

Foreword from the Chief Economist

Since the publication of the *ASEAN+3 Financial Stability Report (AFSR) 2024*, the global economic and financial landscape has shifted significantly. The second Trump administration's tariff measures, together with heightened geopolitical tensions, and growing concerns over fiscal sustainability in major economies, have all contributed to greater uncertainty. Global financial markets reacted sharply to these events with heightened volatility. Although pressures have eased gradually, long-term bond yields have remained elevated. A particularly notable shift has been a possible weakening of the US dollar's long-established safe-haven role, as US policy uncertainty and fiscal issues continued to undermine investors' confidence.

For the ASEAN+3 region, which is deeply integrated with the global financial environment, these developments carry important implications. The US tariff poses risks to export-oriented corporate sectors and, by extension, related financial markets in several ASEAN+3 economies. In addition, tariff measures may add inflationary pressures in the US, further complicating its conduct of monetary policy, inducing potential volatility and spillovers to the region. At the same time, re-evaluation of the US dollar status as a safe haven, in the absence of a comparable alternative, can lead to heightened uncertainty and fragmentation.

Beyond these immediate challenges, ASEAN+3 economies are also confronting deeper structural shifts. One of the most significant of these is the rapid digitalization of financial services, which offers opportunities for greater financial inclusion and efficiency but also introduces new vulnerabilities. Banking sector digitalization may affect market structure and could change the nature and distribution of financial stability risks.

Against this backdrop, AFSR 2025 highlights the risks and vulnerabilities facing the ASEAN+3 region, while assessing its policy responses and resilience.

Chapter 1: *Market Conjunctural: Stay on Guard Against External Uncertainties*—reviews recent market developments and examines the challenges facing ASEAN+3. Spillovers from US policy uncertainty—particularly over trade measures—have unsettled markets, while fiscal policy concerns that emerged in the US have quickly spread to other advanced and emerging economies heightening market sensitivity to fiscal risks. At the same time, emerging doubts about the dollar's safe-haven role may reduce the region's reliance on US dollar funding, but they could also fragment global financial markets, add complexity to asset pricing, and complicate liquidity management. Geopolitical tensions continue to cloud the outlook and could induce further market volatility. Although property market conditions have stabilized somewhat, vulnerabilities persist and require close monitoring.

Chapter 2: *Global Monetary Policy Shocks: Spillovers and ASEAN+3 Policy Responses*—examines the effects of global monetary cycles, including the sharp tightening by major central banks such as the US Federal Reserve in 2022–2023. Rising interest rates and a stronger dollar during the period raised fears of financial stress in ASEAN+3, recalling past externally driven shocks like the global financial crisis and the taper tantrum. Yet, the region avoided major disruptions, supported by well-calibrated policy mixes and stronger fundamentals across the region. These outcomes highlight ASEAN+3's growing resilience and its ability to draw lessons from past episodes. Nevertheless, pockets of vulnerability remain, particularly in economies with high external exposure and elevated corporate debt risks.

Chapter 3: *Banking Sector in the Digital Age: Balancing Innovation and Stability*—explores the drivers of digital transformation in the banking sector and their implications for financial stability. It underscores the opportunities digitalization brings, but also the risks—ranging from operational challenges such as cybersecurity threats and service disruptions to systemic vulnerabilities stemming from the growing role of nonfinancial companies. The chapter further notes that financial inclusion initiatives, coupled with still-developing financial systems in some ASEAN economies, may leave new players more exposed to credit and business risks. A holistic approach to the regulatory framework will be important to safeguard overall financial stability.

Despite global turbulence, the region's financial system remains broadly resilient. Policymakers have acted swiftly and decisively to cushion the impact of external shocks. Stronger banking systems, ample foreign reserves, and available policy space have provided important safeguards.

Looking ahead, ASEAN+3 authorities should continue to take a pragmatic approach and reinforce policy frameworks, enhancing transparency, deepening domestic financial markets, and bolstering buffers to guard against global volatility. At the same time, policies must adapt to the challenges of evolving structural shifts such as digitalization, ensuring that innovation is managed within a sound and prudent regulatory framework.

Finally, strengthening regional financial cooperation will be vital. Deeper integration of regional financial systems will not only increase collective resilience but also allow ASEAN+3 to respond more effectively to future episodes of global uncertainty and change. AMRO hopes that AFSR 2025 will serve as a valuable resource in our collective efforts to safeguard regional financial stability and resilience.

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