

Global Sustainable Bond Issuance Likely To Fall In 2022

Sept. 20, 2022

We are lowering our February 2022 forecast 16% for the global issuance of green, social, sustainability, and sustainability-linked bonds due to deteriorating credit conditions. This revision nevertheless sees signs of resilience.

This report does not constitute a rating action



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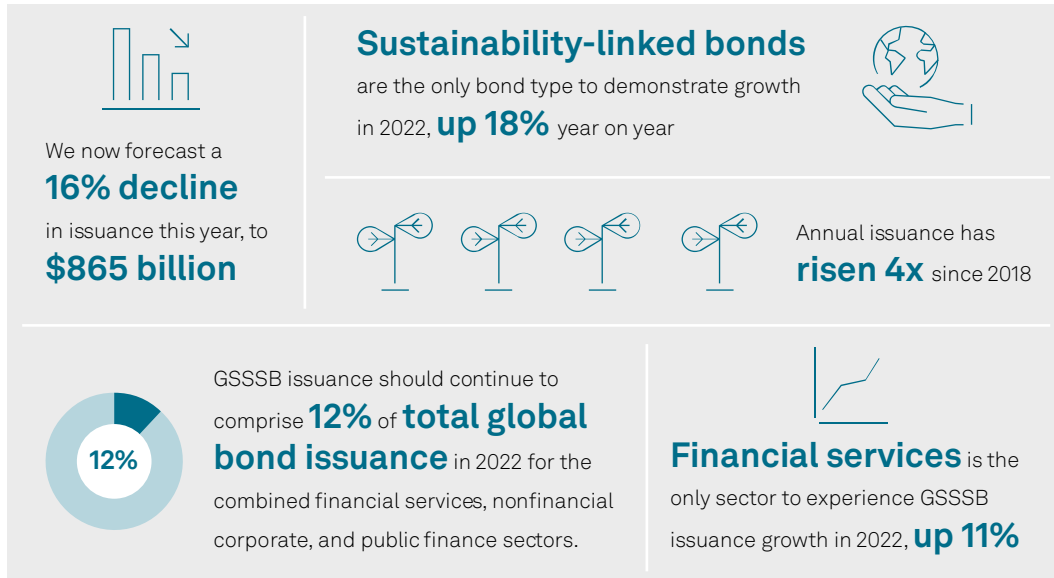
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In light of worsening credit conditions so far this year, S&P Global Ratings is revising its 2022 forecast published in February for global issuance of green, social, sustainability, and sustainability-linked bonds (GSSSB; see: "[Global Sustainable Bond Issuance To Surpass \\$1.5 Trillion in 2022](#)," published on Feb. 7, 2022). This research draws on Environmental Finance's Bond Database of global GSSSB issuance but excludes structured finance issuances as well as S&P Global Ratings' forecast for total bond issuance that excludes sovereign issuance.

Key Takeaways

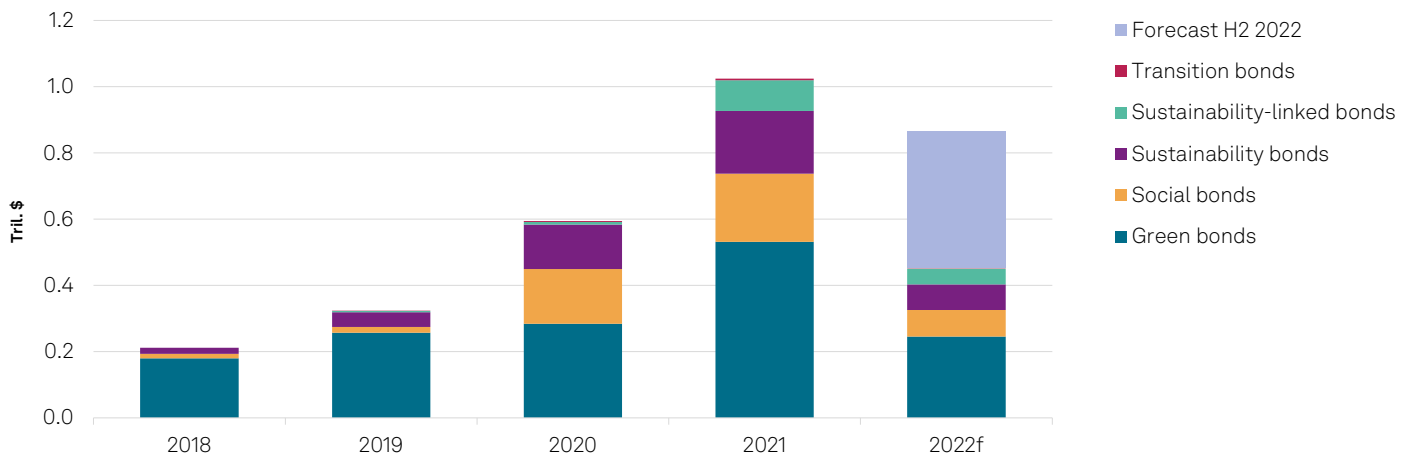
S&P Global Ratings' revised 2022 forecast for GSSSB issuance



GSSSB--Green, social, sustainability, sustainability-linked bonds. Source: S&P Global Ratings. Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

Chart 1

Global GSSSB Issuance Is Poised To Decline In 2022



Note: Excludes structured finance issuance. f--S&P Global Ratings' forecast. GSSSB--Green, social, sustainability, sustainability-linked bonds. Sources: Environmental Finance Bond Database, S&P Global Ratings. Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

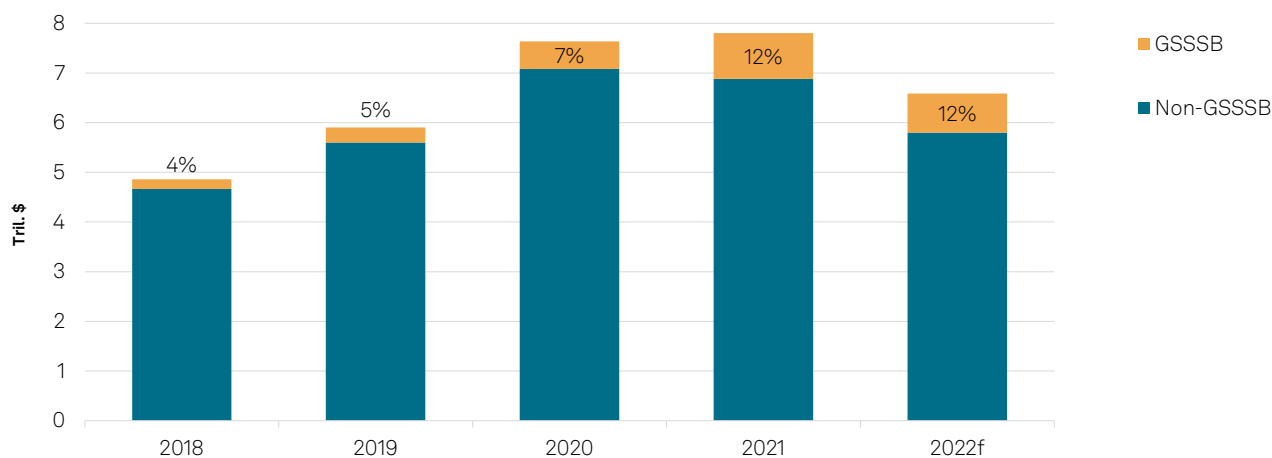
We Now Forecast A 16% Decline For 2022

Considering the weaker issuance trends for the global bond markets in the first half that are likely to continue in the second half, we are lowering our forecast for green, social, sustainability, and sustainability-linked bond issuance to \$865 billion for full-year 2022 (see chart 1), compared with our February forecast of \$1.5 trillion. This represents a 16% decrease from actual 2021 GSSSB issuance of \$1.0 trillion in 2021. This decrease is largely in line with our expectations for global bond issuance, which we [forecast to decline 16%](#). Until this year, GSSSB issuance has grown strongly in recent years, surpassing the \$3 trillion mark in issuance outstanding in the first half of 2022.

We anticipate that global GSSSB will continue to contribute a stable share to global debt issuance this year, as it has in the first half (there are variations by sector and region, which we explain in the sections below). For example, we expect GSSSB from nonfinancial corporates, financial services, and the U.S. and international public finance sectors--where we have observed issuance data to be most reliable and comparable--to comprise 12% of total GSSSB issuance in 2022. That would be the same share as in 2021 and in the first half of 2022 (See chart 2), despite rising inflation, the increasing likelihood of recession, and the Russia-Ukraine conflict weighing heavily on financing conditions. This projection is down from our previous estimate of 17%.

Chart 2

The Global Share Of GSSSB Issuance Expected To Remain Resilient



Note: Data excludes structured finance and sovereign issuance. GSSSB--Green, social, sustainability, sustainability-linked bonds. f--S&P Global Ratings forecast. Sources: Environmental Finance Bond Database, S&P Global Ratings. Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

Financial Services Proves To Be A More Resilient Issuer Type

We have observed that global economic conditions have affected some types of issuers more than others. In revising our forecast, we assume that by and large the trends we are seeing at sector and regional levels in the first half (see chart 3) will continue for the remainder of 2022.

In the first half for GSSSB issuance:

- Nonfinancial corporates maintained their leading share at 39%, but with a 16% decline in issuance. However, that is stronger than the 33% drop in the sector's total global bond issuance.
- Financial services (including banks and insurers) is the only issuer type to have increased issuance (11%).
- International public finance (IPF) experienced the most drastic decline (37%), even though the sector's total debt issuance increased 22%.

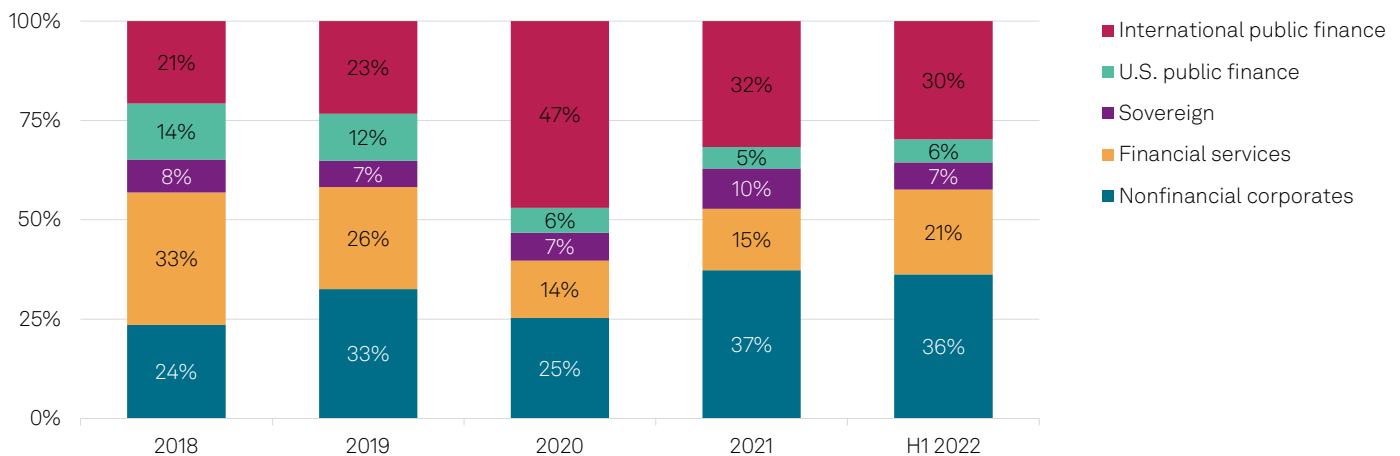
We anticipate that GSSSB issuance in the financial services sector will increase overall in 2022 and comprise a larger share of total issuance by year-end.

The downtrend for IPF is largely explained by a flurry of social bond issuances in the first half of 2021 by the European Commission on behalf of the EU. These totaled more than \$55 billion, as part of the EU SURE (Support to mitigate Unemployment Risks in an Emergency) program to mitigate the economic and social effects of the pandemic. For the full year, we predict that IPF issuance will see the largest decline, as volumes have already dropped nearly 40% in first-half 2022 compared with first-half 2021.

Chart 3

Nonfinancial Corporates And IPF Issuers Continue To Dominate GSSSB Issuance

GSSSB issuance by issuer type



Note: Data excludes structured finance issuance. GSSSB--Green, social, sustainability, sustainability-linked bonds.
Sources: Environmental Finance Bond Database, S&P Global Ratings.
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North America And Europe Still Lead; APAC Is Poised For Growth

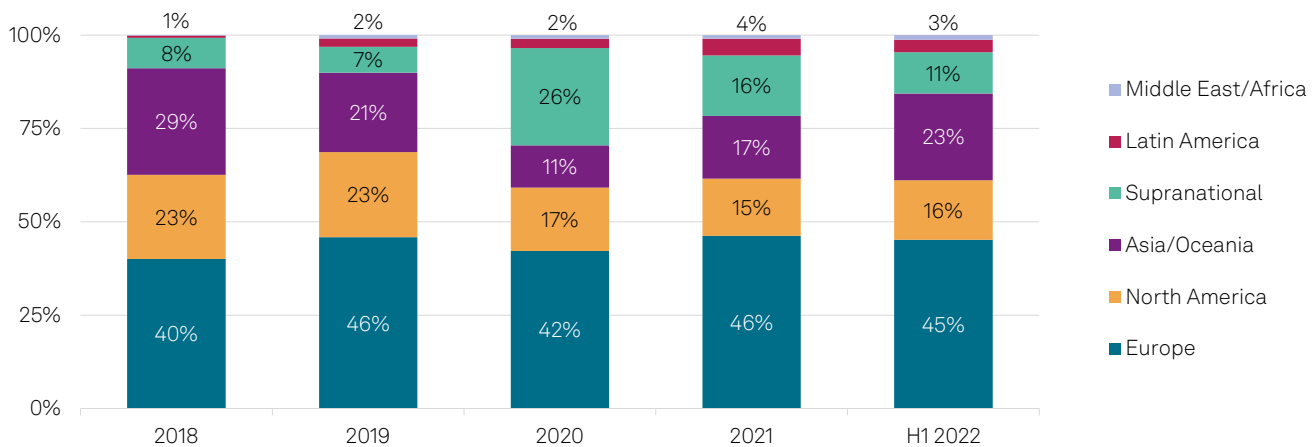
We expect the regional split of GSSSB issuance (see chart 4) to remain relatively constant through 2022, despite differing issuance trends within the regions:

- The largest share of GSSSB issuance still comes from Europe, with 45% of global issuance in first-half 2022.
- Strong growth in Asia and Oceania (17% year on year) pushed the region over \$100 billion in issuance in the first half of 2022. The region now accounts for 23% of the global GSSSB market (up from 11% in 2020).
- In Latin America, GSSSB issuance was relatively strong, down 25% year on year compared with a much sharper 60% contraction for the region's total bond issuance. Still, the region accounts for 3.5% of total GSSSB issuance as of June 30, 2022.

Chart 4

APAC Issuance Grows While Supranationals Steadily Decline

GSSSB issuance by region



Note: Data exclude structured finance issuance. Sources: Environmental Finance Bond Database, S&P Global Ratings. Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

Green Bonds' Popularity To Continue

We believe green bonds will continue to be the most popular GSSSB type (54% of first-half 2022 issuance, see table 1). Financial services and IPF issuers have increased their share of total green bond issuance, now accounting for nearly 50% of the total. Singapore advanced plans to issue its [inaugural green bond in the second half of this year](#), and we believe that sovereign issuance will continue providing liquidity and benchmark pricing for local issuers. As the world slowly moves past the COVID-19 pandemic, social bond issuance has dropped below 20% of total GSSSB issuance for the first time since 2019 (17% in first-half 2022) as government borrowing to fund pandemic relief measures has tailed off. However, in the U.S. municipal sustainable bond market, social bonds outpaced green bond issuance in first-half 2022 by more than \$1 billion. This partly reflects the largest U.S. issuance of a social bond to date, \$2.7 billion by the state of Massachusetts, to repay federal advances for unemployment benefits paid during the pandemic.

Transition bonds, which can be use-of-proceeds or sustainability-linked bonds issued to support climate transition goals, have struggled to find their place in the market. Issuance levels to date decreased more than 70% year on year and total volumes to date account for less than half a percent of total GSSSB issuance, their lowest percentage since the first transition bonds were issued late in the second half of 2019.

Table 1

GSSSB Issuance Breakdown By Type Of Bond

(Bil. USD)	Green bond	Social bond	Sustainability bond	Sustainability-linked bond	Transition bond	Total
H1 2018	84.69	5.45	9.17	0.00	0.00	99.31
H1 2019	126.22	9.45	19.27	0.00	0.00	154.94
H1 2020	112.90	49.23	54.72	0.08	1.47	281.40
H1 2021	264.36	148.55	107.20	40.34	3.32	563.77
H1 2022	245.08	81.05	76.57	47.48	0.92	451.10

Note: Data exclude structured finance. Sources: Environmental Finance Bond Database, S&P Global Ratings.
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Sustainability-Linked Bonds Continue Their Impressive Streak

We expect that sustainability-linked bonds will continue to be the fastest-growing class of GSSSB. While issuance of almost all other types has contracted over the past 12 months, sustainability-linked bonds (SLBs) are the only bond type to increase nominally year on year (up 18% from first-half 2021, see chart 5). Total SLB issuance increased to \$47.8 billion in first-half 2022 from \$40.3 billion in first-half 2021, confirming our January forecast that they will be the fastest-growing bond type this year. Indeed, SLBs accounted for more than 10% of total GSSSB issuance for the first time in 2021, from less than 1% in 2020.

SLB issuance is still driven primarily by nonfinancial corporates (85% of the total in first-half 2022). The attractiveness of this class is exemplified by inaugural issuances in large previously untapped markets, including two SLB transactions in U.S. public finance this year.

GSSSB Defined

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

Sustainability-linked bonds (SLB): 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.

Source: International Capital Markets Assn.

SLBs' flexibility and accessibility by a wide range of issuers has underpinned growth in the instruments. In contrast to other types of GSSSB, SLBs aren't dependent on dedicating issuance proceeds to defined environmental or social projects. Instead, an issuer can apply the label to any type of bond that directly links funding costs to achieving predetermined sustainability performance targets (SPTs). The use of proceeds, which isn't usually identified when the loan or bond is issued, could be for any general corporate purpose. Given the greater flexibility in proceed use, the instruments have the potential to broaden the universe of issuers that can obtain sustainable financing. Indeed, issuers unable to issue a use-of-proceeds bond (that is, green, social, or sustainability bonds) because they don't have sufficient capital expenditures connected to sustainability projects could still tap the sustainable debt market. This includes companies in the consumer discretionary and health care sectors. It also includes smaller issuers that might lack the capacity to implement effective tracking or reporting practices required for use-of-proceeds instruments; issuers at the beginning of their sustainability journeys; and those in transition and hard-to-abate sectors such as industrials or materials. SLBs create a clear link

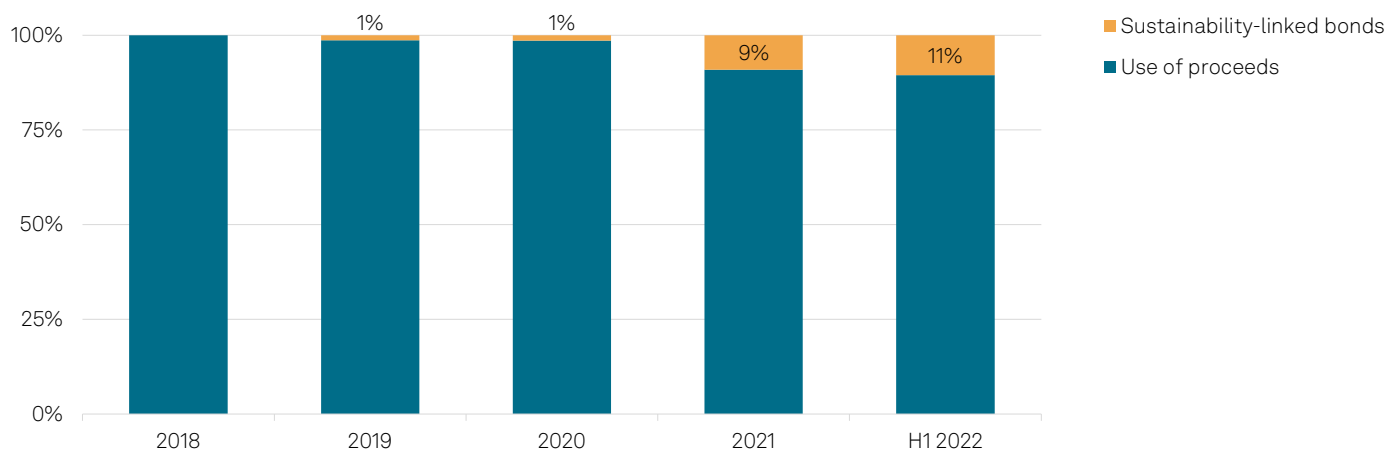
between financing and institutional sustainability, allowing the company to demonstrate its commitment both internally and externally.

As standards for SLBs evolve, we believe the market will benefit further. In June 2022, the International Capital Markets Association released a series of publications to increase transparency in the GSSSB market, including an illustrative registry of key performance indicators for SLBs. We believe that documents like these will further encourage potential issuers to consider SLBs as a viable and verifiable way to demonstrate their commitment to sustainability.

Chart 5

Sustainability-Linked Bonds Continue To Gain Prevalence Globally

Breakdown of use-of-proceeds bonds (green, social, and sustainability) and SLB issuance



Note: Data excludes structured finance. SLB--Sustainability-linked bond.

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

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Europe and North America account for more than 80% of all SLB issuance in the first half of 2022, but this should change. We believe there is substantial room for growth by emerging countries, especially in the Asia-Pacific. The region accounts for 24% of the global GSSSB issuance but only 8% of global SLB issuance. In a landmark event in March of this year, [Chile became the world's first country to issue a sovereign sustainability-linked bond](#). The \$2 billion instrument had an order book of more than \$8 billion, with investors spread across Europe, Asia, and the Americas. Despite Latin America's relatively small share of total issuance, more than 30% of all GSSSB issuance in the region is sustainability-linked. This indicates pent-up potential in both the Latin American and APAC markets for SLB, which may lead to stronger growth once pressures ease in the global credit markets.

Despite these developments, APAC and Latin America are the only regions whose SLB issuance figures decreased in the first half. The two regions issued a total of \$8.7 billion of SLB in the first half of 2022, compared with \$13.1 billion in the first half of 2021.

Looking Ahead

The GSSSB market has demonstrated resilience, despite a tough start to the year, in maintaining its share of total bond issuance in the first half. However, it has not been impervious to the same pressures on global bond issuance. As such, we believe that GSSSB issuance will still fall short of 2021's exceptional levels, as inflation and interest rates continue to rise. Low refinancing needs in the near term, rising yields, and the increasing odds of recession will continue to weigh on volumes in both the overall bond and GSSSB markets.

Continued growth in the SLB corner of the market is promising. We expect 2025 to be a key year for this bond type, because many issuers have tied their sustainability performance targets to this year. As we mentioned above, we see particular room for growth in SLB issuance in the Asia-Pacific and Latin America.

We anticipate that issuers across all sectors will continue to explore financing opportunities in the GSSSB market, owing to investor demand, changing regulation, and a desire to align financing needs with sustainability objectives. This will continue to support the share of GSSSB in total bond issuance in coming years, and should lead to absolute growth in issuance levels, as and when issuance rebounds on the broader bond market.

Related Research

- [Global Financing Conditions: Bond Issuance Set To Contract 16% After Weak First-Half 2022, With Tough Path Ahead](#), July 28, 2022
- [Global Credit Conditions Q3 2022: Resurfacing Credit Headwinds](#), June 30, 2022
- [Global Sustainable Bond Issuance To Surpass \\$1.5 Trillion in 2022](#), Feb. 7, 2022
- [Global Financing Conditions: Bond Issuance Looks Set to Contract 2% This Year as Monetary Policy Tightens](#), Jan. 31, 2022
- [Analytical Approach: Sustainable Financing Opinions](#), Aug. 25, 2021
- [Analytical Supplement: Sustainable Financing Opinions](#), Aug. 25, 2021
- [How Sustainability-Linked Debt Has Become A New Asset Class](#), April 28, 2021

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