LSEG LPC
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2023 global sustainable finance volume down 9%; Loan issuance off 17% at US$593bn
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Global sustainable financing volume slowed for the third consecutive year in 2023 to log US$1.3trn, a 9% decline compared to year ago results. At US$696bn, global ESG bond volume edged down a very modest 1% in what was nonetheless the third year in a row of weaker results. In the loan market, the drop off cut at bit deeper. Just over US$593bn of sustainable loan volume was completed during the year, a nearly 17% decline compared to 2022 results and the first year of a recorded slowdown since the market took off in 2017-2018.

After a strong first half in which global lenders raised a combined US$786bn across both the loan and bond markets (or nearly 61% of the total for the year), issuance slowed meaningfully during the last six months of 2023. In the loan market alone, just over US$245bn of issuance was completed in 2H23, the lowest half year total since the second half of 2020. Although 4Q23 global sustainable loan volume did edge up quarter over quarter to push over US$134bn through the market, the quarterly total marked a 12% decline compared to the same time last year.

Full year sustainable loan volume totals ultimately represented 15% of 2023 total global loan issuance, on par with year ago results.

SLL VOLUME SLOWS AMID GREATER SCRUTINY

With the exception of the Japan loan market, which saw sustainable loan volume increase 31% year over year to log a record setting US$27.4bn, all regions saw their pipeline of deals slow year over year. Across regions, the utilities names represented the largest share of issuers tapping the market for sustainable loan credits at almost 22% of total issuance for the year.

In Europe, the Middle East and Africa (EMEA) and Asia Pacific (exclusive of Japan), volumes were down 3% and 7% respectively, amid more limited deals calendars. In the APAC region, the absence of large 2023 project finance deals dampened opportunities for new green lending credits.

In EMEA, just over US$277bn in sustainable loan volume was completed during the year to make up 36% of regional loan volume, a level on par with the record pro rata share logged last year.

The results were in line with broad market expectations. According to the results of a 4Q23 LSEG LPC loans survey 67% of respondents covering Western Europe forecast that at least 30% and up to 40% of ***total*** regional loan market volume will include some level of sustainable performance metrics by the end of 2024. And additional 18% indicated that sustainable loan financings may reach as much as 50% of total EMEA loan volume in the next year while 16% believe it could even be greater than 50%.

The results are not terribly surprising given the strong regulatory framework which underpins consumer and shareholder pressure on EMEA banks and companies to operate responsibly sustainable manner. Thirty six percent of EMEA based lenders who were surveyed indicated that sustainable loan constructs were critical components of all their discussions with issuers. An additional 54% said that inclusion of sustainable metrics in financing discussions was borrower and credit specific. Only 10% said that they gauge borrower interest before raising the topic in discussion.

Despite the broad market acceptance of sustainable constructs in EMEA, 2023 did mark a turning point.

At over US$208.6bn, EMEA sustainability linked loan (SLL) volume represented roughly 75% of total regional sustainable loan issuance, down significantly from the 85% share recorded last year and markedly off the record 93% share logged in 2021.

"We are seeing the number of labelled SLL loans decreasing, due to both an overall reduction in sustainable loan volumes but also due to more scrutiny which is making borrowers lean back from sustainability linked loans," said one Europe based arranger.

Sources note that in many cases, discussions with issuers about SLL constructs have decreased, either because metrics have already been embedded in existing borrower credits or because of concerns that sustainable loan financings garner closer review and risk being called out for "green washing."

The result, say arrangers, is that many borrowers are rethinking whether sustainable financing is necessary for them amid wider sustainable planning at the corporate level. As one arranger noted, "What we hear from issuers is, 'We have our SRI policy, we have our targets, they are known, and so we do not really need to issue a sustainability linked loan. Our goals are acknowledged. It is just not worth it.'".

In this regard, the results out of the Americas were the most telling. At just under US$175bn, Americas sustainable loan issuance was down 38% year over year to mark the lowest total since 2020. In the US market alone, sustainable constructs represented 5% of all corporate loans completed in 2023 (down from 9.5% in 2022), amid greater scepticism around the applicability of the loan instrument to overall corporate ESG goals.

"The US context is very different from the European context," explained one EMEA based lender. "I think in Europe there is regulation that has really trickled down, creating a lot of awareness, action, and reporting, highlighting the need for transparency and data. There is no regulatory push at all in the US and we do not expect that to change."

In an LSEG LPC survey similar to that which was conducted in EMEA, 47% of US lenders forecast that less than 10% of US lending will include sustainable finance provision by the end of 2024. An additional 27% indicated that 10-20% of US lending may include sustainable metrics, while 27% believe that up to 30% of US lending may include sustainable metrics in the next year. The results are significantly off from market sentiment just two years ago when the majority of survey respondents expected almost 20% of US loan volume to include sustainable metrics going forward.

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