By Global Markets | 16 November 2026

OCBC Global Outlook 1H27

Will 2027 surprise again with Growth, Grit and Geopolitics?

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2026 will be remembered as the year three forces collided: a Middle East war, an AI investment boom and a return to monetary tightening. Individually, they would have defined an ordinary year, but combined they reshaped the macroeconomic landscape.

The war and the energy shock. The geopolitical break came in late February, when the United States and Israel attacked Iran. Iran's retaliation sharply curtailed oil and gas flows through the Strait of Hormuz. Brent crude rose from around USD60 a barrel in early January to a year-to-date high of about USD126 in late April. Prices subsequently retreated sharply and remained volatile through mid-year before rebounding above USD110 a barrel in October. Attacks on tankers in the Strait of Hormuz and Houthi strikes on Saudi infrastructure have kept a risk premium in crude prices, but the bigger pain is now being felt in refined products including distillates. The war is now in its ninth month and still unresolved, Brent prices have nevertheless retraced to below USD100/barrel on hopes of some resolution, albeit it may come at the cost of an "escalate to de-escalate" strategy.

The return of inflation and rate hikes. The energy shock revived inflationary fears worldwide and prompted major central banks to shift decisively back towards monetary policy tightening. As US inflation proved stubborn and hotter than expected, influenced heavily by energy supply shocks, tariff impacts, rising food and freight costs, as well as sticky services and shelter costs, the Federal Reserve chair Kevin Warsh raised rates in September for the first time in three years to 3.75–4.00%. Although the FOMC held rates steady in October, the rhetoric of many Fed officials still lean hawkish and we anticipate another 25bps rate hike at the December FOMC.

This monetary policy tightening trend is global. The European Central Bank (ECB) hiked 25bps in September and held steady in October but signalled another hike in December. The Bank of England hiked 25bps to 4% in November, marking its first increase since 2023 and officials refused to rule out a consecutive hike in December. Reserve Bank of Australia delivered its fifth hike of 2026 to 4.85%, taking its cash rate to the highest since 2008, and remains cautiously hawkish. The Bank of Japan hiked to 1.25% in September and held in October, but is likely to continue its steady normalisation pace.

Asian central banks took a more calibrated approach – the Reserve Bank of India hiked 25bps in October but shifted to a "calibrated tightening" stance, while Bank of Korea (BOK) hiked twice in July and August but passed in October, whereas Bank Indonesia (BI) remains focused on prioritizing IDR stability and foreign capital inflows. The Bank of Thailand (BOT) held at 1% for the fourth straight meeting in October but may need to tighten in 2027. Similarly, the People's Bank of China (PBOC) held off on rate cuts in 2026 but shifted to an overnight repo framework. The MAS pre-emptively tightened its S$NEER policy slope twice

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in April and July 2026, but maintained in October, signalling greater confidence that core inflation will eventually ease in 2H27.

The most consequential move was probably in the bond market in 2026. The US 10-year Treasury yield soared to a high of 5.3% on 5 October, compared to a year-to-date low of 3.94% on 27 February, as investors are demanding a higher real return to fund heavily indebted governments and an AI capex boom at the same time. Recent elevated inflation prints in the US have contributed to US Treasuries notching up their biggest weekly sell-off in more than 19 months. The Democratic sweep in the US mid-term elections may also intensify the grid cost pressures on tech giants, but may do little to curb the electricity bills for US households in the near-term.

The global AI investment boom was the predominant growth story of 2026, but the question remains if the tailwind will morph into a headwind come 2027. Singapore upgraded its 2026 growth forecast to 4.5-5.5%, while Taiwan repeatedly upgraded its 2026 growth forecast to 11.05% and Hong Kong also raised from 3.5-4.5% to 4.8%, amongst others. Equities rallied strongly despite higher and volatile government bond yields, until a sharp tech sell-off in early November saw VIX spiking to 28.18 on 5 November (still shy of the 31.05 seen on 27 March 2026). Gold also slipped below USD4,000 per ounce in late October as real rates rose.

On 3 November 2026, Democrats took both chambers of Congress in the US mid-term elections, reflecting in part the disapproval with rising fuel prices amongst others. A divided government will constrain the White House at home, but it is premature to conclude that President Trump will be a lame duck for the remainder of his term as his presidential executive powers remain substantial for trade, tariffs and foreign policies.

The 2027 outlook is anticipated to be a benign soft landing, but the path is narrow and many risks abound. Energy prices should decline as the Strait of Hormuz gradually reopens, the Fed pauses after the December 2026 rate hike, and global AI investments slow from an exceptional pace to something more modest and sustainable. There are many factors that could cause a bumpy ride along the way, but it is difficult to call the trigger or the timing of what would drive the next leg down.

While a more defensive risk posture may be appropriate after 2026's outperformance, there are still opportunities to monitor. With high-grade yields at multi-decade highs, investors can lock in real yields not available for most of the past 20 years. Asian investment-grade credit offers diversification away from a politically noisier US. ASEAN remains the main beneficiary of supply-chain diversification and data-centre build-out, and Singapore chairs ASEAN in 2027 which provides an opportunity to push regional financial and digital economy integration. The SGD remains anchored by an appreciating policy band, and Singapore has fiscal room which are commendable qualities in a more volatile world. A higher-for-longer rate environment also supports bank earnings, although Total Loss-Absorbing Capacity (TLAC) issuance will add to funding costs.

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There are also some risks that may be currently underpriced by financial market players. For instance, inflation may remain stubbornly sticky for longer if energy supply may resume slower than expected even after peace returns to the Middle East. Markets tend to treat a ceasefire as an immediate disinflationary shock, but the damaged infrastructure takes time to rebuild, and this is not factoring in the higher shipping insurance and refinery bottlenecks which could keep diesel and LNG supplies tight and prices higher for longer. Inflation could therefore stay higher for longer even after the headline oil price falls.

The Fed hiking path is another potential pivotal point. If peace comes quickly and oil falls sharply, the 2026 hikes will be biting just as the energy shock reverses in 2027. The tech sell-off has already tightened financial conditions. A Fed that hikes in December 2026 and if primed to act again in early 2027, could risk over-tightening into slowing growth. That would hurt cyclical Asian exporters more than US consumers.

Another risk is bond vigilantes. The rise in real yields shows investors questioning fiscal paths and not simply inflation. A US government funding deadline on 11 December, which Democrats may use as leverage over the war, comes at a fragile moment. The Bank of Japan tightening adds another risk - if Japanese investors repatriate capital, global term premia would rise further. Long-dated US yields above 5.5% and heading towards the key 6% handle would test equity valuations, property and leveraged borrowers across the region.

The global AI capex boom may be nearing political and financing limits. More cited an AI bubble as a top risk . The underappreciated part is the financing and political dimension. Data centres are being financed at 5% risk-free rates. A Democratic Congress could also tighten regulation and slow data-centre approvals in key states like Texas, Ohio, and Pennsylvania etc. For Singapore and Taiwan, whose 2026 growth was heavily driven by AI, the risk is not a bust, but a capex plateau.

What if China exports inflation and not deflation. For three years the region has relied on Chinese producer-price deflation to cap goods inflation. In October, China's PPI rose at its fastest pace in nearly four and a half years. If China's anti-overcapacity policies hold, imported goods inflation could stop falling. That would undermine central bank assumptions that external cost pressures fade in 2027.

In conclusion, 2027 is likely to be the year the world adjusts to the price shocks of 2026, but whether we bid inflation adieu remains to be seen. The base case is benign with moderating growth, easing inflation and policy on hold. But this outcome needs the Iran war, the bond market and the AI cycle to resolve smoothly together. Investors should collect today's high yields while they can and hedge the scenario where those three factors do not resolve smoothly.

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GDP Growth Rates

% Change YoY	2025	2026F	2027F	2028F
US	2.1	2.2	2.3	2.0
Eurozone	1.4	1.0	1.3	1.0
Japan	1.1	0.7	0.6	0.5
United Kingdom	1.2	1.6	1.2	1.0
Australia	2.0	2.0	1.8	1.9
New Zealand	0.3	2.1	2.3	2.6
China	5.0	4.6	4.5	4.5
Hong Kong	3.6	4.7	3.2	2.7
Taiwan	8.8	12.8	7.5	5.8
India	7.8 (FY26)	7.2	6.8	6.5
Indonesia	5.1	5.4	5.0	5.1
Malaysia	5.2	5.2	4.8	4.6
Philippines	4.4	2.6	4.0	5.0
Singapore	5.0	5.5	3.4	2.7
South Korea	1.1	3.5	2.8	2.6
Thailand	2.4	2.3	2.5	2.1
Vietnam	8.4	9.1	8.3	8.5

Note: India forecasts are based on the fiscal year. FY27 is April 2026 until March 2027.
Source: Bloomberg, OCBC Group Research.

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Inflation Rates

% Change YoY	2025	2026F	2027F	2028F
US*	2.7	3.7	2.1	2.0
Eurozone	2.1	3.0	2.2	2.0
Japan	3.1	2.5	1.8	1.8
United Kingdom	3.4	3.8	2.6	2.5
Australia	2.8	4.1	2.8	2.3
New Zealand	2.8	3.7	2.4	2.0
China	0.1	0.9	1.5	2.0
Hong Kong	1.4	1.8	2.1	2.2
Taiwan	1.7	2.1	1.9	1.7
India	2.1 (FY26)*	5.3	5.1	5.1
Indonesia	1.9	3.3	3.0	2.5
Malaysia	1.4	1.9	2.1	2.2
Philippines	1.7	6.0	4.8	3.8
Singapore	0.9	2.0	1.8	1.6
South Korea	2.1	2.7	2.3	2.3
Thailand	-0.1	2.2	1.6	1.3
Vietnam	3.3	4.6	4.5	4.0

Note: US inflation forecasts are annual changes for the fourth quarter. India forecasts are based on the fiscal year. FY27 is April 2026 until March 2027. Source: Bloomberg, OCBC Group Research.

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Central Bank Policy Rates

Benchmark Rate %	Current (16 Nov 2026)	End-2026F	End-2027F
US Fed Funds Rate	3.75-4.00	4.00-4.25	4.00-4.25
ECB Deposit Facility Rate	2.50	2.75	3.00
BoJ Target Rate	1.25	1.5	2.00
BoE Base Rate	4.00	4.00	4.25
RBA Cash Target Rate	4.85	4.85	4.60
RBNZ Cash Rate	2.75	3.00	3.25
China Loan Prime Rate (1-year)	3.00	3.00	2.90
CBRC Discount Rate	2.00	2.00	2.00
Hong Kong Base Rate	4.25	4.50	4.50
BI Rate	5.75	6.00	6.00
BNM Overnight Rate	2.75	2.75	3.00
BSP Overnight Reverse Repo	5.50	5.75	6.00
RBI Repurchase Rate	5.50	5.75	6.00
SGD Compounded SORA*	1.35	1.38	1.58
BOK Target Overnight Call	3.00	3.00	3.25
BOT Repurchase Rate	1.00	1.00	1.50
SBV Refinancing Rate	4.50	4.50	5.00

Note: *Benchmark 3M rate; These are meant to serve as end-period forecasts. India forecasts are based on the fiscal year. FY27 is April 2026 until March 2027. Source: Bloomberg, OCBC Group Research.

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Australia

Australia: Economy cooling down, but pressures remain hot

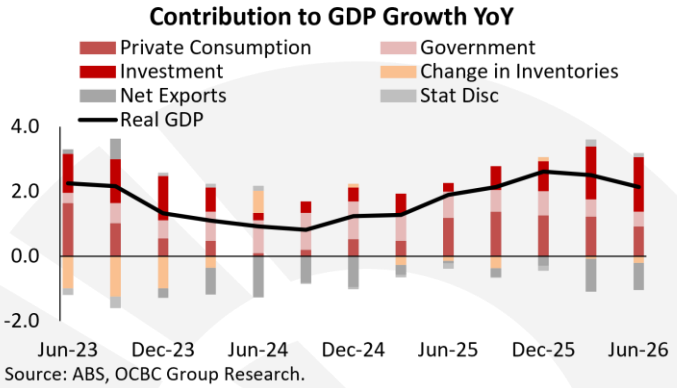
Noah Siaw
Macro Research Analyst

- Economic momentum is expected to weaken as high interest rates, elevated energy costs and the housing downturn weigh on consumption and investment.
- Inflation remains persistent and broad-based, with elevated services, non-tradables and housing inflation highlighting continued domestic price pressures.
- Monetary conditions are likely to remain restrictive through much of 2027, with one 25bp cut pencilled in for 4Q27 as inflation gradually moderates.

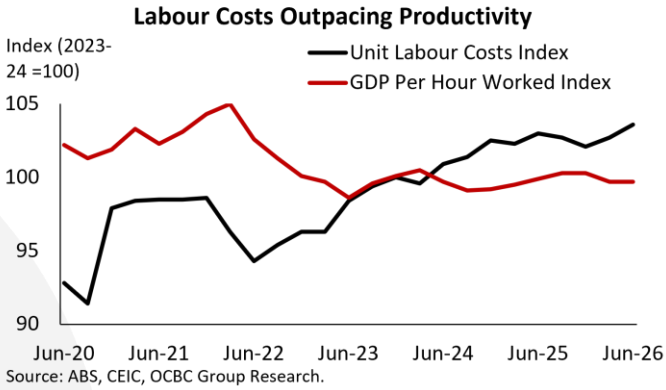
Australia's economy has remained relatively resilient through 2026, supported by strong data-centre and AI-related investment, public demand and household spending. However, the cumulative effects of restrictive monetary policy are expected to slow growth in 2027. Continued investment and public-sector activity should provide some support, but are unlikely to fully offset softer private demand. Growth should begin to stabilise in 2H27 as inflation moderates and the prospect of monetary-policy easing draws closer.

A tougher road ahead

Australia's economy has proven more resilient than expected. Despite the ongoing Middle East conflict, elevated energy prices and higher interest rates, GDP grew 0.4% QoQ in 2Q26, slightly above the 0.3% consensus, leaving annual growth at 2.1%.



Source: ABS, OCBC Group Research.



Source: ABS, CEIC, OCBC Group Research.

This resilience has been supported by household spending, private investment and public demand. Household consumption rose modestly in 2Q26, although the increase was not broad-based. Discretionary spending grew by 1.4%, but nearly half of the increase came from vehicle purchases, supported by record electric and hybrid vehicle sales, while other discretionary categories remained subdued. Data-centre investment and government spending provided further support. Net exports also contributed positively, although this support is unlikely to persist given the strength of investment-related imports. Together,

Australia

these factors should keep activity relatively firm, and we expect real GDP growth to average 2.0% in 2026.

In 2027, growth is expected to lose momentum as the cumulative effects of monetary tightening become more pronounced. Higher mortgage repayments will increasingly constrain household disposable income, while falling house prices and weaker housing activity weigh on confidence and household wealth. Combined with a softening labour market, these pressures should encourage greater household caution and slow consumption growth, particularly in 1H27. Investment conditions are also expected to weaken. Softer housing demand and tighter financing conditions should weigh on dwelling investment with a lag. The sharp decline in new housing loans and investor lending commitments points to a weaker residential construction pipeline, while elevated borrowing costs and softer expected demand should restrain broader business investment. Data-centre and AI-related investment should continue to provide a partial cushion, although its high import content will limit the boost to domestic activity.

Structural constraints will further compound the cyclical slowdown. Labour productivity remains weak, with GDP per hour worked broadly stagnant since 2022, leaving aggregate growth partly dependent on population gains rather than improvements in productive capacity. Tighter migration settings aimed at reducing net overseas migration could therefore weigh materially on growth if productivity fails to improve.

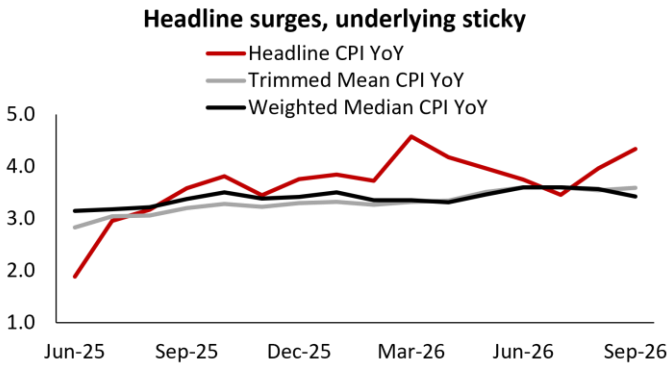
Taking these factors together, we expect real GDP growth to moderate from 2.0% in 2026 to 1.8% in 2027, primarily reflecting weaker private demand under tight financial conditions. The slowdown should be most pronounced in 1H27, before momentum begins to stabilise in 2H27 as softer demand eases domestic capacity pressures, inflation gradually moderates and the prospect of monetary-policy relief draws closer.

Inflation remains stubborn

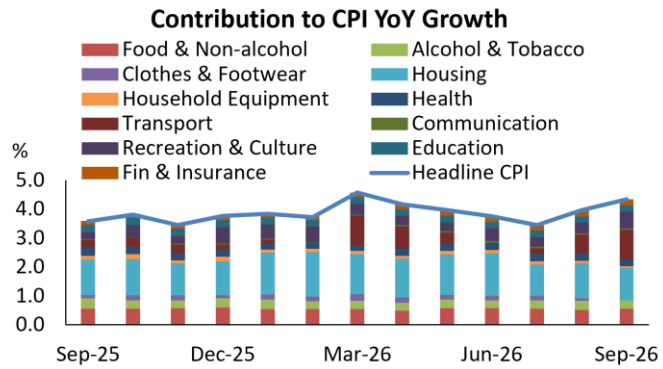
Inflation remains a persistent challenge for the RBA. Headline inflation rose to 4.3% YoY in September from 4.0% in August, with higher automotive fuel prices adding renewed pressure. Trimmed mean inflation edged up to 3.6% from a downwardly revised 3.5%, indicating that underlying price pressure remain elevated.

Energy prices remain a key driver. Oil prices fell following June's agreement to cease hostilities, but renewed conflict pushed prices higher again from July. The unwinding of temporary fuel excise relief also contributed to rising petrol prices. Beyond their direct impact on household fuel bills, higher energy and transport costs are also putting pressure on businesses, creating scope of further pass through to consumer prices. Additionally, the expiry of Commonwealth electricity rebates has also contributed to higher annual electricity inflation.

Australia



Source: ABS, OCBC Group Research.



Source: ABS, OCBC Group Research.

We forecast headline inflation to average 4.1% in 2026 before easing to 2.8% in 2027. Inflation is likely to remain elevated in 1H27, as services and non-tradables inflation remain persistent, while higher energy and transport costs continue to pass through to consumer prices. Disinflation should become clearer in 2H27 as weaker demand eases capacity and wage pressures, reinforced by favourable base effects. A prolonged or escalating conflict in the Middle East remains a key upside risk to this outlook.

Higher for longer rates environment

The RBA has raised the cash rate five times this year, by a cumulative 125bp to 4.85%, its highest level in 18 years. The renewed tightening cycle reflects persistent domestic inflation, driven by capacity pressures that were already evident before the Middle East conflict and subsequently compounded by higher energy costs.

Restrictive policy is beginning to cool activity, with household spending losing momentum, confidence remaining weak and labour-market and housing conditions softening. These trends should intensify in 2027, gradually reducing capacity pressures, firms' pricing power and domestically generated inflation.

Recent RBA communication also turned somewhat less hawkish at its November meeting. The Board removed the explicit reference to further rate hikes used in September, while Governor Michele Bullock indicated that it was appropriate to pause and assess how earlier tightening was flowing through the economy. However, she stressed that the next policy move remained uncertain and that upside inflation risks persisted. With its inflation forecasts revised materially higher, the RBA continues to expect subdued growth and further labour-market easing to help rebalance demand and supply and return inflation sustainably to target.

Following November's 25bp rate hike to 4.85%, we expect the RBA to remain on hold through most of 2027, as persistent domestic inflation limits the scope for an earlier policy reversal. As weaker demand and softer labour-market conditions gradually ease capacity pressures, clearer disinflation should provide room for an initial 25bp cut in 4Q27.

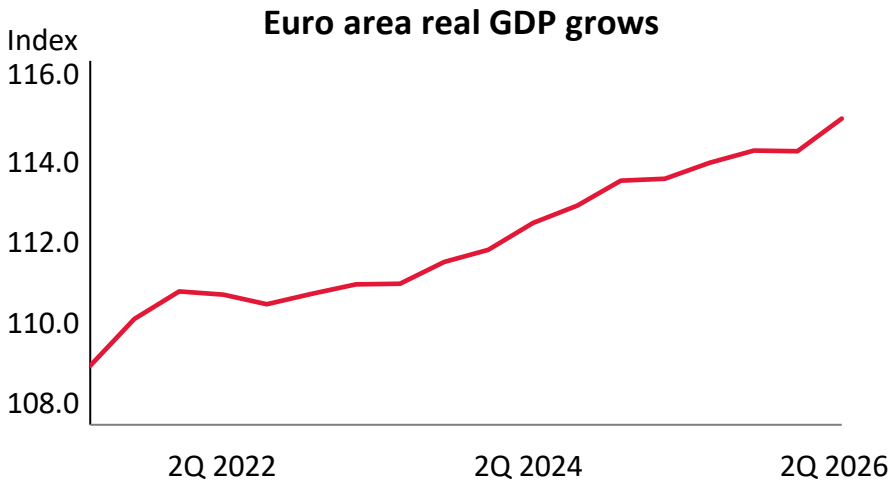
Euro Area

Euro Area: A modest recovery on lower oil prices

Chester Liaw
G7 Economist

- Real GDP growth is forecast at 1.3% YoY in 2027, after 1.0% YoY in 2026. Lower energy costs should increase discretionary income and support household spending.
- With oil prices set to moderate in the medium term, annual headline HICP inflation is forecast at 2.2% YoY in 2027, after 3.0% YoY in 2026. This would bring the annual rate close to the ECB's 2.0% target, while easing pressure on household buying power.
- We retain our forecast for the ECB deposit facility rate to peak at 3.00% in 1Q27. Further hikes depend on persistent underlying inflation, with higher borrowing costs and widening spreads already containing demand.

The Eurozone economy is expected to get a modest boost in 2027, with growth ticking up to 1.3% from the estimated 1.0% in 2026. This slight pickup is mostly thanks to a mix of lower oil prices and a wave of fiscal spending from Germany, both of which should give businesses and household budgets some much-needed breathing room. However, it won't be entirely smooth sailing as high interest rates and shaky consumer demand are still holding back a full recovery. On the positive side, we see oil prices falling as much as 20% next year and headline inflation could plummet to 2.2% - finally close to the ECB's 2.0% target again.



Source: Eurostat, OCBC Group Research.

Euro-wide GDP remains steady, but growth is still uneven

Euro-area GDP growth rebounded to 0.6% QoQ in 2Q26 from zero growth in 1Q26, although the headline improvement masked continued weakness in domestic demand (Flash estimates for Q3 are out at 0.4% QoQ, but without a breakdown). Net exports were the main growth driver, contributing 0.9ppt, while inventories dragged growth down by 0.5ppt. Household consumption contributed just 0.2ppt, while fixed investment staying roughly flat.

Euro Area

The reliance on external demand suggests that the recovery has yet to gain sufficient domestic traction.

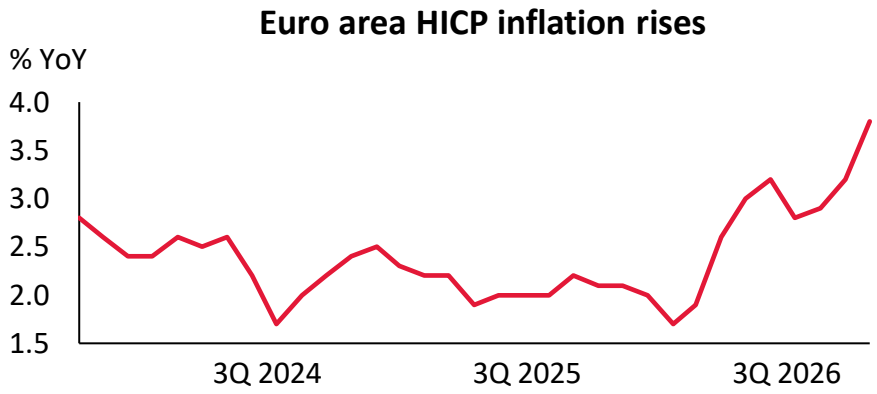
Growth disparities across member states further highlight the uneven nature of the expansion. Ireland's 10.2% QoQ surge provided an outsized lift to aggregate GDP, contrasting with more modest growth in Spain (0.7%), Germany (0.3%) and Italy (0.2%), while France stagnated. This divergence underscores the absence of a broad-based recovery, with aggregate growth disproportionately influenced by a small number of economies and external demand. Looking ahead, a more durable expansion will require stronger household spending and a sustained recovery in investment. Until then, we expect growth to remain gradual and uneven through 1H27.

The euro-area labour market remains relatively resilient despite signs of gradual cooling, providing important support for household consumption. Employment continued to expand by 0.1% QoQ in 3Q26, although annual growth slowed to 0.4% YoY from 0.5%. The unemployment rate edged up to 6.5% in September, suggesting that firms have largely maintained their existing workforces despite higher operating costs and economic uncertainty. Although we expect unemployment to rise modestly over 2027, the relatively small increase points to an orderly adjustment rather than a sharp deterioration in labour market conditions. However, the renewed rise in inflation, driven by energy prices, is eroding real purchasing power, limiting the extent to which still-steady employment can translate into stronger consumer spending. A sustained recovery in household demand will therefore depend on energy-driven inflation pressures easing in 2027.

Lower energy costs slated to bring headline inflation lower

Inflationary pressures intensified further across the euro area in October, with headline HICP inflation rising to 4.0% YoY from 3.8% YoY in September, its highest since September 2023 and double the ECB's 2% target. The increase again primarily reflected an acceleration in energy inflation, to 20.8% YoY from 18.9% YoY, the fastest since December 2022. Core HICP inflation, however, held steady at 2.5% YoY for a second month, while services inflation edged up to 3.3% YoY from 3.2% YoY. Nevertheless, there is limited evidence thus far of a sustained broadening of underlying inflationary pressures. Compensation per employee growth moderated to 3.3% YoY in 2Q26 from 3.6% YoY in 1Q, while improving labour productivity has helped contain unit labour cost pressures. The ECB's wage tracker also points to a marked slowdown in negotiated wage growth by 3Q27, suggesting that wage pressures remain relatively contained. With longer-term inflation expectations still anchored at 2.0%, these developments suggest that the energy shock has yet to translate into persistent domestic price pressures, although indirect effects bear close monitoring.

Euro Area



Source: Eurostat, Bloomberg, OCBC Group Research.

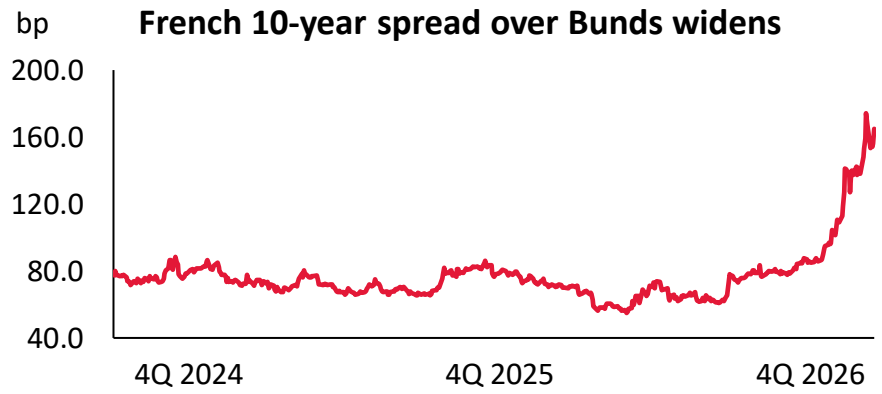
We expect a moderation in annual headline inflation to 2.2% YoY in 2027, supported by declining energy prices. Lower energy costs should ease pressure on business margins, restore household purchasing power and support a gradual recovery in consumption. With inflation projected to be close to the ECB's 2.0% target, the case for additional monetary tightening would weaken after 1Q next year. Nevertheless, renewed energy supply disruptions or persistent second-round effects could complicate the policy outlook and delay the recovery.

Risks to our outlook

Restrictive financing conditions are expected to remain a headwind to euro-area domestic demand through 1H 2027. Following the ECB's 25bp increase in the deposit rate to 2.50% in September, we maintain our forecast for another 25bp hike in 4Q26, followed by a further increase in 1Q27, taking the rate to 3.00%. However, with oil prices expected to decline, further monetary tightening will increasingly depend on the persistence of underlying inflation, particularly wage and services-price pressures.

Political and fiscal uncertainty in France presents an additional downside risk to the euro-area outlook. The 10-year French government bond spread vs German bunds widened to 165bp on 30 October 2026 from 57.5bp on 27 February 2026, reflecting heightened fiscal concerns as well as a broader rise in bond yields. Looking ahead, political uncertainty is likely to intensify ahead of the presidential election in April–May 2027, while parliamentary fragmentation could complicate efforts to implement fiscal consolidation. The government's target of reducing the fiscal deficit from 5.4% of GDP in 2026 to 5.0% in 2027 faces considerable implementation risks, particularly as political parties become increasingly reluctant to support unpopular spending cuts and tax increases ahead of the election.

Euro Area



Source: Bloomberg, OCBC Group Research.

Prolonged budget negotiations, potential government instability and further sovereign credit rating reviews could undermine investor confidence and keep French borrowing costs elevated. If sustained, these pressures could spill over into bank funding conditions and corporate lending rates, potentially constraining investment beyond France. Although the ECB's Transmission Protection Instrument (TPI) provides a safeguard against unwarranted market fragmentation, its activation is conditional on factors including fiscal compliance and debt sustainability. We do not expect the TPI to be activated for France in the near term, as the widening in sovereign spreads appears largely driven by concerns over fiscal fundamentals rather than disorderly market conditions.

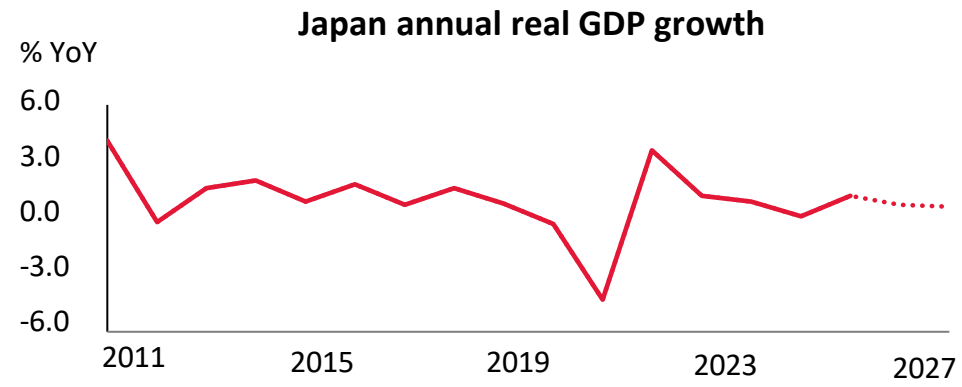
Japan

Japan: Policy normalisation to continue

Chester Liaw
G7 Economist

- Japan's recovery remains weak despite higher household purchasing power. Recent GDP growth was due to weaker imports, while consumption was flat and investment declined. Proposed tax relief could support spending from 2Q 2027 if parliament approves it.
- Investment and exports should provide support. Labour shortages should encourage automation investment, while AI-related demand remains supportive for Japanese exports.
- Real GDP growth is forecast at 0.6% YoY in 2027, while annual headline CPI inflation is forecast at 1.8% YoY. Our forecast for the BoJ policy rate to reach 2.00% by end-2Q 2027.

Japan's economic recovery is expected to remain gradual in 2027, supported by easing energy prices and continued wage growth, which should help improve household purchasing power and underpin private consumption. Nevertheless, we forecast real GDP growth to moderate slightly to 0.6% YoY in 2027 from 0.7% YoY in 2026, reflecting subdued domestic demand and the lingering effects of weak consumption and investment. Higher borrowing costs could also weigh on household spending and business investment, limiting the pace of recovery. While proposed tax relief measures, if approved, could provide an additional boost to disposable incomes from 2Q27, their impact is unlikely to be sufficient to materially lift full-year growth. Overall, we expect Japan's economy to expand at a modest pace, with improving real incomes partially offset by restrictive financing conditions and continued weakness in private demand.



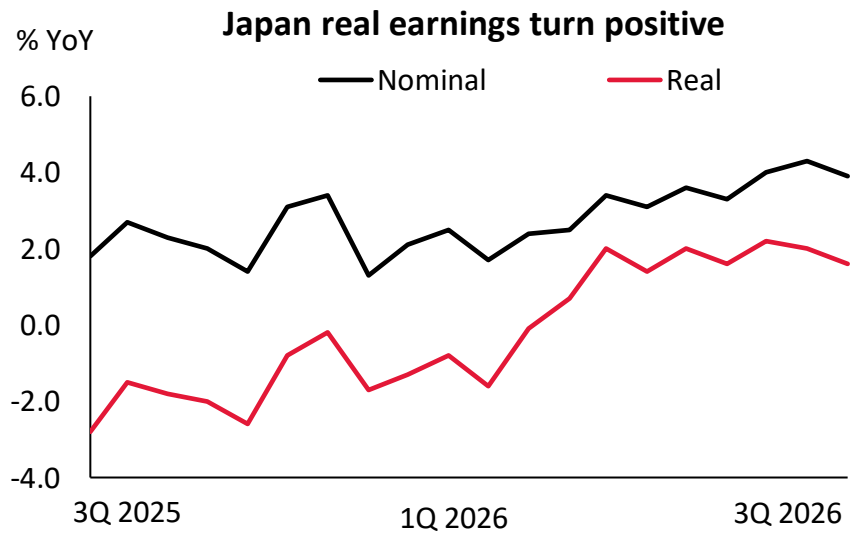
Source: ESRI, OCBC Group Research.

Japan

Recent GDP data lend further support to our cautious outlook on Japan's economic recovery. Real GDP growth was revised slightly higher to 0.4% QoQ in 2Q26 from the earlier estimate of 0.3% QoQ, although the underlying details point to continued weakness in domestic demand. Private consumption stagnated, while business investment contracted, highlighting the limited momentum in household spending and corporate capital expenditure. Meanwhile, the positive contribution from net exports was driven largely by a decline in imports rather than stronger external demand. This suggests that the improvement in headline GDP growth may overstate the underlying strength of economic activity, reinforcing our expectation that Japan's recovery will remain gradual and uneven heading into 2027.

Higher wages and investment to support growth

Improving wage dynamics should provide some support for Japan's household consumption recovery. Real earnings recorded eight consecutive months of YoY growth through August 2026, following declines throughout 2025, suggesting a sustained improvement in household purchasing power. Nominal base-pay growth also strengthened to 3.8% YoY in July–August from around 3.0–3.4% YoY during January–May, pointing to resilient underlying wage momentum. Persistent labour shortages should continue to support wage growth, with the BoJ's September Tankan survey highlighting worsening staffing constraints among smaller firms. These conditions are expected to underpin another robust round of spring wage negotiations in 2027, with the resulting pay increases providing a further boost to household incomes from 2Q 2027. We expect improving real wages to support a gradual recovery in private consumption through 1H 2027, potentially encouraging businesses to expand investment as domestic demand strengthens.



Source: MHLW, OCBC Group Research.

Proposed fiscal measures could provide an additional boost to household purchasing power in 2027. The Takaichi administration has proposed a temporary reduction in the

Japan

consumption tax on food from 8% to 1% for two years beginning in April 2027, alongside targeted financial assistance to households. Subject to parliamentary approval, these measures could lower living costs, increase disposable incomes and encourage additional consumer spending from 2Q27, thereby supporting a more broad-based recovery in 2027.

Business investment is expected to provide some support to Japan's economic recovery, underpinned by resilient corporate sentiment and continued capital expenditure plans. The BoJ's September Tankan survey indicated robust investment intentions among large firms for FY2026, alongside improving business conditions in manufacturing and still-favourable sentiment in the non-manufacturing sector. Persistent labour shortages should also encourage firms to increase spending on automation, productivity-enhancing technologies and labour-saving equipment. Meanwhile, the implementation of public infrastructure projects funded under earlier budgets could provide an additional boost to construction activity and domestic demand.

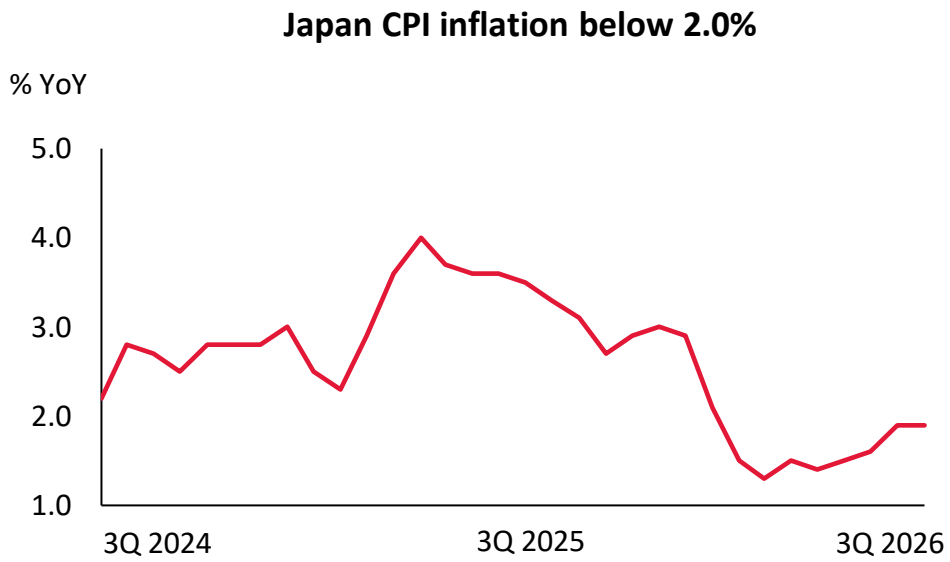
External demand is expected to provide an important source of support for Japan's industrial production and exports, underpinned by continued global investment in AI and sustained demand for semiconductors and semiconductor manufacturing equipment. Export values increased by 16.7% YoY in September, marking the thirteenth consecutive month of expansion, supported by robust demand for chipmaking equipment. Nevertheless, the external outlook remains subject to downside risks from trade restrictions, weaker global demand and a potential moderation in AI-related capital expenditure, which could weigh on Japan's export momentum. Nonetheless, looking ahead, lower oil prices should help reduce Japan's energy import bill, ease input cost pressures on businesses and improve household purchasing power in 2027.

Inflation to moderate on lower energy price and policy normalisation

Japan's inflation outlook is expected to improve in 2027, supported by easing energy prices, policy normalisation and government measures aimed at alleviating household living costs. National core CPI inflation, excluding fresh food, moderated to 1.7% YoY in August, while inflation excluding both fresh food and energy stood at 1.9% YoY, suggesting that underlying price pressures remain relatively contained. We forecast annual headline CPI inflation to moderate to 1.8% YoY in 2027 from 2.5% YoY in 2026.

Additional relief is also expected from government energy support measures announced on 29 October 2026, which will provide approximately JPY7,000 in electricity and gas subsidies to a single household between December 2026 and February 2027. These measures should help cushion winter utility bills and support disposable incomes, although the planned reduction in emergency fuel subsidies from December could partially offset the benefits. Generally, sustained declines in global oil prices should help limit imported inflation and underpin a gradual moderation in overall price pressures through 2027.

Japan



Source: Statistics Bureau of Japan,Bloomberg, OCBC Group Research.

Following the BoJ's September policy rate increase to around 1.25%, we maintain our forecast for three additional 25bp hikes in 4Q26, 1Q27 and 2Q 2027, taking the policy rate to 2.00% by end-2Q27. However, with real GDP growth projected at just 0.6% YoY in 2027, the BoJ faces a delicate balancing act between containing underlying inflation and avoiding excessive tightening in financial conditions. Further monetary tightening will depend on sustained real wage growth, a recovery in household consumption and persistent underlying inflationary pressures, particularly in services. However, signs of weakening domestic demand or deteriorating household income growth could lead the BoJ to adopt a more cautious approach, potentially delaying subsequent rate increases.

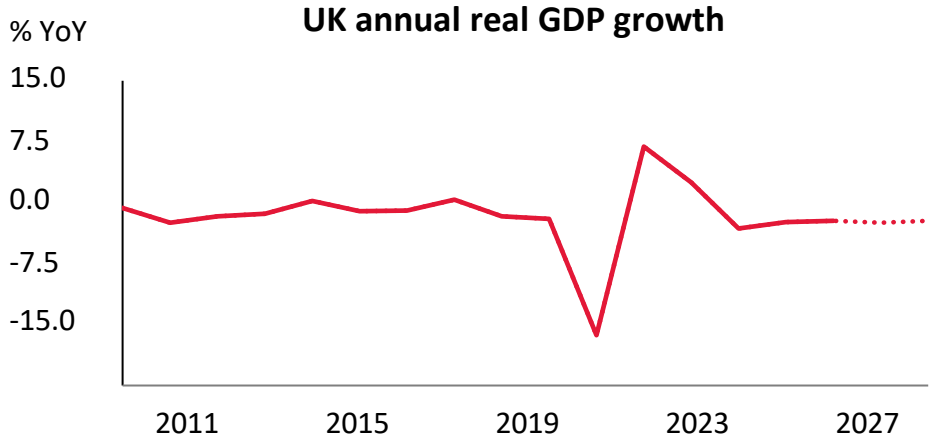
United Kingdom

United Kingdom: A modest recovery as oil pressure eases

Chester Liaw
G7 Economist

- Similar to consensus, we forecast UK real GDP growth at 1.2% YoY in 2027, compared with the 1.6% YoY projected for 2026. Real income gains should support consumption, while weak hiring and cautious saving limit the recovery.
- Annual headline CPI inflation is forecast at 2.6% YoY in 2027, after 3.8% YoY in 2026. Lower fuel costs should ease pressure on household buying power.
- The BoE raised Bank Rate by 25bp to 4.00% and said it would watch whether high energy prices feed through to wages and other prices. We expect it to hike again in Q1 2027.

Lower oil prices should support the UK recovery in 2027 by easing household bills and cost of businesses. We expect 1.2% YoY real GDP growth for 2027. With oil prices set to fall from 2027, annual headline CPI inflation is forecast at 2.6% YoY in 2027, down from 3.1% YoY in 2026. This should support discretionary spending, although subdued hiring and a preference to save suggest the recovery will remain modest.



Source: ONS, OCBC Group Research.

Improving incomes should support a cautious recovery

The UK is one of the relatively few major economies to publish higher frequency monthly GDP estimates, and the latest data point to resilient activity. Real GDP grew by 0.7% QoQ in 3Q 2026, up from 0.5% in 2Q and 1.9% higher than a year earlier, despite surging energy prices and rising borrowing costs. Monthly momentum also improved at the end of the quarter, with GDP rising 0.2% MoM in September against expectations of flat growth. Services and manufacturing output increased 0.2% MoM and 0.7% MoM respectively. The improvement is encouraging, but whether the recovery can be sustained into 2027 will depend on whether stronger output feeds through to household incomes and spending.

United Kingdom

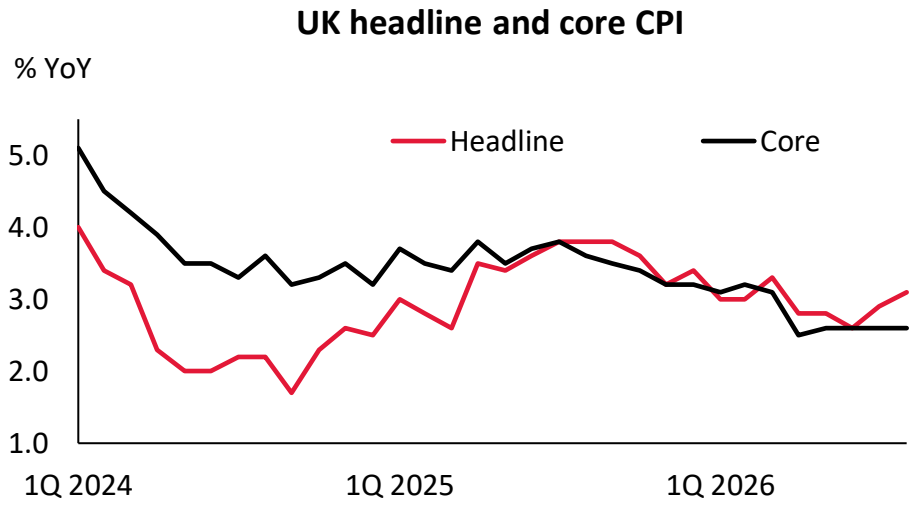
Household finances are moving in the right direction. Real household disposable income per head rebounded by 1.0% QoQ in 2Q 2026 after falling 0.8% QoQ in 1Q, giving households more room to spend. On the other hand, the saving ratio also edged up by 0.2ppt QoQ to 8.8%, pointing to continued household caution and a limited pass-through from stronger incomes to consumption. The labour market provides some context for households' cautious spending behaviour. Although unemployment edged lower to 4.7% in June–August, hiring momentum remained subdued, with payroll employment down 0.1% QoQ and 0.3% YoY and vacancies falling 2.9% QoQ in July–September. This suggests that, despite relatively low unemployment, softer labour demand may be weighing on households' confidence in the income outlook.

Still, we expect the recovery to continue on a slightly firmer footing, with wage growth providing some support to household purchasing power. Overall regular pay growth rose to 3.7% YoY in June–August from 3.4% YoY in January–March, while CPIH-adjusted real regular pay growth strengthened to 0.6% YoY from 0.1% YoY over the same period. Together with the rebound in disposable income, this should support a gradual recovery in consumption, although subdued hiring and households' continued preference to save suggest the improvement is unlikely to be particularly strong.

High base in energy prices could see CPI top out in Q1 2027.
Headline CPI inflation rose to 3.5% YoY in September from 3.1% in August, its highest since October 2025, with motor fuels again making the largest upward contribution. Core CPI also edged up, to 2.8% YoY from 2.6%, and services inflation to 3.7% from 3.4%. However, the pick-up in services largely reflects base effects rather than fresh momentum: services prices were flat on the month, so evidence of energy costs feeding through to underlying inflation remains limited for now.

The BoE's earlier projection put headline CPI inflation at around 3.8% YoY in 4Q 2026 and just above 4.0% in 1Q 2027, which we expect to be the peak. From 2Q 27, however, the current rise in energy prices should create a higher comparison base, reducing its contribution to annual inflation even if oil prices do not fall further. While strong readings early in the year will keep average inflation elevated in 2027, headline inflation should ease progressively after 1Q, reaching our 2.6% YoY forecast by year-end.

United Kingdom



Source: ONS, OCBC Group Research.

As mentioned earlier, broader second-round effects from the energy shock have remain limited so far. Despite the sharp rise in oil prices since late February, services inflation has not shown a sustained acceleration, easing from 4.3% YoY in February to 3.7% in September, while core inflation fell from 3.2% to 2.8%. Wage pressures have also remained contained, with overall regular pay growth broadly stable and private-sector pay growth easing. This suggests that, for now, higher energy costs have had limited spillover into underlying domestic inflation.

Lower oil reduces the case for further tightening

However, the experience of 2022–23 cautions against waiting until inflation persistence becomes clear. Headline CPI peaked at 11.1% YoY in October 2022, but wage and services-price pressures proved stronger than expected even as energy inflation subsequently eased. The Bank of England ultimately hiked the Bank Rate at 14 consecutive meetings, taking it from 0.1% before the tightening cycle began in December 2021 to 5.25% in August 2023. The concern is therefore not simply that energy is lifting headline inflation, but that a prolonged shock could influence wage settlements and pricing decisions, making a later policy response more costly.

Looking ahead, the key question for the BoE is whether the energy shock develops into more persistent domestic price pressures. While pass-through has remained limited so far, we expect the Bank to take a pre-emptive approach and retain our forecast for Bank Rate to reach 4.25% by Q1 27, consistent with the recent hawkish tone from policymakers. Governor Andrew Bailey has highlighted the risk that a prolonged period of higher energy costs could eventually feed into firms' pricing decisions, while Chief Economist Huw Pill, despite pushing back against the extent of tightening priced by markets, has continued to signal a need for some further policy restraint.

Lower oil prices and the high base after Q1 2027 would reduce the risk of second-round effects, shifting the focus increasingly towards wage growth and services inflation. If both

United Kingdom

remain contained, the case for tightening beyond 4.25% would weaken. The main upside risks come from a renewed rise in energy prices or evidence that higher costs are becoming embedded in wage settlements and services prices, which could prompt the BoE to tighten beyond our current forecast. The 2022/23 episode of entrenched inflation is a reminder that policymakers cannot afford to remain complacent.

United States

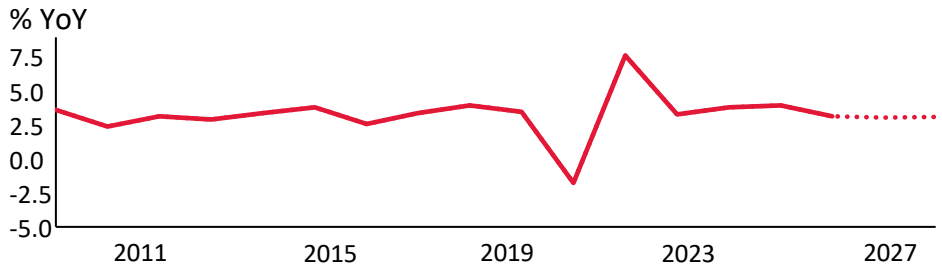
United States: Growth holds up as AI investment stays firm

Chester Liaw
G7 Economist

- Real GDP growth is forecast at 2.3% YoY in 2027, after 2.2% YoY in 2026. AI investment supports continued expansion, while higher unemployment limits household spending.
- Annual headline CPI inflation is forecast at 2.1% YoY in 2027. Lower fuel costs would ease pressure on household budgets.
- We retain our forecast for the federal funds target range to stay at 4.00–4.25% through 1H 2027.

US real GDP growth is forecast at 2.3% YoY in 2027, after estimated 2.2% YoY in 2026, with AI investment providing support even as weaker hiring restrains consumption. Annual headline CPI inflation is forecast at 2.1% YoY in 2027, after estimated 3.5% YoY in 2026. Lower fuel costs should ease pressure on household buying power and cost of businesses during 2027. We expect the Fed to pause rate hikes after December 2026, although we acknowledge risks of an extended hiking cycle should headline inflation stay above 3%.

US annual real GDP growth



Source: BEA, OCBC Group Research.

AI investment to support growth in 2027 but risks remain

Real GDP grew by 3.4% QoQ saar in 3Q26, according to the advance estimate, accelerating from an upwardly revised 2.2% in 2Q26. Growth was driven by investment, notably inventories and computer equipment, alongside consumer spending, which rose 3.8%, while net trade was a large drag. However, real final sales slowed to 1.7% from 2.8%, indicating that inventory accumulation flattered the headline. Real final sales to private domestic purchasers rose 4.9% QoQ saar in 3Q26, up from 4.6% in 2Q26, suggesting underlying private demand remained solid

Consumer spending has provided crucial support, with real consumer spending rising 3.8% QoQ saar in 3Q26, although momentum faded towards the end of the quarter. Real personal consumption was flat in September after rising 0.5% MoM in August, as higher prices

United States

absorbed nominal spending gains and real disposable income fell 0.3%. September retail sales rose 0.8% MoM, after August's gain was revised up to 1.3%. We expect personal consumption to slow in the year ahead as hiring slows, although the recent decline in oil prices should ease some pressure on household budgets. Even so, we expect consumption to remain the largest contributor to the forecast of 2.3% YoY full-year real GDP growth in 2027, adding 1.6 percentage points to that annual growth rate, including 0.7 percentage points from household services.

The investment component of GDP should remain strong in 2027, with AI-related spending helping to sustain demand for equipment, software, research and data-centre construction. Our forecast puts private investment's contribution to 2027 growth at 0.7 percentage points. Equipment and intellectual property products should both add 0.4 percentage points each, while non-residential structures contribute another 0.1 percentage points. Overall, within the investment component, AI investment is expected to contribute 0.5 percentage points to GDP growth in 2027.

Still, some of the benefits of higher AI spending will be offset by higher imports, limiting the overall impact on GDP. Overall, we estimate that AI-related demand will contribute 0.3 percentage points to real GDP growth in 2027, compared with 0.2 percentage points in 2026.

In essence, the US economy should continue growing in 2027, although the expansion is likely to remain uneven. AI investment should provide support, but elevated financing costs could weigh on smaller businesses and firms facing debt refinancing. The main risk to our outlook comes from a loss of AI momentum, with GDP growth slowing to 1.5% YoY should AI demand stall. If AI investment reverses much more than we expect, growth could fall to as low as 0.8% YoY, with lower wealth effects, weaker consumption, tighter credit, softer external demand and wage-income losses exacerbating the fall.

Hiring to be subdued in 2027

The labour market has proven more resilient than expected. Nonfarm payrolls rose by 165,000 MoM in October, well above consensus, while September was revised up to 60,000 from 29,000, and the unemployment rate edged down to 4.1%. Hiring was also broad-based, with the private-sector employment diffusion index at 57.6, above 50 for a tenth consecutive month. Nonetheless, we expect the unemployment rate to average 4.4% in 2027, up from 4.2% in 2026, pointing to a gradual softening in labour market conditions rather than a sharp rise in job losses.

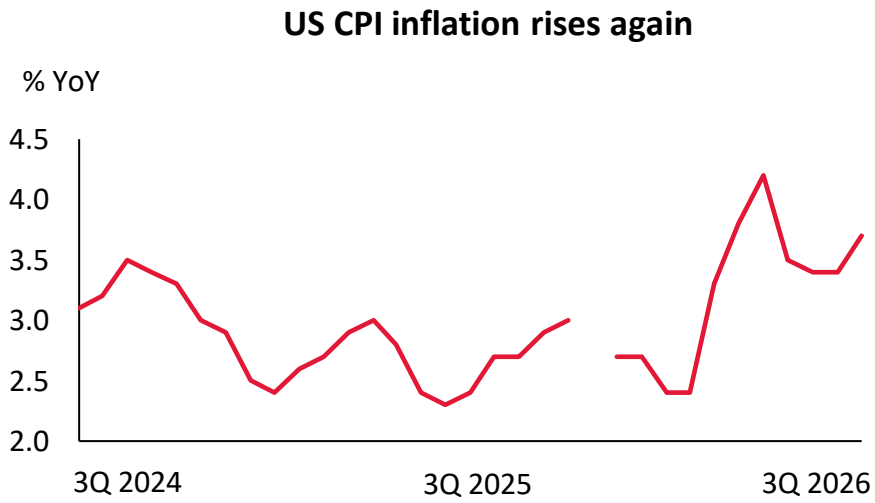
Nominal wage growth has also firmed. Average hourly earnings rose 0.4% MoM and 3.1% YoY in October, with average weekly hours unchanged at 34.4, lifting private-sector weekly payrolls by 0.5% MoM. However, households' purchasing power remains under pressure: real average hourly earnings were flat on the month and still about 0.4% lower than a year earlier, as inflation continues to outpace wage gains. Elevated inflation, rather than weak hiring, is therefore the main constraint on household spending for now. If labour demand

United States

cools in 2027 as we expect while real wage growth stays negative, private consumption could become a downside risk to growth.

One more hike from the Fed in 2026, before an extended pause in 2027

Headline CPI inflation rose to 3.7% YoY in September from 3.4% in August, with prices increasing 0.6% MoM compared with 0.4% previously. Higher energy prices are again adding to inflationary pressures and could slow the disinflation process if the impact spreads beyond fuel costs. The risk is if second round effects become entrenched, as rising transportation and production costs may eventually feed into consumer prices and wage demands, keeping underlying inflation elevated. Still, we expect oil prices to taper off in 2027, with the high base in energy pricing helping to constrain year-on-year gains after Q1 2027.



Source: BLS, Bloomberg, OCBC Group Research.

Following September's 25bp rate hike, we expect the Fed to deliver another 25bp hike by end-2026, taking the target range to 4.00–4.25%. Looking ahead to 2027, we expect rates to remain unchanged in for the whole of 2027 before considering easing in 2028 again. Although we project lower oil prices to bring annual headline CPI inflation down to 2.1% YoY in 2027, the path is unlikely to be even, especially if second round effects take hold. This would give the Fed reason to keep policy restrictive for most of the year to ensure that inflationary pressures are firmly under control. However, as the labour market gradually cools and consumer spending moderates, the balance of risks should increasingly shift towards supporting growth after 2027.

China

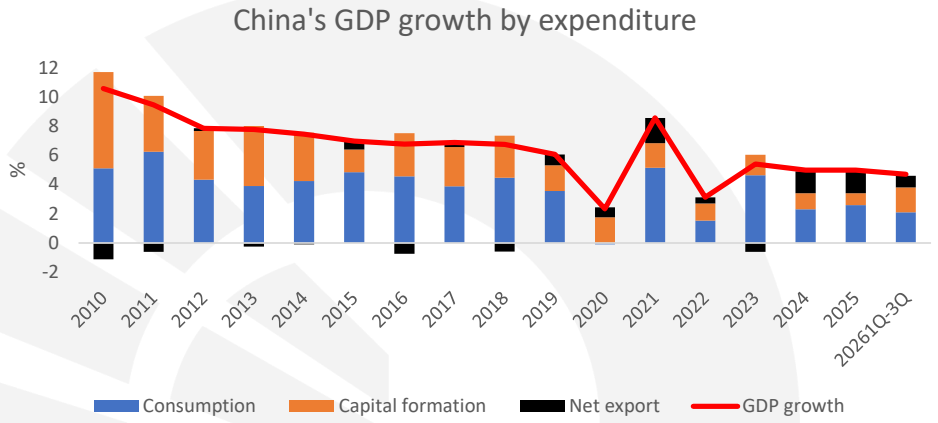
China: From growth targets to growth drivers

Tommy Xie Dongming
Head of Macro Research

- **AI-led exports continue to underpin China's resilience,** keeping the economy on track to meet its 2026 growth target despite persistent weakness in household demand and property investment.
- **AI has bought China time, but domestic growth drivers remain fragile.** Weak household credit demand and a broad-based contraction in private investment point to subdued confidence among both consumers and businesses.
- **China's growth challenge shifts from meeting targets to rebuilding growth drivers in 2027.** With support from net exports likely to diminish amid rising trade frictions, stronger private-sector confidence and household demand will be critical to more sustainable growth.

China's economic growth reaccelerated to 4.5% YoY in 3Q26 from 4.3% in 2Q26, demonstrating resilience despite rising energy prices. This brought GDP growth in the first three quarters of 2026 to 4.6%, within the government's full-year target range of 4.5–5.0%. The resilience of China's economy has been underpinned by robust exports and the growing contribution of the AI economy, which have helped offset the continued downturn in property investment and subdued household spending. The contribution of net exports to growth rose to 26.1% in the first three quarters of 2026, up from 17.0% in the first half, while the contribution from capital formation declined to 28.3% from 36.2% over the same period.

Chart 1: Net export has contributed positively to China's growth for the past three years.



Source: Wind, OCBC Group

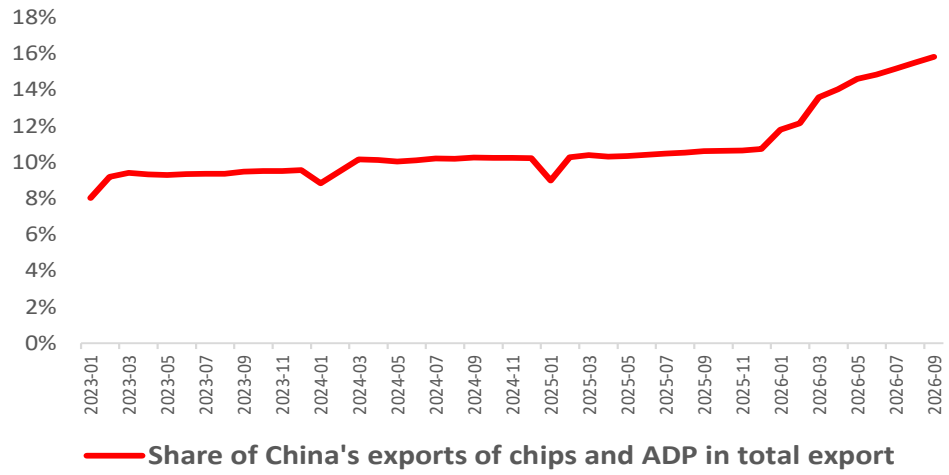
AI-related demand remained a major engine of export growth. Exports of AI-related intermediate goods, including integrated circuits and automatic data processing equipment, surged by 80.8% YoY in the first three quarters of 2026. Their share of China's total exports

China

rose sharply to 15.8%, from 10.7% in 2025, highlighting China's growing exposure to the global AI investment cycle.

ASEAN is increasingly becoming an extension of China's supply chain rather than a substitute for it. China's trade surplus with ASEAN-6 in electronics and machinery rose to a record high in the first three quarters of 2026, accounting for more than 16% of China's overall trade surplus. Deepening supply-chain integration should continue to support China's trade growth in 2027, although rising concerns over global imbalances are likely to increase trade-policy uncertainty. We therefore expect net exports to remain a positive contributor to growth in 2027, partially offsetting still-sluggish domestic demand.

Chart 2: Share of China's exports of chips and ADP in total export rose further



Source: Wind, OCBC Group Research

On the domestic front, faster fiscal spending, together with the Ministry of Finance's plan to mobilise RMB550bn in unused local government debt quotas, should provide additional support to economic activity. Taken together, strong external demand and stepped-up fiscal support should keep China on track to achieve its full-year growth target. We maintain our 2026 GDP growth forecast at 4.6%.

However, with the annual growth target increasingly within reach, **the more important question is shifting from whether China can meet its 2026 growth target to whether it can successfully transition from traditional growth engines to a more sustainable growth model.** Beneath the headline resilience, the divergence between external and domestic demand remains pronounced.

Three challenges to China's growth rebalancing in 2027

First, household credit demand remained subdued, highlighting the continued reluctance to take on additional leverage. Short-term household loans contracted by RMB90bn in September, RMB232.1bn lower than a year earlier, pointing to weak consumer confidence and borrowing appetite. Medium- and long-term household loans returned to positive territory at RMB87.4bn but remained RMB162.6bn below the year-earlier level, suggesting

China

that the recovery in housing-related credit demand remains fragile. Overall, households have yet to respond meaningfully to recent policy support, underscoring the challenges of reviving consumption through incremental stimulus alone.

Second, **investment weakness extends beyond property.** The more fundamental challenge, in our view, lies in the continued deterioration in private investment, which reflects persistent concerns about the business operating environment and weak corporate confidence.

Private fixed asset investment contracted by 10.4% YoY in the first three quarters. Even excluding property investment, private investment declined by 6.7% YoY, underscoring the breadth of the weakness. The contraction suggests that private businesses remain reluctant to commit capital despite ongoing policy efforts to stabilise expectations and promote private sector development.

Chart 3: The contribution of net exports jumped again

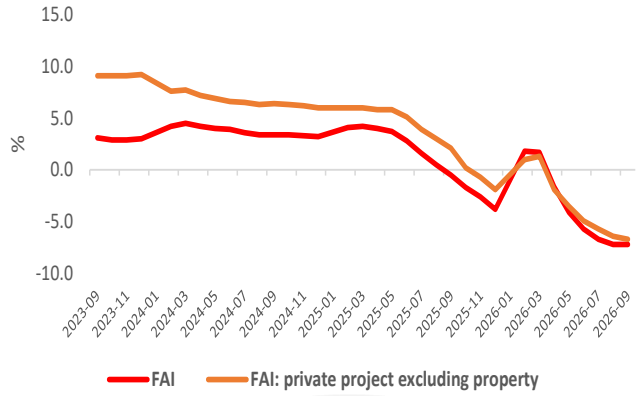
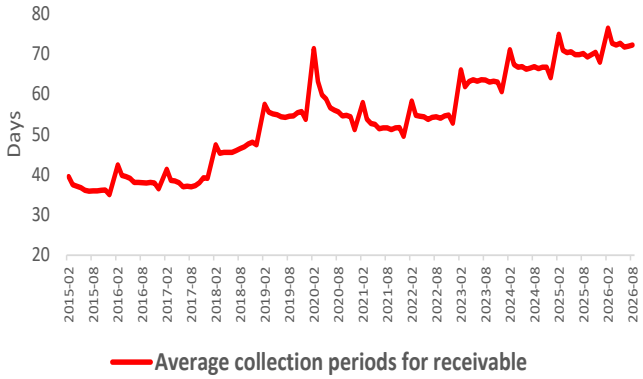


Chart 4: Account collection remains slow



Source: Wind, OCBC Group Research

Corporate cash-flow pressures also remain evident. The average collection period for accounts receivable among industrial enterprises increased to 72.2 days in August from 71.9 days in July, despite efforts to curb involution and address prolonged payment cycles. This suggests that policy initiatives aimed at tackling so-called involution-style competition have yet to translate into a meaningful improvement in corporate operating conditions.

Third, China's growing external imbalance risks turning its strongest growth engine into a source of policy friction. The widening trade surplus is attracting increasing scrutiny from China's major trading partners, raising the risk that stronger protectionist measures eventually weaken the export cushion supporting domestic growth. China appears to be pursuing a three-pronged strategy: easing trade frictions, defending its exchange-rate framework and bolstering domestic demand.

China and the EU reached an understanding on 9 October 2026 aimed at easing trade frictions amid growing European concerns over its widening trade deficit with China. The agreement delivered several tangible concessions for the EU, including commitments to

China

moderate Chinese hybrid vehicle exports, reduce tariffs on selected European products and facilitate rare-earth export licensing. In addition, China is offering greater transparency rather than a stronger currency as its response to concerns over global imbalances. The PBOC's statement signals a willingness to engage with international scrutiny while resisting pressure for exchange-rate adjustment as the primary instrument of external rebalancing. As such, there is no plaza accord moment for China's RMB.

Mild reflation in 2027

The divergence between China's consumer and producer prices widened further in October. Headline CPI inflation moderated to 0.7% YoY from 0.9% in September, while core CPI inflation eased to 0.8% YoY from 1.0%. In contrast, PPI inflation accelerated to 5.7% YoY from 5.4%, widening the PPI-CPI gap to 5 percentage points, the largest since May 2022.

Looking ahead, we believe China's PPI inflation may have peaked and could moderate heading into 2027, potentially narrowing the PPI-CPI gap. Several factors behind this year's upstream price pressures, including elevated oil prices, rising AI supply chain costs and higher non-ferrous metal prices, could begin to unwind. Following the US midterm elections, a potential resolution of the Iran war could pave the way for lower oil prices. Meanwhile, a moderation in the AI investment cycle, particularly if accompanied by slower US data centre construction, could ease demand pressures on non-ferrous metals. Together, these developments could alleviate upstream cost pressures and narrow the divergence between producer and consumer inflation. We expect CPI to recover marginally to about 1.5% in 2027 from estimated 0.9% in 2026.

2027: From meeting growth targets to rebuilding growth drivers

The AI boom has provided China with a valuable window of opportunity to restructure its growth model. Strong AI-related exports and investment have helped cushion the economy against weakness in traditional sectors, reducing the immediate pressure for aggressive policy stimulus.

For growth to become more sustainable from 2027 onwards, **policy priorities will need to extend beyond near-term stimulus towards rebuilding private sector confidence and strengthening household demand. Improving the business operating environment,** addressing prolonged corporate payment cycles and restoring private investment appetite will be particularly important. We will monitor whether the central government is willing to issue more debt to cover the shortfall of local government funding to repair the local operating business environment.

On monetary policy, easing is increasingly taking the form of changes to the policy framework rather than conventional rate cuts. The PBOC has shifted its main policy-rate anchor from the seven-day reverse repo rate to the overnight reverse repo rate, reflecting the growing importance of overnight transactions in China's interbank market. The new overnight policy rate of 1.25% is below the previous seven-day benchmark of 1.40%, helping guide short-term funding costs lower. Against this backdrop, we see less urgency for an

China

immediate reduction in the LPR and expect only a 10bp LPR cut in 2027, primarily to ease funding pressures on SMEs.

Overall, we expect China's GDP growth to moderate to 4.5% in 2027 as support from net exports diminishes and the recovery in domestic demand remains gradual. The key question for 2027, however, is not simply whether China can achieve another respectable headline growth rate. It is whether policymakers can use the breathing room provided by the AI boom to rebuild private-sector confidence and household demand before external conditions become less supportive. AI has bought China time; 2027 will test how effectively that time is used.

Hong Kong

Hong Kong: Broad-based, domestically anchored growth

Cindy Keung
Hong Kong and Macao Economist

- We expect real GDP growth to moderate from 4.7% in 2026 to 3.2% in 2027, primarily reflecting a fading contribution from exceptionally strong merchandise trade. However, this should represent a normalisation rather than a broad-based downturn, as investment remains resilient and domestic demand continues to recover.
- Hiring conditions are likely to remain cautious in early 2027. We forecast the 2026 and 2027 unemployment rate at 3.8% and 3.9% respectively. In view of the limited pass-through from higher energy costs and second-round inflation effects, we forecast our full-year 2027 inflation forecast for Hong Kong at 2.1%, not far from the estimate of 1.8% for 2026.
- The uptrend in housing prices should continue, but at a more moderate pace, as both affordability and investment demand weaken under higher rates. We lower our baseline forecast to a 4.0% YoY increase in the overall residential price index and a stronger 5.0% YoY rise in rent index.

Growth to normalise in 2027 after a strong 2026

Hong Kong's economy is entering the final stretch of 2026 with solid domestic demand and strong trade flows, although the 2027 outlook is becoming increasingly clouded by the prospect of higher interest rates, a softer labour market and renewed asset-market volatility. We expect headline growth in 2026 to come in at its strongest pace in five years, despite unfavourable base effects and external headwinds emerging in 2H26. Looking forward, we see 2027 as a year of growth normalisation rather than deterioration. The strong trade impulse of 2026 is likely to fade, but a continued recovery in domestic demand should provide some offset. Key downside risks include a sharper slowdown in global trade, a weaker-than-expected economic backdrop in China, and a prolonged period of elevated US interest rates.

Broad-based, domestically anchored growth

Hong Kong's real GDP grew by 5.2% YoY in 3Q26, accelerating from 4.2% YoY in 2Q26, supported by resilient private consumption, a marked acceleration in investment growth, and robust external trade **(Chart 1)**. On a seasonally adjusted basis, real GDP rebounded by 1.9% QoQ, reversing the 0.7% QoQ contraction in the previous quarter. Private consumption, fixed investment (including inventory changes) and net exports all made positive contributions to headline growth (at 1.8 pp, 2.9 pp and 0.2 pp respectively), pointing to increasingly broad-based, domestically anchored growth. Taking into account the stronger-than-expected performance so far in 2026, we revise our full-year real GDP growth forecast to 4.7% (YTD: 5.1% YoY).

Continued strength in global AI capital expenditure and electronics demand should support Hong Kong's re-exports, logistics and related business activities. However, a slowdown in

Hong Kong

the global AI capex cycle could lead to a normalisation in the currently elevated pace of merchandise trade growth. We expect real GDP growth to moderate from 4.7% in 2026 to 3.2% in 2027, primarily reflecting a fading contribution from exceptionally strong merchandise trade. However, this should represent a normalisation rather than a broad-based downturn, as investment remains resilient and domestic demand continues to recover.

AI-led export boom

We revised up our merchandise export growth forecast for 2026 and 2027 to 42% and 30% respectively, reflecting both sustained external demand amid the global AI buildout cycle and Hong Kong's role as a regional trading and logistics hub. For the first three quarters of 2026 as a whole, the value of merchandise exports and imports rose by 45.2% YoY and 45.0% YoY respectively **(Chart 2)**. Separately, we expect growth of retail sales in volume terms to come in at 2-5% for 2027, with the central case slightly below our estimated 4.5% growth in 2026. The recovery in headline retail sales should continue to be driven disproportionately by higher-end and visitor-related spending rather than a broad-based strengthening in domestic consumption

Investment provides a floor for growth

Investment had been a key contributor to headline growth so far in 2026, with private investment accounting for much of the increase (+13.5% YTD). The recent strength came mostly from investment in machinery, equipment and intellectual property products (including computer software, databases, and research and development; +29.3% YTD) amid the ongoing tech upgrade and AI buildout boom. According to market intelligence, corporates' spending on AI and digital capex surged, while plenty of data-centre and related physical infrast ructure were also under construction. On the other hand, public investment is primarily underpinned by increased public infrastructure spending, particularly for projects linked to the Northern Metropolis. Public works expenditure was expected to remain elevated, at around HK$128 billion (around 1.3% of nominal GDP in 2025), for the next five years. The solid pipeline of infrastructure projects and the associated investment spending will likely provide a floor for growth in the next couple of years.

A very different tightening cycle story

We do not expect a repeat of 2022-2024 episode in the period ahead, as the economic backdrop had changed materially since then **(Table 1)**. First, the current hiking cycle is expected to be shallower and to start from a considerably higher interest-rate level. Second, the macro backdrop remained supportive, unlike that in 2022-24 where the economy faced double blows of a domestic downturn and aggressive Fed hiking cycle. This time around, the AI-driven export boom and recovering domestic demand are the key differentiators. Added to that, liquidity environment remained supportive despite the depleted aggregate balance at HKD54bn. The flow picture had also largely reversed, amid recovery in financial activity, an active IPO pipeline, as well as policies in place to attract capital and talent. That said, we note that the higher rates may exert a mild but manageable drag on the broader economy, with the drag transmitted through higher borrowing costs and weaker credit and risk appetite.

Hong Kong

Labour market slack widened; Inflation remained benign

Labour market conditions softened entering 2H26 as expected. The unemployment rate rose further to 3.9% in the Jul-Sep 2026 period **(Chart 3)**, with jobless rates increasing across most sectors. The number of unemployed persons rose to 155,000, the highest level since Jul-Sep 2025, while labour force participation rate hovered near a record low at 56.6%. Hiring conditions are likely to remain cautious in early 2027, with limited scope for unemployment rate to fall materially. We forecast the 2026 and 2027 unemployment rate at 3.8% and 3.9% respectively. Separately, inflation environment remained benign, with composite CPI and underlying CPI (netting out the effect of government one-off relief measures) rising by an average of 1.7% YoY in the first nine months of 2026 **(Chart 4)**. In view of the limited pass-through from higher energy costs and second-round inflation effects, we forecast our full-year 2027 inflation forecast for Hong Kong at 2.1%, not far from the estimate of 1.8% for 2026.

Limited upside for HKD rates

Hong Kong dollar loan demand has softened recently, while deposit base has continued to grow, dragging the HKD loan-to-deposit ratio to a 19-year low of 69.30% at end-Aug **(Chart 5)**, before rebounding to 70.3% at end-Sep. Given the lack of domestic catalysts to exert upward pressure on HKD rates, and our in-house Fed rate profile, we see mild upside for HIBORs in 4Q26, followed by broadly stable rates through much of 2027. We forecast one-month and three-month HIBORs at 3.20% and 3.40% respectively at multi-quarter horizon. Other upside risks for the HKD rates include a further hawkish repricing of Fed rate, as well as improved sentiment in the local asset market (i.e. housing and equity markets). Separately, we expect limited pass-through, from Fed hikes to HKD prime rate, in the face of still-soft loan demand and ample Hong Kong dollar liquidity.

A speed bump for housing prices

Following a prolonged rally, buyer sentiment in housing market softened in 2H26. The official residential price index fell 0.5% MoM in July, ending a 13-month winning streak, before moving largely sideways **(Chart 6)**. Trading activity also slowed, with average monthly transactions falling by 40.2% QoQ to 4,414 in 3Q26. We maintain our forecast for an 8.5% increase (YTD: 7.1%) in residential property prices in 2026, but expect the pace of price appreciation to moderate for the rest of the year amid a less supportive rate environment, heightened global macroeconomic uncertainties and weaker risk sentiment. The outlook for rents however remains more resilient, supported by underlying accommodation demand.

Adding to the headwinds, commercial banks announced increases in fixed mortgage rates (for three- and five-year periods; mortgage loans will revert to floating HIBOR or Prime rate linked rates afterwards) by 20bp in Aug, reflecting the risk of further Fed tightening and its implications on HKD rates. Looking into 2027, the uptrend in housing prices should continue, but at a more moderate pace, as both affordability and investment demand weaken under higher rates. We therefore lower our baseline forecast to a 4.0% YoY increase in the overall residential price index and a stronger 5.0% YoY rise in rent index.

Hong Kong

Metrics	2022-2024	Current cycle
Fed tightening cycle	Aggressive tightening to combat post-pandemic inflation	Shallower cycle aimed at returning US inflation to the 2% target
Starting rate level (3-month HIBOR)	Below 0.2% (to the peak of 5.7%)	2.3% (at early-Apr 26)
Growth drivers	Post-Covid reopening	AI investment boom; domestically anchored demand
Banking liquidity (loan-to-deposit ratio)	>85%	69.3% (at end-Aug) 70.3% (at end-Sep)
Aggregate balance	HKD338 bn	HKD54 bn
Residential property prices	-28.4% from peak	Recovering +12.6% from trough (still -19.4% from peak)
Key risks	Sharp correction in housing market;	Elevated rates may stifle nascent recovery
Sources: Hong Kong Census and Statistics Department, Bloomberg, OCBC Group Research		

Chart 1: Domestic demand broadly strengthened

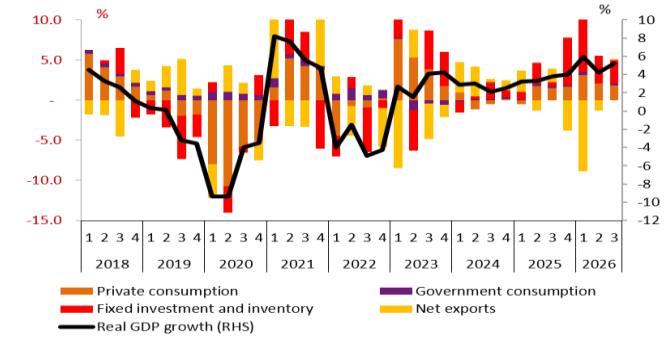


Chart 2: Growth in exports accelerated

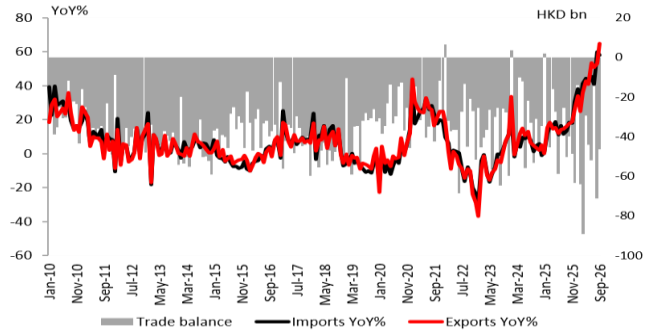


Chart 3: Labour market condition softened

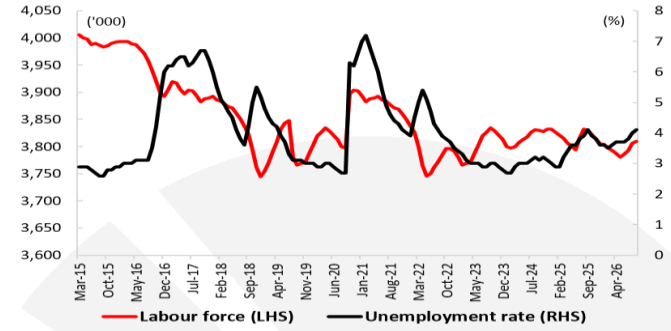


Chart 4: Inflation remained benign

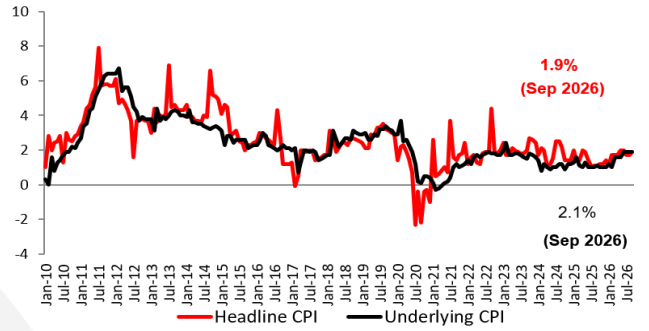


Chart 5: Loan-to-deposit ratio near multi-year low

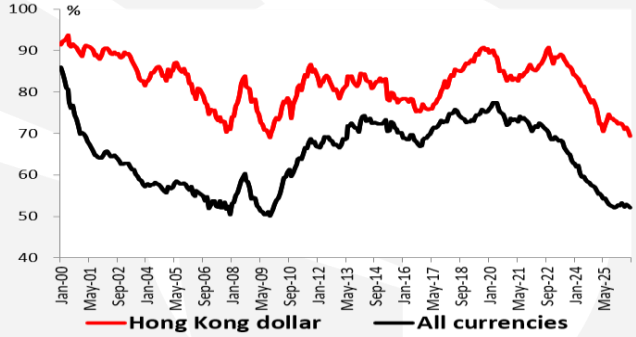
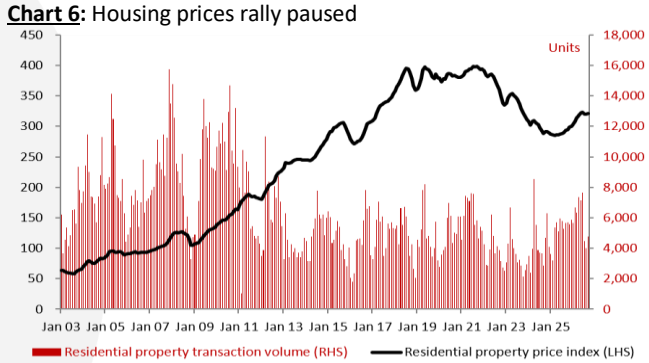


Chart 6: Housing prices rally paused



Sources: HKMA, HK Rating and Valuation Department, HK Census and Statistics Department, OCBC Group Research

India

India: Strong growth, but macro trade-offs are becoming harder

Lavanya Venkateswaran
Senior ASEAN and India Economist

- The economy enters FY28 with considerably stronger growth momentum than we had anticipated earlier in the year, but also with a less comfortable inflation, external and policy backdrop.
- We forecast headline CPI inflation to remain sticky at 5.1% in FY28, from 5.3% in FY27, with the current account deficit at 0.8% of GDP from 2.1% in FY27.
- We expect the policy rate to reach 6.00% by end-FY27 and remain on hold through FY28. The first 25bp hike was delivered in October, and we expect another 50bp during the remainder of FY27, with risks towards more rather than fewer hikes.

India's economy enters FY28 with considerably stronger growth momentum than we had anticipated earlier in the year, but also with a less comfortable inflation, external and policy backdrop. The strength of domestic demand, investment and services should allow the economy to withstand tighter monetary conditions reasonably well. However, the combination of higher food and energy prices, a wider current account deficit and reduced fiscal room means the policy mix will need to remain relatively tight in 1H27.

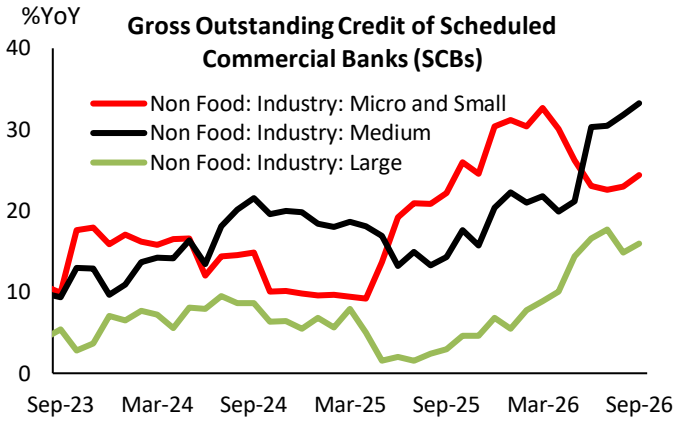
Our FY27 GDP growth forecast stands at 7.2%, following the considerably stronger-than-expected performance in 1H26. GDP expanded 7.8% YoY in 2Q26 after 8.6% in 1Q26, with investment spending rising 11.9% and exports 12.0%. Importantly, the strength was not narrowly based. Manufacturing growth accelerated to 9.2%, services growth remained at 10.0%, while financial, real estate and professional services grew 12.1%. This prompted us to raise our FY27 growth forecast from 6.4% previously.

Domestic demand should remain the anchor

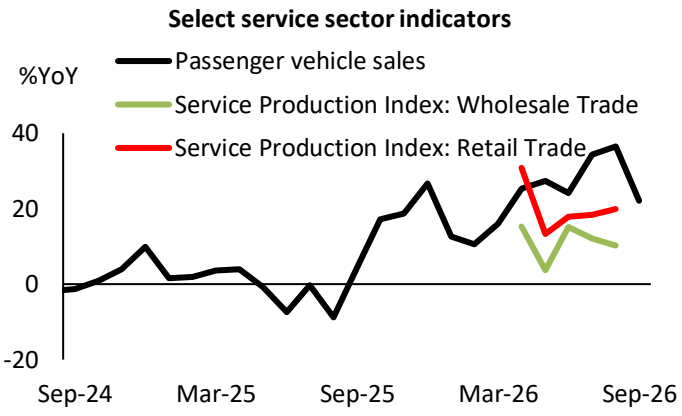
We expect domestic demand to remain the principal buffer into 1H27. Private consumption, fixed investment and the government's infrastructure push have remained resilient, while credit conditions continue to support activity. The strength in capital formation is particularly important because it suggests that the growth impulse is extending beyond consumption and services. The 2Q26 data showed gross fixed capital formation rising 11.9% YoY, while earlier activity indicators also showed strong production of capital goods and robust credit growth.

That said, we expect some moderation in momentum as tighter monetary conditions, higher input costs and weaker rural conditions begin to bite. A deficient southwest monsoon and strong El Niño conditions pose downside risks to agricultural production, the rabi crop and rural consumption. The key distinction for 2027 is therefore between slower momentum and weak growth. We expect the former, not the latter. India's growth buffer remains sizeable enough to accommodate some monetary tightening without causing a sharp deterioration in activity.

India



Source: CEIC, OCBC Group Research



Source: CEIC, OCBC Group Research.

Beyond the strong FY27 performance, we expect growth to moderate but remain resilient in FY28. We forecast real GDP growth of 6.8% in FY28, from 7.2% in FY27. The moderation should partly reflect less favourable base effects and the cumulative impact of tighter monetary conditions. Nevertheless, continued public and private investment, manufacturing expansion and structural strength in services should keep growth close to 7%.

The fiscal deficit is tracking 4.7% of GDP, as of September, on a 12-month rolling sum basis, with expenditure growth of 10.7% YoY for April-September far outpacing revenue growth of 6.1% during the same period. The authorities are in the midst of a debate on whether the long-term capital gains tax (LTCG) can be removed underscoring efforts to attract portfolio flows while maintaining fiscal prudence. LTCG tax of 12.5% applies to equity investments held for more than a year[1].

Simultaneously, the higher global oil prices have not automatically led to a sharp rise in the energy subsidy bill as Oil Marketing Companies (OMCs) continue to absorb the government's losses. Indian Oil Corporation, Bharat Petroleum Corporation Ltd and Hindustan Petroleum Corporation Ltd accumulated under-recoveries on fuel totalling INR67,900crore as of end-September[2]. We still, however, forecast modest fiscal slippage of 0.2% of GDP for FY27 based on higher expenditure needs with LPG and fertilizer subsidy costs rising, unable to be offset by newer revenue sources.

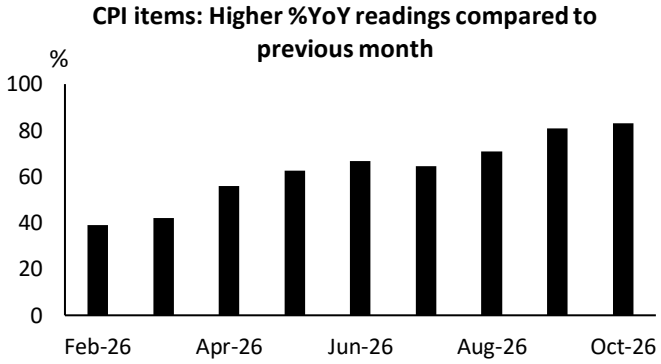
Inflation is likely to prove stickier in 2027

The inflation outlook is becoming more challenging. We expect headline CPI inflation at around 5.3% in FY27, compared with RBI's projection of 5.2%. The direction and breadth of price pressures is, however, telling of food, energy and broader supply-side pressures becoming increasingly converging. Headline CPI had already risen to 6.1% in October from 5.5% YoY in September, while higher oil prices, deficient rainfall and El Niño conditions increase the risk that food and energy inflation remain elevated into 2027. Indeed, nearly

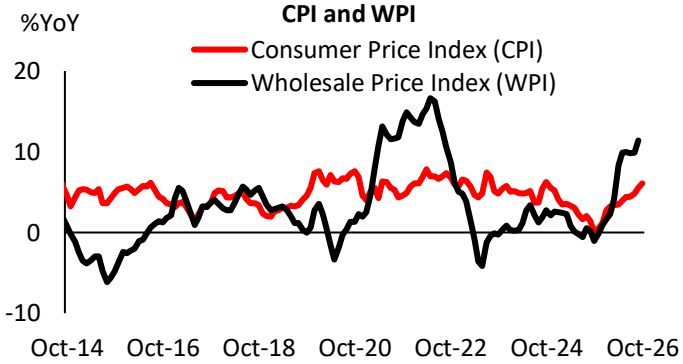
[1] If equity investments are sold within a year, a short-term capital gains (STCG) tax of 20% applies.
[2] IOC, BPCL, HPCL clock Rs 30,106 cr Q2 profit, nearly 39 pc of last year's annual earnings, The Economic Times, 1 November 2026.

India

83% of items in the CPI basket saw a higher % YoY reading in October compared to September. The broadening of inflationary pressures will keep the RBI vigilant, broadly cementing the case for a 25bp hike at its 4 December meeting.



Source: CEIC; OCBC Group Research.



Source: CEIC; OCBC Group Research.

Producer and wholesale prices have also risen much more sharply than consumer prices, suggesting some pipeline pressures remain. The relatively limited pass-through of higher global oil prices into retail inflation so far partly reflects that the adjustment has been absorbed through fuel-price management and quasi-fiscal mechanisms. This delays some of the inflation transmission but shifts pressure onto corporate, fiscal and external balance sheets. The risk for 1H27 is that persistent cost pressures eventually produce broader second-round effects.

We expect headline CPI inflation to ease in FY28, albeit gradually. We forecast headline CPI inflation at 5.1% in FY28, from 5.3% in FY27. Food-price pressures should moderate as the impact of El Niño dissipates, while the lagged impact of tighter monetary policy can help contain demand-side pressures. However, we do not expect inflation to return sustainably to the 4% target until end-FY28 despite base effects becoming more favourable from the quarter of April-June 2027 as energy-price volatility and the potential second-round effects from elevated input costs continue to pass-through onto headline CPI.

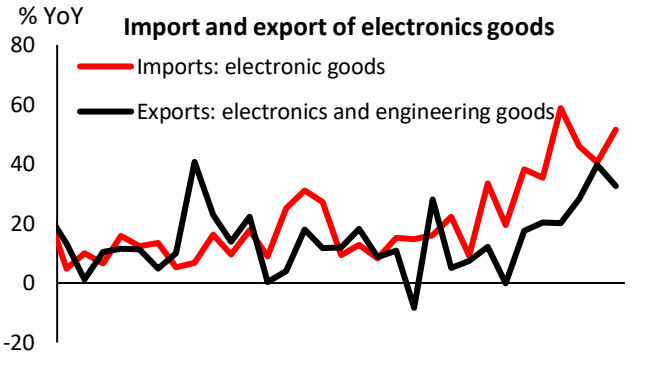
External balances become the bigger constraint

We expect these pressures to ease significantly in FY28, with the current account deficit narrowing to 0.8% of GDP from 2.1% in FY27. Strong investment and manufacturing-led demand remains relatively import intensive, notably in capital goods and electronics components, while high oil prices are inflating the import bill. Lower gold imports have been a drag on imports as lower global prices and reduced import volumes help tame gold demand.

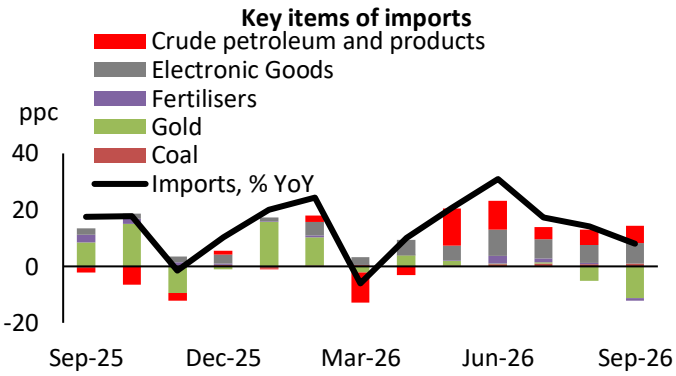
With global oil prices likely to fall on account of more favourable base effects starting March 2027, we expect an improvement in the terms of trade for petroleum products. This will help narrow the current account deficit into FY28. The impact of AI on the services sector remains a key source of disruption that we are closely monitoring. The services surplus stood at USD19.2bn in September from USD16.5bn in August, helping offset to some extent

India

the wider goods trade deficits of USD29.6bn and USD30.2bn in August and September, respectively.



Source: CEIC, OCBC Group Research.



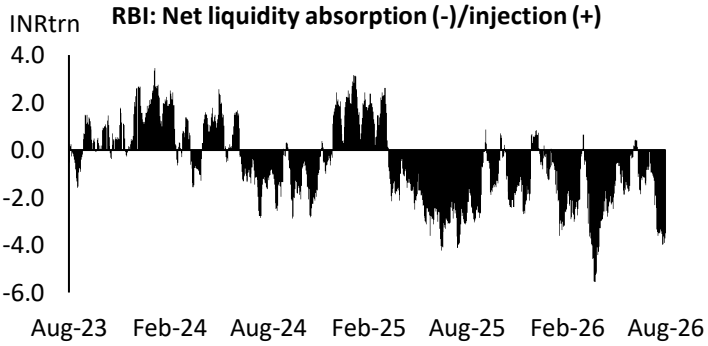
Source: CEIC, OCBC Group Research.

Liquidity conditions

The currency has been subject to sharper swings in FY27 on account of headline gyrations and volatile oil prices. INR appreciated ~1% against the USD since the start of April 2026 through to 16 November. However, this relatively flat point-to-point change masks sharper moves, especially in April–July 2026. Following its 5 June meeting (see RBI on hold; authorities unleash FX support, 5 June 2026), the RBI reopened a special USD-INR swap facility for FCNR(B) deposits, ECBs and OFCBs on 8 June. Total inflows reached USD143.6bn as of 18 September, of which FCNR(B) deposits accounted for USD133bn. This helped rebuild FX reserves and contain depreciation pressure at a time when US dollar demand remained high, particularly from August.

Forex inflow					
USDmn	**17-Jul-26**	**31-Jul-26**	**13-Aug-26**	**21-Aug-26**	**18-Sep-26**
FCNR(B) Deposits	17406	36725	52300	65397	132980
OFCBs	1970	2575	2805	4860	5320
ECBs	1342	1516	1740	2591	5296
Total	20718	40816	56846	72848	143596

Source: RBI, OCBC Group Research.



Source: CEIC, OCBC Group Research.

The side effect, however, was a flush of domestic liquidity, as the RBI's dollar purchases under the swap injected rupee liquidity that was not fully sterilised. Overall, daily average net absorption under the LAF was INR1.9lakh crore (as of 8 Nov), INR2.4lakh crore for October compared to INR7.8 lakh crore in September.

India

RBI: the tightening cycle has further to run

We expect the policy rate to reach 6.00% by end-FY27 and remain on hold through FY28. The first 25bp hike was delivered in October, and we expect another cumulative 50bp during the remainder of FY27, with risks skewed towards more rather than fewer hikes. That said, we do not expect a sharp tightening cycle, and neither do we anticipate a quick reversal of the cycle.

With growth at 6.8% and inflation still averaging 5.1%, the real policy rate should remain positive without requiring further tightening. RBI can therefore afford to remain patient and assess whether the earlier tightening has sufficiently contained inflation and external pressures.

Summary of Economic Forecasts	FY23	FY24	FY25	FY26	FY27F	FY28F	FY29F
GDP (% YoY)	7.6	7.3	7.2	7.8	7.2	6.8	6.5
Goods and services exports (% YoY)	2.4	0.3	1.1	1.4	2.1	2.2	1.9
Goods and services imports (% YoY)	2.3	0.0	1.4	1.1	1.1	2.2	2.3
Current Account Balance (% of GDP)	-2.1	-0.7	-0.6	-0.7	-2.1	-0.8	-0.7
Fiscal Balance (% of GDP)	-6.4	-5.6	-4.8	-4.4	-4.3	-4.1	-4.0
Headline CPI (% YoY)	6.7	5.4	4.6	2.1	5.3	5.1	5.1
RBI repo rate (% eop)	6.50	6.50	6.25	5.25	6.00	6.00	5.50

Source: RBI, MoSPI, Ministry of Finance, CEIC, Bloomberg, OCBC. F = forecasts from OCBC. FY26 will year ending March 2026.

Indonesia

Indonesia: Testing times

Lavanya Venkateswaran
Senior ASEAN and India Economist

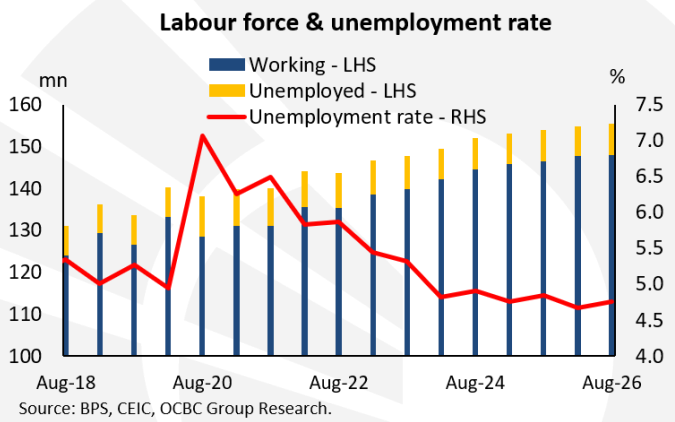
Ahmad A Enver
ASEAN Economist

- We expect GDP growth to moderate to 5.0% in 2027 from 5.4% in 2026, reflecting slowing domestic demand conditions.
- We expect headline CPI inflation to remain sticky at 3.0% in 2027 from 3.3% in 2026, with risks skewed to the upside from food, energy and currency pressures. This will be within Bank Indonesia's (BI) 1.5-3.5% forecast range.
- We expect another 25bp rate hike from BI at its 16 December meeting, with BI likely to remain on a prolonged pause through 2027.

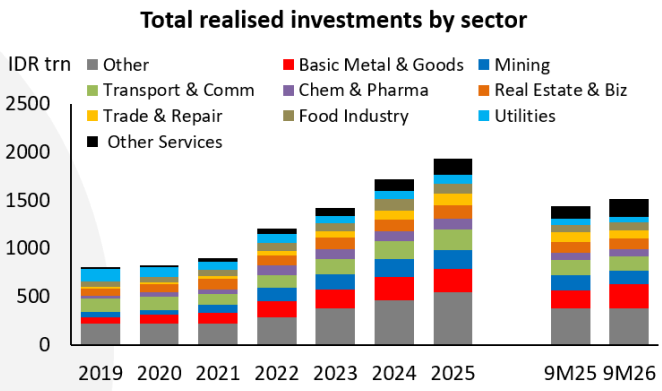
Domestic demand sustains growth

We expect GDP growth of 5.0% in 2027 from 5.4% in 2026 driven by moderating domestic demand conditions. Despite the cautious macroeconomic headlines, the growth outlook has remained resilient in 2026. GDP growth was 5.5% YoY in 3Q26, bringing the average to 5.5% YoY for the first nine months of the year.

Stable household consumption growth will likely be supported by steady employment conditions and wage growth. Government spending could moderate slightly on account of planned fiscal consolidation while an expected moderation in global commodity prices could pose drags for government consumption spending and exports, respectively. Furthermore, the implementation of a new export structure through Danantara Sumber Daya Indonesia (DSI), expected in early 2027, could also impact commodity exports. Manufacturing exports did not benefit as much from the robust global E&E cycle in 2026 compared to regional peers such as Vietnam, Malaysia and Singapore, limiting the downside into 2027 as the semiconductor cycle normalises.



Source: BPS, CEIC, OCBC Group Research.



Source: BKPM, CEIC, OCBC Group Research.

Investment spending, meanwhile, could remain bolstered by government flagship programs, digital infrastructure investment and capital deployment by Danantara. That said, MSCI's decision on whether Indonesia will be downgraded to a 'Standalone' status

Indonesia

remains a major overhang. A downgrade will likely trigger capital outflows and weigh on near-term investment sentiment, particularly for the private sector and retail equity investors.

On FDI, BKPM reported investment realisation of IDR528.7trn in 3Q26, up 7.6% YoY, with downstream industries accounting for around 34% of the total. Continued work on processing facilities and associated infrastructure should sustain construction and equipment demand. Investment lending also grew 23.2% YoY in September, indicating continued financing activity, although project execution will determine the resulting increase in productive capacity. Digital infrastructure offers scope to broaden investment beyond commodity processing.

Fiscal support faces competing demands

We expect fiscal slippage of 0.3% of GDP in 2027, taking the deficit to 2.7% of GDP against the official target of 2.4%. This remains below the 3% legal ceiling and implies only modest consolidation against the government's estimated 2026 deficit of 2.85% of GDP. Fiscal policy should therefore continue supporting activity, with limited scope for an additional spending acceleration.

Accounts (IDR Trn, unless stated otherwise)	2026		2027	%YoY	2025	2026	2027
	Budget	Outlook	Budget		Realised	Outlook	Budged vs 2026 Outlook
Government Revenue and Grant	3,153.6	3,208.1	3,435.1		-3.0	16.0	7.1
Domestic Revenue	3,152.9	3,206.5	3,425.4		-2.0	16.2	6.8
Tax	2,693.7	2,631.4	2,911.9		-0.6	18.6	10.7
Non-tax	459.2	575.1	522.5		-7.3	6.2	-9.1
Grant	0.7	1.5	0.7		-84.2	-72.4	-56.0
Government Expenditure	3,842.7	3,942.4	4,106.3		2.3	14.8	4.2
Central Government	3,149.7	3,245.5	3,362.2		3.6	25.5	3.9
Transfer to regions	693.0	696.3	735.0		-0.7	-11.6	5.6
Government Deficit or Surplus	-689.1	-734.3	-671.2				
% GDP	-2.68	-2.85	-2.40				

Source: Ministry of Finance, Various news sources, CEIC, OCBC Group Research.

The approved budget allocates IDR4,106.3trn to spending and targets revenue of IDR3,435.1trn. Spending is set to rise 4.2% over the 2026 outlook, while revenue is projected to increase 7.1%. This follows expenditure growth of 19% YoY through September 2026. The comparison points towards slower spending growth, although the effect on GDP will depend on actual execution and the balance between procurement, investment, transfers and subsidies.

Revenue delivery and energy costs remain key risks to the budget. The government's 6.0% growth assumption exceeds our forecast, leaving revenue targets vulnerable if activity disappoints. Annual GDP growth was last at 6% in 2012. The budget also assumes an Indonesian Crude Price of USD75 per barrel. Sustained oil prices above that level, particularly alongside a weaker rupiah, could increase subsidy and compensation costs if

Indonesia

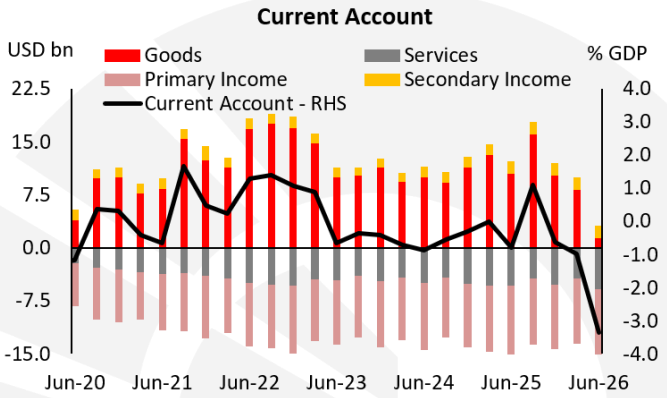
domestic prices are held steady. Higher commodity-related revenue would provide some offset.

Current account deficit to stabilise, but portfolio outflow risks remain

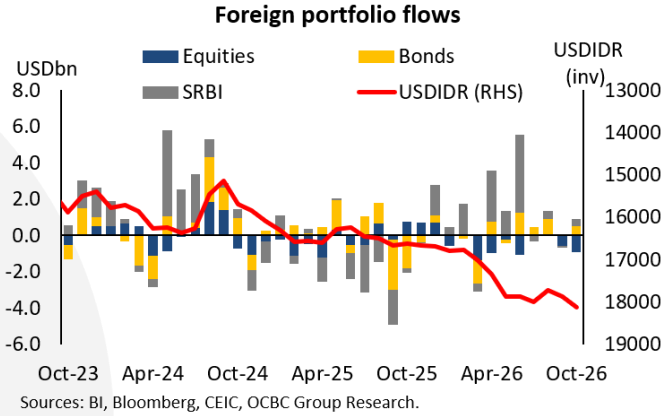
We expect the current account deficit to remain at around 1.6% of GDP in 2027, similar to 2026. Easing energy costs should help contain the oil import bill, although investment-related imports are expected to remain firm while exports are likely to slow as terms of trade for commodity exports turns more unfavourable.

Meanwhile, the outlook for the capital and financial account remains uncertain, with market governance concerns and MSCI's classification review likely to keep equity flows volatile. Equity outflows continued into October offset to some extent by inflows into government securities and SRBI, highlighting differences in investor appetite across asset classes. We expect BI to make step up support for fixed income flows should a downgrade from MSCI materialise to prevent the balance of payments from coming under significant pressure. Indeed, BI provided additional incentives on FX swaps and DNDF instruments to attract inflows in 2H26, with BI raising the incentives for DNDF transactions from 25% to 40% for a six-month tenor and from 30% to 45% for a 12-month tenor at its latest meeting on 21 October (see *Indonesia: Bank Indonesia fires many bullets*, 21 October 2026). Furthermore, domestic political uncertainty could also weigh on investor appetite from time to time.

While foreign exchange reserves stood at USD146.8bn (equivalent to 5.3 months of imports) at the end of October 2026, a sharp bout of capital outflows can stress the reserve position particularly once the position on the forward book of USD32.3bn is taken into account.



Source: Bank Indonesia, CEIC, OCBC Group Research.



Sources: BI, Bloomberg, CEIC, OCBC Group Research.

MSCI's consultation on possible reclassification from Emerging Market to Standalone Market status creates uncertainty through 1H27. Feedback closes on 30 April 2027, with a decision due on or before 30 June. Indonesia retains its Emerging Market status during the consultation. Eventual reclassification could lead to benchmark-related selling, while investors may adjust exposure beforehand. Consistent implementation of ownership disclosure and market governance reforms would help confidence.

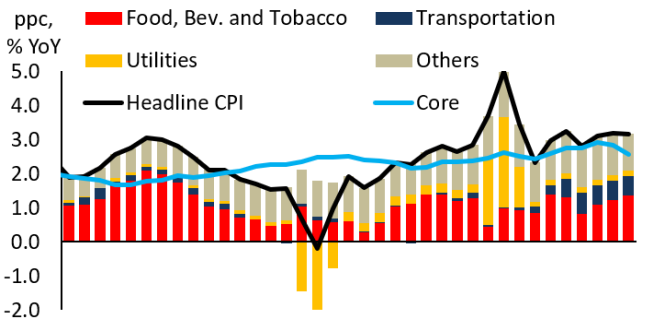
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Inflation should ease in 2027, with risks skewed to the upside

We forecast average headline inflation of 3.3% in 2026 and 3.0% in 2027. Headline CPI eased to 3.2% YoY in October from 3.3% in September, but volatile food inflation accelerated to 5.8% from 5.0%. Food, beverages and tobacco inflation rose to 4.8% from 4.4%, contributing 1.5pp to headline inflation, while transportation inflation also edged higher to 4.9% from 4.8%. Softer gold jewellery prices partly explained the easing in personal care and other services inflation (4.5% from 7.8%), meaning that the moderation in headline inflation masks continued pressure on household food and transportation costs.

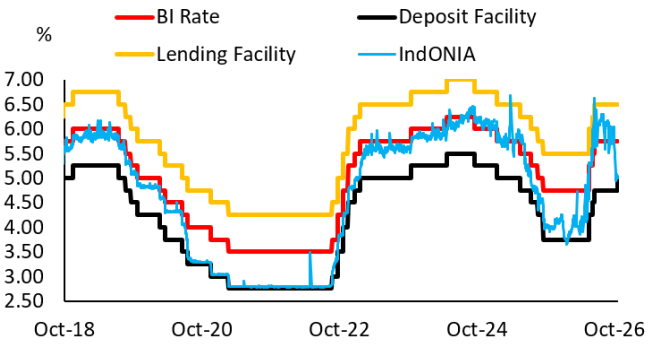
Our forecast assumes food and energy cost pressures moderate without a large adjustment to administered prices. The annual CPI print should also benefit from the absence of the electricity-tariff base effects that lifted inflation in early 2026. However, food disinflation could be uneven, as the Meteorology, Climatology, and Geophysical Agency (BMKG) expect El Niño to persist into early 2027, with a delayed rainy season posing risks to crop supply. Renewed energy price increases or rupiah depreciation could also add to inflation.

Drivers of CPI



Source: BPS, CEIC, OCBC Group Research.

Indonesia: Policy corridor



Source: BI, CEIC, OCBC Group Research.

BI balances stability and credit support

We expect one further 25bp BI rate hike to 6.00% in December 2026 and expect it to remain unchanged through 2027. The stronger-than-expected 3Q26 GDP outturn gives BI greater room to prioritise exchange rate stability. Headline inflation also remains close to the upper bound of its 1.5%-3.5% target range, with persistent food price pressures warranting caution. Lower inflation and a narrower current account deficit would ease some policy pressures, but volatile portfolio flows and elevated US yields could keep external stability central to monetary policy.

BI's October decision illustrates its preference for using several instruments. It held the policy rate at 5.75%, raised the deposit facility rate to 5.00%, and announced phased reserve requirement reductions alongside revised liquidity incentives. It also strengthened DNDF hedging incentives and extended accommodative property and vehicle financing settings through 2027. These measures seek to support credit growth while attracting foreign flows. However, their attractiveness, alongside progress on market governance

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reforms, will influence the balance between domestic credit support and rupiah stability in 2027.

Summary of Economic Forecasts	2023	2024	2025	2026F	2027F	2028F
GDP (% YoY)	5.0	5.0	5.1	5.4	5.0	5.1
Exports (% YoY)	1.7	6.9	7.0	3.7	6.9	6.0
Imports (% YoY)	-1.2	8.1	4.8	7.2	8.1	7.3
Current Account Balance (% of GDP)	-0.1	-0.6	-0.1	-1.6	-1.6	-1.6
Unemployment Rate (% aop)	5.3	4.9	4.8	4.8	4.8	4.8
Fiscal Balance (% of GDP)	-1.6	-2.3	-2.6	-2.9	-2.7	-2.7
Headline CPI (% YoY)	3.7	2.3	1.9	3.3	3.0	2.5
BI Rate (% eop)	6.00	6.00	4.75	6.00	6.00	5.50

Source: OCBC Group Research.

Macao

Macao: The dual challenges

Cindy Keung
Hong Kong and Macao Economist

- Looking ahead to 2027, the growth outlook should become somewhat more constructive as some of 2026's headwinds fade, though the pace and breadth of recovery will continue to depend heavily on external demand and the regulatory backdrop governing cross-boundary capital flows. With the one-off demand disruptor out of the way, we expect real GDP growth to come in at around 4.0%, up from the estimate of 3.2% in 2026.
- We expect the weakness in the labour market to linger in coming quarters, amid a less upbeat near-term economic outlook, and forecast the full-year unemployment rate at 1.9% for 2026 and 2027 respectively. Separately, the lack of second-round effect and the fading boost from energy cost should cap the upside to inflation reading. We forecast full-year inflation at 1.2% and 1.0% for 2026 and 2027.
- We tip the year-on-year growth of gross gaming revenue at 3.0% and 4.5% respectively for 2026 and 2027, with policy and regulatory developments in Mainland China remaining a wildcard for the outlook of the gaming sector. On the other hand, visitor arrivals continued to hold up. We revise the 2026 full-year arrivals growth forecast to 5-8% YoY, and expect the growth next year to come in at 3-6% YoY.

The dual challenges: external headwinds and limited growth diffusion

Macao's economic recovery lost momentum from 2Q26 onwards, with a broad range of indicators showing signs of renewed weakness amid external headwinds. Chinese authorities' latest efforts to stem capital outflows and tighten controls on overseas investment, together with the FIFA World Cup temporarily diverting foot traffic away from casinos, weighed on the gaming sector and Macao's externally oriented economy. Added to that, weakening consumption sentiment in Mainland China and the higher interest rate environment cast a long shadow on domestic demand. Strong external demand has lifted headline growth without generating commensurate increases in capital expenditure or consumer demand, leaving Macao with an imbalanced recovery. In the longer run, weak growth diffusion will reinforce existing structural concentration and increase structural vulnerability to external and sector-specific shocks.

2026 forecast downgraded; 2027 upgraded

The myriad of headwinds prompted a broad-based downward revision to our forecasts for 2026, including GDP growth, gross gaming revenue (GGR), and unemployment rate. That said, the non-gaming tourism sector remained a source of resilience, with the visitor arrivals continuing to hold up. Another silver lining may lie in the housing market, where we see moderating downside risks. The housing market should therefore become less of an incremental drag on domestic demand, although a strong rebound in prices appears unlikely

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absent a more meaningful improvement in underlying demand. Looking ahead to 2027, the growth outlook should become somewhat more constructive as some of 2026's headwinds fade, though the pace and breadth of recovery will continue to depend heavily on external demand and the regulatory backdrop governing cross-boundary capital flows. A sustained rebound in private investment would be important for broadening growth. As a result, while growth conditions could improve sequentially, we expect the recovery to remain uneven rather than evolving into a broad-based acceleration.

Economy losing momentum since 2Q26

Macao's economic growth slowed noticeably to 0.5% YoY and 0.1% YoY in 2Q26 and 3Q26 respectively, after a strong start of 8.3% YoY in 1Q26. For the first three quarters combined, the economy grew by 2.9% YoY. The composition of growth was still highly uneven. Exports of services remained the principal growth engine (+3.5% YTD), although momentum had moderated. On the other hand, gross fixed capital formation (+4.6% YTD) grew in a steady pace, amid delivery of non-gaming investment, while the recovery in private consumption (+2.7% YTD) remained constrained **(Chart 1)**. We revise our 2026 real GDP growth forecast lower to 3.2%, from 4.0% previously. As for 2027, with the one-off demand disruptor out of the way, we expect real GDP growth to come in at around 4.0%.

Persistently weak growth diffusion

The continued divergence between buoyant tourism activity and subdued domestic demand suggests a relatively weak growth diffusion effect. Visitor spending remained concentrated in selected tourism-facing segments, while softer income expectations, the housing market downturn and subdued credit appetite constrained the transmission of tourism receipts into broader household consumption and business investment. Macao's housing loans and personal loans peaked in early-2022 and mid-2023 respectively, suggesting that household deleveraging is underway. While the share of non-performing loans had largely stabilized following the recent uptick, property-related NPLs stayed elevated. The delinquency ratio of residential mortgage and commercial real estate loans stood at 4.4% at end-Aug, amid the ongoing correction in commercial and office property markets.

Weakness in the labour market to linger

The labour market saw broad-based weakness, with the unemployment rate inching higher across sectors, while the median employment income of residents levelling off from record high. The overall unemployment rate and local resident unemployment rate returned to one-year highs, at 2.0% and 2.5% respectively in the three-month ending Aug, before retracing slightly lower in Sep. We expect the weakness in the labour market to linger in coming quarters, amid a less upbeat near-term economic outlook, and forecast the full-year unemployment rate at 1.9% for 2026 (up from 1.8% previously) and 2027 respectively.

Further runway for cost-push inflation

Inflation has stayed fairly anchored so far in 2026, despite the visible pass-through of higher energy costs to selected consumer items. This can be attributed to the still modest cost pressures of housing and food components within the CPI basket, as well as the rollout of the fuel subsidy scheme in mid-May. In the first nine months of 2026, the composite CPI

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increased by an average of 1.2% YoY. Looking ahead, with the expiry of two-month fuel relief scheme and still elevated oil prices, we expect the price pressures to accelerate in the coming months. That said, the lack of second-round effect and the fading boost from energy cost should cap the upside to inflation reading in 2027. All in all, we forecast full-year inflation at 1.2% and 1.0% for 2026 and 2027.

Another round of regulatory crackdown

The Chinese authorities stepped up efforts to stem capital outflows and tighten controls on overseas investment since mid-26, sending shockwave through Macao's gaming sector. As with previous episodes of regulatory clampdown, sentiment among high-rollers was hammered. Added to that, the FIFA World Cup (mid-Jul to mid-Aug) coincidentally diverted foot traffic away from casinos. As a result, growth of GGR (averaging MOP20.9bn per month) in the first ten months of 2026 slowed to 1.6% YoY **(Chart 2)**. Based on the historical pattern **(Table 1)**, the crackdown is likely to have a prolonged impact on performance of the VIP segment, but impact should be milder this round given the low base.

Against this backdrop, we expect growth of GGR to stay relatively subdued in the coming months against last year's higher base. Further increases should be driven mostly by the mass-market segment, which is expected to see steady but mild organic growth. We tip the year-on-year growth of GGR at 3.0% and 4.5% respectively for 2026 and 2027, with policy and regulatory developments in Mainland China remaining a wildcard for the outlook of the gaming sector.

Table 1: Gaming sector-related metrics in the pre- and post-crackdown period

Metric	Pre-crackdown	Post-crackdown	
	2019	2022-2024	Aug -Sep 2026
VIP (MOP bn; monthly)	24.4	12.6	20.5
VIP share of total GGR	46%	24%	-
Overall GGR recovery	Baseline	64%	84%
VIP segment recovery	Baseline	42%	-
Number of licensed junkets	~90+	~36	~29

Sources: DICJ, OCBC Group Research.

Non-gaming tourism sector remained a source of resilience

Visitors arrivals continued to hold up, despite the challenges of weak consumption sentiment in Mainland China. Visitor arrivals rose by 8.5% YoY in the first nine months of 2026 to 32.2 million, putting them on track to meet the official forecast of 42 million in 2026. The city registered a record 1.14 million visitor arrivals during the Golden Week holiday. with the higher visitor arrivals, more than offset the impact from lower per-capita spending (excluding gaming expenses) **(Chart 3)**, and total tourists' non-gaming spending continued to see solid gain (+13.3% YoY in 3Q26). Based on the ongoing trend, we revise the 2026 full-year arrivals growth forecast to 5-8% YoY, and expect the growth next year to come in at 3-6% YoY.

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Moderating downside risk in the housing market

The residential property segment showed tentative signs of stabilization in early 2Q26, before retracing lower **(Chart 4)**. The recovery was largely selective, concentrated in the lower-priced segment with stronger end-user demand, while a broader recovery was hindered by structural challenges (i.e. modest population growth and low rental yields). The housing price downtrend resumed more recently, as homebuyers turned more cautious amid higher interest rate expectations and heightened external uncertainties. The official residential property price index fell 4.7% QoQ in 3Q26, more than erasing the gain of 1.9% in 2Q26. In the first three quarters of 2026, the official property price index fell by a cumulative 4.4%. While the recent corrective cycle of the housing market had yet to end, further downside risks may be moderating given the downward move thus far and the removal of all cooling measures. We expect housing prices to decline by a moderated 5.0% YoY and 2.0% YoY respectively in 2026 and 2027, as compared to YoY decrease of 7.3% in 2025.

Chart 1: Losing growth momentum since 2Q26

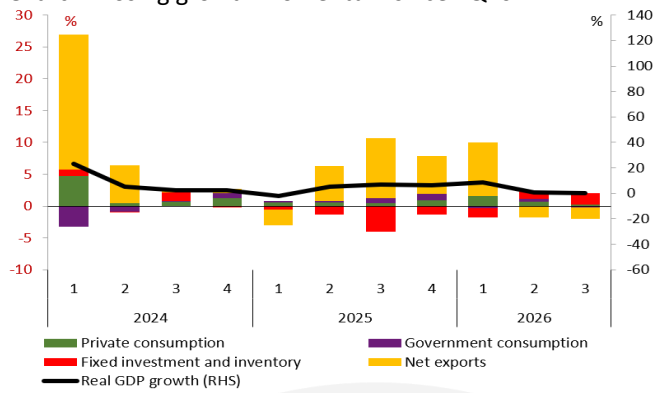


Chart 2: Growth of GGR slowed

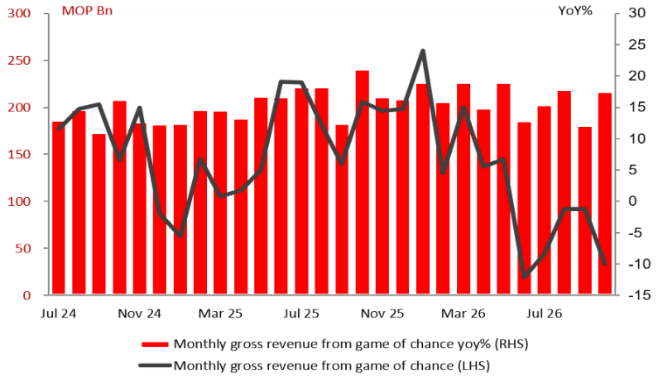


Chart 3: Milder increase in non-gaming spending

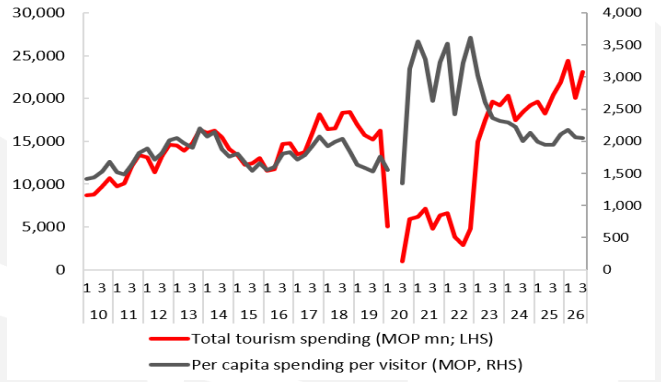
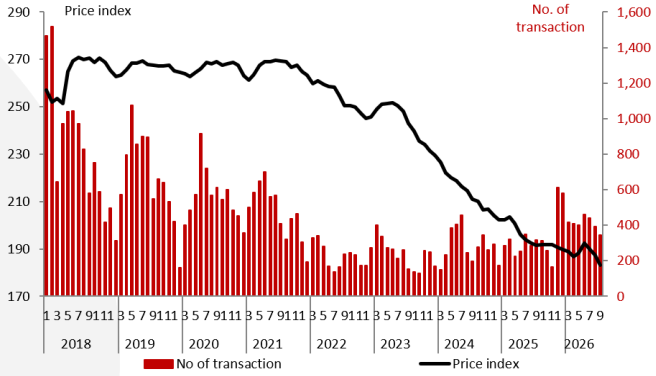


Chart 4: Housing price downtrend resumed



Sources: DSEC, DICJ, AMCM, OCBC Group Research.

Malaysia

Malaysia: Constructive outlook in an election year

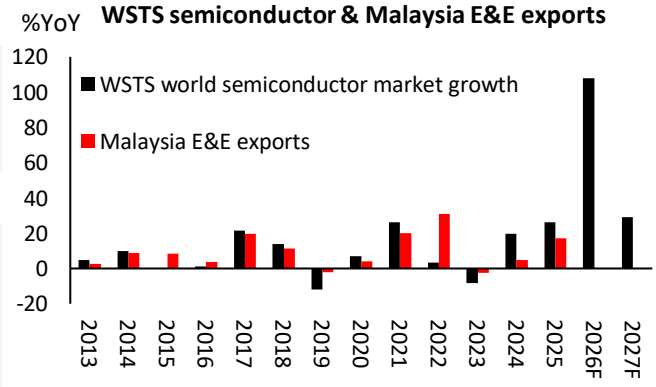
Lavanya Venkateswaran
Senior ASEAN and India Economist

- The Malaysian economy enters 2027 from a position of strength. We forecast resilient real GDP growth of 4.8% YoY in 2027 compared to 5.2% in 2026.
- Inflation has been remarkably benign despite stronger growth and elevated external cost pressures. We lowered our 2026 average headline inflation forecast to 1.9% but nevertheless expect it to rise modestly to 2.1% in 2027.
- That trade-off becomes more acute in an increasingly political 2027. National elections must be held before February 2028, but an earlier election remains a material possibility. The key issue is likely to be policy continuity, which remains our baseline.

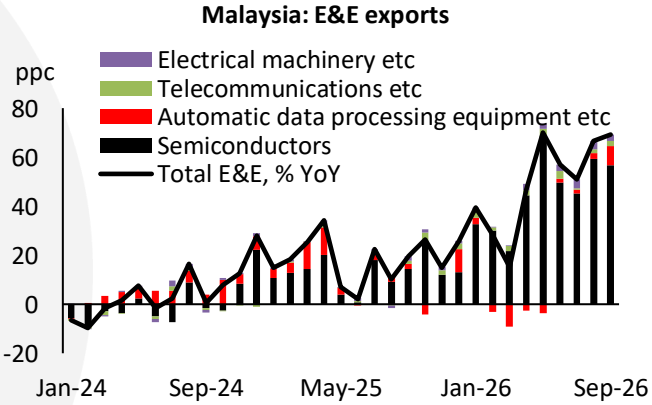
Strong growth momentum heading into 2027

The Malaysian economy enters 2027 from a position of strength. GDP growth averaged 5.5% YoY in the first three quarters of 2026, with growth of 5.3% in 3Q26 following 6.0% in 2Q26. The composition has also remained reasonably broad, although the external sector has provided an increasingly important impulse.

We expect some normalisation from these strong rates but still forecast resilient real GDP growth of 4.8% YoY in 2027. The World Semiconductor Trade Statistics forecasts that semiconductor export growth will be strong at 29% YoY in 2027, albeit moderating from 108% in 2026. Indeed, the electronics upcycle has been an important pillar of growth. Goods exports rose by 54.5% YoY in September, led by a 69.2% rise in E&E exports, with strength also evident across optical and scientific equipment, petroleum products and other export categories. Importantly, export growth has also been geographically broad, encompassing the US, Mainland China and Hong Kong SAR, India, South Korea and Taiwan.



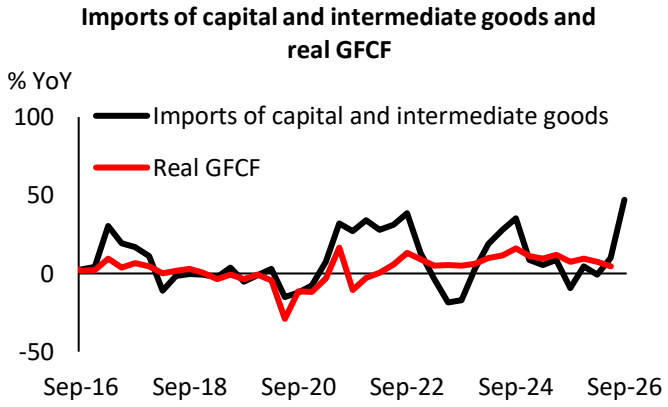
Note: The 2026 forecasts are from WSTS world semiconductor market growth and OCBC forecasts. Source: WSTS; OCBC Group Research.



Source: DOSM, OCBC Group Research.

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The surge in imports alongside exports is noteworthy. Imports increased by 52.7% YoY in September, including a 69.9% rise in intermediate goods imports and still-strong capital goods imports. This partly reflects Malaysia's position within electronics supply chains rather than simply stronger final domestic demand. At the same time, elevated capital and intermediate goods imports are consistent with ongoing investment activity.



Source: CEIC, OCBC Group Research.

Key infrastructure projects	Expected cost, MYRbn	Tentative completion date
East Coast Rail Link (ECRL)	50.27	Jan 2027 (Gombak to Kota Bharu); Jan 2028 (Port Klang to Gombak)
Regasification Terminal 3 (RGT 3)	n.a.	n.a.
Electricity grid Sarawak to Peninsular Malaysia	n.a.	Pre-feasibility study completed (as of Oct '25)
Westports 2 container terminal	39.6	2028 (CT10); full project 2040
Elevated Autonomous Rapid Transit (E-Art) in Iskandar Johor Baru	7.0	Phased roll outs in 2026 and 2027
Penang Pearl Light Rail Transit	16.8	2025-31
Widening of PLUS highway for Senai Utara-Machap, Johor and Juru-Sg Dua, Penang	0.9	2028; 2030
Upgrading Tok Bali, Kelantan port	n.a.	Feasibility study phase
Upgrading Sepanggar, Sabah port	0.9	2026
Hospitals - Sultanah Aminah 2 JB, Cancer Centre Sg Petani	n.a.	Construction expected to start 2026
Third terminal: Carey Island	28	2060
Affordable housing and housing in Kota MADANI	1.2	2026-35
Water catchment-water treatment-flood mitigation plant - Sg Klang to Sg Rasau Selangor	5.6	2031

Source: 13th Malaysia Plan, Channel News Asia, Malaysian Reserve, Bernama, The Star, OCBC Group Research.

Beyond the cyclical electronics boost, we remain constructive on investment. Budget 2027 reinforces the government's continued emphasis on semiconductors, advanced manufacturing, digitalisation and the green transition despite increasing political and cost-of-living pressures. In addition, Budget 2027 extends accelerated capital allowances for machinery, ICT equipment and software until 2030, maintains investment tax allowances of up to 100% for green technology and EV-charging investments, and includes a MYR100mn strategic investment fund for semiconductor and advanced-manufacturing firms in Penang. At the same time, MYR15bn of grid investment by TNB should help address rising electricity demand and support the energy transition. These initiatives should help sustain Malaysia's investment cycle while gradually increasing the economy's exposure to higher-value-added manufacturing and digital activity.

Inflation to rise, but not become problematic

Inflation has been remarkably benign despite stronger growth and elevated external cost pressures. Headline CPI eased to 1.8% YoY in September, while core CPI stood at 1.7%. We have consequently lowered our 2026 average headline inflation forecast to 1.9%. We nevertheless expect inflation to rise modestly to 2.1% in 2027. The combination of resilient domestic demand, higher energy-related costs and some pass-through from upstream pressures should generate a gradual increase in inflation. There is also a domestic wage channel to watch. Budget 2027 raises the minimum wage from MYR1,700 to MYR2,000 from June 2027, which could add some pressure to labour-intensive services costs, although the broader evidence to date does not point to a wage-price spiral.

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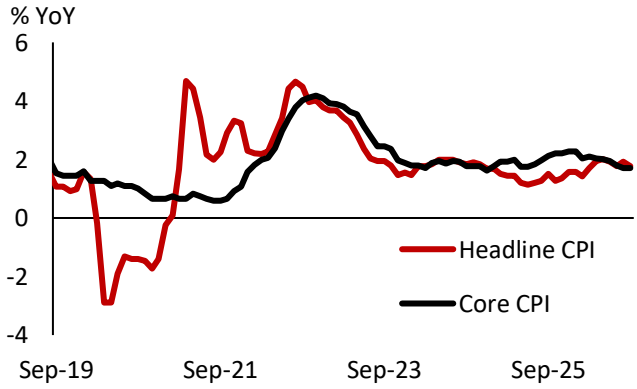
BNM: normalisation rather than the start of a hiking cycle

This growth-inflation mix supports our call for Bank Negara Malaysia to normalise monetary policy. Our baseline remains for a 25bp increase in the OPR from 2.75% to 3.00% in January 2027, although the November 2026 meeting has become a close call given the strength of recent activity and export data.

The shift in BNM's communication is important. The central bank has become more confident about the resilience of growth into 2027 while simultaneously signalling greater vigilance over cost pressures. It also deliberately removed the word "appropriate" from its description of the monetary-policy stance in September to afford the MPC greater flexibility. At the same time, BNM has acknowledged that wage pressures remain contained and that the close-to-neutral output gap does not by itself necessitate policy intervention.

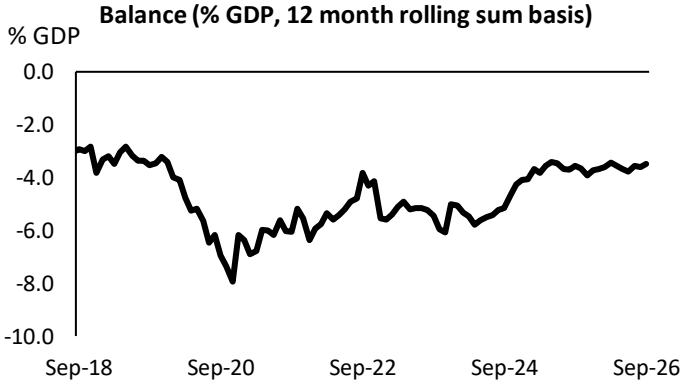
We therefore view the prospective move to 3.00% as policy normalisation rather than the beginning of an aggressive tightening cycle. This distinction is important. The economy is resilient enough to accommodate a modestly higher policy rate, but an inflation backdrop around 2% does not warrant a sustained series of hikes.

Headline and core inflation



Source: DOSM, CEIC, OCBC Group Research .

Central Government Operations: Overall Balance (% GDP, 12 month rolling sum basis)



Source: CEIC, OCBC Group Research.

Fiscal consolidation will remain challenging

Budget 2027 targets a narrowing of the federal government deficit to 3.3% of GDP from 3.6% in 2026. However, we expect 0.2-0.3ppt of fiscal slippage, leaving the deficit closer to 3.5-3.6% of GDP.

There are pressures on both sides of the fiscal equation. The government expects revenue to rise by 4.7%, supported by nominal GDP growth, improved tax administration, e-invoicing and Petronas dividends of MYR32bn. However, household and SME tax concessions will temper revenue growth and the reliance on commodity-related revenues remains material.

More importantly, expenditure demands remain difficult to compress. Subsidies and social assistance are budgeted at MYR72.7bn, only marginally below the revised MYR74.5bn estimate for 2026. Cash assistance through STR-SARA increases to MYR16bn and fuel

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subsidies remain sizeable. Emoluments, pensions and debt-service costs also continue to rise structurally.

The government's crude-oil assumption of USD85/bbl is therefore important. Higher oil prices benefit petroleum-related revenues but simultaneously increase subsidy costs. Previous Ministry of Finance sensitivities suggest that a USD1/bbl increase in oil prices adds around MYR300mn to revenue but MYR400-500mn to subsidy expenditure. Higher oil prices are therefore, on balance, negative for the fiscal position before additional Petronas dividends.

Although we expect slippage, we do not view it as destabilising. Federal government debt was 63.1% of GDP at end-June 2026, while Malaysia continues to benefit from a substantial domestic institutional investor base. The issue for 2027 is therefore less one of fiscal sustainability than the increasingly difficult trade-off between consolidation, cost-of-living support, development expenditure and political priorities.

Politics moves increasingly into the macro picture

That trade-off becomes more acute as Malaysia moves closer to the next general-election window. National elections must be held before February 2028, but an earlier election remains a material possibility. Recent state election results have already increased pressure on the government to remain attentive to household concerns, particularly the cost of living.

State	Assembly dissolved	Polling day	Status	Result / previous result
Johor	01-Jun-26	11-Jul-26	Held	BN landslide, winning 48 out of 56 seats.
Negeri Sembilan	05-Jun-26	01-Aug-26	Held	BN won 18 seats; PH got 11 while PN secured 7 seats.
Melaka	23-Sep-26	16-Nov-26	Held	BN and PN together won 24 of 28 seats; PH got 4 seats (-1 compared to the 2021 elections)
Sarawak	26-Oct-26	12-Dec-26	Upcoming	Due by 2027.
General election (GE16)		Due by early 2028		Last held 19 Nov 2022. Parliament must be dissolved by 19 Dec 2027.

Source: The Star; Edge Malaysia; OCBC Group Research.

The key issue is likely to be policy continuity rather than simply the election date. The government continues to balance near-term domestic priorities with its medium-term economic transformation agenda. So far, the evidence suggests that the latter remains intact, particularly around semiconductors, advanced manufacturing, digitalisation, grid infrastructure and the green transition.

Our 2027 Malaysia view is consequently constructive on growth but more nuanced on the policy backdrop. We forecast GDP growth of 4.8%, with the electronics cycle, investment and resilient domestic demand providing support. Inflation should rise only modestly to 2.1%, allowing BNM to normalise the OPR to 3.00% rather than embark on an extended

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tightening cycle. Fiscal consolidation could prove harder, and we expect the deficit at around 3.5-3.6% of GDP, above the government's 3.3% target. Meanwhile, political considerations will become increasingly prominent as the general-election window approaches.

Summary of Economic Forecasts	2023	2024	2025	2026F	2027F	2028F
GDP (% YoY)	3.6	5.2	5.2	5.2	4.8	4.6
Goods exports (% YoY)	-7.9	8.6	4.9	14.0	6.8	6.8
Goods imports (% YoY)	-6.8	8.7	6.3	12.9	8.8	8.3
Current Account Balance (% of GDP)	1.1	1.4	1.6	2.1	1.5	1.7
Fiscal Balance (% of GDP)	-5.0	-4.1	-3.7	-3.7	-3.6	-3.5
Headline CPI (% YoY)	2.5	1.8	1.4	1.9	2.1	2.2
OPR (% eop)	3.00	3.00	2.75	2.75	3.00	3.00

Source: BNM, MoF, OCBC Group Research.

Philippines

Philippines: Modest recovery

Lavanya Venkateswaran
Senior ASEAN and India Economist

Jonathan Ng
ASEAN Economist

- We lower our 2027 GDP growth forecast to 4.0% YoY from 4.6% previously, which is below the government's official growth target range of 5-6%. This would still mark a recovery from our downwardly revised 2026 forecast of 2.6% YoY, but we do not expect a broad-based revival.
- Headline CPI is expected to average 4.8% YoY in 2027, down from our 2026 forecast of 6.0%, as base effects kick in and the lagged impact of monetary tightening caps demand-side price pressures.
- We are adding a cumulative 50bp in rate hikes from BSP. We now see BSP raising its policy rate by 25bp at its 17 December meeting, taking the rate to 5.75%. Following this, we then expect the BSP to follow up another 25bp hike in 1Q27 to a peak of 6.00% to bring inflation back to target.

The economy is likely to enter 1H27 feeling squeezed from macroeconomic pressures. Real GDP growth slowed to 2.5% YoY in 1Q-3Q26 from 4.4% in 2025. Under the hood, domestic demand all but stalled in 1Q-3Q26: investment spending contracted 7.5% YoY (2025: +0.8%) as public construction declined. Meanwhile, household consumption and government spending slowed to 2.8% YoY and 6.7% YoY, respectively, down from 4.5% and 8.4% in 2025. In contrast, the external sector remained a bright spot, with goods exports growth broadly unchanged at 13.4% YoY in 1Q-3Q26 compared to 14.9% in 2025, supported by robust AI-driven semiconductor demand.

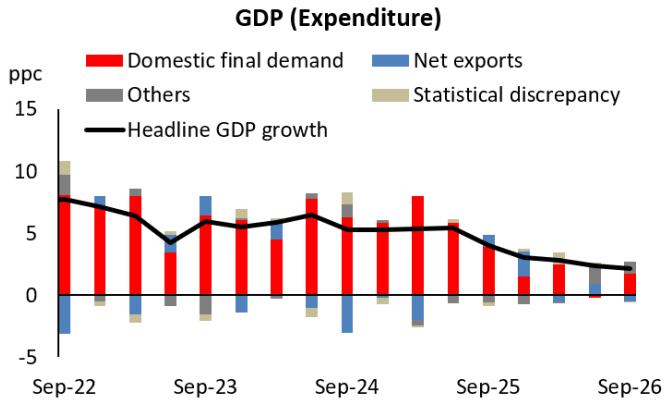
Domestic demand to remain constrained

We lower our 2027 GDP growth forecast to 4.0% YoY from 4.6% previously, which is below the government's official growth target range of 5-6%.[3] This would still mark a recovery from our downwardly revised 2026 forecast of 2.6% YoY, but we do not expect a broad-based revival.

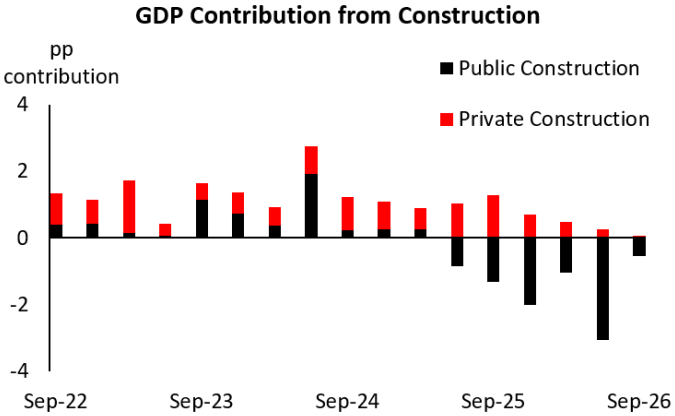
The pickup mainly reflects investment improving from a low base. We forecast investment spending to expand by 3.0% YoY in 2027, following a 5.8% contraction in 2026. Still, the recovery ahead is likely to be modest as both public and private investment face headwinds. Public infrastructure spending is expected to remain under close scrutiny, after the government lowered its 2027 infrastructure disbursement programme to PHP1.3trn, or 4.0% of GDP, from 5.1% of GDP previously.[4] Meanwhile, private investment is likely to remain cautious amid tighter monetary conditions, which should constrain business lending and capital expenditure.

[3] 193rd DBCC Statement on the Review of the Medium-Term Macroeconomic Assumptions and Fiscal Program for Fiscal Year (FY) 2026 to 2030. Department of Budget and Management, 8 July 2026.
[4] Gov't lowers 2027 infra spending program. Inquirer, 13 August 2026.

Philippines

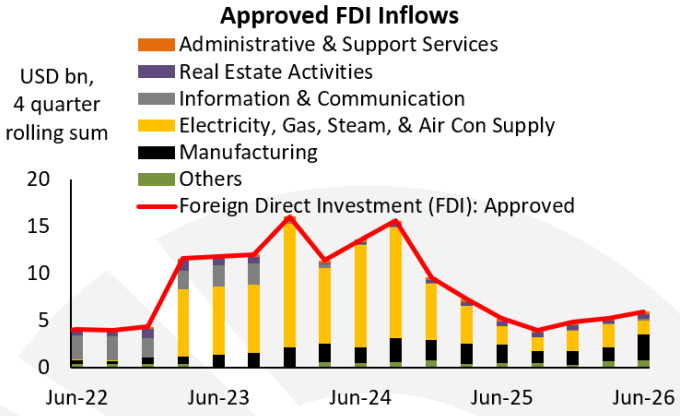


Source: Philippine Statistics Authority, CEIC, OCBC Group Research.

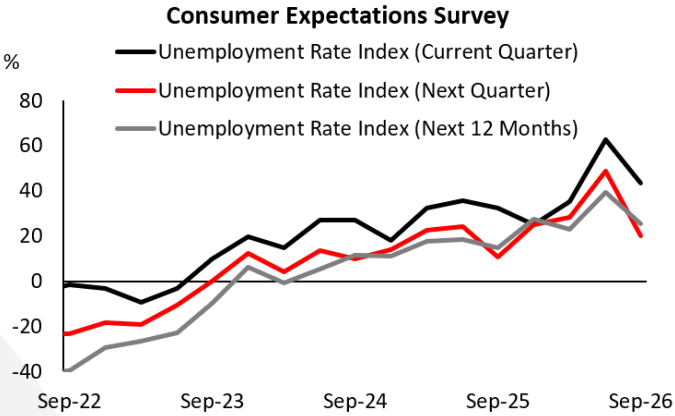


Source: Philippine Statistics Authority, CEIC, OCBC Group Research.

Similarly, we expect only a modest improvement in household spending (3.2% YoY versus 2.7% in 2026), as elevated inflation is likely to persist through 1Q27, eroding real household incomes and constraining discretionary spending. Moreover, labour market conditions remain weak, with the unemployment rate averaging 5.2% in January-September 2026, up from 4.1% a year earlier. Consumer sentiment on jobs has also turned less optimistic, as reflected in the unemployment rate index of the Bangko Sentral ng Pilipinas (BSP) 3Q26 Consumer Expectations Survey,[5] further capping the recovery in household spending.



Source: Philippine Statistics Authority, CEIC, OCBC Group Research.



Source: Bangko Sentral ng Pilipinas, CEIC, OCBC Group Research.

However, these modest gains are likely to be partly offset by slower government spending, with growth expected to slow to 3.7% YoY in 2027 from 7.4% in 2026. This reflects a high base after this year's expanded social assistance to cushion price shocks and manage energy emergencies following the outbreak of conflict in the Middle East at the start of the year.[6] It also reflects the DBCC's planned fiscal consolidation, which targets a narrower fiscal deficit of 5.1% of GDP in 2027 from 5.4% in 2026, after the government recalibrated its Medium-term Fiscal Framework for FY26-30 in July 2026 to better reflect the conflict's impact on the domestic economy.

[5] Consumer Expectations Survey Report (3rd Quarter 2026). Bangko Sentral ng Pilipinas, 25 September 2026.
[6] PBBM orders LGUs to use LGSF to respond to Middle East crisis. Presidential Communications Office, 11 March 2026.

Philippines

PHP bn	Program	Projections			
	FY26	FY27	FY28	FY29	FY30
Revenues (revised)	4807.0	5205.5	5524.4	5993.5	6519.9
% of GDP	15.8	15.7	15.4	15.5	15.6
Revenues (previous)	4823.7	5122.1	5568.3	6075.2	6633.5
% of GDP	15.8	15.6	15.7	15.8	16.0
Disbursements (revised)	6465.9	6900.5	7246.5	7614.1	7978.3
% of GDP	21.2	20.8	20.2	19.7	19.1
Disbursements (previous)	6434.8	6711.5	7108.9	7510.8	7939.3
% of GDP	21.1	20.5	20.0	19.6	19.1
Deficit (revised)	-1658.9	-1694.9	-1722.1	-1620.6	-1458.4
% of GDP	-5.4	-5.1	-4.8	-4.2	-3.5
Deficit (previously)	-1611.1	-1589.4	-1540.6	-1435.5	-1305.8
% of GDP	-5.3	-4.8	-4.3	-3.7	-3.1

Note: As of July 2026.
Source: Development Budget Coordination Committee, OCBC Group Research.

Fiscal slippage remains a risk. On a 12-month rolling basis, the deficit has widened to 6.0% of GDP from 5.6% in 2025, as expenditure growth continues to outpace revenue growth. Revenue growth accelerated to 5.0% YoY in January-September 2026 from 0.8% in 2025, mainly driven by a narrower contraction in non-tax revenues, while tax revenue growth slowed to 5.6%. Meanwhile, expenditure growth rose by 7.9% YoY over the same period, supported by higher current operating expenditure even as infrastructure spending contracted sharply. We expect government spending to continue normalising amid a lower allocation to the infrastructure disbursement programme for 2027.

Better export growth is a consolation prize

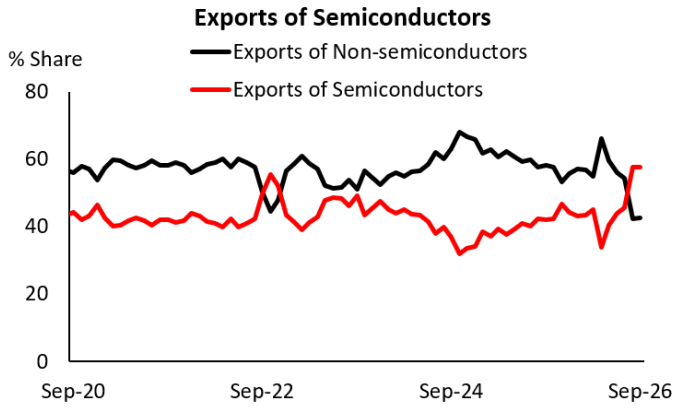
Good export growth could moderate slightly in 2027 as the AI-driven electronics upcycle normalises from a high base. Notably, exports of semiconductors made up 46.2% of goods exports in January-September 2026, up from 40.9% in 2025, leaving the outlook heavily exposed to the global semiconductor cycle and continued AI investment. This moderation should be more than offset by stronger services exports, which we anticipate to rise by 6.2% YoY from 5.1% in 2026, supported by a recovery in tourist arrivals, particularly from China, and stable IT-BPM revenue growth.[7]

Meanwhile, import growth is expected to edge lower to 5.2% YoY, with goods import growth slowing to 5.2% from 6.4%, reflecting the modest recovery in household spending and capital goods demand. With exports growing at a quicker pace than imports, we estimate that net exports will continue to contribute positively to overall headline GDP growth. The stronger trade balance should also support the external position, with the current account deficit expected to narrow to 3.5% of GDP in 2027 from 4.0% in 2026,

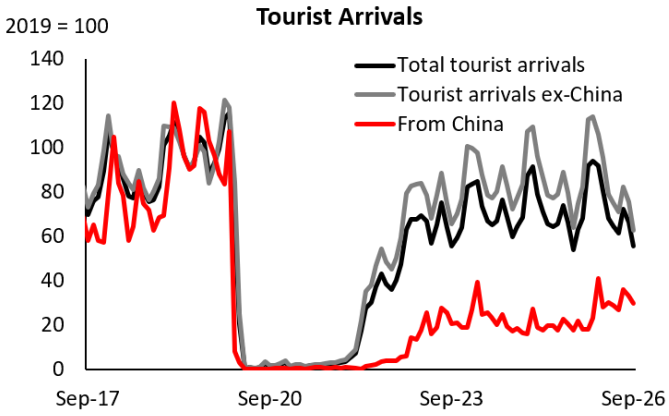
[7] IT-BPM industry sees revenue exceeding $50 billion by 2028. Philstar, 27 September 2026.

Philippines

slightly below the BSP's latest projections of 3.6% of GDP in 2027.[8] The risk, however, would be elevated fuel and commodity prices, weighing not only on the external balance but also on the inflation outlook.



Source: Philippines Statistics Authority, CEIC, OCBC Group Research.



Source: Department of Tourism, CEIC, OCBC Group Research.

Inflation peak in sight, but food risks linger

Inflationary pressures have remained elevated, driven by successive supply shocks this year. The outbreak of conflict in the Middle East pushed energy prices higher, with transport inflation accelerating to 20.1% YoY in October, marking its seventh consecutive month in double-digit territory. During the same period, utilities inflation hovered around 9% YoY, reflecting the pass-through of higher global oil prices amid the country's heavy reliance on imported fossil fuels. Higher energy and fertiliser costs subsequently fed through to food prices, lifting rice inflation to 20.7% YoY in October. Headline CPI averaged 5.6% from January-October 2026, well above BSP's 2–4% target range. We revise our 2026 headline CPI forecast higher to 6.0% from 5.8%, implying that inflation will remain elevated and above the 7% handle through the remainder of the year.

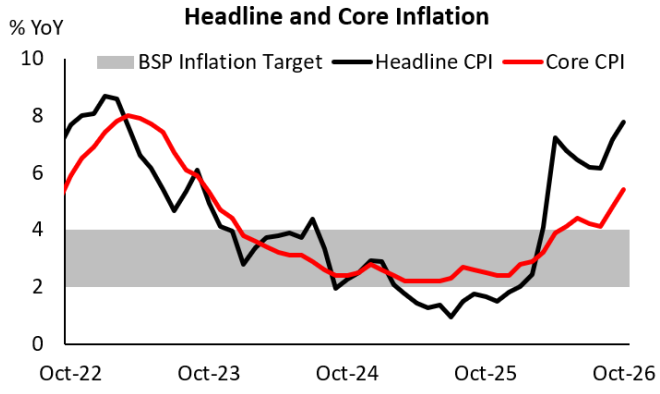
Looking ahead, we expect headline CPI to average 4.8% YoY in 2027, down from our 2026 forecast of 6.0%. Our 2026 forecast implies inflation of ~7.6% in 4Q26. This will likely remain elevated through 1Q27 before falling sharply thereafter, as base effects take hold and the lagged impact of monetary tightening caps demand-side price pressures.

The risks to our inflation forecast are largely tilted to the upside in 1H27, with food inflation posing the largest upside risk during this period. Rice accounts for ~9% of the CPI basket, and the Philippine Atmospheric, Geophysical and Astronomical Services Administration (Pagasa) expects a "very strong" El Niño to emerge between September-December 2026 and potentially persist into 1H27[9], posing risks to agricultural output. Meanwhile, the bilateral fixed-price rice supply arrangement with Vietnam, priced at USD450/mt, runs only until April 2027[10]. Its expiration could coincide with a period when the impact of El Niño on

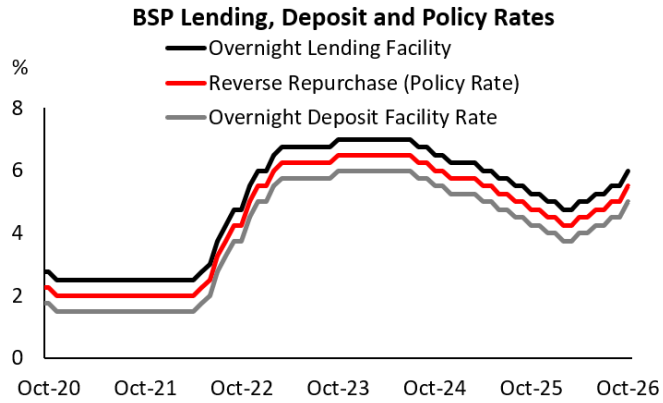
[8] BSP forecasts BOP deficit for 2026, 2027. Bangko Sentral ng Pilipinas, 13 October 2026.
[9] 'Very strong El Niño' to persist in PH until early 2027 – Pagasa. Inquirer, 23 September 2026.
[10] Philippines, Vietnam agree on fixed-price rice deal till April 2027. Philstar, 8 May 2026.

Philippines

domestic rice supply is particularly pronounced, potentially exacerbating food price pressures.



Source: Bangko Sentral ng Pilipinas, Philippine Statistics Authority, CEIC, OCBC Group Research.



Source: Bangko Sentral ng Pilipinas, CEIC, OCBC Group Research.

Delicate balancing act for BSP

These pressures have prompted the BSP to step up its tightening by delivering a jumbo 50bp hike at its 22 October meeting, taking the policy rate to 5.50%. It cited the need for a strong policy response to make monetary conditions appropriately restrictive and to contain second-round effects from higher input prices, from fuel to food. BSP Governor Eli Remolona also signalled that the hike was aimed primarily at containing inflation, rather than supporting the peso at a particular level. Having cut its policy rate by 25bp to 4.25% in February, the BSP has now tightened by a cumulative 125bp since April. The persistence of inflation risks amid a modest recovery in the growth backdrop allows the BSP more room to focus on curbing inflationary pressures. We are therefore adding a cumulative 50bp in rate hikes from BSP. We now see BSP raising its policy rate by 25bp at its 17 December meeting, taking the rate to 5.75%.

Looking ahead, we then expect the BSP to follow up another 25bp hike in 1Q27 to a peak of 6.00% to bring inflation back to target. We expect the BSP will likely want to see core inflation and expectations ease before cutting, as the fall in headline inflation will be driven largely by base effects from this year's oil price shock.

Summary of Economic Forecasts	2023	2024	2025	2026F	2027F	2028F
GDP (% YoY)	5.5	5.7	4.4	2.6	4.0	5.0
Exports (% YoY)	1.3	3.2	8.2	8.8	8.5	7.8
Imports (% YoY)	1.0	4.3	5.0	6.4	5.2	4.1
Current Account Balance (% of GDP)	-2.8	-4.0	-3.3	-4.0	-3.5	-3.5
Unemployment Rate (% aop)	4.4	3.8	4.2	5.1	4.8	4.5
Fiscal Balance (% of GDP)	-6.2	-5.7	-5.6	-5.4	-5.1	-4.8
Headline CPI (% YoY)	6.0	3.2	1.7	6.0	4.8	3.8
BSP Rate (% eop)	6.50	5.75	4.50	5.75	6.00	5.00

Source: OCBC Group Research.

Singapore

Singapore: Normalisation after a strong AI boom?

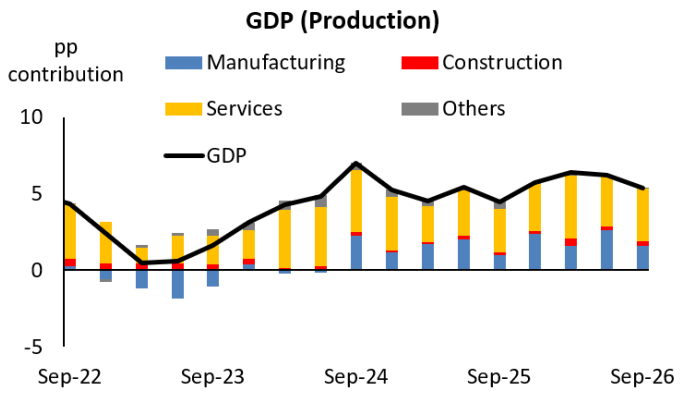
Selena Ling
Chief Economist & Head,
OCBC Group Research

- Stronger-than-expected 1Q-3Q26 GDP growth performance is largely due to upside surprise of AI-related boom, complemented by resilient services and construction sector growth. 2027 growth should normalise to around 2.5-4.5% range.
- Inflation should stabilise but may not return to pre-pandemic levels amid heightened geopolitical tensions, volatile commodity (especially energy prices) and diversification strategies. Monetary policy tightening took a breather in October 2026 but a more benign 2027 core inflation trajectory is key.
- Given the strength of the AI-fuelled growth, corporate income tax receipts, coupled with healthy vehicle taxes and stamp duty, point to another healthy FY26 fiscal surplus. The FY27 Budget will likely double down on key priorities of economic resilience, translating AI-transformation into productivity and good jobs, and reinforcing the social compact amid rising structural costs.

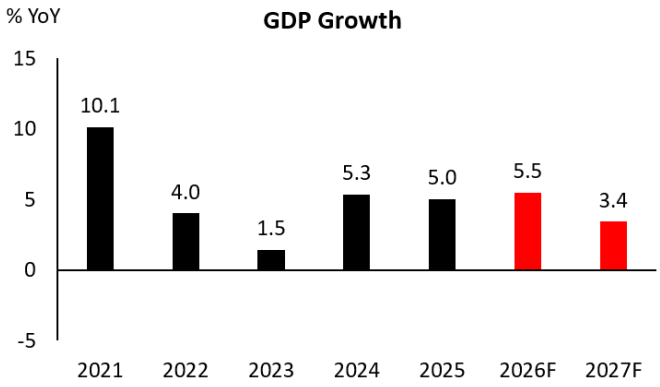
The Singapore economy is likely to see exceptional AI-driven growth in 2026 normalise closer to the higher end of the medium-term growth potential, while inflation remains slightly sticky, albeit hopefully subsiding towards 2H27. The labour market may stay supported in 2027, but AI transformation may imply a greater churn rate and potentially herald some attention for fresh graduates and older PMETs. MAS may retain its pause on monetary policy stance, while awaiting the anticipated core inflation tapering. Fiscal health remains generous at this juncture, but there are growing structural demands for policy priorities ahead, including the ageing population, the need to boost TFR and ambitious expenditure needs spanning physical infrastructure (eg. Western Island), economic resilience (energy security, sustainability and critical supply chains), technological (AI adoption, SME and workforce transformation) and defence. The main opportunities lie in the currently strong global AI capex boom and Singapore's trusted status in a polarised world, but risks are persistently elevated energy prices and a sharp correction in AI investments.

Singapore' 2026 economic performance is currently running well above trend. 3Q26 GDP grew 5.4% YoY based on the advance estimate, after an upwardly revised 6.2% in 2Q26. This brings the first three quarters' growth to 6.0% YoY. The official 2026 GDP growth forecast stands at 4.5-5.5%, but METI (the Ministry of Energy, Trade and Industry) is likely to review the forecast in November. Overall GDP growth was concentrated in the technology-related sectors, while the domestic-oriented sectors like private and public construction also held up well, but parts of the consumer-facing segments still face structural challenges. The durability of the current growth expansion critically hinges on sustainability of the global AI investment cycle. While there is growing investor scrutiny of hyperscalers' capacity to sustain capex spending and their financial buffers, there is no immediate danger of an imminent retrenchment in AI investment.

Singapore



Note: 3Q26 is based on advance estimates.
Source: METI, Singstat, CEIC, OCBC Group Research.



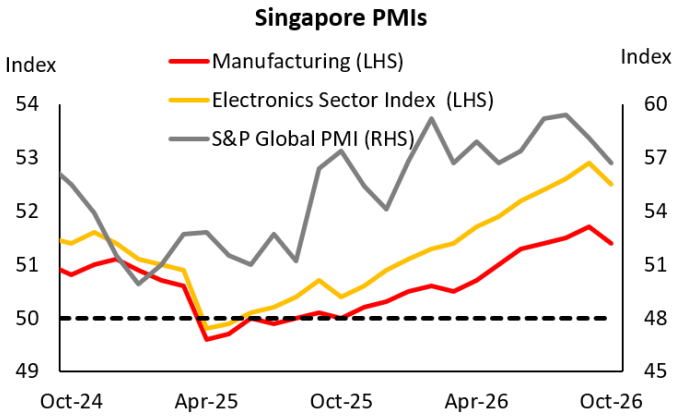
Note: Forecasts are OCBC estimates.
Source: Singstat, CEIC, OCBC Group Research.

Given that the AI-driven tech upcycle is likely to moderate and global financial conditions tighten into 2027, Singapore's GDP growth in 2027 should also slow closer to the upper end of its medium term potential range. Our 2027 forecast for GDP growth, headline and core inflation are 3.4% (range: 2.5-4.5%), 1.8% (range: 1.5-2.5%) and 1.9% (range: 1.5-2.5%) respectively. AI technology may continue to be the main driver, but high base effects will start to exert, whilst most other sectors should still grow at around trend. This should be interpreted as a soft landing in 2027 from a very high base in 2026, rather than a downturn. The positive output gap is expected to narrow through 2027.

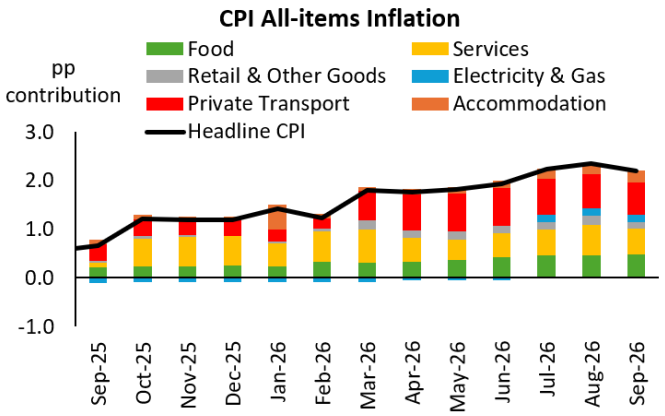
Forward indicators point to sustained business confidence in both the manufacturing and services sectors. The recent Purchasing Managers' Indices (PMIs) for the manufacturing and electronics sector edged down to 51.4 and 52.5 in October, from 51.7 and 52.9 in September 2026, whilst the S&P Global Singapore Private Sector PMI also retraces slightly to 56.7 from 58.1 previously due to operational constraints. Notably, the new export orders gauge for the electronics PMI reached 53.2, highest since May 2018. This points to a softer expansion momentum rather than a correction in course per se.

Inflation has likely peaked and should stabilise into 2027 before easing in 2H27. Core inflation eased to 2.0% from 2.2% in August, which was the highest since September 2024. With the ongoing Middle East conflict, electricity & gas and fuel-intensive services prices are likely to stay elevated in the near term. As global supply conditions gradually normalise, external cost pressures should also ease.

Singapore

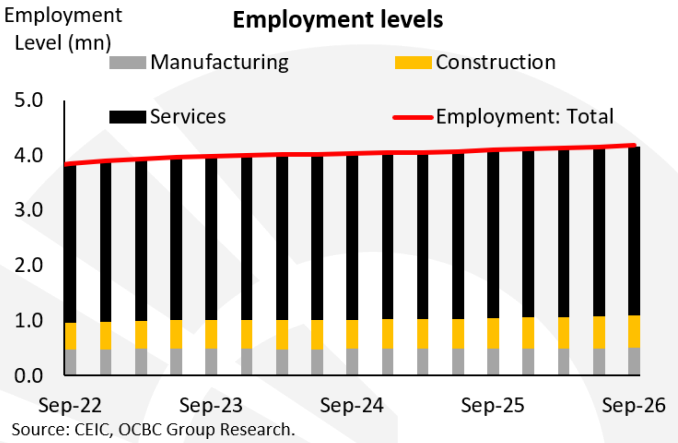


Source: SIPMM, Bloomberg, OCBC Group Research.

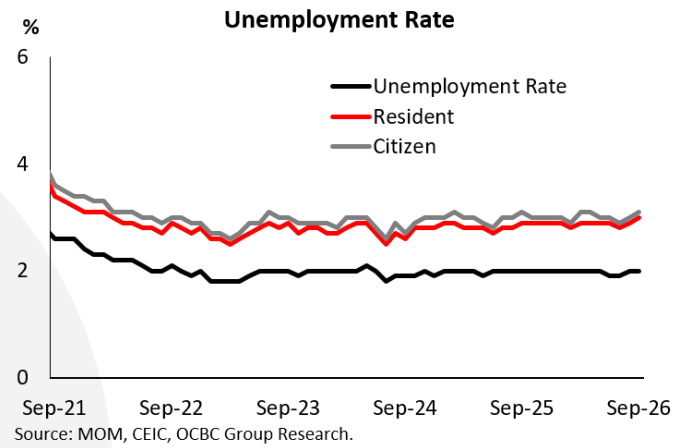


Source: Singstat, CEIC, OCBC Group Research.

On the domestic front, enhanced government subsidies for essential services should also help to temper inflationary pressures in 2027. As such, MAS expects headline inflation to average around 2% in 2026 and 1.5-2.5% in 2027, while core inflation is likely to average 1.5-2.0% in 2026 and 1.5-2.5% in 2027. The anticipated inflation trajectory is slight elevation in the next few quarters before easing more discernibly from mid-2027. Nonetheless, inflation risks are still tilted upwards, namely a sharp, sustained surge in energy or food prices such as due to adverse weather disruptions, would feed through to import costs, whilst stronger and more durable domestic growth could generate greater demand spillovers. On the downside, tighter financial conditions could dampen demand and growth, while a resumption of Middle East crude and distillate shipments could mean energy-related prices fall faster.



Source: CEIC, OCBC Group Research.



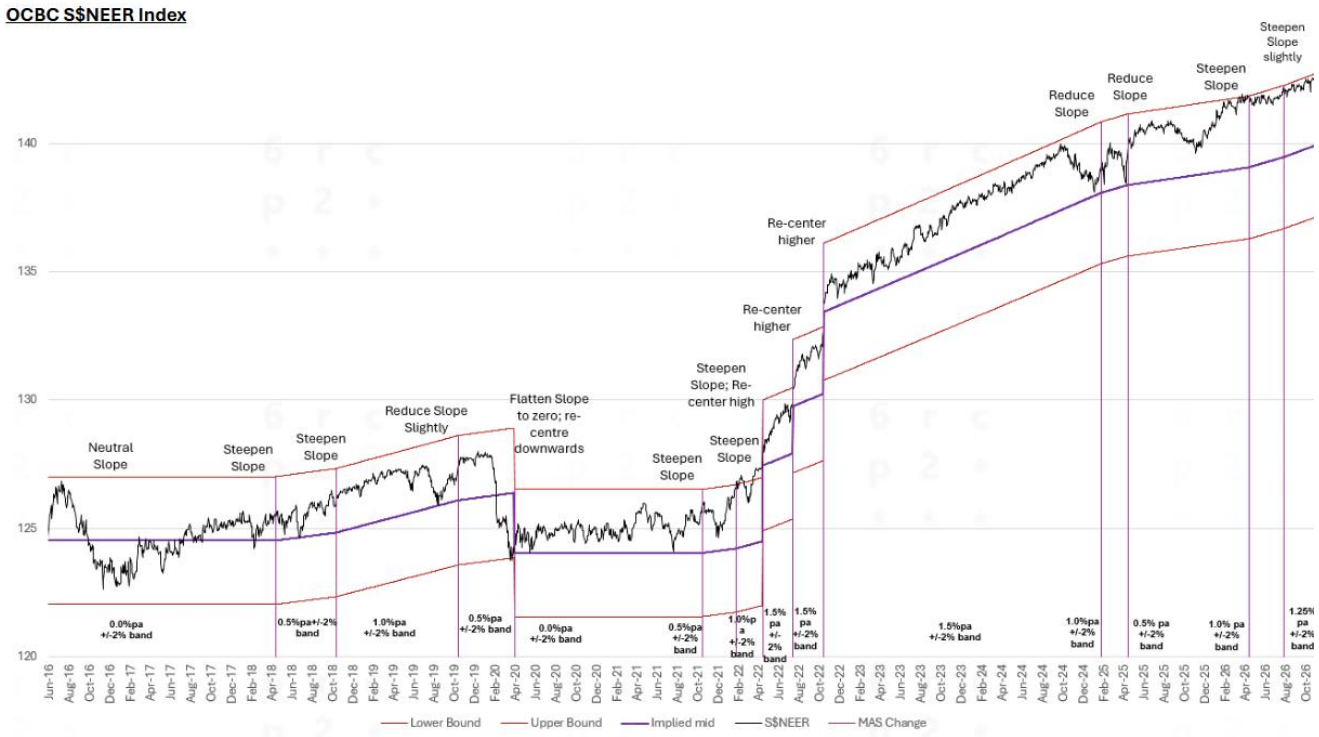
Source: MOM, CEIC, OCBC Group Research.

The labour market is expected to continue to be supported into 2027. 3Q26 employment grew by 27,700, up from 11,400 in 2Q26 - most of the increase for non-residents in the construction and manufacturing space. Resident job growth came mainly from essential and public services. The overall unemployment held at 2.0%, but both resident and citizen unemployment rates rose to 3.0% and 3.1% respectively. Nonetheless, retrenchments rose to 4,800, close to a six-year high, and were concentrated in outward-oriented sectors. MOM

Singapore

flagged "emerging weaknesses in parts of the labour market that warrant close monitoring". Forward labour market indicators were mixed - the share of firms planning to hire rose to 42.3% in September, but the share expecting retrenchments also rose to 3.1%.

For 2027, as headline GDP growth normalises, demand for non-resident workers may not necessarily cool significantly as many of the long-term infrastructure commitments (eg. coastal protection, energy transition etc) projects and public housing projects remain intact. Ditto for resident demand for essential and public service. The labour demand that is more dependent on trade-exposed services, for example, finance, ICT and wholesale) may be more impacted by external developments, including the health of the global financial system and the AI upcycle. Wage pressure also looks contained into 2027, which supports MAS's view that domestic costs will stay muted.



Source: OCBC Group Research.

For monetary policy: a prolonged pause for the S$NEER may be in store in 2027, but is dependent on the core inflation trajectory stabilizing and tapering off in 2H27. Recall that in October 2026, MAS left the slope, width and centre of the S$NEER band unchanged, after tightening in April and July 2026 by steepening the slope. The MAS notes that the April and July moves were pre-emptive to secure low and stable inflation over the medium term. The S$NEER continues to trade in the upper half of the band, and the current policy stance allows the S$NEER to strengthen and lean against the near-term rise in imported inflation, ensuring the gradual easing of inflationary pressures in 2027. The bar to tighten monetary policy further would be unstable core inflation persisting near or above 2.5% in our view.

Singapore

Fiscal policy room to support targeted measures in Budget 2027 which is likely to be delivered in February 2027. Strong 2026 revenue would give room for targeted cost-of-living and jobs measures, without changing the overall prudent fiscal stance. With the recent growth outperformance, corporate income tax receipts (supported by the AI-driven upcycle and strong corporate earnings) as well as vehicle taxes and stamp duty should be buoyant and lift FY26 to a healthier fiscal surplus, notwithstanding the additional expenditure due to the support package arising from the Middle East conflict (namely the CDC vouchers and additional support assistance in April and July). The original FY26 forecast was for a smaller surplus of $8.54 bn (1% of GDP), versus $15.10 bn (1.9% of GDP) in FY25.

In FY27, the implementation of the 15% global minimum effective tax rate (BEPS Pillar Two), corporate tax revenues from large multinational corporations is also expected to increase. On the flip side, the government is also rolling out non-tax incentives and targeted grants to maintain Singapore's attractiveness, especially for key focus areas like advanced manufacturing, R&D and clean energy transitions.

For the pre-Budget public consultation exercise that will run from 12 November 2026 to 6 January 2027, the MOF has identified three core pillars revolving around economic resilience and competitiveness, investing in workers, and greater assurance for Singaporeans. The policy focus is likely to be continued fiscal spending on structural challenges and investments to build productive capacity, while targeting a modest fiscal surplus. With AI and technological change reshaping the domestic labour market, the policymakers will need to maintain an attractive tax and business environment, fund strategic investments and economic transformation, protect vulnerable households and preserve intergenerational fiscal equity.

The global landscape is increasingly fractured and polarised, and the economics of AI are becoming increasingly geopolitical. The US Commerce Department is moving to finalise a rule that would widen AI remote access restrictions to seven additional countries including Singapore, Malaysia, Thailand, Indonesia, Brazil, Norway and South Africa, potentially changes the rules of engagement for Singapore as a regional hub for cloud computing, data centres, AI infrastructure and cross-border technology services. If implemented, this could imply higher compliance costs and potentially weaker demand on data-centre operators, cloud providers and companies building GPU-as-a-service businesses here. While not a derailer to Singapore's AI hub ambitions per se, Singapore does face a more difficult balancing act between US-China tensions.

South Korea

South Korea: Growth to moderate, but BoK is not done yet

Jonathan Ng
ASEAN Economist

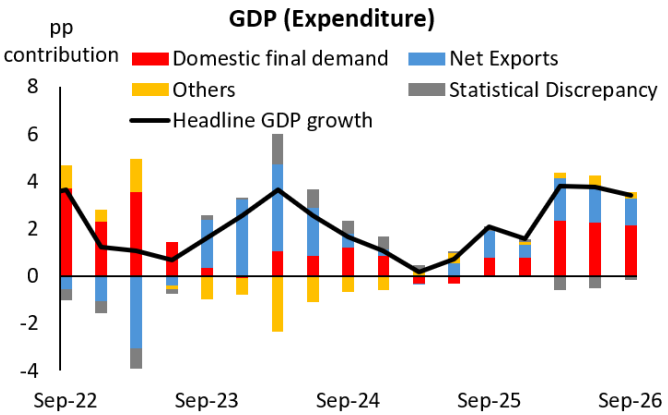
- Growth momentum strengthened in 3Q26. Reflecting the stronger-than-expected outturn, we raise our 2026 GDP growth forecast to 3.5% YoY. For 2027, we expect growth to moderate to 2.8%. The moderation is likely to reflect a drag from net exports rather than a weakening in domestic demand, which is expected to edge higher.
- We expect headline CPI to ease to 2.3% in 2027 from 2.7% in 2026. Inflation is likely to remain around 2.8% through 1Q27, as the sharp increase in fuel prices from 2Q26 remains embedded in the YoY comparison.
- We expect the Bank of Korea (BoK) to hold its Base Rate at 3.00% on 26 November, followed by a 25bp hike to 3.25% in 1Q27. Inflation remains near the 3% level, and BoK indicated that both headline and core inflation in 2027 are expected to exceed its earlier forecasts. As such, risks are skewed towards an earlier move in November and a higher peak.

Stronger-than-expected outturn

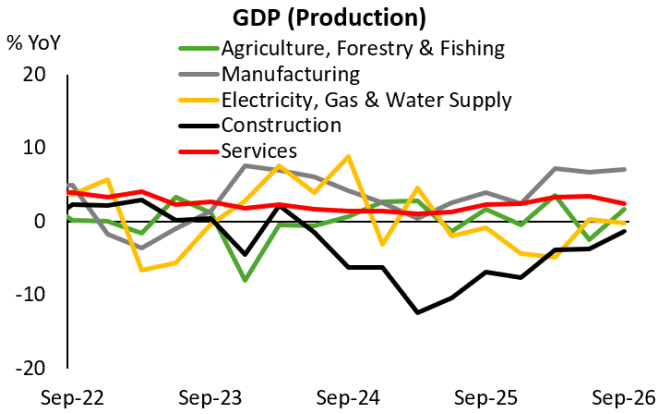
Growth momentum strengthened in 3Q26, with the South Korean economy expanding by 1.0% QoQ sa (2Q26: 0.6%), according to advance estimates. On a YoY basis, growth eased slightly to 3.4% from 3.7% in 2Q26 but remained robust. Under the hood, investment spending and government consumption led the gains, rising by 4.3% YoY and 2.6% YoY, respectively, up from 2.6% and 2.1% in 2Q26. Meanwhile, growth in exports of goods and services held steady at 8.6% YoY (2Q26: 8.9%). In contrast, private consumption slowed to 1.1% YoY from 2.4% in 2Q26. On the production side, agriculture rebounded by 1.6% YoY following a 2.5% contraction in 2Q26, while manufacturing growth edged up to 7.0% (2Q26: 6.7%). By contrast, services growth slowed to 2.4% from 3.4% in 2Q26, and the construction sector contracted for a tenth consecutive quarter.

Reflecting the stronger-than-expected outturn, we raise our 2026 GDP growth forecast to 3.5% YoY, which implies still robust growth of 3.3% in 4Q26, despite easing slightly from 3Q26. For 2027, we expect growth to moderate to 2.8%. The moderation is likely to reflect a drag from net exports rather than a weakening in domestic demand, which is expected to edge higher. Risks to growth in 2027 are tilted to the downside, mainly from a possible downturn in the chip cycle. As chips are a key driver of both goods exports and the investment, a downturn would weigh on both simultaneously.

South Korea



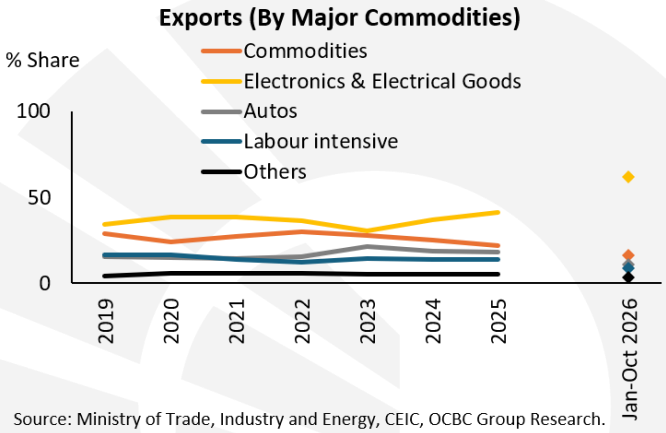
Source: The Bank of Korea, CEIC, OCBC Group Research.



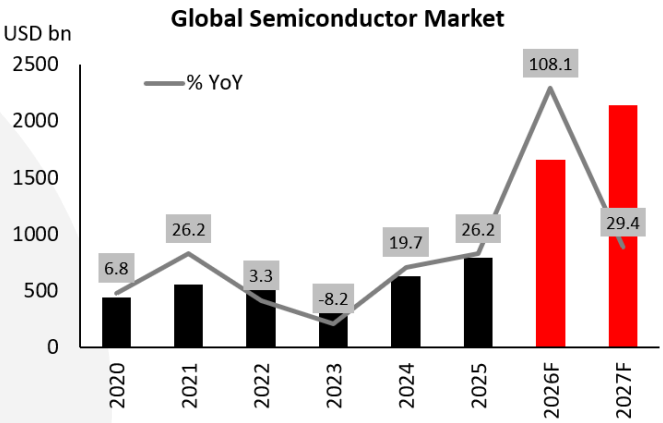
Source: The Bank of Korea, CEIC, OCBC Group Research.

On the external front, export momentum has so far remained exceptionally strong, with semiconductors as the decisive driver. Looking ahead, chip demand should stay firm into 2027 as AI servers and data centres keep the memory market undersupplied. Even so, growth is set to moderate from an exceptionally high base: WSTS projects the global chip market to grow 29.4% in 2027 after 108.1% in 2026, with memory up 36% (2026: 302%).[11] Similarly, we expect export growth to cool from a high base: goods export growth is anticipated to slow to 6.9% in 2027 from 10.0% in 2026, while services exports hold up at 9.0% (2026: 8.8%).

With chips driving exports, the current account surplus has surged to record levels, reaching USD279.2bn in January–August 2026. This is around four times the level recorded in the same period last year. The Bank of Korea (BoK) expects the 2026 surplus to exceed its USD450bn forecast and projected a slightly narrower surplus of USD430bn in 2027.



Source: Ministry of Trade, Industry and Energy, CEIC, OCBC Group Research.



Source: World Semiconductor Trade Statistics, August 2026.

[11] Global Semiconductor Market records exceptional growth in Q2 2026. WSTS, 6 August 2026.

South Korea

Firm domestic demand

On the domestic demand side, we expect private consumption growth to improve modestly to 1.6% in 2027 from 1.5% in 2026. The recovery is likely to be gradual in 1H27, with growth edging up from 0.5% YoY in 4Q26 to 1.0% by 2Q27. This is broadly in line with the BoK's view that private consumption could recover gradually from 4Q26 through 1Q27, underpinned by payouts of cash dividends and performance bonuses from chipmakers, alongside increased government transfers in the 2027 budget proposal.[12] [13] A resilient labour market should also support household spending, with the unemployment rate easing to 2.0% in October from 2.2% a year earlier. Momentum should then build in 2H27, with growth reaching 2.6% YoY by 4Q27, partly reflecting favourable base effects.

Meanwhile, we expect government consumption growth to pick up to 2.9% in 2027 from 2.4% in 2026. This will be underpinned by the 2027 budget proposal, which raises total spending by 12.8% to KRW820.9trn on the back of a chip-driven tax windfall. Funding for three mega-projects and AI technology nearly doubles to KRW21.3trn, while the new Future Fund will deploy KRW45.4trn, drawn largely from above-trend tax revenue. Despite the sharp spending increase, the managed fiscal deficit is set to narrow to 0.1% of GDP (2026 budget: 3.9%), as total revenue surges 30.4%, while government debt falls to 48.3% of GDP (2026 budget: 51.6%).[14]

	2026 Budget		2027 Budget Proposal
	Original	Supplementary	Budget Proposal
Total Government Revenue	675.2	700.6	880.8
% YoY			30.4
Total Government Expenditure	727.9	753.0	820.9
% YoY			12.8
Consolidated Fiscal Balance	-52.7	-52.5	59.9
% to GDP	-1.9	-1.9	1.9
Managed Fiscal Balance	-107.8	-107.6	-3.1
% to GDP	-3.9	-3.8	-0.1
Government Debt	1413.8	1412.8	1519.8
% to GDP	51.6	50.6	48.3

Source: Ministry of Planning and Budget.

Investment spending should also gather pace, with growth expected to rise to 3.9% in 2027 from 3.5% in 2026, as construction recovers gradually and chip investment remains robust. Construction investment, the weakest component, contracted for a tenth consecutive quarter in 3Q26, although the decline narrowed to 0.7% YoY from 1.2% in 2Q26. From this low base, the sector is set to recover. Construction output, measured by the value of construction work completed, rose 5.8% MoM sa in September, a second straight monthly gain, driven by non-residential building works such as chip plants, data centres, as well as civil engineering.[15] Beyond the mega-projects, the 2027 budget proposal raises social

[12] Q3 GDP Posts a 'Surprise'... '3.6% Growth This Year Even with Zero Growth in Q4' (Comprehensive). The Asia Business Daily, 28 October 2026.
[13] South Korea's 2027 welfare budget to top W152tr, with revamped child allowances and new medical fund. The Herald Business, 4 September 2026.
[14] 2027 Budget Proposal. Ministry of Planning and Budget, 1 September 2026.
[15] September Industrial Output Surges on Auto Base Effect, Strong Semiconductors; Biggest Jump in 15 Years 6 Months. NewsPim, 30 October 2026.

South Korea

overhead capital (SOC) spending by 4.0% and funds 106,000 public rental homes for young people. Even so, we expect the recovery to be gradual: output fell 1.6% YoY in September, slipping back into contraction, after a 1.5% rise in August that had ended 27 consecutive months of decline. The BoK has also flagged that rising construction costs, higher market interest rates, and unsold homes outside the Seoul metropolitan area will weigh on the recovery.[16]

By contrast, facilities investment should remain the strongest component. Growth accelerated to 9.4% YoY in 3Q26 from 6.3% in 2Q26, driven by investment in semiconductor manufacturing equipment. Momentum should be sustained as chipmakers ramp up spending at record levels. Samsung's capex is set to reach KRW84.4trn in 2026,[17] while SK hynix expects investment to "increase significantly" in 2027 as Phase 1 of its Yongin cluster begins full-scale operation.[18]

The chip boom is also lifting investment in intellectual property products, which grew by 6.5% YoY in 3Q26, up from 5.0% in 2Q26, led by semiconductor R&D and software for data centres and security. Fiscal policy should broaden this support, with the 2027 budget proposal raising government R&D spending by 11.2% to KRW39.5trn, including funding for small modular reactors, quantum technology and advanced biotechnology.

Inflation peaks, upside risks persist

On the inflation front, price pressures have picked up this year following the energy supply shock stemming from the conflict that erupted in the Middle East. Headline CPI rose from 2.0% YoY in January to a peak of 3.2% in June, although the increase would have been significantly sharper without government support measures. Inflation has since eased slightly to 2.8% in October, with headline CPI averaging 2.7% YoY in January–October 2026, compared with 2.1% in the same period in 2025. Price pressures have also broadened, with core inflation, which excludes food and energy, averaging 2.5% in January-October 2026, up from 1.9% in in the same period last year.

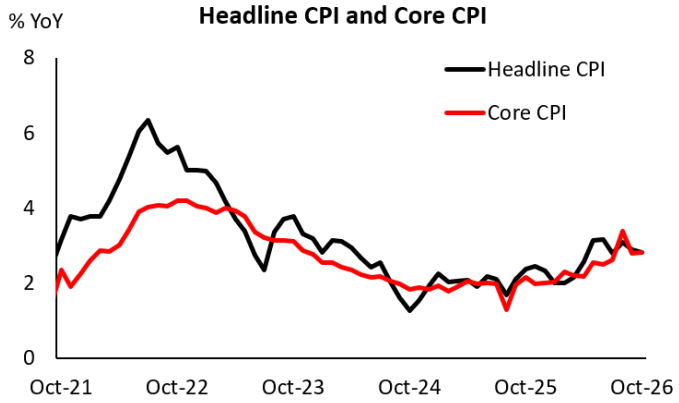
Looking ahead, we expect headline CPI to ease to 2.3% in 2027 from 2.7% in 2026. Inflation is likely to remain ~2.8% through 1Q27, as the sharp increase in fuel prices from 2Q26 remains embedded in the YoY comparison. Our 2027 forecast is in line with the BoK's August projection of 2.3%, although the BoK has since indicated that both headline and core inflation in 2027 are expected to exceed its earlier forecasts.

At its most recent Monetary Policy Board meeting on 22 October, the BoK kept its Base Rate unchanged at 3.00% on 22 October in a unanimous decision,[19] following back-to-back 25bp hikes in July and August. Governor Shin Hyun-song said the board would "maintain the current restrictive monetary policy stance" and "continue to respond until we are confident that inflation is on a stable path toward our target."[20]

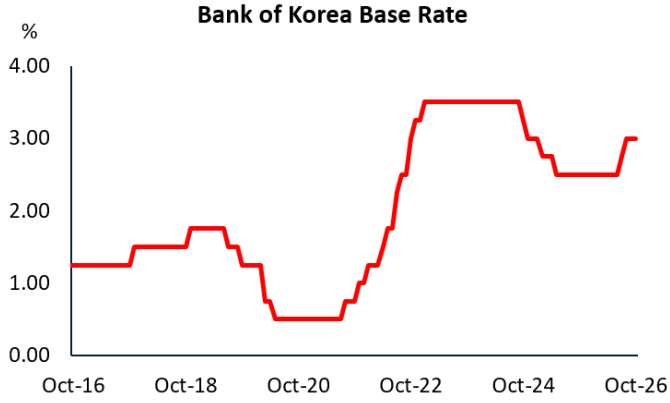
[16] Bank of Korea "Solid Growth to Continue in Second Half... Forecast Raised to 3.0%". The Asia Business Daily, 27 August 2026.
[17] Samsung to Spend 84.4 Trillion Won on Capex, a Record. Seoul Economic Daily, 30 October 2026.
[18] SK hynix Announces 3Q26 Financial Results. SK Hynix, 28 October 2026.
[19] Monetary Policy Decision & Opening Remarks to the Press Conference (October 22, 2026). Bank of Korea, 22 October 2026.
[20] BOK holds rate steady, signals further tightening as inflation rises and growth strengthens. Korea JoongAng Daily, 22 October 2026.

South Korea

A hold at the 26 November meeting remains our base case, followed by a 25bp hike to 3.25% in 1Q27. Although 3Q26 GDP beat expectations, private consumption fell 0.2% QoQ sa (1.1% YoY), suggesting that demand pressures have yet to broaden to households. However, with headline inflation likely to stay ~2.8% through 1Q27, and the BoK expecting 2027 inflation to exceed its earlier forecasts, we expect a further 25bp hike in 1Q27. Risks are skewed towards an earlier move in November and a higher peak.



Source: Statistics Korea, CEIC, OCBC Group Research.



Source: The Bank of Korea, CEIC, OCBC Group Research.

Taiwan

Taiwan: From AI acceleration to a broader 2027 expansion.

Herbert Wong
Economist

- We forecast Taiwan's real GDP growth to moderate from 12.8% in 2026 to 7.5% in 2027. The slowdown should largely reflect the exceptionally high base created by the 2026 AI investment surge, rather than a material loss of economic momentum.
- The 2027 expansion should remain anchored by AI-related exports and semiconductor investment, but the incremental contribution from net exports is likely to decline as export growth normalises and elevated capital-equipment imports narrow the trade contribution.
- We expect monetary policy to remain cautious in 2027. Strong growth and sticky underlying inflation argue against premature easing, but an increasingly concentrated growth profile and persistent property-market weakness should keep the bar for aggressive tightening high.

A slower boom, not a downturn. Taiwan's economy is likely to enter 2027 with considerable economic momentum, supported by the AI investment cycle, sustained demand for advanced semiconductors and a sizeable pipeline of manufacturing-capacity expansion. We forecast real GDP growth to moderate from 12.8% in 2026 to 7.5% in 2027. While the deceleration is substantial in headline terms, it should largely reflect the exceptionally demanding comparison base established during the 2026 surge in AI-related exports and capital expenditure. Economic activity should continue expanding at a pace well above Taiwan's longer-term trend.

The more important question for 2027 is therefore not whether the AI cycle continues, but whether its economic contribution broadens and remains sufficiently strong to offset less favourable base effects. AI accelerators, servers, advanced semiconductors and high-performance computing components should remain the principal export drivers. At the same time, ongoing investment in leading-edge foundry capacity, advanced packaging, testing and power-management infrastructure should continue to support machinery imports and gross fixed-capital formation.

Taiwan's sharp increase in capital-goods and equipment imports during 2026 points to an investment pipeline that should continue feeding into domestic production capacity in 2027. However, the expansion is likely to shift from an acceleration phase to a delivery and execution phase. Capacity already announced or under construction should provide visibility, but the pace of new commitments may become more sensitive to customer utilisation, AI-service monetisation and the availability of external financing.

Taiwan

Chart 2: Wholesale sales have accelerated sharply since the beginning of 2026

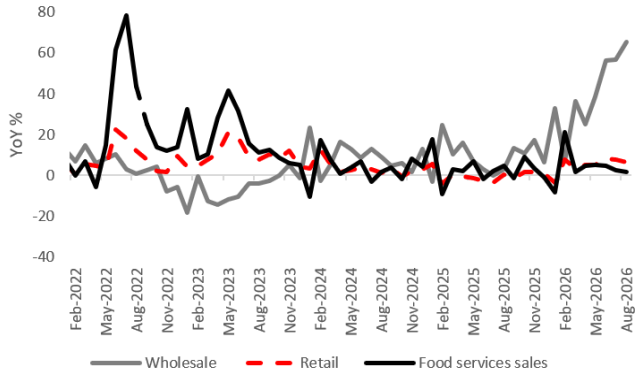
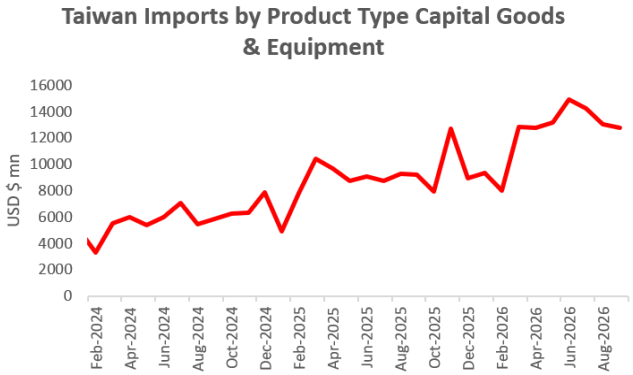


Chart 3: Imports of capital goods and equipment grew sharply



Source: Bloomberg, OCBC Group Research

Growth drivers will become less export-dominated. Net exports are unlikely to repeat their exceptional 2026 contribution. Export values should continue rising in level terms, but year-on-year growth will moderate given the high base. Meanwhile, sustained imports of semiconductor equipment and other capital goods should offset part of the export impulse. The trade surplus may therefore remain large without providing the same incremental boost to real GDP growth.

This transition does not necessarily signal weaker underlying demand. Instead, it reflects a change in the composition of growth. During the initial phase of the AI upswing, Taiwan benefited predominantly from strong external orders and inventory restocking. In 2027, the economic impact should increasingly operate through domestic investment, higher production capacity, employment income and demand for supporting services.

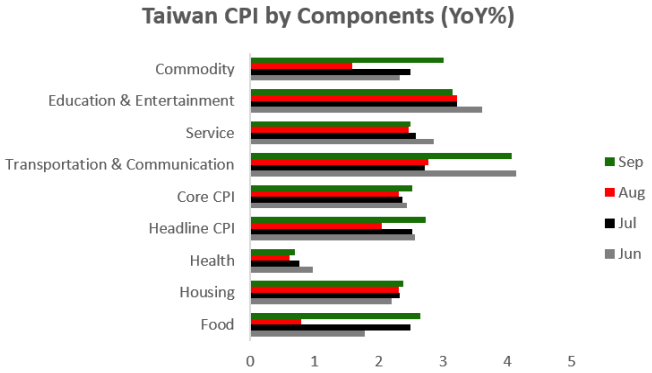
The strength of export orders and technology shipments entering 2027 remains supportive, but the durability of the cycle will depend increasingly on final demand rather than supply-chain restocking. A sustained expansion in cloud-computing workloads and broader enterprise adoption of AI would support another year of strong semiconductor demand. Conversely, evidence of excess capacity or a slower conversion of AI spending into revenue could lead customers to delay orders despite favourable long-term demand expectations.

Taiwan

Chart 4: Export growth and orders point to sustained external momentum



Chart 5: Inflation pressures have broadened across key components



Source: Bloomberg, OCBC Group Research

Domestic demand should provide a secondary growth engine. Private consumption should remain resilient in 2027, supported by a tight labour market, firmer wages and accumulated income gains in technology-related industries. The wealth effect generated by the strong rise in equity valuations during 2026 may continue to support discretionary spending, although recent market volatility and sizeable foreign portfolio outflows suggest that this channel will be less dependable than it was earlier in the cycle.

Fiscal policy should provide an additional, albeit temporary, lift to household spending. The proposed NTD235.7bn allocation for a universal NTD10,000 cash payment could support retail sales, food services and discretionary consumption, particularly if disbursement is concentrated around the Lunar New Year period. However, the multiplier is likely to be moderate because part of the transfer may be saved or used to repay debt. The measure should therefore be viewed as a near-term consumption buffer rather than a source of persistent growth.

The domestic recovery is nevertheless likely to remain uneven. Income gains remain concentrated in semiconductors and other AI-linked industries, while traditional manufacturing and domestically oriented businesses are experiencing a less pronounced upswing. Property-market softness and elevated borrowing costs may continue to weigh on residential investment, housing-related consumption and household confidence. As a result, stronger headline GDP growth may not translate into an equally broad improvement across sectors.

Limited room for either aggressive tightening or early easing. The policy outlook in 2027 will be shaped by competing signals. Above-trend growth, strong monetary indicators and persistent core and services inflation would argue against an early easing cycle. TWD weakness could also add to imported inflation, particularly through fuel, food and other tradable-goods prices. According to the CBC estimate, a 1% TWD depreciation could raise headline inflation by approximately 0.05–0.15 percentage points, although fuel-price stabilisation measures should cushion part of the pass-through.

Taiwan

Nevertheless, the case for a sustained tightening cycle is limited. The expansion remains highly concentrated in AI-related industries, while property activity and parts of the domestic economy remain soft. Against this backdrop, any additional tightening is more likely to take the form of a limited precautionary adjustment than the beginning of an extended hiking cycle. Once inflation shows convincing signs of moving back towards a more comfortable range, the CBC is likely to favour an extended hold rather than immediate policy reversal.

The currency will remain an important part of the policy reaction function. Continued TWD depreciation could increase imported inflation and reinforce capital-outflow pressure, while rapid appreciation could compress manufacturers' local-currency revenues and margins. The central bank is therefore likely to continue using a combination of market intervention, liquidity management and exporter-flow measures to smooth excessive moves instead of targeting a specific exchange-rate level.

AI cycle, trade fragmentation and currency pressure. The most important downside risk is a reassessment of global AI capital expenditure. The current investment cycle assumes that continued spending on data centres, accelerators and computing infrastructure will eventually produce sufficient revenue and productivity gains. If monetisation disappoints, or if pressure on free cash flow intensifies, major technology companies could postpone new projects or slow the pace of capacity expansion. Such a shift would transmit rapidly through Taiwan's supply chain, weakening demand for advanced semiconductors, AI servers and related components.

The domestic impact would extend beyond merchandise exports. Weaker technology investment would reduce imports of machinery and equipment, delay capacity expansion and lower gross fixed-capital formation. As semiconductor investment has become increasingly important to domestic demand, Taiwan's sensitivity to changes in the global technology capital-expenditure cycle is now greater than suggested by export data alone.

Trade-policy uncertainty represents a second major risk. Broader US tariffs, export controls, rules-of-origin requirements or localisation policies could raise compliance costs and encourage a greater share of semiconductor production to move overseas. Near-term overseas expansion may still benefit Taiwan-based suppliers through equipment and intermediate-goods exports. Over time, however, additional capacity in the US, Japan and Europe could dilute the domestic investment and employment benefits generated by the technology cycle.

Currency and portfolio flows form a third transmission channel. A deterioration in global AI sentiment could lead to renewed foreign equity outflows and TWD depreciation even if Taiwan continues to run a sizeable trade surplus. Greater flexibility for exporters to convert accumulated US-dollar proceeds may help moderate one-sided depreciation pressure, but its effectiveness will depend on actual conversion behaviour and whether commercial inflows are large enough to offset portfolio outflows.

Taiwan

Conclusion. Taiwan's economy should remain one of the region's stronger performers in 2027, but the nature of the expansion is likely to change. Growth will slow mechanically from an exceptional 2026 base, while the marginal contribution shifts from export acceleration towards capacity execution, investment and household income. Our 7.5% growth forecast therefore represents a normalisation from an extraordinary boom rather than the beginning of a conventional downturn.

The resilience of this outlook ultimately rests on three conditions: AI demand may continue expanding in level terms, the technology investment pipeline must translate into domestic production and income, and household demand must absorb part of the moderation in net exports. Failure in any one of these areas would not necessarily derail the expansion, but a simultaneous weakening in AI capital expenditure, global trade conditions and domestic confidence would create a materially softer outcome.

Thailand

Thailand: Watching price risks

Lavanya Venkateswaran
Senior ASEAN and India Economist

Jonathan Ng
ASEAN Economist

- We expect GDP growth to edge higher to 2.5% YoY in 2027, from 2.3% in 2026. The pickup is likely to come less from domestic demand than from a smaller drag from net exports.
- The external outlook is mixed. Goods export growth is expected to slow as global investment in AI and data centres moderates in 2027, while a recovery in tourist arrivals should lift services exports.
- With inflation staying elevated through 1Q27 and the output gap largely closed, we expect the Bank of Thailand (BoT) to scale back policy accommodation, with a cumulative 50bp of hikes in 1H27.

Political and policy stability sustained in 2026

The economy has held up better than we had anticipated, with GDP growth of 2.4% YoY in 1H26, broadly in line with the 2025 full-year pace. During this period, the external sector was the bright spot, with goods exports expanding by 14.8% YoY in 1H26, up from 11.9% in 2025, on the back of the electronics and AI cycle. Domestic demand was also resilient, rising by 4.1% YoY in 1H26, up from 2.9% in 2025. This was led by the private sector (4.6% YoY versus 2.9% in 2025), while public sector growth moderated (2.4% YoY versus 3.0% in 2025). However, imports surged on firmer domestic demand, turning net exports into a drag on headline growth.

Notably, political and policy uncertainties have also eased. The Constitutional Court upheld the 9 July emergency borrowing decree[21] and dismissed a petition to annul the 2026 general election,[22] averting a possible re-run. Meanwhile, the FY27 Budget (October 2026 to September 2027) was passed by Parliament and received royal endorsement ahead of the new fiscal year, avoiding potential lengthy delays. As a result, the Bhumjaithai-led coalition government is well placed to focus on implementing policies to support an economy where growth remains modest.

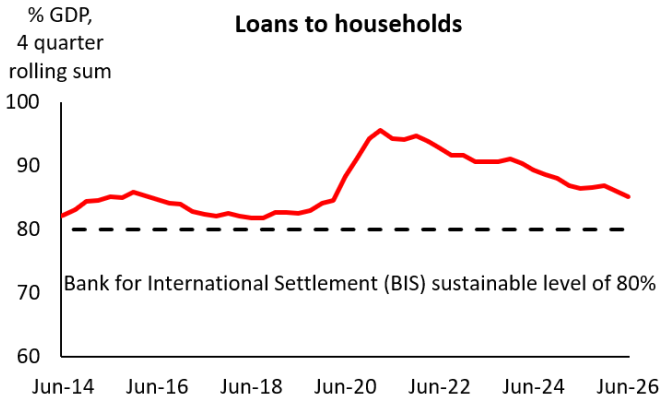
Growth to stabilise in 2027

We expect GDP growth to edge higher to 2.5% YoY in 2027, from 2.3% in 2026. The pickup is likely to come less from domestic demand than from a smaller drag from net exports. Private consumption growth is expected to improve modestly to 2.3% YoY in 2027 from 2.0% in 2026, with the improvement concentrated from 2Q27 onwards. We expect growth to remain soft in 1Q27, given a high base of 3.2% YoY in 1Q26 when the first phase of government support measures was being rolled out to support the vulnerable groups and cushion the blow to consumption. Thereafter, we expect private consumption growth to average 2.6% YoY in 2Q-4Q27, as household real purchasing power improves with the 2026 energy supply shock dropping out of the inflation base. More fundamentally, household

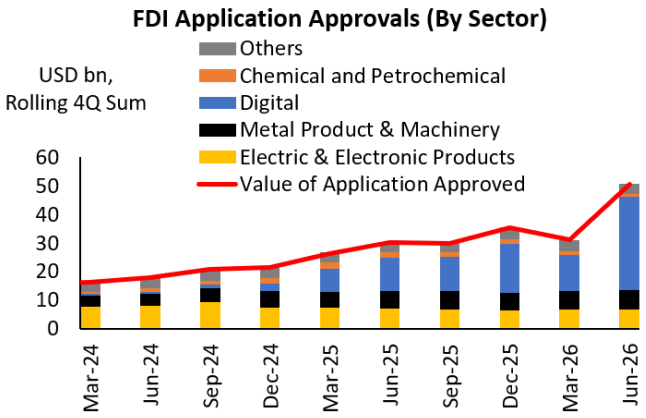
[21] Constitutional Court clears 400bn-baht emergency loan decree. The Nation Thailand, 9 July 2026.
[22] Thai court dismisses petition challenging legality of 2026 election. Reuters, 28 September 2026.

Thailand

debt will continue to weigh on the recovery in private consumption, which has remained elevated at 85.2% of GDP in 2Q26 (1Q26: 86.0%).



Source: Bank of Thailand, CEIC, OCBC Group Research.



Source: Board of Investment, CEIC, OCBC Group Research.

Meanwhile, investment spending is expected to moderate modestly to 6.2% YoY in 2027 from 8.4% in 2026, against a high base after private investment surged by 11.6% in 1H26. The investment pipeline remains supportive, underpinned by investments in the electronics industry and data centre. On a 4-quarter rolling basis, foreign direct investment (FDIs) inflows, as measured by the value of applications approved, rose by 68.1% YoY in 2Q26, up from 17.6% YoY in 1Q26, driven by a sharp rebound in investments in the digital sector, whose share of approved application value climbed to 64.8% from 40.6% in the previous quarter. The authorities are, however, becoming more selective in terms of FDI approvals especially for data centres. In September, the authorities paused 166 data centre projects,[23] and are looking to adopt a tighter mechanism of data centre approvals. Nevertheless, past approvals translating into actual spending could support investment spending into 2027, while continued political stability will remain a tailwind.

Government spending is expected to pick up modestly to 2.9% YoY in 2027 from 1.6% in 2026. With the FY27 Budget having received royal endorsement ahead of the new fiscal year (October 2026 – September 2027), disbursements have proceeded on schedule. The budget also tilts towards current expenditures, which is set to rise by 5.0% YoY in FY27 at the expense of capital expenditures, which is budgeted to decline by 8.4%. While the deficit is budgeted to narrow to 3.8% of GDP from 4.3% in FY26, the shift towards current spending should still support government consumption.

We expect some fiscal slippage, with the FY27 deficit likely to remain close to 4.0% of GDP. The fiscal stance has been expansionary, with the deficit tracking at 3.8% of GDP from October 2025 to September 2026, versus 2.6% a year earlier (GFS basis). Indeed, new measures have already been lined up, including a THB43bn extension of the "Thais Help Thais Plus" scheme. The THB3.5bn "Thai Teaw Thai Plus" tourism scheme, which has been pushed back, could also add to FY27 spending. Under the revised proposal, public

[23] Thailand pauses 166 data centre projects to rewrite rules. The Nation Thailand, 5 September 2026.

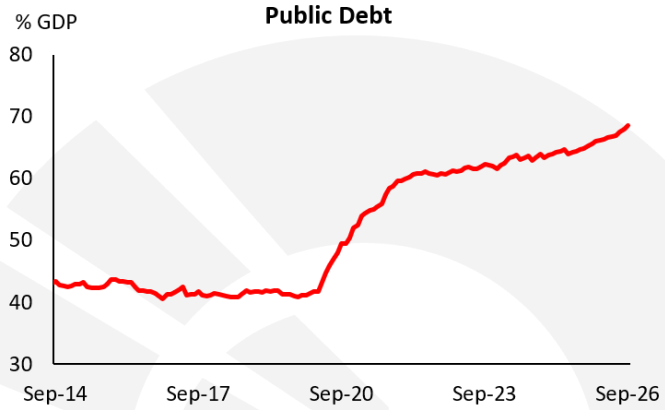
Thailand

registration would run from January to February 2027, with the travel period set for March to June 2027.[24] Fundamentally, headroom under the debt ceiling is thin, with the public debt standing at 68.6% of GDP at end-September and projected to reach 69.4% by end-FY27, just 60bp short of the 70% statutory ceiling.

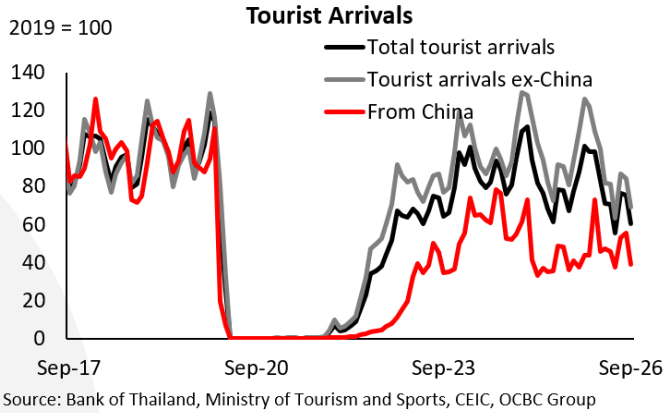
Medium Term Fiscal Framework (MTFF) for Fiscal Year 2027 - 2030				
Fiscal Year	2027	2028	2029	2030
Revenue	3,000,000	3,145,000	3,274,000	3,422,000
% YoY	2.7	4.8	4.1	4.5
Expenditure	3,788,000	3,826,000	3,864,000	3,903,000
% YoY	0.2	1.0	1.0	1.0
Budgetary Balance	(788,000)	(681,000)	(590,000)	(481,000)
% of GDP	(3.8)	(3.3)	(2.7)	(2.1)
Public Debt Outstanding	13,794,810	14,419,390	14,954,436	15,335,708
Debt to GDP (%)	69.36	69.78	69.52	68.22

Note: Approved by the Cabinet on 18 November 2025. Numbers are reported in THBmn, unless stated otherwise.
Source: Fiscal Policy Office, OCBC Group Research.

On the external front, the AI-led electronics cycle continued to power goods exports, with customs exports growing a robust 24.0% YoY in September, broadly unchanged from 24.3% in August, a seventh consecutive month of double-digit growth. Nonetheless, we expect goods export growth to slow to 5.7% YoY in 2027 from 14.9% in 2026, as growth in global investment in AI and data centres moderates. A high base effect will also weigh on exports. Indeed, risks to our goods export growth forecast is skewed to the downside, with the Commerce Ministry warning that exports could contract in 2027 given this year's high base.[25]



Source: Bank of Thailand, CEIC, OCBC Group Research.



Source: Bank of Thailand, Ministry of Tourism and Sports, CEIC, OCBC Group Research.

Tourism recovery to continue

Tourism has been weaker so far in 2026 but could improve into next year. Foreign arrivals fell by 3.8% YoY to 22.9mn in January–September 2026, or 76.6% of 2019 levels, weighed down by the impact from the US-Iran conflict, even as Chinese arrivals (Mainland China and

[24] Thailand proposes THB3.5bn domestic travel support for 2027. The Nation Thailand, 23 October 2026.
[25] Thai exports surge 24.3% in August as AI demand lifts electronics. The Nation Thailand, 25 September 2026.

Thailand

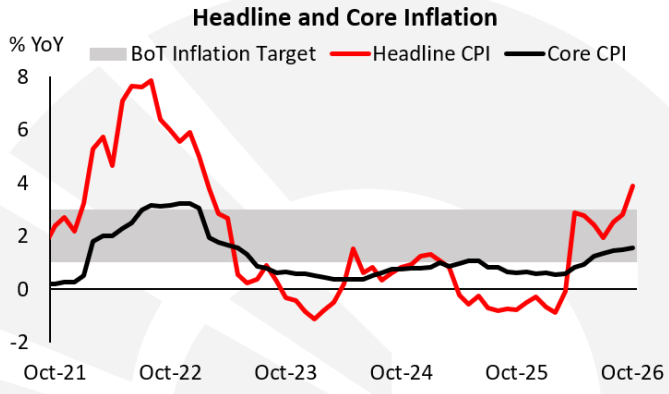
Hong Kong) rose by 13.6% to 4.4mn (49.0% of 2019 levels). To meet the official target of 33mn, arrivals will need to average ~3.4mn per month in October-December 2026, 13.6% more than the same period last year. We expect services exports to improve to 4.9% YoY in 2027 from 4.2% in 2026, as the overhang from Chinese tourism into Thailand fades and tensions in the Middle East stabilise to facilitate tourism inflows from the region. This, and lower global oil prices, will help support the current account surplus of 1.8% of GDP in 2027 versus 0.5% in 2026.

Inflation on the uptrend

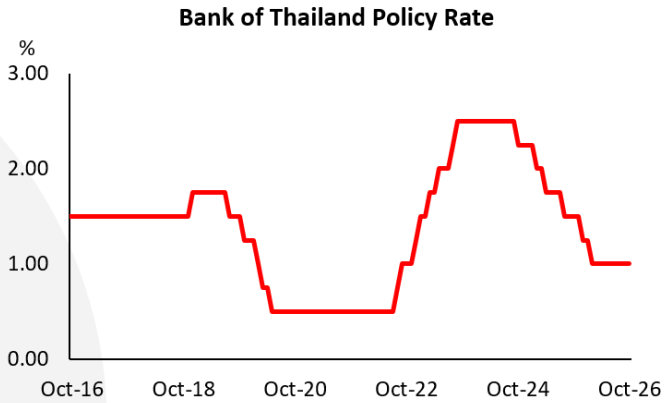
Inflationary pressures have picked up considerably, following twelve consecutive months of negative inflation readings between April 2025 and March 2026. Year-to-October 2026, headline inflation averaged 1.8%, compared with −0.1% in 2025. Our 2026 forecast of 2.2% sits at the upper end of the Commerce Ministry's adjusted 1.8–2.2% range,[26] implying that headline CPI will accelerate by 4.1% YoY in 4Q26, above the Bank of Thailand's (BoT) 1–3% target range. This acceleration partly reflects a low base in 4Q25.

Global crude prices have been volatile since US-Iran tensions began in end February, with refined product prices remaining sticky. The authorities initially tried to cushion some of this shock but the deficit on the Oil Fund widened sharply to more than THB100bn as of 18 October.[27] leading to a scale back in diesel subsidies. Even if base effects for global oil prices turn more favourable from 2Q27 onwards, we expect the pass-through onto domestic retail fuel prices to be more moderate to allow the Oil Fund to recuperate some losses.

Looking ahead, we expect headline CPI to ease to 1.6% YoY in 2027 from 2.2% in 2026. Inflation is likely to peak in 1Q27, as El Niño and cost pass-through add to price pressures, before easing sharply from 2Q27 onwards as the 2026 energy shock drops out of the base.



Source: Bank of Thailand, Trade Policy and Strategy Office, CEIC, OCBC Group Research.



Source: Bank of Thailand, CEIC, OCBC Group Research.

[26] Fuel and fresh food lift Thai September inflation to 2.82% as 2026 forecast narrows to 1.8–2.2%. The Nation Thailand, 6 October 2026.
[27] Energy Ministry weighs exit strategy to cut fuel subsidies as oil fund deficit exceeds 100bn baht. The Nation Thailand, 7 October 2026.

Thailand

Normalisation of monetary policy

The BoT kept its policy rate at 1.00% for a fourth consecutive meeting on 28 October, having cut by 25bp in February. Our baseline is for the BoT to hold the policy rate at 1.00% through end-2026, before raising it by a cumulative 50bp to 1.50% in 1H27. With headline CPI set to exceed 4% around the turn of the year and the output gap largely closed, the case for normalisation is building, in our view.

Summary of Economic Forecasts	2023	2024	2025	2026F	2027F	2028F
GDP (% YoY)	2.2	2.9	2.4	2.3	2.5	2.1
Exports of goods and services	2.7	7.5	9.3	13.5	6.2	6.2
Imports of goods and services	-2.5	5.7	6.8	20.6	3.9	9.2
Current Account Balance (% of GDP)	1.7	2.2	2.7	0.5	1.8	2.0
Unemployment Rate (% aop)	1.0	1.0	0.8	1.0	1.0	1.0
Fiscal Balance (% of GDP)	-2.9	-2.4	-2.6	-3.8	-3.8	-3.3
Headline CPI (% YoY)	1.2	0.4	-0.1	2.2	1.6	1.3
BoT Rate (% eop)	2.50	2.25	1.25	1.00	1.50	1.50

Note: The fiscal year is from October to September. For example, FY26 is from October 2025 until September 2026. The Fiscal Balance is reported on a GFS Basis.
Source: OCBC Group Research.

By Global Markets | 16 November 2026

Vietnam

Vietnam: Investment sustains growth momentum

- GDP growth to remain strong at 8.3% in 2027, following an estimated 9.1% in 2026, supported by infrastructure spending, FDI and resilient consumption.
- Inflation to average 4.5% in 2027, from a forecast of 4.6% in 2026, with upside risks if global energy prices remain elevated.
- We expect the SBV to hold its refinancing rate steady through end 2026 before raising it by 50bp to 5.00% in 2027, balancing price stability and growth.

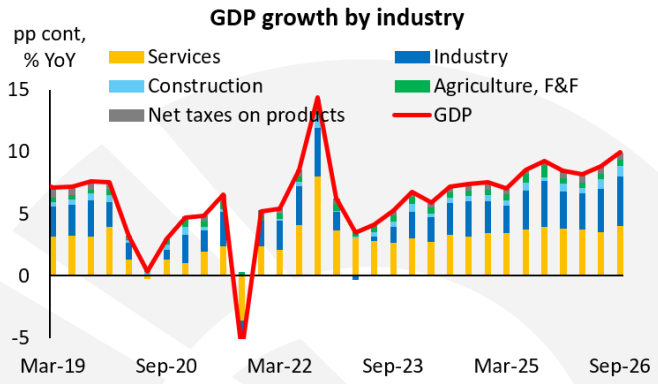
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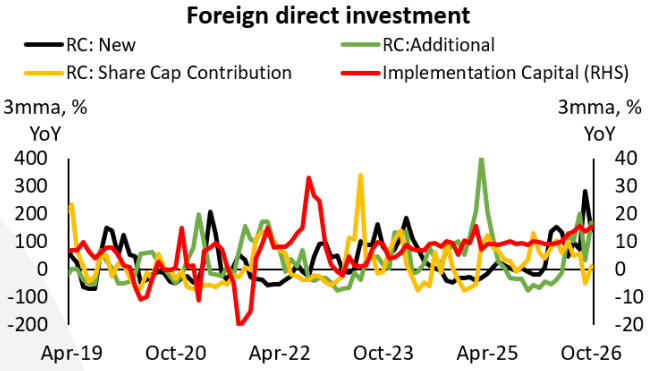
Vietnam's growth outlook remains supported by infrastructure spending, foreign investment and resilient household consumption. Investment should sustain activity in 2027, although the benefits from new production capacity will depend on project completion and the pace of operations. We expect fiscal policy to remain supportive, while persistent price pressures and the need to preserve external stability support our call for gradual SBV rate hikes.

Investment sustains solid economic growth

Recent economic growth has been broad-based. GDP expanded 10.0% YoY in 3Q26, lifting 9M26 growth to 9.0%. Gross capital formation increased 17.9% YoY in 9M26 and final consumption rose 8.5%, providing a firm basis for continued growth in investment and domestic demand.



Source: GSO, CEIC, OCBC Group Research.



Note: RC refers to registered capital. Source: Ministry of Planning and Investment, CEIC, OCBC Group Research.

Realised FDI has been particularly strong in 2026, increasing 13.1% YoY to USD24.1bn in Jan-Oct 2026, with manufacturing accounted for ~82.9% of the total. We expect continued investment in factories and equipment, with some projects adding to production capacity in 2027. The pace of disbursement and the start of commercial operations will determine how quickly this translates into higher output. LG Innotek targets completion of its approximately USD1bn semiconductor-substrate facility in May 2027, while Samsung's chip-

Vietnam

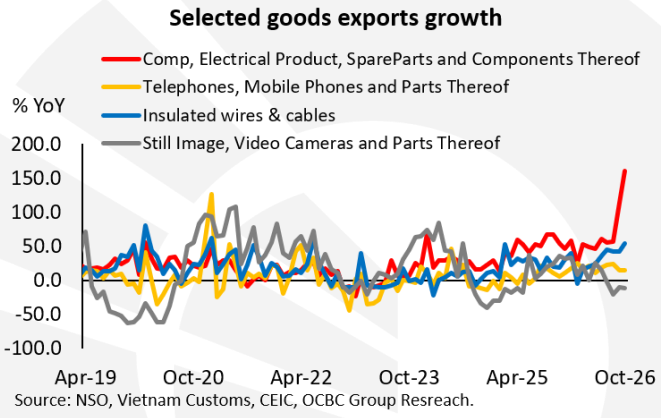
testing facility in Thai Nguyen is reportedly scheduled to begin operations in 4Q27.[28] These projects support investment during construction, with production gains building as operations ramp up.

Policy measures also provide support for domestic businesses. The government's 29 October decree sets out a 30% reduction in corporate income tax payable for eligible enterprises with annual revenue of no more than VND10bn in 2026 and 2027.[29] This provides continuing relief for smaller firms' cash flow. The policy guidance also calls for simpler business procedures and encourages foreign investors to reinvest profits in Vietnam, supporting the broader investment outlook.

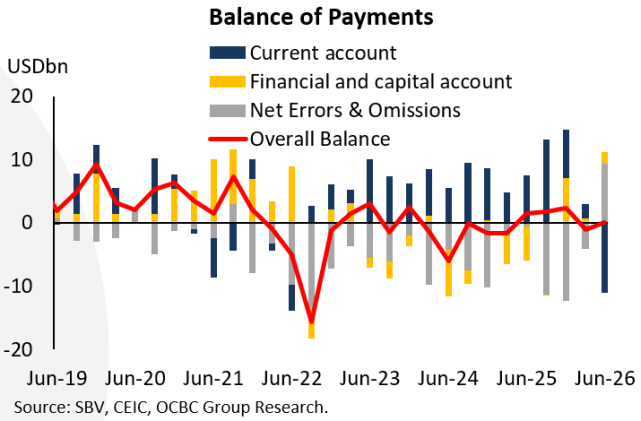
Household demand benefits from rising incomes and employment. Average monthly worker income increased 9.9% YoY to VND9.2mn in 3Q26, while working-age unemployment remained low at 2.2%. International visitor arrivals rose 13.8% YoY to 19.5mn in Jan-Oct 2026, providing additional support to tourism-related services. Persistent inflation could limit gains in purchasing power, while weaker global demand or project delays remain risks to the growth outlook.

Strong exports, but rising import demand

E&E demand supports the export outlook, with electronics, computers and components shipments rising 70.8% YoY in Jan-Oct 2026, while imports in the same category increased by 74.1%, underscoring the sector's reliance on imported inputs. The goods trade surplus widened to USD7.3bn in October from USD1.3bn in September, but even with this improvement, the Jan-Oct 2026 trade balance remained in deficit at USD11.8bn, compared with a USD19.5bn surplus a year earlier. The free trade agreement (FTA) network should help support export diversification. The UAE CEPA took effect in February 2026, while the EFTA agreement was signed in October and awaits entry into force. ASEAN and Canada are targeting the signing of an FTA in 2027, with benefits dependent on implementation.



Source: NSO, Vietnam Customs, CEIC, OCBC Group Resreach.



Source: SBV, CEIC, OCBC Group Research.

[28] "Samsung plans $4.1 bln investment in northern Vietnam chip testing facilities," The Investor, October 13, 2026, last accessed November 2, 2026.
[29] Decree No. 398/2026/ND-Cpi

Vietnam

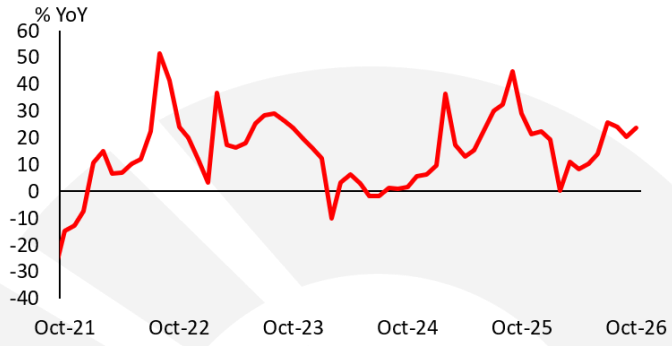
Meanwhile, tourism receipt rose 17.4% YoY to USD13.1bn in Jan-Sep2026, accounting for half of services exports, according to the National Statistics Office (NSO). The country still recorded a services trade deficit of USD8.2bn over the period, largely reflecting net transport payments. We expect the current-account surplus to narrow to 2.5% of GDP in 2026 from ~6.5% in 2025 and remaining at 2.5% in 2027. Investment and production will likely sustain demand for imported inputs and equipment, while electronics exports and tourism receipts should provide some supports.

Government spending remains supportive

The fiscal policy will remain expansionary, with infrastructure investment remains central to fiscal support in 2027. The proposed budget allocates around 43% of total spending to development expenditure, compared with 35.5% in the 2026 budget. October policy guidance prioritises transport and energy infrastructure and calls for funds to be redirected towards projects making better progress.[30] These plans support the growth outlook, although their impact depends on the final budget and actual spending.

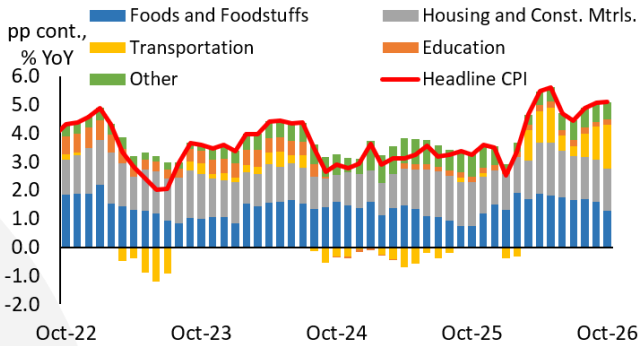
Public investment disbursement reached VND643.0trn by the end of September 2026, or 62.9% of the plan assigned by the Prime Minister. Progress varied, with disbursement from local budgets reaching 73.6% of plan, compared with 44.1% for central budgets. Faster disbursement and careful project selection will be important for spending to support demand and ease supply bottlenecks. Maintaining revenue growth and diversifying financing sources would also help sustain investment without placing excessive pressure on banks.

Investment capital from the state budget



Source: NSO, CEIC, OCBC Group Research.

Drivers of CPI



Source: NSO, CEIC, OCBC Group Research.

Price pressures remain elevated

We modestly revise higher our 2026 average headline inflation forecast to 4.6% from 4.5% and retain our 2027 forecast at 4.5%. Headline inflation held at 5.1% YoY in October, while core inflation eased to 4.0% from 4.5% in September. Higher domestic fuel prices drove the monthly rise in headline CPI, with transport inflation accelerated to 15.6% YoY from 11.7%, while inflation in food & & foodstuffs eased to 3.6% from 4.4%. Headline inflation averaged

[30] The Party Central Committee's Conclusion No. 106, issued on 15 October 2026, prioritises transport and energy infrastructure and calls for funds to be redirected towards projects making better progress.

Vietnam

4.6% in 10M26, and our revised forecast implies that it will ease modestly from October's pace while remaining elevated through year end. The electricity tariff cut and petrol excise tax relief that took effect on 1 November should help ease price pressures towards year end.

Selected government measures to contain inflation		
Measure	**Policy action**	**Details**
Electricity tariff	Cut the average retail electricity tariff by 2% to VND2,159.9 per kWh, excluding VAT.	Vietnam Electricity Decision No. 1305 of 30 October 2026 and Ministry of Industry and Trade Decision No. 2892 of 31 October 2026. Effective from 1 November 2026.
Petrol excise tax	Set the excise tax on all grades of petrol at 0%.	Government Resolution No. 45 of 31 October 2026, Articles 1 and 2. Effective from 1 November 2026 through 31 March 2027.
Other fuel taxes	Extended the VND0 per litre environmental protection tax rate on petrol excluding ethanol, diesel, kerosene, fuel oil and aviation fuel. Also extended zero preferential import duties on selected petroleum products and inputs.	Government Resolution No. 43 of 30 September 2026, Articles 1 and 2. These concessions were extended through 31 December 2026.
Administered prices	Directed ministries and local authorities to review the need, scale and timing of changes to state-set prices and avoid simultaneous adjustments where possible.	Prime Minister's Official Dispatch No. 70 of 15 October 2026, Section 3
Essential goods	Directed ministries and local authorities to prepare supply plans for essential goods and services ahead of year end and the 2027 Lunar New Year, and to address local shortages.	Prime Minister's Official Dispatch No. 70 of 15 October 2026, Sections 2(a), 2(b), 4(c) and 4(d).
Construction materials	Directed the Ministry of Construction and local authorities to monitor supply and prices, publish local prices promptly and address supply and transport constraints.	Prime Minister's Official Dispatch No. 70 of 15 October 2026, Sections 2(c) and 4(e).

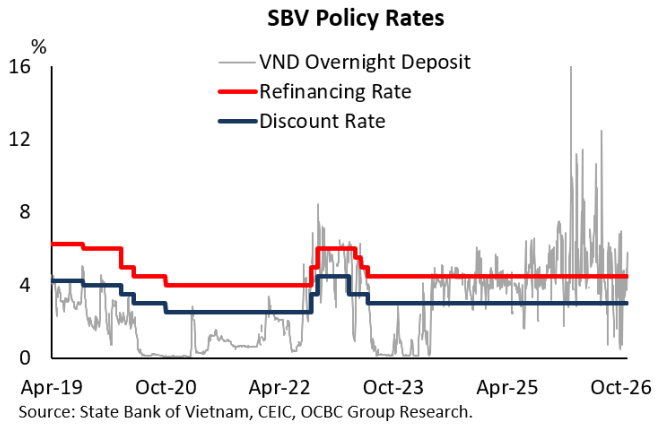
Source: Vietnam Government Portal, Ministry of Industry and Trade, Vietnam Electricity and Civil Aviation Authority of Vietnam.

The petrol excise tax cut should continue to offer some relief through March 2027. Other fuel tax concessions are due to expire at end 2026 and could add to price pressures if they are withdrawn. Domestic pressures also remain firm in selected categories. Dining out inflation remained elevated at 6.9% YoY in October and averaged 7.1% in Jan-Oct2026, while inflation in the broader housing and construction materials category was 6.5% YoY in October and averaged 6.7% in Jan-Oct2026. Resilient consumption and continued infrastructure spending could sustain pressure on selected services and construction costs in 2027. Renewed increases in global energy prices, weather disruptions to food supply and currency depreciation remain upside risks to our forecast.

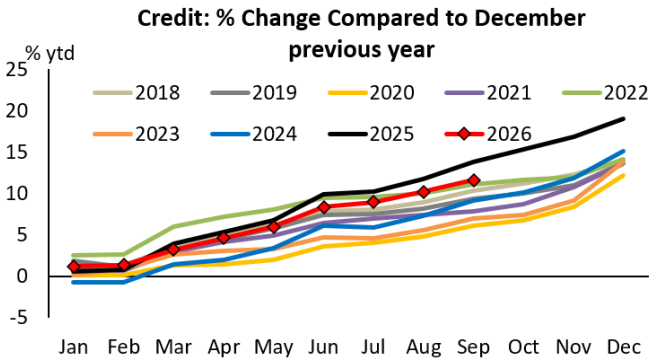
Gradual rate hikes remain our base case

We retain our forecast for the SBV to keep its refinancing rate at 4.50% through end 2026, before raising it by a cumulative 50bp in 2027, likely in 1H27, to 5.00%. Persistent underlying inflation and the risk of renewed currency pressure support our call for tighter policy. A narrower current account surplus would also leave a smaller buffer against adverse capital flows, although continued FDI inflows provide support.

Vietnam



Source: State Bank of Vietnam, CEIC, OCBC Group Research.



Note: September figure was collected from news sources.
Source: SBV, CEIC, OCBC Group Research.

Outstanding bank credit rose 12.3% from end 2025 by late October, compared with 11.6% at end September, supporting domestic demand. At the same time, the government's growth ambitions are likely to sustain pressure on banks to lower lending rates and finance priority projects. The SBV reiterated calls for lower lending rates in October, and we expect this emphasis on affordable credit to continue in 2027. We expect the SBV to raise rates cautiously, balancing inflation and currency pressures against the need to sustain credit to the economy. Government calls for lower lending rates could continue, particularly for priority sectors, although banks' ability to deliver further reductions would depend on funding costs, cost savings and their capacity to absorb lower margins.

Summary of Economic Forecasts	2024	2025	2026F	2027F	2028F
GDP (% YoY)	7.0	8.4	9.1	8.3	8.5
Current Account Balance (% of GDP)	6.5	6.5	2.5	2.5	2.6
Unemployment Rate (% aop)	2.2	2.2	2.2	2.2	2.2
Fiscal Balance* (% of GDP)	-0.8	-1.2	-3.5	-3.4	-3.7
Headline CPI (% YoY)	3.6	3.3	4.6	4.5	4.0
SBV Refinancing Rate (% eop)	4.50	4.50	4.50	5.00	4.50

Note: *excluding unallocated expenditures and following GFS.
Source: IMF, OCBC Group Research.

Thematic Report 1

US: What would a pullback in AI investment mean for US growth?

Chester Liaw
G7 Economist

- AI is a growth driver, but also a source of vulnerability. We estimate direct AI demand adds 0.3ppt to US real GDP growth in 2027, mainly through investment.
- An AI correction could materially weaken US growth. Our moderate and severe scenarios lower 2027 real GDP growth to 1.5% and 0.8%, respectively, from a 2.3% baseline, with the scale of the slowdown depending on how widely the shock spreads.
- Lower imports cushion an investment pullback, but broader spillovers deepen the slowdown. Sustained equity losses, tighter financing conditions and weaker wage income would weigh on household consumption and investment beyond AI.

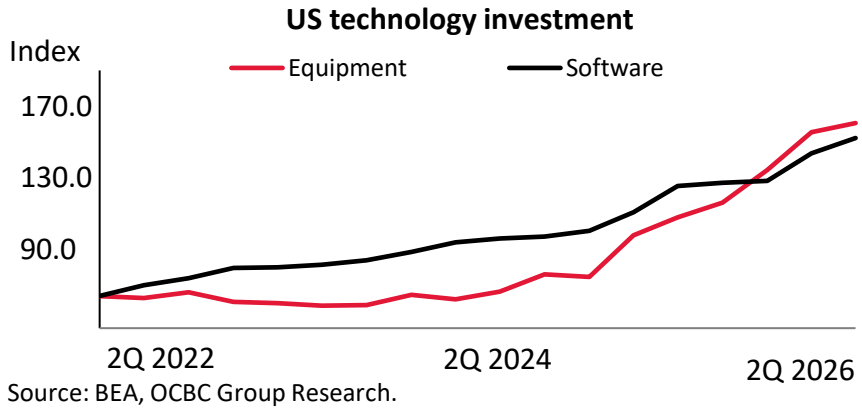
AI spending has become a meaningful source of US economic growth, but its impact is more nuanced than headline investment figures suggest. Our estimates show that the current boost comes overwhelmingly through investment, while high import content limits the benefit to GDP. This also means that a pullback in AI spending would primarily hit the investment component of GDP first, with the economic damage becoming much larger if it spills into asset prices, credit conditions and household consumption.

Investment drives the direct growth effect

The surge in AI-related spending has become an increasingly important part of the US investment cycle, raising a fundamental question: how much is it actually contributing to economic growth? The answer is less straightforward than headline numbers might suggest. Spending on data centres, computing equipment, software and research all supports activity, but not every dollar translates into US GDP. In particular, a substantial share of equipment demand is met through imports, meaning some of the investment boost ultimately accrues to production overseas rather than domestic output.

Our base case estimates that direct AI demand will contribute 0.3 percentage points to annual real GDP growth in 2027, up from 0.2 percentage points in 2026. Investment provides the largest impulse, seen contributing 0.5 percentage points to annual real GDP growth in 2027. Meanwhile, imported equipment and services subtract 0.2 percentage points from annual real GDP growth in 2027, offsetting around half of that investment contribution.

Thematic Report 1



Source: BEA, OCBC Group Research.

Within the investment component of GDP itself, the domestic impact of AI investment spending varies considerably across categories. Our calculations indicate that equipment accounts for the largest share of the AI investment contribution to GDP, with assumed import content of 80%, compared with just 5% for data-centre construction. Headline investment figures therefore do not translate fully into domestic growth, as part of the spending leaks abroad through imports of equipment.

Beyond investment, AI also supports growth through household consumption and exports. Household AI spending is assumed to rise from an annualised USD11.0bn in 3Q 2026 to USD19.1bn in 4Q 2027. After accounting for the substitute effect on spending on other software, this adds 0.016 percentage points to annual real GDP growth in 2027. Overseas purchases of US-produced AI services contribute another 0.023 percentage points to annual real GDP growth in 2027.

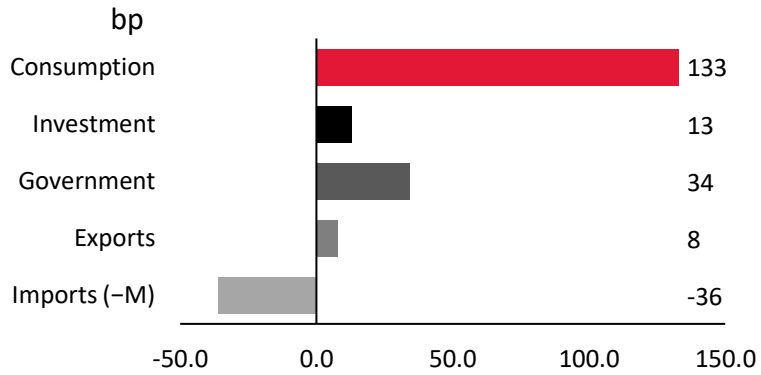
The smaller consumption contribution to GDP reflects the investment-led reality of AI companies as they are spending heavily to build AI capacity, while household consumption of AI remains comparatively modest. The losses reported by some AI businesses highlight the challenge behind this expansion. CoreWeave, for example, generated USD5.13bn in revenue in 2025 but recorded a USD1.17bn net loss. Still, it is undeniable that AI investment is supporting economic growth, but the key conduit is through the investment channel rather than consumption.

What if AI investment stops or reverses?

Our baseline assumes that AI adds 0.3ppt to real GDP growth in 2027, but the contribution could reverse if AI-related demand loses momentum. To assess this downside, we consider two scenarios. The moderate case assumes that AI demand cease to add to growth, while the severe case assumes that their projected quarterly growth contributions reverse. The resulting spillovers lower 2027 real GDP growth to 1.5% YoY and 0.8% YoY, respectively, from the baseline of 2.3% YoY.

Thematic Report 1

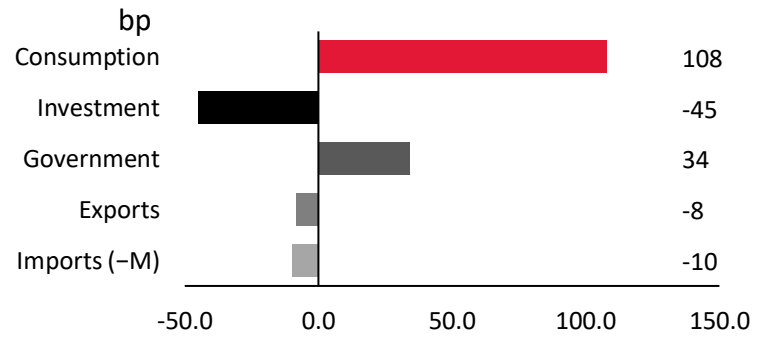
Moderate scenario: 2027 GDP growth contributions



Source: BEA, Federal Reserve, OCBC Group Research.

In the moderate case, we assess what happens to GDP when AI investment and demand stops. A 10% equity decline is estimated, weighing on household spending through 2027. Higher borrowing costs also dampen non-AI investment, while weaker external demand reduces US exports and softer wage income adds to the consumption drag. Consumption nonetheless remains the main growth driver, contributing 1.3ppt to 2027 real GDP growth versus 1.6ppt in the baseline, while private investment adds just 0.1ppt. Lower imports cushion part of the downturn, leaving 2027 real GDP growth at 1.5% YoY.

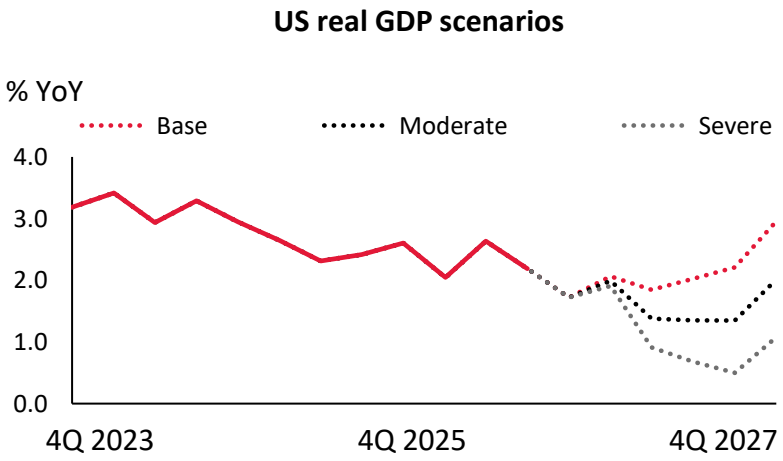
Severe scenario: 2027 GDP growth contributions



Source: BEA, Federal Reserve, OCBC Group Research.

In the severe case, the boost from AI demand is fully reversed, pushing private investment from a source of growth to a 0.4ppt drag in 2027. We also assume corporate risk premiums rise 75bp above baseline and long-term yield increase 50bp, raising borrowing costs and weighing on investment beyond AI. Consumption remains the main support to growth, contributing around 1.1ppt, although a projected 20.0% loss in equity portfolios and weaker wage income reduce household spending. Lower foreign demand also turns exports into a 0.1ppt drag. While weaker imports cushion some of these losses, the offset is not enough to prevent real GDP growth from slowing to 0.8% YoY in 2027.

Thematic Report 1



Source: BEA, OCBC Group Research.

What about the IMF AI correction scenario?

The IMF's October 2026 World Economic Outlook provides a useful benchmark for our AI downside scenarios, but its AI downside scenario starts from a different trigger. Rather than assuming AI demand simply stops contributing to growth or reverses, the IMF assumes investors reassess the expected productivity and profit benefits of AI, prompting the investment boom to unwind. The associated market shock is nevertheless close to our severe case, with US equities falling 20% and other markets 15%. Unlike our framework, however, the IMF does not include a milder scenario in which AI simply stops adding to growth.

One key takeaway from the IMF analysis is that the broader financial spillovers matter more than the investment correction itself. The direct investment shock reduces US GDP by around 0.8%, but falling equity prices, tighter financial conditions and higher global bond yields increase the loss to US GDP to around 1.8% below baseline by 2028. This lends support to our inclusion of higher risk premiums and long-term yields in the severe case. The IMF also points to the increasing weight of AI-linked firms in equity and credit markets and warns that debt accumulated during the boom could become harder to service, suggesting that risks to our estimates are more likely to lie on the downside.

Our severe estimate puts US GDP around 1.5% below baseline by end-2027 broadly comparable with the IMF's estimate for 2027 and its 1.8% shortfall from baseline in 2028. The IMF's analysis also captures the effects beyond the US, with Asian output 1.7% below baseline by 2028 as weaker AI demand feeds through technology supply chains and financial markets. For the US, this external weakness is reflected in lower imports, which partly offsets the hit to domestic GDP in our scenarios.

It must be reminded that IMF scenario remains a downside risk rather than its central forecast, which still has global growth at 3.1% in 2026 and 3.4% in 2027. However, it sees risks as skewed to the downside and cautions against complacency over an AI correction. With the energy shock already adding to inflation, central banks would also have less room

Thematic Report 1

to cushion the downturn. Overall, the IMF exercise broadly validates the magnitude and transmission channels in our severe case, while indicating that the downside could be more persistent than our current assumptions allow.

AI: A growth driver and a source of vulnerability

Our analysis suggests that the principal downside risk from an AI correction lies beyond the immediate loss of investment spending. Reduced imports would absorb part of the direct shock, but falling equity wealth, higher financing costs and softer income growth could transmit the adjustment more broadly across the economy. These channels bring US' 2027 real GDP growth down from 2.3% in our baseline to 1.5% in the moderate case and 0.8% in the severe case. The IMF exercise reinforces the importance of these financial spillovers and suggests that their effects could persist beyond the initial correction. AI therefore remains a support to US growth, but also a source of vulnerability should confidence in its expected returns weaken materially, even though this is not our base case for 2027 at this juncture.

By Global Markets | 16 November 2026

Thematic Report 2

Critical Minerals & AI supply chain in Asia Pacific

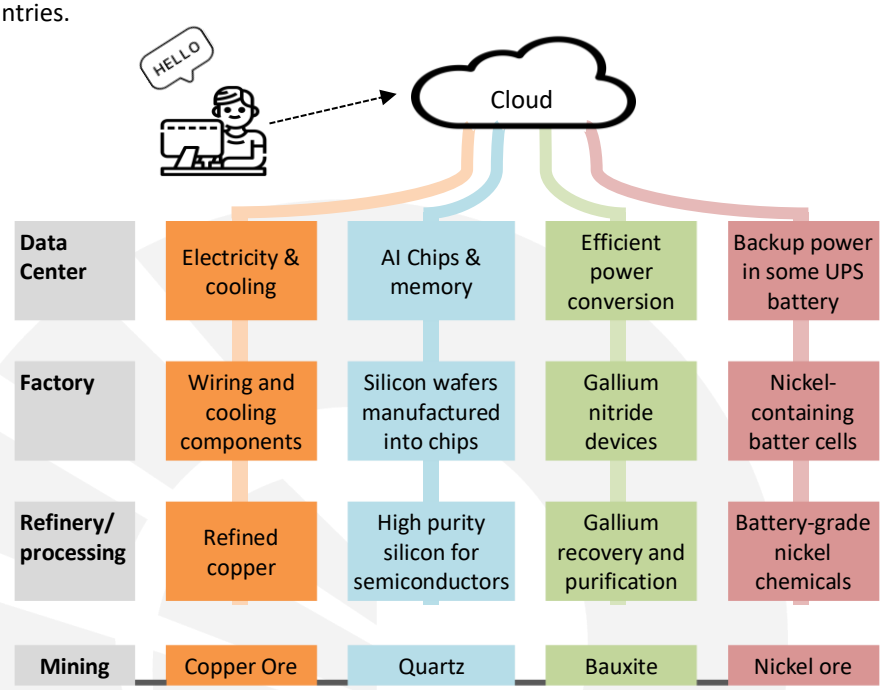
Ahmad A Enver
ASEAN Economist

Noah Siaw
Macro Research Analyst

- The buildout of AI infrastructure is adding to demand for copper and other materials used in data centres, semiconductors and power systems.
- Asia Pacific plays a role at several stages of these supply chains. ASEAN's participation spans mineral production, refining and electronics manufacturing, with links to suppliers and customers in Australia and North Asia.
- New investment can broaden the supplier base and create opportunities for local firms and workers. The gains depend on whether projects reach commercial production, secure reliable inputs and develop local supplier capabilities.

The cloud still needs cables

Even a simple "hello" to an AI platform such as ChatGPT relies on chips to process the request, servers housed in a data centre, electricity to power them and cooling systems to keep them running. Behind this infrastructure are materials that must first be extracted, refined and manufactured into components. These include copper for electricity and cooling, highly purified silicon for chips, and gallium-based materials for efficient power conversion. All three appear on the US's 2025 critical minerals list, although classifications vary across countries.



Note: Selected pathways, with production stages simplified. Not all backup batteries contain nickel. Gallium can also be recovered from zinc processing. Source: USGS, IEA, OCBC Group Research.

The term "critical" reflects both economic importance and supply risk, so how critical a mineral is, depends on who needs it and who has access to it. Nickel, for example, is used

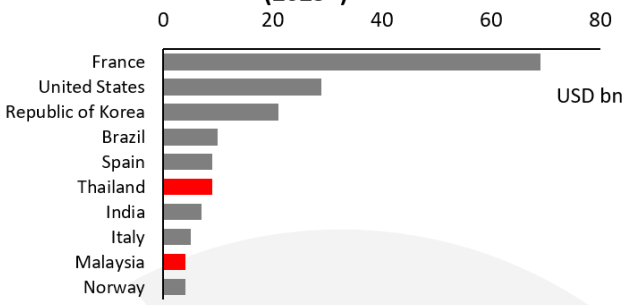
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in some battery systems that support backup power for data centers. Indonesia accounted for about two-thirds of global mined nickel production in 2025 and wants to build higher-value industries around it. China processes nickel at home and invests in Indonesian refining, while the US seeks secure supplies for batteries, aerospace and defence. The same mineral therefore carries very different stakes, placing its criticality on a spectrum shaped by economic needs and geopolitics.

These different stakes shape the risks and opportunities that AI investment presents for Asia Pacific. This report examines the mineral supply chains that support AI, where ASEAN fits alongside North Asia and Australia, and what new investment could mean for supply chain diversification.

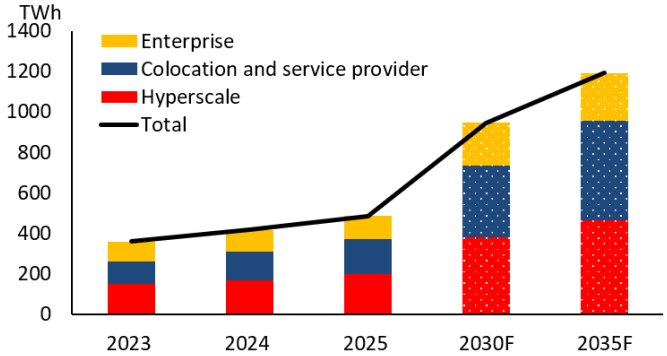
The investment pipeline is sizeable. UN Trade and Development (UNCTAD) puts the global value of announced new cross-border projects in AI infrastructure and related technologies at nearly USD350bn in 2025.[31] In Southeast Asia, Thailand and Malaysia were among the ten largest destinations by value for announced greenfield data-centre projects in the first three quarters of 2025. Looking ahead, total AI-related capital spending is projected to exceed USD4trn by 2029. Large cloud providers, known as hyperscalers, are expected to account for close to three-quarters of that total.[32]

Major recipients of data center investment (2025*)



Note: *Data for Jan-Sep 2025. Source: UNCTAD, Global Investment Trends Monitor, No.5, based on fDi Markets.

World data centres - Electricity consumption



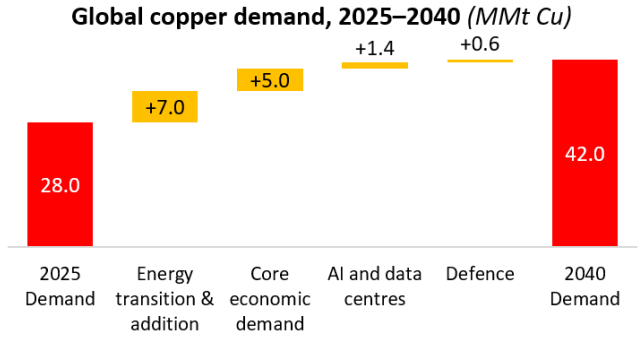
Source: IEA, OCBC Group Research.

Where Asia Pacific sits in the supply chain

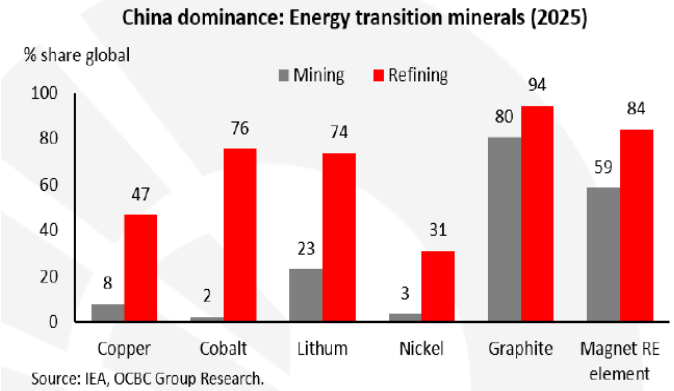
The data-centre buildout is adding demand for both electricity and copper. The International Energy Agency (IEA) projects that global electricity use across all data centres will nearly double from 485 TWh in 2025 to 950 TWh in 2030, with use at AI-focused facilities projected to triple.[33] Copper goes into wiring and cooling inside the facility and into the power infrastructure that serves it. S&P Global estimates that annual copper demand linked to data centres, including their supporting power infrastructure, will rise from 1.1mn tonnes in 2025 to 1.8mn tonnes in 2030.

[31] World Investment Report 2026. UNCTAD.
[32] The AI Ecosystem: Structure, Financing, and Financial Stability Considerations. IMF Technical Notes and Manuals No. 2026/13
[33] Key Questions on Energy and AI. IEA, 2026.

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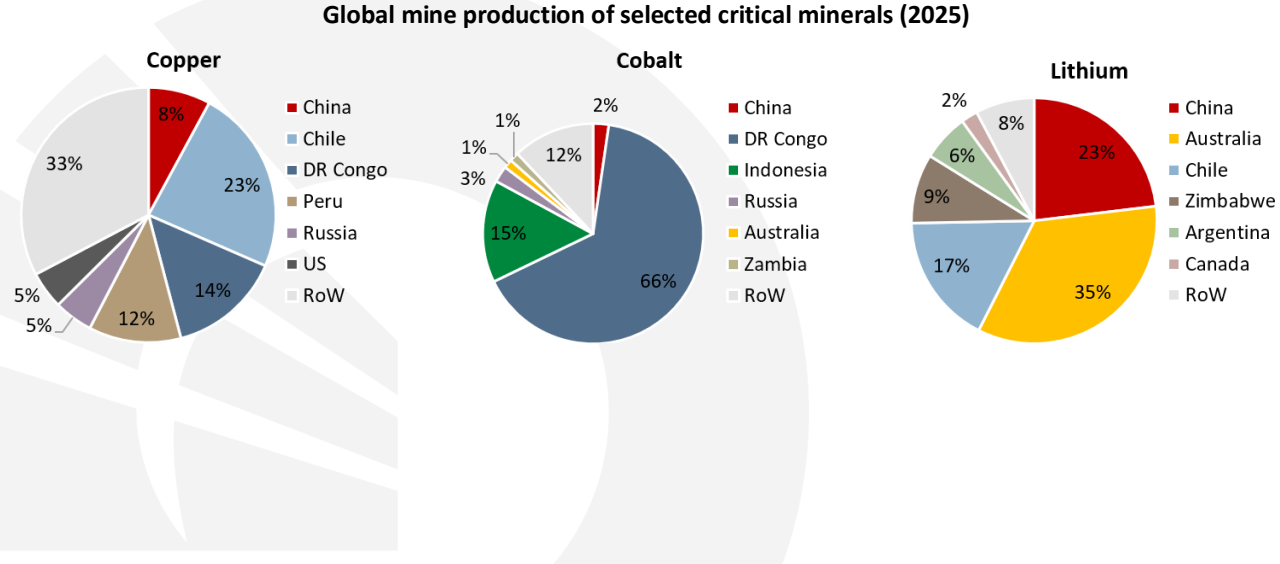
Note: Core demand covers construction, equipment, fossil power and conventional vehicles. Energy transition covers clean tech, power grids and EVs. Source: S&P Global.



Source: IEA, OCBC Group Research.

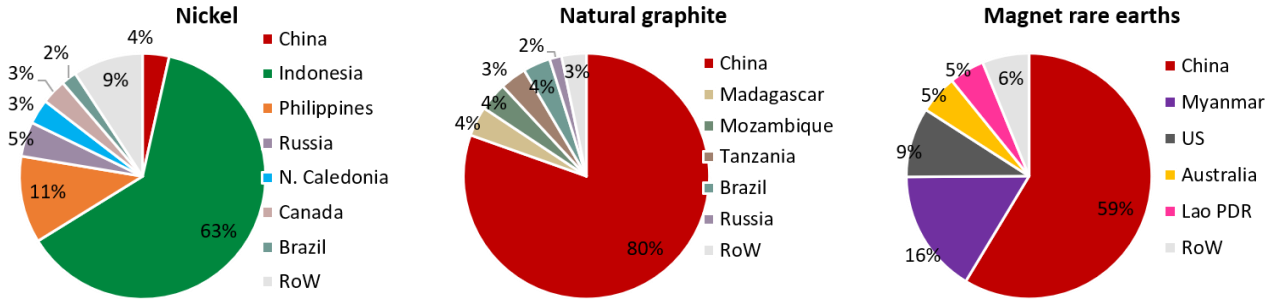
Data centres add to copper demand in a market already shaped by grid investment, vehicle electrification and other industrial uses. China and the rest of Asia Pacific could account for about 60% of global copper demand growth across all uses between 2025 and 2040. That gives regional suppliers a market well beyond data centres.[34] Securing the metal will be harder. Even after allowing for recycling and refining losses, existing and announced mines are projected to cover only about three-quarters of the world's need for newly mined copper in 2035.[35] New smelters can give buyers another source of refined copper if they can secure enough concentrate to keep running.

The region is also central to how copper reaches customers. China mined 7.9% of the world's copper in 2025 and produced 46.8% of its refined copper. Australia supplies copper ore and concentrates to Asian markets, particularly China and Japan. Indonesia has added smelting capacity of its own, giving Southeast Asia a larger role in processing the metal, but remained relatively small globally.



[34] Copper in the Age of AI: Challenges of Electrification. S&P Global, 2026.
[35] Global Critical Minerals Outlook 2026. IEA.

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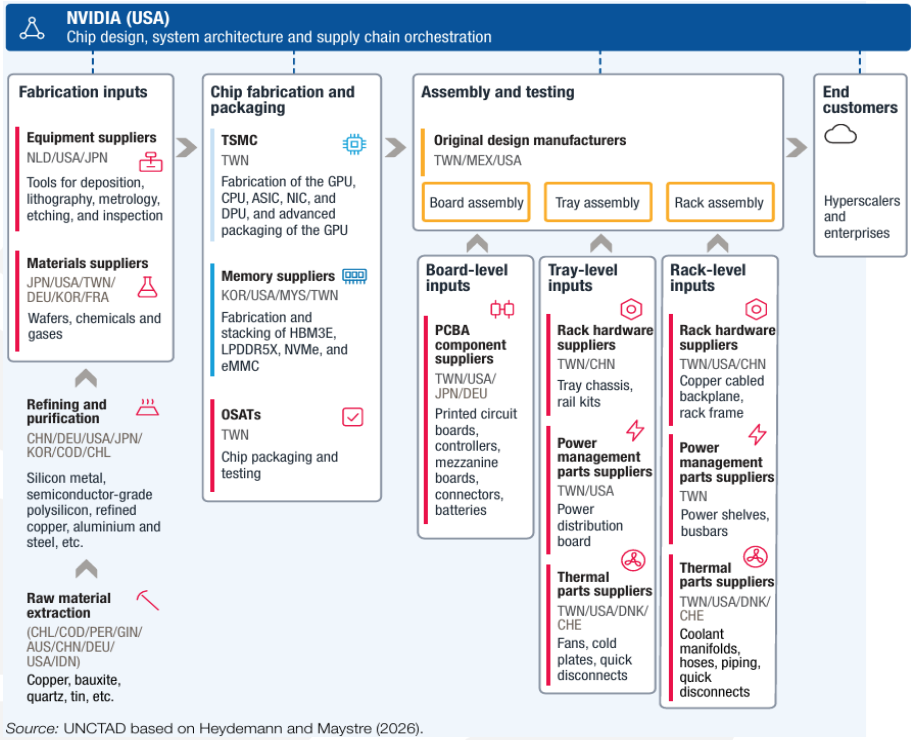


Source: IEA Critical Minerals Dataset (2026).

The region's strengths vary by mineral and by stage. Data centres can use lithium-ion batteries for backup power, and some of those batteries contain nickel. Indonesia and the Philippines supplied nearly three-quarters of the world's mined nickel in 2025, while Australia accounted for about a third of mined lithium. Rare-earth magnets help hard disk drives in data centres read and write data. Myanmar and Laos together supplied about a fifth of the world's mined magnet rare earths. Malaysia is a major refining hub, with Lynas's plant near Kuantan processing material from Australia's Mount Weld mine. In 2025, Malaysia accounted for nearly a third of the magnet rare earths refined outside China.[36]

In addition, Malaysia's electronics industry already has a foothold in AI hardware. UNCTAD identifies Malaysia and South Korea among the sources of memory for NVIDIA's GB200 server rack. The same system draws on Taiwan for chip fabrication and advanced packaging, and on Japanese firms for some of the equipment and materials used to make the chips.

Map of the value chain of the NVIDIA GB200NVL72 server rack



Source: UNCTAD based on Heydemann and Maystre (2026).

[36] Malaysia plans to be a key player in rare earth supply chain. CNA, 21 August 2025.

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How investment and partnerships could create economic value

Regional partnerships can turn production capabilities into economic activity by bringing together capital, technology, materials and customers. ASEAN economies can benefit through investment and construction, subsequent production and exports, and opportunities for domestic suppliers and workers.

Selected investments in regional mineral and technology supply chains			
Company / project	**Location**	**Investment and basis**	**Reported milestone**
Wagerup gallium project / Alcoa and partners	Australia	~USD174mn US government equity financing announced	Groundbreaking in August 2026; cooperation involves Australia, Japan and the US.
Iluka / Eneabba rare-earths refinery	Australia	AUD1.7–1.8bn estimated project capital cost	Construction was 65% complete at September 2026, with AUD1.237bn in accrued capital expenditure. Adds capacity to produce separated rare-earth oxides.
PTFI / Freeport-McMoRan	Indonesia	USD600mn capital expenditure in 2025	Spending on smelting and precious-metals refining facilities, disclosed January 2026.
CATL affiliate CBL, ANTAM and IBC	Indonesia	Nearly USD6bn planned project investment	Groundbreaking announced June 2025 for an integrated nickel-to-battery and recycling project.
Infineon / Kulim 3	Malaysia	EUR2bn Phase 1 investment; up to EUR5bn planned for Phase 2	Phase 1 opened August 2024 for silicon-carbide power semiconductors, including gallium-nitride epitaxy. Applications include AI data centres alongside other markets.
Lynas–JS Link	Malaysia	AUD52.3mn equity purchase in JS Link, Korea	Investment made during the September 2026 quarter for a planned magnet factory in Kuantan, with commissioning reportedly targeted for 4Q 2027.
Siltronic / new silicon-wafer factory	Singapore	About EUR2bn invested over the three years to 2024	Inaugurated June 2024, expanding production of 300mm silicon wafers for semiconductor manufacturing.
Samsung Electro-Mechanics	Vietnam	KRW2.51trn planned expansion	Announced September 2026 for AI-server semiconductor substrates. Operations targeted by June 2030.
Source: Company filings and announcements, government releases, OCBC Group Research.			

The first channel is investment spending. Freeport reported USD600mn of capital expenditure on PTFI's Indonesian downstream processing facilities in 2025, covering smelting and precious-metals refining. Such spending can generate demand for construction, installation and services. As facilities enter production, they can also expand the range of products an economy supplies to international markets.

Partnerships can help connect new capacity with customers. In September 2026, Samsung Electro-Mechanics announced a KRW2.51trn substrate expansion in Vietnam, targeting operations by June 2030. Substrates connect chips to circuit boards, and the company links its expansion to AI-server demand. Samsung also describes customer funding and longer-term volume commitments for its wider Korea–Vietnam investment programme. These arrangements can ease financing needs and give an expanding supplier greater visibility over future sales.

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Government agreements can support these commercial relationships. The October 2025 US–Malaysia critical minerals MOU provides a framework for cooperation across production stages, but is non-binding and commits no funding. Its economic contribution will depend on the projects and commercial agreements that follow.

Selected agreements supporting ASEAN's mineral supply chains		
Signed	**Partners and instrument**	**Main areas of cooperation**
Apr 2026	Indonesia–Korea MOU	Geoscience studies, processing, refining, recycling and investment cooperation.
Mar 2026	Indonesia–Japan Memorandum of Cooperation	Critical-mineral supply security and investment cooperation.
Oct 2025–Feb 2026	US–Malaysia MOU US–Thailand MOU US–Philippines MOU	Supply-chain diversification, domestic processing, technical cooperation and investment promotion.
Nov 2024	Indonesia–China, two mineral MOUs	Green minerals and mineral-resource development, spanning mining, downstream industries and investment cooperation.
Oct 2024	Philippines–Korea MOU	Exploration, processing, recycling, research and partnerships between companies.
Mar 2024	Vietnam–Australia energy and minerals MOU	Minerals investment, processing, technology and skills. First ministerial dialogue held in August 2026.
Source: Government announcements and published instruments, OCBC Group Research.		

The domestic gains will depend on more than the size of the investment announcement. Imported machinery and feedstock mean that headline spending and export receipts do not measure domestic value added. Local procurement, employment and training can help spread the benefits and build capabilities beyond a single facility. These investments could therefore help ASEAN build a stronger industrial base. Whether that happens will depend on projects becoming operational and the participation of domestic firms and workers.

How regional strategies differ

Governments across Asia Pacific are seeking a larger role in critical mineral supply chains. Their priorities vary with their resource base and existing industrial capabilities. Australia is building on its mining strengths by expanding processing and refining in selected minerals. Malaysia aims to build on its established rare earth separation industry by moving into metals, alloys and permanent magnets. The Philippines has broader ambitions spanning exploration, processing and higher-value manufacturing, although much of the downstream capacity it needs has yet to be developed.

Country	Critical Mineral Strategy
Australia	**Critical Minerals Strategy (2023-2030)** Expand Australia's mining, processing and refining capacity to capture more value domestically, strengthen industrial and technical capabilities, and attract investment by connecting Australian projects with overseas customers through international partnerships that support secure and diversified supply chains.

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China	**The National Plan for Mineral Resources (2026-2030)** Strengthen mineral supply security through domestic exploration, resource development, strategic reserves and overseas cooperation, while improving resource utilisation, promoting sustainable mining and reinforcing state oversight across the mineral supply chain.
Indonesia	**Ministry of Energy and Mineral Resources Strategic Plan (2025-2029)** Use export restrictions and domestic-processing requirements to move mineral production beyond raw-material exports into higher-value processing and manufacturing, prioritising integrated value chains for nickel-based stainless steel and EV batteries, copper-based electrical products, and bauxite-derived alumina and aluminium.
Philippines	**Executive Order No. 122, "Establishing a National Policy Framework for Developing the Critical Minerals Industry."** Expand exploration and geological mapping of critical-mineral resources, including nickel, copper and cobalt, while building domestic processing and refining capacity and attracting investment in higher-value industries such as battery materials, electronic components and renewable-energy technologies.
Malaysia	**National Mineral Industry Transformation Plan (2021–2030)** Expand mineral exploration and resource mapping while developing integrated upstream and downstream value chains, attracting investment into domestic processing and advanced materials, and strengthening governance, technology and sustainable mining practices.
Vietnam	**Master Plan on Exploration, Extraction, Processing and Use of Minerals for 2021–2030, with a Vision to 2050** Expand exploration and domestic processing of strategic minerals, particularly rare earths, bauxite, titanium, nickel and copper, by linking mining projects to modern processing facilities, attracting capable investors and technology, and strengthening environmental safeguards and supporting infrastructure.
Thailand	***No standalone national critical minerals strategy*** Current priorities include assessing lithium and rare-earth resources and securing raw materials for the EV, electronics and clean-energy industries. Policy also supports domestic processing and recycling, international investment and cooperation, and environmentally responsible mineral development.
Myanmar	***No standalone national critical minerals strategy***
Laos	***No standalone national critical minerals strategy*** Government has announced plans to develop a rare-earth and mineral strategy, tighten oversight of rare-earth projects, expand resource assessments and encourage domestic processing, but these measures have not yet been consolidated into a dedicated national framework.
Singapore	***No standalone national critical-minerals strategy*** Strengthen critical-mineral supply resilience through diversified sourcing, trusted international partnerships and open trade, while developing Singapore as a regional hub for trading, financing and logistics and considering local processing where commercially viable.

Not every country has developed a standalone critical-minerals strategy. Myanmar remains largely an upstream supplier of heavy rare earths, tin and antimony, but ongoing conflict, fragmented territorial control and weak governance have prevented the development of a coherent national strategy and limited investment in domestic processing. Given its limited mineral-resource base, Singapore at present does not have a standalone strategy and leans more on it strengths as a regional hub for critical-mineral trade, financing and logistics.

What could limit the gains and what can policy do?

Diversifying supply can be expensive. New refineries outside established processing hubs often face higher construction and operating costs. Established producers benefit from technical expertise and networks of equipment suppliers that take time to build. Rising

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demand for AI infrastructure can create opportunities, but new facilities still need to compete for customers across the wider mineral market.

New capacity can also leave some dependencies in place. A plant in ASEAN may still rely on a small number of overseas suppliers for processing technology, equipment or refined materials. China's April 2025 export controls on selected rare earths led some automakers to cut or temporarily halt production. The episode illustrates why the resilience of a supply chain depends on where plants source their inputs as well as where they operate.

Selected recent export restrictions on critical minerals

Country	Announcement or update	Minerals covered	Main measure
China	Apr 2025–Nov 2026	Medium and heavy rare earths; other dual-use items	Licensing for seven medium and heavy rare earths since Apr 2025. Wider controls announced in Oct 2025 suspended until 10 Jan 2027. Dual-use export bans on named Japanese and US entities announced in 2026.
Indonesia	Jan 2025	Copper concentrates	Export ban fully in force from Jan 2025. Time-limited permits granted to some producers in 2025 after disruptions at their smelters.
Malaysia	Jan 2024; updated 2025–26	Raw rare earths	Export moratorium in force since Jan 2024 and set to continue beyond 2027 to develop domestic processing. Limited exports for R&D allowed under conditions from 2026.
Vietnam	Dec 2025 law, effective Jan 2026	Raw rare earths	Amended mineral law bans raw rare-earth exports and classifies rare earths as a strategic mineral.
DR Congo	Feb/Sep 2025	Cobalt	Temporary export suspension from Feb 2025, replaced by export quotas from 16 Oct 2025.

Source: Government notices and parliamentary replies, IEA, OECD, OCBC Group Research.

Export restrictions can encourage investment in domestic processing and prompt overseas buyers to seek alternative suppliers. Whether that leads to new capacity depends on whether projects can secure reliable inputs, operate at competitive costs and find buyers. Long-term purchase agreements can give producers greater certainty about demand. Where governments also provide financing, they should tie support to project milestones and limit their fiscal exposure.

Asia Pacific already supplies many of the materials and components that AI infrastructure requires. New investment can diversify supply by giving buyers commercially viable alternatives at stages where production is concentrated. ASEAN economies stand to gain more where local suppliers win contracts and workers develop skills that can carry over to other industries.

By Global Markets | 16 November 2026

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Beyond AI: Asia's Emerging Capex Cycle

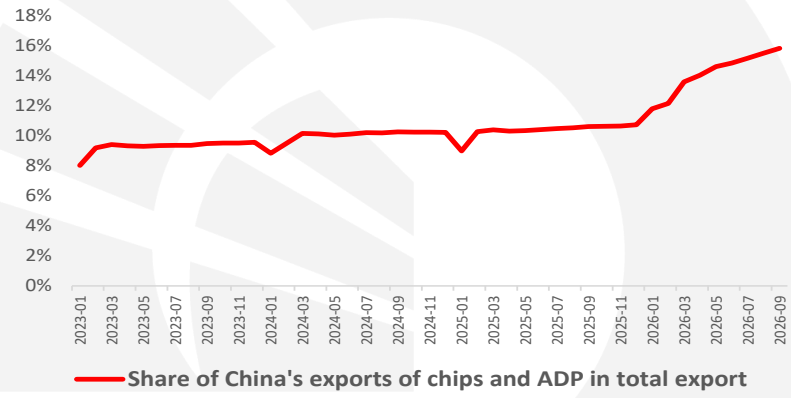
Tommy Xie Dongming
Head of Macro Research

- **AI is providing the initial impetus for Asia's capex cycle,** lifting semiconductor exports, technology manufacturing and business investment across North Asia and increasingly ASEAN.
- **The investment cycle is broadening beyond AI,** as energy security and decarbonisation drive spending on power generation, grids and storage, while supply-chain relocation fuels investment in factories, industrial parks, logistics and infrastructure.
- **These forces are increasingly reinforcing one another,** suggesting Asia could be entering a multi-year capex cycle rather than a narrow AI-led boom, with external shocks potentially strengthening the longer-term push towards resilience and investment.

Even as the Iran war's oil shock weighs on the global economy, much of Asia has continued to grow in 2026, supported in part by the global investment boom in artificial intelligence. But the region's investment story is becoming broader. Alongside AI, energy security, defence modernisation and supply-chain reconfiguration are creating more reasons for governments and businesses to invest.

The AI cycle is already lifting activity across Asia. Taiwan's economy grew 14.36% year on year in 3Q26, driven by strong technology exports and business investment. South Korea grew 1.0% quarter on quarter in 3Q26, with the Bank of Korea estimating that semiconductors accounted for about half of the increase. In China, exports of AI-related intermediate goods—including chips and data-processing equipment—rose sharply in the first three quarters of the year. Their share of China's exports increased to 15.8%, from 10.7% in 2025.

Chart 1: Share of China's exports of chips and ADP in total export rose further



Source: Wind, OCBC Group Research

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The effects extend beyond North Asia. Singapore's GDP grew 5.4% year on year in the third quarter, while manufacturing expanded 7.5%, with electronics among the supporting industries. Malaysia's economy grew 5.3%, and its manufacturing expansion was supported by export-oriented industries including electronics. In Vietnam, exports of electronics, computers and components reached USD71.2bn in the first half, up 49.1% year on year, making them the country's largest export category.

These figures show how the AI investment boom is spreading through the region's technology supply chains. They also point to a bigger story: Asia's capital-spending outlook does not depend on AI alone. The region is facing a set of overlapping investment needs—from more secure energy systems and stronger defence capabilities to new factories, transport links and logistics networks.

Energy security is becoming an investment priority

Recent years have exposed Asia's vulnerability to supply disruptions: the Covid pandemic in 2020, Ukraine war in 2022 and the Iran war this year have each unsettled energy markets and supply chains. Economies that rely heavily on imported oil and gas have had to confront the cost of that dependence. At the same time, data-centre construction and other energy-intensive industries are adding to electricity demand.

The response will require more than new sources of power. It will also mean investment in generation, storage, transmission and grid resilience.

Case Study 1: Singapore's Nuclear Ambitions: A Potential New Driver of Infrastructure Investment

Singapore's net-zero ambition presents a major energy challenge. Limited land means solar can meet only part of electricity demand, while wind remains commercially difficult at scale. Meanwhile, natural gas still accounts for around 95% of power generation, underscoring the need to diversify the energy mix while maintaining energy security.

Nuclear power, once considered unsuitable for Singapore, could emerge as a longer-term option. A feasibility study in 2012 concluded that conventional nuclear power was unsuitable, partly due to safety concerns and large emergency-planning zones. However, advances in small modular reactors (SMRs), including smaller reactor cores and passive safety systems, could potentially reduce these requirements, although their feasibility in Singapore remains to be established.

Beyond electricity generation, advanced reactors could also support industrial decarbonisation by providing process heat for energy-intensive industries and supporting low-carbon hydrogen production. Nuclear could therefore become part of Singapore's broader industrial and energy strategy.

From a capital expenditure perspective, the implications could extend well beyond reactor construction. Singapore's land constraints and stringent safety requirements could require significant investment in site preparation, potentially including land reclamation, as well as

grid upgrades, cooling infrastructure, safety systems and specialised engineering capabilities. Even before commercial deployment, preparatory investment could create opportunities across construction, engineering and energy infrastructure.

Singapore's exploration of nuclear power therefore illustrates how energy security and decarbonisation could open a new frontier for infrastructure investment, reinforcing the broader thesis of a multi-year Asian capex supercycle.

Case Study 2: Indonesia's Renewable Energy Ambitions: Unlocking a New Wave of Infrastructure Investment

Indonesia offers another compelling example of how energy security could drive a new wave of capital expenditure in Asia. Despite an estimated 3,687GW of renewable energy potential, only around 16.3GW had been developed as of June 2026. This means more than 99.5% of its estimated potential remains untapped, highlighting the enormous scope for future investment.

Indonesia's ambitions are beginning to translate into concrete plans. In August 2026, President Prabowo Subianto launched a 100GWp solar power programme, with an estimated investment cost of USD73bn. The first phase targets 17GWp of solar capacity, supported by battery storage. The programme also aims to reduce reliance on diesel-fired generation, potentially lowering fuel imports while strengthening energy security.

However, the investment implications could extend well beyond the initial USD73bn estimate. Indonesia's archipelagic geography will require substantial investment in battery storage, grid modernisation, transmission networks and potentially inter-island connections. As a result, the total cost of building a reliable renewable energy system could be considerably larger than the headline figure.

Indonesia's energy transition could therefore become a major catalyst for a multi-year infrastructure investment cycle. Beyond solar generation, investment in grids, storage and energy resilience could create opportunities across construction, power equipment and batteries, reinforcing the view that energy security will be a key structural driver of Asia's emerging capex supercycle.

Supply Chain Relocation: From Trade Diversion to Deeper Regional Integration

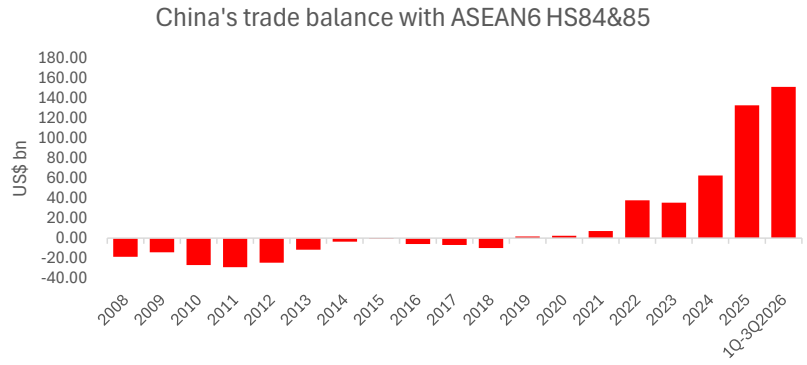
Asian economies have demonstrated remarkable resilience despite successive external shocks. Having weathered an unprecedented escalation in global trade tensions in 2025, the region has continued to hold up relatively well against the oil shock in 2026. Beyond the AI investment boom, the deepening integration of China and ASEAN through supply chain relocation has emerged as another important pillar of regional growth and a structural driver of Asia's capex supercycle.

The transformation is particularly evident in China–ASEAN trade. China's trade surplus with the ASEAN-6 economies—Singapore, Malaysia, Indonesia, Thailand, Vietnam and the Philippines—in machinery, mechanical appliances and electrical equipment (HS84 and HS85)

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surged to USD133.9bn in 2025, equivalent to 12.4% of China's record overall trade surplus. This marked a striking reversal from the period before 2019, when China still recorded a trade deficit with ASEAN-6 in these categories. The turning point broadly coincided with the onset of the first US–China trade war in 2018, which accelerated the restructuring of regional production networks.

Chart 2: China's trade surplus with ASEAN in electronics and machinery widened significantly



Source: Wind, OCBC Group Research

This trend has accelerated further in 2026. In the first nine months of the year, China's trade surplus with ASEAN-6 in machinery and electrical equipment widened to a record USD151bn, already exceeding the full-year figure for 2025. Its contribution to China's overall trade surplus increased to 16.2%, from 12.4% in 2025. Rather than substituting China, ASEAN's emergence as a manufacturing hub has, in many sectors, been enabled by China's industrial ecosystem. The region is becoming more deeply integrated into China-linked production networks, supported by increasingly established supplier relationships, equipment standards and technical expertise.

Chart 3: Share of China's trade surplus with ASEAN6 in electronics and machinery in China's total trade surplus has risen to more than 16%.



Source: Wind, OCBC Group Research

From a capital expenditure perspective, the implications extend well beyond factory relocation. The expansion of ASEAN's manufacturing capacity will require sustained investment in industrial parks, logistics networks, ports, transport infrastructure, electricity generation and transmission, and digital connectivity. Meanwhile, Chinese manufacturers

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expanding their overseas presence could generate another wave of investment in production facilities and supporting supply chains. This creates a reinforcing cycle in which supply chain diversification stimulates ASEAN's industrial investment, while China's upstream manufacturing strengths help facilitate that expansion.

The broader lesson is that supply chain diversification does not necessarily mean regional fragmentation. In Asia, it is increasingly driving a reconfiguration of production networks and creating new investment opportunities on both sides of the China–ASEAN relationship. Together with AI-related investment and energy security, this structural shift could provide another durable source of support for Asia's multi-year capex supercycle.

Conclusion: From an AI Boom to a Broader Asian Capex Cycle

Asia's investment story is becoming broader, deeper and potentially more durable. AI remains an important catalyst, supporting semiconductor exports, data-centre investment and technology manufacturing across the region. But it is increasingly being joined by other structural forces. Energy security is driving investment in power generation, grids and storage, while supply-chain reconfiguration is encouraging new spending on factories, industrial parks, logistics and supporting infrastructure.

Importantly, these investment themes are increasingly interconnected. AI and data centres require more reliable power; manufacturing relocation increases demand for electricity, transport and logistics infrastructure; and the push for greater energy security itself requires substantial capital spending. Rather than representing separate investment cycles, they are beginning to reinforce one another.

Asia's capex story therefore extends well beyond AI. What began as a technology investment boom is evolving into a broader cycle spanning energy, manufacturing and infrastructure. Crucially, these forces reinforce one another: more AI and manufacturing require more power, more power requires stronger grids and infrastructure, and supply-chain relocation requires new factories and logistics networks. Despite near-term headwinds from the Iran war and higher energy prices, the structural incentives to invest are becoming stronger. Asia's next investment cycle may therefore be defined not by a single boom, but by the convergence of AI, energy security and supply-chain reconfiguration into a multi-year capex cycle.

By Global Markets | 16 November 2026

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ASEAN-5 & India: Different starting points, different opportunities for AI

Lavanya Venkateswaran
Senior ASEAN and India Economist

- AI is the new buzzword across most sectors of growth. For ASEAN, we see hardware as the immediate channel of impact for economic growth. Chips, electronics and servers are already lifting exports and manufacturing activity in Singapore, Malaysia and Vietnam.
- The infrastructure buildout is a concurrent process. Malaysia and Thailand are seeing the strongest data-centre and related investment pipeline. Adoption will deliver the broadest gains, but more slowly.
- The macro effects will be uneven. Headline exports may overstate the net GDP gain because AI-related manufacturing and data-centre investment are import-intensive. Cost pressures are more likely to appear in electricity, land, construction and specialist wages than in headline CPI.

AI reaches ASEAN through three main channels

Artificial intelligence is reaching ASEAN through hardware, infrastructure and adoption, but the three channels are moving at different speeds. The impact from hardware is already visible in trade and industrial production while infrastructure entails following through on foreign direct investment, construction and demand for power. Adoption is the slowest channel to appear in the data, but it is the one that matters most for long-run productivity and the breadth of the gains.

Economy	Energy & grid	Chips & AI hardware	Data-centre infrastructure	Compute & models	AI adoption / apps	Macro role
Singapore	Constrained: imports power; 900MW solar + storage from Johor conditionally approved	Deeply integrated: equipment and precision-engineering hub	Mature: capped by land and power; overflow goes to Johor	Leader: anchors regional models (SEA-LION v4.5); regional cloud and AI HQs	Leader: highest enterprise adoption in the region	Control tower: exports capital, IP and orchestration; the binding constraint is power, not demand
Malaysia	Stretched: DC power use 10.5TWh (2026) → 73.3TWh (2035), approx. 31% of national use	Core: approx. 13% of global chip assembly and test; AI goods >70% of export growth	Peak build-out: 8.35GW secured pipeline vs approx. 1.26GW actual load; US$96bn approved since 2021	Host: hosts foreign GPU clouds; little domestic model work	Moderate	Landlord + assembler: largest capex shock in ASEAN relative to GDP; FDI- and construction-led
Thailand	Adequate: energy regulator setting DC power rules for investment incentives	Deep: PCB and AI-server assembly; THB909bn chip/electronics applications since 2023	Surging but paused: THB886bn approved in 1H26 (> all of 2025); 166 projects paused 4 Sep	Emerging: Typhoon local-language models	Moderate: only 12% of firms using AI (end-2025)	Second hub: fast follower to Malaysia; policy is now the swing factor
Vietnam	Bottleneck: long-term power supply is the main constraint on DCs	Deep: fast-growing AI equipment assembly; AI goods >70% of export growth	Early: 41 data centres; first hyperscale projects (e.g. 140MW) only breaking ground	Emerging: national "AI Factory" initiative	Moderate: personal GenAI use approaching global average	Export-boom economy: most levered to global hardware demand
Indonesia	Resource-rich: large energy base, weaker grid	Minimal: little chip/AI-hardware manufacturing	Early build: planned 500MW Bekasi campus; domestic demand-led	Emerging: Sahabat-AI (70B, five local languages)	Large market: biggest digital consumer base	Domestic-market play: data sovereignty and scale; capital-market risk from MSCI review

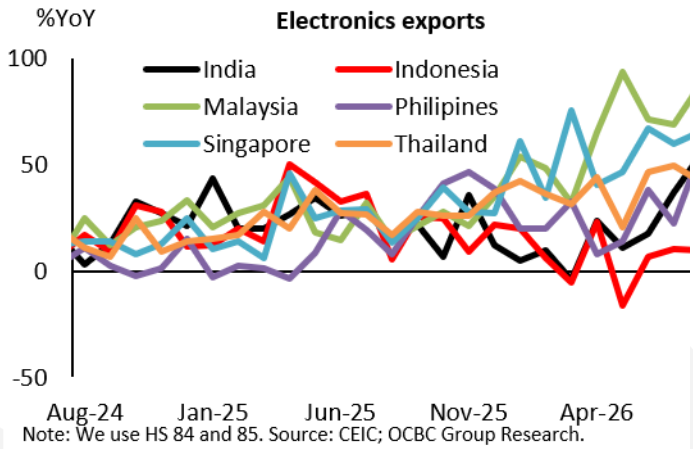
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Philippines	Constrained: high power costs	Moderate: electronics exports; AI goods >70% of export growth	Early: telco-led DC plans (approx. US$1bn, 2027); first GPU "AI factory" due early 2027	Minimal	Two-sided: large services/BPO base; AI is both adopter and disruptor	Exporter with services risk: gains on goods; the services export model is the exposure
Source: OCBC Group Research.						

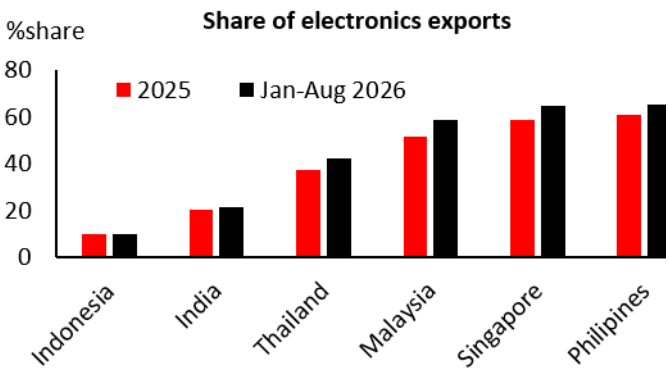
Hardware exports and production: the clear beneficiary

An important transmission channel has been the support for the semiconductor and electronics cycle. Singapore, Malaysia and Vietnam have benefited most directly because of their established roles in semiconductor equipment, precision engineering, chip assembly and testing, and electronics manufacturing. Thailand and the Philippines are also participating through printed circuit boards, servers and electronics exports. The strength of the current cycle is evident in the contribution of AI-related goods to export growth. The share of electronics exports has risen steadily across ASEAN, with the exception of Indonesia, in 1Q-3Q26 from 2025.

While this is the most visible part of the regional AI story, it has not implied a broad-based acceleration in external demand. Trade growth excluding AI-related goods has lagged, with the risk that a two-speed economy, in which electronics and digital infrastructure are expanding rapidly while many domestic-oriented and non-electronics sectors are seeing less momentum, is perpetuating.



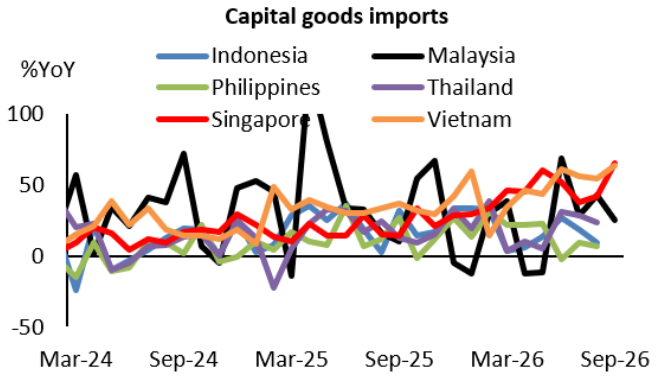
Note: We use HS 84 and 85. Source: CEIC; OCBC Group Research.



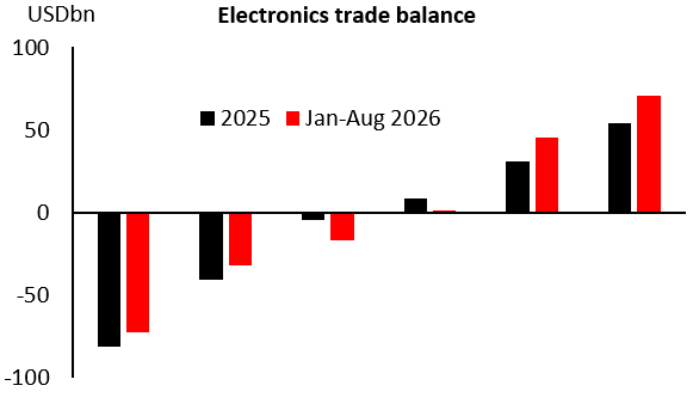
Note: We use HS84 and 85. Source: CEIC; OCBC Group Research.

Importantly, stronger exports may deliver a smaller net-export gain given that import requirements are substantial. Semiconductor manufacturing, chip testing, advanced packaging and electronics assembly require substantial imports of intermediate goods, machinery and equipment. Data-centre investment is similarly import-intensive, especially during the construction phase. Stronger exports can therefore be accompanied by equally strong import growth reducing the contribution of net exports relative to what headline export growth alone might suggest. Most economies, with the exception of Indonesia, sustained an electronics trade surplus suggesting that the impact is net accretive for GDP growth but smaller relative to looking at export growth alone.

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Source: CEIC; OCBC Group Research.
For VN and SG, we use proxies for machinery transport equipment and scientific apparatus and photograhic supplies, telephones and video cameras etc.



We use the HS 84 and 85 codes. Source: CEIC; OCBC Group Research.

Infrastructure: data centres, power and construction

A concurrent channel of influence is the build-out of data centres and the supporting energy, connectivity and construction infrastructure. However, the authorities across the region are becoming more selective in approval of data centres (see ASEAN-5: Assessing FDI direction, 1 September 2026).

Singapore remains a mature regional hub, but land and power constraints limit further expansion and create spillovers to Johor. Indeed, Malaysia has been a regional leader in data centre build-out since the pandemic. The authorities noted that, as of August 2026, 45 data centres were operational in Peninsular Malaysia, with a combined electricity supply capacity of 6,041MW provided by Tenaga Nasional through the national grid . Malaysia's Energy Transition and Water Transformation Ministry (PETRA) estimates that 8,391MW of electricity will be required by 2030, with more than half of the demand coming from the state of Johor. Johor's projected requirement is 4428MW followed by Selangor at 1481MW.

Thailand is emerging as the second major hub. The Board of Investment approved THB886bn of AI and data-centre projects in 1H26, more than in the whole of 2025. However, policy execution has become the swing factor after the authorities paused 166 data-centre projects on 4 September pending new national standards.

Vietnam's data-centre ambitions are also constrained by the reliability and availability of long-term power supply. Vietnam's Ministry of Industry and Trade projects a national power-capacity shortfall of about 4.3GW in 2027, widening to nearly 14GW by 2030 as generation and grid projects fall behind schedule, with the North most exposed.

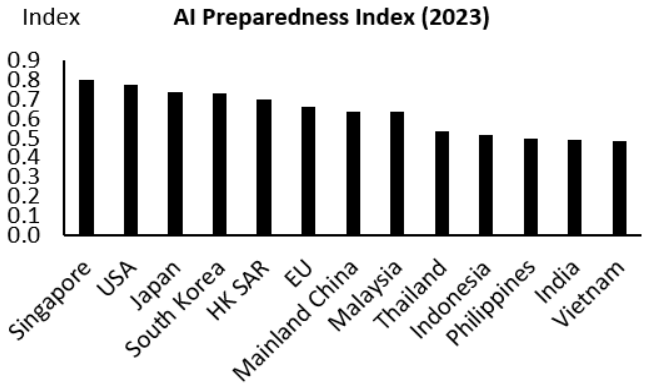
The higher demand for resources including power and water could translate into inflation pressures in specific sectors. While we do not see a widespread inflationary impact from the AI infrastructure build-out across the region, the near-term inflation impact is more likely to emerge in electricity demand, industrial land, construction services and specialist wages. Malaysia, Singapore and Vietnam are most exposed to rising power demand. Industrial land pressures are more relevant for Vietnam and Malaysia, while competition for engineering

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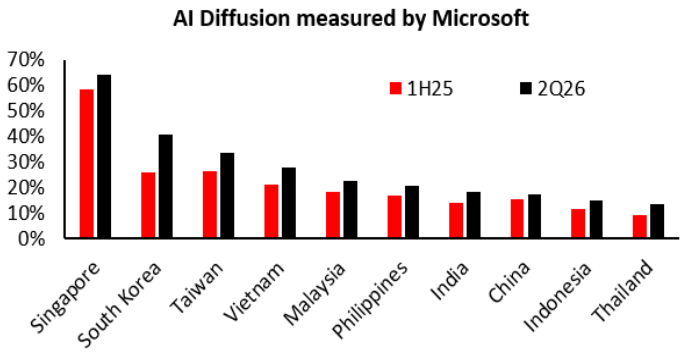
and digital talent is region wide. Capacity utilisation indicators alongside headline and core CPI will also likely become material for price pressures.

Adoption: slower, but ultimately more important

The third channel is individuals, firms and workers using AI to change business processes and raise productivity. The IMF's AI Preparedness Index shows how ready an economy is to adopt artificial intelligence covering factors such as digital infrastructure, human capital and labour-market policies, technological innovation and economic integration as well as legal frameworks. Singapore emerges the most prepared while the other ASEAN economies are ranked as less prepared. Although the data is for 2023, it provides a general framework for us to assess an economy's position.



Source: World Bank; OCBC Group Research.



Note: Share of the working-age population that used a generative AI product during the reported period.
Source: Microsoft AI Diffusion Report; OCBC Group Research.

Microsoft's AI Diffusion measure, which measures the share of people aged 15–64 (the working-age population) who have used a generative AI product during the reported period, has been steadily rising since 1H25. The latest data for 2Q26 shows that the share has risen to 27.9% in Vietnam, 22.6% in Malaysia and 20.7% in the Philippines, from 21.2%, 18.3% and 17.1% in 1H25, respectively. Adoption is lower at 14.8% in Indonesia and 13.4% in Thailand but it up from 11.7% and 9.1% in 1H25.

It is, however, challenging to decipher AI adoption trends at an enterprise versus a personal level. The available data/trends suggest that individual adoption has been faster than enterprise adoption. The World Bank's firm-level survey in 2025-26, which covered India, Jordan, Kenya, Mexico, Nigeria, Thailand and the US shows that 12% of Thailand firms had used AI as of December 2025, and 4% paid for AI software or systems[37]. This compares to 23% of firms using AI in India, with 4% paying for AI software or systems.

This suggests that the productivity dividend could take some time to materialise. Adoption matters most because services, SMEs and domestic sectors account for the bulk of ASEAN output and employment. Yet only 13% of jobs in the region involve the complex judgement tasks that AI is best placed to complement, compared with 39% in advanced economies. At

[37] World Bank Enterprise Surveys AI module (2025–26)

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the same time, employers in South-East Asia expect 43% of workers' core skills to be disrupted by 2030, above the global average of 39%[38].

The ranking of beneficiaries may therefore change over time. Singapore's adoption lead, together with Indonesia's large domestic market and the Philippines' services base, could make these economies more important beneficiaries in five years than the current hardware data suggest. For most of emerging ASEAN, the largest gains are likely to come from adapting affordable, existing tools rather than developing frontier models. This "small AI" route is also more likely to broaden adoption among SMEs.

AI as a disruptor of services exports

The AI story in ASEAN is often framed as a manufacturing opportunity, but its most direct labour-market effects may fall on routine cognitive work. Customer service, data entry, back-office processing and basic accounting form an important part of the region's services exports. Manufacturing-led economies such as Malaysia, Vietnam and Thailand face less direct displacement in the near term because their exposure is concentrated in goods and infrastructure. Services-led economies, particularly the Philippines, face a more immediate adjustment.

The macro channels extend beyond employment. Weaker growth in services exports would affect current-account balances, urban consumption and property markets. Globally, 40% of employers expect to reduce staffing where AI can automate tasks, while two-thirds plan to hire workers with AI-related skills. The policy priority is therefore to shift workers from tasks that AI can replace towards tasks that AI complements, supported by workforce training, education reform and stronger digital infrastructure.

Conclusion

ASEAN's AI cycle is advancing at three speeds. Hardware is delivering the immediate export boost, infrastructure is generating the next wave of investment, and adoption will determine the longer-run productivity dividend. The economies benefiting most today may not necessarily be the largest winners over time. Singapore, Malaysia and Vietnam are leading the current hardware cycle; Malaysia and Thailand are absorbing the infrastructure build-out; and Indonesia and the Philippines have the greatest adoption opportunity.

[38] World Economic Forum (2025), Future of Jobs Report 2025, South-Eastern Asia regional profile.

By Global Markets | 16 November 2026

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Singapore and the AI supercycle

Selena Ling
Chief Economist & Head,
OCBC Group Research

- From a cyclical windfall to a durable new growth engine? There are good reasons to believe the present technology upturn is structurally different from a conventional consumer-electronics cycle, but this does not imply the Singapore economy will be immune to the cycle despite being deeply embedded in the AI supply chain.
- The real test is converting investment into productivity. The strategy to move from an "AI hub" to an "AI economy" implies that 2027–2030 may matter more as a diffusion cycle than as an investment cycle. The binding constraints are SME adoption, implementation capability, workforce transition and scarce electricity, while distinctive niches are ASEAN-anchored scale and trusted AI governance and assurance.
- Success should be tracked through structural indicators including SME adoption, AI-sector productivity, locally created IP, AI-enabled services exports and value added per MW improve.

AI infrastructure is hugely capital intensive. As more government, industries and companies embark on AI investments, either due to the fear of missing out or being left behind, this could be the new “arms” race. Hyperscalers, corporations and increasingly governments are investing in an entirely new computing architecture requiring accelerators, memory, storage, semiconductor equipment, high-speed networking, advanced packaging, power electronics, cooling and enormous quantities of electricity.

Singapore participates in considerably more of this ecosystem than simply as an electronics exporter. That breadth helps explain the remarkable trade numbers seen during late 2025 and year-to-date in 2026. However, extraordinary growth rates also create base effects and therefore more demanding on-year comparisons. That is why the distinction between the cyclical AI capex boom and the longer structural transformation of productivity and supply chains is particularly relevant to Singapore.

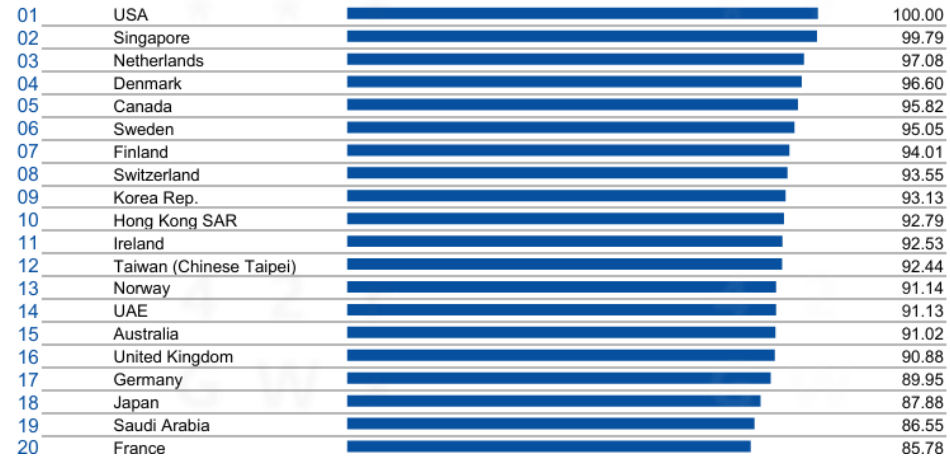
AI can revolutionise production and experience a substantial investment correction at the same time. Railways, electricity and the internet all transformed economies without eliminating their respective investment cycles. Therefore it is urgent that Singapore should use the current upcycle to deepen capabilities before the cycle inevitably matures. At this juncture, the recent global AI stock market gyrations is already signalling increasing investor scrutiny and maybe also scepticism.

What may be somewhat underappreciated is that Singapore is more deeply embedded in the AI supply chain than what the headline GDP growth data may suggest. Many were surprised by the strength of the non-oil domestic exports data in 2026, but Singapore's advantage lies increasingly in the ecosystem surrounding the production of the world's most

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sophisticated processors. This includes Singapore's exposure to memory, advanced packaging, semiconductor equipment and high-reliability mature and specialty nodes.

The 2026 IMD World Digital and AI Ranking (GDP per capita greater than $20,000)



Source: The 2026 IMD World Digital and AI Ranking

Singapore now accounts for one in ten global chip output and one-fifth of global semiconductor manufacturing equipment production. For instance, Micron's Singapore facilities account for around 98% of its NAND production. Applied Materials' new USD500mn Tampines facility also more than doubles its advanced cleanroom capacity in Singapore and combines manufacturing with R&D to serve the global AI semiconductor buildout.

The strategic opportunity consequently lies in climbing the value chain from memory and storage to advanced packaging to silicon photonics to power electronics to equipment to process technology to intelligent manufacturing. This is where years of steady policy focus and investments in R&D and innovation over several decades matters. The launch of SG Semiconductor, a national identity for Singapore's semiconductor sector, came in September this year. The wider ecosystem represented by SG Semiconductor is complementary to the SGD800mn commitment from 2026-2030 to the Research, Innovation and Enterprise (RIE) flagship funding in semiconductors, as part of its broader SGD37bn RIE2030 master plan. The aim is to concentrate resources on seven core technology areas including advanced packaging, silicon photonics, electronics, radio frequency gallium nitride (RF GaN), piezoelectrics MEMS (PiezoMEMS), flat optics and integrated circuit (IC) design. A further SGD60mn is being committed to the National Semiconductor Translation and Innovation Centre for Power Electronics, including an eight-inch silicon-carbide R&D pilot line.

The objective is not simply to produce more semiconductors, but to increase the proportion of semiconductor activity incorporating R&D, proprietary processes, engineering expertise and intellectual property that are difficult to relocate. The national AI strategy for a small economy is not an exercise to try to occupy every layer of the technology stack, but to bring together world-class research and strategic partners across the global value chain to explore new opportunities and create future streams of innovation.

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Singapore should therefore target to be indispensable at selected layers rather than sovereign across every layer, especially since frontier foundation models and leading-edge GPU fabrication is predominantly external, but Singapore can build on Southeast Asia models, leverage its strengths in AI governance and ASEAN deployment.

Singapore is aiming to transit from an AI hub to an AI economy. Singapore's AI strategy is appropriately evolving from horizontal ecosystem development towards mission-oriented deployment. Budget 2026 established National AI Missions in advanced manufacturing, connectivity, finance and healthcare. These sectors are well chosen because Singapore already possesses substantial domain expertise in each, combining technology with areas of existing comparative advantage.

The almost 100 corporate AI Centres of Excellence now present in Singapore reinforce that model. More interestingly, the nature of corporate investment is changing - Google opened a Singapore Engineering Center to bring software engineers in AI infrastructure, data, compute, machine learning, networking and storage together with enterprise clients and forward-deployed engineers. This model points towards an important next-stage capability which is implementation engineering.

Access to powerful AI models is increasingly commoditised. The scarce capability is moving models securely into real businesses, integrating enterprise data, connecting existing systems, redesigning workflows and demonstrating economic returns. If Singapore can excel here, its competitive advantage becomes less dependent on who owns the leading foundation model at any particular moment.

The reason for these heavy-duty national investments into AI is to raise productivity throughout the rest of the Singapore economy. This opens up a pathway to overcoming Singapore's ageing population and slower resident labour-force growth. In manufacturing, AI can improve yield, process control, predictive maintenance, quality inspection and robotics. In banking and insurance, it can reduce the human time consumed by documentation, compliance, surveillance, credit processes, research and operations. In healthcare, it can increase diagnostic capacity and productivity even as ageing pushes demand higher. In logistics, aviation and maritime activities, it can tackle extraordinarily complex optimisation problems. In professional services, it can automate routine information processing while shifting human capital towards judgment, advisory and client interaction.

If these gains diffuse widely, AI could plausibly improve Singapore's medium-term potential growth. However, technology diffusion is not automatic. Businesses often require major complementary investment and organisational redesign before economy-wide productivity accelerates. For this reason, 2027-2030 may prove more important as Singapore's AI diffusion cycle than as its AI investment cycle.

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SMEs will become the litmus test as the greatest domestic risk is a two-speed AI economy. Large corporations can finance cloud services, proprietary datasets, cybersecurity, specialist teams and organisational transformation, but SMEs may lag because of capital, implementation and skills constraints. The real challenge is therefore adoption. Budget 2026 has increasingly recognised this. The enhanced Enterprise Innovation Scheme provides 400% deductions on up to SGD50,000 of qualifying AI expenditure per year for YA2027 and YA2028, while the Productivity Solutions Grant is being broadened to cover more AI-enabled solutions.

Table 3: Budget 2026 measures to support AI adoption

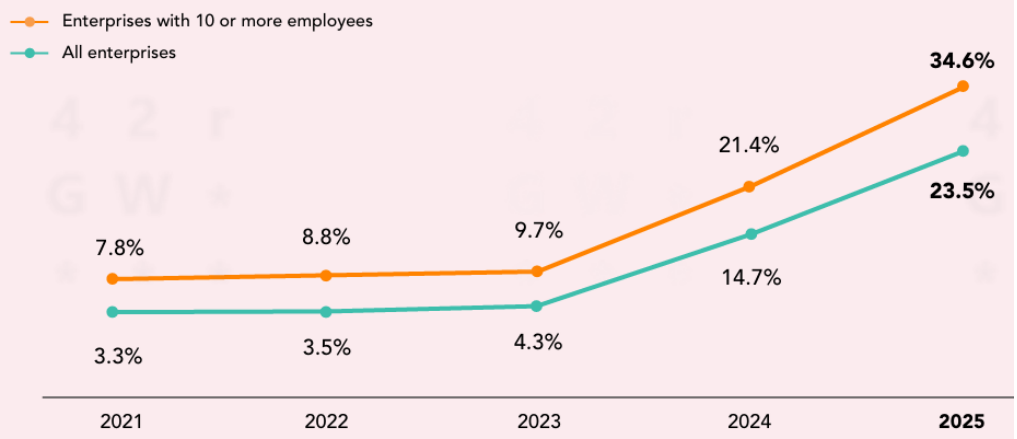
Measure	Key details	Relevance to adoption
Enterprise Innovation Scheme (AI adoption)	400% tax deductions on up to S$50,000 of qualifying AI expenditure per year, for YA2027 and YA2028; cash payout option not available for this activity	Lowers the cost of entry for SMEs, but addresses capital rather than implementation capability
Champions of AI programme	Tailored support from Enterprise Singapore and Digital Industry Singapore: transformation roadmaps, priority AI projects, change management, workforce training and in-house AI teams	Targets end-to-end transformation rather than pilots
National AI Missions	Four priority sectors: advanced manufacturing, connectivity, finance and healthcare	Moves strategy from horizontal ecosystem building to mission-oriented deployment
National AI Council	Inter-ministerial committee chaired by the Prime Minister to set direction and oversee the AI Missions	Provides coordination and unlocks regulations and resources

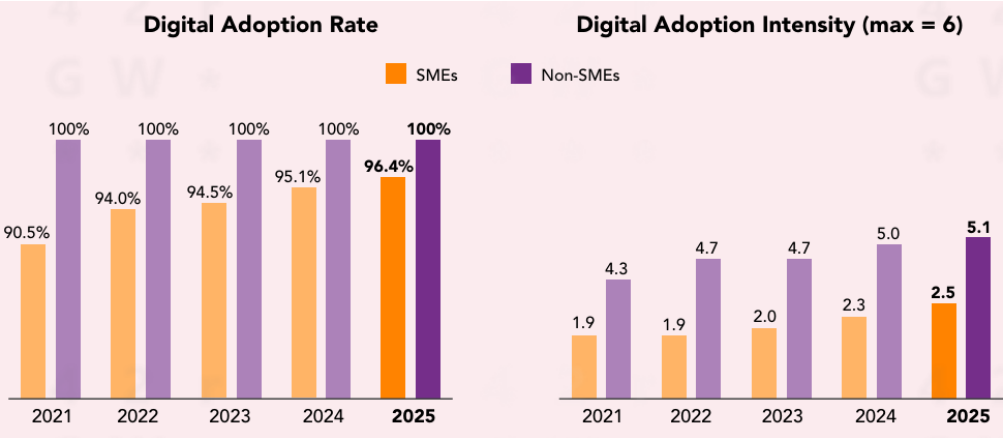
Source: Singapore Budget 2026 (Annex C-1), IRAS, The Straits Times, OCBC Group Research.

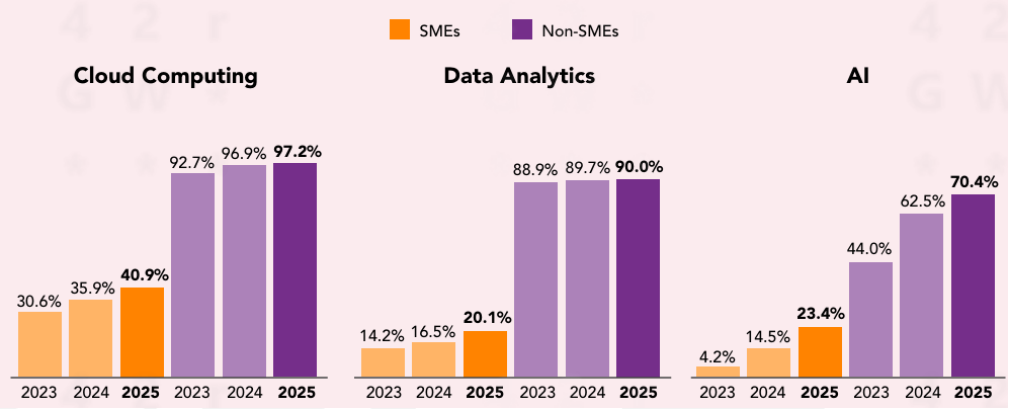
Fiscal incentives solve only part of the problem. The more difficult bottleneck is implementation - buying software is not transformation. Sustainable productivity gains at the enterprise level require companies to connect, harness proprietary data, redesign workflow and the workforce, raise cybersecurity fences, change management mindsets and arrive at measurable commercial outcomes. Government assistance should consequently migrate over time from subsidising adoption towards rewarding measurable productivity outcomes.

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AI adoption rate among enterprises in Singapore, 2021-2025

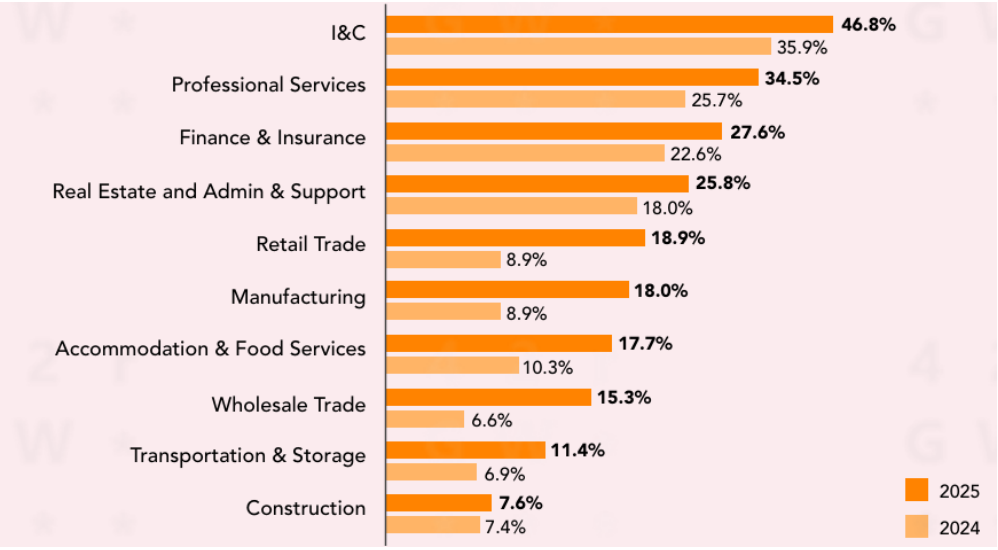






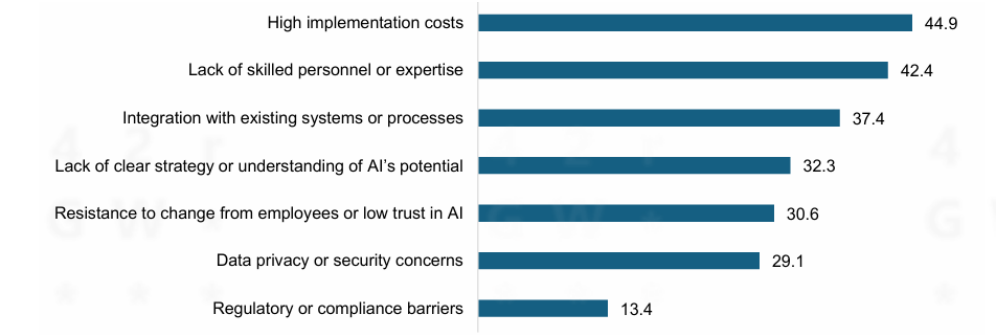
AI adoption rates among all enterprises by sector, 2024 and 2025

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Source: IMDA

Proportion of firms that reported that they face or will face the following challenges in adopting AI (%), 2026



Source: Artificial Intelligence Survey, Manpower Research & Statistics Department, MOM.

Energy resilience is another important moat. Singapore is already a substantial regional data-centre location, with more than 1.4GW of capacity across over 70 cloud, enterprise and co-location facilities. The second Data Centre Call for Application provisionally allocated another 200MW, split equally across Digital Realty, Equinix, Keppel Data Centres and ST Telemedia Global Data Centres. The winning proposals committed to source more than half their power through green-energy pathways and employ advanced efficiency and cooling technology.

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Table 4: Second Data Centre Call for Application (DC-CFA2) – capacity allocated

Operator	New capacity provisionally allocated	Existing data centres in Singapore
Digital Realty	50MW	3 (combined 84MW)
Equinix	50MW	5
Keppel Data Centres	50MW	8
ST Telemedia Global Data Centres	50MW	6 (IT load above 110MW)
Total	**200MW**	More than 20 proposals received; more than 50% green energy committed; liquid cooling and Green Mark DC Platinum required

Source: IMDA and EDB (21 August 2026), The Straits Times, The Business Time, OCBC Group Research. Existing facility counts are as reported by the operators. Digital Realty's 84MW refers to its three existing data centres, STT GDC's figure refers to IT load.

Singapore's electricity system must now accommodate data centres simultaneously with semiconductor fabs, transport electrification and ordinary economic growth. Peak demand of 8.6GW in August 2026 could reach 9.9-13GW by 2031. EMA is responding with five additional gas-fired plants, increased LNG capacity, up to SGD5.3bn of grid investment, additional solar and storage, and regional electricity imports.

Table 5: Singapore's electricity system – demand outlook and planned capacity expansion

Item	Today	Planned / projected
Peak electricity demand	8.6GW (August 2026)	9.9–13GW by 2031
Generation capacity	About 12GW	About 26% higher with five new gas-fired plants (2026–2031)
Grid investment	Baseline: the preceding five-year period	Up to S$5.3 billion (2025–2029), 11 times the preceding five years
New substations	4 built in the previous five years	7 by 2031
Transmission cable network	7,700km	9,100km by 2030 (+18%)
LNG regasification capacity	10 Mtpa	15 Mtpa when second LNG terminal operates (by 2030)
Natural gas share of electricity	About 95%	Solar target of 4GWp by 2035, plus more storage and regional low-carbon imports

Source: Energy Market Authority, Five-Year Energy Infrastructure Plan, The Business Times, Lianhe Zaobao, OCBC Group Research.

For Singapore, the question of how much economic value is generated from each incremental MW increasingly matters. Future investment promotion should evaluate not

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only dollars invested and jobs created, but value added, R&D, skills, IP and strategic capabilities generated relative to scarce energy and land resources.

This is where ASEAN comes into the equation. Singapore cannot build a globally significant AI ecosystem based solely on its domestic market. ASEAN provides the missing scale and the opportunity is to build a distributed regional ecosystem. The model should not be Singapore versus Johor, Batam, Bangkok or Jakarta. Singapore can specialise in capital, IP, regional headquarters, advanced engineering, regulated compute, AI governance, professional services and R&D. Neighbouring economies can complement Singapore through land, renewable-energy resources, manufacturing capacity, a larger talent pool and much larger consumer markets. This resembles the regional production networks through which Singapore successfully addressed precisely the same domestic land and labour constraints during earlier phases of industrialisation. The objective is not a completely self-contained Singapore AI ecosystem.

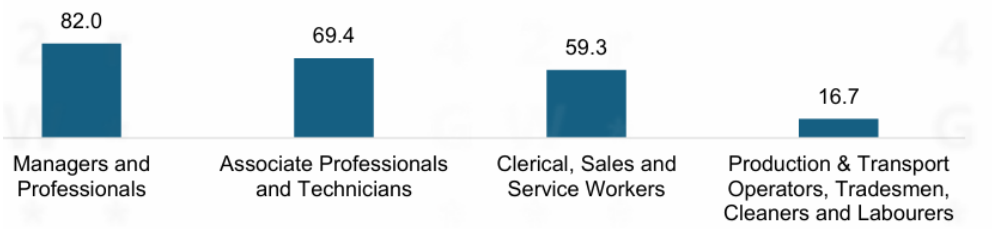
Trust again is Singapore's competitive advantage. The transition from generative to agentic AI creates another potentially valuable niche for Singapore. Agentic systems can make payments, change permissions, execute code, place orders and interact autonomously with customers or industrial systems, but also means mistakes are increasingly costly. Singapore has moved early in establishing the institutional architecture around these risks. The updated model AI governance framework for Agentic AI focuses on bounded autonomy, meaningful human accountability, technical controls and end-user responsibility. The Monetary Authority of Singapore (MAS) has also issued AI Risk Management Guidelines requiring financial institutions to establish governance, maintain inventories of AI uses, assess materiality and implement proportionate controls covering data, testing, human oversight, cybersecurity and third-party risks. MAS also partners the industry to develop AI risk management toolkit for the financial sector - this should not be treated purely as defensive regulation as trusted AI can itself become a tradeable service.

Singapore has an opportunity to develop capabilities around AI assurance, model-risk validation, cybersecurity, red-teaming, agent governance and regulated deployment. This fits naturally alongside its financial, legal and professional-services ecosystem.

Many headlines frame the AI risk as job displacement, but augmentation is opportunity while the transition process is the risk. Given structural manpower scarcity, labour-saving automation can be economically positive when it substitutes for difficult-to-fill positions or increases productivity. The larger risk concerns how quickly workers can move between tasks and occupations. Routine PMET and entry-level knowledge jobs appear particularly exposed. This creates an unusual longer-term challenge because junior positions often function as apprenticeships through which workers acquire expertise and judgment. If AI automates too much of the apprenticeship layer, companies could enjoy immediate cost reductions while weakening their future senior talent pipelines.

Proportion of firms that reported an impact of AI on each of the occupational groups (%), 2026

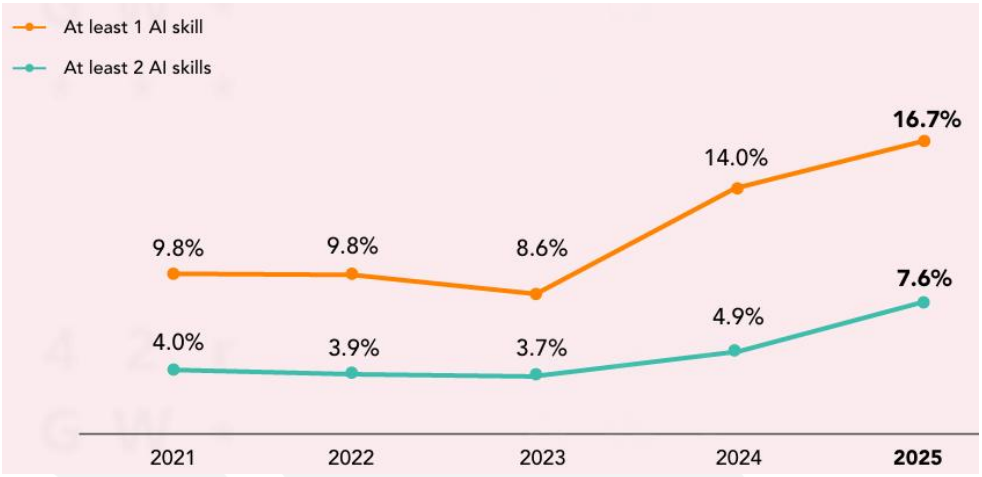
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Source: Artificial Intelligence Survey, Manpower Research & Statistics Department, MOM.

The correct workforce strategy therefore goes beyond teaching workers to prompt generative AI. Singapore should aspire to create not simply an AI-literate workforce, but an AI-bilingual workforce combining deep domain expertise with technological capability. This would span AI users who raise everyday worker productivity, AI integrators who redesign workflows and connect AI with enterprise systems, AI builders who develop models, products and infrastructure, and AI governors who manage cyber, regulatory, model and operational risk.

Share of tech job postings by number of AI skills required, 2021-2025



Source: IMDA

Of course, the AI journey will be anything but smooth sailing. What could go wrong? The first risk is the global AI capex cycle corrects. A deterioration in hyperscaler spending could simultaneously hit semiconductor manufacturing, memory, advanced packaging, equipment, wholesale trade, logistics and investment. The second risk is physical - electricity, grid connections, water and land could increasingly restrict investment or make Singapore less competitive relative to neighbouring locations. The third is diffusion failure, resulting in a K-shaped economy where large MNCs become dramatically more productive while SMEs see only marginal gains. The fourth is labour polarisation, particularly among junior professional and routine cognitive occupations. The fifth is geopolitical - AI has become intertwined with technology controls and national security. Singapore could remain dependent on imported frontier processors, models and cloud ecosystems. The last but not

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least is capital misallocation – even structural technological revolutions can still produce investment bubbles.

The geopolitical risks are not to be under-estimated as AI technology controls are increasingly extending beyond where advanced chips are physically shipped to who can access and use them, and from where. One potential catalyst is the US Commerce Department's reported plan to extend advanced semiconductor export controls to seven additional countries, including Singapore, Malaysia, Thailand and Indonesia. Under the proposed framework, exports of Nvidia Blackwell-class chips and above could require US licences, end-user disclosures and ongoing monitoring. Crucially, the restrictions would also seek to prevent Chinese entities from remotely accessing computing capacity hosted in these countries. The rules are reportedly being finalised, with an announcement possible as early as November.

If access to advanced US chips becomes subject to additional licensing and customer-screening requirements, data-centre operators and cloud providers face higher compliance costs, operational uncertainty and potentially longer investment lead times. Some AI workloads and customers could migrate to alternative locations, particularly if competing jurisdictions face less restrictive conditions. The key question is whether restrictions remain narrowly targeted at sensitive end-users or evolve into broader constraints on Singapore-based computing infrastructure. As Washington increasingly views access to advanced computing as a national security issue, the distinction between hosting infrastructure and enabling its use is becoming blurred, and providing remote computing access could potentially attract regulatory scrutiny. That said, there is also potentially an opportunity to differentiate as tighter controls could favour jurisdictions and operators with stronger governance, transparent ownership, robust know-your-customer procedures and credible end-use monitoring. Singapore's compliance know-how could be a competitive advantage by positioning itself as a trusted AI infrastructure hub in an increasingly fragmented world. Nevertheless Singapore would still need to walk a fine line and strengthen the economic rationale for diversifying computing supply chains, developing capabilities around alternative chip architectures, and investing in local AI models, applications and talent.

The investment implications of the AI story are also broader than maintaining a positive view of technology. The first-order beneficiaries remain the physical enablers such as semiconductor equipment, memory, advanced packaging, networking, data centres, power systems and cooling, but the opportunities should broaden over time. For instance, AI converts computation into electricity demand, consequently, grid infrastructure, generation, storage, low-carbon electricity, power semiconductors and thermal management may become some of the more durable second-order beneficiaries. Unlike individual AI models, every competing AI architecture ultimately requires electricity.
The next major earnings pool should eventually migrate towards enterprises that successfully use AI to improve margins, productivity or revenue. For Singapore, financial institutions, manufacturers, professional-services firms, logistics companies and healthcare providers are therefore as important to monitor as AI producers themselves. Singapore's financial sector participates in AI in two ways. First, the technology can raise productivity

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across research, customer servicing, risk, surveillance, operations and compliance, and second, somebody must finance Asia's extraordinary infrastructure requirements. Banks, bond markets, private credit, infrastructure funds, project finance and hedging activity can all capture economic value even when the physical data centre, transmission project or power plant sits outside Singapore.

A strong technological thesis does not imply that every AI-related asset is attractive at every price. That lesson is particularly important in 2026 because expectations surrounding AI remain extremely elevated. Look back in history and there are many pertinent examples - the railway transformed the nineteenth-century economy, but many railway investors nevertheless lost money. The internet transformed virtually every modern business, but the dot-com bubble still burst. The same logic may apply to AI - the greatest vulnerability would arise if infrastructure spending slows before application revenues and productivity gains expand sufficiently to take its place. AI may be structurally transformative, but not every current AI investment will generate an adequate return on capital.

The sustainability of the Singapore AI story should increasingly be judged through two groups of indicators. Cyclical indicators include: hyperscaler capex, server shipments, HBM and NAND pricing, semiconductor-equipment bookings, electronics manufacturing and NODX which provide evidence about whether the infrastructure cycle remains strong. Structural indicators are more important over time and could include: SME versus large-enterprise adoption rates, productivity of AI-adopting industries, movement from proof-of-concept to scaled production, real wages, locally generated AI intellectual property, AI-enabled services exports, ASEAN deployment revenues, enterprise value added per worker, and value added per MW of electricity.

Table 6: Cyclical vs structural indicators of the Singapore AI story

Indicator group	Indicators to track	What it tells us
Cyclical	Hyperscaler capex; server shipments; HBM and NAND pricing; semiconductor-equipment bookings; electronics manufacturing; NODX	Whether the global AI infrastructure cycle remains strong
Structural	SME vs large-enterprise adoption; productivity of AI-adopting industries; proof-of-concept to scaled production; real wages; locally generated AI IP; AI-enabled services exports; ASEAN deployment revenues; value added per worker; value added per MW	Whether the baton is passing from AI capex to AI productivity
Input (necessary, not sufficient)	Investment commitments; number of Centres of Excellence; GPU access; workers attending courses	Effort and capacity being built, but not outcomes

Source: OCBC Group Research.

The most constructive outcome would actually be one where semiconductor export growth moderates but these structural indicators improve. That would suggest the baton had moved successfully from AI capex to AI productivity. Therefore, we need better measurement - investment commitments, number of Centres of Excellence, GPU access and

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workers attending courses are useful input indicators, but not the golden grail. Singapore should increasingly track productivity gains, commercial AI revenues, wage improvements, locally created IP, scaled SME use cases, exports of AI-enabled services, worker-transition outcomes and energy productivity.

Singapore may be on the cusp of a new growth model. Over six decades, Singapore has repeatedly reinvented its role in international value chains: from entrepôt trade and labour-intensive manufacturing towards electronics, financial services, advanced manufacturing and the digital economy. AI potentially represents the next iteration.

Singapore is benefiting substantially from the global AI infrastructure buildout through semiconductors, memory, equipment, advanced packaging, data centres, trade and capital expenditure. This is an important reason why a highly open economy has performed strongly despite geopolitical and energy-related shocks.

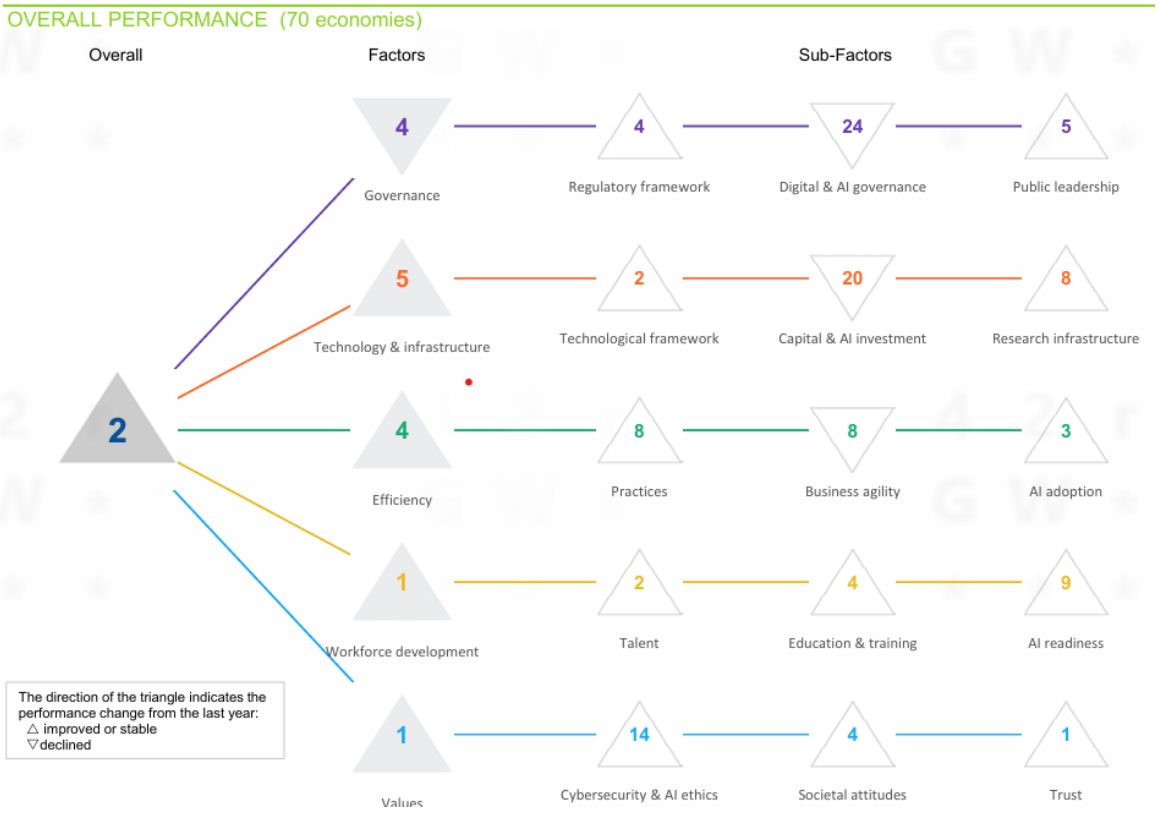
However, the next leg of growth remains to be seen. It depends on whether Singapore converts today's exceptional investment cycle into persistent productivity gains, commercially valuable R&D, locally anchored intellectual property, higher-quality jobs and new services exports. That is a considerably harder test.

If Singapore succeeds, AI could help alleviate three of the country's most persistent structural constraints: an ageing population, limited manpower and physical scale. If unsuccessful, Singapore could still enjoy a highly successful AI infrastructure boom, but one concentrated among a narrow group of globally connected companies and vulnerable to the next semiconductor and capital-expenditure downturn.

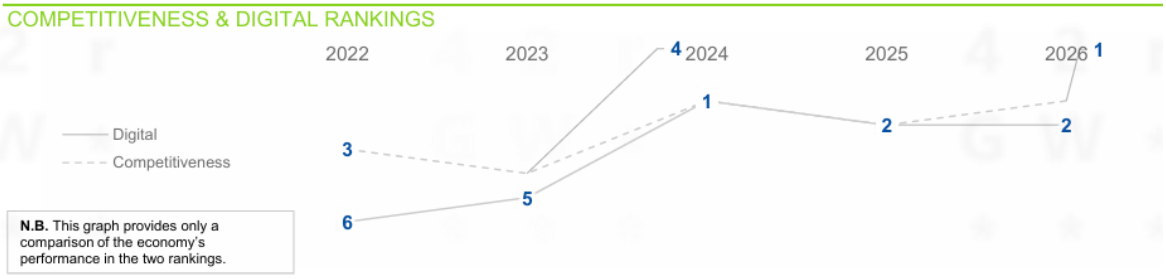
The ultimate test of Singapore's AI strategy is not how much AI infrastructure it hosts. It is whether AI enables Singapore to sustainably generate more economic value from every worker, every dollar of capital and every megawatt of scarce electricity. And that is why the sustainability of AI as Singapore's next growth driver ultimately depends less on whether the current supercycle continues indefinitely, and more on what Singapore builds while the cycle lasts, specifically in a durable increase in productive capacity and potential growth.

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The 2026 IMD World Digital and AI Ranking for Singapore:



OVERALL & FACTORS - 5 years	2022	2023	2024	2025	2026
OVERALL	06	05	01	02	02
Governance	03	03	01	03	04
Technology & infrastructure	05	08	03	05	05
Efficiency	04	05	02	06	04
Workforce development	05	06	01	06	01
Values	11	07	02	06	01



Source: The 2026 IMD World Digital and AI Ranking

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Powering the AI boom

Jonathan Ng
ASEAN Economist

- The AI economy is more physical than it appears. Both chip fabrication and data-centre operations depend on a constant supply of electricity, making power, already strained by the energy shock, a potential constraint on the boom.
- The nature of the constraint differs across the AI value chain. The US faces constraints in power and permits, while China's more immediate constraint is access to advanced chips and high-bandwidth memory. Taiwan's main challenge is securing sufficient firm and reliable supply to keep its fabs operating around the clock, while South Korea's challenge is the speed at which its transmission network can connect available power with rapidly expanding electricity demand from semiconductor fabs and data centres.
- Access to reliable electricity will increasingly shape the pace and location of AI investment. Electricity constraints are already delaying some projects and influencing where new data-centre capacity is located. If these constraints persist, they could slow the AI capex cycle in affected markets and redirect investment towards locations where reliable electricity can be secured.

Global growth has proven resilient amid geopolitical disruptions, underpinned in part by the AI boom. The powerful global AI-related capex cycle has partly offset the drag from the negative supply shock of higher and more volatile energy prices. However, this offset is itself exposed to energy risks, because the AI economy is more physical than it appears. Advanced chips are manufactured in only a handful of economies, traded as AI computing hardware, built into AI servers and shipped to data centres worldwide. Both chip fabrication and data-centre operations depend on a constant supply of electricity. This makes power availability, already under pressure from the energy shock, a potential constraint on the AI boom itself.

On the manufacturing front, chipmaking uses far less power than data centres but is much more geographically concentrated. TSMC, Samsung's semiconductor division and SK hynix together used ~73 TWh of electricity in 2025,[39] [40] [41] with TSMC's Taiwan fabs alone accounting for ~9% of Taiwan's electricity consumption.[42] Taiwan's semiconductor industry as a whole used ~15% of the island's power in 2025, and the Taiwan Research Institute (TRI) and Taipower expect its consumption to reach 50–52 TWh in 2026, or ~17-18% of national demand.[43] [44] On the computing front, by contrast, data centres, where AI models are trained and run alongside other workloads, consumed ~485 TWh of electricity in 2025 (or

[39] TSMC 2025 Sustainability Report
[40] Samsung Electronics Sustainability Report 2026
[41] SK hynix Sustainability Report 2026
[42] The energy beneath Taiwan's feet: With its grid exposed to imported fuel and geopolitical risk, Taiwan has strong geothermal potential for stable, round-the-clock power — but still lacks the regulatory and financial framework to unlock it. Taipei Times, 17 April 2026.
[43] Semiconductor industry's electricity use hits record. Taipei Times, 22 October 2026.
[44] Powering Competitiveness! Taipower Showcases Integrated Power Grid at Energy Taiwan 2026, Unveiling Taiwan's Electricity Development Vision for the Next Decade. Taiwan Power Company, 14 October 2026.

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1.5% of global electricity demand). In its base case, the International Energy Agency (IEA) expects this to nearly double to ~950 TWh by 2030.[45] Although that would still represent only about 3% of global demand, the impact is likely to be disproportionately felt in a relatively small number of markets where data centres are concentrated.

Because demand is so concentrated, the binding constraint may lie less in the overall supply of electricity than in delivering enough of it to where demand is concentrated. According to the IEA, more than "2,500 GW of renewable, large-load and storage projects are currently stalled in grid queues worldwide."[46] Lead times compound the problem, with longer time frames for the planning, permitting and building of new grid infrastructure (5-15 years). By contrast, supply- and demand-side projects, renewable projects (1-5 years for solar PV and wind), data centres (1-3 years) and EV charging infrastructure (1-2 years) have relatively shorter time frames. In other words, a data centre can be up and running years before the grid connection it needs is ready. In the following few sections, we will examine how major markets across the AI value chain are managing this challenge.

The buyers: US & China

The US and China dominate the demand side of the AI economy. Combined, they accounted for more than 75% of net imports of AI-related computing hardware in 2025 and 57% of newly built data centres since 2024.[47] Reflecting this dominance, the two countries also accounted for ~70% of the world's data centre electricity consumption in 2024.[48] [49] This concentration raises a critical question: are their existing grids prepared to absorb the surge in power demand as infrastructure is rapidly scaled up to meet growing AI adoption?

US

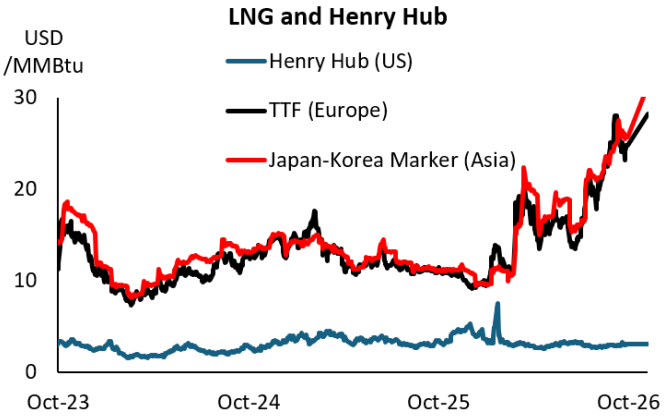
In the US, natural gas is the single largest source of electricity generation. The US Energy Information Administration (EIA) expects the Henry Hub gas price to ease by 1.4% to USD3.48/MMBtu in 2026, from USD3.53/MMBtu in 2025, before falling a further 9.2% to USD3.16/MMBtu in 2027. Yet, it expects US wholesale electricity prices to average 11% higher in 2026, with the PJM region seeing the largest increase among US regions at 41%.

Despite having cheaper gas, electricity remains difficult to secure in parts of the US. In our view, the constraint is generation capacity, not fuel availability. The 2028/29 capacity auction run by PJM, the largest US grid operator, cleared at its USD325/MW-day price cap in July, but still fell 6.8 GW short of its reliability requirement.[50] This was the second consecutive shortfall from its previous auction. Higher prices have also done little to bring in new supply, with only ~0.5 GW of new or upgraded generation cleared in the 2028/29 auction, down from ~0.8 GW and ~2.7 GW in the 2027/28 and 2026/27 auctions, respectively. According to PJM's Chief Executive, "demand for electricity continues to grow

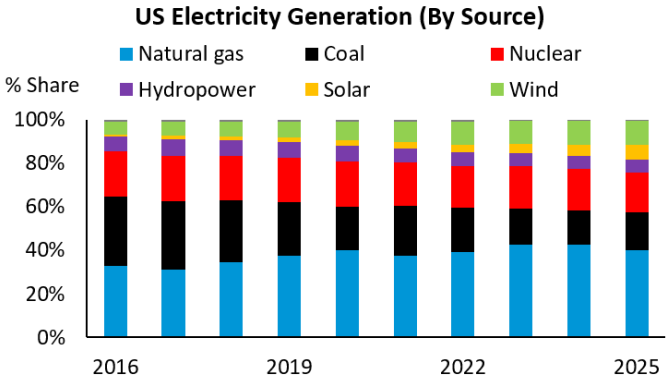
[45] Energy and AI. International Energy Agency, April 2025.
[46] Electricity 2026. International Energy Agency, February 2026.
[47] World Economic Outlook: Resilience Under Strain, Urgent Choices. International Monetary Fund, October 2026.
[48] US: ~45%, China: ~25%, Europe: ~15%. IEA indicated that "substantial data gaps make it challenging to accurately estimate China's data centre electricity consumption"
[49] Energy and AI. International Energy Agency, April 2025.
[50] PJM power grid auction hits price limit, falls short of reliability goal. Reuters, 14 July 2026.

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faster than electricity supply." Yet, new gas plants are unlikely to close the gap quickly as gas-turbine delivery times averaged almost five years in 2025, up from about two years in 2021.[51] This suggests that gas plants ordered today are unlikely to come online before the end of the decade.



Source: Bloomberg, OCBC Group Research.



Source: US Energy Information Administration STEO (November 2026), OCBC Group Research.

Much of the growth in electricity demand comes from data centres. PJM attributes most of its load-forecast growth to new large loads, primarily data centres, and the IEA expects them to account for almost half of US electricity demand growth to 2030.[52] The pressure extends well beyond PJM. In Texas, the Electric Reliability Council of Texas (ERCOT) was reviewing more than 474 GW of proposed new load in August 2026, ~90% of it from data centres, against just 9,456 MW of large loads it had approved to energise.[53] [54] Faced with long waits for grid connections, data-centre developers are increasingly turning to onsite gas generation. Meanwhile, regulatory constraints are also slowing the build-out. On 3 August 2026, ERCOT paused approvals to energise new data centres and crypto-mining loads of 75 MW or more, with pending reviews due by 10 December.[55] Environmental scrutiny is also picking up, with New York having frozen its state environmental permits for data centres of 50 MW or more pending a statewide review.[56] Taken together, the US has the chips and capital to support its AI economy, but power and permits are not keeping pace with the data centres being planned.

China

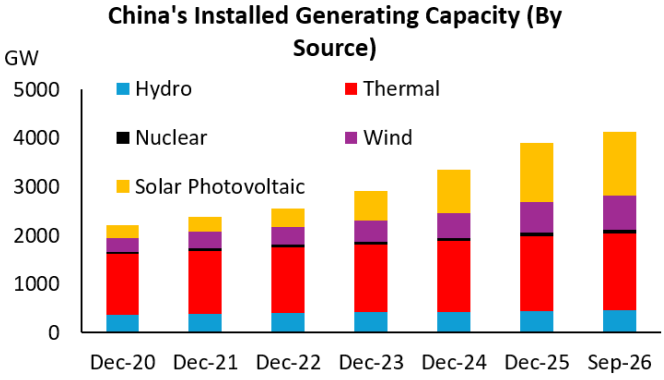
By contrast, China appears better placed to meet the power requirements of an expanding AI economy. According to the National Energy Administration (NEA), installed generating capacity rose by 11.2% YoY to 4,130 GW at end-September 2026. This included 1,310 GW of solar and 700 GW of wind, up by 16.5% YoY and 20.4% YoY, respectively, together accounting for 48.7% of the country's total installed capacity.[57] The grid is also expanding

[51] Supply chain constraints limit the growth of gas-fired generation in the US. Wood Mackenzie, 20 February 2026.
[52] Energy and AI. International Energy Agency, April 2025.
[53] Governor Abbott Directs Comprehensive Data Center Audit. Office of the Texas Governor, 3 August 2026.
[54] Texas Orders Data Center Audit As Grid Requests Reach 474 Gigawatts. Forbes, 13 October 2026.
[55] Texas Orders Data Center Audit As Grid Requests Reach 474 Gigawatts. Forbes, 13 October 2026.
[56] New York becomes the first state to impose a data center moratorium. Reuters, 14 July 2026.
[57] State Grid's fixed-asset investment cross $43b in H1. China Daily, 24 July 2026.

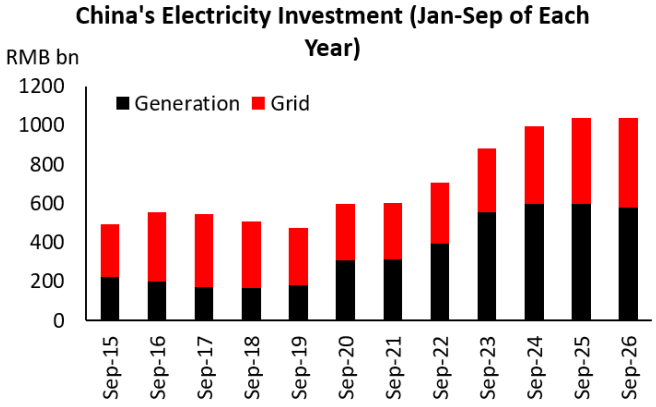
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alongside generation capacity: State Grid invested over RMB310bn in 1H26, up 12.6% YoY, and in June commissioned an 8 GW ultra-high-voltage line from Shaanbei to Anhui.[58]

Investment spending is set to accelerate further, with State Grid planning fixed-asset investment of up to RMB4trn over the 15th Five-Year Plan period (2026–30), 40% more than in the previous plan period (14th Five-Year Plan, 2021-25). The plan also targets a 30% increase in cross-regional transmission capacity from the end-2025 level, to carry power from the west to demand centres in the east.[59]



Note: 2026 is end-September.
Source: China Electricity Council, CEIC, OCBC Group Research.



Source: China Electricity Council, CEIC, OCBC Group Research.

Beyond the rapid expansion of its power generation and grid infrastructure, China is also bringing computing closer to regions with available power resources. The "East Data, West Computing" programme which was launched in 2022, directs workloads that do not need real-time responses to energy-rich western hubs. This strategy is also being reinforced by efforts to integrate data-centre development with renewable-energy supply.[60]

Yet China's capacity to translate its power advantage into AI capability remains constrained by access to advanced computing hardware. Strict US export controls have restricted Chinese companies' access to the most advanced GPUs, while the ongoing tightness in global supply chip also added to the squeeze. Domestic alternatives are improving and can provide a temporary stopgap measure, but they remain a distant from the most advanced hardware from the US.[61]

The US and China therefore face different constraints. While the US is facing constraint in power and permits, China is tackling the AI power challenge on several fronts, including expanding generating capacity and strengthening long-distance transmission. However, its more immediate constraint on AI expansion is access to advanced chips and high-bandwidth memory rather than power infrastructure.

[58] China launches major UHV power link to deliver renewable electricity. CGTN, 30 June 2026.
[59] China's power grid investments to surge to record $574 billion in 2026-2030. Reuters, 15 January 2026.
[60] SCIO briefing on promoting high-quality development: National Data Administration. The State Council Information Office The People's Republic of China, 22 July 2024.
[61] China's AI concerns split between humanity and tech race with US. AFR, 14 September 2026.

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The producers: Taiwan & South Korea

If the US and China dominate the demand side of the AI economy, Taiwan and South Korea are the key producers. Combined, they sourced 62% of net trade in AI-related computing hardware in 2025.[62] For semiconductor fabrication plants (fabs), the key issue is not only how much electricity they consume, but also the reliability of the power supply. Fabs operate around the clock, and their production processes are highly sensitive to power disruptions. Moreover, both economies are net energy importers, and run isolated island grid with no cross-border electrical grid, leaving them vulnerable to disruptions in global energy supplies.

Taiwan

Chipmaking is set to remain the key driver of electricity demand growth in Taiwan. Taipower expects semiconductor-related electricity consumption to reach 80 TWh by 2030 and 110 TWh by 2035, equivalent to ~24% and ~30% of national demand, respectively.[63] To meet this expected increase in electricity demand and ensure a stable power supply, the Ministry of Economic Affairs (MOEA) plans gross additions of ~26 GW of gas-fired generating capacity over 2026-35.[64] In 2025, LNG-fired generation accounted for 47.7% of Taiwan's electricity, up from 17.1% in 2005. Meanwhile, coal accounted for 35.3% while wind and solar together accounted for ~10%. The 2025 outturn therefore fell short of Taiwan's earlier "50-30-20" electricity-generation mix target: natural gas remained below its 50% target, while coal was above 30% and renewables below 20%.[65] [66]

With gas-fired capacity forming a central part of Taiwan's supply response, further semiconductor fab expansion could deepen the island's reliance on imported LNG and heighten its exposure to global energy-supply disruptions. This dependence is particularly consequential because Taiwan has limited buffers against either a disruption in fuel imports or a sudden loss of generating capacity. Taiwan cannot import electricity during a supply crunch and can store only ~11 days of LNG, compared with ~30 days in South Korea, and ~19 days in Japan.[67] The island has also experienced three large-scale blackouts over the past five years, underscoring the importance of a stable and reliable power supply for semiconductor fabrication.

The energy shock from the Middle East conflict illustrates this vulnerability. Qatar supplied ~34% of Taiwan's LNG imports in 2025, leaving the economy particularly exposed to disruptions to shipping through the Strait of Hormuz and damage to Qatar's energy infrastructure.[68] In March 2026, QatarEnergy declared force majeure on certain long-term

[62] World Economic Outlook: Resilience Under Strain, Urgent Choices. International Monetary Fund, October 2026.
[63] AI Demand Drives Semiconductor Electricity Consumption to Double Over Ten Years, Prompting a Reassessment of Taiwan's Electricity Pricing and Cost-Sharing Mechanisms. DataTrack, 24 July 2026.
[64] Ministry of Economic Affairs Releases the 2025 National Electricity Supply and Demand Report of Taiwan; Prudent Electricity Resource Planning Ensures Reliable Power Supply. Ministry of Economic Affairs, 7 August 2026.
[65] 50 per cent natural gas, 30 per cent coal and 20 per cent renewables.
[66] Taiwan misses 2025 renewable target as coal power remains above goal. Eco-Business, 18 March 2026.
[67] Bank of Korea: "Concerns Over Taiwan's Power Shortage Due to LNG Reliance and Middle East Conflict... Impact on Korean Exports". The Asia Business Daily. 28 May 2026.
[68] Bank of Korea: "Concerns Over Taiwan's Power Shortage Due to LNG Reliance and Middle East Conflict... Impact on Korean Exports". The Asia Business Daily. 28 May 2026.

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contracts following damage to its production facilities at Ras Laffan Industrial City.[69] Although Taiwan was not among the affected long-term buyers publicly identified, the disruption has raised the cost of securing LNG from alternative global suppliers. Against this backdrop, the price that CPC Corporation Taiwan, the state-owned enterprise and sole importer of LNG, charges power generators for natural gas doubled between February and November 2026.

The government is also reconsidering its stance on nuclear power as it seeks to strengthen energy security and reassure industrial users. In September 2026, Taiwan's Nuclear Safety Commission completed its initial review of Taipower's plan to restart the Maanshan nuclear plant. Taipower must still carry out safety inspections, implement the measures in its plan and submit a further report for regulatory review. The plant could resume operations in 2028 at the earliest.[70] Overall, we believe Taiwan's main challenge is securing sufficient firm and reliable power to keep its semiconductor fabs operating around the clock.

South Korea

In comparison, South Korea faces a different challenge. Its electricity mix is more diversified than Taiwan, with nuclear, coal and LNG each accounting for 27-31% of its electricity generation in 2025. Renewables, oil, and other sources made up the rest. As such, this more diversified mix gives South Korea some flexibility to shift between energy sources when disruptions hit global energy markets.

However, the main constraint is geographical. Many of South Korea's large power-generating plants are located along the coast, partly because thermal and nuclear power plants require massive amounts of water for cooling. These plants are also far from the capital region, where much of the country's semiconductor capacity is concentrated and major new fabs are being developed. Building the transmission infrastructure needed to move power to these semiconductor clusters is therefore increasingly urgent. Yet such infrastructure takes far longer to build than the fabs themselves.

The 345 kV Bukdangjin-Shintangjeong transmission line took 22 years to complete. Even after the government fast-tracked 15 strategic grid projects, their expected delivery time is still ~9 years, compared with 10 years 6 months previously.[71] Climate Minister Kim Sung-hwan has noted that a semiconductor fab or AI data centre can be completed in just two to three years. This mismatch means that additional industrial demand can come online years before the addition of transmission capacity required to serve it.

To ease the potential bottleneck, South Korea is locating new semiconductor capacity closer to available power. A new chip complex planned for Honam is expected to draw on the region's renewable and nuclear generation, with ~3 GW of power scheduled to become available from 2029. The complex is eventually expected to require more than 6 GW.[72]

[69] Iran attacks wipe out 17% of Qatar's LNG capacity for up to five years, QatarEnergy CEO says. Reuters, 19 March 2026.
[70] Taiwan regulator completes review of restart plan. World Nuclear News, 28 September 2026.
[71] [Exclusive] 14 trillion won power grid project exempted from preliminary feasibility study confirmed... Grid construction accelerated by 18 months. Money Today, 24 August 2026.
[72] Samsung, SK hynix chip clusters get new power supply road map. The Korea Herald, 12 August 2026.

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Despite their different circumstances, South Korea's challenge is therefore less about the diversity of its generation mix than about the speed at which its transmission network can connect available power to rapidly expanding semiconductor and data-centre loads.

ASEAN: The next big wave

Southeast Asia accounted for just under 3% of the world's data-centre electricity consumption in 2024.[73] However, the region now accounts for about half of the data-centre capacity under construction in Asia-Pacific, pointing to a sharp increase in power demand as these projects come online.[74]

Singapore's 2019–22 pause on new data-centre development helped redirect investment to neighbouring Johor, which now has more than 4 GW of operating, under construction or planned. Thailand is also attracting a growing pipeline, with Bangkok having ~3 GW of operating, under construction or planned. Together, these developments show how the next wave of regional data-centre capacity is spreading beyond Singapore into neighbouring markets.

Market	Development Pipeline	Other Key Metrics		
		U/C	Planned	Operational
Johor	3,088 MW (+28%)	602 MW (+91%)		1,110 MW (+24%)
Sydney	2,134 MW (+65%)		2,018 MW (+83%)	917 MW (+17%)
Bangkok	2,084 MW (+99%)	859 MW (+148%)		134 MW (+19%)
Mumbai	1,726 MW (+31%)			890 MW (+16%)
Jakarta	1,699 MW (+56%)	395 MW (+112%)		

Source: Cushman & Wakefield

A key advantage for these emerging hubs has been the speed at which data centres can secure power. For example, Malaysia's national utility has pledged to provide grid connections within one year of project approval,[75] compared with 5-7 years in Virginia in the US. However, that advantage increasingly depends on regulatory approval, which has become an immediate gateway to new data-centre investment. Beyond that, the pace of development will also depend on country-specific physical constraints, including grid capacity, gas supply availability, new generation capacity, and electricity imports. For a fuller assessment of the region's AI opportunities and challenges, **see *ASEAN-5 & India: Different starting points, different opportunities for AI, pp 102*.**

Other bottlenecks?

Beyond constraints on generating capacity, fuel supply, transmission infrastructure and permit approvals, expanding the power system also requires equipment such as transformers, cables, and turbines. The IEA notes that lead times for cables and large power transformers have doubled since 2021, while tight supply chains are constraining

[73] The Rise of Data Centres, Artificial Intelligence, and ASEAN's Decarbonisation Goal. ASEAN Climate Change and Energy Project: Phase 2 (ACCEPT II), 24 June 2025.
[74] Asia Pacific's Data Centre Development Pipeline Reaches Record 26.5GW in H1 2026. Cushman & Wakefield, 5 August 2026.
[75] TNB pledges to connect approved data centres to the grid within one year. The Star, 27 October 2026.

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deployment in Southeast Asia.[76] The supply of gas turbines is also tight, prompting some ASEAN developers to reserve equipment well in advance. In September 2026, Malaysia's YTL Power and Ganda Power secured four additional turbines from Siemens Energy, bringing their total reservation to seven units. These turbines are intended to support power generation projects in Malaysia and the wider region with a combined capacity of more than 5,250 MW.[77]

The equipment supply chain ultimately rests on essential metals and materials: copper and aluminium carry electricity through cables and transmission lines, while grain-oriented electrical steel is used in transformer cores. For a fuller assessment of the critical minerals underpinning AI, ***see Critical Minerals & AI supply chain in Asia Pacific, pp 89.***

In conclusion, access to reliable electricity will increasingly shape the pace and location of AI investment, even as access to advanced chips and high-bandwidth memory remains a major constraint. Electricity constraints are already delaying some projects and influencing where new data-centre capacity is located. If these constraints persist, they could slow the AI capex cycle in affected markets, weakening one of the forces that has partly cushioned the latest energy shock, while redirecting investment towards locations where reliable electricity can be secured.

[76] World Energy Investment 2026. International Energy Agency, 28 May 2026.
[77] YTL Power and Ganda Power secure four additional Siemens Energy gas turbine units. The Star, 15 September 2026.

By Global Markets | 16 November 2026

Thematic Report 7

The resurgence of nuclear energy

Ong Shu Yi
Sustainability Research

- Nuclear energy is regaining momentum as countries seek to strengthen energy security while meeting rising electricity demand and decarbonisation goals.
- Supportive policies and advanced nuclear technologies are creating a more favourable environment for nuclear capacity expansion, with several ASEAN economies advancing nuclear readiness.
- However, financing, technology commercialisation, supply chain and workforce constraints, as well as public acceptance, remain key challenges to broader nuclear energy deployment.

Nuclear returns to the global energy agenda

The rapid adoption of AI, expansion of data centres, broader electrification trends and a more volatile geopolitical environment are increasing demand for clean and secure energy. Recent energy crises have further elevated energy security alongside decarbonisation as a key energy policy priority. Against this backdrop, nuclear energy is regaining global attention as a source of low-emissions, dispatchable power that can help meet rising power demand while complementing variable renewable generation. Alongside scaling up other sources of clean energy, nuclear power can reduce global reliance on imported fuels and strengthen energy resilience.

Renewed interest in nuclear energy is increasingly translating into new capacity and extended operation of existing nuclear reactors. According to the International Atomic Energy Agency (IAEA), 413 nuclear reactors were operating globally with 377.1GW of generating capacity at the end of 2025. The IAEA has revised up its projections for nuclear energy expansion, estimating that global nuclear energy capacity could almost double to 696GW by 2060 in its low case projection or more than triple to 1,284GW in its high case projection. With renewed global interest and advancing nuclear technologies, small modular reactors (SMRs) could become a significant new source of clean energy, accounting for 28% of all new nuclear capacity added through 2060 in the IAEA's high case projection, and 23% in its low case projection. Nuclear energy generation has started to recover after a period of stagnation, supported by new nuclear reactors in Asia and the Middle East and extended operating lives for existing reactors, which are offsetting reactor retirements. At least 60 additional nuclear reactors are currently under construction globally, indicating a growing pipeline of new capacity, according to McKinsey.

Supportive policy environment for nuclear energy

Policy support for nuclear energy is strengthening, alongside growing engagement from international financial institutions. Governments are increasingly incorporating nuclear energy into their long-term decarbonisation and energy security strategies. Support is also broadening beyond governments to international institutions. The World Bank Group

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established a partnership with the IAEA in June 2025 to strengthen nuclear expertise and support its safe and responsible use in developing countries, marking its first concrete step to re-engage with nuclear energy in decades.

Several ASEAN economies are advancing nuclear readiness to support long-term energy security and decarbonisation goals, supported by a strengthening policy environment. At the regional level, civilian nuclear energy remains one of the seven programme areas under the ASEAN Plan of Action for Energy Cooperation (APAEC) 2026 – 2030, with ASEAN deepening cooperation in areas including financing, human resources, regulation, safety and security. At the national level, several countries are building capabilities and developing policy frameworks, although levels of nuclear readiness vary and most are at relatively early stages.

Singapore has been progressively building capabilities in nuclear science, safety and technology in line with international best practices, as part of efforts to evaluate the suitability of advanced nuclear energy technologies for power generation. Starting in 2027, Singapore will undertake an assessment called the Integrated Nuclear Infrastructure Review (INIR) Phase 1 Mission, based on the IAEA Milestones Approach, to support informed decision-making on the potential deployment of advanced nuclear energy technologies. Singapore is also strengthening its nuclear expertise through international partnerships. Recent cooperation with China covers areas including nuclear safety and technology applications, building on Singapore's engagement with other international partners such as the US, France and South Korea. Its cooperation with South Korea also includes joint studies on SMRs for potential applications in Singapore.

Malaysia is similarly strengthening its institutional and policy foundations for nuclear energy. The 13th Malaysia Plan (2026–2030) identifies nuclear energy as a potential source of clean electricity, with MyPOWER Corporation under the Ministry of Energy Transition & Water Transformation (PETRA) responsible for the governance of the national nuclear programme in line with IAEA requirements. Preparatory work is underway across areas including policy, legal and regulatory frameworks, project development, local industry participation and human capital, while the government continues to assess the role of nuclear power in Malaysia's energy mix.

Indonesia is laying the groundwork for potential nuclear deployment, with its first nuclear power plant identified as a national priority. It plans to commission its first nuclear power plant between 2032 and 2034, with sites for nuclear facilities expected to be determined in 2026 or by 2027 at the latest. Concurrently, Indonesia is strengthening the institutional, regulatory and technical capabilities needed to support potential nuclear deployment, with assistance from the IAEA. It is targeting 7GW of nuclear power capacity as part of a broader strategy to ensure long-term energy security and support industrial expansion, with the target formally integrated into the country's national energy master plan.

The Philippines is also advancing its nuclear preparations, with the government progressing towards Phase 2 of the IAEA Milestones Approach. The government has made

progress across policy, regulation, international cooperation, site assessment and financing, while initial assessments have been undertaken at potential nuclear power plant sites across five provinces. A Phase 3 roadmap is also being developed, covering the infrastructure required for the eventual commissioning and operation of its first nuclear power plant.

Vietnam has progressed further towards nuclear deployment, having revived its Ninh Thuan nuclear power programme. The revised Power Development Plan VIII provides for the Ninh Thuan 1 and 2 plants, each with capacity of 2.0–3.2GW and expected to be operational between 2030 and 2035. In March 2026, Vietnam and Russia signed an intergovernmental agreement on cooperation to construct Ninh Thuan 1, which is expected to comprise two units with an expected combined capacity of around 2.4GW. The cooperation is also expected to support knowledge transfer and capacity building for Vietnamese enterprises, helping to develop the country's broader nuclear energy ecosystem.

These developments signal growing policy openness towards nuclear energy in ASEAN, although progress towards actual deployment is likely to remain uneven across the region. Much of the current momentum remains centred on strengthening international collaboration and building the regulatory, institutional and technical foundations required for nuclear energy. As such, nuclear energy's contribution to the region's energy mix is more likely to materialise over the longer term.

China leads expansion as nuclear interest grows across the region

While ASEAN economies are largely building the foundations for potential deployment, China is already expanding nuclear power at scale. At the end of 2025, China had 59 operational nuclear power units with a total installed capacity of 62.48GW, alongside 53 units under construction totalling 62.93GW. Together, these represented 125.41GW of nuclear capacity. China's role in global nuclear energy continues to grow as its nuclear power construction scale has ranked first globally for 19 consecutive years, reflecting the sustained pace of nuclear capacity additions.

China's nuclear capacity expansion is also increasingly underpinned by domestically developed nuclear technologies and supply chains. The China Nuclear Power Development Report 2026 states that the domestically developed third-generation Hualong One reactor has moved into a phase of batch construction, while localisation rates for equipment used in new nuclear projects have exceeded 90%. China's strong nuclear project pipeline is consistent with its broader energy priorities, including strengthening energy security, reducing reliance on fossil fuels and progressing towards carbon neutrality.

Nuclear investment expected to rise in Asia as construction accelerates

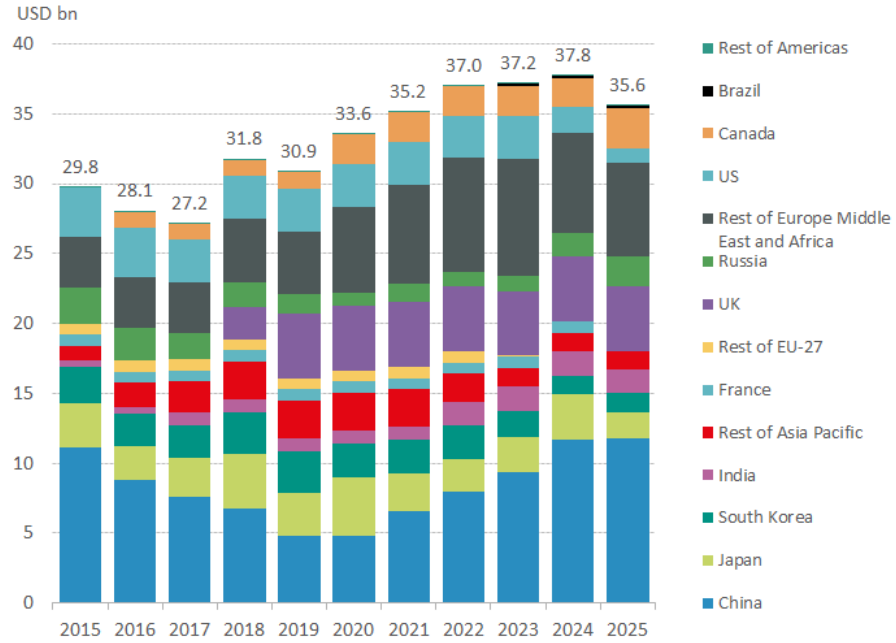
The outlook for nuclear investment in Asia remains positive despite a fall in global nuclear investment in 2025. Global nuclear investment fell by around 5.8% from USD37.8bn in 2024 to USD35.6bn in 2025 (Figure 1), partly as higher-cost nuclear reactors in Europe and the

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US entered service while lower-cost projects commenced in China, according to BloombergNEF. Given the disparity in construction costs across markets, substantial capacity additions in relatively lower-cost markets such as China may require lower investment expenditure than similar projects in higher-cost markets.

Looking ahead, BloombergNEF expects stronger investment activity as Asia's project pipeline expands, particularly in China and India. China's nuclear investment has been on an upward trend over the past five years, rising by around 146% from USD4.8bn in 2020 to USD11.8bn in 2025, reflecting the continued expansion of its nuclear power industry.

Figure 1: Nuclear investment by region, 2015 – 2025



Source: BloombergNEF, OCBC Group Research.
Note: Includes reactors under construction or under major refurbishment for restart.
Investment volumes are spread over the construction period of a reactor.

Financing, technology, supply chains and public acceptance pose key hurdles

Despite renewed momentum behind nuclear energy, scaling deployment will require overcoming significant challenges, including the financing challenges associated with capital-intensive nuclear projects. Conventional large-scale nuclear projects are difficult to finance due to their scale, high upfront capital requirements, long construction timelines and technical complexity. This exposes investors to considerable construction risk before a plant begins generating revenue, while delays and cost overruns can further increase financing requirements.

Nuclear project execution has diverged considerably across markets, according to BloombergNEF. Cost overruns and delays have complicated the development of new large-scale reactors in the US and Europe, contributing to growing interest in smaller and more

advanced reactor technologies. By contrast, China continues to expand conventional nuclear power at scale, while India is also pursuing an expansion of its conventional reactor fleet.

Government involvement is important to facilitate the financing of nuclear power projects, through taking on construction risk and lowering the cost of capital, alongside supportive regulatory frameworks and tariff structures. Green bonds and other sustainable debt instruments could also broaden the pool of financing available for nuclear projects. Nuclear-related sustainable debt issuance rose sharply from US$2.7bn in 2023 to US$10.5bn in 2024, before moderating to US$9.5bn in 2025, according to Sustainable Fitch. Issuance stood at US$4.1bn in 1H26. Green bonds dominate such financing, accounting for 86% of instruments and US$38bn of issuance since 2013. The increasing recognition of nuclear energy within sustainable finance frameworks could broaden funding options, although new-build and early-stage projects continue to face financing challenges.

New reactor technologies could help address some of the cost and financing challenges associated with conventional large-scale reactors, although their commercialisation remains nascent. SMRs, in particular, could offer different project economics given their smaller scale. Interest in SMRs is growing globally, as their modular designs allow systems and components to be assembled in factories and transported for installation, potentially shortening construction timelines. In addition to incorporating more advanced safety features, their smaller project footprint also makes SMRs suitable for a wider range of applications and locations, including areas with smaller electricity grids. SMRs could therefore be more attractive to commercial investors, with shorter pre-project and construction periods potentially reducing payback periods compared with conventional nuclear projects. However, these benefits have yet to be demonstrated through widespread commercial deployment.

Supply chains and workforce capabilities will also need to strengthen as nuclear deployment accelerates. Nuclear expansion will require reliable and diversified supply chains for both reactor construction and fuel, as well as a larger qualified workforce. Fuel supply is particularly concentrated, with Kazakhstan being the world's largest uranium producer, followed by Canada and Namibia. Reliance on a small number of suppliers can heighten supply risks, particularly if disruptions affect a major producer. Supply chain vulnerabilities are already prompting investment in additional nuclear fuel capacity. The US, for example, awarded USD2.7bn in orders to three companies in January 2026 to expand domestic uranium enrichment over the next decade, as part of efforts to reduce dependence on Russian supply and strengthen domestic supply chains.

The availability of skilled workers represents another potential bottleneck as deployment scales, given the specialised expertise required across nuclear construction, operations and the broader supply chain. Singapore, for example, is strengthening its nuclear capabilities as it assesses the potential deployment of nuclear energy, including through the recruitment of specialists and development of training programmes. However, developing the specialised competencies required by the nuclear industry can be a lengthy and complex

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process, particularly given its stringent safety and regulatory requirements.

Public acceptance will also be important in determining the pace of nuclear energy deployment. Concerns around safety and radioactive waste continue to influence perceptions of nuclear energy. In Japan, for example, public opinion shifted sharply against nuclear power following the Fukushima disaster, contributing to the shutdown of the country's reactor fleet, although support has subsequently recovered as the country pivots back towards nuclear energy. Building public confidence will therefore depend not only on technological advances, but also on addressing concerns around nuclear safety, radioactive waste management, and strengthening trust in regulators and operators.

These challenges highlight that renewed momentum behind nuclear energy may not translate evenly or quickly into new capacity. Ultimately, the pace of nuclear expansion will depend on whether supportive policies and rising investment can be matched by progress in managing financing and construction risks, advancing nuclear technologies, strengthening supply chain and workforce capabilities, as well as building public confidence.

By Global Markets | 16 November 2026

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Danantara: High stakes

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Senior ASEAN Economist

Ahmad A Enver
ASEAN Economist

- Danantara is a high risk-high reward enterprise which can serve multiple objectives.
- We see the main objectives of Danantara as an administrator for State Owned Enterprises, a mobiliser of capital, a deployer of capital into projects aligned with its objectives and a catalyst for crowding-in private investment spending.
- The onus is on the authorities to preserve operational integrity and set Danantara up as an institution that can preserve and build capital to support stronger medium-term economic growth.

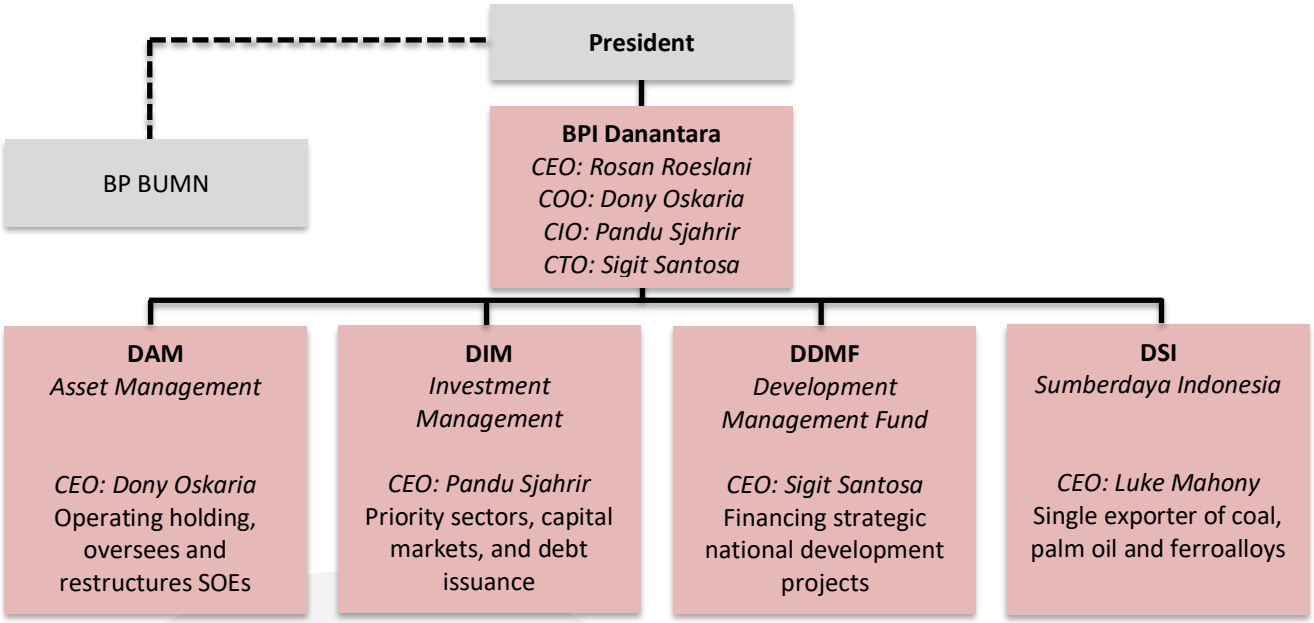
It has been twenty months since Danantara has moved from legislation to investment deployment. Badan Pengelola Investasi Daya Anagata Nusantara, or BPI Danantara, is Indonesia's state investment management agency, established under Law No. 1 of 2025. The government launched it on 24 February 2025 to consolidate the management of state investments and SOE assets and accelerate industrial development. The President cited that Danatara will manage more than USD900bn of assets. This asset base encompasses operating SOEs, including banks, with their own liabilities and capital needs.

Danantara portfolio of SOEs across selected sectors			
Energy, Oil & Gas	PERTAMINA	PLN	PUPUK INDONESIA HOLDING COMPANY
Financial Services	BRI Bank Rakyat Indonesia	BNI	mandiri
Insurance & Pension funds	IFG INDONESIA FINANCIAL GROUP	taspen	ASABRI
Logistics, tourism & supporting	KAI	JASAMARGA	Garuda Indonesia
Coal & Minerals	MIND ID	KRAKATAU STEEL	PERMINAS
Telecommunication & Media	Telkom Indonesia		
Infrastructure	adhi	WASKITA	SIG

Note: This list is not exhaustive. Only selected sectors and companies are shown in this table. Source: Danantara Indonesia, OCBC Group Research.

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Danantara's main entities perform distinct functions. **Danantara Asset Management (DAM)** oversees operating SOEs and leads their restructuring, while **Danantara Investment Management (DIM)** deploys capital across public and private markets and raises debt financing. **Danantara Development Management Fund (DDMF)**, established in April 2026, supports national development and public services by preparing, developing and helping finance long-term strategic projects. **Danantara Sumberdaya Indonesia (DSI)** extends the group's role into commodity export governance. It began operations in June 2026, initially monitoring transactions involving coal, crude palm oil and ferroalloys. The government targets full implementation of the export mechanism through DSI by 1 January 2027. DSI describes its intended role as a single intermediary, while preserving existing commercial relationships between exporters and buyers (see Indonesia: Policy shifts, 21 May 2026).



Danantara's multi-pronged role

We see Danantara's role as multi-pronged. First, we see it as an administrator of State-Owned Enterprises, which have had a mixed record historically. Overlapping responsibilities and regulations have often been a drag on SOE potential to contribute to growth. The government aims to reduce the SOEs to no more than 350 by end-2026 from 1,077 business entities, including subsidiaries and affiliates, reported in July 2026. COO Dony Oskaria reported that Danantara had streamlined 364 companies through restructuring, mergers, divestments and closures, as of October 2026[78].

Second, as a mobiliser of capital for projects deem commercially strong which can help economic development. DIM raised IDR61.4trn through Patriot bonds in 2025 and a further IDR7trn in March 2026. It also secured an international revolving credit facility and issued USD1.5bn of global bonds in Jun 2026. DIM reported IDR123.0trn in cash and cash

[78] "Laba BUMN Naik, Danantara Percepat Perampingan," 26 October 2026, Kompas.ID.

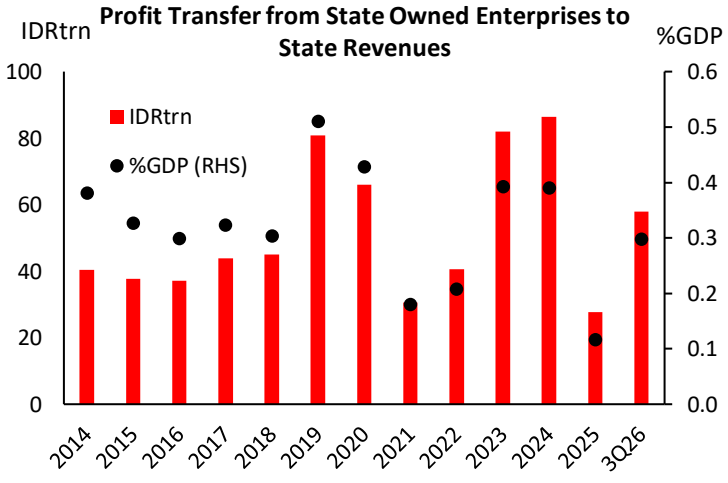
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equivalents in its standalone financial statements on 30 Apr 2026.[79] Credit rating agencies have tied Danantara's ratings to that of the sovereign. The issuance of patriot bonds has resulted in mixed reactions on account of yields (~2%) being significantly lower than market rates.

The other source of funds for Danantara, apart from the individual SOE asset and cash flow generation mechanisms, are from SOE dividends. These have traditionally been transferred in part as non-tax revenues to the central government. SOE dividends have accounted for 0.1-0.4% of GDP in government revenues since the pandemic, which will be redirected to Danantara. Indeed, Finance Minister Suahasil Nazara confirmed on 8 Oct 2026 that the 2026 and 2027 budgets do not include dividend receipts from Danantara.[80] This is a loss for the government coffers which will need to look for alternative sources of revenues. For Danantara, BPI Danantara channels these dividend receipts into its investment entities and injected IDR70trn of equity into DIM using SOE dividend receipts in 2025. These are in turn channelled into various projects.

Timing	Funding channel	Amount	Key terms
2025	Equity injection from BPI Danantara to DIM	IDR70trn	Funded by SOE dividends
Oct 2025	First Patriot bond issuance	IDR50trn	Five and seven years, both with 2.0% annual coupons
Nov 2025	International syndicated credit facility	USD1bn	Available for 36 months, expandable to USD10bn subject to additional lender commitments
Dec 2025	Second Patriot bond issuance	IDR11.4trn	Five and seven years, both with 2.0% annual coupons
Mar 2026	Third Patriot bond issuance	IDR7trn	Five and seven years, both with 2.0% annual coupons
Jun 2026	Inaugural global bond issuance	USD1.5bn	USD750mn each at five and ten years, with issuance yields of 5.35% and 5.95%, respectively

Source: KSEI, Kompas, SGX, Bloomberg, Danantara Indonesia press releases.



Source: CEIC; OCBC Group Research.

Third, Danantara will serve as a crucial deployer of capital. We estimate, based on publicly available information, that Danantara has committed to invest USD6.7bn since 2025. This is likely on the lower side considering that the amount for certain investments has not been publicly disclosed. Danantara has also supported SOE rescue efforts. Garuda Indonesia received recapitalisation of IDR23.7trn in December 2025, including IDR17.0trn of new cash and the conversion of existing shareholder loans. Krakatau Steel agreed loan facilities of up to IDR4.9trn with DAM for working capital and restructuring.

[79] "Danantara parks most assets in banks," IDN Financials, 1 November 2026.

[80] "Suahasil sebut Danantara tidak setorkan dividen ke APBN 2026 dan 2027," 8 October 2026, Antara news. The law provides for Danantara to remit part of its investment profits to the state after making provisions for investment risks or capital accumulation.

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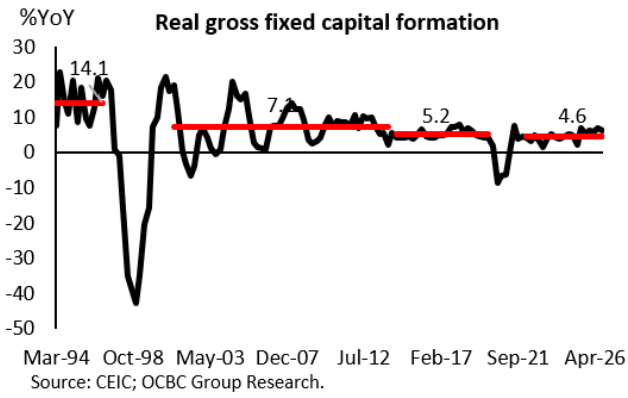
Sector / geography	Investment	USD bn	Date	Status / basis
Aviation - Indonesia	Garuda Indonesia	0.41	2025	Shareholder loan, converted to equity
Aviation - Indonesia	Garuda Indonesia - private placement, cash (up to)	1.44	Nov 2025	EGM 12 Nov 2025
Steel - Indonesia	Krakatau Steel - debt financing	0.50	Oct-2025	Company-data aggregator
Solar - Philippines	Philippine solar (first overseas investment)	0.12	2025	Commitment
Copper/gold - Indonesia	Freeport Indonesia - additional 12% stake to ~63%	n/d	Sep-Oct 2025	CEO: no cost; CIO: 'always a cost'
Waste-to-energy - Indonesia	Waste-to-energy programme	n/d	2025-26	3 plants under construction; 8 conditional awards
Downstreaming (incl. coal-to-DME, steel) - Indonesia	Six downstream projects launched	n/d	Feb 2026	Danantara share not disclosed
Tech - Indonesia	GoTo - <1% stake	n/d	2026	Amount not disclosed
Food - Australia/NZ	JBS - 25% of Australia/NZ operations	2.50	Aug 2026	Agreed
Private credit - global	Partners Group - private-credit mandate	1.00	Aug 2026	Reported by Bloomberg
Oil & gas - US	HighPeak Energy	0.25	Oct 2026	Announced
Hospitality - Saudi Arabia	Novotel Thakher Makkah + 4.4ha land (Rp9.5tn)	0.54	Signed Dec 2025; completed Aug/Oct 2026	Completed
Identified investments with disclosed amounts		6.76		

Source: Danantara press releases; company filings (Garuda Indonesia); Bloomberg; Reuters; ANTARA; Jakarta Globe; Business Times; Kumparan; FN News; OCBC Group Research. Data as of 11 Nov 2026. n/d = not disclosed.

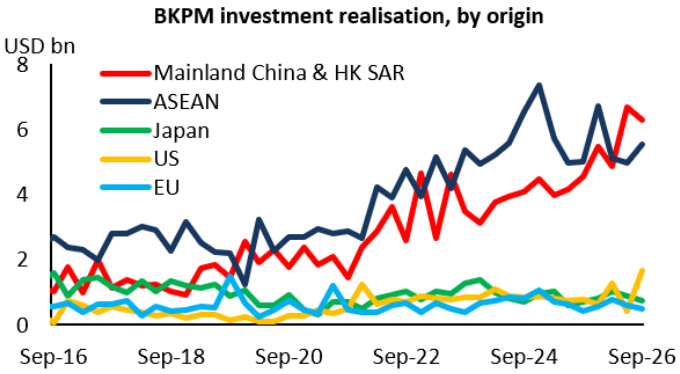
The role of Danantara in identifying investable projects and generating multi-year returns will be crucial to its ability to bolster medium-term growth. The authorities are reportedly working on releasing Danantara's first financial report to shed light on its operations, investments and cashflow positions.

Fourth, Danantara needs to serve as a catalyst to crowd-in private investments. The success of sovereign wealth funds in generating private investment growth has been mixed based on the literature we have reviewed. Policy and fund-level evidence say crowding-in works when certain conditions hold. World Bank finds that "properly structured and managed" strategic investment funds can crowd private investors into priority sectors. The OECD says this depends on the fund being run commercially. Notwithstanding, sovereign wealth funds are subject to political scrutiny and interference and changes in public policy direction.

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Source: CEIC; OCBC Group Research.



Source: BKPM (quarterly data), CEIC, OCBC Group Research.

There is a clear need to bolster private investment in Indonesia. Gross fixed capital spending growth has slowed on a multi-decade horizon, with public investment spending likely shouldering most of the responsibility in recent years. Although FDI investments into Indonesia have been strong from Mainland China and HK SAR along with the other ASEAN economies, Danantara can play an important role as a mediator of capital especially from the US and EU. The Indonesia- EU trade agreement (IEU-CEPA) which is expected to be signed in the coming months, considering Indonesia will lose its GSP privileges from EU on 1 Jan 2027, can remove 98% of tariff lines and close to 100% by trade value. This agreement can also be used to set the platform for greater cooperation between the two economies, with a role for Danantara to play in identifying investment prospects.

Conclusion

Danantara is a high risk-high reward enterprise which can serve multiple objectives. We see the main objectives of Danantara as an administrator for State Owned Enterprises, a mobiliser of capital, a deployer of capital into projects aligned with its objectives and a catalyst for crowding-in private investment spending. The onus is on the authorities to preserve operational integrity and set Danantara up as an institution that can preserve and build capital to support stronger medium-term economic growth.

By Global Markets | 16 November 2026

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Hong Kong: Commercial Property Market Outlook

Cindy Keung
Hong Kong and Macao Economist

- Hong Kong commercial real estate is moving from broad-based correction to a selective, occupier-led stabilisation, with offices outperforming retail store segment. We turned more neutral toward the Hong Kong's commercial real estate market outlook.
- We forecast office capital values to rise by around 4% in both 2026 and 2027, led by prime CBD properties. Retail shop values are expected to decline by a further 7% in 2026 and 4% in 2027 as rental stabilisation continues to lag the recovery in retail sales.
- The market yields of commercial real estate remained compressed, at around 3.9% to 4.6%. We are of the view that the compressed yields may limit the upside room for further rebound in prices of CRE, but not necessarily prevent such rebound.

Recovering but at bifurcated paces

Real estate market recovery is broadening beyond residential segment in past few months, with the commercial segment (i.e. offices and retail stores; CRE) starting to see signs of stabilisation or even improvement. The higher rental yield, the influx of businesses, improved consumption sentiment, together with the broader pickup in economic activities and the return of market confidence, are increasingly constructive for CRE outlook. Supply conditions are also improving, albeit only gradually. The absence of recent government commercial land sales should limit additions to the longer-term pipeline, but does not eliminate the existing stock overhang.

That said, near-term headwind remains. The higher funding cost, tight credit condition and heightened market volatility presented challenges to commercial property valuation. Further recovery may come at bifurcated paces, across segments, locations and grades, depending on the structural constraints and occupiers' demand. All in all, we shifted from bearish to neutral on Hong Kong CRE outlook, rather than outright bullish. We are constructive on prime CBD offices, neutral to cautious on prime retail properties, and cautious on offices and retail assets in non-prime/ core locations.

We forecast office capital values to rise by around 4% in both 2026 and 2027, led by prime CBD properties. Retail shop values are expected to decline by a further 7% in 2026 and 4% in 2027 as rental stabilisation continues to lag the recovery in retail sales.

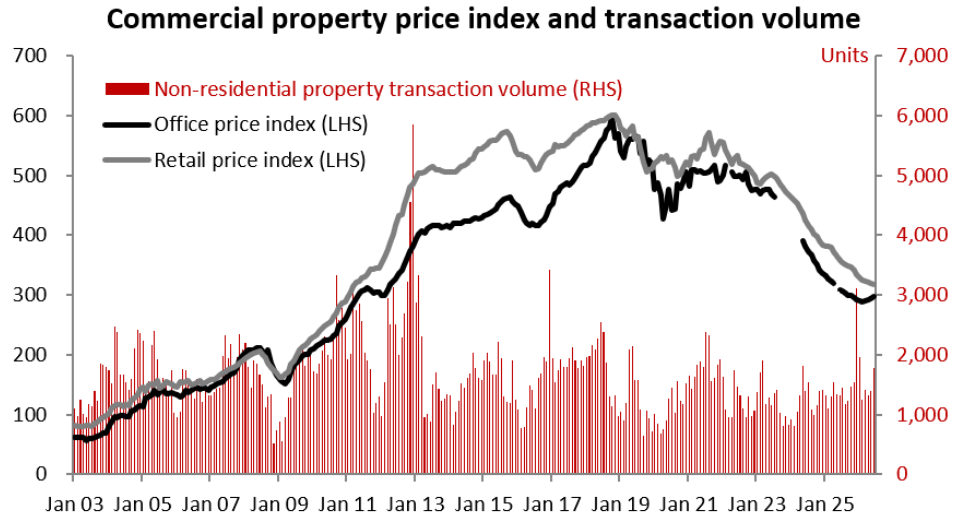
Current overview

Office segment appeared to have entered early phase of recovery, with both prices and rents showing signs of bottoming out. The official office price index recorded a cumulative gain of 3.8% in the first eight months of 2026 (-12.7% YoY in 2025), while rental index was flat (-13.0% YoY in 2025). On the other hand, retail store segment continued to struggle, though the paces of declines for both prices and rents moderated in recent months. The

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official retail store price index dropped cumulative by a total of 4.7% in the first eight months of 2026 (-13.0% YoY in 2025), while rental index fell by a milder 1.5% (-3.9% YoY in 2025).

The scale of the earlier correction has been substantial. Office and retail property prices are now 49.3% and 45.4% below their respective peaks, while rents are down by 20.8% and 20.7%. The much larger adjustment in capital values than in rents reflects not only weaker income expectations, but also higher required returns, tighter financing conditions and, in some cases, distressed sales.



Source: RVD, Land Registry, OCBC Group Research

Forming of a selective price floor

Following the substantial correction in CRE market, selling prices of selected commercial properties were at substantial discounts to their estimated land and replacement costs, making acquisition of existing stock considerably cheaper than developing comparable premises from scratch. The case was particularly compelling, as the cost of construction and replacement expense spiked in the past few years, amid elevated inflation in raw materials, shortage of construction workers, and strict compliance fees. Such pricing hence attracted end-users, private capital and other value-oriented buyers. The gradual digestion of distressed and receiver-led sales should reduce a major source of price pressure. A more durable floor will require evidence that transaction activity can recover without renewed forced selling.

Compressed yields limit, but do not prevent a recovery

Despite the substantial decline in CRE prices, market yields remained compressed, at around 3.9% to 4.6% according to our calculation. The spreads between the market yield and 1-month HIBOR were around 1.2% to 1.9%, while spreads between the market yield and indicator cap rates (ranging from 3.10% to 5.25% according to Colliers) may be even narrower. In the previous cycles of major corrections in CRE market, the yield-HIBOR spread would rise to a much higher level of above 4% (ranging from 4.3% to 6.3%) before bottoming out of prices. This suggests that 1) transactions in CRE market may be dominated by end-users in current cycle, rather than traditional yield-driven institutional buyers, for whom

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strategic occupancy needs and replacement-cost discounts can be more important than near-term yield spreads; and 2) the relatively compressed yields may indicate that buyers are pricing in a lower property risk premium or stronger future rental and income growth. We are of the view that the compressed yields may limit the upside room for further rebound in prices of CRE, but not necessarily prevent such rebound.

Table 1: Major corrections in CRE market since 1990s

	Office	Retail store
1997 Asian Financial crisis and SARS		
Peak-to-trough price correction	76%	61%
Duration	72 months	70 months
Vacancy	13.7%	10.8%
Market yield	6.8%	6.5%
2008 Global Financial Tsunami		
Peak-to-trough price correction	29%	21%
Duration	10 months	8 months
Vacancy	11.5%	8.7%
Market yield	5.2%	4.7%
2019 Social unrest and pandemic		
Peak-to-trough price correction*	52%	45.4% +
Duration*	80 months	87 months +
Market yield^	4.6%	3.9%

* As of August 2026.

^ Derived using official estimates of price and rent index trends in first eight months of 2026, and market yield in 2025.

Office, the standout performer

The recovery in office segment was supported by return of real demand, with financial institutions, professional services firms and large tech companies all looking for office space, particularly in prime locations. The wealth management and IPO boom, as well as more active equity market activities, were the primary drivers for increased office leasing demand. Besides that, the introduction of tax concession for family office (preferential tax regimes for hedge funds, family-owned investment holding vehicles; the Unified Fund Exemption regime) also prompted influxes into the city, creating organic demand for office space. According to government estimate, the number of single-family offices rose to 3,380 at end-2025 (increase of 680 offices since end-2023). Added to that, we noted many newly listed mainland companies were actively seeking to establish footprints in central business districts in Hong Kong, while others looked to further expand presence.

Space take-up started to keep pace with new supply, helping to cap further increases in the office vacancy rate. According to Colliers, overall office's vacancy rate declined for the fifth consecutive month to 16.08% in June, after peaking at 17.76% in November 2025. Driven by the fervent end-user demand, premium offices in prime locations (i.e. greater Central district) approached full occupancy. In light of that, landlords are reportedly offering less lease renewal discount for tenants.

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Flight to quality is widening the divide

So far, the market recovery was strictly concentrated in top-tier CBD assets, with tenants taking advantage of lower rents to relocate to newer, better-located premises, reinforcing the flight-to-quality trend. This left commercial space in non-prime locations weighed by tenant relocations and structural oversupply. Government data showed that leasing momentum for offices in prime locations picked up notably. Rental index of Grade A office in Sheung Wan/Central and Wan Chai/Causeway Bay rose by 7.0% and 7.2% respectively in the first eight months, while rental index of Grade A office in Tsim Sha Tsui fell by 10.7% during the same period. According to JLL, office vacancy rate in Central fell to 7.2% at the end-Sep, the lowest level in 43 months. Going forward, we expect the polarized trend to continue, with offices in prime location leading the recovery in terms of prices and rents. That said, we are watchful for possible signs of positive spillover to offices in non-prime areas.

Expect two-tier recovery for office segment in 2027

Improving absorption, declining vacancy and firmer rental expectations should support office net operating income. Prime landlords are also beginning to regain some pricing power as available space in top-tier buildings becomes more limited. However, elevated funding costs and narrow yield spreads will continue to constrain investment demand. Transaction activity is likely to remain selective, while meaningful cap-rate compression appears unlikely in the near term. Our forecast therefore assumes that office capital-value gains will be driven primarily by improving income rather than lower required yields. We expect office prices to increase by around 4% in both 2026 and 2027, led by prime CBD properties. The recovery is likely to remain two-tiered. Prime Grade A offices should benefit from stronger occupier demand and limited availability, while secondary offices remain exposed to high vacancy, tenant relocation and structural oversupply.

Polarized trend in retail store segment

Recent retail sales trends in Hong Kong were characterised by a two-speed dynamic: a stronger momentum in tourism-dependent, luxury segments alongside weak performance in the mass-market retail segments. The recovery in inbound tourism, together with increased household incomes, has supported sales in retail outlets such as electrical goods/consumer durables, motor vehicles, and jewellery and watches. In contrast, mass-market segments have faced persistent weakness, partly due to change in local consumption habits and retail sales leakage (i.e. competition from e-commerce and more northbound travels). In the first eight months of 2026, retail sales of jewellery and watches and consumer durable goods surged by 22.6% YoY and 19.9% YoY respectively, while that for consumer staples (i.e. food, drinks and supermarket items) only grew marginally.

This divergence is also reflected spatially: rents in prime retail locations have stabilised, while secondary locations continue to face weaker footfall, elevated vacancies, and rental pressure. Landlords with retail store properties primarily in non-prime locations generally reported negative rental reversions in 1H26, despite improvement in occupancy rate. Leasing activities reportedly focused on key tourist and shopping districts such as Central, Causeway Bay, Mongkok and Tsim Sha Tsui, on the back of rising first-store demand.

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Stabilisation in retail store's rent to lag sales

We expect retail sales growth in volume terms to moderate to around 2% to 5% in 2027. Continued sales growth should help stabilise occupier demand, particularly in major tourist and shopping districts, but is unlikely to generate a broad rental upcycle in the near term. The city-wide retail vacancy rate remained elevated at an estimated 12.5% at the end of 2025. With substantial vacant stock still available, landlords are likely to prioritise tenant retention, occupancy and repositioning over rent maximisation.

A sustainable rental recovery would require a broader improvement in local household confidence, reduced spending leakage, stronger sales across clothing and mainstream discretionary categories, and positive rental reversions. Until these conditions emerge, weak income expectations and limited scope for cap-rate compression will continue to weigh on retail capital values. We expect retail property prices to decline by 7% in 2026 and a milder 4% in 2027.

Outlook: selective stabilisation rather than a broad upcycle

To conclude, Hong Kong's CRE has not yet moved into a broad-based upcycle, despite signs of improvement in selected segments. Prime offices offer the clearest recovery case, supported by improving absorption, falling vacancy and firmer income expectations. Prime retail properties are starting to stabilise, but the recovery remained dependent on tourism-facing demand and selected luxury categories. Secondary offices and non-prime retail assets face more persistent structural challenges. Excess supply, tenant relocation, e-commerce and changing local consumption patterns may keep vacancies elevated and rental reversions weak even as the broader economy improves.

The principal upside risks are a faster decline in financing costs, stronger financial-sector hiring, a sustained IPO recovery and a broader improvement in local consumption. The main downside risks are renewed distressed selling, higher-for-longer interest rates, weaker tenant expansion and a further increase in vacancy outside prime districts. Overall, we remain neutral on Hong Kong commercial real estate, but with a strong preference for prime office assets with improving occupancy and visible income growth. The emerging recovery is real, but it remains narrow, income-driven and highly sensitive to asset quality.

Table 2: Scenario analysis

Scenario	Office segment	Retail store segment	Potential outcome
Base case	CBD absorption improves; vacancy declines gradually; cap rates broadly stable	Tourism-facing sales grow, but mass-market demand remains weak	Office +4%; retail -7% in 2026 and -4% in 2027
Upside	Faster rate decline; stronger IPO pipeline; broader hiring; limited new supply	Stronger local consumption; less northbound leakage; improved rental reversions	Faster recovery in office segment and earlier stabilisation in retail store segment
Downside	Higher-for-longer rates; renewed distressed selling; weak financial-sector hiring	Slower tourism; stronger e-commerce and northbound spending	Renewed office correction and deeper retail declines

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