Open letter to French President Emmanuel Macron

Brussels, 20 December 2023

Dear President Macron,

In your recent speech at the UN Climate Summit COP28, you highlighted the necessity of distinguishing interest rates on loans for environmentally detrimental ('dirty') activities versus sustainable ('green') initiatives. We fully support this policy.

As a European coalition of civil society organisations and academics focusing on greening the financial system, we have long championed the integration of climate considerations into monetary, prudential and fiscal policy. We remain dedicated to ensuring that the policies of state agencies, as well as the rules and practices that govern banking and credit rating, play a leading role in shifting the international financial system away from carbon-emitting investments, and towards green investments.

Your insight on the need to change the rules of private finance is especially pertinent because, as you rightly say, current investments do not internalise the long-term risks of dirty assets. The European Central Bank has made it clear that only an accelerated green transition will result in decreased financial risks for households and firms in the long term. A dual rate would help us to internalise the financial risks that dirty investments create and the positive externalities stemming from green investments.

At the same time, the European Central Bank has been pursuing unprecedented interest rate hikes that inadvertently increase the financing costs of renewable energy projects and energy-efficient building renovations. This is hindering the EU's climate objectives, and increases our exposure to inflation caused by fossil fuel prices and climate change. We echo your sentiment that financing conditions should not be indifferent to the nature of the projects they support. The current one-size-fits-all interest rate model is untenable.

For this reason, we have been advocating for the European Central Bank to complement its increase in rates with a special lower rate for loans financing investments that align with the EU's transition objectives. This type of monetary policy dual rate is not without precedent; past policies, such as those adopted by the Banque de France and the Bundesbank until 1996, successfully utilised differentiated interest rates during times of inflation to support specific sectors that were inflation reducing.

France has the opportunity to lead the discussion on dual interest rates that would encourage financial institutions to favour green projects, such as renewable energy investments and energy-efficient home renovations, over environmentally harmful ones. Such a policy would align seamlessly with our global climate commitments, while at the same time providing a balanced approach to managing inflation.

However, to get the implementation of dual rates right we need to ensure two things. Firstly, we need democratic legitimacy and accountability. In the case of the adoption of dual rates by the European Central Bank, this means strong oversight from the European Parliament and a clear alignment with the environmental objectives of the EU. Secondly, we also need to ensure that there is sufficient data and supervision to avoid greenwashing, and target lending towards activities that are truly green, such as helping people to renovate their homes.

France stands at a crossroads where it can not only embrace this transformative approach but also lead globally in its implementation. This bold move would serve as a model for other nations, demonstrating the practicality and effectiveness of such policies in steering financial resources towards sustainable projects.

Respectfully,

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- Eric Monnet, Professor at the EHESS and Paris School of Economics
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- The Sunrise Project
- Reclaim Finance
- WWF
- THE SHIFT PROJECT
- Dorémi
- Revo Prosperidad Sostenible
- ASUFIN
- Climate Alliance Switzerland
- New Economics Foundation
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RECLAIM Finance

THE SHIFT PROJECT

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