ESG In Credit Ratings January 2024

2023 In Review

S&P Global Ratings

This report does not constitute a rating action.

Total ESG-driven credit rating actions (2022 versus 2023)

All credit rating actions	Positive rating actions	Negative rating actions
392 (2022) → 221 (2023)	147 (2022) → 55 (2023)	242 (2022) → 166 (2023)

Positive rating action breakdown

	2022	2023
Top factor	105 Health and safety	34 Health and safety
Top sector	88 Corporates and infrastructure	44 Corporates and infrastructure
Top region	90 North America	24 Europe

Negative rating action breakdown

	2022	2023
Top factor	79 Risk management, culture, and oversight	48 Health and safety
Top sector	120 U.S public finance	79 U.S public finance
Top region	155 North America	148 North America

Three 2022 CreditWatch developing rating actions are excluded from the positive and negative totals in the above graphic because they are neither positive nor negative. Source: S&P Global Ratings.

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Key Takeaways

- Credit rating actions related to environmental, social, and governance (ESG) factors fell 44% in 2023 versus 2022, largely due to the ongoing decline in COVID-19-related risks.
- The corporates and infrastructure sector and U.S. public finance retained their leads in ESG-related positive and negative rating actions, respectively.
- The dominant factor in both positive and negative ESG-related rating actions was health and safety, overtaking risk management, culture, and oversight as the top factor behind negative rating actions by a slight margin (48 versus 44 in 2023).
- Governance factors continued to play a meaningful role, accounting for over 40% of ESG-related rating actions, while climate transition risk remains a limited, albeit growing, rating action factor.

ESG-Related Rating Actions Decelerated In 2023

S&P Global Ratings includes a reference in its credit rating rationales when one or more of the below ESG factors were key drivers behind a change to the credit rating, outlook, or CreditWatch status. We consider ESG credit factors as those ESG factors that can materially influence the creditworthiness of a rated entity or issue and for which we have sufficient visibility and certainty to include in our credit rating analysis. They are not assessments of entities' sustainability profile or ESG performance. This newsletter provides additional data and insights on ESG credit factors that have been key drivers behind changes to our credit ratings.

ESG-related credit rating actions fell nearly 44% last year, to a tally of 221 in 2023 from 392 in 2022. The lower number of actions largely owed to the ongoing decline in COVID-19-related risks.

Health and safety was the top ESG factor in 2023, driving 37% of ESG-related rating activity with 82 actions, down by nearly half from 158 in 2022. Despite the overall decline, health and safety remained the dominant factor for positive ESG-related rating actions and overtook risk management, culture, and oversight as the leading reason for negative ESG-related actions in 2023. Our rating actions related to health and safety exclusively stem from COVID-related risks.

Rating actions related to risk management, culture, and oversight, the second highest-cited ESG factor in 2023, with 25% of ESG-related activity, were most prominent in the U.S. public finance sector, particularly among state and local governments, which accounted for 42% of these rating actions within U.S. public finance. Risk management is an inherent day-to-day responsibility of state and local governments that ensures the stability of their operations and financial outcomes. When risk management falters or may be insufficient, this governance factor can become material in our credit rating analysis and lead to rating and outlook changes. Financial institutions, which experienced significant headwinds in business volume and asset quality earlier in the year, also contributed to the risk management, culture, and oversight rating action total.

While overall governance factors held steady relative to 2022 at over 46% of total ESG-related rating actions in 2023, this share climbed from just 2% in 2020 and 22% in 2021, largely owing to the high number of rating actions related to COVID-19 in those years.

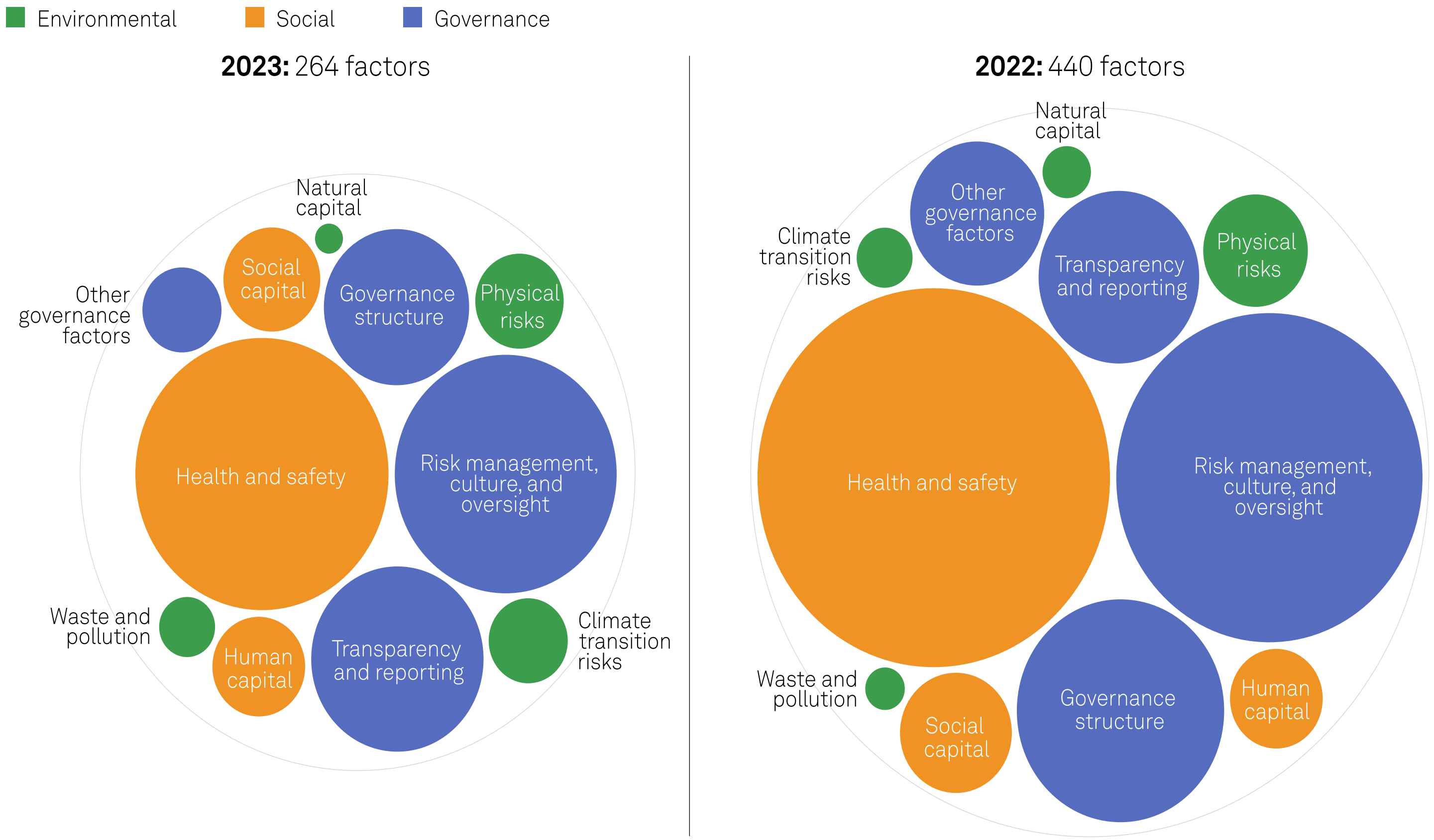
Despite the reduction in overall ESG-related rating activity, rating actions related to climate transition risks picked up. A majority of these actions were negative in 2023 as aspirations of decarbonization and electrification intensified, with the financial debt burden of realizing such goals cited as the main risk.

North America maintained the largest number of ESG-related rating actions by region in 2023, at 173, accounting for 78% of ESG-related rating activity--a disproportionate percentage relative to the region's share of total outstanding ratings. Although this percentage was up from 67% in 2022, the increase was primarily due to the material drop in rating actions related to ESG credit factors.

North American ESG-related rating actions were 86% negative in 2023, led by the U.S. public finance sector--in sharp contrast to European ESG-related rating actions, which were 67% positive, led by the corporates and infrastructure sector. ESG factors cited outside the U.S. and Europe remained sparse, with Asia-Pacific, Latin America, and Eastern Europe, the Middle East, and Africa representing just 6% of 2023 ESG-related rating activity combined.

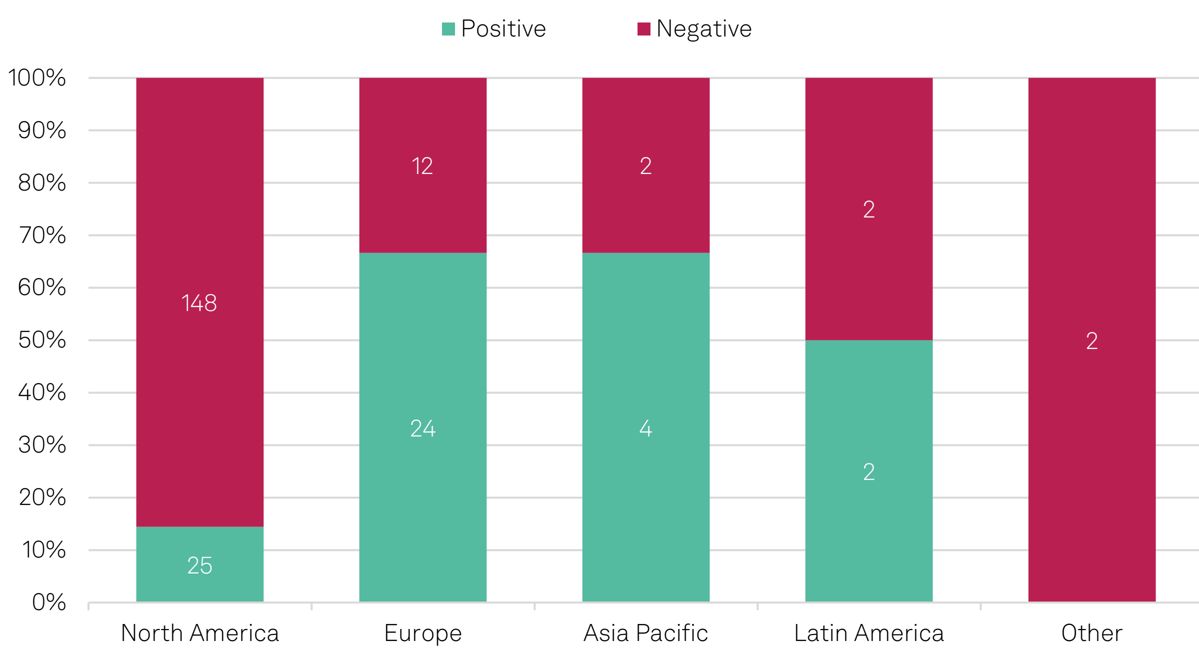
Leading ESG factors propelling credit rating actions

As a proportion of total cited factors (2023 versus 2022)



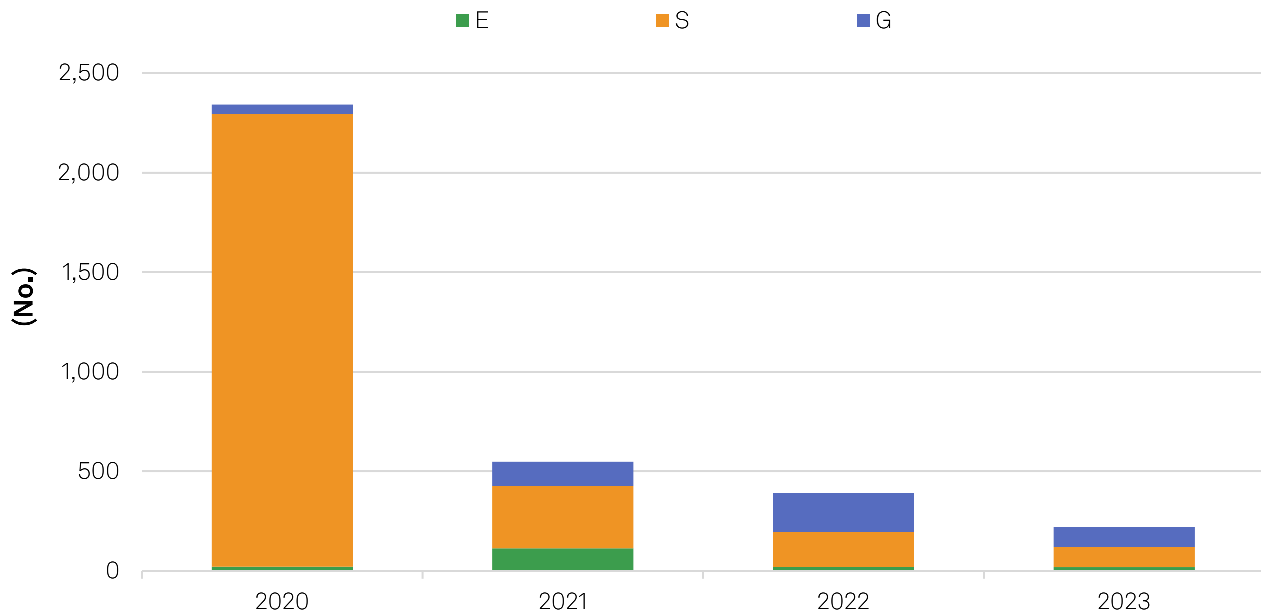
Data as of Dec. 31, 2023. Bubble size is determined by occurrence of factors within the year per chart, irrespective of positive or negative actions. The sum of ESG factors exceeds total ESG-related rating actions because some actions are influenced by multiple factors. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

2023 ESG credit rating actions by region (percentage and count)



Data as of Dec. 31, 2023. "Other" includes the Middle East and Africa. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

ESG credit rating actions by year



Data as of Dec. 31, 2023. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

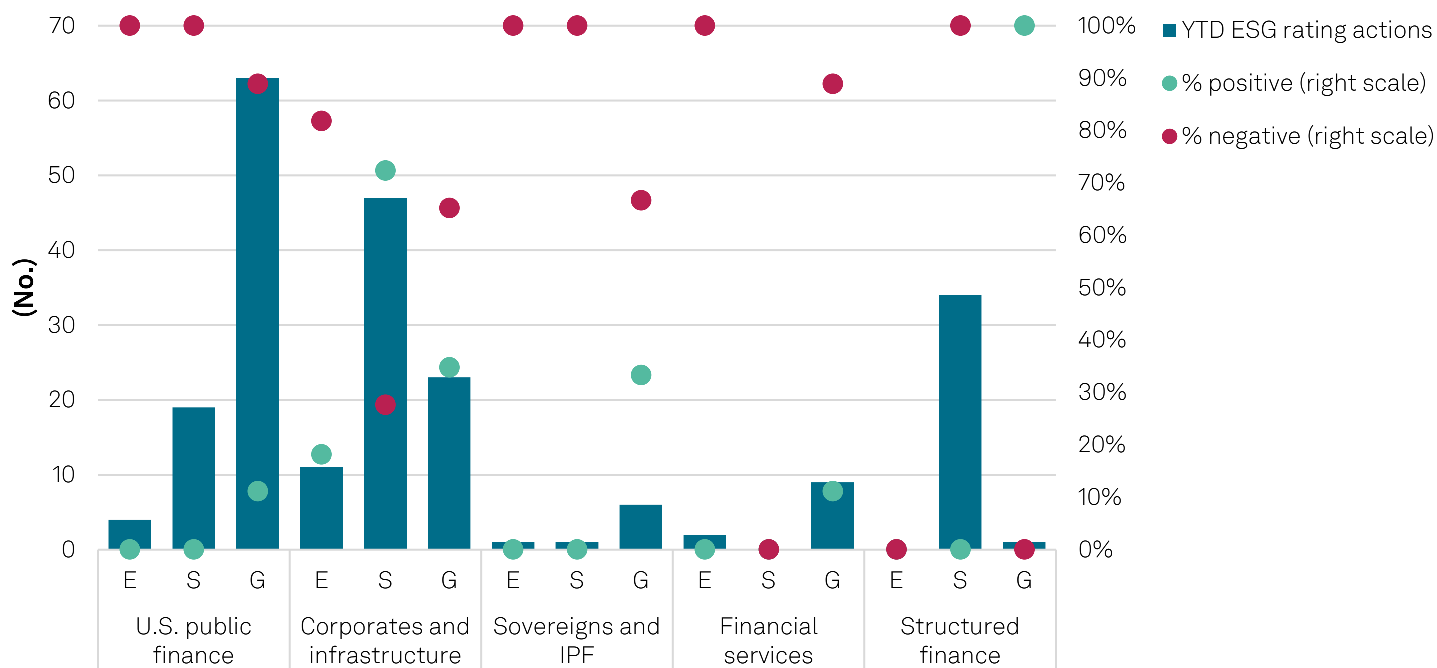
2023 ESG-Related Credit Rating Actions

2023 ESG-related credit rating actions by type

Data as of Dec. 31, 2023. Structured finance actions relate to ESG impacts by transaction (tranche), while for other sectors, the impact is measured on the issuer credit rating. Upgrades and upward outlook/CreditWatch revisions are shown as positive numbers, while downgrades, downward outlook/CreditWatch revisions, and withdrawals are shown as negative numbers. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

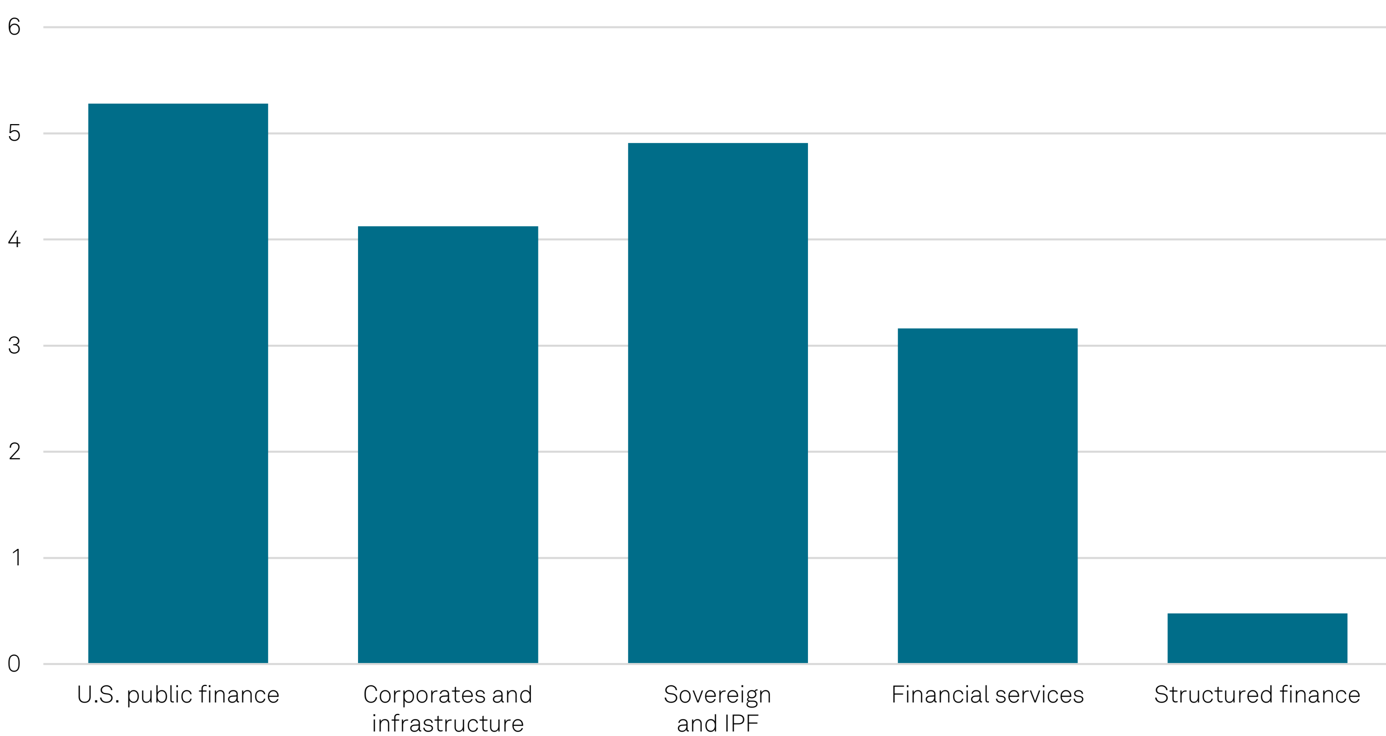
2023 ESG-related credit rating actions by sector and factor

Number of actions and proportion positive/negative



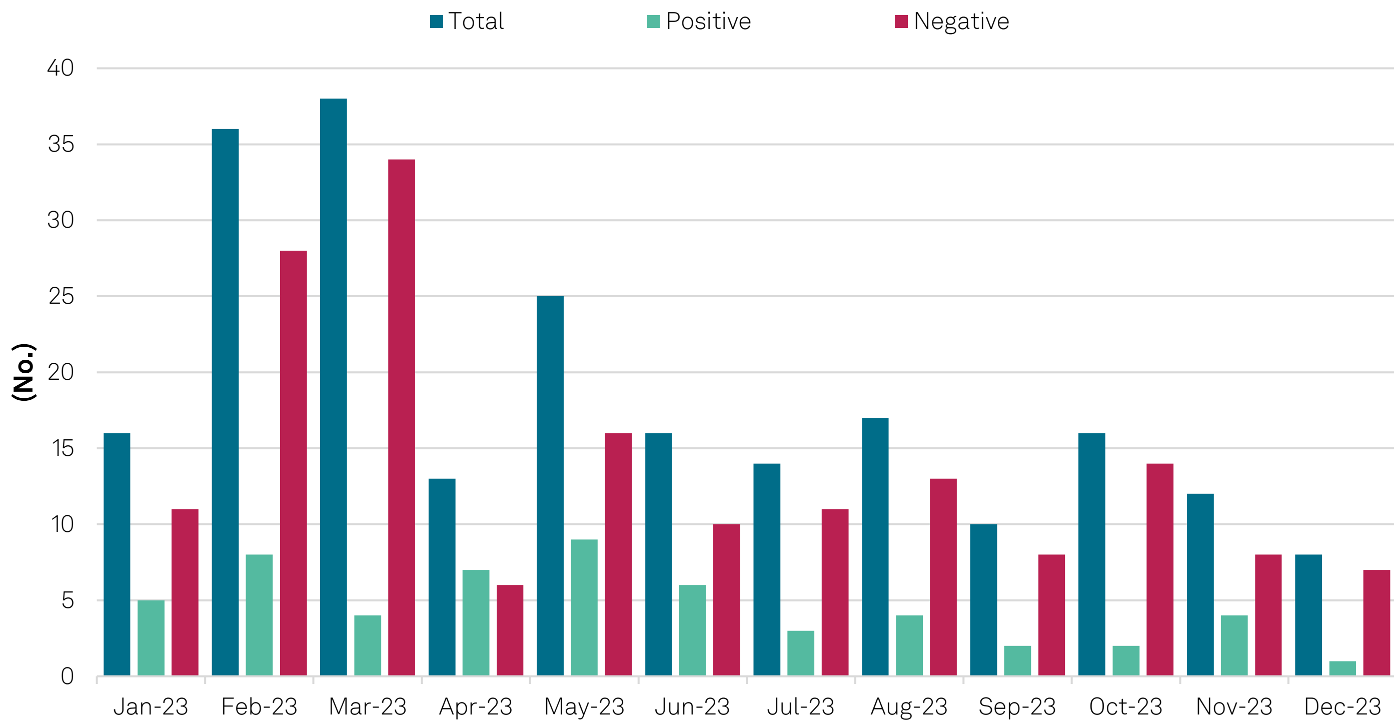
Data as of Dec. 31, 2023. Rating actions include rating, CreditWatch, and outlook changes and withdrawals. Structured finance actions relate to ESG impacts by transaction (tranche), while for other sectors, the impact is measured on the issuer credit rating. ESG--Environmental, social, and governance. IPF--International public finance. Source: S&P Global Ratings.

2023 ESG-affected rating actions (% of total)



Data as of Dec. 31, 2023. Total rating actions exclude affirmations, withdrawals, and new ratings, including instances where multiple rating actions exist. ESG--Environmental, social, and governance. IPF--International public finance. Source: S&P Global Ratings.

2023 ESG-related credit rating actions by month



Data as of Dec. 31, 2023. Positive actions include upgrades, CreditWatch positive placements, upward outlook revisions, and upgrades with outlook revisions. Negative actions include downgrades, downward outlook revisions, CreditWatch negative placements, downgrades with outlook revisions, and withdrawals. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

Appendix

ESG-related credit rating actions

Year to date

	U.S. public finance	Corporates and infrastructure	Sovereigns	International public finance	Financial services	Structured finance	Total
Downgrade	48	21	1	5	6	16	97
CreditWatch negative	18	2	0	0	1	18	39
Downward outlook revision	12	14	0	0	3	0	29
Upgrade	7	26	0	1	0	0	34
Upward outlook revision	0	18	1	0	1	0	20
CreditWatch positive	0	0	0	0	0	1	1
Withdrawn	1	0	0	0	0	0	1
Total ESG-related rating actions*	**86**	**81**	**2**	**6**	**11**	**35**	**221**
Environmental§	5	15	0	1	2	0	23
Social§	23	49	0	1	0	34	107
Governance§	84	29	2	4	13	2	134

Data as of Dec. 31, 2023. *Rating actions include rating, CreditWatch, and outlook changes and withdrawals in January-December 2023. Structured finance actions relate to ESG impacts by transaction (tranche), while for other sectors, the impact is measured on the issuer credit rating. §The sum of ESG actions by factor may exceed total ESG-related rating actions because some actions are influenced by multiple factors. ESG--Environmental, social, and governance. Source: S&P Global Ratings.

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