

## The greenium of German public issuers

As is the case with other issuers, greenium pricing on German public curves lacks in coherence, but it exists. Calmer market conditions this year have helped a recovery in green bond pricing



Our multi-year quest for a coherent greenium among public bond issuers [have yielded many interesting insights](#) into the way green bonds trade, [but not a unified way to price green bonds](#). We find that the greenium, the difference in yield between a green bond and its non-green equivalent varies from one bond to the next, and from one issuer to the other. In short, we find that the greenium exists on average, ie, that green bonds tend to have lower yields than their non-green peers, but that the dispersion around that average, or median, is large.

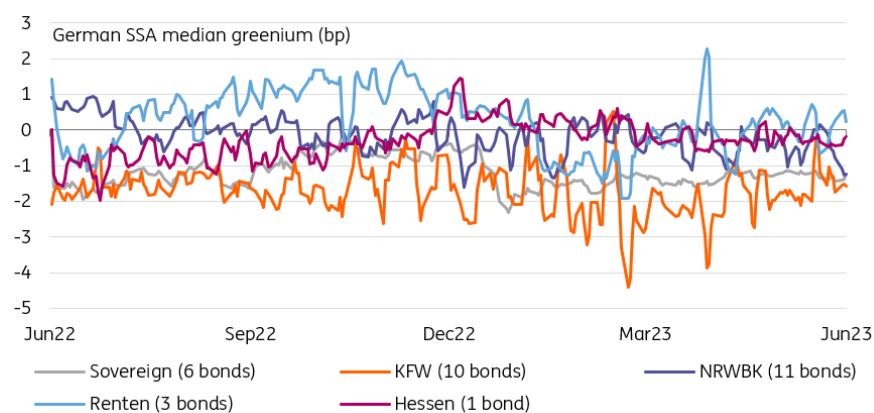
### The German greenium exists but is more significant for more established issuers

We reach the same conclusion when looking at the greenium of a group of public issuers from a single country. In this publication, we focus on public issuers from Germany, a group that include the federal state, an issuer with its own policy when it comes to green bond issuance and greenium management, KfW, a green bond pioneer and plentiful issuer, and some Laenders with more-or-less sporadic green bond issuance patterns.

*The majority of German green bonds trade with a lower yield than their theoretical non-green equivalents*

We find that, by and large, our earlier conclusions hold. The majority of German green bonds trade with a lower yield than their theoretical non-green equivalents, but that the dispersions are large. Across the group of issuers considered, we find a greenium worth between 0bp and 1bp, with a greater value for more established issuers like KfW and the federal state, between 1bp and 2bp. Note that in our graphs, a positive greenium is typically shown as a negative value, as it denotes a lower yield for green bonds than their non-green peers.

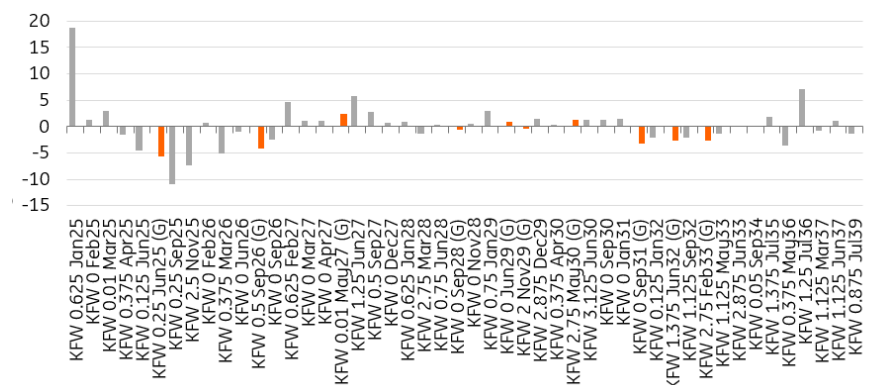
**German public debt greenium exists, but dispersion is large**



Source: Refinitiv, ING

Using KfW, one of our best-in-class as an example, we find seven green bonds on its euro-denominated curve have a positive greenium, and two have a negative one. Not bad, but our result might be less conclusive had we only used bonds with similar maturity to estimate the theoretical 'non-green' yields of its green bonds. More importantly, only 11 of the 45 possible green bond pairings actually show a correlation is higher than 0.5, suggesting the greenium of each bonds still trades largely independently from others.

## Not all green bonds on the KFW curve have lower yields than their non-green peers



Source: Refinitiv, ING

## The greenium survived coordinated monetary tightening

Developments during the recent global monetary policy tightening, as well as the sea change it brought to financial markets, [also resulted in a reduction in the overall size of the greenium](#). Our, tentative, conclusion was that the reduction in global bond market liquidity made the relative pricing of green vs non-green bonds more difficult. Another potential explanation could have been [the maturing of the green bond market](#), with the first few years being characterised by abundant demand but constrained supply. As supply catches up with demand, the theory goes, the justification for lower yields on green bonds should disappear.

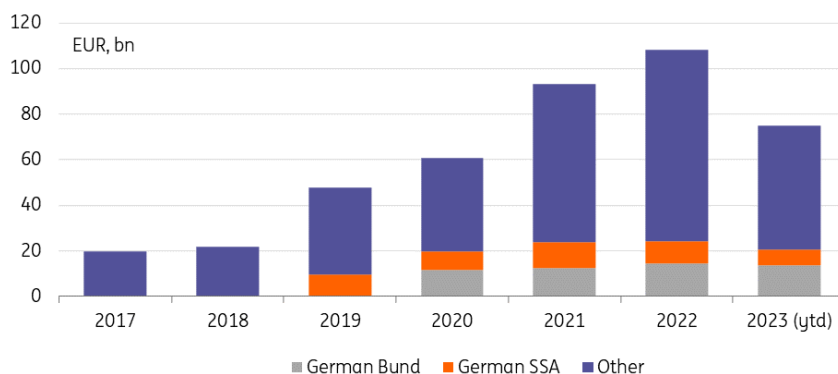
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*Since the turn of the year, and the return of more benign market conditions, the greenium has recovered*

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Our analysis on German public issuers is also an opportunity to update our results. It seems that since the turn of the year, and the return of more benign market conditions relative to the end of 2022, the greenium has recovered. Things are relative however. Implied and realised rates volatility remain elevated by historical standards and the summer months tend to see a deterioration of market conditions. As much as we are reasonably confident in our conclusion that we are seeing a more coherent greenium among German issuers than in late 2022, we should also caveat our conclusions as it assumes milder market conditions.

## EUR denominated public sector green bond issuance



Source: ING

The good news is that the second potential explanation for a shrinking greenium in 2022, supply and demand coming into balance, is looking less valid now.

Looking at the narrower slice of ESG bond market to accompany the above analysis, EUR-denominated public sector green bond issuance this year has already topped €75bn, well ahead of last year's issuance at this stage. 2022 saw €108bn of public sector green bond issuance in total, which so far still marks the highest annual issuance volume.

The German public sector has started to play an important role in the green bond markets over the past five years, where it has accounted from 20% to over 30% of the annual EUR-denominated public sector green bond issuance. This year-to-date its issuance share stands just shy of 30%. Since 2020 the central government does account for a good slice of this with its green Bunds.

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