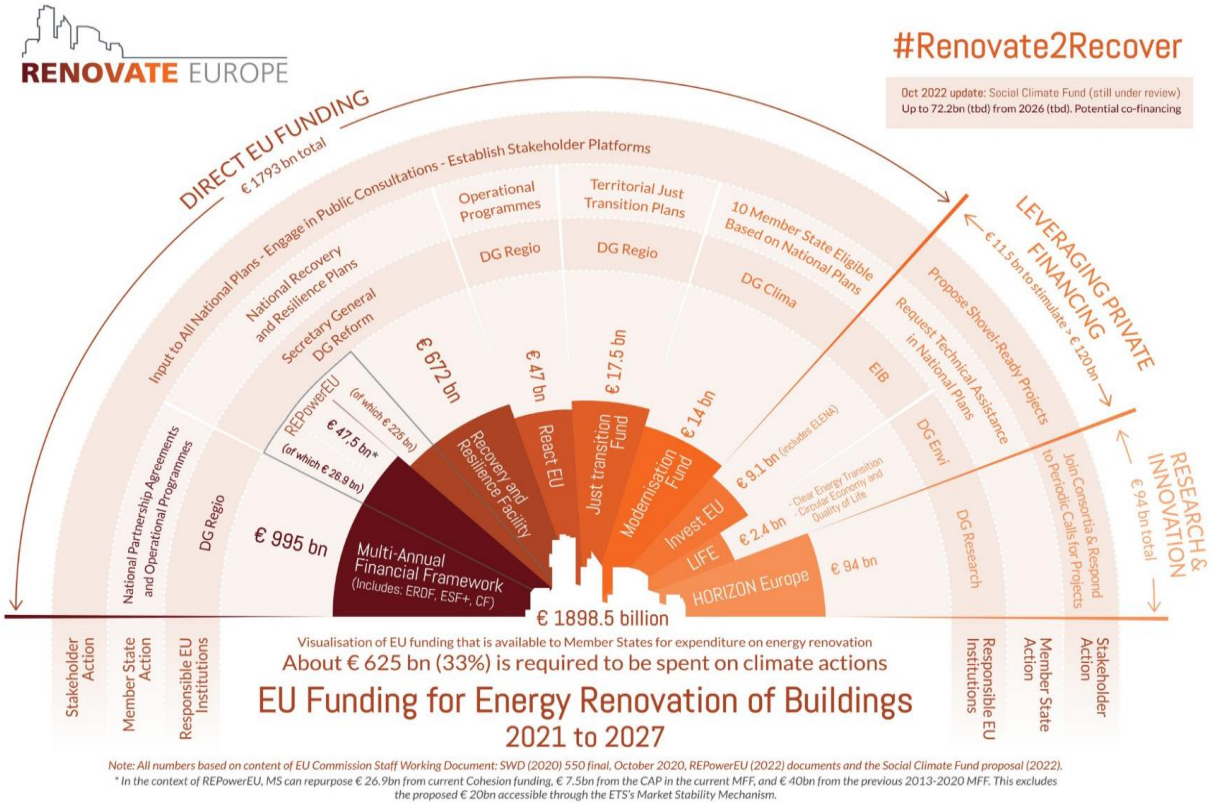
The economic case supporting ambition in the EPBD

The EU cannot afford inefficient buildings

Years of inaction on energy efficiency in the building sector are having a dramatic impact on households and public finances. Energy bills are expected to triple in some Member States compared to previous years,[1] exposing millions to the risks of energy poverty and/or the inability to make mortgage payments. In turn, this becomes a credit risk for banks, as demonstrated by the European Central Bank (ECB) climate stress test from July of this year.[2]

A recent assessment by Bruegel indicates that around 4% of the EU GDP (around €350 billion + €200 billion recently announced by Germany) has already been spent by Member States on subsidising energy bills. This amount is greater that the Commission's own assessment of how much would be needed per year to double deep energy renovation in the EU.[3]

Support is already on the table



[1] DW, Germany: Consumers can expect heating bills to at least triple (2022).
[2] European Central Bank's climate risk stress (2022).
3 Renovation Wave: The estimated amount needed per year to double deep energy renovation in the EU is €250 billion, representing about 1.5% of EU GDP.

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Support for citizens and businesses is already available: Energy renovations are investments that improve living conditions, increase property value and decrease energy bills. And **there has never been as much financial support available for households and businesses as today.** However, there is currently a clear mismatch when it comes to investments in renovation[4], something an ambitious EPBD can help tackle.

At European level, the future Social Climate Fund (up to €72.2bn) will also be able to support national renovation schemes.

At National level: Numerous programmes have been announced in recent years to support renovation works e.g. MaPrimeRenov' in France, Renovation grants in Austria ('Sanierungsscheck'), the 'New Green Savings' program in Czechia, the Superbonus in Italy, etc… More information gathered by the European Commission and European Investment Bank can be found here.

Ambition in the EPBD is good for growth and job creations

Minimum Energy Performance Standards provide much needed medium- and long-term market visibility. They will encourage long term investments, innovation and help companies optimise training programs. According to the Renovate Europe Campaign, 18,000 jobs will be created per €1 billion invested in energy efficiency. These are local, long-term jobs that will stimulate economic activity across the EU.

- Example in Croatia: The multiplier of the funds invested in the energy saving renovation of residential and public buildings in Croatia is estimated at 2.5-2.9.[5]
- Example in Estonia: Average of 17 jobs generated per €1 million invested in renovation. The tax revenue directly attributable to projects is 32–33% of total renovation project cost.[6]
- Example in France: The deep renovation of 7.4 million energy- inefficient household dwellings (class F-G) by 2025 would create 126,000 net FTE jobs over the period 2017-2025.[7]
- Example in Germany: Employment potential to achieve 2050 targets: 283,185 additional jobs[8]
- Example in Italy: Renovating all eligible areas under the 65% tax credit programme (Ecobonus) between 2014- 2023 would require an estimated total investment of €116.6bn and help to create over 1.7 million jobs over a 10-year period. 174,000 jobs per year.[9]
- Example in Poland: €1 million invested in energy efficient renovation could generate 42 jobs.[10]

Multiple benefits: Investing millions to save billions

Beyond energy savings, energy efficiency measures provide multiple benefits such as better indoor environmental quality, greater comfort, improved health and wellbeing as well as increased productivity.

[4] BPIE EU Buildings Climate Tracker

[5] Mikulić, D., Rašić Bakarić, I. & Slijepčević, S. (2016). "The economic impact of energy saving retrofits of residential and public buildings in Croatia." Energy Policy 96: 630-644. 10.1016/j.enpol.2016.06.040.

[6] https://doi.org/10.1016/j.enbuild.2014.10.004

27. Seefeldt, F., Rau, D. & Hoch, M. (2018) "Fachkräftebedarf für die Energiewende in Gebäuden." Prognos.

[7] SiaPartners (2017). "Couts et bénéfices d'un plan de rénovation des passoires énergétiques à Horizon 2025."

[8] Holm, A. & Maderspacher, C. (2018). "Wirtschaftliche Bedeutung der Gebäudehülle im Wohnungsbau." FIW

[9] CRESME (2014). "Valutazione della convenienza e dell'impatto economico dell'isolamento termo- acustico degli edifici"

[10] Pikas, E., Kurnitski, J., Liias, R. & Thalfeldt. M. (2014). "Quantification of economic benefits of renovation of apartment buildings as a basis for cost optimal 2030 energy efficiency strategies". Energy and Buildings 86: 151-160.

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These additional benefits have a non-negligeable positive economic impact.[11] Energy renovation can also help tackle energy poverty by reducing households' energy bills, improving living conditions and decreasing mortgage default risk.

New instruments can quickly stimulate private investments

Mortgage Portfolio Standard (MPS)

Under the current review of the EPBD, the European Commission has proposed to introduce a Mortgage Portfolio Standard (MPS) - a new mechanism that requires banks to increase the median energy performance of their mortgage portfolio.

MPS is a tool with considerable potential as it can funnel more capital into energy-efficient renovations and boost the energy renovation rate. At the same time, the MPS can help banks to align their portfolios with Taxonomy-compliant activities and fulfil their Green Asset Ratio, as well as managing the climate transition risks they face in their mortgage portfolio. More information here.

EU Renovation Loan (ERL)

European residential buildings are estimated to be worth €17 trillion and house 220 million homeowners. There are around €7 trillion of mortgages in Europe, and therefore there is €10 trillion of home equity against which owners can borrow for the deep renovation and transformation which most of these buildings require by 2050.[12] These savings must be unlocked efficiently, and the EU Renovation Loan could play this role. It would take the shape of long-term (30 year) financing with a zero-coupon structure:

- Homeowners borrow the amount they require to transform their home through a deep renovation.
- They do not have to pay cash interest and it accrues until the property is sold or transferred (or the loan matures in 30 years).

EU Renovation Loans can be offered to underserved families and backed by an EU guarantee. Their interest would accrue at EU borrowing costs (plus a small spread) and be distributed through mortgage lenders alongside top-up or commercial mortgages. We argue that the necessary EU loan funding can be created by a conversion of the underutilised loan component of the recovery plans into EU Renovation Loans, authorised by Member States.

Attractive rates for renovation loans

Currently the volume of green renovation mortgages offered by banks is scarce and the renovation loans that are proposed are too expensive. To incentivise lenders to propose affordable green renovation mortgages, the ECB should apply a green discount rate on its loans to commercial banks, under the condition that, in turn, the commercial banks use these loans to offer zero-percent loans to their customers for energy efficient renovations.

In practice, commercial banks could borrow money for renovation purposes at a lower rate than the ECB's regular policy rate. By adopting this green discount rate, the ECB would not only lower the cost of renovation, but, in the medium term, it would also support the ECB to achieve its price stability mandate. By making the Eurozone's buildings greener and more energy efficient, in fact, the ECB would effectively reduce EU

[11] "Example in France: Direct medical costs linked to poor housing amount to €930 million per year while indirect costs amount to €20 billion/year. Renovating 7,4 million energy-inefficient dwellings (class F-G) by 2025 would result in €758 million in annual savings for the healthcare system." In SiaPartners (2017). "Couts et bénéfices d'un plan de rénovation des passoires énergétiques à Horizon 2025.

[12] Climate Strategy and Partners - The European Renovation Loan: An innovative financial instrument to Repower EU, 2022

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consumption of imported fossil fuels and shield our pockets from the volatility of their prices, tackling the primary source of today's inflation - energy.[13]

In addition, an EU-wide renovation guarantee framework should be established to cover the financial risks of the most vulnerable households in case they should default on their loans. By acting as a guarantee, the EU can reduce the risk profile of consumers that are currently not eligible to receive bank loans. Reducing the risk will also lower the cost of the renovation loans. While some governments already offer state guarantees for renovation loans, an EU-wide guarantee framework would ensure that all Europeans can benefit from this supportive mechanism.

[13] PMEU, 'Unlocking the Renovation Wave: The case for an ECB green discount rate' (2022).

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About EuroACE – Energy Efficient Buildings

EuroACE represents Europe's leading companies involved with the manufacture, distribution and installation of energy saving goods and services for buildings. EuroACE members employ more than 220,000 people in these activities in Europe and have over 1,100 production facilities and office locations. The mission of EuroACE is to work together with the EU institutions to help Europe move towards a more efficient use of energy in buildings, thereby contributing to Europe's commitments on climate change, energy security and economic growth.

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