Sustainable Finance Special Interest Commentary

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Exploring Trends in Sustainable Finance for 2025

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Our "***Sustainable Finance 2024 – Global, Asia and Singapore Trends***" published on 06 December 2024 explored the various trends driving strong sustainable finance credit issuances (comprising mostly green, social, sustainability, and sustainability-linked ("GSSSL") credit instruments that comprise both bonds and perpetuals) globally, within Asia and Singapore in 2024 with some significant developments and emerging trends highlighting the resilience and adaptability of sustainable finance credit issuance. While 2025 is expected to be another constructive year with GSSSL credit issuances forecast to be stable compared to 2024 at around USD1 trillion, we explore some key trends that may influence the environment for GSSSL credit issuance in 2025 as the sustainable finance market continues to mature.

The fluctuating influence of Financial Institutions

The 2024 United Nations Climate Change Conference ("COP29") was dubbed "Finance COP" with plans to scale up climate finance to developing countries from both public and private sources to at least USD1.3 trillion annually by 2035. This was under the New Collective Quantified Goal on Climate Finance ("NCQG"), a key priority for COP29. Within this, developed countries agreed to triple a previous commitment of USD100bn annually in climate finance by 2025 to USD300bn annually by 2035. For more information on COP29, please refer to "***COP29: Tripling climate finance***" published on 06 December 2024 by OCBC's ESG Analyst.

The various climate finance amounts discussed in COP29 reflect costed needs reported in developing countries' Nationally Determined Contributions that are estimated at USD5.1 trillion – USD6.8 trillion until 2030 (or USD455bn – USD584bn annually) and developing countries' calls for USD1 trillion to USD1.3 trillion annually to enable conducive climate action. Nevertheless, the gap between financing commitments and financing needs highlight possibly greater expectations for Financial Institutions post COP29 to participate in climate finance due to their ability to facilitate the movement of trillions of dollars in capital. As we covered in "***The Amplifying Influence of Sustainability for Financial Institutions***" published 1 February 2023, Financial Institutions have arguably a privileged position in the economy as both the provider of capital and protector of financial system stability, more often than not working together with the government and financial sector regulators to fulfil both commercial and social objectives. Whilst Financial Institutions are pivotal in supplying funds for developing countries, they also serve as a significant driver of financing for climate and clean energy initiatives in developed countries.

In their respective recent 2024 results announcements and annual reports, both HSBC Holdings PLC ("HSBC") and Standard Chartered PLC ("StanChart") confirmed that their sustainable finance and investment targets are on track. HSBC's support of sustainable finance and investment remains solid with USD393.6bn in cumulative sustainable finance and investment since 2020, on track with its ambition of USD750bn to USD1bn by 2030. Of note is the progressive rise in annual sustainable

finance and investment totals with USD99.2bn in 2024, up from USD83.7bn in 2023. Similarly, StanChart has raised USD121bn over January 2021 to September 2024 as part of its commitments to the mobilization of USD300bn in sustainable finance by 2030, with USD34bn raised in 2024.

The ongoing influence of Financial Institutions on the wider sustainability movement however may be at an inflection point. Notwithstanding the strong willingness of Financial Institutions to support climate finance and key sustainability objectives, management are questioning its ability to.

- HSBC announced a delay in its emissions reductions targets for its operations (including travel and supply chain) that were initially set in 2020 to 2050 from 2030. While scope 1 and 2 emissions have reduced as planned with reductions of more than 90% by 2030 compared to its 2019 baseline to be achieved, progress in scope 3 supply chain emissions reductions are proving challenging without relying on carbon offsets. HSBC is also reviewing its emission reduction targets for lending to seven high-carbon sectors given the slower pace of decarbonisation and transition by its customers. HSBC's new chief sustainability officer Julian Wentzel highlighted recently how a restrictive financing policy towards fossil fuels may limit a successful transition to a low carbon economy whilst also impacting energy supply reliability. Mr Wentzel further highlighted how a higher focus on low-carbon activities and the new world energy economy rather than the negatives of carbon intensity can aid both the flow of capital and successful transition.
- StanChart also similarly highlighted challenges with meeting its global corporate renewable energy initiative of purchasing 100% renewable electricity with 77% of electricity for its operations from renewable sources in 2024 after matching consumption with renewable energy certificates. This was due to "market constraints and lack of renewable energy options" in certain African and Middle East markets including Bahrain, Botswana, Ghana, Iraq and Tanzania.
- Closer to Singapore, DBS Group Holdings Ltd highlighted the solid transition efforts towards a net zero future in its Sustainability Report 2024, particularly from Singapore, China and India. That said, the bank recognised that reaching a net zero future will require both "greening the entire economy" as well as "growing the green economy." As such, the bank may need to continue its financing activities to certain high carbon-emitting activities (for instance to achieve the early retirement of thermal coalfired power plants). This may result in higher financed emissions in the short term in order to achieve the longer term transition to a net zero outcome.

Financial Institutions considered at the forefront of sustainability initiatives are questioning their ability to meet net zero emissions goals that align with limiting global warming to 1.5 Celsius. At the same time, even the European Commission is proposing reduced reporting requirements and supply-chain management obligations to protect European small business interests as part of the Corporate Sustainability Due Diligence Directive. It is therefore not surprising then that Financial Institutions in the US are following suit, particularly in the current political climate. The recent months have seen high profile departures by US Financial Institutions from the Net Zero Banking Alliance ("NZBA"). The NZBA is bank-led and United Nations-convened group of banks that have committed to aligning their lending, investment, and capital markets activities with net-zero greenhouse gas emissions by 2050 including having science based net-zero targets for 2030. Goldman Sachs Group Inc. was the first to leave the NZBA in early December and was followed by Wells Fargo & Co., Citigroup Inc., Bank of America Corp., Morgan Stanley and JPMorgan Chase & Co. All banks however have continued to emphasise

the importance of decarbonisation and ongoing support for sustainability. While the impact on sustainable finance is still unclear, the NZBA is now considering changes to its membership terms including the removal of the requirement for members to align their portfolios with the 1.5 Celsius global warming limit. So far, European and Asian banks are continuing their NZBA membership although some have qualified that membership in similar groups remain flue and dependent on current circumstances.

Reinforcing the popularity of Green Bonds

One prior year trend that is expected to remain constant in 2025 is the popularity of green bonds that contributed the bulk of GSSSL bond issuances in 2024. The bulk of 2024 green bond issuance was by sovereigns to address the more pressing and obvious concern of climate change and while this is likely to continue (in late February 2025, the Kingdom of Saudi Arabia priced its debut EUR1.5bn green bond with proceeds to be used for projects related to the country's economic-transformation plan and sustainability agenda), other sectors including Financial Institutions may also increase green bond issuance with the introduction of the European Green Bond Standard ("EGBS") in December 2023 that took effect from 21 December 2024. This standard is part of the European Union's ("EU") effort to enhance market efficiency by minimizing discrepancies and costs for investors evaluating green bonds, combat greenwashing and promote further growth in the green bond markets. Starting 2025, Financial Institutions will be able to opt to issue green bonds under the EGBS which promotes a more enhanced reporting and verification framework, albeit on a voluntary basis. Issuance under this standard is expected to be slow at the start with Financial Institutions playing the waiting game to see who takes the first step in issuing under the EGBS, then further assessing the benefits and costs of doing so before taking it on. In addition, issuance may also be concentrated on Financial Institutions with a bigger balance sheet size that typically have the ability to select enough Taxonomy-aligned assets for a benchmark-sized deal.

Issuers in other sectors like Utilities and Real Estate, where capital expenditures closely align with the EU Taxonomy, are also anticipated to be the leading participants and early adopters in this market. Already this has been the case with Italian utility A2a SpA and French transport authority Ile-de-France Mobilites the first two issuers under the EGBS with the EUR500mn AEMSPA 3.625% '35s and 1.0bn IDFMOB 3.8% '45s seeing strong demand and tight pricing relative to the issuer's existing bonds. How issuance volumes evolve for the remainder of 2025 will depend on a few influences – on the one hand is the enhanced transparency of the EGBS that addresses investor concerns regarding greenwashing and thereby encourages issuance of GSSSL bonds. On the other hand, market participants will be weighing the costs versus benefits for issuing labelled bonds under this stricter regulatory framework given the higher issuance costs against the potential increased investor demand and lower funding cost for issuers.

The ongoing growth in transition in Asia

Per Bloomberg, global investment in energy transition crossed USD2 trillion for the first time in 2024 at USD2.1 trillion, more than double the 2020 amount. That said, the pace of growth has slowed with the y/y growth of 11% below the 20+% growth seen over 2021 to 2023. Key sectors that saw the largest growth in investments were electrified transport, renewable energy, power grids and energy storage that hit record investment levels. Conversely, the more emerging clean technologies of

nuclear, carbon capture and storage, hydrogen, clean shipping, electrified heat and clean industry saw lower investments y/y. In terms of regions, Asia Pacific grew fastest in 2021 to above USD1 trillion in 2024, up 21% y/y and contributing around half of global energy transition investment with Mainland China accounting for the bulk of the rise in investment. This was followed by the US with investment at USD338bn less than half of China at USD818bn.

As much as China may drive ongoing investment in energy transition, Asia-Pacific contribution will also continue to be supported by Japan with the government's plan to issue around JPY20 trillion of climate bonds over the next decade to attain the goal of cutting greenhouse gases to zero by 2050. Japan will continue to be a huge advocate for transition bonds with the world's first sovereign Climate Transition Bond Framework published in November 2023, with the country likely pushing for Transitions Bonds due to its heavily industrialized economy and need to reduce its emissions to meet global standards and net zero commitments. In line with this, the Japan Government issued the world's first sovereign climate transition bond in February 2024 to finance the development of clean energy resources along with several other transition bonds issued in 2024. Please see our publication "***Transition Bonds: In the shadows of Sustainable Finance***" published 27 May 2024 for more details on transition bonds.

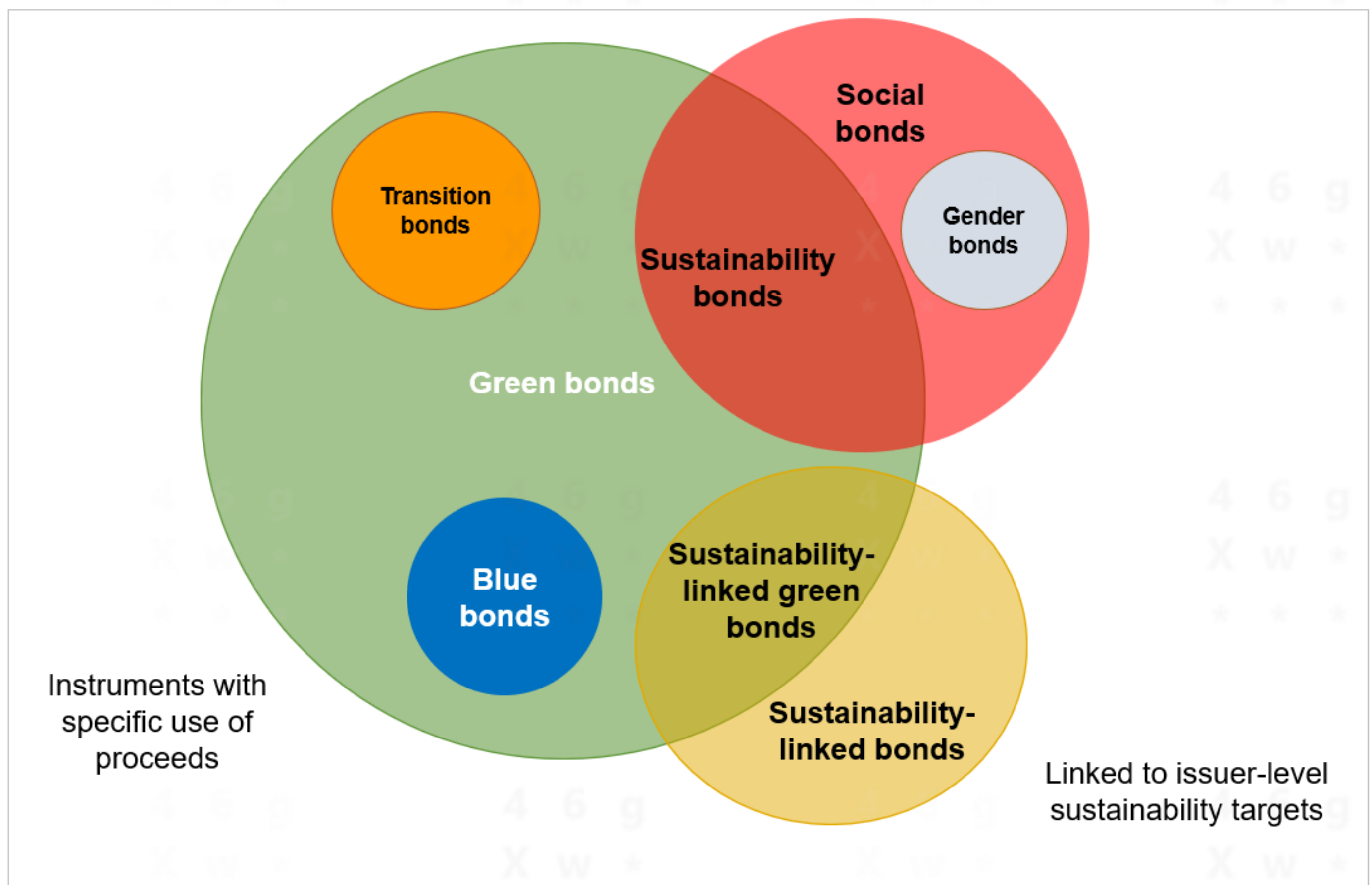
Already, Japan has been active in the sustainable finance issuance space in 2025 with ~JPY350bn in 5-year Climate Transition Bonds issued as part of plans to issue JPY1.2 trillion in green transformation or climate transition bonds in 2025 covering July 2025 – March 2026. Proceeds are to be used on projects that meet the eligibility criteria identified in the Climate Transition Bond Framework based on Japan's Green Transformation ("GX") policy. Away from the sovereign space, Sumitomo Corporation issued JPY20bn in 5 year green bonds under the Sumitomo Corporation Sustainable Finance Framework. This is the third green bond issued since May 2022 with proceeds to be used on renewable energy projects (wind, solar, geothermal), forestry businesses, railway-related projects, water-related projects, green buildings and energy efficiency.

Table 1: Definitions

	Icon	Type of bonds	Definition
1.		Green bonds	Proceeds from these bonds are specifically allocated to financing new and existing projects or activities with positive environmental impacts.
2.		Social bonds	To qualify as a social bond, the proceeds must be used to finance or refinance social projects or activities that achieve positive social outcomes and/or address a social issue.
3.		Sustainability bonds	Sustainability bonds are issues where proceeds are used to finance or re-finance a combination of green and social projects or activities.
4.		Sustainability-linked bonds	These bonds are structurally linked to the issuer's achievement of climate or broader United Nations Sustainable Development Goals ("UN SDG") targets. Sustainable performance target ("SPT")'s that are not met then results in an increase in the instrument's coupon rate. Conversely, a SPT that is met or exceeded could result in a decrease in the instrument's coupon rate.
5.		Gender bonds	A type of social bond where proceeds are used to support the specific purpose of raising awareness on gender inequality and women empowerment.
6.		Blue bonds	A type of green bond where proceeds are used on projects or strategies leading to a healthy and productive ocean and marine life environment.
7.		Transition bond	A hybrid of green and sustainability-linked bonds where proceeds are used to reduce an issuer's environmental impact through decarbonising fossil fuel and hard-to-abate sectors that would not normally qualify for green bonds.

Source: OCBC Credit Research

Figure 1: Classification of GSSSL bonds



Source: OCBC Credit Research

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