

Executive Summary

Recent Developments in Emerging East Asian Financial Conditions

Financial conditions in emerging East Asia tightened between 2 February and 29 May 2026 as the Middle East conflict raised global risk aversion, weighed on economic activity, and drove expectations of tighter monetary policy over rising inflation.¹ Regional central banks halted easing cycles, with some starting to hike rates. This pushed up local currency (LCY) bond yields in most regional markets. The exceptions were the People's Republic of China (PRC), where monetary conditions remained accommodative, and Singapore, where inflation came in lower-than-expected. During the review period, subdued investment sentiment led to widened risk premia and portfolio outflows in both equity and bond markets. Regional currencies weakened against the United States dollar. Risks to regional financial conditions remain tilted to the downside. Geopolitical tensions and tighter global monetary conditions could increase market volatility and financing costs. Persistent weakness in the PRC's property sector and a correction in AI-related asset valuations could further dampen investor sentiment and weigh on financial markets.

Local Currency Bond Market Developments in Emerging East Asia

The LCY bond market in emerging East Asia expanded to USD31.5 trillion at the end of the first quarter (Q1) of 2026, on a 2.4% quarter-on-quarter (q-o-q) increase, compared with 2.1% q-o-q in the previous quarter. The expansion was mainly driven by government bond issuances, which led to a 2.8% q-o-q rise in government bonds outstanding. Government bond issuance across the region expanded by 19.6% q-o-q as governments front-loaded borrowing during the quarter. Regional corporate bonds outstanding ticked up by 1.7% q-o-q as issuance contracted by 20.0% q-o-q over rising yields and negative

investor sentiment. LCY bonds outstanding in member economies of the Association of Southeast Asian Nations (ASEAN) reached USD2.7 trillion, accounting for 8.6% of the regional total.

Snapshot of ASEAN+3 Sustainable Bond Markets

Despite global uncertainties, ASEAN+3's sustainable bond market, excluding the PRC, posted an expansion of 0.9% q-o-q in Q1 2026 as issuance rose by 11.1% q-o-q.² However, total ASEAN+3 sustainable bonds outstanding contracted by 0.1% q-o-q to USD1.0 trillion. Quarterly issuance declined by 31.1% q-o-q to USD46.9 billion on an issuance contraction in the PRC that was driven by a dip in private sector issuance. Most issuers in the ASEAN+3 sustainable bond market rely on LCY financing and borrowing with short- to medium-term horizons. Private sector borrowers accounted for two-thirds of bonds outstanding at the end of March.

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

² ASEAN+3 comprises the member states of ASEAN plus the People's Republic of China; Hong Kong, China; Japan; and the Republic of Korea.