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## Welcome Remarks

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# CESEE's second transition – challenges on the road to low carbon economies

87th East Jour Fixe of the Oesterreichische Nationalbank

Ladies and Gentlemen!

It is my pleasure to welcome you all to the East Jour Fixe of the Oesterreichische Nationalbank. Unfortunately, we can only meet online because of the pandemic which we hopefully are getting grip on very soon. Nevertheless, these inconvenient circumstances are a useful reminder of the likely adaptation needs in the face of climate change – this gets us right to the topic of today.

After about thirty years, Central Eastern and Southeastern Europe has broadly accomplished its unprecedented and difficult transition from centrally planned to market economies. However, the economic catch-up to its Western peers is not completed yet.

Now the region is embarking on a second transition – toward a low carbon economy – that is expected to last another three decades. While already the first transition helped reduce carbon emissions significantly, the challenges are enormous, given CESEE's legacy as fossil-based economies and its ambition to reach average European living standards. And yet, greening the economy is not the only important transition we face – keep in mind the transition to an ageing society or a digital economy.

The International Monetary Fund views climate change as an economic priority presenting risks to the functioning and stability of economic and financial systems. However, the response to this challenge also offers opportunities for growth and jobs.<sup>1</sup>

The International Energy Agency talks about a “monumental task” aiming at net-zero emissions by 2050 in alignment to the Paris-Agreement.<sup>2</sup> It implies no more permits for new oil or gas fields by now, closing all inefficient coal power plants by 2030 and stopping sales of cars with

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<sup>1</sup> IMF. 2020. World Economic Outlook. December

<sup>2</sup> IEA. 2021. Net Zero by 2050. A Roadmap for the Global Energy Sector. Report.

combustion engines by 2035. For the CESEE region, with its convergence objectives, these targets seem especially daunting.

According to the International Panel on Climate Change, CESEE's exposure to potential physical climate damage is rather small.<sup>3</sup> Only Southeastern Europe is more vulnerable to droughts and other extreme weather events.

In contrast, CESEEs exposure to transition risks is probably more relevant, given relatively high dependency on fossil energy, particularly on coal. Also, energy efficiency of these economies is comparatively low, albeit rising fast.

Recent global developments underscore the significance of these considerations. Take the topical supply shortage of semiconductors – not least due to a long-lasting drought in Taiwan apparently related to climate change. Chip manufacturing is water intensive. Or the increase of metal prices since China, the dominant producer, demands lighter metals production to meet its emission targets. But also, a recently canceled cooperation for a coal-fired power plant project in the Western Balkans provide an example of how European and international decarbonization pressure could produce stranded assets.<sup>4</sup>

A recent survey of the European Investment Bank reveals a comparatively low climate awareness in CESEE.<sup>5</sup> Probably the gap between physical and transition risk exposure makes people perceive the costs of green transition as particularly heavy. Yet climate change is a long-run and global issue, and no actor can win by free-riding. Hence, every country will have to contribute to mitigation and adaptation. At the same time, appropriate compensation schemes should make sure that nobody is lost in transition. Consequently, the European Union's Green Deal focusses on a just transition to net-zero.

Regarding actual policies, the region cannot be simply characterized as only lagging, even if explicit and implicit carbon taxes are rather low in nominal terms. Many member states have performed relatively well in meeting their targets on GHG emission and renewable energy in 2020.

Low-carbon transition offers also significant opportunities for CESEE economies. Their energy efficiency and GHG intensity provide low hanging fruits for carbon management. Moreover, their trade openness and value chain integration facilitate access to low-carbon technologies and markets. Bearing in mind dramatically falling costs for renewable energy, green transition promises productivity gains in various sectors. It also offers a response to wide-spread concerns on energy security in view of the region's geopolitical situation. Hence, leaving aside differences in details, CESEE member states should embrace the Green Deal.

Now, you may say, "this is all very interesting, but why shall we discuss it here?" Let me disclose our motivation for choosing the topic: The OeNB contributes to the supervision of Austrian banks and assesses overall financial market stability. The Austrian financial sector is particularly exposed to CESEE economies. And since climate-related risks are also financial risks, the regions' climate resilience is a critical object of investigation.

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<sup>3</sup> IPCC. 2018. Global Warming of 1.5°C. Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways.

<sup>4</sup> <https://balkangreenenergynews.com/tuzla-7-coal-plant-project-in-bih-sunk-by-ges-exit-officials-reveal/>

<sup>5</sup> EIB. 2021. The 2020-2021 EIB climate survey.

Just to avoid misunderstandings, today's discussion is not intended to fuel the ongoing debate on a more proactive role of central banks in greening the financial system and the economy. As a side remark I think, the Eurosystem should concentrate on its primary mandate, that is price stability. While we certainly avoid harming the climate, central bankers do not sit in the driver's seat of climate policy.

That place is occupied by governments, who can introduce carbon prices to cover the external costs of CO<sub>2</sub> emissions and thus correct the original market failure directly. If designed in a forward-looking and gradual manner, carbon prices would give firms and households the right incentives while preserving their planning security and technological neutrality. Including offsets, any negative social and economic impact could be limited too.

I hope my short reflection stimulate your appetite for the following deliberations. We have invited outstanding experts from relevant institutions: a municipality, a think-tank, a development bank, a ministry, an NGO, a central bank, and a commercial bank. We expect this to be an occasion for open dialogue – it shall not be the last one. Now I am curious to listen to you and pass over to our chief economist, Ms Ritzberger-Grünwald, who will chair the first session. Doris, the floor is yours.