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ASEAN-5

Our key themes for 2026

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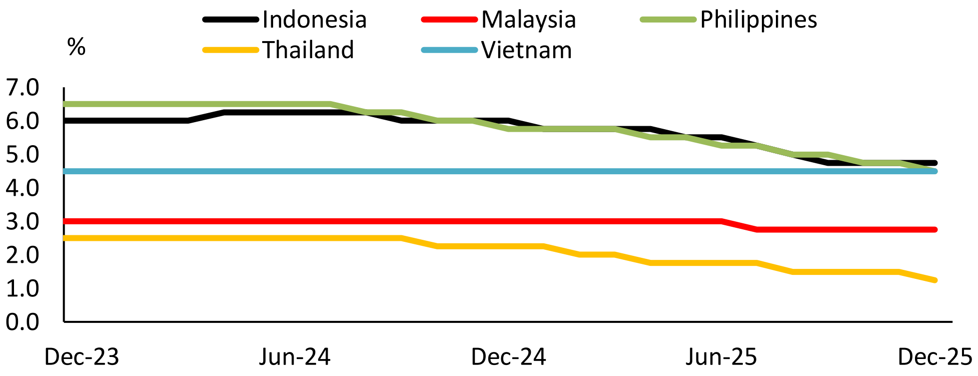
- We expect GDP growth for the ASEAN-5 economies of Indonesia, Malaysia, the Philippines, Thailand and Vietnam to slow to 4.7% in 2026 from 4.9% in 2025.
- The room for counter cyclical policies will be limited in 2026 as fiscal policies focus on consolidation and the rate cutting cycle is likely coming to a close across the region, albeit to differing degrees.
- Our key themes to watch for in 2026 include the fading effects of export frontloading to the US, differing degrees of domestic demand resilience, the region's still high relevance in the 'China +1' supply chains and mix of complementarity and competition of foreign investment flows and tourism.

The ASEAN-5 economies of Indonesia, Malaysia, the Philippines, Thailand and Vietnam weathered the tariff storm in 2025 better than expected, albeit to differing degrees. Inflationary pressures were well contained across the region, with core inflation also coming off compared to 2024. Monetary policy did the heavy lifting to support growth across most of the region, while fiscal policy support was more targeted. The local currency performance was mixed, with MYR and THB outperforming regional peers, and PHP, VND and IDR as the laggards.

ASEAN-5: Key central bank policy rate



Source: CEIC, OCBC Group Research.

For 2026, we are expecting a softer GDP growth profile with ASEAN-5 growth of 4.7% from 4.9% in 2025. The slower growth outlook will be influenced by weaker external demand, a payback from the frontloading of exports to the US and idiosyncratic country specific drivers of domestic demand.

GDP Growth					
% YoY	2023	2024	2025 (F)	2026 (F)	2027 (F)
Indonesia	**5.0**	**5.0**	5.0	4.8	5.0
Malaysia	**3.5**	**5.1**	4.8	3.8	4.2
Philippines	**5.5**	**5.7**	4.8	5.5	5.5
Thailand	**2.0**	**2.5**	2.0	2.0	2.0
Vietnam	**5.1**	**7.1**	**8.0**	7.5	8.0

Note: *Actual is bolded. Source: CEIC, OCBC Group Research.

Domestic demand in Malaysia and Vietnam is expected to remain resilient in 2026 supported by the strong reform agenda, albeit moderating somewhat from 2025. The domestic demand recovery in Indonesia and the Philippines will depend on the ability of government policy prescriptions to bolster consumer and business confidence. There will be another general election in Thailand on 8 February 2026, with a referendum on the constitution, setting in motion another political cycle. Any potential political overhang will weigh on domestic demand conditions and by the same token, a decisive election result could support the much-needed recovery.

Fiscal deficit					
% GDP	2023	2024	2025 (F)	2026 (F)	2027 (F)
Indonesia	**-1.6**	**-2.3**	**-2.9**	-2.8	-2.9
Malaysia	**-5.0**	**-4.1**	-3.8	-3.5	-3.2
Philippines	**-6.2**	**-5.7**	-5.5	-5.3	-4.8
Thailand*	**-3.3**	**-4.1**	**-4.6**	-4.3	-3.6
Vietnam	**-1.6**	**-1.0**	-2.1	-2.2	-1.8

Note: For Thailand, 2023 refers to FY24, which starts in October 2023 and extends to September 2024. We use Fiscal Policy Office calculations. For Vietnam, we use World Bank estimates. Actual is bolded.
Source: CEIC, OCBC Group Research.

The room for counter cyclical fiscal policies remain constrained in 2026. Fiscal consolidation has been ongoing across much of the region since the pandemic. We expect fiscal policies to remain targeted in supporting industries affected by US tariffs. The degree of consolidation has differed and in the past year, Thailand and the Philippines have revised medium-term fiscal deficits to reflect a slower path of consolidation mainly on account of weaker revenue collections. Finally, Malaysian authorities have been steadfast in its pursuit of fiscal consolidation, and we expect this will sustain into the medium-term.

The fiscal deficit in Indonesia will test the legal 3% of GDP ceiling. While not our base case, we assign a probability of 25% to the fiscal deficit breaching the legal limit at this juncture. We note that tax revenue collections will likely jump in 1Q26 on account of the low base effect from 1Q25. Beyond this, revenue tailwinds include a boost from higher base metal prices. Fundamentally, we see revenues as constrained with expenditure needs remaining elevated. The weather disruptions through December and early January will further pressure expenditure requirements.

The onus of supporting economic growth will likely fall to monetary policy even in 2026. We see room for another cumulative 50bps in rate cuts from Bank Indonesia (BI) – the timing will likely be based on currency moves. There is a risk that BI may not find any window of opportunity to deliver its intended cuts considering lingering fiscal risks. We forecast Bank Negara Malaysia (BNM) to cut its policy rate by 25bp, considering the cyclical softness in economic growth pencilled into our baseline. We expect Bank of Thailand (BSP), Bangko Sentral ng Pilipinas (BSP) and State Bank of Vietnam (SBV) to remain on a prolonged pause through 2026.

Policy Rate			
%	Current	2026 (F)	2027 (F)
Indonesia	**4.75**	4.25	4.25
Malaysia	**2.75**	2.50	2.50
Philippines	**4.50**	4.50	4.50
Thailand	**1.25**	1.25	1.25
Vietnam	**4.50**	4.50	4.50

Source: CEIC, OCBC Group Research.

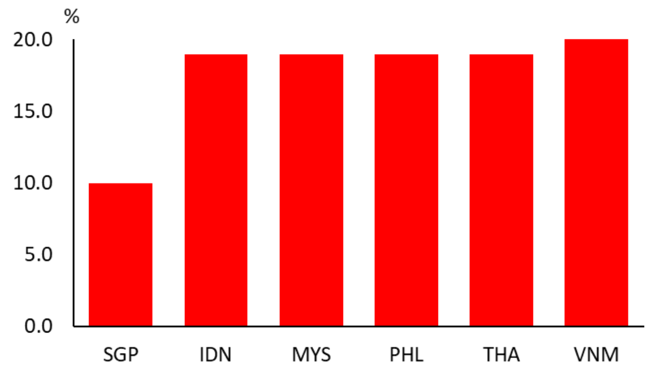
We highlight some key themes that we will focus on in 2026:

I. US tariffs: Will the bark be worse than the bite?

The reduction in the US reciprocal tariff rate from the original 2 April announcement and relatively less impactful sector specific tariffs on items such as pharmaceuticals could suggest that the noise around US tariffs is louder than the real economic impact. The bigger unknown for the ASEAN region is the outcome for semiconductor tariffs. The US investigation into semiconductors was initiated on 1 April 2025, with results likely in 1H26[1].

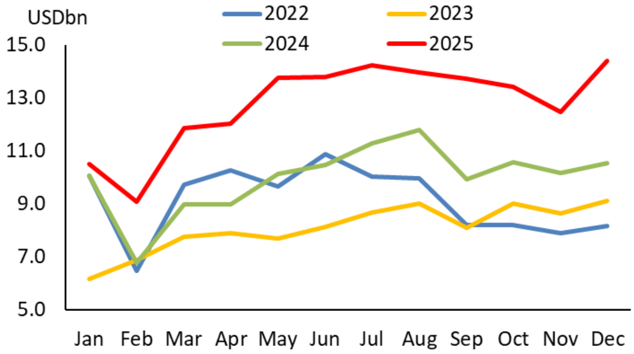
We expect ASEAN-5 exports to the US slow in 2026 as the impact of frontloading diminishes. The frontloading impact has been significant for the ASEAN-5 economies specifically Vietnam and Thailand while it was more volatile for Malaysia, Indonesia and the Philippines. This impact is unlikely to sustain particularly since there is now greater clarity on the reciprocal tariffs, which for Indonesia, Thailand, the Philippines and Malaysia are at 19%; it is at 20% for Vietnam.

Reciprocal tariff rates



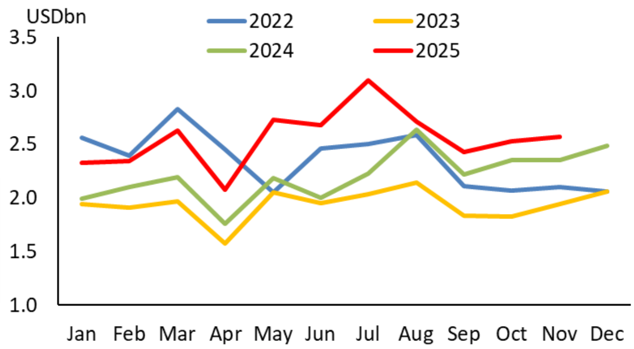
Source: The White House, OCBC Group Research.

Vietnam: Exports to the US (nsa)



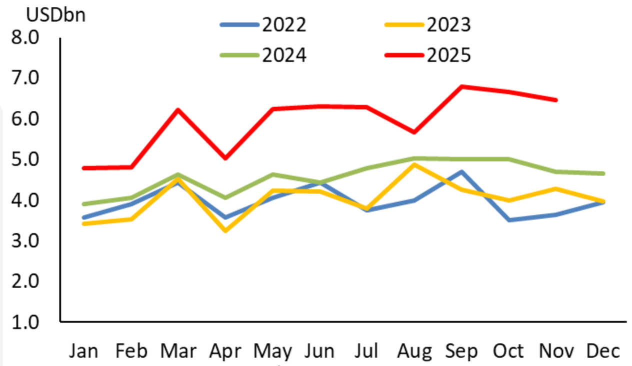
Source: CEIC, OCBC Group Research.

Indonesia: Exports to the US (nsa)



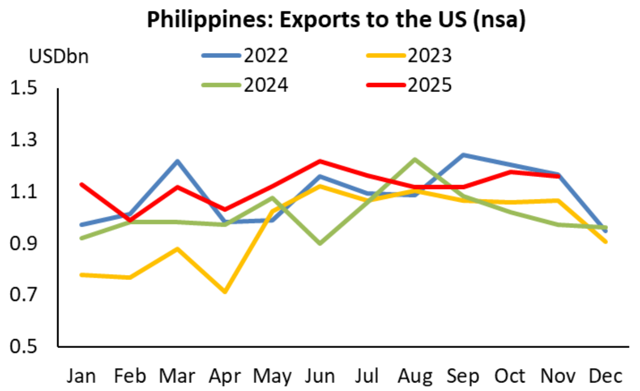
Source: CEIC, OCBC Group Research.

Thailand: Exports to the US (nsa)

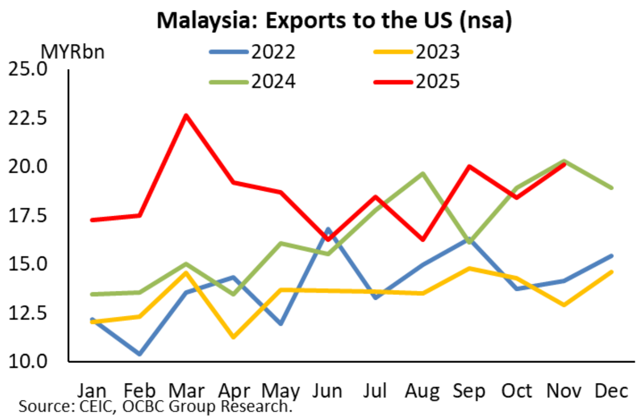


Source: CEIC, OCBC Group Research.

[1] The US Commerce Department has a target of 270 days to complete its review and report its findings to the President, who then has 90 days to decide on action.

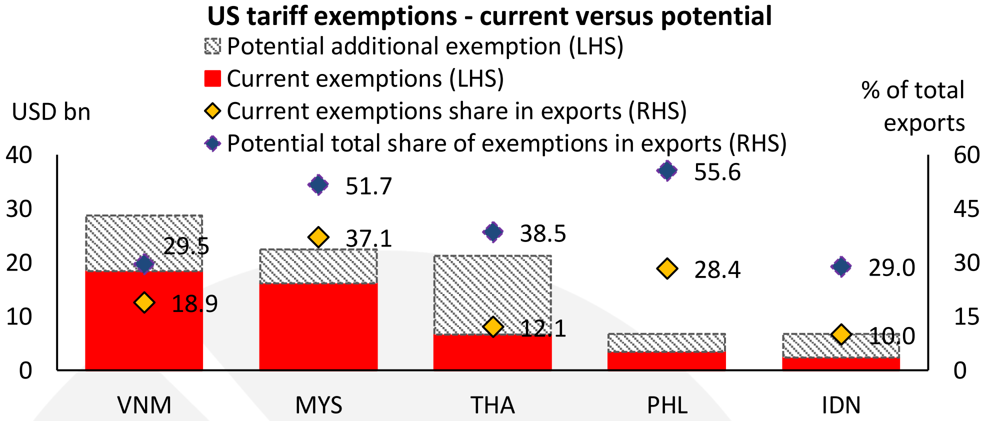


Source: CEIC, OCBC Group Research.



Source: CEIC, OCBC Group Research.

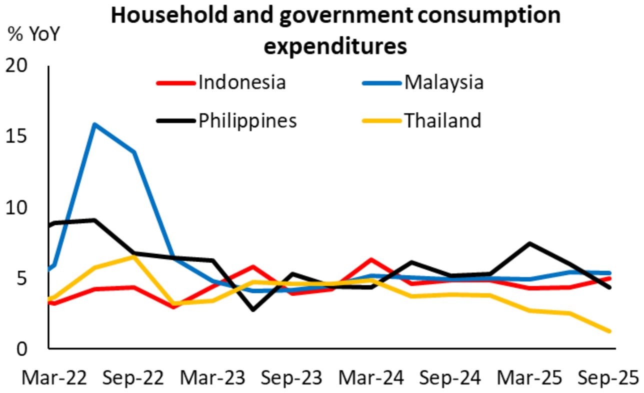
Moreover, additional exemptions can be agreed on with the US. We estimate that current list of exemptions is already quite significant at ~37% for Malaysia. Malaysia's former Minister of Industry, Trade and Industry Tengku Zafrul Aziz noted after the US-Malaysia trade agreement that Malaysia's additional exemptions were USD5.2bn (~12% of total exports), and slightly below our estimates of the maximum exemptions of USD6.3bn. Similarly, for the other economies, we estimate that maximum exemptions could allow a significant share of exports to the US to be exempt from tariffs. This suggests the need to further frontload will be limited.



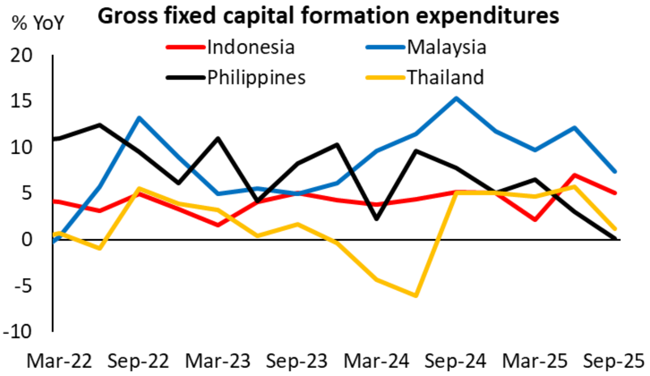
Note: This does not include exemptiones announced on 14 November 2025. Source: UN Comtrade, WITS,

II. Domestic demand resilience will differentiate intra-regional growth

Domestic demand has diverged across the ASEAN-5 economies in 2025. Weaker domestic demand conditions have persisted in Indonesia, the Philippines and Thailand. Perceived policy uncertainties weighed on consumer and business confidence leading to slower household and government consumption spending as well as investment spending.



Source: CEIC, OCBC Group Research.



Source: CEIC, OCBC Group Research.

Consumption and investment growth in Malaysia and Vietnam were solid in 2025[2]. This was supported by the strong reform agenda that has been adopted by the authorities in these economies. Malaysian authorities are focused on implementing medium-term national master plans to move up the value chain for manufacturing, while catalysing private sector participation and sticking to fiscal prudence. Authorities in Vietnam have unleashed a blitz of legislation to support infrastructure spending, upward movement along the value chain while focusing on social priorities. We expect these reforms will catalyse already buoyant sentiment into 2026.

By contrast, we do not see a quick turnout in investment spending for Indonesia, Thailand or the Philippines. For Indonesia, the limited fiscal space to support capital expenditures on account of the free meal and public healthcare schemes taking priority, implies that the onus to support public sector infrastructure spending will likely fall to Danantara. We suspect Danantara projects may need a longer runway to show results as the announced projects are still in the early stages.

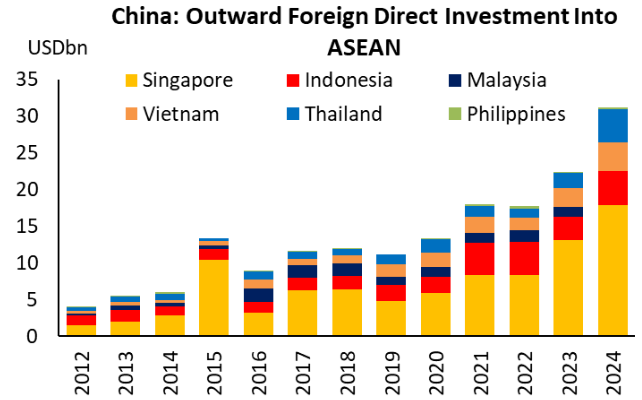
For Thailand, investment spending will likely be tied to the outcomes of the 8 February elections either allowing for businesses to capitalise on policy clarity or keep them in wait-and-see for even longer. For the Philippines, the onus is on the government to address governance issues allowing for cautionary pull back in investments and household spending to gradually normalise. Similarly, household consumption could remain under pressure in Indonesia, Thailand and the Philippines in 1H26 before improving in 2H26 assuming that policy direction has becomes clearer. Meanwhile, government spending will likely remain constrained across the region on account of fiscal consolidation objectives. We expect fiscal support to remain targeted.

III. ASEAN-5 remains highly relevant in the 'China +1' supply chains

The ongoing trade tensions with the US have cast ambiguity on whether ASEAN can genuinely reduce its reliance on Mainland China. Our view is that the attractiveness of diversification under the 'China +1' umbrella remains highly relevant. Despite the negotiations with the US, ASEAN officials have been steadfast in reiterating commitments

[2] 1H25 for Malaysia and 1Q-3Q25 for Vietnam

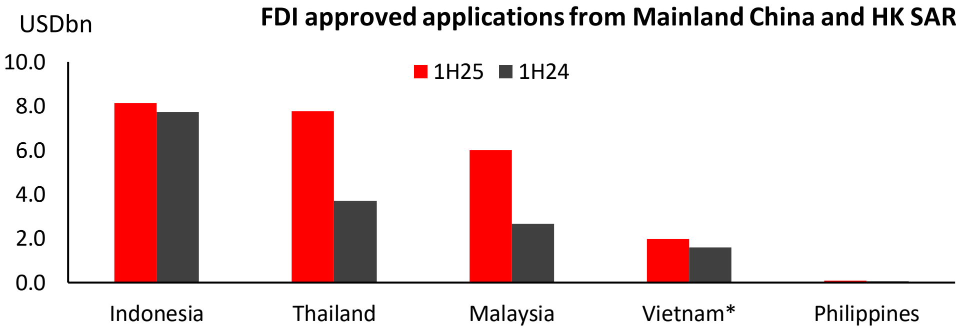
to Mainland China. The outward foreign direct investment from Mainland China into the ASEAN economies picked up even further in 2024 versus 2023.



Source: CEIC, OCBC Group Research.

Source: CEIC, OCBC Group Research.

While Singapore continued to be the largest recipient of Mainland China's outward investment, the inflows into Indonesia, Vietnam and Thailand jumped in 2024. Interestingly, outward investment into Malaysia slowed in 2024 versus 2023. By sectors, outward investments have mainly been directed towards the manufacturing, wholesale and retail sectors, with construction picking up slightly in 2024.



Source: CEIC, MIDA, OCBC Group Research. *Data for Vietnam is for 1Q24 and 1Q25.
Definitions are as follows:
i) Indonesia: BKPM FDI realisation;
ii) Malaysia: Approved private investments by major foreign investors (ultimate source)
iii) Thailand: Approved FDI applications
iv) Vietnam: Registered foreign capital
v) Philippines: Approved FDI

More recent shows that the interest in diversification continued in 2025. FDI applications from Mainland China and HK SAR picked up further in 1H25 compared to the same period in the previous year. Anecdotal evidence suggests that investments into assets particularly data centres remain strong, with policy makers across the region keen on developing deeper manufacturing ecosystems for electric vehicles as well as semiconductors.

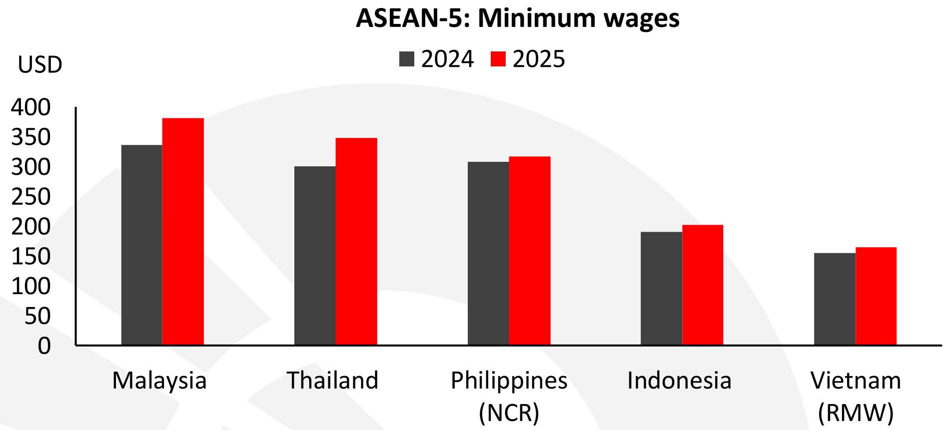
News of investment commitments in 2H25	Country	Timeline
China-ASEAN Free Trade Area 3.0 Upgrade Protocol	ASEAN	Within the year of Oct 2025-26
22nd China-ASEAN Expo Yields 155 Project Agreements	ASEAN	Sep-25
Zhengzhou-Kuala Lumpur "Air Silk Road"	Malaysia	Sep-25
Groundbreaking of a new EV battery megaproject with CATL	Indonesia	Jul-25
Galaxy Data Center to invest USD2bn in data centers	Thailand	Aug-25
Beijing Haoyang to build 300 MW data center	Thailand	Mar-25
Penang secures MYR1.85bn in Chinese manufacturing investments	Malaysia	1H25

Source: The Star, Malaymail, Bangkok Post, Jakarta Post, OCBC Group Research.

IV. Complementarity and competition

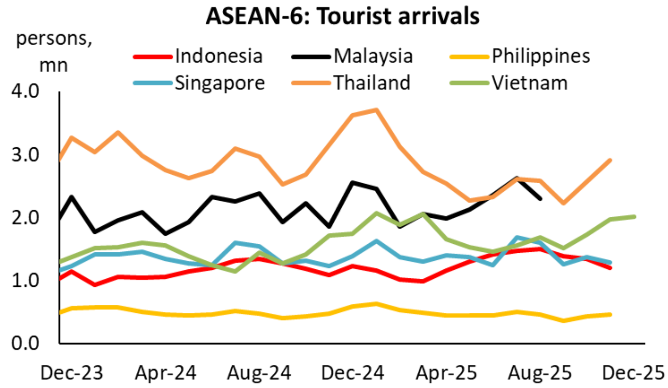
Our final theme for 2026 is that intra-regional dynamics will continue to deal in a mix of complementarity and competition. The ASEAN region presented a united face for tariff negotiations with the US and largely came out with the favourable outcome of similar rate of reciprocal tariffs. There is still greater synergy to be enjoyed across the region as supply chains become more integrated as a by-product of 'China +1' policies but also a broadening of the supply chains beyond traditional partners such as the US. The Johor-Singapore Special Economic Zone continues to be a bright spot for regional cooperation (see *Johor-Singapore Special Economic Zone gets another official boost*, 15 October 2025).

Critical competition will be for FDI inflows and factors that influence FDI competitiveness including wages and ease of doing business related policies as these will remain differentiating factors for investors. For example, Indonesia's minimum wage increase of 5.5% in 2026 was less than demanded by labour unions, more commensurate with labour productivity increases.

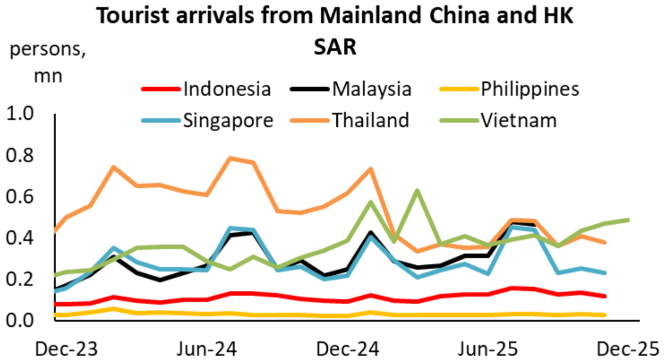


Source: Philippines DOLE; Vietnam Briefing; ASEAN Briefing; OCBC Group Research.
For Vietnam, RMW stands for regional minimum wages.

The competition for tourists will continue into 2026. Thailand's loss of tourists, particularly tourists from Mainland China, benefitted Malaysia and Vietnam but anecdotal evidence for early 2026 is that Chinese tourists are returning to Thailand particularly for the Lunar New Year holidays. We expect the push for easier application procedures and visa free reciprocities to continue into 2026. The ASEAN-5 region will continue to develop in ways that provide opportunities for complementarity but not without competition, which can potentially foster innovation and continued reform.



Source: CEIC, OCBC Group Research.



Note: data for Malaysia is China Incl HKSAR (CN) & MO SAR (CN).
Source: CEIC, OCBC Group Research.

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