

Global ESG Bond Supply Outlook: Slowing down in 2024

The global ESG bond markets have seen staggering growth in supply over the last seven years. Since 2022, however, growth has slowed, and we think ESG bond issuance is set to continue on that trend in 2024



ESG bond markets have seen staggering growth in supply over the last seven years. A peak of €1 trillion of self-labelled ESG bonds was reached in 2021. However, with the issuance of Covid-19 mitigation bonds dying out, supply chain disruptions, inflation and higher (funding) costs, market conditions have changed significantly. We believe similar trends will emerge throughout 2024 to those seen this year, with some segments slowing down their ESG bond issuance – leading to a relatively stable market compared to 2023.

€820bn

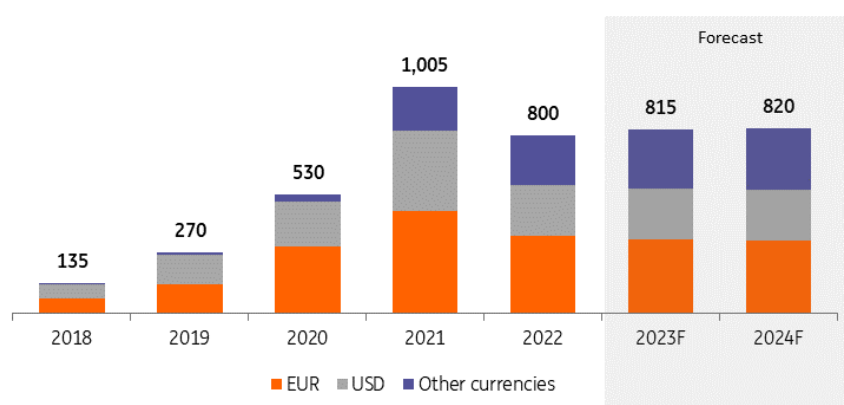
Global ESG bond supply

Expected in 2024

Global ESG bond supply in 2024 expected at €820bn

We forecast a global ESG bond supply of €820 billion for 2024. This is a relatively stable amount compared to 2023, which we estimate at €815 billion by the end of the year. According to our estimates, we should see sovereigns, supranationals, agencies, financial institutions and corporates issuing €325 billion in EUR. For the US dollar, we expect the market to stay stable at €225 billion (US\$240 billion). For ESG bonds printed in other currencies, we expect the segment to grow softly from €260 billion to €270 billion.

The global ESG bond supply has stagnated since 2022 (in EUR equivalent)



Source: Bloomberg BNEF, ING forecasts

The EUR currency will represent c.40% of total issuance

The EUR currency has always led the global ESG bond supply, and we expect it to represent close to 40% of all ESG bond issuance in 2024 with €325 billion.

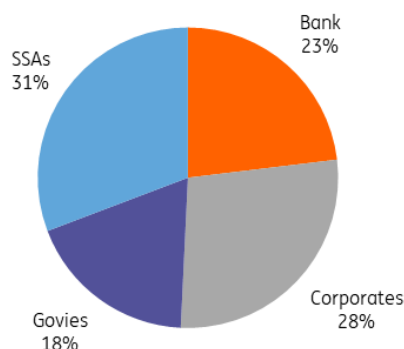
€325bn of ESG bonds in EUR
Expected in 2024

Governments, supranationals and agencies will be the biggest contributors. With a total of €160 billion expected in 2024, sovereigns, supranationals and agencies will account for about half of total EUR ESG bond issuance in 2024.

The EUR-denominated ESG issuance by **supranationals and agencies** has reached €95 billion year-to-date, meaning levels for the entire year will likely fall behind 2022 and our initial target of €131 billion. For 2024, we are pencilling in a €100 billion aggregate figure. One slowing factor behind the relatively low issuance is the European Union. The EU has become a dominating player in the green bond segment, with 2022 having seen €24.4 billion in EU green bond issuance. In 2023, this figure stands at a meagre €7.7 billion – and there's only one more window for a syndicated deal and two auction slots this year to meaningfully raise this figure.

The EUR-denominated **sovereign** ESG issuance (mainly in green bonds) currently stands at close to €64 billion, which is moderately ahead of what we had anticipated. Volumes in the final months of the year look set to remain limited, pointing to a final figure of around €65bn. For the upcoming year, we see issuance growth stagnating as overall government funding plans could come in moderately lower. We are forecasting €60 billion in gross ESG issuance for the sector in 2024.

EUR ESG supply by contributor type in 2024



Source: ING

With global corporate investment-grade euro supply up by around €20-30 billion in 2024 versus 2023 to c.€310 billion, **we foresee corporates' ESG EUR supply around €90 billion for 2024**. We believe that green bonds will retain a share of around 70%. The sustainability bond format has hardly been used in 2023 thus far, but the instrument could reappear on the market in 2024. Sustainability-linked bonds – representing 28% of EUR ESG bonds YTD – will keep a stable share.

We forecast €75 billion in EUR financial ESG supply in 2024. Banks remained very active in the sustainable bond market this year. By mid-November 2023, credit institutions across the globe had issued over €73 billion in EUR sustainable bonds, which is more than €12 billion ahead of the sustainable supply over the same period in 2022. We expect green, social and sustainability issuance of banks to reach €80 billion this year, up €8 billion versus 2022. While banks will issue notable amounts of sustainable debt in 2024, slower lending growth will probably make it difficult for them to continue to issue at the same pace as this year. We expect to see slightly less sustainable supply next year despite our forecasts of a modest rise in total bank supply.

USD ESG bond market to see weaker growth momentum in the wait for policy clarity

The year ahead will be an interesting one for the USD ESG bond market, especially in the US. Given uncertain economic conditions and higher-for-longer interest rates keeping borrowing costs high, we expect to see continued caution from issuers. The ongoing anti-ESG movement adds additional complexity. The upcoming presidential election in 2024 could also lead issuers who have been keen for more policy clarity to take a 'wait and see' approach until there is higher medium-term ESG policy certainty.

Despite these headwinds in the USD ESG bond market, there are also several encouraging factors, such as more clean funding announced and more tax credits guidelines released under the

Inflation Reduction Act (IRA).

US\$240bn on the USD market
Expected in 2024

The markets should see US\$240 billion (€225bn equivalent) of green, social, sustainable and sustainability-linked bonds in the US dollar in 2024.

Given the complexities of the domestic market, we forecast that USD ESG bond market supply in the US in 2024 will be around US\$100 billion, lower than our estimated 2023 level of US\$103 billion and the 2022 level of US\$110 billion. We expect the majority of USD-denominated ESG bonds to continue to be issued outside of the US and total \$140 billion in 2024, higher than the 2023 level of US\$137 billion and the 2022 level of US\$131 billion. This leads to an estimated US\$240 billion globally in USD-denominated ESG bond issuance, at the same level as 2023 and 2022.

Much of the growth in USD ESG bond supply will be driven by governments. In 2024, we expect USD ESG bonds from governments and US municipalities to reach US\$125 billion, slightly higher than our 2023 estimate of US\$121 billion. Corporates, however, will likely see a decline in issuance volumes to US\$49 billion in 2024, down from US\$52 billion in 2023 and US\$79 billion in 2022. The weaker momentum will likely be observed in both investment grade and high-yield USD ESG bonds.

The decline could be higher among corporates within the US jurisdiction than elsewhere. In 2023, the energy sector has been the only sector that has seen USD ESG bond issuance growth compared to last year (albeit at a relatively low absolute volume), partly because the IRA is incentivising more producers from the sector to finance energy transition activities. Nevertheless, in 2024, the potential risks from economic conditions, climate disclosure rule delays, and election uncertainties could soften companies' determination to issue ESG bonds.

ESG bonds issued in other currencies to slightly expand

ESG bonds issued by governments, agencies, banks and corporates in the pound sterling, Japanese yen, Chinese renminbi, Canadian dollar, Swedish krona and other currencies showed robust growth between 2020 and 2022 from €30 billion equivalent to €220 billion. The segment should add another €260bn this year, according to our expectations. China has been one of the leaders in previous years but has lagged behind in 2023 so far. Including China, **we forecast the "other currencies" segment to print €270 billion in 2024, showing smaller growth than in earlier years.**

What can explain stagnating ESG bond supply across the globe?

We have been used to seeing green, social, sustainability and sustainability-linked bonds to expand their footprint over the years. The reality is that, despite robust demand from investors, ESG bond supply also responds to external challenges:

- **Projects pipeline:** Corporates' ESG issuance was extremely strong in 2021 and 2022, with a

notably lower interest rate environment boosting bond supply. Corporates need the time to allocate the proceeds to new green projects. 2023 and 2024's ESG issuance, therefore, suffers from the existing projects pipeline.

- **Higher costs:** The Covid-19 pandemic, the post-pandemic recovery and the war in Ukraine all led to hyperinflation. Higher costs of materials, higher funding costs and supply chain disruptions have resulted in delayed and sometimes cancelled projects, as seen within the utilities sector.
- **Lower capital expenditure:** With higher interest rates and higher costs of materials, most sectors have curbed their capital expenditure ambitions in 2023 (although they are still growing vs. 2022). This is particularly the case for the real estate sector, which has concentrated its efforts on balance sheet management in an environment where asset valuations were negatively impacted. Globally, for most industries, next year will see another capex growth reduction compared to 2023.
- **Slower lending growth:** Bank lending growth is stagnating against the backdrop of the rise in interest rate levels. This makes it difficult for banks to grow their sustainable loan portfolios substantially. That said, against the backdrop of evolving ESG regulation and a wider investor and societal push for companies and banks to become more sustainable, the sustainable loan books will still see better growth dynamics than the less sustainable loan portfolios.
- **Inflows into ESG funds:** Counterbalancing the negative elements cited above, demand for ESG bonds continues to be strong. We have seen continuous inflows into ESG funds, adding further demand for ESG products. From October 2022 to October 2023, flows into EUR IG ESG accumulated to c.13%. Additionally, during times of outflows from credit, ESG funds generally remain positive.

New initiatives to prevent greenwashing in 2024

Sustainability financial products and markets have grown remarkably over the years. Several measures have been deployed by the European Union to ensure market integrity, investors' protection and a trusted environment for sustainable investments. Greenwashing allegations have been growing in numbers, targeting both financial and non-financial entities. This has also resulted in the increasing attention of securities markets' regulators to this phenomenon. Industry players and retail investors also seem to share the concern that greenwashing risks have increased.

ESMA to release a final report on greenwashing risks and supervision in 2024

In May 2022, the European Commission issued a “request for input related to greenwashing risks and the supervision of sustainable finance policies” to the three ESAs. To address this request, the ESMA published an exploratory report and plans to publish a final report in May 2024, which will include supervisory powers, resources, and actions to tackle greenwashing risks. It will also include final recommendations.

The ESMA preliminary report “[Progress Report on Greenwashing](#)” identifies the areas most exposed to greenwashing risks and possible actions for tackling them. Those comprise issuers, investment

managers, benchmarks, and investment service providers. As a result of their investigation, it turns out that greenwashing is the result of multiple interrelated drivers. Amongst the problematic elements developed by the preliminary report written by ESMA, these caught our attention:

- Misleading claims can relate to all aspects of an entity or product's sustainability profile: ESG governance and resources, ESG performance metrics and targets, ESG strategy, policies and credentials, and sustainability impact.
- Cherry-picking, omission, ambiguity, empty claims (including exaggeration), as well as misleading naming and irrelevance, are among the identified misleading qualities.
- Forward-looking information and pledges of future ESG performance appear to be particularly exposed to greenwashing risk; enhanced transparency on underlying assumptions and parameters are highlighted as fundamental to help investors make informed decisions.
- Misuse of SFDR as a labelling regime.
- Further transparency on ESG data methodologies, clear and reliable calculation of estimates, external audit and supervision would contribute towards enhancing the reliability of sustainability data.

The Corporate Sustainability Reporting Directive (CSRD) was finalised on 5 January 2023 and will become effective as of 1 January 2024, when relevant companies will have to start collecting data and information to be published in their 2025 annual reports or sustainability disclosures. The directive will demand additional reporting effort not only for large companies but also for mid and small-sized corporates.

The CSRD will force companies to disclose on sustainability criteria and targets

From 2025 onward, large “public interest” companies with 500 employees or more and with EU-regulated market-listed securities will need to report on CSRD requirements for the current financial year. These are the companies that already had an existing obligation under the Non-Financial Reporting Directive (NFRD). All other companies will gradually be added between 2025 and 2028. The CSRD requires reporting under a double materiality perspective with an increased focus on targets and forward-looking information. CSRD companies are also subject to taxonomy-related disclosures. For more details about the impact of the CSRD rules, please refer to our dedicated report “[CSRD: preparing for a deluge of sustainability disclosures](#)”.

The SEC Climate Disclosure rules are likely to be final in 2024

The US federal-level climate disclosure requirements are expected to be final in 2024 and effective as of 2026. The Securities and Exchange Commission (SEC) will hold public companies to a higher standard of climate data transparency, likely facilitating a smoother development of the US sustainable finance market. California's two newly signed climate-related laws require over 5,000

large public and private companies to disclose Scope 1-3 emissions data and over 10,000 companies to report on climate-related financial risks. Despite challenges facing California's regulatory agencies on implementation, these rules could make the SEC's rules more acceptable if many companies are required to report under California's rules. But one note of caution is that any further delay of the SEC's climate rules could see some companies delay issuance while awaiting policy clarity.

Despite a potential cooldown in 2024, the USD ESG market will become more defined, credible and transparent. Investors will continue to value quality, become less tolerant of potential greenwashing, and look for specific metrics that prove a company's ESG credibility. These metrics will also be used to better evaluate company risks and opportunities. As opposed to rushing straight into ESG bond issuance, companies may be inclined to first take the time to establish a solid sustainable finance framework while backing it up with detailed methodologies, transition plans and reporting schemes.

With thanks to ING's Romano Masiello for his assistance with this article.

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