



FINANCE AND PROSPERITY 2024

Erik Feyen and Martijn Regelink

Finance, Competitiveness and Investment
World Bank

**SPECIAL FOCUS:
SOVEREIGN-BANK NEXUS
CLIMATE AND THE BANKING SECTOR**

Finance and Prosperity - A new World Bank annual report series

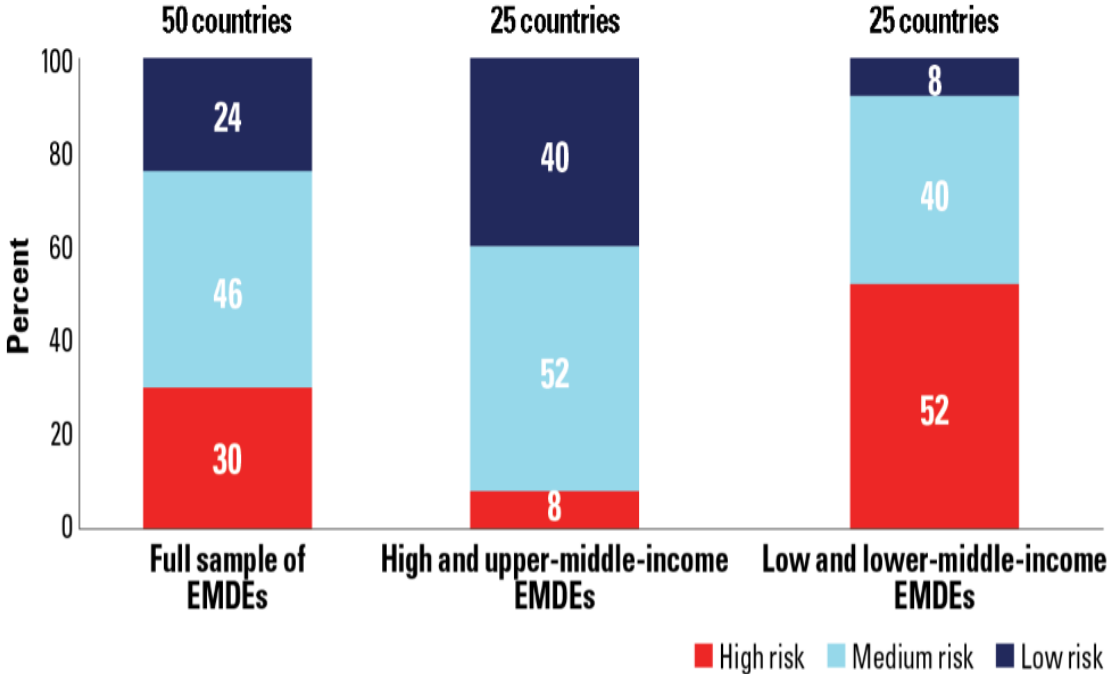
- Examines financial sector developments and vulnerabilities in emerging market and developing economies
- Identifies key themes and offers practical policy recommendations
- Focuses on audience of financial sector policy makers
- Launched in Fall 2024

Structure

- Financial Sector Trends in EMDEs: Divided Risk Outlook and Sovereign-Bank Nexus Risks Need to Be Addressed
- Global Climate Finance Landscape: The Climate Finance Gap is Large -- Bank Authorities to Play a Key Role Within their Mandates
- Regional Climate Finance Landscape: Uneven Flows at Risk of Slowing, as Policies Aim to Boost Growth

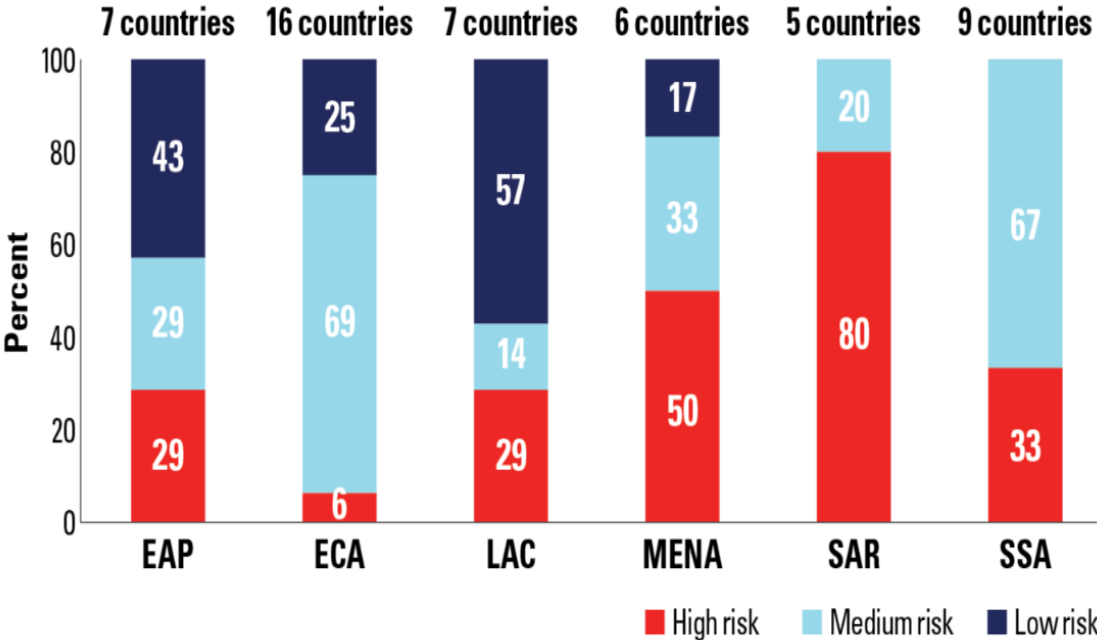
Financial sector risks are divided along income and regional lines

Financial sector risk outlook in the next 12 months by income group
(percent of countries in sample)



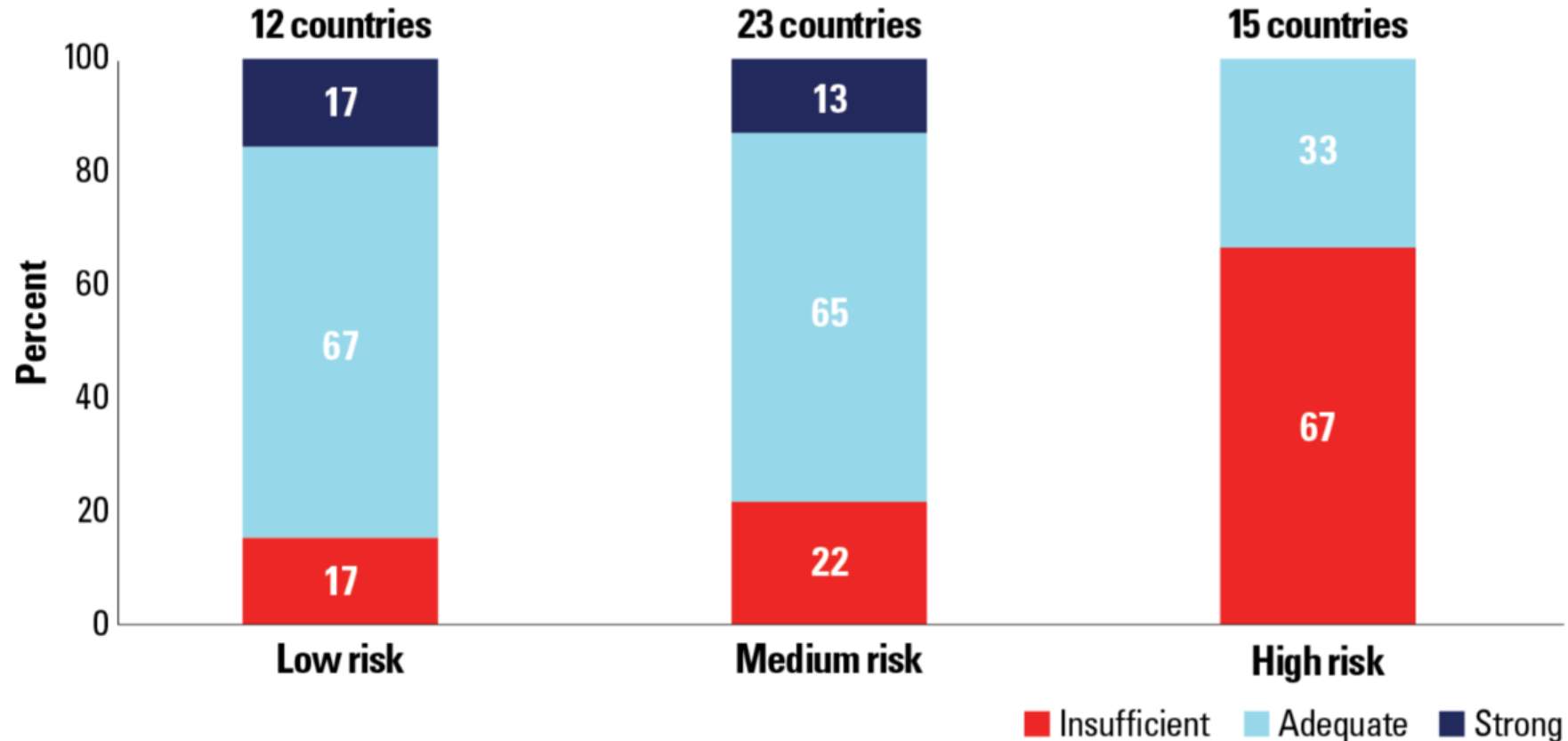
Source: World Bank staff assessment.

Financial sector risk outlook in the next 12 months by region
(percent of countries in sample)



Source: World Bank staff assessment.

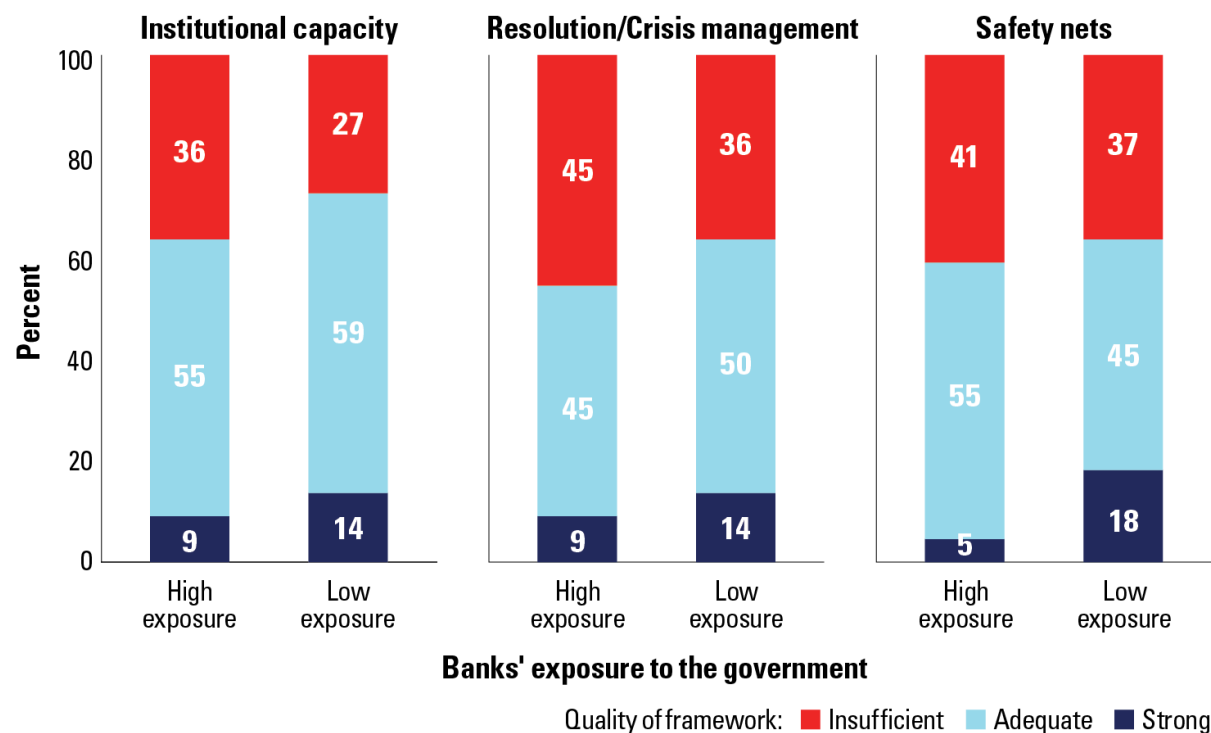
EMDEs with high financial risks often lack the capacity to deal with financial sector stress



Source: World Bank staff assessment.

Countries with a tighter sovereign-bank nexus often have weaker institutional frameworks

Strength of the institutional framework by countries depending on the share of bank lending to the government (percent of countries in sample)



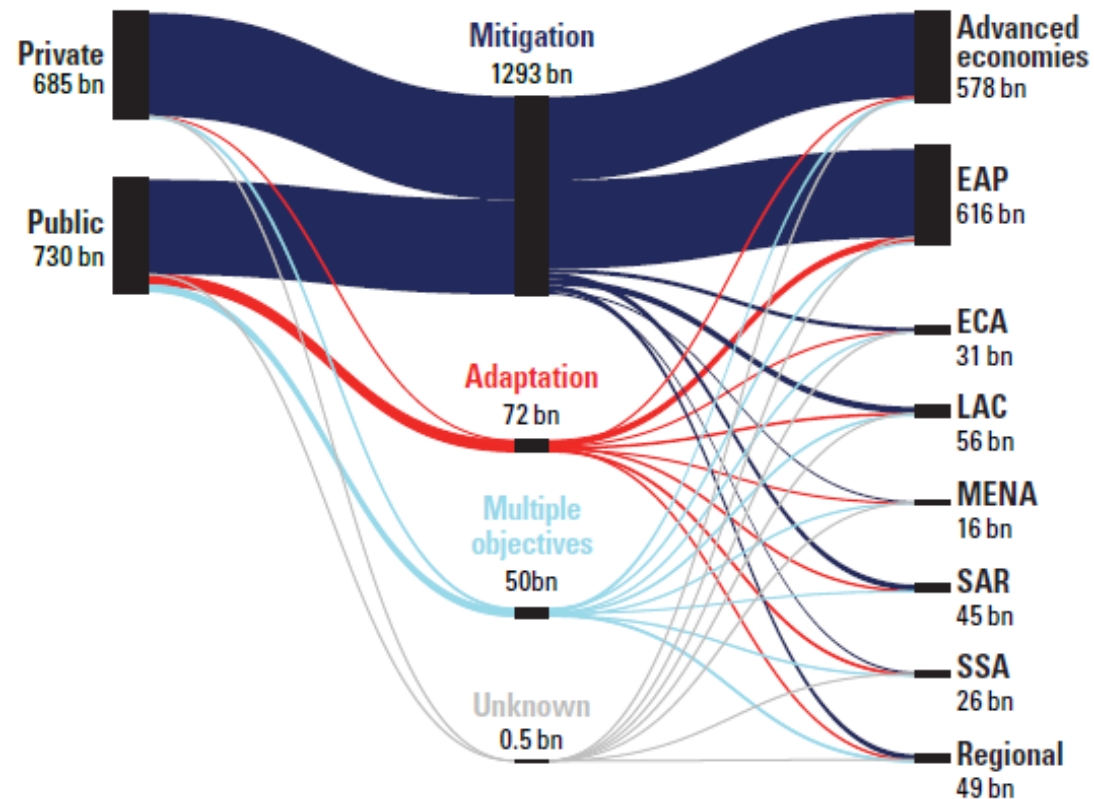
Sources: World Bank staff calculation based on based on IMF International Financial Statistics data and World Bank staff assessment.

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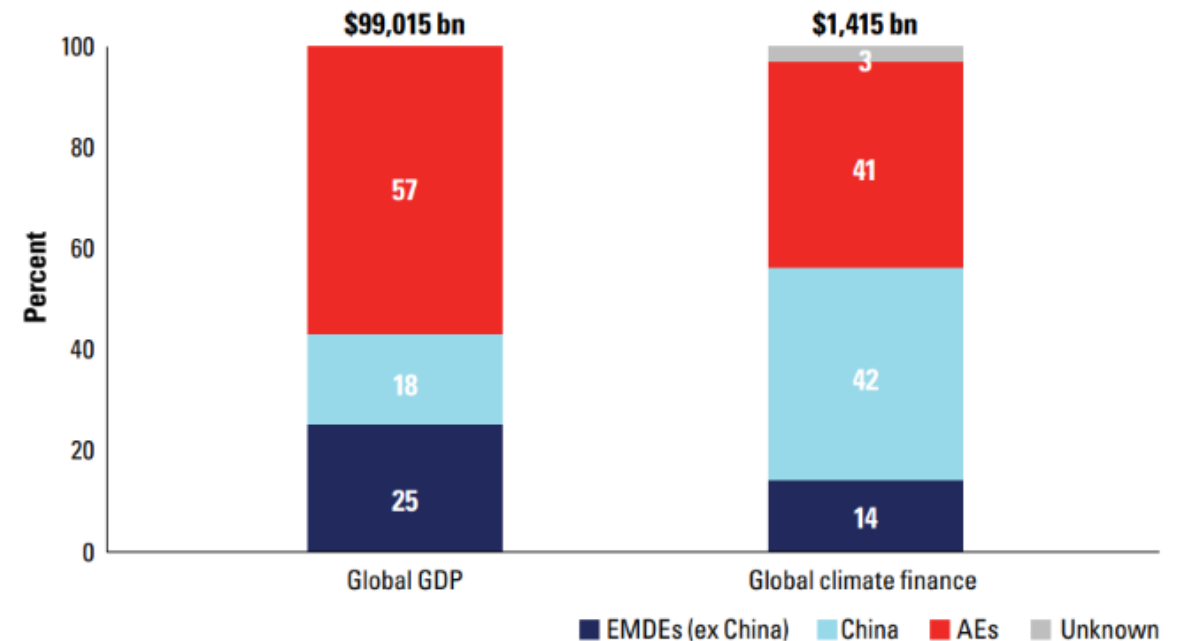
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EMDEs face elevated climate risks and larger investment needs, but receive only a small share of global climate finance flows

Most climate finance is directed toward China and AEs with private finance focused on mitigation efforts (global climate finance flows in 2022 \$ billions)



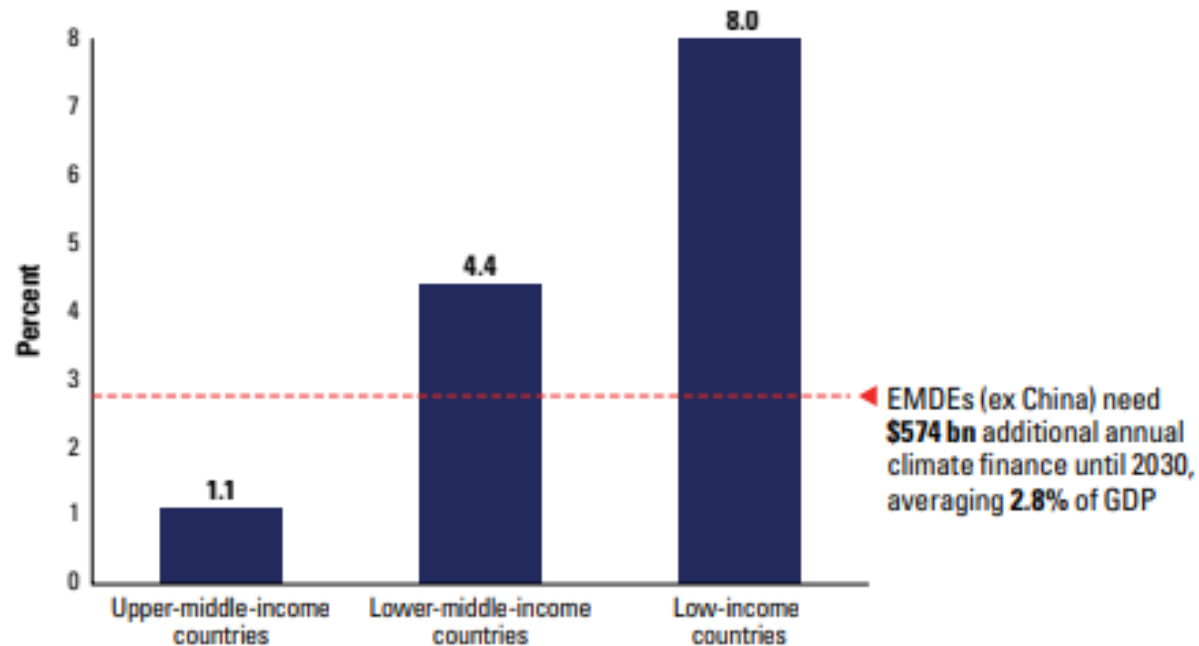
Only 14% of climate finance reaches EMDEs (ex-China), despite accounting for 25% of global GDP and 43% of emissions (global GDP versus climate finance flows in 2022)



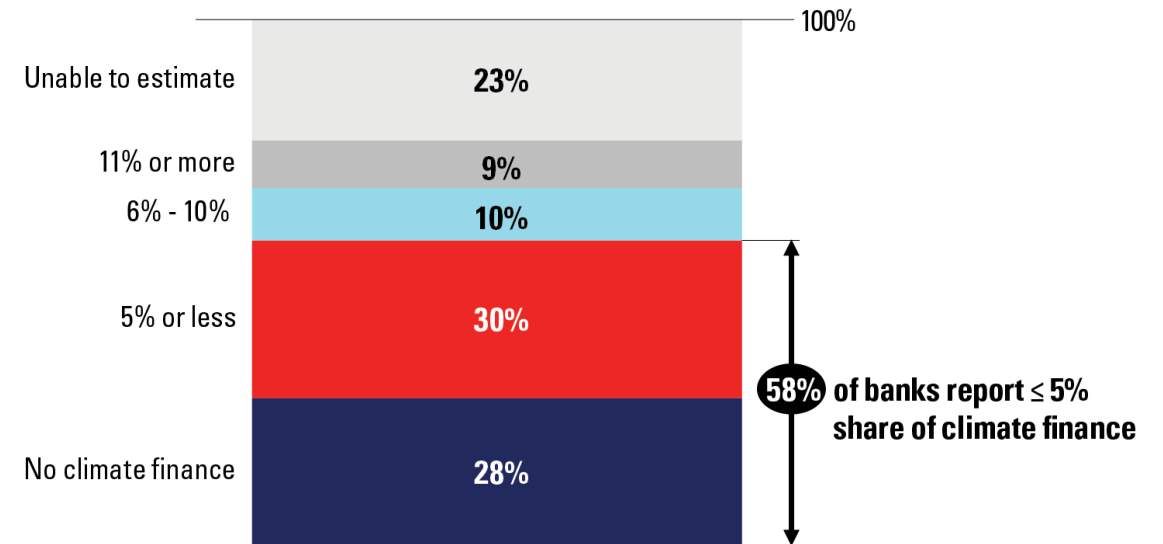
Source: World Bank staff calculation based on WEO for GDP, Buchner et al. (2023) for global climate finance flows, and EDGAR Community GHG Database for global GHG emissions

EMDEs need 3x more climate financing by 2030, including increased lending by their banks

Additional annual climate finance needs between 2023 and 2030 by income level (percent of GDP)



Climate Financing is 5% or less of lending portfolio for almost 60% EMDEs banks (percent of total loans)

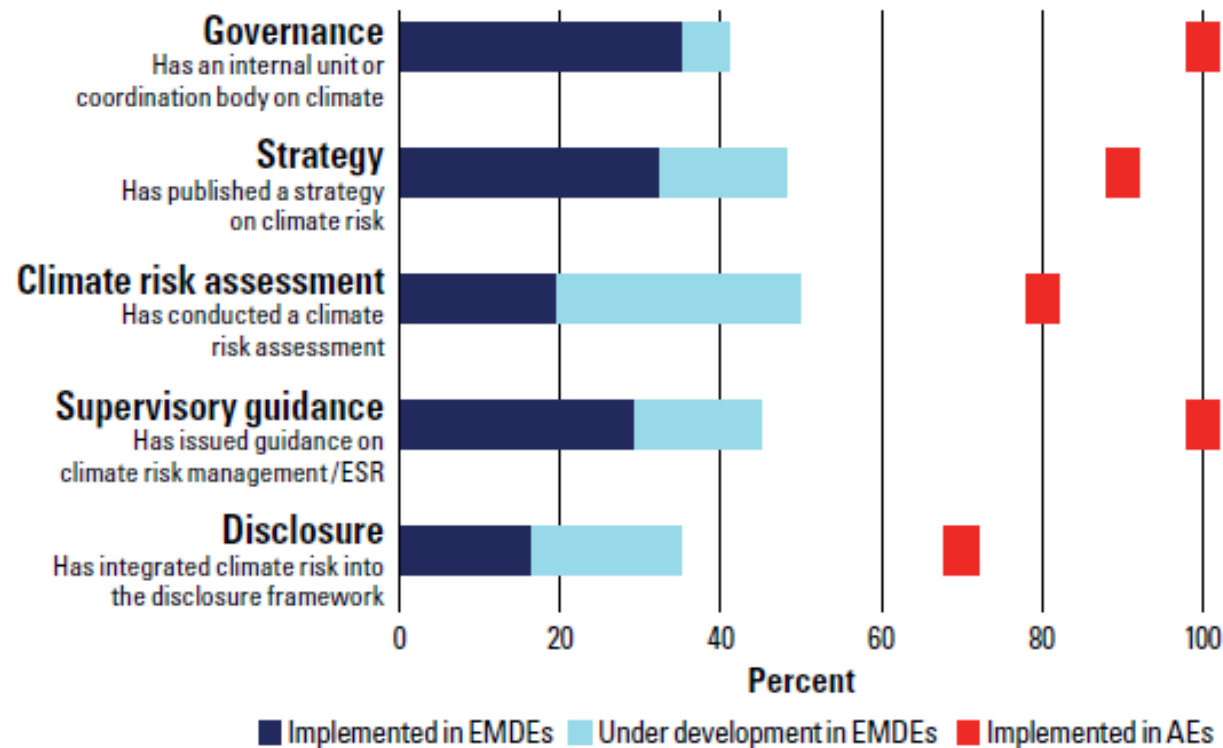


Source: World Bank

Source: IFC data

EMDE banking authorities are in the earlier stages of climate risk supervision, with novel approaches to manage climate-related financial risks emerging

Share of banking authorities implementing selected supervisory actions related to climate risk (percent)



Some EMDEs have adapted climate risk assessments to local extreme weather (examples)



Typhoons
in the Philippines



Floods
in Colombia













Droughts
in Morocco

Source: World Bank, based in diagnostics 31 EMDEs and assessment of 10 AEs.

EMDE banking authorities starting to apply novel tools to also enable climate finance – empirical evidence on their suitability and effectiveness is emerging

Emerging applications of regulatory tools to manage risk and enable climate finance

| Area | Tool | Example | Category |
|----------------------------|---|---|---|
| Microprudential tools | Transition plans | Philippines, Singapore (announced), EU, Ghana |  |
| | Adjusted risk weights (green supporting factor/penalizing factor) | Hungary, Indonesia |  |
| | Post-disaster regulatory response | Bangladesh, Philippines, India |  |
| Macroprudential tools | Adjusted loan-to-value ratio | Indonesia, Netherlands |  |
| | Concentration threshold | Philippines, Explored by EU |  |
| | Sectoral systemic risk buffer | Explored by EU |  |
| Credit allocation policies | Direct credit guidance/lending quota | Bangladesh, Fiji, India |  |
| Central bank tools | Credit facilities/targeted refinancing operations | Bangladesh, China, Egypt, Japan, Malaysia |  |
| | Collateral management | China, EU |  |
| | Reserve requirements | Indonesia, Lebanon, Philippines |  |

Source: World Bank

... with potential impacts on financial inclusion, intermediation, and stability



WIN-WIN

- Support mobilization & stability, e.g., **transition plans**
- Build resilience & inclusion: e.g., **post-disaster regulatory response**



JURY'S STILL OUT

- Effective during transition phase e.g., **targeted refinancing operations**

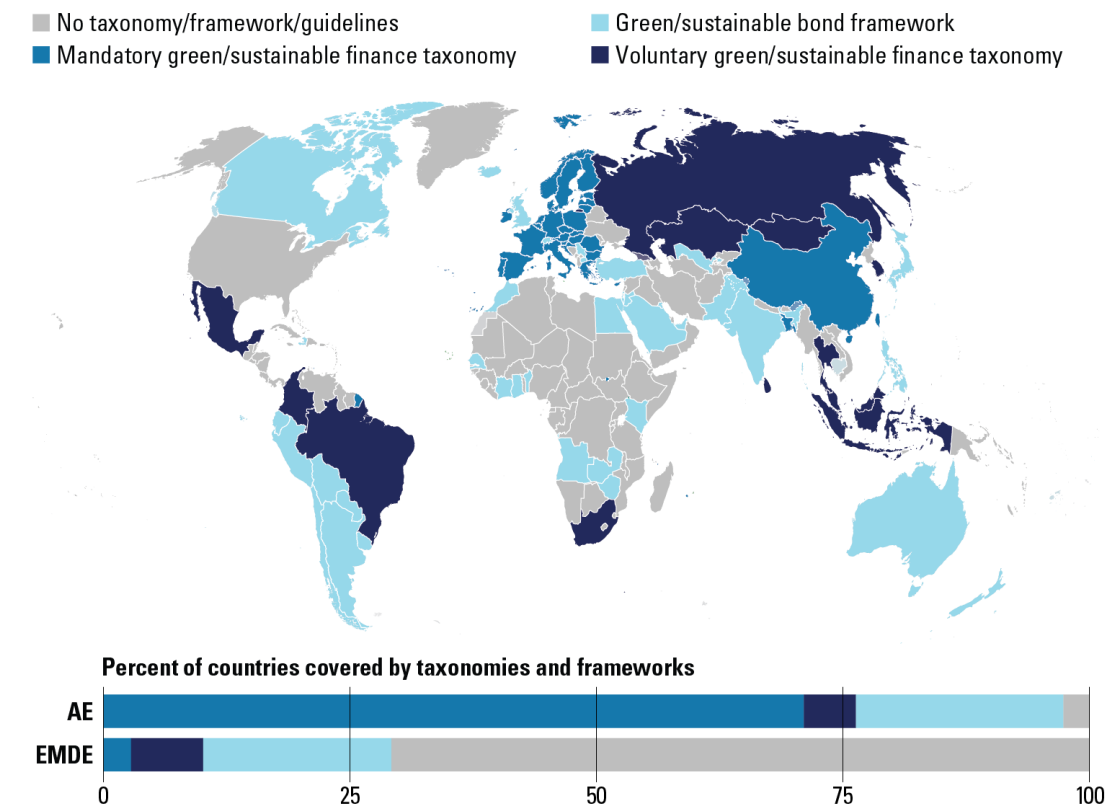


NOT RECOMMENDED

- Stability / market distortion concerns: e.g., **lending quota, risk weights**

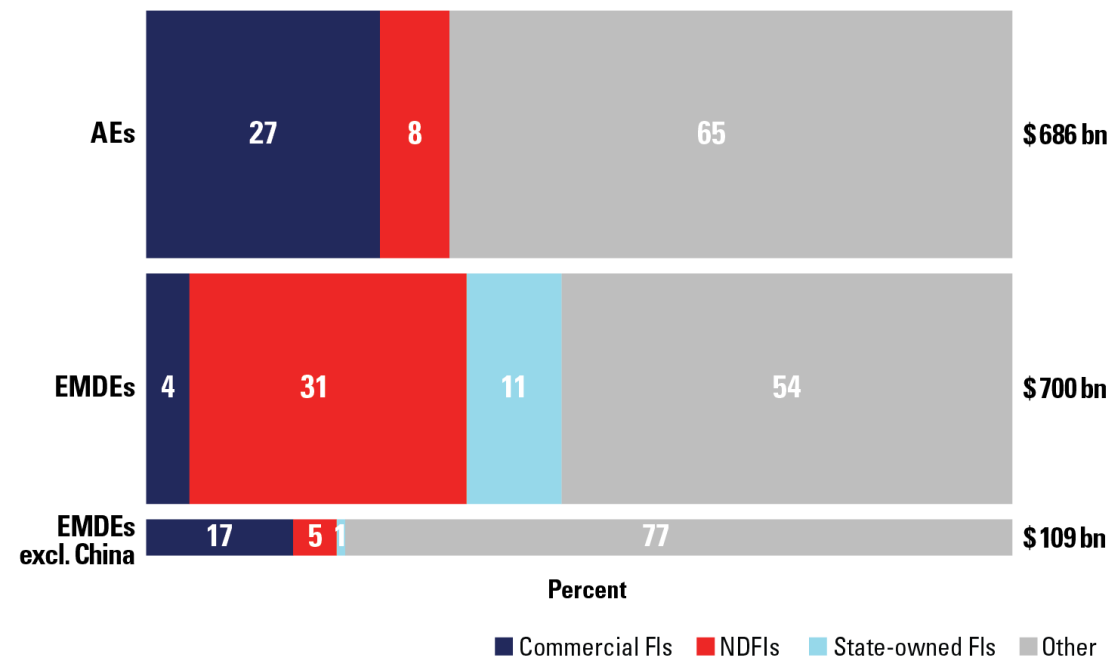
Complementary regulatory tools and financing sources - incl. National Development Financial Institutions (NDFIs) - needed to meet climate goals

Taxonomies, crucial for classifying investments supporting climate goals, cover only 10 percent of EMDEs (percent of countries covered by taxonomy)



Source: World Bank

NDFIs have \$19 trillion in assets, cover 10 percent of global investment, and provide 19 percent of climate finance (percent of climate finance by origin 2022)



Source: World Bank based on CPI data

Banking authorities can take action to enable more climate finance through the banking sector

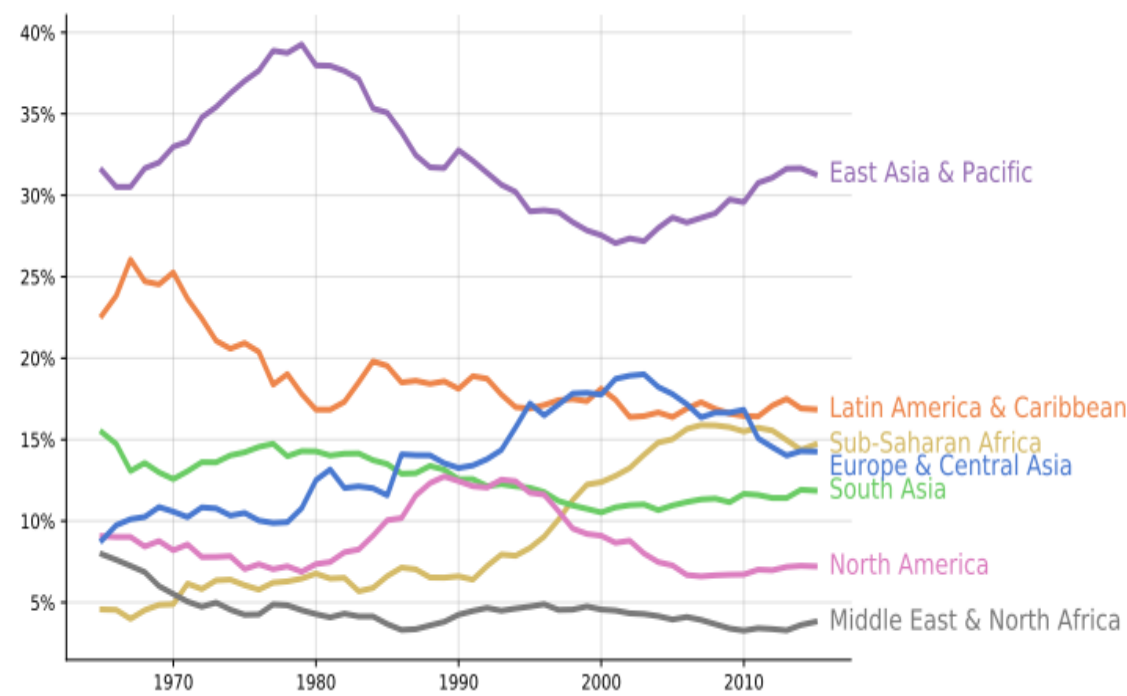
- 1 Banking authorities need to develop well-functioning green taxonomies, sound data, and strong disclosure standards as key preconditions to successfully address climate issues.
- 2 Banking authorities need to proactively manage climate risk by deploying regulatory tools in a sequenced, proportional, and efficient manner, while mitigating the potential impacts on financial inclusion.
- 3 As they adopt novel approaches to enabling climate finance, banking authorities must not compromise on their primary financial stability objective.
- 4 International networks and standard setters should provide more analysis and guidance on the effective and appropriate deployment of measures that can enable climate finance.
- 5 Policy makers should deploy complementary tools and reach institutions beyond the banking sector to boost climate finance.

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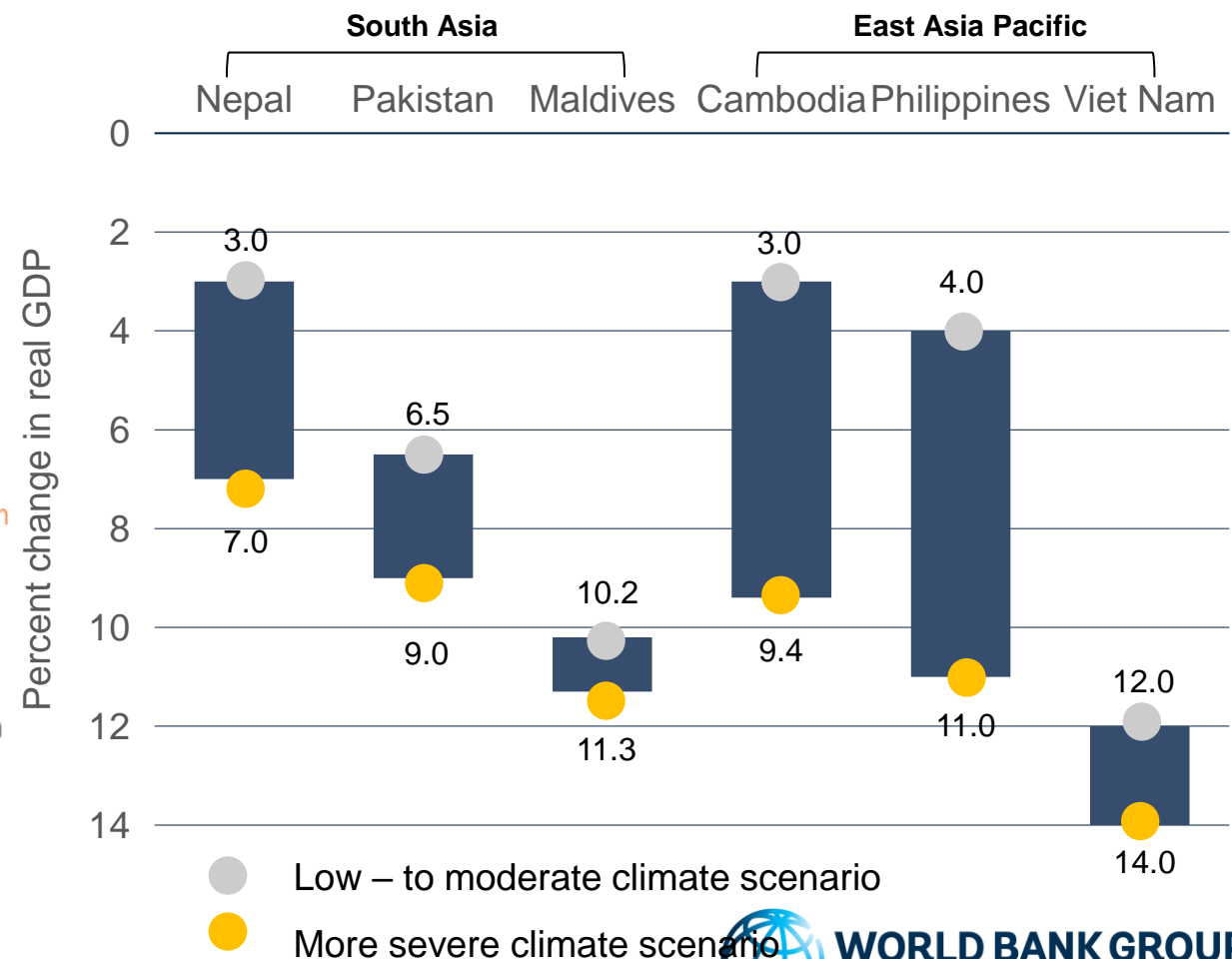
East Asia Pacific is highly vulnerable to climate risk, with several countries facing severe impacts on GDP from climate change

East Asia & Pacific is most affected by climate disasters (Shares of climate-related natural disasters, 184 countries – 1980-2019)



Sources: [World Bank](#) (2021), [World Bank](#) CCDR

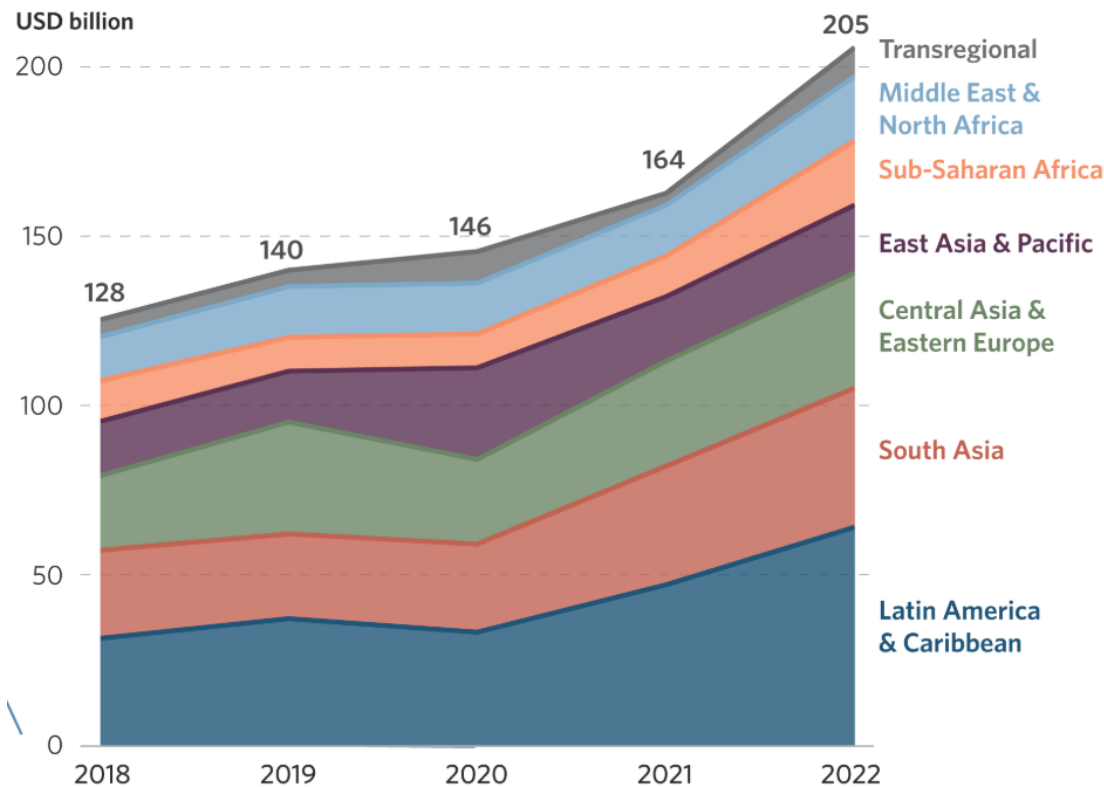
Several Asian countries face severe impacts on GDP from climate impacts (by 2050 against baseline scenario)



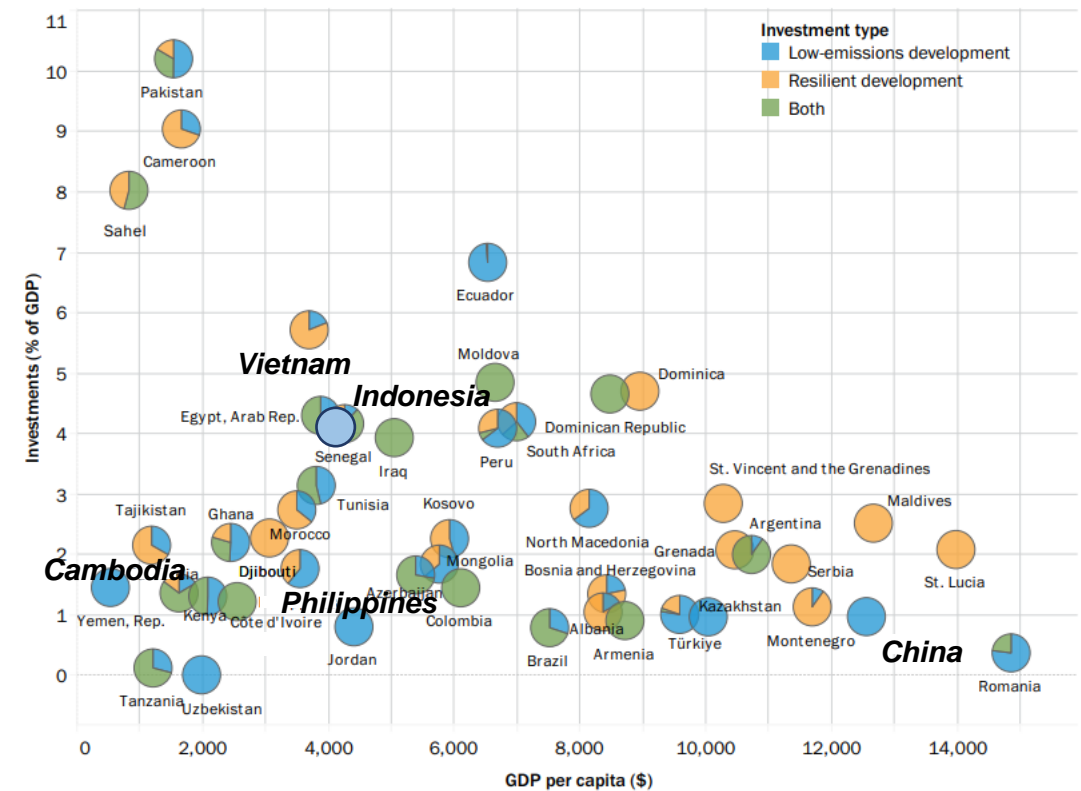
- Low – to moderate climate scenario
- More severe climate scenario

Regional climate finance growth in EAP (ex-China) has stalled since 2021 despite significant financing needs

Climate finance growth in EMDEs ex China and LDCs (\$ billions)



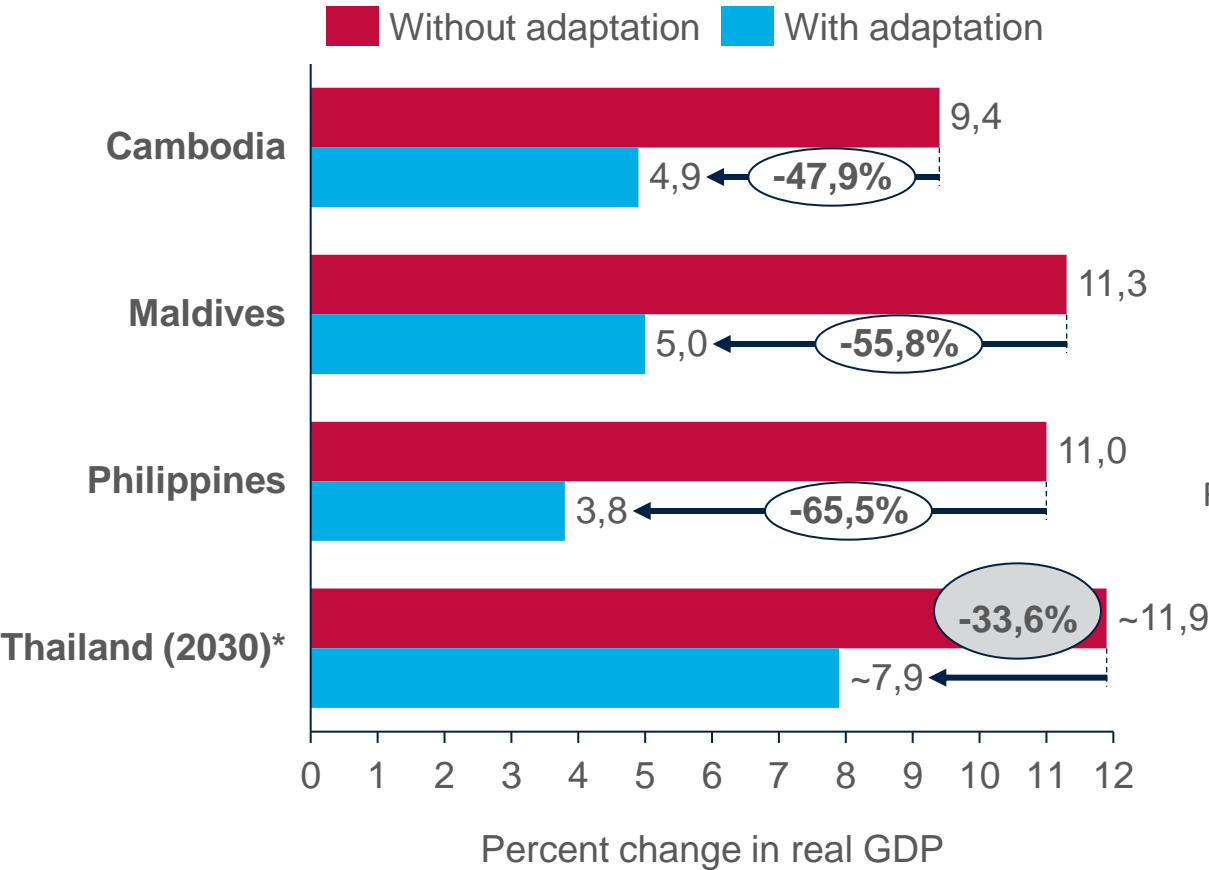
Climate finance needs between now and 2030 by country (% of GDP)



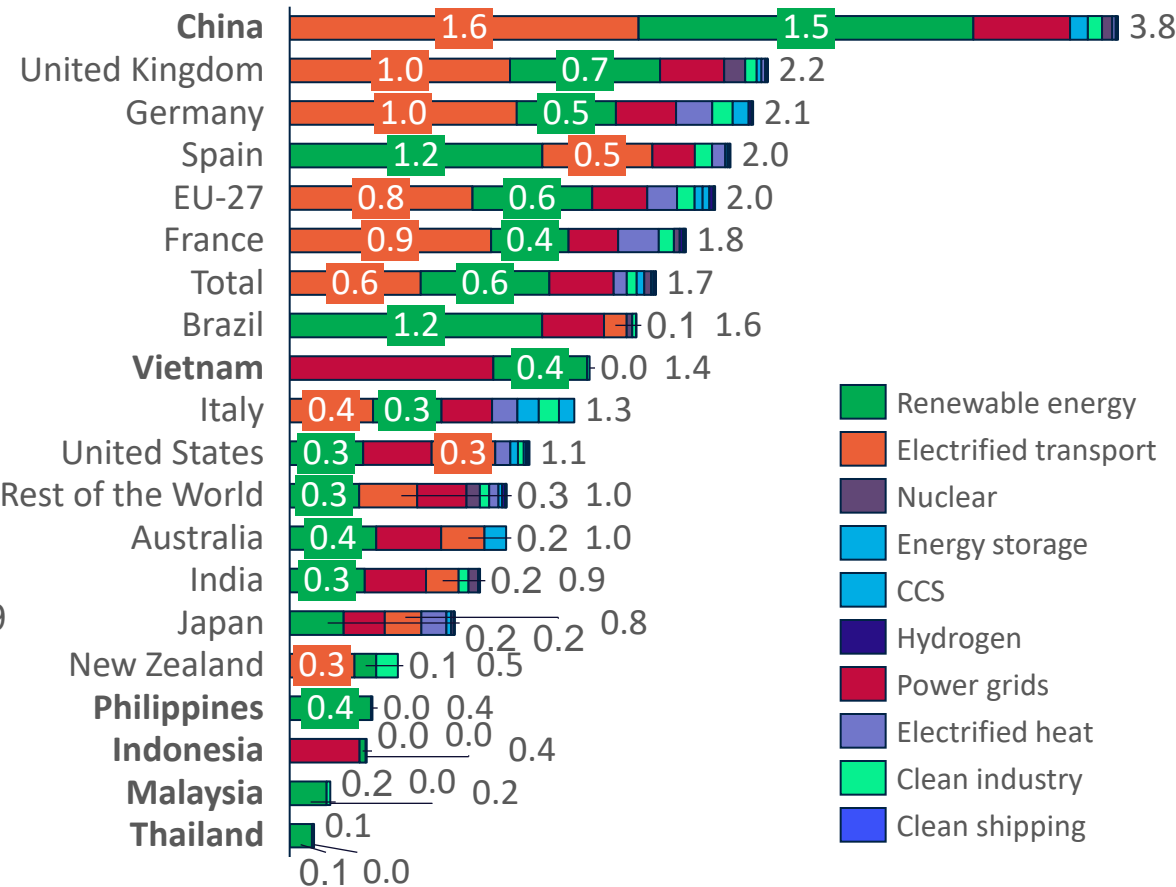
Source: [CPI](#) (2024) , World Bank, 2024

Many countries in East Asia Pacific urgently need to scale adaptation, low-carbon, and transition finance

Adaptation measures could lower economic impact
Impacts by 2050 against baseline growth scenario



Global energy transition investment by sector and country in 2023 (% of GDP)

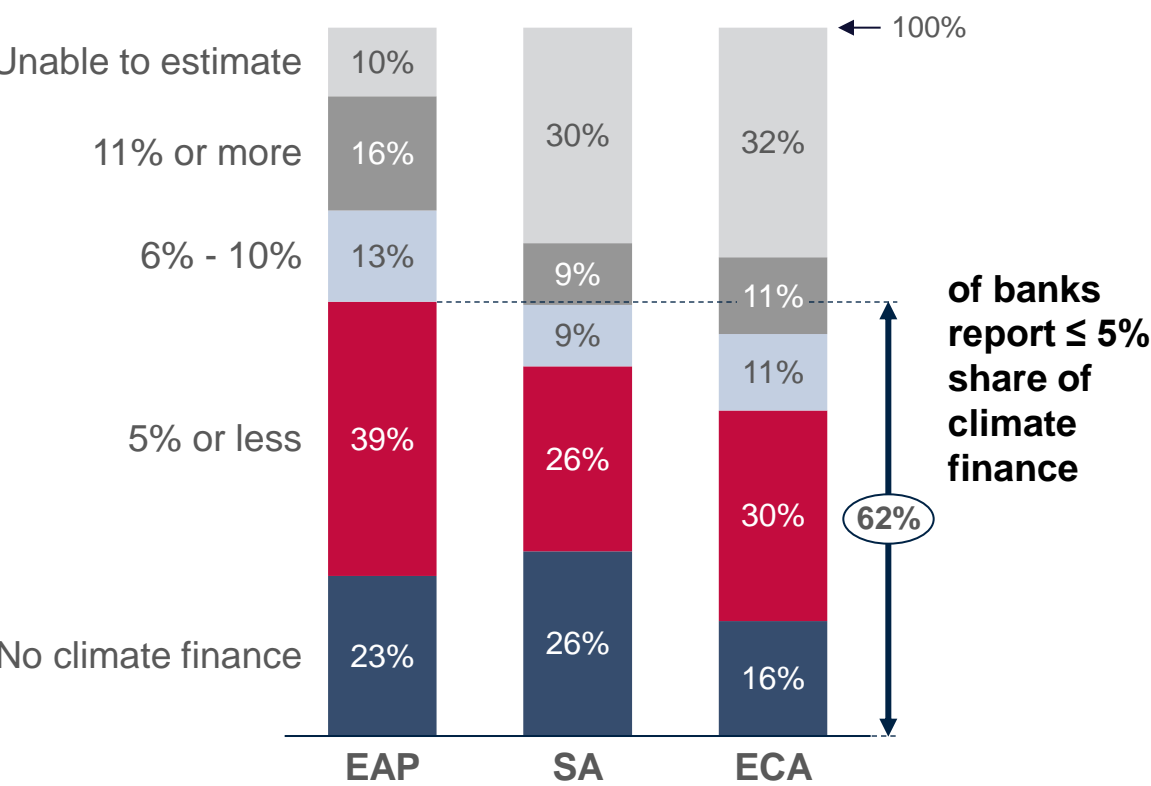


Source: World Bank CCDR, World Bank (2024), Towards a Green and Resilient Thailand.
* Estimates for Thailand are based on the impact of a major flood in 2030 on GDP (% from baseline) with and without flood protection measures

Source: World Bank, based on Bloomberg data

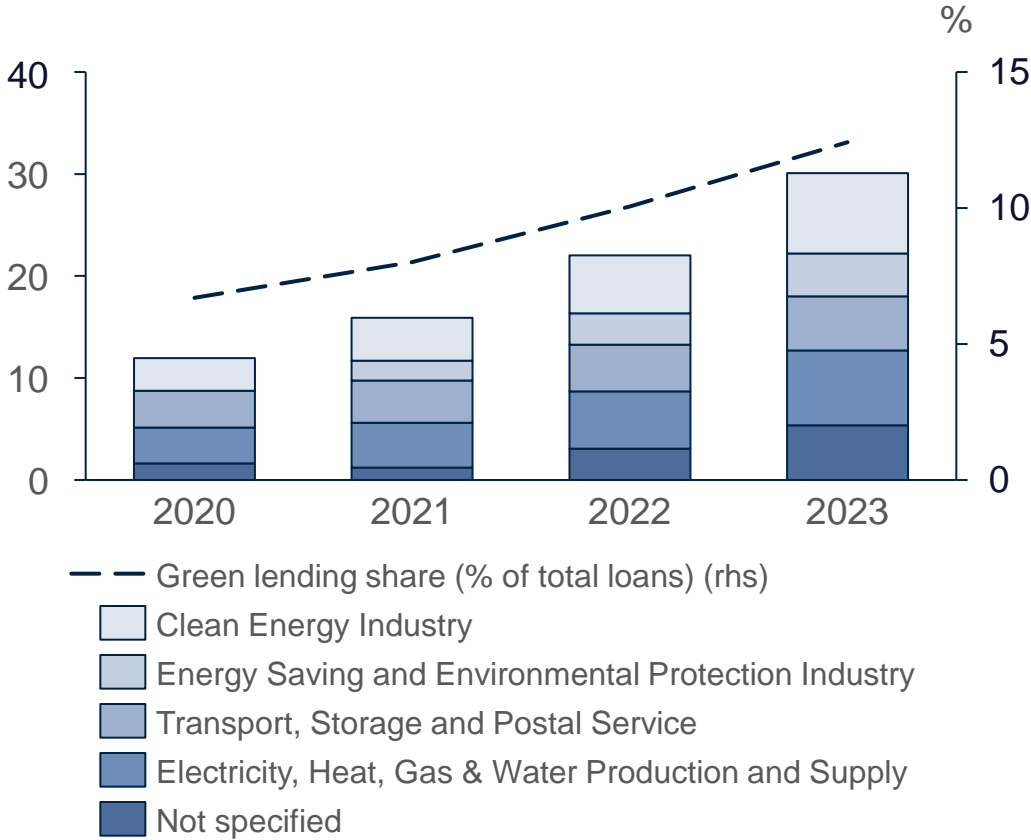
Climate finance by EAP banks remains relatively limited, albeit notable growth in select markets, especially China

Climate Financing as share of lending portfolio in EMDE banks



Outstanding green loans in China

Trillion RMB

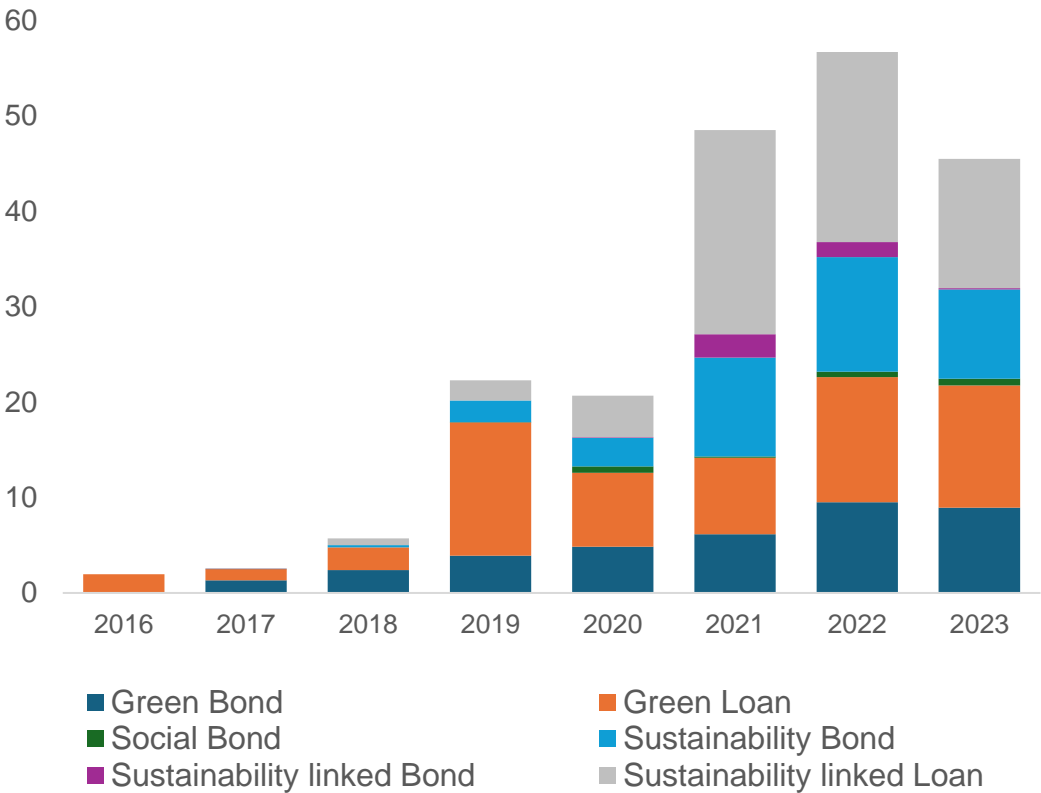


Sources: [World Bank](#) (2024), based on CPI, IFC and Bloomberg data

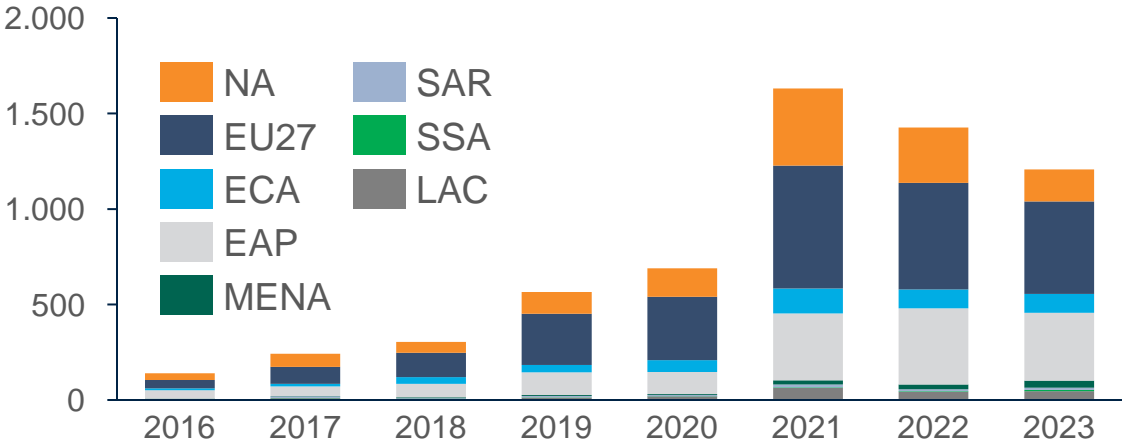
Source: CEIC Data

Labeled sustainable debt issuance in the region has grown, including sustainability-linked instruments, but momentum is slowing

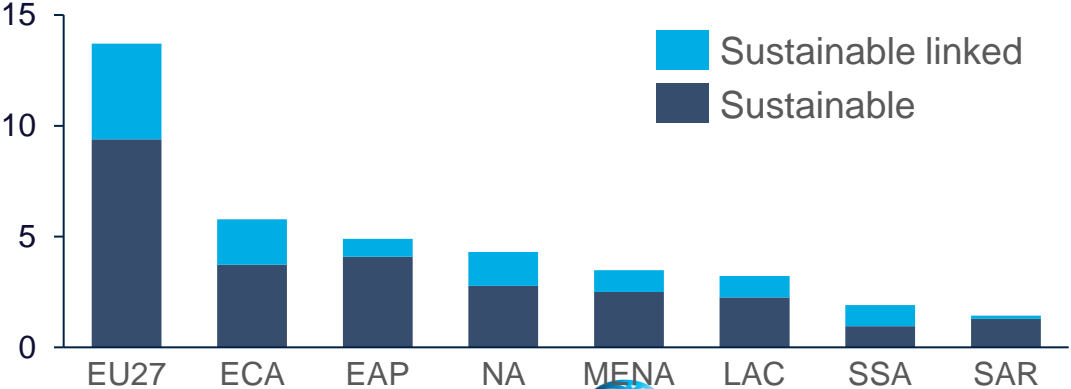
Total sustainable debt issuance (bonds and loans) in ASEAN (\$ billions)



Sustainable debt issuance per region (in \$ billion)



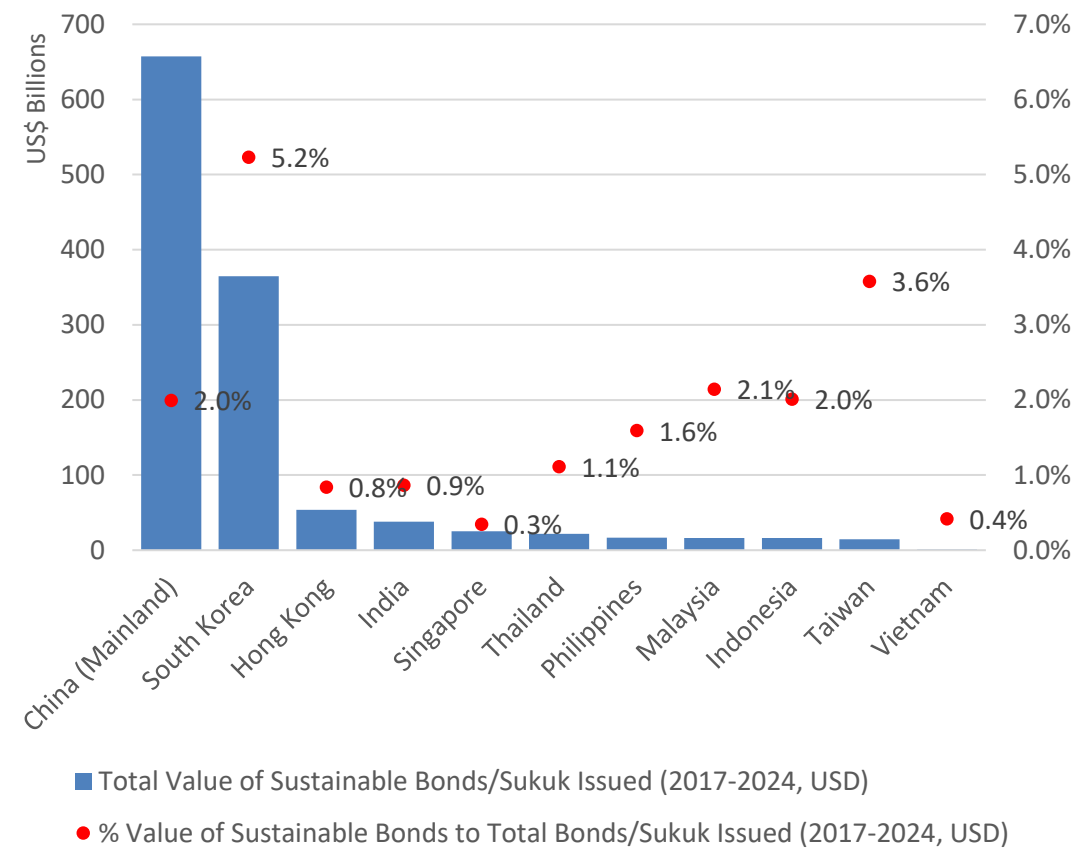
Cumulative sustainable debt issuance by region since 2016 (% of 2023 GDP)



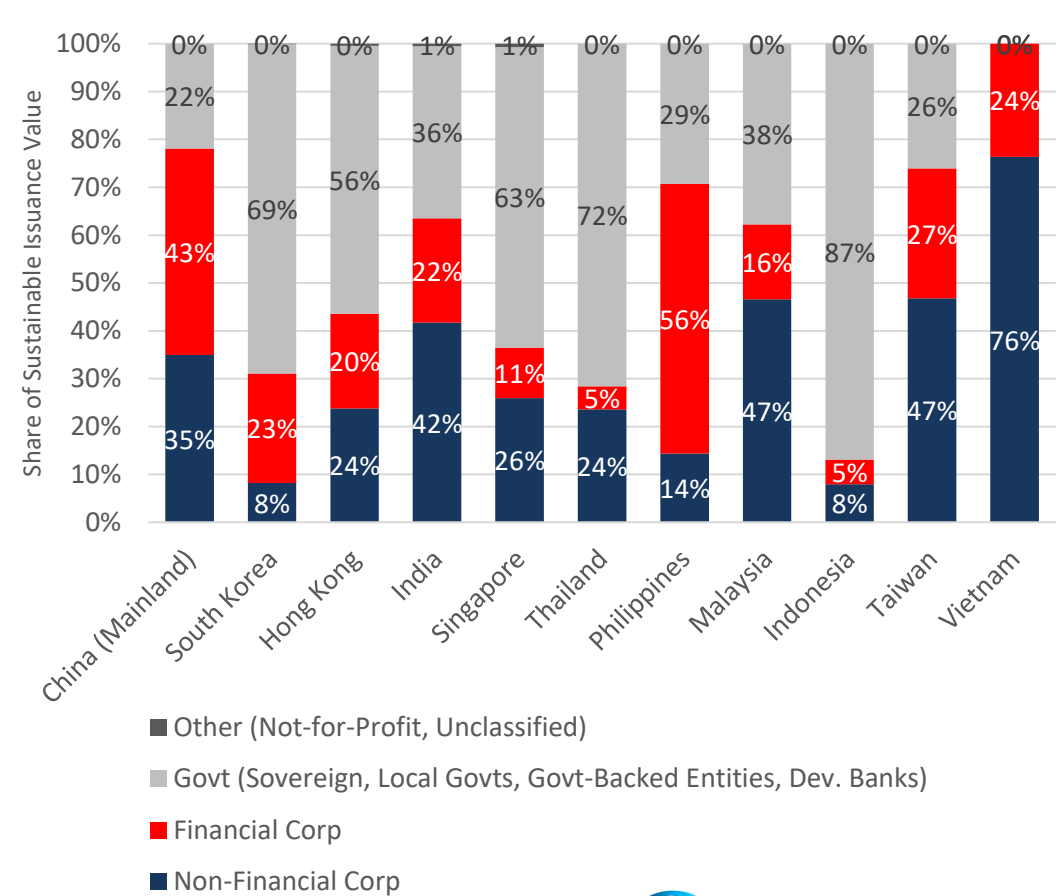
Sources: World Bank, Bloomberg

Bond issuance patterns vary widely across the region, with corporate participation lagging in several countries

Capital Market Sustainable vs Total Bond Issuances in Selected Asian economies (2017-2024)



Main Issuers of Sustainable Finance Debt, Selected Asian economies (2017-2024)



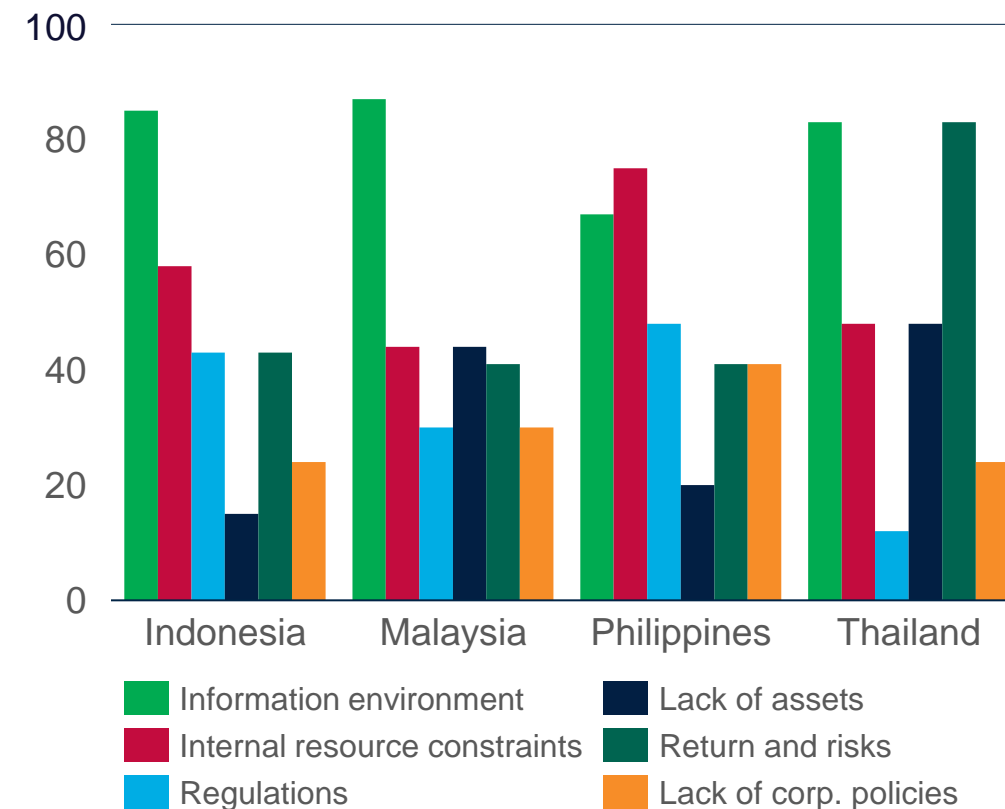
Sources: World Bank based on Refinitiv and CBI data, 2024 data is preliminary (Jan-Nov 23rd)

Countries in the region are increasingly developing financial sector policies to support climate finance and address sustainable finance challenges

Selection of policy trends

- **Green Finance:** Targeted initiatives to boost sustainable financing across the region, with opportunities to boost blended finance, role DFIs and carbon markets
- **Disclosure and Taxonomy:** Emphasis on developing taxonomies and aligning with ISSB frameworks. Emerging interest in transition planning
- **Risk Management:** Nascent but advancing climate risk assessments and management measures

Challenges associated with sustainable finance in ASEAN region (N=100)



Sources: [World Bank](#) (2024), [World Bank](#) (2022), Unleashing Sustainable Finance in Southeast Asia

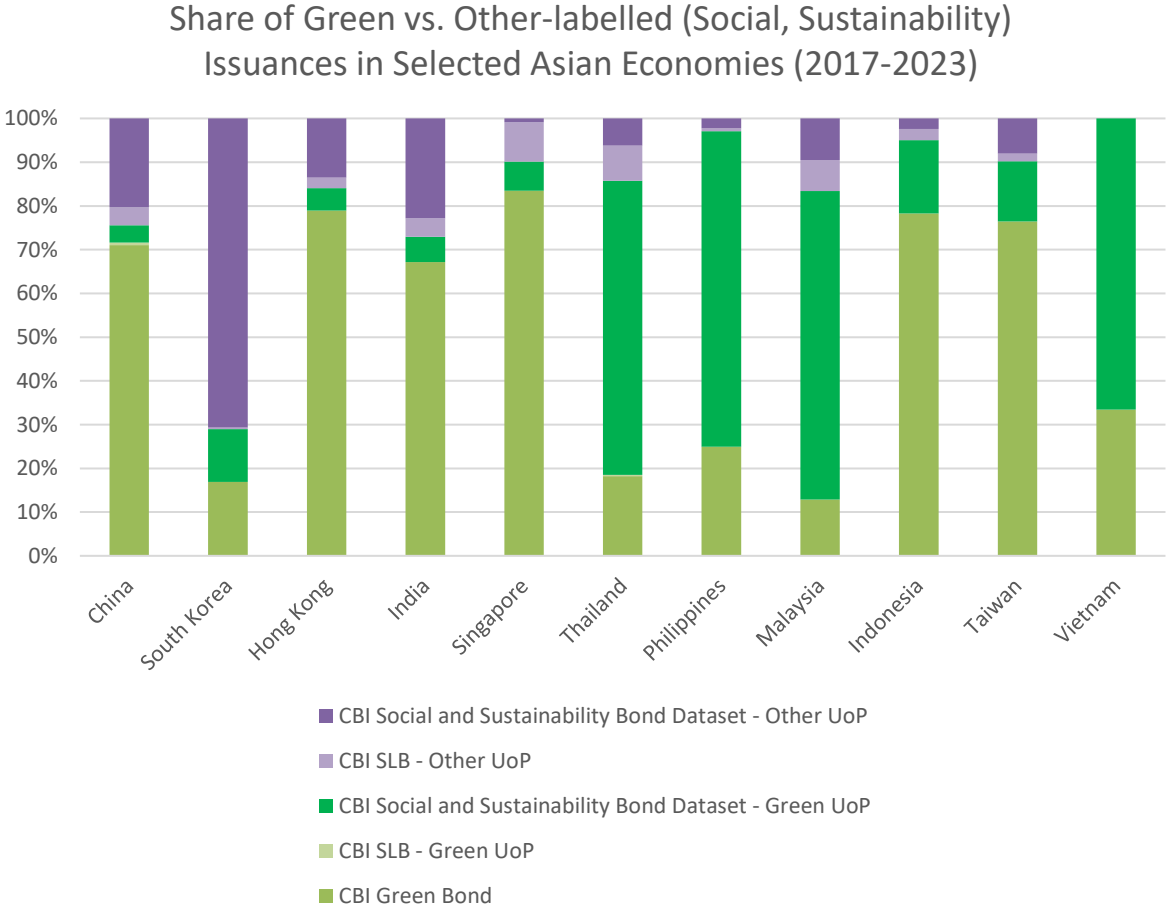
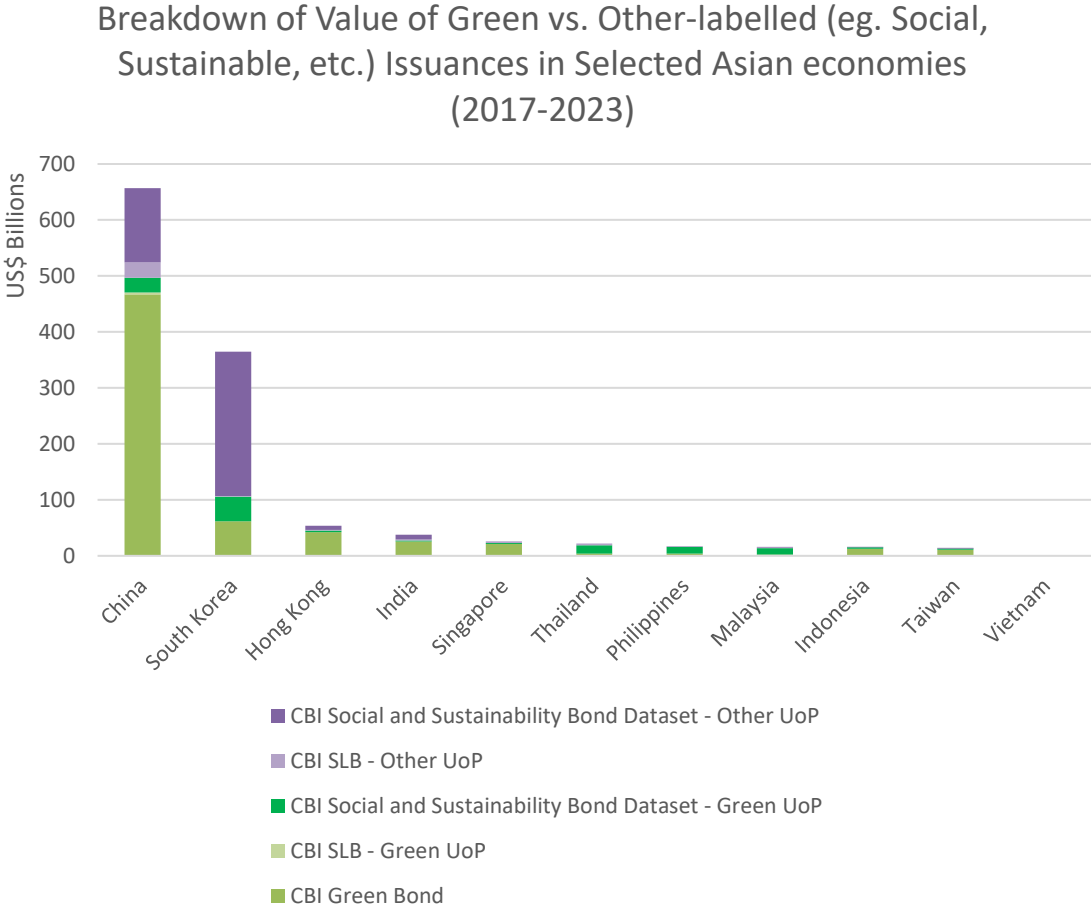
Thank you



<https://www.worldbank.org/en/publication/finance-and-prosperity-2024>



Annex: Green issuances dominate in most countries, SLB markets remain small relative to conventional sustainable issuances



Sources: World Bank based CBI data, as of November 23, 2024