

Green QE has a future, but it will be hard without sus...

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The FT [has a report this morning](#) under the title:

Pushback and practicalities limit hopes for 'green QE' from ECB

Green quantitative easing has come a long way since 2010 [when I wrote this with Colin Hines](#):

As the report notes:

Protesters marked Christine Lagarde's first day as European Central Bank president on Friday by marching on its Frankfurt headquarters behind a banner that read "if the Earth was a bank you'd have rescued it".

Activists in that 150-strong crowd may have found an ally in Ms Lagarde, who said recently that she wants to make climate change a "mission-critical" priority – a stance that has raised hopes that the central bank could boost purchases of green bonds, in an effort to bump up inflation and save the planet in one stroke.

This would make sense, if quantitative easing is to be pursued. And it is exactly what Colin and I argued in 2010. But there is the kickback:

But "green QE" is a controversial idea. Jens Weidmann, head of Germany's Bundesbank, said last week that he would react ["very critically"](#) to the policy, adding that such decisions should be left to politicians, not unelected central bankers.

The ECB has bought green bonds under previous rounds of asset purchases. By late last year it had purchased 24 per cent of the €48bn pool of eligible green public sector bonds and 20 per cent of the €31bn pool of eligible green corporate bonds, ECB executive board member Benoît Coeuré said in a speech.

Buying green bonds in greater volumes, however, would be hard. Although issuance of

green bonds is growing quickly, it remains small compared with the overall size of debt markets. Eurozone companies and governments have sold \$66bn of bonds with a green label so far this year, a large rise from 2018 but still only around 5 per cent of total issuance.

This is, of course quite ridiculous. First, of course politicians decide on this: they must tell the ECB to buy green bonds.

Second, governments have to get on and issue these bonds [to fund the Green New Deal](#): the need is pressing and urgent and the demand for these bonds is high.

Third, there need be no ambiguity on what is green: certification schemes need to be created but the essence is simple:

- * It funds a government's Green New Deal, and that is demonstrated by action
- * It funds similar action by a local authority, devolved government or government agency
- * It funds this issue in developing countries
- * It funds the transition of a company to being net zero-carbon, which is a process that will, as a matter of fact, require [sustainable cost accounting](#).

The first three should not exactly be hard. And the volume of bonds to be issued is big: in the UK alone there could be £100 billion a year required. We really do not need to quibble over supply.

The point re sustainable cost accounting is, if anything, more important. Without audited accounting for climate change this market will be at risk. Sustainable cost accounting will provide that. And it also overcomes the ridiculous claim that the markets can't price climate change, which some use as reason to object to ECB interference. With sustainable cost accounting there is no need to price climate change. All we have to price is the cost of transition, which is quite different and does not involve a climate price, at all.

Green QE may well have a role in the future, especially in Europe. But without sustainable cost accounting it's hard to see how far it can go. That makes sustainable cost accounting vital.