Sustainability Insights | Research

Sustainable Bond Issuance To Approach $1 Trillion In 2024

Feb. 13, 2024

Green bonds will continue to dominate the sustainable finance market, but S&P Global Ratings expects greater diversity in bond types and regional participation in 2024.

This research report explores an evolving topic relating to sustainability. It reflects research conducted by and contributions from S&P Global Ratings' sustainability research and sustainable finance teams as well as our credit rating analysts (where listed).

This report does not constitute a rating action

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S&P Global Ratings recently published its global bond forecast for 2024 (see: "Credit Trends, Global Financing Conditions: Cautious Optimism After Peak Rates," published Jan. 25, 2024). In that report, we estimated modest growth of 4.3% in global bond issuance. Below, we provide our outlook for the green, social, sustainability, and sustainability-linked bond (GSSSB) market for 2024. In addition, we explore some of the key drivers of overall global, as well as regional and sectoral, issuance.

Consistent with our recent reports about GSSSBs, this research draws on Environmental Finance's Bond Database of global GSSSB issuance for nonfinancial corporates, sovereigns, financial institutions, and international public finance but excludes structured finance issuers. Because the database is continuously updated, some figures may not exactly match those cited in previous years. For U.S. public finance issuers, we use a proprietary dataset we have maintained for more than 10 years that we believe best captures the nuances of the U.S. municipal bond market. Our GSSSB forecasts in this research are informed by S&P Global Ratings' global bond forecasts, issuer surveys, and market analysis by our sustainable finance and credit ratings teams.

Key Findings

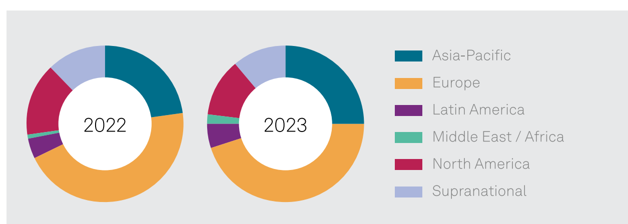
- Despite global macroeconomic uncertainty in some key regions, we anticipate that GSSSB issuance will increase modestly to $0.95 trillion-$1.05 trillion in 2024, from $0.98 trillion in 2023.
- Green bonds will continue their dominance in GSSSB markets, buoyed by increased demand for environmental projects across all geographies. Transition and blue bonds may also gain traction in the GSSSB market in 2024.
- We believe that issuers in middle- and low-income countries will strive to increase their share of GSSSB issuance given their large unmet funding needs.

Key Figures

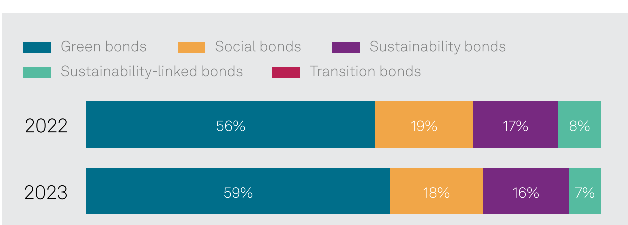
GSSSB issuance will reach between **$950 billion** and **$1.05 trillion** in 2024

The GSSSB share of the overall market may reach **14% in 2024**

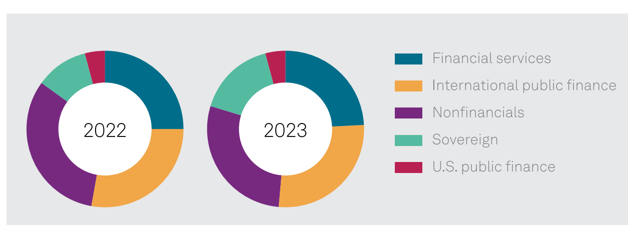
Middle East and **Latin America** issuance increased the most in 2023



Green bonds continue to lead GSSSB issuances



Sovereign issuance increased the most in 2023



Donut charts show share of total issuance. GSSSB--Green, social, sustainability, and sustainability-linked bonds.
Sources: Environmental Finance Bond Database. S&P Global Ratings.

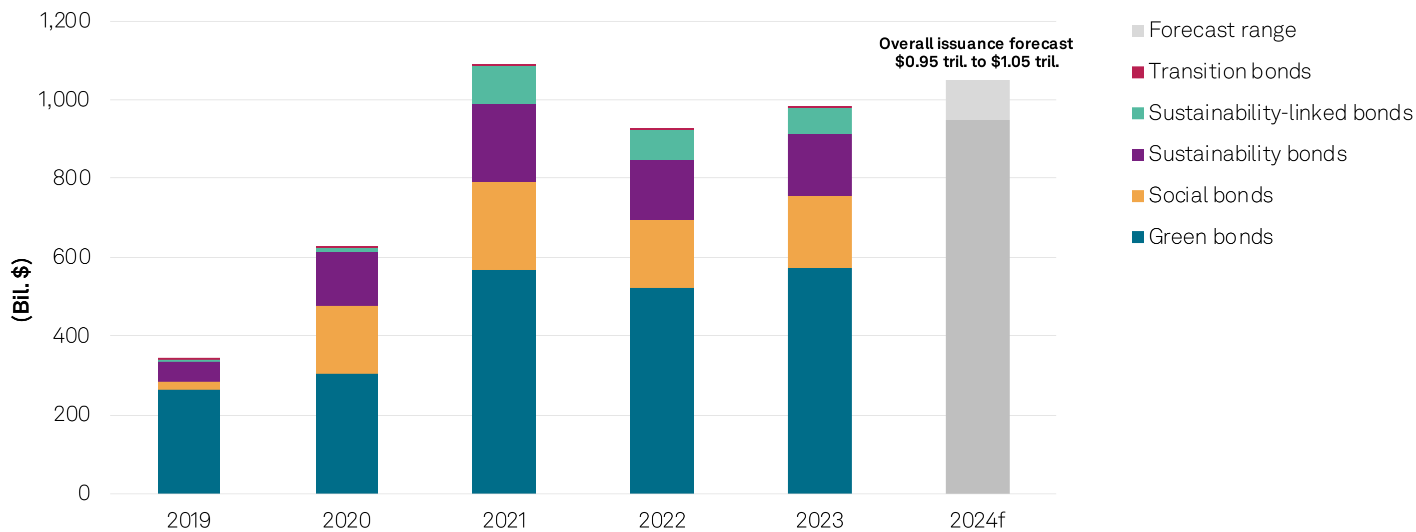
Limited Growth Likely For GSSSB Issuance In 2024

We predict GSSSB issuance may likely rise only modestly in 2024 to between $0.95 trillion and $1.05 trillion. Total GSSSB issuance volume in 2023 was similar to that in 2022 ($0.93 trillion), though there were some notable differences in the profile and location of issuers. In 2024, with many major central banks nearing the end of their rate hike cycles, macroeconomic uncertainty and other external factors may hinder the degree to which the GSSSB market expands (see chart 1).

A number of factors could underpin growth in GSSSB issuance. These include increased adoption of sustainable taxonomies and transparency initiatives, growth in issuance from emerging markets, and efforts to accelerate the energy transition. At the same time, certain macroeconomic factors could restrict issuance, including uncertainty associated with high interest rates and the possibility of wider economic slowdown in key regions such as Europe and Asia-Pacific.

Chart 1

S&P Global Ratings forecasts GSSSB issuance could reach $1.05 trillion in 2024

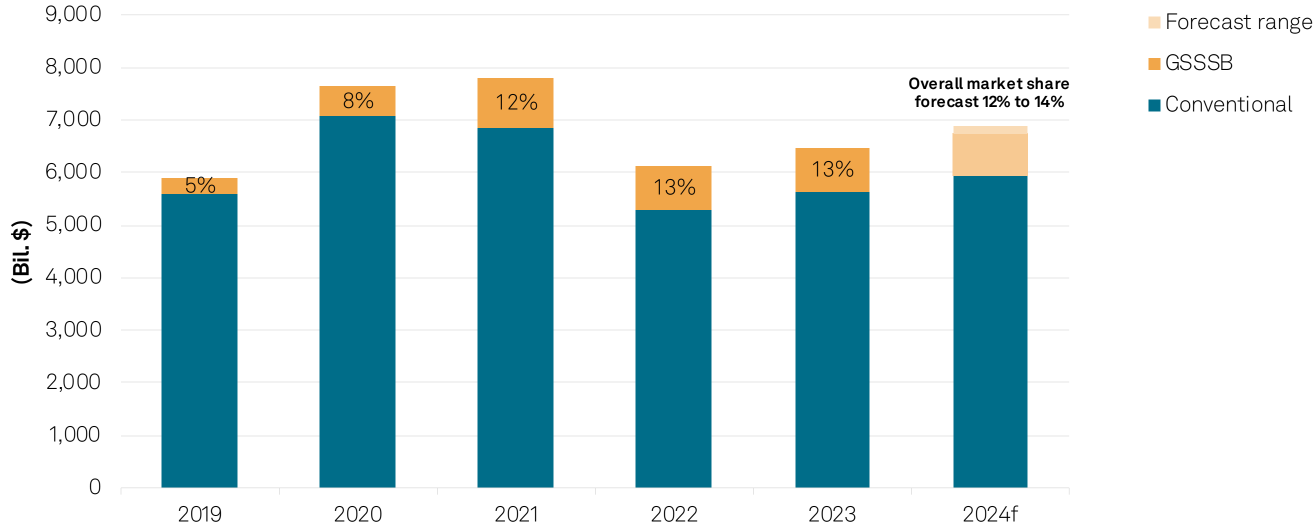


Excludes structured finance issuance. f--S&P Global Ratings forecast. GSSSB--Green, social, sustainability, and sustainability-linked bonds. Sources: Environmental Finance Bond Database. S&P Global Ratings.

GSSSB issuance could represent 14% of total bond issuance in 2024. In our opinion, GSSSB issuance will rise at nearly the same pace as conventional bond issuance for the second consecutive year (see chart 2). We've identified a positive correlation between conventional bond issuance and GSSSB issuance over the past 10 years. The GSSSB market experienced strong growth starting in 2019, and historically, GSSSB issuance has outpaced conventional issuance. As the market has matured, we expect the growth trajectory to stabilize and thus GSSSB issuance growth will more closely mirror that of the conventional bond market. We draw on issuance figures from nonfinancial corporates, financial services, and the U.S. and international public finance sectors and exclude sovereign and structured finance issuance.

Chart 2

GSSSB share of global bond issuance may reach 14% in 2024



Excludes structured finance and sovereign issuance. f--S&P Global Ratings forecast. GSSSB--Green, social, sustainability, and sustainability-linked bonds. Sources: Environmental Finance Bond Database. S&P Global Ratings.

GSSSB Defined

Green, social, sustainability, and sustainability-linked bonds fall into two main categories:

Sustainability-linked bonds (SLBs): Any type of instrument for which the financial or structural characteristics can vary depending on whether the issuer achieves predefined sustainability objectives.

Use-of-proceeds bonds: Any type of instrument where the net proceeds (or an equivalent amount to the net proceeds) are exclusively used to finance or refinance, in part or in full, new and/or existing eligible green and/or social projects. The three main subcategories of use of proceeds instruments are:

- Green bonds: Instruments that raise funds for projects with environmental benefits including renewable energy, green buildings, and sustainable agriculture.
- Social bonds: Instruments that raise funds for projects that address or mitigate a specific social issue and/or seek to achieve positive social outcomes, such as improving food security and access to education, health care, and financing, especially but not exclusively for target populations.
- Sustainability bonds: Instruments that raise funds for projects with both environmental and social benefits.

Finally, **transition bonds** can be either sustainability-linked or use-of-proceeds bonds issued specifically to support climate transition goals, geared toward issuers in hard-to-abate sectors. Projects those bonds support may not always be “green”, but still aim at supporting climate transition.

Source: International Capital Market Association, S&P Global Ratings.

Green bond issuance expanded 10% year on year in 2023. It reached a total of $575 billion, largely due to increased issuance from Europe, despite another year of contraction from North American issuers. Nonfinancial corporates still make up the largest portion of the green bond market, but the financial services sector now has nearly equal volumes after three consecutive years of growth. Sovereigns had their strongest year on record in 2023, as their GSSSB issuance reached $160 billion, breaking the previous record of $117 billion in 2021. Countries such as France, Germany, Italy, and the U.K. each issued more than $10 billion of sovereign green bonds in 2023.

Issuance of both social and sustainability bonds was flat year on year. We do not expect significant increases in 2024. Social bonds saw sharp declines in both Europe and North America. Meanwhile, Asia-Pacific social bond issuance grew 43% in 2023. The region had the highest proportion of social bonds in 2023 globally. Many of the largest issuances in this region focused on affordable housing or transportation. Issuers from Japan, Korea, and Hong Kong accounted for most of the total value. International public finance issuers lead the way for sustainability bonds, with issuance coming primarily from supranational agencies that have the capacity to address both green and social projects.

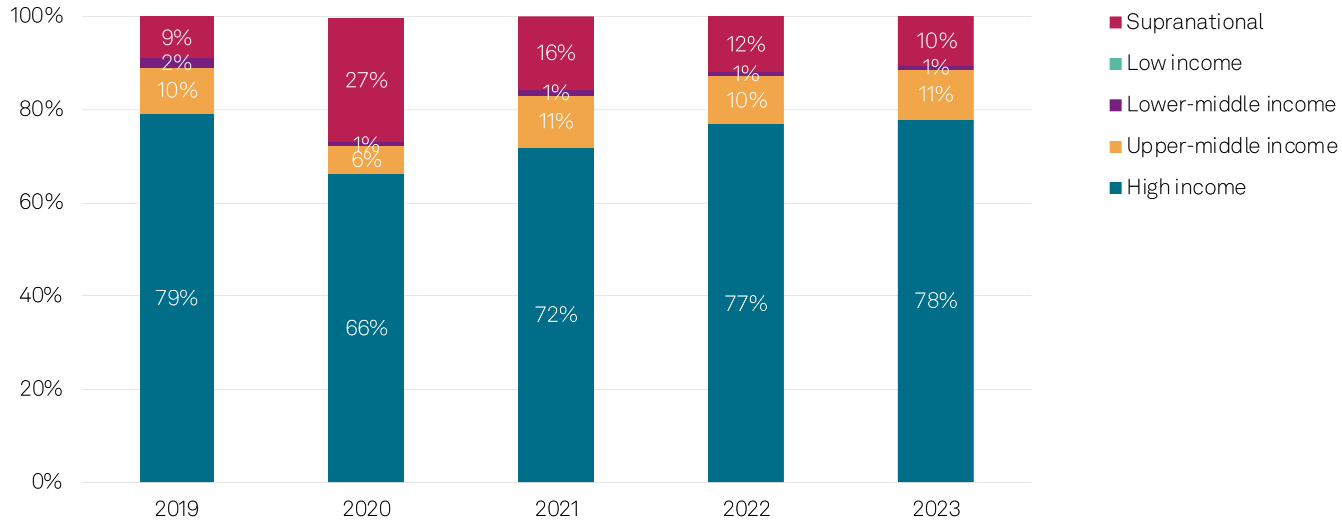
Sustainability-linked bond (SLB) issuance declined for a second consecutive year in 2023, as questions around SLBs' efficacy continued. Issuance fell 14% to a total of $66 billion. To date, we are aware of few cases of issuers missing the sustainability performance targets (SPTs) linked to their SLBs. When this does occur, market participants have expressed doubts around the ambitions of the SPTs and whether the standard 25-basis-point coupon adjustments sufficiently incentivize issuers to reach targets. A high probability of an issuer meeting targets combined with low consequences for missing them may mean some investors see SLBs as no different from standard, unlabeled bonds.

Greater access to GSSSBs for emerging market countries

GSSSB issuance has historically been dominated by high-income countries, but other markets may begin to increase their presence in 2024. As North American issuance declined for the second consecutive year, the Middle East and Latin America, with 149% and 56% growth respectively, were the two fastest-growing regions in 2023. Additionally, Asia-Pacific now accounts for 25% of GSSSB issuance, its highest ever proportion. This was driven by new market participants. India, for instance, issued its inaugural sovereign green bond. As the GSSSB market continues to mature, we expect increased issuance from these regions. Although high-income countries were close to a five-year high in terms of their GSSSB share in 2023 (see chart 3), the share of issuance coming from North America and Europe was at a five-year low, at only 57%. This suggests that high-income countries in Asia-Pacific, Latin America, and the Middle East have increased their share of issuance, which could lay the groundwork for issuers in lower income countries in these regions to access the GSSSB market as well. In addition, supranational entities such as the EU have steadily decreased their share of issuance since 2020, as emergency support issuance related to COVID-19 has tailed off.

Chart 3

Since 2019, a large proportion of GSSSB issuance has been in high-income countries

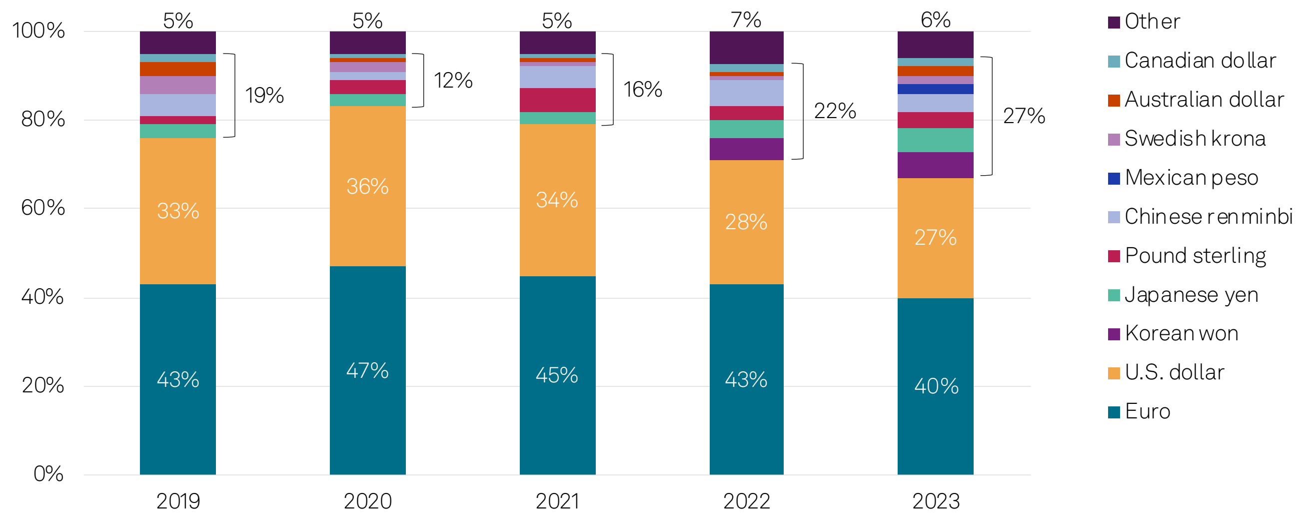


Excludes structured finance issuance. GSSSB--Green, social, sustainability, and sustainability-linked bonds.
Sources: Environmental Finance Bond Database. World Bank Country and Lending Groups by Income. S&P Global Ratings.

Euro and dollar-denominated bonds have led the GSSSB market since inception, but other currencies increased market representation in 2023. The prevalence of these two currencies is a consequence of the strong GSSSB market representation from the U.S. and eurozone countries, as well as the currencies' status in global markets. However, the number of currencies in which GSSSBs have been issued has increased by 25% since 2021. In 2023, for the first time, the euro and U.S. dollar represented less than 70% of overall issuance, while 10 individual currencies each accounted for at least 1% of the GSSSB market (see chart 4). This increased diversification of currencies is a sign that more economies are beginning to participate in the GSSSB market and indicative of rising demand from local investors. Consequently, we observe a larger number of issuers in emerging markets choosing to issue GSSSBs in their local currencies, such as the Mexican peso and South Korean won. In Asia-Pacific, the share of local currency issuance as a proportion of total GSSSB issuance has increased 20 percentage points since 2019, while in both Latin America and the Middle East the rise was more than 25 percentage points. This is a clear signal that emerging market issuers increasingly believe there is sufficient demand to issue bonds primarily for domestic investors. We expect this trend to continue as entities in emerging market countries increase their issuance volumes and new participants gain access to GSSSB markets.

Chart 4

GSSSB issuances are denominated in an increasingly diverse set of currencies



"Other" represents all currencies in which GSSSB issuance is less than 1% of global annual volume. Excludes structured finance. GSSSB--Green, social, sustainability, and sustainability-linked bonds.
Sources: Environmental Finance Bond Database. S&P Global Ratings.

GSSSB diversification: New bond labels to take hold

Despite our forecasts for only moderate growth in 2024, we believe climate transition and blue bond labels will increase their prevalence in the GSSSB market. As the market matures, issuers and investors are looking to finance a wider range of projects that may not fit into conventional GSSSB categories.

Transition bonds have struggled to find their place in the GSSSB market, but they are set to have their strongest year on record in 2024. Energy companies have historically been the largest issuers of climate transition bonds. However, since the first transition bond in 2019, total issuance is less than $15 billion and accounts for less than 1% of the overall GSSSB market (see table 1). Transition bonds have the potential to provide access to the sustainable bond market for issuers in sectors that do not generally qualify for green bonds, but still want to reach climate and other environmental goals. To date, however, the market has not coalesced around a single definition for transition finance, nor have there been widely recognized transition bond principles to which issuers could align their frameworks or issuance. This may have disincentivized issuers and investors alike. The Monetary Authority of Singapore recently launched a multisector transition taxonomy to support issuance across eight focus sectors. The International Capital Market Association (ICMA) also updated its Climate Transition Finance Handbook in June 2023 to provide additional guidance for climate transition and climate-themed bonds, based on market progress seen since its original publication in 2020.

About two-thirds of all transition bonds have come from Japanese issuers. The country is looking to further establish itself as the global leader in transition bond issuance by committing up to Japanese yen 20 trillion ($130 billion) of transition bonds in the next decade, including $11 billion in February 2024. Japan published the world's first sovereign transition bond framework in November 2023, which includes project categories such as nuclear energy, carbon capture, and alternative fuels and feedstocks for the manufacturing industry. The country's Ministry of Economy, Trade, and Industry also released transition roadmaps for sectors including iron and steel, chemicals, and cement, underlining its commitment to tackling the transition for hard-to-abate sectors that have a high dependence on fossil fuels and no simple solutions for reducing emissions.

Blue bonds may also have a landmark year in 2024. According to ICMA, blue bonds are bond issuances with the objective of emphasizing the importance of the sustainable use of maritime resources and of the promotion of related sustainable economic activities. They are a subset of green bonds. As of December 2023, blue bonds worth $6.8 billion in total had been issued, representing 0.2% of overall GSSSB issuance since 2019, the year the first blue bond was issued. We believe that the rise in issuance last year is related to the September 2023 release of ICMA's guidance around bonds to finance the sustainable blue economy.

Sovereigns and supranationals could have a key role in directing financing to the blue economy. A recent analysis by the United Nations Environment Programme on nationally determined contributions (NDCs) indicates that 95 countries have goals, policies, or measures aimed at preserving and restoring marine ecosystems. In 2023, the European Commission released the "Blue Invest" report to provide investors with additional market knowledge. Meanwhile, during COP28, the European Commission pledged €1 billion to the Blue Mediterranean Partnership, an initiative designed to catalyze blue economy investments in non-EU countries that border the Mediterranean, and committed to make it operational in 2024. Prior to the COVID-19 pandemic, the OECD estimated that the blue economy could double from 2010 to 2030, reaching a value of $3 trillion. We expect blue issuance will continue to rise as more data and policies that promote the sustainable blue economy become available.

Table 1

Global GSSSB issuance by type

(Bil. US$)	Green bond	Social bond	Sustainability bond	Sustainability-linked bond	Transition bond	Total
2019	265	19	53	4	1	342
2020	308	170	137	9	3	627
2021	570	221	200	97	4	1,092
2022	523	175	151	77	4	930
2023	575	181	159	66	3	984

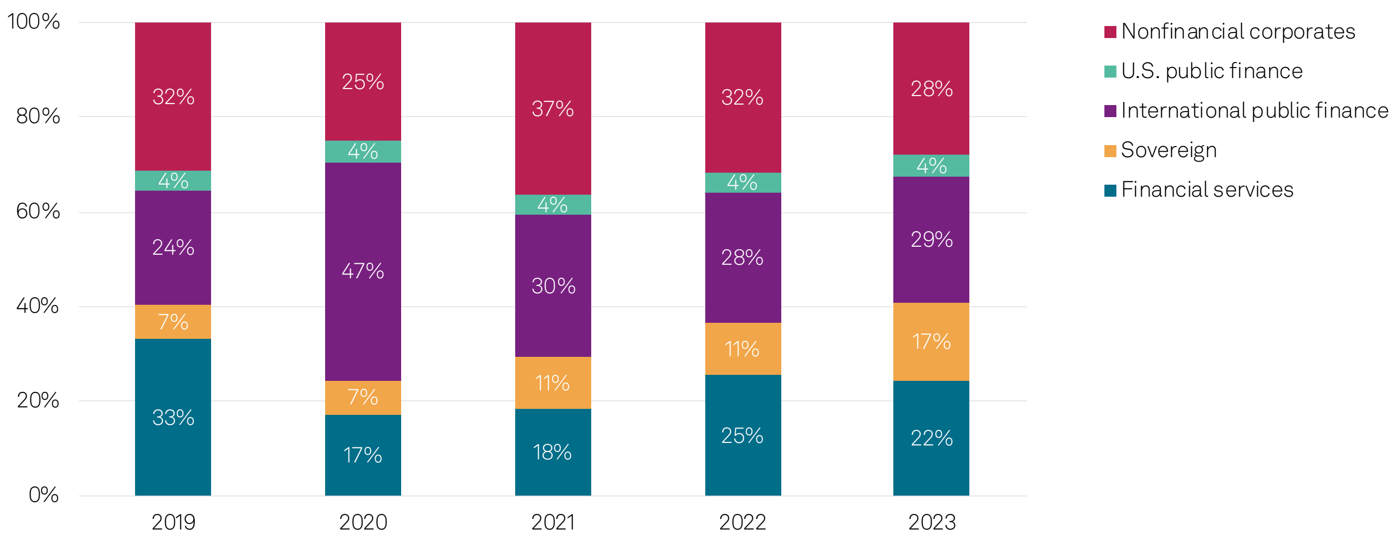
Excludes structured finance data. GSSSB--Green, social, sustainability, and sustainability-linked bonds.
Sources: Environmental Finance Bond Database. S&P Global Ratings.

Key Drivers By Issuer Type

We anticipate only moderate growth in 2024 across issuer types, in line with our overall bond market forecasts. Financial services issuers were the only segment to increase GSSSB volumes every year since 2020. We expect moderate growth among financial services issuers in 2024. More than 80% of the world's largest financial institutions have set net-zero targets. Sovereign issuance grew more than 50% year on year (see chart 5), and countries such as Japan, Germany, and France have committed to issuing significant volumes of GSSSBs in 2024. This could lead sovereigns to set records once again. International public finance includes supranational and sovereign-related enterprises, such as the International Bank for Reconstruction and Development (IBRD), the EU, and the French Caisse d'Amortissement de la Dette Sociale (CADES).

Chart 5

Sovereigns issued a larger share of GSSSBs in 2023



GSSSB--Green, social, sustainability, and sustainability-linked bonds. Sources: Environmental Finance Bond Database. S&P Global Ratings.

Nonfinancial corporates

Despite challenging issuance conditions for nonfinancial corporates over the past two years, we expect corporate issuance to rebound in 2024. This should happen as the supply of U.S. dollars returns to growth. Nonfinancial corporate GSSSB issuance declined 6% in 2023 to a total of $277 billion--the only issuer type for which issuance volumes decreased. Conventional bond issuance also fell year on year for corporates, suggesting that the trend is not unique to GSSSBs. Green bonds made up the majority of issuance. Corporates, meanwhile, still dominate the sustainability-linked portion of the market. They issued 83% of all SLBs in 2023. If interest rates continue to rise or remain high, some corporates may delay their efforts to issue new GSSSBs, potentially hampering issuance growth for the segment. Conversely, falling interest rates in key regions such as the EU in the later part of the year may bolster corporate issuance.

U.S. public finance

We expect the small increase in U.S. municipal GSSSB issuance to outpace the conventional municipal market in 2024. Nevertheless, policy and political influence is likely to temper issuance levels in some jurisdictions and may keep growth muted. An issuer's use of GSSSB labels may depend on economic considerations and whether the disclosure and administrative burden that can accompany labeling brings a pricing advantage. The U.S. municipal sector remains inherently well-suited to GSSSB issuance given the alignment between the purpose and activities of municipal government entities and green and social principles. As a result, we saw a modest issuance rebound in 2023 of $42.3 billion, a 3.5% increase over 2022. Social bond issuance declined in 2023 primarily because of fewer transactions by U.S. public finance entities to fund education and economic advancement programs related to COVID-19 response efforts; however, this decrease was offset by the recovery in green and sustainability bonds. Green bonds issued for transportation projects drove total GSSSB issuance upward slightly, though growth in GSSSBs as a percentage of total municipal bond volume slowed.

International public finance

We expect GSSSB issuance in the international public finance space in 2024 to remain broadly in line with muted borrowing overall. Higher interest rates and slower growth, coupled with record levels of public debt, are likely to keep new issuance in check. We expect borrowing to remain below 2021 levels, with labeled issuance continuing the slow pace of growth recorded in 2023. We forecast an overall increase led by multilaterals and sovereign agencies, the largest issuers in the sector. As a share of total borrowing, GSSSB issuance will continue to grow, in our view. This is because the purpose of public and multilateral lending institutions (MLI) sector debt often aligns with social and environmental objectives. This could translate into an increase in overall labeled borrowing even if concerns about record levels of debt and mounting deficits keep a lid on overall government-sector borrowing this year. Subnational entities, which expanded their labeled borrowing by $6 billion (24%) last year, will likely increase their sustainable borrowing modestly as new issuers enter the market, and as public prioritization of sustainable growth and climate resilience grows. Access to essential services, affordable housing, and clean transportation will remain key priorities for public and MLI-sector issuers.

Sovereigns

After a record year in 2023, we expect sovereign issuance to climb further in 2024, supported by national commitments to sustainability and third-party support schemes. The largest sovereign issuers in 2023 were the U.K. ($23 billion), Germany ($19 billion), and Italy ($15 billion). Seven individual sovereigns topped $10 billion in issuance and cemented their well-established presence in green markets. The United Arab Emirates (UAE) and Saudi Arabia will likely maintain momentum and increase the region's GSSSB market representation. Meanwhile, Hong Kong may bolster Asia-Pacific issuance through its Sustainable Finance Grant Scheme. In addition, India may build on its inaugural green bond of 2023 and the Japanese government's planned inaugural transition bond will further support Asia-Pacific growth. Last year, the World Bank loaned $350 million to Uruguay, offering a reduction in interest payments in return for meeting NDC targets by reducing the intensity of methane gas emissions from livestock production. Other sovereigns are likely to seek similar loans that alleviate interest costs in return for achieving verifiable climate targets, especially as official lenders offer more concessional funding to create incentives for borrowers to seek such loans. Total sovereign issuance rose 52% in 2023, reaching $160 billion, compared with $105 billion in 2022. The number of sovereign issuers increased to 35 from 24, indicating growing popularity of such instruments. That said, national elections in more than 50 countries have the potential to change political support for labeled issuance in 2024.

Financial services

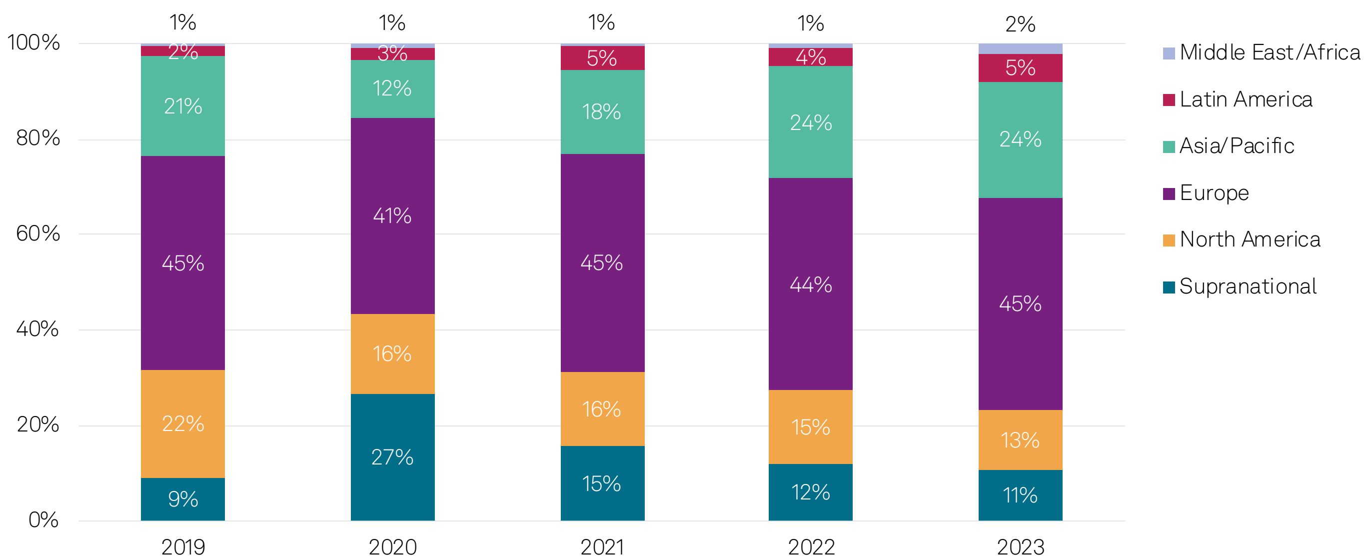
External conditions are a constraining factor for higher GSSSB issuance in the financial services sector. We anticipate that financial services' GSSSB issuance will continue at a limited pace in 2024. Banks, insurers, and other financial institutions continue to increase transparency around their sustainability strategies. In addition, global banks are working toward implementing net-zero and Paris-aligned targets. On the other hand, the expected challenging economic environment and still-difficult financing conditions could act as a constraining factor for a faster increase in GSSSB issuance. We expect green bonds to continue to be the leading category of GSSSB issued by financial services entities. In addition, the use-of-proceeds bonds will remain the most prevalent form. Progress in regulations related to environmental, social, and governance matters; the establishment of new green and sustainability taxonomies; and the increasing number of domestic GSSSB frameworks should allow banks to identify sustainable assets in their portfolios that can be financed using such bonds. GSSSB issuance in the financial services sector remained flat in 2023 at $241 billion. This stability can largely be attributed to the high-interest-rate environment and challenging funding conditions. Green bonds continued to make up the highest proportion of GSSSB for financial services issuers, at about 68%, followed by social bonds at 21%.

Key Drivers By Region

We expect that Europe will maintain the leading share of GSSSB issuance across regions (see chart 6). However, emerging market countries could rise in prominence in 2024. Asia-Pacific is the only region where issuance totals have increased consistently since 2019. This growth will likely continue in 2024, supported by issuance from financial services and public finance issuers in the region. Emerging markets countries in Latin America and the Middle East may also increase their issuance volumes, although this will likely depend on wider macroeconomic conditions.

Chart 6

Asia-Pacific has doubled its share of GSSSB issuance since 2020



GSSSB--Green, social, sustainability, and sustainability-linked bonds. Sources: Environmental Finance Bond Database. S&P Global Ratings.

Asia-Pacific

The need to decarbonize regional economies will drive supply and demand for green financing. Beyond investments in clean energy and efficiencies, there could be a healthy supply of transition bonds from Japan, and affordable housing could continue to fuel social issuance. Persisting economic uncertainties could weigh on GSSSB volumes. For instance, volumes in China fell for the second year in a row to $54 billion (from $72 billion in 2022), as the country is facing economic slowdown and difficulties in the property sector. Overall, issuance in Asia-Pacific increased by 7.6%, reaching $235 billion in 2023. The expansion reflected contrasting trends among instrument classes, with social bonds growing much more rapidly than green bonds, and declining sustainability and sustainability-linked instruments. GSSSB issuance in Asia-Pacific could rise 10% in 2024, in our view, especially with public sector issuers continuing their inroads in labelled financing, after an active 2023 (up 55% year on year). North Asia (China, Japan, South Korea) will likely still account for about three quarters of regional issuance. The high proportion of local currency instruments in the region's largest markets (about 70%) should provide a good base for recurring and growing issuance, especially for social bonds.

Europe

We expect growth in 2024 to broadly track that of the overall bond market in Europe. Nonetheless, any pickup in social, sustainability, or sustainability-linked performance could add to growth, given the small base of 30% of European issuance for 2023, the lowest level since 2019. An area of interest in 2024 will be whether SLBs can regain trust from investors. Market participants have criticized a perceived lack of ambition for SLBs, notably on decarbonization targets, a lack of clarity on strategies to achieve those targets, and structural loopholes in the bond documentation. We also expect rising focus on impact reporting as one indication of GSSSB's effectiveness to tackle sustainability challenges. European issuance volumes climbed by 7% in 2023 in dollar terms, despite the stronger euro. Green issuance still leads the way, particularly from sovereign issuers, primarily supporting transportation, energy efficiency, and renewable energy projects. This more than offset 13% and 19% declines in social and sustainability-linked issuance, respectively. In the second half of 2023, issuance volumes declined 22% year on year in dollar terms, partly reflecting declines in both social and SLB issuance and a 6% dollar fall against the euro. Europe still punches above its weight, accounting for at about 45% of the global GSSSB issuance volumes, including 54% of global green bonds.

Middle East

We expect entities in the UAE and Saudi Arabia to remain the largest sources of issuance in the region. We expect governments and large corporates (including government-related entities) in particular to help meet sustainability targets and net-zero commitments. Growth in sustainable sukuk continues, and we expect to see higher volumes as issuers meet investor demands and core Islamic finance countries seek to reduce their carbon footprints. Given the large exposure of regional economies to the hydrocarbon sector and to water scarcity, we expect green issuance to remain prevalent. Renewables and hydrogen projects dominate use of proceeds for climate mitigation objectives, and we expect financing adaptation to water stress and heat waves will continue to drive issuance. However, we believe much will depend on the pace of decarbonization strategies. The recently concluded COP28 in the UAE brought into sharper focus the role Islamic finance and sukuk can play in addressing the challenges of climate transition. Overall, GSSSB issuance in the Middle East has more than doubled from 2022, reaching a record $23 billion in 2023, albeit from a low base (Middle East GSSSB issuance contributes less than 3% of global issuance).

Latin America

We expect Latin American GSSSB issuance will continue rising relative to the region's total bond issuance. It is likely to be supported by global and regional efforts to accelerate the energy transition and achieve the U.N.'s sustainable development goals (SDGs). Nevertheless, if narrowed access to global capital markets persists, momentum may be limited. In 2023, 52% of Latin American GSSSB was issued in local currencies, driving strong performance of the sector in 2023. We expect sovereigns will continue to lead the way, thanks to countries such as Brazil newly accessing the GSSSB market. More SLBs are also slated to be introduced by governments, for example Barbados. In June, Chile became the first sovereign issuer to add a social target to an SLB. The region's GSSSB issuance increased 56% year on year in 2023, reaching $55 billion--breaking the previous record of $51 billion registered in 2021. Moreover, an increasing number of banks are making progress toward structuring both use-of-proceeds and sustainability-linked financing. Corporates, meanwhile, may benefit from the monetary easing cycle. On the other hand, Mexican presidential elections may hinder issuance growth for 2024 in the country. This would limit the region's overall performance, given that Mexico issues a high proportion of Latin America's GSSSB.

North America

Challenges remain for the North American market. In 2024, we expect some of the same challenges that faced the region in 2023 will continue. The political headwinds that have dogged GSSSB issuance in the U.S. seem unlikely to abate in an election year. While imminent recession fears have subsided and macroeconomic conditions remain steady, the higher interest rate environment persists. Without an improvement in the interest rate environment, U.S. issuers may be disincentivized from issuing GSSSBs, in the short term. Still, there are a few potential sources of growth. U.S. municipalities have, in recent years, become prolific issuers of green and sustainability bonds, which we believe will continue. We also expect funding from the Inflation Reduction Act to stimulate development of decarbonization technologies. Additionally, we expect more attention to be paid by investors to decarbonizing hard-to-abate sectors. However, it's not clear which instruments are most likely to fund these projects nor how swiftly progress will be made. Canadian issuance has historically made up a small portion of North American totals (about 10%). Although the country updated its sovereign green bond framework in November 2023, there has been no indication that the Canadian government will return to the green bond market in 2024. Total GSSSB issuance declined in 2023 in both the U.S. and Canada for the second consecutive year to around $123 billion. We attribute this partly to a continued high interest rate environment and lingering concerns about using SLBs to decarbonize carbon-intensive sectors.

Supranationals

We expect issuance to increase at a moderate pace due the difficulty in identifying shovel-ready projects at scale, including in developed markets. In addition, attracting private sector capital under blended finance models to support low- and middle-income countries will be challenging, in our view. We see supranationals committed to the GSSSB asset classes that fit their mandates well. In 2023, the OPEC Fund for International Development issued an inaugural sustainability bond. This was its first GSSSB under its SDG bond framework. Issuance from supranationals dropped 5% in 2023. This primarily stemmed from lower green bond totals from the EU. Meanwhile, issuers from the World Bank group stepped up market access to finance sustainability projects, primarily under the IBRD's Sustainable Development Bonds. Significant financing needs remain to achieve SDGs globally, including decarbonization, adaptation, and poverty reduction. Therefore, there is still significant potential across all GSSSB types from supranationals. For example, since its inaugural €12 billion issue in October 2021, the EU has only issued €49 billion, leaving much more to come under its €250 billion target. The European Investment Bank narrowly reclaimed the top green issuance spot ahead of the EU in 2023 and remains a consistent green bond issuer.

Looking Ahead

We anticipate that 2024's growth will be only moderate compared with 2023, and that we will not yet see GSSSB issuance reach the peaks of 2021. Since we expect penetration of GSSSBs in overall bond issuance to consolidate further and potentially inch higher, we think overall financing conditions will be the main driver of variability around our $1 trillion issuance forecast for 2024. We expect increased participation from issuers in diverse sectors and across a wide range of global income levels. Transition bonds are poised to have their largest ever year, though the relatively nascent nature of these bonds may lead to some doubts among market participants. Similarly, questions will continue about the efficacy and ambition of SLBs. As GSSSB markets continue to mature, 2024 may be a year of broadening regional reach and instrument types as opposed to strong overall growth.

Related Research

- Global Financing Conditions: Cautious Optimism After Peak Rates, Jan. 25, 2024
- Global Sustainable Bonds 2023 Issuance To Exceed $900 Billion, Sept. 5, 2023

External Research

- The Ocean Economy in 2030, OECD. April 17, 2016

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