

# Is Market Neutrality Hindering the Sustainability of Eurozone Monetary Policies?

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In the Eurozone, which includes all EU countries that adopted the Euro as their currency, monetary policies are introduced by the European Central Bank. Key priorities of the European Central Bank are to keep prices stable and to follow the principle of market neutrality.

Market neutral policies avoid favouring certain sectors, industries and companies over others. While such policies are often perceived as fairer, they can also be problematic.

This is particularly relevant in the context of sustainability. For instance, 'market neutral' monetary policies often fund private banks that loan money to environmentally harmful projects. On the other hand, green monetary policies finance and prioritise certain sectors, companies and banks that focus on environmental sustainability, at the expense of others.

As such, green monetary policies clash with the idea of market neutrality.

Professor Johann Walter of Westphalian University in Germany has carried out extensive research exploring the ways in which the Eurozone could become more sustainable. He argues that market neutrality should not be a key focus of

the European Central Bank's monetary policies.

Walter suggests that green policies that deviate from market neutrality are both feasible and desirable. As long as they do not compromise price stability, these policies would not diverge from the European Central Bank's mandate.

More specifically, he describes how the European Central Bank could focus on price stability when making decisions about the volume of monetary policies in place, while making separate decisions regarding monetary allocation. In particular, decisions regarding monetary allocation could take sustainability into account, for instance through policies that fund banks with a keen focus on sustainability.

In one of his papers, Walter also discusses some of the recent lawsuits that citizens and plaintiffs worldwide have launched towards oil companies, the EU parliament, and other parties, in the hope of prompting them to act more sustainably or introduce new green initiatives. He adds that the European Central Bank could also be sued for its lack of green monetary policies and for failing to contribute to the fight against climate change. According to

Walter, it is hard to estimate the probability that such a lawsuit would succeed, yet he feels that it is not impossible.

In another paper, Walter also emphasises the need to re-orient monetary policies so that they prioritise sustainability over economic growth and productivity.

Before this can be done, however, the rate at which the world's population is growing will need to be slowed down. Therefore, policies should not give special incentives for having several children.

Ultimately, Walter's recent research could inspire the development of initiatives aimed at increasing the sustainability of monetary policies, while also fuelling further debates regarding market neutrality and sustainable monetary policies in the Eurozone.

Summary of the paper '**Green monetary policy: Climate protection versus market neutrality**' in the Journal for Economic Policy. [doi.org/10.1007/s10273-021-3058-3](https://doi.org/10.1007/s10273-021-3058-3)