Quarterly Update of the ASEAN+3 Regional Economic Outlook (AREO)

ASEAN+3 Macroeconomic Research Office (AMRO)
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Unless otherwise indicated, the analysis in this report is based on information available up to 22 July 2026. For brevity, “Brunei Darussalam” is referred to as “Brunei”, and “Hong Kong, China” is referred to as “Hong Kong” in the text and figures.

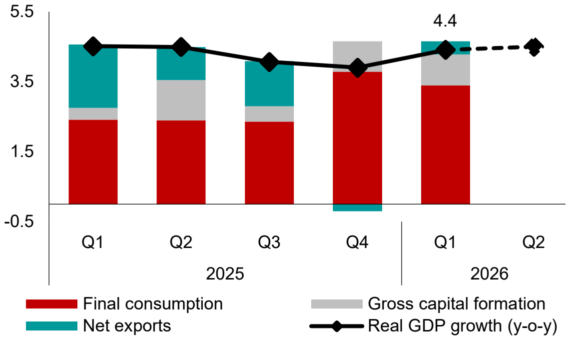
Highlights

- *ASEAN+3 maintained solid growth momentum in the first half of 2026, supported by firm domestic demand and strong AI-related exports. The impact of the Middle East conflict on activity has so far been more limited than expected.*
- *The region is projected to grow at 4.1 percent in 2026 and 4.0 percent in 2027, revised up for 2026 given a less severe global commodity price path than assumed in June and stronger-than-expected AI-related demand. Headline inflation is projected at 1.6 percent in both years.*
- *Uncertainty remains elevated, with the most salient near-term risks stemming from the evolving Middle East conflict and the durability of the AI-driven technology cycle, alongside financial market volatility and further protectionist measures.*

Regional Economic Developments since the *June 2026 Interim Update*

ASEAN+3 is on track to maintain solid growth in the first half of 2026, as robust AI-driven demand offsets headwinds from the prolonged Middle East conflict. Household spending remained firm, supported by favorable labor market conditions and continued income growth, particularly in ASEAN economies (Figure 1). Investment remained resilient, underpinned by rising capital spending in advanced manufacturing and information and communication sectors. Net exports also continued to support growth, buoyed by strong AI-related semiconductor and electronics demand. Meanwhile, the disruptions to energy and input supplies appear to have weighed less on activity than initially feared.

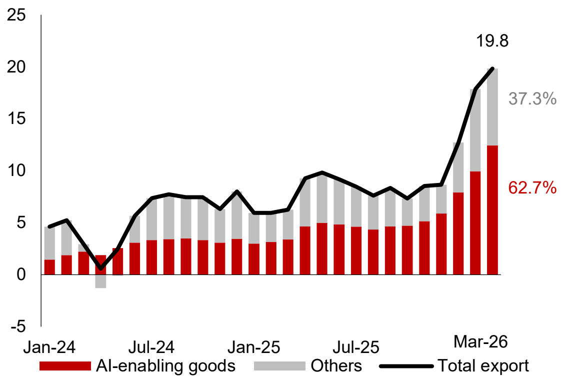
Figure 1. Contribution to Real GDP Growth for Selected ASEAN+3
(Percent, year-on-year; percentage points)



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

Stronger-than-expected global AI-related demand has continued to support regional exports. ASEAN+3 export growth accelerated to almost 20 percent in the first quarter, with AI-enabling goods accounting for almost two-thirds of the increase (Figure 2). The upturn has been driven by the global memory cycle: worldwide semiconductor sales nearly doubled in the first five months of the year, reflecting primarily the sharp rise in memory prices amid capacity constraints linked to AI infrastructure investment.

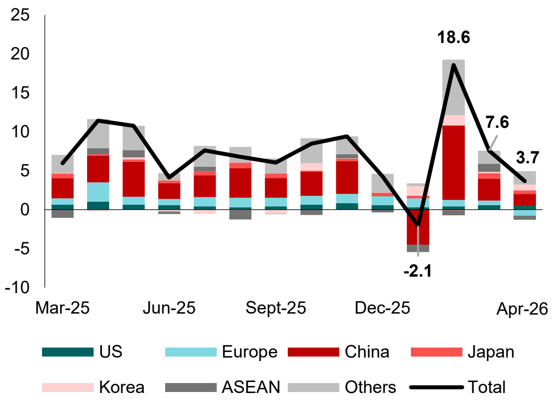
Figure 2. Export Growth for Selected ASEAN+3
(Percent, year-on-year, three-month moving average)



Source: S&P Global Trade Analytics; WTO AI-enabling product classification; AMRO staff calculations.
Note: Excludes Brunei, Cambodia, Lao PDR, and Myanmar due to data unavailability. AI-enabling goods refer to raw materials and processed chemicals; intermediate inputs; and equipment essential for AI development and deployment, defined by the WTO.

Tourism provided further support to export growth, led by the return of Chinese travelers. Tourist arrivals across the region rose by 7.5 percent in the first quarter, with Chinese visitors accounting for more than one-third of the increase (Figure 3). Following the escalation of the conflict at end-February, European arrivals weakened as airspace closures and higher airfares disrupted long-haul connectivity, while other source markets continued to support overall growth. Growth in arrivals was strongest in Japan, Korea and Vietnam.

Figure 3. Contribution to Growth in Tourist Arrivals by Source for Selected ASEAN+3
(Percent, year-on-year; Percentage point contribution)

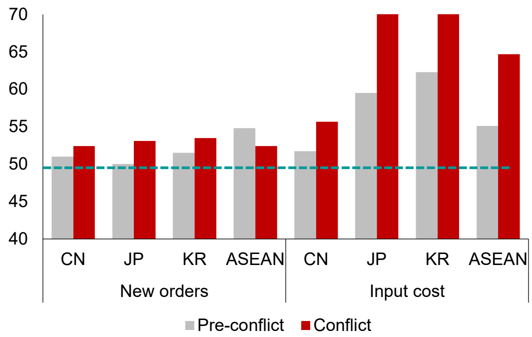


Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: Data include arrivals to Hong Kong, Japan, Korea, Malaysia, Singapore, Thailand, and Vietnam, up to April 2026.

Despite initial concerns over severe supply disruptions, manufacturing activity has remained expansionary. In the Plus-3 economies, new orders strengthened, supported by robust technology demand and continued expansion in global electronics (Figure 4). In ASEAN, new orders remained in expansionary territory but eased from pre-conflict levels. This corresponded with higher input costs after the start of the Middle East conflict across the region, reflecting higher energy, logistics, and industrial input costs. Technology industries continued to lead manufacturing growth, while non-technology sectors also expanded, albeit at a more moderate pace.

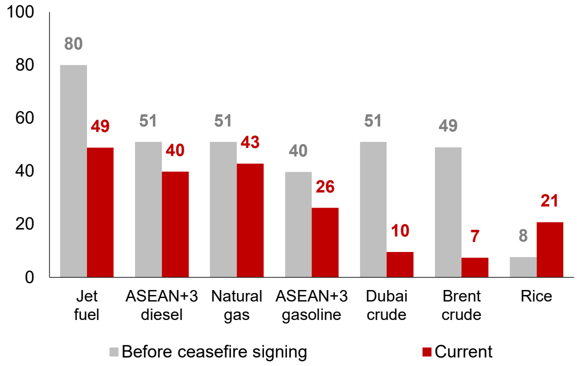
Commodity prices have moderated since the June ceasefire but remain elevated. The resumption of crude oil flows through the Strait of Hormuz led Dubai and Brent crude prices to fall sharply, easing price pressures for refined petroleum products (Figure 5). However, natural gas prices remain more than 40 percent above pre-conflict levels, keeping pressure on fertilizer costs. Food prices have also begun to rise for some commodities, including rice, reflecting adverse weather conditions alongside higher transportation and input costs.

Figure 4. PMI New Orders and Input Cost
(Index, >50 = expansion)



Source: S&P Global via Haver Analytics
Note: Pre-conflict refers to Nov 2025 to Feb 2026. Conflict period refers to Mar 2026 to June 2026.

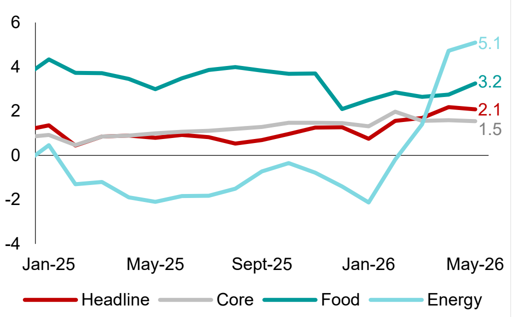
Figure 5. Change in Commodity Prices Since Start of Conflict
(Percent; change since 27 February 2026)



Source: ICE Daily Futures; New York Mercantile Exchange; World Bank; International Monetary Fund; S&P Global Energy; International Air Transport Association (IATA); World Bank Food Index; national authorities via Haver Analytics; and AMRO staff calculations.
Note: Before ceasefire signing prices refer to prices as of 21 May 2026. Current prices refer to latest available data, i.e. 20 July 2026 for crude oil, natural gas, and jet fuel; 16 July 2026 for gasoline and diesel; and June 2026 for rice. Rice refers to the average price of Thailand's 5 percent broken white rice. Gasoline and diesel prices refer to the average price of the lowest unsubsidized RON/diesel grade in Cambodia, China, Indonesia, Japan, Korea, Lao PDR (diesel only), Malaysia, the Philippines, Singapore, Thailand, and Vietnam.

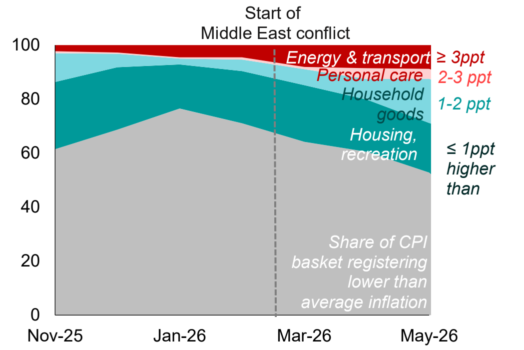
Inflationary pressures have remained broadly contained. Since the onset of the conflict, headline inflation has risen across the region, driven mainly by higher energy-related costs, including electricity and transport, while core inflation has increased only modestly (Figure 6). Headline inflation appears to have peaked in most economies, and the distribution of price increases across CPI components suggests pressures are not yet broad-based (Figure 7). Nonetheless, early signs of food price pressures are emerging in some economies, reflecting the lagged pass-through of higher fertilizer costs and adverse weather conditions.

Figure 6. Headline, Food and Energy Inflation for ASEAN+3
(Percent, year-on-year)



Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: Excludes Myanmar due to data unavailability. Regional aggregates are weighted using GDP on a purchasing power parity basis. Food inflation aggregate excludes China data.

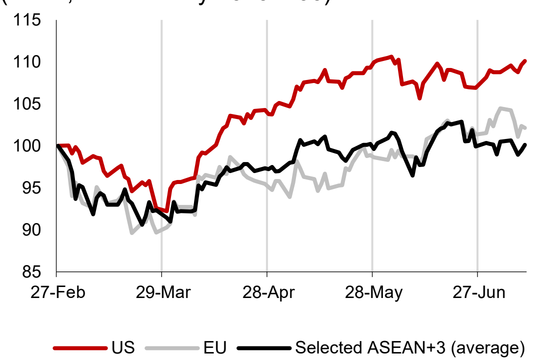
Figure 7. Inflation Dispersion for ASEAN+3 ex China
(Percent share of CPI basket)



Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: Recent average corresponds to each CPI item's average monthly inflation over 2024–25. Data labels show examples of CPI items across the region which fall under these categories in the most recent month.

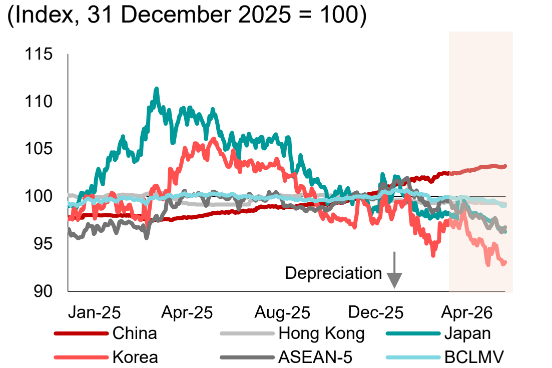
Regional financial markets have performed unevenly amid strong AI demand and continued uncertainty surrounding the Middle East conflict. Regional equity markets recovered further between April and early July, although they continued to lag global peers as AI-driven gains remained concentrated in US technology stocks. Technology shares led gains within the region, with the rally briefly interrupted by a late-June sell-off in semiconductor stocks (Figure 8). Most regional currencies weakened, while government bond yields remained elevated amid higher oil prices, fiscal concerns, and evolving expectations for US monetary policy (Figure 9).

Figure 8. Change in Equity Market Indices
(Index, 27 February 2026=100)



Source: Bloomberg; Haver; AMRO staff calculations.
Note: Selected ASEAN+3 markets include simple average across China; Hong Kong, China; Indonesia; Japan; Korea; Malaysia; the Philippines; Singapore; Thailand; and Vietnam. EU = Eurozone, US = United States.

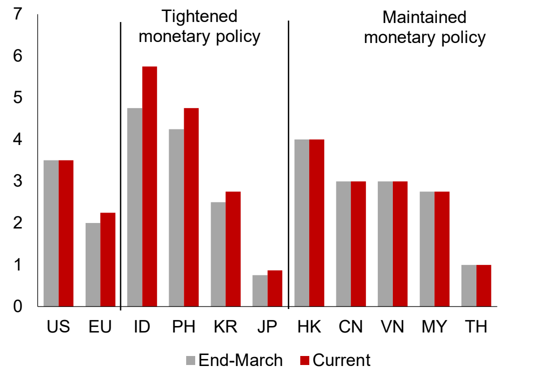
Figure 9. Exchange Rates against the US dollar
(Index, 31 December 2025 = 100)



Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: ASEAN-5 and BCLMV are the simple mean of the changes in bilateral exchange rate against the US dollar of member economies within the group. Data as of 10 July 2026

Monetary policy responses across the region have diverged since April 2026 amid fluctuating global energy prices. Several central banks tightened policy amid inflation risks and currency pressures: the Bank of Japan raised its policy rate to 1.0 percent, the Bank of Korea delivered its first hike in over three years, and the Philippines and Indonesia also raised rates (Figure 10). In contrast, central banks in economies with more contained inflation – including Thailand, Malaysia, and China – kept policy unchanged, as pass-through from global oil prices to domestic inflation has so far been limited and policymakers continued to prioritize support for growth.

Figure 10. Selected Economies: Policy Interest Rates
(Percent)



Source: National authorities via Haver Analytics.
Note: Policy rates refer to one-year loan prime rate (China, CN); 7-day reverse repo rate (Indonesia, ID); base rate (Hong Kong, HK; Japan, JP; Korea, KR); overnight policy rate (Malaysia, MY); overnight reverse repo rate (the Philippines, PH); one-day repo rate (Thailand, TH); refinancing rate (Vietnam, VN); federal funds rate (lower range) (United States, US); and deposit rate (euro area, EU). Singapore tightened the Singapore dollar nominal effective exchange rate in April 2026.

Fiscal policy has helped to cushion the energy shock. While regional fiscal position remained broadly resilient since the start of 2026, expenditure pressures have increased, particularly in economies with broad-based fuel subsidies. Governments have responded with sizable support measures, including supplementary budgets in Korea and Japan and borrowing under the emergency decree in Thailand, to limit energy price pass-through and ease cost-of-living pressures.[1]

Regional Economic Outlook

ASEAN+3 is projected to grow by 4.1 percent in 2026, a slight upward revision from 4.0 percent in the June Interim Update. The improved outlook reflects stronger AI demand, with semiconductor sales expected to accelerate further from the robust growth recorded in 2025. Given ASEAN+3 contributes to nearly half of global AI-related exports, stronger technology demand is expected to support regional exports and investment. The lower global commodity prices assumption compared to early June has also reduced the expected drag on activity. Growth is projected to moderate slightly to 4.0 percent in 2027.

Headline inflation is projected at 1.6 percent in 2026, a downward revision from the June Interim Update, reflecting assumption of lower global commodity prices. Under the baseline, Brent crude oil prices are assumed to average USD 75–85 per barrel in 2026 before easing to USD 65–75 per barrel in 2027, remaining above pre-conflict levels but below the levels assumed in June. This is expected to ease transportation and production pressures relative to the assumptions in June, while broader price pressures are projected to remain contained amid moderate wage growth. Nonetheless, food price inflation could rise as the lagged pass-through of higher fertilizer costs and adverse weather conditions begins to take effect.

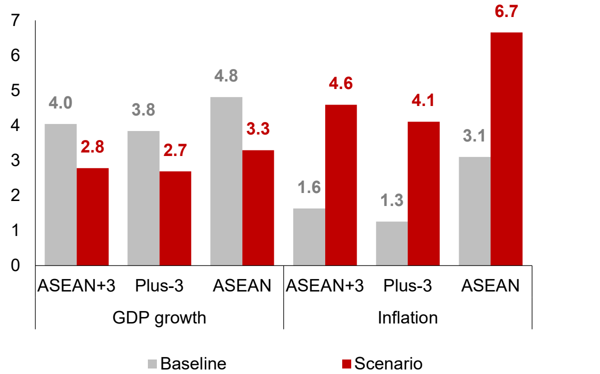
The outlook remains subject to significant uncertainty. The most salient risks stem from the evolving Middle East conflict and the durability of the AI-driven technology cycle, both of which could materially alter the region's growth and

[1] AMRO (2026). *ASEAN+3 Quarterly Fiscal Bulletin*, June 2026.

inflation outlook. At the same time, uncertainty surrounding the replacement of the US global import surcharge upon its expiry on 24 July, together with shifts in US monetary policy expectations, could add to financial market volatility and amplify these risks (Figure 13):

- **Higher global energy and food prices.** Renewed escalation in the Middle East could push energy and shipping costs back up, prolong shortages of key industrial inputs, and add to food price pressures. Under a scenario of prolonged disruption to the Strait of Hormuz, with oil prices averaging USD 90–100 per barrel through 2027, ASEAN+3 growth could fall to 2.8 percent and inflation rise to 4.6 percent in 2027 – the region's highest inflation since the Global Financial Crisis (Figure 11). Food prices could also rise should a severe El Niño disrupt agricultural output across the region, particularly rice.

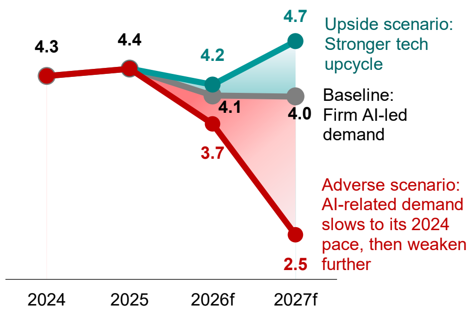
Figure 11. 2027 Growth and Inflation Under Scenario of Prolonged Strait of Hormuz Disruption
(Percent, year-on-year)



Source: Oxford Economics Model; AMRO staff estimates and forecasts.
Note: Scenario refers to an adverse scenario where Brent crude prices average at USD 90–100 per barrel in 2027, alongside broader and more prolonged disruptions to key industrial inputs.

- **Slower-than-expected tech demand.** Exports of AI-related products have accounted for more than two-thirds of the region's overall export growth over the past year. With much of the recent strength driven by prices rather than volume, even a moderation in AI-related demand – short of an outright correction – could weigh on regional exports and investment. Under a scenario in which global tech-driven investment slows more moderately to its 2024 pace, ASEAN+3 growth could slow to 3.7 percent in 2026 and 2.5 percent in 2027 – a weaker outcome than under the Middle East scenario, and the region's slowest growth since the Asian Financial Crisis outside the pandemic years (Figure 12). A disorderly correction in AI-related asset valuations could amplify these effects through financial channels.

Figure 12. ASEAN+3 Growth Projections Under Different Scenarios
(Percent, year-on-year)



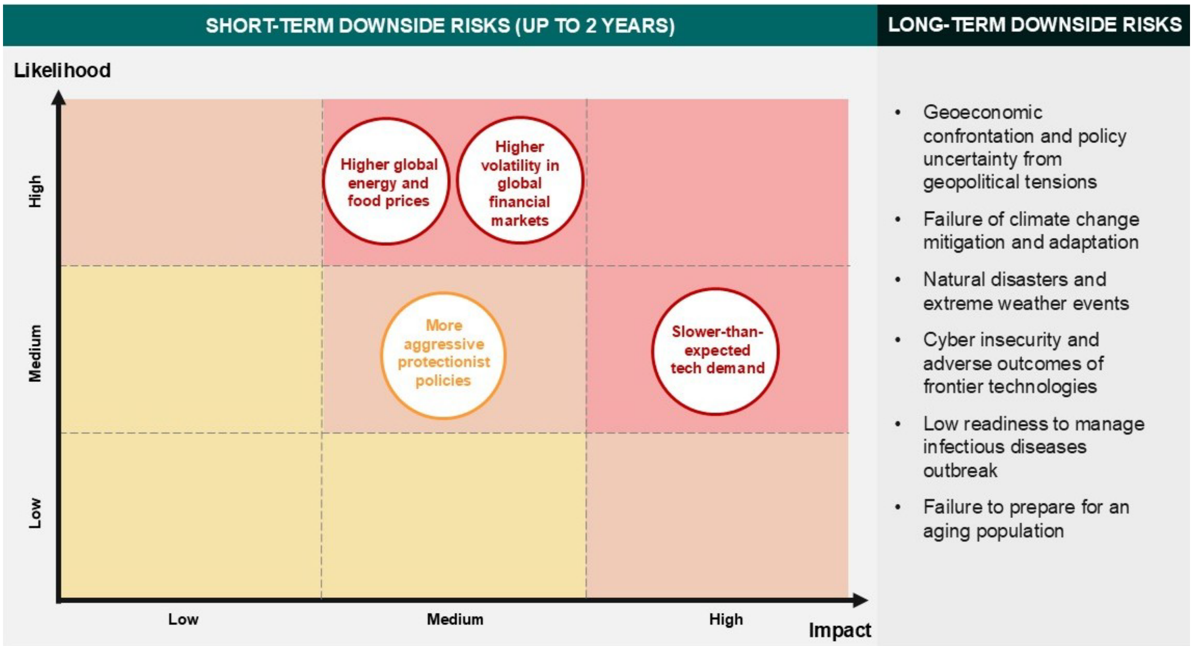
Source: Oxford Economics Model, AMRO staff calculations.
Note: Baseline assumes global tech-driven investment growth continues to expand from 2025. Upside scenario assumes investment is 5 percent higher than baseline, while the adverse scenario assumes investment grows at a similar rate to 2024. Regional aggregates are weighted using 2025 GDP on PPP basis.

- **Higher volatility in global financial markets.** Elevated equity valuations, particularly in technology-related sectors, alongside compressed credit spreads increase the likelihood of asset price corrections. Geopolitical tensions could amplify exchange rate and financial market volatility, while uncertainty over the trajectory of US monetary policy could lead to renewed capital flow volatility and tighter global financial conditions. Heightened volatility could expose underlying vulnerabilities and test macro-financial stability.

- **More aggressive protectionist policies.** The replacement of the expiring US global import surcharge remains uncertain and could involve higher tariffs or broader trade restrictions. Together with ongoing Section 301 investigations involving several ASEAN+3 economies, existing Section 232 tariffs, and the potential expansion of export controls and other non-tariff measures, further escalation of protectionist policies could increase trade costs, disrupt regional supply chains, and weigh on exports and economic growth across the region.

Structural headwinds could compound these near-term risks. Geoeconomic fragmentation, mounting geopolitical tensions, and rising protectionism could weigh on long-term growth prospects, particularly for trade-dependent economies. Rapid population aging also poses major economic and social challenges, while insufficient climate action may increase the frequency of extreme weather events, with significant economic costs.

Figure 13. Regional Risk Map, July 2026



Source: AMRO staff.

Table 1. ASEAN+3: AMRO Growth and Inflation Projections, 2026–27

Economy	Gross Domestic Product (Percent, year-on-year)					Consumer Price Index (Percent, year-on-year)				
	2025	AREO Interim Update - June		AREO July Update		2025	AREO Interim Update - June		AREO July Update	
		2026[f]	2027[f]	2026[f]	2027[f]		2026[f]	2027[f]	2026[f]	2027[f]
ASEAN+3	**4.3**	**4.0**	**4.0**	**4.1**	**4.0**	**0.9**	**1.8**	**1.5**	**1.6**	**1.6**
Plus-3	**4.2**	**3.8**	**3.8**	**3.9**	**3.8**	**0.6**	**1.3**	**1.1**	**1.1**	**1.3**
China	5.0	4.5	4.5	4.5	4.5	0.0	1.0	0.8	0.8	1.0
Hong Kong, China	3.6	3.4	3.0	3.4	3.0	1.4	2.0	1.6	2.0	1.6
Japan	1.1	0.6	0.8	0.6	0.8	3.2	2.3	2.2	2.1	2.2
Korea	1.1	2.4	2.0	3.1	2.2	2.1	2.4	2.1	2.6	2.4
ASEAN	**4.9**	**4.6**	**4.8**	**4.8**	**4.8**	**2.0**	**4.0**	**3.2**	**3.6**	**3.1**
Brunei Darussalam	1.0	2.3	1.7	1.9	1.7	–0.3	1.2	0.9	0.7	0.5
Cambodia	5.3	4.2	4.9	4.2	4.9	2.5	4.5	2.4	5.1	2.8
Indonesia	5.1	5.0	5.1	5.0	5.1	1.9	3.4	3.0	3.4	3.0
Lao PDR	4.8	4.6	4.7	4.6	4.7	7.7	9.0	7.1	8.1	7.0
Malaysia	5.2	4.6	4.7	4.9	4.7	1.4	2.0	2.0	2.0	2.0
Myanmar	–1.5	2.5	2.5	2.5	2.5	18.0	24.0	18.0	20.0	18.0
The Philippines	4.4	4.1	5.5	4.1	5.5	1.7	6.0	4.1	5.7	4.1
Singapore	5.0	3.4	2.9	4.8	3.1	0.9	2.5	2.1	2.1	1.7
Thailand	2.4	2.1	2.5	2.4	2.5	–0.1	2.9	1.5	1.4	1.1
Vietnam	8.0	7.2	7.0	7.5	7.3	3.3	4.4	4.0	4.3	3.9

Revised upwards from June   Revised downwards from June   Maintained from June

Source: National authorities via Haver Analytics and AMRO staff estimates.
Note: AREO = ASEAN+3 Regional Economic Outlook report. e = estimate, f = forecast. Regional aggregates for growth and inflation are estimated using the weighted average of 2025 GDP on a purchasing power parity basis. Myanmar's GDP and inflation figures are based on its fiscal year, which runs from April 1 of the reference year to March 31 of the following year. Forecasts are as of 23 July 2026.