Sustainability Insights | Research

Asia-Pacific Sustainable Bonds To Step Up Growth In 2024

Feb. 21, 2024

Asia-Pacific sustainable bond issuance could rise by about 10% in 2024, fueled by ongoing efforts to reduce carbon intensity and address regional social issues.

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

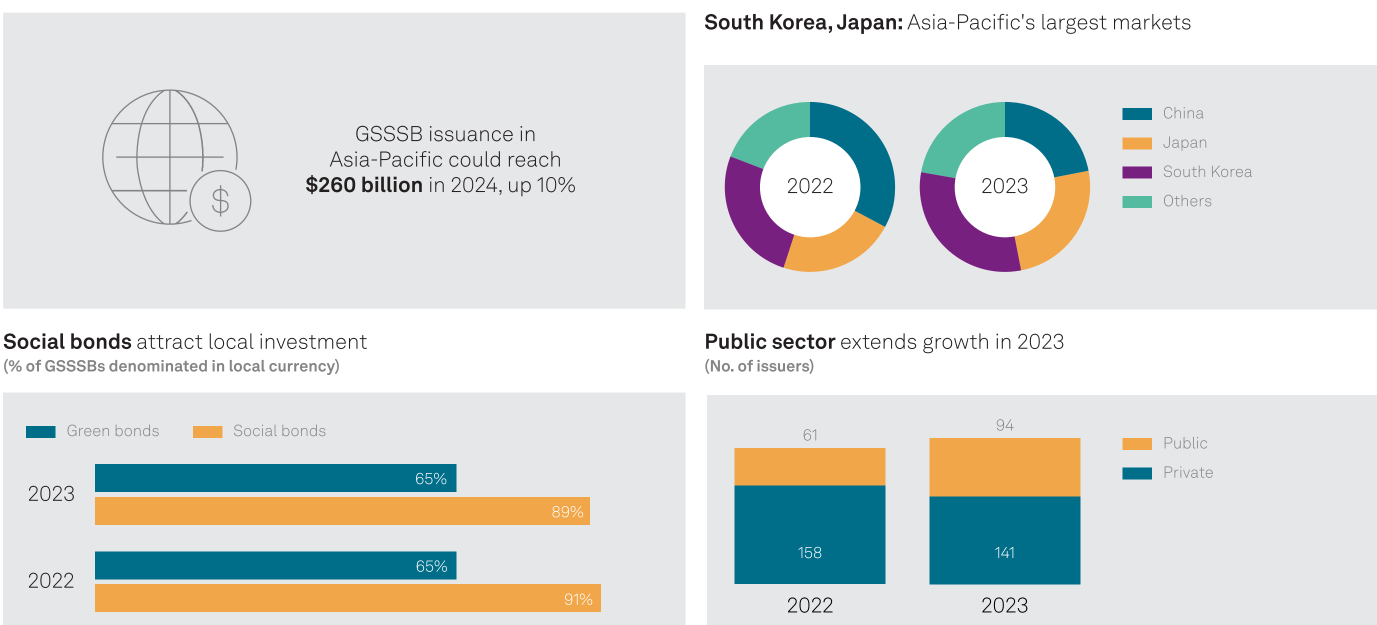
S&P Global Ratings published "Sustainable Bond Issuance To Approach $1 Trillion in 2024" on Feb. 13, 2024. The report forecasts that global bond raising via green, social, sustainable, and sustainability-linked bonds (GSSSBs) will rise modestly this year, reaching $0.95 trillion to $1.05 trillion. In the following research, we provide our forecasts for the Asia-Pacific (APAC) GSSSB market for 2024.

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. 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 analysts.

Key Findings

- GSSSB issuance in APAC could rise by about 10% in 2024, reaching $260 billion, given the persistent shortfall in funding for environmental and social projects.
- South Korea, Japan, and China will remain the largest GSSSB markets, together accounting for more than 75% of regional issuance.
- Local currency bonds constitute about 70% of GSSSB issuance in APAC, and will continue to dominate, particularly in the social bond category.
- Public sector entities across the region will remain active in issuing GSSSBs, following growth of 55% in 2023.

Modest GSSSB issuance growth pending China's recovery



Donut charts show share of South Korea, Japan, China, and other countries in APAC issuance. GSSSB--Green, social, sustainability, and sustainability-linked bond. Sources: Environmental Finance Bond Database. S&P Global Ratings.

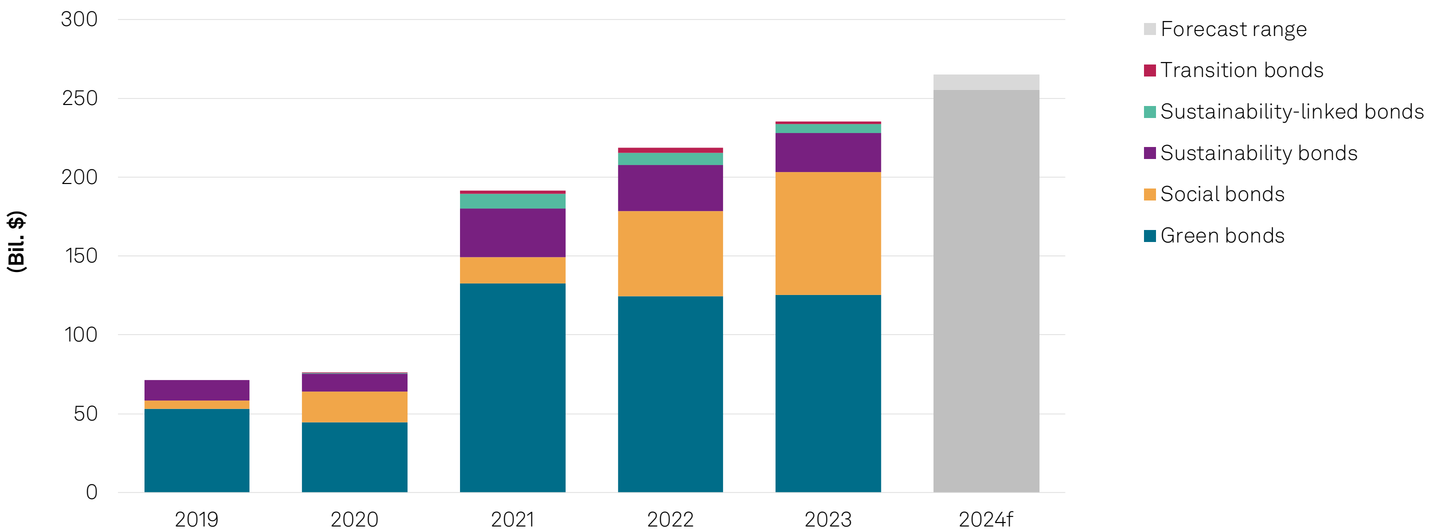
APAC To Maintain Growth Path

APAC has seen unabated investor interest in green bonds, especially in those funding renewable energy projects. In addition, public sector entities continue their efforts to address wider sustainability issues. China's property sector difficulties could weigh on market growth in that country, while South Korea and Japan are likely to remain the leading regional markets in 2024.

GSSSB issuance in APAC maintained positive momentum in 2023--albeit at a slower pace than in 2021 and 2022--increasing 7.6% to $235 billion (see chart 1). This was mainly due to rising social bond issuance in South Korea and a steady increase in Japanese issuance of all labels. Despite flat volume growth from the previous year, green bonds accounted for 53% of issuance in 2023. Social bonds followed, with 33%; sustainability bonds with 10%; and sustainability-linked bonds with 2%. Transition bond issuance diminished to less than 1% and was limited to Japan.

Chart 1

APAC's GSSSB volume growth slowed in 2023



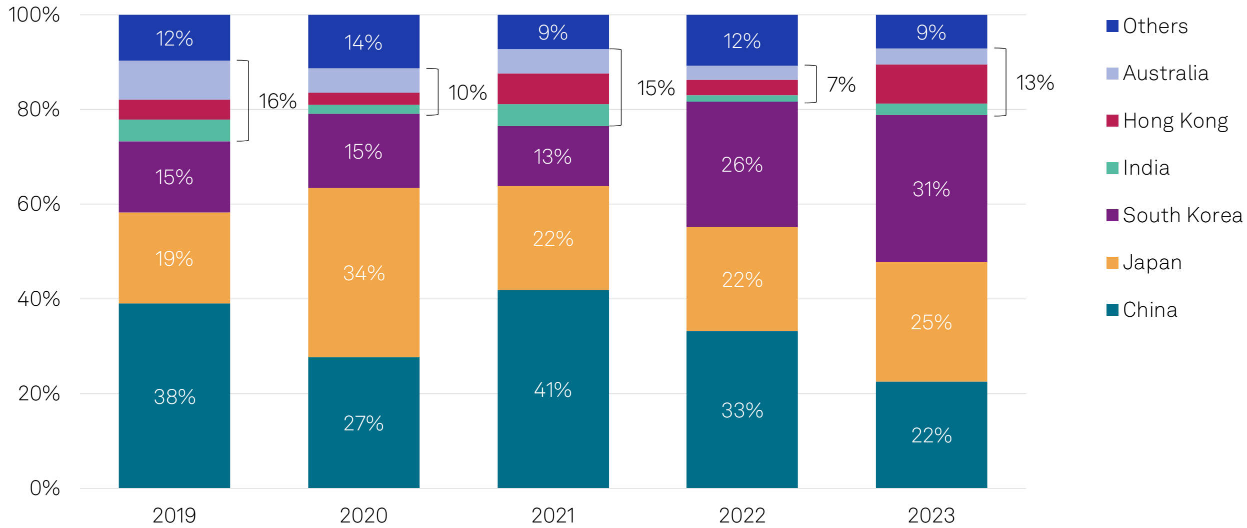
f--S&P Global Ratings forecast. GSSSB--Green, social, sustainability, and sustainability-linked bond. Sources: Environmental Finance Bond Database. S&P Global Ratings.

North Asian GSSSB Markets Remain Region's Largest

South Korea, Japan, and China are likely to remain the largest markets for GSSSBs in APAC. These countries have sizable and liquid local currency conventional bond markets, accounting for 1.0x-2.5x their nominal GDP, according to the Asian Development Bank database. They also benefit from repeat issuers and established investor bases for labelled bonds. ("Labelled bond" is the term used for GSSSB in the Environmental Finance Bond Database; this report uses the terms interchangeably.) These three countries have consistently accounted for 70%-80% of GSSSB issuance in the region for the last five years (see chart 2). There has been a diverging pattern of issuance over the last two years, with robust growth in Japan and South Korea and declining volumes in China.

Chart 2

China, South Korea, and Japan lead GSSSB issuance in APAC



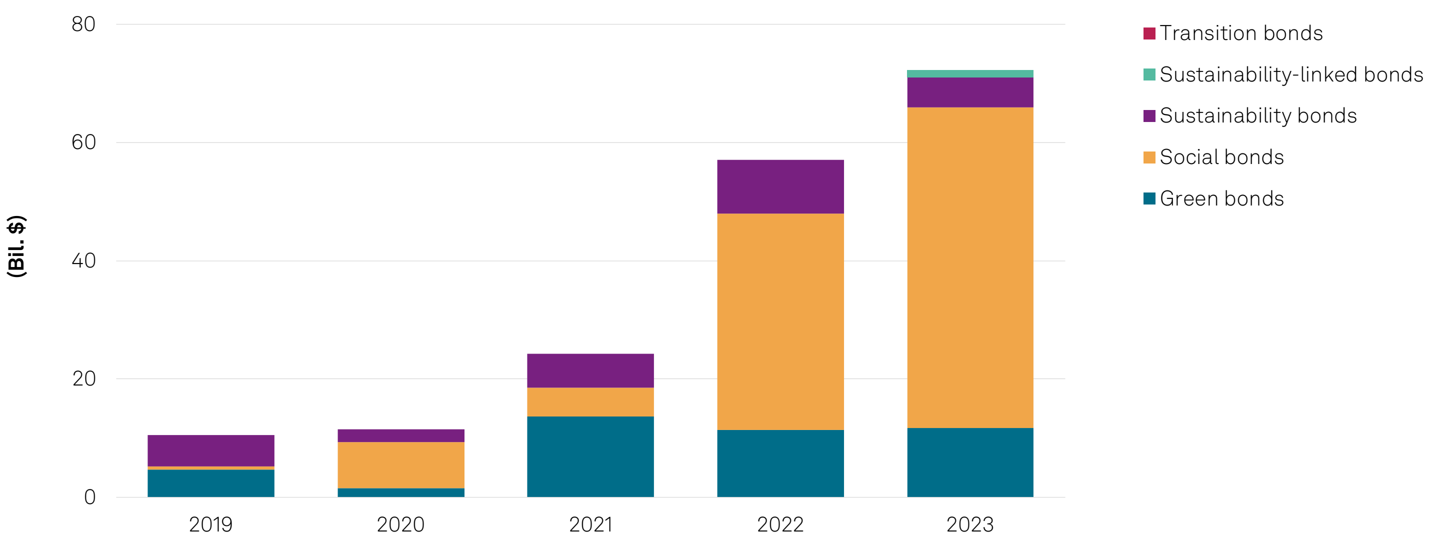
GSSSB--Green, social, sustainability, and sustainability-linked bond. Sources: Environmental Finance Bond Database. S&P Global Ratings.

South Korea: Social bond pipeline to remain robust

South Korea's social housing-led bond issuance has given it a leading position in regional GSSSB issuance for the last two years. The expiry of the government's subsidized home loan program in January 2024 means social bond issuance may slow in 2024. However, we believe the asset class will prove resilient. In 2023, GSSSB issuance in South Korea reached $72 billion, a 26% increase from the previous year (see chart 3).

Chart 3

Social bonds fueled South Korea GSSSB issuance in 2022 and 2023



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

Social bonds represented about three-quarters of labelled volumes last year. Korea Housing Finance Corp. (KHFC), a state-owned enterprise, accounted for more than half of social bond issuance. KHFC is a key enabler of the government's policy of making home loans more accessible to low- and middle-income households.

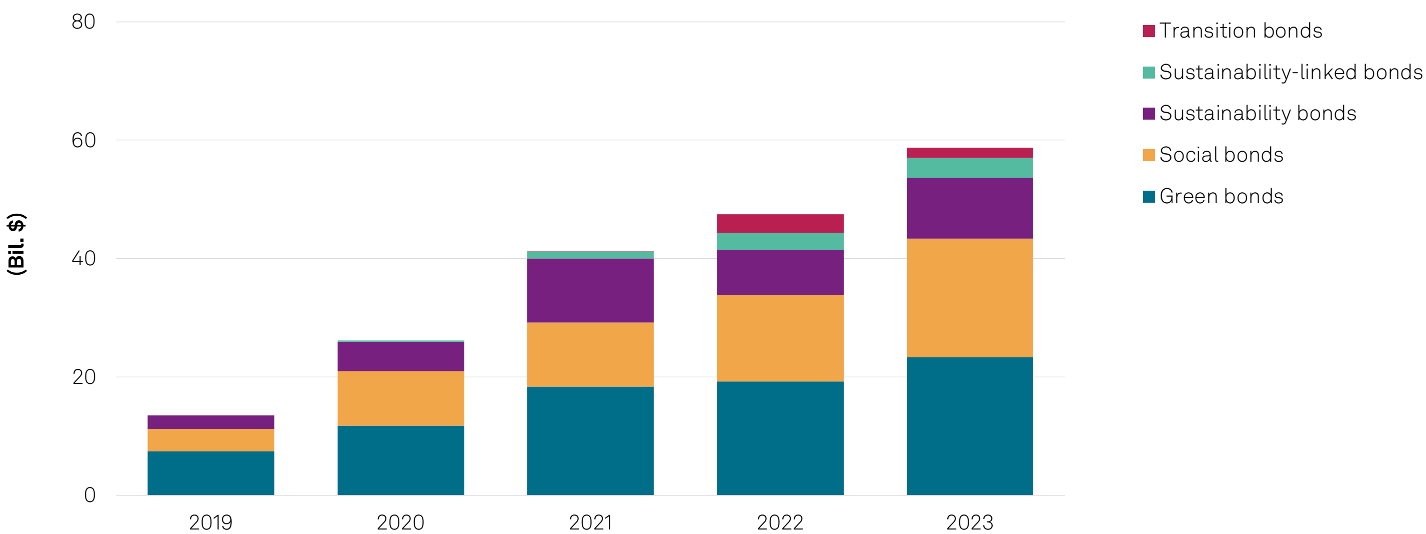
KHFC will continue to propel social bond issuance in the coming years. It could maintain its issuance at about $30 billion in 2024. Korea Land and Housing Corp, another important player in social housing, issued green and social bonds worth $1.1 billion in 2023. It may tap the market again in 2024 (see "Second Party Opinion: Korea Land & Housing Corp.'s Social, Green, And Sustainability Bond Framework," published Sept. 19, 2023).

Japan: Increasing issuance amid well-diversified labels

The government's transition bond debut, as well as the issuance of social bonds by government agencies, is likely to fuel the country's total issuance in 2024. GSSSB volume reached $59 billion in 2023, a 24% increase over the previous year (see chart 4). Green bonds accounted for 40% of total issuance and social bonds accounted for 34%.

Chart 4

Japan: Diversity of labels suggests widespread acceptance of the GSSSB asset class



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

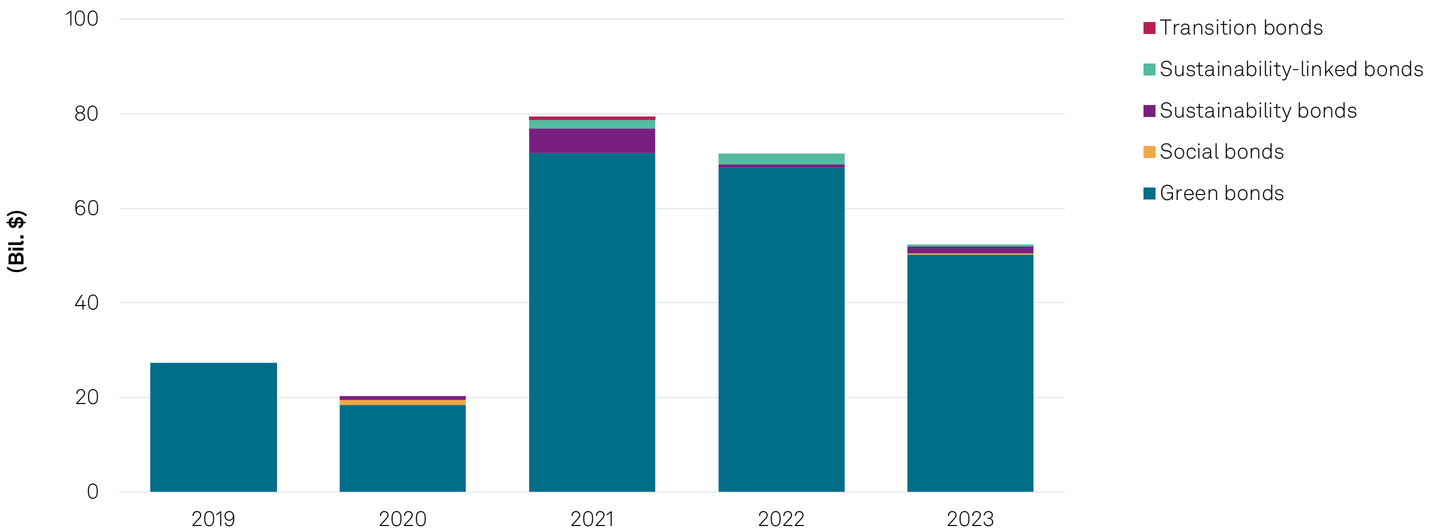
The government could issue up to ¥1.6 trillion (about $11 billion) in transition bonds in 2024, creating momentum for this asset class. The growth in social bonds (up 37% from the previous year) outpaced that of the country's overall GSSSB issuance. In 2023, Japan Expressway Holding and Debt Repayment Agency (JEHDRA), a government agency, issued $9 billion in such bonds. JEHDRA has announced that it will raise ¥173 billion (about $1.2 billion) in social bonds in the first quarter of 2024 and could be an active issuer throughout the year, contributing to the growth of this segment. The diversity of GSSSBs across labels, and relatively low domestic interest rates, will also likely support the market's momentum.

China: Modest rebound in sight

After two years of volume contraction (see chart 5), most notably a 27% drop to $52 billion in 2023, GSSSB issuance could pick up in 2024--if property market uncertainties recede. Economic confidence in China remains subdued (see "Economic Research: Economic Outlook Asia-Pacific Q1 2024: Emerging Markets Lead The Way", published Nov. 27, 2023). Meanwhile, the property market recovery could be slow (see "China Property Watch: A Slow, Sequential Recovery In 2024", published Oct. 16, 2023). Indeed, mainland Chinese companies have not been active in the offshore green bond market this year, beyond restructuring and refinancing. However, volumes could rebound in 2024.

Chart 5

China GSSSB issuance has shrunk since 2021



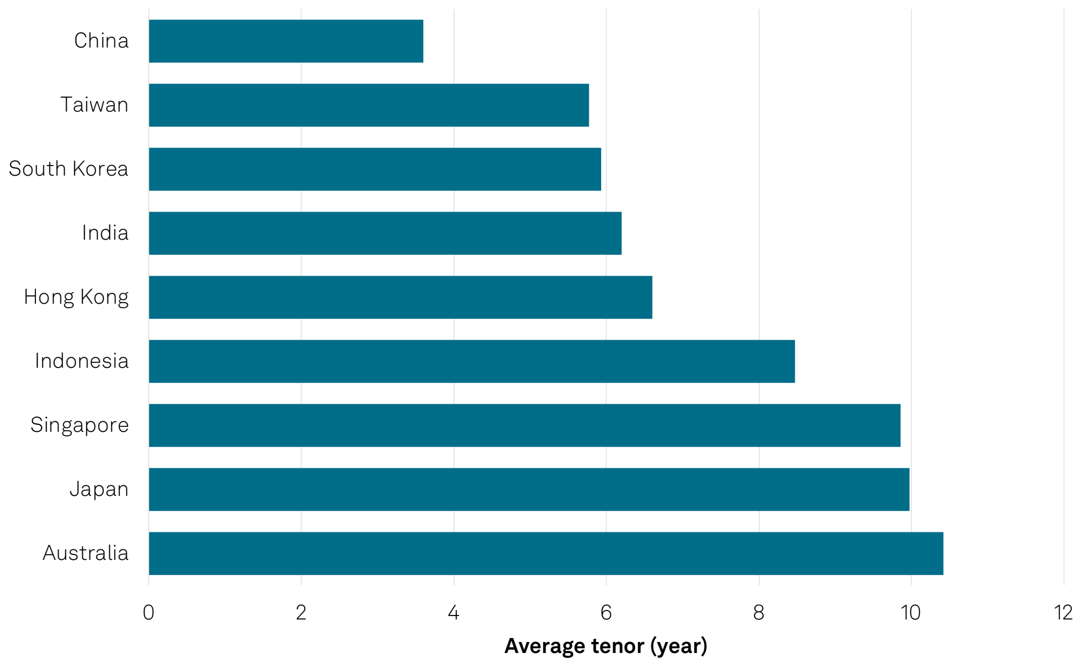
GSSSB--Green, social, sustainability, and sustainability-linked bond. Sources: Environmental Finance Bond Database.
S&P Global Ratings.

Despite short-term economic uncertainty, energy transition is still a key driver for China's GSSSB market. The country's energy base remains carbon intense, but the central government has set targets of 2030 for peak carbon emissions, and 2060 for carbon neutrality. Achieving these targets could imply active participation by the public sector, including state-owned enterprises.

Refinancing will likely continue to underpin recurring issuance volumes, since the average tenor of GSSSBs in China is 3.6 years (see chart 6), the shortest in the region. Furthermore, the 2021 Common Ground Taxonomy provides an in-depth comparison showing areas of commonality and differences between the EU and China's green taxonomies. This could help attract foreign capital to China.

Chart 6

China had the shortest average tenor of GSSSBs in the region between 2018 and 2023



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

Australia: Sovereign green debt to debut

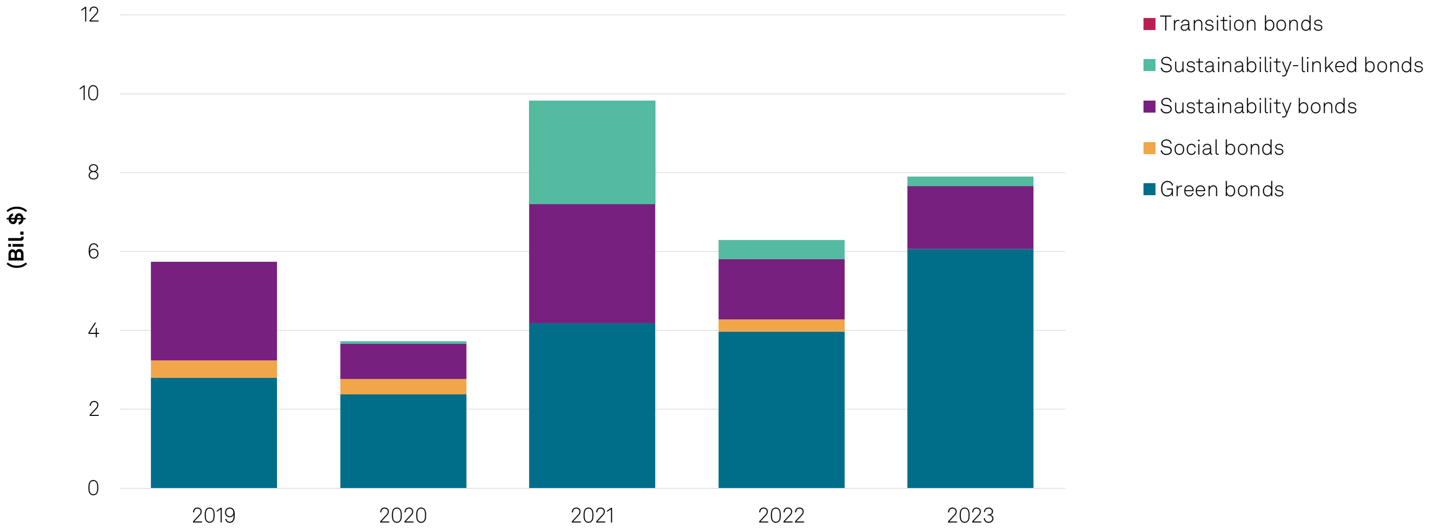
The Australian federal government's planned first green bond issue in mid-2024 could spur growth in GSSSB issuance, for which volumes have been low so far (see chart 7). The federal government has close to $600 billion in bonds outstanding, some of which may be refinanced with labelled instruments. State governments, which account for half of the GSSSB issuances in the country, are also likely to seek green funding for decarbonization projects.

The corporate regulator, the Australian Securities and Investments Commission (ASIC), made more than 30 interventions between July 2022 and March 2023. The interventions were made on the basis of what ASIC calls "greenwashing concerns" as part of its Report 763. They were mainly against fund managers for misleading information about the characteristics of financial products. Some of the specific interventions were on the use of vague terminology and an unreasonable basis for corporate sustainability targets.

In the short term, fear of regulatory action and investor skepticism could dampen issuance. Over the longer term, such regulatory surveillance may raise the standard of the GSSSB market, with a healthy issuance outcome.

Chart 7

Australia: Modest GSSSB issuance volumes, concentrated on green bonds



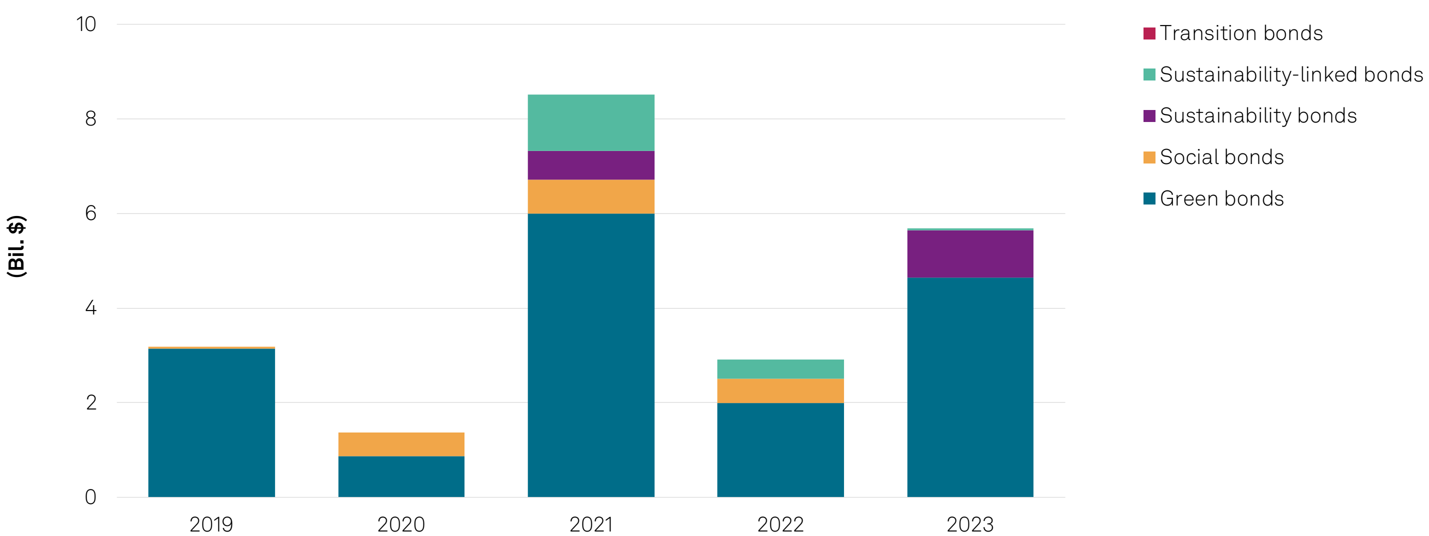
GSSSB--Green, social, sustainability, and sustainability-linked bond. Sources: Environmental Finance Bond Database. S&P Global Ratings.

India: Emissions reduction targets require large-scale financing

Despite relatively low volumes so far (see chart 8), the potential for GSSSB issuance in India remains significant. A 2022 study by the Climate Policy Initiative estimated that to achieve India's Nationally Determined Contributions commitment by 2030, the country requires funding of about $170 billion per year. India's Ministry of New and Renewable Energy announced in April 2023 that it aimed to add 500 gigawatts in capacity for renewable electricity generation by 2030.

Chart 8

India: Inconsistent GSSSB volumes, few labels



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

Based on its financing plans, we project that the government could issue an additional Indian rupee (INR) 100 billion ($1.2 billion) in green bonds in the first quarter of 2024. The government issued its first green bond in 2023, with four tranches totaling INR 260 billion ($3.1 billion). Sovereign green bonds should help in setting a benchmark for pricing for other issuers in the country, including in renewable energy. Mounting interest in social bonds could also create an avenue for growth in issuance (see "Second Party Opinion Shriram Finance Ltd.'s Social Finance Framework", published Dec. 28, 2023).

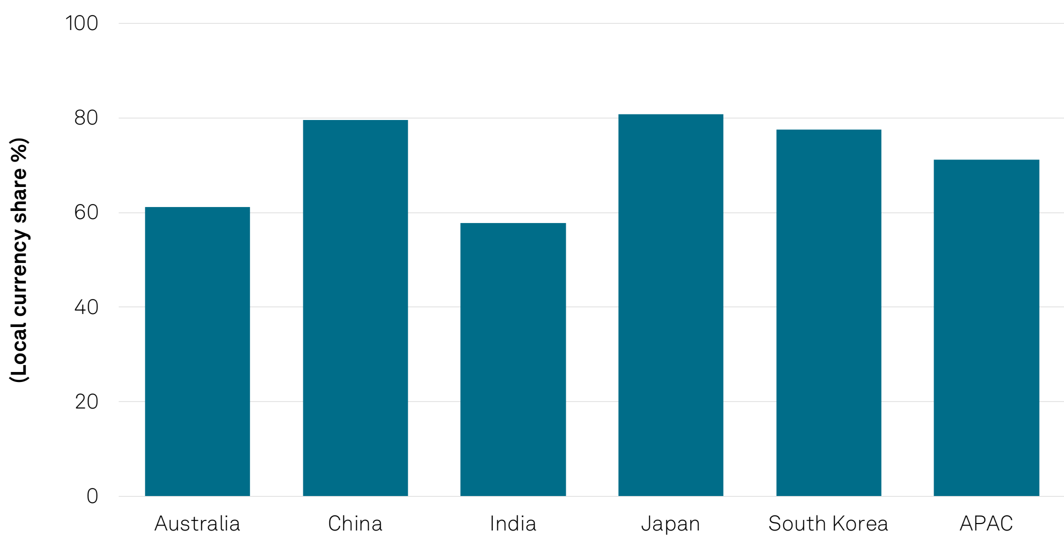
Contrasting Local And Foreign Currency Instruments

Local currency bonds accounted for 71% of regional GSSSB issuance in 2023. They will likely continue to form most of the volume in 2024. This is because foreign currency issuance remains comparatively expensive and volatile.

There is a positive correlation between the volumes of labelled issuance and the use of local currency bonds. Japan had the highest proportion of local currency-denominated GSSSBs, followed closely by China and South Korea (see chart 9). This could reflect sizable domestic bond markets and a broad local investor base in these countries. Relatively low policy rates may also play a part, by making the cost of bonds issued in the local currencies more attractive to domestic issuers. The policy rates in early 2024 were -0.1% in Japan, 3.5% in South Korea, and 2.4% in China. That compares with 5.25%-5.50% in the U.S. (see "Economic Research: Economic Outlook Asia-Pacific Q1 2024: Emerging Markets Lead The Way", published Nov. 26, 2023).

Chart 9

GSSSB issuance in 2023 was mainly denominated in local currencies in APAC



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

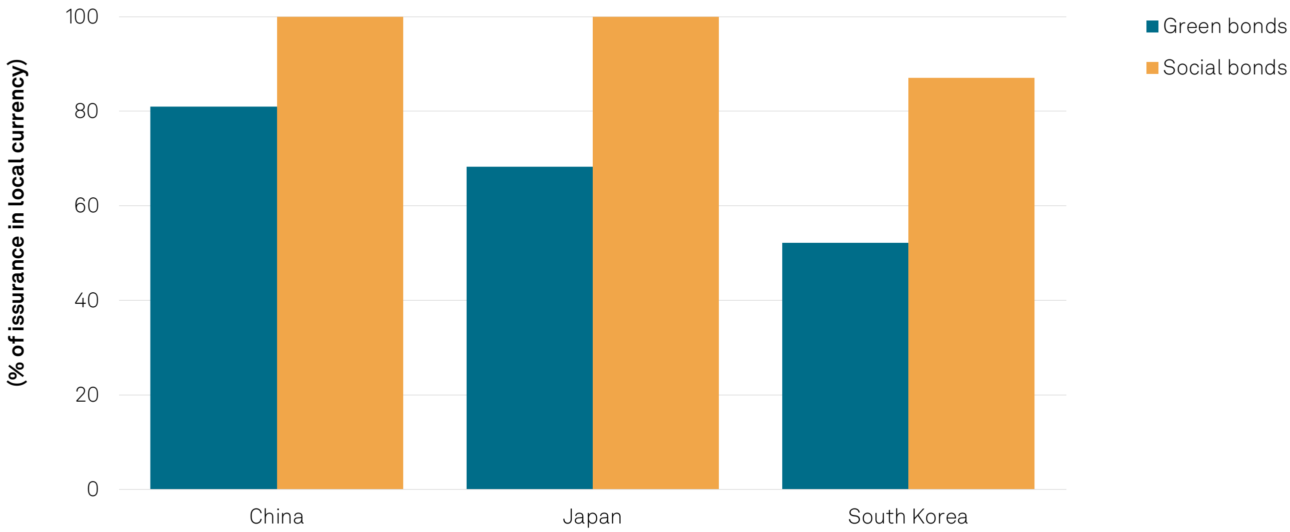
Foreign capital favors green bonds, social projects attract local funds

Green issuances have attracted a higher share of foreign currency capital in the region. The trend is likely to persist in the future, reflecting the global nature of environmental concerns including greenhouse gas emissions. In addition, taxonomies in some APAC countries provide useful guidance on assessing the impact of green projects. This is particularly relevant for emerging economies.

Conversely, social considerations, such as affordable housing or socioeconomic empowerment, are much more local in nature and require a deep understanding of a given issuer's sustainability context. This may be the reason why local currency (and, we would expect, local investors) dominates social issuance (see chart 10).

Chart 10

Local currency issuance: social bonds predominated in 2023



Sources: Environmental Finance Bond Database. S&P Global Ratings.

The Public Sector Will Remain A Key Player In 2024

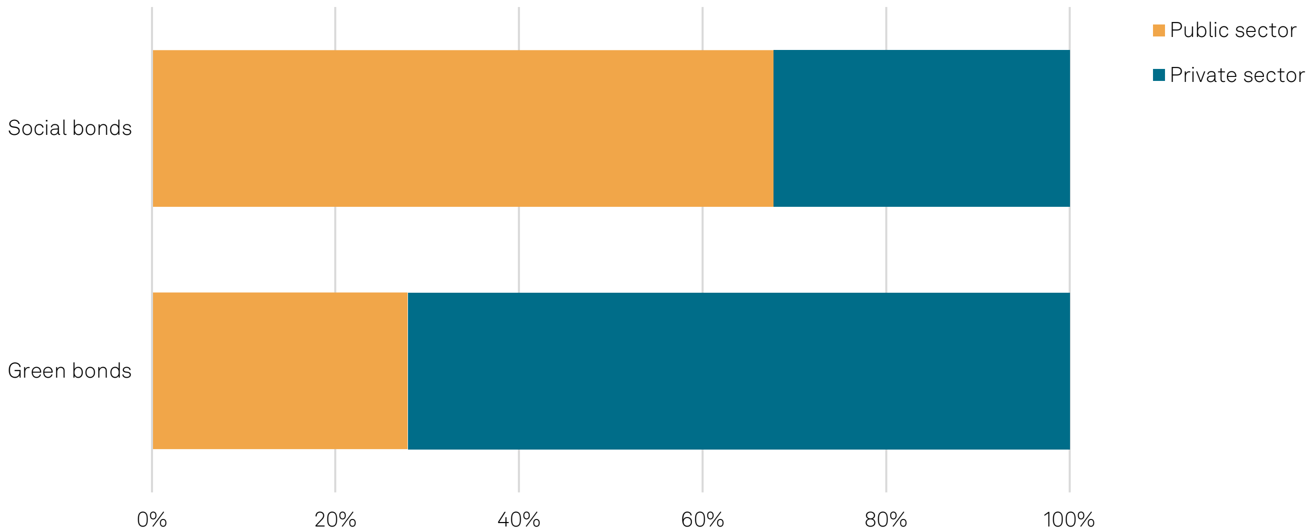
As well as its policy role, the public sector has become an essential participant in the sustainable bond market. Public sector issuance volumes have risen more strongly than those from the private sector in APAC in the past five years. There are fundamental reasons for this momentum to continue in 2024.

Strong issuance growth by the public sector could continue in APAC following a 55% jump from 2022 to 2023. Most governments in the region have high ownership of infrastructure assets (including real estate) and financial services, with a substantial need to fund decarbonization and connectivity.

Sovereigns, regional and local governments, and their agencies have been active issuers of social bonds. Such entities accounted for over 60% of social bond volumes, but less than that for green issuance (see chart 11). This is consistent with the public sector's typical mandate to prioritize positive social outcomes.

Chart 11

Public sector focus on social outcomes is reflected in 2023 issuance

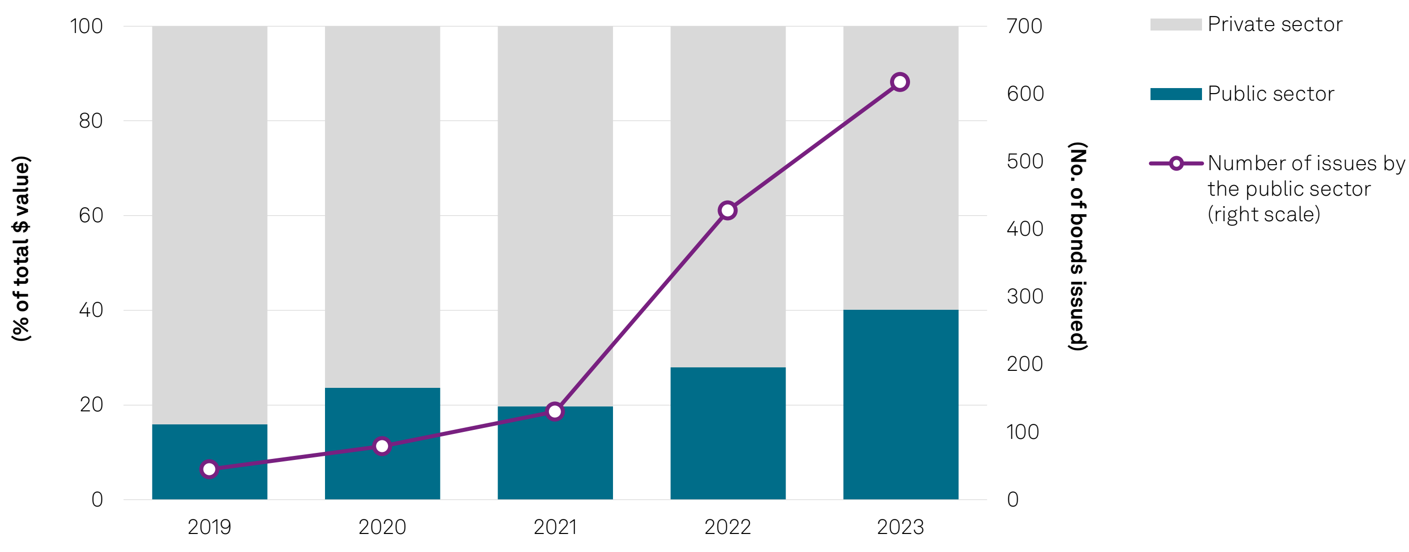


Note: Reclassified Environmental Finance data issuer classification: Public sector as sovereign, agency, and municipals; and Private sector as corporates and financials. Sources: Environmental Finance Bond Database. S&P Global Ratings.

The public sector's share of total issuance rose to 40% in 2023, from 16% in 2019. Likewise, the number of issuances by the public sector significantly increased to 617 in 2023 from 45 in 2019 (see chart 12). In comparison, globally, public sector issuers' share remained steady at around 35% in 2018-2022, although it increased to 39% in 2023.

Chart 12

Rapid growth of the public sector's share of GSSSB issuance since 2019



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

Japan alone intends to issue $11 billion in 2024, compared with $23 billion for all the sovereigns in APAC in 2023. India and Hong Kong are on a ramp-up trajectory, having already tested the market. Other sovereigns, including Australia, are also gearing up for their first green bond issues.

Market innovation

The instruments issued by governments are becoming increasingly sophisticated, contributing to pockets of growth for GSSSBs.

In one example, the government of Japan, which released its transition bond framework in November 2023, plans to debut an issuance of climate transition bonds in the first quarter of 2024. This is part of its 10-year master plan to issue ¥20 trillion ($137 billion) of sustainable bonds, with the proceeds used to fund tested green projects (e.g., renewable energy, energy storage), as well as more innovative investments (e.g., carbon capture usage and storage, hydrogen, and transformation of manufacturing).

Similarly, in 2023 the government of Hong Kong issued a HK$800 million ($100 million) tokenized green bond, with settlement through a private blockchain network.

Looking Ahead

The APAC region will remain divided in terms of issuance drivers and patterns. North Asia should account for three-quarters of labelled issuance.

In Korea, the government's social agenda will fuel issuance, while 2024 could be the year for substantial transition bonds out of Japan. China's policy goals to reduce greenhouse gas emissions, coupled with likely foreign investor appetite, should support a rebound of green bond issuance in that country.

Local currency issuance is likely to continue shouldering the bulk of financing, especially for social projects in the region.

Related Research

- Sustainable Bond Issuance to Approach $1 Trillion in 2024, Feb. 13, 2024
- Second Party Opinion Shriram Finance Ltd.'s Social Finance Framework, Dec. 28, 2023
- Economic Research: Economic Outlook Asia-Pacific Q1 2024: Emerging Markets Lead The Way, Nov. 27, 2023
- China Property Watch: A Slow, Sequential Recovery In 2024, Oct. 16, 2023
- Second Party Opinion: Korea Land & Housing Corp.'s Social, Green, And Sustainability Bond Framework, Sept. 19, 2023
- Carbon Pricing, In Various Forms, Is Likely To Spread In The Move To Net Zero, Aug. 9, 2022

External Research

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