Executive Summary

Recent Developments in Emerging East Asian Financial Conditions

Financial conditions in Emerging East Asia remained tight between 1 June and 31 August, even as investment sentiment improved, market volatility eased, and geopolitical risks moderated.[1] Global uncertainty remained over the ongoing Middle East conflict, elevated oil prices, and the future path of United States (US) monetary policy. Together with cautious monetary policy across the region, these factors kept local currency (LCY) bond yields elevated. Easing Middle East tensions in the period supported investor sentiment, leading to equity gains and narrower risk premia. Most regional currencies were stable against the US dollar. The outlook for regional financial conditions is subject to several risks. On the upside, a sustained upturn in the semiconductor cycle and easing inflation would support investment. On the downside, lingering uncertainty over geopolitical developments and trade policies, a repricing of artificial intelligence-related equity valuations, and rising price pressures on energy and weather disruptions could weigh on financial conditions.

This issue of the *Asia Bond Monitor* features a special section discussing the financial implications of the broader use of stablecoins.

Local Currency Bond Market Developments in Emerging East Asia

The total amount of LCY debt securities outstanding in emerging East Asia rose to USD32.6 trillion at the end of June, expanding by 2.4% quarter-on-quarter (q-o-q) in the second quarter (Q2) of 2026. Excluding debt securities with a maturity of 1 year or less, the region's outstanding LCY bonds rose by 3.1% q-o-q to USD30.0 trillion, equivalent to 108.8% of gross domestic product. The relative size of the region's LCY bond market is approaching that of the US (115.4%) and the euro area (127.4%). The regional bond market's expansion in Q2 was supported by a rebound in corporate bond issuance on improved investor sentiment. LCY bond issuance increased by 14.3% q-o-q to USD2.0 trillion, led by a surge of 50.4% q-o-q in corporate bond issuance. Meanwhile, government bond issuance contracted by 5.5% q-o-q as some governments had front-loaded borrowing in the previous quarter. LCY bonds outstanding in Association of Southeast Asian Nations (ASEAN) markets recorded USD2.0 trillion at the end of June, comprising 6.8% of the regional total. LCY government bonds outstanding in emerging East Asia carried a size-weighted average tenor of 10.1 years, while the ASEAN average stood at 9.8 years.

Sustainable Bond Market Snapshot in ASEAN+3

Improved market sentiment supported momentum in the ASEAN+3 sustainable bond market in Q2.[2] Bonds outstanding expanded 0.6% q-o-q to reach USD1.0 trillion, up from 0.1% in the first quarter. Issuance rose by 31.3% q-o-q in Q2 to USD64.1 billion after contracting by 28.2% in the previous quarter. ASEAN+3 remained the world's second-largest regional sustainable bond market, accounting for 17.5% of the global total, trailing only the euro area (38.1%). ASEAN sustainable bonds outstanding reached USD137.6 billion, accounting for 13.4% of the ASEAN+3 total. The share of LCY financing reached 73.4% in the ASEAN+3 sustainable bond market, which remained lower than in the ASEAN+3 general bond market (95.5%) and the euro area sustainable bond market (90.2%). Long-term financing is less prevalent in the ASEAN+3 sustainable bond market, which has a size-weighted average tenor of 5.1 years, compared with 7.3 years for the euro area sustainable bond market and 8.0 years for the ASEAN+3 general bond market.

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.
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.