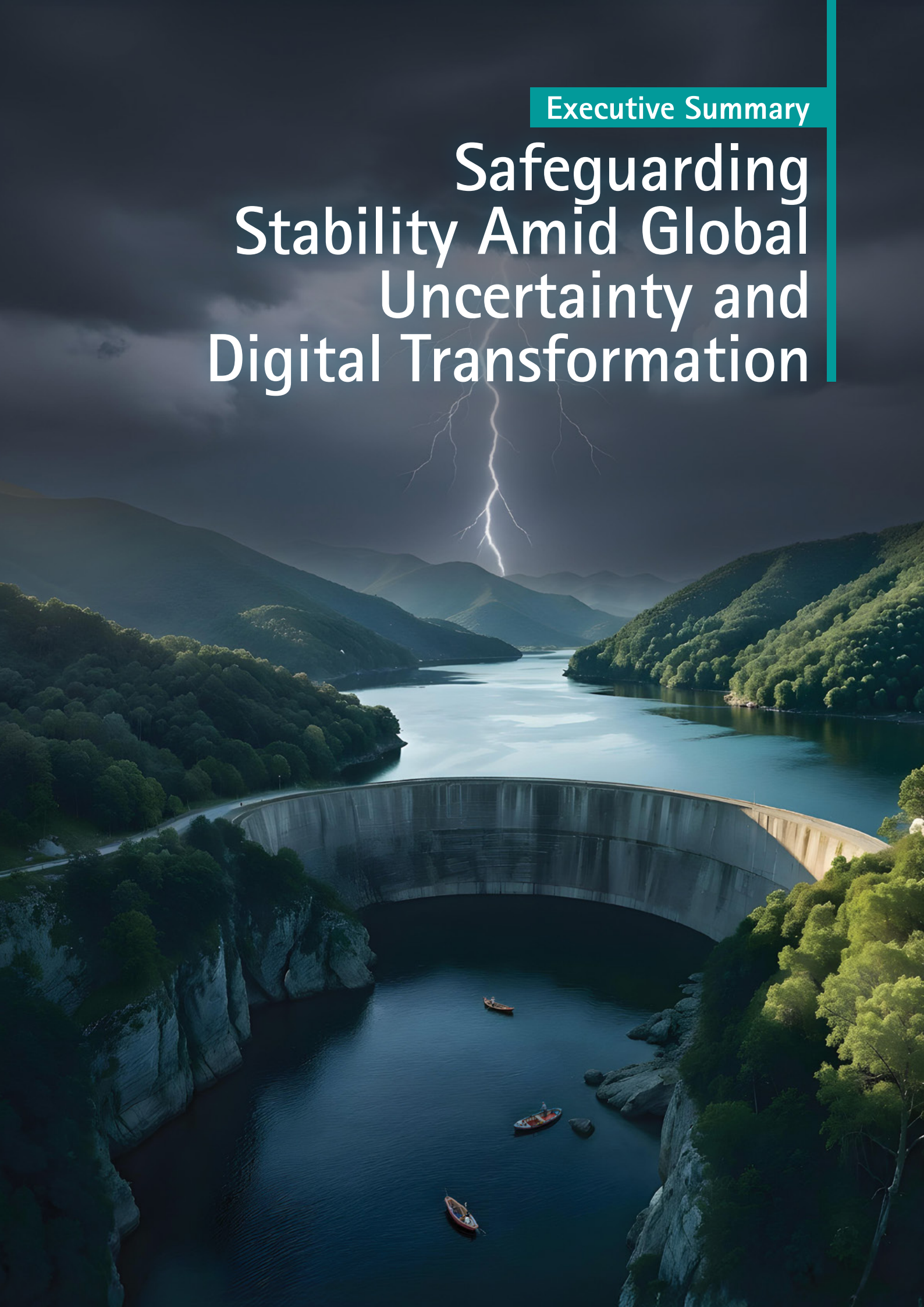


Executive Summary

Safeguarding Stability Amid Global Uncertainty and Digital Transformation

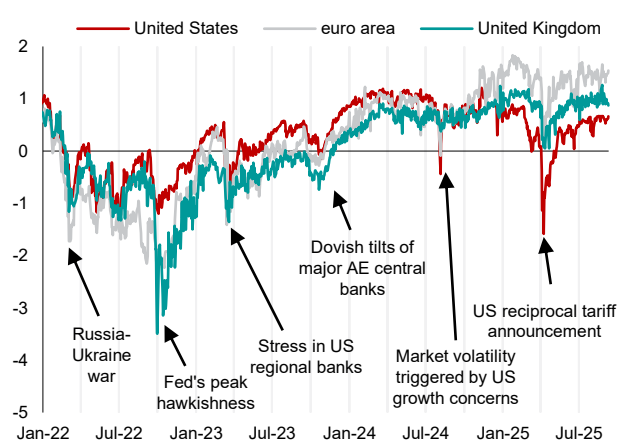


Safeguarding Stability Amid Global Uncertainty and Digital Transformation

Following publication of the 2024 ASEAN+3 *Financial Stability Report* (AFSR), global financial conditions have been volatile, reflecting heightened uncertainty over trade and economic policies from the United States (US) and escalating geopolitical tensions (Figure E.1). Since the US announced its first round of tariffs on major trading partners in February 2025, market stress has fluctuated with subsequent developments, peaking

Figure E.1. Selected Advanced Economies: Financial Conditions
(Index)

Global financial conditions tightened in early April.



Source: Bloomberg Finance L.P.; AMRO staff compilation.
Note: Higher values of the index indicate easier financial conditions.
AE = advanced economy. Data as of 8 September 2025.

Financial markets in ASEAN+3 responded to these external events differently depending on the degree of trade exposure to the US and the level of tariffs applied (Figure E.3). Barring idiosyncratic factors, government bond yields remained less sensitive to US Treasury yields and fell in most regional markets.

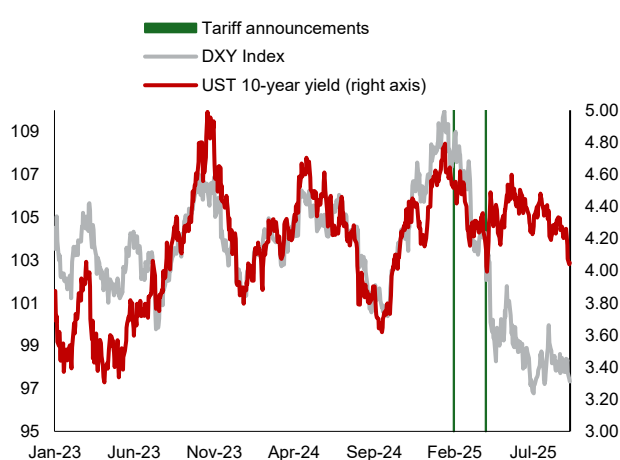
US tariffs can have a material spillover on the health of the export-oriented corporate sectors in some of the ASEAN+3 economies. Tariff announcements on 2 April led to relatively weaker stock markets in those economies with higher export exposures to the US. The impact on corporate profits could be particularly severe for smaller firms, which may have concentrated exposure to US demand, either directly or through global supply chains.

Regional currencies generally appreciated against the US dollar in the first half of 2025. The longer-term implications for financial stability in the ASEAN+3 region of the US dollar being perceived as less safe and

after the 'Liberation Day' tariffs on 2 April. In particular, the US dollar began sliding in February as investors questioned its safe-haven status amid expectations on tariff policies and rising fiscal concerns. Even as US equity markets and Treasury yields rebounded following the 90-day tariff pause, the dollar remained weak (Figure E.2). Apart from the trade uncertainty, geopolitical risks have made sporadic contributions to market stress.

Figure E.2. US Dollar and US Treasury Yield
(Index; percent)

The US dollar-US Treasury yield co-movement broke after Liberation Day.



Source: Bloomberg Finance L.P.; AMRO staff calculations.
Note: Data as of 8 September 2025.

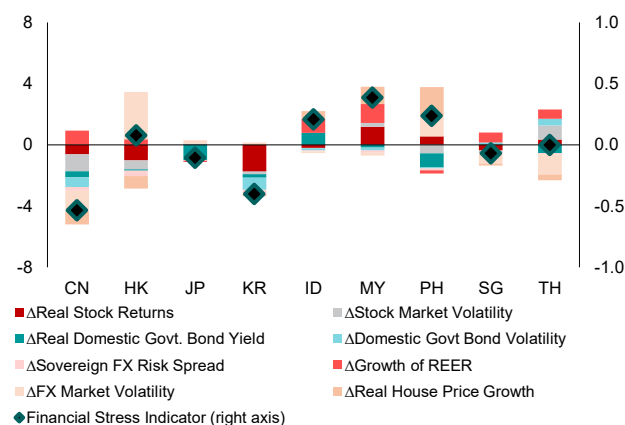
US Treasuries losing their risk-free benchmark status need further analysis and careful monitoring. The absence of a risk-free asset could introduce higher volatilities in regional financial markets as the dollar has been a major funding currency.

Encouragingly, the ASEAN+3 region entered this period of trade policy turbulence from a position of strength and resilience. Most regional policymakers responded proactively to cushion the impact of the anticipated trade shock, and policy space remains available for further support if needed. The banking sector remains well-capitalized and sound, offering a crucial anchor for regional financial stability.

However, pockets of vulnerabilities remain in the ASEAN+3 economies. Compared to 2023, total debt-to-GDP in the region inched higher in 2024, driven by modest increase in both corporate and government borrowing (Figure E.4). Debt risks are still elevated among small and medium-sized enterprises.

Figure E.3. Selected ASEAN+3: Contributors to Change in Market Stress from January 2025 to September 2025 (Index)

Market stress levels differed across economies.



Source: Bloomberg Finance L.P.; Haver Analytics; AMRO staff calculations.

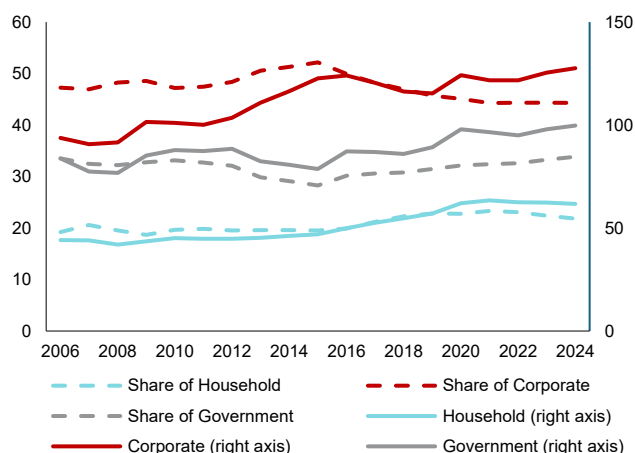
Note: A rise in stock market volatility, real domestic government yields, domestic government bond yield volatility, sovereign foreign exchange risk spread, and foreign exchange market volatility; and a fall in real stock market returns, growth of REER and real house prices contribute to higher market stress. FX = foreign exchange; govt. = government; REER = real effective exchange rate; Δ = change in; CN = China; HK = Hong Kong; ID = Indonesia; JP = Japan; KR = Korea; MY = Malaysia; PH = Philippines; SG = Singapore; TH = Thailand. Data as of 8 September 2025.

A slowdown in global demand—triggered by tariffs or other shocks—could exacerbate these strains, particularly for export-sensitive industries. Unlisted small and medium-sized firms in raw materials and manufacturing sectors have higher levels of debt-at-risk, warranting closer monitoring of financial system exposures to those firms.

Despite the US Federal Reserve (Fed) having resumed its rate-cut cycle, tariff-induced inflation and potentially higher oil prices stemming from geopolitical stress could delay or even reverse this trajectory, with spillover to regional markets. Chapter 2 examines the impact of global monetary shocks on ASEAN+3 financial stability, including the 2022–2023 global tightening. During this period, regional markets came under stress, but no systemic crisis emerged, underscoring stronger fundamentals and well-calibrated policy responses. However, vulnerabilities remain in economies with high external exposure and in firms with high debt-at-risk—such as the property and construction, manufacturing, and raw materials

Figure E.4. Selected ASEAN+3: Corporate, Government and Household Debt (Percent; Percent of GDP)

ASEAN+3's total debt-to-GDP ratio rose by 4 percentage points in 2024, driven by corporate and government debt.



Source: Bank for International Settlements (BIS); AMRO staff calculations.

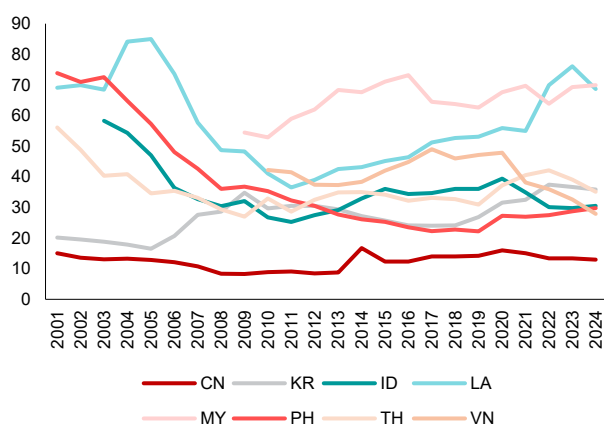
Note: Data covers all economies reporting nonfinancial debt data to the BIS. Selected ASEAN+3 includes China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Singapore, and Thailand. Government debt data for these economies in nominal value, except for Korea, which reports market value.

sectors—leaving them susceptible to renewed global rate hikes or local currency depreciation (Figure E.5). Further, rising market risk exposures among financial institutions could increase sensitivity to global interest rate shocks.

Meanwhile, the digitization of banking services continues to accelerate across the region. While offering efficiency gains, convenience and improved financial inclusion, digitalization introduces new risks or alters the nature and distribution of traditional risks in banking. Chapter 3 examines the evolving landscape in the region and its implications for financial stability. Operational risks, such as cybersecurity threats, service disruptions and fraud, remain at the forefront (Figure E.6). Systemic risks may also emerge from the growing participation of, and reliance on, nonfinancial companies in providing digital banking services. In addition, financial inclusion objectives in some ASEAN economies could expose new digital financial institutions to heightened credit and business risks.

Figure E.5. Selected ASEAN+3: External Debt to GDP Ratio Trend
(Percent)

External debt ratios have stabilized overall but remain high or increasing in some economies.



Source: CEIC

Note: The data are as of 2024 or the latest. CN = China; ID = Indonesia; KR = Korea; LA = Lao PDR; MY = Malaysia; PH = Philippines; TH = Thailand; VN = Vietnam.

Even as elevated US policy uncertainty casts a shadow over ASEAN+3's growth outlook, significant dollar weakening has helped cushion external spillovers, ease imported inflation, and provide room for supportive policy responses. A policy mix tailored to domestic conditions should be implemented prudently to preserve policy space and strengthen resilience to external shocks. Monetary policy can provide support to the economy in a broad-based slowdown, while fiscal policy can be targeted more toward vulnerable sectors. Macroprudential measures can also be activated to complement monetary and fiscal policies, should financial stability issues, such as debt buildup, arise.

Concerns over the US dollar's safe-haven status could see capital flows partially reallocated toward the

Figure E.6. Selected ASEAN+3: Risks Posed by Digitalization
(Risk ranking)

Operational risk is seen as the most significant risk.



Source: Authority Survey; AMRO staff compilation.

Note: Survey results for the question "Based on your qualitative assessment, please rank the following risks posed by the digitalization of banking services." The spiderweb shows the average risk rankings for the various economy groups for each specific risk, with 5 carrying the most risk and 1 the least.

ASEAN+3 region. While this may support domestic financial stability, authorities should remain vigilant for potential asset price dislocations and excessive credit growth and stand ready to implement surveillance and risk mitigation measures. Over the longer term, deeper regional financial integration could help reduce the vulnerabilities associated with heavy reliance on the US dollar as a funding currency in the region.

While managing near-term volatilities, ASEAN+3 economies should continue strengthening policy frameworks to mitigate spillovers from global shocks (Chapter 2). As the financial landscape evolves with accelerated digitalization, balancing innovation with financial stability requires a holistic, multipronged approach (Chapter 3).