

The role of the European Central Bank in a just transition

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DISCLAIMER

Remaining errors are the sole responsibility of the authors.

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Executive Summary

The transition to a climate-neutral economy is one of the European Union's defining policy priorities. While the European Central Bank (ECB) has increasingly incorporated climate considerations into its operations, far less attention has been paid to the social consequences of green monetary policies. This paper argues that the ECB should contribute not only to a **green transition**, but to a **just transition** (ie, one that simultaneously advances decarbonisation and reduces inequality, therefore preserving social cohesion).

The paper contends that climate action and social justice are complementary objectives. Well-designed policies can support both environmental sustainability and inclusive economic development, while poorly designed policies risk increasing regional disparities, unemployment, and inequality, ultimately undermining public support for the green transition.

Climate change already threatens macroeconomic and financial stability through supply disruptions, inflationary pressures, and increased financial risks. At the same time, policies supporting decarbonisation can generate short-term distributional costs, particularly for workers, regions, and households dependent on carbon-intensive activities or exposed to higher energy prices. Central banks can no longer treat these issues separately. Monetary policy inevitably affects income distribution, employment, and investment patterns. Ignoring these effects does not make policy neutral; it simply allows existing inequalities to deepen.

Key findings

1. Green monetary policy must explicitly consider inequality.

Climate-oriented monetary policies may unintentionally increase social disparities through job losses in carbon-intensive sectors, higher energy prices, or unequal access to green finance. These risks should be assessed before policies are implemented and mitigated through complementary measures.

2. The ECB has a legitimate role in promoting a just transition.

Supporting a just transition is consistent with the ECB's mandate. Climate change threatens price and financial stability, while the EU Treaties require the ECB to support the

Union's broader economic objectives, including sustainable development, employment, social progress, and environmental protection, provided price stability is maintained.

3. Monetary policy should be better coordinated with other public policies.

A successful just transition requires closer coordination between monetary policy, fiscal policy, industrial policy, financial regulation, and labour-market policies. The ECB cannot achieve this objective alone but should become an active partner within the broader European policy framework.

Policy recommendations

The paper proposes a comprehensive agenda for integrating just transition principles into ECB policymaking:

- **Systematically assess** the distributional impacts of all major green monetary policies before implementation.
- **Improve data collection** by monitoring inflation, employment, and other indicators across regions and income groups.
- **Expand green monetary instruments** (including collateral frameworks, targeted refinancing operations, preferential lending facilities, and credit guidance) while incorporating safeguards against adverse social effects.
- **Coordinate more closely** with EU institutions, national governments, the European Investment Bank, and the Just Transition Platform.
- **Adopt a more flexible approach** to inflation targeting that better accommodates climate-related supply shocks.
- **Recognise the complementary role** of fiscal policy and social protection systems in ensuring **a fair transition**.
- **Promote greater diversity** within the ECB's leadership and staff to improve institutional legitimacy and policymaking.

The paper's central message is that the ECB should move beyond viewing climate policy solely through the lens of financial risk. Instead, it should adopt an integrated framework in which environmental sustainability, social inclusion, and macroeconomic stability reinforce one another.

A just transition is not simply a social objective, it is also a prerequisite for maintaining political support for Europe's climate agenda. By incorporating distributional analysis into its policymaking, strengthening coordination with other public institutions, and ensuring that the costs and benefits of decarbonisation are shared fairly, the ECB can make a decisive contribution to a resilient, inclusive, and climate-neutral European economy.

Introduction

All EU actions and policies should pull together to help the EU achieve a successful and just transition towards a sustainable future.

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In the capitalist system, money and finance are at the core of economy and society (Keynes, 1930; 1936). This centrality is starkly evident in the current phase of capitalism, in the form of financialisation. According to Epstein (2005, p. 3), financialisation is defined by “the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies.” Financial capital is therefore embedded in all economic activities (Guttmann, 2016), with implications for social goods and needs such as housing (Aalbers, 2016), education (Eaton et al., 2016) and health (Friel et al., 2024).

In this context shaped by an “increasing role of [...] financial actors” (op. cit.), it is important to distinguish between private and public actors, their motivations, their activities and the consequences of these activities. On one hand, there are extremely powerful private actors (mainly institutional investors and banks) searching for quick and high yields in increasingly deregulated markets. On the other hand, public actors should in principle be seeking to defend the interests of the general public. Yet, these public institutions are always – in any country in the world – contested spaces.

Among these public actors, central banks (CBs) have a special position. Through regulation and supervision of financial institutions, and operation of monetary policy, CBs’ activities have strong and broad effects in the economy. In addition, even just through the public stances they take on key issues, CBs can have big impacts on the behaviour of actors in the wider economy. In fact, official speeches from senior figures of CBs are meticulously followed by financial actors and the mainstream media. In the current context of deep and multidimensional (ecological, social, economic, and political) crisis, European Central Bank (ECB) officials have recently made statements on wide ranging issues facing the Eurozone. For example, Christine Lagarde, President of the ECB, has been discussing in her speeches not only price stability, but also matters related to ‘security’ – in an implicit, but clear defence of increasing military investments, trade agreements, and democracy (Lagarde, 2025a). In an institution which tries to be visible only as a technocratic entity, it comes as a welcome surprise that the ECB is more transparently

accepting that it has an influence on wider economic and political discussions. Regardless of the extent to which one agrees with the ECB's recent positions (e.g. on military investment), its entry into these debates clearly demonstrate that the ECB is a political institution, and that it is futile to try and deny this reality¹. In other words, it shows that the ECB is not isolated from society; and nor should it be. Independence does not mean isolation².

Nonetheless, while the ECB is increasingly addressing topics which reach beyond purely monetary matters, it does so on a selective and narrow basis. Mentions of climate change are increasing, and this is excellent news. Yet, a comprehensive engagement with climate change beyond a narrow and faulty lens of 'financial risk' has not yet materialised. One urgent dimension that is completely absent in the official statements of the ECB is the concept of 'just transition'.

The International Labour Organisation (ILO) defines just transition as: "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" (ILO, 2024). This general negligence in regards to discussions, policies and actions on how CBs should relate to just transition is also reflected in the academic literature. On one hand, literature on CBs or monetary policy offers little exploration of the topic of just transition. While some works from the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) and from the G20 Sustainable Finance Working Group (G20 SFWG) make reference to just transition (e.g. NGFS, 2025), they do not elaborate on the topic. Some rare works further this discussion, including Monnin and Robins (2022), who argue in favour of a deep engagement of monetary authorities with efforts towards a just transition; and Calice and Demekas (2024, p. 4), asserting that a strong commitment of CBs to a just transition may harm their independence. Other studies discuss the need for CBs to undergo deeper and more structural changes as part of a wider process of socio-ecological transformation (e.g. Cahen-Fourot, 2022). On the other hand, the literature on just transition largely ignores CBs and monetary policy. This article addresses these gaps in the literature by exploring the role that CBs may have in a just transition.

Interesting discussions are being held on the pertinence of central banks engaging with the 'green transition'³ (e.g. Dafermos, 2026). Yet, there are deeply conflicting perspectives

1. According to van't Klooster (2021, p. 4), "anything the ECB does is unavoidably political".

2. We will discuss it in detail below.

3. The "green transition" not necessarily deals with the premise of a transition which is "as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind" (ILO, 2024), that's why we claim that it is conceptually different from "just transition".

on if and how CBs should engage with it. Despite a lack of international agreement – amongst both CBs and governments – on the desirability of fighting against ecological collapse, in the Eurozone there are some timid but valuable steps in the direction of recognising that climate change heightens financial risks, which has led the ECB to introduce some measures to address this issue⁴. Notably, in August 2025, the ECB announced that its accepted collateral will be weighted by a “climate factor”⁵. Even if the measures are still weak, and the reasoning is still very narrow, such developments (interpreted optimistically) suggest that the ECB is open to participating in efforts towards a green transition moving forward.

Having said this, as stated by Eurofound (2021, p. 27):

“many climate policy measures have significant undesired regressive effects. This means that, although they are designed to contribute to the necessary reduction in greenhouse gas emissions, they may also contribute to increasing existing inequalities, between individuals, firms or regions. In addition, this tends to reduce the general acceptability of the necessary policies and makes their implementation much more difficult.”

This possibility that climate policies implemented by CBs may have “undesired regressive effects” is a crucial question for the framework we develop here. To investigate this dynamic, it is important to first explore the relation between monetary policy and inequalities. Then, if we assume that central banks should be involved in the endeavour for a green transition, we should consider if their actions might have these undesirable distributional effects – and if the answer is positive, how to avoid this or compensate for it. In spite of deep divergences, the potential distributional effects of monetary policy are being discussed in the literature, and we draw on these debates to inform our analysis.

The objectives of this paper are therefore: i) studying the effects that green monetary policy may have on inequality; ii) proposing a strategy to curb the potential negative impacts of green monetary policy on rising inequalities, allowing the ECB to contribute to a just transition in the Eurozone.

In addition to this introduction, the article is structured as follows: section 2 presents an overview of the literature on the effects of monetary policy on inequality; section 3

4. Cf. ECB (2024).

5. https://www.ecb.europa.eu/press/pr/date/2025/html/ecb.pr250729_1~02d753a029.en.html . Accessed on Jul 29, 2025.

discusses green monetary policy and its potential impacts on inequality; section 4 presents in more detail the concept of just transition, and the European Union's commitments to such transition; section 5 makes recommendations for an alignment of the ECB with a just transition; and finally, section 6 offers some concluding remarks.

1. Monetary policy and inequality: an overview

The impacts of inflation as a driver of inequality are well-documented (Borio, 2022). Lower-income groups generally spend a larger proportion of their incomes on essential goods such as energy and food, compared to higher-income groups (Chai et al., 2023). Data clearly shows this trend playing out within the European Union (EU) in recent years (eurostat, 2025). Energy and food are prime sources of inflation, triggered by factors such as geopolitical conflicts – as seen with recent ‘fossilflation’ following Russia’s invasion of Ukraine – and increasingly, climate shocks which disrupt global supply chains (Barnes and Schröder Bosch, 2024). Therefore, when the prices of essential goods rise, it is lower-income groups that are hardest hit, as they have less disposable income through which to absorb higher prices alongside all the other regular expenses they face (Bobasu et al., 2025).

In the current international central banking regime which is dominated by inflation-targeting frameworks, interest rate changes are the primary monetary policy tool used by central banks in an attempt to control inflation (Barnes et al., 2024). With mandates focused on maintaining price stability and low inflation, central banks – such as the European Central Bank (ECB) – are often imagined as neutral agents in regards to distributional impacts and socio-economic inequality, which are commonly seen as shaped solely by governments and fiscal policy. Further, given that inflation aggravates inequality, it could even be thought that the deployment of monetary policy with the aim of tackling inflation is always likely to help in mitigating rises in inequality (e.g. Carstens, 2021). However, empirical evidence problematises both of these scenarios: monetary policy is not neutral in terms of its distributional impacts, and it often exacerbates inequality rather than mitigating it.

The connections between monetary policy and inequality is a subject that has only begun to garner significant attention relatively recently. McKay and Wolf (2023) argue that the last ten years has seen an ‘explosion’ of research on the topic. Dossche et al (2021) propose that this comes in response to the pronounced and widespread period of expansionary monetary policy – including unconventional measures – following the 2008 global financial crisis, and concerns around the extent to which this has exacerbated inequality. While monetary policy and inequality as an area of research is still developing, there are clear trends within the existing literature which only add to the case for central banks to give this issue much greater consideration in their policymaking.

Importantly, the impacts of monetary policy on inequality are multi-faceted, depending on type and orientation of policy, the characteristics of the economy in question, and the nature of inequality under study. Monetary policy impacts inequality both within countries, but also between countries (Barmes and Schröder Bosch, 2024). The latter form is especially pertinent in contexts such as the Eurozone, where monetary policy for a large and highly heterogeneous group of countries is unified and conducted by a single central bank. Additionally, inequality can be measured in a number of ways, including through different forms of income, and of wealth, as well as consumption and expenditure.

Furthermore, different forms of monetary policy can be considered, including that which is classed as conventional (the use of interest rates), and unconventional (e.g. quantitative easing/tightening). A key factor shaping impacts on inequality is whether monetary policy is expansionary or contractionary in form. In short, expansionary monetary policy involves central banks seeking to stimulate an economy by lowering interest rates, while contractionary monetary policy is the opposite, and uses higher interest rates in an attempt to bring high inflation back down to target levels. There is also the question of time horizons, as the distributional impacts of monetary policy evolve with time after the point of implementation. It is not possible to discuss how all possible combinations of these many variables around monetary policy and inequality interact, but some of the key themes from existing studies and literature are explored here.

To structure the discussion, impacts of contractionary monetary policy on inequality are discussed first, followed by expansionary monetary policy.

1.1. Contractionary monetary policy

The connections between monetary policy and inequality may be most readily visible to many audiences in the context of contractionary monetary policy, given that it seeks to reduce demand in an economy, including by increasing the unemployment rate (Kelton, 2020). Indeed, empirical research finds that contractionary monetary policy increases inequality not only in labour incomes, but also in total incomes, consumption and expenditure (Coibion et al., 2017; Mumtaz and Theophilopoulou; 2017). The largest focus within existing academic studies is on the incomes dimension.

Contractionary monetary policy involves central banks raising interest rates, which increases the cost of finance for commercial banks, who then pass on these lending rates on to businesses and households in order to maintain their profit margins. This has

impacts including raising the cost of mortgage repayments for many households as well as rent increases as housing demand shifts to the rental sector (Abramson et al., 2025; Bracke et al., 2025). Further, businesses are prompted to lower their levels of investment, including by not hiring new workers or even laying off existing employees. Higher interest rates also means a higher opportunity cost on investments for businesses, which may also prompt some to shift investment away from productive assets (e.g. workers) and towards financial assets. Low-income workers – notably including those precariously employed in temporary contracts and the gig economy – are generally more exposed to wider business cycles, and so are more at risk of losing their jobs in periods of contractionary monetary policy than those on higher incomes (ECB, 2021; Dossche et al., 2021; Beckmann, 2022; McKay and Wolf, 2023). These job losses result in loss of incomes, which has the effect of increasing inequality.

For example, using a dataset reflecting a representative sample of 10 percent of all US males, Guvenen et al. (2014) studied the distributional impacts of the 1979–1983 recession in the US, which was triggered by the ‘Volcker Shock’ that saw the Federal Reserve led by Paul Volcker raise interest rates to 20% at their highest. Guvenen et al.’s (2014) modelling demonstrates that low-income households faced much larger losses of income from this contractionary monetary policy shock than high-income households. Mumtaz and Theophilopoulou (2017: 411) conducted a study based on data from 1969 to 2012, from the UK Family Expenditure Survey, “which provides detailed information on demographics, income, expenditure and consumption” for a representative sample of 7000 UK households per year. They also found that contractionary monetary policy shocks reduced wages and income for low-income households while high-income households remained less affected, partly due to the latter deriving a greater proportion of their income from returns on investments (Mumtaz and Theophilopoulou 2017). Accordingly, their analysis showed a 100 basis point rise in the interest rate leading to an increase in the Gini coefficient of between 3% and 10%, while a monetary policy contraction equal to one standard deviation increased the coefficient by 1% (Mumtaz and Theophilopoulou 2017).

This increase in income inequality driven by contractionary monetary policy has further implications in terms of consumption and expenditure inequality. As low-income households also tend to have less wealth, credit, and income from investments to fall back on, the loss of labour income from a contractionary shock has a knock-on effect of disproportionately reducing their consumption and expenditure (McKay and Wolf, 2023), making it more difficult to balance the costs of essential goods and services such as housing, food, utilities, and transportation. Coibion et al.’s (2017) analysis of data from the US Consumer Expenditure Survey evidences this principle, finding that a 100 basis point contractionary monetary policy shock raises inequality in expenditure and consumption

by around three standard deviations. They conclude that “every measure of inequality points to a statistically significant and highly persistent increase in inequality after a contractionary monetary policy shock” (Coibion et al., 2017: 79). Adding to this effect is the fact that more wealthy households tend to have higher savings, and therefore gain higher returns on these savings when interest rates are increased (Bobasu et al., 2025).

In addition, the distributional impacts of monetary policy can also be considered from a geographical perspective. This is particularly relevant for central banks with large and highly heterogeneous jurisdictions. The ECB is one such case, with the Euro currency being shared across a geographical region marked by significant inequality both between and within countries. The problems of divergent national economies being unable to implement autonomous monetary policy were brought into stark relief by the eurozone sovereign debt crisis in the wake of the 2008 global financial crisis. The weaker and debtor economies within the eurozone were forced by the stronger, creditor economies and EU institutions to accept bailouts tied to the imposition of domestic austerity measures (Frieden and Walter, 2017). A trend of converging incomes between EU countries ground to a halt at this point, after 2008 (Vacas-Soriano and Fernández-Macías, 2017).

A study involving researchers from the ECB used city- and county-level economic data to study the specific effects of monetary policy on regional inequality in the eurozone (de Groot et al., 2024). Illustrating the base levels of inequality across the region, they state that in 2014, per capita GDP at the country level ranged from €16,235 in Portugal to €45,083 in Ireland, and at the regional level ranged from €9,401 in Serres, Northern Greece, to €137,383 in Wolfsburg, Germany (de Groot et al., 2024). Furthermore, average income inequality within single eurozone countries was almost two thirds of that across the eurozone as a whole, with certain countries even reaching a similar level to this international inequality (de Groot et al., 2024).

This research found that poorer regions in the eurozone experience a greater and more persistent reduction in their GDP as a result of contractionary monetary policy shocks compared to wealthier regions. Their modelling of a 100 basis point rate increase showed peak losses at the 5th percentile to be around one third higher than those at the 95th percentile, while the latter’s GDP recovered to pre-shock levels within a five-year time horizon, yet the former’s remained close to its lowest trough. The article highlights drivers of this effect including the tendency of poorer regions to have a larger share of the population working in small businesses, as well as generally lower-skilled workforces, which make these regions more vulnerable to business cycles and policy-driven economic contractions (de Groot et al., 2024).

As well as the regional level, it should also be noted that monetary policy can impact inequality on an international scale. As previous Positive Money reports have argued, because of currency hierarchy within the inequitable international monetary and financial system, interest rate hikes in core Global North economies – most notably the US, but also the EU – can force Global South countries into raising their own rates in order to avoid capital outflows and currency depreciation (Barnes and Schröder Bosch, 2024; Kazi and Haglund, 2024; Olk, 2024). Many Global South countries hold large amounts of foreign-denominated debt – primarily in US dollars – and so international interest rate rises increase the cost of servicing this debt, which reduces their fiscal space for public investment. In 2023, the World Bank’s International Debt Report highlighted record debt servicing costs following global interest rate hikes, putting 60 percent of low-income countries either in, or at high risk of, debt distress (Barnes and Schröder Bosch, 2024). In addition, higher domestic interest rates in Global South countries dampen internal investment. Because of these factors, in moments of global contractionary monetary policy, lower-income countries in the Global South often face harsher overall economic consequences than Global North countries.

Contractionary monetary policy therefore not only poses aggregate deflationary and recessionary impacts on an economy, but those who are already in weaker economic positions are disproportionately negatively affected, both within and between countries.

1.2. Expansionary monetary policy

Turning to expansionary monetary policy, it may seem intuitive that this should have the mirror impacts on inequality of contractionary policy. However, this is not the case. Like contractionary policy, the distributional impacts of expansionary policy occur through multiple transmission channels, including – most notably – incomes and wealth.

In aggregate, expansionary monetary policy is designed to stimulate the economy, which means that it usually has a net effect of raising people’s incomes (McKay and Wolf, 2023). When interest rates are lowered, this incentivises households to consume, and firms to borrow and invest. Expansionary monetary policy therefore tends to lead to increased employment (which increases incomes significantly), and already-employed people seeing their wages increase (Dossche et al., 2021). Furthermore, those self-employed tend to receive higher incomes through their businesses (Andersen et al., 2023). As there is huge variance in the composition of people’s incomes, the impact of expansionary

monetary policy on inequality is determined by the characteristics of a particular economy and how the various effects are distributed across the income spectrum.

McKay and Wolf (2023) argue that incomes of low-income households are more closely tied to business cycles, and so in some cases this can lead to the benefits of income increases through expansionary monetary policy being weighted towards the lower end of the income spectrum. For example, research by Dossche et al. (2021) found that the ECB's asset purchase programme in response to the covid-19 pandemic – an example of unconventional expansionary monetary policy – created the largest reduction in the unemployment rate within the bottom income quintile. McKay and Wolf (2023) also propose that lower interest rates can benefit households by enabling them to refinance mortgages at lower rates, albeit this benefit is more concentrated in the middle class than the lowest-income households. More broadly, lower interest rates reduce payments on other kinds of debt held by households (Dossche et al., 2021).

However, there are other circumstances in which expansionary monetary policy can lead to increased inequality. Higher-income households tend to receive significantly more income through businesses, and increases to business income from expansionary monetary policy grow in scale as you move up the income spectrum, thus contributing to increased inequality (Coibion et al., 2017; Beckmann, 2022; Andersen et al., 2023). Providing empirical evidence for how expansionary monetary policy can increase inequality, Andersen et al. (2023) conducted a study based on individual-level tax records for the entire population of Denmark, from 1987 to 2014. They found that “when the monetary policy rate is lowered by one percentage point, the two-year effect on disposable income is around 3 percentage points larger for the top 1% of households than for the reference group in the middle of the income distribution and around 1 percentage point smaller for the households at the lowest income levels” (p.2-3). In sum, they find that even if there is a net benefit across income groups, expansionary monetary policy increases income inequality due to upper-income households receiving the largest benefits.

Research has shown this same pattern playing out in regards to asset wealth, which appears to have an even larger impact on inequality than incomes (Andersen et al., 2023). Lower interest rates incentivise many savers and depositors to move money into other riskier assets that might offer a higher return – such as stocks – which drives up the prices of these assets, while the prices of bonds are also driven up by the fact that newly issued bonds will provide a lower yield than existing ones (Beckmann, 2022). In addition, when central banks purchase large amounts of government bonds through asset purchase programmes, this increases their value and decreases their yield, also pushing investors towards higher-risk assets including stocks and increasing their values (Beckmann, 2022).

As ownership of financial assets is highly concentrated in the upper parts of the income spectrum, expansionary monetary policy can lead to larger wealth increases in these groups compared to lower-income households who do not have many assets, therefore leading to increased inequality (Draghi, 2016; Coibion et al., 2017; Dossche et al., 2021; Andersen et al., 2023). In addition, Mumtaz and Theophilopoulou (2017) suggest that the assets lower-income households do hold tend to be more liquid and accordingly more vulnerable to the inflationary impacts of expansionary monetary policy.

This effect is corroborated by Coibion et al.'s (2017) study of the impacts of monetary policy on inequality in the US since the 1980s, based on Consumer Expenditure Survey data, which found that already-wealthier households have benefitted further from rising stock values. Further, Andersen et al. (2023) measured the asset value gains of the top 1% of households in Denmark resulting from expansionary monetary policy to be 40 percentage points larger than that of the median income level, over a two-year time span. Dossche et al. (2021) argue in their study of the ECB's post-covid asset purchase programme that a resultant rise in house prices roughly neutralises the inequality-generating effect of rising stock prices, leading to a relatively stable Gini coefficient of net wealth. However, Andersen et al. (2023) find that the gains in housing asset values from expansionary monetary policy remain much greater for the wealthiest households than for lower groups. On top of this, while house price gains may be more widely spread across wealth gradients in a given population than stock price gains are (Draghi, 2016), several studies find the latter to significantly outweigh the former, thus contributing to a net increase in wealth inequality through expansionary monetary policy (Domanski et al., 2016; Adam & Tzamourani, 2016; Beckmann, 2022; Andersen et al., 2023).

In sum, evidence from empirical research suggests expansionary monetary policy can both exacerbate and reduce income inequality depending on the context, while in regards to wealth, the weight of evidence appears to fall more strongly towards increases in inequality. This is because, even if less-wealthy groups may experience some economic gains, more wealthy sections of the population generally receive the largest share of the benefits.

1.3. Inequality affects the transmission of monetary policy

Having focused on how monetary policy impacts inequality, it must also be noted that economists and researchers have studied the opposite direction of influence: how inequality affects monetary policy.

Dossche et al. (2021: 103) explain that “as households differ substantially in terms of the composition of their wealth, the sensitivity of their income to the business cycle, and their propensity to consume, the distribution of income and wealth plays a key role in shaping the transmission of monetary policy to economic activity and inflation”. In other words, the scale and character of inequality in an economy has direct impacts on how successful monetary policy is likely to be in having its desired effect (Beckmann, 2022). This further emphasizes the relevance of inequality to central bank remits, and the importance of meaningfully integrating consideration of inequality within their policymaking.

Evidence suggests that in societies with greater inequality, expansionary monetary policy efforts are likely to be less effective (Borio, 2022). The key dynamics underlying this trend are that lower-income households spend a greater proportion of their incomes on goods and services than higher-income households do, while higher-income households tend to save a larger proportion of their incomes. Accordingly, when a relatively small number of very wealthy households in an economy absorb most of a monetary stimulus, the efficacy of expansionary monetary policy in generating a multiplier effect is likely to be muted (Beckmann, 2022). In addition, the lowest-income households can struggle to benefit from borrowing as interest rates are lowered, as they often face constraints such as not having sufficient collateral to offer, while the wealthiest households are likely to be less sensitive to typical rate changes anyway (Borio, 2022; Beckmann, 2022). For these reasons, societies with high levels of inequality are sub-optimum for the effective transmission of monetary policy. Inequality is therefore not only relevant to central banks as an issue of social equity and wellbeing, but also as a monetary issue.

1.4. Should inequality be a concern of central banks?

As detailed, an ever-expanding body of empirical research makes clear that monetary policy exerts significant influence on inequality as measured in a number of different ways, as well as levels of inequality in an economy affecting the transmission of monetary policy. It is still contentious amongst economists and researchers, however, as to what extent central banks should integrate consideration of inequality within their policy-making.

Monetary policy is not the primary force driving long-term trends in inequality within and between countries (Dossche et al., 2021; Borio, 2022), which are shaped by a much wider constellation of structural factors shaped by government policies (e.g. fiscal and industrial policy) and corporate practices (e.g. labour exploitation) across the global economic system. However, this does not mean that central banks can wash their hands

of any responsibility for impacting and addressing inequality. On the one hand, monetary policy has a significant impact on the relative levels of inequality created by these wider economic machinations, and if designed with this in mind, it can play an important role in mediating the harshest effects and aiding a more even distribution (Coibion et al., 2017; Dossche et al., 2021; Borio, 2022). As Borio (2022: 12) argues, effective monetary policy can “tame the macroeconomic forces that amplify inequality” such as inflation, recessions and financial instability.

However, further to this mediating role, monetary policy shocks have the potential to exert impacts on inequality that stretch beyond particular business cycles, such as triggering recessions which deliver grave economic impacts for certain sections of the population (Beckmann, 2022). Therefore, it is undeniable that central banks have significant power to influence inequality through monetary policy. Through choices to pursue contractionary policy, expansionary policy, and the inflation-targeting paradigm in and of itself, all these actions carry distributional impacts. The question is not then whether central banks shape inequality, but whether they choose to integrate it as a key consideration of their policymaking and play their part in addressing it. If they shirk this responsibility, the likelihood is that monetary policy continues to exacerbate inequalities, through the mechanisms described in this section.

2. Green monetary policy and potential impacts on inequality

As presented in section 2, there are currently contested discussions taking place in regards to the importance of central banks taking inequality issues into consideration in their operations. In addition, there are also debates on the need for monetary authorities to cope with another major challenge that human society is currently facing: the ecological crisis. Again, there is no consensus here. On one hand, many analysts and policy makers argue that central banks should not be distracted by goals other than price stability (e.g. Mas et al., 2020). On the other hand, there is an increasing perception that monetary authorities should take climate change into consideration. CBs should understand that climate shocks may provoke financial instability (e.g. Dafermos et al., 2018), and how their policies impact the environment⁶.

The ecological crisis has a negative (and strong) effect on inequality (see for instance Ferrara, 2023; Cevik and Jalles, 2023). Within countries, low-income households suffer the worst consequences of climate change (for instance, low-income households are more sensitive to increases in fossil-fuel prices). Between countries, populations of the Global South are in general more affected by the impacts of climate change, (e.g., by extreme weather events, such as the floods in Pakistan over recent years).

Hence, the inaction of governments and public institutions is certainly the worst possible outcome, both for nature and society. This is a crucial premise. Yet, it is important to recognize that policies to address climate change may have distributional impacts, and – if badly designed – some of them may have the undesirable side-effect of increasing inequalities (Zhao et al., 2022; Soergel et al., 2021). According to Bettarelli et al (2024), the potential negative distributional consequences of climate change policies unfold through two main channels: job losses and energy prices. Their claim is related to climate change policies broadly conceived, but it is important to analyse if this may be also the case for green monetary policy⁷.

Considering the first channel, any policy aimed at restricting the exploration of fossil fuels and other ecologically destructive activities will inescapably lead to a loss of jobs in

6. Positive Money strongly advocates in favour of central banks adopting green policies – ie, policies aimed at dealing with climate change, and the ecological crisis in a broader sense (PMEU, 2024; Schröder-Bosch, 2023).

7. This will be discussed in section 5.

these sectors. From the point of view of inequalities, the important point to grasp is that some of these are activities concentrated in regions with lower development indicators. For example, in the EU, jobs related to coal extraction are concentrated in Poland, Romania, Bulgaria, Czechia and Greece – in addition to Germany (EC, 2025). In addition, in many of these EU regions dependent on fossil-fuel and carbon-intensive industries, employment is disproportionately concentrated in medium- and low-skilled occupations, often associated with below-average regional income levels and high socioeconomic vulnerability (McDowall et al (2023). As indicated by the authors (op. cit., p. 6), “regions with already high levels of unemployment are particularly sensitive to further job losses, with fewer opportunities for laid-off workers to be immediately hired in other sectors and businesses”. Hence, policies from the ECB which are aimed at supporting energy transition are urgently needed in the effort to address climate change, but the ECB should not ignore that – at least in the short run – this may lead to increasing inequalities if additional measures are not put in place to mitigate these effects.

For instance, in July 2025, the ECB announced a policy in which the values of marketable assets issued by non-financial corporations, which compose the collateral used by commercial banks to access refinancing, will receive haircuts according to a ‘climate factor’. In spite of being a small step, because it applies only to assets issued by non-financial corporations, this development is very much in accordance with Positive Money’s prior recommendations (e.g. Abdelli et al., 2024). Yet, the ECB should have a clear view of the distributional effects of measures such as this, in order to ensure mitigation of any negative side-effects. Also, we strongly suggest that the ECB should have a system of dual interest rates, with lower borrowing costs for green activities. Again, there must be consideration of job losses in industries operating in the most ecologically destructive brown sectors, and these workers cannot be just ‘left behind’. As we will discuss below, this should be done in coordination with governments to spur new green industries and provide retraining opportunities for workers.

The second channel of possible negative distributional impacts of climate policies highlighted by Bettarelli et al (2024) is energy costs. The literature is consensual in showing that hikes in energy prices are particularly harmful for low-income households that spend a higher share of their incomes on energy bills (Barnes and Schröder Bosch, 2024). At least in the short- to medium-term, climate policies may result in an increase in the energy costs for some regions or households. This may happen because of higher prices for fossil-based energy (facing greater restrictions), or because of relatively high costs for green energy in the short-term as it scales up. If these higher costs are passed onto households, they are likely to have a greater impact on those with lower incomes, therefore increasing inequalities. Usually, proposals for central bank policies aimed at

supporting energy transition are designed to reduce the cost of clean energy⁸. Yet, if any policy penalising fossil fuel companies (e.g. restricting credit lines for these companies) results in temporary hikes in energy prices, central banks must acknowledge that this will hit low-income households hardest and increase inequalities, and so they must think about measures to counteract this (including in coordination with national government policy).

In addition to these two main channels through which green policies can have negative distributional effects, there are also risks which are specific to the financial domain. Green finance is an important component of sustainable economic transition, but it also poses a risk of deepening the degree of financialisation of the global economy over the coming years. In turn this will exacerbate the negative social impacts of financialisation dating back to the neoliberal turn in the 1980s. Depending on how green finance is organised – e.g. through regulation, credit guidance, and the balance of public vs private ownership structures – it could serve to promote a new class of financial assets that perpetuate an already finance-dominated economic system, in which financial gains and the valorisation of financial assets are at the core, and speculative operations become predominant⁹. Several studies indicate how the deepening of financialisation in Europe since the beginning of the 21st century has increased inequalities (e.g. Battiston et al., 2018). Hence, if central banks provide blind support to the emergence of all kinds of allegedly ‘green’ financial assets (e.g. green bonds, climate bonds, blue bonds, catastrophe bonds) without sufficient regulation, they will further embed a system which is inherently a generator of deeper inequalities. If the objective is channelling more funds to the green transition, rigorous criteria and strong regulation from monetary authorities are required – in addition to coordination with fiscal and industrial policy.

Furthermore, if green central banking policies are designed in such a way that the benefits are hoarded by the largest institutions and corporations, this will be a source of further inequalities.. For example, if the accreditation of a company’s assets as green involves extremely expensive procedures, this will be only affordable to big multinationals, who will then hoover up the benefits of enhanced green finance, thus extending inequalities. Rigorous criteria and scrutiny are needed to prevent greenwashing, but this has to be designed in a way that does not imply absurd costs for small and medium enterprises.

To conclude, it is important to highlight what Eurofound (2021, p. 49) reminds us: “distributional effects have not been extensively studied in designing policy measures

8. Some proposals will be discussed in section 5.

9. For discussions on finance-led capitalism, see for instance Guttman (2016).

to achieve climate neutrality”. While policies to address climate and ecological crisis are urgently needed, policy makers must consider the social impacts of such policies, and calibrate them to offset potential negative consequences. For green central banking policies, a focus should be on the effects such policies may have on inequalities. Crucially, this perspective should not lead to the conclusion that green monetary policies which may contain some negative distributional effects must be abandoned a priori. As suggested by Bettarelli et al (2024, p. 1), “complementary policies (i.e., fiscal or monetary policies) may either mitigate or exacerbate the distributional costs of climate change policies”. Our claim is therefore that central banks should always consider the distributional effects of their policies – including green policies – and design them to ensure that they do not deepen inequalities. In other words, central banks should contribute not only to a green transition, but to a just transition.

3. Just transition in Europe

As discussed above, most research on the green transition recognises the risk that it brings about some undesirable social side effects, especially in relation to jobs and prices. Regarding jobs, employment is likely to shift between sectors, companies, occupations, and regions. In the EU, those most affected by industrial restructuring driven by green transition policies tend to be lower-paid workers, and older generations, particularly in regions with a high volume of jobs in ecologically destructive sectors (Vandeplas et al, 2022). As for prices, the long-term tendency of green transition may be towards lower and more stable costs (at least for energy, whose price dynamics are very important in the determination of inflation levels), but in the short-term some prices may increase, with particular harm to certain regions and social groups.

For these reasons and more, it is important to talk not only about a green transition, but also a just transition. The concept of ‘just transition’ emphasises the importance of taking into consideration not only the ecological aspects of the required transition, but also the social dimensions such as wellbeing and inequality. The main message is that we need a transition in which ‘no one is left behind’.

In line with these crucial considerations, the European Commission states in its report on Employment and social developments in Europe (2019a, p. 170) that “[a]ttention to social and environmental inequalities and distributional impacts of climate action is important for ensuring that the burden is fairly distributed across individuals, groups, sectors and regions”.

In that same year, the Commission’s official discussions around the implementation of the ‘European Green Deal’ acknowledged the need for a just transition. The Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee, and the Committee of the Regions, about the European Green Deal states that (European Commission, 2019b, p. 2, our emphasis):

“It [the European Green Deal] also aims to protect, conserve and enhance the EU’s natural capital, and protect the health and well-being of citizens from environment-related risks and impacts. At the same time, this transition must be just and inclusive. It must put people first, and pay attention to the regions, industries and workers who will face the greatest challenges.”

Needless to say, putting “people first” should be a premise for all national and regional authorities, and the objective of not provoking social harms to certain marginalised

regions and groups is always relevant in itself. Yet, the European Commission pertinently asserts that this is not only necessary for social reasons, but also for political cohesion in the quest of a common goal:

“Since it will bring substantial change, active public participation and confidence in the transition is paramount if policies are to work and be accepted. A new pact is needed to bring together citizens in all their diversity, with national, regional, local authorities, civil society and industry working closely with the EU’s institutions and consultative bodies.”
(op. cit., p. 2).

Especially in a context in which ‘climate denialist’ movements are exploiting social malaise to argue against climate action, European institutions should take particular care to demonstrate that the transition is to the benefit of ordinary people rather than corporations, financial institutions, and the very wealthy. Hence, just transition is important for ecological reasons, for social reasons and also for political reasons. In the same vein, another document of the European Commission (2018) declares that “ensuring a socially fair transition is crucial to ensure a politically feasible transition”.

In the current legislative cycle, the European Parliament’s commitment to the European Green Deal has demonstrably decelerated, transitioning from a more comprehensive paradigm of transformation into a narrowed, technically focused agenda increasingly undermined by deregulation and political backlash. Yet, it is important to reaffirm that the institutional commitment to just transition is still part of European Union documents. In her “Political guidelines for the next European Commission 2024–2029”, von der Leyen (2024a, p. 18) states that “People and their jobs must always remain at the heart of our social market economy even as our industries and economies change shape. We need to ensure a just transition for all”. In a Mission Letter to Wopke Hoekstra, EU Commissioner for Climate, Net-Zero and Clean Growth, von der Leyen (2024b, p. 5), asks: “You will work on the necessary enabling conditions, supporting the competitiveness of European industry, ensuring a just transition and a level playing field”. In her official statement at COP30, Commissioner Hoekstra (2025, p. 1) declared “We must speed up the global energy transition [...] by producing more renewables, by boosting energy efficiency, and using all tools — including carbon pricing — while ensuring a just transition for everyone”.

From the official documents to the practical policies, there is however a gap. In spite of its strong rhetoric, the European Union has only a few organised tools to promote the just transition, that are very limited in their capacity (Akguc et al, 2022).

The most important one is the Just Transition Mechanism. Created as part of the Sustainable Europe Investment Plan, in 2019, it is a framework aimed at ensuring that policies for a carbon-neutral economy in Europe are not implemented at the expense of particular regions and social groups. The basic principle is as simple as it is relevant: “[t]he transition can only succeed if it is conducted in a fair and inclusive way” (European Commission, 2019, p. 19). The Just Transition Mechanism includes a Just Transition Platform, which is a helpdesk providing information and assistance on several financing mechanisms, serving also as a tool for exchange of best practices related to the just transition. Financing mechanisms include the “Just Transition Fund”, providing grants for regions and workers heavily impacted by the green transition; the InvestEU “Just Transition Scheme”, which provides loan guarantees to attract private investments; and the Public Sector Loan Facility, combining EU grants and EIB loans to the public sector.¹⁰ Altogether, they aim at mobilising around €55 billion over the period 2021–27 to alleviate potentially harmful social effects of green transition on particular regions of the EU. The recently created EU Social Climate Fund aims to also contribute to a just transition, with funds addressed at energy efficiency and clean mobility, but also to provide temporary financial aid for some households and micro-business affected by the new carbon pricing for energy and transportation (ETS2). The whole budget is €86.7 billion for the period 2026–2032¹¹. These are important initiatives, but according to Akguc et al (2022), they are insufficient to deal with all the challenges ahead: “highly affected sectors such as the automotive and energy-intensive industries have neither dedicated instruments nor a fund”. Studying the Just Transition Mechanism and the effects of the green transition in Spain and Romania, Di Rosa et al. (2025) also argue that “while notable efforts have been made and continue to be undertaken, they appear insufficient to guarantee a fair and sustainable transition for all”.

However, in a crucial statement in the abovementioned communication related to the implementation of the Green Deal, the European Commission (2019b, p. 24) declares that “All EU actions and policies should pull together to help the EU achieve a successful and just transition towards a sustainable future”. It is therefore clear that in addition to the tools mentioned above that were specifically designed to foster the just transition, the principles of a just transition should be guidelines for all policies implemented by EU institutions.

10. For details, see https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/europe-an-green-deal/finance-and-green-deal/just-transition-mechanism_en. Accessed on Dec. 23, 2025.

11. For details, check the Fund’s website: https://commission.europa.eu/strategy-and-policy/eu-budget/performance-and-reporting/programme-performance-statements/social-climate-fund_en. Accessed on Dec 23, 2025.

Given its essential role for the performance and transformation of the Eurozone economy, the ECB is no exception. The ECB must design its policies and actions around the principles of not only green transition, but just transition. Unfortunately, there are barely any mentions of just transition in ECB documents or officials' speeches to date. In addition, mentions of monetary policy remain scarce in broader discussions related to just transition. This is an important gap not only in the literature, but – most importantly – in policy and actions. The next section sets out some recommendations.

4. Recommendations for green and just central banking policies

In line with the declaration of the European Commission, we believe that the ECB will need to play an important role in a just transition in the Eurozone. As stated by Monnin and Robins (2022, p. 3), “the just transition requires coordinated action across all fields of financial policy and practice. This includes the monetary policies and financial regulations implemented by central banks and financial supervisors.”

The delimitation of the ECB’s role has to rely on some basic assumptions. The first one is that actions supporting the just transition do not need to be detrimental to price and financial stability. Rather, the opposite case is true. Ecological breakdown is already driving dramatic price instability (Barnes and Schröder Bosch, 2024), so supporting just transition is crucial to fulfilling central banks’ primary mandates. As we will argue below, a long-term perspective on price and financial stability should consider both the ecological crisis and inequality. The second assumption is that the ECB is not exclusively a monetary policy making institution. Monetary policy is certainly the main domain of the ECB, but its scope of actions go much beyond this. With this in mind, we provide some recommendations for actions that the ECB should implement to support a just transition in the Eurozone. These recommendations can be considered in addition to the extensive green central banking policy recommendations that Positive Money has made in previous publications (e.g. Livingstone et al., 2024; Schröder Bosch, 2023 and 2025).

Starting with more structural suggestions, a revision of the single mandate framework – centred on price stability – of the ECB is advised. Especially in a context in which traditional monetary policy tools are becoming less effective (among other reasons, because supply-side and ecological inflationary shocks are becoming more common and severe), the ECB should transition to a mandate which incorporates both climate and jobs. While we have explained that actions supporting the just transition are completely aligned with the mandate of price and financial stability, we suggest that a dual mandate would give to the ECB further responsibility and legitimacy to implement actions addressing ecological and social issues.

Yet, many studies argue that 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 inequality (e.g. 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:

The Union shall establish an internal market. It shall work for the sustainable development of Europe based on balanced 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.

While the term 'just transition' is not used, the notion of "sustainable development (...) aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment" aligns with many elements of the concept.

In discussing this secondary mandate, van't Klooster (2021, p. 18) highlights that "independence prohibits governments from instructing the ECB what to do, but legal acts that apply to it do not fall under that article". The ECB should therefore be more attentive to this secondary mandate, while keeping in mind that these objectives cannot come at the expense of the primary mandate. van't Klooster (2021) suggests that the EU political institutions (in particular the Commission and the Parliament) could rank the objectives that are referenced in TEU's Article 3(3). This would bring clarity to the secondary mandate, without undermining ECB independence.

To address the task of "contributing to the achievements of the objectives of the Union", the ECB must carefully consider the heterogeneities of its jurisdiction. Targeting the region's averages (average inflation rate, average unemployment rate, etc) is certainly necessary for a common monetary policy which is implemented across the whole Eurozone, but the heterogeneities of internal regions, sectors and social groups also cannot be ignored. Consideration of these heterogeneities should not be static, but rather dynamic – i.e., capturing the discrepant effects that a common policy may have over these different regions, sectors and social groups.

But how can these considerations be translated in policies and actions? In line with Monnin and Robins (2022), an important starting point is to assess the potential effects of green policies. The ECB should develop a rigorous framework for the assessment of the distributional effects of green monetary policies. All research, forecasts and models should consider the social consequences of policies (op. cit., p. 9).

For this purpose, appropriate data is crucial. As stated by Groot et al. (2020, p. 2):

[T]he use of geographically disaggregated data [is] a promising avenue for further insights into how exactly monetary policy shocks propagate to the economy. First, by resorting to information on economic activity at a more granular level than that entering the central bank reaction function, it offers a novel strategy to identify exogenous changes in monetary policy.

More concretely, the ECB (or the national CBs of the Eurosystem) should calculate the specific inflation rate for each Eurozone country, for its diverse regions, and for different income groups. The latter can be calculated using the baskets of consumption for different income levels, as is done by the think-tank Bruegel, for instance¹². It is important to have official data with such a level of disaggregation, to enable rigorous assessments of the divergent impacts of green policies across different regions, sectors and social groups. The ensuing question is which institution should be responsible for compensating for these policies? It can be the ECB itself, as well as the EU and national governments.

The ECB should enact policy tools in support of green transition, and to offset possible negative effects that policies may have on specific regions and communities. As a general framework, if policies are implemented to reduce activity in dirty sectors, complementary policies should stimulate activities in green sectors. In addition to policies related to the collateral framework (such as those mentioned in section 3), dual policy rates, credit targets, and targeted longer-term refinancing operations (TLTROs) should be used to shift finance away from ecologically destructive sectors and towards green sectors, such as renewable energy, energy efficient housing, clean transportation, and more.¹³ Such policies would not only contribute to decarbonising the economy – and hence addressing the risk of exogenous climate shocks – but would also stimulate the generation of jobs in these green sectors (offsetting the loss of jobs in brown sectors).

12. See <https://www.bruegel.org/dataset/inflation-inequality-european-union-and-its-drivers>. Accessed on Oct 21, 2025.

13. For other examples of policies that could be enacted by the ECB as a compensation for the distributional effects of green policies, see Monnin and Robins (2022, pp. 10–11).

Policies can be developed at the Eurozone scale, but with particular attention paid to the regions which are still heavily dependent on dirty sectors (as mentioned in section 4). Offsetting negative impacts such as job losses need not, and should not, depend exclusively on policies from the ECB. This raises another crucial claim of ours: just transition will not be achieved without macroeconomic coordination¹⁴. While the ECB has a pivotal role to play, its independence does not mean it should be isolated from the rest of society or from other EU institutions. Even if it maintains operational independence, the ECB should also be in permanent dialogue with the society which it is supposed to serve, with other EU bodies, and with national governments of the Eurozone, in order to allow for coordination and accountability around key objectives. As suggested by Downey (2025), an iterative governance mechanism can strengthen democratic scrutiny and accountability of central bank policymaking. Coordination can occur in both direct and indirect forms. For instance, a rigorous assessment of the social impacts of green monetary policies – which could be conducted by the ECB itself or by the national CBs which compose the Eurosystem – can help to reveal what character of fiscal policy is needed to maintain alignment with just transition principles.

To facilitate dialogue between the ECB and other relevant stakeholders, the ECB could engage with the Just Transition Platform. It cannot simply ignore the discussions that are being held in the EU about just transition. As stated by Eurofound (2021), “the Just Transition Platform could be developed further as an EU hub and coordinated with other EU-level initiatives”, and the participation of the ECB could contribute to this. For instance, an ongoing dialogue between the ECB and the European Investment Bank (EIB) could be helpful, with the ECB indicating key sectors requiring investment in order to combat inflation in the long-run and support just transition. Reactive and short-sighted contractionary monetary policies fail in addressing both of these objectives.

The alignment of monetary policy with other EU policies related to just transition could come from connecting ECB programmes to “existing politically sanctioned legal instruments” (van’t Klooster, 2021, p. 20). van’t Klooster (op. cit.) reminds us that “the ECB has already done this in its OMT [Outright Monetary Transactions] programme, which is only open to Member States that are in an EU emergency funding programme such as the European Stability Mechanism (ESM)” (op. cit.). Connecting ECB policies to EU just transition programmes is therefore entirely feasible.

14. Monnin and Robins (2022, p. 11) and Schröder-Bosch (2023) also highlight the need for coordination between fiscal and monetary policies.

In addition, Bettarelli et al (2024) identify that negative social effects of green policies tend to be mitigated by redistributive policies, and during periods of fiscal expansion. Hence, a higher tolerance in regard to fiscal expansion is also a very simple way in which the ECB can support just transition. It is important to repeat that this cannot come at the expense of price or financial stability, however in the current context, inflation surges are largely being provoked by supply-side shocks rather than excessive demand, and so monetary policy must adapt accordingly.

Relatedly, a revision of the current inflation targeting framework of the Eurozone would leave more room for a monetary policy in support of just transition, by moving from the rigid inflation target to a more flexible, long-term framework. This would allow the ECB to not overreact to short term supply-side inflationary pressures with interest rate hikes recognising that contractionary monetary policy can be harmful to the just transition, both because of its general effects on aggregate demand – and therefore on jobs – and because of its particularly negative effects on green investments.¹⁵ Dikau et al. (2024) recommend an adaptive inflation targeting framework, enabling the accommodation of higher inflation over longer horizons when costs are being temporarily raised by supply-side shocks. This would also leave more room for the coordination of monetary and fiscal policy, as suggested above.

Another important consideration for just transition comes from Vandeplas et al (2022, p. 29): “For workers who lose their jobs [as a consequence of climate policies], inclusive social protection systems should be in place to help smoothing incomes, along with access to enabling services and support for activation.” This highlights another basic, but vital way in which the ECB can support just transition, which is to recognise the importance of the welfare state. As evidenced by Braun et al. (2022), the ECB has historically argued – directly or indirectly – against the welfare state. As stated above, just transition requires macroeconomic coordination, and while the welfare state does not fall under the ECB’s remit, the Bank must nonetheless recognise – and not undermine – the central role it is likely to play in protecting vulnerable workers during a sustainable transition of the European economy.

Monnin and Robins (2022) claim that the role of central banks as supervisors of the financial system requires supporting the just transition. They argue that the Network for Greening the Financial System (NGFS, 2020) has already made clear that supervision is a key mechanism for central banks to cope with financial risks resulting from climate

15. For instance, Martin et al. (2024) show that the fossil-fuel sector is much less impacted by high interest rates than the clean energy sector, which is more capital intensive.

breakdown. We support Monnin and Robins' (2022) suggestion that all supervised financial institutions should publish their own net-zero transition plans, including how they will enact principles of just transition.

On top of particular policy recommendations, the ECB should also strive for a diverse staff body and board. Gender balance, racial diversity, regional representation, and inclusion of people from marginalised backgrounds is important in and of itself, but we argue that it would also generate more effective policy outcomes for addressing the major challenges facing humanity, namely, the ecological crisis and the absurd – and increasing – levels of inequality. This is another important component of just transition.

5. Final remarks

While a lack of consensus remains, there is now a huge group of researchers and policy-makers who recognise that central banks must contribute to addressing the global existential threat of climate change. Similarly, more and more voices are supporting the idea that monetary authorities should consider inequality in their policy-making. Yet, there is a gap in the literature in relation to the pertinence of central banks addressing both climate and inequalities in an integrated manner. This gap is particularly relevant in the context of the European Union, which exhibits strong official rhetoric in support of the so-called just transition. Conceptualised as the need to bring about a sustainable economic transition in a way that fairly distributes social benefits and costs, a just transition should be supported by all EU institutions.

Exploring this gap in the literature, this paper had a twofold objective. First, it studied the effects that green monetary policy can have on inequalities. Second, it began to outline a set of recommendations to protect against potential negative impacts of green monetary policy on inequalities. The overall goal of this paper is therefore to contribute to building the salience of these important debates, which are needed to push the ECB to adopt policies and actions supportive of a comprehensive just transition.

In line with Eurofound's (2021) assertion that "a just transition requires a comprehensive approach", we argue that the ECB has an important role to play in just transition, which includes but is not limited to monetary policy. While integrating environmental considerations in its policies, the ECB should be simultaneously and continuously assessing (and/or facilitating the assessment of) the distributional effects that such policies have in the different regions and social groups of the Eurozone. Based on these analyses, the ECB should iteratively develop improved and additional policies that guard against social harms and inequalities. The ECB should also engage in direct and indirect coordination with other EU institutions and national governments to ensure its policies are complementing a wider green transition. In addition, we argue that a more accommodating stance of the ECB towards expansionary fiscal policy, support for the preservation of a welfare state, and diversification of the ECB staff and board are also important steps in supporting just transition.

Given the complexities of designing a just transition, the development of actions in line with any of our recommendations should involve a robust dialogue between the ECB and all the relevant actors, i.e., national central banks, national governments, other EU institutions and last, but not least, civil society. Just transition, in this sense, can be a guiding light towards a green, socially-equitable and democratic society.

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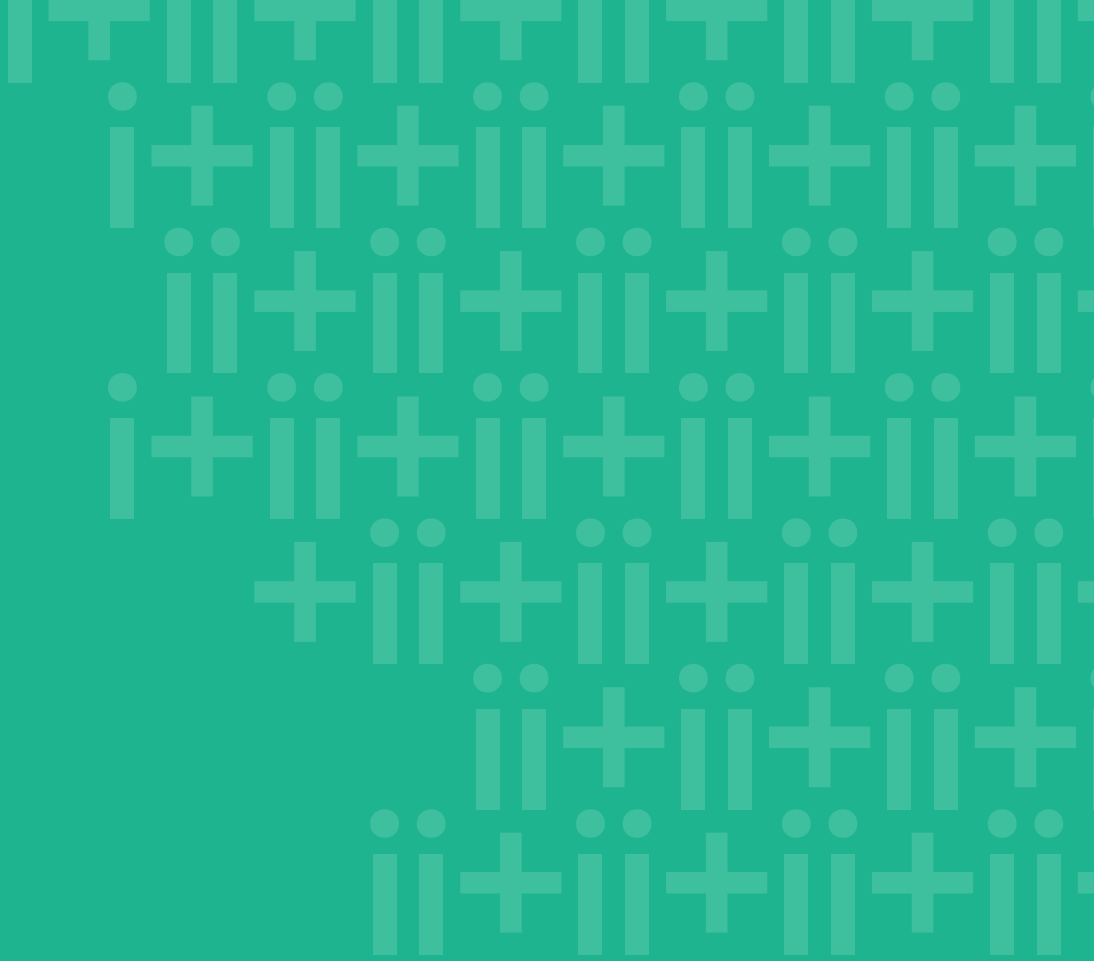
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