



Newsletter for Central Banks

Building together smart solutions to face a challenging environment



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For more on Amundi's thought leadership: [visit our website](#)

Dear Client,

Welcome to the fifth edition of Amundi's Newsletter for Central Banks, crafted by our experts for you.

In a landscape marked by complex macroeconomic and geopolitical challenges, our specialists share their insights on global policy and investment themes that are crucial for Central Banks worldwide.

In this edition, we explore **Europe's modest growth outlook amid economic challenges**, highlighting the need for reforms to boost investment, innovation, and defence, alongside the potential for recovery driven by increased real incomes, lower ECB rates, and strategic action plans from the European Commission. We also assess the **bond market dynamics influenced by recent fiscal changes in the US and Germany's fiscal expansion**. Finally, we discuss the integration of **sustainable bonds in Emerging Market Central Banks' portfolios**, emphasizing their role in attracting private capital for development and aligning monetary policy with climate goals.

We hope this edition meets your expectations and invite you to share your thoughts with us!

Contact us at sovereign@amundi.com

What's new & coming up?

March 2025

The diverse economic impacts of artificial intelligence

In this paper, we extend our 2024 analysis by focusing on differentiating macroeconomic productivity gains enabled by AI across countries.

[Read more](#)

March 2025

Capital Market Assumptions

In a pivoting world marked by rising nationalism and geopolitical fragmentation, Europe has the potential to boost its competitiveness, Asia is emerging as a global tech powerhouse, and the US will continue to reap the benefits of artificial intelligence.

[Read more](#)

March 2025

**PODCAST
US Fixed Income: Early pain, later gain?**

Less than 2 months back in the White House, US president Donald Trump has packed in a great deal; Shifts in policy, tariffs, federal employment, not to mention a huge change in approach to foreign policy.

[Listen to the podcast](#)

April 2025

**REPLAY
What's Next for Europe and the World**

Our experts provided an initial assessment of recent trade tariffs and their implications for the global economy and markets, with a special focus on Europe.

[Watch the replay](#)

[Read more](#)





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When Europe awakens: A Path to Innovation and Defence Strengthening

While European short-term growth is anticipated to be modest, the outlook remains positive. Various surveys indicate that growth remains sluggish at the start of the year in the Eurozone, that the labour market is beginning to deteriorate in several countries and that there is a significant moderation in wages, which should nevertheless continue to grow at a faster pace than prices. However, the arguments in favour of a recovery are intact: higher real incomes, lower European Central Bank (ECB) rates and healthy household balance sheets are factors supporting domestic demand. This is especially true given that households' excess savings have increased further over the past two years, with the savings rate being up 1 percentage point (PP) on average in the Eurozone since the end of 2021, now at 15.3%¹.

Short-term risks should not overshadow the European action plans that are gradually being unveiled.

Increased tariffs would weigh heavily on European industry – in Germany and Italy in particular – and on the automotive sector, which would be among the most exposed. Increased tariffs are clearly a sword of Damocles for European growth this year. That said, 2025 is a pivotal year in many ways. Ongoing reforms in Europe are poised to transform the existing landscape.

The European Commission (EC) has begun translating the Draghi report's recommendations into effective proposals. **On the economic front**, insufficient investment and weak productivity, coupled with an aging population, are hindering potential growth. **On the security front**, the era of peace dividends has come to an end. The White House's announcement that the US will withdraw its military umbrella over Europe will force EU Member States (MS) to step up their defence efforts significantly. Europe, which allocated 2% of its GDP on defence in 2024, must rapidly strengthen its military capabilities. It should be remembered that in the 1960s, Europe – despite being protected by the US military umbrella – spent between 3% and 4% of its GDP on defence.

EU leaders are preparing to take significant measures on both the economic and defence fronts. In the medium-term, our scenario for Europe assumes that the EU will gradually catch up in terms of investment, innovation and competitiveness.

In a nutshell, the broad guidelines of action are:

- Reducing regulation and administrative burdens to encourage innovation and improve productivity;
- Relaxing regulations on sustainable finance to increase access to finance for Small and Medium-sized Enterprises (SMEs);
- Reducing external energy dependency and developing renewable energies to enhance competitiveness, particularly for countries with a strong industrial base;
- Closer integration of capital markets to channel Europe's abundant savings more effectively towards investment needs (and make European businesses less dependent on bank financing);
- Broadening and strengthening existing commercial partnerships to reduce dependency and increase the resilience of supply chains.

The EC unveils concrete action plans

The **Competitiveness Compass**² (presented on 29 January, 2025), outlined flagship measures aimed at reversing industrial decline and stepping up efforts to compete with the US and China in areas like Artificial Intelligence (AI), while reducing energy costs and cutting red tape. Its three main pillars are innovation (promoting AI and robotics), decarbonisation (facilitating affordable energy access and reducing CO₂ emissions), and security and defence (increasing resilience).

The **Clean Industrial Deal**³ (CID, presented on 26 February, 2025) details actions to help energy-intensive industries decarbonise and stimulate clean technology production, aiming to lower energy bills. The goal is to stimulate investment by fostering innovation and competitiveness, making decarbonisation a growth driver for the industrial sector. The EU must accelerate clean energy deployment by speeding up electrification, creating an internal energy market, and reducing the share of imported fossil fuels in the energy mix. To finance this transition, the CID will mobilise more than €100bn, and proposes adopting a new framework for state aid aimed at deploying renewable energies, in order to speed up their approval. The CID is also proposing to increase the number of financial guarantees to support investments, which, according to the EC, should make it possible to mobilise up to €50bn.

1. <https://ec.europa.eu/eurostat/web/products-euro-indicators/w/2-13012025-ap>

2. https://commission.europa.eu/document/download/10017eb1-4722-4333-add2-e0ed18105a34_en

3. https://commission.europa.eu/topics/eu-competitiveness/clean-industrial-deal_fr

The **White Paper on Defence**⁴, along with the **'ReArm Europe/Readiness 2030' plan** (presented both on 19 March, 2025), proposes measures to strengthen the defence sector. The strategy recommended is the most important undertaking since the Cold War. The objective is to make massive investments in order to strengthen defence capabilities, fill the gaps and build a solid defence industrial base. Among the conditions for achieving this are the establishment of pan-European supply chains and the promotion of innovation Research & Development, in order to increase the economic impact of defence spending over time. To this end, the strategy will offer MS financial levers to stimulate investment, with a potential mobilisation of nearly €800bn over the next four years.

The flagship measures are structured around three main axes:

- Enabling MS to increase their defence spending without triggering an excessive deficit procedure (national escape clause). Each MS could mobilise up to 1.5% of GDP per year in additional defence spending.
- Granting up to €150bn in loans to MS for investments in the field of defence via a new instrument ('SAFE').
- Accelerating the establishment of the 'Investment and Savings Union' and using the European Investment Bank (EIB) to mobilise private savings.

The historical shift in Germany should facilitate the eurozone's exit from the low-growth trap

The German parliament has just adopted, on March 21, the measures proposed jointly by the CDU and the SPD after the February elections. The constitutional debt-brake rule has been amended and a new special fund has been created. Germany is one of the only EU countries capable of financing a huge budgetary effort through an increase in its debt. In practice, **defence spending will not be constrained ex ante**: Germany would have the means to reach the target of 3% to 3.5% of GDP for defence spending as of next year. In addition to defence spending, **public infrastructure investment would be added at a rate of around 1% of GDP per year** in the coming years. This would be enough to make up the investment backlog (estimated to be at 15% of GDP) accumulated by Germany by 2035. Fiscal multiplier estimates for infrastructure spending are usually quite high. **Ultimately, the shift should boost German growth very significantly in the years to come, and benefit the Eurozone too, albeit to a lesser extent.**

In the meantime, Trump's plans are a blow to the US dollar

In recent weeks, a White House project known as the 'Mar-a-Lago plan', which aims to weaken the dollar, has been in the spotlight. One of the options under consideration is to "allow" foreign central banks to exchange their US Treasury bonds either

for perpetual or century zero-coupon bonds. In return for their participation, countries that agree to such an arrangement would be exempt from tariffs and could continue to benefit from US military protection. This transactional approach, if implemented, would be akin to a restructuring of the US debt, which could put global macro-financial stability at risk, and would likely compromise the role played by the US dollar in the international monetary system. This is all the more true given that this role has already been in decline over the past 10 years: the dollar's share of global foreign exchange reserves has now fallen to a 30-year low (57% in 2024 vs. a peak of 71% in 1999)⁵.

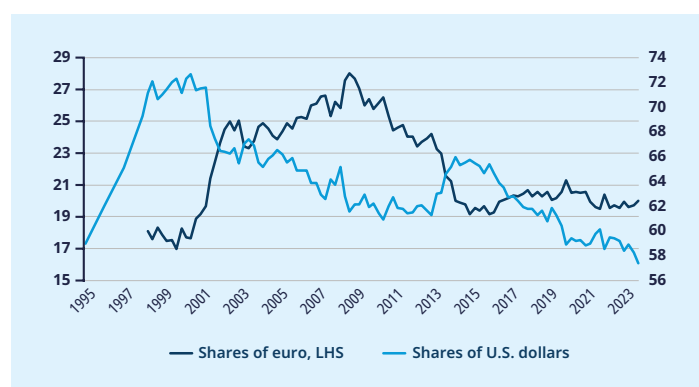
A turning point for the euro

The euro has not yet succeeded in competing with the dollar as an international reserve currency. In 1999, when it was created, it represented around 18% of the world's foreign exchange reserves. Its share has stabilised at around 20% in recent years⁶. There are a few reasons for this. One is that there is still a lot of financial fragmentation. Another is that there is not enough of a 'safe asset' that can compete with US Treasury securities.

The ongoing reforms and projects in Europe, in combination with the financing strategy adopted in Germany (via substantial bond issues), **are poised to be transformative**. These issues will be added to the existing euro-denominated debts previously issued by the EU. Moreover, the idea of joint financing of certain common goods, including defence, continues to gain ground within Europe. As a result, a new safe haven is emerging slowly but surely. In the meantime, provided that Eurozone countries manage to stabilise their debt-to-GDP ratios, their national debts should serve as a proxy.

All these developments should ultimately help strengthen Europe's position in the global economy, thereby increasing the international role of the euro.

Central Banks: Shares of Reserves (%)



Source: Currency Composition of Official Foreign Exchange Reserves (COFER), International Financial Statistics (IFS), IMF. <https://data.imf.org/?sk=E6A5F467-C14B-4AA8-9F6D-5A09EC4E62A4&sid=1408202647052>.

4. https://defence-industry-space.ec.europa.eu/document/download/30b50d2c-49aa-4250-9ca6-27a0347cf009_en?filename=White%20Paper.pdf

5. Currency Composition of Official Foreign Exchange Reserves (COFER), International Financial Statistics (IFS), IMF. <https://data.imf.org/?sk=E6A5F467-C14B-4AA8-9F6D-5A09EC4E62A4&sid=1408202647052>.

6. Currency Composition of Official Foreign Exchange Reserves (COFER), International Financial Statistics (IFS), IMF. <https://data.imf.org/?sk=E6A5F467-C14B-4AA8-9F6D-5A09EC4E62A4&sid=1408202647052>.



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Bond Market Dynamics: Assessing the Impact of US Fiscal Changes on Fixed Income

The market narrative is moving away from a sense of “American exceptionalism” to growing concerns about a possible US recession and sharp slowdown in global growth.

The high degree of uncertainty created by the Trump administration policy is placing a substantial burden on the US economy. So far, the US economy is slowing, but remains in a good shape. The economy continues to generate jobs at a solid pace, while the unemployment rate held at 4.1%. At the same time, American households continue to benefit from strong balance sheets, and US businesses find a good access to capital markets. However, US consumers are becoming increasingly concerned that unemployment will rise over the next year and are also grappling with an equity market sell-off. Consumer spending could slow down sharply, notably due to a negative wealth effect and an increase in the savings rate. On the corporate side, a major risk is that companies shift to a wait-and-see attitude, postponing their investment and hiring projects. Chief Executive Officers are currently at their lowest level of optimism since 2012¹.

The Trump administration considers the US economy to be failing on the following five points:

- 1. Significant increase in public debt**, which amounts to more than \$33 trillion. Treasury Secretary Scott Bessent is “alarmed with what the Biden administration was doing with the debt and deficit.” The U.S. government spent a record \$1.2 trillion on interest payments in 2024, the highest amount ever recorded. “Endless stimulus, endless spending, endless spending, but endless spending when we are in solid economic territory or not in a war, first time ever. In March 2021, the economy didn’t need rescue, it was already in recovery.”²
- 2. Huge increase in commercial deficit:** The US trade deficit with the rest of the world widened further in 2024 compared to the previous year (+17%), reaching \$918.4 billion. These figures reflect both the appetite of American consumers for imported goods and the strength of the US dollar, which weighed on import growth.

- 3. Downgrading of the middle class:** “The real economy is dislocated, maybe meaningfully dislocated from the financial economy.” The Trump administration believes that globalization has failed, marking the end of the American dream for those in the bottom 50%:

- The rise in asset prices has primarily benefited the top 50%.
- Inflation has disproportionately affected the bottom 50%. This group has a different consumption basket and is more impacted by rising prices of used cars, car insurance, rent, and groceries, which have inflated at a much faster rate.
- The bottom 30% have been particularly affected by rising interest rates due consumer debt.
- Most people cannot afford to buy a home, with the US market experiencing a scarcity for homes.

- 4. Uncontrolled Immigration:** Immigration reached a record high during Joe Biden's first three years in office, including as a proportion of the population.

- 5. Strong Dollar:** “The root of the economic imbalances lies in persistent dollar overvaluation that prevents the balancing of international trade, and this overvaluation is driven by inelastic demand for reserve assets.”³

Donald Trump has a two-step agenda: first a cut in government spending and a new tariff policy and then, reduction in taxes and deregulations. One of President Trump’s explicit objectives is to make the United States an attractive target for foreign investment and, in tandem, to incentivize these flows. Trump wants to redirect investment and production toward the United States and undermine decades of integration. Tax cuts and deregulation are intended to reverse the growth trajectory. Trump’s administration wants to deregulation of the financial sector to allow the private sector to re-leverage.

1. <https://chiefexecutive.net/ceo-optimism-plummets-in-march-amid-tariff-uncertainty/>

2. Treasury Secretary Scott Bessent's interview on All-In Podcast, March 19, 2025.

3. https://www.hudsonbaycapital.com/documents/FG/hudsonbay/research/638199_A_Users_Guide_to_Restructuring_the_Global_Trading_System.pdf

The Trump administration calls into question globalization. *“The idea of globalization was that rich countries would move further up the value chain, while poor countries did the simple things”.* Understanding the rationale behind the Trump administration perspective is crucial:

- 1- National security.** The danger of offshoring production when partner nations start moving up the value chain. *“Deindustrialization poses risks both to our national security and our workforce.”*
- 2- Innovation.** There is a synergy between manufacturing and designing (networking, sharing of best practices, sharing of intellectual property, sharing of employees). Cheap labour is fundamentally a crutch, and it is a crutch that inhibits innovation. *“It should be no surprise that when we send so much of our industrial base to other countries, we stop making interesting new things right here at home.”*
- 3- Bringing manufacturing jobs to the US.** *“When our factories disappear and the jobs in those factories go overseas, American workers are faced not only with financial insecurity, but they are also faced with a profound loss of personal and communal.”* *“In a healthy economy, technology should be something that enhances, rather than supplants, the value of labour.”*

In the event that the aggressive policy of the Donald Trump administration continues, several critical elements warrant our attention.

- **Firstly, there are downside risks to US economic growth amid rising inflation and inflation expectations.** As public sector reforms and changes to trade policies are considered, it is likely that these changes could have negative repercussions for the economy as a whole.
- **This raises also concerns about the sustainability of American exceptionalism,** as large US companies, despite their ability to adapt their supply and production chains, may experience a severe drop in profitability during this uncertain period.
- **Additionally, the dynamics of global growth may also face deterioration.**
- **Another key aspect to monitor is financial instability.** Recent sharp increases in US interest rates have called into question the traditional “safe haven” status of the US government bond market. This situation presents a new challenge for the Trump administration, especially as some market participants begin to speculate that countries like China may be liquidating their Treasury holdings, which could have significant consequences on a global scale.

In the event that the aggressive policy of the Trump administration continues, we will have to monitor:

- **Downside risks to US growth amid rising inflation and inflation expectations.** Public sector reform and trade policy could pose serious challenges for the economy.

- **Downside risks to global growth**
- **End of US exceptionalism.** Large US companies have the means to adapt their supply and production chains, but at a cost to their profitability.
- **Financial instability.** The recent sharp increases in US rates call into question the “safe haven status” of the US government bond market. The development presents a new challenge to the Trump administration. Some market participants have speculated that China and other countries are liquidating their Treasury holdings.

So far, the Federal Reserve has adopted a wait and see mode. Federal Reserve Chair Jerome Powell underlined that “despite elevated levels of uncertainty, the US economy continues to be in a good place”. He believes the economic impact of new tariffs is likely to be significantly larger than expected, and may lead to higher inflation and slower growth. When asked what would prompt the Fed to respond to tariffs imposed on US imports, Powell responded that what truly matters is longer-term inflation expectations and how persistent inflationary effects would be. Market attention is on the Fed's ability to cut rates to mitigate downside growth risks.

The evolution of the Trump administration's policies remains a significant unknown for investors. We are far from the “Trump put” initially expected by markets. Markets remain uncertain on how far the Trump administration can and will go, and whether it really wants to create disruption. Silent voices are emerging in corporate America, expressing serious concerns. Another key question for investors is when the shift to a more growth-friendly policy (deregulation and lower taxes) can be expected.

Recent market developments reflect these concerns⁴ :

- **High volatility in US Treasury bonds.** US 10-year Treasury bond yields have fallen since mid-January, falling from 4.8% at the beginning of January to 4%, before rebounding to 4.3%. The 30-year yield briefly rose to above 5%. Investors were initially concerned about the impact of Trump's policies on growth and disappointing economic data, and then about the safe-haven status of US government debt.
- **The terminal rate has only edged down from 4% to 3.3% during this period.** Despite the sell-off in the equity market, terminal rate pricing is still somewhat above levels registered in September last year. Investors seem to believe that inflation remains sticky enough to limit the Fed's ability to proactively respond to weaker growth.
- **Short-term inflation expectations have surged, while longer-dated measures have declined.** The growing concern around the economic outlook and the risk of recession has led investors to price lower inflation beyond the transitory shock induced by tariffs. Investors are getting concerned about the impact of unusually high policy uncertainty on the economic outlook.
- **Rise in the term premium over the last days for the 10y and 30y.**

4. Amundi as at April 9, 2025.

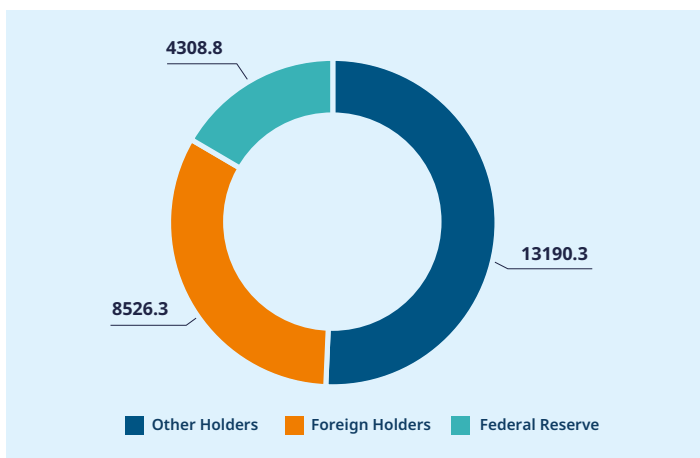
US Term Premia



Source: Bloomberg, Amundi Research

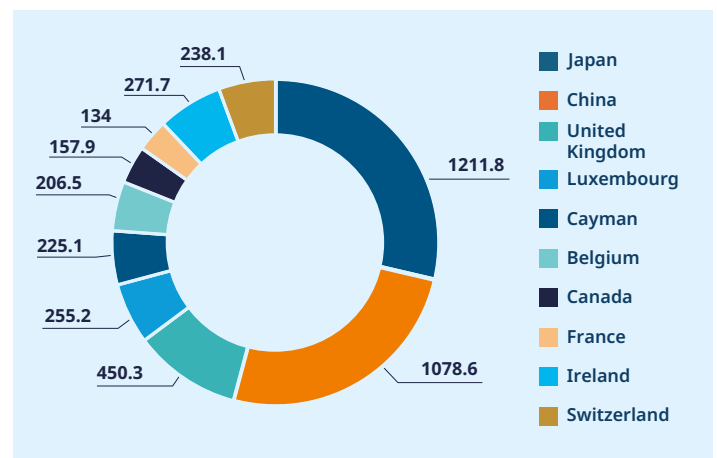
In this context, a further decline in US bond yield will require (1) a confirmation of disappointing growth trajectory and (2) signs of a more dovish response from Fed. We anticipate a steepening of the yield curve – particularly in the 2s10s and 5s30s segments – if incoming data continues to disappoint and lead investors to price in additional rate cuts. Recent questions about the safe haven status of US debt are prompting some caution on the long end of the curve.

Total US debt (in bn \$)



Source: Bloomberg, Amundi as at April 9, 2025

US debt - Foreign holders (in bn \$)





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Integrating emerging market sustainable bonds in Central Banks' portfolios: IFC and Amundi's perspectives

Q1. As a member of the World Bank Group (WBG) and the largest global development institution focused on the private sector in emerging markets and developing economies, how is IFC mobilizing private capital to fill the financing gap to finance countries' development needs?

■ **Laila Nordine (L.N.):** Mobilization of private capital has been a core pillar for IFC's strategy as we believe that attracting private investment into emerging markets is crucial for their economic development. To achieve this, we work across the World Bank Group (WBG) and with other partners to remove barriers to private investments, prepare projects to be financed, and connect borrowers in these markets to new sources of capital that invest alongside us, thus raising more money for development.

The WBG has consistently been the largest contributor, among development finance institutions, to private capital mobilization in emerging and developing countries. In FY24, the WBG mobilized \$66.4 billion, more than twice as much as in FY21. IFC specifically raised a record \$34 billion, double the amount in FY21.

At IFC, we attract private capital through a broad suite of products that are tailored to reach a wide range of investors by aligning with these investors' strategies and risk tolerance.

Q2. IFC's Green Bond Program was launched in 2010 to unlock investment for private sector projects with climate and environmental benefits. What initiatives has IFC taken to grow the market for green and other thematic bonds?

■ **L.N.:** When IFC's Treasury issued its inaugural green bond through the Green Bond Program in 2010, it was seen as an endorsement of green bonds' potential to link sustainable projects in emerging markets with financing from capital markets and institutional investors. At the time, the global green bond market was \$3.5 billion, primarily in developed markets. To date, IFC has

issued 207 green bonds totaling \$13.9 billion. To support projects focused on delivering positive social outcomes for under-served populations in emerging markets, IFC also launched its Social Bond Program in 2018. Since then, IFC's social bond issuances total \$8.4 billion through 97 bonds.

Beyond bond issuances, IFC is working to grow the market for green, social, sustainable, and sustainability-linked (GSSS) bonds through investments and technical assistance work. For example, IFC launched the Green Bond Technical Assistance Program (GB-TAP) in 2018 with funding support from donors in Luxembourg, Sweden, and Switzerland to create global public goods and provide technical assistance on green bond issuances for emerging market financial institutions. In addition to broader market creation, IFC is working at the sector level by supporting local regulators on taxonomy development and directly at the firm level with potential issuers on developing their sustainable bond frameworks and preparing their bond issuances. Over the past five years, IFC has also provided anchor investments and structuring support for emerging market GSSS bond funds, helping to mobilize capital, at scale, in this asset class. Together, these initiatives have helped stimulate both the supply and demand of GSSS bonds in emerging economies.

By the end of 2024, emerging market sustainable bonds issuances reached \$211 billion – indicative of the growth of this asset class, to which IFC has positively contributed.

Q3. How can Emerging Market and Developing Economy (EMDE) green bonds help sovereign investors and central banks incorporate sustainability into their investment goals and align monetary policy with global climate objectives?

■ **Caroline Le Meaux (C.LM.):** Green bonds are a key financial instrument that help central banks align monetary policy and financial stability objectives with global climate goals. One of the main reasons for this is that these type of instruments provides a clear and direct link between the funds raised and the project

financed. The high level of transparency asset managers and asset owners benefit from with green bonds – especially compared to conventional ones – is key to track the contribution of investments to sustainable objectives.

The International Capital Markets Association (ICMA)'s Green Bond Principles provide a robust framework that emphasizes transparency, accountability, and environmental integrity in the issuance of green bonds. Amundi also applies its internal green bonds assessment methodology to ensure investments in genuine and impactful green projects and assets that help issuers reach their sustainability ambitions and for which we can collect impact metrics.

The role of green bonds in achieving global climate goals might be even more important in EMDE. Emerging markets are indeed highly vulnerable to the impacts of climate change and green bonds can help channel financial flows towards those countries where SDG gaps are the most important. EMDE green bonds can therefore be a powerful tool to address climate- and environmental-related challenges in developing countries, regarding both climate change mitigation and adaptation. We believe such green bonds are highly relevant when it comes to integrating climate and sustainability issues into central banks' investment mandates.

Q4. With the growing diversification in sustainable financing needs, what other bond segments is IFC actively contributing and pioneering to support investors in emerging markets achieve positive outcomes for the people and planet?

■ **L.N.:** Increased demand for financing projects that support sustainable development through positive outcomes for people and planet has created a need to expand the market for thematic bonds. In January 2023, IFC expanded its Green Bond Framework to include new ocean and water categories, biodiversity, and sustainable and resilient supply chains.

In this context, IFC developed the "Guidelines for Blue Finance, Guidance for Financing the Blue Economy", which provides a list of eligible use of proceeds that support water and sanitation as well as oceans and marine resources. Since 2020, IFC has invested and mobilized over \$1.9 billion in blue finance to safeguard access to clean water, protect marine environments and develop a sustainable water economy.

Another area that IFC has developed is biodiversity finance. The Global Biodiversity Framework (GBF) estimates that the biodiversity finance gap stands at \$700 billion annually through to 2030, with \$200 billion needed from public, private, and international financiers. Drawing on its experience with green and blue finance, IFC released the "Biodiversity Finance Reference Guide" that offers clear guidance on project eligibility criteria for biodiversity finance aligned with the Green Bond Principles. Since the guide's publication in 2023, there have been significant investments in biodiversity where IFC has played a leading role.

This includes a sustainability-linked bond to promote the bioeconomy and regeneration of the Amazon, and the world's first biodiversity bond in Colombia.

IFC's efforts to expand the sustainable bond market continue to grow and are an integral part of promoting sustainable finance.

Q.5 IFC and Amundi now have a long-standing partnership, having launched two programs to support sustainable bond issuances and investment in EMDE. How do these programs show the value of public-private partnerships to scale sustainable investments in EMDE?

■ **C.LM.:** We believe this kind of public-private partnership benefits all stakeholders in the sustainable bond markets in emerging markets. At Amundi, we received precious help from the IFC to finetune our understanding of the climate and sustainability challenges that are specific to EMDE, as an experienced and knowledgeable player in that field. In turn, Amundi is able to bring its expertise and experience in GSSS bonds investing, as well as our enhanced analytical capabilities.

Lastly, such partnerships often come with technical assistance capabilities to enlarge the existing market. Thanks to their extensive presence in EMDE, IFC can bring to the market new, well-prepared issuers that have benefited from IFC's GB-TAP. Potential GSSS bonds issuers are engaged by both IFC and Amundi to share best market practices and expectations on these markets. Issuers thus benefit from a dual source of inputs: IFC knowledge in challenges and project development in EMDE and investors' requirements for investing in GSSS bonds. Through these key elements, public-private partnerships allow for an increase in quality and integrity of GSSS bonds issuances in EMDE.

Finally, we believe that blended finance partnerships are instrumental to catalyzing private sector capital to sustainable projects, especially in EMDE that might be perceived as too risky for many institutional investors. The existence of first-loss mechanisms and tranching capital structures can help de-risking investment for traditional investors, and thereby encourage the allocation of much needed capital to climate and social projects in developing economies.

Q.6 From your perspective, what is needed to further attract investors to increase sustainable financing in emerging markets? What is IFC's role in this?

■ **L.N.:** Capital flows from institutional investors, particularly from high-income countries, into emerging markets are often constrained by higher perceived risks, lack of sustained pipeline of bankable projects, and additional capital requirements. Regulatory uncertainty and concerns over reporting transparency in sustainable debt further limit participation due to inconsistent frameworks and reporting.

IFC addresses these issues through market building technical assistance (such as taxonomy development support for central banks), addressing specific market failures through blended finance and by deploying de-risking financial instruments, including structured debt products, pooled vehicles, and risk-sharing facilities that mitigate or transfer financial risks to allow for capital mobilization at scale.

IFC has been instrumental in enhancing the credibility and transparency of sustainable finance in emerging markets. In addition to supporting sustainable bond issuances through framework and taxonomy development, our technical assistance teams support local financial institutions enhance reporting standards on the use of proceeds to limit the risk of greenwashing and strengthen investor confidence.

To address market inefficiencies and mobilize private investment, IFC may blend concessional donor funding with its commercial balance sheet funds to support high-impact development projects facing a market failure and in challenging markets. Since 2010, IFC has leveraged \$5.9 billion of concessional donor funds across 500 projects to deliver \$32.6 billion in blended financing in emerging markets.

Our objective in deploying this suite of technical assistance and investment services is to remove barriers facing international investors when entering emerging and developing countries as well as create a demonstration effect by investing our own funds to partially de-risk these investors and finance these investments.

Q.7 How do you see the future of EMDE sustainable bonds evolving, and what opportunities or challenges might institutional investors such as central banks face in this space?

■ **C.LM.:** In terms of issuance volume, most of the GSSS bond outlooks suggest a growth for sustainable bonds markets, including in EMDE. We also believe that GSSS bonds in EMDE will increasingly target developing countries' specific sustainability challenges, such as climate change adaptation on top of climate change mitigation projects and assets. Similarly, new types of GSSS instruments such as blue bonds or debt-for-nature swaps are gaining traction in the market and look well-suited to help address EMDE issuers' sustainability issues.

In addition, this positive outlook is supported by the expansion of sustainable taxonomies across the globe, and in developing economies in particular. For example, Colombia, South Africa and ASEAN countries are among developing countries that have already implemented such taxonomies. Many others are currently developing these frameworks, such as Brazil and India. While such taxonomies are welcomed to harmonize definitions of green and sustainable activities, these can also bring challenges due to discrepancies between taxonomies and/or interoperability issues. That is also where Amundi can be a strong partner to institutional investors and central banks as we have developed our own methodology, based on market standards, that leads to consistency in our analysis, regardless of which guidelines are used by issuers.

IMPORTANT INFORMATION

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