due to lack of collateral / too short maturity● Lack of disposable income● Cost of energy assessment & other upfront costs● Lack of technical assistance● Discomfort during the renovation	<ul style="list-style-type: none">● Low profitability of small renovation loans due to high fixed costs● Absence of collateral● Lack of expertise in energy renovations, certification and auditing and costs associated with training for loan officers● Lack of incentive to reach out to clients for small loans

Challenges in bank-financing

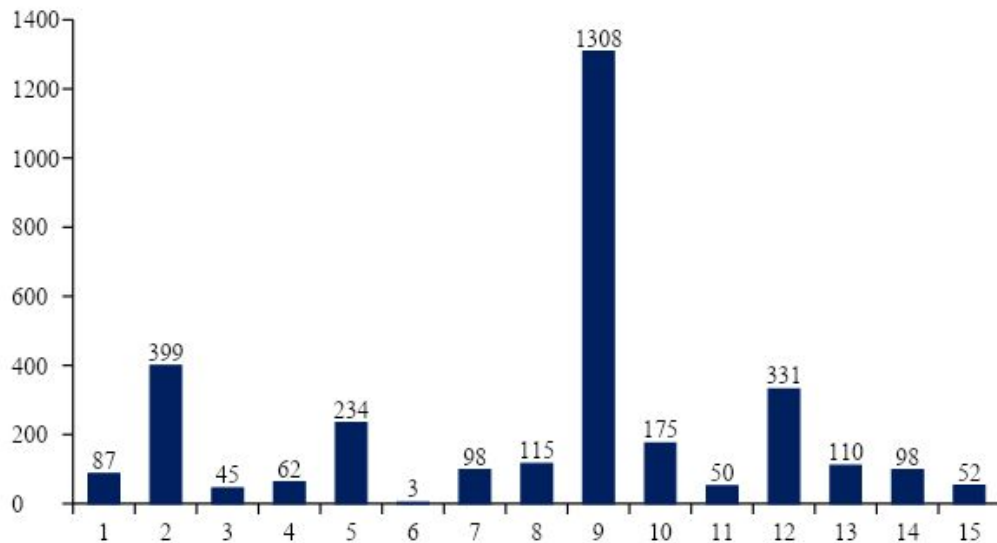
	Average payback (months)	Average loan value (€)	Monthly payment (excl. interest)
Italy	86	26,000	302,3
Portugal	65	10,000	153,8
Cyprus	100	69,400	694,0
Latvia	91	62,462	686,4
Estonia	79	41,091	520,1
Lithuania	81	38,178	471,3

Interest rates on EE renovation as part of consumer loan portfolio vs. mortgage portfolio



Source: PMEU Survey (14 banks)

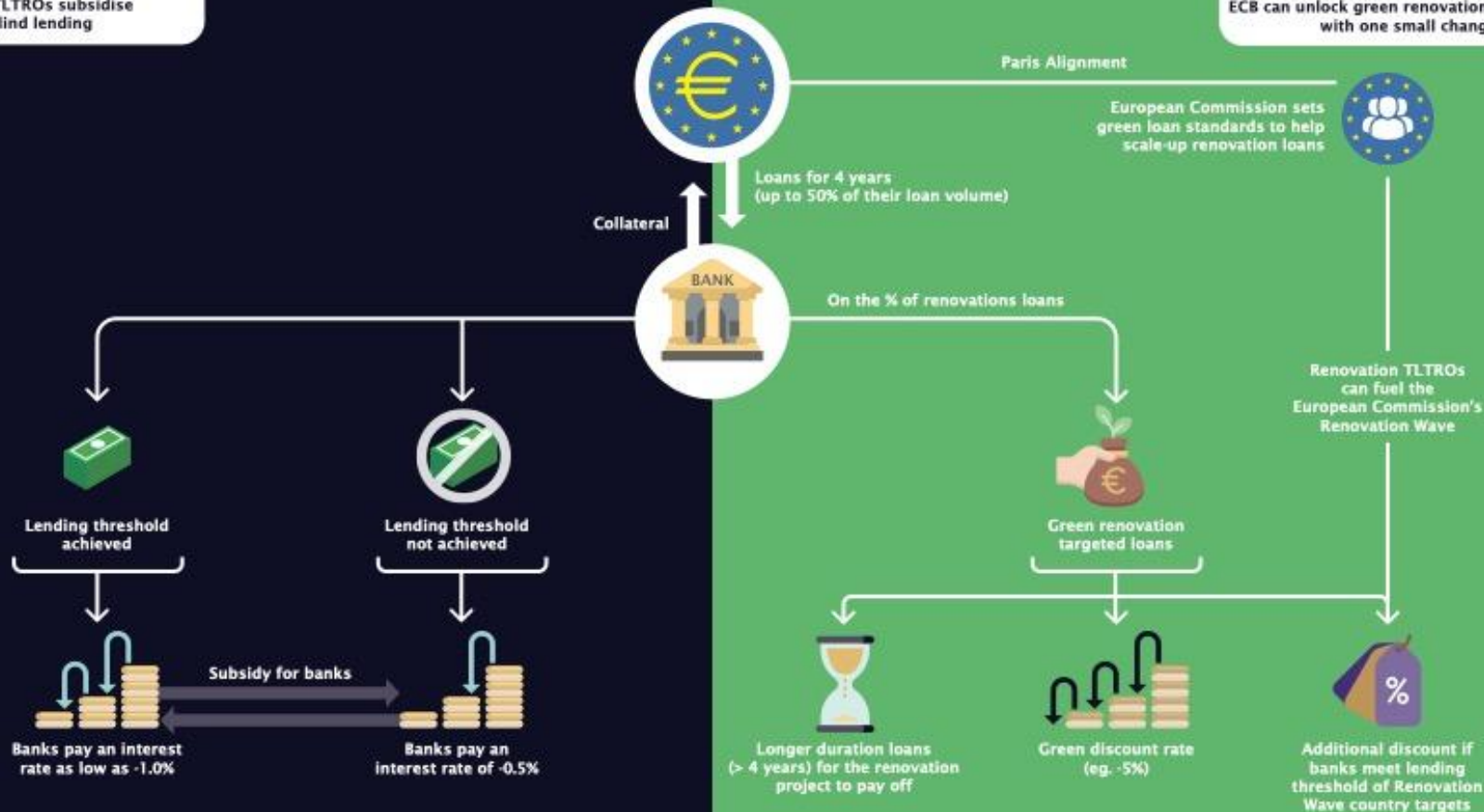
ECB TLTROs



- 3,17 trillion TLTROs = 2.24 trillion since the pandemic
- Negative rates (-0.5%)
- Lending incentive as banks receive an even more negative interest rate (-1%) if they reach a certain lending volume = gift to the banks!
- No environmental conditions attached

Current TLTROs subsidise climate-blind lending

ECB can unlock green renovations with one small change



What we advocate for

1. **A green loan standard:** Effectively differentiate between green loans and other loans (EBA work)
2. **Mortgage portfolio standards:** oblige banks to report the energy efficiency performance of their mortgage portfolios, and to achieve ambitious targets (Art. 15 of EPBD recast)
3. **Smarter use of public funding** for upskilling programmes, technical assistance / one stop shops, and grants for most vulnerable groups

“Many banks do not yet effectively differentiate between green loans and other loans, making a green TLTRO difficult on a practical level.

Overcoming these impediments is a daunting task. But the ECB will actively contribute to work that can accelerate change.”

ISABEL SCHNABEL

MEMBER OF THE ECB'S
EXECUTIVE BOARD



Unlock campaign

