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S&P: What's Next For U.S. Municipal Green Bonds?

The issuance of U.S. municipal green bonds – bonds backing projects with positive environmental effects — is increasing, joining a trend in the broader market for similarly labeled debt instruments. S&P Global Ratings estimates the municipal market will see between $6.3 billion and $7.2 billion of green bonds in 2016 (see chart 1), a meaningful step up from $4.1 billion in 2015 and $2.4 billion in 2014. Our 2016 estimate is based on actual data through July from Climate Bonds Initiative (CBI) assuming issuance stays on pace and average par remains the same.

However, we believe the market for U.S. municipal green bonds could be significantly larger. A recent HSBC report conservatively identified $30.3 billion of municipal bonds issued from 2014 to 2016 that met its green standard, only $10.9 billion of which were actually labeled green by issuers. This suggests the potential for significant growth simply by a broader acceptance of this asset classification. The same HSBC report estimates that green labeled municipals represented about 8% of the total $118 billion in labeled green bonds issued globally since 2007.

Overview

- The U.S. municipal market could see $6.3 billion-$7.2 billion of green bonds issued this year, up from $4.2 billion in 2015.
- In our view, the potential for broader participation by municipal market issuers into green bonds is high, and will be a function of costs relative to benefits, investor demand, and broader public support for infrastructure projects that promote sustainable long-term environmental objectives.
- Over time we expect to see metrics to evaluate the level of disclosure and environmental credentials of green bonds becoming more important to investors.

Issuance of green labeled transactions in the corporate debt market may reach $15 billion this year while they are just beginning in the real estate sector (see “The Corporate Green Bond Market Fizzes As The Global Economy Decarbonizes,” published April 15, 2016 on RatingsDirect, and “New Shoots Emerging In Green Bond Market For Real Estate,” published Aug. 22, 2016). Globally, the market for green bonds is expected to expand significantly as signatories to the December 2016 Paris climate change agreement increase efforts to reduce carbon emissions (see “The Paris Agreement: A New Dawn for Tackling Climate Change, Or More Of The Same?,” published Jan. 18, 2016).

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