

Promoting Sustainability, Securing Growth

Guiding principles by the Association of German Banks

3 December 2024

Lobby Register No R001458

EU Transparency Register No 0764199368-97

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Executive summary

- **When it comes to sustainability ambitions, our society must never let up. We urgently need to achieve further progress on decoupling economic growth from the consumption of resources.**
 - Private banks are committed to the climate and environmental goals of the EU and of the German Federal Government. These can only be achieved if all the relevant stakeholders work together.
 - We are aware that there may be conflicting objectives and social issues along the way.
 - However, it's important to focus on social cohesion; successful sustainability policies need the support of broad social majorities.
- **Attempting to achieve our sustainability objectives through economic degrowth would be the wrong approach and not conducive to success. Rather, climate change mitigation and environmental protection as well as overcoming other social challenges requires robust economic growth.**
 - Economic growth does not necessarily go hand in hand with greater resource consumption. Technical progress and increases in productivity can lead to greater economic output with the same or even less resource consumption (decoupling).
 - Economic growth promotes innovation and therefore also product improvements in terms of their sustainability.
 - Ambitious climate and environment policies are easier when the economy is growing; social consensus is achieved more seamlessly.
- **Above all, the transformation will be achieved through market-based instruments as these enable and promote innovation. By internalising external costs in the area of climate and the environment, there is market failure, which should ideally be resolved through shrewd state regulatory policies ("kluge staatliche Ordnungspolitik") that improve the functioning of the markets.**
 - One particularly important role of politics is to create attractive framework conditions for sustainable investments and, where necessary, to eliminate market distortions.
 - Achieving sustainability goals promptly will require pragmatic solutions and regulation that supports the transformation in terms of impact (particularly CO₂ pricing).
 - Priority should be given to economic policy measures for a competitive economic location in order to guarantee businesses the scope for investing in sustainable projects.
 - The circular economy will play an important role in the transition.
- **The financial sector is part of the solution but will not be able to manage the transformation on its own.**
 - The financing requirement for achieving our sustainability objectives is enormous.

- Banks will provide the capital, will be sparring partners and risk managers – this means they have an important role to play in financing the transition.
- Financial market regulation must not be allowed to unnecessarily hinder the financing of the transition. Our key recommendations here are:
 - Reviewing the general framework for sustainable financing
 - Creating a principles-oriented EU framework for transition finance
 - Improving the availability of ESG data
 - Reviving the securitisation market
 - Strengthening the European capital markets
 - Adjusting the focus of development banks and guarantee instruments
- There is particular pressure for action to be taken in the manufacturing economy. Companies need a regulatory framework which provides predictability and reliability and sets incentives.

Preamble

Combating global warming and adjusting to the impact of climate change are among the fundamental challenges of our time. For the economy, this challenge is tantamount to a paradigm shift, as a production infrastructure built on fossil fuels will have to be fundamentally restructured within just a few decades.

By the middle of this century, decarbonisation is to be so far advanced that net emissions of CO₂ are at zero. This goal was agreed by the international community in Paris in 2015. As a result, European and German policymakers have adopted their own climate targets in recent years and launched a series of, in some cases, ambitious measures. The private banks are fully committed to the goals of these climate policies and see it as their responsibility to contribute to achieving climate change mitigation targets.

This applies equally to protecting the ecosystem. Here too, the international community has set itself binding goals and, here too, the decoupling of economic growth and the consumption of resources is urgently required in order to preserve biodiversity and reduce environmental pollution. The circular economy has an important role to play here since its aim is to keep resources in the economic system and minimise waste.

In order to drive forward the required decoupling of economic growth from CO₂ emissions and the consumption of resources and in order to obtain the broadest possible support from society for the transformation, a dynamic, market-driven environment and the right political framework conditions are crucial. Since this is the only way to unleash innovation and to ensure that external costs are internalised.

The attempt to achieve our sustainability goals using a zero-growth model (or degrowth) – as called for by some social stakeholders – would clearly be the wrong way to go about this and would not be successful. Firstly, climate change mitigation and environmental protection require technological innovations and therefore investment, which would be much easier to stimulate and finance in a growing economy than in a stagnating one. Secondly, economic growth does not necessarily go hand in hand with an increase in the consumption of resources. Technical progress and increases in productivity can lead to greater economic output with the same or even less resource consumption. Thirdly, it is much easier to encourage people to embrace sustainability in a growing economy.

Successful climate change mitigation and environmental protection are ultimately tasks for society, in which all stakeholders must play their part: politics, businesses and, not least, citizens. Since every transformation process leads to disruption and there are both winners and losers, it needs to be flanked by regulatory policies and cushioned by social policies. Climate change mitigation and environmental policies also need to achieve political consensus and be democratically legitimate, even if the objectives are not up for discussion.

Achieving sustainable prosperity therefore requires both: responsible stakeholders that make climate change mitigation and resource conservation the guiding principles of their actions and market forces that recognise new growth opportunities in green technology. Governments have the task of setting the right framework conditions for this. If they are successful, all those involved can work together to transform our economy and achieve our sustainability goals.

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Chapter I: Climate change mitigation and social challenges require robust growth

In the debate on climate change mitigation and a sustainable economy, it is often supposed there is simple correlation: Economic growth goes hand in hand with additional resource consumption and CO₂ emissions, while sustainability and climate change mitigation require a reduction in the consumption of natural resources. This leads to a contradiction between economic growth on the one hand and environmental protection and climate change mitigation, on the other.

However, this supposed contradiction fails to take into account important economic and social interdependences. These conclusions are too simple and even lead us in the wrong direction.

We would like to highlight three points in this regard:

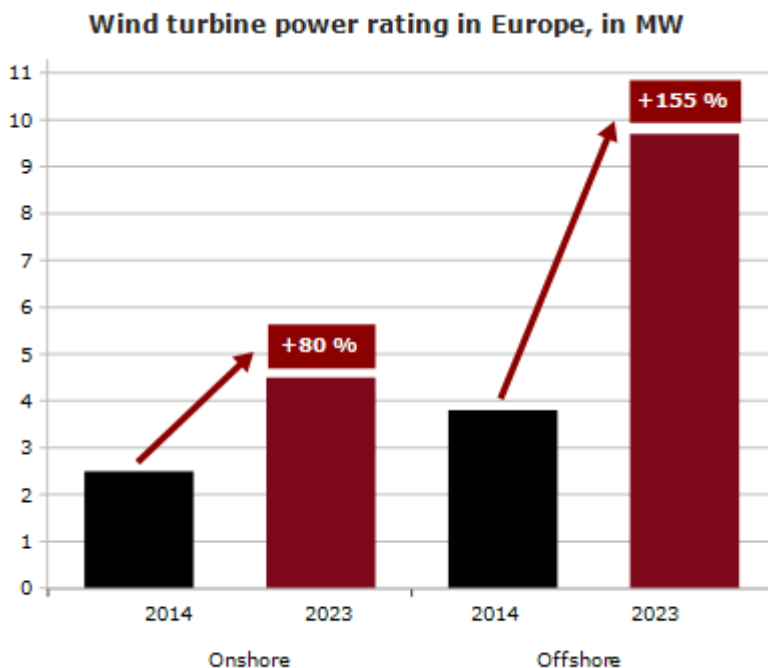
1. Economic growth is still possible without increased CO₂ emissions and without increased consumption of natural resources (decoupling). The key elements to achieving this are technological developments, innovation and knowledge gains, which are linked to improvements in productivity.
2. Economic growth and a dynamic economic environment promote innovation. And innovation provides greater opportunities to further decouple economic growth from climate emissions and the consumption of natural resources. In this sense, growth and investment are important prerequisites in successfully transforming the economy towards sustainability and climate change mitigation.
3. A dynamically growing economy promotes social cohesion and makes it easier to obtain a broad consensus for ambitious social and economic policy objectives. Conversely, if economic output were to stagnate permanently or for a long period of time, this would lead to serious distribution conflicts. The social consensus for more climate change mitigation would be fragile, which would considerably reduce the chances of achieving climate change mitigation goals.

1.1 Resource-conserving economic growth

Taking a simplified view of economies, it can be said that products and services originate from the use of resources, i.e. labour, capital stock and the use of natural resources. In addition to the use of resources, the level of overall economic output – and ultimately the level of economic growth – also depends on how efficiently the resources are utilised. In this regard, economists talk about ‘increases in productivity’, that is the increase in labour or capital productivity, which does not necessarily require an increase in the consumption of resources.

But it is not only the production processes that are subject to permanent improvements; the end products and services also change over the course of a dynamic economic process. They can be improved in terms of quality or even completely redeveloped. Obvious examples include cars, computers or mobile phones. However, the decisive factor here is also: Product improvements do not necessarily go hand in hand with additional resource consumption. They can often even lead to savings in the consumption of individual resources and product developments can sometimes even reduce overall resource consumption. In a market-based system, the extent to which individual resources can be conserved depends, among other things, on the price of these resources and therefore on production costs.

“Increased productivity” and product developments using the example of wind turbines



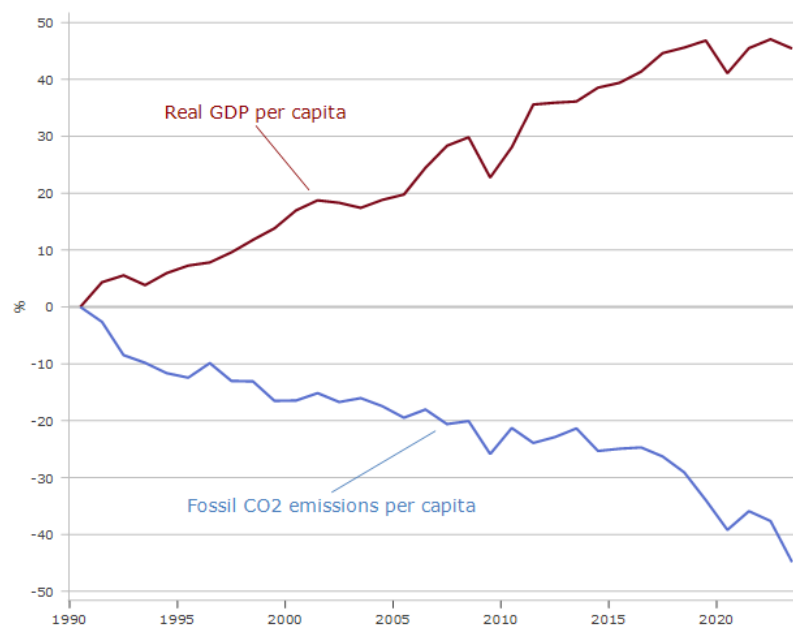
The link between increasing productivity, technical progress and product development is particularly relevant for the climate change mitigation and sustainability debate. Advances in productivity and innovation make it possible to increase overall economic output – i.e. growing the economy – without simultaneously consuming more natural resources or emitting more climate pollutants.

This fundamental opportunity to decouple economic growth from both resource consumption and the emission of pollutants has been overlooked or even ignored by many growth critics. The often alleged link between economic growth and environmentally damaging resource consumption does not stand up to scrutiny.

The development of growth and CO₂ emissions in Germany shows, among other things, that it is possible to decouple growth from resource consumption. The German gross domestic product (GDP) per capita has grown around 45 percent since the beginning of the 1990s, while fossil CO₂ emissions per capita have fallen by around 45 percent. This fall in emissions has not only been evident in domestic production, but also in consumption (see [World Bank, 2023](#)).

Decoupling: CO₂ emissions and economic growth in Germany

percentage change since 1990



Source: Macrobond.

Moreover, the development of new products and services plays an important role in the economic transformation towards sustainability. Some prominent examples of this include recycling technologies, sustainable building materials, environmentally compatible packaging, energy-efficient technologies and renewable energies.

The challenge of making production and consumption sustainable should therefore be overcome primarily with the aid of increased productivity, innovation and new technologies. It is a matter of conserving natural resources when doing business. In this respect, the 'circular economy' or

'sharing economy' – business models that rely on collaborative consumption – are part of this. And innovative products and services should also go hand in hand with the sustainable consumption of natural resources.

1.2 Promoting the decoupling process with an economic strategy

Investing in sustainability requires growth. Particularly considering the transformation process, the necessary steps cannot be achieved 'overnight'. Growth is therefore a prerequisite for there to be investment in a net-zero future and for these steps to be achieved.

Innovation and increased productivity can contribute to a decoupling of economic growth from resource consumption. Compared to a very defensive approach involving bans and rationing of resource consumption or the 'abandonment' of economic growth (see box), promoting the decoupling process is the preferable climate change mitigation and sustainability strategy.

The alternative approach: bans and rationing of resource use

The alternative approach to decoupling economic growth from resource consumption would be the strict rationing of resource use and the targeted avoidance of economic growth. However, this approach is defensive and regressive. It would lead to substantial losses in prosperity and to corresponding social distribution conflicts. On a global scale, national bans could also result in a mere shifting of resource consumption and CO₂ emissions.

Even a softened version of rationing with the requirement of no economic growth, would not necessarily lead to the conservation of resources. Having the objective of 'economic stagnation' would not influence the manner in which resources were employed and utilised. So, for example, inefficient production and consumption patterns could continue unabated in a stagnating economy. Investment in research and development would come to a halt and technologies designed to conserve resources would likely remain undeveloped or would simply not be implemented.

A good climate change mitigation and sustainability strategy would therefore be aimed at designing economic framework conditions in such a way that they promote and accelerate the decoupling process.

- In a market-based system, price signals are a good way of promoting the use of different resources. For example, a price for CO₂ emissions can set considerable incentives for investment in more low-emission production. The advantage of price signals over a complete ban is that price signals can be used to implement as gradual a transition as possible, reducing unwanted side effects on overall economic development (see Chapter II for more details).
- In addition, good framework conditions for a circular economy, which reduce the consumption of non-renewable natural resources, can promote the decoupling process of economic growth from resource consumption. To achieve this, we need consistent incentives to conserve resources, i.e. to use natural resources sustainably or to substitute them with

recycled, regenerative, renewable and/or ethically responsible organic raw materials. In addition, waste should be minimised by extending the life cycle of products through recycling and repairs.

- Furthermore, climate change mitigation and environmental protection should be a global approach. However, realistically and given the situation in developing and emerging countries this will only be possible if climate change mitigation and environmental protection do not come at the expense of economic development. Combining both objectives where possible and placing them at the centre of political efforts could thereby motivate more countries to set the same priorities or at least formulate similar target agreements.

1.3 Economic growth facilitates social cohesion – a prerequisite for a successful transformation process

Economic growth is a key requirement for increasing per capital income and for material prosperity. It is also the way to sustainably finance rising life expectancy and a growing pension income within a society.

Social cohesion and/or social stability is also closely dependent on the development of prosperity and issues relating to economic distribution. In general, it can be said that stagnating or even shrinking prosperity exacerbates distribution issues and weakens social cohesion.

The economic transformation towards sustainability is – as with any other economic change process – associated with additional distribution processes. And this is all easier to manage and structure in a growing economy with growing incomes. Federal Chancellor, Olaf Scholz, gave the following reply to a question during government question time in the German Bundestag on 3 July 2024 in Berlin: *"And, of course, it's also always about growth. We need growth prospects for the future, so that zero-sum thinking does not impair our ability to work together."*

In turn, social cohesion is a basic prerequisite for a successful transformation process. Since majorities have to be 'fought for' in democratically organised states, it is vital that you 'take people with you'. This presupposes the highest levels of transparency: Economic policy, social and ecological processes should be analysed openly, and the feedback noted and discussed.

In general, it can be said that rising prosperity goes hand in hand with the population having a greater interest in and being more committed to sustainability topics. Studies show that a population's environmental awareness increases with both individual income and with a greater level of national prosperity.¹

And: promoting a 'degrowth strategy' plays into the hands of the most fanatical climate critics, who claim that governments want to take something away from the population or even want to

¹ Cf. study by A. Franzen and R. Meyer (2004), "Climate Change in Environmental Attitudes?" *Zeitschrift für Soziologie*, 33(2), p. 119-137, April 2004.

'disempower' them. These claims are already having an effect today and can even lead to climate change denial. Instead of being a story about sacrifice and abstinence, the only climate mitigation story that will be accepted by the majority is one of development, prosperity and future.

1.4 Summary

Economic growth and sustainability are not mutually exclusive. Technical progress and increases in productivity can lead to greater economic output with less resource consumption. This decoupling is essential if we are to achieve our sustainability goals. Furthermore, economic growth promotes innovation and therefore also product improvements in terms of their sustainability, which, in turn, can also accelerate the decoupling. In a growing economy, it is also easier to motivate the population for sustainable action and to 'take people with you'.

Some supporters of degrowth often call for alternative ways of measuring prosperity. However, despite all its shortcomings and our attempts to find alternative metrics (see box), gross domestic product (GDP) remains an important benchmark. And this is also the case when it comes to identifying the financial means required for the sustainable transition.

Growth critics – metrics for measuring prosperity

Per capita gross domestic product (GDP) is – despite all its shortcomings – an important indicator of the prosperity of a country's economy. Over the years, there have been many ideas as to how the development of prosperity could best be measured. More recently, these concepts have frequently been referred to as measuring wealth 'beyond GDP'. However, it has not yet been possible to develop any satisfactory answers.

International organisations and many countries use GDP (GDP per capita) and other indicators to measure wealth. Important aspects include key figures on income distribution, unemployment or on levels of education or health.

The 'Beyond GDP' movement is aiming to establish ecological and social benchmarks as actual measures of growth. One criticism of the GDP per capita measure is that 'compensatory' expenditure is included in the GDP calculation, therefore suggesting growth. However, 'compensatory' expenditure is expenditure aimed at offsetting environmental pollution or health damage linked to the production or consumption of certain goods. According to critics, 'compensatory' expenditure should not be used to record increases in prosperity.

In 2019, the influential Stiglitz-Sen-Fitoussi commission was set up by the then French President Sarkozy. Its aim was to establish indicators with which to measure sustainability and economic growth and, in doing so, take account of the ecological and social footprint.

The discussion is still part of the political and economic debate today. However, the simple inclusion of wealth and satisfaction indicators does not solve the issue completely. Measuring satisfaction and well-being falls at the first hurdle of attempting to objectively measure subjective feelings.

In Germany, for example, the National Welfare Index (NWI) is being developed by the Institute for Interdisciplinary Research (FEST) in Heidelberg as a complementary indicator to gross domestic product. It attempts to combine economic (income distribution), ecological (loss of natural capital) and social indicators. Between 1991 and the turn of the millennia, the NWI and GDP both rose comparably. Since then, NWI and GDP have diverged. While GDP rose sharply from the global financial crisis in 2009 up until the start of the pandemic, the NWI remained below its 1999 level until 2022.

In contrast to the Beyond GDP movement, which is committed to replacing GDP or complementing it as the primary indicator of social progress, the Degrowth movement aims to deliberately reduce economic growth since they claim that unlimited growth in a world with limited resources is not sustainable. Degrowth representatives argue that striving for economic growth leads to social and ecological crises. In essence, they are questioning the concept of growth, not just as an indicator of prosperity but as a social objective.

However, this leaves many questions unanswered: How can we prevent the collapse of social systems in a shrinking economy? Does economic output need to fall sharply or is it enough for it to simply stagnate? And how can the transition to an economic system geared towards growth be achieved if the majority of the population is against it?

In addition, a [metaanalysis](#) by economists Ivan Savin and Jeroen van den Berg from 2024, who examined 561 key publications on degrowth showed that the vast majority of studies (almost 90 percent) reflected opinions rather than analyses and were almost universally inadequate at the scientific level. And finally, the topic of political feasibility was only mentioned in 0.7 percent of the studies. Degrowth researchers did not seem to be concerned that many people would not want to voluntarily give up consumption and material prosperity.

Chapter II: Use the market-based economy for the transformation

2.1 Create space for innovation

The green transition is not a state, it is a process. Germany and Europe should focus on a more market-based dynamic, as this facilitates and promotes innovation.

In particular, the trial and error method could be helpful here. After all, the green transition is also about competition for the best solutions irrespective of the technology in question (unbiased). Competing for the best ideas is efficient in the long term and promotes innovation. The founding of new and innovative businesses (startups) also plays an important role in the innovation process.

2.2 Create favourable framework conditions for sustainable investment

What does this mean for economic policy? Innovation cannot be decreed by the state, it is best achieved as the result of market-based processes. The government has the important task here of setting out guidelines with the correct framework conditions to ensure planning security and to tackle market failures. In general terms, this includes areas such as research and development or education.

Investment in the transition should be achieved largely through private capital. To do this, Germany must become a more competitive economic location so it can provide businesses with the scope to invest more heavily in climate change mitigation and environmental protection.

Germany's competitiveness has suffered a lot in recent years, as numerous studies have shown. Germany continues to slide down the IMD's World Competitiveness Rankings as a location. Ten years ago, it was in sixth place – now it is in 24th place. There is an urgent need for action, particularly in the following areas:

- Reducing bureaucracy: Pragmatic and simple solutions are needed, administrative structures must be simplified by policymakers and superfluous reporting obligations and requirements scrapped.
- Faster planning and approval procedures: One example is the use of the phrase '*Deutschland-Tempo*' (Germany speed) for LNG terminals; we need faster and more pragmatic decisions for investment projects.
- Competitive corporate taxes and tax incentives: Germany has the highest corporate tax of any OECD country. Our economy needs general and sweeping tax breaks to help businesses invest more in climate change mitigation.
- Planning security/predictability of economic policy: Both businesses and citizens need planning security and clear regulatory guidelines geared towards economic growth that businesses can use as a framework. Politics needs to be reliable, have a clear plan and be transparent about the consequences (including providing vision and strong leadership).

- Strengthen labour force potential: The problem of labour shortages must be tackled. The government has set the right course with its Skilled Labour Immigration Act, but its implementation must not be allowed to fail due to bureaucracy. However, the domestic labour force potential also urgently needs to be increased. It will be important here to reduce financial incentives for early retirement and to make it more attractive for people to work longer hours voluntarily.
- Global trade relationships (supply chains and sales markets): Germany and the EU continue to rely on trade and investment relationships – so what they therefore need to do, among other things, is to conclude new trade deals. Furthermore, the ‘exporting’ and/or supporting of resource-conserving economies in other countries will only succeed if Germany and the EU maintain and further expand close global economic ties.

2.3 Use market-based instruments for the green transition

The key instrument: CO₂ pricing

In order to achieve the climate goals set out in the Paris Agreement, it will be necessary to use market-based instruments in addition to the basic framework conditions. In a market economy, prices have a key steering function. CO₂ pricing is therefore the most suitable instrument for a successful climate policy. It is fundamentally open to innovation and technology, it incentivises the prevention of emissions and creates long-term planning security across all sectors.

Ideally, carbon pricing should be coordinated globally (e.g. as part of a globally inclusive and effective climate club). However, since this is not (currently) possible due to political realities, CO₂ pricing at the European and national level is the ‘second-best’ solution. As a result, private investment in the European member states could be channelled from fossil fuels into climate-friendly alternatives.

Challenges of CO₂ pricing

The transition and the fight against climate change does not stop at national borders. Local CO₂ pricing with no international coordination puts businesses at a competitive disadvantage due to the increased production costs. It could also lead to emissions being shifted abroad if there are more favourable options there for carbon-intensive production (known as carbon leakage). As a result, CO₂ border adjustment mechanisms are being publicly discussed or have already come into force (such as the EU’s Carbon Border Adjustment Mechanism (CBAM)). However, significant coordination is required at the European and international level to avoid protectionist (counter)measures and – where possible – to create a level playing field (in compliance with EU competition law where applicable). Also, these mechanisms should not come with a disproportionately high amount of bureaucracy due to the CO₂ reporting obligations.

The CO₂ price should be increased gradually (both directly through CO₂ pricing at the national level and also indirectly through the targeted reduction of carbon credits in cap-and-trade systems, such as the EU Emissions Trading System). We need to ensure there is long-term

predictability. For the broadest possible acceptance among the population the social aspect of the chosen political measure will be key. The higher costs arising from CO₂ pricing create a burden, which generally affects lower income earners more than it does wealthier households. With this in mind, the discussion about climate money ("Klimageld") that (partially) compensates for additional burdens does make sense. The aim of this compensation is to price CO₂ consumption 'more fairly' – that is, the more CO₂ you generate, the more you pay. This approach should be developed further.

One important hurdle: There are still methodological challenges in precisely determining the optimal CO₂ price (such as uncertainties in climate forecasts, the market response from businesses and consumers, as well as the interaction with other policies), which makes the use of instruments as a steering function more difficult.

Conclusion: Due to these limitations, focussing solely on CO₂ pricing may ultimately not be enough. It might therefore make sense to complement the CO₂ pricing instrument with other approaches in order to achieve the policy goal of net-zero within the given timeframe and thereby maintaining European competitiveness.

Targeted incentives should complement CO₂ pricing

In order to offset the resulting competitive disadvantages, particularly in an international context, and due to the possibly ineffective steering function of the CO₂ price in achieving climate goals within the legally binding timeframe, it may make sense to discuss targeted and short-term support programmes or state guarantees to supplement CO₂ pricing.

In addition, some investments in net-zero production technologies are not (yet) economically viable for businesses. Targeted public funds can also reduce the investment risk in such cases or provide tax incentives (e.g. super depreciations/investment premiums) for 'green' investments. In addition, it may make sense to support investments with higher transition risks. However, promoting only certain technologies would run counter to the principle of not concentrating on a particular technology and could distort or even hinder the development of climate-friendly technologies.

Chapter III: Role of the financial sector

3.1 Enormous financing requirement to achieve sustainability goals

The amount of financing required to achieve our sustainability goals is immense. Capital must flow from less sustainable business models into more sustainable ones. There are a multitude of transition challenges and they require investment at various levels (see info box).

Need for investment in many areas

The amount of investment needed for the sustainable transformation is in many areas enormous. Some examples include:

- **Renewable energies** such as solar energy, wind energy, hydropower and other clean energy sources.
- **Improving energy efficiency** in industry, transport, buildings and other sectors through new technologies, processes and infrastructure.
- **Developing and modernising infrastructure** for public transport, water supply, wastewater disposal and waste management (circular economy).
- **Adjusting to the impact of climate change** with more resilient infrastructure, early warning systems and other measures.
- **Protecting and restoring ecosystems**, such as forests, wetlands and marine habitats.
- **Investing in research and development** to develop new technologies and solutions, which can contribute to combating climate change and protecting the environment.

The amount of financing required will vary widely depending on the specific objectives, priorities and characteristics in the various countries and regions. However, what all studies agree on is that the total amount will be very high, and considerably more than typical amounts invested so far.

- For example, in its Strategic Foresight Report 2023, the EU Commission estimates that additional investments of 620 billion euros per year will be required to achieve the goals of the European Green Deal and REpowerEU.
- According to a report on EU competitiveness by former ECB President Mario Draghi published in September 2024, the decarbonisation of the four largest energy-intensive industries (chemicals, base metals, non-metallic minerals and paper) is expected to cost a total of 500 billion euros over the next 15 years. The investment required for the most difficult parts of the transport sector to decarbonise (maritime and air transport) will amount to around 100 billion euros per year between 2031 and 2050.
- For Germany, the KfW (national development bank) estimates the investment gap for climate change mitigation alone at 72 billion euros per year up to 2045.

3.2 The financing requirement will largely come from private funds

The risks and costs of the transition to sustainable growth should be spread across different shoulders. The transition cannot be achieved with public funds alone, not least because of the speed with which it must take place.

Private investors will play a significant role in this. Almost 90 percent of the overall economic investment in Germany come from private investors. The following applies here:

- Investments must be made by businesses and be economically viable (see chapter 3.4)
- Investments in the transition come with greater risk than investments made as part of an established business model. As a result, businesses will always have to invest a significant share (of own funds) or bear the risks.
- Outside capital providers (investors and banks) also need to be involved.

In addition, there must also be more public investment (e.g. in infrastructure such as transport, digitalisation, energy, education, basic research, etc.). The public sector can also take on a targeted share of risks that would not be sustainable for the private sector alone. However, there can only be a limited use of public funds given the already tight budgetary situation and in compliance with the debt brake (see info box).

Debt brake

- The discussion about reforming or suspending the government debt brake has become a key point of contention in German politics.
- However, it is clear that the key obstacles to more investment in Germany are the excessively lengthy planning and approval procedures, bureaucracy and excessive regulation, as well as a shortage of labour. Some public funding from central government has often gone unspent in recent years for all the reasons mentioned above.
- The prerequisite for dynamic investment development should therefore be to improve the framework conditions for economic growth and investment. Without these reforms, there would be a greater risk of higher public debt having 'no effect'.
- In addition, there should be more of a focus placed on using private capital to finance the required investment.

3.3 The financial sector is playing a crucial role in financing the transition

Providers of capital, in particular banks, can influence the flow of capital from less sustainable into more sustainable solutions – and thereby promote the relevant competition among businesses in the market (best solution). As a result, the financial sector and, in particular, the banks have an important role to play. Banks are:

- **Providers of capital:** By granting loans, banks have an important lever in their hands to finance sustainable investments. In concrete terms, many private banks are making a significant contribution to financing the social and economic transition towards a net-zero economy by managing the relevant portfolios, integrating sustainability criteria into business processes and developing sustainable financing products.
- **Sparring partners:** Banks can also support businesses as the driving force and as a sparring partner for businesses looking to transform. Strategic, long-term partnerships between businesses and banks are especially beneficial during the difficult phase of the transformation. Banks have the required expertise – on loans, the capital market, on the needs of small and large businesses, different sectors, at home and abroad, etc. They are vital for the efficient financing of ‘sustainable growth’.
- **Risk managers:** Risk management forms a key part of banking: It is in the banks’ interest that their customers still have viable business models in five, ten or 20 years’ time. Banks assess the risks associated with transition projects. They analyse the financial stability and prospects for success of a business during the transition process and offer consulting advice as well as products to hedge the risks.

At the same time, with their social commitment, banks make an important contribution to ensuring the transition is just and fair. For example, they grant social loans for corporate clients to invest in projects that improve the lives of vulnerable population groups, e.g. in sectors such as affordable housing, training, health and inclusion. Some institutions also offer special programmes to promote financial education as well as free training on the topic of ‘ESG and sustainable transition’.

3.4 Pressure to act in the manufacturing economy is particularly high, the right framework is needed here

Even though private banks are supporting their clients through the transition and have an important role to play in its financing, it is nevertheless the manufacturing economy that needs to change.

Politics must create the right framework for it to do so. Businesses need a regulatory framework that promotes predictability and reliability (see chapter II). Looking solely at the financing conditions will not solve the challenge.

A blanket call for divestment from non-sustainable activities will not help the transition. This will not stop those activities but merely shift them to different operators and/or financing will come from non-bank financial institutions. Businesses in the finance sector will lose control of the lever to influence directly the sustainability of their clients.

The focus should, instead, be placed on the transition. In order for us to achieve our sustainability goals, it is important that businesses not only get the financing they need for ‘dark green’ investments but also for investments in the steps needed for them to get there.

3.5 It is a matter of ensuring that financial market regulation facilitates more investment in transition projects

Financial market regulation must not be allowed to unnecessarily hinder the financing of the transformation. Our key recommendations here are:

- **Reviewing the general framework for sustainable financing:** Sustainability regulation should not be an end in itself. It must mitigate climate change effectively and with market-based means. The current sustainable finance rulebook is too complex. The effort far outweighs the benefits. The overall framework for sustainable finance should therefore be reviewed with regard to consistency, international comparability, international competitiveness, practicability and effectiveness.
- **An EU framework for transition finance:** Banks should not only finance businesses that are already 'green', they should actively accompany the transition of the economy. A stand-alone principles-based framework should be created for transition finance that gives businesses an idea where they are on the transformation path. This would give the financial economy unbureaucratic support with transition financing that is geared towards applications and based on principles. As far as possible, standardised transition plans should be a key element of such a framework.
- **Improving the availability of ESG data:** Sustainability data are a core component in assessing impact and risk. The EU Commission should improve the availability of ESG data in the form of an easily accessible database. This would include the swift completion of the European Single Access Point (ESAP). In order to achieve improvements quickly, national solutions should also be pursued.
- **Reviving the securitisation market:** By bundling existing loans together and selling them as tradable securities, banks can grant additional loans for the financing of sustainable projects. This also supports small and medium-sized enterprises in the transition. In order to revive the weakening European securitisation market, we need a fundamental review of securitisation costs, faster approval by the supervisory authorities, classifying certain securitisations in a higher liquidity class and reducing reporting obligations to the absolute minimum. The aim is to streamline and accelerate the process to attract international investors to the market.
- **Strengthening the European capital market:** Bank loans and public funds will not be enough to finance the transition. In addition, many transformation projects come with higher risks, higher volumes and longer terms. The green (and digital) transformation therefore requires a deep, liquid EU capital market. And for this reason, we should press ahead with the deepening of capital markets union.
- **Changing the focus of development banks:** Development policy can set targeted incentives for sustainable investment. In terms of private capital becoming a genuine additionality for the transition, federal and state development banks should concentrate even more on higher-risk financing or parts of financing ('first loss').

- **Ensuring competitive foreign trade financing:** Foreign trade is vitally important for growth and prosperity in Germany. Banks support export businesses with tailor-made financial solutions over many years. Whether or not climate-friendly technology made by German firms becomes the global standard depends largely on the financing conditions for the buyer. The central government's export credit guarantees, in particular, can provide attractive framework conditions in higher-risk regions of the world. A balanced approach is needed here, one that promotes sustainable projects on the one hand and takes international competition into account on the other.