



Sustainability Insights: Middle East Sustainable Bond Issuance Trends

Slowdown despite the regional bond market's uptick

S&P Global
Ratings

Rawan Oueidat, CFA

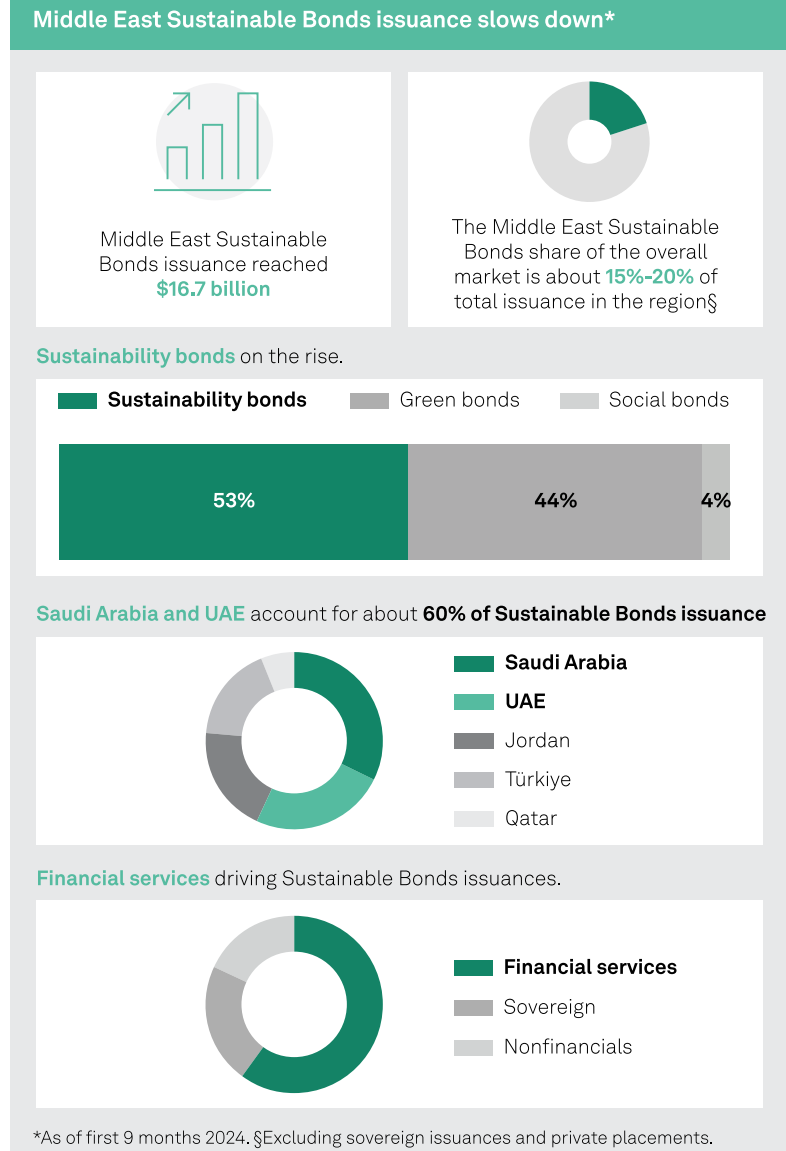
Director, Corporate Ratings

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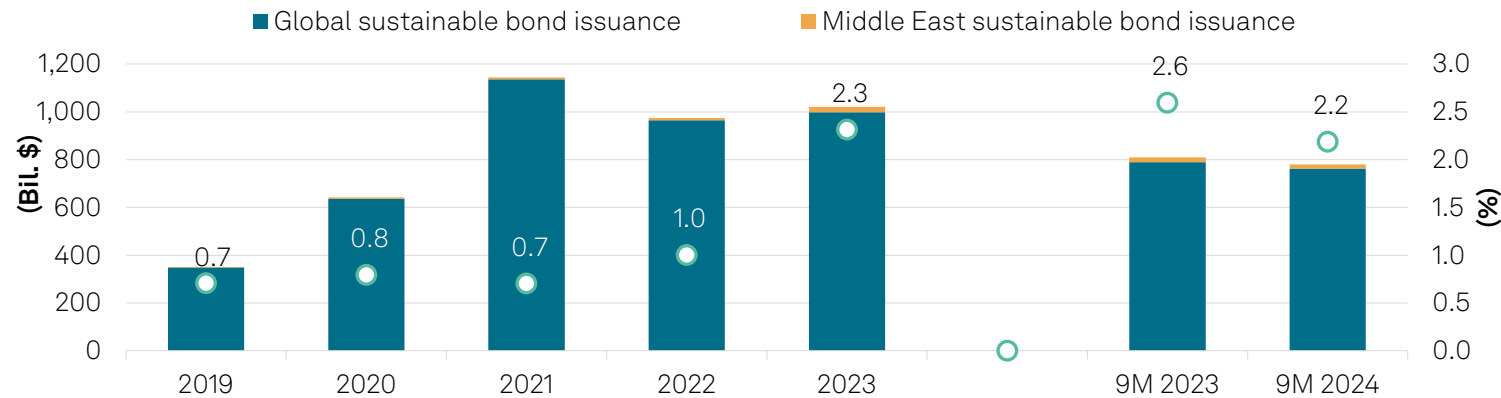
Key Takeaways

- Total sustainable bond (green, social, sustainability, and sustainability-linked bonds) issuance in the Middle East reached \$16.7 billion in the first nine months of 2024, down 18% from the same period a year earlier, although this followed a relatively high COP28 halo effect.
- To take off, sustainable bond issuance in the Middle East could require acceleration in implementing net zero policies, despite government initiatives and increasing alignment with sustainability strategies, or even regulatory requirement.
- The demand for sustainable bond issuance in the region is sensitive to economic growth, inflation, and interest rates, while transparency and disclosure within ESG reporting are in the early stages of development; these factors could affect funding and regulations.
- The United Arab Emirates (UAE) and Saudi Arabia will likely continue leading the region's Sustainable Bonds issuances, despite increased activity elsewhere. Sustainability bonds lead the share of issuance, as more banks fuel issuances, with corporate activity meaningfully lower (45% year over year).
- Renewable energy remains a key priority in the region, with most issuances including it as part of use of proceeds.

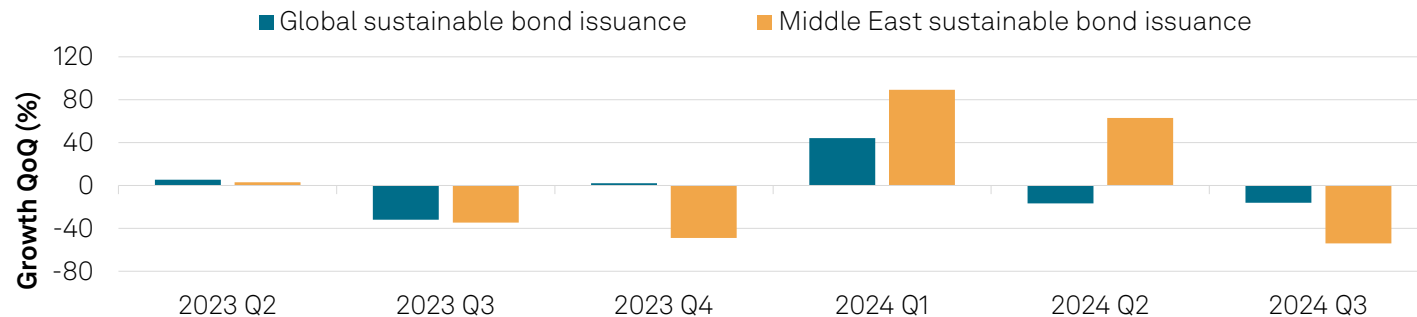


The Middle East's Share Of Global Sustainable Bonds Issuance Is Low

The Middle East accounts for a small share of sustainable bond issuance



Issuance trends have picked up since the start of 2024



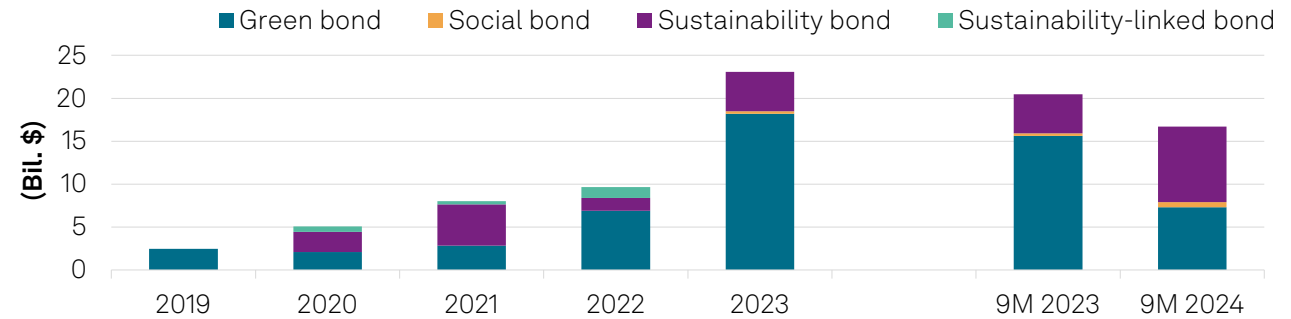
QoQ--Quarter over quarter. Source: S&P Global Ratings, Environmental Finance Bond Database.

- Middle East sustainable bond issuance has slowed so far in 2024 from comparable 2023 levels due to higher interest rates and some normalizing from the halo effect of COP28 in November 2023.
- We calculate sustainable bonds contribute to 15%-20% of total bond issuances (excluding sovereigns and private placements) in the region, higher than global levels of 12%-14%.
- Given that 35%-40% of the issuances in the region this year were propelled by private placements and domestic issuances, including these amounts, the share of sustainable bond issuance in the region drops to 10%-15%.
- In the first two quarters of 2024, sustainable finance activity in the region improved better sequentially compared with global trends. However, this changed in the third quarter, where activity was muted despite continued bond issuances in the region.

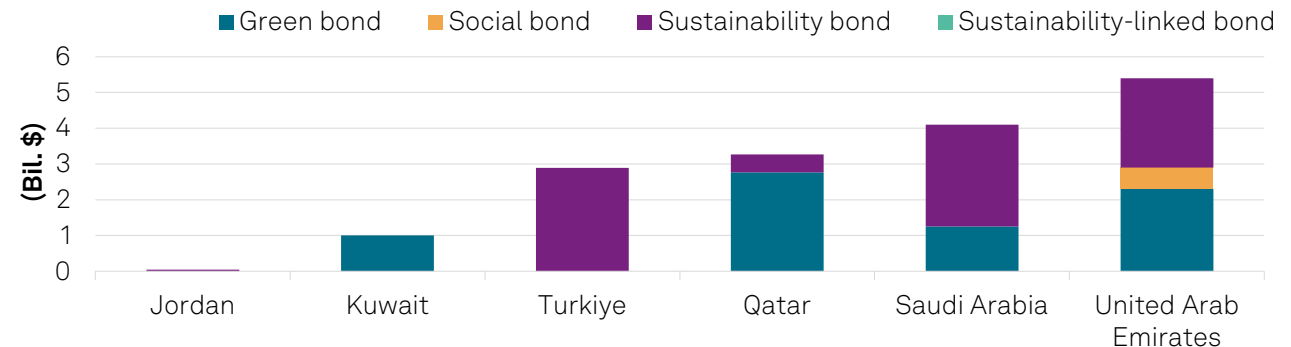
Sustainability Leads 2024 Middle East Sustainable Bond Issuance

- While funding climate transition and adaptation remains a priority in the region given the exposure to hydrocarbons, sustainability issuances (including funding social projects) have risen in 2024 compared with only green projects previously.
- This contrasts with global trends, where green bonds remain prevalent (about 60% of sustainable bonds).
- We think the shift in the region is spurred by issuer profile: most issuers year to date are financial institutions, where adding a social element to the framework is aligned with overall respective sector exposure.
- Common social elements include access to essential services, affordable housing, and employment through small and midsize enterprise funding, for example.

Sustainability bonds are on the rise in the region



Sustainability bonds constitute a large part of Sustainable Bonds issuance in the UAE, Saudi Arabia, and Türkiye for the first nine months of 2024

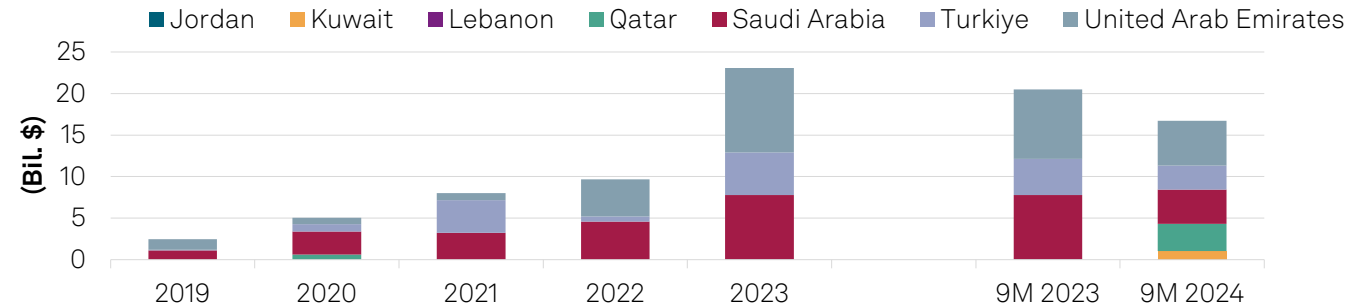


Source: S&P Global Ratings, Environmental Finance Bond Database.

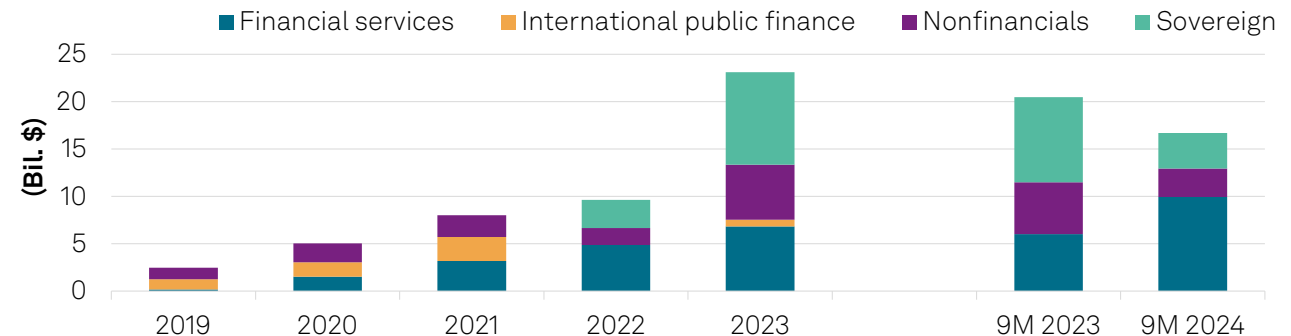
The UAE And Saudi Arabia Remain The Largest Sustainable Bond Markets

- The UAE and Saudi Arabia make up most sustainable bonds issuance in the Middle East, but issuances from Qatar have risen this year.
- Issuances in the UAE are more diversified by issuer type than those in the rest of the region, but financial institutions are prevalent across the board this year.
- In the UAE, the financial sector has pledged to mobilize AED1 trillion (\$272 billion) in sustainable finance by 2030 as a key factor for issuances in the sector.
- Large corporates, namely government-related entities, also are leading issuances.

The UAE, Saudi Arabia, and Türkiye dominate regional sustainable bond issuances



Financial institutions issuances dominate

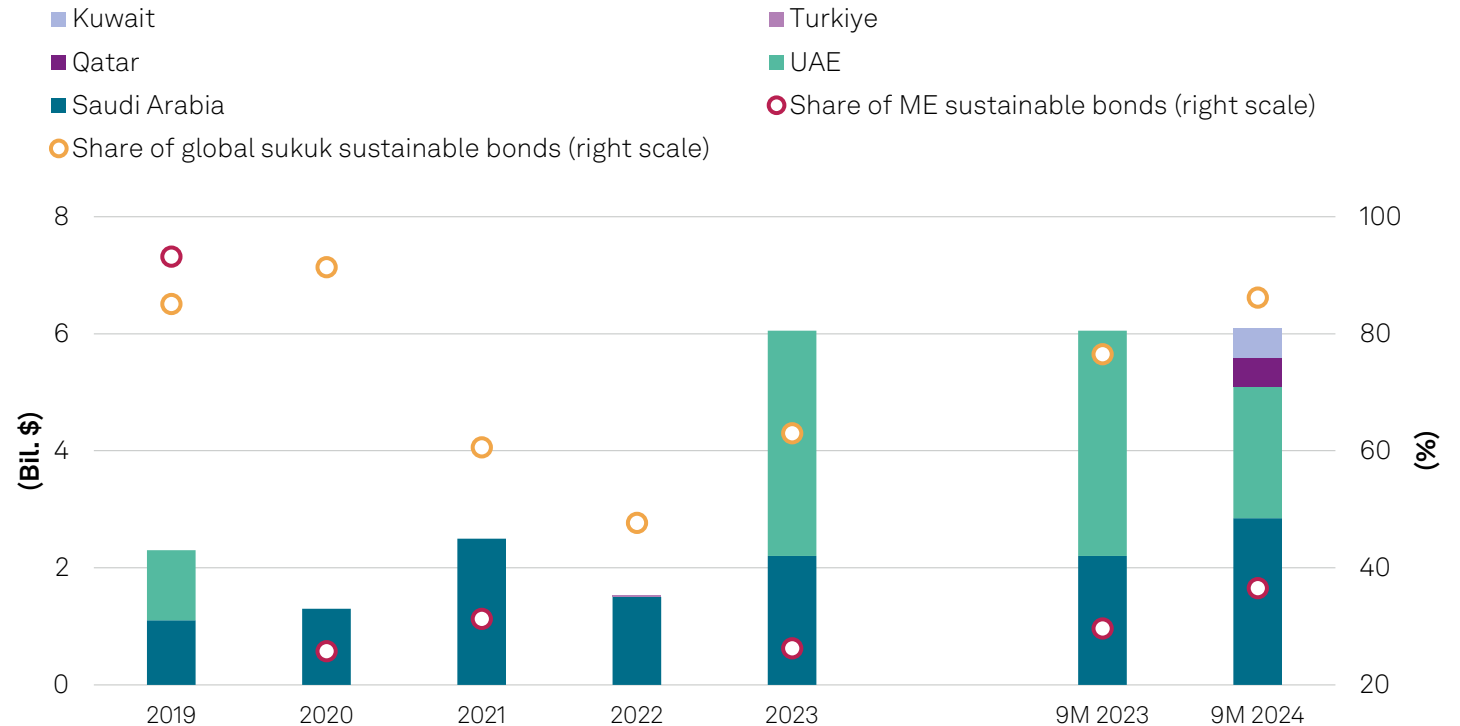


Source: S&P Global Ratings, Environmental Finance Bond Database.

Sustainable Sukuk Share Rises Despite The Regional Sustainable Bond Slowdown

- The total volume of sustainable sukuk globally reached \$7.1 billion in the first nine months of 2024, down 11% compared with the same period a year earlier.
- In the Middle East, the total sustainable sukuk volume reached \$6.1 billion in the same period, relatively unchanged from a year earlier.
- The share of sustainable sukuk in the region continues to increase, constituting close to 35%-40% of sustainable bonds issuance in the region so far in 2024, compared with 25%-30% at year-end 2023.
- Most of the issuance stems from the GCC, and we expect this to continue.

Sustainable sukuk is becoming more relevant in the region



9M--Nine months. Source: S&P Global Ratings, Environmental Finance Bond Database.

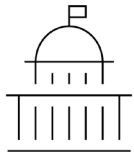
Sustainable Bond Issuance In The Middle East

What could drive issuances?



Transparency and disclosures

- Implementation of ESG disclosures and reporting (mandatory in the UAE, with guidelines available in Saudi Arabia, Bahrain, Qatar, Kuwait, and Oman)
- Data validation and audits



Government initiatives

- Regulations and taxonomies
- Efforts to accelerate energy transition



Economic trends

- Economic growth
- Inflation
- Interest rates

Sustainable Bond Middle East Issuances For The First Nine Months Of 2024

Issuer name	Country	Issuer sector	Issuer type	Amount (mil. \$)	Time	Asset class
Qatar International Islamic Bank	Qatar	Financial services	Sustainability bond	500	Q1 2024	Sukuk
VakifBank	Turkey	Financial services	Sustainability bond	14	Q1 2024	
Dubai Islamic Bank	United Arab Emirates	Financial services	Sustainability bond	1,000	Q1 2024	Sukuk
Emirate of Sharjah	United Arab Emirates	Sovereign	Sustainability bond	750	Q1 2024	
Al Rajhi Bank	Saudi Arabia	Financial services	Sustainability bond	1,000	Q1 2024	Sukuk
Ziraat Bank	Turkey	Financial services	Sustainability bond	500	Q1 2024	
Saudi National Bank	Saudi Arabia	Financial services	Sustainability bond	850	Q1 2024	Sukuk
VakifBank	Turkey	Financial services	Sustainability bond	108	Q1 2024	
VakifBank	Turkey	Financial services	Sustainability bond	108	Q1 2024	
VakifBank	Turkey	Financial services	Sustainability bond	108	Q1 2024	
Arab Petroleum Investments Corp.	Saudi Arabia	Nonfinancials	Green bond	750	Q2 2024	
Aldar Properties PJSC	United Arab Emirates	Nonfinancials	Green bond	500	Q2 2024	Sukuk
Turk Telekom	Turkey	Nonfinancials	Sustainability bond	500	Q2 2024	
Emirates Islamic Bank	United Arab Emirates	Financial services	Sustainability bond	750	Q2 2024	Sukuk
State of Qatar	Qatar	Sovereign	Green bond	1,000	Q2 2024	
State of Qatar	Qatar	Sovereign	Green bond	1,500	Q2 2024	
National Bank of Kuwait	Kuwait	Financial services	Green bond	500	Q2 2024	
Isbank	Turkey	Financial services	Sustainability bond	500	Q2 2024	
QNB Finansbank	Turkey	Financial services	Sustainability bond	500	Q2 2024	
Al Rajhi Bank	Saudi Arabia	Financial services	Sustainability bond	1,000	Q2 2024	Sukuk
Akbank	Turkey	Financial services	Sustainability bond	500	Q2 2024	
Isbank	Turkey	Financial services	Sustainability bond	50	Q2 2024	
Warba Sukuk	Kuwait	Financial services	Green bond	500	Q3 2024	Sukuk
Rakbank	United Arab Emirates	Financial services	Social bond	600	Q3 2024	
First Abu Dhabi Bank	United Arab Emirates	Financial services	Green bond	800	Q3 2024	
Masdar	United Arab Emirates	Nonfinancials	Green bond	500	Q3 2024	
Masdar	United Arab Emirates	Nonfinancials	Green bond	500	Q3 2024	
Jordan Ahli Bank	Jordan	Financial services	Sustainability bond	50	Q3 2024	
Public Investment Fund	Saudi Arabia	Sovereign	Green bond	500	Q3 2024	
Commercial Bank of Qatar	Qatar	Nonfinancials	Green bond	265	Q3 2024	

Source: Environmental Finance Database

Sustainable Bonds Defined

Sustainable bonds--including green, social, sustainability, and sustainability-linked bonds--fall into two main categories:

Sustainability-linked bonds (SLBs): Any type of instrument for which the financial or structural characteristics can vary depending on whether the issuer achieves predefined sustainability objectives.

Use-of-proceeds bonds: Any type of instrument where the net proceeds (or an equivalent amount to the net proceeds) are exclusively used to finance or refinance, in part or in full, new and/or existing eligible green and/or social projects.

The three main subcategories of use of proceeds instruments are:

- **Green bonds:** Instruments that raise funds for projects with environmental benefits including renewable energy, green buildings, and sustainable agriculture.
- **Social bonds:** Instruments that raise funds for projects that address or mitigate a specific social issue and/or seek to achieve positive social outcomes, such as improving food security and access to education, health care, and financing, especially but not exclusively for target populations.
- **Sustainability bonds:** Instruments that raise funds for projects with both environmental and social benefits.

Finally, **transition bonds** can be either sustainability-linked or use-of-proceeds bonds issued specifically to support climate transition goals, geared toward issuers in hard-to-abate sectors. Projects those bonds support may not always be “green”, but still aim at supporting climate transition.

Analytical Contacts



Rawan Oueidat, CFA

Director, Corporate Ratings

Dubai, UAE

rawan.oueidat@spglobal.com



Patrice Cochelin

Managing Director, Sustainability
Methodology and Research

Paris, France

patrice.cochelin@spglobal.com



Bryan Popoola

Research contributor

Washington, D.C., U.S.

bryan.popoola@spglobal.com

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