

OCBC Global Outlook 1H26

Can 2026 pull off another hat-trick of surprising on the upside?

- 2025 was a year defined by a sharp pivot in global monetary conditions, renewed geopolitical fragmentation, and a slowdown in China that reconfigured Asia's growth map, all against the backdrop of a prolonged US government shutdown and an approaching mid-term election cycle.
- Asset markets diverged starkly: equities rallied on AI-driven earnings concentration in 1H25 before market jitters begun seeping in for 2H25. Meanwhile bonds whipsawed on shifting Fed expectations and commodities and crypto delivered outsized volatility. Credit markets stayed resilient but may be somewhat vulnerable going forward if tentative concerns about private credit markets build.
- The 2026 outlook hinges on three variables: the depth of the Fed's rate-cut cycle, the trajectory of US-China trade tensions and tariffs, and whether global politics—especially US mid-terms and leadership changes in Europe—catalyse stabilisation or further fragmentation.

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2025: A transitional year in global markets, economics, and geopolitics

The year 2025 will be remembered as a hinge point—an interstitial year straddling the end of a global rate-hike era and the beginning of an uncertain easing cycle. It was a year in which the US reasserted its geopolitical primacy even as its domestic politics produced a paralysing government shutdown. In addition, it was also a year where China's structural slowdown migrated and translated into hard global consequences, with persistent deflation due to weakened domestic demand bringing back memories of Japan's lost decades. Across regions, the world economy expanded unevenly, and global financial markets oscillated between enthusiasm for AI-led productivity narratives amid concerns about policy missteps. Investors entered the second half of 2025 increasingly sensitive to risks that had previously been discounted even as US tariff anxiety faded with the numerous bilateral trade deals struck with the US administration.

The United States: The centre of market gravity in 2025

The US economy was a story of remarkable resilience notwithstanding uneven underpinnings. The US continued to outperform consensus expectations throughout 2025. Growth decelerated from the post-pandemic highs but remained above trend, driven by household consumption, fiscal-supported investment, and a corporate sector still buoyed by high-margin tech and AI spending.

Inflation maintained a slow, uneven glidepath toward the Federal Reserve's 2% target. Services inflation has continued to ease gradually, but goods inflation re-accelerated keeping the Fed cautious.

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A defining feature was services and core services inflation, which hovered frustratingly above 3%, stayed persistently above headline inflation. This gap created a noisy macro environment where markets repeatedly swung between expectations of two cuts, three cuts, or even none at various points in the year.

This explained why the Fed's dovish pivot was accompanied with a battle with market expectations. By mid-2025, the Federal Reserve executed what markets termed a "dovish pivot." The shift was not dramatic—rather, it was an incremental recognition that (a) financial conditions had tightened via higher long-term yields even without policy hikes, (b) growth momentum was cooling at the margin, and (c) the labour market, while not cracking, was rebalancing.

Still, the Fed faced a credibility challenge: with the labour market not showing broad weakness, several FOMC members were reticent to accelerate an easing cycle. The most jarring development for markets came late in the year: the US government shutdown, triggered by congressional standoffs over fiscal appropriations and the debt ceiling. The shutdown delayed key statistical releases, impaired federal operations, and created noise around the interpretation of incoming economic data. An apt analogy was the Fed was flying "half-blind" when they are in a data-dependent stage. Financial markets became increasingly more sensitive to Fed communications, Treasury issuance schedules, and political developments heading into the 2026 mid-term elections.

The 2026 mid-term election implications will loom large over financial markets. First, the possibility of divided government or shifts in congressional control will raise questions about fiscal sustainability and tax policy. Second, defence, technology supply chains, and industrial-policy programmes tied to the CHIPS Act and Inflation Reduction Act will become a focal point. Third, market participants have increasingly priced in the risk that trade policies—especially reciprocal tariffs versus China—could intensify after the elections depending on political outcomes. The mid-term election cycle is thus likely to serve as a macro catalyst in 2026, potentially amplifying market volatility and pushing investors into barbell strategies: large-cap quality on one end, defensive value on the other.

A new trade era of reciprocal tariffs

The unilateral introduction of US reciprocal tariffs marked a new trade era. While the first Trump administration had also implemented tariffs, they were largely targeted at China, whereas the current regime is universal reciprocal tariffs. The US introduced and expanded a series of reciprocal tariffs aimed at countering what Washington viewed as part and parcel of making America great again. The implications were higher goods prices at the margin, modestly lifting goods inflation from mid-year, strained business confidence, particularly among multinationals with integrated Asia supply chains, and possibly an acceleration of "China+N"

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strategies, benefiting ASEAN manufacturing hubs (Vietnam, Thailand, Malaysia) but also creating bottlenecks and rising wage pressure. The wider message was unmistakable: the US had entered a durable period of trade defensiveness, one that would extend into 2026 no matter the electoral outcome.

US asset markets painted a picture of divergence in 2025. For equities, the S&P 500 performed strongly in 1H25 but became more volatile in 2H25 as rates fluctuated and AI leadership narrowed. Mega-cap techs had contributed over 50% of index returns, but its sustainability is now being questioned by investors amid high valuation concerns. With the US-led global stock market sell-off recently, bitcoin hit a 7-month low amid de-risking behaviour. For bonds, the 10-year Treasury oscillated between 3.95% and 4.1% as investors struggled to price growth, inflation, and issuance risks. For credit, investment-grade remained relatively firm; high-yield spreads widened modestly but never signalled imminent stress. For commodities, energy markets remained subdued due to moderating global demand, especially from China, even as OPEC+ restored production and added to the global market surplus, and as investors weighed the impact from an emerging surplus against US sanctions on Russia.

The story for Europe was one of hope. The European Commission is hopeful that the euro-area economy will maintain its moderate expansion after weathering US tariffs better than expected – output is tipped to rise 1.3% in 2025, aided by a pre-tariff frontloading, followed by a modest moderation to 1.2% in 2026, with inflation forecast at 2.1% in 2025 - close to the ECB's 2% target for the next two years. Higher government spending, improving consumption and a tight labour market should underpin the region's expansion, albeit with country divergences. For instance, Spain and France expanded 0.6% and 0.5% respectively in 3Q25, whilst Germany and Italy stagnated. German Chancellor Merz plans to spend big on infrastructure and defence to boost growth to 1.2% in 2026, up from 0.2% in 2025. With the ramp up in defence spending, the euro zone's collective budget deficit could widen from 3.1% in 2024 to 3.4% by 2027 and raise the debt burden to above 90% of GDP by then, according to the European Commission. France, which still faces political uncertainties weighing on its budget, should still see 0.9% growth in 2026 up from 0.7% in 2025. Peripheral Europe will also outperform in 2026 – Bulgaria will join the EU from 1 January 2026. Further out, the planned delay of the ETS2 carbon-pricing system is expected to lift inflation by 0.3% points in 2027.

The European Central Bank (ECB) is a master at the art of cautious easing. The ECB cut rates gradually but could not fully detach from the global inflation narrative. Services inflation and wage growth remained elevated, forcing the ECB to balance easing with credibility. The stronger euro in parts of the year, driven by capital inflows seeking relative stability, added complexity.

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Adding to the complexity, there were fiscal politics and leadership shifts. Several European elections created policy uncertainty - debates over deficit rules resurfaced, immigration and security dominated political cycles, and defence spending commitments remained politically sensitive despite rising geopolitical risks.

China was the other elephant in the room in 2025. 2025 was the year where China's GDP growth was resilient, even surprising on the upside, even as property markets continued to contract despite selective support measures, and consumption growth lagged expectations as households prioritised precautionary savings. Industrial activity was uneven – while high-tech manufacturing and EV exports remained competitive, traditional manufacturing sectors continued to face overcapacity and weak margins. Beijing took incremental steps—modest fiscal stimulus, liquidity injections, targeted tax relief—but avoided the massive stimulus packages of prior eras. Markets interpreted this as a recognition that the old investment-led model was no longer viable.

China's weaker demand had three global spillovers, namely deflationary exports which contributed to easing global goods inflation, soft commodity demand especially in metals and energy, as well as tourism spillovers which affected ASEAN economies heavily reliant on Chinese visitors. Financial markets in China also had a roller-coaster ride. Chinese equities surged amid reflationary hope with anti-involution measures and bargain hunting, while onshore bonds remained stable due to policy support, but credit differentiation widened, especially among property-linked issuers.

ASEAN economies experienced upside surprises in 2025 as beneficiaries of tariff-related frontloading, supply-chain reconfiguration, as well as resilient domestic demand. Electronics exports started recovering, though with significant month-to-month volatility. Meanwhile, resilient domestic demand conditions continued to anchor some ASEAN economies on the back of household consumption and investment spending. Inflation cooled broadly across ASEAN, allowing central banks to begin a cautious easing cycle. Tourism remained solid, albeit unevenly across the region.

The outlook for 2026 will be shaped by three macro anchor variables:

1. The Fed's policy trajectory
2. The durability of US-China tensions or the lack thereof.
3. Political shifts—US mid-term elections and European leadership transition.

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Below is a scenario matrix summarising possible 2026 outcomes.

Scenario	Macro Conditions	Policy Path	Asset Implications	Probability
Soft-landing continuity	US growth cools but remains acceptable. Inflation drifts higher, with an incomplete pass through from tariffs. China growth stabilises mildly.	The US Federal Reserve cuts another 2–3 times (cumulative 50-75bps); ECB and BOE ease gradually; Asian policymakers adopt mild stimulus measures.	Equities grind higher; bond yields are relatively stable; credit spreads are resilient; commodity prices are stable; USD softens.	45%
Re-acceleration and inflation rebound	Strong US consumption; energy prices recover; European growth stagnates; China's economic momentum slows.	The Fed pauses policy rate cuts; fiscal deficits widen.	Equities moves are volatile; bonds yields rise; commodity prices rally; EM FX under pressure; USD stronger.	25%
Global slowdown / China shock	China's growth slump deepens; global trade slows; US labour market weakens.	Fed cuts rates aggressively; US fiscal stimulus debated but constrained by politics/mid-terms.	Bonds rally strongly; equities correct as fear outweighs rate cuts; commodity prices weaken sharply; defensive assets outperform.	20%
Political fragmentation / geopolitical escalation	Trade tensions escalate; US mid-term elections lead to policy uncertainty; political volatility in Europe rises.	Policy visibility drops; UST/global yield volatility rises.	Risk-off sentiment; credit spreads widen; commodity prices are mixed; safe havens outperform.	10%

The key risks and potential blind spots for 2026

The key risks and potential blind spots for 2026 include in our view:

1. Underpricing of political volatility: There is a risk that markets may be too complacent about the following: the US mid-term outcomes; EU political transitions; Taiwan Strait tensions and/or Middle East instability. These could trigger sudden repricing in energy markets, FX, and defensive assets.
2. China's structural adjustment journey remains a risk to watch. Although not our base case, a deeper-than-expected contraction in China remains a tail risk, especially if property sector deleveraging accelerates or consumption confidence fails to recover.
3. Fiscal sustainability in advanced economies: High US and European deficits, compounded by higher defence spending and ageing populations, could destabilize long-term bond markets.

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4. **AI-Driven Market Concentration:** The sustainability of equity market leadership by a narrow cluster of AI-linked mega-caps remains a question. Any earnings disappointment or regulatory scrutiny could force a broad repricing.
5. **Commodity Supply Shocks:** Energy markets remain vulnerable to the strategy of the OPEC+ alliance, US shale dynamics, and geopolitical disruptions.

Bringing the pieces together, the global economy in 2026 is likely to exhibit the following profile:

A. Growth

- **US:** Soft landing remains the base case; growth moderates but stays above recessionary levels.
- **Europe:** Continues low-growth trajectory with scattered improvement in domestic demand, aided by increased defence spending.
- **China:** Stabilization but no re-acceleration and property remain a structural drag.
- **ASEAN:** Weaker growth compared to 2025 on account of slower external demand and differentiated domestic demand conditions. Supply-chain diversification will continue over the medium-term.

B. Monetary policy

- The Fed continues with a cautious easing cycle.
- ECB is near the end of the cycle and focuses on structural competitiveness.
- PBoC uses targeted fiscal and credit tools but avoids major stimulus.
- ASEAN central banks were relatively early to ease monetary policy in line with stabilizing inflation but may be near or have reached the limits of easing.

C. Financial markets

- **Equities:** Moderate gains with sector rotation away from megacaps toward quality cyclical and dividend assets.
- **Bonds:** UST yields to drift mildly lower or settle within the September-November ranges. Yield curve should be stable.
- **Credit:** IG is stable and selective on HY.
- **Commodities:** Energy range-bound; metals to recover only if China stabilizes convincingly. Still bullish on gold.
- **FX:** USD gradually softens and Asian FX mildly stronger.

In conclusion, the world enters 2026 not in crisis, nor at the start of a new boom, but in a phase of economic regime transition – one that is slower, fragmented but

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stable. We see a slower but more stable US growth, a structurally decelerating China, a Europe grappling with competitiveness, and an ASEAN increasingly integrated into global value chains.

The policy environment will be more predictable—central banks entering a gentle easing cycle—but geopolitics will not. Trade tensions, political elections, and fiscal sustainability issues will continue to cast long shadows over markets. Ultimately, 2026 will test whether the global economy can navigate this new equilibrium: one in which growth is modest, inflation manageable, and risks increasingly political rather than macroeconomic. The balance of probabilities favours stability with pockets of volatility. But the blind spots are significant enough to demand humility and vigilance from markets.

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GDP Growth Rates

% Change YoY	2024	2025F	2026F	2027F
US	2.8	2.0	2.0	2.0
Eurozone	0.9	1.2	1.1	1.1
Japan	0.1	0.8	0.8	1.0
United Kingdom	1.1	1.4	1.4	1.7
New Zealand	-0.6	0.8	2.2	2.4
Australia	1.1	2.0	2.0	2.0
China	5.0	4.9	4.7	4.5
Hong Kong	2.5	3.4	2.6	2.2
Taiwan	4.3	6.6	2.3	1.9
India	9.2	6.5	6.7	6.4
Indonesia	5.0	5.0	4.8	5.0
Malaysia	5.1	4.6	3.8	4.2
Philippines	5.7	4.8	5.5	5.5
Singapore	4.4	3.3	2.0	2.5
South Korea	2.0	1.1	1.8	2.0
Thailand	2.5	2.0	2.0	2.0
Vietnam	7.1	7.5	6.0	7.0

Note: India forecasts are based on the fiscal year. FY26 is April 2025 until March 2026.
Source: Bloomberg, IMF, OCBC.

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Inflation Rates

% Change YoY	2024	2025F	2026F	2027F
US	3.0	2.8	2.9	2.4
Eurozone	2.4	2.1	1.8	2.0
Japan	0.1	3.2	2.5	2.2
United Kingdom	1.1	3.4	2.5	2.0
New Zealand	2.9	2.7	2.1	2.0
Australia	3.2	3.3	3.2	2.6
China	0.2	0.1	1.8	2.0
Hong Kong	1.7	1.4	1.6	1.9
Taiwan	2.2	1.9	2.4	1.6
India	5.4	4.6	2.9	4.7
Indonesia	2.3	2.0	2.7	2.5
Malaysia	1.8	1.5	1.5	2.0
Philippines	3.2	1.6	2.5	3.0
Singapore	2.4	0.7	1.3	1.6
South Korea	2.3	2.0	2.0	2.0
Thailand	0.4	-0.1	0.6	1.0
Vietnam	3.6	3.4	3.7	4.0

Note: India forecasts are based on the fiscal year. FY26 is April 2025 until March 2026.

Source: Bloomberg, IMF, OCBC.

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Central Bank Policy Rates

Benchmark Rate %	Current	End-2025F	End-2026F
US Fed Funds Rate	4.00	3.75	3.50
ECB Deposit Facility Rate	2.00	2.00	1.75
BoJ Target Rate	0.50	0.75	1.00
BoE Base Rate	4.00	3.75	3.50
RBNZ Cash Rate	2.50	2.50	2.25
RBA Cash Target Rate	3.60	3.60	3.35
China Loan Prime Rate (1-year)	3.00	3.00	2.90
CBRC Discount Rate	2.000	2.000	1.880
Hong Kong Base Rate	4.25	4.00	3.75
BI Rate	4.75	4.25	4.25
BNM Overnight Rate	2.75	2.75	2.50
BSP Overnight Reverse Repo	4.75	4.50	4.50
RBI Repurchase Rate	5.50	5.50	5.00
Singapore SORA*	1.16	1.40	1.50
BOK Target Overnight Call	2.50	2.50	2.25
BOT Repurchase Rate	1.50	1.25	1.25
SBV Refinancing Rate	4.50	4.00	4.00

*Benchmark risk free rate. Note: These are meant to serve as end-period forecasts. India forecasts are based on the fiscal year. FY26 is April 2025 until March 2026.
Source: Bloomberg, OCBC.

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Australia

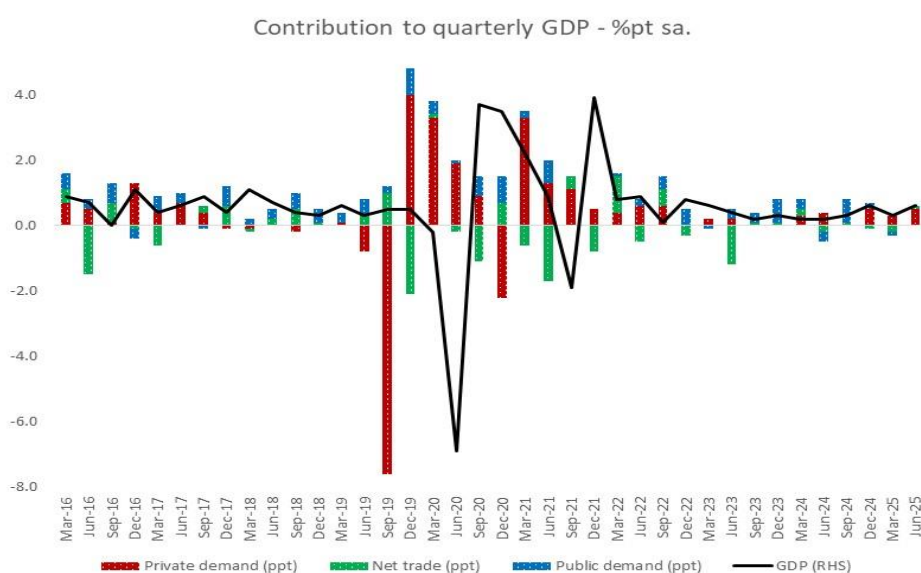
Australia: Recovery steadies with RBA on a longer pause

- Economic growth recovered steadily through 2025, and the recovery is expected to be sustained into 1H26. The impulse should still be primarily coming from domestic demand, led by resilient household consumption, rebound in services and firmer housing activities.
- Price pressures are easing but proving sticky, particularly in services and housing-related components. The strong 3Q25 CPI underscored lingering capacity constraints and elevated labour costs, while goods disinflation continues to broaden. Headline inflation is expected to stay above 3% through most of 2026, before gradually returning to a little above the 2–3% target midpoint by late 2027.
- Our view is that RBA is close to more or less done easing, with inflation proving stickier, the labour market still resilient. We believe RBA is in for a longer pause. Our base-case looks for one final 25bp cut in 2Q26 taking the policy rate to 3.35%, which would mark the end of the current easing cycle.

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The economy may continue to recover, albeit gradually

The Australian economy expanded 0.6% QoQ in 2Q25, compared to 0.2% QoQ in 1Q25. Annually, GDP rose 1.8%. The improvement came from domestic demand (+0.5%pt), particularly household and government consumption, while public investments fell and net exports made a small positive contribution.



Source: Australian Bureau of Statistics, OCBC Research

Australia

Household consumption rose 0.9% QoQ (+0.4 ppt contribution), driven by discretionary categories such as recreation, travel and hospitality, helped by public holidays, event spending, and stronger tourism flows. Essential spending also firmed, lifted by health-related outlays during a heavy flu season and higher electricity bills as rebates rolled off. Spending on household goods was lifted by end-of-financial-year sales and replacement purchases following severe weather in Queensland and New South Wales earlier in the year. Despite higher living costs, consumption has remained supported by a still-tight labour market and accumulated savings buffers.

Private investment was broadly unchanged (+0.1% QoQ). Dwelling investment saw only mild gains, while non-residential activity softened as renewable and mining projects matured. Business conditions and forward orders have improved, though investment intentions for FY 2025-26 remain flat, constrained by high construction costs, policy uncertainty and weak demand visibility. Property turnover firmed, with housing market sentiment supported by the government's 5% Deposit Scheme (instead of waiting to save 20%) and tighter supply. National auction clearance rates are at 18-month highs (above 70%), implying modest near-term housing price gains.

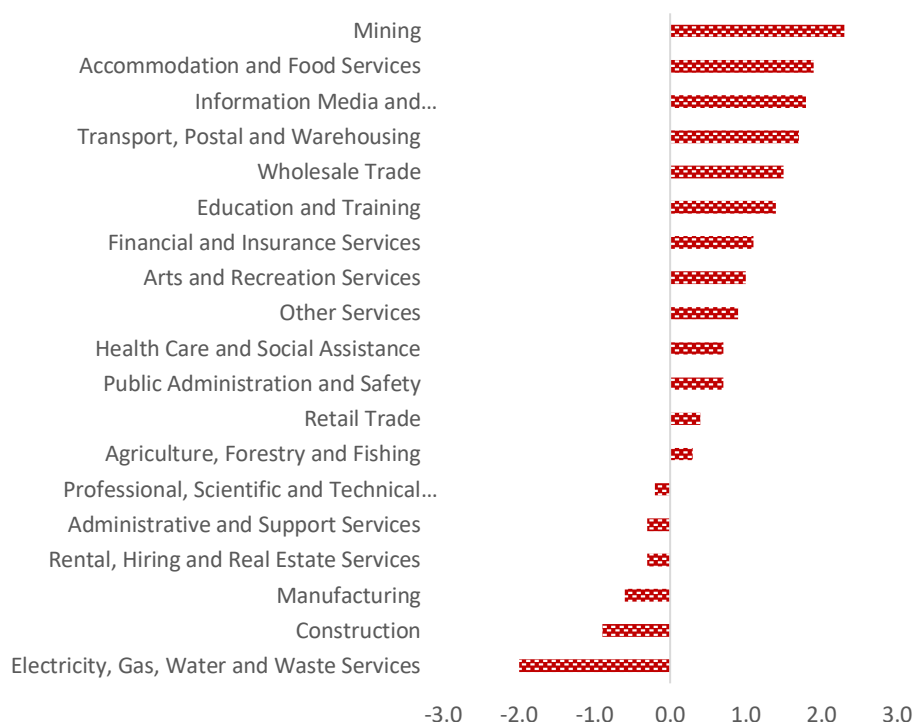
Public sector activity was mixed. Government consumption rose, due to increase in spending in social benefit programs related to the Medicare and pharmaceutical benefits schemes, federal election-related outlays, and defence exercises. However, public investment decreased 3.9%, subtracting 0.2 ppt from GDP growth. Major infrastructure projects in roads, rail and health neared completion across states.

Net exports added 0.1pp to 2Q25 GDP as exports outpaced imports. Mining output recovered after earlier weather disruptions, and service exports rose on stronger inbound tourism. Imports rose on higher car demand and outbound travel. While trade tensions have intensified globally, their impact on Australia's trade and sentiment has been minimal so far.

In terms of gross value added (GVA) by industry, 13 out of 19 industries recorded growth. Mining output rose 2.3%, led by coal, iron ore and oil & gas, as production normalised following earlier weather disruptions. The services sector also strengthened, particularly in transport, logistics, and hospitality, supported by a rebound in domestic tourism after the wet-weather interruptions and boosted by the Easter–ANZAC holiday period. All non-market industries added to growth. Activity in public administration and safety was lifted by the Federal Election and several defence exercises, while health care and social assistance increased on the back of stronger demand for medical services during an unusually severe flu season.

Australia

GVA by industry (% sa)



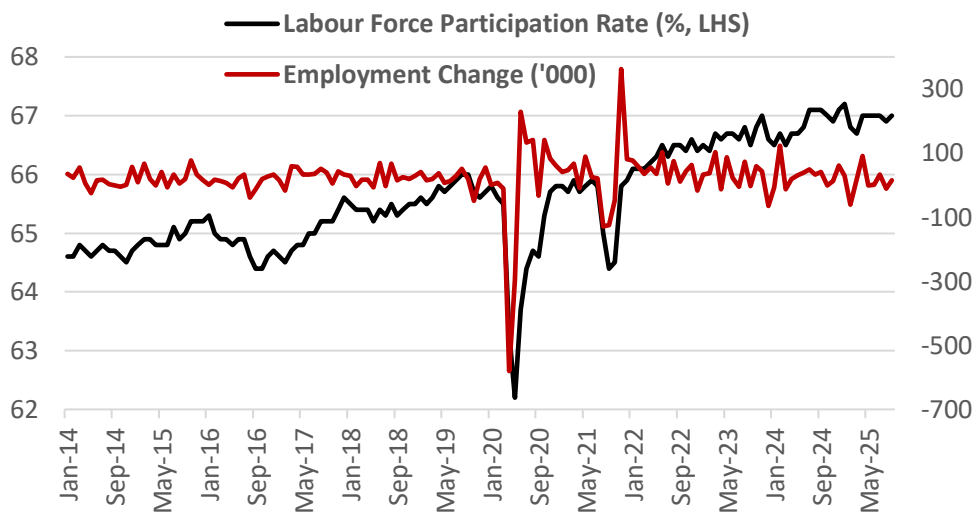
Source: Australian Bureau of Statistics, OCBC Research

Economic growth recovered steadily through 2025, and recovery is expected to be sustained into 1H26. The impulse should still be primarily coming from domestic demand, led by resilient household consumption, rebound in services and firmer housing activities while policy settings are now perceived as mildly restrictive. That said, the outlook remains sensitive to external risk factors, including the impact of global tariff uncertainties, slower trading-partner growth and renewed volatility in commodity markets, which could weigh on export momentum and business sentiment, if conditions deteriorate. We project 2026 growth to come in at 2%, a step down from earlier projection of 2.3% (per our 2H25 outlook).

Labour market is normalising

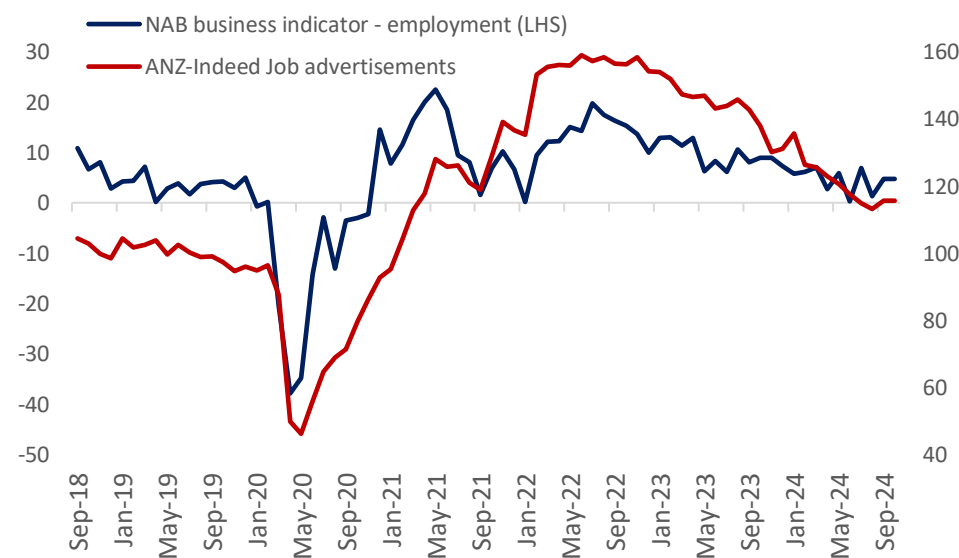
The labour market is easing gradually after an extended period of tightness. The unemployment rate rose to 4.5% in 3Q 2025, up from 3.7% a year earlier, but the increase reflects a normalisation rather than a downturn. Employment growth has slowed, yet remains positive, with hours worked and participation staying near record highs. This signals an economy shifting closer to balance rather than into weakness.

Australia



Source: Australian Bureau of Statistics, OCBC Research

Leading indicators point to a soft landing in labour demand rather than a sharp correction. Job vacancies and ads, while off their 2022 peaks, remain historically elevated, and surveyed hiring intentions show continued demand in professional and health services offsetting easing in construction and retail. The quits rate—a proxy for worker confidence—has stabilised after earlier declines, implying less churn but no material collapse in labour mobility. Overall, the adjustment so far has occurred through slower job creation, not widespread job losses.

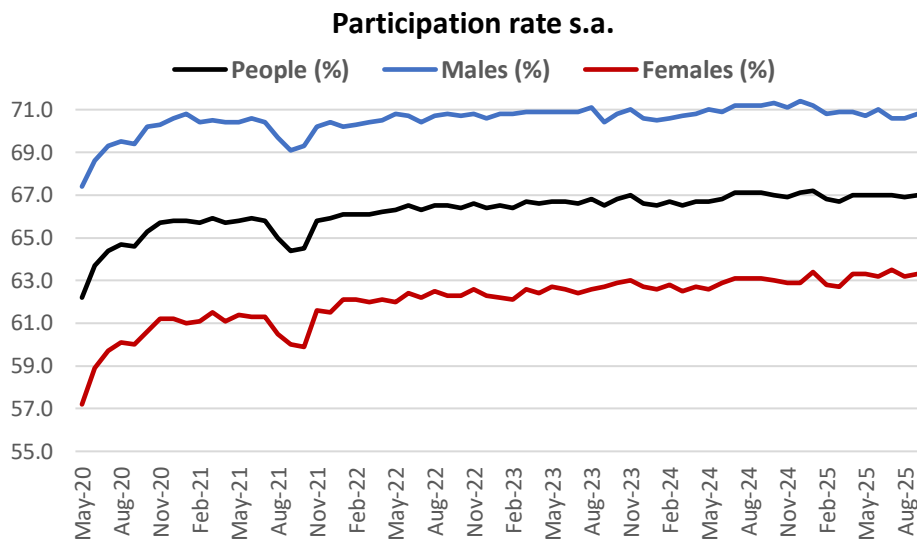


Source: Bloomberg, OCBC Research

The participation rate is expected to stay broadly stable through 2026. Structural drivers—such as higher female participation, flexible work arrangements, and longer working lives—continue to offset cyclical moderation as cost-of-living pressures ease. Some withdrawal from the labour force is possible as financial

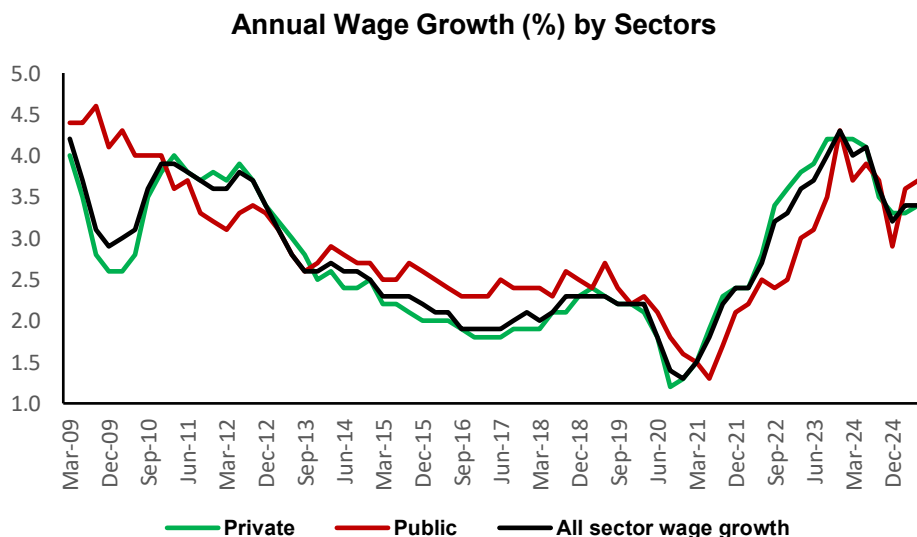
Australia

stress abates and the incentive to work multiple jobs declines, but any reduction is likely to be modest.



Source: Bloomberg, OCBC Research

Wage growth remained steady at 3.4% over the 12-months to 2Q25. In terms of contribution to wage growth, professional, scientific and technical services as well as public administration and safety were the main industry contributor to quarterly growth.

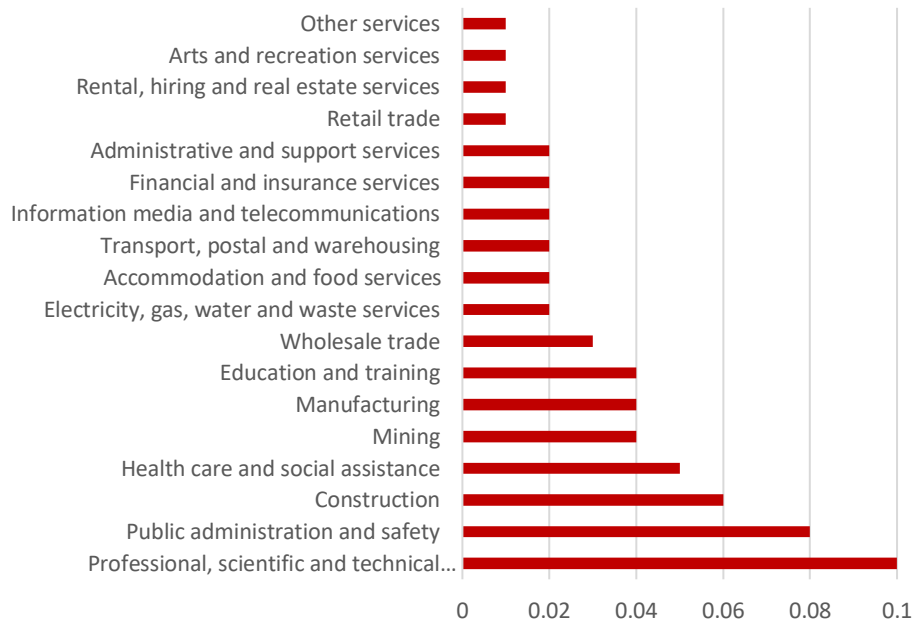


Source: Australian Bureau of Statistics, OCBC Research

Overall, labour market conditions are expected to remain stable. Recent RBA communication also indicated that although RBA had nudged unemployment rate forecast higher to 4.5%, policymakers do not expect labour market conditions to ease much further.

Australia

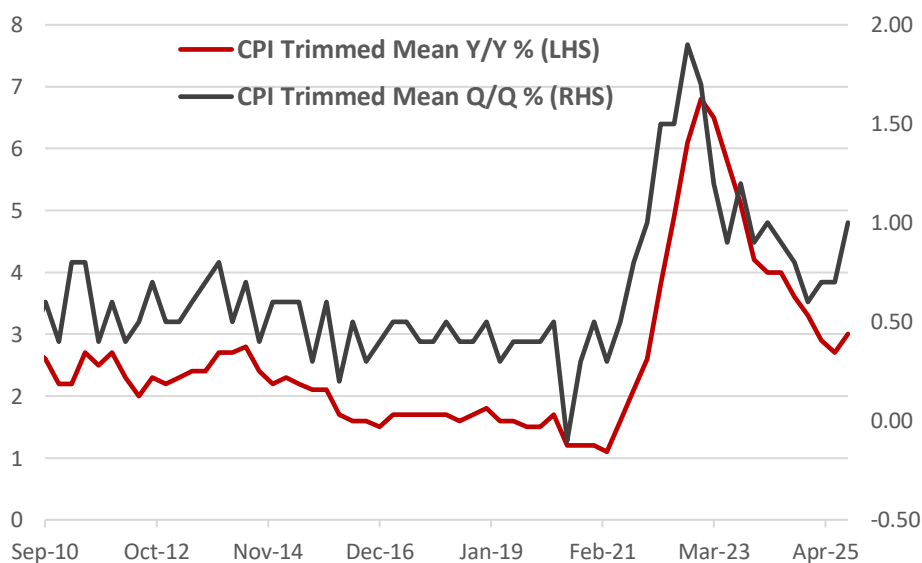
Quarterly contribution by industry (ppts)



Source: Australian Bureau of Statistics, OCBC Research

Slower disinflation path

CPI surprised to the upside for 3Q25, with both headline and trimmed mean readings rising on the back of higher travel, fuel and council rate costs. While some of these drivers are transitory, the persistence of stronger price growth in new dwellings, rents and market services suggests underlying pressures are proving stickier than earlier anticipated.



Source: Australian Bureau of Statistics, OCBC Research

Australia

The easing in goods prices and the moderation in imported inflation should continue to help headline inflation drift lower, but services inflation—closely tied to labour costs and capacity constraints—will slow only gradually. Unit labour cost growth remains elevated amid sluggish productivity, while the pass-through from still-tight labour markets and rising construction costs keeps domestic price pressures firm.

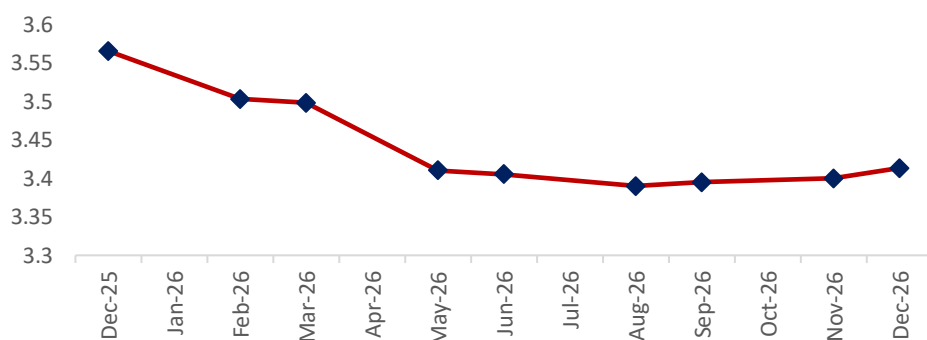
Inflation is now projected to stay above 3% through most of 2026, before settling a little above the RBA's 2–3% target midpoint by late 2027. Electricity rebate adjustments and housing costs will add temporary volatility, but the broader disinflation trend remains intact.

RBA Policy: Shifts towards a longer pause

The Reserve Bank of Australia lowered the cash rate by 75bps for the year-to-date in 2025 from 4.35% to 3.60%, as part of a calibrated easing sequence aimed at cushioning the slowdown without reigniting inflation pressures. The latest policy statement and subsequent press conference gave the impression that the easing cycle is shifting toward a longer pause, as the Board weighs the inflation trajectory amid signs that domestic demand is stabilising.

Several changes in the November statement reinforced the shift. First, the RBA acknowledged “recent evidence of more persistent inflation”, when the Board judged that it was appropriate to remain cautious. Second, it removed the earlier reference that “monetary policy is well placed to respond decisively to international developments,”. Third, the statement emphasised that it will “take some time to see the full effects of earlier cash rate reductions,” recognising the lagged transmission of monetary policy through housing, credit, and consumption channels. On balance, RBA may be in a longer pause but the door remains open for further easing if the need arises.

AU cash rate futures - implied rate (%)



Source: Bloomberg, OCBC Research

Australia

Governor Bullock's comments during the press conference further clarified the stance. She stated that the Monetary Policy Board (MPB) does not have an easing bias, calling it "an interesting question as to whether there's more rate cuts to come." She reaffirmed that the RBA remains committed to its 2.5% inflation target, with internal forecasts—predicated on one additional cut—showing inflation returning to 2.6% by end-2027. Importantly, she reiterated that RBA had tightened less aggressively than many other central banks, implying it may not need to ease as much in this cycle either.

In effect, the RBA is signalling a prolonged holding phase, keeping policy flexible while awaiting clearer disinflation evidence. With the cash rate now seen as close to neutral and financial conditions only mildly restrictive, the RBA has room to wait and watch. We expect one final 25bp rate cut in 2Q26, taking the policy rate to 3.35%, which would mark the end of the current easing cycle. Beyond that, policy is likely to remain broadly neutral, balancing a slow return of inflation toward target with a still-resilient labour market—consistent with a soft-landing scenario for the Australian economy.

Euro Area

Euro Area: Reinvigorating growth from within

- The Euro Area is in a strong position to brace against the full impact of tariffs moving ahead into 2026. With a trade deal in place, tariff related uncertainty has slightly faded, and we tip full year growth to come in at 1.2% for 2025.
- The labour market remains robust and sets a strong foundation to sustain growth going into 2026. Wages continue to grow, albeit at a slower pace and remain supportive of consumption. With inflation close to the ECB's 2% target, ECB has had room to pause its easing cycle since its June meeting. Despite the non-committal rate cut path, the ECB is likely to keep rates unchanged at the December meeting with growth remaining resilient. We see a further 25bp cut in 2026, bringing the ECB's deposit facility rate to 1.75%.
- Political volatility could continue into 2026. Political polarization plagues the French parliament, resulting in its third Prime Minister in less than a year. With President Macron unwilling to call for elections, this has placed France in a state of peril, with its 2026 Budget unlikely to pass before its year-end deadline. Meanwhile, the newly elected Dutch D66 party will aim to form a coalition that will be able to effectively pass laws, after having its own fair share of a political instability.

Selena Ling

Head of Research and Strategy

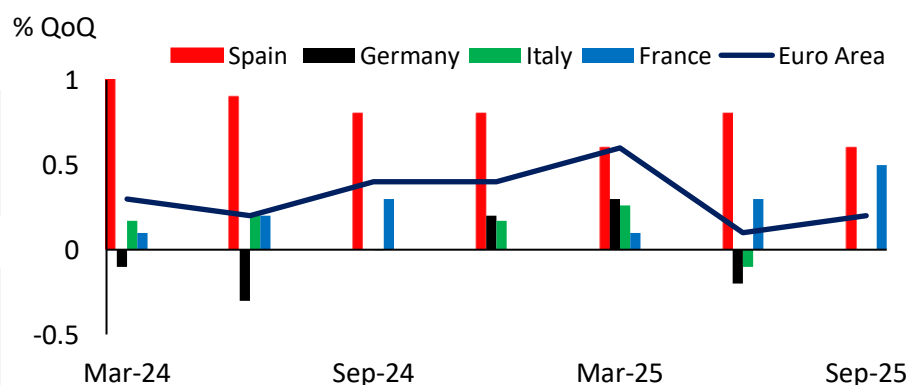
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Assisted by Andrew Chua

Growth was surprisingly resilient

GDP growth expanded 0.2% QoQ sa (1.4%YoY) in 3Q25 according to advance estimates, which was a slight pickup from 0.1% in 2Q25. Among the four largest economies only Spain and France registered growth, expanding by 0.6% QoQ and 0.5% respectively. Meanwhile, growth in Germany and Italy was 0% on a QoQ basis. Growth in 3Q25 was supported by the services sector which remains a strong pillar of the economy, driven by robust tourism and increased adoption of digital services. Despite the tariff and trade uncertainties, GDP growth has remained relatively resilient in 2025, with GDP growth at 1.5% YoY for the first three quarters.

Euro Area GDP Growth: Selected economies



Source: European Commission, Bloomberg, OCBC

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With stronger-than-expected domestic demand, we expect the Euro Area to grow 1.2% YoY in 2025, building on the momentum from 0.9% in 2024. However, with external demand likely to remain a drag into 2026, we tip growth to slow to 1.1% next year, weighed down by higher US tariffs and geopolitical tensions.

Best possible trade deal?

Tariff uncertainty has declined following the formalization of a trade deal between the US and EU, although trade tensions remain elevated by historical standards. Signed on 27 July 2025, the US-EU trade deal established a 15% duty on all US-bound exports, with a handful of goods such as cork, aircraft and aircraft parts and generic pharmaceuticals subject to MFN rates. The deal specifies that the applicable tariff rate of 15% is non-stackable and will be applied over the most-favoured nation (MFN) rate for most goods.

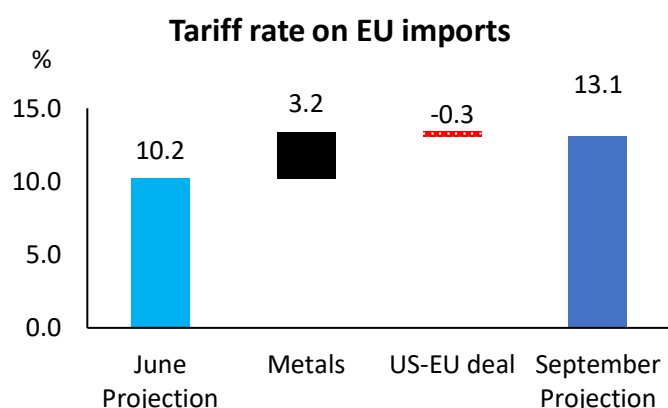
The ECB released its predicted tariff rate for the EU in September. While it does not include the levies on semiconductors, pharmaceuticals and lumber, it provides a good estimate of the base level of additional tariffs on EU imports to the US. Calculations are made based on 2024 trade data and are projected as of 28 August 2025.

Methodology:

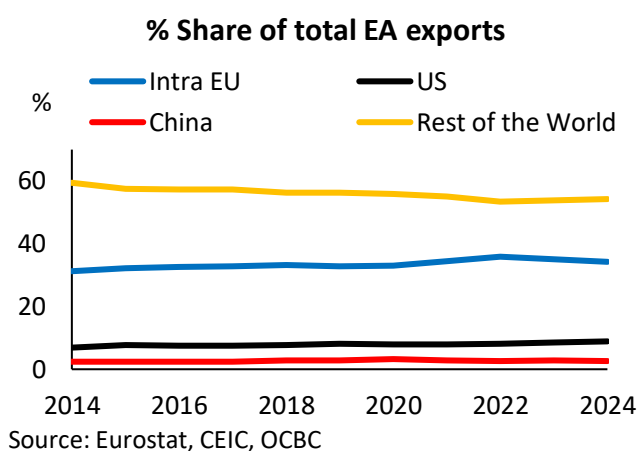
- The average weighted tariff rate for metals is 3.2%. The tariff rates on the respective group of metals are: 25% tariff on steel and aluminium, 50% tariffs on copper, and 50% on the 407 products of steel and aluminium derivatives.
- It is estimated that the US-EU deal reduces an average weighted 0.3% of tariffs on all products.
- By the ECB's calculations, this brings the baseline effective tariff rate for US bound exports to **13.1%**, lower than the global average of 21.0%.

The calculations exclude the tariffs that were announced after 28 August 2025, which include 25% on trucks and truck parts, and the 10-25% on timber, lumber and upholstered wood furniture.

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Source: ECB, OCBC *As per ECB Calculations



Source: Eurostat, CEIC, OCBC

As the bloc's largest trading partner, the US accounts for almost 9% of the Euro Area's exports, the largest by a single trading partner. Despite this, the impact within the bloc is mixed, as each country holds different trade exposures to the US. Ireland is expected to be the most affected, compounded by the 100% tariff rate on pharmaceuticals. As a result, the Central Bank of Ireland expects total pharmaceuticals output to drop by ~6%, which is likely to weigh heavily on Irish output. Given its deep integration into the global value chain, Ireland's GDP is expected to shrink by -0.6% due to the impact of import tariffs on its economy. On the other hand, Spain's economy is expected to remain resilient against US tariffs, aided by the limited trade exposure to US economy. Supported by robust domestic demand, this even rendered an upward revision of Spain's growth for 2025 to 2.6% from 2.4% initially.

Announcement Date	Agreement Name	Status
17 Jan 2025	EU-Mexico Agreement	Signed
20 Jan 2025 (resuming)	EU-Malaysia FTA	Under Negotiation
23 Jan 2025	EFTA-Thailand FTA	Signed
1 Feb 2025	EU-Chile ITA	Signed
10 Mar 2025 (resuming)	EU-India FTA	Under Negotiation
28 May 2025	EU-UAE FTA	Under Negotiation
23 Jun 2025	EFTA-Malaysia MEEPA	Signed
10 Jul 2025	EAEU-Indonesia FTA	Negotiation finalized
23 Sept 2025	EU-Indonesia FTA	Signed
30 Sept 2025	EFTA-India TEPA	Signed
1 Oct 2025	EU-Mercosur FTA	Under Negotiation
6 Oct 2025	EU-GCC FTA	Under Negotiation

To mitigate the disruptions from US trade policies, the EU has also taken steps to diversify its trade links away from the US. Since the start of 2025, we observed a resumption of trade talks, revision and upgrading of existing trade partnerships and new trade deals signed with trading partners across Latin America, Asia and the

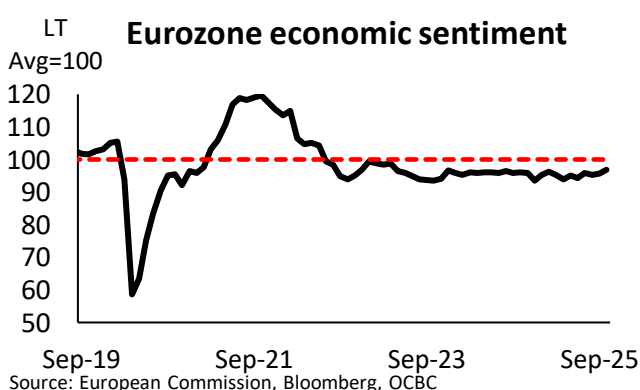
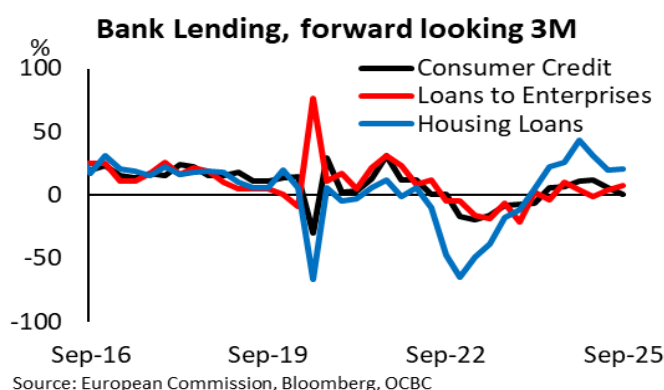
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Gulf states. Accounting for 55% of the Euro Area's exports, these markets collectively remain an important source of foreign demand for European goods. As the US insulates itself from the global economy, paired with lacklustre Chinese demand, these trade agreements will not only sustain European export growth, but position the EU as a more integrated bloc in global trade.

Cautious credit and muted confidence dampen demand

While uncertainty around tariff rates have subsided, significant doubts persist regarding the impact of US trade policy on growth. The continuation of higher US tariffs is expected to weigh on sentiment and constrain domestic demand. This was reflected in the dip in demand for consumer loans, which slowed to 0.6% QoQ in 3Q25 from 5.8%. While consumer demand was supported by lower lending rates, this was offset by a drop in consumer confidence. The Commission's consumer confidence survey reflects the muted sentiment, as consumer confidence in October (96.8) continued to remain below the long-term average.

According to the ECB's October bank lending survey (BLS) results, banks reported a net tightening of credit standards for consumer credit, driven by higher risk perception. One of the main driving factors for higher risk perception was concerns over the general economic situation and geopolitical risks, as well as borrowers' creditworthiness. Meanwhile, demand for enterprise loans grew moderately by 7.4% QoQ in 3Q25 from 3.9%. Much of this was driven by a lower interest rate environment and increasing debt financing and debt restructuring needs.

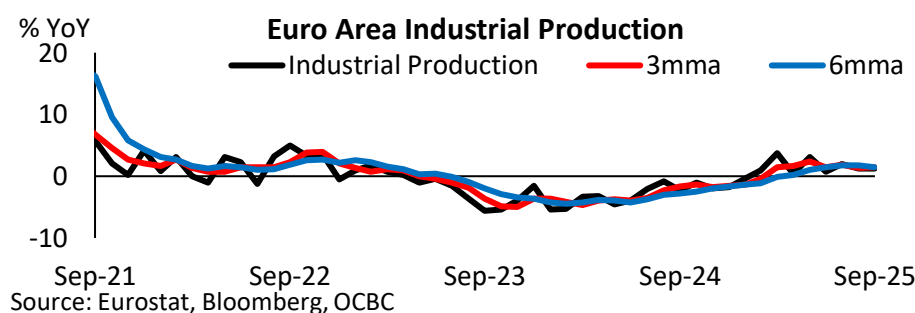


Perceived risks to global economic outlook and geopolitical risks were also echoed and stood out as the only factor resulting in tightening credit standards for loans to enterprises. Looking ahead, several banks have highlighted that the dampening effects from global uncertainty and doubt surrounding the impact of higher tariffs have led firms to adopt a "wait-and-see" approach. Consequently, many investment decisions are being postponed. This signals that the short-term demand outlook remains cautious and may improve only after the impact of tariffs begins to materialise.

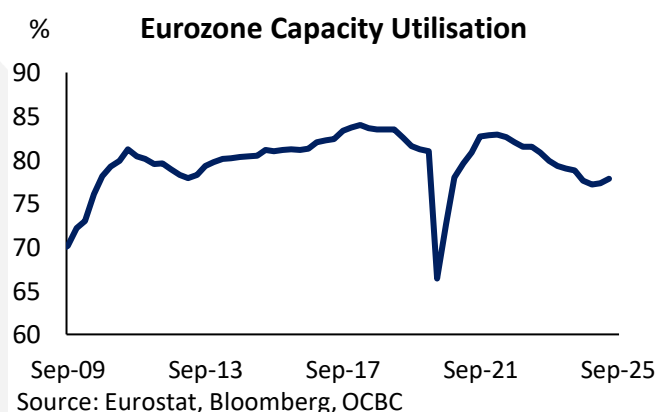
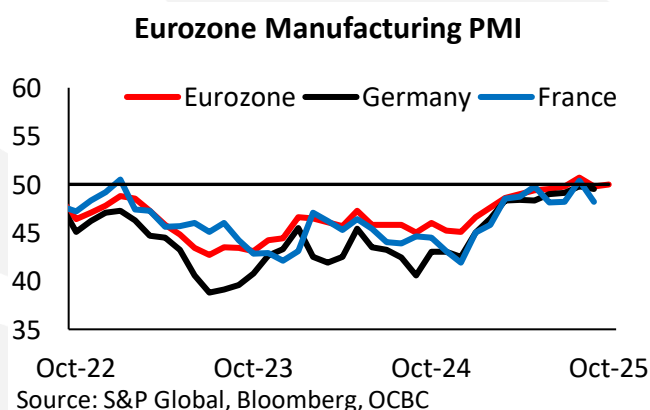
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False dawn in manufacturing

The manufacturing sector saw a mild recovery in 2025, with industrial production registering seven straight months of growth, bringing year-to-September industrial production growth to an average 1.4%. This was partly due to a low base in the previous year, and driven by US frontloading, rather than a genuine recovery in the manufacturing sector. The fragility of this rebound became evident in August, when tariffs took effect, as industrial production eased to 1.2% YoY from 2.0% in July, and contracted by 1.1% MoM after expanding 0.5% in July.



Looking ahead, industrial production for 2026 is likely to remain subdued. With reciprocal tariffs capped at 15%, industrial producers now face the dual challenge of higher export prices to the US, and competition from Chinese products. The Eurozone's manufacturing PMI remained in contractionary territory for most of 2025, with the exceptions of August (50.7) and October (50). In both months, PMI was lifted by factory output growth driven by domestic demand. Weak export demand was consistently cited in survey responses, with new exports orders declining for four consecutive months since July. The EU's capacity utilization held steady at 78% in October, as industry managers repeatedly echoed insufficient demand as a factor limiting production.



Defence stimulus is a new hope

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While the outlook for manufacturing remains strained, a recent wave of policy approvals by the EU's governing bodies could provide meaningful tailwinds for the region's industrial sector. Firstly, the European Council's has endorsed Germany's fiscal expenditure path, granting it greater flexibility to boost defence spending. On 10 October, the Council approved Germany's recommendation, supporting the maximum expenditure trajectory over the next five years. As most countries in the EU are bound by strict budgetary rules, the approval effectively gives Germany a maximum leeway of 1.5% of GDP in additional fiscal space from 2025-2029 and giving the green light for industrial investment and growth.

According to the proposed national medium-term fiscal-structured plans, Germany plans to channel investment into green, utilities, energy and transportation infrastructure, defence procurement and reforming labour restrictions to increase employability. ECB Governor Rehn cited that while defence spending may increase pressure on public debt, increased expenditure can be eased if the investments are allocated within the Euro Area, thus supporting regional growth. A prerequisite established was the intra-EU supply chain, whereby tapping on the EU's defence market was established as necessary to achieve economies of scale, mass production and innovation. Barring external shocks, the plans expect fiscal stimulus to add 0.9% to GDP growth annually over the next 5 years.

The approval was followed by the European Commission's announcement of the provisional agreement for the European Defence Industry Programme (EDIP). The EDIP budgets EUR1.5bn for defence spending between 2025-2027, with the aim of augmenting the EU's defence readiness. The funds will be strategically invested to address the key pain points of Europe's defence industry, including the industrialisation of defence products, scaling up industrial production capacity and support to European supply chains and SMEs.

To advance these objectives, a communique on the *Defence Readiness Roadmap 2030* was published, outlining a set of flagships designed to achieve the programme's goals. The four flagships are:

1. *European Drone Defence Initiative*
2. *Eastern Flank Watch*
3. *European Air Shield*
4. *European Space Shield*

With drones and unmanned aerial vehicles (UAVs) at the forefront of modern warfare, these flagship initiatives are strategically centred on air and missile defence, drones/ counter-drone systems and space technologies. A key point stressed throughout the communique was ensuring that Europe is prepared to deliver cutting-edge innovation and fast, mass production during critical periods. This positions

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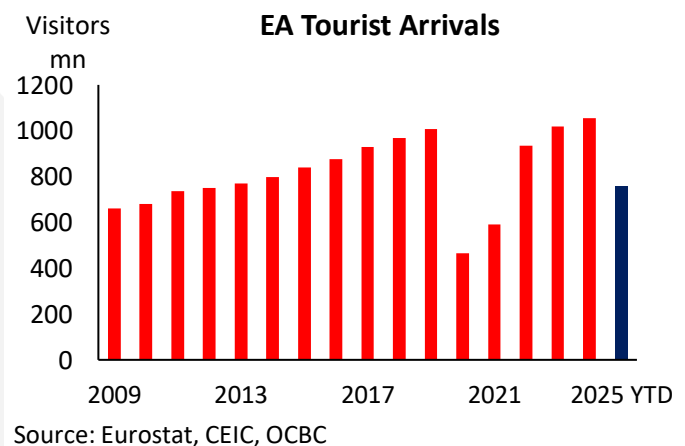
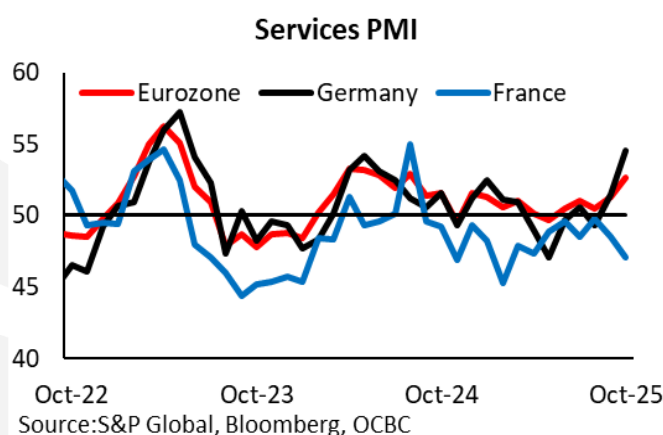
aerospace defence and communications manufacturers to play a leading role in expanding industrial production capacity. Major European players in this field – such as Dassault Systemes SE, Thales SA, Leonardo SPA and Hensoldt AG, are expected to among the primary beneficiaries of these flagship initiatives.

Funding for the EU defence industry have begun to materialise. On 29 August, BPCE SA priced the first “European Defence Bond” aligned with Euronext NV’s new methodology. The proceeds are ringfenced to fund companies involved in defence, security equipment and related information and communication services. Currently, the pressing needs of the defence industry include securing access to critical raw minerals, attracting skilled labour and ensuring reliable energy and transport infrastructure, capable of supporting complex supply chains. We expect that funds raised and provided directly to finance these strategic needs.

With convicted fiscal and regulatory support, we believe the defence sector will be a key driver of Europe’s manufacturing industry going ahead, with positive spillover effects materialising in more reliable transport infrastructure, cleaner and more sustainable energy sources, and a more robust labour force.

Growth is anchored by services

The resilience of the services sector continues to support the Euro Area’s economy. Eurozone services PMI rose to 52.6, from 51.3 in September, marking the strongest expansion in 14 months. The strong performance of the services sector came despite a continued decline of new business orders from abroad, underscoring the strength of domestically driven growth in the Eurozone. According to S&P, job growth remained concentrated in the services sector, with the pace of job creation reaching its highest level since June 2024. Building on last year momentum, tourist arrivals remained strong, growing by 3.6% YoY in 2024. Year-to-August 2025 arrivals have surpassed pre-pandemic levels by 7% and are expected to remain a key driver of services growth in the Euro Area.

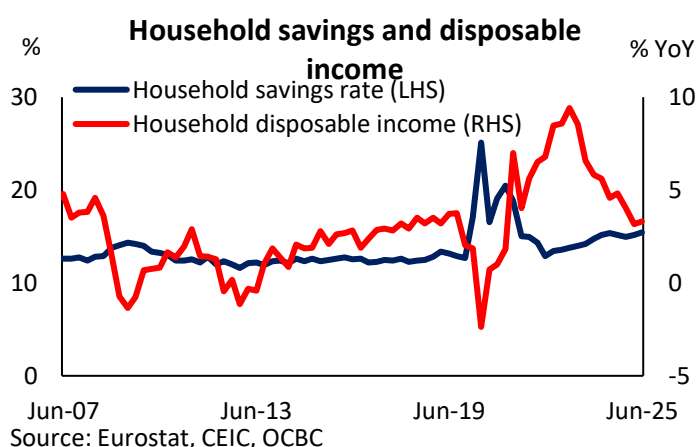
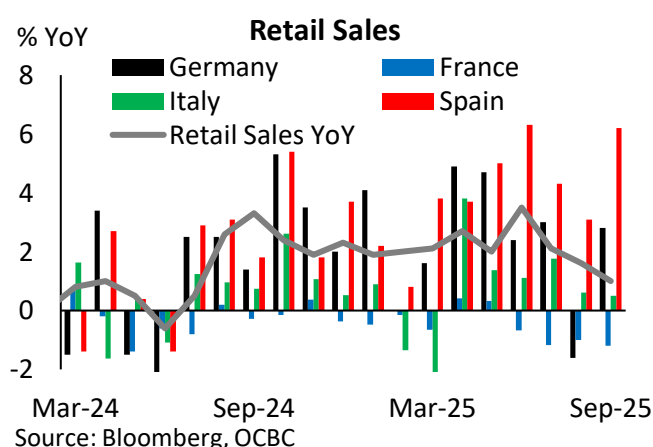


Retail sales remained a bright spot in the Euro Area’s economy, although growth has begun to ease, partly due to base effects. Year-to-September, retail sales grew

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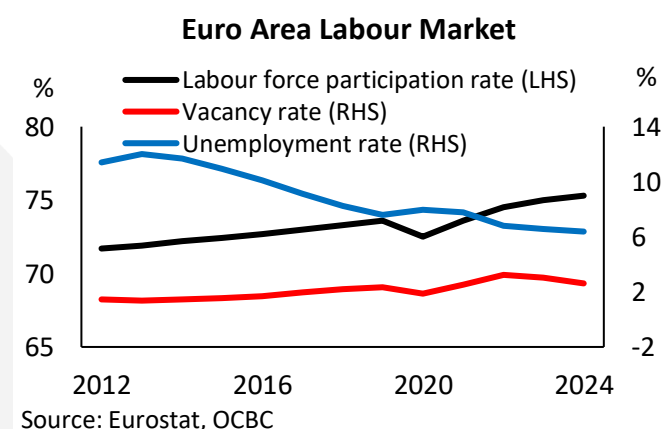
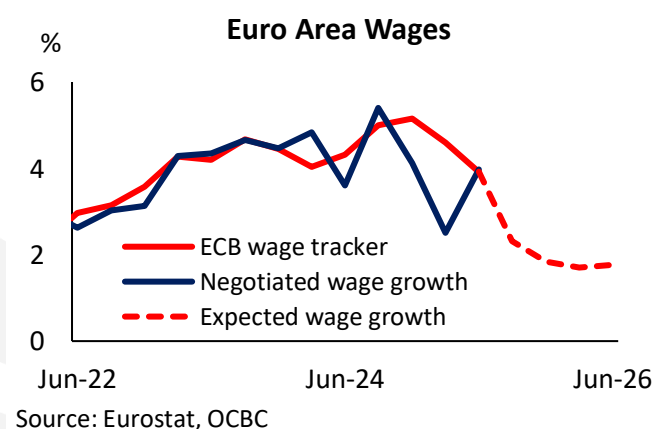
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2.1% YoY, compared to 0.8% in the same period of 2024. Private consumption is expected to remain robust, underpinned by rising wages and stronger household savings. Households continued to save a larger proportion of their income, with the savings rate reaching a 16-month high of 15.45%. As wage growth normalises, larger savings should be supportive of consumption led growth in 2026. This is reinforced by consumer's assessment of their household finances, which remains broadly stable.



Labour supply to increase

Labour market pressures continued to ease in 2025. Negotiated wage growth eased to 3.24% in 1H25, down from 4.2% in the same period last year. Forward looking indicators, such as the ECB's wage tracker, suggest that wage growth will continue to moderate for the rest of the year, and into 1H26. The wage tracker, which covers active collective bargaining agreements, is expected to ease to 3.2% for 2025, from 4.6% in 2024, as wages continues to normalise.



The labour market has remained resilient in 2025, with the unemployment rate continuing its downtrend to 6.3%. While job vacancy rates eased from 2.4% to 2.3% in 2Q25, employment was supported by strong hiring within the services sector

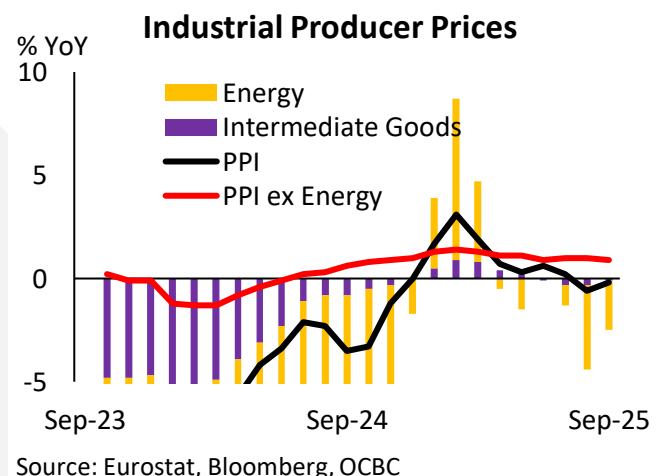
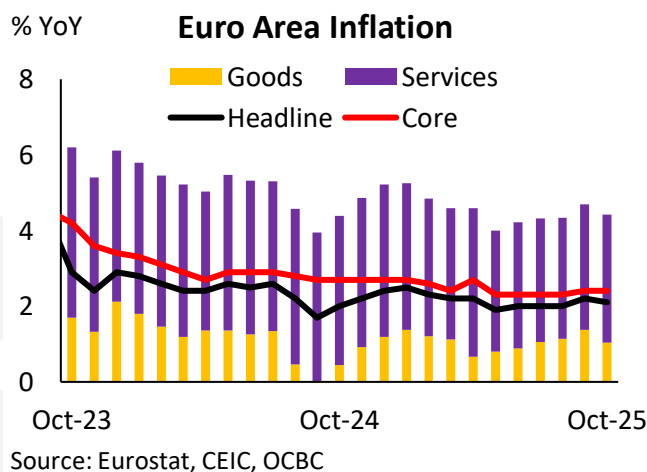
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throughout the year. Looking into 2026, the labour supply is expected to increase, following plans by Italy and Germany to issue more work permits to deal with labour shortages. Over a two-year period, starting next year, Italy will issue close to 500,000 work visas for non-EU nationals. This comes after the population shrank by 37,000, with more deaths than births registered in 2024. Meanwhile, Germany will launch its “Work and Stay” platform, designed to centralise and facilitate the process for non-EU skilled workers. This will allow applicants to submit required documents, find jobs and apply for visas on a single platform, streamlining the heavily bureaucratic process.

Additionally, the Defence Readiness Roadmap 2023 highlights that the flagship initiatives will require reskilling, upskilling and hiring of skilled labour – with an estimated 600,000 reskilled workers needed to support the expanding defence industry by 2030. With increased spending commitments, these new projects are expected to translate into productive jobs created. As employment continues to grow, we believe the labour market will remain resilient in 2026, supported by gains in labour productivity.

Disinflation on track

Headline inflation, according to advance estimates, dipped slightly to 2.1% YoY in October 2025, moving closer to the ECB’s 2% medium term target. Year-to-October inflation averaged at 2.2%, with services remaining the main contributor to upward price pressures. Core inflation, which excludes energy and food, ticked up to 2.4% YoY in October, although remaining on a downward path. President Lagarde noted that as labour costs continue to moderate further, driven by rising productivity, it reinforces the Governing Council’s view that inflation will stabilize at around 2%. With strong disinflationary tailwinds, we expect full year headline inflation to average 2.1% for 2025.



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Meanwhile, industrial energy prices continue to decline, contracting by 2.4% YoY in September, and extending the -4.1% decline in August. At the start of 2025, energy prices were relatively elevated in 1Q25, on the account of higher prices for natural gas, which were 20% higher than the levels observed in 2024. Additionally, the cost of carbon allowances under the European Union Emissions Trading System (EU-ETS) rose from an average of EUR65/t of CO₂ (t CO₂) in 1H24 to EUR70/t CO₂ 1H25. Paired together, this contributed to higher energy costs.

However, muted global demand owed to economic uncertainty and increased oil production from OPEC+ countries help ease upward pressure on energy prices in 2Q and 3Q25. Accounting for almost 15% of Euro Area's HICP basket, the expected decline in global oil prices should continue exerting downward pressure on consumer and producer inflation.

ECB rate cut cycle is on hold?

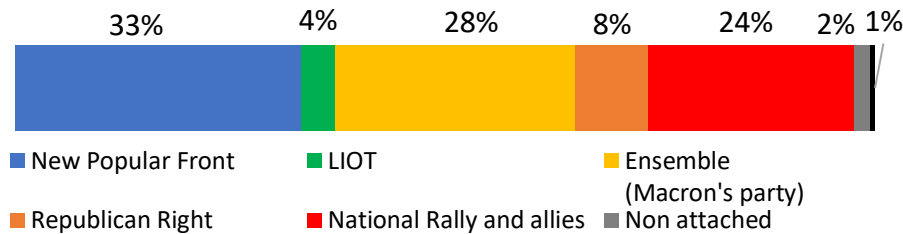
The ECB left its three key interest rates unchanged for the third time at its latest monetary policy meeting on 30 October. President Lagarde maintained that the ECB continues to “follow a data-dependent and meeting-by-meeting approach, to determine the appropriate monetary stance.” Since the start of the year the ECB has cumulatively eased its deposit facility rate by 75bps. Since then, the ECB has pointed to a robust labour market and the continued transmission of earlier rate cuts as “important sources of resilience” as key reasons to maintaining its key interest rates in June. However, the Council believes that with the full impact of tariffs yet to materialise and trade uncertainty persisting, the outlook remains uncertain. As such, while the bias for monetary policy remains mildly on the easing side, the ECB is likely to keep rates unchanged again at the December meeting with growth remaining resilient.

Political fragmentation persists, Dutch politics a glimpse of hope

France continues to be plagued by political uncertainty. In September, ex-Prime Minister Francois Bayrou called for a confidence vote in a bid to force the National Assembly to take a stance on his budget plan, which aimed to cut EUR44bn from its growing government deficit. Bayrou's coalition which held 210 seats, was well below the absolute majority of 289 seats required to pass the budget, forcing him to pass the confidence vote, prioritising fiscal consolidation. Failing to pass it, he resigned, succeeded by new Prime Minister, Sebastien Lecornu. The lack of a parliamentary majority, it has led to a highly polarised government, with majorities in the far-left and far-right unwilling to cede their interests.

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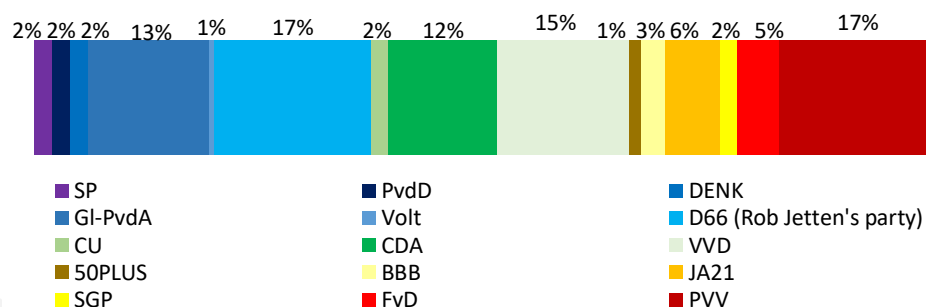
Macron's minority government



Source: Politico, OCBC

PM Lecornu, who was appointed on 9 September, briefly resigned on 6 October, but was reappointed by President Macron on 10 October. Despite the submission of the draft budget, Lecornu faces the Herculean task of passing next year's budget without using constitutional tools. This prompted Fitch Ratings to downgrade France's credit rating from AA- to A, with a stable outlook. According to its action report, Fitch noted that "the increased fragmentation and polarization of domestic politics" has hindered fiscal consolidation, warranting the downgrade. This was followed by S&P, which lowered France's rating to 'A+/A-1' from 'AA-/A-1+', citing heightened risks to budgetary consolidation. The latest Budget draft aims to reduce the deficit to between 4.7% and 5% of GDP, through over EUR30bn in budgetary cuts, including reduced corporate tax breaks, stricter welfare rules, and new levies such as a parcel tax and health insurer surtax. With budget talks moving slowly, the National Assembly is expected to miss its deadline on 31 December 2025.

Dutch Election Results



Source: Politico, OCBC

As the dust settles on the Dutch elections, the D66 party led by Rob Jetten, will lead the next government. The party performed better than expected tying with the far-right PVV, which lost a third of its voter base. Both parties secured 26 seats, but D66 led in the popular vote and will begin coalition talks. With 76 seats required to form a government, D66 is expected to pursue a coalition with the liberal-conservative VVD (22 seats), the Christian Democrats (18 seats), and the Greens-

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Labour Alliance (20 seats), giving them a comfortable majority of 86 seats in the lower house.

The expected coalition should offer a sense of reprieve. The previous administration collapsed following a confidence vote triggered by an impasse over immigration policy. This resulted in the PVV withdrawing from the coalition resulting in an ineffectual minority caretaker government led by Prime Minister Dick Schoof, which held just 51 out of 150 seats in parliament. With the incoming parliament likely to form a majority coalition without the Wilders-led PVV, the political cloud over the Netherlands appears to be lifting, in what seems to be a win for centrist politics in the face of rising far-right sentiment across Europe.

Japan

Japan: A moderate recovery with a gradual policy normalization

- We revise up our 2025 GDP growth forecast to 0.8% from 0.6% previously, while 2026 growth is expected at 0.8%. Business fixed investment plans have turned more proactive, as uncertainty regarding tariff policy has been reduced to a certain extent. Private consumption is likely to stay resilient.
- Exports to the US has been falling YoY, but demand from Asia acted as a buffer. Net exports contributed positively to YoY growth in Q2 and Q3. Looking ahead to the next five quarters, we expect to see positive contributions from net exports for at least some of the quarters.
- A tight labour market and firms' price-setting behaviour suggest that the prospect remains for wage growth to be partially passed onto prices. The inflation outlook allows the Bank of Japan (BoJ) to continue with monetary policy normalisation. We continue to expect additional 50bps of rate hikes between now and 1Q26 which will bring the BoJ Target Rate to 1.00%. The risk is for a further delay in rate hikes.

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Moderate growth ahead

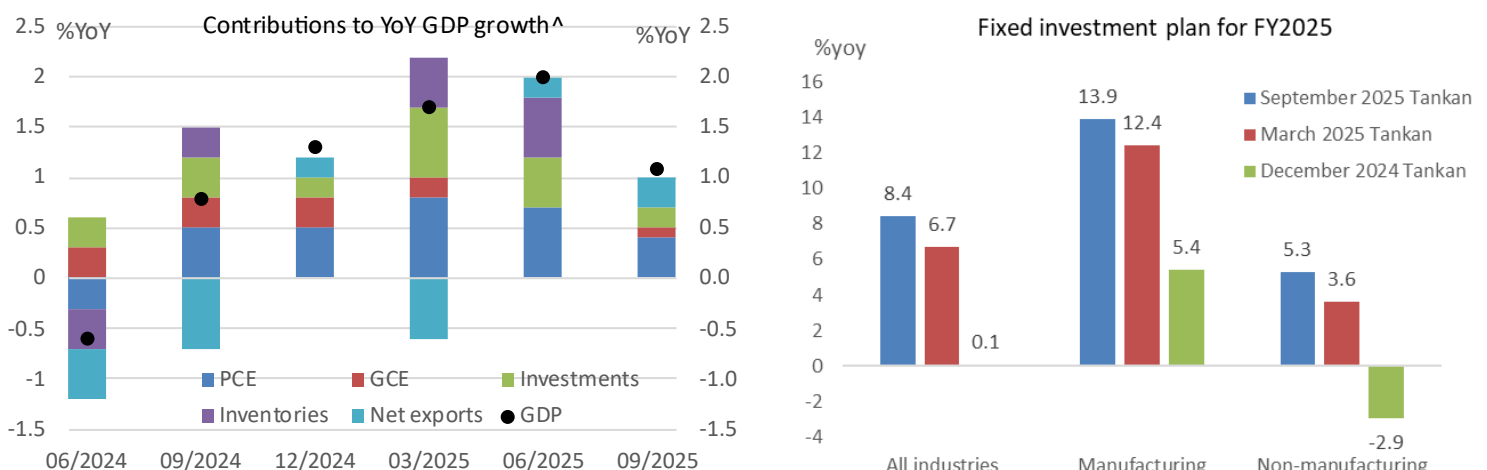
The economy contracted by 0.4% QoQ seasonally adjusted in 3Q25, after two quarters of expansion in the year. On a year-on-year basis, the economy grew by 1.1%, supported by private consumption, net exports and investment. Recent monthly indicators and surveys point to some recovery in economic activities. The September issue of the Economy Watchers Survey conducted by the Cabinet Office showed most diffusion indices were up – including the current economic condition index, the future economic condition index, the housing activity-related index, and the corporate activity-related index. Machinery orders increased by 7.3%MoM in August, after the setback of -4.2%MoM in July. For 3Q25 as a whole, machinery orders are forecast to have increased by 3.7% QoQ from 2Q25, after the 5.3% fall in 2Q25. Orders have likely been supported by government and overseas demand. Machinery tool orders rose by 16.8% YoY in October, the faster pace since June 2022. We revise up our 2025 GDP growth forecast to 0.8% from 0.6% previously, reversing most of our previous downward revision, as the tariff impact on growth for this year appears not as severe as initially thought. 2026 GDP growth is expected at 0.8%.

Business fixed investment plans have turned more proactive. Forecasts of fixed investment as per *Tankan* survey has improved materially from the March survey to the June survey, and further at the September survey. Improvement was observed for both manufacturing and non-manufacturing sectors, and across large, medium and small enterprises. The agreement on tariffs reached by Japan and the US has reduced uncertainty to a certain extent, which may allow businesses to make some investment decisions. That said, given remaining trade uncertainty,

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higher costs and potential decline in corporate profitability, we do not assume all of the fixed investment plans to be actioned upon.

Private consumption is likely to stay resilient, increasing moderately. Private consumption has continued to grow, by 0.8%YoY in 3Q25, after the 1.3%YoY in 2Q25. The outcome thus far is in line with our expectation for private consumption to contribute positively to growth. The October consumer confidence index printed 35.8 points, which was up by 0.5 point from the previous month. Economic watchers survey showed improvement for October, in both the current and the outlook condition indices including the “households” component. Moreover, there are prospects for continued wage growth to keep private consumption resilient, as income catches up with price increases.



Source: Bank of Japan, Cabinet Office, Bloomberg, OCBC Research. ^Not added up due to rounding

Exports to the US has been falling in YoY terms for six months in a row since April 2025, with bigger than 10% YoY falls for the months of May through to September. Nevertheless, demand from Asia acted as a buffer. Exports to the US amounted to 18.7% of Japan’s total exports in the first nine months of this year, compared to a share of 19.9% for the whole of 2024. The corresponding numbers for exports to Asia were 54.3% for the first nine months of this year and 53.1% for the whole of 2024. Total exports suffered from mild drops in the months of May to August, with a recovery in September. Imports fell more rapidly, and as such, trade deficits in 3Q25 were narrower than in 3Q24. Net exports contributed 0.2 percentage point and 0.3 percentage point to YoY GDP growth in Q2 and Q3 respectively. For the next five quarters, we expect to see positive contributions from net exports for at least some of the quarters.

Following trade talks between Japan and the US in July, US tariffs on imports from Japan is set at 15% for both reciprocal tariffs and those on automobiles. According to an executive order issued by Trump in September, the new reciprocal tariff rate

Japan

would be applied retroactively from August 7 onward, i.e. any excess tariffs collected prior to the executive order would be refunded.

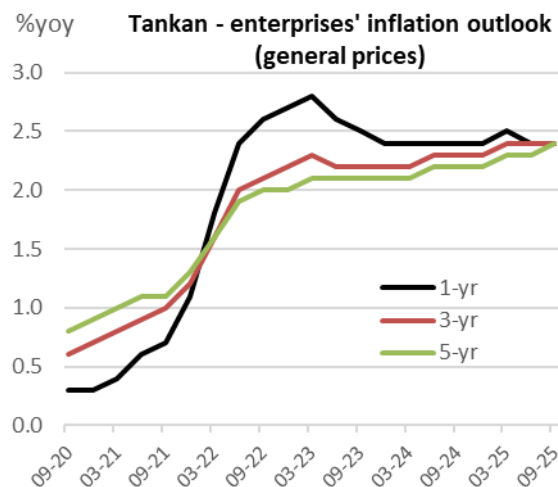
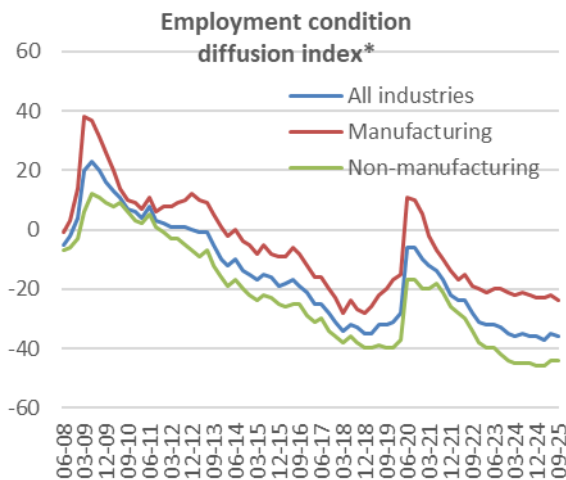
Prospect for sustained wage growth, and pass-through onto prices

Although recent inflation outcomes have been mixed, a tight labour market and firms' price-setting behaviour suggest that the prospect remains for wage growth to be at least partially passed onto price levels. Rengo (the Japanese Trade Union Confederation) said it plans to ask for wage increase of around 5% or more in 2026 *shunto* (spring wage negotiations). The minimum hourly wage has also been raised by 6.3% effective 1 October 2025; the minimum wage is estimated to apply to around 3 million workers. Meanwhile, enterprises' short-term (1-year), medium-term (3-year) and long-term (5-year) inflation expectations have stayed firmly above the 2% level, as per *Tankan* survey. This proactive attitude in price-setting points to a higher likelihood that the increase in wage costs will be partially passed through onto consumer price levels.

Corporates have continued to see a shortage of labour supply. The diffusion index for employment conditions (excessive employment – insufficient employment) has mostly stayed negative or turned a tad more negative under the latest September *Tankan* survey, compared to the June survey. Labour shortage has been reported as more severe in the non-manufacturing sector than the manufacturing sector; and in terms of the sizes of enterprises, labour shortage has been reported as more severe in small enterprises than in large enterprises.

There has been some further pick-up in the labour force participation of women, to the latest 57.0% in September, which might have mitigated some of the labour shortage pressure. That said, the outlook for labour force participation has not changed much from our last assessment - further increases in the labour force participation of women and seniors – having advanced to a high degree thus far – are likely to be small.

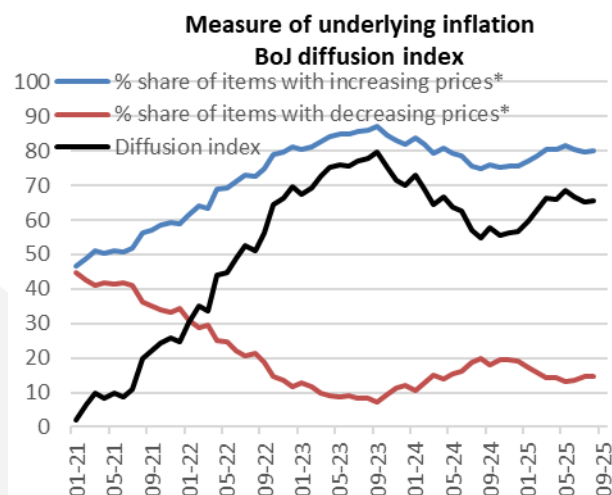
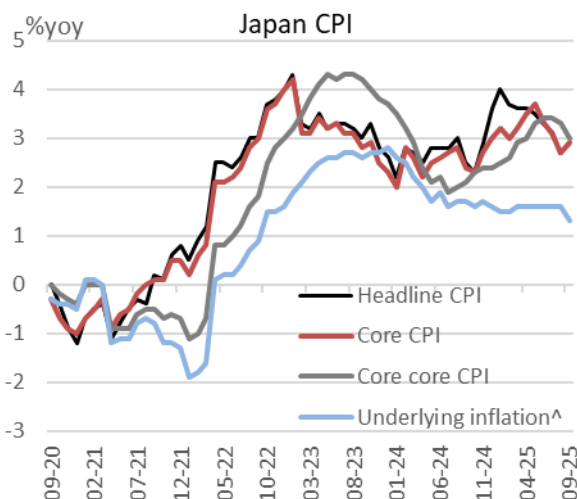
Japan



Source: Bloomberg (Tankan survey), OCBC Research

* "excessive" minus "insufficient" labour supply, percentage points

Year-on-year CPI inflation has been decelerating over recent months but has stayed around the 3.0% level. The caveat is "underlying inflation", which BoJ often cited, having dipped to 1.3%YoY in September. Nevertheless, according to BoJ's diffusion index, the share of items in the core CPI basket which saw YoY increases in prices has stayed at around 80% level, while the share of items which saw YoY decreases in prices was last at 14.6%, reflecting upward price pressure. October Tokyo CPI printed firm, at 2.8%YoY for headline, core (ex-fresh food) and core core (ex-fresh food, ex-energy) indices.



Source: Bank of Japan, Bloomberg, OCBC Research

^CPI ex-food ex-energy

*items under core CPI basket (CPI less fresh food) whose price indices increased/decreased from a year ago.

Monetary policy normalisation to continue slowly

The BoJ has paused for an extended period, after the January 2025 hike. At the October update, the central banks' assessment on the economy and prices has

Japan

remained pretty much the same as in July and “risks to economic activity are skewed to the downside for fiscal 2026. Risks to prices are generally balanced”. The downside risks to growth seen by the Bank appear to emanate mainly from the uncertainty on trade policies and economic performances in overseas economy, and this is an unknown. Domestically, the prospect remains for wage growth to be partially passed onto price levels, as discussed above.

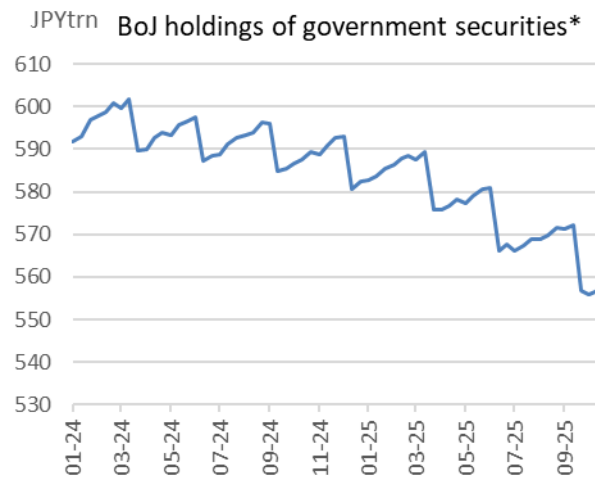
The vote at the October BoJ meeting was 7-2, with two (Takata and Tamura) voting for a 25bp hike. Tamura continued to hold the view that, “with risks to prices becoming more skewed to the upside, the Bank should set the policy interest rate a little closer to the neutral rate”. Real yields are low to negative, while the BoJ itself opined the impact of previous hikes “on Japan’s economy as a whole has been extremely limited”. Fundamentals vis-à-vis interest rate levels support further monetary policy normalization in terms of rate hikes. We maintain our base-case for a 25bp hike before year-end and another 25bp hike in Q1-2026 which will bring the BoJ Target Rate to 1.00%. Risk is for a further delay in rate hikes as BoJ expect inflation to ease in the interim.

Interest rates forecasts	Q425	Q126	Q226	Q326	Q426
BoJ Target rate	0.75	1.00	1.00	1.00	1.00
JPY TONAR	0.73	0.98	0.98	0.98	0.98
1M JPY TIBOR	0.85	1.10	1.10	1.10	1.10
3M JPY TIBOR	0.95	1.20	1.20	1.20	1.20

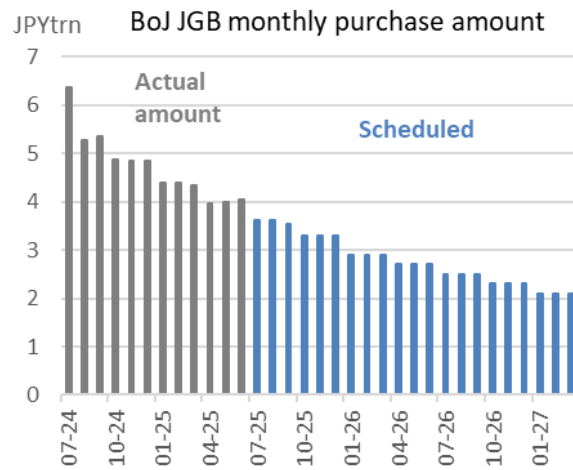
Source: OCBC Research

Another aspect of monetary normalisation is the reduction in the BoJ’s balance sheet via lowering the holdings of government securities. Quantitative tightening (QT) has been ongoing for more than a year now. At the June MPM, BoJ decided to stick with its plan to reduce JGB purchase on a step-down schedule by the quarter, in line with our expectations. Jul-Sep monthly purchases are set at JPY3.7trn (actual was an average JPY3.6trn per month in that quarter), to be reduced to 3.3trn/2.9trn/2.7trn/2.5trn/2.3trn/2.1trn over the next six quarters. By March 2027, BoJ’s holdings of JGBs are expected to have fallen by 16-17% compared to its holdings before the reduction started in June 2024. The next interim assessment on this plan is due at the June 2026 MPM meeting. Our base-case for now is for the central bank to stick with this plan, as the QT pace overall is gradual.

Japan



*On BoJ balance sheet



United Kingdom

United Kingdom: Moderate growth continues

- Economic growth is likely to stay moderate in the quarters ahead. The expected fiscal consolidation may weigh on consumer and investment sentiment, while a high household saving ratio and reduced concerns over trade uncertainty are buffers. 2025 and 2026 GDP growth are both forecast at 1.4%.
- In consideration of the trend in administered prices, the likely fading impact of the previous increase in NICs, slower wage growth, and potential tariff impact, we expect YoY CPI inflation to ease in the quarters ahead.
- The easing inflation outlook and a weakening labour market support some further removal of monetary policy restraints under a careful approach. Our base case is for one 25bp policy rate cut before year end, and another 25bp cut in 1Q26 which will then bring the Bank Rate to 3.50%.

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Growth to stay steady

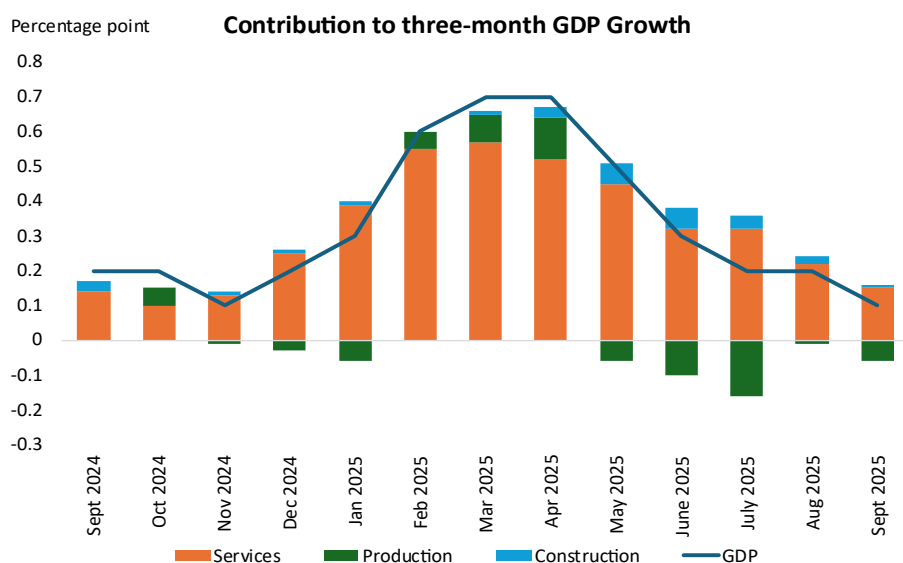
The UK economy grew by 0.1% in the 3 months to September 2025, compared with the three months to June 2025. The 0.2% growth in the services sector made the largest contribution to GDP growth in that period, while construction output grew by 0.1% and production output fell by 0.5%. Looking ahead, growth is likely to be modest. The expected fiscal consolidation may weigh on consumption and investment sentiment, while a high household saving ratio provides a buffer to consumption and reduced concerns over trade certainty may lead to some recovery in business sentiment. On balance, we forecast 2025 GDP growth at 1.4% and 2026 GDP growth at 1.4%.

Consumption is likely to remain modest as suggested by recent spending indicators. The outlook is for wage growth to slow and for some form of tax increase expected to be announced at the Autumn Budget. That said, a high household saving ratio may provide a buffer. Consumption growth has lagged the increase in real household disposable income over the past quarters (since 2022), resulting in an elevated level of the household saving ratio. The household saving ratio remains elevated in 2Q25 at 10.7, notably above pre-pandemic levels. There is room for some purchasing power to be released, although the extent of this depends on the overall consumer sentiment. Some further easing in monetary policy may also help support consumer spending.

Business investment sentiment has been subdued recently but may recover. Business investment decreased by 1.1% QoQ in 2Q25, amid decreases in transport equipment and intellectual property products. The more upbeat investment in 1Q25 had not been extended as we had earlier mentioned those were due to big-ticket items – aircrafts - in the transport sector. Recent surveys reflect business investment intentions have stayed subdued, given global economic uncertainty and

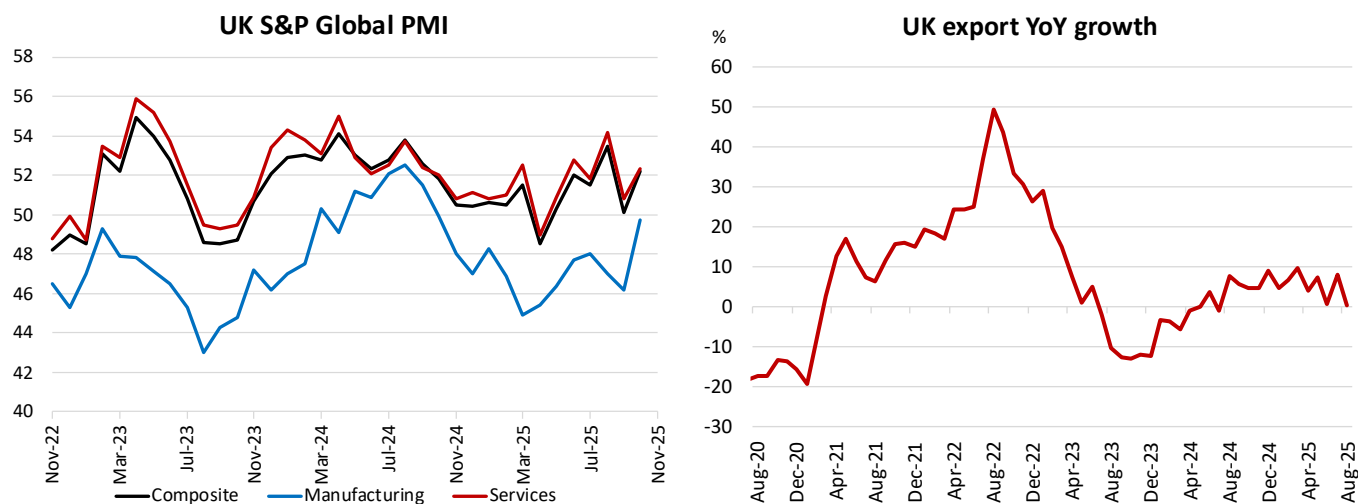
United Kingdom

expectations of tax hikes in the Autumn Budget. On a more positive note, the earlier increase in the NLW and employer NICs were cited as having become less prominent drivers of investment intentions, while concerns around international trade policy were also seen to have eased. October manufacturing PMI printed 49.7 points, staying below the 50-threshold for the 13th month, but nevertheless showed improvement from the 46.2 points in September. Services PMI has been holding up at 52.3 points in October.



The outlook for exports remains uncertain, although such uncertainty is perceived as being reduced given the US-UK trade deal. US has remained as UK's largest exports market for goods. Subsequent to US' reciprocal tariff announcement on 2 April, the UK has signed a trade deal with the US which came into force on 30 June 2025. The deal includes reducing the tariff on UK car exports to the US and removing tariffs on UK aluminium and steel exports. For other goods, the 10% blanket tariff stays. UK is still in talks with US over pharmaceuticals, whisky and steel tariffs. Some front-loading of exports was observed earlier in the year, with UK exports to the US turning stronger during the period between US presidential inauguration and the announcement of the 10% baseline tariff. Thereafter, goods exports to the US slowed in 2Q25, decreasing by 10% YoY. Most recent months' data revealed demand from other exports market was subdued as well. Goods export to both EU and non-EU countries fell in August. For the quarters ahead, we assume minimal contribution from net exports of goods to economic growth.

United Kingdom



Source: Bloomberg, CEIC, OCBC Research

Inflation

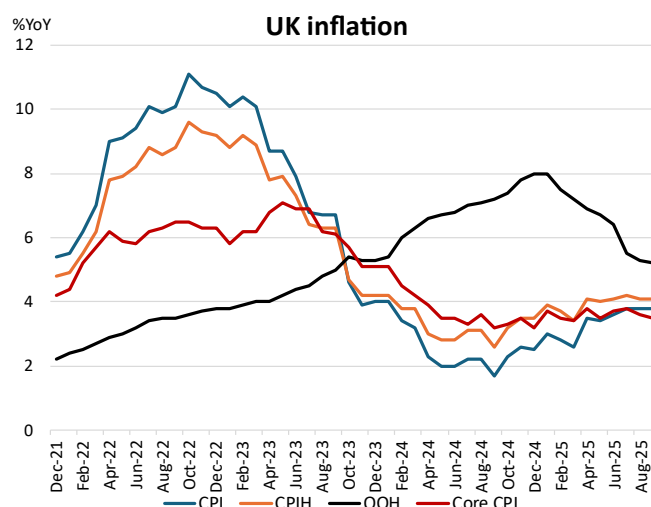
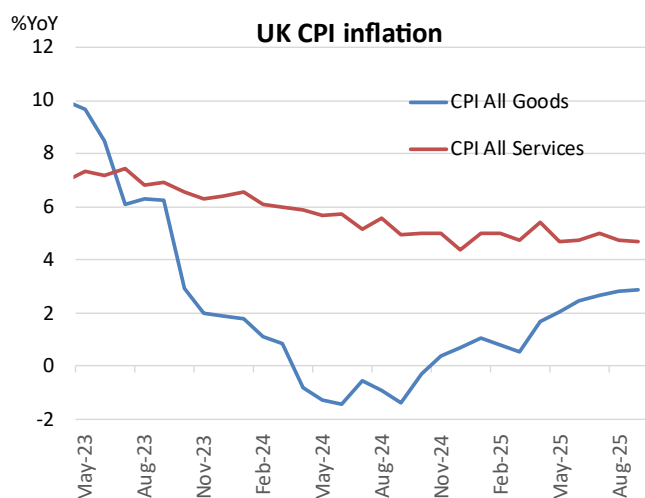
CPI inflation in September printed softer than expected across measures. Headline inflation was at 3.8% YoY in September, and CPIH (CPI including owner occupiers' housing costs) inflation was at 4.1%YoY, both were the same as in August while consensus was looking for a mild uptick. The Bank of England estimated "unusually large increases in administered prices" accounted for 0.4 percentage point of the 1.8 percentage point of the overshoot in CPI inflation from target of 2.00%. Food, beverage and tobaccos accounted to another 0.4 percentage point, while elevated labour cost growth account for most of the remaining 1 percentage point.

Looking ahead, inflation is expected to slow. We forecast 2025 CPI inflation at 3.4% and 2026 CPI inflation at 2.5%. First, the YoY increase in energy cap is slower for 4Q2025 than for 3Q2025. Ofgem set energy price cap at GBP1755 for 4Q25, reflecting an increase of 2.2% over the cap of GBP1717 for Q424. In comparison, the cap of GBP1720 for 3Q24 represented a 9.7% YoY increase. The level of 4Q25 energy cap means a reduction of 0.2 to 0.4 percentage point in contribution to YoY inflation compared to 3Q2025. The higher price cap in 4Q25 is due to higher policy costs (up by 9% from Q325) and network costs (up by 6% from Q325), while there was a mild 2% decrease in wholesale costs. Further ahead, we have a benign outlook for oil prices, expecting Brent to average USD62 in 2026.

Second, services inflation pressure may ease upon slower wage growth. Wage growth (excluding bonus) in the 3 months to August averaged 4.7%YoY, down from the 4.8% over the 3 months to July. The drag was mainly caused by a weaker private sector wage growth of 4.4% in the 3 months to August, the lowest since December 2021. The one-off impact of including private tuition under VAT will also fade starting 1Q26.

United Kingdom

Third, net impact of tariff on inflation is likely to weigh on price pressures. BoE's Dhingra commented that "the primary transmission channel of tariffs to the UK in 2025 come through weaker demand, as tariffs act as a drag on global growth". BoE opined that disruption to trade due to tariffs will ultimately lead to weaker world activity and expected to weigh on prices. Another, more near-term channel is trade diversion, where exporters facing higher US tariffs may have redirected goods to alternative markets including that in the UK.

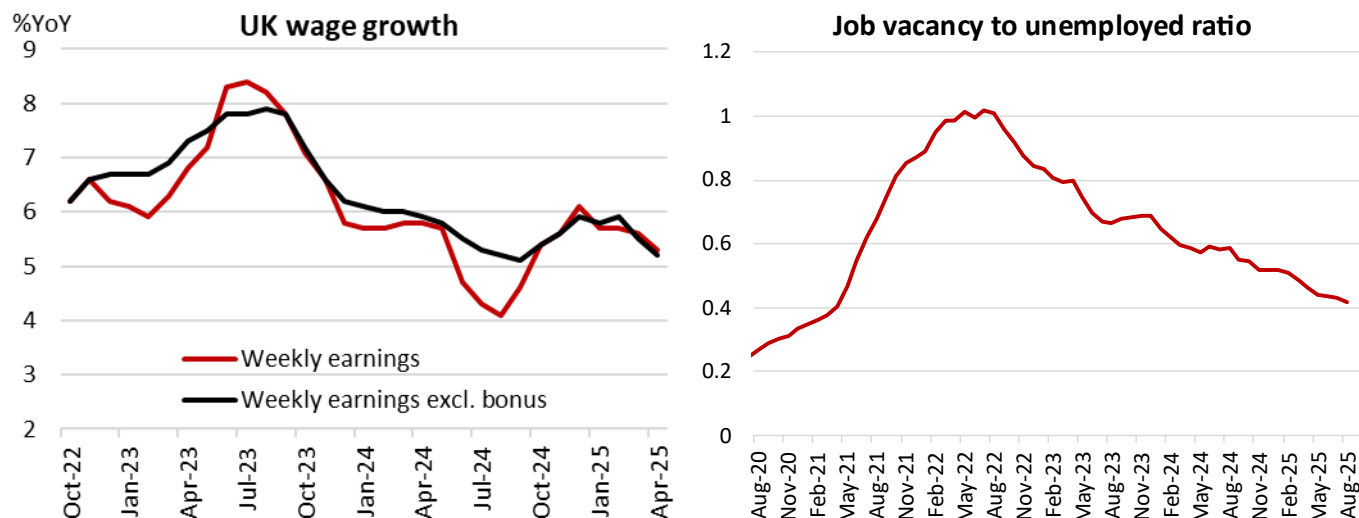


Source: Bloomberg, OCBC Research

A weakening labour market

The labour market has continued to loosen. Monthly PAYE payrolled employees changes have printed negative (i.e. decrease) for most of the months this year. Job vacancies have been on a broad downtrend since May 2022. Job vacancy in the Jul-Sep period fell further to 722K, which was 4K below the Apr-Jun level and 73K below the pre-pandemic period of Jan-Mar 2020 level, according to ONS data. BoE's model suggests that "underlying employment growth remains close to zero", reflecting subdued growth in underlying labour demand. The job vacancy to unemployed ratio has been falling steadily since April 2022, to the latest 0.42 in August 2025. The unemployment rate ticked up by 0.1 percentage point to 4.8% in the 3 months to August, from 4.7% in the 3 months to July. As we previously opined, the increase in NLW and employer NICs may render firms more cautious in their employment plans. Looking ahead, the unemployment may edge up further to 5% in 1H26, with US tariffs affecting domestic business plans and production being an additional factor.

United Kingdom



Source: ONS, Bloomberg, OCBC Research

A gradual approach to interest rate cuts

The Bank of England voted by a majority of 5-4 to maintain Bank Rate at 4.00% at the November 2025 MPC meeting. Four members voted to reduce the Bank Rate by 25bps. The status quo result and the dovish split were in line with our expectations.

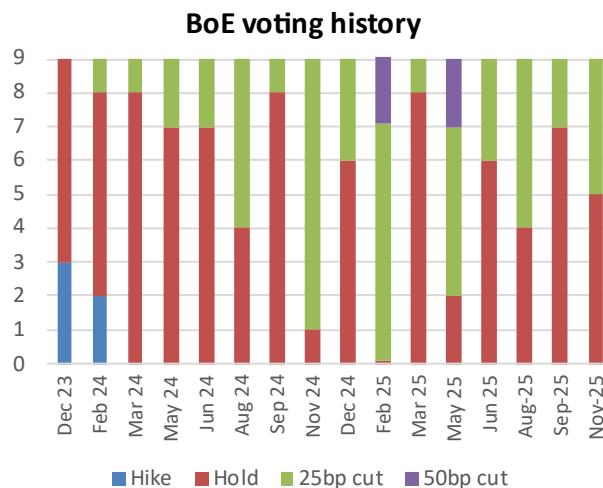
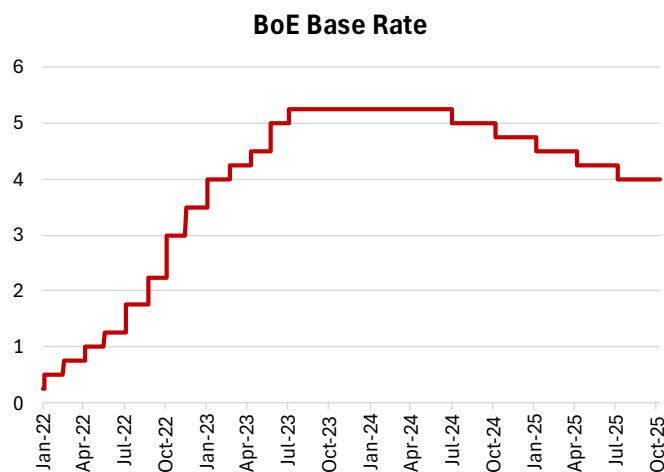
BoE's assessment on inflation has turned more dovish. The November Monetary Policy Statement mentioned "CPI inflation is judged to have peaked", "the risk from greater inflation persistence has become less pronounced recently, and the risk to medium-term inflation from weaker demand more apparent". There was also a tweak in the forward guidance. November MPS said "if progress on disinflation continues, Bank Rate is likely to continue on a gradual downward path", while previous guidance was "a gradual and careful approach to the further withdrawal of monetary policy restraints remains appropriate". The removal of "gradual" may be interpreted as suggesting a potentially lower terminal rate but we do not read too much into it at this juncture. We maintain our call for a 25bp cut in the Bank Rate at the December MPC meeting, and for another 25bp cut in 1Q26 which will then bring the Bank Rate to 3.50%.

Earlier at the September 2025 MPC meeting, BoE decided to slow the QT pace for the Oct 2025 - September 2026 period, to GBP70bn, from the previous annual pace of GBP100bn. Active gilt sales for the current 12-month period will still be bigger at GBP21bn compared to GBP13bn previously, due to light maturity ahead. Nevertheless, on aggregate, this means a slower balance sheet run-off.

The next focus is the Autumn Budget on 26 November. Fiscal consolidation with tax hikes is expected, which may weigh further on growth and in turn supports the case

United Kingdom

for some further monetary policy easing. Market last priced around two 25bp cuts by mid-2026, which appears fair to us.



Source: Bank of England, Bloomberg, OCBC Research

United States

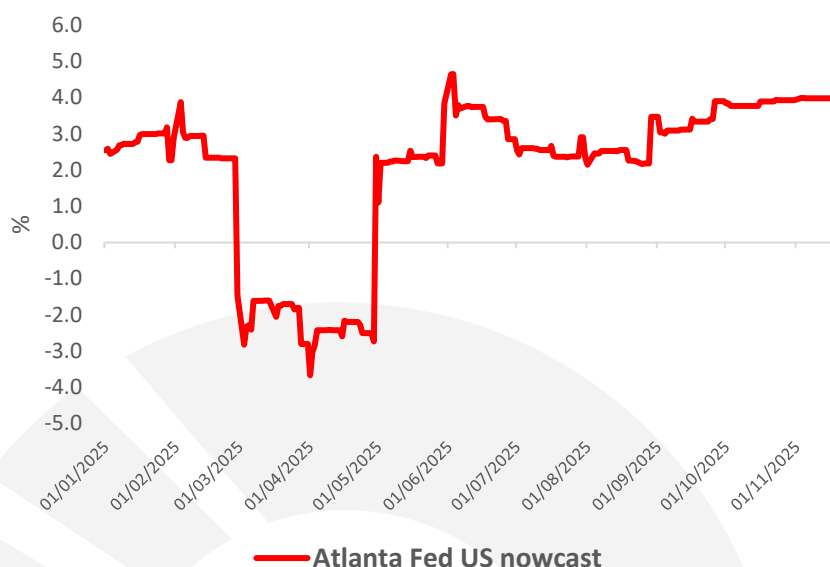
United States: K-shaped growth amid AI boom

- The combination of K-shaped growth and the AI boom will likely widen income inequality and complicate policy calibration.
- Nevertheless, the AI-driven productivity upswing, coupled with fiscal support from the Big Beautiful Bill set to kick in from 2026, should underpin the medium-term growth trajectory.
- We anticipate only a total of 50bps in rate cuts over the next 12 months. The future rate trajectory will remain data dependent.

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After contracting by 0.6% QoQ (annualised) in 1Q25, the US economy staged a robust rebound in 2Q25, with real GDP expanding at an annualised pace of 3.8% — the strongest print since 3Q23. Although the lack of 3Q25 data during the government shutdown has left some gaps in the official picture, the high-frequency indicators continue to point to a solid second-half performance. The Atlanta Fed's GDPNow model, for instance, still suggests growth close to 4%, underscoring the underlying resilience of household spending and services demand. Taking the recent momentum into account, we continue to expect full-year 2025 US growth to come in around 2%.

Chart 1: The Atlanta Fed's GDPNow suggests growth close to 4%.



The stronger-than-expected growth in 2025 has been underpinned by three key drivers. First, the US struck multiple trade deals and granted selective tariff exemptions, leaving the *effective* tariff rate lower than headline figures suggest. With most trading partners refraining from retaliation, global trade channels remained largely open, while the one-year extension of the trade truce with China helped reduce uncertainty. Second, the AI investment boom has ignited a resurgence in productivity, with surging capital expenditure in computer hardware

United States

and software offsetting the supply shock from tighter immigration policy. Third, the private sector's balance sheets remain healthy. Years of post-GFC household deleveraging have kept the domestic economy resilient in the face of higher rates and external headwinds.

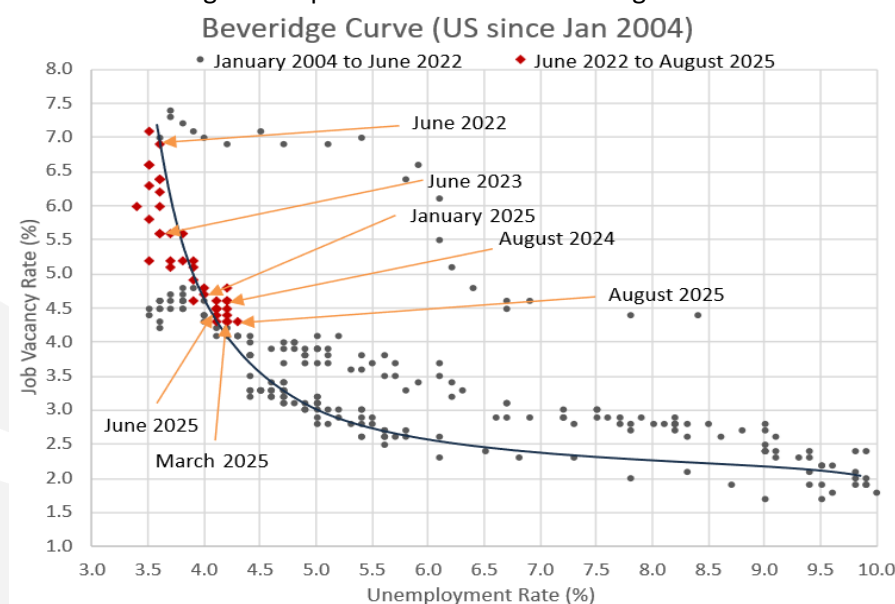
Labor market: Fed's pivot to employment risks

Despite resilient growth, the Fed restarted its rate-cut cycle in 2H25, signalling a shift in focus from inflation to employment. While the unemployment rate remains low, the number of job openings per unemployed worker has fallen steadily to around 1 by 3Q25. The Beveridge curve continues to provide a useful lens: fewer vacancies relative to job seekers indicate a gradual normalization from an overheated labor market toward one that is more balanced, or modestly looser. This transition suggests slower wage growth and softer hiring momentum ahead—even as overall employment remains stable. In short, the labor market appears to be moving toward a *higher-unemployment, lower-vacancy* equilibrium, validating the Fed's dovish tilt.

K-Shaped economy: divergent consumers, uneven markets

Consumer spending remains the key growth pillar. August retail sales rose 0.6% MoM, with core categories excluding autos and gas showing solid gains. Yet, beneath the surface, a K-shaped economy is emerging. High-income consumers continue to spend freely on premium goods and experiences—Apple's upbeat holiday guidance and strong luxury travel demand are cases in point—while middle- and lower-income households are cutting back, hunting for discounts and promotions amid persistent price pressures.

Chart 2: Beveridge curve pointed towards a softening labour market

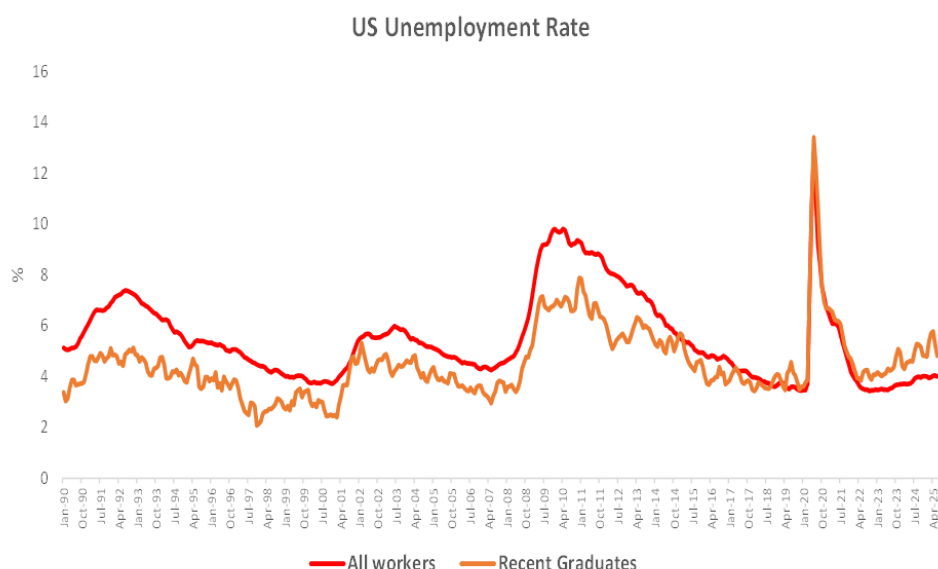


United States

The divergence is also reflected in sentiments: the Conference Board's Consumer Confidence Index fell to 94.6 in October, the weakest since April, with confidence among households earning below USD75,000 slipping further even as sentiment among those above USD200,000 improved. Market performance mirrors this bifurcation: US Consumer Discretionary and Consumer Staples sectors have underperformed the broader market since mid-October.

Meanwhile, the AI boom—though a growth catalyst—is becoming a double-edged sword. Since 2021, the unemployment rate for recent graduates has consistently exceeded that of the broader workforce, with the gap widening further in 2025. The shift underscores how AI adoption is eroding the traditional education premium and reshaping labor market dynamics.

Chart 3: Structural shift in the US job market due to the rapid adoption of AI.

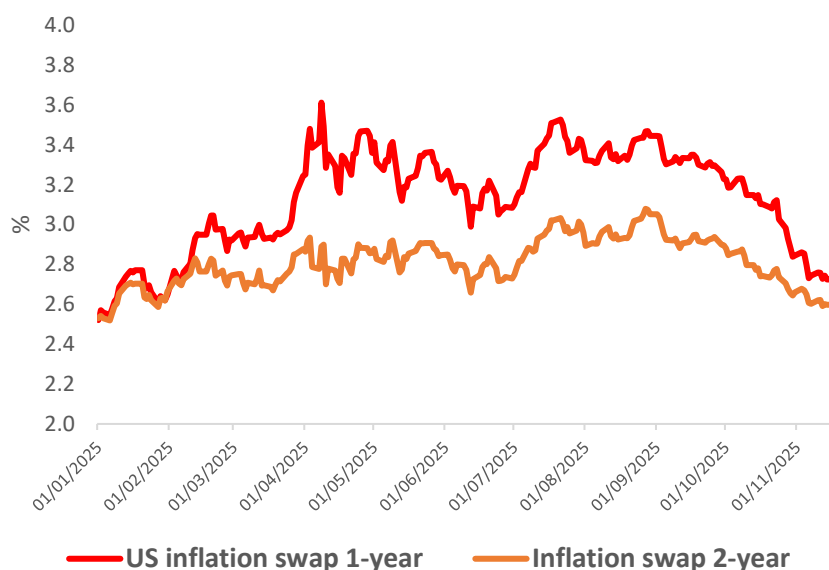


Inflation: still sticky, with risks tilting up

Headline CPI rose 0.3% MoM in September, while core CPI slowed slightly to 0.2% MoM. On a YoY basis, both headline and core inflation remain anchored around 3%. Core services inflation eased modestly on base effects, but core goods prices reaccelerated—partly reflecting lingering tariff pass-through. Looking ahead, we expect core services inflation to stay elevated in 2026, even as shelter costs gradually cool.

United States

Chart 4: US inflation swaps moderated as concerns from the tariff eased



Outlook: solid growth, structural shifts

The combination of K-shaped growth and the AI boom will likely widen income inequality and complicate policy calibration. Nevertheless, the AI-driven productivity upswing, coupled with fiscal support from the *Big Beautiful Bill* set to kick in from 2026, should underpin the medium-term growth trajectory. Given the US remains a relative closed economy among the G10, it is better positioned to weather renewed trade frictions. We expect the US economy to maintain a steady pace of around 2% YoY growth in both 2025 and 2026, outperforming most of its developed-market peers.

We expect headline CPI to hover around 3% YoY in 2026, reflecting persistent price pressures in services and a slow normalization in core goods inflation. With core PCE inflation likely to remain well above the Fed's 2% target, we anticipate only a total of 50bps in rate cuts over the next 12 months. The future rate trajectory will remain data-dependent, guided primarily by the pace of disinflation and the balance between labor market softening and growth resilience.

China

China: Mild Reflation

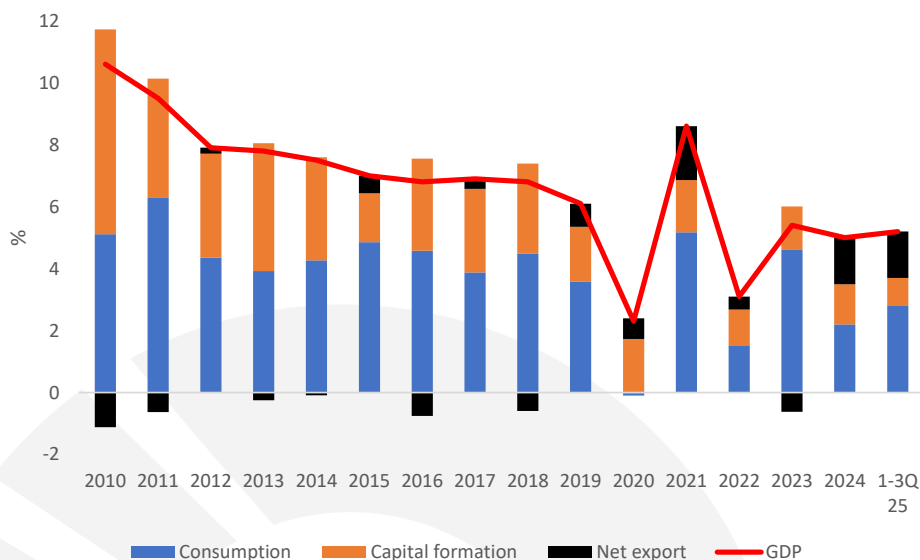
- The second half of 2025 continues to reveal underlying economic fragility. We expect growth to moderate further to below 4.5% in 4Q25, weighed by weak investment and subdued consumption.
- We believe the US-China trade tension reescalation is unlikely in the foreseeable future. We expect China to set its 2026 growth target at around 5%.
- The sustained trade truce with the United States has reduced external uncertainty for the first half of 2026. That said, weak investment and consumption are likely to cap the recovery pace. The rising wealth effect from renewed equity-market optimism is encouraging, but it is unlikely to fully offset the negative wealth effect stemming from the still-fragile housing market.

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The economy expanded by 5.2%YoY in the first three quarters of 2025, surpassing expectations. This stronger-than-anticipated growth was primarily fuelled by robust external demand, with net exports contributing 1.5 percentage points (pp) to the overall 5.2% growth. Excluding the impact of external demand, the domestic economy would have slowed to below 4% YoY.

Chart 1: Net exports remained the key driver to China's growth in the first quarter

China's GDP growth by expenditure



Real GDP growth slowed further to 4.8% YoY in 3Q25, while nominal GDP rose 3.7% YoY, down 0.2ppt from 2Q 2025. Although prices showed a mild rebound, the contraction of the GDP deflator remained near historical lows, underscoring persistent disinflationary pressures.

China

Retail sales rose 3.0% YoY in September, extending the downtrend that began in June. Categories previously buoyed by government “national replacement” programs—such as household appliances, furniture, and cultural and office supplies—saw sharp YoY slowdowns, suggesting that earlier subsidy-driven demand is fading.

The property sector weakened further, with real estate investment contracting 21.2% YoY in September (vs. -19.3% in August)—the first time the decline has exceeded 20%. This underscores that the property market recovery remains shallow and will likely require stronger policy intervention.

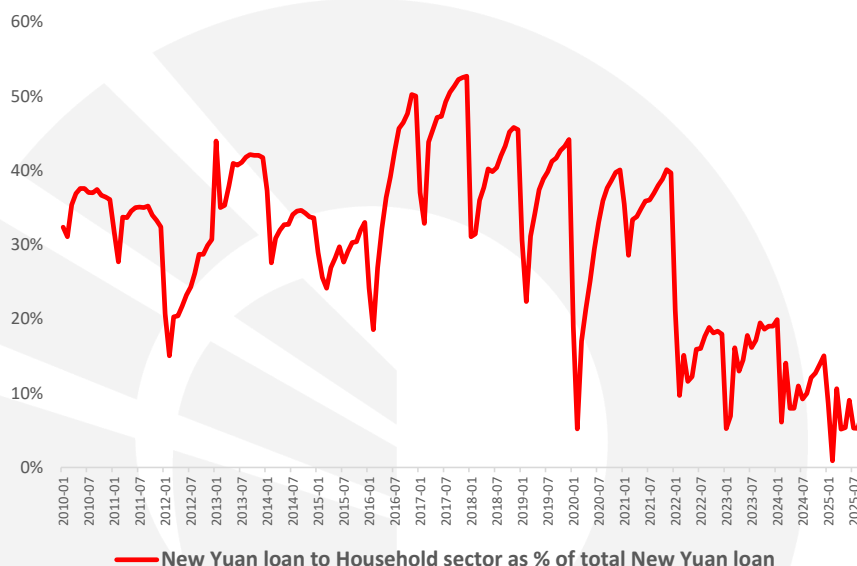
Meanwhile, infrastructure investment turned into a drag. After maintaining double-digit growth for more than 18 months, water conservancy investment decelerated sharply, pulling down overall fixed-asset investment (FAI). The slowdown points to emerging demand-side contractionary forces.

On a positive note, industrial capacity utilization improved modestly to 74.6% in 3Q25, up 0.6ppt QoQ, led by gains in electrical machinery and automobile manufacturing. These sectors benefited from the “anti-involution” policy, which continues to enhance production efficiency and sectoral coordination.

Challenges ahead

M1 growth rebounded meaningfully, supported by improving equity market performance. However, household loan demand remained subdued. The share of new yuan loans to the household sector accounted for only around 5–7% of total new lending in 2025—the lowest on record—underscoring the persistent weakness in credit appetite and its potential drag on the consumption recovery story.

Chart 2: Weak credit demand from the household sector



China

Meanwhile, the ongoing anti-corruption campaign is adding another layer of headwind to domestic consumption. The campaign's ripple effects are visible even in the equity market—shares of Kweichow Moutai, once a market darling and a barometer of high-end consumption sentiment, have notably underperformed the broader index this year.

Overall, the second half of 2025 continues to reveal underlying economic fragility. We expect growth to moderate further to below 4.5% in 4Q25, weighed by weak investment and subdued consumption. Nevertheless, we revise our full-year GDP growth forecast upward to 4.9% (from 4.8%), reflecting the stronger-than-expected 3Q25 performance and the front-loading of policy support.

A lasting trade truce

The United States and China reached a trade truce following the Trump–Xi meeting in South Korea on 30 October. Under the agreement, the “fentanyl-related tariff” on Chinese goods will be halved to 10% from the original 20%, while the 24% reciprocal tariff on Chinese products will remain suspended for another year. That said, the existing 10% base tariff will continue to apply, keeping the overall additional tariff rate on Chinese goods at around 20% in 2025—broadly in line with most Asian peers. The U.S. will also suspend for one year the implementation of the 50% ownership “penetration rule” under export controls, as well as the Section 301 investigations into China's maritime, logistics, and shipbuilding sectors. In response, China will make corresponding adjustments or temporarily suspend its related countermeasures. Overall, we see this as a constructive truce that helps reduce uncertainty and stabilize the global economic outlook.

We believe US-China trade tension reescalation is unlikely in the foreseeable future although China appeared to take a more proactive stance in this latest round of friction in October. This is because what we witnessed was not China's strategic aggression—it was defensive assertiveness. Beijing has learned from past cycles that remaining overly cautious before summits invites more pre-emptive US pressure.

It is observed that in the one to two months leading up to a leaders' summit, US policymakers often roll out a string of hardline, China-focused measures. The logic is tactical: by applying pressure ahead of high-level dialogue, Washington tests Beijing's restraint, knowing that Chinese officials attach great symbolic and political importance to ensuring that summits proceed smoothly. American diplomats have long recognized this sensitivity—and exploited it. A vivid example was seen ahead of the 2022 Bali summit, when the US introduced a series of punitive measures targeting China's technology and export sectors, while Beijing refrained from major retaliation to preserve the diplomatic atmosphere. The current episode bears a striking resemblance—except that this time, Beijing is not standing still.

China

By acting early, China aims to set boundaries and deter Washington from further “tests” before negotiations begin. A more assertive China raises the risk that both sides overestimate their ability to compel concessions from one another. By contrast, a more defensive China implies greater caution and calibration. Beneath the noise, both sides have strong incentives to keep the situation manageable. With the US election cycle heating up and China still navigating a fragile domestic recovery, neither can afford a prolonged escalation.

In that sense, the latest re-escalation could paradoxically serve as a prelude to de-escalation. China’s limited yet firm responses helped it enter the upcoming talks from a position of self-respect, while still leaving room for compromise.

Growth target is unchanged for 2026

China outlined seven key social and economic development goals for the 15th Five-Year Plan (2026–2030). Notably, for the first time, the plan explicitly targets a “significant increase in the household consumption rate,” underscoring the shift toward demand-side reform. Detailed quantitative targets and flagship projects will be released in the 15th Five-Year Plan Outline to be reviewed at the National People’s Congress in March next year.

The statement suggests that while China will continue to deepen structural reforms, it has not shifted away from its growth ambitions. The reference to attaining “moderately developed country” status implies that China’s per capita GDP could rise from the current US\$13,500 to roughly US\$20,000–30,000 within a decade. This, in turn, points to an implied annual growth target of around 5% during the 15th Five-Year Plan period.

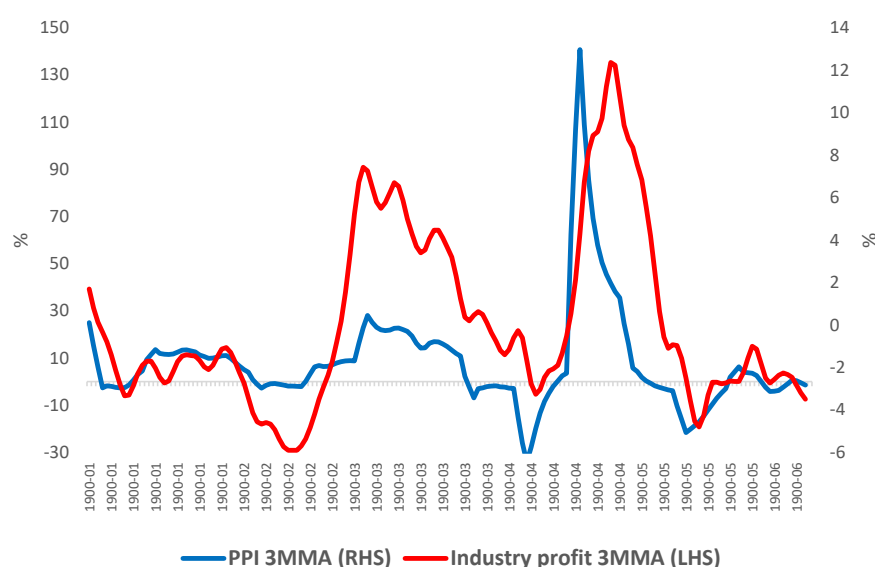
We expect China to set its 2026 growth target at around 5%. To support this objective, monetary policy is likely to remain accommodative. In parallel, to cushion the negative impact of the ongoing “anti-involution” campaign on industrial output and investment, policymakers have stepped up the use of policy-based financial instruments. The central government has also reallocated RMB 500 billion from unused local debt quotas to address arrears and fund qualified projects in key provinces. The effectiveness of these measures will be closely monitored in the coming quarters.

The “anti-involution” campaign itself remains a double-edged sword. On the positive side, it has reignited reflation expectations. PPI broke its nine-month losing streak in August, stabilizing on a MoM basis, while industrial profits saw a sharp rebound in both August and September. History suggests this matters—each past cycle of overcapacity resolution and PPI bottoming has typically preceded a new equity bull run.

China

Overall, the sustained trade truce with the United States has reduced external uncertainty for the first half of 2026. We expect China's exports to grow by around 3% YoY in 2026, helping to provide a floor for overall growth. That said, weak investment and consumption are likely to cap the recovery pace. The rising wealth effect from renewed equity-market optimism is encouraging, but it is unlikely to fully offset the negative wealth effect stemming from the still-fragile housing market. Taking these factors into account, we revise our 2026 growth forecast to 4.7%, up from 4.4% previously.

Chart 3: PPI tends to lead industry profit cycle by three months.



Mild deflation

On inflation, headline CPI turned positive in October, rising to 0.2% YoY, up 0.5ppt from September and marking a nine-month high. On a MoM basis, CPI increased 0.2%, slightly stronger than the seasonal pattern. The return to positive YoY inflation reflected not only a lower base but, more importantly, stronger holiday-related consumption and a continued pickup in core CPI. We expect CPI to rise above 0.5% YoY in the next two months, though the full-year average is likely to hover around 0%, underscoring persistently weak domestic demand. The momentum may continue in 2026 with CPI is expected to accelerate to about 1.8%.

PPI improved to -2.1% YoY in October, narrowing by 0.2pp and marking the third consecutive month of YoY improvement. On a MoM basis, PPI rose 0.1%, turning positive for the first time this year. The improvement of PPI was mainly attributable to China's anti involution push, higher gold prices and stronger holiday spending.

We expect commodity prices to remain firm amid supply constraints, providing continued support to PPI in the months ahead. However, the transmission of

China

upstream “anti-involution” effects to mid- and downstream prices will take time, keeping the pace of inflation recovery modest. Overall, inflation is expected to remain mild with a weak improving trend through, led by upstream price resilience but constrained by tepid downstream demand. PPI may turn positive in 2H26 with whole year PPI averaging -0.5%.

On policy, given China is on track to achieve its growth target in 2025, PBoC is likely to take wait and see approach. Nevertheless, there is still room for China to lower its benchmark interest rate to support the growth. As such, we expect China to reduce its 1-year LPR by 10bps in 2026.

Hong Kong

Hong Kong: Macro stars are aligned

- Despite the ongoing challenges, Hong Kong recorded three consecutive quarters of better-than-expected growth in 2025, adding to the narrative of a strong economic comeback. The downward trajectory of local rates and supportive policy mix should remain constructive to macro-outlook. We expect the growth momentum to largely sustain in the coming quarters, barring abrupt deterioration of external demand or a sudden reversal of asset market sentiment.
- Our full-year GDP growth forecast for 2025 is revised back to 3.4% YoY, above the government forecast range at 2%-3%. In parallel, we raised our 2026 forecast to 2.6%. Notwithstanding the broader growth, HK's labour market is expected to stay soft under the shadow of structural imbalance. We see two-way risk to inflation, but with a slight bias to the upside. We tip the 2025 unemployment rate and inflation forecast at 3.6% and 1.4% YoY respectively, and 3.7% and 1.6% respectively for 2026.
- As the Fed is expected to proceed with rate cuts in periods head, we expect 1-month and 3-month HIBOR to trend gradually lower in next few months and fall back to around 3% levels by year end, notwithstanding some ups and downs during liquidity-draining events.
- With tailwinds such as increase in non-local/end-user demand and a more favourable policy mix, the outlook for the housing market has decisively improved. However, one thing that had been missing in the broader recovery story was the resurgence of market activities. We expect the residential property prices to rise by 0-3% this year and have an estimated 1-4% upside in 2026.

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Three consecutive quarters of stronger-than-expected growth in 2025

Despite the ongoing challenges, Hong Kong recorded three consecutive quarters of stronger-than-expected growth, reinforcing the narrative of an economic comeback. The flareup of US-China trade tensions early this year and softening of global growth turned out to be less a drag on Hong Kong's economy than initially feared. External demand continued to hold up, supported by positive spillover from China's stellar performance in exports and still benign global monetary/fiscal environment.

On domestic front, further easing of financial condition and robust performance in the asset market revived the once sluggish demand. Consumption spending, business capital expenditure and loan demand all garnered further momentum. Looking ahead, the downward trajectory of local rates and supportive policy mix should remain constructive to macro-outlook. We expect the growth momentum to largely sustain in the coming quarters, barring abrupt deterioration of external demand or a sudden reversal of asset market sentiment. That said, the weakening

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labour market and ongoing correction in commercial real estate market still warranted caution.

Chart 1: Better-than-expected growth in the past 3Q

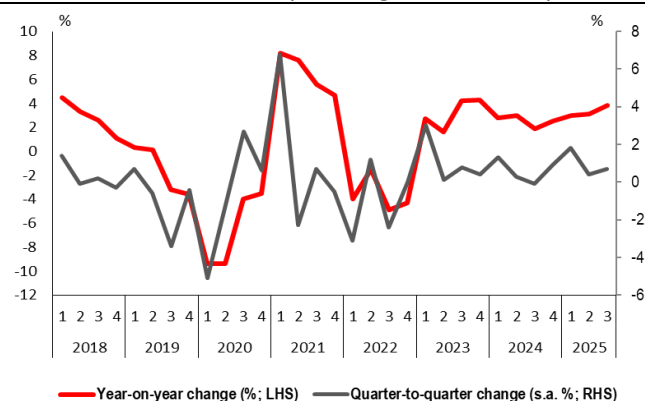
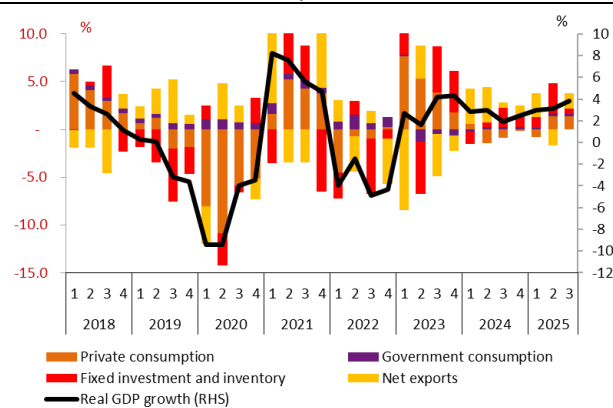


Chart 2: Private consumption revived



Sources: HK Census and Statistics Department, OCBC.

Dual engines of growth

Real GDP growth accelerated to 3.8% YoY in 3Q25 (2Q25: 3.1% YoY) (**Chart 1**), the fastest pace since 2023, driven by sustained recovery in private consumption and widening trade surplus. On a seasonally adjusted basis, the economy grew by 0.7% QoQ (2Q25: 0.4% QoQ). For the first three quarters, the economy grew by 3.3% YoY.

During the quarter, private consumption expanded by 2.1% YoY (2Q25: 1.9% YoY) (**Chart 2**), contributing approximately 1.4 percentage points of growth, consistent with the previous quarter. Goods and services exports grew steadily by 12.2% YoY and 6.3% YoY respectively (2Q25: 11.5% YoY and 8.6% YoY), while imports slowed. Contribution of net exports reverted to positive figure at 1.6pp in the third quarter. On the other hand, while gross domestic fixed capital formation and government consumption increased further by 4.3% YoY and 1.9% YoY respectively (1Q25: 1.9% YoY and 2.5% YoY), the contribution to growth from investment (including changes of inventories) and public spending moderated.

We have revised our full-year 2025 GDP growth forecast upward to 3.4%, exceeding the government's 3.2%, and raised the 2026 forecast to 2.6%. Notwithstanding the broader growth, HK's labour market is expected to stay soft under the shadow of structural imbalances. On a separate note, we see two-way risk to inflation, but with slight bias to the upside. We tip the unemployment rate and inflation forecast at 3.6% and 1.4% YoY respectively for 2025, and 3.7% and 1.6% respectively for 2026.

Resilience beyond frontloading

HK's merchandise exports have sustained double-digit growth since February 2025, despite undergoing ups and downs in the US-China trade relations. Exports to the mainland China and most other Asian markets remained robust, reflecting resilience beyond export frontloading and China's success in the export

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diversification strategy. For the first nine months of 2025, the merchandise exports managed to grow by 13.4% YoY in value terms **(Chart 3)**, despite the volatile performance in exports to US. On the other hand, inbound tourism remained on strong footing, buoyed by the strengthening of RMB and stabilising growth in mainland China. Tourist arrivals exceeded 36 million in the first three quarters, up 11.9% YoY **(Chart 4)**. However, this increase has yet to fully translate into retail spending growth, reflecting shifts in visitor consumption patterns.

Encouraging revival in domestic demand

The positive wealth effects stemming from equity market rallies and stabilisation in housing market contributed to the stabilizing market sentiment. Combined increases in main board market capitalization and net housing wealth—proxies for household wealth—rose 24% in H1 2025. The pace of increase in retail sales picked up further to 5.9% YoY in value terms in September **(Chart 5)**, marking the fifth consecutive month of gains after a prolonged slump. Stronger fundamentals, alongside the sales promotion initiatives, point to encouraging recovery in retail sales in periods ahead. We expect retail sales to record mild gain this year (YTD: -1.0% YoY).

Loan demand showed tentative signs of recovery **(Chart 6)**, on the back of sharp fall in HIBORs since May **(Chart 7)**, though momentum remained fragile. In the second quarter this year, loans to financial concerns and stockbrokers rose the most by 3.7% QoQ and 16.3% QoQ respectively, alongside improvement in risk sentiment in the equity market. Meanwhile, declines in loans to building and construction/ property development and investment narrowed to 0.1% QoQ (Q1: -2.7% QoQ). Looking ahead, the downtrend of HIBOR and looser monetary conditions should render some support to loan demand in coming months. Total loans and advances are expected to see mild growth in 2026.

Subdued inflation

Inflationary pressure remained subdued, with the composite CPI and underlying CPI (netting out the effect of government one-off relief measures) rising by an average 1.5% YoY and 1.1% YoY respectively in the first nine months this year **(Chart 8)**. As deflationary pressure from the Mainland China spreads to and manifests in HK, prices of basic food (majority of them sourced from Mainland) fell by an average of 0.7% YoY. Housing inflation increased to 2.1%, driven by rising rents. Looking ahead, pressures from domestic costs and external prices are expected to stay mild, in absence of supply shock. We revised our full-year inflation forecasts lower to 1.4% and 1.6% respectively for 2025 and 2026.

Hong Kong

Chart 3: Merchandise exports remained resilience

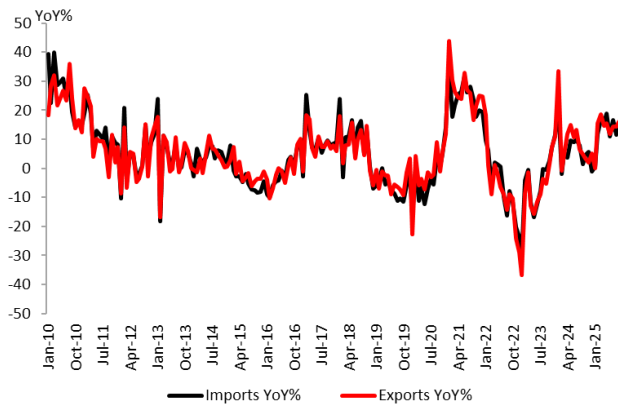


Chart 4: Sustained growth in visitor arrivals

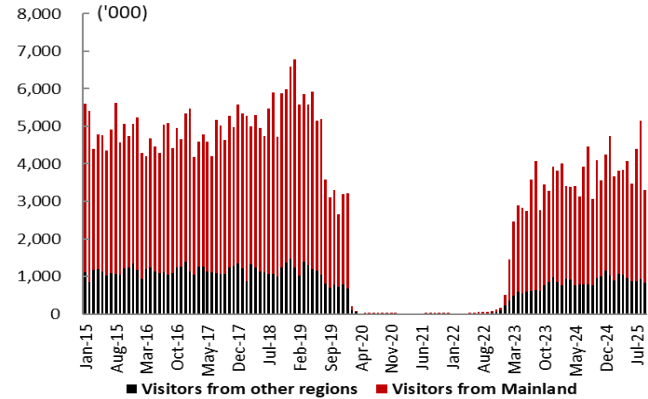


Chart 5: Retail sales saw recovery

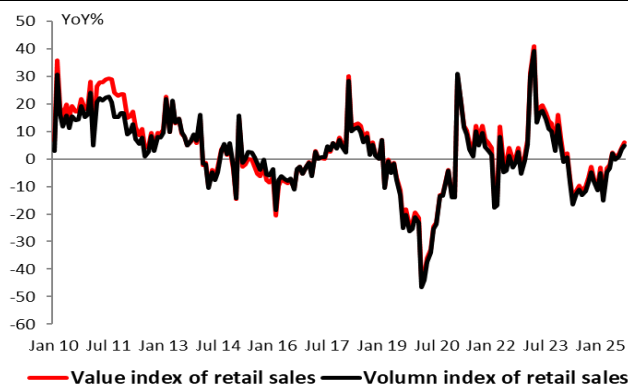


Chart 6: Tentative recovery in loan demand

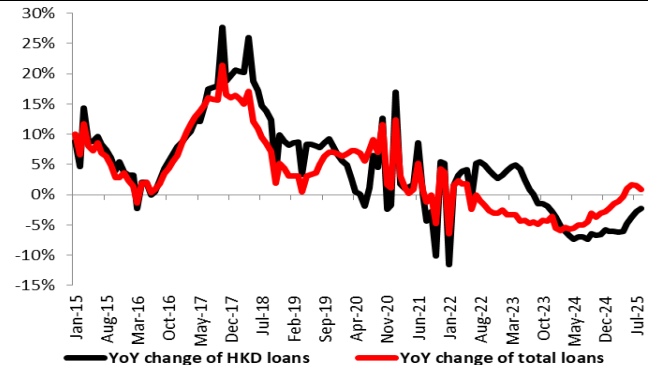


Chart 7: Sharp fall in HIBORs in May

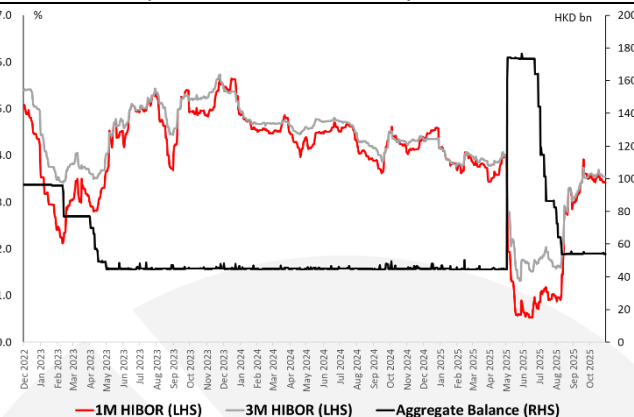
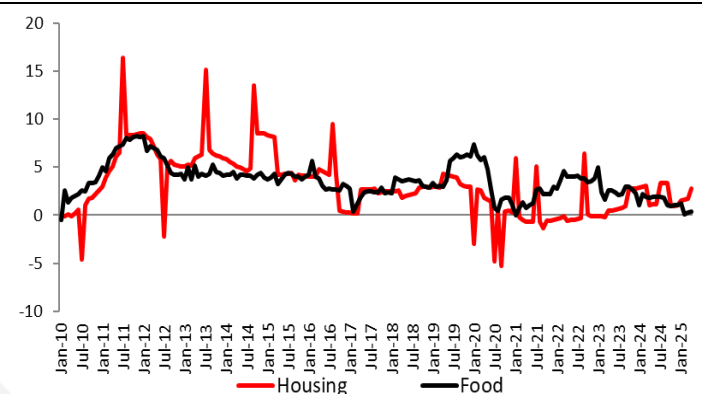


Chart 8: Subdued inflation



Sources: HK Census and Statistics Department, HKMA, OCBC.

Rising labour market slack

Despite the broader economic recovery, labour market slack increased, highlighting the likely structural imbalance in the job market. HK's seasonally adjusted unemployment rate rose to 3.9% in the three-month ending September 2025, the highest since late 2022. Increases in unemployment rate were virtually across-the-board, with more notable increases in the construction (at 7.2%) and manufacturing sectors (3.9%) (**Chart 9**). Full-time job vacancies for graduates plummeted by over 50% to 7,928 in 1Q this year, below the levels seen during the pandemic, as businesses cut junior level positions amid widespread adoption of AI. In light of the

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Hong Kong

still-sluggish hiring sentiment and ongoing AI-driven disruption, the unemployment rate is likely to linger at an elevated level in the periods ahead. A concerning picture was painted on the jobs front, and we raised our full year unemployment rate forecast to 3.6% and 3.7% respectively for 2025 and 2026.

HKD rates to track USD rates' downtrend

FX intervention at weak-side convertibility undertaking since late June totalled HKD120bn, reversing most of the HKD129.4bn done at the strong side in May. Normalisation of HKD rates first materialized gradually, and then rapidly as expected. As the Aggregate Balance (interbank HKD liquidity) fell to HKD54.1bn, near the tipping point, which is generally seen at around HKD50bn level, front-end HKD rates become more responsive to additional liquidity drainage.

Chart 9: Unemployment rate rose across sectors

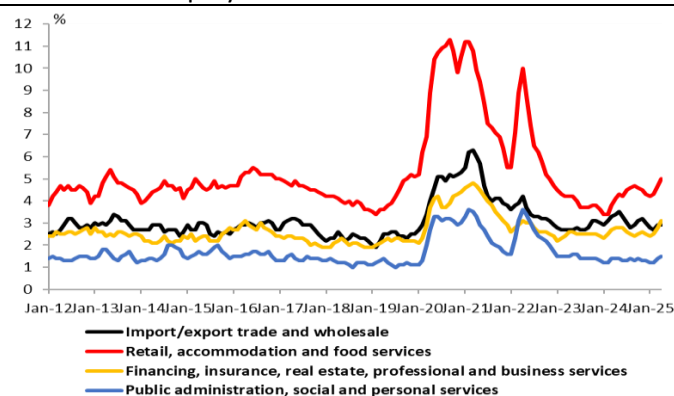
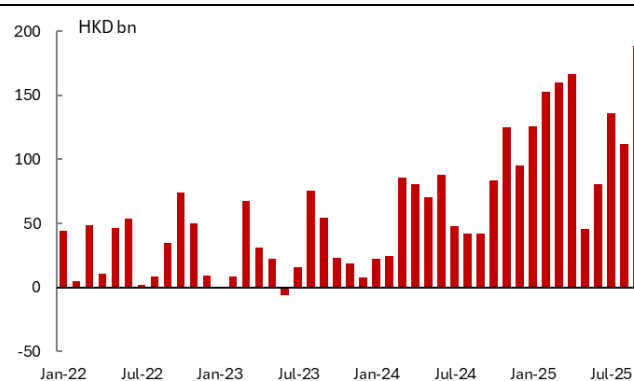


Chart 10: Net stock connect southbound inflow



Sources: HK Census and Statistics Department, Bloomberg, OCBC.

Recently, persistently strong southbound equity inflows, together with fund raising activities (IPOs and bond issuance) and seasonality pushed HIBORs to their highest since May. As the Fed is expected to proceed with rate cuts in periods ahead, we expect 1-month and 3-month HIBOR to trend gradually lower in next few months and fall back to around the 3% level by year end of 2025, notwithstanding some ups and downs during liquidity-draining events. However, we believe this dynamic of strong inflows (**Chart 10**) and the potential bottoming out of loan-to-deposit (LTD) ratio (**Chart 11**) are likely to stall HKD rates' declines in the short to medium term, hence leaving some room for HKD-USD rate spread compression. Further convergence of HKD and USD rates would still require in another upswing in the property cycle and/or meaningful recovery of loan demands, which appear far from imminent.

A banner year for the equity market

The equity market is scorching hot by any means of measure. The Hang Seng Index rose in eight out of the past ten months (**Chart 12**), with a year-to-date gain approaching 35% (as of 13 November 2025). Meanwhile, the daily turnover of equity market had doubled as compared to last year. Fund raising activities also

Hong Kong

turned far much more active, with strong post-IPO performance. IPO raised amounted to US\$26 billion in the first ten months, ranking top in the world. The city was increasingly the go-to-market for funding raising and wealth management, especially for the Chinese corporates and affluent individuals. Activities in financial industry rebounded sharply, with more companies signing up for pay rise and headcount increase. Securities and Future Commission data showed a steady increase in the number of licensed representatives.

A developing recovery story but still with missing pieces

Our earlier call for stabilisation of housing market has so far worked well. Hong Kong's housing market showed signs of bottoming out, with pace of increase in housing prices starting to catch up with the increase in rents. The residential property price index rose by 1.3% MoM in September (**Chart 13**), the biggest monthly gain in over a year, and completely erased all year-to-date losses. Meanwhile, rents extended their recent uptrend in a steady but gradual manner. In the first nine months this year, the residential property price and rental index rose cumulatively by 1.1% and 3.9% respectively.

Chart 11: HKD LTD ratio potentially bottoming out

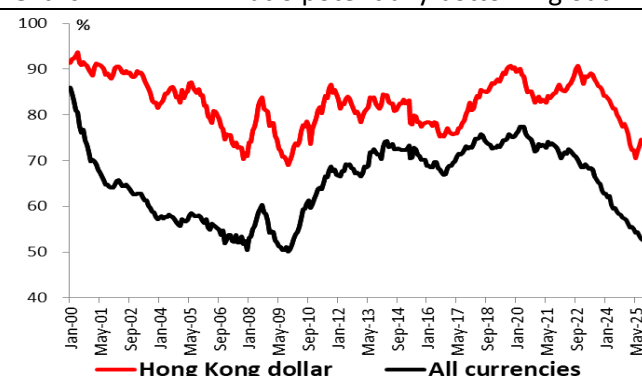
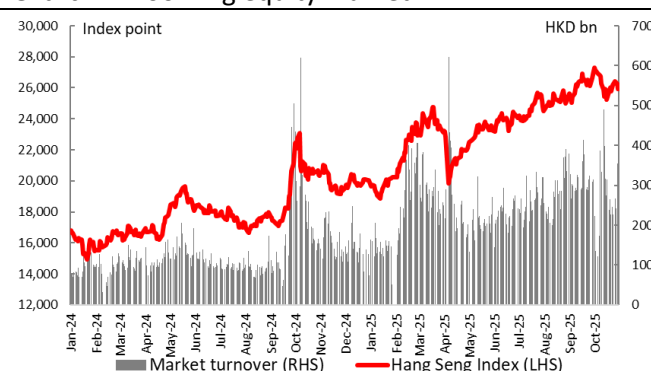


Chart 12: Booming equity market



Sources: HKMA, HKEX, Bloomberg, OCBC.

However, one thing that had been missing in the broader recovery story was the resurgence of market activities. Transactions stayed flat at 16,700 cases in 3Q25, comparable to that of 16,754 in 2Q25. As the 'low-rate honeymoon' ends, some market turbulence is expected, potentially limiting further price gains. The recent rebound in HIBORs was about to nudge our in-house estimate of buy-rent gap back to the positive territory (i.e. buying properties are again conceived as more costly than renting properties) (**Chart 14**). That said, with tailwinds such as the increase in non-local/end-user demand and a more favourable policy mix in the picture, the outlook of housing market should decisively improve. Taken together, while the residential property cycle is taking a turn for the better, a V-shaped recovery still appears some way off. We expect the residential property prices to rise by 0-3% this year and estimate an upside of 1-4% in 2026.

Hong Kong

On the contrary, we maintain a bearish outlook on commercial real estate (CRE), despite the rising leasing demand for office space and rebound in retail sales, amid the overhang of over-supply and limited rental return. The property prices of retail spaces and office are expected to fall by a moderated 5.5% in 2026, after the forecasted decline of 8.5% this year. Authorities are likely to suspend commercial land sales for a second consecutive year to support the sector.

Chart 13: Housing market bottoming out

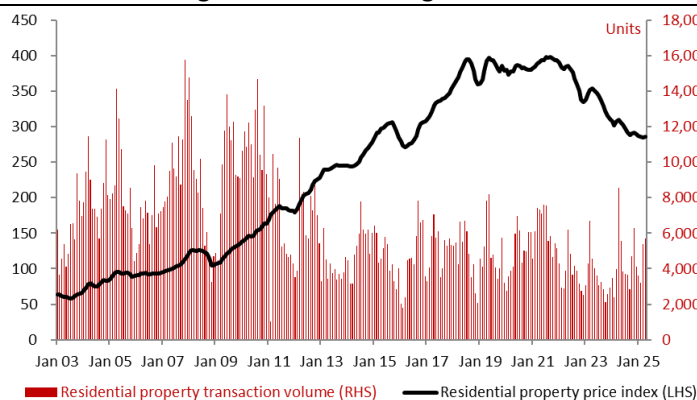
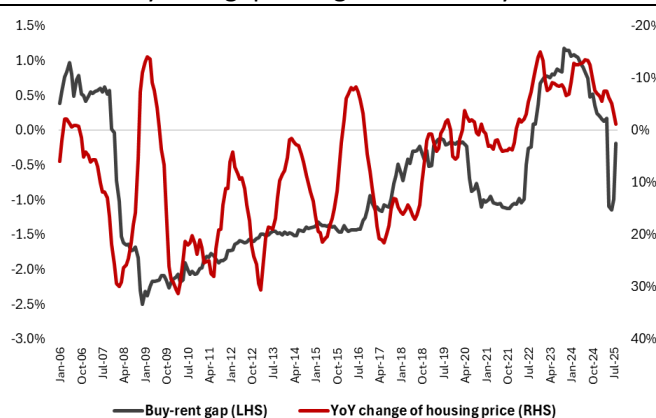


Chart 14: Buy-rent gap in negative territory



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

India

India: Resilient in the face of headwinds

- We revise higher our GDP growth forecast for the fiscal year 2026 (FY26 starting in April 2025 until March 2026) to 6.7% YoY from 6.0%. We forecast modestly slower GDP growth of 6.4% for FY27.
- Domestic demand conditions are expected to remain strong in FY26 and FY27, although headwinds from US tariffs are likely to persist.
- We still see room for the Reserve Bank of India (RBI) to cut its policy rate by a cumulative 50bp, although we now expect the timing of the cuts to shift to FY27 instead of FY26.

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Resilient domestic demand to hold fort

We revise higher our GDP growth forecast for the fiscal year 2026 (FY26 starting in April 2025 until March 2026) to 6.7% YoY from 6.0%. This reflects strong GDP growth for the April to June quarter of 7.8% YoY but also our forecast for resilient growth for the subsequent quarter (July -September) of 7.0%. We nonetheless project slower GDP growth for the second half of the fiscal year to 6.0% from 7.4% in the first half. We forecast slower GDP growth of 6.4% for FY27.

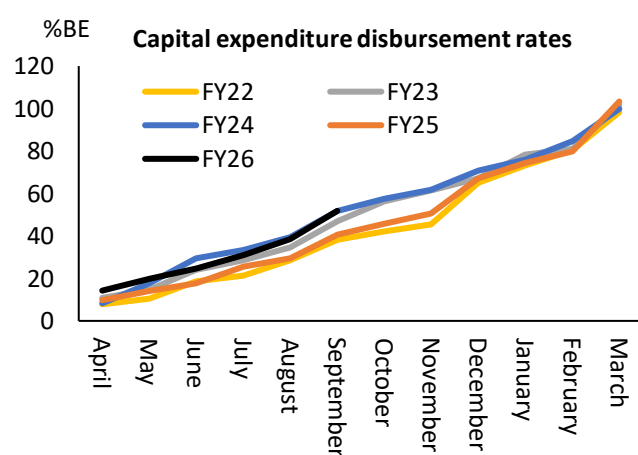
Private consumption, which accounts for 56.4% of total GDP, is projected to remain resilient in FY26 supported by the revision of the personal income tax brackets announced in the FY26 budget, allowing for higher disposable incomes (see India: FY26 Budget: Consolidation and Consolation, 3 February 2026) as well the rationalisation of GST slabs to three levels (apart from zero) from five, effective 22 September 2025 (see India: GST slabs readjusted – boost to reforms, 4 September 2025). This, by our estimates, will reduce the GST rate for most consumer goods to differing degrees. Indeed, most personal consumption indicators for the Jul-Sep quarter have held up well. The rural economy seems particularly robust, supported by a strong agricultural harvest and rising wages.

%YoY	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25
Domestic aircraft movement	10.7	6.3	7.9	5.3	3.3	4.1	-2.9	-5.1	-2.7
Passenger vehicle sales	1.6	1.9	3.6	3.9	-0.8	-7.4	-0.2	-8.8	4.4
Two-wheeler sales	2.1	-9.0	11.4	-16.7	2.2	-3.4	8.7	7.1	6.7
Three-wheeler sales	8.6	5.9	10.7	0.7	-3.3	3.8	17.5	8.3	5.5
IP: consumer durables goods	7.1	3.7	6.9	6.2	-0.9	2.8	7.3	3.5	10.2
Farm tractor sales	11.1	12.4	21.6	7.0	8.4	10.2	7.1	24.6	42.9
IP: consumer non-durables	0.1	-2.1	-4.0	-2.7	-1.0	-0.9	0.5	-6.4	-2.9
Personal loans	11.8	11.7	11.7	11.9	11.1	12.1	11.9	11.8	11.7
Vehicle loans	9.7	9.6	8.6	8.8	8.7	10.8	8.9	8.7	7.3
Credit card loans	13.0	11.2	10.6	10.6	8.5	7.2	5.6	4.4	3.7

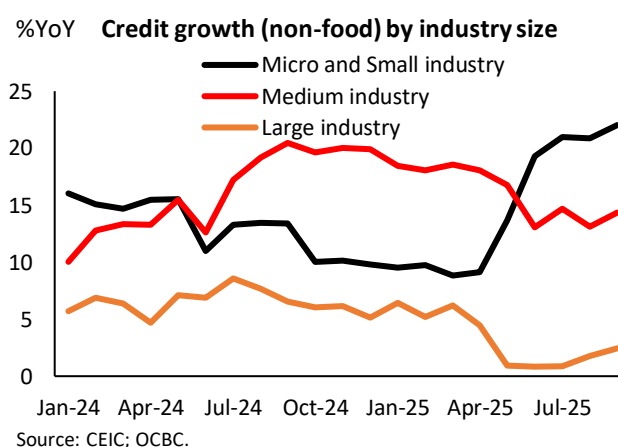
Source: CEIC; RBI; OCBC.

India

Investment growth is also likely to hold up in FY26 and FY27. Capital expenditures supported by on-budget disbursements have been strong despite cutbacks to current expenditures in FY26. Disbursements of capex reached 51.8% of the FY26 budget as of September, which is a higher rate of disbursement compared to recent years. Private sector investment spending will likely remain mixed, as indicated by proxy indicators such as capital goods imports and capital goods industrial production. Encouragingly, there has recently been a sharper pick up in micro and small industry credit growth along with a bottoming out of large and medium credit growth, which bodes well for a broader based recovery into FY27.



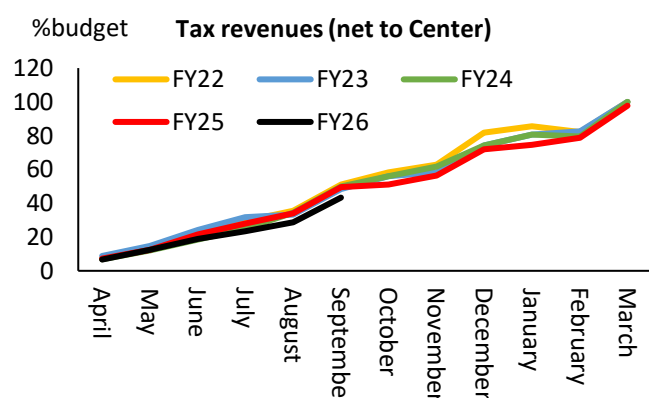
Source: CEIC; OCBC.



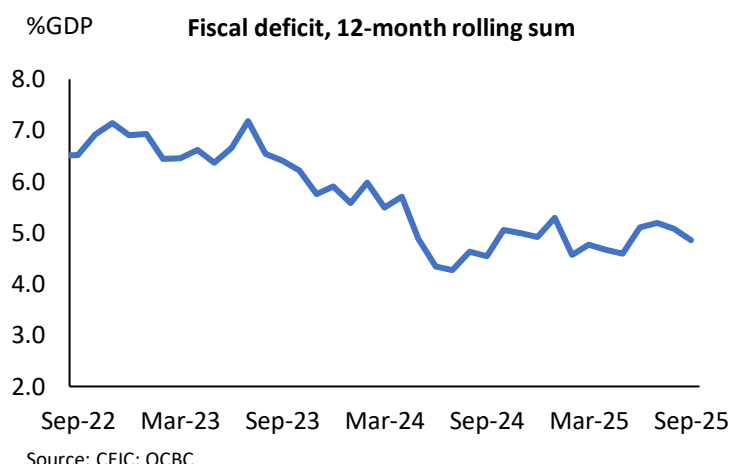
Source: CEIC; OCBC.

Government spending could, however, come under pressure in the last quarter of the fiscal year (i.e. Jan-March 2026) particularly if tax revenue collections remain weak. Tax revenue collections (net to centre) were only 43.3% of the budgeted amount from April-Sept 2025. This is the lowest realisation versus the budget since the pandemic. Non-tax revenue collections, however, remained strong hitting 79.9% of the FY26 budget from April to September 2025. The fiscal deficit is tracking 4.9% of GDP on a 12-month rolling basis, by our estimates. This compares to the FY26 fiscal deficit target of 4.4% of GDP.

India



Note: For FY26 it is versus budget estimate.
For previous year, it is versus revised estimate.
Source: CEIC; OCBC.



The government clocked a feather in its cap after S&P upgraded the sovereign to BBB from BBB-, with a stable outlook, after 18 years. S&P noted relatively strong growth momentum, relative insulation to US tariffs and credible inflation management as the key factors prompting the much-delayed upgrade.

Country	Moody's		S&P		Fitch		Outlook
	Local Currency Long Term	Foreign Currency Long Term	Local Currency Long Term	Foreign Currency Long Term	Local Currency Long Term	Foreign Currency Long Term	
Indonesia	Baa2	Baa2	BBB	BBB	BBB	BBB	STABLE; STABLE; STABLE
Malaysia	A3	A3	A-	A-	BBB+	BBB+	STABLE; STABLE; STABLE
Philippines	Baa2	Baa2	BBB+	BBB+	BBB	BBB	STABLE; POS; STABLE
Singapore	Aaa	Aaa	AAA	AAA	AAA	AAA	STABLE; STABLE; STABLE
Thailand	Baa1	Baa1	A-	BBB+	BBB+	BBB+	NEG; STABLE; NEG
Vietnam	Ba2	Baa2	BB+	BBB	BB+	BBB	STABLE; STABLE; STABLE
India	Baa3	Baa3	BBB	BBB	BBB	BBB	STABLE; STABLE; STABLE

Source: Moody's, SS&P Global, Fitch, Bloomberg. Last updated: 8 October 2025.

External demand weakness to persist

The drag to growth into FY26 and FY27 will largely be from the external demand, in our view. India exposure to US tariffs is not as broad based as regional peers but it cannot be ignored either. The tariff rate of 50% on India's exports to the US have persisted since end August 2025 and will likely stay in place into early 2026 even as talks on the India-US Bilateral Trade Agreement continue¹.

¹ "“Going on Very Well”: Piyush Gopal Gives Update on India-US Trade Deal Talks; Cites ‘Many Sensitive, Serious Issues,’” The Times of India, 6 November 2025.

India

Although total export growth held up in September at 6.8% YoY versus 6.7% in July, exports to the US dropped by 11.9% YoY with exports of textiles, electronics, pharmaceuticals and transportation equipment slowing. The clarification of the pharmaceutical tariffs applying to branded and patent products, rather than generic products, allows Indian exporters some breathing room but the effective tariff rate of India's exports to the US is still higher than regional peers and punitive. We expect export growth, while volatile, to slow noticeably in FY26, with the drag from net exports widening in FY26 before narrowing in FY27.

Supportive policy stance

The policy backdrop was supportive of economic growth in FY25 and will continue for the coming year. However, the room to manoeuvre is becoming increasingly restricted. On the fiscal side, as mentioned above, with tax revenue collections weakening, the room to provide additional tax benefits is limited. Expenditures will likely be monitored closely, reducing the scope for cash assistance even to lower income households.

Monetary policy has been supportive of economic growth. RBI lowered its policy rate by a cumulative 100bps in 2025, with a similar magnitude cut to the Cash Reserve Ratio (CRR). The CRR cut will be implemented in four tranches, with the last one on 29 November². RBI estimated that these cuts could release INR2.5 lakh crore into the banking system by end November.

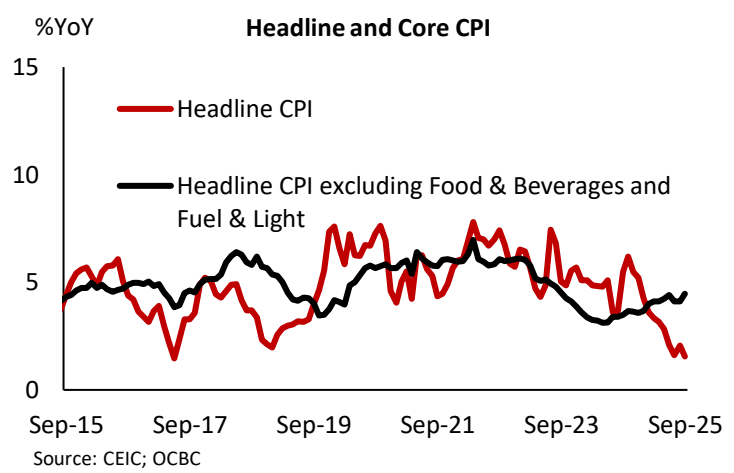
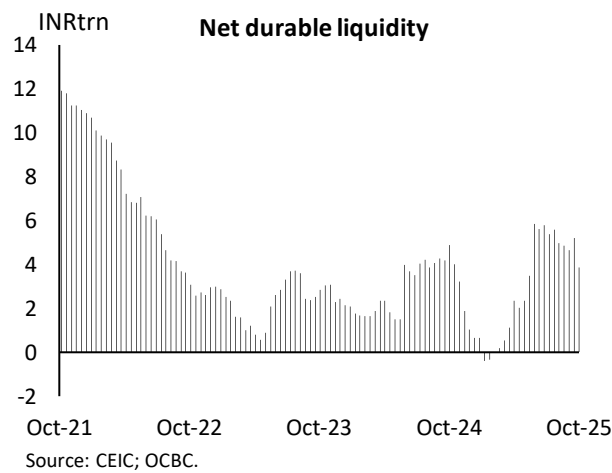
Despite this, liquidity conditions have tightened in recent weeks while the RBI is said to have intervened in the markets to support INR against further depreciation pressures versus USD. Net durable liquidity fell to INR3.7trn for the week of 17 October from INR5.2trn for the week of 19 September. Simultaneously, yields government securities have remained elevated notwithstanding the cancellation of INR110bn of 7-yr government securities. Looking ahead, we expect the RBI to remain nimble in its approach to managing liquidity conditions and gauging the demand for product offerings.

In terms of monetary policy implications, we maintain that there is room for the RBI to lower its policy rate by a cumulative 50bps. However, the timing will be pushed to fiscal year 2027 (i.e. from April 2026 to March 2027) when growth momentum slows more perceptibly as external demand weakens and the impact of tariffs becomes more entrenched.

² The other tranches of 25bp were put into effect on 6 September, 4 October and 1 November 2025.

India

The timing of the cuts will be premised on inflationary pressures but also moves in the currency (INR) versus USD. Inflationary pressures have become more benign owing to the lowering of the GST but also better contained food price pressures. The good kharif crop³ will further support lower agricultural product prices for the remainder of FY26. For FY27, we see headline inflation picking up as the base effects from the GST changes fades along with a normalising of base effects for key food items including vegetables.



³ Kharif crop sowing is 3% higher than same period in 2024 (i.e. as of 1 Sept). As of 30 September, cumulative rainfall is 7.9% above the long-period average.

Indonesia

Indonesia: A mixed bag into 2026

- Government policies were revamped in 2025 with priorities shifting to social expenditures. The sovereign wealth fund Danantara was also set up.
- We expect GDP growth to be softer at 4.8% in 2026 as external demand weakens alongside subdued household consumption and investment spending.
- BI turned 'all out pro-growth' at its 17 September meeting, leading us to add another 50bps in rate cuts to our profile. We forecast that BI will lower the policy rate to 4.25% by the end of the easing cycle. The timing could be pushed to 2026.

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The year 2025 marked significant changes

Government policies were revamped in 2025 with fiscal priorities shifting to social expenditures. The consolidation of state-owned enterprises under the sovereign wealth fund, Danantara, was another big change. These shifts kept GDP growth stable around the 5% handle. We revised higher our 2025 GDP growth to 5.0% from 4.7%, still below the government's forecast of 5.2%.

The underlying picture, however, was uneven. Domestic activity data was soft across retail sales, car sales and cement consumption. Business and consumer sentiment indicators continued to weaken throughout 2025. This was reflected in slower credit growth as well as subdued import growth across consumer, capital and intermediate goods.

Data Points	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25
Central Government expenditures									
Capital expenditures									
Consumer Confidence Index									
Real Retail sales									
Exports ex-O&G									
Exports O&G									
Total Imports									
Consumer Goods Imports									
Capital Goods Imports									
Commercial Banks Credit									
Working Capital									
Investments									
Consumption									
Motor Vehicle Sales									
Motorcycle Sales									
Cement Sales									
Total Visitor Arrivals									

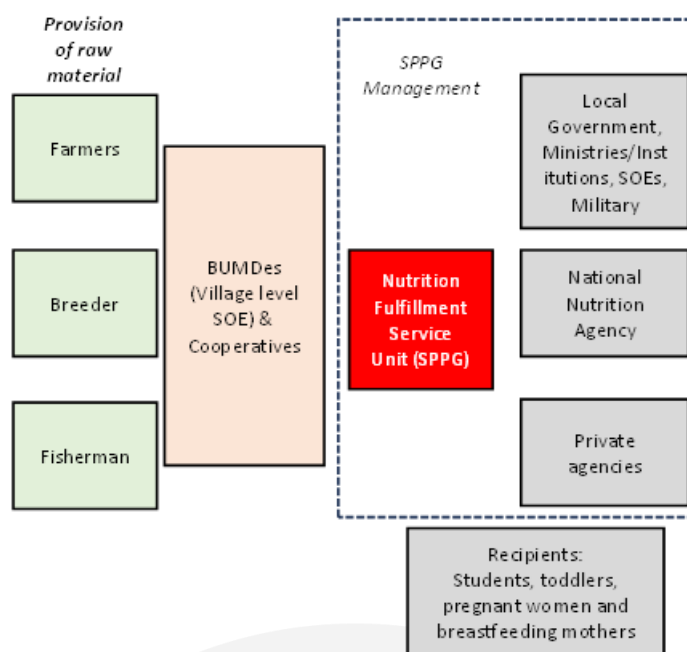
Note: Red indicates slowing growth momentum (%YoY, 3mma) compared to the previous month while green indicates higher growth momentum relative to the previous month. Source: CEIC, OCBC.

Indonesia

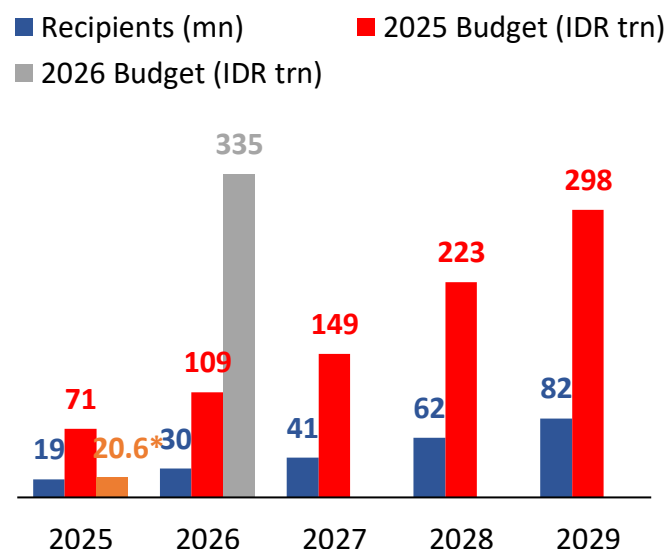
Fiscal priorities shifted

On the fiscal side, the re-prioritisation of expenditures towards the free meal scheme led to under spending as the absorption capacity for the scheme was low in 2025. The ecosystem for the free meals scheme is elaborate, from the provision of raw materials through to service delivery across various entities. Setting up this ecosystem is still a work-in-progress and spending outcomes were impacted this year. As of 3 October 2025, only IDR20.6trn (29%) of the annual IDR71trn budget was spent with 10.9k nutrition fulfilment service units established, benefitting over 31.2mn beneficiaries.⁴ Simultaneously, other expenditures including transfers to regions were cut back significantly, leading to material shifts in priorities and revenue constraints across various regions.

Free Nutritious Meal Programme Ecosystem



Budget Plan and Target Recipients of Nutritious Meals



Source: Kompas, OCBC. *This is as of 3 October 2025.

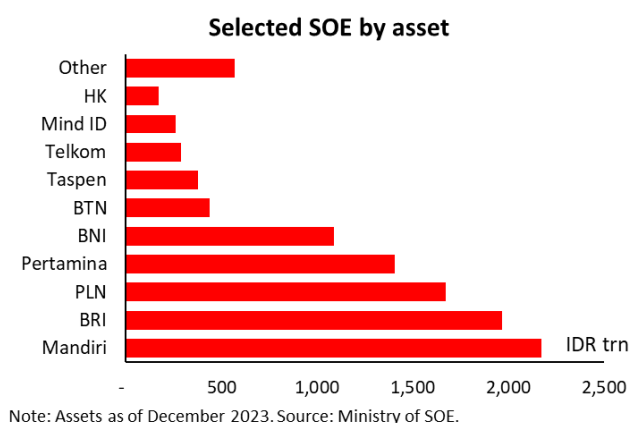
Slower fiscal expenditures outcomes combined with subdued commodity prices led to mixed trends regards investment spending. Gross fixed capital expenditures slowed to 2.1% YoY in 1Q25, jumped to 7% in 2Q25, before slowing again to 5.0% in 3Q25. The sharp drop in working capital loans is telling of the subdued investment climate as businesses remain in wait-and-see mode. This was likely exacerbated by mixed policy perceptions even into 3Q25.

Danantara was established

⁴ "Jumlah Dapur MBG Baru 10.900 unit, BGN: Tantangannya Bangun Ekosistem", Kompas, 27 October 2025 (accessed 5 November 2025). Additional insights were drawn from the Ministry of Finance budget conference held on 14 October 2025. Follow our podcasts by searching 'OCBC Research Insights' on Telegram!

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The consolidation of state-owned enterprises under the newly created sovereign wealth fund, Danantara, initially raised more questions than it answered. However, since the structure of the organisation, technocratic management and recent actions undertaken by Danantara have established policy direction more clearly. We view Danantara as the most likely vehicle to undertake public investment spending in the medium-term especially since the budget allocations have been deployed for the free meal scheme. To that end, projects associated with Danantara will also be watched closely to the gauge progress on physical infrastructure development. The project announced so far constitute interests to invest in the energy, physical infrastructure and downstream mining industries.



Total Assets: IDR10,402trn	Distribution of Portfolio Assets by Cluster (%)
Financial Services	48.9
Energy, Oil & Gas Industry	26.6
Infrastructure	5.6
Insurance & Pension funds	5.1
Telco & Media services	2.5
Mineral & Coal	2.3
Logistic Services	2.1
Food & Fertilizer	1.9
Tourism & Support	1.8
Plantation & Forestry	1.4
Others	1.9

Source: Ministry of SOE.

Indonesia

Danantara (notable) corporate action tracker		
Period	Action	Details
April	Signed a USD4bn investment fund with Qatar Investment Authority	Danantara and Qatar signed a USD4bn joint investment fund focused on industrial downstreaming, renewables, and healthcare.
May	Danantara, INA & Eramet MoU to explore the establishment of a strategic investment platform in the nickel sector	Danantara, INA & Eramet to explore a strategic nickel investment platform for EV battery raw materials.
	Danantara & Australia Future Fund cooperation	Australia pledged AUD100mn for health and AUD50mn for green infrastructure; Future Fund to host Danantara for an investment roadshow.
June	2025 investment in key projects	Danantara to invest USD5bn (IDR81.5trn) in eight sectors: minerals, renewables, digital infrastructure, healthcare, financial services, downstreaming, industrial zones, and food.
	Danantara, INA & Chandra Asri Pacific MoU to explore investment opportunities in the development of CA-EDC plan.	Danantara, INA & Chandra Asri Pacific signed an MOU to explore potential entry of Danantara and INA as new strategic investors, supporting the joint development of the Chlor Alkali - Ethylene Dichloride (CA-EDC Plant). The partnership is valued at ~USD800m and aims to reduce reliance on imports of caustic soda and EDC.
July	ACWA Power MoU	MoU to explore up to USD10bn in renewable energy, green hydrogen, and desalination projects.
	Plans to sign an ECP contract with US engineering firm KBR.	Plans for an USD8bn engineering, procurement, and construction contract with US firm KBR under a trade pact to lower reciprocal tariffs to 19%.
August	GEM Co. nickel plant agreement	Danantara signed a USD1.42bn deal with GEM Co. to develop an HPAI smelting facility (66,000-ton annual nickel capacity), supporting sustainable downstream mineral industrialization. The project may involve Vale Indonesia and global partners.
	Geothermal partnership	Danantara facilitated Pertamina–PLN partnership to accelerate 19 geothermal projects totaling 530 MW. Two quick-win projects (Ulubelu 30 MW, Lahendong 15 MW) support PGEO's 1 GW target by 2030.
Oct	Deployment target	Danantara CEO Rosan Roeslani expects up to USD10bn in annual dividends over five years, supported by SOE reforms. The fund plans to expand equity investments to USD40bn and boost total capacity to USD250bn through leverage.
	Patriot bonds fully subscribed	Danantara's IDR50trn (~USD3bn) patriot bond issuance was fully subscribed through a private placement to Indonesian tycoons. Funds will be directed toward renewable waste-to-energy projects, with tenders for partners expected by the end of October.
Nov	Whoosh debt restructuring	The Indonesian government plans subsidize part of the operating costs for the Whoosh high-speed rail, which remains burdened by heavy debt from China. The Jakarta–Bandung high speed rail, financed mainly through a USD7.3bn China Development Bank loan, is under Danantara's supervision as it seeks solutions to improve financial sustainability.

Source: Various news sources.

Policy perceptions were hurt

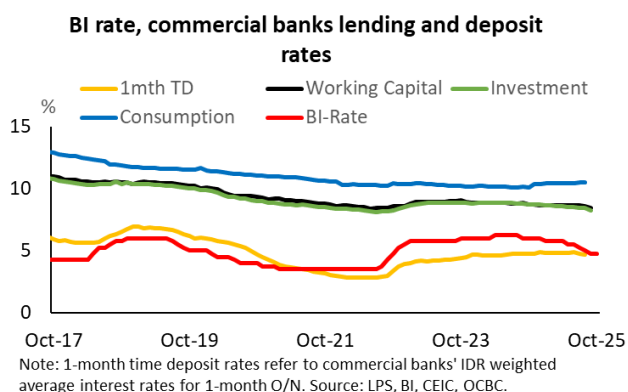
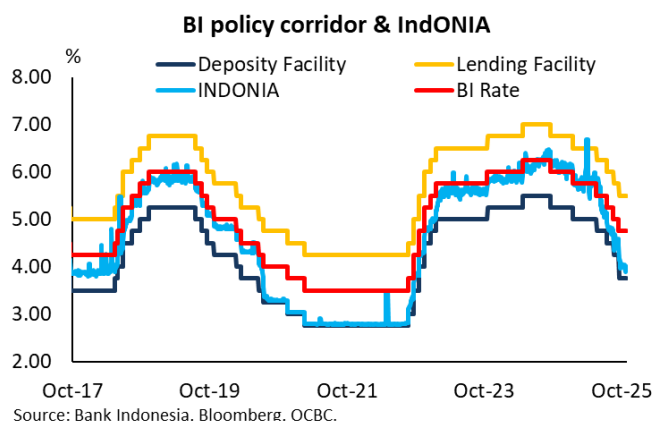
Fiscal policy prescriptions have mainly included greater support for households through electricity and transportation discounts, food aid, social assistance as well as wage subsidy assistance. Some support for MSMEs and those employed in

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seasonally impacted sectors such as tourism are expected to continue into 2026. Subsidy spending decreased by 1.4% YoY to IDR92.8trn in January–June, primarily driven by a 7.9% decline (IDR66.0trn) in energy subsidies, while non-energy subsidies increased by 20.7% (IDR23.9trn).

The government, under the new finance minister Purbaya Yudhi Sadewa, parked IDR200trn of state funds into five state-owned banks - BRI (IDR55trn), BNI (IDR55trn), Mandiri (IDR55trn), BTN (IDR25trn), and BSI (IDR10trn). While this boosted M2 growth, the impact on bolstering credit demand is less clear given weak demand conditions. The new finance minister has managed to stabilise sentiment since the nadir in September, but the true test of policies will be in lifting growth into 2026 in concert with monetary policies.



On the monetary policy side, BI lowered its policy rate by a cumulative 125bps in 2025 and turned 'all out pro-growth' at its September meeting. The challenge for BI has been transmission of the rate cuts amid weakening credit growth. Despite the sizeable cuts to the policy rate, the lending rate has only fallen 15bps as of October 2025. BI introduced additional incentives to motivate the pass-through including further reductions to the reserve requirement ratio for banks that lower its lending rates. Macroprudential measures including looser loan to financing requirements for home loans and auto loans was extended into 2026.

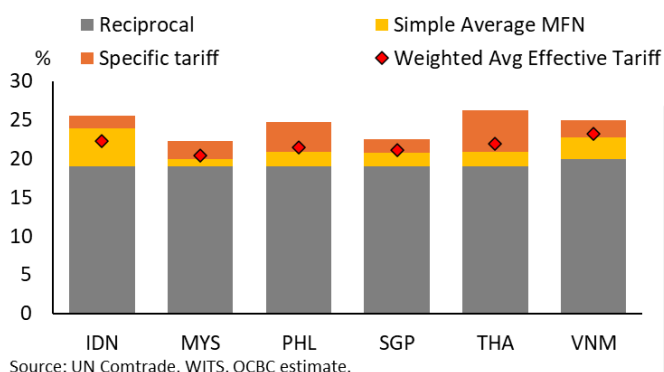
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Strengthening performance-based and forward-looking macroprudential liquidity incentive policies (Announced: October 2025)	
Incentives for Credit/Financing Distribution to Specific Sectors (Lending Channel)	
Sector	Maximum incentives (500bps)
Agriculture, Industry, and Downstreaming	150+
Services, including Creative Economy	60+
Construction, Real Estate, and Housing	140+
MSMEs, Cooperatives, Inclusion and Sustainability	150+
Incentives for Setting New Credit Interest Rates or New Financing Reward Percentages Aligned with BI's Policy Direction (Interest rate channel)	
Elasticity of New Credit Interest Rate/ New Financing Reward Percentage with BI Rate	Maximum incentives (50bps)
<0.3	0
≥0.3 - <0.6	40
≥0.6	50
Note: + represents an additional incentive of 30bp for each bank that has higher credit growth and market share compared to the upper threshold (ranging from >10% for Agri, industry & downstreaming; >2% for Services, including Creative Economy and Construction, Real Estate, and Housing; and >1% for MSMEs, Cooperatives, Inclusion and Sustainability. Source: Bank Indonesia, OCBC.	

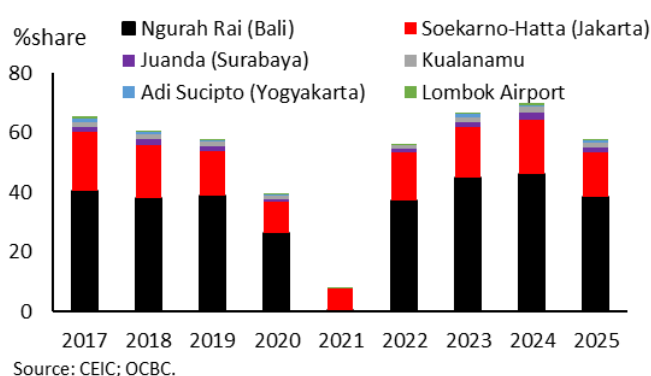
External stresses were heightened

On the external front, the frontloading of exports to the US, while more apparent from May 2025, has been subdued than Thailand, Vietnam and Malaysia. By our estimates, Indonesia's exemptions from tariffs on exports to the US is lowest compared to regional peers, leading to the highest effective tariff rate within the ASEAN region. Meanwhile, tourist arrivals picked up by 10.2% YoY in 1Q-3Q25 versus 18.9% in 2024. That said, the lion's share of tourist arrivals continues to be at Bali's Ngurah Rai airport followed by Jakarta's Soekarno-Hatta airport. This suggests that the strategy to diversify tourists away from Bali to other destinations within the archipelago have not yet yielded results.

ASEAN-6: Effective tariff rates



Visitors arrivals into airports



Growth will likely remain soft in 2026

We expect GDP growth to be softer at 4.8% in 2026 as external demand weakens alongside subdued household consumption and investment spending. We do,

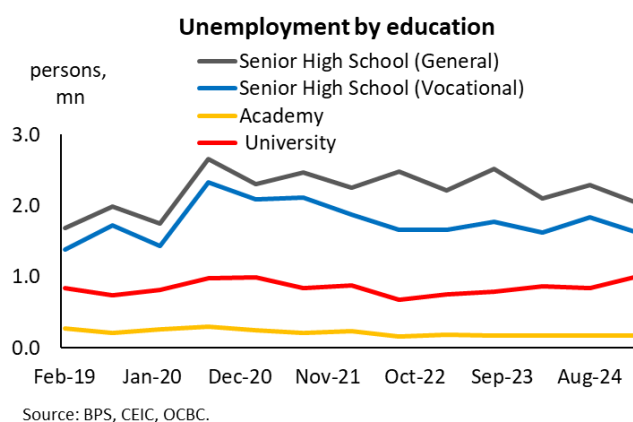
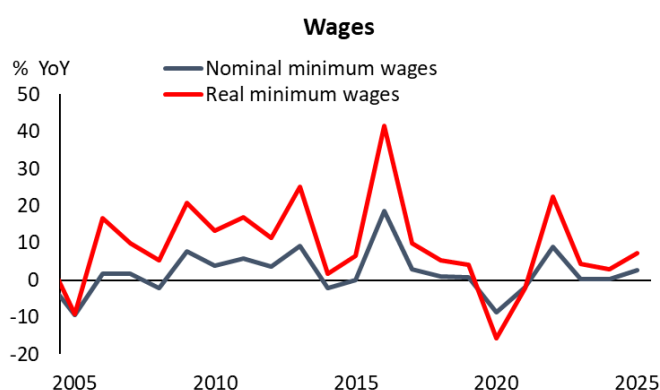
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however, expect government spending to pick-up as the absorption capacity for the free meal schemes improves into 2026. GDP growth will nonetheless be below the government's 5.2–5.8% target for 2026.

Household spending to remain mixed

Household spending, at 52.7% of GDP, will likely remain under pressure. We forecast household consumption growth of 4.9% in 2026, similar to 2025. Although employment gains steadied through to February 2025 and the unemployment rate remained on a downtrend, cracks have started to appear. The number of unemployed persons with university degrees ticked noticeably higher to over 1.0mn in February 2025 from 0.8mn in August 2024. Anecdotal evidence points to more difficulty in gaining full time employment.

Meanwhile, labour unions have called for a minimum wage increase of 8.5-10.5% in 2026 following 6.5% in 2025. This could support consumption to some extent, but risks further eroding labour market competitiveness. Wage increases have been materially higher than productivity gains in recent years, potentially exacerbating labour market stresses and hurting hiring rates.



Simultaneously, food inflation has picked up in recent months remaining sticky around the 5% level in September and October 2025. This could further strain purchasing power particularly if the price of chillies or beef spike ahead of Eid and Ramadhan in February and March 2026.

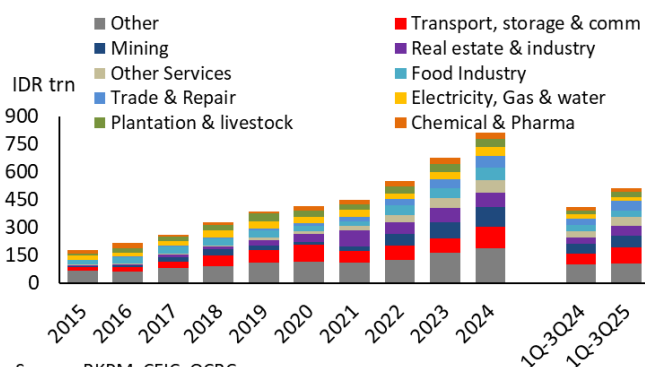
No quick turnaround in investment spending

Meanwhile, investment spending – which we deem crucial to bolster medium-term potential growth prospects – will likely remain subdued. The limited fiscal space to support capital expenditures on account of the free meal and public healthcare schemes, implies that the onus to support public sector infrastructure spending will likely fall to Danantara.

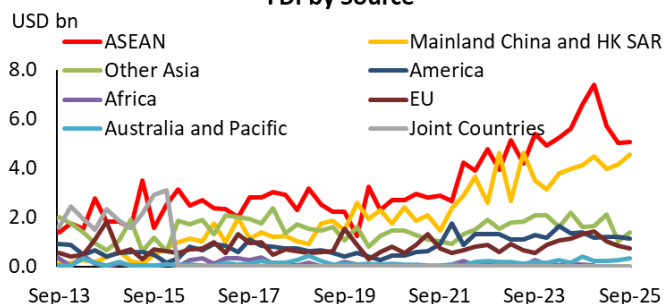
Indonesia

Realised outlays could remain constrained at least in 1H26 by slow lending growth, elevated undisbursed working-capital line, low pass-through of policy rate cuts onto lending rates and subdued commodity prices. Although Domestic Direct Investment (DDI) rose by 30.1% YoY to IDR798.7trn in 1Q-3Q25, the lion's share of approvals is still for the transport and communication (IDR124.0trn; +41.5% YoY), mining (IDR101.5trn; +36.0%), and real estate (IDR76.1trn; +34.7%) sectors likely reflecting ongoing rather than new commitments.

Domestic Direct Investment, by sector



FDI by Source



Note: ASEAN values comprise Brunei Darussalam, Cambodia, Singapore, Malaysia, the Philippines, Thailand, and Vietnam. Greater China includes Mainland China, Hong Kong, Macau, and Taiwan. Source: BKPM, CEIC, OCBC.

Importantly, Foreign Direct Investment (FDI) declined by 1.5% YoY in 1Q-3Q25 even as inflows into regional peers were broadly resilient in 2025. Inflows remain concentrated in the basic metals (IDR161.9trn; +5.9% YoY), mining (IDR53.1trn; -8.3%), and chemical manufacturing (IDR39.5trn; -32.2%) sectors, with support coming in mainly from Mainland China and Hong Kong SAR (USD12.9bn or IDR206.7trn) and Singapore (USD12.6bn or IDR201trn).

The focus on building downstreaming capacity for the minerals and mining sector has sustained under President Prabowo. The January 2025 copper export ban extends the downstreaming framework previously applied to nickel, although its impact is likely to be more modest given the country's smaller copper reserves and limited smelting capacity.

Higher fiscal spending is on the cards

Government spending will likely be boosted in 2026 as the absorption capacity for large scale schemes such as free meals and free health checkups become deeper. The approved 2026 budget pegs central government expenditures rising by 18.3% YoY in 2026 from 6.7% in 2025. Indeed, the bulk of the spending will be directed towards to the education, defence and health sectors underscoring the government's priorities. The transfers to regions will drop by ~20% YoY from 0.1%

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in 2025. This has led regions to look for other sources of financing, for example, the Jakarta government is considering the issuance of municipal bonds in 2026⁵.

Accounts (IDR trn)	2023	2024	2025		2026				
	Realized		Actual as of 30-Sep	Outlook	As of Aug, '25	Passed into law	% Change	vs Aug'25 budget	vs Outlook 2025
Government Revenue and Grant	2783.9	2850.6	2008.3	3153.6	3147.7	2865.5		0.2	10.1
Domestic Revenue	2766.7	2816.2	1991.6	3152.9	3147	2864.5		0.2	10.1
Tax	2154.2	2231.8	1561.5	2693.7	2692	2387.3		0.1	12.8
Non-Tax	612.5	584.4	430.1	459.2	455	477.2		0.9	-3.8
Grant	17.2	34.4	16.7	0.7	0.7	1		-0.9	-34
Government Expenditure	3121.2	3359.8	2251.6	3842.7	3786.5	3527.5		1.5	8.9
Central Government	2239.8	2496.2	1616.1	3149.7	3136.5	2663.4		0.4	18.3
Transfer to regions	811.6	863.5	635.6	693.0	650	864.1		6.6	-19.8
Government Deficit or Surplus	-337.3	-509.2	-243.4	-689.2	-638.8	-662			
% GDP	-1.61	-2.30	-1.56	-2.68	-2.48	-2.78			

Source: MoF, CEIC, OCBC.

The budget deficit for 2026 is projected to remain wide at 2.68% of GDP from 2.78% of GDP in 2025. While expenditures have been refocused towards social priorities, additional revenue generation measures have not been announced. By contrast, the excise tax increases on tobacco products will be unchanged in 2026 following several years of increases⁶. A boost to tax revenues in 1Q26 will come from a particularly low base in 1Q25 but beyond that, absent additional revenue generation measures, the pickup is unlikely to be sustained.

We assume that the government will adhere to the fiscal rules as stipulated under State Financial Law No. 17 for Public Finance (2003), including that the public debt should not exceed 60% of GDP and the fiscal deficit should not exceed 3% of GDP. That said, we do not rule out a wider than budgeted fiscal deficit for 2026 based on revenue outturns. Cutbacks to expenditures can also be implemented to keep the fiscal deficit within the legal limit. Any shifts to the legal limits will likely need to be tested against market sentiment with clear communication and implementation strategies with regards to expenditure allocations and financing.

Importantly, the finance minister Purbaya Yudhi Sadewa stated that he will try and avoid 'burden sharing' programs to maintain clearer previews for monetary and fiscal policies⁷. Government securities outstanding with BI stood at 23.8% of total outstanding as of end-October 2025.

⁵ Jakarta to issue Indonesia's first municipal bonds next year, The Jakarta Post, 7 October 2025.

⁶ Indonesia's parliament backs freeze on tobacco excise in 2026, Antara, 27 September 2025.

⁷ Finance Minister Purbaya Explains Why He Rejects Burden Sharing Scheme with Bank Indonesia, Tempo English, 29 October 2025.

Indonesia

External pains to persist

On the external front, export performance is expected to moderate in 2026 as the temporary boost from front-loaded shipments to the US unwinds and external demand weakens. Moreover, timber and lumber exports will face an additional 10% tariffs impacting a notable share of Indonesia's exports to the US (2.8% of exports in 1H25)⁸.

Policy changes can also lead to slower exports of commodities. Specifically, the government's expanded biodiesel programme, targeting a higher blend ratio, could redirect a larger share of crude palm oil for domestic use reducing volumes available for exportation. The January 2025 copper export ban will remain in place, coupled with weaker global prices and higher royalty rates, this is expected to impact copper exports similarly to nickel exports previously.

Over the medium-term, however, export diversification efforts will likely allow exporters to tap into new markets ultimately reducing reliance on the US as an export destination. The EU–Indonesia Comprehensive Economic Partnership (EU–Indonesia CEPA) negotiation, finalised on 23 September 2025, allows ~80% of Indonesian exports to enter the EU duty free. The benefits will likely accrue to the textiles, agriculture, and machinery & automotive sectors. In addition, the temporary delay in the EU Deforestation Regulation (EUDR) enforcement further supports near-term agricultural shipments. In addition, Indonesia's full membership in BRICS since January 2025 allows for deeper trade and investment links with member countries. Negotiations with the Gulf Cooperation Council (GCC) and the concluded Indonesia–EAEU⁹ FTA can open additional avenues for trade.

Watching 'twin deficits'

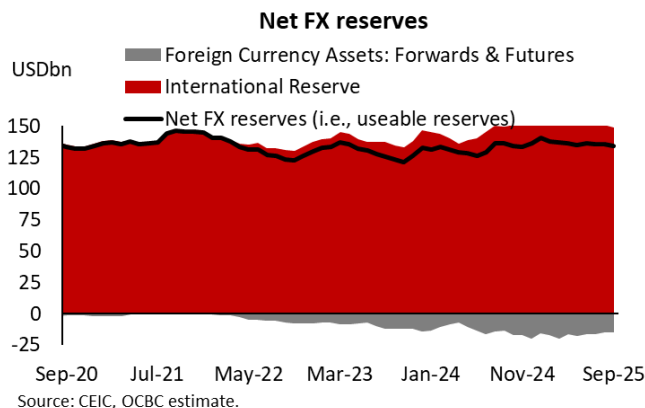
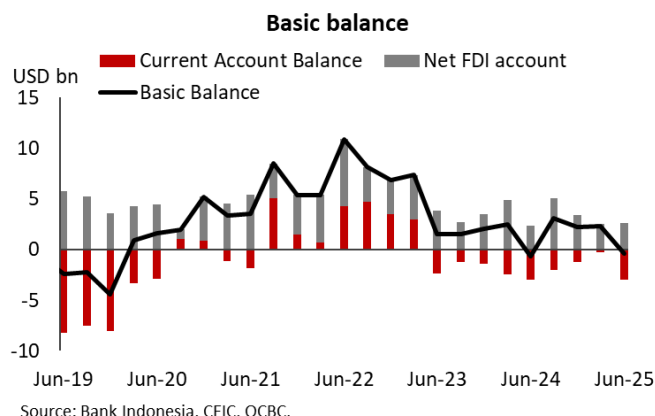
The 'twin deficits' will likely be sustained into 2026 and over the medium-term. We expect the current-account deficit to widen to 1.6% in 2026 from 1.4% in 2025. The deterioration primarily reflects a narrower goods surplus as commodity prices and global demand soften, while the deficits on the services and primary income accounts persist. Still mixed domestic demand conditions will likely be import growth in check.

The financing of the 'twin deficits' will become more pertinent into 2026, as the basic balance shifted to a deficit of USD0.4bn in 2Q25 from a surplus of USD2.3bn. Reduced FDI inflows could make balance of payments financing more reliant on the volatile portfolio flows.

⁸ Furniture makers expect decline in orders under new US tariffs, 5 October 2025, The Jakarta Post.

⁹ Indonesia-Eurasian Economic Union FTA

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BI's has been clear that it will strengthen "rupiah stabilisation strategy in line with economic fundamentals, primarily through domestic foreign exchange market intervention with a focus on spot and domestic non-deliverable forward (DNDF) transactions as well as intervention in offshore non-deliverable forward (NDF) transactions, while also purchasing government securities (SBN) in the secondary market to increase liquidity and maintain financial market stability." FX reserves stood at USD148.7bn as of end September 2025, equivalent to 6.0 months of imports and servicing government external debt, with net FX reserves at USD133.9bn by our estimates.

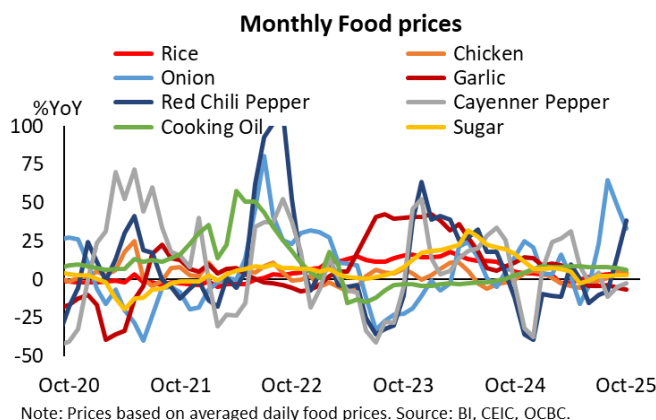
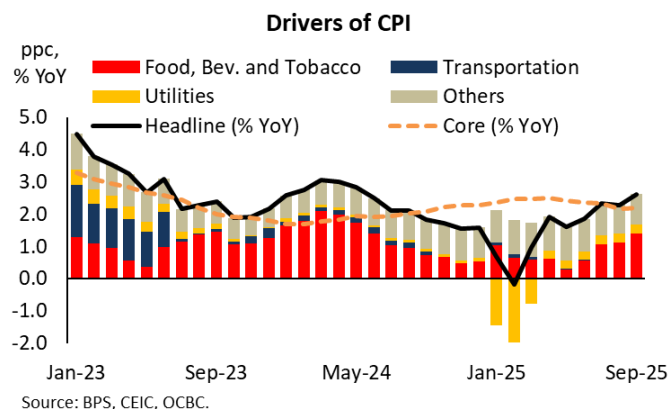
Pipeline inflationary pressures are building

Meanwhile, we expect inflation trends to become more mixed in 2026. We forecast a higher headline CPI of 2.7% in 2026, up from 2.0% in 2025. This is still within Bank Indonesia's 1.5–3.5% target range, we see pipeline price pressures building. Food CPI rose to 5.4% YoY in October 2025 from 5.3% in September, with the prices of chillies, eggs and chicken rising. Higher prices for the latter two products were also driven by increased demand from the free meal scheme¹⁰.

Looking ahead, seasonal increases in food prices ahead of Eid and Ramadhan in February and March 2026 as well as greater absorption of the free meal scheme will likely put additional upside pressure on food prices. The authorities' monitoring of regional food prices and corresponding policy responses to increase importation, expedite distribution will be crucial in avoiding sharp spikes in food prices. That said, subdued global oil prices affords the authorities room to maintain fuel subsidies without adjusting retail fuel prices.

¹⁰ Egg, chicken demand drives food inflation to two-year high, The Jakarta Post, 3 November 2025.

Indonesia



Delicate balancing act for BI

BI turned 'all out pro-growth' at its 17 September 2025 meeting, leading us to add another 50bps in rate cuts to our profile. We now forecast that BI will lower the policy rate to 4.25% by the end of this easing cycle. Although our baseline is for the cuts to materialise in November and December 2025, the risk is that cuts are pushed into 2026.

The weakness in domestic demand as well as building external headwinds support BI's dovish bias. The challenge for BI will be balancing external considerations particularly around the timing of US Federal Reserve rate cuts and rising inflationary pressures, albeit supply side. The risks to our call are delayed US Federal Reserve rate cuts and/or sharper spikes in domestic inflation.

We expect BI's priorities, beyond the policy rate, in 2026 to be similar to 2025. These including boosting credit growth, while catalysing better transmission of policy rate cuts onto retail lending rates. BI is also seeking to strengthen monetary operations through existing instruments such as measured reductions in SRBI issuance and secondary-market SBN purchases. BI is also seeking better price discovery beyond the shorter tenures through the introduction of a Floating Rate Note (BI-FRN) and Overnight Index Swap (OIS) curve.

Summary of Economic Forecasts	2023	2024	2025F	2026F	2027F
GDP (% YoY)	5.0	5.0	5.0	4.8	5.0
Exports (% YoY)	1.3	6.5	7.9	5.3	6.1
Imports (% YoY)	-1.6	7.9	4.9	4.2	6.2
Current Account Balance (% of GDP)	-0.1	-0.6	-1.4	-1.6	-1.6
Unemployment Rate (%)	5.3	4.9	5.0	5.0	5.0
Fiscal Balance (% of GDP)	-1.6	-2.3	-2.8	-2.7	-2.8
Headline CPI (% YoY, average)	3.7	2.3	2.0	2.7	2.5
BI Rate (% eop)	6.00	6.00	4.25	4.25	4.25
USDIDR (eop)	15,397	16,102	16,550	16,250	15,800

Note: F = OCBC forecast. FX forecasts are as of 17 November 2025.

Source: BPS, Ministry of Finance, Bank Indonesia, CEIC, Bloomberg, OCBC.

Macau

Macau: An imbalanced economic recovery

- Macau is set to end 2025 on a strong note, delivering high single-digit gaming revenue gains, a sharp increase in visitor arrivals, and meaningful progress in non-gaming investment. After a sluggish start, a host of factors revitalized the city's economic momentum. However, domestic demand recovery remains lagging, highlighting its underlying economic fragility, as evidenced by rising unemployment and subdued consumption sentiments. For the first three quarters of 2025, the real economy grew by 4.2% YoY but was still below the size in 2019 by 11.6%. We revised our full-year growth forecast to 5.0% for 2025, up from the previous estimate of 2.6%.
- Exports of services remained the key to resilience, propelling growth since the full-fledged reopening of Macau's border, while the recovery of domestic consumption and investment had largely stalled. We project 5% gross gaming revenue (GGR) growth and 6-9% tourist arrival growth in 2026. Riding on the sustained recovery of external demand, Macau's 2026 real GDP growth is tipped at 3.0% YoY. Meanwhile, the 2026 unemployment rate and inflation rate are forecast at 2.1% and 0.6% respectively.
- The combination of limited demand and low returns has perpetuated the downward spiral of housing prices. Additionally, negative spillovers from mainland China's housing market woes and a lack of government support have further hindered recovery. We viewed the ongoing correction as partially structural rather than purely cyclical and tip the decline of housing prices at 8% YoY and 5% YoY respectively for 2025 and 2026.

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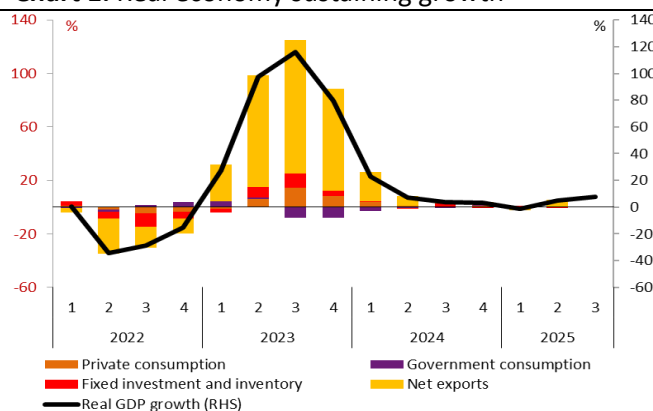
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An uneven and moderating growth

Macau is set to end 2025 on a strong note, delivering high single-digit gaming revenue gains, a sharp increase in visitor arrivals, and meaningful progress in non-gaming investment. After a sluggish start, host of factors revitalized the city's economic momentum: a stronger RMB, stabilised macroeconomic conditions in Mainland China, positive wealth effect stemming from the rallies of equity markets, alongside the rolling out of more concerts and other mega entertainment events. These developments all boded well for the city's gaming and tourism sector. However, domestic demand recovery remains lagging, highlighting its underlying economic fragility, as evidenced by rising unemployment and subdued consumption sentiment. In the coming quarters, we expect to see an uneven and moderating growth, and the return to 2019's economic size likely to be gradual and non-linear.

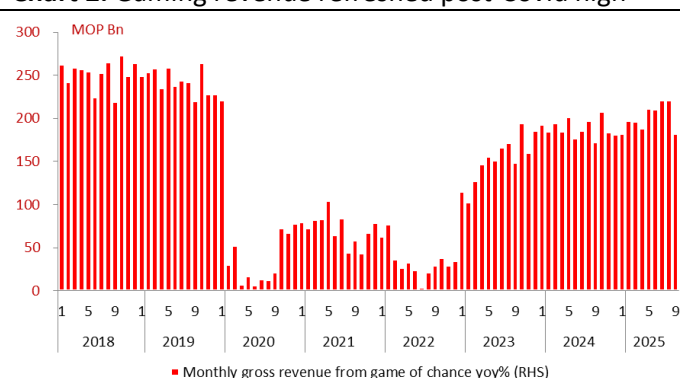
Macau

Chart 1: Real economy sustaining growth



Sources: DSEC, DICJ, OCBC.

Chart 2: Gaming revenue refreshed post-Covid high



Reversal of fading recovery in early 2025

A sharp rebound in service exports reversed early signs of an economic slowdown in 1Q25. Following the unexpected contraction in 1Q25, Macau's GDP expanded back-to-back by 5.5% YoY and 8.0% YoY respectively in the following two quarters (**Chart 1**), according to preliminary data. For the first three quarters of 2025, the real economy grew by 4.2% YoY but was still below the 2019 size by 11.6%. Stronger-than-expected service exports prompted an upward revision of our full-year 2025 growth forecast to 5.0% from the previous estimate of 2.6%.

During 3Q25, growth of total exports of services accelerated to 10.5% YoY (2Q25: 5.0% YoY), on the back of a surge in visitor arrivals. Increases in government consumption expenditure also accelerated somewhat to 2.7% YoY (2Q25: 0.9% YoY), after the meagre growth in the first two quarters. Conversely, growth of private consumption slowed to 0.8% YoY (2Q25: 1.7% YoY), amid the softening of labour market during the quarter. Meanwhile, gross fixed capital formation declined further by 25.6% YoY (2Q25: -4.6% YoY), owing to decreases in private and public construction projects.

Gaming-entertainment hybrid model

Exports of services remained the key to resilience, propelling growth since the full-fledged reopening of Macau's border, while the recovery of domestic consumption and investment had largely stalled. GGR garnered more momentum starting from 2Q25 (**Chart 2**), amid the return of high-rollers. Meanwhile, casino operators expanded non-gaming offerings, hosting high-profile shows and promotional events such as K-pop concerts and NBA games. These non-gaming investments not only help to enhance the competitiveness of tourism sectors and build economic resilience but also create positive spillover for gaming sector.

This hybrid model successfully attracted visitors, with arrivals up 14.5% YoY to 29.7 million in the first nine months of 2025, and on track to meet the official 39 million forecast (+11.7% YoY) and potentially surpass pre-COVID monthly records (**Chart 3**).

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Based on the ongoing trend, we expect the full-year 2025 tourist arrivals to increase by 12-15% YoY this year, and 6-9% YoY for 2026.

Tourists' non-gaming spending bounced to record high of MOP 20,382 million in the third quarter in 2025 (**Chart 4**). Per-capita spending (excluding gaming expenses) of tourists visiting Macau fell to MOP1,950 in 3Q25, the lowest level since 2020 (**Chart 5**), reflecting a shift toward "low-budget" travel (prevalence of "low-budget travels"). Further decline in per-capita spending cannot be ruled out, given the significant challenges to turn around the consumption downgrading, however, increase in visitor arrivals may still compensate for the loss of consumption power per head.

Chart 3: Visitor arrivals to return to 2019 levels

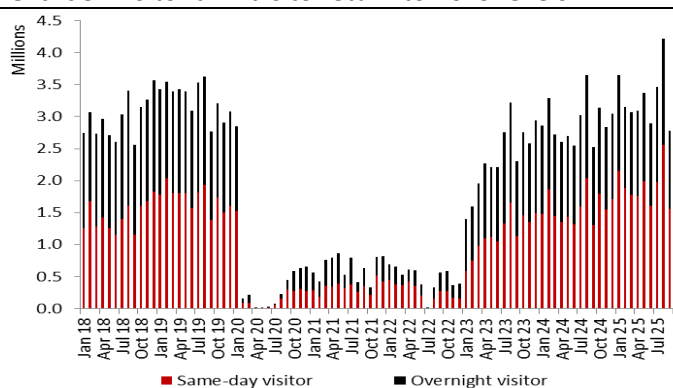


Chart 4: Tourism spending rebounding

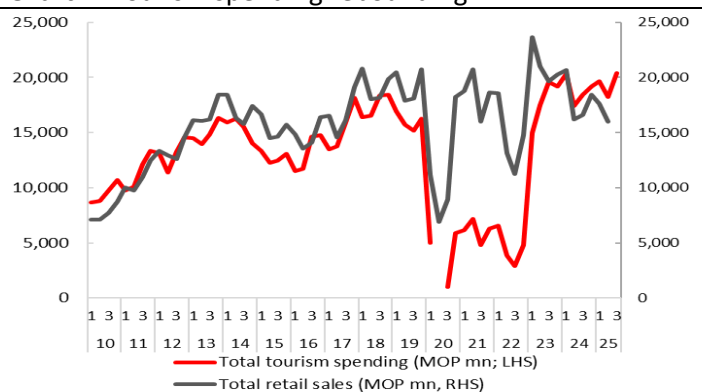
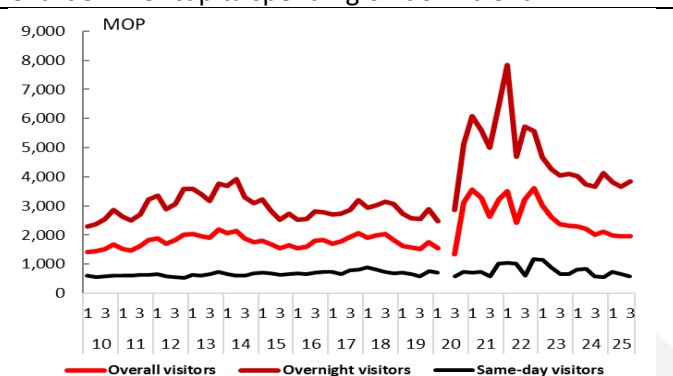


Chart 5*: Per capita spending on downtrend



Source: DSEC, Macau Tourism Office, OCBC.

* Excluding gaming.

VIP segment leading gaming revenue growth

Rather than sliding under the weight of intensified regional rivalries, strict control over junket activities and ongoing economic challenges in mainland China, the gaming sector held its ground, seemingly finding a new equilibrium. Casino operators had swiftly adopted to the regulatory shift, following the crackdown in junket activities and closure of satellite casinos. The upgrade in marketing and sale services to the VIP segment, alongside looser visa restrictions and stronger RMB, prompted the return of high-rollers. GGR (averaging at MOP20.1bn per month)

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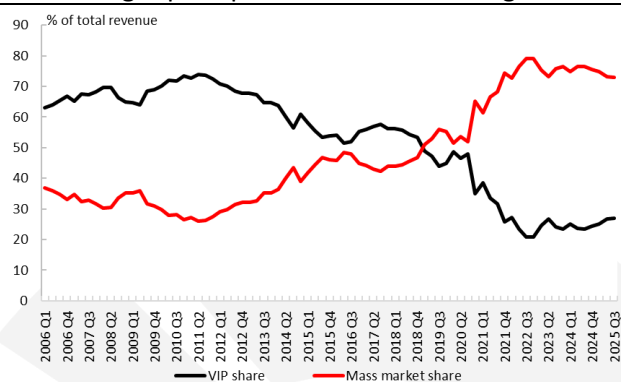
grew at a solid pace of 7.1% YoY in the first nine months of the year, led by the sustained recovery of the VIP segment which rose by a whopping 16.9% YoY. As a result, the share of VIP segments climbed to 27.0% in 3Q25, though still within recent ranges (**Chart 6**). While overall traffic and gaming demand of VIP segment did not return to 2019 level, their gaps are closing. GGR in VIP segment returned to 54.3% of the 2019 levels.

GGR will likely revisit post-Covid highs in coming months, potentially with the growth of VIP segment outpacing that of other segments. We tip the year-on-year growth of GGR at 8.5% in 2025, and 5% for 2026, taking into account the higher base.

Sluggish outlook for domestic demand

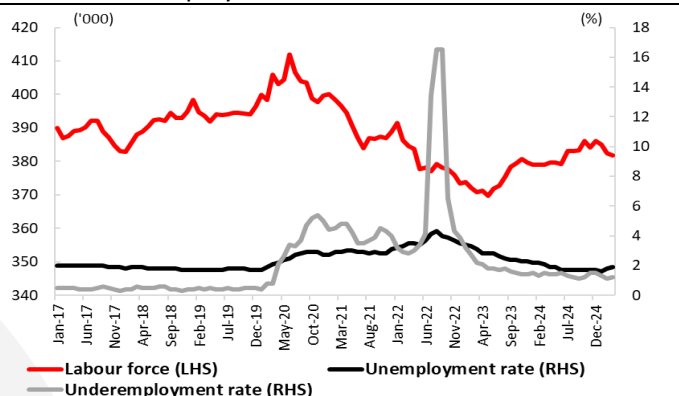
The softening labour market, together with prolonged downturn in property sector, continued to suppress investment demand and consumer sentiments. Total retail sales fell notably by 9.0% YoY in the first half of 2025, impacted by rising cross-border consumer spending and lower inbound tourism spending. In response, the Macau government had to launch a three-month city-wide consumption campaign starting from September 2025. Separately, domestic credit to private sector contracted further, albeit at a moderated pace. Total loans and advances fell by an average 4.6% YoY for the first eight months of 2025 (-5.4% YoY in 2024). Analysing by sector, credit extended to the wholesales/ retail sectors contracted further by 32.1% YoY, while that to restaurant/ hotels expanded by 30.4% YoY.

Chart 6: Slight pickup in the share of VIP segments



Sources: DSEC, DICJ, OCBC.

Chart 7: Unemployment rates bounced back



Labour market: “low layoff, peaking pay”

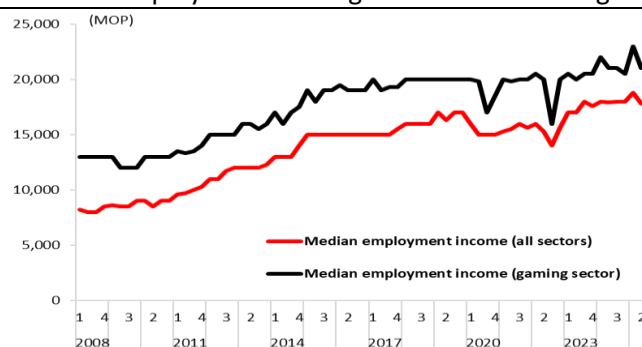
The labour market softened modestly into 2025, characterised by the “low layoff and peaking pay” setting. The overall unemployment rate and local resident unemployment rate climbed further to 2.0% and 2.6% respectively (**Chart 7**) in the three-months ending August 2025 (up by 0.3 percentage point compared to 4Q24), though still low by historical standard. The job losses were most pronounced in “wholesale and retail trade”, “real estate” and “recreational, cultural, gaming and

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other services” industries. On the other hand, the sequential decline in salaries across industries also pointed to weakness in the labour market. The median employment income of total labour force and residents in the labour force fell to MOP17,800/month and MOP20,000/month respectively in 2Q25 (**Chart 8**), from the all-time highs in 1Q25. Six out of 12 survey sectors reported declines in median incomes, while four others reported flat incomes.

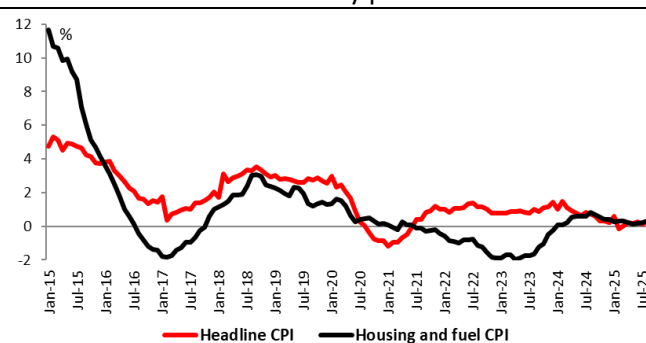
Despite the signs of softening, we remain unconvinced that labour market will deteriorate sharply from this point onwards. The overall unemployment rate is likely to cap at 2.2%-2.3%, levels seen prior to the full-fledged reopening of border in 2023, barring abrupt disruptions to the gaming and tourism sector. However, we suspect that wage growth is likely to stagnate if not decelerate, reflecting the downward shift in supply-demand dynamics. We tip the unemployment rate at 2.0% for 2025 and 2.1% for 2026.

Chart 8: Employment earnings fell from record highs



Sources: DSEC, OCBC.

Chart 9: Subdued inflationary pressure



A persistently low inflation environment

Macau’s inflation stayed barely above zero, given the low imported inflation and limited pickup in rental cost. Headline inflation averaged at 0.19% YoY in the first eight months of 2025 (**Chart 9**), with the prices of “communication” (-3.0% YoY), “transport” (-2.0% YoY), “clothing and footwear” (-2.3% YoY) and “household furnishings and services” (-0.5% YoY) experiencing varied degrees of decline. Meanwhile, “housing and fuels” inflation (accounting for around 34% of the CPI basket) steadied at around 0.2%-0.3% levels, providing some anchor to the overall price level. We expect the low inflationary environment to persist, in the absence of a sustained rally in rent or a meaningful recovery in domestic demand. Headline inflation is forecast at 0.3% for 2025 and 0.6% for 2026 as the low base effect gradually kicks in.

The structural, multi-year correction in the housing market

The housing prices slump in Macau had been painful and relentless. Residential property price index fell cumulatively by 29.2% in the three-months ending September 2025 when compares with its peak in 2018 (**Chart 10**), despite the

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removal of cooling measures and prime rate cuts. While average rent continued to trend higher, the pace of increase slowed to 0.2% QoQ (1Q25: 0.4% QoQ), partly due to the stagnating growth in the number of import workers (**Chart 11**) and exit of junket operators from the market. On the other hand, new home sales and overall trading stayed sluggish, averaging at 279 cases per month — 60% below the pre-pandemic level in 2019.

In recent years, housing demand of locals (representing over 90% of buyers in the market) was constrained by the low fertility, while investment demand was also quelled in view of the low rental yield. This combination of limited demand and low returns has perpetuated the downward spiral of housing prices. Additionally, negative spillovers from mainland China's housing market woes and a lack of government support have further hindered the recovery. We viewed the ongoing correction as partially structural rather than purely cyclical and tipped the decline of housing prices at 8% YoY and 5% YoY respectively for 2025 and 2026.

Chart 10: Ongoing correction in the housing prices

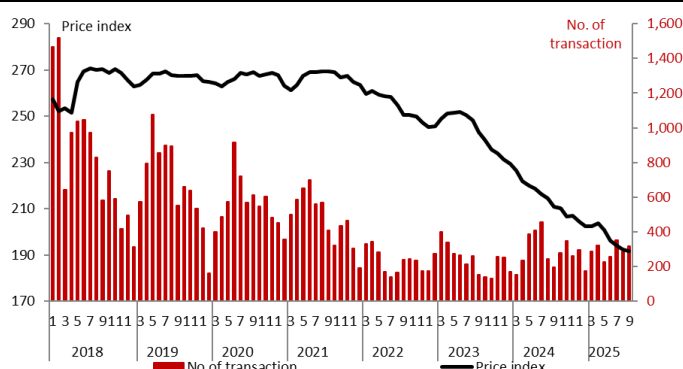
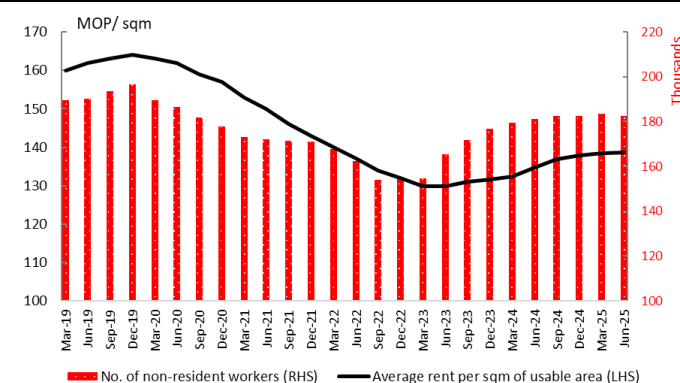


Chart 11: Rent growth slowed



Sources: DSEC, AMCM, OCBC.

Contrasting narratives for external and internal demand

The imbalanced economic recovery is likely to persist, in the absence of meaningful recovery in domestic demand. Despite the ongoing effort to diversify the economy structure, Macau's near-term growth remains heavily reliant on the gaming sector, and its challenge ahead lies in sustaining its momentum. Barring an abrupt slowdown in the mainland China's economy and a sharp turnaround in asset market sentiment, we project 5% GGR growth and 6-9% tourist arrival growth in 2026. Riding on the sustained recovery of external demand, Macau's 2026 real GDP growth is tipped at 3.0%. Meanwhile, unemployment rate and inflation rate are forecast at 2.1% and 0.6% respectively.

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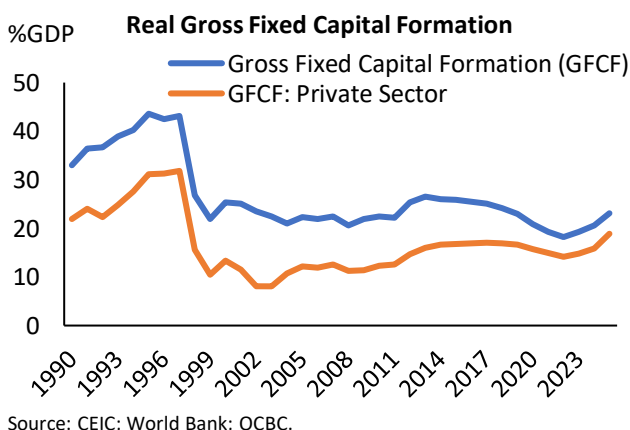
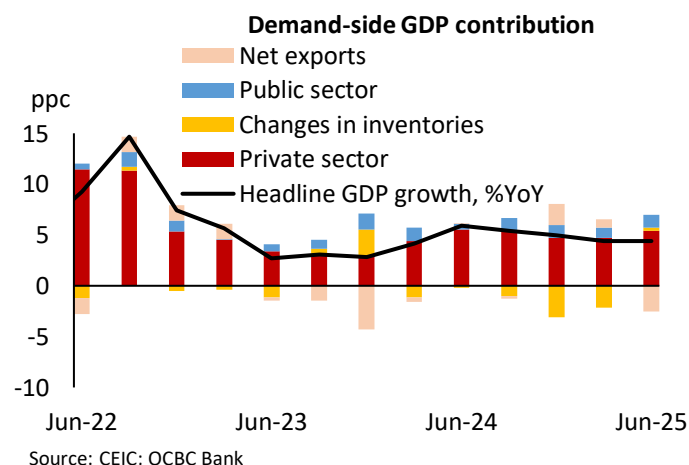
Malaysia: Cyclical softness but structural strength

- We see cyclically slower growth of 3.8% in 2026 due to reduced exports to the US, weaker external demand and some moderation in investment spending.
- Structural reforms will, however, push growth to 4.0 -4.5% in 2027-28 namely through continued progress on economic masterplans.
- Fiscal policy support will likely remain targeted in 2026, leaving monetary policy some room to manoeuvre. We remain comfortable with our call for a 25bp rate cut from Bank Negara Malaysia (BNM) in 1H26.

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Resilient growth in 2025

Economic growth remained resilient in 2025, averaging 4.7% YoY in 1Q25-3Q25 versus 5.1% in 2024. This was driven by resilient investment spending and solid export growth. Specifically, on the demand-side, private sector consumption and investment spending along with exports supported growth. Private sector investment and consumption growth contributed 5 percentage points (pp) to headline GDP growth in 1H25 similar to 2024. The investment upcycle, as underscored by the rising share of gross fixed capital formation (GFCF) as a share of GDP, clearly sustained into 2025 supported by the E&E sector, infrastructure spending and a push for productivity gains.

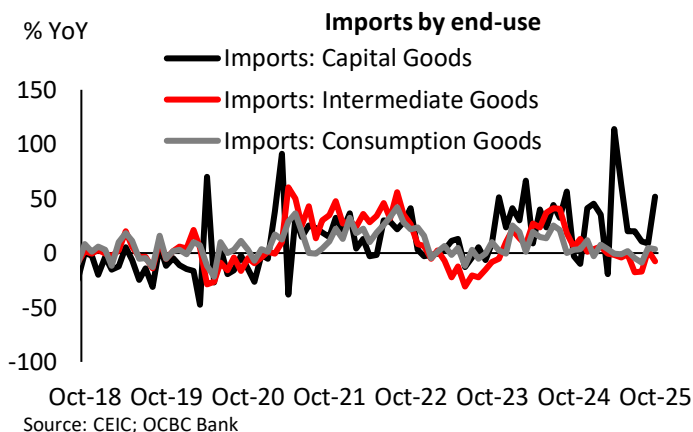
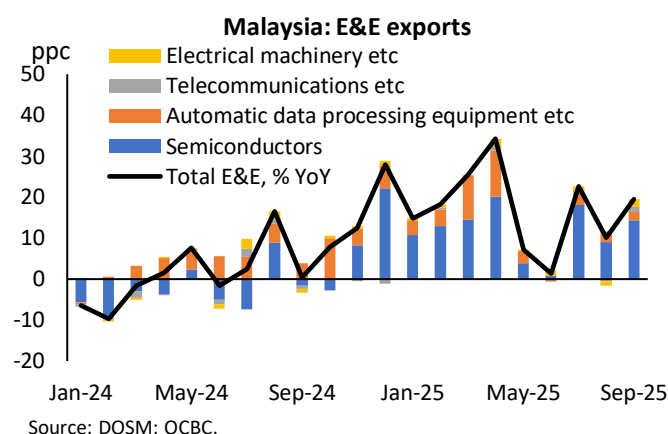


Exports are pulling its weight

Although exports of goods and services slowed to 1.4% YoY in 3Q25 from 2.6% in 2Q25, with goods exports at 0.3% YoY (2Q25: 1.4%) and services exports more resilient at 6.7% YoY (2Q25: 8.0%), goods and services exports were resilient from 1Q-3Q25. Goods exports were supported mainly by gains in the E&E sector, specifically semiconductors buttressed by the global AI driven technology upcycle. Semiconductor exports, 65% of total E&E exports, grew by 16.7% YoY in 1Q-3Q25 from 4.5% in 2024. E&E exports rose by 26.5% YoY in October following an increase of 19.5% in September, underscoring the strength of the sector. Resilient services exports underscored strong tourist arrivals.

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Meanwhile, imports of goods and services rose by 0.4% YoY in 3Q25 versus 6.6% in 2Q25, with goods imports growth dropping to -0.1% YoY from 7.2% in 2Q25 while services import growth slowed to 2.2% YoY from 4.2% in 3Q25. Monthly import data shows that capital goods imports slowed sharply in 3Q25 but picked up by 51.9% YoY in October. The contribution of net exports, as result, was positive 0.7pp compared to -2.6pp in 2Q25.



Supply side shows broad-based strength

The manufacturing and construction sectors grew by 4.0% and 12.5% in 1Q-3Q25 from 4.1% and 17.4% in 2024, respectively. Services sector growth was stable at 5.1% YoY from 1Q-3Q25 versus 5.3% in 2024 while the mining and quarrying sector provided a spurt in 3Q25, according to the advance estimates.

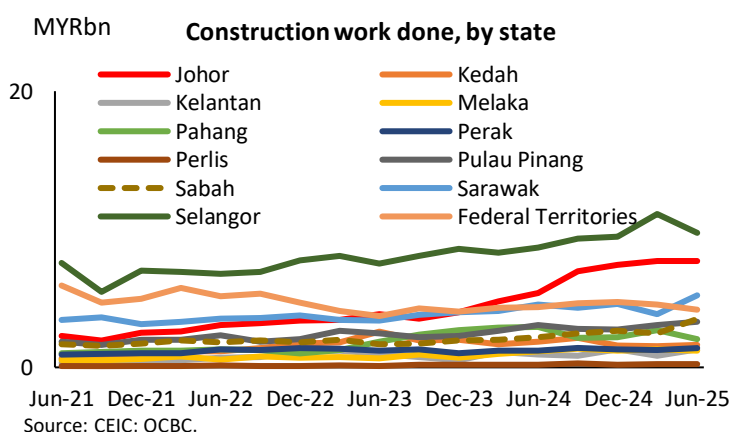
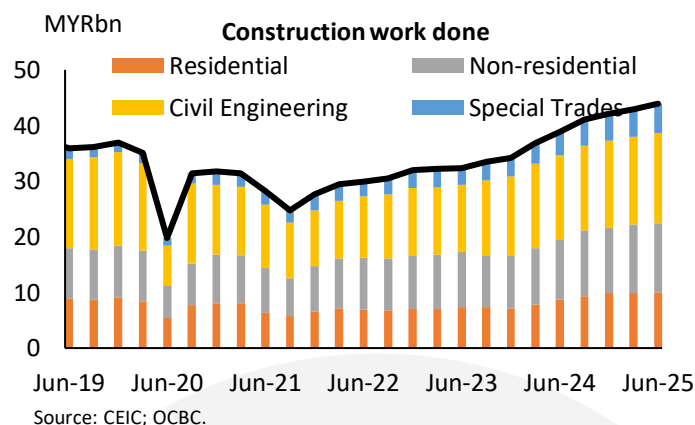
Specifically, within the manufacturing sector, growth was held up by the electrical and electronic products (E&E) sector, which experienced 7.7% YoY growth from 1Q-3Q25, followed by the food, beverages and tobacco (8.5% YoY) sector. Labour intensive sectors such as textiles, apparel, leather and footwear (0.3%) saw subdued growth along with commodities related sectors such as petroleum, chemicals, rubber and plastic products (0.3%). By orientation, export-oriented industrial production was resilient rising 4.3% YoY in 1Q-3Q25 from 4.0% in 2024 while domestic-oriented industrial production slowed to 3.4% YoY from 5.2% in 2024.

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Manufacturing Industrial production, key sectors									
	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25
Food, Beverages & Tobacco	7.0	10.4	7.7	11.6	11.1	9.8	8.1	3.4	8.7
Textiles, Wearing Apparel, Leather & Footwear	-0.1	1.9	1.3	1.8	-0.4	-2.1	-1.0	-1.0	1.5
Wood Products, Furniture, Paper Products, Printing	1.7	4.1	3.1	3.9	3.9	2.4	3.8	3.4	3.9
Petroleum, Chemical, Rubber & Plastic Products	4.2	2.7	1.4	1.2	-2.2	-1.5	-0.6	-1.1	-0.6
Non-Metallic Mineral, Basic Metal & Fabricated Metal Prod	2.7	4.3	4.0	5.1	3.5	3.3	3.9	3.6	3.0
Electrical & Electronic Products	7.2	8.0	8.1	9.9	5.6	6.4	8.5	6.6	9.1
Transport Equipment & Other Manufactures	-9.4	-4.3	-4.8	-1.0	-5.4	3.2	2.2	-1.7	4.6

Source: CEIC; OCBC.

For the construction sector, growth was strong at 12.5% YoY for 1Q-3Q25, albeit moderating from 17.4% in 2025. This was supported by residential, non-residential and civil engineering construction work. Importantly, construction growth in Johor, Sarawak and Sabah saw a sharper uptick supported by initiatives such as the Johor-Singapore Special Economic Zone and large-scale project undertakings in Sabah and Sarawak.



The services sector, which accounts for 60% of GDP, registered relatively resilient growth of 5.1% in 1Q-3Q25 from 5.3% in 2024. Wholesale trade, retail trade, motor vehicle sales, loans disbursed across services sectors for utilities, real estate activities and financial services underscore strength. Notwithstanding, there are some weaker pockets including for SMEs, where applied and approved loan growth has been relatively more subdued, likely reflecting rising cost challenges.

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Services sector indicators, % YoY	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25
IPI: Electricity	-0.2	-2.8	-2.2	-1.7	-0.1	2.3	1.6	1.2	2.8
Retail Trade: Food, Beverages & Tobacco	8.8	6.4	8.1	7.8	6.4	6.5	6.1	5.5	6.2
Wholesale Trade	4.5	5.4	6.3	6.6	6.0	6.1	5.9	5.5	6.6
Retail Trade	6.6	4.0	4.9	3.4	3.7	4.1	4.4	3.7	4.8
Motor Vehicles	-11.1	-0.8	0.9	0.8	0.4	-0.6	0.9	3.1	3.3
Retail Trade: Food, Beverages & Tobacco	8.3	5.2	6.7	6.4	5.4	5.7	5.1	4.3	5.0
Tourist Arrival	38.8	-5.1	-1.6	13.8	10.7	1.7	16.5	-3.5	n.a.
E-Commerce Transactions: Value (USDmn)	0.0	0.0	0.1	0.0	0.0	0.2	0.2	0.1	0.1
Bursa Malaysia: Turnover: Volume	-43.5	-14.9	-22.6	-21.9	-45.3	-42.3	-26.0	-33.1	-16.0
Fund Management: AUM	-27.9	-15.5	-0.5	-0.7	1.0	1.2	2.6	0.0	0.0
Loans: SMEs: Applied	-6.9	21.5	8.1	7.2	8.5	6.5	8.1	-9.1	-10.2
Loans: SMEs: Approved	-18.5	6.6	3.8	3.7	-4.9	-9.3	5.2	-0.6	5.1
Loans Disbursed: Electricity, Gas etc.	-28.5	-28.9	14.8	15.6	39.9	100.4	17.6	22.4	45.8
Loans Disbursed: Water Supply, Sewage etc.	-22.9	0.3	-21.7	-19.3	-25.2	-0.8	24.5	-4.2	8.4
Loans Disbursed: Real Estate Activities	17.9	-27.8	-16.4	14.0	31.6	27.1	2.5	-8.9	-13.3
Loans Disbursed: Financial and Insurance	-21.1	-10.6	2.1	-15.1	-12.6	-19.8	-3.4	-5.2	14.5
Loans Disbursed: Education, Health and Others	-44.3	-0.2	-6.8	9.9	7.3	-20.5	12.2	4.6	30.3
Loans Disbursed: Purchase of Residential Property	-4.1	-5.3	-5.9	-4.0	-10.7	2.5	0.6	-16.3	-9.7
Loans Disbursed: Purchase of Non-Residential Property	18.6	7.6	-19.0	0.6	-2.4	-2.4	5.5	-13.4	3.5
Source: CEIC; OCBC.									

We see slower growth in 2026 for cyclical rather than structural reasons

Looking ahead, we maintain our conservative 2026 GDP growth forecast of 3.8% YoY compared to 4.6% in 2025. Our GDP growth profile suggests that the weakness in growth will be gradual to 3.9% YoY in 1H26 and 3.8% in 2H26. We see slower economic growth being driven by mainly a payback from frontloading of exports to the US through 2025 as well as modestly slower investment spending.

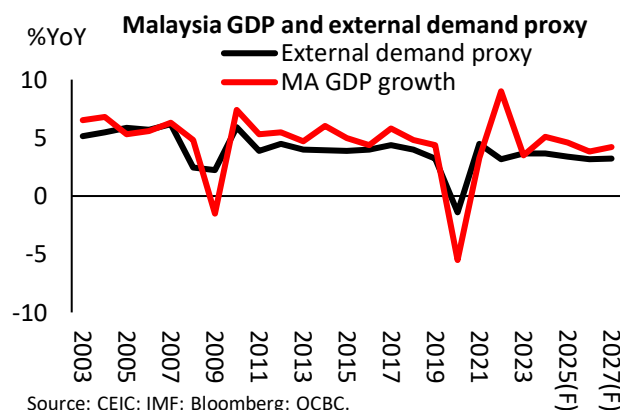
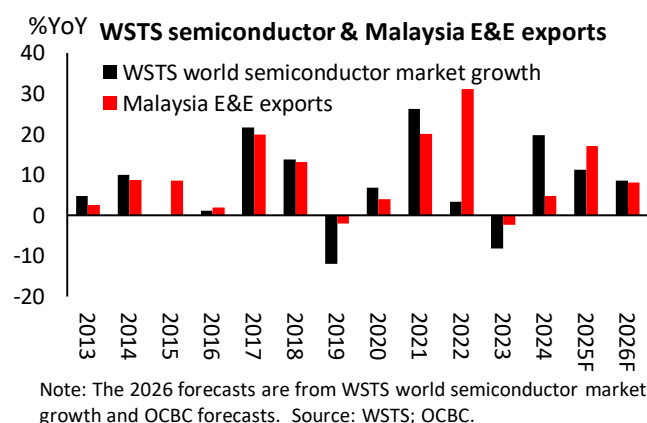
	1Q26	2Q26	3Q26	4Q26		2025F	2026F	2027F	2028F
Real GDP growth, % YoY	4.0	3.8	3.7	3.8		4.6	3.8	4.2	4.3
Government consumption expenditures	-0.4	1.5	3.3	4.2		5.2	2.3	1.7	4.2
Private consumption expenditures	4.8	5.0	5.0	5.3		5.1	5.0	5.4	5.3
Gross Fixed Capital Formation	4.6	5.6	5.0	5.5		9.2	5.2	5.7	7.0
Exports of Goods & Services	0.2	-1.8	0.8	3.7		2.1	0.8	5.8	5.4
Imports of Goods & Services	0.2	-0.6	2.3	5.8		2.9	1.9	7.1	7.4
Source: CEIC; OCBC.									

Malaysia

1. Slower export growth from E&E and reduced frontloading to the US

Malaysia's E&E exports are expected to move largely in tandem with the World Semiconductor Trade Statistics (WSTS) forecasts for global semiconductor shipments in 2025. The WSTS expects a slowdown into 2026 with global semiconductor shipments easing to 8.5% YoY from 11.2% in 2025.

More broadly, external demand is expected to weaken into 2026. As an open economy, Malaysia's GDP growth is exposed to fluctuations in the growth of key trading partners including China, Japan, Euro Area and ASEAN, which are forecasted to slow in 2026 versus 2025.

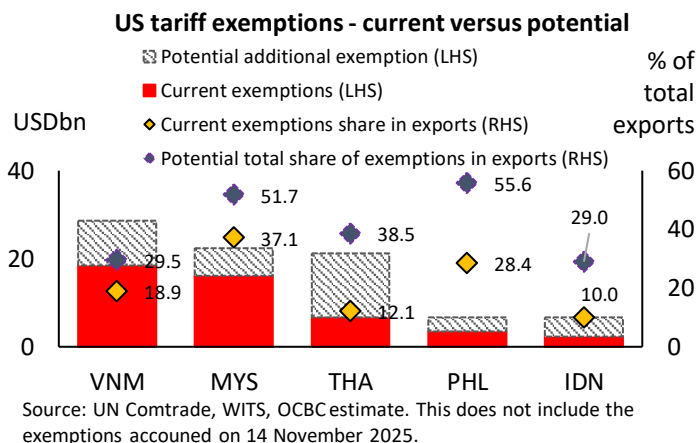
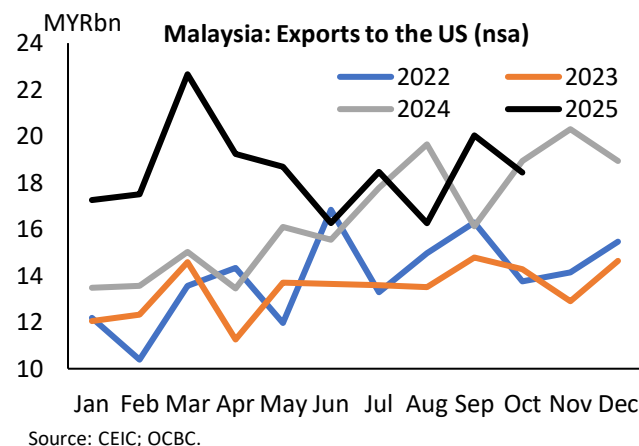


The tariff impact in 2025 has been hard to discern given strong sharp frontloading of goods exports in 1H26. Goods export growth to the US from Malaysia peaked at 50.7%YoY in March, dropped to -17.2% in August and recovered to 24.4% in September. October exports to the US dropped again by 2.6%YoY. Notwithstanding, the monthly value of exports to the US averaged MYR18.5bn from 1Q-3Q25, compared to MYR15.6bn in 2024 and MYR13.3bn in 2023. This suggests that the frontloading is close to MYR2.8bn/month.

Moreover, additional exemptions suggest that the need to frontload exports to the US is minimised into 2026. We estimate that current list of exemptions is already quite significant at ~37% for Malaysia. Malaysia's 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) of the maximum exemptions of USD6.3bn available, by our estimates. As such, we expect this impact to fade in 2026 and for export growth to the US at -5.0% YoY in 2026 from +14.3% in 2025.

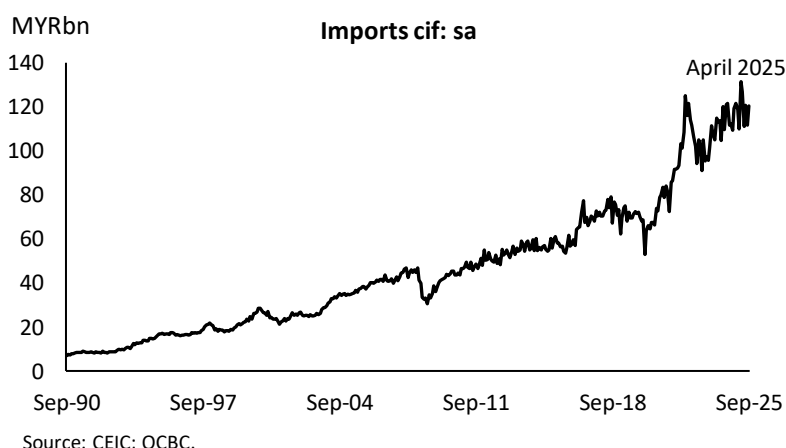
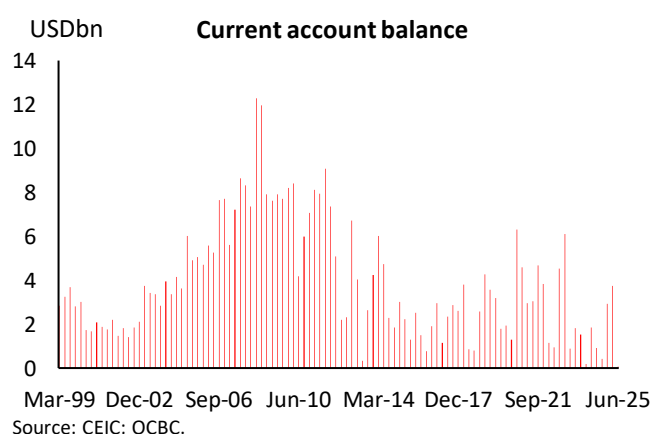
Malaysia

The main unknown remains US sector specific semiconductor tariffs. By our estimates, electronics and electrical appliances exports (HS codes 84 and 85) accounted for 60.2% of total exports to the US in 1H25. Under a worse-case scenario that the tariffs on semiconductor exports are similar to reciprocal tariffs at 19% without exemptions, GDP growth could be lower by 0.4pp¹¹.



2. Slower but still resilient investment spending in 2026

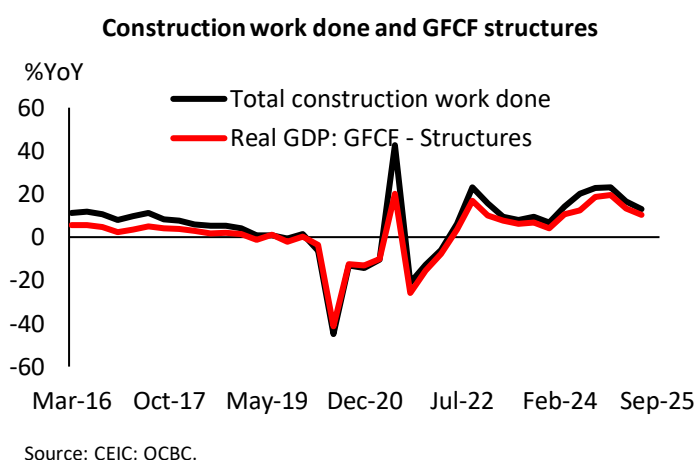
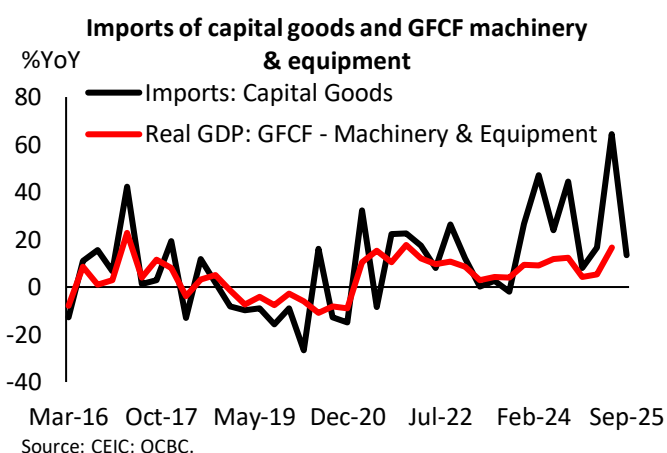
We expect large import bills to be staggered, allowing for the trade balance to remain in a comfortable surplus, against a backdrop of slowing export growth in 2026. The preservation of the trade and current account balances are, in our view, pillars of Malaysia's macroeconomic stability. Imports, in seasonally adjusted terms, peaked in April 2025 before coming off in the subsequent months to September 2025.



¹¹ The government estimates that the imposition of tariffs (based on its assumptions) will reduce Malaysia's GDP growth by 0.76 ppt in 2026, with a direct impact of 0.15 ppt and indirect effect of 0.61ppt. Ministry of Finance, Economic Report 2026.

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Looking ahead, we believe there is a case for a moderation in imports which will likely have a knock-on effect on investments. Specifically, capital goods imports are closely linked to machinery and equipment investment spending; this accounted for 41% of gross fixed capital formation (GFCF) in 1H25. The other component of GFCF, i.e. structures, is closely linked to construction work done and will likely moderate in 2026. This is broadly consistent with the 13 Malaysia Plan, which targets growth of 5% in the construction sector from 2026-30 compared to 7.8% from 2021-2Q25.

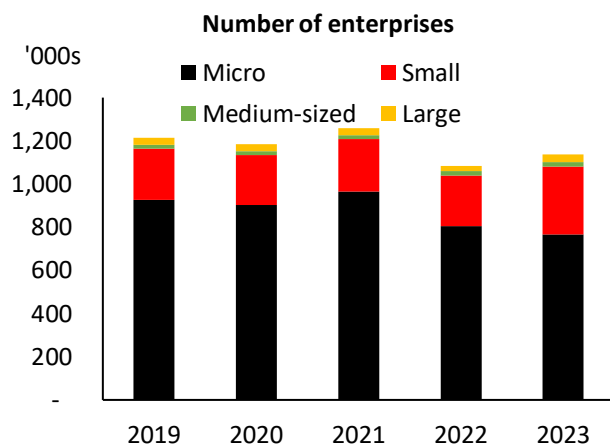


3. Pipeline pressures on Small and Medium Enterprises (SMEs)

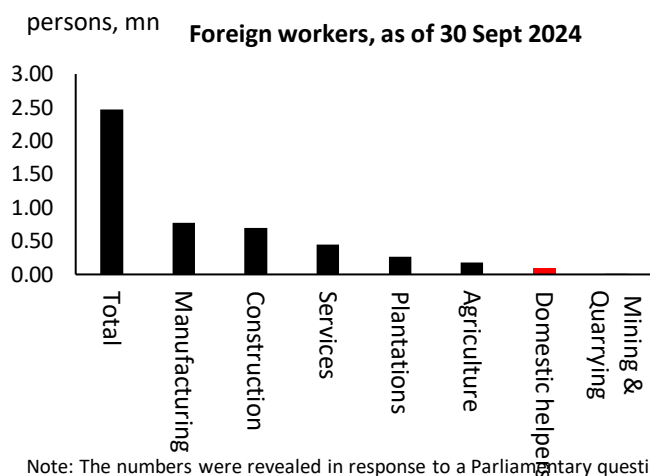
There could be some pipeline challenges for SMEs as well in 2026. The adoption of the final phases of e-invoicing will likely impact the smaller enterprises in 2026 compared to more medium enterprises in 2025. The number of small and micro enterprises are significantly higher than the medium and large enterprises. Although the contribution of small versus medium enterprises is more difficult to ascertain, Micro, Small and Medium Enterprises (MSMEs) grew 5.8% YoY in 2024 with a share of 39.5% to GDP.

There are also some labour market changes to reduce the reliance on foreign workers, which will likely impact SMEs. EPF contributions for non-Malaysian employees became mandatory at a rate of 2% for both employees and employers per month from 1 October 2025. A multi-tier levy mechanism (MTLM) will also be implemented from 2026 with the aim of reducing the number of foreign workers to 10% of the workforce by 2030 from 15% as outlined in the 13MP.

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Source: ADB; OCBC.



Note: The numbers were revealed in response to a Parliamentary question.
Source: The Star; OCBC.

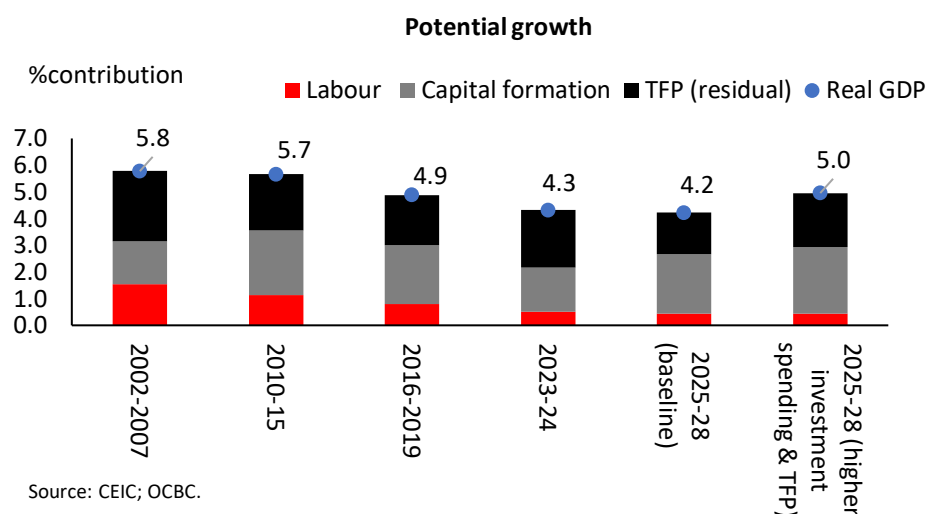
Higher electricity and water bills along with the expansion of sales and services tax suggest pipeline cost pressures, which could disproportionately impact SMEs compared to larger corporations. The SAMENTA-Ipsos SME Outlook Survey 2025/26 released in September 2025 showed that 69% of SMEs plan to raise prices in the following six months to deal with higher input costs. Notwithstanding, 91% expected to see stable or higher revenues in the following six months but had limited buffer to absorb further shocks, i.e. 70% had less than six months' cash reserves.

Fundamentals remain strong

Notwithstanding the cyclical softness we forecast in 2026, we expect GDP growth to return to within the 4.0-4.5% range over the medium-term. This matches with our baseline potential growth estimates. Under this baseline, we expect capital formation, closely linked with investment spending, to average 4.5% from 2025-28 similar to 2015-19.

Labour force dynamics will remain positive along with total factor productivity contributions as has been the case in recent decades. Should capital formation growth pick up to 5% over the forecast horizon and TFP contributions increase on account of digitalisation, benefits of AI and continued reforms, potential growth could be lifted to 5% over the medium-term, by our estimates.

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Targeted reforms are underway and bearing fruit

Reforms have been undertaken through the various national masterplans including the New Industrial Master Plan 2030, National Energy Transition Roadmap, National Semiconductor Strategy and 13 Malaysia Plan.

a) National master plans provide strong medium-term direction

These are focused on developing key sectors such as semiconductors, green industries, automotives while incentivising greater public and private sector participation.

The authorities have also made broadening economic growth across the various regions of the country a clear policy priority. These initiatives have been underscored by higher manufacturing FDI approvals into these states in 1H25. The development funding for Sabah and Sarawak was raised to MYR6.9bn and MYR6bn, respectively in Budget 2026 with the annual special grants for both states doubling to MYR600mn from MYR300mn. The Johor-Singapore Special Economic Zone continues to gain traction (see *Johor-Singapore Special Economic Zone gets another official boost*, 15 October 2025).

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Key national masterplans	
New Industrial Master Plan 2030 (NIMP 2030)	Budget 2025 allocated MYR131.5mn as seed funding to facilitate investment in industrial development initiatives under the Strategic Co-Investment Fund (CoSIF). This initiative enables government co-investment, at predetermined matching ratios, in businesses across 21 strategic sectors and four emerging areas, namely carbon capture, utilisation and storage (CCUS), electric vehicles (EVs), RE and advanced materials.
National Energy Transition Roadmap (NETR)	PETRONAS's Kasawari Carbon Capture and Storage (CCS) project
	Tenaga Nasional Berhad's Hybrid Hydro-Floating Solar (HHFS) Photovoltaic project
	Kenyir green hydrogen hub, a collaborative venture between PETRONAS and TNB, which will produce green hydrogen using renewable energy from the HHFS.
	Both the Kenyir HHFS and green hydrogen hub will be part of the Kenyir-Kerteh Corridor and linked to the ASEAN Power Grid
National Semiconductor Strategy	Secure at least MR500bn in investments for Phase I, driven by domestic direct investments in IC design, advanced packaging, and manufacturing equipment, coupled with foreign direct investments in wafer fabs and semiconductor equipment;
	Establish at least 10 Malaysian companies in the design and advanced packaging segments, each with revenues ranging from MYR1-4.7bn by Phase II.
	Position Malaysia as a globally recognized R&D hub for semiconductors, bolstered by world-class universities, corporate research centers, and centers of excellence that blend top Malaysian and international talent.
	Train and upskill a highly skilled semiconductor workforce comprising 60,000 Malaysian engineers in the next five to ten years.
	Allocate no less than MYR25bn in fiscal support and targeted incentives to ensure successful operationalization of the NSS.
13th Malaysia Plan (RMK-13)	The Thirteenth Plan is expected to involve significant investment, of which MYR430bn will be allocated for development expenditure while MYR120bn will be invested by the government-linked investment companies (GLICs) in domestic direct investment.
	Additionally, the implementation for development projects will be complemented via public-private partnerships (PPPs) over the next five years.
Johor-Singapore Special Economic Zone (JS-SEZ)	Approved investments into the JS-SEZ reached MYR37bn in 1H25, accounting for the bulk of investments into the state of Johor which reached MYR56bn. Prime Minister Anwar Ibrahim noted that the has attracted strong investor interest, with 104 potential investors eyeing projects worth MYR29.5bn as of mid-September.
Source: NIMP 2030; NETR, NSS, RMK-13.	

b) The infrastructure pipeline is strong for the next few years

Infrastructure spending will sustain over the medium-term supported by a strong pipeline of projects and support from both the public and private sectors.

Some of these projects, as listed in the 13MP, include the Elevated Autonomous Rapid Transit (E-Art) in Iskandar Johor Baru, the LRT Laluan Mutiara and the building of hospitals such as Sultanah Aminah 2 JB and Cancer Centre Sg Petani. The private

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sector will also be involved in projects such as the development of T3 at Carey Island, the Penang Pearl LRT and affordable housing.

Key infrastructure projects	Project owner	Expected cost, MYRbn	Tentative completion date
East Coast Rail Link (ECRL)	Malaysia Rail Link (Belt and Road Initiative project)	50.3	Jan 2027 (Gombak to Kota Bharu); Jan 2028 (Port Klang to Gombak)
Regasification Terminal 3	Petronas	n.a.	n.a.
Electricity grid Sarawak to Peninsular Malaysia	Tenaga Nasional Bhd	n.a.	Pre-feasibility study completed (as of Oct '25)
Westports 2 container terminal	Westports Malaysia Sdn Bhd	39.6	2028 (CT10); full project 2040
Elevated Autonomous Rapid Transit (E-Art) in Iskandar Johor Baru	MMC Corp Bhd, DOM Industries (M) Sdn Bhd, WCT Holdings Bhd, Lion Pacific Sdn Bhd, and YTL Corp Bhd, SIPP Rail Sdn Bhd submitted UKAS proposals	7.0	Phased roll outs in 2026 and 2027
Penang Pearl Light Rail Transit	Mass Rapid Transit Corporation (MRT Corp)	16.8	2025-31
Widening of PLUS highway for Senai Utara-Machap, Johor and Juru-Sg Dua, Penang	PLUS Malaysia Bhd	0.9	2028; 2030
Upgrading Tok Bali, Kelantan port	n.a.	n.a.	Feasibility study phase
Upgrading Sepanggar, Sabah port	Sabah Economic Development and Investment Authority	0.9	2026
Hospitals - Sultanah Aminah 2 JB, Cancer Centre Sg Petani	n.a.	n.a.	Construction expected to start 2026
Third terminal: Carey Island	Port Klang Authority	28	2060
Affordable housing and housing in Kota MADANI	n.a.	1.2	2026-35
Water catchment-water treatment-flood mitigation plant - Sg Klang to Sg Rasau Selangor	Water Supply Department; Irrigation and Drainage Department	5.6	2031

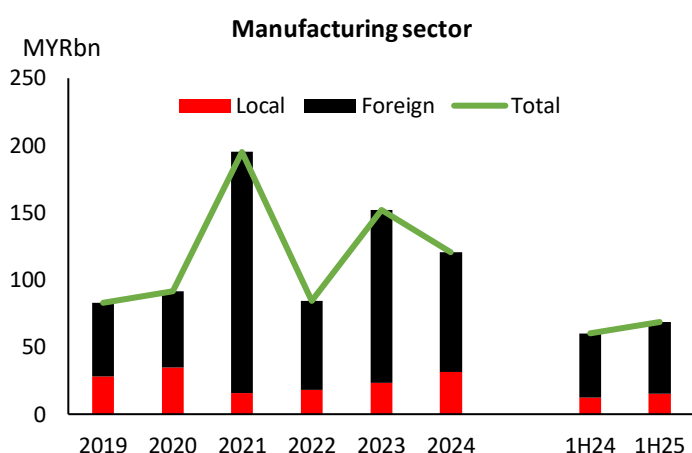
Source: 13th Malaysia Plan, Channel News Asia, Malaysian Reserve, Bernama, The Star, OCBC.

There is also a strong push to involve Government Linked Companies (GLCs) and Government Linked Investment Companies (GLICs) in the investment landscape. The Government-linked Enterprises Activation and Reform Programme (GEAR-uP) identified MYR22bn in domestic investments, of which MYR11bn was deployed as of 30 June 2025. The 13MP notes that GLC and GLIC investment spending is pegged at MYR120bn, along with MYR430bn from the federal government and MYR60bn from Public-Private Partnerships. There is also a strong push through the national masterplans to push manufacturing into strategic sectors including semiconductors and energy transition. There are also support measures to bolster startups, digital adoption and transformation.

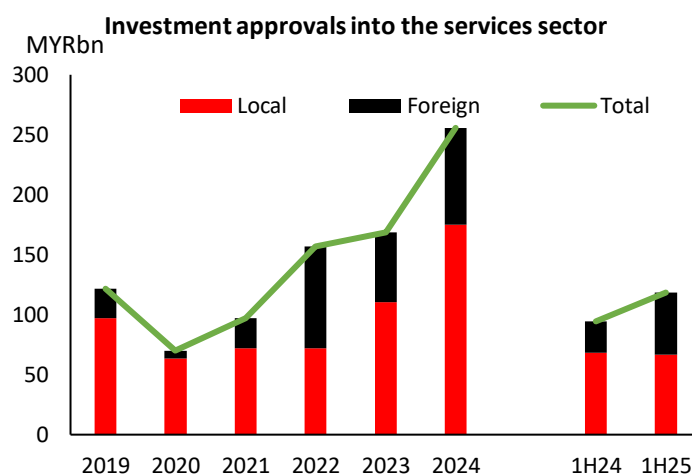
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c) Investment approvals are expected to remain resilient

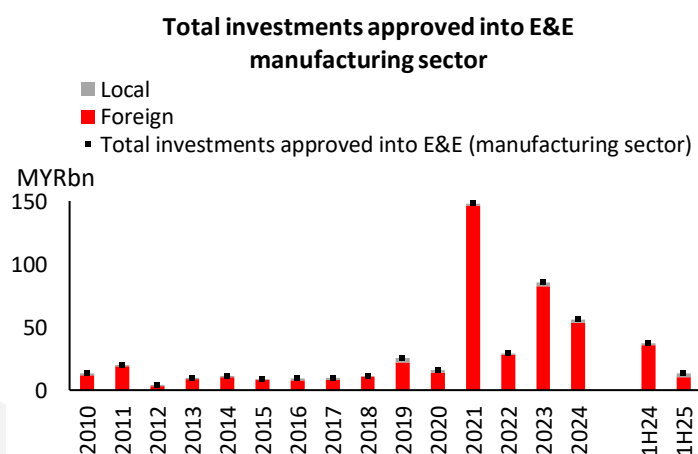
Corroborating the strong reform agenda and infrastructure pipeline, investment approvals into Malaysia were strong in 1H25, rising to MYR190.3bn from MYR160.3bn in 1H24 (i.e. +18.7% YoY). The bulk of the investments were directed towards the services sector in 1H25 followed by the manufacturing sectors. Approvals for the primary sector declined in 1H25 compared to 1H24. Foreign investment approvals increased to MYR106.8bn in 1H25 from MYR74.5bn in 1H24 while domestic approvals were modestly lower at MYR83.5bn from MYR85.8bn in 1H24.



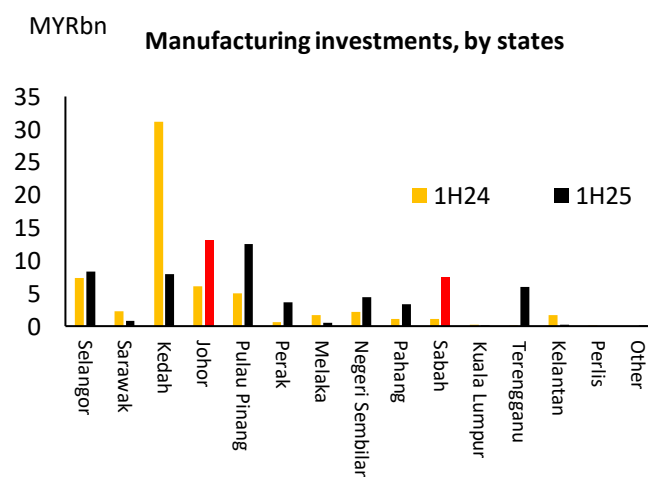
Source: CEIC; OCBC.



Source: CEIC; OCBC.



Source: CEIC; OCBC.

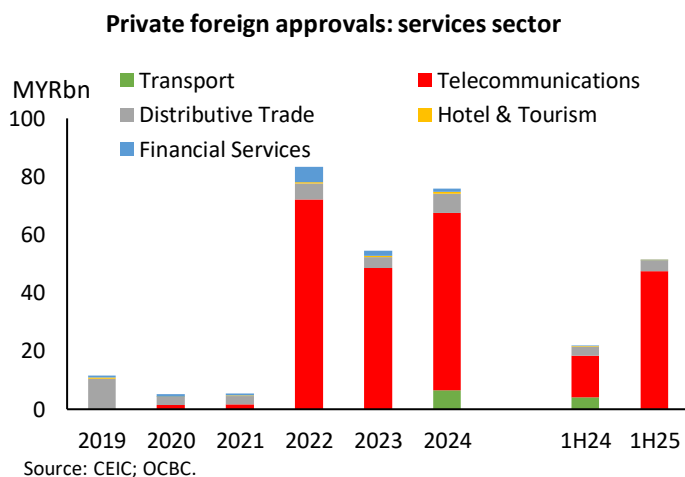
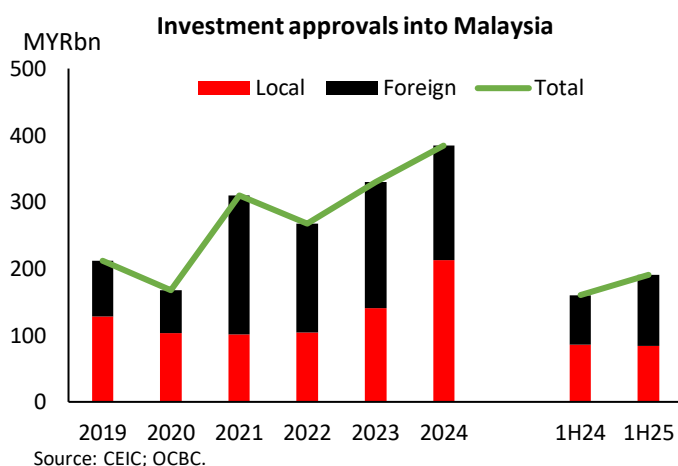


Source: CEIC; OCBC.

There are some nuances, however, that we have observed. Approved investments into the E&E manufacturing sector moderated in 1H25 compared to 1H24 even as these inflows into have remained solid since 2021. Interestingly, private foreign approvals for the services sector shows that the telecommunication saw a substantive increase in 1H25 compared to 1H24. This follows strong manufacturing inflows from 2022-24 and likely reflects further works in data centres following the

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construction phase. Indeed, the news flows regarding data centres suggests that the pipeline for Malaysia is strong even into 2026.



Key data centre news flow in 2025

06-Jan-25	Yondr secures \$900 million in financing for Johor data center
07-Jan-25	Malaysia's Gamuda moves into data centers, acquires land in Port Dickson for campus
14-Jan-25	Stack expands into Malaysia, plans 220MW campus in Johor
12-Feb-25	AirTrunk announces second Malaysian data center in Johor
01-Mar-25	Nokia to support Maxis data center upgrades in Malaysia
17-Mar-25	GDS seeks \$3.4bn loan to finance Malaysia data centers
19-Mar-25	HRC World signs MoU with prefab data center provider Oper8
19-Mar-25	Fintech investor Currenc Group pivots to data centers, plans 500MW campus in Johor, Malaysia
26-Mar-25	Treasure Global Inc. to develop AI cloud infrastructure in Malaysia
08-May-25	Google buys 389 acres outside Kuala Lumpur for data center development
28-May-25	Microsoft launches cloud region in Malaysia
28-May-25	BrightRay launches data center in Johor, Malaysia
06-Jun-25	Yondr Group hands over Johor data center ahead of schedule
12-Jun-25	DayOne signs 500MW solar deal with TNB to power Malaysian data centers
25-Jun-25	Logos drops plans to develop 350MW data center campus in Johor, Malaysia
03-Jul-25	Alibaba Cloud launches third data center in Malaysia, plans second in Philippines
29-Jul-25	YTL Power and Nvidia to invest \$2.3bn in AI infrastructure in Malaysia
11-Aug-25	Microsoft scores \$236.4m deal with Malaysian financial group Maybank
20-Aug-25	Open DC launches PE2 data center in Penang, Malaysia
27-Aug-25	SD Guthrie to develop green-energy park in Johor, Malaysia, to power data center sector
03-Sep-25	Malaysia's Crescendo Corp sells land in Johor for data center
12-Sep-25	Malaysian property developer MRCB mulls data center near Kuala Lumpur
12-Sep-25	Vantage raises \$1.6bn for APAC expansion, acquires Yondr's Malaysia data center
12-Sep-25	Zdata seeks \$500m loan to fund Malaysia data center project
22-Oct-25	Equinix tops out second Johor data center in Malaysia
30-Oct-25	Malaysian property developer Mah Sing looks for data center partner after Bridge DC backs out

Source: Data Center Dynamics, Bloomberg, OCBC.

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d) Legislative action is moving in the right direction

The legislation framework is getting stronger. The has pushed ahead with some crucial reforms to reduce bureaucratic redundancies, establish clear procurement protocols, enhance labour market protection to gig workers and push ahead with the sustainability agenda. The government also announced a new Data Centre Framework to streamline policies and guide sector development in July 2025. Efforts to boost the quality of the labour force as well as creating a stronger economic safety net are also underway.

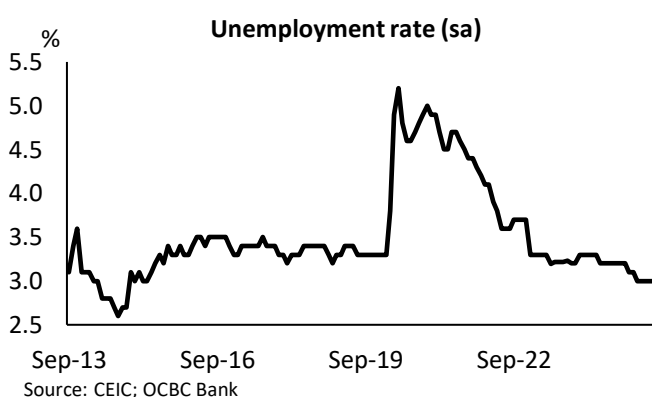
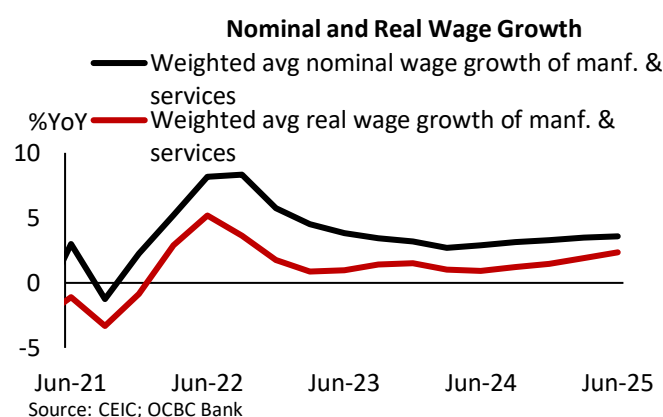
The authorities aim to create employment opportunities in high value sectors such as semiconductors, introduce dedicated legislation for technical and vocational education and training. The legislation for formalising the gig economy work and EPF contributions could help with better information flow. The Government is also finalising the implementation of a defined-contribution scheme to replace the current defined-benefits pension scheme for public servants; the new scheme will be administered by the EPF.

Some important bills passed in the Dewan Rakyat in 2025		
06-Mar-25	Government Service Efficiency Commitment Bill 2025	Under the Act, Government entities are required to reduce the regulatory burden by at least 25% every three years, as well as review the procedures under their regulatory instruments.
		The law extends reporting to statutory bodies, state government entities and even local governments.
06-Mar-25	Employees Provident Fund (Amendment) Bill 2025	The bill introduced mandatory EPF contributions for non-Malaysian citizen employees starting October 1, 2025, with both employers and employees required to contribute 2% of monthly wages
06-Mar-25	Carbon Capture, Utilization and Storage Bill 2025	The CCUS Act 2025 provides a first national level legal framework governing the capture, transportation and permanent storage of carbon dioxide.
		A dedicated Malaysia CCUS Agency will be set up to support implementation of the CCUS Act 2025, with responsibilities such as overseeing, regulating, and promoting CCUS activities across the value chain, issuing permits, managing resources and funding mechanisms, advising the government, and ensuring compliance with the CCUS Act 2025.
28-Aug-25	Government Procurement Bill 2025	The bill aims to reform public procurement by establishing a comprehensive legal framework, increasing transparency, and reducing corruption.
		Key features include the creation of a Government Procurement Appeal Tribunal to review contract award decisions, mechanisms for challenging the Finance Minister's decisions, and punitive action for violations.
Source: Malaysia Parliament, Fulcrum.sg, Skrine, MyCCUS, OCBC.		

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e) Labour market conditions remain strong

The conditions to support resilient household consumption will likely be sustained into 2026. This is reflected in resilient wage growth, including higher minimum wages, lower unemployment rates and steady employment gains. Indeed, the unemployment rate at 3.0% is even below 2019 levels. The government raised minimum wages in February 2025 and will implement the second phase of the Public Service Remuneration System (SSPA) increase for certain ranks from January 2026¹². Retail sales, car sales and household credit growth have been resilient through 2025.



f) Fiscal consolidation remains on track

The government has been steadfast in its approach to fiscal consolidation as outlined in the 2023 Public Finance and Fiscal Responsibility Act. This Act stipulates that the fiscal deficit ceiling will be brought to 3% of GDP or below, with the federal government debt ceiling at 60% of GDP or below amongst its key objectives.

Public Finance and Fiscal Responsibility Act (2023)	
Fiscal deficit ceiling	$\leq 3\%$ of GDP
Development expenditure floor	$\geq 3\%$ of GDP
Federal government debt ceiling	$\leq 60\%$ of GDP
Federal government guarantees ceiling	$\leq 25\%$ of GDP
Source: Federal Government; OCBC.	

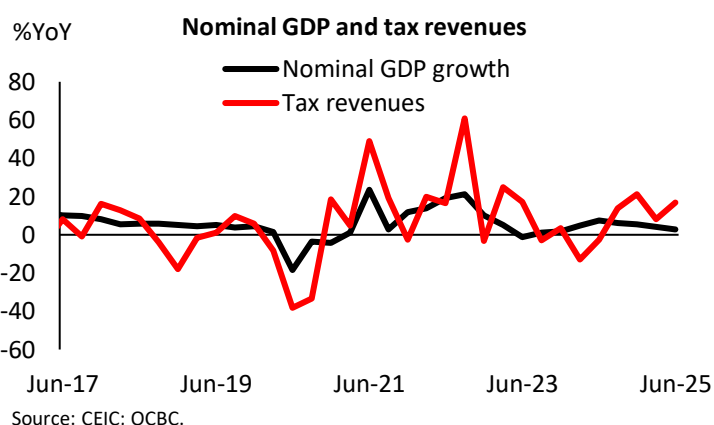
¹² The increase is expected to be between 3-7%.

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The government has followed through on various revenue generation measures since 2024 including the introduction of a dividend tax, broadening the scope of the sales and services tax, raising excise duties on 'sin products' and introducing a carbon tax. The government also followed through on the adoption of e-invoicing in phases, with the final phases due in 2026. Tax collections have risen at a faster pace compared to nominal GDP since 3Q24 pointing to improved tax buoyancy.

Targeted Taxpayers	Implementation Date
Taxpayers with an annual turnover or revenue of more than MYR100mn	01-Aug-24
Taxpayers with an annual turnover or revenue of more than MYR25mn and up to MYR100mn	01-Jan-25
Taxpayers with an annual turnover or revenue of more than MYR5mn and up to MYR25mn	01-Jul-25
Taxpayers with an annual turnover or revenue of more than MYR1mn and up to MYR5mn	01-Jan-26
Taxpayers with an annual turnover or revenue of up to MYR1mn	01-Jul-26

Source: KMPG; OCBC.



Tax measures announced in 2025		
Dividend tax	Introduction of a 2% dividend tax on certain dividend income received by individual shareholders.	AY2025
Sales tax	Sales tax rates would be increased on nonessential and imported goods, such as premium foods, although sales tax exemption would be maintained on basic food items consumed by the public.	Delayed from 1 May to 1 July 2025
Services tax	The scope of the service tax would be expanded to include commercial service transactions between businesses, such as fee-based financial services.	Delayed from 1 May to 1 July 2025
Carbon tax	Carbon Tax will be imposed on the iron, steel and energy industries. Initial proposal is at USD3.6/ton to cut pollution	2026
Excise duties	Increase the excise duty on specific sugar sweetened beverages. The proposed rate is an increase from MYR0.50 to MYR0.90 per litre.	Increases in phases, starting 1 Jan 2025

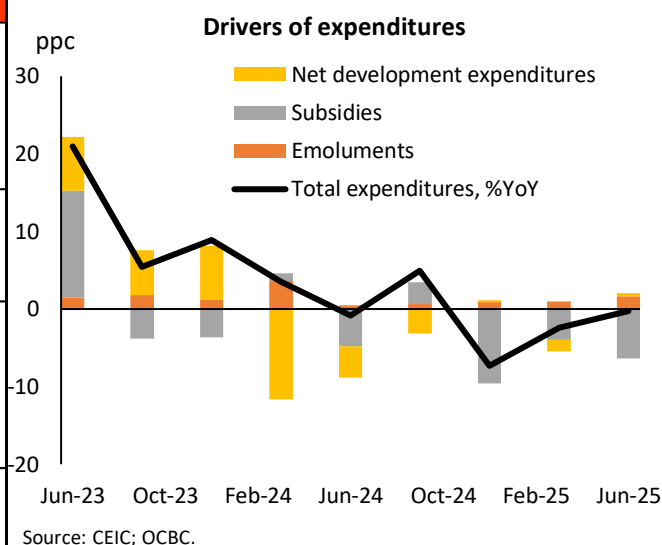
Source: MoF; PwC; OCBC.

Meanwhile, expenditure consolidation has continued. The government pushed ahead with electricity and water tariff reforms, removal of chicken egg subsidies and Budi95 – which the newly introduced mechanism for RON95 rationalisation. Under Budi95, we initially estimated fiscal savings of 0.1% of GDP (see *RON95 rationalisation – the wait will have to continue*, 22 September 2025). The authorities are, however, tweaking the non-subsidised prices of RON95 higher to MYR2.65/litre from MYR2.60/litre for 13-19 November, suggesting that further adjustments cannot be ruled out. The fiscal savings calculations will change accordingly.

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Subsidy rationalisation measures in 2025		
Budi95	Sep-25	RON95 prices increased by 3% on a weighted average basis of non-subsidised and subsidised fuel. Adjustments were made to non-subsidised RON95 prices to MYR2.65/liter from MYR2.6/liter for 13-19 November
Electricity tariff reform	Jul-25	The new base electricity tariff incorporates efficiency incentives and tiered mechanisms, which reflects real time global fuel prices
Water tariff reform	Sep-25	Malaysia's water tariffs vary by state and usage tier. Households that use between 20 to 35 cubic metres (m3) of water monthly in Selangor, KL and Putrajaya will now have to pay MYR1.62/m3, 30sen increase.
Chicken egg subsidies	May-25	The blanket tariffs on chicken eggs were removed in phases from May to August 2025

Source: Ministry of Finance; OCBC.



Looking ahead, assuming a continuation of fiscal consolidation objectives, the government's capacity for counter cyclical policies will be targeted rather than broad-based. The fiscal impulse will largely remain neutral to contractionary with support to growth coming mainly from the private rather than public sector.

Budget 2026 saw expanded social assistance allocations via the Sumbangan Tunai Rahmah (STR) and Sumbangan Asas Rahmah (SARA). MYR2bn from STR phase 4 will be distributed starting 18 October (earlier than expected) while a 50% toll discount will be provided coinciding with Diwali celebrations. For 2024, the total STR and SARA programs amounted to MYR13bn while the phase 1-3 of the STR amounted to MYR6bn. Under SARA, all Malaysians will receive a one-off MYR100 payment in mid-February in conjunction with Ramadhan and Chinese New Year.

The focus on broadening the tax base and subsidy rationalisation will support sovereign credit ratings. The government remains on track to narrowing the 2025 fiscal deficit to 3.8% of GDP from 4.1% in 2024. Indeed, S&P Ratings (A-), Fitch Ratings (BBB+) and Moody's (A3) reaffirmed their sovereign credit ratings for Malaysia in 2025.

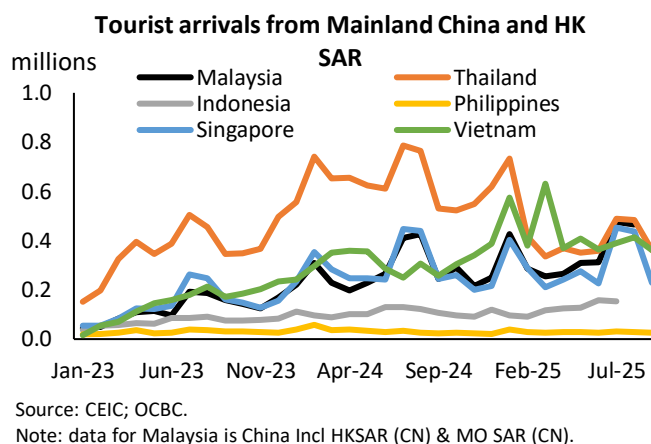
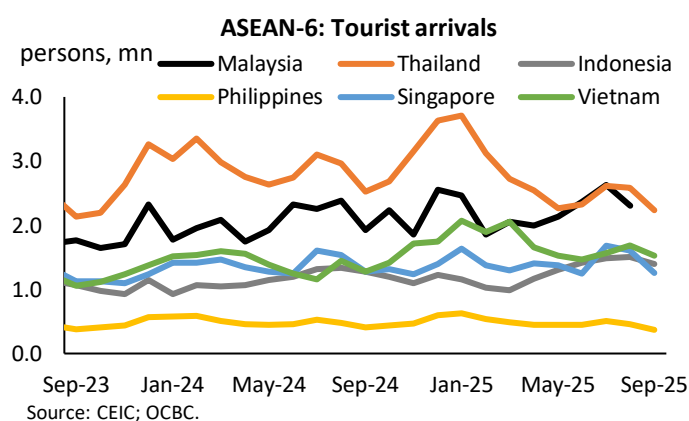
Country	Moody's		S&P		Fitch		Outlook
	Local Currency Long Term	Foreign Currency Long Term	Local Currency Long Term	Foreign Currency Long Term	Local Currency Long Term	Foreign Currency Long Term	
Indonesia	Baa2	Baa2	BBB	BBB	BBB	BBB	STABLE; STABLE; STABLE
Malaysia	A3	A3	A-	A-	BBB+	BBB+	STABLE; STABLE; STABLE
Philippines	Baa2	Baa2	BBB+	BBB+	BBB	BBB	STABLE; POS; STABLE
Thailand	Baa1	Baa1	A-	BBB+	BBB+	BBB+	NEG; STABLE; NEG
Vietnam	Ba2	Baa2	BB+	BBB	BB+	BBB	STABLE; STABLE; STABLE

Source: Moody's, S&P Global, Fitch, Bloomberg. Last updated: 8 October 2025.

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g) Other initiatives are also being undertaken across various sectors

The government is also looking to push other initiatives such as Visit Malaysia 2026. The aim is to attract 35.6mn tourist arrivals and generate MYR147.1bn in tourist receipts. Tourist arrivals from Jan-Aug 2025 totalled MYR17.8bn, with Malaysia benefiting from some tourist diversion from Thailand. This is particularly true for tourists from China, which saw a sharp pick up since May 2025. For 2026, there is also a broader agenda to push tourism not only for recreation but also medical tourism purposes.



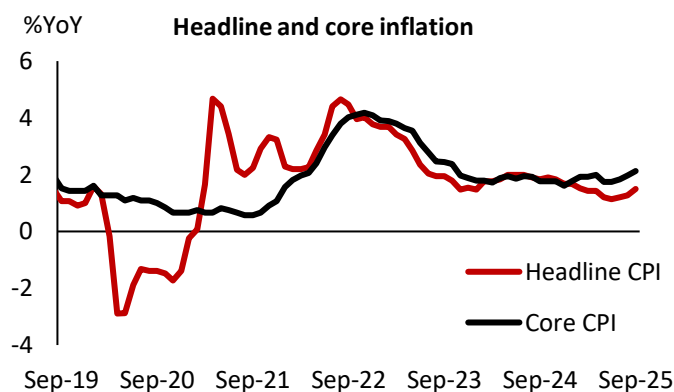
Policy continuity will be critical for the authorities to follow through on these initiatives. The next Federal election cycle falls within the 13MP (2026-30) and needs to be held by 17 February 2028. The political cycle will remain of interest in light of policy continuity. The state of Sabah goes to the polls on 29 November 2025, and the states of Malacca and Sarawak will also likely be election bound in late 2026/early 2027.

Monetary policy implications: we expect a 25bp cut from BNM in 2026

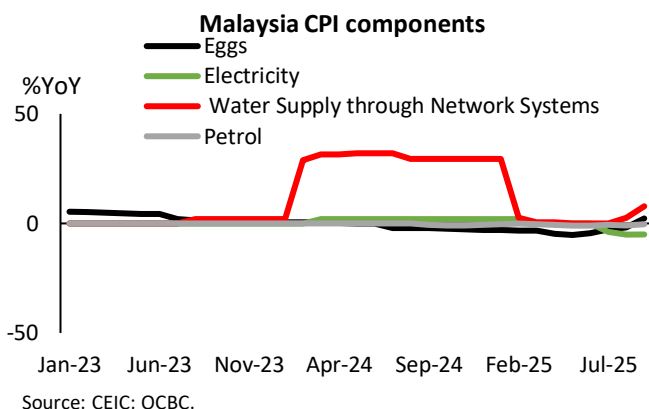
We do expect monetary policy to remain nimble. We are comfortable with our forecast for another 25bp rate cut from BNM next year, likely in 2Q26. Our forecast for softer economic growth and limited room for broad-based fiscal support suggests that monetary policy still has wiggle room, particularly since inflationary pressures have been largely well managed.

The subsidy rationalisation efforts by the government have been well executed. Prices of targeted items rose in 2025, but overall headline and core inflation remained in check. The risk to our call for another 25bp rate cut from BNM is that GDP growth does not slow as we anticipate. This will allow BNM to remain on prolonged hold in 2026.

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Source: DOSM, CEIC, OCBC.



Source: CEIC; OCBC.

Other key initiatives	
Supporting startups	The KL20 programme: major initiative to position Kuala Lumpur to be among the top 20 global startup hubs by 2030. The Malaysia Semiconductor IC Design Park, aims to hire 300 engineers by the end of 2025, with 134 currently employed as of end-August 2025. About 90% of the targeted 5,000 startups have been registered through the MY Startup platform.
Expanding the role of GLCs and GLICs	GEAR-uP aims to unlock MYR120bn over five years to drive socioeconomic reforms and jumpstart Malaysia's industrial transformation. As of 30 June 2025, MYR11bn has already been deployed into high-growth, high-value sectors such as semiconductors and the energy transition, as well as initiatives to uplift underserved communities and develop local talent. All GLICs will continue executing investments worth MYR11bn in the pipeline KWAP's Dana Perintis: MYR250mn to spearhead the local startups ecosystem; Khazanah's Jelawang Capital National: Fundof-Funds (NFOF) with a MYR300mn capital for venture capital fund managers to expand startup investments.
Digital transformation	Amazon Web Services, Google, Microsoft and Oracle have set up and are looking to expand in Malaysia. Digital transformation for SMEs will be the next big step to improve efficiencies and data collection prospects.
Export market broadening	Export expansion is also being supported through reimbursement grants under the Market Development Grant to assist businesses in promoting export products and services as well as accessing international markets, particularly in Africa, Latin America and the Middle East. Targeted support for informal and gig workers was expanded to include the i-Saraan voluntary contribution scheme under Employees Provident Fund (EPF). In the first half of 2025, more than 480,000 workers participated in this scheme.
Visit Malaysia 2026	To welcome 35.6 million tourists and generate MYR147.1bn in tourism receipts. The development of Special Tourism Investment Zones (STIZ) in Johor, Melaka, Negeri Sembilan and Sarawak is expected to attract private investment and further boost tourism activities. Malaysia Year of Medical Tourism 2026 (MYMT 2026) initiative, emphasising affordability and high-quality healthcare services will attract more healthcare travellers.
Source: Various newspapers; OCBC.	

Philippines

Philippines: Punching below its weight

- We forecast GDP growth of 5.5% YoY in 2026, up from 4.8% in 2025, but below its potential growth rate of 6-6.5%, which implies that the output gap will remain negative.
- Fiscal policies will likely remain constrained by concerns over governance, which will leave monetary policy to do the heavy lifting for growth support.
- That said, the room for further rate cuts is limited following 175bps in rate cuts through 2024-25. We pencil in one more 25bp cut in 2025, with the Bangko Sentral ng Pilipinas (BSP) on a prolonged hold in 2026.

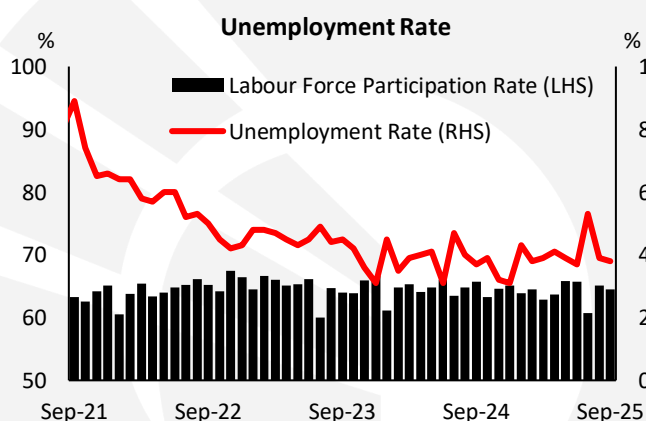
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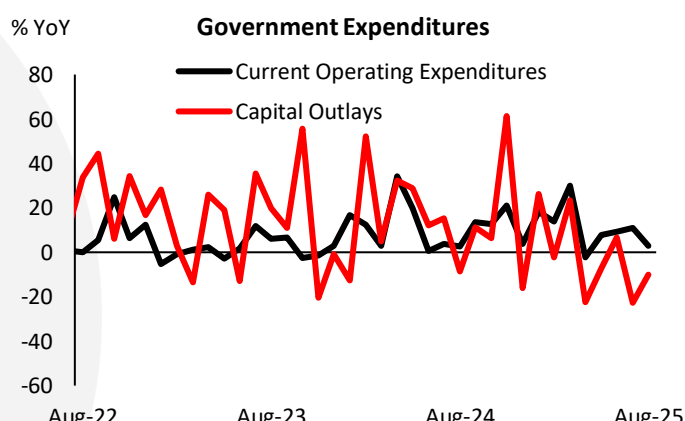
Domestic demand is still punching below its weight

GDP growth at 5.0% YoY in 1Q-3Q25 is underwhelming, considering our potential growth estimates of 6.0-6.5%. Household consumption steadied at a lower rate of 4.9% YoY in 1Q-3Q25, which is below the pre-pandemic (2010-19) growth rate of 5.9%. There has, however, been a stabilisation in the unemployment rate and labour force participation rate at 3.8% and 64.5%, respectively, in September 2025. The cumulative 175bps in rate cuts by the BSP in the current cycle (August 2024-to-present) have cushioned household consumption, while better-managed inflationary pressures have helped maintain purchasing power. Meanwhile, government spending was stronger in 1Q-3Q25, supported by the mid-term elections on 12 May, but has since been impacted by the slew of public construction scandals (more in the fiscal section).

The bigger challenge in 2025 has been lifting investment spending. The mid-term elections on 12 May, ahead of which spending on public works was banned, as well as a recent spate of governance challenges have weighed on investment spending. Indeed, 3Q25 growth slowed to 0.1% YoY from 3.1% in 2Q25. Misappropriation of funds for certain projects will likely keep scrutiny over the use of public funds higher than usual, thereby weighing on fiscal disbursements.



Source: Philippine Statistics Authority, CEIC, OCBC.



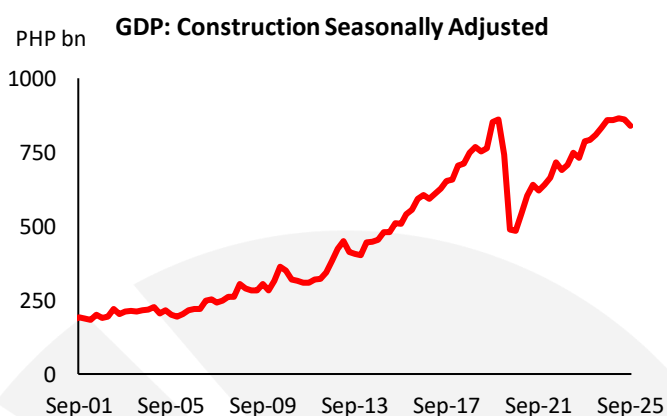
Source: Department of Budget and Management, CEIC, OCBC.

Philippines

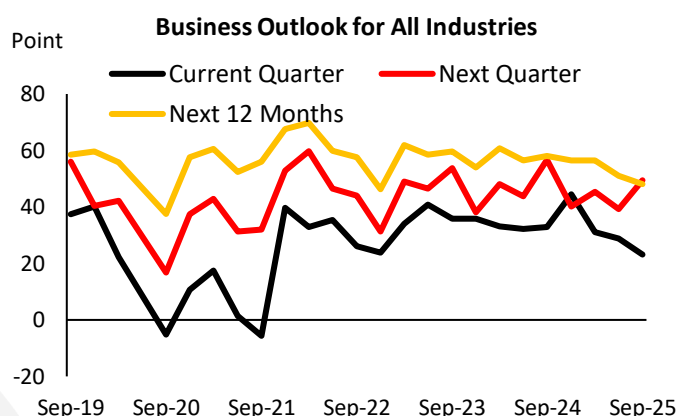
Finance Secretary Ralph Recto noted that the ongoing government anti-corruption drive could slow the country's economic growth until 1Q26¹³. The ongoing drive has also led to resignation of two key cabinet members of President Ferdinand Marcos Jr. — Executive Secretary Lucas Bersamin and Budget Secretary Amenah Pangandaman¹⁴. President Ferdinand Marcos Jr. also ordered a freeze on PHP60-80bn in infrastructure funds in the 2025 national budget due to inconsistencies and misalignment with the Philippine Development Plan¹⁵. He has redirected some of the funds initially allocated for flood control projects in 2026 to other key sectors, including education, health and agriculture.

The Department of Public Works and Highways is in the process of validating project implementation and completion nationwide. The number of projects under the government's Infrastructure Flagship Projects is unchanged at 207 projects (as of August 2025), with an indicative cost of PHP10.4trn. However, implementation is likely to be delayed due to the current circumstances.

More fundamentally, construction sector growth is struggling to recover to pre-pandemic levels. This may be attributed to challenges such as higher input costs in 2022-23, when inflationary pressures were elevated, as well as subdued private sector business confidence. The outlook for the construction sector remains subdued judging from loan growth to the construction sector decelerating to 5.7% YoY in August 2025 from 12.6% at the end of 2024.



Source: Philippine Statistics Authority, CEIC, OCBC.



Source: Bangko Sentral ng Pilipinas, CEIC, OCBC.

Exports are holding up growth in 2025

Mirroring the relatively lacklustre domestic demand picture, goods import growth rose by 5.3% YoY in 1Q-3Q25 from 1.1% in 2024. By end-use, the picture was mixed.

¹³ Corruption scandal to slow Philippine growth, says Recto. BusinessWorld, 15 October 2025.

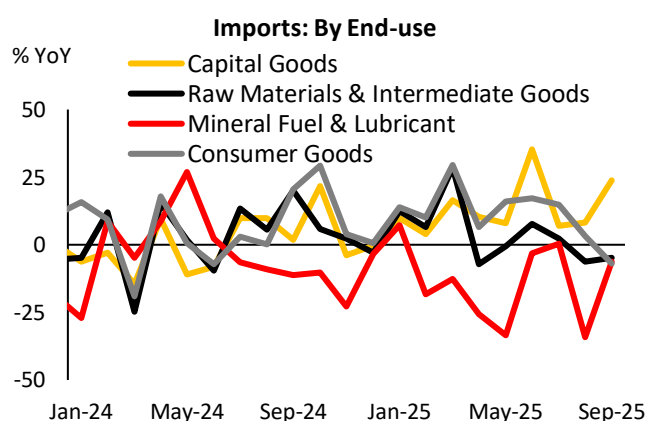
¹⁴ Bersamin, Pangandaman quit 'out of delicadeza'; Recto, Go step up. Philippine News Agency, 17 November 2025.

¹⁵ The Department of Finance estimates that corruption in flood control projects alone has cost the Philippine economy PHP118.5bn from 2023 to 2025.

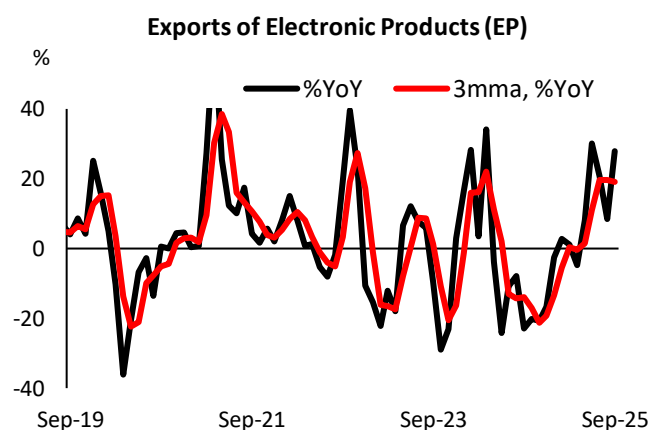
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Capital goods imports rose by 13.6% YoY in 1Q-3Q25 from 0.1% in 2024 while intermediate goods improved to 3.4% from 2.3% in 2024. Meanwhile, the pickup in consumer goods to 10.7% YoY from 5.7% underscored the stabilisation in household spending, to some extent.

Meanwhile, export growth was held up in 2025, with goods exports rising 13.1% YoY in 1Q-3Q25 from -0.5% in 2024. This has largely been supported by the global electronics upcycle, which has buttressed E&E exports (accounting for 53.2% of total exports) and saw exports to destinations such as Taiwan jump in recent months albeit from a low base. Frontloading activities to the US also supported exports to some extent but less so than regional peers.



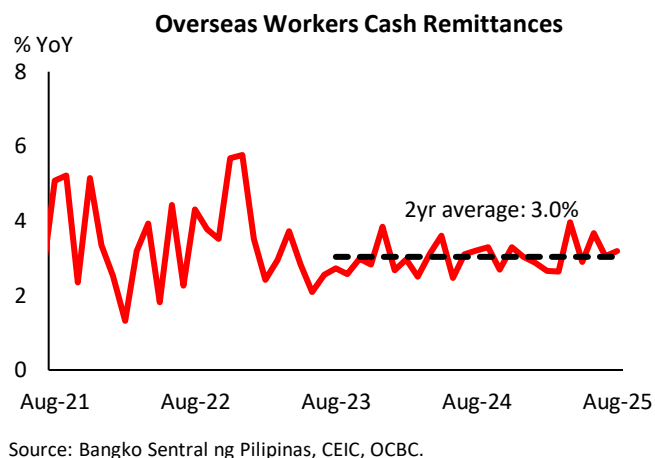
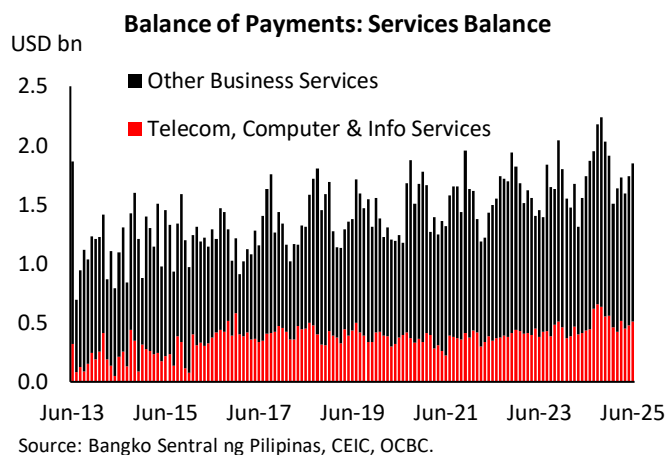
Source: Philippine Statistics Authority, CEIC, OCBC.



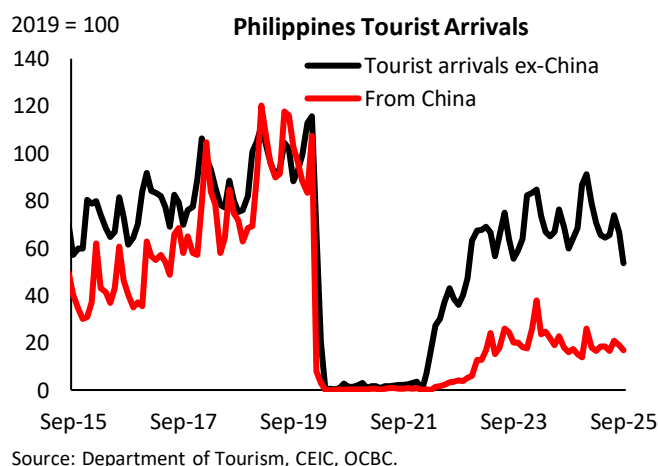
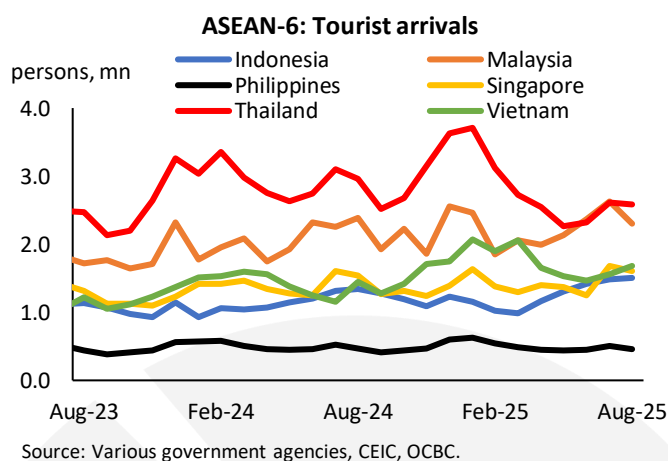
Source: Philippine Statistics Authority, CEIC, OCBC.

The services trade was supported mainly by Business Processing Outsourcing (BPO) activities and remittances. Cash remittances grew at a relatively steady pace of 3.0% YoY on average from January to August 2025. The deployment data for 2025 is limited but strong deployment in 2024, assuming two-year contracts, suggests that remittances growth could be sustained at similar growth rates into 2026. BPO activities also were slower in 1H25 compared to 2024. Growth of telecom, computer & information services as well 'other business services' exports slowed to 3.0% YoY in 1H25, down from 7.8% in 2024. The IT and Business Process Association of the Philippines (IBPAP) projects that the BPO sector will growth by 5.2% YoY in 2025, implying some pick up for 2H25.

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The Philippines has done worse than regional peers in attracting total tourists in 2025. Tourist arrivals as of September 2025 were at 69.9% of 2019 levels. Visitors from South Korea, USA and Japan were the three largest sources of tourist arrivals in the first nine months of 2025. Stiffer regional competition offering better connectivity and targeted marketing likely contributed to the slow recovery in the tourism sector. Suspension of the e-Visa program in December 2023 kept tourist arrivals well short of regional peers.



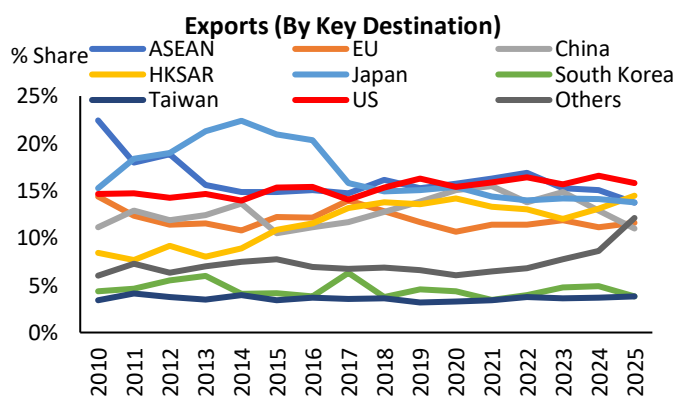
Notwithstanding, stronger goods exports has led us to narrow our 2025 current account deficit forecast to 3.5% of GDP from 4.0% in 2025. This is broadly consistent with BSP's current account deficit forecast of 3.3% of GDP¹⁶.

¹⁶ BOP deficit projected to continue amid global headwinds. Bangko Sentral ng Pilipinas, 1 October 2025.

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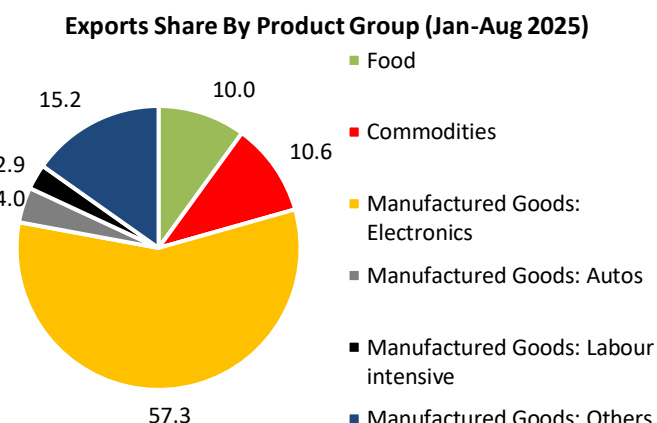
2026: Exports to slow with still constrained domestic demand

We forecast GDP growth of 5.5% YoY in 2026, which is below the government's official growth target of 6-7%. We expect export growth to weaken in 2026 while investment spending will be subdued at least through 1H26.



Note: 2025 data is until September 2025.

Source: Philippine Statistics Authority, CEIC, OCBC.



Source: Philippine Statistics Authority, CEIC, OCBC.

The strength in goods exports will likely fade as external demand softens considering slowing growth in key trading partners such as the US, EU and Japan. Our baseline forecast is for goods export growth to slow from 10.9% YoY in 2025 to 5.3% in 2026. The Philippines has entered into negotiations with the US but there has been no official conclusion to talks. President Marcos noted that the Philippines authorities are in "very close communications" with the White House. The reciprocal tariff rate for Philippines exports to the US is set at 19%, which is comparable to regional peers.

The Philippines is working to diversify trading partners. The government is in negotiations with the EU to finalise an agreement while the Philippines and UAE have applied to join the CPTPP. A Free Trade Agreement with the Republic of Korea was signed in September 2023 and effective in December 2024.

Selected Ongoing FTA Negotiations

Philippines-EU FTA	Four rounds of negotiations were completed. Expected to conclude by 2027.
CPTPP Membership	Submitted application for membership in November 2025.
Philippines-Chile CEPA	Ongoing. Aim to sign agreement by end-2025.
Philippines-UAE CEPA	Ongoing.

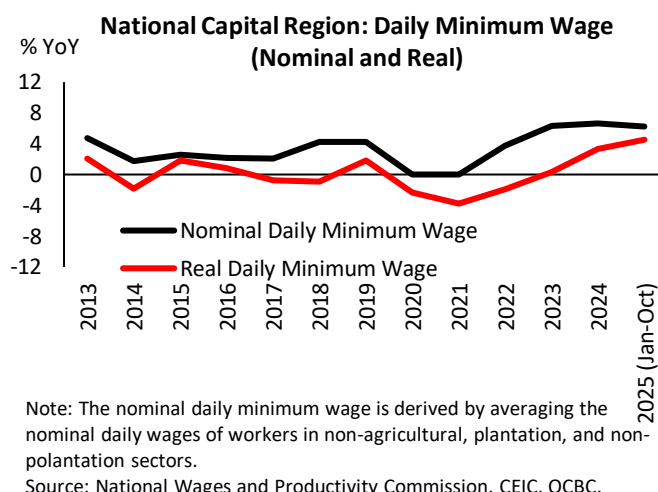
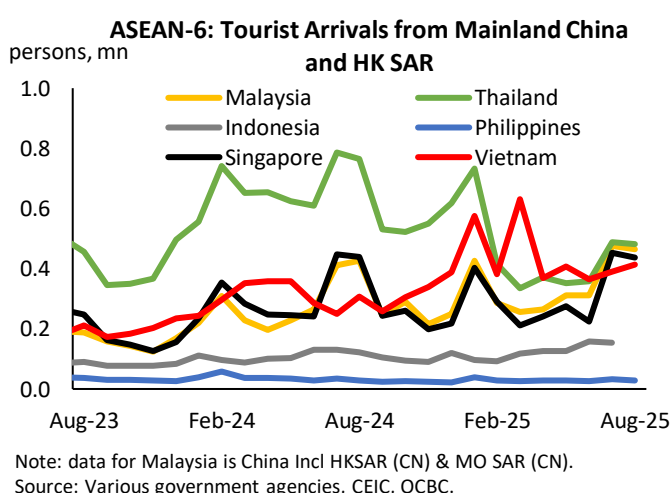
Source: Various news agencies, Department of Trade and Industry, OCBC.

In contrast, services exports reflecting tourist arrivals and BPO inflows will remain resilient in 2026 compared to 2025. Specifically, the BPO sector is projected to grow

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5.0% YoY in 2026 (2025F: 5.2%), potentially generating USD42bn in revenue level¹⁷. Nonetheless, the outlook is subject to risks, including potential US laws aiming to restrict offshoring¹⁸. The tightening of the H-1B visa applications and USD100k fee for new applicants of the visa could, in fact, work in favour of the Philippines BPO sector should it encourage offshoring of services¹⁹.

This e-Visa program for Chinese tourist arrivals²⁰ has resumed and could benefit tourist arrivals in 2026. The impact of the suspension was significant to the Philippines' tourism sector as highlighted by Tourism Secretary Christina Frasco, who estimated that the program could have brought in 2mn Chinese tourist arrivals in 2024 "had we been able to continue the e-Visa program²¹." Total tourist arrivals from Mainland China rose 18.3% to 312k (or 15.6% of projected 2mn) in 2024. Additionally, we expect the Philippines' taking over of the ASEAN Chairmanship for 2026 to stimulate the tourism and tourism-related sectors through the hosting of high-profile discussions.



On the domestic demand front, we expect household consumption to remain broadly at 5-5.5% similar to 2025. This will be supported by robust growth in nominal and real wages (based on minimum wages) over the past two years. The Central Luzon region was granted adjustments for minimum wage earners in two tranches — on 30 October 2025 and 16 April 2026. Meanwhile, domestic workers in the region will benefit from wages increase to PHP6500 from PHP6000, effective 30 October 2025²². Similarly, Calabarzon will also see adjustments for its minimum

¹⁷ IT-BPM industry to hit \$42B revenues by 2026. The Inquirer, 24 September 2025.

¹⁸ Proposed US laws could threaten BPO jobs in PH. The Inquirer, 27 October 2025.

¹⁹ Trump's new visa fees spur offshoring talks, hiring turmoil. Reuters, 24 September 2025.

²⁰ DOT: Resumption of Chinese e-visa is 'necessary, overdue'. The Inquirer, 17 October 2025.

²¹ DFA ready to meet any tourist visa demand hike in China — official. Philippine News Agency, 6 September 2025.

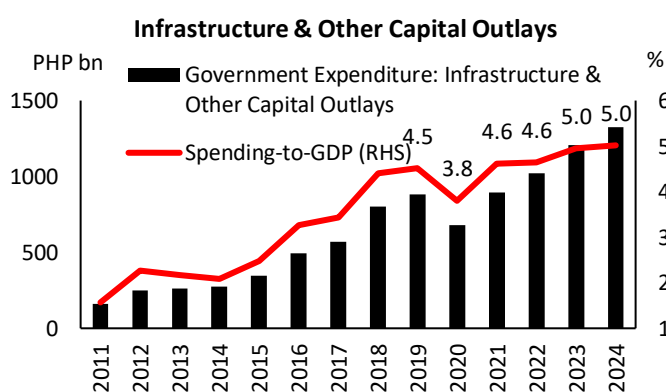
²² Central Luzon wage hike to take effect Oct. 30. Philippine Information Agency, 16 October 2025.

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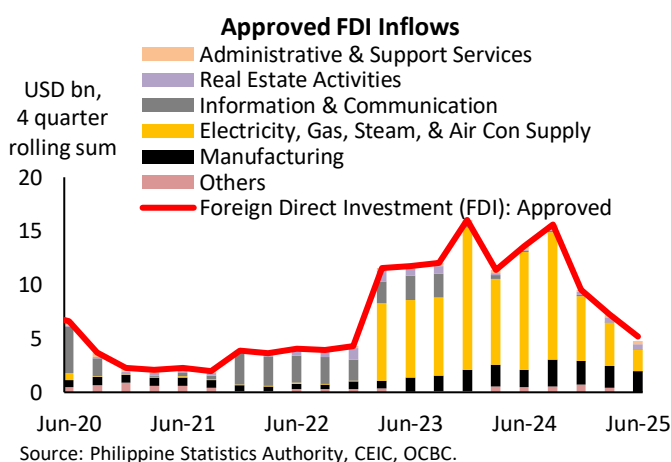
wage earners over two tranches, with the second tranche scheduled on 1 April 2026²³. Higher minimum wages, set against a backdrop of well managed inflation, bode well for purchasing power into 2026.

The investment spending, however, will remain mixed in 2026. Government led capital expenditures will likely remain under pressure from additional scrutiny in 1H26, before picking up in 2H26. The government is committed to maintaining infrastructure spending at 5-6% of GDP annually. However, re-instilling confidence through transparency and reform will be crucial in reinvigorating the investment cycle.

Worsening approved FDI inflows suggest that a big turnaround in investment spending in 2026 could remain elusive. On a four-quarter rolling sum, investment spending declined by 61.8% YoY to USD5.2bn in 2Q25, down from USD7.3bn in 1Q25. On the upside, reduced interest rates could help keep financial conditions supportive even though credit growth in the banking system moderated in July and August 2025.



Source: Department of Budget and Management, Philippine Statistics Authority, CEIC, OCBC.



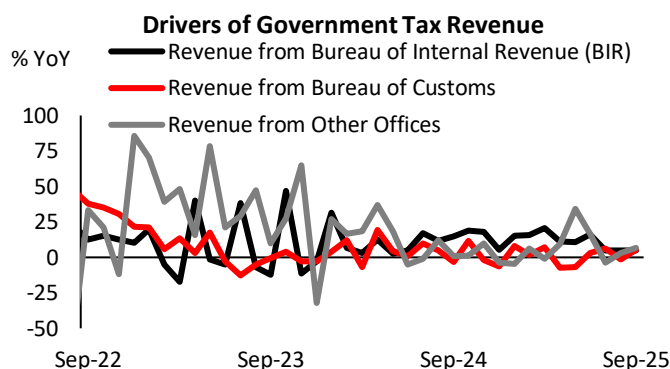
Source: Philippine Statistics Authority, CEIC, OCBC.

A closer look at the state of fiscal play

On a 12-month rolling sum basis until September 2025, the deficit has widened to 5.9% of GDP from 5.7% in 2024. Revenue growth slowed to 2.2% YoY in 1Q-3Q25 from 15.6% in 2024, with the moderation in revenue growth mainly driven by a decline in non-tax & grant revenues while tax revenue remained broadly stable at 8.6% YoY in 1Q-3Q25 versus 10.8% in 2024.

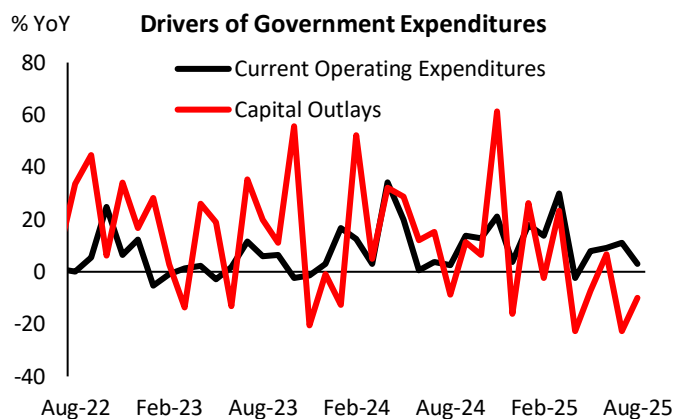
²³ RTWPB-Calabarzon grants daily wage increase effective Oct. 5. Philippine News Agency, 19 September 2025.

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Note: Revenue from BIR comprises of revenue from 'net income & profits', 'excise tax', 'sales taxes & licenses', and 'other'.

Source: Bureau of the Treasury, CEIC, OCBC.



Source: Department of Budget and Management, CEIC, OCBC.

Expenditure growth eased to 5.2% YoY, down from 11.0% in 2024. Based on the government's medium-term fiscal program, revenue and expenditures growth are projected at 2.3% and 2.6%, respectively, in 2025. We expect continued normalisation of government consumption expenditures following the boost from the mid-term elections, amid slower disbursement of CAPEX. This will likely help the government achieve its fiscal target of 5.5% of GDP for 2025.

The government has made minor recalibrations to its Medium-term Fiscal Framework for FY25-28 in June 2025²⁴, in anticipation of evolving global developments. Under the revised MTFF, the fiscal deficit for FY25 will be marginally raised to 5.5% of GDP versus 5.3% at its 189th DBCC meeting in December 2024²⁵. Medium-term fiscal deficits were widened across the forecast horizon, reflecting mainly lower revenue projections with modestly higher expenditures in 2026. There were few additional revenue generation measures introduced in 2024-26²⁶ and the key drivers of revenue collections remain the "implementation of recently enacted revenue reforms, such as the VAT on non-resident digital service providers and capital markets efficiency promotion as well as sustained improvements in tax administration, compliance enforcement, and digitalization initiatives." Disbursements will remain focused on bolstering capex over the medium-term but will gradually ease in line with the government's fiscal consolidation agenda.

²⁴ 191st DBCC Joint Statement on the Review of the Medium-Term Macroeconomic Assumptions and Fiscal Program for Fiscal Years (FY) 2025 to 2028. Department of Budget and Management, 26 June 2025.

²⁵ 189th DBCC Joint Statement on the Review of the Medium-Term Macroeconomic Assumptions and Fiscal Years. Department of Budget and Management, 2 December 2024

²⁶ VAT on Digital Service Providers (effective 1 June 2025), CREATE MORE (effective 28 November 2024), Capital Markets Efficiency Promotion Act (effective 1 July 2025), Mining Fiscal Regime (effective 1 January 2026).

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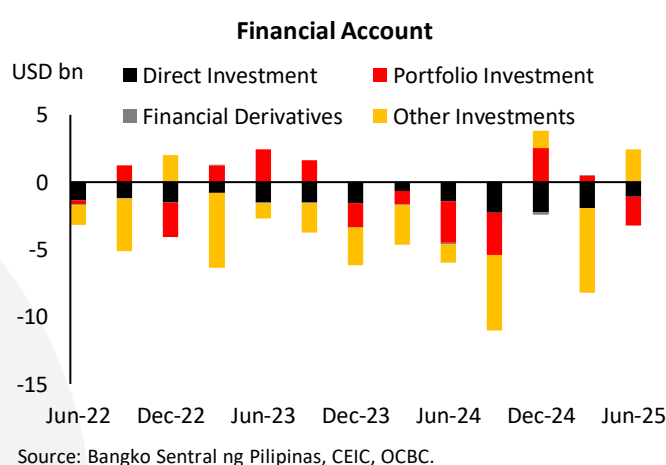
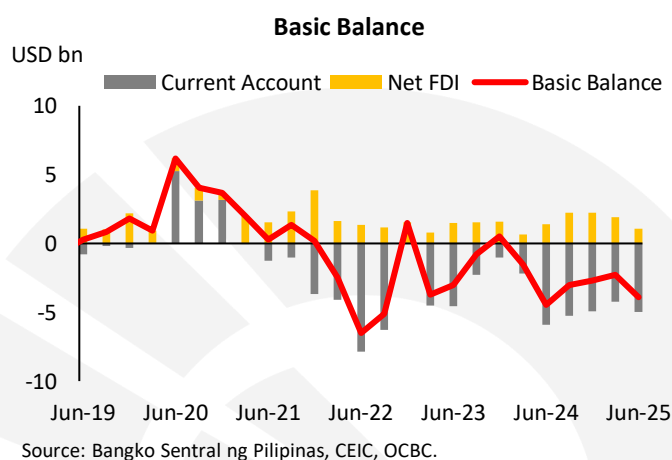
PHP bn	Actual	Projections			
	FY24	FY25	FY26	FY27	FY28
Revenues (revised)	4419	4520.4	4983.4	5366.4	5914.8
% of GDP	16.7	15.9	16.2	16.0	16.3
Revenues (previous)		4644.4	5063.2	5627.5	6249.6
% of GDP		16.2	16.2	16.6	17.0
Disbursements (revised)	5925	6082.1	6630.0	6970.2	7466.4
% of GDP	22.4	21.4	21.5	20.8	20.6
Disbursements (previous)		6182.1	6540.1	7027.0	7621.5
% of GDP		21.5	20.9	20.7	20.7
Deficit (revised)	-1506	-1561.7	-1646.6	-1603.7	-1551.6
% of GDP	-5.7	-5.5	-5.3	-4.8	-4.3
Deficit (previously)		-1537.7	-1476.8	-1399.5	-1371.9
% of GDP		-5.3	-4.7	-4.1	-3.7

Note: As of June 2025.

Source: Development Budget Coordination Committee, OCBC.

'Twin deficits' to persist

The 'twin deficits' on the fiscal and current account will likely persist into 2026. Despite slower export growth, we expect the services surplus to remain supportive enough to narrow the current account deficit to further to 3.3% of GDP in 2026 from 3.5% in 2025. Our forecast is marginally wider than BSP's forecast of 2.9% of GDP in 2026.



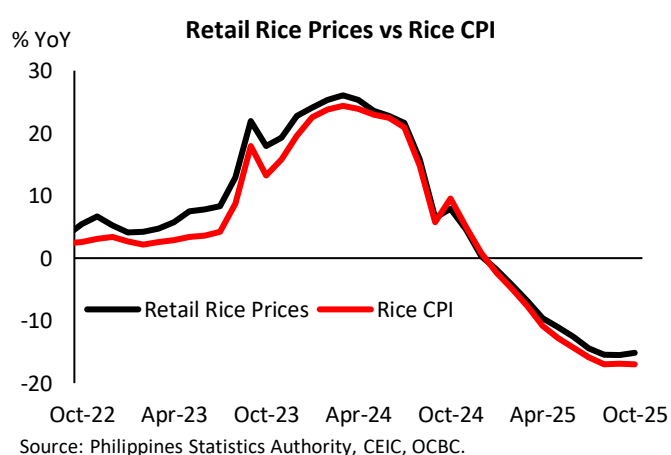
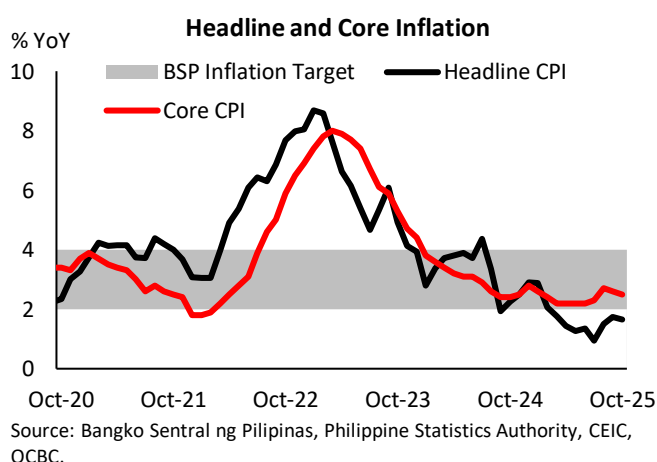
Sustaining capital inflows from the portfolio and direct investments will be important for the balance of payments. The basic balance deficit has persisted for six consecutive quarters through to 2Q25 mainly because of the wider current account deficit. FDI inflows have sustained on a net basis, with portfolio flows

Philippines

remaining more volatile. That said, reserve adequacy has been maintained. FX reserves were at USD109.0bn as of end-September, covering 7.3 months of imports.

Inflation volatility has been well curbed

Inflationary pressures have eased sharply, driven primarily by lower food prices (notably rice) and energy costs. Headline CPI averaged 1.7% YoY from Jan-Oct 2025, compared to 3.2% in 2024, placing it just below the lower end of the BSP's 2-4% target range. Similarly, core inflation for the same period slowed to an average of 2.4% YoY versus 3.0% in 2024.



Direct government policy measures — including the reduction of rice tariffs²⁷, the setting of maximum suggested retail prices (SRPs) for imported rice, nationwide price monitoring, and the preparation to release buffer stocks have contributed to a decline in rice prices. Consequently, rice inflation has eased substantially. Given its high weight of ~9% in the CPI, we expect there has been noticeable relief for households. In balancing priorities, the government imposed and subsequently extended a rice import ban until the end 2025²⁸ to protect rice farmers amidst falling global rice prices. Looking ahead, we expect rice prices to remain soft due to the government's vigilance and proactive measures to manage and maintain adequate supplies.

In addition, lower global energy prices and concomitantly modest electricity tariff adjustments will keep utility prices in check in 2026. Our global forecast for Brent crude oil prices averages USD62/bbl in 2026, representing an 8.8% YoY decline from our 2025 average forecast of USD68/bbl. Taken together, we expect headline CPI to only rise moderately to 2.5%, near the lower end of the BSP's 2-4% target range, but up from 1.6% in 2025.

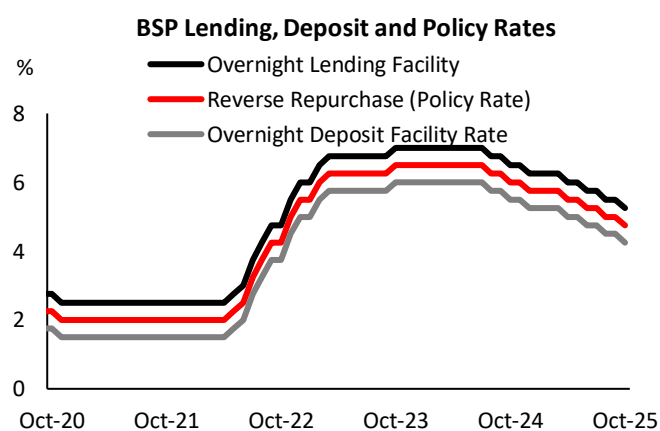
²⁷ Through Executive Order 62, the government lowered the tariff on imported rice from 35% to 15% until 2028.

²⁸ DA chief says rice import ban to be extended till yearend. Department of Agriculture, 7 October 2025.

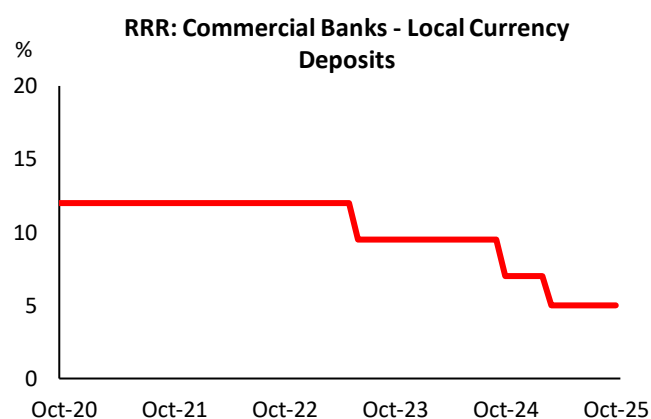
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BSP on a prolonged hold in 2026

BSP has been aggressive in its rate cutting cycle, reducing the policy rate by a cumulative 175bp since 2024. We believe there is space for one more 25bp cut in 4Q25 given soft domestic demand conditions and BSP's continued dovish bias (see: BSP surprises with 25bp cuts, 9 October 2025). The need for further easing into 2026 may be reduced once government spending normalises following increased scrutiny on public expenditures. Simultaneously, a pause in rate cuts will allow the complete impact of recent rate cuts to be transmitted onto the real economy providing BSP with some room to assess whether there is a need for further easing.



Source: Bangko Sentral ng Pilipinas, CEIC, OCBC.



Source: Bangko Sentral ng Pilipinas, CEIC, OCBC.

BSP still have room to manoeuvre on liquidity measures. The Reserve Requirement Ratio (RRR) was reduced by 200bps to 5% in 2025. BSP Governor Remolona believes that the 5% level remains elevated²⁹ and, in an interview with Bloomberg on 25 March 2025, noted that the BSP would like to reduce the RRR "to as low as zero" but will have to manage liquidity implications to avoid "some upside risk to inflation". To that end, we do not rule out further RRR cuts in 2026 consistent BSP's long-held policy agenda.

Summary of Economic Forecasts	2023	2024	2025F	2026F	2027F
GDP (% YoY)	5.5	5.7	4.8	5.5	5.5
Exports (% YoY)	1.3	3.3	5.8	6.1	5.1
Imports (% YoY)	1.0	4.2	4.7	4.2	2.9
Current Account Balance (% of GDP)	-2.8	-4.0	-3.5	-3.3	-3.0
Unemployment Rate (% aop)	4.4	3.8	4.0	4.0	4.0
Fiscal Balance (% of GDP)	-6.2	-5.7	-5.5	-5.3	-4.8
Headline CPI (% YoY)	6.0	3.2	1.6	2.5	3.0
BSP Overnight Borrowing Rate (% eop)	6.50	5.75	4.50	4.50	4.50
USDPHP (eop)	55.39	57.84	58.50	57.20	55.90

Source: Bangko Sentral ng Pilipinas, Development Budget Coordination Committee, Philippines Statistics Authority, CEIC, Bloomberg, OCBC. FX forecasts are as of 17 November 2025.

²⁹ BSP: April rate cut still 'on the table'. BusinessWorld, 12 March 2025.

Singapore

Singapore: In a good place for now

- 2025 GDP growth is likely to exceed expectations to land around 3.3% YoY, above the official forecast of 1.5-2.5% YoY, due to a turbo-charge by broad-based growth across manufacturing, services and construction. The domestic labour market is gradually softening, but the unemployment rate remains muted.
- MAS has eased monetary policy twice in January and April 2025, but subsequently maintained the status quo at the July and October 2025 MPS. With core inflation well-behaved around 0.5% YoY in 2025 and gradually edging up to 0.5-1.5% in 2026, there is no urgency for a further easing at this juncture. Fiscal policy is likely to have room given strong revenue collections for 1H of FY2025.
- Looking ahead, 2026 is likely to see a modest moderation in growth to 1-3% amid the higher 2025 base and potential impact from additional product-specific tariffs. NODX growth is also likely to ease from ~4% in 2025 to 1-3% in 2026. Our 2026 headline and core inflation forecasts both stand at 1-1.5%, versus 2025 forecasts of 0.7% and 0.5% respectively.

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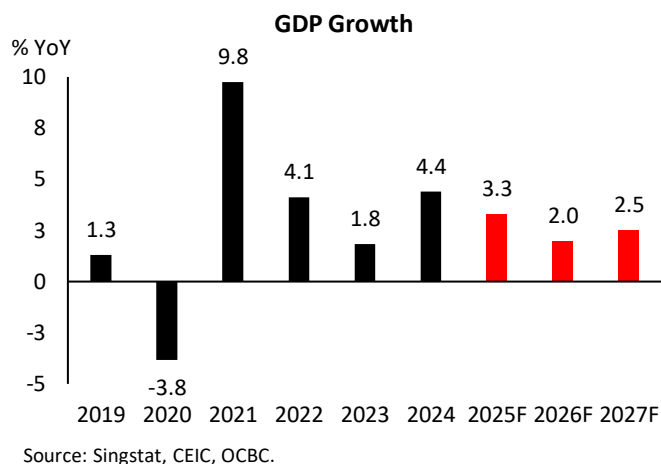
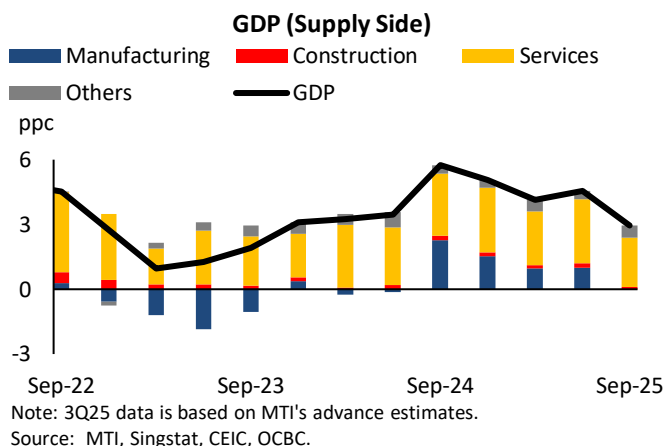
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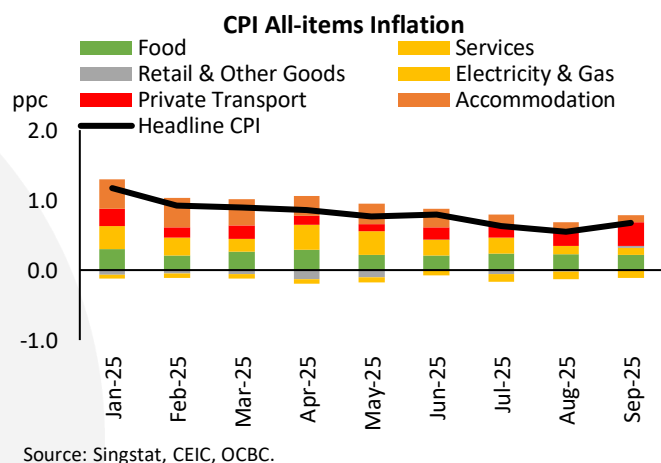
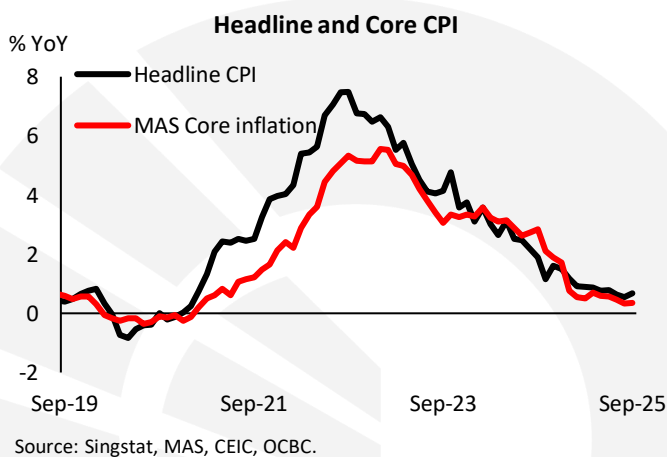
Real GDP growth had surprised on the upside for most of 2025, with broad-based growth across manufacturing, services and construction sectors. While momentum appeared to have moderated from 1H25's 4.3% YoY to 2.9% YoY in 3Q25 based on the advance estimates although we estimate that the latter will also be likely revised up to around the 4% handle after factoring in the September industrial production data. Despite all the hype about US reciprocal tariffs, particularly the shock at the Liberation Day announcement in early April, frontloading activities and AI-led demand have sustained into 3Q25.

This pattern of selected pockets of outperformance in high-value services and AI/data-centre-related activity, offset by softer external-facing manufacturing and trade, probably underpins the resilience in the Singapore economy in a global economic landscape marred by trade and tariff uncertainties. Our GDP growth forecast suggests that 2025 should land in low-single-digits growth but exceed the topside of the current official growth forecast of 2.5% YoY to reach at least 3.3%, whilst 2026 expected to ease to a near-trend pace of between 1-3% YoY unless global conditions improve.

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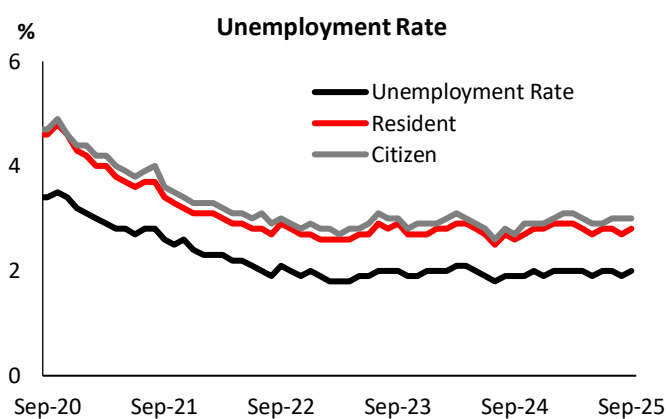
Inflation in 2025 has been on a clear downtrend and proved unusually muted despite the tariff threats. Headline and core inflation may have bottomed at 0.5% and 0.3% YoY respectively in August 2025. Core inflation, which excludes energy and private road transport, had been rapidly decelerating from the 2-3% range seen in most of 2024 and had prompted MAS to reduce its 2025 core inflation forecast to a tepid 0.5% YoY. This likely contributed to the pre-emptive pivot in Singapore's monetary stance where after a hawkish period through 2021–2023, MAS loosened policy in January and April 2025 and more recently kept its policy steady in July and October 2025 to signal a data-contingent but cautious stance where inflation risks are two-sided and upside surprises in growth warranted patience. The measured approach likely reflects MAS's judgment that inflation had fallen back to a comfortable range and that the output gap was moving toward neutral. Looking ahead, core inflation is expected to gradually edge up into the year-end for 2025 and into 2026, as softening domestic labour market conditions. We forecast 2026 headline and core inflation at 0.5-1.5% YoY.



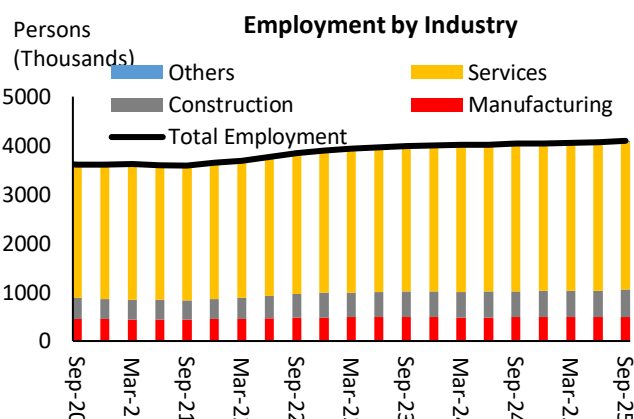
The labour market remained a relative bright spot, though not immune to softness in trade-sensitive sectors. The 3Q25 show unemployment rates staying low at 2.0%

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(overall resident: 2.8%; citizen: 3.0%) and retrenchments remaining contained — a profile more consistent with a soft landing than with a recession. Employment growth through 2025 was supported by resident hiring in services sectors and selective growth in work permit categories in construction and manufacturing. Wage dynamics have likewise shown stickiness at the base but only modest upward pressure on broad compensation indicators, which helped keep core inflationary impulses muted even as nominal wages slowly normalized. The labour picture thus remains supportive of domestic demand, albeit with heterogeneous conditions across sectors: tourism, domestic services and advanced-services firms did better than sectors tied closely to Chinese industrial activity or global cyclical demand.



Source: MOM, CEIC, OCBC.



Source: MOM, CEIC, OCBC.

On fiscal policy, the FY2025 fiscal position remains strong, with a projected \$6.8 bn surplus (equivalent to 0.9% of GDP), the largest since FY2017. 2025 continued the theme of targeted support plus prudence. The government's fiscal stance has shifted compared with the immediate pandemic years: Budget 2025 and subsequent statements emphasised investments in infrastructure, healthcare and skills while using revenue measures — such as GST changes earlier in the term — to secure medium-term finances and social programmes. Policymakers have balanced the need to sustain growth and manage structural demands from an ageing population with a desire not to overheat the economy. That has translated into a looser, but still responsible, fiscal impulse: one-off rebates and targeted schemes (for households and firms) supported near-term consumption and employment while capital spending plans aim to lift productive capacity over the medium term. International institutions — including the IMF in its 2025 Article IV engagement — have generally endorsed this approach as appropriate given muted inflation and downside external growth risks.

The strong projected fiscal position also leaves substantial dry fiscal powder on the table just in case downside growth risks materialise. Indeed, Budget 2025 outturn may potentially see a higher-than-expected surplus, amid buoyant tax revenue which has a run rate of 58.7% in the first half of FY25, up from 55.9% from the same

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period in FY24, amid healthy corporate and personal income taxes, as well as buoyant tax revenues from vehicle quota premiums.

	Apr-Sep 24 (% of Revised FY24)	Apr-Sep 25 (% of FY25 Budget)	Apr-Sep 25 (% YoY)
Operating Revenue	55.9	58.7	10.4
Corporate Income Tax	74.7	76.8	8.7
Personal Income Tax	56.2	56.6	7.4
Withholding Tax	40.7	40.8	5.6
Assets Taxes	39.9	39.3	1.3
Customs, Excise and Carbon Taxes	50.5	53.9	25.1
GST	49.6	46.4	-1.4
Motor Vehicle Taxes	49.4	43.3	-10.4
Vehicle Quota Premiums	46.9	61.4	32.2
Betting Taxes	48.8	53.0	10.5
Stamp Duty	47.2	55.5	9.5
Other Taxes	46.0	57.0	38.2
Fees and Charges (Excl. Vehicle Quota Premiums)	45.0	59.0	45.4
Others	100.0	69.3	-28.9

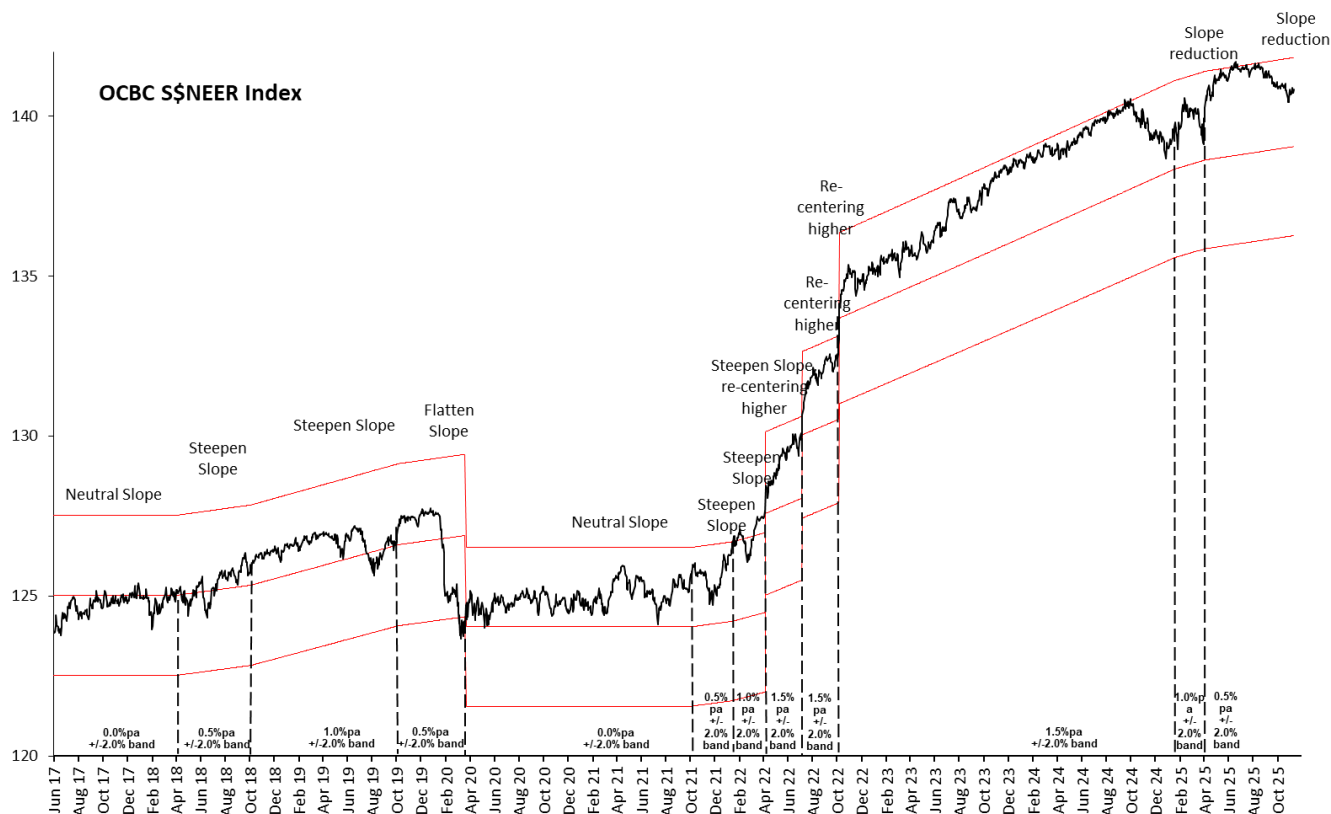
Source: MOF, CEIC, OCBC.

Monetary policy in Singapore is necessarily different from the interest-rate model used in many economies because MAS uses the exchange rate (the S\$NEER) as its operational instrument. That difference became important in 2025 when MAS moved from a tightening cycle to the first loosening since 2020 and then to a hold. The January easing (a modest reduction in the slope of the S\$NEER policy band) recognised lower inflation and downside risks, but MAS has been explicit that this was not a prelude to aggressive easing, and the policy remains data-driven and calibrated to the outlook for inflation and the output gap. This stance shifted again in July 2025 when MAS left the monetary policy settings unchanged. By October, MAS judged that growth had been stronger than expected and left the exchange rate policy band unchanged again, signalling the “neutral but watchful” stance that the central bank prefers when inflation is low but external risks and supply-side dynamics (like global yields and exchange volatility) remain. The overall message to markets was stability — an unwillingness to swing too quickly in either direction while key external uncertainties resolve, coupled with comfort with the core inflation trajectory.

Core inflation is expected to trough in September then rise in a subdued manner back to around the 1% YoY handle into 2026. The key considerations were that the Singapore economy is largely in balance for now and the monetary policy stance is

Singapore

still mildly supportive after the two earlier policy easings in 1H25. With supportive financial conditions, an incremental monetary policy approach which is data-driven without a presumptive policy path is appropriate.



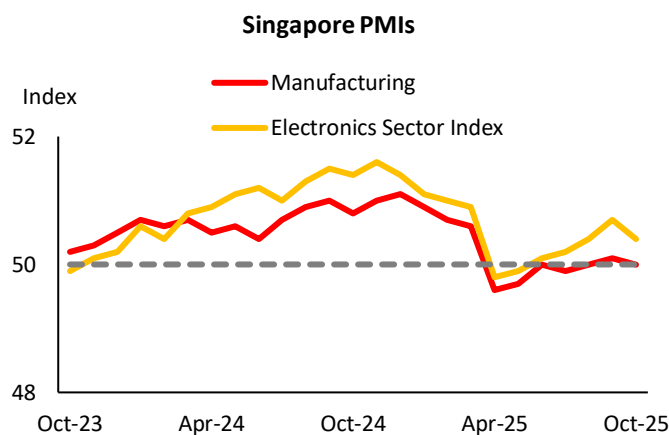
The property market remains on a roll. Private home sales rose to 2,424 units in October 2025, the highest since November 2024 (2,560 units). This caused the average home sales volumes in the January-September 2025 period to exceed those of the past three years, according to MAS' Financial Stability report, as "more accommodative domestic interest rate conditions could support market sentiment and buying interest". Lower mortgage rates in a declining interest rate environment have contributed to the property market momentum, but the underpinning factor is the flush household liquidity and the evergreen property interest. Notably, the government land sales for 1H 2026 will be tapered to about 4,500 new private residential units, down more than 10% from the same period in 2025.

Two external shocks shaped Singapore's macro picture in 2025: U.S. trade policy shifts and China's slowdown. On trade, the U.S. administration's reciprocal tariff adjustments and follow-on actions introduced fresh policy uncertainty that can potentially reroute supply chains and alter trade flows in Asia. For an open trading hub like Singapore, higher U.S. tariffs (and retaliatory measures, or compliance-driven sourcing shifts) can depress regional trade volumes, weigh on manufacturing

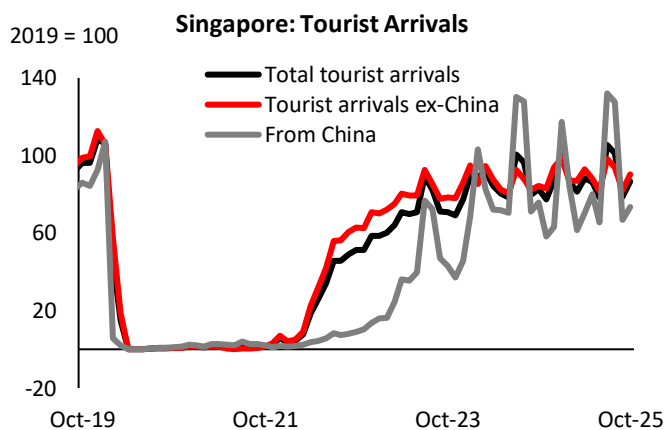
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output and compress margins for export-oriented firms, especially in electronics and intermediate goods.

This year, manufacturing PMI has stayed relatively tame around the 50 handle, though supported by the electronics sector which has seen five straight months of expansion since June. The precise pass-through to Singapore depends on product composition and the willingness of firms to re-home supply chains to nearby ASEAN locations — a move that could be positive for Singapore’s logistics and financial services but negative for domestic manufacturers exposed to direct U.S. tariff hits. Policymakers and the private sector have responded by emphasising diversification and trade facilitation, while analysts watch whether tariff measures produce only short-run noise or structural trade realignments.



Source: SIPMM, Bloomberg, OCBC.



Source: Singapore Tourism Board, CEIC, OCBC.

China’s slowdown is the other major external headwind. After a strong post-COVID recovery that disappointed later in the year, Chinese activity indicators weakened materially in late 2025 — with exports faltering, fixed-asset investment softening, and industrial activity showing signs of strain. Given China’s outsized role in regional demand and supply chains, a slowdown there has several channels into Singapore: lower exports of electronics and capital goods, weaker tourist flows (affecting retail and hospitality), and contagion to commodity prices and regional investor sentiment. Singapore’s highly tradeable services — financial, business services, and data hosting — are somewhat more insulated than commodity-oriented economies, but the trade and tourism channels are not trivial. Regional corporate earnings that depend on Chinese demand have already shown increased dispersion, and any sustained weakness in China will likely tip Singapore’s growth profile lower than currently forecasted unless offset by domestic or third-party demand. Recent customs and macro prints from China underscore the downside risk and have been factored into MAS and MTI’s cautious language.

Taken together, the tariff shock and China slowdown create a classic “external-demand” risk to Singapore: both reduce foreign final demand and raise the odds of

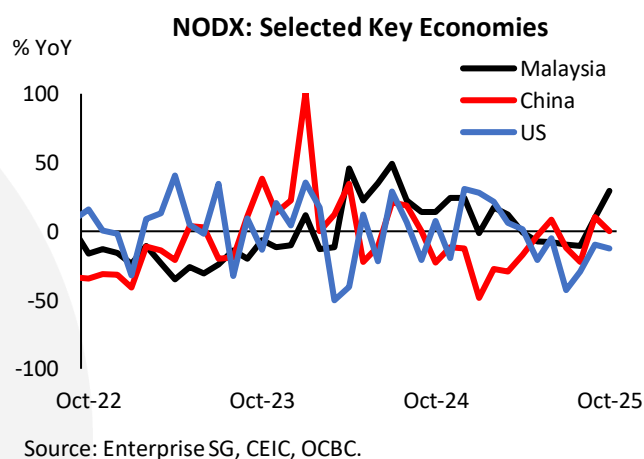
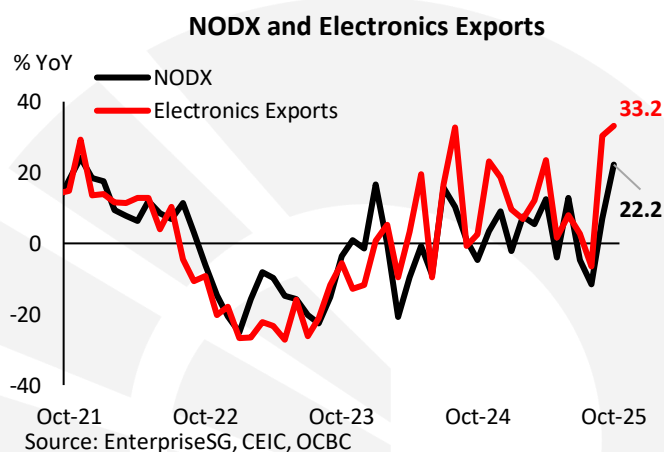
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greater volatility in trade, FX and risk premia. The domestic policy mix — looser but prudent fiscal support, a cautious MAS stance, and active labour programmes to keep employment high — has been designed to cushion the blow. That said, the distributional impact matters: small and medium exporters, commodity-linked firms and certain manufacturing subsectors are more vulnerable, while digital services, wealth management and specialized finance continue to offer growth levers. For corporate Singapore, strategic responses include accelerating diversification of markets, near-shoring non-core activities within ASEAN, and reorienting to higher-value services where Singapore has comparative advantages. For policymakers, the trick is calibrating targeted support without undermining long-term fiscal sustainability.

That said, Singapore's non-oil domestic exports (NODX) surged 22.2% YoY (9.3% MoM) in October, beating market consensus forecast of 7.5% and our forecast of 9.8% YoY. This marked the fastest NODX expansion since November 2021. Meanwhile the September NODX was also revised a tad higher from 6.9% to 7.0% YoY. The October NODX outperformance was boosted by volatile non-monetary gold and electronics exports such as ICs and PCs. In particular, NODX of ICs, PCs and disk media increased by 40.9%, 77.7% and 31.3%, suggesting still resilient demand for the AI-led electronics boom.

Electronics exports accelerated from 30.4% YoY in September to 33.2% in October. Non-electronics exports also rose 18.8% YoY in October, with pharmaceuticals exports growing by 25.2%. That said, pharmaceutical exports still contracted 13.6% YoY for the first 10 months of this year, albeit this is already an improvement from the 28.1% YoY drop in the same period last year. In addition to pharmaceuticals, the other key drivers for non-electronics NODX in October were non-monetary gold (176.8% YoY) and specialised machinery (16.1%).



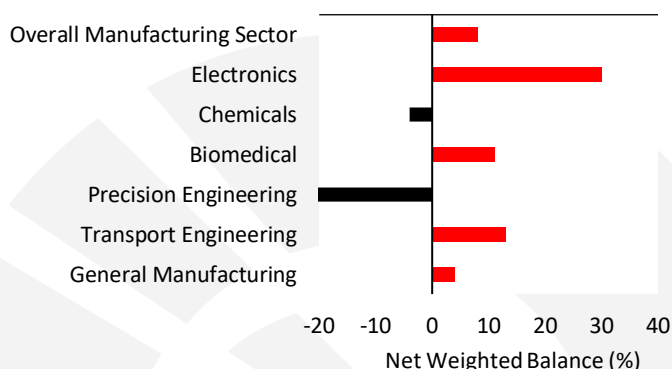
Eight of the top ten NODX markets expanded in October, with the two exceptions being the US and Japan. NODX was led by Thailand (91.1% YoY), EU (83.4%), Hong

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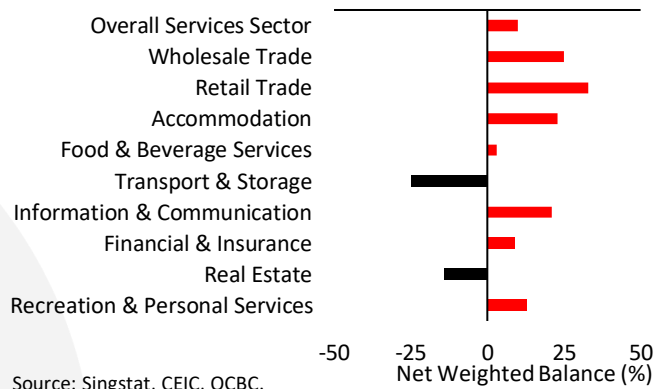
Kong (66.9%), Taiwan (61.5%), South Korea (38.0%), Malaysia (29.2%) and Indonesia (13.0%). Notably, NODX to China was a close shave, stalling at a marginal 0.1% YoY growth in October after jumping 10.3% in September, and likely reflecting the growth challenges in the Chinese domestic demand story and potentially foreshadowing further weakness to come since NODX has been swinging between expansion and contraction for most of this year. NODX to the US contracted for 6th consecutive month by 12.5% YoY in October, mainly weighed down by non-electronics NODX (-22.8% YoY) which is illustrative of softening US domestic demand whereas electronics NODX remained robust at 44.8% YoY. Meanwhile NODX to Japan slipped back into a mild contraction of 0.1% YoY following a brief expansion of 8.2% in September which now appears to be a blip as NODX has been consistently declining since May 2025.

We upgrade our full-year 2025 NODX growth forecast to 4% YoY, as our earlier 2.5% forecast looks likely to be conservative given the significant outperformance in October NODX. If our 4% NODX growth forecast materialises, this is a huge improvement from 0.2% growth in 2024 and would mark the fastest pace since 2021 (12.1%). Our 2026 NODX growth forecast remains at 1-3% YoY given the high base in 2025. The NODX base turns slightly more challenging for November-December due to an uptick registered during this period last year, therefore we tip NODX to grow by 3.3% YoY in the last two months of this year. The uncertainties for the 2026 outlook revolve around the US growth slowdown and Fed's interest rate trajectory, potential US product-specific tariffs which is driving some re-shoring and FDI back to the US, and the ongoing volatility in the AI industry, just to name a few.

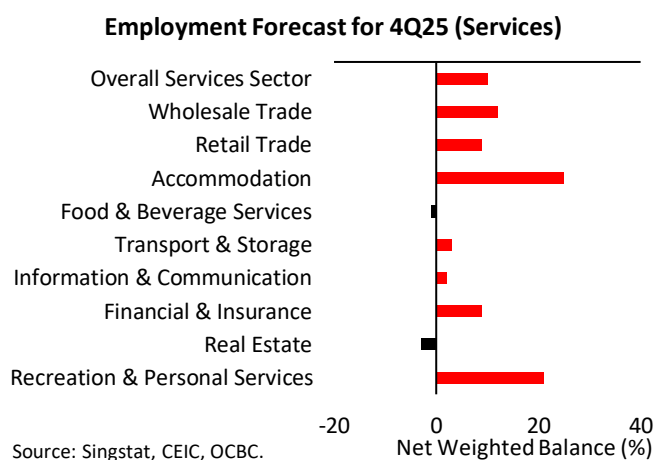
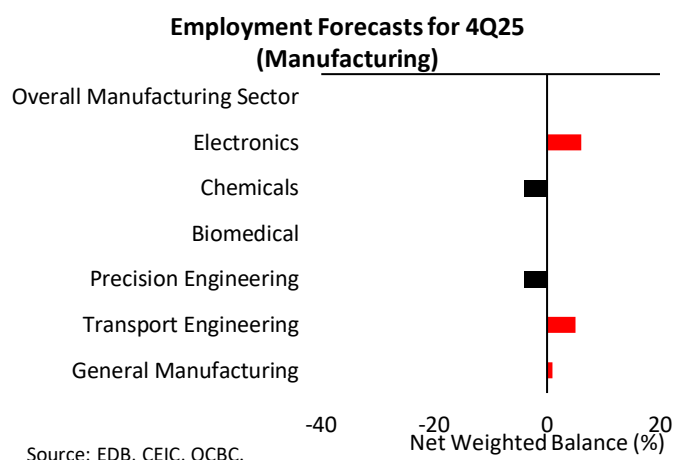
General Business Outlook for October 2025 - March 2026 (Manufacturing)



General Business Outlook for October 2025 - March 2026 (Services)



Singapore



Looking to 2026, growth should ease to a near-trend rate — broadly lower than the 2024 rebound but not recessionary — while inflation remains benign by the standards of the early 2020s. MAS's macroeconomic review flagged that GDP growth is likely to ease to a near-trend pace in 2026 barring a sudden increase in tariffs or a sharp deterioration in demand. Survey data compiled by MAS suggests consensus growth projections clustered in the mid-to-low single digits for 2026, with headline and core inflation expected to remain subdued (core averaging near or slightly above 1% in many forecasts). The balance of risks is asymmetric: a sharper-than-expected China contraction or further U.S. trade policy escalation could push growth materially lower and trigger more active fiscal or monetary easing; conversely, a sustained rebound in global tech demand or rapid re-routing of supply chains into ASEAN could lift growth upside.

Policy implications for 2026 are straightforward but consequential. Monetary policy — via the S\$NEER mechanism — should remain data-dependent; MAS will likely keep the exchange-rate band settings under review and resist pre-emptive large moves unless inflation or the output gap deviates strongly from projections. Fiscal policy will probably continue its targeted tilt: investing in structural upgrades (skills, healthcare, climate resilience), supporting firms' digital and regional reorientation, and maintaining fiscal buffers for downside shocks. Labour policy will stay active, with reskilling and hiring incentives aimed at smoothing structural shifts and ensuring that high employment and low unemployment rates are sustained without rekindling strong wage-price spirals. Internationally, Singapore will push trade diversification and deeper ASEAN linkage so that shocks in any one market (notably China or the U.S.) have smaller aggregate effects.

For businesses and investors, the near-term playbook is risk management plus selective opportunity capture. Risk management means stress-testing cash flows against weaker external demand and higher trade costs, hedging critical FX and commodity risks, and re-evaluating supply-chain footprints. Opportunity capture

Singapore

points to Singapore's strengths: financial intermediation, green and digital finance, data centre and cloud services, and a regional hub role for firms relocating higher-value back-office functions to ASEAN. For households the headline is manageable inflation and low unemployment — favourable for real wages and consumption — but with the caveat that sectoral pockets (export manufacturing, tourism supply chains) will see more downside and that government fiscal policies (tax changes, targeted rebates) will shape disposable income trajectories.

In conclusion, Singapore enters 2026 in a position of relative strength by advanced-economy standards — low unemployment, modest inflation, and well-managed public finances — but it is not immune to external shocks. The combined risks from U.S. reciprocal tariff measures and a softer China create tangible downside scenarios that would test policy flexibility. Policymakers have already adjusted the macro toolkit in 2025 — loosening monetary conditions modestly and using fiscal levers where needed — and will likely continue to lean on targeted fiscal support, active labour market policies, and the exchange-rate tool to navigate 2026. The central question for the next 12 months is how well Singapore can translate its policy buffers and structural advantages (finance, logistics, digital infrastructure) into sufficient offsetting demand if external headwinds deepen — the answer will determine whether 2026 is a year of steady consolidation or one requiring more active countercyclical measures.

South Korea

South Korea: Fiscal Tailwinds

- Growth momentum strengthened in 3Q25 as domestic political uncertainty faded, and trade tensions eased.
- Fiscal tailwinds will further underpin GDP growth. Reflecting the stronger-than-expected 3Q25 outcome, we revise higher our 2025 GDP forecast to 1.1% from 0.8% previously. The proactive fiscal stance should lift growth further to around 1.8% in 2026.
- Concerns from financial risk arising from increasing household debt and exchange rate volatility are the key hurdles for further policy rate cuts. But we think those risks are manageable supported by recent macroprudential measures and the medium-term stabilizing effect of the U.S.–Korea investment deal. As such, we believe there is room for additional monetary policy easing in early 2026.

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GDP growth in 1H25 reflected a weak and uneven recovery. The economy contracted by 0.2% QoQ sa in 1Q25 but rebounded by 0.7% QoQ sa in 2Q25, resulting in only a modest net gain for the first half. Private consumption contributed little to overall growth, as spending on durable goods and certain services remained soft, partially offsetting moderate gains in recreation and cultural activities.

Momentum strengthened in 3Q25 as domestic political uncertainty faded, following the June presidential election, and trade tensions eased after several bilateral agreements. GDP rose by a stronger-than-expected 1.2% QoQ sa, accelerating from 0.7% in 2Q25, underpinned by improving government expenditure and private consumption. Household spending increased 1.2% QoQ sa, contributing 0.6ppt to headline growth, supported by two rounds of government cash handouts (in late July and late September), and policy incentives for EV purchases. The contribution from net exports narrowed to +0.1ppt from +0.3ppt in 2Q, as goods and services exports slowed from a robust 4.5% to 1.5% QoQ sa following earlier frontloading. Nevertheless, sustained strength in semiconductors continued to underpin the trade performance.

Proactive Fiscal Policy to Anchor 2026 Outlook

The new administration unveiled a pro-growth budget for 2026, projecting an 8.1% YoY increase in expenditures and maintaining the fiscal deficit at 4.0% of GDP. The fiscal plan emphasized the integration of AI across strategic sectors, including semiconductors, automotive, robotics, shipbuilding, and factory automation. Expenditures for R&D, industrial support, and energy are budgeted to rise by nearly KRW10trn in 2026. The government also intends to maintain fiscal support, with deficits staying at or above 4% of GDP through 2029. While this will gradually lift the debt ratio, the government debt-to-GDP level remains below 60%, which we view as sustainable.

South Korea

Reflecting the stronger-than-expected 3Q outcome, we revise our 2025 GDP forecast up to 1.1% from 0.8% previously. The proactive fiscal stance should lift growth further to around 1.8% in 2026. Inflation is unlikely to be a major swing factor, with CPI expected to stay around 2% in both 2025 and 2026.

U.S.–Korea Investment Deal Reduces External Uncertainty

On 29 October, South Korea and the U.S. finalized the details of their tariff negotiations. Under the agreement, South Korea secured a 15% reciprocal tariff rate, and the U.S. reduced its tariffs on automobiles and parts to 15% from 25%. The total Korean investment in the U.S. will amount to USD350bn, comprising USD200bn in cash and USD150bn in shipbuilding cooperation. The USD200bn cash component will be deployed over 10 years, capped at USD20bn annually, funded primarily by investment income from FX reserves and partially via government-guaranteed USD bond issuance. This will likely be reflected in Korea's balance of payments. While the removal of trade-related uncertainty should be positive for Korean assets, the KRW has weakened over 2.5% against the USD since the announcement due to market concerns over potential long-term pressure on Korea's basic balance.

More Room for Monetary Easing

The Bank of Korea (BoK) cut policy rates by a cumulative 50bp in 1H25 and has since paused. According to forward guidance from the 23 October meeting, four out of six members remained open to another cut within three months—down from five previously—citing elevated financial stability concerns, particularly related to the housing market and household leverage.

The government has introduced three rounds of macroprudential tightening since June 2025 (see table below) aimed at curbing excessive household borrowing. These measures are likely to mitigate debt-related risks, giving the BoK more confidence to ease further. Importantly, from the central bank's perspective, "housing market stabilization" does not necessarily require price declines.

South Korea

Table 1: The latest property tightening measures.

Round	Key Measures	Policy Focus
Round 1: 27June25	• Uniform KRW 600m mortgage cap in regulated Seoul areas • Mandatory 6-month occupancy • No new mortgages for ≥2-home owners • Loan maturities shortened (~30 years) • Reduced policy-loan access for first-home buyers/newlyweds • BOK: lowered expected Seoul apt price growth by 1.6–2.1ppt	Demand suppression via leverage cap & anti-speculation rules
Round 2: 7Sep25	• LTV cut from 50% → 40% in high-price zones • Accelerated supply via state-owned land • Push for redevelopment & 1.35m new homes in Greater Seoul by 2030	Demand tightening + supply expansion
Round 3: 15Oct25	• All 25 Seoul districts + 12 Gyeonggi cities designated “speculative/overheated” • Tiered mortgage caps: 600m / 400m / 200m depending on home value • Stronger real-estate crime oversight • Hints of future tax increases	Full-scale regulatory expansion & stricter mortgage caps

The minutes from the October BoK meeting revealed that board members remain cautious about household debt and FX volatility. However, we believe these risks are manageable, supported by recent prudential measures and the medium-term stabilizing effect of the U.S.–Korea investment deal. With the balance of risks still tilted toward supporting growth, we expect the BoK to deliver one more 25bps cut in early 2026, bringing policy rates closer to a neutral level.

Taiwan

Taiwan: Slower growth in 2026

- Real GDP grew 7.64% YoY in 3Q25, following 8.01% growth in the previous quarter. The reading was underpinned by strong demand for AI and new technology applications orders placed.
- Growth is likely to hold up well in the quarters ahead, as trade growth momentum, especially those exports to ASEAN countries, stays strong. Electronic, information & communication products accounted for more than ~72% of ASEAN's exports growth in 1H25. Domestic demand is likely to moderate further, but household consumption may provide some support to growth following the recent announcement on the one-off NT\$10,000 cash handout on October 24, 2025. Our forecast for 2025 GDP growth is at 6.64%.
- The combined effects of tariffs and a high base in exports and investment may lead to a slower growth rate for Taiwan's economy in 2026. Our GDP growth forecast for 2026 stands at 2.28%.

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Strong exports remain the dominant growth driver

Real GDP grew 7.64% YoY in 3Q25, following the 8.01% growth in the previous quarter. The reading was underpinned by strong demand for AI and new technology applications orders.

External demand especially exports, expanded at the pace of 30.64% YoY, supported by robust global demand for high end chips. With private expenditure rising 0.92% YoY, overall domestic demand has lost steam. This is due to sluggish public spending (edging down to 0.08% YoY in 3Q from 2.85% in 2Q) and cooling investment (turning negative to -0.04% YoY in 3Q from 4.87% in 2Q). As such, net export was the biggest driver of growth in 3Q25, contributing 7.21 percentage points (pp) to headline GDP growth, while private consumption accounted for 0.43pp. Gross capital formation and public spending contributed -0.01pp and 0.01pp, respectively.

Growth is likely to hold up well in the quarters ahead, as trade momentum—particularly exports to ASEAN countries—remains strong. Electronic, information, and communication products accounted for over 72% of Taiwan's export growth to ASEAN in 1H25.

Domestic demand is likely to moderate further, but household consumption may provide some support to growth following the recent announcement on the one-off NT\$10,000 cash handout on October 24, 2025. The government expects the handouts may increase GDP by ~0.4%. On balance, our forecast for 2025 GDP growth is at 6.64%

Taiwan

The combined effects of tariffs and a high base in exports and investment may lead to a slower growth rate for Taiwan's economy in 2026. A reciprocal tariff rate of 20% applied to Taiwanese goods remains relatively high compared to Japan and South Korea, which are at 15%. We also remain cautious about potential semiconductor tariffs under the Section 232 investigation in 2026. Our GDP growth forecast for 2026 stands at 2.28%.

Table 1: Taiwan advance estimate of 3Q25 GDP (Percentage Contribution, by Expenditure)

Component	2023	2024	4Q24	1Q25	2Q25	3Q25(a)	2025F DGBAS	2025F CBC	2026F DGBAS	2026F CBC
Domestic Demand	1.17	5.48	8.11	5.68	2.23	0.49	1.74		2.44	
-Private Expenditure	8.32	2.81	2.12	1.32	0.49	0.92	0.4		0.99	
-Public Expenditure	0.88	2.46	2.43	0.52	2.85	0.08	0.31		0.36	
-Gross Capital Formation	-10.30	12.45	23.78	16.76	4.87	-0.04	2.36		0.45	
External Sector										
-Exports	-4.32	8.71	8.89	19.38	35.02	30.64	15.03		1.42	
-Imports	-5.73	11.41	18.32	23.71	31.29	25.27	12.32		1.05	
Real GDP	1.31	4.59	3.82	5.45	8.01	7.64	4.45	4.55	2.81	2.68

Source: DGBAS, OCBC Research

Chart 1: Taiwan's GDP growth hits the highest since 1Q21

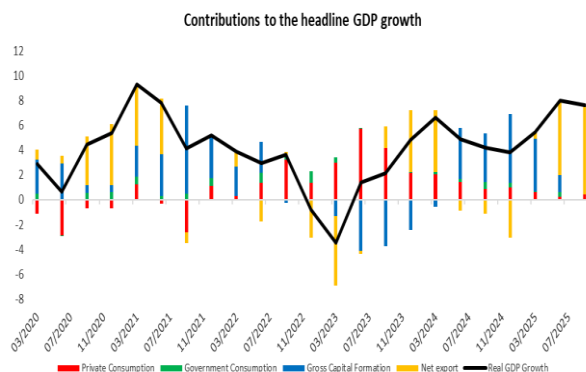


Chart 2: Consumer confidence softened

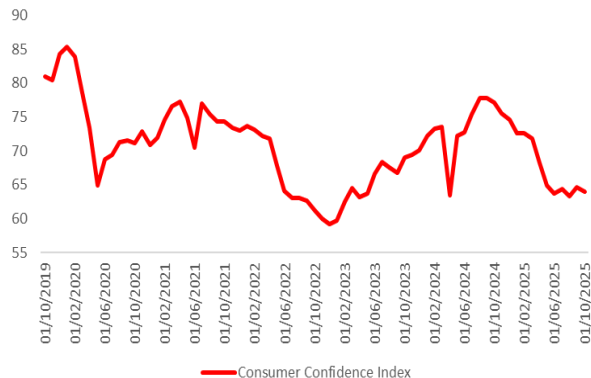


Chart 3: Trade growth momentum stays strong

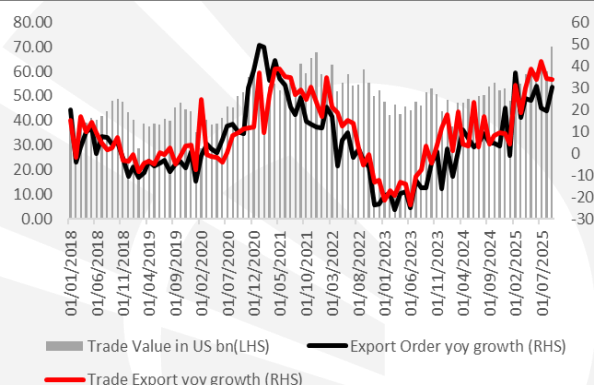
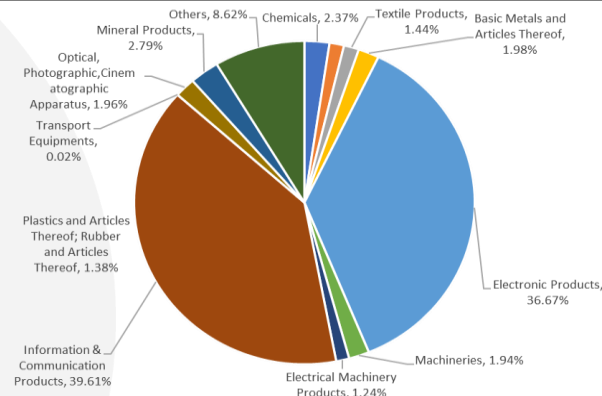


Chart 4: Breakdown of Taiwan's Export Share to ASEAN Countries (Sep 2025)



Source: DGBAS, Bloomberg, OCBC Research

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Taiwan

Policy outlook

On the central bank front, the Central Bank of the Republic of China (CBC) kept its benchmark interest rate unchanged at 2.0% during its meeting on 18 September 2025.

In its Monetary Policy Committee (MPC) statement, CBC noted greater clarity on U.S tariff rules and the impact of its related uncertainty has eased somewhat. The bank also acknowledged signs of a modest recovery in global manufacturing activities. As a result, the CBC now expects GDP growth for 2H25 to reach 2.51% and has revised its full-year 2025 GDP forecast upward from 3.05% to 4.55%.

Regarding its existing selective credit controls, the CBC observed some positive outcomes following seven rounds of adjustments since Dec 2020. First, loan-to-value ratio for real estate loans subject to bank restrictions has declined, with all ratios now in compliance with regulations; Second, real estate market continues to adjust, supported by four key indicators including expectations around housing prices – a survey for 3Q25 showed 37% of respondents expected housing prices to fall, compared to 29% who anticipated; an increase in transaction activity in the real estate market has cooled in recent months; the upward trend in housing prices has further slowed. Indeed, the YoY growth rates of both the Ministry of the Interior's Housing Price Index (1Q25) and the housing price indices released by Cathay, Sinyi, and National Chengchi University-Yongqing (2Q25) declined and finally, among domestic banks, the share of home purchase loans issued to individuals without self-owned residences (as a proportion of total residential loans) continued to rise. Similarly, the share of loans for urban renewal and dilapidated building reconstruction (relative to total construction loans) has steadily increased.

Given the upbeat economic performance, we believe the CBC has room to maintain its interest rate pause through the end of 2025, despite both headline and core inflation falling below the bank's 2% target. We think a slower growth outlook for 2026 may provide a window for the CBC to ease monetary policy and initiate rate cuts. Accordingly, we have pushed our forecast for the first rate cut from 4Q25 to 1Q26.

Table 2: OCBC's forecasts

OCBC's Forecast	Mar-26	Jun-26	Sep-26	Dec-26
USD-TWD	30.30	30.20	30.00	29.80
Taiwan Discount Rate	1.88%	1.88%	1.88%	1.88%

Source: Bloomberg, OCBC Research

Taiwan

Chart 5: Taiwan consumer price index

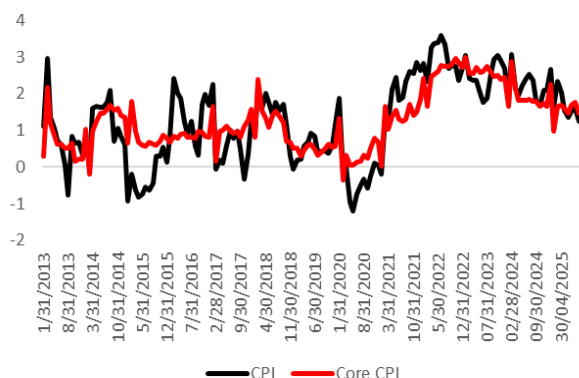


Chart 6: Taiwan net portfolio flows

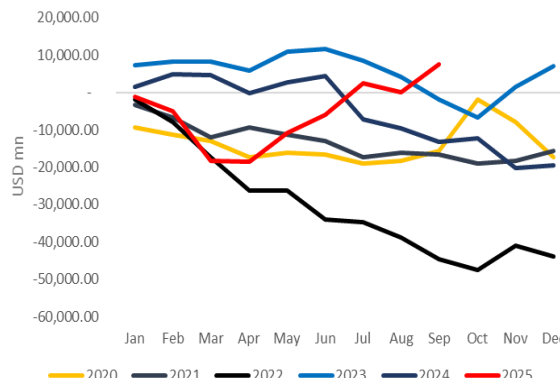


Chart 7: Approved inward FDI by country in USD millions

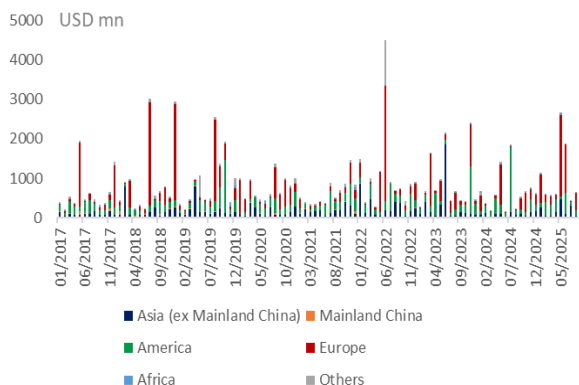


Chart 8: Approved inward FDI by sectors in USD millions

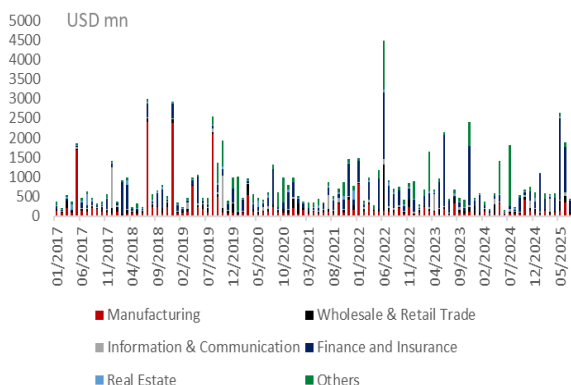


Chart 9: Approved outward FDI by country in USD millions

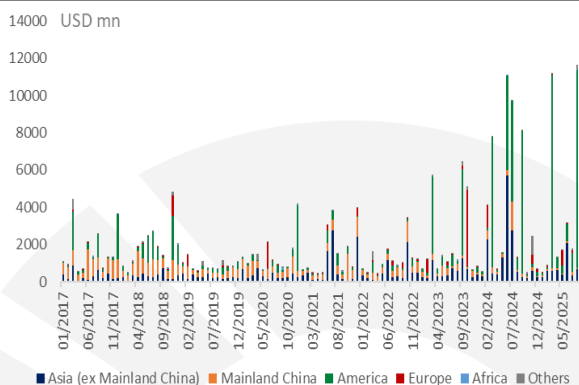
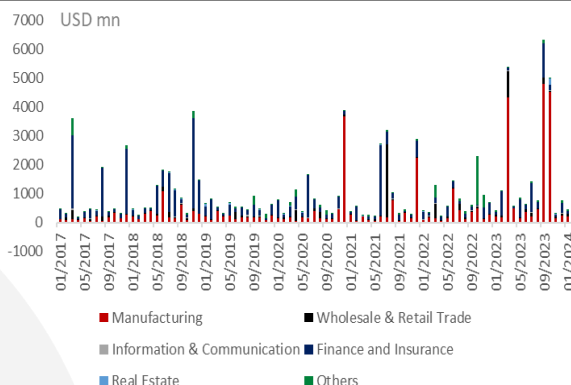


Chart 10: Approved outward FDI by sectors in USD millions



Source: CEIC, OCBC Research

Thailand

Thailand: Low growth in another election year

- GDP growth will likely remain low at 2.0% YoY in 2026, similar to 2025, as cyclical and structural headwinds continue to pose challenges.
- The payback from the frontloading of exports to the US, combined with another election cycle will add to the challenges in achieving a recovery to potential growth.
- The room for further rate cuts is limited following 75bps of rate cuts to date. We anticipate one more 25bps cut this year, bringing the policy rate to 1.25% by end-2025, with the Bank of Thailand (BoT) likely to maintain a prolonged hold in 2026.

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Another election in 2026

Following the removal of Paetongtarn Shinawatra by the Constitutional Court, PM Anutin Charnvirakul received royal endorsement on the 5 September. PM Anutin's path to the premiership was secured after gaining support from the largest opposition bloc, The People's Party. Their support was conditional on several conditions, including that "the new prime minister must dissolve the House of Representatives within four months from the date of the policy speech to Parliament," and that "the People's Party will remain in the opposition, fully exercising its role in scrutinising the administration of the new government, and no member of the People's Party will hold a ministerial position³⁰."

PM Anutin has since stated that he plans to dissolve parliament by the end of January 2026, paving the way for a general election on 29 March 2026³¹. This vote is expected to be accompanied by a referendum on the constitution. Latest developments suggest that the government wants to combine the election and referendum vote to save costs. For this to materialise, the PM and Election Commission must declare the referendum by 30 December 2025³².

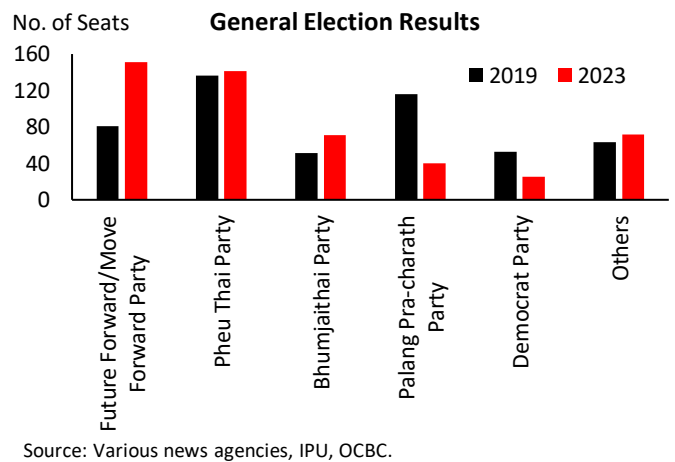
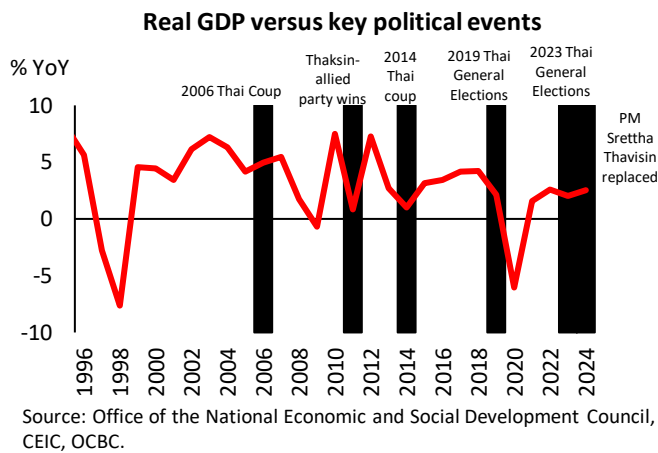
The outcome of the elections and potential wrangling over political alliances was a time staking process in 2019 and 2023. There is scope for the Pheu Thai to lose additional seats to the People's Party or PM Anutin's Bhumjaithai Party. Clearer outcomes at the polls and expediency in coalition formation will allow for a swifter government formation.

³⁰ People's Party decides to support Anutin Charnvirakul for PM with Conditions. The Nation, 3 September 2025.

³¹ March 29 proposed as Thai election date, Bangkok Post, 15 October 2026.

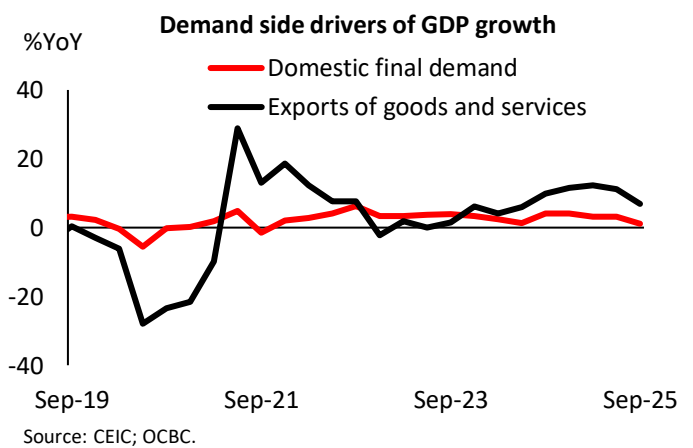
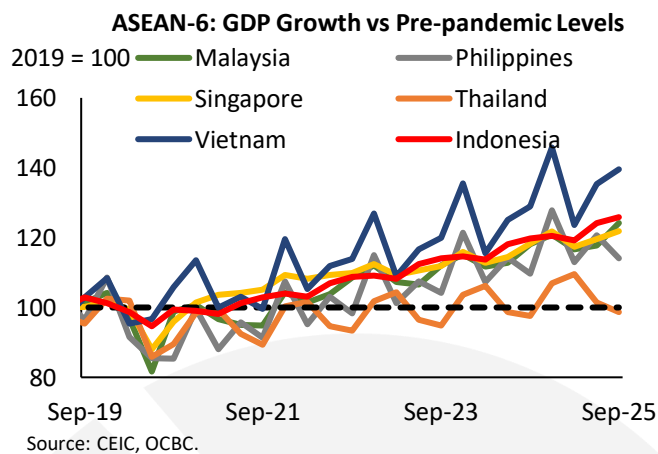
³² The Referendum Act requires at least 90 to 120 days between the announcement of the referendum and the vote. The aim is to amend Section 256 of the existing military-drafted constitution of 2017.

Thailand



Low growth environment in 2026

GDP growth has languished at rates significantly lower than regional peers in recent years as the lack of clear policy direction and external headwinds exacerbate structural issues such as slowing consumption from elevated household debt levels and an ageing population, stalled competitiveness gains and inconsistent infrastructure spending. This has led to poorest recovery among ASEAN peers since the pandemic.



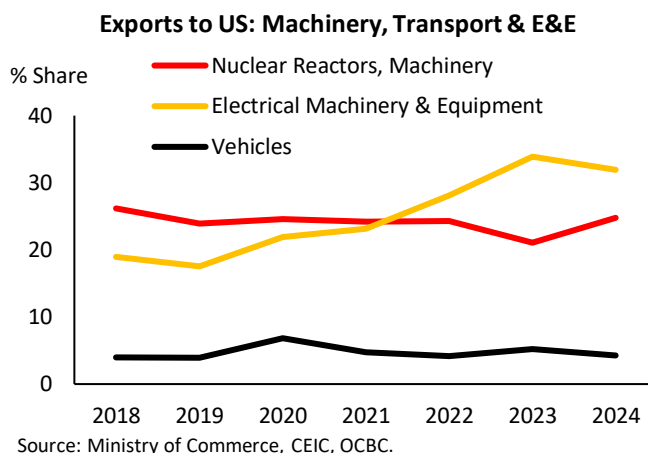
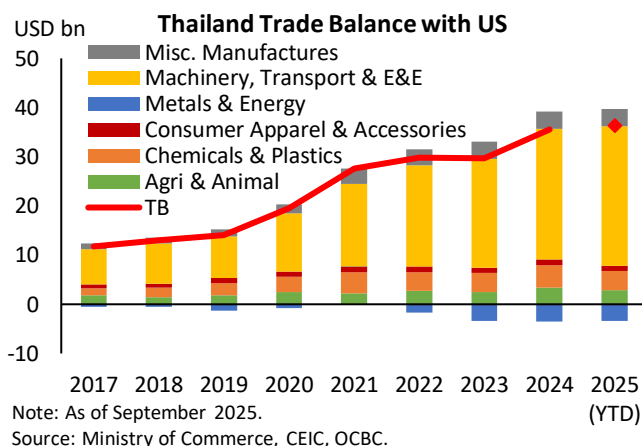
The growth picture for the 1Q-3Q25 has underscored a divergence between strong goods exports (and to significantly lesser degree services exports) and worsening domestic final demand conditions. GDP growth averaged 2.4% YoY in 1Q-3Q25 from 2.5% in 2024, driven mainly by a frontloading of exports to the US.

Payback from the frontloading of exports to the US

We estimate that USD1.1bn per month in exports were frontloaded to the US in 2025. Exports to the US from Thailand account for ~20% of total exports. Within this, machinery, transportation, electronics and electrical appliances (E&E) constitute the biggest share of exports to the US. Specifically, the share of electrical

Thailand

machinery and equipment is the largest at 32% of total exports. Mirroring this, Thailand's trade surplus with the US is large, with machinery, transportation and E&E being the largest component. The trade surplus for consumer apparels, chemicals, agriculture and animal products is significantly smaller while the country has a trade deficit with the US for metals & energy.



Thailand and the US agreed to a trade framework on 26 October. Thailand will eliminate tariff barriers on ~99% of goods, covering a full range of U.S. industrial and food and agricultural products. The reciprocal tariff rate will be maintained at 19%. Very specifically, the agreement outlined that “Thailand will address and prevent barriers to U.S. food and agricultural products in the Thai market, including expediting access for U.S. Food Safety and Inspection Service (FSIS)-certified meat and poultry products. Thailand will additionally address trade irritants and ensure requirements imposed on U.S. horticultural products, including for distiller dried grains with solubles, are science- and risk-based. Thailand commits to accept currently agreed certificates issued by U.S. regulatory authorities.”

The details of the exemptions are likely still being worked out, but we estimate that an additional USD15bn of exports can be exempt from tariffs. The current exemptions amount to USD7bn, by our estimates. Notwithstanding, we forecast slower goods export growth in 2026.

Tourism recovery could remain muted

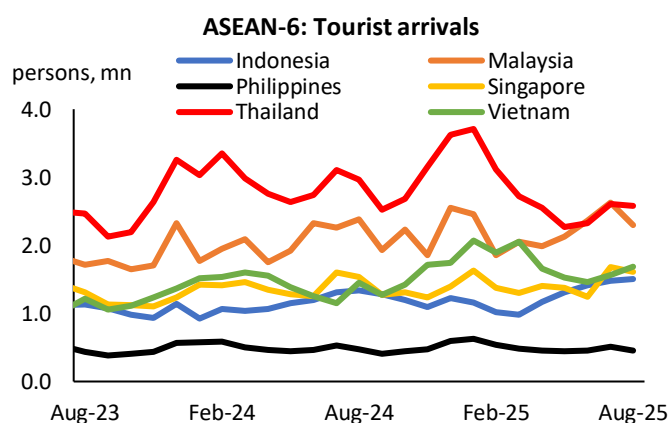
Tourism as an engine of growth sputtered in 2025. Tourist arrivals totalled 24.1mn from January to September 2025 and will need to rise by ~3.1mn per month on average in 4Q25 to meet the Tourism Authority of Thailand's target of 33.4mn visitors in 2025 (2024: 35.5mn)³³. Year-to-September 2025, total tourist arrivals

³³ Tourist numbers tumble as Asian markets decline. Bangkok Post, 24 September 2025.

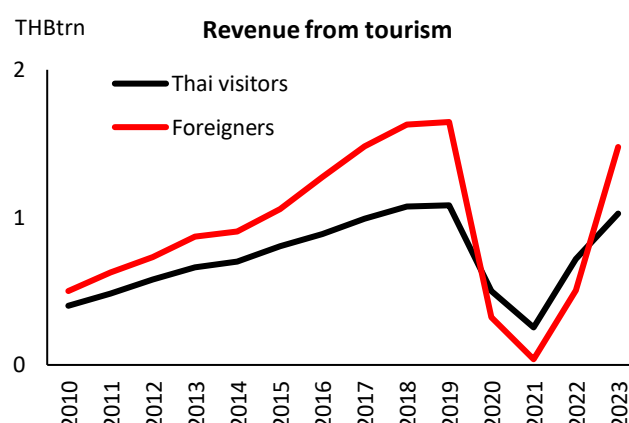
Thailand

averaged 80.6% of 2019 levels. This is lower compared to the same period last year, due to muted tourist arrivals from China (incl. HK SAR)³⁴.

The perceptions of tourist safety, stiffer competition for tourist dollars amongst regional peers, and a stronger local currency could shift some potential tourist inflows away to other ASEAN neighbours, particularly for tourists from Mainland China and HK SAR. The government is trying to attract tourists from other destinations, boost domestic tourism and offer tourism-related taxation benefits to support the sector. These will likely help cushion against further downside risks but will unlikely compensate for the fall in tourist arrivals from international destinations; we estimate that revenue from foreigners is higher than domestic tourists.



Source: Various government agencies, CEIC, OCBC.



Source: Ministry of Tourism and Sports, CEIC, OCBC.

On the domestic demand, the authorities seem steadfast about making further progress on tackling the issue of household debt. The Persistent Debt Resolution program, effective April 2024, to cap interest rates for persistent revolving loans, the responsible lending guidelines and the “You Fight, We Help” project launched in December 2024 provides temporary relief such as lower monthly payments, interest suspension, forgiveness, and loan restructuring. Household debt eased to 86.8% of GDP in 2Q25 (on a 4-quarter rolling sum basis) from 94.6% of GDP in 2021. More importantly, household debt geared towards personal consumption is high, accounting for 66.9% of GDP, on a 4-quarter rolling sum, in 2Q25 and eased from 72.9% in 1Q21.

More recently, the Economic Policy Committee³⁵ approved a comprehensive debt-relief programme worth THB122bn baht, targeting 3.4mn small borrowers with

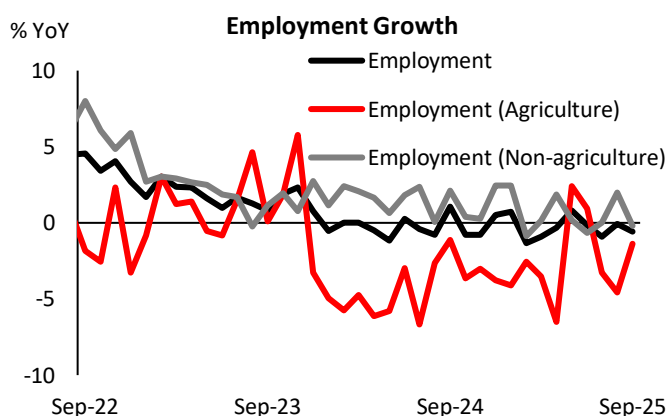
³⁴ Year-to-September 2025, Chinese tourist arrivals averaged 43.1% from 2019 levels, down from 65.5% in the same period last year.

³⁵ ‘The economic cabinet is chaired by PM Anutin Charnvirakul, with Deputy PM and Finance Minister Ekniti Nitithanprapas serving as vice-chair. The committee includes 25 senior officials comprising permanent secretaries and heads of key government agencies. The director of the Fiscal Policy Office (FPO) will serve as the secretary while the deputy director of the FPO will serve as deputy secretary.’ Cabinet approves formation of economic Cabinet with Anutin as chair. The Nation, 7 October 2025.

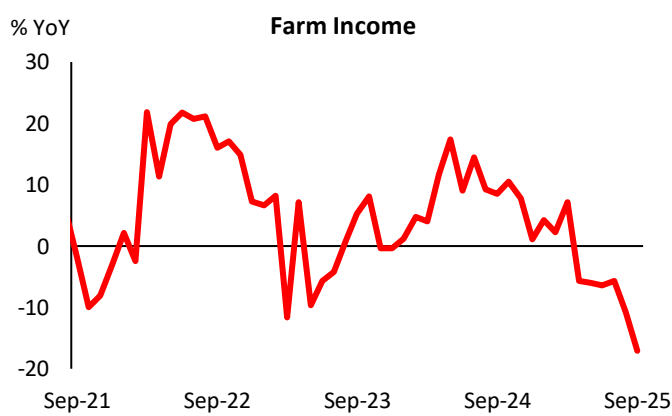
Thailand

debts not exceeding THB100k per person. The scheme will be implemented through the acquisition and restructuring of small-scale non-performing loans (NPLs) by asset management companies (AMCs) namely Sukhumvit Asset Management Co., Ltd. (SAM) and Ari Asset Management Co., Ltd. (Ari-AMC)³⁶. In the first phase, the transfer covers 2.56mn NPL accounts from commercial banks, representing about 1.25mn borrowers and total debt of THB43.6bn. These debts will be transferred to Sukhumvit Asset Management³⁷. Another portion consists of 790,000 accounts from specialised financial institutions, representing about 700,000 borrowers and total debt of THB18.8bn, which will be transferred to Ari AMC. While it is still early days, we expect these measures could at least further buttress against downside risks to household spending.

More fundamentally, employment growth has been relatively weak. Similarly, farm income growth has been weak, contracting for six consecutive months, declining to -17.1% YoY in September, down from +8.5% in the same period last year. This suggests that servicing household debt could remain a challenge, particularly for lower income households.



Source: National Statistical Office, CEIC, OCBC.



Source: Bank of Thailand, CEIC, OCBC.

Meanwhile, government spending could get a boost from the upcoming elections in 1H26 but will likely moderate in 2H26, provided clear election outcomes. The FY26 budget (i.e. October 2025 to September 2026) pencils in an expenditure growth of 9.1% YoY, up from 2.0% in FY25 (i.e. October 2024 to September 2025). Within this, current and capital expenditures growth in FY26 are projected at -9.3% YoY and 59.9% YoY, respectively, versus realisation of +3.3% and -4.6% in FY25. That said, the expenditure realisation for FY25 was lower and there is estimated to be THB320.9bn of carry-over funds from the FY25 budget³⁸, allowing room for higher expenditures. Provided the elections yield timely outcomes, we expect the

³⁶ Economic Cabinet okays debt restructuring plan to ease burden on 3.4 million Thais. The Nations, 3 November 2025.

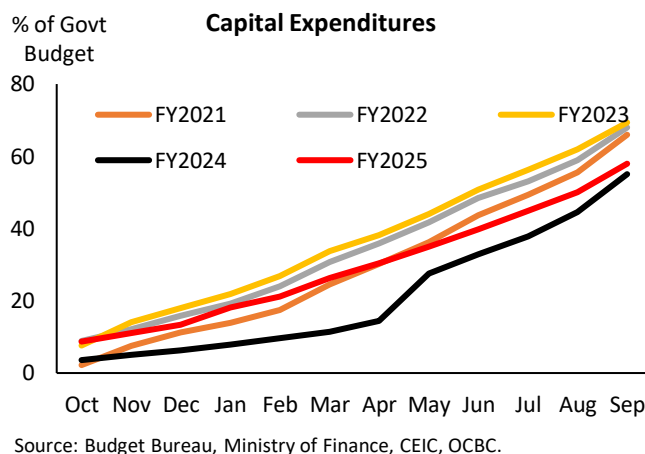
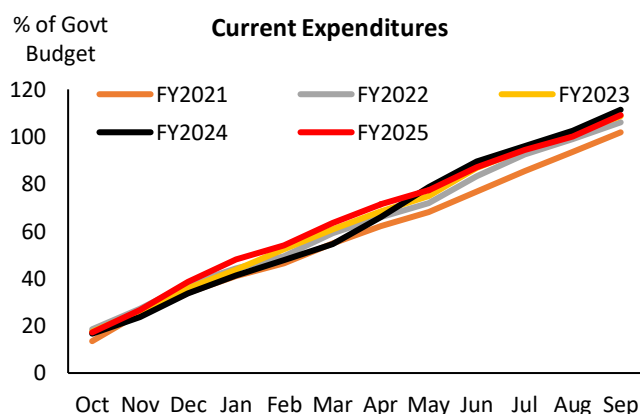
³⁷ Bankers back scheme to aid small debtor. Bangkok Post, 4 November 2025.

³⁸ Finance Ministry speeds up 4-trillion-baht budget disbursement. The Nation, 20 October 2025.

Thailand

disbursement rates for capital expenditures particularly to be modestly higher in FY26 compared to the recent past.

On the revenue front, revenue collections eased to 0.9% YoY in FY25, down from 4.9% in FY24 (i.e. October 2023 to September 2024). Looking ahead, revenue growth in the FY26 budget is projected at 3.5% YoY. Consequently, the fiscal deficit is forecast to narrow to 4.4% of GDP in FY26 from 4.8% in FY25, with the medium-term deficit expected to narrow more gradually after FY26 than initially planned³⁹. The government aims to narrow the fiscal deficit to 2.1% of GDP by FY30, with gradual annual consolidation from FY26 onwards.



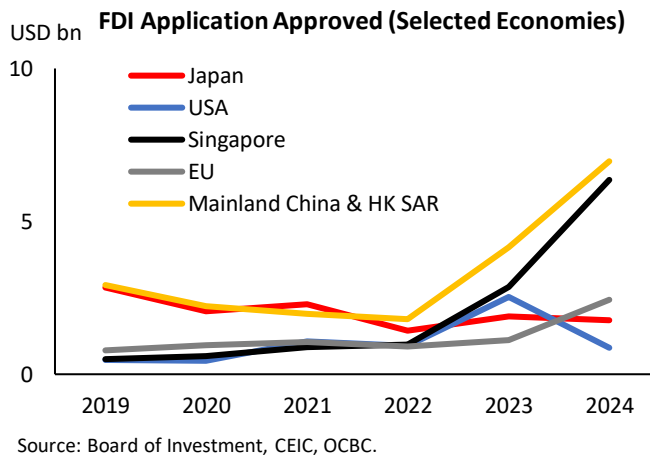
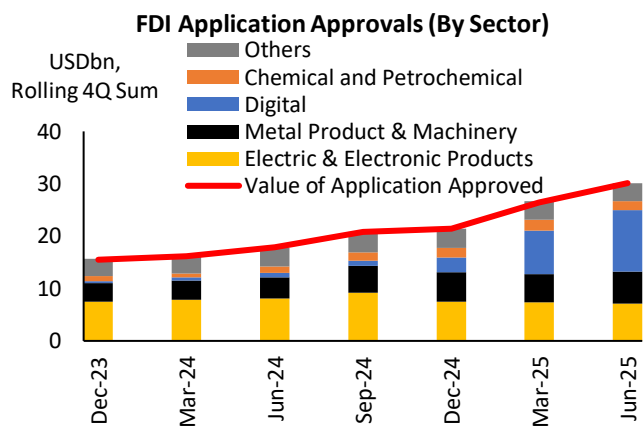
Fiscal deficit and public debt medium-term framework projections						
%GDP	FY25 (Actual)	FY26	FY27	FY28	FY29	FY30
Fiscal deficit (Nov 2025)	-4.8	-4.4	-3.9	-3.3	-2.7	-2.1
Fiscal deficit (Dec 2024)	-4.8	-4.3	-3.6	-3.3	-3.1	n.a.
Public debt (Nov 2025)*	64.6	68.2	69.4	69.8	69.5	68.2
Public debt (Dec 2024)	64.6	67.3	68.5	69.2	69.3	n.a.

Source: Bloomberg; Thailand Ministry of Finance; OCBC. *This is as of November 2025.

Investment spending, particularly from the private sector, is likely to remain muted until the election cycle is completed. Interestingly, foreign direct investments inflows (FDIs), as measured by value of applications approved, have increased sharply over the last two years. This was mainly driven by higher investments into the digital space, which includes data centre services and digital platforms. The digital sector received more than 50% of investment applications in 1H25 while FDI approvals for the more traditional sectors such as E&E and automotives were flat. By country, FDI application approvals from Singapore, Mainland China & HK SAR, Japan were the largest for 1H25.

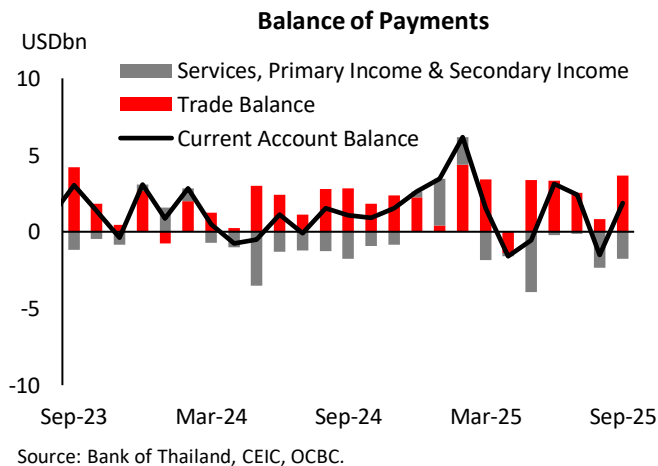
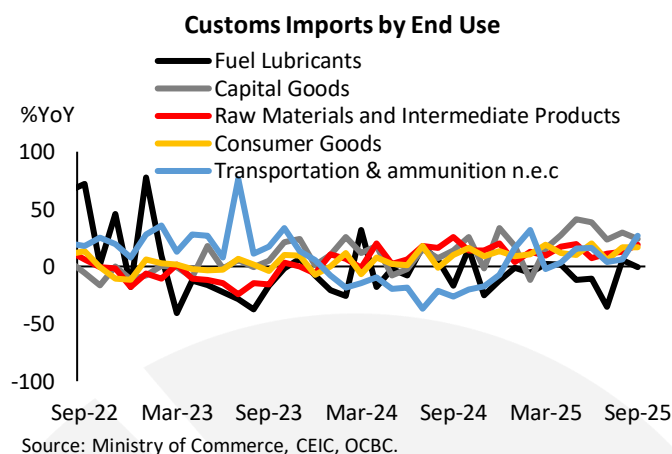
³⁹ Thailand Tightens Fiscal Belt to Soothe Ratings Firms, Investors. Bloomberg, 18 November 2025.

Thailand



A closer look at the balance of payments

We expect the current account surplus to narrow to 1.0% of GDP from 2.5% of GDP in 2025. This will be mainly driven by lower export growth, but also higher import growth due to higher data centre investments, which tend to be capital intensive. Simultaneously, subdued foreign tourist inflows will likely lead to a narrower services surplus while the deficits on the primary and secondary income accounts will likely persist.

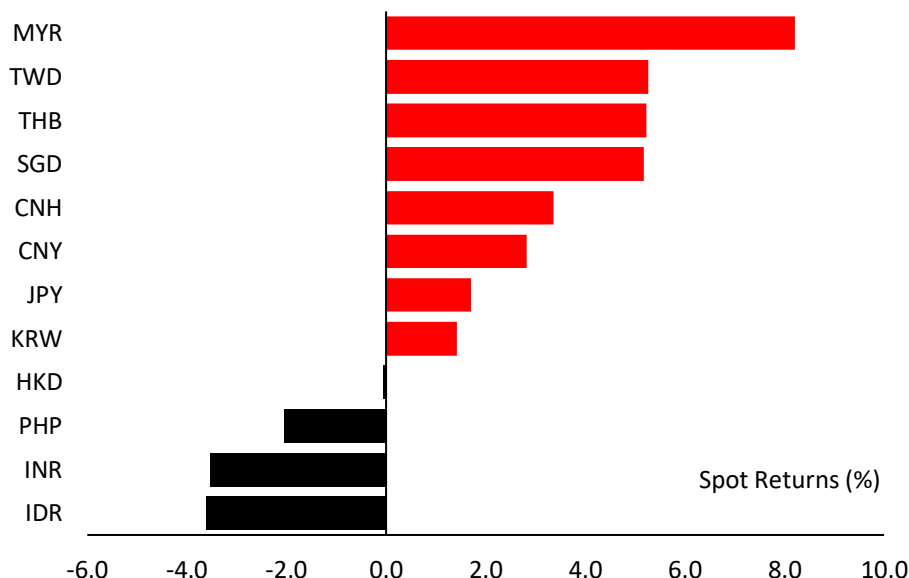


Although FDI inflows picked up in 1H25, albeit unevenly across sectors, portfolio flows were volatile. For the year-to-17 September, “there has been a net inflow of USD1.2bn into bonds, but stocks remain in a net outflow position⁴⁰.” The THB appreciated 5.4% versus USD in 2025, comparable to regional peers despite the persistent growth underperformance.

⁴⁰ Bank of Thailand Dismisses Abnormal Capital Inflows Despite Baht Appreciation. The Nation, 19 September 2025.

Thailand

Selected Asia FX Against USD



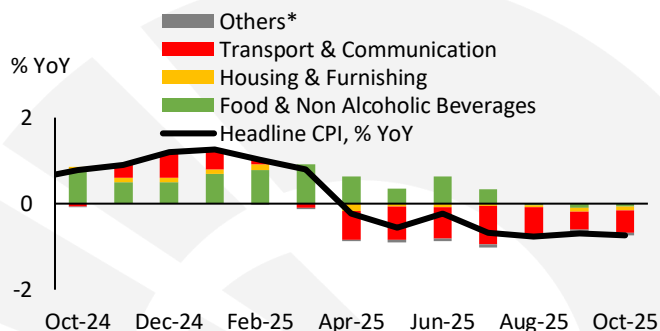
Last updated: As of 14 November 2025.

Source: Bloomberg, OCBC.

Inflation to remain subsidised

Fiscal and quasi-fiscal policies, along with lower global energy prices, have kept inflationary pressures subdued. Headline inflation declined for a seventh consecutive month to -0.8% YoY in October from -0.7% in September. Headline CPI averaged -0.1% YoY for Jan-Oct 2025, well below the BoT's inflation target of 1-3%. Headline inflation was also the lowest amongst ASEAN peers. Meanwhile, core inflation averaged 0.9% for Jan-Oct 2025.

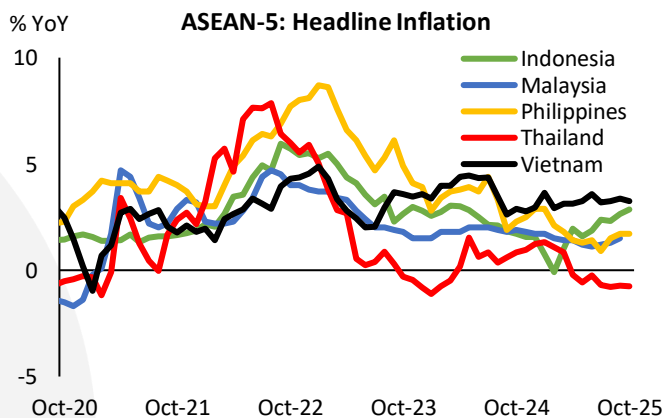
Drivers of Headline Inflation



Note: *Others include apparel & footwear, medical and personal care, recreation, reading etc., tobacco and alcoholic beverages.

Source: Trade Policy and Strategy Office, CEIC, OCBC.

ASEAN-5: Headline Inflation

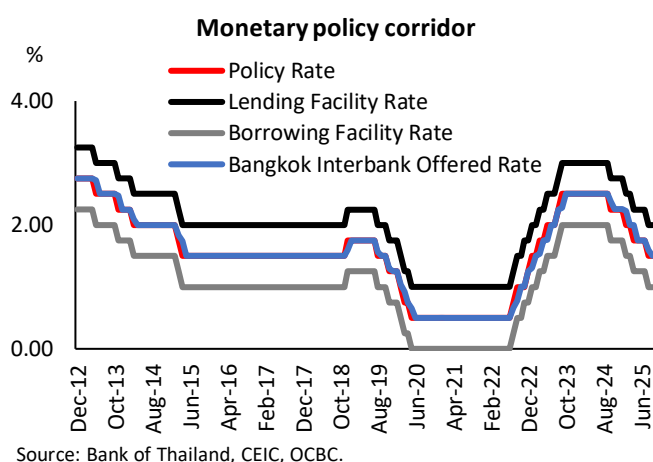
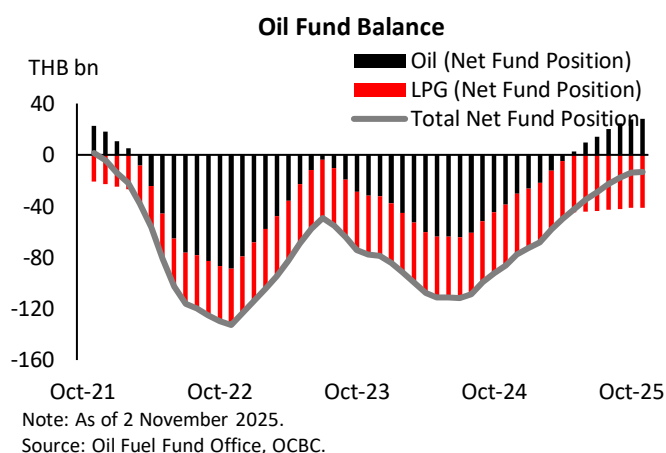


Source: Bloomberg, OCBC.

For 2025, we forecast a lower headline CPI of -0.1% YoY, taking into account year-to-October outcomes as well as the recent downward revision of retail fuel prices

Thailand

that took effect on 21 October 2025⁴¹. The oil fund balance shifted from a deficit to a surplus in May 2025 on account of lower global oil prices. We expect global oil prices to remain soft over the next 12 months, providing room for the oil fund to continue cross-subsidising retail oil prices. Consequently, headline inflation is expected to remain subdued, averaging 0.6% YoY in 2026. There is a risk that the government extends its ongoing policies to ease cost-of-living pressures resulting in lower headline inflation.



Conducive environment for an accommodative monetary policy

The low growth and inflation environment, against a backdrop of still tight financial conditions, afforded the BoT room to lower its policy rate by 75bps in 2025 year-to-date. Our baseline forecast for another 25bp at the 17 December meeting, taking the policy rate to 1.25% by end-2025.

Further rate cuts will be constrained by the limited policy space appears. BoT Governor Vitai Ratanakorn, who succeeded former governor Sethaput Suthiwartnarueput in October 2025, noted that “the effects of previous rate cuts have not been fully felt⁴²,” with the BoT highlighting that the full effects of monetary transmission “typically materialise over approximately four to six quarters⁴³.” As such, we expect BoT to stay on a prolonged pause in 2026. Should growth momentum deteriorate more rapidly than under our baseline and/or financial conditions tighten sharply, we do not rule out deeper rate cuts from BoT to support growth.

⁴¹ Thai Energy Minister Slashes Fuel Prices in 'Quick Big Win' Move. The Nation, 20 October 2025.

⁴² Thai central bank chief says can cut rates further if necessary. Reuters, 10 October 2025.

⁴³ Edited Minutes of the Monetary Policy Committee Meeting (No. 5/2025) 3 and 8 October 2025. Bank of Thailand, 22 October 2025.

Thailand

Summary of Economic Forecasts	2023	2024	2025F	2026F	2027F
GDP (% YoY)	2.0	2.5	2.0	2.0	2.0
Exports (% YoY)	2.4	7.8	8.7	4.6	5.0
Imports (% YoY)	-2.5	6.3	5.9	4.6	4.5
Current Account Balance (% of GDP)	1.7	2.2	2.5	1.0	1.5
Unemployment Rate (% aop)	1.0	1.0	0.8	1.0	1.0
Fiscal Balance (% of GDP)*	-3.3	-4.1	-4.8	-4.4	-3.9
Headline CPI (% YoY)	1.2	0.4	-0.1	0.6	1.0
BoT Rate (% eop)	2.50	2.25	1.25	1.25	1.25
USDTHB (eop)	34.14	34.10	32.50	32.00	31.80

Source: Bank of Thailand, Fiscal Policy Office, Office of the National Economic and Social Development Council, Trade Policy and Strategy Office, CEIC, Bloomberg, OCBC. FX forecasts are as of 17 November 2025. The fiscal year is from October to September. For example, FY25 is from October 2024 until September 2025.

Vietnam

Vietnam: Focused on reforms

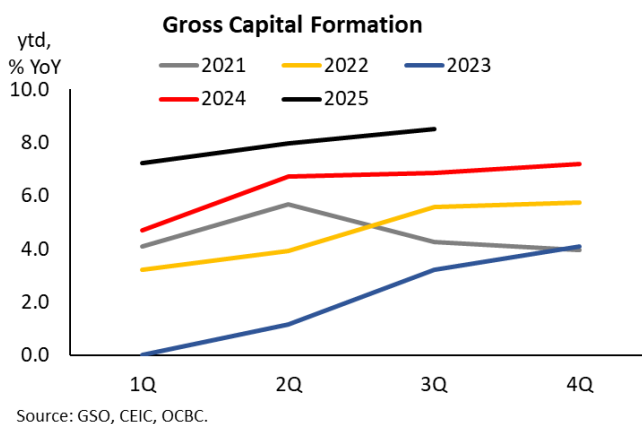
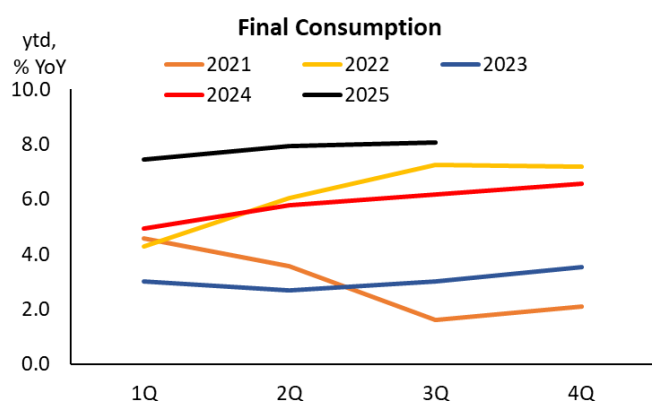
- GDP growth is expected to remain robust at 7.5%YoY in 2025 before slowing to 6.0% in 2026 mainly on account of weaker external demand.
- The authorities have navigated external headwinds with a clear focus on reforms such as streamlining bureaucracy and expediting infrastructure spending. We expect these will support medium-term growth prospects.
- The currency VND has been one of the regional underperformers until end 3Q25 constraining monetary policy. We nonetheless see room for a cumulative 50bps in rate cuts in 2026.

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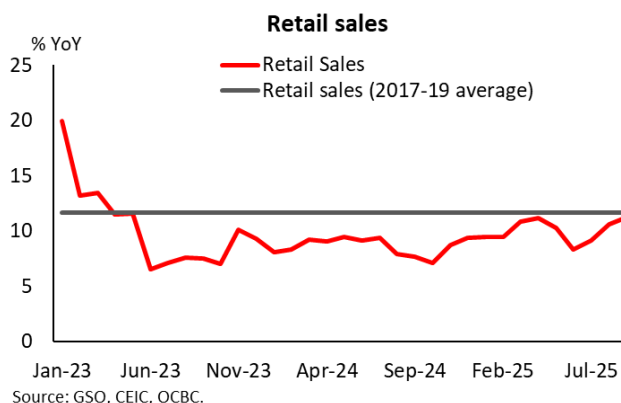
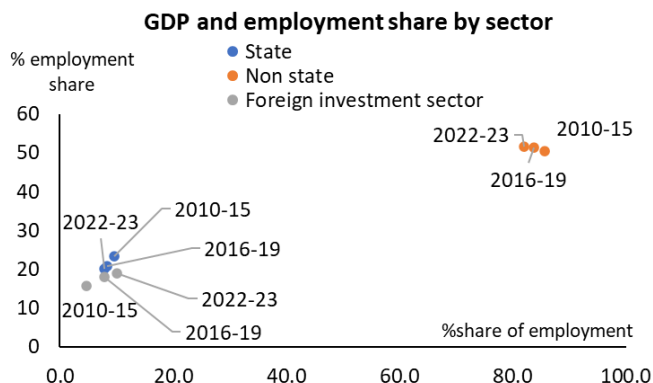
Growth is on a tear

Growth averaged by 7.8% YoY in 1Q–3Q25 (vs 6.9% in same period last year), with growth in 2Q25 and 3Q25 hitting 8.2% YoY. On the demand side, final consumption spending grew by 8.1% YoY (*year-to-date*) and gross fixed capital formation (GFCF) increased by 8.5% YoY. Growth in final consumption and GFCF outpaced growth in similar periods since 2021.

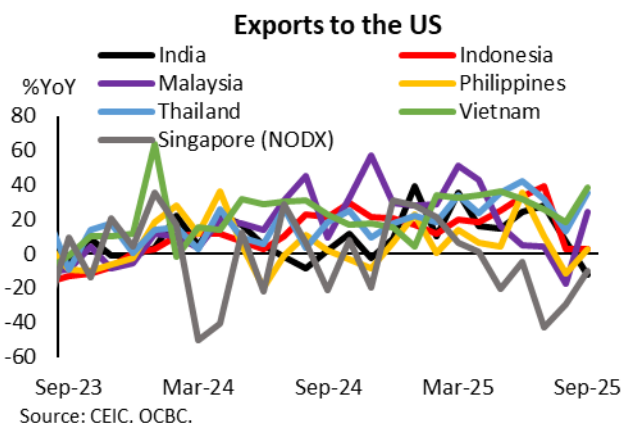
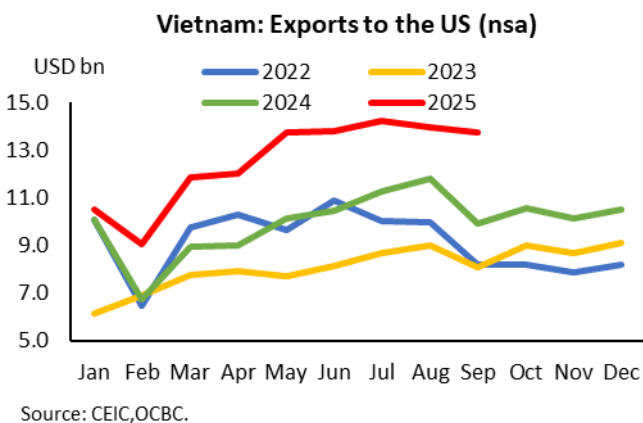


Specifically, the recovery in household consumption gained traction supported by higher average monthly income of 9.8% YoY in 3Q25 to VND8.4mn/month. The services sector remained the highest paying sector at VND10mn/month (+9.5% YoY). Importantly, the share of employment by the foreign investment sector has improved since the pandemic to 10.1% (2022-23), more appropriately mirroring its share of GDP (19% for 2022-23). This is at the expense of the state and 'non-state' shares of growth and employment. Retail sales growth gradually improved to pre-pandemic levels.

Vietnam

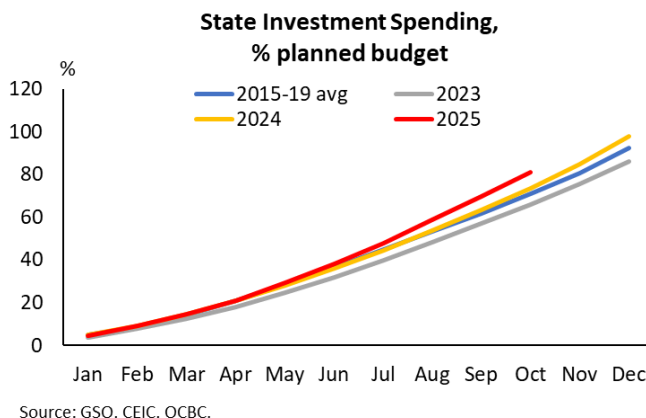
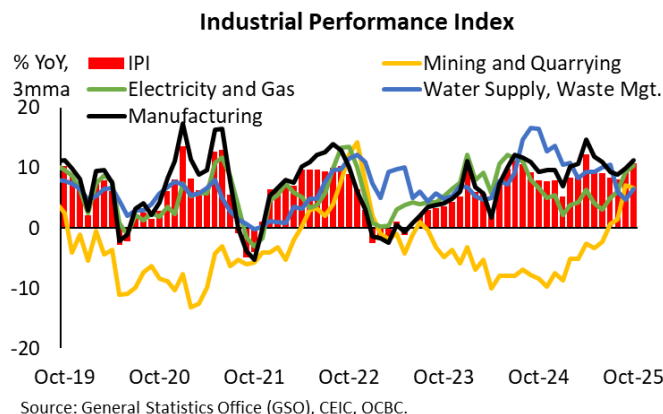


Consistent with strong domestic demand conditions, imports of goods and services grew by 16.8% YoY until 3Q25 while exports of goods and services grew by 15.5% YoY. Specifically, the frontloading of exports to the US was particularly obvious for Vietnam through 2025. Indeed, Vietnam's export growth to the US was one of the highest in the region for much of 2025. The US administration and the Vietnamese government trade framework made official on 26 October reaffirmed that the US would impose 20% reciprocal tariff rate on Vietnamese imports into the US, with the potential to lower the tariff rates to zero for certain products (more later).



On the supply side, robust gains in the manufacturing (9.9% YoY in 1Q-3Q25 from 9.8% in 1Q-3Q24) and services (8.5% from 7.1%) sectors, more than offset modestly slower growth in agriculture, fishery & forestry sector (3.8% from 3.4%). Within the manufacturing sector, as detailed by the industrial production data, the drivers were mainly relatively broad-based across the electronics, furniture, textiles, cement and steel production sectors. Service sector growth was supported by higher tourist arrivals, some recovery in the property sector and better retail sales.

Vietnam



The strength in the cement and steel sectors underscores the official focus placed on infrastructure spending. Public investment spending rose 33.3% YoY to VND91.1trn in October, bringing cumulative disbursement to VND640.2trn (81.0% of the 2025 plan). This reflects the impact of government directives to expedite disbursement, enhanced coordination across agencies, and clearer assignment of investment targets.

Reform agenda was strong in 2025

The sessions of the National Assembly in 2025 saw some very important reforms being undertaken. First, the authorities will shift to a two-tier administrative system, merging 50% of provinces and districts from 1 July 2025. This move aims to streamline bureaucracy, cut costs by 30%, and boost efficiency. It is expected to create a more attractive environment for business and high-tech investment. While the initial stages of merger could take time and throw up some teething problems, we expect the ultimate outcome will result in improved bureaucratic efficiencies. Second, the government is advancing digital governance by integrating national databases and promoting e-government to raise productivity. Legal and institutional frameworks for emerging technologies like digital assets are also being developed.

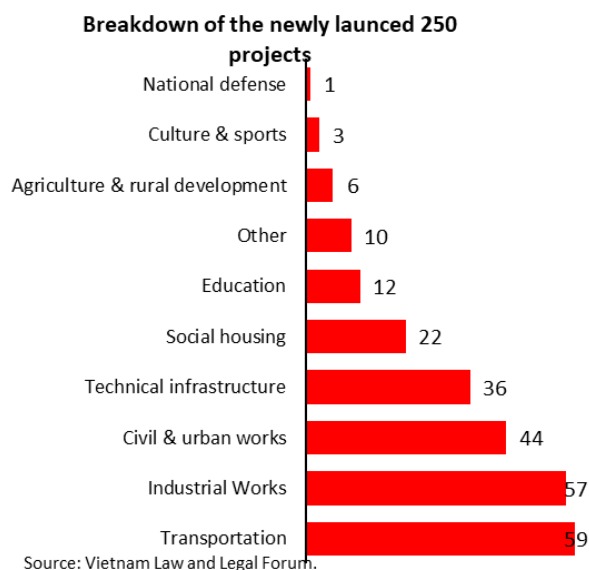
Latest Administrative Reform		Vietnam Governance Indicator	
Effective 1 March 2025	Before	Note: The chart shows Vietnam's percentile rank among all countries, with scores ranging from 0 (lowest) to 100 (highest) for each categories. The Worldwide Governance Indicators (WGI) are produced by the staff of The World Bank with external contribution. Source: World Bank, OCBC.	
1 Prime Minister	1 Prime Minister		
7 Deputy Prime Ministers	5 Deputy Prime Ministers		
3 ministerial agencies	4 Ministerial agencies		
5 government agencies	8 Government agencies		
34 Provinces 2,595 communes	63 Provinces 686 Districts 10,035 communes		
Cutting 1-in-5 government jobs over the next five years	-		

Source: World Bank, OCBC.

Vietnam

Second, the government approved major infrastructure projects this year. Some of the bigger projects include the North-South high-speed railway, Lai Cai-Hanoi-Haiphong, and airport construction in various parts of the country. The government also announced 250 new projects during National Day across various sectors. The private sector through VinSpeed is also involved in the development of railway infrastructure and recently expressed interest in building a Hanoi- Ha Long Bay high speed railway at a cost of USD5.3bn⁴⁴.

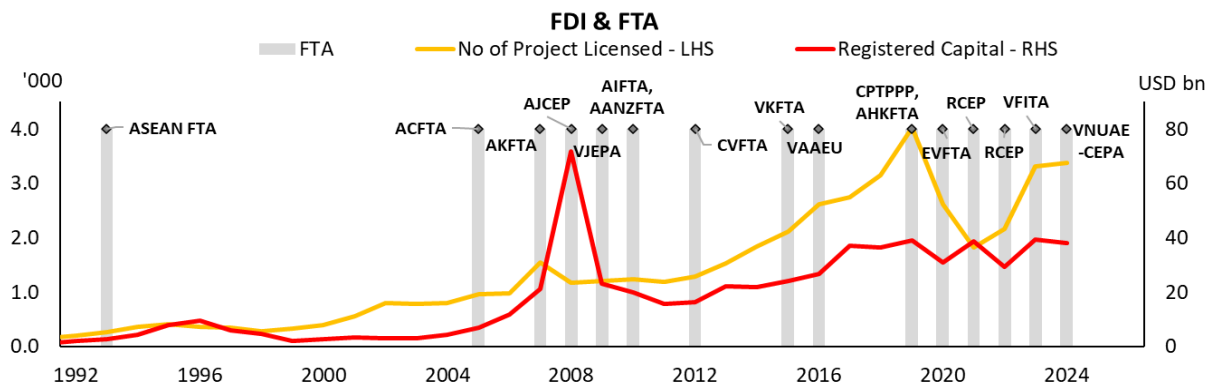
Project	Budget (USD bn)	Key dates
North-South expressways	n.a.	Operational by end-2025
North-South high-speed railway	67	2027
Ba Ria-Vung Tau marine science and technology hub	15.6	Operational by 2030
Long Thanh International Airport	13.3	Phase 1 operational end-2025
Gia Binh airport project	7.4	Phase 1 to be operational by 2030
Hanoi Ring Road 4 Metro Line	2.4	Begin construction in late 2025
North-South high-speed railway	67	2027



Third, the government has intensified efforts to reduce concentration risk by diversifying its export destinations and sources of investment. Specifically, it continues to leverage its network of Free Trade Agreements (FTAs), including the CPTPP, RCEP, and EVFTA, to expand market share across Asia and Europe. Meanwhile, new agreements under negotiation with Mercosur and the Gulf Cooperation Council (GCC), along with the Vietnam-UAE Comprehensive Economic Partnership Agreement (VNUAE-CEPA) and the Vietnam-Israel FTA (VIFTA), which are expected to take effect in 2026, aim to further reduce concentration risk.

⁴⁴ Billionaire Pham Nhat Vuong's VinSpeed seeks to build \$5.3B Hanoi-Ha Long Bay rail link, VN Express, 3 November 2025.

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Source: GSO, Vietnam Briefing, OCBC.

Note: ACFTA: ASEAN-CHINA Comprehensive Economic Cooperation; AKFTA: ASEAN-South Korea Comprehensive Economic Cooperation Agreement; AJCEP: ASEAN-Japan Comprehensive Economic Partnership; VJEPA: Japan-Vietnam Economic Partnership Agreement; AIFTA: ASEAN-India Comprehensive Economic Cooperation Agreement; AANZFTA: ASEAN-Australia and New Zealand Free Trade Agreement; CVFTA: Vietnam-Chile Free Trade Agreement; VKFTA: South Korea-Vietnam Free Trade Agreement; VAAEU: Eurasian Economic Union-Vietnam Free Trade Agreement; CPTPP: Comprehensive and Progressive Agreement for Trans-Pacific Partnership; AHKFTA: ASEAN-Hong Kong, China Free Trade Agreement; EVFTA: EU-Vietnam Free Trade Agreement; UKVFTA: United Kingdom – Vietnam Free Trade Agreement; RCEP: Regional Comprehensive Economic Partnership; VFITA: Vietnam – Israel Free Trade Agreement; VNUAE-CEPA: Vietnam – UAE Comprehensive Economic Partnership Agreement. Source: GSO, Vietnam Briefing, OCBC.

Fourth, the authorities have expressed a clearer intent to move up the value chain. For example, the ‘C-SET+1’ semiconductor strategy, a long-term framework designed to strengthen Vietnam’s position in the global semiconductor supply chain. The term C-SET+1 stands for Chips, Specialisation, Electronics, and Talent, plus one additional strategic pillar that varies by phase of implementation. Under this approach, “Chips” refers to expanding capabilities in chip design and assembly, testing, and packaging, while “Specialisation” focuses on developing niche strengths such as power semiconductors and sensor technologies. “Electronics” reflects the integration of semiconductor development with Vietnam’s broader E&E manufacturing base, and “Talent” underscores the government’s push to scale up workforce skills through training and international collaboration. The “+1” component serves as a flexible strategic pillar, ranging from infrastructure development to incentives and technology transfer, depending on each stage of the roadmap. Together, the C=SET+1 strategy reinforces Vietnam’s ambition to move up the value chain, deepen its participation in high-tech manufacturing, and strengthen the resilience of its export base over the medium term.

Vietnam

Vietnam's Semiconductor Industry Development Strategy: The S = SET +1			
Category	Phase 1	Phase 2	Phase 3
	(2024-2030)	(2030-2040)	(2040-2050)
Attracting FDI			
Design companies	100	200	300
Small-scale semiconductor chip manufacturing plants	1	2	3
Packaging plants	10	15	20
Scale			
Revenue of the semiconductor industry (USD/year)	USD25bn	USD50bn	USD100bn
Value-added rate of the semiconductor industry	10-15%	15-20%	20-25%
Revenue of the electronics sector (USD/year)	USD225bn	USD485bn	USD1,045bn
Value-added rate of the electronics sector	10-15%	15-20%	20-25%
Human resources			
Engineers and graduates	50,000	100,000	Sufficient for the whole country
Source: Decision No. 1018/QĐ-TTg, Vietnam Briefing.			

Resilient albeit softer growth in 2026

We expect this reform agenda to support economic growth into 2026. However, there will be some payback from the significantly higher exports to the US, which we expect will be drag on exports. We expect GDP growth to soften to 6% YoY, still the highest in the region after India, but significantly lower than the government's target of 10%. The authorities tend to be more ambitious in setting GDP targets.

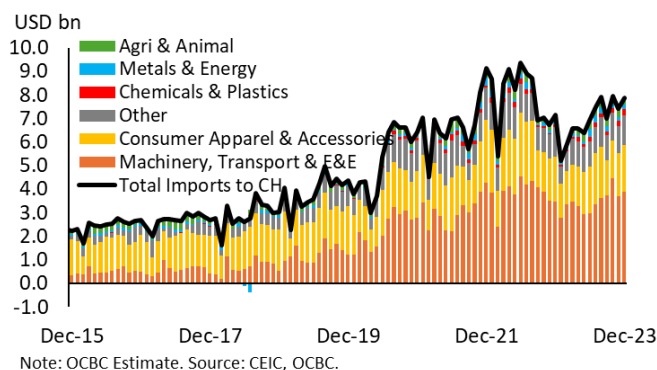
Vietnam's exports will face headwinds in 2026, in our view. The significant frontloading of exports to the US is unlikely to be sustained amid slowing demand based on our external demand forecasts. Furthermore, the global electronics upcycle, while sustained into 2026, could see slower momentum impacting electronics and electrical appliances exports. Finally, while the bilateral framework with the US could unlock up to USD10.3bn in tariff exemptions by our estimates⁴⁵, Vietnam is still exposed to 'transshipments'. The reciprocal tariff rate imposed on Vietnam is 20%, with a risk of 40% tariffs exports deemed 'transshipments'.

Transshipment risks exist, particularly for the machinery & equipment sector, where Vietnam's imports from Mainland China are more clearly correlated to Vietnam's exports to the US. By contrast, domestic value added in final foreign demand for US exports from Vietnam is higher in sectors such as textiles & apparel is quite high at 43.8% in 2022 (OCBC calculations using OECD TiVa database).

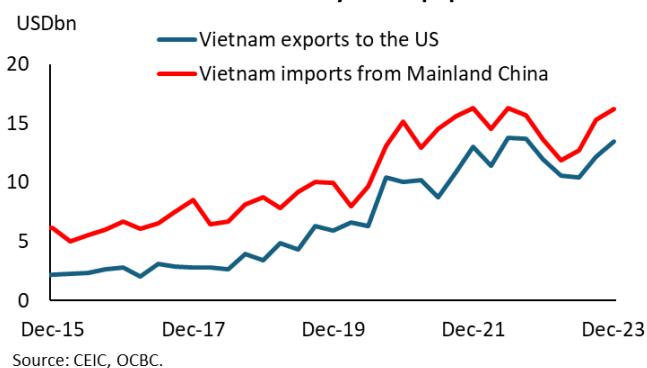
⁴⁵ Calculations are based on latest available data on UN Comtrade, while tariff exemptions are based on the White House modified reciprocal tariff scope announced on 5 September 2025.

Vietnam

Vietnam-US Trade Balance



Trade of machinery and equipment



On the domestic front, we expect the strong reform agenda as well as the recent slew of legislative action across various sectors to support domestic growth momentum for investments and consumption spending. There are also targeted better to improve the health of financial and property sectors, which we believe will hold economic growth in better stead over the medium-term.

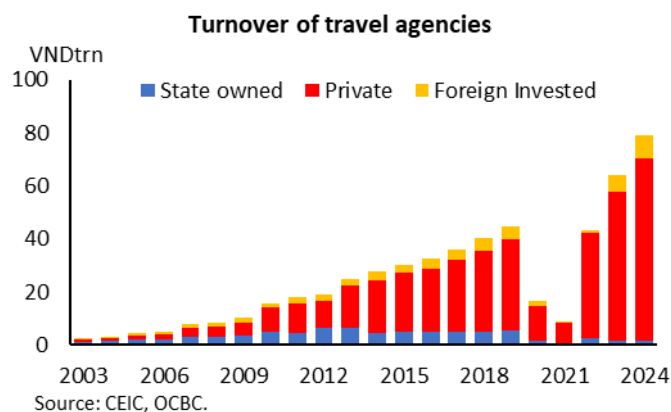
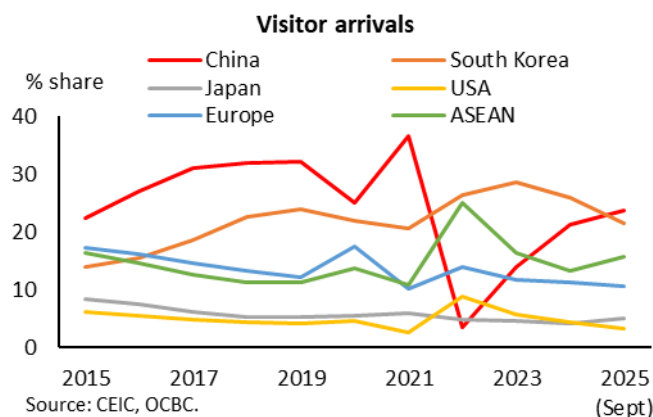
Recent legislative action		
Effective 1 July 2024	Law on Credit Institutions	Lowering Credit Limits; New LCI strictly prohibits credit institutions, foreign bank branches, and their managers, executives, and employees from combining the purchase of non-obligatory insurance products with the provision of banking products and services in any form.
Effective 1 Jan 2025	Land Law	The amended land law introduces significant changes to land valuation and pricing mechanisms; significant changes are introduced regarding the payment of land rent
Effective 1 Jan 2025	Law on Real Estate Business	Foreign-invested enterprises encounter strict limits on engaging in real activities compared to domestic companies.
Effective 1 Jan 2025	Law on Residential Housing	Improves on the Housing Law of 2014
Effective 1 Oct 2025	Law on Science, Technology and Innovation	The State shall give priority to building infrastructure for science and technology research and innovation, key national laboratories, and infrastructure connectivity between research institutes, education establishments and enterprises.
Effective 1 Oct 2025	Law on Corporate Income Tax	Under the Law, the standard corporate income tax (CIT) rate is 20%. For enterprises with annual revenue of up to VND3bn, the rate is reduced to 15%. For those with annual revenue between VND3bn and VND50bn, the rate is 17%.
Effective 1 Jan 2026	Law on Excise Tax	Additional absolute excise tax rates for tobacco products over a five-year period from 2027 to 2031.
Effective 1 Jan 2026	Law on Digital Technology Industry	It introduces, for the first time, legal definitions and a comprehensive regulatory framework for key sectors such as digital technology industry, semiconductors, artificial intelligence (AI), and digital assets, including special incentives for flagship projects in these fields.

Source: Dezan Shira and Associates; Vietnam Law & Legal Forum; OCBC.

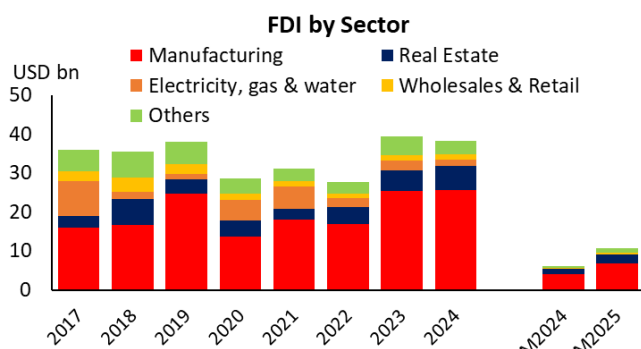
Tourist arrivals will likely remain a tailwind in 2026. The tourism sector has benefited from higher inflows from Mainland China but also other ASEAN neighbours. In addition, the turnover for travel agencies has increased significantly in recent years, well above pre-pandemic levels. Ongoing government initiatives, including visa-free

Vietnam

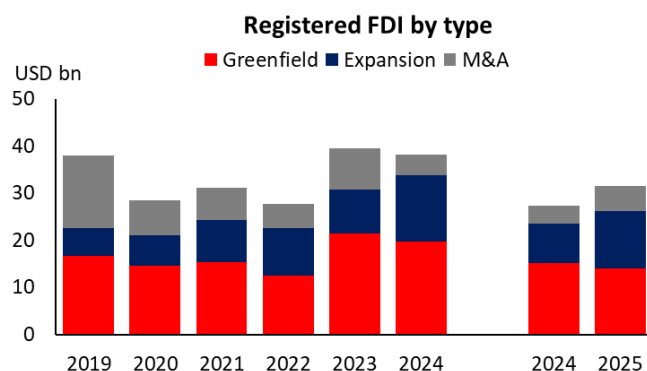
entry for 12 more European countries, should further support services income and travel-related activity.



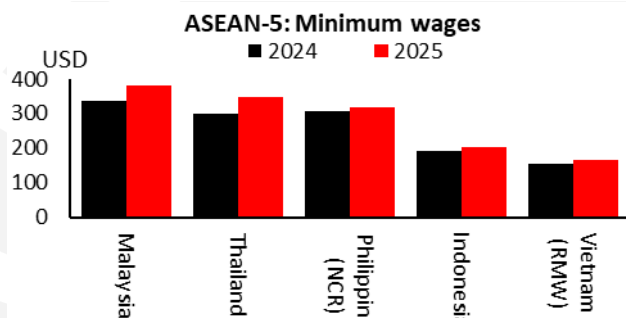
Finally, Vietnam has maintained its competitiveness for foreign inflows, and this will likely be sustained into 2026. Total pledged FDI growth were up 15.6% YoY in Jan-Oct 2025, up from 1.9% (USD27.3bn) growth seen during the same period in 2024 but remaining resilient, nonetheless. Minimum wages in Vietnam are still likely to be amongst the lowest in the region, with wage growth lower than what is implied by labour productivity.



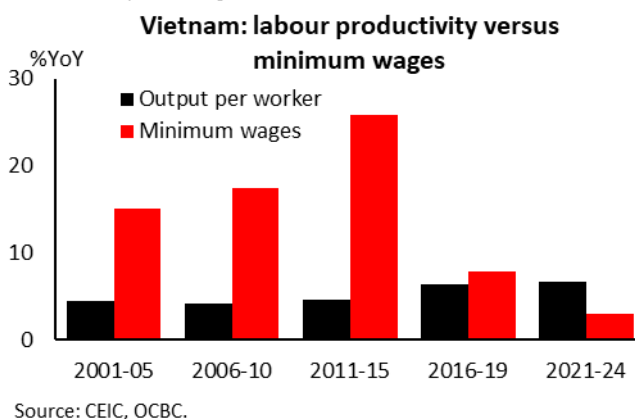
Note: Total registered capital. Latest data as of March 2025. Others mainly includes construction, agriculture, transportation & storage. Source: Ministry of Planning and Investment, CEIC, OCBC.



Note: Total registered capital. Latest data as of October 2025. Source: Ministry of Planning and Investment, CEIC, OCBC.



Note: RMW stands for regional minimum wages. Monthly minimum wages are computed from daily wages for 30 days. Source: Philippines DOLE, Vietnam Briefing, ASEAN Briefing, OCBC.



Vietnam

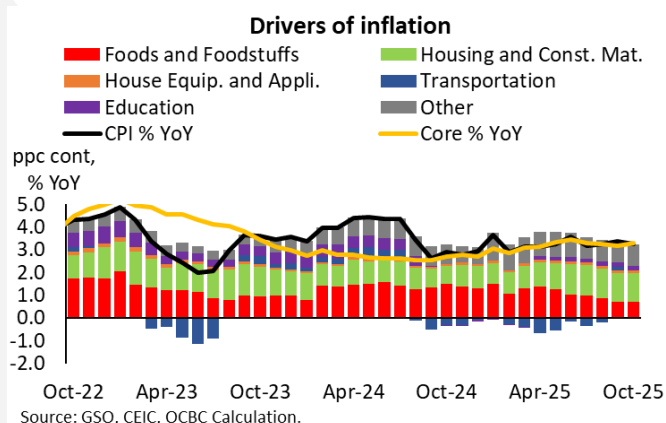
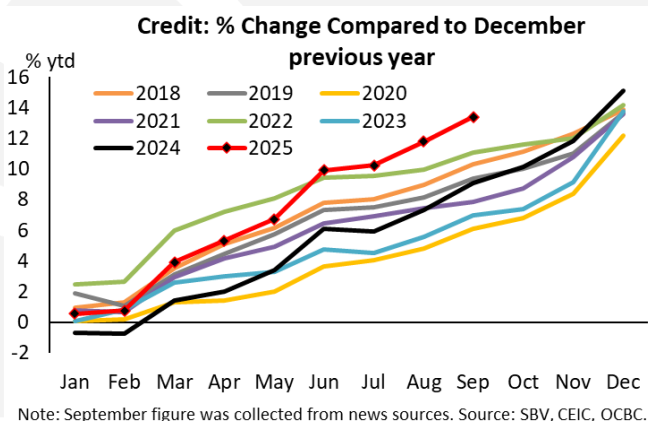
Supportive policy bias in 2026

The policy stance will remain supportive in 2026. Fiscal policy will remain anchored around strong public investment execution. The focus will remain on timely project delivery in priority sectors, including expressways, power transmission, and industrial park infrastructure. Prime Minister Pham Minh Chinh on 5 October reiterated the need to accelerate public investment, advance technology, and digital transformation, and address administrative bottlenecks to improve policy execution. The government has also maintained a series of supportive tax measures, including a maintain the 2% VAT rate reduction into 2026, temporarily reducing land rentals, and deferring taxes on land rent to support business liquidity and household purchasing power.

The Ministry of Finance expects the budget deficit to remain manageable at around 3.8% of GDP in 2025, with a similar range likely for 2026, keeping public debt below 40% of GDP. The government's medium-term fiscal framework focuses on strengthening expenditure efficiency and transparency, with renewed emphasis on budget monitoring and closer coordination between central and provincial agencies.

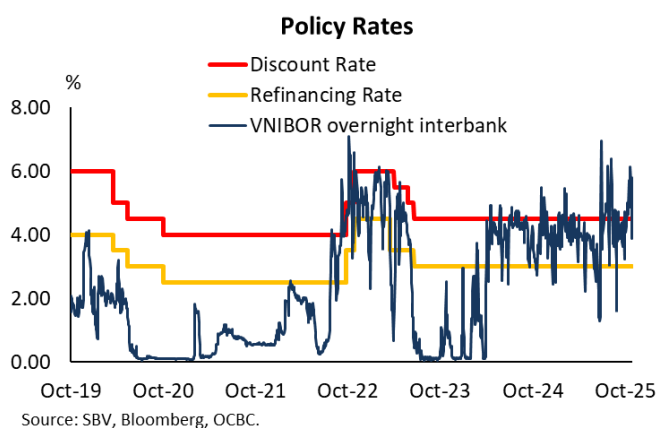
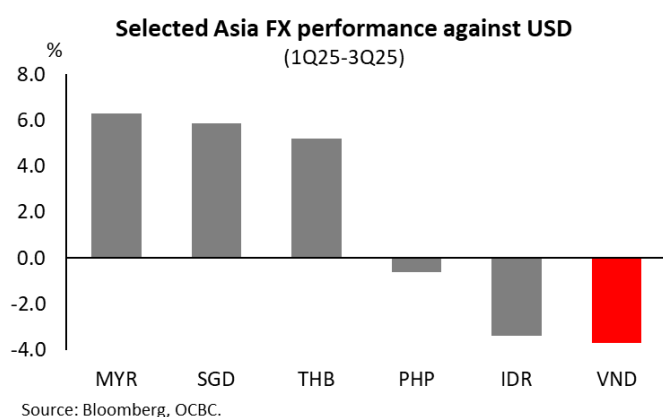
SBV will likely keep its policy rate unchanged through in 2025 as GDP growth remained solid amid external headwinds. Mirroring this, credit growth was robust, supporting domestic activity. Total credit reached VND17.7 quadrillion (~154% of GDP) as of September, up 19.5% YoY, with broad-based expansion across sectors. Notably, real estate loans now account for 23% of total credit, the highest in recent years, signalling both a recovery in property demand and rising concentration risk.

Headline inflation will likely remain within SBV's 4.5% target at 3.4% in 2025 and 3.7% in 2026. Indeed, for the first 10 months of 2025, average CPI stood at 3.3%, down from 3.8% in the same period last year. Price pressures were supported by stable food supply, easing global commodity costs, and lingering effects from the 2% VAT rate reduction. Headline CPI eased 3.2% YoY in October from 3.4% in September, while core inflation held at 3.2%.



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The currency, VND, has however been under depreciation pressure versus USD for much of 2025. It is one of the regional underperformers after IDR and INR. SBV has relied on a mix of open market operations and FX interventions to stabilize the currency, while also signalling bigger tolerance towards higher USDVND fixing in recent weeks. Given our forecast of softer GDP growth in 2026, we still see for SBV to lower its policy rate by a cumulative 50bps next year. The timing will, however, depend on the VND developments.



Summary of Economic Forecasts	2023	2024	2025F	2026F	2027F
GDP (% YoY)	5.1	7.1	7.5	6.0	7.0
Current Account Balance (% of GDP)	6.4	6.6	4.0	2.4	1.6
Unemployment Rate (%)	2.3	2.2	2.2	2.3	2.2
Fiscal Balance (% of GDP)	-1.7	-1.5	-3.3	-2.3	-2.1
Headline CPI (% YoY)	3.3	3.6	3.4	3.7	4.0
SBV Refinancing Rate (%)	4.50	4.50	4.50	4.00	4.00
USDVND (eop)*	24,269	25,485	26400	26800	26,800

Note: FX forecasts are as of 17 November 2025. Source: IMF, CEIC, OCBC.

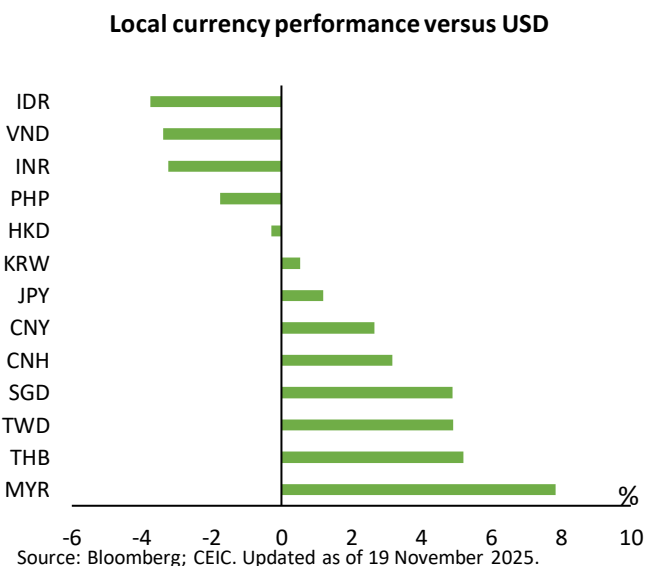
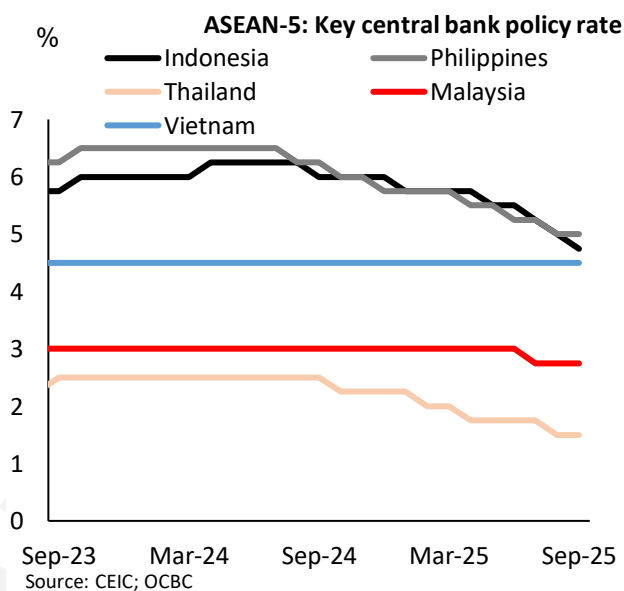
Thematic Report 1

ASEAN-5: Our key themes for 2026

- We expect GDP growth for the ASEAN-5 economies of Indonesia, Malaysia, the Philippines, Thailand and Vietnam to slow to 4.5% in 2026 from 4.8% 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.

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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. GDP growth averaged 5% YoY in 1Q-3Q25, similar to 2024. 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, with PHP, VND and IDR as the laggards.



For 2026, we are expecting a softer GDP growth profile with ASEAN-5 growth of 4.5% from 4.8% in 2025. The latter implying that slower growth momentum will start to materialise in 4Q25 itself. 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.

Thematic Report 1

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	4.6	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	7.5	6.0	7.0

Source: CEIC; OCBC.

Domestic demand in Malaysia and Vietnam is expected to remain resilient in 2026 supported by the strong reform agenda (please refer to country specific pages for details). 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, with a potential referendum on the constitution, setting in motion another political cycle. Any potential political overhang will weigh on domestic demand conditions and by contrast, 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	-2.8	-2.7	-2.8
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	-4.8	-4.3	-3.6
Vietnam	-1.7	-1.5	-3.3	-2.3	-2.1

Source: CEIC; OCBC. 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.

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. The fiscal deficit in Indonesia will likely remain below the legal 3% of GDP ceiling but we forecast that the fiscal deficit will be just under that limit. Finally, Malaysian authorities have been steadfast in its pursuit of fiscal consolidation, and we expect this will sustain into the medium-term.

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 BI and SBV – the timing will likely be based on currency moves. For the BoT, BSP and BNM, we see

Thematic Report 1

room for another 25bp cut. We expect the cuts from BI, BoT and BSP to be delivered before end 2025, while the cuts from BNM and SBV will likely come in 2026.

Policy rate				
%	Current	2025 (F)	2026 (F)	2027 (F)
Indonesia	4.75	4.25	4.25	4.25
Malaysia	2.75	2.75	2.50	2.50
Philippines	4.75	4.50	4.50	4.50
Thailand	1.50	1.25	1.25	1.25
Vietnam	4.50	4.50	4.00	4.00

Source: CEIC; OCBC.

The scope for deeper cuts will likely be limited by headline inflation rising in 2026 but also allowing for regional central banks to assess the impact of past cuts, particularly from January to October 2025. Bank Indonesia lowered its policy rate by a cumulative 125bp in 2025 followed by Bangko Sentral ng Pilipinas by 100bps and Bank of Thailand with 75bps rate cuts. Bank Negara Malaysia delivered only a 25bp cut while the State Bank of Vietnam stood pat.

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

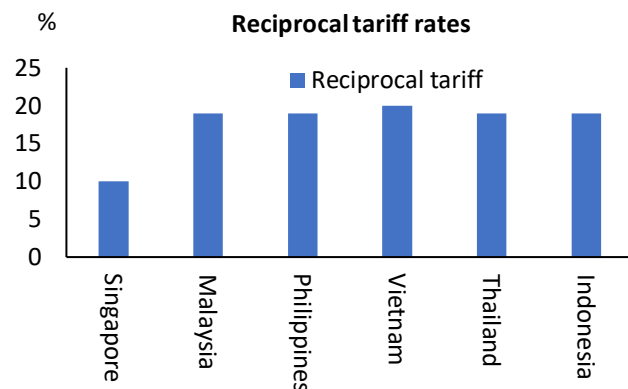
I. US tariffs: Will the bark be worse than the bite?

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 1H26⁴⁶.

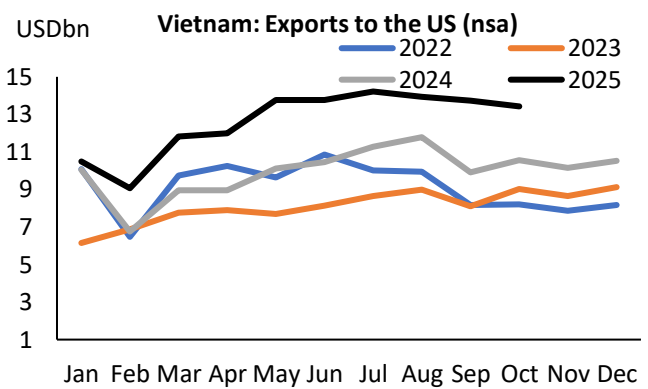
We expect ASEAN-5 exports to the US slow in 2026 as the impact of frontloading diminishes. The frontloading impact has been significant for the ASEAN-5 economies specifically Vietnam and Thailand while it was more volatile for Malaysia, Indonesia and the Philippines. This impact is unlikely to sustain 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.

⁴⁶ 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.

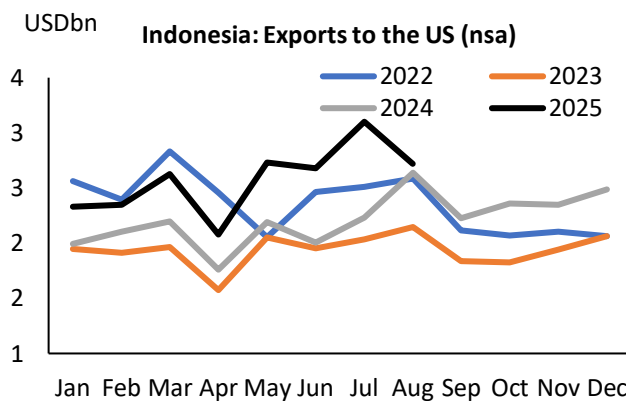
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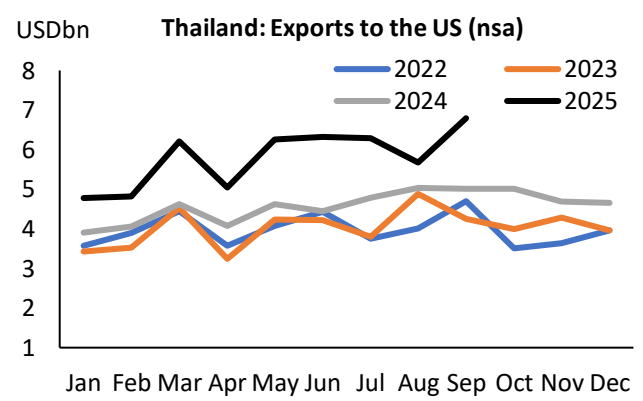
Source: WITS; UNComtrade; OCBC.



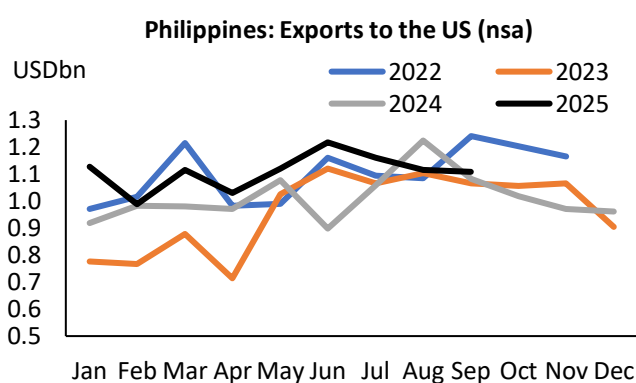
Source: CEIC; OCBC.



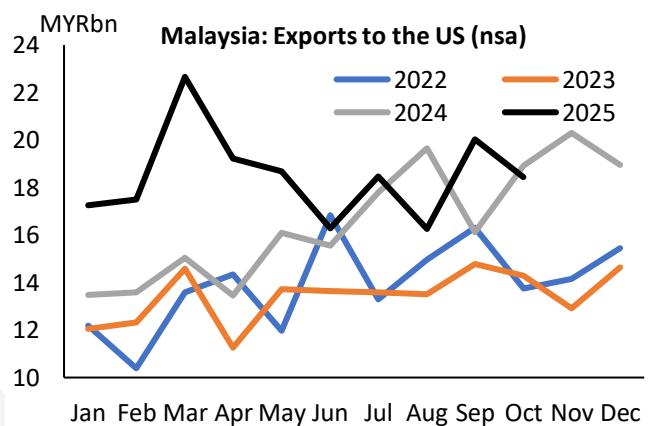
Source: CEIC; OCBC.



Source: CEIC; OCBC.



Source: CEIC; OCBC.

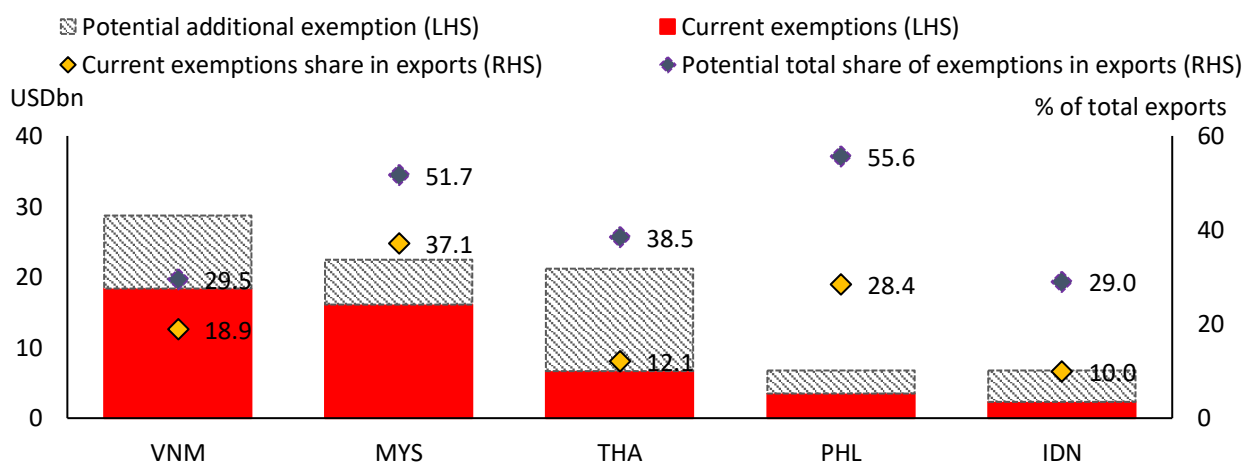


Source: CEIC; OCBC.

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 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.

Thematic Report 1

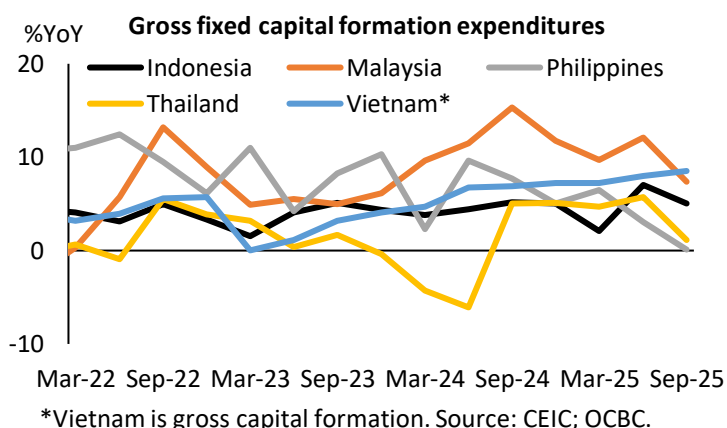
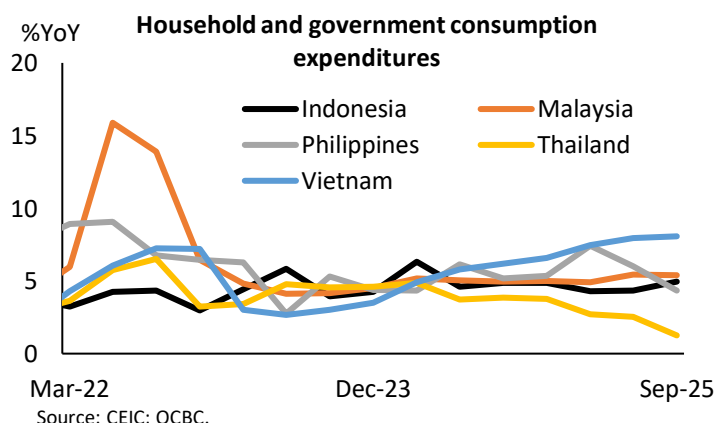
US tariff exemptions - current versus potential



Source: UN Comtrade, WITS, OCBC estimate. These do not include the exemptions announced on 14 November 2025.

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.



On the one hand, consumption and investment growth in Malaysia and Vietnam were solid in 2025⁴⁷. 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

⁴⁷ 1H25 for Malaysia and 1Q-3Q25 for Vietnam

Thematic Report 1

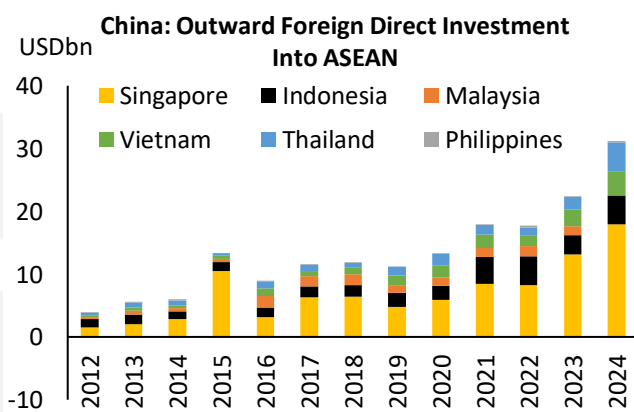
on social priorities (please refer to the individual country sections for further details). We expect these reforms will catalyse already buoyant sentiment into 2026.

On the other hand, 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 Danatara 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 elections in 1H26 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.

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



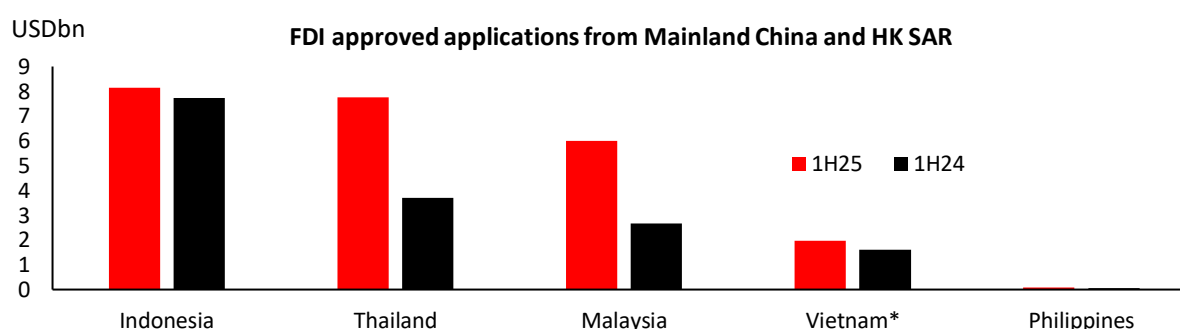
Source: CEIC, OCBC



Source: CEIC, OCBC.

Thematic Report 1

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. *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

FDI applications from Mainland China and HK SAR have picked up further in 1H25 compared to the same period last year. Anecdotal evidence suggests that investments into digital 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

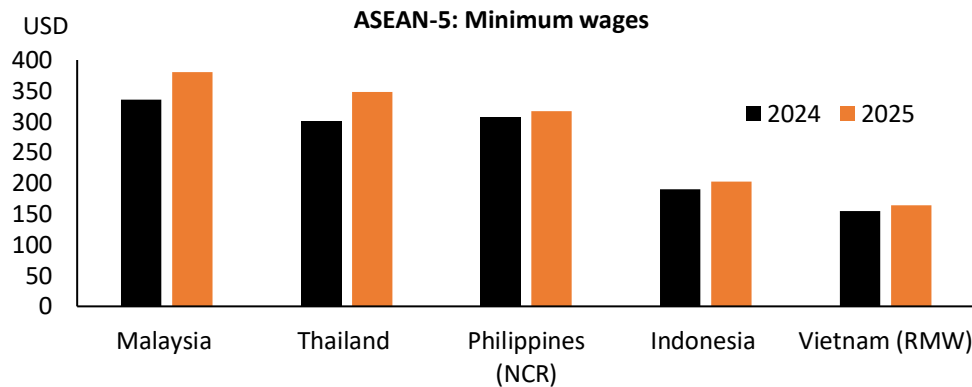
Source: The Star, Malaymail, Bangkok Post, Jakarta Post, OCBC.

IV. Complementarity and competition

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. The competition for FDI inflows and factors that influence FDI

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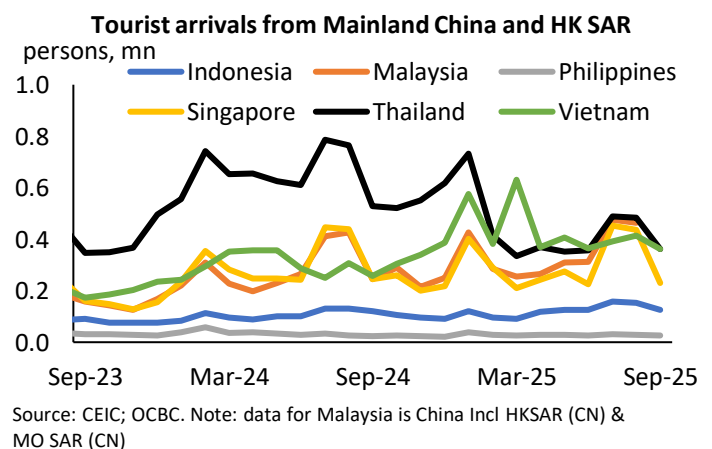
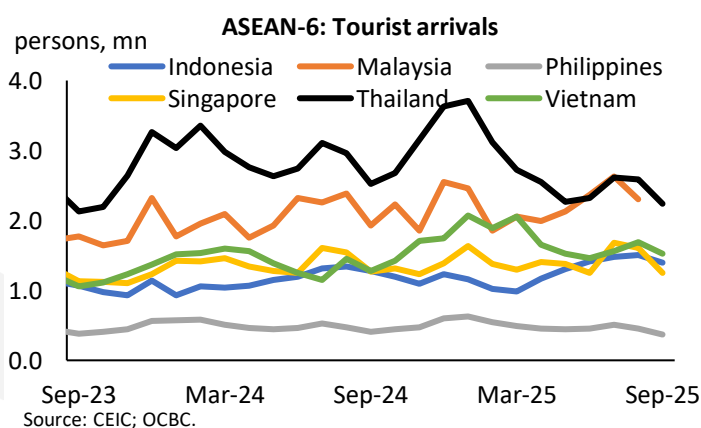
competitiveness including wages and ease of doing business related policies will continue to feature as differentiating factors for investors, in our view.



Source: Philippines DOLE; Vietnam Briefing; ASEAN Briefing; OCBC.
For Vietnam, RMW stands for regional minimum wages. Monthly minimum wages are computed from daily wages for 30 days. The exchange rate used is as of 12 December 2024.

That said, there is potentially 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).

The competition for tourists will continue into 2026. Thailand's loss of tourists, particularly tourists from Mainland China, benefitted Malaysia and Vietnam. 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 fosters innovation and continued reform.

Thematic Report 2

China: The next five-years (2026-30)

- The key social and economic development goals for the 15th Five-Year Plan imply an annual growth target of around 5% for the next five years.
- The proposals reaffirm China's dual policy pillars of industrial technology upgrading and boosting domestic demand.
- For the first time, the plan explicitly targets a "significant increase in the household consumption rate," underscoring the shift toward demand-side reform. Capital markets will emerge as the new engine of household wealth growth.

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China concluded the Fourth Plenary Session of the 20th Central Committee of the Communist Party of China (CPC) and published Proposals of the Central Committee of the Communist Party of China on Formulating the 15th Five-Year Plan (2026–2030) for National Economic and Social Development in late October. The proposals reaffirm the goal of laying a solid foundation and advancing on all fronts toward the basic realization of socialist modernization by 2035.

China outlined seven key social and economic development goals for the 15th Five-Year Plan, emphasizing high-quality growth driven by stronger household consumption, technological self-reliance through breakthroughs in core areas, and deeper reform and opening up to enhance market efficiency. The plan also calls for strengthening cultural confidence and national soft power, improving living standards via better employment and more equitable public services, advancing green development by achieving carbon peak and cutting pollution, and reinforcing national security through better risk management. Notably, for the first time, the plan explicitly targets a "significant increase in the household consumption rate," underscoring the shift toward demand-side reform. Detailed quantitative targets and flagship projects will be released in the 15th Five-Year Plan Outline to be reviewed at the National People's Congress in March next year.

The Proposals suggest that while China will continue to deepen structural reforms, it has not shifted away from its growth ambitions. The reference to attaining "moderately developed country" status implies that China's per capita GDP could rise from the current US\$13,500 to roughly US\$20,000–30,000 within a decade. This, in turn, points to an implied annual growth target of around 5% during the 15th Five-Year Plan period.

The Proposals reaffirm China's dual policy pillars of industrial technology upgrading and boosting domestic demand. Notably, the proposals place "steady improvement in total factor productivity (TFP)" as the second-highest development objective—right after "maintaining economic growth within a reasonable range." This marks a significant shift, suggesting that TFP could become a new quantitative target under

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the 15th Five-Year Plan, serving as a key barometer of overall economic efficiency and the advancement of “new quality productive forces.”

China’s Industrial policies

The proposals further outline the key sectors that will receive focused policy support in the coming years, signalling clear priorities for industrial upgrading and technological self-reliance.

Eight traditional industries — including mining, metallurgy, chemicals, light industry, textiles, machinery, shipbuilding, and construction — will undergo optimization and upgrading, with an emphasis on high-end development, intelligent transformation, green transition, and industrial clustering.

Four emerging pillar industries — new energy, new materials, aerospace, and the low-altitude economy — are positioned to become new growth drivers, strengthening China’s competitiveness in strategic sectors.

Six future industries — quantum technology, biomanufacturing, hydrogen and fusion energy, brain-machine interfaces, embodied intelligence, and 6G mobile communications — will be cultivated to shape the next frontier of industrial innovation.

Meanwhile, six core technologies — integrated circuits, industrial mother machines, high-end instruments, foundational software, advanced materials, and biomanufacturing — have been designated for “extraordinary measures” to accelerate breakthroughs in critical areas of technological bottlenecks.

Lastly, the proposals emphasize comprehensive AI empowerment across industry, culture, livelihoods, and governance — a cross-cutting initiative that will deeply integrate digital intelligence into China’s economic and social fabric.

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Table 1: upgrading of traditional industries

Upgrading of eight traditional industries including mining, metallurgy, chemicals, light industry, textiles, machinery, shipbuilding, and construction	The upgrading of eight traditional industries will be pursued through four strategic directions—high-end development, intelligent transformation, green transition, and industrial clustering—with sector-specific implementation. High-end development: Achieve breakthroughs in key and core technologies, develop high-value-added products and services, and elevate industries' positions within the global value chain. Intelligent transformation: Drive digitalization and smart upgrading to enhance production efficiency, product quality, and operational flexibility. Green transition: Promote energy conservation and carbon reduction, expand resource recycling, and minimize pollution to achieve sustainable growth. Industrial clustering: Optimize spatial layouts, strengthen supply chain coordination, and foster competitive, resilient industrial clusters.
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Table 2: Four emerging pillar industries and six future industries

Industries	Key areas for innovation breakthroughs
New Energy	High-efficiency photovoltaic, new energy storage, hydrogen storage and transportation, and key technologies for nuclear fusion
New Materials	High-performance carbon fiber, advanced semiconductor materials, superconducting materials, bio-based materials
Aerospace	Advanced aircraft design, aero-engines, satellite communications, and manned spaceflight technology
Low-altitude economy	eVTOL / unmanned aerial vehicle (UAV) complete machines, low-altitude
Quantum technology	Quantum computing, quantum communication, quantum precision measurement
Biomanufacturing	Synthetic biology, cell therapy, biological breeding
Hydrogen and fusion energy	Green hydrogen production, storage and transportation technology, nuclear fusion experimental device
Brain-machine interfaces	Brain-computer integration chips, neural signal acquisition and processing
Embodied intelligence	High torque density motors, intelligent perception and control, dexterous operation
6G mobile communications	Terahertz communication, AI endogeneity, intelligent metasurfaces

Capital Markets to Emerge as the New Engine of Household Wealth Growth

During the 15th Five-Year Plan period, household wealth composition is expected to undergo a structural shift—from a property-led model to one increasingly driven by capital markets. Over the past decade, the real estate boom was the dominant source of wealth accumulation. However, as the property valuation system undergoes deep restructuring and its investment attributes weaken, this model has become unsustainable. In response, households are actively seeking new directions for asset allocation.

Against a macro backdrop of moderate inflation, declining interest rates, and a neutral-to-accommodative monetary stance, financial assets are poised to become the new growth engine for household wealth. The ongoing rebalancing of China's

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growth model further supports this transformation, moving wealth creation away from “asset price dividends” toward “capital-market returns.”

At the same time, the ongoing institutional reforms are laying a stronger foundation for capital markets to evolve—from being primarily “financing markets” to “investment markets,” and ultimately “wealth markets.” This transformation will not only reshape household portfolios but could also redefine local government financing models.

From “Land Finance” to “Equity-Based Finance”:

For decades, “land finance”—the monetization of land resources—served as the backbone of the local fiscal system. Revenues from land-use rights underpinned infrastructure construction, urban development, and a vast network of related industries such as real estate, steel, and cement. This model was indispensable during the phase of high-speed growth and rapid urbanization.

However, as urbanization matures and land sales slow, this one-off, front-loaded financing model is losing sustainability. A new “equity-based fiscal model” is emerging, where local governments increasingly act as long-term shareholders—investing strategically in enterprises and sharing in their growth dividends. The “Hefei Model” offers a successful example: by investing in companies such as BOE Technology and NIO, Hefei not only nurtured industrial clusters but also realized substantial financial gains, enabling the city to achieve a transformative leap forward.

Looking ahead, we expect the traditional land-finance model to fade more rapidly during the 15th Five-Year Plan period, giving way to an equity-based fiscal framework as the mainstream engine of local economic growth. This transition marks more than just a fiscal adjustment—it represents a broader evolution in China’s development paradigm, one that aligns fiscal sustainability with industrial upgrading and long-term wealth creation.

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Enhancements to offshore RMB liquidity

- A slew of measures has been launched this year to further enhance offshore RMB liquidity provisions and allow the use of onshore RMB bonds as eligible collaterals in both onshore and offshore RMB repo business.
- These measures foster RMB usage in a broader scope of activities, increase the appeal of onshore RMB bonds to foreign investors, while promoting RMB as a financing currency.
- Panda bond and offshore RMB bonds issuances have been active in past quarters. Availability of a variety of RMB bonds help promote RMB as an investment currency as well.
- Upon the prospects of more cross-border flows, the offshore CNH interest rate curve may stay better aligned with the onshore CNY interest rate curve.

A slew of measures has been launched this year to further enhance offshore RMB liquidity provisions and allow the use of onshore RMB bonds as eligible collaterals in both onshore and offshore RMB repo business. These measures foster RMB usage in a broader scope of activities, increase the appeal of onshore RMB bonds to foreign investors, while also promoting RMB as a financing currency. RMB functioning as a financing currency has gained traction. RMB loan-to-deposit ratio at banks in Hong Kong rose steadily from 20% in September 2022 to 90% in June 2025. RMB's share as a global currency in trade finance market was 7.28% in September 2025, ranking 2nd albeit far behind the dominating USD. Meanwhile, both onshore Panda bond and offshore RMB bond issuances have been active over past quarters. Availability of a variety of RMB bonds help promote RMB as an investment currency as well. Hong Kong SAR remains a leading offshore RMB centre, with offshore RMB deposits at banks in Hong Kong exceeding RMB 950 billion as of Oct 2025, handling around 75% of global RMB clearing businesses.

Offshore RMB facilities

To support the increasing liquidity needs in the offshore RMB (CNH) market, the Hong Kong Monetary Authority (HKMA) announced the replacement of RMB Trade Financing Liquidity Facility (TFLF) – which was only launched in February 2025 - with **RMB Business Facility (RBF)**, effective 9 October 2025. RBF is rolled out in three phases. Key enhancements include: 1/ *Eligible activities*. The facility covers a wider range of eligible activities; in addition to trade finance, the scope of eligible activities will ultimately cover RMB term loans for capital expenditures and working capital needs; 2/ *Facility rate*. Interest rate is set at SHIBOR (Shanghai Interbank Offered Rate) flat, instead of SHIBOR+25bps under TFLF; 3/ *Tenors*. Tenors are extended to include 1-year, in addition to tenors of 1-, 3-, and 6-month; 4/ *Tapping basis*. Instead of being portfolio basis or deal-by-deal basis, a minimum size of RMB10mn per tapping is applied.

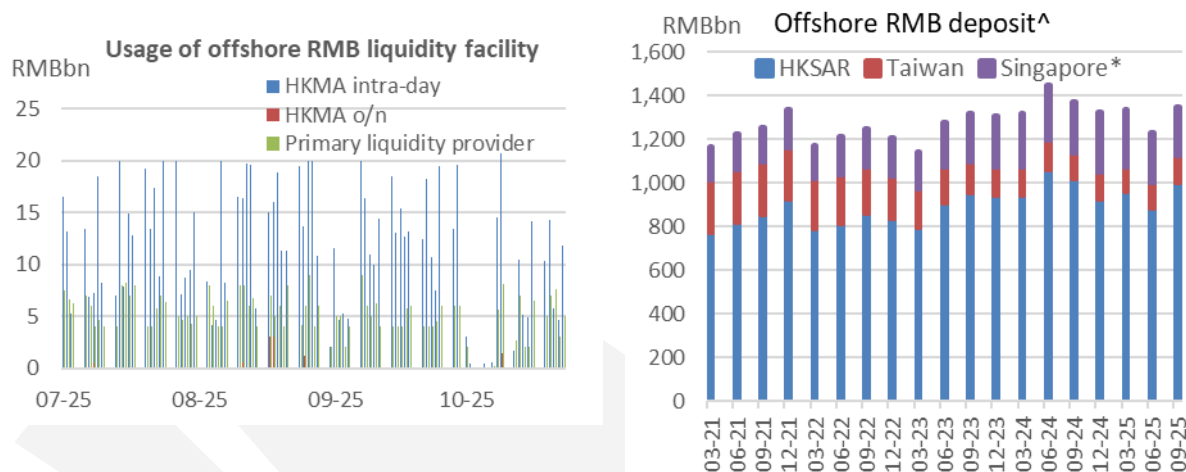
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Separately, **RMB Liquidity Facility**, which was introduced back in June 2012, will stay, providing short-term liquidity. Under this RMB Liquidity Facility, there has also been some recent enhancements. First, funds for intra-day are increased to RMB30bn from RMB20bn, while funds for overnight are reduced to RMB10bn from RMB20bn, to better align with demand for intra-day funding. Usage of intra-day RMB repo has by far outweighed the usage of overnight RMB repo; the overnight RMB repo has been rarely tapped. Second, the facility will now include two-week and one-month repo for T+1 settlement, in addition to one-day and 1-week tenors. Interest rate under RMB Liquidity Facility references CNH HIBOR.

The two facilities cater for different needs. Offshore RMB interbank rates (CNH HIBOR) have typically been more sensitive to seasonal factors and external market conditions, given the scale of the CNH liquidity pool is far smaller compared to onshore. RBF is therefore expected to offer more stable pricing referencing SHIBOR, while also meeting the broader and longer-term of RMB financing needs from enterprises — including for trade and capital investment. RBF helps enterprises better manage financing costs and market risks, promoting the broader use of RMB. RMB Liquidity Facility, meanwhile, supports funding needs for the increasing RMB settlement volume as cross-border RMB payments and offshore RMB activities continue to grow, while serving as a backstop of RMB liquidity for banks.



Source: CEIC, OCBC Research

^selected Asian centres; *as of end June 2025

Bond repurchase business and Swap Connect

Recent enhancements regarding the use of onshore RMB bonds as eligible collaterals for repo business are likely to add to the incentives for investors to hold RMB bonds. The People's Bank of China (PBoC), the China Securities Regulatory Commission, and the State Administration of Foreign Exchange jointly issued the "Notice to Further Supporting Overseas Institutional Investors in Conducting Bond Repo Business in China's Bond Market" on 26 September, expanding cross-

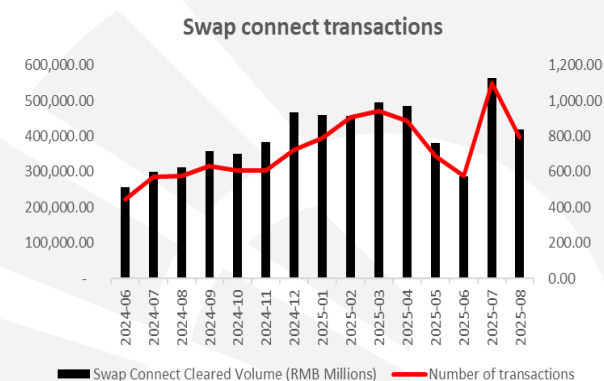
Thematic Report 3

boundary bond repurchase business. Under this latest policy measure, all overseas institutional investors already investing in the onshore bond market, including Bond Connect investors, “will be allowed to participate in the onshore repo business and to remit the RMB liquidity thus obtained for offshore use.”

Access to onshore repo renders onshore RMB bonds more appealing to foreign investors, all else equal. Bonds used as collaterals will be transferred to the repo buyers and can be re-used, aligning with international practices and improving collateral circulation efficiency. The liquidity obtained can be remitted for offshore use under existing quota management, fostering cross-boundary flows. We believe this development will encourage greater foreign participation in the onshore bond market. As of August 2025, 1,170 overseas institutions had entered China’s bond market.

Earlier in February, HKMA launched offshore RMB repo business. Northbound Bond Connect investors can use their eligible onshore RMB bond holdings as collaterals to participate in offshore RMB repo business. Subsequently, HKMA launched enhancements to the offshore RMB repo business in August, which included 1/ the introduction of cross-currency repo (offshore RMB repo can be settled currencies other than the RMB, which include HKD, USD and EUR); and 2/allowing rehypothecation of bond collateral during the repo period.

Swap Connect is a mutual access programme between HKSAR and mainland China’s interest rate swap markets. Northbound Swap Connect was launched in May 2023, allowing offshore investors to participate in onshore China’s interest rates swap market. There have since been a few rounds of enhancements to provide more flexibility for offshore institutional investors to manage interest rate risk, thereby strengthening the appeal of RMB assets to offshore investors. In May 2025, further enhancements included extending the tenors of swap contracts from 10-year to 30-year and expanding the product scope to include swap contracts referencing onshore Loan Prime Rate (LPR). Swap contracts now cover 7-day repo (FR007), 3M SHIBOR, overnight SHIBOR and 1Y LPR. Offshore investors can use onshore bonds issued by the Ministry of Finance (i.e. CGBs) and by policy banks (i.e. PFBs) held under Bond Connect as margin collateral for Northbound Swap Connect transactions.



Source: HKEX, OCBC Research

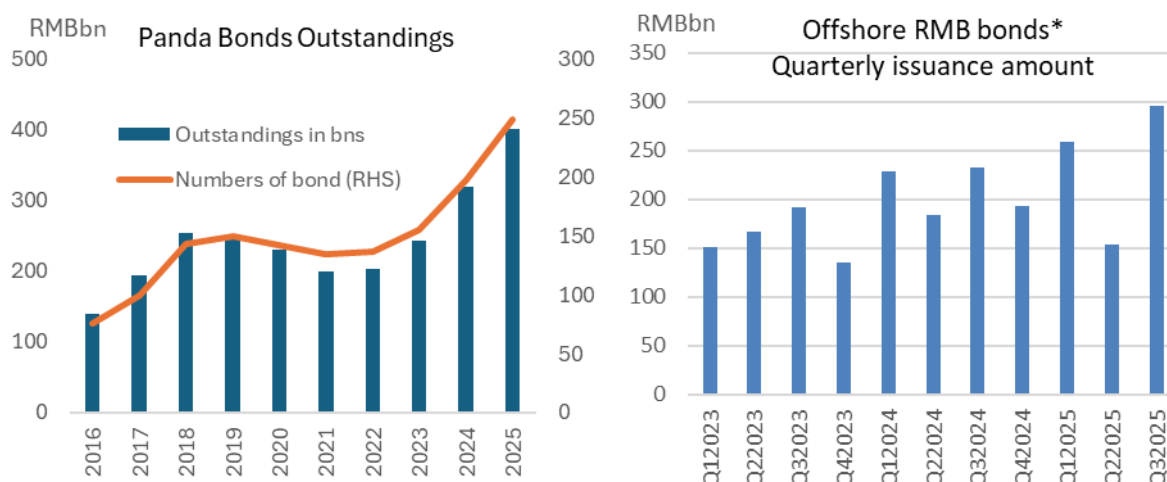
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Panda bonds and offshore RMB bonds

Both onshore Panda bond and offshore RMB bond issuances have been active over past quarters. Issuances of Panda bonds have picked up since 2023 and rose steadily over the past couple of years, bringing outstanding Panda bonds to the RMB400bn mark. A majority 51% of outstanding Panda Bonds have been issued by non-financial issuers (enterprises), while another significant 21% share have been issued by foreign government bodies and international development entities. Offshore RMB bond gross issuances (dim sum bonds and formosa bonds) amounted to more than RMB700bn during the first ten months of this year.

With RMB-USD interest rate differentials staying deeply negative, there is an incentive for corporates and institutions to raise funds in RMB. On the benchmark curves, while CGB-UST yield differentials are off the lows attained in January 2025, the differentials have remained materially negative, at around -200bps for the 2Y and 10Y tenors as of writing.

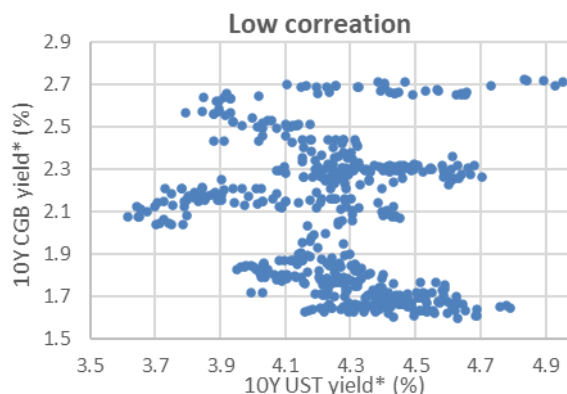
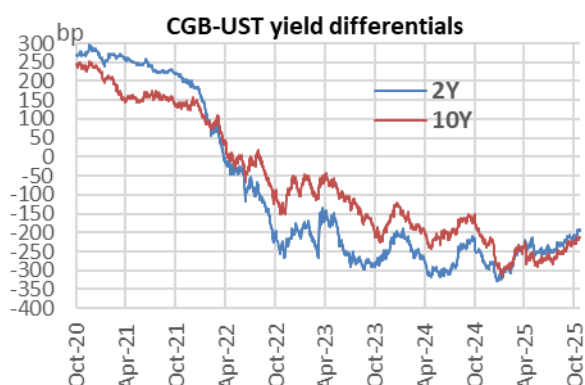
On the demand side, amid the theme of portfolio diversification away from USD assets, investors are in search of alternatives. In an earlier focus piece looking into alternatives to USTs, we highlighted CGBs, along with some other government bonds in Europe and in Asia, as viable investment alternatives. These represent long term structural shifts, while cyclically with the currently low RMB interest rates and yields, investor interest may not be overwhelming. Onshore RMB bonds saw four months of outflows in a row in May to August. Since CGB's inclusion into WGBI starting November 2021 (with full weight attained by October 2024), foreign holdings of CGBs fell by a cumulative RMB293bn. On a more positive note, this points to room for catch-up. Moreover, given the historically low correlation between CGBs and USTs (and between CGBs and other major DM government bonds), CGBs provide investors with value in managing global market risks and building more diversified portfolios.



Source: Wind (Panda bonds), Bloomberg (offshore RMB bonds), OCBC Research

*include dim sum and Formosa bonds only

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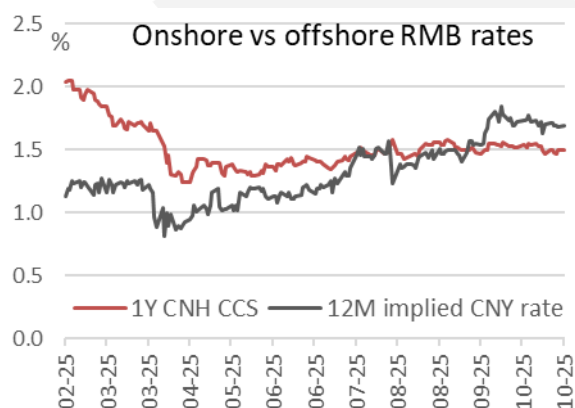


Source: Bloomberg, OCBC Research *data from 25 October 2023 to 24 October 2025

Onshore and offshore RMB rates curves have converged

As the offshore CNH pool remains limited compared to the sheer size of the onshore monetary base, CNH interest rates had been mostly trading above onshore CNH interest rates. Another caveat is the 20% FX risk reserve requirement in onshore, which had helped sustain the spread between the offshore and onshore forward curves. The two curves have however converged over the past months, mainly triggered by the falls in CNH rates. At some tenors, CNY rates were higher than CNH rates at the time of writing.

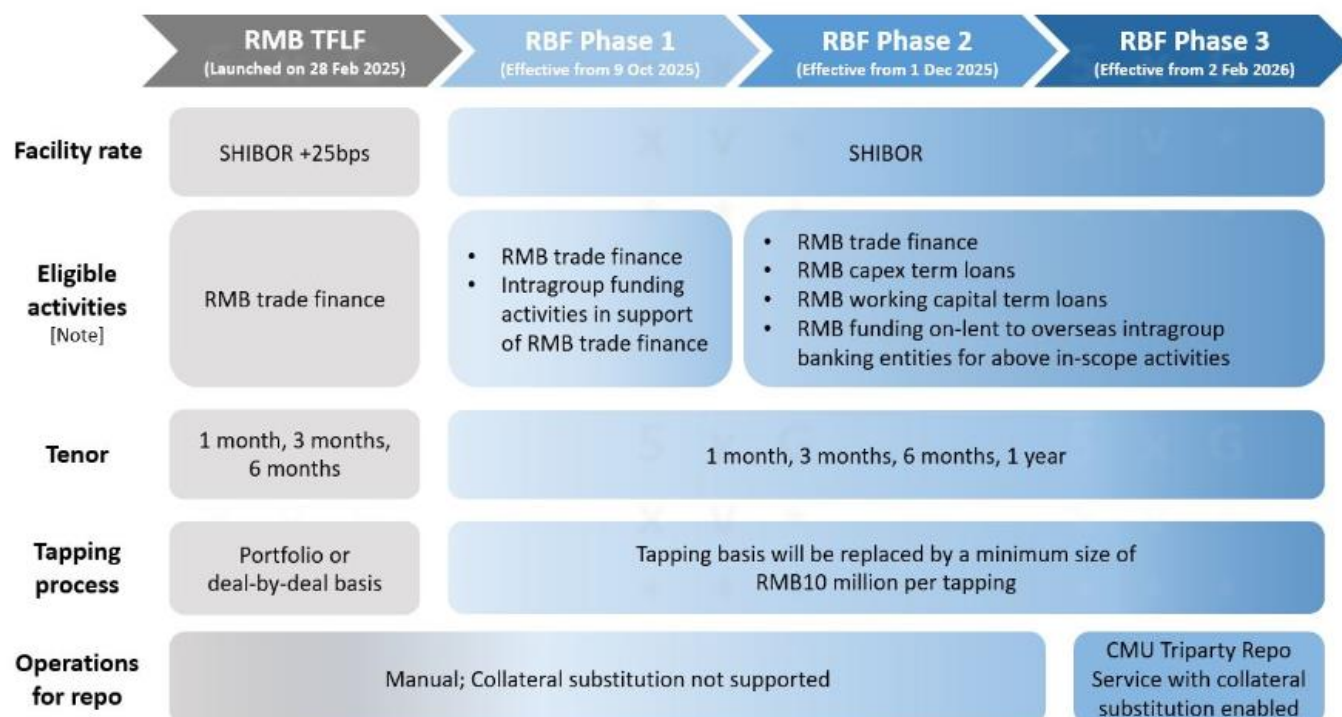
With the expanded cross-boundary bond repurchase business, all overseas institutional investors already investing in the onshore bond market “will be allowed to participate in the onshore repo business and to remit the RMB liquidity thus obtained for offshore use.” This represents another channel through which onshore CNY can be brought to offshore and becomes CNH. given potential cross-border flows, the offshore curve will likely stay more aligned with the onshore curve, and the wide “yield/rate premium” on the offshore CNH rates curve may not come back. The impact of the onshore 20% FX risk reserve requirement may not be as substantial either, if most flows reflect underlying needs.



Source: Bloomberg, OCBC Research

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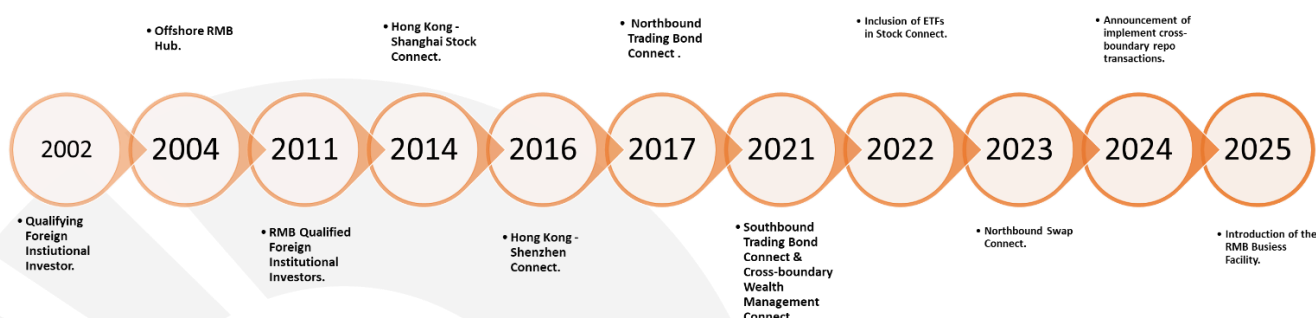
Chart 1: Three phases on RMB Business Facility (extract from HKMA press release)



[Note]: Please refer to the circular "RMB Business Facility" for the details of eligible activities.

Source: HKMA, OCBC Research

Chart 2: Key milestones on RMBI



Source: HKMA, OCBC Research

Thematic Report 3

Table 1: RMB Liquidity Facility and RMB Business Facility in details

	RMB Liquidity Facility	RMB Business Facility Phase 1 and Phase 2	RMB Business Facility Phase 3
Eligible parties	Als participating in RMB business (Participating Als)	Als participating in RMB business with an assigned quota (Participating Als)	Als participating in RMB business with an assigned quota (Participating Als)
Facility size	-	RMB100bn	RMB100bn
Minimum tapping size	-	RMB10mn	RMB10 million
Tenor	Intraday, Overnight, 1 day, 1 week, 2 weeks, 1 month	1 month, 3 months, 6 months, 1 year	1 month, 3 months, 6 months, 1 year
Transaction types	Repurchase agreement (repo)	Repurchase agreement (repo), Cross-currency swap of RMB/HKD	Repurchase agreement (repo), Cross-currency swap of RMB/HKD
Eligible collateral	1/ EFBN; 2/ HKGB; 3/ onshore RMB denominated debt securities issued by PBOC, CMOF, Local People's Governments and China Policy Banks; 4/ offshore RMB, USD and EUR denominated debt securities issued by PBOC, CMOF, Local People's Governments and China Policy Banks	1/ EFBN; 2/ HKGB; 3/ onshore RMB denominated debt securities issued by PBOC, CMOF, Local People's Governments and China Policy Banks; 4/ offshore RMB, USD and EUR denominated debt securities issued by PBOC, CMOF, Local People's Governments and China Policy Banks	1/ EFBN; 2/ HKGB; 3/ onshore RMB denominated debt securities issued by PBOC, CMOF, Local People's Governments and China Policy Banks; 4/ offshore RMB, USD and EUR denominated debt securities issued by PBOC, CMOF, Local People's Governments and China Policy Banks
Haircut on eligible collateral	1/ EFBN and HKGB: 2% per year of remaining maturity, plus 2% for currency risk; 2/ RMB denominated debt securities: 2% per year of remaining maturity, minimum 2%; 3/ USD and EUR denominated debt securities: 2% per year of remaining maturity, minimum 2%, plus 2% for currency risk	1/ EFBN and HKGB: 2% per year of remaining maturity, plus 2% for currency risk; 2/ RMB denominated debt securities: 2% per year of remaining maturity, minimum 2%; 3/ USD and EUR denominated debt securities: 2% per year of remaining maturity, minimum 2%, plus 2% for currency risk	2% per year of remaining maturity, maximum 20%; no pro rata calculation will be applied; and Additional 2% cross-currency haircut for non-RMB denominated collaterals
Interest rate	Intraday Repo: Average of the most recent 3 TMA overnight CNH HIBOR, inclusive of the CNH HIBOR on the same day (or the average of the nearest 3 preceding CNH HIBOR if there is no CNH HIBOR on the same day), minimum at 0%; Overnight Repo: Average of the most recent 3 TMA overnight CNH HIBOR, inclusive of the CNH HIBOR on the same day (or the average of the nearest 3 preceding CNH HIBOR if there is no CNH HIBOR on the same day), plus 25 bps, subject to a minimum of 0.25%; One-day, One-week, Two-week and One-month Repo: By reference to prevailing market interest rates	The interest on RMB fund borrowing under the facility will be calculated by the Shanghai Interbank Offered Rate of the corresponding tenor on trade date for both the repo and cross-currency types of transaction. For cross-currency swap, the HKD interest received by the Participating AI will be calculated using the lowest among: (i) Indicative Pricings of Exchange Fund Bills at 11:00 am; (ii) HKD Interest Settlement Rates published by the Treasury Markets Association; (iii) Prevailing FX swap-implied HKD interest rate of the corresponding tenor on trade date.	The interest on RMB fund borrowing under the facility will be calculated by the Shanghai Interbank Offered Rate of the corresponding tenor on trade date for both the repo and cross-currency types of transaction. For cross-currency swap, the HKD interest received by the Participating AI will be calculated using the lowest among: (i) Indicative Pricings of Exchange Fund Bills at 11:00 am; (ii) HKD Interest Settlement Rates published by the Treasury Markets Association; (iii) Prevailing FX swap-implied HKD interest rate of the corresponding tenor on trade date.
Operating hours	On each operating day of RMB RTGS which spans from 8:30 am to 5:00 am the next calendar day, except for Saturdays and Sundays; On T+1 settlement, Request for repo should be made before 12:00 noon on each Hong Kong business day	Request should be made before 10:30 am on each Hong Kong business day	Request should be made before 10:30 am on each Hong Kong business day

Source: HKMA, OCBC Research.

Note: Als - Authorized institutions, EFBNs - Exchange Fund Bills and Notes, HKGB - HKSAR Government Bond, CMOF - China Ministry of Finance.

Thematic Report 4

Hong Kong's Stablecoins and Digital Assets Ambition

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- Hong Kong strives to become the leading digital asset hub through implementing advanced regulatory framework and pro-tokenization policies, together with various government-backed programs to support private sector participation.
- Hong Kong's regulatory framework governing the stablecoin is broadly aligned with that of global counterparts. Prospective issuers of stablecoins aim to leverage stablecoins and blockchain technology to enhance cross-border payments, settlement and financial transactions. In a broader picture, it can potentially enhance cross-border business connectivity and accelerating yuan internationalisation.
- Hong Kong's RWA ecosystem is growing exponentially, with maturing infrastructures, increasing institutional participation and expanded use cases. Regardless, the tokenization of real assets remains in its early stages, with most of RWA products on the market related to fixed income

Ambition of developing into a digital asset hub

The HK government in June this year, issued the Policy Statement 2.0 on the Development of Digital Assets in Hong Kong, affirming the determination to develop digital assets (DA) ecosystem. Key initiatives include regulating tokenized real-world assets (RWA tokenization refers to the process of converting traditional assets, like stocks, bonds, and real estate, into digital tokens tradable on blockchain networks), encouraging licensed exchanges to integrate with global markets, and introducing innovative products like DA ETFs. Prior to that, the government had laid the groundwork and implemented a unified regulatory regime covering DA exchanges, fiat-referenced stablecoin issuers, dealing and custodian service providers.

To build a DA ecosystem, the government has started regular issuances of tokenised government bonds since 2023 (first issuance in 2023: HK\$800 million tokenized green bond; second issuance in 2024: HK\$6 billion multi-currency digital green bond; third issuance in 2025: HK\$10 billion multi-currency digital green bond). In addition, the Hong Kong Monetary Authority (HKMA) is working further in achieving interbank settlement of tokenized deposits, promoting live transactions of tokenized asset, and promoting wider adoption of tokenization technology in Hong Kong's bond market. To this end, it has launched the Digital Bond Grant Scheme, which offers financial support of up to HK\$2.5 million for eligible private sector digital bond issuances in Hong Kong. Other quasi-government organizations, such as Cyberport, also launched Blockchain and DA Pilot Subsidy, to facilitate the development and testing of high impact blockchain and Web3.0 applications.

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Through implementing advanced regulatory framework and pro-tokenization policies, together with various government-backed programs to support private sector participation, Hong Kong strives to become the leading digital asset hub.

Stablecoins Bill

Hong Kong passed the Stablecoins Bill in May, as part of the broader strategic initiative to develop the city into a leading DA hub. The bill came into effect on 1 August, with the first batch of licences to be issued tentatively early next year. The bill mandates that any issuance of fiat-referenced stablecoin (hereafter stablecoin) in Hong Kong, or issuance of stablecoin that pegs to Hong Kong dollars in or outside Hong Kong, will need to obtain a licence from the HKMA. The bill also outlines stringent rules on licensing (company incorporated in Hong Kong with paid-up share capital of no less than HK\$25 million), reserve backing (reserve equivalent to stablecoins in circulation and over-collateralization), consumer protection (transparency in redemption and risk disclosure), AML/CFT compliance (strict anti-money laundering and counter-terrorist financing measures), and operational standards (adequate and appropriate risk management framework and internal controls).

Legal framework and comparative analysis

Hong Kong's regulatory framework governing the stablecoin is broadly aligned with that of global counterparts. In a short summary, only permitted or licensed issuers can issue stablecoins, and the issued stablecoins are required to be fully backed on a one-to-one basis with highly liquid and low-risk assets held in segregated accounts. The stablecoins must be non-interest/yield bearing. Issuers are classified as financial institutions and must comply with AML/CFT, sanctions, and KYC rules.

A key distinction from the U.S. GENIUS Act lies in reserve requirements, which highlights their strategic approach to stablecoins and other related digital assets (details listed in **Table 1**). In US, the relevant legislation mandates reserve backing in currencies, US treasury bills and other cash-equivalent instrument. This in turn reinforces the dollar's dominance and increases demand for US debt. In contrast, Hong Kong permits multi-currency pegging (HKD, USD, CNH, etc.) stablecoins, given that the market value of the reserve pool must be equal to the par value of the stablecoins in circulation. The reserve is not limited to USD-denominated assets. This flexibility reflects Hong Kong's strategic goal to attract institutional issuances, establish use cases and foster innovation, including real-world asset tokenization and other advanced financial applications, thereby supporting its ambition to develop into a regional digital asset hub.

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Table 1: Legal framework of Stablecoins Bill (Hong Kong) and GENIUS Act (US)

	Stablecoins Bill (Hong Kong)	GENIUS Act (US)
Licensing requirement	Hong Kong incorporated company or an authorised institution incorporated outside Hong Kong which meet specified minimum criteria	Both bank and non-bank US-regulated entity which satisfy the definition of “permitted payment stablecoin issuer”
Regulator	HKMA	Federal financial regulators (Fed, OCC, FDIC, NCUA) or qualifying state regulator if market cap $\leq$ USD 10b
Reserve ratio	$\geq 100\%$ of outstanding stablecoins	$\geq 100\%$ of outstanding stablecoins
Eligible reserves	Reserve Assets must be high quality and high liquid; same currency as the stablecoin	US dollars, US treasuries, approved repos, money market funds, central bank reserve deposits
Redemption	Within 1 business day	Timely redemption
Consumer protection	Emphasis on transparency, reserve backing, risk management and investor protections	Emphasis on disclosure, reserve backing, anti-fraud measures, and investor protections
Bankruptcy protections	Specified reserve assets pool is adequately protected against claims by other creditors	Stablecoin holders have priority over other claims
Interest	Non-interest bearing	Non-interest bearing

Sources: HKMA, Hong Kong Legislative Council, OCBC.

Stablecoins: potential and challenges

Stablecoins serve as a bridge between traditional finance and digital assets but have so far been predominantly used in crypto trading. Their key advantages include lower transaction costs and faster settlement, particularly under the context of cross-border transaction. Hence it can facilitate faster, cheaper, and more transparent cross-border payments and remittances compared to traditional banking systems. It also provides diversified use cases in B2B/B2C transactions for businesses, given its programmability. Added to that, stablecoins can function as a medium of exchange in underbanked or unbanked segments. However, stablecoin’s non-interest-bearing nature limits their appeal as a store of value, potentially constraining widespread adoption.

Given Hong Kong’s advanced and efficient electronic payment landscape (such as the Faster Payment System, FPS), public adoption of stablecoin may remain limited in the near-term horizon. Future success of stablecoin push will likely depend on enhancing its interoperability, as well as building sizable pools of high-quality tokenized assets and growing the Web3 economy which leverage stablecoins as mediums of exchange. In that connection, Hong Kong authorities are actively exploring stablecoin applications in payments, decentralized finance (DeFi), and RWA tokenization, alongside collaboration with industry stakeholders.

The proposed use cases of stablecoins in Hong Kong

In the past few months, stablecoin licences draw considerable interest from the business community. There are reportedly more than 30 companies looking to apply for licenses (**Table 2**), more than five times the amount authorities plan to

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hand out, but all with similar defined use cases. Prospective issuers, including e-commerce and fintech firms, aim to leverage stablecoins and blockchain technology to enhance cross-border payments, settlement and financial transactions.

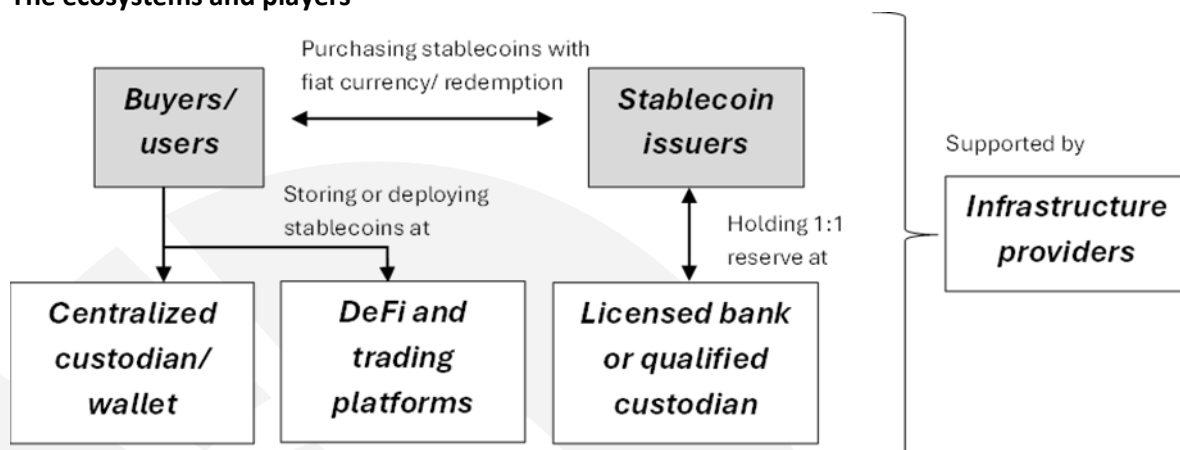
Moreover, the current stablecoin regulatory framework provides optionality to peg to offshore RMB. By providing a RMB token that can be easily transferred and traded on blockchain platforms, it encourages the use of RMB in international trade and finance and increases the accessibility and liquidity of RMB assets globally. In a broader picture, it can potentially enhance cross-border business connectivity and accelerating yuan internationalisation.

Table 2: Potential applicants for stablecoin licenses

Potential applicants	Details	Expected use cases
Ant Digital Technologies	Planning to apply for stablecoin licenses	- cross border payment - treasury management services
JD CoinChain	Planning to apply for apply for HKD/USD-pegged stablecoin licenses	cross border payment
Standard Chartered Bank	Formed a joint venture with HKT and Animoca to issue HKD-pegged stablecoin	- domestic and cross border payment - financial transactions
Reitar Logtech	Planning to apply for HKD-pegged stablecoin licenses	payment and settlement in cross-border e-commerce, logistics and supply chains
Fosun International	Planning to apply for stablecoin license in HK	tokenized RWA services

Sources: Various news sources, OCBC.

The ecosystems and players



Regulators: The HKMA regulated stablecoins related activities in Hong Kong, while Securities and Futures Commission (SFC) regulated activities related to digital assets related activities, including licensing and regulating Virtual Asset Service Providers (VASP).

Issuers: Several fintech/e-commerce firms and financial institutions in Hong Kong had applied to launch stablecoins pegged to the HKD or other major currencies to

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facilitate payments, remittances, and trading on digital asset platforms. However, neither the world's largest stablecoin issuers, Tether (issuer of USDT) and Circle (issuer of USDC), have indicated plans to apply for license in Hong Kong so far.

DeFi and trading platforms: Hong Kong now hosts growing number of digital asset exchanges (11 were currently licensed by SFC) and DeFi platforms where stablecoins are widely used as trading pairs and collateral.

Financial institutions: Qualified custodians, such as licensed banks or other approved asset custodians, will safekeep issuers' reserve assets. Aside from that, banks and payment service providers are increasingly integrating stablecoins into their services, offering trading and settlement solutions.

Infrastructure providers: Blockchain infrastructure providers, custodians, and wallet providers will enter the market to support the issuance, transfer, and storage of stablecoins.

Other digital medium of exchange: e-HKD and tokenised deposit

Hong Kong's ambition lies far beyond the stablecoin push. Similar to many central banks around the world, Hong Kong is also exploring the issuance of a wholesale-focused⁴⁸ central bank digital currency (CBDC), the e-HKD, and its potential use in interbank settlement of tokenised deposit (digital representation of commercial bank deposits which is minted on that bank's own blockchain ledger sheet), under Project e-HKD+ and Project Ensemble (**Table 3**). Hong Kong has already established use cases for CBDC, providing an e-CNY (CBDC issued by the People's Bank of China) wallet linked with the payment network FPS. Separately, leading banks in Hong Kong have engaged in the issuance of tokenised deposits, currently for the purposes of supporting treasury management and real-time settlement for corporates, but with future potential to support atomic PvP (payment-versus-payment)/DvP (delivery-versus-payment) settlement for financial instruments. Market intelligence suggested that the adoption of new payment systems, including the e-HKD and stablecoins, has the potential to unlock HK\$160 billion (5.0% of 2024 GDP) economic value by 2032.

⁴⁸ HKMA will prioritise the development of the e-HKD for financial institutions in wholesale scenarios, according to the report of e-HKD Pilot Programme Phase 2 Report.

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Table 3: Comparison of e-HKD, tokenized deposit and stablecoin

	e-HKD	Tokenized deposit	Stablecoin
Issuer	HKMA	Commercial banks	licensed institutions
Legal status	Legal tender	Bank liability	Liability of issuers
Use cases	Interbank settlement	Corporate cash management, B2B payment etc.	Cross-border payments and settlement, DeFi etc.
Trust level	Very high	High	Depending on issuers and reserve assets
Technology	Blockchain/ distributed ledger technology		
Risk	Equivalent to sovereign fiat currency	Stability in value linked to the financial soundness of the issuer and the level of trust in the market	Stability in value linked to the effectiveness of the reserve management framework, along with the quality and composition of the underlying reserve assets

Sources: Various news sources, HKMA, OCBC.

Tokenisation of RWAs in Hong Kong

The size of the tokenized assets has grown rapidly in the world, with expanding scope of RWAs, such as government bonds, money market funds, private equity and credit funds, and real estate. Similarly, Hong Kong's RWA ecosystem is also growing exponentially, with maturing infrastructures, increasing institutional participation and expanded use cases. Commercial bank in Hong Kong started to offer tokenised gold to the retail investors, allowing them to acquire a fraction of ownership of physical gold held in vaults of commercial bank. Meanwhile, some businesses are experimenting with tokenization of their future product pipeline, using the future revenue rights from their products as the base assets. Regardless, the tokenization of real assets remains in its early stages. So far, the RWA tokenisation products on the market are mostly related to fixed income products (eg. tokenised money market fund), as market participants saw no clear advantage of blockchain technology over other highly efficient traditional exchange trading and settlement systems, says systems for equities trading

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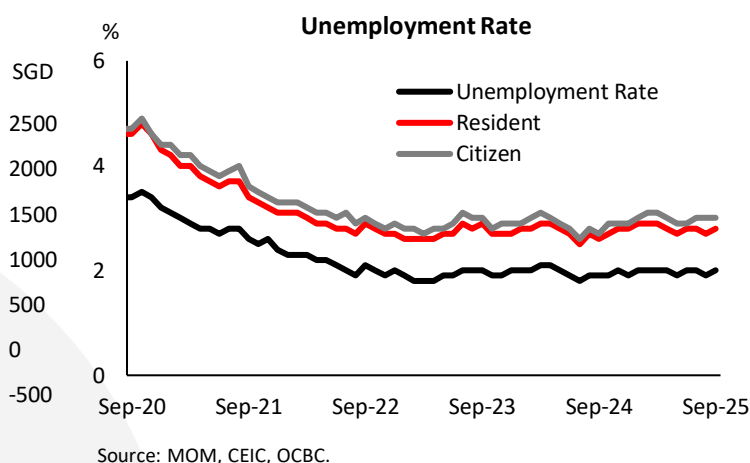
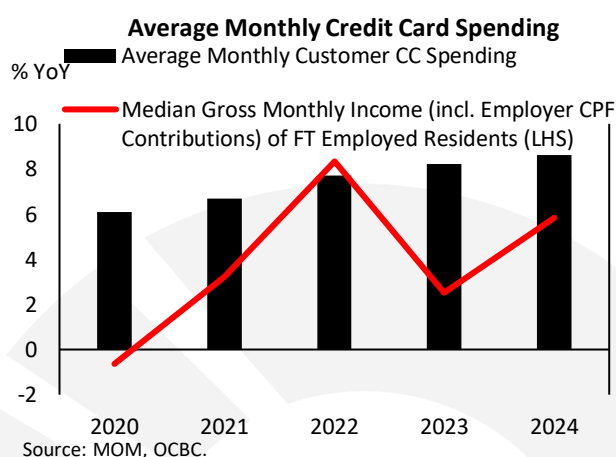
OCBC Credit Card Spend Insights

- Our credit card spending data reflects that average credit card spending habits have not been significantly impacted by external uncertainties such as US tariffs and trade tensions.
- The love of travel and the strong SGD have seen higher average spending overseas. In terms of destinations for their overseas spending, China & HK SAR, as well as Malaysia appear to have gained market share.
- In particular, cardholders' spending patterns in JB reflect a blend of value-seeking behaviour, lifestyle preferences, and regional integration. Looking ahead, the Johor-Singapore Special Economic Zone and the launch of the Rapid Transit System RTS (Link) in 2026 will likely add a new dimension to spending patterns in JB.

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In line with stronger GDP growth in 1Q-3Q25, the average monthly customer credit card spending⁴⁹ rose to SGD2,223, which 11.6% and 6.2% higher than the SGD1,992 and SGD2,093 respectively recorded during the same period in 2023 and 2024. Despite the uncertain external economic backdrop marred by tariffs and trade tensions, coupled with the cooling business and consumer confidence narrative, there appeared to be little adverse impact on credit card spending patterns. This is a likely testament to the strong household balance sheet and liquidity situation for the average Singaporean.



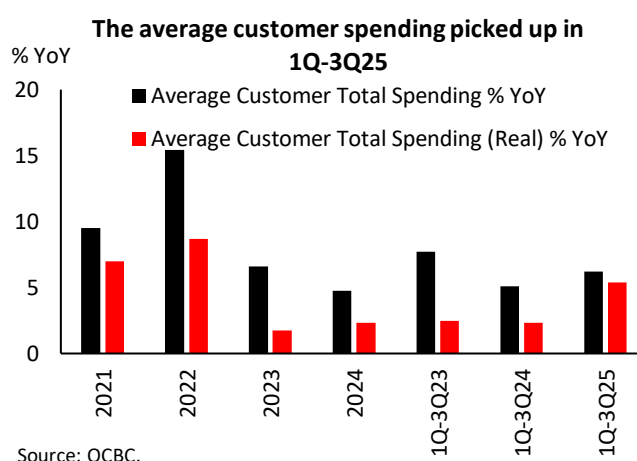
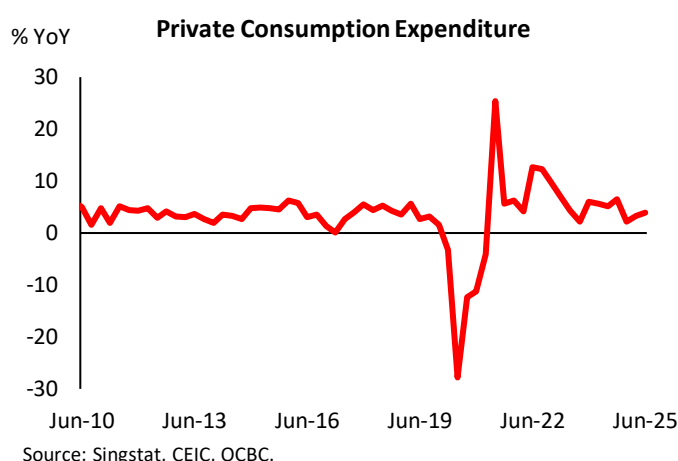
Resilient credit card spending patterns are supported by stronger growth in monthly employment income, driven by a robust labour market since 2022 despite expectations that the latter will cool in 2025. The overall unemployment and

⁴⁹ Using proprietary credit card spend data, we distinguish customer credit card spending by merchant categories, mode of spending, and destination. This helps to better understand credit spending trends at the customer level for various categories.

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resident unemployment rates remain low and stable, averaging 2.0% and 2.8% in 1Q-3Q25, respectively, compared to 2024. This, along with subsiding inflationary pressures, has helped maintain purchasing power. Although growth in private consumption expenditure eased to 3.6% in 1H25, down from 4.8% in 2024, it has remained broadly stable around the pre-pandemic (2010-2019) average growth rate of 3.8%.

In real terms, credit card spending accelerated to 5.4% YoY in 1Q-3Q25, up from 2.3% in the same period last year, reflecting a robust macroeconomic environment characterised by stronger-than-expected GDP growth and low, stable inflation. Although adjusted for inflation, the average customer spending in 1Q-3Q25 is higher than the same periods for the previous two years, nevertheless, it still cannot compare with 2021-2022.



The picture for overseas credit card spending is strong, thanks to the strength of the SGD and Singaporean's wanderlust. Overseas credit card spending actually rose to SGD288.8 in September 2025, up from an average of SGD271.1 between January-August 2025. In fact, the level of spending in September has surpassed the pre-pandemic average spending of SGD243.0 recorded in February – December 2019 during the so-called "revenge travel" phenomenon.

By destination, the US, UK and China & HK SAR are the top three markets in 2024, with the share of credit card spending in these countries at 12.2%, 11.5%, and 10.7%, respectively. This is followed closely by neighbouring Malaysia at 10.4%, with Japan (6.8%) and Ireland (6.3%) rounding the top 6 dominant destinations for credit card spending. This increase highlights the growing use of credit card payments abroad, with China & HK SAR, Malaysia, and Japan reflecting its popularity due to proximity, as well as cultural and trade ties, while long-haul destinations like the US and UK is likely linked to luxury shopping, investments/business and education.

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The table below shows that the share of credit card spending in China & HK SAR rose significantly from 8.2% to 12.4% between 2023 to January-September 2025, probably aided by the fact that Singapore passport holders can travel to China visa-free for stays of up to 30 days effective since 9 February 2024. Meanwhile, the share of credit card spending in Malaysia also rose from 9.4% to 10.8% over the same period, likely due to a combination of a strong Singapore dollar and rising costs in Singapore, along with Malaysia's popularity for shopping, dining and other daily expenses, particularly in nearby Johor due to its accessibility and ease of streamlined cross-border travel.

Looking ahead, growth in overseas credit card spending may ease if the global economic slowdown is discernible and there is a gradual dissipation of pent-up demand for tourism.

Top Markets (% Share)	2023	2024	2023 (Jan- Sept)	2024 (Jan- Sept)	2025 (Jan- Sept)
USA	12.9	12.2	13.2	12.7	11.5
United Kingdom	11.9	11.5	12.2	11.9	12.1
China & HK SAR	8.2	10.7	7.6	10.1	12.4
Malaysia	9.4	10.4	9.5	10.3	10.8
Japan	6.7	6.8	6.1	6.0	6.6
Ireland	5.8	6.3	6.0	6.5	6.9
Australia	5.3	4.8	5.6	5.0	4.8
Thailand	3.5	3.9	3.4	3.8	3.4
Rest of the World	36.2	33.5	36.4	33.8	31.5

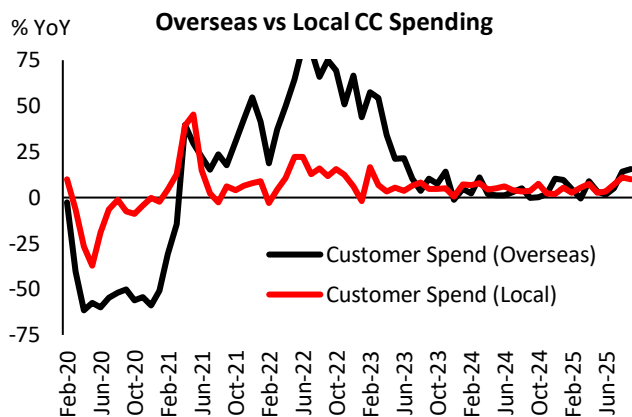
Note: Arranged by largest contribution in 2024.

Source: OCBC

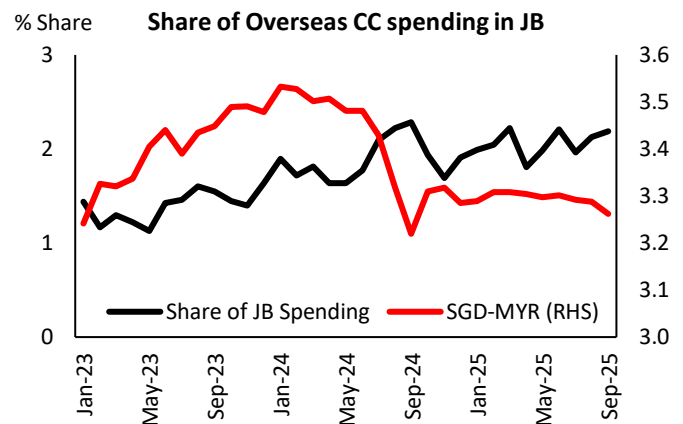
Within this overseas segment, Johor Bahru (JB) is a popular cross-border destination due to its affordability and proximity to Singapore, with ~78% of foreign tourist arrivals in Johor between January-July 2025 coming from Singapore⁵⁰. The credit card spending in JB relative to the whole of Malaysia rose from 15.0% in 2023 to 18.1% in 2024, with the Year-to-September averaging at 19.0%. This means that almost one in five overseas dollars spent by our credit card holders in Malaysia are going to JB merchants. Food and drinks, groceries and retail are the largest categories are reportedly fuelling the growth of Singaporean spending in Johor.

⁵⁰ Singaporeans made up 78% of foreign visitors in JB in 2025, says Johor official. The Straits Times, 19 August 2025.

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Source: OCBC.

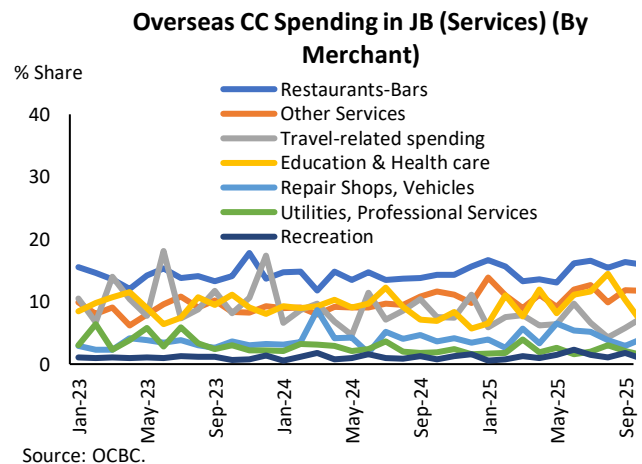
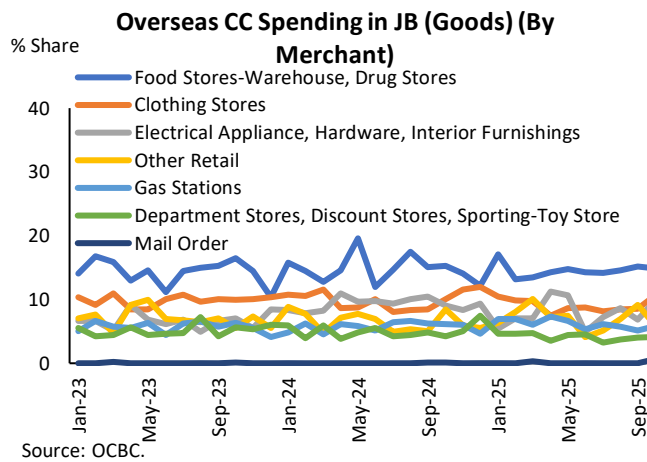


Source: Bloomberg, OCBC.

Monthly data revealed that the share of overseas credit card spending in JB rose from 1.4% in January 2023 to a peak of 2.3% in September 2024, coinciding with an earlier run-up to the record-low exchange rate of 3.57 against the SGD in early-2024. As of September 2025, the share of overseas credit card spending in JB was broadly stable at 2.2%, likely due to stiffer competition for tourist dollars among regional peers and a stronger Ringgit. Still, JB remains an increasingly attractive option for dining, shopping and leisure. This reflects a shift in lifestyle choices, and the steady rise suggests that higher spending in JB is not a temporary outlet but a sustained part of our Singaporean household consumption, which would be further bolstered by benefits from the Johor-Singapore Special Economic Zone (JS-SEZ).

Diving deeper into the JB's merchant breakdown, our proprietary credit card spending data showed that the largest portion of spending was at food and beverages outlets (classified as 'Restaurants-Bars' in our dataset), making up 16.4% of total spending in JB in September 2025. Supermarkets and pharmacies ('Food Stores-Warehouse', 'Drug Stores') followed closely at 15.2%, indicating that visitors also prioritise practical purchases influenced by price advantages and bulk purchases. Spa and salon services ('Other Services') and health care accounted for 11.8% and 10.2%, respectively, showcasing the city's growing status as a health and wellness hub for people living in Singapore. Fashion and apparel stores ('Clothing Stores') contributed 8.5% of spending, reflecting continued interest in shopping. Overall, this spending breakdown details where our cardholders are finding value and enjoyment in JB. For Singapore residents, they are drawn to JB for a mix of leisure activities like dining and wellness, as well as cost-effective everyday essentials.

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In conclusion, our credit card spending data reflects that average credit card spending habits have not been significantly impacted by external uncertainties such as US tariffs and trade tensions. If anything, their love of travel and the strong SGD have seen higher average spending overseas. In terms of destinations for their overseas spending, China & HK SAR, as well as Malaysia appear to have gained market share. In particular, cardholders' spending patterns in JB reflects a blend of value-seeking behaviour, lifestyle preferences, and regional integration. The steady rise in JB's share of overseas spending suggests that cross-border private consumption will remain a key fixture of Singaporean household behaviour.

Looking ahead, the Johor-Singapore Special Economic Zone will likely add a new dimension to spending patterns in JB. The streamlining of customs procedures and enhancements to connectivity will make JB even more accessible and appealing to Singaporean consumers seeking to shop and explore the city. For JB merchants, deeper integration with the Singapore's consumer base will provide them a stable pool of affluent customers that will provide sustained demand for their businesses, albeit Singaporean retailers may have to also up their game to remain competitive once the RTS Link launch in late 2026 that will carry up to 10,000 passengers per hour in each direction. Singapore has formed a government taskforce, chaired by Minister of State for Trade and Industry Alvin Tan, to support local businesses to seize cross-border opportunities and mitigate potential negative impacts from the upcoming RTS Link launch.

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RMB — Guided Pace of Appreciation

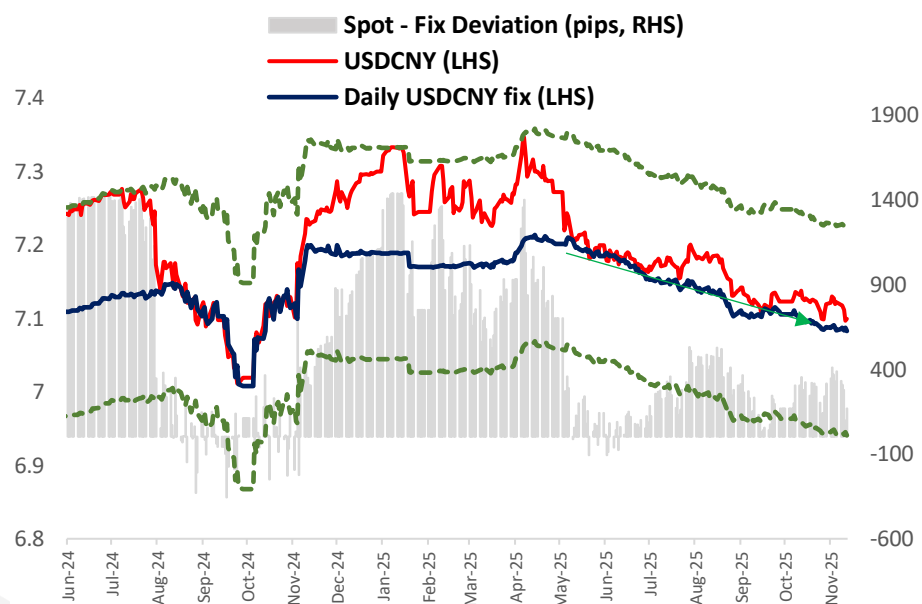
- The shift from defensive stability to guided appreciation in RMB is by no means accidental. Since April, the PBoC has been setting stronger-than-expected daily fixings, with the recent prints below 7.09 — the strongest in about a year. This reflects a deliberate move to steer the RMB on a gradual appreciation path while maintaining market order.
- The approach serves several goals: it reinforces confidence, stabilizes domestic asset prices, and aligns with China's longer-term objective of promoting the RMB internationalization. The fixing mechanism is effectively one of the main signals of policy intent, shaping expectations without overt intervention.

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RMB Fixing: From Defensive Stabilisation to Guided Appreciation

The PBoC has stepped up its fixing discipline in recent weeks, consistently setting the daily USDCNY midpoint lower than consensus estimates, with the recent fixing below 7.09, the strongest in a year. The signal is clear: policymakers are guiding the RMB stronger at a measured pace, not simply defending a floor.

Daily Fix Guiding for RMB Appreciation



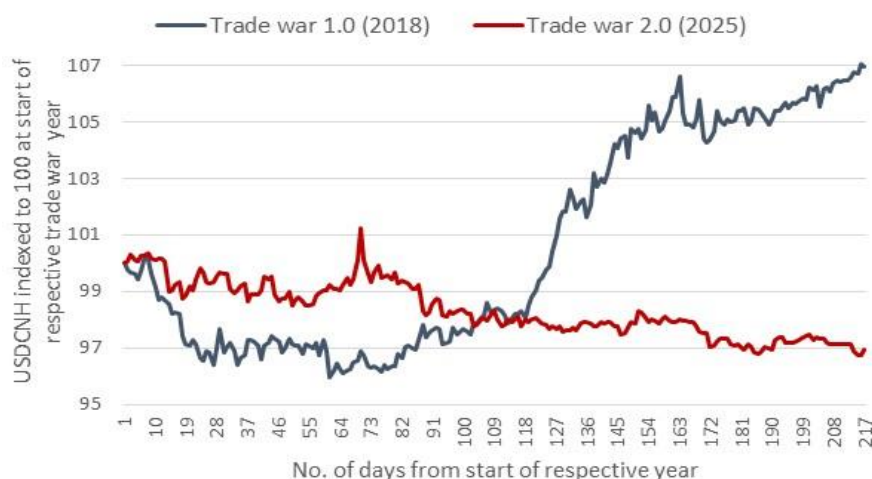
Source: Bloomberg, OCBC Research

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Since April, the fixing bias has leaned stronger even as the DXY saw some rebound. By steering via the fix rather than large-scale spot intervention, the PBoC preserves policy flexibility and demonstrates confidence in its approach. The stronger fix is also doing the heavy lifting on the communication front. It signals stability, anchors expectations, and quietly builds market confidence that the RMB will stay orderly while trending firmer. Another aspect of guiding for a measured pace of appreciation is to avoid the scenario of any sharp or rapid RMB appreciation as this may risk triggering exporters rushing to sell USD holdings and that cycle (if it happens) may result in excessive RMB volatility and strength. In turn, this can hurt exporters' margins and have wider repercussion on deflation.

Why China Allows for RMB Strength (vs. in Trade-War 1.0)

Back in 2018–19, during the height of the trade war, the RMB was allowed to weaken to cushion export losses. Today, the calculus has shifted. Depreciation is no longer viewed as helpful — it risks fuelling capital outflows and undermining confidence. There are three main reasons for this policy shift. First, the growth model has tilted toward domestic demand and services, and a firmer RMB supports purchasing power. Second, the push for internationalisation benefits from a credible and stable currency. A strong RMB enhances trust in trade settlement and reserve usage. Third, financial stability has become a higher priority. A resilient RMB reduces sell RMB flows and discourages speculative outflows.



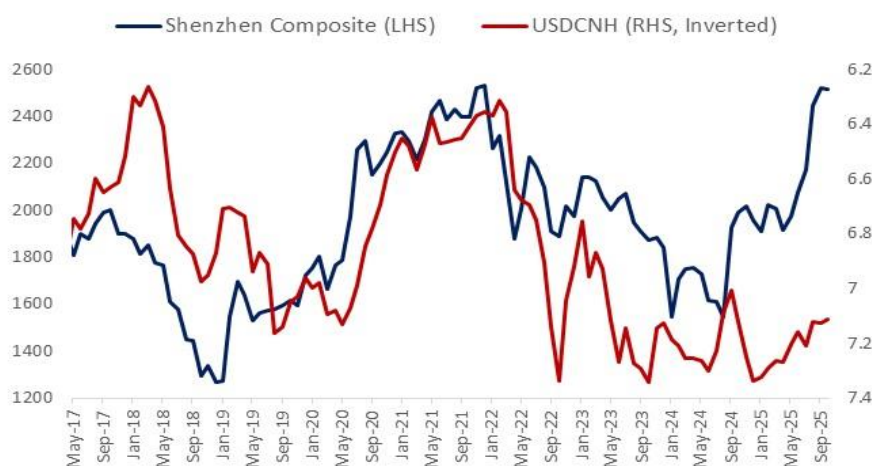
Source: Bloomberg, OCBC research

Taken together, these factors explain why a stronger RMB is now aligned with policy goals. Stability and moderate firmness are seen as supportive conditions, not constraints in supporting China's macro strategy.

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Wealth and Confidence Channel

A firmer RMB can lift domestic sentiment through both wealth and confidence channels. Currency stability helps support equities, property, and household wealth, reinforcing the view that macro conditions are under control. It also sends a positive signal to foreign investors, lowering perceived FX risk and encouraging portfolio inflows into RMB assets.



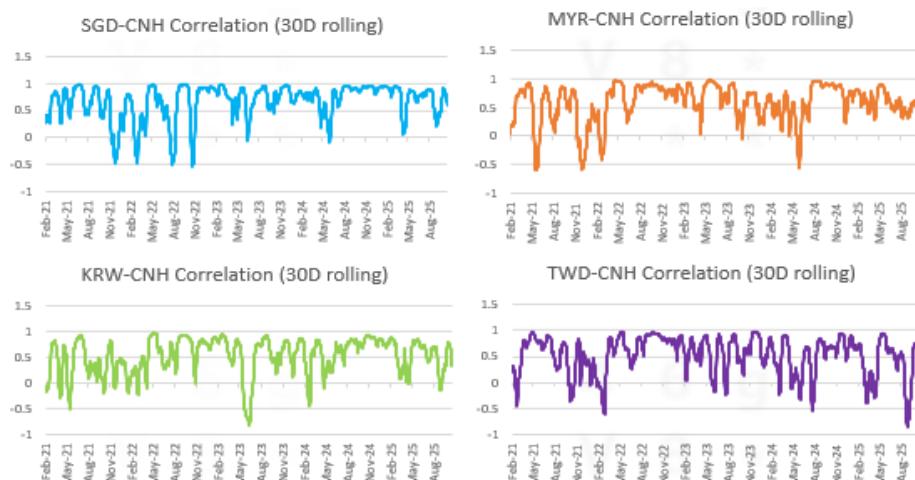
Source: Bloomberg, OCBC research

The optics matter. When RMB firms alongside higher equity prices, it amplifies the sense of recovery. Even if fundamentals remain mixed, a stronger currency gives policymakers breathing room and improves the tone of market discussions. The feedback loop between RMB strength, asset prices, and sentiment is part of the current confidence repair playbook.

Steady RMB Can Anchor Relative Stability in Some AXJs

The RMB's moves still resonate across Asia. Correlations between USD/CNH and regional pairs such as USD/KRW, USD/THB, USD/MYR, and USD/SGD often exceed 0.5 over rolling 90-day periods. A firmer RMB typically can provide an anchor of stability for regional AXJs, while unexpected or persistent weakness tends to weigh AXJs. The RMB fix therefore remains one of the key references for AXJ direction and risk appetite.

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Source: Bloomberg, OCBC research

Policy and Flows Supportive of RMB

The domestic policy mix remains supportive. The May RRR cut injected around RMB 1 trillion in liquidity, and the 10bp reduction in the seven-day reverse repo rate signalled a mild easing bias.

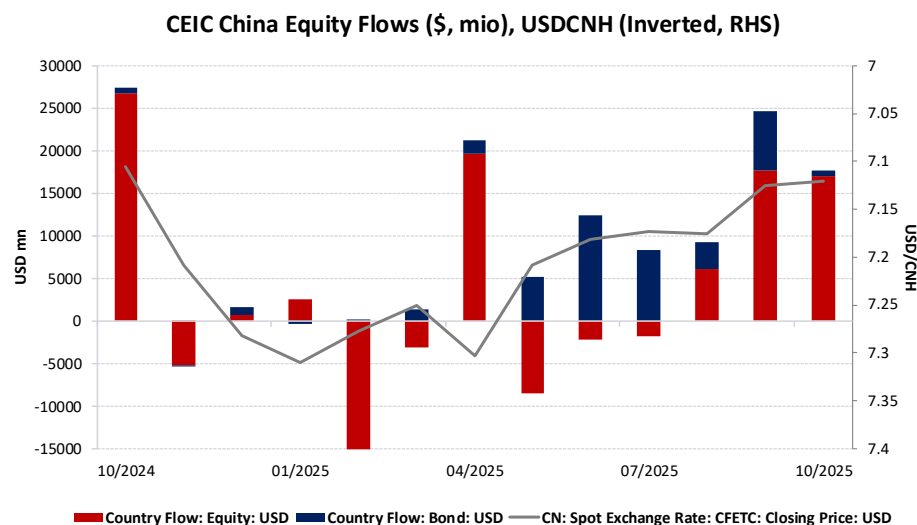
The latest PBoC communication reaffirmed a data-dependent and cautious stance. Officials stressed that policy adjustments are not automatic and will only be considered if growth or financial stability conditions warrant.

The PBoC described current monetary policy stance as “appropriately loose”, but with flexibility, precision and moderation as guiding principles. The language implies no urgency for heavy stimulus, and instead, a preference for fine-tuning through structural tools and liquidity management. The focus remains on targeted support in ensuring credit continues to flow to key sectors such as advanced manufacturing, technology, consumption, green development and elderly care, rather than broad-based easing.

On the currency front, the PBoC appears comfortable with RMB flexibility and is managing the exchange rate within a stable range. The emphasis is less on direct FX intervention and more on maintaining orderly market expectations. This aligns with the broader goal of anchoring stability while allowing market forces to play a larger role in the fix.

Taken together, the message points to a neutral-to-mildly easing policy bias. The PBoC is keeping its options open — ready to act if growth slows sharply, but in no hurry to front-load stimulus. The biggest risk to this equilibrium would be a renewed property or consumption downturn that drags growth materially below target, or an external shock that weakens export demand. Until then, the policy stance is likely to stay patient, calibrated and stability focused.

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Source: CEIC, OCBC Research

We also noted that foreign investors have also turned net buyers on Chinese equities in recent months, according to data compiled by EPFR. Continued foreign net inflows can have a positive implication on RMB.

Concluding Remarks

China's FX policy has evolved. Rather than relying on depreciation as a buffer, the PBoC is using measured RMB strength to project confidence and stability. The strategy supports capital-market development and the push for greater RMB usage in trade and finance. It also helps anchor sentiment in China and across other Asia.

Looking ahead, we continue to expect USD to trade softer amid Fed easing cycles while US exceptionalism fades. Our house view looks for 1 more Fed cut for 2025 and another one more cut in 2026. USD has room to fall as long as broader risk-on sentiment stays intact and growth conditions outside US remains supported. However, USD's decline is not linear and likely to be bumpy, driven by data surprises, market expectations of Fed cut and tariff risks.

More broadly, US policy unpredictability, and concerns of about the rising trajectory of US debt and deficits in the medium term should continue to underpin the broad (and likely, bumpy) decline in the USD. Alongside a softer USD bias, the RMB fix's guidance, contained volatility, and policy communication point to a measured RMB appreciation trend heading into 2026. The risks to this view include global risk aversion, external shocks or a sudden stop to Fed easing that result in demand for USD or more drastic worsening in domestic growth that warrant shift in policy bias.

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The role of low-carbon hydrogen in a net-zero economy

- Low-carbon hydrogen and its derivatives have the potential to play a significant role in achieving ambitious net-zero targets, particularly by accelerating the decarbonisation of hard-to-abate sectors.
- Despite the shrinking pipeline of low-carbon hydrogen projects globally, there is optimism that the pipeline can expand by 2030 if existing challenges can be addressed e.g. increasing renewable energy integration and closing the cost gap.

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Low-carbon hydrogen and its uses

Low-carbon hydrogen is increasingly being considered in many countries' decarbonisation roadmaps as a pathway to meet the Paris Agreement's target of limiting global warming to 1.5°C. When used in a fuel cell, low-carbon hydrogen produces little to no greenhouse gas emissions, which can support countries' net-zero ambitions. Low-carbon hydrogen can be produced either through water electrolysis with electricity generated from a low-emissions source (such as green/pink hydrogen), or from fossil fuels with carbon capture, utilisation and storage (CCUS) technologies applied (blue hydrogen).

Colours are often used to refer to different hydrogen production routes as shown in the table below. Green hydrogen has the lowest environmental impact, generating minimal emissions with only water as a byproduct. However, green hydrogen remains more expensive than other modes of hydrogen production at USD2.28-7.39/kgH₂, compared to grey hydrogen at USD0.67-1.31/kgH₂.

Comparison of hydrogen types by colour, with associated production process, feedstock source, cost and environmental impact/emissions

Hydrogen type	Production process	Feedstock source	Cost (USD/kgH ₂)	Environmental impact/emissions
Green	Electrolysis	Renewable energy sources (e.g. solar)	2.28-7.39	Minimal, water is a byproduct
Yellow		Grid electricity	6.06-8.81	Medium
Pink		Nuclear energy	2.18-5.92	Minimal, possibly nuclear waste
Black	Gasification (no CCUS)	Black coal	1.2-2	High
Brown		Brown coal (lignite)	1.2-2	High
Grey	Steam Methane Reforming (SMR)	Natural gas (CH ₄)	0.67-1.31	Medium
Blue	SMR + CCUS Gasification + CCUS	Natural gas, coal	0.99-2.05	Low
Turquoise	Methane pyrolysis	Natural gas (CH ₄)	~2	Solid carbon is a byproduct

Source: Bhuiyan, M. M. H., & Siddique, Z., International Journal of Hydrogen Energy (2025), OCBC

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In the manufacturing sector, low-carbon hydrogen can be used as both a feedstock for industrial processes and fuel for heat, power and steam generation. Low-carbon hydrogen and hydrogen-derived fuels are also potential alternatives to fossil fuels in the maritime and aviation sectors.

Five countries within Southeast Asia, i.e. Indonesia, Lao PDR, Malaysia, Singapore and Vietnam, have hydrogen strategies in place. This presents opportunities to implement incentives and regulatory frameworks encouraging fuel switching in existing applications. The Philippines and Thailand have also undertaken some preparatory work for a hydrogen strategy. There are growing industry activities surrounding technologies along the hydrogen value chain, as it is gaining traction as a versatile and clean energy carrier that has the potential to decarbonise various hard-to-abate sectors such as steel, cement, maritime and aviation.

Hydrogen demand on the rise

According to the International Energy Agency (IEA), global hydrogen demand increased to almost 100 mn tonnes (Mt) in 2024, a 2% increase from 2023 and in line with overall energy demand growth. Hydrogen supply in 2024 was primarily from fossil fuels, using 290 bn cubic metres (bcm) of natural gas and 90 mn tonnes of coal equivalent (Mtce) in 2024. Low-carbon hydrogen production grew by 10% in 2024 and accounts for less than 1% of global production, but it is on track to reaching 1 Mt in 2025.

Southeast Asia's hydrogen demand reached 4 Mtpa in 2024, led by Indonesia (35%), Malaysia (22%), Vietnam (15%) and Singapore (12%). This value has grown from 3 Mtpa in 2012. Current hydrogen supply in Southeast Asia is mostly based on unabated natural gas (grey hydrogen), to supply the growing demand for hydrogen dominated by the chemical sector. Grey hydrogen is also favoured because it is a cost-effective process, but its long-term use raises concerns due to its high emissions and dependence on fossil fuels.

Optimism persists despite shrinking low-carbon hydrogen project pipeline

Global potential low-carbon hydrogen production by 2030 based on announced projects has declined by around 32% from 2024 estimates of 49 Mtpa by 2030, which now stands at 37 Mtpa by 2030. Potential production fell for both projects using electrolysis and those using fossil fuels with carbon capture utilisation and storage, although electrolysis projects accounted for over 80% of the decrease.

Barriers such as high capital costs and low renewable energy penetration in the electricity mix have led to widespread project cancellations and delays across Africa, the Americas, Asia and Europe, including the following:

- Shell cancelled plans for a low-carbon hydrogen plant in Norway owing to a lack of demand.

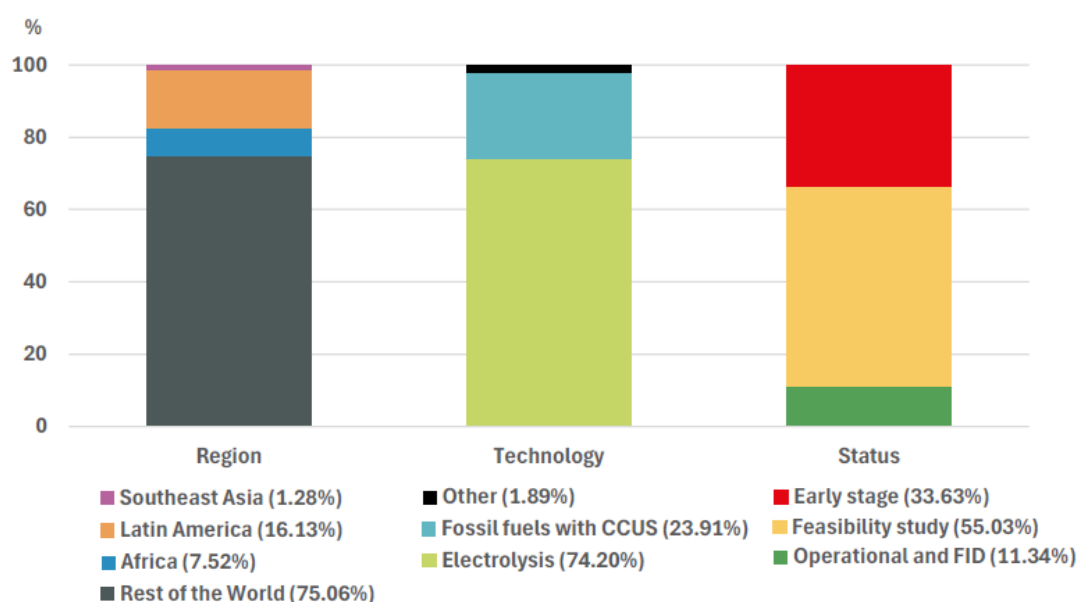
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- Neste withdrew from an investment into renewable hydrogen production at its plant in Finland, citing challenging market conditions.
- Kawasaki Heavy Industries walked away from a coal-to-hydrogen project in Latrobe last December, citing time and cost pressures.

If all projects in the 2030 pipeline are realised, low-carbon hydrogen production in Africa, Latin America and Southeast Asia could exceed 9 Mtpa by 2030, comprising almost 25% of the global total, according to the IEA. The existing pipeline for low-carbon hydrogen production in Southeast Asia is nascent and requires more time to mature.

There are 25 low-carbon hydrogen projects under development in Southeast Asia, which could reach nearly 480 ktpa by 2030, with more than 90% of these projects originating from Indonesia and Malaysia. However, the majority of them are still in the early stages of project development.

Breakdown of announced low-carbon hydrogen projects globally by region, technology and status, 2030



Source: IEA 2025, OCBC

Globally, project delays are particularly prevalent among electrolysis projects, as many of them had announced overly ambitious timelines for a technology that has not yet seen large-scale deployment. Only around 10 Mtpa of low-carbon hydrogen production are almost certain or have strong potential to be operational by 2030.

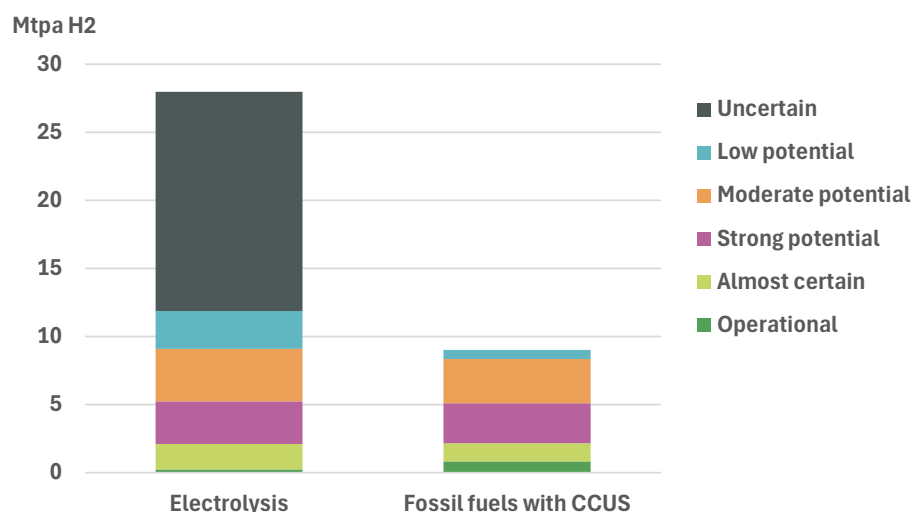
Low-carbon hydrogen production from projects that are currently operational or have reached final investment decision (FID) is set to reach 4.2 Mtpa by 2030, a fivefold increase in six years from 0.8 Mtpa in 2024. While this value still falls short of the ambitions announced in the early 2020s, it demonstrates encouraging

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growth in a nascent industry. Therefore, there is still optimism that low-carbon hydrogen projects could experience significant expansion by 2030 if existing challenges can be addressed, despite the recent project cancellations and delays.

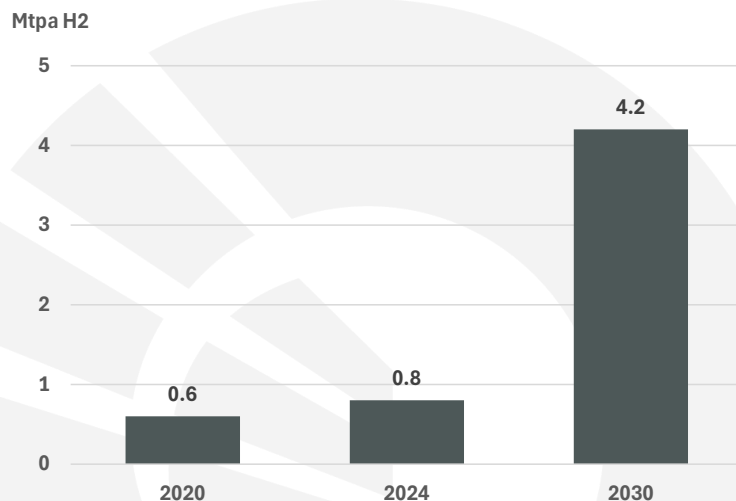
Nevertheless, some countries and regions are moving at a faster pace in low-carbon hydrogen sector growth, including China, Europe, Japan and Korea, while others in emerging markets are progressing slower. Barriers to low-carbon hydrogen production and adoption remain prevalent even in more advanced countries and regions, such as high production costs, unclear regulations and limited available infrastructure for delivery to end-users.

Likelihood of low-carbon hydrogen production being available by 2030, by technology (electrolysis or fossil fuels with CCUS)



Source: IEA 2025, OCBC

Progress in low-carbon hydrogen production, 2020 – 2030 (based on projects that are currently operational or have reached FID)



Source: IEA 2025, OCBC

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Addressing challenges to enable low-carbon hydrogen supply chains

a) Enhancing renewable energy deployment and grid resilience.

Low-carbon hydrogen projects in emerging markets would require current solar photovoltaic (PV) and wind capacity to more than double in Southeast Asia, almost triple in Latin America and increase by more than ten times in Africa. These regions accounted for only 6% of new wind and solar PV capacity globally in 2024, according to the IEA.

There is hope that the growth of low-carbon hydrogen to 2030 can mirror the strong expansion of clean energy technologies observed in recent years, such as solar PV. However, grid infrastructure needs to catch up. Many countries are looking into strengthening the power grid by building high voltage power transmission and energy storage systems to keep up with renewable energy expansion. In the region, the ASEAN power grid has been making incremental progress with developments such as the ASEAN Power Grid Financing Initiative, which aims to provide the region with a more resilient and reliable energy supply. Investing in grid infrastructure upgrades and ensuring strong cross-border interconnections will be critical to enabling greater renewable energy integration into the electricity mix. Continued declines in the cost of renewable energy can thereby support electrolysis-based hydrogen production.

b) Narrowing the cost gap through regulations, financial instruments and pilots

As low-carbon hydrogen projects involve high capital costs, the significant cost gap remains a major barrier to project implementation. While governments worldwide have introduced policies such as feed-in tariffs to support solar and wind energy adoption, more can be done to enhance the bankability of low-carbon hydrogen projects.

Although the investment proposition for low-carbon hydrogen has declined in recent years, stronger regulatory frameworks and government support to stimulate demand and mitigate early investment risks can help. For example, governments can introduce Contracts for Difference (CfD) schemes that provide long-term revenue stability to low-carbon electricity generators that shield them from volatile market prices and bring down the cost of capital. For example, Korea's Ministry of Trade, Industry and Energy (MOTIE) launched in 2024 a 15-year CfD tender to support low-emissions hydrogen-fired power generation and enable international hydrogen supply chains. Providing support, through grants for example, for the deployment of pilot projects can also de-risk investments and bridge the cost gap with fossil-derived hydrogen.

Singapore's Energy Market Authority called for a study in 2024 to develop a framework of laws and policies, which could cover areas such as hydrogen imports, hydrogen infrastructure, as well as incentive and financing schemes. Regulatory frameworks governing low-carbon hydrogen are gradually developing, which can help overcome existing cost barriers and integrate low-carbon hydrogen into global energy systems.

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US-China: The never-ending story?

- Advanced chip manufacturing has become a key driver of technological progress, enabled by ASML's breakthrough chip manufacturing technology. At the heart of the AI race and tech boom, advanced chips are increasingly valuable for their processing capabilities, making them a highly sought after commodity for both technological and economic advancement.
- US-China trade tensions are most evident in the race for advanced chip manufacturing technology. With neither country dominating research in this field, both have struggled to fully capitalise on technological breakthroughs. Instead, regulatory maneuvers and supply chain leverage have become key tools for gatekeeping technology and raw materials, as each side seeks to hinder the other's progress.
- The patterns of stakeholder behaviour observed reveal that other fields of technology are potentially a flashpoint for tension. This underpins our belief that there could potentially be persistent competitive forces that wax and wane beyond the term of President Trump's second term of office.

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Ping-pong diplomacy

2025 saw a ping-pong exchange of trade escalations and de-escalations between the US and China. China was the only country that retaliated against the reciprocal tariffs on Liberation Day, responding by imposing a 125% tariff rate. The US responded by increasing its tariff rate on Chinese imports to 154%. Since then, there has been an attempt at détente in trade relations, culminating in an extension of the 90-day pause on the high bilateral tariff rates until 10 November 2026. While bilateral relations between the two powers have constantly caught headlines this year, it is worth remembering that this is a familiar playbook from US President Trump's first administration.

Core to President Trump's logic for imposing tariffs, particularly sectoral tariffs, is to protect the national security of the US. He remains convinced that the selected sectors, if met with the influx of foreign manufactured goods, will "impair the national security" of the US, a phrase repeated in every proclamation reporting the adjustment of sectoral tariffs. Goods that fall under Trump's view of a national security threat range from heavy-duty vehicles such as buses, trucks, timber, lumber, upholstered furniture, to pharmaceuticals and chips. While the idea of a sofa posing a threat to national security may raise eyebrows, the US's focus on chips is understandable, given its ubiquitous applications in goods ranging from household appliances to fighter jets.

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ASPI's Critical Technologies Tracker

In August 2024, the Australian Strategic Policy Institute (ASPI) released an updated version of its Critical Technology Tracker, a data-driven project that covers 64 critical technologies spanning *defence, space, energy, the environment, artificial intelligence, biotechnology, robotics, cyber, computing, advanced materials and key quantum technology areas*. It measures a country's lead on research within these fields from 2003-2023, revealing its performance trajectory and where the momentum lies. Importantly, the results show the points in time at which countries have gained, lost or are at risk of losing their global edge in scientific research and innovation.

China leads again in many critical technology research

According to ASPI, China leads research in 57 of the 64 Critical Technologies, and accounts for 90-100% of research output in *Advanced Information and Communication Technologies, Advanced Materials and Manufacturing, Energy and Environment* and surprisingly, *Unique AUKUS-related Technologies*.

The Critical Technology tracker shows the top 5 countries ranked by their proportion (%) of high-impact research outputs across 64 technologies over the five years from 2019 to 2023. *Technology monopoly risk* highlights concentrations of scientific and technological research expertise in a single country. A high technology monopoly risk is a potential indicator for future breakthroughs in technology capability. This metric is a combination of two factors:

1. The lead country's share of world's top 10 institutions
2. The lead country's lead over its closest competitor (ratio of top 10% publications).

Each category is defined to be a;

High technology monopoly risk if:

- i) The 1st ranked country has at least **80% of top institutions** in the field
- ii) The 1st ranked country has at least **3x cited publications** compared to the 2nd ranked country

Medium technology monopoly risk if:

- i) The 1st ranked country has at least **50% of top institutions** in the field
- ii) The 1st ranked country has at least **2x cited publications** compared to the 2nd ranked country

Low technology monopoly risk if:

- i) Medium criteria not met.

Below are several key technology fields we have identified as the leading areas in the ongoing global competition for technological advantage.

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ASPI's Critical Technologies Tracker (Selected Technologies)	Tech monopoly risk % (Top10 Inst.)	Tech monopoly risk (Ratio)
Advanced information and communication technologies		
High-performance computing	60%	1.3
China 30.6%	60%	1.3
US 23.7%	60%	1.3
Advanced materials and manufacturing		
Advanced magnets and superconductors	50%	2.2
China 33.3%	50%	2.2
US 15.0%	50%	2.2
Critical minerals extraction and processing	70%	3.9
China 42.0%	70%	3.9
US 10.7%	70%	3.9
Artificial intelligence, computing and communications		
Advanced integrated circuit design and fabrication	40%	1.1
China 24.4%	40%	1.1
US 22.5%	40%	1.1
AI algorithms and hardware accelerators	60%	2.2
China 30.9%	60%	2.2
US 14.0%	60%	2.2
Biotechnology, gene technologies and vaccines		
Genomic sequencing and analysis	90%	1.6
China 35.6%	90%	1.6
US 22.2%	90%	1.6
Vaccines and medical countermeasures	70%	1.9
US 26.4%	70%	1.9
China 14.0%	70%	1.9
Defence, space, robotics and transportation		
Drones, swarming and collaborative robots	80%	3.7
China 38.4%	80%	3.7
US 10.3%	80%	3.7
Energy and environment		
Electric batteries	100%	6.6
China 68.3%	100%	6.6
US 10.4%	100%	6.6
Quantum technologies		
Quantum communication	60%	2
China 33.6%	60%	2
US 16.8%	60%	2
Quantum computing	70%	2.1
US 33.6%	70%	2.1
China 15.9%	70%	2.1

Source: ASPI Critical Technology Tracker, OCBC

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As it is not possible to review all 64 critical technologies, we narrowed down our focus to one field that encapsulates the key points of pressure between the US and China: *Advanced integrated circuit design and fabrication*. With respect to the attention on semiconductors, chips and the rare earths, we aim to show how far research translates into material technological breakthroughs, and/or whether other factors are necessary to facilitate these breakthroughs.

Advanced integrated circuit design and fabrication

Chips, which are at the heart of the AI race and tech boom, are manufactured using integrated circuit design processes in fabrication plants. These fabrication plants, commonly referred to as foundries, house the meticulous process of manufacturing chips. The stages of manufacturing a chip are as follows:

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Construction of a microchip	
Stage	Process
Deposition	Silicon wafers are the building blocks of microchips. Wafers are derived from natural minerals composed of silicon dioxide which are refined to make silicon wafers. These wafers must be 99.9999% pure to ensure conductivity and the uninterrupted flow of electrons.
Photoresist coating	The silicon wafers are then covered with a light-sensitive coating in a process called photoresist. This process uses light to draw a removable pattern on a wafer, so only selected spots are opened for etching or filling.
Lithography	Lithography is the process of using ultraviolet light to map tiny circuit designs onto the wafers on a nanoscale. - Ultraviolet light is projected onto the wafer through a reticle (which holds the circuit blueprint), and a system of optics shrinks and focuses the pattern onto the wafer's surface. Ultraviolet light shined is projected through the photomasks to create the pattern of the micro circuit. The wavelength of light used is critical: - Deep ultraviolet (DUV) lithography uses 193 nm light - Extreme ultraviolet (EUV) uses much shorter 13.5 nm light Shorter wavelengths can draw narrower lines, allowing for more transistors to be added on the chip. The use of either DUV or EUV lithography is dependent on how intricate the designs of the integrated circuit are. - EUV, which is on the extreme end of the electromagnetic spectrum, allows for imprinting narrower and more intricate designs onto the wafers. The narrower the width of the nodes, the greater the density of transistors on a chip, and thus more data it is able to process. EUV lithography is essential for creating advanced chips with billions of nodes that are faster and more energy-efficient than before.
Etching	To remove the degraded resist, etching is done to reveal the intended circuit pattern. During the etching process, the wafer is baked and developed, removing the unwanted "resist" material, creating the multilayer microchip structure.
Ion Implantation	After the circuit patterns are etched, the wafer undergoes ion implantation, a process where charged ions are driven into selected regions of the silicon. This step "dopes" the silicon, adding precise amounts of charge carriers to control how electricity flows through specific areas. As pure silicon isn't an efficient conductor or insulator, ion implantation lets engineers tailor its conductivity, enabling precise creation of transistors that form the foundation of microchips.
Packaging	Combined, the 5 steps prior can take more than three months to complete. Once the wafers are completed, they are sliced into individual chip or "dies" using a diamond saw. These "dies" differ in size with a single wafer containing between a couple to a thousand chips. As the chips nears the end of its production, metalisation takes place, which involves layering copper and aluminium on the chip to form the wiring connections between transistors and other structures. This forms the pathways that enable the transfer of data between transistors.

Source: ASML, EDB, OCBC

A chip's efficiency and ability to process huge amounts of data can be narrowed down to the lithography stage. As circuit designs become narrower, transistor density increases. This allows the chip to become more efficient. Critically, chips

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have become a commodity for technological and economic advancement, serving as the building block for more efficient algorithms, large-language models, surveillance technology, defence systems..., and the list goes on. As such, the lead in the tech race between the US and China boils down to the ability to design and produce chips with the most efficient processing ability.

According to the ASPI Critical Technologies Tracker, China leads in research for *Advanced integrated circuit design and fabrication*, with 24.4% of its institutions top in the field. This is slightly more than the 22.5% of top American institutions leading in research. The 1.9% margin in this field is the second smallest among all research fields that China leads, reflecting the fiercely contested technology arms race between both countries. While both countries lead in research, neither leads in advanced circuit design nor produces the EUV lithography instruments, which are at the heart of high-performing chips.

Research alone is not enough

Research can only be fully harnessed when players in the industry capitalise on it. Dutch company ASML is the sole supplier of EUV photolithography equipment, monopolising its provision, which is essential for advanced chip design. Currently, Dutch institutions are absent from the top five leading research institutions in the field. However, consumer electronics company Philips was third in this field between 2003-2007. And while Philips did not design today's EUV machines, it did play a foundational role in guiding the birth of EUV lithography instruments.

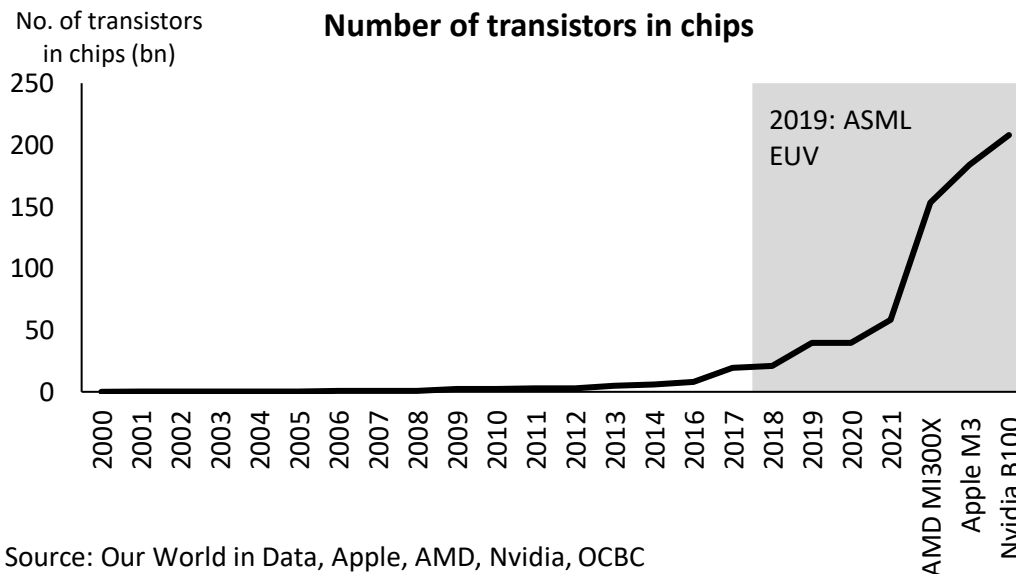
Philips co-founded ASML, driven by its decision to divest its semiconductor and manufacturing activities, which it felt required specialised expertise and a dedicated environment, separate from its consumer electronics business. Initial research on extreme ultraviolet light source for future lithography was conducted by scientists from Philips, such as Rolf Apetz and Jeroen Jonkers. Research publications by Philips' scientists⁵¹ demonstrated that "from a physics point of view, the Philips alpha-prototype source concept (was) scalable up to the power levels required for high-volume manufacturing (HVM) purposes."

Capitalising on the findings, ASML confirmed the possibility of EUV lithography, paving the way for investment in early lithography assets, engineers, and funding, which eventually shaped ASML's existence and later EUV efforts. Since the first EUV-enabled commercial product was released in 2019, the industry has grown in confidence in adopting EUV equipment into manufacturing lines. The widespread adoption of EUV technology facilitated the exponential increase in transistor

⁵¹Wagenaars, Erik, et al. "Power Scaling of an Extreme Ultraviolet Light Source for Future Lithography." *Applied Physics Letters*, vol. 92, no. 18, 5 May 2008, <https://doi.org/10.1063/1.2924299>. Accessed 30 Sept. 2025.

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density in chips. In 2019, the largest number of transistors in chips was only 39.5bn. Since then, it has taken off, with the latest Nvidia B100 Blackwell chips developed in 2024 housing 208bn transistors. This depicts how research in critical technologies must be augmented with skilled labour, investments in capital, and funding to bear the fruits of research in frontier technology.



Regulatory and political roadblocks

Regulation and geopolitics can also deter the advancement of technological breakthroughs. Today, chip manufacturing companies such as Nvidia and AMD heavily rely on ASML's EUV machines, which make their chip designs possible. As the sole provider of EUV instruments, it has also become a chokepoint of semiconductor manufacturing.

Chipmakers continue to be caught in the crossfire of US-China tensions. To secure the US semiconductor industry, the Biden administration passed the CHIPS and Science Act in August 2022, aiming to boost local semiconductor fabrication. The act was followed by export restrictions of US-made advanced chips and fabrication tools to China, including EUV machines made by ASML. For example, the lasers used in the lithography process are designed by Cymer, a US-based subsidiary of ASML. Even though ASML is a Dutch company, the US was able to leverage statutory mechanisms within the act to meet its goals. ASML hence had to comply as its EUV machine components included US-designed and manufactured critical technologies, subsystems, and software. These hardware and software components fell under the category of "US-made fabrication tools", resulting in ASML's compliance.

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Market share of Chipmakers			
Rank	Company	Market Cap (SGD)*	Country
1	NVIDIA	5.9tn	USA
2	Broadcom	2.2tn	USA
3	TSMC	1.9tn	Taiwan
4	Samsung	580.6bn	South Korea
5	ASML	519.8bn	Netherlands
6	AMD	494.8bn	USA
7	SK Hynix	376.4bn	South Korea
8	Micron Technology	347.5bn	USA
9	Lam Research	260.4bn	USA
10	Applied Materials	238.5bn	USA
19	SMIC	116.5bn	China
20	Cambricon Technologies	106.0bn	China
33	AMEC	36.6bn	China

Source: Companies Market Cap, *Market Cap as of 10 November 2025

Restrictions on chip exports became even more pronounced in President Trump's second term. In August this year, Nvidia and AMD agreed to share 15% of revenue from exports of H20 and MI308 chip sales to China. While no formal regulations codify the agreement between the chipmakers and the US government, it reflects the growing sensitivity surrounding chip technology within the regulatory space and politics. With 6 of the top 10 chipmakers from US, this makes chipmakers more vulnerable to politicking, as gatekeeping chip technology increasingly becomes cited as an US national security concern. Meanwhile, Chinese chipmakers continue to lag behind their American counterparts, with SMIC, the largest Chinese chipmaker ranked 19th by market share. Export restrictions may hinder and slow the ability of Chinese chipmakers to make meaningful advancements in the field, highlighting how politics can impede the ability to capitalise on research gains.

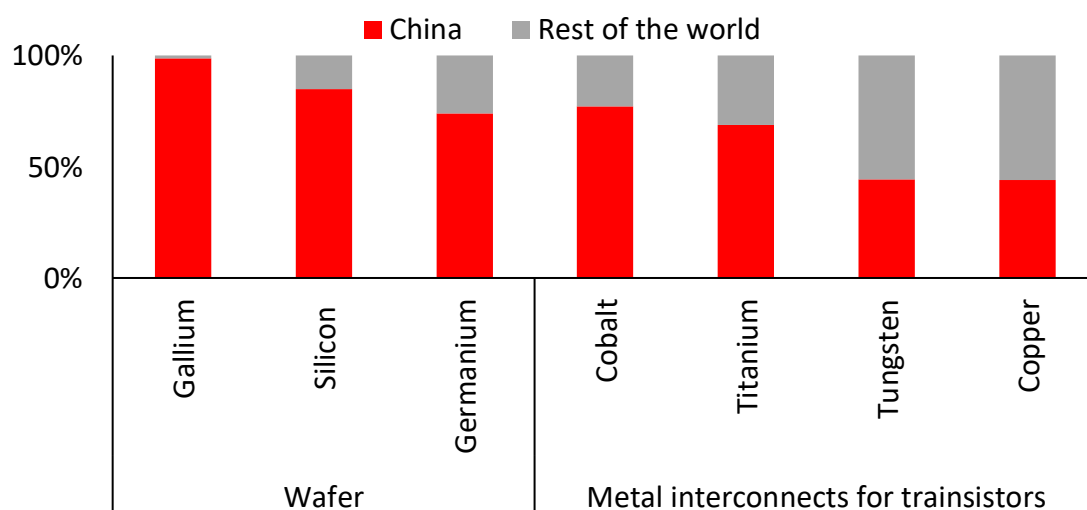
Supply chain woes

While research can be done by a single state, the procurement of design prints, materials, parts and their intended applications extend beyond the borders of any country. The development of any technology hinges not only on research but also on how it materialises through complex supply chains. In the chips industry, the supply chain comprises three vital services.

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Chip fabrication supply chain	
Chip designers:	
Firms like Nvidia, AMD, design chips for a wide range of uses, from gaming, AI machine learning, to high-performance computing. Apple and Google also design their own chips with narrower use applications for their own products.	
Manufacturing:	
Raw materials: Material for wafers and metal interconnects need to be processed and refined to meet purity requirements. China dominates at this stage, holding 85% of global share for refinery of silicon metal and polysilicon used for wafers. It also accounts for 70% and 44% of global titanium and copper refinery respectively, which are used to bond the layers of transistors in chips.	Assembly: Players such as ASML and TSMC dominate this space. ASML mainly designs and manufactures EUV lithography machines; TSMC's services revolve around the process of chip manufacturing. TSMC dominates in this space and is the world's largest foundry by revenue.
Platform services:	
High-performance chips are central to cloud infrastructure platform providers such as Oracle and Microsoft, and AI service providers such as OpenAI and Palantir.	

China % share of refining key minerals



Source: IEA, OCBC, *As of 13 May 2025

Each stakeholder plays a distinct role, from creating a chip's blueprints, supplying materials for chip construction, providing machines for circuit design, fabricating chips, to deploying them to run applications. Research findings can and do play an important role in augmenting supply chains. With the success of ASML's EUV machines, this made high-performing chips a reality, which allowed chip designers to be bolder with their designs and platform services to augment their products.

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Export ban, but DeepSeek ingenuity

The integration of supply chains, however, is a double-edged sword. The export ban on exports to China aimed to delay the technological progress of the Chinese. In theory, these bans should have blocked any meaningful gains from research in the field. Yet, these embargos were short-lived.

On 20 January 2025, China released its own reasoning model, DeepSeek. Its dramatic debut rattled markets, demonstrating that export bans not only failed to stop China from developing cutting-edge computing capabilities, but also did so using less advanced chips. Skilled labour and access to its own vertical supply chain of refined materials and domestic chips, not bound by export bans, would have also helped. According to Forbes, China also leads in having the most datacentre clusters (230), with the US a close second (187). Hence despite China lagging in overall chip processing power, its large computing facilities may have supported its AI training techniques, allowing for its chips to be more efficient.

It would thus be naïve to discount that initial research on advanced integrated circuit design and fabrication did not aid in the launch of DeepSeek. A robust understanding of the architecture and science of advanced integrated circuit designs may have been the trump card that allowed DeepSeek to be created on less advanced but more efficient chips. This underscores that supply chains, though vital, are not the sole determinants of facilitating technological progress. Mastery of underlying scientific principles can enable technology development even in constrained environments, circumventing obstacles posed by disrupted or restricted supply chains.

Looking at the ASPI tracker's 64 technologies, we are presented with 64 exciting frontiers for breakthrough innovation that may be within reach. This is not a gamble or prediction on who will be the winner. Yet, the patterns of stakeholder behaviour observed throughout this analysis reveal that each frontier is potentially a flashpoint for tension. This underpins our belief that there could potentially be persistent competitive forces that wax and wane beyond the term of President Trump's second term of office.

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