EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB-PUBLIC

Christine LAGARDE
President

Mr Paul Tang
Ms Neena Gill
Members of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 19 December 2019

L/MD/19/47

Re: Your letter (QZ-052)

Honourable Members of the European Parliament, dear Mr Tang, dear Ms Gill,

Thank you for your letter, which was passed on to me by Ms Irene Tinagli, Chairwoman of the Committee on Economic and Monetary Affairs (ECON), accompanied by a cover letter dated 22 November 2019.

Let me recall that the corporate sector purchase programme (CSPP) represents a relatively small share of the overall asset purchase programme. The vast majority (80%) of our asset purchases fall under the public sector purchase programme (PSPP), which covers government, sub-sovereign, agency and supranational bonds. As I explained during my hearing before the ECON Committee of the European Parliament on 2 December 2019, following former ECB President Mario Draghi's commitment to further look into the "impact of our programme or [into] climate change considerations in our programme", the ECB has indeed conducted a preliminary analysis of the matter and further work is ongoing.

For instance, the ECB looked at its asset purchases and found that the Eurosystem has purchased considerable amounts of green bonds, both under the CSPP and the PSPP. An article in the ECB's Economic Bulletin of article published on 8 November 2018 showed that through its purchases the Eurosystem has created favourable financing conditions for green bonds and supported their issuance by non-financial corporations.[1]

[1] See De Santis, R. A., Hettler, K., Roos, M. and Tamburrini, F., "Purchases of green bonds under the Eurosystem's asset purchase programme", Economic Bulletin, Issue 7, ECB, 2018.

As part of our internal analysis, we also found that assessments of the carbon intensity at the level of entire economic sectors, as performed in several studies looking at the carbon impact of the CSPP, can be misleading[2]. As explained in the special feature of the ECB's Financial Stability Review of May 2019[3], sectoral data do not capture large differences within sectors and, most importantly, ignore any dynamics within firms over time. Backward-looking analysis based on sectoral data therefore provides an incomplete picture of the carbon impact of our asset purchase programmes. A more meaningful assessment is not feasible in the absence of more granular and forward-looking data on the carbon intensity of the investments financed by each company. This calls for caution when evaluating possible policy measures irrespective of the use of proceeds and business models of individual companies.

Let me emphasise that climate change is an urgent and major challenge, calling on all stakeholders to play their part. It requires effective measures that disincentivise carbon-intensive investments while rewarding the adoption of more sustainable technologies and business models. This is first and foremost a task of democratically elected governments and public authorities, and carbon pricing through fiscal measures remains the optimal tool. For financial markets to contribute to this effort while minimising distortions, significant data gaps remain a major obstacle. These include the unavailability so far of harmonised, firm-level data on carbon footprints, as well as the absence of commonly agreed definitions of which economic activities are, or are not, sustainable.[4] Accordingly, the ECB supports the development and implementation of an EU-wide taxonomy of sustainable economic activities, as well as the adoption of an appropriate disclosure framework to overcome these challenges.

I would like to assure you that it is my firm intention to continue this analysis within the ECB, as well as in the context of the Network of Central Banks and Supervisors on Greening the Financial System. The finalisation of the EU-wide taxonomy of sustainable activities, which seems now within reach, should facilitate this analysis. These reflections will also help inform the intended review of the ECB's monetary policy strategy under the given Treaty mandate.

Yours sincerely,

[signed]

Christine Lagarde

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2 For such an assessment to produce meaningful results, it would be necessary to link each debt instrument that benefited from the ECB's asset purchases to a granular carbon footprint analysis of the investment projects it helped finance. However, this is currently not possible given "the lack of full and reliable carbon footprint/ESG data on the level of companies and assets", as acknowledged by the same authors of these studies. See Jourdan, S. and Kalinowski, W., "Aligning Monetary Policy with the EU's Climate Targets", Veblen Institute, April 2019, p. 11.

3 See Giuzio, M., Krušec, D., Levels, A., Melo, A. S., Mikkonen, K. and Radulova, P., "Climate change and financial stability", *Financial Stability Review*, ECB, May 2019.

4 See Carbone, S., Giuzio, M. and Mikkonen, K., "Climate risk-related disclosures of banks and insurers and their market impact", *Financial Stability Review*, ECB, November 2019.

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