

EM ESG Sovereign Bonds: A Maturing Asset Class

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Our Focal Point series explores topical issues on macro, markets and investment

- The EM ESG sovereign bond market is entering a more mature phase, with momentum fading as policy pushback and more demanding investor scrutiny reshape the landscape.
- Appetite from EM sovereign issuers is clearly softening. ESG bonds now account for less than 5% of primary issuance, with activity concentrated in a limited set of regular issuers, in a market still largely EUR-driven.
- Looking ahead, a significant rebound is not in the cards as only a few sovereign issuers have announced to join the ESG market. The investor base also remains a key constraint and there has been no policy change that would favour demand so far. The market will stay selective, EUR-centric, and dominated by IG issuers with established ESG frameworks.
- Green and sustainable bonds continue to underpin issuance and will represent the largest part of, while social bonds have moved to the margins and are issued more selectively.
- The greenium remains modest and range-bound, with persistent cross-country dispersion and greater stability in EUR than in USD. It will remain modest as the market matures and large IG issuers dominate the market.

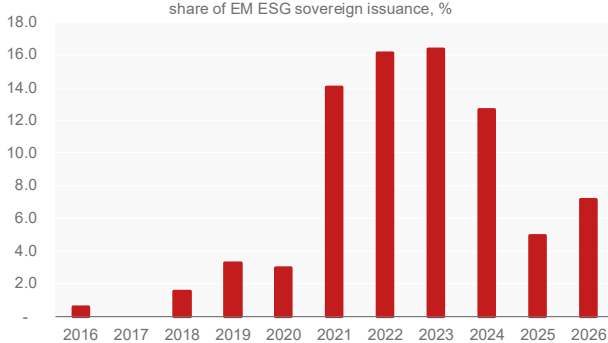
The EM ESG and labelled sovereign bond market has evolved rapidly since the Covid period, moving from a fast-growing niche to a more established—yet more constrained—asset class. While early enthusiasm centred on strong issuance momentum and a potential greenium, today's environment looks more nuanced. Issuance is moderating, investor demand is becoming more selective, and the pricing advantage of ESG labels remains limited. At the same time, structural differences across regions and issuers are becoming more apparent, shaping both supply dynamics and market outcomes. Against this backdrop, reassessing the drivers of issuance, investor appetite and the greenium is key to understanding where the market stands—and where it may go next.

EM ESG issuance is declining

Despite the dynamism of EM primary markets, ESG issuance has been declining, representing only 4.9% of the market in 2025, down from a peak of 16.3% in 2023. The share has recently edged up slightly, but this has been driven by large countries that typically issue early in the year rather than by a new structural uptrend.

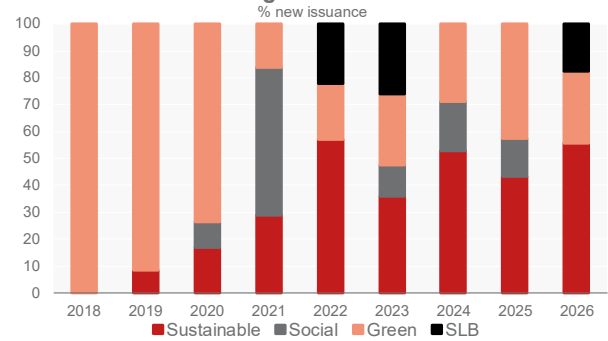
Indeed, the number of countries issuing in ESG format has barely increased, with only Saudi Arabia and Pakistan emerging as new issuers in 2025. The primary market remains dominated by a few countries, with Chile representing almost a third of total issuance, followed by Mexico, Indonesia, and Hungary. ESG adoption has been limited and remains concentrated among the largest IG countries. While HY countries can issue in ESG format, this remains rare, and so far, no HY country has implemented a large and recurring ESG issuance program.

Declining EM ESG share in new issuance



Source: Bloomberg, GenAM

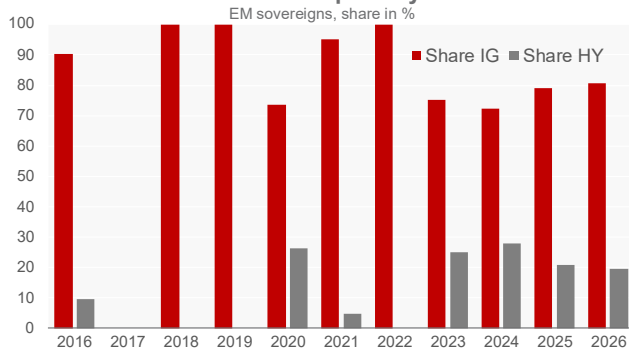
Sustainable and green bonds take the lead



Source: Bloomberg, GenAM

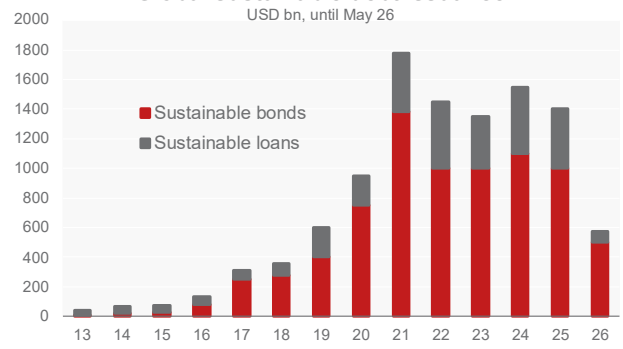
The market continues to be driven by European investors, who are more ESG-oriented than their US and Asian counterparts. The EUR-centric nature of ESG investors de facto limits the number of issuing countries. Indeed, in Europe, there is a relative lack of dedicated EM investors and the natural investor base for EM remains in the United States, where appetite for the ESG thematic is lower. Consequently, there is limited incentive for HY issuers, and even more so for weaker HY countries, to issue labelled bonds in EUR, as they would struggle to attract meaningful demand.

IG dominates the primary market



Source: Bloomberg, GenAM calculation

Global sustainable debt issuance



Source: Bloomberg, IIF, GenAM

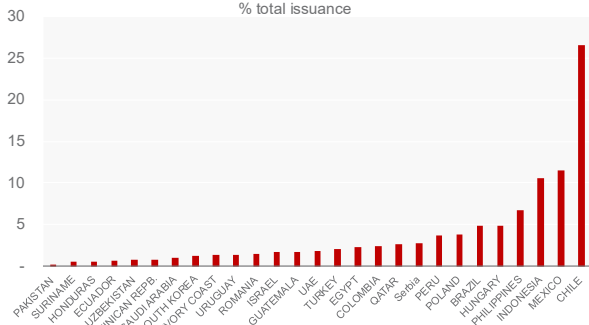
In terms of bond structure, sustainable and green bonds represent the largest share of the market. Social bonds have almost disappeared, while sustainability-linked bonds are

only issued by Chile and Uruguay. We expect the market to remain dominated by green and sustainable bonds.

Is this decline only concentrated in the EM space? In fact, it is not. The decline of the EM ESG primary market mirrors the decline observable at the global level. [According to a recent Institute of International Finance study](#), the global sustainable debt bond market, both for corporate and sovereign, is on track for a second consecutive annual decline in issuance, down nearly 10% from 2025 levels. Total ESG-labelled debt issuance accounted for only 3% of global debt issuance in 2025, not far from the EM market share level. Europe and sovereign issuance are still growing, providing some support while the U.S. sustainable debt issuance contracted by 45%.

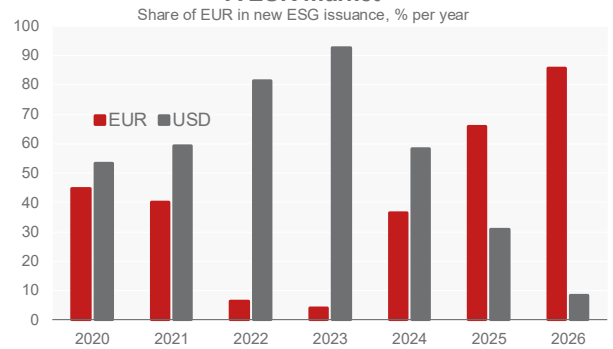
To this extent, we will expect the EM EUR market to relatively grow more than the EM USD market. Countries in Europe like Poland, Hungary or Romania will remain the main issuers in relative terms. Likewise, the largest countries like Mexico, Indonesia or Turkey will tend to issue more ESG bonds in the EUR space than in USD.

ESG issuance: few countries dominate
% total issuance



Source: Bloomberg, GenAM

A EUR market



Source: Bloomberg, GenAM

A more selective and differentiated market ahead

Looking ahead, the EM ESG sovereign bond market is likely to evolve within a more mature and constrained framework, broadly in line with global trends pointing to consolidation rather than renewed rapid expansion. Issuance should remain centred on a limited group of established issuers, with climate-related investment needs, refinancing activity and infrastructure spending providing some support, but without pointing to a strong cyclical rebound.

Demand dynamics are likely to remain uneven across regions, with Europe continuing to anchor the market given its deeper ESG investor base and relatively supportive regulatory framework. By contrast, the US policy backdrop is likely to remain a source of uncertainty for the asset class. The shift in focus towards energy security and domestic fossil-fuel expansion, together with a reduced emphasis on ESG frameworks, has already weighed on labelled issuance and investor appetite in the US market.

In practice, this may continue to limit the engagement of US-based investors with EM ESG sovereign bonds, particularly in USD markets, contributing to weaker and more volatile demand than in EUR. This dynamic also reinforces the structural asymmetry between EUR and USD markets, reducing the marginal buyer base in dollars and limiting the incentive for sovereign issuers to use ESG formats in that segment.

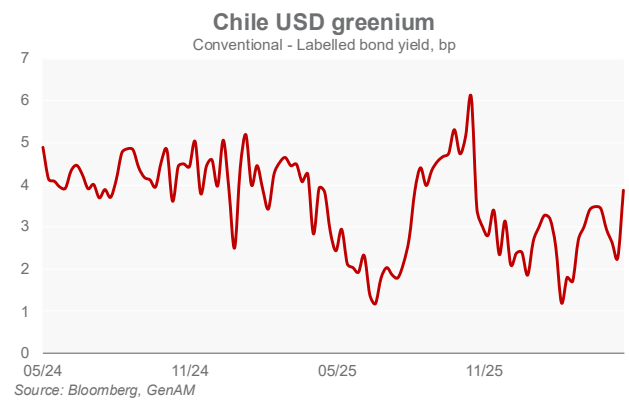
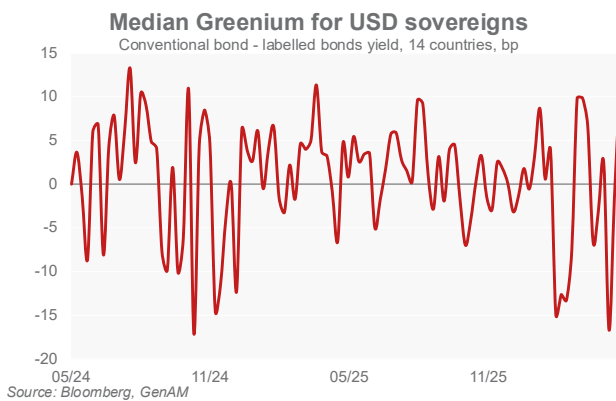
More broadly, policy and regulatory dynamics should remain an important driver of both supply and demand, reflecting differing regional priorities between energy transition,

industrial policy and macro stability. At the issuer level, the focus is likely to shift further towards credibility, transparency and the consistency of ESG frameworks, as investors place greater emphasis on implementation and reporting rather than on labelling alone..

Greenium moving sideways

The greenium for EM ESG bonds has been moving sideways with no clear direction, hovering between -5 and +5bp on average as the sovereign ESG market matures. Measuring the EM sovereign greenium with precision is difficult given the limited size of the market and the different nature of the EM issuers, which makes the comparisons between the countries inaccurate. Indeed, 28 EM countries have issued ESG bonds but only 6 countries have more than 5 active labelled bonds or actively issue. In addition, a few weak HY countries have issued opportunistically (e.g. Egypt) where idiosyncratic and technical factors can significantly affect the bond yield. Those EM countries have different ESG metrics. For instance, Chile which is the most active labelled bond issuer, is recognized to have relatively good overall ESG metrics and so it could attract ESG investor demand. On the other hand, some countries could be excluded as they exhibit low scores like Indonesia at the environment level. Thus, even if a bond has a particular label, it could fail to attract demand. That said, there is not a clear consensus on the most favoured ESG metrics, and an investor can favour the environment while another one would focus on the social aspect.

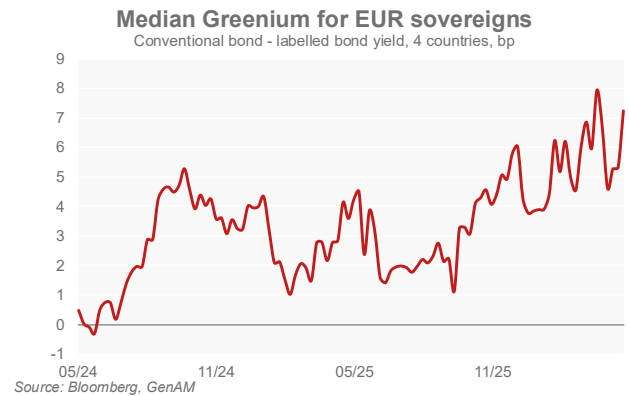
In our methodology, we retain only countries up to the BB bucket and for each labelled bond we measure the yield spread between a synthetic conventional bond and its ESG bond equivalent. To do so, for each country, we create a yield curve composed of the non-labelled bonds using a spline cubic approach and interpolate the curve to get the yield of a non-labelled bond that matches the characteristic of the ESG bond.



We run analysis both in the EM EUR and USD sovereign spaces. For USD bonds, the greenium has been trading sideways, hovering between c. -10bp and c. +10 bp over the past two years. There is no clear trend at the global level. Interestingly countries with a very large, labelled bond markets have not seen significant movements. For instance, Chile, which is the largest issuer across all EMs and DM countries in relative terms, has seen its greenium being stable, suggesting that the market is maturing. Likewise, Mexico with a large and liquid yield curve has a relatively stable greenium. We also note that IG countries tend to have a more stable greenium than HY countries where we suspect the labelled nature of a bond matters less than other technical factors.

For EUR bonds, the greenium has been slightly grinding higher over the past two years but volatility is much lower than in the USD space. It is related to the IG nature of the

issuer and the more advanced maturity of the European ESG markets. Indeed, ESG considerations have been more prevalent in the investment decision in Europe than in the US. The pushback on ESG in the United States over the past years, where most EM investors are based, has likely reduced the appetite for labelled bonds in the USD space. It can explain why the greenium is persistently positive in the EUR space. For instance, Mexico, which is both a large EUR and USD issuer, has a positive greenium in the EUR space and a negative one in the USD space.



Against this backdrop, the greenium is likely to remain limited and without a clear directional trend at the aggregate level. Empirical evidence suggests that pricing advantages linked to ESG labels are modest and sensitive to market conditions, with only episodic compression during periods of stronger climate focus or policy support. Differentiation across issuers, currencies and investor bases should remain a defining feature. Overall, the most plausible scenario is one of gradual and uneven development, with a stable but narrower market, increasingly shaped by regional policy divergence, investor selectivity and issuer credibility rather than by issuance momentum alone.

Conclusion

The EM ESG sovereign bond market has clearly transitioned into a more mature phase, with weaker issuance momentum and a more selective investor engagement. The greenium remains limited and range-bound, confirming that ESG labelling no longer provides a consistent funding advantage across issuers. At the same time, a clear divergence has emerged between EUR and USD markets, driven by differences in investor bases and ESG preferences. European investors continue to underpin demand, supporting a more stable and often positive greenium in EUR, while USD markets face weaker appetite and greater volatility. Issuance trends reinforce this divide, with volumes declining and remaining heavily concentrated among a small group of large IG sovereigns. In contrast, HY issuers continue to access the market only opportunistically, with limited evidence of sustained ESG strategies. The investor base thus remains a key constraint, limiting both the scale and the breadth of the market. Looking ahead, these dynamics suggest that any recovery in ESG issuance will remain gradual and uneven. Overall, the market is likely to stay selective, EUR-centric, and dominated by repeat issuers with established ESG frameworks

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