

# Asia-Pacific Sustainable Bond Issuance To Increase In 2023

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We believe issuance for the region could rise about 20% in 2023. Efforts to decarbonize are gaining momentum and the regulatory environment is maturing.

*This report does not constitute a rating action*



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S&P Global Ratings recently published "[Sustainable Bond Issuance Will Return To Growth In 2023](#)." The report, published Feb. 7, 2023, forecasts that the global green, social, sustainable, and sustainability-linked bond (GSSSB) market will rebound and reach \$900 billion to \$1 trillion this year. In this research, we provide our expectations for the GSSSB market in Asia-Pacific for 2023. We draw on Environmental Finance's Bond Database of global GSSSB issuance. However, we exclude structured finance issuances.

### Key Takeaways

**Pacesetters:** GSSSB issuance volume in Asia-Pacific could jump 20% in 2023, outpacing global growth, with China, South Korea, and Japan the most active markets.

**Further clarity:** Developing local regulations will continue to foster comparability and transparency, giving impetus to investor appetite and volume growth.

**The big picture:** Decarbonization will remain the key driver of issuance in the region, with energy efficiency and renewables being the main themes.

### Key Figures

Issuance for the GSSSB asset class in APAC could reach **\$240 bil.** in 2023.

The GSSSB share of the overall market should hit **24%-27%** in 2023.

**North Asian nations** dominate, yet **other countries could catch up.**

- China
- South Korea
- Japan
- Others\*

**Green bonds** look set to account for the **lion's share of issuance.**

- Financial services
- Nonfinancial corporates**
- International public finance
- Sovereign

\*Australia, India, Indonesia, and Malaysia. GSSSB--Green, social, sustainability, and sustainability-linked bonds. Source: S&P Global Ratings. Copyright © 2023 by Standard and Poor's Financial Services LLC. All rights reserved.

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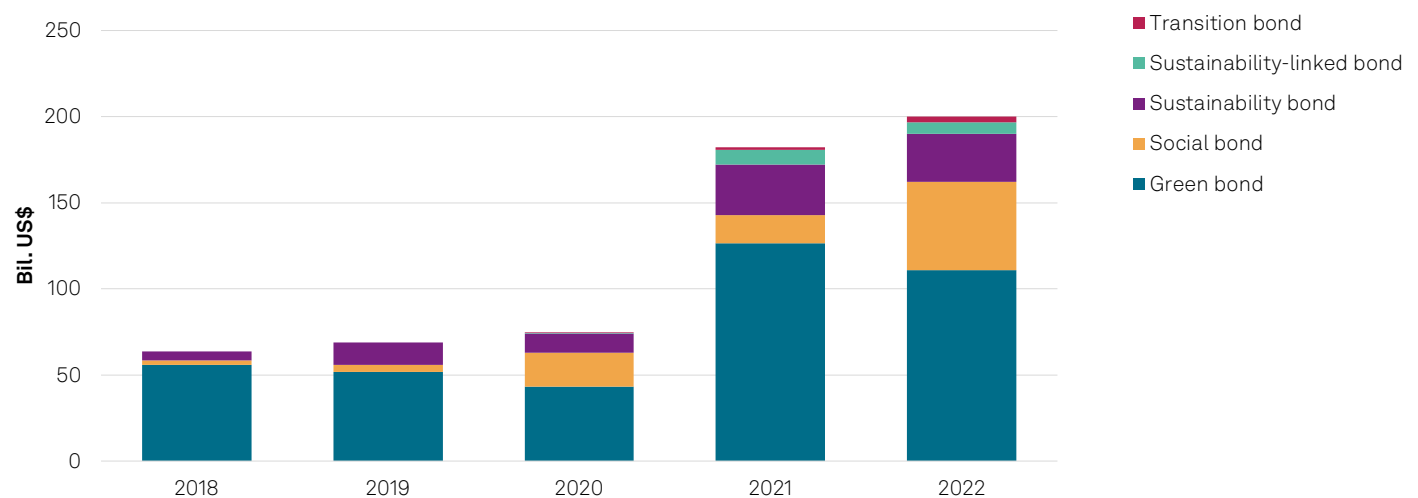
In 2023, Asia-Pacific looks likely to post 20% growth in GSSSB issuance, outpacing other regional markets and reaching a total value of about \$240 billion. The steep rise in percentage terms is mainly due to a lower existing base of issuance. However, growing awareness of sustainability imperatives across the region, especially decarbonization, also contributes to market momentum.

We believe China, South Korea, and Japan will drive volumes. However, a few other countries are starting to catch up. In our opinion, the continued development of local regulations will also help to instill discipline and credibility in the market, potentially unlocking additional opportunities to nurture pockets of growth.

Asia-Pacific GSSSB issuance maintained momentum in 2022, yet at a slower pace (see chart 1). It was up by 10% to \$199 billion. It proved more resilient to global macroeconomic uncertainties than other regions, as global volumes contracted by 19%. Green bonds dominated issuance in Asia-Pacific, accounting for 55% of the volume. This was followed by social bonds at 26%, sustainability bonds at 14%, and sustainability-linked bonds at 3%. Transition bond issuance remained minimal at 2% and was limited to Japan.

Chart 1

### Asia-Pacific GSSSB volume growth slowed in 2022



GSSSB--Green, social, sustainability, and sustainability-linked bonds. Source: S&P Global Ratings. Copyright © 2023 by Standard and Poor's Financial Services LLC. All rights reserved.

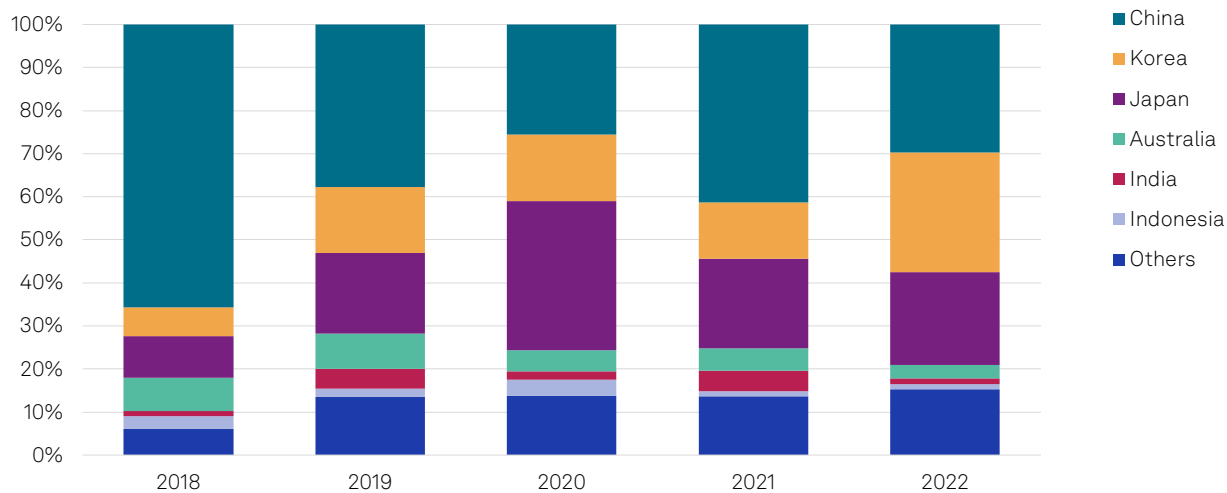
## An Issuance Gap Divides The Region

### North Asian nations will remain dominant

In our view, China, South Korea, and Japan are likely to remain the heavyweight GSSSB issuers in Asia-Pacific. This is primarily due to the size of their economies and their established issuer and investor bases. These countries have represented 70%-80% of issuance in the region for the last five years (see chart 2).

Chart 2

## China, South Korea, and Japan have been leading issuance volumes



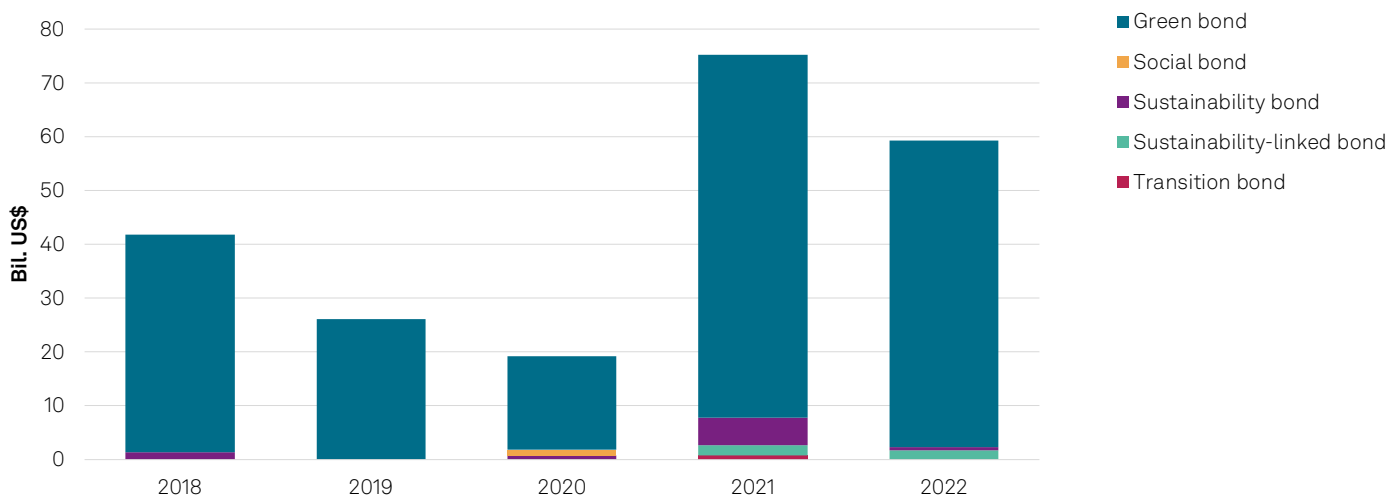
GSSSB--Green, social, sustainability, and sustainability-linked bonds. Source: Environmental Finance Bond Database. Copyright © 2023 by Standard and Poor's Financial Services LLC. All rights reserved.

## China: Quest for carbon neutrality to fuel issuance

We expect that China will likely see a rebound and remain the country with the largest issuance of GSSSB in Asia-Pacific. The 21% drop in issuance in 2022, to \$59 billion, is consistent with widespread challenges in bond markets. We see little evidence of any reduction in investors' appetite for the asset class. The country is also likely to remain the largest green bond issuer in the region. Such bonds should account for more than half of issuance volume (see chart 3). China expects to reach peak carbon emissions in 2030 and achieve carbon neutrality by 2060. The objective of financing the energy transition will continue driving green issuances, especially given the carbon intensity of local power generation. The average tenor of bonds in China is relatively short at just under three years. Therefore, refinancing should also contribute to a solid base of recurring GSSSB issuance.

Chart 3

## China's carbon pledges are fueling green bond issuances



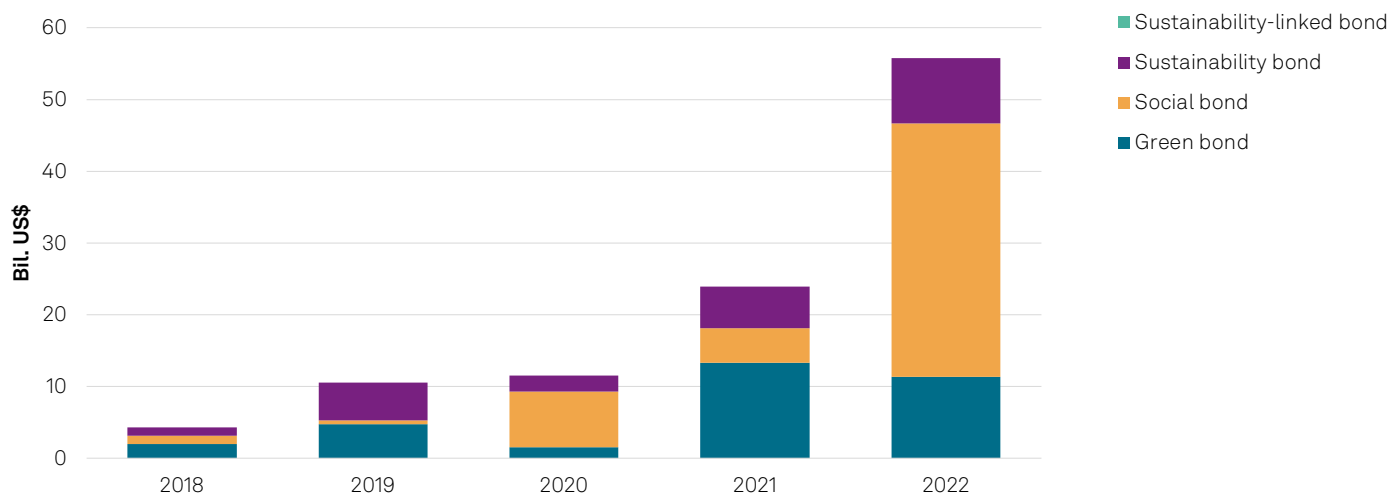
Source: Environmental Finance Bond Database. Copyright © 2023 by Standard and Poor's Financial Services LLC. All rights reserved.

### South Korea: Social bonds for affordable housing are key to issuance growth

In 2023, South Korea could consolidate its position as the second-largest GSSSB-issuing country in the region. Its issuance in 2022 was \$55 billion. In contrast with other markets, social bonds accounted for more than half of its issuance, reaching \$35 billion (see chart 4). Korea Housing Finance Corp. (KHFC), a state-owned provider of housing finance for low- and middle-income families, accounted for nearly half of these social bonds and a third of total issuance. This concentration means the shape and dynamics of the market largely hinge on KHFC in 2023. The government plans to provide about \$32 billion in long-term, fixed-rate mortgage loans through KHFC in 2023. Therefore, KHFC's bonds look set to again dominate the market in 2023.

Chart 4

#### South Korea's social bond issuance in 2023 will likely mirror the spike in 2022



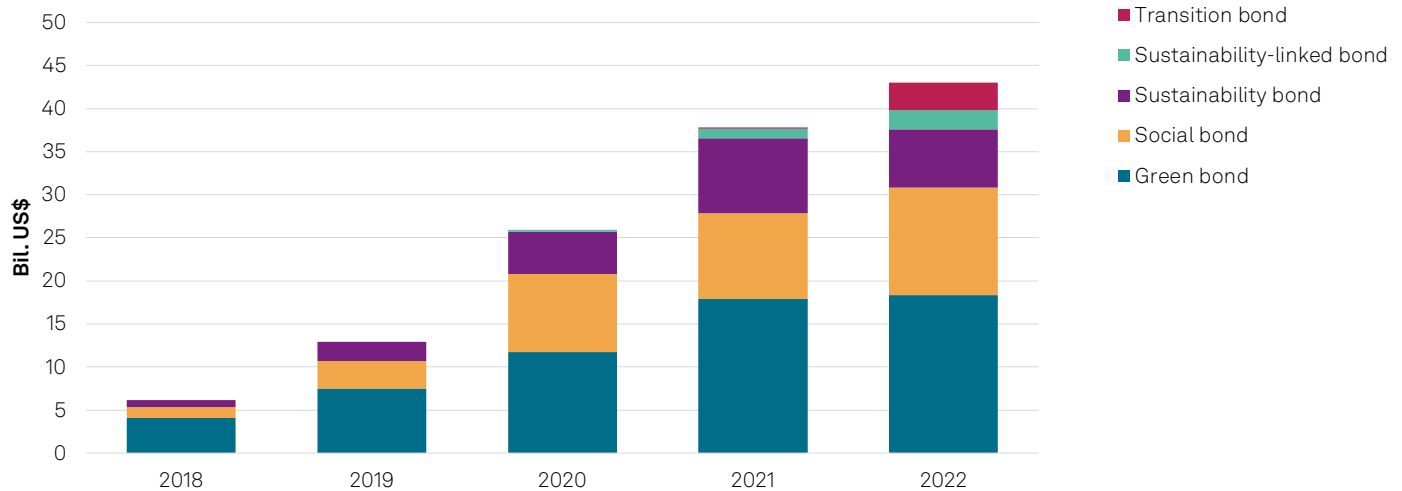
Source: Environmental Finance Bond Database.  
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### Japan: Issuance is well diversified across green, social, and sustainability bonds

The diversity of GSSSBs across sectors and instruments contributes to Japan's market resilience and should continue to support volumes in 2023. The country's issuances reached \$43 billion in 2022, with an average tenor of 10.1 years, which is the longest in the region. More than 65% of issuances were in Japanese yen. Unlike in China and South Korea, Japan's GSSSB issuances are well diversified by bond type (see chart 5). For example, green bonds make up 40% of issuance and social bonds 30%. The issuances are also well-distributed by nature of issuer. Nonfinancial corporates issued 55% of the total, followed by 30% for the public sector (for example, local governments and agencies), and 15% by financial services companies. Japan may see more first-time issuers. In addition, recurring issuers are likely to look to different types of the GSSSB to address broader sustainability challenges. [The roadmap for transition finance](#) developed by the Japanese government could also facilitate access to sustainable capital markets for hard-to-abate industries.

Chart 5

## Japan's GSSSBs show the broadest issuance diversity by volume in Asia-Pacific



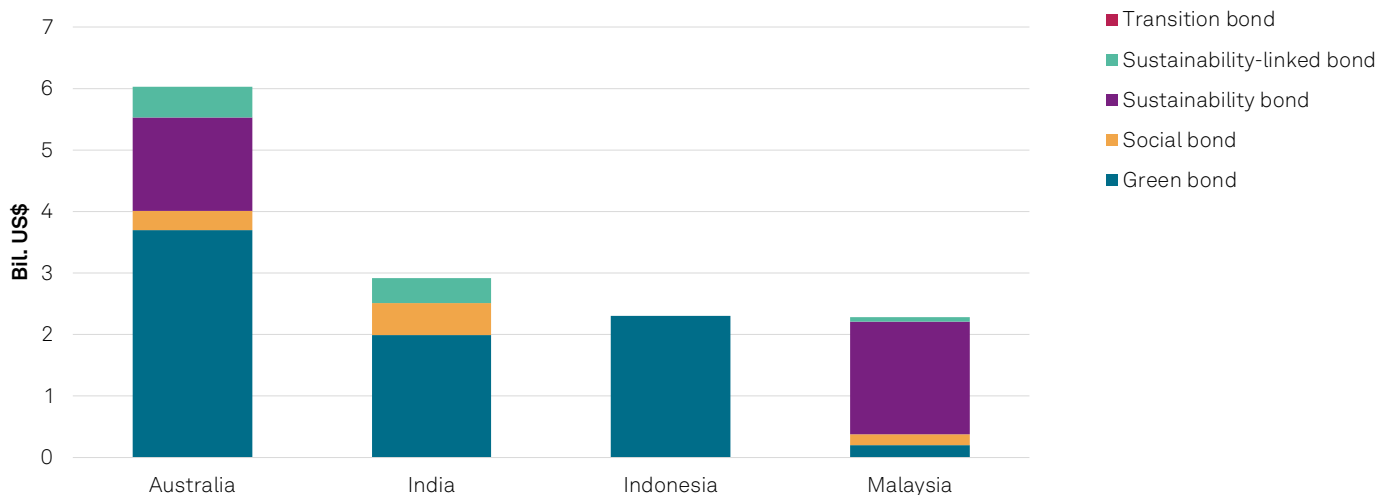
GSSSB--Green, social, sustainability, and sustainability-linked bonds. Source: Environmental Finance Bond Database. Copyright © 2023 by Standard and Poor's Financial Services LLC. All rights reserved.

## Other markets are slowly catching up with North Asia

Issuance volumes in Australia, India, Indonesia, and Malaysia trail behind those in China, Japan, and South Korea (see chart 6), which could reflect, in part, their economies' greater dependence on fossil fuels. Still, the situation could well change, led by commitments made to address global climate imperatives more decisively. For instance, the Malaysia Renewable Energy Roadmap supports the decarbonization of the electricity sector through 2035. Likewise, in its Powering Australia Plan, the governing party in Australia has proposed A\$24 billion (\$16.7 billion) in public investment by 2030. This plan aims to unlock an additional A\$52 billion (\$36.4 billion) in private investment and achieve renewable energy penetration of 82% by 2030.

Chart 6

## Issuance in other Asia-Pacific countries is still far behind



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### India: Government's renewable energy plans suggest issuance could gain momentum

The Indian government [aims to add 450 gigawatts in capacity](#) for renewable electricity generation by 2030. This goal should be a major driver for GSSSB in the country. The government also announced a plan to issue about \$2 billion of green bonds in the budget year ending March 31, 2023. It issued \$1 billion of these green bonds in January. The success of that issuance could potentially support market momentum, spurring more issuance in 2023 than 2022, when GSSSB issuance was \$3 billion.

### Australia: A deeper commitment to emissions reduction

In Australia, issuance of green bonds could accelerate, in our view. This is because the current government, which came to power in 2022, has made a stronger commitment than its predecessor to reducing carbon emissions. Funding needs for clean energy projects have been growing and are a key factor behind potential growth. Furthermore, in the next two to three years, banks will need to refinance large chunks of funding from the central bank. As a result, a larger proportion of their debt issues could be labeled as green bonds or other types of GSSSB issuances.

### Malaysia and Indonesia: Hubs for GSSSB sukuk issuance

We believe Malaysia and Indonesia are likely to remain global leaders in GSSSB sukuk issuance. Malaysia has been active in developing new sukuk structures and shariah-compliant derivatives to broaden the market. The energy transition, social needs, and value-based intermediation by governments and regulators could provide growth avenues for sustainable sukuk volumes. For instance, the Indonesian government's public statements suggest that it intends to continue to issue green sukuk to combat climate change.

## Harmonization For Transparency And Growth

### Global trends and local economy characteristics will shape regulation

Proposals for sustainability disclosures that are being developed around the globe are likely to inform reporting requirements in Asia-Pacific. The European Financial Reporting Advisory Group (EFRAG), the U.S. Securities and Exchange Commission (SEC), and the International Sustainability Standards Board (ISSB) are all close to finalizing proposals. Debt capital markets are cross-border in nature and North American and European financial institutions have extensive reach. Therefore, the form of these final proposals will likely guide trends in Asia-Pacific. For instance, European initiatives, such as the Sustainable Finance Disclosure Regulation, could push issuers outside Europe to adopt the continent's reporting standards to attract European investment.

A few countries in Asia-Pacific have used international principles as bases for developing guidelines for debt instruments (see table). They have, in some cases, followed certain frameworks set out by the International Capital Market Association. However, countries have also kept local nuances. For example, Japan has broader definitions for social eligible categories.

Meanwhile, there are several local taxonomies, such as China's Green Bond Endorsed Project Catalogue and the K-taxonomy for South Korea. Most of these use the EU taxonomy as a reference. However, coverage and requirements are driven by local economic characteristics as well. For example, some taxonomies allow for longer transitions for hard to abate sectors.

## Regional regulatory landscape

Country/economy	ESG bond guideline	Taxonomy	Subsidy to issuers
Japan	Yes <ul style="list-style-type: none"> <li><a href="#">Green Bond Guidelines</a></li> <li><a href="#">Social Bond Guidelines</a></li> <li><a href="#">Basic Guidelines on Climate Transition Finance</a></li> </ul>	Yes <ul style="list-style-type: none"> <li><a href="#">Roadmap for Transition Finance</a></li> </ul>	Yes <ul style="list-style-type: none"> <li><a href="#">Financial Support Program for Green Bond Issuance</a></li> </ul>
South Korea	Yes <ul style="list-style-type: none"> <li><a href="#">Green Bond Guideline</a></li> </ul>	Yes <ul style="list-style-type: none"> <li><a href="#">Korean Green Taxonomy (K-Taxonomy)</a></li> </ul>	No
Hong Kong	No	<a href="#">Under consideration</a>	Yes <ul style="list-style-type: none"> <li><a href="#">Green and Sustainable Finance Grant Scheme</a></li> </ul>
Singapore	No	Under development <ul style="list-style-type: none"> <li><a href="#">Green and Transition Taxonomy (to be finalized in 2023)</a></li> </ul>	Yes <ul style="list-style-type: none"> <li><a href="#">Sustainable Bond Grant Scheme</a></li> <li><a href="#">Green and Sustainability-Linked Loans Grant Scheme</a></li> </ul>
Mainland China	Yes <ul style="list-style-type: none"> <li><a href="#">China Green Bond Principles</a></li> </ul>	Yes <ul style="list-style-type: none"> <li><a href="#">Green Bond Endorsed Projects Catalogue</a></li> <li>Common Ground Taxonomy</li> </ul>	Yes <ul style="list-style-type: none"> <li><a href="#">Various subsidies and tax incentives</a></li> </ul>
Other ASEAN countries	Yes <ul style="list-style-type: none"> <li><a href="#">ASEAN Green Bond Standards</a></li> <li><a href="#">ASEAN Social Bond Standards</a></li> <li><a href="#">ASEAN Sustainability Bond Standards</a></li> <li><a href="#">ASEAN Sustainability-linked Bond Standards</a></li> </ul>	Yes <ul style="list-style-type: none"> <li><a href="#">ASEAN Taxonomy for Sustainable Finance</a></li> <li><a href="#">Indonesia Green Taxonomy</a></li> <li><a href="#">Principles-Based Sustainable and Responsible Investment Taxonomy for the Malaysian Capital Market (under development)</a></li> </ul>	Yes <ul style="list-style-type: none"> <li><a href="#">Malaysia's Sustainable and Responsible Investment (SRI) Sukuk and Bond Grant Scheme</a></li> </ul>

ASEAN--Association of Southeast Asian Nations. Source: S&P Global Ratings.  
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## A wave of new regulations is coming in 2023

We consider the Asia-Pacific region to be most vulnerable to climate risks (see "[Weather Warning: Assessing Countries' Vulnerability To Economic Losses From Physical Climate Risks](#)," published April 27, 2022). Accordingly, more countries and regions may emphasize reporting under the recommendations of the Taskforce on Climate-Related Financial Disclosures in 2023. New Zealand, Singapore, and Taiwan may be in the vanguard here. Meanwhile, we expect that some mandatory disclosures will come into force in Hong Kong and Malaysia by 2025.

In addition, a few taxonomies are expected to roll out in Asia-Pacific in 2023. Hong Kong's Green and Sustainable Finance Cross Agency Steering Group is working on a local green classification framework, following the publication of the updated Common Ground Taxonomy by the International Platform on Sustainable Finance. Likewise in Australia, market participants and regulators are developing an Australian sustainable finance taxonomy. Singapore's Green Finance Industry Taskforce, meanwhile, aims to finalize its taxonomy in 2023, following two rounds of public consultation. However, regulation proliferation could also create regulation fatigue, which could increase compliance costs without a steady convergence.



We believe more thorough climate disclosures can bring about two main benefits. First, they could pave the way for more credible climate mitigation use-of-proceeds instruments. Second, they could lead to more educated assessments of the ambitiousness of sustainability targets in other instruments.

## Decarbonization Will Remain The GSSSB Growth Engine

### Green bonds will account for the lion’s share of issuance

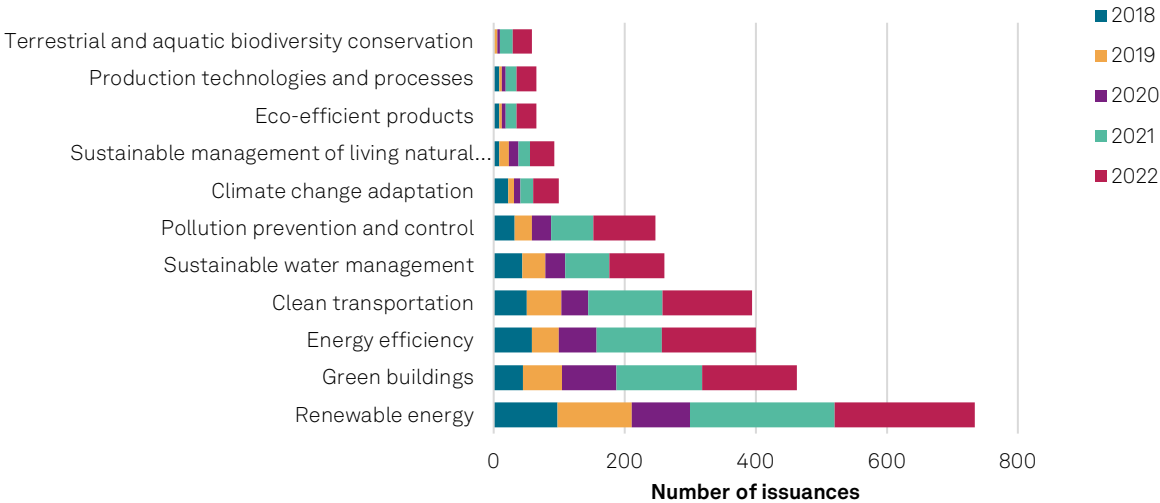
Green bonds will continue to dominate GSSSB issuance in Asia-Pacific, in our view; they are likely to account for nearly half of overall volume. We expect that the issuances will primarily support technologies and interventions contributing to climate mitigation. Climate-related disasters are nearly five times as frequent now than 50 years ago, and developing countries are more at risk from the impacts from climate change, according to the World Meteorological Organization.

We therefore anticipate interest in financing adaptation and resilience actions will increase through green bonds. However, growth is likely to be slow. Between 2018 and 2022, the share of climate adaptation projects was less than 7% of the cumulative total number of GSSSB issuances in the region. Typically, the benefits of adaptation finance are realized over a long-term horizon, while those of investments in climate mitigation are more immediately visible.

Green bonds have been the most popular instruments in Asia-Pacific since 2018. However, their weight has steadily declined, to 55% in 2022 from 88% in 2018. This trend reflects the expansion in other market segments. Within green categories, issuers have favored climate mitigation investments in areas such as renewable energy, green buildings, and energy efficiency (see chart 7). Such investments accounted for around two-thirds of volumes in both 2022 and on average since 2018.

Chart 7

### Climate mitigation is the key focus for issuers in Asia-Pacific



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Meanwhile, eco-efficient products, production technologies and process, and terrestrial and aquatic biodiversity conservation have for instance received considerably less investment. One reason for this lack of investment could be that reporting metrics for these categories are more complex than those for green buildings or renewable energy. Power savings translate into immediate and sizable greenhouse gas emissions avoided, since coal accounts for 40% of the energy produced in the region.

## **Sustainability-linked bonds could diversify away from decarbonization**

Sustainability-linked bonds (SLBs) could be a source of growth in the region. These instruments provide entry to the GSSSB market for issuers who would otherwise struggle to access finance for dedicated green or social projects. However, we believe this asset class will face challenges in 2023. Beyond an unsupportive economic environment, investors have increasingly questioned issues around the ambitiousness of targets to effectively address sustainability issues, together with the materiality of financial penalties if issuers fail to achieve them. After a strong 2021, SLB issuances contracted 26% in 2022, to 32% in volume and a total value of \$6.5 billion. We believe addressing concerns on the materiality of sustainability impact and coupon step-ups will be key if the market is to rebound in 2023.

The reduction of greenhouse gas emissions is the most common key performance indicator (KPI) within the region. More than half of instruments adopt this KPI. KPIs on greenhouse gas emission reduction predominantly come from developed economies such as Japan and Australia, whereas emerging economies have generally used KPIs based on energy efficiency and renewable energy. An increase in absolute power consumption and historical economic dependence on fossil fuels production remain two hurdles, making carbon intensity reduction a more reasonable, yet less ambitious metric than that of absolute emissions. We believe scope 3 emissions will remain uncommon as a KPI, given the complexity of assessing and managing them.

Other areas such as waste and water could help broaden the market to entities that are less energy intensive. They have been thus far somewhat overlooked. However, they are highly relevant to the region. Gender equality (6%) was the only social KPI among Asia-Pacific SLB issuances in 2022. This suggests some potential for diversification and growth in instruments with social KPIs.

While carbon will remain a central theme, a diversification of KPIs would accelerate the expansion of the SLB market. Intermediaries and issuers will need to give more credence to these instruments, though, if this acceleration is to happen.

## **Looking Ahead**

We believe the Asia-Pacific region will remain on two tracks: China, South Korea, and Japan will lead issuance volumes across all instruments, while other countries, including Australia, India, Malaysia, and Indonesia, will endeavor to catch up.

We believe the focus on reducing the carbon intensity of power generation in Asia will further support the supply of green bonds. The flexibility of sustainability-linked instruments could boost their growth, provided investors become more comfortable with their characteristics.

Local currency issuances could drive volumes, should cross-border markets remain volatile. In 2023, regulators focusing on climate-related disclosures and taxonomies will be adding transparency to the market. In our opinion, this transparency should contribute to expansion in GSSSB issuance over the coming year.

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