BBVA
Creating Opportunities

Highlights of 4Q2023

For the first time since the inception of the sustainable loan market in 2017, the global volume decreased year-on-year from EUR 954Bn in 2022, the highest annual volume on record, to EUR 731Bn in 2023, close to the 2021 level of EUR 742Bn. This can be attributed for a large part to the significant drop of the loan volume globally and particularly that of corporate loans.

Whilst green loans continued their expansion in 2023, ending the year at EUR 218Bn vs EUR 193Bn in 2022, we witnessed a sharp reduction of the volume of sustainability-linked loans from EUR 761Bn in 2022 to EUR 513Bn in 2023.

The sustainable loan volume significantly fell across the three main regions, namely EMEA, the Americas and APAC (ex-Japan) which together represented 95% of the global sustainable loan market in 2023. EMEA continued to lead the way with a total of EUR 346Bn, followed by the Americas with EUR 227Mn and APAC (ex-Japan) with EUR 121Mn. The Americas was the region that witnessed the greatest year-on-year reduction (-32%) as APAC (ex-Japan) and EMEA saw their volume fall by 23% and 20% respectively."

- **Sustainable lending activity stagnates**

  As reported in a previous newsletter, KPI-linked facilities have become the preferred type of sustainability-linked loan ("SLL") for most of the borrowers as they tend to fit extremely well with their public commitments to sustainability. That being said, whilst KPI-linked loans require annual targets, companies' announced objectives might be either very near term or very long term ones with no defined paths in between.

  Global sustainable loan volume tumbled 23% year over year. The drop was particularly significant in the Americas. A similar, although less pronounced, decline was observed in the EMEA and APAC regions.

  But why is this happening? The green and sustainability-linked loan market continues to represent a significant part of the lending activity as well as a substantial share of the total loan volume. That being said, there is a mix of circumstances, which is making corporates struggle when designing a challenging path of sustainable targets in the long term.

  It is unquestionable that the market is evolving towards a more challenging environment in terms of target setting as the scrutiny from banks is increasing. As previously reported, some corporates are struggling when defining long-term targets in the 5-7 year horizon. In this regard, depending on the sector, there can be major forces transforming companies' ecosystem, which makes the future hard to predict and targets to set. A great example of this situation would be the Transportation / Automotive sectors.

  Using the Automakers as an illustrative example, after hitting the brakes on EVs at the end of last year, executives are slowly rolling out new strategies, where companies are turning to hybrids as the EV demand softens. This is leading them to rethink their expectations around the electric vehicles. The situation is knocking on the regulators' doors to figure out a way to achieve climate goals that would work for the auto industry which is divided in two groups with distinct strategies: one that sought to skip hybrids and go straight to an all-electric lineup and another that focused on plug-in hybrids in the near-term with more EVs down the road.

  To conclude, we view this step back in the SLL activity positively as it demonstrates that the market participants are taking the sustainable loan product very seriously. We also see it as a necessary rationalization which will for sure foster the adoption of best practices and give the market even more confidence on the product.

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Highlights of 4Q202

- **Project Finance Highlight**

  The European Commission launched on 23rd November the first auction under the European Hydrogen Bank to support the production of renewable hydrogen in Europe, with an initial €800 million of emissions trading revenues, channeled through the Innovation Fund. Producers of renewable hydrogen can bid for support in the form of a fixed premium per kilogram of hydrogen produced. The premium is intended to bridge the gap between the price of production and the price consumers are currently willing to pay, in a market where non-renewable hydrogen is still cheaper to produce.

  The Hydrogen Bank complements other policy tools to build a market for renewable hydrogen, stimulate investments in the production capacity, and bring production to scale. Renewable hydrogen has a critical role to play in Europe's future energy mix, in particular for the decarbonization of heavy industry and some transport sectors, replacing fossil fuels. In the context, Spain is positioning itself to become a very important leading hydrogen hub due to its excellent geographical location and the existence of a powerful network of gas infrastructures that could become the basis of the future hydrogen network.