S&P Global
Ratings

Credit Conditions Asia-Pacific Q2 2025

Squeezed From Both Sides

March 26, 2025

This report does not constitute a rating action

(Editor's Note: This report, published earlier today, in a statement on tariff differentials with the U.S., had not taken into account the impact of the Korea-U.S. Free Trade Agreement. A corrected version follows.)

Key Takeaways

- **Benign for now:** Supportive financing conditions and domestic consumption are steadying Asia-Pacific credit conditions. China's property sector may be seeing the green shoots of a recovery as home prices stabilize. Export activity remains brisk, but this is likely due to frontloading ahead of more trade tariffs. Direct and indirect effects from trade tensions and policies threaten to unwind the course.
- **Global trade showdown:** President Trump's trade protectionist policies are escalating credit strains, disrupting supply chains and raising production costs. Retaliations could fan risks of a global trade war. In Asia-Pacific, the smaller, more open trade-centric economies are most vulnerable.
- **Double squeeze from China and the U.S.:** Higher tariffs and still-soft domestic demand could further drag on China's economy, risking a deflationary spiral. Asia-Pacific economies will also be dealing with the possibility of a U.S. recession and broader knocks to global confidence.
- **Volatility and higher costs:** Geopolitical tensions, including the strategic competition between China and the U.S., could create supply chain uncertainty and disruptions. A sharp downturn could fuel volatility and crimp financing access. Reciprocal tariffs could spur outflows from Asia-Pacific, leading to weaker currencies and higher borrowing costs.

S&P Global Ratings' Credit Conditions Committees meet quarterly to review macroeconomic conditions in each of four regions (Asia-Pacific, Emerging Markets, North America, and Europe). Discussions center on identifying credit risks and their potential ratings impact in various asset classes, as well as borrowing and lending trends for businesses and consumers. This commentary reflects views discussed in the Asia-Pacific committee on March 20, 2025.

Fluctuating tariff rhetoric and policy actions by U.S. President Trump are complicating the credit landscape and stoking market volatility. First, the tariff rollercoaster amplifies supply chain uncertainty and trade inefficiencies, fueling higher inflation and dragging growth in the U.S. and abroad. Next, government spending, immigration and foreign policy could further knock U.S. business and household confidence, hitting demand. The culmination of these into a broad risk-off sentiment could tip the U.S. economy into a recession with global repercussions, particularly on capital expenditure and consumption patterns.

Businesses could hold back investments amid softening demand, and recalibrate supply chains given the new trade landscape. Households may also become conservative and limit spending. The risk of more trade protectionism initiatives or retaliatory tariffs could trigger a global trade war. The **currently benign credit conditions in Asia-Pacific could change** (see chart 1). Our baseline forecast assumes targeted tariffs of 10% on auto, pharmaceuticals and technology. In

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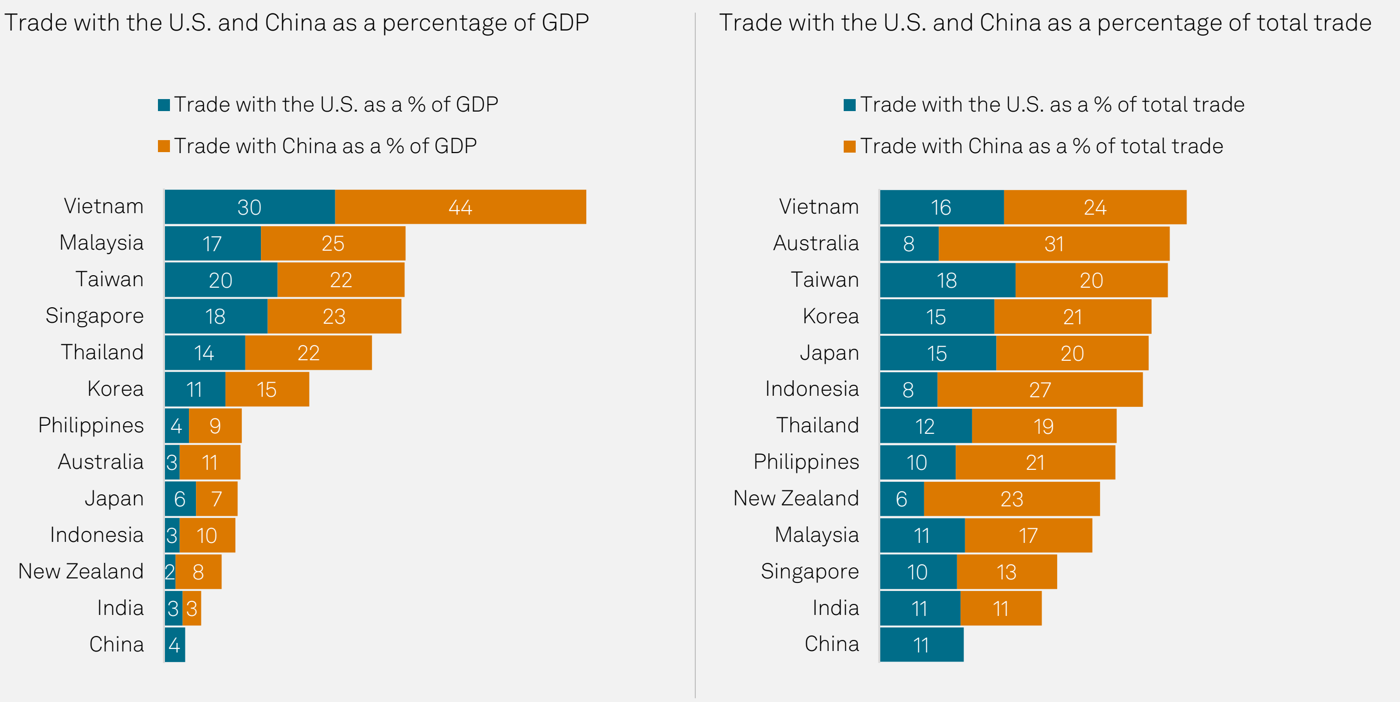
addition, we assume the U.S. will increase tariffs in line with the extent to which trade partners' effective tariffs exceed those of the U.S, and no reduction where U.S. tariffs are higher. Consequently, we expect Asia-Pacific's GDP growth to slow to 4.1% in 2025 and 4.0% in 2026.

Chart 1

Asia-Pacific economies to walk a tight rope amid **a trade showdown**

Trade exposures with the U.S. and China combined are largest for Vietnam and Taiwan



Based on annual trade data and nominal GDP data as of 2024, except for Vietnam which is January-October 2024.
Data source: Trade data--S&P Global Market Intelligence; nominal GDP--CEIC.

We believe there is a **high degree of unpredictability around policy implementation** by the U.S. administration. Consequently, our baseline forecasts carry a significant amount of uncertainty. As situations evolve, we will gauge the macro and credit materiality of potential and actual policy shifts, and reassess our guidance (see our research here: www.spglobal.com/ratings/creditconditions).

For Asia-Pacific, the pain is two-fold. Slower demand from the U.S. and developed markets will weigh down global trade and hit Asia's manufacturers and exporters. Furthermore, the region's proximity to and supply chains with China underline vulnerabilities to slowing Chinese demand. China's production overcapacity could squeeze some Asia-Pacific manufacturers through stiffer price competition. To protect their own economies, Vietnam and South Korea will seek to impose tariffs on Chinese steel.

The **indirect impact from trade tariffs** could pose significant headwinds for the region. This is especially so for trade-dependent economies like South Korea, Taiwan, Singapore, and Hong Kong. While the U.S.'s "Fair and Reciprocal Plan" leaves room for interpretation, we believe potential trade actions could be skewed toward economies with large trade surpluses with the U.S. In Asia-Pacific, that includes Vietnam, South Korea and Taiwan.

Meanwhile, the fiscal impulse is turning negative for Indonesia and Thailand, foreshadowing economic headwinds. This, coupled with drags from trade tensions, could worsen the economic outlook and weaken their currencies.

The **strategic competition between China and the U.S. (and its allies) will likely intensify**, especially in the technology and auto sector. Recent developments include China's technology breakthrough with DeepSeek, given the AI reasoning model's comparable performance with OpenAI but at lower cost and with less advanced chips. Another is Chinese electric vehicles gaining more market share in China and globally. For the U.S. and China, tech supremacy plays into own economic interests and national security concerns. The U.S. and its allies could levy higher tariffs on semiconductors and autos to slow China's progress.

China's economy still faces challenges despite better-than-expected growth in 2024 (aided by strong export growth). China's property sector is seeing a budding recovery, but this is delicate. Domestic consumption and the employment outlook remain subdued. We think the country will grow at 4.1% in 2025 and 3.8% in 2026.

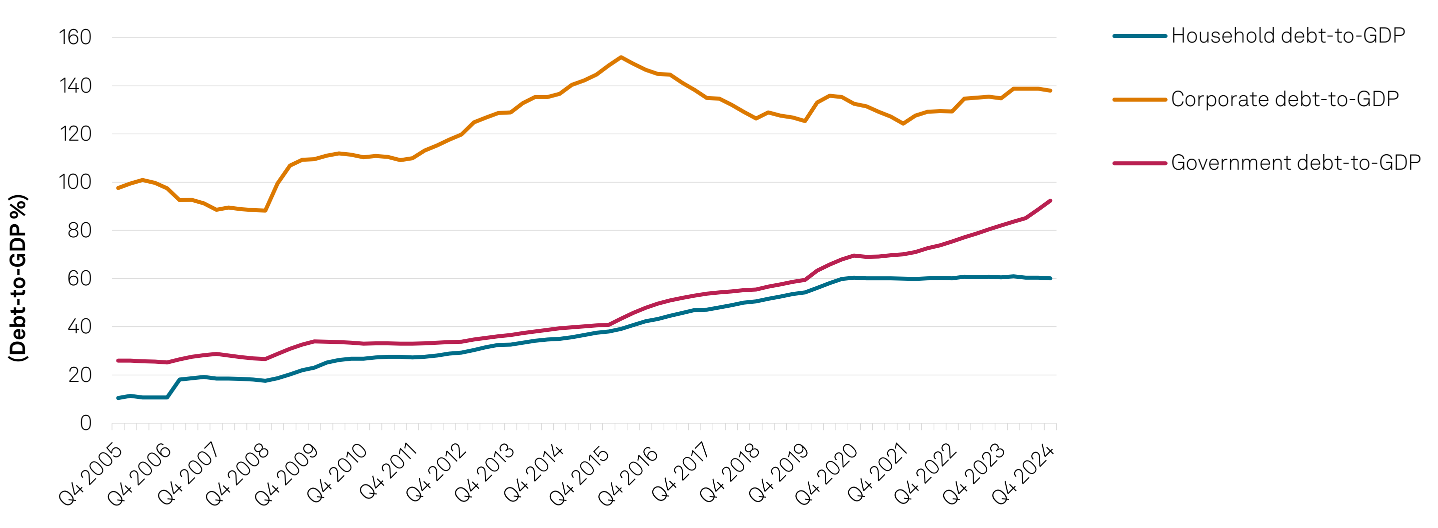
Our GDP forecasts assume a 35% tariff imposed on Chinese goods. The risk remains that U.S. tariffs could go even higher--Trump's election rhetoric points to 60%. This would further shrink demand for manufacturers, slicing into their revenues and margins. The hit to small to midsized enterprises could be harder. Any escalations in trade tensions or policy action could deepen deflationary spirals and curtail growth.

To cope, China is raising **more government debt to drive various policy initiatives** and bolster economic confidence. Some of these initiatives are gaining traction, including property as indicated by rising secondary housing market sales after policy releases in September 2024. The measures also include household subsidies for electric vehicles and appliances. At the "Two Sessions" event in March 2025, government officials announced local governments will expand fiscal debt by Chinese renminbi (RMB) 5.2 trillion (US$720 billion) from 2024.

Chart 2

China's tri-sector debt leverage has risen by one-fifth since end-2019

Debt-to-GDP (%)



Data as of end-2024. Data source: Institute of International Finance. Source: S&P Global Ratings.

We project that China's net borrowings will increase by more than 50% in 2025, bringing its long-term commercial borrowing to US$2.1 trillion (from 2024's US$1.7 trillion). The debt increase is significant and will worsen China's fiscal deficit; rising indebtedness is a point to watch (see chart 2). However, the announced stimulus remains somewhat restrained, reflecting China's discipline of fiscal oversight and buffer against more export restrictions by the U.S. and its allies.

Geopolitical conflicts and foreign policy dissonance are compounding market volatility and could trigger greater risk aversion. Pain spots include the Middle East and Russia-Ukraine conflicts, and U.S.-China friction. While there are talks of ceasefire for the two conflicts, challenges to negotiation and implementation risks create significant uncertainty. Supply chains could face disruption, resulting in higher energy and commodity prices. For net-energy importing Asia-Pacific economies, energy price shocks could worsen external balances and raise manufacturing costs.

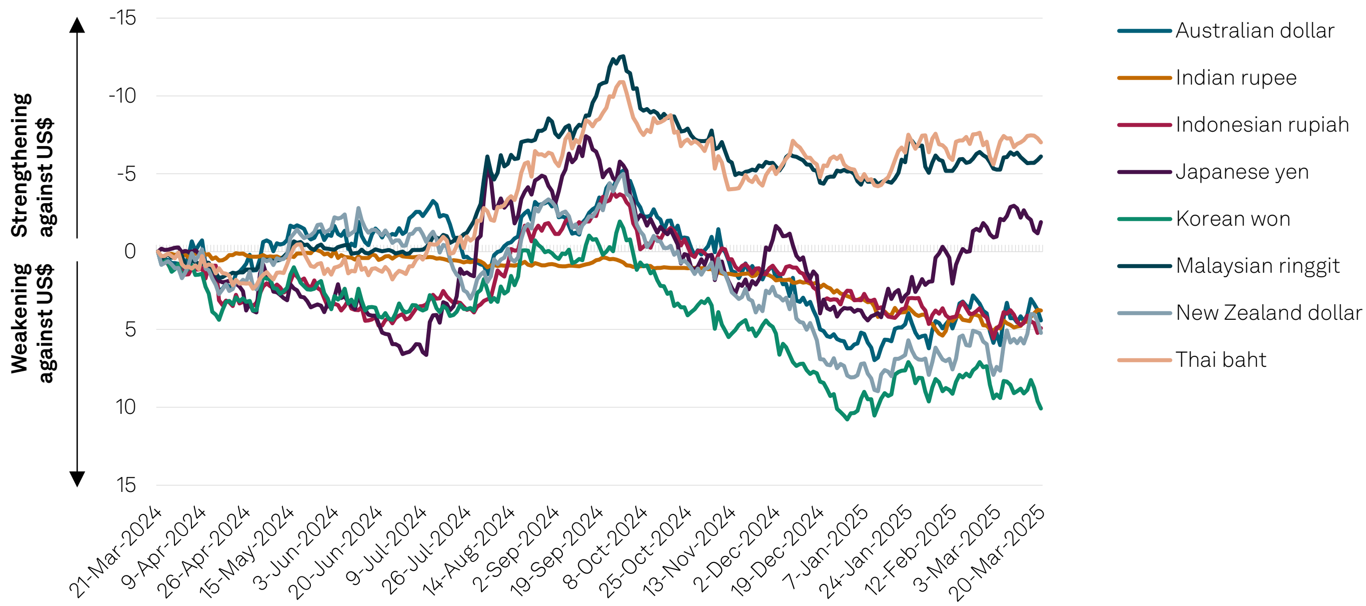
In addition, the **U.S. pursuit of unilateralism** is causing shifts in its foreign policies (i.e., global cooperation, support towards its allies and the Paris Accord). This could trigger a broader rethink of the geopolitical risk landscape by Asia-Pacific governments and businesses. Governments may seek to increase defense spending (as seen in the European Union) or broaden/diversify their panel of allies. However, this points to delays in fiscal consolidation and revisiting of diplomatic ties. A major shift in the U.S. diplomatic approach could compound economic obstacles and spur more capital outflows from Asia-Pacific, pressuring currencies and souring financing conditions.

Meanwhile, all eyes are on **how the Federal Reserve's monetary policy dilemma will play out**. A resurgence in U.S. inflation from trade tariffs could limit the Fed's ability to cut rates, keeping the dollar strong, while a deterioration in the U.S. growth outlook could accelerate monetary easing. A weaker dollar will ease pressure on the region's currencies (see chart 3). We now assume the Fed will produce one 25 basis point rate cut in 2025, and three in 2026. Given a softer growth outlook and moderate inflation, Asia-Pacific central banks (except the Bank of Japan) may cut interest rates. We anticipate the Bank of Japan's policy rate to reach 1.5% by end-2027.

Chart 3

Asia-Pacific currencies have gained some ground

Percentage change since March 2024 (%)



Data as of March 20, 2025. Data source: S&P Global Market Intelligence.

Lower policy rates and still-accommodative spreads are keeping all-in borrowing costs low in Asia-Pacific. However, **supportive financing conditions could be upended** if fears of a U.S. hard landing or geopolitical tensions intensify. A sharp repricing of assets (equities or risk premia) and increasing selectivity by lenders could pose credit strains for borrowers and investors in Asia-Pacific. High for longer all-in borrowing costs will narrow credit headroom for highly leveraged borrowers and those seeking to refinance. Similarly, banks could tighten oversight on borrowers and pull back their credit limits. Tighter cash flows could push borrowers into default. (For an update on Asia's credit cycle, see our "Credit Cycle Indicator" section on p.7).

On the surface, the broader credit landscape looks benign given an improving rating outlook bias. However, the ground is shaky. Higher climate physical risks, investment requirements to keep up with energy transition, the potential disruption by technology, and vulnerabilities to cyber-attacks are adding to business costs. These compounding obstacles could make lenders more risk-averse and seek higher premia for compensation, creating more pain for borrowers. That said, new business models could develop and offer new opportunities. The **uneven playing field will drive greater divergences across winners and losers**.

Top Asia-Pacific Risks Q2 2025

Global trade: Widening scopes for tariffs could fan a full-fledged trade war and sharper global slowdown

Risk level	Moderate	Elevated	**High**	Very high	Risk trend	Improving	Unchanged	**Worsening**

The U.S. administration is reshaping its trade policy through tariffs, creating uncertainty due to fluctuating rhetoric and action. In addition to targeted tariffs on countries like China, Canada, and Mexico, the U.S. could impose specific levies on goods or universal tariffs. In turn, retaliatory measures against the U.S. could spill into a global trade war, hitting trade-centric Asia-Pacific. Should the U.S. recession risk materialize, a broader risk-off sentiment might trigger a sharper global downturn. Business could reassess their supply chains and investments and hold back capital expenditure, while corporate revenues could contract as consumers tighten wallets. Domestic manufacturers could face heightened price competition as exporters seek to offload excess production. To mitigate the economic fallout from escalating trade conflicts, governments may pursue fiscal expansion to support local businesses, increasing their own indebtedness. Lower foreign direct investment could heighten capital outflows in developing economies, weakening currencies.

China's economy: Deepening deflationary spiral drags growth momentum as consumers and producers turn cautious

Risk level	Moderate	Elevated	**High**	Very high	Risk trend	Improving	**Unchanged**	Worsening

China's economic growth could sharply decline if U.S. trade tariffs increase. Weak domestic and foreign demand could worsen overcapacity and price pressures, lowering corporate revenues and prompting manufacturers to cut capital expenditures. Increasing caution among households due to rising unemployment risks will drag consumption further. Banks could face diminished capital strength from higher loan loss provisions, leading to tighter lending appetite. A combination of slower exports, weak domestic consumption, and persistent weakness in the property sector could trigger a hard landing for the economy. To restore confidence, more aggressive fiscal and monetary policies might be necessary, exacerbating the country's already high indebtedness. Insufficient economic stimulus could further undermine confidence and compound deflationary spirals. A slower China could spill-over into Asia-Pacific, hurting countries that rely on Chinese demand or face greater competition brought about by Chinese exports.

Geopolitics: Escalating geopolitical tensions could hinder policy predictability and increase financial market volatility

Risk level	Moderate	Elevated	**High**	Very high	Risk trend	Improving	**Unchanged**	Worsening

Geopolitical challenges are likely to impact the Asia-Pacific region through fluctuations in energy and commodity prices, as well as declines in confidence and industrial production. Key issues include ongoing conflicts in the Middle East and the unstable situation surrounding the Russia-Ukraine war, along with rising diplomatic tensions between China and the U.S. and its allies. Uncertainty from U.S. policy could disrupt business activities and contribute to a global economic slowdown. Potential conflicts in the South China Sea could severely disrupt supply chains. Additionally, investment outflows from the region may lead to significant financial market volatility and currency depreciation, increasing interest costs for borrowers. In response, governments may increase defense spending, which could hinder efforts for fiscal consolidation.

Financing: All-in financing costs and interest burdens could rise as markets reprice Fed expectations or risk premia

Risk level	Moderate	**Elevated**	High	Very high	**Risk trend**	Improving	**Unchanged**	Worsening

Higher inflation from trade tariffs could force the Federal Reserve to raise its policy rate even as the economy slows down. To limit capital outflows, Asia-Pacific central banks (except the Bank of Japan [BOJ]) may slow their own policy rate descent. Meanwhile, high inflation may force the BOJ to accelerate its rate hikes. Should the U.S. recession risk play out, lenders may turn cautious and demand higher risk premia to buffer against uncertainty, leading to high-for-longer all-in financing costs. Financing access could narrow if banks tighten lending standards, or more volatile markets constrict capital raising. For highly leveraged and/or speculative grade borrowers, credit strains could intensify. With significant volumes of global debt maturing in 2025-2026, souring refinancing conditions raise the specter of more defaults.

Japan's monetary policy: Reduction in yen carry trades to limit refinancing options, while strong yen hits unhedged investments

Risk level	**Moderate**	Elevated	High	Very high	**Risk trend**	Improving	**Unchanged**	Worsening

Narrowing interest rate differentials between the Bank of Japan (BOJ) and the Federal Reserve could unwind yen carry trades. If the BOJ adopts a more aggressive monetary policy than anticipated, domestic investors may shift towards onshore investments, limiting refinancing options for offshore borrowers reliant on Japanese funding. Additionally, sudden capital inflows to Japan could increase foreign exchange volatility and that would affect the rest of the region. A persistently high BOJ rate could lead to asset and derivative repricing, disrupting speculative margins. Furthermore, a stronger yen may devalue unhedged overseas investments held by financial institutions and insurance companies, weakening their capital buffers.

Real estate: Negative equity and shrinking demand to exacerbate property devaluation and liquidity strains on developers

Risk level	**Moderate**	Elevated	High	Very high	**Risk trend**	Improving	**Unchanged**	Worsening

High mortgage and financing costs, coupled with changing demand for office and retail space, are negatively impacting commercial real estate valuations. Slower sales volumes and occupancy rates, particularly in Hong Kong, China, and Korea, are increasing liquidity strains on property developers. Additionally, declining rental income or a knock to the employment outlook may lead to write-downs in real estate investment trusts (REITs) and structured finance markets. If banks become more cautious with real estate borrowers, limited funding access could lead to a rise in defaults.

Structural risks

Climate change: Extreme weather and energy transition to pose business challenges and raise costs

Risk level	Moderate	**Elevated**	High	Very high	**Risk trend**	Improving	Unchanged	**Worsening**

Changing weather patterns are increasing physical risks globally, with a more significant financial impact on developing markets. Climate-related disruptions in agriculture and energy supply could lead to inflation and social unrest. Meanwhile, the global push to reach net-zero emissions by mid-century could lose momentum, following the U.S exit from the Paris Accord, the withdrawal of major financial institutions from net-zero alliances, and Europe's shifting political priorities. Similarly, higher tariffs targeting inter alia green products--such as Chinese electric vehicles--could cause the clean energy transition to falter and undermine the economics of past investments in low-carbon technologies. The rising frequency and severity of natural disasters could lead to higher insurance premia, putting pressure on households and enterprises. In extreme cases, some regions may become uninsurable, prompting a recalibration of asset prices.

Technology: Accelerating technological advancement and mounting cyber-attacks to disrupt business operations

Risk level	Moderate	**Elevated**	High	Very high	**Risk trend**	Improving	**Unchanged**	Worsening

Technological advancements, particularly in generative artificial intelligence, are altering business environments and regulatory frameworks. Innovations in various fields, including biological and material sciences, can improve productivity and operational efficiencies but also introduce complexities and higher management costs. Businesses may need to invest more to continuously adopt and adapt to new technologies. Additionally, the growing interconnectedness of economic activities and technology networks increases the risk of cyber-attacks. This could pose systemic threats and significant risks to individual entities, especially critical infrastructure and issuer operations.

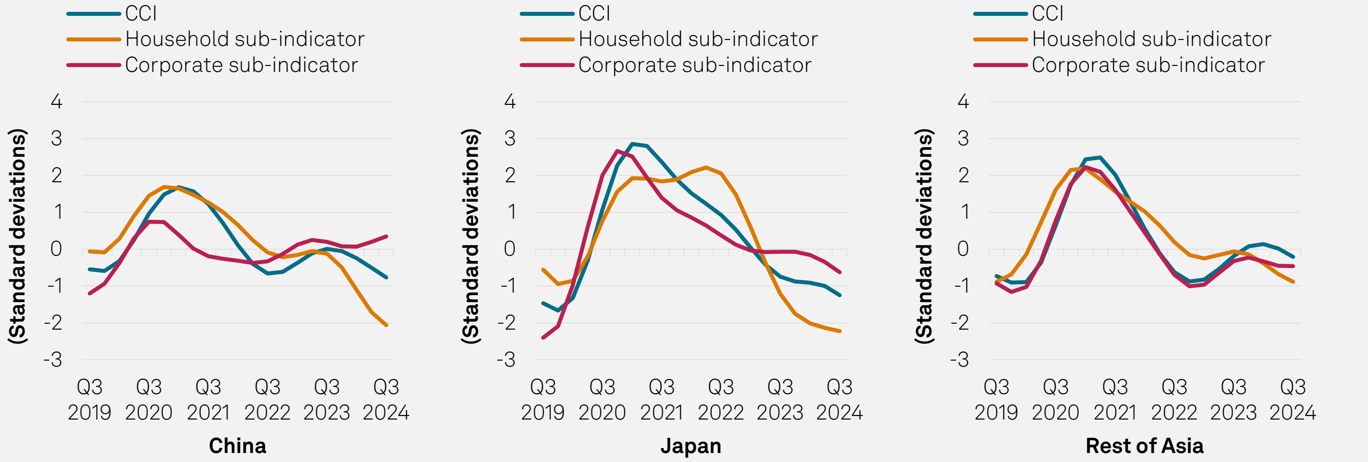
Source: S&P Global Ratings.

Risk levels may be classified as moderate, elevated, high, or very high. They are evaluated by considering both the likelihood and systemic impact of such an event occurring over the next one to two years. Typically, these risks are not factored into our base-case rating assumptions unless the risk level is very high.
Risk trend reflects our current view about whether the risk level could increase or decrease over the next 12 months.

Credit Cycle Indicator

Chart 4

Growth challenges could exacerbate credit correction pains



Note: Peaks in the CCI tend to lead credit stresses by six to 10 quarters. When the CCI's upward trend is prolonged or the CCI nears upper thresholds, the associated credit stress tends to be greater. Sovereign risk is not included as a formal part of the CCI. Data source: Bank for International Settlements, Bloomberg, S&P Global Ratings.

S&P Global Ratings' Credit Cycle Indicators (CCIs) monitor buildups and corrections in leverage and asset prices over the medium term, as well as financing conditions. It does not directly capture or predict shifts in government policies or the geopolitical and trade landscape, which are risk factors heightened in the global economy today. Nevertheless, we use this tool to gauge developments and turning points in the credit cycle as part of our holistic analysis of economic and credit conditions.

China. The China CCI is going through a downturn, indicated by the downward sloping household sub-indicator (see chart 4). The decreasing household indebtedness is driven by mortgage prepayments. Soft house prices in the country point to ongoing weaknesses in the property sector, prompting households to hold back from making home purchases. Furthermore, subdued employment is weighing down recovery in household consumption and confidence. The risk of deflationary pressures could crimp borrowers' ability to service debt.

On the other hand, the corporate sub-indicator continues to see upward momentum. Corporate debt rose 7% year over year in the third quarter of 2024 and the country's banks are extending loans to sectors identified by the government as future growth engines (e.g., high tech, advanced manufacturing, and renewable energy) to support the country's growth. Stimulus measures by authorities have lifted market sentiment and domestic stock market indices. For listed corporates, a sustained recovery in capital markets could support financing options.

Japan. The Japan CCI has resumed a downward trend as the corporate sub-indicator is dipping down following a brief upturn while the household sub-indicator continues to slide. Japan's nominal GDP has ticked up following rising inflation. At the same time, nominal corporate debt in local currency terms slightly slipped 0.4% in the third quarter of 2024; nominal household debt has stayed almost flat. Rising uncertainty in the macroeconomic landscape (such as from increasing trade tensions) could lead to corporates undertaking less investments and expansion, keeping their demand for credit soft.

Rest of Asia. The Asia (ex-China, ex-Japan) CCI is coming down due to an ongoing decline in the household sub-indicator as households deleverage and/or house prices ride a correction. These are taking place in markets like Korea, Hong Kong, and Thailand.

In Korea, nominal household and corporate debt in local currency terms expanded up to 3% year over year as of third-quarter 2024, underlining still-high household and corporate leverage at about 90% and 110%, respectively. Korean households' heavy debt load is concerning; their indebtedness could deteriorate further should global trade tariffs hit economic growth through lower exports and incomes. Korean banks' asset quality could come under strain amid high household debt and weaker economic fundamentals; tighter lending standards could ensue.

On the other hand, Thailand's nominal corporate debt in local currency terms fell 2% as of third quarter 2024 compared to the start of the year, while nominal household debt stayed mostly flat. Thailand’s household and corporate leverage combined is relatively high at 170% of GDP compared with neighboring economies, underlining a debt overhang that poses risks especially for households and small to medium-sized enterprises. A sharp deterioration in loan delinquencies could accelerate the tightening in lending standards and squeeze financing.

Macroeconomic Outlook

U.S. Tariffs Will Hit, But Not Choke, Growth

- While U.S. tariff hikes will hit China's economy, offsetting factors mean that we keep our 2025 growth forecast unchanged at 4.1%. Better growth at the end of 2024 lifts 2025 growth and this year's growth target and fiscal stimulus are more ambitious than expected.
- U.S.-led trade friction will weigh on Asia-Pacific economies. However, we expect domestic demand momentum to mostly remain solid, leading to only modest downward revisions to GDP growth.
- Still, as the growth outlook softens and inflation is not a concern, central bankers will increasingly be willing to risk some currency depreciation and cut policy rates.

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Asia-Pacific economies will feel the strain of rising U.S. tariffs on exports and headwinds to globalization more generally. This will hit some economies more than others. Also, while domestic demand will be affected, we see its momentum broadly holding up, especially in many emerging market economies. That means that our downward revisions to growth remain contained.

China: Amid U.S. Tariff Action, China's Growth Ambitions Prompt Stimulus

The U.S. tariff hikes on China's exports will weigh on its economy. We had incorporated 10% U.S. tariffs in our November baseline, implying an effective U.S. tariff on Chinese exports of about 25%. The additional 10% levies will bring the effective rate to around 35%, adding to downward pressure on China's growth via lower exports, investment and other spillover effects.

On the other hand, there are offsetting factors.

- **Growth at the end of 2024 was better than expected** due to policy support, tentative bottoming out of the property sector and strong exports, lifting 2025 growth. This is even as "organic" domestic demand has remained soft.
- **The 2025 growth target and fiscal stimulus are more ambitious than we expected in November.** At the National People's Congress, the government announced a 5% GDP growth target, a rise in the official government deficit, and higher special government bond issuance than last year.

In all, we keep our GDP growth forecast broadly unchanged. We project 4.1% growth in 2025 and 3.8% in 2026. Because of the above changes, we adjusted the composition of growth in 2025, now expecting weaker exports and stronger domestic demand.

In our view, structural factors prolong the downward pressure on prices. Amid excess capacity in many sectors, declines in the producer price index (PPI) and strains on profit margins have remained. The PPI fell 2.2% year-on-year in February, and consumer prices 0.7%.

U.S. Tariffs Will Weigh On Asia-Pacific Growth

We project domestic demand momentum to remain solid, especially for the region's emerging markets, but external factors will weigh on growth. GDP growth in the fourth quarter of 2024 was better than expected in Australia, India, Japan, Singapore, Taiwan and Vietnam. It was weaker than expected in Malaysia, South Korea and Thailand (in the other economies it was broadly in line with expectations).

Several Asia-Pacific economies are likely to face direct U.S. tariffs. One reason is the U.S. plans to raise tariffs on imports of cars, pharmaceutical products and semi-conductors. We assume the U.S. will impose a 10% import levy on these imports. The impact of this on GDP growth is most significant for Malaysia (because of semiconductors), Singapore (mainly due to pharmaceutical products), and South Korea (mainly because of automobiles).

In addition, the U.S. administration's "Fair and Reciprocal Plan" calls for country-specific tariffs. The size and targets of these tariffs are unclear, given the broad range of "criteria" and ample room for interpretation (see "Asia-Pacific Economies Likely To Be Hit By U.S. Trade Tariffs," published on RatingsDirect on Feb. 21, 2025).

Our forecast assumes that the U.S. increases tariffs in line with the extent to which trade partners' effective tariffs exceed those of the U.S. (we assume no reduction where U.S. tariffs are higher). Under that assumption, Thailand would face the largest impact on GDP growth, because its tariff differential is sizeable and exports to the U.S. are large in relation to the size of its economy.

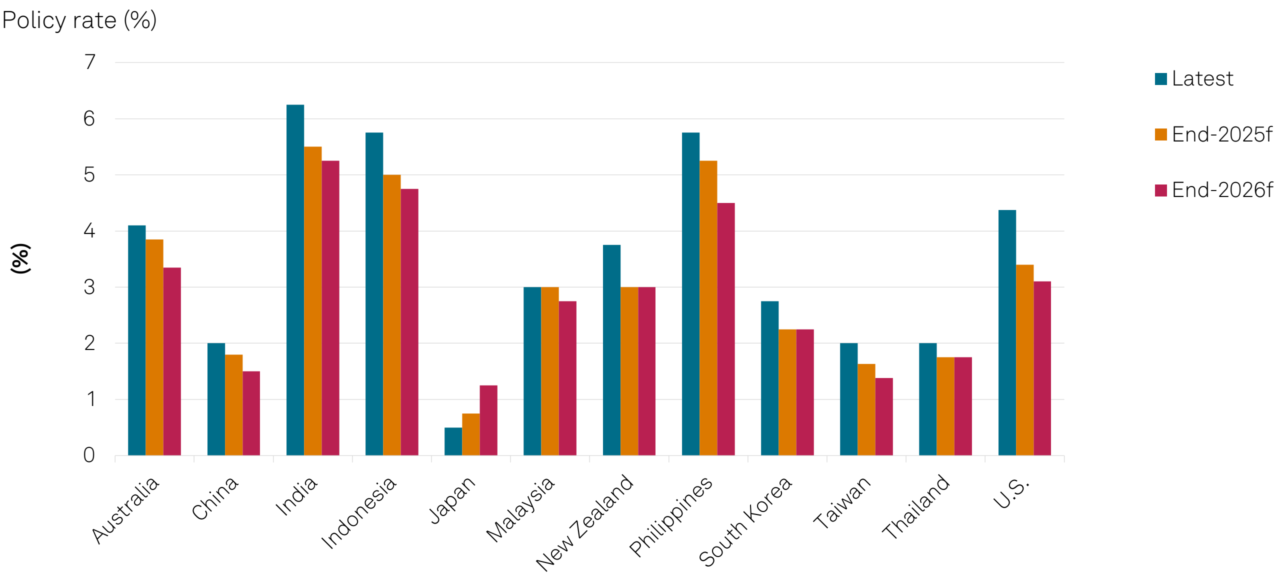
Monetary Policy Easing Underway As Inflation Remains Controlled

With U.S. policy interest rates likely to stay elevated longer, Asian currencies stand to weaken if central banks reduce policy rates. Indeed, interest rate differentials with the U.S. are generally unfavorable, especially in China, Japan, Taiwan, and Thailand.

However, as the growth outlook softens and inflation stays moderate, we think central bankers will increasingly be willing to risk some currency depreciation and cut policy rates. **One exception is Japan**, where the Bank of Japan will gradually raise its policy rate as conditions are in place for steady inflation.

Chart 5

Policy rates to come down



All forecasts are our own. For India, fiscal year data shown with 2025 = FY 2025/26 and 2026 = FY 2026/27. f--Forecast. Sources: CEIC, S&P Global Ratings.

Financing Conditions

Resilient Despite Increased Economic Uncertainty

- Asia-Pacific financing conditions remain constructive, particularly with regard to local market issuance, despite rising economic and geopolitical uncertainty.
- Offshore borrowing costs have also trended down on the back of lower U.S. benchmark yields, stable spreads, and stronger currencies year-to-date. Nonetheless, the risk of sharp market repricing remains.
- Even with offshore borrowing becoming more attractive, local currency borrowing remains the preferred option. Local currency bond issuance remains at record highs, and banks are generally still able and willing to lend, albeit more selectively in certain regions.

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Financing conditions remain constructive despite higher uncertainty around global growth and the global impact of tariffs. Benchmark U.S. treasury yields are down about 30 basis points year-to-date, largely due to concerns regarding U.S. growth, while Asian U.S. dollar bond spreads remain close to recent lows (see chart 6). Most regional currencies strengthened since the beginning of the year, outside of the Indian rupee and Indonesian rupiah (see chart 7).

Investor demand remains solid and overall bond issuance volumes through the first two months are higher than the comparable periods in all previous years barring 2022. Issuance volumes for speculative-grade issuers in the first two and a half months of 2025 are on par with 2024. And while 2024 significantly recovered from 2022 and 2023, the activity is still far below the pre-2023 five-year average.

Lower financing costs and higher demand have contributed to a budding recovery of offshore bond issuance from a low level (see chart 8). Nonetheless, both offshore and speculative-grade bond deals have tended to cluster within various opportunistic windows, instead of exhibiting a constant flow.

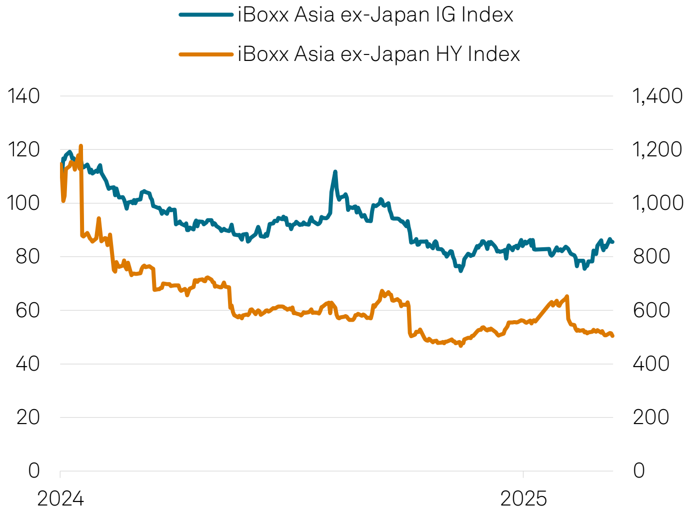
Risks remain for offshore financing. Asia-Pacific financing conditions have remained resilient in the face of global economic and geopolitical developments to date in 2025. Nonetheless, the potential for future shocks and sharp market repricing has not disappeared. Global investors could demand higher corporate risk premia than current low levels if global growth concerns re-emerge on escalating trade tensions. A sharp shift to risk-off could lead to some capital outflows and weaker currencies, making offshore debt servicing more expensive. In contrast, re-emerging U.S. inflation concerns could alter expectations on the Fed funds rate path, which would push up benchmark yields for offshore financing. In either scenario, speculative-grade issuers with offshore debt coming due would be hit hardest.

Local currency financing remains available. Even with the nascent recovery in offshore issuance, Asia-Pacific borrowers continue to focus primarily on local currency markets. Local currency bond issuance is close to its historic high (see chart 9). Banks are generally able and willing to lend, although we note loan growth has been ebbing, on slower growth expectations, elevated near term interest rates, and weaker property sectors in a few markets. Additionally, banks in some regions have been more selective, leading to further moderation in lending growth. In China, for example, banks have been more selective in lending to lower-tier local governments and the property sector; in Korea and Thailand, declining loan growth to households.

Chart 6

Spreads broadly steady

Option-adjusted spreads (basis points)

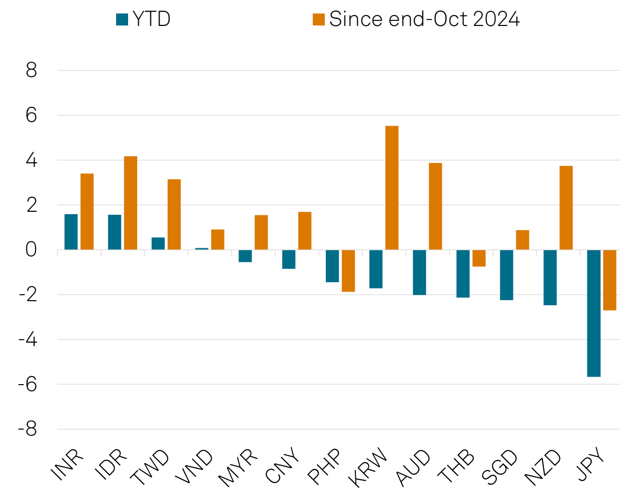


Data as of Mar. 12, 2025. Source: S&P Global Market Intelligence, S&P Global Ratings Credit Research and Insights.

Chart 7

Currencies stronger year-to-date

Depreciation against US$ (%)

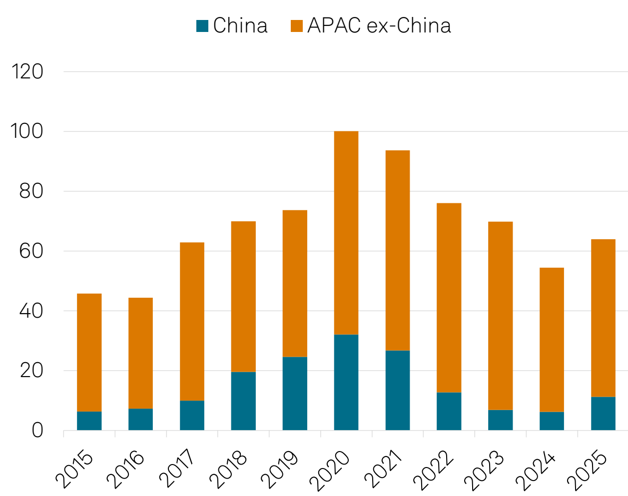


Data as of Mar. 13, 2025. Source: S&P Global Market Intelligence, S&P Global Ratings Credit Research and Insights.

Chart 8

Offshore issuance continues to recover

Cumulative issuance volume, Jan. to Feb. (bil. US$)

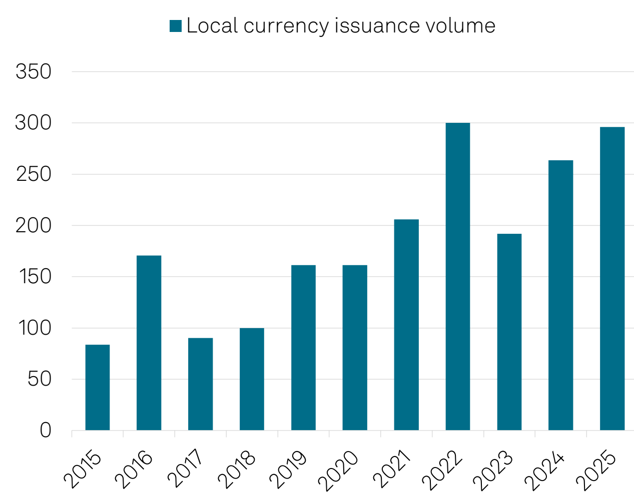


Data as of Feb. 28, 2025. Source: Refinitiv and S&P Global Ratings Credit Research and Insights.

Chart 9

Local currency issuance close to record high

Cumulative issuance volume, Jan. to Feb. (bil. US$)



Data as of Feb. 28, 2025. Source: Refinitiv and S&P Global Ratings Credit Research and Insights.

Sector Trends

Trade Complications Could Disturb Still Waters

- Asia-Pacific sectors could face a complicated credit landscape amid higher trade tensions. Higher trade barriers could disrupt supply chains and lead to slower growth. Auto, metals, pharmaceuticals and technology face a direct hit from U.S. tariffs.
- Fears of a sharper global downturn could hit demand, biting into corporate revenues. This could hit banks' asset quality, prompting tighter lending appetite. This may upend the region's accommodative financing conditions as markets turn more volatile.
- The net rating outlook bias improved to negative 2% as of March 2025 (Nov. 2024: -4%), following downgrades on New Zealand public finance issuers. The negative bias is largest for chemicals, building materials, retail, transportation cyclical, and real estate.

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What are the key risks around the baseline?

Trade war escalation and a sharper slowdown. Higher tariffs could hit revenues and supply chains for Asia-Pacific corporates, particularly for auto, commodity chemicals, machinery, and technology. A global downturn could hurt demand and confidence, squeezing downstream and consumer discretionary sectors (e.g., consumer goods, gaming and retail).

Higher debt burdens. Governments may enact stimulus to counter the economic drag from higher tariffs. Furthermore, rising geopolitical tensions could spur higher defense spending, exacerbating debt burdens. Meanwhile, local and regional governments may be tasked to undertake projects to support growth.

Souring market conditions. If risk-off sentiment intensifies, financing costs could rise as lenders demand higher risk premia. Banks could turn selective amid risks of higher nonperforming loans. Credit stresses could intensify for speculative grade cohorts with cash flow needs.

What do they mean for sectors?

Uneven cost impact. Trade barriers could prompt manufacturing exporters to diversify and relocate supply chains, raising costs. Geopolitical tensions could stoke energy prices, squeezing energy intensive sectors such as chemicals, manufacturing, metals and transportation. The ability to foot the bill and pass-through higher costs is uneven across issuers.

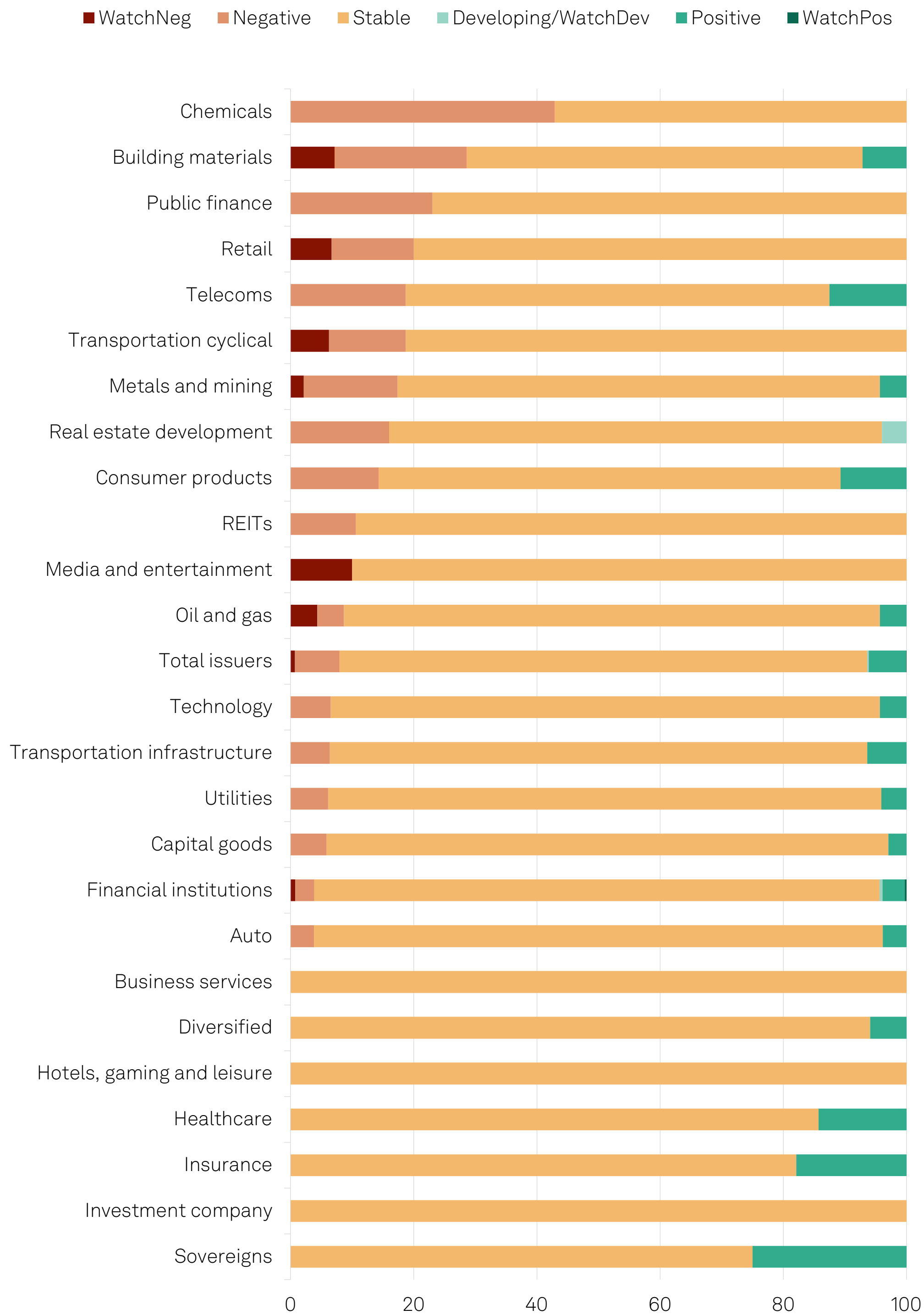
Trade protectionism to increase. In China, persistent overcapacity (such as in chemicals, manufacturing and steel) could weigh down prices and spell stiffer price competition. Slower global demand further depresses prices, hitting margins. Downstream players could be increasingly challenged in passing through costs.

Earnings pressure to mount. Geopolitical and economic uncertainties could prompt businesses to reduce investment and capex, in a bid to conserve cash. Meanwhile, negative sentiment could exacerbate the economic slowdown, leading to lower revenues and employment. In turn, households could turn conservative and reduce spending.

Survival of the fittest. The region's issuers would have to adapt to an increasingly complicated macro credit landscape. Exporting producers may have to cope with higher costs and efficiency losses from supply chain disruptions and reordering. In some industries, more consolidation could occur. In our view, these could take place in the auto, consumer goods, telcos and specific markets (e.g., Japanese retailers).

Chart 10

Net outlook bias distribution of Asia-Pacific issuers by sector, Mar. 20, 2025



Data cut-off is of March 20, 2025. Source: S&P Global Ratings.

Nonfinancial Corporate

Tariffs Will Strike Some Harder Than Others

- As tariffs bite, regional corporate credit conditions will remain highly differentiated across countries and sectors in 2025.
- Most rated firms can weather the direct impact of tariffs. But operating performance will weaken, owing to slowing regional and global growth.
- Indian corporates have larger cushions to absorb external pressures owing to improvements in operating and financial strengths over the past few years.
- Growth in capital spending is likely to slow amid tariff rhetoric and economic uncertainty.
- Domestic financing conditions will be supportive, with foreign currency capital markets staying selective.

What are the key risks around the baseline?

An escalation in trade tensions. Several Asia-Pacific economies could experience higher U.S. tariffs under the U.S. administration's "Fair and Reciprocal Plan". The plan may target tariff differentials, bilateral trade surpluses, and other perceived imbalances. A broadened trade war could cause a sharper global economic slowdown, diminishing business confidence and disrupting supply chains and investments.

A sharper slowdown in China's economic growth. Higher trade tariffs or protectionist measures, a deflationary spiral, persistent real estate challenges, or weaker consumer confidence could translate into slower growth for the world's second largest economy. That would hit Asia-Pacific economies and corporates that are reliant on Chinese demand. This remains a key risk for most rated entities in the region.

What do they mean for the sector?

Compressed revenue and margins. A sharp hike in U.S. tariffs would hurt export-dependent sectors such as capital goods, autos, semiconductors, textile and metals. China is not the only economy at risk of more trade actions. Vietnam, Japan, South Korea, Thailand, India and Taiwan are also exposed to potential tariffs, given their trade surpluses with the U.S. Weaker demand or a redirection of excess inventory into regional markets would also accentuate pockets of domestic overproduction--particularly in Indonesia, Vietnam and India.

The risk of countries flooding cheap exports in the regional markets could pose further sales disruption on the one hand; or an escalation of protectionist measures to prevent excess supply of cheap imported goods.

Larger firms may attempt to redirect production and even absorb some of the tariff impact. Their revenues and margins will inevitably be hit. Credit metrics could worsen even as firms defer or reduce their planned investments in light of an unpredictable trade environment.

Potentially tighter access to funding. The uncertainty around tariffs and slower growth in China could interrupt the trend of improving funding conditions. Risk-off funding sentiment, widening spreads, more complicated access to debt capital markets for weaker borrowers and a reduced ability to roll over short-term credit lines could ensue. Borrowers with short-dated funding requirements in working capital-intensive sectors, will be more vulnerable.

Financial Institutions

Banks Can Absorb The Policy Uncertainty

- We anticipate ratings stability will persist and most Asia-Pacific banks will absorb U.S. policy volatility.
- We forecast credit-losses across the Asia-Pacific banking sector will increase by about 8% in 2025 and remain within tolerances for most banks at current rating levels.
- An unexpected, material economic or property downside scenario outside our base case would test bank outlooks and ratings. Such a downside would likely be driven by geopolitical factors or U.S. policy volatility.

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What are the key risks around the baseline?

A material unexpected economic downside emerges. An intensification of U.S. policy volatility or geopolitical factors outside our base case would test bank borrowers and asset quality, and dent market confidence.

Property risks intensify. A worsening of property risks across the region that are under currently strain--most notably China's--would hit banks. Domestic policy missteps along the interest rate easing cycle could adversely affect banks' property exposures.

Structural risks are on the radar. Financial stability risks for nonbanks (including private credit) vary across the region but appears manageable in the context of our current country risk assessments. Climate change, cyber, AI, and digitalization will increasingly test--and in some cases benefit--banks' business models.

What do they mean for the sector?

Credit losses will increase. In our base case, we anticipate that Asia-Pacific banks' credit losses will increase by about 8% in 2025 to about US$550 billion. We consider capitalization, provisions, earnings, and other buffers are adequate for most banks at current rating levels.

Greater credit differentiation. Outlook changes are more likely for nonbank financial institutions, reflecting their more-concentrated business and funding profiles. Nonetheless, many systemically important banks in Asia-Pacific receive incremental ratings uplift for government support, and so are susceptible to changes in sovereign credit worthiness in an environment of less policy certainty.

Governments may lend a hand. We anticipate extraordinary government support for certain banks across the region--in the unlikely event it were ever required.

Insurance

Capital Cushions Volatility From Tariffs And Geopolitics

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What do we expect over the next 12 months?

- Trade tensions and geopolitical challenges could hike foreign-exchange and capital market volatility.
- Ongoing tariff uncertainty could lead to a sharper economic slowdown, denting demand for insurance.
- Positive rating bias follows from our improved view of insurers' capital adequacy after implementing the revised capital model.

What are the key risks around the baseline?

Escalating trade and geopolitical tensions. Ongoing uncertainty around tariff policy and geopolitics could heighten capital market volatility. A sharper than expected economic slowdown could dent premium growth, particularly marine and trade credit insurance. Unfavorable interest rate differentials and greater forex volatility could spike hedging costs.

Credit strains intensify. Credit stresses in alternative investments (including private credit) and real estate could prompt insurers to reassess risk-adjusted returns.

Demand for pricing review. Higher medical claims inflation points to repricing needs. Lower interest rates could prompt insurers to review their offerings for participating policies. Meanwhile, higher severity and frequency of weather events point to larger catastrophe claims. Climate change could render some areas un-insurable.

What do they mean for the sector?

Rising market uncertainty prompts a reevaluation of investment strategies. Equity market volatility weighs on earnings, diluting capital. Forex risks persist for insurers' unhedged overseas investments (e.g., Taiwan and Japan). Widening spreads and volatility in investment income may cause earnings contraction. High for longer interest rates support reinvestment option, though may derail insurers' debt issuance plan.

Margin pressure to stay. Underwriting margins may suffer if pricing fails to capture deteriorating claim experience, such as large losses associated with extreme weather events. Insurers' effectiveness in risk mitigation remains to be tested, despite having ample reinsurance capacity.

Public Finance

Debt Keeps Rising Amid Uncertainties

- Infrastructure spending will boost debt burdens for many local and regional governments (LRGs) in China, Australia, and New Zealand. We downgraded ratings on 21 NZ issuers in March. Our negative net outlook bias on LRGs in Asia-Pacific continues to mainly reflect the issuers in the Pacific.
- Tariffs and possible measures undertaken by the new U.S. administration will be a negative, if indirect, effect for public finance issuers in Asia-Pacific. The impact will be larger for China.
- Tail risks include debt and liquidity risks of indebted borrowers spilling over, leading to systemic financing problems and loss of market confidence.

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What are the key risks around the baseline?

Debt increase outpacing interest rate cuts and revenue growth. Many LRGs have increased debt to far above pre-pandemic levels, and it may rise further. Even with policy rates declining in most markets, borrowers face heightened debt-servicing burdens.

Worsening economic slowdown. Economic activity could soften as tariffs bite and escalate further. In China, a slower economy would prolong the weakness in land sales and traditional revenue sources for local governments. The region's governments may turn to stimulus to buttress against economic slowdowns, delaying fiscal consolidation.

Policy shifts. Water reforms in New Zealand are underway with LRG proposals due in late 2025. Reforms may not support LRG financial outcomes as much as we expect, resulting in widening deficits and higher indebtedness. Economic stimulus will likely result in more debt-funded spending for LRGs in China.

What do they mean for the sector?

Divergence will continue to widen between and within jurisdictions. Larger fiscal deficits and higher debts are difficult to restore to prior levels, and gaps are widening within the LRG systems in China, Australia, and New Zealand. Divergence is increasing among jurisdictions in Asia-Pacific, with LRGs in Japan and Korea able to contain debt increases.

Diminishing room for policy adjustments or execution errors. Balancing growth objectives and debt resolution--including for state-owned enterprises (SOEs)--will be hard for Chinese LRGs. Failure to contain local SOE debt risks in certain weak regions in China could have a negative contagion effect on regional credit.

Sovereign

Geopolitical Risks Back To The Forefront

- Global economic uncertainty is accompanied by relatively stable financing conditions, as interest rates and inflation rates remain stable in most major economies.
- Current account balances and inflation in many economies should improve, with energy and commodity prices holding relatively stable.
- We still anticipate some governments will meaningfully lower fiscal deficits, although a return to pre-pandemic fiscal performances will take longer in many cases.

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What are the key risks around the baseline?

A more severe than expected shock to global economic activity arising from U.S. policy shifts. A much more unpredictable global environment for international trade and investment could hit sentiment and lead to a much sharper slowdown.

Sudden capital swings. Escalations in geopolitical risks (in Europe or the Middle East) or significantly more policy uncertainty out of the largest economies could bring about a more negative outlook for the global economy and exacerbate investor risk aversion.

What do they mean for the sector?

Policy uncertainty in the largest economy could cause business sentiment to turn sharply negative. Reduced visibility about the direction of policies affecting the U.S. and other economies could hurt business investment and employment. If higher than expected U.S. inflation keeps interest rates up, it could hurt activity further.

A rebound in funding costs could weaken fiscal support and economic growth. If geopolitical risks take a turn for the worse or if sharp and unexpected policy changes come out of the U.S. and other major economies, it could hurt investor confidence and cause a withdrawal of capital out of emerging Asia. Higher interest payments are negative for fiscal support to sovereign ratings, especially where government debt is high and nonresidents are important sources of funding.

Structured Finance

Households Remain Cautious

- Consumer confidence remains soft across markets, discouraging purchases and making households cautious.
- Interest rates are likely to ease in 2025 in Australia and New Zealand. Households still face cost-of-living pressures and budgets remain stretched.
- Some weakening in asset performance is likely in 2025 as unemployment increases moderately in some markets.

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What are the key risks around the baseline?

China's housing sector risk. This sector remains weak. Homebuyer confidence remains low and continues to weigh on mortgage loan volumes, despite stimulus measures. Any further shocks to confidence in the sector could add to the strain.

Unemployment. We are seeing unemployment rise from post-pandemic lows for Australia and New Zealand. Any unexpected shifts would impact confidence across both markets.

Rates and inflation. For Japan, modest increases in rates could be meaningful for the country. In our view, inflation could stress household finances if it is not accompanied by growth in real wages. We expect some easing of rates in Australia and New Zealand in 2025. Changes to rates or inflation expectations could feed through to consumer confidence and purchasing decisions and lending activity.

What do they mean for the sector?

Rising delinquencies. Unemployment, the key indicator for consumer defaults, remains low but will likely see modest upticks. This will lead to a small increase in delinquencies across most markets and asset types, particularly those exposed to rising unemployment and elevated interest rates.

Issuance is likely to diverge. We expect issuance of consumer asset-backed securities to remain active across the region. The outlook for issuance of residential mortgage-backed securities is mixed, with China and Japan seeing lower issuance. After record issuance from Australia in 2024, activity will likely remain buoyant in 2025. We are seeing increasing interest in new and novel transaction types in Asia-Pacific and across the globe. Global factors and market sentiment will determine issuance activity across markets.

Structural supports are in place. Most transactions have or can build support to mitigate downside risks.

Related Research

- Economic Outlook Asia-Pacific Q2 2025: U.S. Tariffs Will Squeeze, Not Choke, Growth, March 25, 2025
- Credit FAQ: Can China's Local Governments Still Afford To Support Their SOEs?, March 24, 2025
- Corporate Top Trends Update: Asia-Pacific Corporates 2025: Who Can Take The Tariff Hit?, March 20, 2025
- Credit Cycle Indicator Q2 2025: Macro Headwinds Could Hinder Credit Recovery, March 20, 2025
- Credit FAQ: A Closer Look At Our Downgrades Of 18 New Zealand Councils, March 18, 2025
- Credit FAQ: China's Latest Budget Shows A Willingness To Take On More Debt, March 11, 2025
- China Banking Brief: More Capital, More Flexibility, March 6, 2025
- Sovereign Debt 2025: China Stimulus To Help Push Asia-Pacific Central Government Borrowing To US$4.2 Trillion, March 4, 2025
- Economic Research: Asia-Pacific Economies Likely To Be Hit By U.S. Trade Tariffs, February 21, 2025
- Asia-Pacific Financial Institutions 1Q 2025 Monitor: Most Banks Will Absorb U.S. Policy Volatility, February 17, 2025
- White Paper: Introducing Our Credit Cycle Indicator, June 27, 2022

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This report does not constitute a rating action.

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Appendix: Ratings Trends

Table 1

Net outlook bias of Asia-Pacific issuers by sector, Mar. 20, 2025

	Feb. 2024	May 2024	Aug. 2024	Nov. 2024	Mar. 20, 2025	No. of entities	Notional average rating
Auto OEM and suppliers	7%	0%	-3%	-7%	0%	26	BBB+
Building materials	-20%	-6%	-17%	-18%	-21%	14	BBB-
Business services	-22%	11%	11%	0%	0%	9	BBB-
Capital goods	-3%	-3%	0%	-3%	-3%	34	BBB
Chemicals	-17%	-28%	-31%	-50%	-43%	28	BBB-
Consumer products	-8%	-8%	-4%	-12%	-4%	28	BBB
Diversified	11%	6%	0%	0%	6%	17	A-
Healthcare	0%	0%	20%	20%	14%	7	BBB
Hotels, gaming, and leisure	18%	18%	25%	19%	0%	16	BB+
Investment company	0%	0%	0%	0%	0%	6	A
Media and entertainment	0%	0%	0%	0%	-10%	10	BBB+
Metals and mining	2%	2%	2%	0%	-13%	46	BBB-
Oil and gas	5%	4%	9%	0%	-4%	23	BBB+
Real estate development	-12%	-23%	-16%	-20%	-16%	25	BBB-
Real estate investment trusts	-12%	-8%	-10%	-13%	-11%	47	BBB+
Retail	0%	0%	-6%	-19%	-20%	15	BBB+
Technology	-4%	-7%	-4%	-4%	-2%	46	BBB
Telecommunications	-3%	-6%	-16%	-9%	-6%	32	BBB
Transportation cyclical	-10%	-10%	-21%	-19%	-19%	16	BBB+
Transportation infrastructure	0%	0%	4%	0%	0%	47	A-
Utilities	2%	3%	2%	-1%	-2%	98	A-
Total corporates	**-3%**	**-3%**	**-4%**	**-7%**	**-7%**	**590**	**BBB**
Financial institutions	8%	0%	-1%	0%	0%	387	BBB+
Insurance	6%	9%	10%	11%	18%	173	A
Public finance	-31%	-31%	-30%	-38%	-23%	78	AA-
Sovereign	-3%	7%	11%	25%	25%	28	BBB+
Total issuers	**0%**	**-2%**	**-2%**	**-4%**	**-2%**	**1,256**	**BBB+**

Note: We calculate the net outlook bias by deducting the percentage of negative outlooks and CreditWatch negative listings against the percentage of positive outlooks and CreditWatch positive listings. A minus figure indicates that the former exceeds the latter, and a positive figure, vice versa.

OEM--Original equipment manufacturer. Teal colored cells indicate improvement from prior period, orange, deterioration. Source: S&P Global Ratings.