



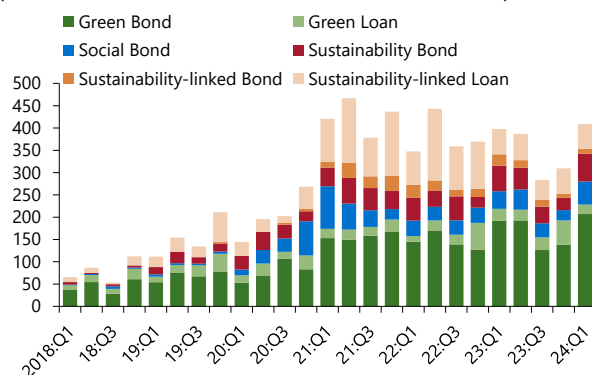
### CLIMATE FINANCE MONITOR HIGHLIGHTS

- **Global Sustainable Debt Issuance volume increased in Q1 2024 after a muted H2 2023. Issuance increased across all types of labeled bonds during the quarter, including record issuance of green bonds.**
  - *Global sustainable debt issuance in Q1 2024 improved to \$409 billion, the highest quarterly volume since 2Q 2022. This represents a 32% growth on a sequential basis after subdued activity in 2023.*
  - *The green bonds segment, the largest component (51%) of sustainable debt issuance, has shown strong momentum with issuance reaching a new record in Q1 2024. Governments continued to lead green bond issuance, while the share issued by Financial companies declined. Sustainability-linked bond issuance remained muted. According to market participants, this may reflect investors' perceptions around the credibility of the asset class to drive companies to meet sustainability targets.*
  - *The regional distribution of global sustainable debt was little changed, with Europe still accounting for the largest portion of total issuance. The share issued in Asia somewhat declined in Q1 2024 due to smaller issuances in China, with sustainable debt volumes were 40% lower than the average quarterly volume seen in 2023. The quarter also saw an upswing in the issuances by supranationals (\$57 billion), particularly in the sustainability bonds segment.*
- **Sustainable debt issuance remained muted in EMDEs, dropping by 30 percent in Q1 2024 compared to Q4 2023, mainly driven by less issuance in Asia-Pacific.** Despite the subdued volumes in China in Q1 (\$17.3 billion vs the average quarterly volume of \$30 billion in 2023), EM Asia remains the largest region issuing sustainable debt.
- **Flows into ESG funds decelerated in 2023, with equity fund flows turning negative in Q4 2023.** ESG equity outflows intensified in Q1 2024 to -\$15 billion, as active funds faced heavy withdrawals. ESG bond funds, on the other hand, saw inflows of \$11 billion in Q1 2024. On the performance front, sustainable equities resumed the long-standing trend of outperforming global non-ESG peers in Q1 2024, while green bonds underperformed its peers in Q1 2024.
- **The trends in yield differentials between sustainable and conventional bonds differ across economies.** This edition of the Climate Finance Monitor introduces an in-house estimation of yield differentials between sustainable and conventional bonds. These yield differentials have narrowed in some major issuing economies, implying a smaller premium being assigned to bonds labeled sustainable. However, this varies across economies. The US has seen sustained compression in yields differentials against a backdrop of concerns over the direction of climate policy and have remained compressed, while in the euro area the differentials are starting to rise again. In China—the largest issuers of sustainable debt—yield differentials remain compressed.

## Global Sustainable Debt Issuance volume increased across the board in Q1 2024, supported by a strong activity in the green bond market.

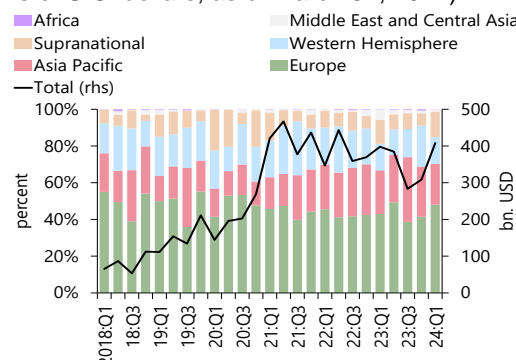
After lower issuance in H2 2023, issuance of sustainable debt rebounded in Q1 2024, back to levels seen between 2021 and 2022. Green bond issuance reached a new quarterly record and remained the largest component of sustainable debt issuance – making up roughly half of the issuance in Q1 2024.

### 1. Global Sustainable Debt Issuance by Instrument (Billions of U.S. dollars; as of March 31, 2024)



Regional distribution remained constant over the past few quarters, with Europe accounting for almost half of total sustainable debt issuance. The Asia-Pacific region remains the second largest issuing region, with Japan replaced China as the top issuer of sustainable debt<sup>1</sup>. The quarter also saw the upswing in the issuances by supranationals.

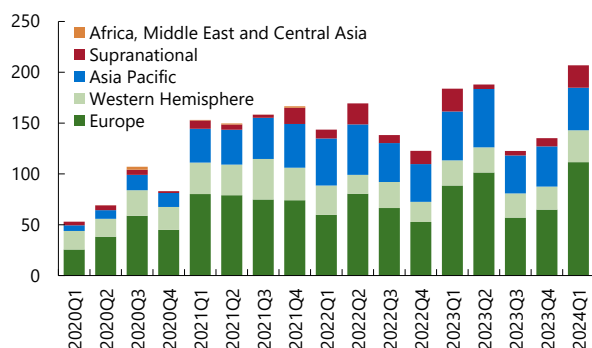
### 2. Global Sustainable Debt Issuance by Region (Billions of U.S. dollars; as of March 31, 2024)



## Continued momentum in Europe more than offset weak issuance volumes in China, taking the overall green bond issuance to record levels of \$207 billion in Q1 2024

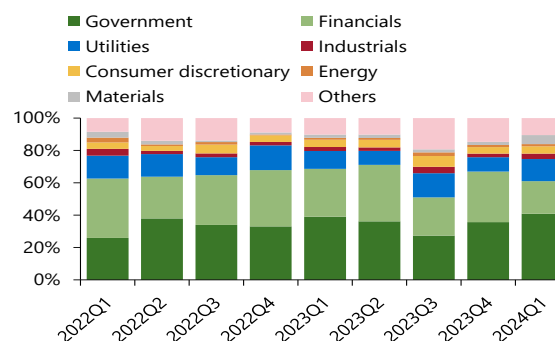
European issuers continued to dominate green bond issuance, with notable growth in Germany. In the UK, issuances were weaker than the average seen since 2021. In Asia-Pacific the activity has remained constant, while for Africa, the Middle East and Central Asia momentum improved in Q1 2024.

### 3. Global Green Bond Issuance by Region (Billions of U.S. dollars; as of March 31, 2024)



Governments continued to lead green bond issuances, while strong growth in utilities is also notable. However, the share of Financials declined.

### 4. Global Green Bond Issuance Industry Breakdown (Percent, as of March 31, 2024)



Note: Outside supranationals, the top 5 issuers of green bonds in Q1 2024 were Germany (12%), United States (10%), France (9%), Japan (7%) and China (7%). Supranationals accounted for 11% 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.

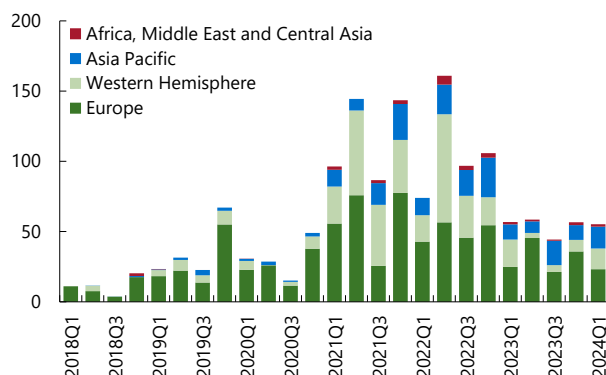
<sup>1</sup> In China, where the overall debt issuance has been lower due to the overhang from the real-estate sector, total sustainable debt volumes suffered too came coming in at \$17.3 billion, about 40% lower than the average quarterly volume seen in 2023.

## The Sustainability-linked Loan (SLL) issuance remained muted after a sharp decline in 2023, which was driven Mostly by Lower Issuance in Asia.

Sustainability-linked loan quarterly issuances since Q1 2023 were little changed, with total issuance significantly lower than in 2022, driven by large decline in activities in Europe and the Western Hemisphere<sup>2</sup>.

### 5. Global Sustainability-linked Loan Issuance by Region

(Billions of U.S. dollars as of March 31, 2024)

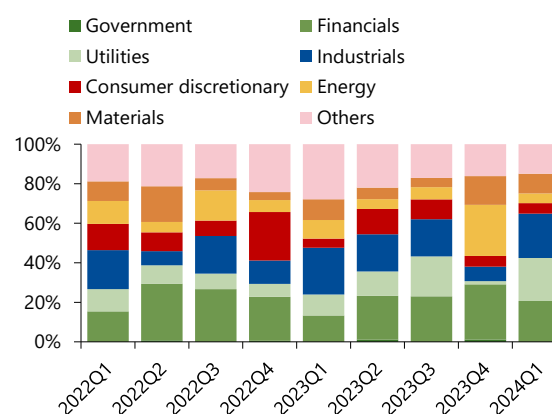


Note: In Q1 2024, the top five issuers of sustainability-linked loans were US (26%), Switzerland (14%), Singapore (10%), UK (9%) and Germany (9%). In panel 2, series "Others" includes Healthcare and Communications.

Sustainability-linked loan issuances were spread across industries in Q1 2024, with the share of utilities and industrials increasing. These industries, together with financials, are the largest issuers.

### 6. Global Sustainability-linked Loan Issuance Industry Breakdown

(In percent, as of March 31, 2024)

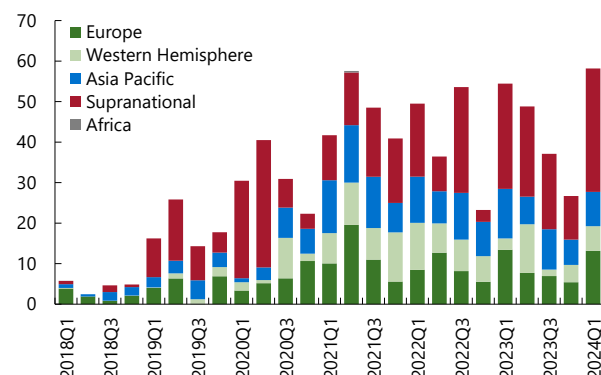


## Growing Interest in Sustainability Bonds May Be due to Synergies Between Climate and Social Projects and Government-led Issuance.

Sustainability bonds rebounded strongly in Q1 2024, with supranationals leading the way, and aided by Europe.

### 7. Global Sustainability Bond Issuance by Region

(Billions of U.S. dollars as of March 31, 2024)

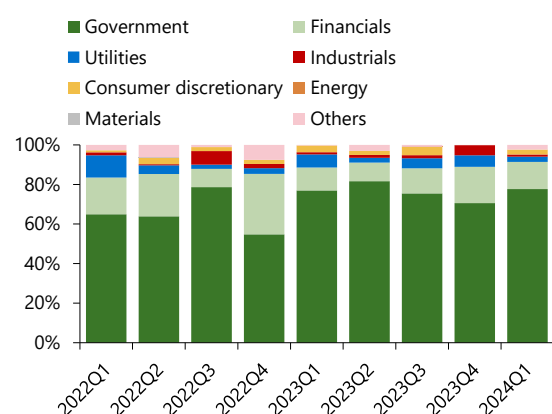


Note: In panel 2, government includes development banks, supranationals, sovereign and local governments.

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

### 8. Global Sustainability Bond Issuance Industry Breakdown

(In percent, as of March 31, 2024)



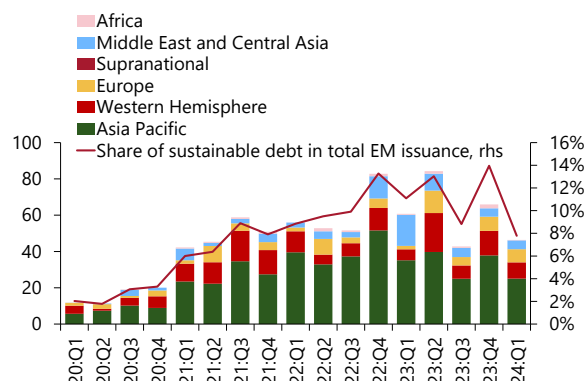
<sup>2</sup> Issuance volumes in the US and UK doubled in Q1 2024 relative to their average quarterly issuances in 2023, while Germany's issuances saw an increase of ~9% relative to the quarterly average of 2023. These markets have collectively represented 36% of global sustainable loan issuances since 2022.

## Sustainable Debt Issuance in Emerging Markets and Developing Economies (EMDEs) was tepid.

Sustainable debt issuance in EMDEs lost momentum in Q1 2024 across all regions. While Asia saw the largest decline, it remains the largest region to issue sustainable debt.

### 9. EMDE Sustainable Debt Issuance by Region

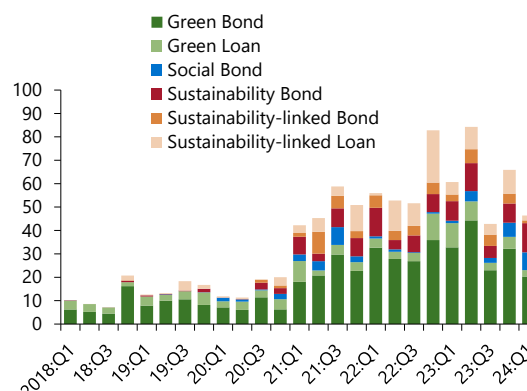
(Billions of U.S. dollars; percent; as of March 31, 2024)



Similar to global trends, green bonds remained the largest segment, although the proportion of non-green labeled bonds has increased over time<sup>3</sup>.

### 10. EMDE Sustainable Debt Issuance by Instrument

(Billions of U.S. dollars; percent; as of March 31, 2024)

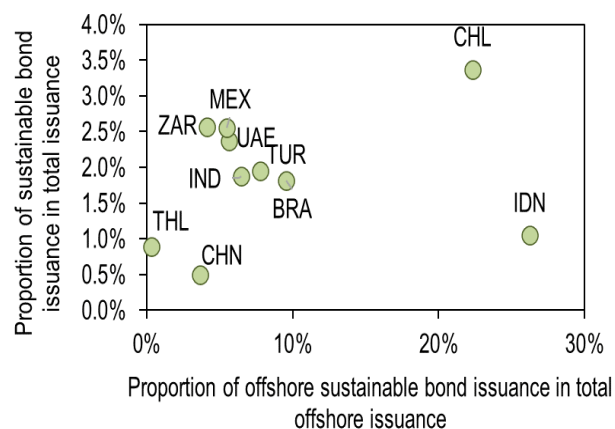


EMDE sustainable debt issuance remain limited compared to AEs. With the exception of Chile, EMDEs sustainable bond issuance continues to account for a relatively small share of total issuance, remaining below 3% since 2015.

Green bonds remain the largest segment across most major EMs, however, there is a large variation amongst countries.

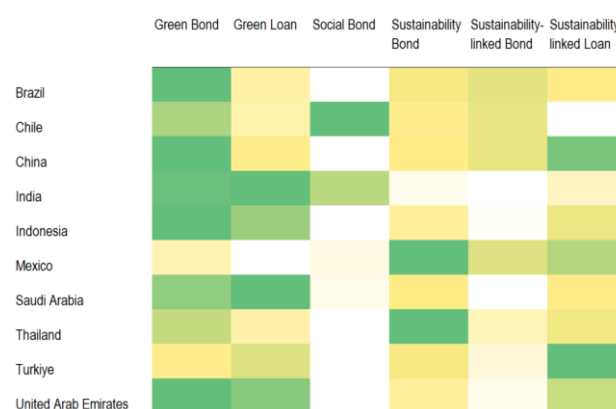
### 11. Sustainable Bond Issuance as a Proportion of Total Domestic and Offshore Issuance – Country Level

(Percent; cumulative since 2015)



### 12. EMDE Sustainable Debt Issuance by Instrument by Country

(Cumulative Issuance since 2015)



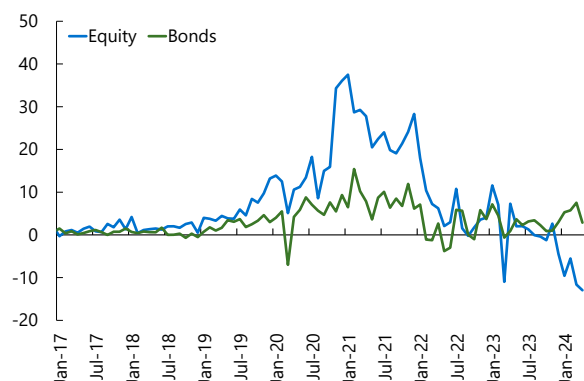
<sup>3</sup> Croatia issued its debut labeled bond in Q1 – with a green bond maturing in 2029. More broadly, there were 17 new first time issuers in Q1 2024.

## ESG Bond Funds saw inflows in Q1 2024, while ESG equity fund outflows continued.

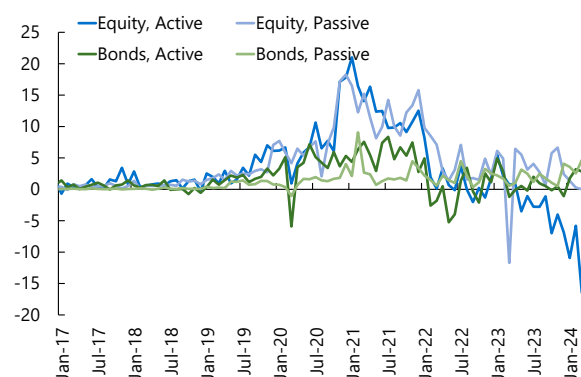
Flows into ESG funds decelerated steadily throughout 2023 and turned negative in early 2024. In Q4 2023, equity ESG funds for the first time saw a quarterly outflows, which intensified in Q1 2024. By contrast, investments into ESG bond funds accelerated in Q1 2024.

Within ESG equities, outflows continued to be driven by actively managed funds, which started in 2Q23 and have since gathered pace with outflows reaching \$33 billion in Q1 2024. All other ESG fund saw net positive flows.

### 13. Equity and Bond Flows into ESG/SRI Funds (Billions of U.S. dollar as of March 31, 2024)



### 14. Equity and Bond Flows into ESG/SRI Funds (Billions of U.S. dollar as of March 31, 2024)



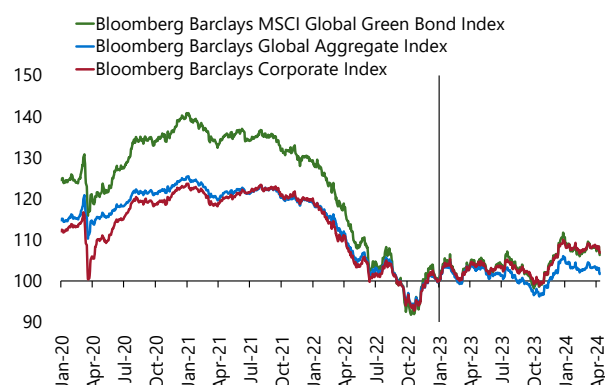
## Green Equities and Green Bonds Outperformed in Q1 2024.

The long-standing trend of green equity outperformance largely disappeared since 2023.

Green bonds outperformed slightly throughout 2023 but have underperformed its peers so far this year.

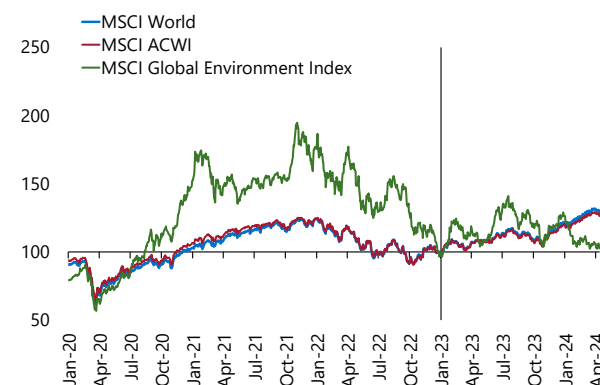
### 15. MSCI Global Environment Index and Various Global Equity Indices

(Normalized to 100 as of Jan 1, 2023)



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

(Normalized to 100 as of Jan 1, 2023)



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## Yield Differentials of Issuances of Bonds Labeled “Sustainable”

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As labeled bond issuance has grown significantly over the past several years, a focus area has been whether such debt provides cheaper funding for debt issuers. Against a backdrop of "greenwashing"<sup>4</sup> concerns and political headwinds<sup>5</sup> - we introduce our estimates of the differentials in yields of bonds labeled sustainable (BLS)<sup>6</sup> with the aim of shedding more light on investor demand and preferences. We study the trends in yield differentials, or premium, that labeled bonds have traditionally enjoyed over regular non-labeled debt, over time and across major issuers, in both primary and secondary markets.

We start with a selection of a representative sample<sup>7</sup> for AE and EM markets and study trends in the relative pricing of labeled bonds vs their contemporary counterparts since 2021. In our analysis we include the four advanced economies - namely the United States, Germany (serving as proxy for the Euro area), the UK and Japan, and a number of emerging markets. For EMs we select countries that issue the largest amount of labeled bonds and also have a functional financial market – these include Chile, China, India, Korea and Mexico. For both AEs and EMs, we only consider investment grade bonds. Our analysis, show that yield differentials in both the US and Europe have compressed since 2022, with the largest compression seen in the US already prior to mid-2023, and the compression in Europe gaining traction only in the latter part of 2023. For the US this is possibly due to the news flow on state level ESG-related policies that could have weighed on investor sentiment. As regards the euro area, yield differentials are some early signs of a revival of labeled bonds yield differentials. Further, markets in major issuing economies of Asia, excluding China, have continuously attached a premium on labeled bonds.

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<sup>4</sup> During September 2022 and Sept. 2023, the incidents of greenwashing have risen by 35% among corporates, and within that, financial services sector has seen the largest increase of 70%; [RepRisk | On the rise: navigating the wave of greenwashing and social washing](#).

<sup>5</sup> As of June 2024, while only 7 US states have passed legislations that promote ESG investing, 22 states have passed laws that discourage ESG investing in some form.

<sup>6</sup> Where the use of proceeds are identified as “sustainable”.

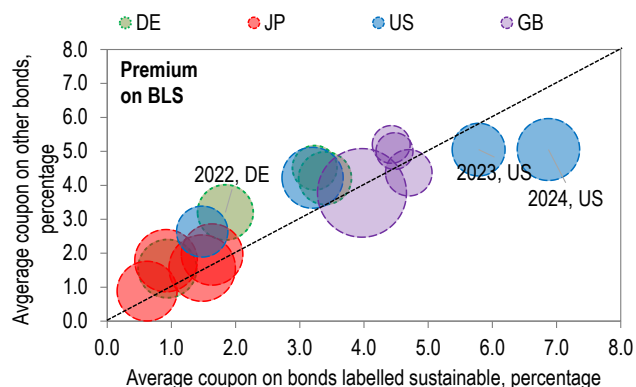
<sup>7</sup> US, UK, Germany and Japan, represent over 40% of total sustainable bond issued by AEs, while Chile, China, India, Mexico and South Korea represent over 80% of total sustainable bond issued by EMs.

- To study the relative pricing of labeled bonds in primary markets, we plot the average coupons of all labeled bonds that were issued since 2021 by country and year, against conventional bonds.
- Within AEs, coupons of labeled debt are seen to have on average been smaller than that of the conventional bonds, i.e., a premium is attached to the former. However, this is not the case for US in 2023, where the coupons of labeled bonds increased substantially. In addition, this trend in US seems to have worsened in 2024 as the average tenor of bonds has increased, however, these are also based on relatively fewer data points.
- Within EMs the premium attached to labeled bonds has been smaller relative to AEs. However, labeled bonds in India<sup>8</sup> and Mexico have been issued with some premium. It is also notable that sustainable issuances in China, that mostly seem to have been issued at par with regular bonds, have been issued at a discount since 2023.

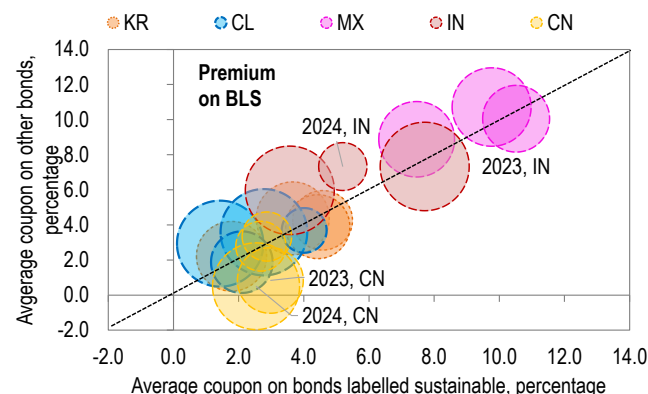
*In most AEs, BLSs have been issued with smaller premiums than their non-labeled counterparts. However, the US is emerging as an exception, where the average coupon on labeled bonds has been higher since 2023.*

*In EMs, the yield differentials enjoyed by BLS tend to be smaller relative to AEs. Notably, China has seen significant erosion in these differentials while relatively smaller issuers like India have improved in recently.*

#### 17. Premiums in primary market - Advanced Economies (Percent)



#### 18. Premiums in primary markets - Emerging Markets (Percent)



Notes: In both the panels, the 45-degree lines represent par pricing between BLS, and regular bonds. Each year between 2022 and 2024 is shown with a different bubble, with the size of bubbles in the charts representing the average tenor of the BLS by country.

<sup>8</sup> India saw some policy support from the government in 2023 with the central government issuing its first local currency sovereign green bonds in Jan 2023 of \$1 bn. which is reportedly priced at a premium of 6 bps to their regular sovereign bonds. This came on the heels of the government's announcement of classifying green bonds as infrastructure investments. The classification is aimed at raising the participation of long-term investors like pension funds and insurance companies. Notably, Indian insurance companies are expected to invest 15% of their investments in infrastructure funds. Another \$2.15 bn. were issued via sovereign bonds in India during the remainder of year.

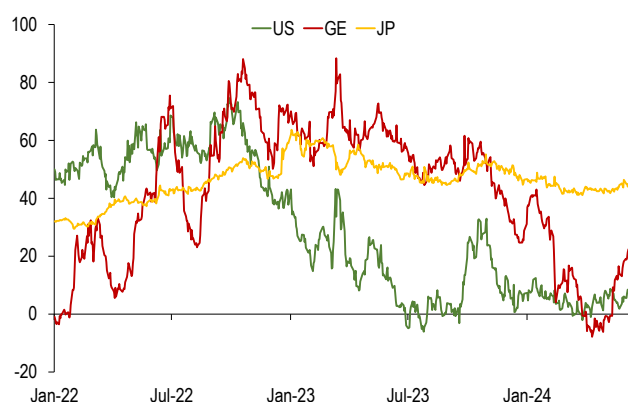


- To study the relative pricing of labeled bonds in secondary markets, we create sub-samples of bonds for AEs and EMs. The sub-samples comprise bonds that are (a) issued in 2021; (b) of 5- or 10-years tenors; and (c) and for EM issuances, are USD denominated bonds. While for EMs, these criteria are used to estimate yields on both labeled and conventional EM bonds, for AE countries these criteria are applied only to calculate yields on labeled bonds. For AE conventional bonds, we estimate yields utilizing widely-used and comparable indices. Given the selection parameters, some countries are omitted from the sample. In future, this analysis could benefit from including more tenors and EM countries in the sample.
- Within AEs, while yield differentials in both US and Europe have diminished completely for most part of 2024, some recovery can be seen in Europe towards the end of Q1 2024. In the US the compression in yield differentials started relatively sooner (late-2022), coinciding with the periods of enactment of anti-ESG investment regulations at state level. The differentials have mostly remained subdued since with phases of temporary revivals.
- There is significant heterogeneity within the EM sample. In China, despite being one of the largest issuers of sustainable debt, the yield differentials in favor of labeled bonds have been smaller than other major issuers. Moreover, while markets in Korea and Chile have been attaching some premium to sustainable labeling, there is not a clear trend in Mexico.

*In secondary markets, the yield differentials between BLS and conventional bonds have been diminishing in US markets since 2023 driven by weaker policy-related sentiments, Europe is seeing some recovery lately.*

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

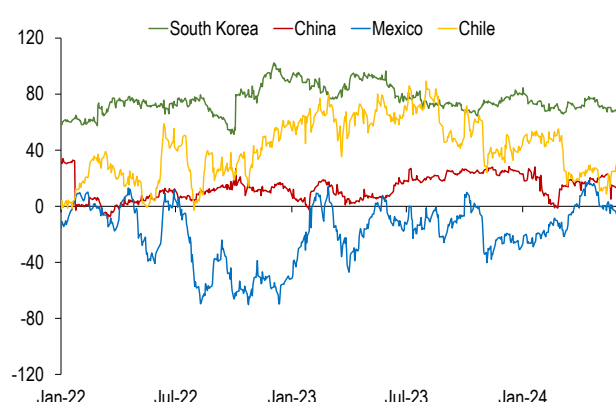
(Difference in yields, basis points)



*In EMs, the picture is more diverse – with some markets like Korea and Chile attaching a premium to sustainable labeling, while these have been small in China.*

## 20. Yield differentials in secondary markets - Emerging Markets

(Difference in yields, basis points)



Notes: BLS 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”.