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# Japan in the Capital Markets

MARCH 2025



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## Japanese Government Guaranteed International Bonds

4.875%	4.625%	4.500%
due January 2035	due April 2029	due January 2034
USD 500,000,000	USD 1,000,000,000	USD 500,000,000
Issued in January 2025	Issued in April 2024	Issued in January 2024

## Sustainability Bonds

2.625%	4.000%	3.500%
due September 2028	due August 2027	due September 2027
EUR 600,000,000	USD 600,000,000	EUR 500,000,000
Issued in September 2024	Issued in August 2024	Issued in September 2023

## Transition Bonds

0.511%
due August 2029
JPY 10,000,000,000
Issued in August 2024

## FILP Agency Bonds

1.305%	0.932%	0.775%
due January 2035	due January 2030	due January 2028
JPY 20,000,000,000	JPY 25,000,000,000	JPY 25,000,000,000
Issued in January 2025	Issued in January 2025	Issued in January 2025



# GlobalCapital

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## Japan in the Capital Markets

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# Japan's SSAs brace for volatility as geopolitics, tariffs take centre stage

Japan's sovereign, supranational and agency borrowers are among the most well regarded and highly rated in the international debt markets. Yet they are not immune to the volatility caused by the new US administration under president Donald Trump or the pressure from contrasting monetary policies implemented by different central banks. Timing deals well, being nimble and having diverse sources of funding are all expected to be critical in the year ahead.

*GlobalCapital* brought together some of Japan's leading SSA issuers and debt capital market participants for a roundtable in mid-March to discuss their fundraising plans for the new financial year, how they intend to navigate choppy market conditions, and the edge they still have among international investors.

**GlobalCapital:** It has been an interesting 12 months with the Bank of Japan raising rates, the US Federal Reserve cutting rates and a new presidency in the US. How have Japan's SSA issuers navigated the fundraising environment, both in domestic and international markets? What opportunities did you see — and what were the main challenges you had to overcome?

## **Toru Endo, Japan Bank for International Cooperation (JBIC):**

If we look back at the past 12 months, the Federal Reserve, the European Central Bank (ECB) and the Bank of England all cut interest rates, so the bond market was very good in this environment. As a result, we attempted to diversify the tenor and currency of our bonds. For example, in April 2024, for the first time in three years, we issued dollar-denominated bonds and we also arranged euro-denominated and sterling-denominated project financing deals.

We issued a euro green bond and a sterling bond, the latter of which was the first in four and a half years. In all, we managed to maintain our dollar credit curve while diversifying our tenor and currency mix.

**Keisuke Nakayama, Development Bank of Japan (DBJ):** For the financial year ending March

2025, there were lots of changes, including financial policy changes in different countries, the US presidential election in the autumn of 2024 and geopolitical risk. We thought we needed to do our fundraising as early as possible.

Until early July of the financial year, market conditions were very good. Domestically in Japan in August, we issued our first transition bond. Around that time volatility in the bond market went up significantly so many investors were in a wait and watch mode, and the market environment became pretty challenging. However, through marketing our bonds to ESG [environmental, social and governance] and other investors, we were able to accumulate demand and successfully issue bonds.

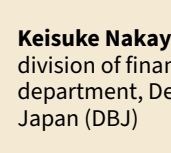
In the international market, we sold two government guaranteed bonds and three non-government guaranteed bonds, including dollar sustainability bonds and euro sustainability bonds. Altogether, five international bonds were issued. We had to take into consideration the political and economic impact and volatility on interest rates, so each bond needed to be issued at the proper time and with proper pricing.

After [Donald] Trump won the US election, we sold a government guaranteed bond in January that saw very strong appetite from investors. We did a lot of investor relations and communication

## Roundtable participants



**Toru Endo**, director, capital markets and funding division, treasury department, Japan Bank for International Cooperation (JBIC)



**Keisuke Nakayama**, director, division of financing, treasury department, Development Bank of Japan (DBJ)



**Masataka Ishikiriyama**, director, finance, finance department, Japan Finance Organization for Municipalities (JFM)



**Ayako Ozaki**, director, budget for finance and investment account, and capital market division treasury, finance and accounting department, Japan International Cooperation Agency (JICA)



**Masanori Kazama**, executive director, international debt capital markets, Nomura Securities

Moderator:  
**Rashmi Kumar**, contributing editor, *GlobalCapital*



*“JICA’s mission is to address social issues in developing countries and all our projects are related to ESG and sustainability. Therefore, all bonds issued in the 2024 financial year by JICA are sustainability bonds”*

*Ayako Ozaki, JICA*



activities with investors, both domestically and internationally, and so a lot of investors participated in our deals.

**Masataka Ishikiriya, Japan Finance Organization for Municipalities (JFM):** As mentioned by the others, we saw a lot of changes in the past year: a heightening of geopolitical risks, adjustments to interest rate policies by the FRB, the ECB and Bank of Japan, and a new presidency in the US.

We see big changes every year, but in the past year we felt that the interest rate environment in Japan and globally was more volatile than usual. Against that backdrop, we wanted to have a consistent fundraising of close to ¥1tr (\$6.6 billion) as usual but realised that we need to listen and understand the thoughts and needs of investors.

We conduct a lot of investor relations activity every year, including physical meetings, which we continued. In the last year, we had about 270 investor meetings domestically and internationally to grasp the needs of investors. In the end, we sold one dollar bond and one euro bond with five year tenors and raised about ¥1.8tr through the issuance of domestic and international bonds, as well as long-term bank loans.

**GlobalCapital:** Are you seeing any changes in the kinds of questions investors are asking about your fundraising plans or about Japan’s prospects?

**Ishikiriya, JFM:** Investors asked us about the market outlook as an issuer and what we were thinking. Also, we conducted these meetings as IR [investor relations] meetings, for investors to fully understand us as issuers. This means our bond issuance is one thing we discuss, but it’s also about what we do and how we came about, so we can build long-term relationships with investors.

**GlobalCapital:** What are your issuance plans for the financial year beginning April 2025, internationally and in yen? What currency mix and split, and what duration and structures will you be looking at?

**Ayako Ozaki, Japan International Cooperation Agency (JICA):** The fundraising amount for the 2025 financial year is expected to be similar to that of the 2024 financial year (FY). In FY 2024, we issued a \$1bn five year dollar-denominated bond in May, and yen-denominated bonds in June and November, as well as in March 2025. The March issuance was a retail bond.

For FY 2025, we anticipate a disbursement scale of approximately ¥2.3tr, with government borrowing as the primary funding source. The scale of bond issuance is expected to be similar to FY 2024. We will set interest rates and maturities based on market conditions.

**Endo, JBIC:** JBIC’s issuance volume for the 2025 financial year will be in line with 2024 or maybe

slightly lower. On the budgetary base, we will be allowed to raise about \$11bn-equivalent from government guaranteed foreign currency bonds. We usually issue a total of \$5bn in international bonds, four times a year, and will use this as the base for the new fiscal year. But JBIC has to pay attention to our current cash position as well.

As for the currency type, we will be issuing in dollars, euros and sterling. For us, the dollar is the most important currency and it is something we will focus on. Notably, our credit curve in dollars, across tenors of 10 years, five or six years, is becoming a bit wide. From 2023 onwards, we have not been issuing five year bonds, for example. So this year, we would like to see the potential of selling dollar bonds in the above-mentioned tenor and continue issuing euro and sterling bonds in line with our asset portfolio.

**Ishikiriya, JFM:** For the 2025 financial year, JFM is planning to raise ¥1.865tr worth of fundraising. Size wise, this is roughly the same as in 2024. As for currency allocation, roughly 84% of the fundraising amount will be through yen-denominated bonds and the remaining 16% would be foreign currency denominated bonds.

Every time we issue notes, we watch market conditions and investor sentiment, so we only decide at the last minute whether to issue in dollars or euros. Right now, we have not defined which currency we will use this year. It’s the same with duration: we will wait until the last minute, watch the needs of investors, consider demand and make a comprehensive decision. It’s difficult to forecast which currency would be more advantageous from a pricing perspective as interest rates are volatile, so our decisions really hinge on the market situation at the time of issuance.

**Nakayama, DBJ:** At DBJ our fundraising size for the new financial year will be slightly higher than the previous year. When it comes to domestic regular bonds, we will continue to issue once a quarter, in April, July, October and January, with durations of three years, five years and 10 years. We’ll consider issuing transition bonds

as well as 20 year bonds depending on market conditions. Regarding government guaranteed bonds, seven year and 10 year issuance is being planned at this point of time.

As for international bonds, government guaranteed bonds with five and 10 year tenors will be issued, and for non-government guaranteed bonds, sustainability bonds and non-labelled bonds a duration of three to five years will be considered. The ratio of yen and foreign currency bonds will be roughly the same as the previous fiscal year. We have been continuously issuing dollar, sterling and euro bonds. However, in the new financial year, we would not issue bonds in sterling to ensure a balance between our assets and liability in this currency.

**GlobalCapital:** How much of your new funding plan is likely to be linked to ESG? Is this set to be higher or lower than the previous year?

**Ozaki, JICA:** JICA's mission is to address social issues in developing countries and all our projects are related to ESG and sustainability. Therefore, all bonds issued in the 2024 financial year by JICA are sustainability bonds. We plan to continue issuing them as sustainability bonds in the future. For the 2025 financial year, we have set an issuance framework similar to that of FY 2024, with approximately \$1bn in dollar-denominated bonds and ¥80bn of yen-denominated bonds. We plan to issue sustainability bonds within this framework.

**Nakayama, DBJ:** In the 2024 financial year, DBJ issued a transition bond for the first time in the domestic market. Internationally, we are continuously working on sustainability bond issuance. For the new fiscal year, our plan is to continue selling transition bonds and sustainability bonds. Whether the size will increase or not will depend on market conditions.

DBJ would like to facilitate investing in and providing loans to sustainability fields. Looking at the market condition in the foreign bond market, I think a greenium can be recognised to a certain extent. However, for domestic [fiscal investment and loan

programme] FILP ESG bonds, we do not see any greenium. If you look at the trends among investors, Japanese investors have interest in ESG bonds, so we will target them for our transition bonds. Globally, particularly in Europe, there are a lot of investors that prefer ESG bonds. We would like to continue to communicate with those investors to issue successful ESG bonds in the future.

**Ishikiriyama, JFM:** We have sold green bonds in both domestic and foreign debt markets. For the new fiscal year, our issuance volume will be similar to the last fiscal year. We have plans to raise ¥20bn from the domestic market and when it comes to international bonds, we will decide on the tenor and currency right before we issue the bond, but it will likely be dollars or euros with a standard benchmark size.

**Endo, JBIC:** We issue a green bond once a year and, for the new year, we would like to continue with that plan. The size is usually about \$500m in dollars or €500m in euros. However, this will depend on accumulation of green assets. Last June, JBIC implemented our new medium-term plan, and within that, sustainability is one of the main pillars.

'Realising a Sustainable Future' is our slogan, and this is our top priority. Within that, the green bond is one of the tools that will support these initiatives, in line with our green bond framework established in 2021. To ensure our green bonds are accepted by investors, we have focused

significantly on the assets that are within the green bond, limiting it to renewable energy, green building and clean transportation.

It's limited to those three, but we may need to review the list to make it more flexible as our green assets are increasing. We would like to revisit that list in the new fiscal year, if necessary.

**GlobalCapital:** How are you preparing to tackle some of the backlash against ESG since the new US presidency came into power in January? And are you worried about the implications of Donald Trump's tariff threats on Japan and your fundraising plans?

**Endo, JBIC:** There are two ways of looking at it. The first is from the issuer perspective and the other is as an investor. How are we going to think about ESG as an issuer and as an investor? From an investor perspective, we are conducting IR activities right now and collecting the voices of investors, as well as information on their perspectives on ESG bonds.

We feel their willingness to purchase green bonds is still strong, especially recently amid a decline in supply in green bonds. Green investors are saying there's a shortage in supply of green bonds and they want more.

On the other hand, issuers, especially US-based issuers, need to keep a close eye on the trend of the Trump administration, which will influence how they issue green bonds or ESG bonds and how they will be reported. They're really

*"To ensure our green bonds are accepted by investors, we have focused significantly on the assets that are within the green bond, limiting it to renewable energy, green building and clean transportation"*

**Toru Endo, JBIC**



cautious about that and need to consider their reputation.

Regarding tariffs, fortunately for us, we have a quite a bit of cash surplus. This means we can do our fundraising in a flexible manner. Having said that, sudden changes may occur, so having diverse fundraising options across multiple currencies and markets is going to be important.

**Ishikiriyama, JFM:** There has been a big change around climate action in the US, so as an issuer of ESG bonds or an investor, there is some impact. That's our understanding. But against this backdrop, we have had dialogue with various investors and don't see any specific change so far when it comes to ESG investing. They seem to be making investments based on individual decisions. As a result, we don't think demand for ESG bonds is going to decline suddenly.

We will keep a close eye on the global trend but will continue making progress with our ESG fundraising plans. We will revisit what currency and tenor to use depending on market conditions at the time of the deal.

As for the impact of tariffs, JFM provides loans to the local governments in Japan, so while the tariffs don't impact us directly, it may have longer term implications for the projects being done by the local governments. We are also seeing headlines around the tariffs' impact on the foreign exchange market. We would continue to keep a close eye on that, as well as on what's happening in Japan, and time our domestic bonds according to the market situation.

## DBJ's international bond issuance in fiscal 2024

Pricing Date	Issue	ESG label
April 3, 2024	\$1bn 4.625% 10 Apr 2029	No
August 20, 2024	\$600m 4% 28 Aug 2027	Sustainable
September 4, 2024	€600m 2.625% 11 Sep 2028	Sustainable
October 23, 2024	£250m 4.375% 30 Oct 2027	No
January 7, 2025	\$500m 4.875% 16 Jan 2035	No

Dates: April 1, 2024 to March 31, 2025

Source: GlobalCapital's Primary Market Monitor

**Nakayama, DBJ:** From an ESG perspective, the investor trend towards ESG bonds is not necessarily negative. We do not hear such strong voices. On the other hand, it's not limited to ESG, but volatility has been high recently. We are in a period where markets can change rapidly, so we would like to continue communicating with investors (including ESG investors).

As for tariffs, how much this will impact the real economy is something we will keep an eye on. We will also continue keeping an eye on our customers and any impact on them, especially from a supply chain and manufacturing perspective.

From a fundraising point of view, policy changes in each country, including tariffs, can have a significant impact on financial markets, including interest rates and foreign exchange rates and, in turn, the bond market. We have not been able to identify the extent of the impact yet, but whatever happens, we would like to be able to flexibly respond to the situation.

**GlobalCapital: Masanori, you obviously have a difficult job,**

**advising issuers on the best timing and pricing for their bond outings. What trends did you see in the issuance environment in the past 12 months — and what is your outlook for the DCM market in the year ahead?**

**Masanori Kazama, Nomura Securities:** Market volatility is heightening right now and it's very difficult for us to give advice to clients. As mentioned by the others, each country's financial and monetary policies are different, we have a new US president and the perspective on ESG has greatly changed. So a clear trend cannot necessarily be seen. I think everybody is trying to watch and trying to read what is happening.

In this environment, borrowers are still issuing bonds, but they are trying harder to understand what is happening in the market and recognising the changes and challenges. Many have increased their currency pool for example. When I entered the market 10 years ago, many borrowers mainly chose dollars for foreign currency bonds. But now they are also using euro and pounds. It's also not about only benchmark bonds, but firms are selling private placement bonds too. Therefore, there are a lot of options and, depending on the environment and based on the conversation that issuers have with investors, appropriate proposals are being made.

**GlobalCapital: Are you seeing changes in the kinds of questions investors are asking during roadshows? Or a shift in their engagement?**

**Kazama, Nomura:** The questions reflect the market trends. In the US and in Europe, politics has moved towards the right, which is having

*"We now have a positive interest rate environment following rate hikes by the Bank of Japan so the fundraising environment will not be as simple as past years. But sentiment is positive and that is what we are explaining to investors"*

Masanori Kazama, Nomura Securities



## JBIC's bond issuance in fiscal 2024

Pricing Date	Deal Name	ESG Label
April 9, 2024	\$1bn 4.625% 17 Apr 2034	No
May 22, 2024	¥10bn 0.639% 19 Mar 2029	Green
July 9, 2024	\$1.5bn 4.625% 22 Jul 2027	No
October 9, 2024	€500m 2.625% 17 Oct 2030	Green
January 21, 2025	£350m 4.625% 28 Jan 2030	No

Dates: April 1, 2024 to March 31, 2025 Source: GlobalCapital's Primary Market Monitor, JBIC

a bigger impact on their fiscal policies. Sovereign government bonds could be downgraded, which is raising questions from investors.

From a Japan point of view, we are asked about the interest rate environment and whether the market can see more international issuance from borrowers. On a macro level, there is very high interest among investors towards Japan because, after being asleep for 30 years, the economy is recovering, we are finally seeing inflation and consumer prices and wages are rising — all of which are good signs. We now have a positive interest rate environment following rate hikes by the Bank of Japan so the fundraising environment will not be as simple as past years. But sentiment is positive and that is what we are explaining to investors.

**GlobalCapital:** The Bank of Japan hiked rates in January this year and is expected to hike again in July and in January 2026. There is also wide expectation that the BoJ can now take a more Japan-centred monetary policy as the economy and inflation become more internally driven. What will the implications of this macro environment be on your funding plans and your profile among global investors?

**Ozaki, JICA:** I share analysts' views on the Japanese economy. It is expected that wages will continue to rise strongly and the Bank of Japan will continue to raise policy interest rates. JICA's main funding source is borrowing from the Japanese government and the rise in interest rates will have a certain impact.

For JICA to continue supporting developing countries through long-term, low-interest loans, it is important to manage the impact of rising funding costs. For example,

we could consider strategies such as adjusting the duration of funding to keep costs down or partially passing on the increased costs to the interest rates on loans.

**Ishikiryama, JFM:** We're in a world with high interest rates and there's still expectation that rates are going to go up further. Naturally, we need to keep a close eye on the trend. As JFM, the rate at which we get our fundraising done reflects the rates of the loans we provide to clients. With the current rate rise, we are also having to increase the interest rate for the loans we provide.

As a business, it's not that there's a negative impact on us, but the increase in interest rates has led to a slight mindset change among investors. For example, with higher rates, some investors are saying they are pivoting back to government bonds. Public institutional investors are thinking that way as well. We hear of these changes as we conduct our IR activities. Investors are thinking of more actively making investments. For these types of investors, we

would like to proactively approach them and conduct our bond raising more actively, domestically and internationally.

**Endo, JBIC:** JBIC is quite unique because 90% of our assets are foreign currency denominated. Therefore, the BoJ interest rate increase has limited impact on us because of the composition of our assets. But we would like to highlight that the BoJ trend of raising interest rates may have some positive impact for us. We also raise funds in yen from the Japanese government and then use the cross-currency swaps from yen to dollars. As a result of this strategy, higher BoJ rates may benefit us from a cost perspective.

**GlobalCapital:** What steps are you looking to take to ensure your clients continue to have access to international bond markets at the right time and at the right price?

**Kazama, Nomura:** In this fast-changing fundraising environment, all borrowers have various options. The key is continuing the dialogue with the market to find a good timing for issuing bonds. Being able to propose the right fundraising time for our clients is our mission.

**GlobalCapital:** What is your biggest worry in the year ahead — and what are you most positive about?

**Kazama, Nomura:** We are worried about what Trump is going to do and we need to think of how we



*"We need to assume that more changes will happen, meaning we should not decide things at an early stage. We have to come up with some risk scenarios and sometimes upside scenarios as well"*

*Keisuke Nakayama, DBJ*

*"I may be a bit optimistic, but having positive interest rates in Japan is something that can lead to changes in investor behaviour and mindset. We would like to follow the mindset of investors and align our fundraising with their demands"*

Masataka Ishikiriyama, JFM



will respond to his moves. We don't have clear visibility over what he may do — that is the big concern. We cannot relax yet and have to keep an eye on market movements accordingly. However, the market is starting to calm down, so at an appropriate time, we'll be able to adjust. There is some positive light we're seeing — and once time passes, the investing environment will become better.

**Nakayama, DBJ:** We are seeing significant changes in the market with more frequency. We are in an environment where it's very difficult to read the future. The same goes for the macroeconomic outlook, monetary policy, as well as the political situation. There are a lot of variable elements or risk elements and so while we see higher volatility, we need to grasp the current situation as accurately as possible and then continue conversations with investors.

We need to assume that more changes will happen, meaning we should not decide things at an early stage. We have to come up with some risk scenarios and sometimes upside scenarios as well. We need to have multiple scenarios and have the ability to select the optimal scenario at the right time. On the other hand, we have positive rates in Japan — creating an environment that we have not seen in many years.

We need to see how investors or clients will tread. Some will think that a shorter tenure will be better, others will return to public and government bonds, or maybe more types of investments will be selected

because of interest rates. It is positive that these new moves by investors can lead to investment in our bonds.

**Ozaki, JICA:** I would like to highlight two concerns for the future. The first is the rise in yen interest rates. It is necessary to take measures such as controlling funding interest rates and adjusting lending rates. The second concern is the uncertainty associated with the policies of the US Trump administration.

Recently, surprising decisions such as the closure of the United States Agency for International Development, an agency responsible for foreign aid, have been made, impacting the world. In contrast, in our country it is known that Official Development Assistance (ODA) has been playing an important role as a diplomatic tool and I hope that position will remain unchanged in the future.

As an implementing agency of Japanese ODA, JICA has been working under the vision of 'Leading the World with Trust' to build trust among developing countries, Japan and stakeholders. We wish to continue these efforts. Additionally, bond issuance is not only a means of fundraising but also a very meaningful opportunity to promote JICA's vision and mission.

**Ishikiriyama, JFM:** My biggest worry is in line with what has been raised by the other speakers: this uncertainty and high volatility. There are various factors in play, like geopolitical risks, the trends of each country's government and

differing monetary policies. It's not just one factor but many changes happening together at the same time, so we need to watch these carefully to decipher their impact.

On the positive side, I may be a bit optimistic, but having positive interest rates in Japan is something that can lead to changes in investor behaviour and mindset. We would like to follow the mindset of investors and align our fundraising with their demands.

**Endo, JBIC:** My biggest concerns would also be the trends of the Trump administration and the French elections as those political risks could lead to volatility. Having said that, from a longer term perspective, if we considered Trump and Europe's political risks too seriously, we could not issue bonds for a long time. Depending on fundraising demand and the movements of investors, our available slots to issue bonds are only over four windows a year. This is very limited, and we may even have to flexibly modify our strategy or postpone our bond issuance for a week or so.

Also, the policy of the Trump administration is much more severe when compared to the Joe Biden administration. But the Trump administration desires to deal individually, one on one, so it looks that there could be more room for negotiations of deals between the US and Japan. If that becomes the case, it could help mitigate volatility in a short period of time and could be positive.

Also, Japan investment into the US could be important in the coming year. For example, this February at the US-Japan summit, Japanese prime minister Shigeru Ishiba said he will increase Japan's investment into the US from \$800bn to \$1tr. Such investments into the US this year could be a good opportunity for Japan and JBIC would like to support these investments.

Another point is the discussion around the US vis-à-vis Canada or Mexico or Europe or Japan. There are a lot of campaigns ongoing, but the most important thing for US might be how to compete against China. In that sense, Japan would be the most reliable partner for the US and, depending on how negotiations go, it could be positive for Japan. GC

# Helping build vibrant regional communities

JFM, Japan's sole municipal finance agency, raises funds from the global debt market to provide concessionary financing to municipal entities for vital public projects including water infrastructure, transportation systems, and healthcare facilities.

<b>January 2025</b> EUR 500,000,000 2.750% Reg S Green Bonds due 2030	<b>April 2024</b> USD 1,500,000,000 5.000% 144A/Reg S Bonds due 2029	<b>January 2024</b> EUR 500,000,000 2.875% Reg S Green Bonds due 2029	<b>September 2023</b> USD 750,000,000 5.125% 144A/Reg S Bonds due 2026	<b>April 2023</b> USD 1,000,000,000 4.125% 144A/Reg S Bonds due 2028	<b>February 2023</b> EUR 500,000,000 3.375% Reg S Green Bonds due 2028
<b>September 2022</b> EUR 1,250,000,000 2.375% Reg S Bonds due 2027	<b>January 2022</b> USD 750,000,000 1.500% 144A/Reg S Green Bonds due 2025	<b>September 2021</b> EUR 1,000,000,000 0.100% Reg S Bonds due 2031	<b>April 2021</b> USD 1,250,000,000 1.125% 144A/Reg S Bonds due 2026	<b>February 2021</b> USD 1,250,000,000 1.375% 144A/Reg S Bonds due 2031	<b>February 2021</b> EUR 500,000,000 0.010% Reg S Green Bonds due 2028



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# Japan's transition bond market poised for next issuance spurt

There are growing signs of a global reluctance to embrace environmental, social and governance (ESG) principles, with talk of greenwashing emerging in many pockets of the bond market. Yet, Japan's top regulatory bodies and issuers are eager to embrace ESG and, in particular, to continue growing their transition bond market, seeing its potential for ushering in change and reaching net-zero commitments.

*GlobalCapital* brought together some of Japan's leading ESG practitioners for a roundtable in mid-March to discuss the evolution of Japan's transition financing market, the hurdles to further growth and the implications of what appears to be a global step back from net-zero commitments.

**GlobalCapital:** Since selling the world's first sovereign transition bond in mid-February 2024, Japan has raised about ¥3tr (\$20.1bn) from its GX (green transformation) bonds. What were some of the key highlights of your deals — and what lessons were learnt?

**Takako Onitsuka, Ministry of Economy, Trade and Industry (METI):** In February 2024, we issued Japan climate transition bonds (JCTBs) for the first time. We took about a year and a half for preparation, including answering questions like what will be the fundraising amount and what will be the use of proceeds.

We set up a framework and provided explanations to investors about the JCTBs. During our preparation period, the response from global investors was initially rather cool, because other countries were issuing green bonds. We were asked: 'Why does Japan not issue a green bond? Why are you opting for this difficult form of transition bond?' While transition finance is being used by private sector companies in Japan, it is not really well understood globally, and we recognise that there are differences in the market's understanding of transition bonds.

In February 2024, when we issued the GX policy of Japan, its significance was understood by investors globally. Another important point is that in May

2024, there was a general meeting of the International Capital Market Association, during which the transition finance or climate bond initiative was introduced by the Japanese government. Criticism or scepticism of greenwashing did not really appear. Rather, we were praised for this new approach of dealing with transition finance. There was very high interest in our initiative.

When it comes to lessons learned, we have felt the need to continuously communicate and explain the significance of transition, the definition of transition and what the Japanese government wants to do in a very transparent manner. Last December, we issued an allocation report for FY2023 issuance, which includes case studies of projects funded by JCTBs. We would like to continue with such communication, so next year, we will issue an impact report to continue explaining our policy.

We have issued ¥3tr in JCTBs so far. In the new financial year the plan is to sell ¥1.2tr in bonds. There will be no major changes to the structure and duration: a five year bond and a 10 year bond will be issued.

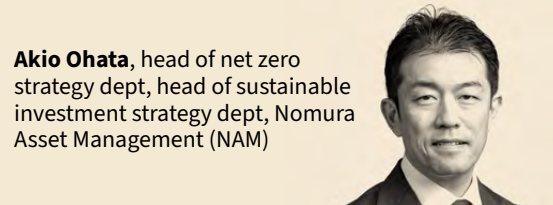
**GlobalCapital:** What were some of the concerns raised by investors about Japan's GX bonds?

**Onitsuka, METI:** Of our first JCTBs, half of the proceeds were for research and development. Some investors praised that as being

## Roundtable participants



**Takako Onitsuka**, director, environmental finance office, GX policy group, Ministry of Economy, Trade and Industry (METI)



**Akio Ohata**, head of net zero strategy dept, head of sustainable investment strategy dept, Nomura Asset Management (NAM)



**Takafumi Konno**, managing director, syndicate department, Nomura Securities



**Shun Machiyama**, executive director, sustainable business development department, Nomura Securities



Moderator:  
**Rashmi Kumar**, contributing editor, *GlobalCapital*

a very bold strategy. However, there were also concerns because investing in R&D is very uncertain. Perhaps details on the kind of technology being developed or what stage they were at were not well communicated, triggering these concerns among investors. Since then, we have put together reports on the technology readiness and maturity level of our R&D initiatives, which helped lift some of those worries.

Another concern was how to handle fossil fuel, particularly hydrogen and ammonia related businesses. Currently, the proportion of hydrogen co-firing remains at around 20%, raising concerns about carbon lock-in. But we want to increase this co-firing ratio to 100% in the future through technological development. JERA [Japan's largest power generating company] is steadily making progress, successfully demonstrating co-firing at large-scale thermal power plants and we are conveying the progress to the market. We're not talking about something unseeable in the future, but we have visibility of a certain target. With these efforts, an increasing number of institutional investors understand the importance of hydrogen and ammonia.

At the outset, there were voices saying we should not include such controversial businesses into JCTBs, but we believe in the importance of engaging in dialogue with investors precisely because there are differing opinions. The issuance of JCTBs is a good opportunity to have this dialogue.

**GlobalCapital:** That's interesting. But one thing that has emerged is that the Bank of Japan and the Government Pension Investment Fund hold more than half of the outstanding GX bonds. What steps is METI taking to expand the investor base for its bonds?

**Onitsuka, METI:** We would like to focus on expanding the investor base of our JCTBs. Last year, we went to the US and Europe and held face-to-face meetings with investors and conducted investor relations activities. This year, in addition to Europe and the US, we are visiting Asian investors. We visit them physically and conduct IR activities.

Within Japan too, we are focusing not just on large scale institutional investors but also regional financial institutions. We consider them important investors in our JCTBs. We did the same thing last year, but this year, we would like to visit the regional areas of Japan, visit these financial institutions and explain JCTBs to them so we can increase the number of investors. These IR activities have the effect of increasing our investor base and helps us disseminate information about the government's GX policy.

**GlobalCapital:** There has been a pushback against ESG in general globally, driven by the US administration under Donald Trump. How are you navigating this difficult environment?

**Onitsuka, METI:** Despite the political pressure on ESG in the US, I don't think business efforts or direction towards carbon neutrality have changed much. Maybe their pace of progress has slowed down, but the long-term direction towards carbon neutrality remains. It is merely a matter of terminology — whether to call it ESG or not — and I do not see any significant changes in substance.

The GX initiatives require a large amount of investment for the long term and the government of Japan tries to send a consistent signal about the GX policy. We are making a strong commitment for the long term to increase the predictability of the private sector's investment. In Japan, the GX policy has not changed and that's the message we would like to convey.

**GlobalCapital:** Akio, as a buy-side investor, what are your expectations for the future of the ESG as well as the transition market in Japan and beyond?

**Akio Ohata, Nomura Asset Management (NAM):** At Nomura Asset Management, ESG integration is the basic policy of investment, irrespective of the political environment. We've been continuing with this policy and, at the company level, we expect it to remain this way. Transition bonds are a type of bond that are expanding in Japan. We would like to further expand this concept and lead future changes in the market. We don't disclose the breakdown of our portfolio or how long we hold investments for. But we place importance on transition bonds as one of the measures to address climate issues.

**GlobalCapital:** Are there big differences when you're buying labelled bonds from Japan versus labelled bonds from international markets?

**Ohata, NAM:** We have an internal investment framework to evaluate green, sustainable or transition bonds. I don't want to go into too much detail, but we have a person in charge of making investments that I work closely with to exchange opinions and ideas on certain deals. It's not the case that because it's a GX bond we will definitely buy it. We look at the economics and we

*"I don't see major changes in international investors' perspectives on ESG and don't think there's a huge withdrawal from ESG deals, so we are not recommending issuers to stop issuing ESG bonds. We expect investor and issuer interest to remain high"*

Takafumi Konno, Nomura Securities



look at the ESG elements from our framework perspective and decide what investments we make.

**GlobalCapital: What can help Asian issuers sell ESG linked bonds in the Japanese yen market?**

**Takafumi Konno, Nomura Securities:** Japan’s market has seen an expansion in its ESG products: green bonds, social bonds, sustainability bonds, sustainability-linked bonds, blue bonds and transition bonds. Japanese investors have more understanding of transition bonds compared to overseas investors thanks to the investment opportunities they have had by investing in Japan climate transition bonds and Japanese domestic corporate bonds. Overseas issuers, including Asian issuers, can leverage this affinity of Japanese investors to transition bonds and sell these under their own credentials or use the JBIC [Japan Bank for International Cooperation] support programme by obtaining their guarantee or partially been acquired.

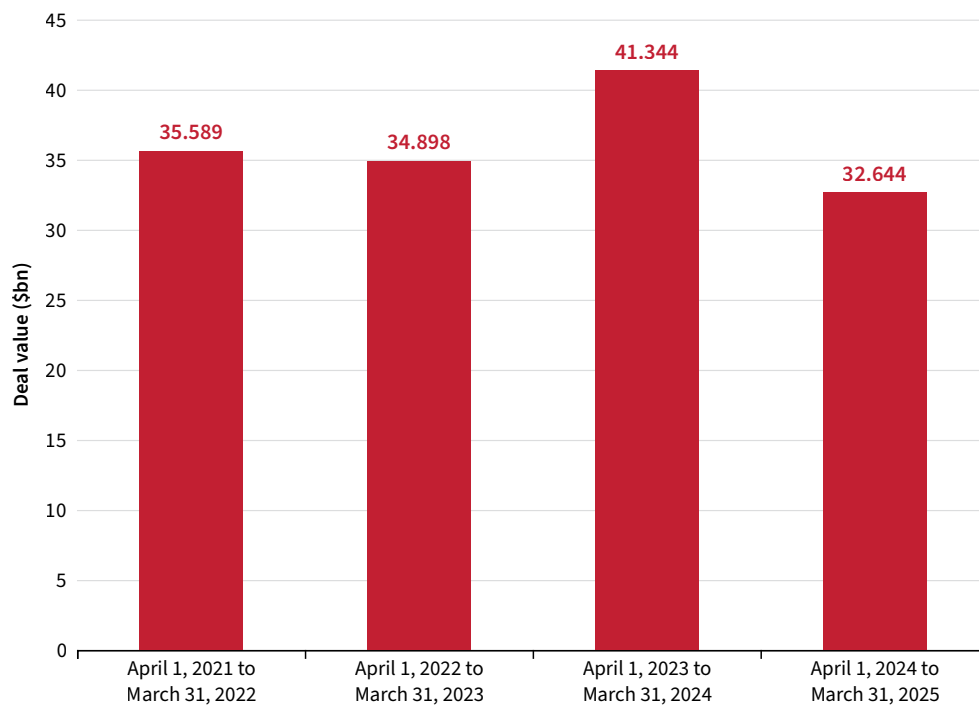
**GlobalCapital: A few Japanese corporates have sold transition bonds. What is the interest like among other corporates for this product – and how is the pipeline?**

**Konno, Nomura:** I would like to refrain from talking about specific pipeline details, but among Japanese issuers, there are studies ongoing in the domestic market about transition bonds and whether they are able to issue it globally. The situation is fluid given the movement against ESG in some regions and currently it does not match the dark green requirement in Europe. But the study is happening and is considering the discussions in Europe about potentially relaxing dark green requirements.

**GlobalCapital: From a syndicate perspective, how has ESG engagement with international and domestic investors changed in the past year. How is it likely to evolve in the year ahead?**

**Konno, Nomura:** I don’t see major changes in international investors’ perspectives on ESG and don’t think there’s a huge withdrawal from ESG deals, so we are not recommending

**Issuance volumes of green, social and sustainability bonds from Japan**



Dates are in line with Japan’s financial year

Source: Dealogic

issuers to stop issuing ESG bonds. We expect investor and issuer interest to remain high.

**GlobalCapital: What are the key ESG themes and trends of the past year – and what are your future expectations?**

**Shun Machiyama, Nomura Securities:** In the 2024 financial year in Japan, ESG bond issuance volumes declined for the first time year on year, according to our database. There were several reasons, but the biggest was the hike/volatility in yen interest rates. Many corporates opted to sell standard or conventional corporate bonds, leading to a reduction in ESG debt volumes.

While climate change is a big theme in Japan and there is appetite among regional investors who put in additional demand for ESG or climate transition bonds, there are challenges. Many companies would like to sell green bonds, but recently, there have been days when the yen interest rate will move 10bp in just one day so the economic benefit of a green deal cannot be felt. Companies would like more flexibility and issue more bonds as soon as possible.

Going forward, I do not expect there to be a great decline in the sustainable finance market. By volume, straight corporate bond issuance volumes in FY2024 (ending in March 2025) will be the third largest since FY2019, according to our database. In FY2025, the volume is expected to be even bigger and we believe it would be the same for sustainable financing deals as well. There are a lot of sectors that can issue sustainable finance deals, including SSAs and other corporate bond issuers. Size wise, there will not be a big change. As for transition bond financing, it will continue to be strong and will become more popular.

**GlobalCapital: What are issuers prioritising on ESG deals?**

**Machiyama, Nomura:** When the very first sustainable finance bonds emerged in 2019/2020, the motivation was to become a leader in the sustainable industry and appeal to more investors. Many other issuers joined in, mainly to market their credentials to the world. With the GX bonds from the government, the benefits were many, including a rise in demand



*"If transparency expands in the ESG market, then greenwashing risk is going to be mitigated to some extent. Investors have expectations around that and, as an asset manager, we need to respond"*

*Akio Ohata, NAM*

from regional investors and a growth in global investor reach.

**GlobalCapital:** Globally, including Asia, the term 'greenhushing' is catching on. What is your view on this from a Japanese perspective?

**Machiyama, Nomura:** When we speak with investors about the recent situation in the US, we understand that the political part and the investment decision need to be thought of separately. For US pension funds and other relevant investors, we believe the ESG factor is still important when it comes to investment decisions. However, when reporting on ESG, companies and investors are intentionally removing the wording ESG from their reporting for fear of raising political issues. But in Japan, we haven't seen or heard of any major change in investment policy. Going forward, we will keep monitoring the market closely.

**Ohata, NAM:** If transparency expands in the ESG market, then greenwashing risk is going to be mitigated to some extent. Investors have expectations around that and, as an asset manager, we need to respond. We just talked about greenhushing. If the information provided by issuers gets more transparent, our reporting will also become clearer. We already produce the Responsible Investment report every year and put full effort into it. For us it's not about

greenhushing, but we are focusing on disclosing more information. For the Responsible Investment report, after we launch the Japanese version, we need to translate it into English as soon as possible.

Also, the term greenhushing is rarely heard in Japan. I heard it for the first time at this conference. Many companies in Japan are disclosing information based on the Task Force on Climate Related Financial Disclosures, and we hope to do the same. Additionally, we aim for 55% of the companies in our portfolio to be certified by Science Based Targets, demonstrating their commitment to address climate change. We believe we can achieve this goal.

**GlobalCapital:** Are there any policy opportunities that METI intends to focus on in the year ahead?

**Onitsuka, METI:** In 2023, we put in place a medium to long-term investment strategy by area, like grid and renewable energy, and identified the kind of support we are going to provide. We came out with a policy to enhance predictability and consistency, and for the last few years that has not changed. However, in the fiscal year 2025, projects based on hydrogen price gap subsidies are expected to be adopted, and debt guarantee projects and investments by the GX Acceleration Agency will commence, leading to an increase in the budget to accommodate these initiatives.

**GlobalCapital:** What about policies to accelerate private-sector investment in transition finance?

**Onitsuka, METI:** Since transition finance was still in its early stages and lacked a clear definition in 2020/2021, the Japanese government provided guidance on how to define transition by formulating basic guidelines and developing roadmaps, specifying what should be referenced in this context. Additionally, we organised our thinking on various topics as needed, such as follow-up guidance and the concept of financed emissions, thereby creating a conducive environment. Furthermore, we have been working to promote best practices through subsidies for model projects.

There are many aspects that require alignment with the government's overall policies, such as the objectives we aim to achieve and the pathways we intend to follow. In this sense, the government believes that enhancing policy predictability is crucial for attracting private investment. In line with that, the Japanese government formulated the GX industrial policy plan and strategic energy plan for 2040 and submitted an emissions reduction target for 2040 to the United Nations.

The government has also developed a sectoral investment strategy to outline its approach to supporting forward-looking investments. This strategy indicates which technologies have potential for reduction and the level of investment required. Additionally, carbon pricing is set to begin in FY2026, with the introduction of a fossil fuel levy in FY2028 and a paid auction starting in FY2033, gradually increasing the burden over time.

While various countries are making changes to their climate change policies internationally, the Japanese government believes demonstrating consistent policies with a medium to long-term perspective is important. The timing, the regulations and the incentives need to be explained clearly to the market.

**GlobalCapital:** How can the corporate sector in Japan drive decarbonisation, especially in hard-to-abate sectors?

**Onitsuka, METI:** There are many areas where no technology is available to immediately reduce carbon dioxide emissions in the manufacturing process. For example, the decarbonisation of processes such as steelmaking and thermal processing is a common challenge faced by countries around the world. Developing technologies capable of addressing these structural challenges, including the use of new technologies like hydrogen and ammonia, and advancing their implementation ahead of the world is both a strength and a role of Japanese companies.

Within JCTBs, we are supporting R&D for such activities, for example, steel making processes using hydrogen or decarbonisation of heat processing. The public and private sectors are working hand in hand to proceed with technical developments to become a pioneer in this area.

Japan will certainly advance its own emission reductions. But when viewed by its share of global emissions, it accounts for only about 3%. Japan's significant role lies in contributing to global reductions through technological advancements.

**Ohata, NAM:** Japanese asset management firms do not have an overall exclusion policy for our investments. Compared to other financial institutions overseas, this is different. The reason is difficult to explain, but this is a business practice, if you would, in Japan.

However, asset owners have a lot of commitments in terms of bonds and equity and sectors whereby greenhouse gases (GHG) should not be included. That kind of request is often raised by asset owners and, as a result, we benchmark our portfolio to structure it with fewer GHG assets.

We will work to achieve net-zero GHG emissions for assets under management by 2050. We have also set a 2030 interim target of 55% of assets under management to be managed in alignment with achieving net-zero emissions by 2050 or sooner. We do have a mission of reaching net zero through various engagements, decarbonisation or lower carbon portfolios through technological development.

This may sound like an excuse, but in Japan there are a lot of

## Japan's auction calendar for climate transition bonds for fiscal 2025

Auction date	Type of bond	Offering amount
Jul-25	5yr Japan climate transition bond	About ¥300bn
Oct-25	10yr Japan climate transition bond	About ¥300bn
Jan-26	5yr Japan climate transition bond	About ¥300bn
Mar-26	10yr Japan climate transition bond	About ¥300bn

Data for fiscal year April 2025 to March 2026

Source: Japan Ministry of Finance

limitations in terms of renewable energy. For example, solar power generation is very difficult and offshore wind power generation in the seas surrounding Japan is very difficult with the current technology. Floating power generation technology will be necessary. In this situation, we will look into the global progress on technological development and safely promote renewable energy. That is how we engage with investee companies.

**GlobalCapital:** What differences do you see in the way Japanese and global investors view ESG deals from Japan?

**Konno, Nomura:** So far, Japanese investors continue to have an active attitude towards ESG investment. The product lineup is being expanded, with transition bonds or positive impact bonds being introduced in Japan recently. Investors have wider options than before, which is something positive. Going forward, if overseas issuers are going to issue more transition bonds, then options for Japanese

investors will increase. Transition finance is a realistic solution in many cases and I believe there is good understanding of this concept in Japan. We would like more issuers to come to Japan, either to sell traditional bonds or other types of ESG bonds, to expand the market further.

**GlobalCapital:** What are the challenges in scaling transition finance in Japan?

**Machiyama, Nomura:** Recently, big banks from Japan, like SMFG, MUFG and Nomura Holdings, withdrew from the Net-Zero Banking Alliance, as did many US and Canadian banks. That by itself is not a problem, because our existing net-zero commitments haven't changed. The challenge for us is to facilitate the flow of funds for transition between issuers and investors to continue developing the transition market.

I believe the political situation in the US can lead to decarbonisation, which in turn can lead to improvement in corporate value. Companies are starting to think

*"Companies are starting to think about how decarbonisation can lead to improving corporate values more seriously now than in the past few years. We consider this situation as a business opportunity, not a challenge"*

*Shun Machiyama, Nomura Securities*





about how decarbonisation can lead to improving corporate values more seriously now than in the past few years. We consider this situation as a business opportunity, not a challenge.

We're moving from the first phase of this journey to the second phase, meaning thinking about what's important to enhance corporate value and what is important for corporations and society. Our role is to serve as a gatekeeper to protect the Japanese market. Therefore, together with the government and corporations, we would like to use capital markets to promote sustainable investments and help our clients transition to a low-carbon economy, considering the various transition pathways in each region and country in which we operate.

**GlobalCapital:** Nature loans seem to be a new product to have emerged in Japan recently. Is this something that can trickle over to the bond market too?

**Machiyama, Nomura:** In Japan, there are lots of discussions on biodiversity and sustainable financing. Whether the biodiversity concept will become a milestone for corporations to achieve is hard to say as the hurdle is still set too high. We have already seen positive impact bonds sold in Japan that do have a positive impact on nature. However, this is still under development and the process is evolving.

**GlobalCapital:** What are you worried about when it comes to ESG in the year ahead — and what are you most optimistic about?

**Onitsuka, METI:** A positive is that the outlook for Japan's GX policy is not going to change. The GX strategy is not just about decarbonisation but also about economic development and stable energy supply. It is a very sustainable strategy and we are going to move forward with the GX policy in a consistent manner. It's a policy for Japan's future and is something we can commit to.

The challenge is that transition finance is still limited in Japan. The movement towards transition finance could expand more internationally. While transition label financing is gaining traction in Japan, it is not necessarily the case overseas, where it is only occasionally issued in certain sectors such as power, gas, and high-emission industries.

Considering the areas that will require investment globally in the future, such initiatives could spread more widely abroad, especially in Asia, where the energy and industrial structures are similar to Japan's. We are establishing study groups to discuss the state of transition finance in Asia, and we hope to contribute to this area.

**Ohata, NAM:** Before I talk about positives and negatives of ESG, I would like to talk about our

competitive initiatives of 2024. We have been making disclosures based on the Taskforce on Nature-related Financial Disclosures requirements and working to further enhance the quality of our reporting. We have been making disclosures since last year and this year we're going to make it more comprehensive.

Now, what's positive is that Japan has not changed when it comes to green information dissemination. The concern is related to the economics of climate change measures, particularly in offshore wind generation. From an economics point of view, how can all the ESG bonds or equity financing be implemented? That is a challenge: what kind of pricing and what kind of finance can we provide? It's not exclusive to us but is a challenge being faced by all Japanese financial institutions.

**Konno, Nomura:** There's a bigger movement than before to understand transition and ESG financing more broadly, which is positive. As for the negative, in the early days, a lot of ESG-focused investment went into businesses that have become very prosperous. However, recently the economic viability of these businesses has been focused on and companies are talking about concentration of business.

While the ESG market has expanded, the E of ESG is now being reviewed. The appropriate use of funds is being reviewed, which could lead to a partial slowdown in ESG bond issuance. However, we believe new technologies will be born in the future, so these concerns will perhaps be gone.

**Machiyama, Nomura:** When it comes to Japanese companies, the positive reaction towards ESG remains and will not change, which is a good sign. On challenges, economic viability is important. METI is looking at GX investment of ¥150tr for the next 10 years, of which ¥20tr will come from GX bonds and the remaining ¥130tr from the private sector. But how much can be secured by debt financing? We think there should be equity finance included too, but, without economic viability, equity finance cannot be implemented. An efficient decarbonisation strategy needs to be considered by the government as well as corporations. **GC**

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Oct 2024

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due 2030

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