



## CLIMATE FINANCE MONITOR<sup>1</sup> HIGHLIGHTS

Sustainable finance issuances grew in Q1 2025 on a quarterly basis despite uncertainty around climate policies weighing on market sentiment. However, issuances were lower relative to the Q1 2024, partially due to sluggishness in the primary market activity. Similarly, ESG funds saw small withdrawals during the quarter, and the returns fell behind non-ESG funds. Notably, supranational issuers continued to buck the broader trend and posted strong issuance.

- **At \$384 bn, global sustainable debt issuances picked up (+4% q/q) in Q1 2025 from the previous quarter. On an year-on-year basis, issuance was about 18% y/y lower relative to Q1 2024 (Figure 1).** China was a notable exception as its issuances increased on an annual basis. Overall, the share of sustainable debt to total issuance lowered to 2% (-22bps y/y) in Q1 2025.
  - *Issuance declined across most ESG-labelled bonds, but global green bond issuance saw the largest decline with issuance of \$156 billion, roughly \$40 billion lower than a year ago. By sector, government remained the largest issuer of green bonds (Figure 4). Most regions saw a uniform decline in labelled bonds, with Europe remaining the largest issuer (38%), while supranationals issued 20% of sustainable debt issuances in Q1 2025 (compared to 14% in Q1 2024).*
  - *In EMDEs, sustainable debt issuances experienced a more modest decline (roughly 3% y/y to \$61 billion, Figure 11), as a strong rebound in Chinese markets drove green bond issuance to grow by almost 72% y/y to \$23 billion. The largest declines were seen in sustainability bonds (-42% to \$9 billion), thus increasing the share of green bonds to just over half of all sustainability instruments within EMDEs (Figure 12).*
  - *The rebound in Chinese sustainable debt primary market activity was driven mostly by strong growth in green bond issuances by the financial sector (about 2.4x relative to Q1 2024). Notably, during the quarter, China had announced a plan to issue inaugural sovereign green bonds. This went underway in early April when UK markets were accessed to raise in RMB 6 billion via sovereign green bonds.*
- **Market performance of green assets was mixed in Q1 2025 (Figures 5-8).** Green equity indices underperformed broader equity indices while bonds yielded at par returns, relative to broader bond indices. Yield differentials of regular over green bonds in advanced economies were mixed in Q1 2025, with those in EMs little changed.
- **ESG funds experienced some outflows during the quarter, on net (Figures 9-10).** This was primarily driven by significant acceleration in withdrawals from equity funds, while bond fund inflows remained steady. Interestingly, actively managed bond funds received small investments for the first time since Q2 2024.

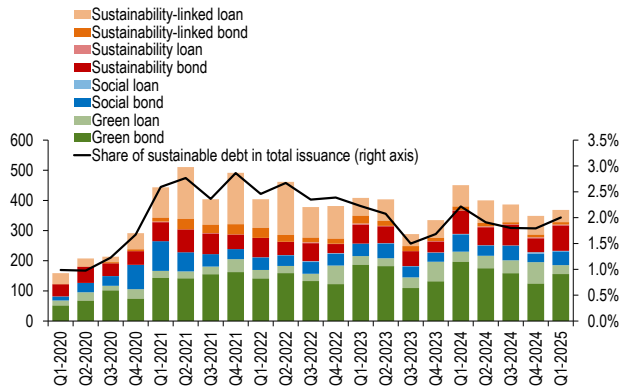
<sup>1</sup> The sources for this document are Bloomberg Finance L.P., EPFR, Haver Analytics, and IMF Staff  
This Monitor was prepared by Deepali Gautam and Esti Kemp (MCM Department).

## Global sustainable debt issuance volume slowed in Q12025

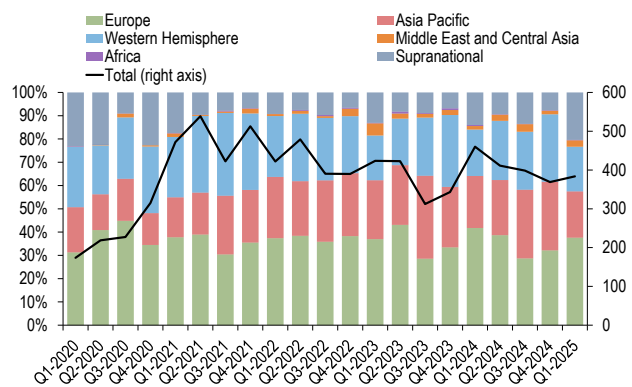
Q1 2025 global sustainable debt issuance volumes were weaker than those in broader debt markets, declining by 18% y/y to \$384 billion, marking the weakest start to the year since 2020. The share of sustainable issuance in total bond issuance declined by approximately 0.2 pps y/y to 2%, although it showed some uptick on a quarterly basis.

Issuance slowed across most regions, while supranationals issued 20% of sustainable debt in Q1 2025. This was driven by sustainability bond issuance from the World Bank and green bond issuance by the European Investment Bank.

### 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)

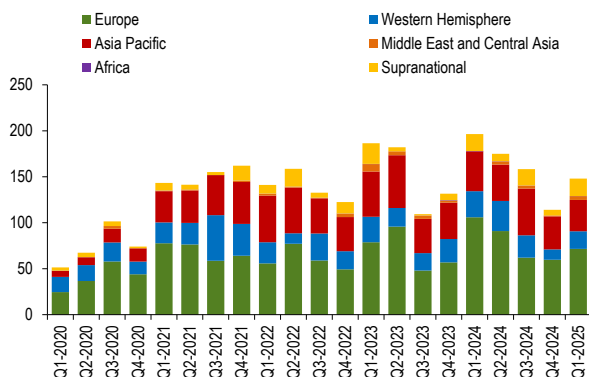


## The momentum in global green bond volumes declined on a year-over-year basis

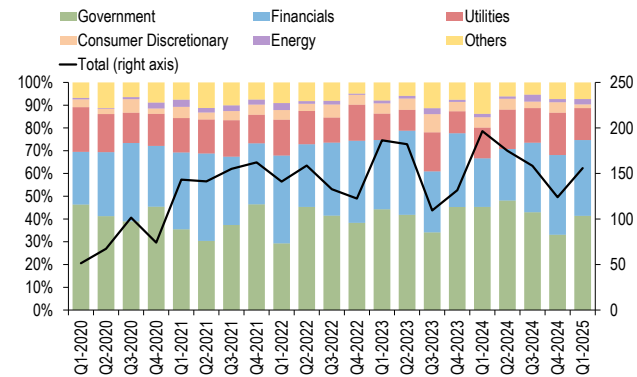
Green bond issuance activity declined by 21% y/y amid weaker investor sentiment in most regions. However, a notable revival was observed in China, with issuances increasing by 72% y/y to \$23 billion.

While the government remained the largest issuer of green bonds in Q1 2025, a marked increase in issuances by financials drove their share higher to over a third of total green bond issuance.

### 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 Q1 2025 were China (18.2%), Germany (10.9%), United Kingdom (9.6%), France (8.3%), and Italy (7.7%). Supranationals accounted for 12.9% 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.

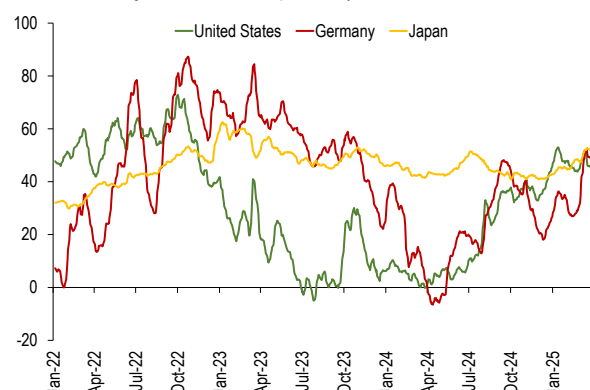
## The relative yield differentials of green bonds over regular bonds were mostly unchanged during Q1 2025

On net, the yield differentials of regular bonds over green bonds, or the premium on green bonds, were largely unchanged in Q1 2025 for most AEs while those in Germany trended higher.

In most EMs, the differentials were little changed during the quarter.

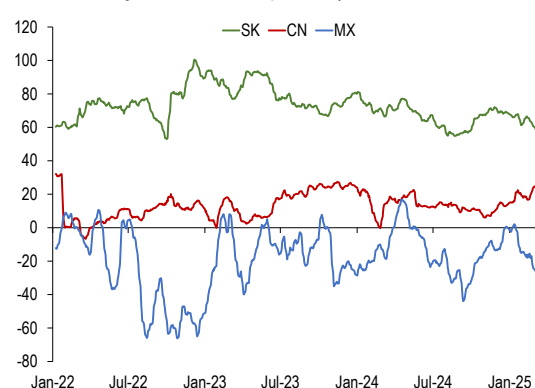
### 5. Yield differentials in secondary markets - Advanced Economies

(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”.

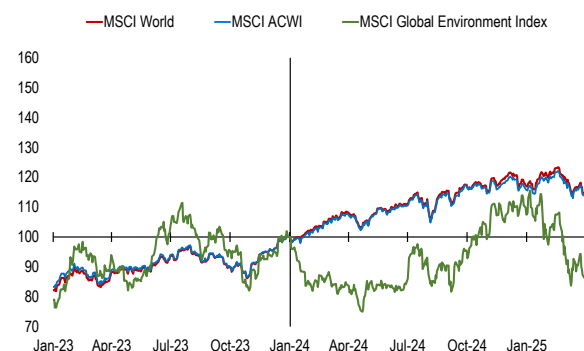
## The performance of green equities continues to fall short, while green bonds trace broader indices

Green equities posted negative returns on the quarter (-24%) while broader global equities saw more modest declines.

In contrast, green bonds generally continued to trace the performance of the broader bond indices.

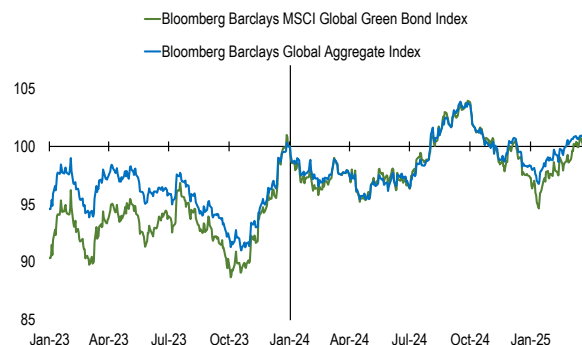
### 7. MSCI Global Environment Index and Select Global Equity Indices

(Normalized to 100 as of Jan 1, 2024)



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

(Normalized to 100 as of Jan 1, 2024)

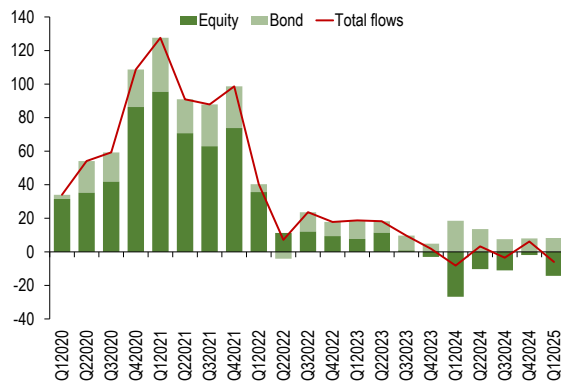


## ESG bond funds attracted small inflows, but equity fund outflows accelerated

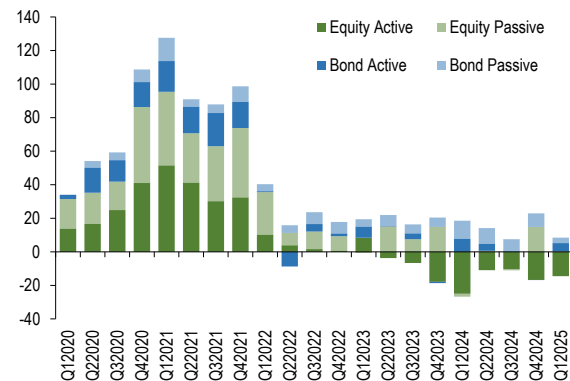
While the net flows into ESG funds were negative in Q1 2025, bond funds managed to garner investments.

More notably, the quarter saw some new demand for actively managed ESG bond funds after a gap of two quarters.

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



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

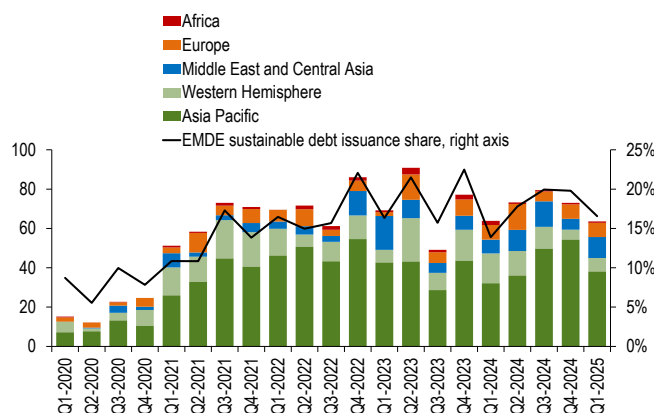


## Sustainable Debt Issuance Volumes in Emerging Markets and Developing Economies (EMDEs) see modest declines

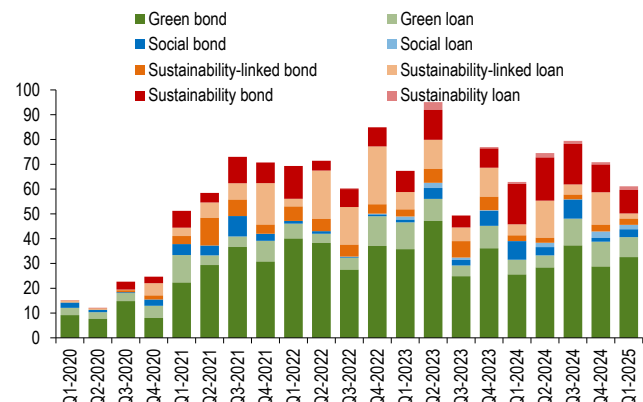
Driven by a strong rebound in Chinese volumes (+54% y/y to \$28 billion), EMDE sustainable debt issuances experienced a relatively smaller decline than global trends (-3% y/y). Hence, the share of EMDE in total sustainable debt issuances rose by 2.7pps y/y to 16.6%.

Green bond issuance staged a recovery (+28% y/y to \$33 billion) while the largest declines were seen in sustainability and social bonds.

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



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



Note: In Q1 2025, the top five issuers among EMDEs were China (44%), Philippines (8.8%), Saudi Arabia (8.3%), Poland (5.4%), and United Arab Emirates (5%).