The green bond market celebrated its tenth birthday this year. This relatively young bond segment has posted high market growth rates since 2013. In 2016 alone, the volume of new issues around the world more than doubled on the previous year – from EUR 32 billion to EUR 68 billion (Figure 1), and market growth continues in 2017. With an issue volume of around EUR 70 billion, the market exceeded the annual result for 2016 already in the first three quarters. Green bonds are variable or fixed-income securities issued by an entity that undertakes to use the issue proceeds to finance ‘green’ projects, in areas such as renewable energies, energy efficiency or water pollution control. They are regarded as a promising capital market-based instrument for raising private capital for necessary climate and environmental protection investments.

More issuers and countries are diversifying the market
Up until the year 2012, green bonds were issued primarily by supranational promotional banks such as the European Investment Bank and the World Bank. The number and diversity of actors has since increased considerably. In 2016, commercial banks and non-financial corporations overtook supranational and national promotional banks/agencies (21 %) for the first time as the largest group of issuers, taking a share of 44 and 32 %, respectively, of global green bond issuance volume. Municipalities and cities ranked fourth (2 %). Another novelty in 2016 was that Poland was the first country in the world to issue a green bond as a sovereign bond. France followed in January this year, placing the largest ever issue (EUR 7 billion) in the green bond market.

The landscape of issuing countries has also diversified noticeably in the course of time. More and more emerging market economies are joining European and North American issuers on the green bond market. The issuance volume of Chinese issuers, in particular, rose sharply last year – from EUR 0.9 billion in 2015 to EUR 27.2 billion in 2016. That made China the largest issuer in 2016, with a share of 40 % of new global green bond issues (Figure 2).

Still a niche market
Despite dynamic growth around the world, green bonds are still a niche market. According to Moody’s, it represented a mere 1.4 % of the issuance volume of the total bond market in 2016. A major barrier is probably the fact that green bonds so far usually do not give issuers an interest advantage over conventional bonds. At the same time, however, issuing green bonds incurs additional costs due to transparency and reporting obligations. What is more, there is no internationally agreed definition yet of what constitutes a ‘green’ investment. In order to move to a harmonised approach at least across Europe, the High-Level Expert Group on Sustainable Finance established by the EU Commission recently recommended creating a uniform EU classification system of sustainable assets and a European standard for green bonds.

Finally, stable policy frameworks and economic incentives are indispensable so that the investments necessary to achieve global climate protection and sustainability goals are initiated in the real economy. Only on that basis will demand for new financing instruments grow significantly.