Executive Summary

Recent Developments in Financial Conditions in Emerging East Asia

Between 3 March and 30 May, financial conditions in emerging East Asia remained resilient amid heightened global uncertainty and the prospect of a higher-for-longer monetary stance from the United States (US) Federal Reserve.[1] Investor sentiment weakened in March–April over trade policy uncertainty but recovered in May following progress in trade negotiations between the US and its trading partners, especially the People's Republic of China (PRC).

During the review period, financial markets posted mixed patterns. Risk premiums, proxied by credit default swap spreads, marginally widened by 1.6 basis points (simple average) and 3.5 basis points (gross-domestic-product-weighted average), and foreign investors withdrew USD27.1 billion from the region's equity markets. At the same time, equity markets gained 2.0% (simple average) and 1.6% (market-weighted average), supported by improved sentiment, particularly in May. Meanwhile, uncertainty over economic policies, rising debt levels, and a worsening fiscal position dampened investor confidence in USD-denominated assets, leading to a broad strengthening of regional currencies. Regional currencies appreciated 2.3% (simple average) and 1.7% (gross-domestic-product-weighted average) against the US dollar during the review period. Across the region, continued monetary easing and disinflation contributed to inflows in local currency (LCY) bond markets and declining bond yields.

Risks to regional financial conditions remain tilted to the downside. While trade tensions between the PRC and the US have eased for the time being, uncertainty over trade policies remains. The possible further escalation in trade tensions could delay investments, disrupt supply chains, stifle cross-border capital flows, reignite inflation, and increase market volatility. Heightened uncertainty and higher-for-longer interest rates in the US could also slow regional monetary easing, increasing the debt burdens of borrowers and weakening their balance sheets. Other downside risks include the possibility of wider conflict in the Middle East, which could increase food and energy prices and add to global uncertainty. Within the region, the PRC's property sector remains vulnerable and uncertainty over its possible further deterioration might weaken consumer and business sentiment and depress economic activity. In the medium term, extreme weather events could also negatively impact growth and inflation.

Recent Developments in Local Currency Bond Markets in Emerging East Asia

The emerging East Asian LCY bond market totaled USD27.2 trillion at the end of March, with growth easing to 2.7% quarter-on-quarter (q-o-q) in the first quarter (Q1) of 2025 from 3.1% q-o-q in the fourth quarter (Q4) of 2024 amid elevated global uncertainty. LCY government bonds outstanding (USD17.5 trillion) grew 3.8% q-o-q in Q1 2025, down from 4.0% q-o-q in the prior quarter, as a large volume of maturities in the PRC capped the regional market's overall expansion. Corporate bonds outstanding (USD9.0 trillion) rose 1.0% q-o-q in Q1 2025, compared with 1.6% q-o-q growth in the previous quarter, as private sector bond issuance contracted. The total bond stock of members of the Association of Southeast Asian Nations (ASEAN) expanded 2.2% q-o-q to USD2.5 trillion and accounted for 9.1% of the emerging East Asian total at the end of March. Growth in ASEAN LCY bond markets in Q1 2025 was supported by robust issuance of sovereign bonds as most governments front-loaded their annual borrowing. At the end of Q1 2025, 55.6% of outstanding Treasury bonds in the region had remaining tenors of over 5 years, with a size-weighted average tenor of 8.4 years. Banks and insurance and pension funds were the top two holders of outstanding Treasury bonds in emerging East Asia at the end of March, holding an average of 34.8% and 29.2% of the existing debt stock, respectively.

[1] Emerging East Asia is defined to include member states of the Association of Southeast Asian Nations plus the People's Republic of China; Hong Kong, China; and the Republic of Korea.

LCY bond issuance in the region contracted 0.5% q-o-q to USD2.6 trillion in Q1 2025, after declining 7.4% q-o-q in Q4 2024, driven by reduced corporate bond issuance. Private sector bond issuance fell 12.1% q-o-q on weak investor appetite amid ongoing global trade tensions. Meanwhile, issuance of government bonds in emerging East Asia rose 8.1% q-o-q, with nearly all markets registering higher issuance volumes in Q1 2025 than in the previous quarter, in line with regional governments' front-loading practices at the start of the year. The Government of the PRC drove the growth in regional government bond issuance as it financed stimulus measures to support the domestic economy. Aggregate LCY bond issuance in ASEAN markets amounted to USD0.6 trillion in Q1 2025, representing 24.2% of the regional total, up from 23.3% in Q4 2024.

Recent Developments in ASEAN+3 Sustainable Bond Markets

Sustainable bonds outstanding in ASEAN+3 markets reached USD922.7 billion at the end of March, with growth decelerating to 0.3% q-o-q in Q1 2025 from 2.9% q-o-q in Q4 2024.[2] The moderating expansion was driven by dampened investor appetite amid heightened global market uncertainties. ASEAN+3 accounted for 18.3% of the global sustainable bond stock at the end of March as the world's second-largest regional market, trailing only the European Union 20 (36.6%). The sustainable bond market of ASEAN+3, however, accounted for only 2.3% of its general bond market, compared with the corresponding share of 8.3% in the European Union 20. Meanwhile, aggregate sustainable bonds outstanding in ASEAN markets tallied USD96.1 billion at the end of March, accounting for 10.4% of the total ASEAN+3 sustainable bond stock, compared with ASEAN's share of only 6.0% of bonds outstanding in the ASEAN+3 general bond market.

Sustainable bond issuance in ASEAN+3 totaled USD47.7 billion in Q1 2025, posting a 24.0% q-o-q contraction on heightened global uncertainty. Over half (55.2%) of ASEAN+3 sustainable bond issuance in Q1 2025 was from the PRC. ASEAN markets collectively accounted for 9.0% of ASEAN+3's sustainable bond issuance, while leading the region's issuance of sustainability bonds in Q1 2025 with a 36.5% share. ASEAN+3 saw less LCY and long-term financing in sustainable bond markets in Q1 2025 compared with 2024. The LCY financing share of ASEAN+3 sustainable bond issuance ticked down to 72.9% in Q1 2025 from 75.8% in full-year 2024. Only 16.6% of sustainable bond issuances carried maturities of more than 5 years in Q1 2025, compared with 26.5% in 2024. As a result, the size-weighted average maturity of ASEAN+3 sustainable bond issuance fell to 5.1 years in Q1 2025 from 6.0 years in 2024. ASEAN economies had a higher share of long-term financing in Q1 2025 than the ASEAN+3 average due to relatively more public sector issuance: 59.9% of sustainable bond issuance in ASEAN markets carried maturities of over 5 years, with a size-weighted average tenor of 10.2 years.

[2] ASEAN+3 comprises the member states of the Association of Southeast Asian Nations (ASEAN) plus the People's Republic of China; Hong Kong, China; Japan; and the Republic of Korea.