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The relevance of monetary-fiscal policy coordination for the renewable energy sector

Our ask: National governments and EU institutions should actively support price stability – not leave it to the ECB alone – and the ECB should actively support the transition to clean and renewable energy.

KEY POINTS TO RAISE:

- When monetary and fiscal policy pull in opposite directions, both become less effective and the green transition pays a disproportionate cost
- ECB rate hikes increase public borrowing costs, limiting fiscal space for green investment
- Fossil fuel price volatility ("fossilflation") and climate-related disruptions ("climateflation") cannot be solved by rate hikes
- Wind and solar reduced wholesale electricity prices by 24.2% on average (2023–2025) - investing in renewables is itself a price stability tool

WHAT TO PUSH FOR:

NATIONAL GOVERNMENTS AND EU INSTITUTIONS:

- Invest in bottleneck areas (critical raw materials, semiconductors) to reduce import dependence and price volatility
- Invest in energy, transport, and digital infrastructure to ease inflationary pressure
- Invest in renewables as a direct contribution to price stability
- Use temporary subsidies to manage short-term inflationary pressures

THE EUROPEAN CENTRAL BANK:

- Revise its single mandate to explicitly incorporate ecological considerations, and use the existing secondary mandate to support the green transition
- Close sovereign spreads by returning to more uniform treatment of government debt in the collateral framework
- Engage in green monetary policy

Executive summary

The common-sense in discussions related to economic policy may state that when there is one target to be achieved, we need to search for the one tool which is the most suitable and effective. While this simplifies the reasoning and the public communication, it can be extremely misleading. First, because the complexities of economic reality do not allow for this kind of simplistic approach. Second, because the urgency of some targets require a combination of policies addressing the same issues, in a complementary manner. That is why we argue in favour of coordination of monetary and fiscal policy.

Monetary-fiscal policy coordination means the use of the different tools available in the toolbox of these two macroeconomic policies in the pursuit of common objectives. The basic element for a higher degree of coordination between monetary and fiscal policies at the Eurozone is therefore the acceptance that: i) National governments and the EU may concur to the quest of stable prices; ii) the European Central Bank

(ECB) should not be blindly pursuing the inflation target, without taking into account other societal needs and the side-effects of its monetary policy. Very importantly, the ECB should stimulate the green transition.

For the renewable energy sector, monetary-fiscal policy coordination is particularly relevant. After all, investments related to the transition of the energy matrix from dirty to clean energy requires massive investments. Conflicting policies can result in strong obstacles for the materialisation of such investments. Alternatively, the complementarity of the toolboxes of monetary and fiscal policy can accelerate the pace of this urgent transition.

The renewable energy sector is capital intensive. If the ECB raises its interest rates - as it is currently happening - this is not a neutral policy from the point of view of the green transition. Very clearly, there is a divergence in the effects of such policy for the clean and the dirty energy sectors: the fossil-fuel sector will not be very much affected whereas the renewable energy sector will be highly impacted, with increasing debt costs affecting the indebted companies and refraining new investments.

As a consequence, increasing interest rates may have a considerable impact on the costs of renewable energy, particularly in Europe. Increasing borrowing prices may also be detrimental to the development of new technologies, and the transformation of new technologies into commercially viable products.

As long as the ECB does not seriously incorporate environmental considerations into its frameworks and its models, it will be repeatedly implementing policies that structurally disadvantage the sector that the EU's policy framework is trying to accelerate. Inversely, if the ECB implements its policies in coordination with the EU and the Eurozone national governments' fiscal policy, the stimulus to the renewable energy sector, and the green transition in a broader sense, will be much stronger. Powerful incentives from the ECB to investments in the green transition can come from green monetary policy.

In addition to that, the ECB could develop a programme to directly boost public investments related to the green transition. The ECB should be more tolerant with public spending devoted to renewable energy and the green transition; and should promote it, by opening fiscal space to these investments. It could be done for instance through a permanent green public bond purchasing facility, with lower interest rates for this modality of bonds. Alternatively, the ECB could give a preferential treatment for green public bonds within the collateral framework. Analogous tools could also apply to green bonds issued by the EIB.

1. Introduction

Economic policymaking is often presented as a simple matching exercise: identify the target, find the best tool, apply it. This framing has appeal - it is easy to communicate and easy to defend. But it is also misleading. Real economies are complex, and the most pressing challenges we face rarely respond to a single lever pulled in isolation. When a policy instrument pursues one objective without regard for others, its side-effects can quietly undermine goals that are equally important. Conversely, when two policies are designed to work together, they can offset each other's drawbacks and prove far more effective than either would be alone.

This is the case for monetary and fiscal policy. A growing body of analysis argues that coordinating these two central pillars of economic governance - rather than treating them as separate domains with separate mandates - produces better outcomes across the board.

This policy brief aims to explore this debate about the pertinence of monetary-fiscal policy coordination, with a special focus on its relevance for the renewable energy sector. The remainder of the document is as follows: section 2 conceptualises monetary-fiscal policy coordination, and discusses its applicability for the current context in the Eurozone; section 3 has policy recommendations; section 4 debates the importance of this macropolicy coordination for the renewable energy sector; section 5 raises some final remarks.

2. Monetary-fiscal coordination: conceptualisation and applicability to the Eurozone

Monetary-fiscal policy coordination means the use of the different tools available in the toolbox of these two macroeconomic policies in the pursuit of common objectives. But what are these tools?

While there are differences in each jurisdiction, the typical monetary policy instruments currently used are:

1. *Central bank interest rates*: the basic interest rates defined by the central banks are those applied to the deposits that commercial banks have at the central bank; and those imposed by central banks when they lend money to commercial banks. In the case of the Eurozone, the Governing Council sits every six weeks to define three rates: the deposit facility (banks' deposits at the ECB or any national Central Bank of the Eurosystem), the main refinancing operation's rate (loans of the ECB to commercial banks on a weekly basis); and marginal lending facility's rate (for overnight loans of the ECB to commercial banks). The relevant point is that these basic rates have an impact on the whole spectrum of interest rates of the domestic economy. In other words, changes in the ECB rates will increase or decrease the general cost of borrowing in the whole economy.¹
2. *Open market operations*: central banks purchase/sell securities (in particular, public bonds) in the open market. The aim is to manage the liquidity of the financial markets and steer the interest rates.
3. *Reserve requirements*: central banks define the minimum amount of liquid assets that commercial banks must hold. The aim is to influence the demand for reserves at the central bank, managing the liquidity of the financial markets.

¹ For details, see the first policy brief of this series

All monetary policy tools are designed to influence the credit conditions of an economy, ultimately aiming to impact aggregate demand and prices. For fiscal policy, the main instruments are:

1. *Public spending*: national and subnational governments are entitled to make public spendings under the scrutiny of the society. For the objectives of fiscal policy, the first relevant dimension is simply the volume of public expenditures in relation to the economy of the concerned jurisdiction (for countries: public expenditures/GDP). In principle, higher expenditures may boost the economic dynamism of a country or a region. The second relevant dimension is the type of spending: consumption vs. investment; and the concerned sectors.
2. *Taxation*: fiscal policy may be also made through temporary changes in the tax system. Taxes can be increased or (more typically) subsidies can be provided - either for the sake of stimulating economic dynamism or to curb inflationary pressures.

The rationale of coordinating monetary and fiscal policies is therefore to avoid that these diverse tools may have conflicting effects within an economy. Some examples may be illustrative:

- **Monetary policy (MP) aimed at curbing inflation vs. Fiscal policy (FP) aimed at fostering growth**

If the central bank is aiming at curbing the inflationary pressures, it will very likely implement a "contractionary policy". The basic reasoning is that excessive demand may provoke upward pressures on prices. The envisaged solution is therefore to curb the economic dynamism to control inflation. The monetary policy will therefore consist of a hike in the central bank interest rates, a sell of bond/securities at the open market and/or an increase in the reserve requirements. These policies are aimed at reducing the liquidity in the financial markets, increasing the cost of credit - and therefore, reducing consumption and investments.

Yet, if the national government of the same jurisdiction wants to foster economic growth, it will implement policies pushing in the opposite direction. Typically, public expenditures may increase with the aim of boosting aggregate demand. It happens directly, because of the higher public spendings; and indirectly, because these public expenditures usually foster higher private expenditure as well (for instance, in the sectors to which the government addresses these new expenditures).

In the end, there are conflicting policies implemented by the central bank and the national government, with very unpredictable results.

- **MP aimed at reducing inflation vs. FP aimed at promoting the green transition**

The central bank is doing the same policy mentioned above, aimed at reducing inflationary pressures. At the same time, the national government - or the European Commission, in the case of the European Union (EU) - is trying to promote the green transition. A crucial problem is that the contractionary monetary policy implemented by the central bank increases the cost of credit. Since the green transition depends not only on public investments, but also on private investments, this creates a dilemma, because the higher cost of borrowing is detrimental to these investments (details on section 4). It has been happening since 2022, as the ECB raises the interest rates to face the inflation pressures provoked by the war in Ukraine and in Iran, while the EU is implementing policies to stimulate green investments. The contractionary monetary policy implemented by the ECB comes as a relevant obstacle to the green investments planned by the EU.

Another possible scenario would be the one in which the national government increases taxes for dirty energy, with the objective of decreasing its consumption. Yet, this will create inflationary pressures, creating a conflict with monetary policy. If the central bank increases even more its interest rates, it will work for a stronger deceleration of the economic dynamics without addressing the source of the inflationary pressure.

- **MP aimed at reducing inflation vs. FP aimed at reducing public debt**

The central bank is again doing the abovementioned contractionary policy, and the national government is aiming at reducing the public debt. To reduce the public debt, the usual policy is a reduction in public spending to generate surpluses in the primary public budget, which are used to pay for the debt service and to repay the stock of debt. Nonetheless, if the central bank increases the interest rates, the cost of the public debt also rises, increasing the amounts that the government has to pay as debt services. Hence, there are conflicting dynamics, because the public sector will be spending less on consumption/investments, but will be spending more on interest rates. The final effect on the stock of public debt is unclear.

However, if monetary and fiscal policy go in the same direction, this may be a powerful manner of reaching common objectives. In some occasions, the tools described above can concur to the same targets, reinforcing each other and increasing the probability of success. For instance, if both monetary and fiscal policy are aimed at expanding aggregate demand (e.g., with lower interest rates and an increase in minimum wages), it tends to increase the rate of economic growth. In other circumstances, while some tools are used in the pursuit of a common objective, other tools are used to compensate for eventual side-effects of such policy, without harming the pursuit of the main objective. For instance, in a situation of recession with relatively high inflation rates (commonly referred to as "stagflation"), both monetary and fiscal policies can be used to promote economic growth (e.g., with lower reserve requirements to foster the expansion of credit, and higher public investments); and subsidies can be temporarily used to curb inflation pressures.²

In the recent period, we can find moments in which monetary and fiscal policy were conflicting, and moments in which they concurred.³

1) Conflicts: During the Global Financial Crises (GFC) for instance, there was an antagonism between monetary and fiscal policies. For several years, the monetary policy was characterised by low interest rates and the so-called quantitative easing (a non-conventional policy in which central banks engaged in massive and long-lasting interventions in the financial markets, purchasing assets to reduce the interest rates in the short and long-term). The main idea was fighting the risks of deflation and recession (Banque de France, 2024). Nonetheless, the national governments in many countries were pursuing austerity measures, with cuts in the public spending that contributed to the ongoing recession. Especially in the Eurozone, it has led to a long-lasting recession, with serious economic and social consequences.

2) Concurrence: During the Covid-19 pandemics, both monetary and fiscal policies were in many

² Higher public expenditure and higher subsidies can result in a temporary increase of public deficit, but if the policy is successful in resuming economic growth it may lead to a sustainable pace of the relation deficit/GDP (or debt/GDP).

³ Going further to the past, NEF (2025) shows that after World War II, there was a high degree of coordination between monetary and fiscal policy in Europe, in the quest of a rapid economic recovery.

countries aimed at combatting the economic recession. Central banks in the whole world converged in a relatively rapid decrease of the interest rates to avoid a deeper crisis. At the same time, governments in many parts of the world - and especially in central countries - also engaged in expansionary fiscal policies. Higher public spendings were addressed at combatting the health crisis, but also avoiding bankrupts, dismissals and extreme reduction in the households' incomes. If the socioeconomic impacts of the pandemics were still heavy (and very heterogeneous around the globe), one cannot ignore that without this combination of monetary and fiscal policies addressed at minimising the crisis, the outcomes would have been even more catastrophic.

While these historical experiences show the pertinence of a high degree of coordination between monetary and fiscal policy, the current context makes it also very evident. First, because traditional monetary policy tools are becoming less effective. This is so, because inflationary shocks which are not related to excessive demand⁴ are becoming very common. These shocks are usually related to: i) climate-driven reasons (for instance, an increase in food prices generated by droughts or floods); ii) global trade disruptions (for instance, the increase in the price of cars provoked by a shortage of semiconductors during the pandemics). In the current context of geopolitical tensions and wars, fossil-fuel prices are extremely volatile, engendering inflationary pressures which have absolutely no relation with excessive demand (the so-called "fossilflation"). In these situations, monetary policy alone cannot efficiently cope with the inflationary pressures in the short-run. If interest rates are increased, it will provoke deflationary pressures in the other prices of the economy (which are sensitive to the economic dynamism), but not in the prices which are indeed provoking the inflation (fossil-fuel prices). It may lead to a decrease in the average inflation (i.e., the inflation of the basket of goods and services which are considered by the central bank when designing the monetary policy), but at the cost of a major rearrangement of relative prices.⁵ The aim of keeping prices stable would therefore strongly benefit from the support of other policies, such as the ones that will be presented in section 3.

The second strong argument for a high degree of monetary-fiscal policy coordination comes from the perception that humanity is facing an existential crisis, especially due to the ecological crisis. Hence, all means at the disposal of public institutions should be urgently mobilised to face these crises.

3. Policy recommendations

The analysis made in section 2 made it clear that the lack of monetary-fiscal policy coordination usually comes from a simplistic division of tasks in which the central bank is supposed to only take care of price stability; and the national governments (and the EU Commission, in the case of the Eurozone) is supposed to take care of the rest, but not interfering in issues related to price. While this division of tasks appears as an easy way of organising tools and targets, it leads to the conflicts and inefficiency described above.

The basic element for a higher degree of coordination between monetary and fiscal policies at the Eurozone is therefore the acceptance that: i) National governments and EU institutions may concur to the quest of stable prices; ii) the ECB should not be blindly pursuing the inflation target, without taking into account other societal needs and the side-effects of its monetary policy. Our policy recommendations are therefore organised under two blocs, reflecting this general understanding.

⁴ These shocks which are not related to excessive demand are named "supply-side" shocks.

⁵ i.e., fossil fuel prices will substantially increase in relation to the prices of other goods and services.

1. How can national governments/EU Commission be mobilised to concur to the quest of stable prices?

- **Investments in bottleneck areas:** national governments and EU institutions may invest in areas where there are (permanent or potential) bottlenecks that ultimately provoke inflationary pressures. Very importantly, extreme dependence on imported goods or inputs may result in severe bottlenecks in moments of geopolitical tensions and trade disruption, which have been very common in the recent period. This is particularly relevant when these imports originate in a small group of countries, being hardly replaced by other sources. This has been the case for instance with the above mentioned lack of semiconductors during the pandemics, and gas and oil after the outbreak of the war in Ukraine. EU and national governments of the Eurozone should therefore map these potential bottlenecks and promote investments aimed at allowing for internal production of such goods; or, as a second best alternative, to a diversification of their origin. It shows very clearly the strong relation between price stability and sovereignty. History demonstrates that one of the most harmful bottlenecks that an economy may face is the one related to energy. A lack of energy supply (or a big hike in its prices) may have strong impacts in a very diverse range of activities, leading to a big decline in the production in many sectors. This diminished supply of goods/services engenders inflationary pressures. Hence, changing the energy matrix in the Eurozone to increase the share of energy which is locally/regionally generated and reduce these potential bottlenecks is an urgent endeavour.
- **Investments in energy sources with less volatile prices:** dependence on fossil-fuel is a strong economic vulnerability not only because it constitutes a potential bottleneck in moments of trade disruption (such as the ones related to the wars in Ukraine and Iran), but also a source of recurrent inflationary pressures. The reason why is that fossil-fuel prices are extremely volatile. This is related to the fact that fossil fuel supply is inherently dependent on geopolitical issues, but also because its prices are subject to strong speculation in the financial markets. In the current context of financialisation, oil became a financial asset. Index funds, futures, options and other modalities of financial tools allow for strong speculation around its prices, heightening its potential volatility. Hence, if governments and the EU Commission invest or stimulate investments in energy sources with less volatile prices, it concurs to price stability. There is growing evidence that renewable energy does not just serve climate goals, it actively reduces inflationary volatility: a recent [Positive Money analysis](#) estimated that the deployment of wind and solar energy in the Eurozone reduced wholesale electricity prices by an average of 24.2% over the period 2023–2025 across the countries analysed. In countries with low renewable energy penetration, accelerating the deployment of wind and solar is a low hanging fruit to reducing wholesale electricity prices and vulnerability to fossil fuel shocks. Beyond ecological reasons, this must be seen as a strong reason for investments in green energies. The existence of solid data and concrete examples allows for a very clear message from the advocates of renewable energy in dialogues with the ECB: the transition to green energy is a powerful and efficient manner of reducing price volatility and inflationary pressures.
- **Investments in infrastructure:** the quality of infrastructure directly affects the prices goods and services are available for customers. Hence, if national governments invest in infrastructure for transportation, digital connection and all modalities of infrastructure, they are directly alleviating inflationary pressures and contributing to price stability. Very importantly, the EU and EU national governments should invest in the infrastructure for electrification as a crucial vector for a structural reduction of potential inflation pressures coming from fossil fuels. As Schröder Bosch (2026) claims,

further electrification creates more room for renewable deployment at the same time that it decouples the electrifying sectors from fossil fuels.

- **Mechanisms and infrastructure to store goods and smooth price variations:** demand-shocks (for instance, those related to pandemics and technological shifts), supply-shocks (such as the ones related to extreme weather conditions), and seasonality may provoke important price oscillations. EU institutions and national governments should therefore create mechanisms and invest in infrastructure to store goods and smooth price variations. This is obviously not applicable for all kinds of goods, but certainly a relevant tool for some essential goods (e.g. basic non-perishable food).
- **Subsides:** governments may provide temporary subsidies to curb inflationary pressures. This has been extensively used in the past, as a response to price hikes which are considered as temporary (e.g. due to momentary trade disruptions or to inclement weather).

Implementing these policies which concur with the objective of price stability, national governments and EU institutions are allowing the ECB to be less aggressive in its policies aimed at combating inflationary pressures. As a result - and without prejudice to a permanent quest of price stability -, the ECB can be involved in the quest of other objectives. It leads us to the second bloc of recommendations.

2. How can the ECB be supportive of policies beyond price stability?

The ECB's primary mandate is to maintain price stability. This is unquestionably a very relevant role due to both economic and social reasons. Nonetheless, a basic premise that should be adopted by the ECB is the understanding that actions supporting other policies do not need to be detrimental to price and financial stability. In some cases, it is rather the opposite. As discussed above, the ecological breakdown is already driving dramatic price instability, so supporting the green transition is crucial to fulfilling central banks' mandates.

A revision of the single mandate framework of the ECB - centred on price stability - would be welcome, especially to incorporate in a clearer manner ecological issues.⁶ This would give to the ECB the responsibility and the legitimacy to implement actions addressing green transition.

Yet, even if a revision of the primary mandate is not executed, the secondary mandate is sufficient to demonstrate the need of the ECB to address issues of climate change and job creation (Cerrato, 2026). Article 127(1) of the Treaty on the Functioning of the European Union (TFEU) states that:

The primary objective of the European System of Central Banks (hereinafter referred to as 'the ESCB') shall be to maintain price stability. Without prejudice to the objective of price stability, the ESCB shall support the general economic policies in the Union with a view to contributing to the achievement of the objectives of the Union as laid down in Article 3 of the Treaty on European Union.

Article 3(3) of the Treaty on European Union (TEU), mentioned in the preceding quote, declares that:

⁶ Other central banks in the world have dual mandates. The US Federal Reserve, for instance, has to use monetary policy to promote two key-goals: maximum employment and stable prices.

The Union shall establish an internal market. It shall work for the sustainable development of Europe based on economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment.

If not harmful to price stability, the ECB should therefore collaborate with fiscal policy to promote green transition. It can be done in particular through green monetary policy, discussed in section 4.⁷

4. Relevance for the renewable energy sector

For the renewable energy sector, monetary-fiscal policy coordination is particularly relevant. After all, investments related to the transition of the energy matrix from dirty to clean energy requires massive investments. Conflicting policies can result in strong obstacles for the materialisation of such investments. Alternatively, the complementarity of the toolboxes of monetary and fiscal policy can accelerate the pace of this urgent transition.

First, the renewable energy sector is capital intensive. As a result, companies in this sector have high capex costs. Moreover, they are normally more leveraged than those in the brown sector, whose investments are more mature. Hence, if the ECB implements a contractionary monetary policy, it will increase the debt costs of companies which are already indebted, and it may create an important hindrance for new investments. Evidence shows that the fossil-fuel sector is much less impacted by high interest rates than the clean energy sector. In a nutshell, if the ECB raises its interest rates, this is not a neutral policy from the point of view of the green transition. Very clearly, there is a divergence in the effects of such policy for the clean and the dirty energy sectors: the fossil-fuel sector will not be very much affected whereas the renewable energy sector will be highly impacted, with increasing debt costs affecting the indebted companies and refraining new investments.

As a consequence, increasing interest rates may have a considerable impact on the costs of renewable energy, particularly in Europe. According to their calculations, financing costs account for around one-third of total levelised cost of solar and wind generated electricity. On the other hand, for fossil-fuel generated electricity, costs are weakly influenced by interest rates. The viability of investing in renewable energy can be therefore undermined by a contractionary monetary policy.

In addition, it is important to consider that increasing borrowing prices may also be detrimental to the development of new technologies, and the transformation of new technologies into commercially viable products (Martin et al., 2024). Projects related to these nascent technologies are capital intensive and require heavy capital investments. Hence, even in a context in which fiscal policy tries to foster the development of these projects, monetary policy can create important constraints.

As long as the ECB does not seriously incorporate ecological considerations into its frameworks and its models, it will be repeatedly implementing policies that structurally disadvantage the sector that the EU's policy framework is trying to accelerate. Inversely, if the ECB implements its policies in coordination with the EU and the Eurozone national governments' fiscal policy, the stimulus to the renewable energy sector, and the green transition in a broader sense, will be much stronger.

⁷ For a detailed discussion on green monetary policy, see PMEUE (2026).

Powerful incentives from the ECB to investments in the green transition can come from green monetary policy. First of all, through its asset purchase programmes: the ECB should divest from dirty assets in its portfolio, replacing them with green assets. Second, through its collateral framework: for the calculation of financial institutions' collaterals, haircuts should be applied for dirty assets. Third, through Green Targeted Longer-Term Refinancing Operations (g-TLTRO): the ECB should implement a programme offering favourable refinancing terms to banks that engage in green lending (for details, see Schröder Bosch, 2023; PMEÜ, 2026).

In addition to that, the ECB could develop a program to directly boost public investments related to the green transition. The European Investment Bank (EIB) Investment Report 2024/2025 indicates that approximately 45% of the investments needed for European countries to reach the national climate goals should come from the public sector. The transition needs therefore to rely on the fiscal capacity of the public sector. If the ECB engages in a strong green monetary policy, but national governments are not contributing with green investments, subsidies to clean energy and/or other green fiscal policies, this will certainly restrain the transition. Yet, national governments have limited fiscal capacity, because of the boundaries of the Treaty of Maastricht⁸, but also because of the cost of public debt. If the ECB raises its interest rates, it increases this debt cost in Europe, curbing the capacity of national governments to contribute to the green transition. Given the abovementioned limits imposed by the "Maastricht Boundaries", the commitment of a higher share of the public funds with the payment of the debt service is detrimental to the increase of expenses in green investments. In addition, it may lead to a reduction (or even the elimination) of subsidies provided to the clean energy sector. In particular, in moments of crisis and austerity policies, public investments have usually disproportional reductions, affecting the green transition.

The ECB should therefore be more tolerant with public spending devoted to renewable energy and the green transition; and should promote it, by opening fiscal space to these investments. It could be done for instance through a permanent green public bond purchasing facility, with lower interest rates for this modality of bonds. This facility could be available not only to national governments, but also for municipalities and regional governments, which have a very important role in the green transition. In doing that, the ECB would be reducing the cost of green public investments, which are crucial for the transition, and - as discussed above - can be also helpful for price stability. Alternatively, the ECB could give a preferential treatment for green public bonds within the collateral framework. Applying advantageous haircuts for these bonds, the ECB would be stimulating financial institutions to have them in their portfolios, stimulating the allocation of private funding for public green investments (Schröder Bosch, 2023). Analogous tools (permanent purchasing facility and/or preferential treatment) could also apply to green bonds issued by the EIB, which plays a very relevant role in financing the green transition in Europe.

⁸ The Treaty of Maastricht imposes that Eurozone member states' government deficits should not exceed 3% of GDP, and public debt should not exceed 60% of GDP.

5. Final remarks

Effective coordination between monetary and fiscal policy is essential. On the one hand, it helps prevent policy misalignment that can generate uncertainty and lead to inefficient use of public resources. On the other, it enables a mutually reinforcing policy framework capable of advancing key socioeconomic objectives. This coordination becomes particularly critical in contexts requiring urgent action, such as the green transition.

In the renewable energy sector, such alignment plays a pivotal role. First, it enables governments to actively support the transition through targeted public investment and subsidies for clean energy. Second, monetary policy directly shapes credit conditions, which are crucial for the viability of private investment in renewable energy. This is especially important given the sector's capital-intensive nature and the need to scale emerging green technologies into commercially viable solutions.

Finally, the green transition must be socially just. As defined by the International Labour Organisation (ILO), a just transition entails "greening the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind". Achieving this balance requires sustained and coordinated action from both fiscal and monetary policymakers.

In the case of the Eurozone, this coordinated action can be done through direct arrangements between the ECB and the EU and/or national governments⁹; and it can also be done through indirect coordination. This indirect coordination may come from the exchange of relevant information and strengthening of the dialogue between the concerned parties. It can serve as a basis for autonomous, but synchronised decisions related to crucial societal goals, such as the one related to the realisation of a green and socially just transition.

⁹ Prieg et al. (2025) suggest the creation of an Economic Coordination Council.

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