



CLIMATE FINANCE MONITOR¹ HIGHLIGHTS

- **After strong growth in Q1, global sustainable debt issuances slowed in Q2 2024 to \$373 billion (-3.5% y/y), driven by a 6% y/y decline in green bond issuances. Compared to last year, the volumes issued during the first semester is broadly flat around \$782 billion.**
 - *Green bond issuance in Q2 2024 totaled \$180 billion (-6% y/y). While Asia experienced a sharp reduction of -36% y/y to \$37 billion, volumes in Europe, the largest issuer, remained flat. This decline was more pronounced in China (-47% y/y to \$18.5 billion), in line with the overall slowdown in China's total social financing.² In terms of sectoral mix, utilities continue to show a strong momentum, particularly compared to financials. Issuance during the first semester amounted to \$388 billion, broadly unchanged relative to the corresponding period of 2023, with volumes in the Asia Pacific region remaining generally slower.*
 - *The activity in the sustainability bonds segment has continued to keep pace in Q2 2024. As issuances grew by 12.8% y/y to \$55 billion, with supranational issuances accounting for most. Sustainability-linked loans stagnated at around \$60 billion, while issuances in most other smaller segments, including sustainability-linked bonds, saw significant declines. Over the first semester, issuances grew by 10.4% y/y reaching \$117 billion, their highest half-yearly volume.*
 - *The yield differentials of green bonds over regular bonds improved in key AE markets such as Europe and the US, albeit this improvement came from the very compressed levels of Q2024. In EMs, though, some of the major markets saw notable declines in the differentials.*
- **Looking at the regional distribution of global sustainable debt issuance in Q2 2024, Europe remains the main issuer, albeit declining somewhat over the period under review. In contrast, the share of Western Hemisphere has risen to near its historical average and Asia Pacific is also slightly improving.**
- **EMDE sustainable debt issuance activity remained subdued during the first semester across most segments and amounted to \$59 billion, down by -30% y/y.** This trend was driven by strong declines in EM Asia (-22% y/y), notably China (-37% y/y), and the Western Hemisphere (-50%), while those in Europe fared somewhat better (-6% y/y).
- **Flows into ESG funds turned positive in Q2 2024, primarily benefiting from a deceleration in equity fund outflows, on a sequential basis.** However, ESG bond funds flows for the quarter were adversely affected by the broad slowness in bond funds flows and declined to \$13.6 billion (-54% q/q). Despite net inflows into ESG funds, their pricing didn't exhibit any notable improvement.

¹ The sources for this document are Bloomberg Finance L.P., EPFR, Haver Analytics, and IMF Staff

² Total social financing is a measure of credit volume and liquidity in China and declined by -23% y/y in Q2 2024.

This Monitor was prepared by Deepali Gautam and Esti Kemp (MCM Department).

Global Sustainable Debt Issuance volume declined in Q2 2024 on sluggish green bond issuances.

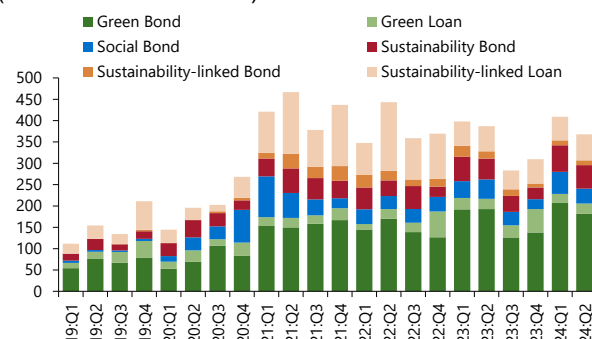
Global sustainable debt issuances slowed in Q2 2024 to \$373 bn, down -3.5% y/y, due to decline in green bond volumes (-5% y/y) in EMDEs.³

Green bonds continue to account for about half the total sustainable debt issuance volumes.

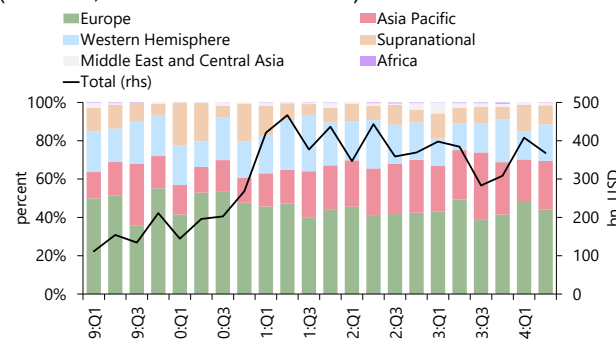
Sustainability bonds issuances remained strong at \$55 bn (+12.8% y/y) during the quarter.

The regional distribution of sustainable debt issuance in Q2 2024 showed that Europe remains the most important issuer despite a slight decline. However, the share of the Western Hemisphere, has improved to 19% of the total debt, which restored the distribution of issuances across regions closer to their historical averages.⁴

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)



After a very strong first quarter, green bond issuance slowed in Q2 2024 to \$102 bn., keeping H1 2024 issuance flat relative to last year at of \$207 bn

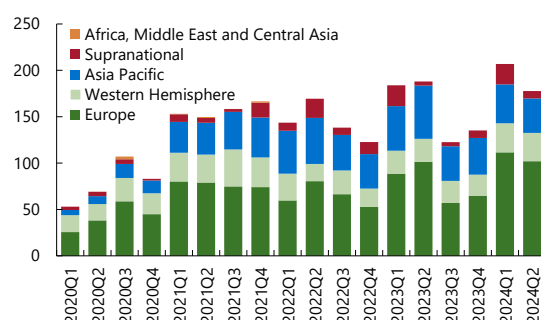
After a very dynamic Q1, Q2 2024 issuance declined (-6% y/y) to \$180 bn with activity slowing in Asia⁵ (\$37 bn, -36% y/y) while remaining flat in Europe (\$102 bn).

Green bond issuance in H1 2024 have remained broadly unchanged relative to H1 2023, at \$388 bn. However, activity in the Asia Pacific green bonds market has remained generally slower relative to 2023.

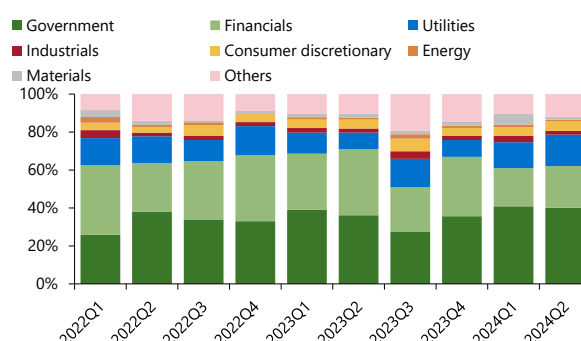
In Q2 2024, the financial sector share remained relatively low relative to historical standards, while utilities continued to gain share backed by strong growth in issuance across regions. The Government sector maintained its lead.

Overall, the sectoral mix in H1 2024 saw the share of Government and Utilities rising relative to the corresponding period of last year.

3. Global Green Bond Issuance by Region (Billions of U.S. dollars)



4. Global Green Bond Issuance Industry Breakdown (In percent)



Note: Outside supranationals, the top 5 issuers of green bonds in Q2 2024 were Germany (14%), United States (12%), China (10%), Italy (8.5%), and France (8.2%). Supranationals accounted for 4.4% 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.

³ Details discussed in the "Sustainable Debt Issuance Volumes in Emerging Markets and Developing Economies (EMDEs): Sluggish Activity in China Continues to Weigh on the Overall Volumes" section.

⁴ Average share since 2019.

⁵ This was driven by a more pronounced (-47%) in China to \$18.5 billion.

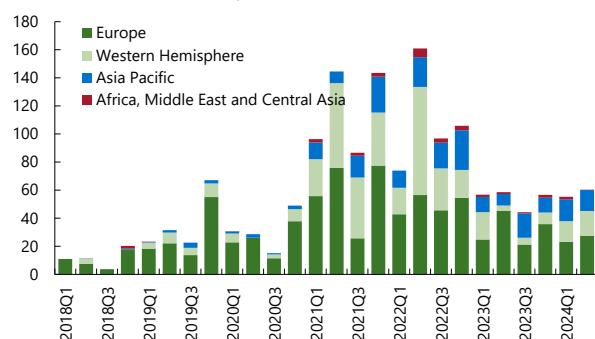
The Sustainability-linked Loan (SLL) Issuance Remained Range Bound in Q2 2024.

Sustainability-linked loan stagnated at around \$60 bn in Q2 2024. The geographical distribution shows an uptick in Asia Pacific and the Western Hemisphere regions. While at 25%, the share of Western Hemisphere has bounced closer to its long-term average, that of Asia Pacific has risen to ~25%, much higher than the historical average of 15%.⁶

The H1 2024 issuance of SLL was \$116 bn (+0.2%).

5. Global Sustainability-linked Loan Issuance by Region

(Billions of U.S. dollars)

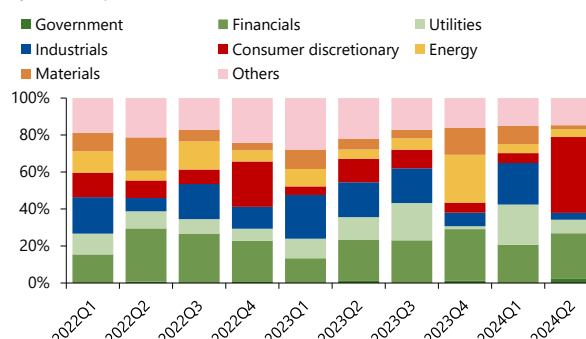


Note: In Q2 2024, the top five issuers of sustainability-linked loans were the United States (27%), Turkey (11%), Hong Kong SAR (9.2%), Italy (8.6%), and Norway (6.2%). In panel 2, series "Others" includes Healthcare and Communications.

The quarter saw a large increase in the share of consumer discretionary, driven by the Western Hemisphere, where 3/4th of the quarter's SLL were issued to the sector.⁷ Financials maintained a healthy share, nonetheless.

6. Global Sustainability-linked Loan Issuance Industry Breakdown

(In percent)



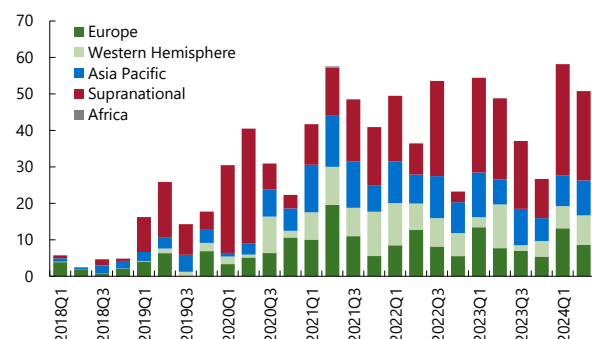
Supranationals drive the growth in global issuance of Sustainability Bonds in Q2 2024.

Growth in sustainability bonds issuance remained healthy, growing 8% y/y to \$53 bn. This was driven by Supranationals,⁸ conventionally the largest issuers of the instrument.

At \$117 bn, H1 2024 marks the strongest half-yearly volume in global sustainability bond issuance since 2018.

7. Global Sustainability Bond Issuance by Region

(Billions of U.S. dollars)

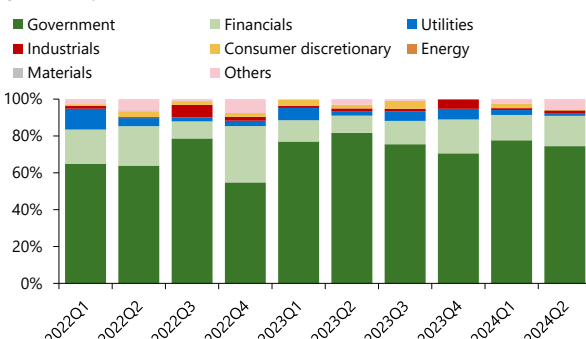


Note: In panel 2, government includes development banks, supranationals, sovereign and local governments.

Governments continue to represent the largest share of sustainability bond issuance, with the share of financials increasing marginally relative to last quarter.

8. Global Sustainability Bond Issuance Industry Breakdown

(In percent)



⁶ Calculate over Q1 2018 to Q1 2024.

⁷ Accounted for by loans issued to automobile manufacturers in the United States.

⁸ Supranationals accounted for 46% of sustainability bond issuance in Q2 2024, while they have accounted for 41% of the cumulative issuances of the instrument since 2018.

Sustainable Debt Issuance Volumes in Emerging Markets and Developing Economies (EMDEs): Sluggish Activity in China Continues to Weigh on the Overall Volumes

EMDE sustainable debt issuance failed to match the record high levels seen in the same period last year. Issuance have declined by 30% y/y to \$59 bn, primarily due to subdued activity in China, which was down to \$25 bn (-37% y/y), in line with the broader slowdown in its total social financing (-23% y/y). Volumes in EM Europe saw some rebound during the quarter.

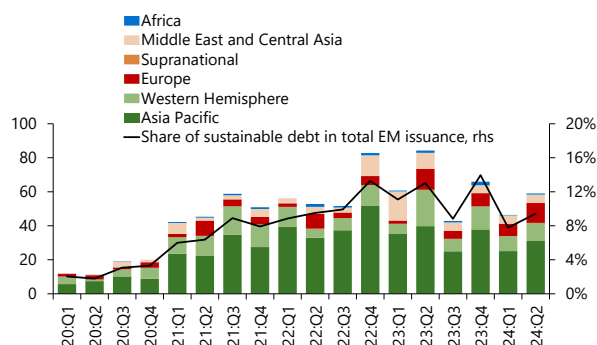
The H1 2024 EMDE sustainable bond issuance stands at \$105 bn, -27% y/y.

In EMDEs, issuers are increasingly diversifying beyond green bonds. The share of green bonds has dropped to 42% in Q2 2024 down from 52% in 2023.⁹ In nominal terms, green bond issuance in Q2 2024 dwindled to \$25 bn (-44% y/y). Sustainability bonds, an instrument mostly issued by governments, bucked this trend growing by 15% to \$13.7 bn.

Overall, \$45.2 bn (-41% y/y) were raised in green bonds in H1 2024 EMDE, while \$26.2 bn (+15% y/y) were raised via sustainability bonds.

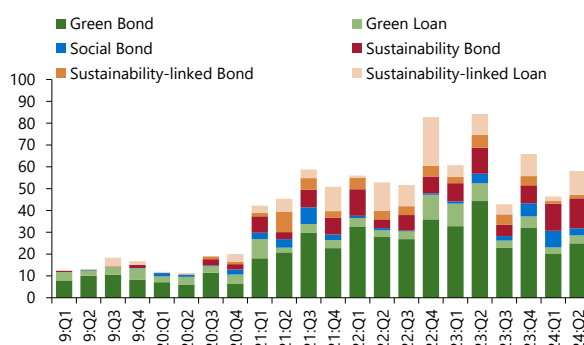
9. EMDE Sustainable Debt Issuance by Region

(Billions of U.S. dollars; percent)



10. EMDE Sustainable Debt Issuance by Instrument

(Billions of U.S. dollars)



ESG Funds flows turned positive Q2 2024 but remain negative for H1 2024.

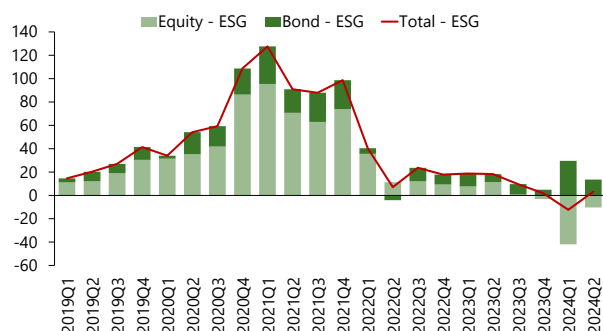
After witnessing substantial outflows (-\$12.3 bn) in Q1 2024, total flows into ESG funds turned slightly positive in Q2 to \$3.25 bn. This can be explained by smaller equity fund outflows which declined to -\$10.3 bn from -\$42 bn in Q1 2024. Investments in bond funds decelerated notably to \$13.6 bn (-54% q/q), in tandem with the trend seen for broader bond funds.

Net fund flows into ESG funds remain negative at -\$9 bn for H1 2024, down from \$37 bn in H1 2023.

The reduction in ESG equities outflows was driven by actively managed funds, where net withdrawals slimmed to -\$11 bn (vis-à-vis -\$42 bn in Q1 2023). Amid a broad-based deceleration in bond fund investments, actively managed funds were more severely affected (-68% q/q to \$4.1 bn).

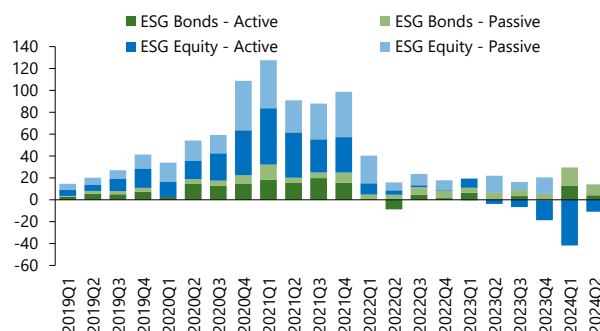
11. Equity and Bond Flows into ESG/SRI Funds

(Billions of U.S. dollar)



12. Equity and Bond Flows into ESG/SRI Funds

(Billions of U.S. dollar)



⁹ Full year. The share of green bonds in EMDE total issuance during 2018-23 is 51.7%.

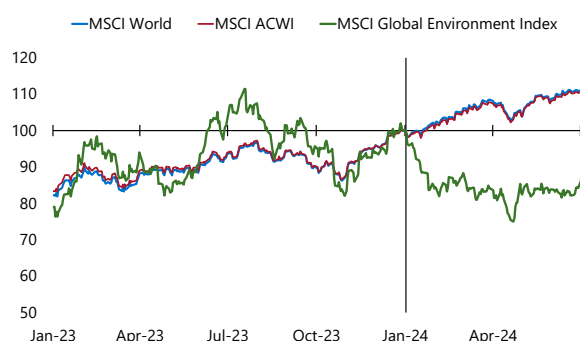
Underperformance in Green Assets persists in Q2 2024 relative to Broader Markets

Green equity underperformance persisted in Q2 2024, taking the H1 2024 returns down to -16% vis-à-vis about 10% from broader indices.

Green bonds, on the other hand, only marginally underperformed the broader markets in Q2 2024.

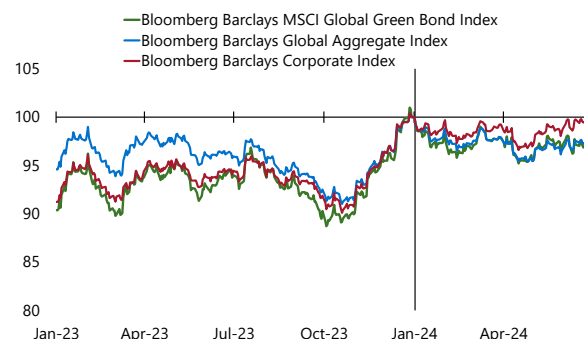
13. MSCI Global Environment Index and Various Global Equity Indices

(Normalized to 100 as of Jan 1, 2024)



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

(Normalized to 100 as of Jan 1, 2024)



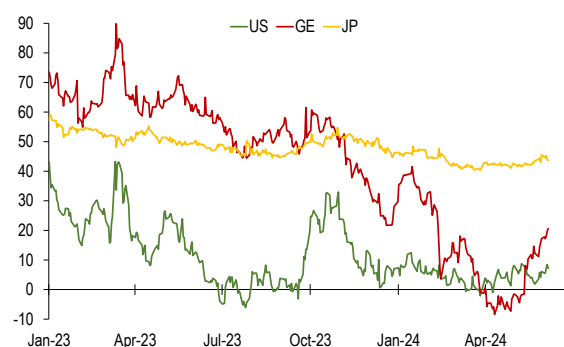
Yield differentials of green bonds over the regular bonds improved in AEs while deteriorating in some EMs

Yield differentials of green bonds over regular bonds improved somewhat in Q2 2024 across AEs. In the US, where the issuance volumes were strong,¹⁰ the differentials widened on net but were significantly below the 2023 average. The Euro area, on the other hand, witnessed considerable recovery in pricing of green debt instruments.

In most EMs, the differentials were little changed during the quarter, on net. However, the key LATAM markets such as Chile and Mexico saw a narrowing in differentials, with those in Mexico turning negative.

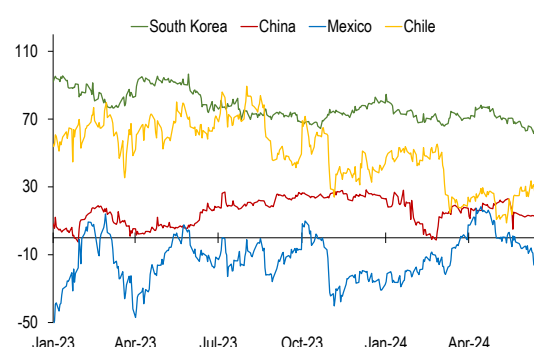
15. Yield differentials in secondary markets- Advanced Economies

(Difference in yields, basis points)



16. Yield differentials in secondary markets - Emerging Markets

(Difference in yields, basis points)



Notes: Bonds labelled sustainable are said to have a positive yield differential if their traded yields are smaller than comparable non-labelled 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".

¹⁰ The total sustainable debt issuance in the US came in at \$49 bn for Q2 2024, up 65% y/y and 21% q/q.