

Boštjan Vasle: Towards the green transition - investment and prices

Opening remarks by Mr Boštjan Vasle, Governor of Bank of Slovenia, at the conference "Towards the Green Transition: Investment and Prices", jointly organised by the European Investment Bank, Ljubljana, 29 September 2022.

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Dear ladies and gentlemen, distinguished guests,

it is my great pleasure to welcome you here at the conference on green transition jointly organized with our colleagues from the European Investment Bank.

Summer is officially over but this usually pleasant months were also marked by some very unpleasant facts. It was the hottest summer on record in Europe and the third hottest ever globally.

It was accompanied by a lack of rainfall, raging fires and receded rivers across the globe. This worsened the European energy crisis and global shortage of staple crops.

The end of summer brings new discomfort. As the cold months approach, the key concerns are related to

- the security of energy supply
- high inflation
- and expected substantial slowdown in economic growth.

Energy and food remain the dominant drivers of high inflation, although the high price growth has increasingly spread to other items as well in the Eurosystem, we have responded by normalizing our monetary policy, first by abandoning net purchases of securities, and from July on, with normalisation of our key interest rates first increases after eleven years.

We expect to raise them further over the next several meetings. My impression is that current pace is appropriate response to elevated inflation, and we should continue with it through next few meetings. But that is not the end of normalisation process. Purchases programmes will have to be modified in order to support our efforts to reduce inflation.

Our response is critical to reduce inflation pressures and to avoid de-anchoring of inflation expectations and a possible wage-price spiral.

Our policy, however, cannot address supply-side constraints. The covid-related supply-side disruptions and the Russian invasion of Ukraine exposed fragilities of our food and energy systems, and our high dependence on foreign supply of raw materials and technologies, including those highly important for green and digital transition.

The reaction of many firms was an increase in inventories, which added fuel to rising prices.

In addition to the diversification of our supply network, sustainable solutions require ramping up investments in renewable energy sources and other production capacities, and development of new, greener technologies and critical infrastructure.

And the green transition itself will require significant public and private investments.

The European Commission estimates that reaching the 2030 climate target requires additional annual private and public investments of approximately 5 hundred billion of euros. This represents around 4 % of last year's GDP at the EU level an amount that could already trigger a new investment momentum in Europe.

Such large-scale investments require the mobilization of various funding sources:

- from bank lending
- capital markets
- and public funds.

Banks are still the main source of financing for European enterprises.

As supervisors, we encourage them to:

- systematically assess
- disclose
- and manage the climate risks in their portfolios.

We – central banks - try to be a good example:

- in terms of greening of our own investment portfolios
- and in terms of disclosure of our carbon footprint.

Climate change considerations are also part of monetary policy decisions as they can affect price stability and financial stability for that matter.

Capital markets are expected to play a key role in mobilising and allocating financing to green projects.

After the European investment bank issued the world's first green bond in 2007, the global green and ESG bond markets have expanded significantly but they still represent a low percentage of new bond issuances.

There are plentiful needs and incentives for vast green and other investment but there are also constraints, domestic and those at the global level.

Dear speakers and panellists, dear guests, I believe that today there will be an excellent opportunity to shed more light on these questions and challenges and to discuss what each of us can - and should – do to contribute to greener and more sustainable policies.

By that I'm giving the floor to co-hosts of todays conference the European Investment Bank, dear Ricardo,

the floor is yours.