



Q&A

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Overcoming the obstacles to financing Europe's green transition

Geopolitical tensions and the health and climate crises have led to a wide consensus in Europe on the need to strengthen our resilience and sovereignty and to accelerate the green and digital transitions. Addressing these challenges and meeting the very significant related financing needs will require continued reforms to Europe's economic growth and financing models. The EU estimates that the additional annual investments needed for the green and digital transitions over the next decade amount to €650 billion per year^[1].

These figures surpass the trillion euro per year mark for the combined region of the EU, UK and EFTA countries, especially if defence investment is to reach 2% of GDP and industrial resilience is also factored in. Putting these numbers in perspective, it is worth noting that EU bank loans to all households and non-financial corporations amounted to some €500 billion^[2] for the year 2021, which represents less than half of the additional annual financing required.

Although the public sector has obviously an essential role to play in the transition of the European economy –here I would highlight that the Next Generation EU programme and the Green Deal Industrial Plan are particularly welcome--, the fact is that the pace of European public investment and financing is far from being sufficient and that the bulk will have to come from private sources, which in Europe means banks. This will require a financing system that is as fluid and efficient as possible, allowing capital flows that fully leverage savers, investors, and companies.

Enhancing private capital flows will mean tapping into the full potential of Europe's private savings and further enabling securitisation, which remains greatly underdeveloped due to its lack of attractiveness for issuers and investors.

The fact is that the regulatory reforms of recent years did not recalibrate sufficiently the prudential treatment of European securitization exposures despite their high quality. Additional measures aimed at completing the Capital Markets Union as well as avoiding significant capital increases in the implementation of Basel III will level the playing field and the functioning of our financial markets, which will ultimately improve the business environment and attract the investments needed to successfully achieve Europe's political and economic priorities.

Further developing other sources of transition financing such as green bonds will also be essential. In this regard, the introduction of the EU Green Bond Standard is a very positive development which has the potential of securing Europe's role as a global leader in the sustainable bonds market. Driving the growth of sustainability-linked bonds and loans will also be a key part of the solution. The EU's role in setting market standards and disclosure requirements will be a key enabler of transition financing and we fully support the efforts underway.

The way in which the transition is undertaken is also crucial to achieving Europe's ambitious goals. In this, banks have a major role to play, incentivising, advising and financing their clients as they plan and implement their transition toward climate neutrality.

BNP Paribas is committed to provide as much support as possible to those who are already readying themselves for the ecological transition and acting in that purpose, while avoiding abrupt shocks that would compromise our energy security and the wider economy. As an illustration of this point, in 2015, when the Paris agreement was signed, low-carbon energy accounted for only a limited portion of BNP Paribas' financing for energy production. By 2030, it will represent nearly four-fifths.

Lastly, I would emphasize that the challenge is not only financial, but also one of having a common global ambition and a mutually consistent set of rules. For this, further strengthening international cooperation is crucial, even more so in these uncertain times.

The EU is today a recognized leader in these efforts and must continue to play this role to ensure that we are all progressing toward the same destination. We have only one planet. Having ambitious common goals and cooperating effectively in implementing the necessary measures are our only chance of achieving a sustainable future.

[1] EC report "Towards a green, digital and resilient economy" March 2022.

[2] EBF Facts & Figures 2022 - 2021 banking statistics