Chapter 1.

Macroeconomic Prospects and Challenges

Kwai Tsing Container Terminals, Hong Kong

Highlights

- The global economy weathered a turbulent year in 2025, sustaining steady growth amid the most significant shift in trade policy in decades. Sweeping tariff measures announced by the United States (US) in April pushed trade policy uncertainty to historic highs, but tariff outcomes proved less severe than initially feared and their macroeconomic impact was more contained than expected. The US economy continued to expand at a solid pace, supported by firm domestic demand and investment related to artificial intelligence (AI). Euro area growth remained subdued amid structural manufacturing headwinds and soft external demand. Global inflation continued to moderate, with lower commodity prices and weaker demand easing price pressures outside the United States, even as tariff pass-through kept US disinflation on a slower path.

- For 2025, ASEAN+3 outperformed expectations, expanding by 4.3 percent – well above the 3.8 percent projected in the immediate aftermath of the April tariff announcements. Several factors underpinned this outperformance: robust AI-driven semiconductor demand sustained export momentum throughout the year; intraregional trade strengthened even as US-bound shipments softened; and timely policy support helped cushion domestic activity. Private consumption remained firm across most economies, anchored by favorable labor markets and low inflation, while investment strengthened notably in ASEAN amid continued foreign direct investment (FDI) inflows into advanced electronics, electric vehicles, and digital services. Headline inflation stayed low and stable at 0.9 percent – below the region's 2014-2019 long-run average – providing room for accommodative monetary policy. Rising international reserves reinforced the region's external buffers in a volatile year.

- Growth is projected to moderate to 4.0 percent in 2026 and 2027, mainly as higher US tariffs weigh on external demand. Domestic demand is expected to remain the key anchor, underpinned by continued investment activity, sustained FDI inflows, and resilient private consumption amid favorable labor market conditions. Technology-driven export demand should provide an important offset, with semiconductor and electronics shipments expected to remain firm on the back of ongoing AI-related investment, though at a more measured pace than in 2025. Headline inflation is projected to rise to 1.4 percent in 2026 and 1.5 percent in 2027, mainly reflecting higher global energy prices and subsidy rationalization in several economies.

- The balance of risks to the outlook is tilted to the downside, with uncertainty remaining elevated. Technology demand and trade policy shifts have evolved into sources of two-sided risk. Stronger-than-expected AI adoption and capital expenditure could lift growth above the baseline, while setbacks in the technology cycle or renewed tariff escalation could weigh materially on regional activity. Elevated global energy prices and the potential for a more sustained disruption to energy supply pose a further risk to growth while adding to inflationary pressures. Beyond these, financial market volatility and weaker-than-expected growth in major economies continue to pose downside risks to the region.

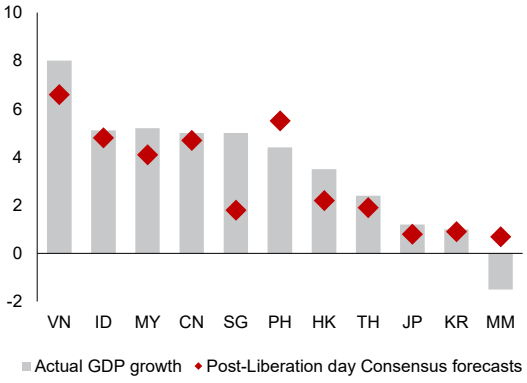
- Preserving policy flexibility is the central challenge for ASEAN+3 policymakers in the near term. The region enters 2026 from a position of relative strength – growth exceeded expectations in 2025, inflation remained low, and most economies retain meaningful fiscal and monetary space. The imperative to preserve that flexibility reflects the elevated uncertainty surrounding the outlook and the unusually wide range of plausible outcomes. A data-dependent and flexible approach, supported by clear communication and complementary fiscal and monetary policies, will be essential to sustaining growth momentum while keeping the capacity to respond to shocks intact.

Part I. Economic Developments in 2025: Better Than Expected Performance

The global economy weathered a turbulent year in 2025, sustaining steady growth amid the most significant shift in trade policy in decades. The sweeping tariff measures announced by the United States in April – including broad reciprocal tariffs on major trading partners – pushed trade policy uncertainty to historic highs and triggered sharp financial market volatility.[1] While tensions between China and the United States escalated before a partial truce later in the year, the broader trade policy landscape remained unsettled, with bilateral deals of uncertain durability. Yet, the impact proved more contained than initially feared: frontloading of shipments cushioned the initial blow, while investment driven by artificial intelligence (AI) provided a powerful offsetting force. The United States expanded by 2.2 percent, supported by robust AI-related capital expenditure and fiscal stimulus, though labor market softness emerged toward the end of the year. Euro area growth remained subdued at about 1.4 percent amid persistent structural headwinds in manufacturing. Global inflation continued to moderate, though unevenly: tariff imposition slowed the pace of disinflation even as the full pass-through to prices proved slower than expected in the United States, while inflation moderated more quickly elsewhere amid softer demand and lower commodity prices.

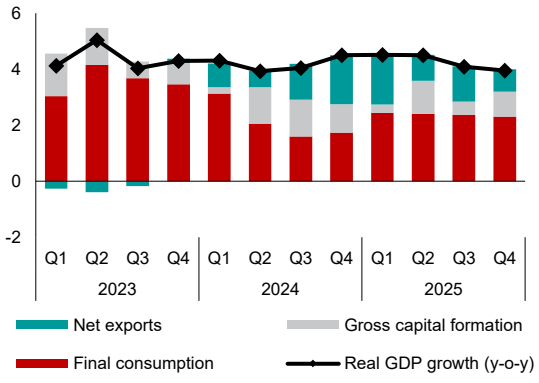
Amid significant trade policy disruptions, the ASEAN+3 region once again demonstrated its resilience, expanding by 4.3 percent. This exceeded the 3.8 percent projected in the immediate aftermath of the April tariff announcements (Figure 1.1). This outperformance reflected several favorable factors: tariff outcomes proved less severe than initially feared, robust AI-driven semiconductor demand sustained export momentum throughout the year, and continued strength in intraregional trade provided a partial buffer against external headwinds. Domestically, private consumption remained firm across most economies, anchored by favorable labor market conditions and low inflation, while investment activity strengthened notably in ASEAN amid continued FDI inflows into advanced electronics, electric vehicles, and digital services (Figure 1.2). Headline inflation stayed low and stable at 0.9 percent, below the region's long-run average, providing space for accommodative monetary stances.

Figure 1.1. Comparison Between Real GDP Growth and Post-Liberation Day Forecast
(Percent, year-on-year)



Source: National authorities; Consensus Economics.
Note: CN= China; HK = Hong Kong; ID = Indonesia; JP = Japan; KR = Korea; MY = Malaysia; MM = Myanmar; PH = the Philippines; SG = Singapore; TH = Thailand; VN = Vietnam. Post-Liberation day Consensus forecasts refer to the median forecast across various professional forecasters surveyed by Consensus Economics in July 2025. Forecasts for Brunei, Cambodia, and Lao PDR are not available.

Figure 1.2. Breakdown of ASEAN+3 Real GDP Growth
(Percentage point, year-on-year)



Source: National authorities; AMRO staff calculations.
Note: Statistical discrepancies are not shown. Excludes Brunei, Cambodia, Lao PDR, Myanmar, and Vietnam due to data unavailability.

The authors of this chapter are Kriti Andhare, Jun Ee Yohnsen Ang, Catharine Tjing Yiing Kho (lead), Allen Ng, Haobin Wang, and Yuhong Wu, under the supervision of Allen Ng, with contributions from Chiang Yong (Edmond) Choo, Suan Yong Foo, Byunghoon Nam, Wee Yang Ng, Wanwisa (May) Vorranikulkij, and Chunyu Yang, and input from AMRO country desk economists.

1/ The reciprocal tariffs were set out in Executive Order 14257, Regulating Imports with a Reciprocal Tariff to Rectify Trade Practices that Contribute to Large and Persistent Annual United States Goods Trade Deficits (April 2, 2025), under which the International Emergency Economic Powers Act was invoked, alongside the National Emergencies Act, to declare a national emergency related to large and persistent US goods trade deficits and impose additional import duties.

Trade Held Firm Despite Unprecedented Trade Policy Uncertainty

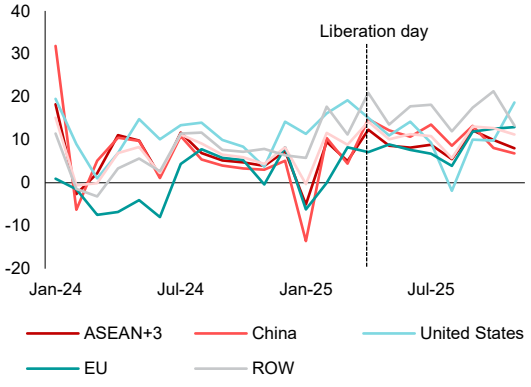
Despite the sharp increase in US tariffs in 2025 and ongoing trade policy uncertainty, the region's external trade remained robust, providing crucial support for growth. Exports were boosted early in the year by frontloading ahead of US tariff implementation (Figure 1.3). The tariff landscape evolved considerably through the year – from the sweeping tariff announcements on April 2, 2025, through rounds of bilateral negotiations, to the eventual rates that took effect (Box 1.1). Ultimately, tariff outcomes proved less severe than initially anticipated, and growth momentum was sustained into the second half of the year.

While higher US tariffs led to weaker export growth to the United States for the region, this was partly offset by continued strength in intraregional trade. Since Liberation Day on April 2, 2025, notwithstanding weaker exports growth to the United States, ASEAN+3's total trade expanded at a more rapid pace relative to the period before.[2] The softening in US-bound exports was driven by a sharp contraction in China's exports to the United States (Figure 1.4). However, China's exports to other markets, including ASEAN+3, strengthened in parallel. China's export growth to other ASEAN+3 economies roughly doubled to 13 percent post-Liberation Day, driven by a 17-percent export growth to ASEAN. This adjustment was not unidirectional: other ASEAN+3 economies' exports to China also expanded more rapidly, with growth doubling from 6 percent to 12 percent over the same period. Overall, intraregional trade strengthened despite the uncertain trade environment, rising by 10.6 percent post-Liberation Day.

Semiconductor exports remained particularly strong throughout the year, underpinned by robust AI-related demand globally. The surge in global investment for AI-related infrastructure, including data centers, cloud infrastructures and AI-enabling technologies, drove a broad-based expansion in semiconductor demand across regional supply chains (Figure 1.5). Korea led the increase, as continued strong expansion in semiconductor shipments since 2024 drove export growth to more than 20 percent in 2025 (Figure 1.6). The momentum extended to other regional economies involved in mature chip production, assembly, testing, and broader electronic goods manufacturing. China's green transition also lifted exports, with exports of electric vehicles and lithium-ion batteries rising by 30.7 percent from the previous year.

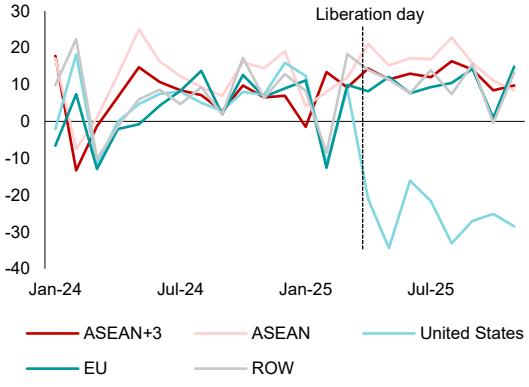
Services exports grew at a more moderate pace than goods, with tourism recovery uneven across the region. Tourist arrivals broadly surpassed pre-pandemic levels in early 2025, and the Plus-3 economies sustained positive momentum through most of the year (Figure 1.7). However, several ASEAN economies experienced temporary disruptions from natural disasters and security-related concerns, which weighed on arrivals midyear. By the end of the year, tourism activity had begun to normalize as these temporary factors dissipated. Beyond tourism, exports of other services continued to expand, with industrial and financial services recording solid growth (Figure 1.8).

Figure 1.3. ASEAN+3 (excl. China) Monthly Goods Exports to Selected Economies
(Percent, year-on-year)



Source: S&P Global Trade Atlas; AMRO staff calculations.
Note: EU = EU-27. Excludes Cambodia, Lao PDR, and Myanmar due to data unavailability.

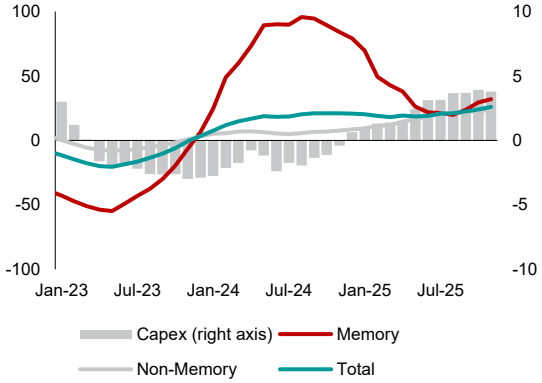
Figure 1.4. China Monthly Goods Exports to Selected Economies
(Percent, year-on-year)



Source: S&P Global Trade Atlas; AMRO staff calculations.
Note: EU = EU-27. Excludes Cambodia, Lao PDR, and Myanmar due to data unavailability.

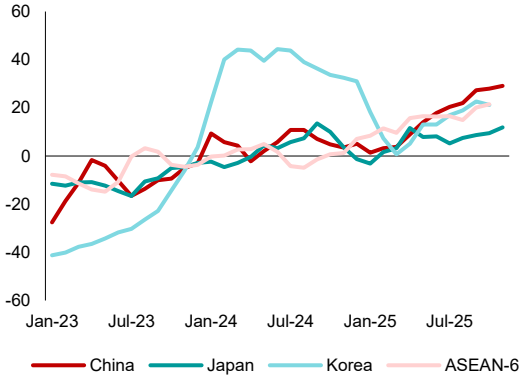
[2] Post–Liberation Day refers to April–December 2025 (latest available data), while pre–Liberation Day covers January 2024–March 2025. The figures cited here correspond to average monthly year-on-year growth rates.

Figure 1.5. Global Semiconductor Cycle and Capital Expenditure
(Percent, year-on-year, six-month moving average)



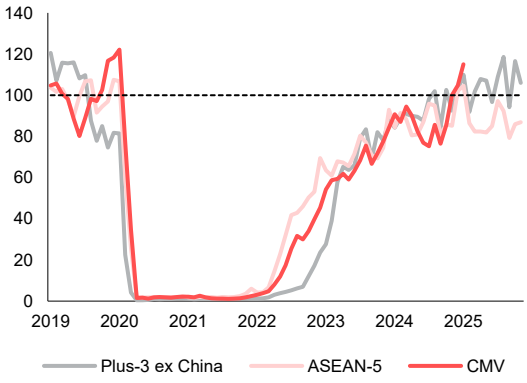
Source: World Semiconductor Trade Statistics; AMRO staff calculations.
Note: The semiconductor cycle is measured as six-month moving average of the monthly semiconductor sales data.

Figure 1.6. ASEAN+3 Semiconductor Export Growth
(Percent, year-on-year, three-month moving average)



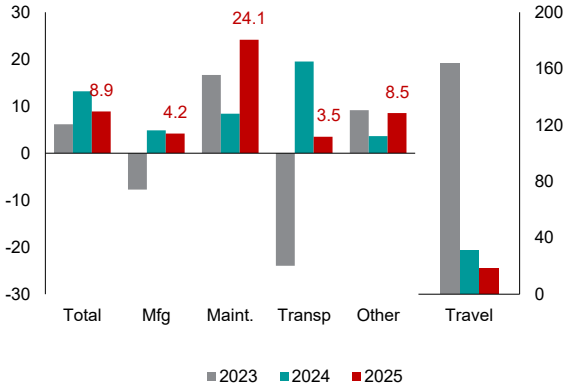
Source: S&P Global Trade Atlas; AMRO staff calculations.
Note: ASEAN-6 = Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. Data show semiconductor exports under HS Chapters 8541 and 8542.

Figure 1.7. ASEAN+3 Tourist Arrivals
(Index, 2019 = 100)



Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: Plus-3 ex China = Hong Kong, Japan, and Korea; ASEAN-5 = Indonesia, Malaysia, Philippines, Singapore and Thailand; CMV = Cambodia and Vietnam. Excludes Brunei, Lao PDR, and Myanmar due to data unavailability.

Figure 1.8. Growth in Exports of Services for ASEAN+3, by Category
(Percent, year-on-year)



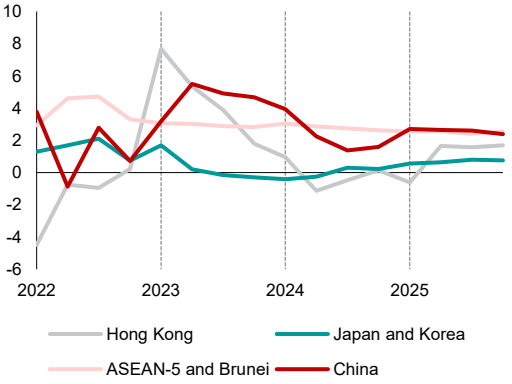
Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: Mfg = manufacturing; Maint. = maintenance and repair; Transp = transport. Data refers to an average of annual growth rates. 2025 data is up to Q3 2025. Excludes Brunei, Lao PDR, and Myanmar due to data unavailability.

Domestic Demand Anchored Growth

Domestic demand, particularly private consumption, continued to anchor growth. Household spending held up across most ASEAN+3 economies, supported by favorable labor market conditions and low and stable inflation (Figure 1.9). After subdued growth in 2024, private consumption in China improved modestly, buoyed by policy support and gradually recovering consumer sentiment. Unemployment declined and labor force participation remained strong in most economies, except in Hong Kong, where external uncertainties weighed on hiring, and in the Philippines, where weather disruptions affected labor market activity (Figure 1.10).

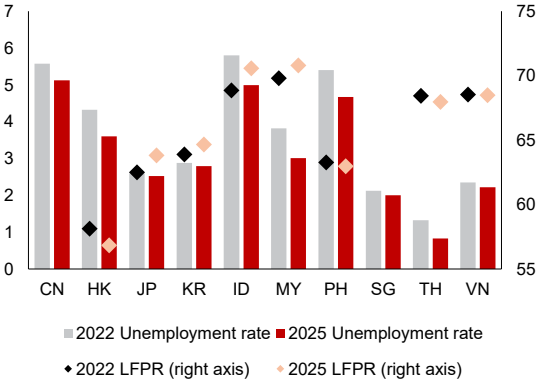
Investment activity bolstered domestic demand further, though with some unevenness across the region. Investment in ASEAN was particularly robust, driven by continued strong FDI inflows – both the realization of past commitments and new investments – into sectors such as advanced electronics, electric vehicles, and digital services. (Figures 1.11 and 1.12; More on FDI in the region features in Box 1.2). In China, overall investment was slightly softer, with spending in clean energy and advanced manufacturing partly offsetting the prolonged property sector adjustment. Investment was relatively muted in Japan and Korea, reflecting weak housing activity in Japan and continued correction in the construction sector in Korea.

Figure 1.9. Contribution of Private Consumption to GDP Growth for ASEAN+3
(Percentage point contribution)



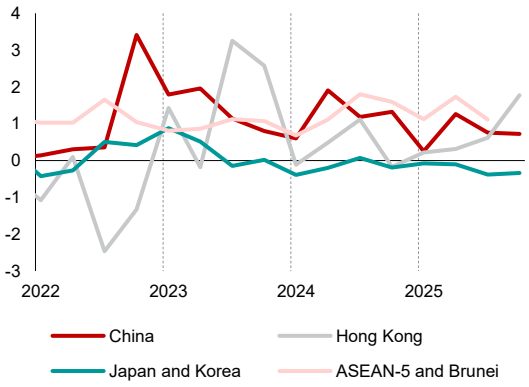
Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: ASEAN-5 = Indonesia, Malaysia, the Philippines, Singapore, and Thailand. Data are unavailable for Cambodia, Lao PDR, Myanmar, and Vietnam. Data for Brunei are up to Q3 2025. Data for China refers to final consumption.

Figure 1.10. Unemployment Rates and Labor Force Participation for ASEAN+3
(Percent of working-age population, seasonally adjusted; percent, seasonally adjusted)



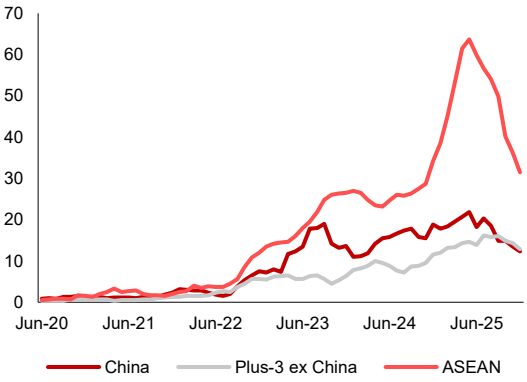
Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: LFPR = Labor force participation rate; CN= China; HK = Hong Kong; JP = Japan; KR = Korea; ID = Indonesia; MY = Malaysia; PH = the Philippines; SG = Singapore; TH = Thailand; VN = Vietnam. Unemployment rate and labor force participation rate data are up to Q4 2025.

Figure 1.11. Contribution of Gross Fixed Capital Formation to GDP Growth for ASEAN+3
(Percentage point contribution)



Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: ASEAN-5 = Indonesia, Malaysia, the Philippines, Singapore, and Thailand. Data are unavailable for Cambodia, Lao PDR, Myanmar, and Vietnam.

Figure 1.12. Inward Investment Announcements by Subregion
(Number of projects)



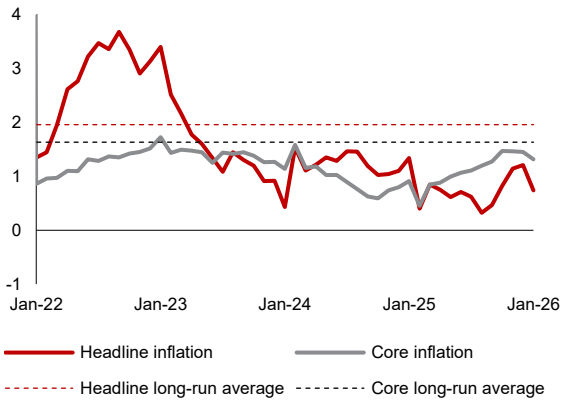
Source: Orbis Cross border; AMRO staff calculations.
Note: Plus-3 ex China = Hong Kong, Japan, and Korea. Data refers to the six-month moving average number of announced projects for each month.

Inflation Remained Low and Stable

Headline inflation remained low and stable, staying below the region's long-run average. Most regional economies entered 2025 with inflation near their targets or long-term averages, and inflation remained broadly within that range, supported primarily by lower global commodity prices (Figure 1.13). Oil price spikes during heightened Middle East tensions were short-lived and did not lead to sustained fuel inflation (Figure 1.14). Food prices, including rice, remained contained because supply conditions improved and harvests in key producing economies were favorable. Services inflation rose in some economies, reflecting tight labor markets and steady wage growth.

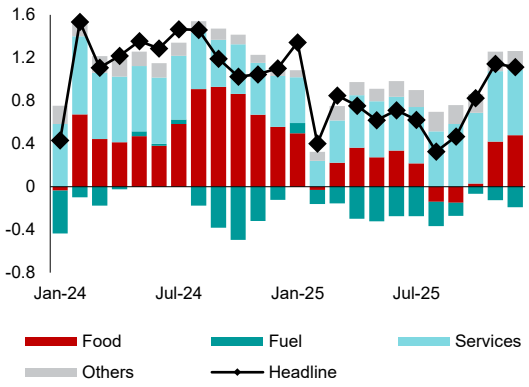
Core inflation edged up but remained close to the long-term average. While price dynamics varied across the region, the stability of core inflation underscored well-anchored expectations, with limited second-round effects from wage growth. In most economies, steady core inflation reflected the balance of firm domestic demand against contained import prices. China and Thailand were exceptions, where both headline and core inflation remained subdued amid weaker domestic demand conditions. Thailand also faced sector-specific price changes, which dampened overall price pressures.

Figure 1.13. ASEAN+3 Headline and Core Inflation
(Percent year-on-year)



Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: Regional aggregates are GDP weighted on a PPP-adjusted basis. Core inflation data excludes Brunei and Myanmar due to data unavailability. Long-term average refers to the simple average of 2014–2019.

Figure 1.14. ASEAN+3 Headline Inflation by Components
(Percentage point, year-on-year)



Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: Regional aggregates are GDP weighted on a PPP-adjusted basis.

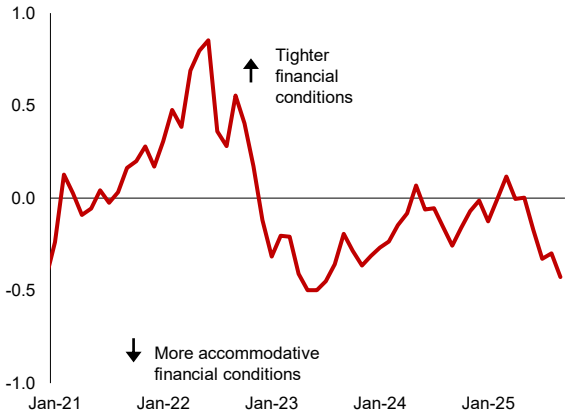
Financial Conditions Eased After April Volatility

Financial conditions tightened sharply following the Liberation Day tariff announcement in April before gradually easing for the rest of the year (Figure 1.15). The initial shock triggered a repricing of risk across global markets, pushing up volatility and term premiums, and raising financing costs. However, conditions eased through the second half as tariff outcomes proved less severe than initially anticipated and trade tensions partially deescalated, alongside better-than-expected growth performance and accommodative monetary policy across much of the region (Figure 1.16).

Regional financial markets reflected these shifting conditions. Equity markets posted solid gains for the year, supported by strong momentum in AI-related sectors (Box 1.3). Bond markets saw some volatility, with long-term yields rising in economies that announced expanded fiscal stimulus, though yields generally stabilized as the year progressed (Figure 1.17). Regional currencies appreciated broadly against the US dollar, which depreciated amid market reassessment of US policy uncertainty and fiscal pressures (Figure 1.18). The ringgit, the baht, and Singapore dollar saw particularly notable gains. Toward the end of the year, however, currency movements diverged: ASEAN-5 currencies remained on an appreciating trend, while economy-specific factors led to depreciation of the won and yen against the US dollar.

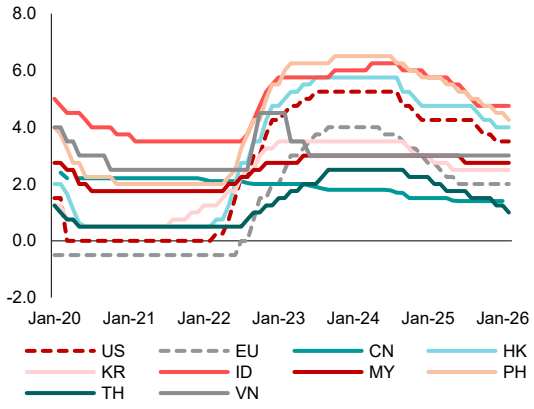
Credit growth expanded further across most ASEAN+3 economies. Bank lending to the nonfinancial private sector grew at a faster pace than in 2024 for most regional economies, in line with robust private sector activity (Figure 1.19). However, credit growth in China and Thailand moderated in line with slower domestic economic activities. Despite volatility earlier in the year, the regional financial system remained sound overall, with banks maintaining adequate capital and liquidity buffers while credit risks stayed contained. (See the *ASEAN+3 Financial Stability Report 2025* for more detailed discussions on financial sector developments).

Figure 1.15. Financial Conditions Index for ASEAN+3
(Normalized scores)



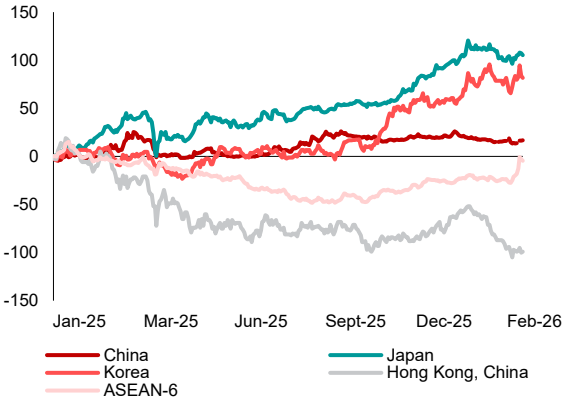
Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates.
Note: AMRO's financial conditions index is based on indicators covering the banking system, foreign exchange market, bond and equity markets. Data covers China, Hong Kong, Indonesia, Korea, Malaysia, the Philippines, Singapore, and Thailand.

Figure 1.16. Policy Interest Rates
(Percent)



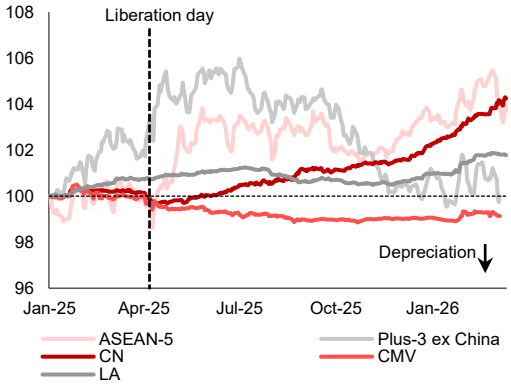
Source: National authorities via Haver Analytics.
Note: Policy rates refer to 7-day reverse repo rate (China, CN); BI Rate (Indonesia, ID); base rate (Hong Kong, HK; Korea, KR); overnight policy rate (Malaysia, MY); target reverse repurchase rate (the Philippines, PH); one-day repurchase rate (Thailand, TH); refinancing rate (Vietnam, VN); federal funds rate (upper range) (United States, US).

Figure 1.17. 10-year Government Bond Yields
(Basis point change from January 1, 2025)



Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: ASEAN-6 (average) is the simple mean of changes for Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam.

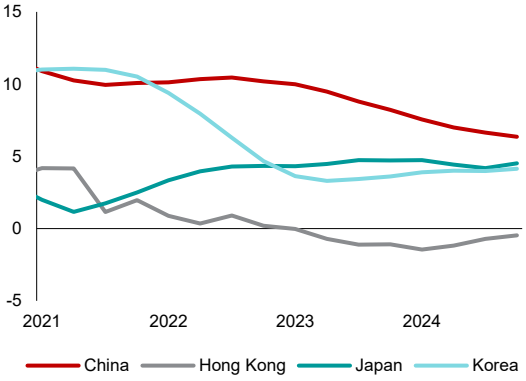
Figure 1.18. Exchange Rates Against the US Dollar
(Index, January 1, 2025 = 100)



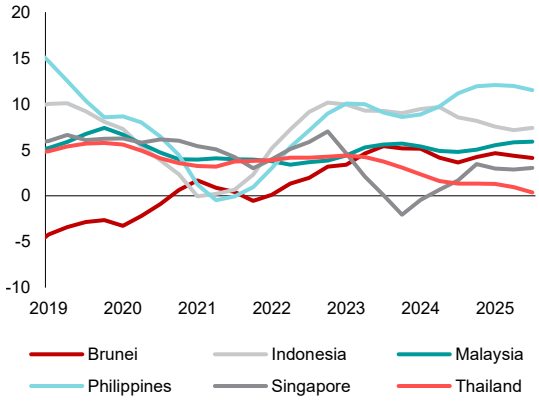
Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: ASEAN-5 = Indonesia, Malaysia, the Philippines, Singapore, and Thailand; CMV = Cambodia, Myanmar, and Vietnam; CN = China; LA = Lao PDR; Plus-3 ex China = Hong Kong, Japan, and Korea. Regional aggregates are calculated using simple average.

Figure 1.19. Growth in Credit to Private Nonfinancial Sector
(Percent, year-on-year, four-quarter moving average)

Plus-3



Selected ASEAN



Source: National authorities and International Monetary Fund via Haver Analytics; AMRO staff calculations.
Note: The private nonfinancial sector includes nonfinancial firms and households. Data refer to: claims on nonfinancial institutions and other resident sectors by depository corporations other than the central bank (China); loans and advances by authorized institutions to nonfinancial sectors (Hong Kong); loans to corporations and households by domestic banks (Japan); claims on nonfinancial corporations and households by depository corporations other than the central bank (Korea); claims on the private sector by commercial and rural banks (Indonesia); loans by the banking system (Malaysia); claims on private sector by depository corporations other than the central bank (the Philippines); the sum of household liabilities and credit to nonfinancial corporations (Singapore); and claims on private nonfinancial corporations and other resident sectors by depository corporations other than the central bank (Thailand). Credit growth is calculated based on local currency terms. Remaining economies are omitted due to data unavailability.

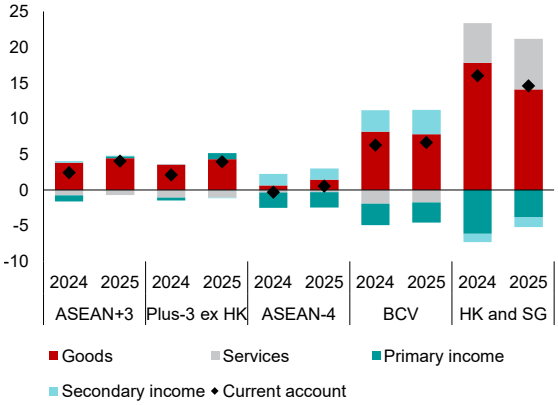
Stronger External Position Provided a Crucial Buffer

ASEAN+3's current account surplus widened in 2025, partly reflecting the region's robust export performance. The region's current account balance increased from 2.4 percent of GDP in 2024 to 4.0 percent in 2025, reflecting strong goods exports and narrowing services deficit (Figure 1.20). Plus-3 economies maintained primary income surpluses reflecting favorable returns on overseas investments. ASEAN-4 economies registered broadly neutral current account balances, as primary income deficits from profit repatriation by foreign investors offset modest goods surpluses.

Capital flows to the region were mixed, with resilient FDI offset by portfolio outflows. ASEAN+3 attracted USD 341.5 billion in FDI inflows in the first three quarters of 2025, an increase of 23.9 percent over the same period in 2024 (Figure 1.21). FDI to ASEAN was particularly strong, driven by firms diversifying supply chains and the region's competitive positioning in electronics manufacturing, electric vehicle production, and digital services (Box 1.2). Nonresident portfolio flows registered net outflows for the year. This was driven largely by sizable nonresident debt outflows from China, which more than offset portfolio inflows elsewhere in the region. Portfolio flows stabilized toward the end of the year as trade tension partially deescalated and growth outcomes proved more resilient than initially expected (Figure 1.22).

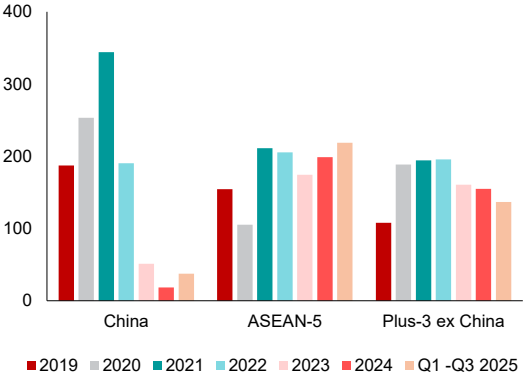
International reserves rose further, reinforcing the region's external buffers. Aggregate net international reserves in the region increased from USD 6.2 trillion in January 2025 to USD 6.5 trillion by October 2025 – accounting for almost 40 percent of global reserves (Figure 1.23). Most regional economies maintained reserves well above standard adequacy thresholds, providing policy space to manage potential capital flow reversals, excessive exchange rate volatility, and external funding pressures.

Figure 1.20. ASEAN+3 Current Account Balance
(Percent of GDP)



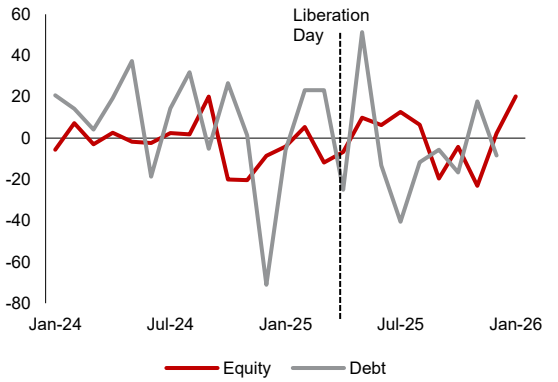
Source: National authorities and International Monetary Fund via Haver Analytics; AMRO staff calculations.
Note: ASEAN-4 = Indonesia, Malaysia, the Philippines, and Thailand, BCV = Brunei, Cambodia, and Vietnam, Plus-3 ex HK = China, Japan, and Korea, HK and SG = Hong Kong, and Singapore. Data is GDP-weighted regional aggregates, data are up to Q3 2025. Excludes Lao PDR and Myanmar due to data unavailability.

Figure 1.21. Foreign Direct Investment by Subregional Grouping
(Billions of US dollars)



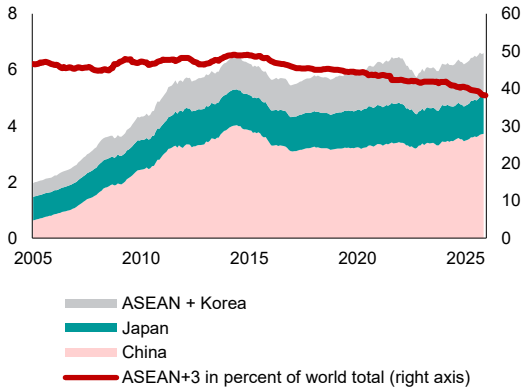
Source: International Financial Statistics database, IMF, ; Department of Statistics, Malaysia; AMRO staff calculations.
Note: ASEAN-5 = Indonesia, Malaysia, the Philippines, Singapore, and Thailand; Plus-3 ex China = Hong Kong, Japan, and Korea. Data refers to the direct investment liabilities item in the balance of payments. Data up to Q3 for 2025, except Indonesia, Korea, Singapore and Malaysia (Q4 2025). Excludes Brunei, Lao PDR, and Myanmar due to data unavailability.

Figure 1.22. Aggregate Net Nonresident Portfolio Flows for ASEAN+3
(Billions of US dollars)



Source: Institute of International Finance via Haver Analytics; AMRO staff calculations.
Note: Data refer to flows for China, Korea, Indonesia, Malaysia, the Philippines, and Thailand. Data for debt flows are up to October 2025. Data may differ from official balance of payments statistics due to several factors, including differences in data sources, timing of recording (settlement-based versus trade-based), and scope of transactions included (e.g., reinvested earnings, offshore trading).

Figure 1.23. ASEAN+3 Net International Reserves
(Trillions of US dollars; percent of total)



Source: IMF via Haver Analytics; AMRO staff calculations.
Note: Data exclude Hong Kong, Brunei, Myanmar, and Lao PDR due to data unavailability.

Part II. Outlook for ASEAN+3: Sustained Growth Amid Elevated Uncertainty

Baseline Growth and Inflation Outlook

After a year of persistent uncertainties, global growth is expected to continue at a moderate pace in 2026–27, with higher inflation amid heightened geopolitical tensions. The growth outlook for the United States remains stable, underpinned by sustained investment in technology-driven sectors, resilient household consumption, the implementation of tax reductions, and accommodative financial conditions. Within the euro area, economic activity is anticipated to be moderate yet steady, as planned increases in public expenditures help mitigate the impact of ongoing structural challenges and continued pressures arising from elevated energy costs. Global commodity prices are expected to be higher and more volatile in the near term, reflecting heightened geopolitical uncertainty in major energy-producing regions. Agricultural commodity prices are expected to remain broadly stable amid ample supply, though they could face spillovers from higher energy and transportation costs.

In this context, AMRO staff projects ASEAN+3 growth to be more moderate at 4.0 percent in 2026 and 2027 (Table 1.1). The slower expansion primarily reflects softer external demand as the implementation of higher global and sectoral tariffs by the United States takes effect. The broad-based tariffs are expected to dampen US demand, exerting a direct drag on the region's exports and, indirectly, through slower global trade. Global trade is also expected to expand more slowly in 2026 following tariff-induced frontloading in 2025, while businesses' adaptation to tariffs and ongoing supply chain reconfiguration amid continued policy uncertainty are likely to weigh on trade efficiency and increase production costs. Technology-driven investment provides an important offset, with export demand for semiconductors and electronics expected to remain firm, supported by ongoing AI-related and data center investment, though at a more measured pace than in 2025 (Figure 1.24). Domestic demand is expected to remain the anchor of growth, with investment momentum continuing into 2026 and healthy labor market conditions underpinning private consumption (Figure 1.25).

- ***Plus-3.*** Growth is projected to moderate from 4.2 percent in 2025 to 3.8 percent in 2026 and 2027. In China, growth is expected to be weighed down by softer external demand and subdued domestic demand amid ongoing structural rebalancing and a prolonged property-sector adjustment. Japan is also projected to expand more slowly on weaker external demand. In contrast, Korea's growth is expected to be supported by robust AI-led semiconductor demand and additional fiscal stimulus.

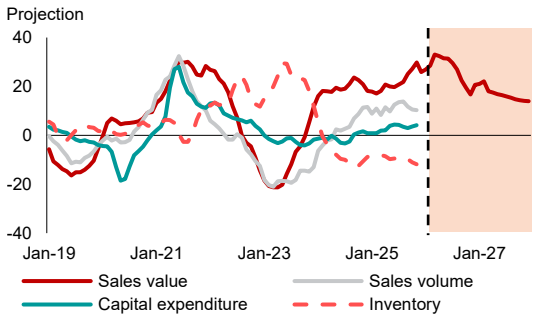
- ***ASEAN.*** Growth is expected to moderate slightly to 4.6 percent in 2026, before picking up to 4.8 percent in 2027. In 2026, tariff effects are expected to materialize and dampen external activity, while domestic demand is also expected to remain soft in a few economies, notably Thailand and the Philippines. These headwinds should be partly offset by firm domestic demand elsewhere in ASEAN, supported by robust investment and resilient private consumption. In 2027, most ASEAN economies are expected to trend toward their potential growth rates.

Table 1.1. ASEAN+3: AMRO Staff Growth and Inflation Estimates and Forecasts, 2026–27
(Percent, year-on-year)

Economies	GDP Growth			Inflation		
	2025e	2026f	2027f	2025e	2026f	2027f
ASEAN+3	**4.3**	**4.0**	**4.0**	**0.9**	**1.4**	**1.5**
Plus-3	**4.2**	**3.8**	**3.8**	**0.6**	**1.0**	**1.2**
China	5.0	4.5	4.5	0.0	0.6	0.9
Hong Kong	3.5	2.8	2.7	1.4	1.9	1.6
Japan	1.2	0.7	0.8	3.2	2.4	2.2
Korea	1.0	1.9	1.9	2.1	2.3	2.2
ASEAN	**4.9**	**4.6**	**4.8**	**2.3**	**3.1**	**2.9**
Brunei	0.7	1.9	1.8	–0.3	0.9	0.8
Cambodia	5.2	4.9	5.2	2.5	2.9	2.5
Indonesia	5.1	5.0	5.1	1.9	2.8	2.9
Lao PDR	4.8	4.6	4.5	7.7	7.8	7.1
Malaysia	5.2	4.6	4.7	1.4	2.0	2.0
Myanmar	–1.5	2.5	2.5	28.0	24.0	16.0
Philippines	4.4	5.3	5.8	1.7	3.9	3.6
Singapore	5.0	3.4	3.1	0.9	1.8	1.8
Thailand	2.4	1.7	2.2	–0.1	1.1	1.0
Vietnam	8.0	7.4	7.1	3.3	3.8	3.4

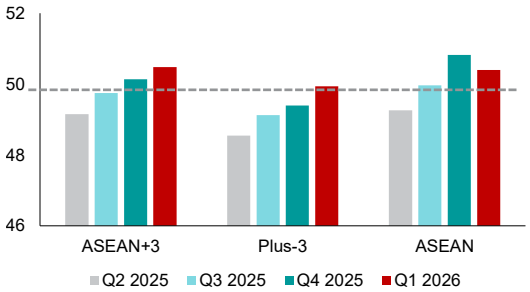
Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates and forecasts.
Note: e = estimates; f = forecast. Myanmar's growth and inflation numbers are based on its fiscal year, which runs from April 1 to March 31. Inflation estimates and forecasts refer to the yearly average; regional aggregates for growth and inflation are estimated using the weighted average of 2025 GDP on purchasing power parity basis.

Figure 1.24. World: Semiconductor Sales Forecast
(Percent, year-on-year, three-month moving average)



Source: World Semiconductor Trade Statistics (WSTS); AMRO staff estimates.
Note: Monthly sales are projected using exponential smoothing and benchmarked to match the 2025 and 2026 annual sales forecast from WSTS. Inventory is proxied by the average semiconductor inventory in Korea and Taiwan Province of China and electronic materials inventory in the United States.

Figure 1.25. ASEAN+3 Purchasing Managers' Index Employment Indicator
(Index)



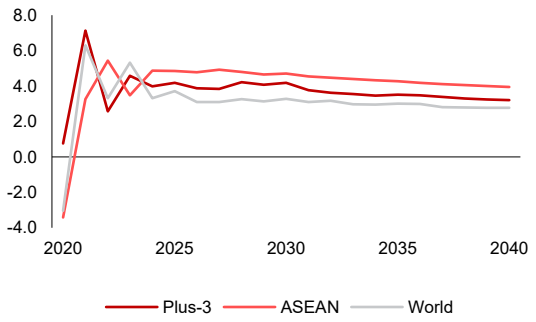
Source: S&P Global via Haver Analytics; AMRO staff calculations.
Note: Data refers to the 3-month average manufacturing employment PMI for each quarter. A reading above 50 indicates an expansion in new orders, while a reading below 50 indicates a contraction. Regional aggregates are GDP-weighted. Excludes Brunei, Cambodia and Lao PDR due to data availability.

Domestic demand across the region is expected to remain the key anchor to growth, underpinned by continued investment activity and resilient private consumption. The region is expected to continue attracting FDI, given its critical role in a wide range of supply chains and its expanding ecosystem in advanced manufacturing and the digital economy, while the implementation of previously committed investments should sustain investment momentum. Private consumption is expected to be supported by steady employment growth and continued wage gains. Policy support deployed in 2025 is also likely to generate continued spillovers, bolstering household spending and private investment activity.

Headline inflation is projected to rise to 1.4 percent in 2026 and 1.5 percent in 2027, from 0.9 percent in 2025. The uptick primarily reflects higher global energy prices and subsidy rationalization and adjustments to administered prices in several economies. Global energy prices are assumed to be higher than in 2025, reflecting elevated geopolitical uncertainty, though prices are expected to gradually ease in the second half of 2026. The trajectory of commodity prices remains a key source of uncertainty around the inflation outlook, with the potential for a more sustained increase in energy costs representing an upside risk to inflation (Box 1.6). Demand-driven pressures are expected to remain muted, with most economies operating close to potential output.

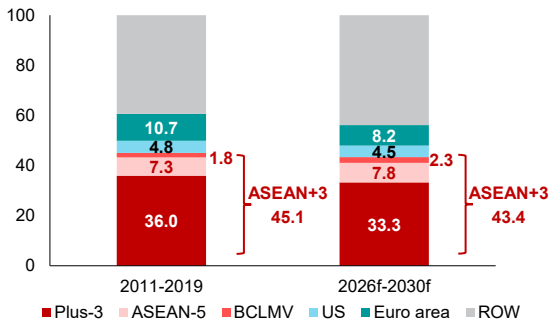
Despite the more moderate expansion in the near term, ASEAN+3 remains a key driver of global growth in the medium term. The region is forecast to expand by an average of 4.2 percent in 2026–2030, outpacing global growth of 3.2 percent (Figure 1.26). The medium-term outlook is underpinned by solid macroeconomic fundamentals and continued growth in domestic demand, supported by deeper intraregional trade linkages and a rising share of regional final demand that would help buffer the region against anticipated weaker extraregional demand. ASEAN+3 is on track to contribute about 43 percent of global growth, slightly below its pre-pandemic 45 percent average as potential growth in more developed regional economies moderates and external demand becomes less supportive (Figure 1.27).

Figure 1.26. Global Real GDP Growth on PPP Basis
(Percent, year-on-year)



Source: National authorities via Haver Analytics; Oxford Economics; AMRO staff calculations.
Note: Plus-3 = China, Hong Kong, Japan, and Korea. Real GDP is forecast in local currency and converted to purchasing power parity (PPP) basis.

Figure 1.27. Contribution to Global Real GDP Growth on PPP Basis
(Percent share)



Source: National authorities via Haver Analytics; Oxford Economics; IMF *World Economic Outlook* January Update 2026; AMRO staff calculations.
Note: f = forecast. ASEAN-5 = Indonesia, Malaysia, the Philippines, Singapore, Thailand; BCLMV = Brunei, Cambodia, Lao PDR, Myanmar, and Vietnam; Plus-3 = China, Hong Kong, Japan, and Korea; ROW = rest of the world. Real GDP is forecast in local currency and converted to purchasing power parity (PPP) basis.

Risk to Outlook: Tilted to the Downside with Uncertainty Remaining Elevated

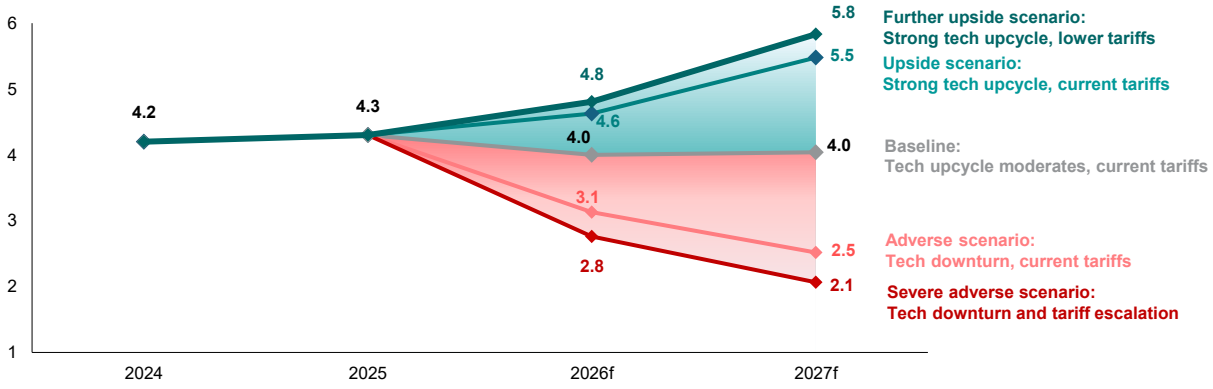
Overall, the balance of risks to the outlook is tilted to the downside, with uncertainty remaining elevated. The experience of 2025 – in which growth exceeded post-Liberation Day expectations despite the most significant trade policy disruption in decades – is a reminder that the global environment remains subject to rapid and unpredictable shifts. With global trade policy, technological demand, and geopolitical developments remaining difficult to anticipate with high certainty, the range of plausible outcomes around the baseline is wider than usual, and confidence in any single projection is correspondingly lower. Looking ahead, several key factors could materially influence the region's growth trajectory in either direction, while several other developments continue to pose downside risks that warrant close monitoring.

The trajectory of AI-related investment and the semiconductor cycle presents two-sided risks, hinging on the expected usefulness and realization of AI benefits. The current boom in AI-related capital expenditure is driven primarily by expectations of future returns, supported by ongoing buildout of data centers and AI-enabling infrastructure across major economies. In the baseline, this trend is assumed to remain. The upside risk is that early signs of AI-driven productivity gains begin to materialize across a wider set of sectors and economies, validating current expectations and inducing a broadening of adoption beyond the technology sector itself – triggering a self-reinforcing dynamic that pushes investment and demand for semiconductors and electronics above what the baseline assumes, with clear benefits for the region's exporters and FDI recipients. On the downside, if AI benefits prove slower to materialize or narrower in scope than expected, a pullback in capital expenditure could follow, weighing on the region through weaker semiconductor and electronics export demand, softer investment inflows, and confidence effects. Disappointed expectations would also likely trigger a correction in technology equity valuations, tightening financial conditions and amplifying the real-economy impact.

Trade policy developments have also evolved into a source of two-sided risk. Although the rapid US tariff escalations and reversals seen in 2025 have subsided following a series of bilateral agreements, the landscape remains fluid. The February 20 US Supreme Court ruling striking down the reciprocal tariffs further heightened uncertainty, with the US administration responding swiftly with replacement measures while the status of existing bilateral deals remains unclear. Important implementation details are still opaque, and additional tariffs or nontariff measures – potentially affecting sectors such as semiconductors and pharmaceuticals – cannot be ruled out. Renewed disruptions could impair regional supply chains and weigh on growth, with the effects amplified for economies that are more export-dependent or deeply embedded in production networks serving the US market (Box 1.4). Conversely, the replacement measures for the reciprocal tariffs are temporary by design, and should they lapse in the context of a more durable and predictable trade policy environment – supported by improved US-China relations or broader multilateral efforts – confidence could recover, trade flows strengthen, and the region's growth prospects improve.

AMRO's scenario analysis illustrates the range of plausible outcomes depending on how AI benefits evolve and how trade policy develops (Figure 1.28). Under the upside scenario, early evidence of AI-driven productivity gains validates and reinforces current investment expectations of continued, albeit more moderate expansion. AI adoption broadens meaningfully across sectors and lifts technology-led investment growth by around 5 percent above the baseline – pushing ASEAN+3 growth to 4.7 percent in 2026 and 5.5 percent in 2027. Should such a scenario occur alongside an improvement in global trade policy developments, ASEAN+3 growth could be lifted further to 4.9 percent in 2026 and 5.8 percent in 2027. Under an adverse technology scenario, AI benefits prove more limited or slower to materialize than markets currently anticipate, triggering a pullback in capital expenditure and a correction in technology equity valuations. The resulting combination of weaker export demand, tighter financial conditions, and broader confidence effects could slow regional growth to 3.2 percent in 2026 and 2.5 percent in 2027. Should such a technology downturn coincide with an intensification of trade tensions – with reciprocal tariffs rising toward bilaterally negotiated levels – the effect would be compounded further, slowing growth to 2.8 percent in 2026 and 2.1 percent in 2027, a level not seen since the subdued post-pandemic recovery of 2022 (See Box 1.5 for further information on the scenario analysis, including details on assumptions for each scenario).

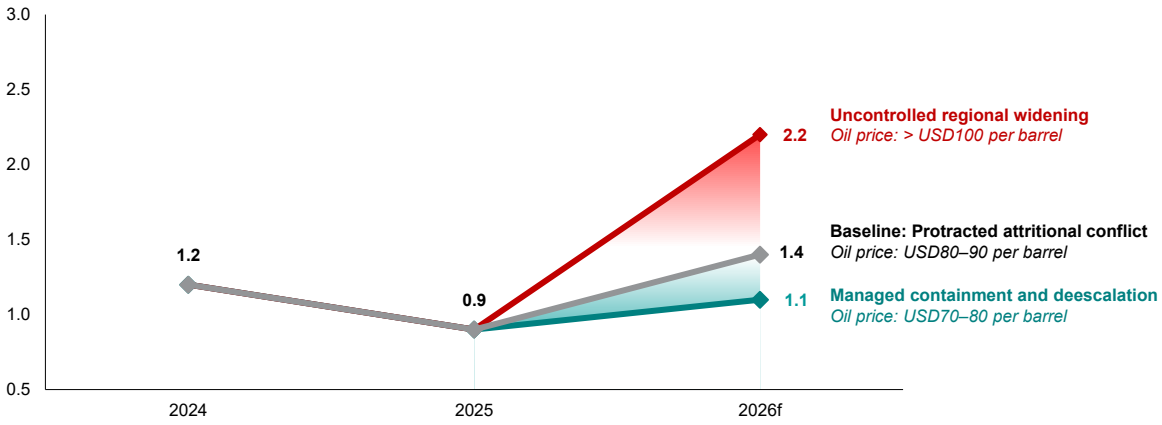
Figure 1.28. ASEAN+3 Growth Projections Under Different Scenarios
(Percent, year-on-year)



Source: Oxford Economics Model, AMRO staff calculations.
Note: Regional aggregates are weighted using 2025 GDP on PPP basis. Brunei, Cambodia, Lao PDR, and Myanmar are excluded due to data unavailability. See Box 1.5 for more details on scenario assumptions.

A more prolonged increase in global energy prices poses a risk to both growth and inflation across the region. The baseline projection incorporates higher energy prices than in 2025 reflecting geopolitical developments in the Middle East that began in late February 2026. Oil prices are expected to remain high, at above USD 90 per barrel for multiple months following the escalation of the conflict. Prices are then projected to moderate toward USD 75–85 per barrel as tensions ease and supply conditions stabilize in the second half of 2026. The possibility of a more sustained and severe disruption to global energy supply cannot be ruled out (Figure 1.29). AMRO's scenario analysis suggests that under a protracted disruption in the Middle East, Brent crude could average above USD100 per barrel for the remainder of 2026, leading to ASEAN+3 headline inflation being higher by 0.8 percentage points, while growth is lower by 0.3 percentage points relative to the baseline (Box 1.6). Beyond energy, fertilizer-related disruptions to agricultural supply could also push food prices higher, adding to headline inflation.

Figure 1.29. ASEAN+3 Inflation Projections Under Different Scenarios
(Percent, year-on-year)



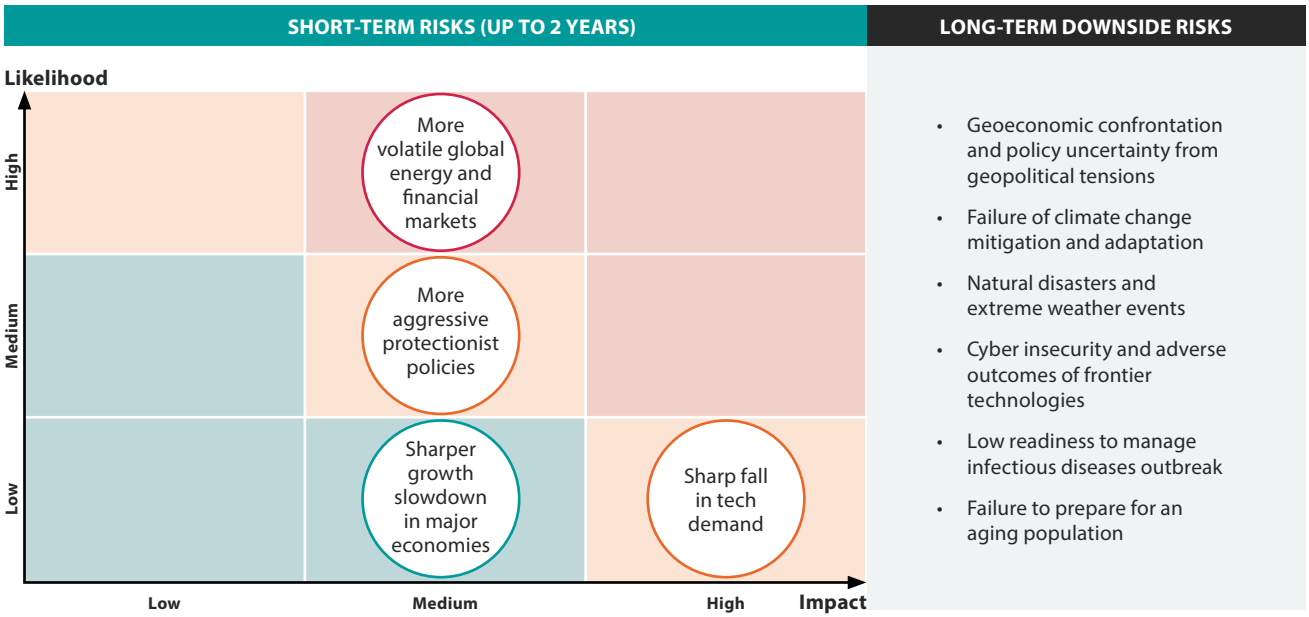
Source: Oxford Economics Model, AMRO staff calculations.
Note: Oil price refers to Brent crude oil price for March–December 2026. Regional aggregates are weighted using 2025 GDP on PPP basis. Brunei, Cambodia, Lao PDR, and Myanmar are excluded due to data unavailability. See Box 1.6 for more details on scenario assumptions.

Beyond the risk factors assessed above, several other developments continue to pose downside risks to the baseline outlook. Developments in global financial markets, and the growth trajectories in major economies each have the potential to weigh on the region's near-term prospects – particularly if they materialize in combination with one another or alongside the headwinds already discussed (Figure 1.30).

- Heightened volatility in global financial markets poses a downside risk to the region. Elevated equity valuations and tight credit spreads leave markets sensitive to shifts in risk sentiment. The direction of US Federal Reserve policy, in particular, remains a source of uncertainty – unexpected tightening or hawkish signals, especially amid leadership change at the Federal Reserve, could trigger capital outflows, put pressure on regional exchange rates, and increase borrowing costs. More broadly, geopolitical tensions, divergent monetary stances across major economies, and questions over the durability of AI-driven investment flows raise the likelihood of asset price corrections. Heightened volatility could expose underlying vulnerabilities and weigh on macroeconomic stability across the region.

- Slower-than-expected growth in major economies would weigh on the region through trade, investment, and tourism channels. In the United States, the combination of policy uncertainty, emerging signs of labor market softening, elevated tariffs, and higher inflation may dampen private demand, with spillovers to the region through weaker import demand. In Europe, growth remains constrained by structural weaknesses in key industrial sectors and vulnerability to higher energy and shipping costs stemming from geopolitical tensions. More moderate growth in China – whether from a prolonged property-sector adjustment or intensified external headwinds – represents an important risk given its role as the region's largest trading partner and a major source of final demand.

Figure 1.30. Regional Downside Risks, April 2026



Source: AMRO staff.

Part III. Policy Considerations: Preserving Policy Flexibility Amid Uncertainty

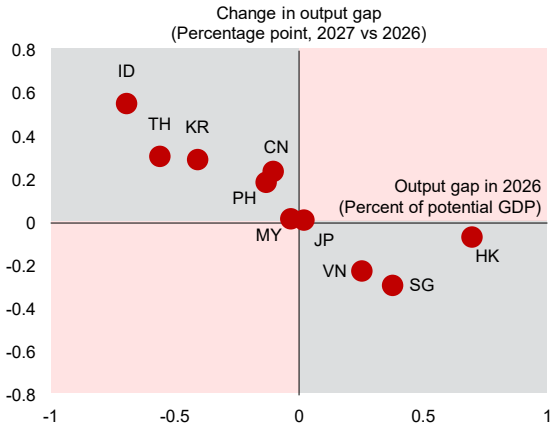
Preserving policy flexibility is the central challenge for policymakers in the ASEAN+3 region in 2026. The region enters the year from a position of relative strength – growth in 2025 exceeded expectations, inflation remained well-contained, and external buffers strengthened – and most economies retain meaningful fiscal and monetary space to respond to shocks (Figure 1.31). The imperative to preserve that flexibility reflects the unusually wide range of plausible outcomes around the baseline. The full impact of the US tariffs has yet to unfold, technology-driven shifts in global demand could move in either direction, and global financial conditions remain subject to rapid repricing. The potential for a sustained rise in global energy prices adds a further dimension to this challenge, as it could create a growth-inflation trade-off that would complicate policy calibration across the region. Under the baseline, output gaps across the region are projected to narrow from both directions, reducing the case of a strong policy lean in either direction (Figure 1.32). In this environment, a careful and data-dependent approach – maintaining the capacity to respond decisively should conditions deteriorate – will be essential, tailored to the specific conditions and vulnerabilities of each economy.

Figure 1.31. AMRO Staff Assessment of Policy Space in 2026

		Monetary Policy Space		
		Limited	**Moderate**	**Ample**
Fiscal Policy Space	**Limited**	LA	JP, MM	
	Moderate	KR, KH, ID, TH	CN, MY, PH, VN	
	Ample	HK, BN	SG	

Source: AMRO staff.
Note: Policy space for each economy is based on AMRO's latest country assessment, guided by AMRO's Fiscal Policy Space Assessment (AMRO 2025b) and Monetary Policy Space Assessment (Poonpatpibul and others 2020).

Figure 1.32. Output Gap in 2026 and Change in Output Gap in 2027
(Percent of potential GDP; percentage point change)



Source: Consensus Economics, National authorities via Haver Analytics; AMRO staff calculations.
Note: Output gap is actual minus potential output over potential output, with potential output estimated using a two-sided HP filter on quarterly GDP (2010–2030). GDP projections (2025–2030) from AMRO staff and Consensus Economics are disaggregated using the Denton method.

Fiscal Policy

Fiscal developments in FY2025 reflected active fiscal policy, characterized primarily by spending expansion. The fiscal balance deteriorated in half of member economies and improved in the other half (Figure 1.33). Expenditure increased in all economies while revenue performance was generally strong in most economies. Tax revenue rose across all major categories, reflecting broad-based and resilient economic growth, while non-tax revenue increased substantially in Myanmar, driven by dividends from state-owned enterprises, and Vietnam, driven by land-related receipts. Capital expenditure continued to rise in support of national development objectives, but increases in primary current expenditure exceeded those of capital spending in many economies, reflecting continued efforts to support economic recovery, strengthen social welfare systems, and protect vulnerable groups. Several economies introduced or expanded transfers and vouchers to mitigate cost-of-living pressures, boost domestic consumption, and support low-income groups, while Japan and Korea increased spending through supplementary budgets, and Indonesia accommodated additional support through budget reallocation.

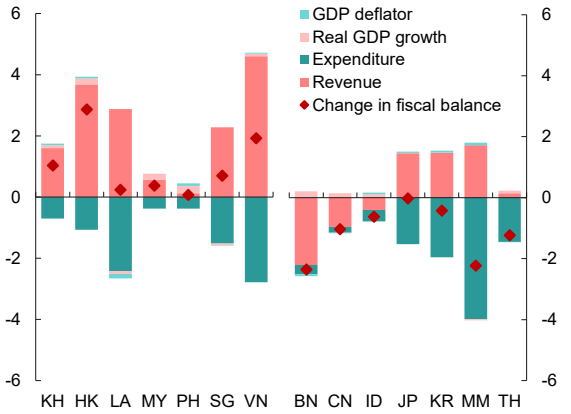
A key fiscal vulnerability for the region is the high and rising level of public debt. In many economies, the debt-to-GDP ratio now stands significantly above pre-pandemic levels (Box 1.7). This, combined with the rise in global interest rates in recent years, has led to a notable increase in debt servicing costs, which in turn is limiting the fiscal space available for other priorities, including infrastructure, education, and health. Rebuilding fiscal buffers to create room for future policy responses and to safeguard long-term fiscal sustainability is therefore an important policy consideration for many economies in the region. In addition, vulnerabilities may also depend on debt composition – including maturity structure, currency composition, and investor base – which can increase exposure to exchange rate and refinancing risks, underscoring the importance of continuing to improve the debt profile.

Looking ahead, fiscal policy faces the challenge of supporting growth while safeguarding sustainability in an environment of constrained fiscal capacity. According to the latest budgets, fiscal stance in FY2026 appears expansionary or broadly neutral in most member economies (Table 1.2), reflecting continued proactive fiscal policy. The current period of relatively robust growth provides a window of opportunity to continue the process of fiscal consolidation where conditions permit. For economies where the recovery is firmly entrenched and the output gap is closing, a more decisive fiscal adjustment would be appropriate. Where the recovery is more fragile, a more gradual and growth-friendly approach would be warranted. In both cases, strengthening fiscal management frameworks is essential to support fiscal sustainability, including establishing credible fiscal anchors to guide medium- to long-term fiscal aggregates, alongside improving allocative and implementation efficiency to deliver pro-growth and redistributive measures within available resources.

In parallel, measures on the revenue side should focus on broadening the tax base and improving tax administration, and on the expenditure side on enhancing allocative and technical spending efficiency. Should energy prices

remain elevated for a sustained period, temporary and targeted fiscal measures – such as subsidies to vulnerable households or adjustments to fuel excise arrangements – may be warranted in economies where pass-through is significant. Maintaining the flexibility to provide such support, while preserving the broader direction of consolidation, remains an important consideration (see *ASEAN+3 Fiscal Policy Report 2026* for further discussion).

Figure 1.33 Contribution to the Change in Fiscal Balance, FY2025[3]
(Percent of GDP)



Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates.
Note: A positive (negative) change in the fiscal balance implies the fiscal balance in FY2025 improved (deteriorated) over the fiscal balance in FY2024. A positive contribution of revenue implies the revenue in FY2025 was better than the revenue in FY2024, while a negative contribution of expenditure implies the expenditure in FY2025 was higher than the expenditure in FY2024.

Table 1.2 ASEAN+3: Fiscal Stance, FY2025–2026

		2026		
		Expansionary	Neutral	Contractionary
2025	Expansionary		CN, ID	MM, TH
	Neutral	JP	KR, MY, PH	
	Contractionary	BN, KH, LA, SG, VN		HK

Source: National authorities; AMRO staff compilation.
Note: Fiscal stance is assessed primarily by fiscal impulse – measured by changes in structural primary balance estimated by AMRO – and secondarily by changes in primary expenditure as a percentage of GDP, except for Brunei Darussalam, where the change in expenditure growth is used instead due to volatile macroeconomic and fiscal indicators driven by oil and gas sector.

Monetary Policy

A broad easing trend took hold across the ASEAN+3 region in 2025 as inflation continued to moderate and growth headwinds intensified. With price pressures subsiding from post-pandemic peaks, central banks across the region found room to shift their focus toward supporting growth amid a challenging external environment. Several central banks, including those in Indonesia, Malaysia, the Philippines, and Thailand, lowered policy rate to bolster domestic demand and cushion their economies against trade-related headwinds. In China, the central bank maintained a supportive monetary stance throughout the year, utilizing a range of policy tools including interest rate and reserve requirement ratio cuts to ensure ample liquidity and support the real economy.

This easing trend was not universal, however. The Bank of Japan moved in the opposite direction, raising its policy rate as it continued its gradual exit from decades of ultra-loose monetary policy, with inflation showing signs of sustainably reaching its target. The Bank of Korea also diverged from the regional easing trend later in the year, holding its policy rate steady after initial cuts, as concerns over financial stability – particularly in the housing market – and currency pressures mainly stemming from imbalances in foreign exchange market supply and demand prompted a pause in its easing cycle.

Looking ahead, the monetary policy environment remains complex, with the combination of external headwinds, geopolitical uncertainty, and the potential for supply-driven price pressures sharpening the trade-offs that central banks face. The rate cuts implemented in 2025 were effective in cushioning growth against external headwinds, and most central banks across the region retain room to respond further should conditions warrant. However, the near-term outlook involves weaker external demand alongside the possibility of higher energy-driven inflation – a combination that, should it materialize, would call for careful judgement about the nature of the inflationary pressure. A supply-driven price shock that

[3] Contribution to the change in fiscal balance is calculated, based on the following decomposition:

$$\mathit{fb}_t - \mathit{fb}_{t-1} = \underbrace{\Delta r_t}_{\text{contribution of revenue change}} - \underbrace{\Delta e_t}_{\text{contribution of expenditure change}} - \underbrace{\frac{\mathit{fb}_{t-1}}{(1+g_t)(1+\pi_t)} g_t}_{\text{contribution of real GDP growth}} - \underbrace{\frac{(1+g_t)\,\mathit{fb}_{t-1}}{(1+g_t)(1+\pi_t)} \pi_t}_{\text{contribution of GDP deflator inflation}}$$

where $\Delta r_t = \frac{R_t - R_{t-1}}{P_t Y_t}$, $\Delta e_t = \frac{E_t - E_{t-1}}{P_t Y_t}$,

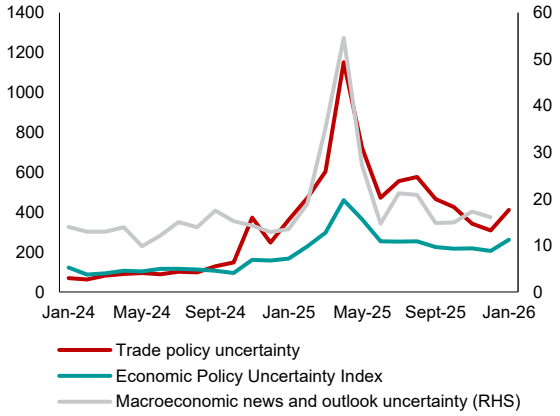
and fb=fiscal balance as a percentage of GDP, R=revenue, E=expenditure, P=GDP deflator, Y=real GDP, g=real GDP growth, π=GDP deflator inflation.

remains confined to energy and related components would call for a different policy response than one where price pressures become broad-based. The global monetary and financial environment adds a further layer of complexity – the direction of Federal Reserve policy remains uncertain and continues to shape global financial conditions, contributing to possible market volatility and putting pressure on regional currencies (Figure 1.34). The potential for volatile capital flows underscores the importance of judicious use of the full range of policy tools, including exchange rate flexibility and macroprudential measures, to manage external volatility.

In this environment, flexibility and data-dependence are key considerations for the region's central banks. The appropriate direction of policy will vary across economies, reflecting differences in growth momentum, inflation dynamics, and financial stability conditions. Where output gaps remain negative and inflation is contained, there may be scope for further easing to support activity. Where inflationary pressures are firming or financial stability risks are building, a more measured approach would be warranted. Should growth and inflation surprise on the upside – particularly if such tendencies become entrenched – a readiness to shift toward a tightening bias would be appropriate. In economies where weakening external demand coincides with rising headline inflation driven by energy costs, the key diagnostic question is whether price pressures are remaining confined to the energy component or beginning to feed through into core inflation and wage expectations – a distinction that should guide the timing and direction of any policy response. In all cases, clear and consistent communication can play an important role in guiding market expectations and maintaining policy credibility, while effective policy calibration depends on a strong understanding of the nature, persistence, and spillover potential of the shocks affecting each economy – placing a premium on continued investment in surveillance capacity and analytical frameworks (see *Special Feature: Decision-Making in the Dark – ASEAN+3 Monetary Policy in a High-Uncertainty Environment for further discussion*).

Taken together, the policy challenge for ASEAN+3 in 2026 is to navigate a period of elevated uncertainty while keeping the capacity to respond to shocks intact. The region's strong 2025 performance, low inflation starting point, and robust external buffers provide a solid foundation from which to manage the headwinds ahead. With the range of plausible outcomes remaining wide – and the near-term environment complicated by the combination of trade policy uncertainty, evolving technology-driven demand and energy market volatility – preserving policy flexibility will be key to sustaining growth momentum and containing inflationary pressure. An aligned approach, in which fiscal and monetary policies complement each other and are supported by strong surveillance and clear communication, will serve the region well as conditions continue to evolve.

Figure 1.34. Policy Uncertainties in the United States
(Index)



Source: Baker, Bloom, and Davis (2016); Caldara and others (2020).
Note: The economic policy uncertainty index combines newspaper coverage, tax code expiration provisions, and forecaster disagreement. The macroeconomic news and outlook uncertainty, and trade policy uncertainty indices are news-based measures.

Table 1.3. ASEAN+3: Monetary Policy Stance

		2026		
		Accommodative	Neutral	Tight
2025	Accommodative	CN, HK, ID, KH, JP, MM	BN, SG	VN
	Neutral	TH	KR, MY	
	Tight	LA	PH	

Source: National authorities via Haver Analytics; AMRO staff compilation.
Note: The 2026 monetary policy stance refers to the monetary policy stance as of AREO 2026 or the respective economy's Annual Consultation Report, whichever is later. For Brunei and Hong Kong, which have a currency board arrangement, the current monetary stance refers to current monetary condition.

Special Feature: Decision-Making in the Dark–ASEAN+3 Monetary Policy in a High-Uncertainty Environment

"If everyone is saying... that the only certainty is uncertainty,
it is not difficult to imagine that decision-making is becoming increasingly difficult..."

Haruhiko Kuroda, Former Governor of the Bank of Japan (2017)

Uncertainty has always been part of monetary policymaking, but what has changed in recent years is its character and intensity. Central banks have long had to act on incomplete information, imperfect models, and evolving data. The global economy, however, has been buffeted by a succession of large and unfamiliar shocks: a pandemic that simultaneously disrupted supply and demand, geopolitical realignments reshaping trade and investment flows, and rapid technological shifts with macroeconomic effects that remain difficult to gauge. These developments have not only clouded the near-term outlook but also created unprecedented uncertainty about inflation dynamics, the nature of shocks, and the appropriate policy response.

In this context, this special feature offers a simple framework for thinking about the different types of uncertainty that monetary policymakers face. It distinguishes among structural uncertainty (about how the economy works), disturbance uncertainty (about the shocks hitting it), and radical uncertainty (about futures that resist probabilistic treatment). The aim is not to provide a rigid taxonomy, but rather to sharpen the diagnostic questions that arise when policy must be set under unclear conditions: whether to respond to a given shock, when to act, and how forcefully to move. The final section considers how this way of thinking applies to ASEAN+3 economies, where overlapping uncertainties and the diversity of institutional settings make these questions particularly salient.

Distinguishing Types of Uncertainty

A useful starting point for thinking about uncertainty in monetary policy is to distinguish between three broad categories: structural, disturbance, and radical uncertainty. Structural uncertainty concerns how the economy works – the strength of transmission channels, the slope of the Phillips curve, the level of the neutral rate. Disturbance uncertainty concerns shocks that hit the economy – their nature, size, and persistence. Radical uncertainty concerns situations where the relevant states of the world cannot be specified nor meaningful probabilities assigned to them. Recent years have illustrated all three: the pandemic and shifts in global trade patterns renewed uncertainty around structural concepts like the neutral rate; overlapping demand swings, supply disruptions, and tariff shocks obscured the nature and persistence of disturbances; and extreme events – from the pandemic to geopolitical conflicts – revealed the limits of prediction and the reality of "unknown unknowns". This framework is not intended as a rigid taxonomy, but as a lens for diagnosing the dominant source of uncertainty in a given situation and considering how it might shape the policy response.

Structural Uncertainty

Structural uncertainty encompasses doubts about the fundamental workings of the economy. How sensitive is inflation to unemployment? What is the economy's natural rate of interest? How quickly does monetary policy transmit to the real economy? Within this broad category, it is helpful to distinguish three related elements. Model uncertainty questions whether the economic framework is correct at all: – it could be that the relationship between inflation and unemployment has fundamentally changed, or financial frictions now dominate traditional channels. Parameter uncertainty concerns the true values of coefficients within a given framework, it may be accepted that the Phillips curve relates inflation to slack, but remain unsure how steep that relationship is. State and data uncertainty adds measurement challenges: preliminary statistics are often revised substantially, key variables like potential output cannot be directly observed and must be estimated with considerable error, and real-time assessments frequently differ from what can be learned in hindsight.

The authors of this special feature are Allen Ng, Haobin Wang (lead), and Yuhong Wu. This special feature draws heavily on discussion and analysis in Wang and Ng (2026).

Different dimensions of structural uncertainty point toward different policy approaches. When the uncertainty is primarily about effect magnitudes – "I know raising rates will slow the economy, but by how much?" – the classic Brainard principle suggests responding more cautiously to avoid overshooting.[4] However, when the uncertainty is about whether key relationships have shifted or whether inflation will persist, the greater danger may lie in losing the expectation anchor, and policy may need to lean more decisively. To deal with broader model uncertainty, central banks have increasingly relied on approaches that reduce dependence on any single framework – for example, the US Federal Reserve's emphasis on robust policy rules that do not rely heavily on unobservable variables (Williams 2025), or the European Central Bank's multimodel cross-checking (ECB 2021). Many central banks in the region, including the Bank of Thailand and the Monetary Authority of Singapore, similarly use multiple models and indicator-based strategies to navigate model uncertainty (Enzler and others 2005; Amatyakul and others 2021).

Disturbance Uncertainty

Disturbance uncertainty focuses on the shocks themselves: their nature, size, likely persistence, and interactions. This category proved central during the 2021–2023 inflation episode, when central banks worldwide struggled to determine whether price pressures represented transitory supply disruptions that policy could safely "look through" or persistent disturbances requiring a forceful response. The distinction matters: supply shocks create trade-offs between inflation and output stabilization, while demand shocks generally do not; temporary shocks may warrant patience, while persistent shocks call for action. Policy choices therefore hinge on judging persistence and the balance of risks. Transitory shocks accompanied by well-anchored expectations can often be looked through, but suspected persistence – whether through drifting expectations or demand weakness that feeds on itself – makes delay more costly. Research suggests that high inflation tends to be self-reinforcing once expectations begin to de-anchor or wage- and price-setting behavior adjusts (Bems and others 2018; BIS 2022),[5] while prolonged weakness in demand can tip the economy toward a deflationary trap. Both aspects argue for early action when risks are clearly skewed.

The challenge is that real-time shock identification is notoriously difficult. COVID-19 illustrated this starkly: the pandemic struck simultaneously as a supply shock (factory shutdowns, fractured supply chains) and a demand shock (collapsing spending and investment), with the dominant force shifting over time. Misdiagnosis proved costly. The core task is to distinguish demand from supply shocks and transitory from persistent ones – an endeavor that requires robust monitoring, high-frequency indicators, and systematic cross-checks across data sources and models.

Radical Uncertainty

Radical uncertainty represents situations that reflect fundamental limits of knowledge – not merely unknown outcomes with calculable probabilities, but true unknowability. Frank Knight drew this distinction a century ago (Knight 1921): risk involves known probabilities over unknown outcomes; radical uncertainty means that information needed to form those probabilities is not available. COVID-19 exemplified this vividly. In the first quarter of 2020, central banks could not provide conventional forecasts because no historical precedent existed for a simultaneous, policy-induced shutdown of economic activity. How does one forecast when the entire framework assumes the economy is operating, not deliberately shuttered? Similarly, climate transition, major geopolitical realignments, and transformative technologies like artificial intelligence involve "unknown unknowns" that resist standard probabilistic treatment.

Under radical uncertainty, traditional optimization gives way to risk-management approaches.[6] Scenario analysis

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4/ William Brainard (1967) formalized this intuition in what became known as the "Brainard conservatism principle"—when policymakers face multiplicative uncertainty about the strength of the transmission mechanism, they should attenuate their response. The logic is straightforward: if uncertain whether turning the steering wheel 10 degrees will turn the car 5 or 15 degrees, turn it less to avoid overshooting. However, substantial subsequent research has shown this principle frequently reverses. Söderström (2002) demonstrates that when uncertainty concerns inflation persistence rather than transmission strength, optimal policy becomes more aggressive to prevent expectations de-anchoring. Orphanides and Williams (2007) show similar reversals when central bank credibility is imperfect.

5/ The mechanism works through shifting attention and expectation formation. When inflation is low and stable, agents exhibit "rational inattention"—they don't spend cognitive resources closely monitoring prices (Reis 2006). But when price pressures broaden, inflation moves out of the zone of "rational inattention", within which it has little impact on behavior, into that of sharp focus, in which it starts to influence behavior more substantially. Economies could shift into a high-inflation regime where expectation de-anchoring and wage-price feedback become more likely (BIS 2022). When long-term inflation is poorly anchored, shocks tend to have a significant and persistent effect on consumer price inflation (Bems and others 2018).

6/ In his influential speech on monetary policy under uncertainty at the Jackson Hole Symposium, Greenspan (2004) argues that under uncertainty, policymakers should manage risks rather than optimize around a single forecast, by considering the distribution of possible outcomes and the robustness of alternative policy choices, at times taking preemptive "insurance" actions against low-probability but severe tail risks.

becomes a central tool – building multiple plausible narratives without false precision – supported by robust-control methods and "least-regrets" thinking. For example, the Bank of Thailand conducted alternative scenarios and stress tests to prepare for worst-case outcomes during the pandemic (BoT 2021). Communication must also adapt: credibility comes not from projecting false confidence but from acknowledging uncertainty while clearly explaining how policy would respond across different scenarios. Bangko Sentral ng Pilipinas, for instance, regularly publishes inflation scenarios to communicate risks and the range of possible outcomes (BSP 2025).

Table 1.4 A Three-Category Framework for Monetary Policy Under Uncertainty

Category	What it concerns	Key questions	Policy approach	Practical tools
Structural Uncertainty	How the economy works and where we are	• What are the true parameter values? • Is our model still valid? • What is the current state given measurement error?	**Reduce the uncertainty** Use multiple models; rely more on observables; cross-check across approaches; employ robust simple rules	• Multimodel analysis • Real-time data monitoring • Forecast evaluation • Sensitivity analysis • Observable-based rules
Disturbance Uncertainty	The shocks hitting the economy and their evolution	• Supply or demand shock? • How large? • Transitory or persistent? • How will it evolve?	**State-contingent response** Look through if transitory and expectations anchored; act forcefully if persistent; pre-empt when de-anchoring risk high	• High-frequency indicators • Shock decomposition • Persistence diagnostics • Expectations surveys • Sectoral intelligence
Radical Uncertainty	Fundamental unknowability	• What are the possible states of the world? • Can we assign probabilities? • What don't we know that we don't know?	**Risk management** Use scenarios without false precision; prepare for worst-case; "least regrets" analysis; preserve policy flexibility	• Scenario narratives • Robust control • Stress testing • War-gaming exercises • Clear mandate communication

Source: AMRO staff.

Policy Trade-Offs Under Uncertainty

The framework outlined above is diagnostic, but its practical value lies in how it informs recurring dilemmas of decision-making in monetary policy. Three policy choices arise repeatedly: whether to respond to a shock or look through it; when to act – immediately or after waiting for more information; and how forcefully to move. These are not new questions, but the heightened uncertainty of recent years has made them more difficult to answer with confidence. Each type of uncertainty – structural, disturbance, and radical – bears on these choices in different ways, and the balance often shifts depending on which uncertainty dominates at a given moment. The subsections that follow examine each trade-off in turn, while Table 1.5 summarizes how the three types of uncertainty map onto the three policy dilemmas.

Looking Through Versus Responding to Shocks

Perhaps the most consequential choice is whether to respond to a shock at all. This question is especially acute for supply shocks, which create trade-offs between inflation and output stabilization that demand shocks typically do not. Standard theory suggests that when shocks are clearly transitory and expectations remain well anchored, policymakers can afford to look through the initial price impact rather than tighten and sacrifice output unnecessarily (Clarida and others 1999).

The difficulty is that the conditions for looking through are hard to verify in real time and the costs of getting it wrong are asymmetric. For example, policymakers cannot afford to wait until de-anchoring appears in the data; by then, it is typically too late to prevent the kind of self-reinforcing dynamics that make inflation persistent. The 2021–2023 inflation episode illustrated the danger: most central banks initially characterized price pressures as transitory, a judgment that proved costly once persistence became undeniable (Aguilar and others 2024). De-anchored expectations are far more costly to reverse than a modest policy overshoot, which tilts the balance toward responding when the persistence of a shock is genuinely uncertain.

Acting Early Versus Preserving Policy Space

Once policymakers judge that a shock warrants a response, the next question is when to act. The traditional argument favors moving early: monetary policy works with long lags, and delay can prove costly if it allows inflation to embed or pushes the economy toward the effective lower bound (ELB) where policy traction weakens.[7] For many emerging markets, there is an additional consideration – the need to adjust ahead of US Federal Reserve tightening cycles to avoid sudden stops or capital-flow volatility (BIS 2022).

Yet the experience of recent years has shifted the discussion. With shocks arriving from multiple directions and the outlook changing rapidly, many policymakers now place greater weight on preserving policy space rather than exhausting it prematurely. Real-options logic offers a way to think about this: when decisions are costly to reverse and uncertainty resolves over time, there can be value in waiting for clearer information (Dixit and Pindyck 1994). The case for patience is strongest when transmission is uncertain, shock persistence is unclear, or new data arrives quickly enough to inform near-term decisions.

How this dilemma resolves depends, again, on diagnosis. Structural parameter uncertainty – where the policymaker is unsure how strongly the economy will respond – tends to favor preserving flexibility. Persistent disturbance uncertainty with expectations risk tilts toward earlier action. And radical uncertainty with asymmetric tail risks often calls for an insurance approach: acting to avoid worst-case outcomes even when the baseline case might counsel patience.

Gradualism Versus Frontloading

The final choice concerns pace: whether to move gradually or to frontload the policy response. Gradualism has long been the default, and for good reasons. It allows policymakers to learn from each step, helps maintain stability in long-term rates, and minimizes financial market disruption (Bernanke 2004). But gradualism carries its own risks, particularly when shocks are persistent. Gradual moves can leave policy "behind the curve", allowing inflation to embed in expectations and ultimately requiring a sharper correction later. Research on the Brainard principle – that uncertainty about transmission strength should make policy more cautious – shows that the logic reverses when the uncertainty concerns inflation persistence: underestimating persistence is costlier than overestimating it, making more aggressive policy optimal (Söderström 2002; Tetlow 2018).

In practice, most central banks operate with a form of state-contingent gradualism: gradualism as the default, but a willingness to front-load when facing clear asymmetric risks, evidence of persistence, expectation drift, or proximity to policy constraints. The US Federal Reserve's rapid 2001–2003 easing amid growing deflationary pressure and concerns about approaching the effective lower bound, compared with its more measured 2004–2006 tightening amid strengthening growth and inflation, illustrates the approach.

Which Uncertainty Matters When

All three types of uncertainty bear on policy, but their practical relevance differs across the policy cycle. Structural uncertainty about the neutral rate, transmission strength, or the slope of the Phillips curve, is largely addressed by improving measurement, refining models, and strengthening the analytical framework before shocks arrive. Radical uncertainty calls for contingency planning and scenario analysis that sit alongside the policy framework rather than within day-to-day decisions.

Disturbance uncertainty, by contrast, is what policymakers must resolve in real time once a shock materializes. The diagnostic questions – is this demand or supply driven, transitory or persistent? – directly determine whether, when, and how forcefully to respond. Box S1 examines this dimension more formally, drawing on Wang and Ng (2026) to show how uncertainty about the nature and persistence of shocks shapes optimal policy under high uncertainty.

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[7] The ELB constraint fundamentally changes optimal policy by creating a deflationary bias even when not currently constrained. European Central Bank research quantifies the tail risk induced by the ELB could cause inflation to undershoot the target by as much as 45 basis points at the economy's risky steady state (Hills, Nakata, and Schmidt 2016). When the probability of hitting the ELB is positive, frontloading easing when approaching the bound becomes optimal because waiting may eliminate future policy space entirely.

Table 1.5. Policy Trade-Offs Under Different Types of Uncertainty

Trade-off	Under Structural Uncertainty	Under Disturbance Uncertainty	Under Radical Uncertainty
Look Through vs Respond	→ **Context-dependent:** Depends on measurement precision of underlying inflation; cross-check multiple indicators	→ **Respond if persistent:** Cannot look through persistent shocks even if supply-driven; expectation drift too costly	→ **Respond when anchor at risk:** Risk management favors response over accommodation when fundamental uncertainty about persistence
Act Early vs Wait	→ **Preserve flexibility:** Value of waiting to learn about parameters and transmission; gradualism allows assessment	→ **Act if persistent:** If shock shows persistence or expectations drift, option value of waiting collapses; transitory shocks allow patience	→ **Insurance approach:** Act to avoid worst outcomes (ELB, de-anchoring); cannot optimize so minimize regret
Gradualism vs Frontload	→ **Gradualism:** Learning-by-doing valuable when unsure about transmission strength; assess effects at each step	→ **Frontload if persistent:** Gradual response risks "behind curve" with persistent shocks; Brainard principle reverses	→ **Frontload if tail risk:** When facing catastrophic outcomes (deflation spiral, hyperinflation), frontload insurance action

Source: AMRO staff.

Policy Implications for ASEAN+3 Economies

For ASEAN+3 central banks, the framework developed above speaks directly to challenges that have become increasingly familiar in recent years. The region's experience during the 2021–2023 inflation episode illustrated how all three types of uncertainty can operate simultaneously: disturbance uncertainty about whether price pressures were supply- or demand-driven and how long they would persist; structural uncertainty about whether pandemic-era disruptions had altered transmission channels or shifted underlying inflation dynamics; and, at least initially, radical uncertainty about how economies would respond to unprecedented policy interventions and supply-chain dislocations. Compared with other major regions, ASEAN+3 inflation proved more moderate and short-lived – an outcome that reflected both structural features (including high trade openness, competitive retail sectors, and relatively low service-sector wage pressures) and timely policy responses that combined monetary tightening with fiscal cushioning and supply-side management (AMRO 2025a). Yet even with this favorable outcome, the episode underscored how difficult real-time diagnosis can be when shocks overlap and evolve.

The macroeconomic diagnostic challenges are, if anything, likely to intensify. A confluence of structural forces is now reshaping the region – demographic aging, trade reconfiguration amid geoeconomic fragmentation, and rapid technological change – with each acting as a slow-moving supply shock whose effects on potential growth, inflation dynamics, and policy transmission are difficult to gauge in real time (AMRO 2024). Meanwhile, the region's high trade openness means that external disturbances – whether from abrupt shifts in trade policy, swings in commodity prices, or changes in global demand – transmit quickly and through multiple channels. For smaller, highly open economies, the shocks that matter most may not originate domestically at all, yet central banks must still judge their persistence and calibrate the appropriate response. And because monetary policy frameworks differ across the region, the same external shock can pose quite different diagnostic questions across different policy settings.

What this implies for macroeconomic surveillance is straightforward in principle but demanding in practice. The framework's value lies in sharpening the diagnostic questions: Demand or supply? Transitory or persistent? How strong is transmission? But answering them requires granular, high-frequency monitoring; systematic cross-checks across data sources and models; and the capacity to update assessments as new information arrives. During the post-pandemic inflation episode, several regional central banks complemented conventional forecasting with alternative scenarios, sectoral intelligence, and real-time indicators of expectations and price-setting behavior – approaches that allowed them to adjust course as the balance of shocks shifted from supply to demand and as persistence became clearer. Embedding this kind of diagnostic discipline more broadly, and ensuring that analytical capacity keeps pace with the complexity of shocks the region faces, is among the more practical implications of the framework developed here.

Box S1:

When to Act – The Option Value of Waiting in Monetary Policy

Uncertainty about the nature and persistence of shocks is among the most pressing challenges for monetary policymakers. When a shock hits, should central banks act immediately to stabilize the economy, or wait until the picture clarifies to avoid costly policy mistakes? The tension is real: acting too early on a misdiagnosed shock risks destabilizing the economy, but waiting too long can allow inflation to embed or output losses to deepen. This box draws on Wang and Ng (2026) to examine these questions more formally. Using a stylized New Keynesian framework that embeds into the central bank's optimization problem the option value of waiting, the analysis yields a set of threshold rules and practical insights for navigating disturbance uncertainty.

The analysis is based on a stylized two-period model in which uncertainty and the option value of waiting is embedded into the central bank's optimization problem. The core idea is that under high uncertainty, waiting has value. The policymaker observes the first-period shock but remains uncertain about future shocks. It may act immediately – with its policy action influencing the next period – or delay action to obtain clearer information.

The essential result from the model is a threshold rule: when uncertainty is elevated, the option value of waiting rises, warranting a more cautious approach. However, if the economy is hit by a shock that is sufficiently large or persistent, early action rather than delay becomes optimal. Extensions building on this threshold rule yield four key insights.

Insight 1: Uncertainty alters the optimal timing of policy and justifies a cautious approach. When the nature and persistence of shocks are unclear, the risk of policy miscalibration increases. Even a single additional period of data can materially improve the diagnosis of whether inflation pressures stem from demand strength or supply constraints. In such environments, waiting is not passive but an optimal strategy that preserves flexibility and reduces the likelihood of costly mistakes. This dynamic helps explain why many regional authorities have favored patience and stronger data dependence in recent months.

Insight 2: Persistent shocks reduce the value of waiting and warrant earlier action. When disturbances are likely to last, the cost of inaction rises as expected future deviations in inflation and output widen. The threshold for waiting therefore falls. A persistent negative demand shock calls for earlier easing to prevent a deeper slowdown, while a persistent supply shock may require earlier tightening to avoid embedding inflation pressures. Greater clarity regarding persistence thus shifts the balance away from caution and toward prompt, pre-emptive response.

Figure 1.35. Model-Implied Optimal Responses to Different Types of Shocks

	Transitory	Persistent
Negative Demand Shock	**Wait and See** Risk of overreaction	**Front-load Easing** Avoids cumulative loss
Negative Supply Shock	**Wait and See** Risk of over-tightening, inflation self corrects	**Gradual Tightening** Need to balance policy trade-offs

Source: AMRO staff.

This box was written by Haobin Wang and Yuhong Wu.

Insight 3: Effective-lower-bound (ELB) risk shifts optimal policy toward front-loaded easing. When interest rates are already low and downside risks dominate, the probability of reaching the ELB reduces future policy space. Waiting becomes more costly because the central bank may later be unable to ease as needed. These considerations also underscore the importance of monetary-fiscal coordination at the ELB: when monetary policy space is limited, credible and well-targeted fiscal support can help stabilize demand, reduce the burden on monetary policy, and lower the probability of being trapped at the ELB in the first place.

Insight 4: State-contingent communication is more credible and flexible under high uncertainty. Rigid forward guidance can be counterproductive when conditions change unexpectedly, forcing a policy reversal and risking credibility loss. By contrast, state-contingent communication – explaining how policy would respond under different scenarios – preserves both clarity and flexibility. This approach aligns with the framework's emphasis on updating decisions as information improves, helping maintain credibility when the outlook is uncertain and the distribution of shocks is wide.

Taken together, these results point toward a nuanced view of caution under uncertainty. Waiting is not passivity – it is an optimal strategy when the nature of a shock remains unclear and the risk of policy miscalibration is high. But caution has limits. When shocks are clearly persistent, when expectations show signs of drifting, or when the effective lower bound constrains future action, the option value of waiting diminishes and the case for early, decisive response strengthens. The framework also underscores the value of state-contingent communication: rather than offering precise forecasts or rigid forward guidance, central banks can maintain credibility by explaining how policy would respond across a range of scenarios This approach is particularly suited to an environment where the distribution of shocks is wide and the outlook uncertain.

Sharpening diagnosis is only part of the challenge. Acting effectively on those judgments requires institutional settings that give central banks the credibility and flexibility to make difficult choices. When expectations are well anchored, policymakers have room to look through temporary disturbances, move gradually as the picture clarifies, or preserve policy space for larger shocks – flexibility that erodes quickly once credibility weakens. Credibility, in turn, rests on a track record of delivering on mandates, on frameworks that markets and the public understand and trust, and on institutional independence that allow policy to be guided by evolving assessments of economic conditions rather than shorter-term considerations. In an environment where uncertainty is elevated and the appropriate response is often unclear, maintaining this credibility is not incidental to good policy – it is what makes good policy possible.

It is also worth recognizing that monetary policy, however well-calibrated, cannot address every dimension of macroeconomic adjustment. This is particularly true when shocks usually carry supply-side, distributional, or financial-stability dimensions. Fiscal policy can cushion demand without stoking inflation; macroprudential tools can lean against financial imbalances that might otherwise constrain monetary space; foreign exchange intervention and capital flow management measures can help absorb external shocks in highly open economies; and structural policies can ease supply bottlenecks and improve transmission over time. The goal is not rigid coordination, but complementarity – ensuring that the broader policy toolkit supports the task of anchoring prices and stabilizing the economy, rather than leaving monetary policy to compensate for gaps elsewhere.

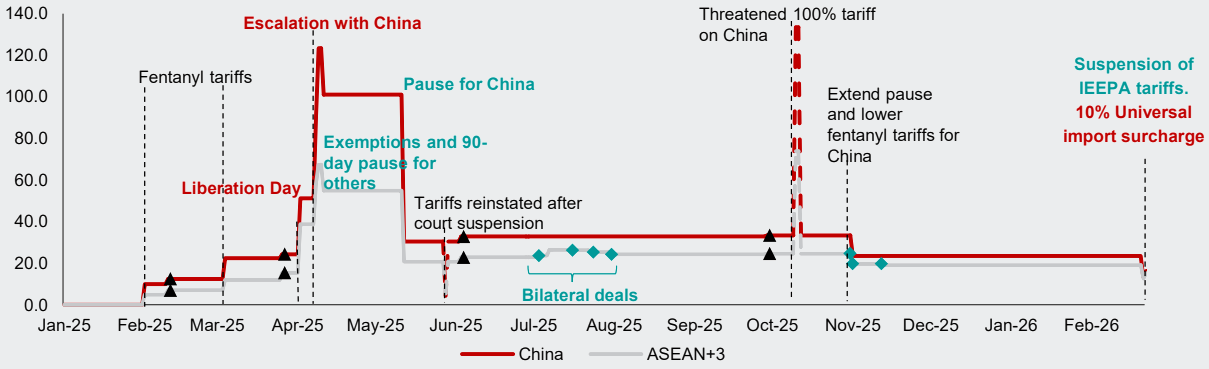
Uncertainty is not a problem to be solved, but a condition to be navigated. The framework developed in this special feature distinguishes structural, disturbance, and radical uncertainty but will not eliminate the difficulty of real-time policymaking. However, it can help clarify the kind of problem a central bank is facing and which considerations should weigh most heavily in response. In a region where shocks are frequent, overlapping, and often externally driven, that kind of diagnostic discipline – supported by credible institutions and a coherent policy mix – offers a sound basis for navigating the uncertainties ahead.

Box 1.1:

US Tariff Developments: A Key Source of Global Trade Uncertainty

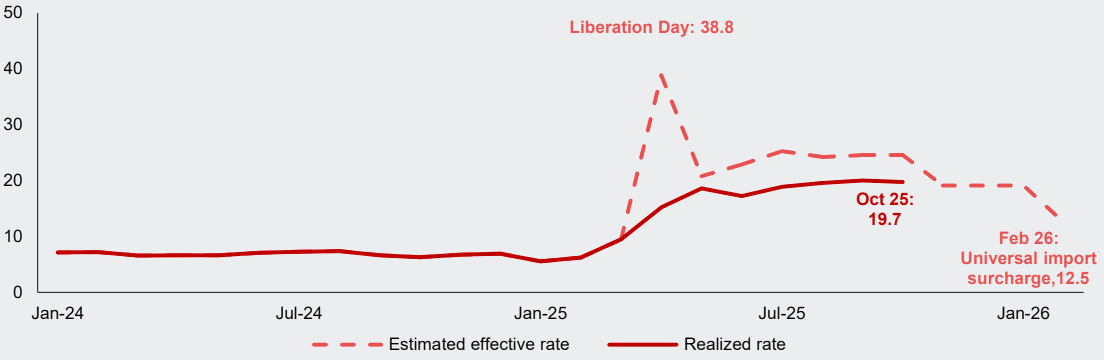
The shock: On April 2, 2025, the United States announced sweeping tariff measures on all trading partners under the International Emergency Economic Powers Act (IEEPA), citing national security and economic emergency concerns. Ranging from 10 to 50 percent, the Liberation Day tariffs pushed US tariff levels to their highest since before World War II. ASEAN+3 economies faced the highest rates globally, with aggregate tariff exposure approaching 40 percent (Figure 1.1.1). But deescalation came almost immediately. A 90-day pause starting April 10 reduced reciprocal rates to 10 percent for most economies and broad exemptions were granted, leaving realized rates lower than headline levels. Before the pause expired, many ASEAN+3 economies had negotiated trade deals with lower reciprocal tariffs around 15–20 percent. (Figure 1.1.2).

Figure 1.1.1. Announced US Tariff Rates on China and ASEAN+3 Since 2025
(Percent)



Source: Newsflows, the White House; S&P Global Trade Atlas; AMRO staff calculations.
Note: ▲ = sectoral tariffs, ◆ = trade deals. Tariffs changes are marked based on announcement dates. The regional aggregate is the trade-weighted average of individual economies' weighted tariff based on their total exports to the US in 2024. Weighted tariffs are the sum of sectoral tariffs announced on respective dates and weighted reciprocal tariffs or universal import surcharge accounting for exemptions.

Figure 1.1.2. ASEAN+3 Actual and Estimated Tariff Rates
(Percent)



Sources: S&P Global Trade Analytics, USITC; AMRO staff calculations.
Note: Realized tariff rates are calculated as duties collected divided by customs value, based on data from US customs. Estimated effective rate is calculated as the weighted average regional aggregate of the reciprocal rate for individual economies or the universal import surcharge in February 2026, accounting for exemptions and sectoral tariffs.

This box was written by Yuhong Wu.

A new disruption: A Supreme Court ruling in February 2026 invalidating IEEPA-based tariffs has created renewed uncertainty. The Court held that the administration lacked authority to impose the reciprocal and fentanyl-related tariffs, casting doubt on the bilateral deals negotiated under that framework. In response, Trump imposed a universal import surcharge under Section 122 of the Trade Act of 1974, set at 10 percent, which expires after 150 days absent Congressional extension. The administration also launched new Section 301 investigations into excess industrial capacity and the use of forced labor, which affected ten of the ASEAN+3 economies. Meanwhile, Section 232 tariffs on national security grounds remain in force.

The remaining uncertainties: The broader tariff outlook remains unsettled across three dimensions. First, on legal durability: the 2025 bilateral agreements might not hold, and the import surcharge expires around July 2026, leaving the post-July tariff framework uncertain. Second, several important sectors, including pharmaceuticals, semiconductors, and processed critical minerals, remain under Section 232 investigations. Third, on implementation ambiguity: the proposed 40 percent tariff on transshipment goods lacks clear enforcement details, posing particular risks for economies deeply embedded in regional supply chains. While less severe than at the height of the April shock, current tariff conditions continue to be a key source of global trade uncertainty.

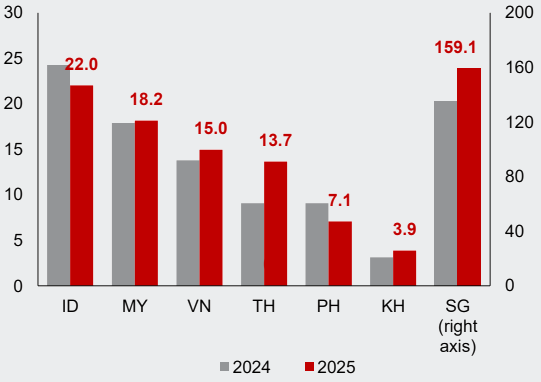
Box 1.2:

Overview of ASEAN's Foreign Direct Investment in 2025

ASEAN attracted strong foreign direct investment (FDI) inflows in 2025, despite heightened global uncertainty (Figure 1.2.1). The investment sources were broad-based, and new commitments were increasingly concentrated in supply-chain-intensive and technology-oriented activities, including advanced electronics, electric vehicles (EVs), and digital infrastructure (Figure 1.2.2).

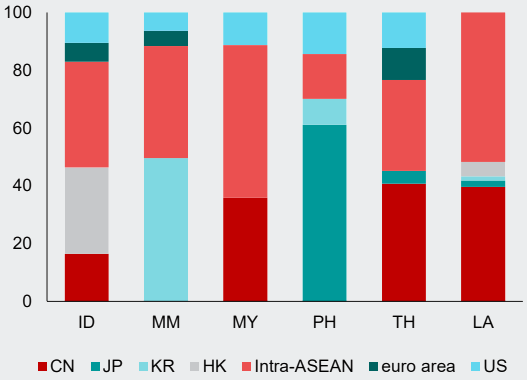
FDI related to electronics and data infrastructure was a key driver for the trend, supported by surging global demand for AI-related products and services. Semiconductor projects spanning advanced packaging, materials, and manufacturing equipment, rose sharply in Malaysia and Vietnam, reflecting continued relocation and expansion of higher-value manufacturing activities into ASEAN. On account of these trends, foreign investment approvals surged 47.5 percent in the first three quarters of 2025 in Malaysia, while Vietnam continued to record the highest FDI inflows among ASEAN economies. Complementing chips investments, data centre and cloud infrastructure also attracted sharp inflows. In 2025, Thailand attracted USD 23.1 billion in data centre investment, as global technology firms expanded AI-ready infrastructure to meet rising computational demand.

Figure 1.2.1 Selected ASEAN: FDI Inflows by Recipient Economy
(Billions of US dollars)



Source: International Monetary Fund via Haver Analytics; Bangko Sentral ng Pilipinas; Department of Statistics, Malaysia; AMRO staff calculations.
Note: ID = Indonesia; KH = Cambodia; MY = Malaysia; PH = the Philippines; SG = Singapore; TH = Thailand; VN = Vietnam. Data show Balance of Payment (BPM6) direct investment liabilities. Data up to Q3 2025 for Vietnam, Thailand, and Cambodia. Data for the Philippines up to November 2025.

Figure 1.2.2 Selected ASEAN: Inwards FDI by Top 5 Source Economies
(Percent share)



Source: Bank Indonesia; Bank of the Lao PDR; Bangko Sentral ng Pilipinas; Myanmar Ministry of Investment and Foreign Economic Relations; Malaysian Investment Development Authority; Thailand Board of Investment; AMRO staff calculations.
Note: CN = China; HK = Hong Kong; ID = Indonesia; JP = Japan; KR = Korea; LA = Lao PDR; MM = Myanmar; MY = Malaysia; PH = the Philippines; TH = Thailand; US = United States. Figures for Thailand and Malaysia reflect official investment approvals granted through Q3 2025.

EV-related FDI remained strong in 2025, reflecting sustained investment in manufacturing capacity and upstream supply chains. In Thailand and Indonesia, investment focused on vehicle assembly alongside battery and component production. Indonesia leveraged its comparative advantage in nickel supply, which accounts for 66 percent of global production to anchor battery material supply chains (US Geological Survey 2026). EV investments also extended to Vietnam and other economies, supporting a regionwide expansion of EV capacity that is increasingly integrated across the value chain.

FDI inflows also strengthened across other ASEAN economies. FDI approvals in Cambodia rose 45 percent in 2025, mainly comprising manufacturing investment as export-oriented production expanded. The Philippines similarly recorded steady inflows in energy, manufacturing, and information and communication, reflecting sustained investor interest in power generation and digital infrastructure. The sectoral composition of FDI in 2025 points to a continued shift toward capacity-expanding and productivity-enhancing investment.

This box was written by Kriti Andhare and Yuhong Wu.

Intra-ASEAN+3 investment played an increasingly important role in driving FDI into ASEAN. Plus-3 economies accounted for a rising share of new investment commitments, providing key sources of capital in electronics, infrastructure, and manufacturing-related activities. These trends highlight ASEAN's deepening integration into regional and global value chains.[1] Taken together, FDI developments in 2025 point to a supportive investment outlook into 2026, with inflows increasingly aligned with supply-chain resilience, technological upgrading, and longer-term growth.

[1/] Investment figures are sourced from Council for the Development of Cambodia (2026), Malaysian Investment Development Authority (2025), and Thailand Board of Investment (2026). For a more detailed discussion on structural trends in FDI, refer to Chapter 2.

Box 1.3:

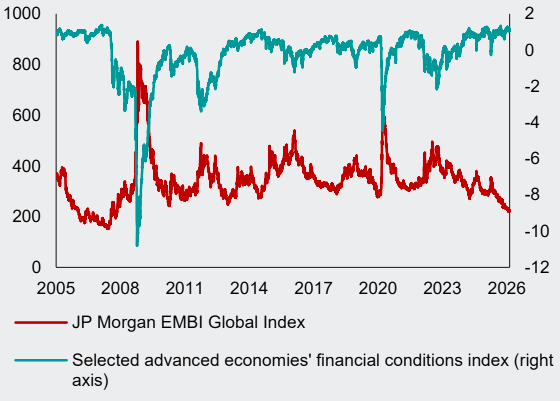
Key Developments in ASEAN+3 Financial Markets

Since the release of 2025 *ASEAN+3 Financial Stability Report* (AFSR) in October, global and regional financial markets have remained broadly stable until the escalation of Middle East tensions at end-February 2026. Financial conditions remained relatively accommodative through early March, reflecting easy monetary policy stance and strong equity performance, which was partly driven by solid corporate earnings, AI-related sector and the semiconductor upcycle. Furthermore, emerging market credit spreads narrowed to their lowest levels since 2007, underscoring robust risk appetite and compressed risk premia (Figure 1.3.1). That said, there were sporadic concerns around higher fiscal spending in some major developed economies, which led to some rise in bond yields and weaker currencies. However, since February, market stress rose significantly as oil prices surged. Global equities weakened on risk aversion, US dollar strengthened on safe-haven demand, and bond yields rose as markets priced in higher inflation.

The foreign exchange landscape has shifted from dollar weakness from late-2025 to February 2026, to a return of its safe-haven appeal since the Middle East crisis escalated in end-February 2026. The US dollar weakness prior to February 2026 was driven by concerns over US fiscal sustainability and Fed's independence. Consequently, the Asia Dollar Index rose 2.8 percent from its November 2025 trough before declining sharply at the onset of February's Middle East conflict as risk-off sentiment supported the US dollar.

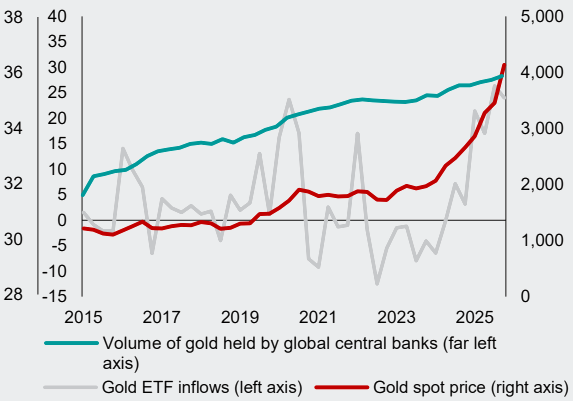
Amid rising geopolitical risks and the weaker US dollar trend before the Middle East conflict, precious metals rallied due to rising safe haven demand, pushing prices to record highs. In 2025, gold rose nearly 65 percent and silver more than 148 percent – their strongest annual gains since 1979 (Figure 1.3.2). Price for silver rose above USD 110 per ounce before retreating and plateaued around USD 80. Gold reached a peak of USD 5,585 per ounce in January 2026, supported by central bank reserve accumulation and strong exchange-traded fund (ETF) inflows as investors looked to hedge against global uncertainties, fiscal concerns, and dollar weakness. After a sharp late-January correction on valuation concerns, gold rose to around USD 5,000 as demand and geopolitical tensions resumed. Going forward, central banks are likely to continue expanding gold holdings as a hedge against geopolitical and financial risks, while ETF inflows – especially in the US, China, and India – remain firm (World Gold Council 2025, Tang 2026).

Figure 1.3.1. Advanced Economies Financial Conditions and Emerging Markets Sovereign Spreads
(Index for both axes)



Source: JP Morgan; Bloomberg Finance L.P.
Note: The selected advanced economies' financial conditions index is calculated by taking the simple average of the indices of the US, euro area, and the UK. Higher values of the index indicate easier financial conditions. Higher values of the EMBI Global index indicate higher sovereign bond spreads. Data as of March 6, 2026.

Figure 1.3.2. Gold Price, ETF Inflows and Volume Held by Global Central Banks
(Thousands of tonnes; billions of US dollar; US dollar per ounce)



Source: World Gold Council.
Note: Data for gold volume as at Q3 2025, while that for gold price and ETF flows as at Q4 2025.

This box was written by Chiang Yong (Edmond) Choo.

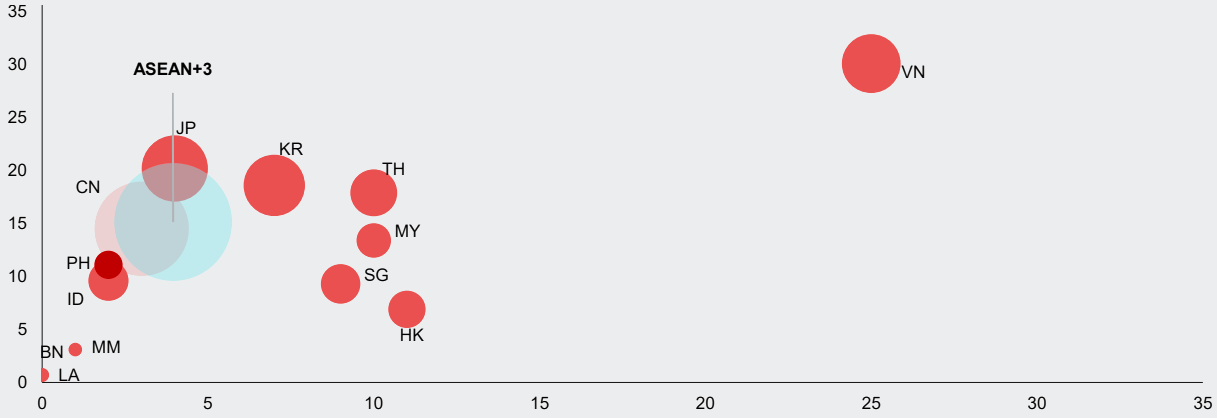
Box 1.4:

Resilience Amid Tariffs: Cambodia and Vietnam's Export Performance Under US Trade Measures[1]

US tariff announcement on April 2 placed Vietnam and Cambodia under the spotlight, given their higher tariff rates compared to other ASEAN economies and the fact that both economies are highly open, export oriented and significantly exposed to the US market, making them especially vulnerable to the tariff hike (Figure 1.4.1).

Nevertheless, following trade negotiations with the US and reflecting sector-specific exemptions, the weighted average tariff rates were significantly lowered from their initial levels – from 49 percent to 19.6 percent for Cambodia and from 46 percent to 18.4 percent for Vietnam – bringing them broadly in line with regional peers.

Figure 1.4.1. Direct Export Exposure to the US
(Percent of total exports, percent of GDP)



Source: S&P Connect Global Trade Analytics; National authorities via Haver Analytics.
Note: Data are as of 2024. Bubble size reflects exports to the US. The y-axis shows exports to US as a share of total exports, while the x-axis shows exports to the US as a share of GDP.

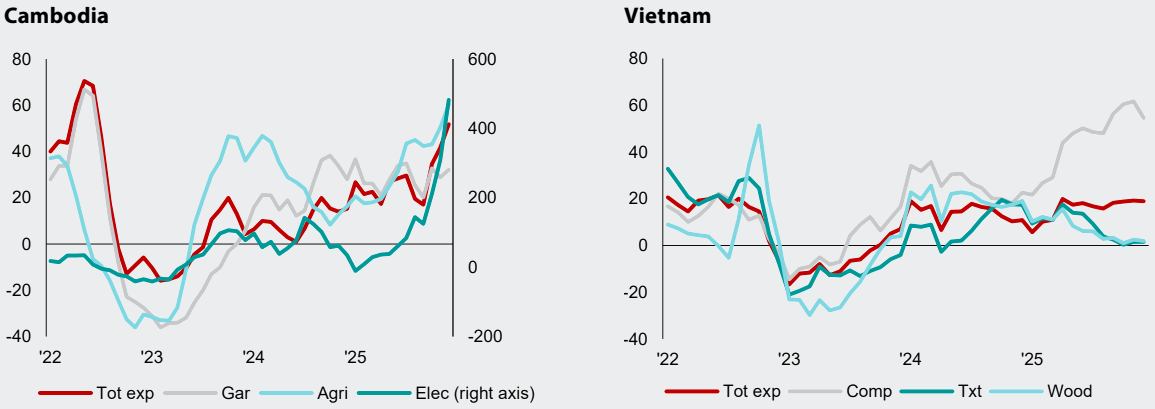
Despite the high US tariffs, Cambodia's and Vietnam's export and overall economic performance remained robust in 2025, largely driven by frontloaded orders and supply-chain cost sharing of tariff burdens. Export to the US remained robust, rising by around 28 percent for both economies in 2025. However, export performance diverged after the tariffs took effect in August 2025 and the frontloading effect dissipated (Figure 1.4.2). In Vietnam, exports of textiles, garments, and wooden furniture – products subject to the new tariffs – moderated, while electronics exports, which were exempt from tariffs and further boosted by strong AI-related demand, continued to surge.

Similarly, Cambodia's garment exports continued to grow at double-digit rates, albeit more slowly than before, while exports of electrical and vehicle parts have gained further momentum. To preserve market share, Cambodian and Vietnamese suppliers, together with US distributors, have absorbed a significant portion of the additional tariff costs. Both countries continue to receive orders from the US and continue to attract foreign direct investment, as the new tariff rates applied to them are broadly comparable to those imposed on regional peers. Combined with their relatively low labor costs, this has preserved their competitiveness.

This box was written by Wanwisa Vorranikulkij and Chunyu Yang.

[1/] This study was prepared based on the reciprocal tariffs announced on April 2, 2025, and subsequent adjustments, prior to the US Supreme Court ruling on February 20, 2026.

Figure 1.4.2. Exports to the US
(Percent, year-on-year, 3 month-moving average)



Source: National Statistic Office of Vietnam; National Institute of Statistics, Cambodia; AMRO staff calculations.
Note: Agri = Agriculture products; Comp = Computer and electronics; Elec = Electrical and vehicle parts; Gar = Garment products; Tot exp = Total exports; Wood = Wood and furniture

Looking ahead, although the US Supreme Court has ruled against the implementation of reciprocal tariffs, the export outlook for both countries continues to face headwinds and uncertainty stemming from the potential introduction of other US trade measures. The tariff episode underscores the risks associated with heavy reliance on traditional trading partners, particularly for small, open, and export-oriented economies. Deepening engagement within ASEAN and expanding into new markets would help enhance resilience. At the same time, strengthening local firm capabilities and labor skills to move up the global value chain, boosting domestic demand, reducing exposure to tariff-sensitive sectors, and diversifying export products remain critical priorities.

Box 1.5:

Scenario Analysis: Alternative Projections for ASEAN+3

The outlook for ASEAN+3, and the global economy, remains sensitive to two major sources of uncertainty: (i) the durability of the technology upcycle and (ii) the direction of trade protectionism by the United States (US). To assess the potential macroeconomic impacts, AMRO staff used the Oxford Economics' Global Economics Model (GEM) to run simulations on four scenarios – Further upside, Upside, Adverse, and Severe adverse – each with different assumptions on the strength of the tech cycle and the extent of trade disruptions (Table 1.5.1).[1] The scenarios are described below, and the simulation results are shown in Table 1.5.2.

Baseline: Incorporates the tariffs in place as of end-February 2026, under which ASEAN+3 economies face an effective tariff rate of 12.5 percent. No material escalation beyond measures already in place is assumed. The global tech upcycle is expected to continue, albeit at a more moderate pace, supported by AI-related investment and resilient demand for electronic products. Growth in the US economy is expected to be sustained for both 2026 and 2027.

Upside scenario: Assumes global AI-led investment accelerates, driven by early signs of AI-driven productivity gains materializing across a wider set of sectors and economies, resulting in stronger semiconductor demand and higher tech-related capital expenditure, such as investment in data centers and semiconductor manufacturing. Global private sector investment is assumed to continue to expand at the robust sequential pace observed in 2025, supported by improved corporate earnings and easier financial conditions. Tariff developments as per the baseline. In this scenario, with higher investment and stronger external demand for electronics and intermediate inputs, economic growth in ASEAN+3 will be lifted to 4.6 percent in 2026 and 5.5 percent in 2027, with growth in ASEAN outpacing the Plus-3 subregion (Figure 1.5.1).

Further upside scenario: Assumes the upside scenario occurs alongside an improvement in global trade policy development. Effective US tariff rates are lowered by an average of 5 percent as a result under the assumption that the Section 122 tariffs lapses. Sectoral tariffs are assumed to remain in place. In this scenario, ASEAN+3 growth could be slightly higher at 4.8 percent in 2026 and 5.8 percent in 2027, a more marginal uplift as global trade remains subdued and tariff levels stay above pre-Liberation Day rates.

Adverse scenario: Assumes AI benefits materialize at a slower pace and across a narrower scope, leading to a pullback in capital expenditure globally. Investment growth momentum globally is assumed to slow to the rates seen during the previous tech-cycle downturn in 2022. The weaker expectations would also trigger corrections in financial markets, amplifying the real-economy impact. Tariff developments as per the baseline. In this scenario, ASEAN+3 growth will be lower at 3.1 percent in 2026 and 2.5 percent in 2027 mainly as electronics exports weaken and investment – particularly AI-related spending on data centers – slows.

Severe adverse scenario: Assumes the adverse scenario occurs alongside an intensification of global trade tensions. Effective US tariffs are assumed to increase by 10 percentage points, bringing rates close to the levels prior to the removal of the Liberation Day tariffs. The already-weak external demand and investment activity under adverse scenario would be exacerbated by deterioration in investor and consumer sentiments and further disruption to global trade flows. ASEAN+3 could be significantly impacted under this scenario, with growth slowing to 2.8 percent in 2026 and 2.1 percent in 2027.

This box was written by Catharine Tjing Yiing Kho, and Jun Ee Yohnsen Ang.

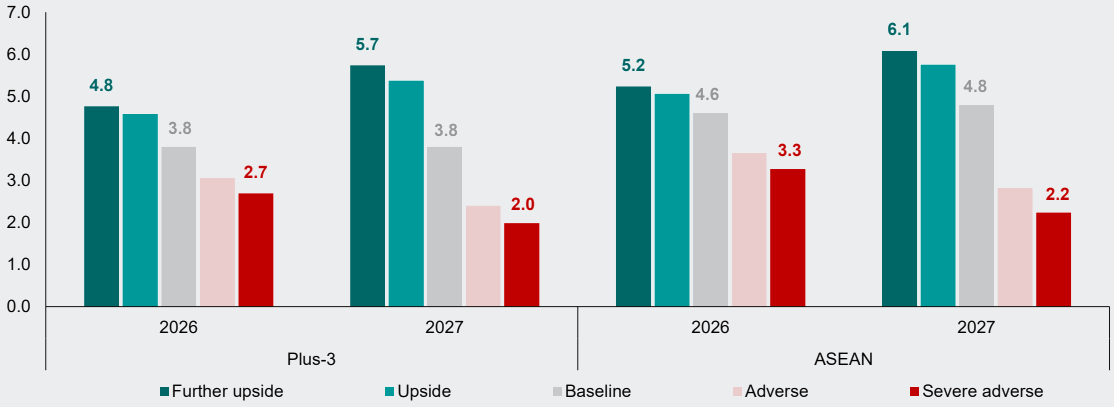
1/ Simulations are run using Oxford Economics' Global Economic Model (GEM), a multi-country macroeconometric model which covers 80 economies interlinked through trade, prices, exchange rates, and interest rates. GEM is an error-correction model that estimates how quickly a dependent variable returns to its equilibrium state after a shock to its independent variable, thus capturing both the short- and long-term effects, with integrated cross-country linkages transmitting shocks across economies in a consistent manner. In the short run, it features "Keynesian" dynamics – sticky factor prices and demand-driven output – while in the long run, prices adjust fully and outcomes are pinned down by supply-side fundamentals (productivity, labor, and capital). For this exercise, only the short-term estimates are produced and discussed.

Table 1.5.1. ASEAN+3 Growth Scenario Assumptions

Scenarios	Investment growth momentum	Effective US import tariffs
Baseline	More moderate than 2025	Current levels
Further upside	Similar to 2025, i.e. 10 percent higher quarter-on-quarter growth than baseline	5 percentage points lower than baseline
Upside		Current levels
Adverse	Similar momentum as the previous downcycle in 2022, i.e. 5 percent lower quarter-on-quarter growth than baseline	Current levels
Severe adverse		10 percentage points higher than baseline

Source: AMRO staff
Note: For the investment growth assumptions, as an illustration, for the US, the baseline quarterly investment growth is estimated at 1.3 percent. For the upside scenarios, the quarterly growth is assumed to be 10 percent higher (i.e. 1.4 percent quarterly growth). For the adverse scenarios, it is 5 percent lower (i.e. 1.2 percent quarterly growth).

Figure 1.5.1. ASEAN+3 Growth Projections Under Different Scenarios
(Percent year-on-year)



Source: Oxford Economics Global Economics Model; AMRO staff calculations.
Note: Regional aggregates are weighted using 2025 GDP on PPP basis. Brunei Darussalam, Cambodia, Lao PDR, and Myanmar are excluded due to data unavailability.

Table 1.5.2. ASEAN+3: Impact on Real GDP Under Various Scenarios
(Percent deviation from baseline, 2026)

Scenarios	ASEAN+3	Plus-3	ASEAN
Baseline Technology upcycle continues, but at a more modest growth than 2025. Current tariff environment is maintained.	-	-	-
Further upside Early signs of AI benefits spur stronger investment momentum and technology upcycle. Tariff environment is more favorable.	+0.8	+0.9	+0.5
Upside Early signs of AI benefits spur stronger investment momentum and technology upcycle. Current tariff environment is maintained.	+0.6	+0.7	+0.4
Adverse Slower or more limited materialization of AI benefits leads to pullback in investments and weigh on the tech upcycle, triggering disorderly tech equity corrections. Current tariff environment is maintained.	–0.9	–0.8	–1.0
Severe Adverse Slower or more limited materialization of AI benefits lead to pullback in investments and weigh on the tech upcycle, triggering disorderly tech equity corrections. Escalation of trade tensions exacerbates growth slowdown.	–1.2	–1.2	–1.4

Source: Oxford Economics Model, AMRO staff calculations.
Note: Regional aggregates are weighted using 2025 GDP on PPP basis. Brunei Darussalam, Cambodia, Lao PDR, and Myanmar are excluded due to data unavailability.

Box 1.6:

Scenario Analysis: Possible Impact of the Middle East Conflict on the ASEAN+3 Outlook

On February 28, 2026, the United States and Israel launched a joint military operation against Iran, marking the most significant escalation of the Middle East conflict in decades. Iran occupies a uniquely consequential position in global energy markets – both as a major oil producer and as the gatekeeper of the Strait of Hormuz, through which approximately 20 percent of global oil supply and a similar share of global LNG trade flow. For ASEAN+3, the exposure is material: over 35 percent of the region's crude oil is sourced from Middle Eastern partners transiting the strait.

Amid rapidly evolving conditions, in addition to the baseline, AMRO staff have developed two additional scenarios to assess the potential trajectory of the conflict and its macroeconomic implications for the region. The scenarios are structured around the intensity and scope of Iranian retaliation, the degree of disruption to maritime transit through the Strait of Hormuz, and the duration of the conflict. They are not mutually exclusive – the conflict could transition from one scenario to another as conditions evolve. Oil price assumptions are expressed in terms of Brent crude and informed by historical precedents and recent market developments. The scenarios are summarized in Table 1.6.1.

Table 1.6.1. Middle East Conflict Scenario Assumptions

Scenario	Description	Oil Price for March–December 2026 (Brent, USD/bbl)	Strait of Hormuz
Managed containment and deescalation	Both sides cap escalation; gradual de-escalation with no formal ceasefire, but strike tempo drops and maritime disruption eases.	70–80	Disruption eases within 8 weeks; insurance costs remain elevated; cautious resumption of commercial traffic.
Baseline: Protracted attritional conflict	Multi-month US-Israel air campaign; steady Iranian missile/drone/proxy retaliation; calibrated maritime coercion.	80–90	Partial disruption; de facto closure for most commercial traffic in 1H 2026; selective tanker incidents; elevated insurance costs.
Uncontrolled regional widening	Conflict broadens: Gulf energy infrastructure struck; sustained tanker targeting; escalation of conflict in neighboring Gulf countries.	100+	Sustained effective disruption; mining risk; direct tanker targeting at scale; OPEC+ spare capacity locked behind the chokepoint.

Source: AMRO staff assessment based on open-source reporting and expert analysis.
Note: Oil price ranges are average Brent crude (USD per barrel) from March–December 2026. Scenarios are not mutually exclusive; the conflict may transition between scenarios as conditions evolve.

The escalation has material implications for ASEAN+3 economies, transmitted primarily through higher energy prices. The impact across the region would be uneven, reflecting differences in energy import dependence, reliance on Middle East supply routes, and overall energy mix. Plus-3 economies face higher exposure as major importers of both crude oil and LNG transiting the Strait of Hormuz, although sizeable strategic petroleum reserves and some diversification in supply channels could help cushion part of the shock. For ASEAN net energy importers, higher global prices would pass through more directly to fuel and transport costs. By contrast, the region's energy exporters could see some offsetting gains from higher commodity revenues, though these would be tempered if the conflict also disrupts broader trade flows and weighs on external demand. AMRO staff used the

This box was written by Catharine Tjing Yiing Kho, Jun Ee Yohnsen Ang and Yuhong Wu.

Oxford Economics' Global Economics Model (GEM) to simulate the impact of these scenarios[1]:

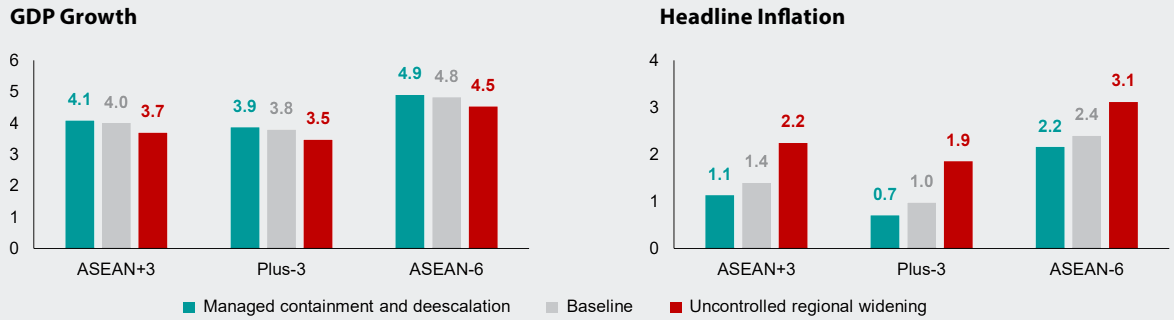
- ***Baseline:*** Protracted attritional conflict. Conflicts are expected to remain heightened amid mutual retaliation, with disruptions persisting for several months. Movement through the straits of Hormuz remains impaired, as elevated security threats lead to intermittent passage and partial closures, tightening effective global oil supply. Oil prices are assumed to remain above USD 90 per barrel in the four months following the onset of the conflict before moderating to USD 75–85 per barrel in the second half of 2026 as tensions gradually ease. The oil price trajectory under this scenario is consistent with latest price of oil futures contracts[2]. Under this scenario, ASEAN+3 growth and inflation in 2026 are forecast to be 4.0 percent and 1.4 percent, respectively.

- ***Uncontrolled regional widening.*** In this scenario, the conflict results in impairment of Gulf energy infrastructure, severely disrupting oil and gas production. Shipping disruption also intensifies, triggering a prolonged closure of the Strait of Hormuz. This leads to significant supply losses in oil and gas markets. Oil prices to sustain above USD 100 per barrel for the remainder of 2026, alongside tighter financial conditions and a material slowdown in economic activity globally. In this scenario, ASEAN+3 inflation is expected to rise above 2 percent in 2026, its highest level since 2022, while growth is expected to slow to 3.7 percent, also the weakest since 2022 (Figure 1.6.1).

- ***Managed containment and deescalation:*** In this scenario, the conflict remains contained, with relatively quick deescalation, as parties involved in the conflict assessed their objectives to have been achieved. Oil and gas transit through the Strait of Hormuz normalizes after two months from the start of the conflict. Oil prices to stay above USD 90 per barrel for two months before easing to average USD 70–80 per barrel for the remainder of the year as markets priced in reduced risk. In this scenario, ASEAN+3 inflation is expected to be lower at 1.1 percent, with growth to be slightly higher at 4.1 percent.

It is important to note that the region is structurally better placed to absorb an energy shock than in earlier episodes, supported by improved energy efficiency, a more diversified energy mix – with renewables now accounting for about one-third of installed power capacity in ASEAN and over half in China – and sizable strategic petroleum reserves among Plus-3 economies. Growing electric vehicle adoption across the region is also reducing the economy-wide exposure to oil price increases, particularly through lower dependence on fossil fuels in the transport sector. Nonetheless, the ongoing conflict poses the most significant risk to the region's energy security since 2022. Unlike previous disruptions, it directly threatens the maritime chokepoint through which the majority of ASEAN+3's energy imports flow, and the ultimate impact on the region will depend on which of the above scenarios – or combination thereof – materializes.

Figure 1.6.1. ASEAN+3 Growth and Inflation Projections for 2026 Under Different Scenarios
(Percent, year-on-year)



Source: Oxford Economics Global Economics Model; AMRO staff calculations.
Note: Regional aggregates are weighted using 2025 GDP on PPP basis. Brunei Darussalam, Cambodia, Lao PDR, and Myanmar are excluded due to data unavailability.

1/ Simulations are run using Oxford Economics' Global Economic Model (GEM), a multi-country macroeconometric model which covers 80 economies interlinked through trade, prices, exchange rates, and interest rates. GEM is an error-correction model that estimates how quickly a dependent variable returns to its equilibrium state after a shock to its independent variable, thus capturing both the short- and long-term effects, with integrated cross-country linkages transmitting shocks across economies in a consistent manner. In the short run, it features "Keynesian" dynamics – sticky factor prices and demand-driven output – while in the long run, prices adjust fully and outcomes are pinned down by supply-side fundamentals (productivity, labor, and capital). For this exercise, only the short-term estimates are produced and discussed.

2/ As of 16 March 2026.

Box 1.7:

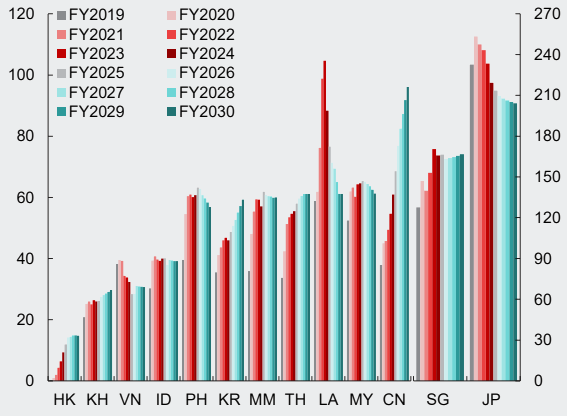
Government Debt and Financing Needs in ASEAN+3 Economies

Government debt in ASEAN+3 remains higher than pre-pandemic levels, with gradual stabilization expected over the medium term (Figure 1.7.1). With the exceptions of Japan, Lao PDR and Vietnam – where debt ratios continued to decline – the debt-to-GDP ratio increased in most member economies in FY2025 after showing signs of stabilization in previous years. In several other economies, the debt ratio continued its upward trend, with particularly large increases observed in China, followed by Myanmar, Korea, the Philippines, and Thailand.

Primary deficits and higher effective interest rates were the main drivers of rising debt ratios, outweighing the downward contribution from real growth and inflation (Figure 1.7.2). In China, additional borrowings under government fund budgets and the hidden debt-swap program introduced to bring local governments' off-budget liabilities onto the budget further contributed to the rise in public debt. In Singapore, bond issuance for non-spending purposes, such as developing the domestic debt market and providing individuals with long-term savings instruments, continued to add to the headline debt stock. Meanwhile, currency depreciation in Myanmar inflated the nominal value of foreign-currency-denominated debt, although these effects were partially offset by high inflation.

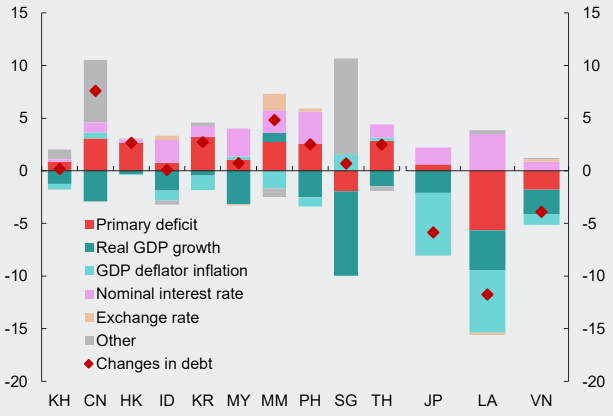
Over the medium term, government debt-to-GDP ratios are projected to gradually stabilize or decline in most ASEAN+3 economies, reflecting gradual fiscal consolidation and progress toward debt stabilization. Notable exceptions are China and Korea, where debt ratios are expected to continue rising at a pace similar to that observed over the past five years, driven by persistently high primary deficits and, in China's case, the continuation of the hidden debt-swap program (the initiative to replace off-balance-sheet local government debt) through 2028.

Figure 1.7.1. Government Debt, FY2019–2030
(Percent of GDP)



Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates.
Note: Government debt in Lao PDR includes the suspended interest payments. Brunei is not shown as it has virtually no government debt. Government debt-to-GDP ratio projections over FY2025–2030 are based on AMRO staff.

Figure 1.7.2. Contribution to the Change in Debt-to-GDP Ratio in FY2025[1]
(Percent of GDP)



Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates.
Note: Brunei is not shown as it has virtually no government debt.

This box was written by Byunghoon Nam.

1/ Decomposition:

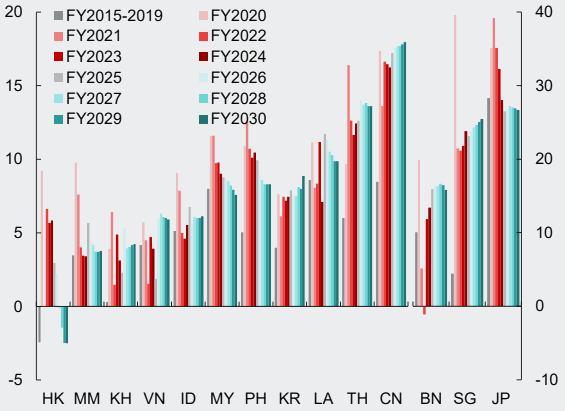
$$d_t - d_{(t-1)} = \underbrace{\left[\frac{i^w_t}{(1+g_t)(1+\pi_t)}\right] d_{t-1}}_{\text{contribution of nominal interest rate}} - \underbrace{\left[\frac{\pi_t(1+g_t)}{(1+g_t)(1+\pi_t)}\right] d_{t-1}}_{\text{contribution of GDP deflator inflation}} - \underbrace{\left[\frac{g_t}{(1+g_t)(1+\pi_t)}\right] d_{t-1}}_{\text{contribution of real GDP growth}} + \underbrace{\left[\frac{\varepsilon_t a_{t-1}(1+i^f_t)}{(1+g_t)(1+\pi_t)}\right] d_{t-1}}_{\text{contribution of exchange rate}} - \underbrace{pb_t}_{\text{contribution of primary deficit}} + \underbrace{o_t}_{\text{contribution of other flows}}$$

where d=debt-to-GDP ratio, pb=primary balance, o=other flows, i^w=effective interest rate of total debt, i^f=effective interest rate of external debt, g=real GDP growth, π=GDP deflator inflation, ε=exchange rate against USD, and a=share of external debt.

Gross financing needs (GFN) also remains elevated, reflecting the heightened debt service burden associated with accumulated debt (Figure 1.7.3). The GFN ratio increased in seven member economies in FY2025, driven mainly by larger primary deficits in Brunei, Myanmar, and Thailand, and by rising amortization requirements in Lao PDR and Indonesia (Figure 1.7.4). In particular, amortization needs in Lao PDR surged, reflecting the maturity of a substantial amount of bonds issued in the Thai market and the country's increased reliance on short-term borrowing in FY2024. In contrast, the GFN ratio declined in seven economies in FY2025, supported by narrower primary deficits in Hong Kong, Japan, and Malaysia, and by stronger economic growth, enhancing debt-servicing capacity. Looking ahead, despite a stabilizing or declining government debt-to-GDP ratio, increased principal repayments on maturing debt across various tenors are expected to keep GFNs elevated over the medium term in most member economies. The interest burden is also projected to remain high, reflecting the effect of accumulated debt stock, despite the gradual stabilization of sovereign yields.

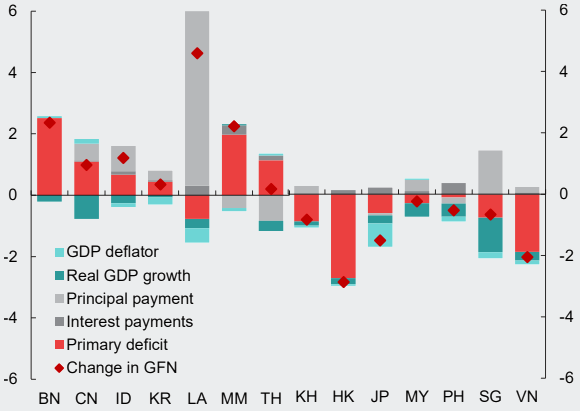
Given the rising fiscal debt burden and the challenging operating environment, establishing credible fiscal anchor – supported by clear, consistently applied rules that are simple, flexible, and enforceable – is crucial for long-term fiscal sustainability. Strategic resource allocation under medium-term fiscal framework should align with national priorities, emphasizing inclusive growth and investments in infrastructure, education, and climate resilience, while remaining adaptable to economic shocks such as population aging and climate change. Effective fiscal management also depends on improving spending efficiency, expanding the tax base through digitalization, and rigorously managing tax expenditures, supported by robust risk management practices and transparent oversight of contingent liabilities, state-owned enterprises, and social insurance systems to safeguard fiscal health against emerging risks (See the *ASEAN+3 Fiscal Policy Report 2025* for more detailed discussions on fiscal policy management).

Figure 1.7.3. Gross Financing Needs, FY2015–2030
(Percent of GDP)



Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates.
Note: Debt service in Lao PDR is based on its original amount, including debt restructuring under negotiation. Amortization in the Philippines includes the redemption by the bond sinking fund. Amortization in Singapore includes the redemption of publicly-held Singapore government securities and Treasury bills. For Brunei Darussalam, GFN is equivalent to fiscal deficit given its virtually zero government debt. GFN-to-GDP ratio projections over FY2025–2030 are based on AMRO staff.

Figure 1.7.4. Contribution to the Change in GFN-to-GDP Ratio in FY2025[2]
(Percent of GDP)



Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates.
Note: Debt service in Lao PDR is based on its original amount, including debt restructuring under negotiation. Amortization in the Philippines includes redemptions by the bond sinking fund. Amortization in Singapore includes the redemption of publicly-held Singapore government securities and Treasury bills. For Brunei Darussalam, debt to finance fiscal needs has not been issued.

2/ Decomposition:

$$gfn_t - gfn_{t-1} = \underbrace{\Delta pd_t}_{\text{contribution of primary deficit}} + \underbrace{\Delta ip_t}_{\text{contribution of interest payment}} + \underbrace{\Delta pp_t}_{\text{contribution of principal payment}} - \underbrace{\frac{gfn_{t-1}}{(1+g_t)(1+\pi_t)}\, g_t}_{\text{contribution of real GDP growth}} - \underbrace{\frac{(1+g_t)gfn_{t-1}}{(1+g_t)(1+\pi_t)}\, \pi_t}_{\text{contribution of GDP deflator inflation}}$$

where $\Delta pd_t = \frac{PD_t - PD_{t-1}}{P_t Y_t}$, $\Delta ip_t = \frac{IP_t - IP_{t-1}}{P_t Y_t}$, $\Delta pp_t = \frac{PP_t - PP_{t-1}}{P_t Y_t}$, and *gfn*=gross financing needs as a percentage of GDP, *PD*=primary deficit, *IP*=interest payment, *PP*=principal payment, *P*=GDP deflator, *Y*=real GDP, *g*=real GDP growth, π=GDP deflator inflation.

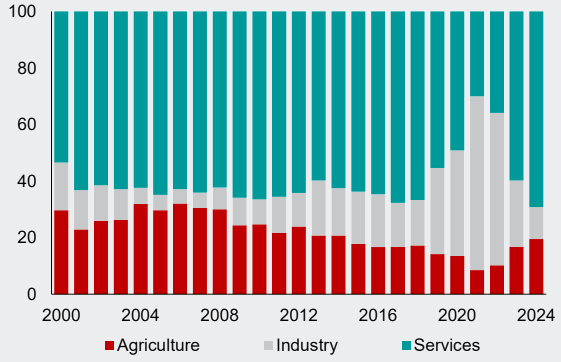
Box 1.8:

Timor–Leste: A Brief Account on ASEAN Newest Member State

Timor-Leste became the eleventh member of ASEAN on October 26, 2025, marking a significant milestone for the region. Timor-Leste is a fully-dollarized lower-middle income economy that is dependent on oil and gas. In terms of sectoral breakdown, services account for more than 60 percent of the economy, driven mainly by tourism (Figure 1.8.1). Industry constitutes about a quarter of GDP, and is mainly oil and gas-related, with some small-scale manufacturing of basic products such as soap, handicrafts, and textiles. The remainder is agriculture, with coffee production being a key activity. Timor-Leste's non-oil GDP growth averaged 3.2 percent between 2001–2004, helping to cushion the contraction in the oil and gas sector (Figure 1.8.2). Timor-Leste's population is 1.4 million, with per capita GDP of USD 1,547 as of 2024.

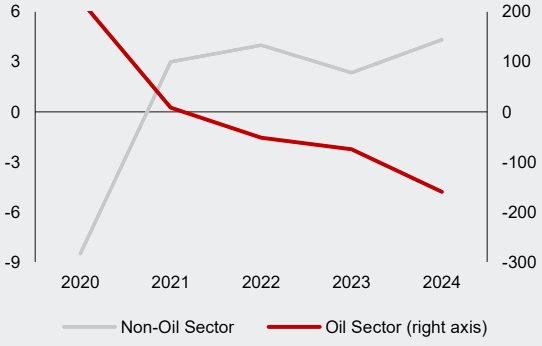
The external sector reflects the dominance of the oil and gas sector. Oil and gas constitute about 70 percent of the country's exports, while key non-oil exports include coffee, fish, and some basic manufactured goods. (Figure 1.8.3). Thailand is by far the top export destination, followed by Indonesia. (Figure 1.8.4). Timor-Leste imports much more than it exports, and relies heavily on imports of food, daily-use items, machinery, and construction materials. Imports are mainly sourced from Indonesia and China. Timor-Leste also imports construction services, transport and maintenance services, and government and business services. Given the narrow base of the country's economy, Timor-Leste has been running a large and widening trade and current account deficits (Figure 1.8.5).

Figure 1.8.1. GDP Sectoral Composition
(Percent of GDP)



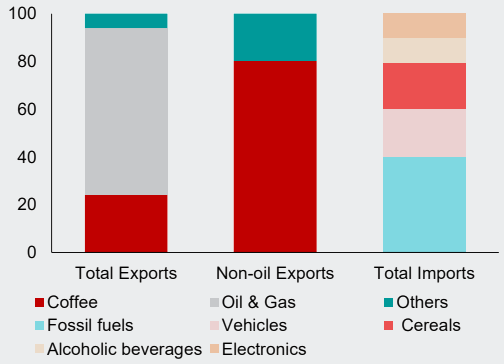
Source: The World Bank; Haver Analytics; AMRO staff calculations.

Figure 1.8.2. Real GDP Growth
(Percent, year-on-year)



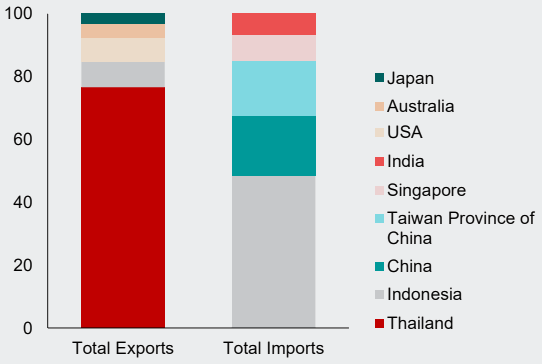
Source: National Institute of Statistics; Haver Analytics; AMRO staff calculations.
Note: The growth rate of the oil sector is not applicable for 2019 because petroleum activities were reclassified as a resident industry only from September 2019 onwards following the entry into force of the New Maritime Boundary Treaty.

Figure 1.8.3. External Trade by Products
(Percent share, 2024)



Source: National Institute of Statistics; Haver Analytics; AMRO staff calculations.
Note: The top five import products made up 51.8 percent of total imports.

Figure 1.8.4. External Trade by Economy
(Percent share, 2024)



Source: National Institute of Statistics; Haver Analytics; AMRO staff calculations.
Note: The top five economies made up 91.3 percent of exports and 73.7 percent of imports.

This box was written by Suan Yong Foo, with inputs from Wee Yang Ng.

Timor-Leste's labor force is small and young, and most jobs are informal. The labor force participation is less than half of the country's population, and the unemployment rate is slightly above 1 percent (Figure 1.8.6). About three-quarters of employed persons are working in informal jobs. There has been persistently high youth unemployment, significant gender disparities, and heavy reliance on the oil and gas sector. A sizable segment of the workforce is in the informal and agriculture sectors.

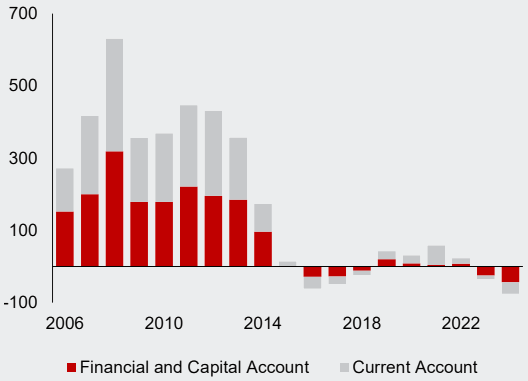
Timor-Leste's accession to ASEAN in 2025 creates rich opportunities for rapid integration with the ASEAN+3 region from a low base.

- The ASEAN population, close to 700 million and its GDP of about USD 4 trillion provides a large market for a wide range of increasingly high-quality exports of goods and services from Timor-Leste.
- There are already several investment projects led by or linked to ASEAN countries and Australia. Australia's Woodside Energy has signed a cooperation agreement with the Ministry of Petroleum and Mineral Resources of Timor-Leste to mature a concept for a Timor-Leste-based liquefied natural gas project to tap on the Greater Sunrise fields' gas resources.
- Alongside this, a few ASEAN countries have shown keen interest in investing in Timor-Leste. Key examples include: Malaysia and Singapore in real estate; Indonesia in sustainable infrastructure; and Thailand in agriculture, fishery, infrastructure, and tourism.
- There are opportunities for other ASEAN countries to invest in technology and the digital economy in Timor-Leste. The Timor Digital 2032 plan aims to boost digitalization for enhancing government service delivery and public participation, supporting inclusive economic development and expanding access to information.
- People movement into Timor-Leste could increase rapidly from a low base, generating sizeable benefits. There are more than 3,000 foreign nationals in Timor-Leste. If Timor-Leste welcomes more foreign talents into the country to lead the development and diversification, building of infrastructure, and even the improvement of some public services, the foreign population could expand rapidly, and generate large socioeconomic benefits.

Over time, Timor-Leste could contribute to the region's further economic development and integration, including by sharing its oil and gas know-how; developing as an increasingly strong manufacturing and logistics partner; being a tourism hub; adding to the human capital pool of the region; and becoming a valuable member of key regionwide partnerships and financial safety net arrangements.

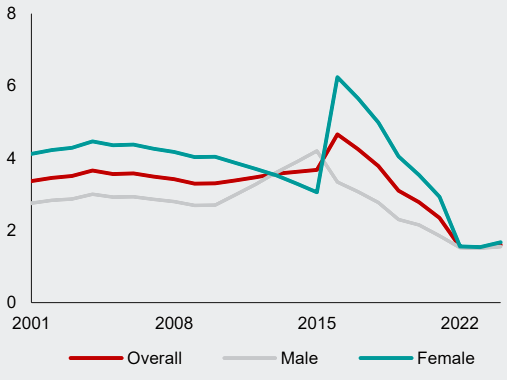
As Timor-Leste is currently not a member of AMRO, it falls outside AMRO's formal surveillance mandate. It is not included in the ASEAN+3 regional economic assessment in this report.

Figure 1.8.5. Balance of Payments
(Percent of GDP)



Source: IMF; National Institute of Statistics; AMRO staff calculations.

Figure 1.8.6. Unemployment Rate: Overall and Selected Demographic Groups
(Percent of total labor force)



Source: ILO; CEIC; AMRO staff calculations.
Note: The unemployment rates presented here are from the ILOEST database which imputed data for countries with missing data using a series of econometric models.

Appendix: Selected Key Macroeconomic and Financial Indicators

	2024	2025e	2026f	2027f
Brunei Darussalam				
Real GDP growth (percent, year-on-year)	4.1	0.7	1.9	1.8
Headline inflation (period average, percent, year-on-year)	–0.4	–0.3	0.9	0.8
Current account balance (percent of GDP)	14.6	14.9	21.4	17.4
Government fiscal balance (percent of GDP)	–13.4	–15.8	–11.4	–11.8
Cambodia				
Real GDP growth (percent, year-on-year)	6.0	5.2	4.9	5.2
Headline inflation (period average, percent, year-on-year)	0.8	2.5	2.9	2.5
Current account balance (percent of GDP)	0.5	–3.6	–5.4	–6.2
Government fiscal balance (percent of GDP)	–2.1	–1.1	–2.6	–2.6
China				
Real GDP growth (percent, year-on-year)	5.0	5.0	4.5	4.5
Headline inflation (period average, percent, year-on-year)	0.2	0.0	0.6	0.9
Current account balance (percent of GDP)	2.2	3.7	3.2	3.4
Government fiscal balance (percent of GDP)	–3.0	–4.0	–4.0	–4.0
Hong Kong, China				
Real GDP growth (percent, year-on-year)	2.6	3.5	2.8	2.7
Headline inflation (period average, percent, year-on-year)	1.7	1.4	1.9	1.6
Current account balance (percent of GDP)	13.1	12.3	12.3	12.4
Government fiscal balance (percent of GDP)	–5.9	–3.0	–2.2	–2.0
Indonesia				
Real GDP growth (percent, year-on-year)	5.0	5.1	5.0	5.1
Headline inflation (period average, percent, year-on-year)	2.3	1.9	2.8	2.9
Current account balance (percent of GDP)	–0.6	–0.1	–1.6	–2.1
Government fiscal balance (percent of GDP)	–2.3	–2.9	–2.7	–2.6
Japan				
Real GDP growth (percent, year-on-year)	–0.2	1.2	0.7	0.8
Headline inflation (period average, percent, year-on-year)	2.7	3.2	2.4	2.2
Current account balance (percent of GDP)	4.5	4.8	4.5	4.6
Government fiscal balance (percent of GDP)	–1.4	–1.4	–2.3	–2.4
Korea				
Real GDP growth (percent, year-on-year)	2.0	1.0	1.9	1.9
Headline inflation (period average, percent, year-on-year)	2.3	2.1	2.3	2.2
Current account balance (percent of GDP)	5.3	5.8	5.8	6.0
Government fiscal balance (percent of GDP)	–4.1	–4.3	–4.0	–4.2

Appendix: Selected Key Macroeconomic and Financial Indicators

	2024	2025e	2026f	2027f
Lao PDR				
Real GDP growth (percent, year-on-year)	4.3	4.8	4.6	4.5
Headline inflation (period average, percent, year-on-year)	23.1	7.7	7.8	7.1
Current account balance (percent of GDP)	3.5	11.9	6.4	7.0
Government fiscal balance (percent of GDP)	1.9	2.2	0.3	–0.3
Malaysia				
Real GDP growth (percent, year-on-year)	5.1	5.2	4.6	4.7
Headline inflation (period average, percent, year-on-year)	1.8	1.4	2.0	2.0
Current account balance (percent of GDP)	1.4	1.6	1.7	1.7
Government fiscal balance (percent of GDP)	–4.1	–3.7	–3.5	–3.3
Myanmar				
Real GDP growth (percent, year-on-year)	2.9	–1.5	2.5	2.5
Headline inflation (period average, percent, year-on-year)	29.6	28.0	24.0	16.0
Current account balance (percent of GDP)	3.3	3.5	3.1	–
Government fiscal balance (percent of GDP)	–2.7	–4.9	–3.5	–
Philippines				
Real GDP growth (percent, year-on-year)	5.7	4.4	5.3	5.8
Headline inflation (period average, percent, year-on-year)	3.2	1.7	3.9	3.6
Current account balance (percent of GDP)	–4.0	–3.3	–2.8	–2.7
Government fiscal balance (percent of GDP)	–5.7	–5.6	–5.4	–5.0
Singapore				
Real GDP growth (percent, year-on-year)	5.3	5.0	3.4	3.1
Headline inflation (period average, percent, year-on-year)	2.4	0.9	1.8	1.8
Current account balance (percent of GDP)	17.2	16.7	19.2	19.3
Government fiscal balance (percent of GDP)	1.2	1.9	1.1	0.8
Thailand				
Real GDP growth (percent, year-on-year)	2.9	2.4	1.7	2.2
Headline inflation (period average, percent, year-on-year)	0.4	–0.1	1.1	1.0
Current account balance (percent of GDP)	2.2	3.1	0.8	2.0
Government fiscal balance (percent of GDP)	–4.0	–4.7	–4.4	–4.1
Vietnam				
Real GDP growth (percent, year-on-year)	7.0	8.0	7.4	7.1
Headline inflation (period average, percent, year-on-year)	3.6	3.3	3.8	3.4
Current account balance (percent of GDP)	6.6	6.7	5.7	5.5
Government fiscal balance (percent of GDP)	–1.0	0.9	–3.5	–3.9

Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates.
Note: e = estimates; f = forecasts. Numbers in red are AMRO staff estimates and forecasts. Data refer to calendar year; except for government fiscal balances, and Myanmar, which refer to fiscal year between April 1 and March 31. Data for 2025 refer to AMRO staff estimates, for data releases that are not yet available. Government fiscal balance refers to balance of the central and local governments for Cambodia; excludes bond issuance for Hong Kong; general government for Japan; AMRO's own estimates for Singapore; and central government for all other economies.

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