Banks stick to ESG bonds, EU GBS yet to gain traction

ESG bond supply from banks is expected to hold steady in 2026 at around €80bn. However, the uptake of the EU Green Bond Standard is expected to remain limited ahead of the review of the EU Taxonomy's technical screening criteria

Bank ESG supply is expected to hold steady in 2026

Steady ESG issuance by banks amid limited EU GBS adoption

Banks continued to issue sustainable bonds at a robust pace in 2025, despite the diminishing regulatory support for ESG.

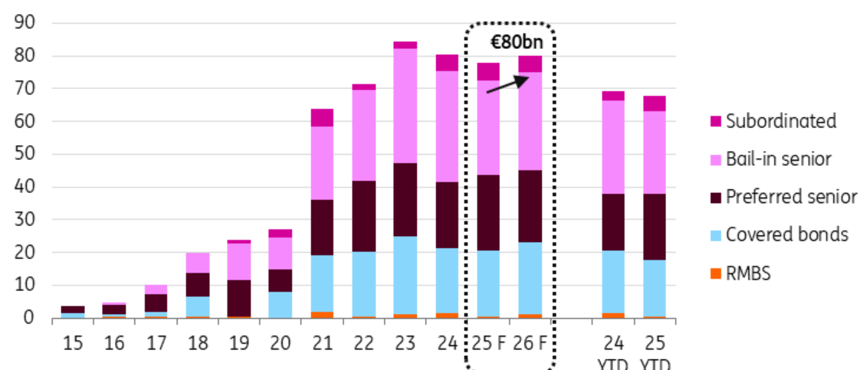
They issued €68bn in sustainable debt in 2025 YTD, which is close to the volumes issued over the same period last year. The comparable ESG print to last year resembles the roughly similar total bank bond supply volumes versus 2024.

Sustainable issuance maintained a solid pace due to the growth in sustainable loan portfolios and the increase in sustainable debt redemptions. Asset availability made issuers sufficiently comfortable with tagging the ESG label to their supply, despite the arguably limited added value of doing so from an execution point of view or a greenium perspective.

Banks issued slightly more in unsecured and subordinated instruments and slightly less in secured debt, but the differences versus last year are truly negligible. The distribution across green and social is also roughly comparable to last year, albeit with slightly more issuance in sustainability format, with a combined green and social use of proceeds. Also, one sustainability-linked loan bond (SLLB) added to the YTD ESG supply in euros.

Sustainable bank bond supply will be slightly up in 2026

(€bn)



Source: IGM, ING

Includes only EUR bank bonds with a minimum size of €250m

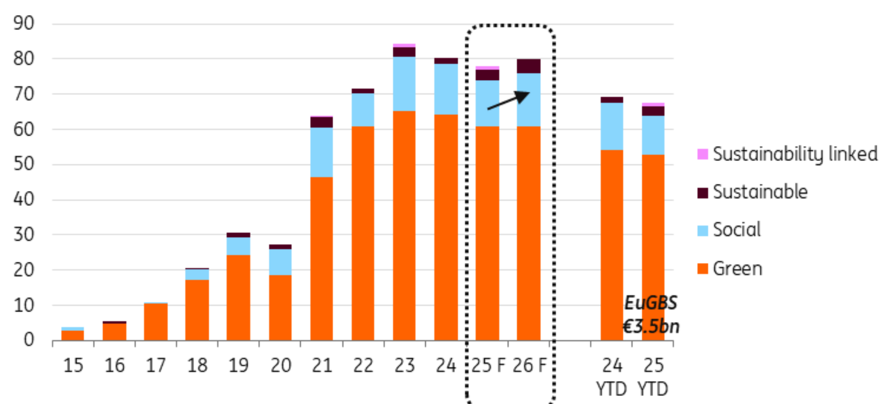
Sustainable bank bond supply is projected to finish 2025 close to the €80bn issued last year. Looking ahead, issuance is expected to remain steady, at around €80bn in 2026, supported by a modest rise in overall bank bond issuance.

Europe's focus on the competitiveness and simplification agenda could cause the bond market's supply focus to drift slightly away from the ESG theme. However, with few constraints seen on the asset availability side, we expect banks to continue to print some 20% of their EUR supply in sustainable format. Particularly when faced with market uncertainty, banks will rely more on sustainable issuance as a means of ensuring sufficient investor demand in the primary market.

Bonds will remain the main source of sustainable financing, regardless of the additional bank offerings of deposits or commercial paper for the same purpose.

Green issuance remains stable while social issuance picks up a little

(€bn)



Source: IGM, ING

Includes only EUR bank bonds with a minimum size of €250m

Lending growth and ESG redemptions support green issuance

The current state of bank sustainable asset portfolios provides a solid foundation for ESG issuance in 2026. Positive lending growth against the backdrop of improving macroeconomic conditions will also support the origination of new sustainable assets.

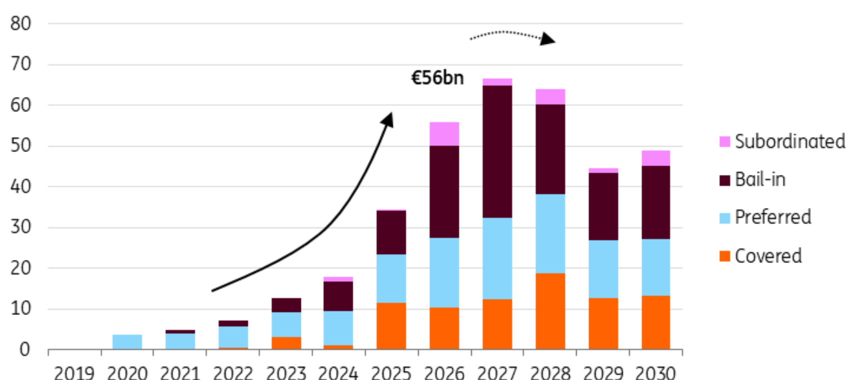
The financing of climate change mitigation remains the dominant objective for green bond issuance, with green buildings, renewable energy projects and clean transportation as the most important use of proceeds categories. Green portfolio growth from the financing of other environmental objectives, such as climate change adaptation or the circular economy, is expected to remain muted.

Some 20% of the projected sustainable bond issuance will be directed to social projects, with issuance in unsecured format tilted towards employment generation and access to essential services, and issuance in covered bond format towards social housing.

Additionally, EUR ESG redemptions for banks are set to increase from €36bn in 2025 to €56bn in 2026. Although factors such as look-back periods, stricter use-of-proceeds criteria, or loan repayments since issuance may limit the full sustainable refinancing of maturing bonds, a portion of the freed-up assets will be available for new issuance.

Sustainable bank bond redemptions rise to €56bn in 2026

(€bn)



Source: IGM, ING

Includes only EUR bank bonds with a minimum size of €250m

Not all is negative from a regulation point of view

Europe's efforts to simplify its sustainability disclosures regime for companies could slightly shift banks' attention away from identifying sustainable loans on their balance sheets and from the necessity to originate new sustainable loans.

The Omnibus I package proposed by the European Commission in February this year reduces the disclosure scope of the Corporate Sustainability Reporting Directive (CSRD) to large companies with more than a thousand employees (instead of 250) and a net turnover of €50m or €25m in total assets. It also provides for an opt-in clause for Taxonomy disclosures for companies with less than €450m turnover. The European Parliament's legal affairs committee recently reached a compromise advocating a scope reduction to 1000 employees and a €450m turnover, also applicable to Taxonomy disclosures.

The reduced disclosure scope raises the bar for banks to gather ESG information from clients, facilitating the identification of loans as sustainable on their balance sheet. On top of that, the Omnibus I package results in a two-year postponement in the CSRD disclosure requirements for non-listed large companies and listed SMEs, while the revisions to the European Sustainability Reporting Standards (ESRS) will significantly lower the future disclosures to be made.

Besides, smaller-sized credit institutions will fall outside the disclosure scope themselves. Unless they opt in to provide voluntary disclosures, they will have less incentive to identify, for instance, taxonomy-aligned loans on their balance sheet. The impact thereof on ESG bond issuance should be modest, though. The balance sheet size of most of these institutions was probably already too small to set aside sufficient sustainable assets for the issuance of green or social bonds.

Despite the simplification efforts on the ESG side, it is important to bear in mind that most large institutions will remain within the CSRD reporting scope and have set net-zero pathways, committing them to a further greening of their balance sheet. The same will also apply to banks that may fall out of scope in the future, but have already made all the preparatory efforts for the CSRD disclosures.

Implemented regulatory changes in the field of the Energy Performance of Buildings Directive (EPBD) will also support an ongoing focus on the renovation and greening of the building stock in the decades to come. In addition, the European Commission is set to publish its first European Affordable Housing Plan later this year, which may provide future impetus for the origination of affordable housing loans.

Issuance under the EuGBS fails to impress

Banks did not jump massively on the opportunity to start issuing bonds under the EU Green Bond Standard (GBS) in 2025. Only three European banks used Europe's 'golden standard' for their green supply for a total amount of €3.5bn.

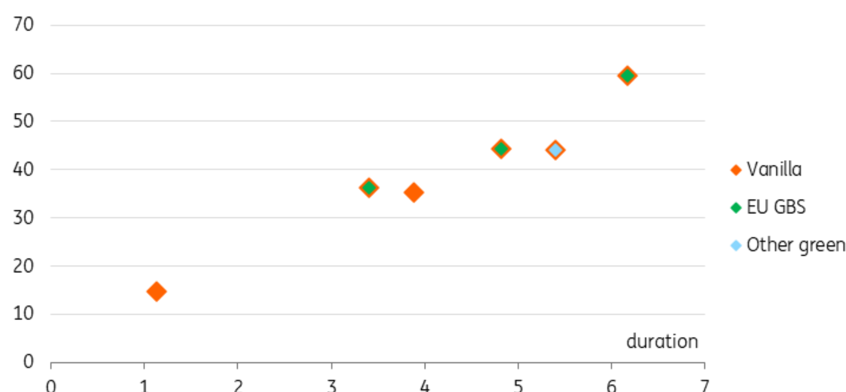
With the EuGBS - in principle - requiring full taxonomy alignment, its take-up is set to remain low in 2026. Even though the EU Taxonomy's technical screening criteria for substantial contribution are broadly embedded in the green bond frameworks, full taxonomy alignment often remains a soft 'best effort' commitment.

The advocated reductions in the scope of ESG disclosures, the postponements in Taxonomy alignment reporting, the lack of clarity on certain interpretations related to the EuGBS legal text (especially for issuers utilising the portfolio approach), and the upcoming review of the Taxonomy's technical screening criteria will probably contribute to a wait-and-see approach by banks.

Moreover, the deals issued so far under the EU GBS lack convincing funding advantages versus incumbent ICMA-aligned green bond structures. The secondary curve of one of the issuers that issued bonds according to the EU GBS illustrates that all three EU green bonds are quoted at wider spread levels than the other conventional and green preferred senior bonds of the bank. Whilst recognising that this effect may have other reasons for causality, this hardly encourages issuers to go the extra mile for EuGB issuance.

Issuance under the EU GBS does not result in tighter spread levels

(ASW, bp)



Source: IHS Markit, ING

Takes the preferred senior unsecured curve of one EU green bond issuer as an example

Sustainability-linked & transition labelled issuance remains niche

The issuance of sustainability-linked bonds (SLBs) also remains virtually non-existent in the banking segment. The incompatibility of step-up coupon features linked to sustainability KPIs, with the eligibility for banks' minimum requirements for own funds and eligible liabilities (MREL), has prevented bank SLB issuance from taking off.

Bond issuance with the purpose of financing sustainability-linked loans (SLLBs) bypasses these difficulties as the KPIs and step-up/-down features are set at the level of the sustainability-linked loans. Yet also the issuance of SLLBs remains a scarcity so far, with only one bank issuing them in the EUR market so far, of which €1bn this year. Apart from that, very few banks have an SLLB framework in place, despite the ICMA's Sustainability-Linked Loans financing Bond Guidelines (SLLBG) of June 2024.

Having said that, regardless of the watering down of Europe's sustainability disclosure framework, the transition planning and client engagement efforts of banks could promote more sustainability-linked loan origination. The issuance volumes in SLLBs should nonetheless be expected to stay low in 2026. Equally, given the contentiousness of the transition label (targeting, for instance, hard-to-abate sectors or 'brown-to-green' activities), any transition bond issuance should not be expected from the banking sector.

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