Sabine Mauderer: Green transition in Germany – short-term needs and long-term opportunities

Speech by Dr Sabine Mauderer, Member of the Executive Board of the Deutsche Bundesbank, at the KfW "Capital Markets Conference on Energy Transition for Germany", Frankfurt am Main, 9 July 2024.

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1 Introductory remarks

Ladies and gentlemen,

Last Friday, we found out that Germany is not going to be the next European football champion. Unfortunately. But what I can tell you today is that – fortunately – Germany is the European champion when it comes to registered patents. And it is competing at the top level globally, too.

As you know, Germany has been through challenging times in recent years: 2020 marked the beginning of the global COVID-19 pandemic that triggered a severe supply shock. In early 2022, war broke out in Europe, causing, first and foremost, immense human suffering in Ukraine, but also economic disruption across the continent.

At that time, it also became painfully clear how dependent Germany had become on importing fossil fuels. This also translated into higher prices. In October 2022, inflation in the euro area reached an all-time high of 10.6%.

2 Situation today

So, let's have a look at the situation today. We overcame the pandemic, thanks in part to a vaccine developed in Germany. And as for the economic fallout, luckily only a small percentage of companies went bust.

This year, the economy has started to pick up again. The Eurosystem managed to bring inflation in June down to 2.5%, less than two years after inflation peaked. Representatives from twenty different European countries worked together to set monetary policy in a way that brought euro area inflation back towards its 2% target.

This shows that Europe works!

I expect the same dedication to complete the capital markets union.

At the same time, the labour market has been robust. According to Eurostat, the unemployment rate in May is stable at 6.4% in the euro area, and just 3.3% in Germany.[1] German businesses are well aware that international recruitment is needed to manage the demographic challenges. Numerous CEOs have made that very clear.

Our political system in Germany is an anchor of stability. These days, we all know how important that is, also from an investor's point of view.

Furthermore, Germany's fiscal situation is sound. It allows for considerable public support to be provided for the transformation, including support to press ahead with the energy transition. For some of you, fiscal soundness might sound boring. Especially if you are keen to benefit from attractive tax deduction programmes. But please bear in mind, that debt-financed tax deduction programmes have their limits.

After Russia's invasion of Ukraine, Germany accelerated its energy transition. There was no alternative because Germany has no primary fossil fuel sources of its own.

So Germany had to do two things:

1. increase energy efficiency and
2. increase the supply of renewable energy in Germany.

There is good news in this regard: Wind and solar energy are competitive today. Costs have dropped more than 80%.[2]

Germany is the most important country for patents in the field of clean and sustainable innovation in the European Union.[3] Public and private R&D spending in Germany exceeds 3% of GDP, which is among the highest R&D intensities in Europe.[4]

As a result, we are a global leader in hydrogen patenting.[5] This matters, because German industry requires hydrogen.

However, getting from scientific innovation and patents to running a business requires entrepreneurship and money. We need private investors, because public money has its limits. One of the key factors that influences investors' decisions is uncertainty. Many investors fear a global backlash against climate policies. At the same time, we are seeing the share prices of oil and gas companies increase.

So, please allow me to finish my intervention today by reflecting on political uncertainties, particularly on the global backlash against climate policies.

To us central bankers, and hopefully not only to us, the figures describing the impacts of climate change are clear. Global warming comes with a significant price tag. In many countries, we are seeing inflation go up on the back of climate change. Food prices are skyrocketing due to droughts, floods or other weather events. According to a study by the ECB and the Potsdam Institute for Climate Impact Research (PIK), global food inflation could increase up to 3.2% annually by 2035.[6]

The Network of Central Banks and Supervisors for Greening the Financial System (NGFS), which I have the privilege to chair, is going to publish a study illustrating how climate change will affect monetary policy. This study shows that extreme weather events will have a strong impact, first on the supply side, then on the demand side and finally on the financial system.

Let me emphasise that the costs of climate change for our economies will become so great that, at some point, we will see climate policy action. It is just a matter of time.

3 Concluding remarks

Ladies and gentlemen,

I started my intervention with football and I would like to end on that note. Germany is not going to be the next Euros champion.

But, more importantly, our team have shown they can compete at an international level. The same can be said of our economy.

Thank you!

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[1] See Eurostat, Euro area unemployment at 6.4%, July 2024.

[2] See for example the "Lazard Levelized Cost of Energy+" database, Levelized Cost of Energy+, June 2024.

[3] See Falck, O. and Akash Kaura (2023), Green Skills in German Manufacturing, CESifo EconPol Policy Brief 55. Germany stands out within Europe as the largest single contributor, accounting for nearly 37% of Europe's international patent families (IPFs) in cleantech, followed by France and the UK with 14.5% and 8.5%, respectively. See also European Patent Office and European Investment Bank (2024), Financing and commercialisation of cleantech innovation, April 2024.

[4] See Eurostat, R&D expenditure - Statistics Explained, March 2024.

[5] Germany accounts for nearly half of all hydrogen-related IPFs in the EU. See also European Patent Office and International Energy Agency (2023), Hydrogen patents for a clean future: a global trend analysis of innovation along hydrogen value chains, January 2023.

[6] Kotz et al. (2024): Global warming and heat extremes to enhance inflationary pressures, Communications Earth & Environment, Vol. 5 (116).