The Green Bond Market in Hong Kong

Developing a Robust Ecosystem for Sustainable Growth

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HKIMR Applied Research
The Green Bond Market in Hong Kong: Developing a Robust Ecosystem for Sustainable Growth

• This report is the third in a series of HKIMR applied financial research reports on topics that are highly relevant to the financial industry and regulators in Hong Kong

• The HKIMR is the research arm of the Hong Kong Academy of Finance (AoF)
Objectives of the Study

• Overview of the state of the green bond markets in Hong Kong and globally

• Assess the benefits of green bonds to issuers and investors

• Gather views and insights from local market participants, highlighting the opportunities and prospects of the green bond market in Hong Kong

• Discuss the strategies to accelerate the development of Hong Kong as a leading international green bond hub
Dramatic Increase in Global Green Bond Issuance since 2013

Source: CBI
Green Bonds Arranged and Issued in Hong Kong

- **Cumulative issuance** in Hong Kong amounted to **USD 26bn** by the end of 2019

- **Around half** of green bonds in 2019 were issued by **financial institutions**

- **Mainland entities** were the largest issuers, followed by local issuers and issuers from the rest of Asia and Europe

![Breakdown by issuer type in 2019](image)

- **Financial Institution** 49.4%
- **Corporate-Real Estate** 18.8%
- **Corporate-Others** 11.2%
- **Corporate-Energy** 6.2%
- **Government** 10.1%
- **Policy/Development Bank** 4.0%
- **MDB** 0.3%

Note: MDB refers to multilateral development bank. Source: HKIMR compilation.
Initiatives of the Hong Kong Green Bond Market

- The HKMA and the Securities and Futures Commission (SFC) initiated the establishment of the **Green and Sustainable Finance Cross-Agency Steering Group**

- The **Government Green Bond Programme** is one of the world’s largest

- The Hong Kong Quality Assurance Agency (HKQAA) provides third-party conformity assessments for green finance issuers. Subsidies for the HKQAA certification are available through the **Green Bond Grant Scheme**

- The **Sustainable and Green Exchange** (STAGE) is a first-of-its-kind sustainable finance platform in Asia
Benefits to Green Bond Issuers and Investors

**For issuers**

- Green bonds generally enjoy a **lower cost of borrowing**. The cost reduction is **tangible if they are verified or certified**
- Green bond issuance also leads to **higher equity returns** around the issuance period when the green bonds are verified or certified

**For investors**

- Accumulating evidence suggests that green bonds may **offer resilience in market downturns**
- During the Covid-19 epidemic, some green bond indices exhibited a **better risk-return tradeoff** than their conventional bond counterparts
Verified/Certified Green Bonds Enjoy Lower Cost of Borrowing

A more negative yield spread means a lower cost of borrowing for issuers relative to conventional bonds.

Sources: Moinas and Bao (2020) and HKIMR staff compilation
Green Bonds May Offer Resilience in Market Downturns

Index value (Rebase to 100 on 1/1/2020)

- Bloomberg Barclays MSCI USD Green Bond Index
- Bloomberg Barclays USD Aggregate Corporate Index

Sources: Bloomberg
Participants’ Views of the Advantages of the Hong Kong Green Bond Market that Motivate Participation

Source: HKIMR staff calculations based on the Green Bond Survey
Existing Market Participants are Satisfied with the Hong Kong Market

Are existing investors satisfied with ESG information disclosure in Hong Kong?

- Satisfied: 14%
- Not satisfied: 0%
- To some extent satisfied: 86%

Do you have plans to participate in the Hong Kong green bond market in the future?

- Existing issuers: 71%
- Existing investors: 100%

Source: HKIMR staff calculations based on the Green Bond Survey
Challenges Perceived by Hong Kong Market Participants

• Low public awareness about the green bond market

• Financial and time costs involved in the verification and certification procedures

• Lack of unified international green bond taxonomy and standards
Strategies to Encourage Broader Market Participation

• Promote **public awareness** to increase the size of **local green investors**

• Broaden incentive policies to include more generous **tax exemption or reduction** for interest income for green bonds

• Other participants suggest **subsidies to certification by a broader list of recognised certification bodies**
Strategies to Perfect the Green Infrastructure

• Encourage **convergence of international green bond practices**

• Develop a system of **more transparent ESG information disclosure**

• Construct **green bond indices** and promote **green exchange**

• Facilitate **cross-border green bond issuance** for enterprises from Mainland China

• Support **responsible investment** and **government issuance**
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