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I. MARKET CONJUNCTURAL – STRENGTHENING RESILIENCE TO CHALLENGES AHEAD

ASEAN+3 markets were broadly stable during the first half of 2024 before the rise in market volatility in the third quarter

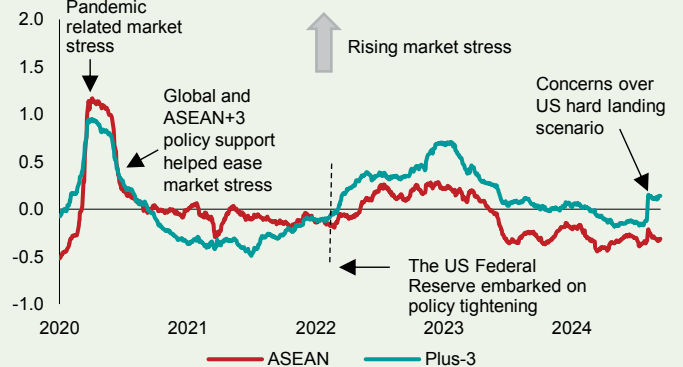
Benign global financial conditions in 2024 tightened in August

Selected Advanced Economies: Financial Conditions Indices (Index)



US growth concerns triggered a spike in market volatility

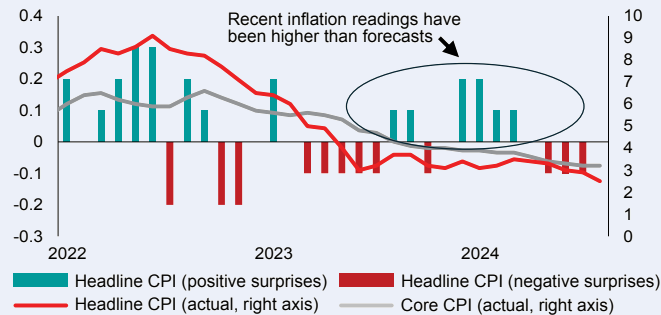
ASEAN+3: Market Stress Indices¹ (Index)



New risks have surfaced while old risks lingered on

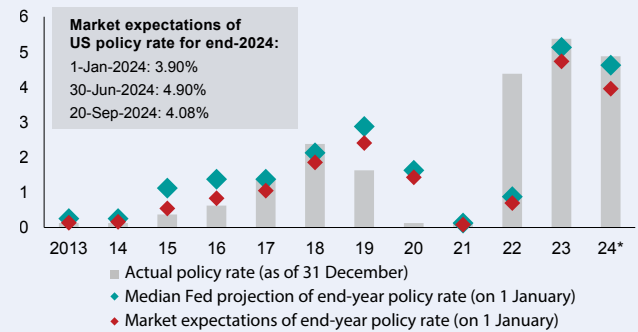
Geopolitics and inflation risk are key concerns for policy outlook

US: Inflation and Inflation Data Surprises (Percent of GDP; percent)



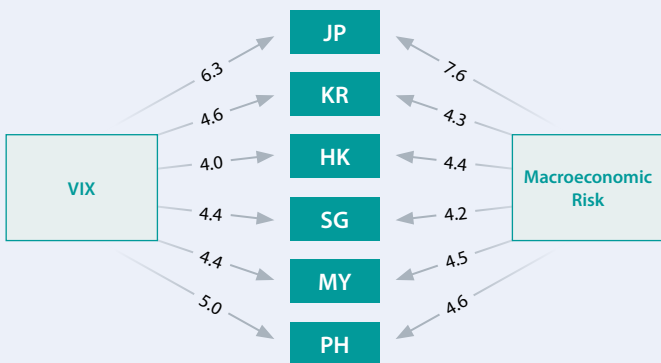
Unexpected tightening of monetary policy would be detrimental for markets

US: Projected Versus Actual Policy Rates (Percent)



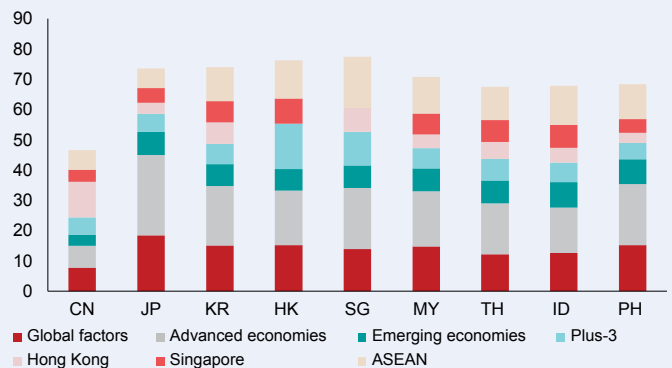
Global financial interconnectedness would amplify shocks to the region

Selected ASEAN+3: Top Spillovers from Global Factors² (Percent)



Hong Kong, Japan, Korea, Malaysia, and Singapore receive the most inward spillovers

Selected ASEAN+3: Inward Spillovers by Channel (Percent)



Source for above charts: National authorities; Bloomberg Finance L.P.; Haver Analytics; AMRO staff estimations and calculations.

¹ The Market Stress Index is based on the Mispricing Risk (Refined) proposed in Hennig, Iosifov, and Varghese (2023) which attempts to capture the slack in financial conditions. The Mispricing Risk (Refined) is constructed using a simple average of indicators of price growth and volatility transformed into within-economy percentiles. The measure of risk uses real equity market returns, equity market volatility, domestic sovereign bond yield volatility, sovereign foreign exchange risk spreads, foreign exchange market volatility and real house price growth. We introduce two additional parameters, real domestic government bond yield and growth of real effective exchange rate, which are included in the construction of Mispricing Risk (Unrefined) as high frequency data are available. We also flip the sign of the resultant index so that higher values of the index indicate less slack in financial conditions to create the Market Stress Index.

² The numbers associated with the directed arrows reflect the size of the spillover transmission channel, as calculated using the approach of Diebold and Yilmaz (2012, 2014). These numbers represent the percentage of the movement of equity returns of each ASEAN+3 economy that is explained by a shock from a global factor. See Feature Annex 1.2 for technical details. JP = Japan; KR = Korea; HK = Hong Kong; SG = Singapore; MY = Malaysia; PH = Philippines; VIX = VIX volatility index.



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II. THEMATIC CHAPTER – VULNERABILITIES AND POTENTIAL SPILLOVERS FROM PROPERTY DEVELOPER FINANCING

Sluggish real estate market and tight financial conditions have worsened developers' finances, heightening spillover risks

Vulnerabilities among property developers have increased

Selected ASEAN+3: Comparison of 2018–2020 and 2021–2023 Averages

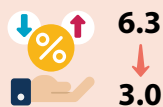
Real estate stock index:



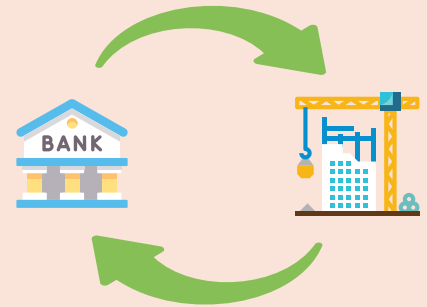
Developer's return on assets:



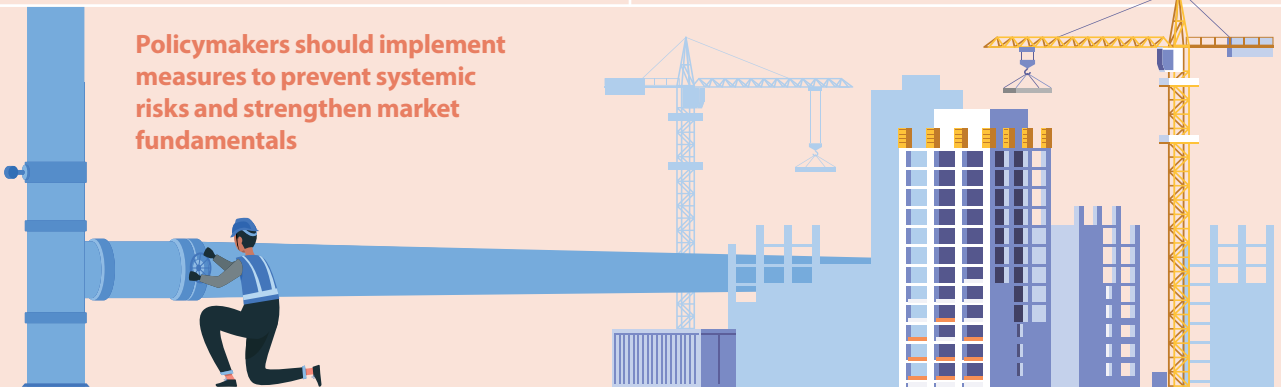
Developer's interest coverage ratio:



Banks' robust capital buffers mitigate spillover risks, but hidden risks persist in less regulated institutions



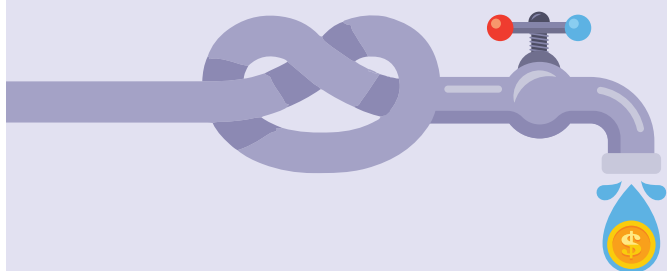
Policymakers should implement measures to prevent systemic risks and strengthen market fundamentals



III. THEMATIC CHAPTER – IMPLICATIONS OF US DOLLAR RELIANCE IN ASEAN+3

The heavy reliance on US dollar poses significant risks for ASEAN+3 financial system

US dollar liquidity squeeze is a key financial stability risk



The US dollar is a transmission channel for global shocks



Policymakers may build resilience in the near term while diversifying away from the US dollar in the longer term

