

**CHIEF ECONOMIST'S COMMENT**

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**"The green, green grass of home ..."****AUTHOR**

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Who doesn't remember this classic Elvis Presley song, in which a young man yearns for the familiar surroundings of his childhood home. But Elvis is not the only one to wax lyrical about the colour green, the financial markets are raving about it too. However, rather than rediscovering the past, they are embracing the future in the form of so-called "green bonds" – bonds whose proceeds are invested in sustainable and environmentally-friendly projects. This new type of bond has enjoyed a certain boom over the past ten years in Europe as well. Although only around 1 % of newly issued bonds bore a green seal in 2017, between 2014 and 2017 alone the volume of new issues increased by more than 50 % per annum. This strong growth is also expected to continue in the future and the reasons for this are obvious: more and more people want to combine investing with social responsibility. In their search for suitable investments, they have found what they are looking for in the megatrend of climate change. The OECD estimates that, over the next few years, the astronomical sum of USD 100 billion will have to be invested in global infrastructure in order to achieve the goals of the Paris Climate Agreement. When it comes to raising amounts of this kind, investors looking for sustainable opportunities play a key role. In addition to the environment, this development also benefits companies in search of capital that are able to secure favourable conditions, expand their investor base and publicly document their commitment to environmentally friendly business practices using green financial instruments.

Another beneficiary may also be the local financial centre. The battle between banks, consultants and trading centres for a share in this growing market has long since erupted, with French companies recently enjoying particular success in this respect. After all, according to Bloomberg's calculations, around a quarter of the green money raised by European companies in the last five years has been channelled to our western neighbour. French banks are among the most sought-after issuing houses in this segment. But there is also a lot going on in Germany, too. At the end of last year, the Green Finance Cluster, set up by the Hessian Ministry of Economics, began its work and has since merged with Deutsche Börse's Accelerating Sustainable Finance project.

In the summer, a first report was published summarising the various sustainability initiatives in the German financial centre and defining future areas of work. However, the focus is not just on academia; it is also becoming a commercially viable instrument. For a long time, KfW has been one of the most highly regarded regular issuers of green bonds, and in the Schuldchein and Pfandbrief markets - both of which are inherently German domains - green issues are becoming increasingly important. Even local authorities have recently become interested in this new type of debt.

In order to continue to benefit from growth in the future, players in the financial market will need to demonstrate creativity and innovative strength. A little political support might not go amiss either. The diverse environmental investment projects of the federal and state governments certainly justify the issuance of the first green federal or state bond. This would underscore Germany's leading international role in protecting the climate and would provide a tailwind for the local financial centre. ■

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