

**Box 2.1****Financial conditions of selected Asian economies**

Historically, the US Federal Reserve (Fed)’s monetary policy decisions have a significant bearing on the financial conditions in Asian economies through triggering capital reversals, as risk appetite shifts amid changing government bond yield differentials with advanced economies. Since 2022, global financial conditions tightened notably along with pervasive monetary policy tightening led by the Fed’s successive interest rate hikes. Many central banks in Asia then had to navigate complex monetary policies to balance post-pandemic economic recovery while managing inflationary pressures. The weakened economic outlook following the escalation of global trade tensions of late has prompted further monetary easing in the externally-oriented Asian economies. This article reviews the latest financial conditions in selected Asian economies<sup>(1)</sup>, focusing on four key areas: (i) monetary interest rates, reflecting central banks’ policy stances and affecting the costs of funding as well as capital flows; (ii) equity market performance, indicating investor sentiment and risk appetite; (iii) exchange rate movements, affecting trade competitiveness and external debt burdens; and (iv) 10-year local currency government bond spreads against the US Treasuries, measuring sovereign risk premiums.

Following the Fed’s successive interest rate hikes since March 2022, regional inflationary pressures have generally receded, with consumer price inflation in the selected Asian economies falling mostly within or below their central bank targets. With the Fed beginning to cut rates since September 2024 by a total of 100 basis points, most Asian economies have followed suit, albeit at a slower pace (except for the Philippines). Lower interest rates entail easing financial conditions, and a faster decline in US policy rates relative to Asian rates may lower borrowing costs and encourage capital inflows into regional equity and bond markets. Economies with more robust banking sectors, such as Singapore and South Korea, may particularly benefit from improved credit growth<sup>(2)</sup>. On entering 2025, as global trade conflicts have escalated and the inflation outlook of the US is clouded with immense uncertainties, the direction of monetary policy in Asia has diverged from that of the Fed. For instance, as of end-April, while the Fed maintained its interest rates, central banks of most selected Asian economies have cut interest rates so far this year<sup>(3)</sup> (except Malaysia and Vietnam which held their interest rates unchanged).

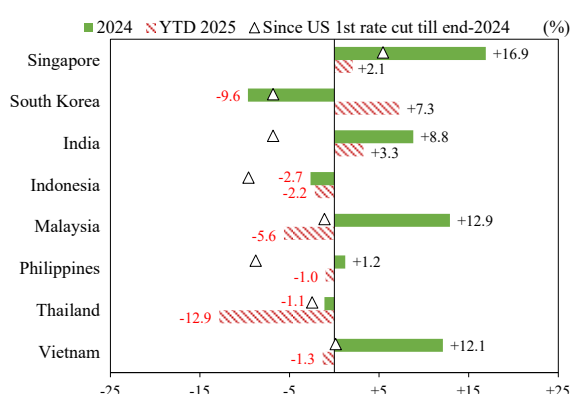
Equity markets of the selected Asian economies generally performed well during most of 2024 amid the sanguine growth outlook, but weakened in the latter months of the year, with most economies seeing net capital outflows and stock indices declining. Regional stock markets retreated further in early 2025, exacerbated by the synchronised global stock market sell-off upon the US’ announcement of the so-called “reciprocal tariffs” in early April (*Chart 1a*). Intensifying global trade tensions and heightened uncertainties surrounding the US trade policies have dented investor sentiment and risk appetite. Global growth concerns have also dampened expectations for corporate earnings growth across the region. Together, these unfavourable factors have outweighed the potential benefits brought about by easing monetary environment, leaving Asian equities susceptible to capital outflows and market volatilities.

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- (1) Namely Singapore, South Korea, India, Indonesia, Malaysia, the Philippines, Thailand and Vietnam.
  - (2) According to the Monetary Authority of Singapore (MAS) and CEIC, domestic credit of Singapore and South Korea expanded by 6.0% and 5.7% year-on-year in February 2025 and December 2024 respectively. Further, according to the London Stock Exchange Group, Singapore’s syndicated loan volume grew by approximately 49% in 2024, highlighting robust borrowing activity especially from corporations.
  - (3) Since January 2025, the central banks of South Korea, Indonesia and the Philippines lowered their policy rates once by 25 basis points, and those of India and Thailand cut their policy rates twice totalling 50 basis point. The MAS, which uses the exchange rate as its main monetary policy tool, also eased its monetary policy twice in January – April 2025.

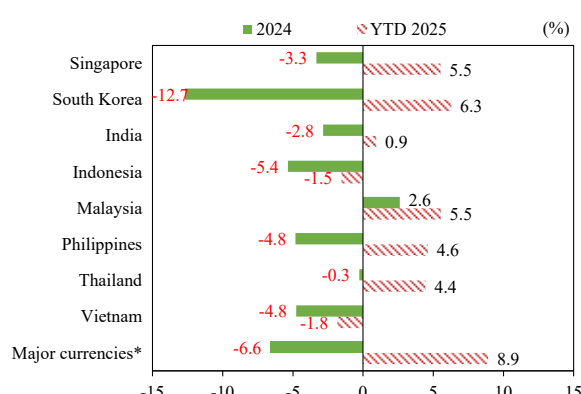
### Box 2.1 (Cont'd)

As for exchange rate, most Asian currencies depreciated against the US dollar in 2024 due to a resilient US economy and elevated geopolitical risks (*Chart 1b*). They have generally strengthened upon entering 2025 alongside a broad-based weakening in the US dollar amid mounting policy uncertainty of the Trump administration. The recent appreciation of Asian currencies against the US dollar may have multiple impacts on financial conditions through different transmission channels. On the one hand, a stronger local currency may imply tighter financial conditions by reducing export competitiveness through the trade channels, potentially slowing growth and exerting mild deflationary pressure. On the other hand, currency appreciation may imply looser financial conditions by lowering the local currency value of foreign currency liabilities and improving the balance sheets, especially so for emerging economies in the region.

**Chart 1a: Performance of benchmark stock market indices**



**Chart 1b: Currency performance vs USD<sup>^</sup>**



Notes: (^) For chart 1b, a minus figure indicates depreciation of the local currency against the US dollar.

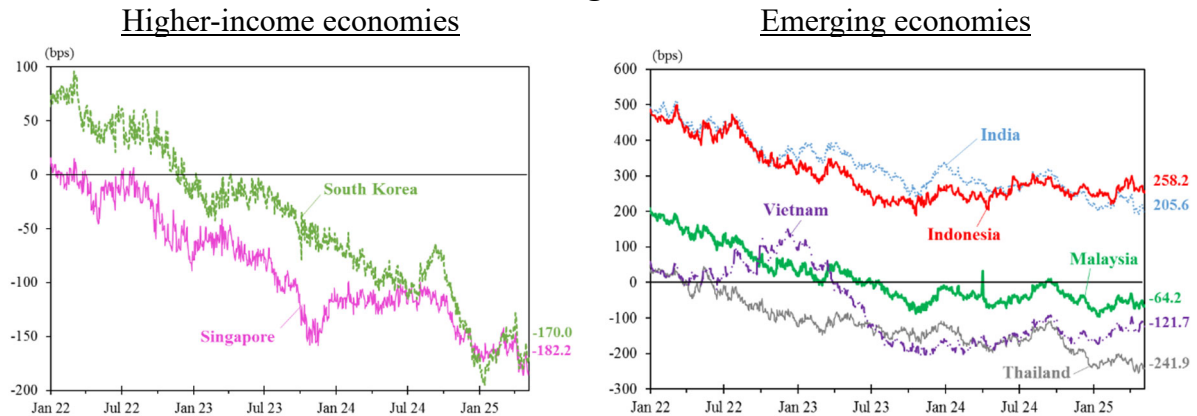
(\*) As proxied by the reciprocal of the US Dollar Index, which measures the changes of a basket of currencies (viz. Euro, Japanese yen, Pound sterling, Canadian dollar, Swedish krona and Swiss franc) against the US dollar.

Data as of 7 May 2025.

Sources: Bloomberg and CEIC.

Ten-year government bond spreads of most selected Asian economies against the US counterpart turned negative (except for India and Indonesia) following the Fed's rounds of rate hikes since 2022 (*Chart 2*). Entering 2025, the negative yield spreads generally narrowed, before widening again in April as Asian bond yields generally came lower on slower growth prospects while US Treasury yields rose sharply on increased US' inflation expectations. The widened negative yield spreads may in part reflect investors' confidence in Asia's weathering the escalating trade tensions relative to the US' situation, and imply looser financial conditions in the Asian economies. Meanwhile, with most regional central banks easing their monetary policies amid the intensifying global trade war, the Asian economies' local currency government bond yields are expected to decline further amid the challenging economic outlook. So far, the year-to-date declines in the ten-year local currency bond yields of the Asian economies were moderate, ranging from 14 basis points in Indonesia to 41 basis points in India, while those of Vietnam recorded a year-to-date rise.

## Box 2.1 (Cont'd)

**Chart 2: Local currency 10-year government bond spreads of selected Asian economies against the US**

Note: Data as of 6 May 2025.

Sources: Bloomberg and internal calculations.

To conclude, financial conditions in selected Asian economies have generally been easing since the beginning of Fed's rates cuts in late 2024, supported by receding inflation and accommodative policy stance of regional central banks. Despite the 90-day pause of implementing the "reciprocal tariffs" in most economies in the region, escalating global trade tensions have added to volatilities in the equity markets and triggered some repricing of relative risk premium between the US and Asian bonds. Meanwhile, the recent appreciation of Asian currencies would potentially benefit the balance sheets but hamper export competitiveness. Overall, while monetary easing has helped lower borrowing costs and provided some relief, ongoing global economic and political uncertainties may continue to weigh on investor sentiment and financial stability in Asia in the near-term.