



CLIMATE FINANCE MONITOR¹ HIGHLIGHTS

Sustainable finance markets remained relatively stable in the third quarter of 2025, supported by continued policy backing across major regions. Although quarterly issuances declined, this seems to reflect broader weaknesses in primary debt markets. Further, the acceleration in outflows from ESG funds appears more idiosyncratic than structural, as evidenced by improved performance of ESG indices across asset classes during the quarter.

- **Global sustainable debt issuance declined by 17% quarter-on-quarter and 8% year-on-year bringing year-to-date volumes to \$1.1 trillion (Figure 1).** However, regional trends were mixed, with Europe and China showing stronger growth compared to Q3 2024. Despite the slowdown, sustainable debt maintained its approximately 2% share of total global issuance, underscoring structural investor demand.
- **Europe remained the largest source of sustainable debt issuance (36%), while the share issued by Asia Pacific increased to 32% (Figure 2).** China has seen notable growth in green bond issuance following the reforms to green bond taxonomy and regulatory frameworks, which increased its share in global green bond issuance from about 7% in 2020 to 21% in Q3 2025.
- **Green bonds remained the largest segment of sustainable debt markets (Figures 3-4).** Their share rose to 46% of total sustainable debt issuance in Q3 - the highest since late 2020 - with cumulative issuance reaching about \$500 billion in the first three quarters of 2025. The increase underscores continued investor demand and strong policy momentum. Sustainability bonds followed as the second-largest category, accounting for around 21% of Q3 issuance.
- **Pricing remained supportive in Advanced Economies (Figures 5-6).** Despite policy uncertainty, yield differentials of regular bonds over green bonds, known as the premium on green bonds, widened in parts of Europe and stayed above 2024 levels in the United States, as issuances from local government institutions were met with investor demand. EM differentials were broadly stable.
- **Sustainable equity and bond markets rebounded through mid-2025, while funds experienced divergent flow patterns (Figures 7-10).** Sustainable equity performance caught up with global benchmarks through mid-2025, while green bonds outperformed benchmarks in Q2 and maintained that gains in Q3 2025. However, ESG equity funds recorded large outflows, mainly due to a single institutional reallocation. In contrast, bond funds attracted modest inflows as investors rotated toward fixed income amid persistent macroeconomic uncertainty and elevated geopolitical risks.

¹ The sources for this document are Bloomberg Finance L.P., EPFR, Haver Analytics, Morning Star, and IMF Staff
This Monitor was prepared by Deepali Gautam and Esti Kemp (MCM Department).

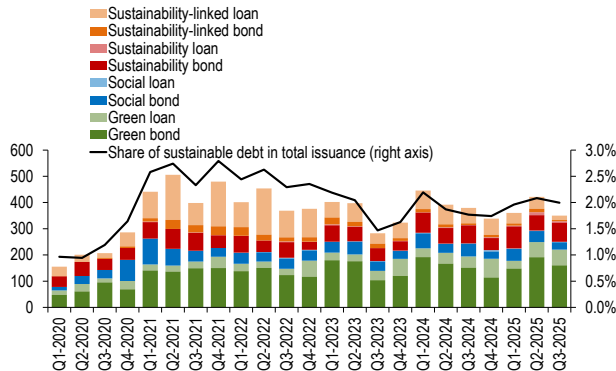
Global sustainable debt issuance softened in Q3 2025 after a strong Q2

Global sustainable debt issuance moderated in Q3 2025 to about \$350 billion, down 8% from Q3 2024. Year-to-date issuance reached \$1.13 trillion, with the market's relative share of global debt decreasing slightly to around 2%. Green bonds remained the largest category, accounting for 46 percent of total issuance - the highest share since late 2020.

Europe remained the largest issuing region, accounting for around 36% of Q3 2025 volumes, followed by Asia-Pacific (~31%) and the Western Hemisphere (~16%).

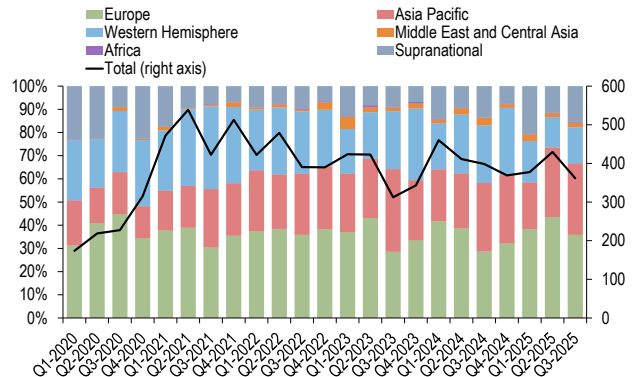
1. Global Sustainable Debt Issuance by Instrument

(Billions of U.S. dollars, percent)



2. Global Sustainable Debt Issuance by Region

(Percent, Billions of U.S. dollars)



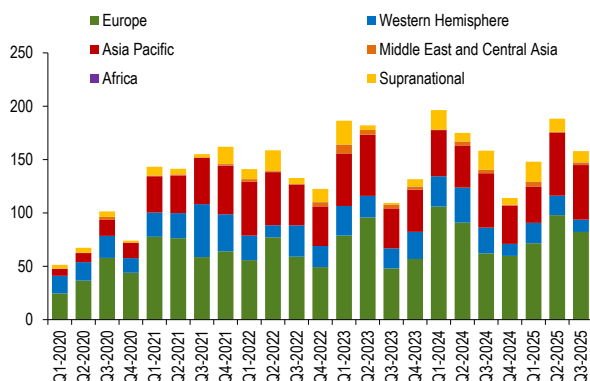
Green bonds remained the largest segment in sustainable finance

Green bond issuance totaled around \$160 billion in Q3 2025, lower than in Q2 but modestly higher than in 2024. China remained the largest single-country issuer, contributing around one-fifth of total global issuance.

The financial industry and government issuers remained the dominant sources of green bonds, reflecting steady sovereign and public-sector financing momentum across key markets.

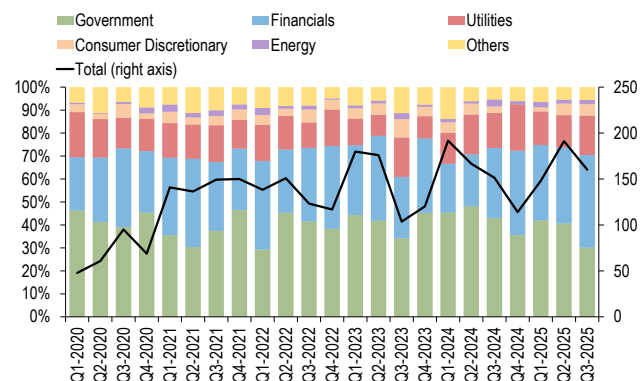
3. Global Green Bond Issuance by Region

(Billions of U.S. dollars)



4. Global Green Bond Issuance Industry Breakdown

(Percent, Billions of U.S. dollars)



Note: Net of supranationals, the top 5 issuers of green bonds in Q3 2025 were China (23%), Germany (14.5%), France (11.5%), Netherlands (4.7%), and United Kingdom (4.4%). Supranationals accounted for 6.7% of total issuance during the quarter. In panel 2, government includes development banks, supranationals, sovereign and local governments, and US municipals. Fannie Mae is included under Financials.

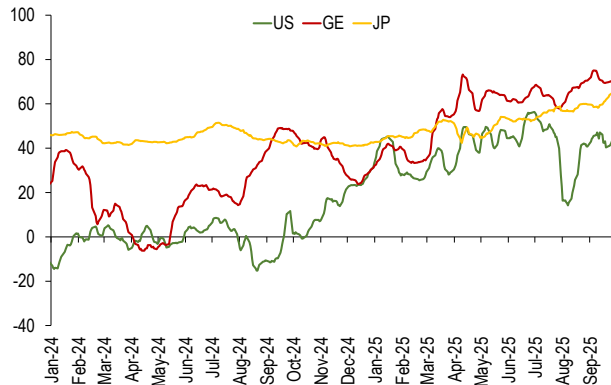
Yield differentials of green bonds over regular bonds in advanced economies trended higher

On net, the yield differentials of regular bonds over green bonds, or the premium on green bonds, have trended higher in 2025. In Germany, the premium on green instruments has risen amid sustained investor appetite, while in the US, they have gyrated somewhat but remained above the 2024 levels.

In most EMs, the differentials have been broadly stable this year.

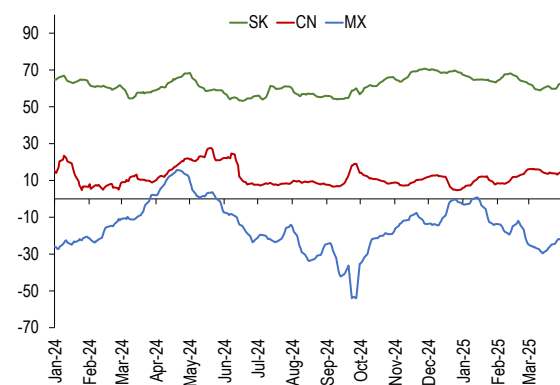
5. Yield differentials in secondary markets - Advanced Economies

(Difference in yields, basis points)



6. Yield differentials in secondary markets – other key regions

(Difference in yields, basis points)



Notes: Bonds labeled sustainable are said to have a positive yield differential if their traded yields are smaller than comparable non-labeled bonds. For AEs in panel 1, the country level yield differentials are estimated by as the difference of the simple average of yields on BLS, and index level yields of regular investment grade corporate bonds. For EMs in panel 2, these yield differentials estimated as the difference of the simple average of yields on BLS, and average yields of a comparable sample of bond not labeled “sustainable”.

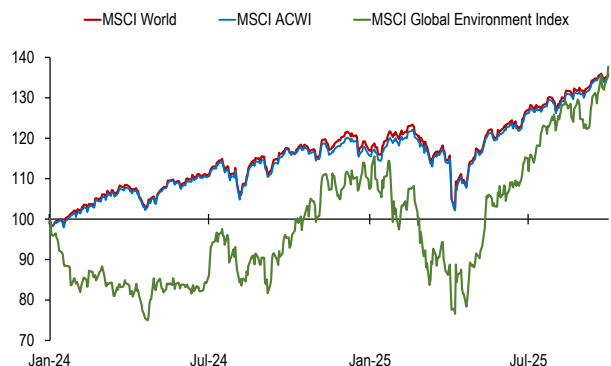
After a weak start to the year, sustainable assets rebounded through mid-2025

After a weak start to the year, sustainable equity indices rebounded in Q2 and Q3 2025, narrowing their gap with global benchmarks. Gains were concentrated in technology and industrial sectors linked to the energy transition, supported by firmer growth sentiment and renewed policy momentum in Europe and Asia.

Green bonds modestly outperformed broad benchmarks in Q2 2025, supported by stabilizing yields. Performance held steady in Q3, with spreads contained despite softer supply.

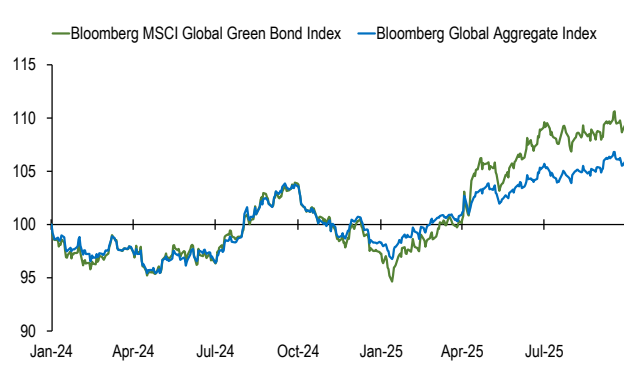
7. MSCI Global Environment Index and Select Global Equity Indices

(Normalized to 100 as of Jan 1, 2024)



8. Bloomberg MSCI Global Green Bond Index and Various Fixed Income Indices

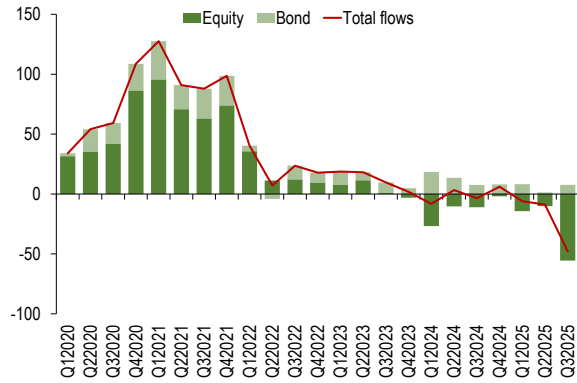
(Normalized to 100 as of Jan 1, 2024)



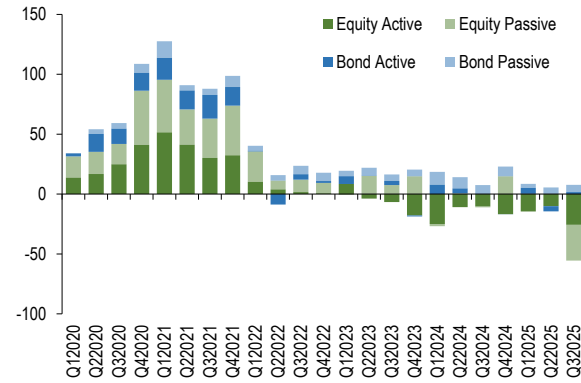
ESG bond funds attracted small inflows, while equity fund outflows continued

ESG equity funds saw record headline outflows in Q3, driven largely by a one-off institutional reallocation, rather than broad investor capitulation.² In contrast, ESG bond funds attracted modest inflows, reflecting more cautious positioning amid persistent macroeconomic uncertainty and elevated geopolitical risks.

9. Equity and Bond Flows into ESG/SRI Funds (Billions of U.S. dollars)



10. Equity and Bond Flows into ESG/SRI Funds (Billions of U.S. dollars)

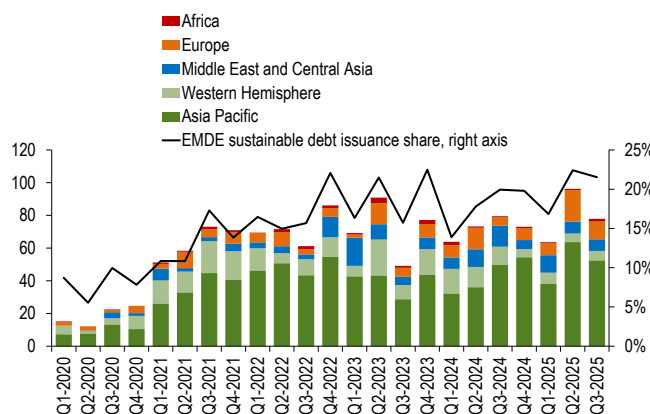


EMDE issuance tracked global trends

EMDE sustainable debt issuance broadly mirrored the global slowdown in Q3. Notable issuances include China's first sovereign green bond denominated in yuan on the London Stock Exchange in April, and Poland's first sovereign issuance in six years in June.

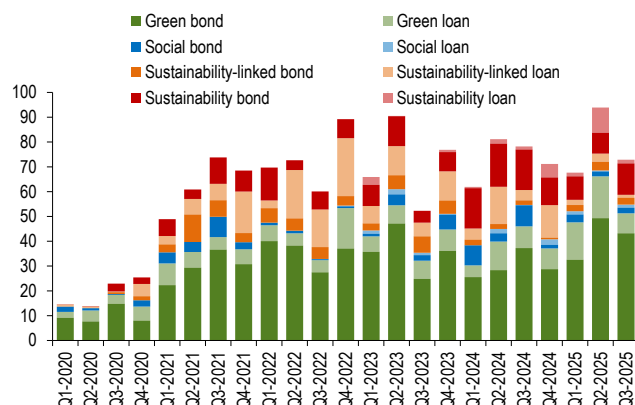
Green bonds remained the dominant instrument and increased to \$43.2 bn in Q3 2025 (from \$37bn in Q3 2024).

11. EMDE Sustainable Debt Issuance by Region (Billions of U.S. dollars; percent)



Note: In Q3 2025, the top five issuers among EMDEs were China (44%), Türkiye (9.8%), Saudi Arabia (4.5%), the Philippines (3.3%), and United Arab Emirates (3%).

12. EMDE Sustainable Debt Issuance by Instrument (Billions of U.S. dollars)



² According to Morningstar (Global Sustainable Fund Flows, Q3 2025), roughly US \$48 billion of the US \$55 billion quarterly outflow stemmed from redemptions in four UK-domiciled BlackRock funds, following a client pension fund's decision to transition into custom ESG mandates managed by BlackRock.