

## The greenery in sovereign and SSA space

The funding advantage of green bonds is also a reality in the official sector, although discrepancies among issuers do exist. Due to their more prolific borrowing and abundance of green bonds, sovereign and SSAs offer our best opportunity to accurately measure this greenium. They also have a responsibility in 'leading the way' for private borrowers



The President of the European Investment Bank, Werner Hoyer

### Sovereign and SSAs: a small but clear funding advantage (at least in EUR)

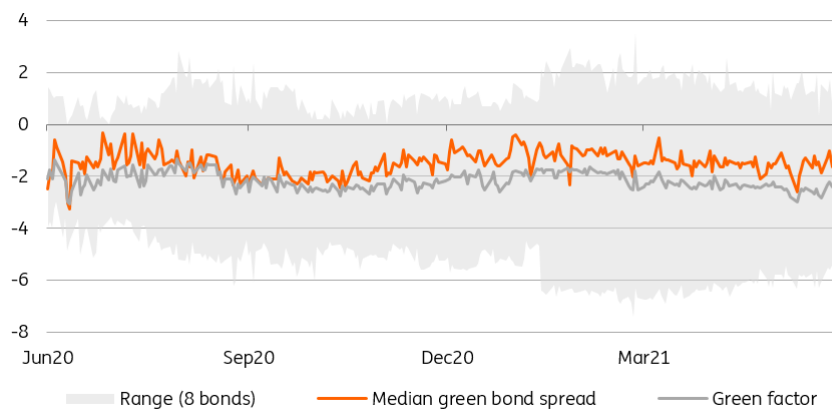
Sovereigns and SSAs (sub-sovereign, supranational and agencies) have been one of the most prolific green bond issuers for years, and they typically have liquid non-green curves to compare them to. Here we find a relatively well-defined tendency for green bonds to carry lower interest than their peer, ie, a positive greenium. But even there, it is hard to make broad-brush statements.

SSAs present our best chance to accurately measure the greenium as they tend to issue a greater number of green bonds than other types of borrowers. We find that among these issuers, the greenium on EUR curves is more clearly defined than in other currencies, although in most cases it oscillates between 0bp and 5bp. Take for example the European Investment Bank (EIB), an early and enthusiastic issuer of green bonds. Its EUR curve displays a clear and well defined greenium

worth around 2bp, while its USD curve suggests no clear funding cost advantage in issuing green bonds.

## EIB greenium in EUR is stable and clearly defined

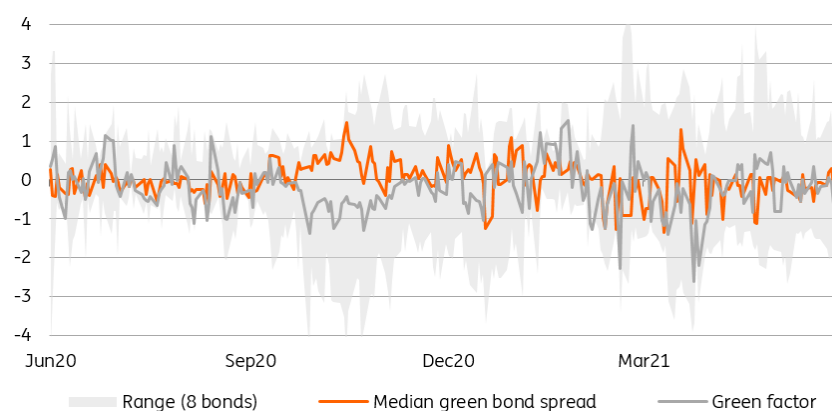
Spread to EIB non-green curve (bp)



Source: Refinitiv/ING

## The same cannot be said of its USD greenium

Spread to EIB non-green curve (bp)



Source: Refinitiv/ING

## The 'sovereign' approach

In contrast, the approach retained by most sovereigns is to issue a small number of large green bonds. This means that for each one of the - mostly European - countries, our greenium estimate is a one or two bonds estimate. The result is not statistically significant for each issuer but we do observe greeniums in the range of 0.3bp (Ireland) to 5.0bp (Italy) across the six eurozone sovereigns that have issued green bonds, the median being 2.4bp.

So we feel more confident in talking about the existence of a greenium in the official sector for EUR-denominated debt. This is a slightly different conclusion than for corporate issuers above but it should be said that discrepancies from one borrower to the other are significant. It may be also

that as USD green bonds from sovereigns and SSAs gain in popularity, so will their greenium.

---

*As USD green bonds from sovereigns and SSAs gain in popularity,  
so will their greenium*

---

As with corporates, there are indeed other benefits for the official sector to issuing green securities. For one thing, we believe the initiative taken by SSA borrowers in launching the first green bonds should at least share some of the credit for their popularity. By the same token, the UK Debt Management Office's recent decision to issue green gilts should turbocharge the growth of the sterling green bond market.

Secondly, a more observable 'greenium' on the more liquid sovereign and SSA curve, albeit modest, adds to the case for green issuance for other borrowers where the funding benefit should be larger.

Finally, the practice of regularly issuing green bonds acts as a form of political commitment to green projects even through electoral cycles.

## Author

### **Antoine Bouvet**

Head of European Rates Strategy

[antoine.bouvet@ing.com](mailto:antoine.bouvet@ing.com)