ESG In Credit Ratings December 2023

ESG-Related Actions Slow As Year End Approaches

S&P Global Ratings

This report does not constitute a rating action.

(Editor's note: We republished this article on Dec. 20, 2023 to correct the number of ESG-related sovereign credit rating actions in 2023.)

By the numbers: November 2023 ESG-related credit rating actions

Total ESG-driven credit rating actions, November 2023 versus October 2023

▲ Increase
▼ Decrease

12 ▼
All credit rating actions

4 ▲
Positive rating actions

8 ▼
Negative rating actions

November 2023 positive rating action breakdown

Key factors
2
Health and safety

Key sector
2
Corporates and infrastructure

Key regions
2
Europe

November 2023 negative rating action breakdown

Key factor
4
Risk management, culture, and oversight

Key sector
7
U.S. public finance

Key region
8
North America

ESG-related rating actions are those where ESG credit factors were a key driver of the decision to change a credit rating, outlook, or CreditWatch status. S&P Global Ratings considers ESG credit factors to be those ESG factors that may influence the capacity and willingness of an issuer to meet its financial commitments. Rating actions include changes in ratings, CreditWatch placements, and outlooks, as well as withdrawals, in November 2023. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

Key Takeaways

- Total rating actions related to environmental, social, and governance (ESG) factors decreased to 12 in November from 16 in October, with negative actions continuing to outpace positive ones.
- Governance factors remained the primary driver, with eight rating actions.
- U.S. public finance was the sector with the most ESG-related rating activity (eight actions) in November, seven of which were negative, with four driven by risk management, culture, and oversight.
- The Republic of Bulgaria's outlook was revised to positive from stable due to other governance factors; specifically, the country's potential accession to the EU.

Newsletter Contacts

Brenden Kugle
Centennial
+1-303-721-4619
brenden.kugle
@spglobal.com

Patrick Drury Byrne
Dublin
+353-1-568-0605
patrick.drurybyrne
@spglobal.com

Matthew S Mitchell
Paris
+33-6-17-23-72-88
matthew.mitchell
@spglobal.com

ESG Research Highlights

Electric Vehicles Amp Up European Auto ABS Risk

Nov. 29, 2023

A growing share of electric vehicles (EVs) will increase credit risk in European auto asset-backed securities. As EVs currently depreciate more than internal combustion engine vehicles, we adjust our recovery and residual value assumptions in securitized pools with more than 10% exposure to EVs. Secondhand values will continue to face pressure in the near term, as demand for used EVs may not keep pace with new registrations growth, with added pressure from reduced new vehicle prices and improvements in battery technology and range. The relatively short weighted-average lives of auto securitizations will mitigate the impact of potential depreciation of internal combustion engine vehicles over the longer term if consumer demand shifts to EVs.

North American Wildfire Risks Could Spark Rating Pressure For Governments And Power Utilities, Absent Planning And Preparation

Nov. 29, 2023

To maintain profitability in regions exposed to climate hazards, insurance companies manage losses by implementing various strategies, including discontinuing writing new business. Collaboration between different levels of government, as well as an entity's planning and preparedness for emerging risks, could help offset exposure to wildfire risk. Certain U.S. state regulatory frameworks can increase the credit risks from wildfires for public power and investor-owned utilities, potentially leading to litigation risks.

Lost GDP: Potential Impacts Of Physical Climate Risks

Nov. 27, 2023

By 2050, if global warming does not stay well below 2 degrees Celsius, up to 4.4% of the world's GDP could be lost annually, absent adaptation. This will test countries' adaptation plans, particularly those of lower-income nations that are disproportionately exposed and less able to prevent permanent losses. The rising likelihood of compound climate events adds to the challenges of climate analytics. Understanding these nonlinear dynamics appears crucial to assessing specific risks each country faces and may help policymakers pursue more-targeted policies. The adaptation gap is widening, given slow progress on preparedness, and financing conditions are tightening. Financing rising adaptation costs as the impacts of climate hazards worsen may become more difficult in an environment of higher interest rates, adding another hurdle to developing countries' adaptation implementation.

Chart Of The Month

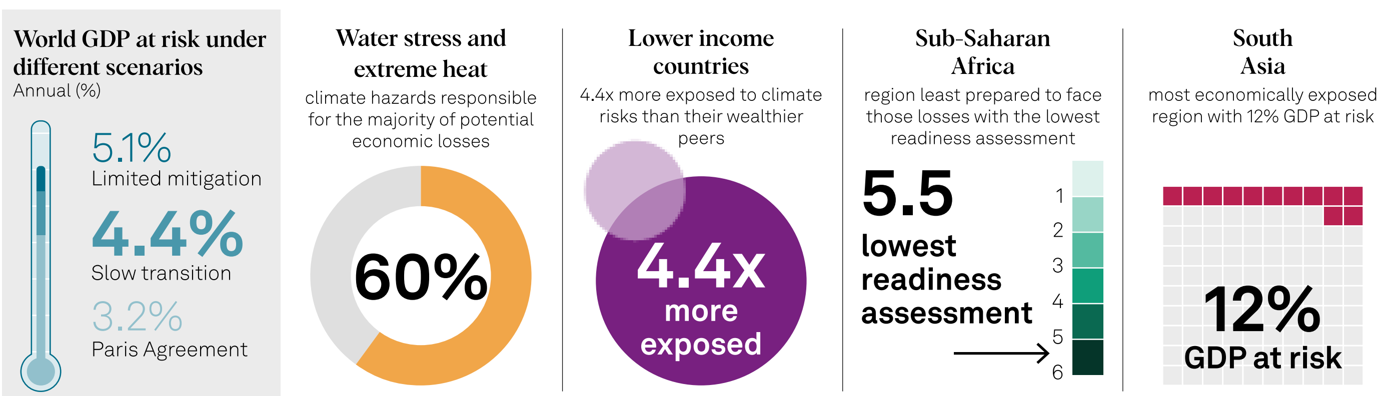
Lost GDP: Potential Impacts Of Physical Climate Risks

This article aims to provide insights into the potential exposure and readiness of rated countries to different types of climate hazards. We use four climate scenarios to examine the potential exposure of 137 countries to economic losses caused by the physical impacts of climate change. We map the potential exposure of economic output and population to seven climate hazards, using average historical loss rates associated with these hazards. We also use sovereign economic and institutional assessments as a proxy to assess countries' readiness to adapt and recover from those events.

This article builds on (and is distinct from) our previous research "Weather Warning: Assessing Countries' Vulnerability To Economic Losses From Physical Climate Risks," published April 27, 2022. Here, we use the latest climate hazard modeling data, which focuses attention on exposure to hazards attributable to climate change, rather than hazards in a pre-climate-change state. We also made changes to metrics and to our definitions of each climate hazard.

Key findings:

- By 2050, if global warming does not stay well below 2 degrees Celsius, up to 4.4% of the world's GDP could be lost annually, absent adaptation.
- The rising likelihood of compound climate events adds to the challenges of climate analytics.
- The adaptation gap is widening, given slow progress on preparedness, and financing conditions are tightening.



Note: Lower income = Low and lower middle income, based on World Bank data.

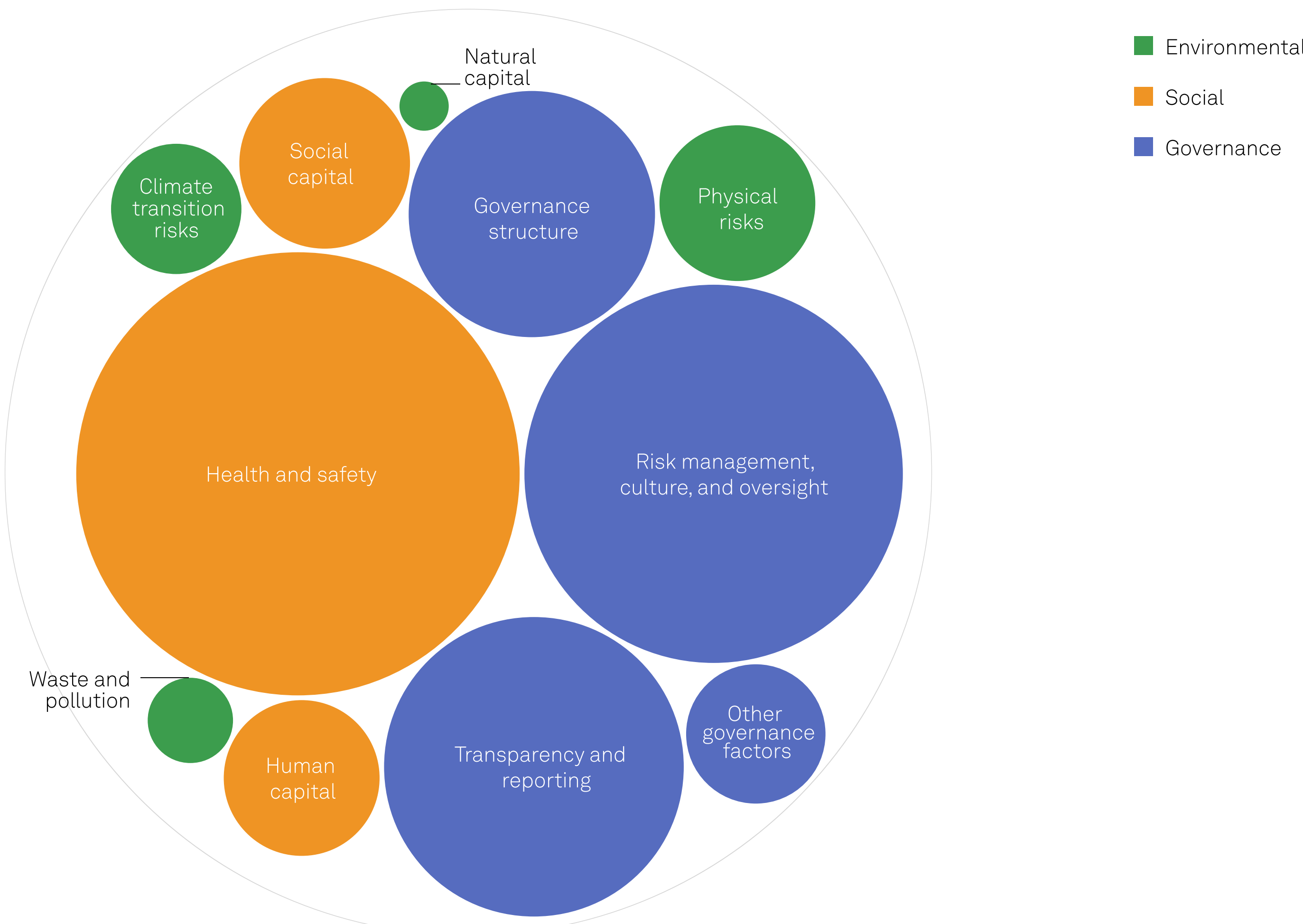
For more, see "Lost GDP: Potential Impacts Of Physical Climate Risks," published Nov. 29, 2023.

2023 ESG Credit Rating Actions

The following section provides a summary of key ESG credit rating action trends in 2023. S&P Global Ratings includes a reference in its credit rating rationales when one or more of the below ESG factors were a key driver behind a change to the credit rating, outlook, or CreditWatch status. We consider ESG credit factors as those ESG factors that can materially influence the creditworthiness of a rated entity or issue and for which we have sufficient visibility and certainty to include in our credit rating analysis. They are not an assessment of an entities' sustainability profile or ESG performance. This newsletter provides additional data and insights on ESG credit factors that have been key drivers behind changes to our credit ratings.

Leading ESG factors driving credit rating actions as a proportion of total tagged factors

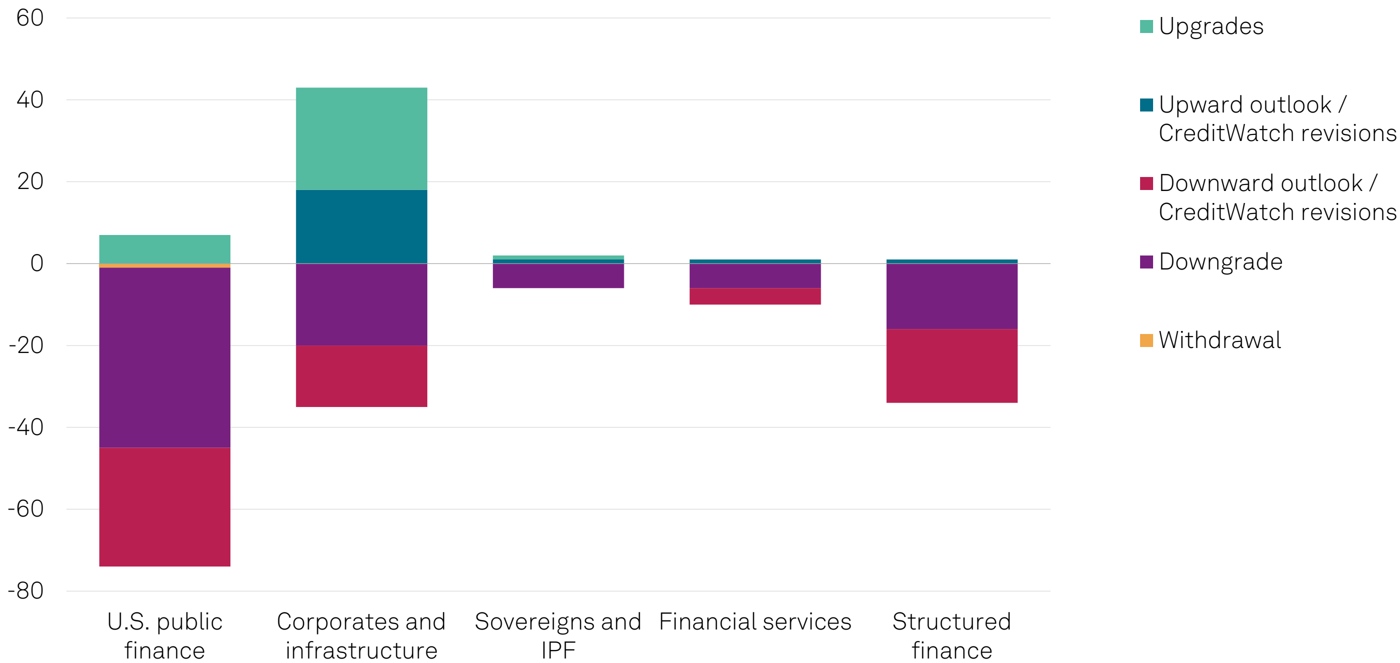
Year-to-date



Data as of Nov. 30, 2023. Bubble size is determined by the occurrence of factors between January and November 2023. In instances where multiple ESG factors were recorded as the main drivers of the credit rating action, each is counted for the purposes of this infographic. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

ESG-related credit rating actions by type

Number of actions, year-to-date



Data as of Nov. 30, 2023. Structured finance actions relate to ESG impacts by transaction (tranche), while for other sectors the impact is measured on the issuer credit rating. Upgrades and upward outlook/CreditWatch revisions are shown as positive numbers, while downgrades, downward outlook/CreditWatch revisions, and withdrawals are shown as negative numbers. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

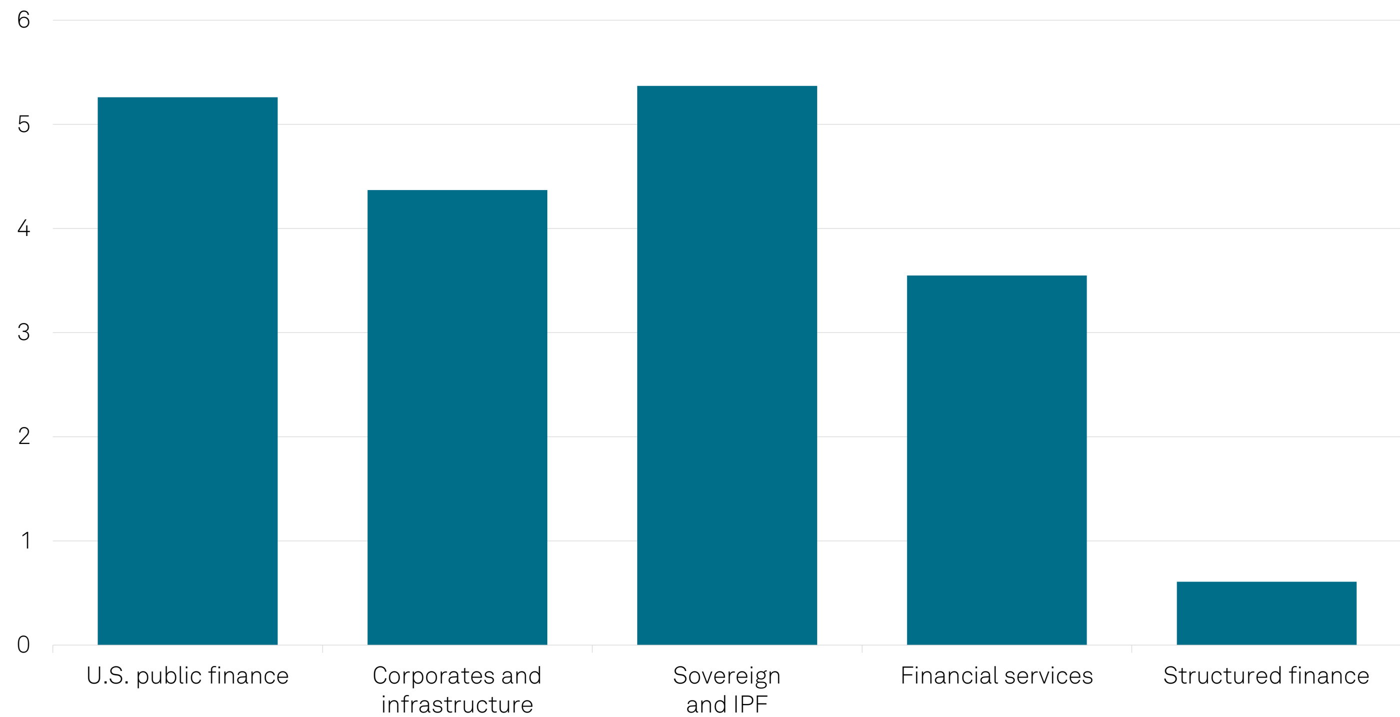
ESG-related credit rating actions by sector and factor

Number of actions, year-to-date

Data as of Nov. 30, 2023. Rating actions include rating, CreditWatch, outlook changes, and withdrawals. Structured finance actions relate to ESG impacts by transaction (tranche), while for other sectors the impact is measured on the issuer credit rating. ESG--Environmental, social, and governance. IPF--International public finance. YTD--Year-to-date. Source: S&P Global Ratings.

ESG-related rating actions (% of total)

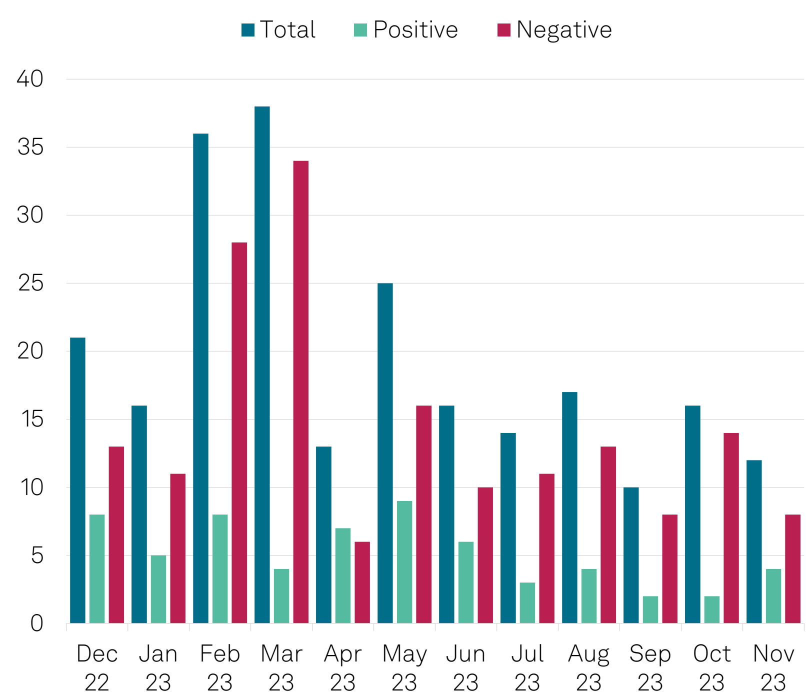
Year-to-date



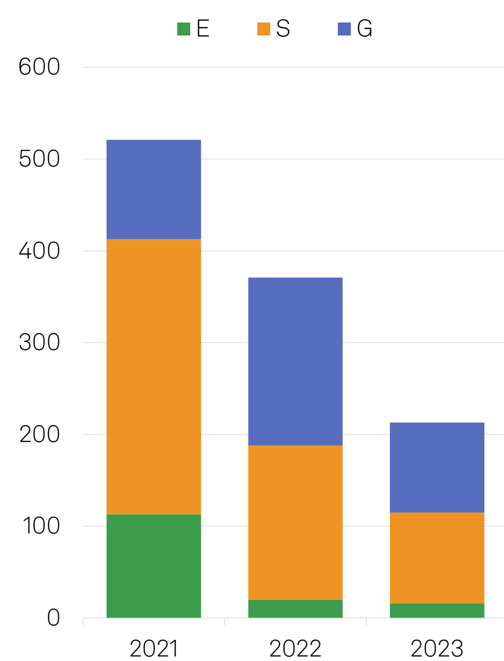
Data as of Nov. 30, 2023. Total rating actions exclude affirmations, withdrawals, and new ratings, including instances where multiple rating actions exist. ESG--Environmental, social, and governance. IPF--International public finance.
Source: S&P Global Ratings.

ESG-related credit rating actions

Number of actions, trailing 12 months



Number of actions, year-to-date



Data as of Nov. 30, 2023. Positive actions include upgrades, CreditWatch positive placements, upward outlook revisions, and upgrades with outlook revisions. Negative actions include downgrades, downward outlook revisions, CreditWatch negative placements, downgrades with outlook revisions, and withdrawals. ESG--Environmental, social, and governance.
Source: S&P Global Ratings.

Appendix

ESG-related credit rating actions

Year-to-date

	U.S. public finance	Corporates and infrastructure	Sovereigns	International public finance	Financial services	Structured finance	Total
Downgrade	44	20	1	5	6	16	92
CreditWatch negative	18	1	0	0	1	18	38
Downward outlook revision	11	14	0	0	3	0	28
Upgrade	67	25	0	1	0	0	33
Upward outlook revision	0	18	1	0	1	0	20
CreditWatch positive	0	0	0	0	0	1	1
Withdrawn	1	0	0	0	0	0	1
Total ESG-related rating actions*	**81**	**78**	**2**	**6**	**11**	**35**	**213**
Environmental§	5	13	0	1	2	0	21
Social§	21	48	0	1	0	34	104
Governance§	79	29	2	4	13	2	129

Data as of Nov. 30, 2023. Note: We updated the sovereign list to include a previously omitted ESG related credit rating action that occurred in August. *Rating actions include rating, CreditWatch, outlook changes, and withdrawals in January-November 2023. Structured finance actions relate to ESG impacts by transaction (tranche), while for other sectors the impact is measured on the issuer credit rating. §The sum of environmental, social, and governance actions may exceed total ESG-related rating actions because some actions are influenced by multiple factors. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

Sector Contacts

Lai Ly

Global Head of ESG Research
+33-1-4075-2597
lai.ly
@spglobal.com

Pierre Georges

Corporates
+34-14-420-6735
pierre.georges
@spglobal.com

Nora Wittstruck

U.S. Public Finance
+1-212-438-8589
nora.wittstruck
@spglobal.com

Matthew S Mitchell

Structured Finance
+33-6-17-23-72-88
matthew.mitchell
@spglobal.com

Sarah Sullivant

Sovereigns
+1-415-371-5051
sarah.sullivant
@spglobal.com

Emmanuel Volland

Financial Institutions
+33-14-420-6696
emmanuel.volland
@spglobal.com

Taos Fudji

Insurance
+39-02-7211-1276
taos.fudji
@spglobal.com

Research Contributor

Yogesh Balasubramanian

Mumbai
CRISIL Global Analytical Center,
an S&P affiliate