

Transition Credit Review: Asia 2025

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This report forms part of AFII's twice-yearly Transition Credit Review series and expands the framework into a dedicated assessment of Asia's transition credit markets.[1] It examines the region's multi-currency GSS (Green, Social and Sustainability) market development and USD bond market performance across Emerging Asia, Australia and Japan. The analysis covers market conditions in 2025. Following a volatile period, funding conditions became more stable and primary issuance rebounded. This recovery unfolded alongside historically tight global credit spreads.

Asia's GSS market has expanded from negligible levels before 2020 into a structurally large, multi-currency segment by 2023–2025, reflecting increased adoption of labelled formats across Financials, Government and Utilities. At the same time, Asia's USD bond and loan markets returned to multi-year highs as lower funding costs supported issuance activity, although labelled penetration remained uneven across instruments.

Against this backdrop, the report assesses how refinancing risk, sector fundamentals, supply dynamics and transition credibility have shaped credit outcomes across the region. It evaluates market performance using the Bloomberg EM Asia USD Credit Index for Emerging Asia and custom USD universes for Australia and Japan, highlighting the growing dispersion between high-grade and high-yield transition-exposed issuers and the sector-specific nature of green versus non-labelled performance.

Key Takeaways

- **Asia's GSS and USD markets rebounded strongly in 2025, but labelled penetration stayed low and uneven, with GSS bonds forming only 4–9 percent of USD supply despite multi-currency growth.**

- **All three regions saw broad tightening led by high-grade and bank-capital strength. EM Asia diverged with stress in the high-yield Materials and Real Estate sector, the Materials and Energy sector in Australia outperformed, and Japan tightened modestly but the Utility sector faced pressure from heavy supply.**

- **USD supply is likely to remain active across Asian markets, alongside a broader multi currency refinancing cycle for green bonds. This includes transition-related issuance from Japanese utilities under GX plans, ASEAN NOCs funding higher capex and Indian renewables facing 2026 maturities. Credit outcomes will hinge on fundamentals and refinancing conditions, with investors focusing on credible transition execution rather than labels.**

[1] "Transition credit review: H2 2025", AFII, 15 Dec 2025.

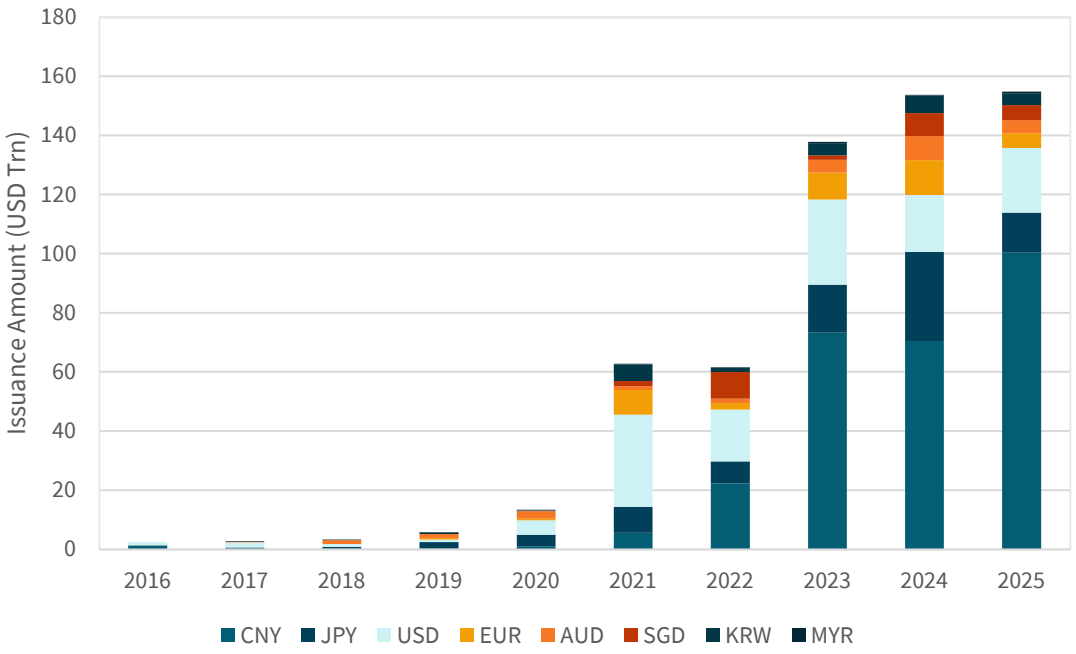
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Overview of Asia's GSS market development across currencies

Asia's GSS market has expanded from negligible volumes before 2020 into a structurally large, multi-currency segment by 2023–2025. Issuance increased more than ten times. In Figure 1. Asia's GSS supply in 2025 remained multi-currency but concentrated in a few core markets. CNY dominates regional issuance with 43% of regional labelled supply in 2025 as the most consistent source since 2022. JPY issuance moderated following elevated GX[2] related activity in 2024. USD issuance rebounded after a softer 2024 as funding conditions stabilised.

Other currencies, including EUR, AUD, SGD, KRW and MYR, remained small but steady contributors, driven mainly by sporadic benchmark placements in EUR and AUD and more regular domestic-led issuance in SGD and KRW. MYR stayed marginal but indicated early adoption of labelled formats. Across all currencies, Financials accounted for the largest share of regional GSS issuance in 2025 (51%), followed by Government (20%) and Utilities (14%), reflecting the dominance of bank refinancing cycles and policy-linked sovereign activity. **Utilities' role in GSS issuance is increasingly structural, reflecting rising electrification demand alongside growing data-centre and digital infrastructure power requirements.**

Figure 1: Asia GSS Issuance by currency. Source: Bloomberg Finance L.P. Accessed 28 Nov 2025.



[2] GX (Green Transformation) is Japan's national policy framework for decarbonising the economy through clean-energy investment, industrial transition and supportive regulation, including renewable expansion and selected nuclear restarts.

Asia USD Bond GSS 2025 supply rebound

Asia's USD primary markets saw a sharp rebound in 2025, with both bond and loan issuance returning to multi-year highs as lower U.S. rates and tighter spreads reduced funding costs. Bond issuance expanded strongly in both halves of the year, driven mainly by traditional USD financing. In Figure 3 GSS bonds accounted for 9% of issuance in the first half of 2025 and 4% in the second half, indicating that labelled issuance lagged the broader market recovery. This low labelled penetration is consistent with broader USD markets, where GSS remains a small share of total supply despite strong headline issuance. The USD loan market followed a similar pattern in Figure 2, peaking in the first half of 2025 before moderating later in the year. **GSS loans maintained a higher proportional share than GSS bonds, reaching 27% in the first half before easing to about 9% in the second half, reflecting their alignment with borrowers that have ongoing capital expenditure requirements.**

Figure 3: Asia USD Bond Issuance Semi-Annually. Source: Bloomberg L.P. Accessed 28 Nov 2025.

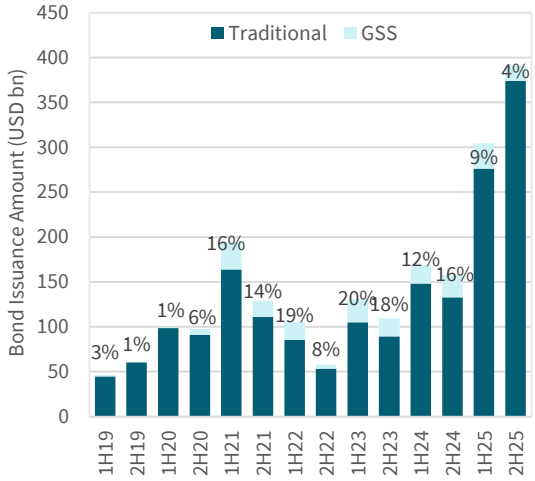
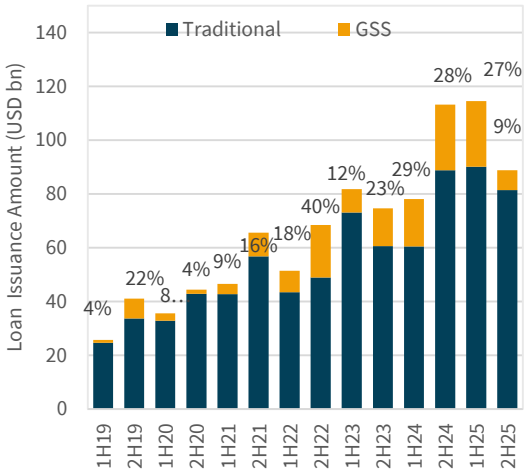


Figure 2: Asia USD Loan Issuance Semi-Annually. Source: Bloomberg L.P. Accessed 28 Nov 2025.



By country, China remained the dominant USD GSS issuer, followed by Korea which had issuance from Posco (ticker POHANG) and LG Energy (ticker LGENSO).[3,4] Japan's supply increased with the USD1.5 billion Toyota (ticker TOYOTA) sustainability issue across 3 tranches, and the debut of Hokkaido Electric's (ticker HOKKEL) USD500 million green bond.[5] Government issuance included the Philippines' (ticker PHILIP) sustainability bond issue in 2 USD tranches, Indonesia's USD2.2 billion global sukuk, and Hong Kong (ticker HKINTL) SAR's multi-currency digital green bond of about HKD10 billion which include a USD tranche of USD300 million.

Looking ahead to 2026, several shifts are likely. Chinese USD issuance may moderate as offshore bond approval guidelines tighten.[6] The Philippines government plans to raise more global bonds.[7] Japanese utilities may become more active, building on the GX transition financing momentum. Korean issuers are expected to maintain their presence, supported by ongoing U.S. and global investment plans. In Hong Kong, quasi-sovereign activity may remain firm, supported by MTR Corporation's (ticker MTRC) expansion of its bond issuance programme to USD25 billion in 2025.

[3] "POSCO: greener steel elsewhere", AFII, 6 May 2025.
[4] "LG Energy Solution- new issues come at a concession", AFII, 26 Mar 2025.
[5] "Green nuclear dollar bonds from Japanese utilities", AFII, 28 Aug 2025.
[6] "China Tightens Rules for State-Owned Firms to Add Foreign Debt", Bloomberg L.P., 11 Nov 2025.
[7] "Philippines to Boost Global Bond Sales as Graft Hits Economy", Bloomberg L.P., 2 Dec 2025.

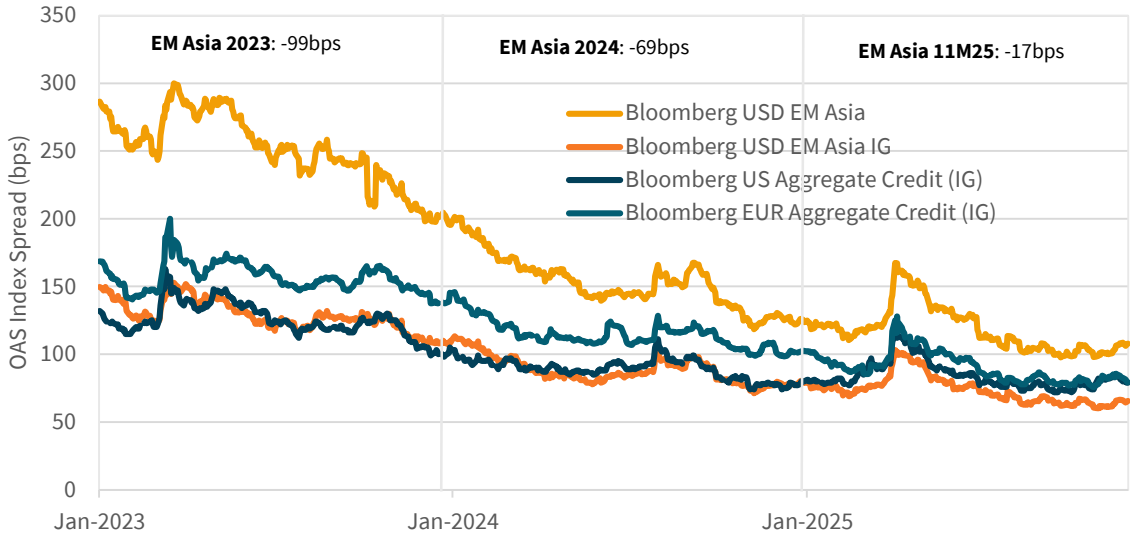
Indonesia's sovereign and quasi-sovereign issuers are also positioned to remain active, following their continued use of global sukuk and hard-currency markets in 2025. In India, the renewable energy sector including entities such as Greenko (ticker GRNKEN) and Azure Power (ticker AZUPOE) faces material 2026 maturities, making refinancing-driven green issuance likely. ASEAN National Oil Companies (NOC) may also contribute meaningfully to regional supply, as Petronas (ticker PETMK), Pertamina (ticker PERTIJ) and PTT (ticker PTTEPT) continue to fund elevated capex plans.[8]

Emerging Asia, Australia and Japan 2025 USD bond market performance

In this review, we assess bond market performance for Emerging Asia using the Bloomberg EM Asia USD Credit Index. For Australia and Japan USD credit, we construct a custom universe comprising investment grade, high yield and non-rated issuers with the relevant country of risk, bond maturities of more than one year, and issue sizes above USD150 million. All performance metrics are based on data through 28 November 2025, and spread movements for both 2H25 and year-to-date are calculated relative to this end-November reference point.

Emerging Market Asia USD 2025 bond market performance

Figure 4: Bloomberg EM Asia USD Credit Index OAS historical spread levels. Source: Bloomberg L.P. Accessed 28 Nov 2025.



The Bloomberg Emerging Asia USD Credit Index (ticker BEUCOAS) as of 28 Nov 2025 was at about 108bps OAS as seen in Figure 4, tightening roughly 17bps year-to-date and 10bps in 2H, a slower pace than in 2023–24 but still broadly constructive after the April Liberation Day volatility fully reversed by mid-year.

Across regions, investment grade indices also moved in the same direction, with the Bloomberg USD EM Asia IG Index (ticker BEUGOAS) tightening in line with the Bloomberg US Aggregate Corporate Credit Index (ticker LUACOAS) and Bloomberg Euro Aggregate Index (ticker LECPOAS), reflecting a broadly consistent compression trend through 2025.

[8] "Reserves, risks, reinventions: NOCs in the new era", AFII, 3 Dec 2025.

Sector performance remained highly polarised as seen in Table 1. The Communications sector closed near 74bps OAS after about 23bps of year-to-date tightening, while the Technology sector finished around 62bps OAS with 20bps of tightening. Financials also tightened, particularly subordinated and junior-subordinated structures, which compressed by about 17–25bps, supported by investor demand for carry and improving bank-capital sentiment.

Table 1: EM Asia Green USD bonds by BICS sector bond spreads performance 2H25 and YTD (in basis points). Source: Bloomberg L.P., as of 28 Nov 2025.

EM Asia	All				Non-labelled				Green			
Sector	Count	OAS	2H25	YTD change	Count	OAS	2H25	YTD change	Count	OAS	2H25	YTD change
Bloomberg EM Asia USD Credit	1256	108	-10	-7								
Communications	53	74	-16	-23								
Consumer Discretionary	74	196	-9	-1.5	65	204	-7	1	9	140	-25	-12
Consumer Staples	13	133	-29	-19	13	133	-29	-19				
Energy	112	77	-15	-17	109	77	-15	-17	3	63	-12	-15
Financials	330	100	-18	-13	102	102	-18	-13	16	71	-13	-9
Financials - Senior	258	90	-14	-10	243	91	-14	-10	15	70	-12	-8
Financials - Subordinated	50	112	-25	-17	49	112	-25	**-17**	1	88	-23	**-30**
Financials - Junior Subordinated	10	204	-56	-25	10							
Government	212	71	-11	-21	193	73	-10	-21	19	61	-21	-21
Healthcare	1	344	-76	21								
Industrials	172	133	-9	-1	151	133	-9	-1	21	132	-11	5
Materials	65	193	12	67	56	203	16	**79**	9	128	-13	-9
Real Estate	82	591	28	-147	76	622	34	-158	6	137	-46	-9
Technology	30	62	-15	-20	26	58	-13	-18	4	89	-27	-32
Utilities	112	116	-14	-16	85	116	-21	-24	28	201	-1	0

The Materials sector was the major underperformer. Sector OAS widened to roughly 193bps, up 67bps year-to-date. This underperformance was concentrated in several high yield mining issuers. Golden Energy and Resource, an Indonesian high yield coal mining company (ISIN XS2551811651), widened sharply, reflecting its profile as a short-dated high-yield coal credit with spreads naturally more volatile as maturity approaches; ratings actions in 2025, including a Negative Outlook from Fitch, reinforced existing credit pressure. The 2029 bond (ISIN USY71247AA15) of Indika Energy, another high yield coal credit, also widened meaningfully, with spreads rising by more than 170bps year-to-date as investors reassessed refinancing risk. Vedanta saw broad curve weakness, with several lines widening between 40 and 90bps year-to-date, consistent with ongoing concerns over leverage and funding visibility. Hanwha TotalEnergies) (ISIN XS2740446757), also widened, with its single USD line rising by roughly 60bps year-to-date following petrochemical-sector downgrades and weak margin conditions. Together these credits accounted for the bulk of the sector's deterioration.

The Real Estate sector remained the most volatile segment, ending the year near 590bps OAS, wider by 147bps year-to-date, but this headline improvement masked deep structural stress. China property continued to weaken, with many names showing large spread jumps in 2H amid ongoing liquidity pressure. Vanke (ticker VNKRLE), which briefly stabilised early in the year following the Shenzhen Metro transaction, deteriorated sharply by year-end after its onshore bond extension,

with spreads widening into the multi-thousand-bps range. New World Development (ticker NWDEVL) recovered from extreme distress but remained heavily dislocated relative to pre-crisis levels. Outside China, the Philippine developer, Vista Land (ticker VLLPM), also struggled, with spreads widening by about 700–2,800bps year-to-date across its curve due to idiosyncratic balance-sheet and funding concerns.

Relative performance between green and non-labelled EM Asia credit is mixed and largely driven by sector and ratings composition. In the Materials sector, non-labelled, which include weaker HY names, saw spreads widen by 79bps year-to-date to 203bps OAS, while green Materials sector tightened by 9bps year-to-date to 128bps OAS.

In Utilities, conversely, non-labelled bonds tightened more, 24bps year-to-date to 116bps OAS, versus the green bonds from the Utilities sector, which were flat year-to-date at about 201bps. Drivers of underperformance included Indian renewables issuers like Continuum Energy (ticker CGRNEG), Greenko Energy Holdings (ticker GRNKEN) and SAEL Transmission (ticker SAELTT) reflecting high leverage and project execution risks.

The Industrials sector is another sector where movement differs: non-labelled tightened marginally (–1bps year-to-date), while green Industrials sector widened by 5bps due mainly to 1 high-yield shipping name, Seaspan Corp (ticker SSW). Other sectors such as the Financials sector, Energy sector, Technology sector and Government sector showed limited differences.

In aggregate, EM Asia credit in 2025 was defined by a split market: steady tightening in high-grade sectors and bank capital, contrasted with weakness in high-yield Materials and China property, and acute idiosyncratic weakness in names such as Vista Land. **The overall index tightening masks this dispersion, underscoring a market increasingly sensitive to credit-specific refinancing and policy risk rather than regional macro drivers. Policy risks abound with shifting property and LGFV support frameworks in China, and fuel-pricing and subsidy reforms in Indonesia and India. There are also evolving regional transition policies on coal, power tariffs and carbon pricing.**

Australia USD Credit 2025 bond market performance

The Australian USD credit universe ended 2025 with OAS around 96bps, tightening 17bps year-to-date and 13bps in the second half. The tightening is in line with global trends. Within this universe, there is only one labelled green bond (ISIN USQ3919KAQ42) from Fortescue, a mining company. It performed broadly in line with the Australian USD market.

In Table 2, the Materials sector led sector performance in year-to-date terms, driven by broad-based tightening across major diversified miners. BHP Group (ticker BHP), Rio Tinto (ticker RIOLN) and Glencore (ticker GLENLN) all saw widespread curve compression,

Table 2: Australia USD bonds by BICS sector bond spreads performance 2H25 and YTD (in basis points). Source: Bloomberg, as of 28 Nov 2025.

Australia	ALL			
Sector	Count	OAS	2H25	YTD change
Australia	296	96	-13	-17
Communications	9	59	-6	-9
Energy	20	127	-8	**-31**
Financials	163	59	-13	-14
Financials - Senior	110	49	-9	-13
Financials - Subordinated	41	100	-22	-18
Financials - Junior Subordinated	4	121	**-65**	**-24**
Government	2	17	2	0
Materials	81	140	-14	-17
Real Estate	8	81	-13	-21
Utilities	5	87	-22	**-21**

with many lines tightening between 15 and 30bps in the second half. **These moves suggest no discernible transition-related spread effects in the curves of the Australian majors at this stage.**

The Energy sector showed a similarly strong trend. Woodside Energy (ticker WDSAU) delivered substantial tightening of ~25bps average across its USD curve , reflecting improving LNG fundamentals, strong cash generation and stable credit metrics. Santos Limited (ticker STOAU) also tightened meaningfully, averaging about −8bps year-to-date, despite higher beta and more variation across individual lines. This aggregate tightening across the Australian LNG complex mirrors the broader stability observed across global energy names, where extended issuance tenors, moderated capex intensity and limited near-term refinancing needs have supported credit performance. **Together, these dynamics indicate that markets are not applying a transition penalty to these issuers and instead continue to reward operational stability.**

The Financials sector followed a clear capital-structure hierarchy. Senior bank spreads tightened by roughly 13bps year-to-date, while subordinated Tier 2 compressed by about 18bps, and junior-subordinated capital delivered the strongest performance with tightening of about 24bps year-to-date and 65bps in the second half. This mirrors global improvements in bank-capital valuations amid low systemic stress and strong APRA regulatory buffers.

The Real Estate and Utilities sectors also performed well, each tightening by more than 20bps year-to-date. Australian regulated utilities benefited from predictable cash flows and limited refinancing needs, while Real Estate showed none of the sector stress present in EM Asia.

Overall, the Australian USD market in 2025 shows no observable transition-related spread impact.

Japan USD Credit 2025 bond market performance

Japan USD credit ended 2025 at about 78bps OAS, tightening 10bps year-to-date and 14bps in the second half. **The stable headline masks significant sector dispersion, influenced in part by renewed USD supply from Japanese utilities as they advanced transition and nuclear-restart plans under Japan's GX framework.**

The Communications sector remained the weakest sector, with OAS near 162bps and further widening through the year. The underperformance was driven almost entirely by SoftBank Group's (ticker SOFTBK) USD curve, where both senior and subordinated bonds continued to trade with elevated volatility due to high leverage and equity-linked earnings exposure.

Table 3: Japan USD bonds by sector bond spreads performance 2H25 and YTD (in basis points). Source: Bloomberg, as of 28 Nov 2025.

	ALL			
Sector	Count	OAS	2H25	YTD change
Japan	398	78	-14	-10
Communications	28	162	5	**24**
Consumer Discretionary	31	144	-16	3
Consumer Staples	19	76	-5	-9
Financials	236	50	-14	-10
Financials - Senior	197	47	-11	-11
Financials - Subordinated	31	107	**-31**	-7
Financials - Junior Subordinated	8	200	-23	2
Government	47	28	-3	-7
Healthcare	10	86	-4	-8
Industrials	3	76	-3	0
Materials	7	67	-4	-5
Real Estate	4	78	0	2
Technology	4	119	**-23**	**-28**

The Technology sector was one of the strongest non-financial sectors, with OAS tightening to about 119bps and 28bps of year-to-date compression. However, the sample is small with only 4 issuers so performance reflects issuer-specific outcomes rather than broad sector trends. A key contributor was Kioxia (ticker KIOXIA), a major global producer of NAND flash memory used in data centres, smartphones and consumer electronics. As a new USD issuer, its bonds maturing 2030 (ISIN USJ3343AAA54) and 2033 (ISIN USJ3343AAB38) tightened sharply as the memory cycle turned upward and investors grew more comfortable with its fundamentals and market position. The high-beta nature of the credits amplified the move, and the rapid compression of the new-issue premium helped lift the broader sector.

The Financials sector remained the foundation of the Japanese USD market. Senior bank paper held around 47–49bps, while subordinated instruments traded near 107bps, with more pronounced tightening in the latter during the second half in line with global bank-capital trends.

The Utilities sector experienced the widest dispersion due to increased USD supply linked to GX-related transition and nuclear-restart financing. In 2025, Chugoku Electric Power (ticker CHUGEP), Kansai Electric Power (ticker KANSEL), JERA (ticker JERA), Hokkaido Electric Power (ticker HOKKEL), Kyushu Electric (ticker KYUSEL), Hikari Tsushin (ticker HIKTSU), each issued USD500 million transactions, totalling ~USD3 billion.[9] Shorter-dated lines saw modest tightening, while longer-dated structures including Hokkaido Electric Power's bond maturing in 2030 (ISIN XS3157248132) and Kyushu Electric's bond maturing 2035 (ISIN XS3160674092) widened amid policy uncertainty, transition-execution risk, and heavier funding needs.

Taken together, the 2025 trading pattern suggests that while Japanese utilities are making greater use of the USD market to finance GX-aligned initiatives, including nuclear restarts and transition capital expenditures, investors have not rewarded this with spread compression.[10] Long-dated structures continue to embed a premium for transition complexity, policy uncertainty and sustained funding requirements, and the overall increase in supply has kept pressure on sector spreads.

Conclusions

Across EM Asia, Australia and Japan, bank capital consistently outperformed in 2025, with subordinated and junior-subordinated structures tightening more than senior debt. In contrast, hard-to-abate high-yield issuers in EM Asia—particularly coal miners and non-labelled Materials—experienced the sharpest widening due to refinancing pressure and issuer-specific risk. Australia's Energy and Materials sectors tightened broadly despite high emissions exposure, supported by strong fundamentals and resilient credit profiles.

Labelled issuance did not ensure stronger performance. Japanese utilities' 2025 USD and green bonds generally widened under supply pressure and long-dated capex uncertainty. EM Asia Real Estate remained the most stressed and dispersed sector.

Looking into 2026, transition credit outcomes are expected to be driven primarily by fundamentals, refinancing cycles and funding conditions, with transition themes gaining relevance as investors increasingly differentiate issuers based on the credibility of capital allocation and decarbonisation execution rather than label status alone.

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[9] "Kansai Electric: rare USD issuer with focus on nuclear", AFII, 17 Feb 2025.
[10] "Funding opportunities post ippan tanpo: Kansai Electric", AFII, 7 Mar 2025.

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