GOVERNING FINANCE FOR SUSTAINABLE PROSPERITY IN ASEAN

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EXECUTIVE SUMMARY

ASEAN financial authorities face an era of compounding, novel risks, which also come with opportunities for structural transformations. Welfare and economic growth in the region increasingly depend on the capacity to manage long-term structural change – from the cost-of-living crisis and more frequent extreme weather events to the digitalisation of finance, population ageing, climate transitions, and accelerating technological change. These forces interact and amplify one another.

This policy brief argues that governing finance for sustainable prosperity requires four inter-related shifts:

- Embedding longer-term structural priorities into macroeconomic and financial governance frameworks;
- Modernising monetary policy tools to maintain effectiveness in a complex transmission environment;
- Operationalising financial resilience at micro, systemic, and macro levels while preserving space for productive risk-taking;
- Building a coordinated, interoperable regional architecture for the governance of digital money and cross-border payments.

In each area, the following steps could be taken to align governing finance with sustainable prosperity:

Governing Finance in Times of Structural Transformations

- **Integrate compound risk and structural changes** into monetary and supervisory analysis and instruments.
- **Define resilience** of what, to what, for whom, measured how, and governed by whom, to ensure policies are targeted to the specific needs of structural changes and novel risks.
- **Integrate crisis prevention incentives and guardrails** in financial regulation and monetary policy instruments to keep the risks as manageable as possible.
- **Move from rules-based to outcome-based supervisory and monetary frameworks**, where appropriate, which allows learning by doing and innovation to address novel developments.
- **Move towards adaptive approaches** that are anticipatory and integrate buffers for uncertainties instead of relying on perfect knowledge, where this knowledge is not available.
- **Develop sandbox environments** to foster innovation and learning and ensure a steady flow of information and experience exchange with national stakeholders, including the private sector and other societal organisations.
- **Ensure effective monetary-supervisory-fiscal coordination** to support a coordinated introduction of effective crisis prevention policies and ensure that each institution has effective instruments available to be used for crisis resolution.
- **Assess how shrinking fiscal space** affects the effectiveness of monetary policy and supervisory regulation to ensure long term economic welfare, societal protection, crisis prevention and management remain effective.

Monetary Policy for Sustainable Prosperity

- **Adjust monetary policy modelling approaches** to reflect structural change and non-linear risk scenarios, moving beyond point forecasts and equilibrium assumptions towards adaptive scenarios that account for compounding shocks and narrowing fiscal space.
- **Differentiate inflation management responses** to target demand-driven and supply-driven inflation sources with policy responses calibrated to the actual nature of inflationary pressures.
- **Ensure that monetary reaction functions are adapted to a higher-uncertainty environment**, providing guidance on tolerance ranges that keep inflation expectations anchored without constraining the policy flexibility needed to respond to structural pressures.
- **Integrate the impacts of digital finance in monetary policy making**, including the effects of digital payment adoption on monetary velocity, the implications of credit growth by non-bank financial intermediaries on interest rate pass-through, and the systemic relevance of stablecoins and digital asset markets on aggregate monetary conditions.
- **Review and adjust collateral frameworks and monetary policy instruments to remove structural bias** in favour of activities that increase systemic risk or hinder productive economic transitions, and improve provisions for activities supporting economic resilience and long-term productivity growth.
- **Assess the interaction between sustained higher interest rate environments and the availability and affordability of transition and infrastructure finance.** Develop complementary instruments and targeted adjustments where monetary conditions risk constraining investment critical to sustained economic welfare.
- **Adjust asset purchase policies, collateral eligibility frameworks, and reserve requirements or remuneration** to incentivize for financial institutions to support structural economic transitions. Develop carefully scoped pilot programmes in coordination with supervisory authorities to generate the empirical basis for broader implementation.

Financial Supervision for Building Resilience

- **Operationalise financial system resilience** by specifying which functions must be maintained, against which shocks, for which segments of the economy, and under whose governance, so that it becomes a measurable supervisory objective.
- **Extend the supervisory perimeter to cover non-bank financial intermediaries and digital finance platforms**, ensuring that resilience requirements keep pace with the actual structure of financial intermediation.
- **Ensure that risk management expectations for novel risks are effectively implemented** and comprehensively integrated into the full supervisory toolbox, including supervisory dialogues, additional capital requirements, and, as a last resort, penalty payments.
- **Complement conventional capital adequacy and liquidity frameworks with additional information sources and scenario-based approaches** that use estimate ranges rather than point estimates and apply explicit margins of conservatism for novel risk categories where historical data provides an insufficient basis for risk quantification.
- **Introduce differentiated prudential requirements** that distinguish between risk exposures threatening systemic stability and those associated with productive risk-

taking in economically important transition sectors, ensuring that aggregate capital buffers remain sufficient to absorb shocks.

- **Adopt proportionality principles and complement them with targeted risk-sharing mechanisms** to ensure that supervisory standards do not disproportionately constrain credit access for underserved segments.
- **Broaden novel risks skillsets within supervisory institutions** and establish structured knowledge exchange with financial institutions and international peers recognising that the quality of human judgement is key to govern novel risks and structural changes.
- **Establish sandbox and pilot environments for adjusted prudential tools**, generating evidence on their effectiveness before broader mandatory implementation and ensure lessons are systematically integrated into the overall supervisory framework.

Governing the Digitalisation of Money and Finance

- **Establish a trusted relationship of central banks and financial regulators with institutions involved in advancing the digitalisation of money and finance**. Foster a mutual understanding that a stable system needs to be regulated and at the same time adaptive to evolving technological advances, and work with regulatory sandbox approaches for innovations.
- **Develop a regional cross-border digital payment governance framework** that establishes commonly standards, liability schemes, dispute settlement mechanisms, liquidity shortage provisions, and further prerequisites for safe and inclusive cross-border payment integration.
- **Establish regulatory frameworks for stablecoins**, both within and across ASEAN jurisdictions. Assess the systemic implications of USD-denominated stablecoins as a de facto anchor for regional cross-border digital payments, including the risks a USD stablecoin anchor poses to monetary sovereignty, currency substitution and capital-flow volatility across ASEAN+3 economies. Assess the scope for regional-currency and multi-currency stablecoin and settlement arrangements.
- **Extend the supervisory perimeter to FinTech entities,** including their links to other financial institutions, ensuring that these connections are subject to group-wide risk assessment and do not become hidden channels of financial instability.
- **Implement CBDC pilot programmes with a dedicated learning framework** and enable ASEAN central banks at different stages of readiness to share empirical evidence. Develop compatible design principles that preserve monetary sovereignty while supporting regional payment interoperability.
- **Develop interoperability standards for national digital payment systems** that support future regional integration, ensuring that the likely near-term national approaches do not foreclose the option for deeper cross-border connectivity as governance frameworks mature.
- **Take a strong stance against criminal activities associated with digital payments and FinTech**, expanding the regulatory perimeter to detecting fraud and illegal activities, and holding providers responsible for implementing sound AML/CFT practices.

INTRODUCTION

ASEAN's economic and financial system is entering a new phase. After decades of strong growth anchored in manufacturing integration and demographic dividends, the region now confronts a set of deep, simultaneous structural transitions that carry profound implications for financial governance. Cost-of-living pressures, energy security, recurring climate shocks, the digital transformation, natural resource constraints, adverse demographics, and the geopolitical fragmentation of global trade and capital flows all interact and amplify one another. These forces do not arrive sequentially, they interact. Financial governance must be ready to manage their compounding effects.

Financial markets, and the authorities that govern them, are at the centre of how ASEAN navigates these challenges and transition opportunities. Central banks, financial regulators, and supervisors play a critical role in building resilient financial markets and economies amidst novel risks, and in unlocking the opportunities associated with deep structural change. The frameworks and instruments used in financial supervision, regulation, and monetary policy will in large part determine whether financial systems serve as accelerators or bottlenecks for sustainable, inclusive growth. To this end, a core aspect is the definition of resilience – it needs to be clear for authorities what they actually mean when speaking about it as a goal. Authorities should be clear about resilience of what, to what, for whom, measured how, governed by whom.

This raises a pivotal question: What arrangements in the governance of finance are required to effectively manage these challenges, enhance resilience and harness the opportunities they present? This policy brief addresses four thematic areas: (1) governing finance in times of structural transformations; (2) monetary policy for sustainable prosperity; (3) financial supervision for resilience; and (4) governing the digitalisation of money and finance.

1. GOVERNING FINANCE IN TIMES OF STRUCTURAL TRANSFORMATIONS

Over the next five years, several structural forces are set to reshape the ASEAN financial landscape in ways that defy conventional cyclical economic and financial analysis. Major developments and their consequences manifest already today in unprecedented ways and speed. They require financial governance to adjust to new realities. The challenge spans from governing novel developments that can be anticipated, adjusting tools to developments with large uncertainties, and preparing for events that are fully unknown.

Various new structural forces have considerable impact on the effectiveness of existing governing finance frameworks and need to be actively addressed. Geoeconomic fragmentation and geopolitical conflicts require supply chain reorientations, diversifying externally and deepening of intraregional linkages. As observed in the recent past, the fragmentation and conflicts lead to increases in energy, commodity and raw material prices, and increase shipping and insurance costs. Artificial intelligence and technological change come with productivity gains and profound labour market implications at the same time. The distribution of productivity gains, and the skills needed to harness the opportunities from artificial intelligence uptake, require solid and active governance approaches to prevent a worsening of already existing social inequalities. Linked to the technological developments, cybercrime and cross-border scams have increased many times over. The substantial rise in energy demand, driven to large extent by growth in the use of artificial intelligence, together with sequences of supply shocks put a double burden on energy access, inflation management, and economic activity. Demographic change is likely to slow potential growth and increases fiscal pressure in many ASEAN states. Climate risks and nature loss are causing more frequent and more extreme physical shocks, which put a considerable burden on fiscal space, increase inflation volatility, and create new financial sector vulnerabilities. Relatedly, if not well governed and supported by adequate policy frameworks and investable national sector decarbonisation pathways, mounting pressures on low carbon transition needs could trigger considerable transition risks.

The looming crises risk deepening socioeconomic disparities and favouring larger institutions, if not actively managed. Social dimensions are not separate from financial stability concerns. They are material to the macro-resilience of ASEAN economies. Systems that exclude large population segments from productive finance, economic growth, insurance, and a resilient natural environment are at risk of considerable repercussions, fiscal shocks and policy pressures. Financial governance that promotes financial inclusion, and equitable access to economic opportunity is, if well designed, simultaneously good social policy and good prudential practice.

These pressures interact in ways that make linear, sequential policy responses inadequate. The energy crisis resulting from the war on Iran and the US tariff policies demonstrated again the speed with which external shocks can propagate. Climate events and digital disruptions introduce additional non-linear risk profiles on top. A governance framework adequate to this environment must therefore be designed not to address each structural force in isolation, but to manage their simultaneous and compounding interactions.

Whilst macro policy frameworks in ASEAN are materially stronger than in earlier stress episodes, the channels through which vulnerability is transmitted have broadened. Vulnerability is transmitted not only through trade, but also through financial channels, funding disruptions, and balance-sheet mismatches.

At the same time, the effectiveness of central bank policies, growth support and financial stress management relies on fiscal space. High levels of public debt keep yields sensitive to additional fiscal spending, reducing the ability of the fiscal authorities to manage crises with additional spending once they occur. Debt sustainability faces additional challenges for the countries where US dollar denominated debt is dominant, highlighting the dollar dependence of the region. Deepening local-currency and ASEAN+3 financing and settlement channels could help mitigate this dependence over time. Capital flows into the region are increasingly conditioned by real and digital infrastructure quality, supply chain repositioning strategies driven by changes in US-China relations, and climate risk assessments. Monetary-supervisory-fiscal coordination will remain a key aspect of effective governance. Furthermore, growth and resilience strategies might require additional tools and instruments to be developed in a coordinated manner between the various financial authorities.

Conventional tools for the analysis and management of macroeconomic shocks are still important, but their effectiveness is at risk of decreasing if the broader financial and economic operating environment is not taken into account. Transmission channel analyses oftentimes stop at the macroeconomic level and do not take the microeconomic and micro financial conditions into account. Macro buffers, such as reserves, swap lines, and fiscal instruments, are held at the sovereign level, while stress often emerges first in the private sector. For macro stabilization to be effective, liquidity must move across borders and through the financial system quickly, predictably, and in the right currency. When payment and settlement channels become constrained, standard policy tools lose traction. For example, cross-border payment infrastructure has come under structural pressure as correspondent banking networks have thinned and become more concentrated over time. Long intermediation chains raise cost, increase settlement time, and introduce operational frictions that are particularly acute under stress – precisely when reliable payment channels are most needed. With increasing concentration in the payment settlement system, fragility increases and policy tools designed to manage crises might not work out.

It is important to secure buy in from the private sector to actively build resilience and unlock sustained economic welfare. Moving from a technical governing finance approach to an approach that mobilises the private sector as core enabling partner to realise the economic transformations and opportunities is key.

The implications for central banks, regulators, and supervisors are substantial. Policy frameworks predominantly designed for a world of large, nationally domiciled banks and stable monetary and macroprudential transmission channels will require significant adaptation to manage these correlated, multi-dimensional and compounding risks. Where model-based assessments could be useful in stable environments, effective monetary policy and financial supervision needs to integrate non-conventional sources and insights to their policymaking. This also includes integrating the expertise of the market and other expert judgements to complement model results. In addition, regulators need to find approaches that allow for flexibility whilst being specific enough to withstand legal scrutiny and enforcement. Furthermore, two opposite forces are part of the developments – convergence and concentrations. Whilst ASEAN central banks, regulators, and supervisors need to understand domestic, regional and global pressures, the structure of the regional financial system is still mainly based on national approaches. Strengthening intra-regional linkages and strengthening external linkages, where possible and appropriate, would support national financial stability approaches.

Overall, governing finance to foster resilience needs a proper understanding of what resilience should be. It is important to make it a concept that guides governance of finance across the various institutions. Defining resilience in terms of what function, to what shock and development, for whom, measured how, and governed by whom is important to ensure policies are targeted to the specific needs of structural changes and novel risks.

At the national and regional level, the following steps could support the governance of finance amidst the structural transformations ahead:

- **Integrate compound risk and structural changes** into monetary and supervisory analysis and instruments.
- **Define resilience** of what, to what, for whom, measured how, and governed by whom, to ensure policies are targeted to the specific needs of structural changes and novel risks.

- **Integrate crisis prevention incentives and guardrails** in financial regulation and monetary policy instruments to keep the risks as manageable as possible.
- **Move from rules-based to outcome-based supervisory and monetary frameworks**, where appropriate, which allows learning by doing and innovation to address novel developments.
- **Move towards adaptive approaches** that are anticipatory and integrate buffers for uncertainties instead of relying on perfect knowledge, where this knowledge is not available.
- **Develop sandbox environments** to foster innovation and learning and ensure a steady flow of information and experience exchange with national stakeholders, including the private sector and other societal organisations.
- **Ensure effective monetary-supervisory-fiscal coordination** to support a coordinated introduction of effective crisis prevention policies and ensure that each institution has effective instruments available to be used for crisis resolution.
- **Assess how shrinking fiscal space** affects the effectiveness of monetary policy and supervisory regulation to ensure long term economic welfare, societal protection, crisis prevention and management remain effective.

2. MONETARY POLICY FOR SUSTAINABLE PROSPERITY

The effectiveness of conventional monetary policy transmission rests on a set of institutional and structural conditions. Amongst others, it relies on well-capitalised banks, interest-rate sensitive borrowing, well anchored inflation expectations, and functioning asset markets. All these elements are affected by structural change.

Monetary policy operates in an increasingly complex, high friction environment at the intersection of novel risks and structural transformations. Geopolitical fragmentation, productivity gains and labour market implications from recent technological change, the digitalisation of money and finance, energy and food price volatility, demographic pressures, and climate shocks create a more complex, higher-friction environment than any single force would produce in isolation. This complexity needs to be accounted for, amongst others in inflation management, for policy transmission uncertainty, and in supporting lasting macroeconomic growth.

Inflation management becomes more complex due to various competing forces. First, demand-side and supply-side inflation drivers are increasingly intermingled. Higher energy and food price volatility from geopolitical shocks creates supply-side inflation that demand management cannot easily address. As demonstrated by the current Middle East crisis, an oil price rise directly adds to inflation, creating a classic stagflationary bind, i.e. slower growth and higher inflation at the same time. Additional tariff and trade disruption pass through to consumer prices; and climate events generate local and sectoral price shocks. In addition, a massive build-out of artificial intelligence infrastructure is expected to add demand-side shocks to energy markets. Second, population ageing in various ASEAN economies is exerting downward pressure on natural interest rates, compressing the space for conventional monetary easing in economic downturns. All these forces together put central banks in dilemmas that cannot be fully solved with the existing governance framework.

Monetary policy effectiveness is ever more affected by the rise of financial institutions and markets outside the bank-centred monetary transmission channel. Digital finance alters the bank lending channel, non-bank credit growth weakens traditional interest rate pass-through, stablecoins introduce new monetary dimensions, and financial conditions are for many ASEAN economies mainly driven by global factors outside domestic control. The direction of effect is not always clear. For example, digital payment adoption increases spending. As digital intermediation deepens in ASEAN, it will increasingly shape aggregate demand, monetary velocity, and the interest rate pass-through that underlies conventional monetary policy. Digital finance might have to become a genuine macroeconomic variable, not merely a technical detail. At the same time, the digitalisation of financial intermediation is introducing new actors. As these grow, the interest rate channel of monetary policy may weaken relative to credit and asset price channels, requiring central banks to diversify their analytical frameworks and potentially their instrument sets.

In addition, the structural effects of monetary policy on the financial sector's ability to support economic transitions deserve explicit attention. Inflation targeting and monetary instruments themselves shape funding costs, asset valuations, and credit incentives, so they can either support or constrain financing for different economic activities. For example, sustained higher interest rates potentially discourage transition finance, which often involves higher upfront capital investments. Collateral frameworks affect the valuation of assets in the markets. If instruments remain structurally agnostic in a context of bias towards the status quo and market failures, finance may continue flowing to uses that add systemic risk or do not support sustained economic growth. Accounting for this fact, central bank instruments might need to be adjusted through more targeted measures to improve transmission to productive and resilience building activities.

Furthermore, the distributional effects of interest rate decisions are increasingly relevant. Abrupt increases in the interest rate, for example, may disproportionally affect households at lower incomes and especially those who rely on credit at flexible terms. Specific support schemes or differentiated interest rate regimes might be required to ensure that central bank decisions do not unintentionally put disproportionate burden on the most vulnerable segments of the economy and society.

At the same time, it is important to ensure that institutional independence is maintained. Central banks need the room to manoeuvre for effective monetary policy. This is ever more important in markets with less anchored expectations. Any targeted intervention needs to be rooted in clearly defined market failures and to cushion empirically proven disproportionate burden from aggregate policies on specific segments of the economy.

The following steps could support monetary policy frameworks that are adaptive to novel risks and to support economic growth in times of structural changes:

- **Adjust monetary policy modelling approaches** to reflect structural change and non-linear risk scenarios, moving beyond point forecasts and equilibrium assumptions towards adaptive scenarios that account for compounding shocks and narrowing fiscal space.
- **Differentiate inflation management responses** to target demand-driven and supply-driven inflation sources with policy responses calibrated to the actual nature of inflationary pressures.

- **Ensure that monetary reaction functions are adapted to a higher-uncertainty environment**, providing guidance on tolerance ranges that keep inflation expectations anchored without constraining the policy flexibility needed to respond to structural pressures.
- **Integrate the impacts of digital finance in monetary policy making**, including the effects of digital payment adoption on monetary velocity, the implications of credit growth by non-bank financial intermediaries on interest rate pass-through, and the systemic relevance of stablecoins and digital asset markets on aggregate monetary conditions.
- **Review and adjust collateral frameworks and monetary policy instruments to remove structural bias** in favour of activities that increase systemic risk or hinder productive economic transitions, and improve provisions for activities supporting economic resilience and long-term productivity growth.
- **Assess the interaction between sustained higher interest rate environments and the availability and affordability of transition and infrastructure finance.** Develop complementary instruments and targeted adjustments where monetary conditions risk constraining investment critical to sustained economic welfare.
- **Adjust asset purchase policies, collateral eligibility frameworks, and reserve requirements or remuneration** to incentivize for financial institutions to support structural economic transitions. Develop carefully scoped pilot programmes in coordination with supervisory authorities to generate the empirical basis for broader implementation.

3. FINANCIAL SUPERVISION FOR BUILDING RESILIENCE

Financial supervision has to align financial intermediation with financial and economic resilience. In this sense, financial stability is not just about preventing risks, but also about creating the foundations for economic growth and sustainable prosperity. The appropriate policy mix and differentiated approaches in microprudential and macroprudential regulation are important to this end.

As shocks increasingly originate outside the regulatory perimeter, governing financial resilience requires monetary-fiscal-supervisory coordination. Joint roadmaps to mitigate novel risks, with topic-specific working groups, have proven effective in various ASEAN countries. Integrated crisis management protocols, in addition to supervisory policy protocols, could be useful.

Financial institutions operate in a novel risk environment of uncertainty that defies the probabilistic quantification on which traditional risk management depends. A cornerstone of financial resilience is to prevent systemic risks materialising into crises. These risks do not primarily originate within the financial sector – they frequently arrive from outside, often at speed, correlated, and through channels that existing supervisory and prudential frameworks were not built to monitor. The financial sector then accelerates and spreads the crisis. Conventional capital adequacy and liquidity frameworks are designed to ensure the solvency and liquidity of individual institutions under plausible stress scenarios calibrated on historical data. Novel risks, such as those arising from climate change, technological disruption, or demographic transitions, challenge conventional risk management frameworks in fundamental ways. They are characterised by deep uncertainty, non-linearity, and potential for correlated losses across institutions and sectors.

Traditional actuarial approaches based on historical distributions are insufficient to capture these risks and need to be complemented by novel types of information and risk assessment approaches. This includes adopting scenario-based approaches, estimate ranges rather than point estimates, and working with margins of conservatism to account for uncertainty in capital and liquidity assessments for novel risk categories.

Financial system resilience needs to be explicitly operationalised at various levels to be effectively governed. Starting with its definition, i.e. the capacity to absorb shocks while maintaining essential intermediation functions, it cannot be understood as a binary state but as a dynamic property that must be actively maintained. Operationalising resilience means embedding it systematically into prudential regulation and supervisory practice, rather than treating it as an emergency response capability. As a first step, this requires specifying the resilience of what (which functions, which institutions, which markets); to what (which shocks, at what magnitude); for whom (which populations and economic activities must be protected); measured how; and governed by whom. In addition, frameworks designed to prevent crises within finance may need to be complemented by mechanisms that ensure finance continues to serve the real economy when shocks arrive and can resume normal intermediation activities soon after.

Various interactions and paradoxes compound this challenge. First, individual institutions' soundness does not guarantee systemic stability. The well-documented fallacy of composition means that individually prudent institutions can collectively destabilise the system. Second, stability itself can breed fragility. Financial calm systematically encourages risk-taking and leverage, creating the conditions for the next crisis. Third, microprudential behaviour is not always macroprudential. When all institutions simultaneously raise capital buffers or reduce risk exposures in response to the same signal, the resulting credit contraction and correlated asset sales can destabilise the system.

Oftentimes, stress emerges away from where financial buffers sit. For example, some macrofinancial buffer and resilience schemes are mainly available at the sovereign level, whilst stress frequently first emerges in private sector balance sheets and in payment channels. System-wide resilience needs to ensure that buffers are immediately available and effective at the very nodes of the system where stress occurs.

A critical exercise for resilience assessments is mapping the weakest links in the financial system before the next systemic test arrives. The weakest link is not always the largest institution – it is a node whose failure triggers the widest cascade. These are often smaller entities with disproportionate interconnections, critical infrastructure providers without adequate redundancy, or market segments where liquidity evaporates first.

Prudential requirements that differentiate between risks that threaten systemic stability and those associated with productive risk-taking in transition sectors might be useful. Potential trade-offs between financial system stability and the need for financial institutions to take risks to enable economic transformation and growth need to be managed carefully. Overly precautionary regulation can stifle innovation, limit credit to productive but uncertain ventures, and drive intermediation into unregulated channels. The resolution might not lie in deregulation but in more differentiated regulation.

An integrated approach needs to ensure that financial stability becomes a complement to sustainable economic growth, not a constraint upon it. Macroprudential instruments could be directed toward financing priority economic sectors with strong multiplier effects, strong growth trajectories, high labour absorption, reducing systemic risk exposures, while still complying with prudential principles. Some targeted relaxations in regulations can be justified to support sustainable growth, as long as the overall regulatory capital maintained by financial institutions to withstand shocks is sufficiently high.

Any new regulatory approach needs to be cautious to not constrain access to capital for underserved segments. Particular care must be taken to ensure that the integration of novel risk requirements does not constrain access to capital for SMEs, rural and agricultural borrowers, and low-income households. Proportionality principles and targeted risk-sharing mechanisms (such as partial credit guarantees for vulnerable borrowers) can help maintain financial inclusion while managing aggregate systemic risk.

Overall, resilience can only be built and maintained by appropriate governance schemes and skilled people. The frameworks are only as strong as the people who apply them. It is therefore important to broaden the skillset needed within supervisory institutions and financial institutions to deal with novel risks. This is needed across the financial system, not just for large institutions.

The following steps could be useful to support operationalising, building and maintaining resilience in financial institutions and the financial system:

- **Operationalise financial system resilience** by specifying which functions must be maintained, against which shocks, for which segments of the economy, and under whose governance, so that it becomes a measurable supervisory objective.
- **Extend the supervisory perimeter to cover non-bank financial intermediaries and digital finance platforms**, ensuring that resilience requirements keep pace with the actual structure of financial intermediation.
- **Ensure that risk management expectations for novel risks are effectively implemented** and comprehensively integrated into the full supervisory toolbox, including supervisory dialogues, additional capital requirements, and, as a last resort, penalty payments.
- **Complement conventional capital adequacy and liquidity frameworks with additional information sources and scenario-based approaches** that use estimate ranges rather than point estimates and apply explicit margins of conservatism for novel risk categories where historical data provides an insufficient basis for risk quantification.
- **Introduce differentiated prudential requirements** that distinguish between risk exposures threatening systemic stability and those associated with productive risk-taking in economically important transition sectors, ensuring that aggregate capital buffers remain sufficient to absorb shocks.
- **Adopt proportionality principles and complement them with targeted risk-sharing mechanisms** to ensure that supervisory standards do not disproportionately constrain credit access for underserved segments.
- **Broaden novel risks skillsets within supervisory institutions** and establish structured knowledge exchange with financial institutions and international peers recognising that the quality of human judgement is key to govern novel risks and structural changes.

- **Establish sandbox and pilot environments for adjusted prudential tools**, generating evidence on their effectiveness before broader mandatory implementation and ensure lessons are systematically integrated into the overall supervisory framework.

4. GOVERNING THE DIGITALISATION OF MONEY AND FINANCE

The digitalisation of finance comes with the promise to make payment settlements faster, more inclusive and more efficient. It could enable deeper economic integration, unlock economic opportunities and leverage additional growth. Various public-private partnerships have been implemented successfully to date, in most cases for domestic or some limited bilateral use.

The digitalisation of instant retail payment systems is relatively advanced, especially at the national level, in various ASEAN countries. Some central banks set up their own blockchain projects and implemented national retail payment settlement systems based on Distributed Ledger Technology (DLT). At the same time, the digitalisation of the retail payment system does not necessarily need to be based on sophisticated blockchain technology. Simpler digitalisation methods based on traditional financial infrastructure have shown quick scaling and faster uptake. Overall, a major advantage for central banks engaging in the provision of digital payment infrastructure is enhanced oversight over payment settlement providers, and the ability to implement targeted own strategies to enhance financial inclusion.

A challenge for retail payment digitalisation is the scope, speed and sophistication of fraud and money laundering. Supervisors need appropriate prevention and detection systems. This also includes enhancing digital financial literacy for end users. The rise in agentic AI and agentic payment systems is another development that will require new supervisory approaches, tools and skills.

Approaches to modernize wholesale payment settlement systems and establish cross-border payment system links have proven to be more challenging. A core reason is the more complex regulatory oversight, compliance requirements, and control over financial flows as soon as cross-border payments are involved. In addition, financial crises could spread much quicker with wholesale cross-border digital payment systems, which reduces supervisory appetite to allow for such schemes. Supervisory collaboration amongst the region is therefore key if cross-border digital payment systems are to be adopted – with yet to be solved cross-border data sharing and data governance issues.

The infrastructure to enable closer cross-border connectivity is being built out. Efficiency gains have been realised especially for faster messaging. For payment settlement, initiatives are yet to be implemented. To advance in this area, the region needs joint governance principles and approaches for cross-border digital payments. There are currently no commonly agreed standards, liability schemes, dispute settlement regulations, and liquidity shortage provisions. As it stands now, it seems that moving towards interoperability of national approaches is easier to implement, given national circumstances, than moving towards a fully integrated regional system.

Bringing the digitalisation of the regional payment system to the next level requires scaling up and some degree of multilateral coordination. A next step would be standardising the approaches, consolidating the various pilot schemes, and scaling up the best solutions. It also means moving from bilateral to multilateral initiatives to rationalize efforts and investments to establish cross-border payment links. Otherwise, the system risks fragmentation and requires too many individual links to connect the countries of the region.

Stablecoins and central bank digital currencies (CBDCs) have the potential to reshape payments in the region. Whilst some central banks adopted sandbox CBDC trials, other central banks feel that they are not ready yet to move in this direction. The regulation and supervision of stablecoins is also still at an early stage and requires close collaboration between the various financial governance institutions within and across countries.

Most countries are still working on the regulation of stablecoins and adopt generally a cautious approach. Whilst they have been taken up in some countries, others with certain degree of capital controls, have restricted their use. For example, when converting currencies from stablecoins to cash and vice versa, financial institutions need a license from the central bank in some ASEAN countries. This is generally in line with overall approaches to govern access to national currencies. For example, in the standard banking channel, banks also need licenses to offer accounts in national currencies. Meanwhile, the use of stablecoins as a settlement mechanism is increasing, even in the standard retail areas, where banks may already use stablecoin-based settlement systems in the background. Regulation needs to define how the valuation of stablecoins relates to underlying and domestic currencies, and if haircuts are to be applied.

CBDCs could complement the use of stablecoins, once available at scale. A dual digital monetary system with CBDCs at the foundation layer and tokenized assets together with stablecoins at the wholesale and retail layer might be desirable. In this sense, CBDCs could be important complements, and not replacements of stablecoins. For cross-border settlements, CBDCs could play a particularly important role.

The majority of cross-border payments in the region is settled via US dollar, which is expected to be also the case for digital payment settlements. This comes with considerable risks. A USD-stablecoin anchor could entrench digital dollarisation and currency substitution, weaken domestic monetary-policy transmission and monetary sovereignty, transmit US monetary and regulatory conditions more directly into the region, complicate capital-flow management, and crowd out nascent local-currency and multi-currency settlement initiatives. Because stablecoins are currently typically backed by US Treasuries, a large de-pegging or redemption event abroad could also propagate stress into regional payment systems. These risks differ across countries depending on the depth of local markets, the degree of capital-account openness, and existing dollarisation, and merit country-specific assessment.

Defaulting to USD-denominated stablecoins as the regional anchor is, however, a policy choice with material risks, not merely a technical inevitability. Alternative regional ASEAN currencies are still considered as not sufficiently liquid and the underlying markets as not deep enough. This assessment, however, warrants qualification from an ASEAN+3 perspective. The region also includes the Japanese yen, Chinese renminbi and Korean won, which are potentially sufficiently deep and liquid for larger scale use. ASEAN+3 authorities have already advanced local-currency settlement and local-currency transaction arrangements for several reasons, including reducing reliance on the US dollar.

The majority of FinTech institutions is closely connected or owned by the large banks in the region. This comes with considerable supervisory issues, since FinTech providers' risks do not show up in the banks' balance sheets, but could threaten financial stability due to the close links to the large standard financial institutions. At the same time, it is expected that standard financial institutions play an increasingly important role as trusted intermediaries, settlement risk takers, and guardians of compliance, once digital payment and settlement systems become mainstream.

The digitalisation of payments and fintech growth has also led to an increase in criminal activity. This ranges from direct payment-related fraud to online gambling schemes and the move of illegal money across borders outside AML/CFT oversight. Supervisors need to find new approaches to ensure that households are better protected against scams and fraud, and that organised crime cannot rely on decentralised finance solutions to transfer funds at scale, oftentimes across borders.

Moving ahead, central banks and financial supervisors in ASEAN states might consider the following steps:

- **Establish a trusted relationship of central banks and financial regulators with institutions involved in advancing the digitalisation of money and finance**. Foster a mutual understanding that a stable system needs to be regulated and at the same time adaptive to evolving technological advances, and work with regulatory sandbox approaches for innovations.
- **Develop a regional cross-border digital payment governance framework** that establishes commonly standards, liability schemes, dispute settlement mechanisms, liquidity shortage provisions, and further prerequisites for safe and inclusive cross-border payment integration.
- **Establish regulatory frameworks for stablecoins**, both within and across ASEAN jurisdictions. Assess the systemic implications of USD-denominated stablecoins as a de facto anchor for regional cross-border digital payments, including the risks a USD stablecoin anchor poses to monetary sovereignty, currency substitution and capital-flow volatility across ASEAN+3 economies. Assess the scope for regional-currency and multi-currency stablecoin and settlement arrangements.
- **Extend the supervisory perimeter to FinTech entities,** including their links to other financial institutions, ensuring that these connections are subject to group-wide risk assessment and do not become hidden channels of financial instability.
- **Implement CBDC pilot programmes with a dedicated learning framework** and enable ASEAN central banks at different stages of readiness to share empirical evidence. Develop compatible design principles that preserve monetary sovereignty while supporting regional payment interoperability.
- **Develop interoperability standards for national digital payment systems** that support future regional integration, ensuring that the likely near-term national approaches do not foreclose the option for deeper cross-border connectivity as governance frameworks mature.
- **Take a strong stance against criminal activities associated with digital payments and FinTech**, expanding the regulatory perimeter to detecting fraud and illegal activities, and holding providers responsible for implementing sound AML/CFT practices.

CONCLUSION

The governance of finance in ASEAN faces a defining moment. The structural forces reshaping the region – geoeconomic fragmentation, technological disruption, climate risks, demographic change, and the digitalisation of money and finance - are not temporary cyclical pressures. They are permanent features of the operating environment that is characterized by novel, compounding risks, and interactions in ways that conventional policy and risk management frameworks were not designed to manage.

Building resilience is fundamental for sustainable prosperity. To ensure that resilience is not just a reference point without meaning, it is important for all governing authorities to define what they actually mean with this term. The resilience of what, to what, for whom, measured how, governed by whom needs to be explicitly defined.

A core aspect of the governance requirements ahead is that incremental adaptation is insufficient. Monetary policy and financial supervision need to extend and adapt existing frameworks to a more complex, higher-friction, and fundamentally more uncertain world. Across all areas, various changes are required: the need to move from reactive to anticipatory governance; from rules-based to outcome-oriented approaches; from siloed institutional mandates to coordinated monetary-supervisory-fiscal responses; and from frameworks designed for stable environments to ones explicitly built to absorb compounding shocks.

Equally important is the recognition that financial stability and sustainable economic growth are not competing objectives. Well-designed supervision, monetary policy, and digital finance governance can simultaneously protect systemic resilience, expand financial inclusion, and unlock the investment needed for economic transformation. The risk lies not in choosing between stability and growth, but in designing frameworks too narrowly to achieve either.

No single institution can meet these challenges alone and without institutional reform. Effective governance will require deeper intraregional collaboration, stronger engagement with the private sector, and a sustained investment in the human expertise and institutional capacity needed to govern novel risks. The frameworks are only as strong as the people and institutions that apply them.