

CONCEPT

Lower interest rates for sustainable energy help curb inflation

The energy transition becomes significantly more expensive due to the current high interest rates. The costs of eight crucial technologies are projected to increase by 17 billion euros until 2030, according to research conducted by Berenschot, commissioned by the Netherlands Association for Renewable Energy (NVDE). However, the ECB can neutralize this negative effect of its monetary policy, as indicated by an analysis by the Sustainable Finance Lab. "By reducing the interest rates specifically for investments in sustainable energy, the ECB can make the economy structurally less vulnerable to expensive fossil energy and climate change," says Olof van der Gaag, chairman of NVDE.

Interest rates have risen by 3.75 percent during the past year. The European Central Bank (ECB) increased the interest rates due to inflation, largely caused by high fossil energy prices. The high interest rates affect the sustainable energy sector much more severely than the fossil energy sector, given the relatively high investment costs. Significant capital is required for the investments, but once the wind turbines, solar panels, heat pumps and cables are in place, the sun literally rises for free and the wind blows on the house.

Berenschot Study: significantly higher costs

Berenschot calculated the impact of rising interest rates on eight technologies, such as energy infrastructure, solar and wind energy, geothermal energy, and heat pumps. The report demonstrates that high interest rates have significant negative effects on the business case and consequently on the costs of the energy transition. The additional costs amount to 17 billion euros until 2030 and even 163 billion euros until 2050. A further one percent increase in interest rates raises the costs by 6 billion euros until 2030 and by 55 billion euros until 2050.

NVDE Member Survey: Impact tangible in practice

According to a survey among NVDE members, the sector is already experiencing the effects of high interest rates. One third of the respondents are facing negative effects of higher interest rates on their financing options. Over one third expects to face these effects in the near future. More than eighty percent of the companies anticipate moderate to severe delays in the energy transition due to high interest rates, energy prices, and other market conditions. At present, over 30 percent of the respondents have already canceled or postponed projects.

Sustainable Finance Lab: Solution in green monetary policy ECB

One possible solution is the implementation of a sustainability discount, a "green" interest rate. The ECB could apply this to sustainable energy projects. Each percentage point reduction in interest rates would save 6 billion euros until 2030 and 55 billion euros until 2050.

The *Sustainable Finance Lab*, at the request of the NVDE, has prepared a note on the options for the ECB to neutralize the negative effects of the current monetary policy on the energy transition. Lowering interest rates for sustainable energy investments proves to be the most direct solution, which structurally contributes to reducing inflation by reducing dependence on fossil energy sources. The current inflation is largely caused by high fossil energy prices.

In recent years, the ECB has given banks the opportunity to attract financing at more favorable rates on the condition that they maintain their lending to companies and households. This opportunity, known as Targeted Longer Term Refinancing Operations (TLTRO), is currently being phased out. It would be wise to utilize this tool in a more targeted form to support the energy transition. Banks can pass on the "green" interest rate discount which they receive from the ECB to sustainable energy investments.

This solution not only accelerates the energy transition but also supports the ECB's main objective of maintaining price stability. It makes the economy less vulnerable to future price shocks from fossil energy. It is also beneficial that this solution is consistent across all European countries. National solutions to the issues with high interest rates, such as increasing subsidies like the SDE++ in the Netherlands, have the drawback of addressing symptoms in each country without resolving the problem. Additionally, not all EU member states have the budgetary space for such measures in their government finances

Here you find the report from Berenschot, 'Impact of rising interest rates on sustainable projects'.

Here you find the report from Sustainable Finance Lab.

Here you find the report of the NVDE member survey

About NVDE

The Netherlands Association for Renewable Energy (NVDE) advocates for an energy economy that is entirely based on renewable energy by bringing together forces from the entire sector. The activities for sustainable energy within its 1,600 affiliated companies already represent a turnover of over €43 billion and nearly 200,000 employees in the Netherlands.

About the Sustainable Finance Lab

The Sustainable Finance Lab is an informal network primarily consisting of academics from various disciplines and universities in the Netherlands, who are members on their own behalf. A secretariat associated with the Utrecht University School of Economics provides support to the members.

Note to the Editor (not for publication)

For more information, please contact Olof van der Gaag, Chairman of NVDE.

communicatie@nvde.nl ; +31 30 234 0503