



CLIMATE FINANCE MONITOR¹ HIGHLIGHTS

- **Global sustainable debt issuances decelerated further across regions in Q4 2024, declining by 9.8% year-on-year (y/y) to \$302 billion (Figure 1). Issuance increased in China and Japan.**
 - *Global green bond issuance fell by 3.6% y/y in Q4 2024 to \$127 billion (Figure 3). While most regions saw a uniform decline, Europe (+2.5% y/y) and Asia ex-China (+11% y/y) were notable exceptions. By sector, government remained the dominant issuer, while utilities also experienced growth. Throughout 2024, issuance decelerated across all regions on a quarter-on-quarter basis.*
 - *In EMDEs, sustainable debt issuances fell by 16% y/y to \$65 billion in Q4 2024 (Figure 11), despite notable growth in China's issuance (+12% y/y). In other regions, particularly in the western hemisphere, issuances slashed to a fraction of last year's total. While green bonds still held the highest share among all instruments within EMDEs, sustainability bonds made up 22% (up 10 percentage points, y/y) of EMDE sustainable debt issuance in Q4 2024 (Figure 12).*
 - *There seems to be rising interests among EMDEs in debt-for-climate swaps (DCS), arrangements wherein debt relief is provided on conditions that EMDEs invest in climate development projects (Figure 14).*
 - *Despite a slow last quarter, overall global sustainable debt issuance in 2024 grew by 7.2% compared with 2023, to \$1.54 trillion, driven by a recovery in AEs (Figure 16). EMDEs, on the other hand, saw a 3.7% decline to \$278 billion. Green bonds maintained a 42% share in 2024, while increasing adoption helped sustainability instruments improve theirs slightly to 16% (Figure 17).*
- **Market performance of green assets was mixed in Q4 2024 (Figures 5-8) but may have exceeded expectations amid the challenging landscape for climate mitigation. ESG indices for both equity and bonds yielded positive and at par returns, respectively, relative to broader equity and bond indices. Yield differentials of regular over green bonds were little changed during the year.**
- **ESG funds quarterly flows closed 2024 with some improvement but weak from a historical perspective (Figure 9).** Steady inflows into bond funds, and receding equity fund outflows, took the overall ESG fund flows to their highest levels in last 5 quarters. Still, Q4 2024 ESG fund flows look meagre relative to the levels seen in 2020-21 when the quarterly inflows averaged \$83 billion, broadly underscoring the weak investor sentiment for the asset class.

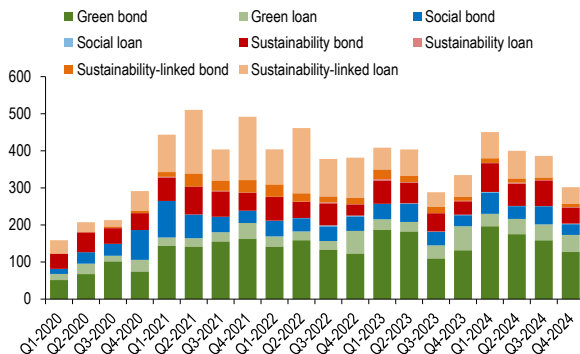
¹ The sources for this document are Bloomberg Finance L.P., EPFR, Haver Analytics, and IMF Staff
This Monitor was prepared by Deepali Gautam and Esti Kemp (MCM Department).

Global sustainable debt issuance volume slowed in Q42024

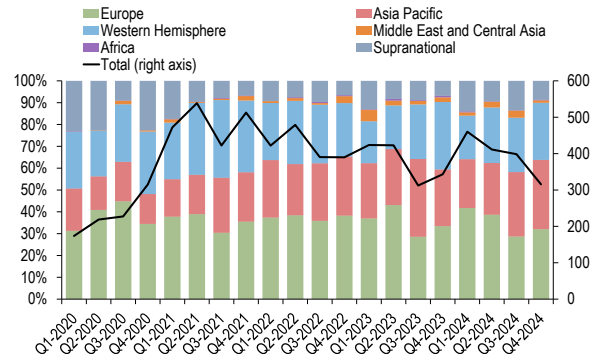
While global debt issuance volumes have grown,² sustainable debt issuance slowed in Q4 2024 to \$302 bn, or -9.8% y/y.

Issuance slowed across regions, with Asia the notable exception. In Asia, Q4 2024 volumes saw some positive momentum in the largest issuers, namely China and Japan.³

1. Global Sustainable Debt Issuance by Instrument (Billions of U.S. dollars)



2. Global Sustainable Debt Issuance by Region (Percent, Billions of U.S. dollars)

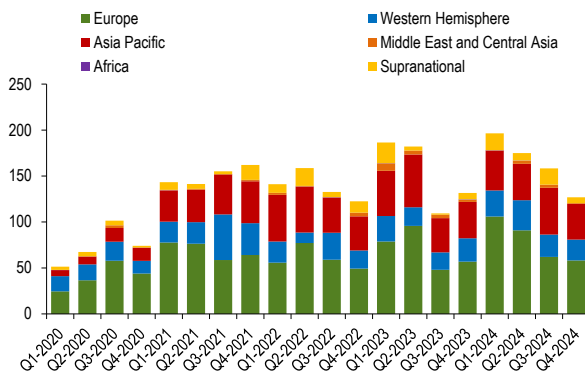


The momentum in global green bond volumes remained weak in Q4 2024

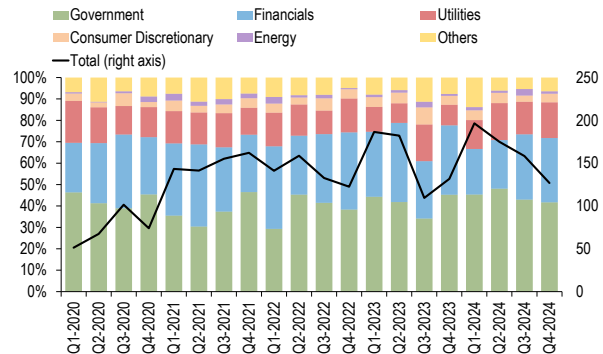
Green bond issuance activity declined across regions in Q4 2024 decreasing by 3.6% y/y to \$127 bn. In Europe they grew slightly by 2.5% y/y.

The sectoral distribution of green bond issuers reverted to their long-term averages in Q4 2024 as the share of financials and utilities increased, while the government remained the largest issuer.

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: Outside supranationals, the top 5 issuers of green bonds in Q4 2024 were China (18%), Germany (9.5%), France (8.3%), Japan (6.6%), and Sweden (4.8%). Supranationals accounted for 4.9% 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.

² Global debt issuances grew by 12.9% y/y in Q4 2024.

³ China and Japan collectively represent 28% of Asia's 2024 sustainable debt issuance.

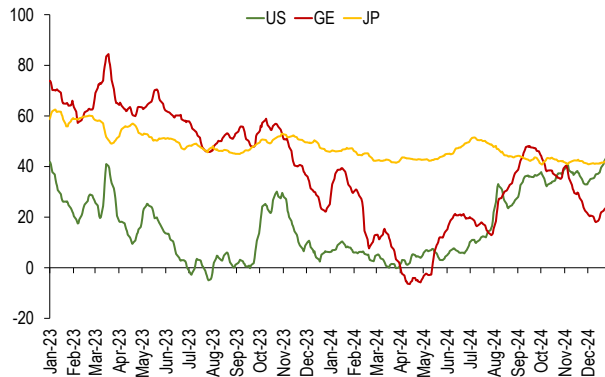
The relative yield differentials of green bonds over regular bonds were mixed in Advanced Economies during Q4 2024, while they remained static in Emerging Markets

The yield differentials of regular bonds over green bonds, in the US in Q4 2024 gyrated around the elevated levels of the last quarter. In Germany, the gains from Q3 2024 were reversed by the end of the year.

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

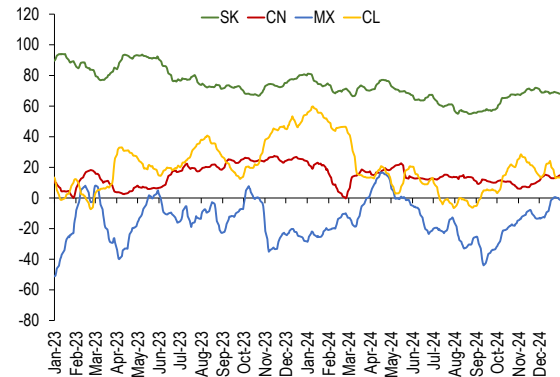
5. Yield differentials in secondary markets - Advanced Economies

(Difference in yields, basis points)



6. Yield differentials in secondary markets - Emerging Markets

(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".

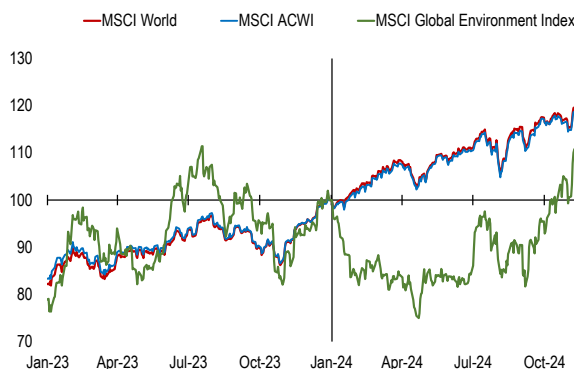
Green Assets' performance improved while still falling short relative to the broader markets

Green equities posted positive returns on the quarter (+12.5%) amid negligible returns from the broader global equities, albeit with notable volatility. However, the yearly return on green equities was below the broader market.

Green bonds continued to trace the performance of the broader bond indices in Q4 2024.

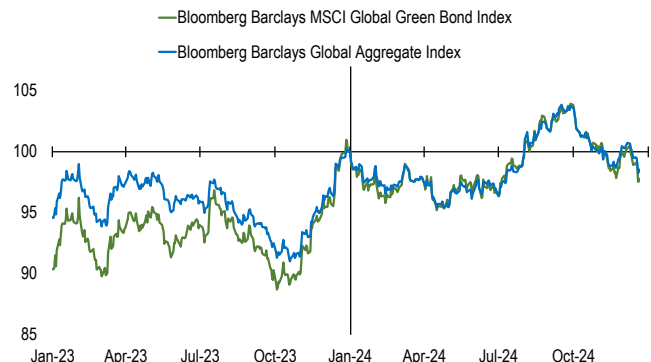
7. MSCI Global Environment Index and Select Global Equity Indices

(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)

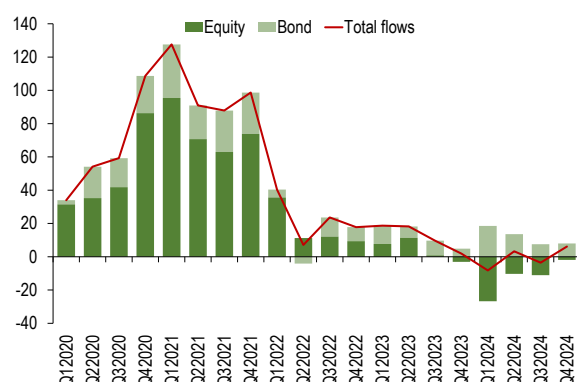


Q4 2024 saw improved flows into ESG Funds, although they were small by historical standards

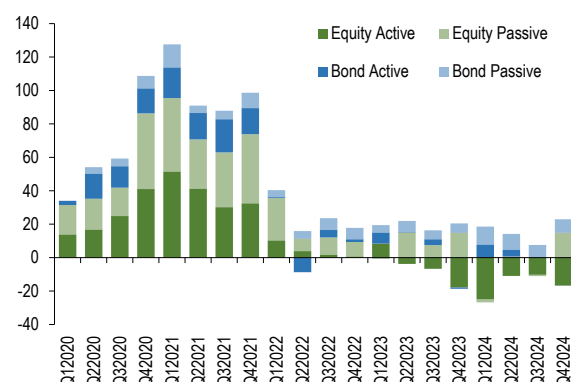
Steady inflows into bond funds, and receding equity fund outflows, took the overall ESG fund flows to their highest levels in last 5 quarters. Still, Q4 2024 ESG fund flows look meagre relative to the levels seen in 2020-21, ⁴ underscoring weak investor sentiment.

This reluctance is also reflected in the trends seen in actively managed funds, that saw withdrawals from equities and net zero flows in debt.

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)

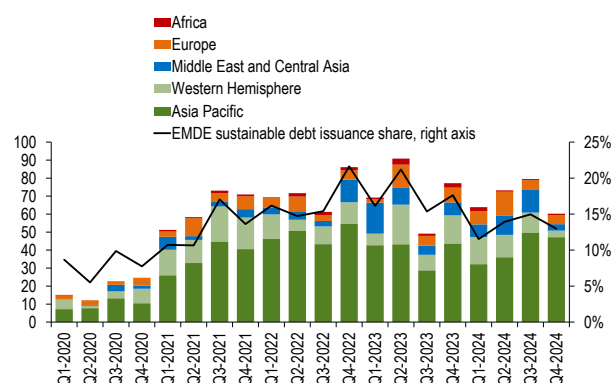


Sustainable Debt Issuance Volumes in Emerging Markets and Developing Economies (EMDEs) has declined

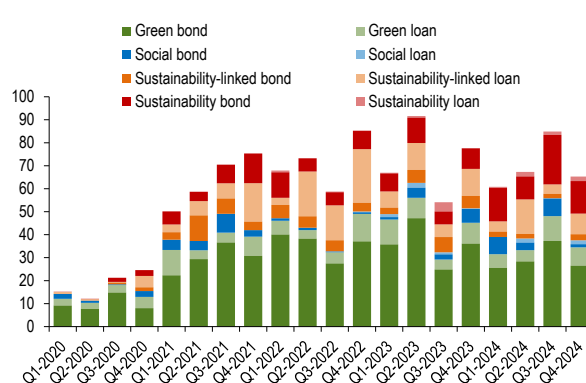
EMDE sustainable debt issuances declined by 16% y/y to \$65 bn in Q4 2024. This decline was most notable in EMDEs in the western hemisphere where the volumes dried out (-76% y/y) in major issuing markets.⁵ Volumes in China, however, saw some improvement.

China's share in overall EMDE sustainable debt issuance has been on a rise.

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 Q4 2024, the top five issuers among EMDEs were China (42%), India (4.9%), Thailand (3.7%), Turkey (3.7%), and Malaysia (2.2%).

⁴ The quarterly inflows averaged at \$83 bn during 2021-21, as per the EPFR data

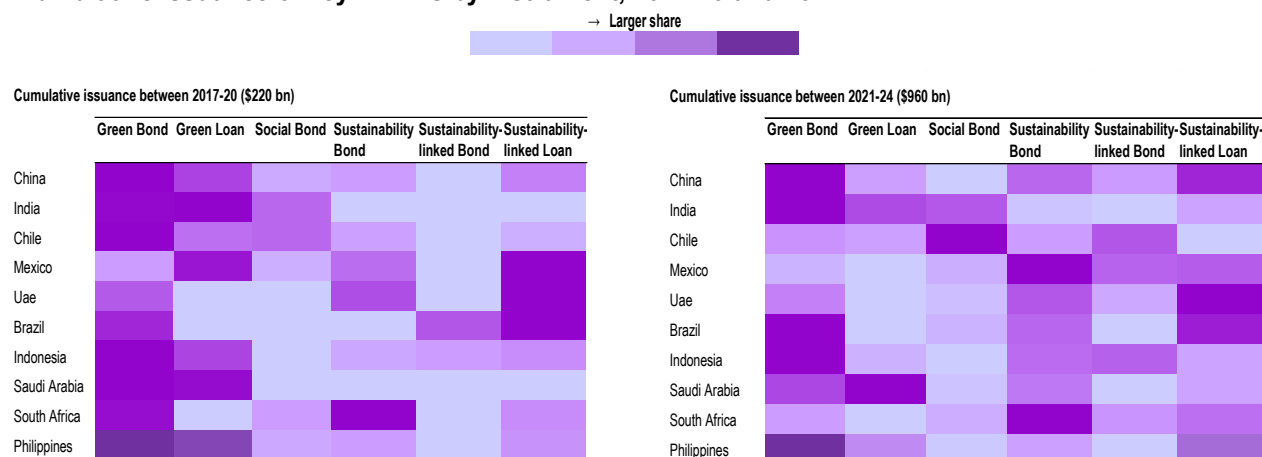
⁵ Brazil and Chile have collectively issued 53% of cumulative issuances by the EM the western hemisphere since 2017.

EMDEs are diversifying climate finance instruments

While green instruments have remained the most popular category among EMDE issuers, they are leveraging other structured instruments to raise climate finance,⁶ partly in an attempt to address investors' greenwashing concerns.

In recent years, sustainability bonds have seen the most notable increase in adoption, particularly by governments and supranationals, as they use the proceeds for both climate and social projects. The sustainability-linked instruments, the other category that has gained scale recently, have covenants linked to KPIs or sustainability benchmarks.

13. Cumulative issuance of key EMDEs by instrument, 2017-20 and 2021-24



Debt-for-Climate Swap issuances seen gaining traction in EMDEs

Debt-for-Climate swaps (DCS) are arrangements where an existing debt is swapped with new debt which is issued at a discount, and with conditions that the debtor require a part of the debt relief to be spent on climate positive projects.

In the recent years, when emphasis has been on debt relief for highly indebted low-income countries (LIC), there has been a renewed interest in DCS.⁷ These arrangements have been noted to provided vulnerable countries, i.e. countries facing high climate risk, and restrictive fiscal space, with option to invest in climate projects without additional fiscal cost.⁸ If this trend were to materialize, DCS has the potential to become an important channel of climate finance and private capital participation.

14. Debt-for-Climate Swaps – Illustrative example of the steps involved in a tripartite arrangement among an NGO, commercial creditor, and a government



Source: Chamon, Marcos, Erik Klok, Vimal Thakoor, and Jeromin Zettelmeyer. 2022. "Debt-for-Climate Swaps: Analysis, Design, and Implementation." IMF Working Paper 2022/162, International Monetary Fund, Washington, DC.

⁶ The share of green instruments (bonds and loans) for the top issuers shown in two panels of Figure 13 has declined from 86% in 2017-20 to 59% in 2021-24.

⁷ Countries like Democratic Republic of Congo, Seychelles, and Belize have entered into DCS arrangements in recent years.

⁸ As per Charmon et al, a back-of-the envelope calculation suggests, only 7 out of 29 select LICs have the fiscal space to meet their climate adaptation needs.

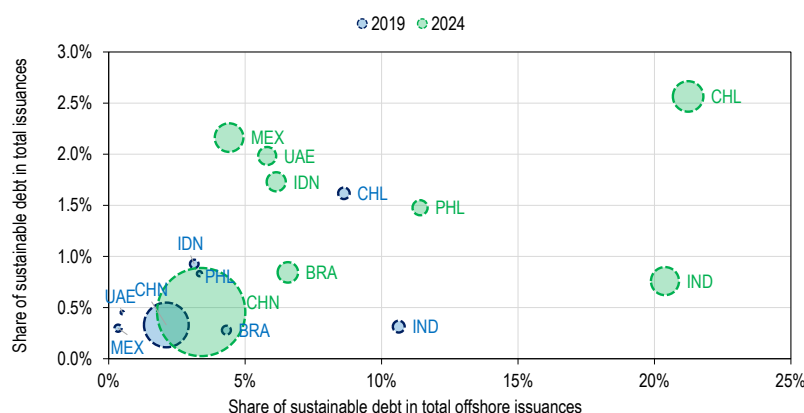
Currency mix of sustainable debt issuance the EMDEs

In comparison to non-labelled debt, EMs have relied more on the offshore market for raising sustainable debt.

With the growing scale of sustainable debt issuance by the emerging world in the last few years, this trend has only strengthened. The share of sustainable debt raised in the offshore markets has risen from about 4% in 2019 to about 10% in 2024.⁹

15. Sustainable debt issuances in off-shore markets by major EMDEs

(Percent)



Note: The size of bubble in Figure 14 represents the relative size of sustainable debt issuance by the country in the said year.

Annual global sustainable debt issuance recovered in 2024

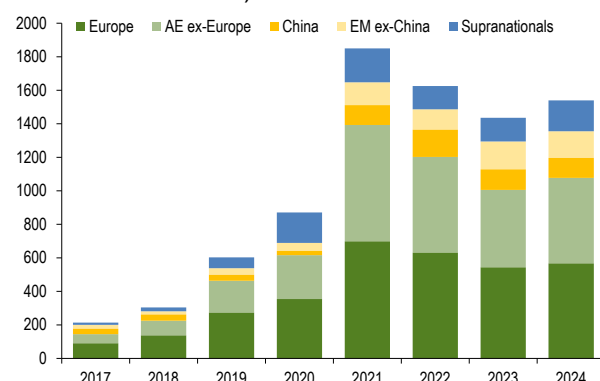
The global sustainable debt issuance in 2024 grew by 7.2% to \$1.54 tr, albeit from the lower base of 2023.

EMDEs ex-China, who played the contrarian in 2023 by increasing sustainable debt issuances, retreated somewhat—issuances declined by 4% to 159 bn. In China, full year volumes slid by another 3% to \$119 bn.

Green bonds maintained their share of 42% in the year's global sustainable debt issuance. While the share of sustainability instruments has grown slightly to 16%, that of sustainability-linked instruments halved to 18% in 2024 from their peak of 35% in 2022.

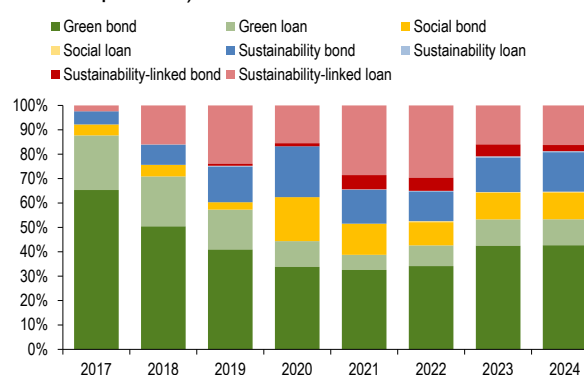
16. Global annual sustainable debt issuance and its share in total issuances

(Billions of U.S. dollars)



17. Global annual sustainable debt issuance, by instrument

(Shares in percent)



⁹ Simple average across the countries shown in Figure 15.