Swedbank

Macro Focus

No green recovery so far

- Green investments account only for a tiny share of global stimulus announced so far.
- Announced green stimulus in our home markets ranges from around 2 % of GDP in Denmark to 0.02 % in Sweden, where more is expected.
- Equally important to avoid support for brown sectors and to promote high carbon pricing.

Potential for structural change amid crisis recovery[1]

The corona crisis is no panacea for the climate: in the past, emissions have tended to rebound quickly after economic crises. However, previous crises have also caused structural shifts where emissions fell to a slower growth path, as was the case after the oil crises in the 1970s. The current crisis offers an opportunity for an accelerated shift towards zero-carbon technology.[2] Directing stimulus to green investments could power such a transformation while supporting employment and aggregate demand.

Globally, green stimulus measures still account only for a tiny share of total crisis relief, estimated at less than 0.2% of total stimulus for the world's 50 largest economies by June (Bloomberg Green, 2020). Europe has so far been at the forefront, with Germany accounting for a large share of the global total. Even in the EU, however, "brown" stimulus to carbon-intensive sectors has been greater than green (BNEF, 2020). A large share of stimulus so far has been immediate crisis support, and the hope is that green investment may play a more important role going forward, at least in Europe. The EU recovery fund and the upcoming long-term budget will likely also generate much more green stimulus in Europe in the coming years.[3]

Fast and labor-intensive investments bring clearest stimulus benefits

The climate and economic effects of green stimulus depend on the type of measures implemented. Preferably, measures should be labour-intensive in the short run and climate friendly in the long run. It is also important to get the investments in place fast. Good stimulus investments, therefore, include many small-scale programmes such as renewable energy deployment, energy efficiency improvements in buildings, new bike lanes, and electric vehicle (EV) charging stations. Large-scale projects, such as big infrastructure investments, tend to take more time and therefore have smaller direct stimulus effects, even if such spending is also needed for long-term emission reductions.

In addition to green stimulus measures, it is equally important to avoid stimulus to fossil-intensive sectors and to remove harmful subsidies. Bailouts to "brown" sectors can slow the transition to a greener economy and should at least be accompanied by stringent green conditions. Green investments should also be accompanied by policies that disincentivise a rebound in emissions after the crisis, including carbon pricing and credible climate targets.

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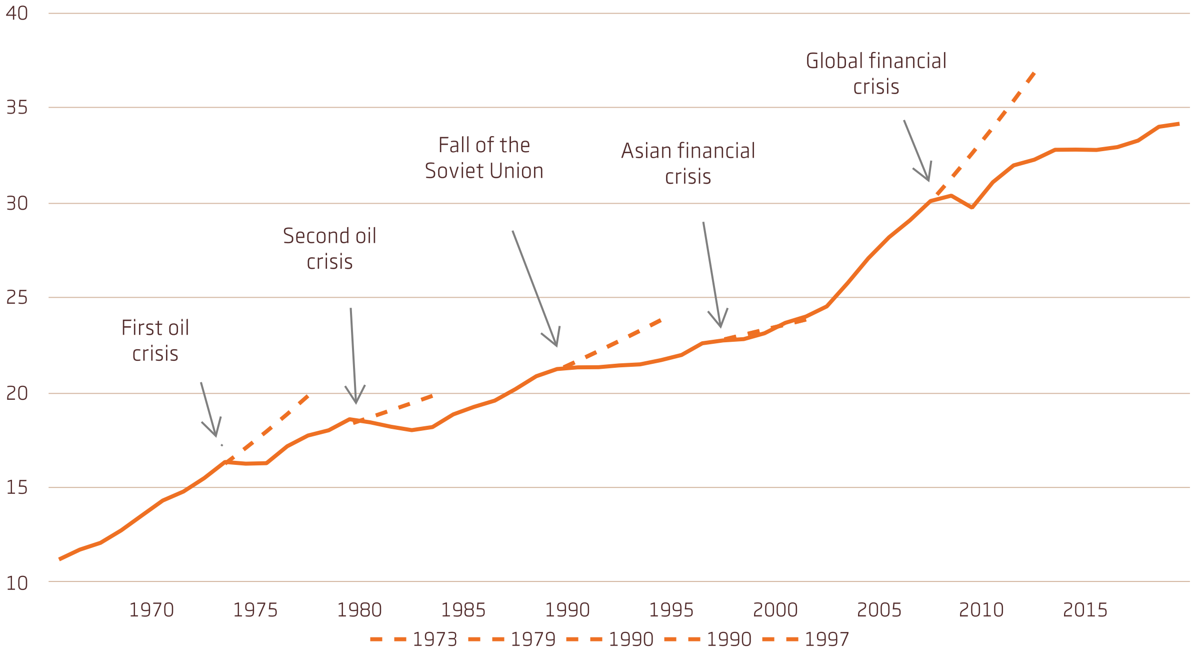
[1] This analysis is an extract from our August 2020 Swedbank Economic Outlook.
[2] More on this topic of green recovery in our Macro Focus: A Greenish Recovery from June 2020.
[3] More on the EU recovery fund and it's climate policy implications in our Macro Focus: Swedbank's Sustainability Indicators show more progress is needed.

Global CO2 emissions and crises

Metric tons. Dashed lines show extrapolated trend in the 5 years before crisis



Sources: BP, Swedbank Research & Macrobond

Announced green stimulus varies widely across the Nordics

Denmark has so far announced the greenest stimulus among the Nordics, and its plans are ambitious even in a global comparison. The lion's share is in energy efficiency projects in buildings - a smart area both in terms of stimulus and climate benefits. Denmark's spending in EV charging stations can also be highlighted as efficient stimulus. The plans include ambitious longer-term projects, such as two offshore wind energy islands. While hardly providing short-term stimulus, they support long-term emission reductions.

Sweden has announced the least green stimulus among the Nordics, but we expect more when the budgetary bill is presented. The announced subsidies for solar panels seem justified but are modest in size. Funds have also been allocated in much-needed railway maintenance, which is effective stimulus and supports greener transport in Sweden. Green credit guarantees for business investments have also been announced. We expect the Swedish government to announce more green spending in the coming months. It is hoped the investments target areas such as modern power grids, energy storage, energy efficiency, transport electrification, and hydrogen. The government issues its first green bond this month; more green bonds could facilitate the funding of green expenditures going forward.

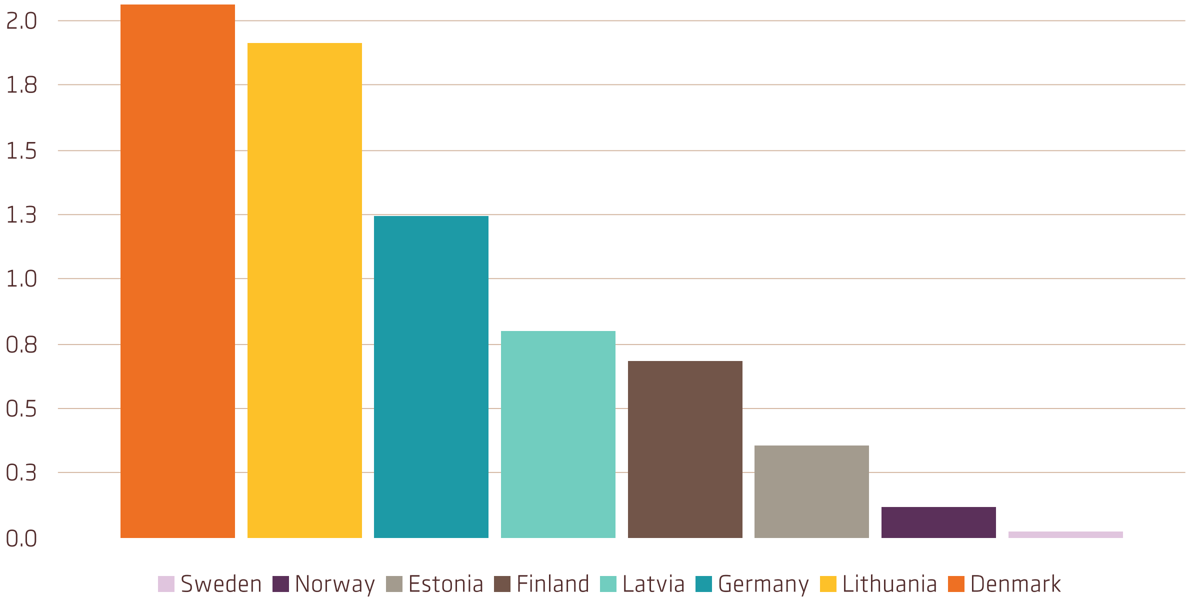
The Norwegian government is going to spend NOK 3.6 billion (2.25% of total stimulus) on a green restructuring package, most of which will be used in R&D and to support businesses in adopting green technologies. The rest will be spent on recycling, green shipping, offshore wind power, and hydrogen. Spending on clean hydrogen is sensible, as this could become an important clean energy source in Norway. However, the spending on more short-term green stimulus is quite modest. On a less positive note, the package also includes tax relief for oil and gas companies, which could free up as much as NOK 100 billion for investments in 2020-2021.

In **Finland**, the government has announced the second greenest stimulus in the Nordics. A large share will go to sustainable transport investments. The planned projects include rail repairs, which provide more short-term stimulus, and new green transport projects, which could have large climate benefits in the long-term. Some support is also targeted to energy efficiency of buildings and nature conservation projects. While Finland will likely not announce much more green stimulus, planned longer-term projects will likely lead to more spending in the coming years. The proposal for the state budget for 2021 includes a reduction in the electricity tax to support industrial electrification.

Sweden, Denmark, and Finland will also receive a share of the EU recovery fund in 2021-2023, of which one-third must be allocated to climate spending. This will mean an addition of around SEK 10 billion in Sweden's green stimulus, e.g. On the brown stimulus side, all the Nordic governments have also allocated support to airlines during the crisis. Only the Swedish government has tied its support to explicit emission reduction requirements. It should be noted that while Finland and Denmark have so far announced the greenests timulus, Eurostat's data from 2015-2017 shows that their public sector environmental expenditure and environmental protection investments were considerably smaller as share of GDP than in Sweden and Norway.

Country comparison: The most spending in Denmark, more expected in Sweden

Green stimulus % of nominal GDP



Note: Includes accelerated already planned investments.
Spending planned up until 2031 included.
Sources: Government announcements, Carbon Brief, OECD, Swedbank Research & Macrobond

Both carrot and stick needed, even amid crisis recovery

There are still untapped opportunities for green stimulus in the Nordics, not least in Sweden and Norway, which have so far promised little spending. Energy efficiency improvements in buildings, renewable energy, electricity transfer, and storage, and electric mobility such as EV charging stations are some of the areas where spending could generate both jobs and climate benefits relatively quickly. Spending in renewables would be beneficial even in Sweden and Norway, where electricity is already largely zero carbon, since electrification will likely increase the demand considerably. At the same time, the more short-term green stimulus should not crowd out spending in long-term projects, such as renewable hydrogen, carbon capture and storage, and industrial zero-carbon technologies.

In addition to green stimulus, it is equally important to avoid propping up fossil-intensive industries. Norway's recent crisis support for its oil and gas industries is an obvious sticking point, while other Nordics also continue to grant fossil fuel subsidies. At the same time, all the Nordic countries need to promote high carbon pricing both domestically and in the EU. The real risk with the crisis is that necessary tax and subsidy reforms may be delayed as policymakers fear hurting consumers and industries. Smart green tax shifting and trade policy can be used to make such reforms easier to implement. Finally, it is important for the Nordic countries to also look at stimulus and climate policy from an international perspective: EU cooperation is crucial for both objectives.

Uneven green stimulus in the Baltics

Progress towards carbon-neutral economies has been long needed in the Baltics, where green spending has been nearly absent for years. The Baltic economies are still characterised by high energy intensities, low resource productivity, and low government support to R&D in agriculture.

Lithuania has so far announced the greenest stimulus among the Baltic states. In total, EUR 927 million (1.9% of GDP) has been earmarked, which includes the acceleration of already planned investment and an additional of EUR 360 million. Investments will be implemented by the end of 2021. The priorities focus on the development of offshore wind infrastructure; installation of renewable energy sources in households, industrial, and public buildings; renovation of buildings; and replacement of petroleum gas appliances in buildings. Most of the green investments are not new, but rather accelerated policy plans financed by the EU funds. The lion's share of new investments is directed towards installation of electricity storage facilities, which play a key role in the transition towards a carbon-neutral economy. However, the deadline in 2021 may be too early for some projects, such as renovation of buildings, and investments might end up reallocated or hastily implemented.

Latvia's need to speed up its progress towards more sustainable economy and energy efficiency has long been known. The country's green stimulus measures announced during the pandemic mostly consist of a redirection of EU funds at nearly EUR 250 million (0.8% of GDP). Supported programmes include financial aid for improving the energy efficiency of residential and public buildings, replacement of heating appliances, as well as additional investment in public transport and recycling. Furthermore, broad support has been obtained for funding the Rail Baltica railway project in the EU's upcoming long-term budget, which fits nicely into the European green agenda.

In the total **Estonian** aid package, there was only one green measure - the reconstruction of dwellings to improve energy efficiency, amounting to EUR 100 million (0.4% of GDP), or 8.7% of the total package. However, one of the measures was also the reduction of the excise tax on diesel, in no way aligned with the green objectives. Longer-term investment in facilitating the transition to carbon neutrality is planned, especially in the shale oil production region, with the help of the EU funds, but this is not part of the immediate crisis relief. On another positive note, at the end of July, the governments of Latvia and Estonia agreed to start building a joint wind farm in the Baltic sea.

EU's recovery fund – same cake, different slices

The EU budget deal reached in July 2020, which includes a onetime EUR 750 billion recovery fund, is unprecedented. Around 30% of total funding is set aside for climate action. The Baltics will receive generous support in grants, ranging from 4% of nominal GDP in Estonia to 6.4% in Latvia. Fiscal stimulus of this size will provide the Baltics an opportunity to reach long-term green objectives. The Nordics will receive less support, ranging from 0.6% of nominal GDP in Denmark to 1% Finland.

Total grant allocations from the recovery fund (estimates):

	Estonia	Latvia	Lithuania	Sweden	Denmark	Finland
Grants, bn EUR	1.13	1.96	2.63	3.95	1.79	2.4
% of nominal GDP	4	6.4	5.4	0.8	0.6	1

Source: The Bruegel

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