OESTERREICHISCHE NATIONALBANK
EUROSYSTEM

Consequences of the taxonomy for financing nuclear energy

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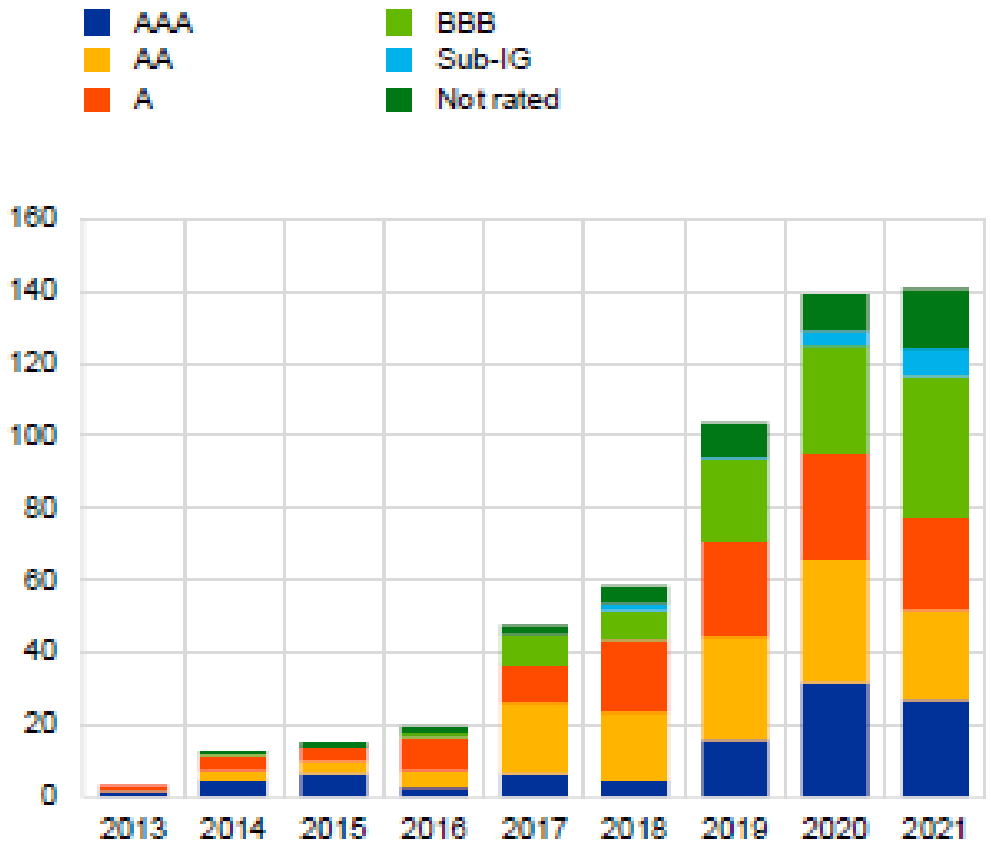
The EU action plan on sustainable finance

- *How can investors identify <u>what</u> are sustainable investments?*
  - The **taxonomy** is a classification of economic activities which contribute at least to one of the EU's climate and environmental objectives (it is green, but not brown)
- *How can financial intermediaries identify <u>who</u> is producing according to the taxonomy?*
  - Mandatory **disclosure** of economic activities and sustainability indicators (e.g. Corporate Sustainability Reporting Directive, Sustainable Finance Disclosure Regulation)
- *How can firms <u>finance</u> their taxonomy-aligned investments?*
  - Through transparent, accountable, comparable, and credible **green bonds** (EUGBS)
- *How can investors <u>compare</u> different green investment opportunities?*
  - Via the new EU Climate Transition **Benchmark** and the EU Paris-aligned **Benchmark**

Green bond market is growing strongly

Volume of traded Green Bonds in EU markets

in bn EUR



- **Green bonds** are used to finance projects that are aligned with sustainability targets (e.g. green energy production, raising energy efficiency)
- Large financial intermediaries like the German KfW have already been running **green bond programmes** for years
- **Growing demand** yields dynamic growth of the market
- **Europe** is the largest market for green bonds globally

Trading in liquid markets

- Liquid markets are characterized by a sufficiently **large number** of buyers and sellers
- At almost **any time** a potential seller will find a market participant who is willing to buy an asset **at the given market price**
- Finding a buyer at an instant reduces the **risk** of holding an asset and it reduces the **bid-ask spread** → assets in liquid markets are **cheaper**
- Larger amounts of an asset can be traded **without changing the market price** by much
- These characteristics are important for **institutional investors** who are usually trading in larger amounts
- Institutional investors can **finance** the necessary **investments** for **greening the economy**

Potential effects of including nuclear energy

- If **nuclear energy** production is included in the **taxonomy**, nuclear power plants could be financed via **green bonds**
- Investment fund managers who want to launch a **green fund** could also include bonds by nuclear power plants in their portfolios, making it difficult for sustainability-oriented **retail investors** to avoid investing in nuclear energy
- Given the **growing demand** for green bonds and green funds, the **financing costs** for firms whose activities are included in the taxonomy are likely to decrease

  Example*: Higher demand for a bond results in a higher bond price, thereby lowering the bond yield (e.g. bond price 100 €, coupon 5 € → yield of 5%; if the price goes up to 111 €, the coupon is still 5 € → yield is reduced to 4.5%)*

- Vice versa, if nuclear energy is **not included** in the taxonomy, the financing costs of nuclear power firms will be relatively worse compared to sustainable energy.

Financial risks of including nuclear power in taxonomy

- **Fragmentation risk**: the green bond standard should create a deep and liquid market for financing sustainable investment. If many investors want to avoid funding nuclear energy, the green bond market might become fragmented ("*green bond plus*"?)
  - ➢ Several institutional investors have already announced they will not buy nuclear assets
- **Default risk**: green bonds should provide a reliable form of investment. Nuclear accidents are low probability, but high impact events that can wipe out the entire capital of the operating firm.
- **Regulatory risk**: if popular opinion changes (e.g. after another accident), legislative action against nuclear power could be enacted, causing losses
- **Litigation risk**: the costs of accidents are probably not insurable. The polluter principle could burden operators with costs long after a power plant is switched off since radioactive waste might cause damages in the future.

Danke für Ihre Aufmerksamkeit

Thank you for your attention

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