

Sustainable Bond Issuance Will Return To Growth In 2023

Feb. 7, 2023

Drivers of growth: Government action, broader market uncertainty, adaptation financing, and responding to credibility questions will help determine total issuance.

This report does not constitute a rating action



Authors

Dennis Sugrue

London

dennis.sugrue@spglobal.com

Bryan Popoola

Washington, D.C.

bryan.popoola@spglobal.com

Contributors

Florence Devevey

Paris

Lai Ly

Paris

Emmanuel Volland

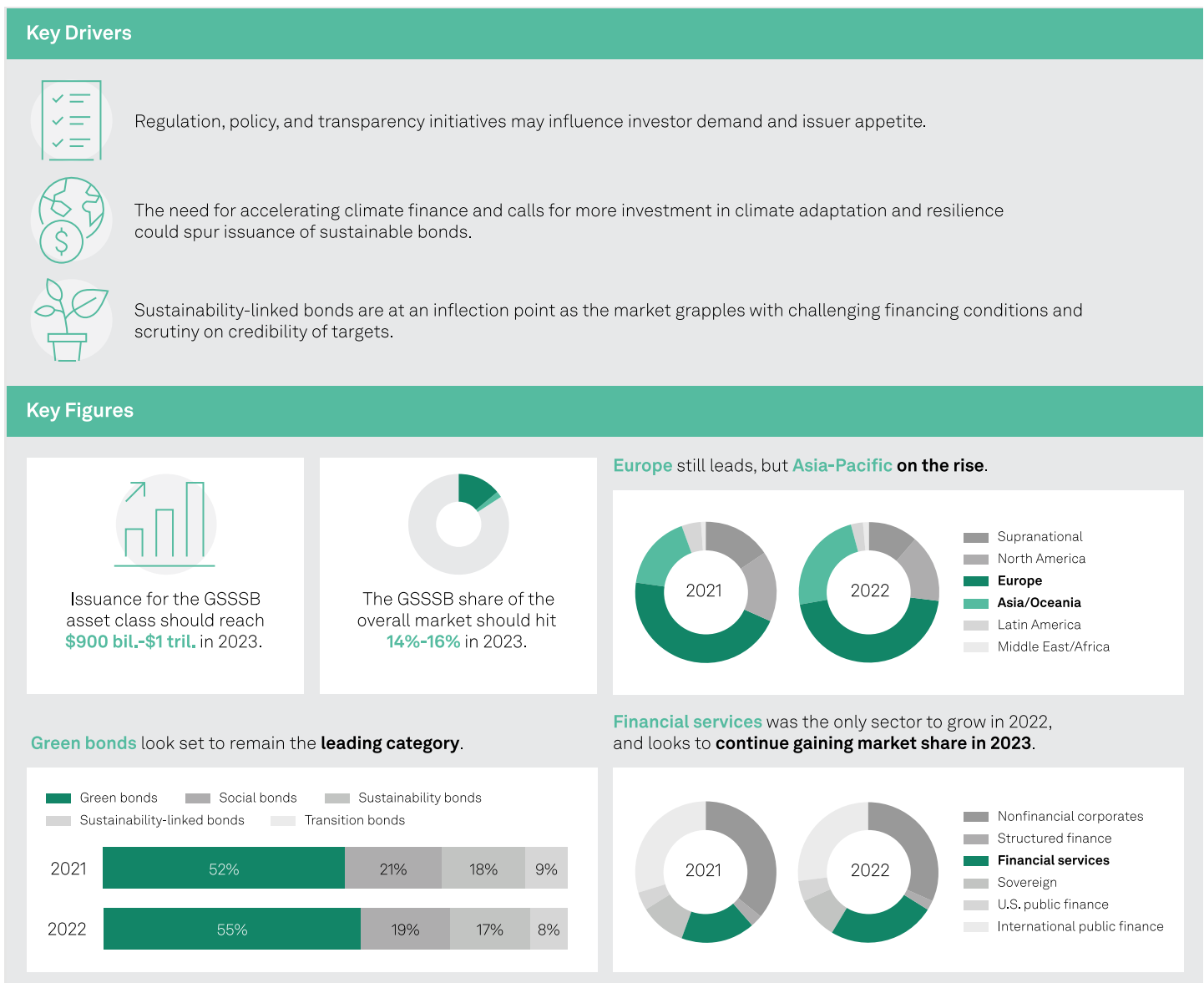
Paris

Nora Wittstruck

New York

S&P Global Ratings recently published its global bond forecast for 2023 (see: "[Credit Trends, Global Financing Conditions: Bond Issuance Is Set To Expand Modestly In 2023. With Stronger Upside Potential](#)," published Jan. 30, 2023). In that report, we estimated modest growth of 2.5% in global bond issuance. Below, we provide our outlook for the green, social, sustainable, and sustainability-linked bond (GSSSB) market for 2023. In addition, we explore some of the key drivers of overall global issuance, as well as for sectors and regions.

This research draws on Environmental Finance's Bond Database of global GSSSB issuance for non-financial corporates, sovereigns, financial institutions and international public finance issuers; Bloomberg for structured finance issuers; and for U.S. public finance issuers, we leverage our proprietary dataset that we have maintained for 10 years and which we believe best captures the nuances of the U.S. municipal bond markets. Our GSSSB forecasts in this research are informed by S&P Global Ratings' global bond forecasts, issuer surveys and market intelligence gathered by our sustainable finance and credit ratings analysts.

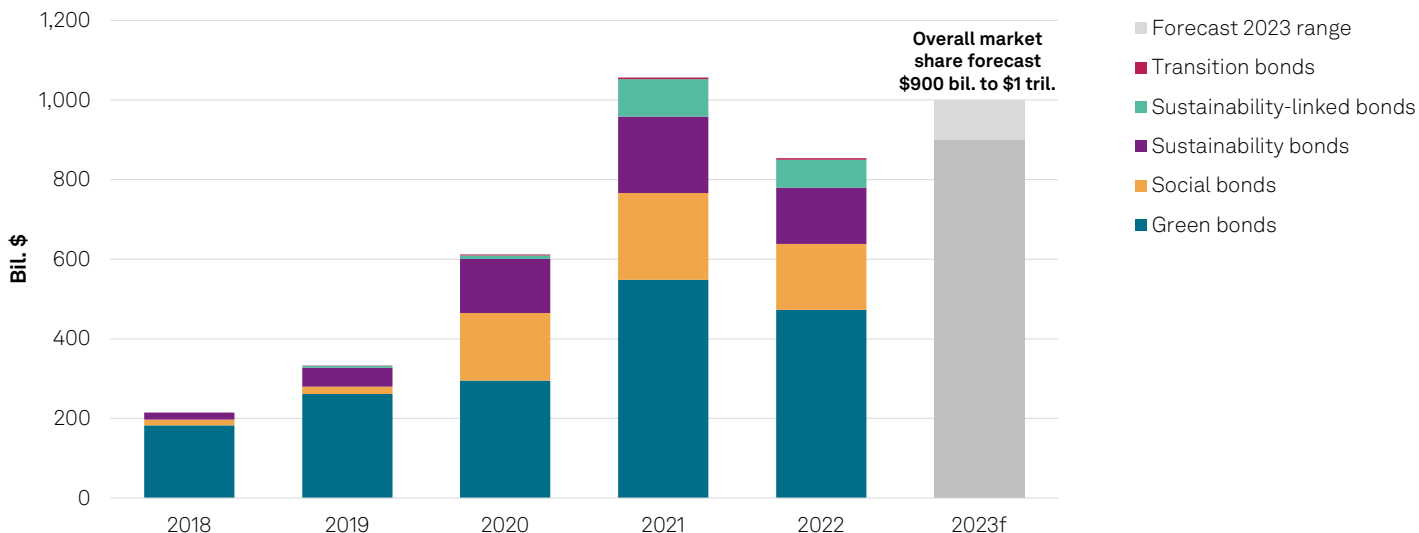


GSSSB--Green, social, sustainability, sustainability-linked bonds. Source: Environmental Finance Bond Database. Bloomberg, S&P Global Ratings. Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

Chart 1

Global GSSSB issuance forecast to reach \$900 billion to \$1 trillion in 2023

Annual GSSSB issuance by instrument type



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 © 2023 by Standard and Poor's Financial Services LLC. All rights reserved.

GSSSB Issuance To Grow 5%-17%

We believe in 2023, global GSSSB issuance will return to growth, reaching \$900 billion-\$1 trillion, nearing the record \$1.06 trillion in 2021. This follows a 2022 in which contractionary monetary policy and macroeconomic uncertainty pulled down global bond issuance.

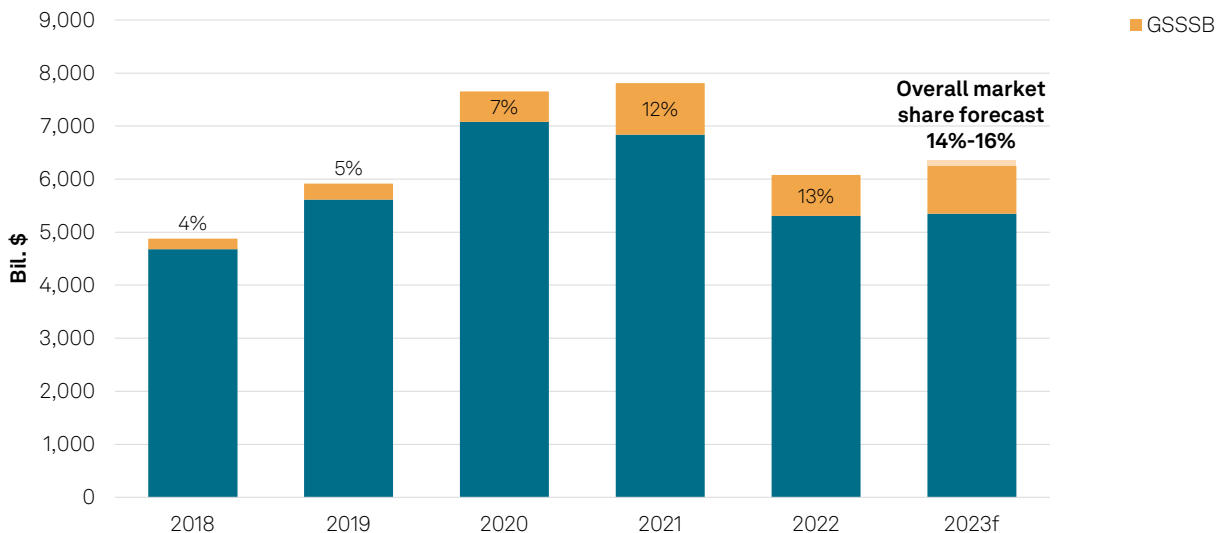
Three factors could drive growth or drag it down. Broadly, these are policy initiatives, levels of investment in climate adaptation and resilience, and the ability of issuers to address concerns about the credibility of certain types of GSSSB debt.

Green bonds will likely continue to dominate. However, we expect to see sustainability bonds become more prevalent. Meanwhile, sustainability-linked bonds (SLBs) are at an inflection point. Skepticism and questions around the credibility of the asset class's ability to achieve meaningful sustainability targets are increasing, weighing on the minds of investors and issuers.

In our view, total global bond issuance will grow only moderately in 2023. However, we think faster growth for GSSSB issuance will lead to a larger market share for this asset class across all regions and sectors. We believe GSSSB issuance from nonfinancial corporates, financial services, and the U.S. and international public finance sectors is likely to comprise 14%-16% of all bond issuance in 2023. In our view, issuance data are the most comparable in these sectors.

Chart 2

GSSSB looks set to continue increasing its share of global bond market in 2023



Note: Excludes structured finance and sovereign issuance. Sources: Environmental Finance Bond Database, S&P Global Ratings. Copyright © 2023 by Standard and Poor's Financial Services LLC. All rights reserved.

Drivers Could Boost Or Pressure Issuance

As always, conditions in the global bond market will underly issuance of GSSSB. With global bond issuance forecast to resume modest growth in 2023, we believe momentum is on GSSSB's side.

We've identified three key themes that we believe could determine whether GSSSB issuance hits \$900 billion-\$1 trillion this year:

- **Policy, regulation, and transparency initiatives:** These will influence investor demand and issuer appetite.
- **Calls for investment in climate adaptation and resilience:** These could spur more GSSSB issuance, particularly green and sustainability bonds, to address the growing gap between the cost of adapting to climate change and what has been invested to date.
- **Sustainability-linked bonds' inflection point:** If questions surrounding the credibility of these bonds are not addressed to the satisfaction of investors and other critics, this could hamper issuance in what has been a segment of growth for GSSSB.

Policy, regulation, and transparency initiatives should drive GSSSB issuance over time

The impact on investor demand and issuer appetite for GSSSB from sustainability-related policies, regulations, and transparency initiatives will be mixed in 2023. Development and implementation in these areas is likely to gather pace globally over the next few years.

Take the Inflation Reduction Act, which passed in the U.S. in August 2022. We believe this is already driving issuance. However, EU initiatives such as the EU Taxonomy and the EU Green Bond Standard are unlikely to significantly influence issuance levels this year. This is because we think most issuers are likely to continue to follow the International Capital Market Association (ICMA) principles.

Over the next five years, regulatory initiatives could be a key driver of whether the GSSSB market grows. National directives on electric vehicles or national building standards, for example, could provide direction or signals for further sustainable finance flows. The content of initiatives could inform corporate and government decisions on financing research and development, infrastructure projects, and plants and equipment.

The Inflation Reduction Act, for instance, could further boost GSSSB issuance in the U.S. by incentivizing certain corporate behavior. It can do so through mechanisms, such as tax credits, that encourage investment in green projects, particularly in the energy sector (see "[Inflation Reduction Act Update: Between Cheap, Firm, And Clean Power--Pick Any Two](#)," published Sept. 8, 2022).

Transparency initiatives, such as the EU Taxonomy, will drive issuers to take stock of the impact of their activities on the environment and related risks. Understanding and reporting on issuers' environmental profiles may help reduce the burden of pulling together this information for GSSSB issuances, which in turn could facilitate future issuance.

Reporting requirements for investors, such as the EU's Sustainable Finance Disclosure Regulation (SFDR), are also spurring demand for credible sustainable bonds and investments. The effects of this regulation could be felt beyond the EU. Issuers looking to broaden their investor base may voluntarily adopt these reporting standards and practices. Doing so would make it easier for Europeans to invest in their sustainable bonds.

GSSSB may contribute to financing adaptation and resilience

COP27 again emphasized the need for more investment in adaptation and resilience to the physical risks of climate change. The GSSSB market could contribute to answering that call from the November 2022 event, formally known as the U.N. Climate Change Conference. This could boost issuance in the years ahead, particularly of green and sustainability use-of-proceeds bonds.

The focus on adaptation and resilience is likely to increase, and interest should trickle down from the public sector to the private sector. This interest could be a source of growth for the GSSSB asset class in 2023 and beyond.

However, the adaptation finance market faces several challenges, including long time horizons for realizing benefits. In fact, actual investment in adaptation finance has lagged the needs identified by the U.N. It represents less than 8% of global climate finance, according to the Intergovernmental Panel on Climate Change, and less than 4% of climate-related GSSSB issuance. Further challenges include identifying benefits and cash flows, and the potential for mismatch between those financing projects and those who benefit from them (see "[Crunch Time: Can Adaptation Finance Protect Against The Worst Impacts From Physical Climate Risks?](#)" published Jan. 13, 2023).

We expect the public sector to remain the leader in financing adaptation and resilience. It may begin using GSSSBs more to achieve its aims in this area, in our view. This is in part because the public sector, especially local governments, are on the front lines in terms of the rising costs of climate impacts. In addition, some of the challenges mentioned above often leave the public sector holding the bag.

That said, we see signs that adaptation and resilience are increasingly on the radar of the private sector. Multilateral lending institutions, in our view, will continue to explore and scale up the use of blended finance. Such finance uses funds for public development to mobilize additional commercial capital, primarily from private sources, to help achieve sustainability goals. The institutions may bolster risk-sharing facilities, particularly in low- and middle-income countries that could attract further private capital via GSSSB issuance. Blended finance may make institutions looking to invest private capital more confident about deploying it in developing countries (see "[COP27: Top 5 Takeaways That Matter](#)," published Nov. 23, 2022).

Some corporate sectors, such as the building sector, could begin to embed adaptation and resilience into their issuance more clearly. Doing so could help support projects that boost the resilience of their assets. For example, there are instances of corporates looking to raise funding to invest in building materials or manage supply chain risk in areas where they have faced significant costs from climate impacts such as flooding and heat stress. In addition, there are examples of private equity firms and large institutional investors entering the fray.

Sustainability-linked bonds reach an inflection point

To get back to growth in 2023 and beyond, issuers of SLBs will have to find ways to address concerns flagged by market participants about the credibility of SLBs, namely surrounding issuer ambitions and incentives to achieve sustainability targets.

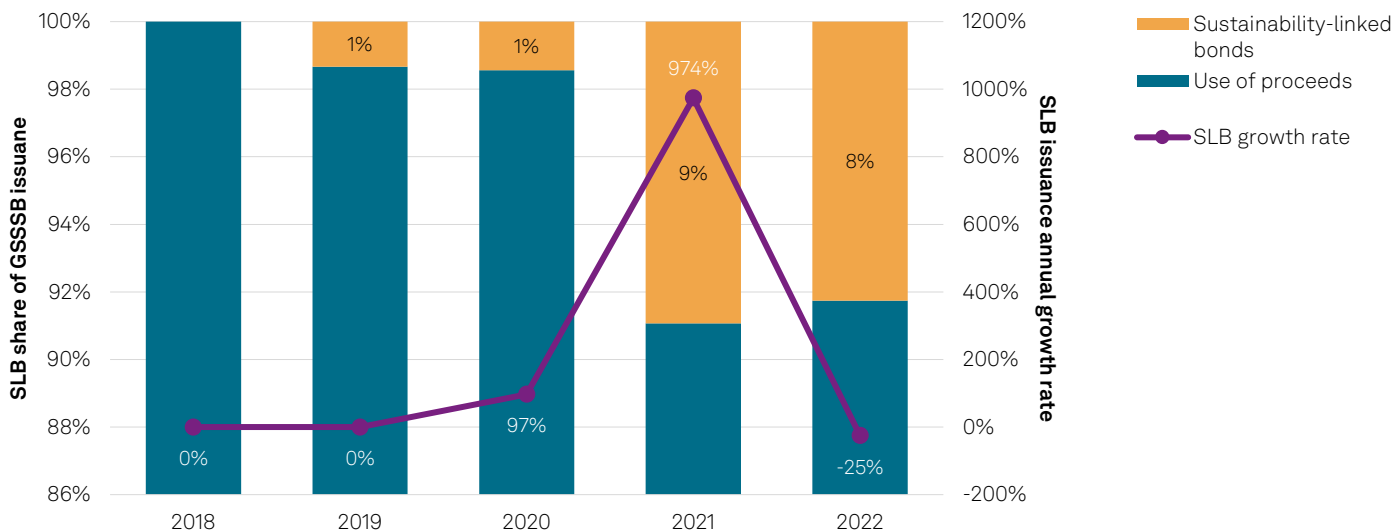
SLBs can offer flexibility that isn't available in other types of GSSSB. This flexibility has led to the bond type being widely used by issuers who may have business models that are not suited to use-of-proceeds bonds. Companies in the consumer discretionary and health care sectors, and in hard-to-abate sectors such as industrials or materials, are among those that would find issuing green or social investments difficult. SLBs allow access to sustainable financing for those in this situation still wishing to participate in GSSSB markets. During the last two years, the market for such bonds has grown dramatically: Issuance volume has grown seven-fold since 2020, reaching a total of \$70 billion. SLBs accounted for 9% of GSSSB global issuance during their 2021 peak.

Returning to growth is now the challenge for issuers. In 2022, SLB issuance levels dropped significantly, by 25%, compared with 2021. This was in large part due to difficult market conditions for nonfinancial corporates. They have represented about 90% of SLB issuers in recent years. However, increasing scrutiny from stakeholders such as investors and policymakers on the credibility of the asset class – that is, whether SLBs help companies achieve meaningful sustainability targets also contributed to the decline.

Chart 3

Sustainability-linked bonds share of GSSSB declines for first time in 2022

Percentage breakdown of use of proceeds and SLB issuance



Note: Excludes structured finance issuance. GSSSB-Green, social, sustainability, sustainability-linked bonds. Sources: Environmental Finance Bond Database, S&P Global Ratings. Copyright © 2023 by Standard and Poor's Financial Services LLC. All rights reserved.

We continue to believe that given the greater flexibility in proceed use, SLBs have the potential to broaden the base of issuers of sustainable debt. Recent geopolitical events, including the Russia-Ukraine war, are a reminder that countries face challenges in balancing energy security and the energy transition to meet national decarbonization goals. This paves the way for some traditional energy companies to participate in the transition to net-zero. These companies should be well-positioned to maintain consistency of supply and demonstrate their efforts to reduce carbon emissions. The sustainability-linked bond market is an important avenue for financing emissions reduction. But first, credibility issues need to be addressed.

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.

Market Composition: Green Bonds Will Continue To Set The Pace

Table 1

GSSSB issuance by type of bond

(Bil. US\$)	Green bond	Social bond	Sustainability bond	Sustainability-linked bond	Transition bond	Total
2018	182.51	14.29	17.80	0.00	0.00	214.60
2019	261.53	18.01	48.06	4.46	1.05	333.11
2020	294.96	169.90	135.62	8.79	2.43	611.71
2021	548.71	217.56	191.70	94.38	4.26	1,056.61
2022	473.06	164.95	141.55	70.45	3.50	853.51

Note: Excludes structured finance data. Sources: Environmental Finance Bond Database, S&P Global Ratings. Copyright © 2023 by Standard and Poor's Financial Services LLC. All rights reserved.

In 2023, we anticipate that green bonds will continue to drive the GSSSB market. Issuers across sectors are likely to look to finance projects that allow them to align themselves with nationally-determined contributions and individual net-zero commitments.

As for social bonds, it is our view that issuance growth here will be the slowest among the GSSSB types in 2023. Tremendous growth in 2020 and 2021 was driven by local and national governments, as well as supranational entities. All looked to the capital markets to finance pandemic relief programs. However, issuance contracted by 24% in 2022, largely because the need for pandemic relief financing tailed off.

In 2023, we see two trends that could drive growth in social and sustainability bond issuance. The first is affordable housing. We observe more interest from public finance entities seeking social bonds to fund affordable housing projects as interest rates rise and housing stocks struggle to keep pace with demand. Similarly, access to affordable finance has become increasingly difficult for many in the current economic environment. Financial institutions, including banks and nonbank lenders, are therefore exploring ways to secure financing that can support lending to underserved segments of the population through social bonds.

As issuers explore using GSSSB to finance these social projects, they may increasingly look to combine them with green financing. We consider this synergy to be a second possible growth driver because it could lead to increased issuance of sustainability bonds in 2023. For instance, issuers in the public housing sector may look to develop green social housing options. Banks, in addition, could look to combine access to affordable finance with existing green lending initiatives. Further, public finance and supranational entities may look to the sustainability bond market to finance more environmentally friendly social infrastructure such as schools, municipal buildings, hospitals, roads, and energy.

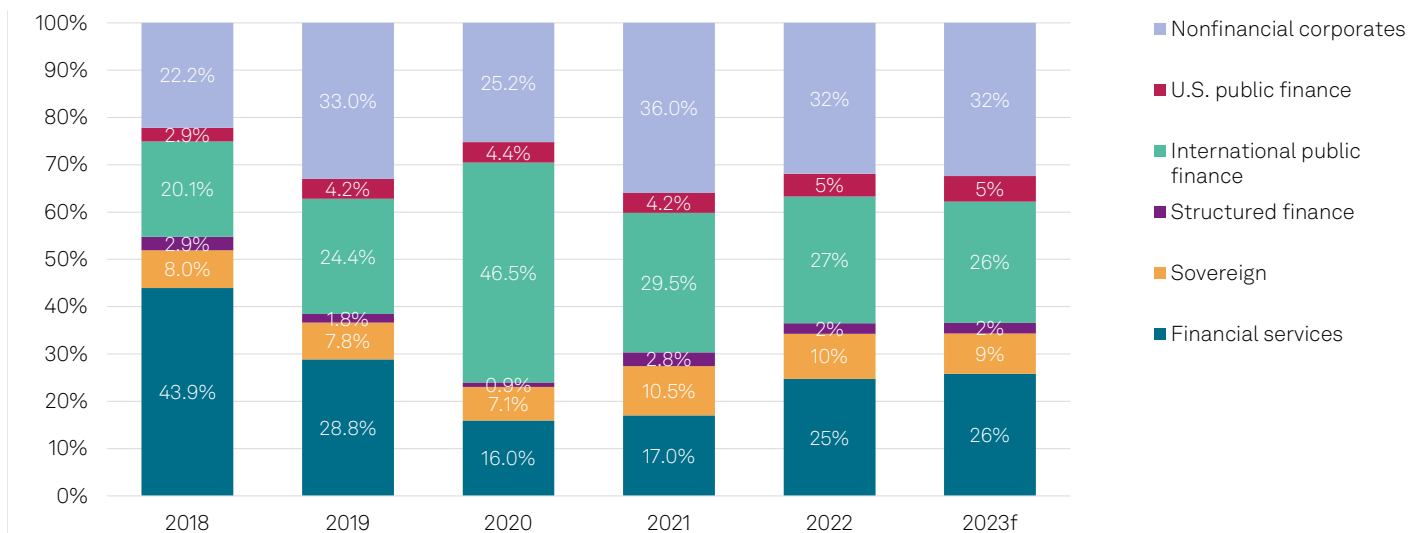
The composition of the GSSSB market didn't change much in 2022. Green bonds continued to account for over half of issuance (55%), while social (19%), sustainability (17%) and SLBs (8%) each comprised a marginally smaller proportion of the market compared to the year before. Green bond issuance decreased less than any other bond type in 2022, demonstrating resilience to challenging market conditions. Social bond issuance in 2022 was largely dominated by international public finance entities. These bonds were the only type for which issuance declined below 2020 levels in 2022.

Key Drivers By Sector

In 2023, we anticipate a return to growth in all sectors. We forecast each sector will grow at least in line with, and in many cases exceed, the expected respective growth in overall bond issuance. Financial services look poised to grow the most in 2023, increasing their share again this year. Nonfinancial corporate issuers, meanwhile, should continue to be the leading contributor to GSSSB issuance. In 2022, most sectors contracted. Nonfinancial corporate issuance led the decline, down 28% year over year. However, issuance in the financial services sector increased by 14%.

Chart 4

Financial service gain ground in 2023



f--S&P Global Ratings forecast. GSSSB--Green, social, sustainability, sustainability-linked bonds. Sources: Environmental Finance Bond Database, Bloomberg, S&P Global Ratings. Copyright © 2023 by Standard and Poor's Financial Services LLC. All rights reserved.

Nonfinancial corporates

We anticipate a return to growth for the nonfinancial corporate sector in 2023 partly because of the growing maturity of issuers' sustainability funding strategies. However, there are likely to be continued challenging market conditions generally. For example, GSSSB issuance levels may remain tempered by the tradeoff between the speed to market offered by standard bonds and the additional resources and time required to bring a sustainable bond to market. Nonfinancial corporate issuers saw the largest contraction in GSSSB issuance in 2022, down 28% compared to 2021. Another constraining factor in 2022 was limited expansion toward smaller issuers. Such issuers may face challenges to provide historical sustainability indicators and confidently track them going forward.

In 2023, the nonfinancial corporate category should see more diversification in terms of sector, geography, and size of issuers. We also believe the energy sector could play an important role in the growth of this issuer type in 2023. This trend is supported by the unprecedented energy transition financing needs fostered by government plans. These include the Inflation Reduction Act in the U.S. and Europe's REPowerEU, the bloc's plan to boost energy independence and accelerate the green transition.

U.S. public finance

For 2023, we anticipate the themes underscoring growth in the GSSSB market will continue for U.S. public finance (see “[Sustainability Insights: Research: U.S. Muni Sustainable Bonds: Momentum To Continue In 2023](#),” published Feb. 9, 2023). This should lead to a fifth consecutive year of increase in the share of GSSSB issuance as a proportion of overall U.S. public finance issuance. It will likely reach a range of 13% to 15%. For U.S. public finance, GSSSB issuance fared relatively well in 2022, declining by 10% compared with a 20% contraction for municipal bonds overall. The share of GSSSB of total USPF bonds rose to 11%.

Two factors should combine to drive further GSSSB growth in 2023. First, public finance issuers serve the public, naturally aligning their activities with environmental and social purposes. Second, a number of large issuers are coming to market with GSSSB and building momentum for the asset class.

Challenges, however, are likely to endure. The U.S. municipal market’s smaller and more fragmented nature makes it difficult to measure any pricing advantage for GSSSB issuance. At the same time, we expect that GSSSB issuance may be tempered by some issuers and investors preference not to offer or invest in bonds falling under the label of GSSSB. This could hinder growth. Finally, while progress toward disclosure of best practices or post-issuance regulatory guidance may help bring clarity to the market and solidify demand from certain investors, there are drawbacks. Stricter rules in these areas could sideline some potential GSSSB issuers if they would be burdened with additional financing costs or disclosure expectations.

International public finance

For 2023, we anticipate that GSSSB issuance in the international public finance sector will increase slightly compared with 2022. However, it isn't likely to reach the highs of 2021. Supranational agencies and multilateral lending institutions (MLIs) comprise the bulk of GSSSB issuance in the international public finance sector, along with government-related entities. After record issuance in 2020 and 2021, led by social and sustainability bonds, issuance contracted by 26% in 2022. Health problems and economic fallout associated with COVID-19 drove issuance in 2020 and 2021. The need for financing pandemic relief receded in 2022.

We expect national government related entities such as the French social security fund Caisse d'Amortissement de la Dette Social (CADES) to modestly increase labeled issuance. They will do so, in our view, to try to advance national and EU policy objectives, particularly around decarbonization. Meanwhile, the share of green bonds should increase given MLIs' commitments to address climate change, as suggested by their increasing lending targets for green and climate finance.

Furthermore, many MLIs continue to deepen their commitments to the U.N.'s 2030 Agenda for Sustainable Development and integrate these targets into their institutional and lending directives. This should support social and sustainable bond issuance. Calls for the sector to shoulder more of the burden of investment in climate adaptation and resilience could lead to growth in GSSSB issuance from this segment over the next two to three years.

Structured finance

We do not expect structured finance issuance to materially increase in 2023. However, issuance in the GSSSB segment should be relatively stronger than the 7% decline we forecast for total structured finance issuance in 2023. GSSSB issued by structured finance issuers contracted 39% in 2022 from a year earlier.

We believe developments around the ICMA green and social bond principles (GBP and SBP) in June 2022 will help support the sustainable securitization market. Use-of-proceeds securitizations in which not all collateral is sustainable may be aligned with ICMA's set of sustainable finance principles if the proceeds are deployed on eligible projects in line with ICMA's GBP or SBP. Meanwhile, questions remain over how the EU Green Bond Standard (GBS) will be applied to securitizations and whether further flexibility may be needed. Until there is more clarity, issuers may grapple with the benefits of issuing labelled bonds under ICMA's GBP if there are concerns about future alignment with the EU GBS.

We think the electrification of light vehicle fleets will likely fuel growth for green collateral that can be securitized. Solar equipment and energy efficient commercial and residential properties should also see from growth in collateral that can be securitized. However, while progress has been made, challenges that are slowing issuance of sustainable securitizations continue. These challenges include a lack of sustainable collateral originations and the absence of standardized ESG data, disclosures, and definitions.

Sovereigns

A continued policy focus on climate resilience in 2023 will likely support modest growth in sovereign GSSSB issuance compared with 2022, particularly for EU states. This is largely in line with our preliminary expectation for gross sovereign long-term commercial borrowing this year. Sovereigns issued 28% less GSSSB in 2022 compared with 2021. This was largely in line with an overall reduction of 18% in sovereign borrowing. The EU accounted for nearly 50% of sovereign GSSSB issuance in 2022. Outside the EU, the U.K. (10%), Chile (9%), and Canada (5%) were the largest sovereign issuers of debt labeled either green or social last year.

Continued use of sustainability-linked instruments for sovereigns in 2023 looks likely. This is despite lingering questions about the effectiveness of SLBs in advancing meaningful progress toward global targets in particular, we expect to see more issuance from emerging market sovereigns, following Uruguay's successful \$1.5 billion SLB issuance in October 2022.

It remains to be seen whether SLB issuance among sovereigns will take off more broadly this year. This is because of the credibility challenges the asset class faces. Thus far, SLBs have found favor primarily in emerging markets. In these markets, investor interest in the instruments' sustainability features can expand sovereigns' access to capital markets beyond what would be the case if they issued conventional bonds.

SLBs' simplicity and flexibility versus green- and social-labeled issuance may also appeal to emerging market sovereigns. Compared with SLBs, green and social bonds come with heavier reporting burdens, particularly those using the EU taxonomy. At the same time, many developed market countries prefer green- or social-labeled debt due to its high liquidity and appeal to a large segment of investors.

Financial services

We anticipate that the financial services sector will continue to expand GSSSB issuance in 2023. Banks, insurers and other financial institutions are still increasing transparency around their sustainability strategies. Many are working toward implementing net-zero ambitions and Paris-aligned targets. In 2022, financial services issuers are the only issuer type to have increased bond issuance volumes year on year in 2022. Their total issuance value reached nearly \$215 billion in 2022, a 14% increase.

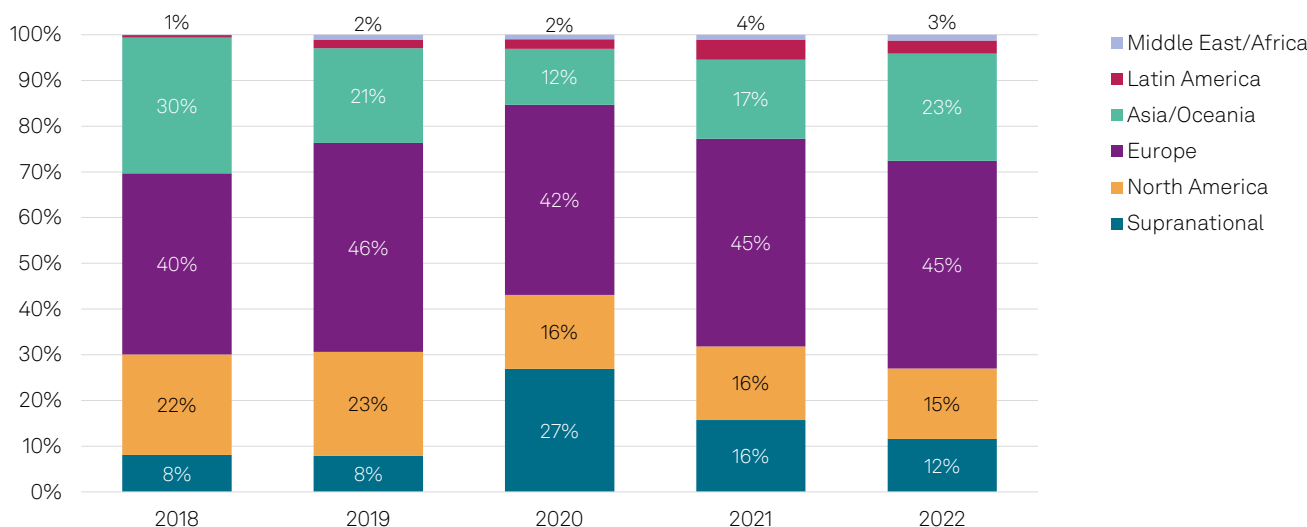
We believe that use-of-proceeds bonds will continue to be the most prevalent form of GSSSB from financial services issuers. This is because increasingly demanding regulatory environments should allow banks to quickly identify sustainable assets in their portfolios that can be financed using such bonds. We expect green bonds to continue to be the leading category of GSSSB issued by financial services issuers. However, sustainability bonds will grow in stature in 2023, in our view. Issuers are likely to look to complement their green lending with projects focused on social objectives.

Key Drivers By Region

We expect Europe, the Middle East and Africa (EMEA) to retain the leading share of issuance across regions. However, Asia-Pacific and Latin America look likely to continue increasing their share of global issuance as they have done in recent years.

Chart 5

Asia-Pacific issuance grows while supranationals' steadily declines



Note: Excludes structured finance issuance. GSSSB-Green, social, sustainability, sustainability-linked bonds. Sources: Environmental Finance Bond Database, S&P Global Ratings. Copyright © 2023 by Standard and Poor's Financial Services LLC. All rights reserved.

Asia-Pacific

We anticipate that GSSSB in Asia-Pacific will grow 20% in 2023, outpacing other regions (see [“Sustainability Insights: Research: Asia-Pacific Sustainable Bond Issuance To Increase In 2023,”](#) published Feb. 14, 2023). In 2022, the market for GSSSB in APAC maintained momentum. Issuance was up by 10%. In addition, its share of the global GSSSB market increased to 23%, up from 17% in 2021. The region proved more resilient to global macroeconomic uncertainties than others: Global GSSSB issuance contracted 19% in 2022.

In terms of GSSSB growth in 2023, Asia-Pacific starts from a lower existing base. However, there is also growing awareness of calls for sustainable economic development across the region, especially regarding decarbonization. China, South Korea, and Japan will drive the region’s issuance, in our view. Some other countries are starting to catch up. The continued development of local regulations will also instill discipline and credibility into the GSSSB market. This could potentially lead to additional issuance in some places.

Europe, the Middle East, and Africa

We expect Europe to retain its leading share of issuance in 2023. In addition, there is likely to be a strong pipeline of issuance coming from the Middle East this year. GSSSB issuance from EMEA continued to lead the way among global regions in 2022. However, some ground was lost as issuance in the Middle East and Africa slowed significantly.

Green bonds in the use-of-proceeds category will continue to lead issuance in EMEA in 2023, in our view. This should be driven by the focus on credible net zero plans by issuers, the European Central Bank's intent to green its bond-buying program, and the implementation of the EU Taxonomy and EU green bond standards. In addition, we see signals that issuers are increasingly looking to finance projects related to biodiversity enhancement and preservation. The supply of social bonds declined in 2022, as needs related to funding pandemic relief subsided relative to 2021.

Sustainability bonds in the use-of-proceeds category may see an uptick in 2023. This is particularly the case among financial services issuers looking to complement existing green frameworks with social projects. Despite the challenges faced by the SLB asset class, we envision a strong pipeline of sustainability-linked frameworks coming to market in Europe during the first half of 2023.

Latin America

We anticipate that 2023 will see a return to growth for GSSSB in Latin America (see [“Sustainability Insights: Research: Latin America Sustainable Bond Issuance To Recover In 2023,”](#) published Feb. 23, 2023). At least one-third of all bonds issued in the region are likely to be labeled as GSSSB. Latin American GSSSB issuance contracted 48% in 2022 compared with the previous year. While this contraction was more pronounced than in other regions, the asset class held up well relative to the 60% contraction experienced in total bond issuance in the region. In our view, sovereigns will continue leading issuances in 2023, particularly in green bonds. They will do so as they work toward achieving the National Determined Contributions (NDCs) set out in the Paris Agreement.

Financial institutions, meanwhile, should gradually increase participation in the GSSSB market. A number of large banks in the region are likely to set interim greenhouse gas emissions reduction targets and decarbonization agendas for their lending and investment portfolios before the end of 2023.

North America

For 2023, we expect a return to GSSSB issuance growth in North America, as economies in the region begin to recover in the second half of 2023. Nonfinancial corporate issuance, in particular, may rebound, and issuance volumes will likely increase to new highs as entities look to take advantage of tax credits offered by the Inflation Reduction Act. Issuance of GSSSB in North America contracted 22% in 2022. This was because of rising interest rates and investor skepticism toward the effectiveness of SLBs. Issuers also don't want to go to market with issuances that may be accused of greenwashing. Many entities in hard-to-abate sectors have preferred to wait to gauge investor demand before issuing. The region lost ground in terms of its contribution to global GSSSB issuance, being surpassed by Asia-Pacific.

U.S. municipal issuers have demonstrated resilience in the face of wider bond market headwinds, and we expect this trend to continue in 2023. There is sizeable demand for GSSSB bonds in municipal markets. Canada issued its inaugural sovereign green bond in early 2022. Meanwhile, some high-emitting corporates in the country are in the process of developing transition bond frameworks. This could increase nonfinancial corporate GSSSB issuance in the region.

Skepticism around the effectiveness of SLBs, particularly in North America, has caused some issuers and investors to take an apprehensive approach to GSSSB issuance in general, and the U.S. Federal Reserve looks likely to continue raising rates, as it did with a 0.25% hike on Feb. 1, 2023, until the second quarter of 2023 (see "[Economic Outlook U.S. Q1 2023: Tipping Toward Recession](#)," published Nov. 28, 2022). Both of these factors could pull down issuance volumes in the region in the first half of the year.

Beyond 2023

Global GSSSB issuance is likely to resume growth in 2023, and we think this expansion can continue for years to come. We anticipate 2023's growth will outpace that of the overall global bond market. Our observation, based on the data we have collected and analyzed, is that the GSSSB asset class remains an important tool to help drive investment in meeting climate and sustainability goals, and we think issuers and investors are keen to utilize the tools. However, we also believe that GSSSB is at an important juncture. Questions are increasing about its credibility in truly helping issuers to achieve meaningful sustainability outcomes. Future growth will likely depend on how sufficiently the asset class addresses these concerns.

Editor

Richard Smart

Digital Designer

Halie Mustow

Copyright 2023 © by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge) and www.ratingsdirect.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/ratings/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.