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Asia Private Credit: Rising potential in growth economies in Asia

Asia Private Credit can give global investors access to high-growth markets with strong returns and limited competition. Excluding China, economies like India, Southeast Asia, Australia, and Singapore benefit from rising consumption and infrastructure expansion. With USD 120 billion in AUM by 2024¹, the market now supports mid-market companies and key sectors like healthcare, education, and energy transition, making Asia Private Credit central to Asia's economic momentum.

Market Evolution

The Asia Pacific region hosts three of the world's largest economies and key hubs in manufacturing, tech, and finance. While China's influence is waning due to regulatory and geopolitical challenges, other APAC markets are thriving - driven by increasing consumption and urbanization, favorable demographics, and strong infrastructure growth. With strong fundamentals in an underpenetrated market, APAC presents attractive opportunities for private capital and global investor diversification.

Demand Side: Strong Economic Growth underpinned by long-term drivers

APAC is the fastest-growing economic region, driven by a rising middle market and increasing demand for capital. Urbanization and higher incomes are fueling consumption, expanding the pool of creditworthy borrowers and creating a broader market for private credit.



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Transforming
Infrastructure

ASIA PRIVATE CREDIT RISING POTENTIAL IN GROWTH ECONOMIES IN ASIA

- Growth Drivers: Urbanization is rapidly reshaping Asian economies like India, Indonesia, and Vietnam, driven by job growth, rising incomes, and expanding infrastructure. By 2030, over 55% of Asia's population will live in cities², fueling demand for housing, transport, and services, while higher education and female workforce participation boost productivity and innovation.
- Asia's attractiveness for Foreign Investment: Asia's rise as a manufacturing and tech hub is attracting strong foreign investment. With rising incomes and robust trade, private consumption is set to hit USD 26.4 trillion by 2027, outpacing the U.S. and Euro Area. Improved infrastructure, digital connectivity, and trade liberalization further enhance Asia's ability to attract long-term capital investments, positioning it as a leading global economic center.
- Evolution of Private Credit: Asia's private credit market has evolved from special situations to predominantly performing credit, with direct lending now forming the largest mix. The product range has expanded to include local-currency loans, bank club deals, and capital structure solutions. Borrowers now span mid-market corporates, sponsor-led buyouts, and projects in infrastructure, energy transition, and real estate, mirroring the broader evolution seen in U.S. and European markets.
- Growing Role and Leverage of Non-bank Lenders in Asia: As banks scale back and capital alternatives remain limited, private credit funds in Asia are stepping in with bespoke loans that complement, not compete with, traditional banking. By partnering with banks, they enable deals like M&A leverage and growth capex that wouldn't otherwise happen.

Supply Side: Under-Penetrated and Inefficient Market with stronger bargaining power of non-bank lenders

Credit supply in Asia-Pacific is heavily bank-driven, with banks controlling 75% of the market, far more than in the U.S. or Europe. Public capital markets remain underdeveloped, contributing just 14% of global bond issuances despite APAC's large share of global GDP³. This reliance on conservative lending leaves mid-market firms and SMEs underfunded, especially as Asia lacks deep high-yield and CLO markets. The gap between limited credit supply and rising demand for flexible capital amid strong economic growth makes APAC increasingly attractive for private credit solutions.

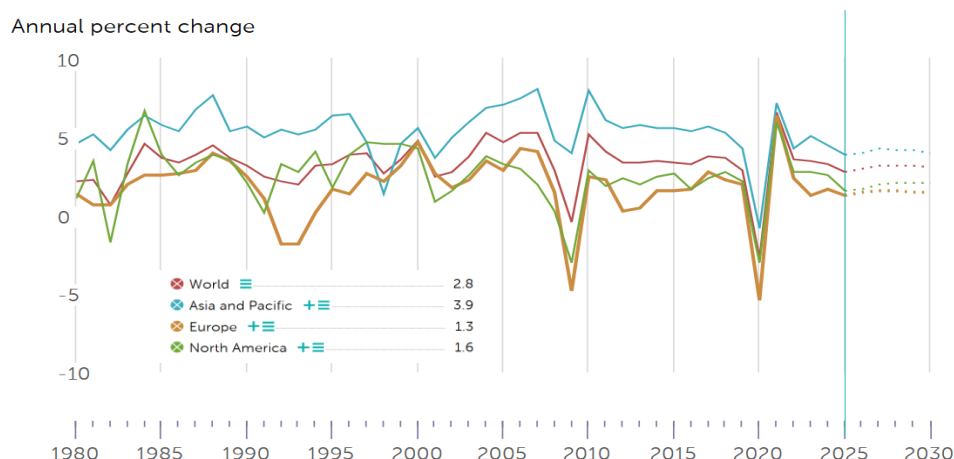
- Retrenchment of Bank Lending: Since the pandemic, Asian banks have reduced lending to small and mid-sized businesses, constrained by state ownership, policy-driven priorities, and stricter capital regulations. Lending remains rigid with slow response times and inflexible terms, limiting access to tailored financing.



Growth outlook:

APAC is expected to increase its share of global GDP to c. 42% by 2040⁴ with an average growth rate of 4.2% between 2025 and 2029⁵.

Asia's complex legal landscape and high entry barriers give private lenders stronger negotiating power, especially with limited competition. Mid-sized firms increasingly favor private credit to avoid equity dilution, benefiting from tailored financing terms.



Source: [World Economic Outlook \(April 2025\) - Real GDP growth](#)

Investment Opportunity

Asia Private Credit is relatively a smaller market but with robust growth

Private credit in APAC remains small compared to the U.S. and Europe, despite contributing over a third of global GDP. It accounts for just 11–12% of global private credit allocations and 6–7% of AUM⁶, with private equity outweighing private credit by over 30x in the region. Still, the asset class is growing rapidly as mature companies seek non-dilutive, flexible financing amid bank retrenchment. Long-term investors are drawn by attractive yields, and global managers are launching Asia-focused funds. Direct lending has overtaken special situations as the dominant strategy, targeting mid-market firms facing a USD 4.1 trillion annual funding gap due to rigid bank practices.⁷



APAC leads the global energy transition, set to drive two-thirds of power demand by 2040, requiring USD 2.4 trillion in investments by 2030, including USD 130 billion annually in renewables.⁸

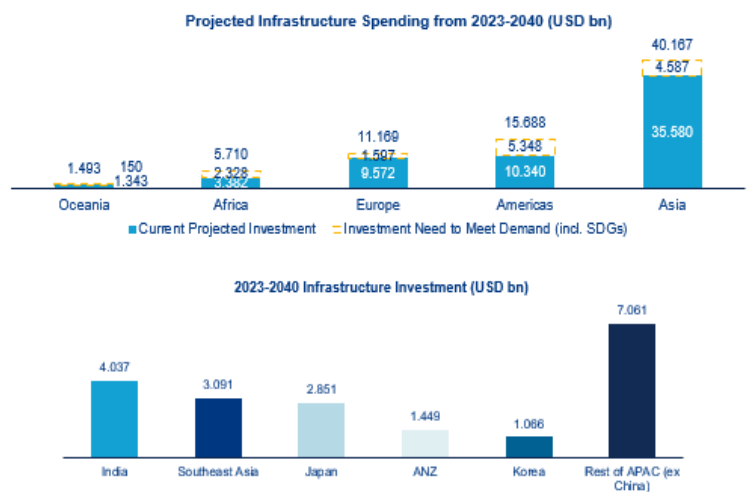
Asia offers Structural Diversification to Global Asset Managers

Asia private credit provides valuable diversification for global investors, complementing U.S. and European allocations. It can enhance risk-adjusted returns through exposure to varied economies with distinct growth drivers like exports, consumption, and tourism. The region spans developed and emerging markets, each with unique credit conditions. Unlike Western markets, Asia favors fixed-rate loans and has less reliance on sponsor-driven deals. Post-pandemic, APAC has followed a different growth path, with inflation and rate hikes affecting it less than the U.S. and Europe, further boosting its diversification appeal.

Corporate Infrastructure Financing

Asia's infrastructure sector is driven by urbanization, climate transition, digital connectivity, and trade integration, creating strong demand for capital and long-term opportunities for private credit. This asset class offers lower risk and predictable cash flows but involves complex underwriting across structures and regulations. Private credit can support platform- and asset-level senior financing for M&As, expansion, liquidity, and strategic shifts.

- **Secular Demand Drivers and Structural Financing Gaps:** Asia-Pacific's infrastructure needs, driven by urbanization, economic growth, climate adaptation, digitalization, and connectivity, are projected to require around USD 42 trillion by 2040. Key sectors include transport, energy (including renewables and green hydrogen), telecom, and digital infrastructure. Historically, 90% of funding has come from the public sector⁹, but even a 10% private share implies a USD 417 billion private credit opportunity. Private credit can support platform scaling, consolidation, and equity release. India and Southeast Asia alone will need over USD 7 trillion, with energy transition and infrastructure build-out fueling diverse themes like green ammonia.



Note: SDG is sustainable development goals Source: Global Infrastructure Hub

Investment Characteristics

Asia's organic business growth drives higher cashflows and valuations, contrasting with slower, efficiency-driven growth in Western markets. This dynamic allows private credit investors to benefit from equity upside-sharing structures like warrants and convertibles. Due to the imbalance between capital supply and demand, non-bank lenders enjoy stronger negotiating power and access to deals with conservative loan-to-value ratios, often below 50%. Asia's private credit transactions are typically bilateral, enabling stricter underwriting and documentation standards. These deals often include robust protections such as all-asset fixed charges and personal guarantees, with less reliance on private equity sponsors. The closer lender-borrower relationship fosters cooperative restructuring in distressed scenarios, enhancing downside protection. Despite higher risks, including currency volatility and weaker enforcement frameworks, Asia offers attractive risk-adjusted returns. Private credit managers in the region have historically achieved IRRs of 13–14% on direct lending and capital structure solutions, with issuer net leverage often below 5.0x and EBITDA exceeding USD 50 million in half of transactions. Compared to public markets and Western private credit, Asia delivers a yield premium of 300–400 bps and a 50–75 bps spread pick-up per unit of leverage.

Conclusion

Asia generates over a third of global GDP and leads in economic growth, yet attracts a fraction of global private debt capital. Amid global market volatility, it offers vital diversification for global investors. Private credit in Asia focuses on defensive, consumption-driven sectors like healthcare, education, and infrastructure. The asset class benefits from relatively lower leverage, stronger covenants, and be-spoke structuring. Backed by local expertise and limited competition, Asia private credit is a strategic allocation for long term portfolio resilience and growth. AllianzGI has deployed capital across Asia since 2018, delivering strong risk-adjusted returns through strong origination and structuring expertise enabled by local presence.

Sources

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- 2) [Cities and Urbanization in Asia: 12 Things to Know | Asian Development Bank](#)
- 3) [Asian-International-Bond-Markets-Data-March-2024-280324.pdf](#)
- 4) [The ascent of APAC in the global economy | S&P Global](#)
- 5) [World Economic Outlook \(April 2025\) - Real GDP growth](#)
- 6) [Preqin | Alternative Assets Data, Solutions and Insights](#)
- 7) [Petiole Insights | Private Credit / Debt Trends in Asia](#)
- 8) [Asia Pacific Power & Renewables 2021 outlook to 2050](#)
- 9) [How Much Should Asia Spend on Infrastructure? | Asian Development Bank](#)

Facts and Figures

Market Introduction

- Asia has heavy reliance on bank lending (75% vs. 32% in the U.S. and 55% in Europe)
- Underdeveloped capital markets (just ~14% of USD bond issuances)
- A funding gap as banks focus on large corporates and policy-driven sectors
- Private credit in Asia reached AUM of USD 120 bn in 2024, with 11–12% of global allocations

Investment Opportunity

- Urbanization & consumption: Over 55% of Asia's population will live in cities by 2030, boosting demand for housing, goods, and services
- Infrastructure & digital growth: Over USD 42 trillion in infrastructure investment needed by 2040, implying a c. USD 417 bn private credit opportunity
- Private credit expansion: Banks retreating from mid-market lending fuels demand for alternative financing

Strong Deal Structuring

- Stronger covenants and security packages than in Western markets
- Lower leverage and higher loan-to-value ratios
- Frequent use of personal and corporate guarantees, especially in emerging markets

Possibility for Risk-Adjusted Returns

- Defensive sector exposure (e.g., consumption, infrastructure, energy transition)
- Better pricing and lender bargaining power
- Structural diversification across varied economies and business cycles
- Attractive unlevered risk premia and low loss rates

ASIA PRIVATE CREDIT

RISING POTENTIAL IN GROWTH ECONOMIES IN ASIA

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