Sustainable Finance Market Comment | Q1 2025

A newsletter from DNB Markets summarising recent trends and developments within sustainable and transition finance

Sustainable Markets Advisory, DNB Markets

May 2025

DNB Markets

The EU showcases the link between sustainability and economic competitiveness

Less obsession with disclosure requirements allows companies to focus on real economy transition

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The EU Omnibus package: Ambition is not measured in data points

The past quarter in sustainable finance has been dominated by the EU's regulatory simplification plan. Many pundits have likened the Omnibus bill to the death of the European Unions' sustainability ambitions. Such an interpretation is in many ways symptomatic of the ESG hype cycle, covered in our January special edition 'Beyond the ESG backlash'. By equating a disclosure regulation with sustainability ambition, one reduces the sustainability agenda to ticking reporting boxes rather than taking action to transition business models and reduce negative impacts.

In hindsight it is puzzling how a movement bent on creating a more sustainable economy got so hung up on disclosure requirements. The initial catalyst was likely the EU Action Plan on Sustainable Finance in 2018, which aimed to redirect capital flows to sustainable activities. Improved transparency and the EU taxonomy were among the key policy actions. Yet, as many have pointed out, disclosures do not move the needle alone.

It is true that the financial sector in particular needs better sustainability data to include in analyses of company risks and opportunities. Moreover, double materiality assessments and company reflections around Impacts, Risks and Opportunities are valuable to assess the long-term viability of a company's business model, and the credibility of its commitment to sustainable transition.

However, better information on material topics does not in itself attract capital. At the end of the day, the long-term viability of companies' business models, profitability and future cash flows, matter the most to investors. And many of the reporting requirements under CSRD and the Taxonomy do not necessarily add valuable insights to these ends.

The Omnibus bill is motivated by the need to enhance Europe's competitiveness. Rather than signaling a lowering of sustainability ambitions, it will hopefully help us refocus on the long-term value creation and real economy impacts of products, services and business models. As such, the Omnibus bill may very well be a perfect example of a healthy recalibration of ESG, focusing less extensive reporting and more on strategy.[1]

Real economy policies: No signs of wavering commitment

With the Draghi Report and the Clean Industrial Deal, the EU has made it clear that green industries and value chains are key to economic competitiveness and by extension geopolitics. EU ambitions for the sustainable transition remain strong. Going forward, we should spend more time discussing the real economy regulations that incentivise sustainable business models or make GHG emissions more expensive, rather than ticking reporting boxes.

In this market comment, we therefore focus on current sustainability trends and policies that impact capital markets irrespective of the reporting commotion.

1. **Clean Industrial Deal**: Strengthening and transforming Europe's industrial base
2. **Defence and the sustainability agenda**: Will European rearmament eat away at climate investments or can sustainable investments help bolster European resilience?
3. **Topical sustainability market drivers:** Renovation wave and increased focus on forestry
4. **Sustainable Finance debt market developments:** Stable start to 2025 for sustainable bonds, slower for sustainable loans, and first European Green Bonds have come to market

Footnotes: 1) DNB Markets, 'Beyond the ESG backlash: Recalibrating sustainability in finance'

The Clean Industrial Deal

Strengthening and transforming Europe’s industrial base

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On the 26 February, the European Commission presented the Clean Industrial Deal, a five-year strategic roadmap to boost industrial competitiveness while delivering decarbonisation. The Deal is not a hard law, but sets direction and priorities for future policies through several specific initiatives aimed at reigniting Europe’s industrial base, strengthening investment conditions and ensuring decarbonisation. In short: ‘carrots’ will take a more central place on the EU sustainability agenda going forward.

Clean Industrial Deal components to watch

What stands out, is the number of planned actions within a short period. In other crisis periods (e.g. Covid), the EU has proved committed and unified. Given current macroeconomic and geopolitical pressures, we believe timelines could be realistic.

Energy and infrastructure: The Clean Industrial Deal is accompanied by the Affordable Energy Action Plan, with concrete measures to lower electricity bills and strengthen energy system resilience. Measures include a EUR 500m EIB-backed pilot to support PPAs, a EUR 1.5bn guarantee facility for grid component manufacturing, and recommendations for Member States to reduce electricity taxes, potentially down to zero for energy-intensive industries. A European Grid Package is planned in Q1 2026.

Clean industry: To strengthen Europe’s clean industrial base, the Deal proposes new resilience criteria in public procurement to favour low-carbon, EU-made products. A new Clean Industrial Deal State Aid Framework is proposed to simplify state aid rules and allow for quick approval of decarbonisation and clean tech projects. Meanwhile, the EU’s Carbon Border Adjustment Mechanism (CBAM) will be reviewed for expansion to additional ETS sectors to limit import of emission-intensive goods.

Circular economy and critical materials: The EU wants to reduce reliance on imported critical materials by boosting circularity and promoting efficient use of materials. A new Critical Raw Materials Centre will be launched to coordinate joint purchasing and manage strategic stockpiles.

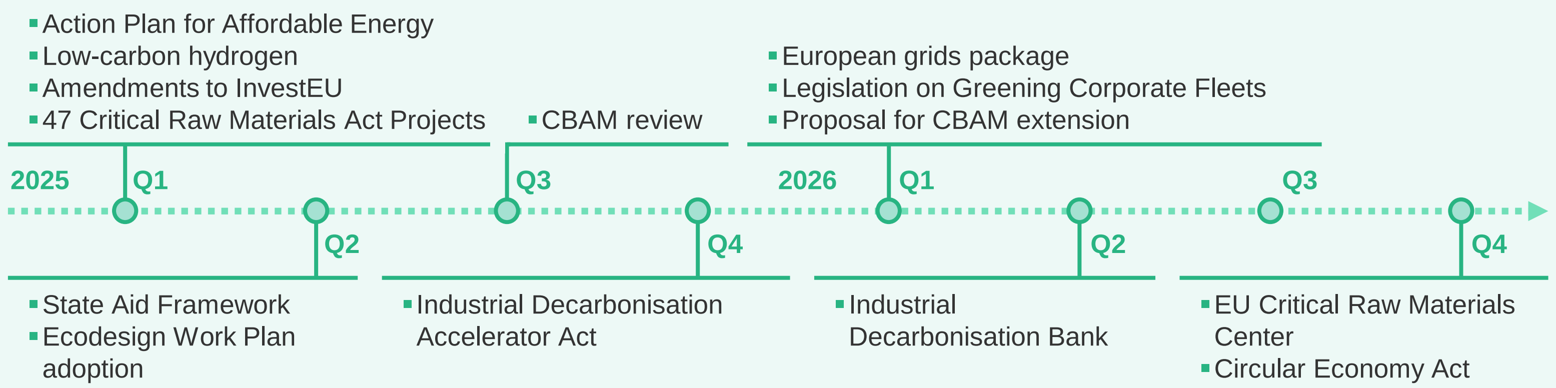
The proposed Circular Economy Act aims to build a single market for circular products and raw materials. Through inter alia harmonised rules on waste, end-of-life products, and secondary raw materials, the aim is to double circular material use rate by 2030. Trans-Regional Circularity Hubs will support industrial-scale recycling, while VAT and export rule reforms are planned to incentivise material retention and reuse within the EU.

Funding

A key sticking point is that funding is somewhat uncertain, although some EU-level steps have been taken. The EU will mobilise EUR 100bn through a new Industrial Decarbonisation Bank. The Bank is already underway, including a EUR 1bn pilot grant for industrial decarbonisation and a EUR 6bn allocation from the Innovation Fund. In parallel, EUR 50bn will be added to the InvestEU programme’s risk-bearing capacity.

Member States are also encouraged to offer tax credits and accelerated depreciation for green investments, while the Commission will align EU and national funding rules, ease State aid access, and update blended finance tools to attract private capital. The question is whether member states have the fiscal spaces to support green industries further.

Selected initiatives of the Clean Industrial Deal



Source: The Clean Industrial Deal: A joint roadmap for competitiveness and decarbonisation

Will European rearmament eat away at climate investments?

Investments in green industry could help bolster European long-term resilience and security

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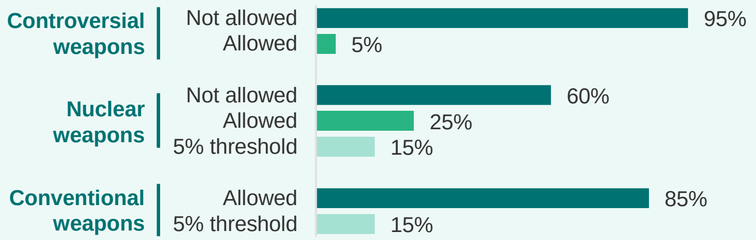
Nordic investors' view on Defence in focus

As European rearmament accelerates, many question whether public and private capital will be diverted from sustainable investments. Private capital is now flowing into outperforming defence stocks, and new defence funds are rolled out. Meanwhile, long-standing ESG policies on defence are being questioned since they often prevent funding for Europe's rearmament.

Our study of 20 Nordic cornerstone asset managers/investors show that *all* have investment policies on defence and weapons (graph below). These policies have shifted gradually since 2022 to accommodate competence and investments in the sector. Since 2024, >20% of these institutions have publicly changed criteria thresholds, interest or investable universe in the sector. 10% have recently launched defence-themed fund products.

The EU has stepped in with its ReArm Europe white-paper to mobilise an additional EUR 800bn in defence spending.[1] Germany alone has approved a EUR 500bn defence and infrastructure fund.[2] Yet, rearmament is not the only pillar of European security.

Nordic investors – concrete policies against controversial weapons; few allow financing of conventional[3]



Linking green investments, competitiveness and resilience

Europe's resilience also depends on future-proof infrastructure, less reliance on external actors and more domestic production. When the German Green Party secured 20% of the defence and infrastructure fund for climate and energy transition projects, the argument was to prioritise sustainable infrastructure for the long run. Since most EU fossil fuels are imported, renewable energy and nuclear also have energy security benefits.[4]

The Draghi report further links economic resilience and the climate transition, arguing that green industry and infrastructure are key for long-term competitiveness. The report highlights decarbonisation as a growth opportunity for European industry, although Chinese competition in clean tech industries is becoming acute. BNEF data shows that 75% of global green tech manufacturing investments in 2024 were made in China.

The EU Clean Industrial Deal and the Critical Raw Materials Act aim to boost European growth, resilience and secure supply chains. Capital markets already show cautious optimism, eying potential investment opportunities from the Deal's concrete acts. The Deal is helped by the US headwinds for clean tech. Conversely, access to funding as well as the competition from China, both on cost and state aid, represent key challenges.

China's global dominance within green industries

EVs: >70% global market share[5]

Solar panel manufacturing: 80% global market share.[6] 98% of EU's solar cells imports are from China[7]

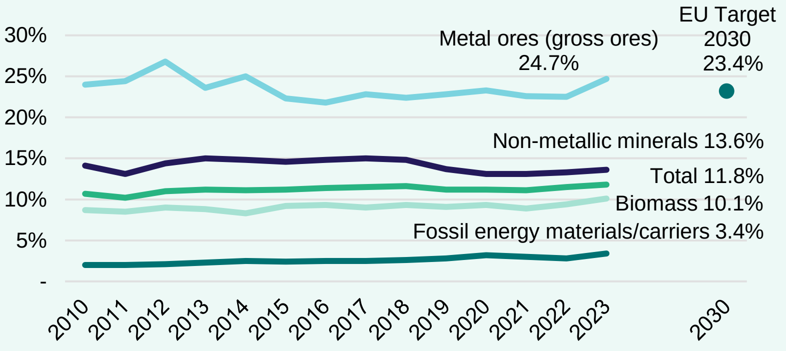
Battery manufacturing: >75% global market share[8]

As the recovery and reuse of critical raw materials becomes central to European industrial policy, circularity is evolving from a sustainability concern into a geopolitical and economic priority.

On March 25th, the Commission selected 47 strategic projects aimed at diversifying and reinforcing the EU's critical raw material supply chains. The projects have an expected capital investment of EUR 22.5bn and aims to ensure that the EU can meet its extraction, processing and recycling 2030 benchmarks for lithium and cobalt, and make substantial progress for graphite, nickel and manganese – key inputs for energy infrastructure, batteries, EVs and clean tech.[9]

A vital part of securing domestic European supply of critical materials is improving reuse and circularity. Europe's reuse rate of critical materials has stagnated around 11% for over a decade, highlighting a structural weakness in supply resilience. Among the newly announced strategic projects, ten are focused specifically on recycling and recovery.

Circular material use rate in the EU[10]



Sources: 1) ReArm Europe Plan/Readiness 2030; 2) ESG News; 3) DNB Markets study; 4) Economist Intelligence Unit (March 27th), 'Will Europe's green industry push boost competitiveness?'; 5) The Guardian; 6) IEA; 7) Eurostat; 8) IEA; 9) and 10) European Commission.

DNB Markets ESG research: Renovation wave, Forestry focus and Rebuilding Ukraine

Key market developments in 1Q

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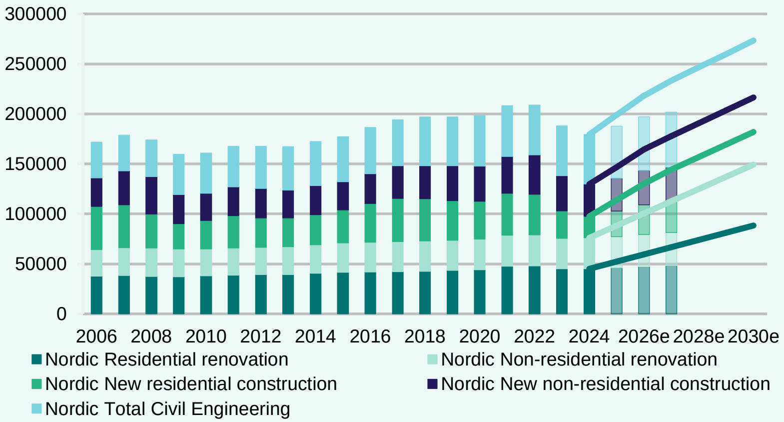
Renovation wave: unlocking value potential

The EU aims to double the building renovation rate by **2030**, but the market is not on track at present (graph below). But with fast approaching implementation deadlines (**2026**) of the EU Energy Performance of Building Directive, we expect the EPBD to:

1. **Raise capex in real estate**, with property owners with older properties requiring the most renovation and with low square meter nominal rent pricing; owners of newer properties are better positioned (Entra, Fabege).
2. **Boost volumes** in construction and consulting (Afry, NCC, Norconsult, Multiconsult, Sweco, Veidekke) and suppliers of energy-efficient solutions (Alfa Laval, Rockwool, Systemair, Beijer Ref).
3. **Remain politically key for decarbonisation and energy security**, with implementation in Sweden on track, Norway postponed.

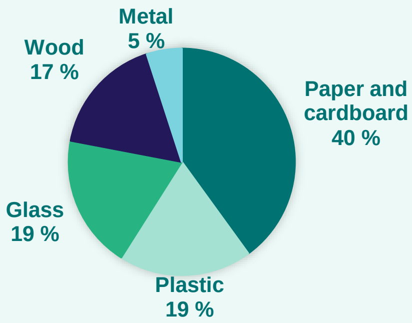
Doubled renovation means doubled investment (EURm)[1]



Regulatory focus on Nordic forests

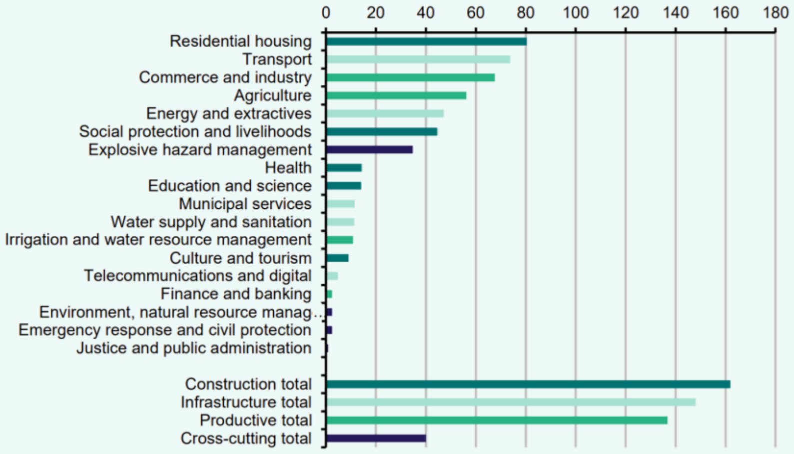
- **Deforestation regulation** (end-2025): Increase traceability and insurance that imported/exported wood and commodities are ‘deforestation-free’ with standardized due diligence.
- **Land use, Land use change and Forestry (LULUCF):** Targets GHG absorption capacity of forests and land to meet collective EU target; EU’s Carbon Removal Certification Framework is implemented in parallel.
- **Packaging and packaging waste:** From 2030, all packaging in the EU will need to be recyclable; Ban on single-use plastic packaging (mainly food –and toiletry related); From 2035: Recyclable packaging will need to be recycled at scale. **Paper wins – for now** as the regulation favours paper over plastics.
- **Company impact:** Forestry companies will be scrutinized to a greater degree by customers (UPM, Norske Skog, SCA, Holmen). Packaging/pulp/forestry companies with exposure to fiber-based packaging (Billerud, Metsa Board, Stora Enso, Huhtamaki) may get tailwind over plastics.

In the EU, paper and wood products are first among waste materials and as such subject to increased scrutiny[2]



Additional Nordic ESG-related research highlights 1Q 2025

- **‘Beyond the ESG backlash’**: on why the critical debate on ESG has initiated a healthy recalibration of sustainability.
- **‘EU Green Deal tracker’**: a review of notable EU ESG regulations H2 2025 and impacted Nordic stocks in 2025+.
- **‘Rebuilding Ukraine – who stands to benefit’**: as the World Bank estimates USDb524 needs over the next decade (graph below), our Industrials team assess well-positioned Nordic stocks within much-needed reconstruction and infrastructure (Volvo, Epiroc, Hexagon, Metso, Hiab, ABB and more).



Please contact us to receive published, or subscribe to, our forthcoming ESG research

1) DNB Markets Real Estate and Construction team (calculations – can be sent upon request), Euroconstruct (prognosis until 2027e). Note that the Euroconstruct 2027e outlook shows growth is lacking
2) Source: Packaging – Consilium; Deforestation – Consilium; DNB Markets (further analysis)

Sustainable Finance debt market developments

Stable start to 2025 for sustainable bonds, slower for sustainable loans, and first European Green Bonds have come to market

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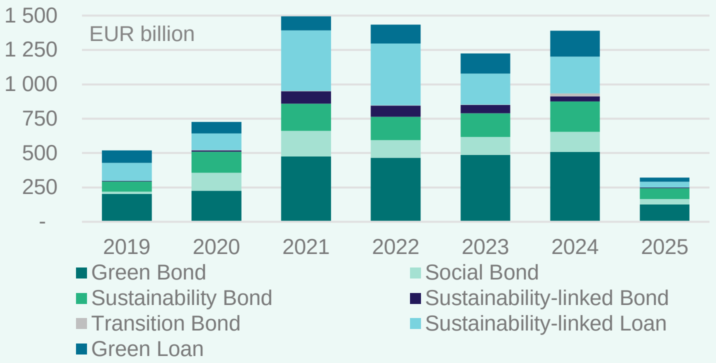
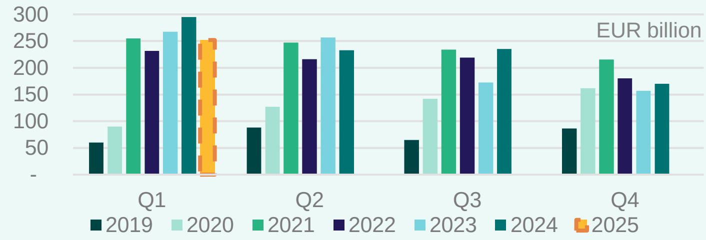
In Q1 2025, we have seen approximately EUR 325 billion being raised across global **sustainable bond and loan markets**.

Global issuance of sustainable bonds and loans



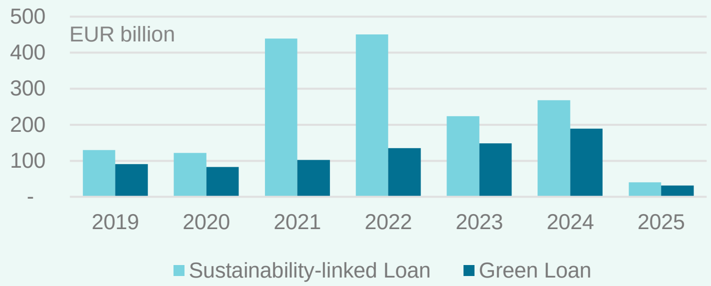
It has been a fairly solid start to 2025 in both global and Nordic **sustainable bond markets**. However, we see lower volumes in the US, as expected from the political backlash where ESG labels, but also ESG ambitions and reporting in general, have been targeted by republican politicians, claiming they violate fiduciary duty and signal colluding behaviour among financial market participants.

Quarterly global issuance of sustainable bonds



By the end of 2024, momentum returned to the **sustainability-linked loan (SLL) market.** 2025 is however off to a weaker start, for both SLLs and green loans, and it remains to be seen what direction volumes will take. We believe the market has been through a healthy recalibration, where the bar for qualifying for the SLL label has risen markedly, ensuring a higher level of ambition and better alignment with long-term sustainability strategies compared to earlier years.

Global issuance of SLLs and green loans

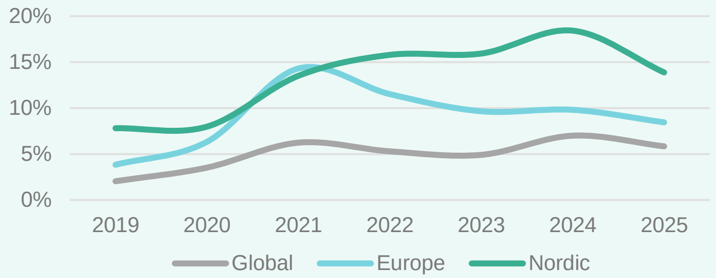


We experience that many companies opt for the 'forward start' solution, where an SLL structure can be activated post closing. There may be several reasons, but most often because the company needs more time to collect data and secure calculation methodologies.

Issuance of **sustainability-linked bonds (SLB)** remain muted. Q1 only saw 18 issuers come to market globally (compared to 305 in the green bond market). With many outstanding SLBs approaching their target observation dates, we expect 2025 to be an interesting year for both issuers and investors. As highlighted in our November -24 market comment[1], roughly 40% of Nordic SLB issuers were lagging behind on their KPIs.

Despite a stable start in terms of absolute volumes, sustainable bond issuance as a **share of total bond issuance** is down in Q1 compared to full year 2024 across most markets that we track. Globally, the share is hovering around 5-6%. For Nordic issuance, the share is down from around 19% last year, to roughly 14% in Q1.

Share of bond market with sustainable label



As of December 2024, the **European Green Bond Standard** is now active and available for issuers who wish to receive the formal 'EuGB' label.

The standard is voluntary, but those who opt in for the label must comply with the regulatory standard, which is meant to become a 'gold standard' for green bonds.

In Q1, we saw the first four EuGB transactions come to market, issued by A2A SpA, the European Investment Bank, ABN AMRO Bank, and Île-de-France Mobilités.

We expect the ICMA Green Bond Principles to remain the primary standard in both global and European green bond markets, but foresee issuers with a large share of Taxonomy-aligned assets to explore the EuGB label, aiming to attract additional investor demand.

Footnotes: 1) Previous newsletters available here: [Newsletters and reports | Sustainable Finance | DNB Markets]

Source: Bloomberg, DNB Markets

DNB Markets: A dedicated Sustainable Finance team working across sectors and regions

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DNB's ambition

We aim to be a driving force for sustainable transition

We have set an overarching goal of reaching net-zero emissions across lending, investments and operations by 2050

Sustainable Finance team

Our DNB Markets Sustainable Finance team, established in 2017, offers sustainable finance advisory services across sectors and global offices

The team assists clients in meeting investor expectations across debt and equity capital markets by highlighting and integrating sustainability features in a transactional setting

Product and advisory services

We offer advice on:

Sustainable financing solutions, such as green, social and sustainability linked-bonds and loans

ESG narrative from an ownership perspective in M&A/IPO situations, identifying ESG risks and opportunities and enhancing equity stories

ESG Equity Research

Using a bottom-up approach results in a unique product with high value add for readers, with ESG drivers integrated in the estimates

Our combined company and sector expertise is utilised in identifying opportunities, risks and valuation implications

Track record

- Market leader in the Norwegian Sustainable Bond Market
- Market leader in the Nordic HY Sustainable Bond Market[1]
- Prospera ESG Equity Research Norway 2021, 2022, & 2023

A dedicated team working in close cooperation with other product and client teams across DNB

Nina Ahlstrand
Managing Director
Global Head of Sustainable Finance
DNB Markets

Contact information:
- nina.ahlstrand@dnb.se
- +46(0)709 60 03 04

Magnus Piene
Director
Sustainable Finance
DNB Markets

Contact information:
- magnus.piene@dnb.no
- +47 90 99 47 74

Ulrik Hallén Øen
Associate Director
Sustainable Finance
DNB Markets

Contact information:
- Jens.Ulrik.Hallen.Oen@dnb.no
- +47 99 10 62 13

Anne Margrethe Platou
ESG Analyst Equities Research
DNB Markets

Contact information:
- anne.margrethe.platou@dnb.no
- +47 90 36 76 83

[1] Nordic issuances, excluding Real estate.

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