ASIA BOND MONITOR
SEPTEMBER 2026

ASIAN DEVELOPMENT BANK

The *Asia Bond Monitor* (ABM) is a key knowledge product produced under the Asian Bond Markets Initiative, an ASEAN+3 initiative supported by the Asian Development Bank (ADB). This report is an output of a technical assistance project (TA 10282: Developing Local Currency Bond Markets for Sustainable Future) funded by the Japan Fund for Prosperous and Resilient Asia and the Pacific of the Government of Japan.

This edition of the ABM was prepared by a team from ADB's Economic Research and Development Impact Department. The production of the report was led by John Beirne and Shu Tian, and supported by Henry Ma and the *AsianBondsOnline* team comprising Angelica Andrea Cruz, Debbie Gundaya, Russ Jason Lo, Resi Olivares, Roselyn Regalado, and Justin Adrian Villas. Mai Lin Villaruel provided operational support, Kevin Donahue provided editorial assistance, Principe Nicdao did the typesetting and layout, and Carlo Monteverde provided website support. The overall guidance and supervision of the production by Albert Park, Abdul Abiad, and Matteo Lanzafame is gratefully acknowledged.

Contributions from Dina Azhgaliyeva, Dana Bazarkulova, Gabriele Ciminelli, Huasheng Gao, Kyuman Heo, Zhanna Kapsalyamova, Jason Mortimer, Shinobu Nakagawa, Takeshi Osada, Satoru Yamadera, and Yuji Yamashita are also sincerely appreciated.

How to reach us:
Asian Development Bank
Economic Research and Development Impact Department
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines
Tel +63 2 8632 6545
Email asianbonds_feedback@adb.org

Download the ABM at
http://asianbondsonline.adb.org/documents/abm_sep_2026.pdf.

ASIA BOND MONITOR

SEPTEMBER 2026

ASIAN DEVELOPMENT BANK

6 ADB Avenue, Mandaluyong City, 1550 Metro Manila, Philippines
Tel +63 2 8632 4444; Fax +63 2 8636 2444
www.adb.org

ISBN 978-92-9277-961-0 (print); 978-92-9277-962-7 (PDF); 978-92-9277-963-4 (e-book)
ISSN 2219-1518 (print), 2219-1526 (PDF)
Publication Stock No. SGP260428-2
DOI: http://dx.doi.org/10.22617/SGP260428-2

Note:
ADB recognizes "China" as the People's Republic of China; "Hong Kong" as Hong Kong, China; "Korea" as the Republic of Korea; "Vietnam" as Viet Nam; and "Hanoi" as Ha Noi.

Cover design by Paolo Almazar.

Contents

Emerging East Asian Local Currency Bond Markets: A Regional Update

Emerging East Asian Local Currency Bond Markets: A Regional Update

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.

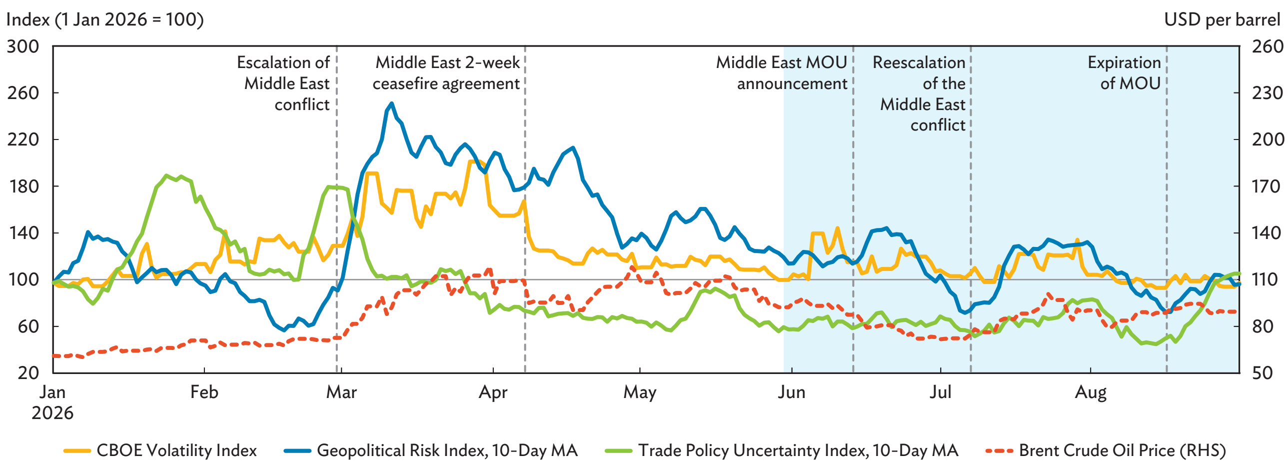
1 Emerging East Asia is defined to include member states of the Association of Southeast Asian Nations plus the People's Republic of China; Hong Kong, China; and the Republic of Korea.
2 ASEAN+3 comprises the member states of ASEAN plus the People's Republic of China; Hong Kong, China; Japan; and the Republic of Korea.

Developments in Regional Financial Conditions

Financial conditions in emerging East Asia remained tight between 1 June and 31 August, despite a modest improvement in investor sentiment.[1] Market volatility and geopolitical risks eased slightly, although global uncertainty remained elevated. Regional financial markets closely tracked external developments—especially the Middle East conflict, and expectations for the path of United States (US) monetary policy—while market-specific factors produced divergent outcomes. Oil prices declined as Middle East tensions eased following the framework agreement signed on 14 June. However, renewed uncertainty surrounding the conflict led to a temporary rebound in oil prices and geopolitical risks in July before sentiment improved again in August. Overall, while oil prices remained elevated, geopolitical risks, market volatility, and trade uncertainty all stayed close to their levels at the beginning of the year (**Figure A**).

Bond yields in emerging East Asia continued to rise in most regional markets on persistent uncertainty over oil prices and inflation, higher yields in advanced economies, cautious monetary policy stances—as regional central banks balanced inflationary pressures against growth concerns—and expectations of monetary tightening in advanced economies (**Table A**). As geopolitical risks receded and investor sentiment improved, risk premia—measured by credit default swap spreads—narrowed, and most regional equity markets recorded gains. Regional currencies were mostly stable against the US dollar, while market-specific factors drove exchange rate movements and portfolio flows. The outlook for regional financial conditions is subject to several risks. On the upside, continued artificial intelligence (AI)-related investment and easing inflation would support financial conditions. On the downside, uncertainty surrounding geopolitical

Figure A: Geopolitical Risk, Market Volatility, and Oil Prices



CBOE = Chicago Board Options Exchange, MA = moving average, MOU = memorandum of understanding, RHS = right-hand side, USD = United States dollar.

Note: Data as of 31 August 2026.

Sources: Bloomberg LP, Geopolitical Risk Index, and Trade Policy Uncertainty Index (accessed 25 August 2026); Caldara, D. et al. 2020. The Economic Effects of Trade Policy Uncertainty. *Journal of Monetary Economics*. 109. pp. 38–59; Caldara, D., and M. Iacoviello. 2022. Measuring Geopolitical Risk. *American Economic Review*. 112 (4). pp. 1194–1225.

[1] Emerging East Asia and "the region" are defined in the *Asia Bond Monitor* (ABM) to include the member states of the Association of Southeast Asian Nations plus the People's Republic of China; Hong Kong, China; and the Republic of Korea. The review period for the September edition of the ABM was from 1 June to 31 August, following the June issue.

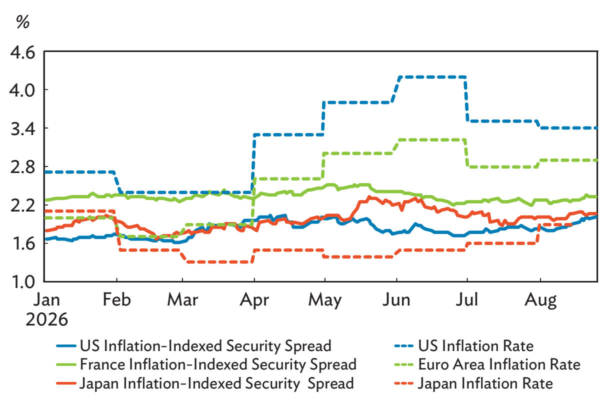
Table A: Changes in Financial Conditions in Major Advanced Economies and Emerging East Asia (1 June–31 August 2026)

	2-Year Government Bond Yield (bps)	10-Year Government Bond Yield (bps)	5-Year Credit Default Swap Spread (bps)	Equity Index (%)	FX Rate (%)
Major Advanced Economies					
Euro Area	31	32	–	6.4	(0.1)
Japan	33	27	(3)	5.2	(0.1)
United States	31	30	–	1.1	–
Select Emerging East Asian Markets					
People's Republic of China	3	(1)	(4)	(1.8)	0.7
Hong Kong, China	44	29	–	0.7	(0.01)
Indonesia	3	20	(4)	6.5	0.9
Republic of Korea	1	13	(0.6)	(22.4)	10.6
Malaysia	8	28	(1)	2.5	(1.5)
Philippines	(48)	(23)	(8)	2.7	(0.8)
Singapore	18	32	–	14.2	0.6
Thailand	(6)	(11)	(8)	1.7	(1.9)
Viet Nam	24	12	(4)	(0.7)	0.9

( ) = negative, – = not available, bps = basis points, FX = foreign exchange.
Note: FX rates are presented against the United States dollar. A positive (negative) value for the FX rate indicates the appreciation (depreciation) of the local currency against the United States dollar.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

developments and trade policy, a repricing of AI-related equity valuations, and energy- and weather-related disruptions could amplify financial market volatility and weaken investor sentiment.

Figure B: Daily 10-Year Inflation-Indexed Security Spreads Versus Monthly Inflation Rate



US = United States.
Source: Bloomberg LP.

Bond Yields and Economic Performance in Major Advanced Economies

Bond yields in major advanced economies edged up as inflationary pressures persisted over uncertainty around the Middle East conflict, while fiscal positions became increasingly strained.[2] Despite the decline in oil prices, inflation expectations, measured by inflation-indexed bond yield spreads, remained elevated (**Figure B**).

United States

In the US, bond yields rose during the review period on expectations of persistent inflation, hawkish signals from the Federal Reserve (Fed), crowding-out pressures from AI-driven investment demand, and rising fiscal challenges. Consumer price inflation continued to ease, declining to 3.4% year-on-year (y-o-y) in July and 3.5% in June from 4.2% in May, partly reflecting lower oil prices. Nevertheless, inflation expectations remained elevated. At the June Federal Open Market Committee (FOMC) meeting, while the federal funds rate target range was left unchanged at 3.50%–3.75%, inflation forecasts were raised. In the updated economic projections in June, the median Personal Consumption

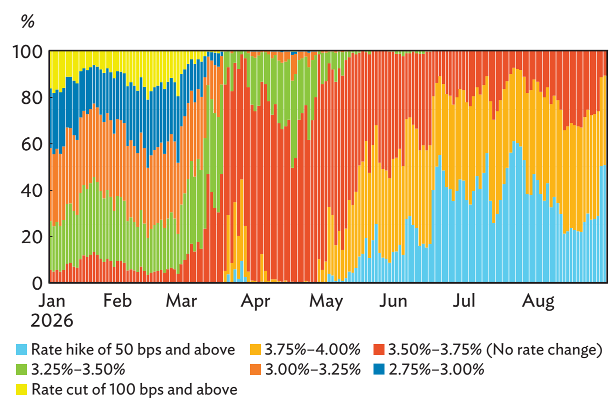
[2] A box article in the September 2026 edition of ADB's *Asian Development Outlook* report (forthcoming, Box 1.4.1) discusses how fiscal and inflation concerns in major advanced economies have heightened global bond market stress, which shaped financial conditions in developing Asia and the Pacific.

Expenditures inflation forecasts for 2026 and 2027 were revised to 3.6% and 2.3%, respectively, from 2.7% and 2.2% in March. Hawkish signals from the FOMC intensified at the July meeting. While the Fed again kept the policy rate unchanged, three members dissented in favor of a 25-basis points (bps) rate hike, in contrast to the unanimous decision in June. Several Fed officials subsequently emphasized elevated inflation risks, reinforcing expectations that US interest rates could remain higher for longer.[3] The yield on 30-year US Treasuries rose following the release of July budget deficit, reaching 5.31% on 17 August, its highest since 2007. On 19 August, the US Treasury Department announced expanded long-dated bond buybacks to support market liquidity. Higher bond yields were also related to hawkish signals from the Fed. On 28 August, at the Jackson Hole economic policy symposium, Fed Chair Kevin Warsh noted that inflation remains above the Fed's target and the upward trend in inflation has not yet abated despite recent cooler inflation readings. Markets largely interpreted his speech as more hawkish.

The US economy has shown some signs of weakness, with labor market conditions remaining firm. Real gross domestic product (GDP) growth moderated to an annualized rate of 1.5% in the second quarter (Q2) of 2026 from 2.1% in the first quarter (Q1), while falling below the market forecast of 2.0%. In the June updated economic projections, the Fed revised its 2026 GDP growth forecast down to 2.2% from 2.4% in March, while keeping the 2027 forecast unchanged at 2.3% and revising upward the 2028 forecast to 2.2% from 2.1%. Industrial production remained subdued, gaining 0.2% month-on-month in July, 0.3% in June, and 0.0% in May from 0.8% in April. The S&P Global US Manufacturing Purchasing Managers' Index (PMI), while remaining in expansionary territory above 50, declined to 53.9 in August, July, and June from 55.1 in May. However, labor market conditions showed signs of firming, with nonfarm payroll employment rising by 162,000 in August, exceeding market expectations of 55,000. This followed increases of 21,000 in July, 31,000 in June, and 63,000 in May. Meanwhile, the unemployment rate remained at 4.1% in August, unchanged from July, but lower than the 4.2% and 4.3% recorded in June and May, respectively.

Expectations of persistent inflation and emerging signs of weaker economic growth increased uncertainty over the pace of US monetary policy tightening. At the June FOMC meeting, the median projected federal funds rate for the end of 2026 was raised to 3.8% from 3.4% in March, signaling expectations of tighter monetary policy. Market expectations, however, have shifted considerably. Based on CME FedWatch probabilities, the market expected monetary tightening by the end of 2026, with the pace of tightening varying substantially. As Middle East tensions intensified and oil prices rose in July, inflation concerns increased and expectations of more aggressive Fed tightening strengthened. The probability of two or more rate hikes this year surged to 61.3% on 23 July from 13.3% on 1 June, while the probability of one rate hike declined to 31.5% from 40.2% (**Figure C**). By 24 August, however, moderating inflation and weakening economic data, had reduced expectations of aggressive tightening: The probability of two or more rate hikes fell to 30.0%, while that of one rate hike rose to 44.8%. After the Fed Chair's Jackson Hole speech, the probability of two or more rate hikes this year rose to 51.0% and the chance of one rate hike fell to 38.5% as of 31 August. In addition, the probability of a rate hike at the Fed's September meeting rose

Figure C: Market-Implied Probabilities of Federal Funds Rate Hikes by the End of 2026



bps = basis points.

Note: Data are as of 31 August 2026.

Source: CME FedWatch Tool.

[3] For example, Fed Bank of Philadelphia President Anna Paulson indicated on 4 August that the current policy rate was appropriate but stressed the need for further progress on inflation, while remaining open to future rate adjustments. On 5 August, Fed Bank of Minneapolis President Neel Kashkari said that now is the time for the Fed to start raising rates. On 6 August, Fed Governor Lisa Cook noted that the upside risks of inflation are higher than the downside risks to unemployment. On the same day, Fed Bank of Kansas President Jeffrey Schmid stated that tighter monetary policy may be needed. On 10 August, Fed Bank of Cleveland President Beth Hammack said that multiple rate hikes were needed to contain inflation.

from 41.4% on 24 August to 65.4% on 31 August. At its 15–16 September meeting, the Fed subsequently raised the policy rate by 25 bps, bringing the target range to 3.75%–4.00%.

Euro Area

Bond yields in the euro area rose over persistent inflation concerns and hawkish signals from the European Central Bank (ECB). At its June meeting, the ECB raised its three key policy rates by 25 bps, largely reflecting inflationary pressures stemming from the Middle East conflict. The ECB also revised its headline inflation projections for 2026 and 2027 up to 3.0% and 2.3%, respectively, from 2.6% and 2.0% in March, reflecting higher projected energy prices and their expected pass-through to broader prices. At its 23 July meeting, the ECB kept policy rates unchanged but maintained a hawkish tone, noting that uncertainty remained high and that the full inflationary impact of the energy shock had yet to pass through to the broad economy. Euro area inflation eased to 2.8% y-o-y in June from 3.2% in May, before edging up to 3.3% in August and 2.9% in July, partly reflecting renewed energy price pressures. Several ECB officials also signaled a hawkish monetary stance after the July meeting.[4] The market expected further monetary tightening. By 31 August, swaps implied a 98.1% probability of a rate hike in September, while a rate hike by October was fully priced in. As widely expected, the ECB raised its key policy rates by 25 bps on 10 September. The ECB noted that inflation continues to remain elevated and that conflict in the Middle East is adding inflationary pressures. Meanwhile, the growth outlook has improved.

Economic activity in the euro area has remained resilient in 2026. GDP growth strengthened to 1.2% y-o-y in Q2 2026 from 0.6% in Q1. On a quarter-on-quarter basis, GDP grew by 0.6% in Q2 and 0.0% in Q1. Labor market conditions remained stable, with the unemployment rate at around 6.4% from March through July based on the latest revised estimates. The S&P Global Eurozone Manufacturing PMI remained in expansionary territory, rising to 52.7 in August and 51.9 in July from 51.4 in June and 51.6 in May. In its June projections, the ECB revised down its GDP growth forecasts for 2026 and 2027 to 0.8% and 1.2%, respectively, from 0.9% and 1.3%, reflecting the more pronounced impact of the Middle East conflict on commodity markets, real incomes, and confidence.

Japan

In Japan, government bond yields rose over the hawkish stance of the central bank and growing fiscal pressure. At its June meeting, the Bank of Japan (BOJ) raised the policy rate by 25 bps to around 1.0%, as the economy continued to recover moderately despite some weakness associated with the Middle East conflict. At its July meeting, the BOJ kept the policy rate unchanged at 1.0% but maintained a hawkish stance, hinting that it would continue to raise the policy rate and reduce monetary accommodation as warranted by developments in economic activity, prices, and financial conditions. As of 15 August, the market was pricing a 79.6% chance of a rate hike in September and the 100.0% likelihood of a hike by October. Headline inflation remained below the BOJ's 2% target at 1.9% y-o-y in July and 1.6% in June from 1.5% in May, partly due to government measures to reduce household energy costs. In its July Outlook Report, the BOJ lowered its fiscal year (FY) 2026 inflation forecast to 2.5% from 2.8% in April, largely reflecting government subsidies for electricity and gas charges, while raising its FY2027 inflation forecast to 2.4% from 2.3%. The FY2028 forecast was unchanged at 2.0%. At the same time, the BOJ noted that underlying inflation was approaching 2% and risks to the inflation outlook were skewed to the upside.

Recent economic data indicated that Japan's economy remained broadly resilient. GDP growth weakened to an annualized 1.4% in Q2 2026 from 1.8% in the previous quarter on weakened consumer spending and public investment. Manufacturing activity remained solid, with the S&P Global Japan Manufacturing PMI remaining in expansionary territory at 54.9 in August, 54.5 in July, and 54.8 in June, compared with 54.5 in May. Industrial production also strengthened, rising 4.1% y-o-y in July and 4.9% in June following a contraction in May of –2.1%. In its July Outlook Report, the BOJ raised its FY2026 and FY2027 GDP growth forecasts to 0.6% and 0.8%, respectively, from 0.5% and 0.7% in April. In addition to expectations of further monetary tightening, Japanese government bond yields face upward pressure from fiscal expansion plans. The government announced a reduction

[4] For example, De Nederlandsche Bank President Olaf Sleijpen noted on 23 July that the ECB could still raise rates in September even if no second-round inflation effects appeared. On 27 July, National Bank of Slovakia President Peter Kazimir stated that one more rate hike is needed.

in the consumption tax on 28 July and subsequently passed legislation on 5 August lowering the consumption tax on food and nonalcoholic beverages from 8% to 1% starting in April 2027. These measures could reduce government revenue, further straining Japan's fiscal position.

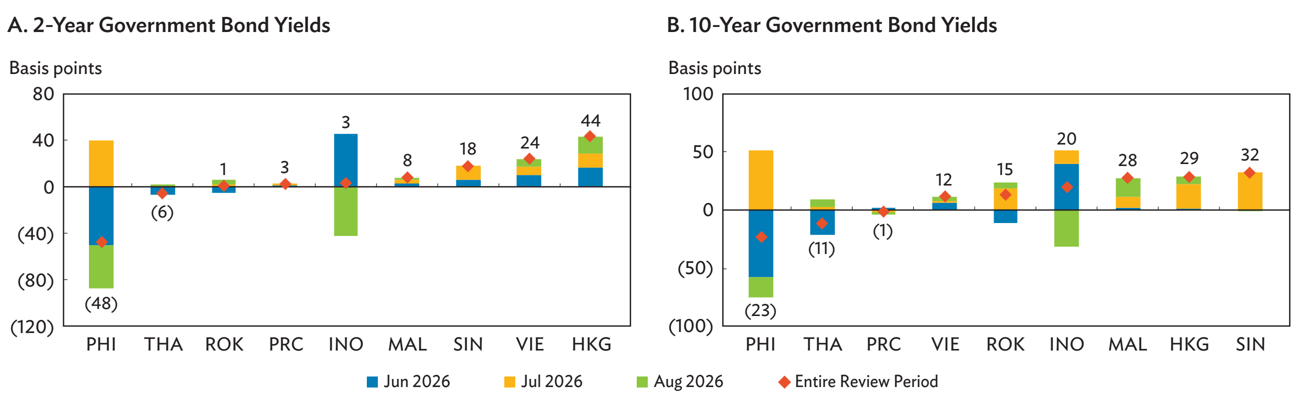
Japanese authorities' efforts to support the weakening yen—including direct foreign exchange intervention and measures to encourage investment in domestic assets—and expectations of monetary policy tightening by the BOJ helped stabilize the currency, as reflected in the yen's 2.2% appreciation versus the dollar from 1 June to 4 September. With the yen reaching a 40-year low of JPY162.6 per dollar on 30 June, Finance Minister Satsuki Katayama introduced plans on 14 July to help increase domestic investment in bonds—such as encouraging pension fund investments and a tax-free retail program—to support the domestic currency. A coordinated Japan–US foreign exchange intervention took place at the end of July to further support the yen. These measures led the yen to appreciate 3.3% off its recent lows, reaching JPY157.2 per dollar on 3 August. Nevertheless, depreciation pressures on the yen remained given the sustained interest rate differential between Japan and the US, as well as the strained fiscal position in Japan. As a result, the yen moved back toward the JPY160 per dollar level in August. The yen strengthened somewhat in early September as market expectations of a rate hike increased. At its September 17–18 meeting, the Bank of Japan raised its policy rate by 25 basis points to 1.25%.

Financial Condition Developments in Emerging East Asian Economies

Emerging East Asian bond yields rose in most markets from 1 June to 31 August over inflationary pressures, rate hikes by several regional central banks, expectations of monetary tightening in advanced economies, and spillovers from higher yields in advanced economy bond markets. Yield movements varied across the region's economies, tracking domestic factors (**Figure D**). Hong Kong, China and Singapore recorded the largest increases in 2-year and 10-year bond yields, respectively. Hong Kong, China's yields broadly tracked rising US Treasury yields, while the increase in Singapore's longer-term yields reflected higher global yields as well as robust domestic growth and monetary policy tightening in July. Indonesia also saw a large yield increase in June, reflecting the cumulative 50 bps rate hike by Bank Indonesia (BI). Yields subsequently declined in August, driven by robust foreign inflows after the introduction of hedging incentives to attract capital flows and improved market sentiment following BI's decision to leave policy rates unchanged in July and August.

Both 2-year and 10-year government bond yields declined in the Philippines and Thailand. In the Philippines, yields declined despite rate hikes in June and August as lower geopolitical risks eased inflation concerns and weak domestic data tempered

Figure D: Local Currency Government Bond Yields in Emerging East Asia



( ) = negative; HKG = Hong Kong, China; INO = Indonesia; MAL = Malaysia; PHI = Philippines; PRC = People's Republic of China; ROK = Republic of Korea; SIN = Singapore; THA = Thailand; VIE = Viet Nam.

Note: The numbers above (below) each bar refer to the change in spread between 1 June 2026 and 31 August 2026.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

expectations of further monetary tightening. In Thailand, yields declined on limited expectations of near-term monetary tightening. The Bank of Thailand (BOT) kept its policy rate unchanged in June and August, indicating that there was no immediate need to raise rates. Headline inflation eased to 1.9% in July from 2.4% in June and 2.8% in May, remaining within the BOT's 1%–3% target range.

Several regional central banks tightened monetary policy during the review period in response to inflationary and currency pressures (**Table B**):

- In June, BI raised its policy rate twice by a cumulative 50 bps to strengthen rupiah stability and contain inflation risks. Later, BI kept the policy rate unchanged at its July and August meetings, while expanding incentives to attract foreign portfolio inflows and support rupiah stability.
- The Bank of Korea (BOK) raised its Base Rate by 25 bps in both July and August, as economic growth strengthened and inflation was expected to remain above its 2% target in the near term. The BOK also raised its 2026 GDP forecast to 3.3% y-o-y from 2.6% in May. Its 2026 inflation forecast remained unchanged at 2.7% y-o-y.
- The Monetary Authority of Singapore slightly increased the rate of appreciation of the Singapore dollar nominal effective exchange rate band on 27 July, marking a second consecutive tightening following its April move, on continued inflation risks.
- The Bangko Sentral ng Pilipinas raised its policy rate by 25 bps each in June and August, noting in its August meeting that seasonal weather conditions were adding further inflationary pressures. The Philippines' headline inflation eased to 6.2% y-o-y in July from 6.4% in June, while Q2 GDP growth moderated to 2.3% y-o-y, its slowest pace since 2021.
- Other major central banks in the region maintained their respective rates. Hong Kong, China left policy rates unchanged, largely tracking the Fed. Meanwhile, the People's Bank of China, Bank Negara Malaysia, BOT, and State Bank of Vietnam kept their respective rates, balancing support for growth against inflation and macroeconomic stability considerations. Most regional economies witnessed disinflation in June and July as energy price pressures moderated following easing geopolitical risks (**Figure E**).

Expected monetary policy paths through the end of 2026 remained divergent, reflecting differences in domestic inflation, growth, and financial conditions (**Figure F**).

Table B: Changes in Policy Rates in Major Advanced Economies and Select Emerging East Asian Markets

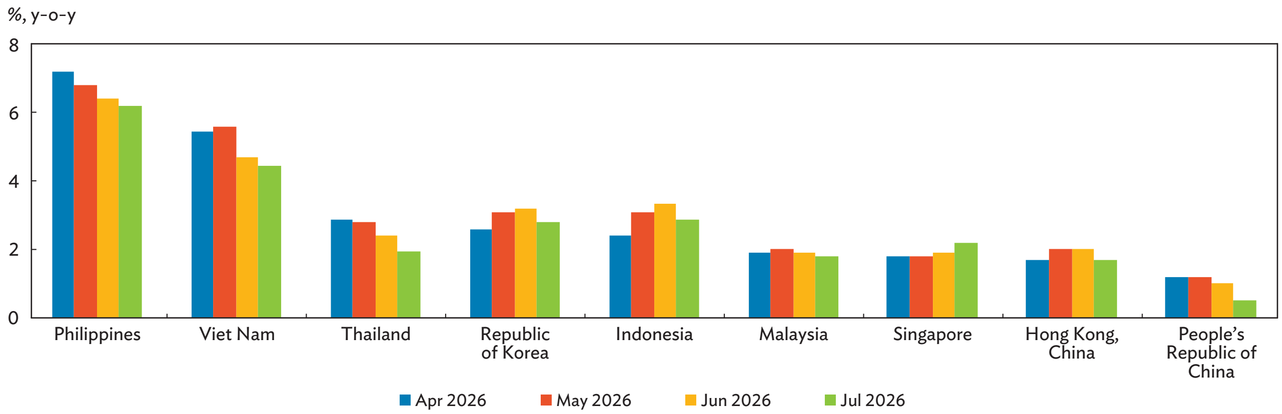
Economy	Policy Rate 1-Aug-2025 (%)	Rate Change (%) Aug-2025	Sep-2025	Oct-2025	Nov-2025	Dec-2025	Jan-2026	Feb-2026	Mar-2026	Apr-2026	May-2026	Jun-2026	Jul-2026	Aug-2026	Policy Rate 31-Aug-2026 (%)	Change in Policy Rates (basis points)
Euro Area	2.00											↑0.25			2.25	↑ 25
Japan	0.50					0.25						↑0.25			1.00	↑ 50
United Kingdom	4.25	↓0.25				↓0.25									3.75	↓ 50
United States	4.50		↓0.25	↓0.25		↓0.25									3.75	↓ 75
People's Republic of China	1.40														1.40	◆ 0
Indonesia	5.25	↓0.25	↓0.25								↑0.50	↑0.50			5.75	↑ 50
Republic of Korea	2.50												↑0.25	↑0.25	3.00	↑ 50
Malaysia	2.75														2.75	◆ 0
Philippines	5.25	↓0.25		↓0.25		↓0.25		↓0.25		↑0.25		↑0.25		↑0.25	5.00	↓ 25
Singapore	–									↑			↑		–	–
Thailand	1.75	↓0.25				↓0.25		↓0.25							1.00	↓ 75
Viet Nam	4.50														4.50	◆ 0

– = no data.

Notes:
1. Data coverage is from 1 August 2025 to 31 August 2026.
2. For the People's Republic of China, the data used in the chart are for the 7-day reverse repurchase rate.
3. For the United States, the upper bound of the policy rate target range is reported on the table.
4. An arrow up (down) indicates a policy rate hike (cut). A diamond indicates no change in the policy rate.
5. The up (down) arrow for Singapore signifies monetary policy tightening (loosening) by its central bank. The Monetary Authority of Singapore utilizes the Singapore dollar nominal effective exchange rate to guide its monetary policy.

Sources: Various central bank websites.

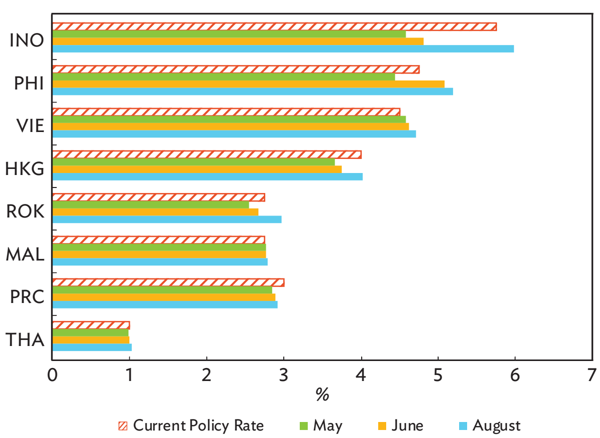
Figure E: Inflation in Emerging East Asian Markets



y-o-y = year-on-year.

Sources: Various local sources.

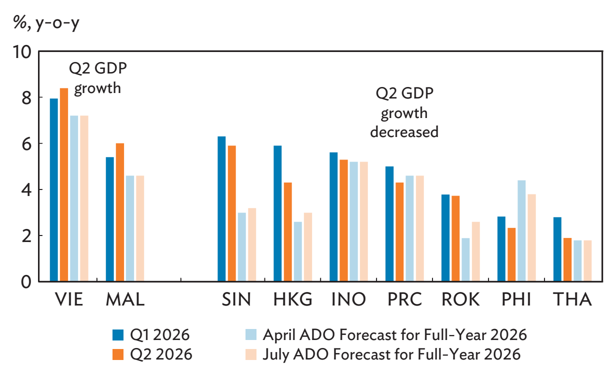
Figure F: Policy Rate Forecasts by End of 2026



HKG = Hong Kong, China; INO = Indonesia; MAL = Malaysia; PHI = Philippines; PRC = People's Republic of China; ROK = Republic of Korea; THA = Thailand; VIE = Viet Nam.

Source: *FocusEconomics*.

Figure G: Gross Domestic Product Growth in Emerging East Asian Economies (y-o-y, %)



ADO = Asian Development Outlook; GDP = gross domestic product; HKG = Hong Kong, China; INO = Indonesia; MAL = Malaysia; PHI = Philippines; PRC = People's Republic of China; Q1 = first quarter; Q2 = second quarter; ROK = Republic of Korea; SIN = Singapore; THA = Thailand; VIE = Viet Nam; y-o-y = year-on-year.

Note: Forecasts for 2026 are based on the April 2026 and July 2026 issues of the *Asian Development Outlook*.

Sources: Various local sources.

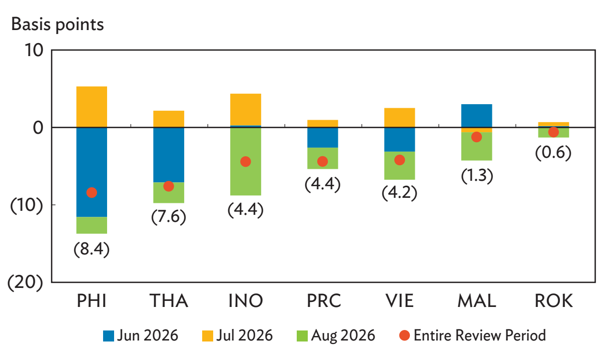
FocusEconomics forecasts pointed to scope for further tightening in several regional economies, such as in the Philippines and Indonesia, where the current policy rate is lower than the expected policy rate level at the end of 2026. Policy rates in other markets were expected to remain broadly unchanged. For example, forecasts expected the BOT policy rate to remain at 1.00% through the end of 2026 and for Bank Negara Malaysia to keep its policy rate unchanged.

Economic growth moderated in several regional economies as persistent global uncertainties weighed on economic activity (**Figure G**). GDP growth in Hong Kong, China moderated to 4.3% y-o-y in Q2 2026 from 5.9% in Q1, reflecting slower growth in private consumption and fixed investment. Thailand's GDP growth decelerated to 1.9% y-o-y in Q2 from 2.8% in Q1 due to a slower pace of expansion in private consumption, government spending, and fixed investment. In the People's Republic of China (PRC), economic growth eased to 4.3% y-o-y in Q2 from 5.0% in Q1 as weak domestic demand and the continued downturn in the property sector weighed on activity. Singapore's GDP growth moderated to 5.9% y-o-y in Q2 from 6.3% in Q1.

The slowdown reflected slower expansion in construction, wholesale trade, retail trade, and accommodations, while the food and beverage services sector contracted. Viet Nam remained the region's fastest-growing economy, with GDP growth accelerating to 8.4% y-o-y in Q2 from 7.9% in Q1, supported by broad-based gains across sectors. Industry and construction expanded by 10.5% y-o-y in Q2. Full-year growth projections for 2026 were mostly unchanged for most regional economies in the July 2026 *Asian Development Outlook* compared with the April forecasts. In contrast, forecasts were revised up for Hong Kong, China; the Republic of Korea; and Singapore—reflecting stronger-than-expected demand for AI-related electronics and semiconductors. The Philippines' growth forecast was revised down on delayed investment and weak private consumption. Similarly, on 24 August, Moody's Analytics downgraded its 2026 Philippine GDP growth forecast to 3.0% (from 4.0% in June).

Improved investor sentiment contributed to a narrowing of risk premia across all regional economies (**Figure H**). Credit default swap (CDS) spreads narrowed in all regional markets from 1 June to 31 August, by a GDP-weighted average of 4 bps, as Middle East tensions eased. The Philippines recorded the largest narrowing in risk premia as easing geopolitical tensions and declining inflation supported investor confidence.

Figure H: Changes in Credit Default Swap Spreads in Emerging East Asian Markets (senior 5-year)



( ) = negative, INO = Indonesia, MAL = Malaysia, PHI = Philippines, PRC = People's Republic of China, ROK = Republic of Korea, THA = Thailand, VIE = Viet Nam.

Notes:
1. Data coverage is from 1 June 2026 to 31 August 2026.
2. The numbers above (below) each bar refer to the change in spreads during the entire review period.

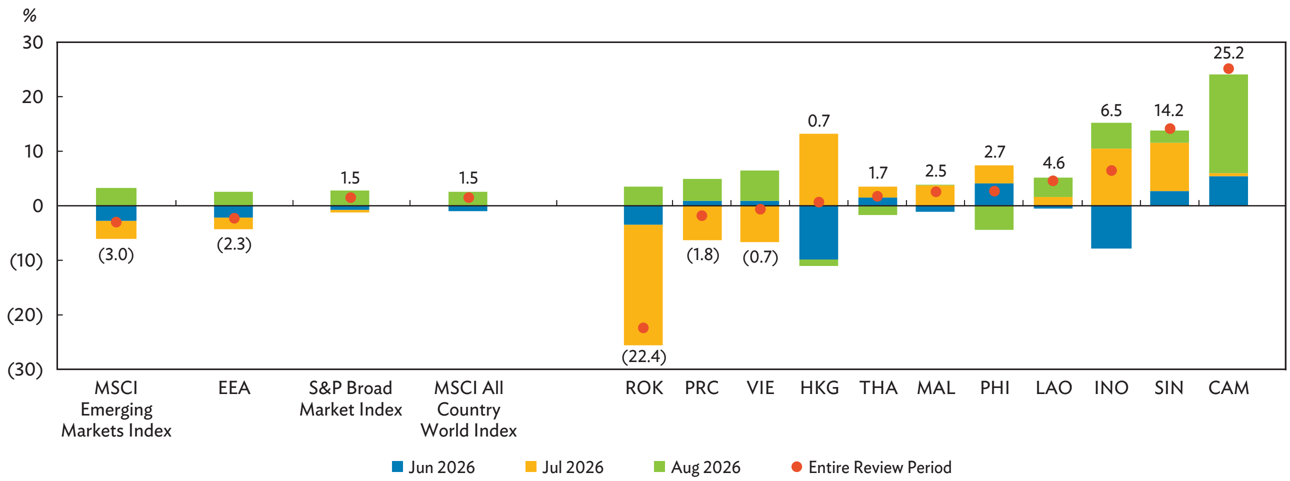
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Despite improved sentiment, regional equity markets underperformed major global benchmark indexes but still outperformed global emerging markets. Regional equity markets recorded a market-weighted average loss of 2.3% between 1 June and 31 August, compared with a gain of 1.5% in both the S&P Broad Market Index and the MSCI All Country World Index (**Figure I**). The region's equity performance was partly dragged down by markets in the Republic of Korea (–22.4%), on sell-offs in AI-related stocks, and in the PRC (–1.8%) over a weakened growth outlook. In the Republic of Korea, stock declines were magnified by the use of leveraged exchange-traded funds, while in the PRC, concerns over slower economic growth and weak domestic demand added to downward pressure on equities.

Most ASEAN equity markets advanced, with a weighted average return of 6.2% from 1 June to 31 August, supported by market-specific factors. Cambodia and Singapore recorded relatively larger returns (Figure I). Cambodia's equity market surged on stronger retail investor participation after the Cambodia Securities Exchange made its trading platform more accessible. Singapore's strong performance was supported by robust bank earnings and stronger-than-expected GDP growth in Q2. Ongoing equity market development measures also contributed to the gain as the Singapore Exchange introduced a new post-trade custody structure, effective from mid-July, to facilitate international investor access and lower barriers to retail participation. Viet Nam was the only ASEAN market to record a loss, as a sharp market correction in July was exacerbated by margin calls and forced selling due to elevated margin lending.

Tracking the performance of regional equity markets, foreign investors withdrew a combined USD68.1 billion from regional equity markets from 1 June to 31 August. The outflows were heavily concentrated in the Republic of Korea and the PRC (**Figure J**). The Republic of Korea recorded the largest net outflows at USD45.4 billion. Foreign selling was particularly strong in June as investors reduced exposure to tech stocks over growing concerns about AI spending and related cash flows, with the selling continuing in July. The PRC recorded outflows of USD21.5 billion, largely driven by weak equity market performance. In contrast, foreign flows in ASEAN markets were mixed following market-specific conditions, with combined net outflows of about USD1.3 billion. Indonesia recorded net

Figure I: Equity Performance in Emerging East Asian Markets

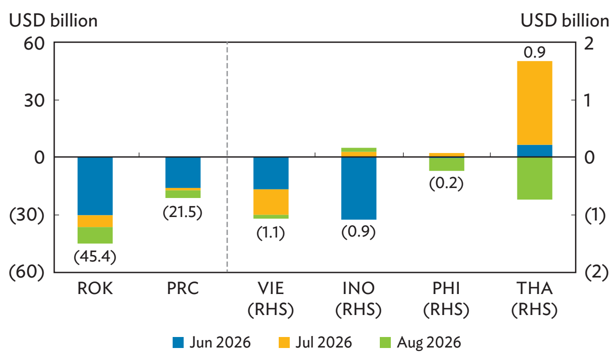


( ) = negative; CAM = Cambodia; EEA = emerging East Asia; HKG = Hong Kong, China; INO = Indonesia; LAO = Lao People's Democratic Republic; MAL = Malaysia; PHI = Philippines; PRC = People's Republic of China; RHS = right-hand side; ROK = Republic of Korea; SIN = Singapore; THA = Thailand; VIE = Viet Nam.

Notes:
1. Data coverage is from 1 June 2026 to 31 August 2026.
2. 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.
3. The numbers above (below) each bar refer to the percentage change during the entire review period.
4. The MSCI All Country World Index covers large- and mid-cap equities across developed and emerging markets, representing about 85% of global investable equities. The MSCI Emerging Markets Index covers large- and mid-cap equities across emerging markets, covering roughly 85% of free-float-adjusted market capitalization in each market. The S&P Global Broad Market Index is a float-adjusted, market-capitalization-weighted index that tracks the performance of over 14,000 equities across developed and emerging markets.

Source: *AsianBondsOnline* computations based on Bloomberg LP data.

Figure J: Foreign Portfolio Flows in Emerging East Asian Equity Markets



( ) = negative, INO = Indonesia, PHI = Philippines, PRC = People's Republic of China, ROK = Republic of Korea, THA = Thailand, VIE = Viet Nam, USD = United States dollar.

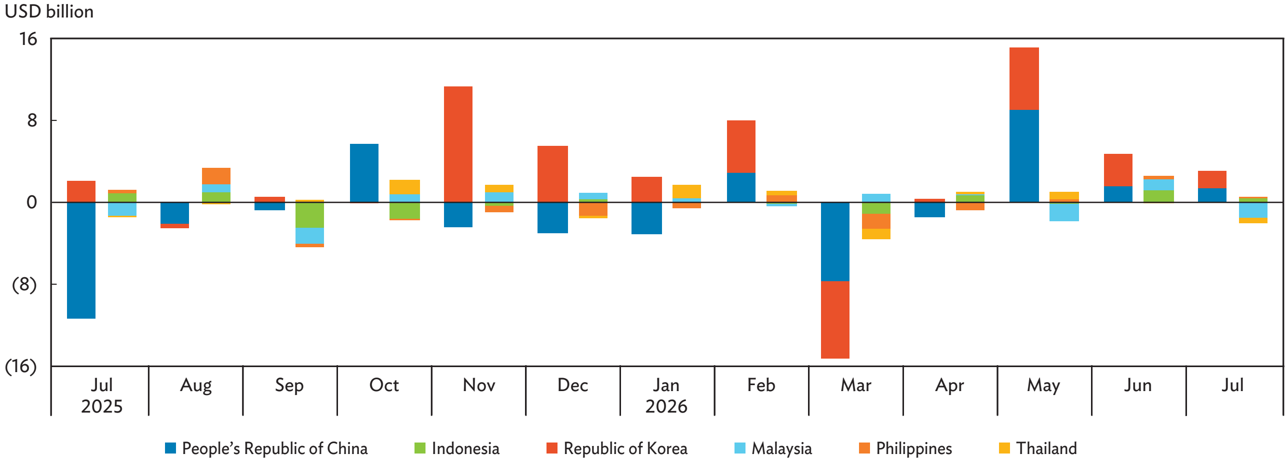
Notes:
1. Data coverage is from 1 June to 31 August 2026.
2. The numbers above (below) each bar refer to net inflows (net outflows) for each market.
3. Emerging East Asia is defined to include member states of the Association of Southeast Asian Nations plus the People's Republic of China; Hong Kong, China; and the Republic of Korea.

Source: Institute of International Finance.

outflows, largely reflecting concerns over fiscal policy, market transparency, and the possibility of an MSCI reclassification. Viet Nam also recorded net outflows, following a market correction in July exacerbated by margin calls and the continuation of foreign ownership limits. By contrast, Thailand attracted net foreign inflows, as foreign investor confidence improved on expectations of greater political stability, policy continuity, and a rebound in exports.

Regional bond markets recorded net foreign inflows of USD23.0 billion from May to July as investor sentiment improved following the easing of global risks (**Figure K**). The PRC recorded the largest inflows (USD12.1 billion) as regulatory developments, including the opening of Treasury bond futures trading to foreign investors in April, helped attract capital flows. This was followed by the Republic of Korea (USD10.9 billion), reflecting its phased inclusion in the FTSE Russell World Government Bond Index beginning in April. ASEAN markets recorded marginal inflows of USD0.05 billion. Bond inflows in ASEAN were capped by outflows from Malaysia, partly due to concerns that higher fuel subsidy costs could push the fiscal deficit to exceed the government's target.

Figure K: Foreign Portfolio Flows in Emerging East Asian Local Currency Bond Markets



( ) = negative, USD = United States dollar.

Notes:

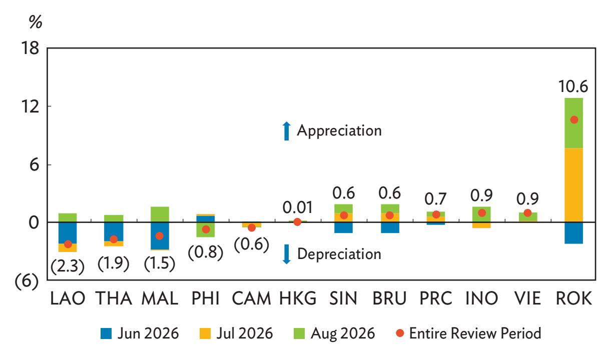
1. The Republic of Korea and Thailand provided data on bond flows. For the People's Republic of China, Indonesia, Malaysia, and the Philippines, month-on-month changes in foreign holdings of local currency government bonds were used as a proxy for bond flows.
2. Figures were computed based on 31 July 2026 exchange rates and do not include currency effects.

Sources: People's Republic of China (Bloomberg LP); Indonesia (Directorate General of Budget Financing and Risk Management, Ministry of Finance); Republic of Korea (Financial Supervisory Service); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury); and Thailand (Thai Bond Market Association).

Regional currencies were mostly stable (**Figure L**). The Korean won gained the most, appreciating by 10.6% against the US dollar from 1 June to 31 August, supported by the BOK's July and August rate hikes and signaling of further tightening, strong semiconductor exports, and US dollar inflows associated with the repatriation of proceeds from SK Hynix's American Depositary Receipt offering on Nasdaq. Continued AI-related investment in the Republic of Korea also supported the won. Meanwhile, the Lao kip and Thai baht weakened against the US dollar as both economies experienced relatively accommodative monetary conditions and a moderating growth outlook.

The regional outlook for financial conditions is subject to several risks. On the downside, while geopolitical risks have eased, uncertainty surrounding the Middle East conflict remains a key downside risk to regional financial conditions. Elevated oil prices may add to inflationary pressures and disrupt the disinflation trend. This could delay monetary easing and result in higher-for-longer interest rates in both advanced and regional economies. In addition, rising bond yields in advanced economies could spill over to regional bond markets, tightening financial conditions and increasing financial market volatility, particularly in economies with weak fundamentals and shallow financial markets.

Figure L: Exchange Rate Performance Against the United States Dollar in Emerging East Asia



( ) = negative; BRU = Brunei Darussalam; CAM = Cambodia; HKG = Hong Kong, China; INO = Indonesia; LAO = Lao People's Democratic Republic; MAL = Malaysia; PHI = Philippines; PRC = People's Republic of China; ROK = Republic of Korea; SIN = Singapore; THA = Thailand; VIE = Viet Nam.

Notes:

1. A positive (negative) value for the foreign exchange rate indicates the appreciation (depreciation) of the local currency against the United States dollar.
2. Data coverage is from 1 June 2026 to 31 August 2026.
3. The numbers above (below) each bar refer to the changes during the entire review period.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Adverse weather conditions might also add to inflationary pressures. A stronger-than-expected El Niño could disrupt agricultural production and raise food prices, further exacerbating inflationary pressures and limiting the scope for monetary easing, weighing on financial conditions.

Uncertainty over trade policy and trade tensions also presents a downside risk to regional financial conditions. Trade-related concerns intensified following the announcement of new US tariffs of 10.0% and 12.5% on goods from 60 trade partners, following the expiration of the 10.0% global tariff on 24 July. Trade policy uncertainty could disrupt supply chains, dampen trade and market confidence, and delay investment.

Developments in digital technology and AI present both upside and downside risks to regional financial conditions. A continued AI and semiconductor upcycle would support investment, boost productivity and economic growth, and strengthen corporate earnings. Nevertheless, price corrections and valuation reassessments in AI-related technology stocks could trigger market volatility and reduce investor appetite for regional assets. In addition, the rapid adoption of stablecoins as a payment mechanism poses both risks and opportunities for the region's financial system. The special section discusses these issues in detail.

Bond Market Developments in the Second Quarter of 2026

Section 1. Local Currency Bonds Outstanding

Emerging East Asian local currency (LCY) debt securities outstanding reached 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. The expansion was supported by increased issuance, especially from the private sector, as geopolitical uncertainties eased (**Figure 1A**).[5] Total debt securities outstanding were equivalent to 118.1% of regional gross domestic product (GDP), compared to 135.7% in the euro area and 138.8% in the United States (US). Excluding debt securities with a tenor of 1 year or less, emerging East Asia's LCY bonds outstanding rose by 3.1% q-o-q to USD30.0 trillion, reaching 108.8% of GDP at the end of June and approaching that of the US (115.4%) and the euro area (127.4%) (**Figure 1B**).

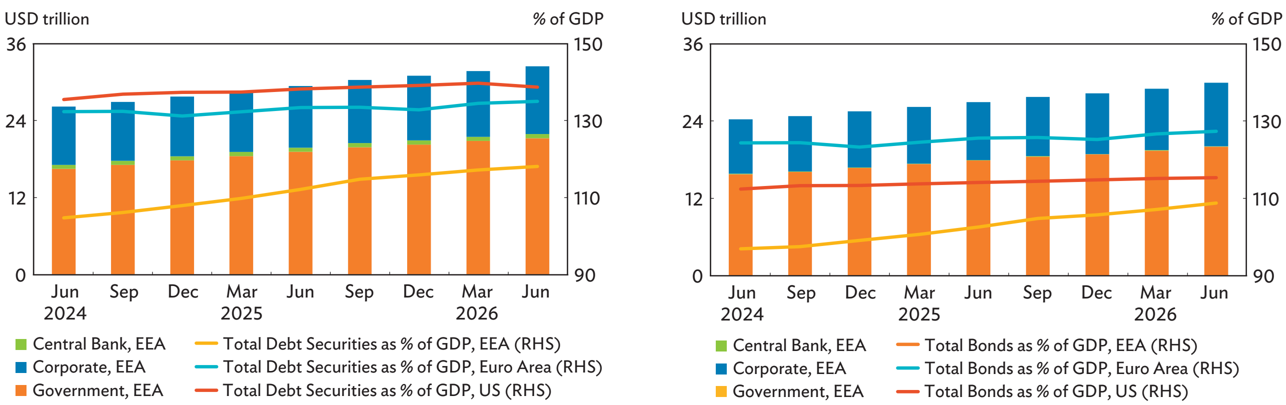
Box 1 discusses the link between LCY bond market development and the resilience of economies to external shocks.

Government bonds comprised 66.8% of the region's total LCY bonds outstanding, reaching USD20.0 trillion at the end of June. Government bonds outstanding increased by 3.2% q-o-q in Q2, broadly unchanged from a 3.1% q-o-q expansion in the first quarter (Q1), as lower government bond issuance following front-loaded borrowing in Q1 was offset by a smaller volume of maturing bonds in the People's Republic of China (PRC) and the Republic of Korea. The corporate bond market expanded by 3.1% q-o-q to USD9.9 trillion in Q2, accelerating from 1.3% q-o-q in Q1. The corporate bond market was supported by higher issuance in Q2 due to improved investment sentiment, especially increased issuance from financial firms in the PRC to facilitate credit expansion.

Figure 1: Local Currency Debt Securities Outstanding

A. Total Debt Securities

B. Bonds



EEA = emerging East Asia, GDP = gross domestic product, RHS= right-hand side, US = United States, USD = United States dollar.

Notes:

1. Emerging East Asia is defined to include the Association of Southeast Asian Nations plus the People's Republic of China; Hong Kong, China; and the Republic of Korea.
2. The euro area includes the member markets of Austria, Belgium, Bulgaria, Croatia, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain.
3. Bonds are defined as debt securities with maturities longer than 1 year.
4. Debt securities data for the People's Republic of China, the Republic of Korea, Malaysia, Singapore, and the United States are based on *AsianBondsOnline* estimates.

Source: *AsianBondsOnline* calculations based on various local market sources.

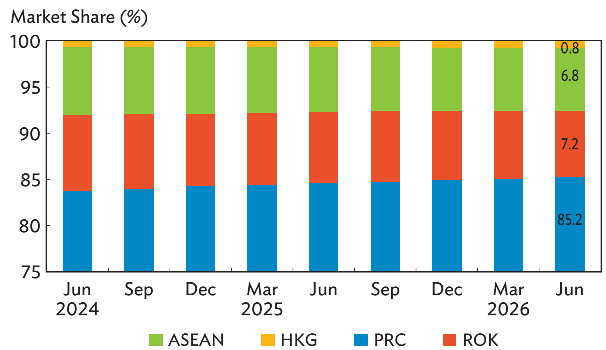
[5] Emerging East Asia is defined to include member states of the Association of Southeast Asian Nations plus the People's Republic of China; Hong Kong, China; and the Republic of Korea.

At the end of Q2, the share of LCY corporate bonds to total regional LCY bonds remained broadly stable compared to Q1 at around 33.0%.

The PRC accounted for 85.2% of regional LCY bonds outstanding, with its LCY bond stock increasing by 3.4% q-o-q to USD25.6 trillion (**Figure 2**). The expansion was supported by robust corporate issuance. The Republic of Korea's bond market (USD2.2 trillion) comprised 7.2% of the regional LCY bond market, expanding by 1.2% q-o-q on sustained government bond issuance and higher corporate bond issuance. The Association of Southeast Asian Nations' (ASEAN) market share edged down to 6.8% as the expansion of member economies' bonds outstanding (USD2.0 trillion) slowed to 1.8% q-o-q due to lower government bond issuance after several governments had front-loaded borrowing in Q1. Meanwhile, LCY bonds outstanding in Hong Kong, China expanded strongly by 10.3% q-o-q, reaching USD0.2 trillion, supported by issuances from infrastructure-related firms.

Around half of total outstanding LCY Treasury bonds in emerging East Asia carry a medium to long tenor. At the end of June, about 54.4% of outstanding Treasury bonds had a tenor longer than 5 years. The size-weighted average tenor of LCY Treasury bonds outstanding in the region was 10 years, compared with 9 years for both the US and euro area, and 11 years for Japan (**Figure 3**). A slight decline in the average tenor of outstanding LCY bonds took place in Singapore—from 11.6 years in Q1 to 11.1 years in Q2—reflecting lower issuance of ultra-long-term bonds during the quarter.

Figure 2: Market Profile of Local Currency Bonds Outstanding

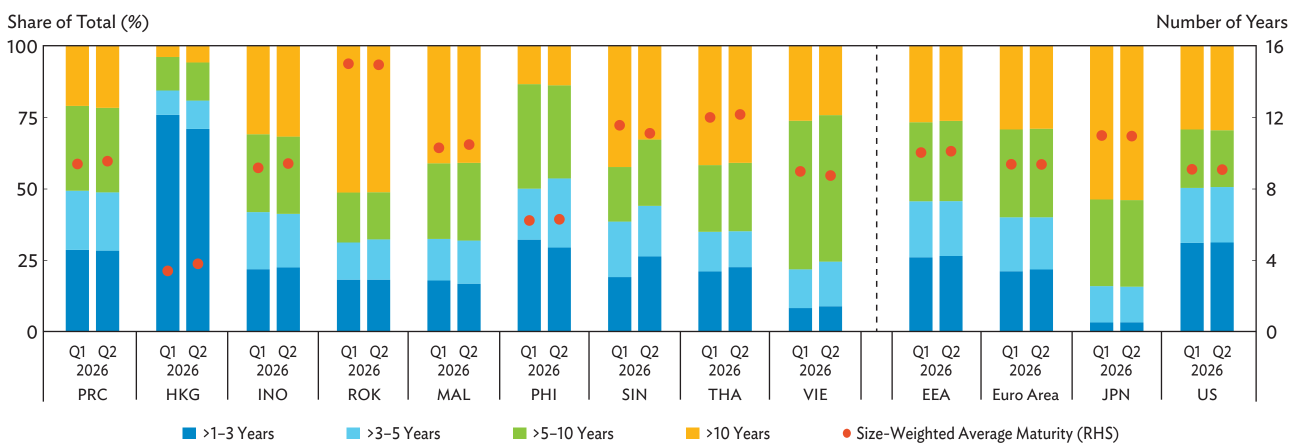


ASEAN = Association of Southeast Asian Nations; HKG = Hong Kong, China; PRC = People's Republic of China; ROK = Republic of Korea.

Note: Bonds are defined as debt securities with maturities longer than 1 year.

Source: *AsianBondsOnline* calculations based on various local market sources.

Figure 3: Maturity Profiles of Local Currency Treasury Bonds Outstanding at the End of March 2026 versus the End of June 2026



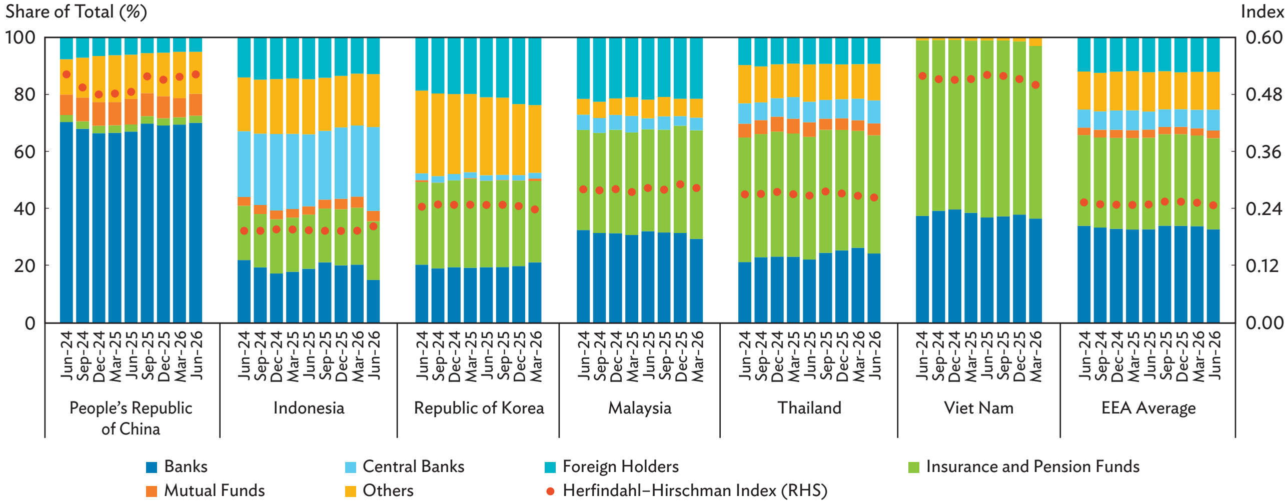
EEA = emerging East Asia; HKG = Hong Kong, China; INO = Indonesia; JPN = Japan; MAL = Malaysia; PHI = Philippines; PRC = People's Republic of China; Q1 = first quarter; Q2 = second quarter; RHS= right-hand side; ROK = Republic of Korea; SIN = Singapore; THA = Thailand; US = United States; VIE = Viet Nam.

Notes:

1. Emerging East Asia is defined to include the Association of Southeast Asian Nations plus the People's Republic of China; Hong Kong, China; and the Republic of Korea.
2. The euro area includes the member markets of Austria, Belgium, Bulgaria, Croatia, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain.
3. Bonds are defined as debt securities with maturities longer than 1 year.

Source: *AsianBondsOnline* calculations based on various local market sources.

Figure 4: Investor Profiles of Local Currency Government Debt Securities in Emerging East Asian Markets



EEA = emerging East Asia, RHS = right-hand side.

Notes:
1. Data for the Republic of Korea, Malaysia, and Viet Nam are up to March 2026.
2. Government debt securities include treasury bills and treasury bonds.
3. "Others" include government institutions, individuals, securities companies, custodians, private corporations, and all other investors not elsewhere classified.
4. The Herfindahl–Hirschman Index is a commonly accepted measure of market concentration. In this case, the index was used to measure the investor profile diversification of the local currency bond markets and is calculated by summing the squared share of each investor group in the bond market. A lower score indicates greater diversity.

Sources: Indonesia (Directorate General of Budget Financing and Risk Management, Ministry of Finance); Malaysia (Bank Negara Malaysia); People's Republic of China (CEIC Data Company); Republic of Korea (Bank of Korea); Thailand (Bank of Thailand); and Viet Nam (Ministry of Finance).

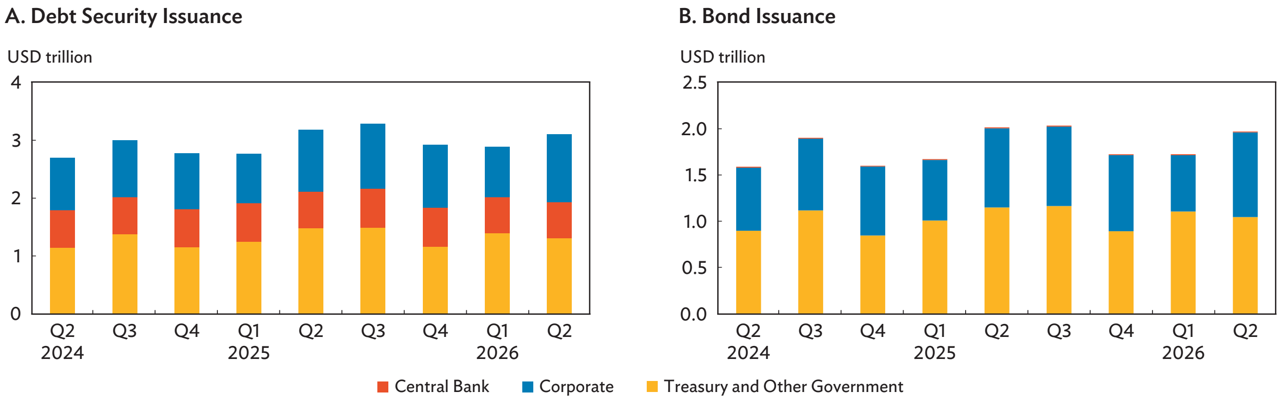
The banking sector remained the largest investor in LCY government debt securities in emerging East Asia at the end of Q2, holding 32.8% of the total amount outstanding (**Figure 4**). The shares held by foreign investors, mutual funds, and insurance and pension funds all declined during the quarter. Central bank holdings rose to 7.3% in Q2 from 6.4% a year earlier, partly driven by Bank Indonesia's purchases of government bonds to support financial market stability. The PRC recorded the highest investor concentration in the region, as banks held 70.1% of the government debt stock. This was followed by Viet Nam where banks and insurance companies continue to collectively hold 97.0% of total government debt securities outstanding. In Indonesia, the investor base for government debt securities is relatively more diversified compared with other economies in the region.

Section 2. Local Currency Bond Issuance

LCY debt security issuance in emerging East Asia rose by 7.7% q-o-q to USD3.1 trillion in Q2 2026 from USD2.9 trillion in Q1, driven by a surge in corporate issuance over easing global uncertainties (**Figure 5A**). Excluding debt securities with maturities of less than 1 year, LCY bond issuances in Q2 2026 recorded USD2.0 trillion, up 14.3% q-o-q from the previous quarter (**Figure 5B**). Corporate issuances comprised 37.7% and 46.6% of total LCY debt security and bond issuances during the quarter, respectively.

LCY corporate bond issuance rose by 50.4% q-o-q on improved investment sentiment, led by strong borrowing in the PRC and the Republic of Korea (**Figure 6**). The PRC recorded a 54.7% q-o-q increase in corporate bond issuance in Q2, as banks and financial companies resumed bond offerings following approval delays in the previous quarter. In the Republic of Korea, corporate bond issuance rose by 30.2% q-o-q as firms accelerated borrowing in Q2 in anticipation of higher interest rates, driven by market expectations that the Bank of Korea

Figure 5: Local Currency Debt Security Issuance in Selected Emerging East Asian Markets



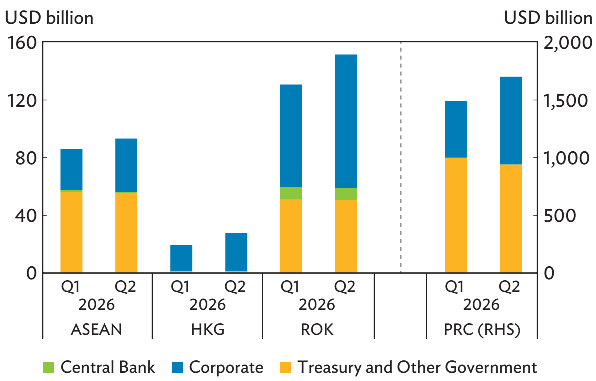
Q1 = first quarter; Q2 = second quarter; Q3 = third quarter; Q4 = fourth quarter; USD = United States dollar.

Notes:

1. Bonds are defined as debt securities with maturities longer than 1 year.
2. Data on bonds for the People's Republic of China, Malaysia, and the Republic of Korea are based on *AsianBondsOnline* estimates.
3. Figures were computed based on 30 June 2026 currency exchange rates and do not include currency effects.

Source: *AsianBondsOnline* calculations based on various local market sources.

Figure 6: Local Currency Bond Issuance by Market



ASEAN = Association of Southeast Asian Nations; HKG = Hong Kong, China; PRC = People's Republic of China; Q1 = first quarter; Q2 = second quarter; ROK = Republic of Korea; RHS = right-hand side; USD = United States dollar.

Notes:

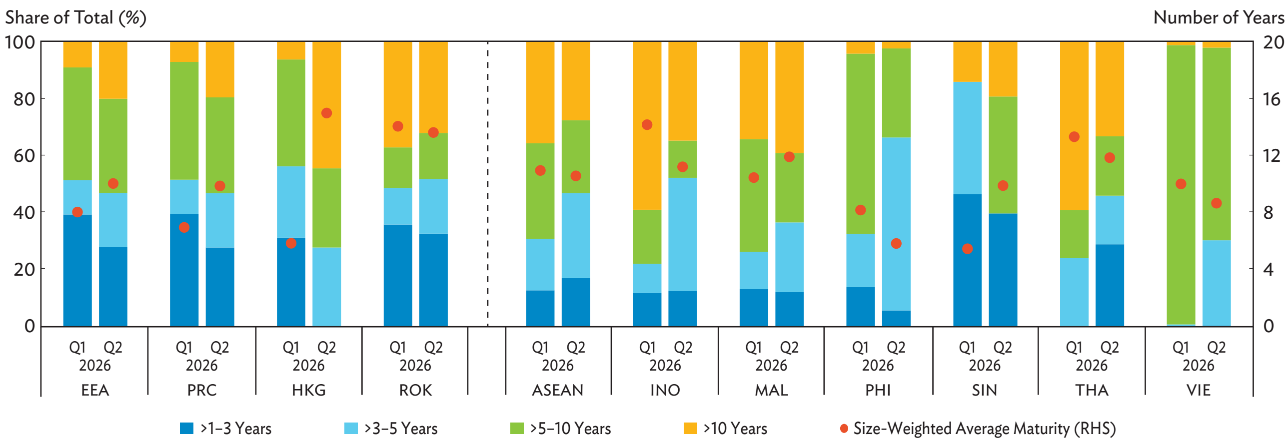
1. Bonds are defined as debt securities with maturities longer than 1 year.
2. Data on bonds for the People's Republic of China, Malaysia, and the Republic of Korea are based on *AsianBondsOnline* estimates.
3. ASEAN comprises the markets of Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam.
4. Figures were computed based on 30 June 2026 currency exchange rates and do not include currency effects.

Source: *AsianBondsOnline* calculations based on various local market sources.

(BOK) would tighten monetary policy in the third quarter. The BOK hiked the policy rate by 25 basis points (bps) in both July and August. ASEAN corporate bond issuance rose by 31.1%, largely driven by a rebound in issuance in Malaysia and Viet Nam on improved economic conditions and increased funding demand. Meanwhile, government bond issuance across the region contracted by 5.5% q-o-q in Q2 as some regional markets reduced borrowing after front-loading their issuance in Q1.

The maturity profile of LCY Treasury bond issuance in emerging East Asia lengthened in Q2, largely driven by long-term issuances in the PRC and Hong Kong, China (**Figure 7**). The share of Treasury bond issuance with maturities of more than 5 years in the region increased to 53.0% from 50.4% in Q1. The average size-weighted maturity in the PRC rose to 9.9 years in Q2 from 7.0 years in Q1 after the increased issuance of long-term bonds, including the first batch of ultra-long term Special Treasury Bonds in April. In Hong Kong, China, the government issued HKD3.0 billion worth of 30-year infrastructure bonds in Q2, pushing up the average issuance maturity to 15.0 years from 5.9 years in Q1. Meanwhile, the average issuance maturity in ASEAN markets slightly shortened due to lower issuance of long-term bonds in most markets in Q2, but the average size-weighted maturity was still above 10 years.

Figure 7: Maturity Structure of Local Currency Treasury Bond Issuance in Selected Emerging East Asian Markets



ASEAN = Association of Southeast Asian Nations; EEA = emerging East Asia; HKG = Hong Kong, China; INO = Indonesia; MAL = Malaysia; PHI = Philippines; PRC = People's Republic of China; Q1 = first quarter; Q2 = second quarter; RHS = right-hand side; ROK = Republic of Korea; SIN = Singapore; THA = Thailand; VIE = Viet Nam.

Notes:
1. Figures were computed based on 30 June 2026 currency exchange rates and do not include currency effects.
2. Treasury bonds are local-currency-denominated, fixed-income securities issued by a government with maturities longer than 1 year.

Source: *AsianBondsOnline* calculations based on various local market sources.

Section 3. Intra-Regional Bond Issuance

Intra-regional debt securities issuance in emerging East Asia rebounded in Q2 2026, supported by improved market sentiment as geopolitical tensions eased in the Middle East.[6] Issuance rose to USD17.0 billion in Q2 on a 9.9% q-o-q increase, reversing the 11.2% q-o-q contraction recorded in the previous quarter (**Figure 8A**). Higher issuance in Hong Kong, China (78.5% q-o-q) and the Republic of Korea (37.2% q-o-q) offset contractions in the PRC and ASEAN markets. Hong Kong, China remained the leading issuer, accounting for 76.2% of total intra-regional debt issuance during the quarter. Excluding bills or instruments in maturities of 1 year or less, intra-regional bond issuance tallied USD11.8 billion, increasing by 14.3% from Q1 (**Figure 8B**).

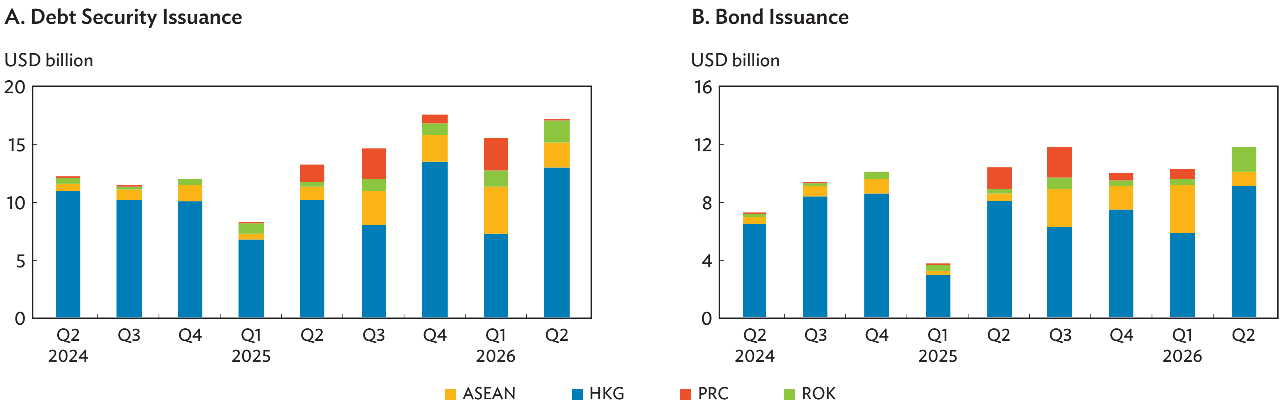
The private sector was the main issuer of intra-regional bonds in Q2, accounting for 81.9% of the total (**Figure 9**). Sovereign issuance accounted for 12.1%, driven by CNY-denominated infrastructure bonds issued by Hong Kong, China in May and June. Among private sector issuers, the financial sector accounted for 53.5% of the region's intra-regional corporate bond sales, followed by utilities (14.8%) and the consumer goods and services sector (11.2%). Within the region, Hong Kong, China had the most diversified sectoral composition, while the financial sector accounted for the majority of bond issuance in ASEAN (61.6%) and the Republic of Korea (60.2%).

The Chinese yuan and Hong Kong dollar are the main currencies in intra-regional bond markets. The Chinese yuan remained the predominant currency in Q2, accounting for 84.5% of intra-regional bond issuance, followed by the Hong Kong dollar with 15.1% (**Figure 10**). While issuers in the Republic of Korea issued in all three currencies, its issuance was heavily concentrated in Hong Kong dollars (81.9%). Issuers in ASEAN economies issued only in Chinese yuan and Hong Kong dollars during the quarter, while issuance in Hong Kong, China was denominated solely in Chinese yuan.

Most intra-regional bond issuance in Q2 carried short- to medium-term maturities. Around 79.6% of emerging East Asian intra-regional bond issuance held maturities of 5 years or less (**Figure 11**). The size-weighted average maturity of intra-regional bond issuance rose to 7.0 years from 3.8 years in Q1. This increase was driven by a significant share (19.4%) of long-term bond issuance by Hong Kong, China, including sovereign infrastructure bonds in maturities of 20 years and 30 years. Besides Hong Kong, China, no other market issued intra-regional bonds with tenors longer than 10 years in Q2.

[6] Intra-regional debt securities issuance is defined as emerging East Asian bond issuance denominated in a regional currency excluding the issuer's home currency.

Figure 8: Intra-Regional Debt Security Issuance in Emerging East Asian Markets



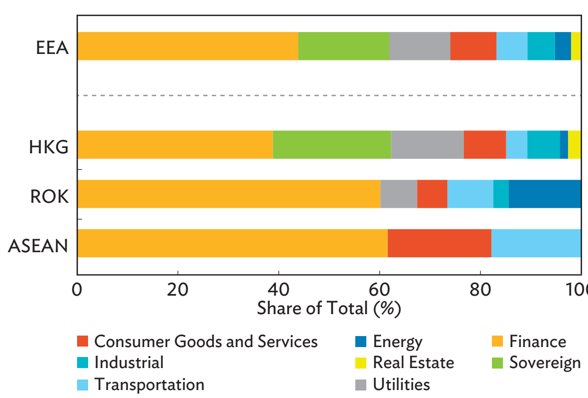
ASEAN = Association of Southeast Asian Nations; HKG = Hong Kong, China; PRC = People's Republic of China; Q1 = first quarter; Q2 = second quarter; Q3 = third quarter; Q4 = fourth quarter; ROK = Republic of Korea; USD = United States dollar.

Notes:

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. Intra-regional debt security issuance is defined as emerging East Asian issuance denominated in a regional currency excluding the issuer's home currency.
3. Bonds are defined as debt securities with maturities longer than 1 year.
4. Figures were computed based on 30 June 2026 currency exchange rates and do not include currency effects.
5. Data are based on economy of domicile where the company's senior management is located.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Figure 9: Intra-Regional Bond Issuance by Sector in the Second Quarter of 2026



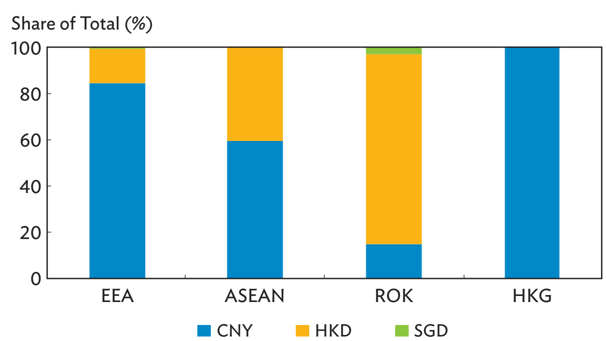
ASEAN = Association of Southeast Asian Nations; EEA = emerging East Asia; HKG = Hong Kong, China; PRC = People's Republic of China; ROK = Republic of Korea.

Notes:

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. Intra-regional bond issuance is defined as emerging East Asian issuance denominated in a regional currency excluding the issuer's home currency.
3. Data are based on economy of domicile where the company's senior management is located.
4. Bonds are defined as debt securities with maturities longer than 1 year.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Figure 10: Currency Composition of Intra-Regional Bond Issuance in the Second Quarter of 2026



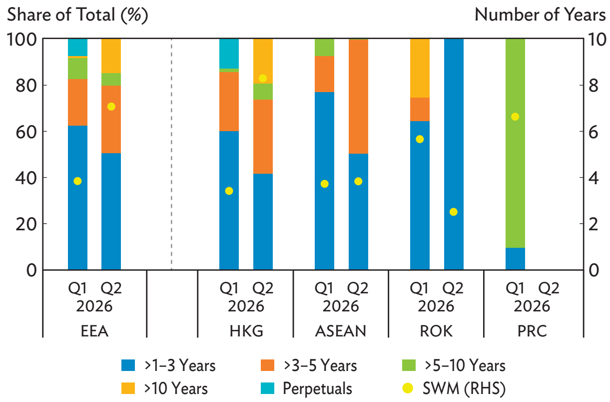
ASEAN = Association of Southeast Asian Nations; CNY = Chinese yuan; EEA = emerging East Asia; HKD = Hong Kong dollar; HKG = Hong Kong, China; PRC = People's Republic of China; ROK = Republic of Korea; SGD = Singapore dollar.

Notes:

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. Intra-regional bond issuance is defined as emerging East Asian issuance denominated in a regional currency excluding the issuer's home currency.
3. Data are based on economy of domicile where the company's senior management is located.
4. Bonds are defined as debt securities with maturities longer than 1 year.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Figure 11: Maturity Structure and Size-Weighted Average Maturity of Intra-Regional Bond Issuance in the Second Quarter of 2026



ASEAN = Association of Southeast Asian Nations; EEA = emerging East Asia; HKG = Hong Kong, China; PRC = People's Republic of China; RHS = right-hand side; ROK = Republic of Korea; SWM = size-weighted average maturity.

Notes:

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. Intra-regional bond issuance is defined as emerging East Asian issuance denominated in a regional currency excluding the issuer's home currency.
3. For the PRC, there was no intra-regional bond issuance in Q2 2026.
4. Data are based on economy of domicile where the company's senior management is located.
5. Bonds are defined as debt securities with maturities longer than 1 year.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Section 4. G3 Currency Bond Issuance

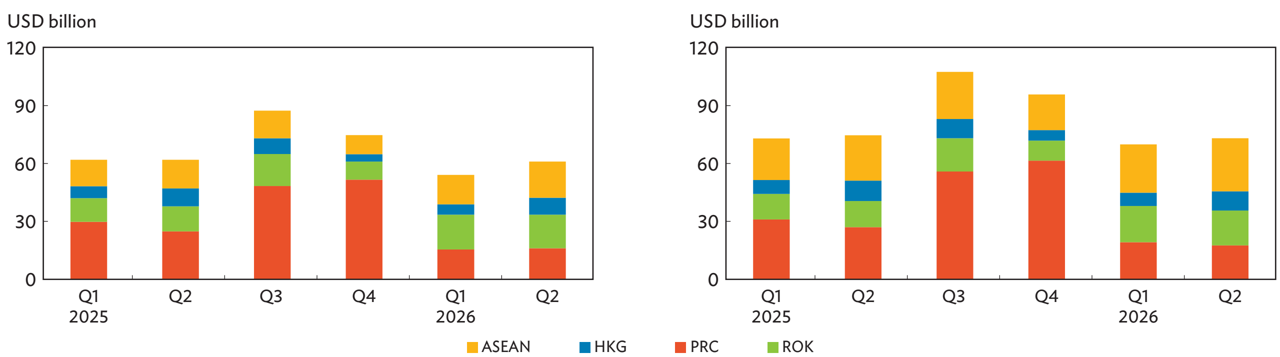
As investment sentiment improved on easing geopolitical tensions, G3-denominated bond sales in emerging East Asia rose by 12.3% q-o-q to USD60.5 billion in Q2 2026 from USD53.8 billion in Q1, led by higher ASEAN issuance (**Figure 12A**).[7] When instruments with maturities of less than 1 year are included, regional G3-denominated debt securities issuance rose to USD73.3 billion from USD70.1 billion in the previous quarter (**Figure 12B**). By currency, USD-denominated bonds accounted for 82.0% of total G3 bond issuance, while EUR- and JPY-denominated bonds comprised 15.9% and 2.1%, respectively. ASEAN had the largest share of G3-denominated bond issuance in the region in Q2, rising 22.6% q-o-q to USD18.6 billion and accounting for 30.7% of the total. The PRC and Hong Kong, China also posted increased G3 bond issuance.

The financial sector is an important G3-denominated bond issuer, accounting for 37.3% of total issuance in Q2 (**Figure 13**). The share of G3-denominated bonds with maturities of 5 years or less increased to 60.2% of total issuance, up from 57.5% in the previous quarter. This was

Figure 12: G3 Currency Debt Securities Issuance in Emerging East Asian Markets

A. Bond Issuance

B. Debt Securities Issuance



ASEAN = Association of Southeast Asian Nations; HKG = Hong Kong, China; PRC = People's Republic of China; Q1 = first quarter; Q2 = second quarter; Q3 = third quarter; Q4 = fourth quarter; ROK = Republic of Korea; USD = United States dollar.

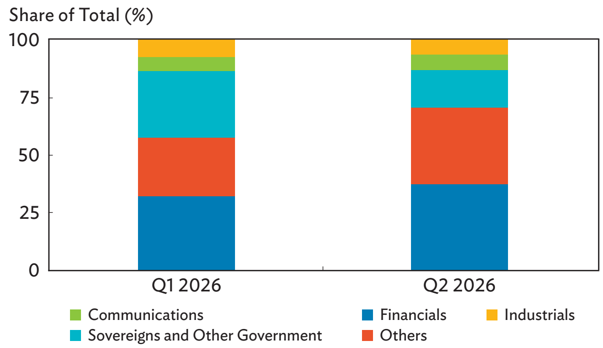
Notes:

1. Emerging East Asia is defined to include the member states of the Association of Southeast Asian Nations plus the People's Republic of China; Hong Kong, China; and the Republic of Korea. ASEAN data include the markets of Indonesia, the Lao People's Democratic Republic, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam.
2. Bonds are defined as debt securities with maturities longer than 1 year.
3. G3 currency debt securities are denominated in either euros, Japanese yen, or United States dollars.
4. Figures were computed based on 30 June 2026 currency exchange rates and do not include currency effects.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

[7] G3 currency bonds are bonds denominated in either euros, Japanese yen, or United States dollars.

Figure 13: Sector Profile of G3 Currency Bond Issuance in Emerging East Asian Markets

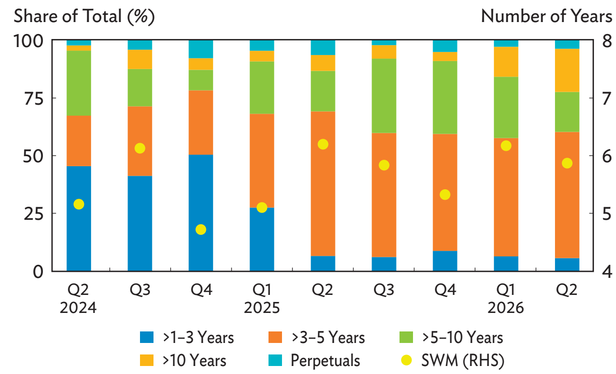


Q1 = first quarter, Q2 = second quarter.

Notes:
1. Emerging East Asia is defined to include the 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. Bonds are defined as debt securities with maturities longer than 1 year.
3. G3 currency bonds are denominated in either euros, Japanese yen, or United States dollars.
4. Figures were computed based on 30 June 2026 currency exchange rates and do not include currency effects
5. "Others" includes consumer, energy, health care, materials, real estate, technology, transportation, and utilities.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Figure 14: Maturity Profile of G3 Currency Bond Issuance in Emerging East Asia



Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter, RHS = right-hand side, SWM = size-weighted average maturity.

Notes:
1. Emerging East Asia is defined to include the member states of the Association of Southeast Asian Nations plus the People's Republic of China; Hong Kong, China; and the Republic of Korea. ASEAN data include the markets of Indonesia, the Lao People's Democratic Republic, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam.
2. Bonds are defined as debt securities with maturities longer than 1 year.
3. G3 currency bonds are denominated in either euros, Japanese yen, or United States dollars.
4. Figures were computed based on 30 June 2026 currency exchange rates and do not include currency effects.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

driven by increased short-term issuances from ASEAN where bond issuances with maturities of 5 years or less totaled USD8.1 billion, higher than the previous quarter's USD2.5 billion. The rise was supported by shorter-dated corporate issuances from Singapore and sovereign issuances from Indonesia. The size-weighted average maturity of G3-denominated bond issuances in emerging East Asia fell to 5.9 years in Q2 from 6.2 years in the previous quarter (**Figure 14**).

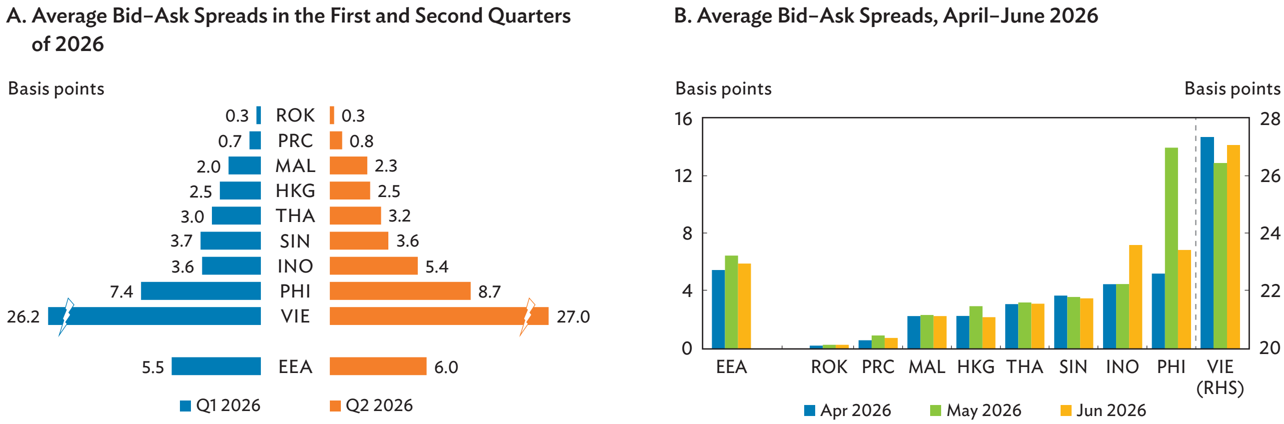
Section 5. Liquidity of Local Currency Bond Markets

Government Bond Market

Bid–ask spreads for LCY government bonds in emerging East Asia widened marginally in Q2 2026. The average bid–ask spread for government bonds inched up to 6.0 bps from 5.5 bps in the previous quarter (**Figure 15A**). Indonesia and the Philippines recorded a widening in spreads of 1.8 bps and 1.3 bps, respectively. Spreads in the rest of the region remained broadly stable, with some only changing marginally. In Indonesia, spreads widened as the central bank raised policy rates in Q2 by a cumulative 100 bps to support rupiah stability and contain inflationary pressures (**Figure 15B**). In the Philippines, bid–ask spreads spiked in May as rising inflation expectations drove up bid yields, leading to the rejection of all bids at the 10-year benchmark reissuance auction on 19 May.

In line with the slight widening of government bid–ask spreads, turnover ratios and trading volumes in most government bond markets across the region also decreased in Q2. The Philippines registered the largest quarterly decline in the turnover ratio on lower issuance following the outsized issuance of new benchmark bonds in Q1 (**Figure 16A**). Higher yields and inflationary pressures also resulted in lower trading activity. In contrast, turnover ratios and trading volumes increased in the PRC, Indonesia, and Singapore (**Figure 16B**). In the PRC, foreign bond inflows, supported by its perceived safe-haven appeal and the government's approval of foreign investor participation in the Treasury bond futures market, boosted trading activity. In Indonesia, increased trading activity was fueled by higher issuance in Q2 and foreign bond inflows, with the latter driven by Bank Indonesia tightening monetary policy during the quarter. In Singapore, lower-than-expected inflation and a favorable economic outlook contributed to improved liquidity conditions.

Figure 15: Average Bid–Ask Spreads for Local Currency Government Bonds in Emerging East Asia

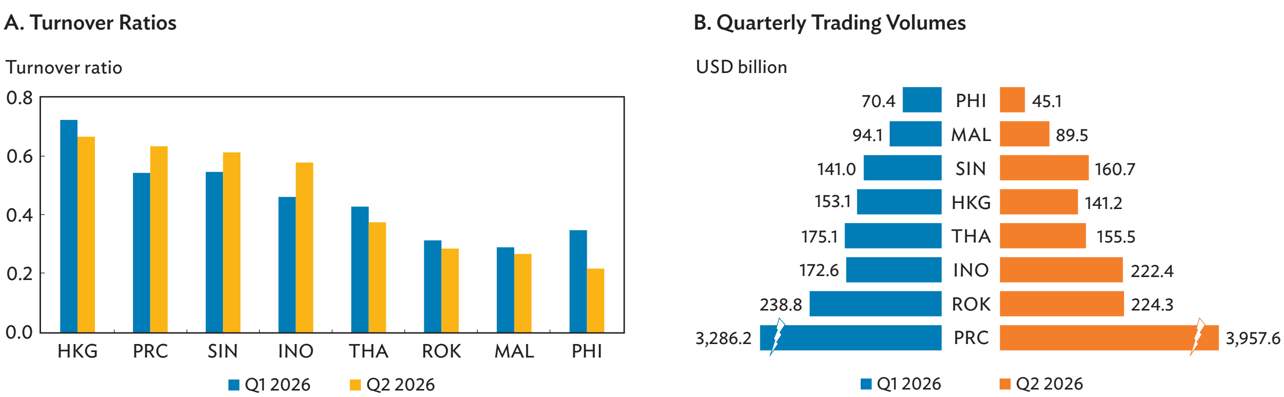


EEA = emerging East Asia; HKG = Hong Kong, China; INO = Indonesia; MAL = Malaysia; PHI = Philippines; PRC = People's Republic of China; Q1 = first quarter; Q2 = second quarter; RHS = right-hand side; ROK = Republic of Korea; SIN = Singapore; THA = Thailand; VIE = Viet Nam.

Notes:
1. Emerging East Asia is defined to include the Association of Southeast Asian Nations plus the People's Republic of China; Hong Kong, China; and the Republic of Korea.
2. Bid–ask spreads are for 10-year government bonds.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Figure 16: Local Currency Government Bond Turnover Ratios and Trading Volumes in Emerging East Asian Markets



HKG = Hong Kong, China; INO = Indonesia; MAL = Malaysia; PHI = Philippines; PRC = People's Republic of China; Q1 = first quarter; Q2 = second quarter; ROK = Republic of Korea; SIN = Singapore; THA = Thailand; USD = United States dollar.

Note: Turnover ratios are calculated as local currency trading volume (sales amount only) divided by average local currency value of outstanding bonds during each 3-month period.

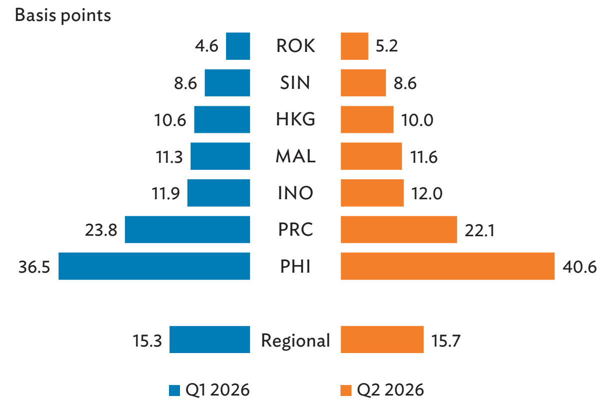
Sources: People's Republic of China (CEIC); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Indonesia Stock Exchange); Republic of Korea (*EDAILY Bondweb* and the Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Philippine Dealing and Exchange Corporation); Singapore (Monetary Authority of Singapore and Singapore Government Securities); and Thailand (Bank of Thailand and Thai Bond Market Association).

Corporate Bond Market

Market liquidity in emerging East Asia's corporate bond markets remained tight in Q2, with average regional bid–ask spreads widening slightly to 15.7 bps from 15.3 bps in the previous quarter (**Figure 17**). The marginal increase was largely driven by the Philippines, where corporate bid–ask spreads recorded an increase of 4.1 bps as subdued investor sentiment, dampened by high inflation and moderating economic growth in Q2, weighed on trading activity. The Philippines also continued to record the widest bid–ask spreads in the region, reflecting the relatively illiquid nature of its corporate bond market due to its predominantly buy-and-hold investor base.

Corporate bond turnover ratios were mostly unchanged in Q2, except in Indonesia and Hong Kong, China (**Figure 18A**). Trading activity in Indonesia was spurred by a rebound in corporate bond issuance in the latter part of the quarter due to increased refinancing requirements and expectations of rate hikes. Similarly, Hong Kong, China saw an increase in corporate bond trading activity following the Hong Kong Monetary Authority's liquidity injection in May. Indonesia and Hong Kong, China recorded the largest increases in trading volume in the region in Q2 (**Figure 18B**).

Figure 17: Average Bid–Ask Spreads for Local Currency Corporate Bonds

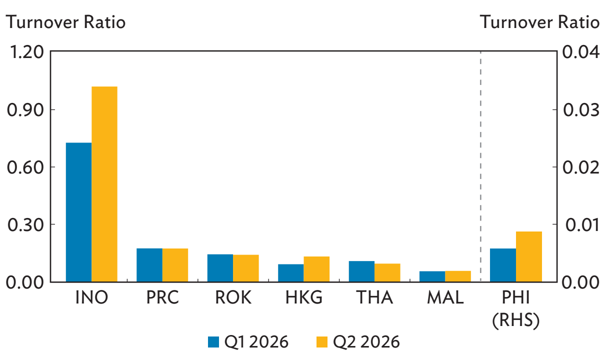


EEA = emerging East Asia; HKG = Hong Kong, China; INO = Indonesia; MAL = Malaysia; PHI = Philippines; PRC = People's Republic of China; Q1 = first quarter; Q2 = second quarter; ROK = Republic of Korea; SIN = Singapore.

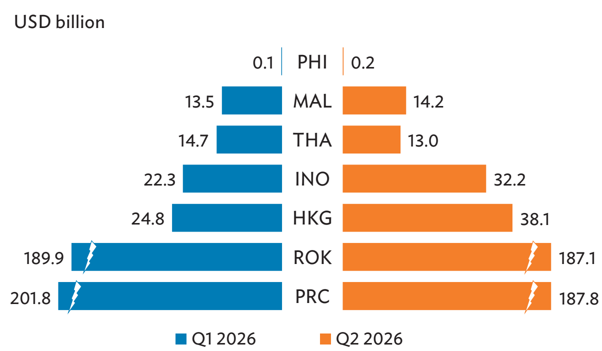
Sources: *AsianBondsOnline* calculations based on various local market sources.

Figure 18: Local Currency Corporate Bond Turnover Ratios and Trading Volumes in Emerging East Asian Markets

A. Turnover Ratios



B. Quarterly Trading Volumes



HKG = Hong Kong, China; INO = Indonesia; MAL = Malaysia; PHI = Philippines; PRC = People's Republic of China; Q1 = first quarter; Q2 = second quarter; ROK = Republic of Korea; THA = Thailand; USD = United States dollar.

Note: Turnover ratios are calculated as local currency trading volume (sales amount only) divided by the average local currency value of outstanding bonds during each 3-month period.

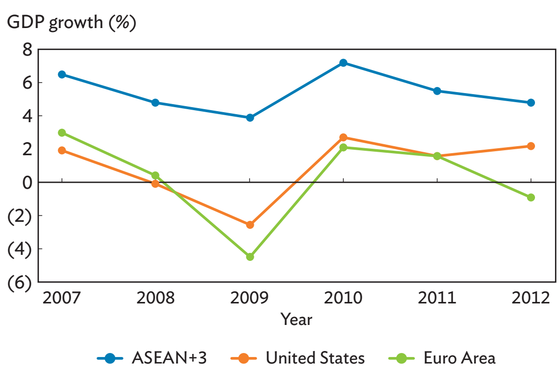
Sources: People's Republic of China (CEIC); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Indonesia Stock Exchange); Republic of Korea (*EDAILY Bondweb* and the Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Philippine Dealing and Exchange Corporation); and Thailand (Bank of Thailand and Thai Bond Market Association).

Box 1: Local Currency Bond Markets and Economic Resilience After Financial Crises

The 1997/98 Asian financial crisis (AFC) fundamentally reshaped policymakers' understanding of financial stability in emerging Asia. One of its most important lessons was that excessive reliance on short-term foreign currency borrowing exposed economies to severe currency and maturity mismatches. When capital suddenly flowed out of the region, exchange rates collapsed, external debt burdens surged, and financial instability quickly spread to the real economy. To reduce these vulnerabilities while preserving monetary policy autonomy, ASEAN+3 economies launched the Asian Bond Markets Initiative (ABMI) in 2002 to deepen local currency (LCY) bond markets and mobilize regional savings for domestic investment.[a]

Following the global financial crisis (GFC), ASEAN+3 member economies returned to relatively robust growth much more rapidly than advanced economies (**Figure B1.1**). One important structural change in the region during this period was the rapid development of LCY bond markets, which reduced reliance on foreign currency borrowing and enhanced the capacity of governments and firms to obtain stable domestic funding. At the Group of Twenty Cannes Summit in 2011, world leaders launched an initiative to prepare an Action Plan for the Development of Local Currency Bond Markets, reflecting the growing consensus that deep domestic bond markets are essential for emerging economies worldwide.

Figure B1.1: Recovery in Real Gross Domestic Product Growth After the Global Financial Crisis



( ) = negative, GDP = gross domestic product.

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

Source: International Monetary Fund (IMF). April 2026. *IMF World Economic Outlook*. Washington, DC.

A growing body of literature suggests that well-developed LCY markets contribute to financial and economic resilience by reducing currency and maturity mismatches, broadening the domestic investor base, and improving access to long-term financing (Eichengreen and Hausmann 1999). These mechanisms are expected to strengthen economies' ability to absorb external shocks while preserving monetary policy autonomy.

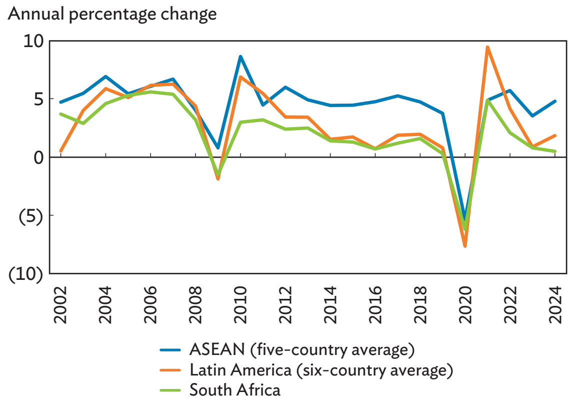
More than 2 decades have passed since the establishment of the ABMI, yet surprisingly little empirical evidence exists on whether the expansion of LCY bond markets has strengthened macroeconomic performance. Much of the existing literature focuses on the determinants of bond market development, market liquidity, institutional frameworks, and financial stability, while the broader implications of bond market development for economic growth remain underexplored.[b] One of the few studies directly addressing this issue is Nneka et al. (2025), which investigates the relationship between bond market development and long-run economic growth in a sample of developing economies from 1990 to 2020. They examine the effects of government and corporate bond market capitalization on gross domestic product (GDP) per capita and argue that governments should further promote bond market development, improve issuance procedures, and attract a broader investor base to enhance the contribution of bond markets to economic growth.

Osada et al. (forthcoming) examine the different but equally important question of whether the development of LCY bond markets is related to economies' ability to recover from adverse external shocks. The study examines 12 emerging economies across ASEAN, Latin America, and Africa from 2003 to 2024. **Figure B1.2** compares GDP growth across the three regions and reveals a striking divergence in their post-crisis growth trajectories. Before the GFC, all three regions recorded broadly similar GDP growth rates of around 6%. Following the GFC and the COVID-19 pandemic, however, average growth in Latin American economies and South Africa fell below 2%, while ASEAN economies maintained growth rates of

continued on next page

Box 1 *continued*

Figure B1.2: Recovery in Real GDP Growth After the Global Financial Crisis and the COVID-19 Pandemic

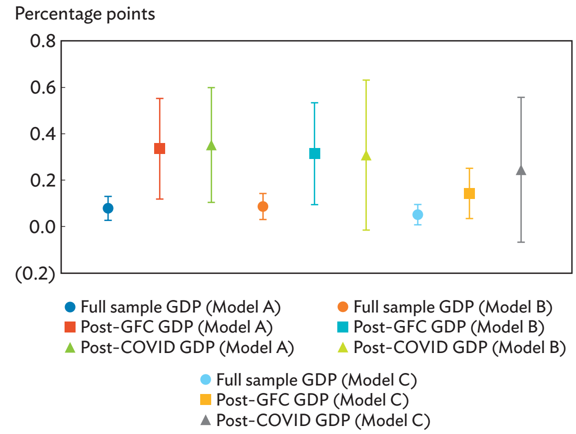


( ) = negative, COVID-19 = coronavirus disease, GDP = gross domestic product.

Notes: The Association of Southeast Asian Nations denotes the simple average of Indonesia, Malaysia, the Philippines, Singapore, and Thailand. Latin America denotes the simple average of Argentina, Brazil, Chile, Colombia, Mexico, and Peru. South Africa refers to the observations for South Africa only.

Source: International Monetary Fund (IMF). April 2026. *IMF World Economic Outlook*. Washington, DC.

Figure B1.3: Effects of LCY Bond Market Development on Real GDP Growth



( ) = negative, COVID-19 = coronavirus disease, GDP = gross domestic product, GFC = global financial crisis, LCY = local currency.

Notes: To examine the relationship between LCY bond market development and macroeconomic performance, measured by real GDP growth, we estimate several panel regression models. The dependent variable in Models A, B, and C is real GDP growth, and the main explanatory variable is the lagged ratio of local currency government bonds outstanding to GDP (LCY–GDP ratio). The figures report the estimated coefficients and 90% confidence intervals for this variable across the different model specifications. The analysis is conducted using the full sample period (2003–2024) and two post-crisis subsamples: (i) the 4 years following the global financial crisis (2010–2013), and (ii) the 4 years following the COVID-19 pandemic (2021–2024). The estimated coefficients indicate how much a 1 percentage point increase in the LCY–GDP ratio is associated with next-period GDP growth, measured in percentage points. Model A is a parsimonious specification with no additional control variables. Model B includes an interaction term between the LCY bond market variable and an Association of Southeast Asian Nations (ASEAN) dummy to examine whether the effect of LCY bond market development differs between ASEAN and non-ASEAN economies. Model C further includes the lagged real interest rate to control for financing conditions. All models include economy- and year-fixed effects, and standard errors are clustered at the country level.

Source: Osada, T., S. Yamadera, S. Nakagawa, and Y. Yamashita. Forthcoming. The Region's V-Shaped Recoveries from the Global Financial Crisis and COVID-19.

approximately 6%. This contrast suggests that ASEAN economies exhibited considerably greater resilience to major external shocks.

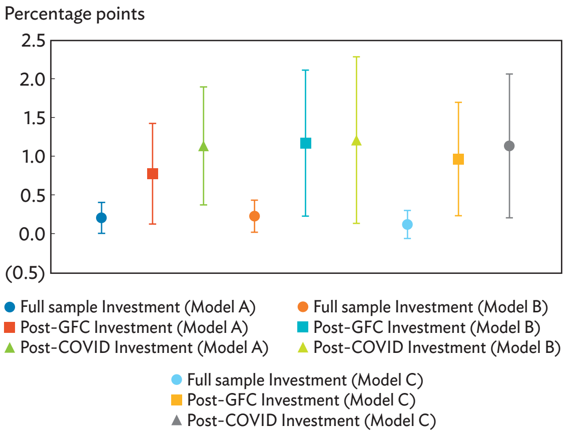
Panel regressions incorporating both economy- and year-fixed effects show that LCY bond market development has a modest but statistically significant positive association with economic growth and investment. Across several specifications using the full sample from Osada et al. (forthcoming), a 1 percentage point increase in the ratio of LCY government bonds outstanding to GDP (LCY–GDP ratio) is associated with an approximately 0.1 percentage points increase in real GDP growth. More strikingly, this association becomes substantially stronger in the aftermath of major crises. During the 4 years following the GFC and the COVID-19 pandemic, the corresponding increase in real GDP growth is approximately 0.3 percentage points. Thus, countries with more developed LCY bond markets appear to have experienced stronger economic recoveries following major adverse shocks (**Figure B1.3**).

The relationship is even more pronounced for investment, measured by the growth rate of gross fixed capital formation. Over the full sample period, a 1 percentage point increase in the LCY–GDP ratio is associated with an increase of approximately 0.2 percentage points in investment growth. During the post-GFC and post-COVID-19 periods, however, the estimated association rises sharply to approximately 0.8–1.2 percentage points. Moreover, the estimates for these post-crisis periods are statistically more significant than those for the full sample (**Figure B1.4**).[c]

continued on next page

Box 1 *continued*

Figure B1.4: Effects of LCY Bond Market Development on Investment Growth



( ) = negative, COVID-19 = coronavirus disease, GFC = global financial crisis, LCY = local currency.

Notes: To examine the relationship between LCY bond market development and macroeconomic performance, measured by the growth rate of gross fixed capital formation, we estimate several panel regression models. The dependent variable in Models A, B, and C is the growth rate of gross fixed capital formation (investment growth), and the main explanatory variable is the lagged ratio of local currency government bonds outstanding to gross domestic product (GDP) (LCY–GDP ratio). The figures report the estimated coefficients and 90% confidence intervals for this variable across the different model specifications. The analysis is conducted using the full sample period (2003–2024) and two post-crisis subsamples: (i) the 4 years following the global financial crisis (2010–2013), and (ii) the 4 years following the COVID-19 pandemic (2021–2024). The estimated coefficients indicate how much a 1 percentage point increase in the LCY–GDP ratio is associated with next-period investment growth, measured in percentage points. Model A is a parsimonious specification with no additional control variables. Model B includes an interaction term between the LCY bond market variable and an Association of Southeast Asian Nations (ASEAN) dummy to examine whether the effect of LCY bond market development differs between ASEAN and non-ASEAN economies. Model C further includes the lagged real interest rate to control for financing conditions. All models include economy- and year-fixed effects, and standard errors are clustered at the country level.

Source: Osada, T., S. Yamadera, S. Nakagawa, and Y. Yamashita. Forthcoming. The Region's V-Shaped Recoveries from the Global Financial Crisis and COVID-19.

These findings are consistent with the view that the primary contribution of LCY bond markets lies less in raising long-run growth than in strengthening macroeconomic resilience, a proposition that the mechanism identified in earlier literature would also predict. An important avenue for future research is to examine more directly whether the development of LCY bond markets has strengthened the region's resilience to external financial shocks. In this respect, the post-COVID-19 monetary tightening cycle provides a particularly informative comparison with the AFC. Unlike the GFC and the COVID-19 crisis, both of which were accompanied by sharp declines in United States (US) interest rates, the post-pandemic period was characterized by rapid US monetary tightening, widening interest rate differentials, depreciation pressures on Asian currencies, and renewed concerns about capital outflows—conditions that more closely resembled those prevailing around the AFC. Yet, despite these similarities, another regional currency crisis did not materialize. One possible explanation is that the substantial expansion of LCY bond markets since the AFC reduced reliance on short-term US dollar financing and thereby mitigated currency and maturity mismatches. At the same time, LCY bond market development should not be viewed as the sole explanation. Greater exchange rate flexibility, larger foreign exchange reserves, stronger banking regulations, and enhanced macroprudential frameworks are also likely to have contributed to the region's improved resilience. Comparing the AFC with the post-COVID-19 tightening episode would therefore provide a valuable opportunity to assess how LCY bond market development, together with broader institutional and policy reforms, has altered the transmission of external financial shocks in emerging Asia. Examining these episodes would provide direct empirical evidence on whether the policy response to the AFC has succeeded in reducing the structural financial vulnerabilities that originally motivated the creation of the ABMI.

continued on next page

Box 1 *continued*

References

Eichengreen, B., and R. Hausmann. 1999. Exchange Rate and Financial Fragility. *NBER Working Paper*. No. 7418. National Bureau of Economic Research.

Hausmann, R., and U. Panizza. 2003. On the Determinants of Original Sin: An Empirical Investigation. *Journal of International Money and Finance*. 22 (7). pp. 957–990.

Kim, C., D. Park, J. Park, and G. Tian. 2023. Local Currency Bond Market Development and Currency Stability amid Market Turmoil. *ADB Economics Working Paper Series*. No. 688. Asian Development Bank.

Nneka, U.J., C.A. Ngong, O.A. Ugoada, and J.U.J. Onwumere. 2025. Effect of Bond Market Development on Economic Growth of Selected Developing Countries. *Journal of Economic and Administrative Sciences*. 41 (1). pp. 132–148.

Osada, T., S. Yamadera, S. Nakagawa, and Y. Yamashita. Forthcoming. The Region's V-Shaped Recoveries from the Global Financial Crisis and COVID-19.

Park, C.Y., and K. Shin. 2025. The Development of Local Currency Bond Markets and Uncovered Interest Rate Parity. *Journal of International Money and Finance*. 154. 103310.

This box was written by Takeshi Osada (professor and vice dean of the Faculty of Economics), Shinobu Nakagawa (professor and dean of the Faculty of Economics), and Satoru Yamadera (specially appointed professor of the Faculty of Economics) at Saitama University; and Yuji Yamashita (principal economist) at the Asian Development Bank.

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

[b] Hausmann and Panizza (2003) explore the determinants of a country's capacity to borrow at home at long duration and in local currency, finding that monetary credibility and the presence of capital controls are positively correlated with this capacity. Kim et al. (2023) investigate how the development of an LCY bond market brings stability to the financial market, based on annual economy panel data set for 1989–2020. Park and Shin (2025) examine how the development of LCY bond markets and the expansion of non-bank financial institutions affect the uncovered interest parity condition in emerging market economies.

[c] These estimates should be read as associations rather than causal effects. The LCY-to-GDP ratio rises mechanically when output falls and when governments issue debt countercyclically, both of which occur around crises; therefore, part of the stronger post-crisis association may reflect these dynamics rather than a causal contribution of bond market development. The post-crisis estimates also rest on two episodes across 12 economies, which limits the precision with which they can be identified.

Appendix

Table A1: Size and Composition of Emerging East Asian Local Currency Debt Securities

	Q2 2025		Q1 2026		Q2 2026			Growth Rate (%)	
								Q2 2026	
	Amount (USD billion)	% of GDP	Amount (USD billion)	% of GDP	Amount (USD billion)	% share	% of GDP	q-o-q	y-o-y
People's Republic of China									
Total	23,072	120.2	25,996	126.4	27,040	100.0	127.6	2.4	11.0
Treasury and Other Government	15,882	82.8	18,027	87.7	18,673	69.1	88.1	2.0	11.4
Central Bank	0	0.00	0	0.0	0	0.0	0.0	–	–
Corporate	7,190	37.5	7,968	38.8	8,367	30.9	39.5	3.4	10.2
Hong Kong, China									
Total	421	101.7	481	111.7	511	100.0	116.8	6.3	21.2
Treasury and Other Government	37	9.0	39	9.0	40	7.8	9.1	2.8	5.7
Central Bank	169	40.8	172	40.0	173	33.9	39.6	0.6	2.4
Corporate	215	51.9	270	62.7	298	58.4	68.2	10.4	38.7
Indonesia									
Total	482	34.2	493	34.4	492	100.0	35.3	5.1	12.4
Treasury and Other Government	399	28.3	408	28.5	398	80.9	28.5	2.6	9.8
Central Bank	52	3.7	51	3.6	62	12.6	4.5	27.8	31.2
Corporate	31	2.2	33	2.3	32	6.4	2.3	0.7	13.8
Republic of Korea									
Total	2,490	129.5	2,315	126.3	2,306	100.0	120.8	1.6	6.0
Treasury and Other Government	978	50.9	924	50.4	928	40.3	48.6	2.5	8.6
Central Bank	78	4.1	63	3.4	63	2.7	3.3	2.3	(8.0)
Corporate	1,433	74.5	1,328	72.5	1,315	57.0	68.8	0.9	5.0
Malaysia									
Total	518	129.3	564	129.8	575	100.0	131.5	2.8	7.5
Treasury and Other Government	304	75.9	326	75.1	334	58.0	76.3	3.1	6.3
Central Bank	0	0.0	0	0.0	0	0.0	0.0	–	–
Corporate	214	53.4	238	54.8	241	42.0	55.2	2.2	9.3
Philippines									
Total	245	50.5	232	49.6	237	100.0	50.3	3.3	5.3
Treasury and Other Government	210	43.2	205	43.8	210	88.7	44.7	3.8	9.2
Central Bank	13	2.7	3	0.7	2	1.0	0.5	(29.0)	(80.9)
Corporate	22	4.6	24	5.1	24	10.3	5.2	3.2	18.5
Singapore									
Total	686	111.6	708	113.2	705	100.0	110.2	0.2	4.6
Treasury and Other Government	252	41.0	266	42.6	265	37.6	41.4	0.1	7.1
Central Bank	277	45.0	276	44.1	273	38.7	42.6	(0.5)	0.2
Corporate	157	25.5	166	26.5	167	23.7	26.2	1.6	8.5
Thailand									
Total	529	91.1	550	94.9	548	100.0	94.3	0.3	5.8
Treasury and Other Government	321	55.2	332	57.3	334	61.1	57.6	1.4	6.6
Central Bank	72	12.4	82	14.2	80	14.6	13.8	(2.1)	13.6
Corporate	137	23.5	135	23.3	133	24.3	22.9	(0.7)	(0.4)
Viet Nam									
Total	134	28.8	150	30.0	153	100.0	29.6	1.7	15.3
Treasury and Other Government	92	19.8	100	19.9	103	67.2	19.9	3.0	12.6
Central Bank	6	1.4	11	2.2	8	5.3	1.6	(25.8)	29.0
Corporate	35	7.6	40	7.9	42	27.5	8.1	6.0	19.9
Emerging East Asia									
Total	28,577	112.1	31,487	117.2	32,566	100.0	118.1	2.4	10.5
Treasury and Other Government	18,475	72.5	20,627	76.8	21,285	65.4	77.2	2.0	11.0
Central Bank	668	2.6	658	2.4	661	2.0	2.4	1.4	2.4
Corporate	9,434	37.0	10,202	38.0	10,620	32.6	38.5	3.1	10.1
Japan									
Total	9,763	215.2	8,972	211.7	8,792	100.0	210.8	0.4	1.6
Treasury and Other Government	8,990	198.1	8,268	195.1	8,098	92.1	194.2	0.3	1.7
Central Bank	21	0.5	6	0.2	5	0.1	0.1	(12.8)	(70.4)
Corporate	753	16.6	698	16.5	688	7.8	16.5	1.0	3.2

( ) = negative, – = not applicable, GDP = gross domestic product, Q1 = first quarter, Q2 = second quarter, q-o-q = quarter-on-quarter, USD = United States dollar, y-o-y = year-on-year.

Notes:
1. Emerging East Asia is defined to include the 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. For Singapore, corporate debt securities outstanding are based on *AsianBondsOnline* estimates.
3. Growth rates are calculated from a local currency base and do not include currency effects. For emerging East Asia, growth figures are based on 30 June 2026 currency exchange rates and do not include currency effects.
4. GDP data are from CEIC Data Company.
5. Bloomberg LP end-of-period local currency–USD rates are used.

Sources: People's Republic of China (CEIC Data Company); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; and Indonesia Stock Exchange); Japan (Japan Securities Dealers Association); Republic of Korea (Bank of Korea and KG Zeroin Corporation); Malaysia (Bank Negara Malaysia); Philippines (Bangko Sentral ng Pilipinas, Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority Singapore and Bloomberg LP); Thailand (Bank of Thailand and Thai Bond Market Association); United States (Securities Industry and Financial Markets Association and Bloomberg LP); and Viet Nam (Hanoi Stock Exchange, State Bank of Vietnam, Vietnam Bond Market Association, and Bloomberg LP).

Table A2: Size and Composition of Emerging East Asian Local Currency Bonds

	Q2 2025		Q1 2026		Q2 2026			Growth Rate (%)	
								Q2 2026	
	Amount (USD billion)	% of GDP	Amount (USD billion)	% of GDP	Amount (USD billion)	% share	% of GDP	q-o-q	y-o-y
People's Republic of China									
Total	21,636	112.7	24,349	118.4	25,565	100.0	120.7	3.4	11.9
Treasury and Other Government	14,783	77.0	16,752	81.5	17,579	68.8	83.0	3.3	12.7
Central Bank	0	0.00	0	0.00	0	0.0	0.0	–	–
Corporate	6,853	35.7	7,597	36.9	7,986	31.2	37.7	3.5	10.4
Hong Kong, China									
Total	186	44.8	209	48.6	231	100.0	52.8	10.3	24.3
Treasury and Other Government	37	8.9	38	8.8	39	16.8	8.9	2.8	5.8
Central Bank	2	0.5	2	0.4	2	0.8	0.4	0.0	(8.0)
Corporate	147	35.5	170	39.4	190	82.4	43.5	12.0	29.3
Indonesia									
Total	425	30.1	434	30.3	421	100.0	30.2	2.1	9.0
Treasury and Other Government	394	27.9	401	28.0	389	92.5	27.9	2.2	8.7
Central Bank	0	0.0	0	0.0	0	0.0	0.0	–	–
Corporate	31	2.2	33	2.3	32	7.5	2.3	0.7	13.8
Republic of Korea									
Total	2,364	122.9	2,175	118.6	2,158	100.0	113.0	1.2	4.5
Treasury and Other Government	969	50.4	914	49.9	920	42.6	48.2	2.6	8.7
Central Bank	69	3.6	55	3.0	56	2.6	2.9	2.8	(8.0)
Corporate	1,326	68.9	1,205	65.7	1,182	54.8	61.9	0.0	2.0
Malaysia									
Total	483	120.5	529	121.9	541	100.0	123.7	3.0	8.5
Treasury and Other Government	303	75.5	323	74.4	331	61.2	75.7	3.2	6.0
Central Bank	0.0	0.0	0.0	0.0	0	0.0	0.0	–	–
Corporate	181	45.1	206	47.4	210	38.8	48.0	2.7	12.6
Philippines									
Total	216	44.5	212	45.4	216	100.0	45.8	2.7	8.6
Treasury and Other Government	194	39.9	188	40.3	191	88.7	40.6	2.6	7.4
Central Bank	0	0.0	0	0.0	0	0.0	0.0	–	–
Corporate	22	4.6	24	5.1	24	11.3	5.2	3.2	19.1
Singapore									
Total	245	39.9	256	40.9	253	100.0	39.6	(0.4)	5.1
Treasury and Other Government	160	26.0	168	26.8	164	64.8	25.6	(1.5)	4.3
Central Bank	1	0.2	0	0.1	0	0.0	0.0	(100.0)	(100.0)
Corporate	84	13.7	88	14.1	89	35.2	13.9	2.0	7.7
Thailand									
Total	448	77.1	466	80.4	464	100.0	79.9	0.4	5.9
Treasury and Other Government	308	52.9	324	56.0	327	70.3	56.2	1.4	8.5
Central Bank	10	1.8	13	2.3	12	2.7	2.1	(6.6)	22.4
Corporate	130	22.4	128	22.1	125	27.0	21.6	(1.4)	(1.5)
Viet Nam									
Total	127	27.5	139	27.8	145	100.0	28.1	3.8	14.6
Treasury and Other Government	92	19.8	100	19.9	103	71.0	19.9	3.0	12.6
Central Bank	0	0.0	0	0.0	0	0.0	0.0	–	–
Corporate	35	7.6	40	7.9	42	29.0	8.1	6.0	19.9
Emerging East Asia									
Total	26,131	102.5	28,769	107.1	29,993	100.0	108.8	3.1	11.2
Treasury and Other Government	17,239	67.6	19,208	71.5	20,042	66.8	72.7	3.2	12.1
Central Bank	83	0.3	71	0.3	70	0.2	0.3	0.4	(5.0)
Corporate	8,809	34.6	9,490	35.3	9,880	32.9	35.8	3.1	9.6
Japan									
Total	9,282	204.6	8,520	201.1	8,379	100.0	200.9	0.7	1.9
Treasury and Other Government	8,706	191.9	7,990	188.5	7,845	93.6	188.1	0.6	1.7
Central Bank	21	0.5	6	0.2	5	0.1	0.1	(12.8)	(70.4)
Corporate	555	12.2	524	12.4	528	6.3	12.7	3.3	7.4

( ) = negative, – = not applicable, GDP = gross domestic product, Q1 = first quarter, Q2 = second quarter, q-o-q = quarter-on-quarter, USD = United States dollar, y-o-y = year-on-year.

Notes:

1. Emerging East Asia is defined to include the 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. Bonds are defined as debt securities with maturities exceeding 1 year.
3. For the People's Republic of China, Malaysia, the Republic of Korea, and Singapore, bonds outstanding are based on *AsianBondsOnline* estimates.
4. Growth rates are calculated from a local currency base and do not include currency effects. For emerging East Asia, growth figures are based on 30 June 2026 currency exchange rates and do not include currency effects.
5. GDP data are from CEIC Data Company.
6. Bloomberg LP end-of-period local currency–USD rates are used.

Sources: People's Republic of China (CEIC Data Company and Bloomberg LP); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Directorate General of Budget Financing and Risk Management, Ministry of Finance and Indonesia Stock Exchange); Japan (Japan Securities Dealers Association and Bloomberg LP); Republic of Korea (Bank of Korea, Bloomberg LP, and KG Zeroin Corporation); Malaysia (Bank Negara Malaysia and Bloomberg LP); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority Singapore and Bloomberg LP); Thailand (Bank of Thailand and Thai Bond Market Association); United States (Securities Industry and Financial Markets Association and Bloomberg LP); and Viet Nam (Hanoi Stock Exchange, State Bank of Vietnam, Vietnam Bond Market Association, and Bloomberg LP).

Table A3: Local-Currency-Denominated Debt Securities Issuance

	Q2 2025		Q1 2026		Q2 2026		Growth Rate (%) Q2 2026	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	q-o-q	y-o-y
People's Republic of China								
Total	2,062	100.0	1,841	100.0	2,052	100.0	9.7	(5.7)
Treasury and Other Government	1,235	59.9	1,196	65.0	1,129	55.0	(7.1)	(13.4)
Central Bank	0	0.0	0	0.0	0	0.0	–	–
Corporate	827	40.1	644	35.0	923	45.0	41.0	5.7
Hong Kong, China								
Total	184	100.0	196	100.0	209	100.0	6.7	13.3
Treasury and Other Government	2	0.9	1	0.6	1	0.6	10.5	(22.2)
Central Bank	135	73.3	126	64.5	139	66.6	10.2	3.0
Corporate	48	25.8	68	34.9	69	32.8	0.1	43.9
Indonesia								
Total	39	100.0	42	100.0	53	100.0	33.0	49.1
Treasury and Other Government	16	40.9	17	41.6	21	39.1	24.8	42.5
Central Bank	21	53.4	21	51.0	31	58.0	51.3	62.0
Corporate	2	5.8	3	7.4	2	3.0	(46.8)	(23.4)
Republic of Korea								
Total	209	100.0	179	100.0	204	100.0	16.1	11.7
Treasury and Other Government	64	30.6	56	31.5	56	27.5	1.5	0.4
Central Bank	13	6.4	12	6.8	12	5.9	1.5	3.6
Corporate	132	63.0	111	61.8	136	66.6	25.1	17.9
Malaysia								
Total	21	100.0	26	100.0	32	100.0	21.4	49.9
Treasury and Other Government	10	46.1	12	46.7	14	43.4	13.0	41.3
Central Bank	0	0.0	0	0.0	0	0.0	–	–
Corporate	11	53.9	14	53.3	18	56.6	28.7	57.3
Philippines								
Total	48	100.0	39	100.0	29	100.0	(24.9)	(34.4)
Treasury and Other Government	20	40.6	20	50.6	16	56.5	(16.1)	(8.7)
Central Bank	28	57.3	16	40.0	11	37.8	(29.2)	(56.7)
Corporate	1	2.1	4	9.4	2	5.7	(54.2)	82.1
Singapore								
Total	451	100.0	430	100.0	421	100.0	(1.6)	(5.0)
Treasury and Other Government	52	11.5	54	12.6	50	11.8	(7.9)	(2.2)
Central Bank	398	88.3	372	86.5	367	87.2	(0.8)	(6.1)
Corporate	1	0.2	4	0.9	4	1.0	4.0	289.7
Thailand								
Total	67	100.0	66	100.0	64	100.0	(2.2)	(2.6)
Treasury and Other Government	19	28.3	16	24.4	14	21.9	(12.0)	(24.5)
Central Bank	38	56.0	40	61.0	38	59.7	(4.2)	3.8
Corporate	10	15.7	10	14.6	12	18.3	22.8	14.1
Viet Nam								
Total	28	100.0	40	100.0	38	100.0	(6.3)	33.2
Treasury and Other Government	3	12.2	3	7.6	3	9.0	11.1	(2.1)
Central Bank	19	65.2	36	90.2	30	79.2	(17.8)	61.8
Corporate	6	22.6	0.9	2.2	4	11.8	400.7	(30.2)
Emerging East Asia								
Total	3,109	100.0	2,859	100.0	3,101	100.0	7.7	(2.5)
Treasury and Other Government	1,420	45.7	1,377	48.2	1,305	42.1	(6.3)	(11.6)
Central Bank	651	20.9	624	21.8	628	20.2	1.3	(1.5)
Corporate	1,038	33.4	859	30.0	1,169	37.7	34.9	9.5
Japan								
Total	370	100.0	346	100.0	320	100.0	(5.3)	(2.6)
Treasury and Other Government	333	90.0	326	94.2	288	90.0	(9.5)	(2.6)
Central Bank	0	0.0	0	0.0	0	0.0	–	–
Corporate	37	10.0	20	5.8	32	10.0	62.9	(2.6)

( ) = negative, – = not applicable, Q1 = first quarter, Q2 = second quarter, q-o-q = quarter-on-quarter, USD = United States dollar, y-o-y = year-on-year.

Notes:
1. Data reflect gross debt securities issuance.
2. Bloomberg LP end-of-period local currency–USD rates are used.
3. Growth rates are calculated from a local currency base and do not include currency effects. For emerging East Asia, growth figures are based on 30 June 2026 currency exchange rates and do not include currency effects.

Sources: People's Republic of China (CEIC Data Company); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia, Directorate General of Budget Financing and Risk Management, Ministry of Finance; and Indonesia Stock Exchange); Japan (Japan Securities Dealers Association); Republic of Korea (Bank of Korea and KG Zeroin Corporation); Malaysia (Bank Negara Malaysia); Philippines (Bangko Sentral ng Pilipinas, Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore and Bloomberg LP); Thailand (Bank of Thailand and Thai Bond Market Association); and Viet Nam (Hanoi Stock Exchange, State Bank of Vietnam, Vietnam Bond Market Association, and Bloomberg LP).

Table A4: Local-Currency-Denominated Debt Bond Issuance

	Q2 2025		Q1 2026		Q2 2026		Growth Rate (%) Q2 2026	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	q-o-q	y-o-y
People's Republic of China								
Total	1,673	100.0	1,464	100.0	1,697	100.0	14.1	(3.9)
Treasury and Other Government	985	58.8	980	66.9	936	55.2	(6.0)	(9.9)
Central Bank	0	0.0	0	0.0	0	0.0	–	–
Corporate	689	41.2	484	33.1	761	44.8	54.7	4.6
Hong Kong, China								
Total	16	100.0	19	100.0	27	100.0	41.8	73.1
Treasury and Other Government	2	9.7	1	5.3	1	4.2	12.5	(25.0)
Central Bank	0	1.0	0	0.8	0	0.6	(0.1)	(0.1)
Corporate	14	89.3	18	94	26	95.2	43.8	84.5
Indonesia								
Total	17	100.0	17	100.0	18	100.0	17.1	18.8
Treasury and Other Government	15	86.8	13	81.3	17	91.5	31.9	25.2
Central Bank	0	0.0	0	0.0	0	0.0	–	–
Corporate	2	13.2	3	18.7	2	8.5	(46.8)	(23.4)
Republic of Korea								
Total	166	100.0	133	100.0	151	100.0	16.0	4.2
Treasury and Other Government	56	33.8	52	38.8	50	33.4	(0.2)	2.8
Central Bank	9	5.2	9	6.6	8	5.4	(6.4)	7.8
Corporate	101	61.0	72	54.6	93	61.3	30.2	4.7
Malaysia								
Total	19	100.0	24	100.0	30	100.0	29.7	55.1
Treasury and Other Government	9	47.3	11	46.9	12	40.2	11.1	31.6
Central Bank	0	0.0	0	0.0	0	0.0	–	–
Corporate	10	52.7	13	53.1	18	59.8	46.1	76.3
Philippines								
Total	13	100.0	14	100.0	8	100.0	(45.1)	(33.7)
Treasury and Other Government	12	92.2	11	80.1	6	78.6	(46.1)	(43.5)
Central Bank	0	0.0	0	0.0	0	0.0	–	–
Corporate	1	7.8	3	19.9	2	21.4	(41.0)	82.1
Singapore								
Total	8	100.0	9	100.0	10	100.0	7.0	34.4
Treasury and Other Government	7	86.1	6	58.6	6	60.2	9.9	(6.0)
Central Bank	0	0.0	0	0.0	0	0.0	–	–
Corporate	1	13.9	4	41.4	4	39.8	2.9	284.4
Thailand								
Total	21	100.0	19	100.0	18	100.0	(2.7)	(12.0)
Treasury and Other Government	13	62.8	12	65.0	10	56.4	(15.6)	(20.9)
Central Bank	2	9.1	1	7.6	1	5.3	(32.6)	(49.1)
Corporate	6	28.1	5	27.4	7	38.3	36.0	19.7
Viet Nam								
Total	10	100.0	4	100.0	8	100.0	99.2	(20.3)
Treasury and Other Government	3	35.2	3	77.4	3	43.2	11.1	(2.1)
Central Bank	0	0.0	0	0.0	0	0.0	–	–
Corporate	6	64.8	0.89	22.6	4.5	56.8	400.7	(30.2)
Emerging East Asia								
Total	1,943	100.0	1,703	100.0	1,968	100.0	14.3	(2.2)
Treasury and Other Government	1,101	56.7	1,089	64.0	1,043	53.0	(5.5)	(9.1)
Central Bank	11	0.5	10	0.6	9	0.5	(10.0)	(3.6)
Corporate	831	42.8	603	35.4	916	46.6	50.4	7.0
Japan								
Total	296	100.0	262	100.0	263	100.0	2.7	0.1
Treasury and Other Government	267	90.0	243	92.7	234	88.9	(1.6)	(1.1)
Central Bank	0	0.0	0	0.0	0	0.0	–	–
Corporate	30	10.0	19	7.3	29	11.1	56.5	11.4

( ) = negative, – = not applicable, Q1 = first quarter, Q2 = second quarter, q-o-q = quarter-on-quarter, USD = United States dollar, y-o-y = year-on-year.

Notes:
1. Data reflect gross bond issuance.
2. Bonds are defined as debt securities with maturities exceeding 1 year.
3. Bloomberg LP end-of-period local currency–USD rates are used.
4. Growth rates are calculated from a local currency base and do not include currency effects. For emerging East Asia, growth figures are based on 30 June 2026 currency exchange rates and do not include currency effects.

Sources: People's Republic of China (CEIC Data Company and Bloomberg LP); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Directorate General of Budget Financing and Risk Management, Ministry of Finance; and Indonesia Stock Exchange); Japan (Japan Securities Dealers Association and Bloomberg LP); Republic of Korea (Bank of Korea, Bloomberg LP, and KG Zeroin Corporation); Malaysia (Bank Negara Malaysia and Bloomberg LP); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore and Bloomberg LP); Thailand (Bank of Thailand and Thai Bond Market Association); and Viet Nam (Hanoi Stock Exchange, State Bank of Vietnam, Vietnam Bond Market Association, and Bloomberg LP).

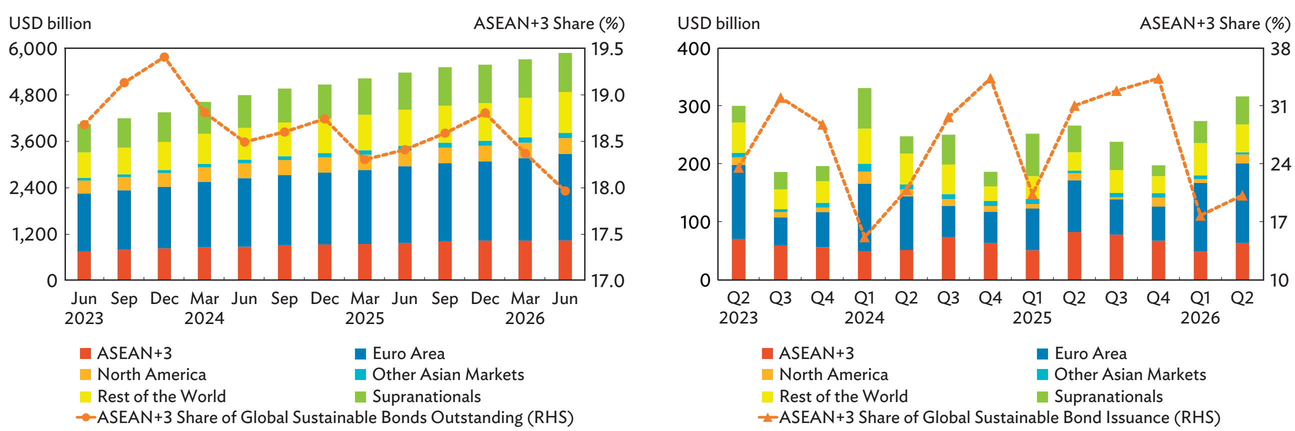
Recent Developments in the ASEAN+3 Sustainable Bond Market

ASEAN+3's sustainable bond market regained momentum in the second quarter (Q2) of 2026 as uncertainties in the Middle East eased.[8] The total amount of sustainable bonds outstanding rose by 0.6% quarter-on-quarter (q-o-q) to reach USD1,028.1 billion at the end of June (**Figure 19A**). The expansion was supported by a rebound in issuance, which increased by 31.3% q-o-q to USD64.1 billion from USD48.8 billion in the previous quarter. Globally, sustainable bond issuance increased by 15.5% q-o-q to USD316.9 billion in Q2 2026, supported by improved investor sentiment (**Figure 19B**). **Box 2** discusses how external shocks could influence green bond issuance. ASEAN+3 remained the world's second-largest regional sustainable bond market, accounting for 17.5% of the global total at the end of June, following only the euro area.[9] The euro area accounted for 38.1% of global sustainable bonds outstanding at the end of Q2 2026 after issuance rose by 15.4% q-o-q, driven largely by regulatory enhancements, including the European Union's Sustainability Omnibus, which streamlined sustainability reporting processes and due diligence requirements for firms.

Robust issuance in the markets of the PRC; Hong Kong, China; and the Republic of Korea drove ASEAN+3's sustainable bond issuance growth in Q2 2026 (**Figure 20A**). The PRC's sustainable bond issuance rose by 84.6% q-o-q, supported by active issuance from both the public and private sectors. Issuance in Hong Kong, China rose by 194.1% q-o-q, due mainly to the

Figure 19: Global Sustainable Bond Market

A. Global Sustainable Bonds Outstanding | **B. Global Sustainable Bond Issuance**



Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter, RHS = right-hand side, USD = United States dollar.

Notes:

1. ASEAN+3 comprises the member states of ASEAN plus the People's Republic of China; Hong Kong, China; Japan; and the Republic of Korea.
2. The euro area includes the member markets of Austria, Belgium, Bulgaria, Croatia, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain.
3. Data include both local currency and foreign currency sustainable bonds.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

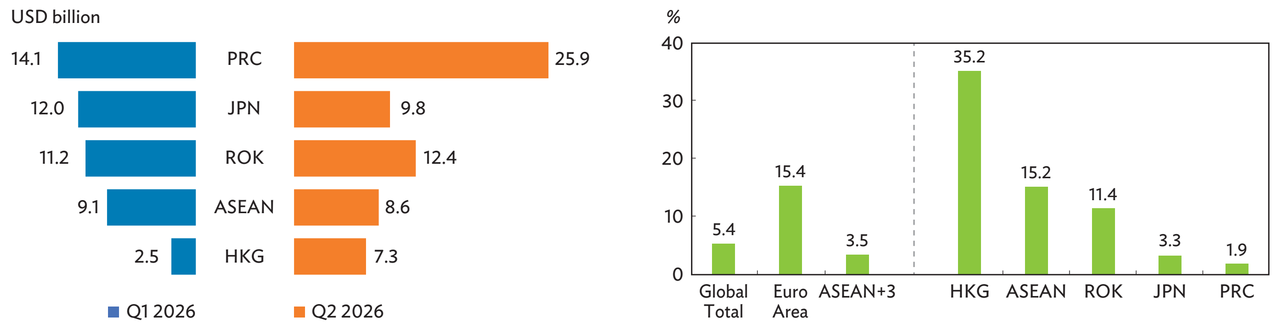
[8] ASEAN+3 comprises the member states of ASEAN plus the People's Republic of China; Hong Kong, China; Japan; and the Republic of Korea.

[9] The euro area includes the member markets of Austria, Belgium, Bulgaria, Croatia, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain.

Figure 20: Sustainable Bond Issuance

A. ASEAN+3 Sustainable Bond Issuance by Market in the First and Second Quarters of 2026

B. Sustainable Bond Issuance as a Share of Total Bond Issuance in the Second Quarter of 2026



ASEAN = Association of Southeast Asian Nations; HKG = Hong Kong, China; JPN = Japan; PRC = People's Republic of China; ROK = Republic of Korea; Q1 = first quarter; Q2 = second quarter; USD = United States dollar.

Notes:

1. ASEAN+3 is defined to include member states of ASEAN plus the People's Republic of China; Hong Kong, China; Japan; and the Republic of Korea.
2. The euro area includes the member markets of Austria, Belgium, Bulgaria, Croatia, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain.
3. Data include both local currency and foreign currency sustainable bonds.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

substantial green bond issuances of MTR Corporation. Sustainable bonds have become an important funding source in Hong Kong, China and ASEAN. In ASEAN markets, sustainable bonds comprised 15.2% of total bond issuance in Q2 2026, which is comparable to the euro area average (15.4%) and well above the global average (5.4%) (**Figure 20B**).

Market Profile

Compared to ASEAN+3's general bond market, the ASEAN+3 sustainable bond market has a more diversified market profile due to the broader participation of ASEAN economies. At the end of Q2 2026, the Republic of Korea, ASEAN, and Hong Kong, China accounted for 17.5%, 13.4%, and 5.2%, respectively, of the ASEAN+3 sustainable bond stock. By comparison, their respective shares of the general bond market were significantly lower at 5.4%, 5.9%, and 0.6% (**Figure 21A**).

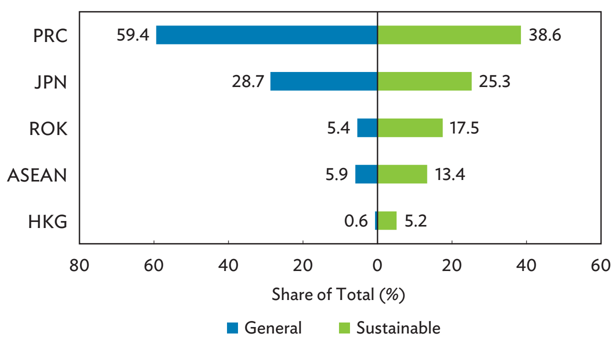
The PRC, Japan, and the Republic of Korea continued to lead ASEAN+3 in the issuance of green, transition, and social bonds, respectively. ASEAN accounted for 34.6% and 39.5% of ASEAN+3's sustainability and sustainability-linked bonds outstanding at the end of Q2 2026, which is significantly higher than ASEAN's share of 13.4% in the ASEAN+3 sustainable bond market (**Figure 21B**). Within ASEAN, Thailand leads in terms of sustainability-linked bonds, accounting for about 77% of ASEAN's sustainability-linked bonds outstanding, while sustainability bonds outstanding are more evenly distributed across Thailand, Malaysia, and the Philippines (**Figure 21C**).

Instrument Profile

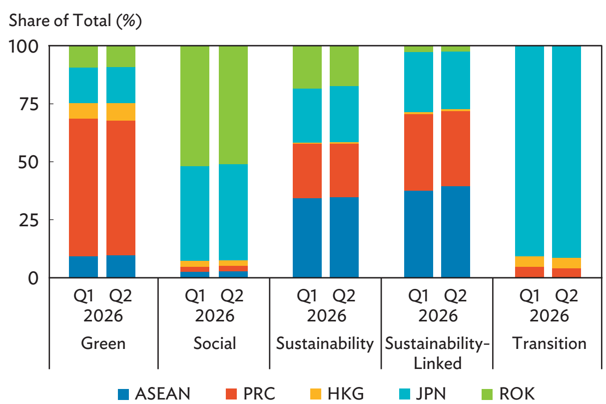
The ASEAN+3 sustainable bond market exhibits greater instrument diversity than the euro area sustainable bond market. ASEAN+3 recorded a lower—and declining (i.e., increasingly diversified)—Herfindahl–Hirschman Index (HHI) score throughout the review period than the euro area (**Figure 22A**). While green bonds remained the dominant instrument type in the ASEAN+3 sustainable bond market, accounting for 56.2% of bonds outstanding at the end of June, their share has gradually declined as other types of sustainable bond instruments gained traction. For example, the share of sustainability bonds outstanding increased from 14.4% at the end of June 2024 to 15.7% at the end of June 2026; sustainability-linked and transition bonds also increased their respective shares during this period. Within ASEAN+3, Japan and ASEAN markets have more diversified instrument profiles, whereas the PRC and Hong Kong, China remained concentrated in green bonds (**Figure 22B**).

Figure 21: Market Profiles of ASEAN+3 Sustainable Bonds Outstanding at the End of June 2026

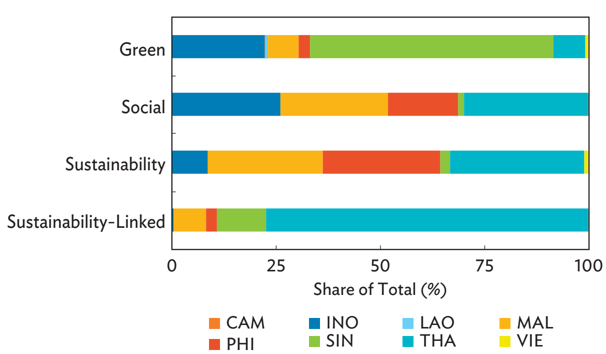
A. By Market



B. By Instrument



C. ASEAN Market Profile by Instrument Type at the End of June 2026



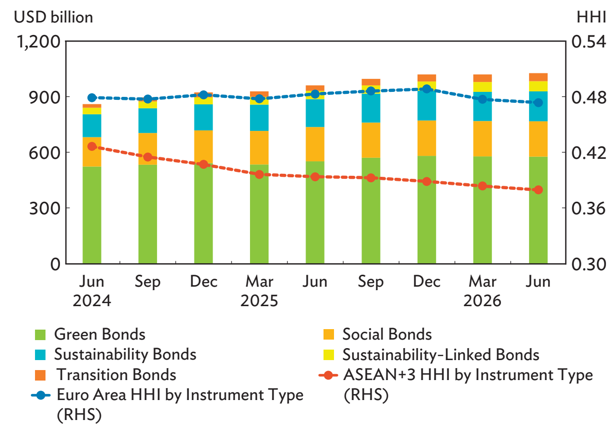
ASEAN = Association of Southeast Asian Nations; CAM = Cambodia; HKG = Hong Kong, China; INO = Indonesia; JPN = Japan; LAO = Lao People's Democratic Republic; MAL = Malaysia; PHI = Philippines; PRC = People's Republic of China; ROK = Republic of Korea; SIN = Singapore; THA = Thailand; VIE = Viet Nam.

Note: ASEAN+3 is defined to include member states of ASEAN plus the People's Republic of China; Hong Kong, China; Japan; and the Republic of Korea.

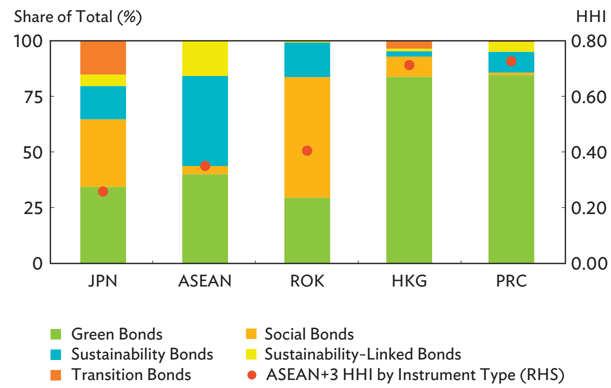
Source: *AsianBondsOnline* computations based on Bloomberg LP data.

Figure 22: Instrument Profile of ASEAN+3's Sustainable Bonds Outstanding

A. Instrument Type



B. Instrument Diversity at the End of June 2026



ASEAN = Association of Southeast Asian Nations; HHI = Herfindahl–Hirschman Index; HKG = Hong Kong, China; JPN = Japan; PRC = People's Republic of China; RHS = right-hand side; ROK = Republic of Korea; USD = United States dollar.

Notes:

1. The Herfindahl–Hirschman Index is a commonly accepted measure of market concentration. The index is used to measure the instrument profile diversification of a bond market and is calculated by summing the squared share of each instrument type in the market. A lower HHI indicates greater diversification across different instrument types, while a higher HHI suggests a more concentrated market structure dominated by fewer instruments.
2. ASEAN+3 is defined to include member states of ASEAN plus the People's Republic of China; Hong Kong, China; Japan; and the Republic of Korea.
3. ASEAN comprises the markets of Cambodia, Indonesia, the Lao People's Democratic Republic, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam.
4. The euro area includes the member markets of Austria, Belgium, Bulgaria, Croatia, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain.
5. Data include both local currency and foreign currency sustainable bonds.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

While sustainable bonds finance projects that generate environmental or social benefits, other investments that strengthen sustainability may also warrant consideration. Cybersecurity is one example, given its role in protecting critical infrastructure and essential services. **Box 3** discusses why cybersecurity risks may be relevant from a sustainability perspective.

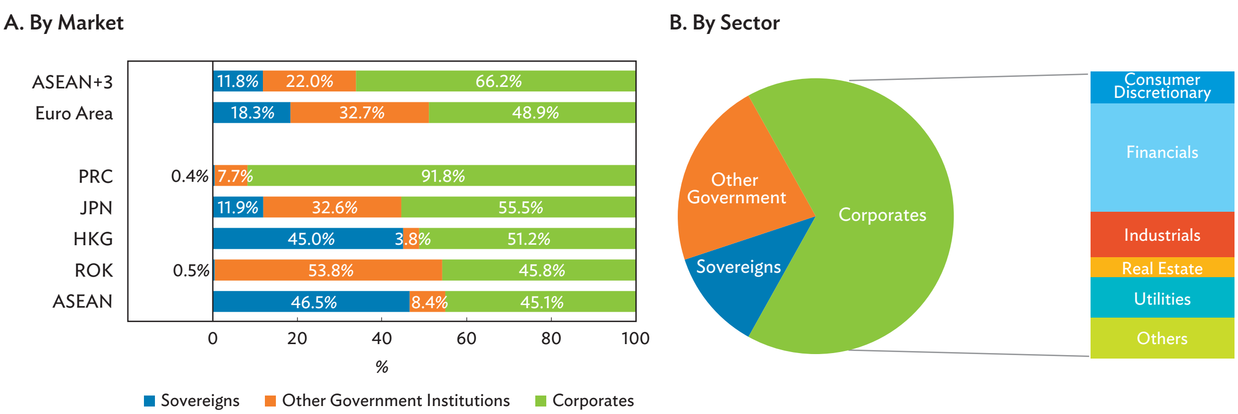
Sector Profile

Sustainable bond markets in ASEAN+3, excluding the PRC, were broadly balanced between public (49.9%) and private (50.1%) sector financing at the end of June. This mix is comparable to that in the euro area, where the public and private sectors' shares were 51.1% and 48.9%, respectively (**Figure 23A**). Within ASEAN+3, the public sector, comprising sovereigns and other government institutions, accounted for 33.8% of sustainable bonds outstanding. ASEAN markets had the largest average share of sovereign-issued sustainable bonds (46.5%), followed by Hong Kong, China (45.0%). In the Republic of Korea, public sector sustainable bonds were mainly issued by other government entities (53.8%), such as the Korea Housing Finance Corporation, that issued social bonds to provide accessible financing for housing projects. In contrast, the PRC's sustainable bond market is dominated by the private sector, which accounted for 91.8% of total bonds outstanding at the end of Q2 2026. Financial institutions are the largest private sector sustainable bond issuers in ASEAN+3, contributing 37.8% of the corporate total, followed by industrial firms (15.9%) and utilities (14.1%) (**Figure 23B**).

Currency Profile

Local currency (LCY) continued to be the main source of financing in the ASEAN+3 sustainable bond market, accounting for 73.4% of total sustainable bonds outstanding in both local and foreign currencies at the end of June (**Figure 24A**). Nevertheless, LCY financing's share in ASEAN+3 remained below that of the euro area (90.2%). By market, Japan (82.5%), the PRC (79.4%), and ASEAN (79.3%) had higher LCY financing shares at the end of Q2 2026, with lower shares in the Republic of Korea (58.7%) and Hong Kong, China (19.1%). Some ASEAN markets had very high LCY financing shares, including Thailand (98.1%), Malaysia (91.8%), and Singapore (87.0%). This was driven by sovereign issuance in Thailand, corporate issuers in Malaysia, and a relatively equal mix of issuers in

Figure 23: Sector Profile of ASEAN+3 Sustainable Bonds Outstanding at the End of the Second Quarter of 2026



ASEAN = Association of Southeast Asian Nations; HKG = Hong Kong, China; JPN = Japan; PRC = People's Republic of China; ROK = Republic of Korea.

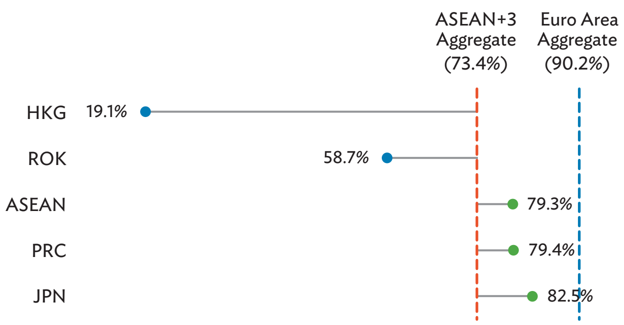
Notes:

1. ASEAN+3 is defined to include member states of ASEAN plus the People's Republic of China; Hong Kong, China; Japan; and the Republic of Korea.
2. The euro area includes the member markets of Austria, Belgium, Bulgaria, Croatia, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain.
3. Data include both local currency and foreign currency sustainable bonds.
4. The sector profile is based on Bloomberg Industry Classification System (BICS) categories. Central Government is based on BICS sovereign categories. Other Government includes BICS categories for Development Banks, Government Local, Government Regional, and Government Agencies and Some State-Owned Companies. All other BICS categories are classified as Corporates.

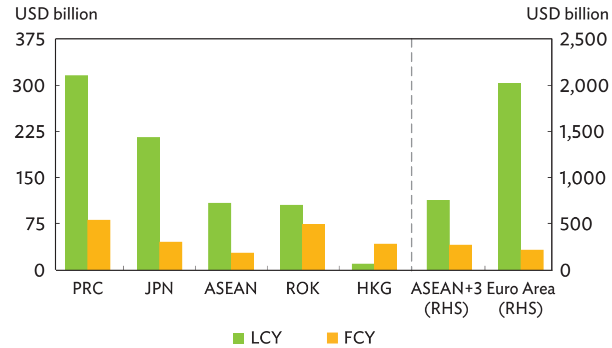
Source: *AsianBondsOnline* computations based on Bloomberg LP data.

Figure 24: Local Currency Share in the ASEAN+3 Sustainable Bond Market

A. Local Currency Financing Share by Market



B. Local Currency and Foreign Currency Breakdown



ASEAN = Association of Southeast Asian Nations; FCY = foreign currency; HKG = Hong Kong, China; JPN = Japan; LCY = local currency; PRC = People's Republic of China; RHS = right-hand side; ROK = Republic of Korea; USD = United States dollar.

Notes:
1. ASEAN+3 is defined to include member states of ASEAN plus the People's Republic of China; Hong Kong, China; Japan; and the Republic of Korea.
2. ASEAN comprises the markets of Cambodia, Indonesia, the Lao People's Democratic Republic, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam.
3. The euro area includes the member markets of Austria, Belgium, Bulgaria, Croatia, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain.
4. For Figure 24A, LCY share is computed relative to financing across all currency types.

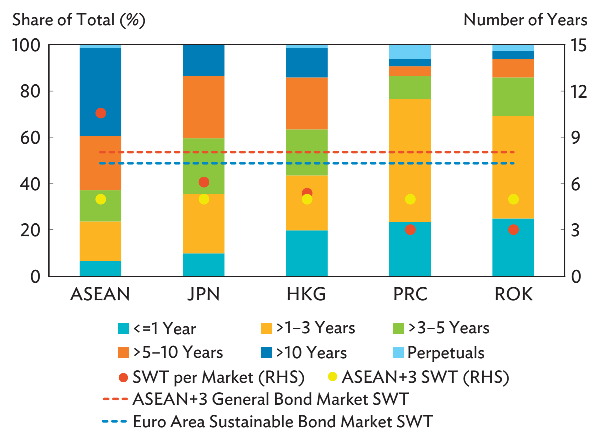
Source: *AsianBondsOnline* computations based on Bloomberg LP data.

Singapore. Foreign currency financing in the ASEAN+3 sustainable bond market exceeded that in the euro area (**Figure 24B**). LCY sustainable bonds outstanding in ASEAN markets slightly surpassed the corresponding total in the Republic of Korea, despite the latter having a larger overall sustainable bond market.

Maturity Profile

At the end of June, ASEAN+3's sustainable bonds outstanding remained concentrated in shorter tenors. With 71.8% of sustainable bonds outstanding carrying remaining maturities of 5 years or less, the ASEAN+3 sustainable bond market had a size-weighted average tenor of 5.1 years, below the euro area's 7.3 years and the ASEAN+3 general bond market's 8.0 years (**Figure 25**). The shorter maturity profile is driven by the PRC and the Republic of Korea, where 86.6% and 85.7% of outstanding bonds, respectively, had remaining maturities of 5 years or less. Together, these two markets accounted for 67.5% of ASEAN+3's short-dated sustainable bond stock at the end of June. In contrast, ASEAN had the longest average tenor at 10.6 years due to a higher share of public sector issuance in these markets.

Figure 25: Maturity Profile of ASEAN+3 Sustainable Bond Markets at the End of June 2026



ASEAN = Association of Southeast Asian Nations; HKG = Hong Kong, China; JPN = Japan; PRC = People's Republic of China; RHS = right-hand side; ROK = Republic of Korea; SWT = size-weighted average tenor.

Notes:
1. ASEAN+3 is defined to include member states of ASEAN plus the People's Republic of China; Hong Kong, China; Japan; and the Republic of Korea.
2. ASEAN comprises the markets of Cambodia, Indonesia, the Lao People's Democratic Republic, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam.
3. The euro area includes the member markets of Austria, Belgium, Bulgaria, Croatia, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain.
4. Data include both local currency and foreign currency sustainable bonds.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Box 2: Global Shocks and the Green Bond Market

Green bonds are debt instruments whose proceeds are earmarked exclusively for projects with clear environmental benefits, such as climate mitigation, climate adaptation, natural resource conservation, biodiversity conservation, and pollution prevention and control (International Capital Market Association 2025). Since the first sovereign and corporate issuances in the early 2010s, green bonds have become a cornerstone of climate finance, channeling private capital toward mitigation and adaptation goals. Because green projects typically require long-dated, irreversible investment commitments, the market's growth is sensitive to global shocks that raise uncertainty such as the coronavirus disease (COVID-19) pandemic and elevated geopolitical tensions. Understanding how such shocks affect green bond issuance is essential for policymakers seeking to sustain climate investment through periods of turbulence.

Theory offers three, not always consistent, predictions. Real options theory (Dixit and Pindyck 1994) suggests that heightened uncertainty raises the "option value of waiting," inducing firms facing irreversible investment decisions to postpone bond issuance until conditions clarify (Bloom 2009). The safe-haven asset framework holds that investors fleeing volatile conventional markets increase demand for green bonds, which have historically shown low correlation with traditional assets (Arif et al. 2022), thereby lifting issuance during crises. A third channel operates through relative prices: Shocks that increase fossil fuel prices make investments that substitute for or reduce fossil fuel use—such as renewable energy, energy efficiency, and clean transport—relatively more attractive, encouraging firms to issue green bonds (Azhgaliyeva, Kapsalyamova, and Mishra 2022) (**Table B2.1**).

Table B2.1: Competing Theoretical Channels

Theoretical Channel	Mechanism	Predicted Effect of a Shock on Green Bond Issuance
Real options theory	Uncertainty raises the "option value of waiting" on irreversible, long-term green investment	Decreases issuance (firms delay investments)
Safe-haven asset framework	Investors seek assets with low correlation to conventional markets during turmoil	Increases issuance (investor demand rises)
Substitute for fossil fuel	Rising fossil fuel prices make investments that substitute for or reduce fossil fuel use relatively more attractive, shifting firms toward green projects	Increases issuance (relative-price effect)

Source: Authors' compilation based on Dixit and Pindyck (1994); Bloom (2009); Arif et al. (2022); and Azhgaliyeva, Kapsalyamova, and Mishra (2022).

Empirical evidence shows that the above channels operate, but through different types of shocks and transmission mechanisms. Understanding their effects on green bond issuance requires distinguishing between the probability of issuing green bonds, and the share of green bonds in total bond issuance. Two recent studies provide empirical evidence on how global shocks affect green bond issuance using this framework. Azhgaliyeva, Kapsalyamova, and Mishra (2022) analyze 41 economies over 2010–2021, while Azhgaliyeva, Kapsalyamova, and Bazarkulova (2026) construct a global sample of 776 green bond issuers across 49 economies over 2017–2023. The findings discussed below are drawn from these two studies.

The COVID-19 pandemic, measured using the Oxford Stringency Index (Hale et al. 2021), is found to significantly raise the probability that a firm issued green bonds in a given year (Azhgaliyeva, Kapsalyamova, and Bazarkulova 2026) (**Table B2.2**). This is consistent with the safe-haven hypothesis and with earlier findings that green bonds retained "hedging and safe-haven potential" during the pandemic (Arif et al. 2022; Huang, Cao, and Zhong 2022).

By contrast, the Russian invasion of Ukraine—measured through the intensity of countries' financial, military, and humanitarian aid to Ukraine (Trebesch et al. 2023)—significantly reduced the probability of issuance (Azhgaliyeva, Kapsalyamova, and Bazarkulova 2026) (Table B2.2). This is consistent with real options theory: Heightened uncertainty over energy security and supply chains raised firms' incentive to delay green investment decisions.

Moreover, oil price shocks—captured by flow oil-supply (resulting from oil supply disruptions in oil-exporting countries) and flow oil-demand shocks (resulting from fluctuations in the global business cycle)—that push up crude oil prices are documented to significantly raise the probability of corporate green bond issuance (Azhgaliyeva, Kapsalyamova, and Mishra 2022) (Table B2.2). This is consistent with a substitution effect as firms shift toward investments that substitute for or reduce fossil fuel use when fossil fuels become relatively more costly, raising the expected return on projects that qualify for green bond financing.

In contrast, neither the oil price shock (flow supply and flow demand), the COVID-19 pandemic, nor the Russian invasion of Ukraine significantly altered the share of green bonds in a firm's

continued on next page

Box 2 *continued*

Table B2.2: Impact of Global Shocks on Green Bonds from Selected Studies

Shock	Effect on Probability of Issuance (probit)	Effect on Share of Green Bonds in Total Issuance (linear)	Dominant Channel
COVID-19 pandemic (stringency index)	+0.003 to +0.006*** (positive, significant)	−0.01 to −0.04 (not significant)	Safe haven
Russian invasion of Ukraine (aid intensity to Ukraine)	−0.012 to −0.021*** (negative, significant)	−0.01 to −0.18 (not significant)	Real options/risk aversion
Oil price shock: flow supply and flow demand	+0.019* to +0.025*** (positive, significant)	+0.03 to +0.14 (not significant)	Substitution to renewables

* = significant at the 10% level, *** = significant at the 1% level.

Notes: Coronavirus disease (COVID-19) and invasion rows: sample of 776 firms and 49 economies for 2017–2023. Oil price shock row: sample of 41 economies for January 2010–April 2021.

Source: Authors' calculations based on Azhgaliyeva, Kapsalyamova, and Bazarkulova (2026) and Azhgaliyeva, Kapsalyamova, and Mishra (2022).

total bond issuance once a firm decided to issue (Table B2.2). This holds across all three shocks despite operating through the different channels identified in Table B2.1 (risk aversion, safe-haven demand, and relative-price substitution). The results suggest that these channels primarily influence firms' decisions to enter the green bond market, rather than the proportion of green bonds, once issuance occurs.

The results broadly suggest that the underlying commitment to green finance remains resilient even during major global disruptions. While crises may delay issuance decisions, they do not appear to weaken firms' preference for green debt relative to conventional debt once they access capital markets. These findings have important implications for both policymakers and businesses seeking to sustain green bond market growth during periods of heightened uncertainty. Policymakers and businesses can capitalize on crisis-driven investor demand by expanding the pipeline of bankable green projects when appetite for sustainable assets is elevated. This can be facilitated through policy and regulatory support for green bond issuance (Azhgaliyeva and Kapsalyamova 2023).

References

Arif, M., M. A. Naeem, S. Farid, R. Nepal, and T. Jamasb. 2022. Diversifier or More? Hedge and Safe Haven Properties of Green Bonds during COVID-19. *Energy Policy*. 168. 113102.

Azhgaliyeva, D., and Z. Kapsalyamova. 2023. Policy Support in Promoting Green Bonds in Asia: Empirical Evidence. *Climate Policy*. 23 (4). pp. 430–445.

Azhgaliyeva, D., Z. Kapsalyamova, and R. Mishra. 2022. Oil Price Shocks and Green Bonds: An Empirical Evidence. *Energy Economics*. 112. 106108.

Azhgaliyeva, D., Z. Kapsalyamova, and D. Bazarkulova. 2026. Global Shocks and Green Bond Issuance: Empirical Evidence from Firm-Level Panel Data. *Economic Analysis and Policy*. 93. pp. 1389–1405.

Bloom, N. 2009. The Impact of Uncertainty Shocks. *Econometrica*. 77 (3). pp. 623–685.

International Capital Market Association. 2016. *Green Bond Principles Voluntary Process Guidelines for Issuing Green Bonds*. Paris.

Dixit, A. K., and R. S. Pindyck. 1994. *Investment Under Uncertainty*. Princeton: Princeton University Press.

Hale, T., N. Angrist, R. Goldszmidt, B. Kira, A. Petherick, T. Phillips, S. Webster, E. Cameron-Blake, L. Hallas, S. Majumdar, and H. Tatlow. 2021. A Global Panel Database of Pandemic Policies (Oxford COVID-19 Government Response Tracker). *Nature Human Behaviour* 5 (4). pp. 529–538. https://doi.org/10.1038/s41562-021-01079-8.

Huang, J., Y. Cao, and P. Zhong. 2022. Searching for a Safe-Haven to Crude Oil: Green Bond or Precious Metals? *Finance Research Letters* (50): 103303. https://doi.org/10.1016/j.frl.2022.103303.

Trebesch, C., A. Antezza, K. Bushnell, Y. Dyussimbinov, A. Frank, P. Frank, L. Franz, I. Kharitonov, B. Kumar, E. Rebinskaya, S. Schramm, C. Schade, and L. Weiser. 2023. The Ukraine Support Tracker: Which Countries Help Ukraine and How? *Kiel Working Papers*. 2218.

This box was written by Dina Azhgaliyeva (Asian Development Bank), Dana Bazarkulova (Nazarbayev University) and Zhanna Kapsalyamova (Nazarbayev University). It is based on their research papers, Global Shocks and Green Bond Issuance: Empirical Evidence from Firm-Level Panel Data and Oil Price Shocks and Green Bonds: An Empirical Evidence.

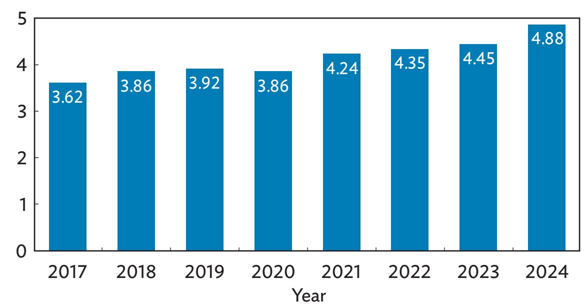
Box 3: Cybersecurity as a Sustainability and Resilience Risk for Developing Asia's Financial Markets

Digital transformation can boost economic productivity, improve access to essential services, foster new business models, and promote positive behavioral change. However, it also increases the exposure of businesses and households to cybercriminals. As digital development and artificial intelligence adoption accelerate, weak cybersecurity is emerging as a systemic challenge, not just a firm-level technical problem. In Asia and the Pacific, unaddressed cyber vulnerabilities can lead to large economic losses and disrupt financial system integrity, critical infrastructure, and public services, making cybersecurity both a sustainability and resilience risk for financial markets.

Recent cyber incidents in the region show how firm-level vulnerabilities can spill over into financial systems and capital markets. In 2023, a ransomware attack on a Southeast Asian bank resulted in a significant breach of customer data and disrupted network operations, effectively paralyzing ATM services, payments processing, and online banking in the local financial sector. A 2022 malware incident at a South Asian central securities depository required system containment measures that disrupted market settlements. These examples show how cybersecurity failures can undermine market operational resilience, trust, and investor confidence, with implications for bond market development in Asia.

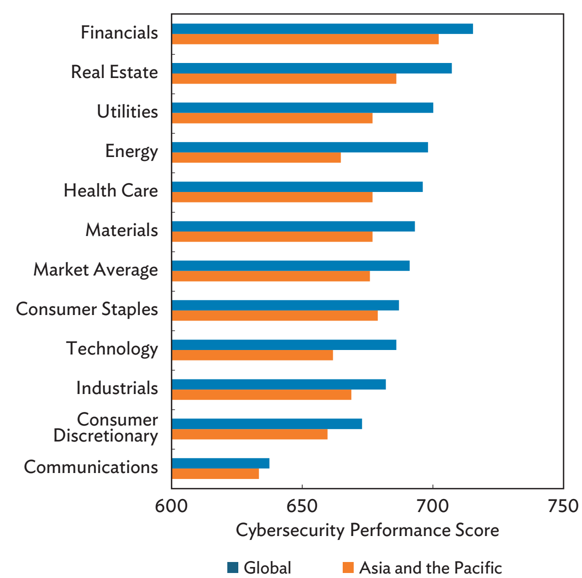
Cybersecurity is now a key business risk for firms, with increasing potential for significant negative impacts. Cyberattacks can result in direct and indirect economic losses through stolen funds, data corruption, system restoration costs, lost opportunities from operational disruption, litigation, and reputational damage. The World Bank finds that the direct cost of cybersecurity incidents was 2.1%–9.1% of global gross domestic product from 2017 to 2023.[a] IBM estimates that the average cost of a corporate data breach reached USD4.9 million in 2024, up 10% from a year earlier (**Figure B3.1**).[b] IBM research further documents that although reported dollar losses are generally lower in the Association of Southeast Asian Nations and India than in high-income regions, the consequences may be more severe in these regions for smaller firms with limited financial and operational buffers.

Figure B3.1: Global Average Cost per Data Breach



USD = United States dollar.
Source: IBM. 2024. *Cost of a Data Breach Report*. https://www.ibm.com/reports/data-breach.

Figure B3.2: Cybersecurity Performance Scores in Asia and the Pacific versus Global Markets
(sector averages)



Note: Higher scores indicate better cybersecurity practices.
Source: Author's calculations based on data from Bitsight Technologies.

Critical infrastructure sectors including financials have measurably weaker cybersecurity performance in developing Asia and the Pacific compared with global averages. Sectoral exposure to cyberattacks differs according to connectivity, data intensity, regulation, and the resources available for protection (**Figure B3.2**). While the financial sector is frequently targeted, firms in this sector also tend to invest more in cybersecurity and have comparatively stronger cyber hygiene, partly because the sector is highly regulated and better resourced. In Asia and the Pacific, average corporate

continued on next page

Box 3 *continued*

cyber-hygiene performance scores are lower than the global average across all sectors. The largest relative gaps are in the energy and technology sectors, which form critical infrastructure. If left unaddressed, these vulnerabilities can expose households, businesses, and public services to a heightened risk of disruption.

Cybersecurity is a sustainability issue because its costs can spill over to external stakeholders. It is also a resilience risk because failures can disrupt essential financial and market functions. When firms underinvest in cybersecurity, they do not bear the full expected cost of a breach; part of that damage is transferred to customers, business partners, and the public. Customers may lose access to services or have personal data exposed and compromised, while business and financial counterparties can face operational disruptions with financial and socioeconomic impacts including employment losses. In this sense, cybersecurity resembles other market externalities: Inadequate controls by one entity can impose costs on stakeholders outside the organization.

Lasting underinvestment in cybersecurity can weaken trust in digital technologies, hindering digital transformation and inclusive development. Repeated breaches and outages could erode consumer confidence in digital finance, e-commerce, digital identification, and e-government—technologies that are critical enablers for improving access to finance, market productivity, and government effectiveness in Asia and the Pacific.

Protection from cybercriminals matters for low-income and less digitally experienced users, who have fewer resources to recover losses from fraud or identity theft and fewer alternatives for regaining access to services. Small and medium-sized enterprises (SMEs) are particularly vulnerable because they typically have limited technical capacity and less financial buffer to recover from operational disruptions. They are also frequently targeted as weak links by attackers seeking access to the networks of larger organizations.

Public policy can help internalize the negative externalities of cybersecurity by reshaping private incentives. This study proposes three priorities for regional policymakers and market regulators, with selected policy levers outlined below and in **Table B3**.

1. **First, make cybersecurity measurable and priceable by the market.** Proportionate disclosure and incident-reporting requirements can better engage investors, lenders, insurers, and business partners by improving access to material information. When combined with credible legal consequences for cybersecurity risks, information disclosure enables the pricing of such risks, allowing markets to correct the externality more efficiently.
2. **Second, focus on the cybersecurity ecosystem rather than individual firms.** Larger companies should assess their third-party vulnerabilities out of enlightened

Table B3: Policy Levers to Shape Private Incentives for Stronger Cybersecurity Implementation

Policy Lever	Incentive Changes	Examples
Measure and disclose risk	Makes preparedness visible to investors, lenders, and counterparties	Meaningful risk and incident disclosure; firm-level cyber-risk ratings data
Strengthen accountability	Raises the private cost of poor governance and risk mismanagement	Clear legal liabilities and penalties; board and senior-management oversight
Set proportionate standards	Creates a minimum baseline, especially where service disruption has systemic effects	National standards, regulatory oversight, and attention to high-risk vulnerabilities in critical sectors
Address supply-chain weak links	Reduces spillovers from smaller suppliers and digital-service providers	Supplier monitoring; information and knowledge sharing to encourage intra-industry collaboration
Mobilize capital and skills	Rewards stronger performance and expands firms' cybersecurity capacity	Stewardship codes, public asset-owner mandates, workforce development, and training

Sources:
Vergara Cobos, E. 2024. *A Review of the Economic Costs of Cyber Incidents*. World Bank.
IBM. 2024. *Cost of a Data Breach Report*.
International Telecommunication Union. 2024. *Global Cybersecurity Index 2024 5th Edition*.
Bitsight. 2022. *The Bitsight Security Ratings' Correlation to Ransomware*.

continued on next page

Box 3 *continued*

self-interest and work with SME suppliers and clients to improve cybersecurity implementation, information sharing, and compliance across the digital supply chain. Industry organizations and associations can help SMEs learn from emerging threats without requiring each company to build the same capabilities independently.

3. **Third, treat cybersecurity as a governance, sustainability, and resilience objective.** National standards and corporate stewardship codes can clarify expectations for firm owners and management. Investors can integrate measures of cybersecurity performance as both forward-looking risk and governance-quality factors and incorporate cyber-risk management into portfolio mandates.

As both a sustainability and resilience risk, cybersecurity has direct implications for Asian bond market development. For financial institutions and critical infrastructure providers, weak cybersecurity can affect operational continuity, market reputation, investor confidence, credit assessments, and ultimately valuations. Better disclosure of cyber preparedness can help investors price these risks more accurately, while resilience-themed bond financing could also support investments in secure digital infrastructure.

While direct cybersecurity regulation is challenging given the rapid evolution and diversity of technologies, threats, and organizational risk tolerances, a cost-effective approach combines minimum safeguards with transparency, market discipline, and collaboration. The aim is to make cyber risk more observable and costly to ignore, while helping resource-constrained firms meet higher expectations. By aligning private incentives with the wider social costs of cyber failure, policymakers can support a more sustainable and resilient digital transformation alongside more secure and trusted capital markets in Asia.

This box was written by Jason Mortimer (head of sustainable investment–fixed income) at Nomura Asset Management and based on Asian Development Bank. 2025. Cybersecurity for Sustainable and Inclusive Digital Economic Transformations. *Harnessing Digital Transformation for Good: Asian Development Policy Report*.

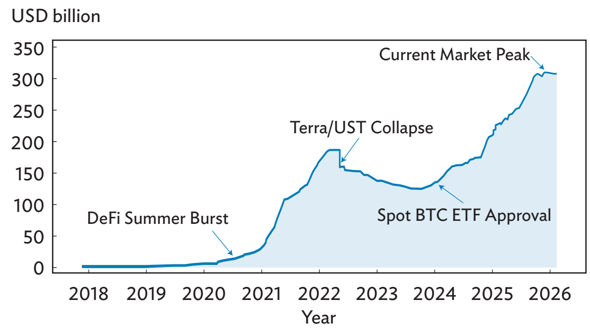
[a] Vergara Cobos, E., and S. Cakir. 2024. *A Review of the Economic Costs of Cyber Incidents*. World Bank.

[b] IBM. 2024. *Cost of a Data Breach Report*.

Stablecoins: Opportunities, Risks, and Regulatory Considerations

Stablecoins have grown rapidly in recent years and are evolving from trading and settlement within crypto-asset markets toward a broader digital payment instrument (Figure 26). Their growing use reflects demand for transferable digital claims that can support faster settlement, cross-border payments and remittances, and access to foreign currency liquidity, particularly where conventional payment services are costly or inefficient (Adrian et al. 2025). At the same time, their expanding scale and links with traditional financial markets have raised policy attention to their implications for bank funding, cross-border capital flows, and monetary sovereignty (Aldasoro et al. 2025).

Figure 26: Global Stablecoin Market Capitalization, 2018–2026



BTC = Bitcoin, EFT = exchange-traded fund, USD = United States dollar.
Source: Bloomberg LP.

Stablecoins can improve payment efficiency and inclusive access to financial services. Mainstream stablecoins are privately issued digital claims designed to maintain a stable value, most commonly against the United States dollar (USD). By combining stable value with fast transfers across digital networks, they can lower payment costs, shorten settlement cycles, and improve access to cross-border payments and remittances. These benefits may be particularly valuable where correspondent financial services are costly and inefficient, payment systems are fragmented, or access to conventional foreign currency services is limited.

Widespread use of stablecoin may change the structure of bank funding and increase banks' funding and liquidity risks. Commercial banks rely on retail deposits as a relatively stable and often low-cost source of funding for credit provision. Stablecoin issuers generally invest the proceeds from issuing tokens in liquid reserve assets such as bank deposits, short-term government bonds, reverse repos, and money market fund shares. When households and firms hold stablecoins rather than bank deposits, the deposit base available to support bank lending may shrink or become more volatile. If stablecoin issuers hold the proceeds as bank deposits—or purchase securities from nonbanks that redeposit the proceeds—retail deposits may be partly or fully recycled into the banking system. However, the composition of bank deposits will change: Dispersed and relatively sticky retail deposits may be replaced by concentrated and potentially more rate-sensitive wholesale deposits from a few large stablecoin issuers. Such a structuring exposes banks to the risk of large and rapid withdrawals during episodes of stablecoin redemption. If reserve assets are instead held outside the domestic banking system, as may occur when residents acquire foreign currency stablecoins backed by assets abroad, the domestic deposit base could shrink more directly, potentially weighing on bank lending (Bank for International Settlements 2026).

Broad-based usage of stablecoins could influence short-term interest rates—via large demand for safe and liquid assets—and amplify volatility during stress times. As stablecoin issuance grows, their reserve accumulation can increase structural demand for liquid assets, such as short-term government securities, influencing their yield and liquidity. Evidence from the United States suggests that stablecoin-related demand already affects the pricing of treasuries (Ahmed and

This section was written by Gabriele Ciminelli, Huasheng Gao, and Shu Tian. It is based on Ciminelli G., H. Gao, and S. Tian. Forthcoming. *Stablecoins and Their Macro-Finance Implications: A Primer*. Working paper.

Aldasoro 2025). In normal times, this demand may lower costs on short-term government securities, improve liquidity in the markets, and broaden the investor base. During periods of stress, however, a loss of confidence in a stablecoin could trigger large redemptions. If issuers' cash and deposit buffers are insufficient, they may need to sell government securities or other reserve assets to raise cash and meet redemptions. Large redemptions over a short period could put upward pressure on short-term bond yields, transmitting stress from stablecoin markets into government bond, repo, or money markets. These risks may be particularly pronounced when market liquidity is relatively thin.

Stablecoins make cross-border access to foreign currency easier, while making the associated flows harder to monitor. Traditionally, dollarization required access to physical cash, foreign currency bank accounts, offshore financial institutions, or informal intermediaries. USD-denominated stablecoins can reduce some of these frictions by allowing users with a mobile wallet and access to an exchange or payment platform to easily acquire and transfer USD-denominated value. While stablecoin use may reduce costs for remittances, trade, tourism, and cross-border transactions and payments, it can also increase the user's foreign currency exposure. Moreover, although transactions on public blockchains are observable, the identity and residence of wallet holders are difficult to determine. Stablecoin flows may therefore be difficult to be fully captured in conventional statistics, particularly when transactions occur through offshore platforms or self-hosted wallets (Aldasoro, Frost, and Ito 2026). For economies facing depreciation pressures or weak confidence in the domestic currency, easier access to USD-denominated stablecoins could increase de facto dollarization, facilitate capital outflows, and weaken the effectiveness of capital-flow-management measures through channels that may be less visible to domestic authorities (Hofmann, Mehrotra, and Paulick 2026).

Broad-based use of stablecoins as payment and settlement tools could weaken monetary transmission and increase financial stability risks. Monetary policy typically affects economic activity by steering short-term market rates, which in turn transmits to deposit and lending rates, asset prices, and broader financial conditions. If a growing share of savings and transactions shifts into stablecoins, changes in the domestic policy rate may be less influential over financial conditions. This risk is particularly pronounced when stablecoins are denominated in foreign currency, as their returns and associated financing conditions may respond more strongly to foreign than domestic monetary policy. Foreign currency stablecoin adoption may also make domestic monetary aggregates less informative and constrain the central bank's ability to provide liquidity, as the central bank generally cannot issue the currency in which the stablecoin is denominated. Meanwhile, stablecoins can introduce additional liquidity and contagion risks through interconnections among issuers, banks, money markets, and foreign exchange markets (**Table**).

With the benefits and potential challenges associated with broad based use of stablecoin, preventive policy responses help embrace technology advances while mitigating possible downside risks. To ensure that stablecoins are reliable payment instruments, authorities can (i) condition domestic listing or distribution on issuers meeting standards for reserve quality, governance, and disclosure; and (ii) require domestic exchanges, custodians, banks, and payment providers to deal only in approved stablecoins. One example is the GENIUS Act in the United States, which establishes a regulatory framework for payment stablecoins that requires issuers to maintain at least one-to-one backing with specified liquid reserve assets, disclose the composition of reserves on a monthly basis, and establish redemption procedures. Meanwhile, policy makers should continue to develop effective domestic financial services to reduce substitution and financial disintermediation.

Table: Potential Challenges and Risks Associated with Broad-Based Use of Stablecoins

Area	Potential Challenges and Risks
Payments and settlement	Operational, custody, default, and redemption risks
Bank intermediation	Deposit substitution or restructuring; higher funding volatility; weaker credit intermediation
Money markets	Concentrated holdings; large sales during large redemptions
Capital flows and foreign exchange	Less visible capital flows; easier foreign currency access and digital dollarization
Monetary policy transmission	Weaker influence over domestic money demand and reduced policy rate traction
Financial stability	Runs, reserve liquidation, and interconnectedness with banks and money markets

Source: Authors' compilation.

Special attention should be paid to the risks associated with offshore foreign currency stablecoins. This matters especially for economies vulnerable to dollarization or capital flow volatility. Even a fully backed dollar stablecoin can accelerate currency substitution and capital outflows, thus vulnerable economies may need to apply foreign-exchange and capital-flow-management rules to conversions through regulated intermediaries, monitor financial sector exposures, and limit intermediated transactions. As oversight is inherently limited when issuers and trading platforms are located offshore, cooperation with home-economy supervisors becomes essential. Where adequate oversight cannot be established, authorities may restrict their use by regulated payment providers or financial institutions' exposures. Licensed providers can be required to report aggregate, residence-based data on stablecoin holdings, fiat conversions, and cross-border transfers, supplemented by issuer disclosures and blockchain analytics. Customer identification records retained under existing anti-money laundering and countering the financing of terrorism requirements can support enforcement where legally warranted, although monitoring would remain incomplete for peer-to-peer transfers through self-hosted wallets and genuinely decentralized arrangements. This is particularly relevant for ASEAN+3, where local currency financing and payment systems are still under development. **Box 4** will discuss this in detail.

References

Adrian, T., P. Bains, M. Bechara, E. Cerutti, S. Forte, F. Grinberg, A. Gullo, M. Hengge, A. Jekabsone, K. Kao, T. Mancini-Griffoli, S. Martinez Peria, M. Miccoli, M. Reuter, and N. Sugimoto. 2025. Understanding Stablecoins. *IMF Departmental Paper*. No. 2025/009. International Monetary Fund.

Ahmed, R., and I. Aldasoro. 2025. Stablecoins and Safe Asset Prices. *BIS Working Papers*. No. 1270. Bank for International Settlements.

Aldasoro, I., M. Aquilina, U. Lewrick, and S. H. Lim. 2025. Stablecoin Growth–Policy Challenges and Approaches. *BIS Bulletin*. No. 108. Bank for International Settlements.

Aldasoro, I., J. Frost, and H. Ito. 2026. The Impact of Stablecoins on the International Monetary and Financial System. *BIS Working Papers*. No. 170. Bank for International Settlements.

Bank for International Settlements. 2026. Anchoring Trust in Money: Innovation Beyond Stablecoins. In *BIS Annual Economic Report 2026, Chapter III*. Basel: Bank for International Settlements.

Ciminelli G., G. Huasheng, and S. Tian. Forthcoming. *Stablecoins and Their Macro-Finance Implications: A Primer*. Working paper.

Hofmann, B., A. Mehrotra, and J. Paulick. 2026. Dollarisation and Monetary Control: What Lessons for the Rise of Stablecoins? *BIS Working Papers*. No. 1370. Bank for International Settlements.

Box 4: How the GENIUS Act Could Affect Local Currency Use in ASEAN+3

ASEAN+3 has long sought to strengthen regional financial resilience and reduce vulnerabilities arising from heavy reliance on the United States dollar (USD).[a] Since the 1997/98 Asian financial crisis, regional financial cooperation has developed through the Chiang Mai Initiative, local currency (LCY) market development under the Asian Bond Markets Initiative, and enhanced regional surveillance. More recent efforts have prompted LCY transactions and regional payment connectivity. However, regulated USD stablecoins under the GENIUS Act could pose a structural policy challenge for ASEAN+3 by reinforcing USD-based financial intermediation.[b] If cross-border transactions increasingly use USD stablecoins as a vehicle asset, incremental payment flows may build liquidity in USD-linked markets rather than in the direct LCY foreign exchange (FX) markets that regional initiatives are seeking to deepen.[c]

The GENIUS Act gives USD stablecoins a defined regulatory status as payment instruments, raising policy questions for ASEAN+3 authorities if these instruments are used more widely in the region. Before the GENIUS Act, regulated USD stablecoins existed under state-level prudential regimes. However, regulated treatment varied across issuers, and there was no common set of requirements governing reserve assets and redemption. Stablecoins were also used primarily for trading and settlement within the crypto-asset ecosystem rather than for mainstream payments. The GENIUS Act, enacted in July 2025, establishes a federal regulatory perimeter for permitted USD stablecoin issuers, including 1:1 reserve backing with specific reserve assets, redemption and disclosure standards, and prudential supervision. Permitted issuers are also subject to anti-money-laundering, counter-terrorist-financing, and sanctions-compliance requirements comparable to those applied to other regulated foreign financial institutions. This strong regulatory framework aims to enhance the stability of USD stablecoins and make them more viable payment instruments over time, while emphasizing that the outcome will depend critically on implementation (Barr 2025). For supervisory authorities outside the US, including in ASEAN+3, the GENIUS Act will not only make USD stablecoins inherently safe but also place US-regulated stablecoins within a clearer home regulatory and supervisory perimeter. Yet the instruments they issue may circulate in the region, where their effects on LCY use and domestic financial markets arise. The key policy issue, therefore, extends beyond the shift from conventional to new payment technologies to the possible tension between ASEAN+3's efforts to expand LCY use and make USD-based intermediation more accessible.

Regulated USD stablecoins could affect ASEAN+3 through three channels: (i) remittance-led digital dollarization, (ii) cross-border risk amplification, and (iii) LCY settlement crowd-out. Adoption incentives may be strongest where demand for USD exposure is high and access to conventional USD markets is constrained. Du, Huang, and Scharfstein (2026) find a stablecoin access premium in such markets, where local users are willing to pay above benchmark rates for USD exposure, and attribute it to capital control distortions rather than to technological efficiency. Aldasoro, Frost, and Ito (2026) note that about 98% of stablecoin value is USD-denominated, so wider use as a store of value and medium of exchange could accelerate digital dollarization and currency substitution. Large redemptions could also amplify cross-market spillovers through reserve-asset sales and volatility in short-term USD funding markets, raising wider financial stability concerns.

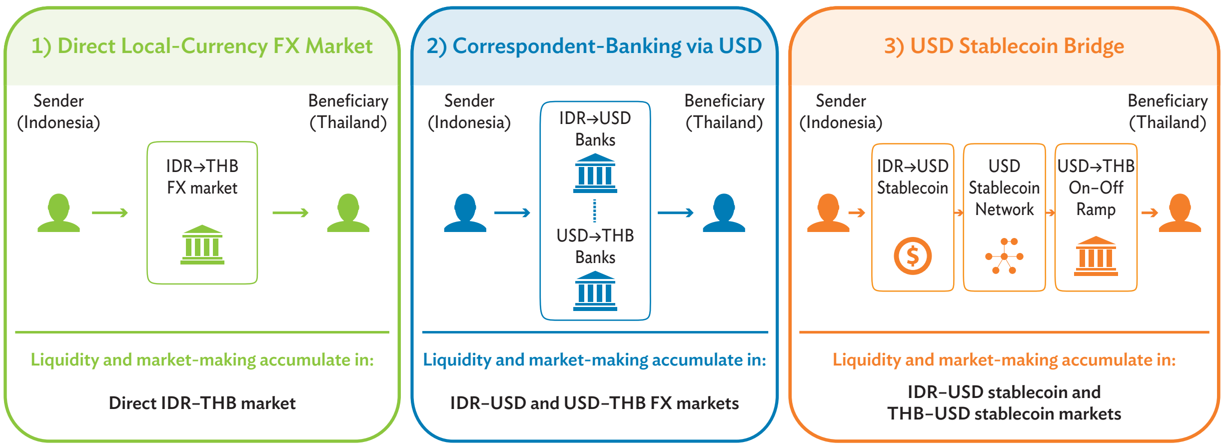
When a USD stablecoin is used as a vehicle asset, a payment can begin and end in a local currency while the underlying liquidity remains USD-denominated. In an illustrative rupiah–baht payment, the payer and the recipient separately transact in their own currency regardless of the underlying route (**Figure B4**). Yet the market development effect differs: A direct rupiah–baht transaction can build liquidity and market making in the bilateral pair, whereas correspondent banking and USD stablecoin routes can concentrate such activity in USD-linked markets. Unlike correspondent banking using fiat dollars, a stablecoin bridge introduces issuer and redemption risk: The issuer may not be able to meet large-scale redemption requests at par and on time. Stablecoin-based FX rates can also differ from benchmark FX rates because stablecoins trade in separate digital asset markets and, where conventional dollar access is constrained, users may pay a premium for USD exposure.

When a USD stablecoin is used as a vehicle asset between two local currencies, the associated FX activity may remain concentrated in USD-linked markets rather than in the bilateral LCY pair. This distinction is particularly important in ASEAN+3, where cross-border transactions remain heavily reliant on USD. In Indonesia, for example, USD accounted for 87.9% of merchandise trade settlement in 2024, while the rupiah accounted for only 2.1% (ASEAN+3 Macroeconomic Research Office [AMRO] 2026). Recent evidence also suggests that USD stablecoins can extend access to USD-denominated claims beyond conventional banking channels, particularly where conventional dollar access is constrained (Aldasoro, Frost, and Ito 2026;

continued on next page

Box 4 *continued*

Figure B4: Same Local Currency Payment Outcome, Different Liquidity Markets



FX = foreign exchange, IDR = Indonesian rupiah, THB = Thailand baht, USD = United States dollar.
Source: Author's illustration.

Du, Huang, and Scharfstein 2026). Stablecoin use is also emerging in actual cross-border flows. In Viet Nam, private sector estimates put the share of remittance inflows settled in stablecoins at about 7.8% in the first half of 2025.[d] Against this backdrop, at the 29th ASEAN+3 Finance Ministers' and Central Bank Governors' Meeting, ministers and governors called for deeper policy dialogue on regulatory approaches to stablecoins.

The use of USD stablecoins in cross-border payments may leave direct LCY markets shallow. LCY settlement frameworks seek to enable cross-border transactions without relying on a vehicle currency, which requires sufficient liquidity in the bilateral currency pair (AMRO 2026). However, thin trading discourages market making, and limited market making keeps transaction costs high and volumes low—a chicken-and-egg problem in LCY transactions (AMRO 2023). The policy question is therefore about developing LCY markets and the use of domestic currencies rather than preventing the use of USD stablecoins directly that may replace LCY transactions. When a convenient USD-linked stablecoin rail absorbs incremental payment flows that might otherwise help direct currency pairs reach scale, the use of a USD stablecoin would weaken the incentives to build liquidity and LCY direct currency pairs. Under such a scenario, LCY payment volumes could therefore rise even when liquidity, price discovery, and hedging capacity remain concentrated in USD-linked markets. Payment statistics alone may overstate progress in LCY market development. Progress should therefore be assessed through direct-pair liquidity, market-making activity, and the availability of forwards and swaps, not just payment volumes alone.

The policy priority should be to ensure that growth in LCY payments is accompanied by deeper LCY FX and hedging markets. When direct regional currency-pair forward and swap markets remain shallow, investors and issuers may have little choice but to hedge each LCY against the USD, making LCY bond exposures dependent on USD-centered hedging infrastructure. If USD stablecoins become widely used as vehicle assets in cross-border transactions, this USD-centered dependence could persist even as LCY payment volumes grow.

continued on next page

Box 4 *continued*

References

Aldasoro, I., J. Frost, and H. Ito. 2026. The Impact of Stablecoins on the International Monetary and Financial System. *BIS Papers*. No. 170. Bank for International Settlements.

ASEAN+3 Finance Ministers and Central Bank Governors. 2026. Joint Statement of the 29th ASEAN+3 Finance Ministers' and Central Bank Governors' Meeting, Samarkand. 3 May.

ASEAN+3 Macroeconomic Research Office. 2023. Expanding Local Currency Transactions in ASEAN+3 Cross-Border Payments. *Policy Position Paper*. PPP/23-02.

———. 2026. ASEAN+3 Cross-Border Payments, Regional Connectivity, and Way Forward. *Policy Perspectives*. PP-2026-02.

Asian Development Bank. 2026. Box 5.2: Stablecoins and Cross-Border Remittances. In *Asian Economic Integration Report 2026*.

Bank for International Settlements. 2026. Anchoring Trust in Money: Innovation Beyond Stablecoins. In *BIS Annual Economic Report 2026*, 77–121. Basel.

Barr, M. S. 2025. Exploring the Possibilities and Risks of New Payment Technologies. Presentation at 2025 DC Fintech Week, Washington, DC. 16 October.

Du, W., C. Huang, and D. Scharfstein. 2026. Competing Rails for Cross-Border Payments: Banks, Fintechs, and Stablecoins. *Harvard Business School Working Paper*. February.

This box was written by Kyuman Heo (financial sector specialist) at the Asian Development Bank.

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

[b] The Guiding and Establishing National Innovation for U.S. Stablecoins Act of 2025, enacted on 18 July 2025.

[c] In this section, "vehicle asset" denotes a privately issued, USD-pegged stablecoin used between two fiat currencies, performing the intermediating function of a conventional vehicle currency. The term "asset" rather than "currency" reflects that the Bank for International Settlements (2026) describes fiat-backed stablecoins as privately issued tokens providing money-like functionality rather than serving as money.

[d] ADB. 2026. *Asian Economic Integration Report 2026*. p. 114.

Market Summaries

People's Republic of China

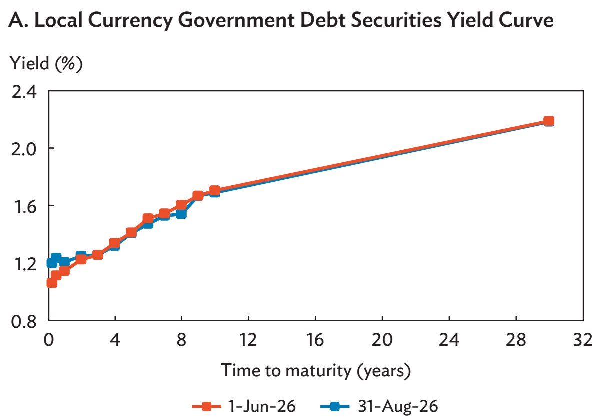
Yield Movements

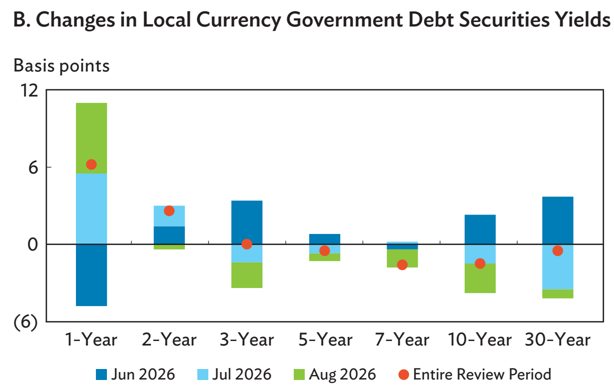
The yield curve for the local currency (LCY) government debt securities of the People's Republic of China (PRC) was mostly unchanged between 1 June and 31 August (**Figure 1A**). Yields rose in June for most tenors as the Middle East conflict raised inflation expectations but subsequently fell in July and August as tensions eased and economic data from the PRC showed an overall weakening (**Figure 1B**). Foreign investment demand also contributed to the decline.

Local Currency Bonds Outstanding and Issuance

LCY debt securities outstanding rose 2.4% quarter-on-quarter (q-o-q) to CNY183.5 trillion at the end of the second quarter (Q2) of 2026, of which CNY173.5 trillion comprised bonds (i.e., debt securities with a maturity exceeding 1 year) (**Figure 2A**). The expansion of the PRC's LCY bond market accelerated in Q2 to 3.4% q-o-q from 2.7% in the prior quarter, driven by financial institutions eager to issue bonds following delayed corporate bond approvals in the previous quarter (**Figure 2B**).

Figure 1: Yields for Local Currency Government Debt Securities in the People's Republic of China

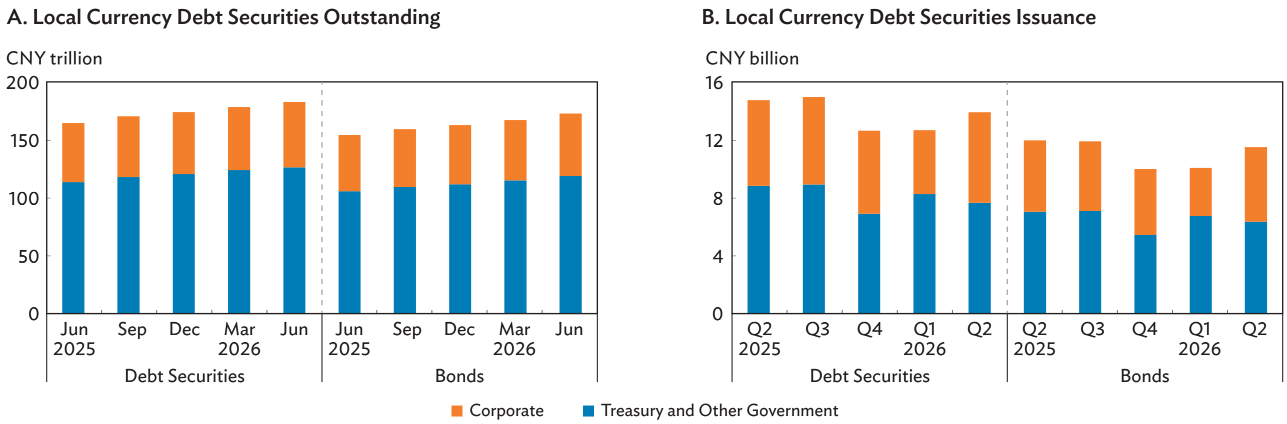




( ) = negative.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

This market summary was written by Russ Jason Lo (consultant) in the Economic Research and Development Impact Department, Asian Development Bank, Manila.

Figure 2: Local Currency Debt Securities Outstanding and Issuance in the People's Republic of China



CNY = Chinese yuan, Q1 = first quarter, Q2 =second quarter, Q3 =third quarter, Q4 = fourth quarter.
Note: Bonds are defined as debt securities with maturities longer than 1 year.
Source: CEIC Data Company.

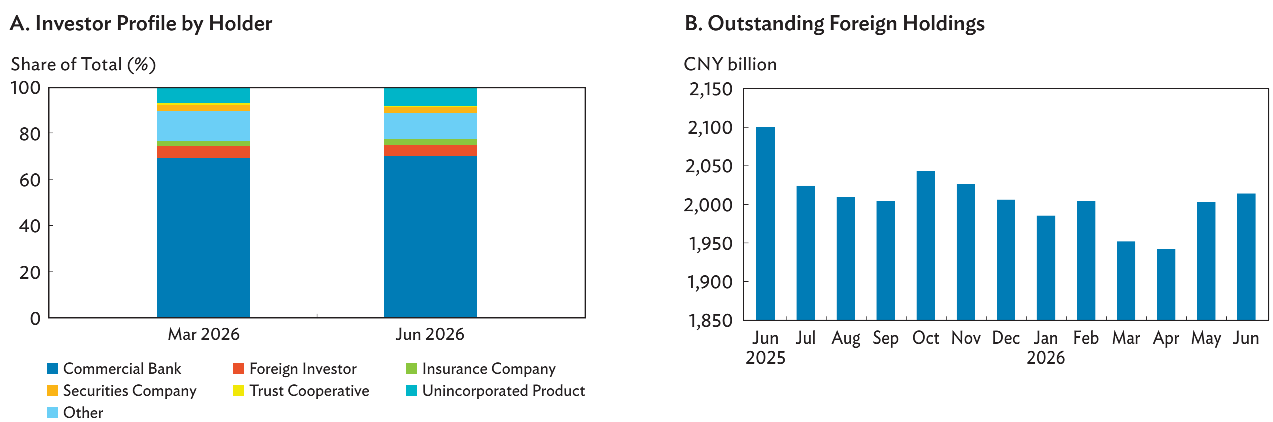
Investor Profile

Commercial banks remained the dominant investor in the PRC's government debt securities market at the end of June, with their holdings share roughly stable at 70.1% compared with 69.6% at the end of March (**Figure 3A**). However, foreign investors continued to add bonds in May and June on increased safe-haven demand driven by the Middle East conflict and government approval of foreign participation in government bond futures in late April (**Figure 3B**).

Sustainable Bond Market

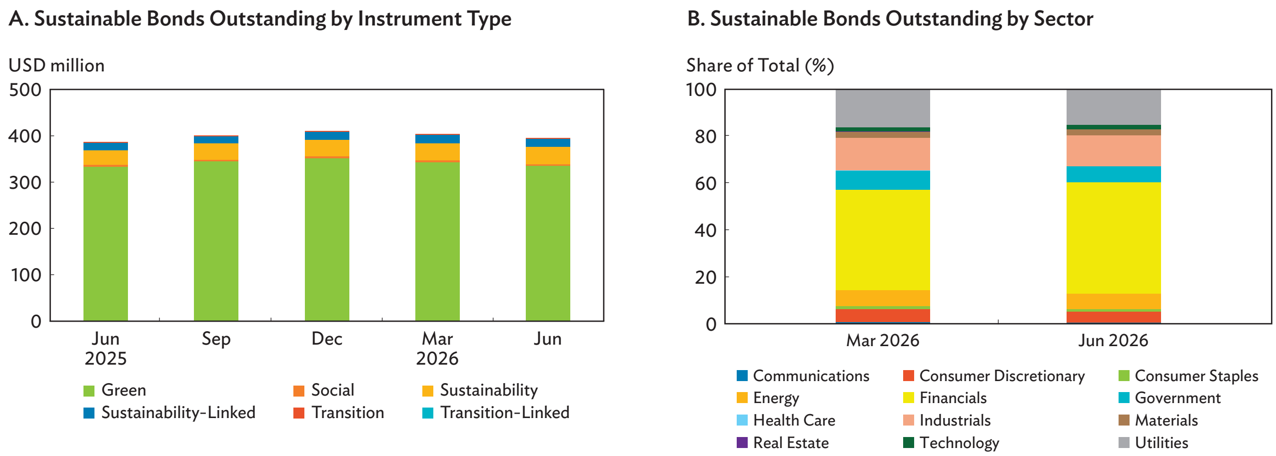
The PRC's sustainable bond market contracted 1.9% q-o-q to USD396.5 billion in Q2 as green bonds outstanding fell 2.5% on increased maturities (**Figure 4A**). By sector, the PRC's most active issuers are financial institutions, accounting for 46.5% of total corporate bonds outstanding at the end of June (**Figure 4B**).

Figure 3: Investor Profile of the Treasury Debt Securities Market in the People's Republic of China



CNY = Chinese yuan.
Source: CEIC Data Company.

Figure 4: Sustainable Bond Market in the People's Republic of China



USD = United States dollar.
Note: Bonds are defined as debt securities with maturities longer than 1 year.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Policy and Regulatory Developments

National Development and Reform Commission to Increase Issuance of Local Government Special Bonds

On 31 August, the National Development and Reform Commission announced plans to boost investments in the PRC, including the increased issuance of local government special bonds to finance infrastructure projects.

Hong Kong, China

Yield Movements

From 1 June to 31 August, yields on local currency (LCY) government debt securities in Hong Kong, China rose, in line with higher yields in advanced economies and reflecting elevated global energy prices (**Figure 1A**, **Figure 1B**). Hong Kong, China posted the largest increases in government yields in emerging East Asia as they broadly tracked the movements of United States Treasury yields.[10]

Local Currency Bonds Outstanding and Issuance

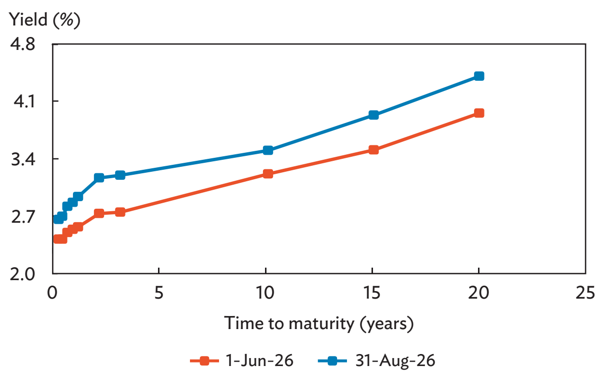
Hong Kong, China's LCY debt securities market expanded 6.3% quarter-on-quarter (q-o-q) in the second quarter (Q2) of 2026 to reach HKD4.0 trillion, driven largely by the corporate bond segment (**Figure 2A**). Excluding debt securities with tenors of 1 year or less, LCY bonds outstanding increased 10.3% q-o-q to HKD1.8 trillion. Bond issuance climbed 41.8% q-o-q to HKD214.1 billion, supported primarily by corporate bonds, particularly infrastructure-related issuers (**Figure 2B**).

Sustainable Bond Market

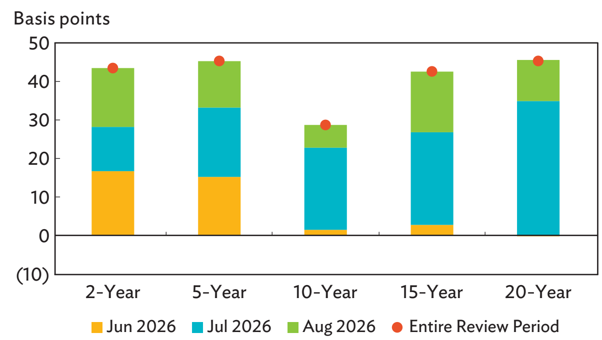
Hong Kong, China's sustainable bond market expanded 14.4% q-o-q in Q2 to reach USD53.1 billion, supported primarily by the robust issuance of green and sustainability bonds from the private sector (**Figure 3A**). Issuance rose almost threefold to USD7.3 billion from USD2.5 billion in the previous quarter (**Figure 3B**). About 88.1% of new issuances comprised green and sustainability bonds from real estate and transportation firms. The remaining 11.9% came from a sovereign issuance of EUR-denominated green bonds in May as part of a multitranche institutional bond offering.

Figure 1: Yields for Local Currency Government Debt Securities in Hong Kong, China

A. Local Currency Government Debt Securities Yield Curve



B. Changes in Local Currency Government Bond Yields



( ) = negative.

Notes:

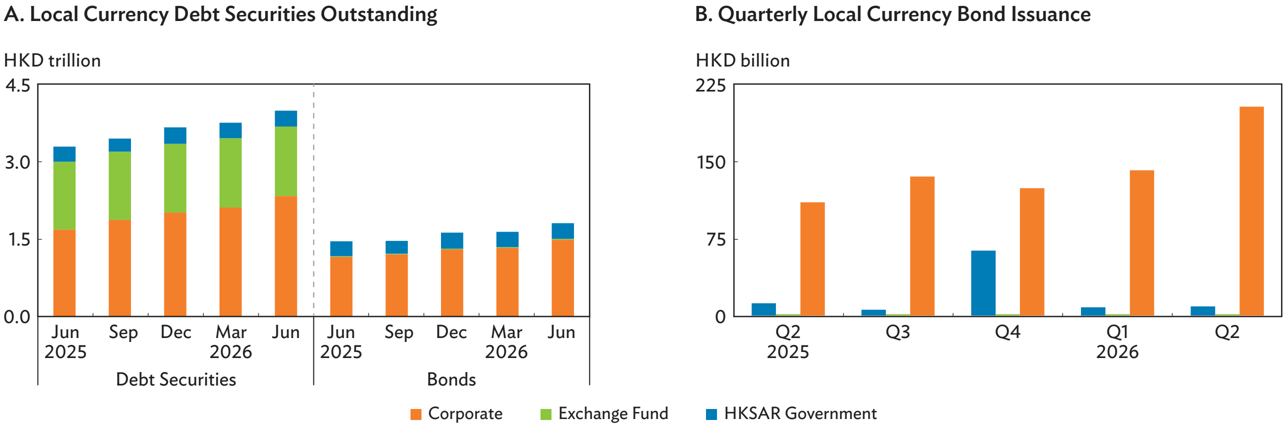
1. Data coverage is from 1 June 2026 to 31 August 2026.
2. Bonds are defined as debt securities with maturities longer than 1 year.
3. The 20-year bond yield decreased by 0.3 basis point in June.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

This market summary was written by Debbie Gundaya (consultant) in the Economic Research and Development Impact Department, Asian Development Bank, Manila.

[10] 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.

Figure 2: Local Currency Bonds Outstanding and Issuance in Hong Kong, China



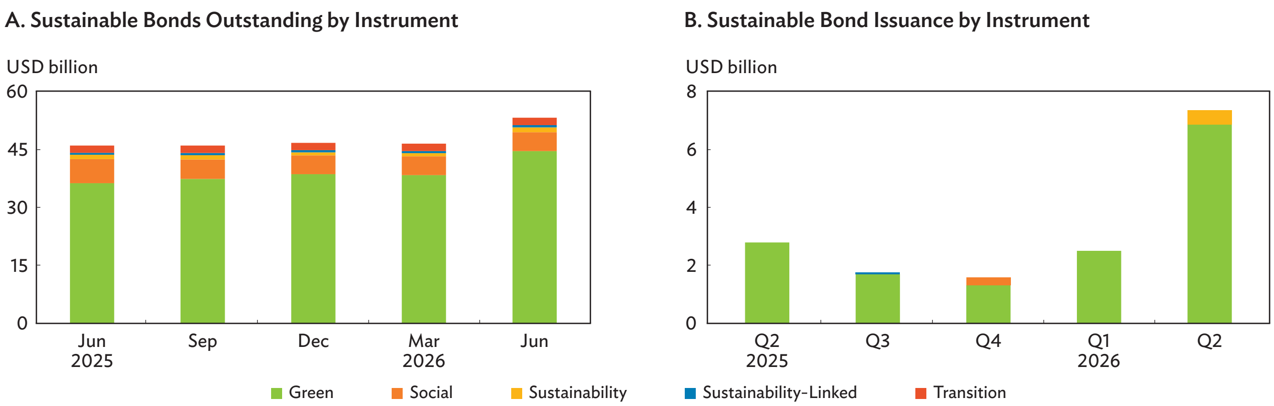
HKD = Hong Kong dollar, HKSAR = Hong Kong Special Administrative Region, Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter.

Notes:

1. Bonds are defined as securities with maturities longer than 1 year.
2. Exchange Fund Notes are not visible in Figure 2B due to their small amount: HKD1.2 billion of 2-year Exchange Fund Notes were issued each quarter from Q2 2025 to Q2 2026.

Source: Hong Kong Monetary Authority.

Figure 3: Sustainable Bond Market in Hong Kong, China



Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter, USD = United States dollar.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Policy and Regulatory Developments

New Measures to Support Fixed-Income and Currency Markets Announced

On 7 July, the Hong Kong Monetary Authority, the People's Bank of China, and the Securities and Futures Commission announced a new package of measures to strengthen Hong Kong, China's fixed-income and currency markets by expanding Bond Connect, enhancing Swap Connect, introducing new bond trading and hedging tools, and deepening market infrastructure. The measures are intended to improve market liquidity, broaden investor access, and support Hong Kong, China's role as a regional fixed-income hub and international financial center.

Indonesia

Yield Movements

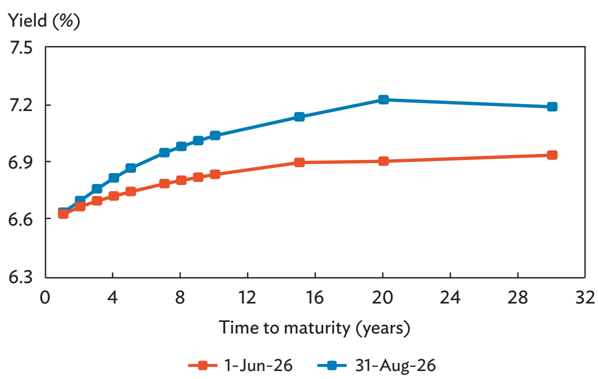
Between 1 June and 31 August, yields on local currency (LCY) debt securities climbed by an average of 16 basis points (bps) across all maturities, driven by Bank Indonesia's monetary tightening and inflationary pressures stemming from the ongoing conflict in the Middle East (**Figure 1A**). Yields rose sharply in June following Bank Indonesia's 50 bps policy rate hike to support rupiah stability and keep inflation within its target range (**Figure 1B**). Additional upward pressure stemmed from concerns over fiscal policy and central bank independence. In August, however, yields fell as investor sentiment improved after Bank Indonesia kept its policy rate unchanged for a second consecutive month and further enhanced hedging incentives to encourage capital inflows and support the domestic currency.

Local Currency Bonds Outstanding and Issuance

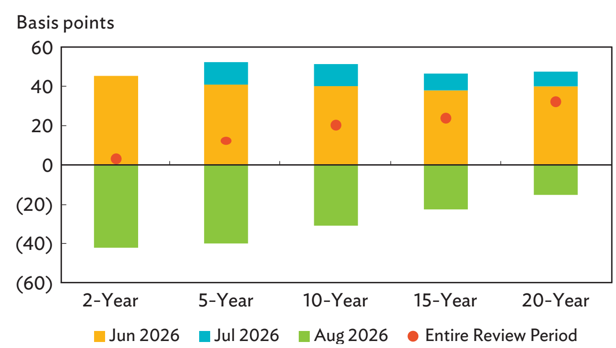
LCY debt securities in Indonesia rose by 5.1% quarter-on-quarter (q-o-q) in the second quarter (Q2) of 2026, faster than the 3.8% expansion in the first quarter, to reach a size of IDR8,798.1 trillion at the end of June (**Figure 2**). Excluding maturities of 1 year or less, bonds outstanding totaled IDR7,525.8 trillion, expanding by a slower pace of 2.1% q-o-q in Q2 versus 2.6% in the prior quarter. The expansion continued to be driven by government bonds (2.2% q-o-q) on the front-loading of issuance in the first half of the year, while corporate bonds rose marginally (0.7%). Total bond issuance in Q2 tallied IDR328.6 trillion on accelerated growth of 17.1% q-o-q, up from 12.4% in the previous quarter (**Figure 3**).

Figure 1: Yields for Local Currency Government Debt Securities in Indonesia

A. Local Currency Government Debt Securities Yield Curve



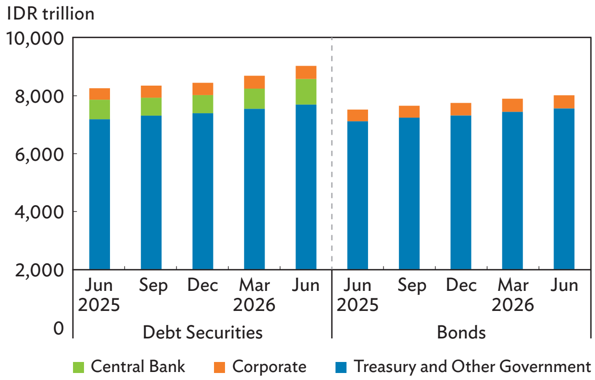
B. Changes in Local Currency Government Bond Yields



( ) = negative.
Notes:
1. Data coverage is from 1 June 2026 to 31 August 2026.
2. Bonds are defined as debt securities with maturities longer than 1 year.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

This market summary was written by Roselyn Regalado (consultant) in the Economic Research and Development Impact Department, Asian Development Bank, Manila.

Figure 2: Local Currency Debt Securities Outstanding in Indonesia

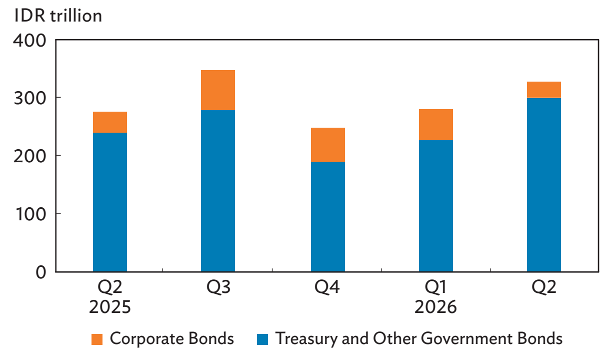


IDR = Indonesian rupiah.

Note: Bonds are defined as debt securities with maturities longer than 1 year.

Sources: Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; and Indonesia Stock Exchange.

Figure 3: Local Currency Quarterly Bond Issuance in Indonesia



IDR = Indonesian rupiah, Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter.

Note: Bonds are defined as debt securities with maturities longer than 1 year.

Sources: Bank Indonesia; Directorate General of Budget Financing and Risk Management, Ministry of Finance; and Indonesia Stock Exchange.

Investor Profile

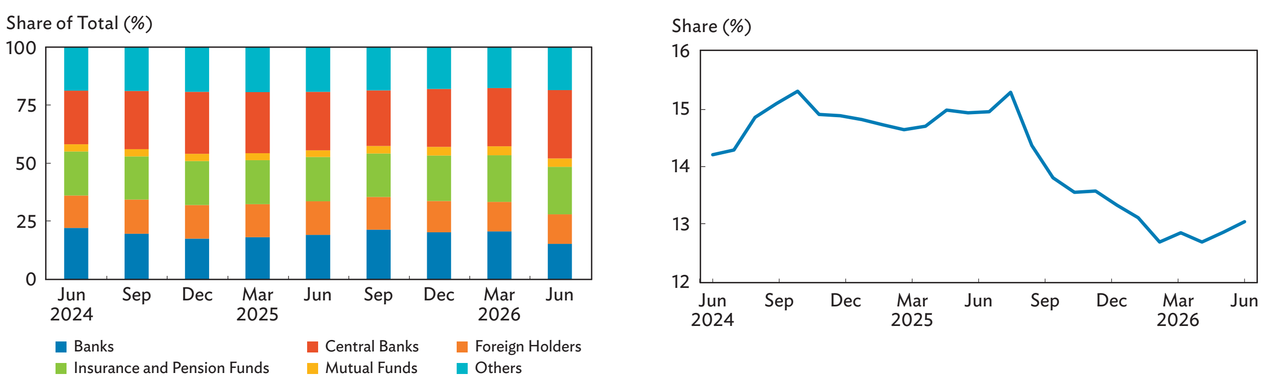
The central bank remained the largest holder of government debt securities in Indonesia at the end of June, with its holdings share rising to 29.4% from 25.1% at end of March due to bond purchases aimed at supporting financial market stability (**Figure 4A**).

In contrast, banks' holdings share declined sharply to 15.1% from 20.6% during the same period. Meanwhile, foreign investors' holdings share inched up to 12.8% at the end of June from 12.7% at the end of March, as improving investor sentiment and Bank Indonesia's cumulative 100 bps policy rate hikes in May and June enhanced the attractiveness of IDR-denominated assets (**Figure 4B**).

Figure 4: Investor Profile of the Local Currency Government Debt Securities Market in Indonesia

A. Investor Holdings

B. Foreign Holdings



Note: Government debt securities include Treasury bills and Treasury bonds.

Source: Directorate General of Budget Financing and Risk Management, Ministry of Finance.

Sustainable Bond Market

Indonesia's sustainable bond market expanded 4.8% q-o-q in Q2 to USD18.5 billion, reversing the 0.6% contraction in the first quarter (**Figure 5A**). Sustainable bond issuance more than doubled to USD1.2 billion in Q2, driven largely by sovereign issuance. Sovereign bonds accounted for 69.8% of Indonesia's sustainable bond market at the end of June and were concentrated in bonds with remaining tenors of over 5 years (66.7%), contributing to a lengthening of the market's maturity profile (**Figure 5B**). As a result, the size-weighted average tenor of sovereign sustainable bonds stood at 8.0 years, significantly longer than the 4.4-year average tenor of corporate sustainable bonds.

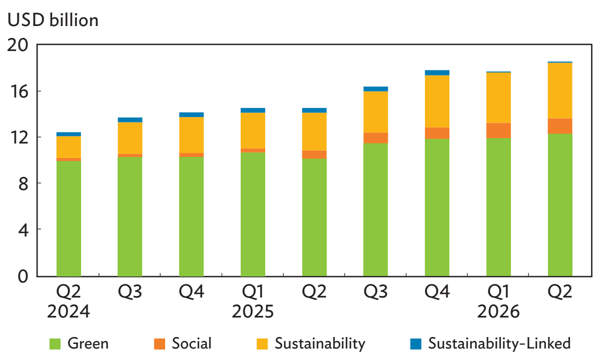
Policy and Regulatory Developments

Bank Indonesia Expands Hedging Incentives

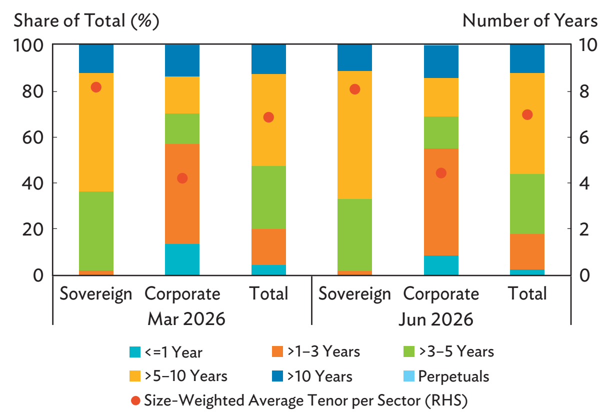
On 22 July, Bank Indonesia announced a series of policy measures targeted to help boost debt portfolio inflows as well as further develop its money market. The measures announced included adjusting the hedging costs for foreign investors and expanding the bonds that can be used for repo transactions to include corporate bonds and *sukuk* (Islamic bonds) issued by selected institutions. On 19 August, Bank Indonesia further expanded the list of allowable transactions that qualified for the incentive to include loans and foreign direct investment.

Figure 5: Sustainable Bond Market in Indonesia

A. Sustainable Bonds Outstanding



B. Maturity Profile and Average Tenor of Sustainable Bonds Outstanding by Sector



Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter, RHS = right-hand side, USD = United States dollar.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Republic of Korea

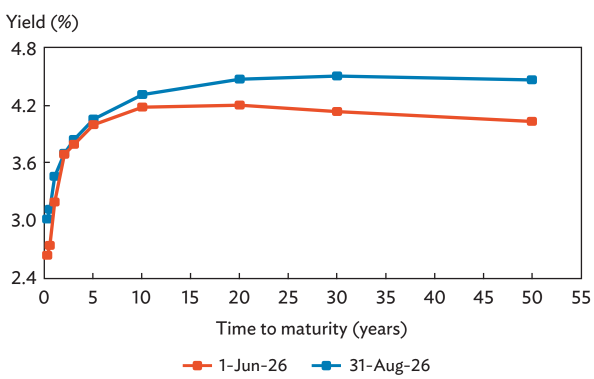
Yield Movements

Yields on local currency (LCY) government debt securities in the Republic of Korea rose an average of 23 basis points (bps) across all tenors between 1 June and 31 August on expectations of further monetary tightening by the Bank of Korea (BOK) (**Figure 1**). The BOK raised the base rate by a cumulative 50 bps to 3.00% in its 16 July and 28 August monetary policy meetings, noting that inflation is expected to remain above the 2.0% target on persistent pressures. Its August forward guidance indicated a 47.6% likelihood of another 25 bps rate hike within the next 6 months. In addition, the BOK raised its 2026 growth forecast to 3.3% year-on-year from its May forecast of 2.6%, while the inflation forecast was maintained at 2.7%.

Local Currency Bonds Outstanding and Issuance

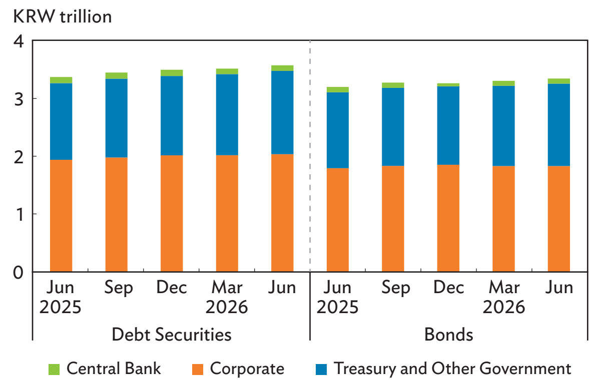
The Republic of Korea's total LCY debt securities reached KRW3.6 trillion at the end of June. Excluding debt securities with maturities of less than 1 year, LCY bonds outstanding amounted to KRW3.3 trillion after a 1.2% quarter-on-quarter (q-o-q) expansion (**Figure 2**). Growth was driven by sustained government issuance and higher corporate bond issuance. Total bond issuance rebounded in the second quarter (Q2) of 2026, rising 16.0% q-o-q, driven by a surge in the corporate segment (**Figure 3**). Corporate bond issuance increased 30.2% q-o-q as firms accelerated their borrowing ahead of expected higher funding costs in the third quarter driven by BOK monetary tightening. Meanwhile, government bond issuance remained broadly unchanged in Q2 from the previous quarter, in line with its front-loading policy in the first half of the year.

Figure 1: Yields for Local Currency Government Debt Securities in the Republic of Korea



Source: Based on data from Bloomberg LP.

Figure 2: Local Currency Debt Securities and Bonds Outstanding in the Republic of Korea

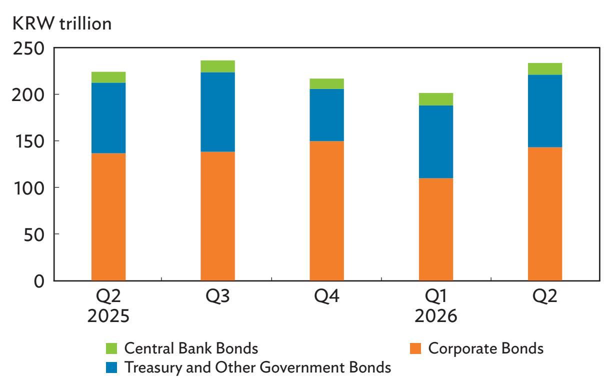


KRW = Korean won.

Notes:
1. Bonds are defined as debt securities with maturities longer than 1 year.
2. Data on bonds are based on *AsianBondsOnline* estimates.

Sources: Bank of Korea, Bloomberg LP, and KG Zeroin Corp.

Figure 3: Local Currency Bond Issuance in the Republic of Korea



KRW = Korean won, Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter.

Notes:
1. Bonds are defined as debt securities with maturities longer than 1 year.
2. Data on bonds are based on *AsianBondsOnline* estimates.

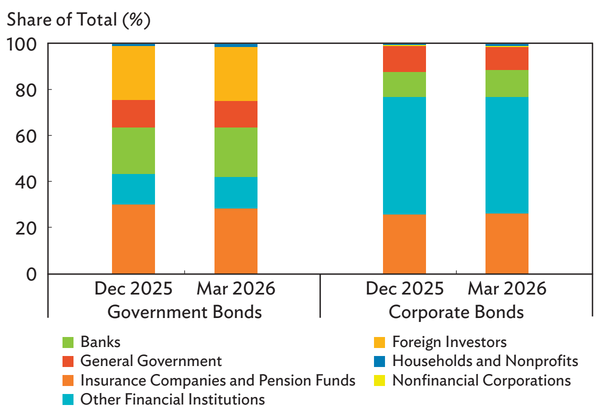
Sources: Bank of Korea, Bloomberg LP, and KG Zeroin Corp.

This market summary was written by Angelica Andrea Cruz (consultant) in the Economic Research and Development Impact Department, Asian Development Bank, Manila.

Investor Profile

The investor profile of the Republic of Korea's LCY debt securities market at the end of March remained broadly unchanged from the previous quarter. The government debt market continued to have a more diverse investor base, with outstanding securities held by five major investor groups (**Figure 4**). Insurance companies and pension funds had the largest share at the end of March at 28.5%. Foreign investors followed with a share of 23.6%, inching up from 23.3% at the end of December, ahead of the April 2026 inclusion of the Republic of Korea in the FTSE World Government Bond Index. Meanwhile, the corporate market's investor base was dominated by two major groups: financial institutions (50.3%) and insurance companies and pension funds (26.4%).

Figure 4: Investor Profile of the Local Currency Debt Securities in the Republic of Korea

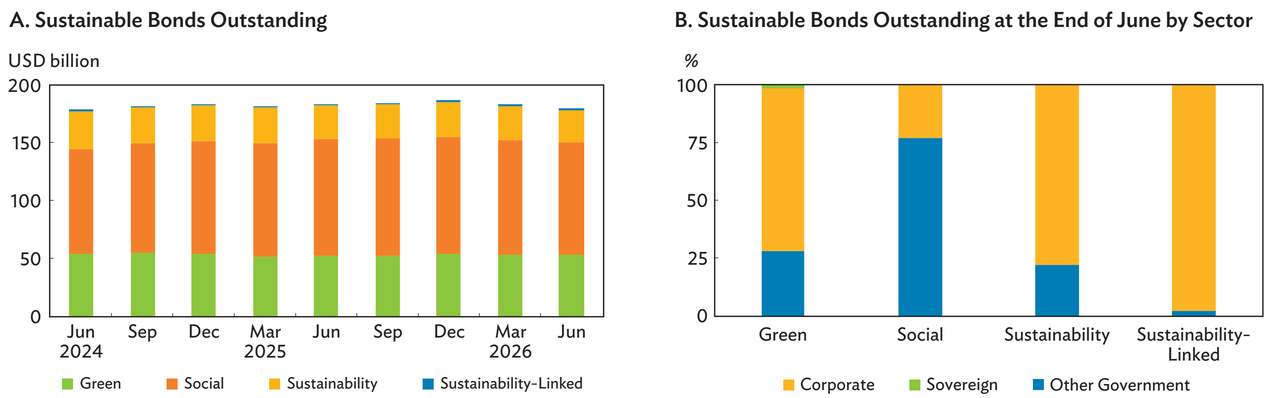


Sources: *AsianBondsOnline* and the Bank of Korea.

Sustainable Bond Market

The Republic of Korea's outstanding sustainable bond market contracted 2.0% q-o-q in Q2 2026 to USD180.4 billion as maturities exceeded new issuance. Social bonds continued to dominate the sustainable bond market with a share of 54.2%, followed by green bonds at 29.5% (**Figure 5A**). The corporate sector comprised a larger share of green, sustainability, and sustainability-linked bonds; while social bonds were dominated by issuances from government-owned and government-related entities (**Figure 5B**). The only remaining sovereign bond outstanding as of the end of June was a green bond. Sustainable bonds were largely concentrated in short-term tenors—with 72.2% of total bonds outstanding having remaining maturities of less than 3 years—and had a size-weighted average tenor of 2.9 years, unchanged from the previous quarter.

Figure 5: Sustainable Bond Market in the Republic of Korea



USD = United States dollar.
Note: Bonds are defined as debt securities with maturities longer than 1 year.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Policy and Regulatory Developments

Government Announces Roadmap for the Korean Won's Internationalization

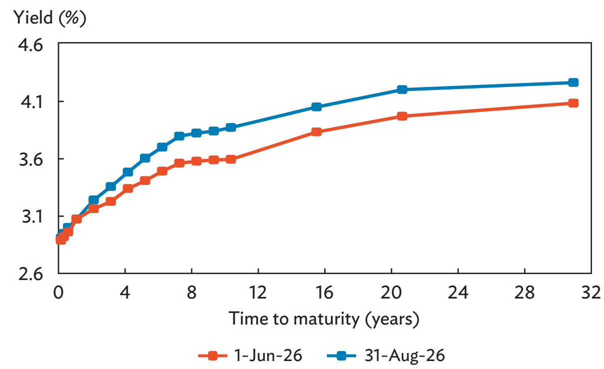
On 19 July, the Government of the Republic of Korea announced the Roadmap for KRW Internationalization, outlining its plans of transforming the Korean won (KRW) into a freely convertible currency. The roadmap included measures such as the establishment of the infrastructure for 24-hour trading of the KRW, which the government successfully launched on 6 July. Other measures include the establishment of an offshore KRW settlement system for nonresidents and the further easing of foreign exchange regulations (e.g., raising the threshold for required reporting of transactions). The roadmap also included plans on expanding demand for the KRW, deepening market liquidity, and mitigating risks associated with increased capital flows.

Malaysia

Yield Movements

Between 1 June and 31 August, yields on local currency (LCY) government debt securities in Malaysia rose across all tenors, increasing an average of 15 basis points (**Figure 1**). The uptick in yields was driven by the ongoing conflict in the Middle East. In addition, higher fuel subsidy costs are raising concerns that the fiscal deficit may exceed the government's target for 2026. Meanwhile, Bank Negara Malaysia left policy rates steady during its meeting on 9 July as domestic activity remained resilient, supported by sustained demand and stronger-than-expected exports. In its subsequent meeting on 3 September, Bank Negara Malaysia kept its monetary policy rate unchanged.

Figure 1: Yields for Local Currency Government Debt Securities in Malaysia

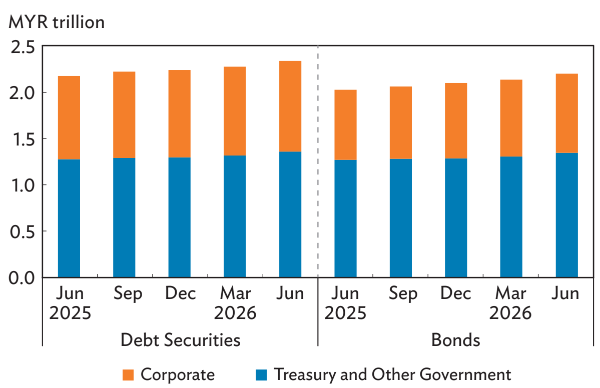


Source: Based on data from Bloomberg LP.

Local Currency Bonds Outstanding and Issuance

Malaysia's LCY debt securities outstanding rose 2.8% quarter-on-quarter (q-o-q) to MYR2.3 trillion at the end of the second quarter (Q2) of 2026, faster than the 1.6% increase in the first quarter (Q1). Excluding debt securities with maturities of 1 year or shorter, the LCY bond market expanded 3.0% q-o-q to MYR2.2 trillion, accelerating from 1.7% in Q1 (**Figure 2**). On a q-o-q basis, outstanding government and corporate bonds rose 3.2% and 2.7%, respectively, in Q2. The increase in corporate bonds was supported by improved sentiment as the Middle East conflict eased. Total issuance activity also strengthened in Q2, with LCY bond issuance rising 29.7% q-o-q to MYR124.5 billion, reversing a 4.5% decline in the prior quarter (**Figure 3**). The increase was mainly driven by corporate bond issuance, which rose 46.1% q-o-q and included MYR11.5 billion from Urusharta Jamaah, equivalent to 15.4% of corporate issuance during the quarter.

Figure 2: Local Currency Debt Securities Outstanding in Malaysia

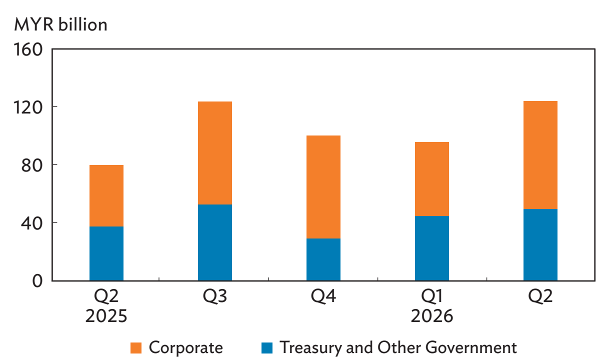


MYR = Malaysian ringgit.

Note: Bonds are defined as debt securities with maturities longer than 1 year.

Source: Bank Negara Malaysia Fully Automated System for Issuing/Tendering.

Figure 3: Local Currency Bond Issuance in Malaysia



MYR = Malaysian ringgit, Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter.

Note: Bonds are defined as debt securities with maturities longer than 1 year.

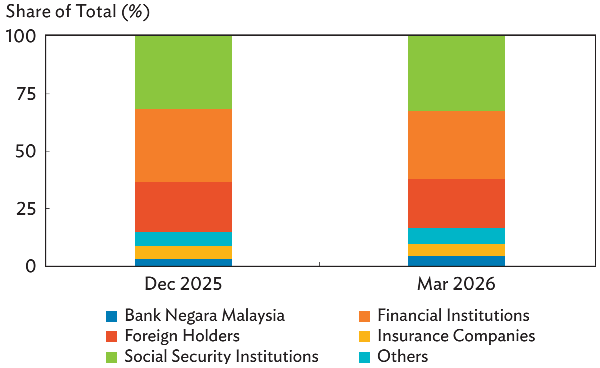
Source: Bank Negara Malaysia Fully Automated System for Issuing/Tendering and Bloomberg LP.

This market summary was written by Justin Adrian Villas (consultant) in the Economic Research and Development Impact Department, Asian Development Bank, Manila.

Investor Profile

Domestic investors accounted for 78.6% of Malaysia's outstanding LCY government debt securities at the end of Q1, unchanged from the end of the previous quarter. Social security institutions remained the largest investor group with a holdings share of 32.6%, while the share of financial institutions declined to 29.5% from 31.6% at the end of December (**Figure 4**). Foreign holdings edged up 1.6% q-o-q, leaving their share unchanged at 21.4%, as the favorable domestic economic performance and fiscal consolidation supported investor sentiment.

Figure 4: Local Currency Government Debt Securities Investor Profile



Note: "Others" include statutory bodies, nominees and trustee companies, and cooperatives and unclassified items.

Source: Bank Negara Malaysia.

Sustainable Bond Market

Malaysia's sustainable bond market expanded 11.1% q-o-q to USD22.4 billion at the end of June, accelerating from a 3.1% increase in Q1. Sustainability bonds remained the largest bond type at USD15.4 billion, accounting for 68.5% of the total (**Figure 5A**). Corporate issuers comprised 84.4% of the sustainable bond market at the end of Q2, up from 82.6% in Q1. With 59.8% of corporate sustainable bonds carrying tenors exceeding 5 years, their dominance supported the market's long-tenor profile, with the size-weighted average tenor rising to 8.5 years from 8.1 years in Q1 (**Figure 5B**).

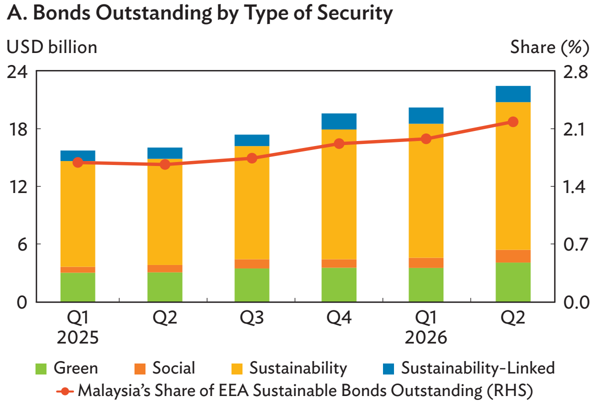
Policy and Regulatory Developments

Malaysia Strengthens Maqasid Al-Shariah Alignment in *Sukuk* Market

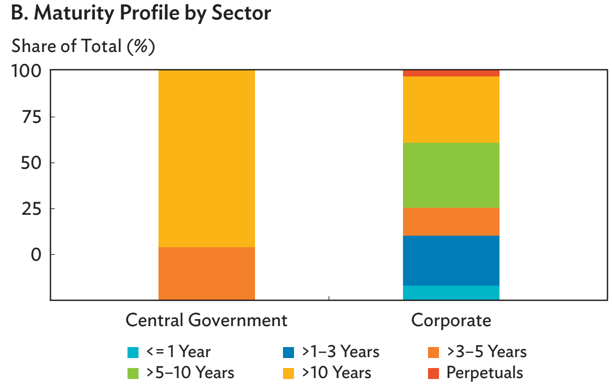
On 29 June, the Securities Commission Malaysia issued a guidance note to strengthen the alignment of *sukuk* (Islamic bonds) issuances with Maqasid Al-Shariah, or the broader objectives of Islamic law that emphasize ethical and societal outcomes. The guidance note sets out considerations on the use of proceeds, *sukuk* structuring, governance, disclosure, and inclusivity. It also provides practical illustrations for assessing such alignment. The measure seeks to encourage more ethical and value-based *sukuk* issuance and support the continued development of Malaysia's Islamic capital market.

Figure 5: Sustainable Bonds in Malaysia

A. Bonds Outstanding by Type of Security



B. Maturity Profile by Sector



EEA = emerging East Asia, Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter, RHS = right-hand side, USD = United States dollar.

Notes:

1. Emerging East Asia is defined to include the 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. Data include both local currency and foreign currency sustainable bonds.
3. Sustainability-linked bonds include transition-linked bonds.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Philippines

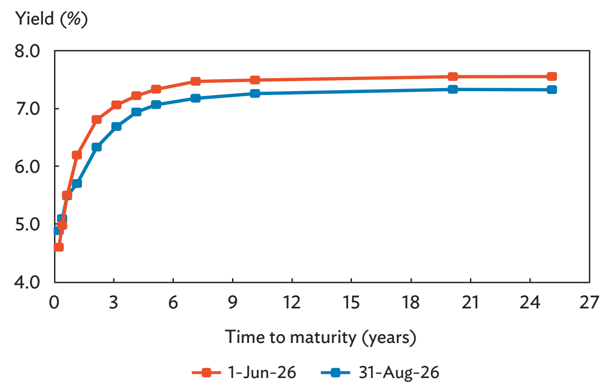
Yield Movements

Between 1 June and 31 August, yields on Philippine local currency (LCY) government debt securities fell 21 basis points on average, with the declines concentrated in tenors of 1 year or longer (**Figure 1**). Despite cumulative rate hikes of 50 basis points in June and August, moderating inflation and weakening growth exerted downward pressure on yields. Consumer price inflation eased to 6.2% year-on-year (y-o-y) in July and 6.4% in June from 6.8% in May. Economic activity also moderated, with gross domestic product growth slowing to 2.3% y-o-y in the second quarter (Q2) of 2026 from 2.8% in the previous quarter as investment weakened on reduced government construction activity.

Local Currency Bonds Outstanding and Issuance

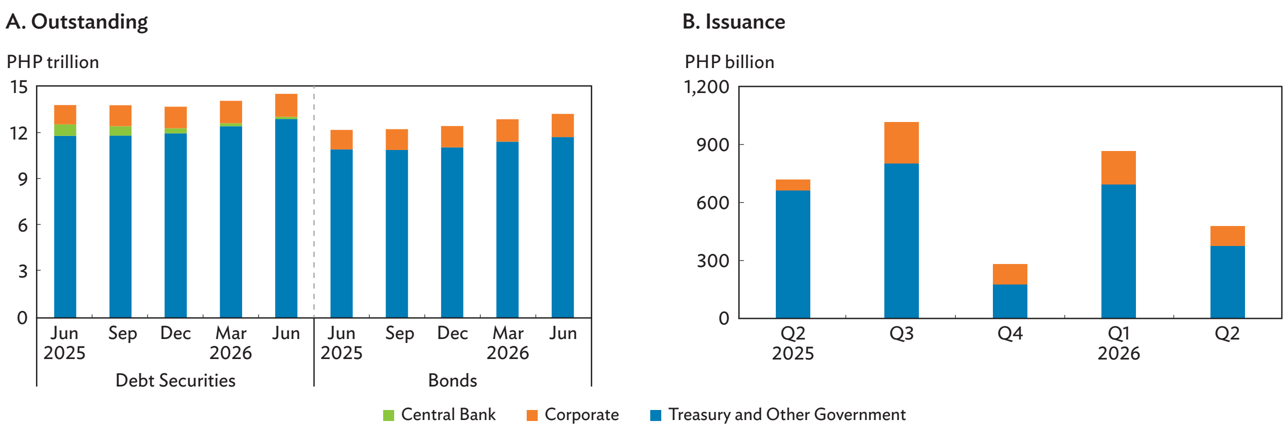
The Philippines' LCY debt securities outstanding rose by 3.3% quarter-on-quarter (q-o-q) to PHP14.5 trillion at the end of the second quarter (Q2) of 2026, slightly faster than the 2.8% increase in the previous quarter. Excluding debt securities with tenors of 1 year or shorter, the LCY bond market rose 2.7% q-o-q to PHP13.2 trillion, slowing from 3.5% in the first quarter (Q1) (**Figure 2A**).

Figure 1: Yields for Local Currency Government Debt Securities in the Philippines



( ) = negative.
Note: Data coverage is from 1 June 2026 to 31 August 2026.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Figure 2: Composition of Local Currency Debt Securities in the Philippines



PHP = Philippine peso, Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter.
Notes:
1. Bonds are defined as debt securities with maturities longer than 1 year.
2. Treasury and other government bonds comprise Treasury bonds, Treasury bills and, bonds issued by government agencies, entities, and corporations for which repayment is guaranteed by the Government of the Philippines.

Sources: Bangko Sentral ng Pilipinas, Bureau of the Treasury, and Bloomberg LP.

This market summary was written by Justin Adrian Villas (consultant) in the Economic Research and Development Impact Department, Asian Development Bank, Manila.

The slower market expansion was evident across both issuer groups, with outstanding government bonds rising 2.6% q-o-q, down from 3.4% in Q1, and corporate bonds increasing 3.2%, compared with 4.4% previously. Issuance activity weakened in Q2, with LCY bond issuance falling 45.1% q-o-q to PHP476.2 billion after surging 211.6% in Q1, due to a high base effect from front-loaded government borrowing (**Figure 2B**). Both segments contributed to the pullback in Q2, led by a 46.1% q-o-q decline in government bond issuance, while corporate issuance fell 41.0%.

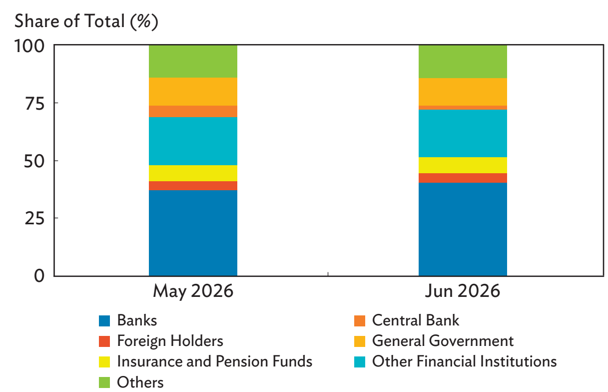
Investor Profile

At the end of June, domestic investors held 96.0% of the Philippines' LCY government debt securities. Banks remained the largest investor group, with their share rising to 40.6% from 37.3% in May as holdings increased 11.9% month-on-month (**Figure 3**). Banks and other financial institutions collectively accounted for 61.2% of total holdings in June, up from 58.1% in May, underscoring the concentration of holdings among domestic institutional investors. Foreign holdings also rose 7.1% month-on-month, slightly lifting their share to 4.0% from 3.9%.

Sustainable Bond Market

The Philippines' sustainable bonds outstanding increased 4.4% q-o-q to USD18.7 billion at the end of June, slower than the 11.7% increase in Q1. Sustainability bonds remained the dominant instrument at USD15.7 billion, accounting for 84.1% of the total (**Figure 4A**). Bonds with tenors exceeding 1 year

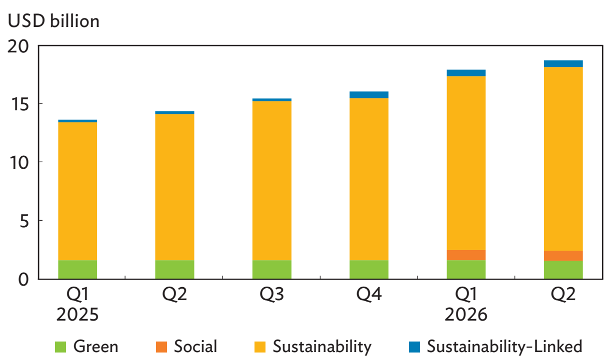
Figure 3: Investor Holdings of Local Currency Debt Securities



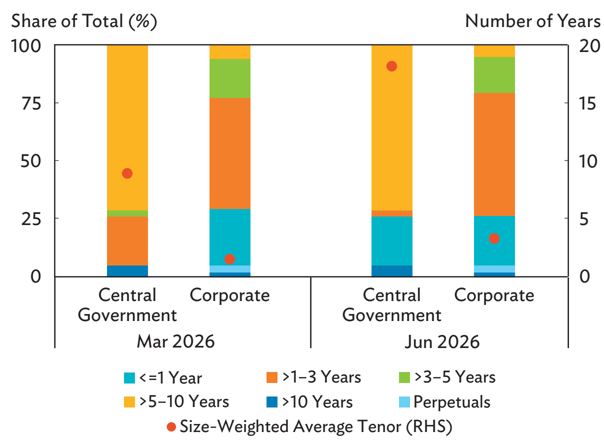
Notes: "Others" include nonfinancial institutions, the social security agency, and households.
Source: Bureau of the Treasury.

Figure 4: Sustainable Bonds in the Philippines

A. Bonds Outstanding by Type of Security



B. Maturity Profile and Average Tenor of Sustainable Bonds Outstanding by Sector



Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter, RHS = right-hand side, USD = United States dollar.

Notes:
1. Data include both local currency and foreign currency issues.
2. Sustainability-linked bonds include transition-linked bonds.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

accounted for 83.0% of total sustainable bonds outstanding. The central government segment remained distinctly long-dated, with 94.1% of its sustainable bonds carrying tenors exceeding 5 years, compared with 10.7% for corporate bonds (**Figure 4B**). The contrast was also evident in the size-weighted average tenor, which stood at 18.2 years for central government bonds versus 3.3 years for corporate bonds.

Policy and Regulatory Developments

Philippines Eases Capital Treatment of Government Securities

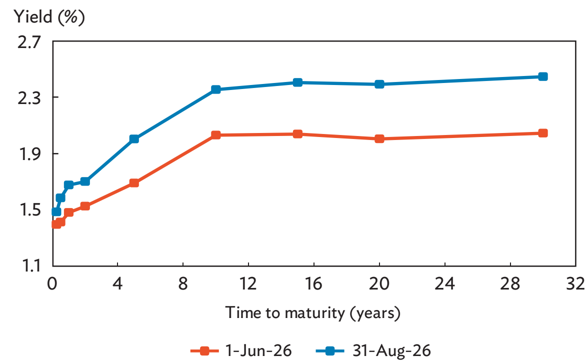
On 19 June, the Bangko Sentral ng Pilipinas granted banks and quasi-banks temporary capital relief on unrealized valuation losses from PHP-denominated government securities. The measure allows eligible institutions to exclude certain losses from regulatory capital calculations from 1 April to 31 December 2026. By easing the capital impact of valuation losses, the measure can reduce pressure on banks to sell government securities during periods of elevated yields, supporting market stability.

Singapore

Yield Movements

Between 1 June and 31 August, yields on Singapore's local currency (LCY) government debt securities increased across all tenors by an average of 27 basis points (**Figure 1**). Higher energy costs stemming from the Middle East conflict added to inflationary pressures during the period. Consumer price inflation accelerated to 2.2% year-on-year in July from 1.9% in June. On 27 July, the Monetary Authority of Singapore tightened monetary policy by increasing the rate of appreciation of the Singapore dollar nominal effective exchange rate policy band to contain persistent inflationary pressures. Singapore's 2026 gross domestic product growth forecast was also upgraded to 4.5% to 5.5% in August from 2.0% to 4.0%, following stronger-than-expected economic performance in the first half of the year.

Figure 1: Local Currency Government Bond Yields in Singapore

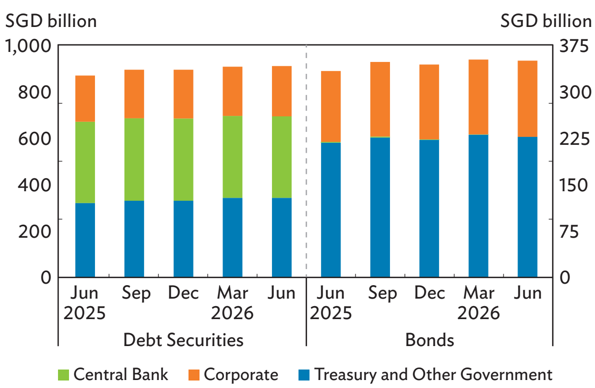


Source: Based on data from Bloomberg LP.

Local Currency Bonds Outstanding and Issuance

Singapore's LCY debt securities outstanding were broadly stable, settling at SGD912.4 billion at the end of the second quarter (Q2) of 2026, edging up 0.2% quarter-on-quarter (q-o-q) after a 1.5% increase in the previous quarter. Excluding debt securities with maturities of 1 year or less, the LCY bond market contracted 0.4% q-o-q to SGD327.8 billion, reversing a 2.4% increase in the first quarter (**Figure 2**). The contraction was driven by a 1.5% q-o-q decline in outstanding government bonds, which outweighed the increase in corporate bonds outstanding. LCY bond issuance in Q2 rose 7.0% q-o-q to SGD13.0 billion, with government and corporate issuance increasing 9.9% and 2.9%, respectively (**Figure 3**).

Figure 2: Local Currency Debt Securities Outstanding in Singapore



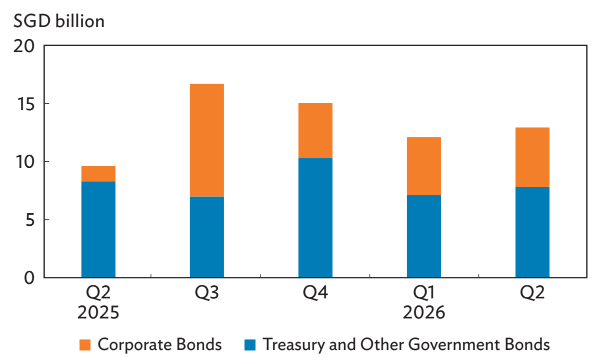
SGD = Singapore dollar.

Notes:

1. Bonds are defined as debt securities with maturities longer than 1 year.
2. Corporate debt securities and bonds are based on *AsianBondsOnline* estimates.

Sources: Monetary Authority of Singapore and Bloomberg LP.

Figure 3: Local Currency Bond Issuance in Singapore



Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter, SGD = Singapore dollar.

Notes:

1. Bonds are defined as debt securities with maturities longer than 1 year.
2. Corporate bonds are based on *AsianBondsOnline* estimates.

Sources: Monetary Authority of Singapore and Bloomberg LP.

This market summary was written by Justin Adrian Villas (consultant) in the Economic Research and Development Impact Department, Asian Development Bank, Manila.

Sustainable Bond Market

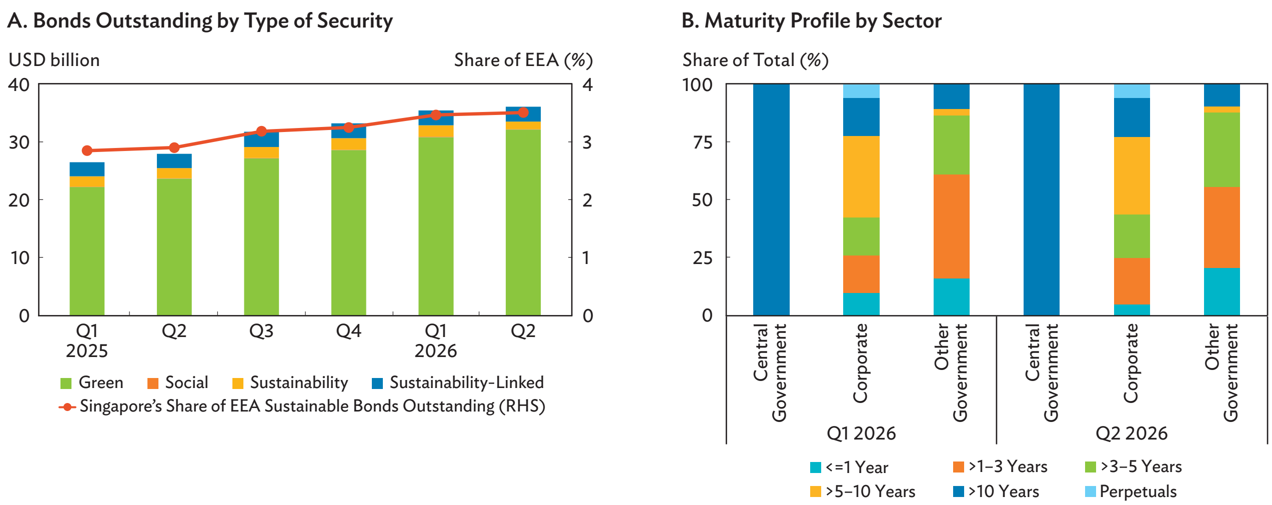
Singapore's sustainable bonds outstanding rose 1.8% q-o-q to USD36.1 billion at the end of June, slower than the 6.7% increase in the previous quarter. Green instruments continued to dominate the market, accounting for 89.1% of the total, as Singapore's share of emerging East Asia's sustainable bonds outstanding remained broadly stable at 3.5% (**Figure 4A**). Central government issuers accounted for 30.2% of the market and supported its long-tenor profile, with all outstanding sustainable bonds carrying tenors exceeding 10 years (**Figure 4B**). For corporate sustainable bonds, which made up 42.4% of total sustainable bonds outstanding, the share with tenors exceeding 5 years inched down to 56.5% in Q2 from 57.6% in the previous quarter. This resulted in a size-weighted average tenor of 16.0 years.

Policy and Regulatory Developments

Singapore Updates Tax Treatment for Qualifying Debt Securities

On 2 April, Singapore implemented amendments to the tax regulations governing qualifying debt securities. The changes extended applicable tax concessions to eligible debt securities issued through 31 December 2028 and updated the conditions governing qualifying issuances and debt programs. The measures help maintain tax support for debt market activity and reinforce Singapore's role as a regional debt financing center.

Figure 4: Sustainable Bonds in Singapore



EEA = emerging East Asia, Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter, RHS = right-hand side, USD = United States dollar.

Notes:

1. Emerging East Asia is defined to include the 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. Data include both local currency and foreign currency sustainable bonds.
3. Sustainability-linked bonds include transition-linked bonds.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Thailand

Yield Movements

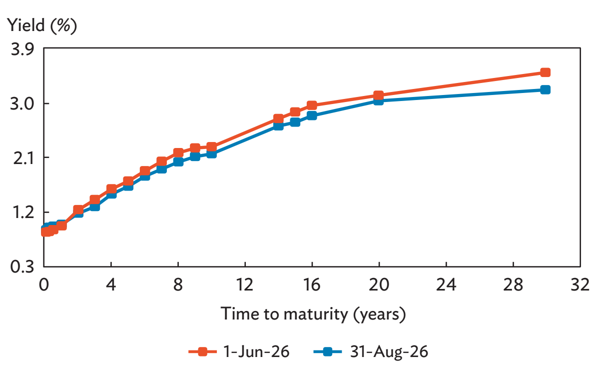
Thailand's local currency (LCY) debt security yields declined overall between 1 June and 31 August, driven by moderating domestic inflation, weak economic growth, and the Bank of Thailand's (BOT) accommodative policy stance (**Figure 1A**). Yields fell in June as geopolitical tensions in the Middle East eased and the BOT held its policy rate unchanged at 1.00% (**Figure 1B**). Yields edged higher for most tenors in July and August following the reescalation of conflict and in line with higher global sovereign yields and renewed concerns over Middle East tensions.

Local Currency Bonds Outstanding and Issuance

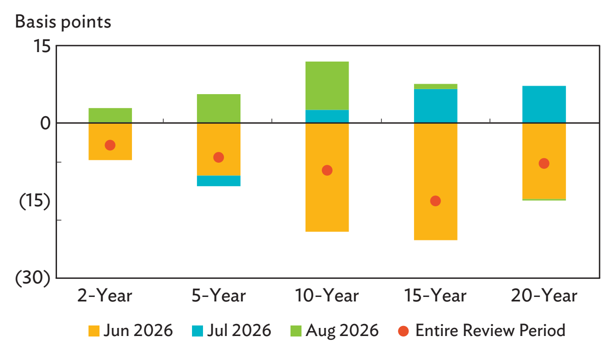
Thailand's LCY debt securities outstanding edged up 0.3% quarter-on-quarter (q-o-q) in the second quarter (Q2) of 2026 to reach THB18.2 trillion (**Figure 2A**). Excluding debt securities with a tenor of 1 year or less, the LCY bond market expanded 0.4% q-o-q to THB15.4 trillion, moderating from a 1.8% expansion in the previous quarter on decreased government issuance. Total LCY bond issuance declined 2.7% q-o-q to THB610.5 billion, dragged down by lower sovereign issuance following front-loaded borrowing in the previous quarter (**Figure 2B**). Meanwhile, corporate bond issuance surged 36.0% q-o-q to THB233.7 billion, driven by refinancing activity in response to a large volume of maturing bonds and supported by favorable financing conditions.

Figure 1: Yields for Local Currency Government Debt Securities in Thailand

A. Local Currency Government Debt Securities Yield Curve



B. Changes in Local Currency Government Bond Yields



( ) = negative.

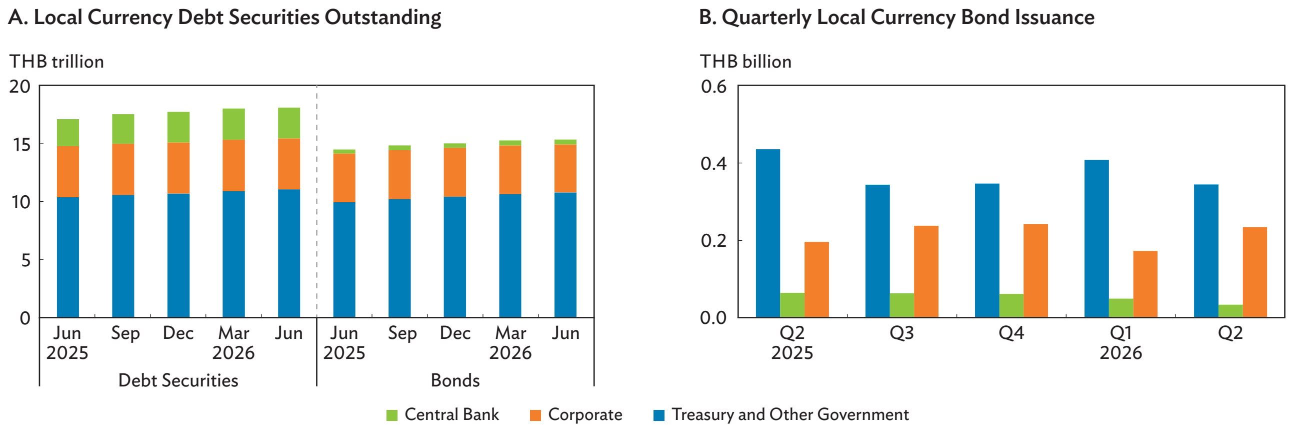
Notes:

1. Data coverage is from 1 June 2026 to 31 August 2026.
2. Bonds are defined as debt securities with maturities longer than 1 year.

Sources: *AsianBondsOnline* calculations based on data from Bloomberg LP and Thai Bond Market Association.

This market summary was written by Debbie Gundaya (consultant) in the Economic Research and Development Impact Department, Asian Development Bank, Manila.

Figure 2: Local Currency Bonds Outstanding and Issuance in Thailand

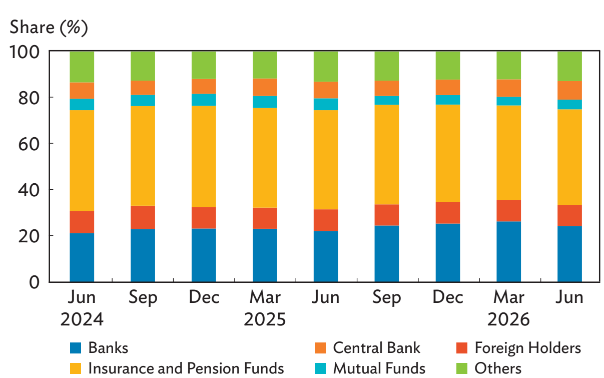


Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter, THB = Thai baht.
Note: Bonds are defined as debt securities with maturities longer than 1 year.
Sources: Bank of Thailand and Thai Bond Market Association.

Investor Profile

The investor profile for Thailand's government debt securities market remained broadly stable in the first half of 2026 (**Figure 3**). Institutional investors—including insurance and pension funds, banks, and mutual funds—continued to hold most government debt securities, although their combined share inched down to 70.0% at the end of June from 71.1% at the end of March. Meanwhile, the BOT's share increased to 8.0% from 7.6%, reflecting an increase in its purchases of government bonds to THB36.2 billion in Q2 from THB20.7 billion in the previous quarter as part of its monetary operations.

Figure 3: Investor Profile of Government Debt Securities

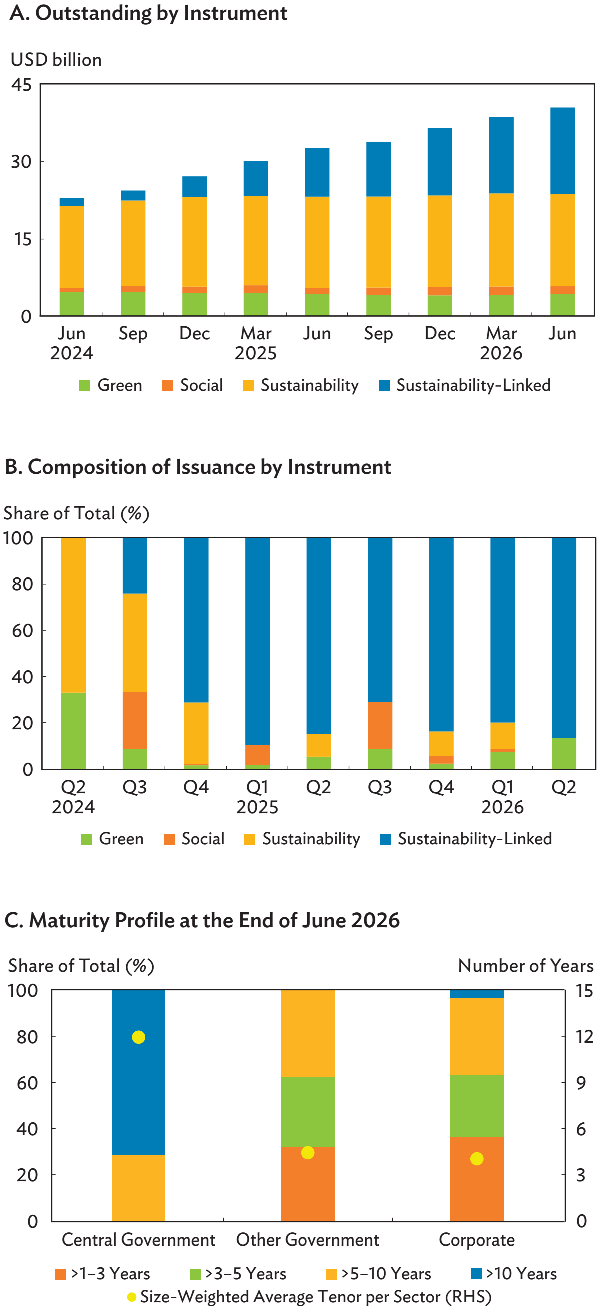


Note: Others include other financial corporations, other nonfinancial corporations, residents, and general government and nonprofit organizations.
Source: Bank of Thailand.

Sustainable Bond Market

Thailand's sustainable bond market expanded 4.6% q-o-q to reach USD40.4 billion at the end of June (**Figure 4A**). The market's expansion moderated from 6.0% q-o-q in the previous quarter due to a 5.1% q-o-q decline in issuance, as subdued economic growth dampened fundraising activity (**Figure 4B**). Sustainability-linked sovereign bonds represented 86.3% of total issuance in Q2, while green bond issuance from the power generation and utilities sector accounted for the remaining 13.7%. At the end of June, the size-weighted average tenor of outstanding sustainable bonds was 9.8 years—broadly stable compared to that of the previous quarter—supported by the longer average tenor of sovereign bonds (12.0 years), which far exceeded those of other government bonds (4.5 years) and corporate bonds (4.1 years) (**Figure 4C**).

Figure 4: Sustainable Bonds Outstanding and Issuance in Thailand



Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter, RHS = right-hand side, USD = United States dollar.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Policy and Regulatory Developments

Securities and Exchange Commission Announces Framework for Transition and Amber Bonds

On 8 April, the Securities and Exchange Commission announced a proposed regulatory framework for transition bonds and amber bonds. The framework aims to support fundraising for transition activities aligned with the Thailand Taxonomy, expand sustainable financing options, and strengthen disclosure requirements for sustainability-related debt instruments. Amber bonds are intended to finance activities that are not fully green but are on a pathway toward reducing emissions and supporting the low-carbon transition.

Viet Nam

Yield Movements

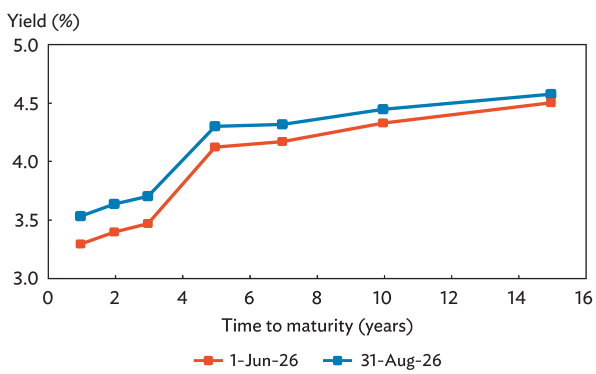
Between 1 June and 31 August, local currency (LCY) government bond yields in Viet Nam rose across all maturities by an average of 18 basis points (bps) due to elevated inflationary pressures generated by the ongoing conflict in the Middle East (**Figures 1A** and **1B**). Higher energy and transportation costs pushed up consumer price inflation to 4.7% year-on-year in June before moderating to the government's target of 4.5% in July. Concerns over the attainability of the government's 10% growth target increased expectations of higher financing needs, placing further upward pressure on yields.

Local Currency Bonds Outstanding and Issuance

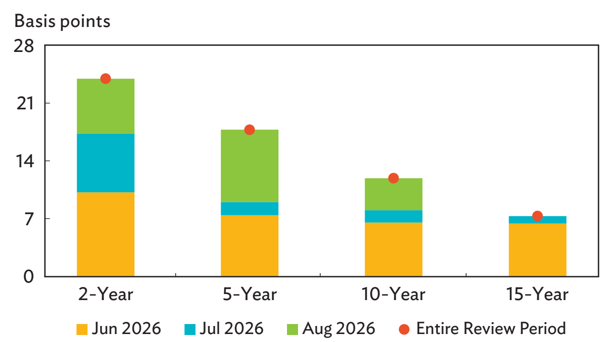
Viet Nam's LCY outstanding debt securities expansion rebounded 1.7% quarter-on-quarter (q-o-q) in the second quarter (Q2) of 2026 to reach VND4,021.6 trillion. After contracting 0.4% in the first quarter (Q1), the gain in Q2 was driven by the accelerated expansion of corporate bonds (6.0% q-o-q) and treasury and other government bonds (3.0% q-o-q) (**Figure 2A**). Excluding debt securities of 1 year or less, bonds outstanding expanded 3.8% q-o-q, up from 2.2% in the prior quarter. Total bond issuance climbed 99.2%, driven by a surge in corporate issuance of more than 400%, alongside an 11.1% increase in treasury and other government bond issuance (**Figure 2B**). The recovery of Viet Nam's corporate bond issuance from a subdued level in Q1 was driven by the need to fund new projects and refinance maturing debt. Vietnam Technological and Commercial Joint Stock Bank led all corporate issuers in Q2 after raising VND24.5 trillion.

Figure 1: Yields for Local Currency Government Bonds in Viet Nam

A. Local Currency Government Bond Yield Curve



B. Changes in Local Currency Government Bond Yields

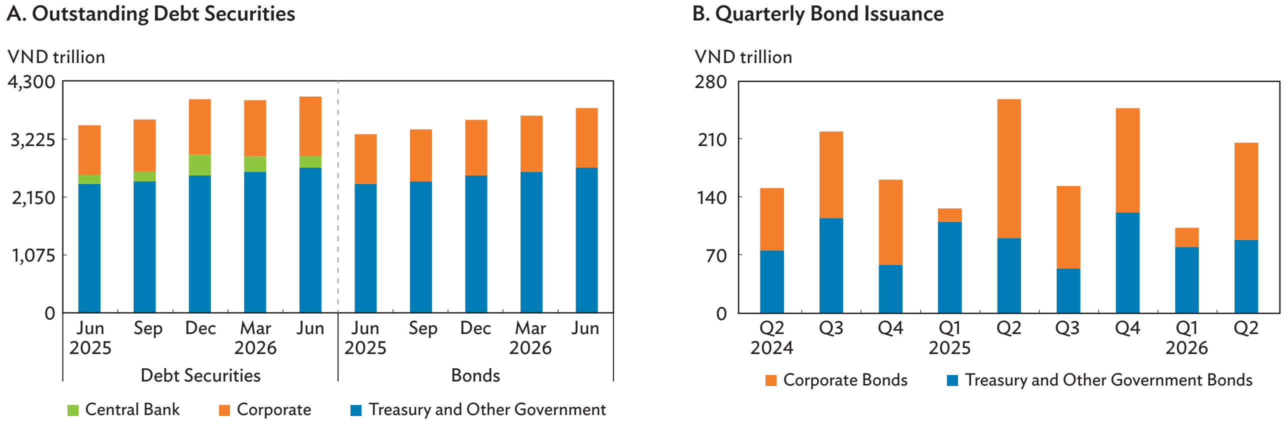


Note:
1. Data coverage is from 1 June 2026 to 31 August 2026.
2. Bonds are defined as debt securities with maturities longer than 1 year.

Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

This market summary was written by Resi Olivares (consultant) in the Economic Research and Development Impact Department, Asian Development Bank, Manila.

Figure 2: Composition of Local Currency Debt Securities in Viet Nam



Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter, VND = Viet Nam dong.

Notes:

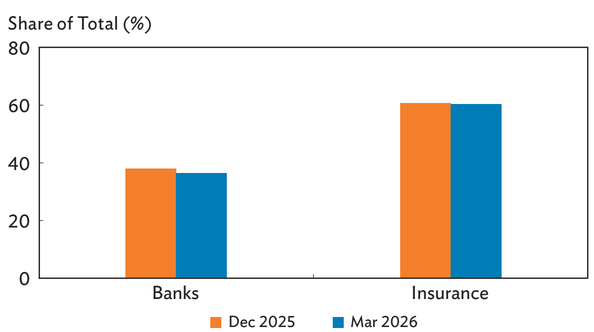
1. Bonds are defined as debt securities with maturities longer than 1 year.
2. Other government bonds comprise government-guaranteed and municipal debt securities.

Sources: Hanoi Stock Exchange, State Bank of Vietnam, Vietnam Bond Market Association, and Bloomberg LP.

Investor Profile

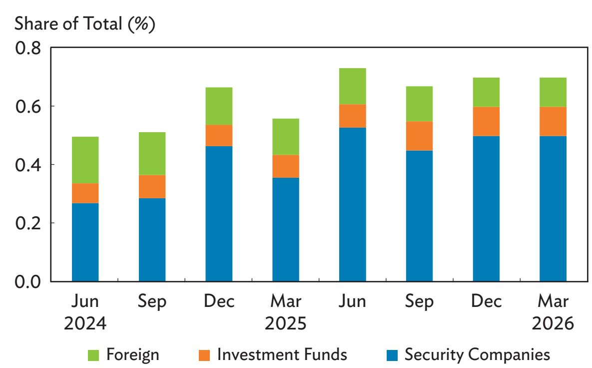
Banks and insurance companies jointly held 97.0% of total LCY government bonds outstanding at the end of March, slightly lower than their combined share of 98.8% at the end of 2025 (**Figure 3**). Despite this marginal decline, the holdings of Viet Nam's LCY government bonds remained highly concentrated among these two sectors, resulting in the second-highest Herfindahl–Hirschman Index score in the region at the end of Q1.[11] The holdings of other sectors such as security companies (0.5%), investment funds (0.1%), and foreign investors (0.1%) remained minimal (**Figure 4**).

Figure 3: Market Profile of the Two Dominant Investor Groups in the Local Currency Government Bond Market



Source: Ministry of Finance, Viet Nam.

Figure 4: Other Holdings Shares of Local Currency Government Bonds



Source: Ministry of Finance, Viet Nam.

[11] The Herfindahl–Hirschman Index is a common measure of market concentration. The index is used to measure the investor profile diversification of the LCY bond market by summing the squared share of each investor group in the bond market.

Sustainable Bond Market

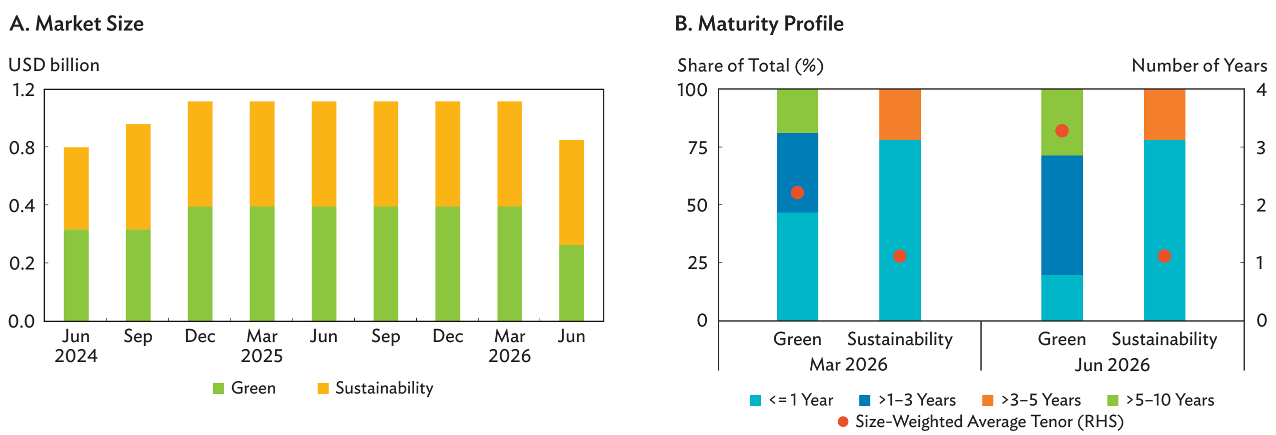
Viet Nam's outstanding sustainable bonds contracted to USD0.9 billion at the end of Q2 due to the maturity of a USD0.2 billion green bond during the quarter. Sustainability bonds accounted for 57.9% of the outstanding total, while green bonds comprised the remaining 42.1% (**Figure 5A**). The private sector continues to account for 100% of Viet Nam's sustainable bond stock. About 54.8% of sustainable bonds are denominated in Viet Nam dong and the rest in United States dollars. Green and sustainability bonds were concentrated in tenors of 3 years or less at the end of Q2, resulting in a short overall size-weighted average tenor of 1.8 years, up from 1.7 years in Q1 (**Figure 5B**).

Policy and Regulatory Developments

Financial Market Reforms in Viet Nam

In July, the government unveiled a reform strategy to expand Viet Nam's bond market to the equivalent of 60% of gross domestic product by 2045. The strategy includes enhancing credit rating mechanisms; upgrading market infrastructures; and broadening financial products, including environmental, social, and governance bonds.

Figure 5: Sustainable Bonds Outstanding in Viet Nam



RHS = right-hand side, USD = United States dollar.
Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

Asia Bond Monitor September 2026

This publication reviews recent developments in emerging East Asian local currency bond markets along with the outlook, risks, and policy options. It covers the 10 members of the Association of Southeast Asian Nations and the People's Republic of China; Hong Kong, China; and the Republic of Korea.

About the Asian Development Bank

ADB is a leading multilateral development bank supporting inclusive, resilient, and sustainable growth across Asia and the Pacific. Working with its members and partners to solve complex challenges together, ADB harnesses innovative financial tools and strategic partnerships to transform lives, build quality infrastructure, and safeguard our planet. Founded in 1966, ADB is owned by 69 members—50 from the region.

ADB

JFPR Japan Fund for Prosperous and Resilient Asia and the Pacific

From the People of Japan

ASIAN DEVELOPMENT BANK
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines
www.adb.org