Executive Summary

Recent Developments in Financial Conditions in Emerging East Asia

A slight weakening of financial market conditions in emerging East Asia was noted from 1 December 2024 to 28 February 2025 over heightened global uncertainty surrounding economic policies and expected higher-for-longer interest rates in the United States (US).[1] While US bond yields rose for most of the review period on the Federal Reserve's less dovish stance, weaker economic data released in the second half of February pushed yields downward, particularly at the shorter end of the curve. As a result, most emerging East Asian yields fell, tracking US yield movements in February. Continued monetary easing by regional central banks contributed to the decline in yields as well.

Concerns over global trade frictions also dampened investor sentiment, resulting in portfolio outflows from the region's equity and bond markets. Foreign investors withdrew USD0.6 billion from regional equity markets from 1 December 2024 to 28 February 2025, while foreign investors pulled USD10.9 billion from regional bond markets in December–January. Five out of nine regional equity markets recorded losses and four out of seven regional markets with available data witnessed widened risk premiums. Equity markets and risk premiums in some regional economies improved, however, on supporting domestic factors. Expected higher-for-longer interest rates led emerging East Asian currencies to slightly weaken during the review period by a gross-domestic-product-weighted average of −0.9% and a simple average of −0.8%.

Risks to the region's financial conditions outlook are tilted to the downside. Shifting US economic policies could threaten both economic growth and disinflation progress in the region, as well as negatively affect investor sentiment. These impacts might also slow monetary easing in the region. The weaker-than-expected economic performance of major regional economies such as the People's Republic of China (PRC) also weighed on economic performance and investment appetite in the region. In the medium term, extreme weather events could negatively impact economic conditions and push up prices.

Recent Developments in Local Currency Bond Markets in Emerging East Asia

The emerging East Asian local currency (LCY) bond market expanded 3.1% quarter-on-quarter (q-o-q) in the fourth quarter (Q4) of 2024, compared with 2.7% q-o-q growth in the previous quarter, partly due to a lower volume of maturities for both government and corporate bonds. Outstanding government bonds rose 4.0% q-o-q to USD16.8 trillion, fueled largely by the PRC's continued issuance of sovereign debt to finance stimulus measures, albeit at less volume than in the third quarter. The region's corporate bond market grew 1.6% q-o-q to reach a size of USD8.9 trillion at the end of December, up from 0.8% q-o-q growth in the third quarter of 2024, driven by increased issuance in some markets amid lower borrowing costs. Association of Southeast Asian Nations (ASEAN) member economies' aggregate LCY bonds outstanding inched up 1.1% q-o-q to USD2.4 trillion at the end of 2024, representing a 9.2% share of the regional total.

Issuance of LCY bonds in the region totaled USD2.6 trillion in Q4 2024 on a contraction of 7.5% q-o-q due to decreased bond sales from both the public and private sectors. Government debt issuance contracted 16.3% q-o-q to USD1.1 trillion as many of the region's governments had fulfilled their borrowing requirements during the previous 3 quarters of the year. Corporate bond issuance in Q4 2024 contracted 1.2% q-o-q to USD0.9 trillion largely due to decreased corporate bond sales in the PRC amid weak growth and property market risks, which offset increased issuance in the

[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.

Republic of Korea; Hong Kong, China; and some ASEAN markets. ASEAN markets' aggregate LCY bond issuance tallied USD0.6 trillion in Q4 2024, accounting for 23.1% of the emerging East Asian total.

Outstanding Treasury bonds in emerging East Asia are predominantly long-term securities held by institutional investors. At the end of 2024, 54.0% of outstanding Treasury bonds in the region had remaining maturities longer than 5 years, while the size-weighted average tenor of outstanding Treasury bonds was 9.2 years. Banks and pension funds held an average of 34.7% and 28.9% of Treasury bonds outstanding across regional markets at the end of 2024, respectively. Meanwhile, the Treasury bond markets in Indonesia and the Republic of Korea had the region's most diversified ownership structures.

Liquidity conditions generally improved in 2024 in emerging East Asia amid easing by regional central banks. The region's government bond market saw average bid–ask spreads declining to 5.7 basis points (bps) in 2024 from 7.4 bps in 2023, while the average issue size slightly rose to USD2.2 billion from USD2.1 billion in the same period. In contrast, liquidity conditions in the corporate bond market were broadly stable. Emerging East Asian corporate bonds recorded average bid–ask spreads of 16.8 bps in 2024, roughly similar with 2023's average of 16.7 bps. The average corporate issuance size saw an increase, rising to USD84.8 million in 2024 from USD75.4 million in the previous year.

Recent Developments in ASEAN+3 Sustainable Bond Markets

At the end of 2024, sustainable bonds outstanding in ASEAN+3 markets totaled USD917.6 billion, with growth moderating to 12.1% year-on-year (y-o-y) from 29.4% y-o-y in 2023 amid a slowdown in issuance. The slower pace of growth in ASEAN+3's sustainable bond market largely tracked the growth moderation in the global market from 22.2% y-o-y in 2023 to 15.2% y-o-y in 2024. Nonetheless, ASEAN+3 remained the world's second-largest sustainable bond market with a global share of 18.9%, following the European Union 20's (EU-20) share of 36.6%. ASEAN+3's sustainable bond market, however, remains relatively small, equivalent to only 2.3% of its general bond market, compared with 8.1% in the EU-20.

Issuance of sustainable bonds in ASEAN+3 tallied USD237.2 billion during 2024, posting a 3.1% y-o-y contraction due to elevated interest rates and expectations of policy shifts in the US. Despite the slowdown, ASEAN+3 outperformed the EU-20, whose sustainable bond issuance contracted 9.0% y-o-y. Both the EU-20 and ASEAN+3 maintained their status in 2024 as the world's two largest markets in terms of sustainable bond issuance, with global shares of 30.2% and 25.2%, respectively. The decline in ASEAN+3's sustainable bond issuance in 2024 was led by a 21.8% y-o-y fall in green bond issuance. While ASEAN+3's sustainable bond issuance was predominantly in LCY (75.5%), it lagged the LCY share in the region's general bond market (95.6%). In contrast, the EU-20's LCY shares in its sustainable bond (86.6%) and general bond (78.0%) markets were roughly comparable. In terms of issuer profile, the private sector accounted for 65.1% of sustainable bond issuance in ASEAN+3 in 2024. Around 73.0% of 2024 sustainable bond issuances in ASEAN+3 carried tenors of 5 years or less, with a size-weighted average tenor of 6.0 years, which is less than the corresponding average of 9.0 years in the EU-20. In ASEAN markets, 56.5% of sustainable bond issuances in 2024 carried tenors longer than 5 years, with a size-weighted-average tenor of 12.3 years, largely due to public sector issuance.