

FOCAL POINT

Importance of green bonds in the ESG government bond segment continues to grow

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 August 5, 2024

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

- EA ESG government bond issuance has been in line with expectations in 2024 so far and is currently slightly ahead of 2023 ytd, with sovereigns having issued more and SSA (supnationals, sub-sovereigns, and agencies) issuers less than last year. We forecast the SSA sector to catch up after the summer break.
- Most ESG bonds continue to exhibit a greenium, although it varies considerably from issuer to issuer. Generally, the greenium has fallen slightly since the beginning of the year.
- The EU continues to push ahead with the green bond issuance programme. We expect it to become the largest issuer of green bonds in the course of 2025.
- Developments in the European market are broadly in line with the global trend. The importance of green bonds is growing worldwide. The issuance volume in 2024 is likely to be in line with that of last year.

The market for ESG government bonds continued to expand during the first half of 2024. Green bonds, in particular, are gaining further ground over other bond types, both in the EA and globally. This paper will provide an overview of the latest developments and an outlook for future trends.

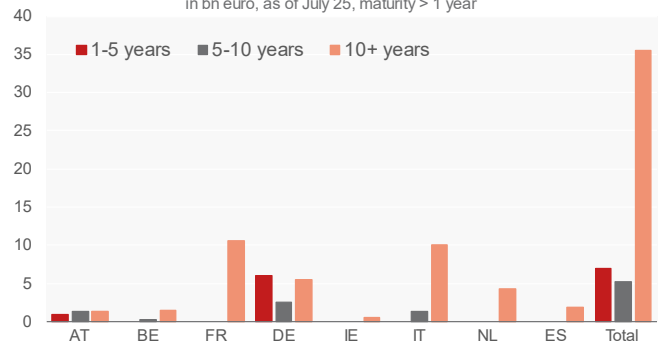
EA ESG government bond issuance on track

Following a strong start into 2024, EA sovereign issuers have maintained a high pace. The total volume of ESG sovereign bonds issued to date is € 48bn, comprising € 21bn in Q1 and € 22bn in Q2 – a marked increase compared to the same period last year. Three new green bonds were issued. France placed a 2049 bond with a volume of € 8bn (the deal was destined to be € 5bn, but was increased when the order book reached € 98bn), Germany continued to develop its green benchmark curve (raising € 4bn with a 2029 bond), and the Italian government issued a 2027 bond (€ 9bn). Furthermore, the volume of existing green bonds was increased. As no

social or sustainability bonds have been tapped, the EA sovereigns' focus on green bonds is set to continue in 2024.

Sovereign Green Bond Issuance 2024 ytd

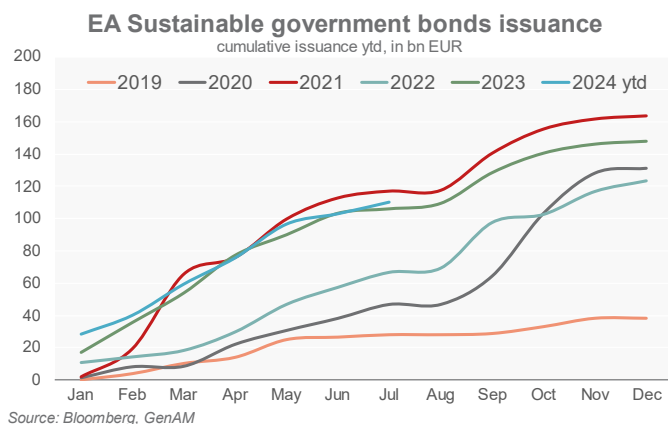
in bn euro, as of July 25, maturity > 1 year



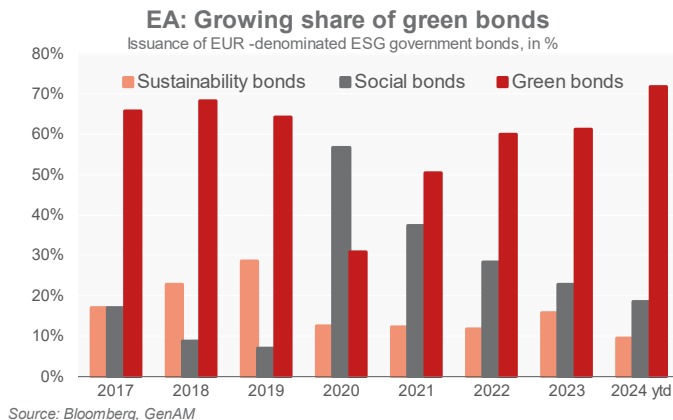
Source: Datastream, Bloomberg, GenAM calculations

With over € 35bn (75% of all newly issued ESG bonds), long-term bonds (original maturity 10+ years) continue to represent the EA sovereigns' preferred maturity segment. Of the

conventional bonds, only approximately 40% have an original maturity of over 10 years. In summary, EA sovereigns have issued over 5% of all new bonds as green bonds. This represents a slight increase in the figure for 2023 (4.8%) and is indicative of the growing importance of the segment.



However, we forecast that around two-thirds of the 2024 volume has already been placed on the market and that issuing activity will decline significantly in the remaining months of the year. We anticipate that the additional volume will be more than € 20bn. Nevertheless, the forecast total issue volume of approximately € 70bn would still represent a notable increase compared to the 2023 figure of € 58bn.



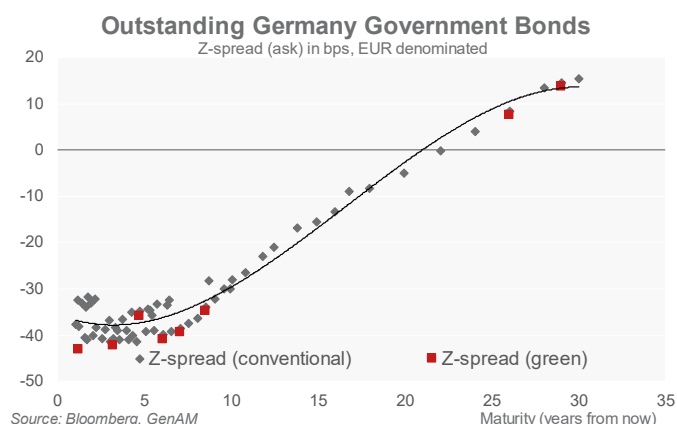
The total value of the EA sovereign market for ESG bonds has now reached € 273bn. Overall, 29 ESG bonds, including 25 green bonds, are currently in issue. France retains the position of largest single issuer with a total of just under € 73bn, with Germany (€ 69bn) in second place.

In addition to sovereign issuers, the EA government sector also includes SSA (supnationals, sub-sovereigns, and agencies) issuers. While there has been an increase in issuance by sovereigns compared to last year, SSA issuers have demonstrated a more cautious approach. To date, the

total amount issued is € 63bn. This indicates that the total issuance from the EA government sector, at € 110bn, is only marginally higher than the previous year's figure. What is noteworthy, however, is that green bonds continue to gain importance among SSA issuers. With a market share of over 70%, they have further increased their importance and represent the lion's share of all EA ESG government bonds. In contrast, the significance of sustainability bonds in the EA government sector is on the decline. A mere 10% of all newly issued ESG bonds were sustainability bonds.

Sovereign bonds continue to exhibit a greenium

Concerning the extent and development of the greenium, there is considerable diversity among EA governmental issuers.¹ While some SSA issuers have a negative greenium (= higher yield for ESG bonds than for conventional bonds), the majority of sovereign ESG bonds have a positive greenium (in the case of Germany between 1 and 3 bps, but other bonds exhibit a high single-digit greenium). The exception to this is Germany 2029, which was issued in May (see chart). Nevertheless, discerning clear trends is challenging in this context. It should be noted that there is considerable instability in these values, with significant differences observed both between issuers and even between bonds placed by the same issuer.



Nevertheless, it can be said that the majority of bonds have exhibited a slight decline in their greenium ytd, but we advise against already deriving a trend from this data. For investors, lower greeniums offer opportunities to invest in ESG bonds with only small yield disadvantages.

More green EU bonds in the starting blocks

The EU occupies a distinctive position within the EA governmental sector. On the one hand, it is driving forward the standardisation of green bonds (EUGBS, see box), and on the other hand, it is attempting to transition from the SSA

¹ We define the greenium as the difference in the Z-spread between an ESG bond and a conventional bond. Hence, a higher greenium means

that the ESG bond trades richer than the equivalent conventional bond (= a more negative value). For more details, see [here](#).

segment to the sovereign segment. While MSCI initially rejected this in May, ICE's decision is still pending, with a probable announcement in August. The issuance of SURE bonds enabled the EU to become one of the largest issuers of ESG bonds worldwide. The EU is no longer issuing social bonds (outstanding volume € 98bn) and is instead focusing its efforts on the issuance of green bonds. As part of the Recovery and Resilience Facility, the EU issues NextGeneration Bonds. It has announced its intention to issue up to 30% of all NextGeneration Bonds as green bonds by 2027. This would make the EU the world's largest issuer of green bonds by a significant margin.

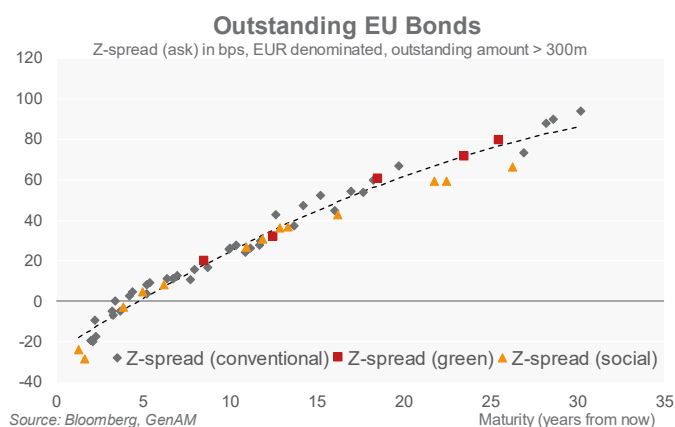
Box: EU Green Bond Standard

The European Green Bond Standard (EUGBS) published on [30 November 2023](#) is an EU project to define the framework for the issuance of European green bonds (EUGB). With the EUGBS, the EU aims to set a gold standard for green bonds for all issuers inside and outside the EU. The regulation will come into force on 21 December 2024.

The main objective is to support the "transition to a climate neutral, sustainable, energy and resource efficient, circular and fair economy". The voluntary standard is based on the detailed criteria of the [EU taxonomy](#) for defining green economic activities, ensures a level of transparency in line with best market practices (i.e., the preparation and publication of annual allocation reports), a high degree of comparability between EUGBs and sets out the supervision of companies that carry out pre- and post-audits at European level. The issuer must publish the relevant reports on its website.

The Green Bond Standard is intended to set a clear standard that provides both issuers and investors with a clear legal framework and combats greenwashing. The EUGBS is not mandatory. Issuers can also use other standards (e.g., ICMA principles), but the bonds may then not be labelled as EUGB. Despite the increased costs for the issuer associated with the additional administrative effort, the expectation is that the risk of greenwashing will be reduced. The EUGBS therefore appears attractive from an investor's perspective.

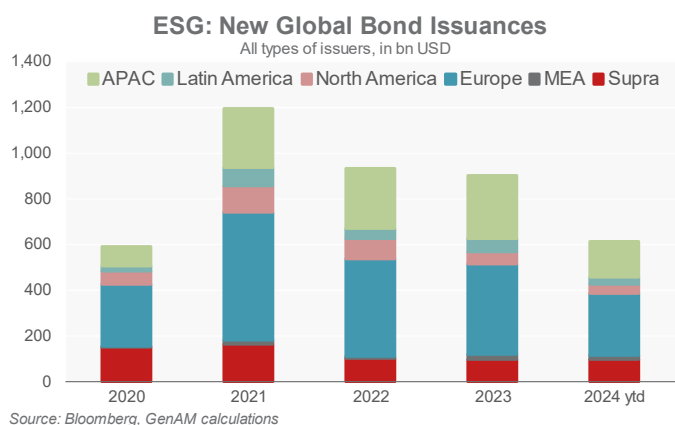
In 2024, the EU issued a new green bond (EU 2050, € 7bn) and tapped two green bonds. The combined effect of these actions has been to increase the outstanding volume by almost € 12bn, bringing it to a total of € 60bn. In light of the ambitious agenda, we anticipate that the EU will issue approximately another € 10bn until year-end. Together with other SSA issuers, this should result in the EA government



sector's total ESG bond issuance volume returning to approximately the 2023 level.

Europe remains the global leader of ESG bonds

The developments in the EA are reflected globally. Following a period of high activity in Q1, momentum has slowed. Ytd, \$ 625bn has been placed on the market. [As anticipated](#), the market is on course to reach at least the 2023 volume of \$ 910bn.



Europe maintained its position as the largest regional source of ESG bonds (44%), in contrast to EA the share of supranationals rose and even US issuance – supported by the Inflation Reduction Act – increased despite the uncertainty triggered by the forthcoming presidential election. Furthermore, green bonds are gaining ground worldwide. 58% of all ESG bonds issued in 2024 are green bonds. This represents a significant increase compared to figures from a few years ago (2020: 44%) and even the previous high of 57% recorded in 2023 has been surpassed.

We expect the ESG government bond segment to return to moderate growth globally in the coming years. Green bonds should continue to expand their dominance, not least thanks to the EUGBS which comes into force in December.

 **Imprint**

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