



ASIAN DEVELOPMENT OUTLOOK

APRIL 2025

TRADE UNCERTAINTY CHALLENGES
RESILIENCE IN ASIA AND THE PACIFIC

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Notes:

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FOREWORD

Asia and the Pacific stands at a critical juncture. The forecasts in this report, finalized before new tariffs were announced in early April, show the region's growth declining slightly this year and next. The region now faces a complex economic landscape, with increasing trade tensions, policy shifts, and geopolitical conflict.

This edition of the *Asian Development Outlook* highlights how developing Asia has remained resilient through growing trade uncertainty and provides insights into the risks that may impact its outlook, some of which are now materializing.

Economic momentum is uneven across economies, while external shocks continue to test the region, even as it must overcome key development issues. In some economies, high debt, inflationary pressures, and fiscal constraints are putting social spending at risk, potentially slowing progress in poverty reduction. While food inflation has moderated in Asia and the Pacific, the temporary spike in 2024 due to adverse weather and supply disruptions highlighted the ongoing fragility of food systems across the region. Perhaps most important, fragmentation of global trade and rising protectionism are testing the region's resilience, potentially impacting progress toward development goals and exacerbating inequality.

Faced with these challenges, the region must strive to build on its strengths to support continued growth and ensure resilience to shocks. Asia and the Pacific remains the most dynamic region in the global economy. The resurgence in electronics exports and the continued recovery in tourism demonstrate the benefits of an open and connected region. Further enhancing regional cooperation is essential to address shared vulnerabilities including supply chain fragility; energy security; extreme heat, droughts, flooding, and water scarcity; and disasters. Strengthening institutions for cross-border cooperation will provide solid fundamentals for sustained growth and stability.

The Asian Development Bank continues to fulfill its mandate to transform the lives of the poor and most vulnerable by supporting growth and strong regional integration and cooperation. Delivering tangible results on the ground in the most efficient and effective way will ensure that the region's developing members can navigate uncertainties for the benefit of all stakeholders.



MASATO KANDA

President

Asian Development Bank

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DEFINITIONS AND ASSUMPTIONS

The economies discussed in *Asian Development Outlook April 2025* are classified by major analytic or geographic group. For the purposes of this report, the following apply:

- **Association of Southeast Asian Nations (ASEAN)** comprises Brunei Darussalam, Cambodia, Indonesia, the Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam. ASEAN 4 are Indonesia, Malaysia, the Philippines, and Thailand.
- **Developing Asia** comprises the 46 members of the Asian Development Bank listed below by geographic group.
- **Caucasus and Central Asia** comprises Armenia, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan.
- **East Asia** comprises Hong Kong, China; Mongolia; the People's Republic of China; the Republic of Korea; and Taipei, China.
- **South Asia** comprises Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka.
- **Southeast Asia** comprises Brunei Darussalam, Cambodia, Indonesia, the Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Timor-Leste, and Viet Nam.
- **The Pacific** comprises the Cook Islands, the Federated States of Micronesia, Fiji, Kiribati, the Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.

Unless otherwise specified, the symbol "\$" and the word "dollar" refer to US dollars.

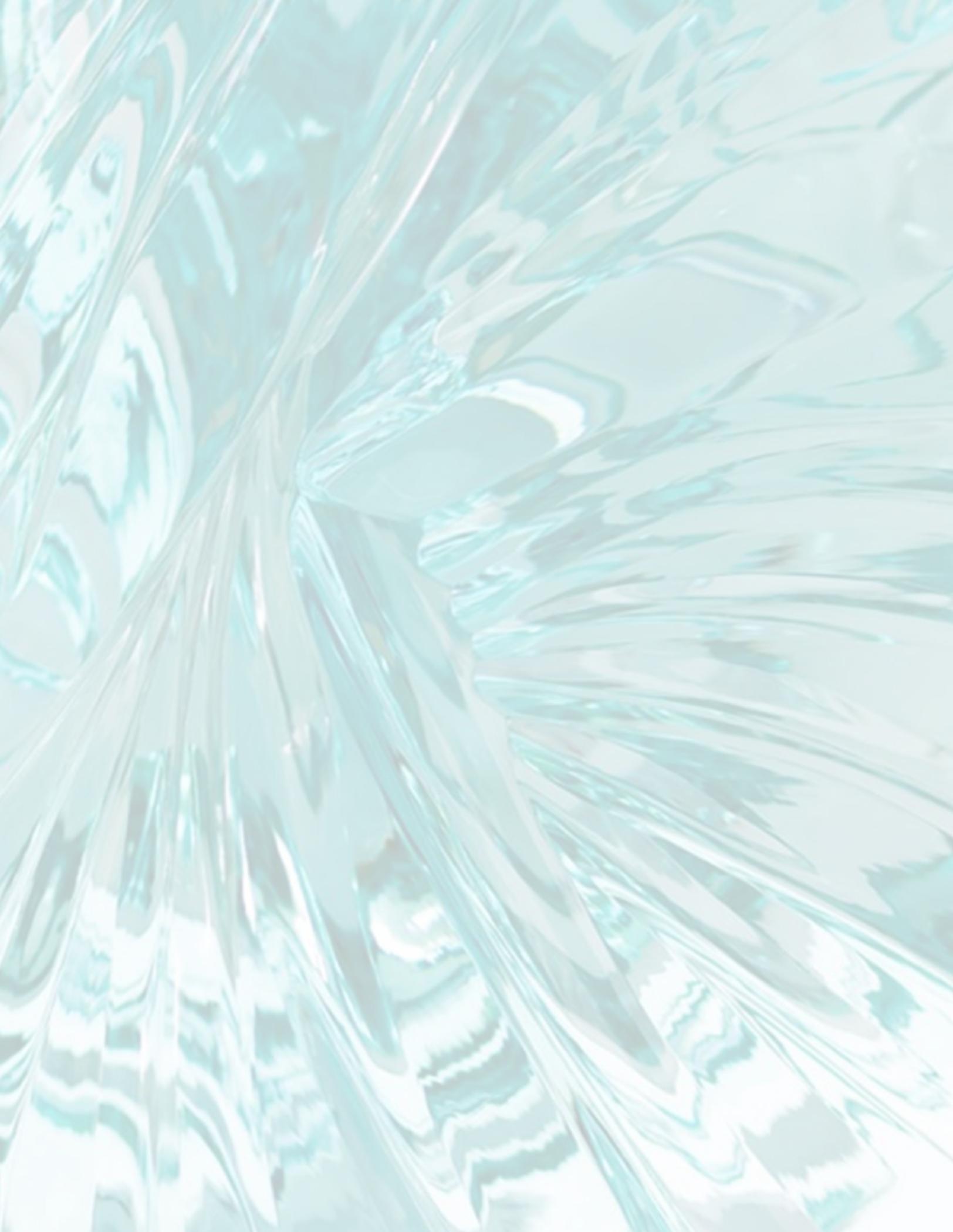
A number of assumptions have been made for the projections in *Asian Development Outlook April 2025*. The policies of domestic authorities are maintained. Real effective exchange rates remain constant at their average from 10 February–31 March 2025. The average price of oil is \$74/barrel in 2025 and \$71/barrel in 2026. The US federal funds rate averages 4.15% in 2025 and 3.69% in 2026, the European Central Bank main policy rate averages 2.31% in 2025 and 2.00% in 2026, and the Bank of Japan's overnight call rate averages 0.59% in 2025 and 0.91% in 2026.

All data in *Asian Development Outlook April 2025* were accessed from 10 February–31 March 2025.

ABBREVIATIONS

ADB	Asian Development Bank
ADO	Asian Development Outlook
AI	artificial intelligence
BICIP	Bangladesh Investment Climate Improvement Program
BIDA	Bangladesh Investment Development Authority
CAREC	Central Asia Regional Economic Cooperation Program
CBD	central business district
CCPI	Colombo consumer price index (Sri Lanka)
COFA	Compact of Free Association
COVID-19	coronavirus disease
CY	calendar year
EU	European Union
EV	electric vehicle
FDI	foreign direct investment
FSM	Federated States of Micronesia
FY	fiscal year
GDP	gross domestic product
GST	goods and services tax
GVC	global value chain
H	half
HCP	Honorary Citizenship Program (Vanuatu)
IMF	International Monetary Fund
kWh	kilowatt-hour
Lao PDR	Lao People's Democratic Republic
LNG	liquefied natural gas
M2	broad money that includes cash and highly liquid accounts
M3	broad money that adds time accounts to M2
MSMEs	micro, small, and medium-sized enterprises
MW	megawatt
NCD	noncommunicable disease
NFRK	National Fund for the Republic of Kazakhstan
NPL	nonperforming loan
OPEC+	Organization of the Petroleum Exporting Countries and partners or their agreement
PBOC	People's Bank of China
PFM	public financial management
PIM	public investment management
PMI	purchasing managers' index
PPP	public-private partnership
PRC	People's Republic of China
PSIP	Public Sector Investment Program (Maldives)

Q	quarter
RBNZ	Reserve Bank of New Zealand
ROK	Republic of Korea
RPC	Regional Processing Centre (Nauru)
SOE	state-owned enterprise
SOFAZ	Sovereign Wealth Fund of Azerbaijan
The Fed	United States Federal Reserve
US	United States
VAT	value-added tax
yoy	year on year



ADO APRIL 2025

HIGHLIGHTS

Forecasts for the region, which were finalized before new United States (US) tariffs were announced on 2 April, show growth in Asia and the Pacific moderating this year and next. A slowdown in the People's Republic of China (PRC) due to continued weakness in the property sector and higher US tariffs will be partially offset by higher growth in South Asia. The region will be challenged by rising trade barriers and significant trade uncertainty, but solid domestic demand and electronics exports have supported growth.

Regional growth is forecast at 4.9% in 2025 and 4.7% in 2026. Inflation will moderate to 2.3% in 2025 and 2.2% in 2026 as global commodity prices decline further, enabling many regional central banks to ease monetary policy. Several downside risks loom, however. Full implementation of the new US tariffs, escalating geopolitical tensions, and a worse-than-expected deterioration in the PRC's property market could disrupt prospects. The report analyzes the impact on the region of the new tariffs announced on 2 April, to give readers a sense of how it changes the outlook.



Albert F. Park
Chief Economist
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Trade Uncertainty Challenges Resilience in Asia and the Pacific

- **Growth in developing economies in Asia and the Pacific (developing Asia) eased only slightly in 2024 as strong exports and investment across the region offset softer consumption in the PRC.** Growth declined in East Asia due to weak domestic demand in the PRC, even as the subregion's high-income technology exporters continued to benefit from strong global demand for electronics. Growth in South Asia decelerated, as a slowdown in India, driven by delays in public investment, outweighed recoveries in Pakistan and Sri Lanka. In contrast, higher public investment and consumption supported Southeast Asia's robust expansion. Growth in the Pacific moderated, as Fiji's slowdown offset the broad-based rebound in Papua New Guinea. In the Caucasus and Central Asia, domestic demand and remittances continued to support steady growth.
- **Disinflation in the region advanced further.** Headline inflation in early 2025 fell below pre-pandemic levels. Declining global commodity prices, along with the delayed impact of tighter monetary policies and reduced supply-side pressures in some economies, lowered energy and core inflation. Food inflation also decreased despite a temporary spike during June to September 2024 due to recovering pork prices in the PRC and adverse weather in India.
- **Electronics supported solid 6.0% growth in developing Asia's exports last year.** This reversed the decline in 2023. Key technology exporters such as Taipei, China recorded notable increases, driven by demand for semiconductors and other goods required for AI development and use. Southeast Asia also benefited from this dynamic, led by Viet Nam.
- **Trade tensions affected the region's exports in the second half of 2024.** The United States imposed additional tariffs on the PRC in September, while the European Union enacted new tariffs on electric vehicle imports from the PRC in October. After November, risks of an even more protectionist stance from the new US administration raised exports from the PRC and other Asian economies, as US businesses ramped up imports in anticipation of new tariffs. On 4 February 2025, an additional tariff of 10% on imports from the PRC came into force, which was then raised to 20% on 3 March. On 2 April, the US announced new tariff hikes on all its trading partners, including particularly steep duty increases on imports from many regional economies.
- **Tourism further recovered, though visitor arrivals remain below pre-pandemic levels in the region.** Overall, arrivals in 2024 reached 90% of pre-pandemic levels. The recovery is now broadly complete in the Caucasus and Central Asia, and the Pacific, but it is still lagging in East Asia and Southeast Asia, mainly due to fewer tourists from the PRC.
- **Remittances remain a steady source of income.** Incoming money transfers increased sharply last year in Bangladesh, Fiji, Pakistan, and Sri Lanka. This helped to mitigate pressure on current accounts, as US dollar strength raised import prices. Money transfers remained elevated in the Caucasus and Central Asia, reflecting remittances inflows but also steady trade transactions involving the Russian Federation.
- **Financial market conditions have weakened slightly overall since October 2024.** Expectations of higher-for-longer US interest rates, partly due to the expected inflationary effects of US policy changes, and continued US dollar strength, contributed to a more cautious global market environment since late last year. Despite these challenges, resilient growth and continued AI-related innovation helped sustain positive investor sentiment in the PRC. The combined effects of these factors led to a marginal decline in market-weighted regional equities, net portfolio outflows, mild depreciation of regional currencies relative to the US dollar, and slightly higher long-term bond yields.

- **Based on information up to the report's data cut-off, which excludes the newly announced US tariffs, growth will diverge across major advanced economies.** In the US, growth is expected to slow this year and next, due to consumer confidence waning, policy uncertainty hindering private investment, and retaliation to higher US import tariffs. Growth in the euro area will accelerate in 2025 and 2026. Stronger private consumption, supported by monetary easing and expected substantial increases in infrastructure and military expenditures, will offset the negative impact of higher US tariffs. Japan's economy is projected to rebound in 2025, supported by fiscal stimulus and wage growth boosting consumption. Growth will moderate in 2026, as weaker external demand is expected to affect the outlook.
- **Developing Asia's forecasts, finalized before the new US tariffs announced on 2 April, project growth moderating to 4.9% in 2025 and 4.7% in 2026, on higher US tariffs and trade uncertainty.** Stronger growth in South Asia, supported by robust domestic demand, will partly offset a slowdown in the PRC due to a still weak property sector and higher US tariffs. Excluding the PRC, the region's growth rate is forecast to remain steady at 5.0% in 2025 and 5.1% in 2026. Exports will also continue to underpin growth, fueled by sustained global demand for semiconductors. Easing price pressures and tourism recovery will further support aggregate demand across the region.
- **Inflation in developing Asia is projected to moderate further, to 2.3% in 2025 and 2.2% in 2026.** Declining global oil and other commodity prices will continue to reduce price pressures in the region. Regional inflation will also be pulled down by the PRC, where inflation will rise only slightly but remain low even as government policies incentivize spending. Bucking the trend, the Pacific will face upward price pressures due to currency depreciation, while higher public spending and utility rate adjustments will drive inflation higher in the Caucasus and Central Asia.
- **Monetary policy easing is expected to continue, albeit at a slower pace.** Inflation has declined across most of developing Asia, allowing central banks to continue loosening their monetary stance. However, expectations that the US Federal Reserve will keep policy rates higher for longer may slow the pace of easing across the region. Combined with continued moderation in inflation, slower monetary easing will keep real interest rates higher than previously anticipated, potentially denting growth.
- **Public debt ratios are stabilizing amid some persistent vulnerabilities.** Resilient economic growth continues to offset the upward pressure on debt from fiscal deficits and exchange rate depreciations. While most economies in the region still face debt-to-GDP ratios above pre-pandemic levels, these have stabilized in recent years. That said, higher debt levels and elevated interest rates have led to increased interest rate payments in several economies. This highlights the need for effective debt management to prevent liquidity shocks potentially escalating into solvency crises. Debt sustainability risks remain pronounced in the Lao PDR, Maldives, Pakistan, and Sri Lanka.
- **Full implementation of new US tariffs and US policy uncertainty pose risks.** Analysis in this report indicates that full implementation of the additional US duties announced on 2 April would reduce growth in the PRC and other regional economies, as well as the US. Retaliatory measures by US trading partners would worsen the effects. Additionally, the size and speed of policy changes under the new US administration remain highly uncertain, both on trade and other areas. Elevated US policy uncertainty could reduce investment globally and in the region, while rising trade tensions and fragmentation would boost trade costs and disrupt global supply chains.

Meanwhile, more restrictive immigration measures and more expansionary fiscal policy in the US than assumed in our baseline could stoke inflation, keeping US interest rates higher for longer than currently envisaged.

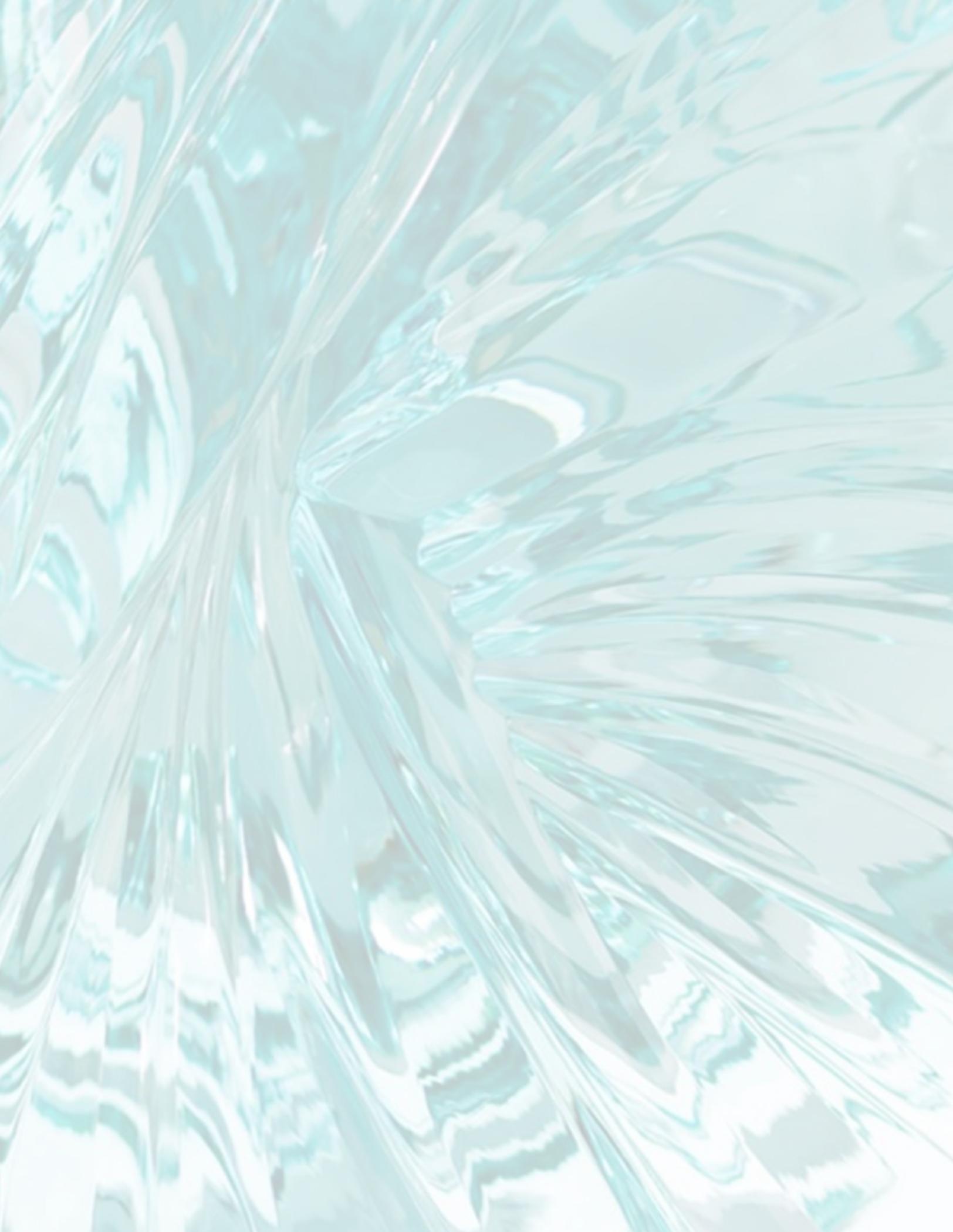
- **Escalations in conflict and geopolitical tensions could hamper regional prospects.** Although conflict and geopolitical tensions in the Middle East have eased, the outlook remains highly fragile. Downside risks for the region could materialize if conflict escalates again, which could lead to supply chain disruptions, higher and more volatile food and energy prices, and elevated global economic uncertainty and risk aversion. Risks also remain regarding prospects for an end to Russia's war in Ukraine. While economies in the Caucasus and Central Asia could benefit from greater economic stability and investor confidence, the realization of these gains remains highly uncertain and subject to the terms of any proposed peace deal.
- **An intensified worsening in property market conditions could hurt the PRC's growth outlook.** Further deterioration in the PRC property sector could exacerbate negative spillovers to household wealth and income prospects, weakening consumer and business sentiment and overall economic activity. This could also lead to lower-than-expected fiscal revenues for local governments from land-use rights and distressed financial positions of property developers and related businesses.

GDP Growth Rate and Inflation, % per year								
	GDP Growth				Inflation			
	2023	2024	2025	2026	2023	2024	2025	2026
Developing Asia	5.5	5.0	4.9	4.7	3.3	2.6	2.3	2.2
Developing Asia excluding the PRC	5.6	5.1	5.0	5.1	6.2	4.8	4.0	3.7
Caucasus and Central Asia	5.4	5.7	5.4	5.0	10.2	6.8	6.9	5.9
Armenia	8.3	5.9	5.0	4.7	2.0	0.3	3.0	2.8
Azerbaijan	1.1	4.1	3.4	3.3	8.8	2.2	4.2	3.5
Georgia	7.8	9.5	6.0	5.0	2.5	1.1	4.0	3.5
Kazakhstan	5.1	4.8	4.9	4.1	14.5	8.7	8.2	6.5
Kyrgyz Republic	9.0	9.0	8.5	8.6	10.8	5.0	6.0	7.8
Tajikistan	8.3	8.4	7.4	6.8	3.8	3.6	5.0	5.8
Turkmenistan	6.3	6.3	6.5	6.0	1.3	5.5	6.0	6.0
Uzbekistan	6.3	6.5	6.6	6.7	10.0	9.4	8.0	7.0
East Asia	4.8	4.7	4.4	4.0	0.6	0.5	0.6	0.9
People's Republic of China	5.4	5.0	4.7	4.3	0.2	0.2	0.4	0.7
Hong Kong, China	3.2	2.5	2.3	2.5	2.1	1.7	1.9	2.0
Republic of Korea	1.4	2.0	1.5	1.9	3.6	2.3	1.9	1.9
Mongolia	7.4	4.9	6.6	5.9	10.3	6.8	9.1	7.0
Taipei, China	1.1	4.6	3.3	3.0	2.5	2.2	2.0	1.8
South Asia	7.8	5.8	6.0	6.2	7.9	6.6	4.9	4.5
Afghanistan	-6.2	2.3	2.6	2.2	10.6	-7.7	-5.3	5.0
Bangladesh	5.8	4.2	3.9	5.1	9.0	9.7	10.2	8.0
Bhutan	4.9	5.5	8.5	6.0	4.2	2.8	3.4	3.5
India	9.2	6.4	6.7	6.8	5.4	4.7	4.3	4.0
Maldives	4.7	5.5	5.0	4.8	2.9	1.4	4.7	2.2
Nepal	2.0	3.9	4.4	5.1	7.7	5.4	5.2	5.0
Pakistan	-0.2	2.5	2.5	3.0	29.2	23.4	6.0	5.8
Sri Lanka	-2.3	5.0	3.9	3.4	17.4	1.2	3.1	4.5
Southeast Asia	4.1	4.8	4.7	4.7	4.2	3.0	3.0	2.8
Brunei Darussalam	1.1	4.2	2.5	2.0	0.4	-0.4	0.5	-0.2
Cambodia	5.0	6.0	6.1	6.2	2.1	0.8	3.7	2.4
Indonesia	5.0	5.0	5.0	5.1	3.7	2.3	2.0	2.0
Lao People's Democratic Republic	3.7	4.0	3.9	4.0	31.2	23.3	13.5	10.4
Malaysia	3.6	5.1	4.9	4.8	2.5	1.8	2.5	2.5
Myanmar	0.8	-0.7	1.1	1.6	27.5	27.8	29.3	20.0
Philippines	5.5	5.6	6.0	6.1	6.0	3.2	3.0	3.0
Singapore	1.8	4.4	2.6	2.4	4.8	2.4	2.0	1.7
Thailand	2.0	2.5	2.8	2.9	1.2	0.4	1.0	1.1
Timor-Leste	2.4	3.3	4.0	3.8	8.4	2.1	2.9	2.6
Viet Nam	5.1	7.1	6.6	6.5	3.3	3.6	4.0	4.2
The Pacific	4.7	4.2	3.9	3.6	3.1	1.9	3.4	3.7
Cook Islands	14.0	16.0	8.1	2.9	13.2	4.6	2.3	2.0
Fiji	7.5	3.5	3.0	3.2	2.4	4.5	2.6	2.4
Kiribati	4.2	5.8	4.1	3.3	9.3	3.0	2.5	2.2
Marshall Islands	-3.9	0.4	2.5	3.0	7.4	4.7	3.6	3.0
Federated States of Micronesia	0.8	1.1	1.7	1.1	6.2	4.1	3.0	2.7
Nauru	1.6	2.0	2.5	2.5	5.2	5.0	3.5	2.5
Niue	8.9	3.8	3.4	3.0	5.1	5.4	3.7	3.2
Palau	1.5	6.6	9.5	4.5	12.4	3.7	2.5	2.6
Papua New Guinea	3.8	4.3	4.2	3.8	2.3	0.7	3.8	4.3
Samoa	8.6	10.0	5.5	3.0	12.0	3.6	3.0	2.7
Solomon Islands	3.0	2.5	2.9	3.2	5.1	4.1	2.7	2.5
Tonga	2.1	1.6	2.5	2.3	10.2	4.6	3.2	3.0
Tuvalu	3.7	3.1	2.7	2.5	7.2	1.2	2.5	2.0
Vanuatu	2.4	1.7	2.0	2.5	11.2	4.8	3.5	2.4

GDP = gross domestic product, PRC = People's Republic of China.

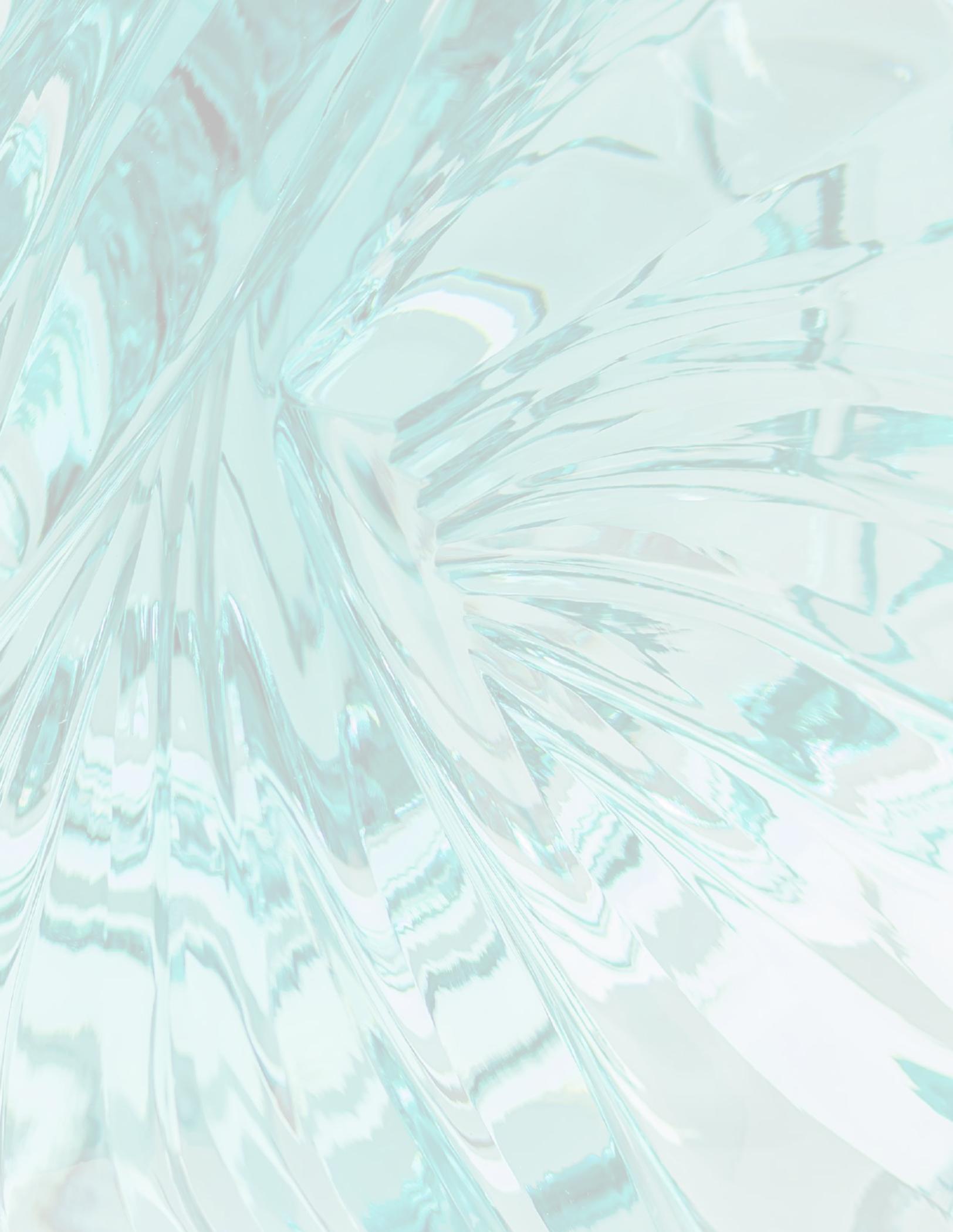
Notes: Forecasts do not incorporate the effects of the new US tariffs announced on 2 April 2025, beyond the report's cut-off date. See Box 1.2.2 for an analysis of how the new tariffs affect the region. ADB placed on hold its regular assistance in Afghanistan effective 15 August 2021. Effective 1 February 2021, ADB placed a temporary hold on sovereign project disbursements and new contracts in Myanmar.

Source: Asian Development Outlook database.





**TRADE UNCERTAINTY
CHALLENGES RESILIENCE
IN ASIA AND THE PACIFIC**



TRADE UNCERTAINTY CHALLENGES RESILIENCE IN ASIA AND THE PACIFIC

Growth in developing Asia eased slightly in 2024, as softer consumption in the People's Republic of China (PRC) offset strong exports and investment. Disinflation advanced across the region, as global commodity prices eased and the delayed effects of tight monetary policy took hold. Late last year, anticipation of policies under the new United States administration fueled growing trade uncertainty and tensions, raising global risk aversion and slightly weakening regional financial market conditions.

Projections for the region, which do not take into account US reciprocal tariffs announced on 2 April, indicate a slight moderation in growth this year and next. Robust domestic demand in South Asia will partly compensate for slower growth in the PRC, where ongoing fragility in the property sector and higher US tariffs are concerns. Meanwhile, the region's high-income technology exporters will continue benefiting from strong demand for electronics. Developing Asia's growth is forecast at 4.9% in 2025 and 4.7% in 2026, compared to 5.0% in 2024. Inflation is projected to moderate to 2.3% in 2025 and 2.2% in 2026, from 2.6% last year.

Downside risks loom in tariffs, geopolitics, and PRC property. Full implementation of the early April US tariffs, further aggressive US tariff hikes, and retaliatory measures by US trading partners may dampen trade, investment, and growth. Box 1.2.2 provides an analysis of how the tariffs announced on 2 April could affect the region. An escalation in geopolitical tensions and a worse-than-expected deterioration in the PRC's property market could also hamper regional prospects.

Developing Asia's Growth Momentum Eases as PRC Consumption Softens

Developing Asia's growth eased slightly to 5.0% in 2024 from 5.5% in 2023, due to slowdowns in the People's Republic of China and India.

Strong external demand for artificial intelligence (AI)-driven products bolstered growth in much of the region in 2024, while domestic demand remained solid. In East Asia, growth declined slightly to 4.7% in 2024 from 4.8% in 2023 as softer consumption and continued property market weakness in the People's Republic of China (PRC) offset gains from AI-driven exports in Hong Kong, China; the Republic of Korea; and Taipei, China. India's slowdown due to delayed public investment and tighter credit pulled South Asia's growth down to 5.8% in 2024 from 7.8% in 2023, despite expansions in Pakistan and Sri Lanka. Growth in the Pacific also dropped, to 4.2% from 4.7%, as Fiji's agriculture-led slowdown offset a broad-based rebound in Papua New Guinea. Meanwhile, AI-driven exports boosted parts of Southeast Asia—such as Malaysia and Singapore—and lifted growth to 4.8% from 4.1% in 2023. In the Caucasus and Central Asia, growth increased to 5.7% from 5.4% in 2023 on solid domestic demand and remittances.

Growth retreated in the second half of 2024 as consumption eased in the PRC, even as net exports and investment accelerated in many economies (Figure 1.1.1, panels A and C).

In the PRC, consumption softened as consumer confidence remains low amid the fragile property sector, despite policies that helped boost purchases of household goods and appliances in the second half of the year. Consumption also eased in the second half in Hong Kong, China, as a strong Hong Kong dollar pushed residents to purchase consumer goods in nearby cities. In Taipei, China, meanwhile, in the absence of fiscal handouts as in 2023, private consumption growth normalized. Strong PRC exports, particularly in electronics and semiconductors, supported net exports (see section entitled “Exports and Tourism Supported

Growth in 2024”). With significant capital flowing into AI-ready data centers and advanced manufacturing, investment in some high-income technology exporting economies posted double-digit growth. Government infrastructure spending also provided solid support to investment in many economies.

Growth in industry moderated in the second half of 2024, while services remained solid (Figure 1.1.1, panels B and D).

In India, subdued demand slowed expansion in construction-related industries, while lower export prices reduced mining revenues. Outside the PRC and India, industry growth weakened, largely due to slower construction activity in the Republic of Korea and a downturn in chemicals and electronics in the Philippines. Meanwhile, services held steady across the region except in Hong Kong, China; and Taipei, China, where weaknesses in real estate and tourism-related services weighed on growth.

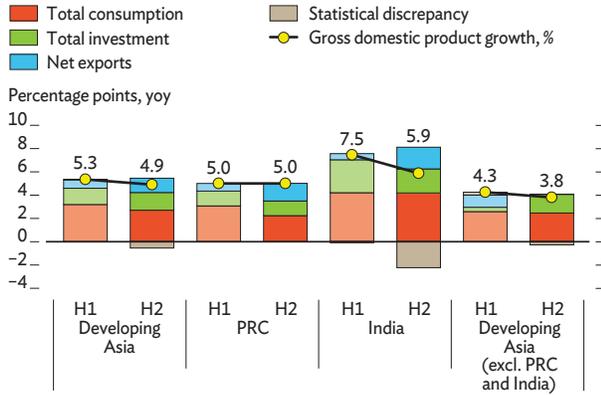
Leading indicators suggest continued expansion in manufacturing into 2025.

Monthly industrial production figures signaled a recovery trend in some economies emerging in late 2024, while the S&P Manufacturing Purchasing Managers' Index (PMI) showed continued expansion in most economies in early 2025 (Table 1.1.1). Higher export orders drove expansions in the headline PMI, which prompted firms to raise staffing levels and increase output. In the PRC, business sentiment remained largely resilient as new orders and output continued to expand, signaling sustained growth in manufacturing activity among smaller private businesses and exporters. PMI readings also improved in India, to 56.3 in February, as export orders increased sharply. Meanwhile, the services PMI in the region continued to improve in February, amid rising service activities linked to manufacturing in the PRC and robust domestic demand in India.

Figure 1.1.1 Contributions to Growth, Developing Asia

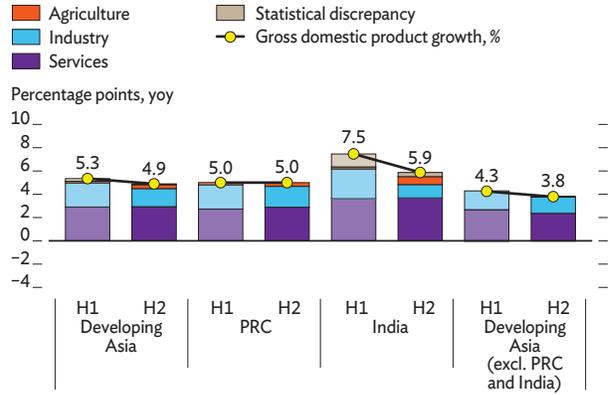
A. Demand-side, PRC, India, and Rest of Developing Asia

Consumption eased in the second half, but net exports and investments remained solid.



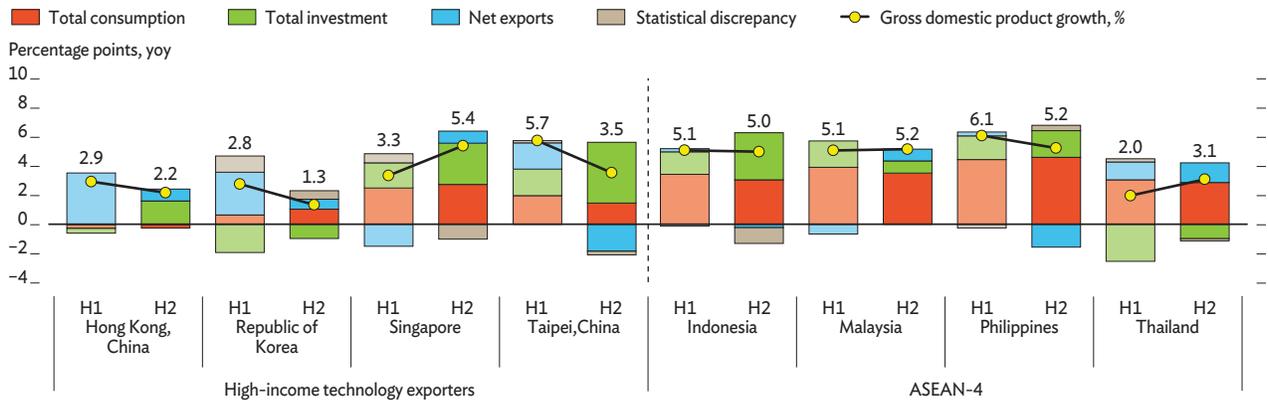
B. Supply-side, PRC, India, and Rest of Developing Asia

Industry remained largely resilient in the second half, despite the moderation in India.



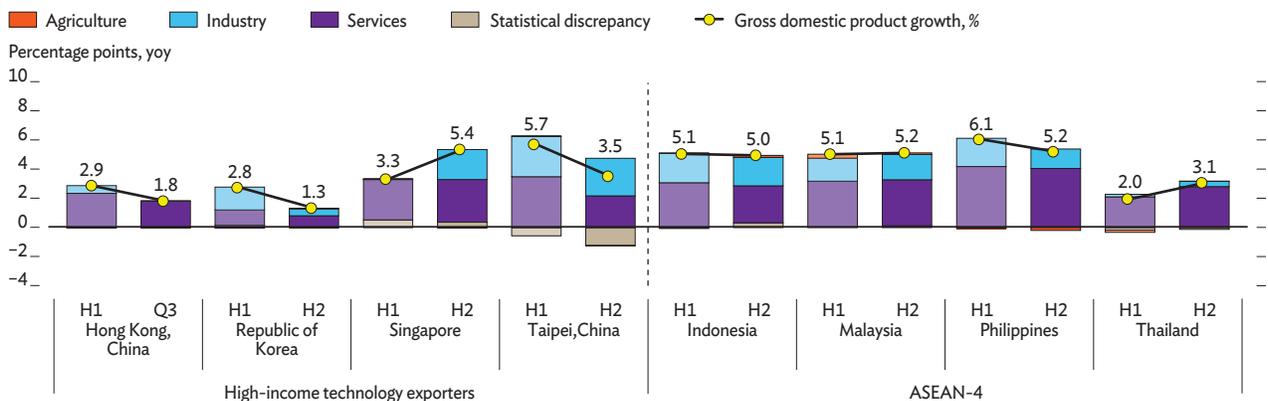
C. Demand-side, HITE, and ASEAN-4

Investment expanded in most HITE and ASEAN-4 economies.



D. Supply-side, HITE, and ASEAN-4

Some economies saw declines in industry in the second half, but services remained strong.



ASEAN = Association of Southeast Asian Nations, PRC = People's Republic of China, GDP = gross domestic product, H = half, HITE = high income technology exporters, Q = quarter, yoy = year on year.

Notes: Developing Asia weighted using GDP (purchasing price parity). Fourth quarter 2024 supply-side GDP data for Hong Kong, China not available.

Source: Haver Analytics.

Table 1.1.1 Purchasing Managers' Index, Selected Economies

Manufacturing conditions remained favorable in most economies in February 2025 but remained below threshold in some; services PMIs continued to improve.

Manufacturing PMI, seasonally adjusted

Economy	2024												2025	
	Q1			Q2			Q3			Q4			Q1	
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
India	56.5	56.9	59.1	58.8	57.5	58.3	58.1	57.5	56.5	57.5	56.5	56.4	57.7	56.3
Indonesia	52.9	52.7	54.2	52.9	52.1	50.7	49.3	48.9	49.2	49.2	49.6	51.2	51.9	53.6
Taipei, China	48.8	48.6	49.3	50.2	50.9	53.2	52.9	51.5	50.8	50.2	51.5	52.7	51.1	51.5
Philippines, nsa	50.9	51.0	50.9	52.2	51.9	51.3	51.2	51.2	53.7	52.9	53.8	54.3	52.3	51.0
PRC	50.8	50.9	51.1	51.4	51.7	51.8	49.8	50.4	49.3	50.3	51.5	50.5	50.1	50.8
Singapore	50.7	50.6	50.7	50.5	50.6	50.4	50.7	50.9	51.0	50.8	51.0	51.1	50.9	50.7
Thailand	46.7	45.3	49.1	48.6	50.3	51.7	52.8	52.0	50.4	50.0	50.2	51.4	49.6	50.6
Republic of Korea	51.2	50.7	49.8	49.4	51.6	52.0	51.4	51.9	48.3	48.3	50.6	49.0	50.3	49.9
Malaysia	49.0	49.5	48.4	49.0	50.2	49.9	49.7	49.7	49.5	49.5	49.2	48.6	48.7	49.7
Viet Nam	50.3	50.4	49.9	50.3	50.3	54.7	54.7	52.4	47.3	51.2	50.8	49.8	48.9	49.2

Services PMI, seasonally adjusted

India	61.8	60.6	61.2	60.8	60.2	60.5	60.3	60.9	57.7	58.5	58.4	59.3	56.5	59.0
PRC	52.7	52.5	52.7	52.5	54.0	51.2	52.1	51.6	50.3	52.0	51.5	52.2	51.0	51.4
Philippines, nsa	52.0	50.9	51.8	55.8	54.6	54.0	48.5	49.0	51.3	52.5	52.4	54.5	51.3	51.0
Sri Lanka, nsa	60.1	53.0	67.7	56.7	55.0	63.5	71.1	65.2	53.4	60.3	60.5	71.1	58.5	56.5

PRC = People's Republic of China, nsa = not seasonally adjusted, PMI = purchasing managers' index, Q = quarter.

Notes: Pink to red indicates deterioration (<50) and white to green indicates improvement (>50).

Source: CEIC Data Company.

Disinflation advanced, despite a temporary pickup in food prices during the second half of 2024 (Figure 1.1.2). Headline inflation in developing Asia is now below pre-pandemic levels, curtailed by declining global commodity prices, reduced supply-side pressures, the lagged impact of monetary policy tightening measures, and food price deflation in the PRC in early 2025. Brent crude oil prices averaged \$80.7/barrel in 2024, dipping to around \$69.7 on 10 September, the lowest level since the \$71.9 recorded on 12 June 2023, while shipping costs have moderated since mid-2024. Meanwhile, core inflation, including and excluding the PRC, is now also below pre-pandemic averages. Bucking the trend, food prices rose from August to October, accounting for more than half of the price movements during this period. While the Asian benchmark for rice—Thailand white rice 5% broken—decreased 21% to \$523/metric ton by end-2024, food prices briefly trended higher in

some economies in the second half amid adverse weather conditions. Excluding the PRC, headline inflation is now also below the pre-pandemic average, with core inflation accounting for the highest share of overall inflation.

Inflation declined across all subregions heading into 2025, to varying degrees (Figure 1.1.3). The steepest decline occurred in the Caucasus and Central Asia, where inflation dropped by a third since 2023, despite picking up slightly so far this year. This reflected the dampening impact on food prices of favorable harvesting conditions and improved supply, and as currencies in the subregion strengthened, lowering imported inflation. Higher food production, as well as lower energy costs, drove the decline in South Asia's inflation from a 10-year high of 7.9% in 2023, with decreases in all economies except Bangladesh. India's inflation eased slightly from 2023, driving the

subregional average, although it remained high in the second half due to weather-related spikes and a seasonal surge in food demand. Declining energy prices and ample food supply helped lower inflation in Southeast Asia, led by Indonesia and the Philippines.

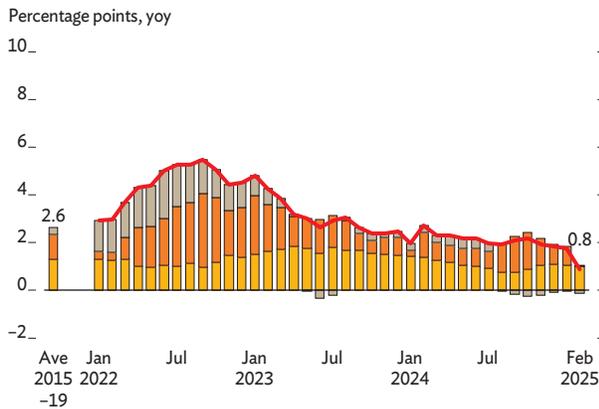
The Pacific’s inflation moderated, due largely to record declines in the prices of betel nut and communication services in Papua New Guinea. Meanwhile, inflation fell slightly in East Asia, despite a temporary rise in pork prices from June to September 2024 in the PRC.

Figure 1.1.2 Contributions to Inflation, Developing Asia

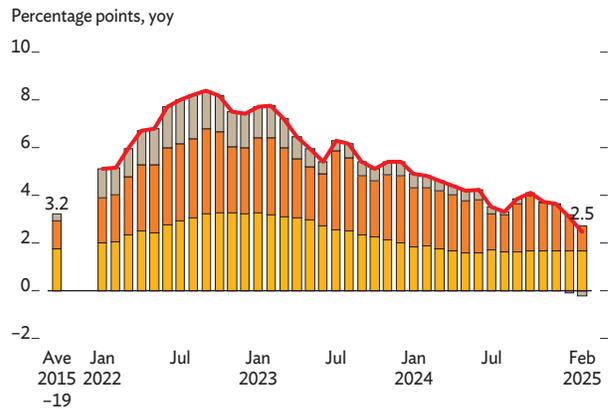
Headline inflation in the region continued to moderate, driven by lower food, energy, and core inflation.

- Core
- Food
- Energy-related
- Headline inflation, %

A. Developing Asia



B. Developing Asia excluding People’s Republic of China



yoy = year on year.

Notes: Core inflation excludes food and energy sectors. For some economies, core is estimated as the residual between overall inflation and the sum of food and nonalcoholic beverages and energy-related items. For lack of a more disaggregated breakdown, energy-related consumer prices for most economies include housing, water, and non-fuel transport. Subregional averages are calculated using GDP Purchasing Power Parity shares as weights, and includes the following economies: Central Asia = Armenia, Georgia, and Kazakhstan; East Asia = People’s Republic of China; Hong Kong, China; Republic of Korea; Mongolia; Taipei, China; South Asia = India, Pakistan, Maldives, Nepal, and Sri Lanka; Southeast Asia = Cambodia, Indonesia, Lao People’s Democratic Republic, Malaysia, the Philippines, Singapore, and Thailand; and the Pacific = Fiji, Samoa, and Tonga.

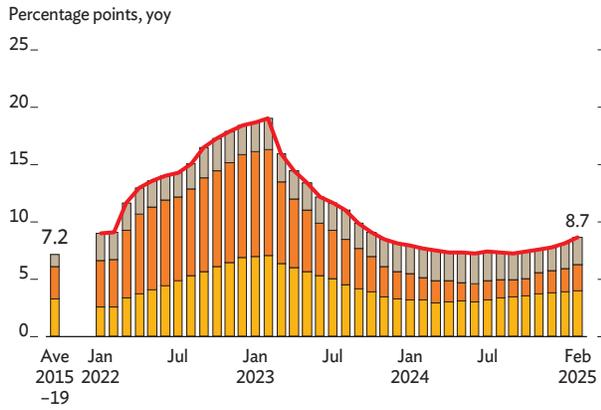
Sources: Asian Development Bank calculations using data from Haver Analytics; CEIC Data Company; official sources.

Figure 1.1.3 Contributions to Inflation, Developing Asia

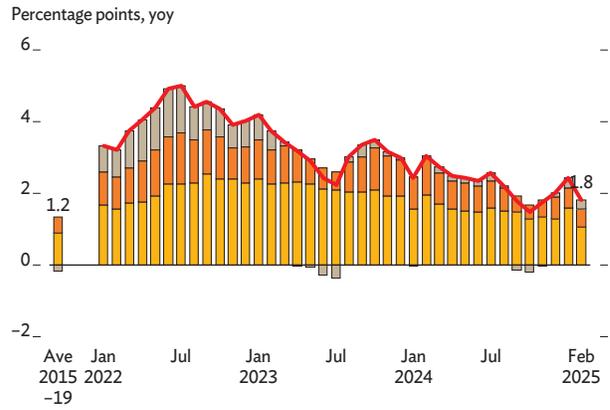
Inflation fell across all subregions in 2024 despite a short-lived pickup in food prices in some economies in H2.

- Core
- Food
- Energy-related
- Headline inflation, %

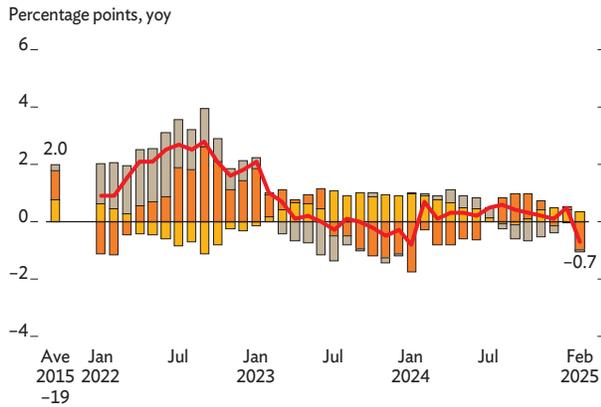
A. Caucasus and Central Asia



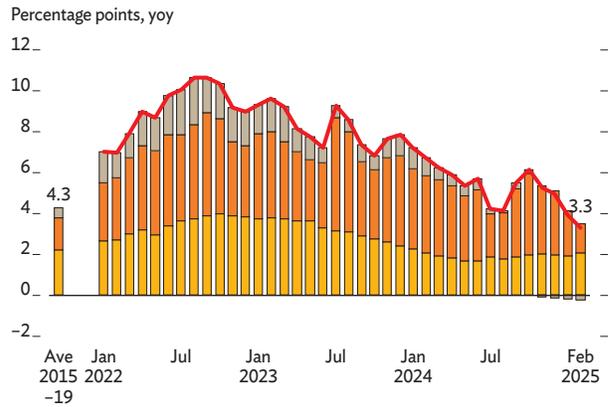
B. East Asia excluding People's Republic of China



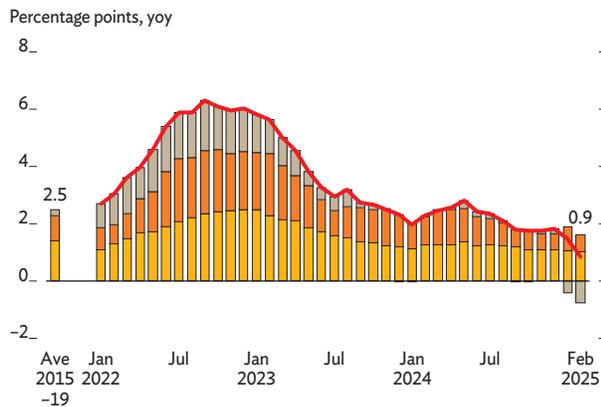
C. People's Republic of China



D. South Asia



E. Southeast Asia



H = half, yoy = year on year.

Note: See Figure 1.1.2.

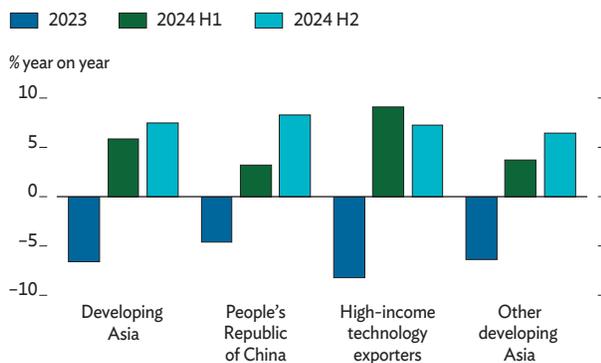
Sources: Asian Development Bank calculations using data from Haver Analytics; CEIC Data Company; official sources.

Exports and Tourism Supported Growth in 2024

Developing Asia's exports grew by 6.0% nominally in 2024. This reversed the decline recorded in 2023. The region's high-income technology exporters led the recovery, whose exports grew 9.1% in the first half of 2024, slowing to 7.2% in the second half (Figure 1.1.4). The PRC's exports increased 5.7% last year, sharply accelerating in the second half, partly as a result of tariff frontrunning in anticipation of rising US tariffs. In the rest of the region, exports growth also gained momentum through the year, rising from 3.7% in the first half to 6.4% in the second half.

Figure 1.1.4 Growth in Nominal Goods Exports

Regional exports growth was solid in 2024, led by high-income technology exporters.



H = half.

Notes: High-income technology exporters include Hong Kong, China; Republic of Korea; Singapore; and Taipei, China. Other developing Asia includes India, Indonesia, Malaysia, Pakistan, the Philippines, Thailand, and Viet Nam.

Sources: CPB Netherlands Bureau for Economic Policy Analysis. *World Trade Monitor December 2024*; CEIC Data Company.

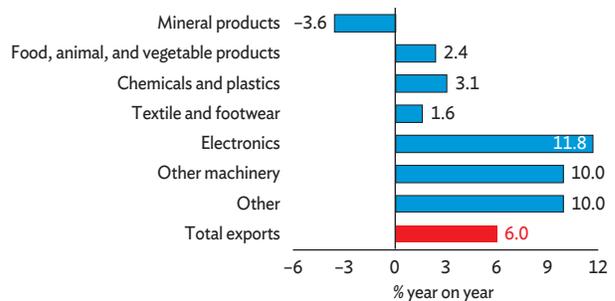
Global demand for electronics fueled Asia's exports.

Exports of electronics increased by 11.8% in 2024 for a sample of 15 economies accounting for 92% of the region's exports (Figure 1.1.5, panel A). This contributed to more than half of the overall rise in exports, as electronics account for about one-third of the region's exports (Figure 1.1.5, panel B). Within electronics, rising exports were mostly due to surging purchases of computers and semiconductor chips, respectively contributing 25.8% and 24.7% to the overall increase in exports. This was notably supported by rising demand for AI, as Asia hosts about 75% of

Figure 1.1.5 Growth in Developing Asia's Nominal Goods Exports in 2024, Year on Year

Global demand for electronics supported the region's exports.

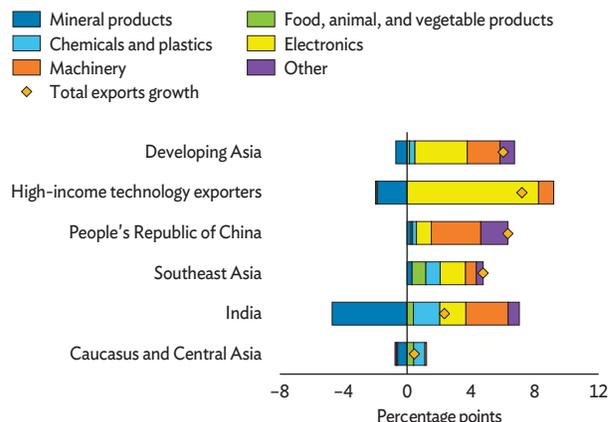
A. Annual Change



Note: Developing Asia includes Armenia; Azerbaijan; People's Republic of China; Georgia; Kazakhstan; Hong Kong, China; India; Indonesia; Republic of Korea; Malaysia; Mongolia; Singapore; Taipei, China; Thailand; and Uzbekistan.

Sources: International Trade Center. TradeMap; United Nations Comtrade Database.

B. Contributions to Change



Note: High-income technology exporters include Hong Kong, China; Republic of Korea; Singapore; and Taipei, China. Southeast Asia includes Indonesia, Malaysia, and Thailand; Developing Asia includes the high-income technology exporters and South Asian economies listed above as well as Armenia, Azerbaijan, People's Republic of China, Georgia, India, Kazakhstan, Mongolia, and Uzbekistan.

Sources: International Trade Center. TradeMap; United Nations Comtrade Database.

global semiconductor production capacity and an even larger share of chips under 10 nanometers, which are increasingly in demand for AI (Box 1.1.1).

Trade tensions continued affecting the region's trade dynamics.

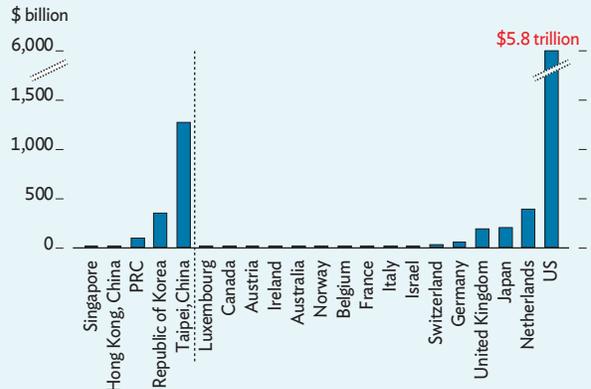
The previous US administration imposed new tariffs on \$18 billion of goods imports from the PRC in September, adding to the tariffs imposed since 2018 on over \$300 billion worth of imports. These additions included tariffs of 100%

Box 1.1.1 Developing Asia’s AI-Related Exports: A Key Growth Engine

Artificial Intelligence (AI) has emerged as a major export driver in developing Asia. Global investment has surged in AI technology and the infrastructure supporting it. In the United States (US) tech firms, telecoms providers, big enterprises, and data-center operators spent an estimated \$465 billion on data-center infrastructure in 2024, about 10% of total global IT spending (The Economist 2025; Gartner 2025a). Semiconductor demand has grown alongside AI. World Semiconductor Trade Statistics estimates global semiconductor sales reached nearly \$627 billion in 2024, with the broader Asia-Pacific region accounting for about 50% of these sales.^a High income technology exporters (such as the Republic of Korea), the People’s Republic of China (PRC), and other regional economies are leveraging their roles in the semiconductor supply chain to cement their positions in AI-related exports (box figure 1). Semiconductor manufacturing is concentrated in Asia, which holds approximately 75% of global production capacity and key material supplies (Wang and Yue 2024; SIA 2021), although chip design remains largely outside the region (ADB 2024). As such, semiconductor firms headquartered in Asia account for just 20% of global semiconductor market capitalization (box figure 2).

2 Market Capitalization of Top Publicly Listed Semiconductor Companies, by Location of Company Headquarters

Companies headquartered in the US account for about 70% of world semiconductor market capitalization, while the combined share for the Republic of Korea and Taipei, China is around 19%.



PRC = People’s Republic of China, US = United States.
 Note: Data refers to 136 top semiconductor companies globally. Data as of 3 February 2025.
 Sources: [Largest Companies by Marketcap](#); [Nasdaq](#).

1 Asia’s Position in the Global Semiconductor Supply Chain

Developing Asian economies are pivotal in global semiconductor manufacturing, while most chip design is outside the region.



Source: Adapted from Wang and Yue (2024).

^a Refer to the notes in box figure 6 for the list of economies included in the Asia-Pacific region by World Semiconductor Trade Statistics.

Box 1.1.1 Continued

In 2024, semiconductor exports surged in the Republic of Korea and Taipei, China. Nearly all fabrication capacity of chips under 10-nanometres, crucial for advanced AI applications, occurs in these two economies. Taipei, China accounts for about 70% of global foundry revenues, with TSMC alone holding 65% of revenue, while United Microelectronics Corporation contributes another 5%. The Republic of Korea specializes in memory chips, led by Samsung Electronics, which holds nearly 11% of global semiconductor revenue (box figure 3). Reflecting soaring demand for AI infrastructure, semiconductor exports from Taipei, China surged more than 30% in 2024 and almost 44% from the Republic of Korea (box figure 4).

Other economies in the region are also benefiting from the growing market for AI applications and tools. Memory chips and processors and controllers are the two semiconductor categories most directly impacted by AI demand. Hong Kong, China’s exports of these goods expanded almost 20% in 2024, and the PRC’s by 19% as its producers gained ground in memory chip sales (box figure 5). The latter includes Semiconductor Manufacturing International Corporation, which holds a 6% global market share. The PRC’s robot production is also expanding with rising demand for AI-powered

automation. Currently, almost all robots produced in the country remain in the domestic market (International Federation of Robotics 2024), leaving significant room for export growth. India’s IT industry continues integrating AI-powered software solutions, contributing to continued growth in software services exports, which reached about \$205 billion in fiscal year 2024. Malaysia, the Philippines, Thailand, and

4 Growth in Semiconductor Exports

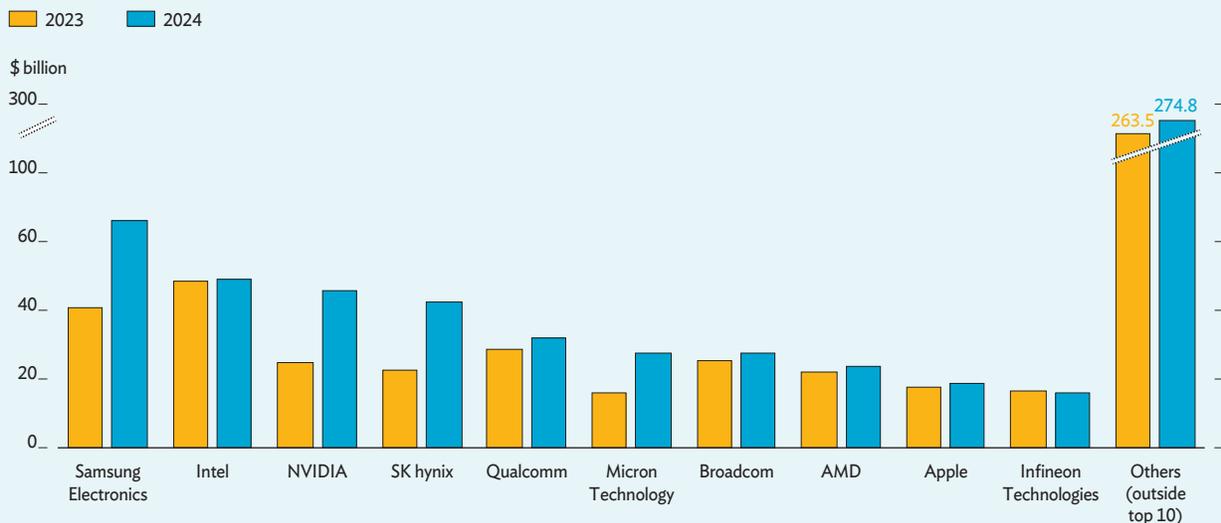
Mirroring the sector’s global cycle, semiconductor export growth from developing Asia’s high-income technology exporters recovered sharply in 2024.



Sources: CEIC Data Company; Haver Analytics.

3 Top 10 Semiconductor Vendors by Revenue

Global semiconductor market revenues rose 4.3% in 2024, with Samsung Electronics’ reaching \$66.5 billion.

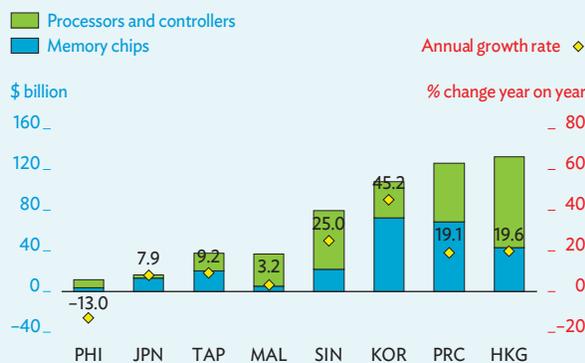


Source: Gartner (2025b).

Box 1.1.1 Continued

5 Exports of Memory Chips and Processors and Controllers, Selected Developing Asian Economies, 2024

Driven by artificial intelligence applications, increased demand for memory chips and processors and controllers boosted regional exports in 2024.



PRC = People's Republic of China; HKG = Hong Kong, China; JPN = Japan; KOR = Republic of Korea; MAL = Malaysia; PHI = Philippines; SIN = Singapore; TAP = Taipei, China.

Notes: Data refer to processors and controllers (HS code 854231) and memory chips (HS code 854232). The data for Malaysia are as of October.

Sources: Asian Development Bank calculations using data from UNCOMTRADE; International Trade Center. [Trade Map](#); [Philippine Statistics Authority](#), [OpenStat](#).

Viet Nam play key roles in the assembly, testing, and packaging segment of the semiconductor supply chain (box figure 1).

Recent breakthroughs have raised concerns about the sustainability of current AI-related investments.

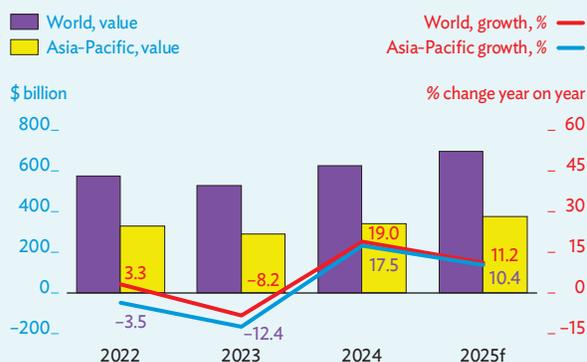
DeepSeek, a PRC-based AI firm, has developed open-source models (R1 and V3) that match industry leaders while using significantly less computing power. V3 was trained on just \$6 million worth of computing resources, far below the usual tens of millions required. This shift, likened to a modern-day “Sputnik moment”, has triggered strong market reactions. Nvidia and other dominant semiconductor firms experienced stock price fluctuations amid fears of overinvestment in AI infrastructure.

Model training may now require fewer resources, but substantial investments will still be necessary to advance AI technology and inference.

While more efficient training reduces short-term chip demand, *Jevons' Paradox* suggests that greater

6 Semiconductor Billings, World and Asia-Pacific

The semiconductor market is poised for continued growth in 2025.



f = forecast.

Notes: World Semiconductor Trade Statistics includes the “Asia-Pacific” Australia; Cambodia; People's Republic of China; Hong Kong, China; India; Indonesia; Republic of Korea; Malaysia; Myanmar; New Zealand; Pakistan; the Philippines; Singapore; Thailand; Taipei, China; Viet Nam; and other smaller economies in the region. Semiconductor billings cover discrete semiconductors, integrated circuits, optoelectronics, sensors and actuators, and total application-specific integrated circuits.

Source: [World Semiconductor Trade Statistics](#).

efficiency could increase overall AI adoption and, thus, overall computing power demand. Additionally, spending on AI inference—the phase where trained models generate predictions—will also increase. Ultimately, despite more efficient training, continued investment will be necessary for AI advancement, particularly in improving reasoning capabilities and developing more complex models.

The outlook for AI-driven exports in Asia remains positive.

World Semiconductor Trade Statistics projects semiconductor sales to grow 11% globally and 10% in the Asia-Pacific region this year, reaching an all-time high of \$697 billion (box figure 6). This expansion will be driven primarily by logic and memory products, which are projected to surpass \$400 billion combined. Other semiconductor segments are also set for continued growth, indicating steady industry expansion. Available longer-term forecasts also remain positive, with some projections suggesting double-digit growth through 2030, fueled by rising enterprise adoption, increasing capital expenditure, automation in manufacturing, and the proliferation of generative AI applications. In South Asia and Southeast Asia, for instance, data center capacity is expected to increase at a compound

Box 1.1.1 Continued

annual growth rate of 10%–25% over the next few years, spurring investments and funding opportunities (S&P 2024).

Despite strong prospects, several risks could disrupt AI-driven exports, including trade tensions and overestimated AI benefits. Escalating US-PRC trade barriers could accelerate domestic chip production in these economies, reducing US demand for advanced and legacy semiconductors from the region. The PRC's self-sufficiency push may impact other key regional exporters like Republic of Korea, Malaysia, and Taipei, China. Growing tensions risk fragmenting the global semiconductor market along geopolitical lines, into separate US- and PRC-led AI ecosystems. Signs of this potential scenario can already be seen in several developments, such as US restrictions on the sale of Nvidia's AI chips in the PRC or the role of Huawei, Alibaba, and Baidu in the PRC's AI space. Further, the imposition of tariffs on US imports of semiconductors would directly affect foreign demand for Asian semiconductors. Meanwhile, AI's transformative economic impact may be overstated. While some studies suggest that AI could boost global gross domestic product (GDP) by 7% and US productivity growth by 1.50% a year over a 10-year period, other research indicates that annual gains in total factor productivity growth may

amount to no more than 0.06% in the same time span (Acemoglu 2024). Historically, technological revolutions take time to yield widespread economic benefits, meaning semiconductor demand may stabilize after the initial surge.

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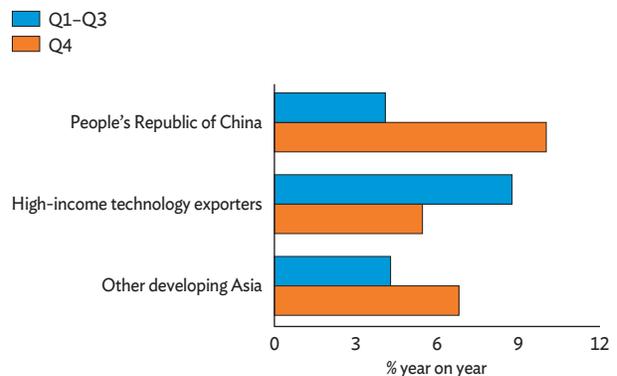
This box was written by Gabriele Ciminelli, Matteo Lanzafame, and Shiela Romance.

on electric vehicles from the PRC, 50% on solar photovoltaic panels, and 25% on steel and aluminum. And in October, the European Union imposed tariffs on imports of electric vehicles from the PRC, on top of its standard 10% import duty on cars. These additional tariffs range from 7.8% to 35.3%, depending on the direct and indirect subsidies from which manufacturers in the PRC are estimated to have benefited.

Exports of goods to the United States surged in the last quarter of 2024. This was at least partly driven by expectations of further US tariff increases, following the outcome of the US presidential election. Export frontrunning fueled the PRC's exports, which rose 10.3% year on year in the last quarter, more than twice as fast as during the first three quarters (Figure 1.1.6). Frontloading of imports to avoid possible US tariffs likely also supported exports from other regional economies which have trade surpluses with the US, and are thus potentially more exposed to new US tariffs.

Figure 1.1.6 Growth in Nominal Goods Exports in 2024

Regional exports surged in the last quarter of last year, as higher tariffs in the US became increasingly likely.



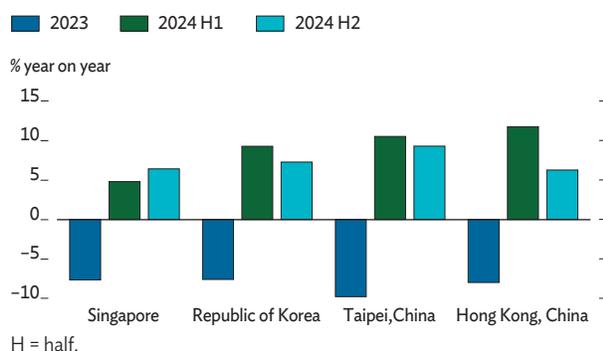
Q = quarter.

Notes: High-income technology exporters include Hong Kong, China; Republic of Korea; Singapore; and Taipei, China. Other developing Asia includes India, Indonesia, Malaysia, Pakistan, the Philippines, Thailand, and Viet Nam.

Sources: CPB Netherlands Bureau for Economic Policy Analysis. *World Trade Monitor December 2024*; CEIC Data Company.

Figure 1.1.7 Growth in Nominal Goods Exports by Asia's High-Income Technology Exporters

Exports grew particularly strongly in Taipei, China.



H = half.

Sources: CPB Netherlands Bureau for Economic Policy Analysis. [World Trade Monitor December 2024](#) and CEIC Data Company.

This includes Taipei, China, whose exports continued to expand robustly in the second half of last year, by 9.3% year on year (Figure 1.1.7).

The PRC's 5.7% rise in exports was driven by machinery, despite stalling electric vehicle exports.

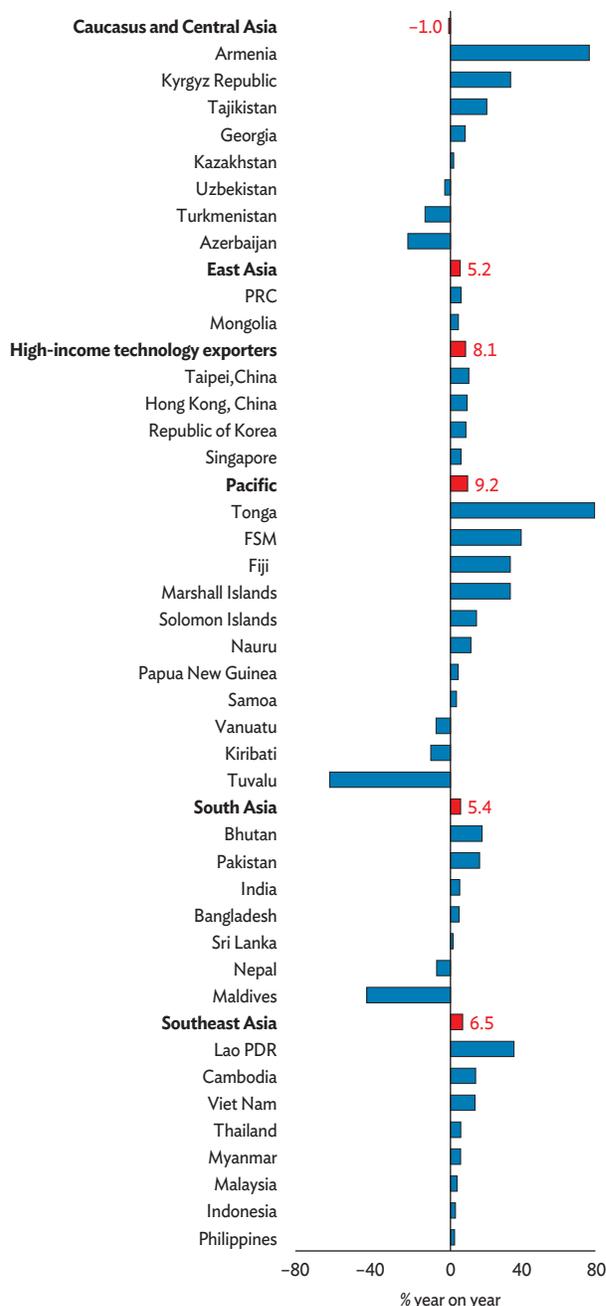
Within the machinery sector, electronics accounted for 48% of exports, which were supported by a 17.2% rise in exports of semiconductor chips. Exports of road vehicles also supported overall export growth. This was mostly driven by exports of non-electric vehicles to emerging markets, while electric vehicle exports to the European Union were weighed down by new tariffs, and by higher recycling fees in the Russian Federation.

Goods exports by high-income technology exporters rose rapidly. Overall, these economies' exports rose 8.1% last year, slowing slightly in the second half. This rise in exports was led by Taipei, China, whose exports rose by 9.9%. Across high-income technology exporters, rising exports were mostly driven by electronics, which accounts for up to two-thirds of exports in Hong Kong, China and Taipei, China. Within electronics, exports of semiconductor chips rose by a steep 39.5% in the Republic of Korea and 21.0% in Singapore.

Exports of goods in Southeast Asia and the Pacific performed well. In Southeast Asia, exports rose 6.5% in the first 11 months of 2024 (Figure 1.1.8). Notably, Viet Nam's exports rose 13.2%, contributing to more than half to the subregion's export growth.

Figure 1.1.8 Growth in Nominal Goods Exports in 2024

Regional exports grew strongly in high-income technology exporters and the Pacific.



PRC = People's Republic of China, Lao PDR = Lao People's Democratic Republic, FSM = Federated States of Micronesia.

Note: Data are for the first 11 months of 2024, except for the PRC and high-income technology exporters, for which data are for 2024 as a whole. Palau is excluded to facilitate the reading of the chart, as the available data suggests its exports increased by 798%.

Sources: CPB Netherlands Bureau for Economic Policy Analysis. [World Trade Monitor December 2024](#); CEIC Data Company; International Monetary Fund. [Direction of Trade Statistics](#).

This was led by shipments of smartphones, clothing, and coffee, whose price rose sharply last year. In Cambodia and Lao PDR, exports also recorded double-digit growth, led by textiles and footwear. In the Pacific, exports rose by 9.2%, driven by 32.0% growth in Fiji on healthy exports of various food products. In Papua New Guinea, exports rose a modest 4.0% as the reopening of the Porgera Gold Mine more than offset the decline of natural gas prices from the heights of 2022–2023.

South Asia’s exports grew by 5.4%, partially offsetting the decline in 2023. The rising prominence of electronics manufacturing boosted India’s export growth. Last year, India’s exports increased by 4.9%, led by electronics, whose share in merchandise exports has doubled since 2014. Pakistan exports grew a solid 15.5%. This was driven by cotton yarn and rice exports, which were boosted by an abundant rice harvest and higher global prices due to India’s rice export ban, that kept rice prices at a record high in the first half of the year. In Sri Lanka, exports rose a modest 1.4%, only partly reversing the 8.9% drop in 2023. This was supported by a near doubling of tea prices in the first half of 2024 on increasing shipping costs due to disruptions in the Red Sea, high fertilizer costs, and a disappointing harvest in Southeast Asia.

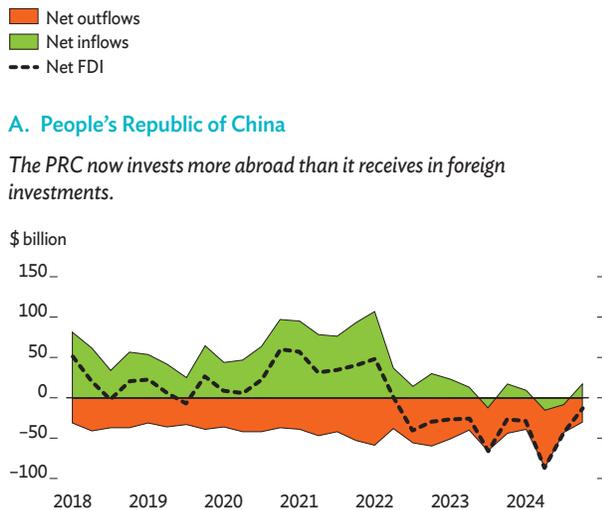
Exports declined by 1.0% in the Caucasus and Central Asia. This contrasts with 2023, when the subregion recorded 4.8% export growth while all other subregions grappled with declining exports. The underperformance in 2024 was entirely driven by the subregion’s oil and gas exporters, which faced falling global energy prices. In Azerbaijan, exports declined by 22.8% as slowing oil and gas output compounded the effect of falling prices. In Turkmenistan, exports shrunk by 13.6% on declining gas prices and failure to renew a gas exports contract with Russia. Kazakhstan’s exports remained afloat, recording a 1.7% increase as the gradual ramp up of extraction in the Tengiz’ oil field outweighed interruptions in production elsewhere for maintenance. Bucking the trend, Armenia’s exports surged by 74.3% on rising exports of gems imported from Russia to the United Arab Emirates, either directly (re-exports) or after processing.

The first tariffs imposed by the new US administration confirm a renewed protectionist stance. On 1 February, the US announced that a 10% additional tariff would be imposed on all imports from the PRC, while 25% tariffs would be implemented on imports from Canada and Mexico. And on 3 March, the US administration raised the additional tariff on imports from the PRC to 20%.

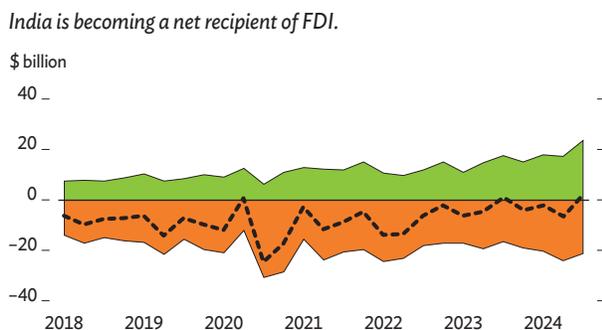
PRC companies ramped up investments in other developing Asian economies to diversify risk from US tariffs. Entities residing in the PRC invested \$195 billion abroad last year—about the same as in 2023, but up by one-third from the average in 2018–2020 (Figure 1.1.9, panel A). This foreign direct investment (FDI) was directed particularly at ASEAN economies, which recorded a 15% increase in the first half of the year. This largely reflected attempts by both the PRC and foreign investors to mitigate risks from rising trade barriers targeting PRC goods in the US. Slowing FDI in the PRC and rising PRC investment abroad also reflect the longer-term rise in manufacturing labor costs in the PRC. Conversely, FDI to the PRC barely reached \$5 billion—its lowest level since 1992.

Foreign investment kept rising in India and remained steady in Southeast Asia. In the first 9 months of last year, India’s outward FDI still exceeded inward investments, but by only \$7 billion, down from \$33 billion in 2022 (Figure 1.1.9, panel B). This was driven by surging FDI inflows while outflows remain stable. These developments are associated with India’s rising momentum in manufacturing activity, notably for electronics. India has become Asia’s fourth largest exporter of smartphones, behind the PRC, Viet Nam, and Taipei, China. In Southeast Asia, inward FDI remains healthy, amounting to \$163 billion in the first 9 months of 2024 (Figure 1.1.9, Panel C).

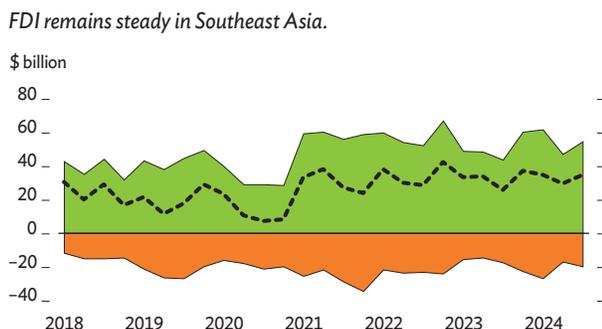
Figure 1.1.9 Foreign Direct Investment



B. India



C. Southeast Asia



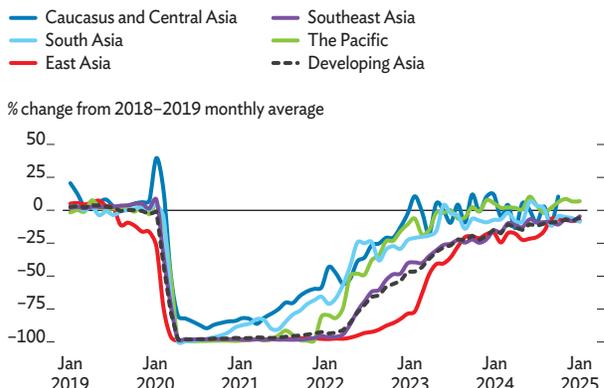
PRC = People's Republic of China, FDI = foreign direct investment.
 Notes: Southeast Asia includes Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam. FDI net inflows are nonresidents' investments in the domestic economy. Negative values indicate that disinvestments (i.e., foreign investors transferring assets abroad) exceed investment. Conversely, net outflows are residents' investments abroad.
 Source: CEIC Data Company.

Despite Further Bounce Back, Tourism Still Falls Short of Pre-Pandemic Levels

Visitor arrivals in developing Asia rose 24.0% in 2024, but remained 10.6% below pre-pandemic levels on average. This contrasts with the rest of the world, where the tourism recovery is complete, and suggests potential for more catch-up growth in the sector this year. This broad picture, however, is uneven across subregions (Figure 1.1.10).

Figure 1.1.10 International Tourist Arrivals

Despite continued recovery, tourist arrivals remain below pre-pandemic levels in the region.



Note: Caucasus and Central Asia comprises Armenia and Georgia; East Asia comprises Hong Kong, China; the Republic of Korea; and Taipei, China; the Pacific comprises Cook Islands, Fiji, Palau, and Samoa; South Asia comprises India, Maldives, Nepal, and Sri Lanka; Southeast Asia comprises Cambodia, Indonesia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam.

Sources: CEIC Data Company; official sources.

Tourists from the PRC have still not fully returned.

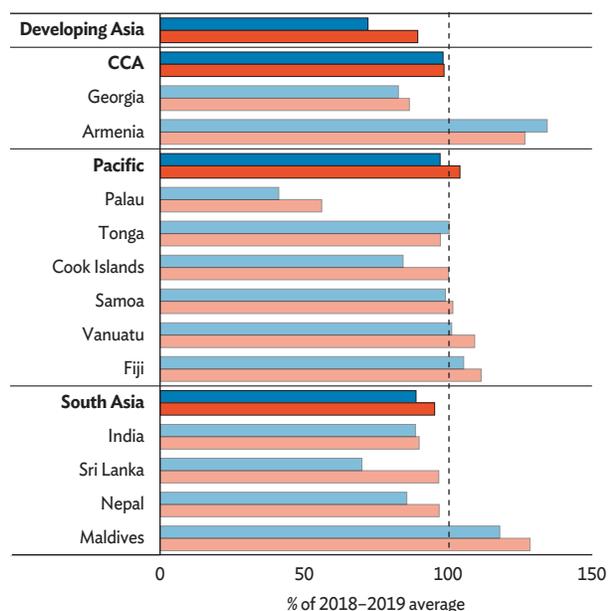
In the Caucasus and Central Asia, where most tourists are from Europe, visitors' arrivals have fully recovered; and they even slightly exceeded pre-pandemic levels in the Pacific last year (Figure 1.1.11, panel A). In contrast, arrivals in 2024 were still down 14.8% in East Asia and 9.5% in Southeast Asia, which are both prime destinations for tourists from the PRC (Figure 1.1.11, panel B). However, arrivals improved gradually through the year, suggesting that the post-pandemic shortfall is still closing. Still, arrivals remain significantly below pre-pandemic levels in Hong Kong, China; Palau; the Philippines; and Taipei, China.

Figure 1.1.11 International Visitors Arrivals in 2024, by Subregion and Economy

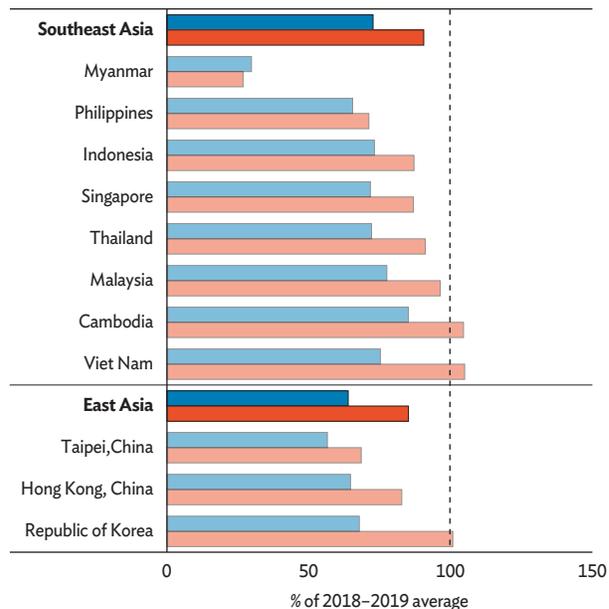
Tourist arrivals still lag behind in East Asia and Southeast Asia.

■ 2023
■ 2024

A. Developing Asia, Caucasus and Central Asia, Pacific, and South Asia



B. East Asia and Southeast Asia



CCA = Caucasus and Central Asia.

Note: Data for Armenia and for the CCA aggregate are for January–September. Data for Vanuatu are for January–July. The Pacific aggregate excludes Vanuatu. Developing Asia comprises all the economies shown in the charts, except Armenia and Vanuatu.

Sources: CEIC Data Company; official sources.

In South Asia, arrivals also remain below pre-pandemic levels, but by just 4.7%. India's incomplete recovery has offset strong performance in Maldives, where tourist arrivals are up nearly one-third compared to pre-pandemic levels.

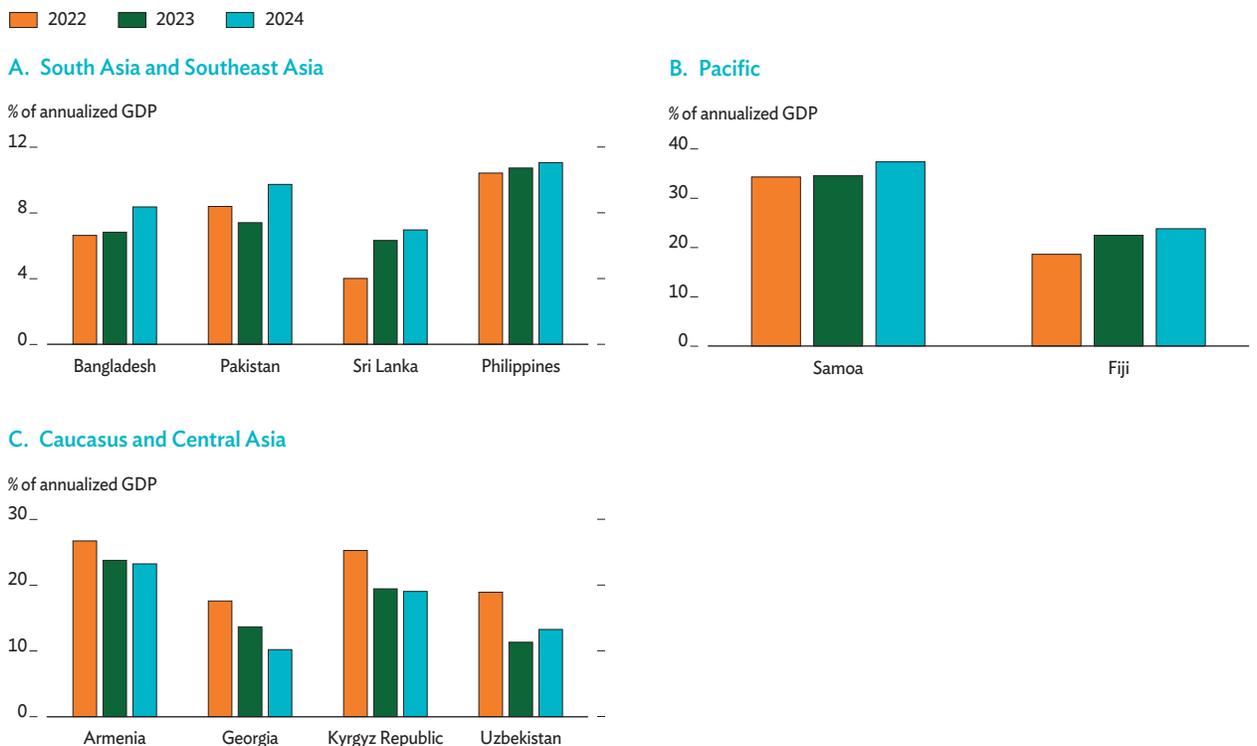
Remittances Remain a Steady Source of Income

Solid money transfers from abroad remain crucial to support household incomes and macroeconomic stability in many Asian economies. In South Asia and the Pacific, incoming money transfers

increased sharply last year—22.7% in Bangladesh, 31.5% in Pakistan, 10.1% in Sri Lanka, and 6.0% in Fiji (Figure 1.1.12, panels A and B). This is a welcome development to mitigate pressure which may arise on current accounts. In Pakistan, the upturn reflected a narrowing in the gap between interbank and open market exchange rates and a government crackdown on informal money transfer channels. In the Caucasus and Central Asia, money transfers remained 80.2% higher than pre-pandemic, increasingly supported by workers in non-traditional destinations such as Europe and the Republic of Korea (Figure 1.1.12, panel C). These transfers, however, subsume remittances and some payments for Russia's imports transported through countries in the subregion.

Figure 1.1.12 Incoming Cross-Border Money Transfers

Money transfers remain a steady source of income across the region.



GDP = gross domestic product.

Sources: CEIC Data Company; International Monetary Fund. [World Economic Outlook Database, October 2024](#); official sources.

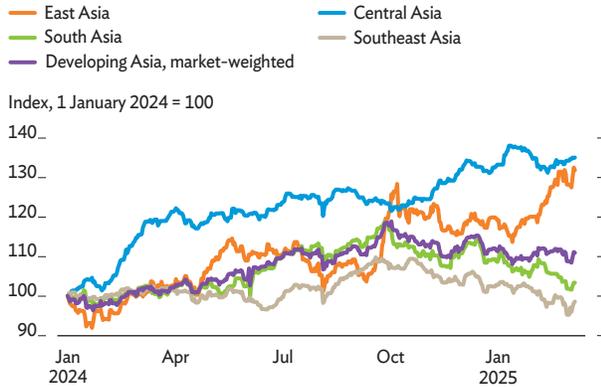
Rising Global Uncertainties Weigh on Regional Financial Market Conditions

Financial market conditions weakened slightly from 1 October 2024 to 7 March 2025. With expectations of higher-for-longer US interest rates driven by the expected inflationary effects of the US policies, a stronger US dollar has contributed to a more cautious global market environment since late last year. In early 2025, concerns over US trade tariffs and retaliatory measures escalated, clouding the regional economic outlook, significantly dampening investor sentiment and heightening market uncertainty. As a result, equity markets in developing Asia retreated, regional currencies mildly depreciated, long-term bond yields remained high, and net portfolio outflows from the region were recorded.

Regional equity markets have faced significant headwinds since October, driven by persistently high US interest rates and growing policy uncertainty in the US. After the US presidential election result in November, the Federal Reserve (Fed) projected only two rate cuts for 2025 compared to its September projection of four rate cuts. This triggered investor concerns, as markets had been anticipating successively lower policy rates. In early 2025, most Asian equity markets incurred losses, as both domestic and global factors weighed heavily on investor confidence. However, East Asia’s equity markets gained, as tech stocks surged in January and February. In the PRC, equity valuations increased, boosted by growing enthusiasm around DeepSeek’s artificial intelligence advances, resilient growth, and government announcements of pro-growth policies, including measures to support the stock market (Figure 1.1.13). Market-weighted equity return for the region retreated between 1 October 2024 and 7 March 2025, declining by 5.9%.

Figure 1.1.13 Equity Market Performance, by Subregion

Most equity markets in the region declined, except for East Asian markets buoyed by rallying tech stocks, despite global market uncertainties.



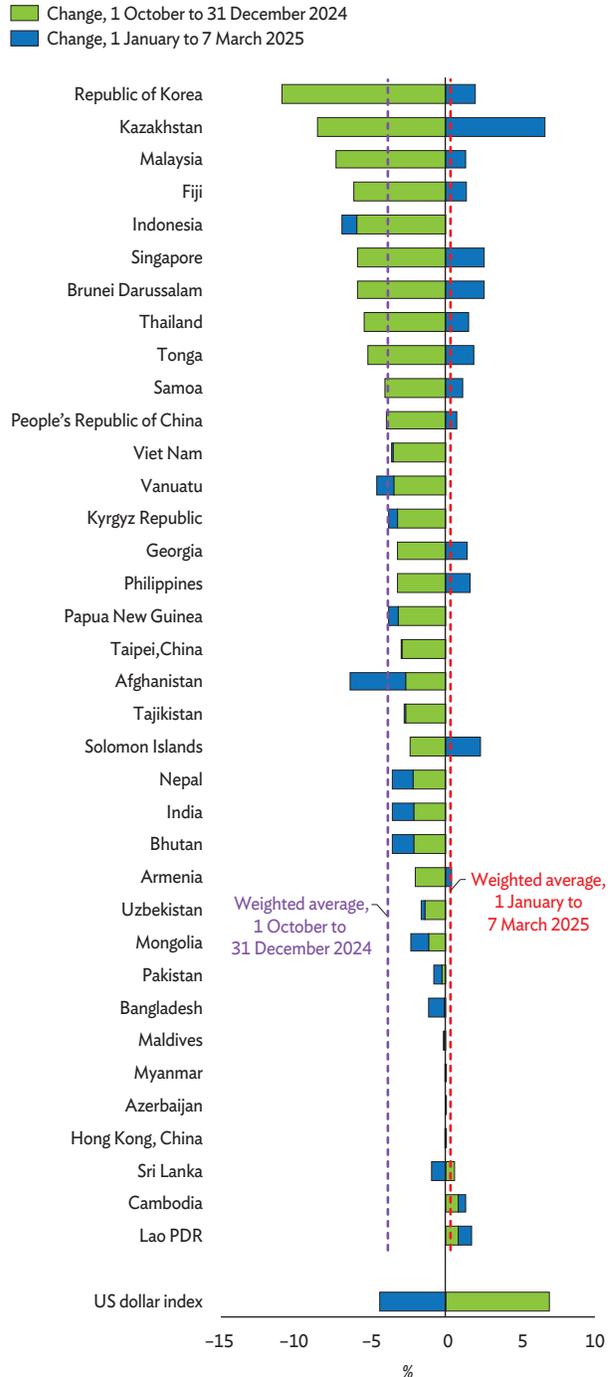
Notes: Caucasus and Central Asia comprises Kazakhstan; East Asia comprises People’s Republic of China; Hong Kong, China; the Republic of Korea; and Taipei, China; South Asia comprises Bangladesh, India, Pakistan, and Sri Lanka; Southeast Asia comprises Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam. Subregional indexes are aggregated using market capitalization shares as weights. Source: Bloomberg.

Most Asian currencies have depreciated marginally, while most long-term bond yields have remained elevated since October.

The GDP-weighted aggregate of currencies in the region weakened 3.6% against the US dollar between 1 October 2024 and 7 March 2025. In the last quarter of 2024, the depreciation was largely due to the Fed’s less dovish stance and concerns about new US trade policies exacerbating inflationary pressures. Among currencies that depreciated most, the Korean won fell amid political instability following the brief imposition of martial law in December, which dented investor confidence. The Kazakhstani tenge also depreciated significantly, heavily impacted by the appreciation of the US dollar, lower oil prices, and increased state spending on investment projects that boosted imports. While currencies depreciated on a weighted average basis between 1 October 2024 and 7 March 2025, this was driven mainly by developments in the last quarter of 2024. During January to March 2025, around half of the region’s currencies gained against the US dollar (Figure 1.1.14). The reversal was driven by the US dollar weakening since the start of the year, influenced by trade tensions and concerns over the US economy. The shift was particularly notable for the Kazakhstani tenge, Brunei dollar, and the Singapore dollar. Meanwhile, available data

Figure 1.1.14 Exchange Rate Against US Dollar in Developing Asia

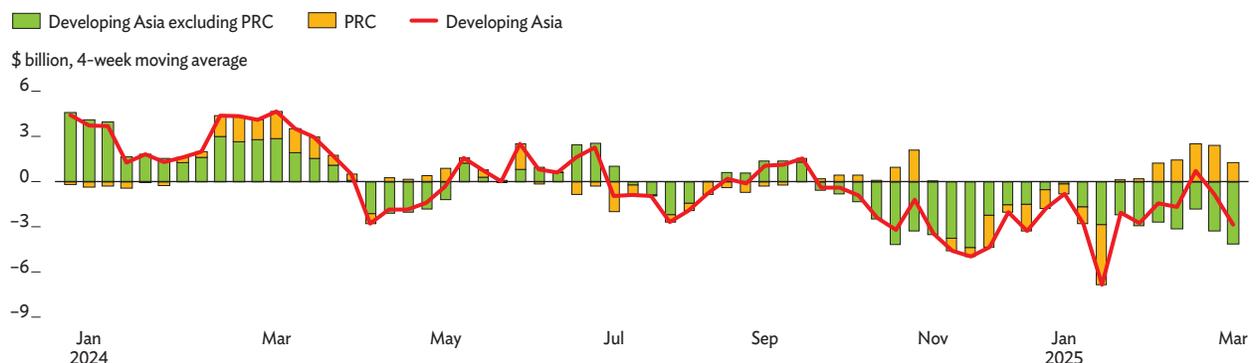
Most Asian currencies depreciated in the last quarter of 2024 but have since reversed in 2025, showing mild appreciation up to 7 March.



Lao PDR = Lao People’s Democratic Republic, US = United States. Note: Changes in exchange rates are aggregated using gross domestic product purchasing power parity shares as weights. Source: Bloomberg.

Figure 1.1.15 Portfolio Flows into the Region

Outflows recorded since October 2024 amid global market uncertainty.



PRC = People's Republic of China.

Note: Developing Asia comprises India; Indonesia; Malaysia; Pakistan; the Philippines; the Republic of Korea; Singapore; Sri Lanka; Taipei,China; Thailand; and Viet Nam.

Source: Institute of International Finance.

on selected economies indicates that 7 out of 11 long-term bond yields in the region remained elevated in early March 2025 compared to October of last year, as investors continued to price in the expectation of higher-for-longer interest rates in the US.

The region recorded outflows since the last quarter of 2024 as global market uncertainty increased.

Rising global risk aversion and expectations of higher-for-longer interest rates in the US dampened portfolio flows into the region from 1 October 2024 to 7 March 2025, recording a total outflow of \$56.5 billion. In early 2025, funds flowed outward from the region mostly given the ongoing uncertainty around US tariffs and elevated market risk aversion. During February, however, the PRC recorded inflows of \$14.0 billion, mainly driven by new measures announced by the government to help support the stock market. This boosted investor sentiment, although it dissipated in early March as concerns about trade tensions rose (Figure 1.1.15).

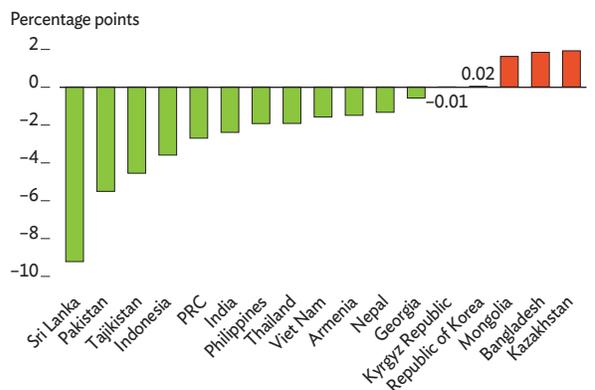
Slower Monetary Easing Amid Persistent Fiscal Vulnerabilities

Inflation is now below target or within target bands for most inflation-targeters in the region (Figure 1.1.16).

Price dynamics in Sri Lanka remained deflationary for the sixth month in a row, with inflation well below target at -4.2%. In contrast, inflation

Figure 1.1.16 Headline Inflation Difference from Inflation Target or Upper Bound, February 2025

13 out of 17 inflation-targeters have inflation below or within target.



PRC = People's Republic of China.

Note: Figure plots difference of February 2025 inflation from the central bank target. Negative values indicate inflation below target, positive values indicate inflation above target. In cases where central banks have a target range, the upper bound is used.

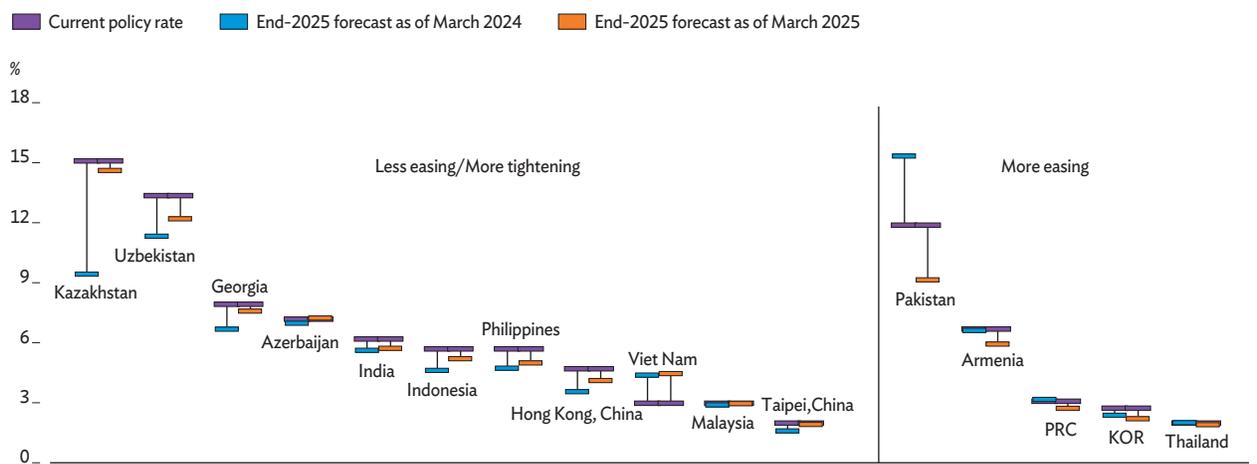
Source: CEIC Data Company.

remained marginally above target for the Republic of Korea (0.1 percentage points), and more significantly so for Mongolia (1.6 percentage points), Bangladesh (1.8 percentage points), and Kazakhstan (1.9 percentage points).

Many economies continue monetary easing, but the pace is expected to slow in some. Monetary easing cycles are continuing, with seven central

Figure 1.1.17 Policy Rate Forecasts for End-2025 for Selected Economies, as of March 2024 and March 2025

Monetary easing will continue at a slower pace than what was expected last year.



PRC = People's Republic of China, KOR = Republic of Korea.

Sources: Focus Economics; CEIC Data Company.

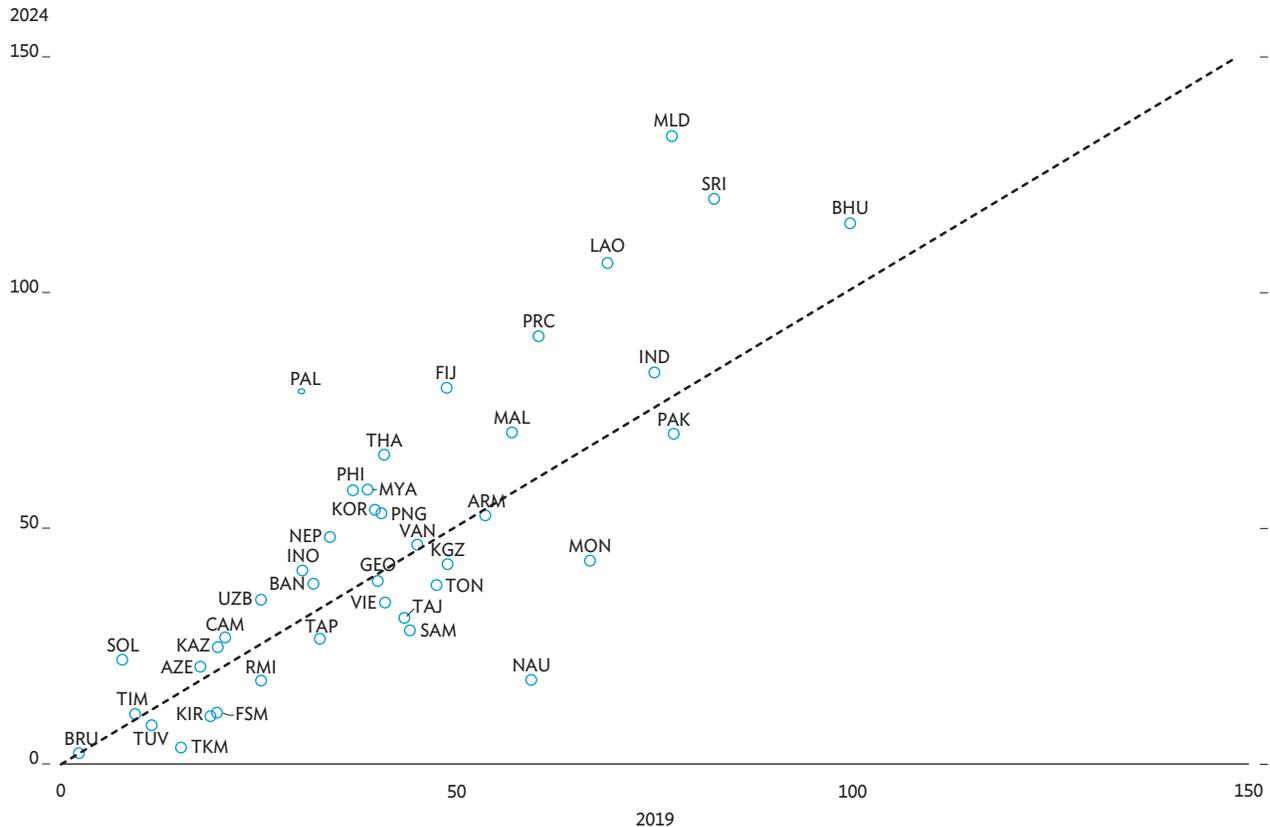
banks cutting rates from January to March this year. But expectations of higher-for-longer interest rates in the US look to have shifted the pace towards less or slower easing. In 11 out of 16 economies with forecasts, policy rate expectations for end-2025 are now seen to remain more elevated than expected a year ago (Figure 1.1.17). Combined with continued moderation in inflation, delayed easing implies that real interest rates will also decrease more slowly than previously anticipated, which could impede growth. While policy rate easing could lead to depreciation of exchange rates, it can also help offset the effects on growth of uncertainty around tariffs and lower domestic demand.

Public debt ratios are stabilizing but vulnerabilities remain. Resilient economic growth last year offset upward pressure from persistent fiscal deficits and exchange rate depreciations. However, most economies in the region still face higher debt-to-GDP ratios than their pre-pandemic levels (Figure 1.1.18). In Bhutan, Lao PDR, Maldives, and Sri Lanka, debt levels are now over 100% of GDP. Looking ahead, while debt ratios remain on a stable trajectory, adverse shocks such as lower economic growth, persistent fiscal deficits, elevated interest rates, or exchange rate depreciations, could push debt levels up substantially.

Factors outside of economic growth and interest rates are also affecting debt dynamics in the region. Developments in fiscal policy and economic growth explain most of the changes in debt-to-GDP ratios in the region from 2019 to 2024. Worsening primary balances on average increased debt by 7.9 percentage points, while GDP growth reduced it by 5.6 percentage points. However, other factors such as contingent liabilities, debt rescheduling, cash transfers, and valuation effects, have also played a substantial role (Figure 1.1.19), raising debt-to-GDP ratios by an average of 5.2 percentage points. Factors specific to individual economies could also pose additional risks and are often unaccounted for in projections. For example, in Palau, state-owned-enterprise (SOE) transactions more than offset an improvement in the primary balance, leading to a 50-percentage point increase in its public debt ratio. Similarly in Lao PDR, it is estimated that arrears, bilateral swaps, and recapitalizations of SOEs added 53 percentage points to the debt-to-GDP ratio from 2019 to 2024. Meanwhile, in Timor-Leste, withdrawals from the Petroleum Fund offset a substantial deterioration in the primary balance. Given their sizeable role in debt dynamics, these factors specific to economies should also be considered closely in assessing debt sustainability.

Figure 1.1.18 Public Debt-to-GDP Ratio, 2019 Versus 2024

Public debt is still higher than pre-pandemic levels for most economies.



ARM = Armenia; AZE = Azerbaijan; BAN = Bangladesh; BHU = Bhutan; BRU = Brunei Darussalam; CAM = Cambodia; FIJ = Fiji; FSM = Federated States of Micronesia; GDP = gross domestic product; GEO = Georgia; IND = India; INO = Indonesia; KAZ = Kazakhstan; KGZ = Kyrgyz Republic; KIR = Kiribati; KOR = Republic of Korea; LAO = Lao People's Democratic Republic; MAL = Malaysia; MLD = Maldives; MON = Mongolia; MYA = Myanmar; NAU = Nauru; NEP = Nepal; PAK = Pakistan; PAL = Palau; PHI = Philippines; PNG = Papua New Guinea; PRC = People's Republic of China; RMI = Marshall Islands; SAM = Samoa; SOL = Solomon Islands; SRI = Sri Lanka; TAJ = Tajikistan; TAP = Taipei, China; THA = Thailand; TIM = Timor-Leste; TKM = Turkmenistan; TON = Tonga; TUV = Tuvalu; UZB = Uzbekistan; VAN = Vanuatu; VIE = Viet Nam.

Source: Asian Development Bank. Asian Sovereign Debt Monitor database.

Rising gross financing needs from interest payments and amortization are a growing concern.

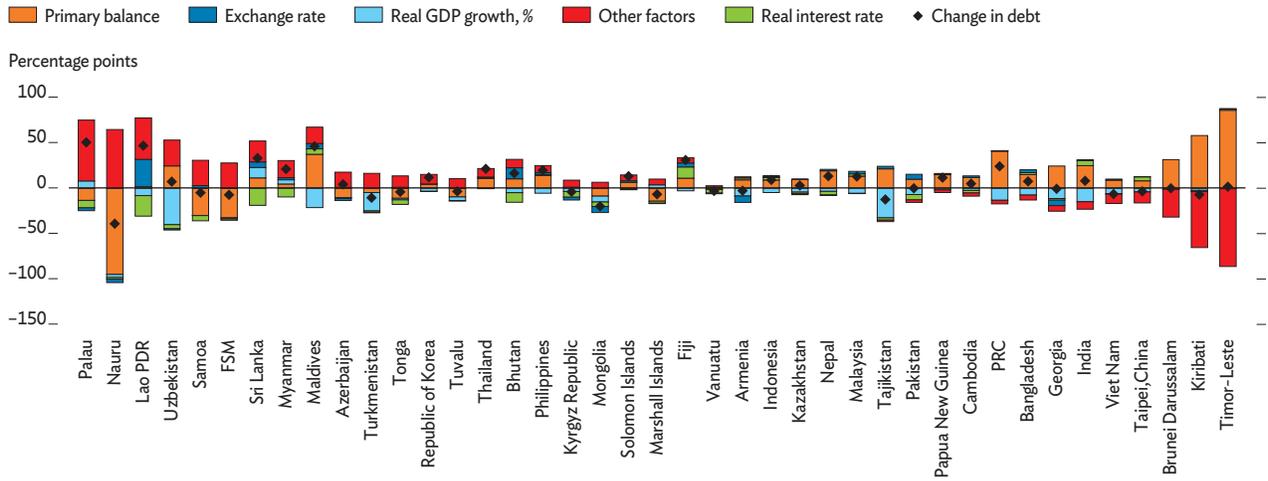
Most economies in the region now face substantially higher interest payments relative to GDP than in 2019 as a result of higher debt levels and interest rates (Figure 1.1.20). Amortization payments were also substantial for several economies. Meanwhile, the change in fiscal balances over this period was mixed, but some economies had sizeable fiscal deficits in 2024, with a noticeably large deficit of 17.9% of GDP in Maldives. Elevated debt service ratios could worsen these deficits, underscoring the need for stronger debt management, transparency, and affordable financing to prevent the potential for liquidity shocks to escalate into solvency crises.

Some economies face persistent vulnerabilities.

High debt in the Lao PDR is compounded by a large share of foreign denominated debt and debt servicing amounting to 72% of revenues. Similarly, Maldives faces large debt service costs, at 67.2% of revenues, while a high primary deficit is expected to push public debt even higher to 132% of GDP. Pakistan and Sri Lanka have improved somewhat, however, as recovering growth will help reduce public debt levels. Nonetheless, interest payments remain high in these two economies and sustaining reforms a critical challenge.

Figure 1.1.19 Changing Drivers of Debt in Developing Asia, 2019–2024

Factors specific to individual economies played a role in changes to public debt.

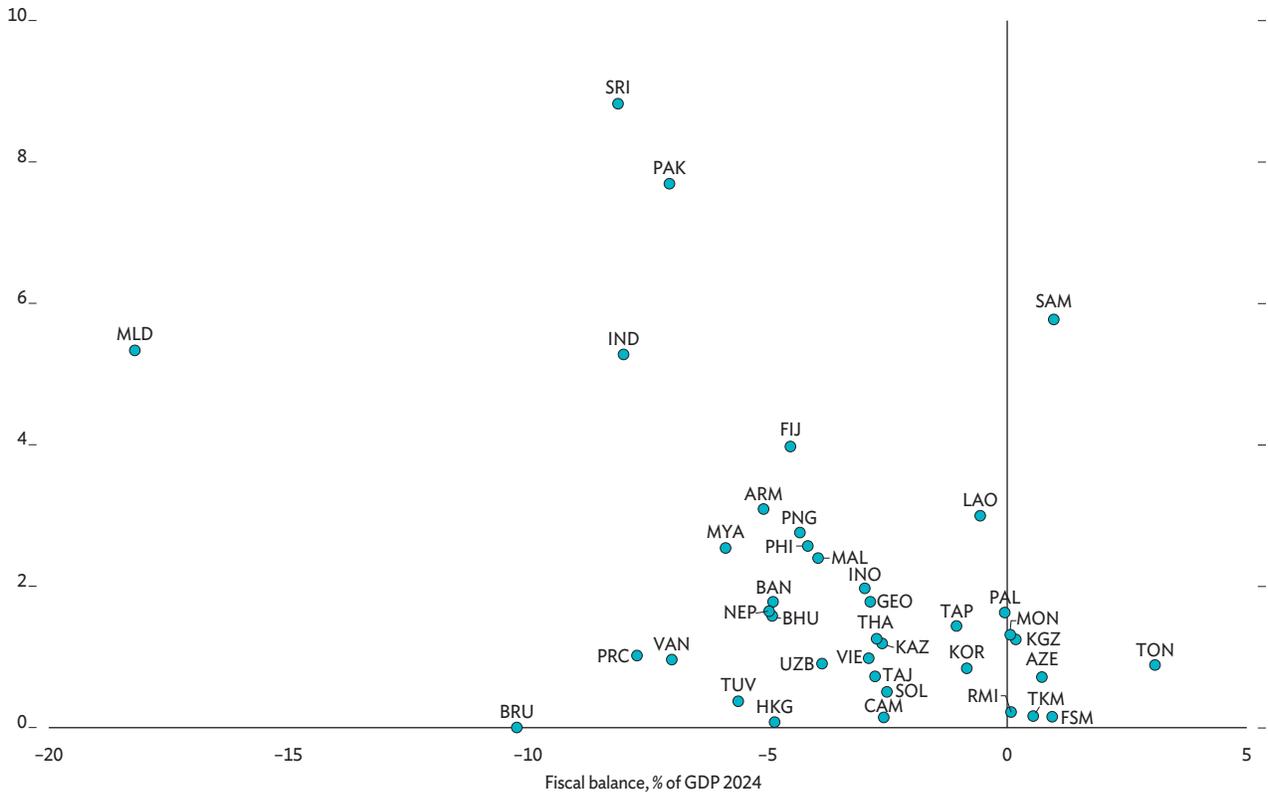


PRC = People’s Republic of China, FSM = Federated States of Micronesia, GDP = gross domestic product, Lao PDR = Lao People’s Democratic Republic. Source: Asian Development Bank. Asian Sovereign Debt Monitor database.

Figure 1.1.20 Fiscal Balances and Interest Payments, 2024

High interest payments can put additional pressure on fiscal deficits.

Interest payments, % of GDP 2024



ARM = Armenia; AZE = Azerbaijan; BAN = Bangladesh; BHU = Bhutan; BRU = Brunei Darussalam; CAM = Cambodia; FIJ = Fiji; FSM = Federated States of Micronesia; GDP = gross domestic product; GEO = Georgia; IND = India; INO = Indonesia; KAZ = Kazakhstan; KGZ = Kyrgyz Republic; KOR = Republic of Korea; LAO = Lao People’s Democratic Republic; MAL = Malaysia; MLD = Maldives; MON = Mongolia; MYA = Myanmar; NEP = Nepal; PAK = Pakistan; PAL = Palau; PHI = Philippines; PNG = Papua New Guinea; PRC = People’s Republic of China; RMI = Marshall Islands; SAM = Samoa; SOL = Solomon Islands; SRI = Sri Lanka; TAJ = Tajikistan; TAP = Taipei, China; THA = Thailand; TKM = Turkmenistan; TON = Tonga; TUV = Tuvalu; UZB = Uzbekistan; VAN = Vanuatu; VIE = Viet Nam.

Source: Asian Development Bank. Asian Sovereign Debt Monitor database.

A Challenging Outlook Amid Heightened Trade Uncertainty

Global Economic Conditions Are Set to Weaken Slightly

Growth momentum will diverge across major advanced economies due to ongoing trade tensions and high policy uncertainty (Box 1.2.1).

Under this report's baseline forecasts, which do not take into account US tariffs announced on 2 April, the United States (US) is projected to grow 2.0% in 2025 and 1.9% in 2026 (Table 1.2.1). Uncertainty about shifts in US government policies and escalating trade tensions are expected to continue to hinder private investment growth in the near term. The projections account for the additional 20% tariff on imports from the People's Republic of China (PRC), effective since March, as well

as other new US tariffs, and retaliatory measures up to 7 March 2025 (Box 1.2.2). In addition, the initial hike in tariffs on imports from Canada and Mexico, which are assumed to be gradually lowered through negotiations by the second quarter of the year, are expected to hurt growth in 2025. Tighter immigration policies are projected to constrain labor supply and put upward pressure on wages and inflation. In the euro area, growth is forecast to pick up to 1.2% in 2025, as rising real incomes and continued easing of monetary policy support private consumption and Germany increases public spending on infrastructure and military capital expenditures. Growth is projected to grow further in 2026 as the full effects of Germany's fiscal stimulus fully materialize. Japan's economy is forecast to grow 1.2% in 2025, as fiscal stimulus and increasing wages boost consumption. The expansion is expected to moderate to 0.8% in 2026 as weaker external demand reduces exports. The 2 April US tariffs announcement has introduced substantial clouds to the outlook of the three major advanced economies. If confirmed, these tariffs are expected to negatively affect growth prospects (Box 1.2.2).

Inflation is expected to decline further, but central banks are anticipated to adopt a more cautious approach to loosening monetary policy.

US average inflation is projected to ease to 2.5% in 2025 and 2.4% in 2026, from 3.0% in 2024, thus remaining above the US Federal Reserve (the Fed) 2% target. Compared to expectations prior to the results of the US presidential election, higher-for-longer interest rates are now projected in the US due to the expected inflationary effects of recent policy shifts (Figure 1.2.1). Headline inflation in the euro area is forecast to average 2.2% in 2025 and 2.0% in 2026, with the European Central Bank likely to implement additional policy rate cuts this year as labor market conditions gradually ease. In Japan, inflation is expected to decline to 2.6% in 2025 and 1.9% in 2026, as the Bank of Japan continues its monetary policy normalization, gradually raising

Table 1.2.1 Baseline Assumptions on the International Economy

	2023	2024	2025	2026
	Actual	Estimate	Forecast	
GDP growth, %				
Major advanced economies ^a	1.8	1.7	1.6	1.6
United States	2.9	2.8	2.0	1.9
Euro area	0.4	0.9	1.2	1.4
Japan	1.5	0.1	1.2	0.8
People's Republic of China	5.4	5.0	4.7	4.3
Inflation, %				
Major advanced economies	4.6	2.7	2.4	2.2
United States	4.1	3.0	2.5	2.4
Euro area	5.5	2.4	2.2	2.0
Japan	3.3	2.7	2.6	1.9
People's Republic of China	0.2	0.2	0.4	0.7
Brent crude spot prices, average, \$/barrel	83	81	74	71

GDP = gross domestic product.

^a Average growth rates are weighted by GDP purchasing power parity.

Sources: Bloomberg; CEIC Data Company; Haver Analytics; International Monetary Fund. World Economic Outlook; Asian Development Bank estimates.

Box 1.2.1 Impact of US Trade Policy Uncertainty on Portfolio Investment Flows in Developing Asia

Uncertainty about trade policy in the United States (US) has increased markedly since the 2024 US presidential election. The imposition and threat of new tariffs and expected retaliation by trading partners have called the continuation of the current global trade regime into question. This has led to a marked rise in US trade policy uncertainty, as highlighted by the outsized increase of the news-based index of Caldara et al. (2020). In October 2024, before the US presidential election, the index was close to its long-term average of 100 but surged to almost 1800 in February 2025 (box figure 1). This spike represents the largest increase ever recorded. Overall economic policy uncertainty in the US and across the world, as measured through different news-based indexes, has also increased since the 2024 US presidential election, albeit much less strongly than US trade policy uncertainty.

Uncertainty is important in shaping investment decisions, as it can affect both the timing and allocation of investments. When deciding whether to invest, companies often wait because delaying decisions can be valuable—especially when the future is uncertain. This concept, called the “option value of waiting” (MacDonald and Siegel 1986; Dixit and Pindyck 1994), highlights that waiting allows businesses to gather more information before committing to a big decision. The value of waiting increases in the size of the investment and

the investment horizon, with large infrastructure and manufacturing investments particularly prone to delays. Box 1.1.3 of the April 2019 Asian Development Outlook (ADB 2019) examines the relationship between trade policy uncertainty and real investment, zooming in on the People’s Republic of China (PRC), and confirms the prediction from theory, finding that higher uncertainty lowers investment.

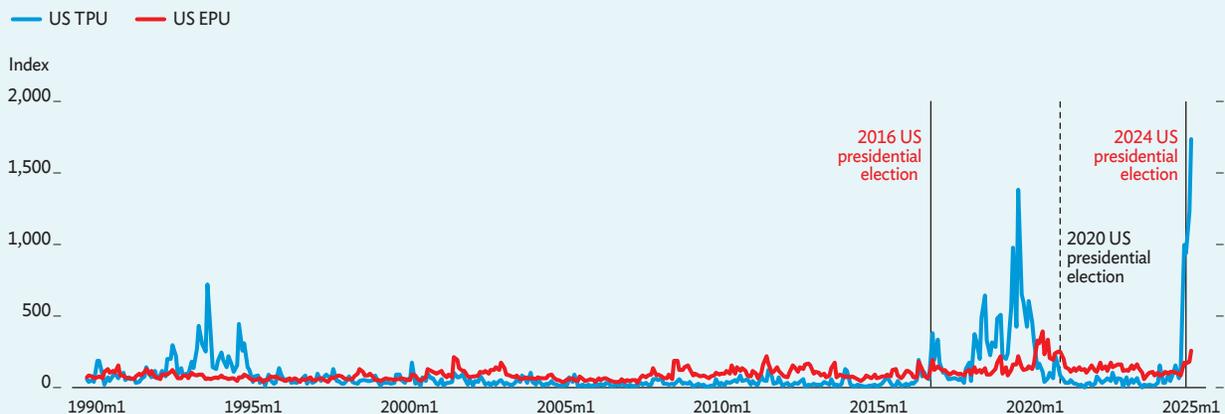
In financial markets, uncertainty may influence investors’ decisions about portfolio allocation.

Merton’s (1973) dynamic Capital Asset Pricing Model highlights that investors adjust their portfolios in response to shifts in expected returns and volatility, with increased uncertainty leading to more conservative asset allocations. Bansal and Yaron (2004) show that long-term economic uncertainty—particularly about growth prospects—can cause persistent fluctuations in expected returns and risk premiums, compelling investors to demand higher risk compensation. Overall, uncertainty tends to reduce the appetite for risk, prompting firms and investors to adopt more cautious and flexible strategies.

When US trade policy uncertainty rises, investors tend to sell shares of funds investing in emerging market bonds. Using information on investors’ allocations into almost 5,000 investment funds domiciled in advanced economies over 2015–2024,

1 United States Economic and Trade Policy Uncertainty Indexes

US trade policy uncertainty has spiked since the 2024 US presidential election.



EPU = economic policy uncertainty, TPU = trade policy uncertainty, US = United States.

Note: The indexes have been normalized so that their long-term averages equal 100.

Sources: Baker, Bloom and Davis (2016); Caldara et al. (2020).

Box 1.2.1 Continued

Ciminelli, Lanzafame and Raabe (forthcoming) analyze how investors respond to changes in US trade policy uncertainty. The findings suggest an important role for such uncertainty in shaping investors' portfolio decisions and ultimately cross-border portfolio debt flows through mutual funds. Investors withdraw money from funds investing in emerging market bond assets as US trade policy uncertainty increases. By contrast, funds investing in emerging market equities remain largely unaffected. The asymmetry between bond and equity effects echoes similar findings from the literature, which find emerging market bond flows to be more sensitive than equity flows to external shocks (for instance, see Ciminelli, Rogers, and Wu [2022], for responses to US monetary policy shocks).

Trade policy uncertainty may affect bond funds through its impact on risk premiums and currency dynamics. First, if debt finances long-term investments, possibly linked to trade and working capital for global supply chains, heightened uncertainty adds to the risk premium. Through this channel, higher US trade policy uncertainty can affect bond pricing directly through the discount factor and inflows into bond funds. This mechanism is similar to how a restrictive monetary policy shock tightens financial conditions. Second, higher US trade policy uncertainty may lead to a depreciation of currencies in US trading partners as people anticipate falling exports. This mitigates the negative impact of tariffs on the competitiveness of foreign firms, which may explain the muted responses of inflows into equity funds. At the same time, currency depreciation increases the debt burden of entities with US dollar-denominated liabilities, raising default risks and lowering bond inflows. Third, bond investors may be more risk-averse than equity investors, explaining their greater response to increases in trade policy uncertainty. These channels are not mutually exclusive and likely interact, amplifying the overall impact of uncertainty on bond markets while affecting equity funds relatively less.

Emerging Asia regional funds and PRC-focused funds are most affected. The analysis reveals that withdrawals from global emerging market funds, meaning funds that do not have a geographical mandate, are not significant (box figure 2, panel A).

Outflows from emerging Asia regional funds reach about 0.5 percentage points of fund assets 8 weeks after a 1-standard-deviation increase in the US Trade Policy Uncertainty index, and are not subsequently reversed, stabilizing at about 0.9 percentage points at the end of the 20-week horizon considered (panel B). Outflows from PRC-focused funds are considerably larger, reaching 1.5 percentage points 8 weeks after the increase in trade policy uncertainty, but are almost entirely reversed thereafter (panel C). In contrast, funds focused on individual Asian economies other than the PRC experience some positive inflows soon after the increase in trade policy uncertainty, but these are marginal and entirely reversed over the rest of the horizon considered (panel D). Overall, these results suggest that the increases in US trade policy uncertainty may have a detrimental effect on the level of capital inflows to emerging Asia and lead to more capital flows volatility.

Persistent outflows from emerging Asia regional funds and temporary outflows from PRC-focused funds may reflect differences in investor base, risk perception, and portfolio rebalancing.

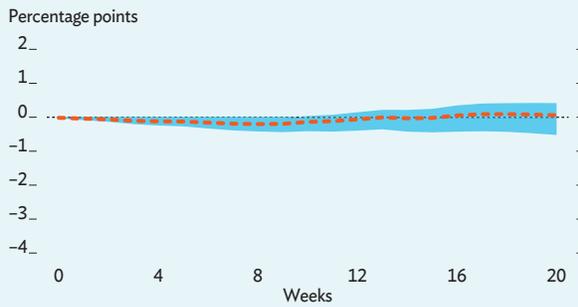
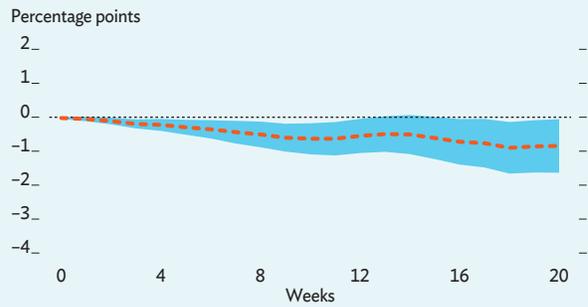
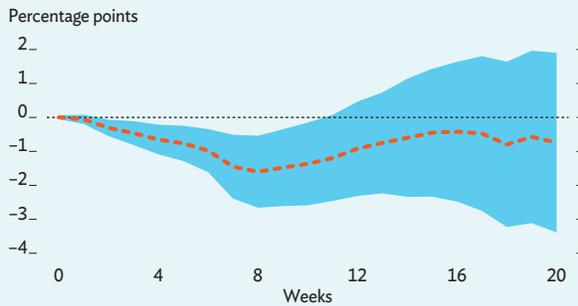
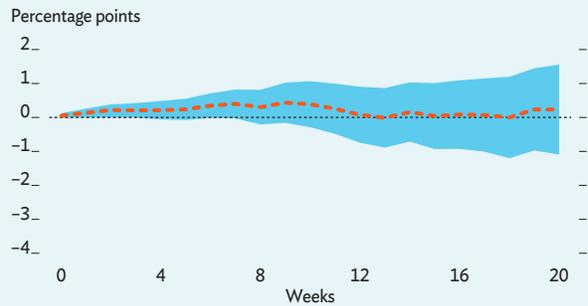
Investors selecting into emerging Asia regional funds seek a diversified exposure to the region and may view trade policy uncertainty as a sustained risk, given the region's integration into global supply chains, leading to more permanent reallocations. In contrast, the sharp but short-lived outflows from PRC-focused funds suggest an initial "flight-to-safety" reaction, on concerns that the PRC may be a direct target of trade tensions, followed by a reversal as confidence in the PRC's economic resilience and policy responses is restored.

Asian economies can enhance their resilience to swings in US trade policy uncertainty through a combination of domestic market development, risk management, and regional integration.

Expanding local-currency bond markets, the domestic investor base, and macroprudential supervision of financial institutions' currency mismatches can reduce reliance on foreign debt and vulnerabilities to capital outflows. At the same time, effective foreign exchange and debt management policies, including maintaining adequate reserves and promoting hedging

Box 1.2.1 Continued**2 Effect of an Increase in US Trade Policy Uncertainty on Allocations into Bond Mutual Funds**

US trade policy uncertainty leads investors to sell shares in Asian regional and PRC-focused funds.

A. Global Emerging Markets Funds**B. Emerging Asia Regional Funds****C. Funds Focused Solely on the PRC****D. Funds Focused on Single Economies in Emerging Asia Excluding the PRC**

PRC = People's Republic of China, US = United States.

Note: Dashed red lines denote point estimates, light blue areas are 90% confidence bands, obtained using two-way clustered standard errors (fund and time). The estimation employs the local projections method (Jorda 2005) over a 21-week horizon (reported on the x-axis) in a fund-week panel spanning January 2015 to June 2024 and excluding funds domiciled in emerging markets. The dependent variable is cumulative investors' allocations into mutual funds over the horizon considered divided by funds' initial assets. The main explanatory variable is the first difference of the US trade policy uncertainty index divided by its standard deviation. Control variables include (i) the first difference of the US economic policy uncertainty index, the VIX index, and the broad US dollar (USD) index, (ii) four lags of these variables as well as of the first difference of the US trade policy uncertainty index, (iii) four lags of the fund's net asset value percentage return and previous fund inflows, (iv) forward shocks, following the methodology of Teulings and Zubanov (2014), to account for trade policy uncertainty, economic policy uncertainty, VIX, and USD shocks occurring within the $t+k$ horizon but not captured by the explanatory variables at time t , and (v) fund initial assets.

Sources: Ciminelli, Lanzafame and Raabe (forthcoming), based on data from Emerging Portfolio Fund Research, Baker, Bloom and Davis (2016), Caldara et al. (2020) and Board of Governors of the Federal Reserve System (n.d.).

mechanisms, can help firms and governments navigate exchange rate fluctuations. Deepening regional economic cooperation and pursuing advanced multilateral trade agreements, like the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and the Regional Comprehensive Economic Partnership, as well as bilateral trade agreements with deep commitments, can provide alternative trade and investment channels, reducing exposure to US policy shifts.

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Box 1.2.1 Continued

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This box was written by Gabriele Ciminelli, Matteo Lanzafame, and Alexandar Raabe.

Box 1.2.2 The Impact of US Reciprocal Tariffs in Developing Asia

On 2 April, the United States (US) announced “reciprocal tariffs” on all trading partners. These ad valorem duties will be additional to pre-existing tariffs and start from a minimum rate of 10% applied to all imports from all US trading partners. For 57 economies globally, the announced duties are higher than the minimum rate (The White House 2025).

The tariffs are intended to reduce bilateral trade deficits the US runs with some of its trading partners. The declared objective is to “level the playing field,” and the calculation assumes that persistent US trade deficits are due to a combination of tariff and non-tariff factors that prevent trade from balancing. Reciprocal tariffs are intended to address US trade deficits by reducing US imports.

Developing Asia will face significantly higher US tariffs. Of the top 10 highest tariffs globally, five are in developing Asia: Cambodia (49%), Lao PDR (48%), Viet Nam (46%), Sri Lanka (44%), and Myanmar (44%). Box figure 1 shows the tariffs for all developing Asian economies.

Some products are subject to exemptions. A range of products will be exempted, including copper, pharmaceuticals, semiconductors, lumber articles, certain critical minerals, and energy and energy products. Among economies in developing Asia, the exemption on energy and energy products reduces the imposed duty on Kazakhstan by a sizable 18 percentage points, to 8.6%. The downward adjustment is small for most other regional economies, and more than 5 percentage points only for Georgia and Malaysia (box figure 1, yellow bars). The exemption for some of these products may be temporary—the US is currently reviewing trade in semiconductors and pharmaceuticals, which may soon be subject to separate tariffs.

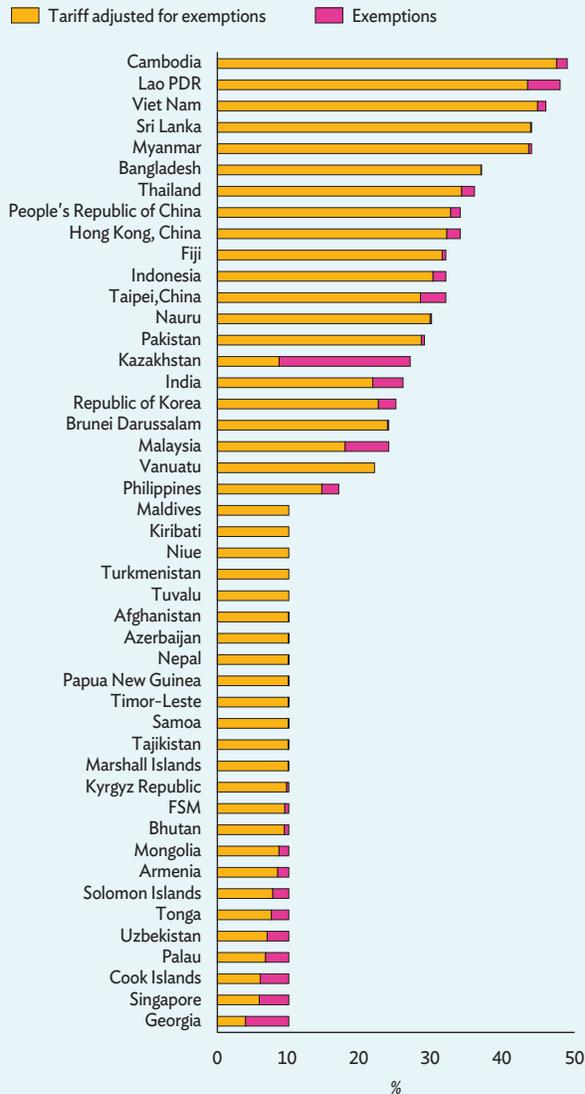
This box discusses the effects of US reciprocal tariffs and retaliatory measures. The analysis considers a scenario in which the additional US duties are imposed from the second quarter of 2025 as announced on 2 April and the US trading partners retaliate partially, with tariff hikes equal to 50% of the US reciprocal tariff.^a This partial retaliation still amounts to a significant increase in tariffs, and the

^a The estimates are based on simulations carried out using the Global Economic Model developed by Oxford Economics, a macro-econometric model. The simulations are conducted using the model’s tariff shock levers between the US and major trading partners, which are available only for a selected set of economies: Australia; Brazil; Canada; European Union; India; Japan; Malaysia; Mexico; PRC; Republic of Korea; Taipei,China; United Kingdom; and Viet Nam. Together with the US, these economies account for about 81% of global GDP.

Box 1.2.2 Continued

1 US Tariff Hikes on Developing Asian Economies: US Reciprocal Tariffs, adjusted for exemptions

Several economies in the region will be subject to steep US tariff increases, with exemptions on energy and other products reducing the duty on Kazakhstan and a few others.



FSM = Federated States of Micronesia, Lao PDR = Lao People's Democratic Republic, US = United States.

Note: Tariffs adjusted for exemptions adjust the announced tariffs to take into account the exemptions also specified in the White House Executive Order (The White House 2025). Some of these products could still be subject to tariffs in the future.

Sources: CEPII (2025), *BACI Database 202501 Version*; White House (2025), Executive Order Regulating Imports with a Reciprocal Tariff to Rectify Trade Practices that Contribute to Large and Persistent Annual United States Goods Trade Deficits, *Annex I*; Asian Development Bank calculations.

US administration has stated that it would respond by further hiking tariffs on economies that retaliate. The impacts of such additional rounds of escalation are beyond the scope of this exercise and, given the uncertainty surrounding it, difficult to estimate at the current juncture.

The simulations abstract from discretionary policy responses in tariff-affected economies, as well as other US policy changes. Fiscal policy is maintained unchanged in the simulations, while monetary policy changes are endogenously determined in the model. This is an important caveat, as actual policy responses may differ from the scenario assumptions, as explained below. Additionally, to better isolate and capture the impacts of reciprocal tariffs, non-trade policy shifts in the US—including fiscal and immigration policies—are not included in the analysis.

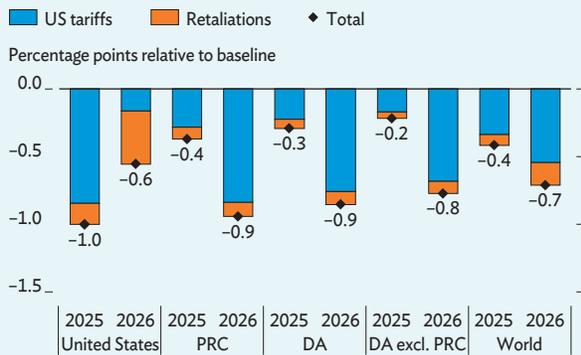
The results indicate that developing Asia, as well as the US, will be negatively affected if reciprocal tariffs are fully implemented as announced. Estimates indicate that the PRC's gross domestic product (GDP) growth rate would decline by 0.4 percentage points in 2025 and 0.9 percentage points in 2026 relative to the baseline forecast (box figure 2). For the rest of developing Asia, the impact is 0.2 percentage points in 2025 and 0.8 percentage points in 2026. US GDP growth would also be lower in 2025 and 2026, respectively, by 1.0 and 0.6 percentage points, with about 35% of the impact due to retaliatory measures. According to the model results, retaliation reduces growth across all economies, with the effect most pronounced in the US. These impacts are mainly driven by a global trade slowdown, which translates into weaker business and consumer sentiment, lower aggregate demand, and reduced economic activity.

The simulation results should be interpreted cautiously due to modeling limitations. First, the analysis focuses solely on the impacts of higher trade tariffs, without incorporating the dampening effects of possible policy responses. Policymakers in the region and elsewhere may elect to counteract the recessionary impacts of higher tariffs by pursuing expansionary policies, such as easing monetary policy more strongly than projected in this analysis or boosting fiscal support. Second, the simulations do

Box 1.2.2 Continued

2 Estimated Impacts of US Reciprocal Tariffs on GDP Growth

The US economy is hit hardest, while the impact on the rest of the world is stronger in 2026.



PRC = People’s Republic of China, DA = developing Asia, US = United States.

Note: The blue and orange bars represent the impact of US tariffs and retaliatory tariffs, respectively.

Source: Asian Development Bank calculations based on the Oxford Economics Global Economic Model.

not account for the potential effects that escalating trade tensions can have on trade diversion and reallocation in supply chains. As evidenced by previous trade tensions and other geopolitical shocks, economies may develop new trade linkages when faced with shifting trade barriers. Third, the very high levels of trade policy uncertainty—currently at all-time highs—are likely to dampen domestic and foreign investment, as would a rise in financial volatility and global risk aversion, and these are not accounted for in the model simulations. Finally, an important corollary to all this is that the baseline forecasts should not be mechanically adjusted down by the estimated impacts of the tariffs.

The optimal policy response will vary across economies. Policymakers need to account for the negative consequences of retaliation when they

consider whether or to what extent they should retaliate. As much as possible, negotiating to ease tensions and reduce tariffs should be pursued. More generally, developing Asian economies should remain committed to open trade and investment, bolstering economic integration, reconfiguring supply chains to adapt to new tariffs, and seeking new trade agreements among themselves and with third countries. In cases where tariffs result in a significant slowdown in growth, macroeconomic policy support should be considered. Easing monetary policy could be appropriate since many regional economies now have inflation at or below target. For economies with fiscal space, supportive fiscal measures can be used, especially to assist more vulnerable populations. Finally, over the medium-term economies should endeavor to diversify export markets to reduce concentration risk.

The US reciprocal tariffs are set to become effective beyond this report’s data cutoff. The 10% minimum reciprocal tariff rate is scheduled to apply from 5 April onwards and the higher duties from 9 April. At the time of writing, it remains uncertain whether these tariffs will be implemented fully and as announced. It is possible that negotiations could lead to a postponement or lower US tariff hikes on at least some developing Asian economies. But the possibility of full implementation or even further escalation of trade tensions also exists.

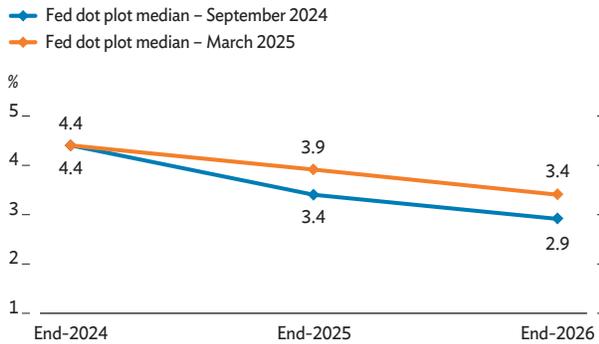
Reference:

The White House. 2025. [Regulating Imports with a Reciprocal Tariff to Rectify Trade Practices that Contribute to Large and Persistent Annual United States Goods Trade Deficits](#). 2 April.

This box was written by Jaqueson Galimberti and Matteo Lanzafame. Inputs by Abdul Abiad, John Beirne, and Jules Hugot.

Figure 1.2.1 Expectations of US Fed Target Rate

Higher-for-longer US interest rates are now expected.

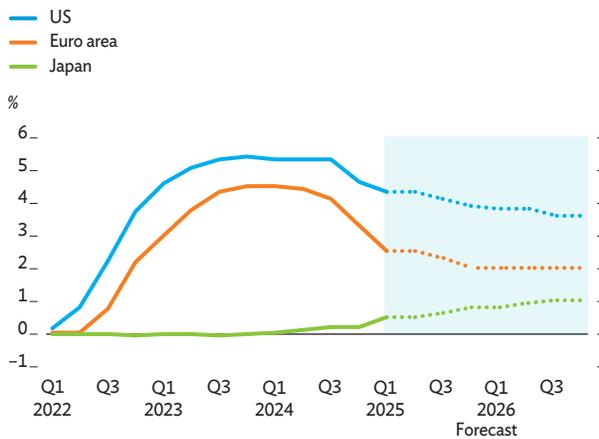


US = United States.

Source: US Federal Open Market Committee.

Figure 1.2.2 Policy Rates in Major Advanced Economies

Monetary policy to continue easing at a moderate pace.



Q = quarter, US = United States.

Sources: Haver Analytics; Asian Development Bank estimates.

policy rates over the forecast horizon (Figure 1.2.2). As the yen appreciates on narrowing interest rate differentials relative to the US, lower import costs will also shape the inflation outlook for Japan.

Oil prices are expected to decline on weakening global demand and ample supply. Escalating trade tensions which could dampen global demand, along with rising US crude inventories, have exerted downward pressure on oil prices. Moreover, the increasing adoption of electric vehicles and the ongoing transition toward renewable energy are anticipated to lower oil demand. Global oil supply is projected to increase 1.8 million barrels/day in 2025 and 1.5 million in 2026, driven by production from OPEC+, the US,

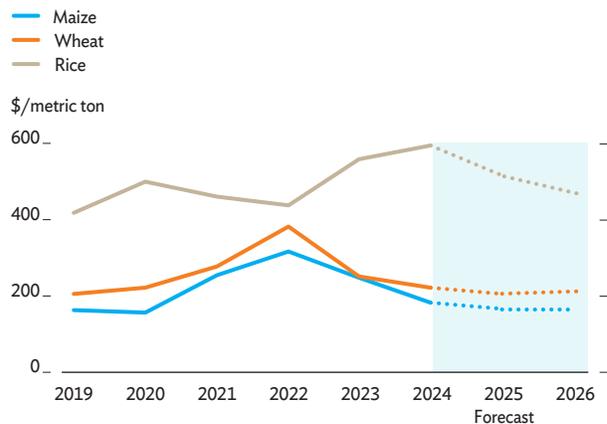
Canada, Brazil, and Guyana. In its 3 February 2025 meeting, OPEC+ confirmed its plan to commence increasing output from April 2025. In the absence of major geopolitical disruptions to oil supply, moderate demand growth combined with rising supply is likely to weigh on oil prices. Brent crude oil price is forecast to average \$74/barrel in 2025 and \$71/barrel in 2026.

Grain prices are expected to remain tempered.

The price of “Thailand 5% broken rice” is projected to continue falling over the forecast horizon to \$464/metric ton in 2026 from an average of \$588/metric ton in 2024 (Figure 1.2.3). The decline will be driven by India’s removal of its non-basmati rice export ban in September 2024, high stock levels, and favorable weather conditions for rice production in Asia amid a weak La Niña. Wheat and corn prices will remain stable this year and next.

Figure 1.2.3 Food Commodity Prices

Grain prices are expected to ease.



Note: Rice price refers to 5% broken, white rice, milled from Thailand.

Sources: World Bank Commodity Pink Sheet; Focus Economics.

Regional Growth to Slightly Moderate

Based on projections finalized prior to the early April US tariffs, developing Asia’s economic growth is forecast to decrease slightly to 4.9% in 2025 and 4.7% in 2026 on heightened trade uncertainty and higher US tariffs (Table 1.2.2). Stronger growth in South Asia, supported by robust domestic demand, will partly offset the impact on regional growth of the

Table 1.2.2 GDP Growth in Developing Asia, %

Growth will moderate slightly in 2025 and 2026.

	2023	2024e	2025f	2026f
Developing Asia	5.5	5.0	4.9	4.7
Developing Asia excluding the People's Republic of China	5.6	5.1	5.0	5.1
Caucasus and Central Asia	5.4	5.7	5.4	5.0
Armenia	8.3	5.9	5.0	4.7
Azerbaijan	1.1	4.1	3.4	3.3
Georgia	7.8	9.5	6.0	5.0
Kazakhstan	5.1	4.8	4.9	4.1
Kyrgyz Republic	9.0	9.0	8.5	8.6
Tajikistan	8.3	8.4	7.4	6.8
Turkmenistan	6.3	6.3	6.5	6.0
Uzbekistan	6.3	6.5	6.6	6.7
East Asia	4.8	4.7	4.4	4.0
People's Republic of China	5.4	5.0	4.7	4.3
Hong Kong, China	3.2	2.5	2.3	2.5
Republic of Korea	1.4	2.0	1.5	1.9
Mongolia	7.4	4.9	6.6	5.9
Taipei, China	1.1	4.6	3.3	3.0
South Asia	7.8	5.8	6.0	6.2
Afghanistan	-6.2	2.3	2.6	2.2
Bangladesh	5.8	4.2	3.9	5.1
Bhutan	4.9	5.5	8.5	6.0
India	9.2	6.4	6.7	6.8
Maldives	4.7	5.5	5.0	4.8
Nepal	2.0	3.9	4.4	5.1
Pakistan	-0.2	2.5	2.5	3.0
Sri Lanka	-2.3	5.0	3.9	3.4
Southeast Asia	4.1	4.8	4.7	4.7
Brunei Darussalam	1.1	4.2	2.5	2.0
Cambodia	5.0	6.0	6.1	6.2
Indonesia	5.0	5.0	5.0	5.1
Lao People's Democratic Republic	3.7	4.0	3.9	4.0
Malaysia	3.6	5.1	4.9	4.8
Myanmar	0.8	-0.7	1.1	1.6
Philippines	5.5	5.6	6.0	6.1
Singapore	1.8	4.4	2.6	2.4
Thailand	2.0	2.5	2.8	2.9
Timor-Leste	2.4	3.3	4.0	3.8
Viet Nam	5.1	7.1	6.6	6.5
The Pacific	4.7	4.2	3.9	3.6
Cook Islands	14.0	16.0	8.1	2.9
Fiji	7.5	3.5	3.0	3.2
Kiribati	4.2	5.8	4.1	3.3
Marshall Islands	-3.9	0.4	2.5	3.0
Federated States of Micronesia	0.8	1.1	1.7	1.1
Nauru	1.6	2.0	2.5	2.5
Niue	8.9	3.8	3.4	3.0
Palau	1.5	6.6	9.5	4.5
Papua New Guinea	3.8	4.3	4.2	3.8
Samoa	8.6	10.0	5.5	3.0
Solomon Islands	3.0	2.5	2.9	3.2
Tonga	2.1	1.6	2.5	2.3
Tuvalu	3.7	3.1	2.7	2.5
Vanuatu	2.4	1.7	2.0	2.5

e = estimate, f = forecast, GDP = gross domestic product.

Source: Asian Development Outlook database.

slowdown in the PRC due to the weak property sector and rising US tariffs. Excluding the PRC, growth in the region is expected to remain steady at 5.0% in 2025 and 5.1% in 2026. The contribution to growth from exports will remain positive. Despite moderation due to greater competition and ongoing trade uncertainties, high-income technology exporters and other economies will continue to benefit from sustained global demand for semiconductors. Easing price pressures and a recovery in tourism will also support domestic demand across the region.

Growth in the PRC is projected to slow due to the weak property sector and a challenging external environment. GDP growth is expected to moderate from 5.0% in 2024 to 4.7% in 2025 and 4.3% in 2026. From February-March 2025, an additional 20% tariff imposed by the US on imports from the PRC became effective, prompting retaliatory tariffs from the PRC on select US products. To mitigate the impact of escalating US-PRC trade tensions, the government is expected to increase policy support in 2025 and 2026. Fiscal measures will likely focus on boosting consumption, promoting national strategic projects and advanced manufacturing, fostering technological development, and supporting small and medium-sized enterprises. While household consumption has benefited from the consumer trade-in program, consumer confidence remains low due to a soft labor market, limited income growth, and falling house prices. A notable decline in exports is anticipated in 2026, as global demand weakens further amid economic uncertainty and ongoing trade frictions.

High-income technology exporters are expected to continue benefiting from sustained global demand for semiconductors. According to the World Semiconductor Trade Statistics, the semiconductor market is projected to grow 11.2% in 2025, primarily driven by the logic and memory sectors used in AI applications (Box 1.1.1). However, heightened trade protectionism and uncertainties may constrain export growth in the near term. In Hong Kong, China, growth is forecast to ease slightly to 2.3% in 2025, as rising US tariffs and currency appreciation may hamper external demand. Tourism growth is also expected to slow, while the property sector is likely to remain weak. In the Republic of Korea, growth is projected to moderate to 1.5% in 2025 and 1.9% in 2026, driven by subdued domestic demand and slower export growth, amid

increased competition from the PRC and rising US trade protectionism. In Taipei, China, artificial intelligence (AI)-related exports are expected to remain strong, but overall growth is anticipated to moderate to 3.3% in 2025 and 3.0% in 2026, due to weak domestic demand.

South Asia is set to remain the fastest-growing subregion, with robust domestic demand boosting growth in several economies this year. Growth in the subregion is expected to rise from 5.8% in 2024 to 6.0% in 2025 and 6.2% in 2026. In India, growth is projected to accelerate to 6.7% in fiscal year (FY) 2025 and 6.8% in FY2026. Falling inflation, monetary policy easing, improved agricultural production boosting rural income, and more favorable fiscal policy including tax cuts for middle-income households will support domestic demand. Bhutan's GDP growth is forecast to increase sharply to 8.5% in FY2025, from 5.5% in FY2024, driven by increased investment in hydroelectricity production and a surge in construction activity, before moderating to 6.0% in FY2026. Growth in Nepal is expected to accelerate in both FY2025 and FY2026. Robust consumption supported by higher remittance inflows, moderate inflation, and increased private and public investments will underpin economic activity. In contrast, political instability and supply bottlenecks will weigh on Bangladesh's economy in FY2025. Sri Lanka's economic recovery will continue this year and next, albeit at a slower pace. Consumption will remain muted as the purchasing power of households, which was eroded during the crisis, continues to be weak, with fiscal policy expected to remain tight, and while the resumption of debt servicing this year is expected to lead to currency depreciation. In Maldives, growth will moderate in FY2025 and FY2026, despite continued solid contributions from tourism-related sectors. Pakistan's growth is projected to remain steady at 2.5% in 2025 and 3.0% in 2026, supported by the implementation of a reform program that should strengthen private investment.

Southeast Asia's outlook will be shaped by strong domestic demand and a steady rise in tourism arrivals. The subregion's economy is projected to remain robust, with growth of 4.7% in both 2025 and 2026. In Indonesia, growth is projected to remain steady at 5.0% in 2025, before picking up slightly to 5.1% in 2026. Looser fiscal and monetary policies will support growth along with the government's implementation of its new priority programs. In the Philippines, growth

is forecast to edge higher to 6.0% in 2025 and 6.1% in 2026, as easing inflation, rising employment, and steady remittances will boost household spending. Moreover, the ongoing implementation of public infrastructure projects is also expected to support growth. In Thailand, GDP growth is projected to accelerate to 2.8% in 2025 and 2.9% in 2026, driven primarily by tourism and increased public investment in ports and railways. In contrast, growth in Singapore is expected to moderate from 4.4% in 2024 to 2.6% in 2025 and 2.4% in 2026, as slower exports, driven by global trade uncertainties and weaker external demand, are anticipated to dampen growth. Similarly, growth in Brunei Darussalam is projected to moderate from 4.2% in 2024 to 2.5% in 2025 and 2.0% in 2026, primarily due to a decline in the oil and gas sector as global oil prices ease. Growth is also projected to slow in Malaysia and Viet Nam as weaker global demand dampens export growth.

In the Caucasus and Central Asia, economic activity will moderate due to weak external demand. The subregion's growth is expected to slow from 5.7% in 2024 to 5.4% in 2025 and 5.0% in 2026. Growth in Armenia is projected to decelerate from 5.9% in 2024 to 5.0% in 2025, and further to 4.7% in 2026. Private consumption will weaken as remittances moderate, while exports are expected to gradually slow on weak external demand. In Georgia, growth will moderate sharply to 6.0% in 2025 and 5.0% in 2026, from 9.5% in 2024, as geopolitical uncertainties and the suspension of the European Union accession process drag on export growth and investment, while falling Russian migrant inflows may dampen spending. In contrast, growth in Kazakhstan is projected to increase marginally in 2025 due to higher oil production, while robust industry and services sectors will drive growth in Uzbekistan.

In the Pacific, tourism will continue to boost growth, but at a slower pace. The subregion's growth is forecast to moderate to 3.9% in 2025 and 3.6% in 2026. In Papua New Guinea, growth is expected to moderate to 4.2% in 2025 and 3.8% in 2026. Mining activity will continue to expand, but at a slower pace as gold output winds down. Tourism will remain a key driver of growth in the Cook Islands, Fiji, and Samoa, but progress in the tourism sector will moderate. In the Central Pacific, growth in Kiribati is expected to slow in 2025 and 2026 as ongoing infrastructure projects wind down, while reduced government spending is

likely to dampen growth in Tuvalu. For Nauru, higher growth forecasts reflect the impact of fiscal assistance through the Australia-Nauru treaty and the hosting of the Micronesian Games in 2026. Growth in the Marshall Islands, the Federated States of Micronesia, and Palau is expected to accelerate in 2025, driven by projects supported under the Compacts of Free Association. Economic growth in Vanuatu is projected to accelerate in 2025, driven primarily by a recovery in tourism and increased construction activity. Similarly, the Solomon Islands are expected to experience accelerated growth, supported by the mining, fishing, and construction sectors.

Inflation Will Remain Low and Stable

Regional inflation is projected to decline gradually. Inflation in developing Asia is forecast to moderate from 2.6% in 2024 to 2.3% in 2025 and 2.2% in 2026, on declining global oil prices and subdued domestic demand in some economies (Table 1.2.3), although with subregional variation. The Pacific will face upward price pressures due to currency depreciation, while inflation in East Asia will be pushed up by a pickup in inflation in the PRC from very low rates. In Caucasus and Central Asia, inflation will slightly increase in 2025 due to higher public spending and utility rate adjustments.

Inflation in the PRC is expected to rise modestly, driven by policy measures aimed at stimulating spending. Headline inflation is forecast to average 0.4% in 2025 and 0.7% in 2026, up from 0.2% in 2024. This increase is primarily attributed to government initiatives, such as trade-in programs, which are likely to boost demand for certain consumer goods. However, the overall low inflation environment is expected to persist, with weak domestic demand, property sector fragility, and strong industrial output weighing on producer and consumer prices.

Lower global oil prices will ease price pressures for the region's high-income technology exporters. In the Republic of Korea, headline inflation is forecast to moderate further, from 2.3% in 2024 to 1.9% in 2025 and 2026, owing to falling global oil prices and subdued domestic demand. Similarly, inflation in Taipei, China

Table 1.2.3 Inflation in Developing Asia, %*Inflation will further stabilize in the region.*

	2023	2024e	2025f	2026f
Developing Asia	3.3	2.6	2.3	2.2
Developing Asia excluding the People's Republic of China	6.2	4.8	4.0	3.7
Caucasus and Central Asia	10.2	6.8	6.9	5.9
Armenia	2.0	0.3	3.0	2.8
Azerbaijan	8.8	2.2	4.2	3.5
Georgia	2.5	1.1	4.0	3.5
Kazakhstan	14.5	8.7	8.2	6.5
Kyrgyz Republic	10.8	5.0	6.0	7.8
Tajikistan	3.8	3.6	5.0	5.8
Turkmenistan	1.3	5.5	6.0	6.0
Uzbekistan	10.0	9.4	8.0	7.0
East Asia	0.6	0.5	0.6	0.9
People's Republic of China	0.2	0.2	0.4	0.7
Hong Kong, China	2.1	1.7	1.9	2.0
Republic of Korea	3.6	2.3	1.9	1.9
Mongolia	10.3	6.8	9.1	7.0
Taipei, China	2.5	2.2	2.0	1.8
South Asia	7.9	6.6	4.9	4.5
Afghanistan	10.6	-7.7	-5.3	5.0
Bangladesh	9.0	9.7	10.2	8.0
Bhutan	4.2	2.8	3.4	3.5
India	5.4	4.7	4.3	4.0
Maldives	2.9	1.4	4.7	2.2
Nepal	7.7	5.4	5.2	5.0
Pakistan	29.2	23.4	6.0	5.8
Sri Lanka	17.4	1.2	3.1	4.5
Southeast Asia	4.2	3.0	3.0	2.8
Brunei Darussalam	0.4	-0.4	0.5	-0.2
Cambodia	2.1	0.8	3.7	2.4
Indonesia	3.7	2.3	2.0	2.0
Lao People's Democratic Republic	31.2	23.3	13.5	10.4
Malaysia	2.5	1.8	2.5	2.5
Myanmar	27.5	27.8	29.3	20.0
Philippines	6.0	3.2	3.0	3.0
Singapore	4.8	2.4	2.0	1.7
Thailand	1.2	0.4	1.0	1.1
Timor-Leste	8.4	2.1	2.9	2.6
Viet Nam	3.3	3.6	4.0	4.2
The Pacific	3.1	1.9	3.4	3.7
Cook Islands	13.2	4.6	2.3	2.0
Fiji	2.4	4.5	2.6	2.4
Kiribati	9.3	3.0	2.5	2.2
Marshall Islands	7.4	4.7	3.6	3.0
Federated States of Micronesia	6.2	4.1	3.0	2.7
Nauru	5.2	5.0	3.5	2.5
Niue	5.1	5.4	3.7	3.2
Palau	12.4	3.7	2.5	2.6
Papua New Guinea	2.3	0.7	3.8	4.3
Samoa	12.0	3.6	3.0	2.7
Solomon Islands	5.1	4.1	2.7	2.5
Tonga	10.2	4.6	3.2	3.0
Tuvalu	7.2	1.2	2.5	2.0
Vanuatu	11.2	4.8	3.5	2.4

e = estimate, f = forecast.

Source: Asian Development Outlook database.

is expected to decelerate to 2.0% in 2025 and 1.8% in 2026, down from 2.2% in 2024, as food price shocks wane. Singapore's inflation is also projected to decline, from 2.4% in 2024 to 2.0% in 2025 and 1.7% in 2026. In contrast, Hong Kong, China is expected to see a slight increase in inflation, driven by the effects of a more accommodative monetary policy.

In South Asia, inflation is expected to decline notably. The subregion's inflation is forecast to decrease from 6.6% in 2024 to 4.9% in 2025, and further to 4.5% in 2026. In India, inflation is projected to moderate to 4.3% in FY2025 and 4.0% in FY2026, supported by easing food and global oil prices. Inflation in Pakistan is anticipated to plunge from 23.4% in FY2024 to 6.0% in FY2025 and 5.8% in FY2026. The fall will be driven by moderate domestic demand, declining global commodity prices, and a favorable base effect. In Nepal, inflation is expected to ease to 5.2% in FY2025 and 5.0% in FY2026, mainly due to lower global oil prices and lower inflation in India, a key source of agricultural goods imports. In contrast, while remaining within the central bank's target range, inflation in Sri Lanka is expected to rise to 3.1% in 2025 and 4.5% in 2026, driven by higher demand from the ongoing recovery, higher electricity tariffs, and currency depreciation. Meanwhile, the removal of blanket subsidies on food staples and utilities will exert upward pressure on prices in Maldives in 2025, with inflation forecast to moderate in 2026 as the impact of subsidy removals fades and global commodity prices are expected to decline.

Inflation will accelerate slightly in Caucasus and Central Asia. Inflation in the subregion is projected to increase slightly from 6.8% in 2024 to 6.9% in 2025,

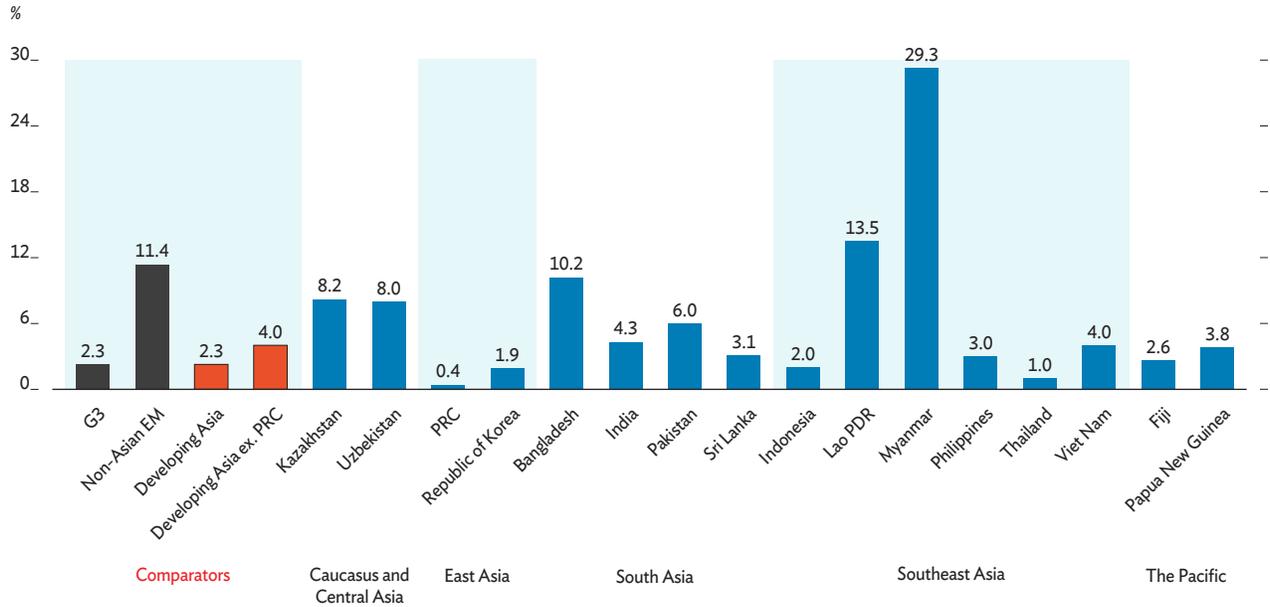
before moderating to 5.9% in 2026. In Armenia, expansionary fiscal and monetary policies are expected to contribute to rising inflation in 2025, while adjustments in utility prices will drive inflation higher in Azerbaijan and Kyrgyz Republic. In Tajikistan, higher consumer lending and rises in public sector salaries and pensions in 2025 will boost demand and drive prices higher this year and next year. Expansionary credit policy, higher public spending, and rising import prices will accelerate inflation in Turkmenistan. In contrast, easing price pressures in Kazakhstan and Uzbekistan over the forecast horizon, as monetary policy remains tight, will partly offset higher inflation in the rest of the subregion.

In Southeast Asia, inflation will remain subdued. Inflation in the subregion is expected to remain steady at 3.0% in 2025 and 2.8% in 2026, reflecting low and stable inflation across several economies. However, Myanmar will continue to record the highest inflation rate across developing Asia, at 29.3% in 2025 and 20.0% in 2026, due to the ongoing political conflict (Figure 1.2.4). Inflation in Lao People's Democratic Republic (PDR) will remain elevated at 13.5% in 2025 and 10.4% in 2026, though notably lower than the 23.3% in 2024. The implementation of a tighter monetary policy is anticipated to stabilize the exchange rate and help mitigate inflationary pressures.

Inflation will rise in the Pacific. Prices are forecast to increase from 1.9% in 2024 to 3.4% in 2025, and further to 3.7% in 2026. This upward trend for the subregion reflects higher inflation in Papua New Guinea due to currency depreciation, which will outweigh lower inflation rates in many other Pacific economies due to falling global oil prices.

Figure 1.2.4 Inflation Forecasts for 2025 for Selected Economies in Developing Asia

Inflation will largely remain low across developing Asia, except in Lao PDR and Myanmar.



PRC = People's Republic of China; EM = emerging market; G3 = euro area, Japan, United States; Lao PDR = Lao People's Democratic Republic.

Source: Asian Development Outlook database.

Risks Mount as Tariffs Escalate

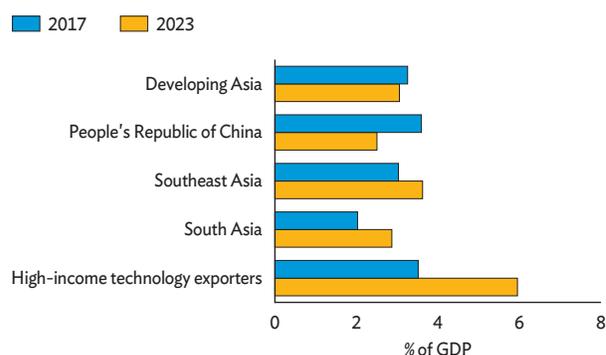
Full implementation of the 2 April US tariffs, amplified trade policy uncertainty, and further US trade policy shifts pose risks. Uncertainty remains high under the new US administration, especially regarding the size and speed of trade policy measures. The US imposed a 10% tariff on imports from the PRC from 4 February 2025, raised to 20% by 4 March. Tariffs on Canada and Mexico were set at 25%, with 10% on Canadian energy products, to take effect from 4 February. They were delayed for 30 days after agreements on border security and drug trafficking. Temporary exemptions for goods under the United States Mexico Canada Agreement followed on 6 March, lasting until 2 April. On 12 March, the US introduced 25% tariffs on steel and aluminum for all economies. The PRC retaliated with 10%–15% duties on select US goods and export restrictions on critical minerals (Box 1.3.1), while Canada and the EU also retaliated. Meanwhile, the US announced significant new tariffs on all trading partners on 2 April (Box 1.2.2 shows the impact of these new tariffs if implemented).

Most Asian economies have seen an increase in exposure to US final demand between 2017 and 2023. This is partly a result of trade redirection and production relocation following the rise in US–PRC tariffs that began in 2018 (Figure 1.3.1). This increase has been most pronounced in high-income technology exporters. Over the same period, the PRC’s exposure to US demand declined. The increased exposure to US demand of most developing Asian economies heightens their vulnerability to US trade protectionism. Uncertainty abounds around both the magnitude and speed of US tariffs, potentially complicating business planning and reducing investment. Elevated trade tensions and fragmentation distort and raise the costs of global trade and hamper the outlook.

Beyond trade, tighter US immigration policies could shrink the US labor force, drive wage pressures, and likewise add to inflationary forces. So could expansionary fiscal policies. Higher inflation, in turn, could cause US interest rates to remain higher

Figure 1.3.1 Value Added Exports to the United States as a Share of GDP

The PRC has reduced its exposure to the US market while most other Asian economies have become more dependent on US demand.



Note: GDP = gross domestic product, US = United States.

Source: Asian Development Bank. Multi-Regional Input–Output Tables.

for longer than currently expected. The resulting tighter financial conditions could raise borrowing costs and risk premiums in emerging economies and weigh on currencies and equity markets. Analysis in this report indicates that full implementation of the 2 April US tariffs, as well as retaliatory measures by US trading partners, would negatively affect the US outlook, but also reduce growth and inflation in the PRC and other regional economies (Box 1.2.2).

Escalations in the conflict in the Middle East and Russia’s war in Ukraine could hamper the regional outlook.

In the Middle East, risks are tilted to the downside. Following the ceasefire in the Middle East on 15 January 2025, conflict in the Red Sea region eased. The Houthi rebels, who had targeted commercial vessels since November 2023, halted attacks except on Israeli-owned ships. Despite this progress, the situation remains fragile. In March, the US conducted airstrikes targeting Houthi-controlled locations in Yemen, while the conflict in Gaza resumed. In the first 10 weeks of 2025, average weekly port calls through the Suez Canal remain 29% lower year-over-year, reflecting continued caution in maritime trade despite easing conflict. The Baltic Dry Index—which measures

freight costs for dry bulk materials across more than 20 major oceanic shipping routes—averaged 43% lower in January-mid March 2025 compared to the same period in 2024. However, it remains 14% higher than its pre-Red Sea conflict levels in early 2023. A resurgence of hostilities could disrupt trade routes, increasing costs and delaying production, and lead to renewed upward pressure on global oil, gas, and food prices. In Ukraine, the risks are more balanced for the prospects around an end to Russia’s war there. While economies in the Caucasus and Central Asia could benefit from greater economic stability and investor confidence, the realization of these gains remains highly uncertain and subject to the terms of any proposed peace deal.

A stronger-than-expected worsening in property market conditions could weigh on the PRC’s growth prospects. The country’s property sector continues to deteriorate, with new home prices in 70 major cities falling 5.2% year-on-year in February 2025—marking 35 consecutive months of decline. Surveys from the People’s Bank of China indicate that the willingness of urban households to spend, particularly on major

items, has continued to decline. A surge in household savings, particularly in time deposits, suggests growing consumer caution. Local governments, heavily reliant on land sales for revenue, are experiencing fiscal stress, which could further restrict their ability to fund public services and manage rising debt obligations. Additionally, the crisis has deepened liquidity pressures on property developers. In 2024, real estate investment fell 10.6%, property sales by floor area dropped 12.8%, and new construction starts plunged 23.0%. The government has announced several initiatives to support the property market, such as lifting purchase restrictions and encouraging local governments to acquire properties for affordable housing. The effectiveness of these policies, however, remains uncertain. If the property market crisis worsened, the negative effects on household wealth and income would intensify, further constraining both consumer and business sentiment and increasing the risk of slower domestic demand. Additionally, the risk of widespread developer defaults and bankruptcies would rise, potentially disrupting the PRC’s financial system and spilling over into regional and global credit markets.

Box 1.3.1 Recent Developments in Critical Minerals and Rare Earths

Geopolitical tensions have resulted in trade restrictions on and rising competition for essential raw materials, potentially hindering global growth. Export bans on materials crucial for technology and the green transition have had limited impact so far. However, as tensions persist, similar measures can be expected to increase and could be harder to mitigate. Recent developments suggest that both demand- and supply-side factors will shape the long-term volume and accessibility of critical minerals.

Critical minerals are raw materials used to produce consumer electronics, artificial intelligence (AI) infrastructure, new energy technologies, and weapons. In 2022, the US Geological Survey published a list of 50 such minerals,^a including arsenic for semiconductors; beryllium for aerospace and defense; cobalt, lithium, and graphite for batteries; indium for touch screens; and tellurium for solar power. The definition changes every 3 years, depending on economic priorities, industrial needs, and reserve levels.

Supply is heavily concentrated, making the global supply chain vulnerable to disruption from various factors.^b These include operational stoppages, natural hazards, policy changes, and geopolitical tensions.^c For example, according to the International Energy Agency (IEA) Indonesia accounts for 52% of mined nickel (box figure 1A) and 37% of the supply of refined nickel (box figure 1, panel B) while the Democratic Republic of the Congo (DRC) produces 66% of cobalt (box figure 1, panel A). According to the US Geological Survey, the PRC produces 98% of all raw gallium, a mineral used in missile and radar systems and in semiconductors that are faster and more efficient than silicon chips.

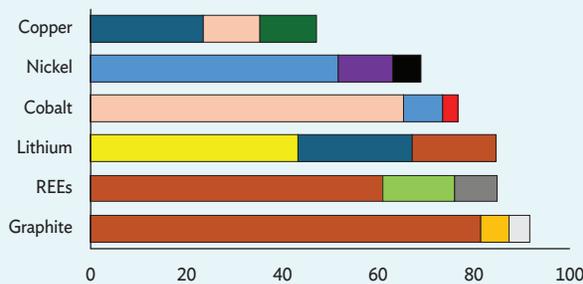
Rare earths are a subset of 17 critical minerals.^d Rare earths include europium for nuclear power stations; dysprosium and praseodymium for magnets in mobile phones; and gadolinium, holmium, and ytterbium for lasers. Rare earths are not particularly rare, but they are the critical minerals whose production is especially difficult and/or concentrated. The PRC accounts for 50%–60% of rare earth reserves and about 90% of processed supply.

1 Percentage Share of Top 3 Economies in Extraction and Processing of Selected Critical Minerals, 2023

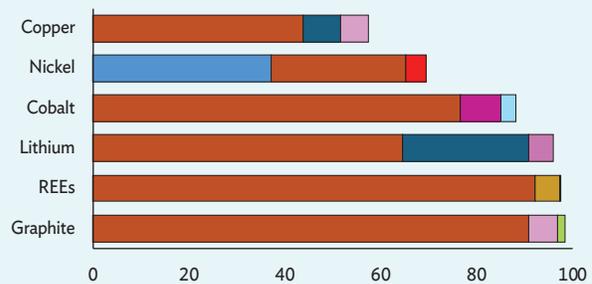
Supply of critical minerals is heavily concentrated.



A. Extraction



B. Processing



PRC = People's Republic of China, DRC = Democratic Republic of Congo, REEs = Rare Earth Elements, US = United States.

Source: International Energy Agency. [Critical Minerals Data Explorer](#).

^a US Geological Survey, Department of the Interior. 2022. [2022 Final List of Critical Minerals](#).

^b Information is currently scarce on the ultimate control and governance of critical minerals. Opaque beneficial ownership could enable market manipulation and corruption (Leruth et al. 2022).

^c Their extraction and refining can also harm the surrounding environment.

^d Copper, used in electricity transmission, is an example of a critical mineral that is not a rare earth.

Box 1.3.1 Continued

Developing Asia holds considerable mineral resources and a large potential for critical mineral production and processing (Park and Melendez 2024). Kazakhstan, Mongolia, and the Kyrgyz Republic hold vast reserves of copper, lithium, and rare earths, much of it processed in the PRC. Papua New Guinea, India, Indonesia, and Sri Lanka contribute significantly to the production of cobalt, nickel, graphite, and rare earths.

Demand for critical minerals doubled during 2017–2022 to about \$400 billion. According to the IEA (2024a), if countries fully implement their pledges, demand is expected to almost triple by 2030 and to quadruple by 2040. Already, the demand for nuclear power is rising, including from AI and data centers, but the supply of uranium is tight. Meanwhile, S&P Global finds that global copper supply needs to double by 2035 to meet net-zero targets, but this is unlikely, given that it takes more than 20 years to develop new mines.

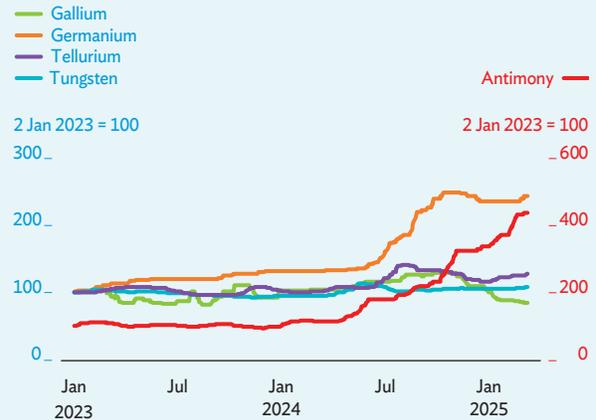
The PRC has enacted export bans on several critical minerals. In August 2023, it introduced export controls on germanium and gallium, prompting a rise in prices due to supply concerns. In August 2024, the PRC announced antimony export restrictions effective from 15 September, citing national security and international obligations. This move came amid already reduced output driven by environmental inspections, rising production costs, and declining reserves which caused global prices of antimony to double in the second quarter of 2024 (box figure 2). The PRC further stepped up controls in December 2024 by banning “in principle” exports to the US of gallium, germanium, antimony, and so-called superhard materials, because they have dual commercial and military use.^e In February 2025, tungsten, tellurium, bismuth, indium, and molybdenum were added to the list. By early 2025, prices for gallium and germanium had declined as markets adapted to these restrictions through identifying alternative supply sources. The fading impact of speculative stockpiling that had initially surged after the restrictions were announced also helped dampen prices.

^e Tungsten, which is used in various applications, including cutting tools, aerospace components, and electronics, is also used in ammunitions.

^f There is no modern geological survey of the country’s resources.

2 Price Movements of Selected Critical Minerals

Prices of various critical minerals increased notably in 2024.



Note: Prices are for People’s Republic of China (PRC) antimony ingot 99.65% to Europe in warehouse Rotterdam; PRC germanium metal 99.99%; PRC gallium metal 99.99%; PRC Tungsten APT 88.5%; PRC tellurium 99.99%.

Source: Bloomberg.

Sourcing from Japan following the restrictions was key, but this avenue may not be guaranteed.

Japanese firms import raw materials from the PRC and process them for re-export. However, firms, such as those that supply gallium arsenide, have said that they may eventually need export licenses from the PRC to continue doing so.

Several recent developments have implications for the long-term volume and accessibility of critical minerals. But at the same time, these developments could further boost competition for these resources and add to geopolitical tensions.

- The European Union (EU) has negotiated a \$935 million deal with Rwanda for access to tin, tungsten, and gold. The DRC, wracked by a civil war and home to half of global reserves of cobalt, which is used in electric vehicles, is envisaging a similar deal with the US. Ukraine, which may hold about 5% of the world’s mineral resources and 22 of 34 critical minerals identified by the EU,^f is currently engaged in difficult negotiations with the US for a deal.

Box 1.3.1 Continued

- Melting in the Arctic will increase access to minerals in Siberia and Greenland. The US has expressed interest in acquiring Greenland, which is estimated to have 43 of the 50 critical minerals identified by the US Geological Survey.
- The International Seabed Authority estimates that an area covering 4.5 million square kilometers in the Pacific contains polymetallic nodules that could yield at least 5.95 billion tons of manganese, 270 million of nickel, and 50 million of cobalt.^g The authority has granted 31 exploration licenses but is still developing rules governing commercial extraction. Nevertheless, Nauru is already in serious discussions with an Australian company on proceeding with extraction in its economic zone. Meanwhile, the Cook Islands has signed a partnership with the PRC that includes collaboration on mining for cobalt, copper, nickel, and manganese.^h
- Recycling is slowly taking off. The IEA (2024b) concluded that recycling is still nascent but that a successful scaleup could reduce the need for new mining activity by 25%–40% by 2050, with the market value of recycled minerals reaching \$200 billion.

^g In contrast, the US Geological Survey estimates that land-based manganese reserves amount to 800 million tons; nickel, 90 million; and cobalt, less than 10 million.

^h Mining in the Cook Islands' exclusive economic zone does not require the International Seabed Authority's approval.

This box was written by Kijin Kim, Henry Ma, and Pilipinas Quising, with assistance from Eugene Ingking. A full discussion of the role of and policy toward critical minerals in Asia and the Pacific can be found in Park, Cyn-Young and Anna Cassandra Melendez, 2024, "Building Resilient and Responsible Critical Minerals Supply Chains for the Clean Energy Transition," ADB Briefs No. 298 and Kim et al. (forthcoming), "Advancing Resilient and Sustainable Development of Critical Minerals in Asia and the Pacific," ADB Briefs.

The region's integration into global supply chains, industrial base, and workforce offer vast opportunities for sustainable mineral development.

For the region to seize this opportunity, national policies and regional cooperation must be pursued to strengthen capacities, facilitate trade and investment, improve infrastructure connectivity, and enable project identification and development. Park and Melendez (2024) and Kim et al. (forthcoming) suggest several policy actions, including: building domestic production and downstream capabilities, forging strategic supply chain partnerships, encouraging innovation and technology transfer, and establishing regional data sharing and policy dialogue.

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Policy Uncertainties Cloud Growth Outlook Amid Looming Tariffs

Under forecasts made before the 2 April US tariffs announcement, growth is expected to maintain its pace in 2025 and 2026 in aggregate in the major advanced economies of the United States (US), the euro area, and Japan, yet with considerable variability in individual trajectories. Amid high policy uncertainty in the US, growth is projected to slow in that economy throughout the forecast horizon, while inflation is expected to remain above target. Strengthening private consumption fueled by rising real incomes is expected drive growth in the euro area and Japan. In aggregate, the major advanced economies are expected to grow 1.6% both in 2025 and 2026 (Table A.1). Aggressive US tariffs, which could escalate into a full-blown trade war, pose a significant threat to growth prospects.

Table A.1 Baseline Assumptions on the International Economy

	2023	2024	2025	2026
	Actual	Estimate	Forecast	
GDP growth, %				
Major advanced economies	1.8	1.7	1.6	1.6
United States	2.9	2.8	2.0	1.9
Euro area	0.4	0.9	1.2	1.4
Japan	1.5	0.1	1.2	0.8
Inflation, %				
Major advanced economies	4.6	2.7	2.4	2.2
United States	4.1	3.0	2.5	2.4
Euro area	5.5	2.4	2.2	2.0
Japan	3.3	2.7	2.6	1.9
Brent crude spot prices, average, \$/barrel	83	81	74	71
Interest rates				
United States federal funds rate, average, %	5.03	5.14	4.15	3.69
European Central Bank main policy rate, average, %	3.63	3.56	2.31	2.00
Bank of Japan overnight call rate, average, %	0.00	0.10	0.59	0.91

GDP = gross domestic product.

Sources: Bloomberg; CEIC Data Company; Haver Analytics; International Monetary Fund. *World Economic Outlook*; Asian Development Bank estimates.

Recent Developments in the Major Advanced Economies

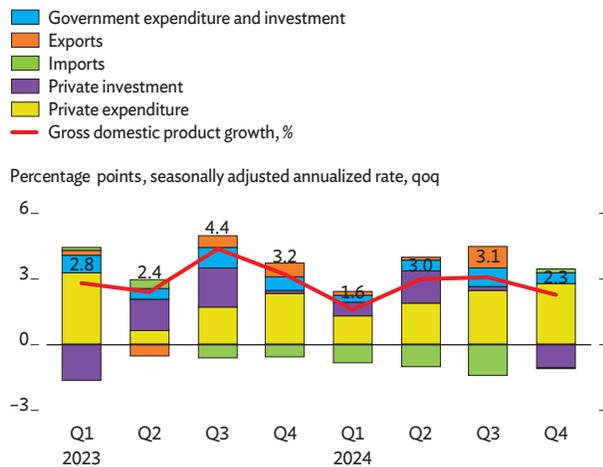
United States

The US economy grew robustly in 2024, supported by strong private consumption.

Gross domestic product (GDP) in 2024 expanded 2.8%, down marginally from 2.9% in 2023. Consumption growth remained a key driver, rising to 2.8% from 2.5% in the previous year. Investment growth rebounded significantly to 4.0% from 0.1% in 2023, buoyed by a 4.2% increase in residential investment. Economic momentum slowed in the fourth quarter (Q4), with GDP growth falling to 2.3% from 3.1% in Q3 (Figure A.1). The slowdown was attributed to a 5.7% contraction in investment due to declines in nonresidential investment and inventories, which offset strong consumption growth of 4.2%, driven by a surge in durable goods spending. Government expenditure also moderated, growing 2.9%, driven by a 9.2 percentage point decline in national defense spending, which grew 13.9% in Q3. Additionally, imports declined 1.2% and exports contracted 0.5%, reflecting weaker global demand and disruptions caused by a week-long strike in East Coast ports in early October. The latest monthly trade data indicate that imports surged due to frontloading ahead of tariffs.

Figure A.1 Demand-Side Contributions to Growth, United States

GDP growth slowed in Q4 as investment declined.



GDP = gross domestic product, Q = quarter, qoq = quarter on quarter. Sources: Department of Commerce. Bureau of Economic Analysis; Haver Analytics.

Despite signs of recovery in manufacturing and industrial production, trade tensions and inflationary pressures pose risks to sustained economic growth.

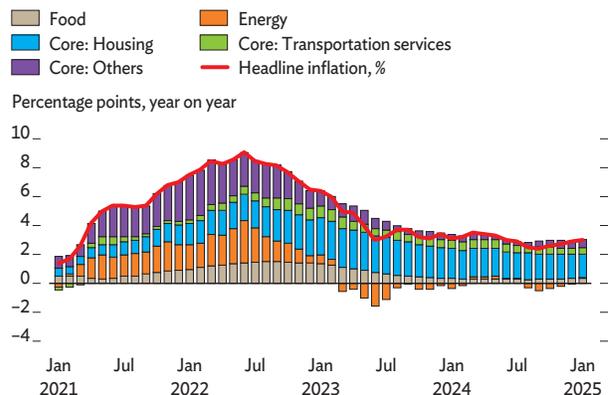
The US manufacturing sector rebounded slightly in early 2025, with the Institute for Supply Management (ISM) Manufacturing Index climbing to 50.9 in January—marking its first expansion since 2022 (Table A.2). This uptick was driven by broad-based improvements in production and new orders, signaling renewed demand. However, momentum faded in February as the index dipped to 50.3, driven by a 6.5-point drop in new orders (48.6), while production and employment also softened. Meanwhile, input costs surged, with the prices paid index jumping 7.5 points to 62.4—its highest level since June 2022—amid concerns over impending tariffs on steel and aluminum. Industrial production also showed strength, rising 0.5% (month-on-month) in January, fueled by gains in mining, utilities, and a partial recovery in aerospace manufacturing following the resolution of the Boeing machinists’ strike. On the services front, the ISM Services Index increased to 53.5 in February, driven by strong employment and new orders, while business activity remained high.

Economic sentiment declined as inflation concerns rose amid policy shifts.

The University of Michigan Consumer Sentiment Survey for February revealed a decline in the headline index to 64.7, as consumers expressed concerns over inflation. Headline inflation rose steadily from September to reach 3.0% in January 2025, driven by higher food and transportation prices (Figure A.2), while core inflation remained elevated

Figure A.2 Inflation, United States

Inflation continues to exceed target, primarily driven by rising housing and transportation services costs.



Sources: Asian Development Bank estimates; Haver Analytics.

Table A.2 Business, Consumer, and Employment Indicators, United States

	Annual Average			2024					2025	
	2022	2023	2024	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Business										
Manufacturing PMI, 50 = no change	53.5▲	47.1▼	48.2▼	47.5▼	47.5▼	46.9▼	48.4▼	49.2▼	50.9▲	50.3▲
Service PMI, 50 = no change	56.1▲	52.7▲	52.4▲	51.6▲	54.5▲	55.8▲	52.5▲	54.0▲	52.8▲	53.5▲
Industrial production index, 2017 = 100	102.7▲	102.9▲	102.6▼	103.0▼	102.6▼	102.3▼	102.0▼	103.2▲	103.4▲	104.2▲
Consumer										
Consumer confidence, 1985 = 100	104.5▼	105.4▲	104.5▼	105.6▲	99.2▼	109.6▲	112.8▲	109.5▼	105.3▼	98.3▼
Consumer sentiment, Q1 1966 = 100	59.0▼	65.4▲	72.5▲	67.9▼	70.1▲	70.5▲	71.8▲	74.0▲	71.7▼	64.7▼
Retail Sales, \$ billion	586.8▲	600.7▲	614.9▲	614.5▲	620.1▲	623.3▲	627.4▲	633.4▲	624.3▼	627.2▲
Employment										
Unemployment rate, %	3.6▼	3.6▼	4.0▲	4.2▲	4.1▼	4.1↔	4.2▲	4.1▼	4.0▼	4.1▲
Nonfarm payrolls, thousand	380▲	216▼	168▼	71▼	240▲	44▼	261▲	323▲	125▼	151▲
Job openings, million	11.2▲	9.3▼	7.8▼	7.6▼	7.1▼	7.6▲	8.0▲	7.5▼	7.7▲	...

... = data not available, PMI = purchasing managers' index, Q = quarter.

Notes: For PMI, ▲ is greater than 50, ▼ is less than 50, and ↔ equals 50. For other indicators, ▲ is increasing, ▼ is decreasing, and ↔ remains the same.

Source: Haver Analytics.

at 3.3%, due to persistent inflation in shelter and transportation costs. Despite a softer January payroll gain of 125,000, upward revisions to November and December data kept the 3-month average at a robust 236,000. Unemployment fell to 4.0% and earnings growth accelerated, supporting the view that the US Federal Reserve (the Fed) does not need to rush on easing interest rates. The Fed maintained the federal funds rate at 4.25%–4.50%, keeping monetary policy steady while carefully assessing economic data and risks.

Under forecasts made before the 2 April US tariffs announcement, growth is expected to slow to 2.0% in 2025 and 1.9% in 2026, while inflation will remain above target at 2.5% in 2025 and 2.4% in 2026.

While the new administration is expected to pursue an expansionary fiscal agenda, uncertainty about actual policies will continue to hinder private investment growth in the near term. The prospect of higher tariffs on imports adds to this uncertainty and will lead to continued frontloading of import orders in the near term, partially absorbed by increasing inventories, and will eventually dent growth as retaliation by trading partners hurts export growth. The baseline forecast incorporates the additional 20% tariffs on imports from the PRC, already in place since March, as well as an initial increase in tariffs on imports from Canada and Mexico, which are assumed then to be reduced

through negotiations in the second quarter of the year. Curbs on immigration and deportation of illegal immigrants will constrain labor supply, especially in sectors such as agriculture, construction, and services, leading to wage and inflation pressures and denting potential growth. With inflation persisting above target, the Fed is expected to be more cautious in easing credit conditions over the forecast horizon, further constraining economic activity towards 2026.

Risks to the outlook are tilted to the downside on the possibility of faster escalation of trade tensions.

If implemented, the aggressive tariffs on imports announced on 2 April and immigration curbs will hurt growth prospects and add to inflation pressures. If inflation pressures reignite more strongly, the Fed may be required to halt monetary easing and maintain restrictive interest rates for longer, which would also dent economic prospects. On the upside, trading partners may find a middle ground through negotiations that avert the escalation in trade tensions. Accelerated trade talks may also resolve uncertainties and boost business sentiment. A more aggressive loosening of fiscal policy than assumed in the baseline, which is consistent with the status quo for 2025, also constitutes an upside risk to growth forecasts. However, looser fiscal policy also raises inflation and debt sustainability risks, leading to higher bond yields and financial instability.

Euro area

The euro area economy grew 0.9% seasonally adjusted annualized rate (saar) (1.2% year-on-year) in Q4 2024.

This brings 2024 annual growth in at 0.9%, up from 0.4% in 2023, but still much weaker than the 2% 2015–2019 pre-pandemic average (Figure A.3, Panel A). Looking at individual countries, output fell in Q4 2024 relative to Q3 in the region’s two largest economies—Germany (-0.8% saar), France (-0.4%)—while it expanded 3.1% in Spain, 3.7% in Greece, and 6.3% in Portugal.

GDP has been weighed down by a prolonged industrial slowdown, shifting trade dynamics with the People’s Republic of China (PRC), and tepid consumer spending.

The industrial sector contracted for a second consecutive year in 2024, leaving production at pre-pandemic levels (Figure A.3, Panel B). High energy prices and increased competition from the PRC contributed to the slump in industrial production. The manufacturing purchasing managers’ index remained deeply in contraction territory in February 2025, but new orders fell at the weakest rate and growth expectations were among their most optimistic in almost three years, suggesting that euro area industrial production may be close to turning the corner. On the demand side, high interest rates, as well as economic policy and energy price uncertainty, contributed to a drop in private investment over 2023–24, particularly in capital-intensive industries

(Figure A.4, Panel A). Consumer spending remained weak in 2024, as households saved more, despite supportive labor market conditions (Figure A.4, Panel B). Net exports contributed positively to growth, driven by strong tourism, especially in southern economies.

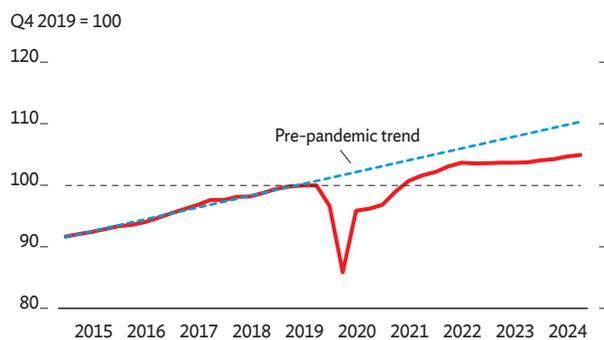
Under forecasts made before the 2 April US tariffs announcement, GDP is expected to increase by 1.2% in 2025 and 1.4% in 2026.

Moderately strengthening private consumption should support growth this year, on the back of rising real incomes amid tight labor markets and increased credit availability as monetary policy continues to ease. Industrial production is expected to recover, due to the anticipated decline in energy prices, but this recovery may be challenged if the steep tariffs on exports to the US announced on 2 April are confirmed. An expected substantial fiscal loosening to finance infrastructure and military expenditures in Germany will support growth in the euro area’s largest economy and positively spill over to the rest of the bloc. Increasing military spending in other countries and planned increases in capital expenditures financed through EU-wide debt issuance under the NewGenerationEU recovery plan will offset reductions in current government expenditures under multi-year deficit-reduction plans. Growth is expected to pick up further in 2026, as the full impact of fiscal loosening in Germany will be felt, which will compensate the increasingly negative impact of higher US tariffs and the diminishing support from earlier monetary easing.

Figure A.3 Real GDP, Industrial Production, and Energy Prices, Euro Area

GDP and industrial production have been weak post pandemic.

A. Real GDP



GDP = gross domestic product, Q = quarter.

Note: Data are seasonally and calendar adjusted.

Source: Haver Analytics.

B. Industrial Production and Energy Prices

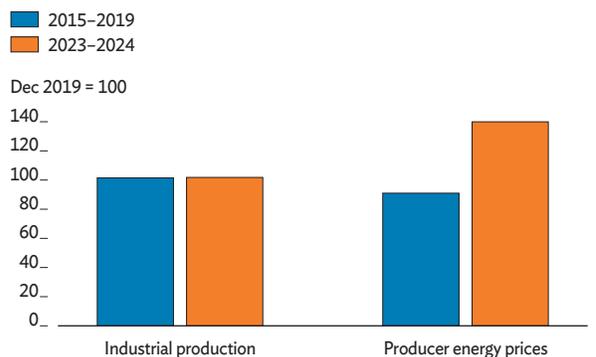
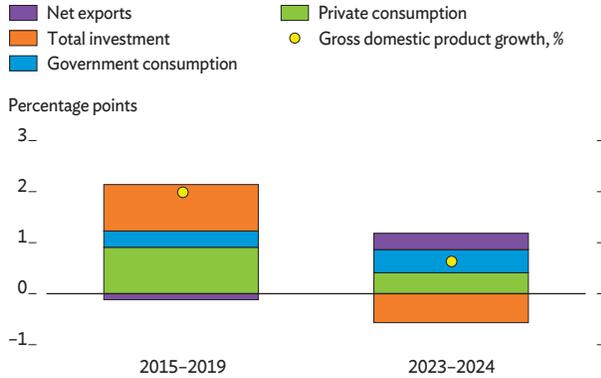


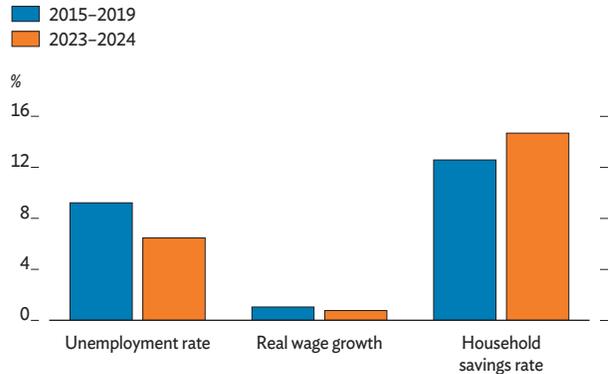
Figure A.4 Demand Side Contributions to Growth, Labor Market, and Household Savings, Euro Area

Consumers have been cautious despite supporting labor market conditions.

A. Demand-Side Contributions to Growth



B. Labor Market and Household Savings



Note: Panel A reports averages of yearly data. Panel B reports averages of quarterly data. Real wage growth is calculated as the difference between the year-on-year growth rate of nominal wage minus year-on-year growth of the consumer price index. The household saving rate is in percent of household disposable income.

Source: Haver Analytics.

Inflation eased to 2.4% in 2024 and is projected to settle at 2.2% in 2025 and 2.0% in 2026. The European Central Bank has lowered its main policy rate by 125 basis points since June 2024, to 2.5% in March 2025. Further rate cuts are expected as labor market conditions ease gently, helping to lower inflation in the services sector, which has hovered around 4.0% since the beginning of 2024. However, the disinflation process may face challenges given the fiscal loosening in Germany.

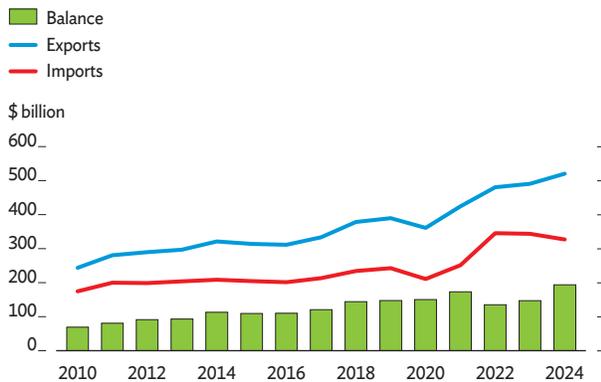
Risks are tilted to the downside. The forecast assumes modest tariffs on euro area exports to the US, with targeted retaliation by the euro area. Downside

risks include the possibility that the harsher US tariffs announced on 2 April are confirmed, which may lead to a full-blown trade war and significantly reduce the euro area’s goods trade surplus with the United States (Figure A.5). Weak public investment implementation could further weigh on growth. Political uncertainty and high debt levels in some economies could elevate financial risks, leading to higher borrowing costs. Lack of progress in the disinflation process might delay further easing of monetary policy. Upside risks include that Ukraine and the Russian Federation agree to a ceasefire, leading to lower natural gas prices.

Figure A.5 Merchandise Trade with the United States, Euro Area

The euro area is highly exposed to US tariffs.

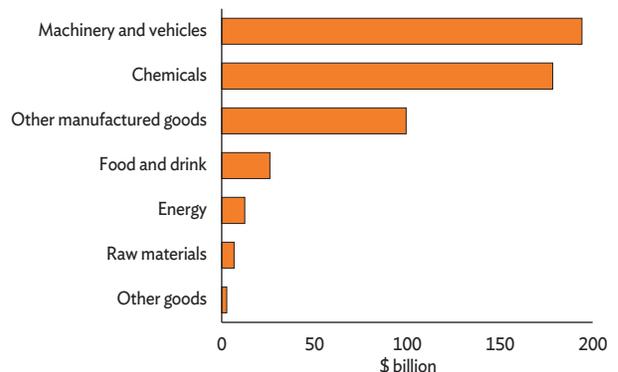
A. Trade Balance and Trends



US = United States.

Sources: CEIC Data Company; EuroStat.

B. Exports by Type of Goods, 2024



Japan

Japan's economy showed resilience in 2024, achieving modest 0.1% real GDP growth, bolstered by a stronger-than-expected 2.2% annualized growth in Q4.

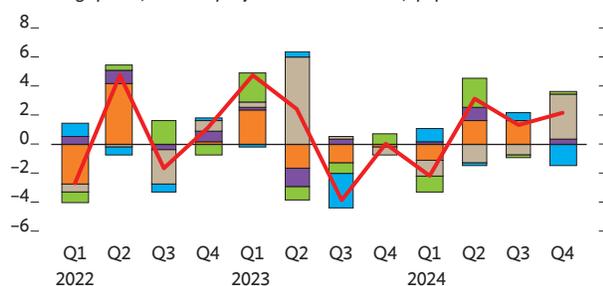
This late-year surge was driven mainly by robust exports and a recovery in private fixed capital investment. Real exports grew 4.1% annually, fueled by high demand for chipmaking equipment from Taipei, China and the PRC, and as a weaker yen enhanced competitiveness. Japanese exporters also accelerated shipments ahead of anticipated US tariffs and trade disruptions, with seasonally adjusted exports to the US surging 20.5% in December. Private consumption slowed, rising just 0.1% annually in Q4—down from 3% in Q2 and Q3—with persistence in inflation and high living costs exerting pressure on real wage growth. Meanwhile, seasonally adjusted core machinery orders, a key investment indicator, increased in October and November, led by strong manufacturing demand (Figure A.6).

Figure A.6 Demand-Side Contributions to Growth, Japan

GDP regained momentum in Q4, largely driven by a surge in net exports.



Percentage points, seasonally adjusted annualized rate, qoq



GDP = gross domestic product, Q = quarter, qoq = quarter on quarter.

Source: CEIC Data Company.

Japan's economy is projected to grow 1.2% in 2025 and 0.8% in 2026 under forecasts made before the 2 April US tariffs announcement, with real wage growth boosting private consumption.

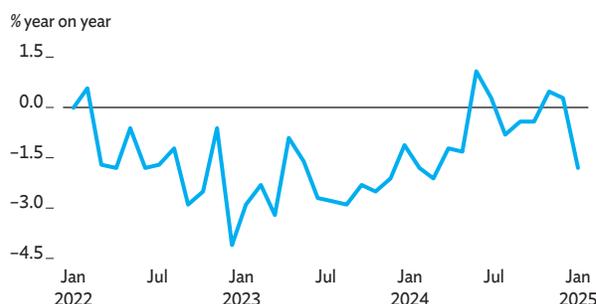
The Bank of Japan expects wage growth to outpace inflation, strengthening consumer spending, while a ¥13.9 trillion (\$92.6 billion) stimulus package will further boost demand. External demand is also expected to rise,

driven by a recovery in the semiconductor market.

The global semiconductor industry is forecast to grow in 2025, with Japan's sales projected to increase 9.4%, according to the latest World Semiconductor Trade Statistics forecast. To support the sector, the government has allocated ¥1.5 trillion (\$9.9 billion) for next-generation semiconductor research and development and ¥471.4 billion (\$3 billion) for advanced chip production. Additionally, tourism is on the rise, with visitor numbers surging 47% in 2024 and 41% in January 2025, and further growth expected. While external uncertainties could weigh on exports in 2026, sustained private consumption gains, supported by real wage growth, are expected to offset some of the weaknesses (Figure A.7).

Figure A.7 Real Wage Increase, Japan

Real wages generally increased in 2024.



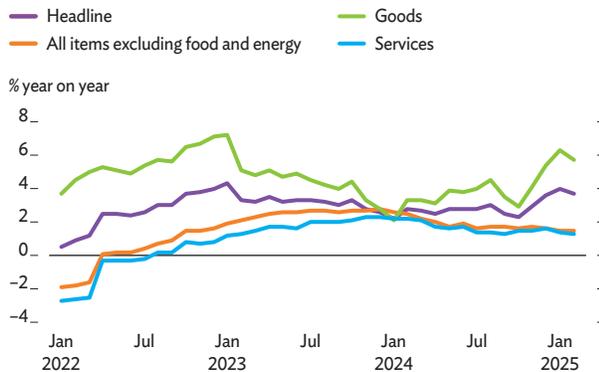
Source: Ministry of Health, Labour and Welfare of Japan. [Final Report of Monthly Labour Survey](#).

Headline inflation averaged 2.7% in 2024, down from 3.3% in 2023.

Goods inflation contributed around two-thirds to overall inflation, increasing by 3.7%, compared to the 1.7% increase in services (Figure A.8). Food prices surged 4.3%, contributing 1.1 percentage points to headline inflation. Energy prices also increased significantly, rising 3.8%, partly reversing the previous year's decline of 6%. Core inflation, excluding fresh food and energy, was 2.4%, remaining above the Bank of Japan's 2% target. The Japanese yen depreciated significantly, reaching a 37.5-year low of 161.77 yen per US dollar in July 2024. The decline mainly reflected the widening interest rate differential between Japan and the US, exacerbating import costs and contributing to domestic inflationary pressures. Given persistent, above-target inflation and positive wage growth developments, the Bank of Japan raised the short-term interest rate from 0.25% to 0.5% in January 2025, its highest level in 17 years.

Figure A.8 Monthly Inflation, Japan

Headline inflation stayed above the Bank of Japan's 2% target, driven by rising goods prices.



Source: CEIC Data Company.

Inflationary pressure is expected to ease gradually in 2025 and 2026. Inflation is forecast to slightly ease to an average of 2.6% in 2025 and 1.9% in 2026 as the effects of gradual monetary policy tightening pass through to the real economy. Inflation eased to 3.7% in February 2025, down from a two-year high of 4.0% in January. The slowdown was driven largely by a sharp deceleration in electricity (9.0% vs. 18.0%) and gas prices (3.4% vs. 6.8%), following the government's reinstatement of energy subsidies. Food inflation also moderated slightly, rising by 7.6% in February compared to 7.8% in January, when it reached a 15-month high. The CPI excluding energy and fresh foods rose by 2.6% year on year, remaining above 2.0% for the seventh consecutive month. Inflation is still expected to ease gradually in the coming months as pressures from past cost increases abate, but food inflation could stay high for longer given its breadth and persistence. Bank of Japan board members discussed the potential for further rate increases amid concerns about the weak yen and rising import costs. The central bank can be expected to gradually raise the policy rate over 2025–2026 as part of its monetary policy normalization. Lower import costs due to an expected narrowing of Japan's interest rate differentials relative to the US also underpin the inflation outlook.

Risks to Japan's outlook are tilted to the downside. Sharp US policy shifts on trade, immigration, and fiscal policy could amplify US inflation, leading to higher-for-longer US interest rates and a weaker Japanese yen relative to the US dollar. This could raise import costs, dampening consumer spending and sentiment, while

excessive currency fluctuations may further weigh on investor confidence. Tariffs of 24% announced on 2 April by the US administration on US imports from Japan, but not yet implemented at the time of writing, could worsen the outlook through higher trade costs and uncertainty, and disruptions to supply chains.

Recent Developments and Outlook in Nearby Economies

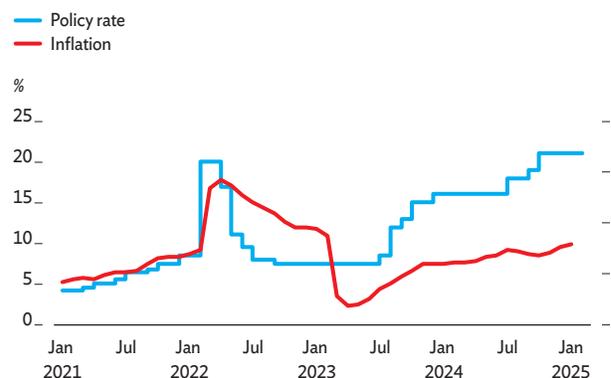
Russian Federation

Economic growth slowed in Q3 2024, with all sectors weaker. Growth slowed to 3.1% year on year in Q3 2024 from 4.1% in Q2 2024, marking the lowest reading since Q1 2023 and a second consecutive slowdown. Slowing growth reflected weaker performance across all sectors, with dwindling manufacturing and wholesale and retail trade, and contractions in agriculture, construction, and real estate activity. Available data suggest that the economy has lost further steam in Q4, with softer real wage growth and tighter financing conditions dampening private consumption and fixed investment. For the whole year, growth is estimated at 4.1%.

The central bank maintains the key policy rate at a record high despite accelerating inflation. In January, inflation accelerated to 9.9% from 9.5% in December, reaching its highest reading since early 2023 (Figure A.9). Rising inflation has been driven by state spending in the military-industrial complex, which

Figure A.9 Policy Rate and Inflation, Russian Federation

Surging inflation has led the Central Bank of Russia to keep the policy rate at a record high.



Source: Haver Analytics.

has raised aggregate demand while diverting factors of production from other sectors. Despite surging inflation, the Central Bank of Russia kept the key rate at 21.0% during its last meeting on 14 February as it anticipates that inflation will moderate this year on stricter credit conditions.

GDP growth will slow by more than half this year and in 2026 as domestic headwinds mount.

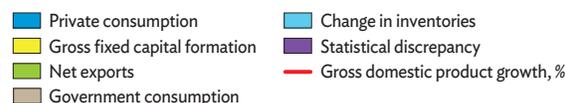
The domestic economy will grapple with extremely high interest rates, labor shortages, and a weakening ruble that exacerbates inflation. Nevertheless, strong defense spending will keep offering positive support. Falling oil prices due to rising output in the US is a downside risk to the outlook. Widening sanctions on two major Russian oil companies, Gazprom Neft and Surgutneftegas, along with more than 180 tankers of Russia's so called "shadow fleet", further cloud the outlook. A peace deal could support growth in 2026 if sanctions are lifted. And with military spending around 7% of GDP, the reallocation of labor and capital to civilian activities could boost supply and help control inflation. As of 5 March 2025, Consensus Forecasts had GDP growing 1.7% in 2025, slowing to 1.2% in 2026.

Australia

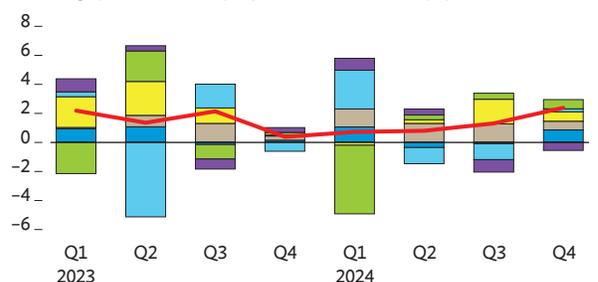
Economic growth slowed to a seasonally adjusted 1.0% last year from 2.1% in 2023, weighed down by weak external demand (Figure A.10). Net exports subtracted 1.0 percentage points (pps) from GDP growth in 2024, as exports slowed significantly relative to imports. Export growth weakened to 0.9% from 6.9% in 2023, as education-related travel weighed on services exports. Imports, on the other hand, grew 5.5% last year, driven by consumer goods. High interest rates dampened private consumption growth, which slowed to 0.6% from 2.5% in 2023 and added only 0.3 pps to GDP growth. Fixed investment growth also softened to 2.2% from 4.7% the previous year. Public investment was weak, due to state and local government projects nearing completion, while private investment growth remained modest. On the upside, government spending increased to 4.7% and added 1.0 pps to GDP growth, with continued strength in expenditure on national programs providing health services.

Figure A.10 Demand-Side Contributions to Growth, Australia

Growth slowed in 2024 on weak external demand.



Percentage points, seasonally adjusted annualized rate, qoq



Q = quarter, qoq = quarter on quarter.

Source: CEIC Data Company.

Growth should rise over the forecast horizon on lower interest rates.

Leading indicators suggest economic activity expanded at the beginning of 2025. The services PMI rose to 51.2 in January and further to 51.4 in February, on improving consumer demand. In addition, coming in at 50.2, the January manufacturing PMI signaled that output in the sector returned to growth for the first time since November 2022. The index further increased to 50.6 in February, its highest value in 27 months. Headline inflation edged up slightly to 2.5% in December 2024 from 2.3% in November, due to stronger transport costs. The Reserve Bank of Australia cut the policy rate by 25 basis points to 4.10% in February and signaled a more hawkish tone moving forward. Election-related spending and lower interest rates and inflation should support domestic demand. US trade policy and the projected growth slowdown in the PRC are downside risks. On 14 March 2025, Consensus Forecasts had GDP growing by 2.0% in 2025 and 2.3% in 2026. Inflation was seen at 2.6% this year and 2.7% next year.

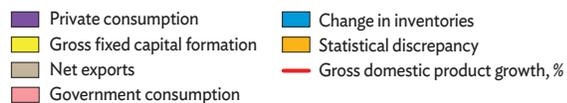
New Zealand

The economy contracted by a seasonally adjusted 0.1% in 2024 from a 1.9% growth in 2023, led by declining fixed investment (Figure A.11). New Zealand entered a technical recession in Q3 last year, as GDP fell 3.4% following a 3.3% contraction in Q2. The decline was broad-based, driven by high inflation, elevated borrowing costs, and falling housing prices. Private and public consumption, fixed investment, and exports of goods and services all worsened in the quarter. Growth resumed in Q4, with GDP expanding by 3.4%, driven by improvements in both domestic and external demand. Overall, economic activity in 2024 was dampened by fixed investment, which declined 4.6% and subtracted 1.2 pps from growth. The contraction was primarily due to the fall in construction activity. Private consumption growth softened to 0.2%, amid high inflation and interest rates, while growth in public spending flatlined. On the external front, exports increased 4.1% last year, while imports slightly recovered to 2.4% from a 0.4% decline in 2023. As a result, net exports contributed 0.3 pps to growth.

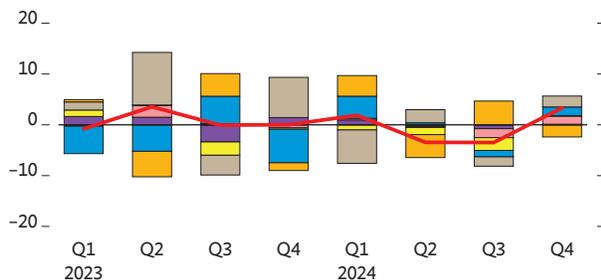
GDP growth should pick up over the forecast horizon on lower interest rates and inflation. In November, the Reserve Bank of New Zealand (RBNZ) cut the official cash rate again by 50 basis points (bps) to 4.25%, for a total of 125bps in 2024. The central

Figure A.11 Demand-Side Contributions to Growth, New Zealand

The economy entered recession in Q3 as high inflation and interest rates led to a broad-based decline.



Percentage points, seasonally adjusted annualized rate, qoq



Q = quarter, qoq = quarter on quarter.

Source: CEIC Data Company.

bank then cut its benchmark rate by another 50 bps, to 3.75%, on 19 February. Headline inflation remained at 2.2% in Q4 2024, within the RBNZ's 1.0%-3.0% target and the lowest rate since Q1 2021. Headline inflation is seen remaining close to the RBNZ's 2.0% central target, as downward pressure from lower commodity prices is somewhat offset by slight upward pressure from improving growth conditions. Nevertheless, economic activity will be weighed down by normalizing tourist arrivals, a more protectionist global trade environment, and a cautious fiscal stance constraining government spending. As of 14 March 2025, Consensus Forecasts had GDP growing 1.1% in 2025 and 2.7% in 2026. Inflation is seen at 2.2% this year and 2.0% next year.

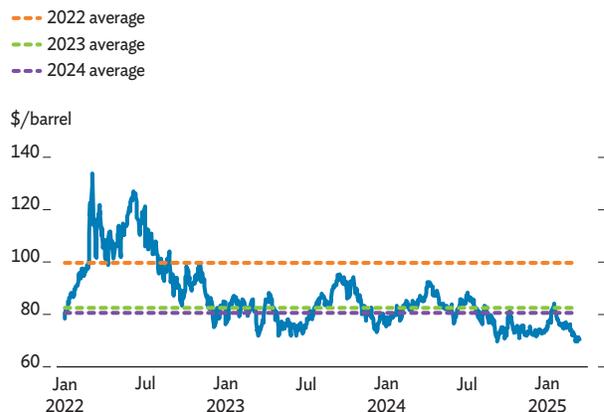
Oil Prices

Brent crude averaged \$73.83/barrel in December 2024 and \$80.70/barrel for 2024 as a whole, marking a 2.3% decline relative to the previous year (Figure A.12). Brent crude oil prices hovered around \$70.71/barrel during the first half of March.

The US Energy Information Administration forecasts global oil demand to rise 1.3 million barrels/day in 2025 and 1.2 million barrels/day in 2026, up from 1.0 million in 2024, but below the pre-pandemic average of 1.5 million barrels/day, reflecting weaker economic conditions. Advanced economies will maintain their growth pace in 2025 before slowing marginally in 2026, with US growth

Figure A.12 Brent Crude Oil Prices

Oil prices remained below the 2023 average for the majority of 2024.



Source: Bloomberg.

easing as policy uncertainty impacts investment. Emerging markets, particularly India, will drive most oil demand growth. India's oil imports rose 3.5% in 2024 after a 13.1% drop in 2023 and are expected to increase further, aligning with 6.8% GDP growth in fiscal year 2025–2026. Meanwhile, the PRC's crude imports fell 3.6% in 2024, continuing a two-year decline. The PRC's GDP growth is expected to slow over the next 2 years. The rise of electric vehicles (EV) and clean energy will impact oil demand, with the International Energy Agency estimating EV adoption could displace 6 million barrels per day by 2030, with notable reductions in the near term. Global EV sales rose 25% in 2024, led by the PRC's 40% surge in EV demand.

Global oil supply is projected to increase 1.4 million barrels per day in 2025 and 1.6 million barrels per day in 2026, driven by OPEC+ and non-OPEC+ production growth. On 5 December 2024, OPEC+ delayed planned output hikes from January to April 2025 and extended its 3.65 million barrels/day production cuts through 2026 to stabilize prices amid oversupply concerns. In its 3 March 2025 meeting, OPEC+ reaffirmed its gradual output increase plan, despite external pressures. The US Energy Information Administration forecasts non-OPEC+ countries, primarily the US, Canada, Brazil, and Guyana, to lead supply growth. However, 2026 growth is expected to slow from 1.2 million barrels/day to 1.0 million barrels/day, with US shale production decelerating, due to lower crude prices and declining drilling activity. While pro-oil policies may encourage investment, US shale producers remain cautious. The industry also faces challenges, including the depletion of drilled but uncompleted wells, exhaustion of high-yield tier 1 drilling locations, and constant pressure from investors to maintain capital discipline, all of which collectively will slow production responsiveness. In the Q4 2024

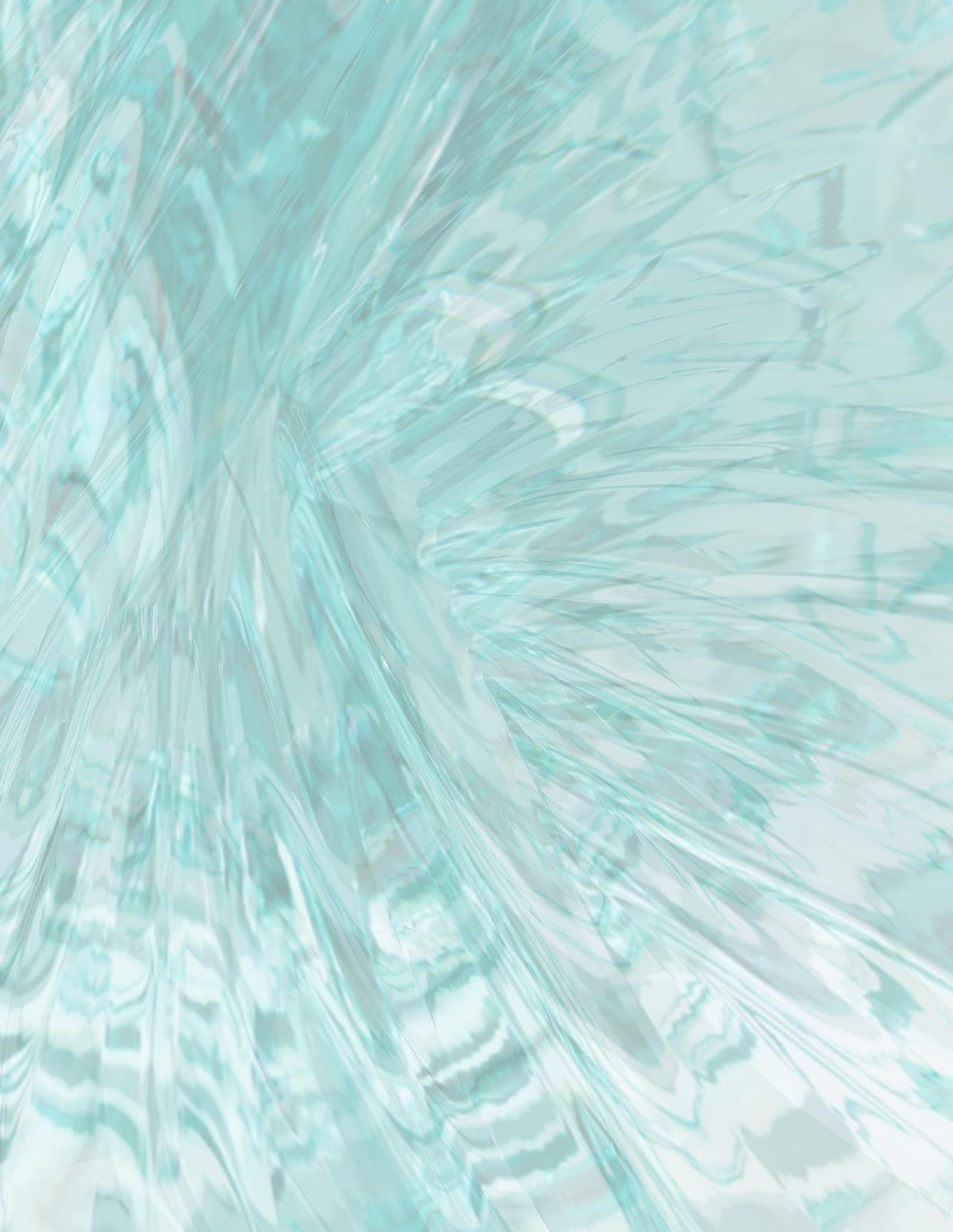
energy survey by the Federal Reserve Bank of Kansas City, firms reported that oil prices need to average \$62/barrel for drilling to be profitable and \$84/barrel for drilling activity to increase substantially. With prices currently at \$70/barrel, drilling activity remains subdued, as reflected in the 3.6% year-on-year decline in oil rig counts for the week ending 7 March.

Forecasts for global oil supply and demand, along with recent price movements, suggest a potential decline in oil prices. Historically, US–PRC tariffs have exerted downward pressure on prices. For example, in 2019, Brent crude fell in the second half of the year after both countries imposed new tariffs. More recently, in February 2025, the US implemented a 10% tariff on PRC goods, prompting the PRC's retaliatory tariffs on US crude, liquified natural gas, and coal. This led to a decline in oil prices. The broader tariff measures announced by the US on 2 April 2025—including a minimum 10% rate on all imports and elevated rates for certain economies—fueled expectations of reciprocal actions, heightening uncertainty in global trade and energy markets. Brent crude traded around \$70/barrel at the time of writing, with downward pressure from US pro-oil policies, rising US crude inventories, weak demand expectations, potential ceasefire in Russia's war in Ukraine, and concerns over economic slowdowns in major economies, partially offset by upward price pressure from US sanctions on Iranian, Russian, and Venezuelan crude, ongoing geopolitical tensions, and possible delays in OPEC+ production increases. Technical indicators suggest continued market softness, with the 200-day moving average remaining above the 50-day moving average. Barring major geopolitical oil supply disruptions, moderate demand growth coupled with rising supply is expected to keep oil prices relatively low, to average \$74/barrel in 2025 and \$71/barrel in 2026.



2

**ECONOMIC TRENDS
AND PROSPECTS
IN DEVELOPING ASIA**





Armenia

Azerbaijan

Georgia

Kazakhstan

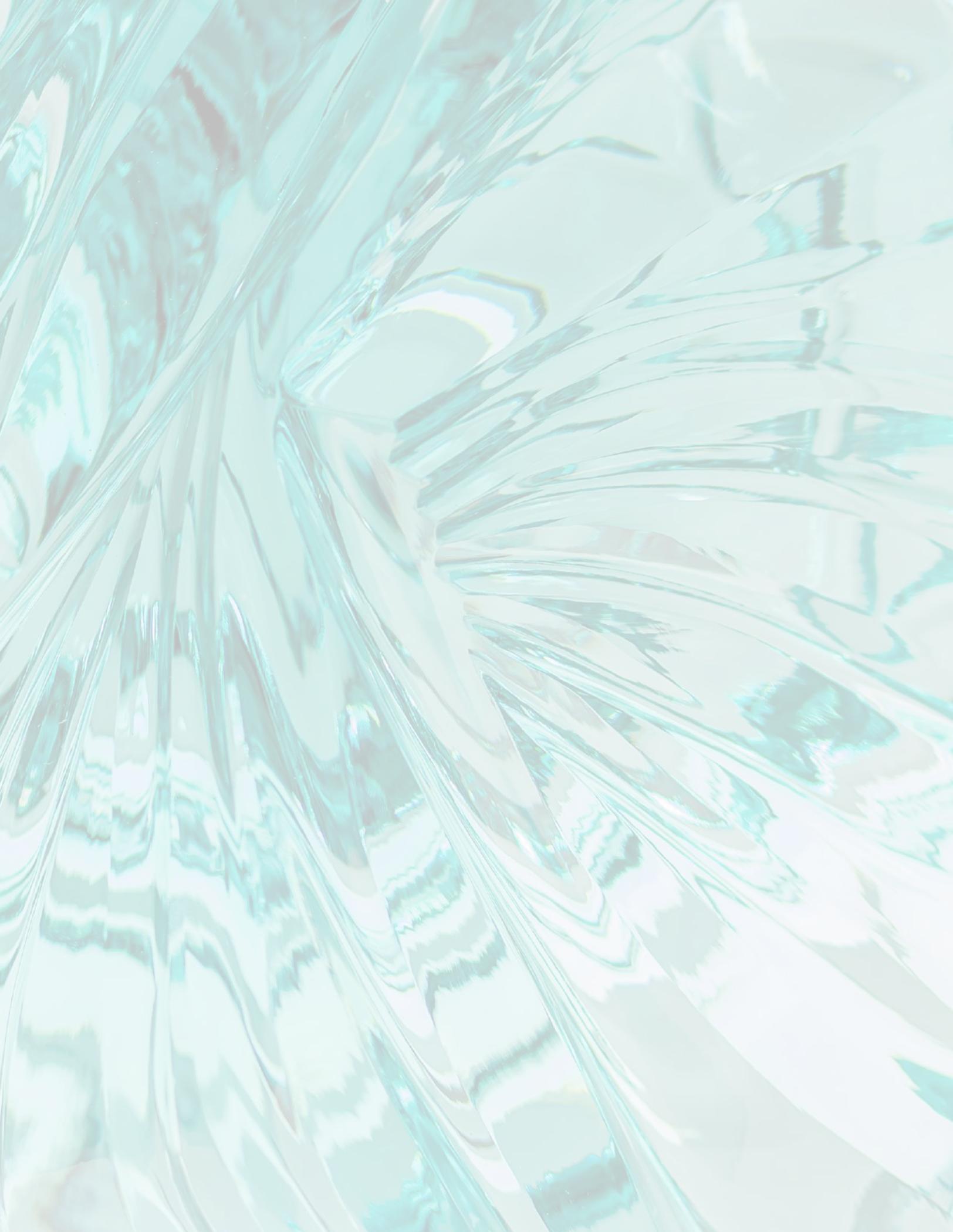
Kyrgyz Republic

Tajikistan

Turkmenistan

Uzbekistan

CAUCASUS AND CENTRAL ASIA



ARMENIA

Growth moderated further as external demand slowed but remained strong. Easing global commodity prices, a stable currency, and cautious monetary policy cut inflation further to nearly zero. The current account deficit widened and is projected to continue widening in 2025. Growth is expected to slow further in 2025 and 2026 as external demand further declines. Inflation is projected to accelerate slightly due to more accommodative monetary policy and expansionary fiscal policy. Prudent fiscal management is essential for resilience.

Economic Performance

Growth moderated further to 5.9% in 2024 from 12.6% in 2022 and 8.3% in 2023, along with the gradual weakening of external demand. On the supply side, growth slowed in services, agriculture, and construction but accelerated in industry (Figure 2.1.1).

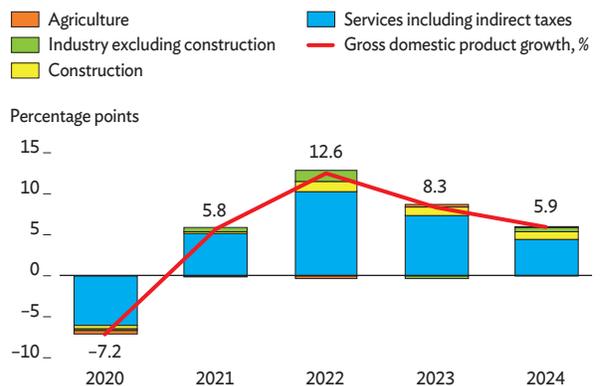
Growth in services declined to 8.8% in 2024 from 12.2% a year earlier. This reflected moderation or decline across most subsectors apart from financial intermediation, real estate, and professional and technical activities and services, which accelerated further. Industry excluding construction reversed a 2.2% decline in 2023 to grow by 3.1% as an 8.3% decline in mining and quarrying was offset by increases in utilities and manufacturing, primarily reflecting sharp gains in jewelry and base metals. With slowing investment in real estate, growth in construction moderated from 16.0% in 2023 to a still robust 13.5%, supported by public investment in infrastructure and private investment in real estate. Expansion in agriculture decelerated from 2.9% in 2023 to 1.0% as livestock and crop production increased moderately and output prices fell.

On the demand side, all components excluding public consumption contributed to expansion.

Growth in private consumption accelerated from 5.6% in 2023 to 6.8%, reflecting accommodative monetary policy and supported by near-zero inflation, which allowed consumer purchasing power to rise. Public

Figure 2.1.1 Supply-Side Contributions to Growth

Growth moderated further in 2024 but remained strong.



Source: Statistical Committee of Armenia.

consumption contracted by 22.3% in 2024 following 28.3% growth in 2023, reflecting unexpectedly low spending on goods and services and a shift in budget expenditure toward investment. Expansion in gross fixed capital formation jumped from 5.9% in 2023 to 11.4%, reflecting a continued rise in government spending on infrastructure. Net exports of goods and services turned positive for the first time ever recorded.

Inflation declined further as growth slowed.

Average annual inflation fell from 2.0% in 2023 to 0.3% in 2024, reflecting moderating global commodity prices and a stable currency. Inflation dropped from

0.4% in 2023 to -1.2% for food and from 1.7% to -0.8% for other goods, while inflation for services moderated from 4.5% to 3.0% (Figure 2.1.2). The 12-month inflation rate, at 1.3% in December 2024, was well below the lower bound of the Central Bank of Armenia's target of 4.0% \pm 1.5 percentage points at that point.

Monetary policy remained accommodative as inflation moderated. The central bank reduced its refinancing rate by a cumulative 250 basis points to 6.75% in several steps from December 2023 to February 2025, for a second consecutive year of decrease.

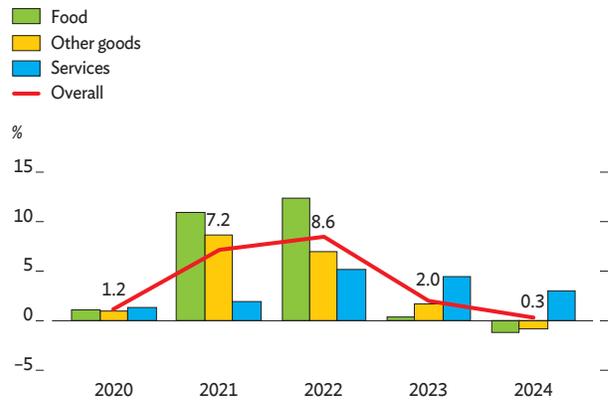
The financial system remained resilient. A decline in net foreign assets slowed broad money growth from 17.4% in 2023 to 13.4% in 2024. Mergers and acquisitions drove down the net foreign assets of depository organizations by 27.4%, which was only minimally offset by a 2.0% increase in net foreign assets held by the central bank (Figure 2.1.3). However, growth in credit to the economy accelerated from 18.4% in 2023 to 26.4%, reflecting increased lending across all sectors but driven mainly by continued increases in consumer and mortgage lending, which represent about half of all bank credit. With exchange rate stability and relatively stable average interest rates for deposits, local currency deposits increased by 22.8% in 2024 and foreign currency deposits by only 5.1%, reducing the share of foreign currency deposits from 50.5% in 2023 to 46.6% in 2024. The nonperforming loan ratio also fell, from 2.4% of all loans at the end of 2023 to 1.2% a year later.

The government embarked on an expansionary fiscal policy in 2024, with the deficit widening from 2.0% in 2023 to 3.7%. Revenue growth slowed from 14.3% in 2023 to 9.3% because of low inflation and slower increases in taxable consumption, imports, and corporate profits (Figure 2.1.4).

Expenditure rose by 16.0% to 29.2% of GDP in 2024, driven by increased social spending and public investment. Spending on social benefits and pensions jumped by 44.5% to 10.1% of GDP, including support for displaced ethnic Armenians who fled to Armenia in September 2023. Capital outlays also rose, by 14.6%, on top of a 24.2% increase in 2023, as continued investment in roads and social infrastructure raised

Figure 2.1.2 Annual Inflation

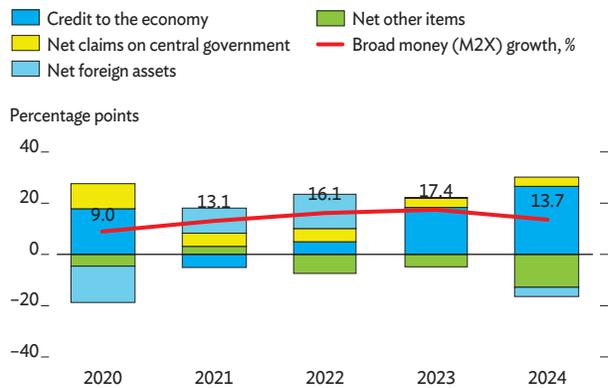
Inflation decelerated further in 2024 as growth moderated.



Source: Statistical Committee of Armenia.

Figure 2.1.3 Broad Money Growth

Money growth slowed in 2024 as net foreign assets declined.

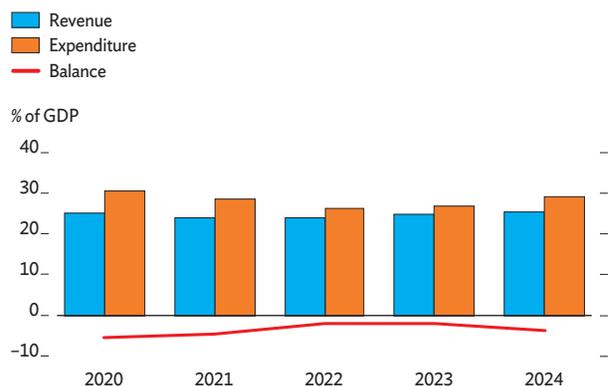


M2X = sum of dram broad money (M2) and foreign currency deposits and accounts of residents in the real sector.

Source: Central Bank of Armenia.

Figure 2.1.4 Fiscal Indicators

The fiscal deficit widened in 2024, driven by increased social spending and capital outlays.



GDP = gross domestic product.

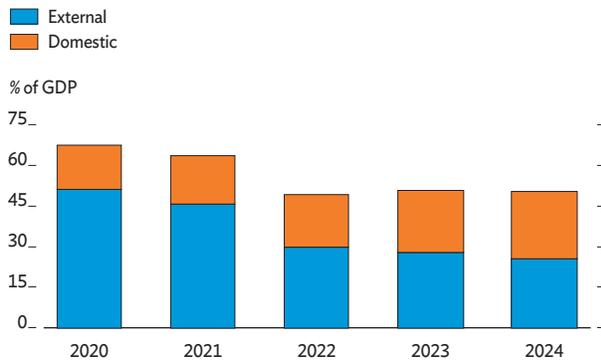
Sources: Ministry of Finance of Armenia; Statistical Committee of Armenia.

the share of capital outlays to 5.3% of GDP. Actual spending on goods and services declined, however, by 43.1%. Public debt decreased from 50.7% of GDP at the end of 2023 to 50.3% a year later, well below the official ceiling of 60.0% (Figure 2.1.5).

External public debt, including central bank external liabilities, decreased by 0.7% to \$6.5 billion. This equaled 25.3% of GDP, down from 27.8% at the end of 2023. Meanwhile, domestic public debt grew by 19.5% to \$6.4 billion. This raised the share of domestic debt by another 2.1 percentage points to nearly half of total public debt, in line with the government’s strategy to move borrowing to domestic sources.

Figure 2.1.5 Public Debt

Total public debt has shown little change over the past 3 years.

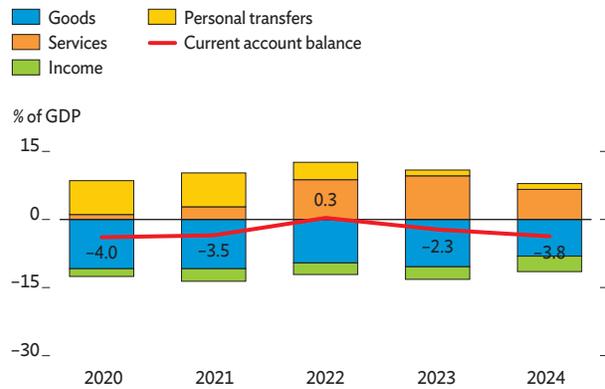


GDP = gross domestic product.
Sources: Ministry of Finance of Armenia; Statistical Committee of Armenia.

The current account deficit is estimated to have widened from 2.3% of GDP in 2023 to 3.8% in 2024 (Figure 2.1.6). This reflected lower personal transfers, a decline in investment income, and a narrower surplus in services. The merchandise trade deficit is estimated to have narrowed from 10.4% of GDP to 8.1% as growth in exports outpaced that of imports, and with the gradual waning of the reexport business that emerged in 2022–2023. After increasing by 35.1% in 2023, the surplus in services declined by an estimated 27.0%, reflecting further moderation in travel and tourism services. Net money transfer inflows by individuals through banks declined by 25% to \$1.5 billion in 2024. The current account deficit was largely financed by net financial account inflows and reserves. Gross international reserves increased by 1.7% to \$3.7 billion, or cover for 2.4 months of imports (Figure 2.1.7).

Figure 2.1.6 Current Account Balance

The current account deficit widened in 2024 on lower transfers and a smaller surplus in services.



GDP = gross domestic product.
Sources: Central Bank of Armenia; Statistical Committee of Armenia.

Figure 2.1.7 Gross International Reserves and Exchange Rate

Gross international reserves and the exchange rate remained relatively unchanged in 2024.



Source: Central Bank of Armenia.

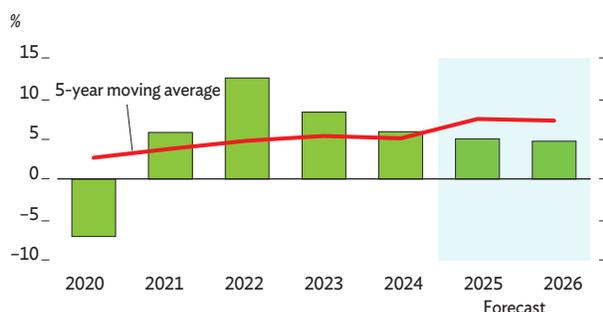
Economic Prospects

Growth is projected to slow to 5.0% in 2025 and 4.7% in 2026 (Figure 2.1.8 and Table 2.1.1). This reflects mainly ebbing support from external factors that emerged in 2022–2023, notably in trade, tourism, and financial inflows. Domestic demand is expected to be the main driver of growth, supported by an expected increase in public infrastructure spending.

On the supply side, services are expected to be the key growth driver, with less support from industry and agriculture. Services are projected to grow by 6.0% in both 2025 and 2026, led by moderating but still strong gains in finance, recreation, retail trade, transport,

Figure 2.1.8 Gross Domestic Product Growth

Growth is projected to moderate further in 2025 and 2026.



Sources: Statistical Committee of Armenia; Asian Development Bank estimates.

Table 2.1.1 Selected Economic Indicators, %

Growth will slow in 2025 and 2026, with higher inflation.

	2023	2024	2025	2026
GDP growth	8.3	5.9	5.0	4.7
Inflation	2.0	0.3	3.0	2.8

GDP = gross domestic product.

Source: Asian Development Bank estimates.

and information and communication. Government policies to promote exports and investment will further support sector growth. Industry excluding construction is forecast to grow by 3.0% in 2025 and 3.4% in 2026, benefiting from higher output of processed foods, textiles, and other nonmetal products, as well as mining and quarrying. However, growth in mining and quarrying will depend on developments in global commodity prices and the planned opening of new mines in the second half of 2025. Construction is projected to grow by 14.0% in 2025 and 14.9% in 2026, driven by increased investment in infrastructure and housing. Assuming normal weather, growth in agriculture is projected at 1.6% in 2025 and 2.0% in 2026 on increased allocations for farm support programs.

On the demand side, consumption and investment will be the main drivers of growth.

Growth in private consumption is projected at 2.5% in 2025 and, as remittances continue to moderate, 2.3% in 2026. Public consumption is projected to grow by 6.7% in 2025 on higher social transfers before moderating to 4.1% in 2026 as the increases taper off and fiscal consolidation sets in. Growth in investment is projected at 12.0% in 2025 and 13.0% in 2026 as continuing

increases in capital outlays for infrastructure and social investment outweigh moderation in private investment, particularly in housing with the gradual abolition of income tax refunds for mortgage loans starting from 2025 in Yerevan.

Average inflation is projected to accelerate but remain subdued.

With a more expansionary fiscal policy in 2025 and a likely accommodative monetary stance throughout the year, and assuming relatively stable global food and commodity prices, average inflation is projected to increase to 3.0% in 2024 before moderating to 2.8% in 2026. By the end of 2025, inflation is forecast to be within the central bank's revised target of 3% ±1 percentage point, introduced in January 2025.

Fiscal policy will remain expansionary in 2025, with higher allocations for social transfers and capital outlays, then consolidate in 2026.

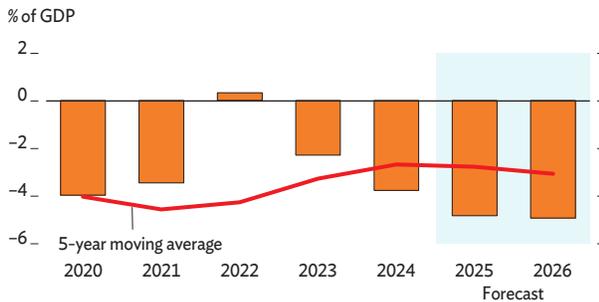
The 2025 budget projects a deficit equal to 5.5% of GDP, with overall revenue forecast at 26.0% of GDP. The tax-to-GDP ratio is projected to reach 25.0% in 2025, a year earlier than the government's 2026 target date, through improved tax administration and further enhancement of tax legislation that primarily affects excise tax and personal income tax. Expenditure is forecast to reach the equivalent of 31.5% of GDP in 2025 with increased allocations for social assistance programs and for capital outlays, the latter projected to reach 6.6% of GDP in 2025. Barring sharp depreciation of the Armenian dram, public debt is expected to reach 55.8% of GDP at the end of 2025 and stabilize at about 55.0% of GDP over the medium term.

The current account deficit is projected to widen to about 5.0% of GDP in 2025 and 2026 as positive external factors diminish (Figure 2.1.9).

Growth in merchandise exports is expected to slow to 25.4% in 2025 and further to 20.5% in 2026, mainly due to reduced exports to Russia. Import growth is projected at 26.8% in 2025 and 21.5% in 2026 in line with the cooling of domestic demand. However, imports of construction materials and of machinery and equipment should remain strong as investment in large road and housing infrastructure projects picks up. The surplus in services will narrow further, reflecting further moderation in tourist arrivals from Russia from the peaks observed in 2022–2023. Smaller money transfers will deepen the income deficit.

Figure 2.1.9 Current Account

The current account deficit will widen moderately over the next 2 years.



GDP = gross domestic product.

Sources: Central Bank of Armenia; Statistical Committee of Armenia; Asian Development Bank estimates.

Policy Challenge—Prudent Fiscal Management as a Key to Resilience

The government has made significant progress in improving fiscal discipline and the effectiveness and efficiency of resource allocation. While Armenian debt remains sustainable, the current outlook calls for continued prudence in fiscal management to strike a balance between maintaining fiscal consolidation efforts and accommodating rising spending pressures. An assessment of public expenditure and financial accountability conducted in 2024 reaffirmed the government’s strengths in effective expenditure control, high fiscal transparency, and efficient tax administration. Identified weaknesses included disconnection between strategic planning and budget preparation, and shortcomings in capital investment processes. A key need is to further strengthen fiscal management by improving fiscal risk management, enhancing the transparency of state-owned enterprises (SOEs), and effectively implementing public investment management.

The government has improved its budgeting and spending effectiveness, strategic planning, and medium-term expenditure framework. Budget management reforms have been implemented to formalize evaluation functions, assess budget programs, and introduce a mechanism for discussing and adjusting budget allocations for ongoing programs. Budgeting is linked with key performance indicators, incorporates gender considerations, and aligns

with Armenia’s Sustainable Development Goals. Moving forward, the focus should be on expanding the government’s key economic and social areas for national planning to include climate change and digital, social, and gender policies.

The government has acted to improve SOE transparency. Notably, it has implemented a new web portal for tracking SOE compliance with published financial statements and revised SOE legislation to improve efficiency and access to information. A policy review was conducted to align state-owned equity funds and financial SOEs with a new ownership policy that requires external audits and addresses market failure and value for money to ensure transparency. Looking ahead, the government will need to advance its monitoring to ensure better compliance with SOE financial statement audits. A strategic concept for a new SOE ownership policy should be developed to rationalize institutional setups, streamline financial information access, and target efficiency gains in performance appraisals.

Armenia has established a formal framework for public investment management (PIM) and is currently undertaking structural enhancements. A comprehensive PIM decree is a key cornerstone, along with extensive technical guidelines for integrating into public investment consideration of climate change mitigation and adaptation and disaster risk reduction. The economic and social impact of these projects has become the guiding principle for approving and processing investment expenditure selection and budgeting. To ensure that new projects are thoroughly appraised and that PIM reforms are effectively coordinated and implemented, the government has revised PIM instructions to include climate change criteria. Effective implementation of legal and regulatory frameworks is crucial to ensuring efficiency-enhancing infrastructure investments and service delivery while achieving fiscal discipline and keeping fiscal liabilities manageable and sustainable. This includes current institutional realignment to better integrate PIM into budget planning processes.

AZERBAIJAN

Growth accelerated in 2024, driven by higher public investment spending. Inflation slowed for food, other goods, and services, despite a midyear rise in administered fuel prices, which is expected to revive inflation this year. Growth is projected to slow as decreased oil production caps public investment outlays and further narrows the current account surplus in 2025 and 2026. Continuing reform of state-owned enterprises and enhancing the role of the private sector are key to creating a more diversified, competitive, and sustainable economy.

Economic Performance

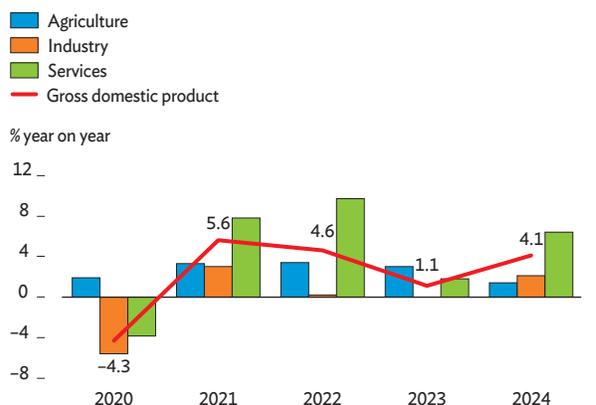
Growth accelerated from 1.1% in 2023 to 4.1% as higher public investment spending boosted expansion in the non-hydrocarbon economy to 6.2% (Figure 2.2.1). Growth in services, which provide nearly 42% of GDP, jumped from 1.8% in 2023 to 6.4% in 2024, reflecting strong gains in transportation and tourism. Industry accelerated from marginal contraction in 2023 to 2.1% expansion as mining registered 0.8% growth, and construction 9.6% growth, with crude oil production declining by 3.6% and gas output rising by 6.2%. Growth in agriculture slowed from 3.0% in 2023 to 1.4%, with shrinking but still positive increases of 1.7% for livestock and 1.1% for crops.

Consumption was the main growth driver on the demand side. Private consumption expanded by 4.8%, reflecting a gain in household income of 6.4%. Total investment contracted by 0.7% as investment in the hydrocarbon sector fell by 10.2%, while investment outside the sector expanded by 3.3%. Net exports contracted, reflecting high demand for imports and a decrease in exports.

Inflation fell in early 2024, in particular for food and other goods, but began rising midyear on higher fuel prices. Average annual inflation plunged from 8.8% in 2023 to 2.2% in 2024 (Figure 2.2.2),

Figure 2.2.1 Supply-Side Growth

Growth accelerated in 2024 with greater expansion in services and industry.



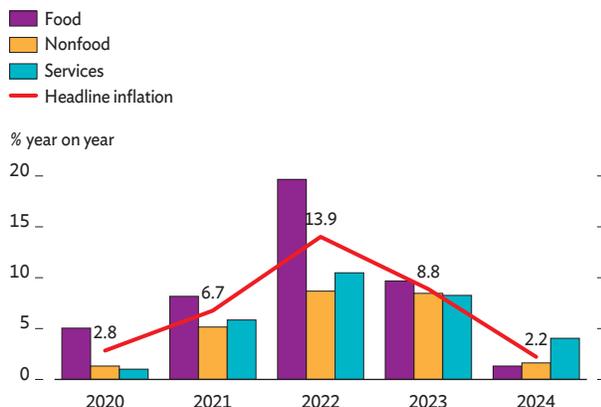
Source: State Statistics Committee of the Republic of Azerbaijan.

reflecting declines in inflation for food from 9.6% to 1.3%, other goods from 8.4% to 1.6%, and services from 8.2% to 4.0%. Lower global food prices contributed to the slowdown. A June 2024 rise in administered fuel prices contributed to an increase in average annual inflation from 0.6% in May to 2.2% in December.

Although the Azerbaijan manat remained stable against the US dollar, it appreciated by about 9% in nominal effective terms. Depreciating currencies in

Figure 2.2.2 Inflation

Inflation slowed in 2024, reflecting declines in all components.



Source: State Statistics Committee of the Republic of Azerbaijan.

some trade partners helped reduce the domestic price of imports, slowing inflation overall. In real effective terms, the manat appreciated by 2.3%.

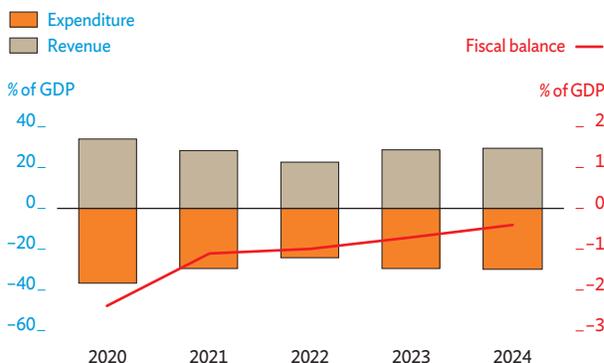
The fiscal deficit narrowed further from 0.7% of GDP in 2023 to 0.4% in 2024 (Figure 2.2.3). Budget revenue rose from 28.9% of GDP to 29.4%, reflecting increases in customs duties and larger transfers from the Sovereign Wealth Fund of Azerbaijan (SOFAZ). Meanwhile, total expenditure rose from 29.6% of GDP to 29.9%, mainly reflecting higher public investment. External public debt declined by 20.6% to \$5.1 billion, or 6.9% of GDP. Domestic public debt rose by 17.6% to reach 14.8% of GDP, up from 12.9% at the end of 2023.

Broad money growth slowed in 2024, and with it inflation (Figure 2.2.4). While net foreign assets and credit to the economy both grew faster in 2024, net claims on the government as a percentage of broad money decreased by 9.8%, in line with a smaller budget deficit, causing growth in broad money to slow from 5.3% in 2023 to 3.2%. Bank deposits rose by 8.9%, with increases of 11.5% for local currency deposits and 5.1% for foreign currency deposits. Credit to the economy rose by 22.1%, while nonperforming loans declined from 1.8% of total credit to 1.5%. With inflation declining, the Central Bank of Azerbaijan reduced its policy rate from 8.00% to 7.25% during the year.

The current account surplus narrowed as oil and gas exports declined while imports increased. The surplus fell from 12.4% of GDP in the first 9 months

Figure 2.2.3 Fiscal Indicators

The budget deficit narrowed in 2024 as revenue rose more than expenditure.

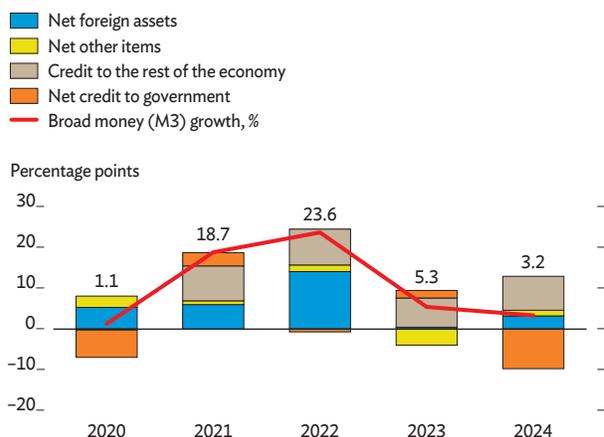


GDP = gross domestic product.

Source: The Ministry of Finance of the Republic of Azerbaijan.

Figure 2.2.4 Broad Money Growth

Broad money growth slowed in 2024 as net credit to government declined.

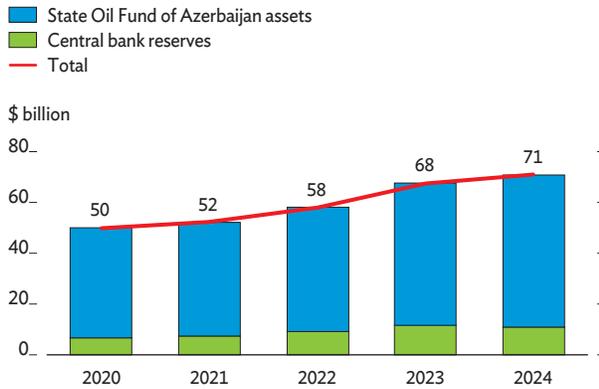


Source: Central Bank of the Republic of Azerbaijan.

of 2023 to 7.2% in the same period of 2024. The merchandise trade surplus narrowed from \$10.0 billion to \$7.0 billion as exports declined by 11.7% while imports rose by 3.5%, reflecting strong domestic demand from faster growth. The deficit in services fell by 10.5%, from \$1.7 billion to \$1.6 billion, reflecting an increase in tourism exports, while inward money transfers fell by 33.7% as transfers from Russia declined by half. The combined reserves of the central bank and SOFAZ rose by 4.9%, from \$68 billion at the end of 2023 to \$71 billion (96% of GDP) a year later. SOFAZ reserves increased by 7.1%, while those of the central bank fell by 5.6% to \$10.9 billion, but still sufficient to provide cover for 8 months of imports.

Figure 2.2.5 International Reserves

Total international reserves grew in 2024, though central bank reserves declined.



Sources: Central Bank of the Republic of Azerbaijan; State Oil Fund of the Republic of Azerbaijan.

Economic Prospects

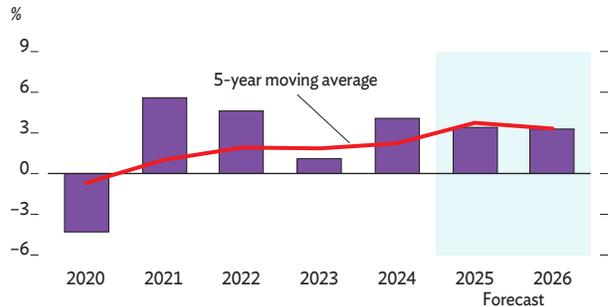
Growth is projected to slow to 3.4% in 2025 and 3.3% in 2026 with an expected decline in hydrocarbon output (Figure 2.2.6 and Table 2.2.1). While total government expenditure is projected to rise, a decline in investment spending may trim growth by causing further drops in oil production, though partly offset by a rise in natural gas output. Services are expected to grow by 5.2% in 2025 and 5.0% in 2026, agriculture by 1.0% and 0.9%, and industry by 1.5% and 1.4%.

Inflation is expected to accelerate in 2025, reflecting the lagged impact of increased fuel prices, before slowing in 2026 (Figure 2.2.7). The June 2024 rise in administered fuel prices has continued to affect other domestic prices. In addition, tariffs on water, electricity, and certain other utilities were raised in January 2025, adding to inflationary pressures. To keep inflation within its target range of 2%–6%, the central bank has kept its policy rate unchanged at 7.25% since May 2024. In 2025, inflation may rise as well because of higher import prices, driven by spillover effects from possible global tariff changes. In 2026, slower growth and the waning impact of earlier administrative price increases should trim the inflation rate.

The government budget deficit is projected to rise to 2.4% of GDP in 2025 before narrowing to 2.0% in 2026. Revenue is forecast at 30% of GDP in 2025, reflecting tax revenue of 12%, nontax revenue

Figure 2.2.6 Growth Forecast

Growth is projected to decline as lower hydrocarbon output slows investment growth.



Sources: State Statistics Committee of the Republic of Azerbaijan; Asian Development Bank estimates.

Table 2.2.1 Selected Economic Indicators, %

Growth will slow as hydrocarbon output declines.

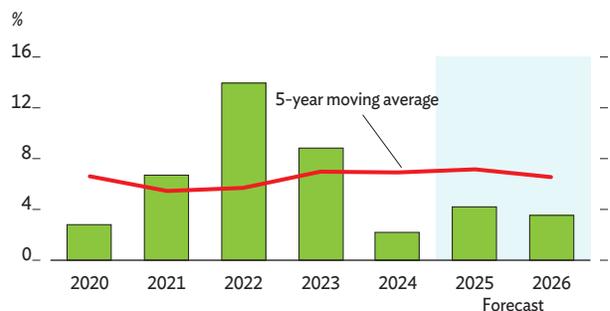
	2023	2024	2025	2026
GDP growth	1.1	4.1	3.4	3.3
Inflation	8.8	2.2	4.2	3.5

GDP = gross domestic product.

Sources: State Statistics Committee of the Republic of Azerbaijan; Central Bank of Azerbaijan; Asian Development Bank estimates.

Figure 2.2.7 Inflation Forecast

Inflation is projected to rise in 2025 before declining in 2026 as growth slows and the impact of earlier administrative price hikes wanes.



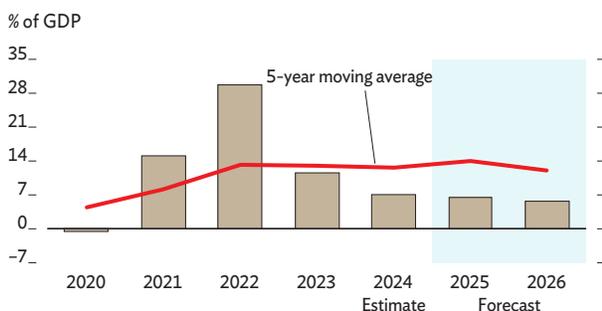
Sources: State Statistics Committee of the Republic of Azerbaijan; Asian Development Bank estimates.

of 7%, and transfers from SOFAZ of 11%. Budget expenditure is projected at 32% of GDP, with 19% for current expenditure and 11% for capital outlays. Social protection and support expenditures are projected to rise by 8% and represent about 12% of total budget expenditure. Public investment outlays are projected to decline to 2% of GDP.

The current account surplus is projected to narrow further in 2025 and 2026 as exports decline while imports continue to rise (Figure 2.2.8). Falling oil production and an expected drop in petroleum prices are expected to reduce revenue from energy exports, despite some rise in gas production. Notwithstanding a slowdown, continued GDP growth will boost imports, further narrowing the trade surplus. Inward money transfers are also expected to decline, further narrowing the current account surplus.

Figure 2.2.8 Current Account Forecast

The current account surplus will continue narrowing because of declining hydrocarbon exports and rising imports.



GDP = gross domestic product.

Note: 2024 is estimated based on 9-month data.

Sources: Central Bank of Azerbaijan statistics; Asian Development Bank estimates.

Policy Challenge—Enhancing Private Sector Participation in Azerbaijan’s Economy

Private sector expansion faces numerous policy challenges needing attention. Tackling these challenges requires a comprehensive approach that includes reforming state-owned enterprises (SOEs), enhancing the environment for public-private partnership, building human capital, and investing in green and resilient infrastructure. Addressing these issues is important to create a more diversified, competitive, and green economy.

SOEs play a significant role in Azerbaijan’s economy, particularly in the hydrocarbon sector.

Large SOEs and the oil and gas industries have constrained private sector growth outside the hydrocarbon economy and the integration of private firms into global value chains. To address these

challenges, it is essential to support SOE reforms that improve their governance, management, and corporatization and enable them to diversify, become competitive, and access finance without sovereign guarantees. Adopting environmental, social, and governance standards and preparing decarbonization strategies and road maps can enable SOEs to advance Azerbaijan’s transition to a more sustainable and competitive economy. To support private firms, enhancing the capacity of local financial institutions to provide innovative financial tools and project finance is important for improving access to finance, particularly for small and medium-sized enterprises. Also needed is support that creates ecosystems for innovation through collaboration among SOEs, startup firms, industry, and research institutes.

Public-private partnership (PPP) can increase private sector participation and make infrastructure projects and service delivery more efficient and sustainable.

In 2022, Azerbaijan adopted a new PPP law that promises to launch private sector growth alongside the public sector. However, it is still at an early stage and requires more time to attain substantial results. At this stage, PPP projects can be boosted by building capacity in the country to select, screen, and prioritize them. In addition, identifying potential opportunities and developing innovative financing structures, such as the use of credit-enhancement products, can help PPP projects become bankable, more cost efficient, and thus able to provide higher quality services in transport, energy, water supply, wastewater treatment, and education. Developing performance-based contracts that enable private companies to deliver public services can be an effective strategy to increase private sector participation.

Boosting female employment and entrepreneurship can support private sector activity.

Employment in Azerbaijan is highly gender-segregated, slowing women’s economic participation in the private sector. Encouraging female entrepreneurship and leadership in firms can drive innovation and productivity, ultimately benefiting the overall economy. Women play crucial roles, both paid and unpaid, in food production, yet they represent only 24% of agriculture entrepreneurs. Addressing gender disparities and empowering women through targeted policies and programs can support private sector development. This includes providing

women with more access to education, training, and resources to participate in climate-smart agriculture and other green innovations.

Azerbaijan's location as a pivotal regional transport hub can spur the private sector. With its unique geographical position, the country serves as a bridge connecting Central Asia with the South Caucasus and beyond. Moreover, its strategic role as a transit corridor

between Europe and Asia supports the efforts of Asian countries to diversify trade routes and enhance regional connectivity. Scaling up trade finance, supply chain finance, and digital trade to draw on these assets will require considerable financing and forward-thinking, all of which can involve the private sector. Private sector participation can enhance the efficiency of the Trans-Caspian Middle Corridor and support Azerbaijan's green agenda.

GEORGIA

Strong domestic demand boosted growth nearly into double digits in 2024, with faster expansion in all main production sectors. Gains in consumption and net exports offset a small decline in investment. Relatively unchanged food prices and a decline in prices for other goods brought inflation below 2%. Growth is expected to slow in 2025 and 2026 with slower expansion in services, while inflation is projected to accelerate modestly because of higher import prices. Harnessing green connectivity can spur inclusive growth.

Economic Performance

Strong domestic demand boosted growth from 7.8% in 2023 to an estimated 9.5% in 2024, with gains in all major production sectors. Expansion in services accelerated from 10.8% to 12.0%, as trade expanded by 9.2%, transport by 9.9%, and accommodation by 10.3% (Figure 2.3.1). Growth in industry rose from 4.3% to 4.8%, with construction expanding by 17.1% while utilities contracted.

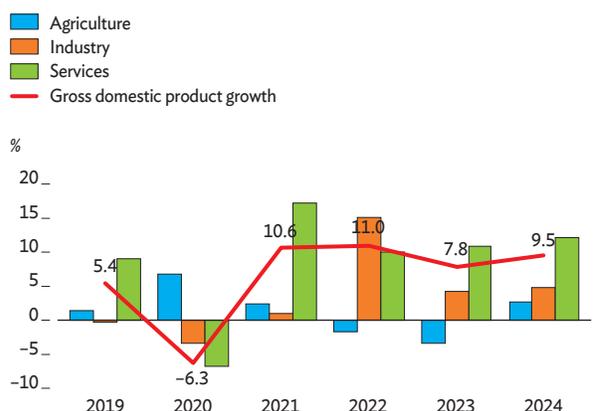
Agriculture reversed a 3.4% decline to grow by 2.6%, reflecting improvement in farm mechanization and irrigation. Meanwhile, education posted a gain of 26.2% and public administration 16.8%.

On the demand side, consumption was the main growth driver. Expansion in private consumption accelerated from 4.5% in 2023 to 9.6%. Lower unemployment, coupled with credit and salary growth amid low inflation, encouraged consumer spending, and the continued presence of long-term Russian migrants boosted productivity. Investment declined by 1.2%, following several years of expansion, as inventories decreased. Net exports reversed 13.7% decline in 2023 to grow by 10.7% as higher receipts from tourism boosted export earnings from services.

Inflation slowed from 2.5% in 2023 to 1.1% as food price inflation fell from 3.9% to virtually zero. This reflected an absence of significant supply shocks, which kept import price inflation low despite higher transport

Figure 2.3.1 Gross Domestic Product Growth by Sector

Growth reached nearly double digits in 2024, with faster expansion across the board.

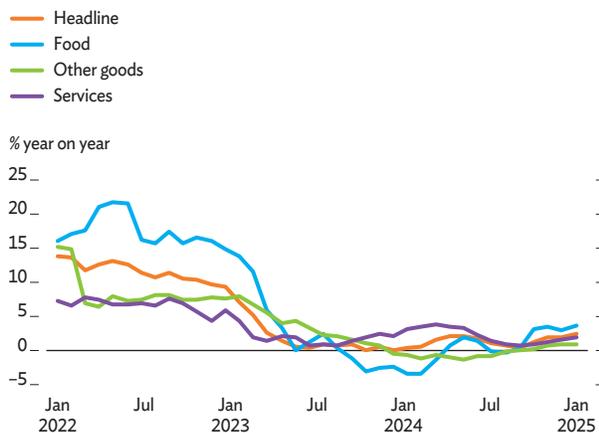


Source: National Statistics Office of Georgia.

costs and strong domestic economic growth. Prices for other goods fell by 0.6% following a 4.0% increase in 2023, while inflation in services remained nearly unchanged at 2.2% (Figure 2.3.2). With low inflation, the National Bank of Georgia, the central bank, cut the policy rate by a cumulative 300 basis points to 8.0% in May 2024. The Georgian lari depreciated against the US dollar by 3.5%, and by varying amounts against other major currencies, especially around midyear and year-end, in part reflecting uncertainty tied to domestic policy and elections.

Figure 2.3.2 Monthly Inflation

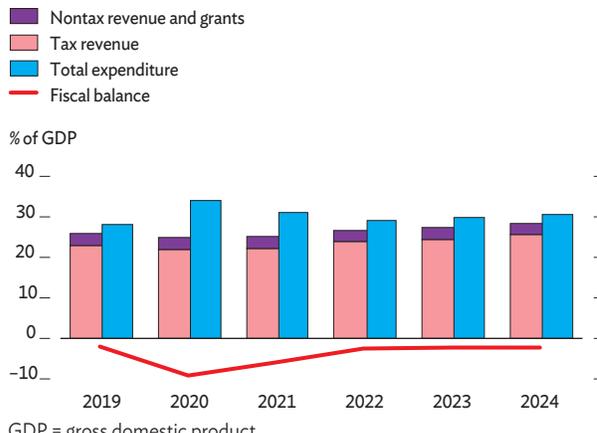
Rapid declines in inflation for food and other goods brought headline inflation well below 3% in 2024.



Source: National Statistics Office of Georgia.

Figure 2.3.3 Fiscal Indicators

Continued growth in tax revenue trimmed the fiscal deficit slightly in 2024.



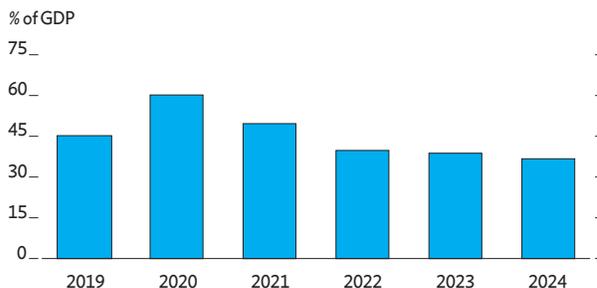
Sources: International Monetary Fund; Ministry of Finance of Georgia.

The fiscal deficit narrowed slightly, from 2.4% in 2023 to 2.3%, as rapid economic expansion boosted revenue growth.

Revenue increased by 16.3% to equal 28.3% of GDP, up from 27.4% of GDP in 2023, as higher receipts from taxes on goods and services raised growth in tax revenue from 13.5% in 2023 to 18.0% (Figure 2.3.3). Total expenditure grew by 15.5%, up from 13.2% in 2023, rising from 29.8% of GDP in 2023 to 30.6%. This reflected continued growth in public sector wages and sustained infrastructure spending at about 7.5% of GDP. Total public debt decreased to 36.7% of GDP from 38.8% in 2023, as external public debt grew by only 3.2% in absolute terms, while domestic debt rose by 11.7%, reflecting government policy to increase the share of domestic public debt (Figure 2.3.4).

Figure 2.3.4 Government Gross Debt

Public debt continued to decline as a percentage of GDP in 2024.



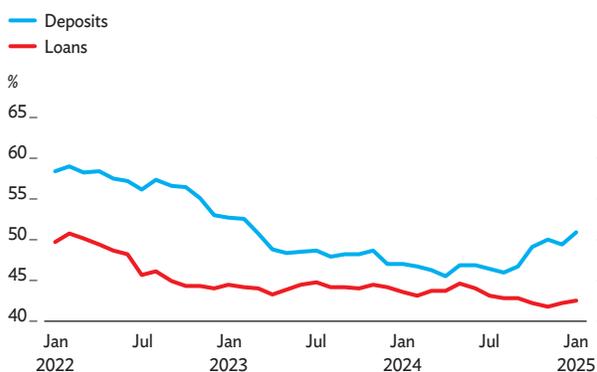
Sources: International Monetary Fund; Ministry of Finance of Georgia.

The banking system showed continued strength, with credit growth accelerating slightly.

The ratio of dollarized deposits included in broad money increased slightly to 49.3% from 47.0% in 2023 (Figure 2.3.5). Credit dollarization by contrast declined by 2.0 percentage points to 42.1%, reflecting central bank prudential measures to reduce unhedged borrowing in the economy. Deposits as a share of GDP grew to 64.0% from 63.1% in 2023. Credit growth increased from 16.6% in 2023 to 18.5%, owing to increased loans for trade, construction, and real estate transactions, as well as continued growth in consumer loans. However, broad money growth remained unchanged at 14.5% as net foreign assets continued to decline in 2024

Figure 2.3.5 Dollarization in the Banking System

In 2024, the percentage of loans in foreign currency declined while that of deposits increased.



Source: National Bank of Georgia.

(Figure 2.3.6). Average interest rates remained largely unchanged at 13.1% for loans and 7.2% for deposits. Foreign currency interest rates were 9.3% for loans and 2.9% for deposits. The share of nonperforming loans in total loans was little changed at 1.5%. Banks’ return on assets (4.3%) and equity (25.2%) remained strong, with high liquidity and bank profitability.

A slowdown in import growth helped narrow the current account deficit from 5.6% of GDP in 2023 to 5.1% in 2024 (Figure 2.3.7).

Despite rapid economic expansion, growth in imports slowed from 15.2% in 2023 to 8.1% because of slower growth in vehicle imports. Expansion in merchandise exports decreased less, from 9.0% to 7.8%, as exports of nitric fertilizer decreased despite continued high exports of ferro-alloys, precious metals, and alcoholic beverages—and vehicle re-exports, which represented 37.0% of total exports. Growth in service exports decreased from 22.1% in 2023 to a still robust 14.5%, reflecting slower expansion in information and communication technology (ICT) services. Growth in 2024 mainly reflected a 34.6% increase in transportation on a strong performance by freight and a 7.9% rise in personal travel, which boosted tourism revenue by 7.3% to a record high. Money transfers declined by 18.9%, largely reflecting a 64.6% drop in transfers from Russia, the value of which fell to about 16% of total transfers, or roughly as before the Russian invasion of Ukraine. Gross international reserves declined by 11.2% in 2024 (Figure 2.3.8). The decline came as the central bank supplied \$591 million to the foreign exchange market in October to prevent rapid lari depreciation. Foreign direct investment decreased by 29.9% to \$1.3 billion in 2024.

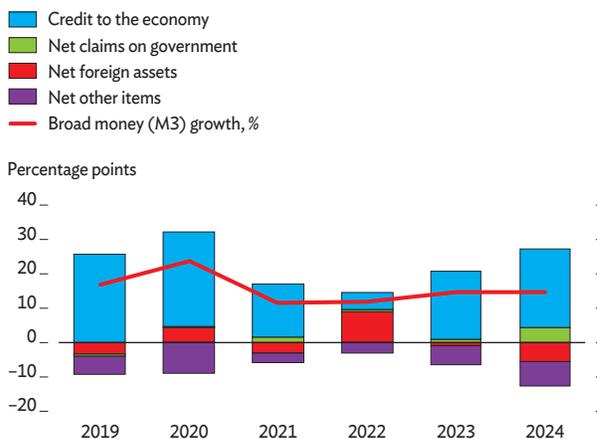
Economic Prospects

Growth is projected to normalize to 6.0% in 2025 and 5.0% in 2026 with declines in Russian migrants and inward money transfers (Figure 2.3.9 and Table 2.3.1).

On the supply side, growth in services is projected to decline to 8.9% in 2025 and 7.5% in 2026 as external drivers of growth weaken and generators of foreign exchange, such as tourism and ICT income from Russian travelers and migrants, diminish (Figure 2.3.10). Expansion in industry is projected to decrease to 4.6% in 2025 and 3.1% in 2026, reflecting slower growth in construction but partly offset by

Figure 2.3.6 Contributions to Broad Money Growth

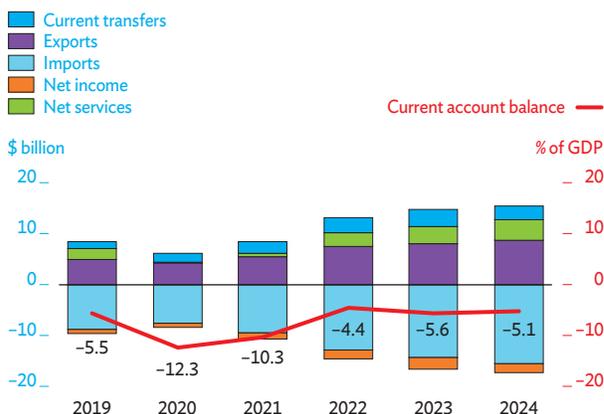
Credit growth accelerated with a lower policy interest rate.



Source: National Bank of Georgia.

Figure 2.3.7 Current Account Components

The current account deficit narrowed in 2024.

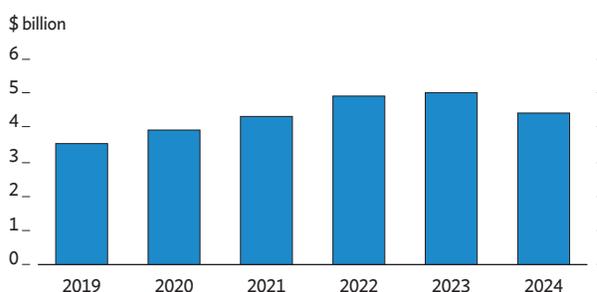


GDP = gross domestic product.

Source: National Bank of Georgia.

Figure 2.3.8 Gross International Reserves

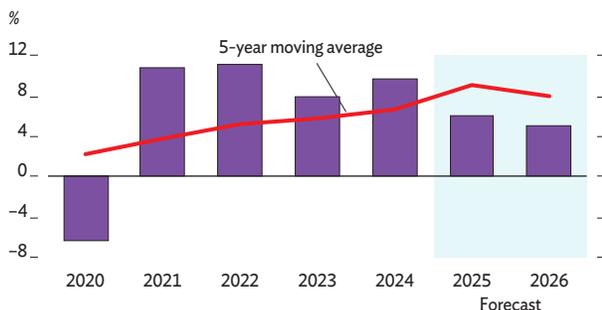
Reserves declined in 2024.



Sources: National Bank of Georgia; International Monetary Fund.

Figure 2.3.9 Gross Domestic Product Growth

Growth will slow to more typical levels in 2025 and 2026.



Sources: National Statistics Office of Georgia; Asian Development Bank estimates.

Table 2.3.1 Selected Economic Indicators, %

Growth is projected to decelerate in 2025 and 2026, with higher inflation.

	2023	2024	2025	2026
GDP growth	7.8	9.5	6.0	5.0
Inflation	2.5	1.1	4.0	3.5

GDP = gross domestic product.

Source: Asian Development Bank estimates.

faster expansion in utilities. Growth in agriculture is projected to increase to 3.9% in 2025 with improved infrastructure and more sustainable crop practices, then slow to 2.8% in 2026.

On the demand side, adjustments in consumer spending are projected to slow growth in domestic demand.

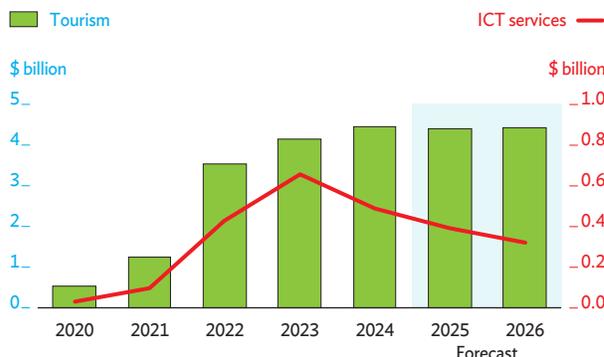
Growth in private consumption is projected to decelerate to 4.8% in 2025 and 3.5% in 2026 as a decrease in the number of Russian migrants curbs total spending. Continuing geopolitical uncertainty and the suspension of the European Union (EU) accession process could slow growth in exports and investment. Growth in investment is projected at 7.1% in 2025 and 7.4% in 2026, reflecting both government and private sector activity. Net exports are projected to grow little as expansion in service exports slows.

Inflation is projected to increase to 4.0% in 2025 on higher import prices and then ease toward the central bank’s 3% target as growth slows (Figure 2.3.11).

These projections assume no oil price jumps or any reemergence of supply chain

Figure 2.3.10 Income from Tourism and ICT Services

Revenue from tourism and ICT will decline due to a further reduction in income from Russian travelers and migrants.

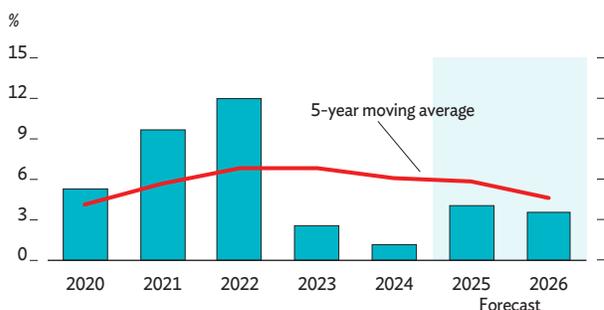


ICT = information and communication technology.

Sources: National Bank of Georgia; Georgian National Tourism Administration; Asian Development Bank estimates.

Figure 2.3.11 Inflation

Inflation will be higher in 2025 and 2026.



Sources: National Bank of Georgia; Asian Development Bank estimates.

disruption due to regional conflicts. Broad money growth is projected to slow to 13.0% in 2025 and 13.5% in 2026 as credit growth decelerates. Inflation could be higher if foreign finance inflows, including development assistance, fall notably and cause further lari depreciation. A significant increase in global prices for commodities, notably food, could stoke inflation.

Fiscal policy is expected to remain broadly unchanged over the medium term.

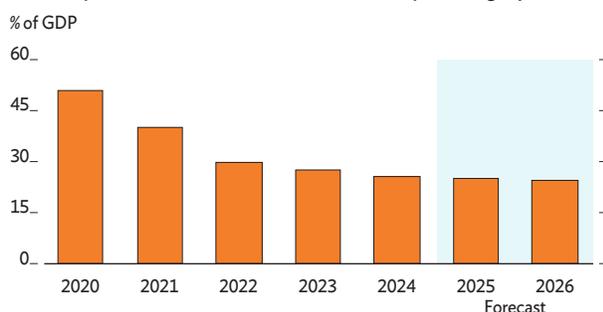
The fiscal deficit is projected to increase slightly to 2.5% of GDP in 2025 and 2.6% in 2026 but remain well under 3%. Tax revenues are projected to increase to 28.5% of GDP in 2025 and 28.7% in 2026 on improved revenue administration. The government’s decision to raise additional revenue from tobacco will mobilize further receipts. Fiscal expenditures are projected to reach

31.0% of GDP in 2025 and 31.3% in 2026 as current spending stays prudent and infrastructure outlays remain at about 7%–8% of GDP. As the government will need to refinance \$500 million in eurobond obligations that fall due in 2026, its ability to access international capital markets on favorable terms will be important.

The current account deficit is expected to widen in 2025 and 2026. Weakness in global markets and uncertainty affecting key trade partners are likely to slow growth in foreign finance inflows. Total exports are projected to expand by 11.7% in 2025 and 13.1% in 2026 as imports rise by 10.2% and then 11.4% with sustained imports of vehicles for reexport. Intermediate inputs and raw materials will remain the mainstay of Georgia’s merchandise exports, together with vehicle reexports. Growth in service exports is projected to slow further to 12.8% in 2025 and recover somewhat to 13.2% in 2026, while net money transfers should decline by a further 10%–15% but remain significantly above pre-2022 levels. Barring significant lari depreciation, external public debt is expected to decline to 25.0% of GDP in 2025 and 24.5% in 2026 (Figure 2.3.12).

Figure 2.3.12 Government External Debt

External public debt will continue to decline as a percentage of GDP.



GDP = gross domestic product.

Sources: International Monetary Fund; Ministry of Finance of Georgia.

Downside risks remain at the fore. Risks to the current account include domestic policy uncertainty and geopolitical risks. Higher global interest rates would reduce capital inflows. Depreciation of the lari, leading to higher domestic inflation, could induce capital flight. A further weakening of foreign direct investment would render capital less available to enable growth and finance the current account deficit.

Policy Challenge—Harnessing Green Connectivity for Inclusive Growth

Georgia is keen to develop its clean energy and transportation infrastructure while embracing digital solutions to foster inclusive development.

Positioned strategically with Black Sea ports and a rail connection to Türkiye, Georgia serves as a critical link in the Middle Corridor, a multimodal freight link connecting the People’s Republic of China and the European Union (EU) through Central Asia, the Caucasus, and Türkiye. As the EU seeks transport routes that bypass Russia to enhance its supply chain resilience and to engage resource-rich Central Asia, Georgia has benefited from its strategic location and rapidly increasing transit activity. Yet Georgia faces infrastructure challenges: notably an absence of on-dock rail terminals in ports, underutilized rail routes, fragmented service provision, and inconsistent tariffs. While the country lacks fossil fuel reserves, it has substantial untapped potential in renewable energy— notably hydro, wind, and solar power—for domestic use and regional power transmission.

The government has taken significant steps to harness Georgia’s transit potential. It has modernized its transportation and energy networks, and it collaborates with regional partners along the Middle Corridor to streamline transit and tariff policies. The corridor’s strategic road map for 2022–2027, adopted by the governments of Azerbaijan, Georgia, Kazakhstan, and Türkiye, focuses on developing transport and logistics infrastructure to establish a single digital transport corridor. In 2024, key sections of the strategic East–West Highway were completed using climate-resilient designs, forming a crucial segment of the Middle Corridor. This corridor, while initially intended for regional trade, has potential over the long term for global expansion. Investments in environmentally friendly rail infrastructure such as the Baku–Tbilisi–Kars railway, currently in testing mode, will bolster freight and passenger capacity, linking Central Asia to Europe by an alternative route to the Black Sea crossing. In maritime development, the construction of the Anaklia deep-sea port is set to strengthen Georgia’s position as a critical hub between Europe and Asia. Further, the country has implemented advanced cross-border trade reform, notably risk-

based border management and one-stop interaction with government and trade digitalization. These infrastructure elements and integrated trade solutions are expected to benefit communities along the transit route by facilitating trade and market access, thereby promoting more inclusive growth. To support energy needs and regional integration, Georgia is fostering investment into hydropower and plans to mobilize \$3 billion for a 1,100-kilometer Black Sea submarine electricity cable and fiber optic link to enable energy transport from the Caspian region to the EU. This initiative is projected to attract further investment and align Georgia's energy network with European markets.

Looking ahead, Georgia can benefit further from deeper integration with advanced economies, particularly in the EU and Asia. Continued investment in sustainable transport, renewable energy, and digital services will help Georgia improve its infrastructure quality, expand its outreach, and reduce its carbon footprint while enhancing its regional security. Strengthening partnerships with international financial institutions, the EU, and Central Asian countries will be essential for positioning Georgia as a cost-effective transit route for energy resources. The resulting green connectivity can expand employment and foster more inclusive growth across the country.

KAZAKHSTAN

Growth decelerated in 2024 with lower oil production. Tighter monetary policy and efforts to stabilize the currency helped trim inflation. Growth will increase marginally in 2025 from expanded oil production before subsiding in 2026 with lower fiscal spending as a percentage of GDP. Inflation should slow gradually if monetary policy remains tight and the exchange rate is stable. A well-designed disaster risk finance policy would allow the government to access resources to ensure timely relief, early recovery, and reconstruction.

Economic Performance

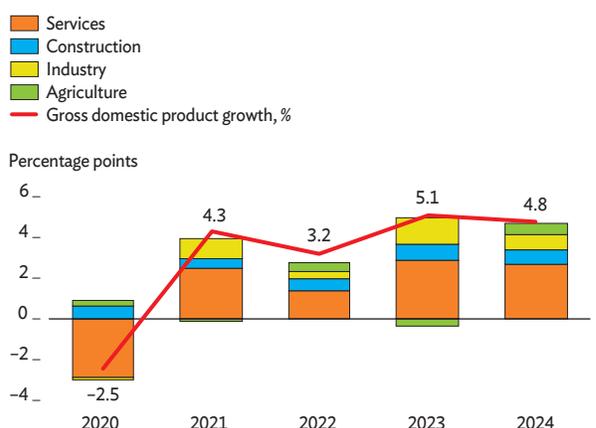
Growth slowed from 5.1% in 2023 to 4.8% in 2024 as oil production fell (Figure 2.4.1). On the supply side, mining contracted by 0.2%, reversing a 4.8% increase in 2023, as oil production fell by 2.7% because modernization idled facilities and restrictions were imposed by the Organization of the Petroleum Exporting Countries and its partners (OPEC+). Growth in manufacturing accelerated from 4.0% in 2023 to 5.9% as the government banned exports of scrap metal to encourage localized production of car components and machinery, and with the completion of several large metalworking factories that enabled a 31.3% increase in metal production. Expansion in services moderated from 5.5% to 4.7% as transport and warehousing growth fell by half to 8.5%, though trade grew by 9.1% and communication by 7.0%. Growth in construction remained strong at 13.1%, near a 15.1% rise in 2023, with record-high residential construction of 19 million square meters benefiting from state support measures, as well as continued transport and utility modernization programs. Favorable weather brought a 13.7% rise in agriculture, reversing 7.4% decline in 2023.

Gains in private consumption, though smaller than in 2023, supported growth on the demand side.

Data on the demand side, available for only the first 9 months of 2024, show that consumption growth moderated to 5.1% from 8.0% in the comparable period

Figure 2.4.1 Supply-Side Contributions to Growth

Growth slowed in 2024 due to lower oil production.



Source: Republic of Kazakhstan, Agency for Strategic Planning and Reforms, Bureau of National Statistics.

of 2023. Private consumption rose by 6.7% as lower inflation boosted household real income by 3.5%, while fiscal constraints cut government consumption by 1.2%. Growth in investment plunged from 23.4% in the first 9 months of 2023 to 1.7% as large infrastructure projects neared completion, with gross fixed capital formation rising by 2.2%. Net exports of goods and services increased marginally as less buoyant demand cut imports by 1.3% while exports were unchanged.

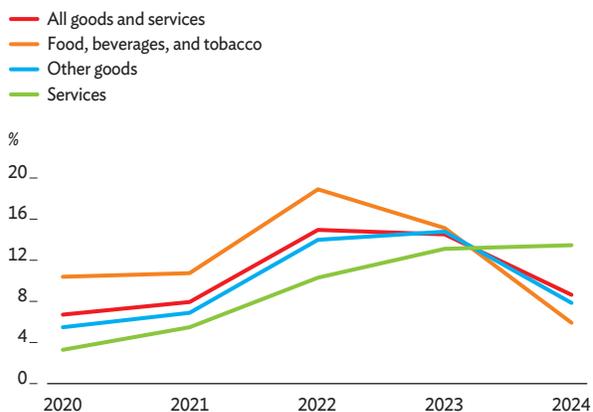
Tight monetary policy cut average annual inflation from 14.5% in 2023 to 8.7% in 2024 (Figure 2.4.2).

Food price inflation plunged from 15.2% in 2023 to 6.0%, reflecting eased supply constraints, a good harvest, and currency appreciation in the first half of the year, which lowered import prices. Inflation for other goods fell by half from 14.8% in 2023 to 7.9% because of moderating import prices, a relatively strong Kazakh tenge in the first half of the year, and government controls on gasoline prices. However, inflation for services increased from 13.2% to 13.5% because of the government's Tariff in Exchange for Investment Policy, which aims to attract private capital to upgrade aging utilities through tariff adjustments. This led to an average 15.7% rise in utility prices, including increases of 36.4% for water supply, 30.0% for heating, 24.8% for electricity, and 23.2% for garbage collection. As inflation declined, the National Bank of Kazakhstan, the central bank, gradually reduced its key policy rate from 15.75% at the beginning of the year to 14.25% in July. With the value of the tenge decreasing and inflationary pressures rising after July, the central bank kept the key policy rate unchanged until November, when it raised the rate to 15.25% (Figure 2.4.3).

Broad money growth accelerated despite tight monetary policy. Growth in broad money (M3) accelerated from 11.7% in 2023 to 19.2%, and bank deposits increased by 26.1% (Figure 2.4.4). Double-digit interest rates for tenge bank deposits linked to the key policy rate, versus a ceiling of 1% interest for foreign exchange deposits, saw the foreign currency share of deposits decline to 20.9% from 22.9% at the end of 2023, while that of loans remained at 10.0%. Total loans rose by 20.6%, supported by a decline in average lending rates from 19.8% to 18.3%. Consumer loans grew by 33.5%, and mortgage lending by 14.5%, benefiting from a government subsidized-mortgage program. Lending to firms accelerated to 16.5% in 2024. The share of nonperforming loans increased marginally from a historic low of 2.9% at the end of 2023 to 3.1% a year later, as the stock of nonperforming loans rose by 26.7%, more than the increase in total loans. The rise occurred because nonperforming loans among individuals increased from 3.4% to 3.8%. The central bank halved the stock of its own short-term securities, while government-issued domestic securities rose by 17.3% to finance the budget deficit.

Figure 2.4.2 Average Inflation

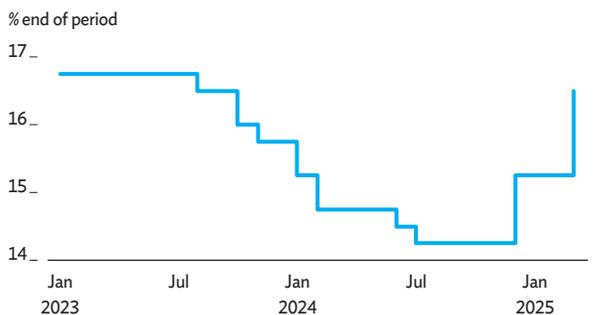
Average inflation declined, with tight monetary policy and a stable exchange rate in the first half of 2024.



Source: Republic of Kazakhstan, Agency for Strategic Planning and Reforms, Bureau of National Statistics.

Figure 2.4.3 Monetary Policy Rate

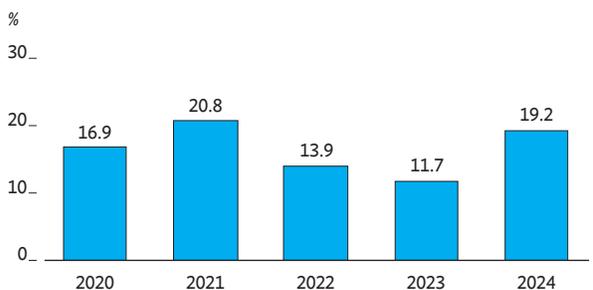
The policy rate was reduced from January to July 2024 but raised in November 2024 to address inflationary pressures.



Source: Haver Analytics.

Figure 2.4.4 Broad Money Growth

Broad money growth accelerated in 2024.

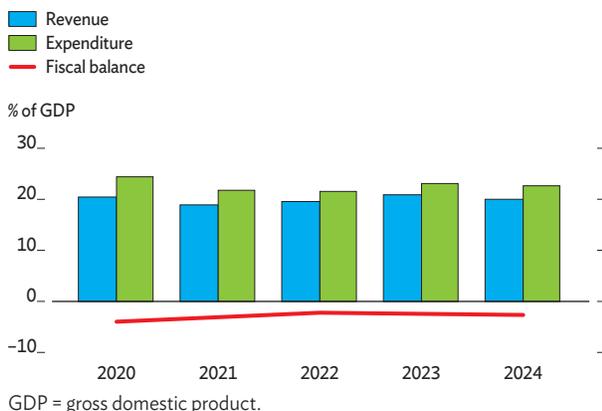


Note: Broad money growth is the percentage change from December to December.

Source: National Bank of the Republic of Kazakhstan.

Figure 2.4.5 Fiscal Indicators

The fiscal deficit widened slightly in 2024.



Source: Republic of Kazakhstan, Agency for Strategic Planning and Reforms, Bureau of National Statistics.

The state budget deficit widened slightly, from 2.4% of GDP in 2023 to 2.7% in 2024, and the non-oil deficit from 7.1% to 8.0% (Figure 2.4.5).

General government revenue declined from 20.9% of GDP to 20.1% despite a 4.2% rise in tax revenue. Central government tax revenue fell by 4.7%, with collection declines of 8.7% for value-added tax and 6.1% for corporate tax. However, regional governments saw increases of 23.1% in personal income tax and 19.5% in social tax. To help compensate for the decline in central government tax revenue, transfers from the National Fund for the Republic of Kazakhstan (NFRK), the sovereign wealth fund, rose by 40%. General government expenditure declined from 23.2% of GDP to 22.7%. Outlays for social services, representing more than half of total expenditure, rose by 12.1%, with increases of 15.5% for education and 14.2% for social assistance but no increase for health care. Transport and communication spending increased by 24.7%, housing and communal services by 24.1%, and general government services by 18.6%, while other expenditure fell by 8.9%. Debt service spending rose by 19.7%, with government and government-guaranteed debt increasing from 24.0% of GDP to 25.0%. Nearly 83% of the deficit was financed by domestic sources, and most of the rest by international finance institutions.

The current account deficit declined sharply from 3.4% of GDP in 2023 to an estimated 1.5% on lower deficits in services and income accounts.

The trade surplus fell to 6.7% of GDP as lower oil export earnings cut merchandise exports by 0.5% to \$79.8 billion, while

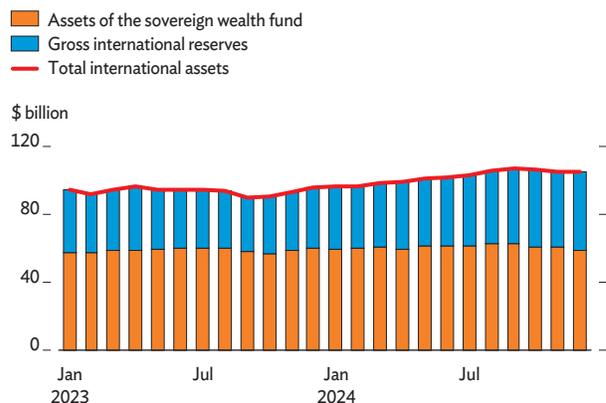
imports rose by 0.1% to \$60.4 billion. The deficit in services declined to 0.6% of GDP, with exports growing by 7.1% to \$11.4 billion, while imports increased by 4.1% to \$13.1 billion. Profit repatriation decreased from 9.3% of GDP to 7.2%, with reinvested earnings declining the most. Smaller outward money transfers halved the secondary income account deficit to 0.2% of GDP, while net foreign direct investment increased by 25.4% to reach \$3 billion, or 1.1% of GDP.

NFRK assets declined to 20.4% of GDP while foreign exchange reserves increased to 15.9% of GDP.

NFRK assets declined by 2.0% to \$58.8 billion, while foreign exchange reserves increased by 27.5% to an all-time high of \$45.8 billion (Figure 2.4.6). The central bank sold about \$12 billion in NFRK assets on the foreign exchange market to finance budget transfers and the purchase of shares of a national uranium-producing company. In addition, to alleviate pressure on the exchange rate, the central bank sold over \$2.2 billion from reserves and reinstated a requirement that state-owned companies sell 50% of their foreign exchange earnings on the market. In the whole year, the Kazakh tenge depreciated by 15.2% to an all-time low of 523.5 tenge per dollar. Nevertheless, central bank reserves increased, reflecting higher gold prices and an increased return on its investment portfolio, providing cover for 6.5 months of imports. By the end of 2024, external debt rose to \$165.6 billion, or 57.0% of GDP, with intercompany debt declining to \$91.6 billion and public sector external debt increasing to \$30.8 billion, or 10.6% of GDP.

Figure 2.4.6 Foreign Currency Reserves and Sovereign Wealth Fund Assets

Gross international reserves increased in 2024 while sovereign wealth fund assets decreased.



Source: National Bank of the Republic of Kazakhstan.

Economic Prospects

Growth is projected to rise marginally to 4.9% in 2025 on higher oil production and then slow to 4.1% in 2026 with increased taxes and lower government spending (Figure 2.4.7 and Table 2.4.1). Growth in industry is forecast to accelerate to 6.3% in 2025,

driven by gains in mining of 7.2% that reflect an expected rise by more than 9.0% in oil production from the launch of the Future Growth Expansion project at Tengiz. Kazakhstan has reaffirmed its commitment to an OPEC+ agreement and will implement measures in 2025 and 2026 to compensate for overproduction in 2024. Extending the observation period to 2026 will allow Kazakhstan to raise production in 2025, provided that its quota rises over time. Mining growth will slow to 4.3% in 2026, with oil production gradually rising and projected to surpass 100 million tons. Manufacturing will expand by 4.5% in 2025, rising to 4.8% in 2026, supported by government efforts to promote domestic production as outlined in the National Development Plan. Growth in construction will moderate further to 9.7% in 2025 and 8.8% in 2026, with stricter construction standards, while utility providers address

increasing demand and aging infrastructure. Growth in agriculture will moderate to 3.8% in 2025, reflecting a good harvest last year and little new investment, and 3.4% in 2026. Growth in services is forecast to slow to 4.4% in 2025 and 4.3% in 2026 as double-digit price increases reduce affordability and curb demand.

Despite slower expansion, consumer spending and investment will support economic growth on the demand side. Growth in consumption is projected to moderate to about 4.9% in both years, with private consumption remaining the main growth driver. The expected start of large announced investment projects will spur investment growth to 3.9% in 2025 and 4.3% in 2026. Net exports of goods and services are forecast to decline as import growth outpaces only gradual increases in exports from rising oil production.

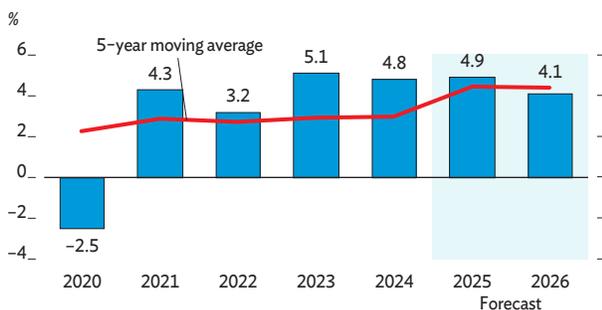
Downside risks to the outlook include negative spillover from the evolving geoeconomic and geopolitical situation as well as a potential disruption to oil export routes.

Inflation is projected to slow gradually but remain above the central bank's 5% target (Figure 2.4.8).

Government-approved utility price increases and the end of petroleum price regulation will boost inflation. In March 2025, the central bank raised its key policy rate by 125 basis points to 16.5%. Its tight monetary policy promises to slow the overall inflation rate to 8.2% in 2025 and 6.5% in 2026. However, utility prices are expected to rise by double digits, bringing inflation for services to 12.0% in 2025 before it decreases to 7.4% in 2026. Assuming continued central bank support for the tenge, price increases for other goods will moderate to 7.7% in 2025 and 6.7% in 2026. Government support

Figure 2.4.7 Gross Domestic Product Growth Forecast

GDP growth is projected to rise marginally in 2025 and slow in 2026.



Source: Asian Development Outlook database.

Table 2.4.1 Selected Economic Indicators, %

Growth will increase marginally in 2025 before slowing in 2026, while inflation will decline in both years.

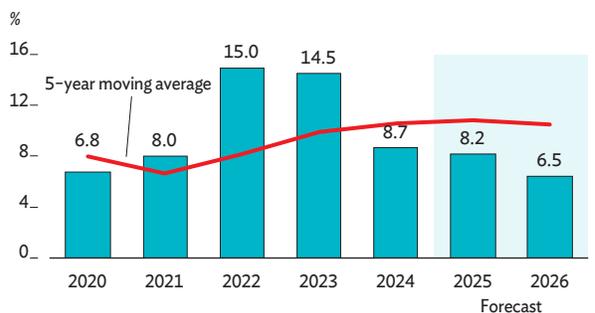
	2023	2024	2025	2026
GDP growth	5.1	4.8	4.9	4.1
Inflation	14.5	8.7	8.2	6.5

GDP = gross domestic product.

Sources: Bureau of National Statistics; National Bank of Kazakhstan; Asian Development Bank estimates.

Figure 2.4.8 Inflation Forecast

Inflation is projected to slow gradually in 2025 and 2026.



f = forecast.

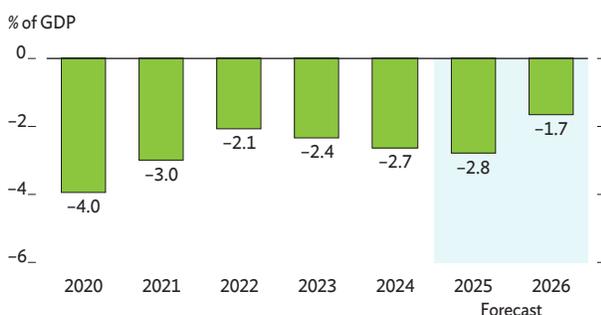
Source: Asian Development Outlook database.

for domestic agriculture to achieve food security will contain food price increases to 5.8% in 2025 and 5.6% in 2026.

The fiscal deficit will shrink as the government raises taxes. The state budget deficit is projected to decline from 2.8% of GDP in 2025 to 1.7% in 2026, assuming the adoption of a government-proposed increase of the value-added tax rate and fewer exemptions (Figure 2.4.9). Tax revenue is projected to increase from 14.6% of GDP in 2025 to 15.5% in 2026. The non-oil deficit is projected to decrease to 7.5% of GDP in 2025 and 5.3% by 2026 as the government reduces NFRK transfers from 3.4% of GDP in 2025 to 2.2% in 2026 and brings a heretofore discretionary portion of the transfers under fiscal rules. Total revenue is projected to increase from 18.6% of GDP in 2025 to 19.0% in 2026 as revenue from higher oil production volumes is partly offset by lower prices. Expenditure is forecast to decline gradually to 21.4% of GDP in 2025 and 20.7% in 2026 as a nominal rise in current spending stays in single digits. Debt service costs, which have increased significantly due to double-digit yields on recent government-issued domestic debt, are anticipated to stabilize as borrowing needs decline with a shrinking nominal deficit.

Figure 2.4.9 Fiscal Balance Forecast

The fiscal deficit will widen marginally in 2025 and shrink substantially in 2026.



GDP = gross domestic product, f = forecast.
Source: Asian Development Outlook database.

The current account deficit is expected to narrow over the forecast period. Higher oil output is projected to raise merchandise exports by 6.2% in 2025 and 2.5% in 2026. Government-announced development plans and modernization programs will increase demand for imports by 2.3% in 2025 and 4.8% in 2026. The service deficit will change little as revenue

from transit services may decline due to the risk of sanctions and trade restrictions. With commodity investors continuing to repatriate windfall profits, the primary income deficit will expand. Outward transfers are expected to decline further in 2025 and later years, closing the secondary income deficit in 2026.

Policy Challenge—Need for a Disaster Risk Finance Strategy

Kazakhstan faces substantial risk from natural hazards. According to the United Nations Children’s Fund (UNICEF), 75% of Kazakhstan’s territory is at high risk from natural hazards, especially earthquakes, floods but also hurricanes, landslides, mudflows, epidemics, extreme temperatures, and wildfires. According to Kazakhstan’s Ministry of Emergency Situations, from 2018 to 2021 the country experienced 68,569 natural events, 60,858 of them technogenic and some requiring declarations of emergency. Despite the high risk of earthquakes and flooding, insurance penetration remains very low, with less than 5% of dwellings covered.

Flood risk and damage. According to the Central Asia Regional Economic Cooperation (CAREC) Program, flood risk is a major threat to Kazakhstan, with average annual losses from floods estimated at \$419 million, rising to \$447 million when indirect losses are included. For instance, in March–May 2024, floods severely affected northern and western Kazakhstan. Dams were breached and reservoirs overflowed, causing widespread devastation and the displacement of about 120,000 people. The government responded promptly by paying compensation to those affected and promised to rebuild damaged infrastructure, including individual homes.

A risk-layered approach to managing disaster risks. This approach provides a range of instruments tailored to frequency, severity, and response time. Financial resilience begins with risk reduction to reduce losses. However, risk cannot be eliminated, so financial instruments must be readily available to ensure sufficient financing to support timely relief and early recovery and cover reconstruction costs. These instruments are ideally applied using a risk-layering approach, which disaggregates risk according to the

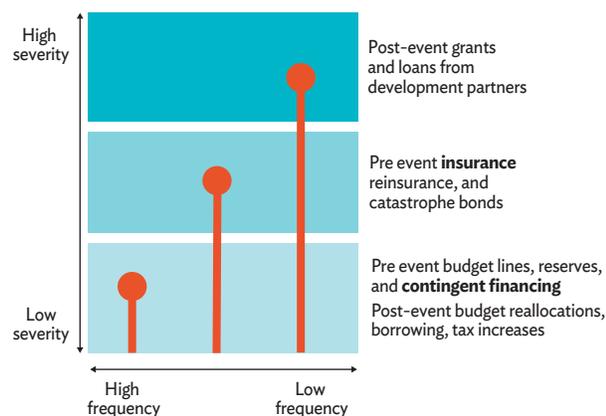
frequency of occurrence of different types of hazard events, epidemics, and pandemics; their severity; and the losses incurred. It then applies bundles of instruments targeting differentiated layers of risk (Figure 2.4.10).

The government would benefit from adopting a disaster risk finance strategy. It would enlist the most appropriate instruments for each layer of risk based on a range of factors, including the scale of funding needed, speed of disbursement required, and

relative cost-effectiveness of alternative instruments for each risk. Decisions on risk reduction, retention, and transfer should be made within the structure of this broader framework, selecting appropriate instruments for each layer of risk. Such a framework strengthens institutional preparedness for disasters triggered by natural hazards or a health emergency. In particular, it would give the government quick access to liquidity through contingent financing arrangements to address the impact of a disaster.

Figure 2.4.10 Disaster Risk Finance Strategy

A risk-layered finance strategy provides a structured way to respond to future events.



Source: Asian Development Bank.

A good strategy is to establish a disaster risk insurance company. Global experience shows that insurance models in Indonesia, Japan, Spain, and Türkiye provide rapid support in time of need. A government licensed disaster risk insurance company can address market gaps and reduce the burden on the government over the long term. For infrequent and major events, a catastrophe (or cat) bond can be used for disaster relief. This is a risk-transfer instrument requiring that proceeds from a triggered bond payout be used to implement disaster relief, rehabilitation, and recovery measures. In the end, disaster risk financing is not only a government responsibility. The private sector and individuals should be encouraged and enabled to mitigate disaster risks to lessen the impact disasters have on people and property. Mitigation involves keeping homes away from floodplains, engineering buildings to withstand earthquakes, and developing individual action plans in case of disaster.

KYRGYZ REPUBLIC

Growth remained strong in 2024, driven by government measures to stimulate economic activity and improve infrastructure, alongside increased private consumption. Expansion is projected to moderate somewhat in 2025 and 2026 but will remain robust, supported by continued investment. Inflation will rise due to growing demand, higher utility tariffs, and likely currency depreciation. To sustain high growth, the Kyrgyz Republic needs to transition toward more private sector-led growth through comprehensive structural reform.

Economic Performance

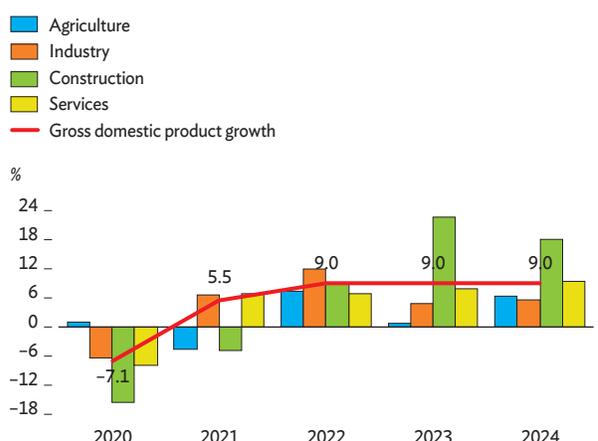
Growth was estimated unchanged at 9.0% in 2024, benefiting from government initiatives to stimulate economic activity and modernize infrastructure (Figure 2.5.1).

On the supply side, expansion in industry accelerated from 4.8% in 2023 to 5.6%, reflecting gains in manufacturing despite a decline in base metal production at the largest gold mine, along with diversification involving new production facilities in oil refining, small-scale hydropower, and automotive assembly. Higher investment propelled an 18.0% rise in construction, down slightly from 22.7% in 2023. Expansion in agriculture rebounded from 0.6% in 2023 to 6.3%, benefiting from favorable weather and higher crop yields. Growth in services also accelerated, from 7.9% in 2023 to 9.3%, with wholesale and retail trade growing by 16.3%.

Rising incomes and investment drove demand-side growth. Data for the first 9 months of 2024 show growth in private consumption remaining robust at 10.3% but down from 16.9% in the same period of 2023 as households chose to save more. Continued expansion was supported by an 18.6% increase in net money transfers including remittances from abroad, a 77.8% rise in consumer lending, and 7.1% growth in real wages. Growth in investment also remained strong at 24.8% but less than 29.2% expansion in 2023. Strong growth in 2024 reflected the government’s “100 Industrial Enterprises—2024” initiative, with

Figure 2.5.1 Supply-Side Growth

Growth remained robust in 2024, with slower growth in construction offset by gains in other sectors.



Source: National Statistics Committee of the Kyrgyz Republic.

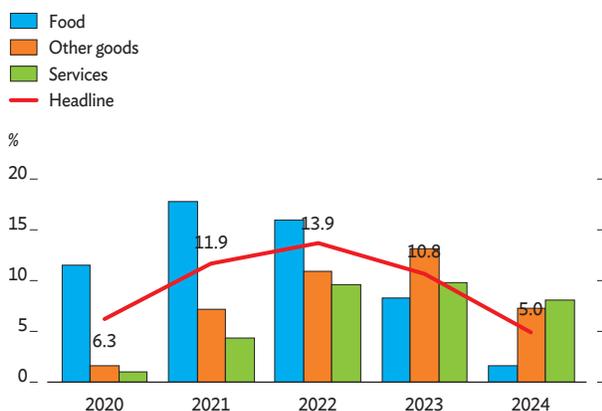
increases of 27.6% in domestic financing and 11.5% in external financing both contributing to expansion. Public investment rose by 130%, with major allocations to extractive industries, transport, energy, and housing.

Moderating commodity prices and a stable exchange rate helped cut inflation. Average annual inflation fell by more than half from 10.8% in 2023 to 5.0% in 2024, bringing inflation within the 5%–7% target range of the National Bank of the Kyrgyz Republic, the

central bank (Figure 2.5.2). Much of the slowdown came from imports, which supplied nearly half of all consumption. Core inflation also dropped, from 11.1% in 2023 to 5.7% in 2024. Inflation slowed across all major categories: from 8.4% in 2023 to 1.7% for food, 18.2% to 10.0% for alcoholic beverages and tobacco, 13.3% to 7.4% for other goods, and 10.0% to 8.2% for services, with this increase largely in education costs and increased transportation tariffs.

Figure 2.5.2 Annual Inflation

Headline inflation fell by more than half in 2024, with declines in all major categories.



Source: National Statistics Committee of the Kyrgyz Republic.

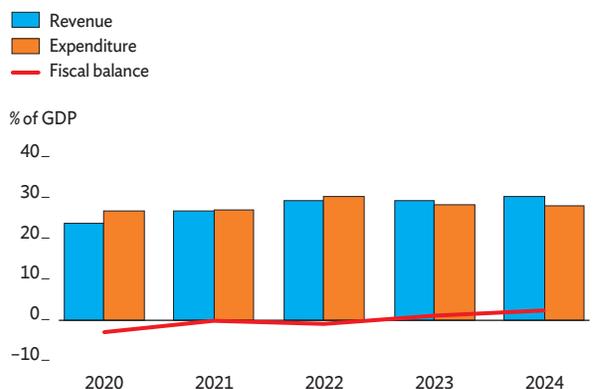
Monetary policy remained tight, with the policy rate remaining well above inflation despite several reductions. With inflation declining, the central bank cut its policy rate by a cumulative 400 basis points to 9.0% in two steps in April and May 2024. The average lending rate in national currency, however, edged up slightly to 18.1% from 18.0% a year earlier, and interest rates on deposits in national currency edged down to an average of 5.3% from 5.5% in 2023. Credit dollarization declined slightly, by 2.0 percentage points, and deposit dollarization by 2.7 points, but both remained substantial, at 20.1% for credit and 42.9% for deposits. Banks maintained high capitalization rates, surplus liquidity, and robust profitability, with returns of 4.3% on assets and 32.5% on equity. However, nonperforming loans increased from 9.2% of total loans in 2023 to 10.8% in 2024, warranting supervisory vigilance.

The budget surplus more than doubled, from 1.0% of GDP in 2023 to 2.4%, as revenue grew faster than expenditure (Figure 2.5.3). Total revenue rose

by 18.3%, with tax revenue rising by 18.5% to 22.9% of GDP, reflecting improved administration, cyclical revenue recovery, and surging trade volumes. Total expenditure rose by 12.6%, less than nominal GDP, causing outlays as a percentage of GDP to decline from 28.5% in 2023 to 28.0%. Revenue gains allowed higher spending on public investment and other priority areas, with about 40% of outlays directed to education, health, and social protection. Most of this spending went to salaries, administration, and social allowances. The larger budget surplus, combined with strong GDP growth, substantially reduced public debt to 37.6% of GDP in 2024 from 42.0% in 2023 (Figure 2.5.4).

Figure 2.5.3 Fiscal Indicators

The fiscal surplus more than doubled as revenue rose more than expenditure.

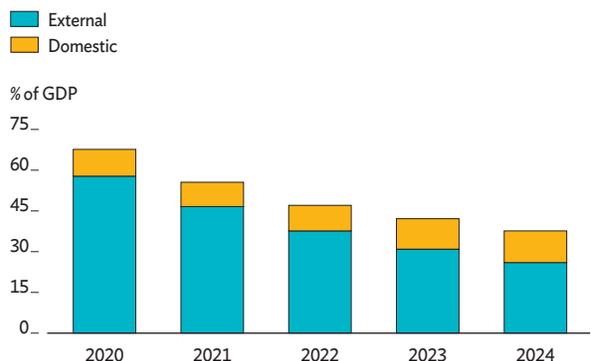


GDP = gross domestic product.

Source: National Statistics Committee of the Kyrgyz Republic.

Figure 2.5.4 Public Debt

Total debt declined as a percentage of GDP, with more domestic and less external debt.



GDP = gross domestic product.

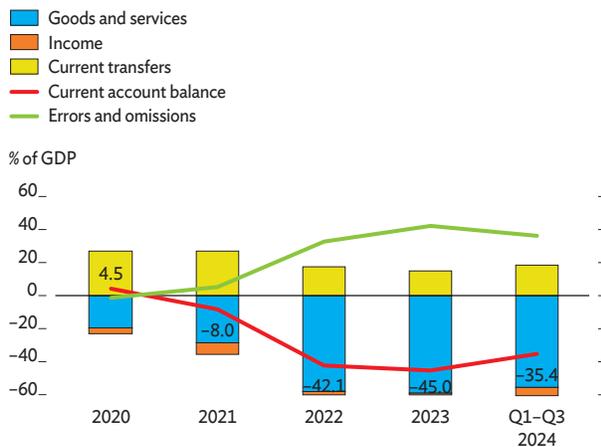
Source: Ministry of Finance.

The external position improved, though significant errors and omissions persisted. The recorded current account deficit narrowed to 35.4% of GDP in the first 9 months of 2024 from 44.7% a year earlier, reflecting a smaller trade deficit, increased remittance inflows, and lower but still significant errors and omissions (Figure 2.5.5). As gold exports rebounded, recorded merchandise exports grew by 28.2%, following 52.2% growth a year earlier, while lower textile and consumer goods purchases cut import growth from 27.2% to 4.0%, despite higher imports of vehicles and energy products. The central bank made net foreign exchange sales of

\$305.8 million that, together with the rise of net money transfers cited above, led to 2.3% appreciation of the Kyrgyz som against the US dollar (Figure 2.5.6). Despite these net foreign exchange sales, ongoing purchases of domestically mined gold and the conversion of nonmonetary gold on the central bank’s balance sheet to reserves increased gross reserves by a substantial 57.2% to \$5.1 billion at the end of 2024, cover for 4.2 months of projected imports, up from 2.4 months in 2023.

Figure 2.5.5 Current Account Components

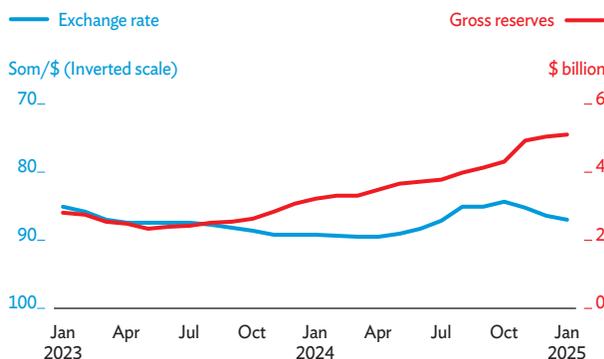
The current account deficit widened in 2023 and narrowed in the first 9 months of 2024.



GDP = gross domestic product, Q = quarter.
 Note: Preliminary data for 2024 are for the first 9 months and presented as a percentage of annualized GDP.
 Source: National Bank of the Kyrgyz Republic.

Figure 2.5.6 Exchange Rate and Gross Reserves

The Kyrgyz som appreciated against the US dollar in 2024, while gross reserves increased.



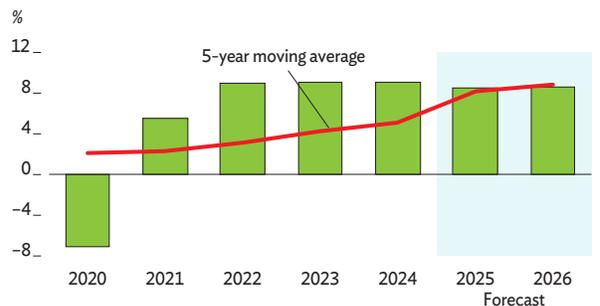
Source: National Bank of the Kyrgyz Republic.

Economic Prospects

Growth is projected to moderate with slower expansion in construction but remain robust at 8.5% in 2025 and 8.6% in 2026 (Figure 2.5.7 and Table 2.5.1). Growth will reflect strong investment and expansion across sectors. Major government investment projects and initiatives in energy, road infrastructure, mining, and tourism, partly financed by international development organizations, will be key growth drivers. Expansion in industry will provide

Figure 2.5.7 Growth Forecast

Growth is forecast to moderate slightly in 2024 and 2025 but remain strong, supported by continued investment.



Sources: National Statistics Committee of the Kyrgyz Republic; Asian Development Bank estimates.

Table 2.5.1 Selected Economic Indicators, %

Growth will slow in 2025 and rise marginally in 2026, while inflation will rise in both years.

	2023	2024	2025	2026
GDP growth	9.0	9.0	8.5	8.6
Inflation	10.8	5.0	6.0	7.8

GDP = gross domestic product.

Sources: National Statistics Committee; Asian Development Bank estimates.

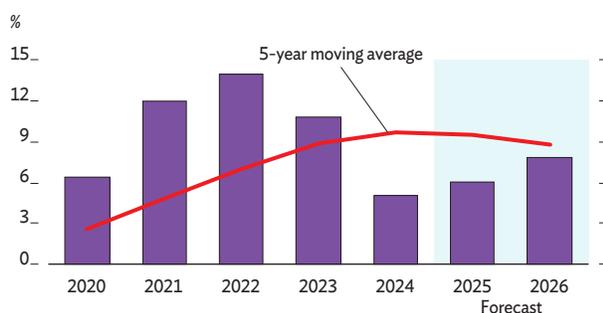
additional stimulus, with new production facilities expected to reach full capacity. Construction will continue to benefit from ongoing infrastructure and housing development programs, though at a slower pace than exceptional growth in 2023–2024. Services are forecast to expand by 8.0%, the average for the past 3 years, with growth in tourism partly offsetting slower wholesale and retail trade as reexports decline.

Domestic demand is expected to remain strong in 2025 and 2026. Private consumption is projected to grow by about 10% annually, reflecting steady gains in remittances, anticipated wage increases, and continued credit growth. Elections during the forecast period are likely to provide additional stimulus to domestic spending. Government projects will contribute strongly to investment growth, which is forecast at about 20% a year.

Inflation is likely to accelerate with continued growth in domestic demand, a rise in utility tariffs, and likely currency depreciation. Following decline in 2024, inflation is expected to accelerate to 6.0% in 2025 and 7.8% in 2026 (Figure 2.5.8). Robust demand, utility tariff adjustments, likely currency depreciation, the economy’s continued import dependence, and persistently elevated inflationary expectations will add to inflationary pressures. However, improved domestic production of key consumer goods and well-coordinated supply chains should keep inflation from rising even more. Given these pressures, the central bank is expected to maintain a tight monetary policy while remaining vigilant to inflation developments and will likely continue its interventions in the foreign exchange market.

Figure 2.5.8 Inflation Forecast

Inflation is projected to accelerate in 2025 and 2026.



Sources: National Statistics Committee of the Kyrgyz Republic; Asian Development Bank estimates.

Fiscal policy is expected to become more expansionary in 2025 and 2026. The budget is projected to move into a slight deficit averaging 1.0% of GDP in both forecast years. While ongoing improvements in tax and customs administration are expected to further increase revenue, expenditure is projected to rise faster because of higher domestically financed investment, increased current spending, and growing interest payments.

The external position should improve further.

The current account deficit is forecast to narrow in both 2025 and 2026 as gold exports increase and import growth slows further with declining reexports. The financial account will benefit from inflows of foreign direct investment, particularly into mining and manufacturing. While the central bank is expected to maintain net foreign exchange market sales amid likely further currency depreciation, gross international reserves should increase on higher gold prices.

The outlook faces both downside and upside risks.

On the downside, regional geopolitical developments and rising global trade uncertainties could create headwinds for trade, investment, and remittances. Domestically, delays in implementing planned investment projects might undercut growth. The economy remains vulnerable to power shortages caused largely by inadequate and aging energy infrastructure. On the upside, ongoing infrastructure modernization, including in energy and transport, should address key bottlenecks. Border agreements with neighboring countries open opportunities for enhanced regional trade and cooperation. The government’s commitment to governance reform and improving the investment climate should provide a foundation for sustained growth. Effective policy coordination will be essential to manage risks while maintaining growth.

Policy Challenge—Fostering Sustainable and Resilient Private Sector-Led Growth

Maintaining high growth will require a stronger private sector. The Kyrgyz Republic recorded strong GDP growth averaging 9.0% in 2022–2024. However, growth has resulted largely from government initiatives

and external factors, rather than private sector dynamism. Sustaining the country's transition toward a more private sector-led economic model is imperative to sustain its development trajectory and increase productivity. Continued dependence on government spending and external factors is unsustainable and exposes the economy to external shocks and fiscal pressures. The transition is particularly crucial for achieving the government's ambitious target of a \$30 billion economy by 2030, 70% larger than now. However, the private sector faces significant structural constraints that impede its development and limit its potential as an engine of long-term growth.

Infrastructure gaps, particularly in energy, fundamentally constrain private sector development.

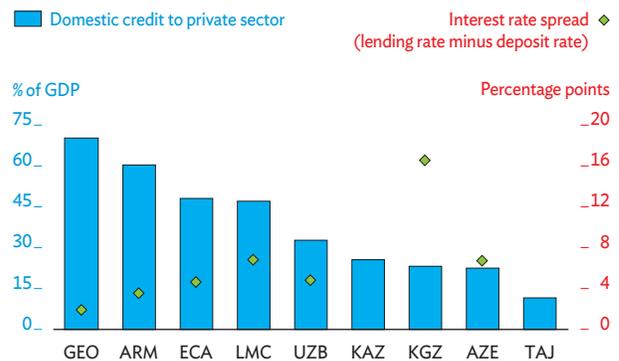
Despite vast hydropower potential, electricity consumption per capita remains low at 2.021 megawatt-hours (MWh), compared to Eurasia's average of 6.106 MWh and a world average of 3.427 MWh. The structure of electricity consumption reveals deeper challenges. Residential use accounts for 75% of final consumption, versus the world average of 27%, while industrial consumption stands at just 14%, compared to the global average of 42%. These patterns reflect substantial infrastructure and access constraints that limit industrial development and economic diversification. Moreover, consumption has reached generation capacity, transforming the country from a net electricity exporter to a net importer.

Low financial intermediation poses another significant hurdle to private sector growth.

According to World Development Indicators, domestic credit to the private sector in the Kyrgyz Republic has averaged 23.3% of GDP since 2020, markedly below the world average of 145.0% and the lower-middle-income country average of 47.2%. The finance sector is notably inefficient, with an average interest rate spread of 16.5 percentage points, compared to 6.9 points in lower-middle-income countries (Figure 2.5.9). While some methodological differences in interest rate calculations exist across countries, this gap reflects structural weaknesses in the Kyrgyz Republic's finance sector, including underdeveloped capital markets, lack of long-term funding sources, bank concentration, and high-risk premiums. The World Bank's Business Ready Enterprise Survey 2024 revealed additional obstacles to financial access: complex lending procedures and stringent collateral requirements, with 35% of firms

Figure 2.5.9 Average Financial Intermediation Indicators in the Kyrgyz Republic and Selected Comparators, 2020–2023

The Kyrgyz Republic's underdeveloped financial sector markedly lags regional comparators, with shallow intermediation and substantial inefficiency.



ARM = Armenia, AZE = Azerbaijan, ECA = Europe and Central Asia excluding high income, GEO = Georgia, KAZ = Kazakhstan, KGZ = Kyrgyz Republic, LMC = lower-middle-income countries, TAJ = Tajikistan, UZB = Uzbekistan.

Notes: Interest rate spread data are not available for Kazakhstan and Tajikistan. Averages are calculated using available years within 2020–2023.

Source: World Bank. *World Development Indicators Database*.

citing these as major barriers, and a high reading on the financial access constraints perception index of 69 out of 100.

High levels of informality further constrain private sector development.

While recent efforts to tackle the informal economy have achieved some success, with the average ratio of tax to GDP having increased to 23% in 2022–2024, the scale of informality continues to create unfair competition and reduce productivity, with informal employment estimated at 66%. Business surveys on major operational constraints identify taxes, customs, social contributions administration, licensing requirements, and an inadequately educated workforce. The regulatory burden often pushes firms toward informality, creating a self-reinforcing cycle that undermines private sector growth.

The government has initiated several reforms to address these challenges.

Strategic infrastructure investments such as the Kambarata-1 hydropower plant and a railway connecting the People's Republic of China, the Kyrgyz Republic, and Uzbekistan offer opportunities to strengthen regional trade and investment flows. The cabinet of ministers introduced measures to streamline and digitalize business

procedures while simplifying fiscal and licensing processes. The Industrial Enterprises Program has been extended to 2025, though broader industrial and export-oriented policy coordination requires further enhancement. The implemented reforms mark progress but could be more effective.

Addressing these constraints requires a comprehensive, well-sequenced reform agenda.

First, infrastructure modernization must include both physical and digital dimensions, with particular emphasis on renewable energy development and climate finance opportunities. Second, the finance sector requires targeted reforms to enhance intermediation. Significant opportunities lie in more effective deployment of domestic resources, given limited inflows of foreign direct investment. This includes channeling substantial excess liquidity

accumulated in banks—approximately \$1.1 billion, equal to 6% of GDP—to productive sectors through enhanced financial instruments and strengthened monetary policy transmission mechanisms. Better use of pension funds and more efficient budget expenditure allocation could increase the benefits of recent revenue increases. Third, regulatory reforms should prioritize reducing informality through improved administration of taxes and social contributions, simplified business regulation, and enhanced integration of e-government services. Success requires sustained commitment, effective coordination across government agencies, and strategic use of emerging opportunities in climate finance and digital transformation. The new National Development Program, 2025–2030 is an opportunity to implement these reforms with clear performance metrics and accountability mechanisms.

TAJIKISTAN

Growth strengthened further in 2024 as substantial remittance inflows boosted demand for goods and services. Inflation decreased, reflecting smaller price increases for food and other goods. Growth is projected to decelerate in 2025 and 2026 in line with somewhat diminished remittances but remain robust. Inflation is expected to rise on increased consumer lending and further increases in tariffs and social payments, stabilizing near the middle of the government’s target range. Digital transformation is crucial for Tajikistan’s development and sustained growth.

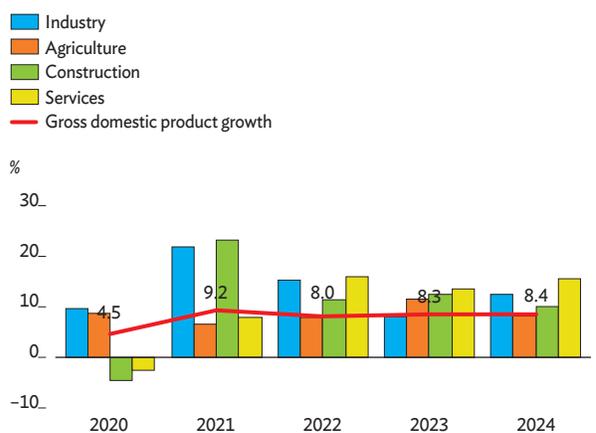
Economic Performance

Growth edged up from 8.3% in 2023 to 8.4%, reflecting growth in industry, exceptionally strong remittances, and some relaxation in monetary policy (Figure 2.6.1). In 2024, 740 industrial enterprises were established, creating approximately 20,000 jobs. On the supply side, growth in services rose from 13.6% in 2023 to 15.7%. This was spurred by an expansion of digital infrastructure that boosted electronic commerce and online banking, and by increased investment in telecommunications and tourism and notable expansion in wholesale and retail trade. Growth in industry excluding construction rose from 8.1% in 2023 to 10.6%, reflecting increases of 39.0% in ore extraction and 8.0% in manufacturing with gains in food processing, apparel, and metallurgy. Expansion in construction slowed from 12.5% to 8.1% because of decreases in domestic production of cement and other construction materials. Growth in agriculture slowed from 11.6% in 2023 to 5.7% as unfavorable weather drove down crop yields.

On the demand side, public sector wage increases and a surge in remittances contributed to 14.8% growth in domestic consumption. Despite stricter immigration regulations in the Russian Federation and potential negative spillover from the Russia’s war in

Figure 2.6.1 Supply-Side Growth

Growth in 2024 accelerated slightly, driven primarily by industry and services.



Source: Agency on Statistics under the President of the Republic of Tajikistan.

Ukraine, remittances comprised 48% of GDP in the first 3 quarters of 2024, continuing to fuel consumption and credit growth. In 2024, public investment spending rose by 26.1% to reach 7.4% of GDP. The deficit in net merchandise exports widened from 28.0% of GDP in 2023 to 35.6% in 2024 as imports grew and exports shrank.

Inflation decreased further, from 3.8% in 2023 to 3.6%, below the target range of the National Bank of Tajikistan, the central bank (Figure 2.6.2).

The decline in inflation reflected smaller price increases for food in line with moderating inflation in global commodity prices. Food price inflation decreased for the second consecutive year, from 3.4% in 2023 to 3.0%, with price cuts for wheat flour, sugar, potatoes, and nonalcoholic drinks. Inflation for other goods fell from 6.6% to 4.0%, mainly reflecting smaller increases for gasoline, liquefied gas, and other petroleum products. Inflation for services accelerated, however, from 1.2% in 2023 to 4.8%, with notable increases for public utilities, personal and medical services, and catering. Overall, services contributed 21.5% of total inflation. The Tajik somoni appreciated against the US dollar by 0.4% and the Russian ruble by 1.9%, offsetting increases in global prices for food and fuel.

The fiscal deficit narrowed from 2.1% of GDP in 2023 to an estimated 0.4%, within the government's budget ceiling of 1.5% (Figure 2.6.3).

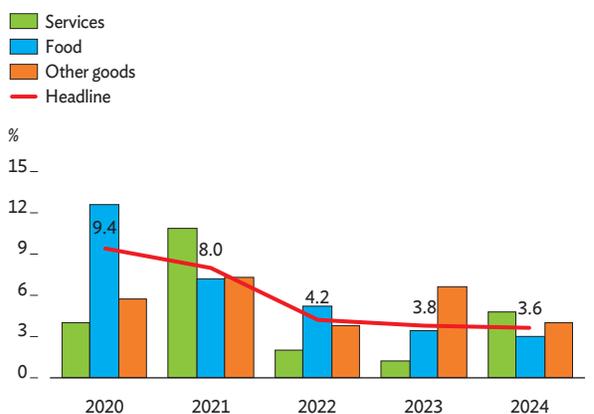
A rise in public spending for salaries and pensions in July 2024, a higher minimum wage, and increased investment spending were partly offset by enhanced revenue collection from gold exports, improved tax administration, and a gradual reduction in tax expenditure. Total revenue rose from 29.5% of GDP to 30.6% on improved tax compliance and revenue collection with a reduction in the standard value-added tax rate to 14% and a cut by half of the value-added tax rate on imports of natural gas and electricity. Despite higher outlays for public sector workers and financing for infrastructure projects in transport and energy, total expenditure edged down from 31.6% of GDP in 2023 to 31.0% as spending focused on essential services to restrain outlays and reduce the deficit. Altogether, education, energy, and social protection were the biggest recipients of public outlays, comprising about 48% of public spending. Public debt decreased from 30.2% of GDP to 25.1% as both external and domestic public debt fell (Figure 2.6.4). External debt decreased from 26.5% of GDP in 2023 to 22.5%, while domestic debt decreased from 3.2% of GDP to 2.7%.

Monetary policy was relaxed somewhat in 2024.

Lower inflation led the central bank to cut the policy rate in stages from 10.0% in January 2024 to 9.0% in December 2024. A surge in net current transfers and strong consumer demand contributed to a 28.8% jump

Figure 2.6.2 Annual Inflation

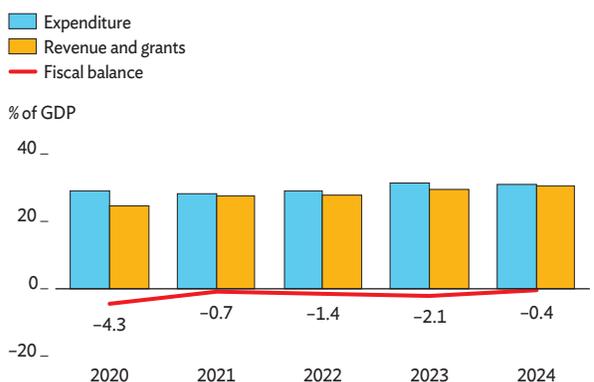
Headline inflation decreased further in 2024 as smaller increases for food and other goods offset higher inflation for services.



Source: Agency on Statistics under the President of the Republic of Tajikistan.

Figure 2.6.3 Fiscal Indicators

The fiscal deficit narrowed in 2024 and remained below the government ceiling set at 1.5% of GDP.

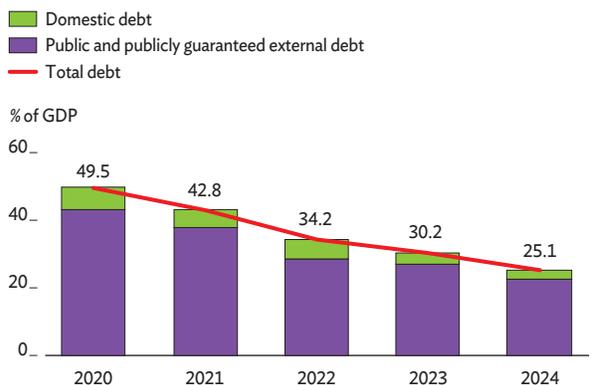


GDP = gross domestic product.

Source: Ministry of Finance of Tajikistan.

Figure 2.6.4 Public Debt

Public debt declined further during 2024.



GDP = gross domestic product.

Source: Ministry of Finance of Tajikistan.

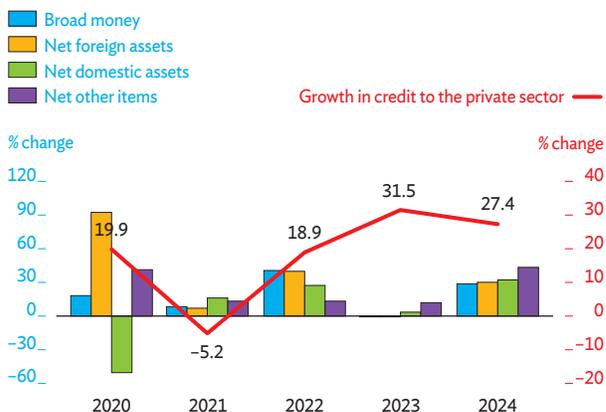
in broad money growth in 2024, reversing contraction in 2023, with policy rate cuts supporting a 27.4% rise in credit to the private sector (Figure 2.6.5). Reserve requirements remained unchanged, and the central bank continued its efforts to transition toward inflation targeting, streamlining open market operations linked to the policy rate, and increasing exchange rate flexibility.

A strong banking system was supported by adequate capitalization, liquidity, and steady growth in credit and deposits. The capital adequacy ratio for banks was 21.8%, assuring adequate solvency in financial institutions, while the current liquidity ratio was 78.3%, well above the 30% minimum required (Figure 2.6.6). Strong macroprudential and financial oversight helped decrease nonperforming loans from 12.7% of total loans in 2023 to 7.1%, despite strong credit growth. Return on assets remained healthy at 3.8%, and on equity at 20.7%. The ratio of deposits to loans rose from 111.5% in 2023 to 122.1%. The banking system remained highly dollarized, but the share of loans denominated in foreign exchange decreased from 32.2% in 2023 to 27.2%.

A surge in remittances widened the current account surplus from 4.8% of GDP in 2023 to 6.3% in 2024. Total trade comprised \$8.95 billion, rising by 7.5% from 2023. The merchandise trade deficit widened as imports grew by 19.2% while exports declined by 20.5%. However, the rise in remittances boosted net primary and secondary income by 40.0%, more than offsetting the larger trade deficit. Exports fell from \$2.45 billion in 2023 to \$1.95 billion as unfavorable weather and higher fertilizer prices caused exports of vegetables to decline by 51% and of cotton by 14.3%, while higher import tariffs imposed by Uzbekistan helped cut cement exports by 30.4%. Exports of precious and semiprecious metals, dominated in recent years by gold, decreased by 69.6% because of lower exports of gold, antimony, and other metals, but still accounted for 17.8% of total exports. The central bank’s monetization of gold produced in 2023 buoyed foreign exchange reserves at an estimated 7.1 months of import cover at the end of September 2024 (Figure 2.6.7). At the same time, the central bank’s need for gold subsided, as reserves grew by 150% in the past 5 years.

Figure 2.6.5 Monetary Indicators

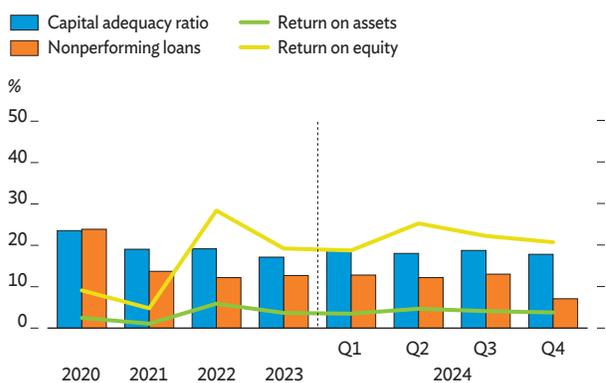
Broad money expanded in 2024, fueled by strong remittance inflows and credit to the private sector.



Source: National Bank of Tajikistan.

Figure 2.6.6 Banking System Soundness Indicators

In 2024, soundness indicators improved, with higher solvency and returns and a lower percentage of nonperforming loans.

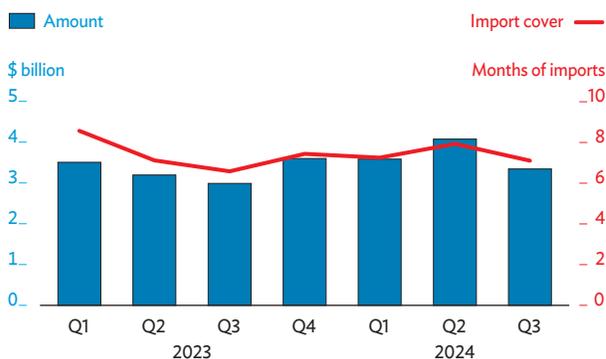


Q = quarter.

Source: National Bank of Tajikistan.

Figure 2.6.7 Gross International Reserves

Reserves peaked at \$4.1 billion in the second quarter of 2024 before moderating to \$3.4 billion in September.



Q = quarter.

Source: National Bank of Tajikistan.

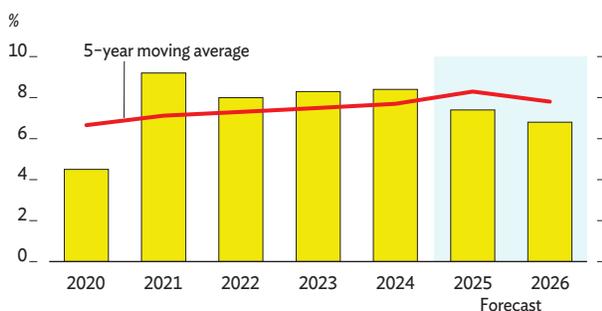
Economic Prospects

Growth is forecast to remain robust but slow to 7.4% in 2025 and 6.8% in 2026 (Figure 2.6.8 and Table 2.6.1). The projected slowdown reflects an expected decline in prices for metals and agricultural products, Tajikistan’s key exports, and protectionist measures introduced by neighboring countries, which will decrease export volume. Also cooling growth is a projected slowdown in the People’s Republic of China and the Russian Federation, Tajikistan’s main trading partners, which may trim exports and remittances. Further, constrained fiscal space will limit scope for government investment spending. Increases in metal prices are expected to slow, and remittances are likely to stabilize at lower rates, constraining growth. However, growth will remain substantial on sizeable investment in energy and industry, expanded output in agriculture and services, and strong remittances.

Strong consumer demand will support robust but slower growth. Remittance inflows are projected to remain strong while moderating to about 37% of GDP in the medium term. Strong credit growth spurred by an expected further lowering of the key policy rate and continued investment in the Rogun hydropower project should maintain healthy domestic demand. External financing commitments for Rogun equaled \$810 million, with construction expected to expand and a third turbine to become operational in 2025, increasing electricity generation and exports. Past changes to the tax code will start to strengthen private sector dynamism and growth. A 2-year moratorium on business inspections from January 2025 should boost entrepreneurial activity. On the supply side, expansion in manufacturing, agribusiness, and services is expected to drive growth in 2025 and 2026. Moves promoting a green economy and digital transformation will facilitate investment and support private sector growth.

Figure 2.6.8 Gross Domestic Product Growth

Growth is projected to slow gradually in 2025 and 2026 but remain strong.



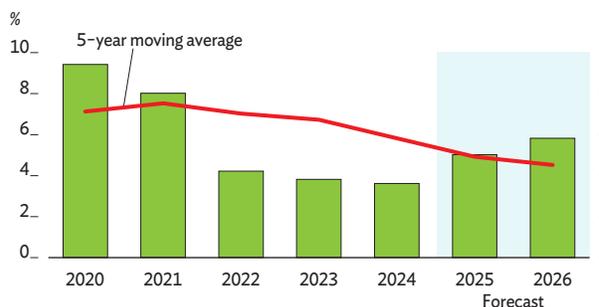
Sources: Agency for Statistics under the President of the Republic of Tajikistan; Ministry of Economic Development and Trade of the Republic of Tajikistan; Asian Development Bank estimates.

Domestic and external factors are projected to lift inflation to 5.0% in 2025 and 5.8% in 2026 (Figure 2.6.9).

Headline inflation is likely to increase on strong remittance inflows and credit to households and the private sector, and as an increase in public worker salaries and pensions in 2025, and a lagged effect from a 2024 increase, fuel demand and contribute to a price spike. Higher food prices are anticipated because of climate change and unfavorable weather, and other prices will rise as utility tariffs are hiked in 2025 toward cost recovery. However, inflation is expected to remain within the central bank’s target

Figure 2.6.9 Inflation Forecast

Inflation is projected to increase in both 2025 and 2026 but remain within the target range of 3%–7%.



Sources: Agency on Statistics under the President of the Republic of Tajikistan; Asian Development Bank estimates.

Table 2.6.1 Selected Economic Indicators, %

Growth is likely to moderate in 2025 and 2026, with inflation rising steadily.

	2023	2024	2025	2026
GDP growth	8.3	8.4	7.4	6.8
Inflation	3.8	3.6	5.0	5.8

GDP = gross domestic product.

Sources: TAJSTAT; National Bank of Tajikistan; Asian Development Bank estimates.

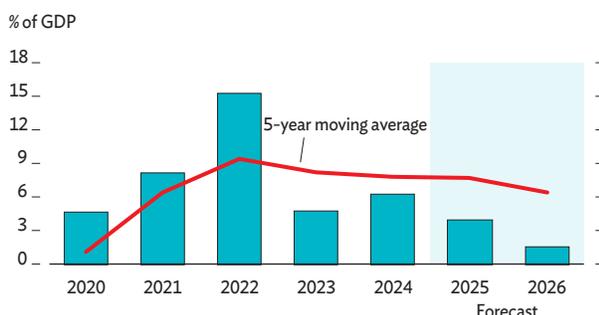
range of 3%–7% in 2025 and 2026. The somoni will revert to its gradual depreciation against the US dollar but may continue to appreciate against the ruble, thus reducing the local value of remittance inflows even as inflation rises for imported goods.

The government is committed to a prudent fiscal policy in 2025 and 2026. It features no new non-concessional borrowing, sustainable debt management, and a deficit not exceeding 1.5% of GDP. Despite tax cuts, revenue is projected to reach 31% of GDP in 2025 and 2026, owing to electricity and other exports, new production capacity in manufacturing, and the 2-year moratorium on business inspections. Additional receipts are expected from higher irrigation water rates, transport tax, and a one-time vehicle-scrapping tax introduced in 2024, along with new excise taxes and higher utility tariffs. Public investment will comprise 10.2% of GDP in 2025 and 10.5% in 2026. The fiscal deficit will be financed by external sources, including budget support and sovereign securities, while debt servicing costs will reach \$451 million in 2025 and \$494 million in 2026 as eurobonds are repaid. With new concessional borrowing offset by debt repayment, external public debt is expected to fall to 21.5% of GDP in 2025 and 18.9% in 2026.

The current account surplus is projected to narrow in 2025 and 2026 (Figure 2.6.10). External borrowing and financing for the Rogun project will fuel demand for capital-intensive imports, widening the trade deficit. Remittances are expected to moderate to about 37% of GDP, and foreign direct investment is unlikely to grow much in 2025 and 2026.

Figure 2.6.10 Current Account Balance

The current account surplus is expected to narrow in 2025 and 2026.



GDP = gross domestic product.

Sources: National Bank of Tajikistan; Asian Development Bank estimates.

Policy Challenge—Digital Transformation of Tajikistan’s Economy

Tajikistan struggles to realize benefits from a digital transformation. Growth in public services and other industries is constrained by failure to digitalize for lack of sufficient investment, digital skills, regulatory and institutional frameworks, or interagency coordination. These impediments translate into a fixed broadband penetration rate that is among the lowest in Central Asia, as only 40.8% of families had internet access at home in 2023. The country’s high mobile penetration rate is undercut by slow mobile internet speed, ranked 139th globally. The high cost of internet service and inadequate digital infrastructure, especially for the government, hinders widespread adoption. The number of digital wallets reached 10.4 million in mid-2024, contributing to a 16.2% increase year on year in cashless transactions, but the adoption of digital payments remains uneven, with rural areas particularly underserved.

The government is integrating digital transformation objectives into the country’s development agenda. Government policies play a crucial role in facilitating eventual digital transformation and e-governance, notable initiatives being the Concept of the Digital Economy, approved in 2019; Medium-Term Program for the Development of Digital Economy 2021–2025; and Strategy for the Development of Artificial Intelligence until 2040. These policies outline a comprehensive strategy to integrate modern digital technologies into the national economy. On 28 December 2024, the President declared 2025–2030 as the period for developing the digital economy and innovation. The activation of the Agency for Innovation and Digital Technologies under the President in 2024 and the recent adoption of the National E-Commerce Program 2025–2029 underscore the government’s commitment to digital transformation.

By leveraging digital technologies in the public and private sphere, Tajikistan can transform industry, improve livelihoods, and foster sustainable development. A concerted effort is needed from all stakeholders to establish robust and agile digital public infrastructure, which is essential for efficient,

inclusive public services delivered digitally to all population groups. As Tajikistan's economy gradually modernizes, digital interaction for payments, identity verification, and data exchange are becoming crucial for individuals, businesses, and government. Medium-term priorities include digitalizing public services, expanding physical infrastructure for digital services, nurturing digital entrepreneurship and electronic commerce, enhancing human capital through skills development, and improving legislative and regulatory frameworks for greater digital transformation and growth.

TURKMENISTAN

Growth remained solid on gains in hydrocarbon output and exports and continued heavy public investment. However, expansionary credit policy and public spending helped raise inflation. Growth is projected to rise slightly in 2025 before moderating in 2026, reflecting projected changes in hydrocarbon production and government spending. Faster credit growth, increased public spending, and an expected rise in import prices are projected to raise inflation slightly in 2025 and 2026. The economy would benefit from more complex exports with higher value added.

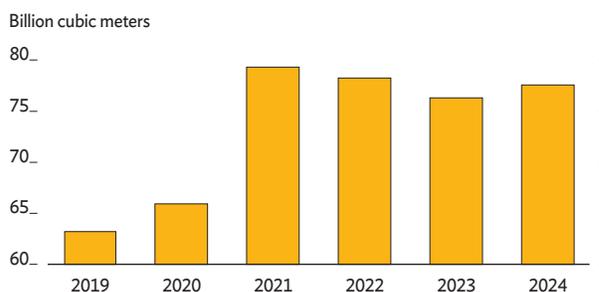
Economic Performance

The government reported sustained growth at 6.3% in 2024, with moderate hydrocarbon production and exports and substantial public investment. On the supply side, the government noted expansion in various sectors, with industry and services the main growth drivers. Industry excluding construction was reported to grow by 1.5%, reflecting moderate expansion in production of crude oil, oil products, chemicals, and electricity, as well as processed food, building materials, and textiles. Construction was reported to grow by 11% on a notable increase in capital investment. This influx of funds supported construction projects across the country, including the development of new industries, the introduction of innovative technologies, and a substantial amount of housing, with 1.45 million square meters of housing completed in 2024 and construction of the second stage of the “smart city” of Arkadag. Construction benefited from the creation of 5,735 new jobs, which helped to boost productivity and project completion rates. Agriculture grew by 5.3% thanks to higher production of cotton, wheat, and horticulture. Services expanded by 8.6%, driven mostly by gains in transport and communications (7.2%), trade (10.1%), and other services.

Public investment and net exports were the main contributors to growth on the demand side. The volume of gross investment in various production facilities and social infrastructure under the President’s program for socioeconomic development in 2022–2028 was reported to increase by 9.1%. Rising volumes of natural gas, Turkmenistan’s main export, boosted net exports (Figure 2.7.1).

Figure 2.7.1 Natural Gas Production

Natural gas production rose in 2024.



Sources: BP Statistical Review of World Energy 2024; Asian Development Bank estimates.

Inflation is estimated to have accelerated notably in 2024. Preliminary ADB estimates show average annual inflation rising from 1.3% in 2023 to 5.5% in 2024 (Figure 2.7.2). This reflected expansionary credit policy and government spending and came despite administrative price and exchange rate controls. The Central Bank of Turkmenistan maintained its fixed exchange rate regime, which rations foreign currency sales and international money transfers. Most bank lending goes to state-owned enterprises in the government’s priority sectors, with some credit provided to private firms engaged in import substitution and oriented for exports.

The state budget surplus is estimated to have narrowed from 1.2% of GDP in 2023 to 0.8%. As a percentage of GDP, revenue declined a bit more than did expenditure (Figure 2.7.3). While the state budget does not capture off-budget spending, the latest report by Fitch Ratings, issued on 2 August 2024, estimated public debt to have declined further to 3.8% of GDP in 2024. Factors leading to the upgrade of Turkmenistan’s long-term sovereign rating to BB– from B+ in August 2024 include a balanced fiscal position, exceptionally low public debt, and sizable fiscal reserves.

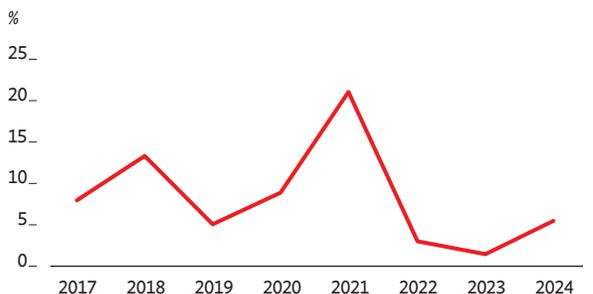
The current account surplus is estimated to have narrowed somewhat, from 4.7% of GDP in 2023 to 4.0% (Figure 2.7.4). This reflected some relaxation of import controls, as higher energy prices and export volumes kept exports strong. Export growth came primarily from gas exports, mainly to the People’s Republic of China, and additional exports to Iran and Azerbaijan under existing gas swap agreements. With extensive repayment of external loans and the government’s aversion to foreign borrowing, external debt in 2024 is estimated to have declined to 3.8% of GDP (Figure 2.7.5).

Economic Prospects

The President’s socioeconomic development program for 2022–2028 guides Turkmenistan’s economic development over the medium term. Ensuring macroeconomic stability is a key priority. The program calls for diversifying the economy through greater variety in domestic production and exports, expanding the role of the private sector,

Figure 2.7.2 Inflation

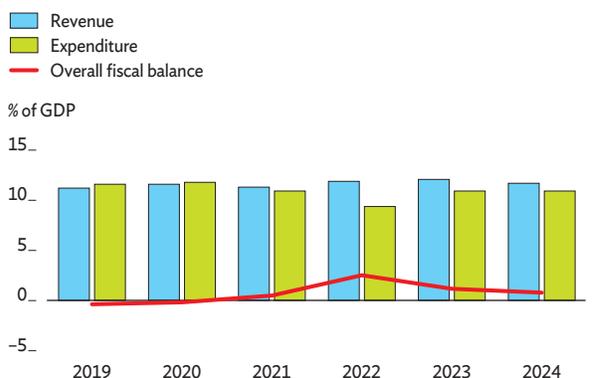
Inflation accelerated in 2024.



Sources: International Monetary Fund. 2024. *World Economic Outlook, Middle East and Central Asia*. October; Asian Development Bank estimates.

Figure 2.7.3 Government Fiscal Indicators

The fiscal surplus is estimated to have narrowed slightly in 2024.

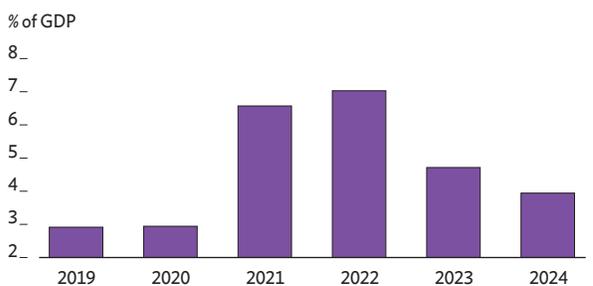


GDP = gross domestic product.

Source: International Monetary Fund. 2024. *World Economic Outlook*. October.

Figure 2.7.4 Current Account Balance

The current account surplus narrowed further in 2024.

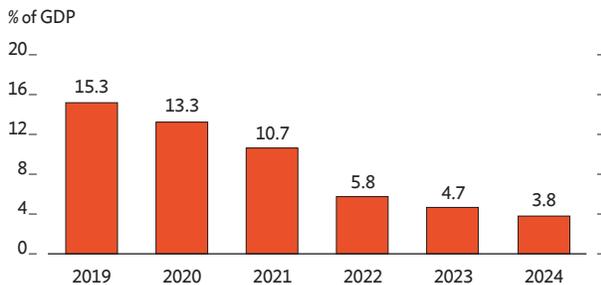


GDP = gross domestic product.

Sources: International Monetary Fund. 2024. *World Economic Outlook*. October; Asian Development Bank estimates.

Figure 2.7.5 External Debt

External debt declined further as a percentage of GDP in 2024.



GDP = gross domestic product.

Sources: International Monetary Fund. 2024. *Regional Economic Outlook, Middle East and Central Asia*. October; Fitch Ratings, August 2024.

developing innovative industries, digitalizing the economy, boosting regional trade integration, and gradually moving to a greener economy through greater cooperation with the international community. Additional measures are expected to meet infrastructure and social concerns, with more efforts to attract foreign direct investment.

The government has approved its comprehensive Program for Socioeconomic Development for 2025.

The program aims to maintain stable economic growth across sectors through continued public investment in infrastructure, including in oil and gas, and economic diversification achieved by developing transport infrastructure, agriculture, and the economy outside of industry. Growth is expected to be supported by strong gas exports and increased consumer spending. Key goals include creating over 3,000 new jobs, increasing foreign trade turnover to \$20 billion, and boosting the share of the nonstate sector in GDP to 71.6%. GDP growth is projected at 6.5% in 2025 and 6.0% in 2026 (Table 2.7.1 and Figure 2.7.6).

Table 2.7.1 Selected Economic Indicators, %

Growth is forecast to accelerate modestly in 2025 and then slow in 2026, with inflation rising.

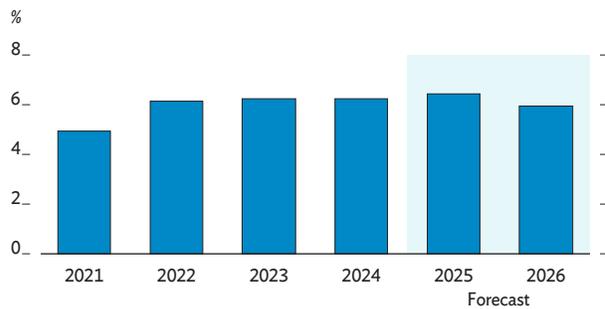
	2023	2024	2025	2026
GDP growth	6.3	6.3	6.5	6.0
Inflation	1.3	5.5	6.0	6.0

GDP = gross domestic product.

Source: Asian Development Bank estimates.

Figure 2.7.6 Gross Domestic Product Growth

Growth is projected to rise in 2025 and then slow in 2026.



Source: Asian Development Bank estimates.

Several key activities are expected to drive Turkmenistan’s economic growth in the coming years.

In the hydrocarbon sector, these include the development of major gas fields, such as the Galkynysh field; progress in building the Turkmenistan–Afghanistan–Pakistan–India gas pipeline; and facilities for gas-swap exports to Iran, Iraq, and Türkiye. In construction, continued investment in social and cultural infrastructure will play a crucial role, as will the modernization of transport networks, including railways. Initiatives in agriculture will focus on cotton and grain production, livestock rearing, and the integration of modern technology. In trade, efforts will be made to ensure market stability, food security, and commodity abundance. Further, the government will continue to support state-owned enterprises and private firms engaged in import substitution and export promotion programs.

Strong revenues from hydrocarbons and other sources are projected to keep the state budget near balance in 2025 and 2026.

While financing for public investment projects will remain large, with the bulk of it coming off budget, public debt is projected to decrease further, to 2.6% of GDP by the end 2026.

Inflation is projected to accelerate to 6.0% in 2025 and 2026.

This projection assumes higher public spending, rising import prices, and no change in foreign exchange policy or expansionary bank lending to state-owned enterprises.

The bulk of export revenue in the coming years is likely to come from stable hydrocarbon exports.

Higher exports will be matched by increases in imports

for large construction projects and of consumer goods. Relaxed import constraints could narrow the current account surplus to the equivalent of 3.0% of GDP in 2025 and 2.5% in 2026. External debt is projected to remain below 3% of GDP in the coming years.

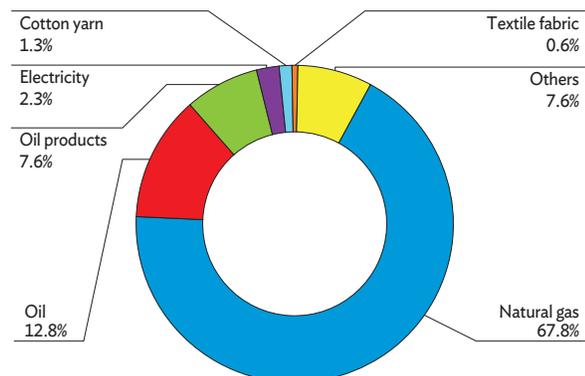
Fitch upgraded Turkmenistan’s long-term foreign-currency issuer default rating to BB- from B+, with a positive outlook. This upgrade in August 2024 reflected the country’s strong sovereign balance sheet, with a high ratio of sovereign net foreign assets to GDP and low public debt, which are underpinned by the world’s fourth largest natural gas reserves. A further rating upgrade could be achieved by improving governance standards and the business environment, particularly the exchange rate framework, and greater diversification of export products and markets.

Policy Challenge—Advancing Exports of Complex, High-Value Hydrocarbon Products

Turkmenistan’s exports are concentrated in hydrocarbons, with natural gas and oil comprising over 88%. Gas exports alone were nearly 68% of the total in 2024 (Figure 2.7.7). Such a high concentration on resource-based products has made the country vulnerable to external shocks and fluctuations in the terms of trade. While economic growth over the past decade has been driven by a surge in hydrocarbon prices and production, labor productivity has remained

Figure 2.7.7 Export Structure, 2024

Hydrocarbons accounted for about 90% of exports in 2024.



Source: Statistical Yearbook of Turkmenistan, 2024.

low, since the capital-intensive hydrocarbon sector employs few workers. Most of the labor force remains employed in low-productivity sectors outside of hydrocarbons.

The World Bank’s Export Complexity Index gave Turkmenistan a score of –0.69 in 2023, ranking it 96th among 132 economies. This index, which measures the diversity and sophistication of export portfolios, indicates that Turkmenistan’s exports are generally neither complex nor diversified. Moreover, the country’s exports have become less complex over time, causing its rank to fall five places from 91st in the past 20 years. To improve its export complexity, Turkmenistan needs to diversify its export base by developing and exporting more complex products. This would entail investing in new industries and innovating in existing ones, improving technological capabilities, and fostering knowledge intensity.

Turkmenistan has several active initiatives to add value to its traditional exports and turn them into more complex products. Diversifying and innovating products for export is high on the government’s agenda, as expressed in the President’s program for 2022–2052. The country has established petrochemical plants to convert natural gas into higher-value products such as polyethylene, polypropylene, polyvinyl chloride, methanol, formaldehyde, resins, synthetic rubber, and paint materials. These products are essential for manufacturing plastics, fertilizers, and other industrial chemicals. Further, Turkmenistan is building gas-to-gasoline plants that convert natural gas or other gaseous hydrocarbons into high-quality, low-sulfur gasoline able to meet stringent environmental standards, as well as gas-to-liquid plants to convert gas into diesel and jet fuel, which are more valuable and have a broader market. Under the Program for the Development of the Oil and Gas Industry of Turkmenistan until 2030, one of the main tasks is to increase the production of high-tech oil and gas chemical products for export to global markets. The government has outlined several initiatives to expand its chemical industry, notably moving from lower-value bulk chemicals to more complex and higher-value fine chemicals. By exporting complex chemicals, Turkmenistan could integrate more deeply into the global market, establish trade relationships with various advanced economies, and enhance its international economic presence. This is a substantial opportunity

to tap into growing demand for fine chemicals used in pharmaceuticals, agrochemicals, electronics, and other specialty applications. Focusing on fine chemicals would give Turkmenistan a more resilient and diversified economy, better job opportunities, and a stronger position in the global market.

Turkmenistan can become more competitive by investing in its chemical industry, using natural gas as a crucial input for production. Natural gas can be converted into such chemical intermediates as methanol, ammonia, and other fine chemical compounds. By investing in advanced technology and infrastructure, Turkmenistan can establish facilities to produce such electronic chemicals as high-purity solvents, photoresists, and etchants.

Diversifying into complex petrochemicals with higher value added would require other changes. They would entail significant advances over existing infrastructure, knowledge, technology, and market strategies, as well as substantial investment and policy support. To successfully export complex petrochemicals, Turkmenistan can adopt the following strategies:

- (i) **Invest in advanced research and development.** Innovative chemical production processes can enhance the quality and competitiveness of Turkmenistan's chemicals. Innovation can lead to the development of unique products that can capture niche markets. Collaboration with international research institutions and companies can bring the necessary expertise and technology.
- (ii) **Enhance modern infrastructure.** Improved transportation and logistics networks would ensure the efficient and timely delivery of products to international markets. Investing in advanced manufacturing facilities could enhance production capability and streamline export processes. Developing industrial zones and export processing zones can also facilitate exports.

- (iii) **Develop a skilled workforce.** Enhanced education and training programs tailored to the chemical industry would ensure that the sector has the necessary expertise to operate advanced technologies and processes.
- (iv) **Build strategic partnerships.** Negotiating trade agreements with key markets can provide preferential access for Turkmenistan's chemicals. Strategic alliances with international companies could leverage their distribution networks and market knowledge. Partnerships could also facilitate technology transfer and improve production processes. Introducing a market-based exchange rate would promote greater convertibility and facilitate trade and investment.
- (v) **Provide government support and incentives.** Establishing a clear and transparent regulatory framework is essential. Government support in the form of export incentives, subsidies, and favorable trade policies, such as lower tariffs and nontariff barriers, facilitates easier access to international markets. Establishing export promotion councils can provide guidance and support to exporters. Offering financial incentives such as tax breaks and subsidies can attract both domestic and foreign investment in the chemical sector and thus expand production capacity and improve product quality.

UZBEKISTAN

Growth edged up in 2024 on higher expansion in industry and services. Inflation decelerated with tight monetary policy and lower import costs. Growth is forecast to rise marginally in 2025 and 2026 on higher real disposable household income and demand, fueled by healthy remittances. Inflation will slow further with continued monetary tightening, despite an anticipated rise in administered electricity and natural gas prices. Developing economic corridors is critical to promoting landlocked Uzbekistan’s participation in regional value chains.

Economic Performance

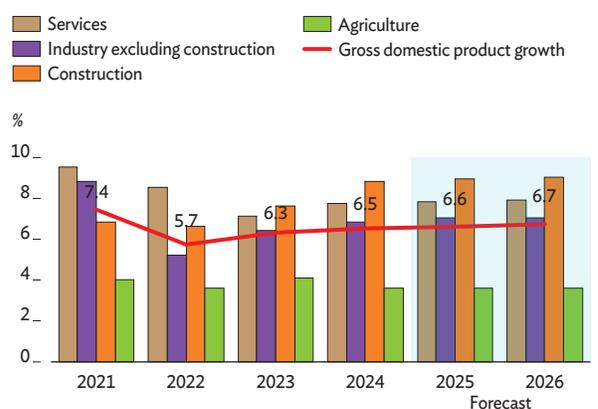
GDP growth edged up in 2024, driven by accelerated expansion in industry and services. The government reported growth rising from 6.3% in 2023 to 6.5% in 2024 (Figure 2.8.1). On the supply side, industry expanded from 6.4% to 6.8%, reflecting strong demand for construction materials, petrochemicals, and textiles. Mining and quarrying saw only modest growth of 1.9% due to oil and gas reserve depletion, while expansion in coal production accelerated from 15.5% in 2023 to 26.2% on higher household heating demand. Higher growth in new building starts accelerated construction growth from 7.6% to 8.8%. Growth in services accelerated from 7.1% to 7.7% on higher expansion in accommodation, food services, transportation, and storage. Agriculture growth slowed from 4.1% to 3.6% as gains in wheat and livestock production weakened.

Robust investment drove demand-side growth.

Expansion in private consumption rose from 7.0% in 2023 to an estimated 9.0% in 2024 as inflation slowed and cross-border transfers jumped by 30.0%, boosting real household income growth. Public consumption growth remained stable at an estimated 1.1% in 2024 as public spending was little changed. Investment growth surged from 23.4% to 27.6% on a rise in private investment, mostly foreign direct investment, and

Figure 2.8.1 Supply-Side Growth

Growth edged up in 2024 with faster expansion in industry and services.



Sources: National Statistics Committee of Uzbekistan; Asian Development Bank estimates.

public investment for upgrades to infrastructure for manufacturing, mining, quarrying, electricity, natural gas supply networks, housing, transportation and storage, and other urban uses. The net exports deficit narrowed by 21.3% as export growth—especially in tourism, petrochemicals, transport, and food products—outpaced import growth in services, energy, and oil products.

Inflation decelerated in 2024 on continued tight monetary policy and lower transportation costs for imported food and other goods. Inflation slowed from 10.0% in 2023 to 9.4% in 2024 as the Central Bank of Uzbekistan kept monetary policy tight, lowering its policy rate by a modest 50 basis points, from 14.0% to 13.5%, in July 2024. Inflation fell from 12.1% in 2023 to 8.0% for food and from 8.5% to 6.9% for other goods as transport costs moderated. Inflation in services, however, surged from 8.2% to 21.8% as administered prices for electricity and natural gas rose in May 2024. In December 2024, inflation edged up to 9.8% year on year, exceeding the central bank target.

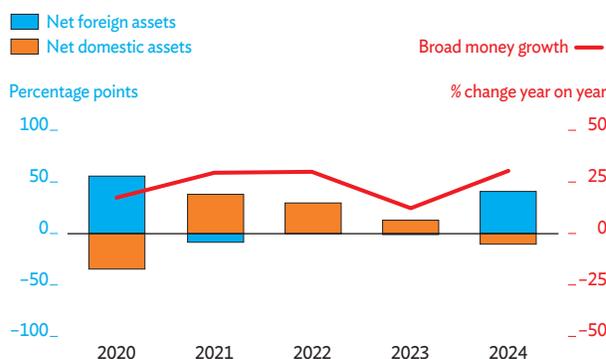
The fiscal deficit narrowed from 5.5% of GDP in 2023 to an estimated 5.0% with fiscal consolidation. Revenue increased from 30.1% of GDP to an estimated 30.5% on steady tax collection and a broadened tax base. Favorable prices for key commodities—particularly copper, gold, and petrochemicals supplied by state enterprises, the largest taxpayers—helped sustain budget revenue. Budget expenditure moderated from 35.6% of GDP in 2023 to an estimated 35.5%, reflecting revisions to subsidies to state-owned enterprises, social expenditure, and inflation adjustments to public wages and pensions. Public external borrowing financed most of the fiscal deficit.

Growth in bank lending to the economy slowed, though higher net foreign assets boosted broad money growth (Figure 2.8.2). Credit to the economy rose by 14.2%, down from 23.3% a year earlier because of slower growth in lending to individuals and firms in transportation and communication. In 2024, the central bank introduced new mandatory limits on high ratios of debt service to income and additional capital requirements for loans with high ratios of loan to asset value and of debt service to income. These measures curtailed household loans for cars and housing. In addition, the authorities raised the interest rate on policy lending by 4 percentage points above the policy rate for most family entrepreneurship preferential loans, though it remains below market rates. Broad money expansion soared from 12.2% in 2023 to 30.6% as net foreign assets rose and, on the liability side, growth in money supply denominated in local currency accelerated from 18.4% in 2023 to 33.9% while foreign currency deposits reversed from 5.2% decline in 2023 to 19.5% increase in 2024. The share of nonperforming loans moderated from 3.6% of all loans in 2023 to 3.5%.

The current account deficit narrowed from 7.6% of GDP in 2023 to an estimated 5.0% on much higher inward money transfers (Figure 2.8.3). Healthy external demand for food products, chemicals, copper, energy and oil products, and tourism helped non-gold exports rise by 19.6%, while an 8.3% decrease in gold exports slowed growth in total exports from 26.0% in 2023 to 8.4%. Import growth plunged from 25.6% in 2023 to 0.8% as growth in imports of cars slowed because of credit limitations imposed by banks, along with smaller expansion in equipment and chemical products. Inward money transfers surged by 30.0% in 2024, driven by a 29.0% rise in remittances from, in order of amount, the Russian Federation, Kazakhstan,

Figure 2.8.2 Contributions to Money Supply Growth

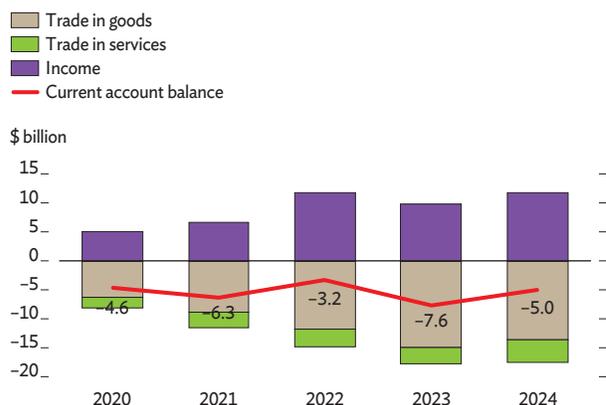
Broad money growth soared in 2024, reflecting expansion in net foreign assets.



Sources: National Statistics Committee of Uzbekistan; Asian Development Bank estimates.

Figure 2.8.3 Current Account Components

The current account deficit narrowed in 2024 on expanded income inflows.

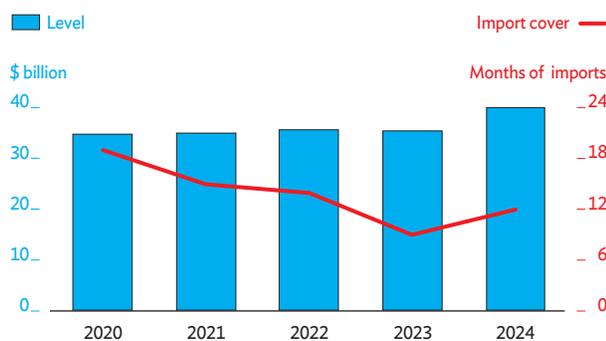


Sources: The Central Bank of Uzbekistan, 2024. Balance of Payments for 2021–2023; Asian Development Bank estimates.

the United States, the Republic of Korea, Türkiye, and the United Kingdom. Gross foreign reserves increased from \$34.6 billion at the end of 2023 to \$41.2 billion a year later, providing cover for 12 months of imports, with a 30.1% rise in gold reserves offsetting an 8.2% decline in foreign currency reserves (Figure 2.8.4).

Figure 2.8.4 Gross International Reserves

Gross foreign reserves increased in 2024 as gold reserves expanded.



Sources: National Statistics Committee of Uzbekistan; Asian Development Bank estimates.

Economic Prospects

Growth is forecast to rise marginally on sustained expansion in industry and services and steady domestic demand. Growth is projected to reach 6.6% in 2025 and 6.7% in 2026, as expansion edges up in both industry and services (Table 2.8.1 and Figure 2.8.5). On the supply side, healthy external demand for food, petrochemicals, and textiles, and domestic demand for mining and quarrying products, are projected to raise growth in industry to 7.0% in both years. Growth in services is forecast to edge up to 7.8% in 2025 and 7.9% in 2026 on rising demand for food and accommodation from expanded tourism, storage, and transportation. Growth in construction is forecast

Table 2.8.1 Selected Economic Indicators, %

Growth will accelerate marginally in 2025 and 2026, and inflation will slow but remain high.

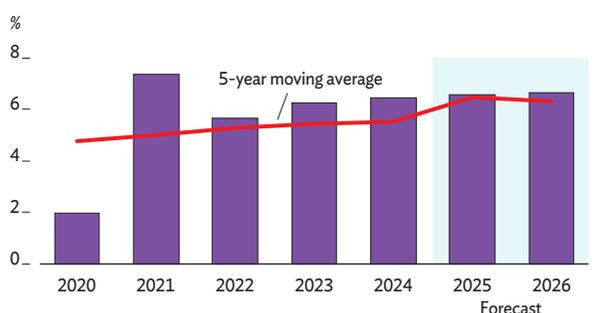
	2023	2024	2025	2026
GDP growth	6.3	6.5	6.6	6.7
Inflation	10.0	9.4	8.0	7.0

GDP = gross domestic product.

Sources: National Statistics Committee of Uzbekistan; Asian Development Bank estimates.

Figure 2.8.5 Gross Domestic Product Growth

Growth is forecast to edge up in 2025 and 2026 with accelerated expansion in private consumption and industry.



Sources: National Statistics Committee of Uzbekistan; Asian Development Bank estimates.

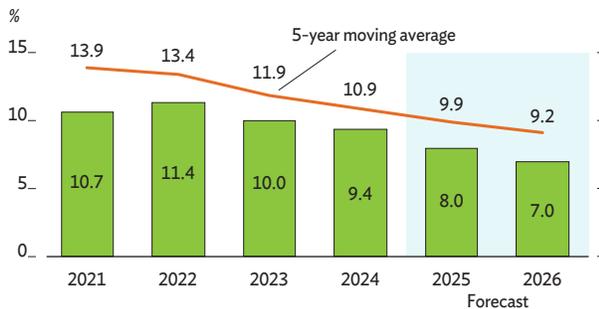
to accelerate to 8.9% in 2025 and 9.0% in 2026, reflecting robust expansion in urban infrastructure, housing, and upgrades to manufacturing plants. Agriculture growth is projected to remain at 3.6% in both years with steady gains in cotton and wheat.

On the demand side, relatively stable growth in investment and private consumption will support economic expansion. With the anticipated rise in public and private investment in urban infrastructure, manufacturing facility expansion, health care, and education, total investment is projected to grow by 25.0% in both 2025 and 2026. Growth in real disposable household income is anticipated to stabilize, largely sustained by healthy remittance inflow, despite ongoing structural reform involving domestic price increases for electricity and natural gas in 2025. This will maintain demand and growth in private consumption at 9.0% in both years. In addition, commercial banks are anticipated to retain limitations on consumer loans and mortgages to avoid the rapid expansion of credit to the economy. Public consumption is expected to increase by 1.5% annually due to modestly higher expenditures for social sector institutions, despite anticipated fiscal consolidation during 2025–2026. The net export deficit is expected to narrow on increased exports of tourism services, food, and textiles, coupled with reduced imports of capital and intermediate goods for industry and transport services.

Continued tight monetary policy is expected to slow inflation further despite the planned increase in prices for energy in 2025 (Figure 2.8.6). Inflation

Figure 2.8.6 Inflation

Inflation will slow in 2025 and 2026 despite a planned rise in prices for electricity and natural gas, as tight monetary policy is retained.



Sources: National Statistics Committee of Uzbekistan; Asian Development Bank estimates.

edged down to 8.9% year on year in February 2025 from 9.0% a year earlier. To address inflationary pressure, the central bank raised its policy rate from 13.5% to 14.0% in March 2025. Inflation is anticipated to slow further to 8.0% in 2025 and 7.0% in 2026 as credit growth slows and commercial banks sustain restrictions on microcredit and consumer lending. The government is expected to continue fiscal consolidation by reducing electricity and natural gas subsidies and policy lending, and through improved targeting of social protection payments. The fiscal deficit is anticipated to narrow to 4.0% of GDP in both years.

Structural reform in the energy sector and higher social spending are likely to limit further fiscal consolidation and deficit reduction.

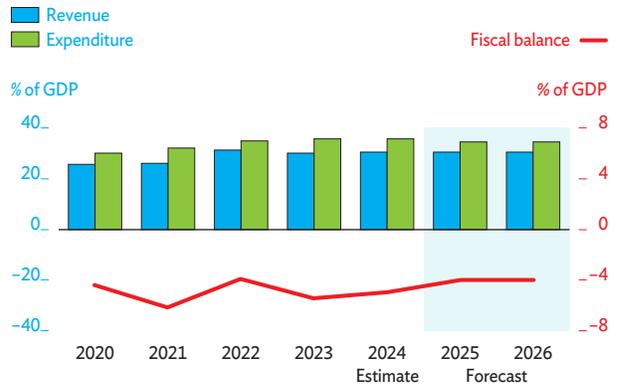
Revenue is projected to remain stable at 30.5% of GDP in both years, underpinned by consistent tax revenue from state-owned enterprises in mining and quarrying, which benefit from elevated prices for gold, copper, and petrochemicals (Figure 2.8.7). The government is expected to maintain substantial expenditure on capital projects, education, health care, and social protection. Concurrently, it aims to enhance fiscal discipline by curtailing spending on unplanned public activities and subsidies to state-owned enterprises. Expenditure is forecast to moderate to 34.5% of GDP in 2025 and 2026.

Rising income inflows and stable imports will narrow the current account deficit (Figure 2.8.8).

The current account deficit is forecast to shrink to 4.5% of GDP in 2025 and 2026, with steady imports and higher remittance inflows from the Russian Federation.

Figure 2.8.7 Fiscal Components

The fiscal deficit is forecast to narrow to 4.5% of GDP in 2025 and 2026 with fiscal consolidation.

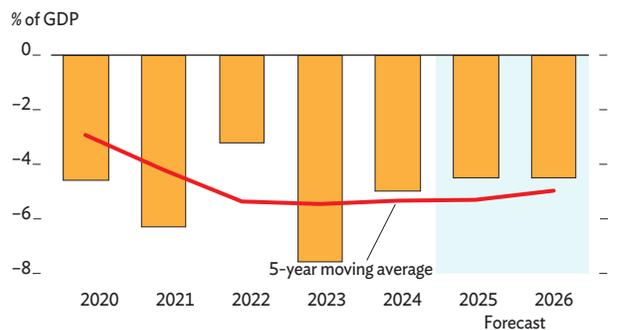


GDP = gross domestic product.

Sources: International Monetary Fund; Asian Development Bank estimates.

Figure 2.8.8 Current Account Balance

The current account deficit will narrow in 2025–2026 with rising remittances.



GDP = gross domestic product.

The Central Bank of Uzbekistan. 2024. *Balance of Payments, International Investment Position, and External Debt of Uzbekistan*; Asian Development Bank estimates.

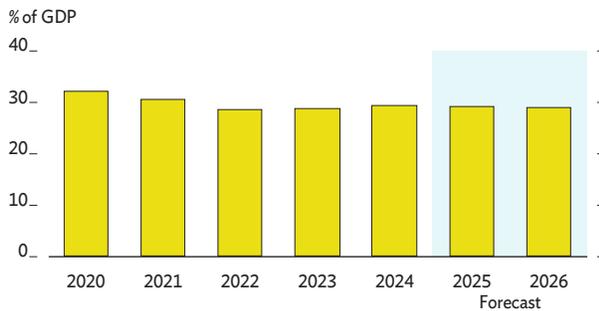
Stable demand for imported consumer products, capital and intermediate goods, and transport services is anticipated to keep import growth lower than the rise in exports of goods and services.

Rising gold reserves are projected to boost gross foreign reserves to \$42 billion in 2025 and 2026.

That will be sufficient to cover 12 months of imports in 2025 and 10 months in 2026. To maintain total public debt below 60% of GDP in both years, the authorities have set a \$5.5 billion ceiling on external borrowing for 2025. Currently, external public debt stands below 30% of GDP and is expected to remain at about 30% in 2025 and 2026 (Figure 2.8.9). In addition, with increased

Figure 2.8.9 External Public Debt

The ratio of public debt to GDP will decline modestly in 2025 and 2026.



GDP = gross domestic product.

Sources: The Central Bank of Uzbekistan. 2024. *Balance of Payments, International Investment Position, and External Debt of Uzbekistan*; Asian Development Bank estimates.

capital investment in petrochemicals, mining, and quarrying, foreign direct investment is anticipated to grow by 10% annually.

Tightened external financial conditions are likely to increase the cost of external borrowing. Credit expenses consequently added to capital investment projects and business activities could slow growth in 2025 and 2026. Rising contingent liabilities from state-owned enterprises also present a significant risk, as they could become actual financial obligations for the government, straining public finances. The expansion of public-private partnership, while beneficial for infrastructure development, introduces complexities and potential fiscal risks if not managed properly. Further, climate change poses long-term risks to economic growth and fiscal sustainability, as impacts can lead to increased costs for disaster response, infrastructure repair, and adaptation measures. Collectively, these factors underscore the need for prudent fiscal management and strategic planning to mitigate risks and ensure sustainable growth. To address these challenges, in 2025, the government launched reforms in line with the Public Finance Management System Improvement Strategy for 2025–2030.

Policy Challenge—Developing Economic Corridors

Doubly landlocked Uzbekistan relies heavily on regional cooperation and integration to facilitate international trade and access to the sea. It is

a founding member of the Central Asia Regional Economic Cooperation Program (CAREC) and an active participant, hosting portions of the CAREC Corridor 2: Mediterranean–East Asia; and Corridor 3: Russian Federation–Middle East and South Asia. Since 2017, Uzbekistan has increased its CAREC engagement in various sectors: transport, energy, trade, tourism, economic corridor development, and agriculture and food. This active participation has yielded tangible benefits. By the end of 2023, Uzbekistan had received \$13.0 billion in CAREC investment, which has buoyed its economic growth and development.

The government has adopted a policy of developing transport and logistics systems to 2030.

It aims to diversify foreign trade routes through enhanced international and regional cooperation, eliminate barriers, reduce delivery times, and optimize costs. Specifically, the policy will develop the logistics services market by promoting multimodality and creating large national transport operators specializing in third-party logistics services: storing, packing, shipping, and managing inventory. It seeks to fully realize the country's transit potential by attracting additional transit cargo flows through flexible tariff policies and simplified customs procedures. The development of transport infrastructure leverages both external and internal financing and innovative technologies to create a modern network of transport and logistics centers. The policy highlights the formation of platforms for integrating the logistics system into international information systems, adopting digital and innovative technologies for freight transportation, and improving training and retraining systems for logistics personnel.

The government should integrate the infrastructure benefits developed along CAREC corridors 2 and 6.

This would foster the agglomeration of economies and tourism growth centers in districts and towns across the country. This integrated approach to spatial development would enable firms, particularly small and medium-sized companies and state-owned enterprises, to join regional value chains, expand export earnings, generate employment, and widen the domestic tax revenue base. By leveraging these corridors' advanced transport networks and connectivity, the government can promote economic activity, attract investment, and improve the quality of life in these regions, ensuring sustainable and balanced regional growth.



People's Republic of China

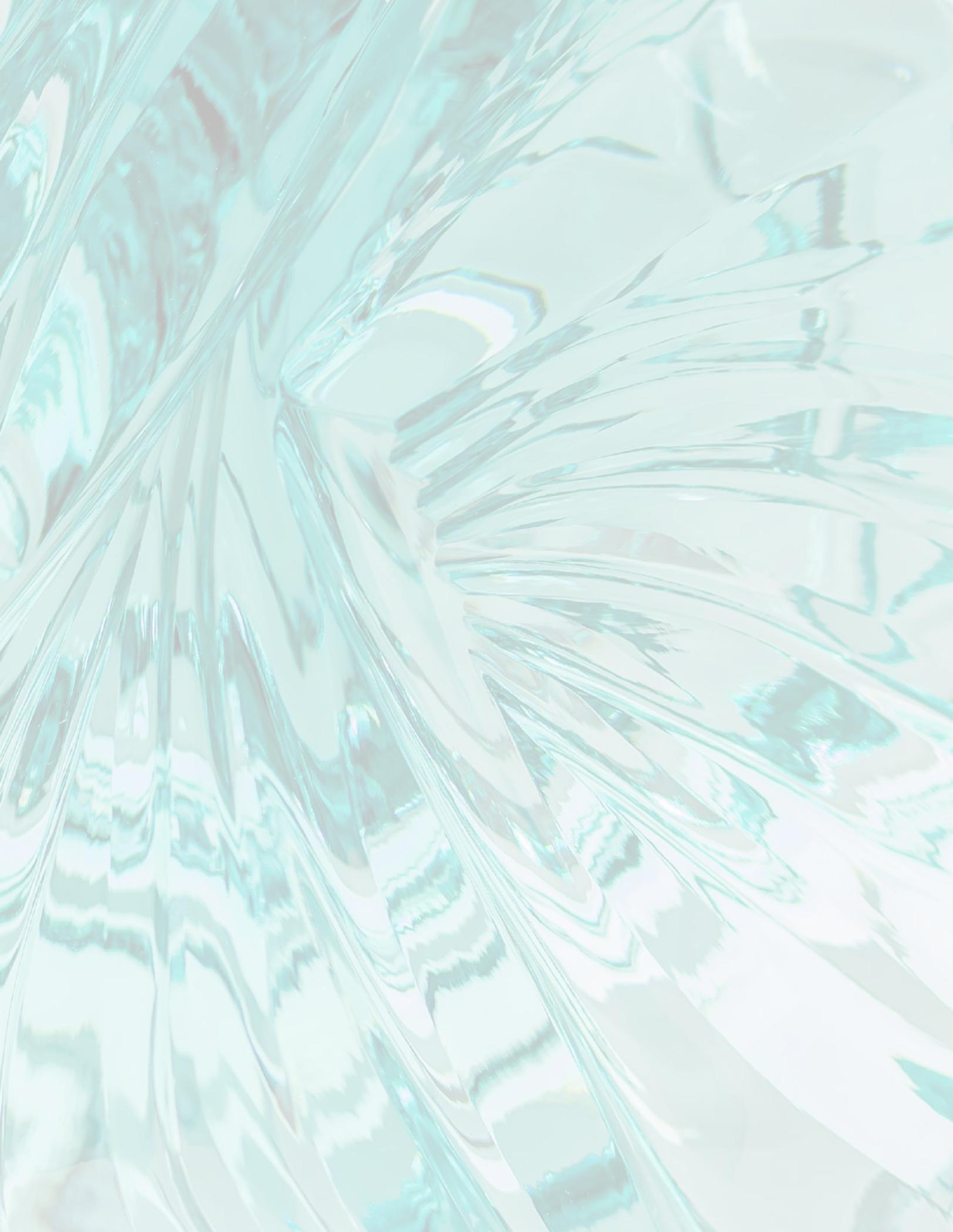
Hong Kong, China

Republic of Korea

Mongolia

Taipei, China

EAST ASIA



PEOPLE'S REPUBLIC OF CHINA

In a challenging external environment, economic growth in 2025 and 2026 is expected to moderate alongside persistently low inflation. Growth in the near term will be supported by increased fiscal stimulus and monetary policy measures that will partially offset the effects of higher United States (US) tariffs with stronger domestic investment and consumption. However, addressing issues within the property sector is also urgently needed along with developing revenue channels for local governments to reduce their reliance on land sales.

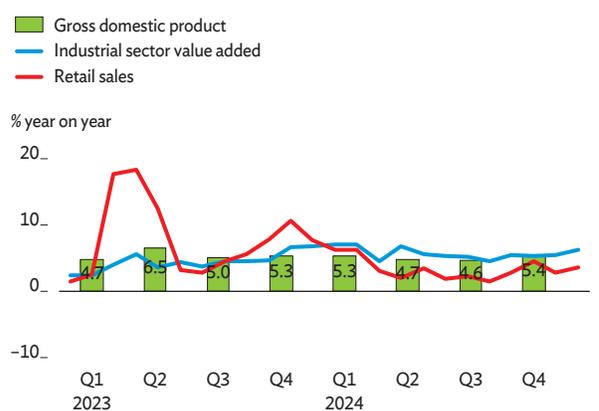
Economic Performance

Strong exports and industrial activity helped the economy grow by 5.0% in 2024, down from 5.4% in 2023. GDP growth increased to 5.3% in the first quarter, driven by higher-than-expected export growth, but slowed to 4.7% in the second quarter and 4.6% in the third quarter due to weak domestic demand, especially household consumption, as shown in data on retail sales. It bounced back to 5.4% in the fourth quarter following a series of stimulus measures announced since late September 2024 (Figure 2.9.1).

On the demand side, growth in household consumption remained weak in 2024 on low income growth and consumer confidence. Growth in real household expenditure per capita slowed compared to real income per capita, suggesting continued cautious consumer spending (Figure 2.9.2). The contribution of consumption to GDP growth decreased to 2.2 percentage points from 4.6 points in 2023. The Consumer Confidence Index fell to 86.4 in December 2024, down from 87.6 at the end of 2023, far lower than the 126.6 pre-pandemic level at the end of 2019 (Figure 2.9.3). To stimulate consumption, the government launched the consumer goods trade-in program in the first quarter of 2024, allowing consumers to exchange old or used items for credit toward the purchase of new goods. The program was further enhanced in the third quarter, with the government providing subsidies

Figure 2.9.1 Real Economic Growth

GDP growth slowed as household consumption weakened.



GDP = gross domestic product, Q = quarter.

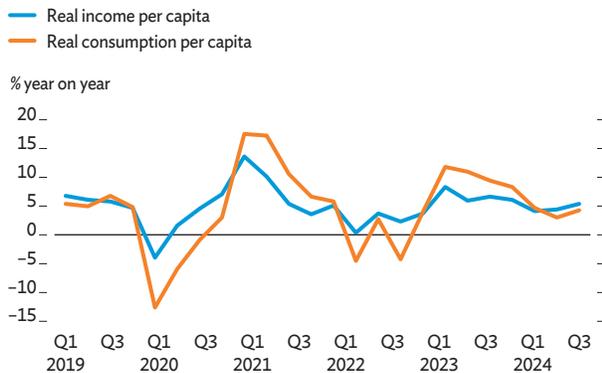
Sources: CEIC Data Company; Asian Development Bank estimates.

for trade-in transactions, financed by the issuance of CNY150 billion (about 0.11% of GDP) of ultra-long-term special treasury bonds. With the program accelerated in the second half of the year, retail sales of items included—such as household appliances, audio-visual equipment, furniture, automobiles, and construction and decoration materials—showed strong growth in the fourth quarter of 2024.

Investment grew on strong growth in manufacturing, which countered a deeper decline in property investment and slower growth in

Figure 2.9.2 Growth in Income and Consumption per Capita

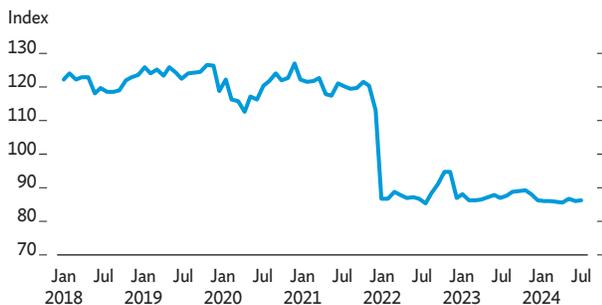
Household consumption grew slower than income, suggesting a lower propensity to spend.



Q = quarter.
Sources: CEIC Data Company; Asian Development Bank estimates.

Figure 2.9.3 Consumer Confidence

Consumer confidence has remained low over the past 2 years.

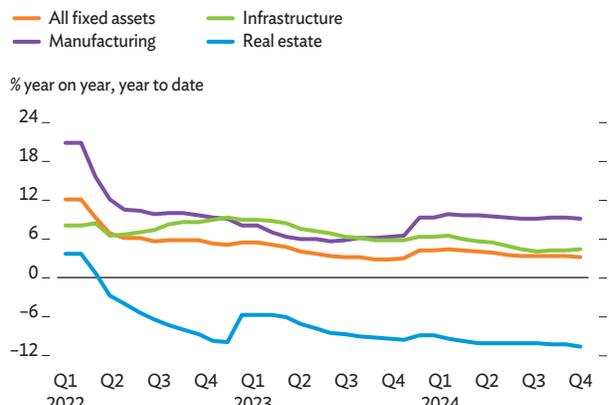


Source: CEIC Data Company.

infrastructure (Figure 2.9.4). Investment grew 3.2%, adding 1.3 percentage points to growth in 2024, down from 1.4 points in 2023. Policy measures supported firms investing in high-tech manufacturing, alleviating the effects of the property investment downturn. Manufacturing investment increased by 9.2%, up from 6.5% in 2023, backed further by the government’s equipment upgrade initiatives, which resulted in spending on equipment and tools rising by double digits. However, infrastructure investment rose 4.4%, down from 5.9% in 2023, partly due to local government fiscal constraints. The property market downturn continued given declining home prices and large housing inventories. Real estate investment contracted by 10.6%, a sharper decline than the 9.6% drop in 2023. With the overall business sentiment low, private investment contracted by 0.1% in 2024.

Figure 2.9.4 Growth in Fixed Asset Investment

Strong growth in manufacturing partially offset a deeper contraction in property investment.



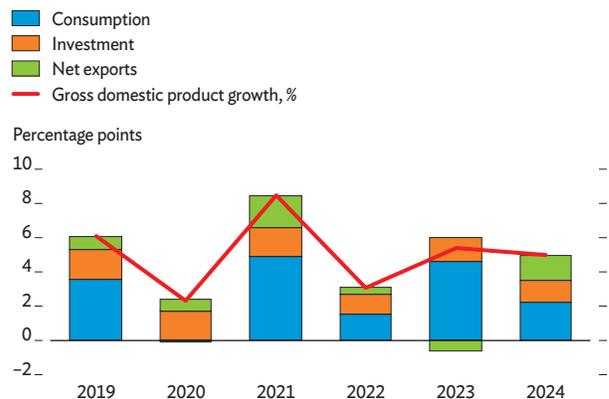
Q = quarter.
Source: CEIC Data Company.

Net exports boosted growth. The contribution of net exports was 1.5 percentage points in 2024, a reversal from 2023 when it subtracted 0.6 points from growth (Figure 2.9.5). The turnaround was fueled by robust exports of mechanical and electrical products, which reflected both increasing global manufacturing activities and demand for electronics and frontloading of demand for the exports of the People’s Republic of China (PRC) amid looming new US tariffs this year.

Robust high-tech manufacturing and exports pushed up the growth of industry. The industrial (secondary) sector grew by 5.3%, up from 4.4% in

Figure 2.9.5 Demand-Side Contributions to Growth

Net exports boosted growth last year, while contributions from investment and consumption fell.

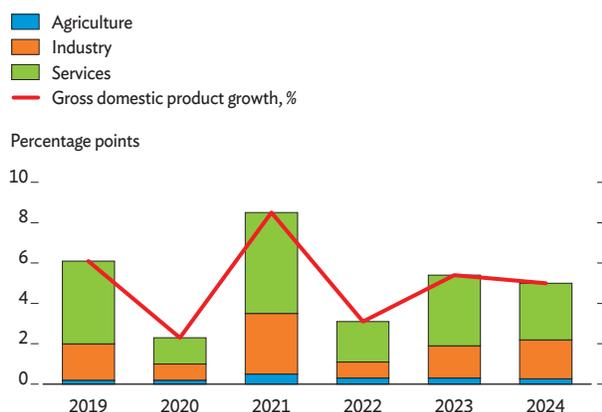


Source: CEIC Data Company.

2023, contributing 1.9 percentage points to GDP growth (Figure 2.9.6). High-tech manufacturing expanded rapidly, rising by 8.9%, with double-digit production growth in solar cells, new energy devices, and integrated circuits. Meanwhile, services (tertiary) contribution to GDP growth fell from 3.5 percentage points in 2023 to 2.8 points in 2024, as growth in transportation along with wholesale and retail trade slowed and the decline in real estate services continued. Agriculture (primary) contributed a steady 0.3 percentage points to growth.

Figure 2.9.6 Supply-Side Contributions to Growth

High-tech manufacturing and exports bolstered the contribution of industrial production to growth.



Source: CEIC Data Company.

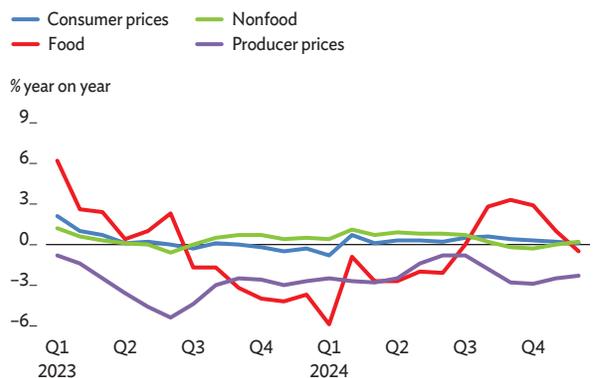
The labor market remained weak last year. The Employment Purchasing Managers' Index (PMI) remained low throughout the year, standing at 48.1 in December 2024, indicating contraction in employment as it stayed below 50. The sub-indexes of the consumer confidence index show that the average employment expectation index in 2024 was 6.6 percentage points lower than in 2023, while the average employment satisfaction index decreased by 5.2 percentage points compared to the previous year. Youth unemployment (excluding students aged 16–24) peaked at 18.8% in August before decreasing to 15.7% in December 2024, suggesting continuing labor market imbalances, particularly for young workers facing limited private sector job opportunities and skill mismatches.

Low-inflation continued with downward pressure from food prices, household spending, and producer price deflation. Inflation averaged 0.2% in 2024 (Figure 2.9.7). Food prices dropped by 0.6%, led

by fresh fruit and beef, which offset a recovery in pork prices. Weak domestic demand suppressed non-food inflation to 0.4%, service inflation to 0.7%, and core inflation (excluding energy and food prices) to 0.5%. Alongside declining rents, prices for newly constructed homes in the top 70 cities fell by an average 4.5%, with tier-three cities showing the most significant drop. Decreasing energy prices and declining raw material prices linked to the property market—including steel, cement, and building materials—helped lead producer price deflation into its second year, even though the decline slowed to 2.2% compared to the 3.0% decline in 2023.

Figure 2.9.7 Monthly Inflation

Consumer price inflation remained subdued in 2024.



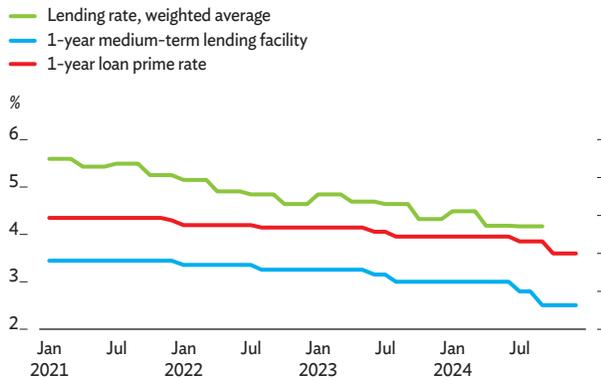
Source: CEIC Data Company.

Key policy rates were cut several times to ease monetary policy (Figure 2.9.8). The lower US Federal Reserve funds rate, weakened domestic demand, and deflationary pressure prompted the central bank to loosen monetary policy. The People's Bank of China (PBOC) reduced the 1-year medium-term lending facility rate twice by a total 50 basis points to 2.0% and lowered the required reserve ratio for commercial banks twice by a total 30 basis points to 6.60% to free up additional funds for bank lending. The 1-year loan prime rate fell from 3.45% at the end of 2023 to 3.10% at the end of 2024, while the 5-year loan prime rate, used for mortgages, was cut to 3.6% primarily to support the struggling real estate sector.

Despite monetary policy easing, credit growth slowed. Total social financing—an aggregate that includes bank loans, shadow bank financing, government and corporate bonds, and equity

Figure 2.9.8 Banking Lending and Policy Rates

The central bank loosened monetary policy through several rate cuts.



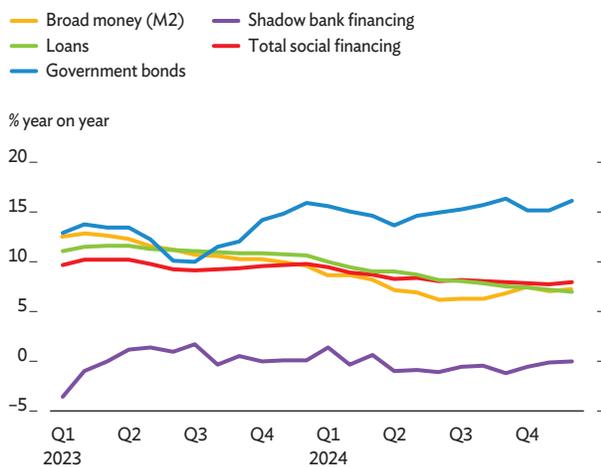
Source: CEIC Data Company.

financing—grew by 8.0% in 2024, down from 9.8% a year earlier (Figure 2.9.9). The slowdown was primarily due to a deceleration in loan growth, which increased by just 7.0%, down from 10.7% in 2023. Government bonds outstanding at the end of 2024 rose by 16.2% as local government special bond issuance accelerated in the second half of the year.

The fiscal deficit increased as tax revenue fell. The deficit rose from 4.5% of GDP in 2023 to 4.8% in 2024. Fiscal revenue grew by only 1.3% compared to 6.5% in

Figure 2.9.9 Growth in Credit and Government Bonds Outstanding

Despite growth in government bonds, total social financing, especially loans, grew slower.



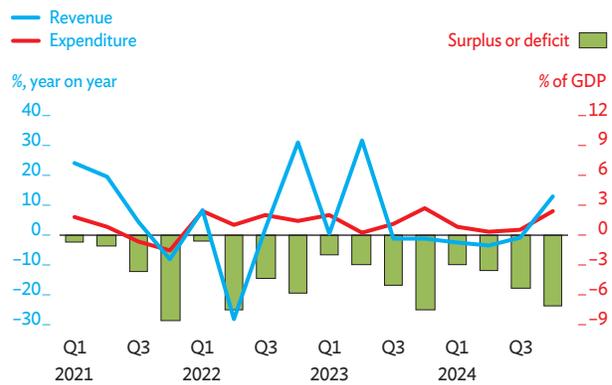
Note: Shadow banking includes entrust loans, trust loans, and bank acceptance bills.

Sources: CEIC Data Company; Asian Development Bank calculations.

2023, due to tax revenue falling by 3.4% (Figure 2.9.10). Expenditure for the general government (including both central and local governments) accelerated in the last quarter but decreased overall to 3.6% growth in 2024 from 5.4% in 2023. New local government special bond issuance—typically excluded from the general budget—accelerated in the second half, reaching CNY4.0 trillion, or about 3.0% of GDP, by the end of the year in a concerted effort to boost public infrastructure investment.

Figure 2.9.10 General Government Fiscal Revenue and Expenditure

The fiscal deficit increased as revenue growth slowed more than expenditure.



GDP = gross domestic product, Q = quarter.

Note: Public finance budget only.

Sources: CEIC Data Company; Asian Development Bank calculations.

The current account surplus increased significantly in 2024 on strong merchandise exports. The surplus rose to 2.2% of GDP, up from 1.4% in 2023

(Figure 2.9.11). While commodity and semiconductor imports contributed to the 2.2% growth in goods imports in 2024, exports surged on increased overseas demand, particularly from ASEAN and the US.

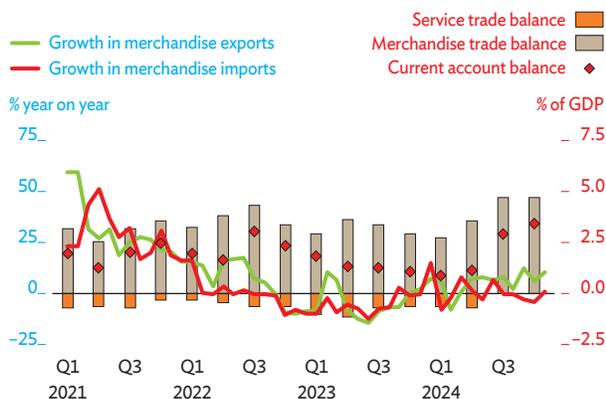
With improved global demand for electronics and manufacturing, goods exports increased by 7.2% in 2024. This drove the trade surplus up from 3.2% of GDP in 2023 to 4.1% of GDP in 2024. Meanwhile, the service deficit widened slightly from 1.1% of GDP in 2023 to 1.2% of GDP in 2024 due to the rising tourism services deficit.

Foreign direct investment (FDI) inflows declined in 2024 and net non-FDI capital outflow increased.

Amid uncertain business environment, FDI inflows fell

Figure 2.9.11 Current Account Balance and Merchandise Trade

The current account surplus widened as the merchandise trade surplus grew.

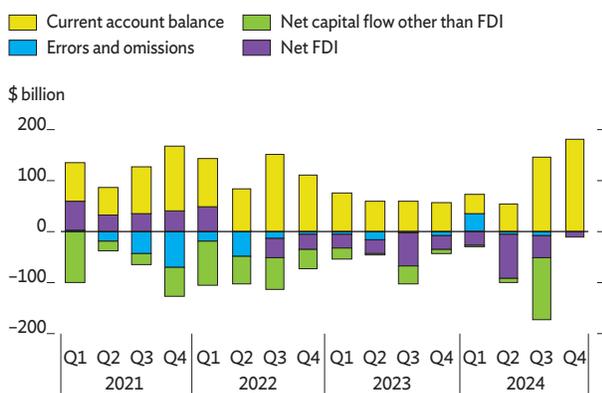


GDP = gross domestic product, Q = quarter.
 Note: January and February data are combined to exclude the Lunar New Year effect.
 Sources: CEIC Data Company; Asian Development Bank calculations.

by 89.5% to \$4.5 billion. Net non-FDI capital outflow increased to \$136.5 billion in the first 3 quarters of 2024, up from \$59.2 billion during the same period in 2023 (Figure 2.9.12). Nevertheless, reserve assets increased by \$5.9 billion to \$3.5 trillion at the end of 2024. The yuan depreciated by 1.5% against the US dollar over the year as net non-FDI capital outflow rose and the interest rate differential between the PRC and US widened.

Figure 2.9.12 Balance of Payments

While the current account surplus surged on strong exports, net capital outflow increased.



FDI = foreign direct investment, Q = quarter.
 Note: Only current account balance and net FDI data available are for Q4 2024.
 Sources: CEIC Data Company; Asian Development Bank calculations.

Economic Prospects

Economic growth is expected to moderate in 2025 and 2026 (Table 2.9.1).

GDP is forecast to rise by 4.7% in 2025 and 4.3% in 2026. The increased policy support should partially counteract the continued property market slowdown and deceleration of export growth as the new US tariffs take effect. While property prices in major cities show signs of stabilizing, prices in second and third-tier cities will take longer to bottom out. Property investment and construction are expected to decline, though slower than in 2023, given that housing inventories remain large. To stimulate domestic demand, the government intends to amplify its macroeconomic policies in 2025–2026, as outlined in March 2025 during the annual meetings of the National People’s Congress and Chinese People’s Political Consultative Conference (referred to as the Two Sessions). The policy will focus on boosting household consumption and will include monetary easing, proactive fiscal expansion, targeted income subsidies to vulnerable groups, tax breaks, credit assistance for businesses, particularly small and medium-sized enterprises, and financial incentives for investment in strategic sectors.

Table 2.9.1 Selected Economic Indicators, %

Growth is expected to moderate in 2025 and 2026 with inflation rising slightly.

	2023	2024	2025	2026
GDP growth	5.4	5.0	4.7	4.3
Inflation	0.2	0.2	0.4	0.7

GDP = gross domestic product.
 Sources: CEIC Data Company; Asian Development Bank estimates.

Fiscal expansion will likely boost investment, pushing up its contribution to growth. The expansionary fiscal policy will prioritize national strategic projects, advanced manufacturing, technological innovation, and small and medium-sized enterprises. The government has announced several initiatives to support the property market, such as lifting purchase restrictions, encouraging local governments to acquire properties for affordable housing, implementing a “whitelist” of projects to assist property developers in obtaining finance, and

reducing mortgage rates. While these measures will likely incentivize housing purchases, currently high inventories will continue to dampen property market investment this year and next.

The contribution of consumption to growth is expected to increase this year and next.

Consumption growth will be driven by a more rapid increase in government consumption and the policy priority to boost household consumption. The government also plans to allocate CNY300 billion in special sovereign bonds to finance a subsidy program for purchases of consumer goods, double the size of last year's program. These consumption-boosting measures are essential amid weak consumer sentiment, a soft labor market, stagnant income growth, and declining house prices.

The challenging external environment is a headwind affecting the economy. The contribution of net exports to growth is expected to fall but remain marginally positive in 2025. Since the beginning of the year, the US imposed new rounds of additional tariffs on imports from the PRC, which prompted the government to impose higher tariffs on select US products. Export growth is expected to slow significantly this year due to weaker US demand and slowing demand from PRC's key export destinations due to the US's reciprocal tax levied on them. While the current US dollar exchange rate and continued recovery in global electronics demand help PRC exports, a decline in export is anticipated in 2026 as global demand may weaken further amid economic uncertainty and trade frictions. The moderating domestic growth should keep import growth modest.

The labor market could benefit from strong advanced manufacturing and fiscal expansion.

The labor market should remain broadly stable in 2025 and 2026 as investment and production in advanced manufacturing, particularly in high-end clean energy electric vehicles, semiconductors, and robotics, remain robust. Increased fiscal spending could also create new jobs in construction and public infrastructure projects, benefiting low- and medium-skilled labor and migrant workers. However, trade tensions and geopolitical risks add pressure to diversify supply chains overseas, which can affect domestic employment, particularly in export firms.

In addition, the government expects a record high 12.2 million new college and university graduates in 2025, a 3.6% increase from last year and adding to the challenge of youth unemployment.

Inflation is forecast to rise slightly to 0.4% this year and 0.7% in 2026.

In the first 2 months of 2025, the consumer price index (CPI) fell by 0.1% on average, with the core CPI dropping by 0.1% in February for the first time since January 2021. Despite policy support for consumption, which should help lift inflation, the ongoing property downturn, and weak private demand will likely keep inflation subdued. In addition, rising industrial output should further mitigate inflationary pressures in 2025 and 2026.

Monetary policy is expected to be more accommodative. At the December 2024 Politburo meeting, the monetary policy stance shifted from "prudent" to "moderately loose," marking the first change in stance since 2011. The shift was in response to persistently low inflation and weak domestic demand. The 2025 government work report set an inflation target of 2% and reiterated the government's intention to cut policy rates "at an appropriate time" and to promote a "reasonable rebound" in inflation. In addition, CNY520 billion in special central government bonds to recapitalize large banks will help maintain lending capacity in the banking sector, ensuring increased credit availability.

Stronger fiscal expansion is anticipated to boost domestic demand. The government increased its headline fiscal deficit target from 3% of GDP to 4% in 2025, the highest in 3 decades. It has also planned to issue CNY1.3 trillion in special central government bonds, CNY 300 billion more than last year. This includes CNY300 billion for the extended trade-in of consumer goods program, CNY200 billion for business equipment upgrading, and CNY800 billion for supporting strategic sectors. The issuance of special local government bonds is also planned to increase to CNY4.4 trillion (CNY500 billion more than last year) allowing an expanded scope for expenditures.

The current account surplus is expected to narrow this year and next. Heightened geopolitical risks, trade tensions, and the increasing pressure to diversify

supply chains overseas will likely dampen export growth. Exports from emerging industries such as electric vehicles, batteries, and renewable energy have better prospects, but they also face challenges from growing trade tensions with Europe and the US. The services trade deficit will likely widen as outbound travel recovers toward pre-pandemic levels. Net FDI is expected to remain slightly negative, despite strong inward high-tech FDI. Outward direct investment should rise with the relocation of production facilities in response to trade tensions. Monetary policy easing and trade tensions will likely lead to capital outflow and yuan depreciation.

Continued reforms are essential to address domestic and external challenges. Structural reforms are expected to continue in key areas beyond 2025, which is the last year of the government's 14th Five-Year Plan. Promoting new ways to increase productivity is needed amid demographic changes and an aging population. Increasing household income through targeted subsidies for low-income groups, strengthening the social safety net in rural areas and for migrant workers, and boosting investment, employment, and wage growth are vital to boost private demand and household consumption. The recovery in the property market after several years of downturn is critical for the stability of the banking sector and capital markets. Importantly, ensuring fiscal viability of local governments requires diversifying the sources of their revenue which are now tightly linked to the property sector through sales of land-use rights (see Policy Challenge below).

Risks to the outlook are mainly on the downside.

The US position on foreign investment and trade, especially the proposed additional tariffs, has heightened risks to the PRC's external trade. In addition, the weakened property sector and local government finance remain domestic risks to the outlook. On the upside, additional supporting policy measures and better implementation of the government's fiscal and monetary measures could boost private sector confidence faster than anticipated, resulting in stronger GDP growth and inflation than forecast.

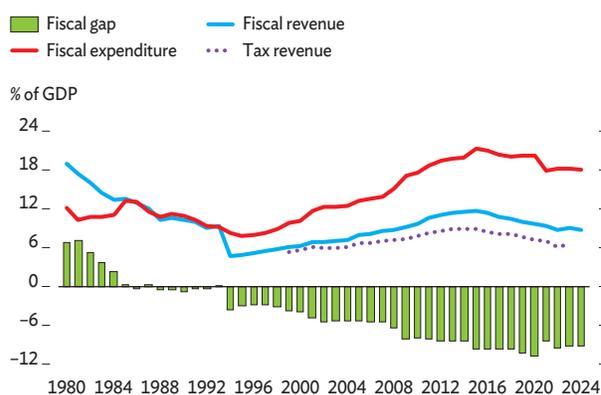
Policy Challenge—Strengthening Local Government Revenue Sources

A key challenge for local governments is to reduce their widening fiscal deficits by raising revenue.

The combination of slower economic growth, the pandemic impact, and ongoing property downturn have intensified fiscal pressures on local governments. The general public budget deficit of the local governments, inclusive of transfer payments from the central government, has increased from 1.1% of GDP in 2014 to 1.7% in 2024. However, excluding the transfer payments, the gap between expenditure and revenue has risen from 8.5% of GDP in 2014 to 9.2% in 2024. This is primarily attributed to a sharp decline in the growth of fiscal revenue (excluding the transfer payments), especially tax revenue (Figure 2.11.13). Fiscal revenue decreased from 11.6% of GDP in 2014 to 8.8% in 2024, while fiscal expenditure has only fallen from 20.0% of GDP to 18.1%. As the slowdown in economic growth and the challenging external environment necessitate increased government spending to support economic activity, boosting local tax revenue is crucial to address fiscal imbalances.

Figure 2.9.13 Local Government Fiscal Imbalance

The fiscal deficit has increased with revenue growth lower than expenditure growth.



GDP = gross domestic product.

Note: The fiscal gap here refers to the difference between fiscal revenue and fiscal expenditure in the general public budget.

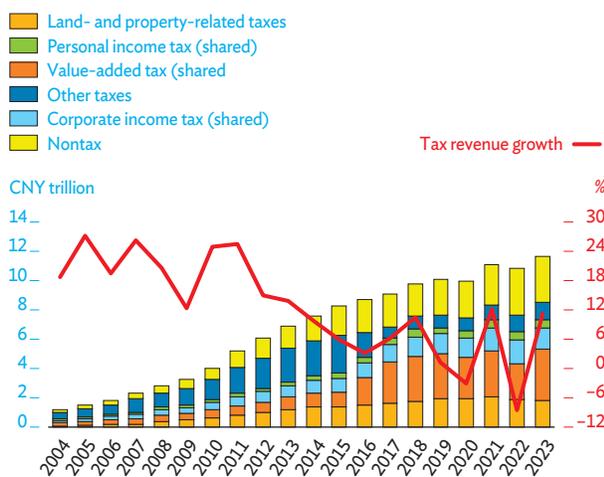
Source: CEIC Data Company.

Over the past 2 decades, local governments increasingly relied on revenues from taxes shared with the central government to finance operations (Figure 2.9.14). Currently, local governments receive 47% of government tax revenue. Tax revenue is the primary source of local government’s general public budget, accounting for 72.8% of their fiscal revenue in 2023. However, major taxes such as the value-added tax, corporate income tax, and personal income tax, which together

represent 64.9% of local government tax revenue, are shared between the central and local governments in specific proportions. Taxes that are exclusively assigned to local government account for less than 30% of tax revenue and comprise mainly five land- and property-related taxes (Figure 2.9.15).

Figure 2.9.14 Local Government Fiscal Revenue

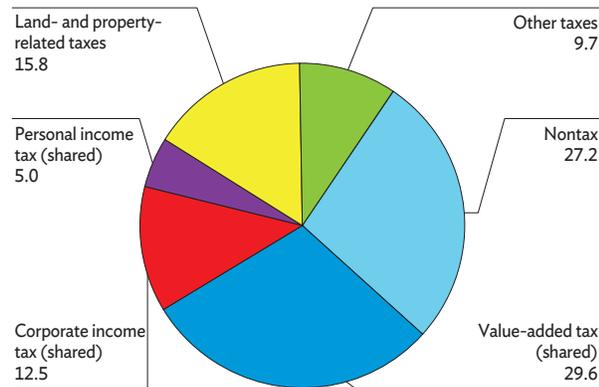
While local government tax revenue growth has slowed, the proportion of receipts from shared taxes has grown.



Source: CEIC Data Company.

Figure 2.9.15 Breakdown of Local Government Fiscal Revenue, 2023

Share of revenue from major taxes received by local governments.



Note: Land and property related tax includes urban land use tax, land appreciation tax, house property tax, farmland occupation tax and deed tax.

Source: CEIC Data Company.

This revenue sharing arrangement has made local government finances increasingly dependent on land-related revenue.

The absence of formal local tax legislation authority has forced local governments to rely on unregulated land leases and significant off-budget borrowing, primarily through local government financing vehicles, to cover local expenses. Land-related revenue, which includes mostly the sale of land-use rights, has become an important source of funding for local governments to support public services and infrastructure. The proportion of land sale revenue in local government income has grown substantially over the years. In 2012, land sale revenue was about 19% of aggregate local government revenue. By 2021 the share increased to 29%, before the property market began to decline in 2022. The ongoing property market downturn led to a 13.3% decrease in local government income from land sales in 2023 with land sale revenue now under 20% of aggregate local government revenue.

A more sustainable local government revenue base should help reduce reliance on land sales.

Diversifying revenue sources will enhance financial independence and support vital green infrastructure and social projects, which are crucial for reviving growth, facilitating the ongoing transition to high-quality development, and alleviating fiscal pressure on local governments. There are several measures that can be considered. Besides increased central government transfers, devolving excise taxes will help stabilize fiscal positions and empower local authorities to invest in core services. Introducing a property tax by city or local governments holds significant promise. The tax could be implemented relatively quickly and would provide substantial distributional benefits as shown by Ahmad et al. (“Designing Beneficial Property Taxation for Sustainable Development in China—evidence from six cities, including Guangzhou”, LSE Program on Financing Sustainable Urban Transitions in China and Mexico, 2020). Recent advancements in digital payment and

settlement systems in countries like Brazil with its Pix system, create an opportunity to modernize tax collection. The PRC could use blockchain technology and satellite imagery, along with alternative methods, to streamline property tax administration. These technologies could simplify the contracting process, improve information flow, and enhance tax collection transparency.

HONG KONG, CHINA

Anemic domestic demand slowed growth in 2024. It is expected to moderate further this year as domestic demand remains weak and net trade softens due to trade tensions between the People’s Republic of China (PRC) and the United States (US). Growth will edge up next year as domestic demand recovers, even as large sports and cultural events marginally boost growth. Inflation is expected to remain moderate over the forecast period.

Economic Performance

Economic growth moderated to 2.5% in 2024 from 3.2% in 2023. Growth was driven by a recovery in external trade, particularly merchandise exports to the PRC, but dampened by declining private consumption, notably driven by a strong Hong Kong dollar pushing residents to purchase consumer goods in nearby cities (Figure 2.10.1).

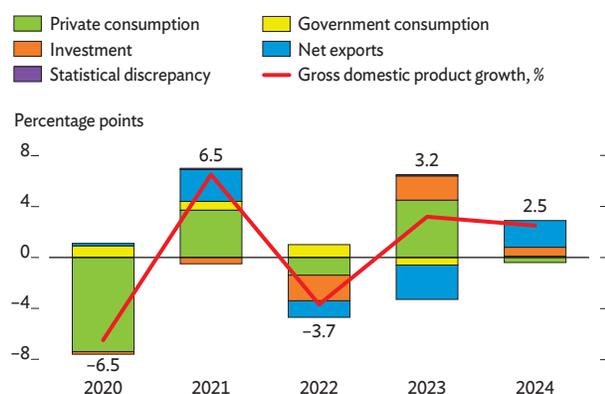
Goods exports grew by 4.7% in real terms last year, rebounding from a 10.0% contraction in 2023. The reversal was bolstered by a 15.6% rise in exports to the PRC, which accounts for close to 60% of total exports.

Exports to the US, 6.5% of the total, also rose last year. Services exports grew by 4.8%, driven by all key components of services exports including travel services, despite visitor arrivals stalling at just 68% of 2018 pre-pandemic levels (Figure 2.10.2). Goods imports increased by just 2.4% on weak domestic demand, while services imports rose by 11.5%. In sum, net exports contributed 2.1 percentage points to growth.

Private spending declined by 0.6% in 2024, dampened by residents increasingly spending overseas and in neighboring cities. The appreciation

Figure 2.10.1 Demand-Side Contributions to Growth

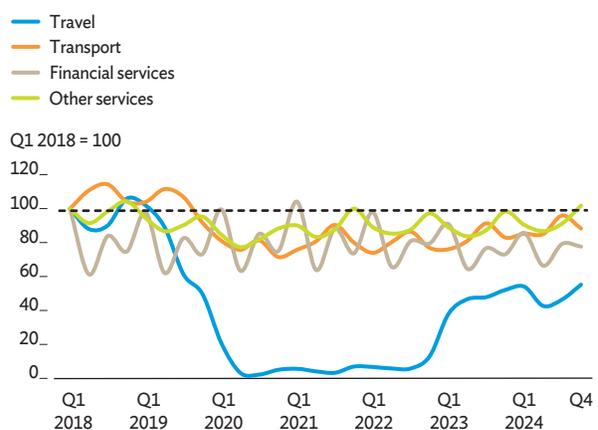
Growth slowed in 2024 as private spending weakened.



Source: Census and Statistics Department.

Figure 2.10.2 Services Exports

Services exports grew last year, driven by travel and other services.



Q = quarter.

Source: Census and Statistics Department; authors' calculations.

of the Hong Kong dollar by 10.2% relative to the yuan since 2021 has raised the cost of goods and services compared with the PRC (Figure 2.10.3). This, along with improvements in the quality and diversity of services offered nearby prompted residents to spend more in cities such as Shenzhen. As a result, the value of retail sales fell by 7.3% and restaurant receipts decreased by 0.1% last year (Figure 2.10.4). Domestic spending on non-food consumer goods—which can easily be purchased in bulk outside of Hong Kong, China—declined by 10.9% in real terms, while food expenditure fell by 3.3%.

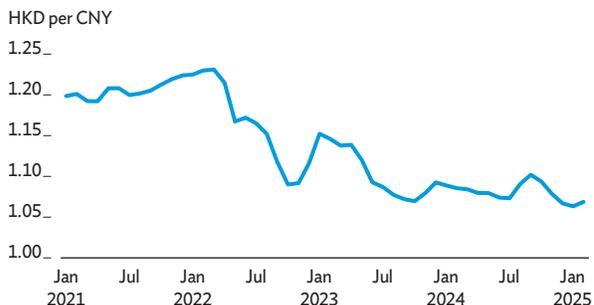
Fixed investment increased by 2.4% in 2024, down from 11.4% in 2023. The slowdown was mainly driven by a 2.6% decline in private investment, dampened notably by high interest rates. In contrast, public investment rose by 11.8%, driven by public construction and machinery, on government initiatives to expand production capacity and raise productivity.

Market sentiment improved slightly after monetary easing. In line with the US Federal Reserve, the Hong Kong Monetary Authority cut its base rate by 100 basis points from 5.75% in August 2024 to 4.75% in December. As a result, the Hang Seng Index jumped to 21,134 by end-September, its highest since February 2023. However, uncertainty following the US presidential election cooled market expectations, with the stock market index falling to 19,424 by end-November, before rising again in the first months of 2025 (Figure 2.10.5). The residential property market remained subdued as property prices fell by 11.5% on average last year, marking the third consecutive year of falling prices and the largest annual decline.

The government budget remained in deficit, dampened by falling taxes on property transactions. With the property market still weak, government revenue fell by an estimated 11.6% in fiscal year 2024 (FY2024, ended 31 March 2025) as revenue from land premiums and stamp duties on property transactions fell short of expectations. Declining revenues were only partially matched by a 2.8% decrease in expenditure, mainly driven by lower recurrent expenditure. As a result, the budget had a deficit equivalent to 2.7% of GDP—about 13% lower than the deficit in FY2023, but still wider than expected (Figure 2.10.6).

Figure 2.10.3 Exchange Rate

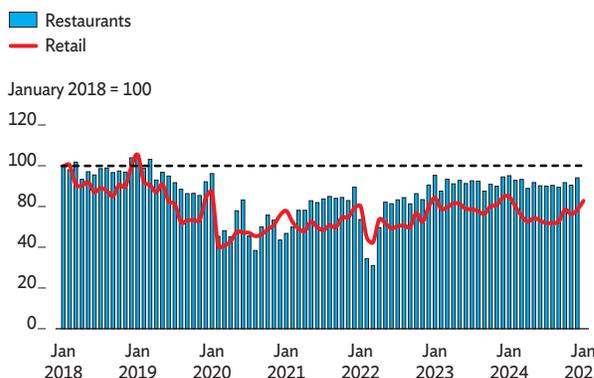
The Hong Kong dollar has appreciated relative to the yuan since 2021.



CNY = yuan, HKD = Hong Kong dollar.
Source: Census and Statistics Department.

Figure 2.10.4 Retail Sales and Restaurant Receipts Index

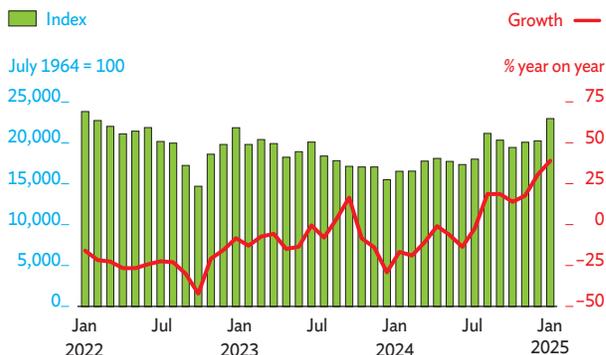
Retail sales dropped last year, dampened by residents increasing spending outside Hong Kong, China.



Source: Census and Statistics Department; authors' calculations.

Figure 2.10.5 Hang Seng Index

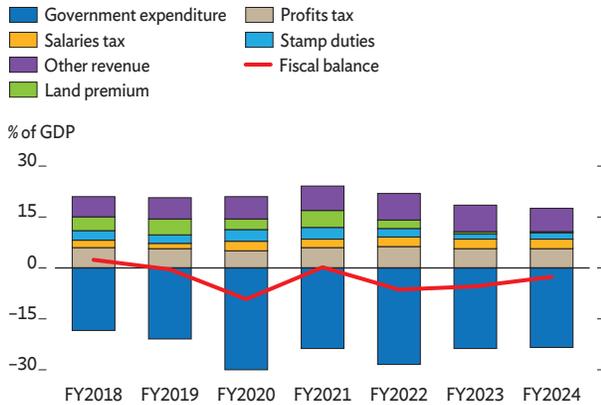
The Hang Seng Index improved in 2024 following interest rate cuts.



Source: Census and Statistics Department.

Figure 2.10.6 Fiscal Indicators

The government budget remained in deficit on weak property transactions.



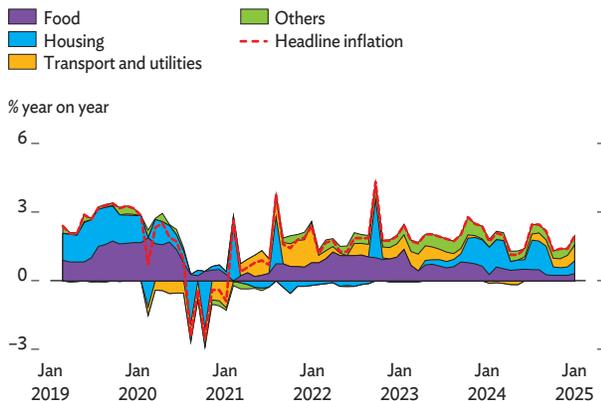
FY = fiscal year, GDP = gross domestic product.
 Note: FY2024 ended on 31 March 2025.
 Source: Census and Statistics Department.

Inflation slowed to 1.7% last year from 2.1% in 2023 in line with slower growth. Food prices increased by only 1.5% in 2024, while prices declined for electricity, gas and water, clothing and footwear, and durable goods (Figure 2.10.7). Housing rent rose by 1.9% in 2024, partly due to the lower property tax rebates provided by the government during the year. Netting out the effects of one-off government relief measures, underlying inflation averaged just 1.1% last year.

The current account surplus widened to 12.9% of GDP in 2024, from 8.5% in 2023. This was mainly driven by a narrowing goods deficit and increase in

Figure 2.10.7 Headline Inflation

Inflation eased in 2024 on moderate food and housing price increases.



Source: CEIC Data Company.

income from investment abroad. The overall balance of payments had a deficit equal to 2.8% of GDP in 2024, while the net stock of external financial assets rose by 15.5% in the fourth quarter, reaching 5.0% times GDP, one of the largest in the world, proving a strong cushion against sudden external shocks.

Economic Prospects

GDP is forecast to grow by a moderate 2.3% in 2025 on weakening trade, before picking up slightly to 2.5% in 2026 (Table 2.10.1 and Figure 2.10.8). The 10% additional US tariffs on PRC goods imposed on 10 February and raised to 20% on 4 March will dampen trade with the PRC, which accounts for about half of Hong Kong, China trade. The US accounts for just 5% of total trade. Several government initiatives will promote growth, for example, by supporting gold and wine trading as well as information technology. Steady global growth will support external demand.

Table 2.10.1 Selected Economic Indicators, %

Growth will slow this year before picking up in 2026, while inflation will remain moderate.

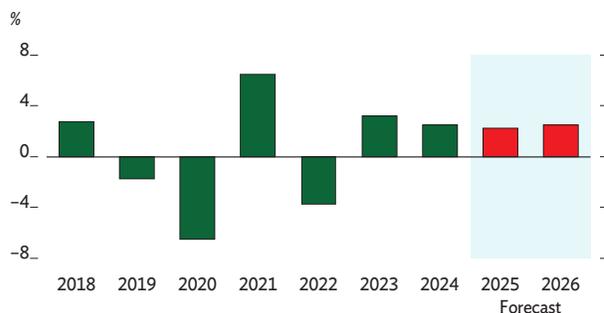
	2023	2024	2025	2026
GDP growth	3.2	2.5	2.3	2.5
Inflation	2.1	1.7	1.9	2.0

GDP = gross domestic product.

Sources: Census and Statistics Department; Asian Development Bank estimates.

Figure 2.10.8 Gross Domestic Product Growth

Growth will moderate this year on weakening trade activity before picking up slightly in 2026.



Source: Census and Statistics Department; Asian Development Outlook Database.

Private consumption will pick up slightly in 2025 before recovering further in 2026. With the Hong Kong dollar still expensive relative to the yuan, residents will keep buying goods and services overseas and in nearby PRC cities. This will hinder private consumption growth and retail trade. Nevertheless, a tight labor market and increasing wages will help private consumption recover this year and next. As overall consumer spending declined in 2024, the government plans to continue efforts to attract cultural and sports events aimed especially at attracting tourists from the PRC, but also attracting residents to spend more at home. The government has also further relaxed entry restrictions for PRC residents. However, these changes will not materially boost tourism, with visitor arrivals not expected to recover anywhere near their 2018 peak over the forecast period. All in all, tourism is expected to only marginally contribute to growth this year. The financial sector, on the other hand, is expected to see strong outcomes driven by a robust initial public offering pipeline for 2025.

The fiscal deficit is projected to narrow to 2.0% of GDP in FY2025. The government expects revenue to increase by 17.8% in FY2025. This will be driven by increasing earnings and profits tax, but also an expected 55.3% rebound in land premiums. More sales of government land to developers is expected through the Land Sale Program, while revenue should also rise from stamp duties as the property market starts reviving. In contrast, government expenditure is slated to increase by just 8.9%, with non-recurrent expenditure decreasing by 3.4%. This year's deficit will marginally lower fiscal reserves to 17.2% of GDP, still covering a comfortable 8.4 months of government expenditure.

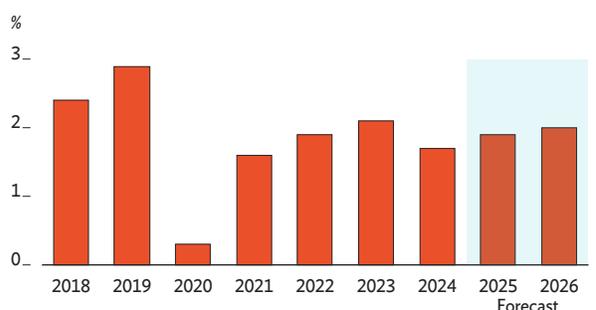
Investment will remain weak this year, but it will pick up in 2026. The property sector will remain subdued in 2025 due to high borrowing costs and a backlog of unsold properties. The boost from monetary easing may also be delayed with slower-than-expected rate cuts by the US Federal Reserve. While inventory drawdowns could help stabilize the property market this year, it will significantly affect GDP growth only in 2026. Public investment, on the other hand, is expected to drive growth both this year and next, driven by spending related to the Northern Metropolis—a 900,000-home development centered

around a technology and innovation hub. Also, several government initiatives this year and next will stimulate investment in fintech, artificial intelligence, green finance, healthcare, and biotechnology.

Inflation is forecast to edge up to 1.9% this year and 2.0% in 2026 as domestic demand slowly recovers (Figure 2.10.9). Upward pressure from housing rentals and labor costs will support prices although to a limited extent as production remains below capacity. External price pressures will likely be minimal as energy and food prices decline on weakening global demand and ample food supply. In 2026, more accommodative monetary policy should lead to mild and broad-based inflation.

Figure 2.10.9 Inflation Forecast

Inflation is forecast to edge up slightly as domestic demand slowly recovers.



Sources: [Census and Statistics Department](#); [Asian Development Bank Database](#).

Downside risks mostly stem from uncertain US-PRC relations. US trade policy has disrupted global trade and will affect Hong Kong, China's exports. It may lead to US dollar appreciation against the yuan, which would dampen Hong Kong, China's attractiveness for tourists and investors. Worsening tensions between the PRC and the US could also raise market volatility, hurting the financial sector, which accounts for a quarter of GDP. US tariff policy may also lead to slower interest rate cuts in the US and keep the Hong Kong dollar strong for longer. Given the US dollar peg, delayed monetary easing in the US would worsen prospects, particularly for tourism and the property market. Finally, a slowdown in the PRC would have ripple effects on Hong Kong, China across nearly all sectors.

Policy Challenge—Supporting Long-Term Growth Through Mega Events

The government aims to leverage “mega events” to stimulate economic growth. This includes cultural events such as concerts and art exhibitions, sport events, and business and commercial fairs. This strategy, formalized last year, aims to generate immediate dividends through increased spending by visitors and residents while raising the city’s long term profile.

Mega events have immediate though small economic benefits. In the short term, these events bring visitors to the city who spend money on the event itself as well as accommodation, transport, catering, and entertainment, and perhaps shopping. This, in turn, supports private consumption, creates jobs, and generates tax revenue. And these events can also encourage residents to stay in the city instead of travelling outside on weekends. However, it will only contribute marginally to economic growth. Some estimates suggest these events brought 550,000 visitors in the first half of 2024, contributing about HKD1.4 billion to domestic value added—or less than 0.1% of GDP. In the first half of this year the government expects to attract some 840,000 visitors, contributing HKD1.8 billion to GDP.

Mega events are expected to have larger, longer-term benefits by raising Hong Kong, China’s profile. This is the main expected goal following difficult years of low tourism and business visitors since 2019. Ultimately, mega events are seen as a way to boost the city’s attractiveness for investors, high-skilled labor, and high net-worth people. This is particularly the case for events that focus on attracting global and regional elites within certain sectors, such as the Asian Financial Forum, the Wealth for Good Summit, the Asia-Pacific Family Office & Investment Forum, and the Wine and Dine Festival—all organized in Hong Kong, China last year. By raising international visibility, these events may also boost tourism alongside event participants. Lastly, events can foster community cohesion, which can have positive social and economic spillovers.

Globally, the impact of hosting large sport events has been mixed. The 2012 London Olympics is often cited as a success story, boosting tourism, creating

jobs, and regenerating East London. Conversely, the 2004 Athens Olympics left Greece with substantial debt and underutilized infrastructure, while the 2016 Rio Olympics faced criticism for high costs and limited long-term benefits. However, these one-off international events may impact host economies differently when compared to organizing many smaller events of different types throughout the year. Quantifying long-term benefits such as improved infrastructure and an enhanced global reputation is difficult as these may take years to materialize and because economic data is rarely available at the city level.

Hong Kong, China holds significant potential to attract more tourists from the PRC and other markets. The PRC already provides 76% of tourists visiting Hong Kong, China and mega events can serve as a major draw. By offering a unique and high-quality experience, the venue can differentiate itself from competing destinations. Mega events can also increase the number of visits among the existing pool of visitors. Also, promoting events through targeted marketing campaigns and partnerships with travel agencies can help reach a broader audience. The city’s excellent air and rail connectivity further enhances its appeal for organizers of large events.

Retaining residents’ expenditure within the city is another aspect of the strategy. In the first 10 months of 2024, residents made 85 million visits abroad, suggesting that on average, residents leave Hong Kong, China roughly once a month. A richer and more diverse series of events happening domestically may increase residents’ leisure time spent at home. Events can also foster a sense of community and belonging, making residents more likely to engage with and support local businesses.

The “mega events” strategy is grounded in a sound economic rationale, although the long-term impact is difficult to pinpoint. By attracting tourists and reducing resident travel outside the city, Hong Kong, China can create a vibrant, dynamic environment that supports long-term economic growth. The potential benefits are significant but difficult to quantify as they emerge over several years and through intangible channels such as improved reputation and attractiveness, which also depend on many other factors.

The mega events strategy supplements other government initiatives to raise the economy's long term growth prospects. This includes the development of innovation and technology while striving to attract more enterprises, capital, and talents. These efforts notably focus on developing artificial intelligence as a core industry, consolidating the role of Hong Kong, China in activities such as asset and wealth management, and developing new industries such as gold and wine trading.

REPUBLIC OF KOREA

Economic growth is projected to slow in 2025 on weak domestic demand and moderating export growth momentum, before slightly picking up in 2026. Inflation will remain low and stable, and the current account surplus will narrow over the forecast horizon. A rapidly aging population and low fertility rate pose policy challenges, raising concerns over long-term fiscal sustainability.

Economic Performance

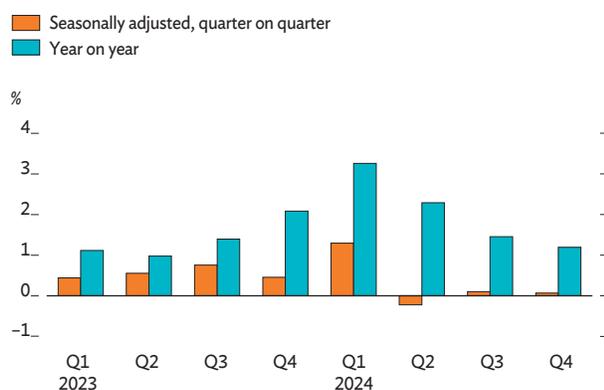
The economy grew by 2.0% in 2024, up from 1.4% in 2023, although slower than anticipated. GDP growth surged in the first quarter, driven by strong exports, but moderated in the succeeding quarters due to weak private consumption, a decline in construction, and a deceleration in export growth. Political uncertainty in December 2024 dampened market sentiment, partially contributing to weaker-than-expected growth in the fourth quarter (Figure 2.11.1).

Growth was primarily driven by exports, bolstered by strong global demand for semiconductors (Figure 2.11.2). In particular, exports of memory

chips used for artificial intelligence applications grew rapidly, with shipments to the People's Republic of China (PRC) increasing by 34.7% and the United States (US) by 44.6%. With slower import growth, net exports contributed 1.9 percentage points to the GDP expansion in 2024. Despite easing price pressures, private consumption remained subdued, held back by high interest rates and household debt. Private consumption grew by 1.1% in 2024, down from 1.8% in 2023, which in turn reduced its contribution to GDP growth to 0.6 points. Public spending rose by a modest 1.8% in 2024 amid tight fiscal policy, adding 0.3 points

Figure 2.11.1 Quarterly Gross Domestic Product Growth

Economic growth slowed during 2024.

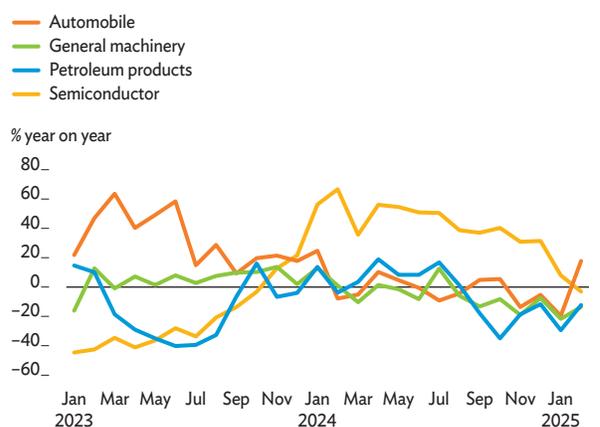


Q = quarter.

Source: CEIC Data Company.

Figure 2.11.2 Major Commodity Exports Growth

Semiconductors fueled export growth in 2024, but momentum is easing.

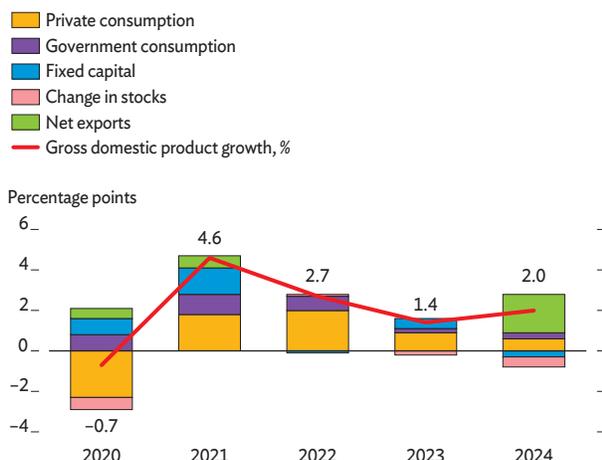


Source: CEIC Data Company.

to growth. Fixed investment declined, reflecting weak construction amid rising building costs and unsold residential properties. Construction investment contracted by 3.0% in 2024, subtracting 0.5 points from GDP growth (Figure 2.11.3). This outweighed an uptick in facilities investment which improved in the second half of 2024.

Figure 2.11.3 Demand-Side Contribution to Growth

Growth was largely driven by exports while domestic demand remained weak.



Source: CEIC Data Company.

On the supply side, manufacturing grew faster than services in 2024. Manufacturing expanded by 4.0%, up from 1.7% in 2023, contributing 1.0 percentage point to growth, driven by production of computers, electronics, and optical products for export. Growth in electricity, gas, and water supply rebounded to 4.2% in 2024 from a 2.9% contraction in 2023, while mining and construction declined. Services growth slowed to 1.6%, down from 2.1% in 2023, and its contribution to GDP growth fell to 1.0 point, as subdued domestic demand weakened wholesale and retail trade and accommodation and food services.

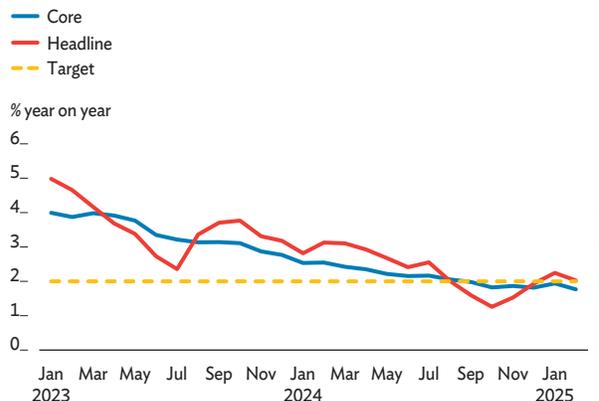
Employment grew by just 0.6% in 2024, down sharply from 1.2% in 2023. Job creation declined to 159,000, a significant drop from 327,000 in 2023. The slowdown was primarily driven by weak domestic demand, which strained various sectors of the labor market. Jobs fell in construction, wholesale and retail trade, and business facilities. In December 2024, employment declined for the first time in nearly 4 years

as consumer sentiment fell sharply amid political uncertainty. In addition, the conclusion of temporary employment initiatives to support workers aged 60 and older as well as those in nursing and care giving activities also contributed to the decline.

Inflation eased in 2024 but remained above the central bank target for much of the year. Average inflation eased to 2.3% in 2024, down from 3.6% in 2023, marking the lowest rate in 4 years. Price increases for almost all commodities slowed, with the exceptions of transport and health, due to weak demand and earlier monetary tightening. Core inflation, which excludes food and energy, moderated to 2.2% in 2024, down from 3.4% in 2023 (Figure 2.11.4).

Figure 2.11.4 Inflation

Inflation continued its downward trend.



Source: CEIC Data Company.

The central bank began a monetary easing cycle in October 2024, after holding rates steady for nearly 2 years. In November 2024, the central bank reduced its key policy rate for the second consecutive time, lowering it by 25 basis points to 3.00%, amid falling inflation, a slowdown in household debt accumulation, and moderating economic growth. The average bank lending rate was 4.7%, down from 5.2% in 2023.

The government maintained a fiscally prudent stance in 2024, aiming to improve the fiscal balance and curb debt growth. Expenditure under the approved budget was 2.8% higher than in 2023. As of September 2024, the fiscal deficit was 2.3% of GDP, while the public debt-to-GDP ratio reached 45.7%, based on latest available data.

The current account surplus widened significantly to 5.3% of GDP, largely driven by strong semiconductor exports. Subdued domestic demand led to a decline in merchandise imports. The services deficit slightly narrowed in 2024 due to increased exports in transportation along with culture and recreation. The nominal exchange rate depreciated 13.6% against the US dollar by the end of 2024, compared to the start of the year, driven by heightened domestic political uncertainty, the strength of the US economy, and high US interest rates. Official foreign exchange reserves reached \$392 billion in December 2024, equivalent to 7.1 months of imports, on the higher current account surplus and increased direct and portfolio investment inflows.

Economic Prospects

The economy is expected to grow by a moderate 1.5% in 2025 and 1.9% in 2026, in line with subdued domestic demand and moderate export growth (Table 2.11.1). Consumer sentiment plunged to its lowest level in 2 years in December 2024. While sentiment has improved since January 2025, the ongoing political uncertainty may continue to dampen consumption spending, particularly in the first half of 2025. A continued slowdown in job creation is anticipated in 2025, with the recovery in construction likely delayed and increased competition in key industries limiting new hiring. Also, the working-age population is shrinking. However, as the political situation stabilizes and accommodative monetary policy takes effect alongside easing inflation, consumption is expected to gradually recover beginning in the second half of 2025. Government spending should also contribute moderately to growth, with increased allocations for supporting vulnerable groups, addressing demographic challenges, and fostering

Table 2.11.1 Selected Economic Indicators, %

Growth is expected to moderate while inflation stabilizes.

	2023	2024	2025	2026
GDP growth	1.4	2.0	1.5	1.9
Inflation	3.6	2.3	1.9	1.9

GDP = gross domestic product.

Source: Asian Development Bank estimates.

innovation. Under the approved 2025 budget, government expenditure will rise by 2.5%. To further stimulate the domestic economy, an additional W18 trillion has been mobilized for investment, with 67% of planned projects set to be implemented in the first half of the year. In addition, the government plans to fast-track livelihood initiatives, including the early launch of job programs for seniors, quick disbursement of youth employment incentives, and expedited payments of subsidies for eco-friendly vehicles.

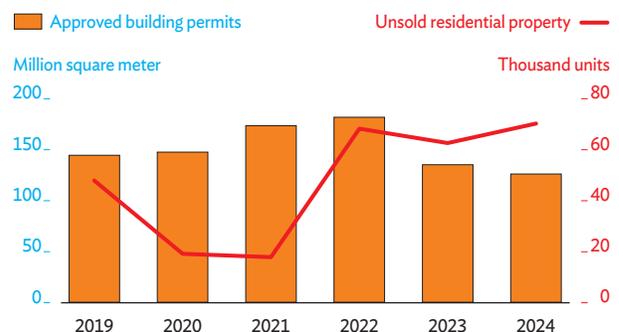
Private investment growth will be limited due to the ongoing weakness in the property sector.

Subdued business sentiment, along with continued weakness in construction due to rising material costs and unsold inventory, will restrain investment growth this year and next. Approved building permits, a key indicator of near-term construction activity, have remained low, and the number of unsold residential properties has increased (Figure 2.11.5). However, investment in manufacturing and facilities is expected to grow. In January 2025, the seasonally adjusted manufacturing purchasing managers' index rose to 50.3, driven by higher output and new orders, particularly from export markets (Figure 2.11.6). The index fell slightly to 49.9 in February 2025, reflecting a marginal expansion in output and new orders. Growth in facilities investment will be driven by semiconductor-related investments.

While exports are expected to continue expanding, growth will slow due to heightened competition and trade uncertainties. Exports will nonetheless remain a key driver of growth in 2025, supported by sustained global demand for semiconductors,

Figure 2.11.5 Property Sector Indicators

Weak construction will constrain investment growth in the near term.



Source: CEIC Data Company.

Figure 2.11.6 Manufacturing Indicators

Recent surveys point to a weak manufacturing outlook.



Source: CEIC Data Company.

particularly due to advancements in artificial intelligence. In January 2025, semiconductor exports grew by 8.1% year on year, even though total exports declined by 10.2%, mainly due to the timing of the Lunar New Year compared to last year. Exports increased by 1.0% in February 2025, largely due to strong automobile shipments. However, semiconductor exports fell for the first time since October 2023, down by 3.0% after growing by 66.6% in February 2024. The drop was caused by falling prices of memory chips due to oversupply and weak global demand for smartphones and laptops. While the Republic of Korea remains competitive in producing high-end memory chips, semiconductor export growth will likely be slightly down in 2025 and 2026, due to increased competition from the PRC and US, along with heightened trade uncertainties. With imports expected to rise as domestic demand recovers, net exports will likely decline slightly in 2025 before increasing in 2026.

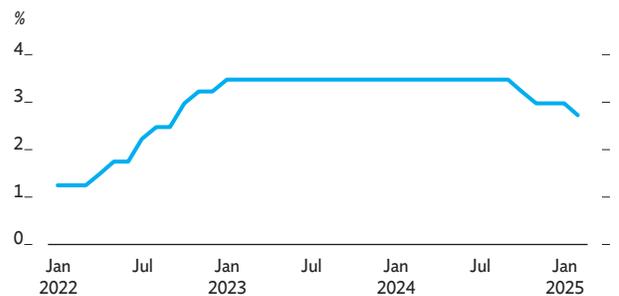
The current account surplus should narrow as domestic demand gradually recovers. Imports are expected to rise as domestic demand picks up in the second half of the year, while export growth moderates. In addition, the services deficit will likely widen as an increase in outbound travelers to the PRC is anticipated following implementation of a visa-free policy.

Inflation is expected to remain low and stable. While headline inflation rose to 2.2% in January 2025, driven by higher oil prices and a weaker won, it dropped to 2.0% in February on stable food and energy prices. Core inflation remained steady, averaging 1.9% for the first 2 months of the year. Inflation is projected to

average 1.9% in 2025 and 2026, down from 2.3% in 2024, as global oil prices fall and subdued domestic demand keeps prices in check. After holding the policy rate steady at 3.00% in January 2025 amid heightened exchange rate volatility, the central bank lowered the rate by 25 basis points to 2.75% on 25 February 2025 to support growth as inflation stabilizes (Figure 2.11.7).

Figure 2.11.7 Policy Rates

The central bank begins monetary easing as inflation stabilizes.



Source: CEIC Data Company.

Several downside risks continue to cloud the outlook. Global trade tensions and geopolitical uncertainties, including changes in US economic policies, could undermine growth prospects. The rise of trade protectionism and potential shifts in US trade policy may disrupt supply chains and impact global demand, posing risks to export growth both this year and next. Domestically, the weak property market and prolonged political uncertainty will dampen market sentiment. On the upside, growth could exceed expectations if exports prove more resilient and domestic demand recovers faster than expected.

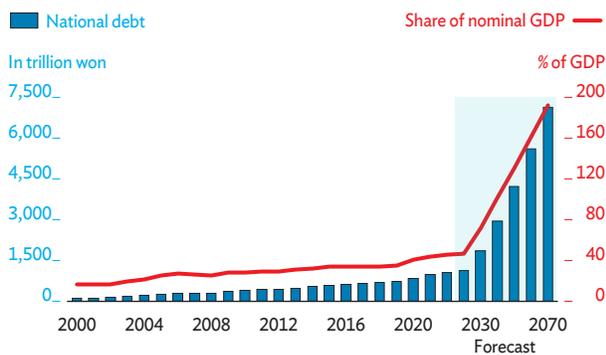
Policy Challenge—Ensuring Long-Term Fiscal Sustainability

Rapid aging and low fertility rates are increasing fiscal pressures, raising concerns about long-term fiscal sustainability. According to data from the Korean Statistical Information Service, national (or public sector) debt as a share of GDP nearly tripled from 16.5% in 2000 to 46.9% in 2023. This steep rise was driven by several factors, including increased government spending on stimulus and welfare during the coronavirus disease pandemic, along with a weak

economy and declining tax revenues, which have led to higher borrowing in recent years. While the national debt remains low compared to other Organisation for Economic Co-operation and Development countries, the growing challenges posed by population aging and low fertility rates are expected to intensify pressure on public spending, particularly on healthcare and pensions. A 2022 report by the National Assembly Budget Office projected that, should current revenue and expenditure trends continue, national debt could rise to W7,137.6 trillion, or 192.6% of GDP, by 2070 on the cumulative effect of fiscal deficits (Figure 2.11.8). In addition, a 2023 report by the budget office estimates that the National Pension will be depleted by 2055, while the Private Teachers Pension will be exhausted by 2043, significantly reducing fiscal space.

Figure 2.11.8 National Debt

National debt as a share of nominal GDP is projected to increase sharply.



GDP = gross domestic product.

Note: National debt consists of national government debt, borrowing, the national treasury debt burden, and local government debt.

Source: Korean Statistical Information Service, National Assembly Budget Office.

To address these challenges, the government has proposed a fiscal rule aimed at more prudent public finance management. In 2022, the government introduced a plan to cap the fiscal deficit at 3% of GDP, or 2% if national debt exceeds 60% of GDP, with provisions for escape clauses in case of major shocks. While the bill is still pending, the 2025 budget proposal outlines a strategy to reduce the fiscal deficit to 3% of GDP starting in 2025, with the goal of keeping government debt around 50% of GDP by 2028. However, implementing the fiscal rule could prove difficult without accompanying reforms. Raising taxes, particularly the value-added tax—which

at 10% is relatively low compared to other advanced economies—could face significant public resistance, especially given weak consumption. Other tax reforms, such as adjustments to income or corporate taxes, may be needed to broaden the tax base. Pension reforms should be evaluated for ensuring a sustainable social security system. This would potentially involve introducing flexibility in the retirement age, adjusting benefits, and exploring alternative funding mechanisms to address fiscal pressures from an aging population. Also, the government will need to carefully consider the long-term social and economic impact, such as the effect on lower-income households, to ensure that fiscal consolidation does not disproportionately affect the vulnerable population. Measures like progressive taxation and targeted social safety nets may be needed to alleviate these burdens. Without a balanced approach that includes targeted reforms in public spending, tax policy, and efforts to stimulate economic growth—such as fostering innovation and increasing domestic investment—the success of the proposed fiscal rule may be at risk. However, fiscal policy must also carefully balance its countercyclical role in stimulating the economy during downturns with ensuring long-term fiscal sustainability.

The long-term structural issues posed by Republic of Korea’s aging population and declining fertility rate must be urgently addressed. While the fertility rate improved slightly to 0.75 in 2024 from a record low of 0.72 in 2023—still the world’s lowest—the working-age population is still expected to shrink. This demographic shift could limit the size of the labor force, reduce productivity and tax revenue, and further strain fiscal sustainability. Addressing these issues requires efforts to both increase the labor supply and support a more inclusive workforce. For example, efforts should focus on potentially extending the retirement age to retain older workers, encouraging greater participation from women and youth, and expanding the government’s “Youth Employment All-Care Platform” to support college graduates and boost youth employment. In addition, measures such as extending parental leave and enhancing childcare facilities, particularly for small and medium-sized enterprises, should be strengthened to enhance the work environment and encourage higher workforce participation. For further insights and recommendations, see the Asian Development Bank’s report on *Aging Well in Asia*.

MONGOLIA

Economic growth was robust in 2024, inflation moderated, and the current account moved into deficit. Mining will drive growth in 2025 and 2026, while agriculture should recover assuming normal weather conditions. Inflation is projected to rise above the central bank's target in 2025 on domestic demand pressures before moderating slightly in 2026. Effective state-owned enterprise (SOE) reform is essential to reduce fiscal risk and create a more competitive business environment.

Economic Performance

Supported by an expansion in mining and services, GDP grew by 4.9% in 2024, down from 7.4% in 2023 (Figure 2.12.1). Driven by higher production

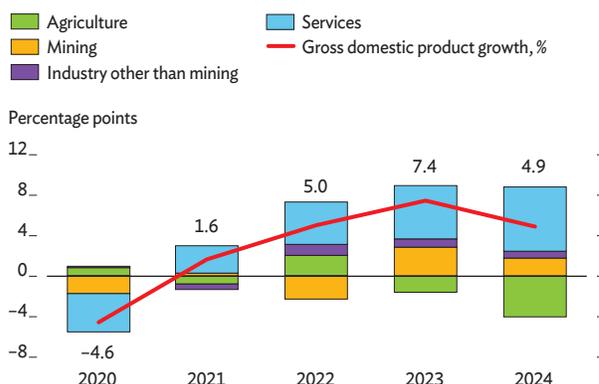
of coal, copper concentrate, and iron ore, mining expanded by 10.8%, contributing 1.4 percentage points to growth, and accounting for most of the industry sector's 1.7-point contribution. Copper concentrate production at the Oyu Tolgoi mine grew by 28% in 2024. Coal production expanded in line with the 20% rise in coal exports, driven by sustained demand from the People's Republic of China (PRC) and Mongolia's competitive pricing. Services expanded by 9.8%, contributing 4.8 points to GDP growth, led by transportation and storage services which expanded by 23.1%. However, agriculture contracted by 28.7%, deducting 3.6 points from growth, due to severe winter conditions that killed nearly 10 million livestock, or more than 14% of the country's total herd.

Growth was driven by robust domestic demand but constrained by a drop in net exports (Figure 2.12.2). Household consumption expanded by

12.9%, contributing 8.6 percentage points to growth, while government consumption surged by 18.3% on rising salaries and pensions, adding another 3.5 points. Investment activity was particularly strong in both public and private sectors, with gross capital formation rising by 22.2% and contributing 9.3 percentage points to GDP growth. However, net exports detracted 16.4 points from growth as imports jumped by 17.7% while exports grew by just 0.7% in real terms.

Figure 2.12.1 Supply-Side Contributions to Growth

Mining and services drove 2024 GDP growth, but agriculture fell sharply.



GDP = gross domestic product.

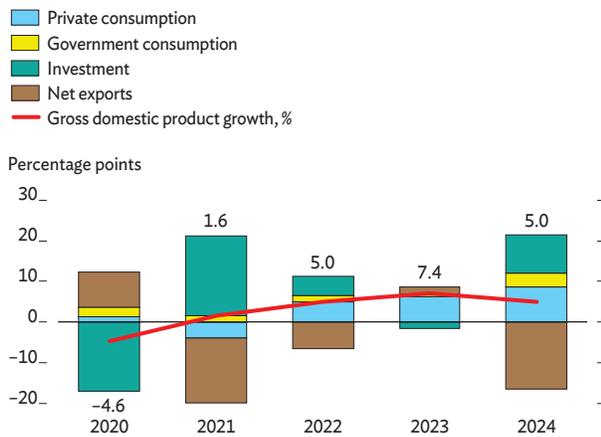
Sources: National Statistics Office of Mongolia. Statistical Information Services; Asian Development Bank estimates.

Average consumer price inflation was 6.8% in 2024, down from 10.3% a year earlier (Figure 2.12.3).

Inflation eased during most of 2024 with a stable exchange rate and reduced imported inflation. However, inflationary pressures remained high due to increased government expenditure, a buoyant economy, and monetary policy easing, as the central bank gradually cut the policy rate from 13% in 2023 to 10% in September 2024. Inflation jumped in the last quarter of 2024, reaching 9.0% in December year on year, surpassing the central bank's upper 8% target. An energy tariff increase in November drove inflation up.

Figure 2.12.2 Demand-Side Contributions to Growth

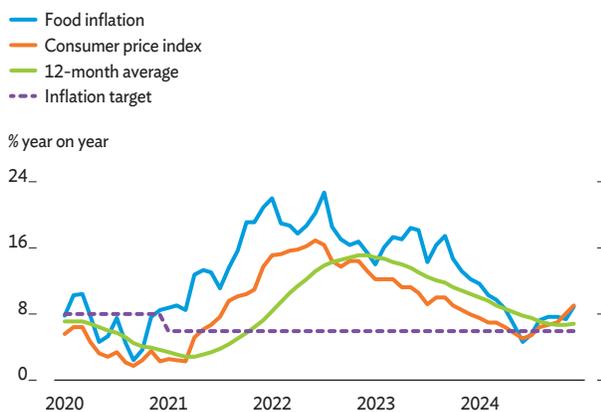
Strong domestic demand was countered by a significant drop in net exports.



Notes: The GDP growth figure in the demand-side analysis may differ slightly from production-side calculations due to statistical discrepancies.
Sources: National Statistics Office of Mongolia. Statistical Information Services; Asian Development Bank estimates.

Figure 2.12.3 Inflation

Inflation eased in 2024 but spiked late in the year due to increased energy tariffs.



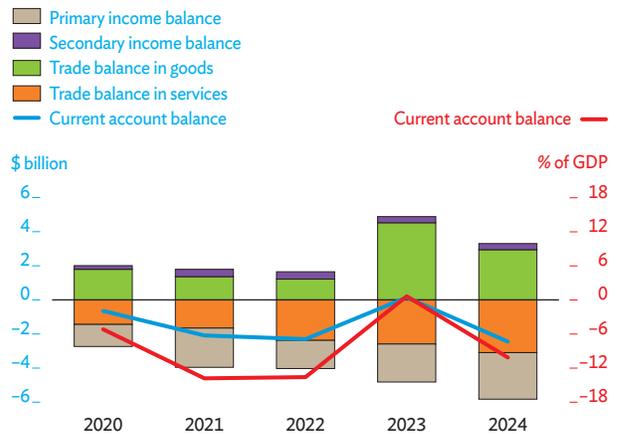
Sources: National Statistics Office of Mongolia. Statistical Information Services; Parliament Resolutions on Monetary Policy Guidelines, 2015–2022; Asian Development Bank estimates.

The current account balance shifted from a surplus of 0.6% of GDP in 2023 to a 9.3% deficit in 2024 (Figure 2.12.4).

The large deterioration was driven by a sharp reduction in the trade surplus and widening services deficit. Although coal export volume increased by 20% in 2024, lower coal prices resulted in coal export revenue declining by 2.3% compared to 2023, narrowing the trade surplus. Nevertheless, foreign exchange reserves rose by \$588 million to \$5.5 billion by end-2024, covering 4 months of goods and services imports, as foreign direct investment inflows increased

Figure 2.12.4 Current Account Balance

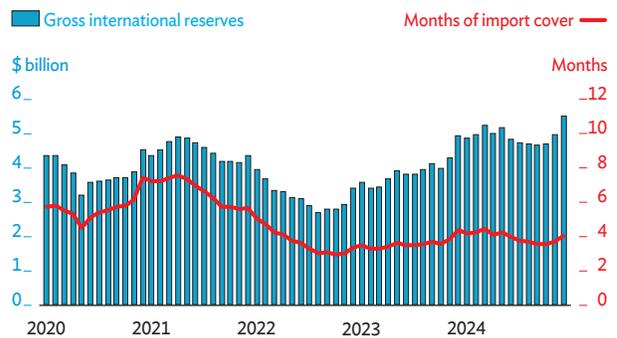
The current account fell back into deficit as the trade surplus narrowed.



GDP = gross domestic product.
Sources: Bank of Mongolia. Balance of payments statistics; Asian Development Bank estimates.

Figure 2.12.5 Gross International Reserves

Foreign exchange reserves rose to \$5.5 billion by year-end, covering 4 months of imports.



Sources: Bank of Mongolia. External sector statistics; Asian Development Bank estimates.

by 16% (Figure 2.12.5). The exchange rate remained relatively stable, with the togrog slightly appreciating against the US dollar by year-end as the central bank intervened in the foreign exchange market to maintain currency stability (Figure 2.12.6).

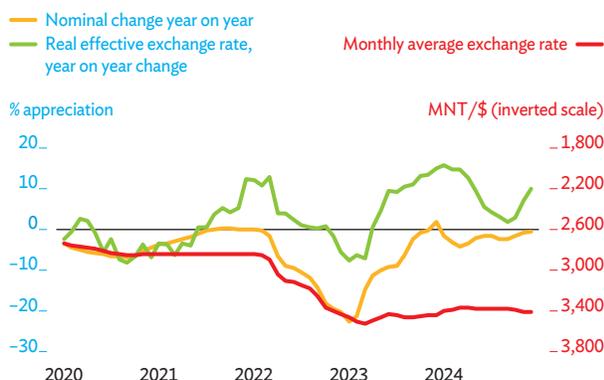
The fiscal surplus narrowed from 2.7% of GDP in 2023 to 1.3% in 2024 (Figure 2.12.7).

Total budget revenue increased by 28.7%, reaching 39.3% of GDP, driven primarily by higher tax revenues in line with economic growth and increased mining activity. Government expenditure increased by 34.9% to 38.0% of GDP, led by wages and pensions, which accounted for 38.6% of the total increase, and capital outlays which represented 34.8% of overall expenditure growth.

Broad money supply (M2) increased by 15.2% in 2024 (Figure 2.12.8). Outstanding credit surged by 35.5% in 2024. The share of nonperforming loans fell to 5.1% of total loans from 7.5% in 2023, partly on higher loan growth. Concerned about overheating risks and rising inflationary pressures, the central bank tightened monetary policy in the last quarter by raising reserve requirements on bank deposits.

Figure 2.12.6 Exchange Rate

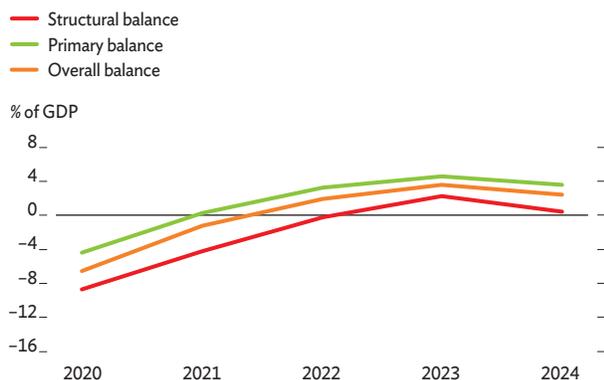
The togrog remained stable with a slight nominal appreciation by year-end.



Sources: Bank of Mongolia. Monthly Statistical Bulletin; Asian Development Bank estimates.

Figure 2.12.7 Government Budget

The fiscal surplus narrowed as spending increased.



GDP = gross domestic product.

Notes: The primary balance is the gap between revenue and expenditure, adjusted by interest expenditure. The structural balance is the gap between expenditure and the revenues, excluding funds allocated to Mongolia’s savings funds.

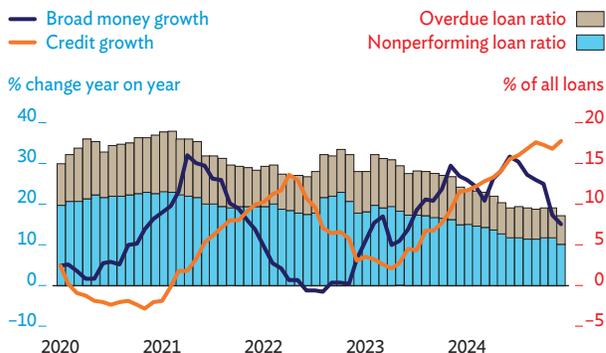
Sources: National Statistics Office of Mongolia. Statistical Information Services; Parliament resolutions on government budget, 2015–2022; Asian Development Bank estimates.

Economic Prospects

GDP growth is forecast to rise by 6.6% in 2025 before moderating to 5.9% in 2026 (Table 2.12.1). Services will remain the largest contributor to growth adding 3.0 percentage points in 2025 and 2.4 points in 2026. Growth in services will be driven by rising domestic demand, spillover effects from increased mining, and a rural economic recovery. Mining will also be a primary driver of growth, particularly with the expected increase in Oyu Tolgoi copper concentrate production. Output should more than double by 2027, pushing industry’s overall contribution to growth to 1.9 points in 2025 and 1.6 points in 2026. Agriculture is projected to recover, as herd sizes rebuild and weather conditions improve following severe livestock losses during the winters of 2023 and 2024. Agriculture’s contribution to GDP growth will remain small at 0.5 points in 2025 before rising to 0.7 points in 2026 as herd sizes will likely recovery more after 1 year.

Figure 2.12.8 Money and Credit

Credit growth surged in 2024, while nonperforming loans fell to 5.1%.



Sources: Bank of Mongolia. Monthly Statistical Bulletin and Banking Sector Consolidated Balance Sheet; Asian Development Bank estimates.

Growth will be driven by sustained consumption, robust investment, and exports. Consumption will be supported by rising real wages, improved rural incomes from a recovery in agriculture, and spillover effects from strong economic activity elsewhere. However, the impact of fiscal spending will be moderate, as the budget is set to increase by 10.2% in 2025 and 3.8% in 2026. Investment growth will be supported by both public and private spending. The government’s 2024–2028 development plan emphasizes large-scale infrastructure projects. These include major cross-border transportation projects

Table 2.12.1 Selected Economic Indicators, %

Growth will remain robust, while inflation is projected to rise in 2025 before easing in 2026.

	2023	2024	2025	2026
GDP growth	7.4	4.9	6.6	5.9
Inflation	10.3	6.8	9.1	7.0

GDP = gross domestic product.

Sources: National Statistics Office of Mongolia. Statistical Information Services; Asian Development Bank estimates.

to improve mineral export capacity, likely financed off-budget by SOEs, private sector financed power generation projects, and additional investments financed from the budget. In mining, a new uranium project is expected to begin development, while the Oyu Tolgoi underground mine will require sustained capital expenditure. Net exports should positively contribute to growth in 2025, supported by higher copper output. But it will turn negative in 2026 as infrastructure-related imports increase.

The current account deficit is expected to narrow.

Exports will grow primarily due to higher copper production volumes as the Oyu Tolgoi underground mine reaches full capacity. Stable copper prices will also help. However, coal export revenues could decline if prices fall or PRC demand for coking coal weakens. Import growth will remain robust driven by capital equipment and materials needed for investment projects. However, the trade balance will remain in surplus throughout the forecast period. Services trade will remain in deficit as services imports related to mining operations and interest payments to foreign investors increase along with profit repatriation.

Inflation is projected to reach 9.1% in 2025 before easing to 7.0% in 2026. Inflation will be driven by the November 2024 energy tariff hikes, bus fare increases in February 2025, and higher meat prices partly due to supply constraints following consecutive years of livestock losses. Inflationary pressures will remain high due to strong domestic demand and exchange rate depreciation. Despite the central bank's policy rate increase from 10% to 12% in March 2025, inflation is projected to remain above the lower bound of the central bank's 6% target in both years. Slightly lower GDP growth in 2026, the gradual fading of price effects

from earlier energy tariff adjustments, and the lagged effect of monetary tightening in late 2024 will tamp down inflation in 2026. The central bank is expected to maintain its relatively tight monetary stance to bring inflation gradually back to the target level within the forecast period.

Despite the positive outlook, the economy remains vulnerable to several downside risks.

A sharper decline in commodity prices, along with any significant deterioration in global demand or escalating trade conflicts could reduce both mineral export volume and revenue, creating pressure on the balance of payments and exchange rate. Ongoing climate-related risks affecting agriculture could undermine its recovery, cause increased volatility in food prices, and threaten rural livelihoods. On the domestic front, higher-than-expected inflation could prompt more aggressive monetary tightening, potentially reducing consumption and investment growth. Mongolia's narrow production base and vulnerability to external shocks can cause actual revenue and expenditure to diverge from budget targets, affecting growth and the exchange rate. Also, any delays in planned infrastructure investments or mining projects would reduce the medium-term growth outlook.

Policy Challenge—State-Owned Enterprises and Pathways to Reform

Mongolia's SOEs play a pivotal role in the economy but are inefficient. There are 460 corporations wholly or partially owned by state and local governments, of which 99 are commercial SOEs spanning diverse sectors, including banking and finance, energy, mining, and transportation. Mining is the largest, controlling 69% of all SOE assets. The state property agency's 2023 year-end financial report says 43% of SOEs operated at a loss, with over 90% of total SOE net profits generated by just five companies, including the mining holding company Erdenes Mongol. In addition, the average return on assets for SOEs was just 2.7% with the average return on equity 3.7% during 2019–2022. The returns improved significantly in 2023, largely driven by the strong performance of a few SOEs in mining and energy.

By strengthening SOE governance and performance, Mongolia can reduce fiscal risks and foster private sector participation, driving economic growth and development.

Enhancing the legal framework for SOEs is critical for better efficiency and governance. First and foremost, the legal framework should define the rationale for government ownership, explain why the state should retain full control of certain SOEs, and specify those that should be partially privatized or divested. It should outline reform principles, including criteria for maintaining or reducing state ownership. Partial privatization can make SOEs more efficient and profitable, increasing government dividends—even if it sells a minority stake. This ensures that government ownership of SOEs has purpose and aligns with broader economic and social objectives. In addition, the state’s dual role as both regulator and owner should be clearly defined and institutionally delineated to strengthen the commercial independence of SOEs.

Effective SOE laws should govern the establishment, principal objectives, and reporting standards. The government has drafted an *Improving State and Local Company Productivity, Transparency, and Governance Law*. The legislation requires SOE boards to have independent members, mandates financial disclosure, and allows the government to retain special voting rights during privatization. Underperforming

SOEs must be restructured after 3 years of consecutive losses, while all must convert to corporate structures within 1 year of enactment. The law should be strengthened by delineating rules on service delivery, ensuring that SOEs do not crowd out the private sector. They should cover conflict of interest, appointment of directors and management, and the roles and duties of government oversight bodies. The law should also require that corporate governance aligns with international standards to enhance transparency and accountability.

SOEs should have multi-year business plans that include financial and non-financial performance measures. Many SOEs operate with returns that fail to cover the cost of their operations, exacerbating fiscal risks. Technical assistance and support to SOEs should be provided to help them adopt commercial practices and improve financial performance. This includes developing robust business plans, improving corporate governance practices, and training directors. Publishing an annual consolidated government report on financial performance and investment plans of all commercial SOEs can foster public trust and informed policymaking. The report should assess progress on government ownership policy, aggregate financial performance by sector, and key financial and non-financial indicators, portfolio size and sector distribution, board composition, and budget support both for the SOE sector as a whole and for each SOE.

TAIPEI, CHINA

Strong demand for exports boosted growth in 2024, and inflation edged down. Growth is projected to moderate in 2025 and 2026, and the current account surplus should persist, but the latest trade policy developments bring substantial downside risks. In any case, inflation should moderate.

Economic Performance

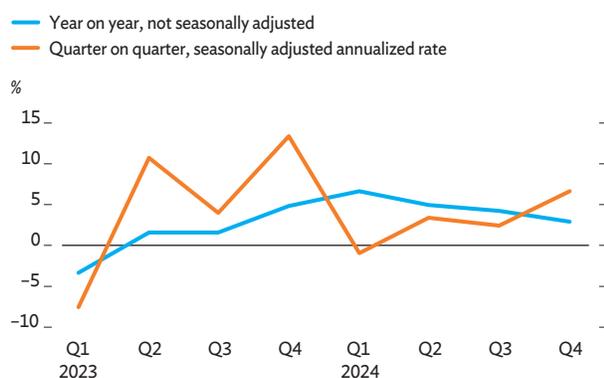
The economy grew stronger than expected in 2024, driven by exports and investment. GDP grew by 4.6%, its fastest pace in a decade, barring the post-lockdown spurt in 2021 (Figure 2.13.1). Exports boomed on robust global demand for the economy’s tech products, especially the high-end semiconductors dominated by chip designer Nvidia and manufacturer TSMC (Figure 2.13.2). Firms responded by boosting investment in machinery and inventories. After a weak start in the first quarter, gross capital formation grew by at least 15% in each of the subsequent quarters (Figure 2.13.3). For the full year, investment grew by 12.4%, the fastest since 2011, except for the jump in 2021. But because investment goods are mostly

imported, the contribution of net exports to growth was close to zero. In the absence of fiscal handouts as in 2023, private consumption reverted to its historic growth of 2.5% in 2024 from 6.0% in 2023 (Figure 2.13.4).

Inflation eased as nonfood price increases slowed. Headline inflation averaged 2.2% and core inflation (excluding food and energy), 1.9%. Slower price increases for fuel and services helped cut overall inflation, but food prices, which jumped in mid-2024

Figure 2.13.1 Gross Domestic Product Growth

As global demand for tech sped up in 2024, so did growth.

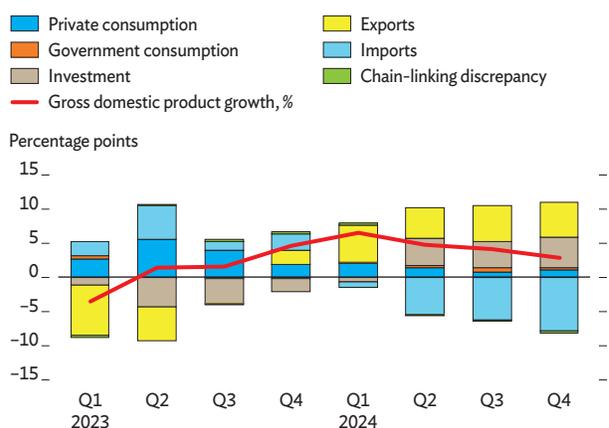


Q = quarter.

Sources: Haver Analytics; Asian Development Bank calculations.

Figure 2.13.2 Demand-Side Contributions to Growth

The investment boom was supported largely by imports.



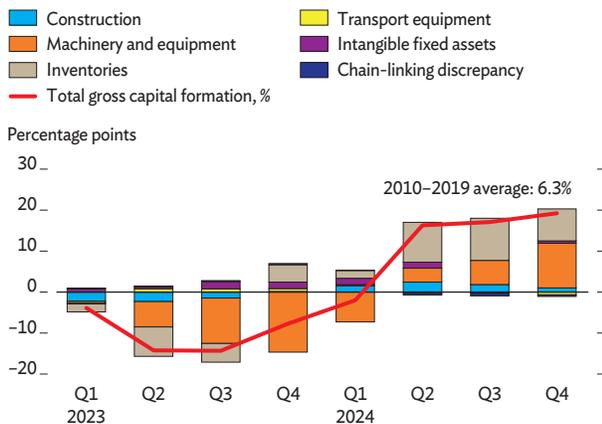
Q = quarter.

Note: The sum of contributions of components do not always add up to overall growth as an artifact of the chain-linking methodology.

Sources: Haver Analytics; Asian Development Bank calculations.

Figure 2.13.3 Contributions to Investment Growth

Tech producers bought machinery and built up inventories



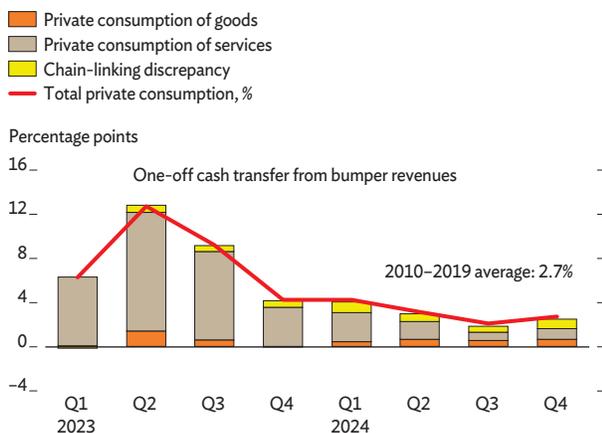
Q = quarter.

Note: The sum of contributions of components do not always add up to overall growth as an artifact of the chain-linking methodology.

Sources: Haver Analytics; Asian Development Bank calculations.

Figure 2.13.4 Contributions to Private Consumption Growth

Private consumption growth returned to its long-run pace after an unusually strong 2023.



Q = quarter.

Note: The sum of contributions of components do not always add up to overall growth as an artifact of the chain-linking methodology.

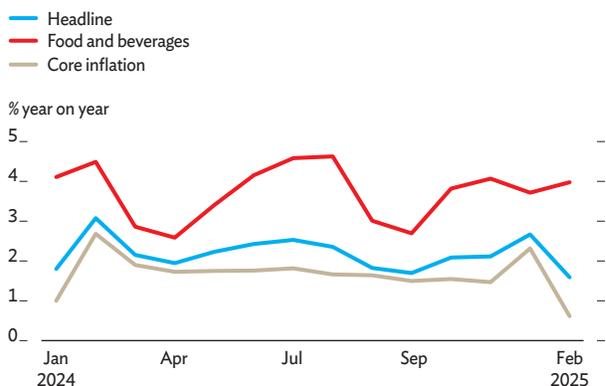
Sources: Haver Analytics; Asian Development Bank calculations.

after a spate of bad weather, remained elevated (Figure 2.13.5). The central bank, after raising the policy rate by 12.5 basis points in Mar 2024, has held it steady since as exogenous price shocks abated.

Robust growth led to a revenue windfall and an unexpected fiscal surplus. Fiscal revenue grew by 8% and was 14% higher than budgeted, mainly due to bumper corporate taxes. With expenditure about the

Figure 2.13.5 Inflation

Food prices remain high despite slowing inflation.



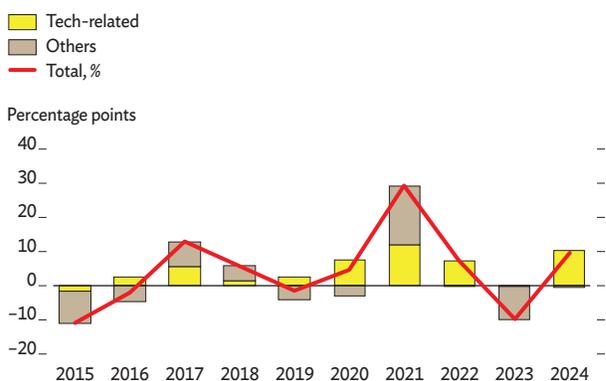
Sources: Haver Analytics; Asian Development Bank calculations.

same as budgeted, the projected fiscal deficit of 1.7% of GDP turned out to be a surplus of 0.4% of GDP. Public debt remained low at 26% of GDP.

The tech-led export boom reinforced ongoing changes in trade patterns. In 2024, while non-tech exports fell by 1%, tech exports (broadly defined as office machines, data processing machines, and parts of electronics products) grew by 20%, accounting for 57% of total exports (up from 25% in 2010) (Figure 2.13.6). Due to slowing growth in the People’s Republic of China (PRC) and the continuing relocation of Taipei,China firms to alternative production platforms like Viet Nam and Mexico, the share of the PRC and Hong Kong, China in total exports fell to 32% (from its 44% peak in 2020). In contrast, the share of the United States (US) in 2024

Figure 2.13.6 Contributions to Exports

Tech-related goods drove exports last year.



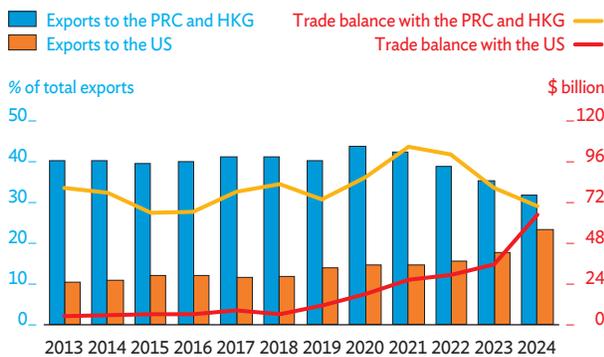
Sources: Haver Analytics; Asian Development Bank calculations.

was 23%, up from an average 15% during 2010–2020. As a result, while Taipei, China’s trade surplus with the PRC and Hong Kong, China fell from \$80 billion in 2023 to \$70 billion in 2024, its trade surplus with the US jumped from \$35 billion to \$65 billion during the same period (Figure 2.13.7). Large trade surpluses with the US, however, have contributed to trade frictions.

The current account surplus widened. The surplus climbed to 14.3% of GDP in 2024 from 14.0% in 2023 due to the large trade surplus along with the substantial profits remitted from direct investment ventures abroad. (Figure 2.13.8). Yet, the local currency depreciated by 6.6% in 2024 as the US dollar strengthened against many currencies

Figure 2.13.7 Export Shares and Trade Surpluses

Export destinations shifted from the PRC to the US.

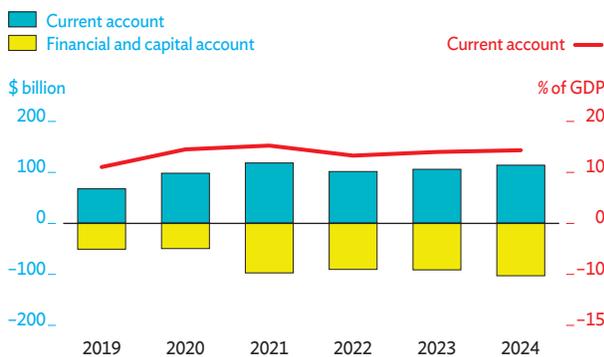


HKG = Hong Kong, China; PRC = People’s Republic of China; US = United States.

Sources: Haver Analytics; Asian Development Bank calculations.

Figure 2.13.8 Balance of Payments

Exports and profit remittances widened the current account surplus.



GDP = gross domestic product.

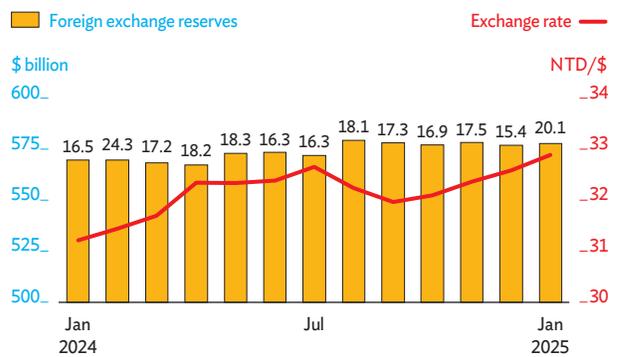
Sources: Haver Analytics; Asian Development Bank calculations.

following smaller-than-expected interest rate cuts by the US Fed. Part of the current account surplus was channeled to continuing large investments abroad (direct and portfolio), leading to reserve accumulation slowing somewhat. Nevertheless, the stock of foreign reserves remained ample at \$576 billion at the end of 2024, amounting to 20 months of imports (Figure 2.13.9).

Monetary and financial indicators remained broadly stable. Credit grew apace with the investment boom (Figure 2.13.10). The nonperforming loan ratio was just 0.1% of total loans with the average bank capital adequacy ratio healthy at 15.4%. Morgan Stanley

Figure 2.13.9 Exchange Rate and Foreign Reserves

Foreign reserves remain sufficient amid some depreciation last year.

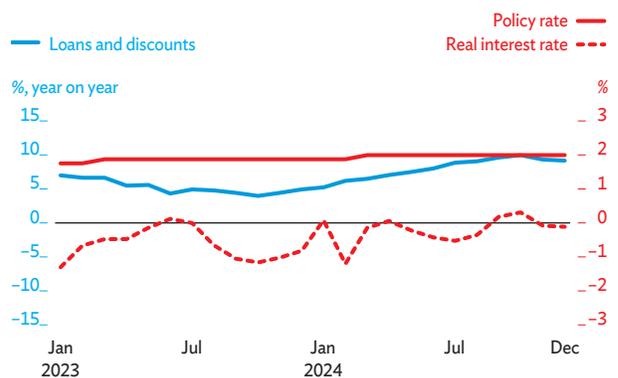


Note: The numbers above the bars refer to foreign exchange reserves in terms of months of imports.

Source: Haver Analytics.

Figure 2.13.10 Loans and Policy Rate

Credit growth accelerated in step with investment growth and low real interest rates.



Note: The real interest rate is calculated as the policy rate minus year-on-year inflation.

Sources: Haver Analytics; Asian Development Bank calculations.

Capital International announced in February 2025 that it would increase Taipei,China's weighting in three key indexes. Financial regulators are dealing with concerns over the currency mismatch faced by life insurance companies. The total assets of these companies are about 140% of GDP, of which 67% are denominated in foreign currency (chiefly US dollar bonds) while 80% of their liabilities are denominated in local currency. They are exposed to interest rate risk if the US Fed raises rates and to currency risk if the US dollar depreciates. To strengthen the life insurers, regulators have given the companies more leeway on boosting reserves and on investing in local property. Also, major life insurers have been issuing subordinated bonds to shore up their capital.

Economic Prospects

In the near term, growth critically depends on sustaining exports, but downside risks abound. Trade policy tensions have risen and are likely to continue doing so. US trade barriers now target countries like Viet Nam and Mexico, where Taipei,China firms transit or reprocess exports and also directly target Taipei,China. Moreover, the PRC, a major market, is projected to grow by 4.7% in 2025, with downside risks due to trade tensions. Geopolitical tensions also remain high. Nevertheless, the economy's underlying strength—and nimble policies—should enable it to cope with these risks. The authorities and firms will likely adopt measures to avert or ease the worst effects of trade barriers, including through increasing imports from the US and directly investing there or relocating to countries whose new US tariffs are not that high.

The economy is projected to grow by 3.3% in 2025, moderating to 3.0% in 2026, supported both years by exports (Table 2.13.1). Global demand for high-end chips is expected to remain strong, with the global tech giants intending to spend at least \$500 billion in 2025 on increasing their AI capacity, initially for training but increasingly for inference. US tariffs could directly target high-end chips, but demand is quite inelastic because of their essential role in AI development. In contrast, exports of “mature chips,” a smaller share of chip exports, will likely remain weak amid growing uncertainty over global trade due

Table 2.13.1 Selected Economic Indicators, %

Both growth and inflation will moderate this year and next.

	2023	2024	2025	2026
GDP growth	1.1	4.6	3.3	3.0
Inflation	2.5	2.2	2.0	1.8

GDP = gross domestic product.

Source: Asian Development Bank estimates.

to US tariffs and subsequent retaliatory measures. Therefore, real export growth should be about 8.8%. And with import growth slowing from 11.5% to 10.0% as restocking eases, net exports will add about 0.5 percentage points to GDP growth. In nominal terms, the current account surplus is projected to be about 10% of GDP in both years.

Domestic demand is expected to provide only modest support to growth. Export growth will boost corporate profits and worker earnings, stimulating household spending. Purchasing power will also be supported as food price shocks wane, helping ease inflation to 2.0% this year and 1.8% in 2026. However, economic maturity, population aging, and the absence of fiscal stimuli will limit private consumption growth to 2.5% this year before edging down to 2.1% in 2026. Investment in equipment should grow at about the same pace as in 2024, but last year's large buildup of inventories will no longer hold as stocks are used to produce final export products, halving overall investment growth to about 5%.

Over the long term, growth prospects will depend on sustaining productivity growth and fostering new sectors. With the population aging, higher labor productivity will be essential to substitute for slower growth of labor inputs. Although the economy continues to dominate high-end chips, the launch of DeepSeek shows that PRC firms are steadily moving up the value ladder. Taipei,China's firms will therefore need to continuously upgrade the sophistication of their existing products and develop new ones. Authorities are eyeing several new growth drivers: AI, drones, healthcare, and energy. Although Taipei,China's infrastructure is adequate for sustaining growth, there are concerns that the stock of high-skilled talent is not growing fast enough, as young people are turning away from STEM education.

Policy Challenge—Increasing Disaster Resilience

Taipei, China is increasingly vulnerable to natural hazards. In 2024, there were 653 earthquakes of magnitude 4 or higher. Typhoons destroyed crops and caused severe flooding in several regions, while droughts are becoming more frequent. Earthquakes remain a concern. The frequency and severity of climate events will increase without sufficient adaptation measures.

The economy’s physical vulnerability poses risks to growth and global supply chains. Taipei, China supplies about 90% of the global demand for high-tech chips and disruptions to its supply chains would be felt globally. Domestically, farm damage is an immediate concern. In 2024, Typhoon Gaemi caused losses of over \$86 million in crop, livestock and fish production. The resulting food price spikes stoked inflation. Semiconductor production also faces significant risks as these processes require substantial water resources. Growing global demand for high-tech chips will require increasing water retention facilities to cope with the progressively volatile water supply.

The government and the private sector have plans to address these challenges. In October 2023, the government released an adaptation action plan that complements its ongoing efforts to achieve net zero by 2050. The action plan consists of 126 projects worth NT\$411.6 billion, covering infrastructure, water, land use, oceans and coasts, energy supply, agricultural production, and health. The private sector is also taking action. For example, TSMC continually upgrades its fabrication facilities, currently able to withstand magnitude 7 earthquakes. Encouragingly, the National Development Plan 2025–2028 has listed both industry development and promoting green growth as key objectives, suggesting a balanced approach over the medium term.

Achieving net zero while sustaining industry-led growth will require agile and coordinated policymaking. Coordination across these two development priorities should be reinforced.

Manufacturing processes are energy-intensive, and the rapid expansion in production capacity is potentially at odds with the goal of achieving net zero emissions by 2050. The astronomical rise in the demand for AI is changing the production landscape. AI servers and related products account for an increasing share of total exports, up to 32% compared to 25% a year ago. The government budget allocated for projects aimed at strengthening the AI increased by 134% to NT\$7.4 billion from NT\$3.2 billion, signaling a strong commitment to developing highly resource-intensive AI production and capability. At the same time, renewable energy currently accounts for just 5% of energy generation, while coal and natural gas still produce about 80%. More investment in renewable energy and facilitating its use is needed so industry’s rapid expansion does not jeopardize the net zero target. This apparent contradiction was heightened when the intermediate 2030 target for greenhouse gas emissions grew more ambitious, increasing from a 24% to 28% reduction from the 2005 baseline. Any acceleration in policy support for industry should be met with a commensurate recalibration of green growth strategies. Renewable energy should be prioritized and considered to be added among the “five trusted industry sectors” to encourage investments that shift the energy mix toward renewables. Measures should ensure that shifting toward more expensive renewable energy does not deter private investment. The National Development Plan establishes technical guidance teams to help industry cope with changing environmental regulations. But it does not explicitly recognize that the rapidly changing needs and expected investment in industry could affect environmental goals. It is critical that this linkage is drawn in the strategy document so that policies can be balanced accordingly. Finally, it is important that adaptation efforts are renewed and bolstered by extending the adaptation action plan that will end next year.



Afghanistan

Bangladesh

Bhutan

India

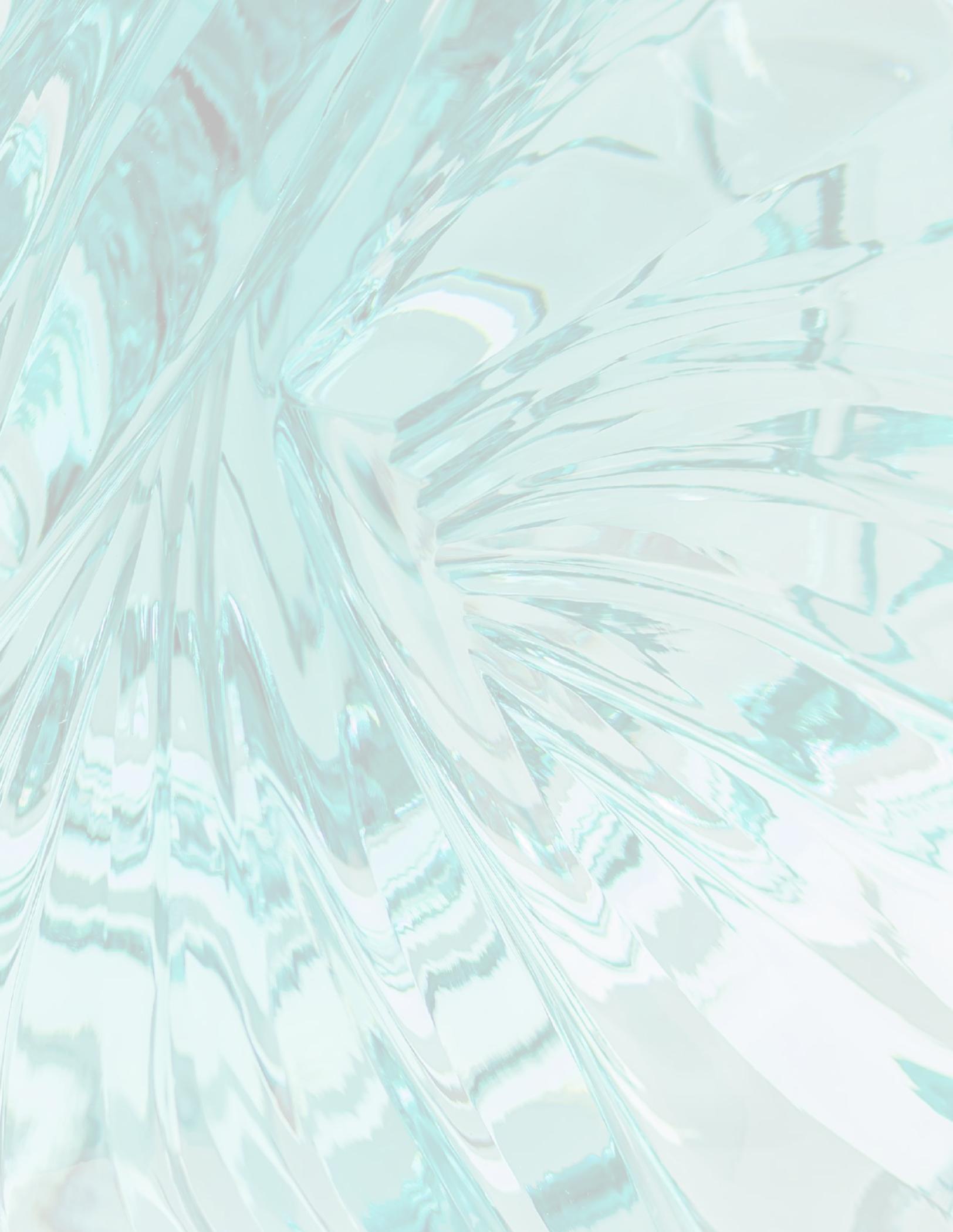
Maldives

Nepal

Pakistan

Sri Lanka

SOUTH ASIA



AFGHANISTAN

Higher private consumption and sustained humanitarian assistance restored growth in fiscal year 2024 (FY2024, ended 20 March 2024). Prices decreased as the currency strengthened and import prices declined. However, the outlook is uncertain because of persistent challenges: a high trade deficit, declining investment, subdued economic demand, and political isolation. Modest growth is expected in FY2025 and FY2026, with recent currency depreciation reviving inflation. Harnessing renewable energy can enhance the country's energy security and boost economic activity.

Economic Performance

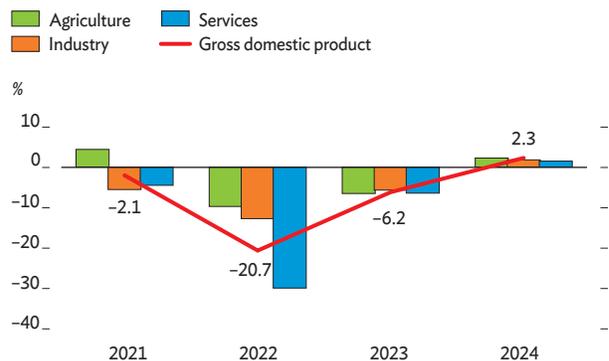
The economy showed signs of recovery with growth at 2.3% in FY2024, following 3 consecutive years of economic contraction (Figure 2.14.1).

Growth came mainly from a 6.8% rise in private consumption, reflecting higher remittances from the Afghan diaspora and international humanitarian support. In addition, the de facto government raised expenditure by 0.7%, reflecting efforts to stabilize the economy amid ongoing challenges. However, gross fixed capital formation declined by 5.7%, with a 10.5% drop in private sector investment. This highlighted the continuing struggle to secure funds for vital infrastructure projects.

On the supply side, agriculture, industry, and services all recorded modest growth. Agriculture, providing 36% of GDP, grew by 2.2%, reversing a 6.6% drop in FY2023 and reflecting favorable weather and crop diversification following a drug ban in 2022. Opium production revived by 30.0% but remained much lower than before the ban. Industry grew by 1.8%, primarily from 5.7% expansion in mining and quarrying, despite delays in starting several new contracts. Services, providing nearly 46.4% of the economy, rebounded from 6.5% contraction to achieve 1.5% growth, led by trade, transportation, and vehicle repair. Within services, however, education contracted

Figure 2.14.1 Supply-Side Growth

Growth rebounded in FY2024 after 3 consecutive years of contraction.



Note: Years are fiscal years ending 20 March of that year.

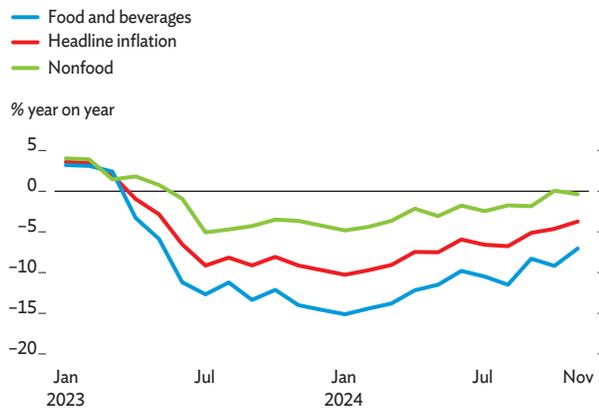
Source: De facto National Statistics and Information Authority.

by 9.2% and health by 3.5%, reflecting a ban on female education, a brain drain, and restrictions on medical licenses for female graduates.

Inflation turned negative because of currency appreciation and subdued demand. In FY2024, annual inflation dropped from 10.6% to -7.7%, with food prices declining by 11.8% and prices for other items falling by 3.0% (Figure 2.14.2). Deflation resulted as the afghani strengthened, reducing import prices; demand was subdued; and supply chains suffered fewer

Figure 2.14.2 Inflation

Inflation turned negative in FY2024 as prices for food and other items declined.



Source: Official statistics from national and international institutions.

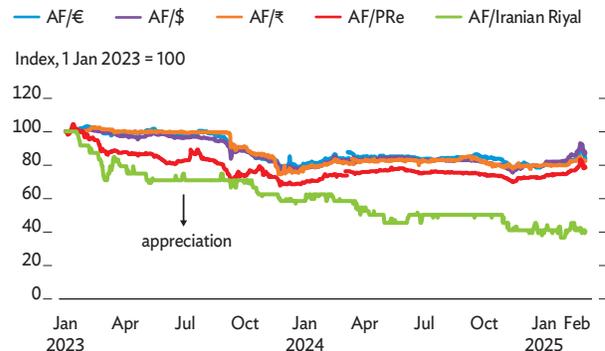
disruptions. The appreciation of the afghani against key currencies, including the Pakistan rupee, Iranian riyal, and US dollar, contributed to lower domestic prices, as imports play a dominant role in the economy (Figure 2.14.3). Monetary policy continued to have little effect on prices.

The merchandise trade deficit widened to 36.6% of GDP, reflecting currency appreciation and lower demand for minerals (Figure 2.14.4). In FY2024, exports dropped by 3.5% to \$1.8 billion, mainly from reduced demand for Afghan coal in Pakistan and stagnant agricultural exports affected by currency appreciation. Merchandise imports increased by 13.5% to \$8.0 billion. This reflected a 112.5% rise in intermediate goods and a 36.8% rise in consumer goods, fueled by private consumption, with Pakistan and Iran remaining Afghanistan’s largest import suppliers. The overall trade deficit in goods and services remained substantial at 42.4% of GDP, with imports rising by 12.1% and exports remaining stable.

The fiscal deficit expanded to AF18.4 billion (1.4% of GDP), requiring a drawdown of savings accumulated from earlier fiscal underspending. This came despite higher revenue collection in FY2024 thanks to improved tax compliance and one-time revenue measures, which enabled the de facto government to meet its revenue target to collect AF210.7 billion (15.6% of GDP), a 9% increase from the previous year (Figure 2.14.5). Inland tax revenue rose by 31%, reaching AF72.2 billion, while

Figure 2.14.3 Exchange Rates

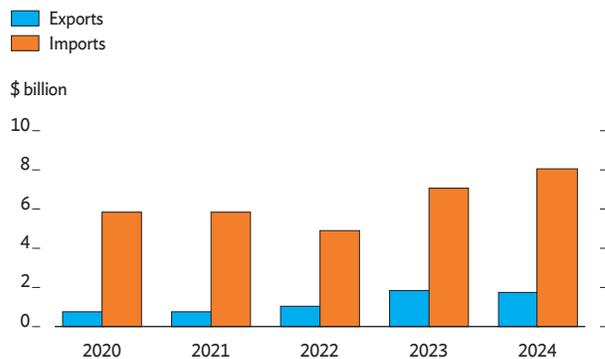
The afghani appreciated against most major partner currencies during FY2024.



Source: Official statistics from national and international institutions.

Figure 2.14.4 Merchandise Trade Developments

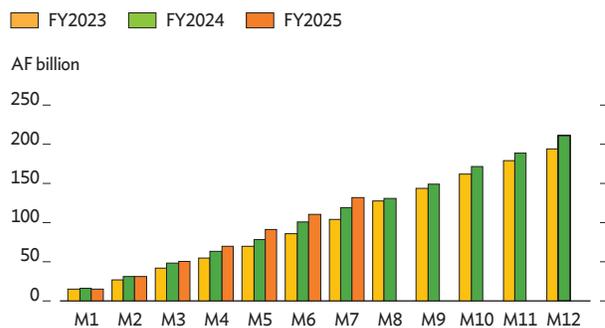
Exports declined and imports rose in FY2024, widening the merchandise trade deficit.



Source: Official statistics from national and international institutions.

Figure 2.14.5 Revenue Collection

Revenue collection increased consistently throughout FY2024.



M = month.

Note: Years are fiscal years ending on 20 March of that year. M1 is 21 March–20 April.

Source: Official statistics from national and international institutions.

customs revenue decreased by 16% due to afghani appreciation. However, total expenditure rose to AF229.2 billion (17.0% of GDP), with AF211.6 billion allocated to operating expenses. The de facto government struggled to finance large infrastructure projects, as only 7.2% of revenue was designated for development expenditure.

Economic Prospects

Afghanistan’s economic outlook remains uncertain, marked by stagnation. Prevailing economic and policy uncertainty—coupled with low human capital, inadequate spending by the de facto government, and policies that restrict women’s education and employment—significantly weakens spending and investment, raises business costs, and constrains productivity and innovation. Uncertainty about the flow and magnitude of humanitarian assistance to Afghanistan also poses a significant risk. Collectively, these factors create a challenging environment, fostering stagnation, unemployment, and instability.

The economy is projected to grow moderately, by 2.6% in FY2025 and slowing slightly to 2.2% in FY2026 (Table 2.14.1 and Figure 2.14.6). On the supply side, agriculture is anticipated to be the primary growth driver. Wheat planting in FY2024 for harvest in FY2025 benefited from improved water availability via precipitation and soil moisture. However, below-average precipitation is expected in most parts of the country in the next crop year, potentially restricting planting to irrigated areas. A rise in imports of raw materials and industrial supplies and investment in mining indicate expansion in industry and services in FY2025. However, structural problems such as constraints on international payments, access to finance, and

Table 2.14.1 Selected Economic Indicators, %

Growth will rise before slowing, with inflation turning positive by FY2026.

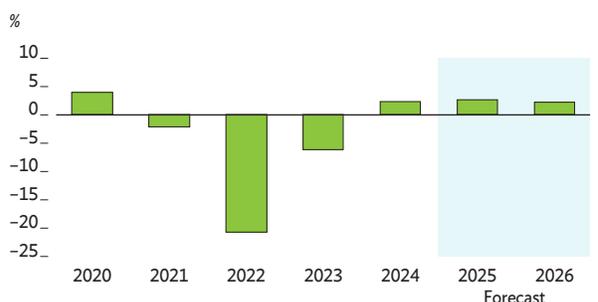
	2023	2024	2025	2026
GDP growth	-6.2	2.3	2.6	2.2
Inflation	10.6	-7.7	-5.3	5.0

GDP = gross domestic product.

Source: Asian Development Bank estimates.

Figure 2.14.6 Gross Domestic Product Growth Forecast

Growth will accelerate in FY2025 and moderate in FY2026.



Note: Years are fiscal years ending 20 March of that year.

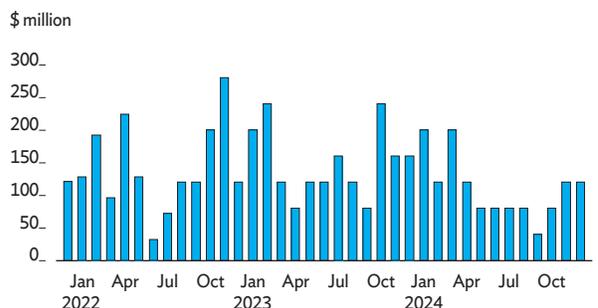
Source: Asian Development Bank estimates.

banking could dampen this expansion. Any potential reduction in international humanitarian assistance could also weigh on industry and services.

On the demand side, private consumption will be the leading growth driver. Remittance inflows have risen steadily since regime change in August 2021, and an expected further increase is likely to benefit private consumption in FY2025. However, Afghans have been relying heavily on their savings to cover basic needs and will significantly deplete household savings by FY2026. Furthermore, the decrease in humanitarian assistance, including the USD cash shipment for humanitarian purposes and the suspension of US Aid, is anticipated to impact the economy, disrupt essential services, and cause macroeconomic instability (Figure 2.14.7). These factors are likely to slow private consumption, undermining growth. Moreover, without adequate investment in infrastructure or private production

Figure 2.14.7 US Dollar Cash Shipments for Humanitarian Purposes

US dollar cash shipments have generally been lower since April 2024.



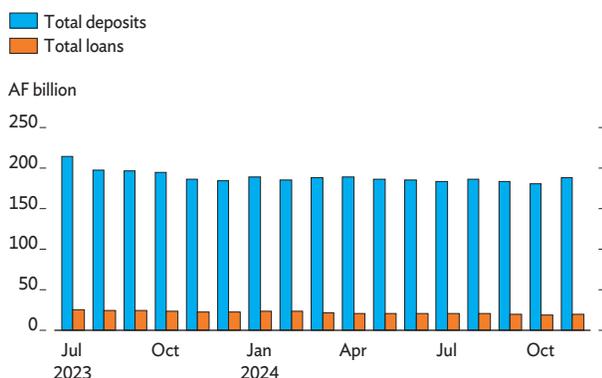
Source: Official Statistics from national and international institutions.

capacity, consumption-led growth poses significant risks and challenges for sustainable economic well-being over the long term.

Afghanistan’s finance sector will face considerable strain in FY2025 and FY2026. The formal banking sector will remain subdued due to international sanctions, a mandatory transition to Islamic banking, and contractions in assets and deposits (Figure 2.14.8). From July 2023 to November 2024, total deposits fell by 12.2%, with foreign currency deposits falling by 24.4%, while afghani deposits rose by 11.3%. Loans fell by 23.0%, and nonperforming loans increased. These trends will likely continue, weakening bank profitability and balance sheets. Moreover, the mandatory transition to Islamic finance will limit new loans, negatively affecting trade, investment, business activity, and cash flows, especially for small and medium-sized enterprises.

Figure 2.14.8 Developments in Deposits and Credit

During much of FY2024, both deposits and total loans declined.

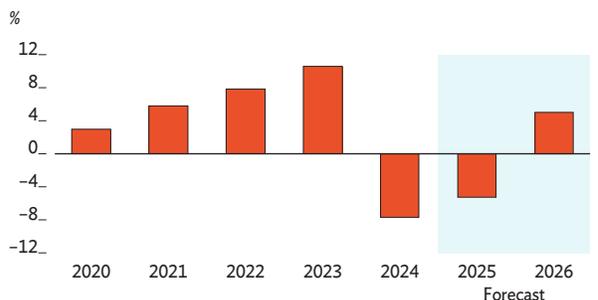


Source: Official statistics from national and international institutions.

Deflation was expected to reverse in the fourth quarter of FY2025, with inflation stabilizing at approximately 5.0% in FY2026. Deflation gradually diminished in the latter half of FY2025, reaching 3.7% in November 2024, significantly below its peak of 12.1% in February 2024. Marked depreciation of the afghani in January 2025 and a modest pickup in domestic demand were projected to turn inflation positive, in the lower single digits, in the fourth quarter of FY2025. In FY2026, widening current account and fiscal deficits, subdued agricultural production, and exchange rate pressures are likely to push inflation to around 5.0%, with risks tilted to a higher rate (Figure 2.14.9).

Figure 2.14.9 Inflation Forecast

Inflation will turn positive in FY2026.



Note: Years are fiscal years ending 20 March of that year.

Source: Asian Development Bank estimates.

The merchandise trade deficit is estimated to have widened in FY2025 but with potential reversal in FY2026. In the first half of FY2025, merchandise exports declined by 7.5% from the same period a year earlier, while merchandise imports increased by 27.5%. The decline in exports resulted mainly from border closures and reduced demand for Afghan coal in neighboring countries. However, in FY2026, anticipated depreciation of the afghani and a possible reduction in international humanitarian assistance could decrease demand for imports. At the same time, expanding trade relationships with India and other nearby countries could boost food exports, potentially narrowing the trade deficit.

Depleted fiscal reserves and declining external support present significant challenges for fiscal policy. Revenue in the first 8 months of FY2025 increased by 13.0%, reaching AF153.5 billion (14.0% of GDP). Both tax and nontax revenue improved. However, the absence of on-budget grant support creates several challenges for fiscal stability by hindering long-term economic growth and the provision of basic services, and by deterring investment.

The economic outlook is fraught with significant downside risks. A potential reduction in humanitarian aid could depreciate the afghani, contract the economy, and elevate inflation. Moreover, further restrictions on women’s employment and international nongovernment organizations complicate the delivery of aid, exacerbating unemployment and food insecurity. However, foreign investment in mining offers a glimmer of hope for economic revival by creating jobs in mining and associated sectors such as transportation, manufacturing, and services.

Policy Challenge—Harnessing Renewable Energy

Afghanistan has one of the world's lowest electricity consumption rates per capita.

The country can generate only 20% of its electricity domestically, and barely one-third of its 36 million citizens are connected to the power grid. The remainder of its electricity is imported from Uzbekistan (40.5%), Tajikistan (24.0%), Turkmenistan (20.5%), and Iran (15.0%). The Afghanistan Power Sector Master Plan 2011 forecast electricity demand to rise from 2,800 gigawatt-hours in 2012 to 15,909 in 2032, with an annual growth rate of 9.8%. Peak demand was expected to grow by 8.6% annually, from 600 megawatts (MW) in 2012 to 3,502 MW in 2032. Actual demand in FY2024 was 1,500 MW, largely on track with the forecast.

Regime change in August 2021 deepened Afghanistan's energy security challenges as more than 20 grant-funded energy projects were suspended. The suspension of on-budget grant-funded energy projects and future development investments in the energy sector hinders Afghanistan's ability to achieve high growth, potentially causing a cumulative loss from FY2023 to FY2025 estimated by the Asian Development Bank to equal 7.1% of real GDP.

Afghanistan possesses significant renewable energy resources that could fill potential supply gaps cost effectively. The country has an estimated hydroelectric capacity of 23,000 MW, 87% in the northeast on the Amu Darya, Panj, and Kokcha rivers, with 8% near the Kunar River east of Kabul. With approximately 300 sunny days annually, Afghanistan's average solar potential is 6.5 kilowatt-hours (kWh) per cubic meter (m²) per day, higher in Kandahar and other southern regions. Northern regions, with an average of

4.5 kWh per m² per day, can also generate electricity. National solar capacity is estimated at 222,000 MW, with global costs averaging \$0.10/kWh, excluding storage. Wind resource potential is estimated at 150,000 MW, and exploitable capacity at 66,700 MW with an average cost of \$0.065/kWh. There is also potential for geothermal and biomass energy.

Establishing realistic renewable energy targets and implementing feed-in tariffs is imperative to advancing renewable energy deployment.

Since 2004, the number of countries with supportive renewable energy policies has increased from 48 to over 140 as many developing economies joined the initiative. These policy objectives have become more ambitious, now encompassing electricity, heating, cooling, and transportation. Policy mechanisms continue to evolve, incorporating technology-specific instruments and feed-in tariffs for premium payments and heating applications.

Efforts to enhance institutional capacity and bridge knowledge gaps are crucial. Planning decisions must rely on reliable data and be executed by skilled personnel. Over the past 2 decades, multilateral institutions have significantly contributed to building capacity in procurement, financial management, community development, and climate safeguards. However, more efforts are needed to estimate Afghanistan-specific costs for various technologies and household usage to ensure accurate renewable energy planning.

Fostering public-private partnership can play a pivotal role in advancing renewable energy.

Such collaborations can attract investment, bring in technological expertise, and provide innovative solutions tailored to Afghanistan's unique needs. Developing a comprehensive regulatory framework and offering incentives for private sector participation will be vital to creating a conducive environment for renewable energy projects.

BANGLADESH

GDP growth moderated in fiscal year 2024 as slower global growth and tighter domestic policies weakened demand. Inflation remained elevated on supply constraints and currency depreciation. With continued supply disruption and political transition, growth is expected to further slow in fiscal year 2025 and recover in fiscal year 2026 with improvement in domestic demand, as inflation edges up into double digits and then eases. Improving the investment climate and restoring macroeconomic stability are critical to sustain higher growth.

Economic Performance

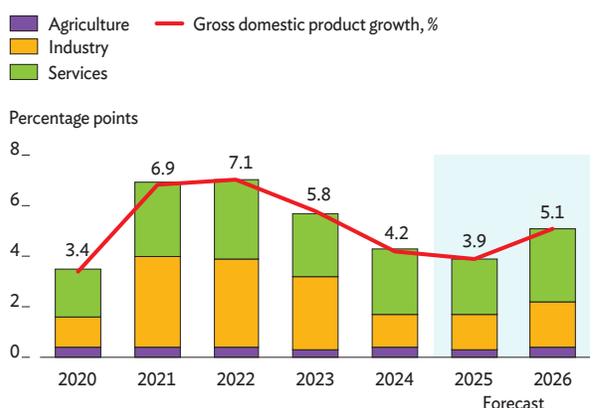
GDP growth slowed to 4.2% in fiscal year 2024 (FY2024, ended 30 June 2024) from 5.8% in the previous fiscal year (Figure 2.15.1). Deceleration reflected mainly the slowdown in industry to 3.5% from 8.4% in FY2023 due to reduced export demand and energy shortages. Large-scale manufacturing slowed to 1.0% from 8.4%, while services likewise eased to 5.1% from 5.4% on weaker performance in wholesale and retail trade, transport, and financial services. Agriculture growth moderated to 3.3% from 3.4% due to inclement weather.

On the demand-side, consumption and investment contributed to growth but net exports dragged down GDP growth (Figure 2.15.2). Consumption added 4.4 percentage points to growth as private consumption was supported by robust remittance inflows; public consumption also contributed. Private investment grew moderately, indicating steady but slowing expansion in credit to the private sector. In contrast, public investment growth decelerated, lowering the contribution of investment to growth to 1.1 points. With exports declining more than imports in real terms, net exports subtracted 1.4 points from growth.

Inflation rose to an average of 9.7% in FY2024 from 9.0% in FY2023 (Figure 2.15.3). Nonfood inflation fell to 8.9% in FY2024 from 9.4%, but food inflation

Figure 2.15.1 Supply-Side Contributions to Growth

GDP growth slowed along with manufacturing in 2024 and further slipped in 2025 with slowing services.



Note: Years are fiscal years ending on 30 June of that year.

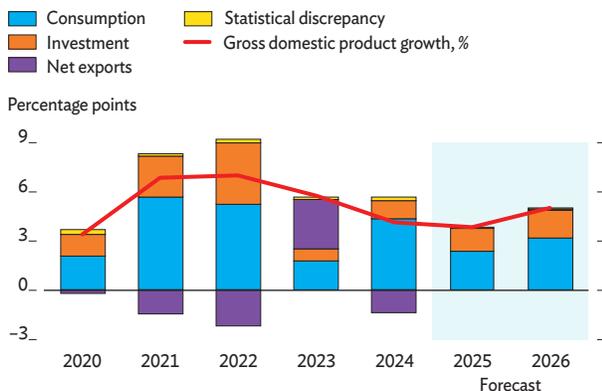
Sources: Bangladesh Bureau of Statistics; Asian Development Bank estimates.

climbed from 8.7% in FY2023 to 10.7% on lower agricultural output. Other inflationary factors included higher electricity rates, volatile world crude oil prices, and depreciation of the taka.

The fiscal deficit narrowed to 4.0% of GDP in FY2024 from 4.6% in FY2023. Government revenues grew by 11.6%—to equal 8.2% of GDP, little changed from FY2023—mainly on higher receipts from value-added and income taxes. Public spending rose by

Figure 2.15.2 Demand-Side Contributions to Growth

Lower net exports slowed growth in 2024.

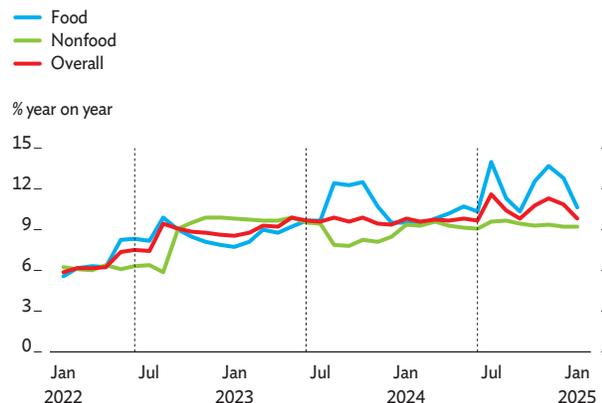


Note: Years are fiscal years ending on 30 June of that year.

Sources: Bangladesh Bureau of Statistics; Asian Development Bank estimates.

Figure 2.15.3 Monthly Inflation

Prices rose in FY2024 to June and in the first half of FY2025.



FY = fiscal year.

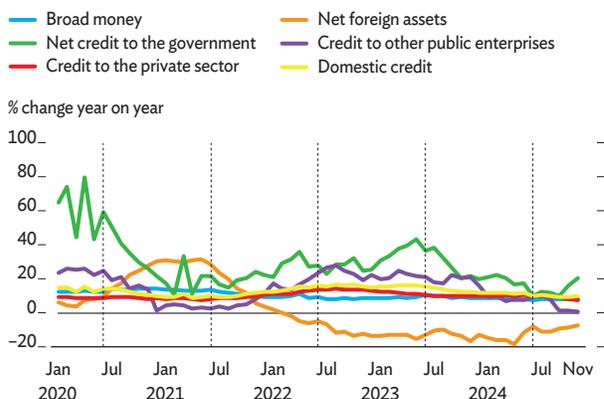
Source: Bangladesh Bank. 2025. *Monthly Economic Trends*. February.

6.3%, less than in FY2023, and was equivalent to 12.2% of GDP, tamped down from 12.8% in FY2023 by expenditure rationalization efforts aimed at addressing inflationary pressures and declining foreign exchange reserves constraints.

Money supply growth fell to 7.7% in FY2024 from 10.5% in FY2023 (Figure 2.15.4). Public sector credit growth plummeted to 9.7% from 34.9% in FY2023 due to government austerity measures. Private sector credit growth also slowed, to 9.8% from 10.6% in FY2023, influenced by higher interest rates and import restrictions. To curb credit growth and inflation,

Figure 2.15.4 Monetary Indicators

Credit growth moderated as contractionary monetary policy took effect.



Source: Bangladesh Bank. 2024. *Major Economic Indicators: Monthly Update*. December.

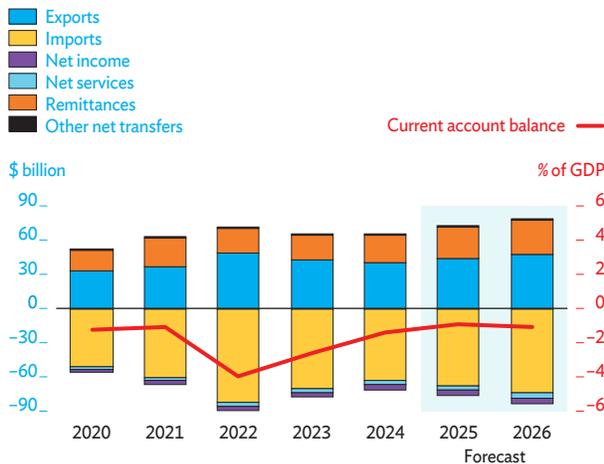
Bangladesh Bank, the central bank, removed caps on lending and deposit rates in July 2023, linking bank lending rates to the 6-month average treasury bill rate. In May 2024, the central bank abolished this link, deeming it ineffective for inflation control, and opted to allow interest rates to be determined in line with the market. The repo policy rate was raised to 8.5% to counter inflation. As a result, the interbank call money rate rose to 9.1% in FY2024 from 6.1% in FY2023 while average deposit and lending rates charged by banks and nonbank financial institutions increased.

The current account deficit narrowed sharply to 1.4% of GDP in FY2024 from 2.6% in FY2023 (Figure 2.15.5).

The current account improved as imports decreased more than exports and remittances rose. Exports decreased by 5.9% in FY2024, compared with a decline of 11.9% in FY2023, mainly on lower exports of knitwear, frozen food, leather, jute goods, and engineering products (Figure 2.15.6). Weak external demand, particularly in key export destinations, and energy shortages affecting factories undermined export performance. Imports declined across the board by 10.6% due to fiscal tightening and central bank measures to limit the issuance of letters of credit with the aim of conserving foreign exchange reserves. Imports of intermediate goods, notably for garments, decreased by 9.0% while those of capital goods declined more dramatically, by 21.9%. A sharply depreciated taka, government cash incentives, and increased ease of transfer through mobile financial

Figure 2.15.5 Current Account Components

The current account deficit narrowed in 2024 on lower imports and higher remittance inflows.



GDP = gross domestic product.

Note: Years are fiscal years ending on 30 June of that year.

Source: Bangladesh Bank.

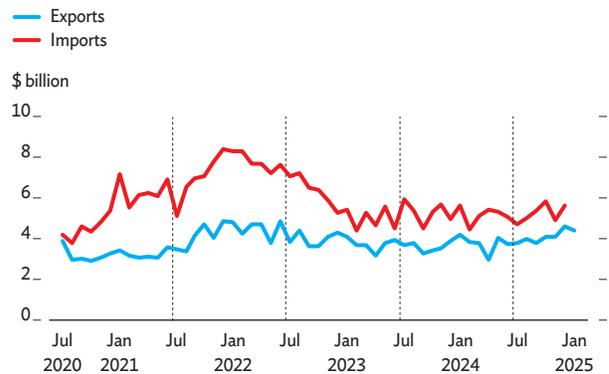
services contributed to an increase of 10.6% in remittances, up from 2.8% growth in the previous year (Figure 2.15.7).

During FY2024, foreign exchange reserves continued to decline, exerting pressure on the exchange rate. While the current account deficit declined notably, the financial account surplus fell to \$4.5 billion, from \$6.9 billion in FY2023.

Consequently, gross foreign exchange reserves decreased by \$4.4 billion, settling at \$26.8 billion at the end of FY2024, sufficient to cover 4.3 months of imports of goods and services (Figure 2.15.8). The taka depreciated by 10.2% against the US dollar in FY2024 (Figure 2.15.9). On 8 May 2024, the central bank introduced a unified crawling peg exchange rate regime, empowering banks to set the rate based on market conditions. Additionally, the crawling peg reference exchange rate was raised from Tk110 per dollar to Tk117 per dollar.

Figure 2.15.6 Monthly Exports and Imports

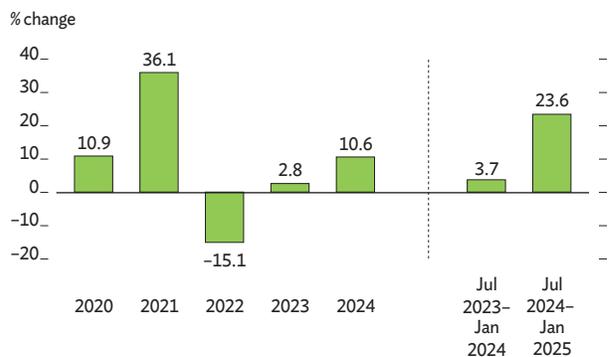
The trade deficit narrowed on a decline in imports.



Source: Bangladesh Bank, 2025. *Monthly Economic Trends*, February.

Figure 2.15.7 Remittances

Remittances strengthened as the currency depreciated.



Note: Years are fiscal years ending on 30 June of that year.

Sources: Bangladesh Bank; Export Promotion Bureau, Bangladesh.

Figure 2.15.8 Gross Foreign Exchange Reserves

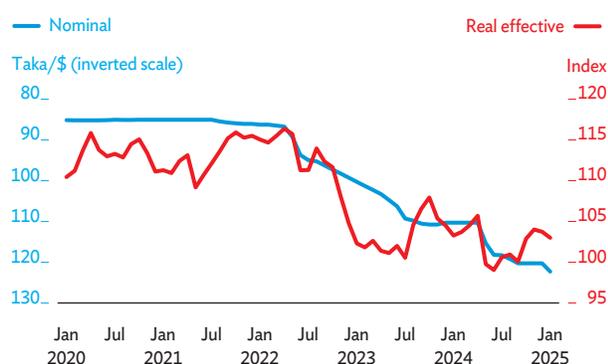
Central bank reserves stabilized.



Source: Bangladesh Bank.

Figure 2.15.9 Exchange Rates

The taka markedly depreciated against the dollar.



Source: Bangladesh Bank.

Economic Prospects

GDP growth is projected to moderate further to 3.9% in FY2025 (Table 2.15.1). According to the latest quarterly GDP data from the Bangladesh Bureau of Statistics, GDP grew by just 1.8% in the first quarter of FY2025 (July–September 2024), a sharp decline from 6.0% growth in the same quarter of the previous fiscal year. The slowdown was driven by political instability, natural hazards, disruptions at factories due to worker protests, and high inflation, all of which dampened demand. Growth is expected to improve in the following quarters, driven by manufacturing. The Bangladesh purchasing managers' index, on which a reading above 50 indicates expansion, increased from 55.7 in October 2024 to 65.7 in January 2025. However, slower growth in services owing to political unrest, financial sector vulnerability, and reduced household purchasing power, will tamp down GDP growth in FY2025. Agricultural growth is also expected to moderate

following repeated floods. Though disruption at factories affected industrial growth in the first quarter of FY2025, sector growth is expected to improve as moderately rising demand for exports boosts large manufacturing output. On the demand side, consumption and investment will grow moderately, supported by strong remittance inflows but partly offset by contractionary monetary and fiscal policies and investor caution. Contractionary policies and delayed payments for energy and fertilizer imports will also moderate import growth in the rest of FY2025. However, with export growth also moderating, the contribution of net exports to growth will be negligible.

GDP growth is expected to recover to 5.1% in FY2026 on higher domestic demand. Easing inflation and rising remittances are likely to raise private consumption and investment. Imports are expected to increase with the central bank lifting restrictions on letters of credit, and export growth will accelerate on expected recovery in the European Union, a major destination for Bangladesh's exports. Net exports are thus likely to add marginally to growth. On the supply side, higher growth in industry and services is expected to contribute to growth recovery. Industrial output is expected to expand as investor confidence is anticipated to improve ahead of elections scheduled between December 2025 and June 2026 and due to the interim government's implementation of the reform program. As recommended by a task force on Re-strategizing the Economy and Mobilizing Resources for Equitable and Sustainable Development, reform will enhance the business environment by increasing transparency in public procurement, streamlining regulations to promote entrepreneurship and foreign investment, and implementing targeted policies to address urgent food and energy security concerns. Improvement in household purchasing power and an increase in election-related spending will expand service output, and agriculture growth is expected to increase marginally, assuming normal weather.

Table 2.15.1 Selected Economic Indicators, %

Economic growth is forecast to slow further in FY2025 and recover in FY2026.

	2023	2024	2025	2026
GDP growth	5.8	4.2	3.9	5.1
Inflation	9.0	9.7	10.2	8.0

FY = fiscal year, GDP = gross domestic product.

Note: Years are fiscal years ending on 30 June of that year.

Sources: Bangladesh Bureau of Statistics; Asian Development Bank estimates.

Inflation is projected to accelerate to average 10.2% in FY2025 but ease to 8.0% in FY2026.

Enduring inflation remains a significant hurdle due to market inefficiency brought on by regulatory shortcomings, restrained competition in wholesale markets, insufficient market information, supply chain

constraints, and depreciation of the taka. Despite several inflation-control measures including monetary tightening and agricultural policy support, monthly inflation remained in double digits in the first 6 months of FY2025. Recent data show that inflation eased slightly to 9.9% in January 2025 from 10.9% in December 2024. With expected moderation of global fuel and commodity prices, inflation is expected to ease in the remaining months of FY2025, but the fiscal year average is expected to be in double digits. However, assuming favorable weather, moderating global oil prices, and tighter monetary and fiscal stances, inflation is projected to ease in FY2026.

Monetary policy is expected to remain contractionary. The Monetary Policy Statement for January–June 2025 released in February 2025, indicates that Bangladesh Bank will continue to pursue a tight monetary policy with a focus on curbing inflation and stabilizing the foreign exchange market while building foreign exchange reserves and resolving a high rate of nonperforming loans in banks and other financial institutions. Bangladesh Bank (the central bank) expects inflation to subside to 7%–8% by the end of June 2025. Reform initiatives to stabilize the banking sector are being implemented and will be guided by findings and recommendations of three task forces formed by Bangladesh Bank to: (i) provide an urgent assessment of conditions in severely distressed banks and manage their liquidity issues through interbank borrowing arrangements, (ii) recommend asset-recovery measures, and (iii) strengthen central banking functions and governance frameworks.

The current account deficit will narrow in FY2025 and FY2026 on a smaller trade deficit and rising remittances. The current account deficit is expected to narrow to 0.9% of GDP in FY2025 and 1.1% in FY2026, from 1.4% of GDP in FY2024. Notwithstanding global economic challenges, political instability, and disruptions at factories due to worker protests, Bangladesh's exports have rebounded sharply from a slump in FY2024, particularly in ready-made garment sectors, aided by competitive pricing and cash incentives. Exports grew by 11.7% during July 2024–January 2025, rebounding from a decline of 7.8% in the same period of the previous year. With growth recovery in the European Union, exports are expected to increase further in FY2026. This will also be supported by improved energy supply and political

landscape after the election. Imports are projected to increase in FY2025 and FY2026, as the central bank eases restrictions. Remittances are expected to remain strong in FY2025 and FY2026, driven by cash incentives and the capture of fund transfers by official channels. A move toward an exchange rate system fully determined by the market will provide for automatic adjustments to economic imbalances, enhance monetary policy effectiveness, and increase the inflow of remittances, thereby expanding foreign exchange reserves.

The fiscal deficit is forecast to remain steady at 4.0% of GDP in FY2025 and FY2026. Government revenue collection is anticipated to rise slightly to 8.7% of GDP in FY2025. Revenue collected by the National Board of Revenue contracted by 1.0% in the first half of FY2025 over the same period in the previous year due to sluggish economic growth, inflationary pressures, lower FDI, and decreased imports. Despite this poor performance, overall revenue collection is expected to improve as, in January 2025, the board tripled value-added tax from 5% to 15% and the supplementary duty for many items by more than 50%. Total government expenditure is projected to rise to 12.7% of GDP in FY2025, reflecting larger subsidy payments including those provided to state-owned enterprises in the energy sector to help clear their external arrears. On balance, the fiscal deficit is expected to remain steady at 4.0% of GDP in FY2025. It is likely to remain unchanged in FY2026 due to fiscal consolidation intended to counter inflationary pressures.

The ratio of public debt to GDP is expected to increase in the near-to-medium term. The government remains cautious about contracting commercial external debt, and has taken steps to ensure debt sustainability by prioritizing high-impact projects and implementing fiscal reform. Nevertheless, the ratio of public debt to GDP is forecast to increase to 40.6% in FY2025 from 38.8% in FY2024, with external debt increasing to 17.4% of GDP from 16.1% and domestic debt to 23.1% from 22.7% in FY2024.

There are downside risks to the outlook. Higher election-related spending and subsidies could raise inflation and the fiscal deficit. Growth could be hit by persistently high inflation, prolonged monetary

tightening, or a drop in official remittance inflows due to political uncertainty or inadequate exchange rate adjustment. Unpredictable weather is a perennial risk. The effect of reciprocal tariffs imposed by the US on Bangladeshi exports and a possible economic slowdown in major export destinations may affect growth prospects.

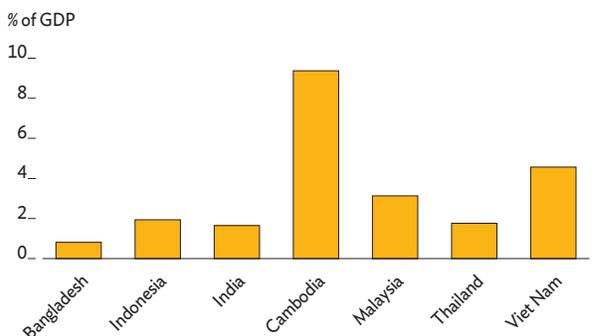
Policy Challenge—Improving the Investment Climate to Attract Foreign Direct Investment

With graduation from least-developed-country status scheduled for November 2026, longstanding inconsistencies in investment policy and weakness in the business environment need to be addressed.

A joint 2025 study by ADB and the Organization for Economic Co-operation and Development, titled Roadmap for Investment Policy Reforms and Sustainable Development in Bangladesh, highlights the issues that need to be addressed and provides a blueprint for enhancing the trade environment. Since graduation typically entails the loss of preferential market access, it is imperative that a predictable and business-friendly environment be established to attract investment, boost competitiveness, and ensure a smooth and sustainable transition. Bangladesh should appeal naturally to foreign investors given its buoyant economy and population of over 170 million people, with 70% of them in the working age of 15–64 years and thus offering a large labor endowment. Further, Bangladesh is located close to some of the largest emerging markets in the world and has direct sea access and a successful track record in exports of garments. Nevertheless, FDI inflows to Bangladesh have historically been low relative to other economies in the region (Figure 2.15.10), and they sometimes amount to little more than retained or reinvested earnings, rather than new equity capital (Figure 2.15.11). During 2013–2023, FDI as a percentage of GDP stood at 0.8% of GDP in Bangladesh, while it was 9.4% in Cambodia, 4.6% in Viet Nam and 1.9% in Indonesia. FDI has gone mostly into such traditional sectors as oil and gas, textiles, financial services, power generation, and telecoms. Comparatively low FDI and its high concentration in capital-intensive and fossil fuel industries have prevented Bangladesh from reaping the full benefits of FDI.

Figure 2.15.10 Average Net FDI Inflows, 2013–2023

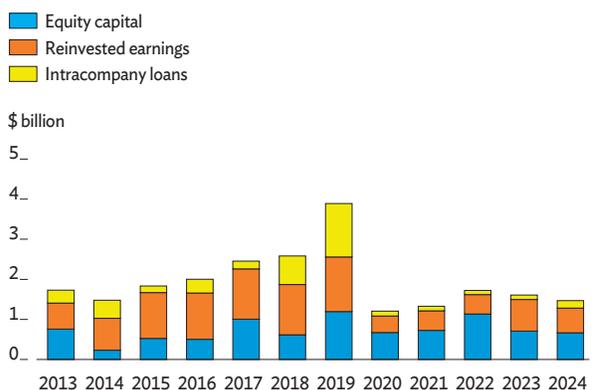
FDI inflows to Bangladesh have been historically low compared to the other economies in the region.



FDI = foreign direct investment, GDP = gross domestic product.
Source: World Bank. World Development Indicators.

Figure 2.15.11 Foreign Direct Investment Inflow in Bangladesh by Component

FDI inflows until 2019 were largely driven by reinvested earnings, and thereafter focus shifted to equity capital.



FDI = foreign direct investment.
Note: Years are fiscal years ending 30 June of that year.
Source: Bangladesh Bank. 2025. *Monthly Economic Trends*. January.

Bangladesh’s complex business regulatory environment is arguably the major challenge to attracting FDI.

A 2022 World Bank enterprise survey of Bangladeshi firms points out that regulatory challenges faced by businesses, such as comparatively lengthy and burdensome business licensing and permits procedures, add uncertainty and additional costs to business transactions (Figure 2.15.12). To start a business, for instance, an investor may need to navigate 23 government agencies to secure up to 150 regulatory services and approvals. The biggest regulatory challenge that companies face is obtaining sector licenses, which is cumbersome and

time-consuming. About 70% of medium-size and large firms mentioned that they were required to visit more than five different government agencies to obtain approvals. Investors are often required to provide and authenticate the same documentation multiple times, as a fully shared digital system has yet to be developed. Similarly, as mentioned in the Government of Bangladesh 2025 Task Force Report on Re-strategizing the Economy and Mobilizing Resources for Equitable and Sustainable Development, businesses face significant challenges regarding the regulatory framework, access to public services (such as company registration, access to utility services, and tax payment), and operational efficiency (ease of regulatory compliance and the effective use of public services directly relevant to firms). Foreign companies are also somewhat affected by capital controls on direct investment transactions. The repatriation of capital and capital gains is subject to strict reporting requirements or authorization by Bangladesh Bank, which may discourage FDI from entering the country in the first place. In addition to regulatory barriers, a political economy favoring certain business groups, unfavorable taxation practices, and inadequate trade facilitation measures deter FDI, as noted in the 2024 Government of Bangladesh White Paper on State of the Bangladesh Economy: Dissection of a Development Narrative.

Efforts to raise FDI are frustrated by a highly protective trade environment and policy inconsistency affecting trade, investment, and incentives. The Bangladesh Investment Development Authority (BIDA), the country’s apex investment promotion agency, has recently been implementing its Bangladesh Investment Climate Improvement Program (BICIP), which aims to simplify key business regulations in seven domains: business entry, exit, and technology adaptation; industrial infrastructure and logistics; cross-border trade; commercial dispute resolution and labor regulations; tax regime; financial and nonfinancial incentives; and access to finance. As of January 2025, BIDA has published an FDI heat map that identifies sectors with significant economic benefit and competitive advantage for Bangladesh. This heat map is expected to inform future investment roadshows, bilateral investment treaties, and various policy instruments to attract and facilitate investment.

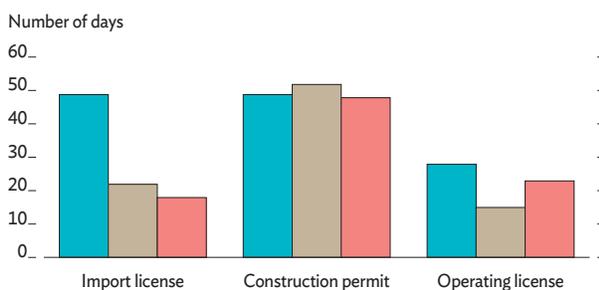
A streamlined investment reform program is needed for Bangladesh to become a more competitive destination for FDI and domestic private investment. Reform should expedite licensing and permits procedures, simplify business regulations and procedures, and enhance coordination between government agencies, including policy coordination. To this end, strong political commitment should be

Figure 2.15.12 Challenges to Regulatory Compliance

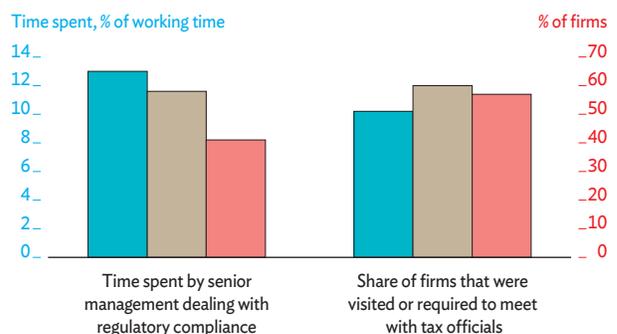
Regulatory bottlenecks seriously impede the business environment.

■ Bangladesh ■ South Asia ■ Lower-middle-income economies

A. Number of Days to Obtain Permits



B. Regulatory Compliance



Note: Data are based on a survey with business owners and top managers in 998 firms, interviewed from March to October 2022. The sample includes only formally registered firms with five or more employees and at least 1% private ownership in several areas of manufacturing and services but excluding the primary sector, financial intermediation, and social infrastructure).

Source: World Bank. 2022. World Bank Enterprise Survey.

forged, and adequate resources allocated, to build on efforts such as those offered by the BICIP, which provides an excellent platform for cutting red tape and enhancing regulatory transparency. The country also needs to promote responsible business conduct while ensuring compliance with international labor standards, human rights, and environmental conventions ratified by Bangladesh. To inform and guide reform on investment facilitation, the government is advised to consider joining the Joint Initiative of the World Trade Organization on Investment Facilitation for Development. BIDA's proactive role will be crucial to improving policy coherence, enhancing institutional coordination, and sending a clear signal to investors that Bangladesh is open for business.

BHUTAN

Growth accelerated in 2024 as industry rebounded and public spending rose. Inflation eased, the fiscal deficit narrowed, and the current account deficit shrank. Growth will pick up this year as a major hydropower plant comes onstream, then moderate in 2026. Inflation will also edge up this year and remain similar in 2026, but the current account deficit will widen in both years. Bhutan aims to build a robust financial system able to mobilize resources toward achieving development objectives, and will need to undertake a broad program of financial sector reforms.

Economic Performance

Economic growth is estimated to have risen to 5.5% in 2024 from 4.9% in 2023 (Figure 2.16.1).

All sectors recorded expansion, primarily driven by robust domestic demand fueled by increased public spending. Agricultural output expanded by an estimated 5.5% due to increased contributions from forestry and logging as the government permitted timber exports for the first time since 1999. Following stagnation in the previous year, industry output growth rebounded to 5.1% on strong construction performance

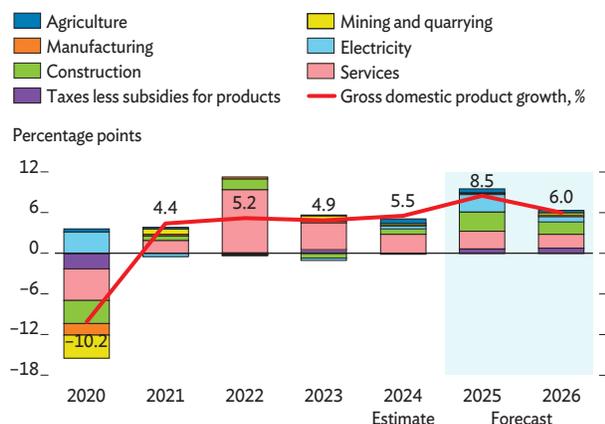
and modest growth in the electricity and manufacturing subsectors. Robust expansion in hotels and restaurants underpinned 5.2% growth in services.

On the demand side, a significant increase in civil servants' salaries boosted the contribution of consumption to growth (Figure 2.16.2).

Public consumption expenditure increased by 4.5%, underpinned by the full impact of the rise in civil service salaries that began in mid-2023. Private consumption expenditure expanded by 4.5%, supported by rising bank borrowing and higher remittances. Total consumption added 3.2 percentage points to growth. Investment rose marginally to add 0.6 points to growth. Net exports improved marginally on reduced imports and better non-hydro exports, leading to a 1.7% overall contribution to growth.

Figure 2.16.1 Supply-Side Contributions to Growth

GDP growth in 2024 was broad based.



GDP = gross domestic product.

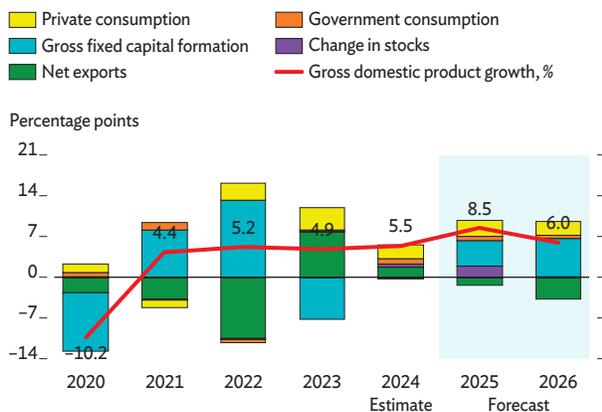
Sources: National Statistics Bureau; Asian Development Bank estimates.

Inflation moderated to 2.8% in 2024 from 4.2% a year earlier, mainly driven by falling nonfood prices (Figure 2.16.3).

A persistent fall in prices for health, transport, and communication services, which together contributed a third of overall inflation, offset a 4.3% increase in food prices. Food prices, which grew marginally in the second quarter, doubled in the remaining quarters, driven by price increases for food and nonalcoholic beverages. Due to close economic ties, food prices moved in tandem with India's rising food and vegetable prices.

Figure 2.16.2 Demand-Side Contributions to Growth

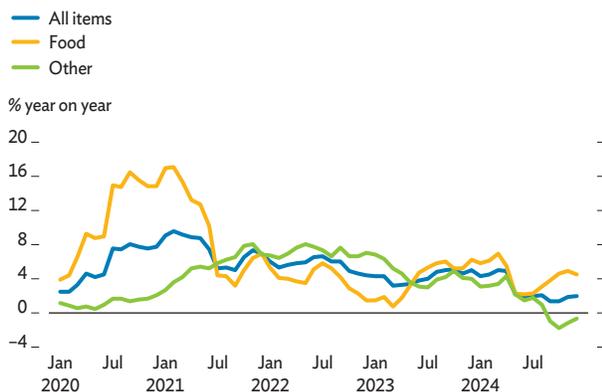
GDP growth in 2024 was led by expanded consumption.



GDP = gross domestic product.
Sources: National Statistics Bureau; Asian Development Bank estimates.

Figure 2.16.3 Inflation

Inflation eased in 2024 on slower increases in nonfood prices.

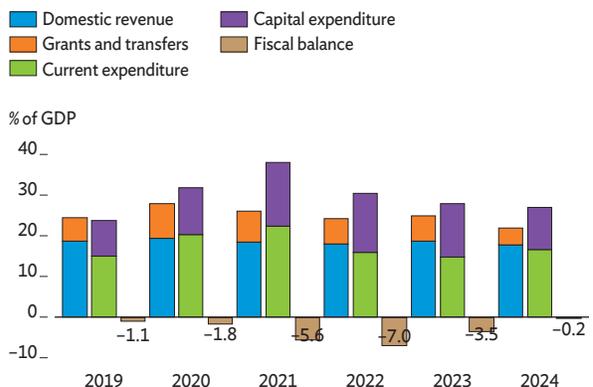


Source: National Statistics Bureau.

The fiscal deficit narrowed on better revenue collection and lower expenditure. It shrank from 3.5% of GDP in FY2023 (ended 30 June 2023) to 0.2% in FY2024 (Figure 2.16.4). Revenues and grants improved to 27.0% of GDP in FY2024 from 25.3% in FY2023, driven mainly by increased profit transfers and taxes. A decline in government capital expenditure by 2.8 percentage points of GDP in FY2024 offset an increase by 1.8 percentage points in current spending that followed increased salaries and wages for public servants. Domestic revenue covers current expenditure, but Bhutan continues to rely heavily on debt financing for its development activities. While overall public debt declined to 109.6% of GDP in FY2024 from 116.1% in FY2023, domestic

Figure 2.16.4 Fiscal Indicators

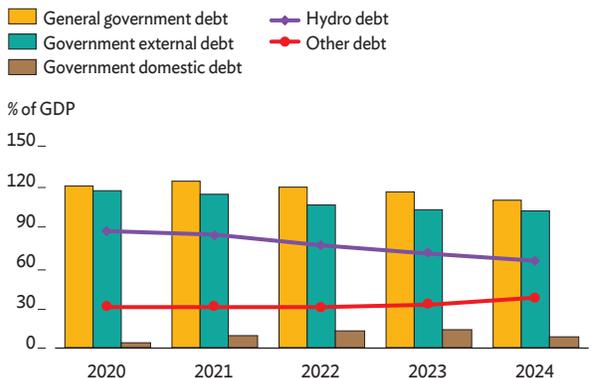
The fiscal balance improved in FY2024.



GDP = gross domestic product.
Note: Years are fiscal years ending on 30 June of that year.
Sources: Ministry of Finance; Asian Development Bank estimates.

Figure 2.16.5 Government Debt

Public debt reduced marginally in FY2024.



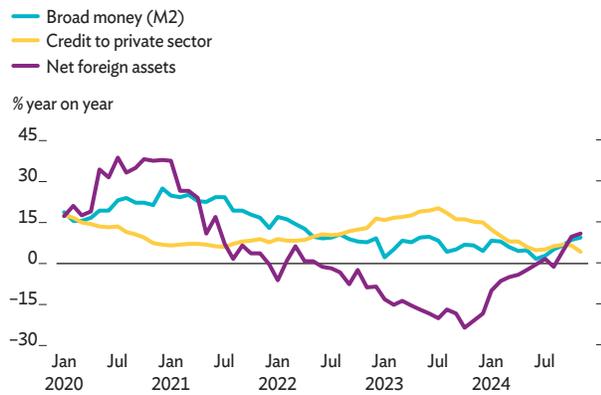
GDP = gross domestic product.
Note: Years are fiscal years ending on 30 June of that year.
Sources: Ministry of Finance; National Statistics Bureau.

public debt continued to remain elevated at 8.3% of GDP as government bond issues rose (Figure 2.16.5). Debt service payments equaled 26.8% of government revenue, indicating only moderate risk of debt distress.

Monetary policy remained accommodative in 2024 (Figure 2.16.6). The Royal Monetary Authority maintained the cash reserve ratio—the only monetary policy tool used for influencing liquidity and credit growth in the banking sector—at 8.0%. Its decision in mid-2023 to discontinue withdrawing balances in banks related to hydropower projects helped boost liquidity in the banking system. The authority also reduced the minimum lending rate to 6.4% in December 2024

Figure 2.16.6 Monetary Indicators

Monetary policy was accommodative in 2024.



Source: Royal Monetary Authority.

from 6.8% in June 2024. Net foreign assets grew by 7.4% in 2024, a marked improvement from contraction by 18.3% in 2023, on an increase in remittances, official grants, and proceeds from bitcoin sales. Private sector credit growth slowed to 2.7% in 2024 from 15.0% in the previous year, mainly due to a decline in education loans, as destination countries tightened visa requirements and limited international student enrollment. Money supply expanded by 8.0% on increased domestic deposits, largely supported by the disbursement of the first tranche of the \$180.7 million Economic Stimulus Plan, a government initiative launched in 2024 with budgetary support from the Government of India.

The current account deficit narrowed markedly from 28.5% of GDP in 2023 to 16.4% as the trade balance improved. The trade deficit fell by almost 23.0% on the back of a marked increase in non-hydro exports and a marginal fall in imports. Hydropower exports improved only marginally in 2024, despite the commissioning of the Nikachhu hydro plant, due to a notable rise in domestic consumption. Conversely, Bhutan’s electricity imports increased markedly, reflecting heightened demand for energy-intensive cryptocurrency mining. Gross international reserves improved to \$700 million in 2024 from about \$600 million in 2023. This rise was driven by positive balances in both financial and capital accounts, aided mainly by investment grants and nearly doubled foreign direct investment compared to the previous year. The reserves provided cover for 6.5 months of imports.

Economic Prospects

Growth is forecast to accelerate to 8.5% in 2025 before moderating to 6.0% in 2026 (Table 2.16.1).

It will be driven by broad-based expansion across all sectors. Industry is expected to grow by a remarkably high rate of 18.6% in 2025, underpinned by hydroelectricity production and a related surge in construction activity. The commissioning of key infrastructure projects—most notably the Punatsangchhu Hydropower Plant II, which was initially scheduled for commissioning in the last quarter of 2024 but slipped to 2025 due to technical issues, and an uptick in hydropower construction activities, mainly the start of a 600-megawatt Kholongchhu Hydropower Plant, which is the first phase of a 5,000-megawatt project agreed with the Tata company of India—will boost industry growth in the forecast years. Services are projected to expand by 4.9% in 2025, buoyed by double-digit expansion in transport, storage, hotels, and restaurants. This reflects increased arrivals of international tourists in 2025. Agriculture will benefit from a continued upswing in forestry and logging activities after the government permitted timber exports in early 2024. The sector is projected to grow by 4.3% in 2025. Growth is forecast to moderate in 2026 as hydroelectricity expansion falls from its peak, tamping down industry growth to 9.3%. A gradual slowdown in tourist arrivals and slowing expansion of logging and forestry will tamp down growth in services and agriculture.

Table 2.16.1 Selected Economic Indicators, %

Growth will rise this year before moderating in 2026, while inflation will edge up this year and next.

	2023	2024	2025	2026
GDP growth	4.9	5.5	8.5	6.0
Inflation	4.2	2.8	3.4	3.5

GDP = gross domestic product.

Sources: Ministry of Finance; National Statistics Bureau; Asian Development Bank estimates.

On the demand side, aggregate consumption expenditure will drive growth. Consumption is forecast to expand by 5.0% in 2025 and somewhat slower at 4.2% in 2026 as the effects of salary increases for public servants wane. Private consumption will rise

by 5.3% in the forecast years on steady growth in credit to the private sector and remittances. Fixed investment will rebound by 9.8% in 2025 from a drop of 0.1% in 2024, as the implementation of the 13th Five-Year Plan and the construction of new hydropower plants pick up. An uptick in private sector investment in buildings, machinery, and equipment will boost fixed investment.

The fiscal deficit is projected to widen to 5.6% of GDP in FY2025. This will be driven primarily by a marked increase in capital expenditures as the government begins implementing its planned activities. The deficit will likely narrow to 3.9% of GDP in FY2026 due to an expected increase in grant inflows, one-time profit transfers from newly commissioned hydropower plants, and the planned introduction of a goods and services tax in 2025.

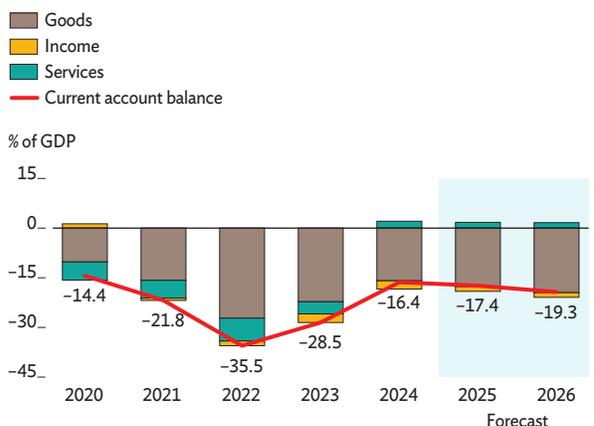
Inflation is projected to rise to 3.4% in 2025 and to 3.5% in 2026. The food price increase in the last quarter of 2024 is expected to continue in the first half of 2025. However, the impact will be tempered by lower transport costs as fuel prices moderate, and expected outmigration will lower demand for housing and utilities, thereby lowering their prices. The food supply will increase and food prices will be contained thanks to the government’s renewed focus on agriculture and its allocation of more credit to the sector for large-scale commercial farming in the ongoing economic stimulus plan. Efforts to reduce human-wildlife conflict, including by fencing off agricultural land, should reduce the significant adverse impact of such conflicts on agricultural productivity. These developments and expected price stability in India will help inflation moderate in 2026.

The current account deficit will widen in the forecast years (Figure 2.16.7). The deficit is projected to widen marginally to 17.4% of GDP in 2025 as a growing trade deficit will be tempered by rising remittance and grant inflows, and improvement in tourism arrivals. The deficit will widen further to 19.3% of GDP in 2026 due to the continued worsening of the trade deficit as the construction of hydropower plants picks up, despite increased hydropower exports in the forecast years.

Risk to growth is skewed mainly to the downside. Delays in commissioning planned hydropower plants will slow economic growth and worsen fiscal and

Figure 2.16.7 Current Account Components

Current account deficit will widen in the forecast years.



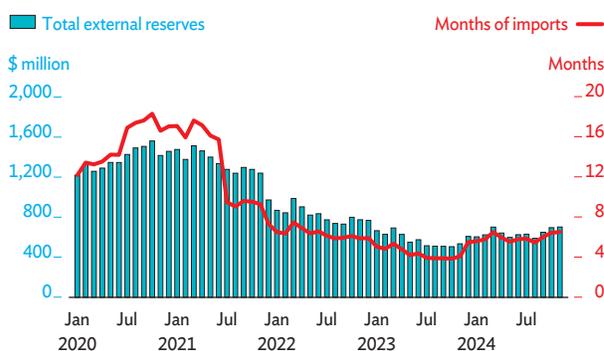
GDP = gross domestic product.

Sources: National Statistics Bureau; Asian Development Bank estimates.

external balances. The recent increase in domestic energy demand has lowered net hydropower exports to India. If the trend persists, it will further worsen fiscal and external positions and slow any improvement in external reserves (Figure 2.16.8). Natural hazards and changing rainfall patterns could threaten hydropower generation and agricultural productivity. Continuing mass outmigration of the talent pool will pressure public service delivery. Rising geopolitical tensions and a trade war between leading global economies will affect growth in Bhutan through its effect on the Indian economy. The main upside risk to the outlook is tourist arrivals higher than expected. Given the industry’s very high pass-through effects on the service sector, more tourist arrivals than anticipated would upend the growth forecast. Other upside risks include sooner-than-expected implementation of 5,000 megawatts

Figure 2.16.8 External Reserves

Slow growth of external reserves is a downside risk.



Source: Royal Monetary Authority.

of clean energy projects agreed with Tata company of India, possibly bringing them forward into the forecast period.

Policy Challenge—Navigating Bhutan’s Path to Financial Resilience

The 13th Five-Year Plan, 2024–2029 targets a robust financial system able to mobilize resources to achieve developmental objectives. Financial deepening—a multifaceted process to enhance the size and complexity of the finance sector and its liquidity, efficiency, and volume—is vital for Bhutan’s economic advancement and successfully realizing the objectives of the 5-year plan. Limited financial depth raises risk premiums and borrowing costs, restricts access to higher-return investments, and undermines countercyclical fiscal policies, as budget deficits and increased government borrowing crowd out private sector investment. Conversely, financial depth stabilizes markets and provides affordable financing options, reinforcing government funding and promoting fiscal consolidation by ensuring sustainable balance between public and private sector investment.

Bhutan’s financial market deepening has stalled, as evidenced by stagnant private sector credit growth. Net claims on the private sector as a percentage of GDP averaged about 60% from 2016 to 2024, much lower than in peer economies like Nepal. Post-pandemic private credit growth remains highly volatile and is showing signs of slowing. Domestic banks rely heavily on fixed asset-backed loans due to limited capacity for proper appraisal and financing based on cash flow. Most credit goes to tourism and housing, the latter claiming 30% of all credit, limiting funds for other enterprises and risking credit concentration. Nonperforming loans fell to 7.4% of total outstanding loans in 2024 from 14.6% in 2020, but the improvement must be interpreted with caution as loan repayment deferment continues to be provided as pandemic relief. The end of pandemic-related financial forbearance may reveal further finance sector fragility.

Bhutan’s financial market development is hindered by a lack of diversification. Public sector banks together account for over 82% of the banking sector’s credit to the economy, compared with a South Asian average of 25%. This dominance stifles competition and innovation, lowers the efficiency of the banking sector, and hinders financial deepening and the transmission of monetary policy.

A broad program of financial sector reforms is needed and should contain the following main components. First, strengthening the regulatory framework and establishing a risk-based supervisory model are essential to address vulnerabilities, particularly reversing pandemic-era relaxations of prudential regulations and increasing risk weights for overexposed sectors such as tourism and housing, and prioritizing the integrated supervision of financial conglomerates. Second, robust financial infrastructure should be developed. This includes effective credit information systems, diverse collateral registries, an accessible insolvency framework for smaller firms, interagency coordination for crisis management, and proper assessment of climate risks. Financial institutions should be encouraged to adopt risk-based pricing strategies that assess borrower viability, rather than rely solely on collateral. This would also promote equitable lending. Third, digital finance should be encouraged to enhance payment systems and foster innovation in financing. The establishment of the FinTech Regulatory Sandbox and of cybersecurity supervisory practices is a positive step.

This broad reform plan for financial deepening in Bhutan is ambitious and will take time to develop and implement. The authorities should begin by, among other things, developing a detailed action plan for these reforms and allocating adequate human resources and funds to conduct appropriate studies, develop the required rules and regulations, and establish procedures for needed supervisory actions.

INDIA

Growth moderated in fiscal year 2024 (FY2024, ended 31 March 2025) as industry slowed. Favorable macroeconomic policies and robust consumption demand will push growth higher during the forecast horizon, even as short-term prospects for private investment and exports are dampened by global factors. Inflation will moderate in line with global trends and stronger agriculture output. However, food inflation may become a challenge in the medium term as extreme weather events become more frequent and/or intense. Policy interventions around water, crop resilience and diversification, and expansion of processing and storage infrastructure will help mitigate volatility in food prices.

Economic Performance

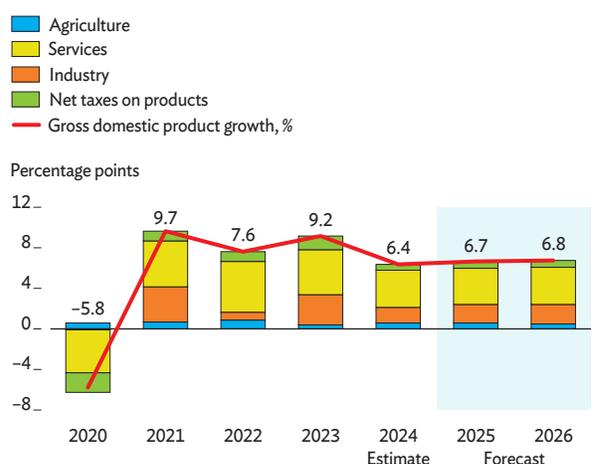
Despite a robust service sector, GDP growth moderated from 9.2% in FY2023 to 6.4% as expansion in industry slowed (Figure 2.17.1).

Subdued demand for industrial and mining products tamped down growth in manufacturing to 4.3% from 12.3% in FY2023 and in mining to 2.8% from 3.2%. On the other hand, agriculture growth picked up to 4.6% from 2.7% last year, helped by improved weather. Services, which accounts for 50% of GDP, saw continued robust growth at 7.3%, led by financial services; real estate; professional services; and public administration, defense, and other services. Growth in net taxes, having enjoyed a one-off boost of 16.5% in FY2023 with reductions to some subsidies, slowed to 7.7% in FY2024. Growth in the third quarter of FY2024 improved to 6.2% from 5.6% in previous quarter, indicating economic strength going forward.

On the demand side, robust growth in private consumption and exports drove economic expansion in FY2024. Higher rural consumption, resulting from improved agricultural output, pushed private consumption growth to 7.6% and its contribution to GDP growth to 4.3 percentage points even as high-frequency data showed urban consumption growth slowing. But growth in gross capital formation

Figure 2.17.1 Supply-Side Contributions to Growth

Sustained expansion in services supported growth in FY2024.



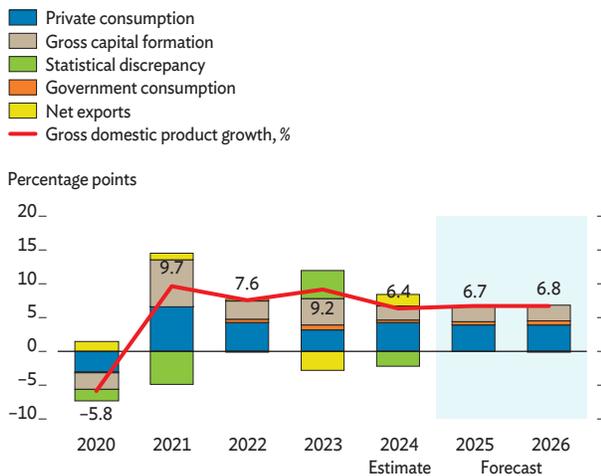
Notes: Years are fiscal years ending on 31 March of the next year. Net taxes on products are tax receipts minus subsidies.

Sources: Ministry of Statistics and Programme Implementation; CEIC Data Company.

moderated to 5.8% as public investment growth slowed, contributing 2.1 percentage points to growth. Net exports improved significantly, adding 1.8 percentage points to growth, helped by strong performance in exports while imports remained muted (Figure 2.17.2).

Figure 2.17.2 Demand-Side Contributions to Growth

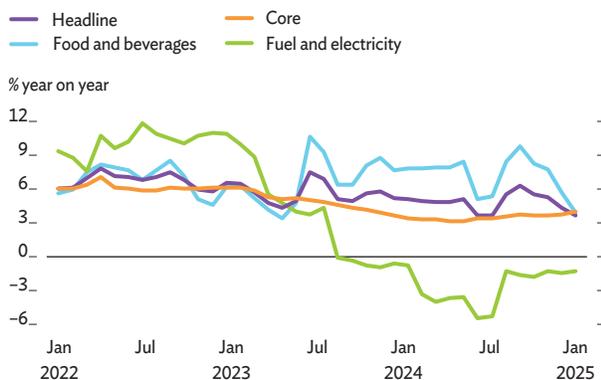
Private consumption and exports led growth in FY2024.



Note: Years are fiscal years ending on 31 March of the next year.
Sources: Ministry of Statistics and Programme Implementation; CEIC Data Company.

Figure 2.17.3 Consumer Inflation

Consumer inflation fell on softening food inflation from October 2024.



Source: CEIC Data Company.

Consumer inflation averaged 4.7% in the first 11 months of FY2024, driven by high food prices (Figure 2.17.3). Core inflation, which excludes food and energy, remained relatively muted at 3.5%, held down by cooling commodity prices. Fuel and electricity prices continued to fall, but consumer inflation was pushed up by elevated food prices, which has a weight of 45% in the consumer price index. Food inflation rose to 7.1% in first 11 months of FY2024, pushed up by a 21.8% rise in vegetables prices and a 7.3% increase in cereal prices. Factors keeping prices elevated were high international prices for rice, supply chain bottlenecks due to heavy rainfall, and minimum support prices

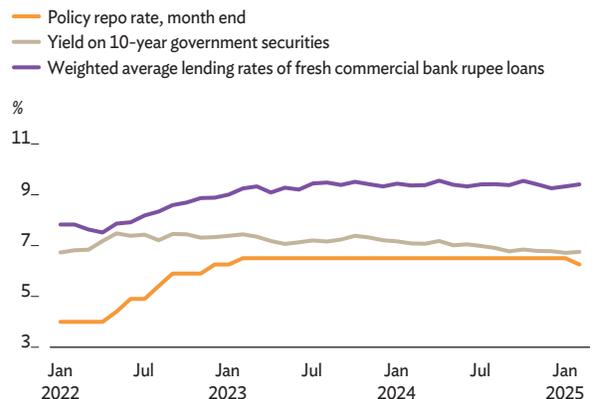
set by the government. However, food prices started moderating in October 2024 on lagged impact from higher supply of rice, and on expectations of improved winter output.

A conservative monetary policy adopted in February 2023 was eased to neutral in February 2025.

The monetary policy committee kept the repo rate unchanged at 6.50% from February 2023 to January 2025 to combat inflation, which had been above the 4% inflation target for most of this period (Figure 2.17.4). Then it cut the repo rate to 6.25% in February 2025, noting that inflation had declined and was expected to decline further. It also cut the cash reserve ratio by 50 basis points to 4.00% in December 2024, thus lowering the cash reserves banks are required to keep at the central bank and increasing funds available for lending. Interest rates were little changed. In January 2025, yields on 10-year government securities declined by just 36 basis points, while lending rates for fresh bank loans were 5 basis points lower than in March 2024.

Figure 2.17.4 Interest Rates

Bank interest rates and the central bank policy rate remained stable in 2024.



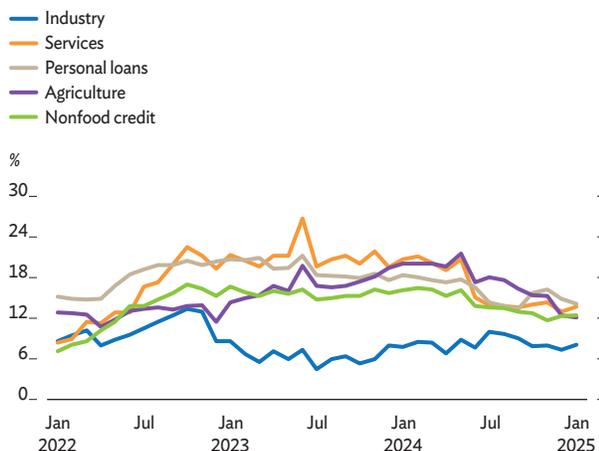
Source: CEIC Data Company.

Bank credit growth moderated amid tight financial conditions and strict prudential norms.

Growth in outstanding bank credit fell to 11.4% in January 2025 from 20.3% a year earlier because of tighter prudential regulations and high borrowing costs (Figure 2.17.5). Growth in credit slowed to large firms, such as those in mining, infrastructure, and the automotive industry, but credit expansion to medium-sized firms accelerated. Tighter prudential

Figure 2.17.5 Growth in Bank Credit

Credit growth moderated in 2024, dragged down by softening credit to services and individuals.



Note: Excludes public loans to buy crops from farmers and the impact of a merger combining HDFC, a large bank, with a nonbank financial corporation, which drove up outstanding bank credit.

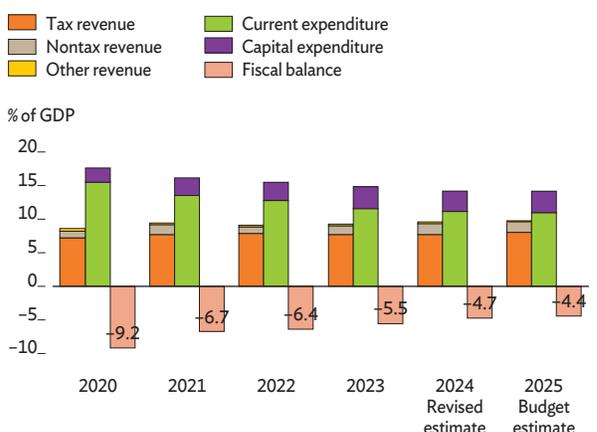
Sources: CEIC Data Company; Reserve Bank of India.

norms for lending to nonbank financial companies and unsecured personal loans—introduced by the Reserve Bank of India, the central bank, in November 2023 to address their potential financial risks—tamped down credit growth to services and personal loans. These tighter norms for lending to nonbank financial companies were reversed in February 2025 by lowering their risk weights, to improve the flow of credit. However, personal loans using gold as collateral grew by 77% year on year in January 2025, helped by rising gold prices and strong household investment in gold assets. Concerned that banks were not applying appropriate prudential criteria for granting such loans, the central bank cautioned financial institutions to strengthen their processes for issuing loans using gold as collateral and to monitor the portfolio closely.

The central government fiscal deficit shrank from 5.5% of GDP in FY2023 to an estimated 4.7% (Figure 2.17.6). Revenue grew by 13.2% in FY2024, while expenditure growth lagged at only 6.1%. The increase in revenue was primarily from a higher dividend paid by the central bank and continued buoyant tax collection. Personal income tax collection grew by an estimated 20.3% in FY2024 on top of a similar increase in FY2023. Central government expenditure was affected by a general election in April–May 2024 and by lower subsidies on food and fertilizer,

Figure 2.17.6 Central Government Fiscal Indicators

The fiscal deficit narrowed in FY2024 and is projected to be lower in FY2025 than it was before the pandemic.



GDP = gross domestic product.

Note: Years are fiscal years ending on 31 March of the next year.

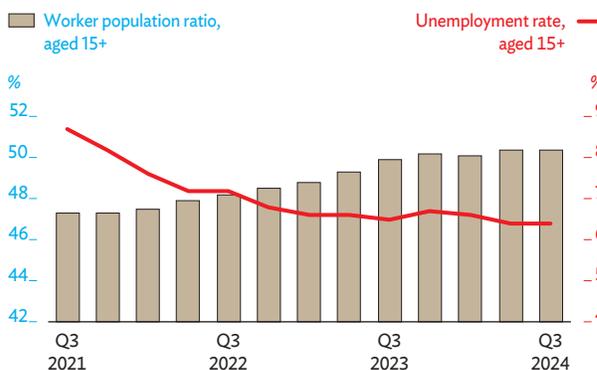
Source: Ministry of Finance Union Budget.

which kept current expenditure growth at 5.8%. Capital expenditure growth was estimated at 7.3%, far short of the budget target of 17.1% growth.

The urban labor market strengthened, but corporate wage growth moderated. Urban unemployment fell marginally to 6.5% in April–December 2024 from 6.6% in the corresponding period of FY2023 (Figure 2.17.7). In the same period, the ratio of workers to population increased to 50.3% from 49.3%, indicating additional job creation. However,

Figure 2.17.7 Labor Market Indicators

Urban employment indicators improved in 2024.



Q = quarter.

Notes: Years are fiscal years ending on 31 March of the next year. Estimates use current weekly status.

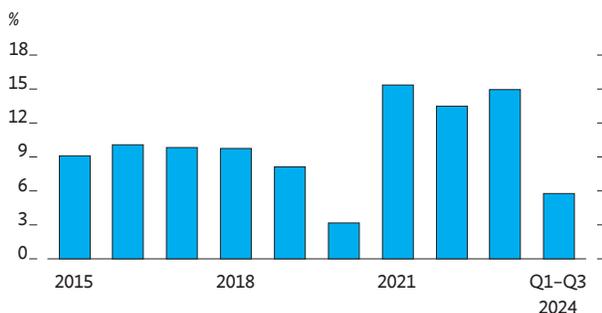
Sources: Ministry of Statistics and Program Implementation. Periodic Labor Force Survey Report 2021–2024; CEIC Data Company.

growth in wages paid by listed corporations fell in the first 3 quarters of FY2024 in line with moderation in corporate sales growth following high growth in previous years (Figure 2.17.8). The moderation was more pronounced in white-collar IT service companies, where hiring slowed after a large expansion immediately after the pandemic.

The current account deficit was moderate and little changed at 1.3% of GDP in the first 3 quarters of FY2024 (Figure 2.17.9). The trade deficit in goods expanded from 6.6% of GDP in FY2023 to 7.7% in

Figure 2.17.8 Corporate Salary and Wage Growth

Corporate wage growth slowed in FY2024 following 3 years of high growth.



Q = quarter.

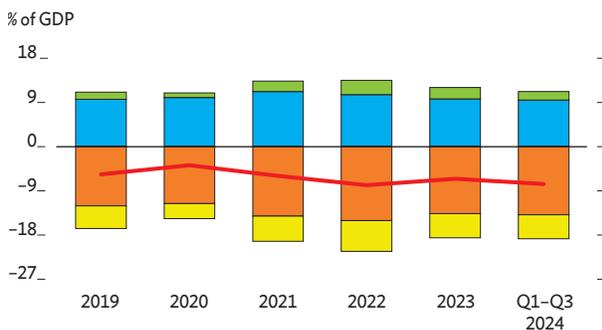
Notes: Years are fiscal years ending on 31 March of the next year. Only listed companies are covered.

Source: Centre for Monitoring Indian Economy.

Figure 2.17.9 Trade in Goods

Exports remained stable relative to GDP in FY2024, but imports declined.

Exports of other goods, Imports of other goods, Oil exports, Oil imports, Goods balance



GDP = gross domestic product, Q = quarter.

Notes: Years are fiscal years ending on 31 March of the next year. FY2024 is covered only to December 2024.

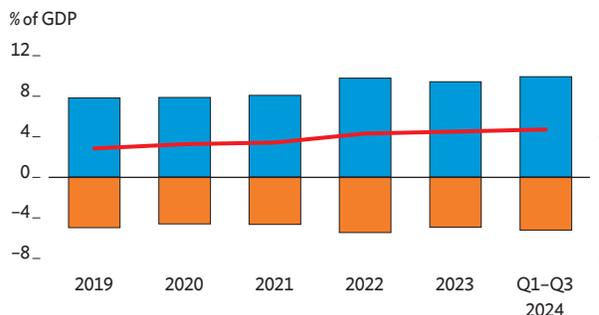
Sources: CEIC Data Company; Ministry of Commerce.

the first 9 months of FY2024 as petroleum exports fell by 20.0% year on year, affected by lower global prices—and despite 7.2% growth in exports of other goods, notably electronics, engineering goods, and apparel. Goods imports grew by 7.4% year on year in the first 9 months of FY2024, driven by imports of food, capital goods such as machinery and transport equipment, metals, and gold. Gold imports increased by 34.9% in the same period following an import duty rate cut. The trade surplus in services reached 4.7% of GDP in the first 9 months of FY2024 and has increased steadily since the pandemic, helped by exports of information and business services (Figure 2.17.10). Worker remittances grew strongly by 24.1% in the first 3 quarters of FY2024, narrowing the current account deficit.

Figure 2.17.10 Trade in Services

Services posted a surplus driven by exports of information and business services.

Service exports, Service imports, Service balance



GDP = gross domestic product, Q = quarter.

Notes: Years are fiscal years ending on 31 March of the next year. FY2024 is covered only through December 2024.

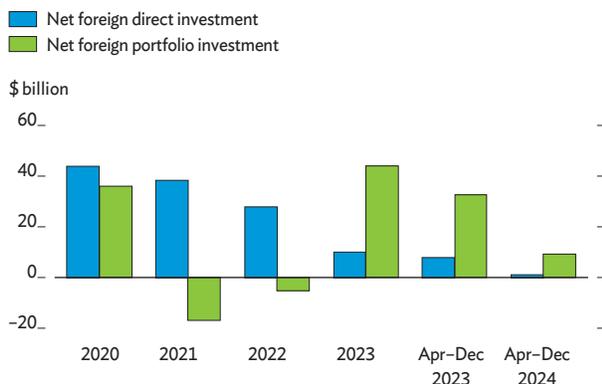
Sources: CEIC Data Company; Reserve Bank of India.

Tightening global financial conditions spurred greater capital outflows.

Net inflow of foreign portfolio investment in the first 9 months of FY2024 was \$9.4 billion, down from \$32.7 billion in the corresponding period of FY2023 (Figure 2.17.11). The decline was driven by outflows triggered by rising US yields and tightening global financial conditions in response to policy changes and uncertainty in the US. Net foreign direct investment inflow was also muted at only \$1.6 billion in the first 9 months of FY2024, down from \$7.8 billion in the same period of FY2023. While gross foreign direct investment inflows grew

Figure 2.17.11 Foreign Direct and Portfolio Investment

Net foreign direct and portfolio investment both fell in FY2024.



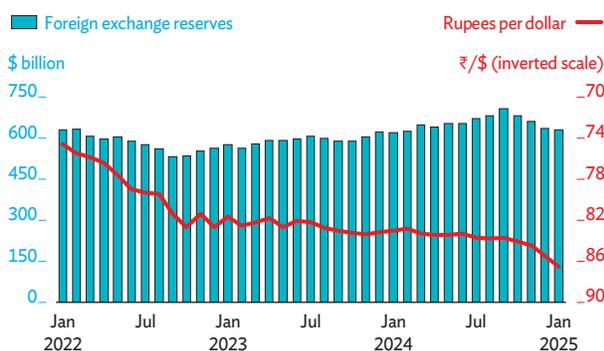
Note: Years are fiscal years ending on 31 March of the next year.
Sources: CEIC Data Company.

robustly by 21.0% over the corresponding period in the previous year, there was significantly higher outflow as profit repatriation and disinvestment by foreign companies increased, as did outward investment by Indian companies. The Bombay stock exchange index rose by 3.1% from April 2024 to February 2025, supported by domestic institutional and retail investors. However, the index came off its all-time peak in September 2024 because of foreign portfolio investment outflows.

Due to a moderate current account deficit and falling capital inflows, the balance of payments turned negative in the second half of the fiscal year (Figure 2.17.12). Foreign exchange reserves

Figure 2.17.12 Foreign Exchange Rate and Reserves

Foreign reserves remained robust in FY2024, even as the Indian rupee depreciated.



Sources: CEIC Data Company; Reserve Bank of India.

peaked at \$706 billion in September 2024 but fell to \$631 billion at the end of January 2025, still sufficient to cover 10.5 months of imports. In tandem, the Indian rupee depreciated against the US dollar by 4.4% in the 11 months to February 2025, primarily due to foreign capital outflows from India.

Economic Prospects

GDP growth will rise to 6.7% in FY2025 and 6.8% in FY2026 (Table 2.17.1). Growth will be supported by more favorable monetary and fiscal policies, rising rural incomes, and moderating inflation, which will boost consumer confidence. However, net exports will be undermined by global economic uncertainty, notwithstanding robust growth in service exports. On the supply side, the outlook for services remains robust, and the manufacturing outlook will improve, helped by reduction in energy costs.

Table 2.17.1 Selected Economic Indicators, %

Growth will accelerate while inflation will moderate this fiscal year and next.

	2023	2024	2025	2026
GDP growth	9.2	6.4	6.7	6.8
Inflation	5.4	4.7	4.3	4.0

GDP = gross domestic product.

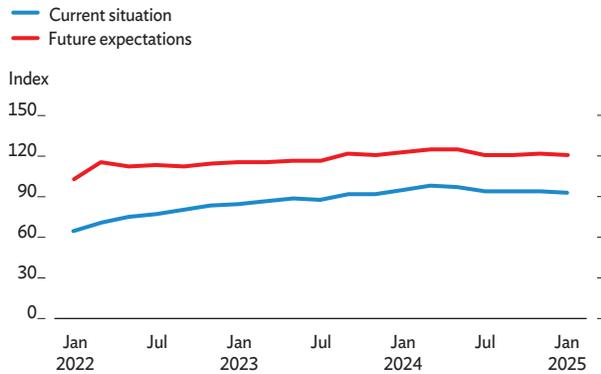
Note: Years are fiscal years ending on 31 March of the next year.

Sources: Ministry of Statistics and Programme Implementation, Government of India; Reserve Bank of India; Asian Development Bank estimates.

Consumption will be a major driver of growth, rising on the growth in rural incomes. They stand to benefit from favorable terms of trade, with food prices higher than for other commodities. Moderating inflation will boost consumer confidence, which has dipped slightly in recent months due to persistently high food prices. Indeed, consumer expectations of economic conditions in the coming 12 months remain optimistic (Figure 2.17.13). Demand from middle-class and affluent households will get a boost in the next 2 fiscal years from cuts to personal income tax rates equal to 0.3 percentage points of GDP. A pay commission has been set up to review

Figure 2.17.13 Consumer Confidence Survey

Consumers remained positive about the future despite growth moderation.



Note: Years are fiscal years ending on 31 March of the next year.
Source: Reserve Bank of India.

central government salaries and benefits, and salary hikes are expected to take effect in FY2026. Relaxed central bank requirements for bank credit to nonbank financial companies could mean increased credit for purchases of consumer durables.

Gross fixed capital formation will grow at a slightly higher rate in FY2025 and FY2026 than in FY2024.

Public capital expenditure has been a major driver of demand and is budgeted to expand by 10.1% in FY2025, up from 7.3% growth in FY2024 but lower than average growth of 29.8% annually from FY2020 to FY2023. Investment in urban infrastructure will rise thanks to a new fund that has received an initial allocation of ₹100 billion and is expected to be further ramped up in FY2026, though this will require enhanced implementation capacity in states and cities. Prospects for private investment should improve in tandem with a gradual lowering of borrowing costs and planned regulatory reform, but tempered by global economic uncertainty. The pipeline for private projects remains robust, with several large capital projects under implementation, albeit at a slow pace (Figure 2.17.14).

Robust expansion in all major sectors will raise growth. Expansion in manufacturing and services is likely to remain robust, as indicated by the purchasing managers' index for manufacturing, which was 56.3 in February 2025, and for services, which improved that month to 59.0 from 56.5 in the previous month

Figure 2.17.14 Investment Projects Under Implementation and Completed

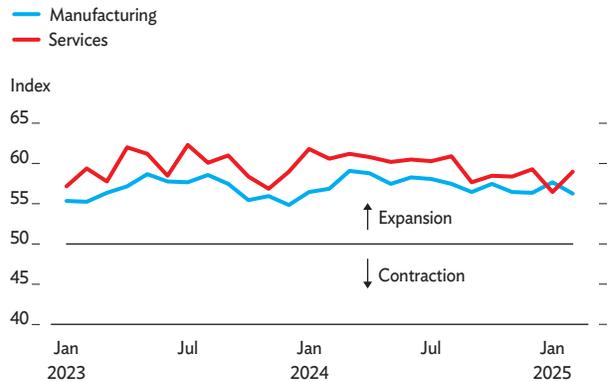
Projects under implementation increased, while completion has yet to pick up.



Q = quarter.
Note: Years are fiscal years ending on 31 March of the next year.
Source: Centre for Monitoring Indian Economy.

Figure 2.17.15 Purchasing Managers' Indexes

The outlook for services was consistently higher than for manufacturing in FY2024.



Source: CEIC Data Company.

(Figure 2.17.15). The outlook for these sectors will be boosted by expected declines in crude oil prices in FY2025 and FY2026, reducing input costs. Services will continue to be a major driver of growth, helped by expanding professional services, education and health services, and robust growth in business service exports, in which India maintains a competitive edge. The contribution to growth from manufacturing will improve by 0.3 percentage points in FY2025 and FY2026 over the low base of FY2024, thus contributing a large part of the increase in GDP growth. Construction growth

will moderate, however, as housing demand slows from high growth in the past. Agriculture will see continued robust growth in FY2025, helped by strong winter crop sowing, particularly of wheat and pulses, and high water reservoir levels—and assuming an abatement of weather shocks.

Inflation will fall to 4.3% in FY2025 and 4.0% in FY2026. This is in line with lower inflation in major advanced economies and falling oil prices. Food inflation, the major source of inflation domestically, will decline in the next 2 years as agricultural supply improves, assuming fewer supply shocks from weather-related factors. Elevated food prices have led to a modest rise in households' inflation expectations, according to a central bank survey, but this has not had a major impact on wages. Rupee depreciation—potentially due to volatile capital flows induced by economic policy uncertainty—will put upward pressure on prices, but this effect will be tempered by falling prices for crude oil, a major import.

Monetary policy is expected to become more accommodative. Falling inflation toward the monetary policy target of 4% will create policy space for more cuts to the repo rate. However, US policy uncertainty and its impact on capital outflows from India will likely preclude large rate cuts by the central bank. The cost of borrowing will thus fall only gradually, assisted by an expected tepid increase in central government market borrowing.

Fiscal policy will continue to focus on consolidation but at a slower pace. The central government's FY2025 budget targets a reduction of the fiscal deficit to 4.4% of GDP from 4.7% in FY2024. This will be achieved by containing expenditure growth to only 7.4%, primarily by lowering expenditure on subsidies, pensions, and statutory grant transfers to states. On the revenue side, individual income tax rates will be cut for those earning ₹0.8 million–₹2.4 million annually. The central government intends to reduce the ratio of debt to GDP from a projected 56.1% in FY2025 to 50.0% by FY2030. In FY2026, a slower pace of fiscal consolidation is expected, based on targeted debt reduction, leading to a fiscal deficit equal to 4.2% of GDP. In the medium term, gradual fiscal consolidation is expected to mitigate the impact of external shocks and allow greater flexibility for the central government

to follow a counter-cyclical fiscal policy. The combined central and state government fiscal deficit is likely to fall from 7.6% of GDP in FY2024 to 7.3% in FY2025, and the combined government debt is likely to decline as well.

The current account deficit will expand but remain moderate at 1.2% of GDP in FY2025 and 1.4% of GDP in FY2026. The trade deficit will expand on higher import demand but will be tempered by lower net petroleum imports in FY2025 due to lower Brent crude prices, and the service balance will improve on robust growth in services exports. Prospects for exports of electronics are also positive, helped by greater integration in the global value chain, but overall export growth will be dampened in line with lower global trade growth. The overall external financial position will remain robust due to strong foreign exchange reserves and a moderate current account deficit, despite muted financial inflows due to global economic uncertainties.

Risks to the outlook remain tilted to the downside. A major risk arises from US tariff levies on India's and other countries' exports, which could reduce trade and investment flows and potentially create volatility in the domestic financial market. However, these risks could potentially be mitigated by a trade agreement between India and US, which is being negotiated and the fact that India's merchandise exports to the US account for a relatively low 2% of GDP. Further risks emerge if escalating geopolitical tensions lead to higher-than-expected global commodity prices. Domestically, weather shocks may worsen, imposing risks on the agricultural outlook. Finally, the completion of investment projects may be affected by global economic uncertainty.

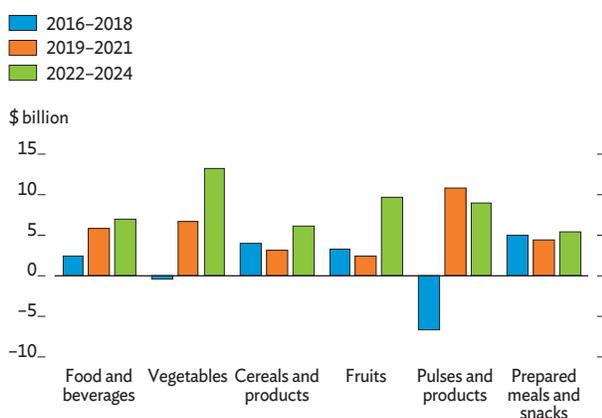
Policy Challenge—Addressing Food Inflation amid Extreme Weather Events

The Indian economy has grappled with persistently high food inflation in recent years. Typically, food inflation is more volatile than nonfood inflation due to its sensitivity to weather, supply chain bottlenecks, and market fragmentation in agriculture. However, in recent

years, food inflation has been consistently higher than nonfood inflation and also higher than past trends. In FY2022–FY2024, average food inflation was 6.9%, compared to 2.4% in FY2016–FY2018 and 5.9% in FY2019–FY2021. Notwithstanding a recent slowdown in food inflation, almost all major food categories have experienced higher inflation, with cereal, vegetables, and fruit contributing the most to this increase (Figure 2.17.16).

Figure 2.17.16 Trend in Average Food Inflation Rates

Food inflation has been rising in recent years for all food categories.

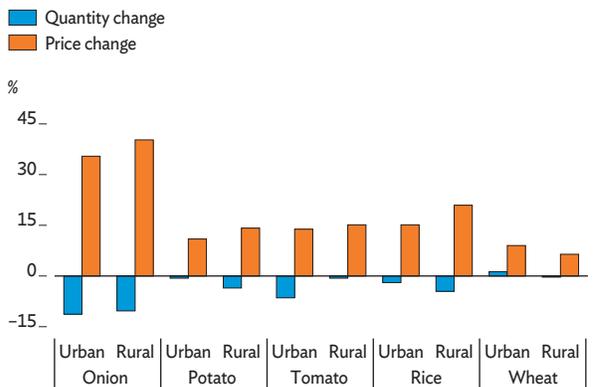


Note: Years are fiscal years ending on 31 March of the next year. FY2024 is covered only to February 2025. Source: CEIC Data Company.

Extreme weather events have become more frequent and intense, significantly disrupting food supply. Erratic rainfall leading to flooding or drought has become more common in recent years. According to the Economic Survey of the Government of India, the frequency and geographical spread of dry spells have increased over time, accompanied by a greater tendency for short, intense wet spells. Additionally, average surface temperatures have been rising, and the number of days with intense heatwaves has grown. During 2022–2024, heatwaves occurred on 18% of days on average, up from 5% during 2020–2021. Extreme weather reduces agricultural supply by reducing yields and increasing postharvest losses, especially of perishable commodities. For example, erratic monsoon rain, temperature increases, and several days of heatwaves caused a decline in the quantity of key agricultural commodities consumed by households in the period August 2023–July 2024 compared with the previous 12-month period

Figure 2.17.17 Change in Quantity and Price of Key Agriculture Commodities

The quantity consumed was generally lower and the price higher for key agriculture commodities in the more recent of two periods.



Note: Data show change in the period August 2023–July 2024 over the same period of the previous year.

Sources: Asian Development Bank estimates from the Household Consumption Expenditure Survey 2022–23 and 2023–24, Ministry of Statistics and Programme Implementation.

(Figure 2.17.17). This was accompanied by significant increases in average prices paid by consumers during the period.

The economic impact of high inflation is profound despite a declining share of food in consumer spending. With rising incomes and shifting consumer preferences, the share of food in total consumption has fallen but remains significant. As per government household surveys, food consumption fell from 53% of household expenditure in August 2011–July 2012 to 47% a dozen years later in rural areas, and from 43% to 40% in urban areas. Persistently high food inflation strains household budgets, even more so for poorer households, forcing diversion of spending away from other goods and services. Concurrently, weather-induced supply shocks undermine incomes from farming, which contributes 46% of employment in India, due to reduced output. Negative impact on consumers and farmers hinders overall growth and economic equity. Persistent food inflation also leads to tighter monetary policy to maintain overall price stability, affecting investment.

Weather volatility is expected to intensify food inflation, posing a major policy challenge. Concurrent with a rise in global temperatures, surface temperatures in India are predicted to increase, giving

rise to heatwaves. This could impact agriculture production, especially of perishable goods. On the other hand, as consumers' dietary preferences shift from cereals to dairy, fruit, and vegetables, demand will continue to grow for these products. A structural mismatch between demand and supply trends could give rise to higher food inflation and raise inflationary expectations unless policies are implemented to build resilience into the food supply chain.

Productivity can be boosted by making agriculture resilient. The impact of volatile weather on agriculture output can be mitigated by greater irrigation coverage to reduce dependence on rainfall. While irrigation coverage is high in several states with large production, it can be improved for other states as well. The Government of India has an ongoing program to extend irrigation services and improve water use efficiency under its “per drop more crop” program. Additionally, further development and use of crop

varieties that are more resilient in the face of heat and droughts is required. Policies to support crop diversification in favor of commodities with greater future demand would also help address the issue. Reflecting these concerns, the FY2025 budget announced programs to boost the production of vegetables, fruit, millet, and pulses as a step toward improving food supply.

Improving postharvest infrastructure and food processing capabilities is crucial to mitigate food supply losses. Expansion of storage infrastructure, particularly cold storage, would mitigate postharvest losses from extreme heat. It would also help farmers realize a greater share of consumer prices, which currently can be as low as 33% in the case of tomato, potato, and onion, as per a study published by the central bank. Expanding food processing centers is also important to meet growing demand for processed food over unprocessed, and to mitigate food price volatility.

MALDIVES

Growth accelerated in 2024 as robust tourism offset lackluster performance in fisheries and construction. Inflation subsided and the current account deficit rose. Economic expansion will moderate in 2025 and 2026 with slower growth in construction and the primary sector, and inflation will edge higher as subsidies are removed. Significant downside risks persist, particularly massive external debt service obligations reaching about \$1 billion next year. Overstretched fiscal resources necessitate measures to rationalize and strengthen the pension system and ensure its long-term viability.

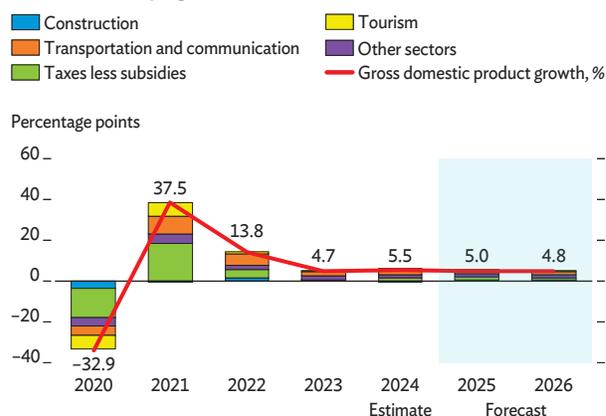
Economic Performance

Initial estimates indicate that the economy expanded by 5.5% in 2024, following estimated 6.5% year-on-year (yoy) growth in the first 3 quarters (Figure 2.18.1). Growth was primarily driven by the service sector, particularly tourism and its related industries—transportation and communication, and wholesale and retail trade—as well as real estate and public administration. Conversely, the primary sector contracted significantly, with a 37.0% yoy decline in fisheries during the first 3 quarters. The secondary sector also experienced a downturn due to a drop in fish processing and construction activities. While tourism is expected to have fueled growth in the fourth quarter (Q4), the subdued performance in fisheries and construction is expected to have tamped down growth in the last quarter.

More than 2 million tourists visited Maldives in 2024, 8.9% more than in 2023, with a commensurate increase in travel receipts (Figure 2.18.2). The People’s Republic of China (PRC) emerged as the top source market with 263,042 arrivals, or 12.9% of all arrivals. Russia maintained its position as the second largest source market, accounting for 11.0% of arrivals, followed closely by the United Kingdom, accounting for 8.8%. Regionally, Europe remained Maldives’ dominant tourist source market, with European visitors increasing by 14.3%. Tourist arrivals from Asia grew by 3.6%, and those from Oceania also increased, but the number of

Figure 2.18.1 Supply-Side Contributions to Growth

Tourism and its allied sectors transportation and communication remained the major growth drivers in 2024.



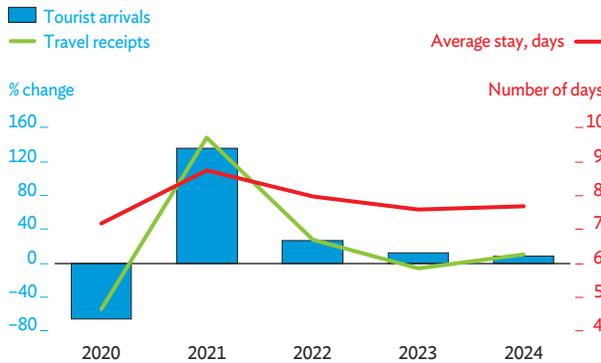
Sources: Maldives Monetary Authority. 2025. [Monthly Statistics](#). January; Asian Development Bank estimates.

visitors from Africa, the Middle East, and the Americas declined. The average stay went up slightly to 7.7 days from 7.6 days in 2023. This increase influenced travel receipts, which rose to \$4.2 billion in 2024 to November, or 10.4% higher than in the same period in 2023.

On the demand side, government investment and fish exports both contracted. The government’s Public Sector Investment Program (PSIP), focused primarily on transport projects and land reclamation, fell by 5.1% in 2024. Additionally, fish exports declined

Figure 2.18.2 Tourism Indicators

Travel receipts recovered in 2024 as tourist arrivals expanded to more than 2 million.



Source: Maldives Monetary Authority. 2025. *Monthly Statistics*. January.

significantly by 49.2% in value and 45.5% in volume. The slump in fish exports was due to a reduced fish catch, the closure of the privately owned Ensis Fisheries Group cannery in late 2023, and protests in February 2024 over delayed payments by the state-owned Maldives Industrial Fisheries Company.

Average inflation remained low at 1.4% in 2024, down from 2.9% in the same period of 2023.

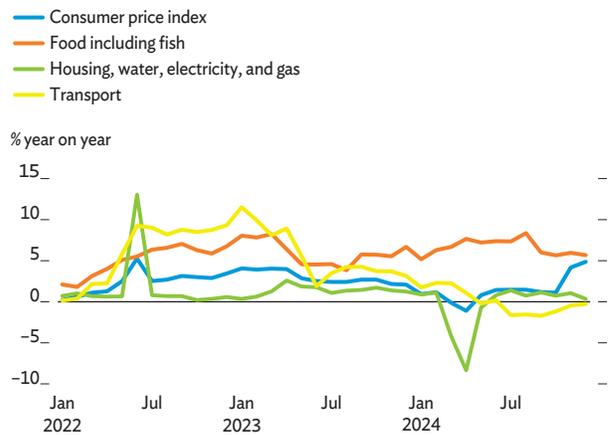
Contributing to the decrease were discounts on water and electricity services and other government subsidies, and reductions in prices for transport and information and communication services, which are set or negotiated by the government, as well as a decline in the cost of other commodities. However, prices increased from November due to higher import duties on cigarettes. The ban on vaping devices in December further boosted demand for cigarettes, driving prices up (Figure 2.18.3). With overall inflationary pressures remaining muted, the Maldives Monetary Authority’s accommodative stance was unchanged in 2024, and overall interest rates were kept low.

Higher government expenditure outpaced revenue growth, widening the fiscal gap to 14.0% of GDP in 2024.

Total revenue including grants expanded by 1.7% to equal 31.9% of GDP, mainly on an 8.9% increase in tax revenue. Government expenditure grew by 6.2% to 45.9% of GDP with recurrent expenditure increasing by 7.8% and capital expenditure by 2.8%. Further, the primary deficit worsened from 8.6% of GDP in 2023 to 9.8% in 2024 (Figure 2.18.4). A Rf5.1 billion supplementary budget was approved by Parliament in October 2024 to cover additional spending on the PSIP, national health insurance, subsidies, student

Figure 2.18.3 Inflation

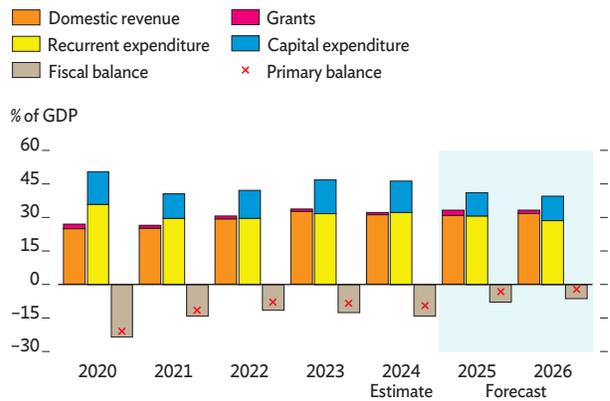
While inflation rose towards the end of 2024, average inflation remained low at 1.4% compared to 2.9% in 2023.



Source: Maldives Monetary Authority. 2025. *Monthly Statistics*. January.

Figure 2.18.4 Fiscal Indicators

The fiscal deficit is projected to moderate with the planned implementation of fiscal reform agenda.



GDP = gross domestic product.

Sources: Maldives Monetary Authority. 2025. *Monthly Statistics*. January; Ministry of Finance and Planning. *Budget 2025*.

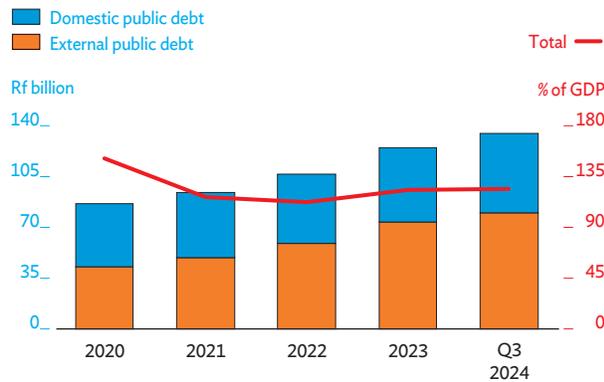
loans, and capital contributions to state-owned companies. The budget deficit was largely domestically financed (59.1%) by borrowing from nonbank financial institutions and commercial banks.

Public and publicly guaranteed debt increased to Rf135.1 billion, or 124.0% of GDP, at the end of Q3 2024.

External borrowing rose by 5.8% to equal 50.2% of GDP (Rf54.7 billion) and was mainly used to finance the fiscal deficit and support foreign exchange reserves. Similarly, public and publicly guaranteed domestic borrowing climbed by 9.0% to Rf80.3 billion to equal 73.7% of GDP (Figure 2.18.5). Moody’s Investors

Figure 2.18.5 Public Debt including Guarantees

The rising trend in total public debt continued in 2024.



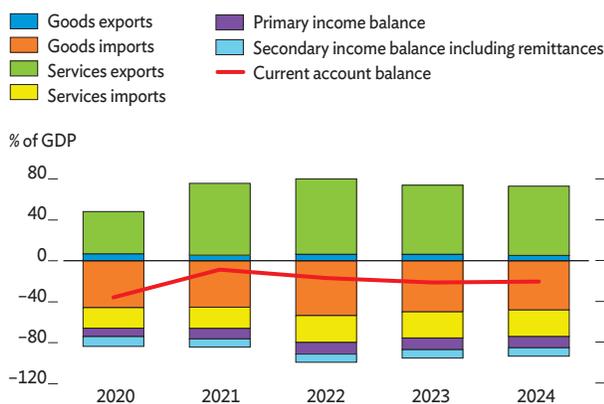
GDP = gross domestic product, Q3 = third quarter.
Source: Maldives Monetary Authority. 2025. *Monthly Statistics*. January.

Service downgraded Maldives' sovereign rating to Caa2 from Caa1 and Fitch Ratings downgraded it to CC from CCC+. The Export-Import Bank of China had the largest share of Maldives' external debt as of Q3 2024, holding 19.5%, and the Export-Import Bank of India followed with 18.5%.

The current account deficit increased by \$42.5 million to \$1.4 billion but marginally fell as a percentage of GDP to 20.4% in 2024 from 21.3% in 2023. The increased deficit was primarily driven by a deterioration in the goods balance, which declined by approximately 5.6% due to elevated goods imports. Net financial account inflows continued to partly offset the current account deficit (Figure 2.18.6).

Figure 2.18.6 Balance of Payments

The current account deficit improved marginally in 2024 but remained elevated.

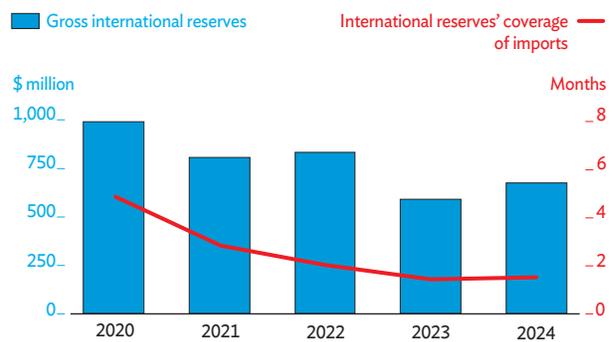


GDP = gross domestic product.
Source: Maldives Monetary Authority. 2025. *Monthly Statistics*. January.

Foreign reserves grew by 14.0% in 2024 to \$673.2 million, covering only 1.5 months of imports of goods and services. A currency swap agreement with the Reserve Bank of India raised reserves to \$614.6 million in October 2024 from their lowest level in September (Figure 2.18.7). However, official net usable reserves have remained negative since October 2024 due to rising short-term liabilities.

Figure 2.18.7 Gross International Reserves

Foreign reserves recovered by the end of 2024 but were still paltry, covering just over a month of imports.



Source: Maldives Monetary Authority. 2025. *Monthly Statistics*. January.

Economic Prospects

Growth is projected to slow to 5.0% in 2025 and further to 4.8% in 2026 (Table 2.18.1). While the tourism sector is expected to maintain robust growth, this will be offset by moderating growth in other sectors, particularly construction, and continued contraction in the primary sector. A new airport passenger terminal, 85% complete as of November 2024, is expected to be fully operational by mid-2025. This development is anticipated to significantly boost arrivals, possibly surpassing the 2.1 million guests recorded in 2024, as pent up demand for travel to the Maldives, especially from the PRC, has been growing. To accommodate the higher number of arrivals, over 30 resorts have been under development since 2023, with the majority set to open in 2025, adding almost 11,000 beds to capacity. However, increased tourist arrivals are not foreseen to translate into a commensurate increase in travel receipts, as average stay is expected to fall below 7.0 days from the current 7.7 days, as visitors from the PRC tend to stay for a shorter period. On balance, tourism is expected to grow by 7.0% this year before easing to 6.2% in 2027 as tourist inflows stabilize. With robust tourism, sectors

Table 2.18.1 Selected Economic Indicators, %

Growth will moderate in 2025 and 2026, and inflation will rise in 2025 before slowing in 2026.

	2023	2024	2025	2026
GDP growth	4.7	5.5	5.0	4.8
Inflation	2.9	1.4	4.7	2.2

GDP = gross domestic product.

Note: 2024 numbers are government estimates.

Sources: Maldives Monetary Authority, 2025. [Monthly Statistics](#). January; Asian Development Bank estimates.

directly related to travel and tourism are also expected to expand moderately. Growing transportation and communication, and wholesale and retail trade, will strengthen private consumption.

After weakness in 2024, construction and real estate are expected to grow moderately, largely because of public investment programs. Following a decline last year, PSIP financing is budgeted to increase by 12.4% in 2025 and 9.1% in 2026. Housing projects will receive the lion's share of PSIP investment, reflecting the government's commitment to address long-standing housing shortages in the country. Private investment, particularly in resort development, will also support sector growth.

Efforts are under way to advance the development of the fisheries sector. Funding has been secured to support the government's plans, including increasing the current capacity of cold storage facilities and fish processing plants, as well as identifying new export markets. However, the exit of Ensis Fisheries, the nation's largest fish exporter, will continue to weigh on the sector's performance and negatively impact the primary sector's overall contribution to GDP growth.

Key fiscal reforms are expected to be rolled out to reduce the budget deficit and enhance foreign currency inflows. On the revenue side, the green fee paid by tourists was doubled to \$12 starting on 1 January 2025, and the tourism goods and services tax rate will be raised from 16.0% to 17.0% from 1 July 2025. The government has also announced several austerity measures including better targetting of subsidies, reducing salaries for senior government officials, and introducing cost-cutting reforms in state-owned enterprises and the health-care system. However, implementing these austerity reforms will be a daunting

task, and the government may face significant resistance to these changes. Therefore, the effectiveness of these measures remains uncertain, and their impact is unlikely to be significant during the forecast period.

Inflation is expected to climb to 4.7% in 2025 with the removal of price subsidies before gradually easing to 2.2% in 2026.

The price upsurge assumes that the government proceeds with subsidy reform, initially planned for Q4 2024, in the first half of 2025. The hike in the tourism goods and services tax rate is also projected to push prices higher this year. Inflationary pressures will be tempered in 2026 as the impact on prices of subsidy removal dissipates, global commodity prices soften as projected, and a high base effect comes into play.

The current account deficit will narrow this year and next but remain substantial as government infrastructure spending and capital imports rise.

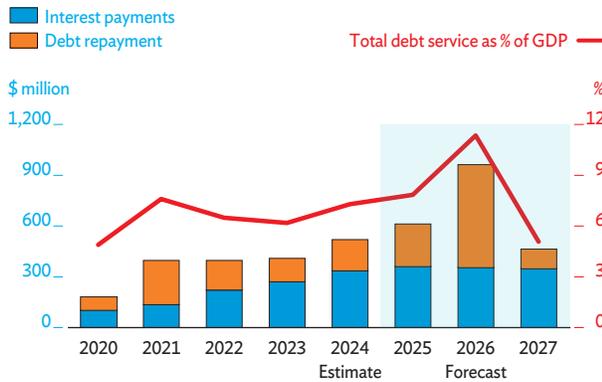
A free trade agreement with the PRC, effective since 1 January 2025, will eliminate tariffs on 91.0% of goods traded between the two countries, potentially boosting Maldivian fishery exports by providing duty-free access to the PRC market. This could help moderate the trade deficit. On balance, the ratio of the current account deficit to GDP will drop to 14.0% in 2025 and further to 13.0% in 2026, aided by the anticipated easing of global commodity prices.

High external debt obligations will continue to exert significant pressure on the fiscal position and the balance of payments. External debt service payment is projected at \$600 million in 2025, equal to 7.8% of GDP, and \$1 billion in 2026, or 11.4% of GDP. This is projected to go down in 2027 to \$461 million, or 5.0% of GDP (Figure 2.18.8).

Risks to the outlook remain largely tilted to the downside. Reserves, net of predetermined short-term outflows, have remained negative since October 2024, underscoring the country's extreme vulnerability to external shocks. Furthermore, any event that induces inflation or tightens financial markets, making fiscal borrowing more expensive for Maldives, could affect growth prospects. In particular, there is a risk that the government's planned debt monetization strategy that involves printing money to repay debt might raise inflationary pressures over the forecast period. The potential escalation of global trade tensions from higher

Figure 2.18.8 Debt Service

Maldives' total debt service obligations are expected to rise significantly in the next 2 years.



GDP = gross domestic product.

Source: Ministry of Finance and Planning.

US tariffs might also have a spillover effect on Maldives' economy that could likely hurt tourism and investment inflows. These risks could further imperil fiscal and debt sustainability, given Maldives' soaring public debt and minimal foreign exchange buffers.

Policy Challenge—Responding to Demographic Changes

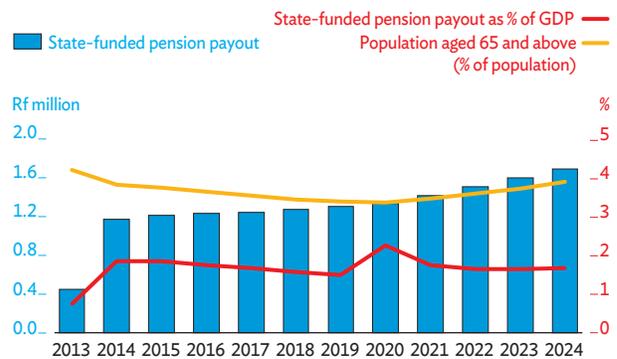
Maldives is experiencing a huge demographic transition, with fertility rates falling below replacement levels and life expectancy rising dramatically. According to the 2022 census, life expectancy at birth increased from 50 years in 1990 to 80 years in 2022. Currently, 1 in every 20 Maldivians is above the age of 65, with that proportion expected to climb to 1 in every 8 by 2050. This demographic change will significantly increase the old age population, putting additional pressure on the government budget. Increased spending on pensions, health care, and social welfare programs will be required, as will investment in training and infrastructure to support older workers. Without proactive measures, these demographic changes may negatively impact the country's social and economic stability.

Initiatives to address age-related issues through generous social programs mark progress but place significant strains on public finances. Public health initiatives have greatly boosted life expectancy, and programs offering universal health coverage and health-

care subsidies have made it easier for older people to receive care. Many senior citizens have gained financial independence thanks to the state-funded basic pension program for those over the age of 65. However, the pension system has become a significant economic burden, with expenses on basic pensions and other state pensions and benefits rising from Rf440 million in 2013 to Rf1.7 billion by 2024, or equivalent to almost 2.0% of GDP (Figure 2.18.9). The World Bank has expressed concern about the long-term viability of this costly system, noting that Maldives spends \$325 per head on pensions, more than any other South Asian country, and covers 93.0% of the eligible individuals. As pensions account for 90.0% of social security spending in Maldives, reform is critical to ensure fiscal stability.

Figure 2.18.9 State-Funded Pension Payout

The total state-funded pension payout quadrupled from 2013 to 2024.



GDP = gross domestic product.

Sources: Maldives Bureau of Statistics; Ministry of Finance and Planning.

To respond to these challenges, Maldives must adopt a multifaceted approach. The government should improve the pension system by increasing contributory coverage, offering incentives for private savings, and reallocating a portion of pension funds to insurance benefits and life-threatening illnesses. Encouraging higher workforce participation by women and elders can boost tax collection, while progressive taxation and tailored social safety programs can assure fair resource distribution. Furthermore, public-private collaboration and technology-driven solutions can improve service efficiency and reduce the cost of administering the pension system. More broadly and over the medium term, expanding the sovereign wealth fund and diversifying the economy are crucial for long-term fiscal sustainability. These initiatives would allow Maldives to meet the growing requirements of its aging population while maintaining economic stability.

NEPAL

Growth accelerated in fiscal year 2024 (FY2024, ended mid-July 2024) on higher services, hydropower generation, and paddy production. Inflation moderated, driven by nonfood items. The current account turned into surplus with a reduced trade deficit and higher remittance income. Growth will pick up this year and in FY2026 as domestic demand further recovers, hydroelectricity exports increase, and tourism strengthens. Inflation will subside as oil prices moderate, and the current account balance will gradually fall into deficit as stable remittances attract imports.

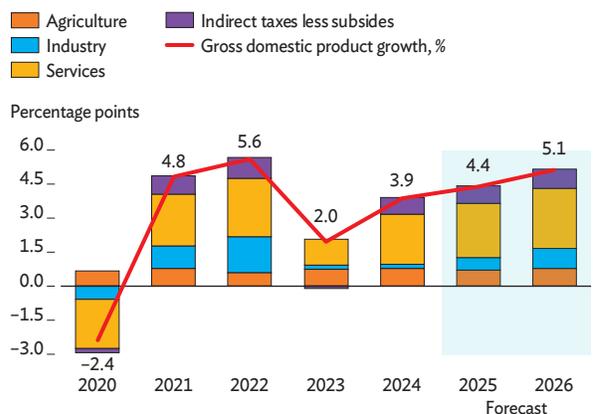
Economic Performance

GDP grew by 3.9% in FY2024, up from 2.0% in FY2023, driven by improved agricultural yield, electricity generation, and tourist arrivals (Figure 2.19.1). Agriculture grew by 3.0%, supported by a normal monsoon and timely farm inputs. Industry growth slowed slightly to 1.3%, with contractions in manufacturing and construction offsetting growth in electricity and mining. Manufacturing faced low demand, while construction suffered from delays in budgetary funding. Electricity generation expanded by 17.6%. Services growth nearly doubled to 4.5%, boosted by rising accommodation, food services, and transportation expenditure, and a 30.7% increase in tourist arrivals.

On the demand side, private investment and private consumption drove growth. Private consumption grew by 1.0%, up from a low 0.7% in FY2023 as remittance inflows strengthened and prices moderated, but public consumption slumped owing to austerity measures (Figure 2.19.2). Public investment growth slowed from 27.0% in FY2023 to 17.7% in FY2024 owing to implementation bottlenecks that hindered budget execution. Private investment growth surged by 16.6% in FY2024, following a contraction of 22.4% in FY2023. The contribution of net exports of goods and services to GDP growth was substantially lower than in FY2023 as import contraction slowed markedly.

Figure 2.19.1 Supply-Side Contributions to Growth

Economic growth accelerated in FY2024 and will trend upward this fiscal year and next, largely driven by services.



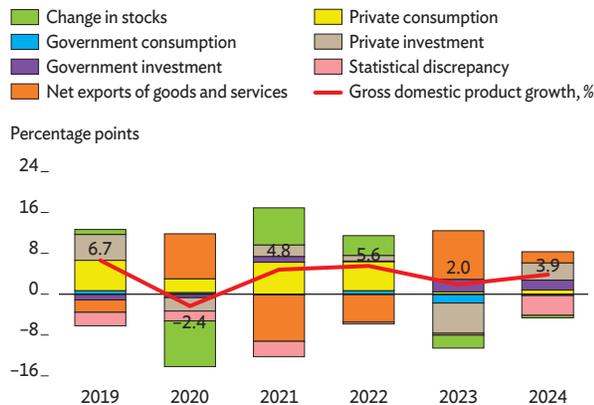
Note: Years are fiscal years ending in mid-July of that year.

Sources: National Statistics Office. 2024. National Accounts of Nepal 2023/24. *National Accounts of Nepal 2023/24*; Asian Development Bank estimates.

Inflation decreased to 5.4% in FY2024 from 7.7% in FY2023 (Figure 2.19.3). The decline was largely driven by a significant drop in nonfood inflation due to stable wholesale and consumer prices in India, and lower growth rates for import prices and salaries. Food inflation averaged 6.5%, slightly lower than 6.6% in the previous fiscal year, though prices for some items soared. Nonfood inflation averaged 4.6%, down

Figure 2.19.2 Demand-Side Contributions to Growth

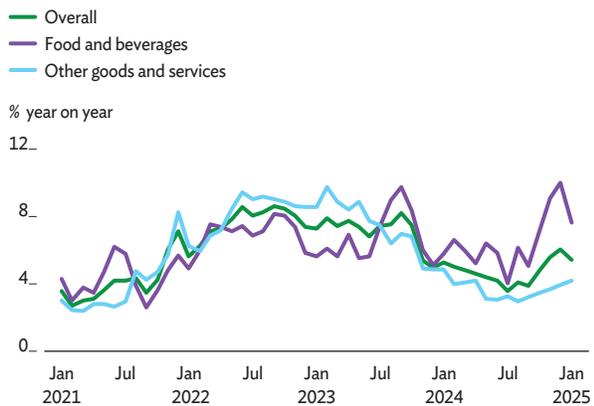
Higher private investment elevated growth in 2024.



Note: Years are fiscal years ending in mid-July of that year.
Sources: National Statistics Office. 2024. *National Accounts of Nepal 2023/24*; Asian Development Bank estimates.

Figure 2.19.3 Monthly Inflation

Average inflation moderated in FY2024 owing to lower nonfood and services prices.



Source: Nepal Rastra Bank. 2025. *Recent Macroeconomic Situation*.

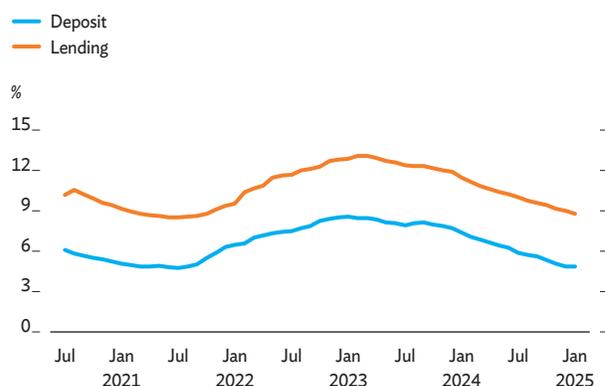
from 8.6%, as housing and utilities, clothing and footwear, furnishings and household equipment prices moderated due to subdued demand. Transportation costs eased amid a global decline in oil prices.

Nepal Rastra Bank, the central bank, eased monetary policy in FY2024 after implementing a tight policy in FY2023 to combat inflation. With an increase in foreign exchange reserves due to a reduced trade deficit and strong remittance inflows, and moderated inflation, in July 2024, the central bank cut the overnight repo policy rate by 50 basis points to 6.5% and interest on banks' deposits at the central bank by 100 basis points to 4.5%.

The weighted average interbank interest rate, the operational target of monetary policy, mostly stayed between these two rates (Figure 2.19.4). Lending to service-related industries, particularly hotels, grew by 6.2%, up from 3.7% the previous fiscal year, but overall private sector credit growth rose by only 1.5 percentage points to 6.1% in FY2024, despite falling interest rates (Figure 2.19.5). Nevertheless, broad money (M2) growth accelerated to 13.0% from 11.2% in FY2023 due to strong remittance inflows. Following substantial consolidation since 2021, the financial system remains sound, though there are signs of fragility affecting financial cooperatives. Nonperforming loans rose from 1.18% of total loans

Figure 2.19.4 Weighted Average Commercial Bank Interest Rates

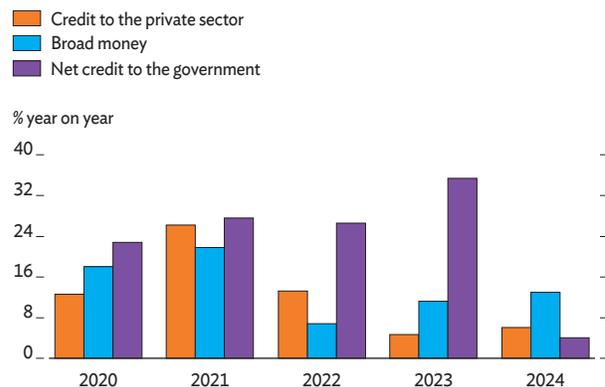
With a cut in the policy rate, interest rates trended downward in FY2024



Source: Nepal Rastra Bank. 2025. *Recent Macroeconomic Situation*.

Figure 2.19.5 Credit and Broad Money Growth

Growth in credit to the private sector increased in FY2024 while credit growth to the government slowed.



Note: Years are fiscal years ending in mid-July of that year.
Source: Nepal Rastra Bank. 2024. *Recent Macroeconomic Situation*.

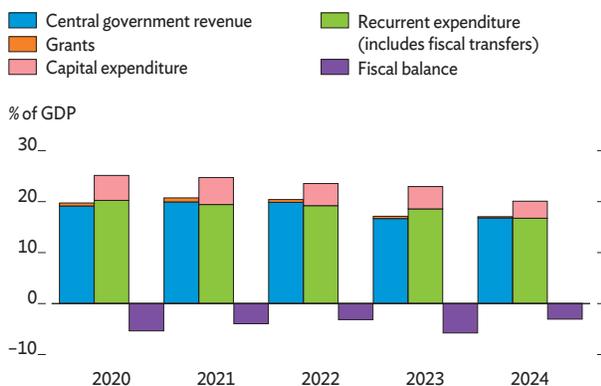
in February 2022 to 4.42% in mid-December 2024, but the average ratio of capital to risk-weighted assets remained above 12%.

The fiscal deficit moderated to 3.1% of GDP in FY2024 from 5.8% in FY2023 as both recurrent and capital expenditure declined (Figure 2.19.6).

Total expenditure decreased from 22.7% of GDP to 20.1% in FY2024 due to delays in budget execution. Central government revenue (including grants) increased marginally to 17.0% of GDP, with improved direct and indirect tax collection. Customs duties, value-added tax, and excise duties increased largely due administrative reforms aimed at curtailing revenue leakages and illicit trade, but remained lower than 2 years earlier. Despite import and credit liberalization, merchandise imports did not rise as expected due to weak business confidence and subdued domestic demand, tamping down the growth in receipts from import duties.

Figure 2.19.6 Fiscal Indicators

The fiscal deficit moderated in FY2024 on lower expenditure growth.



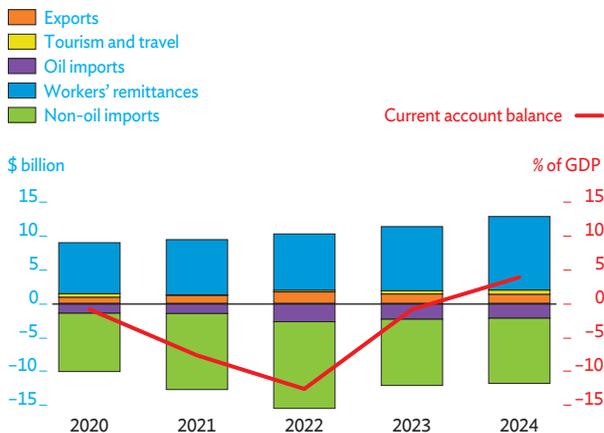
GDP = gross domestic product.
 Note: Years are fiscal years ending in mid-July of that year.
 Source: Ministry of Finance. Budget Speech 2024.

The current account surplus reached 3.9% of GDP in FY 2024, reversing a 0.9% deficit (Figure 2.19.7).

The trade deficit contracted by 1.9 percentage points to 26.2% of GDP as imports fell, despite the lifting of import restrictions and easing of credit controls, due to weak business confidence and subdued domestic demand while exports grew. Workers' remittances grew by 16.4% due to increased outmigration and the use of formal remittance channels. These developments and stable financial inflows led to an increase in the foreign exchange reserves to \$15.3 billion, covering 13 months of imports (Figure 2.19.8).

Figure 2.19.7 Current Account Indicators

The current account recorded a surplus as the trade deficit shrank and remittances rose.



GDP = gross domestic product.
 Note: Years are fiscal years ending in mid-July of that year.
 Source: Nepal Rastra Bank. 2024. *Recent Macroeconomic Situation*.

Figure 2.19.8 Gross International Reserves and Foreign Exchange Adequacy

Foreign exchange reserves rose markedly in FY2024 owing to a positive current account balance.



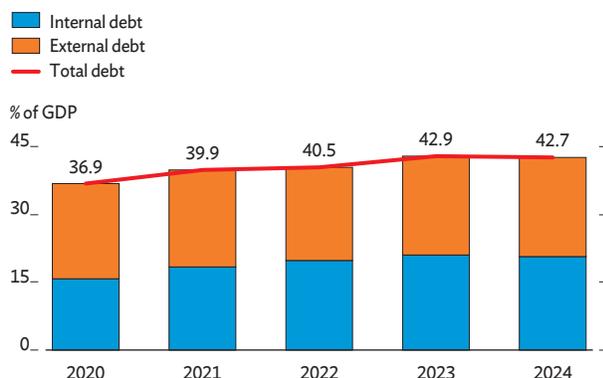
Note: Years are fiscal years ending in mid-July of that year.
 Source: Nepal Rastra Bank. 2025. *Recent Macroeconomic Situation*.

Government debt, which surged in FY2020 to finance COVID-19 expenditures, moderated in FY2024 as a percentage of GDP (Figure 2.19.9).

Total public debt is evenly distributed between domestic and external sources of financing. It eased to 42.7% of GDP in FY2024 from 43.0% in FY2023, with domestic debt decreasing by 0.3 percentage points and external debt increasing by 0.1 percentage points. Nepal's risk of external and public debt distress is considered low due to low ratios of external debt to GDP and external debt service to revenue,

Figure 2.19.9 Public Debt

Public debt remained stable relative to GDP in FY2024.



GDP = gross domestic product.

Sources: National Statistics Office; Financial Comptroller General Office; Public Debt Management Office.

averaging 3.7% from FY2019 to FY2024, thanks to high levels of concessional borrowing with long maturities.

Economic Prospects

GDP growth is expected to reach 4.4% in FY2025 and rise to 5.1% in FY2026 (Table 2.19.1). All key production sectors are expected to expand. The Ministry of Agriculture projects a 4.0% increase in paddy output this fiscal year, attributed to an above-normal monsoon, timely availability of fertilizers, and high-yielding variety seeds. However, scant winter rainfall may harm winter crops, reducing overall agriculture growth from 3.0% in FY2024 to 2.8% this fiscal year. Key economic sectors like manufacturing and construction, which contracted in FY2024, will expand this fiscal year owing to stable oil and raw input prices, increased liquidity, and declining interest rates, which have paved the way for increasing credit to all production sectors.

Table 2.19.1 Selected Economic Indicators, %

Growth will accelerate in FY2025 and FY2026 as inflation declines.

	2023	2024	2025	2026
GDP growth	2.0	3.9	4.4	5.1
Inflation	7.7	5.4	5.2	5.0

GDP = gross domestic product.

Note: Years are fiscal years ending in mid-July of that year.

Sources: Government and Asian Development Bank estimates.

The government aims to expedite capital expenditure, targeting an 85% execution rate.

With increased efforts in the second half of FY2025, the stymied construction subsector will grow. Overall, industrial growth is projected to rise to 3.9%, driven largely by the electricity subsector, which grew by 21.4% year on year in the first quarter of FY2025 and is expected to expand as hydroelectric projects are implemented. Supported by increased access to credit, higher commitment in foreign direct investment inflow, and a rebound in international tourist arrivals, service sector growth is expected to rise to 4.8% in FY2025. Increased domestic demand in the second half of FY2025 will strengthen the wholesale and retail sectors. Transportation and logistics will benefit from improved road networks and higher tourist flow. Information and communication services will also strengthen, with a 29.0% increase in exports in the first 6 months of FY2025, compared to 4.9% the previous year. Recent amendments to the foreign investment and technology transfer act and the company's act, allowing foreign direct investment in Nepal's IT sector, will further boost growth.

On the demand side, fixed investment and consumption will drive growth in FY2025 and FY2026.

Total investment should add 6.6 percentage points to GDP growth. Private investment will be spurred as the sector's concerns related to investment and government services are being addressed. Service-oriented industries are now authorized to invest in special economic zones, previously open only to manufacturing industries. The reforms aimed at simplifying company registration and liquidation processes. New provisions support Nepali companies in foreign markets by enabling them to open branches, conduct business, and repatriate income to Nepal. The repatriation of foreign investments and earnings has also been streamlined. In response to private sector concerns about delays, the reforms now mandate decision-making authorities to act within a maximum of 7 days when legal deadlines are specified. Public investment is expected to grow by 18.6% in FY2025 as project implementation is slated to accelerate due to commitments made in the midyear budget review. Projects that have not reached the implementation phase will be postponed for the remainder of the fiscal year. Private consumption, which makes up about 80% of GDP, will expand by 2.0% to add 1.6 points to growth due to strong remittance inflows and

moderated prices. Fiscal policy will support growth as public consumption rises on higher allocations for employee compensation and larger expenditure on goods and services, transfers, and social security under the FY2025 budget. Exports will increase as Nepal expands its electricity production and transmission lines, becoming a consistent net exporter of electricity. Imports, especially capital goods, will rise on stronger public capital expenditure, and net service imports will also rise due to higher travel costs for Nepalis going abroad. Overall, net exports of goods and services will subtract from growth due to the large import volume. GDP growth is expected to rise to 5.1% in FY2026, spurred by higher capital expenditure, driven by government reforms, continued progress in tourism and related services, and increased agricultural production due to mechanization and improved irrigation facilities, assuming normal monsoon.

Inflation is expected to moderate in FY2025 and FY2026. The causes are expected lower international oil prices and moderating inflation in India. In the first half of FY2025, inflation averaged 5.0%, down from 6.5% in the first half of the previous year, as nonfood inflation moderated to 3.6% from 5.9% due to stable prices for housing, utilities, furnishings, and health care. Food inflation rose slightly due to flood-induced spikes but is expected to ease as transport networks recover, agricultural output improves, and cheaper agricultural produce flows in from India through open borders. Inflation is thus expected to decline to 5.2% in FY2025. It will fall further to 5.0% in FY2026, assuming a normal harvest and subdued oil prices.

The current account balance is expected to show a slight surplus in FY2025 before shifting to a deficit in FY2026. The merchandise trade deficit widened by 1.8% in the first half of FY2025, but workers' remittances, which traditionally offset Nepal's trade deficit, expanded by 1.1%, leading to a current account surplus of \$1.1 billion. Despite higher imports in the latter half of FY2025, buoyant remittance inflows are expected to keep the current account surplus at 0.1% of GDP. In FY2026, a deficit equal to 2.4% of GDP is projected as goods imports accelerate with higher growth and service imports rise due to increased outbound travel.

The outlook faces downside risks. Intensified geopolitical tensions in the Middle East could lower remittances, as most receipts come from the Gulf

countries. The tariff increases recently announced by the United States may adversely impact economic prospects in major economies, affecting Nepal's tourism receipts, and lowering foreign aid used by Nepal to finance development needs. Under-execution of the capital budget will also dent growth prospects. Additionally, Nepal is highly vulnerable to natural hazards and climate shocks.

Policy Challenge—Advancing Sustainable Energy Infrastructure for Economic Growth

Nepal possesses immense potential for sustainable energy resources that can be harnessed for energy security, economic growth, and environmental sustainability. Its hydropower potential is estimated at 83,000 megawatts, with around 45,000 megawatts economically feasible. Bolstered by substantial investment and government support, hydropower is poised for growth that will reduce Nepal's import dependence during the dry season and make it a net electricity exporter. Progress in cross-border trade, climate ambitions, and the integration of renewable energy sources is driving hydropower advancements in Nepal. Further key opportunities include facilitating and expanding regional electricity trade, leveraging private sector resources across the electricity value chain, and deploying modern energy technologies to maximize the value of seasonal hydropower.

Nepal has a unique opportunity to harness complementary energy sources by integrating solar power and hydropower, ensuring year-round energy stability while attracting foreign investment to expand renewable energy infrastructure. There are indeed significant investment opportunities in solar energy, both for large-scale projects and rooftop projects. Nepal can leverage its complementary energy sources by utilizing abundant solar power during the dry season and plentiful hydropower in the wet season. This dual approach can reduce reliance on imports during periods of low river flow by improving seasonal variations in electricity supply. The government should leverage foreign investment to support the private sector in expanding solar power and storage technologies.

Advancing Nepal's energy sector requires regulatory, procedural, and infrastructural reforms.

The Energy Development Roadmap and Action Plan 2035 outlines ambitious goals for generation capacity and infrastructure development. It requires investment worth \$46 billion. To achieve the goals of the action plan, the government should create robust physical and regulatory infrastructure for cross-border electricity trade; explore storage solutions like hydrogen, ammonia, and battery energy storage systems; and streamline processes to attract private sector participation. Developing transmission and distribution infrastructure, removing bottlenecks, and streamlining the permit application process will make energy delivery more efficient and foster energy sector growth. The government should also develop electricity tariffs that reflect the true cost of production; amend the Energy Policy and Electricity Act to promote renewable energy, streamline regulations, encourage private investment, develop infrastructure, enhance energy

efficiency, raise public awareness, and support research and development for a sustainable and inclusive energy sector, and reduce implementation risks. It should prioritize innovative storage solutions and support transmission and distribution projects through public-private partnership modalities. Given substantial funding requirements, exploring private funding for economically sound projects and establishing credit enhancement mechanisms such as collateralization, insurance, and guarantees will facilitate financing for private sector investments in energy infrastructure.

Higher electricity generation and sustainable energy practices can significantly reduce Nepal's trade deficit by cutting down on fossil fuel imports.

The resources saved can be allocated to other developmental goals, such as achieving the Sustainable Development Goals. Moreover, this shift toward clean energy will help mitigate climate change and position Nepal as a global role model for sustainability.

PAKISTAN

Growth resumed and inflation fell in fiscal year 2024 (FY2024, ended 30 June 2024) as tight macroeconomic policies and progress in economic reform stabilized the economy and attracted external finance. Monetary policy was eased in FY2025 as inflation fell further. If ongoing economic reforms are maintained, modest growth and much lower inflation are forecast for FY2025 and FY2026. Enabling more Pakistani women to work outside the home could boost productivity and output while advancing female empowerment.

Economic Performance

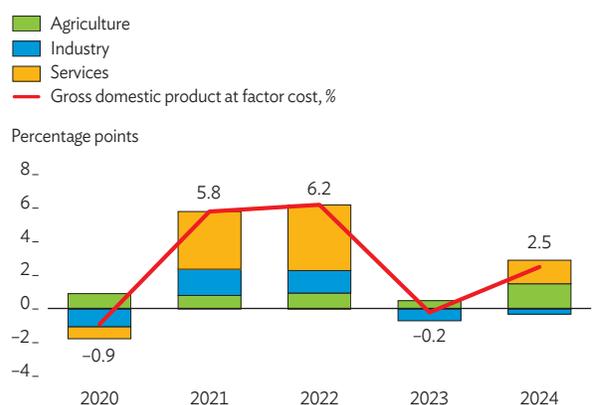
Reversing contraction by 0.2% in FY2023, the economy grew by 2.5% in FY2024, supported by tight macroeconomic policy. Economic and political uncertainty eased significantly with the formation of a new government in March 2024 and renewed support from international financial institutions. Inflationary pressures subsided, the Pakistan rupee stabilized as external conditions improved, and international reserves reached their highest level in 2 years.

Agriculture led the recovery on the supply side. Favorable weather after devastating floods in FY2023 spurred agricultural expansion to 6.2% (Figure 2.20.1). Output of key crops surged, contributing 0.8% to overall growth. Cotton production more than doubled, reaching its highest level in 6 years, while rice and wheat harvests hit records. However, industry contracted by 1.7% for a second consecutive year despite modest recovery in manufacturing, reflecting declines in utilities and construction attributable to contractionary macroeconomic policies, high living and construction costs, and lower development spending. Robust agriculture and a slight recovery in manufacturing helped boost services by 2.4%, following stagnation in FY2023.

Consumption remained the primary demand-side growth driver, while investment continued to decline. Private consumption grew by 6.3%, up from

Figure 2.20.1 Supply-Side Contributions to Growth

Growth rebounded in 2024, driven by robust agriculture performance.



Notes: Years are fiscal years ending on 30 June of that year. Gross domestic product at factor cost excludes indirect taxes less subsidies.

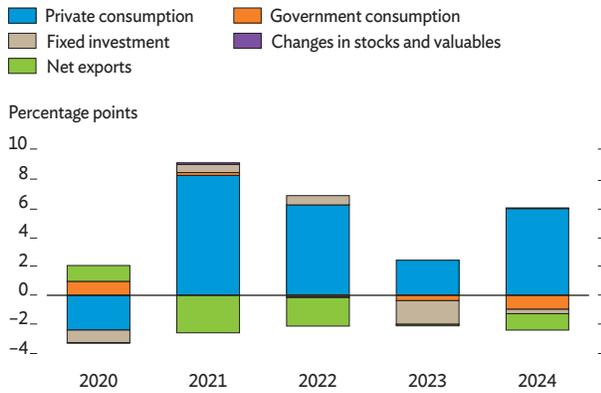
Source: Pakistan Bureau of Statistics. [Updated National Accounts Tables Base FY2016: Table 6 and 7a.](#)

2.6% in FY2023, to reach 93.5% of GDP, bolstered by higher farm incomes and workers' remittances (Figure 2.20.2). Investment decreased by 2.6% for a second consecutive year, declining to 11.5% of GDP, as a challenging political and business environment cut gross fixed capital formation by 3.6%.

Growth in the first quarter (Q1) of FY2025 registered 0.9%, down from 2.3% a year earlier, mainly because of a significant slowdown in

Figure 2.20.2 Demand-Side Contributions to Growth

Private consumption boosted growth in 2024, supported by higher agricultural income and remittances.



Note: Years are fiscal years ending on 30 June of that year.
Source: Pakistan Bureau of Statistics. Updated National Accounts Tables Base FY2016: Table 9.

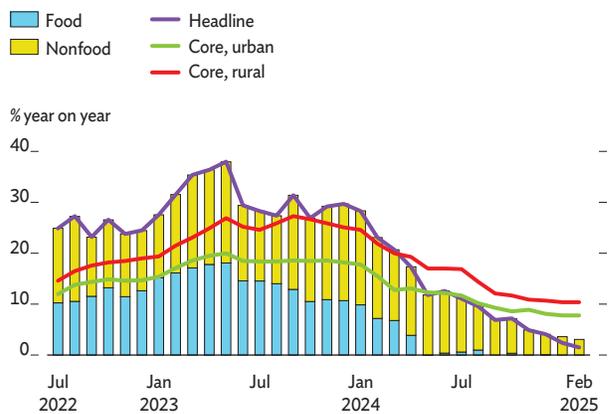
agriculture. Production of key crops fell by 11.2% in Q1 FY2025, compared to a 30.0% rise a year earlier, as a reduction in area under cultivation, changing weather patterns, and high input costs cut the output of cotton, rice, and sugarcane. Industry also contracted, by 1.0%, though less than by 4.4% the previous year. Nevertheless, large-scale manufacturing showed some improvement, while small-scale manufacturing output expanded by 10.0%.

Average inflation slowed to 23.4% in FY2024 from 29.2% in FY2023. Inflation stayed elevated in the first half of FY2024 because of a significant rise in administered prices for gas and electricity, along with tax measures in the FY2024 budget. However, improved food supplies due to a strong rebound in crop output and a reduction in global commodity prices sharply decreased food price inflation in the second half of FY2024. With lower inflation, inflationary expectations eased, and core inflation declined. The State Bank of Pakistan, the central bank, maintained tight monetary policy throughout most of FY2024, keeping its policy rate at 22.0% until 10 June 2024, when the cumulative decline in inflation allowed it to cut the policy rate to 20.5%.

Inflation continued its downward trend during the first 8 months of FY2025, falling from 12.6% in June 2024 to 1.5% in February 2025 (Figure 2.20.3). Average inflation during this period fell to 6.0% from a high of 28.0% a year earlier. This improvement reflected

Figure 2.20.3 Monthly Inflation

Inflation declined sharply in the second half of 2024 and early 2025 as food price inflation plummeted with improved supplies.



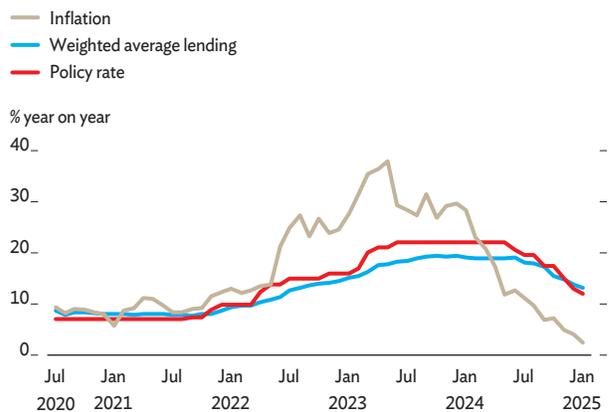
Source: Pakistan Bureau of Statistics. Monthly Review on Price Indices: February 2025.

mutated domestic demand pressures, along with a stable exchange rate and global commodity prices. In response, the central bank reduced its policy rate by a cumulative 850 basis points, from 20.5% at the end of June 2024 to 12.0% in January 2025 (Figure 2.20.4).

Revenue-led fiscal consolidation cut the overall fiscal deficit from 7.8% in FY2023 to 6.8% in FY2024. The primary balance achieved a surplus of 0.9% of GDP, the first surplus since FY2004 and a turnaround from a 1.0% deficit in FY2023. Total revenue rose by 1.1% of GDP, supported by new revenue measures. Tax revenue rose from 9.3% of GDP

Figure 2.20.4 Interest Rates and Inflation

The central bank slashed the policy rate by a cumulative 850 basis points from January 2024 through January 2025 as inflation plunged.



Source: State Bank of Pakistan. Economic Data.

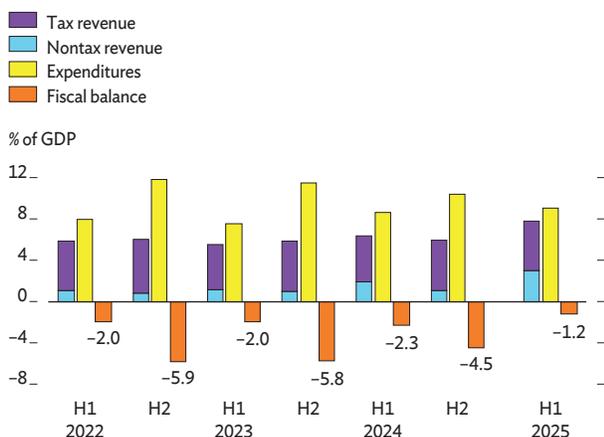
in FY2023 to 9.5%, while higher petroleum levy receipts and increased profit transfers from the central bank boosted nontax revenue from 2.2% of GDP in FY2023 to 3.0%.

The government cut development spending to offset the impact of rising interest payments on total outlays. Rationalized subsidies and disciplined budget execution reduced noninterest current expenditure from 10.6% of GDP in FY2023 to 9.9% in FY2024. However, interest payments rose from 6.8% of GDP to 7.7%, equal to 61.0% of total revenue. The increase in interest payments was attributable to tight monetary policy and the accumulation of public debt, which grew by 20.3% annually over the past 2 years to reach PRs71.2 trillion (67.5% of GDP) in June 2024. The rise in interest payments for FY2024 was primarily driven by an uptick in interest payments on domestic debt, with domestic borrowing making up 95.5% of total government borrowing. High interest payments kept total expenditure at 19.4% of GDP.

Fiscal performance remained strong in the first half of FY2025. Despite a shortfall in tax collection, the government achieved a primary surplus of 2.9% of GDP and an overall deficit of 1.2% (Figure 2.20.5). Total revenue increased to 7.9% of GDP during this period from 6.5% in the same period a year earlier, primarily because of a profit transfer of PRs2.5 trillion (2.2% of

Figure 2.20.5 Fiscal Indicators

Fiscal consolidation efforts reduced the fiscal deficit in FY2024 and the first half of FY2025.



GDP = gross domestic product, H = half.

Note: Years are fiscal years ending on 30 June of that year.

Source: Ministry of Finance. [Pakistan Summary of Consolidated Federal and Provincial Fiscal Operations 2022–23, 2023–24, and 2024–25.](#)

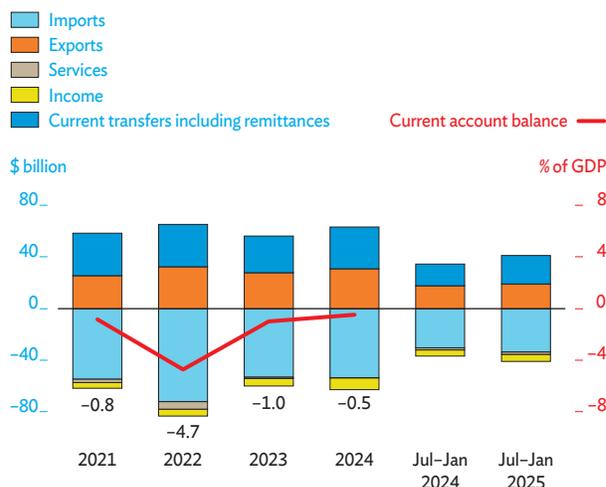
GDP) from the central bank. Tax collection increased by 25.5% compared to the first half of FY2024 but still fell short of the target by PRs384 billion (0.3% of GDP). Expenditure increased to 9.1% of GDP in the first half of FY2025.

Higher exports and remittances halved the current account deficit from \$3.3 billion (1.0% of GDP) in FY2023 to \$1.7 billion (0.5%) in FY2024 (Figure 2.20.6). Merchandise exports grew by 11.1%, driven by a robust recovery in agriculture that nearly doubled food exports to \$7.1 billion as exports of rice reached a record \$3.9 billion. With tight macroeconomic policy and high living costs limiting import growth to 0.7%, the merchandise trade deficit narrowed by 3.7% to \$24.9 billion (6.7% of GDP). Remittances grew by 10.7% to \$30.3 billion, reflecting a narrower gap between interbank and open market exchange rates and enhanced regulatory oversight to curb illegal foreign currency trade (Figure 2.20.7).

The current account posted a surplus of \$682 million in the first 7 months of FY2025 that reversed a \$1.8 billion deficit a year earlier, reflecting a significant increase in workers’ remittances. The surplus occurred despite a 15.7% rise in the merchandise trade deficit as imports grew

Figure 2.20.6 Current Account Components

A smaller trade deficit and higher remittances halved the current account deficit in 2024.



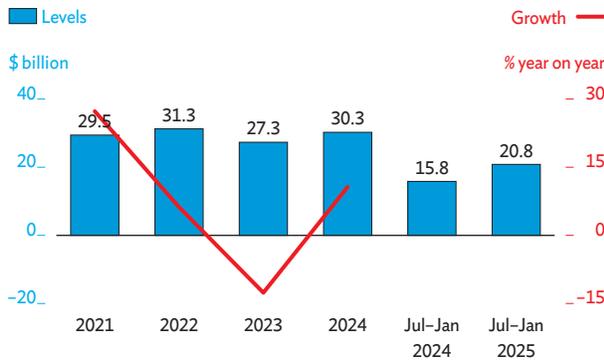
GDP = gross domestic product.

Note: Years are fiscal years ending on 30 June of that year.

Source: State Bank of Pakistan. [Economic Data: External Sector. Summary Balance of Payments as per BPM6—January 2025.](#)

Figure 2.20.7 Remittances

Remittances increased in 2024 with a return to a market-determined exchange rate.



Note: Years are fiscal years ending on 30 June of that year.
Source: State Bank of Pakistan. *Economic Data: External Sector. Worker's Remittances.*

faster than exports, driven by the ongoing recovery in domestic economic activity and stability in the foreign exchange market (Figure 2.20.8). Merchandise imports rose by 10.9% in the first 7 months of FY2025, boosted by higher imports of machinery and textile raw materials because of a weak domestic cotton harvest. Merchandise exports rose by 7.6% during this period, driven by improvements in textiles and other sectors.

The improved current account position and external financing bolstered international reserves.

Official reserves more than doubled from \$4.4 billion

Figure 2.20.8 Trade Balance

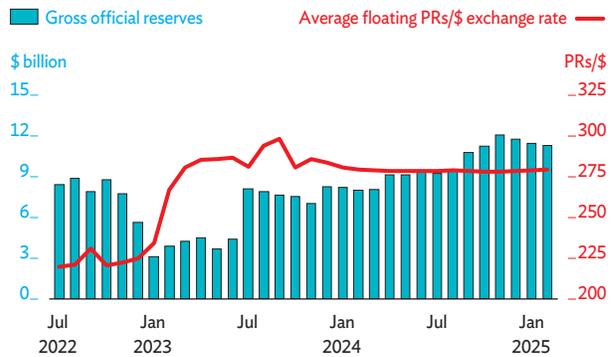
The merchandise trade deficit narrowed in 2024 but widened in the first 7 months of 2025 as imports grew faster than exports.



GDP = gross domestic product.
Note: Years are fiscal years ending on 30 June of that year.
Source: State Bank of Pakistan. *Economic Data: External Sector. Summary Balance of Payments as per BPM6—January 2025.*

Figure 2.20.9 Gross Official Reserves and Exchange Rate

International reserves more than doubled, and the exchange rate stabilized during 2024.



Source: State Bank of Pakistan. *Economic Data.*

at the end of FY2023 to \$9.4 billion at the end of FY2024 (Figure 2.20.9), tripling import coverage from 0.6 months to 1.8 months. Official reserves increased further to \$11.4 billion by the end of February 2025. Drawdowns under an International Monetary Fund (IMF) standby arrangement and central bank purchases of foreign exchange contributed to the increase. The improvement in Pakistan's external position boosted market confidence, reducing market volatility and the spread between official and market exchange rates.

Economic Prospects

Pakistan's outlook depends largely on the success of ongoing economic reform.

Economic reform has progressed considerably under an IMF Extended Fund Facility arrangement that began in October 2024, enhancing macroeconomic stability. For instance, agricultural income became taxable across Pakistan after all provinces successfully passed the Agriculture Tax Bill, 2025. The reform program implementation has been strong in several other areas, including the planned fiscal consolidation to durably reduce public debt, maintenance of sufficiently tight monetary policy to maintain low inflation, improvement of the energy sector viability, and implementation of Pakistan's structural reform agenda to accelerate growth. However, Pakistan still faces substantial vulnerabilities and structural challenges. Consistent policy implementation is thus crucial for building resilience and enabling sustainable and inclusive

growth. Key priority areas include consolidating public finances by broadening the tax base while increasing social spending and protection, strengthening external buffers, mitigating fiscal risks from state-owned enterprises, and improving the business environment to promote growth led by the private sector.

Recovery is projected to continue in the medium term, with growth forecast at 2.5% in FY2025 and 3.0% in FY2026 (Table 2.20.1 and Figure 2.20.10).

Provisional quarterly growth data for Q1 FY2025 suggests a sustained but slow recovery as performance in agriculture, industry, and services remained lukewarm. Although ongoing fiscal consolidation and weaker farm income attributable to an anticipated decline in key crop production will constrain activity in FY2025, effective implementation of the reform program should foster a more stable macroeconomic environment and gradually remove structural barriers to growth. A rebound in electricity generation and

gas and water supply also suggests potential revival in industry. Economic activity in both industry and services will benefit from further monetary easing and ongoing macroeconomic stability. Economic activity will also benefit from a recovery in private investment, strengthened by perceptions of greater economic stability, along with recent and expected future monetary easing and a stable foreign exchange market. Strong remittance inflows, lower inflation, and monetary easing should support private consumption and growth.

Average inflation is projected at 6.0% in FY2025 and 5.8% in FY2026 (Figure 2.20.11).

This is within the central bank's medium-term target range of 5%–7%. The recent decline in inflation was in line with expectations and mainly driven by a continued moderation in food inflation, stable global oil and commodity prices, moderate domestic demand conditions, and a favorable base effect. Core inflation, while continuing to ease, is still at an elevated level. Inflation is expected to rise in the coming months from its recent low, in part from pending reform in the gas sector involving a planned increase in gas prices for captive power plants that will likely raise input costs for these private facilities. Overall, the inflation outlook is susceptible to multiple risks emanating from volatile global commodity prices, unfavorable changes in global trade policies, the timing and magnitude of administered energy tariff adjustments, as well as any additional measures to meet the government's revenue targets. The central bank is expected to adopt a cautious approach to easing monetary policy. Encouragingly, it has committed to maintaining a

Table 2.20.1 Selected Economic Indicators, %

Growth is projected to continue in FY2025 and accelerate in FY2026, with inflation declining.

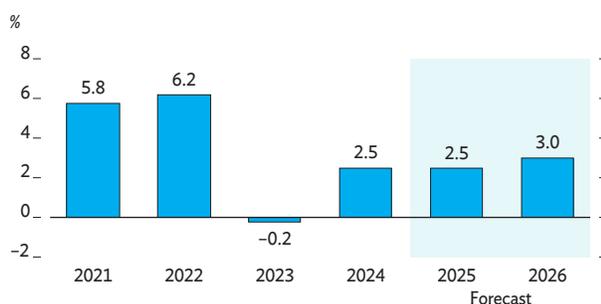
	2023	2024	2025	2026
GDP growth	-0.2	2.5	2.5	3.0
Inflation	29.2	23.4	6.0	5.8

GDP = gross domestic product.

Sources: Pakistan Bureau of Statistics, [Updated National Accounts Tables Base 2015–16](#); State Bank of Pakistan, Monetary Policy Information Compendium—January 2025; Asian Development Bank estimates.

Figure 2.20.10 Growth Outlook

Growth is projected at 2.5% in 2025 and 3.0% in 2026 as economic reform boosts economic activity.

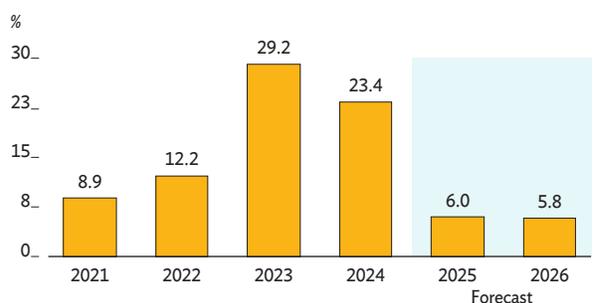


Note: Years are fiscal years ending on 30 June of that year.

Sources: Pakistan Bureau of Statistics, [Updated National Accounts Tables Base FY2016: Table 5](#); Asian Development Bank estimates.

Figure 2.20.11 Inflation Outlook

Inflation is projected to decline significantly in 2025 under a stable outlook for international commodity prices.



Sources: Pakistan Bureau of Statistics, [Price Statistics: Monthly Review on Price Indices—January 2025](#); Asian Development Bank estimates.

proactive monetary policy framework, aiming to keep real interest rates sufficiently positive to stabilize inflation within its medium-term target range.

Sustaining fiscal consolidation and mitigating fiscal risks from state-owned enterprises, particularly in energy, remain crucial to the economic outlook.

Fiscal discipline and lower interest rates are expected to cut full-year interest payments sharply, generating the necessary fiscal space for much-needed social and development spending. A stronger effort in policy and administrative reform is essential to address slippage in retail and overall tax collection, and in implementing provincial agriculture taxes.

The current account deficit is expected to remain contained in FY2025. Imports are expected to rise during the rest of FY2025 as economic activity strengthens, backed by monetary easing and stable macroeconomic conditions, potentially erasing the accumulated surplus in the current account balance. Remittances rose by almost one-third to \$20.8 billion during the first 7 months of FY2025 and are expected to remain robust in the remainder of the year, supported by greater exchange rate stability, improvements in digital payment infrastructure, and an increase in migrant workers. The anticipated increase in workers' remittances and the realization of projected financial inflows are likely to raise official reserves to \$13.0 billion (2.9 months of import cover) by June 2025.

The economic outlook faces significant downside risks. An improved external position and a quicker-than-anticipated drop in inflation could encourage the government to relax macroeconomic policies, possibly triggering a reemergence of balance-of-payment pressures and jeopardizing Pakistan's hard-earned macroeconomic stability. Deviation from projected fiscal consolidation due to revenue underperformance or pressures from recurrent expenditures could boost government debt, thereby increasing borrowing costs, possibly crowding out private borrowing and undermining exchange rate stability. Policy lapses could also jeopardize disbursements from multilateral and bilateral partners, cutting financial inflows and intensifying pressure on the exchange rate. The ongoing recovery in business confidence might wane if political tensions were to escalate, curtailing private investment and consumption and weakening growth. Insufficient

rain and the potential for drought could undermine food security, also threatening growth. Externally, the main risks to the outlook stem from a rise in global food and commodity prices and changes in global trade policies that might adversely impact global interest rates and exchange rate stability.

Policy Challenge—Expanding Women's Participation in the Labor Force

While women comprise almost half of Pakistan's total working age population, their labor force participation remained low at 23% in FY2021. This is below the average of 27% in South Asia and 35% in lower-middle-income countries globally. Pakistan's low female labor force participation poses a significant loss of productivity that limits potential economic growth while perpetuating gender inequality. Greater labor force participation could significantly boost productivity and output while advancing female empowerment, as female earners have greater influence in household decision-making.

Several factors restrict women's participation in the labor force. Limited access to quality education and vocational training makes it difficult for women to compete in the job market, restricting their opportunities for gainful employment. Moreover, deep-rooted patriarchal social norms and cultural constraints discourage women from seeking employment outside the home, as traditional gender roles and societal expectations prioritize women's roles as homemakers and caregivers. A lack of safe, accessible, and affordable transportation limits women's mobility, hampering their ability to commute safely to and from work. High levels of poverty and economic instability may also reduce women's labor force participation. Women may need to prioritize unpaid domestic work over paid employment to support their families. Inadequate availability of affordable and reliable childcare further hinders women's labor force participation, with many women exiting the labor market after having children. Workplace discrimination and harassment, biases in hiring practices, and a lack of supportive policies for working women further deter women from entering and staying in the labor force.

Improving opportunities for empowering, developing, and engaging women is among the key priorities of the government's Vision 2025.

The National Transformative Gender Agenda under the National Gender Policy Framework 2022 also accentuates strategies to equip women with employable and high-income skills and to expand equitable access to qualifications for appropriate employment opportunities. Continued investment in girls' education and vocational training programs that equip women with the skills needed for the job market can reduce barriers to women's entry in the labor market. Customized job search support can also help women find better employment opportunities.

Improving public transport and ensuring safe options can enable women to commute to work easily, especially in urban areas. Employers should be encouraged and incentivized to provide transport services to female employees and offer affordable and accessible childcare facilities to help women balance work and family responsibilities. In 2023, the government introduced the Women on Wheels

program, offering 22,000 women who work in the public sector the opportunity to purchase scooters and motorcycles at discounted prices. Such initiatives should be expanded, and a rental option may be added. Another successful example is the Peshawar Bus Rapid Transit project, which increased female public transport use from 2% in 2020 to 30% in 2024 and expanded women's employment in the transport sector from effectively nil to over 10%. Similar transport projects can be implemented in other large urban centers.

The government should strengthen the enforcement of laws against workplace discrimination and harassment. It would thus promote a safer and more inclusive work environment for women. In addition, it can encourage employers to offer flexible work hours, remote work options, and part-time positions to enable more women to participate in economic activities. Further, by offering training and resources and improving access to finance, the government can encourage more women to start their own businesses.

SRI LANKA

Growth recovery exceeded expectations in 2024 but remains fragile. Inflation has been in negative territory since September 2024 due to steep utility price cuts. Growth is expected to slow this year and next, and inflation to accelerate toward the central bank target. Loss of reform momentum or fiscal slippage could weaken confidence and financing conditions. Despite fiscal adjustments and completed debt restructuring, sustaining efforts to build up fiscal and external buffers are crucial to reduce debt vulnerability in the medium term.

Economic Performance

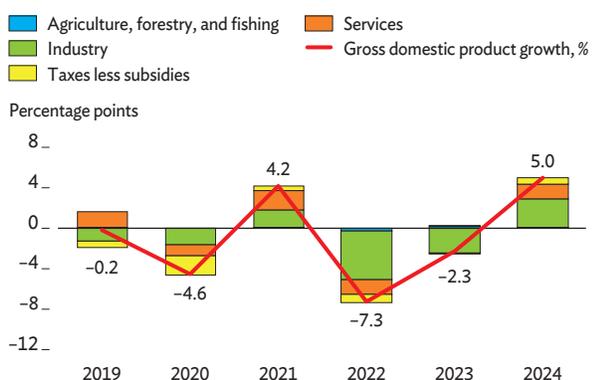
Economic recovery that began in the second half of 2023 continued across all sectors in 2024. Growth exceeded expectations, rebounding by 5.0% in 2024, the highest rate since 2017, after 2.3% contraction in 2023. Industry picked up by 11.0%, driven by robust 19.4% growth in construction as government arrears were cleared and projects restarted following a recent sovereign debt and balance-of-payment crisis. Services, accounting for about 60% of GDP, recovered by 2.4%, supported by strong performance in tourism, that led to 31.4% growth in accommodation and food

services. Hindered by floods and crop pests, growth in agriculture remained muted at 1.2% despite above-average sowing area (Figure 2.21.1).

Domestic demand improved but remained weak. Consumption rebounded by 2.4% in the first 9 months of 2024 after contracting by 4.8% during the same period a year earlier. It was driven by 3.2% growth in private consumption thanks to higher disposable income and low inflation. In contrast, public consumption declined due to ongoing fiscal tightening.

Figure 2.21.1 Supply-Side Contributions to Growth

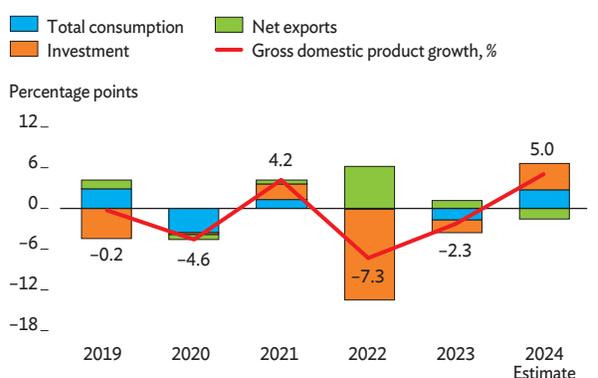
In 2024, the economy recovered strongly across sectors.



Source: Department of Census and Statistics of Sri Lanka.

Figure 2.21.2 Demand-Side Contributions to Growth

Rebounding strong investment and consumption supported domestic demand.



Sources: Department of Census and Statistics of Sri Lanka; Asian Development Bank estimates.

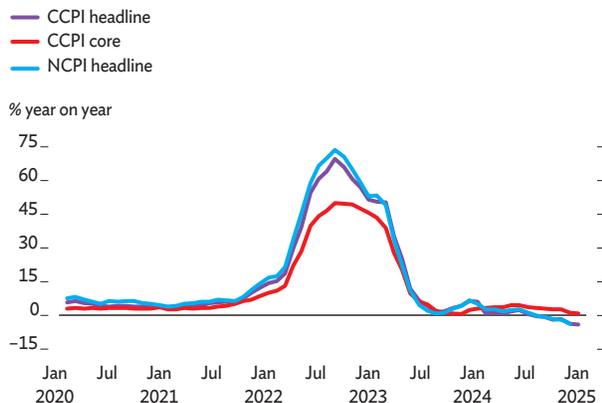
Despite low public investment, total investment picked up by a strong 15.7%, supported by private sector credit increase spurred by lower interest rates and revived investor confidence. Net exports declined as growth in imports of goods and services outpaced that of exports (Figure 2.21.2).

Inflation decelerated significantly in 2024 well below the Central Bank of Sri Lanka target of 5% following major cuts in energy prices.

Average headline inflation, as measured by the Colombo consumer price index (CCPI), decelerated to 1.2% in 2024 from 17.4% in 2023, mainly on lower fuel prices and an electricity tariff reduction in July 2024, moderating food inflation, and an appreciating Sri Lanka rupee. Inflation has been in negative territory since September 2024 (Figure 2.21.3). Core inflation slowed to 3.3% from 14.5% a year earlier on sluggish demand. Food inflation decreased to 1.6% from 12.1% a year earlier as supply conditions improved (Figure 2.21.4). The central bank adopted an accommodative but prudent monetary stance and eased its two policy rates—the standing lending facility rate and standing deposit facility rate—by only 50 basis points in March and by a further 25 basis points in July. In November, the central bank introduced the overnight policy rate as its primary policy tool, setting it at 8%. This amounted to a rate cut by a further 75 basis points (Figure 2.21.5).

Figure 2.21.3 Inflation

Inflation decelerated sharply and moved into negative territory towards the latter part of 2024.



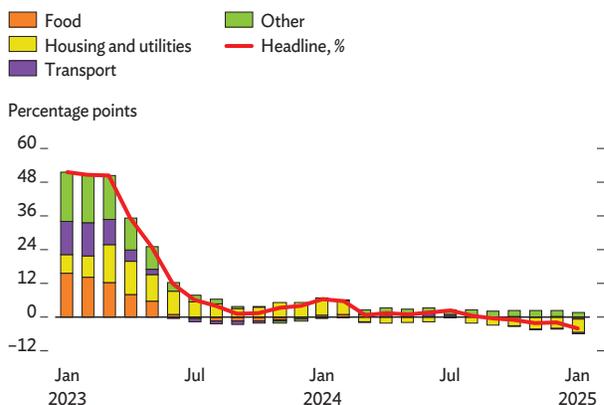
CCPI = Colombo consumer price index, NCPI = national consumer price index.

Note: In 2023, the Department of Census and Statistics revised the inflation base measured by the CCPI from 2013 = 100 to 2021 = 100.

Source: Department of Census and Statistics of Sri Lanka.

Figure 2.21.4 Contributions to Inflation

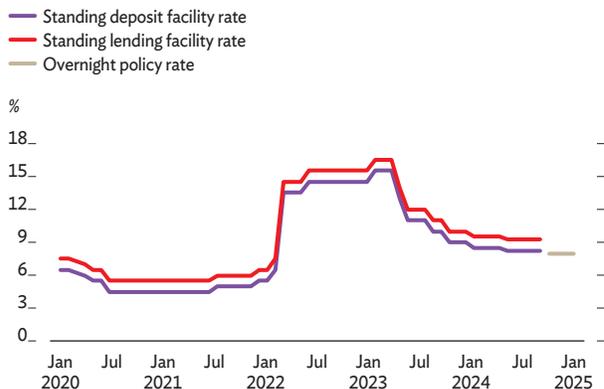
Prices fell with cuts to electricity tariffs and rupee appreciation.



Source: Department of Census and Statistics of Sri Lanka.

Figure 2.21.5 Policy Rates and Key Interest Rates

The central bank sustained its accommodative stance.



Note: On 27 November 2024, the Central Bank of Sri Lanka replaced the standing deposit and lending facility rates, heretofore its twin policy rates, with the overnight policy rate.

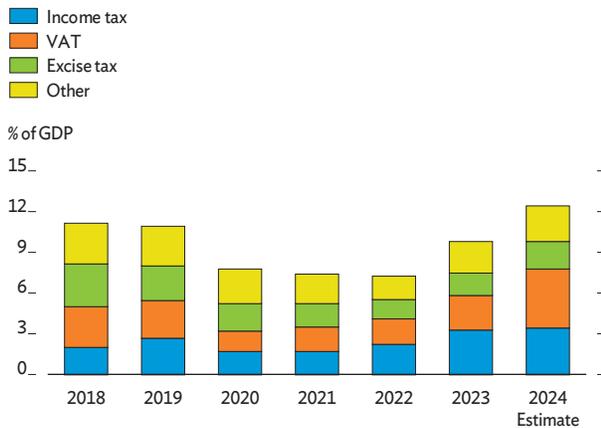
Source: Central Bank of Sri Lanka.

Increased tax revenue and contained primary spending delivered a strong primary surplus in 2024 despite elections.

According to government estimates in the 2025 Budget speech, revenue collection continued to improve to 13.7% of GDP in 2024, up from 11.2% in 2023. This was led by 36.2% growth in tax revenue thanks to broader economic recovery and sustained revenue mobilization efforts that raised value-added tax (VAT) and income tax collection (Figure 2.21.6). Primary recurrent expenditure increased only marginally to 8.9% of GDP from 8.2% in 2023, including an increased fertilizer subsidy for rice farmers and a fuel subsidy for fishermen

Figure 2.21.6 Components of Revenue

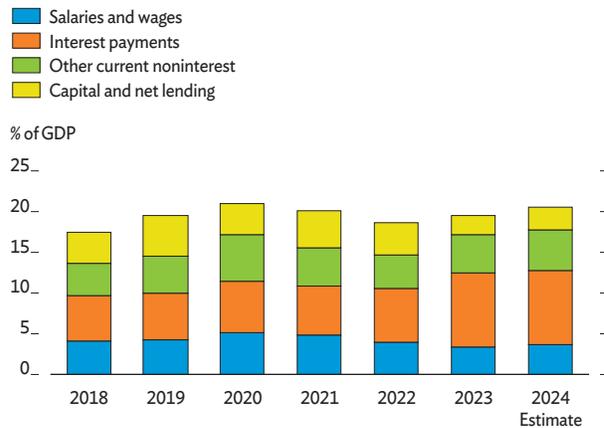
VAT reform and higher excise taxes drove higher revenue collection.



GDP = gross domestic product, VAT = value-added tax.
 Note: 2024 is estimated using the 2025 government budget speech and associated budget estimates.
 Source: Ministry of Finance.

Figure 2.21.7 Components of Government Expenditure

Primary spending increased only slightly despite elections in 2024.



GDP = gross domestic product.
 Note: The 2024 estimate figures are estimated using the 2025 government budget speech. Data on government expenditure for 2019 and 2020 are from the October 2021 edition of the International Monetary Fund's *World Economic Outlook* and adjusted for the new GDP base and subsequent categories (2015 = 100).
 Sources: Ministry of Finance; International Monetary Fund. 2021. *World Economic Outlook*. October.

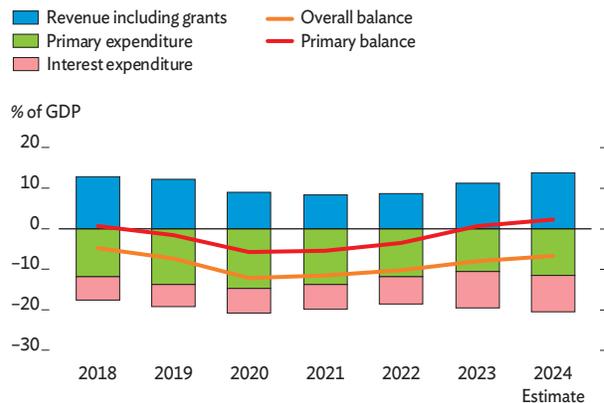
in October 2024. However, capital expenditure declined due to significant under-execution of public investment projects (Figure 2.21.7). As a result, the primary surplus improved significantly from 0.6% of GDP a year earlier to 2.2%. With interest payments unchanged at 9.0% of GDP despite a reduction of treasury bill rates, the overall budget deficit narrowed to 6.8% of GDP from 8.3% the previous year (Figure 2.21.8).

Public debt has been on a downward trend relative to GDP with economic recovery and rupee appreciation.

It declined to 106.2% of GDP at the end of 2024, down from 116.9% a year earlier, according to government estimates. However, the stock of overall debt increased, partly due to higher domestic borrowing, with domestic debt reaching an estimated 62% of total debt. Significant progress was made in the government's efforts to restructure external debt. Agreements were reached with the Export-Import Bank of China, China Development Bank, and Official Creditor Committee. In December 2024, international sovereign bond holders agreed to swap their securities for new notes, some of them linked to the country's economic performance (macro linked bonds) and governance reform (governance linked bonds). After the conclusion of the restructuring of international bond liabilities, which reduces the risk of default on

Figure 2.21.8 Central Government Finances

The primary surplus rose in 2024 on better revenue mobilization and contained expenditure.



GDP = gross domestic product.
 Note: The 2024 estimate figures are taken from the 2025 government budget speech. Data on government expenditure for 2019 and 2020 are from the April 2024 edition of International Monetary Fund's *World Economic Outlook* and adjusted for the new GDP base (2015 = 100).
 Source: Ministry of Finance; International Monetary Fund. 2024. *World Economic Outlook*. April.

future notes, Moody's upgraded Sri Lanka's sovereign rating to Caa1 from Ca, and Fitch to CCC+ from restricted default.

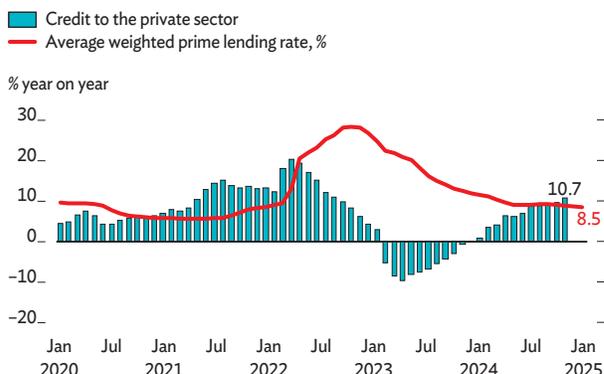
Credit to the private sector picked up as domestic financing conditions eased somewhat. Bank lending and deposit rates continued to decline, reflecting accommodative monetary policy. As a result, private sector credit expanded by 10.7% in 2024 after 3 years of muted performance, supporting economic recovery (Figure 2.21.9). In 2024, the government issued a larger-than-expected volume of long-term domestic treasury bonds. Short-term yields of domestic government securities, which were higher than long-term yields in 2023, declined overall by 500 basis points during the year. As a result, the yield curve returned to an upward slope. Rates on treasury bills across all tenors declined significantly throughout the year as monetary conditions eased and the sovereign risk premium declined on improved macroeconomic stability. Domestic issuances were mostly absorbed by local banks and pension funds.

Banks remained liquid and profitable despite still elevated nonperforming loans (NPLs). Despite some improvement, pressure on asset quality persisted as the NPLs longest overdue stood at 12.6% of total loans in the third quarter of 2024, marginally down from 12.8% at the end of 2023 (Figure 2.21.10). NPL recovery has been stymied with the suspension since May 2024 of parate execution, an out-of-court procedure allowing banks to recover collateral on defaulted loans, which was extended until March 2025. The average capital adequacy ratio of banks remained high at 18.5% in the third quarter of 2024, up from 18.4% at the end of 2023. Net interest margins strengthened by robust credit growth and declining interest rates.

Stronger tourism and remittances brought a second consecutive current account surplus despite a widening trade deficit. Merchandise exports grew by 7.2% in 2024, following a 9.1% decline a year earlier (Figure 2.21.11). This was primarily due to 97.2% growth in petroleum product exports with higher bunkering volumes and aviation fuel exports, and to modest recovery in textile and garment exports, which grew by 3.7%. With the lifting of most restrictions and ongoing recovery, merchandise imports surged by 12.1% after a decline by 8.1% in 2023, led by 25.6% growth in investment goods. Tourist arrivals increased by 38.1%, approaching pre-pandemic levels and raising tourism receipts by 53.2% to more than \$3 billion. Service exports excluding tourism grew by 11.7% in 2024 as transport services rose substantially.

Figure 2.21.9 Private Sector Credit Growth

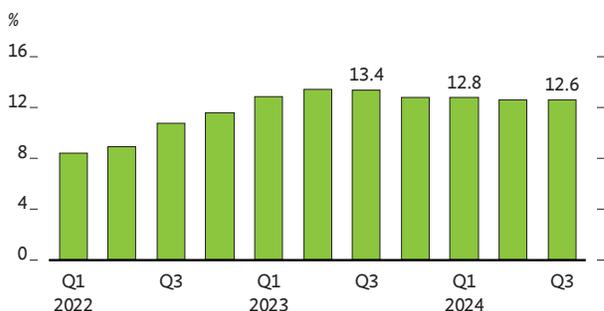
With declining market rates and ongoing recovery, credit to the private sector picked up.



Source: Central Bank of Sri Lanka.

Figure 2.21.10 Impaired Loan Ratio

Nonperforming loans remain elevated.



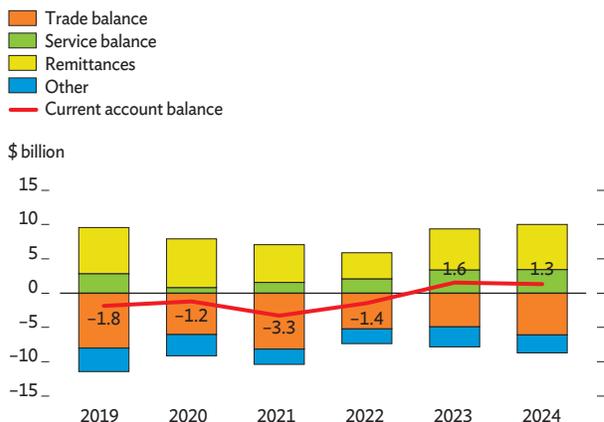
Q = quarter.

Note: The Central Bank discontinued in 2022 its method of calculating nonperforming loans and introduced a three-stage classification that gives banks more discretion to provision against high-risk assets even before default.

Source: Central Bank of Sri Lanka.

Figure 2.21.11 Key Balance of Payments Indicators

The current account recorded a surplus for the second consecutive year despite a widening trade deficit.



Source: Central Bank of Sri Lanka.

Remittances grew by 10.1% to \$6.6 billion, approaching the 2017–2019 pre-pandemic average of \$7 billion (Figure 2.21.12).

The rupee appreciated in 2024 for the second consecutive year, reflecting further improvement in domestic foreign exchange liquidity. Driven by the current account surplus and suspension of debt repayment, the Sri Lanka rupee appreciated by 10.7% against the US dollar in 2024 and rose as well in real effective terms. With better domestic foreign exchange liquidity, central bank dollar purchases reached \$2.8 billion in 2024. Gross official reserves

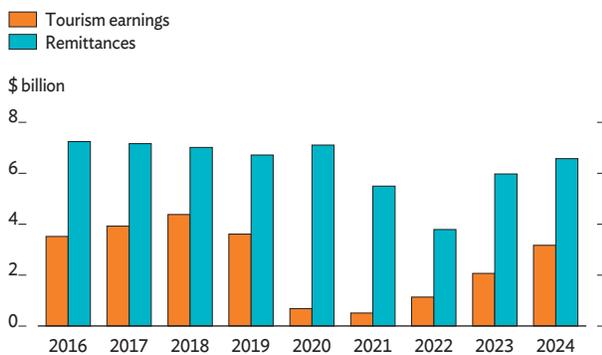
increased significantly from \$4.4 billion at the end of 2023 to \$6.1 billion a year later, covering 3.9 months of imports. This includes a bilateral currency swap facility with the People’s Bank of China, which was renewed for a further 3 years in December 2024 (Figure 2.21.13).

Economic Prospects

Growth will continue at a moderate pace over the forecast period and will be broadly based. GDP growth is projected to moderate to 3.9% in 2025 and further to 3.4% in 2026 as exceptionally strong growth recovery in 2024 gradually fades (Table 2.21.1). Eased monetary conditions and planned resumption of infrastructure investments are expected to spur growth. Recovery will continue across all sectors, with some deceleration in industry after a strong performance in 2024. Manufacturing will continue to grow on textiles and garments. In February 2025, the manufacturing purchasing managers’ index (PMI) improved, supported by rising new orders, particularly in textiles and apparel and in food and beverages, which indicates further expansion in manufacturing. Growth in services will be driven by acceleration in food, accommodation, and transport services as tourist arrivals steadily increase. While the overall services PMI declined in February 2025, the subindex of expectations for business activities for the next 3 months continued to improve amid expected seasonal demand and favorable macroeconomic conditions. Construction will continue to recover this year and next but at a slower pace than last year. It will notably benefit from planned government-funded construction of roads, bridges, and highways. In January 2025, the construction PMI rose further as favorable business conditions and low inflation allowed the completion of ongoing construction projects. The new orders subindex of

Figure 2.21.12 Tourism Earnings and Remittance Inflows

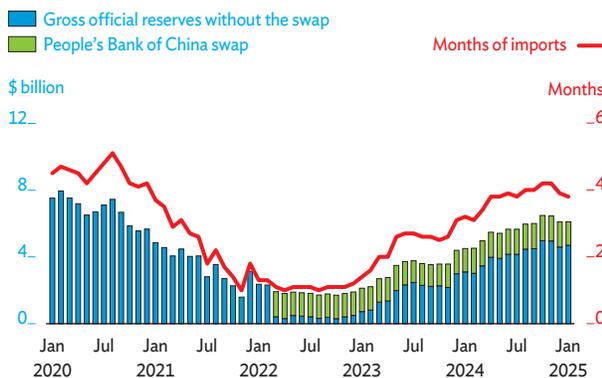
Tourism receipts and remittance inflows drove the current account surplus.



Source: Central Bank of Sri Lanka.

Figure 2.21.13 Gross Official Reserves and Months of Imports

Gross official reserves increased steadily on large net foreign exchange purchases by the Central Bank of Sri Lanka.



Note: The People’s Bank of China swap of \$1.4 billion becomes usable once gross international reserves rise above 3 months of import cover for the previous year.

Source: Central Bank of Sri Lanka.

Table 2.21.1 Selected Economic Indicators, %

Growth will moderate while inflation increases in the latter part of 2025 and in 2026.

	2023	2024	2025	2026
GDP growth	-2.3	5.0	3.9	3.4
Inflation	17.4	1.2	3.1	4.5

GDP = gross domestic product.

Sources: Department of Census of Statistics of Sri Lanka; Asian Development Bank estimates.

the construction PMI increased, indicating a possible pipeline of new projects, including from private investors. Growth in agriculture will remain muted as there has been little progress toward improving productivity and shock-resilience.

Despite lower interest rates and higher public wages, domestic demand will remain sluggish, constrained by still weak purchasing power.

Growth in private investment will be fueled by a further increase in lending spurred by lower rates and better investor confidence, as uncertainty fades following elections and debt restructuring. Private consumption will be supported by higher public wages, increased benefits under the Aswesuma social safety net program, and announced personal income tax relief. But it will remain muted by inflation and persistently weak household spending power, which was significantly eroded during the crisis. Public investment will accelerate slightly, supported by the resumption of infrastructure projects, but will remain constrained by ongoing fiscal tightening and possible under-execution. Net exports of goods and services will decline as imports surge under continuing recovery and removal of import restrictions.

Inflation will pick up as demand strengthens but will remain below the central bank target.

It is expected to accelerate to 3.1% in 2025. In February 2025, the CCPI declined again, by 4.2% year on year, for a sixth consecutive month. Inflation is projected to remain negative in the first quarter of 2025, and probably the second, but rise in the second half of the year on demand recovery, improved credit conditions, an expected hike of electricity tariffs, relaxation of import restrictions, wage increases, and exchange rate pass-through as the rupee depreciates, as expected. This trend will continue into 2026, with inflation rising to 4.5% but still below the central bank target of 5.0%.

The government remains committed to pursuing fiscal consolidation, though stronger revenue creates some room for higher expenditure.

According to estimates included in the 2025 budget speech, the primary surplus will remain strong at 2.3% of GDP, but the budget deficit is expected at 6.7% of GDP, nearly unchanged from last year, due to high interest expenses on elevated debt. Revenue is set to rise to an ambitious 15.1% of GDP in 2025, the highest since 2008, driven by VAT collections and revenue

from imports following relaxation in February 2025 of a 5-year ban on vehicle imports. The government plans to introduce VAT on digital services, impose corporate income tax on service exports, and increase the capital gains tax rate. Primary expenditure is projected to reach 12.9% of GDP in 2025, just below the 13.0% limit outlined in the Public Financial Management Act. The largest expenditure proposal is a public sector salary increase for the first time since 2016. However, the budget also projects a notable increase in capital expenditure in 2025 as infrastructure projects resume in transport, water supply, and highways. This increase in public investment is expected to support medium-term growth, provided it is executed smoothly throughout the year in accordance with approved budget allocations.

The current account will fall into deficit in 2025 and 2026 as imports accelerate and interest payments resume on external debt.

With the removal of vehicle import controls and continuing economic recovery, imports will surge further in 2025 and 2026. Exports are expected to grow at a slower pace due to subdued global demand and low nontraditional exports, despite the government's ambitious plans to boost exports. This will result in a further widening of the trade deficit. The service balance will improve on higher tourism inflows, though receipts will remain below those in 2018, before the Easter terror bombing in 2019 and subsequent pandemic. However, the introduction of a 15% tax on service exports starting in April 2025 will weigh on exports of other services. Remittance inflows will remain strong and continue to offset part of the trade deficit. The resumption of external debt servicing in 2025 following debt restructuring will raise outflows, but macroeconomic stability and government's efforts to attract investment may facilitate foreign direct investment inflows. The rupee will likely depreciate after strong appreciation against the dollar in the past 2 years, as pressures on the balance of payment rise.

Risks to the outlook remain tilted to the downside.

Fiscal reversals, such as higher-than-expected fiscal deficit or shortfall of revenue, could undermine macroeconomic stability. Under-execution of capital spending below the fiscal envelope and weak expenditure management could lower growth-enhancing investments needed for medium-term growth. A loss of momentum in reform to address

structural challenges, including a slowdown in implementing governance reform, could hit business confidence. Inflation could accelerate faster than expected if geopolitical shocks raise global food or energy prices or if the rupee depreciates significantly. There is also a risk that increasing trade barriers, including recently announced United States tariffs on imports from Sri Lanka may have a severe impact on Sri Lankan exports at a time when the policy space for mitigating their economic impact remains limited. Possible adverse weather could affect agricultural production and disrupt domestic supply. On the upside, revenue overperformance or higher financial inflows on the heels of debt restructuring could enhance the outlook for growth and investment.

Policy Challenge—Reducing Medium-Term Debt Vulnerability

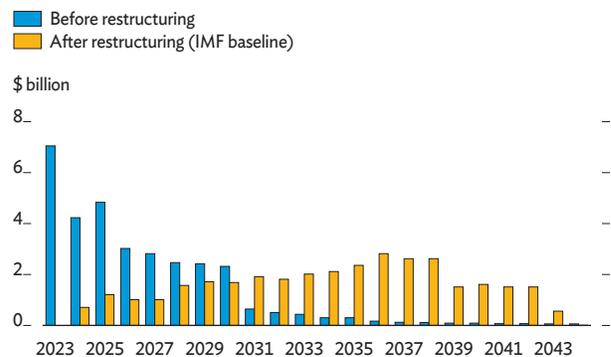
Sri Lanka has been implementing policies to reduce its sizeable public debt. The ratio of public debt to GDP increased drastically starting in 2020 and reached 126% in 2022, due to substantial borrowing to finance large fiscal deficits owing to deep tax cuts, rupee depreciation, and borrowing by state owned enterprises. However, since 2022 the ratio of debt to GDP has been on a downward path, supported by rupee appreciation, fiscal discipline, and debt restructuring. Going forward, debt is expected to decline further as a percentage of GDP amid ongoing economic stabilization and recovery combined with a projected decline in gross financing needs and cuts in interest rates under debt restructuring.

Despite progress, debt vulnerability will remain high for many years. According to the sovereign risk and debt sustainability analysis (SRDSA) by the International Monetary Fund (IMF), recent fiscal adjustment and debt restructuring have put the country on a path toward debt sustainability. However, reducing debt to a sustainable level will take time. Given high existing debt, the SRDSA targets a ratio of public debt to GDP below 95% only in 2032, assuming the successful completion of an IMF program in 2027 and full implementation of debt restructuring. High debt sustainability risks will thus continue to impede the growth and investment outlook for many years. Fiscal relief from debt

restructuring has supported cash flow management but will likely wane starting in 2028. Debt service will increase markedly during 2028–2038, when restructured international sovereign bonds are scheduled to be repaid (Figure 2.21.14). During that period, the debt service burden may again weigh heavily on public finances and crowd out growth-enhancing spending on infrastructure and much-needed investment in human capital.

Figure 2.21.14 External Debt Service Before and After Restructuring, 2023–2044

Debt service will increase markedly during 2028–2038.



IMF = International Monetary Fund.

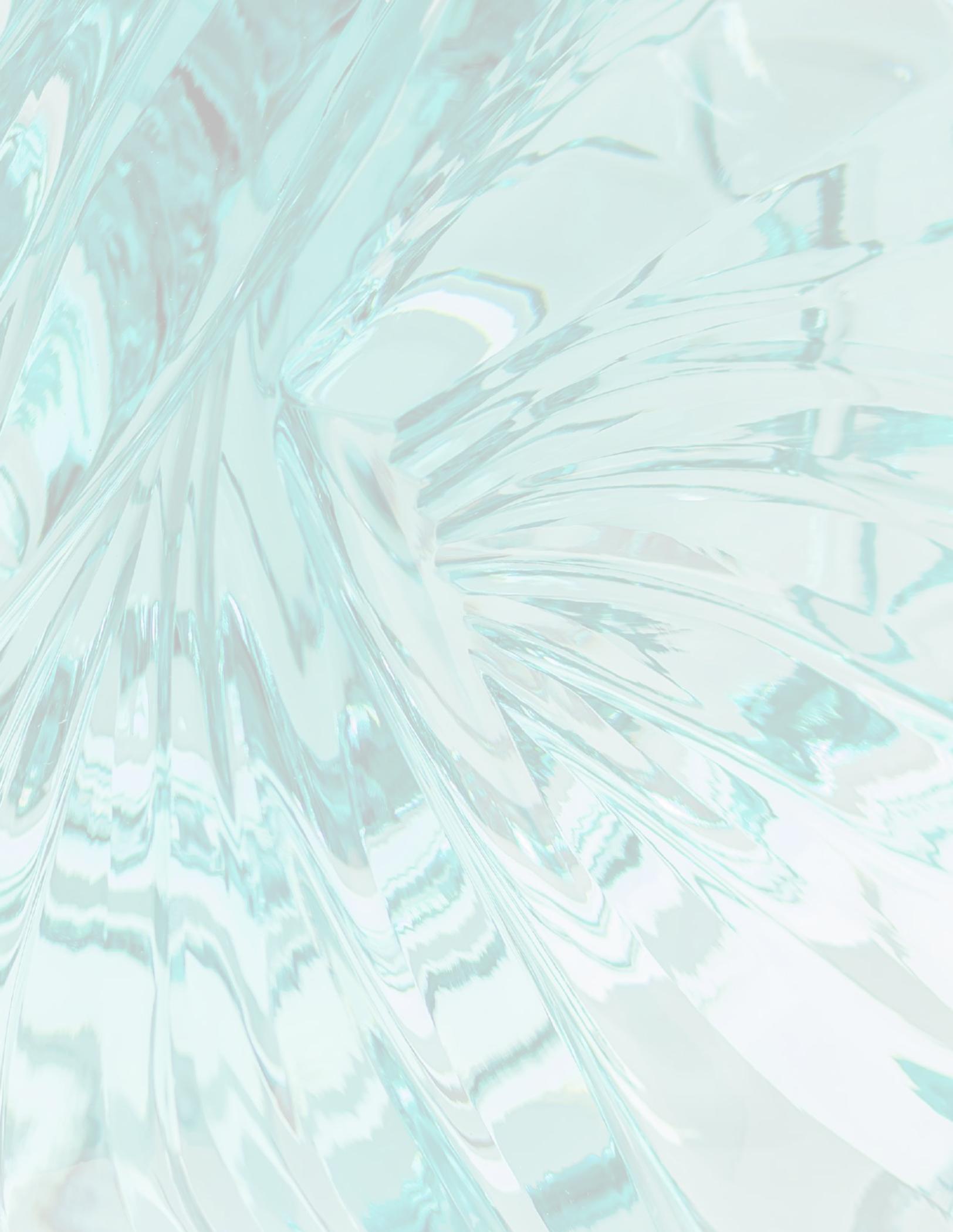
Note: 2023 debt service before restructuring includes arrears in 2022–2023.

Source: IMF. 2025. Sri Lanka: Third Review Under the Extended Arrangement Under the Extended Fund Facility, Financing Assurances Review, and Monetary Policy Consultation Clause. IMF Country Report No. 25/56.

More actions will be needed to address debt challenges and avoid distress. It is vital for Sri Lanka to sustain efforts to build up external and fiscal buffers. As emphasized in the SRDSA, deep fiscal reforms are necessary, but not sufficient to address debt risks. While treasury bills are already being refinanced with longer-term government securities to mitigate rollover risks, more needs to be done. Securing new external financing, including with concessional terms, will be crucial, as will fiscal adjustment. The country should continue to rebuild its gross international reserves gradually through a current account surplus and other inflows that do not add to the debt burden.

Staying on a growth-friendly path that generates nondebt inflows will require structural reform. Sustained efforts are needed to support trade and

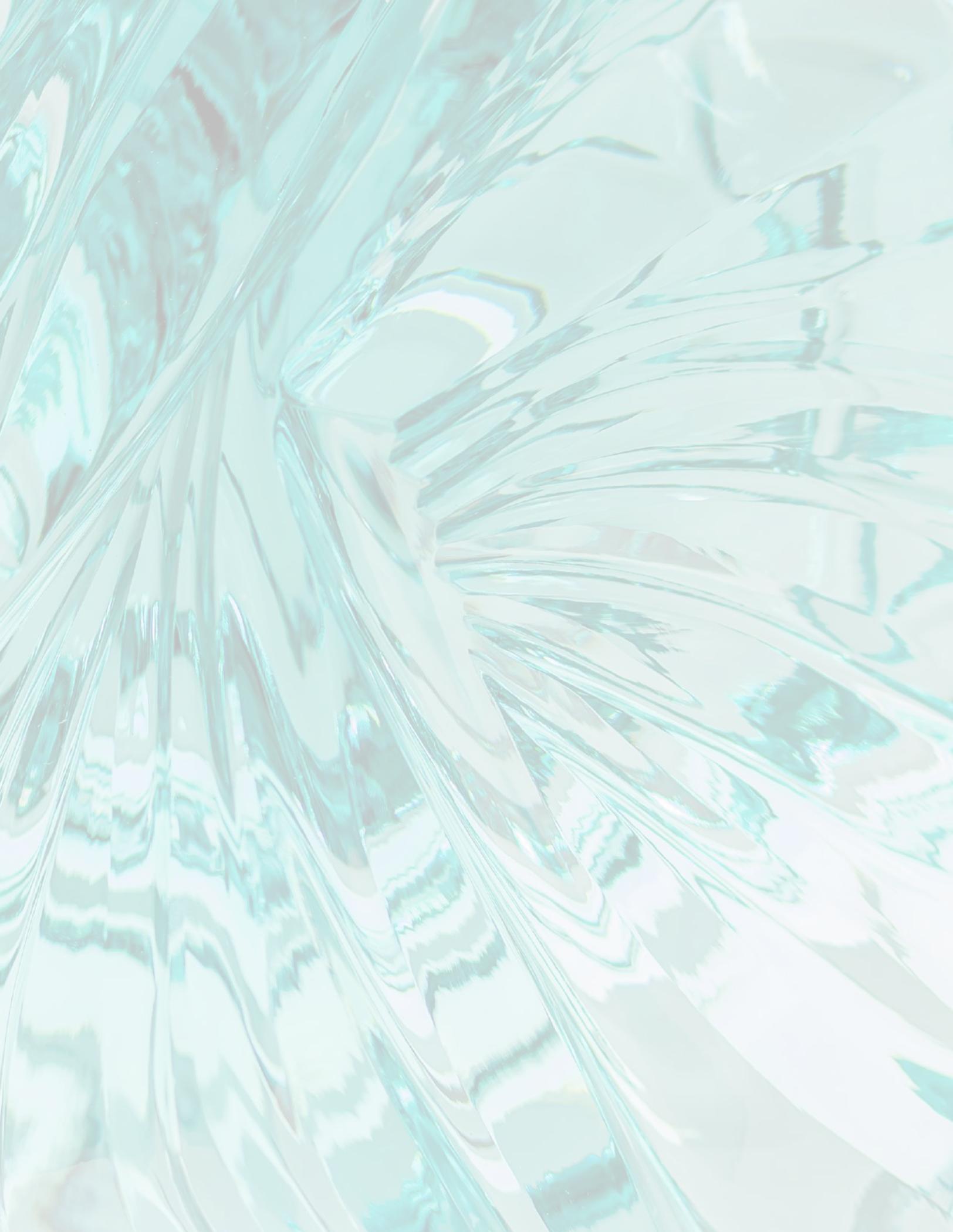
investment flows. To this end, the government has started developing a trade liberalization agenda. It aims to formulate a national export development plan for 2025–2029; introduce a national tariff policy to create a simple, transparent, and predictable tariff framework; and expand free trade agreements. Further, the government has announced major reforms to attract export-oriented investment through sector-specific zones and the establishment of eco-industrial parks. These efforts should be supplemented by improving the ease of doing business and enabling private-sector-led growth by enhancing property registration, tax payment, trade facilitation, contract enforcement, firms' access to bank credit, capital market development, and governance, which would improve transparency and reduce corruption.





Brunei Darussalam
Cambodia
Indonesia
Lao PDR
Malaysia
Myanmar
Philippines
Singapore
Thailand
Timor-Leste
Viet Nam

SOUTHEAST ASIA



BRUNEI DARUSSALAM

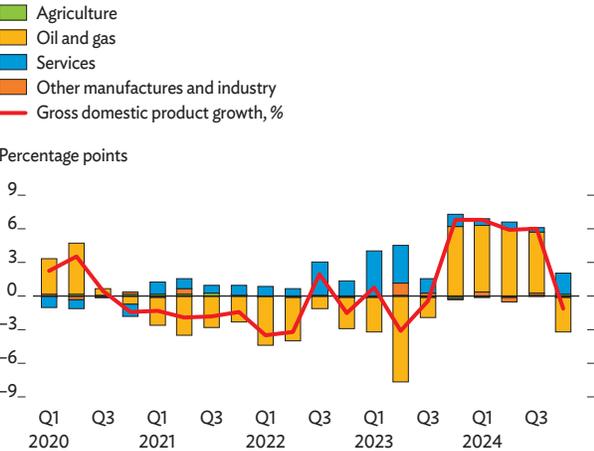
Growth is expected to slow in 2025 and 2026 after last year’s rapid expansion. Lower global energy prices will make it difficult for the oil and gas sector to repeat its strong 2024 performance. Inflation is forecast to remain subdued in line with trends in major trading partners. The country is sensitive to external shocks, and economic diversification and fiscal consolidation are top government priorities.

Economic Performance

GDP expanded by 4.2% in 2024, driven by a 5.5% increase in the oil and gas industry and a 3.1% rise in non-oil and gas output. Key contributors included oil and gas mining, liquified natural gas (LNG) production, and growth in communication and trade. Crude oil and natural gas production did well in the first half of 2024, meeting targets due in part to reserve discovery. The second half faced problems such as unexpected delays, slow recovery times, and midstream issues which together affected overall production. Despite this, the oil and gas sector remains resilient, with work underway to address these problems.

Figure 2.22.1 Supply-Side Contributions to Growth

Oil and gas are the primary determinants of growth.

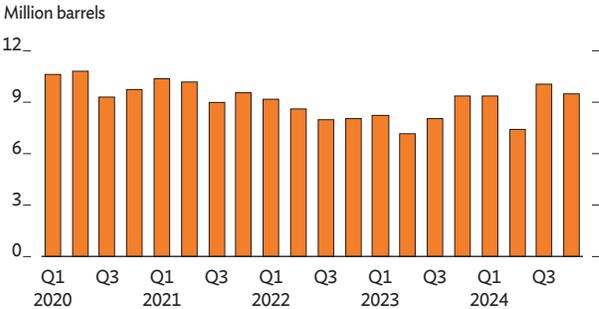


Q = quarter.
Source: CEIC Data Company.

The economy contracted by 1.1% in the fourth quarter of 2024 due to a 5.2% decline in the oil and gas sector. Reduced oil and gas mining and LNG production dragged down GDP growth by 3.0 percentage points (Figure 2.22.1). Overall, 2024 production was a marked improvement compared with 2023. However, crude production dropped from 10.0 million barrels in the third quarter to 9.4 million barrels in the fourth quarter (Figure 2.22.2), with oil prices falling 12.2% and LNG prices by 3.2%. On a positive note, services added 1.9 percentage points to growth with a 4.9% expansion, driven by air transport, restaurants, and finance. Agriculture contributed 0.12 percentage points, growing by 18.2% due to

Figure 2.22.2 Oil and Gas Production

Production has been robust recently.



Q = quarter.
Note: Oil and gas production is total crude production that includes crude oil and liquid natural gas.
Source: CEIC Data Company.

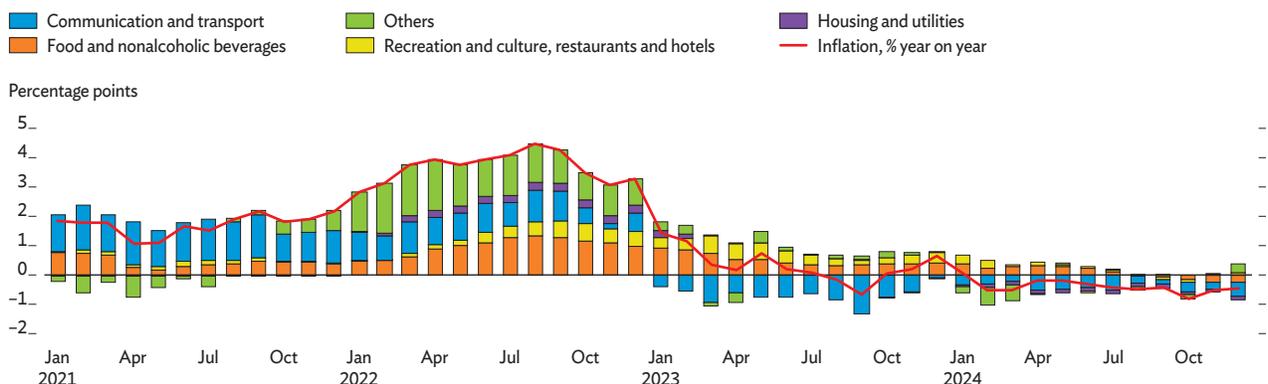
increases in fishery, forestry, and livestock. However, industry declined by 5.1%, subtracting 3.2 percentage points from growth, mainly due to reductions in LNG, petroleum products, and construction.

On the demand side, consumption and investment helped fuel GDP growth. Household spending increased by 3.9%, due to higher disposable incomes, increased consumer confidence, and government initiatives. The increase was particularly noticeable in motor vehicle purchases, retail trade, and air travel. Government spending rose by 2.3%, driven by investments in public services, infrastructure, healthcare, and education. Gross capital formation grew by 4.8% from investments in infrastructure and industrial projects, with significant spending on construction, machinery, and equipment. However, exports fell by 12.1% due to reduced natural gas and LNG production, while imports dropped by 12.8%, mainly from mineral fuels and machinery.

Headline inflation dipped below zero in February 2024 and remained negative through December. The inflation rate for 2024 was -0.4%. This slight deflation, within the central bank’s implicit inflation target range, resulted from the combined effects of the Singapore dollar currency peg and price controls. Food inflation remained low due to falling global prices for chicken, fertilizers, and wheat. For the non-food index, deflation persisted due to year-end promotions. Communication prices dropped as telecom providers competed on pricing. Transport costs, especially for automobiles, also fell due to promotional campaigns (Figure 2.22.3).

Figure 2.22.3 Sources of Inflation

Inflation has fallen recently, particularly for food.



Source: CEIC Data Company.

Economic Prospects

GDP is projected to increase by 2.5% in 2025.

While oil and gas production levels may improve compared with 2024 production levels, lower crude prices are expected in 2025 from weak demand from the People’s Republic of China and strong supply from the United States. The expected 5% oil price decline will make it difficult to replicate the sector’s strong 2024 performance. However, industry, including construction of the Hengyi (petrochemical plant) Phase 2 and opening of a new maritime maintenance and decommissioning yard are expected to drive modest overall growth (Table 2.22.1).

Table 2.22.1 Selected Economic Indicators, %

Growth and inflation will moderate.

	2023	2024	2025	2026
GDP growth	1.1	4.2	2.5	2.0
Inflation	0.4	-0.4	0.5	-0.2

GDP = gross domestic product.

Sources: CEIC Data Company; Asian Development Bank estimates.

Economic growth should maintain its positive momentum, fueled by ongoing efforts to diversify beyond the oil and gas sector. The government hopes to boost private sector growth, with a focus on attracting high-value foreign investments and bolstering local business activities. The five priority sectors driving this diversification initiative include downstream oil and gas, food, tourism, information and communications

technology, and services. In 2026, the economy is forecast to grow by a modest 2.0%, driven by some expansion in industry. In addition, agriculture should increase its contribution with the establishment of a salmon farm and a seafood processing hub, both supported by foreign direct investment.

Inflation is expected to be a slight 0.5% in 2025.

The modest rise is in line with average inflation over the past decade and reflects a potentially global inflationary environment due to tariffs offset by the central bank's commitment to price stability. In 2026, a slight -0.2% deflation is forecast, driven by a potential update to the consumer price index basket. The update is expected to place greater emphasis on non-food items, which have seen lower inflation than food in recent years.

The growth outlook faces several domestic and external challenges. Domestically, unexpected disruptions could slow oil and gas production. Also, delays in project completion or operation may constrain growth and slow diversification efforts. Externally, as an oil and gas exporter, the economy remains vulnerable to energy price volatility, which significantly affects government revenues. Geopolitical tensions and slower global growth could also reduce demand for energy resources.

Policy Challenge—Behavior Change for Fiscal Sustainability

After over a decade of fiscal surpluses, a secular decline in oil and gas production has contributed to deficits or very small surpluses since 2015 (Figure 2.22.4). While there is no immediate debt distress—as shown by strong 2024 oil and gas receipts—moving toward fiscal sustainability is essential, through a combination of diversifying revenue and rationalizing expenditure. Fiscal reforms such as the introduction of new taxes and removal of energy and water subsidies have been recommended by development partners. But these are unlikely to be adopted in the medium term due to political constraints.

One clear way to rationalize expenditure is reducing the waste of heavily subsidized non-renewable resources. Consumers and

Figure 2.22.4 Fiscal Balance

The fiscal balance has fallen in recent years.

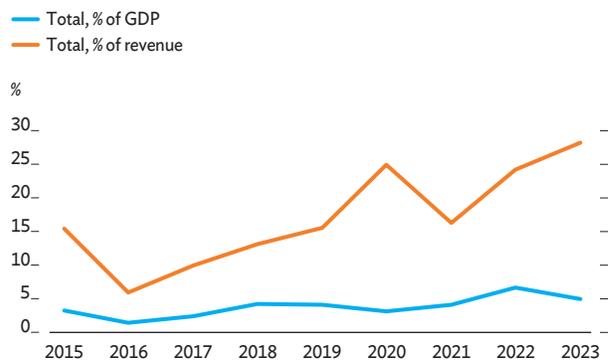


GDP = gross domestic product.

Source: CEIC Data Company.

Figure 2.22.5 Energy Subsidies

Energy subsidies have increased sharply compared to government revenue.



GDP = gross domestic product.

Source: International Monetary Fund.

businesses face artificially low prices, discouraging responsible use of these resources. The government spent about 6% of GDP (one-quarter of government revenue) on energy subsidies alone (Figure 2.22.5). Both shares have been rising in recent years and contribute substantially to the deficit, as the country is a top per capita consumer of energy and water among ASEAN countries.

Some simple steps might help. Behavioral studies in Singapore and other high-income economies have shown that an easy behavioral nudge, such as providing locally customized information on consumption and potential savings, can reduce resource consumption by up to 5%. This is a small but significant step that can be cost-effective through inexpensive social behavior campaigns. An even larger effect would come from

greater investment in green buildings, an initiative that has grown as a government priority over the past decade.

Reducing national energy consumption would help improve the fiscal balance. For example, a 10% reduction in energy consumption, achievable through a combination of low-cost private nudges and public investment in green buildings, would result in fiscal savings on the order of 1% of GDP and 3% of government spending. This would go a long way toward fiscal sustainability and complement ongoing efforts to broaden the tax base through economic diversification.

CAMBODIA

The economy thrived in 2024, driven by a rebound in garments, non-garment expansion, and tourism recovery, along with modest agricultural gains. Despite challenges in construction and real estate, the outlook remains positive, with growth expected to accelerate slightly in 2025 and 2026. Inflation eased in 2024 due to stable food prices and lower fuel costs but is expected to rise this year before tapering in 2026. To sustain growth momentum, strategic investment in digital public infrastructure and skills development can support economic transformation by both boosting traditional growth engines and creating new opportunities.

Economic Performance

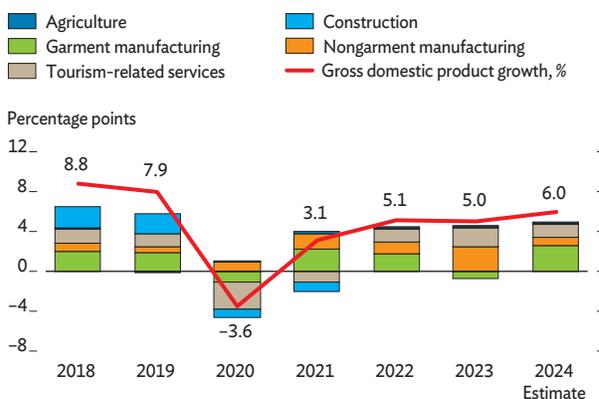
Economic growth accelerated in 2024. Real gross domestic product grew by an estimated 6.0% in 2024, up from 5.0% in 2023, led primarily by a rebound in garment manufacturing, sustained non-garment growth, and a recovery in tourism, coupled with steady agricultural growth (Figure 2.23.1).

Industry drove growth in 2024, expanding by an estimated 9.2%. The acceleration was driven by a 23.5% growth in garment exports. Non-garment manufactured exports—such as electrical parts, vehicle accessories, car tires, and wooden articles—continued to grow, but at a slower 6.2%, down from 20.7% in 2023. Construction continued to recover gradually due to weak domestic demand, with output still below its pre-pandemic level.

Services grew by an estimated 4.5% in 2024 as tourism continued to recover. Tourist arrivals increased by 22.9% to 6.7 million, reaching their pre-pandemic level. However, the share of arrivals by air remained lower than land arrivals, contrary to the pre-pandemic norm. This showed that the recovery has been driven by regional tourists with lower spending habits. Real estate remained subdued as it undergoes a price correction.

Figure 2.23.1 Supply-Side Contributions to Growth

Growth accelerated in 2024, driven by a rebound in garments, non-garment expansion, and a recovery in tourism.



Sources: Ministry of Economy and Finance; National Institute of Statistics; Asian Development Bank estimates.

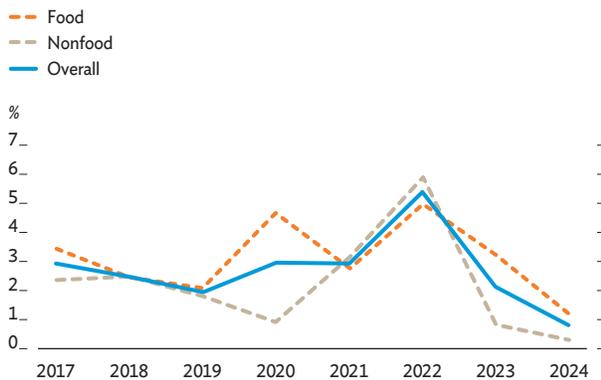
Agricultural production grew by an estimated 0.9% in 2024 despite an El Niño drought until May 2024.

Food imports increased by 16.1% to \$788.5 million, opening opportunities for local substitution. Demand from neighboring countries and expansion into new markets boosted crop production. Agricultural exports increased by 17.5%, led by cassava, rubber, and cashew nuts. An improved freshwater fish catch significantly supported fish production for the year.

Inflation continued to moderate in 2024 due to slowing global food price increases, lower fuel costs, and a stable exchange rate. After a brief year-on-year deflationary period in early 2024, inflation averaged 0.8% for the year, down from 2.1% in 2023 (Figure 2.23.2). The exchange rate remained stable in 2024, averaging KR4,071 per US dollar. Money supply (M2) growth accelerated to 17.5% from 12.5% in 2023, driven by foreign currency deposits. However, credit growth to the private sector remained at 3.9% in 2024, the same as in 2023, largely in response to a rise in nonperforming loans, particularly due to the property market challenges.

Figure 2.23.2 Monthly Inflation

Inflation eased further in 2024 due to slowing global food price increases and a drop in fuel prices.



Source: CEIC Data Company.

Preliminary estimates show a 2024 fiscal deficit of \$0.9 billion (1.9% of GDP), with both revenue and expenditure falling below 2023 levels. Revenue decreased from \$6.9 billion (16.2% of GDP) in 2023 to an estimated \$6.6 billion (14.5% of GDP) in 2024, partly due to tax incentives and lower taxable income for banks. Spending dropped from \$8.1 billion (19.1% of GDP) in 2023 to an estimated \$7.5 billion (16.4% of GDP) due to delayed budget execution to contain the deficit.

Public debt held steady in 2024. Public debt rose to \$11.9 billion, the equivalent of 26.3% of GDP, from \$11.2 billion in 2023, or 26.5% of GDP. Public external debt was 26.1% of GDP, with public domestic debt the remaining 0.2%. The government issued \$74.9 million in sovereign bonds to finance public investment projects, raising the public domestic debt stock to an estimated \$115.1 million.

The current account balance shifted from a 1.3% surplus in 2023 to a small deficit, estimated at 0.2% of GDP in 2024. The tourism recovery kept the services trade in surplus. However, the merchandise trade deficit widened from 7.0% of GDP in 2023 to 9.9% as imports to stock up raw material inventories like fabrics and leather outpaced exports. Foreign direct investment flow increased by 11.0% to \$4.4 billion, with manufacturing benefiting most. This buoyant investment inflow supported international reserves, which rose from \$20.0 billion in 2023 to \$22.5 billion in 2024, maintaining an adequate coverage of 7.9 months of imports.

Economic Prospects

The economy is forecast to grow by 6.1% in 2025 and 6.2% in 2026. This growth is primarily driven by increasing external demand for manufactured goods and continued recovery in tourism (Table 2.23.1 and Figure 2.23.3). Construction and real estate should revive gradually while agriculture should continue to gain.

Industry will likely drive economic growth in 2025–2026. Industrial output is projected to rise by 9.3% in both years, with strong contributions from garment and non-garment manufacturing. These sectors are expected to grow faster due to increasing external demand, particularly from the United States and European Union. In 2024, foreign direct investment flow in manufacturing surged by 56.7% year on year, signaling the country’s growing attraction and a positive shift in production. A gradual recovery in construction is expected both years, supported by industrial activities and residential developments.

Table 2.23.1 Selected Economic Indicators, %

Growth is projected to accelerate in 2025 and 2026, with inflation rising in 2025 after bottoming out in 2024.

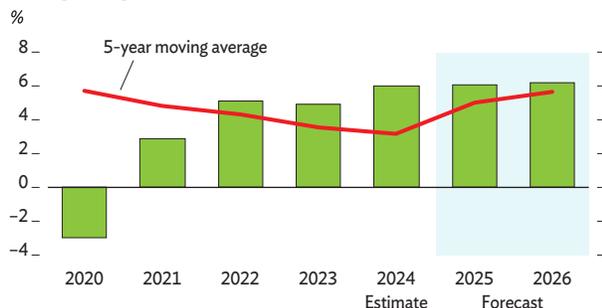
	2023	2024	2025	2026
GDP growth	5.0	6.0	6.1	6.2
Inflation	2.1	0.8	3.7	2.4

GDP = gross domestic product.

Sources: Ministry of Economy and Finance; National Institute of Statistics; Asian Development Bank estimates.

Figure 2.23.3 Gross Domestic Product Growth

Growth will accelerate in 2025 and 2026 and remain above the 5-year moving average.



Sources: National Institute of Statistics; Asian Development Bank estimates.

Growth in services sector should continue at 4.4% in both 2025 and 2026 despite weak real estate activity. Tourism earnings are projected to grow moderately, with international tourist arrivals—especially from Southeast Asia—continuing to rise. Positive economic prospects in the subregion and government measures to support tourism will help. In addition, domestic demand and tourist arrivals will improve domestic trade. However, the recovery in real estate will likely remain slow, partly due to reduced foreign investment.

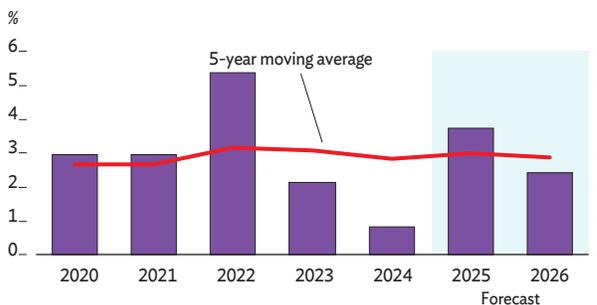
Agriculture will continue to grow. Agriculture is forecast to grow by 1.0% in 2025 and 1.1% in 2026, buoyed by export demand. Growth is further supported by last year’s rise in foreign direct investment, recent bilateral free trade agreements with the People’s Republic of China and Republic of Korea, and participation in the Regional Comprehensive Economic Partnership.

Inflation is projected to rise in 2025, driven by a low-base effect and improved domestic demand.

Entering 2025, inflation climbed by 6.0% year on year, mainly on rising food costs, offsetting a decline in fuel prices. The annual inflation rate is forecast to increase to 3.7% in 2025 before tapering to 2.4% in 2026 (Figure 2.23.4). The central bank continues to prioritize exchange rate stability as a nominal anchor to manage inflation. The authorities are committed to promoting the use of the riel as part of a de-dollarization strategy. The authorities remain vigilant against risks to financial stability from rising nonperforming loans and vulnerabilities, including in housing construction and real estate.

Figure 2.23.4 Inflation

Inflation will rise in 2025 driven by a low-base effect and improved domestic demand before tapering in 2026.

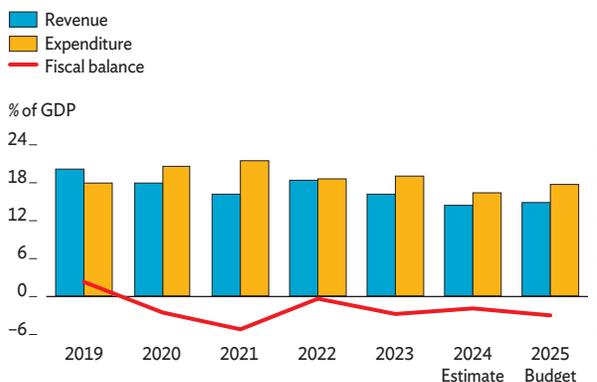


Sources: National Institute of Statistics; Asian Development Bank estimates.

A new revenue mobilization strategy should help fiscal policy support economic growth. The fiscal deficit is targeted at \$1.5 billion in 2025, the equivalent of 3.0% of GDP, with the government committed to fiscal sustainability over the medium term (Figure 2.23.5). Revenue is budgeted at \$7.6 billion, or 14.8% of GDP, and expenditure at \$9.1 billion, or 17.8%. To finance the budget deficit and service public debt, \$1.4 billion will be borrowed externally, while \$0.1 billion will be sourced domestically. The Revenue Mobilization Strategy for 2025–2028, launched in January 2025, emphasizes effective revenue collection and fairness in tax payments through modernizing tax administration.

Figure 2.23.5 Fiscal Indicators

Fiscal policy will remain accommodative to support economic growth.



GDP = gross domestic product.

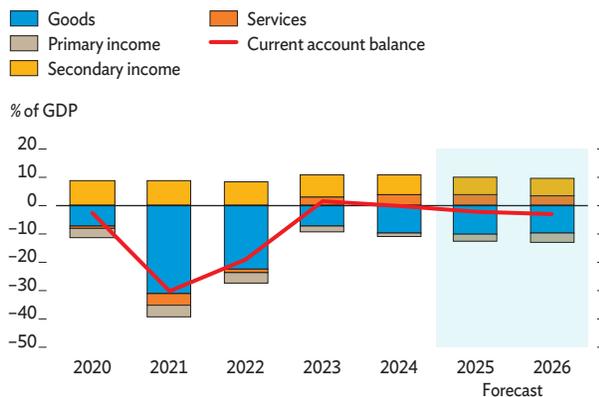
Source: Ministry of Economy and Finance; Asian Development Bank estimates.

The risk of public debt distress remains low. In 2025, the government plans to issue approximately \$123 million in bonds, most long-term. Public external debt is expected to reach \$13.2 billion, the equivalent of 26.0% of GDP.

The current account balance is expected to be in deficit in 2025–2026, driven by imports of raw materials and investment goods for exporters (Figure 2.23.6). The merchandise trade deficit will rise to 10.3% of GDP in 2025 before narrowing to 9.6% in 2026. Tourism will contribute to a services trade surplus of 3.6% of GDP in both years. Buoyant foreign investment should cover the current account deficit and boost international reserves to about \$26.9 billion by the end of 2026, covering over 7.7 months of imports.

Figure 2.23.6 Current Account

The current account balance is expected to be in deficit in 2025–2026, driven by imports of raw materials and investment goods for exporters.



GDP = gross domestic product.

Sources: National Bank of Cambodia, Asian Development Bank estimates.

This positive outlook is subject to large downside risks. These include weakened exports due to tariffs on Cambodian goods amidst global trade barrier escalation and slower growth in major trading partners, rising nonperforming loans disrupting financial sector growth, and extreme weather conditions.

Policy Challenge—Sustaining Economic Growth by Adopting Digital Technology

The past decade of strong economic growth has been investment-led rather than productivity-led.

In fact, growth in total factor productivity—a measure of productive efficiency—was negative during the period. As Cambodia looks to graduate from Least Developed Country status in 2029, raising economic productivity will be essential for sustainable growth and reducing reliance on foreign direct investment.

Digital technology offers opportunities to rejuvenate traditional drivers and unleash new sources of growth by boosting productivity across sectors.

This will be increasingly important as the country's cost advantage in traditional manufacturing activities diminishes. For example, digital technology allows for precision agriculture, which increases yields through better crop management. In industry, digital technology can support moving up the value chain to more complex manufacturing. In services, digital technology can improve productivity by streamlining business processes in tourism and creating new jobs in e-commerce. These are just a few examples of the cross-sectoral impact that wider adoption of digital solutions would have on the economy.

However, infrastructure deficiencies, a lack of digital skills, and regulatory gaps must be addressed to fully capitalize on these opportunities.

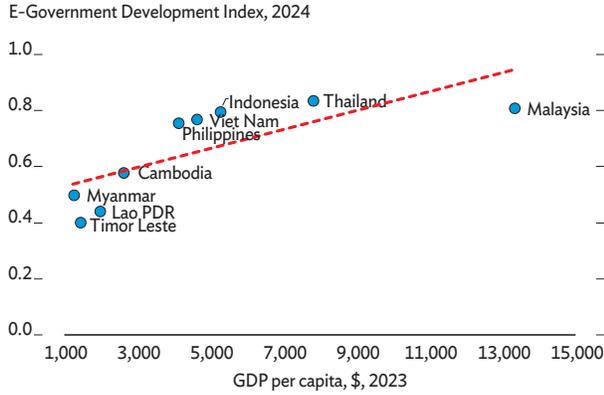
Cambodia has improved in the United Nations' e-Government Development Index, which measures public provision of online services, telecommunications infrastructure, and human capital. Between 2012 and 2024, the country's rank improved from 155th to 120th out of 193 economies. However, it lags far behind several subregional peers, with much room for improvement, especially in online services (Figure 2.23.7).

While the digital transformation will ultimately be private sector driven, policymakers must build an enabling environment.

This can be done by investing in digital public infrastructure that cannot be provided by the private sector. This includes mandating universal unique digital IDs (building on the Khmer ID initiative),

Figure 2.23.7 GDP Per Capita and the E-Government Development Index

Cambodia lags behind several developing ASEAN member states in e-Government development.



GDP = gross domestic product, Lao PDR = Lao People's Democratic Republic.

Source: United Nations E-Government Knowledgebase. UN E-Government Survey 2024.

expanding broadband access, building data centers, strengthening cybersecurity and data protection, and investing in digital innovation hubs.

Digital public infrastructure must be fueled by complementary reforms and investments.

This includes energy infrastructure, regulatory reforms for ease in doing digital business, building better digital skills and workforce development at all stages of education (including adult education), entrepreneurship and innovation support such as tax incentives for digital research and development, and digital financial inclusion and protection measures.

Some of these digital public infrastructure requirements and complementary activities are underway.

The government has launched initiatives to leverage digital technology for development. These include the Digital Economy and Society Policy Framework (2021–2035), Digital Government Policy (2022–2035), digital skills development programs, and the Bakong digital payment system.

INDONESIA

Robust domestic demand and price stability helped GDP grow by 5.0% in 2024, even as external demand weakened. With heightened uncertainty in the global economy, domestic demand will likely remain the backbone of growth this year and next, supported by continued macroeconomic stability and enhanced social spending. Domestic investment is expected to gain more traction in 2026. Empowering the young yet vulnerable middle class is a key medium-term challenge.

Economic Performance

GDP growth remained resilient in 2024. The economy grew by 5.0% in 2024, the same as in 2023. Domestic demand contributed 5.6 percentage points to growth, significantly higher than the pre-pandemic average of 4.7 percentage points in 2015–2019 (Figure 2.24.1).

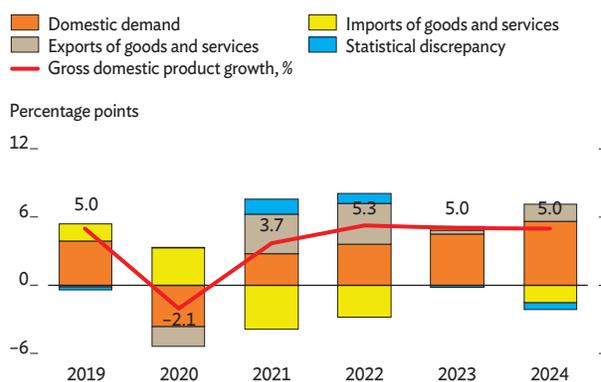
Robust consumption continued as inflation eased and election spending surged. Private consumption, around 55% of GDP, grew by 5.1% in 2024, up from 4.9% in 2023. Lower inflation supported consumer confidence, retail sales, and durable goods spending. Government consumption rose 6.6% in 2024, driven by election and social assistance spending.

Higher spending on public infrastructure boosted investment. Fixed capital formation increased by 4.6% in 2024, up from 3.8% in 2023 (Figure 2.24.2). Construction contributed more than half of this growth as the government accelerated priority infrastructure projects and the development of the New Capital City. Investment in machinery and equipment surged from 3.1% in 2023 to 7.5% in 2024, partly due to investment in downstream activities in mining.

Real imports grew faster than exports as domestic demand surged. Real export growth edged up to 6.5% in 2024, offset by a 7.9% increase in real imports due to rising domestic demand. As a result, GDP growth was reduced by 0.01 percentage points.

Figure 2.24.1 Demand-Side Contributions to Growth

Growth remained resilient, with strong domestic demand offsetting weaker net exports.

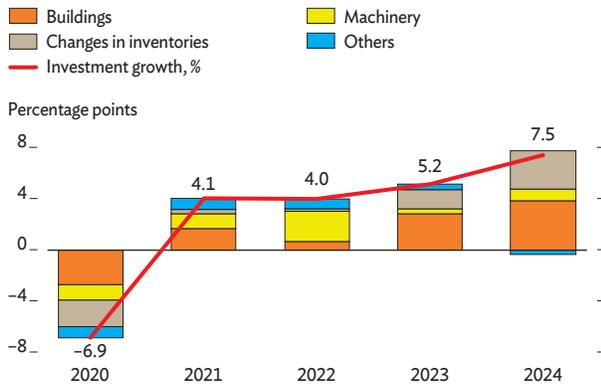


Source: Haver Analytics.

The current account deficit widened, yet remained below the pre-pandemic level. Lower commodity prices reduced export revenue despite higher demand for Indonesian metals (Figure 2.24.3). Relaxed import restrictions and strong domestic demand accelerated the import of processed raw materials (Figure 2.24.4). Consequently, goods exports in US dollar terms grew by 1.6%, while imports rose by 5.0%. The current account deficit widened to \$8.9 billion (0.6% of GDP) in 2024 from \$2.0 billion in 2023, yet remained below the average pre-pandemic 2.5% of GDP deficit from 2012 to 2019.

Figure 2.24.2 Contributions of Investment Components to Growth

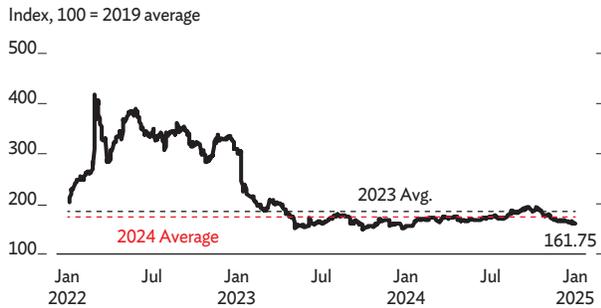
Higher spending on public infrastructure boosted investment.



Source: Haver Analytics.

Figure 2.24.3 Prospera Commodity Price Index

Lower commodity prices reduced export revenue.

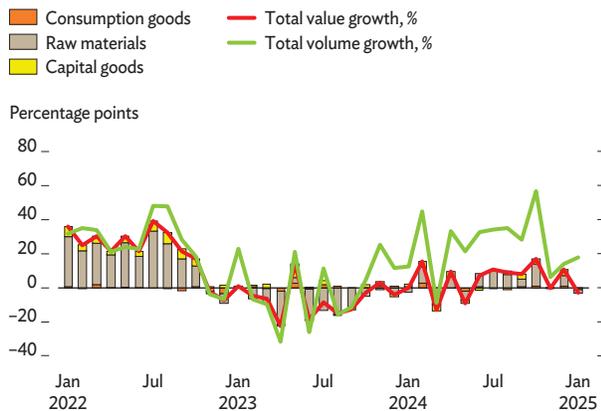


Note: Prospera Commodity Price Index is comprised of crude palm oil, coal, nickel, rubber, and copper weighted by Indonesia’s export share of those commodities in 2019.

Source: Prospera.

Figure 2.24.4 Contributions to Growth of Merchandise Imports, by Type

Rising investment and relaxed import restrictions accelerated raw material (intermediate goods) imports.



Source: Haver Analytics.

The overall balance of payments was in surplus in 2024.

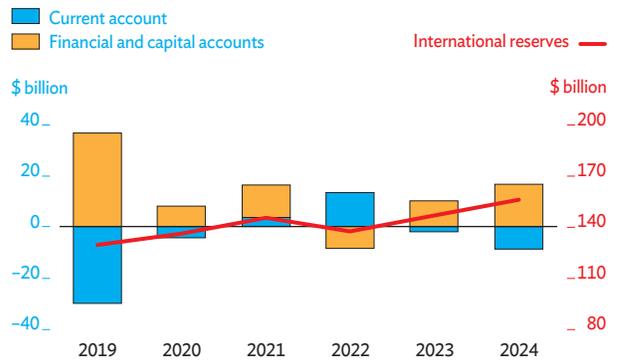
The capital and financial account surplus surged to \$16.4 billion in 2024, up from \$9.8 billion in 2023. Net portfolio investment flows increased to \$8.2 billion in 2024 from \$2.2 billion in 2023, while net direct investment rose slightly to \$14.5 billion. The capital and financial account surplus more than offset the current account deficit, resulting in a balance of payments surplus of \$7.2 billion (Figure 2.24.5). International reserves reached a record \$155.7 billion in December, sufficient to cover 6.5 months of imports and payments of the government’s short-term debt (Figure 2.24.6). On average, the rupiah depreciated slightly by 3.9% in 2024 compared to 2023.

Inflation stayed within the official target range throughout 2024.

Inflation declined from 2.6% year on year in January to 1.6% in December, averaging

Figure 2.24.5 Balance of Payments

The capital and financial account surplus more than offset the current account deficit.



Source: Haver Analytics.

Figure 2.24.6 Reserves and the Exchange Rate

Overall, the rupiah depreciated slightly in 2024, while gross international reserves reached a record high.

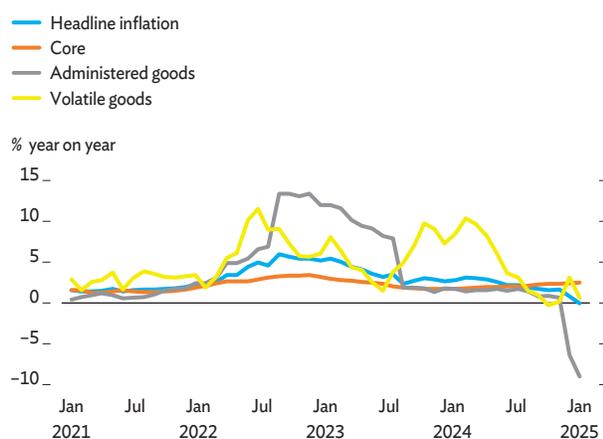


Source: Haver Analytics.

2.3% for the year, slightly below the midpoint of the 2.5% ± 1% target range set jointly by the central bank, Bank Indonesia, and the government (Figure 2.24.7). Benign risks to price stability continued as favorable weather led to a rebound in agriculture. Administered inflation eased to 0.6% in December as transport prices stabilized. Core inflation remained subdued at 2.3% by the end of 2024 on well-anchored inflation expectations. In January–February 2025, administered prices fell primarily due to an electricity tariff discount just for these first 2 months, resulting in a headline deflation of 0.1% year on year in February.

Figure 2.24.7 Monthly Inflation

Inflation stayed within the government and central bank’s target range throughout 2024.



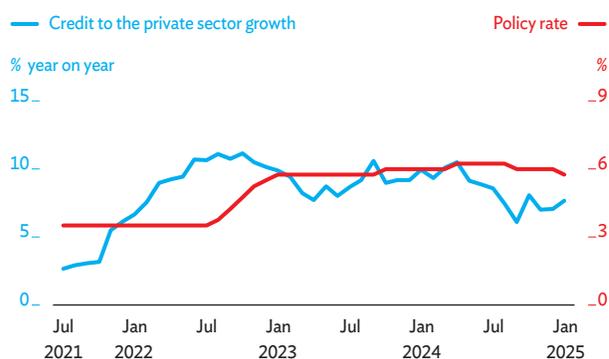
Source: Haver Analytics.

The central bank is balancing its policy mix to support growth while focusing on stability. To support economic growth, Bank Indonesia cut its policy rate by 25 basis points in January 2025 to 5.75%. This was done given the low risk to price stability. The central bank is also implementing an accommodative macroprudential policy to strengthen intermediation. These measures are expected to further boost credit to the private sector, which recently picked up (Figure 2.24.8). The central bank continues to utilize multiple market-based instruments to manage capital flows and mitigate currency pressures.

Fiscal policy sustained growth. Fiscal policy supported growth in 2024, with the budget deficit rising to 2.3% of GDP from 1.6% in 2023 due to extended social assistance programs and accelerated infrastructure projects. Government revenue grew

Figure 2.24.8 Credit Growth and the Policy Rate

Private sector credit growth recently edged up.



Source: Haver Analytics.

by 2.1% year on year, driven by a resilient economy and tax reforms despite falling commodity prices. Spending increased by 7.3% to support infrastructure and social programs. The budget performed well, with revenue surpassing targets and spending managed efficiently. Central government debt was 39.4% of GDP in December 2024, relatively steady from 39.2% a year earlier. Over 70% is denominated in rupiah, reducing exchange rate risk.

Economic Prospects

GDP is projected to grow by 5% in 2025, increasing to 5.1% in 2026 (Table 2.24.1). Stable private consumption and a gradual increase in investment should sustain growth, with strong people-based social spending allowing for more even income distribution. Domestic demand will be the primary growth driver, offsetting limited net exports. Growth will be fueled by manufacturing and agriculture as well as services such as retail trade, transport, and warehousing, which will benefit from domestic demand.

Table 2.24.1 Selected Economic Indicators, %

GDP is projected to continue expanding at 5.0% while inflation softens further.

	2023	2024	2025	2026
GDP growth	5.0	5.0	5.0	5.1
Inflation	3.7	2.3	2.0	2.0

GDP = gross domestic product.

Sources: Central Bureau of Statistics; Asian Development Bank estimates.

In 2025, the government is expected to maintain a pro-growth fiscal stance. The fiscal deficit is projected to be 2.5% of GDP, up from 2.3% in 2024. The government has allocated funds to support the new administration's priority programs, such as the free nutritious meal program, school renovations, and food security. In tandem, government efficiency measures are being implemented to reduce operational and official business travel expenses, including expenses for ceremonial events. Spending is projected to grow by 9.6% and revenue by 5.7%. Tax collection is expected to be on target, with the tax-to-GDP ratio increasing from 10.1% in 2024 to 10.2% in 2025.

Price stability eases policy tradeoffs. Headline inflation should remain stable, averaging 2.0% in 2025 and 2026, firmly within the government and Bank Indonesia's target range of 2.5%±1%. Improved agriculture productivity and logistics costs should contribute to price stability. Also, national and subnational inflation control task forces—involving the central bank, relevant government line ministries/agencies, and local governments—will remain crucial in mitigating any volatile food price impact on overall price stability. Core inflation should remain low and stable, in line with the continued implementation of a sound and prudent domestic macroeconomic management framework. With well-anchored inflation expectations, Bank Indonesia may adopt a more accommodative policy mix while focusing on price stability.

Consumption will likely remain resilient with growth designed to be more inclusive. Consumer confidence is expected to stay strong on supportive economic measures such as an increase in the minimum wage and rollout of new social spending programs, particularly the free nutritious meal program, on top of existing social assistance (Figure 2.24.9). Full implementation of the meal program, ultimately reaching 82.9 million people (school children along with expecting and nursing mothers) across the archipelago, could help maintain household purchasing power, particularly among the low-and-lower middle-income population (Box 2.24). The program could also have a positive distributional impact by stimulating economic activity and employment in rural and remote areas, fostering more inclusive growth. For 2025, the government has allocated Rp171 trillion (\$10.7 billion), for the program.

Figure 2.24.9 Consumer Demand Indicators

Consumer confidence and retail sales continue to pick up.



Source: Haver Analytics.

Box 2.24 The Free Nutritious Meal Program

The new administration has launched an ambitious social program to provide free nutritious meals to children and vulnerable groups. The initiative is aligned with the broader Golden Indonesia Vision 2045 and targets children from preschool to high school, as well as pregnant and breastfeeding mothers. The extensive program is managed nationally by the National Nutrition Agency (Badan Gizi Nasional). The program's business model emphasizes sourcing food locally to bolster domestic value chains and promote local economic development. Decentralized service units, known as "nutritional needs fulfillment service units" (or Satuan Pelayanan Pemenuhan Gizi) are responsible for procurement, meal preparation, and distribution of the free meal packages. Each unit employs around 50 workers, including a nutritionist, to ensure food quality and hygienic standards are met. The government aims to establish these service units across the archipelago to gradually reach up to 82.9 million beneficiaries. The program aims to combat malnutrition and stunting, enhance educational outcomes, improve overall health, and address poverty and inequality by providing nutritious meals.

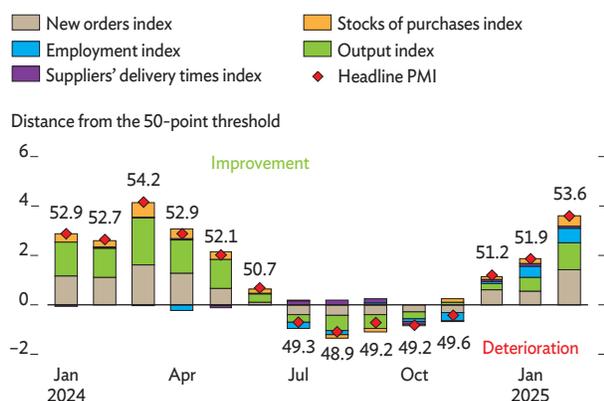
Investment is expected to improve gradually.

Investment should gain momentum over time as national strategic projects are implemented and private investment accelerates, supported by ample domestic credit supply and foreign direct investment. Growth in manufacturing and related services is projected to

accelerate as investments tied to the government’s downstream agenda materialize. Broader investments and entrepreneurial activities, particularly in services, will likely gain traction, spurred by scaled up of government social programs. Factory activity grew during the first 2 months of the year at its fastest pace since March 2024. New orders have surged, reflecting a significant rise in output, purchasing, and employment (Figure 2.24.10).

Figure 2.24.10 Purchasing Managers’ Index, by Component

Factory activity grew for the third consecutive month in February, its fastest since March 2024.



Note: Numbers above red marker refer to actual Purchasing Managers’ Index readings. Distance from threshold is calculated as the Purchasing Managers’ Index or Subindex minus 50, while the contributions are the distance multiplied by weight. Readings above 50 indicate improvement, while those below indicate deterioration.

Source: Asian Development Bank calculations using data from CEIC Database, and S&P.

The external sector is expected to remain broadly balanced. Resilient domestic demand could drive imports and temporarily expand the current account deficit as domestic capacity needs time to adjust. Export revenues will be limited by relatively stable commodity prices and the economic slowdown among key trading partners. However, portfolio and direct investment inflows are expected to keep the overall balance of payments in surplus throughout the forecast period. Consequently, the exchange rate should remain broadly aligned with its fundamentals, as capital inflows finance the current account deficit.

Orienting policies towards addressing risks to the outlook would sustain economic resilience amidst global turbulence. Prolonged tariff wars could dampen exports to main trading partners, thereby

affecting Indonesia’s growth. Escalation of geopolitical conflict may disrupt global supply chains and increase trade costs. Additionally, heightened volatility in global financial markets may lead to increased capital flow fluctuations. Domestically, slow implementation of the scaled up social programs amid budget reallocation measures and lackluster reform may weigh on growth. On the upside, maintaining prudent macroeconomic policy, coupled by fast implementation of social programs and strong structural reform to promote broad based investment and job creation would lend support to growth and employment.

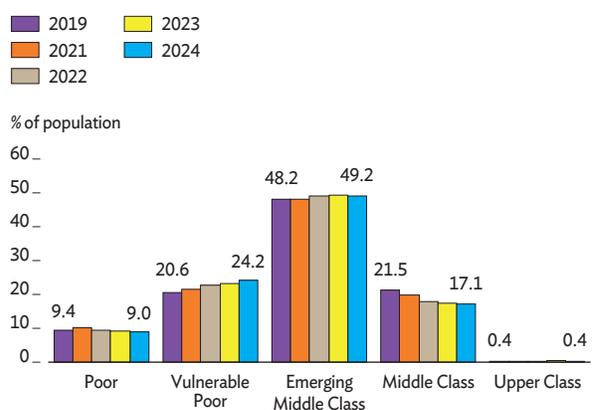
Policy Challenge—Empowering the Young Middle Class for Inclusive Growth

The middle class has been the backbone of Indonesia’s economic growth, driving domestic consumption and supplying the workforce.

However, recent data indicate a development challenge that needs attention. The middle-class population declined from 57.3 million (21.5% of the population) in 2019 to 47.8 million (17.1%) in 2024 (Figure 2.24.11). The decline is largely due to the coronavirus disease pandemic, which caused a shift toward lower-paying employment. This may

Figure 2.24.11 Population by Economic Status

The share of the middle-class population is declining while the vulnerable poor increases.

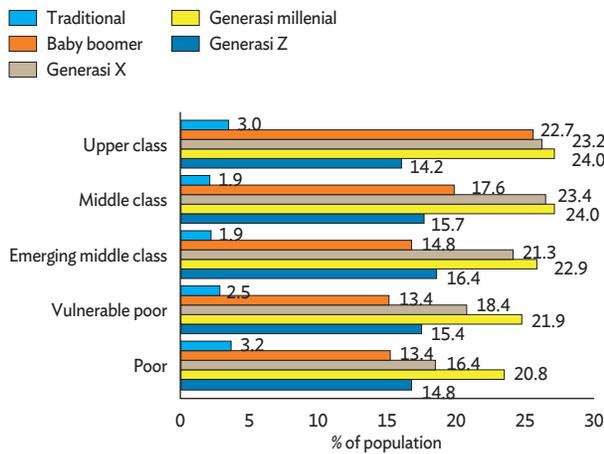


Note: “Poor” refers to households below the Poverty Line (PL), “Vulnerable Poor” are households earning 1.0–1.5×PL, “Emerging Middle Class” includes households with incomes between 1.5–3.5×PL, “Middle Class” are households earning between 3.5–17×PL, and “Upper Class” denotes households earning above 17×PL.

Source: Statistics Indonesia.

Figure 2.24.12 Generational Distribution of Population by Economic Class

Indonesia’s middle class is notably young...



Note: Generational Cohorts based on predefined age ranges. Specifically, ages 15–24 are “Generasi Z”, ages 25–39 “Generasi Milenial”, ages 40–54 “Generasi X”, ages 55–74 “Baby Boomer”, and ages 75 and above as “Traditional”.

Source: National Socio-economic Survey (SUSENAS), March 2023. Statistics Indonesia.

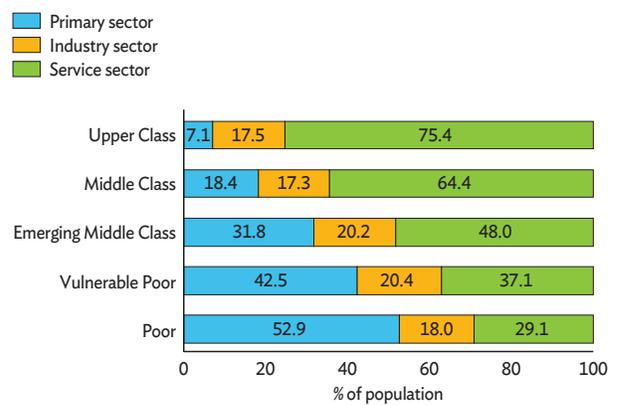
undermine the country’s goal of becoming a high-income economy by 2045 under the Indonesia Golden Vision 2045 initiative.

A deeper look at the data reveals that the middle class is notably young, with millennials representing 24.0% (Figure 2.24.12). The majority (approximately 78.6%) of this group also does not hold tertiary degrees (or have at most high school degrees) and works predominantly in services, such as transportation and distribution, tourism, and retail, which accounts for approximately 64.4% of employment (Figure 2.4.13). These young workers have the potential to benefit from economic progress but face challenges such as barriers to formal employment and limited access to skills development. To address these challenges, policymakers must craft a forward-looking strategy that fosters broad-based formal employment opportunities and makes youth better able to become employed.

Indonesia should develop a supportive business environment to strengthen job opportunities for the middle class. Among other things, this includes simplifying business regulations, reducing bureaucratic hurdles, lowering logistics costs, and improving

Figure 2.24.13 Employment by Sectors Across Economic Classes

... and mostly works in the services and primary sectors.



Source: National Socio-economic Survey (SUSENAS), March 2023. Statistics Indonesia.

businesses’ access to finance. Investing in infrastructure development, such as transportation and digital connectivity, can further reduce business operating costs. Developing special economic zones that attract more investment and open employment opportunities can also be promoted in manufacturing and services. Promoting entrepreneurship and small and medium-sized enterprises is crucial for expanding job opportunities. Policy support for fostering new businesses and employment opportunities related to the green and blue economies would also strengthen job creation.

Improved access to skills development would improve the youth employability. In agriculture, vocational training in modern techniques and sustainable practices, along with access to resources, can motivate youth to engage in farming. Information and communication technology firms can offer digital skills training and partner with companies for certification and job placement, while tech hubs can support young entrepreneurs. Training programs in hospitality management and culinary arts, combined with internships, can provide practical experience in tourism and hospitality. Healthcare can benefit from programs for healthcare assistants and mobile health clinics. The green and blue economies can offer training in renewable energy, environmental conservation, circular economy, and waste management. These initiatives can create meaningful opportunities that address the employment challenges faced by the young middle class.

LAO PEOPLE'S DEMOCRATIC REPUBLIC

In 2024, economic growth in the Lao People's Democratic Republic (Lao PDR) was fueled by services, driven by a resurgence in tourism amid persistent macroeconomic challenges. Favorable rainfall supported electricity generation and agriculture. Moderate growth is forecast for 2025 and 2026 given the substantial public debt burden. Tightened monetary and fiscal policies will have trade-offs on health and education, impacting human capital and overall productivity.

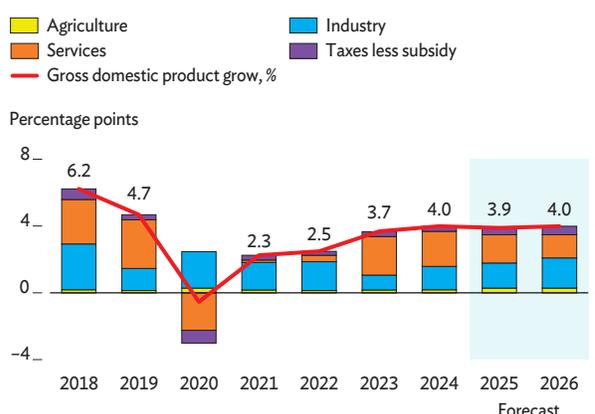
Economic Performance

Economic growth in 2024 is estimated at 4.0%, up slightly from 3.7% in 2023. The expansion was largely due to recovery in services, which grew by 5.2%, driven by tourism and logistics (Figure 2.25.1). Tourism was resurgent, with international arrivals increasing by 21%, reaching 4.1 million (Figure 2.25.2). Although still below pre-pandemic levels, the “Visit Laos Year 2024” campaign and holding the ASEAN Chairmanship helped considerably. The cross-border railway service between the Lao PDR and the People's Republic of China (PRC) also played a pivotal role, carrying over 245.3 thousand passengers and 4.8 million tons of freight, up by 22.1% in passenger and 15.2% in freight traffic from 2023.

Amid the ongoing challenges with the debt burden, fiscal policy focused on stabilizing government finances. By the end of 2023, public debt remained high at \$13.9 billion, or 108% of GDP, with 76% external and denominated in foreign currency (Figure 2.25.3). Debt service remains a burden, with the ratio of external debt service to government revenue rising from 27% in 2022 to 43% in 2023 (Figure 2.25.4). In response, the government stepped up efforts to increase revenues. Collections exceeded targets with the higher value-added tax (VAT) rate reinstated and better tax compliance, resulting in revenues rising to 19.2% of GDP in 2024 from 17.4% in 2023. The fiscal surplus is estimated at 2.5% of GDP, up from 0.7% in 2023.

Figure 2.25.1 Supply-Side Contributions to Growth

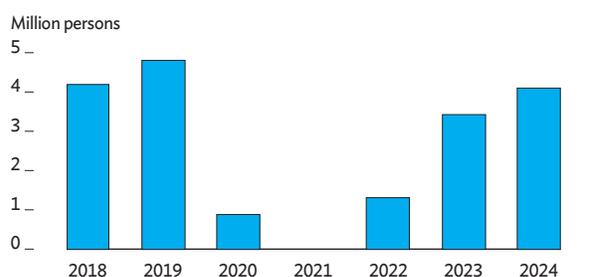
Tourism, transport, and logistics services drove growth.



Sources: Lao Statistics Bureau; Asian Development Bank estimates.

Figure 2.25.2 Tourist Arrivals

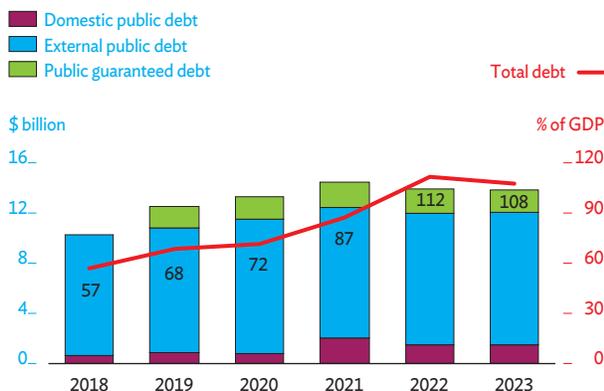
Tourist arrivals rose close to pre-pandemic levels.



Source: Ministry of Information, Culture, and Tourism.

Figure 2.25.3 Public Debt

Public debt remains high.

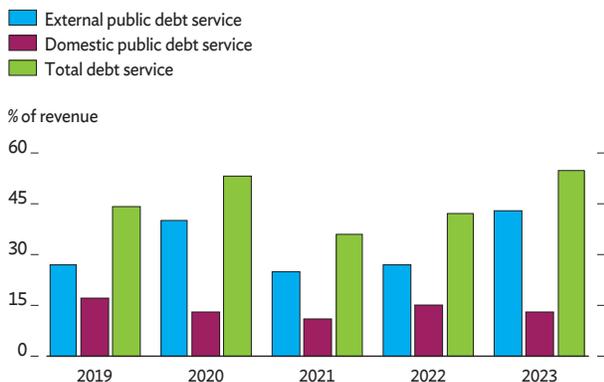


GDP = gross domestic product.

Source: Ministry of Finance.

Figure 2.25.4 Debt Service

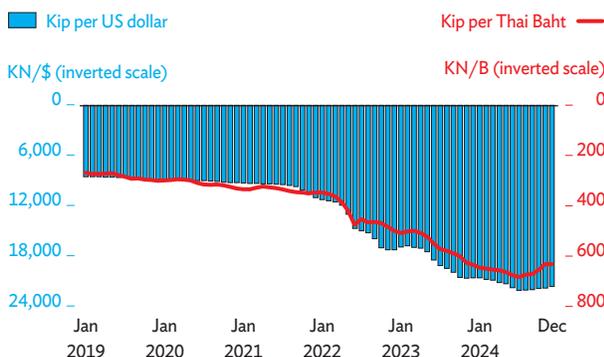
Debt servicing remains a burden.



Source: Ministry of Finance.

Figure 2.25.5 Lao Kip Exchange Rate Index

The kip stabilized in the fourth quarter in response to tightened monetary policy.



US = United States.

Note: Based on the average rate of the kip per US dollar and Thai baht at the commercial bank official rate.

Sources: Bank of the Lao PDR; Asian Development Bank estimates.

The central bank tightened monetary policy, helping stabilize the Lao kip and inflation in the fourth quarter. From January to September 2024, the kip fell 6.4% against the US dollar and 3.6% against the Thai baht (Figure 2.25.5). The Bank of the Lao PDR raised the policy rate, increased reserve requirements, implemented a national treasury single account, and launched the Lao FX platform, which helped stabilize the kip in the last quarter with an overall depreciation of 5.4% against the US dollar and a 1.2% appreciation against the Thai baht. Inflation also responded to monetary policy measures after peaking at 26.2% in June. It fell to 16.9% by December for an average 23.3% for the year (Figure 2.25.6). Food, alcohol, restaurant, and hotel prices remained high, driving up consumer prices. Food inflation averaged 22.4%.

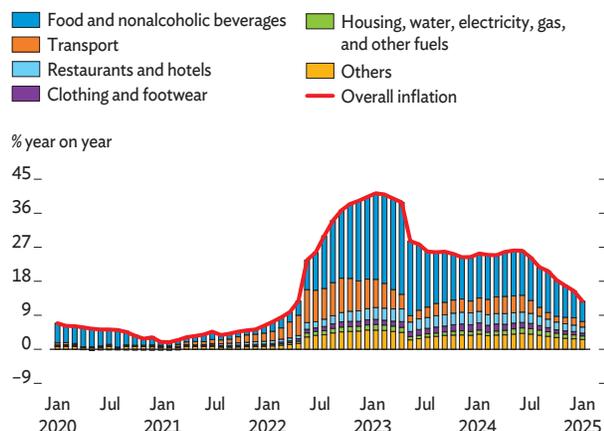
Foreign direct investment (FDI) and favorable rainfall boosted electricity production. Electricity output rose 6.7% to 51,981 million kwh in 2024, driven by higher rainfall with the start of La Niña, with exports reaching \$2.8 billion, a 17.1% increase over 2023. However, energy imports including diesel and gasoline, totaled \$1.5 billion. In 2024, FDI in renewable energy development, including the Monsoon Wind Power, Luang Prabang, Pak Lai, and Pak Beng projects, helped industry grow by 3.5%.

Rainfall affected agricultural production. Typhoon Yagi in September affected over 200,000 people and caused over \$300 million (or 2% of GDP) in damaged homes, agriculture, and infrastructure. Nonetheless, agricultural and forestry exports rose by 33.6% to \$1.4 billion. Top agriculture exports were rubber, which increased by 45.1% to \$449.9 million, and cassava, up 12.4% to \$374.2 million. Agriculture growth is estimated at 1.7% in 2024 due to lower rice output, which was affected by labor shortages and rising input costs.

Increased import costs eroded export competitiveness, putting pressure on the external balance. The trade balance recorded \$723.3 million, equivalent to 4.9% of GDP in 2024. Electricity and mining remained buoyant, with exports growing by 14.2% to \$5 billion. Electricity earned \$2.8 billion, potash \$829.7 million, gold \$742.9 million, and copper \$474.6 million. However, goods imports rose by 13.3%, primarily due to increased diesel fuel, machinery, and vehicles. Gross official reserves stood at \$1.8 billion as

Figure 2.25.6 Monthly Inflation

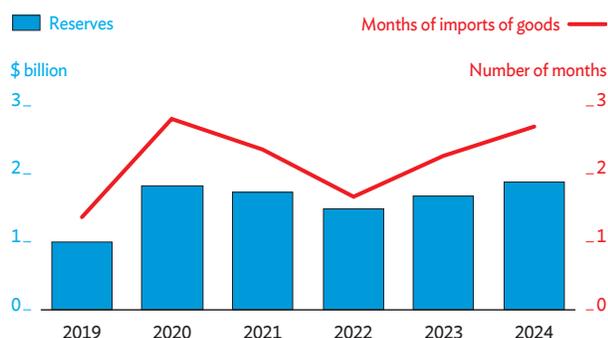
Inflation slowed by year-end as the kip stabilized.



Source: Lao Statistics Bureau.

Figure 2.25.7 Reserves and Imports

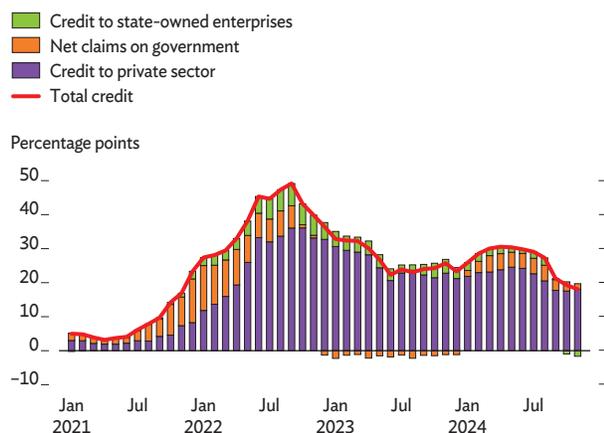
The reserve cover remains inadequate.



Sources: Bank of the Lao PDR; Asian Development Bank estimates.

Figure 2.25.8 Credit to the Economy

Credit growth declined.



Sources: Bank of the Lao PDR; Asian Development Bank estimates.

of December 2024, equivalent to 2.5 months of imports (Figure 2.25.7). Credit to the private sector grew by 23.1% in the first 11 months of 2024, below the 30.2% growth over the same period in 2023 (Figure 2.25.8).

Economic Prospects

GDP is forecast to grow moderately, by 3.9% in 2025 and 4.0% in 2026, amid macroeconomic and structural challenges (Table 2.25.1). Growth in services, including logistics and tourism, should continue to rise. Increased export demand for electricity, minerals, and agricultural products is projected to offset import demand, leading to a trade surplus of 4.8% of GDP. However, domestic consumption and investment will likely remain constrained due to high inflation, debt, and debt servicing.

Table 2.25.1 Selected Economic Indicators, %

Moderate growth is expected with lower yet still high inflation.

	2023	2024	2025	2026
GDP growth	3.7	4.0	3.9	4.0
Inflation	31.2	23.3	13.5	10.4

GDP = gross domestic product.

Sources: Lao Statistics Bureau; Asian Development Bank estimates.

Tightened monetary policy is expected to stabilize the exchange rate and dampen inflation.

Government measures include controlling the use of foreign currency, increasing reserves to cover 5 months of imports, ensuring 70% of revenues are repatriated, and limiting broad money supply (M2) growth to less than 20%. Inflation is forecast to moderate to 13.5% in 2025 and 10.4% in 2026. Foreign currency-denominated debt will continue to strain the exchange rate and drive inflationary pressures. The increase in electricity tariffs, effective March 2025, will boost prices in the short to medium term.

Driven by tourism and logistics, services is expected to grow by 4.5% in 2025 and 4.7% in 2026.

The railway service between the Lao PDR and the PRC and better connectivity in general will boost regional tourism. International tourist arrivals are expected to

increase by 4.1% in 2025 to close to pre-pandemic levels. The hospitality sector is anticipated to grow from investments in infrastructure and new hotels.

Renewable energy and mining investments are projected to help industry grow at 3.0% in 2025 and 3.6% in 2026. There are 14 renewable energy projects underway with an installed capacity of 7,393 MW, including the Pak Lay, Pak Beng, Luang Prabang, Pak Ngoy, and Monsoon Wind Power projects. These projects will also boost the construction industry.

Agriculture faces climate change challenges, affecting productivity and food security. La Niña in 2025 will likely cause heavy rainfall, improving soil moisture and irrigation but also increasing flooding risk. Agricultural growth is projected to remain moderate, growing by 1.4% in 2025 and 1.6% in 2026. Due to labor shortages and lower prices of agricultural commodities, farmers will be reluctant to invest.

Export demand will create a trade surplus. The export values for electricity, minerals, and agricultural products are forecast to increase by 5.2%. Import levels will likely recover due to measures to stabilize the kip, thereby controlling food input prices. This should result in an overall trade surplus of 4.8% of GDP in 2025 and 2.5% in 2026.

Fiscal policy will remain tight due to the debt burden. The 2025 budget targets a 1.0% GDP deficit, with revenue rising by 35.9% to 68.1 trillion kip and expenditure up by 19.1% to 71.8 trillion kip. Tax reforms and improved tax administration will drive revenue growth. The government aims to enhance public investment efficiency through better state enterprise management. However, high public debt and limited refinancing options will continue to challenge fiscal sustainability and constrain government spending.

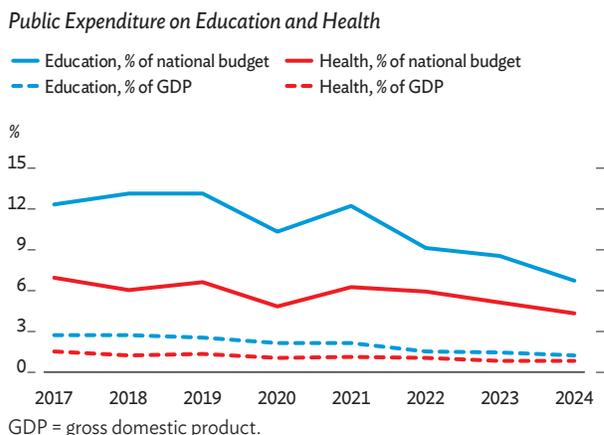
Domestic risks to the outlook include liquidity constraints from unsustainable debt, inadequate foreign exchange reserves, and incomplete reforms. Debt sustainability, high inflation, and tight fiscal and monetary policies hinder recovery. Limited external debt refinancing options and banking liquidity constraints may affect a private sector recovery, with state-owned enterprises also facing refinancing issues. The largest external risk to growth is from the US tariff rate hikes which will impact the Lao PDR

and the neighboring economies who are its main trading partners. The potential upside risks include lower oil prices, progress in conflict negotiations, and improved weather.

Policy Challenge—Public Financial Management for Enhanced Social Spending

As debt servicing requirements increased, critical expenditures on health and education decreased significantly. Spending on education and health dropped from 4.9% of GDP in 2013 to an estimated 2.3% in 2024. The decline has hurt both sectors, leading to challenges in human capital development (Figure 2.25.9).

Figure 2.25.9 Public Expenditure on Education and Health



Source: Asian Development Bank estimates from Ministry of Finance data.

Spending on education dropped from 2.5% of GDP in 2019 to 1.2% in 2024, while its share of the national budget has fallen from 13.1% to 6.7%. The global median for education was 4.6% of GDP in 2023. With rising inflation, families prioritize immediate income over education. The secondary school dropout rate rose to 11.5% in 2023 from 4.7% in 2020. University enrollment has decreased with fewer than 10,000 of 49,000 high school graduates entering higher education. Entrance exams at the National University of Laos declined sharply from 15,000 students in 2017 to 5,457 in 2024. Also, teacher shortages and the low learning scores—just 38.8% for reading and 51.42% in math for the 7-14 age group—are significant challenges in education quality.

Labor market mismatches and persistent inflation boost out-migration. About 60% of Lao PDR workers are employed in Thailand's service industry. The Ministry of Labor and Social Welfare reported that over 415,000 Lao PDR nationals formally and informally work abroad and remit over \$625 million annually, or about 4.0% of GDP. The impact of out-migration is evident in social indicators, with the rise in children with at least one parent away from home rising from 13.1% to 18.3% between 2017 and 2023, and those with at least one parent abroad up from 2.9% to 5.8%. There was an increase in inadequate supervision of young children from 12.4% to 13.7%.

Health expenditure has remained relatively stable at around 1% of GDP since 2017. The global median for spending on health is 6.1% of GDP. There was a spike to 6.6% of the national budget during the pandemic before returning to 4.3% in 2024. However, the health sector relies heavily on external funding and out-of-pocket payments. In 2021, external financing contributed about 39.6% of total health expenditure, while out-of-pocket payments accounted for 29.5%.

Human development indicators have stalled since 2015, with 30% of the population facing severe-to-moderate food insecurity. The universal health coverage index was 52 in 2021 compared to 51 in 2017, below the regional average of 65. Wasting among children under 5 years old increased from 9% in 2017 to 10.7% in 2024.

Comprehensive Public Financial Management reforms are essential to tackle challenges in education and health. Current reforms focus on enhancing revenue management, effective budget execution, and procurement approval processes. The government has limited public spending capability, which is affecting education and health services and undermining human capital development. Immediate priorities on social spending include dedicated funding for education and health, better coordination with development partners, and improved monitoring via outcome-based budgeting and regular audits. Medium-term steps should focus on human resource development. For education, this includes improving the quality of education through enhanced teaching practices with equipped learning materials and strengthening vocational education through dual training in close collaboration with business entities. For health, increased financial and technical support to rural health workers and towards school-based health programs is particularly needed. Long-term measures include creating a sustainable social sector financing plan and updating legal frameworks to allow both sectors to develop income generation plans and gradually move towards financial autonomy. Strengthening public financial management and monitoring systems, fostering institutional innovation, and encouraging cross-sectoral research will improve service delivery. Finally, tracking long-term results through longitudinal data on the impact of education and health policies will be key to assessing their effect on poverty reduction, employment, and long-term learning and health outcomes.

MALAYSIA

Economic growth was exceptionally strong in 2024, driven by consumer spending, a substantial increase in investment and construction, and a resurgence in manufacturing and external trade. Inflation remained manageable despite rationalized subsidies. However, in 2025 and 2026, growth should moderate slightly due to a weaker external environment and greater trade uncertainty. Inflation will likely rise due to domestic policy reforms. Malaysia should consider the opportunities and challenges of expanding the digital economy amid a graying population.

Economic Performance

GDP growth was higher than forecast, accelerating to 5.1% in 2024 from 3.6% in 2023 (Figure 2.26.1).

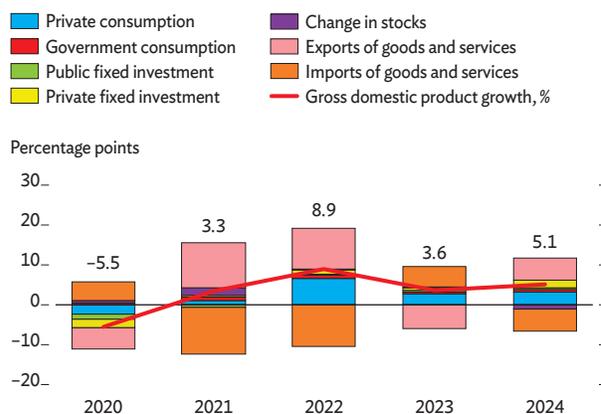
The economy outperformed initial Ministry of Finance estimates of a 4.0% to 5.0% expansion. Double-digit growth in construction and investment and a recovery in external trade and manufacturing helped. Consumption and services-related activities also remained strong.

Private consumption grew by 5.1% in 2024 from 4.7% in 2023, supported by a strong labor market, stable inflation, and government income support measures. The job market improved as the labor force participation rate and employment-population ratio improved in 2024. The unemployment rate also continued to decrease to 3.1% in December 2024 from 3.3% in December 2023 (Figure 2.26.2). Stable inflation helped drive consumer spending along with government initiatives such as flexible withdrawals from the employee provident fund and higher civil servant wages.

Public consumption grew by 4.7% from 3.3% last year. Although spending on subsidies decreased from subsidy rationalization, government spending still grew given substantial increases in salaries, pensions and gratuities, supplies and services, and grants and

Figure 2.26.1 Demand-Side Contributions to Growth

Investments, resilient consumption, and an export recovery helped drive growth.



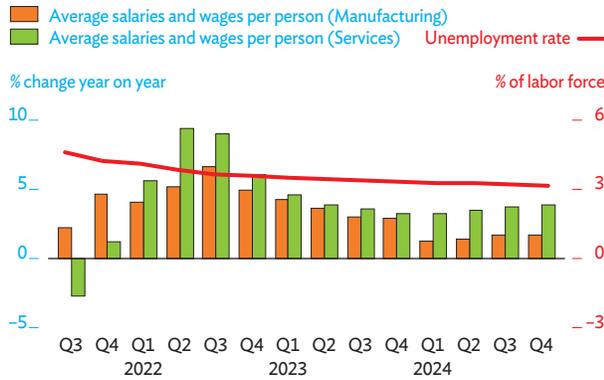
Source: Haver Analytics.

transfers to state governments and public entities. As of the end of September 2024, withdrawals from the Employees Provident Fund's Flexible Account totaled RM10.78 billion.

Private investment rose by 12.3% in 2024 from 4.6% in 2023 as public investment increased by 11.1% from 8.6% (Figure 2.26.3). Investments were boosted by ongoing and expected mega infrastructure and data

Figure 2.26.2 Labor Market Indicators

Favorable labor market conditions and improved incomes boosted consumer spending.



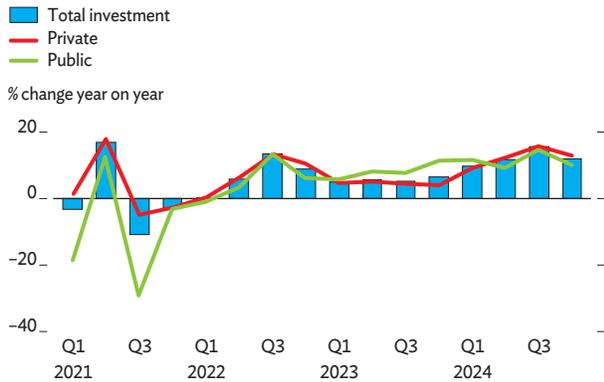
Q = quarter.

Note: Salaries and wages paid refer to cash payments, including bonuses, commissions, overtime pay, cost of living allowances, and other allowances given all employees during the reference quarter.

Source: Haver Analytics.

Figure 2.26.3 Investment Growth

Private and public investment expanded considerably.



Source: Haver Analytics.

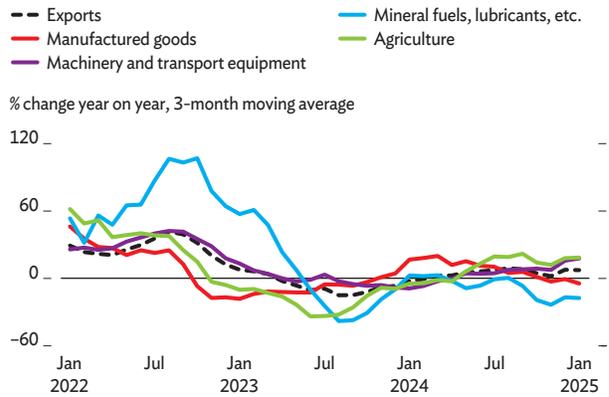
center projects. In 2024, approved investments totaled RM378.5 billion, up by 14.9% from 2023. Realized foreign direct investments reached RM47.4 billion in 2024, rising 17.4% over 2023. The increase largely came from investments in information and communications technology, including data centers.

After declining last year, external trade recovered with exports up by 8.5% and imports by 8.9%.

Exports increased due to greater demand from the United States (US), Singapore, and regional markets like Taipei, China; Türkiye; and India; while demand from major trading partners like the People’s Republic of China (PRC) and Japan had yet to recover. Across

Figure 2.26.4 Merchandise Exports

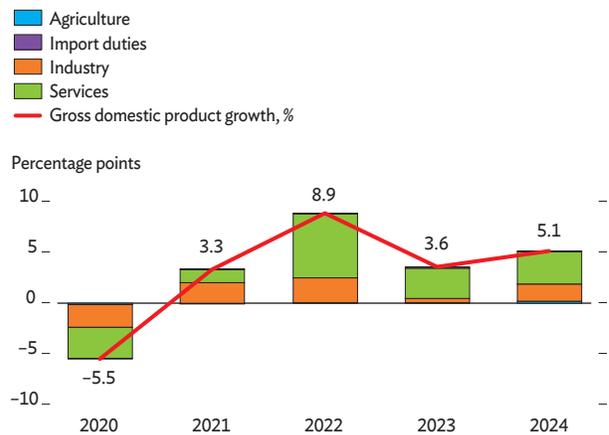
Exports rebounded after declining in 2023.



Source: Haver Analytics.

Figure 2.26.5 Supply-Side Contributions to Growth

Construction and services led growth.



Source: Haver Analytics.

subsectors in 2024, manufactured and agricultural goods exports grew by 6.0% and 11.4%, respectively (Figure 2.26.4). Higher capital, intermediate, and consumption goods drove imports higher. The trade balance expanded by 2.2% to RM70.5 billion.

Construction and services remained key drivers of growth (Figure 2.26.5).

Construction grew by 17.5% in 2024 compared with 6.1% in 2023 on robust civil engineering and special trade activities. The dynamic growth came from increased data center construction and ongoing public infrastructure projects such as the East Coast Rail Link, Pan Borneo Highway, and Rapid Transit System rail link between Johor Bahru and Singapore. Growth in the services remained

steady, up by 5.4%, as tourism- and consumer-related services continued to expand. Tourist arrivals totaled 25.0 million in 2024, up 24.2% from the previous year.

Manufacturing recovered, growing by 4.2% from 0.7% in 2023. After contracting in the second half of 2023, manufacturing of electrical and electronic products rebounded by 4.1% with refined petroleum products up by 1.9% (Figure 2.26.6). Fabricated metal, rubber-based, and non-metallic mineral products also improved substantially.

Agriculture grew significantly, while mining remained steady. Agriculture expanded by 3.1% in 2024 from 0.7% last year. Growth was driven by greater palm oil, rubber, and marine fishing production. Mining and quarrying grew by 0.9%, a slight increase from 0.5% in 2023, due to an increase in natural gas production.

Inflation decreased to 1.8% in 2024 from 2.5% in 2023, averaging below Bank Negara Malaysia’s 2.0% to 3.5% target range. Price increases in most commodities either decelerated or remained the same amid the easing of global prices and from the absence of significant upside pressures domestically. Inflation in food and beverages fell to 2.0% from 4.9% in 2023. Core inflation declined to 1.8% from 3.0% (Figure 2.26.7).

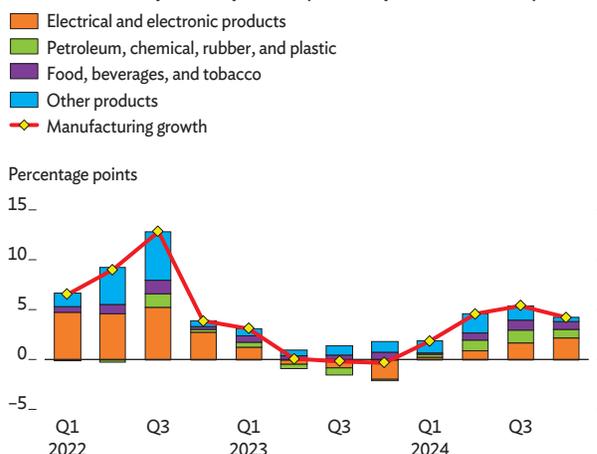
The central bank maintained its monetary policy rate at 3.0% (Figure 2.26.8). Monetary policy remained accommodative, given strong economic growth alongside steady inflation. The Malaysian ringgit, which depreciated substantially starting in 2023, rebounded by the end of 2024. It appreciated against the US dollar by 2.7%, to RM4.47 per US dollar in December 2024 from RM4.59 at the end of December 2023.

The fiscal deficit fell to 4.1% of GDP in 2024 from 5.0% in 2023. The 2024 fiscal deficit came in below the government’s 4.3% target. Revenues grew by 3.0% while operating expenditures increased by 3.3%. Net development expenditures fell by 13.5%, pushing the overall fiscal deficit down from RM91.4 billion in 2023 to RM79.2 billion in 2024.

In 2024, the current account surplus was 1.7% of GDP, a modest increase from 1.5% in 2023. The goods account declined by 14.0%. The services deficit

Figure 2.26.6 Contributions to Manufacturing Growth

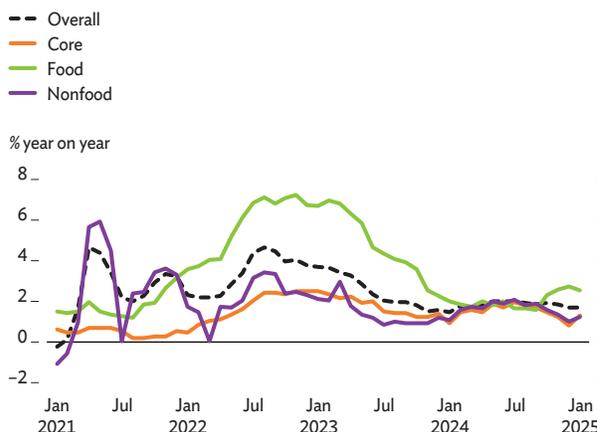
An increase in major manufactured products fueled the recovery.



Source: Haver Analytics.

Figure 2.26.7 Monthly Inflation

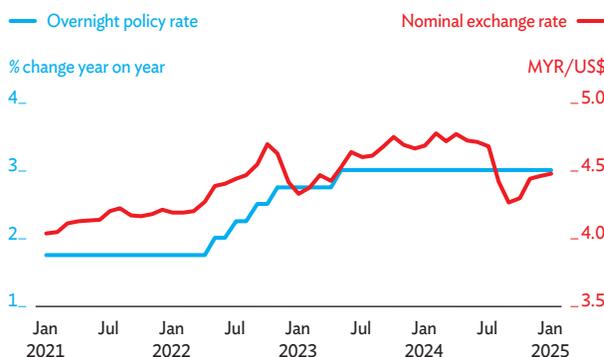
Inflation remained stable throughout the year.



Source: Haver Analytics.

Figure 2.26.8 Monetary Policy

The monetary policy rate remained stable.



Source: Haver Analytics.

fell by a substantial 67.8% due to higher receipts in travel, transportation, insurance, and manufacturing services.

The external debt-to-GDP ratio rose slightly to 69.7% at the end of 2024 from 68.2% at the end of 2023. The external debt increased to RM1,345.4 billion, driven mainly by increased intragroup loans, nonresident deposits, and interbank borrowings. As of the end of 2024, international reserves reached \$116.2 billion, above the \$113.5 billion at the end of 2023, covering 5.0 months of imports.

Economic Prospects

The broad-based expansion is expected to continue in 2025, though more moderately than in 2024. Robust investment, construction, resilient consumer spending, manufacturing, and exports will continue to drive growth. However, a slowdown in the US and the PRC, increasing trade tensions, and uncertainties in US trade policies could impact the outlook. GDP is forecast to grow by 4.9% in 2025 and 4.8% in 2026 (Table 2.26.1 and Figure 2.26.9).

Consumer spending is projected to remain stable as incomes improve, although government policy reforms may constrain growth. Raising civil service wages and the minimum wage will likely boost consumer spending. The effects of the December 2024 civil service wage increase should be felt this year. From February 2025, the monthly minimum wage will rise from RM1,500 to RM1,700. However, the ongoing subsidy rationalization and impending implementation of several tax policy reforms may restrict household spending. The rationalization of the RON95 petrol subsidies should begin in the second half of 2025.

Table 2.26.1 Selected Economic Indicators, %

Marginally slower growth is forecasted alongside somewhat higher inflation.

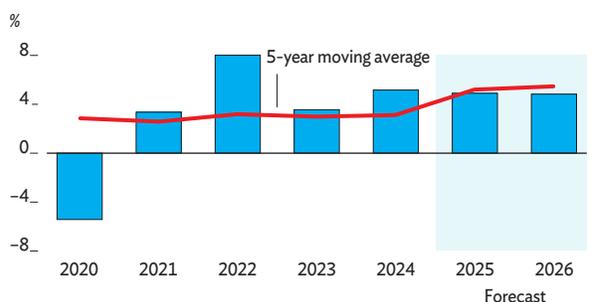
	2023	2024	2025	2026
GDP growth	3.6	5.1	4.9	4.8
Inflation	2.5	1.8	2.5	2.5

GDP = gross domestic product.

Sources: Department of Statistics Malaysia; Asian Development Bank estimates.

Figure 2.26.9 Gross Domestic Product Growth

Recent strong growth will likely moderate slightly due to greater uncertainties.



Source: Asian Development Outlook database.

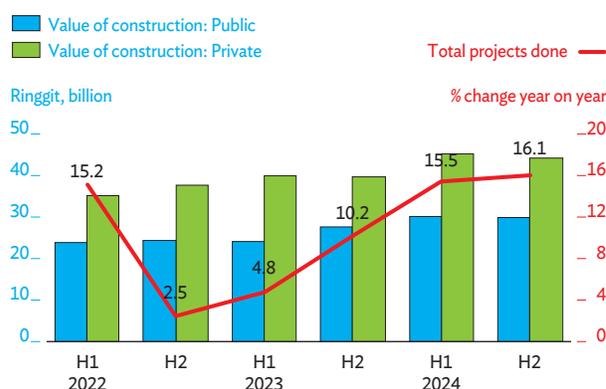
Tax policy reforms for the year include a new dividend tax on income and an expansion of the sales tax on non-essential goods.

Strong investment and construction should continue through 2025.

The increase in investment will likely continue with ongoing and pending public infrastructure projects and the building of data centers (Figure 2.26.10). The government has allocated RM25 million to the Bureaucratic Red Tape Reform initiative, targeting 500 projects in 2025, up from 200 projects finished in 2024. Data center construction will continue with upcoming project awards. In addition, limits on artificial intelligence chip deployment will push tech companies to build data centers domestically. The government plans to introduce a New Investment Incentive Framework, which will offer new tax incentives

Figure 2.26.10 Construction

Robust construction is expected to continue with several projects in the pipeline.



Source: Haver Analytics.

for investments in high-value sectors. This will include a RM1 billion strategic fund to support programs that will enhance the capacity of local talent and encourage high-value activities.

Vibrant consumer- and tourism-related activities will support growth in services. Increased technology adoption, use of social media and online shopping platforms will boost wholesale and retail sales, especially in e-commerce. Transport output should grow significantly given the new trains on the LRT Kelana Jaya Line and the opening of Section 2 of the West Coast Expressway, which will reduce traffic congestion in the Klang Valley. Tourist arrivals were just 4.2% below pre-pandemic levels in 2024. Malaysia's 2025 ASEAN Chairmanship will likely boost tourism-related activities. For 2026, the government has set a target of 35.6 million tourists, or 42.3% above the tourist arrivals in 2024. It aims to establish the country as a global tourism hub.

Growth in manufacturing and exports is expected to continue, although weaker global demand may limit the expansion. Manufacturing and export growth are expected to come from positive trends in the semiconductor industry and governmental initiatives. In 2024, global semiconductor sales reached \$627.6 billion, up by 19.1% from 2023, with further double-digit growth projected for this year. In addition, advancements in manufacturing will be helped by government initiatives such as the National Industrial Master Plan 2030 and the National Semiconductor Strategy. The semiconductor strategy aims to increase value added and support the expansion of firms involved in semiconductor design, advanced packaging, and manufacturing equipment. The government plans its support through improved infrastructure, customized financial incentives, and talent development. However, manufacturing and goods exports might be constrained by a slowdown in its major trading partners, the US and the PRC.

Domestic policy reforms should drive inflation up to 2.5% in 2025 and 2026. This year's tax and subsidy reforms will likely drive prices up along with the pass-through effects from higher wages. Inflation remained manageable in 2024 alongside subsidy rationalization, so the price impact this year should be contained. Given the economy's strength and steady inflation, the central bank will likely maintain the policy rate.

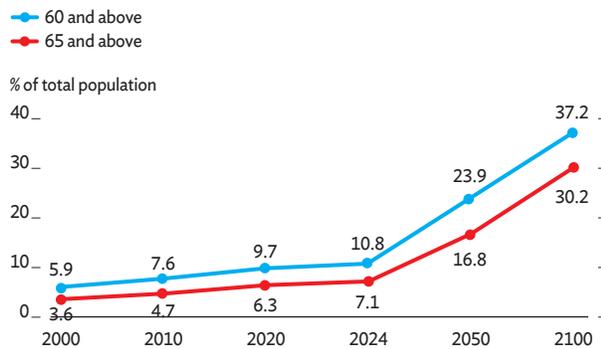
Malaysia's credit ratings remain stable. In December 2024, Fitch Ratings affirmed Malaysia's long-term foreign-currency issuer default rating of BBB+ with a stable outlook. And in January 2025, Moody's Ratings reaffirmed its A3 rating, maintaining a stable outlook given economic developments amid current global headwinds.

Uncertainties are raising the external risk to the outlook. Global uncertainties from trade tensions and policy changes by the new US administration and others may affect world trade. These uncertainties can also impact global commodity prices and financial markets, possibly increasing inflationary pressures. Growth projections may also be affected by the possibility of slower growth in the PRC.

Policy Challenge—A Graying Population and Digital Transformation

The combination of an expanding digital economy and rapidly graying population presents a unique policy challenge. The digital sector plays a crucial role in economic growth, with information and communication technology now the third-largest contributor to GDP. Investment inflows show Malaysia's capacity to support and nurture digital industry players and their growing significance across the global digital landscape. As of September 2024, RM185.3 billion (\$39.4 billion) in digital investments had been approved, highlighting the government's commitment to become the regional leader in digital innovation. In 2025, Malaysia is accelerating its digital transformation through workforce development, digitalization among small and medium-sized enterprise, and high-value job creation. It wants the digital economy to account for 25.5% of GDP from 23.5% in 2024.

The rapidly aging population signals a crucial demographic shift in the coming years (Figure 2.26.11). According to a World Bank study, Malaysia's aging transition is paced similar to Japan and other high-income economies. Data from the Department of Statistics Malaysia shows that in 2024, 7.1% of the population was 65 or above, meeting the international conventional definition of an "aging society." By 2100, Malaysia will be a "super-aged society" with 30.2% of its population 65 or above.

Figure 2.26.11 Malaysia's Aging Population*The population is aging rapidly.*

Source: Department of Statistics Malaysia; MyAgeing Dashboard.

Population aging creates several barriers to digital economic development. Aging can impact the pursuit of innovation, labor force composition, and digital inclusion. The contracting working-age population can limit the pool of skilled tech workers with the necessary skills to expand the digital economy. Training older workers to use new digital tools and systems can be resource-intensive and time-consuming compared to training younger workers.

An expanding elder population can lead to numerous opportunities within the digital economy. Digital platforms facilitate remote work, offering flexibility and allowing older adults to remain in the workforce longer. They can contribute expertise through freelancing and consultancy without needing full-time employment. Digitalization also enhances health monitoring via smart devices and offers easier access to healthcare services through telemedicine.

E-commerce platforms give older adults convenient access to goods and services tailored to their needs and preferences. Digital financial tools assist them in planning retirement more effectively. By leveraging these opportunities, older adults can actively use the digital economy to improve their quality of life and contribute to economic growth.

The government and private sector must recognize that many older adults are eager to continue working and upgrade their skills to contribute to the digital economy. There are several proactive measures Malaysia can take to mitigate the negative impact of its aging population. Training programs designed to address the unique skills required of older adults can improve their digital literacy and help bridge the digital skills gap. Policymakers must also consider improving age-friendly employment regulations, such as flexible work arrangements for older workers and anti-age discrimination laws to encourage participation in the labor market. The government can collaborate with the private sector to develop user-friendly applications for older employees, which can help close the digital divide. Improving access to healthcare and implementing health and wellness programs will support the physical and mental well-being of older adults, enabling them to continue working. Ramping up elder-friendly infrastructure ensures that older adults can fully participate in the community and live independently. Governments can help in reshaping mindsets on aging by supporting generational diversity in its own workforce. By proactively addressing these challenges, Malaysia can ensure its digital economy remains inclusive and innovative.

MYANMAR

The economy is contracting due to elevated conflict, persistent high inflation, food insecurity, falling investment, and trade disruptions. In the near term, it is expected to remain weak and fragile. Inflation has risen significantly and will likely continue over the next 2 years. The ongoing conflict, along with macroeconomic instability, exacerbates humanitarian and social conditions. Additional support is essential to minimize the impact on vulnerable groups.

Economic Performance

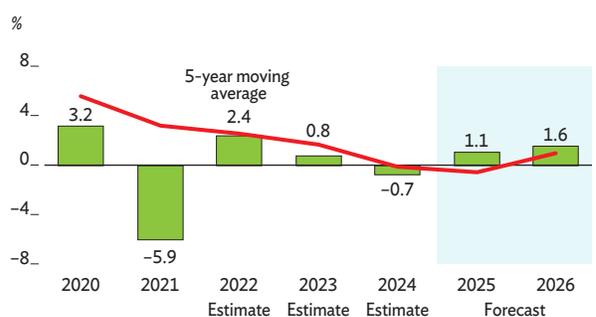
Myanmar’s economic landscape remains fraught with significant challenges due to prolonged instability, high inflation, and trade disruptions that heavily impact growth.

GDP growth should contract by 0.7% in fiscal year 2024 (FY2024, ending 31 March 2025), down from 0.8% in FY2023 (Figure 2.27.1). Broad contractions across all real sectors drive this decline. Extreme weather events, including Typhoon Yagi and severe flooding during the 2024 monsoon season, resulted in significant production losses. In addition, limited access to agricultural inputs, armed conflict in rural areas, and supply chain disruptions constrained overall output. Consequently, agriculture contracted by 2.3% in FY2024. The deterioration in the trade and investment climate also contributed to the decline in industry. Policy uncertainty, macroeconomic instability, chronic supply constraints, and disruptions in trade and labor markets hurt industrial growth, leading to a contraction of 0.1% in FY2024. Additionally, growth in services decreased by 0.5%, reflecting substantial cutbacks in key industries such as travel and tourism, as well as wholesale and retail trade.

Inflationary pressures remain high. Rising prices for food and fuel, decreased food production, exchange rate depreciation, and constraints in supply chain and logistics have led to double-digit inflation. In FY2024, average annual inflation increased to 27.8%, up from 27.5% in FY2023. Increased volatility across

Figure 2.27.1 Gross Domestic Product Growth

Continuing conflict and macroeconomic instability weigh heavily on growth.



Note: From 2020 to 2021, the fiscal year ends 31 September of that year; 2022 onwards are fiscal years ending 31 March of the following year.

Sources: Central Bank of Myanmar; Asian Development Bank estimates.

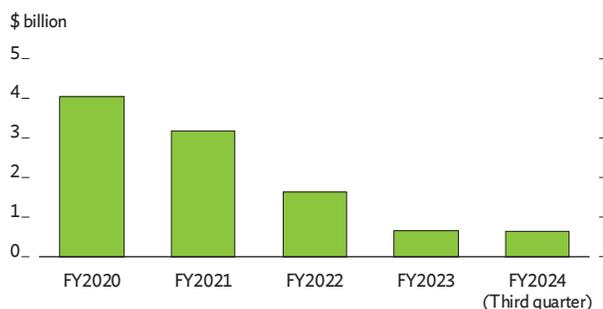
the country has disrupted food production and trade flows, heightening inflationary pressures, particularly in conflict-affected areas.

Merchandized trade declined sharply. Trade decreased by 9.5% in the second quarter of FY2024 (latest available data) compared to the latter half of FY2023. This decline was primarily due to a sharp 24.6% drop in merchandized imports. Several factors contributed to the decline, including sluggish investment due to an unfavorable business climate, strict import controls, exchange market fragility,

tensions at major border trade areas, and weaker global demand. As imports fell more sharply than exports, the current account deficit narrowed to 2.2% of GDP in FY2024, down from 2.4% in FY2023. Despite foreign direct investment commitments reaching \$656.1 million in January 2025, it remained 68.6% lower than pre-crisis levels (FY2020) (Figure 2.27.2).

Figure 2.27.2 Foreign Direct Investment Commitments

There is scant new foreign investment given the unfavorable business climate and uncertainty.



Source: Directorate of Investment and Company Registration (DICA).

Budget constraints remained significant. Revenue from State-Owned Economic Enterprises (SEEs), including natural resources such as minerals and oil and gas, increased by an estimated 19.0% in FY2024 compared to FY2023. However, tax revenue remained weak given the ongoing economic downturn. With an improvement in recurrent spending in FY2024, the fiscal deficit for FY2024 is projected to be approximately 5.7% of GDP, down from 6.0% in FY2023.

Economic Prospects

Growth is projected to remain weak due to the ongoing crisis. A modest 1.1% GDP growth is expected for FY2025, followed by a slightly higher 1.6% growth rate in FY2026 (Table 2.27.1). This assumes modest improvements across all real sectors, as well as sustained international humanitarian assistance and support for basic needs. However, conflict escalation, persistent macroeconomic instability, and deteriorating socioeconomic conditions will continue to disrupt economic activity. Consequently, industry should grow by 1.5% in FY2025 with services expected to grow by only 1.2%. As agriculture heavily depends on weather,

Table 2.27.1 Selected Economic Indicators, %

Growth is expected to remain low, but inflation will improve.

	2023	2024	2025	2026
GDP growth	0.8	-0.7	1.1	1.6
Inflation	27.5	27.8	29.3	20.0

GDP = gross domestic product.

Note: Years are fiscal years ending 31 March of the following year; (covering 1 April–31 March).

Sources: Central Bank of Myanmar; Asian Development Bank estimates.

stability and security in rural areas, and a recovery in trade, the outlook will likely remain uncertain, with expected growth of only 0.2% in FY2025.

Headline inflation is projected to rise in FY2025.

Severe floods in September 2024 disrupted agricultural output and led to high input prices, labor shortages, and security concerns in rural areas, further limiting productivity. Consequently, lower food production will contribute to persistent food inflation, keeping headline inflation in double digits. Additionally, the kyat depreciated by an average of 35% as of January 2025 compared with the same period last year, increasing production costs as principal imported inputs rise in price, adding to imported inflationary pressure.

The current account deficit is expected to narrow in FY2025.

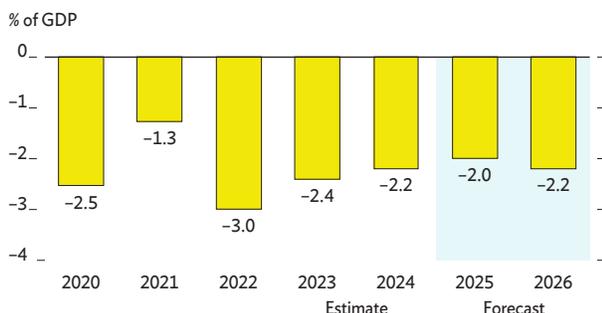
Due to sluggish economic growth and forecast, investment will remain weak, leading to a continued decline in imports. Consequently, the current account deficit is projected to be 2.0% of GDP in FY2025 before slightly widening again in FY2026 (Figure 2.27.3). According to the Fiscal Policy Statement 2024–2025, planned expenditure will increase in the foreseeable future while revenues will not be strong enough as the economy remains subdued. Therefore, the fiscal deficit is expected to remain high, at 5.5% of GDP in FY2025 and 5.6% in FY2026 (Figure 2.27.4).

The outlook faces significant downside risks.

Besides the political uncertainties and economic vulnerabilities, risks include continued extreme weather events like flooding and landslides, as well as escalating humanitarian needs and under-resourcing. Additionally, the 7.7 magnitude earthquake in March 2025 significantly impacted some key business areas, heightening downside risks to the economy.

Figure 2.27.3 Current Account Balance

The current account deficit will narrow, mainly due to a sharp drop in imports.



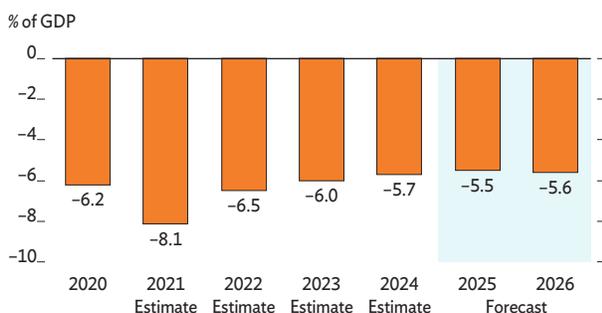
GDP = gross domestic product.

Note: From 2020 to 2021, the fiscal year ends 31 September of that year; 2022 onwards are fiscal years ending 31 March of the following year.

Sources: Central Bank of Myanmar; Asian Development Bank estimates.

Figure 2.27.4 Fiscal Balance

The fiscal deficit remains high.



GDP = gross domestic product.

Note: From 2020 to 2021, the fiscal year ends 31 September of that year; 2022 onwards are fiscal years ending 31 March of the following year.

Sources: Central Bank of Myanmar; Asian Development Bank estimates.

If these risks materialize, the economy will contract further, exacerbating unemployment, poverty, and food insecurity.

Policy Challenge—Urgent Call to Address Livelihood Disruptions

The socioeconomic situation is rapidly worsening.

Conflict and instability have significantly impacted economic performance and social outcomes. Out of 14 states and regions, 12 have been hurt by conflict. Between 2021 and 2023, GDP declined by an average 1.2%, accompanied by inflation reaching 27.5%.

Unemployment is up significantly, with nearly 50% of the population living below the national poverty line. In 2025, it is estimated that 19.9 million people need humanitarian assistance, with 5.5 million requiring urgent support. Currently, over 3.4 million people are internally displaced, and food insecurity affects 13.3 million, or 23% of the population. Many households resort to harmful coping strategies such as reducing food intake, cutting back on healthcare and education expenses, and selling essential assets. Displaced individuals also face challenges in accessing food, clean water, and building livelihoods.

Extreme weather events like cyclones and flooding, along with rising food prices, have worsened already severe socioeconomic conditions.

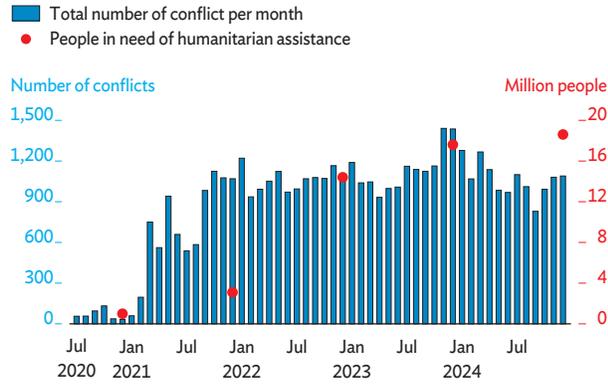
Food availability and affordability have declined, leaving many households unable to meet their basic needs. It is estimated that those facing acute food insecurity will rise to 15.2 million by 2025, a substantial increase from 2.8 million before 2021. Additionally, over 2 million children under five and 1 million pregnant and lactating women are projected to require nutritional support. These challenges are particularly severe for women, female-run households, and vulnerable groups such as children and older people, who face additional barriers to the economy and access to resources.

Urgent action is needed to enhance livelihood support and strengthen community resilience amid worsening conflict and socioeconomic conditions (Figure 2.27.5).

The United Nations Office for the Coordination of Human Affairs estimated that \$1.1 billion is needed to provide lifesaving assistance to the most vulnerable populations in 2025. Due to limited capacity and funding, targeted measures are essential to enhance economic opportunities and bolster community resilience against various shocks. Addressing livelihood disruption in Myanmar requires a comprehensive approach that considers the underlying political and economic challenges. Humanitarian partners are working to help using various measures such as supporting small farmers and producers. They also offer alternative livelihood opportunities by delivering essential skill development training and out-of-school programs. In addition, short-term measures like cash assistance and in-kind support are helping those in need. Given the country’s vulnerability to natural hazards, community resilience must be strengthened. Disaster events can cause

Figure 2.27.5 Conflict Intensity and People in Need of Humanitarian Assistance

People needing humanitarian assistance have risen along with conflict intensity; there is an urgent need to lessen livelihood disruptions.



Source: International Institute for Strategic Studies (IISS) Myanmar Conflict Map; United Nations Office for the Coordination of Humanitarian Affairs Myanmar.

significant damage to infrastructure and livelihoods, challenging recovery. In addition, enhancing resilience allows communities to better withstand and adapt to socio-political and economic challenges, ultimately contributing to more stability and better prospects for future development.

PHILIPPINES

Economic growth remained steady in 2024 supported by consumption and investment. It is expected to pick up in 2025 and 2026 on strengthening domestic demand and sustained public investment. Inflation will likely remain modest and allow scope for further monetary policy easing. Building a sustainable “blue” economy will help food security along with resilient, inclusive growth.

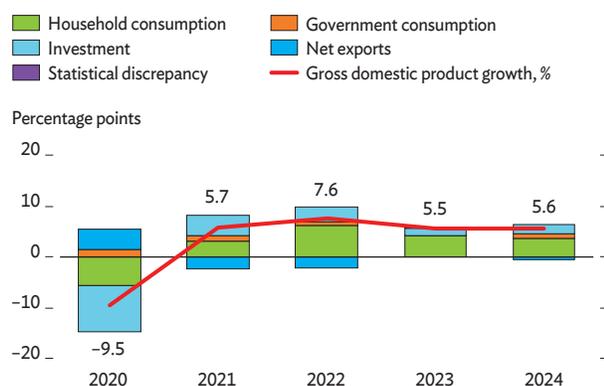
Economic Performance

The economy grew by 5.6% in 2024 from 5.5% in 2023 on broad-based domestic demand. Household consumption remained the largest demand-side contributor to growth even as it eased from 2023 (Figure 2.28.1). Inflation and tight financing affected consumption even though low unemployment and steady overseas remittances supported spending. The unemployment rate averaged 3.8% in 2024 from 4.4% in 2023. Worker remittances grew by 3.0% to \$38.3 billion in 2024, equivalent to 8.3% of GDP. Government consumption rebounded, rising by 7.2% as budget execution improved.

Investment growth increased by 7.5% from 5.9% on brisk public and private construction. Public construction increased by 12.3% from 9.7% in 2023 with large infrastructure projects underway. Private construction expanded by 9.2% from 8.8% in 2023. Spending on industrial machinery continued to grow, while road transport equipment fell following rapid growth in 2023. Investment in railway and air transport equipment rose. Net exports were negative as growth in imports of goods and services outpaced exports. Merchandise exports fell while services exports were buoyant, including business process outsourcing and tourism. Merchandise imports grew from higher demand for capital and consumer goods.

Figure 2.28.1 Demand-Side Contributions to Growth

Broad-based domestic demand led by household spending drove growth.

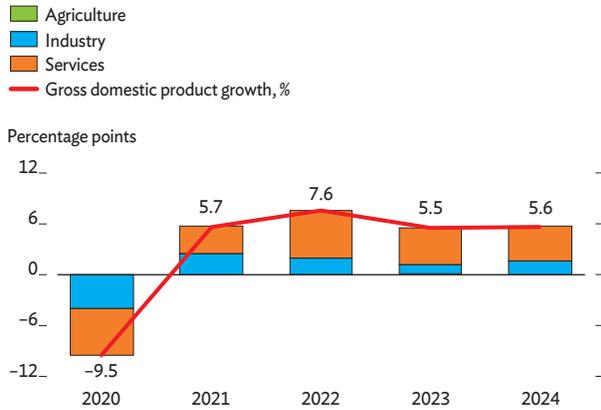


Sources: Philippine Statistics Authority; CEIC Data Company.

Services and industry drove GDP growth from the supply-side. Services rose by 6.7% from 7.1% in 2023, contributing nearly three-fourths of GDP growth (Figure 2.28.2). The expansion was broad-based, with retail trade and tourism-related services as lead contributors. Finance, professional, and business services also grew substantially. Industry growth accelerated to 5.6% from 3.6%, fueled by manufacturing and construction (Figure 2.28.3). Manufacturing rose by 3.6% from 1.3% in 2023, lifted by domestic demand. Food processing (about half of manufacturing) led growth. The manufacture of transport equipment, machinery, computers, and electronic products also rose. Agricultural production contracted due to a dry spell, successive typhoons,

Figure 2.28.2 Supply-Side Contributions to Growth

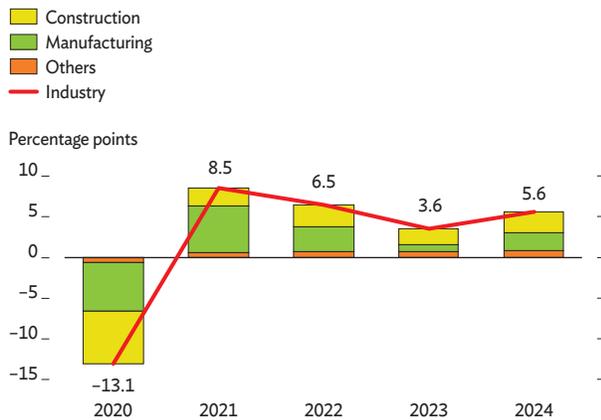
Services largely fueled growth, with trade and tourism as key contributors.



Sources: Philippine Statistics Authority; CEIC Data Company.

Figure 2.28.3 Contributions to Industry Growth

Industry picked up, mainly driven by construction and manufacturing.



Sources: Philippine Statistics Authority; CEIC Data Company.

and livestock disease outbreaks. Production of major crops, including rice and corn, along with livestock and fisheries output fell.

Inflation slowed to 3.2% in 2024 from 6.0% in 2023 as food and transport prices moderated.

Food inflation slowed in the second half, helped by lower rice tariffs beginning July 2024. Rice inflation slid from over 20% in the first half to 0.8% year on year in December. The government also extended the duration of reduced tariff rates on corn, pork, and mechanically-deboned meat until 2028. Transport inflation eased on lower domestic petroleum prices. Core inflation slowed to 3.0% in 2024 from 6.6% in 2023. Monetary policy, after remaining tight in the first

7 months, eased by a cumulative 75 basis point cut from August to December 2024 as inflation fell within the government’s 2% to 4% target. Domestic liquidity (M3) growth picked up at the end of the year.

The fiscal deficit narrowed to 5.7% of GDP in 2024 from 6.2% in 2023, supported by higher revenue.

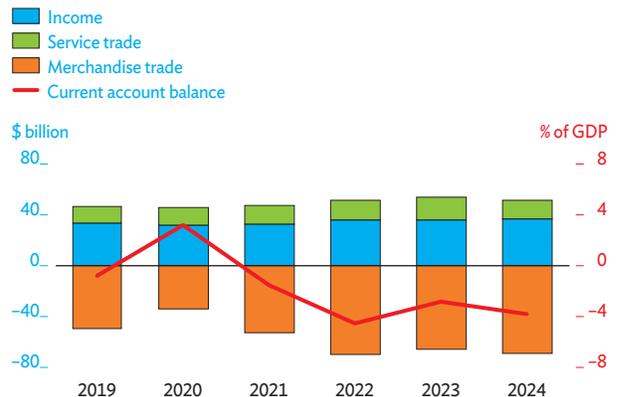
Revenue rose by 15.6% year on year, while expenditure was 11% higher. Tax collections (86% of revenue) grew by 10.8%, while non-tax revenue jumped by 56.6%, partly due to a hike in dividend rates for government-owned and controlled corporations. Primary expenditure, excluding interest payments, rose by 9.6% from 2023, covering infrastructure, health, education, and social assistance along with higher salaries of government employees. The fiscal deficit slightly exceeded the 2024 goal of 5.6% of GDP. Primary expenditure was 3.4% higher than budgeted, with additional unprogrammed spending on public health emergency benefits for health care and non-health care workers, and other social assistance. Revenue topped program targets by 3.5% on higher non-tax collections.

The current account deficit widened to 3.8% of GDP in 2024 from 2.8% in 2023.

A higher merchandise trade deficit and lower net receipts in services trade led to the wider deficit (Figure 2.28.4). The merchandise trade deficit rose by 4.1% from 2023 as imports increased while exports fell. Electronic products, half of all exports, declined, particularly legacy semiconductors. Net receipts from services trade fell from increased outbound travel, cushioned by

Figure 2.28.4 Current Account Components

Higher remittances and services exports partly cushioned the merchandise trade deficit.



GDP = gross domestic product.

Source: CEIC Data Company.

continued growth in business process outsourcing and tourism. Remittances grew, mitigating the merchandise trade deficit. In the financial account, net inflows rose significantly on higher net direct investment and the shift in portfolio investment to net inflows from outflows in 2023. Overall, the balance of payments surplus narrowed to 0.1% of GDP in 2024 from 0.8% in 2023. Official reserves totaled \$106.3 billion at the end of December 2024, or 7.3 months of import cover. The peso depreciated by 4.2% against the US dollar over 2024. The ratio of external debt to GDP was 29.8% at the end of December 2024 compared to 28.7% as of December 2023.

Economic Prospects

GDP is forecast to rise by 6.0% in 2025 and 6.1% in 2026 on stronger domestic demand and sustained public investment (Table 2.28.1). Moderate inflation and more accommodative monetary policy will lift household consumption and investment. Further reforms to enhance the investment climate bode well. Public infrastructure investment, with its high multipliers, will continue to support growth.

Table 2.28.1 Selected Economic Indicators, %

Growth will pick up while inflation remains moderate.

	2023	2024	2025	2026
GDP growth	5.5	5.6	6.0	6.1
Inflation	6.0	3.2	3.0	3.0

GDP = gross domestic product.

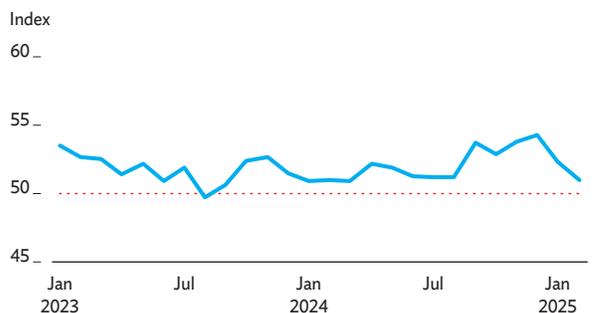
Source: Asian Development Bank estimates.

Strong employment and remittances will support private consumption. The unemployment rate remained a low 4.3% in January 2025 from 4.5% in January 2024 while the labor force participation rate rose to 63.9% from 61.1%. An additional 2.6 million jobs were generated within the period, mainly in services. Minimum wage hikes in several regions in 2024 and early 2025 will boost spending. Remittances grew by 2.9% in January. A central bank survey in the fourth quarter of 2024 showed consumer confidence improved for the next 12 months. Midterm election-related spending ahead of the May polls will also lift aggregate demand.

Private investment and business indicators are positive. Growth in the manufacturing production index picked up to 3.2% year on year in January 2025 from 0.1% in December 2024. Food processing rose by 9.4%. There was also strong growth in the manufacture of machinery and equipment. In February, the manufacturing purchasing managers' index remained expansionary at 51.0 (Figure 2.28.5). Foreign direct investment net inflows remained broadly steady at \$8.9 billion in 2024, mostly channeled to manufacturing, information and communications, and real estate. Investment in manufacturing was almost double that of 2023. Bank lending to businesses rose 11.8% in January 2025 from 10.8% in December, with higher lending to wholesale and retail trade, manufacturing, and transportation. Imports of capital goods rose by 9.5% year on year with raw materials and intermediate goods up 11.8% in January 2025.

Figure 2.28.5 Manufacturing Purchasing Managers' Index

The manufacturing PMI remained in expansionary territory supported by domestic demand.



Note: A reading <50 signals deterioration, >50 improvement.

Sources: CEIC Data Company; S&P Global.

Services, which cover about 60% of GDP and employment, is expected to remain robust.

Private consumption will drive retail trade and higher international tourist arrivals will benefit services, most notably in hotels and restaurants, transport, and communications. There were 5.4 million international visitor arrivals, 8.7% more than 2023, though still below the 8 million arrivals pre-pandemic. In 2023, tourism accounted for 8.6% of GDP and 12.9% of employment. Business process outsourcing continues to expand, with 2024 export revenues, including computer and other business services, estimated at \$32.0 billion, 7.7% higher than in 2023. The purchasing managers' index for services was an expansionary 51.0 in February 2025.

Structural reforms make the country a more attractive investment destination. The 2024 Corporate Recovery and Tax Incentives for Enterprises to Maximize Opportunities for Reinvigorating the Economy (CREATE MORE) Act lowers the corporate income tax rate of registered businesses to 20% from 25%, enhances fiscal incentives, and institutes measures to ease doing business. The law also strengthens governance mechanisms in granting and monitoring incentives. This builds on previous reforms that have opened the country to more investment and trade. Restrictions on foreign participation were eased, allowing full foreign ownership in sectors such as renewable energy, telecommunications, shipping, railways, and expressways. These were complemented by ratification of the Regional Comprehensive Economic Partnership trade agreement in 2023. The government's "green lanes" program, which expedites processing permits and licenses for strategic investments, covered 184 projects worth P4.6 trillion (about \$79 billion) as of February 2025, the majority in renewable energy and food security. Effective implementation of these reforms should boost private investment.

Public private partnerships (PPP) support investment. The 2023 PPP Code enhanced the regulatory environment for PPP projects. Under the government's flagship infrastructure program, 43 projects are PPPs, of which 11 were underway and 6 approved for implementation as of March 2025. The government awarded five airport PPP projects in 2024, including operations and maintenance of the Ninoy Aquino International Airport, the country's main gateway.

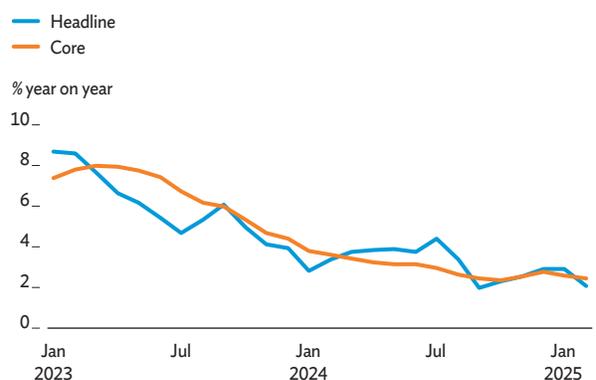
Exiting the intergovernmental Financial Action Task Force grey list enhances the country as an investment destination. In February 2025, the Financial Action Task Force announced the removal of the Philippines from its grey list of countries under monitoring for deficiencies in anti-money laundering and counter-terrorism financing. The country has been on the grey list since 2021. This should facilitate lower-cost cross-border transactions, reduce compliance barriers, and enhance financial transparency. It will boost market sentiment, support business, foreign direct investment, and ease remittances from abroad.

Inflation is projected to remain moderate at 3.0% in 2025 and 2026, within the government's target.

Inflation eased to 2.1% year on year in February from 2.9% in January. Core inflation also slowed to 2.4% from 2.6% in January (Figure 2.28.6). Lower global commodity prices, particularly oil, and the slowdown in rice inflation will help keep prices contained. Rice inflation dropped 4.9% year on year in February 2025 on lower import tariffs (Figure 2.28.7). Prices of vegetables and fish eased, while it rose for meat due to the effects of African Swine Fever. While there are upside risks to inflation, including potential increases in electricity rates and transport fares, inflation is projected to remain within the 2% to 4% target through 2026.

Figure 2.28.6 Inflation

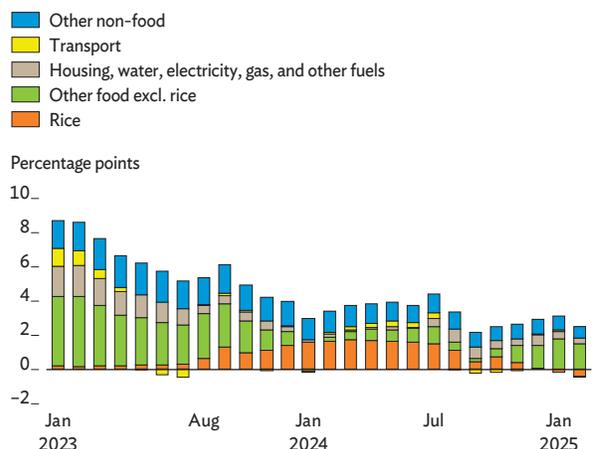
Inflation remained modest and within the 2%-4% target.



Sources: CEIC Data Company.

Figure 2.28.7 Contributions to Inflation, 2018 = 100

Rice inflation eased on lower import tariffs.



Source: CEIC Data Company.

Monetary policy is expected to ease further.

Monetary authorities held the policy rate steady at 5.75% in February 2025 noting uncertainties over global economic policies, though it signaled measured monetary policy easing. The reserve requirement ratio was cut by 200 basis points to 5% for universal and commercial banks from 28 March 2025 in a bid to help banks channel more funds toward productive loans and investments. This follows an earlier 250 basis point cut in the ratio in October 2024.

The 2025 national budget is 9.7% higher than 2024, with a third allocated for social services.

Programs include national health insurance, nutrition, education, training and livelihood programs, along with conditional cash transfers and food vouchers to poor families. These programs, along with infrastructure development to improve connectivity among regions, aim to further reduce poverty. Poverty incidence declined to 15.5% of the population in 2023 from 18.1% in 2021. The number of poor declined to 17.5 million from 19.9 million in 2021. Poverty fell across most regions, though in 2023 it remained a high 21.4% in the Visayas and 24.8% in Mindanao.

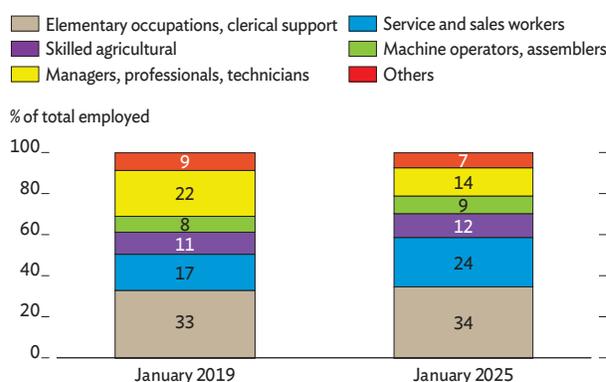
While the unemployment rate has been below pre-pandemic levels, labor market challenges remain.

These include the high 13.3% underemployment rate in January 2025, though down from 13.7% in January 2024. In addition, the 12% youth unemployment rate remains high, and there are mismatches in education, jobs, and industry needs. The share of managers, professionals, and technicians has fallen from the pre-pandemic levels (Figure 2.28.8). The government is strengthening industry upskilling, reskilling, and labor market programs that should help create jobs, among other measures. The Enterprise-Based Education and Training Framework Act, approved in November 2024, strengthens enterprise-based learning programs, including apprenticeships and on-the-job training to boost workforce competency. Key features of the law include incentives for enterprises implementing registered programs and scholarships to trainees.

Public infrastructure spending is planned at 5%–6% of GDP in the medium term. The government commits to sustain infrastructure spending, which averaged 5.8% of GDP from 2022 to 2024. Among the government's 186 flagship infrastructure projects amounting to about

Figure 2.28.8 Employment by Type

The share of managerial, professional jobs and technicians has fallen from pre-pandemic levels.



Source: CEIC Data Company.

\$165 billion, 67 are ongoing, while another 28 have been approved for implementation as of March 2025. The government set up a flagship project management office to handle large transportation projects, including the North-South Commuter Railway and Metro Manila Subway to fast track completion.

Additional revenues and expenditure reforms are supporting fiscal consolidation.

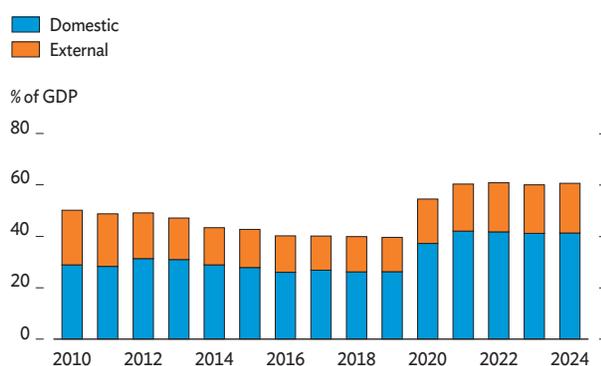
Under the government's medium-term fiscal framework, the fiscal deficit will narrow to 5.2% of GDP in 2025 and reach 3.7% by 2028, anchored by higher revenues. Revenue share in 2024 improved to 16.7% of GDP from 15.7% in 2023, with tax revenue rising to 14.4% of GDP from 14.1%. A value-added tax on foreign digital service providers was approved in 2024, along with reforms to real property valuation and assessment to promote an efficient valuation system and broaden the tax base for property-related taxes. The government is also proposing an excise tax on single-use plastics, a hike in motor vehicle road user charges, and reforms to the mining fiscal regime to boost revenues. Digitalization programs are being ramped up to improve tax administration. The Ease of Paying Taxes Act, approved in January 2024, simplifies tax compliance procedures and enhances the portability of tax transactions.

Programs are also being undertaken to make spending more efficient. The new government procurement law enhances project implementation and procurement processes. The Program Convergence Budgeting framework was also institutionalized in

March 2025 to improve inter-agency coordination in government planning, programming, and budgeting. It aims to harmonize government programs and projects, eliminate redundancies, and address implementation gaps. Public financial management reforms are being implemented, and there are initiatives to right-size the government bureaucracy. In line with the narrowing fiscal deficit, the debt-to-GDP ratio is programmed to fall below 60% of GDP in the medium-term from 60.7% at the end of December 2024. Debt is largely domestic at two-thirds of the total, most of it medium to long-term (Figure 2.28.9). Sovereign credit ratings remain investment grade.

Figure 2.28.9 National Government Debt

Debt is largely domestic at two-thirds of the total.



GDP = gross domestic product.

Source: CEIC Data Company.

The current account will remain in deficit over the forecast period as imports rise to meet aggregate demand. Capital-intensive imports for infrastructure projects will remain strong. Merchandise exports will likely be subdued, with prospects uneven for major external markets. The expected pick-up in growth in Japan and Europe is tempered by growth moderation in the United States (US) and People's Republic of China (PRC). Trade tensions and fragmentation among key export markets may slow growth globally and reduce external demand. The major advanced economies comprise nearly half of Philippine merchandise exports. The US was the top market in 2024 (16.5% share), along with Japan (14.0%) and the European Union (11.3%). The PRC held a 12.9% share. Higher receipts from business process outsourcing and tourism will continue to lift service exports and partly cushion the merchandise trade deficit.

Several factors pose downside risks to the outlook.

Increased uncertainty over the external environment could weigh on the outlook. Shifts in trade and investment policies, and increased protectionism would damage market sentiment and dent growth. Heightened geopolitical tensions, weather and climate shocks could also drive commodity prices higher.

Policy Challenge—Building a Sustainable Blue Economy

The “blue” economy refers to the responsible use of ocean resources to foster economic growth, improve livelihoods, and ensure the long-term sustainability of marine ecosystems.

For an archipelagic nation like the Philippines, with over 7,500 islands and one of the longest coastlines in the world (approximately 36,000 kilometers), the blue economy offers a significant opportunity to help alleviate poverty, build food security along with climate and disaster resilience. As one of the world's 18 mega biodiverse countries, the Philippines has vast marine resources that, if managed sustainably, can drive economic progress while protecting ecological integrity.

Ocean-based industries accounted for an average 4% of GDP in 2018–2023.

Fisheries dominate, accounting for nearly 30% of ocean-based industries in 2023, followed by the manufacture of ocean-based products (20.9%), maritime transport (15.0%), and ocean-based power generation (10.3%). Emerging industries such as marine biotechnology, coastal tourism, and offshore renewable energy present vast opportunities for expansion. Coastal tourism, a key driver of local economies, offers extensive employment opportunities. Marine renewable energy—offshore wind, solar, wave, and tidal energy—can help reach the country's target of increasing renewable energy's share in power generation to 35% by 2030 and 50% by 2040.

Despite its potential, there remain significant challenges in building a sustainable blue economy:

- **Environmental degradation:** Marine pollution, unsustainable fishing practices, and poorly managed coastal tourism threaten marine biodiversity and ecosystem services. The Philippines ranks first in the 2024 World Risk Index for climate vulnerability

and 169th out of 180 in the 2024 Environmental Performance Index. Rising sea levels, increasing ocean temperatures, and frequent typhoons disproportionately impact coastal communities where two-thirds of the population reside. While mangrove and seagrass ecosystems are important natural buffers against storm surges, sea level rise, and are effective carbon sinks, they can easily be degraded. Inadequate control of fishpond development in coastal areas has also caused a significant loss of mangroves.

- **Poverty among coastal communities:** Fisherfolk had a high poverty incidence of 30.6% in 2021, well above the 18.1% national average for the same year. The degradation of fishery resources exacerbates economic hardships for these communities. Some fisherfolk are marginalized with limited access to municipal waters, threatening livelihoods and local food security.
- **Marine plastic pollution:** The Philippines generates approximately 2.7 million tons of plastic waste annually, with a significant share leaking into the ocean, placing the country among the top global contributors to marine plastic pollution.
- **Lack of a coordinated national strategy:** Marine and coastal resource management is fragmented across multiple government agencies, leading to inefficiencies and regulatory gaps. The absence of a comprehensive, cross-sectoral policy framework hinders sustainable development efforts.

To fully harness the blue economy while ensuring sustainability, the Philippines should take several policy actions:

- **Enact the Blue Economy bill:** The pending legislation provides a comprehensive policy framework to integrate marine spatial planning, environmental-economic accounting, industry development, and climate action into national and regional development plans. Swift passage and implementation of this bill are crucial to achieving a coherent and well-coordinated blue economy strategy.

- **Strengthen marine ecosystem protection:** Establishing more marine protected areas and enhancing their management can help restore fisheries resources and protect biodiversity. Expanding community-based coastal resource management initiatives will empower local communities to participate in conservation efforts.
- **Improve fisheries management:** Implementing science-based policies such as strict enforcement of fishing regulations, promoting sustainable aquaculture, and enhancing monitoring systems can ensure fisheries long-term sustainability.
- **Enhance marine plastic waste management:** Strengthening enforcement of the Extended Producer Responsibility Act (2022) is vital to addressing plastic pollution. The government should improve data collection on plastic waste flows, promote circular economy initiatives, and enhance PPPs for waste management solutions.
- **Promote sustainable marine-based industries:** Incentivizing investments in marine biotechnology, offshore renewable energy, and ecotourism will diversify the blue economy while minimizing its environmental impact. Supporting research and innovation can enhance the Philippines' competitiveness in the global blue economy.
- **Foster institutional coordination:** Establishing an inter-agency Blue Economy Council to harmonize policies across government institutions, local governments, and private stakeholders will enhance governance and policy implementation.

The Philippines has a unique opportunity to develop a sustainable blue economy that balances economic growth with ecological protection.

Addressing environmental degradation, enhancing policy coordination, and promoting sustainable marine-based industries will be critical in unlocking the full potential of the country's ocean resources. By advancing comprehensive policies and implementing targeted interventions, the Philippines can build a resilient, inclusive, and sustainable blue economy that benefits present and future generations.

SINGAPORE

GDP growth in 2024 accelerated, driven by robust manufacturing and services. But the economy will moderate over the next 2 years due to global trade uncertainties. Inflation continued to ease in 2024 and is projected to decline further throughout the forecast period. The government should support small and medium-sized enterprises (SMEs) to improve cybersecurity, remain competitive, and sustain growth.

Economic Performance

Growth expanded rapidly in the second half (H2) of 2024, driven by strong manufacturing.

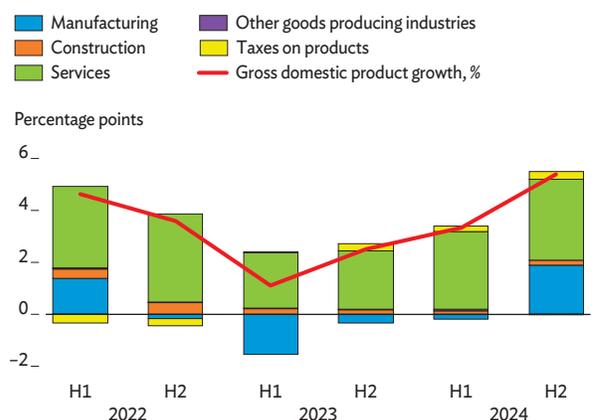
During first half (H1) 2024, the economy grew moderately as some sectors recovered more slowly than others. But H2 saw a significant uptick (Figure 2.29.1). Manufacturing grew in H2 by 9.6% year on year, contributing 1.9 percentage points to growth, largely from the upturn in the global semiconductor cycle. Services grew by 4.5% year on year, contributing 2.9 points to growth, with all subsectors up except retail trade and food services. Construction grew by 5.0% year on year, buoyed by a strong pipeline of government projects. For the full year, Singapore's GDP grew by 4.4%, significantly above the 1.8% growth in 2023.

Domestic demand fueled 2024 growth. Investment grew by 10% in 2024, contributing 2.3 points to overall growth, driven by a large increase in public construction along with a rise in inventories. Private consumption increased by 4.8%, mainly on higher spending for transport and health services. Public consumption grew by 8.3%, well above its 1.8% increase in 2023. Net exports were negative as imports rose faster than exports in real terms (Figure 2.29.2).

Both headline and core inflation continued to ease in 2024. In December, core inflation eased to 1.8%, down from 1.9% in November, as a rise in food inflation was offset by moderating costs in services (Figure 2.29.3). Headline inflation softened

Figure 2.29.1 Supply-Side Contributions to Growth

Stronger-than-expected manufacturing boosted growth in H2 2024.



H = half.

Source: Ministry of Trade and Industry. [Economic Survey Singapore 2024](#).

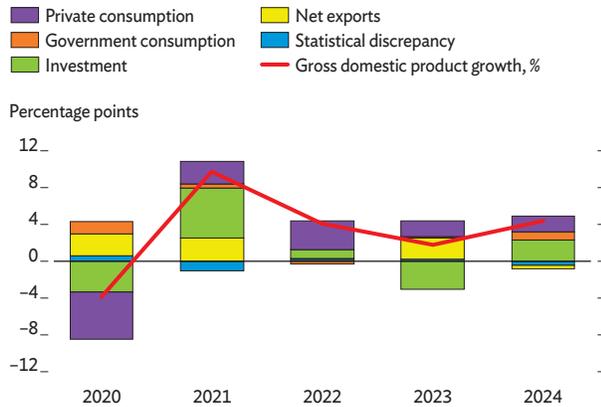
to 1.6% in December, driven by lower private transport costs. For the full year, core inflation fell to 2.7% from 4.2%, while headline inflation eased to 2.4% from 4.8%.

The current account surplus remained strong in 2024, reaching \$96.0 billion, or 17.5% of GDP, supported by higher net services exports.

Merchandise exports grew by 4.2% in 2024, slower than merchandise imports, which rose by 8.1%, resulting in a smaller goods surplus. Services, however, recorded a \$44.4 billion surplus, or 8.1% of GDP, on higher net

Figure 2.29.2 Demand-Side Contributions to Growth

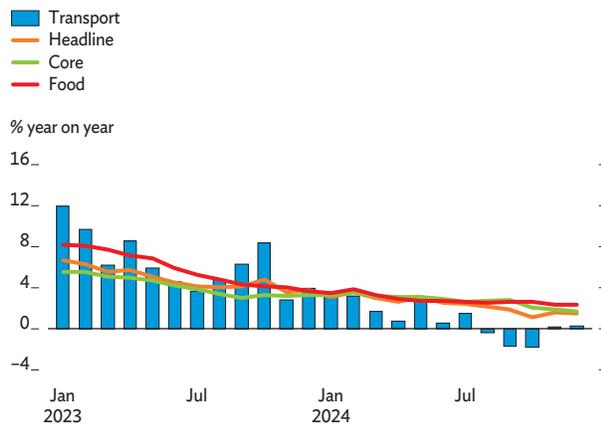
Domestic demand drove growth in 2024, while net exports were negative.



Source: Ministry of Trade and Industry. *Economic Survey Singapore 2024*.

Figure 2.29.3 Inflation

Both core and headline inflation fell below 2% in December 2024.



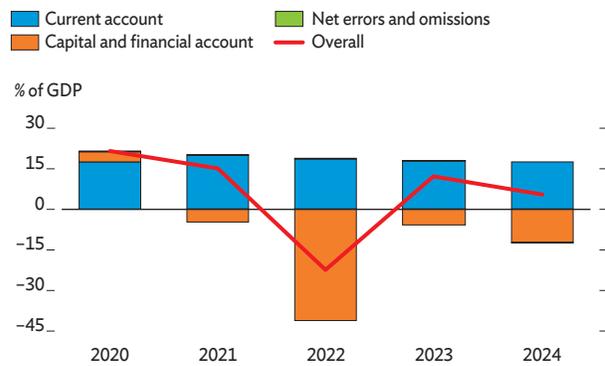
Source: CEIC Data Company.

exports in finance and transport services. Meanwhile, the capital and financial accounts showed a higher net outflow of \$65.9 billion, or 12.0% of GDP, due to large outflows in “other investments”. As a result, the overall balance of payments was \$29.6 billion, or 5.4% of GDP, lower than the \$60.9 billion surplus in 2023 (Figure 2.29.4).

The Monetary Authority of Singapore kept monetary policy unchanged, while the fiscal balance shifted into surplus. The central bank kept the Singapore dollar’s nominal effective exchange rate policy band unchanged, resulting in a rise by 0.5% in nominal effective terms. The Singapore dollar depreciated by 3.4% against the US dollar by end 2024.

Figure 2.29.4 Balance of Payments Indicators

The current account surplus remained strong in 2024, but large net outflows in the capital and financial account led to a smaller overall balance.



GDP = gross domestic product.

Source: Asian Development Bank estimates; CEIC Data Company.

Meanwhile, the primary fiscal surplus in FY2024 (fiscal year 2024, ended 31 March 2025) was \$3.7 billion, or 0.5% of GDP, driven by strong operating revenue of \$116.6 billion (15.9% of GDP) from higher corporate taxes, a goods and services tax, and personal income taxes. Total expenditure was \$112.9 billion, or 15.4% of GDP.

Economic Prospects

Singapore’s GDP growth will moderate over the next 2 years with the outlook clouded by the uncertain global trade environment. GDP is forecast to grow by 2.6% in 2025 and 2.4% in 2026, supported by manufacturing and external-related services, though slower than in 2024 (Table 2.29.1). The manufacturing Purchasing Managers’ Index (PMI) declined to 50.7 in February from 50.9 in January 2025 and 51.1 in December, with the PMI for electronics falling to 51.0 in February from 51.1 in January and 51.4 in December (Figure 2.29.5a). The data signaled slower growth,

Table 2.29.1 Selected Economic Indicators, %

Growth and inflation will moderate over the next 2 years.

	2023	2024	2025	2026
GDP growth	1.8	4.4	2.6	2.4
Inflation	4.8	2.4	2.0	1.7

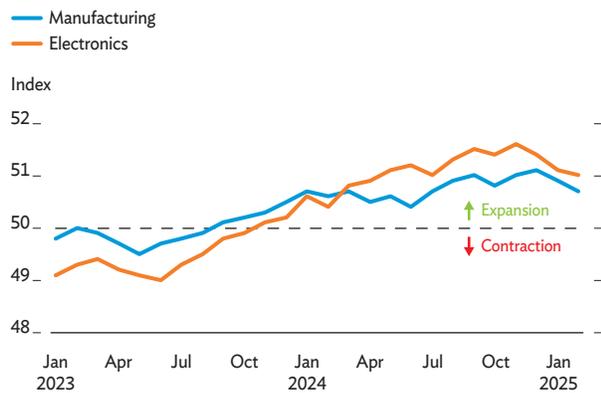
GDP = gross domestic product.

Sources: Ministry of Trade and Industry. *Economic Survey Singapore*; Asian Development Bank estimates.

Figure 2.29.5 Leading Economic Indicators

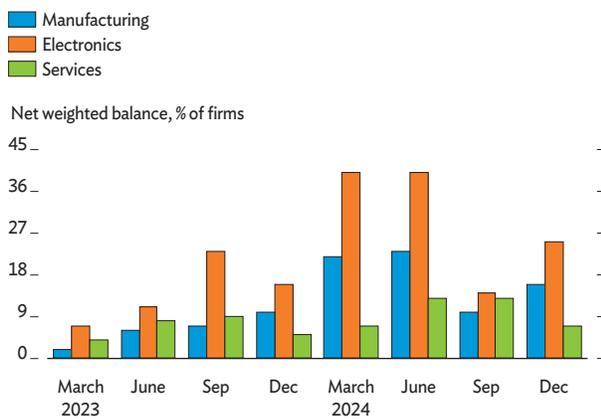
A. Purchasing Managers' Index

The overall manufacturing and electronics indices remain expansionary, albeit lower.



B. Business Sentiment

Business expectations remain optimistic for the next 6 months.



Source: CEIC Data Company.

particularly in new orders and exports. Growth in services should remain strong, supported by finance, insurance, and information and communications technology-related services. Domestic-related services will remain subdued. Business expectations for manufacturing and electronics will remain high, although the services outlook is less optimistic for the next 6 months (Figure 2.29.5b).

Domestic demand should remain robust.

Government spending will provide support with higher expenditure on public services and additional subsidies for business and households. The government will likely maintain its accommodative stance, with the primary budget deficit forecast at 1.0% of GDP for FY2025. However, private consumption should decelerate. Retail sales fell by 2.9% year on year in December 2024,

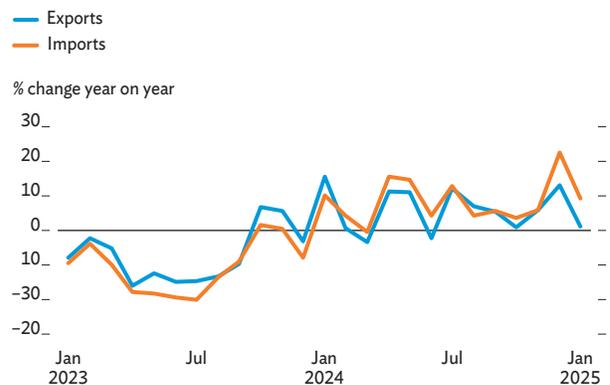
extending its 0.5% decline in November. Meanwhile, fixed investment will likely continue to grow as global monetary policy easing gathers pace in 2025 and spending rises on infrastructure upgrades and a strong pipeline of government projects.

External trade is showing signs of weakening given the uncertainty in the global economy.

In nominal terms, exports grew by 1.1% in January, sharply down from December's 13.1% growth, primarily due to a contraction in non-oil domestic exports. Imports remained robust, rising by 9.2% in January, though below December's 22.4% growth (Figure 2.29.6). The external outlook is clouded by uncertainty over the policies of the new administration in the United States (US). A temporary boost in exports could happen in H1 2025 as US importers rush to meet deadlines and avoid higher tariffs. However, the boost will likely be short-lived, with export growth expected to slow in H2 2025 and into 2026.

Figure 2.29.6 Trade Indicators

Both import and export growth slowed in January 2025.



Source: CEIC Data Company.

Inflation will ease to 2.0% in 2025 and 1.7% in 2026 as commodity prices decline.

In January 2025, headline inflation moderated to 1.8% year on year, driven by lower inflation across all consumer price index categories. During its January meeting, the central bank reduced its policy band slope to support gradual currency appreciation and help curb imported inflation. Business cost- and demand-driven inflationary pressures should remain subdued, while imported costs will be contained due to declining global commodity prices. Although trade frictions could drive up inflation in some economies, its impact on import prices will likely be offset by weaker global demand.

The government expects core inflation to average 1.0%–2.0% in 2025, while headline inflation is projected to average 1.5%–2.5%.

Risks to the outlook are tilted downward given greater global policy uncertainty. Worse-than-expected trade frictions among major trading partners and escalating geopolitical tensions could weaken external demand and reduce business confidence. And weaker-than-expected demand from key markets like the People’s Republic of China and the US may dampen economic activity in general. In addition, tariff uncertainty may drive up production costs, possibly disrupting the disinflation process and leading to higher-for-longer US interest rates which may dampen international capital flows and affect the domestic economy.

Policy Challenge—Enhancing Cybersecurity for SMEs

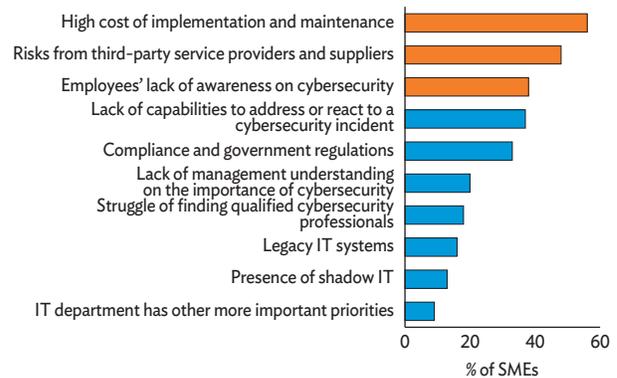
SMEs play a crucial role in Singapore’s drive to become a Smart Nation; however, cyber threats remain a growing concern. Given its strong digital reputation, it’s vital for SMEs to embrace the digital transformation. Singapore SMEs comprise 99.5% of all enterprises and employ 71% of the workforce (ADB Asia Small and Medium-Sized Enterprise Monitor 2024). While digitalization is crucial for competitiveness and growth, it also carries risks. In 2023, over 130 ransomware incidents were reported in Singapore, of which half were with SMEs (Singapore Cyber Landscape 2023). These attacks can cause significant financial losses, with the average cost of a ransomware attack estimated at S\$1.5 million in 2022 (Cybereason 2022). Also, SMEs must expand their resources to use and maintain advanced cybersecurity tools, manage risks from third-party providers, and increase cybersecurity awareness (Figure 2.29.7). Currently, about 47% of SME executives do not fully understand business-related cybersecurity risks (QBE SME survey 2024).

The government continues to respond to growing SME cybersecurity concerns, focusing on providing solutions and human capital support.

The government has rolled out several initiatives to help SMEs strengthen their cybersecurity practices. Programs such as the SMEs Go Digital Programme aim to help SMEs adopt advanced digital solutions,

Figure 2.29.7 Small and Medium Enterprise Cybersecurity Challenges

56% of small and medium enterprises surveyed cited the high cost of implementing and maintaining cybersecurity measures as a significant challenge.



IT = information and technology; SME = small and medium enterprises.

Source: National Business Survey 2024—Smart-Enabled Businesses Edition Final Report (September 2024).

adopt digital technologies, and increase their ability to seize growth opportunities in the digital economy. The SG Cyber Safe Programme also offers tailored cybersecurity solutions for organizations at different stages of digital use. These toolkits help cultivate cybersecurity leadership, educate employees, protect information assets, secure access, and ensure business resilience. The government has also invested in talent and skills development, with programs like the Cybersecurity Career Mentoring Programme and the SG Cyber Talent Initiative helping build a strong pipeline of cybersecurity professionals.

The government should explore more diversified solutions and engage broader stakeholders to help SMEs address cybersecurity challenges. The government can offer incentives such as tax credits or subsidies to help make advanced cybersecurity measures more affordable. The government could invest more in knowledge and education programs to strengthen awareness campaigns explicitly tailored for SMEs. This will help businesses better understand cybersecurity risks and proactively adopt cybersecurity practices. The private sector supports strengthening SME cybersecurity practices, given their key role in the supply chains of larger companies and the economy generally. The government can collaborate with the private sector to leverage cybersecurity practices with SMEs through knowledge sharing and capacity building, thus increasing SME resilience to cybersecurity incidents.

THAILAND

Tourism and private consumption led economic growth in 2024. Government spending and higher merchandise exports further supported growth in the second half. The economy is projected to continue to recover this year and next, but there are significant downside risks. One policy challenge this year is to resolve persistently high household debt that could slow consumption and impact future economic growth.

Economic Performance

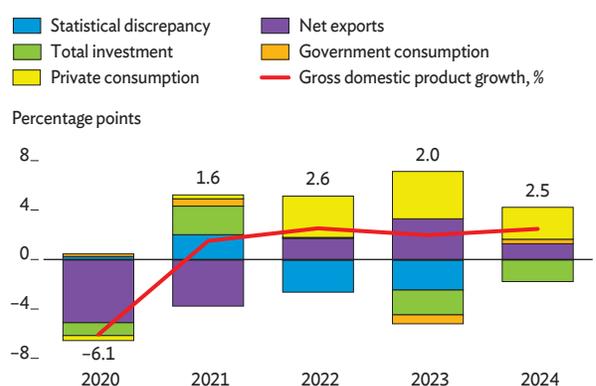
The economy expanded in the latter half of 2024 after sluggish first half growth. The economy expanded by 2.5% year-on-year in 2024. The second half pickup came from a recovery of merchandise exports, normalized public investment after a fiscal year (FY) 2024 (ending September 2024) budget delay, and robust tourism. Meanwhile, private investment remained weak primarily from a drop in commercial vehicle purchases as financial institutions tightened lending (Figure 2.30.1).

Services contributed most to export growth in 2024. International tourist arrivals rose from 28.2 million in 2023 to 35.5 million in 2024 (Figure 2.30.2). Merchandise exports increased by 4.3%, mainly due to an upturn in the electronics cycle, increased gold prices, and anticipation of increased trade protectionism. Merchandise imports expanded by 5.3%, driven by higher imports of capital goods, particularly computers, electronic components, and gold.

Private consumption increased by 4.4% in 2024 supported by strong tourism, low inflation, and rising incomes. Government cash transfers moderately improved private consumption, but their impact was limited. Consumer confidence increased in the second half of 2024. However, industries reported declining employment in automotive manufacturing, computer and electronic manufacturing, wholesale and retail

Figure 2.30.1 Demand-Side Contributions to Growth

Tourism and private consumption were the main drivers of growth in 2024.



Source: Office of the National Economic and Social Development Council.

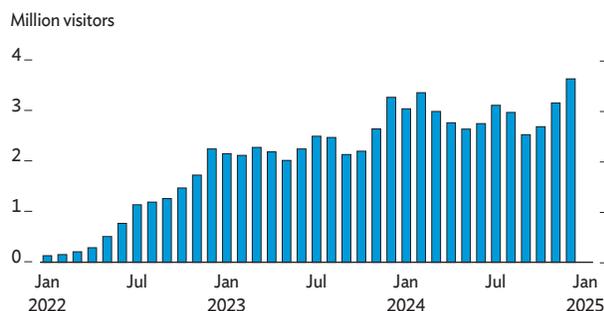
trade. One contributing factor, for example, was a shift in technology from hard disk to solid-state drives and from internal combustion to electric vehicles.

Private investment contracted as automotive purchases fell, partly due to tighter credit.

Construction investment contracted (especially residential) given a slowdown in household lending, as deteriorating credit quality led to tighter policies. Investment in machinery and equipment increased slightly in the last quarter of the year, driven by higher domestic sales of general-purpose machinery, computers and peripherals, and higher capital goods imports.

Figure 2.30.2 International Tourist Arrivals

The number of visitors continue to increase.



Source: CEIC Data Company.

Public investment and consumption contracted in the first half given the delayed approval of the FY2024 budget, but accelerated afterwards as the government expedited disbursements. In 2024, public consumption expanded by 2.5%, while public investment grew by 4.8%. The government spending surge went to infrastructure projects such as roads and bridges and investments by state-owned enterprises (for water pipelines, electricity distribution, and mineral exploration). At the end of FY2024, the fiscal deficit increased to 4.1% of gross domestic product (GDP) from 3.3% in FY2023. Public debt was 63.3% of GDP, below the 70% fiscal sustainability threshold (Figure 2.30.3).

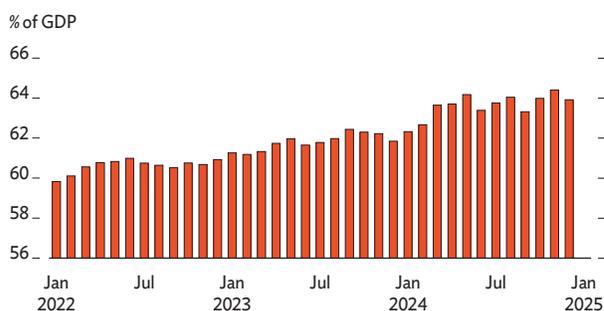
The FY2025 budget will likely be the highest ever, with total planned spending of approximately \$103 billion. The 4.3% year-on-year spending increase should support economic growth. The budget deficit will reach roughly \$24 billion, equivalent to 4.3% of GDP.

Agricultural output fell, particularly major crops, fishing, and farming services. However, livestock and forestry output rose. The decline in major crop production, including paddy, rubber, and maize, was partly caused by an early 2024 drought and flooding in the second half. This increased agricultural prices, which in turn increased farm incomes (Figure 2.30.4).

Manufacturing growth fell mainly due to a slowdown in exports in the first half of 2024 and higher imports that hurt local manufacturers. The production of electronic parts and circuit boards, especially integrated and printed circuits, decreased as overseas orders declined. Agro-industrial production

Figure 2.30.3 Public Debt

The fiscal position remained sound.

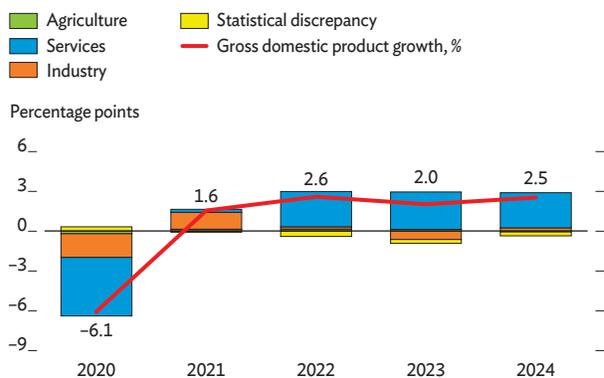


GDP = gross domestic product.

Source: Public Debt Management Office.

Figure 2.30.4 Supply-Side Contributions to Growth

Services significantly contributed to growth.



Source: Office of the National Economic and Social Development Council.

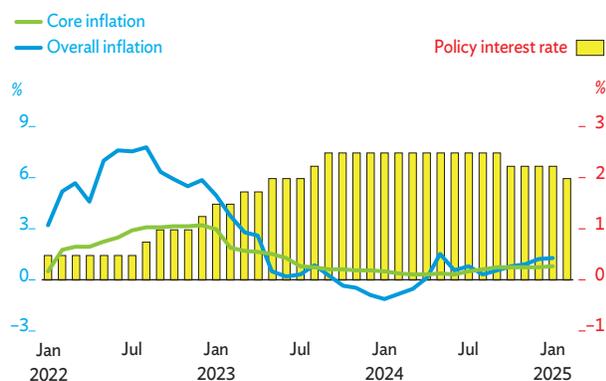
dropped due to lower agricultural output. Services expanded, however, particularly accommodations and food service activities, transportation and storage, and retail and wholesale trade.

Headline inflation in 2024 remained low at 0.4%.

Increases came from higher food and beverage prices, especially ready-to-eat meals, fresh fruit, and non-alcoholic beverages. Decreases came from lower electricity and diesel fuel prices from government measures to lower living costs. With inflation benign, the central bank cut the policy interest rate in October 2024 by 25 basis points to ease debt-servicing and further cut by 25 basis points in February 2025 to cushion against downside risks to the economy. The baht weakened by 1.4% over 2024 against the United States (US) dollar on concerns over US trade policies (Figure 2.30.5)

Figure 2.30.5 Inflation and Policy Interest Rate

Low inflation continued; the policy rate was cut by a total of 50 basis points in October 2024 and February 2025.



Source: CEIC Data Company.

Economic Prospects

The economy is expected to maintain its growth momentum in the near term. GDP is projected to expand by 2.8% in 2025 and 2.9% in 2026 (Table 2.30.1 and Figure 2.30.6). Tourism will remain the primary driver of economic growth. Private consumption may slow due to high household debt burdens partly countered by fiscal stimulus and debt relief programs. Merchandise exports should grow modestly amid structural challenges in manufacturing and rising trade tensions. Private investment should increase as merchandise exports rebound and public investment accelerates.

Exports of goods and services are expected to grow moderately in 2025 and 2026. Tourist arrivals are projected to rise to 39.5 million in 2025 and 41 million in 2026, boosting growth. Visa-free schemes, rising demand, an expansion of airline routes, and higher flight frequencies will all contribute. Safety

Table 2.30.1 Selected Economic Indicators, %

Moderate growth and low inflation are expected in 2025–2026.

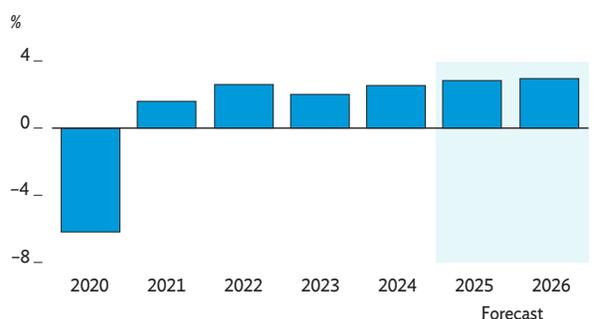
	2023	2024	2025	2026
GDP growth	2.0	2.5	2.8	2.9
Inflation	1.2	0.4	1.0	1.1

GDP = gross domestic product.

Source: Asian Development Bank estimates.

Figure 2.30.6 Gross Domestic Product Growth

Moderate growth is expected in the near term.



Source: Asian Development Outlook database.

concerns among tourists from the People's Republic of China (PRC) surged briefly following the rescue of a PRC actor from a human trafficking group near the Thailand-Myanmar border in January 2025.

Merchandise exports will likely grow in line with global trade, greater foreign demand, and an upturn in the electronics cycle. Several trading partners are expected to accelerate imports from Thailand in anticipation of increased protectionism. Electronics, automotive parts, and agricultural goods will likely remain key export products. Exports of agricultural products are expected to rise given sufficient water for cultivation and favorable prices of some crops, particularly rice, that would motivate farmers to expand planting areas for off-season crops as well. However, renewed US-PRC trade tensions may challenge export growth this year and next. While US tariffs on steel and aluminum imports from the PRC could affect local exporters of related products, any tariffs on auto, drug and chip imports could significantly impact exports.

Private consumption should slow this year despite a short-term boost from stimulus measures. In December 2024, the government launched measures to stimulate spending, including a personal income tax deduction. The government also provided B10,000 per person in cash handouts to those who registered through an assigned app. Nonetheless, private consumption is projected to decelerate to 2.7% in 2025 as household debt remains high. Strong services employment continues to support household income and spending. Still, weak employment in manufacturing remains a concern, particularly for firms

facing structural production adjustments, declining demand, and intensifying competition. Declining manufacturing working hours affects worker incomes, especially low-income earners. Financial institutions will likely maintain strict lending criteria through 2025, contributing to the private consumption slowdown.

Private investment is projected to grow modestly.

Important factors stimulating growth include a recovery in manufactured exports, accelerated public investment after long delayed budget disbursements, and the tourism expansion. In 2024, applications for investment incentives surged by 35% from 2023 (highest since 2014) led by foreign direct investment (FDI) projects in data centers and cloud services. This trend is forecast to continue in 2025 and 2026 following the establishment of Thailand's Semiconductor Board and the need for more companies to mitigate risk amid geopolitical tensions. FDI inflows are expected to increase gradually. Private investment growth will likely be modest due to ongoing industrial challenges, including competition from PRC imports and a slowdown in private consumption.

Public spending will continue to support growth in 2025 and 2026.

Budget disbursements should return to normal after last year's delay, meaning the government can move ahead with infrastructure development for projects such as the Laem Chabang Port Phase 3, double-track railway projects, and the high-speed railway.

Agriculture is projected to grow by 2.1%, supported by favorable weather and prices.

Production of major crops such as rice and rubber are expected to rise given adequate water supply for cultivation. Rubber production is expected to increase as most rubber trees will reach peak production age in 2025. However, cassava production is forecast to decline compared to 2024, mainly due to lower demand from the PRC, Thailand's primary market.

A revival in manufacturing is forecast this year and next as merchandise exports and private investment improve.

However, cheap imports from the PRC of steel, plastics, electrical appliances, and clothing could threaten output. Automotive production will likely decline as domestic car sales drop due to tighter credit and slower car exports. The transition to electric vehicles dominated by companies from the

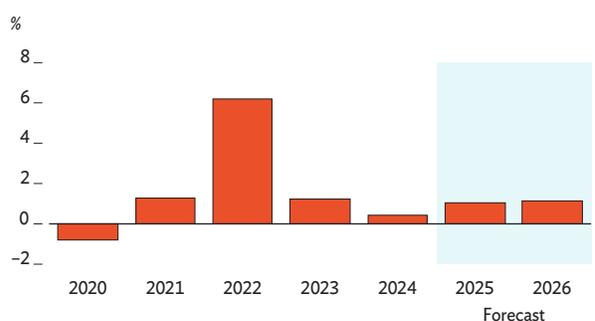
PRC also threatens to disrupt the auto parts supply chain. Services should remain robust due to continued strong tourism.

Inflation is forecast to remain low in 2025 and 2026.

Inflation should stay within its target range of 1%-3%. Headline inflation is forecast to increase by 1.0% this year and 1.1% next year, along with the gradual increase in economic growth. The government is also expected to continue to cut electricity prices to reduce the cost of living (Figure 2.30.7).

Figure 2.30.7 Inflation

Inflation is projected to return to its 1%-3% target range.



Source: Asian Development Outlook database.

Risks to the outlook are tilted to the downside, mainly from uncertainty surrounding new US trade policies that could affect merchandise exports and FDI inflows.

Persistently high household debt and the slow recovery in income among the vulnerable population could also pose challenges to private consumption and investment.

Policy Challenge— Resolving Household Debt

Thailand has one of the world's highest household debt to GDP debt-to-GDP ratios.

Even though the household debt-to-GDP ratio declined from 91.3% at the end of 2023 to 89.6% in the second quarter of 2024, it remains above the critical 80% level, which can dampen long-run economic growth and add risk to a country's financial stability. In the second quarter of 2024, the quality of household debt deteriorated. Special mention and nonperforming loans (NPLs) increased, particularly auto loans, mortgages, and

overdue credit card payments (Figure 2.30.8). Debt serviceability has become a concern for banks as clients have been hurt by slow economic growth and high living costs. Rejection rates for mortgages and auto loans were high during 2024 and will likely continue in the near term as financial institutions are reluctant to risk financial stability.

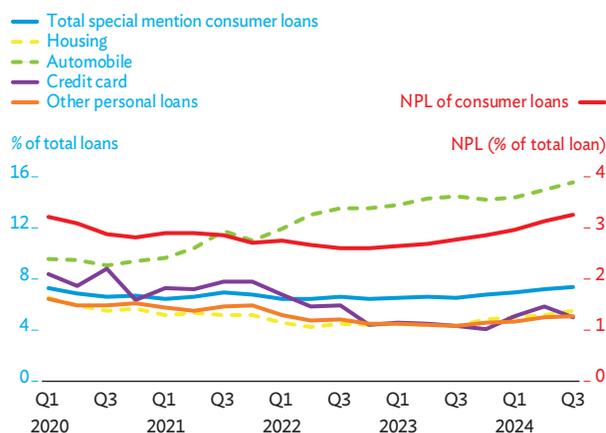
In addition, 40% of domestic households hold informal debt. These debts act as a liquidity buffer for living expenses, business activities, and financial emergencies. Household borrowers are generally charged interest rates that exceed the legal limit by informal sources.

Efforts such as the Debt Clinic program assist credit card and personal loan debtors by stopping further debt accumulation and extending repayment periods. The Bank of Thailand issued new guidelines on Responsible Lending, requiring creditors to lend more responsibly and fairly, while offering debt restructuring solutions to distressed debtors. The collaborative debt relief initiative launched in December 2024 between the Ministry of Finance, Bank of Thailand, and the Thai Bankers Association should also support household debt deleveraging by reducing installment and interest burdens.

Addressing debt issues, however, requires more than just debt restructuring. Policymakers should focus more on the root causes of chronic debt problems by ensuring fair income distribution, creating

Figure 2.30.8 Special Mention and Nonperforming Consumer Loans

Household debt serviceability has worsened, particularly for automotive and housing loans.



NPL = nonperforming loan.

Source: Bank of Thailand.

job opportunities, and enhancing incentives to save money. In addition, increases in overdue debts of small and medium-sized enterprises and factory closures are major concerns given that they are the main sources of income for households, particularly low-income groups. Policymakers should increase support for small businesses and promote sustainable financial growth. A comprehensive policy that addresses the underlying issue of high debt, particularly insufficient income, as well as popular spending and saving behavior, should help stabilize household income and reduce poverty.

TIMOR-LESTE

Economic growth accelerated in 2024, driven by increased budget expenditures and robust domestic demand. Inflation reached its lowest point since 2020, while the current account balance deteriorated. Growth is expected to accelerate further in 2025 before moderating slightly in 2026. Inflation is anticipated to increase marginally from 2024 levels but will remain low overall. Meanwhile, the current account deficit is projected to expand due to increased imports. To achieve sustainable development, strong policy commitments and effective implementation are essential, particularly in increasing investment in human capital development.

Economic Performance

Economic growth rebounded in 2024, driven by robust domestic demand and fiscal expansion.

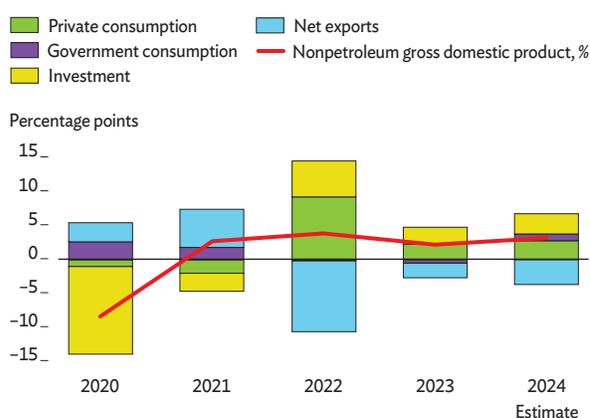
Following a modest GDP growth of 2.4% in 2023, non-petroleum economic growth surged to an estimated 3.3% in 2024, bolstered by a substantial increase in total budget expenditure. Government transfers, expanding consumer credit and remittances, along with increased tourist arrivals collectively supported private consumption, contributing 3.0 percentage points to growth. Although budget execution was low in the first half, spending rose to 83% of the budget plan by year-end, driven by a 47% increase in public capital investment and the impact of the Pope's visit. Government consumption is estimated to have rebounded into growth, while net exports continued to hinder economic expansion (Figure 2.31.1).

Inflation decreased significantly, transitioning from a 10-year high to a 4-year low.

Average consumer price inflation decreased from 8.4% in 2023 to 2.1% in 2024, driven by low price increases in non-tradables and moderation in global food and tradable prices. By December 2024, prices were 0.4% lower than the previous year. Although overall food inflation moderated from 10.2% to 4.3%, rice inflation remained elevated at 15.7% (Figure 2.31.2).

Figure 2.31.1 Demand-Side Contributions to Growth

Consumption and investment remain major drivers of growth.



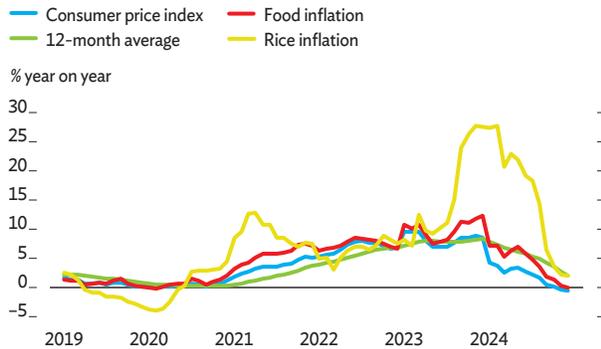
Sources: National Institute of Statistics of Timor-Leste; Asian Development Bank estimates.

The fiscal deficit expanded due to increased spending.

Despite an 11% increase in gross revenues, which included domestic and estimated sustainable income, total expenditures rose by 17.2% in 2024. This exceeded revenue growth, resulting in a 22.7% increase in the estimated budget deficit, which reached 51.3% of GDP (Figure 2.31.3). The estimated tax revenue-to-GDP ratio remained low at 9.9% in 2024, largely due to the underdeveloped private sector. The

Figure 2.31.2 Inflation

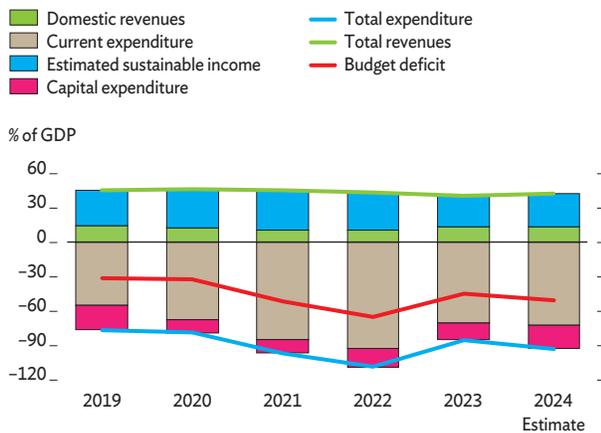
Consumer prices fell into slight deflation by the end of 2024.



Sources: National Institute of Statistics of Timor-Leste; Asian Development Bank estimates.

Figure 2.31.3 Government Budget

Increased spending widened the fiscal deficit in 2024.



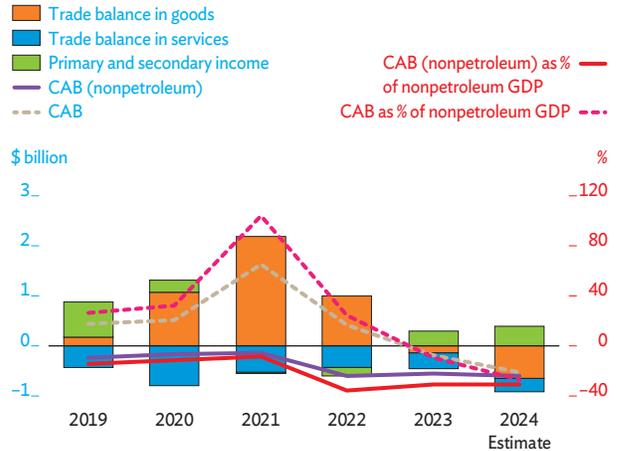
GDP = gross domestic product.
Sources: National Institute of Statistics of Timor-Leste; Ministry of Finance of Timor-Leste. 2025. Budget Transparency Portal; Asian Development Bank estimates.

estimated debt-to-GDP ratio decreased slightly from 14.4% in 2023 to 13.9% in 2024. Utilizing low-cost, long-term development finance instead of relying heavily on withdrawals from the Petroleum Fund would be beneficial.

The external account balance weakened severely due to a 4.6-fold increase in the merchandise trade deficit. Despite improved trade balances in services and income, merchandise exports fell by 68.9%, primarily due to declining petroleum revenues. Meanwhile, merchandise imports rose by 8.8%,

Figure 2.31.4 Current Account Balance

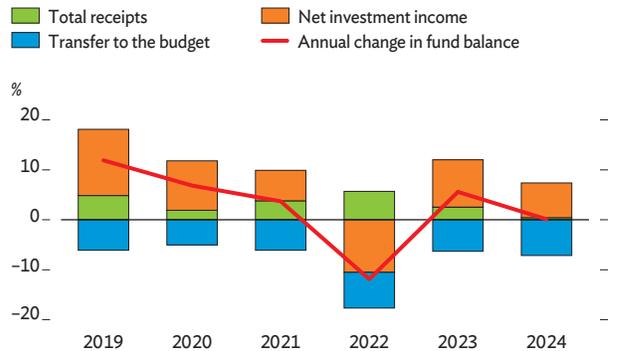
The external balance deteriorated due to a worsening trade deficit.



CAB = current account balance, GDP = gross domestic product.
Sources: National Institute of Statistics of Timor-Leste; The Central Bank of Timor-Leste; Asian Development Bank estimates.

Figure 2.31.5 The Petroleum Fund

Substantial withdrawals counterbalanced inflows to the sovereign wealth fund.



Sources: The Central Bank of Timor-Leste. 2019–2024. The Annual and Quarterly Reports of the Petroleum Fund; Asian Development Bank estimates.

leading to a 17.5 percentage point further drop in the current account balance, reaching 27.3% of GDP when including the petroleum sector (Figure 2.31.4).

The Petroleum Fund balance remained stable at \$18.3 billion in 2024. However, inflows to the fund from petroleum sales fell by 80%, and investment income declined by 24%. At the same time, fund outflows rose by 19.3% due to increased withdrawals for the government budget, adding pressure on the sovereign wealth fund (Figure 2.31.5).

Economic Prospects

The economic outlook remains optimistic for the medium term, thanks to several factors boosting confidence. Timor-Leste's accession to ASEAN and the development of the Greater Sunrise gas and condensate field should fuel confidence in the economy. Budget execution will likely improve due to the government's efforts to enhance the legal framework through the new Public Financial Management Law and Procurement Law, which aim to expedite project and program implementation, simplify the budgetary process, and streamline implementation rules. Also, private investment is expected to grow, driven by new projects in renewable energy, manufacturing, and education. Activating the fiber optic cable will enhance telecommunications infrastructure and drive growth in related services.

Growth forecasts have improved, rising to an average 3.9% per year for 2025–2026 compared to 2.9% for 2023–2024 (Table 2.31.1). Growth should accelerate to 4.0% this year before easing slightly to 3.8% in 2026, higher than the historical average. The large budget maintains the government's expansionary fiscal policy in a low-inflation environment. Consumer demand should remain strong.

Table 2.31.1 Selected Economic Indicators, %

Growth will rise, and inflation will remain low.

	2023	2024	2025	2026
GDP growth	2.4	3.3	4.0	3.8
Inflation	8.4	2.1	2.9	2.6

GDP = gross domestic product.

Note: 2024 GDP growth is an estimate.

Sources: National Institute of Statistics of Timor-Leste; Asian Development Bank estimates.

Private consumption and total investment will remain the main contributors to growth. A substantial 29% increase in government transfers, sustained growth in remittances and tourism receipts, high consumer loan growth from accommodative policies, and a better legal environment (for secure transactions, business insolvencies, and land regulations) will further support domestic demand. Public capital investment, including transport

infrastructure, is projected to grow by 19.5% and will remain a robust contributor to growth. However, net exports will continue to face challenges due to modest export growth and increasing imports, which are influenced by robust domestic demand and a strong US dollar.

Inflation will remain low, averaging 2.8% over the forecast period, while the current account balance will likely continue to deteriorate. Despite a slight uptick to 2.9% this year due to higher domestic demand and marginally increased prices of imported goods, average inflation is projected to moderate to 2.6% next year. The current account deficit is projected to widen further, primarily driven by higher imports.

There are downside risks to the outlook. These risks stem from disasters caused by natural hazards and extreme weather conditions, fluctuations in terms of trade due to negative spillovers from global geopolitical issues and escalating trade tensions, and domestic challenges such as poor execution of public capital investments and weaker public service delivery.

Policy Challenge—Increasing Investment in Human Capital Development

A significant policy challenge is enhancing investment in human capital. High poverty and malnutrition rates, alarming levels of child stunting, and large gaps in healthcare, education, and skills persist. Addressing these issues is crucial for fostering sustainable growth. Success depends on strong policy commitments and effective implementation to rebalance social resource allocations in favor of human capital and create an environment that encourages private investment and financing. The establishment of the Interministerial Task Force for Social Affairs, led by the Vice Prime Minister for Social Affairs, is a promising step. This task force was set up to support sustainable development through a coordinated approach, focusing on key areas such as early childhood development, nutrition and food security, and youth empowerment. Investment in human capital can be further enhanced through a combination of decisive measures to optimize expenditure, focus investments, and mobilize resources.

First, the budget expenditure structure should be optimized. Public investment in education, skills development, social protection, and healthcare, which remains below the 8% of GDP target set in the Timor-Leste Strategic Development Plan for 2011–2030, must be prioritized. Investment spending in domestic health and education can be more than doubled by reallocating funds from current expenditures while ensuring the smooth functioning and improved efficiency of public services.

Second, investments in human capital development need to be better focused. More work is needed to (i) improve access to health services, especially preventive care, (ii) support early childhood development through education, health, and nutrition programs, (iii) provide continuous learning, scholarships, and technical and vocational training opportunities for youth and employees, and support for education system strengthening, and (iv) strengthen

social protection programs and systems including through more robust targeting. Enhancing investments in human capital development is essential for fostering long-term economic growth and achieving Sustainable Development Goals (SDGs). The SDGs should be integrated into municipal plans and budgets to ensure comprehensive progress.

Third, development financing and private resources should be mobilized more effectively to support human capital development. This requires strategic use of grants, technical assistance, and investment lending and the creation of an environment that encourages private investment in healthcare, education, and skills development. This can be achieved through favorable policies and regulations, public-private partnerships that share risks, incentives, investment funds focused on social outcomes, corporate social responsibility initiatives, recognition programs, and leveraging digital transformation.

VIET NAM

Strong trade, a recovery in export manufacturing, and robust foreign direct investment (FDI) fueled economic growth in 2024. However, global uncertainties and regulatory barriers remain significant downside risks this year. Yet, over the next 2 years growth should remain solid with a slight rise in inflation. Extensive institutional reforms are expected to improve government efficiency and spur growth. A key policy challenge is to increase Viet Nam's value-added in global supply chains. This will leverage its economic linkages, especially in the context of current global trade tensions and other economic disruptions.

Economic Performance

The 2024 economic recovery was impressive with growth rebounding to 7.1% from 5.1% in 2023.

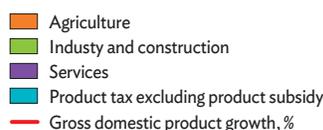
Despite the severe damage caused by Typhoon Yagi in various parts of the country, the swift government response and recovery limited its impact on growth.

Export-driven manufacturing returned as a key driver of growth. Industrial production surged by 8.2%, rebounding from 3.7% growth in 2023. A strong resurgence in rubber, metal products, electrical equipment, electronics, and computers fueled this growth, as manufacturing grew by a robust 9.8%, well above the 3.6% growth a year ago. In addition, a recovery in tourism contributed to services growing by 7.4% compared with 6.8% in 2023. However, Typhoon Yagi hurt agriculture, where growth slowed to 3.3% from 3.8% in 2023 (Figure 2.32.1).

On the demand side, FDI disbursements fueled gross capital formation growth by 7.2%, up from 4.1% last year. FDI disbursements in 2024 reached a record \$25.4 billion, up by 9.4% year on year. Exports rebounded sharply, driven by increased global demand. Domestic demand drove a recovery in consumption, which grew by 6.6%, well above the 3.5% growth in 2023.

Figure 2.32.1 Supply-Side Contributions to Growth

Industry rebounded sharply in 2024.

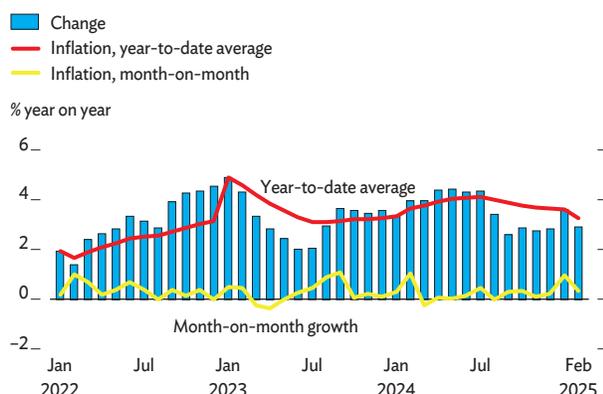


Source: General Statistics Office.

Inflation rose slightly due to a surge in food price, as impacted by the Yagi typhoon, coupled with a substantial increase in the minimum wage in July 2024. Also, prices for medical and education services rose. As a result, average inflation in 2024 reached 3.6%, a slight increase from 3.3% in 2023 (Figure 2.32.2).

Figure 2.32.2 Monthly Inflation

Inflationary pressures inched up in 2024.



Source: General Statistics Office.

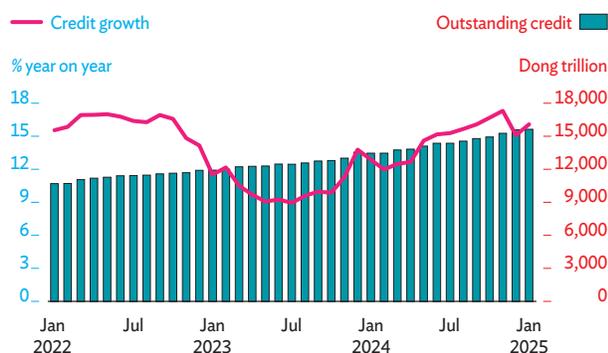
The State Bank of Vietnam, the central bank, maintained its accommodative stance throughout 2024 to support growth.

The average lending rate for new loans decreased by a range from 0.6 to 1.0 percentage points compared to 2023, and credit growth rose to 15.1% in 2024 compared with 13.8% in 2023 (Figure 2.32.3). Despite concerns over rising nonperforming loans (NPLs), the central bank extended its regulatory forbearance until the end of 2024. However, this may have caused some inflationary pressure and driven growth in non-productive sectors like real estate. The strong United States (US) dollar put downward pressure on the dong, which depreciated by around 5.0% against the US dollar in 2024.

The robust recovery in merchandise exports bolstered the current account balance. Export receipts reached \$405.5 billion, up by 14.3% over

Figure 2.32.3 Credit Growth

Credit growth rose due to the recovery in domestic production.



Sources: State Bank of Viet Nam; Asian Development Bank estimates.

2023. Exports to the US, primarily telephones, spare parts, and textiles, accounted for 29.5% of exports. The People's Republic of China (PRC) remains the second largest market, absorbing 15.0%. Imports rose by 16.7% to \$380.8 billion, boosting the trade surplus to \$24.7 billion. Production materials such as machinery, equipment, and raw materials accounted for 93.6% of imports. A decline in net receipts from services and remittances narrowed the current account surplus to an estimation of 5.3% of GDP, down from 6.0% in 2023.

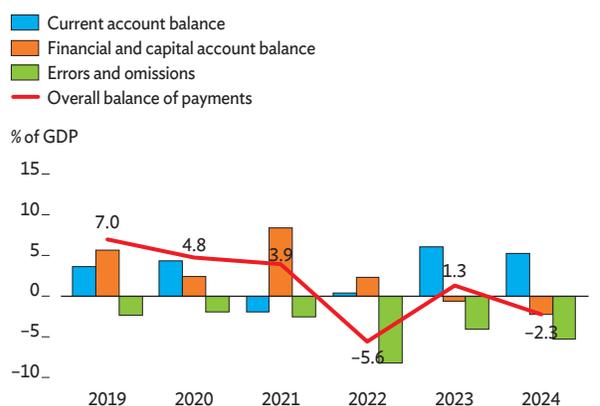
Reduced net inflows of medium- and long-term loans and portfolio investment led the financial and capital account further into deficit, estimated at 2.2% of GDP in 2024 from last year's 0.7% deficit.

The shrinking current account balance and rising financial and capital account deficit led to an overall balance of payments deficit estimated at 2.3% of GDP in 2024 (Figure 2.32.4). By year end, foreign reserves were estimated to cover 2.6 months of imports, down from 3.3 months at the end of 2023.

The fiscal position strengthened. Government revenue increased by 16.2% in 2024, reaching D2,037.5 trillion, or 119.8% of the annual revenue plan. Budget expenditure was estimated at D1,830.8 trillion, 86.4% of the annual expenditure plan, up by 5.7% year on year. However, capital expenditure decreased by 8.7%, mainly due to slow public investment disbursements. The public debt-to-GDP ratio is estimated to have fallen to 36%-37% by the end of 2024, leaving more fiscal space to support the economy as needed.

Figure 2.32.4 Balance of Payments

The shrinking current account balance and a rising financial and capital account deficit led to an overall balance of payments deficit.



GDP = gross domestic product.

Sources: State Bank of Viet Nam; Asian Development Bank estimates.

Economic Prospects

The economy is forecast to grow by 6.6% in 2025 and 6.5% in 2026 (Table 2.32.1). Higher and sustainable economic growth is possible if ongoing, extensive institutional reforms are implemented swiftly and efficiently. It would stimulate the economy, increase governance efficiency in the near term, and consequently promote private sector development over the medium and long term.

Table 2.32.1 Selected Economic Indicators, %

Growth will moderate and inflation will rise.

	2023	2024	2025	2026
GDP growth	5.1	7.1	6.6	6.5
Inflation	3.3	3.6	4.0	4.2

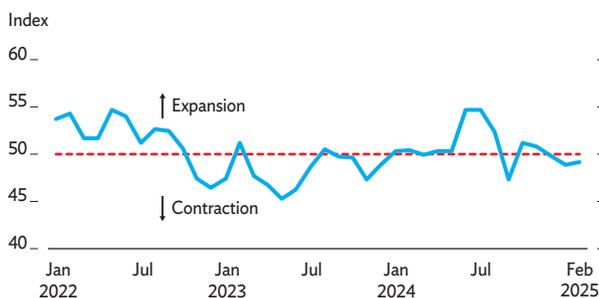
GDP = gross domestic product.

Sources: General Statistics Office; Asian Development Bank estimates.

Global trade tensions could hurt export-led manufacturing. The global economic environment, marked by growing trade conflicts and geopolitical tensions, could notably impact export-driven manufacturing. The resurgence of protectionist policies under the new US administration might lower global demand for Viet Nam’s manufactured products, especially given the significant trade surplus with the US. The February 2025 Purchasing Managers’ Index, though higher than January’s, has remained below 50 for the 3 months since December 2024 (Figure 2.32.5).

Figure 2.32.5 Purchasing Managers’ Index

The index signals a slowdown in manufacturing after December 2024.



Note: A purchasing managers’ index <50 signals deterioration, and >50 an improvement.

Source: IHS Markit.

Industrial growth is projected to slow to 7.0% in 2025. However, construction could see an uptick if major infrastructure projects proceed as planned.

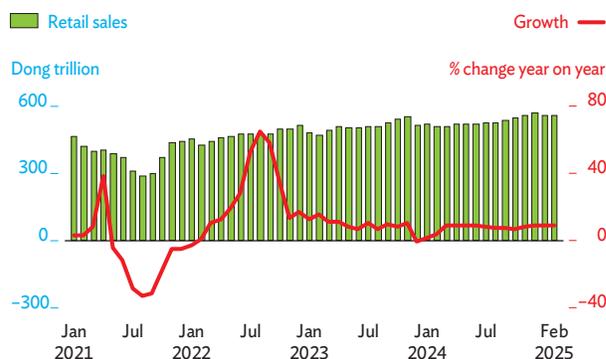
Services is set to grow 7.2% in 2025, driven by a boost in foreign and domestic tourism and technology-driven industries. There were nearly 4 million international arrivals in the first 2 months of the year, up 30.2% from the same period last year. Favorable visa measures, tourism promotions, and international recognition have fueled this growth. The government’s focus on digital transformation and sustainability will open new opportunities, especially in financial and retail services. However, the sector must navigate global economic uncertainties despite ongoing reforms.

Global demand for agricultural commodities and free trade agreements despite rising global tariffs will sustain exports. Agriculture is expected to continue to grow by a solid 3.2% in 2025. However, climate change, limited technology access, and infrastructure gaps remain challenges. Improving productivity through technology and managing rising global tariffs while maintaining competitive pricing are key to sustain export growth.

Retail sales are rising, driven by accommodative monetary and fiscal measures. Retail sales grew by 9.4% in February 2025 compared to the same period in 2024 but remained below expectations (Figure 2.32.6). The government is targeting a 12% increase in retail sales and consumer service revenue in 2025. However, 67,000 businesses suspended operations in the

Figure 2.32.6 Retail Sales

Retail sales improved in the first months of the year.



Source: General Statistics Office.

first 2 months of 2025, a 7.0% rise from last year, signaling the challenges businesses face despite strong consumer demand.

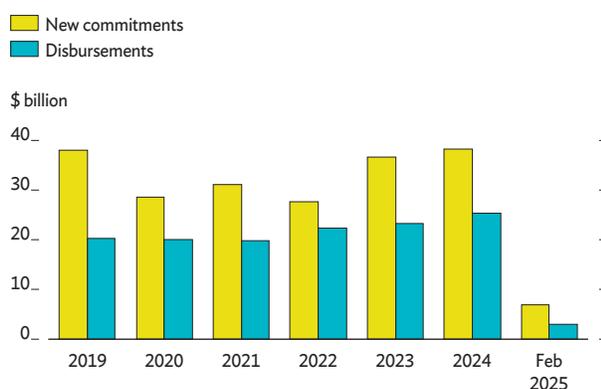
As inflation continues to rise, there is limited scope for further monetary policy easing.

Geopolitical tensions, higher domestic consumption, and accelerated public investment disbursements could drive inflation up to 4.0% this year and 4.2% in 2026. For 2025, the central bank has set an ambitious target of 16% credit growth to boost economic activity. However, its ability to support growth effectively is constrained by rising inflationary pressures, an increase in NPLs, and a weakening dong. It is thus crucial that the government coordinates monetary and fiscal policies.

The government has initiated an ambitious plan to boost growth. The plan aims for 8% growth in 2025 and 10% annually from 2026 onward. To do this, the investment goal is \$174 billion, or 33.5% of GDP, including \$36 billion in public investment for 2025, up from \$27 billion in 2024 (85% disbursed). Private investment is targeted to reach \$96 billion, with FDI at \$28 billion and other investments at \$14 billion. FDI registrations rose by 35.5% with disbursements up by 5.4% in the first 2 months of 2025 compared to the same period in 2024 (Figure 2.32.7). To mobilize additional resources, the government may adjust its budget deficit to 4.0%-4.5% of GDP.

Figure 2.32.7 Foreign Direct Investment

Foreign direct investment will contribute to the country's development.

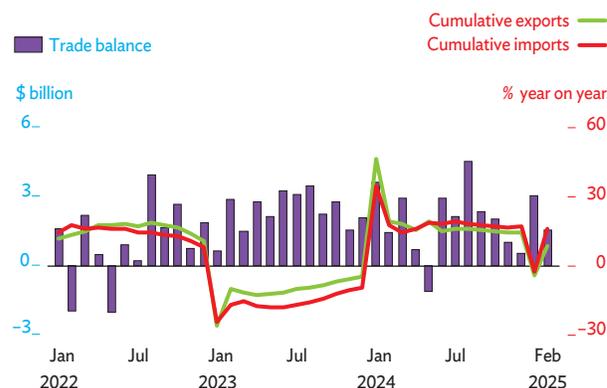


Source: General Statistics Office.

Weakening global demand will impact this year's trade prospects. In February 2025, exports fell by 6.2% compared to January. However, over the first 2 months of the year, total exports rose by 8.4% year on year. Imports grew by 8.4% month on month, with total imports for the first 2 months up by 15.9% compared to the same period last year (Figure 2.32.8). Import and export growth is forecast to slow to 7.0% this year and next. Heightened trade tensions could impact trade, potentially narrowing the trade surplus. Slowing trade would reduce the current account surplus to the equivalent of 2.5% of GDP this year.

Figure 2.32.8 Trade Growth

Trade growth could face difficulties in 2025 as trade tensions rise.



Source: General Statistics Office.

External risks to the forecast lean toward the downside. Global uncertainties, including tariff escalations under the new US administration and reciprocal measures, the prolonged Russian war in Ukraine, and continued instability in the Middle East, could hinder economic growth. Additionally, a slowdown in the U.S. and PRC, Viet Nam's major trading partners, may further affect economic prospects.

However, there remains a possible upside with the country's ongoing institutional reforms. Near-term growth stimulus measures and long-term strategic priorities are being constrained by persistent regulatory barriers. The recent sweeping institutional reforms and substantial efficiency drive are seen as positive steps to streamline government operations and promote economic development. If successful, these reforms could boost efficiency by cutting red tape, improving public services, unlocking new growth opportunities, and enhancing economic resilience.

Policy Challenge—Enhancing Value-Added in Global Value Chains

Participation in global value chains (GVCs) is shaped by Viet Nam’s factor endowments, market size, geography, institutional quality, and government policies. Its strategic location in Southeast Asia, with a long coastline and access to major markets, enhances its competitiveness in manufacturing and export-oriented industries. Trade policies promoting an open economy and regional integration have further strengthened the country’s role in the global production network. To foster a more business-friendly environment, Viet Nam has implemented comprehensive reforms, including better land policies, fiscal restructuring, and industrial development strategies.

Given the evolving global economic landscape, the country’s advantages in GVC integration are also changing. The benefit of labor resources may decline as the economy grows, as could preferential market access under free trade agreements. Understanding the limitations and challenges faced while engaging in GVCs effectively is critical for analyzing the country’s economic trajectory and potential for long-term progress.

Emerging factors impacting GVC participation include geoeconomic shifts, sustainable development trends like decarbonization and the energy transition, along with the digital transformation. These factors present risks and opportunities, depending on how actively GVC actors in Viet Nam adapt. Geoeconomic shifts require continued investment and business reforms. Sustainable development trends demand public-private collaboration. Digital transformation requires strong digital skills and technology adoption, including e-commerce, artificial intelligence, and smart manufacturing. Adapting to these trends will strengthen the country’s position in GVCs.

Limited domestic linkages with lead foreign firms and insufficient collaboration among local suppliers are major challenges in improving GVC participation. The lack of innovation and technological absorption capacity hinders firms’ ability

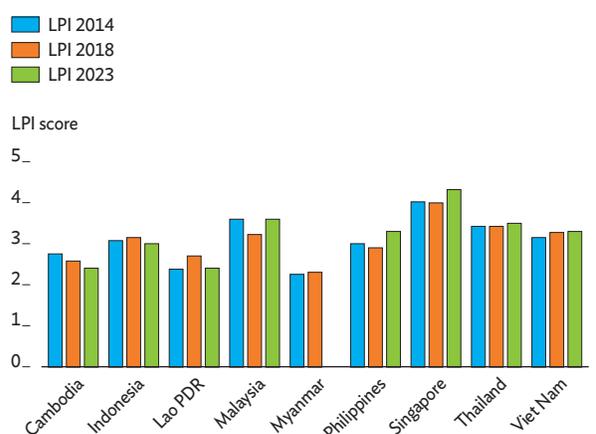
to upgrade within GVCs. In addition, the absence of a strong ecosystem for integrating small and medium-sized enterprises into GVCs leads to coordination issues in policy implementation, particularly in trade, industrial development, and small and medium-sized enterprise support, reducing Viet Nam’s competitiveness.

The country faces labor productivity issues and significant skill gaps, particularly in high-tech and digital fields. Moving into higher value-added segments requires a more sophisticated workforce with relevant skillsets. Despite the potential for high-quality labor, there remains a need for widespread upskilling to fulfill future workforce demand. Immediate action is needed to close the skills gap and prepare the workforce to succeed in the global economy.

Trade connectivity challenges, along with policy and regulatory differences, continue to hinder firms. High trade costs, including tariffs and non-tariff measures, reduce the competitiveness of GVC firms. Factors such as governance quality, policy gaps, transaction costs, and transport expenses add to these costs, affecting GVC reliability. Despite progress, Viet Nam’s Logistics Performance Index remains behind its regional peers, highlighting the need for better customs efficiency and infrastructure (Figure 2.32.9).

Figure 2.32.9 Viet Nam’s Logistics Performance Index

It lags behind several ASEAN countries.



LPI = logistics performance index

Note: The LPI measures countries’ logistics efficiency using the weighted average of six key components, with scores ranging from 1 (lowest performance) to 5 (highest performance).

Source: World Bank. [Logistics Performance Index](#).

Access to finance remains a significant challenge for firms, hindering their growth, innovation, and global competitiveness. Despite government efforts to improve credit access, many businesses still struggle to secure financing from traditional banks due to stringent loan requirements, high interest rates, and a lack of collateral. Limited financial literacy and inadequate credit information systems further complicate access, highlighting the need for reforms to enhance financial inclusion and support private sector growth.

In the long term, as labor costs rise, the country must shift to higher-value activities, improve technology absorption, and boost productivity. Meeting these challenges requires enhancing

local firm competitiveness, promoting tech-driven investments, investing in research and development, and adopting the best international practices for sustainable development. Implementing advanced technologies, like supply chain management and quality management tools, will improve operational efficiency and responsiveness to market demand. To facilitate this business transformation, the government can implement policies that expand infrastructure for efficient logistics, trade facilitation, and digitalization to remain competitive. The government can also use more effective strategies, policies, and programs to better integrate small and medium-sized enterprises into GVCs, especially those already involved through FDI.

Fiji



Papua New Guinea



Solomon Islands



Vanuatu



Central Pacific economies



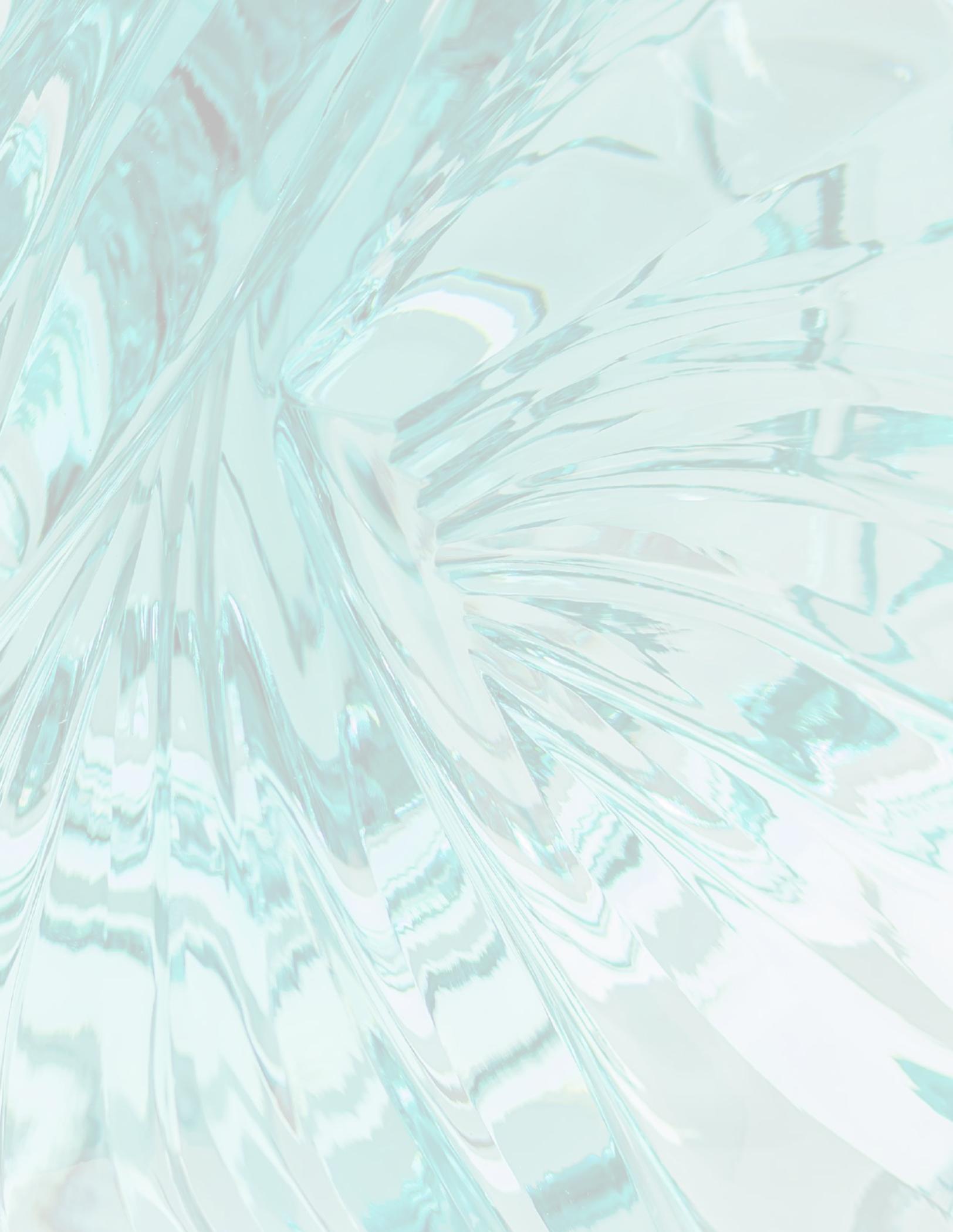
North Pacific economies



South Pacific economies



THE PACIFIC



FIJI

The economy has been driven by a robust rebound in visitor arrivals and increasing consumption, with ongoing reforms and investment aimed at boosting medium-term growth. Risks to the outlook stem from weak growth in key tourism source markets and the newly imposed tariffs by the United States. Expanding private sector development by improving access to finance and creating a better business environment is essential for broadening the economic base. Modernizing Fiji’s finance sector is critical for sustaining economic growth and enhancing financial inclusion.

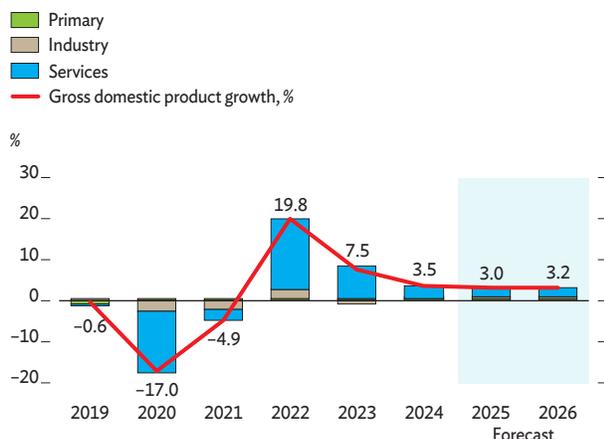
Economic Performance

Strong tourism drove economic growth. GDP grew by 3.5% in 2024, spurred by rising tourist arrivals that boosted services, contributing 2.9 percentage points to growth (Figure 2.33.1). This stimulated wholesale and retail sales, which grew by 3.9% in the first 3 quarters. Exports of niche crops such as kava, taro, and ginger grew strongly, while bad weather led to a decline in sugar and mahogany production. Gold production surged by 40% with the launch of the Tuvatu gold mine in December 2023.

Visitor arrivals in 2024 hit a record high. Visitor arrivals rose by 5.7% from 2023 (Figure 2.33.2). Growth was driven by key markets such as Australia, New Zealand, and the United States (US), while arrivals from Canada and India declined. This surge contributed to a 4.8% year on year rise in tourism earnings in the first 3 quarters of 2024. During the June–September peak season, major hotel room occupancy reached as high as 90%. Fiji continues to solidify its role as the Pacific’s regional transport hub,

Figure 2.33.1 Gross Domestic Product Growth

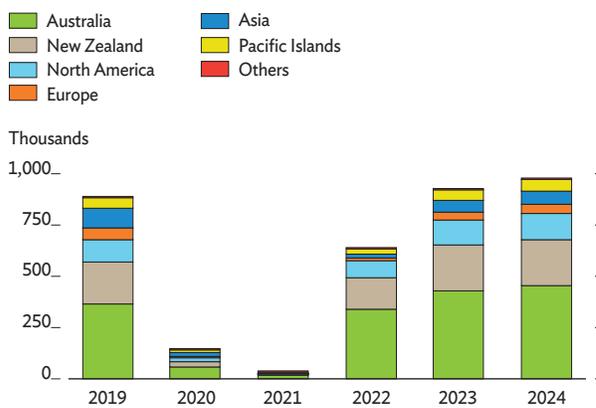
The tourism recovery led economic growth in 2024.



Sources: Fiji Bureau of Statistics; Asian Development Bank estimates.

Figure 2.33.2 Visitor Arrivals

Arrivals reached record levels in 2024.



Source: Fiji Bureau of Statistics.

with air transit passengers rising by 19.2% in 2024, leveraging its strategic location and competitive long-haul pricing.

Construction declined, as high costs impeded faster expansion. Lower value of work put-in-place for new buildings and capital repairs offset gains from private investment in tourism industries and the near completion of public infrastructure upgrades to roads and water services. Private sector activities remain limited due to rising building material prices, which increased by a cumulative 33% since 2019, peaking at 15.3% growth year on year in 2022. Construction costs continued to rise by 9.4% in 2023 and 1.2% in 2024, offsetting the advantage of an expanded labor supply due to relaxed migration policies.

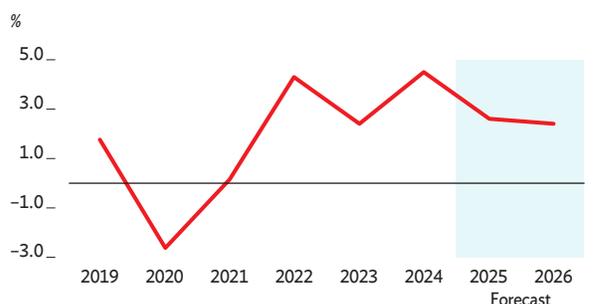
Consumption remained strong in 2024, with financial conditions improving. Value-added tax collections rose by 32.9%, signaling higher consumer spending. Consumption was bolstered by strong bank lending, a 6% rise in remittances, and a minimum wage increase to F\$4.50 per hour in August 2024. Private sector credit increased by 11.4%, driven by higher consumption and lending in wholesale and retail trade, and construction. Monetary policy remained accommodative, with the overnight rate steady at 0.25% since 2020. At the end of December, banking system liquidity was equivalent to 18.8% of GDP.

Policy adjustments and bad weather contributed to price increases. Adverse weather conditions, combined with a 5% increase in alcohol and tobacco excise duties from 1 August 2024, led to inflation averaging 4.5% in 2024 (Figure 2.33.3). Food prices surged in the second quarter due to inclement weather in March, which contributed to reduced agricultural output. Notable price increases included food, beverages, tobacco and fuel-related products.

Tourism receipts and lower imports helped narrow the current account deficit. The current account deficit narrowed to 7.4% of GDP from 7.7% of GDP in 2023, supported by growth in tourism and an improving trade balance. In 2024, the trade deficit decreased by 4.5%, primarily due to reduced imports of mineral fuels, garments, and scientific instruments. Exports remained steady, with growth in cement, kava, and mahogany.

Figure 2.33.3 Average Annual Inflation

Policy adjustments and adverse weather contributed to inflation.



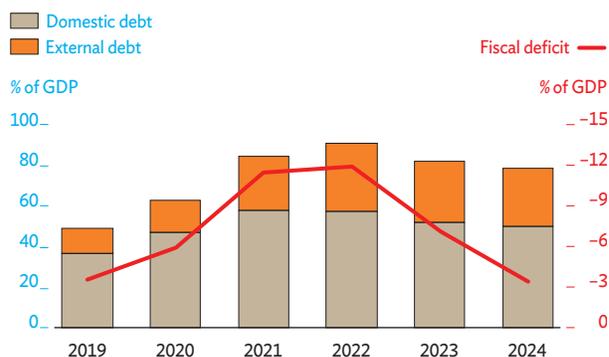
Sources: Fiji Bureau of Statistics; Asian Development Bank estimates.

Outward remittances rose by 15.9% as Fiji adjusted its migration policies to address acute labor market shortages in key sectors such as construction. Foreign reserves were F\$3.7 billion as of end-2024, sufficient for 6.0 months of import cover.

The fiscal deficit narrowed in fiscal year 2024 (FY2024, ended 31 July 2024). Revenue surged by 32.8%, driven by higher indirect tax collections, including the value-added tax rate increase from 9% to 15%. Expenditure rose by 14.1% to support capital investment and competitive civil service pay (Figure 2.33.4). Improved revenue collections and a delay in the implementation of capital projects helped reduce the deficit to 3.4% of GDP, down from 7.1% in FY2023, lowering the debt-to-GDP ratio from 82.1% to 78.3% by the end of FY2024.

Figure 2.33.4 Public Debt

Increased revenue and lower expenditure reduced the fiscal deficit.



GDP = gross domestic product.

Note: Years are fiscal years ending 31 July of that year.

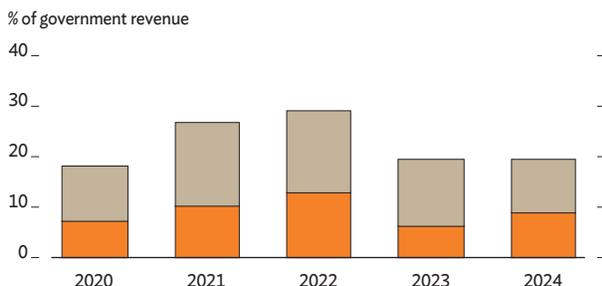
Sources: Fiji Ministry of Finance; Reserve Bank of Fiji.

Figure 2.33.5 Debt Service

Increased concessional financing reduced repayment pressures.

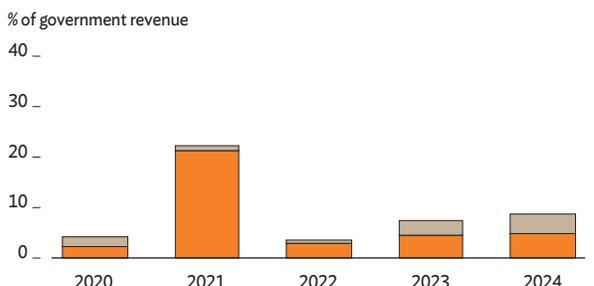
Principal
Interest

A. Domestic Debt Repayments



Note: Years are fiscal years ending on 31 July of that year.
Sources: Fiji Ministry of Finance; Reserve Bank of Fiji.

B. External Debt Repayments



Access to concessional financing has kept external debt servicing sustainable. Despite a rising share of external debt to total debt, most comes via concessional financing from multilateral and bilateral partners with low interest rates and extended maturities (Figure 2.33.5). Domestic loan repayments fell below 20% of government revenues in FY2023–FY2024, down from a 28% average in the preceding 2 fiscal years.

improved access to finance should partially offset these constraints. As the US is one of Fiji’s main export destinations, downside risks stem from US reciprocal tariffs.

Economic Prospects

Growth is projected to slow to 3.0% in 2025 before increasing to 3.2% in 2026 (Table 2.33.1).

Increasing visitor arrivals will be constrained by limited hotel room capacity. Several ongoing private tourism investments, including some 1,500 rooms under construction and an additional 2,000 rooms in pre-development stages, will likely take time to increase supply. However, public investments and

Targeted public sector initiatives support activities in various industries. Public sector initiatives aimed at supporting growth include fresh investments in domestic transport connectivity, such as bridge upgrades, and enhancements to water treatment processes. In addition, approval of the Access to Business Funding Bill, establishment of the Cooperative Development Fund, and introduction of mechanisms for providing risk capital should further support micro, small, and medium-sized enterprises (MSMEs) and cooperatives.

Recent advances in digital payments boost efficiency. The National E-Commerce Strategy 2025–2029 aims to promote digital trade. Both public and private sectors should benefit from real-time payments, an automated clearing house, and the integration of mobile money wallets with bank accounts through streamlining transactions, costs reductions, and enhanced security.

Table 2.33.1 Selected Economic Indicators, %

Growth is expected to moderate as the economy stabilizes following a post-pandemic rebound.

	2023	2024	2025	2026
GDP growth	7.5	3.5	3.0	3.2
Inflation	2.4	4.5	2.6	2.4

GDP = gross domestic product.
Source: Asian Development Bank estimates.

Inflation is projected to remain moderate, reflecting expected inflation and commodity price trends among key trading partners. Due to an anticipated price decline among major advanced economies and global oil products, inflation is projected to fall to 2.6% in 2025 and 2.4% in 2026. The impact of

subdued imported inflation should offset pressures from domestic price increases from weather-affected agriculture production and a second increase in the minimum wage from F\$4.50 to F\$5.00 in April 2025.

The fiscal deficit is projected to widen. Urgent infrastructure investments place the projected fiscal deficit at 4.5% of GDP in FY2025 before moderating to 3.7% in FY2026. Revenue is anticipated to rise to 27.9% of GDP in FY2025, with an increase in direct taxes by 2.0% and indirect taxes by 7.1%. Expenditure is projected to increase to 32.5% of GDP, as the government ramps up investment in both physical and human capital. The budget deficit will be financed through domestic and concessional external borrowing, with overall debt projected to be 77.8% of GDP by the end of FY2025 and 77.7% of GDP by the end of FY2026. The debt ratio remains high, necessitating continued fiscal prudence and effective debt management to ensure its sustainability.

Policy Challenge—Modernizing Fiji’s Financial Sector for Inclusive Growth

Modernizing the finance sector is crucial for sustaining economic growth and enhancing financial inclusion. Challenges include gaps in regulation and digital infrastructure which limit the impact of digital innovation on MSMEs.

A robust legal and regulatory framework is vital for the financial system. The Fiji Financial Sector Development Plan 2016–2025 identifies regulatory

gaps that limit financial access. Strengthening legislation can substantially reduce informality in the operations of credit unions and microfinance institutions. This would expand financial inclusion to the 19% of the population currently without formal financial sector access. Rigorous monitoring of these institutions is crucial to ensure sound financial practices, mitigate credit defaults and liquidity issues, and safeguard consumer assets, data, and privacy, while also effectively combating fraud.

Digital public infrastructure will enhance the financial sector. With the approval of the National Payment Systems Act 2021, key systems were initiated such as Real-Time Gross Settlement, a Central Securities Depository, and an Automated Clearing House. In addition, the central bank is working on digital ID requirements, and electronic Know Your Customer systems to streamline customer identification and risk screening. In March 2025, the government approved the Access to Business Funding Act, paving the way for innovative financing options like crowdfunding, peer-to-peer lending, and small offers regimes. The legislation aims to expand capital access for MSMEs while setting clear guidelines to safeguard investors.

Supporting MSMEs in adopting the latest technologies is crucial. Pre-pandemic, MSMEs contributed approximately 18% to Fiji’s GDP and employed around 60% of the workforce. While advancements in payment systems help, raising awareness and educating people on the benefits of improved payment systems and cybersecurity best practices will help MSMEs and consumers fully benefit from these improvements.

PAPUA NEW GUINEA

Economic growth accelerated in 2024 as both resource and non-resource output expanded. A rebound in gold and copper production strengthened mining while hydrocarbon output weakened. Fiscal consolidation stayed on track and inflation fell to a historic low. The availability of foreign exchange improved with a move toward greater exchange rate flexibility. However, major development challenges—power blackouts, security concerns, and high business costs—continue to weigh on the outlook, further compounded by rising geoeconomic risks. Limited financial inclusion remains a critical constraint, underscoring the urgent need to broaden and deepen financial access to support inclusive growth.

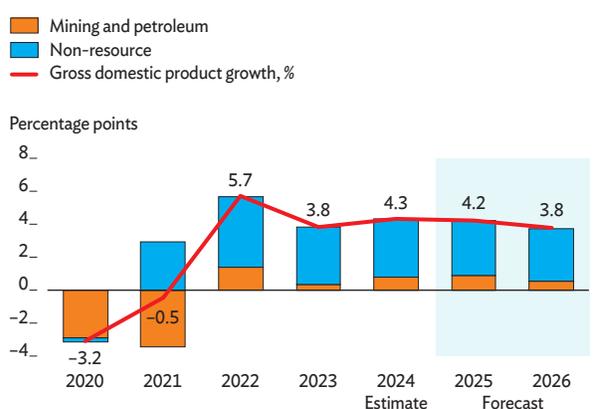
Economic Performance

Growth accelerated to 4.3% in 2024, driven by increased output in both resource and non-resource sectors (Figure 2.34.1). Mining rebounded, with significant increases in gold and copper production, while hydrocarbon output weakened due to lower liquefied natural gas (LNG) production. Overall, the resource sector accounts for more than 25% of GDP. The reopening of the Porgera gold mine helped boost growth. However, landslides followed by law and order issues around the mine site led to temporary shutdowns, limiting operations to below 40% of capacity.

The non-resource sector continued to perform well. Average growth in non-resource sector more than doubled to 5.1% between 2022–2024 from the previous decade’s 2.4% average (2012–2021). Agriculture, forestry and fishery contributes about 18% of GDP. Palm oil and cocoa, the largest agricultural products, were negatively impacted due to adverse weather conditions in 2024. However, coffee, copra, copra oil, and fish exports remained strong, supported by high prices. While the economic impact of the January 2024 civil unrest was short-lived, security remains a major challenge across the country and is a constant risk to economic stability.

Figure 2.34.1 Supply-Side Contributions to Growth

Growth was driven by both resource and non-resource output.

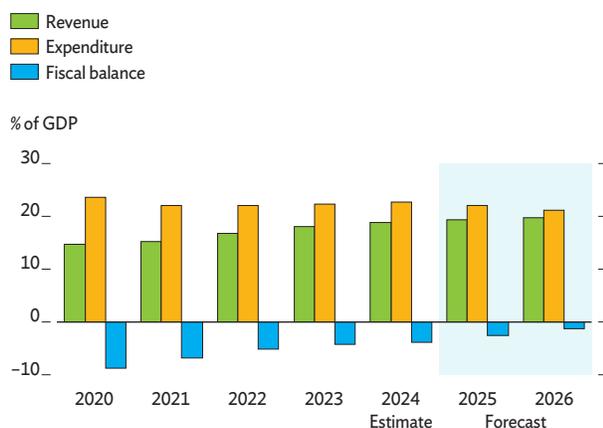


Sources: National Statistical Office of Papua New Guinea; Asian Development Bank estimates.

Fiscal consolidation continued in 2024 (Figure 2.34.2). Considerable progress has been made in mobilizing domestic revenue, estimated to have reached 18% of GDP in 2024 from about 14% in 2020. Expenditure restraint has continued, with controls on both recurrent and capital spending. The capital budget grew marginally in 2024, compared to a 3.5% contraction in 2023. As a result the fiscal deficit

Figure 2.34.2 Fiscal Balance

Fiscal consolidation remains on track.



GDP = gross domestic product.

Sources: Papua New Guinea Department of Treasury; International Monetary Fund; Asian Development Bank estimates.

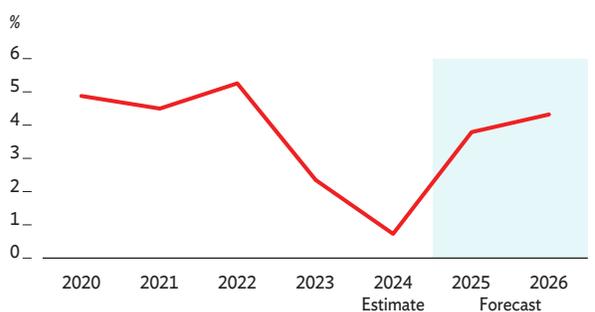
continued to fall from 4.3% in 2023 to 3.9% in 2024. New external government borrowing also remained below the International Monetary Fund's 2024 limit of \$1.4 billion in present value terms. While the public debt-to-GDP ratio likely grew from 53.7% in 2023 to 53.9% in 2024 and remains classified as at high risk of debt distress, it is assessed sustainable.

Tax revenue and grants grew, while non-tax revenue growth remained weak. Taxes on income and capital gains continue as the largest source of government revenue, growing by almost 7% in 2024. Foreign grants and non-tax revenue also increased but fell well short of [initial government projections](#) as the Non-Tax Revenue Administration Act implementation remained limited. There were shortfalls in dividend and fee collections from state-owned enterprises and other statutory bodies.

Inflation eased to 0.7% in 2024, lowest level in recent years (Figure 2.34.3). While exchange rate depreciation exerted some inflationary pressure, it was offset by several factors. First, lower global price increases helped reduce imported inflation, especially in fuel and transport. Second, while betel nut and communication service prices declined, those in housing, transport, and education slowed significantly. Collectively these groups account for half of the CPI basket. Betel nut prices have been volatile, sharply contracting in the first half of 2024 due to ample supply

Figure 2.34.3 Inflation

Average inflation was the lowest in years.



Sources: National Statistical Office of Papua New Guinea; Asian Development Bank estimates.

but increasing in the second half. Communication service costs declined for a second year, following the entry of Vodafone. In April 2024, Digicel, which holds more than half the telecommunications market share, significantly [reduced mobile internet prices](#). Finally, the central bank tightened monetary policy by increasing the Kina Facility Rate from 2.0% in May 2024 to 4.0% in September. Nonetheless, prices of food and some essential consumer goods remained high, with food prices up by 4.6% and clothing and footwear by 5.7%, compared to 2023.

The gradual transition toward a market-clearing exchange rate reduced foreign exchange shortages in the second half of 2024. The kina has depreciated gradually, weakening by about 14% against the US dollar in nominal terms between April 2023 and the end of 2024. In January 2024, the central bank adopted a crawling depreciation mechanism to restore exchange rate flexibility. It reduced foreign exchange order backlogs, with clearing time of outstanding orders down from 1–4 weeks in the second half of 2024 to [less than a week](#) in early 2025.

Economic Prospects

Growth is expected to moderate slightly in 2025 and further in 2026. The economy is projected to expand by 4.2% in 2025 and 3.8% in 2026 (Table 2.34.1). Mining will likely remain a key driver of growth, with production increasing at Porgera and other mines. Porgera's output is forecast to reach about 70% of full capacity by the end of 2025 before reaching full capacity sometime in 2026. While newly drilled oil wells may provide support

Table 2.34.1 Selected Economic Indicators, %

Growth is expected to moderate in 2025 and 2026.

	2023	2024	2025	2026
GDP growth	3.8	4.3	4.2	3.8
Inflation	2.3	0.7	3.8	4.3

GDP = gross domestic product.

Sources: Papua New Guinea National Statistical Office; Asian Development Bank estimates.

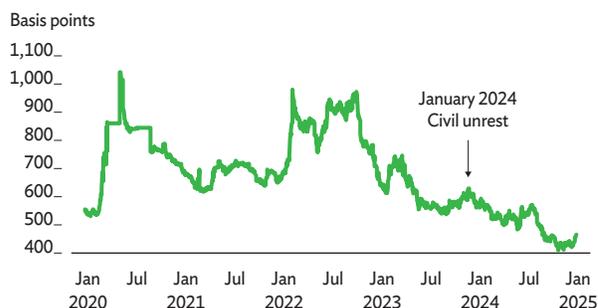
to petroleum production in 2025, overall hydrocarbon output should remain flat in both 2025 and 2026 due to an expected decline in oil and gas prices.

The non-resource sector will support growth, but structural issues remain. Foreign exchange restrictions have been a major constraint for the private sector in recent years, and continued improvements in foreign exchange availability will likely further ease the import backlog. This will support business activity and improve export competitiveness, particularly in agriculture. Household consumption should benefit from a 6-month goods and services tax (GST) exemption on selected goods announced in the 2025 budget. Export earnings from coffee, cocoa, and other cash crops are expected to remain stable. However, the structural issues of power shortages, security challenges, skilled human resource constraints and the high cost of doing business will severely constrain non-resource sector growth.

The government's fiscal consolidation is expected to continue. Revenue growth is projected to outpace expenditure growth in both 2025 and 2026. Recently announced tax reforms such as the GST, along with withholding taxes for state-owned enterprises and subnational governments, are expected to help with revenue collection. The projected revenue loss of K210 million due to GST exemptions for essential goods in 2025 should be compensated by new reforms such as the introduction of a new GST Monitoring System for retail and wholesale trade. As a result, a further reduction in the fiscal deficit to 2.6% of GDP in 2025 and 1.3% in 2026 is projected. Given these overall trends, the sovereign risk premium—measured by the G-spread—has already declined considerably since the peak of 2022 and is expected to continue to remain stable as the impact of reform measures is felt (Figure 2.34.4).

Figure 2.34.4 Sovereign Risk Premium

The sovereign risk premium fell sharply following macro-fiscal reforms.



Note: The risk premium is measured by the Mid G-spread which represents the difference between United States government bond yields and Papua New Guinea sovereign bond yields with the same maturity.

Source: Bloomberg.

In line with the fiscal consolidation strategy, public debt is expected to stabilize in 2025 and shift downward from 2026 onward. Public debt is projected to remain at 52.6% of GDP in 2025 before declining to 50.9% in 2026. The gradual shift toward an increased share of external debt with a focus on concessional financing is expected to continue in the near term, guided by the Medium-Term Debt Strategy (2018–2022). The government's newly formulated debt strategy (2024–2028) continues the earlier policy's core principles, focusing on debt sustainability and cost-effective financing.

Inflation will be likely influenced by both upward and downward pressures in 2025 and 2026. Upward pressures are expected partly from the base effect of low inflation in 2024 and from the lag effect of exchange rate depreciation. In addition, the decline in betel nut prices in 2024 is not expected to persist given that prices already increased considerably in the second half of 2024 and will likely continue in 2025. However, lower communication service costs and the GST exemption on essential goods will help offset some of these upward inflationary pressures. Overall, inflation is forecast to accelerate, reaching 3.8% in 2025 before rising to 4.3% in 2026.

Risks to the outlook include both downside and upside factors. The primary downside risk is deteriorating law and order, and [increased violence](#) in different parts of the country. A related risk is a potential disruption to Porgera mine operations, as occurred in 2024. Also, natural hazards and climate-

related events—such as cyclones and earthquakes—pose significant threats to agricultural output and business activity. A recent mutual evaluation report of Asia-Pacific Group on Money Laundering identified several strategic deficiencies in Papua New Guinea’s anti-money laundering and counter-terrorist financing regime. If these are not addressed soon, it could lead to “grey listing” which could significantly deter foreign investment, increase transaction costs, make it more difficult for banks to maintain correspondent banking relationships, and damage the country’s market perception. The tariff measures announced by the United States on PNG’s major trading partners also present risks to the economic outlook.

On the upside, the start of new resource projects could drive future growth. The expected final investment decision and start of the multibillion-dollar Papua LNG project, along with other resource projects, are in the pipeline. These investments could provide a substantial boost to economic activity. However, ensuring that development is both inclusive and environmentally sustainable remains a critical challenge.

Policy Challenge—Digital Financial Services for Inclusive Access to Finance

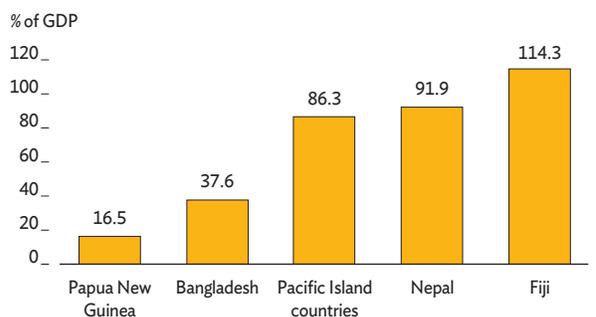
Access to finance is essential for inclusive economic development. When financial intermediation benefits are not widely shared, it can stifle private sector growth, slow economic progress, and deepen income inequality and poverty.

Limited access to finance remains a significant barrier to inclusive economic development in Papua New Guinea. Despite substantial progress in the banking sector and financial inclusion over the last decade, access to formal financial services remains low compared to similar economies. In 2023, formal domestic credit to the private sector remained exceptionally low at 16.5% of GDP, despite ample liquidity in financial institutions (Figure 2.34.5). There has been a continued decline since 2013 when private sector credit was 25% of GDP.

Limited access to financial services remains a significant constraint in a largely cash based economy. Two-thirds of the population operate

Figure 2.34.5 Private Sector Credit in 2024

Private sector credit remains extremely low.



GDP = gross domestic product.

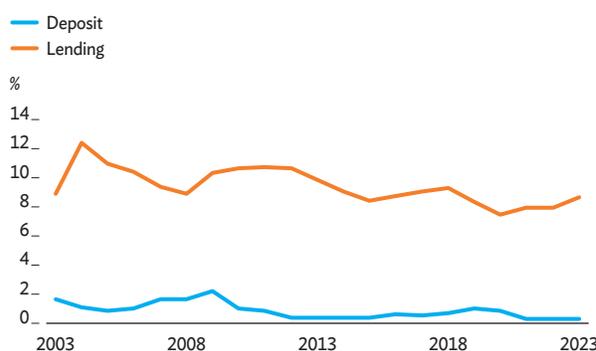
Source: World Bank. [World Development Indicators](#).

informally and outside the formal financial system. As of June 2024, there were just 4.3 million deposit accounts—covering 32% of the population. The rate of dormant accounts is likely to be high, although actual numbers are not verifiable. There is a significant dependency on microfinance institutions to broaden the range of products and services to promote financial inclusion. Although the Center for Excellence in Financial Inclusion has developed several strategies, implementation for extending access to financial services remains weak.

The cost of financial services also remains very high. Deposit rates hover around 0.2% while lending rates are above 8.5% (Figure 2.34.6). The higher rates are associated with risks associated with lending due to a weak bankruptcy framework, a market structure concentrated in urban centers, and high taxes on profits. Financial institutions also find lending to small

Figure 2.34.6 Deposit and Lending Rates

The spread between deposit and lending rates is very high.



Note: Weighted average annual deposit and lending rates of commercial banks.

Source: Bank of Papua New Guinea.

businesses risky because of lack of information, weak capacity, the high cost of administering loans, limited value of customary land titles as collateral, and weak or non-existent financial records. The country has the highest financial inclusion gender gap in the Pacific region, with women 29% less likely to have access to formal financial services.

Among various approaches, technology-driven digital financial services enhance financial inclusion by providing affordable ways to reach many unbanked people. Increasing access to electronic banking could allow transactions without physically exchanging cash—an important way to overcome geographical barriers and reach remote populations. One specific example is using mobile financial services. It is estimated that until the first quarter of 2024, of 1.2 million registered mobile financial accounts, just 37% were women-owned.

Rolling out systems such as digital national ID is crucial for customer identification, verification, and authentication for financial transactions.

Digital identity wallets with verified information issued through a trusted framework and compliant with international standards can support know-your-customer (KYC) requirements, a continuing barrier for potential customers due to a lack of verification documents to open an account. Hence, systems such as the KYC wallet can be further developed to link to the government's National ID system. This would not simply ease access to financial services but also assist service delivery and social protection in the country. Clearly, for inclusive development, establishing and enhancing digital financial infrastructure under regulatory guidance that can increase financial inclusion should be a top priority.

SOLOMON ISLANDS

Economic growth slowed in 2024 as the construction and spending boost associated with hosting the 2023 Pacific Games eased. In 2025 and 2026, growth is expected to accelerate, supported by mining, fishing, and construction. With increased access to loans, public debt is projected to rise but remain within the government’s ceiling. Inflation should continue to ease following global trends in food and fuel prices. As mining expands, structural reforms are essential to ensure that the benefits are optimized for sustainable growth.

Economic Performance

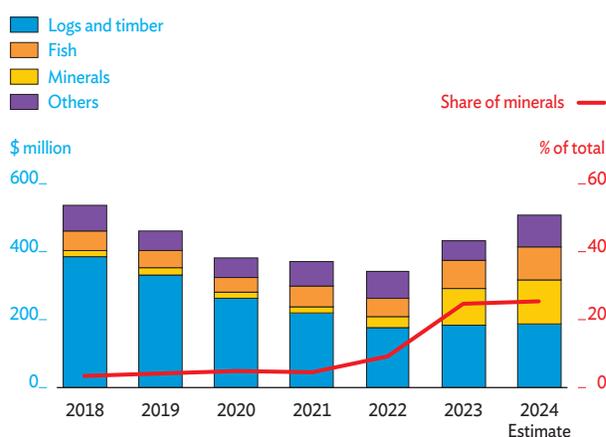
Economic growth moderated in 2024 following the boost from the 2023 Pacific Games. The economy grew by 2.5% in 2024, down from 3.0% in 2023, sustained by growth in production of minerals and fish catch. The expansion in government spending, consumption, and investment slowed.

Exports are growing, with minerals now a key export. Total exports in 2024 increased by 20%. Higher gold production contributed to a 21% surge in mineral exports as the Gold Ridge mine entered its second full year of operations since 2014. Fish exports increased by 20%. However, log and timber exports were stagnant with their share of total exports down to 37% in 2024 from 72% in 2019. Conversely, the share of minerals to total exports rose to 27% in 2024 from 4% in 2019 (Figure 2.35.1).

Lower global fuel prices led to reduced import costs. Imports declined by 3% despite increases in imported food (5%), beverages and tobacco (27%), and machinery and transport equipment (6%). Imports of crude materials declined by 45% and basic manufactured goods by 17%. With strong export growth and reduced imports, the current account deficit narrowed to 5.4% of GDP in 2024 from 11.0% in 2023. Gross international reserves fell by 3.2% to SI\$684 million, enough to cover 13.5 months of imports. Remittances surged by 18% to reach

Figure 2.35.1 Exports

Minerals and fish exports grew, with minerals rising rapidly as logging continues to stagnate.



Sources: Central Bank of Solomon Islands; Asian Development Bank estimates.

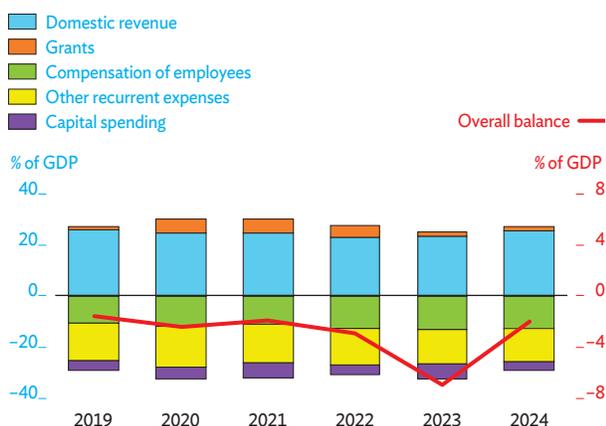
SI\$835 million in 2024 as more Solomon Islanders participated in seasonal worker programs in Australia and New Zealand.

The fiscal deficit narrowed as revenue grew while government spending declined. Revenue increased by 11% largely due to a 15% increase in domestic revenue from improved tax collection, which offset a 32% decline in grants from development partners. Government expenditure was down by 7%. Capital

expenditure fell by 40% with the end of spending related to the 2023 Pacific Games, while current expenditure increased by 1%. The fiscal deficit narrowed to the equivalent of 2.0% of GDP from 7.0% in 2023 (Figure 2.35.2).

Figure 2.35.2 Fiscal Balance

The fiscal deficit declined in 2024 with the end of spending related to hosting the 2023 Pacific Games.



GDP = gross domestic product.

Sources: Central Bank of Solomon Islands; Asian Development Bank estimates.

Public debt increased but remains below the government’s ceiling. With the implementation of development partner funded projects, public debt surged by 14% to SI\$3.2 billion in 2024, up from SI\$2.8 billion in 2023, equivalent to 22.8% of GDP. This remains well within the government’s 35.0% debt ceiling. The increase was primarily driven by a 25% rise in external debt, which reached 14.4% of GDP. Domestic debt decreased to 8.4% of GDP as a result of scheduled principal repayments.

Inflation eased to 4.1% in 2024 following decreased food and fuel prices globally. Food inflation moderated to 3.7% in 2024, down from 6.7% in 2023. Transport inflation dropped to 0.6% from 4.0%, and housing utility price increases slowed to 0.5% from 6.4%. However, several sectors saw prices increase, such as alcoholic beverages, tobacco, and narcotics, up by 17.1% from 4.9%, driven by an 18.4% rise in betel nut prices due to a weather-related decline in supply. In September 2024, with overall inflation easing, the central bank adopted an accommodative monetary policy.

Economic Prospects

Moderate growth is expected in 2025 and 2026.

The economy is expected to grow by 2.9% in 2025 and 3.2% in 2026, as fishing, mining, construction and services expand (Table 2.35.1 and Figure 2.35.3).

The government expects a boost from infrastructure projects supported by development partners, notably the Tina River hydropower project, and increased mining output as gold and nickel operations reach full production in 2025.

The fiscal deficit is projected to widen slightly as public expenditure pressures continue. Expenditure in 2025 is expected to be 7.5% higher than 2024, largely from increased development expenditure, which is the component of the budget allocated to non-recurrent expenses such as investments in infrastructure and services. The biggest increase is in government support

Table 2.35.1 Selected Economic Indicators, %

Growth is projected at 2.9% in 2025 and 3.2% in 2026 as fishing, mining, construction, and services expand.

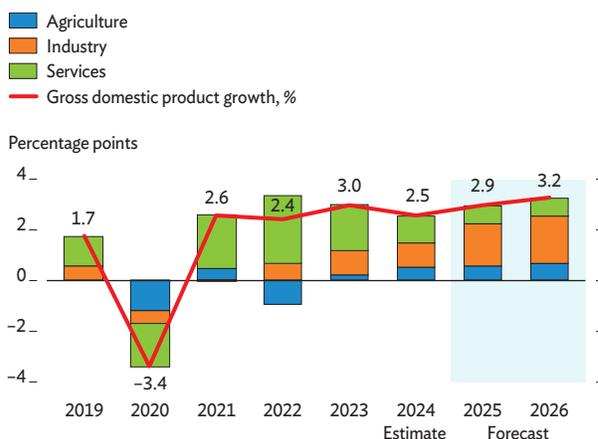
	2023	2024	2025	2026
GDP growth	3.0	2.5	2.9	3.2
Inflation	5.1	4.1	2.7	2.5

GDP = gross domestic product.

Sources: Central Bank of Solomon Islands; Asian Development Bank estimates.

Figure 2.35.3 Supply-Side Contributions to Growth

Industry, including mining and construction, is expected to continue to expand in 2025 and 2026.



Sources: Solomon Islands National Statistics Office; Asian Development Bank estimates.

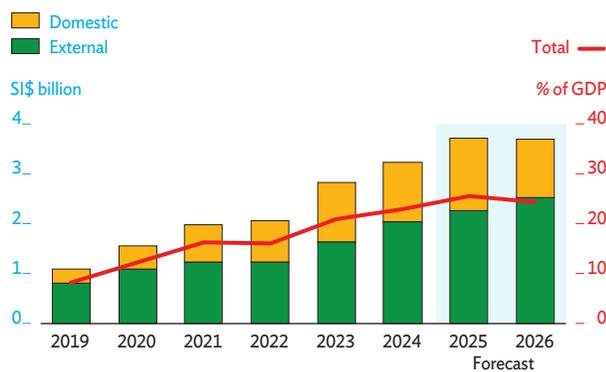
to constituency development funds, as support returns to 2023 levels. Others getting a significant boost in development expenditure include ministries responsible for culture and tourism, fisheries and marine resources, and mines, energy, and rural electrification. Revenue will likely increase slightly through increased tax collections, but is unlikely to match growing expenditure.

Public debt and servicing costs continue to grow to finance persistent fiscal deficits. Public debt is expected to increase to the equivalent of 25.4% of GDP in 2025, with domestic debt rising to 10.0% and external debt to 15.4% (Figure 2.35.4). Similarly, debt servicing costs are expected to rise by 41% in 2025, reaching 2% of expenditure, and 24% in 2026 to reach 3% of expenditure. Debt servicing costs will remain below 1% of GDP, meaning the government is not under significant pressure to allocate resources to repay debt. In February 2025, the International Monetary Fund revised its assessment of the country's risk of external debt distress from moderate to low. Thus, the country will have reduced access to grant financing but increased access to concessional lending from multilateral development banks under the revised risk of external debt distress. As a result, external public debt and servicing costs may rise more rapidly than previously expected.

Inflation is expected to decrease in line with global trends. As international fuel and food prices ease, inflation should fall to 2.7% in 2025 and 2.5% in 2026 (Figure 2.35.5). Prices of alcoholic beverages,

Figure 2.35.4 Public Sector Debt

Despite a massive increase from 2022 to 2025, public debt should remain below the government ceiling of 35% of gross domestic product.

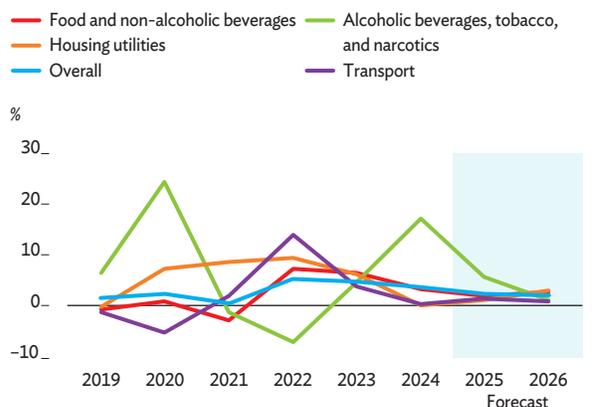


GDP = gross domestic product.

Sources: Central Bank of Solomon Islands; Asian Development Bank estimates.

Figure 2.35.5 Inflation

Inflation is expected to moderate further in 2025 and 2026, but volatility in betel nut prices will likely persist.



Sources: Central Bank of Solomon Islands; Asian Development Bank estimates.

tobacco, and narcotics will likely drop mainly due to increased betel nut availability. Climate-related uncertainties will remain, which can have a significant effect on inflation due to the impact on agricultural production.

The economy is showing resilience, but risks remain. Commodity price volatility, climate-related shocks, and fiscal pressures continue to constrain the outlook. The evolving international geopolitical situation may have flow-on effects in trade, security, and overseas development assistance. While the United States is not a major trading partner of the Solomon Islands, the introduction of reciprocal tariffs on its major trading partners (including the People's Republic of China) could adversely impact Solomon Islands' exports and growth outlook.

Policy Challenge—Mining for Sustainable Growth

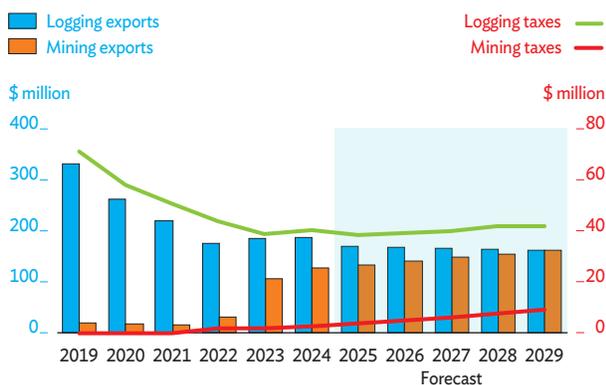
The government is expecting mining output to almost double in 2025. As logging output stagnates, it is a critical time for the government to lay the foundations for mining industry development to promote inclusive benefit-sharing with strong safeguards in place to protect people and the environment.

Mining contributes to growth and could strengthen fiscal sustainability. Formal jobs in mining have increased by approximately 50% since 2022, while sector development has also stimulated informal economic activity. Mining growth is strengthening government revenue through excise duties and income taxes, but the World Bank estimates that mining could generate 3.3% in additional tax revenue in a reformed legislative environment. The International Monetary Fund projects that mining and logging exports will each be worth about \$163 million by 2029, but export taxes from mining will generate only \$9 million, less than a quarter of the \$42 million expected to be generated from logging (Figure 2.35.6).

For people to benefit from mining, weaknesses in the current legislative and regulatory environment must be addressed. Gaps include limited provisions for transparent revenue sharing with landowners, insufficient regulatory oversight, and weak enforcement of environmental safeguards. Drawing lessons from the experience with logging—where overexploitation has led to environmental degradation and social tension—the reform agenda should prioritize clarifying property rights, strengthening regulatory capacity and transparency, and mandating transparent mechanisms for revenue distribution. Reforms must also target environmental and community protection.

Figure 2.35.6 Exports and Export Taxes from Logging and Mining

While mining exports are expected to equal log exports by 2029, projected export taxes from mining are significantly lower.



Sources: International Monetary Fund; Asian Development Bank estimates.

The government has committed to several promising reforms, but some still lag. Revisions to bauxite, gold, and nickel export duties and royalty arrangements are underway, which should strengthen government revenue. However, progress on the Mines and Minerals Bill and accompanying regulations, which were scheduled to go to Parliament in late 2024, has slowed. Among other things, the legislation aims to remove discretionary powers and will include provisions for more transparent sharing of mineral revenues.

Solomon Islands should rejoin the Extractive Industries Transparency Initiative (EITI). EITI is the global benchmark for transparency, accountability, and good governance in oil, gas, and mining. Solomon Islands was previously a member but withdrew in 2018. With mining’s expected growth, rejoining EITI would attract investment, build public trust, and strengthen governance.

VANUATU

Economic growth slowed in 2024 as Air Vanuatu ceased operations affecting trade, transportation, and tourism. Political instability impacted public services, while an earthquake devastated the capital in December. Faster growth is expected in 2025 and 2026, but it will largely depend on a tourism recovery and the ability to finance the huge reconstruction required. As Vanuatu strives to “build-back-better” from multiple climate and geological disasters, the government must balance recovery with longer-term resilience.

Economic Performance

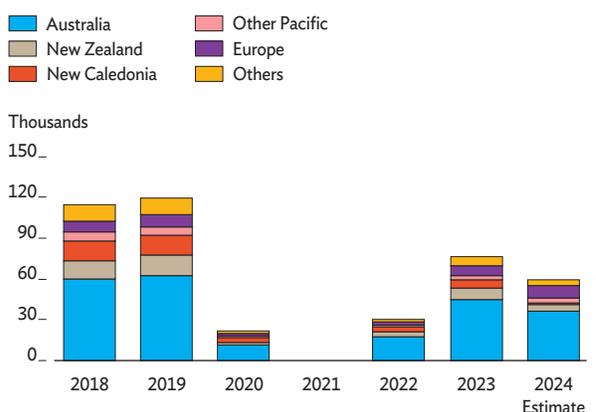
Economic growth slowed in 2024, largely due to the suspension of Air Vanuatu operations and lower government expenditure. In May 2024, Air Vanuatu entered voluntary liquidation and halted all flights. Although regional airlines increased services, arrivals in 2024 were 22% lower than in 2023. This was aggravated by political unrest in New Caledonia—one of the country’s three major source markets before the pandemic (Figure 2.36.1). The economy was further affected by internal political instability that culminated in the dissolution of Parliament in November 2024. Nonetheless, the economy grew 1.7% driven largely by the recovery of agriculture from three major cyclones in 2023 (Table 2.36.1).

While international airlines serviced the two largest towns—the capital Port Vila and Luganville—the lack of regular domestic flights constrained domestic connectivity and outer island tourism. Air Vanuatu’s liquidation process ended in October, and the airline’s shares were transferred to a new government-owned company. Operations resumed with limited domestic flights, with frequent delays and cancellations.

The 7.3 magnitude earthquake in December caused an estimated \$197 million in direct damages, equivalent to 17.6% of GDP. The shock largely affected Port Vila and its central business district (CBD) with at least 14 people dead and over 250 injured. Landslides

Figure 2.36.1 Visitor Arrivals by Air, by Source

The suspension of Air Vanuatu operations and flights from New Caledonia pulled tourist arrivals down in 2024.



Sources: Vanuatu Bureau of Statistics; Reserve Bank of Vanuatu; Asian Development Bank estimates.

Table 2.36.1 Selected Economic Indicators, %

Economic growth depends largely on tourism and reconstruction, while inflation eases.

	2023	2024	2025	2026
GDP growth	2.4	1.7	2.0	2.5
Inflation	11.2	4.8	3.5	2.4

GDP = gross domestic product.

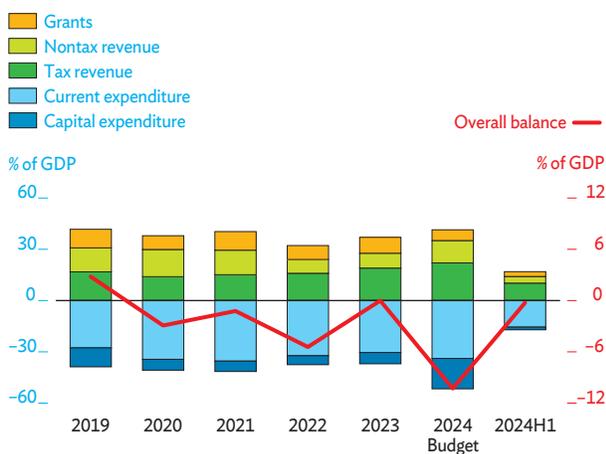
Sources: Vanuatu National Statistics Office; Asian Development Bank estimates.

blocked roads to the airport and seaport, while flights were grounded for several days and cruise ships diverted from the capital. Businesses based in the CBD have either relocated or closed. Demolition of condemned buildings began in January 2025 and other recovery activities are underway. The government has estimated the recovery will cost \$235 million.

Government revenue and expenditure were both lower than anticipated. The reduction in visitor arrivals contributed to a decline in value-added tax collection, which is the government’s main revenue source. Nontax revenue was also likely below the targeted Vt17.6 billion (equivalent to 13.1% of GDP), with revenue from the Honorary Citizenship Program (HCP) reaching just 31% of the Vt11.0 billion target in the first half of 2024. With only 6 full months between budget approval and the dissolution of Parliament, budget execution suffered. Although the 2024 budget allocated the equivalent of 17.9% of GDP for capital expenditure (up from 6.6% in 2023), budget execution for these critical reconstruction projects was less than 10% by June (Figure 2.36.2). The original 2024 budget anticipated a deficit of 10.3% of GDP. However, the final budget outcome will likely result in a reduced deficit. Delays in social service delivery and reconstruction have created hardships. The earthquake damaged several government buildings, further affecting public service delivery.

Figure 2.36.2 Fiscal Balance

Late budget approval, the lingering impact of disasters, and political uncertainty hampered budget execution in 2024.

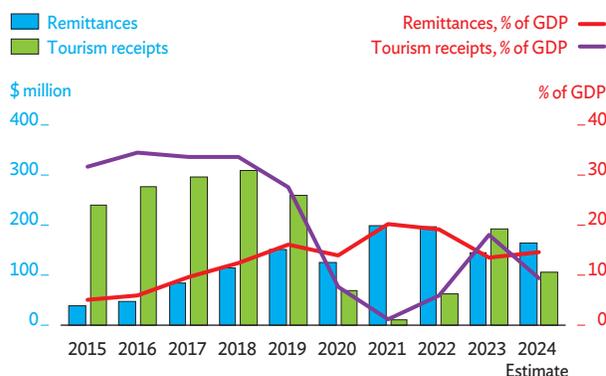


GDP = gross domestic product, H = half.
Sources: Vanuatu Department of Finance and Treasury; Asian Development Bank estimates.

Remittances continued to provide a significant lifeline to the economy. While tourism receipts are estimated to have declined by as much as 45% in 2024, remittances rose to \$166 million (equivalent to 15% of GDP) (Figure 2.36.3). Remittance growth was supported by a 4% increase in seasonal workers, with deployment to New Zealand up by 8%. Lower tourism receipts and HCP revenues pushed the current account deficit higher in 2024.

Figure 2.36.3 Remittance Inflow and Tourism Receipts

While tourism income declined with lower visitor arrivals, remittances bounced back in 2024.



GDP = gross domestic product.
Sources: Reserve Bank of Vanuatu; International Monetary Fund; Asian Development Bank estimates.

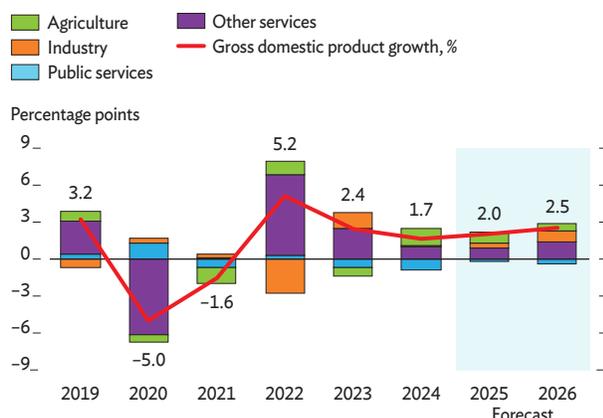
Inflation decelerated in 2024 as global fuel prices declined. The consumer price index rose by 4.8% in 2024, down from 11.2% in 2023. Although food price growth remained high, it eased to 12.1% from 19.1% in 2023 as agriculture recovered. Lower global fuel prices brought transport prices down by 3.4% compared to 2023, and housing utilities were down by 8.9%. The disruption in domestic flights likely led to higher prices in the outer islands as businesses resorted to charter flights or longer sea ferries, but this is not captured in the inflation data because the consumer basket only covers the main centers with Port Vila at 79% of the basket.

Economic Prospects

Recovery will hinge mainly on reconstruction and tourism, but significant challenges lie ahead. The economy is expected to grow by 2.0% in 2025 and 2.5% in 2026, led by construction, wholesale and retail trade, restaurant and accommodations, and crop production

Figure 2.36.4 Supply-Side Contributions to Growth

GDP growth slowed again in 2024 as services and industry were dragged down by the suspension of flights, political uncertainty, and the impact of disasters.



Sources: Vanuatu National Statistics Office; Asian Development Bank estimates.

(Figure 2.36.4). Political stability is expected as the constitutional amendments ratified by referendum in 2024 should reduce the political party shifts that destabilized previous governments. The results of the January 2025 snap election also point toward political stability—the new prime minister was elected by 50 out of 52 Members of Parliament. One of the first orders of government business is passage of the 2025 budget.

The new government has proposed a Vt2.2 billion stimulus package to sustain the economy amid the recent disaster.

The stimulus, equivalent to 1.5% of GDP, includes Vt1 billion, or 44% of the package, in loan guarantees for an Earthquake Banking Facility. Another 25% of the stimulus is allocated to wage subsidies to support workers who lost their jobs, while 14% is designated for the demolition of damaged buildings in the CBD. The stimulus also includes allocations for school fee subsidies (9%), tourism promotion efforts (4%), and recovery grants for small and medium-sized enterprises (3%). Furthermore, value-added tax exemptions on materials for reconstruction are being considered.

The restoration of Port Vila should fuel a recovery in tourism and government services, but will take time.

While many businesses and government agencies showed remarkable adaptability by relocating following the earthquake, normalizing public services and tourism largely depends on the ability of government and the private sector to rebuild. Visitor arrivals should be boosted by the entry of a budget airline from Australia

and restoration of flights from New Caledonia. For the outer islands, the return of regular domestic flights will provide alternative venues for tourists as Port Vila rebuilds. Cruise ships will likely also play a more significant role in the tourism recovery. Although cruise ship visitors spend significantly less than visitors arriving by air, cruise ships can swiftly resume operations or reroute to alternative ports following major disasters, ensuring a continuous flow of visitors.

Financing the huge reconstruction bill is a major challenge.

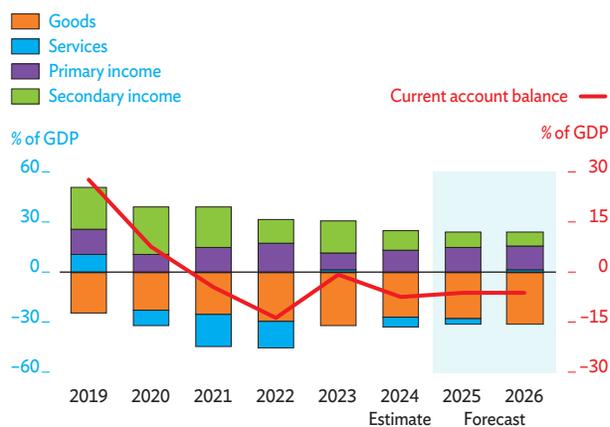
Domestic revenue collection is expected to decline given the damage to Port Vila's CBD. HCP revenue is also expected to continue falling with the recent introduction of a requirement for in-person appearances to enhance border control, and the November 2024 European Union revocation of visa-free travel for Vanuatu passport holders.

The current account deficit will likely persist with higher imports for reconstruction.

Recovery in tourism and higher grants will likely offset higher reconstruction import costs leading to lower current account deficits in 2025 and 2026 (Figure 2.36.5). The new government has temporarily suspended the HCP while it reviews the citizenship regulations as part of its “first 100-day plan,” but this will unlikely reverse the trend of falling HCP revenues. With continued current account deficits, foreign reserves are expected to continue declining from the equivalent of 7 months import cover in December 2024 but will remain above the central bank's 4 month

Figure 2.36.5 Current Account Balance

Lower tourism receipts and revenues from Honorary Citizenship Programs pushed the current account deficit higher in 2024.



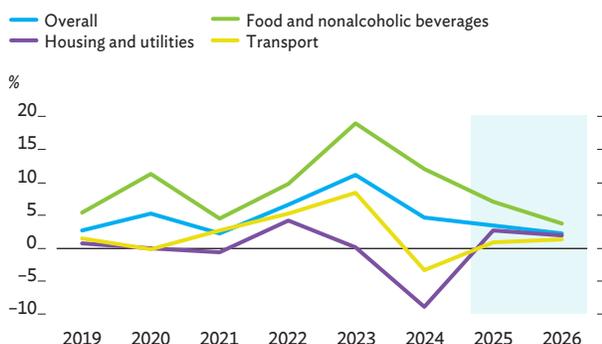
Sources: Reserve Bank of Vanuatu; International Monetary Fund; Asian Development Bank estimates.

threshold. The imposition of US reciprocal tariffs on Vanuatu and its major trading partners could negatively affect economic growth.

Inflation is projected to ease further in 2025 and 2026. Damage and disruption caused by the earthquake will likely keep inflation high in the first half of 2025. As supply constraints ease, consumer price growth should ease in the second half of the year. In March 2025, the central bank maintained the policy rate at 2.75% to control inflation. With high interest rates, business and households affected by the earthquake will find it more difficult to borrow for reconstruction. Lower global food and fuel prices are expected to push inflation even lower in 2026 (Figure 2.36.6).

Figure 2.36.6 Inflation

Lower food inflation in 2024 was mainly due to agriculture’s recovery from the massive damage caused by the 2023 cyclones.



Sources: Vanuatu Bureau of Statistics; Reserve Bank of Vanuatu; Asian Development Bank estimates.

Policy Challenge—Balancing Recovery with Resilience

Vanuatu’s path to sustainable growth and development requires both immediate physical and economic recovery and building long-term resilience against future adversities. With limited fiscal resources, the government faces difficult trade-offs. On one side there is an urgency to restore public services and economic activity. On the other, there is a need to “build back better” by investing in climate- and disaster-resilient infrastructure.

Disaster-proofing infrastructure entails higher upfront costs but is more cost-effective in the long-run. Port Vila International Airport was severely

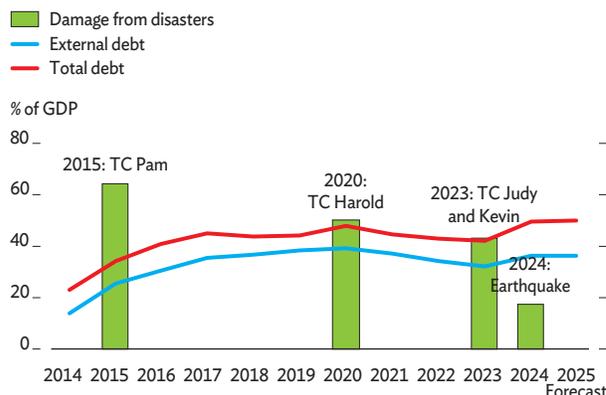
damaged after tropical cyclone Pam in 2015, leading several airlines to cease flights. The airport was climate-proofed during reconstruction and has since withstood multiple severe tropical cyclones and the recent earthquake—it was able to reopen quickly for relief operations. However, the widespread damage in Port Vila, including relatively new government buildings, highlights the gaps in earthquake resilience. While infrastructure resilience should be prioritized, it can mean higher costs and longer construction timelines, and present challenges for vital infrastructure that must be restored swiftly. Also, resilience building should not come at the expense of other key priorities such as health, education, and skills development.

Financing reconstruction will be a challenge.

Following the 2015 and 2020 cyclones, the government was able to finance massive reconstruction costs through borrowings. External debt rose from 14.6% of GDP in 2014 to 39.3% in 2020, nearly breaching the 40% of GDP limit set by the government (Figure 2.36.7). With strong HCP revenue inflows, the government was able to prepay some external debt leading to a decline in debt to 32.3% of GDP at the end of 2023. However, with the liquidation of Air Vanuatu, government’s liabilities increased, leading to the reclassification of Vanuatu’s risk of debt distress from moderate to high. Consequently, access to concessional lending will be constrained. The government will likely look to development partners to support financing of recovery efforts, while also continuing efforts to encourage private sector participation.

Figure 2.36.7 Disasters and Public Debt

Massive reconstruction requirements after several disasters have pushed external debt close to the 40% debt-to-GDP ceiling.



GDP = gross domestic product, TC = tropical cyclone.
Sources: Vanuatu Department of Finance and Treasury; Asian Development Bank estimates

CENTRAL PACIFIC ECONOMIES

In 2024, economic growth accelerated in Kiribati, driven by increased government spending. It grew in Nauru as well due to the reactivation of the Australian-funded Regional Processing Centre. However, expansion eased in Tuvalu as projects were completed and bad weather slowed fishing output. Growth is expected to moderate in Kiribati and Tuvalu as public infrastructure projects are completed, while it will likely accelerate in Nauru. Across all three economies, inflation is projected to be moderate along with global price trends. However, revenue sources remain volatile, emphasizing the need for more sustainable, cost-effective measures to improve health service delivery across the Central Pacific.

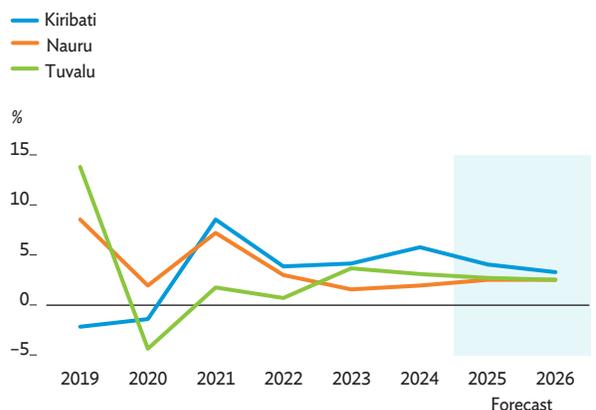
Kiribati

Economic recovery continued in 2024 as government expenditure increased. GDP grew by 5.8%, up from 4.2% in 2023 (Figure 2.37.1). Growth was driven primarily by construction in the energy, health, transport, and water sectors, including the nearly completed South Tarawa water supply project. Sustained spending on social protection and a 38% increase in civil servant wages also boosted the economy.

Public infrastructure projects are expected to sustain growth in the near term. The economy is projected to expand by 4.1% in 2025 and 3.3% in 2026 as public infrastructure projects continue (Table 2.37.1). Among these projects is a solar project that would reduce barriers to private renewable energy investment. The outlook remains subject to significant risks from international commodity price volatility and natural hazards that could cause project cost overruns and delays.

Figure 2.37.1 Gross Domestic Product Growth

Moderate growth is expected to continue in the Central Pacific.



Note: Years are fiscal years ending on 30 June of that year in Nauru and calendar years in Kiribati and Tuvalu.

Sources: Kiribati, Nauru, and Tuvalu budget documents; International Monetary Fund Article IV reports; Asian Development Bank estimates.

Table 2.37.1 Selected Economic Indicators, %

Growth is expected to moderate in Kiribati and Tuvalu but accelerate in Nauru from higher spending and investment.

	2023	2024	2025	2026
Kiribati				
GDP growth	4.2	5.8	4.1	3.3
Inflation	9.3	3.0	2.5	2.2
Nauru				
GDP growth	1.6	2.0	2.5	2.5
Inflation	5.2	5.0	3.5	2.5
Tuvalu				
GDP growth	3.7	3.1	2.7	2.5
Inflation	7.2	1.2	2.5	2.0

GDP = gross domestic product.

Note: Years are fiscal years ending on 30 June of that year in Nauru and coinciding with the calendar year in Kiribati and Tuvalu.

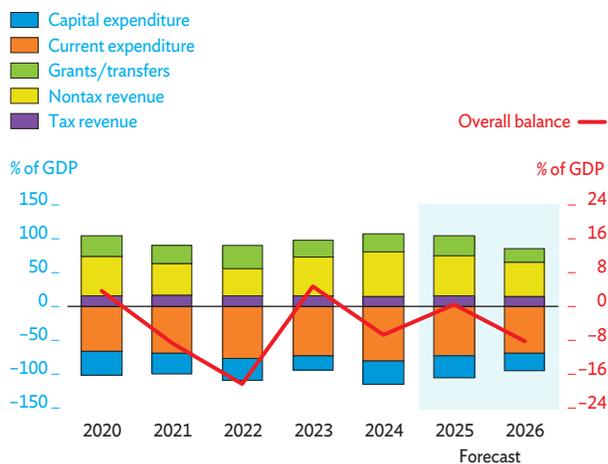
Source: Asian Development Bank estimates.

Inflation continues to follow international commodity price trends. Inflation moderated from 9.3% in 2023 to 3.0% in 2024. Despite a one-time public wage increase, which boosted domestic demand, prices either declined (for example, transport) or increased mildly (food and non-alcoholic beverages). Inflation is projected to decrease further to 2.5% in 2025 and 2.2% in 2026 on lower international fuel prices. Demand should also normalize following the impact of the public wage increase.

The fiscal position is expected to remain largely in deficit over the near term. In 2024, the government incurred a fiscal deficit equivalent to 6.7% of GDP, reversing a 4.8% surplus in 2023 (Figure 2.37.2). Expenditure rose by 32.8% year on year, driven by the civil servant salary increases. Revenue increased by 19.0% year on year as interest and dividend incomes raised nontax revenues. Tax and fishing revenues remained broadly stable compared to 2023. A surplus equivalent to 0.6% of GDP is projected for 2025. Revenue should increase as critical reforms to the Income Tax Act are implemented, along with better fiscal reporting, other improvements to public financial management, and higher grant inflows. Expenditure will likely decrease on reduced social protection spending. The fiscal balance is expected to return to deficit, equivalent to 8.2% of GDP, in 2026 as revenues decline faster than expenditures due to lower nontax revenues

Figure 2.37.2 Kiribati Fiscal Components

The government incurred a fiscal deficit in 2024 as expenditure grew faster than revenue.



GDP = gross domestic product.

Source: Asian Development Bank estimates using Kiribati budget documents.

and grant inflows. Cash reserves and drawdowns from the Revenue Equalization Reserve Fund will cover the shortfall. The Revenue Equalization Reserve Fund reached A\$1.5 billion as of October 2024, up by 8.7% from the end-2023 balance.

Revenue from fishing license fees continue to sustain a current account surplus. The current account surplus was equivalent to 9.7% of GDP in 2024, down slightly from 10.2% in 2023. Higher income and transfer inflows, driven largely by remittances, offset a larger trade deficit. The current account surplus is projected to be equivalent to 9.2% of GDP in 2025 and 8.4% in 2026.

Nauru

The economy improved with the reactivation of the Australia-funded Regional Processing Centre (RPC) in June 2024. GDP growth accelerated from 1.6% in fiscal year 2023 (FY2023, ended 30 June 2023) to 2.0% in FY2024. It is projected to grow by 2.5% in FY2025 and FY2026 driven by infrastructure projects, including an upgrade of RPC facilities, and additional spending related to hosting the 2026 Micronesian Games. This includes construction of a games village and sporting infrastructure. Government spending and investment should also

be boosted by budget support under the Nauru-Australia Treaty, which was announced in December 2024.

The RPC continues to play a significant role in Nauru’s narrow economy through government finances and local employment. When the RPC became dormant in July 2023—officially called “enduring capability”—its share of total employment decreased from 36% to 13% but has since increased. Government revenue increased by 21% in FY2024, helped by a significant boost in budget support from several development partners. Government spending rose by 13%, with capital spending up by 51%, resulting in a fiscal surplus of 28.2% of GDP in FY2024 from 17.1% in FY2023 (Figure 2.37.3). Part of the surplus was used to service debt owed to the EXIM Bank of Taipei, China. RPC-related income contributed around 70% of total revenues in FY2022–FY2024.

Government investment and spending will increase significantly from the Nauru-Australia Treaty. Over the next 5 years, Australia will provide A\$100 million in direct budget support (equivalent to 7.5% of GDP yearly) targeting investments in health, education and social services and A\$40 million (3.0% of GDP) for policing and security—including support for recruitment, training, and infrastructure. Two supplementary budgets

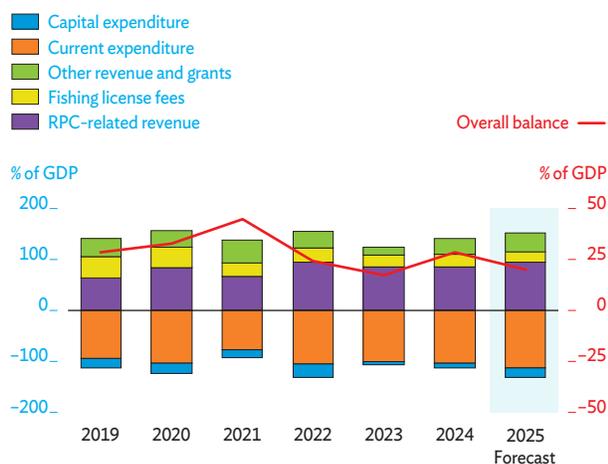
were added following the treaty announcement, pushing projected FY2025 expenditure 14% higher than FY2024. The additional spending was allocated for ex gratia payments to government employees and social welfare beneficiaries for cost-of-living relief, overseas medical referrals, and other infrastructure initiatives including the Micronesian Games. However, the introduction of reciprocal tariffs by the United States on Nauru’s key trading partners poses a downside risk to its economic growth.

Nauru’s only bank to be replaced. In the second half of 2025, Commonwealth Bank, another Australian bank, is set to replace Bendigo Bank as sole provider of banking services to the public. The Bendigo Bank offers basic services but no credit. In 2023 it announced it would leave Nauru. Development partners are also extending support to ensure continued correspondent banking services for Nauru and other countries in the Pacific.

In line with global commodity price trends, inflation will likely fall further. Inflation eased slightly to 5.0% in FY2024 with the decline in transportation and communications costs offsetting higher prices in food and nonalcoholic beverages. Consumer price increases should decelerate further in FY2025 and FY2026 as food inflation decelerates (Figure 2.37.4). Lower global fuel prices are also expected to keep transportation and housing utility costs stable.

Figure 2.37.3 Nauru Fiscal Components

Government capital and current spending should expand under the Australia-Nauru Treaty.



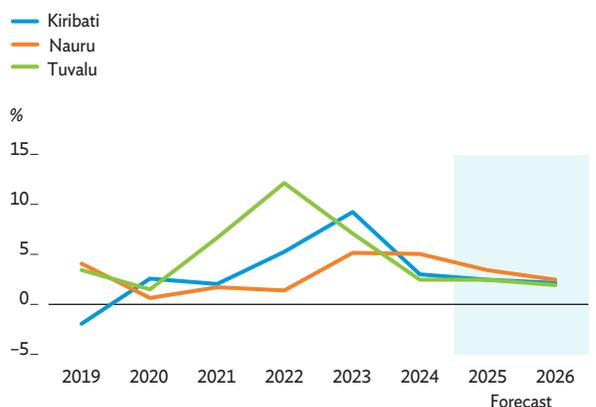
GDP = gross domestic product, RPC = Regional Processing Centre.

Note: Years are fiscal years ending 30 June of that year.

Source: Asian Development Bank estimates using International Monetary Fund and Nauru budget documents.

Figure 2.37.4 Inflation

Easing global prices for fuel, food, and other commodities should reduce inflation slightly.



Note: Years are fiscal years ending on 30 June of that year in Nauru and coinciding with the calendar year in Kiribati and Tuvalu.

Sources: Kiribati, Nauru, and Tuvalu budget documents; International Monetary Fund Article IV reports; Asian Development Bank estimates.

Tuvalu

Economic growth continued in 2024. Following a 3.7% growth rebound in 2023 due to the border reopening, GDP grew by 3.1% in 2024 as fishing revenues declined and public infrastructure projects neared completion. A new passenger and cargo ship, ‘MV Manu Sina’, was launched, adding connectivity between the capital and outer islands.

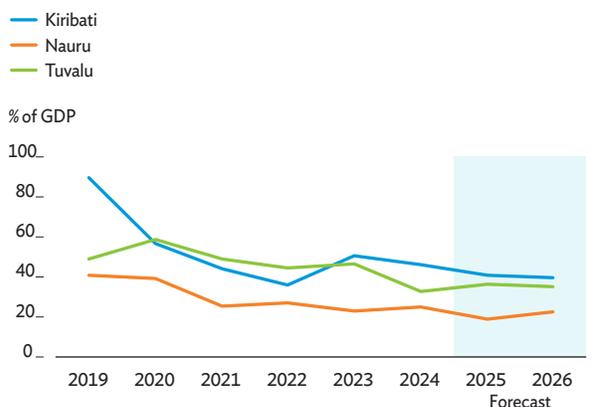
Moderate growth in the near term. The economy should stabilize, with GDP growing by 2.7% in FY2025 and 2.5% in FY2026. The cooler ocean temperatures of the current La Niña will likely support tuna populations and fishing revenue, while challenges in regional connectivity may continue to cause international shipping delays. Ongoing investments in an underwater telecommunications cable and renewable energy, including 3,844 megawatt hours of solar photovoltaic power, are expected to support interregional connectivity and construction, thus supporting growth. These investments will likely be augmented by new regulations to enhance the transparency and accountability of public enterprises.

Inflation to remain contained. Consumer prices rose by 1.2% in 2024, down from 7.2% in 2023, in line with price moderation among major trading partners. Inflation is expected to remain tame, at 2.5% in 2025 and 2.0% in 2026, as global prices continue to be moderate for imported goods, partly offset by rising domestic prices driven by wage increases.

Treaty revisions improve prospects for fishing revenue. The government’s revised fiscal year covers July 2024 to June 2025, and it released a separate half-year budget covering the first 6 months of 2024. Total revenue for FY2025 is forecast to decline by 15.9% compared to 2023, driven by an 11% drop in fishing license revenue and delays in grant disbursements (Figure 2.37.5). Tax revenue is expected to increase slightly, while income from the sale of dotTV will add about 20%. Ratification of amendments to the United States Treaty on Fisheries in December 2024 is expected to boost future revenues through equal shares, additional payments for access days, and bonuses tied to fishing activity in Tuvalu waters.

Figure 2.37.5 Fishing License Revenue

The contribution of fishing license revenues to Central Pacific economies remains substantial despite projected easing.



GDP = gross domestic product.

Note: Years are fiscal years ending on 30 June of that year in Nauru and calendar years in Kiribati and Tuvalu.

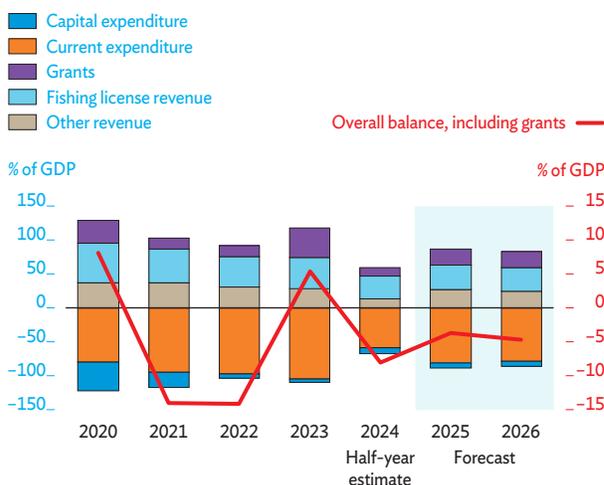
Sources: Kiribati, Nauru, and Tuvalu budget documents; International Monetary Fund Article IV reports; Asian Development Bank estimates.

High development spending leads to fiscal deficit.

Total operating expenditures are projected to decline by 11.3% in FY2025 compared to 2023, including a 63.3% reduction of allocations for its medical treatment scheme (Figure 2.37.6). However, civil servant salaries and allowances increased from 29.5% of current expenditure in 2023 to 43.1% in FY2025 due to

Figure 2.37.6 Tuvalu Fiscal Components

Lower grants and higher civil servant salaries contribute to a projected fiscal deficit in 2025.



GDP = gross domestic product.

Source: International Monetary Fund. 2023. Tuvalu 2023 Article IV Consultations and Tuvalu 2024–2025 budget.

increased casual workers, new permanent positions, and provision for vacancies. Capital expenditures rose from 5.4% of GDP in 2023 to 7.2% in FY2025. The fiscal balance is projected to shift from a surplus of 5.4% in 2023 to an 8.0% deficit in the 6 months of 2024 prior to the establishment of the new fiscal year and 3.7% of GDP in FY2025. The Consolidated Investment Fund is expected to cover the A\$3.9 million deficit in FY2025. As of April 2024, the fund had A\$42.8 million in reserves, A\$3.5 million higher than in 2023. Risks to the outlook remain substantial, including volatility in global prices and the ever-present threat of shocks linked to climate events.

Policy Challenge—Reforming Health Financing

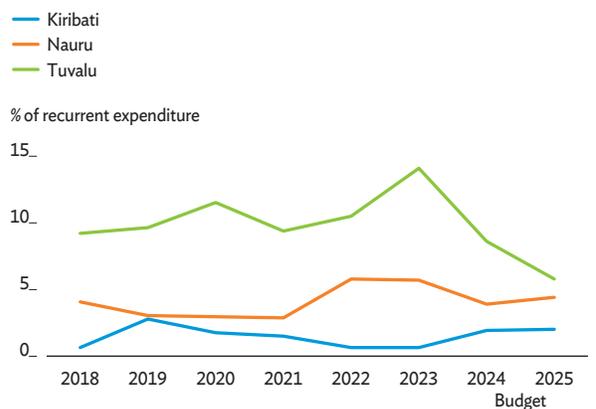
Pacific countries have the highest comorbidity rates in the world. Across the subregion, the incidence of non-communicable diseases (NCDs) remains high along with obesity from the heavy consumption of tobacco and processed foods high in sodium and sugar. In 2022, the adult obesity rate was 70% in Nauru and 64% in Tuvalu, while the childhood obesity rate was 33% in Nauru and 30% in Tuvalu. In Kiribati, NCDs are estimated to account for 54% of all deaths among adults aged 30–70.

Geographic and resource constraints limit the effective delivery of health services in the Central Pacific. Although governments in these countries provide free universal healthcare, service delivery can be erratic due to inadequate and deteriorating health infrastructure. This includes auxiliary services from power and water utilities—which affect infection prevention and control—and insufficient supply of skilled medical professionals. Accessing scarce healthcare resources is especially difficult for the small, highly dispersed populations in Kiribati and Tuvalu.

Recognizing gaps in domestic services, government funding helps citizens seek healthcare abroad, a potential serious fiscal burden. Funding for overseas medical referrals (OMR) rose markedly in Nauru and Tuvalu in 2022 and 2023 with allocations high relative to historical levels (Figure 2.37.7). Government

Figure 2.37.7 Central Pacific Government Allocations for Overseas Medical Referrals

The budget for overseas medical referrals was reduced in Nauru and Tuvalu in 2024, but raised in Kiribati.



Note: Years are fiscal years ending on 30 June of that year in Nauru and Tuvalu, and calendar years in Kiribati and Tuvalu.

Sources: IMF Article IV reports; Central Pacific budget documents; Asian Development Bank estimates.

expenditures for these programs rely on revenue from volatile sources such as fishing license fees, and OMR often absorbs large shares of other resources that may become available.

A multi-pronged approach can help channel fiscal resources toward more sustainable and cost-effective options for providing health services.

Central Pacific economies would benefit from regional or multi-country approaches that comprise, among others, capacity-building and financing to support infection prevention and control; pooled procurement and logistics; region-wide tele-health systems and One Health interventions that jointly address human and animal health issues; and sustained programs on vaccine-preventable diseases, malaria, tuberculosis, and HIV/AIDS.

Central Pacific governments also need to continue investing to improve the quality and delivery of domestic health services. The focus on public health can be done through information campaigns and preventative care delivered by primary health clinics and telemedicine. Efforts to strengthen water, sanitation, and hygiene infrastructure, as well as enabling a system-wide shift in primary healthcare to build resilience by influencing policies and design standards are also needed.

NORTH PACIFIC ECONOMIES

All three North Pacific economies expanded, driven by construction and services in the Marshall Islands and Federated States of Micronesia (FSM) and increasing tourist arrivals in Palau. Growth is expected to continue with inflation moderating, but there are emerging risks to the outlook. Improving the ability of public institutions to adopt critical policy reforms will help channel resources toward better public service delivery and more effective public investment.

Marshall Islands

Economic growth returned after 2 years of decline (Figure 2.38.1). The economy grew by 0.4% in fiscal year (FY) 2024 (ended 30 September 2024 for all three North Pacific economies) after contracting by 3.9% in FY2023. The marginal growth was driven by public infrastructure projects and the successful hosting of the Micronesian Games, which boosted construction and services and effectively offset a decline in fisheries. Fisheries output declined as climate conditions caused

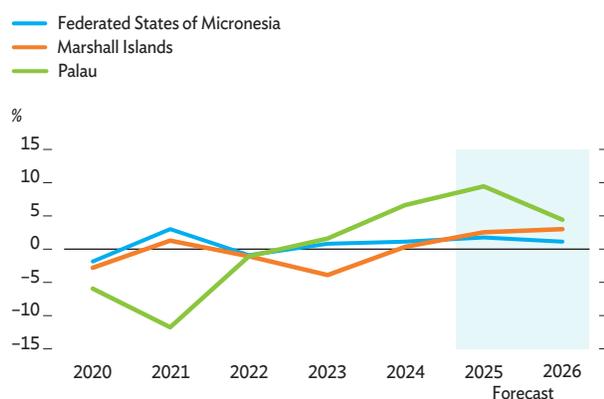
fish stocks to migrate away from national fishing waters during the period. The result was far fewer purse seine vessels calling in at Majuro Port and transshipment activity down by half (Figure 2.38.2).

Growth is expected to pick up in the near term, but significant uncertainties cloud the outlook.

The economy is projected to grow by 2.5% in FY2025 and 3.0% in FY2026, driven largely by increased public

Figure 2.38.1 Gross Domestic Product Growth

Continued recovery in construction and tourism accelerated growth in the Federated States of Micronesia and Palau, while growth resumed in the Marshall Islands.

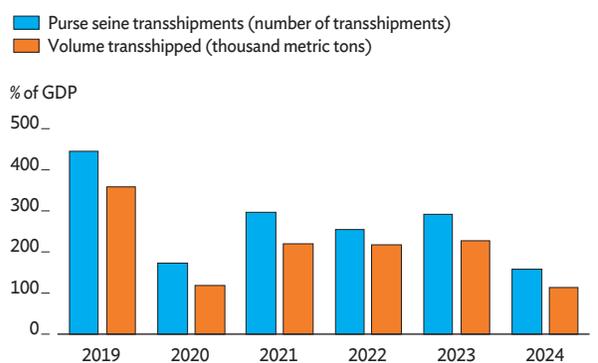


Note: Years are fiscal years ending 30 September of that year.

Sources: Asian Development Bank estimates; Republic of the Marshall Islands, Federated States of Micronesia, and Republic of Palau Economic Briefs and economic and fiscal updates; International Monetary Fund country reports.

Figure 2.38.2 Tuna Transshipment in Majuro Port, Marshall Islands

Tuna transshipment fell by half as fish migrated away from national waters.



GDP = gross domestic product.

Note: Years are fiscal years ending on 30 September of that year.

Sources: Marshall Islands Marine Resources Authority. 2024. Annual Report FY2023. Majuro; Johnson, G. 2025. [Tuna transshipments plunge](#). *The Marshall Islands Journal*. January.

investment financed under the country's Compact of Free Association (COFA) with the United States (US) (Table 2.38.1). However, any disruption to implementing public investment projects could damage growth prospects.

Table 2.38.1 Selected Economic Indicators, %

Growth is expected to continue in the North Pacific economies.

	2023	2024	2025	2026
Marshall Islands				
GDP growth	-3.9	0.4	2.5	3.0
Inflation	7.4	4.7	3.6	3.0
Federated States of Micronesia				
GDP growth	0.8	1.1	1.7	1.1
Inflation	6.2	4.1	3.0	2.7
Palau				
GDP growth	1.5	6.6	9.5	4.5
Inflation	12.4	3.7	2.5	2.6

GDP = gross domestic product.

Note: Years are fiscal years ending on 30 September of that year.

Source: Asian Development Bank estimates.

Inflation is moderating in line with international commodity prices. Inflation was 4.7% in FY2024, down from 7.4% in FY2023, as prices of food and utilities—which together account for over half the consumer price basket—grew more slowly. Inflation should ease further to 3.6% in FY2025 and 3.0% in FY2026, driven by international fuel prices. Global commodity price volatility continues as an upside risk to the inflation outlook.

COFA grants are expected to sustain the fiscal surplus. The fiscal surplus increased from the equivalent of 0.7% of GDP in FY2023 to 1.5% of GDP in FY2024, as the government began receiving grants under the renewed COFA late in the fiscal year, causing revenue to grow faster than expenditure. Although outlays are projected to continue rising in the near term, COFA grants will contribute to fiscal surpluses projected to be 3.2% of GDP in FY2025 and 3.7% in FY2026.

Federated States of Micronesia

Growth accelerated to 1.1% in FY2024 from 0.8% in FY2023. Continued recovery in construction and tourism drove the expansion, with tourism spurring higher output in transport, hotels and restaurants, and retail trade. Higher consumption from public sector wage increases added a boost to the economy.

Continued expansion is forecast for the near term, although significant downside risks persist.

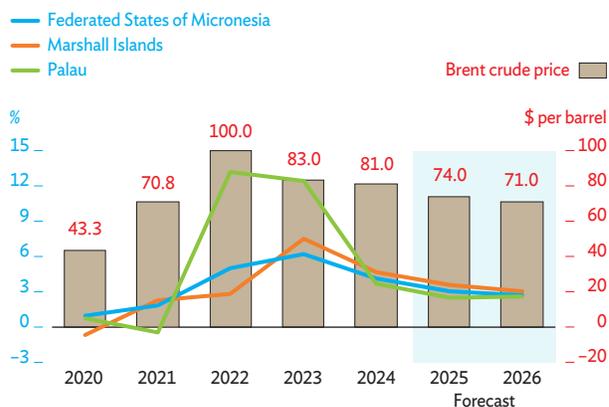
Financial assistance under the renewed COFA, which began in late FY2024, is expected to support increased government spending and enable 1.7% growth in FY2025 and 1.1% in FY2026. However, capacity constraints due to out-migration could affect implementation of public investment projects. In addition, vulnerability to climate change and disasters along with global commodity price volatility pose major downside risks to this outlook.

Inflation is projected to moderate in FY2025 and FY2026. Inflation slowed to 4.1% in FY2024 from 6.2% in FY2023 in line with international commodity price trends (Figure 2.38.3). It is projected to fall further to 3.0% in FY2025 and 2.7% in FY2026 as international fuel prices continue to decline.

Fiscal surpluses are projected in the near term, supported by COFA assistance. The national government achieved a fiscal surplus equivalent to

Figure 2.38.3 Inflation

Inflation is moderating across the North Pacific.



Note: Years are fiscal years ending on 30 September of that year.

Sources: Asian Development Bank estimates; Republic of the Marshall Islands, Federated States of Micronesia, and Republic of Palau Economic Briefs and economic and fiscal updates; World Bank commodity price data.

3.0% of GDP in FY2024, reversing the 4.4% deficit in FY2023. Financial assistance under the renewed COFA offset higher recurrent spending, particularly salaries. Although expenditures are expected to continue rising, COFA grants are projected to fuel fiscal surpluses of 2.1% of GDP in FY2025 and 1.3% in FY2026. COFA grants have also reduced pressure on the government to increase debt and contributed to a drop in the external public debt-to-GDP ratio from 11.8% in FY2023 to 10.2% in FY2024. The debt-to-GDP ratio should remain stable at about 10.0% in both FY2025 and FY2026.

Palau

Palau’s economy grew by 6.6% in FY2024, driven by continued recovery in tourism. Although international arrivals in FY2024 were only 58.9% of pre-pandemic FY2019 levels, major segments of the tourism market have largely recovered with continued growth expected (Figure 2.38.4). International arrivals from Taipei,China reached 80.7% of the FY2019 level, while arrivals from North America and other regions have surpassed pre-pandemic levels. In FY2024, visitors from the People’s Republic of China, which comprise the largest tourist share, doubled from FY2023. Flights have been added to boost tourism, such as new direct flights from Australia that started in November 2024. Direct flights from Japan

beginning in May 2025 should boost recovery of what was one of Palau’s main tourism markets before the pandemic.

Growth is expected to speed up in FY2025 and moderate in FY2026. Recovery in tourism should be bolstered by the upcoming Pacific Mini Games 2025, construction projects funded by grants from COFA and Taipei,China, and a hike in public sector minimum wages. Growth should speed up to 9.5% in FY2025 before moderating to 4.5% in FY2026.

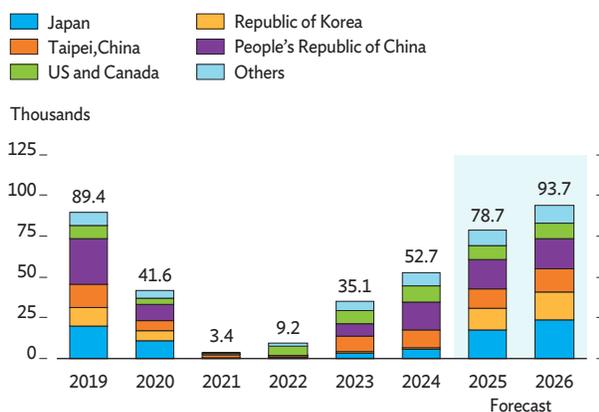
Inflation in FY2024 fell to 3.7% as the effect of the Palau Goods and Services Tax dissipated.

International prices for food and non-alcoholic beverages rose by a modest 1.4%, helping offset an 8.2% increase in prices of domestic goods and services. Utilities and housing costs increased by a slight 1.5%. In contrast, transportation prices surged by 6.6% with accommodation up by 11.2% as tourism demand continued to recover. Prices are projected to rise by 2.5% in FY2025 and 2.6% in FY2026, in line with expected increases in the cost of imports from major trading partners.

Strong tax revenue and COFA assistance should sustain fiscal surpluses. Recovery in tourism boosted revenue and prudent fiscal policies led to an estimated surplus the equivalent of 3.4% of GDP in FY2024. Annual COFA grants will provide essential fiscal space to manage rising public expenditure, including a planned public wage increase in FY2025. They should also support debt servicing with grants specifically earmarked for fiscal consolidation.

Figure 2.38.4 Visitor Arrivals in Palau, by Source

Major segments of the tourism market should continue rising.



US = United States.

Note: Years are fiscal years ending on 30 September of that year.

Sources: Palau Bureau of Budget and Planning, Palau Bureau of Immigration, and Palau Visitors Authority.

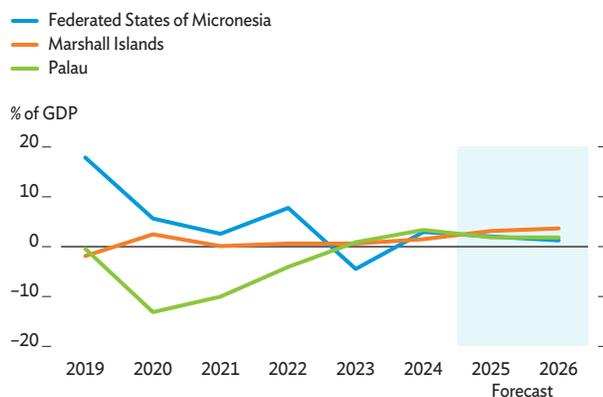
Policy Challenge—Institutional Capacity Building for Stronger Governance

Recent developments underscore the importance of strengthening public institutions and systems.

The economic impact of the pandemic eroded fiscal surpluses across the North Pacific despite substantial grants in support of response efforts (Figure 2.38.5). External debt has declined in all three economies but the risk of debt distress remains “moderate” in the FSM and Palau and “high” in the Marshall Islands, highlighting the importance of fiscal consolidation and better governance (Figure 2.38.6).

Figure 2.38.5 North Pacific Fiscal Positions

Post-pandemic, North Pacific economies faced varying degrees of fiscal stress.



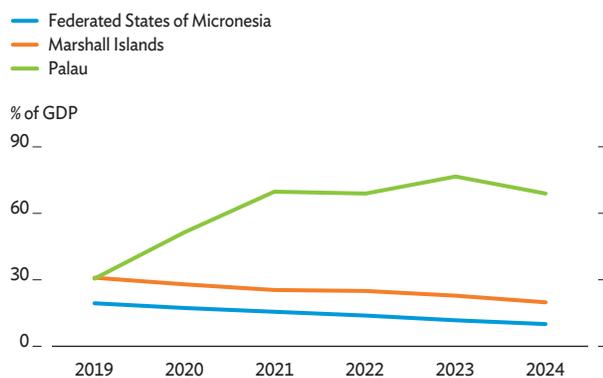
GDP = gross domestic product.

Note: Years are fiscal years ending on 30 September of that year.

Sources: Asian Development Bank estimates using latest data from the Republic of the Marshall Islands, Federated States of Micronesia, and Republic of Palau Economic Briefs and economic and fiscal updates, and IMF country reports.

Figure 2.38.6 External Debt in the North Pacific

Palau's external debt remains high in contrast to declining debt levels in the Marshall Islands and the FSM.



FSM = Federated States of Micronesia.

Note: Years are fiscal years ending on 30 September of that year.

Sources: Asian Development Bank estimates using latest data from the Republic of the Marshall Islands, Federated States of Micronesia, and Republic of Palau Economic Briefs and economic and fiscal updates, and IMF country reports.

Fiscal balance fluctuations and elevated risk of debt distress highlight the need for fiscal discipline and strategic economic planning to ensure long-term sustainability and resilience. The renewed COFAs with the US will provide much-needed fiscal support to the North Pacific. However, persistent gaps in fiscal management and implementation

capacity continue to hinder public service quality and exacerbate development challenges. Stronger public financial management (PFM) and enhanced institutional capacity remain crucial for improving expenditure efficiency, freeing up resources for priority sectors, building buffers against shocks, and fostering inclusive and sustainable growth.

In addition to measures to strengthen tax systems and administration, the North Pacific has worked to develop capacity to implement critical PFM reforms. The Marshall Islands has strengthened policy frameworks for fiscal management and procurement, establishing a dedicated unit to guide state-owned enterprise reforms. The FSM has focused on building both national and state capacity to perform core public finance functions by improving regulations and updating manuals. Palau is integrating resilience considerations into budget planning and execution, ensuring better strategic resource allocation.

Continued reforms are needed to further strengthen fiscal fundamentals. Despite progress in building institutional capacities for PFM reforms, more work is needed. The Marshall Islands needs to improve nontax administration, address concerns about contingent liabilities and state-owned enterprises, and improve economic policy planning and budgeting. Also, reforms should aim to reduce employee turnover and minimize interruptions within the Ministry of Finance. The FSM will continue to advance budgeting, financial reporting, audit, and procurement, including expanding automation of procedures. Palau will focus on strengthening debt management and establish a framework governing fiscal buffers against economic volatility and disasters. The country will also enhance sector-level planning and policy formulation to better guide resource allocation.

Efforts to build domestic capacity should be supplemented by tailored approaches to bridge capacity gaps. Due to their inherently small workforces and ability to migrate to the US under COFA, North Pacific economies require continued support from development partners to help strengthen public institutions and systems while implementing critical PFM reforms. Supplementing local capacity is one way to address understaffing and skills gaps, while transferring knowledge to government staff as longer-term solutions are developed and implemented.

SOUTH PACIFIC ECONOMIES

A continued rise in visitor arrivals spurred growth in the Cook Islands and Samoa, while expansion slowed in Niue with public infrastructure projects completed and in Tonga as El Niño reduced agricultural output. Growth is expected to return to long-term trends over the forecast period in the Cook Islands and Samoa as tourism continues its recovery. In Tonga, a recovery in agriculture and ongoing post-disaster reconstruction is expected to support growth. Inflation should moderate across these economies in line with projected movements in international food and fuel prices. Strengthening the investment climate is critical to sustain growth across these economies.

Cook Islands

The economy grew faster than expected. GDP grew by 16.0% in fiscal year 2024 (FY2024, ended 30 June for all South Pacific economies) after growing 14.0% in FY2023, driven by the continued recovery in tourism and increased government spending particularly on aviation (Table 2.39.1). Visitor arrivals nearly equaled pre-pandemic levels, with tourism receipts reaching 61.8% of GDP (Figure 2.39.1). New flights brought more visitors from the United States while Australian and French Polynesian markets strengthened. The economy should grow by 8.1% in FY2025 and 2.9% in FY2026 as the increase in visitor arrivals tapers off. Risks to the outlook include international price volatility and potentially damaging weather. Potential reciprocal tariffs by the United States on the Cook Islands' major export markets could weaken the Cook Islands' exports and growth prospects.

Inflation fell sharply as import prices stabilized.

Inflation grew by 4.6% in FY2024 from a 13.2% peak in FY2023. It will likely decline further to 2.3% in FY2025 and 2.0% in FY2026. Nonetheless, geopolitical risks remain a threat to global commodity prices and inflation in the Cook Islands.

Table 2.39.1 Selected Economic Indicators, %

Growth is projected to normalize in the Cook Islands, Niue, and Samoa.

	2023	2024	2025	2026
Cook Islands				
GDP growth	14.0	16.0	8.1	2.9
Inflation	13.2	4.6	2.3	2.0
Niue				
GDP growth	8.9	3.8	3.4	3.0
Inflation	5.1	5.4	3.7	3.2
Samoa				
GDP growth	8.6	10.0	5.5	3.0
Inflation	12.0	3.6	3.0	2.7
Tonga				
GDP growth	2.1	1.6	2.5	2.3
Inflation	10.2	4.6	3.2	3.0

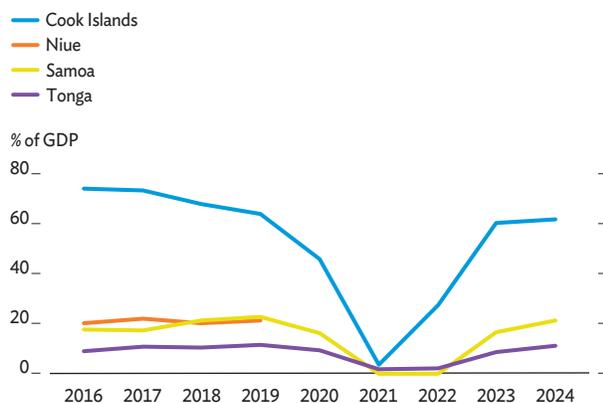
GDP = gross domestic product.

Note: Years are fiscal years ending on 30 June of that year.

Source: Asian Development Bank estimates.

Figure 2.39.1 Tourism Receipts

As visitor arrivals return to pre-pandemic levels, tourism receipts are also reverting to historical trends.



GDP = gross domestic product.

Notes: Years are fiscal years ending on 30 June of that year. Data not available for Niue from 2020 onwards.

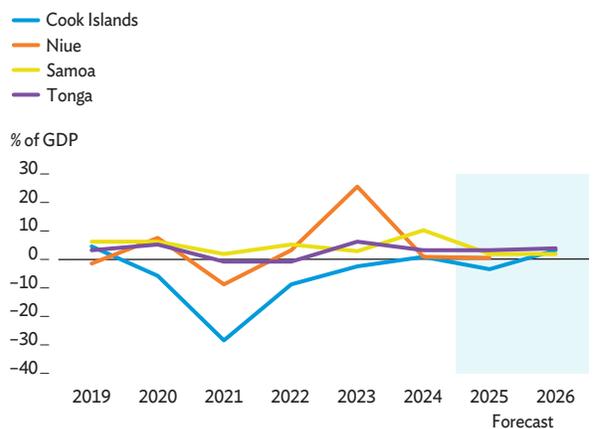
Sources: Cook Islands Ministry of Finance and Economic Management; Central Bank of Samoa; Tonga Department of Statistics; Pacific Data Hub; Asian Development Bank estimates.

Private investment in energy is expected to support growth. The country has been transitioning from a diesel to renewable power-based economy. Renewable energy generation reached 9.5 million kilowatt-hours (kwh) in FY2024, up by 21.7% from FY 2023, mostly from increased solar capacity in Rarotonga. An additional 6 megawatts of solar power from private investment is expected by 2026.

The fiscal position improved in FY2024. The fiscal surplus was equivalent to 0.9% of GDP, reversing the 2.4% deficit in FY2023, driven by higher tax revenue and lower capital expenditure (Figure 2.39.2). A 3.4% deficit is budgeted for FY2025 as unused FY2024 operating and capital expenditure commitments, equivalent to 2.7% of GDP, are carried forward. A surplus of 3.3% of GDP is projected for FY2026 as the economy improves further and the government balances its budget over the medium term. Public debt fell from 44.0% of GDP in FY2023 to 32.6% in FY2024 and should decrease further to 30.3% of GDP by the end of FY2025 as the government pays down debt earlier than scheduled. Cash reserves remained stable at NZ\$65.5 million in FY2024, covering over 4 months of government operating expenses, helped by in-kind contributions and budget support from development partners.

Figure 2.39.2 Fiscal Positions

Fiscal surpluses are expected to continue in Samoa and Tonga, with the Cook Islands reversing its deficit; in Niue, limited capacity may constrain the government's fiscal expansion plans.



GDP = gross domestic product.

Note: Years are fiscal years ending on 30 June of that year.

Sources: Cook Islands Ministry of Finance and Economic Management; Niue Ministry of Finance; Samoa Bureau of Statistics; Tonga Department of Statistics; Asian Development Bank estimates.

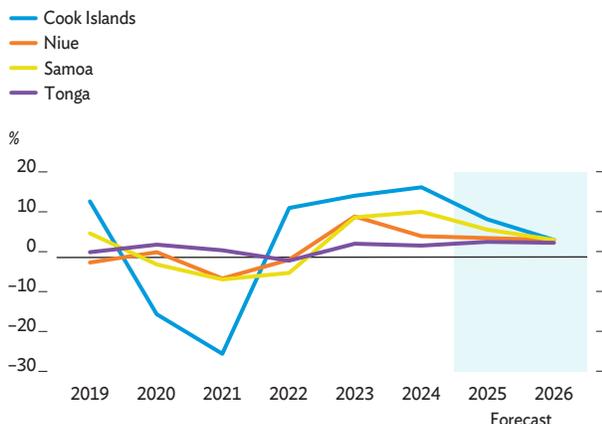
Niue

Completed investment projects and the tourist recovery drove growth in 2024. The economy grew by 3.8% in FY2024, supported by completed investments in transport development, including upgrading the airport runway and construction of a 46.1-kilometer highway, walking tracks, and parking facilities in the capital (Figure 2.39.3). The economy was further boosted as tourism continues to recover with international arrivals in FY2024 reaching 77.4% of pre-pandemic levels.

Energy investments should drive short-term growth. The economy is expected to grow by 3.4% in FY2025 and 3.0% in FY2026. Niue plans to generate 80% of its electricity from renewable sources by December 2025, supported by planned investments of NZ\$20.5 million in a large scale energy project that is scheduled to commence construction in 2025. With retail fuel prices above NZ\$3 per liter, the energy transition will reduce dependence on diesel generators and government subsidies, as well as lower utility operating costs and consumer prices. However, limitations on accommodating increasing tourist demand along with poor internet connectivity pose risks to the growth outlook.

Figure 2.39.3 Economic Growth

After the post-pandemic recovery, growth will likely revert to long-term trends.



Notes: Years are fiscal years ending on 30 June of that year.

Sources: Cook Islands Ministry of Finance and Economic Management; Niue Statistics Office; Samoa Bureau of Statistics; Tonga Department of Statistics; and Asian Development Bank estimates.

Prices rose by 5.4% in FY2024 as economic activities increased.

Prices increased most for miscellaneous goods and services (up by 13.0%), food and non-alcoholic beverages (11.3%), and alcoholic beverages and tobacco products (6.6%). With the surge in tourist arrivals, restaurant and hotel prices rose by 2.8% and recreation costs by 5.8%.

A fiscal surplus of 0.4% of GDP is projected in FY2025.

Following a narrow surplus equivalent to 0.8% of GDP in FY2024, the government budgeted a deficit in FY2025 due to a 32.6% increase in budgeted public expenditure led by capital outlays, while revenue is projected to increase by just 7.6%. The FY2025 budget includes a NZ\$7.1 million increase in development partner funding. This brings the total allocation for development programs, capital maintenance, and infrastructure to NZ\$15.4 million (equivalent to 42.6% of FY2022 GDP). However, due to limited capacity in government, a lower expenditure utilization rate is projected for FY2025 resulting in a small fiscal surplus.

Samoa

Growth accelerated in FY2024, driven by recovery in tourism.

The economy expanded by 10.0% compared with 8.6% in FY2023. Increased arrivals boosted tourism-related services, while construction benefited from work on public infrastructure projects.

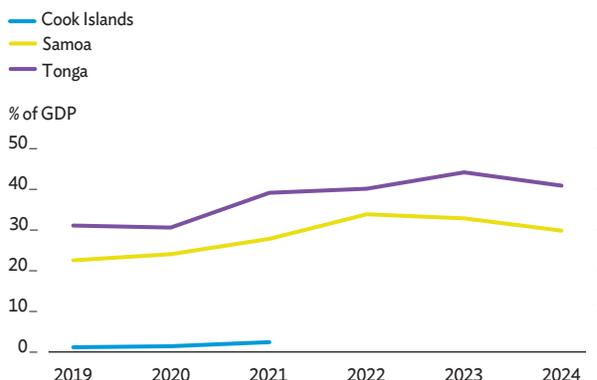
These included cross-island road improvements on Upolu, Samoa’s main island, and upgrades to Apia Port, the country’s international maritime gateway.

Tourism and remittances continued to increase.

There were 175,656 visitors in FY2024, mostly from New Zealand and Australia, up by 40.9% from FY2023 and back to pre-pandemic levels. Tourism receipts increased by 46.9% year on year. Remittances likewise continued growing, again largely from New Zealand and Australia, increasing by 5.3% year on year during FY2024 and equivalent to 29.8% of GDP (Figure 2.39.4).

Figure 2.39.4 Remittance Inflows

Remittances remain above pre-pandemic levels in Samoa and Tonga.



GDP = gross domestic product.

Notes: Years are fiscal years ending on 30 June of that year. Data not available for the Cook Islands after 2021.

Sources: Cook Islands Ministry of Finance and Economic Management; Central Bank of Samoa; Tonga Department of Statistics; Asian Development Bank estimates.

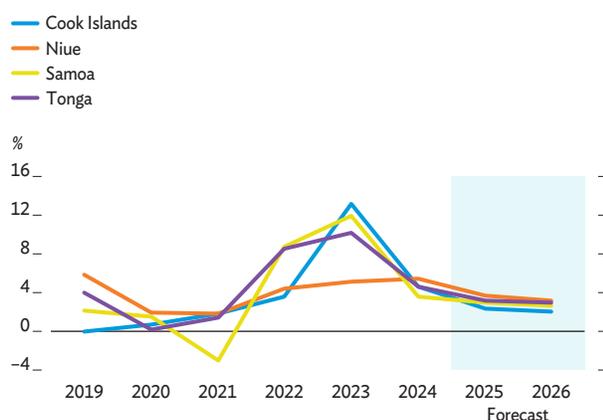
Growth is expected to moderate as visitor arrivals return to trend.

The economy is projected to grow by 5.5% in FY2025 and 3.0% in FY2026. Tourism will likely revert to historical trends over the forecast period, but infrastructure projects as well as election-related spending should support growth. Hosting the October 2024 Commonwealth Heads of Government Meeting provided stimulus to the economy in early FY2025. Following recent power outages, the government declared a state of emergency and is undertaking improvements to its power supply and continued investments in hydropower and solar generation to increase generation capacity. Vulnerability to climate change and disasters, domestic labor constraints, and the possibility of project delays remain downside risks to the growth outlook.

Inflation fell in FY2024 and should remain moderate in the near term. Inflation dropped to 3.6% in FY2024 from 12.0% in FY2023, as international food and fuel prices eased (Figure 2.39.5). Food and beverage inflation also fell, while cost adjustments in utilities and transport were more moderate compared to FY2023. Inflation is projected to moderate further to 3.0% in FY2025 and 2.7% in FY2026 as international commodity price growth remains muted. Nonetheless, risks to the inflation outlook remain. To mitigate upward pressure on inflation, the Central Bank of Samoa must rigorously monitor domestic wage trends and credit development and strategically adjust monetary policy to ensure economic stability.

Figure 2.39.5 Inflation

Inflation should moderate given lower international commodity prices.



Note: Years are fiscal years ending on 30 June of that year.

Sources: Cook Islands Ministry of Finance and Economic Management; Niue Statistics Office; Samoa Bureau of Statistics; Tonga Department of Statistics; Asian Development Bank estimates.

The fiscal balance remained in surplus and external debt continued to decline. The government had a fiscal surplus equivalent to 10.2% of GDP in FY2024, up substantially from 3.0% in FY2023. Higher tax collection and grant inflows spurred a 39.2% increase in revenue while expenditure grew by only 3.9%, as capacity constraints slowed investment project implementation. Fiscal surpluses equivalent to 2.0% of GDP are projected for both FY2025 and FY2026 as tax collection and grants moderate. Continued fiscal surpluses helped to significantly reduce public debt. In January 2025, the International Monetary Fund reduced Samoa’s risk of debt distress from “high” to

“moderate.” Public external debt decreased to 25.9% of GDP in FY2024, down from 33.5% in FY2023. It is projected to further decline to 21.6% in FY2025 and 18.2% in FY2026.

Tonga

Growth in FY2024 fell as El Niño lowered agricultural output. The impact of El Niño lasted from October 2023 until May 2024. Combined with the effects of cyclones, crop exports fell by 33% in the second half of FY2024 from a year earlier, marine exports by 33%, and aquarium exports by 26%. For FY2024, exports fell by 17%, with agriculture accounting for 70% of the total. Strong tourism growth and reconstruction spending continue to support the recovery of services and industry from the impact of the Hunga Tonga–Hunga Ha’apai volcanic eruption and tsunami in January 2022. From an economic contraction of 2.3% in FY2022, there was a fragile 2.1% recovery in FY2023 before slowing to 1.6% in FY2024.

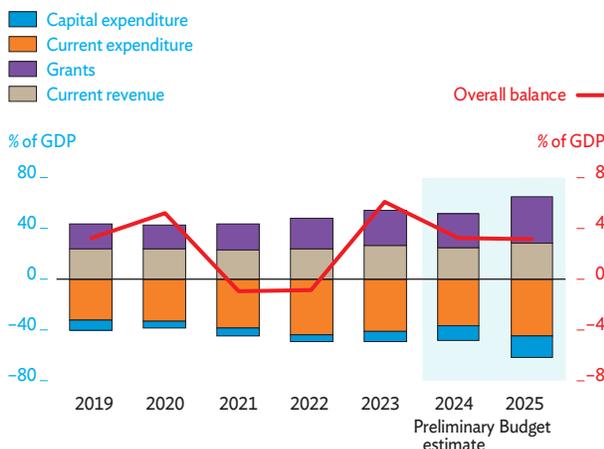
Growth of tourism-related services accelerated with a spike in visitor arrivals. Arrivals by air and yacht grew by 54%, with visitors from New Zealand—accounting for 45% of arrivals—up by 27%. Australian visitors—second largest at 20%—increased by 54%. Cruise ship arrivals rose by 113% from FY2023, bringing total visitor arrivals back to pre-pandemic levels. Tourism receipts soared by 42%, accounting for 11% of GDP.

Reconstruction was supported by remittances and government spending. Private reconstruction for damage caused by the eruption and tsunami were helped by remittances, which is equivalent to 41% of GDP. Mainly from New Zealand and Australia, remittances also boosted services such as retail and wholesale trade, communications, and transportation.

Higher infrastructure spending reduced the fiscal surplus. Public reconstruction accelerated as capital expenditure rose by 41.7% in FY2023 and 59.7% in FY2024. With current spending almost unchanged from FY2023, overall spending rose by 10.1%. Total revenue rose by 4.4%, leaving the fiscal surplus down from 6.1% of GDP in FY2023 to 3.4% in FY2024 (Figure 2.39.6).

Figure 2.39.6 Tonga Fiscal Position

Capital expenditure, mainly for reconstruction, should expand further in 2025.



GDP = gross domestic product.

Note: Years are fiscal years ending on 30 June of that year.

Sources: Government of Tonga Ministry of Finance; Asian Development Bank estimates.

Recovery in agriculture and tourism, combined with reconstruction, should support growth in FY2025 and FY2026.

GDP is projected to grow by 2.5% in FY2025 and 2.3% in FY2026. Agriculture should recover from the impact of El Niño, especially for root crops, squash, and kava, the main export products. The recovery in tourism will likely continue, with visitor arrivals up by at least 5.0% in the first half of FY2025. Arrivals were boosted by hosting the Pacific Islands Forum Leaders Meeting in August 2024. The government is continuing reconstruction with support from development partners and the private sector. The impact of disasters and the imposition of reciprocal tariffs on key trading partners are major risks to the economy. Labor market constraints and skills shortages can delay project implementation as vacancies are harder to fill, while accommodation capacity limits tourism growth.

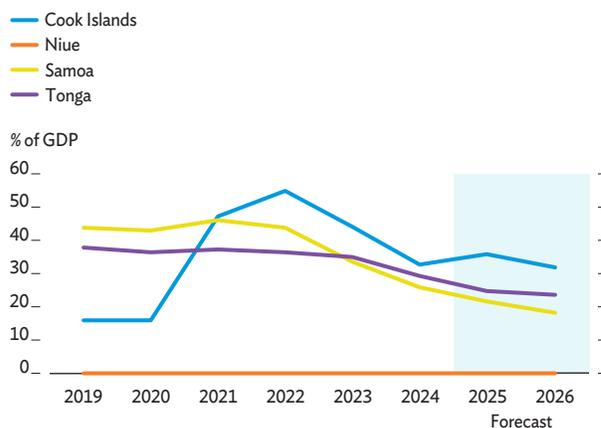
The new government formed in December 2024 faces tight fiscal conditions.

The FY2025 budget projected revenue to increase by 27.8%, driven by a 40.7% increase in grants and a 12.3% rise in tax collection. Current spending is projected to increase by 22.9% in FY2025, mainly for higher wages along with goods and services. Capital expenditure is projected to increase by 50.9% for reconstruction, port upgrades,

housing, transport, and energy infrastructure. With overall spending projected to rise by 29.8%, the fiscal surplus will likely decline to 3.2% of GDP. With the payment of outstanding obligations, external debt fell from 34.9% of GDP in FY2023 to 29.2% in FY2024 (Figure 2.39.7). External debt service increased from 11.2% of domestic revenue in FY2023 to 17.2% in FY2024, given adjustments to maturity schedules arranged during the pandemic.

Figure 2.39.7 External Debt

External debt declined in the Cook Islands, Samoa, and Tonga in 2024 after loan repayments.



GDP = gross domestic product.

Note: Years are fiscal years ending on 30 June of that year.

Sources: Cook Islands Ministry of Finance and Economic Management; Samoa Bureau of Statistics; Tonga Department of Statistics; Asian Development Bank estimates.

Inflation should moderate as global food and fuel prices decline.

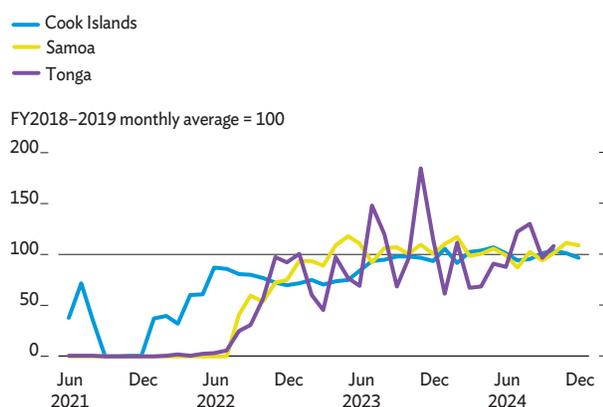
Inflation fell from 10.2% in FY2023 to 4.6% in FY2024, below the central bank's 5.0% reference rate. The impact of El Niño in FY2024 kept food inflation relatively high at 7.8%, down from 10.8% in FY2023. Lower global fuel prices helped lower inflation for transport and housing utilities. With global commodity prices expected to ease and the El Niño impact subside, inflation should moderate further to 3.2% in FY2025 and 3.0% in FY2026. In February 2025, the central bank retained its accommodative policy but will introduce a new policy rate over the next 6 months. By shifting from a floor rate to a mid-rate as its policy rate, the reserve bank expects to better influence short-term interest rates.

Policy Challenge—Strengthening the Investment Climate

With visitor arrivals back to pre-pandemic levels, most South Pacific economies face substantial challenges for businesses catering to tourism (Figure 2.39.8). Aside from disasters (such as cyclones, earthquakes, and tsunamis), there are also health shocks such as the pandemic or disease outbreaks. Other challenges are linked to the subregion’s remoteness and isolation, making the provision of public services harder given dispersed populations. Also, the persistent lack of skilled labor continues as a barrier to investment and business.

Figure 2.39.8 Visitor Arrivals Relative to Pre-pandemic Levels

Visitor arrivals recovered significantly across the South Pacific.



Note: Data not available for Niue.

Sources: Asian Development Bank estimates; Cook Islands Ministry of Finance and Economic Management; Samoa Bureau of Statistics; Tonga Department of Statistics.

Government investment can help attract private investment, but alternative financing is needed.

Infrastructure development such as roads, ports, and energy systems can enhance connectivity and reduce operational costs for businesses, but climate-proofing is critical given the frequency and intensity of disasters. South Pacific governments, however, face severe financial constraints, necessitating alternative financing options through development partners and the private sector.

Recent improvements in digital technology help both businesses and households.

The approval of a license for an international internet provider using low earth orbit satellites in the Cook Islands, Samoa, and Tonga allows businesses, especially outer-island resorts, to connect to the internet. It also helps ensure internet service should the submarine cable be disabled due to disasters. It also supports visitors arriving by yacht, one of the fastest-growing tourism segments in the South Pacific. Advancements in digital technologies can also significantly improve education, healthcare, and governance.

Streamlining processes for business registration, tax payments, and obtaining permits and licenses can have a significant impact.

In June 2023, Tonga approved a National Policy on Consumer Protection and Competition to strengthen regulations against anticompetitive and unfair practices. The policy will foster market competition by protecting e-commerce and online transactions, thereby enhancing governance. Further action is needed to codify the policy into law. Samoa is simplifying registration procedures for informal businesses, allowing them to access financial and business development services and build financial literacy. These measures should help improve business opportunities for citizens and provide a channel for investing savings from remittances.

Reforms are needed to attract more foreign direct investment, including minimizing uncertainty in the investment approval process.

Tonga’s Foreign Investment Act reduced the number of reserved and restricted activities from 17 to 11, making it one of the most open economies in the subregion for foreign direct investment approvals. In Samoa, the government approved a policy that outlines long-term investment objectives and provides a framework for deciding on foreign investment proposals and priorities to improve transparency with prospective investors.

The background of the page is a vibrant teal color. The upper portion features a complex, abstract pattern of overlapping, wavy lines that resemble liquid or a textured surface, creating a sense of depth and movement. In the lower right quadrant, there is a white circle with a thin white border, containing the number '3' in a bold, white, sans-serif font.

3

STATISTICAL APPENDIX

STATISTICAL NOTES AND TABLES

The statistical appendix presents in 18 tables selected economic indicators for the 46 developing member economies of the Asian Development Bank (ADB). The economies are grouped into five subregions: the Caucasus and Central Asia, East Asia, South Asia, Southeast Asia, and the Pacific. Most of the tables contain historical data from 2020 to 2024; some have forecasts for 2025 and 2026.

The data were standardized to the degree possible to allow comparability over time and across economies, but differences in statistical methodology, definitions, coverage, and practices make full comparability impossible. The national income accounts section is based on the United Nations System of National Accounts, while the data on the balance of payments use International Monetary Fund (IMF) accounting standards. Historical data were obtained from official sources, statistical publications, and databases, as well as the documents of ADB, the IMF, and the World Bank. For some economies, data for 2024 were estimated from the latest available information. Projections for 2025 and 2026 are generally ADB estimates based on available quarterly or monthly data, though some projections are from governments.

Most economies report by calendar year. The following record their government finance data by fiscal year: Brunei Darussalam; Bhutan; Fiji; Hong Kong, China; Singapore; Tajikistan; Thailand; and Tuvalu (starting 2025). Reporting all variables by fiscal year are South Asian countries (except for Bhutan, Maldives, and Sri Lanka), the Cook Islands, the Federated States of Micronesia, Myanmar, the Marshall Islands, Nauru, Niue, Palau, Samoa, and Tonga.

Regional and subregional averages or totals are provided for seven tables: A1, A2, A6, A11, A12, A13, and A14. For tables A1, A2, A6, A11, A12, and A14, averages were weighted by purchasing power parity gross domestic product (GDP) in current international dollars. Purchasing power parity GDP data for 2020–2023 were obtained from the IMF World

Economic Outlook Database, October 2024 edition. Weights for 2023 were carried over to 2026. For Table A13, regional and subregional totals were computed using a consistent sum, which means that if economy data were missing for a given year, the sum excluded that economy.

Tables A1, A2, A3, A4, and A5: National Accounts.

These tables show data on output growth, production, and demand. Changes were made to the national accounts series for some economies to accommodate a change in source, methodology, and/or base year. Constant factor cost measures differ from market price measures in that they exclude taxes on production and include subsidies. Basic price valuation is the factor cost plus some taxes on production, such as property and payroll taxes, and less some subsidies, such as for labor but not for products. The series for Afghanistan, Bangladesh, the Cook Islands, the Federated States of Micronesia, India, the Marshall Islands, Myanmar, Nauru, Nepal, Niue, Pakistan, Palau, Samoa, and Tonga reflect fiscal year data, rather than calendar year data, and those for Timor-Leste reflect GDP excluding the offshore petroleum industry. Some historical data for Turkmenistan are not presented, for lack of uniformity.

Table A1: Growth Rate of GDP, % per year. The table shows annual growth rates of GDP valued at constant market prices, factor costs, or basic prices. GDP at market prices is the aggregate value added by all resident producers at producers' prices including taxes less subsidies on imports plus all nondeductible value-added or similar taxes. Most economies use constant market price valuation. Pakistan uses constant factor costs, and Fiji basic prices.

Table A2: Growth Rate of GDP Per Capita, % per year. The table provides the growth rates of real GDP per capita, which is defined as GDP at constant prices divided by population. Also shown are data on gross national income per capita in US dollar terms (Atlas method) for 2023 sourced from the World Bank's World Development Indicators online.

Table A3: Growth Rate of Value Added in Agriculture, % per year. The table shows the growth rates of value added in agriculture at constant prices and agriculture's share of GDP in 2023 at current prices. The agriculture sector comprises plant crops, livestock, poultry, fisheries, and forestry.

Table A4: Growth Rate of Value Added in Industry, % per year. The table provides the growth rates of value added in industry at constant prices and industry's share of GDP in 2023 at current prices. This sector comprises manufacturing, mining and quarrying, and, generally, construction and utilities.

Table A5: Growth Rate of Value Added in Services, % per year. The table gives the growth rates of value added in services at constant prices and services' share of GDP in 2023 at current prices. Services generally include trade, banking, finance, real estate, and similar businesses, as well as public administration. For Malaysia, electricity, gas, water supply, and waste management are included under services.

Table A6: Inflation, % per year. Data on inflation rates are period averages. Inflation rates are based on consumer price indexes. The consumer price indexes of the following economies are for a given city only: Cambodia is for Phnom Penh, the Marshall Islands for Majuro, and Sri Lanka for Colombo.

Table A7: Change in Money Supply, % per year. This table tracks annual percentage change in broad money supply at the end of the period, M2 for most economies. M2 is defined as the sum of currency in circulation plus demand deposits (M1) plus quasi-money, which consists of time and savings deposits including foreign currency deposits. For Kyrgyz Republic broad money is M2X. For Azerbaijan; Cook Islands; Georgia; Hong Kong, China; India; Kazakhstan; and Solomon Islands, broad money is M3, which adds longer-term time deposits. For Sri Lanka, broad money is M2b, or M2 plus bond funds.

Tables A8, A9, and A10: Government Finance. These tables give central government revenue, expenditure, and fiscal balance expressed as percentages of GDP in nominal terms. Where full-year data are not yet available, GDP shares are estimated using available monthly or quarterly data. For Cambodia, People's Republic of China, Georgia,

India, Kazakhstan, Kyrgyz Republic, Mongolia, and Tajikistan, transactions are those reported by the general government.

Table A8: Central Government Revenue, % of GDP. Central government revenue comprises all nonrepayable receipts, both current and capital, plus grants. These amounts are computed as a percentage of GDP at current prices. For the Republic of Korea, revenue excludes social security contributions. For Azerbaijan and Kazakhstan, revenue includes transfers from the sovereign wealth fund. Grants are excluded for Malaysia and Thailand. Revenue from disinvestment is included for India. Only current revenue is included for Bangladesh.

Table A9: Central Government Expenditure, % of GDP. Central government expenditure comprises all nonrepayable payments to meet both current and capital expenses, plus net lending. These amounts are computed as shares of GDP at current prices. For Thailand, expenditure refers to budgetary expenditure excluding externally financed expenditure and borrowing. For Tajikistan, expenditure includes externally financed public investment programs. One-off expenditures are excluded for Pakistan.

Table A10: Fiscal Balance of the Central Government, % of GDP. Fiscal balance is the difference between central government revenue and expenditure. The difference is computed as a share of GDP at current prices. Data variation may arise from statistical discrepancy when, for example, balancing items for general governments (central plus selected subnational governments), and from differences between coverage used in individual revenue and expenditure calculations and fiscal balance calculations. For Fiji, the fiscal balance excludes loan repayment. For Georgia, the fiscal balance is calculated according to the IMF *Government Finance Statistics Manual 2021* format, as is the Cambodia general government fiscal balance using the 2014 manual. For Hong Kong, China, the consolidated fiscal balance for FY 2024 is an estimate, which accounts for both government bond issuance and repayments. For Solomon Islands, fiscal balance does not include balance of payment grants. For Thailand, the fiscal balance is the cash balance of combined budgetary and nonbudgetary balances. For Turkmenistan, the fiscal balance does not include off-budget accounts. For Singapore, fiscal balance

includes special transfers (top-ups to endowment and trust funds) and contributions from net investment returns. For the Republic of Korea, it excludes funds related to social security.

Tables A11, A12, A13, and A14: Balance of Payments. These tables show the annual flows of selected international economic transactions of economies as recorded in their balance of payments. Some historical data for Turkmenistan are not presented, for lack of uniformity.

Tables A11 and A12: Growth Rates of Merchandise Exports and Imports, % per year. These tables show the annual growth rates of exports and imports of goods. Data are in US dollar millions, primarily obtained from the balance-of-payments accounts of each economy. Export data are reported free on board. Import data are reported free onboard except for the following economies, which value them based on cost insurance and freight: Afghanistan; Hong Kong, China; Georgia; India; Lao People's Democratic Republic; Maldives; Myanmar; Singapore; and Thailand.

Table A13: Trade Balance, \$ million. The trade balance is the difference between merchandise exports and imports. Figures in this table are based on the export and import amounts used to generate tables A11 and A12.

Table A14: Current Account Balance, % of GDP. The current account balance is the sum of the balance of trade in merchandise, net trade in services and factor income, and net transfers. The values reported are divided by GDP at current prices in US dollars. A fluid situation permits no estimates for Afghanistan in 2021–2024.

Table A15: Exchange Rates to the US Dollar, annual average. Annual average exchange rates are quoted as the local currency per US dollar.

Table A16: Gross International Reserves, \$ million. Gross international reserves are defined as the US dollar value at the end of a given period of holdings in foreign exchange, gold, special drawing rights, and IMF reserve position. For Taipei, China, this heading refers to foreign exchange reserves only. In some economies, the rubric is foreign assets plus the reserves of national monetary authorities (the net foreign reserves of, for example, the State Bank of Pakistan) plus national funds for earnings from oil or other natural resources.

Table A17: External Debt Outstanding, \$ million. For most economies, external debt outstanding includes short-, medium-, and long-term debt, public and private, as well as IMF credit. For Armenia, Azerbaijan, Cambodia, and Maldives, only public external debt is reported. Intercompany lending is excluded for Georgia. Data for 2024 are as of the end of September for Singapore and Thailand.

Table A18: Debt Service Ratio, % of exports of goods and services. This table generally presents the total debt service payments of each economy, which comprise principal repayment (excluding short-term debt) and interest payments on outstanding external debt, given as a percentage of exports of goods and services. For Armenia and Cambodia, debt service refers to external public debt only. For the Philippines, income and exports of goods and services are used as the denominator. For Bangladesh, the ratio presents debt service payments on medium- and long-term loans as a percentage of exports of goods, nonfactor services, and overseas worker remittances.

Table A1 Growth Rate of GDP, % per year

	2020	2021	2022	2023	2024	2025	2026
Developing Asia	-0.5	7.5	4.5	5.5	5.0	4.9	4.7
Developing Asia excluding the PRC	-3.2	6.5	5.8	5.6	5.1	5.0	5.1
Caucasus and Central Asia	-1.9	5.7	5.2	5.4	5.7	5.4	5.0
Armenia	-7.2	5.8	12.6	8.3	5.9	5.0	4.7
Azerbaijan	-4.3	5.6	4.6	1.1	4.1	3.4	3.3
Georgia	-6.3	10.6	11.0	7.8	9.5	6.0	5.0
Kazakhstan	-2.5	4.3	3.2	5.1	4.8	4.9	4.1
Kyrgyz Republic	-7.1	5.5	9.0	9.0	9.0	8.5	8.6
Tajikistan	4.5	9.2	8.0	8.3	8.4	7.4	6.8
Turkmenistan	...	5.0	6.2	6.3	6.3	6.5	6.0
Uzbekistan	2.0	7.4	5.7	6.3	6.5	6.6	6.7
East Asia	2.0	8.1	3.0	4.8	4.7	4.4	4.0
People's Republic of China	2.3	8.6	3.1	5.4	5.0	4.7	4.3
Hong Kong, China	-6.5	6.5	-3.7	3.2	2.5	2.3	2.5
Republic of Korea	-0.7	4.6	2.7	1.4	2.0	1.5	1.9
Mongolia	-4.6	1.6	5.0	7.4	4.9	6.6	5.9
Taipei, China	3.4	6.7	2.7	1.1	4.6	3.3	3.0
South Asia	-4.4	8.9	7.0	7.8	5.8	6.0	6.2
Afghanistan	-2.4	-2.1	-20.7	-6.2	2.3	2.6	2.2
Bangladesh	3.4	6.9	7.1	5.8	4.2	3.9	5.1
Bhutan	-10.2	4.4	5.2	4.9	5.5	8.5	6.0
India	-5.8	9.7	7.6	9.2	6.4	6.7	6.8
Maldives	-32.9	37.5	13.8	4.7	5.5	5.0	4.8
Nepal	-2.4	4.8	5.6	2.0	3.9	4.4	5.1
Pakistan	-0.9	5.8	6.2	-0.2	2.5	2.5	3.0
Sri Lanka	-4.6	4.2	-7.3	-2.3	5.0	3.9	3.4
Southeast Asia	-3.1	3.6	5.7	4.1	4.8	4.7	4.7
Brunei Darussalam	1.1	-1.6	-1.6	1.1	4.2	2.5	2.0
Cambodia	-3.0	2.9	5.1	5.0	6.0	6.1	6.2
Indonesia	-2.1	3.7	5.3	5.0	5.0	5.0	5.1
Lao People's Democratic Republic	-0.5	2.3	2.5	3.7	4.0	3.9	4.0
Malaysia	-5.5	3.3	8.9	3.6	5.1	4.9	4.8
Myanmar	3.2	-5.9	2.0	0.8	-0.7	1.1	1.6
Philippines	-9.5	5.7	7.6	5.5	5.6	6.0	6.1
Singapore	-3.8	9.8	4.1	1.8	4.4	2.6	2.4
Thailand	-6.1	1.6	2.6	2.0	2.5	2.8	2.9
Timor-Leste	-8.5	3.0	4.0	2.4	3.3	4.0	3.8
Viet Nam	2.9	2.6	8.0	5.1	7.1	6.6	6.5
The Pacific	-6.1	-1.5	8.2	4.7	4.2	3.9	3.6
Cook Islands	-15.7	-25.5	10.9	14.0	16.0	8.1	2.9
Fiji	-17.0	-4.9	19.8	7.5	3.5	3.0	3.2
Kiribati	-1.4	8.5	3.9	4.2	5.8	4.1	3.3
Marshall Islands	-2.8	1.2	-1.1	-3.9	0.4	2.5	3.0
Federated States of Micronesia	-1.9	3.0	-0.9	0.8	1.1	1.7	1.1
Nauru	2.0	7.2	3.0	1.6	2.0	2.5	2.5
Niue	-0.1	-6.8	-2.1	8.9	3.8	3.4	3.0
Palau	-6.0	-11.9	-1.1	1.5	6.6	9.5	4.5
Papua New Guinea	-3.2	-0.5	5.7	3.8	4.3	4.2	3.8
Samoa	-3.1	-7.1	-5.3	8.6	10.0	5.5	3.0
Solomon Islands	-3.4	2.6	2.4	3.0	2.5	2.9	3.2
Tonga	1.8	0.4	-2.3	2.1	1.6	2.5	2.3
Tuvalu	-4.3	1.8	0.7	3.7	3.1	2.7	2.5
Vanuatu	-5.0	-1.6	5.2	2.4	1.7	2.0	2.5

GDP = gross domestic product, PRC = People's Republic of China.

Table A2 Growth Rate of Per Capita GDP, % per year

	2020	2021	2022	2023	2024	2025	2026	Per capita GNI, \$, 2023
Developing Asia	-1.1	7.1	4.0	5.0	4.6	4.3	4.0	
Caucasus and Central Asia	-3.3	4.4	3.1	4.2	4.2	4.0	3.5	
Armenia	-7.1	5.8	12.3	8.5	3.6	7.3	4.7	6,780
Azerbaijan	-5.1	4.7	4.0	1.7	3.6	3.0	3.0	6,660
Georgia	-6.1	10.3	12.2	6.5	10.8	6.0	5.0	6,710
Kazakhstan	-3.9	3.0	0.0	3.7	3.1	3.1	2.2	10,730
Kyrgyz Republic	-9.1	3.7	4.6	7.1	7.1	6.8	6.5	1,760
Tajikistan	0.2	7.4	6.1	6.2	6.4	5.5	4.8	1,400
Turkmenistan	...	3.5	4.8	4.9	5.1	5.3	4.9	8,250
Uzbekistan	0.2	5.6	3.9	4.5	4.5	4.2	4.6	2,700
East Asia	1.8	8.1	3.1	4.9	4.9	4.5	4.1	
People's Republic of China	2.1	8.5	3.2	5.5	5.2	4.8	4.4	13,390
Hong Kong, China	-6.2	7.4	-2.8	0.6	2.7	1.8	2.0	55,170
Republic of Korea	-0.8	4.7	2.9	1.3	1.9	1.8	1.9	35,490
Mongolia	-7.4	1.6	4.1	6.5	3.2	5.3	4.4	4,870
Taipei, China	3.6	7.6	3.2	0.4	4.7	3.4	3.2	...
South Asia	-5.6	7.7	5.8	6.6	4.8	3.4	4.3	
Afghanistan	-4.8	...	-22.3	-8.2	0.3	0.6	0.2	380
Bangladesh	2.3	5.9	5.7	6.1	3.8	3.4	4.6	2,880
Bhutan	-11.1	3.4	4.2	3.9	4.5	7.5	5.0	...
India	-6.8	8.6	6.5	8.3	5.4	...	...	2,540
Maldives	-37.3	33.2	9.5	0.4	1.2	0.7	0.5	11,070
Nepal	-3.3	3.9	4.7	1.0	2.9	3.4	4.2	1,430
Pakistan	-3.8	3.7	4.1	-5.3	0.2	...	...	1,460
Sri Lanka	-5.1	3.1	-7.5	-1.7	5.3	4.1	3.7	3,540
Southeast Asia	-3.9	3.2	4.6	2.8	3.7	3.8	3.7	
Brunei Darussalam	3.2	-1.3	-2.7	0.0	4.2	2.4	2.0	34,480
Cambodia	-4.2	1.6	2.7	3.4	4.4	4.4	4.4	2,390
Indonesia	-3.3	2.8	4.1	3.9	3.9	3.9	4.0	4,810
Lao People's Democratic Republic	-1.9	0.7	0.9	2.3	2.8	2.5	2.7	2,110
Malaysia	-5.2	2.9	8.5	1.4	3.1	3.8	3.6	11,710
Myanmar	2.4	-6.6	1.4	-0.1	-1.5	0.4	0.9	1,230
Philippines	-11.1	4.9	6.8	4.6	4.7	5.1	5.2	4,320
Singapore	-3.5	14.4	0.7	-3.0	2.3	1.5	0.7	70,590
Thailand	-6.3	1.3	2.3	1.7	2.3	2.5	2.6	7,200
Timor-Leste	-10.2	2.8	2.2	1.3	2.2	2.6	2.5	2,020
Viet Nam	1.7	1.6	6.8	4.0	5.9	5.5	5.4	4,110
The Pacific	-8.2	-14.4	5.8	2.4	1.8	1.6	2.5	
Cook Islands	-15.3	-25.1	11.5	14.5	16.6	8.6	3.4	...
Fiji	-17.5	-5.4	19.1	6.9	2.9	2.5	2.6	5,680
Kiribati	-4.6	6.7	2.2	2.5	4.1	2.9	2.1	3,740
Marshall Islands	-2.3	4.8	1.3	-1.5	2.7	4.8	5.3	7,860
Federated States of Micronesia	-0.7	4.3	0.4	1.2	1.5	2.1	1.5	4,250
Nauru	0.4	5.9	2.2	0.8	1.2	1.8	1.8	23,980
Niue	-0.1	-6.8	-1.9	8.9	3.8	3.4	3.0	...
Palau	-5.7	-9.1	-3.1	0.4	5.4	9.4	4.4	14,110
Papua New Guinea	-5.2	-2.5	3.7	1.9	2.4	2.4	...	2,820
Samoa	-3.9	-7.8	-6.1	7.7	9.2	4.7	2.2	4,200
Solomon Islands	-3.9	0.6	0.4	1.0	0.6	1.0	1.3	2,100
Tonga	2.1	0.6	-2.1	2.3	1.9	2.8	2.6	...
Tuvalu	-3.7	1.0	-2.3	8.8	5.7	1.8	1.6	8,770
Vanuatu	-6.0	-3.7	2.9	0.2	-0.5	2.0	2.5	3,820

... = not available, GDP = gross domestic product, GNI = gross national income.

Table A3 Growth Rate of Value Added in Agriculture, % per year

	2020	2021	2022	2023	2024	Sector share, 2023, %
Caucasus and Central Asia						
Armenia	-3.7	-0.8	-2.8	2.9	1.0	9.3
Azerbaijan	1.9	3.3	3.4	3.0	1.4	6.1
Georgia	6.7	2.3	-1.8	-3.4	2.6	6.9
Kazakhstan	5.9	-2.2	9.1	-7.4	13.7	4.1
Kyrgyz Republic	0.9	-4.5	7.3	0.6	6.3	11.2
Tajikistan	8.8	6.6	8.0	11.6	5.7	25.5
Turkmenistan	...	...	...	...	...	...
Uzbekistan	2.9	4.0	3.6	4.1	3.6	21.2
East Asia						
People's Republic of China	3.1	7.1	4.2	4.2	4.2	7.4
Hong Kong, China	3.8	-2.5	-15.8	1.5	-9.3	0.0
Republic of Korea	-6.7	3.4	0.8	-2.6	0.8	1.5
Mongolia	5.8	-5.5	12.0	-8.9	-28.7	11.2
Taipei, China	-1.2	-4.1	-4.2	-0.8	-0.5	1.5
South Asia						
Afghanistan	5.9	4.4	-9.8	-6.6	2.2	33.7
Bangladesh	3.4	3.2	3.1	3.4	3.3	11.4
Bhutan	4.0	1.4	-1.1	1.4	5.5	15.4
India	4.0	4.6	6.3	2.7	4.6	17.8
Maldives	6.6	-0.8	6.2	3.2	-30.9	6.0
Nepal	2.4	2.8	2.4	2.8	3.0	24.1
Pakistan	3.9	3.5	4.2	2.2	6.2	24.6
Sri Lanka	-0.9	1.0	-4.1	1.6	1.2	8.7
Southeast Asia						
Brunei Darussalam	14.4	16.9	-3.3	-11.6	4.1	1.2
Cambodia	0.6	1.5	0.6	1.1	0.9	17.2
Indonesia	1.8	1.9	2.3	1.3	0.7	13.1
Lao People's Democratic Republic	2.1	2.3	1.3	1.4	1.7	23.6
Malaysia	-2.4	-0.3	1.3	0.7	3.1	7.9
Myanmar	1.6	1.0	-3.5	-1.8	-2.3	21.7
Philippines	-0.2	-0.3	0.5	1.2	-1.6	9.4
Singapore	-4.2	11.2	-7.7	2.9	3.0	0.0
Thailand	-3.2	2.2	2.4	2.0	-1.0	8.6
Timor-Leste	0.6	5.5	5.4	2.3	3.4	19.1
Viet Nam	3.0	3.3	3.4	3.8	3.3	13.1
The Pacific						
Cook Islands	-8.7	-7.3	3.9	-3.9	-2.3	3.0
Fiji	3.1	0.8	4.0	4.7	1.9	10.8
Kiribati	-1.8	5.0	...	...	...	...
Marshall Islands	-6.4	11.4	-15.4	-4.3	...	19.3
Federated States of Micronesia	-8.2	-3.6	...	...	...	...
Nauru	...	...	...	...	...	...
Niue	-4.1	6.6	-1.6	3.0	2.0	...
Palau	-10.1	-3.7	0.0	0.5	...	3.5
Papua New Guinea	1.9	1.1	3.1	1.0	2.5	17.8
Samoa	-1.4	0.9	-9.4	0.8	6.1	12.4
Solomon Islands	-3.8	1.7	-3.0	0.9	1.8	32.8
Tonga	3.1	-0.9	...	...	...	...
Tuvalu	...	...	...	...	...	...
Vanuatu	-2.7	2.7	3.9	-2.8	7.2	25.5

... = not available.

Table A4 Growth Rate of Value Added in Industry, % per year

	2020	2021	2022	2023	2024	Sector share, 2023, %
Caucasus and Central Asia						
Armenia	-2.5	2.6	9.8	2.7	6.2	25.6
Azerbaijan	-5.7	2.8	0.3	-0.1	2.1	51.3
Georgia	-3.4	1.0	15.1	4.3	4.8	21.7
Kazakhstan	1.5	4.4	2.7	6.0	4.6	35.0
Kyrgyz Republic	-9.5	2.5	11.1	10.0	9.4	28.0
Tajikistan	3.8	19.1	7.5	9.8	9.6	37.5
Turkmenistan	...	...	...	...	...	...
Uzbekistan	0.9	8.8	5.2	6.4	6.8	32.6
East Asia						
People's Republic of China	2.1	8.2	2.3	4.4	5.3	36.1
Hong Kong, China	-11.4	1.2	5.1	6.9	3.4	6.4
Republic of Korea	-1.3	5.0	2.3	1.6	3.0	35.4
Mongolia	-4.4	-2.2	-4.5	12.6	6.8	44.6
Taipei, China	8.1	14.9	2.3	-6.3	7.1	38.6
South Asia						
Afghanistan	-4.6	-5.6	-12.8	-5.7	1.8	16.1
Bangladesh	3.6	10.3	9.9	8.4	3.5	35.8
Bhutan	-14.4	3.9	5.6	0.0	5.1	30.4
India	-0.4	12.2	2.5	10.8	5.5	27.8
Maldives	-34.1	-4.6	19.6	3.3	-2.5	11.3
Nepal	-4.0	6.9	10.7	1.4	1.3	14.8
Pakistan	-5.7	8.2	7.0	-3.8	-1.7	21.8
Sri Lanka	-5.3	5.7	-16.0	-9.2	11.0	27.5
Southeast Asia						
Brunei Darussalam	2.9	-4.2	-4.9	-1.9	5.7	60.7
Cambodia	-2.2	8.4	8.2	5.4	9.2	44.1
Indonesia	-2.8	3.4	4.1	5.0	5.2	42.1
Lao People's Democratic Republic	6.2	4.6	4.1	2.4	3.5	36.1
Malaysia	-6.5	6.0	6.9	1.2	5.0	35.6
Myanmar	3.8	-9.6	5.0	2.2	-0.1	36.3
Philippines	-13.1	8.5	6.5	3.6	5.6	28.2
Singapore	-1.1	15.5	3.9	-2.7	4.2	26.7
Thailand	-5.2	3.6	0.4	-1.8	0.9	33.0
Timor-Leste	-22.9	-11.2	7.7	-2.7	3.5	12.0
Viet Nam	4.4	3.6	7.8	3.7	8.2	40.5
The Pacific						
Cook Islands	-30.0	20.5	-37.8	-98.0	2736.9	3.5
Fiji	-10.2	-6.7	8.3	-4.9	1.7	17.4
Kiribati	-2.8	21.1	...	...	...	...
Marshall Islands	-5.3	-6.2	9.7	-2.8	...	11.0
Federated States of Micronesia	-15.6	-0.9	...	...	...	...
Nauru	...	...	...	...	...	...
Niue	57.2	-1.2	-30.4	8.6	1.9	...
Palau	-4.2	0.8	-19.6	-19.4	...	11.5
Papua New Guinea	-7.5	-7.9	6.6	1.6	3.6	38.1
Samoa	-9.6	-9.6	-0.2	-1.9	-1.5	12.3
Solomon Islands	-3.8	-0.3	4.7	7.0	7.0	20.4
Tonga	0.7	19.0	...	...	...	...
Tuvalu	...	...	...	...	...	...
Vanuatu	4.0	-1.3	-19.7	12.4	1.2	8.7

... = not available.

Table A5 Growth Rate of Value Added in Services, % per year

	2020	2021	2022	2023	2024	Sector share, 2023, %
Caucasus and Central Asia						
Armenia	-8.7	7.6	17.8	12.2	8.8	65.1
Azerbaijan	-3.9	7.8	9.7	1.8	6.4	42.6
Georgia	-6.8	17.1	9.9	10.8	12.0	71.4
Kazakhstan	-5.3	4.4	2.5	5.5	4.7	60.8
Kyrgyz Republic	-7.9	6.9	6.8	7.9	9.3	60.8
Tajikistan	-2.6	7.9	13.4	7.6	12.7	37.0
Turkmenistan	...	...	...	...	...	...
Uzbekistan	1.1	9.5	8.5	7.1	7.7	46.2
East Asia						
People's Republic of China	2.4	9.0	3.5	6.3	5.0	56.4
Hong Kong, China	-6.7	5.9	-3.4	3.4	2.2	93.5
Republic of Korea	-0.4	4.3	3.8	2.1	1.6	63.0
Mongolia	-6.5	3.9	6.9	9.9	9.8	44.2
Taipei, China	-0.7	1.5	3.2	5.3	4.5	59.9
South Asia						
Afghanistan	-5.9	-4.6	-30.1	-6.5	1.5	50.2
Bangladesh	3.9	5.7	6.3	5.4	5.1	52.9
Bhutan	-9.5	4.4	21.8	7.9	5.2	54.2
India	-8.3	9.1	10.3	9.0	7.3	54.4
Maldives	-31.7	43.0	14.3	4.8	8.7	82.7
Nepal	-4.5	4.7	5.3	2.4	4.5	61.1
Pakistan	-1.2	5.9	6.7	0.0	2.3	53.6
Sri Lanka	-1.9	3.4	-2.6	-0.2	2.4	63.8
Southeast Asia						
Brunei Darussalam	-2.1	2.5	3.8	5.9	2.1	38.2
Cambodia	-6.7	-1.8	3.6	6.0	4.5	38.7
Indonesia	-1.5	3.5	6.5	6.1	6.2	44.8
Lao People's Democratic Republic	-5.5	5.5	1.1	5.7	5.2	40.3
Malaysia	-5.2	2.2	11.0	5.1	5.4	56.5
Myanmar	3.4	-6.3	2.6	1.0	-0.5	41.9
Philippines	-9.1	5.4	9.2	7.1	6.7	62.4
Singapore	-4.1	7.7	4.8	3.2	4.4	73.1
Thailand	-6.9	0.3	4.0	4.4	3.1	58.5
Timor-Leste	-7.2	6.4	2.4	3.3	3.6	69.0
Viet Nam	2.0	1.6	10.0	6.8	7.4	46.4
The Pacific						
Cook Islands	-14.8	-29.1	16.0	21.7	10.9	93.4
Fiji	-16.9	-3.1	20.7	13.9	3.2	71.8
Kiribati	-0.5	1.4	...	...	...	...
Marshall Islands	-0.2	-1.2	1.5	-3.0	...	69.8
Federated States of Micronesia	-0.6	-1.8	...	...	...	...
Nauru	...	...	...	...	...	...
Niue	-5.9	-11.9	3.7	11.6	4.5	...
Palau	-6.3	-12.8	1.0	4.8	...	85.0
Papua New Guinea	-0.2	4.5	6.3	5.0	4.8	44.1
Samoa	-1.2	-6.8	-5.5	7.4	10.5	75.4
Solomon Islands	-3.0	3.9	4.6	3.1	1.8	46.8
Tonga	2.6	-5.2	...	...	...	...
Tuvalu	...	...	...	...	...	...
Vanuatu	-6.7	0.4	7.8	2.1	0.2	65.8

... = not available.

Table A6 Inflation, % per year

	2020	2021	2022	2023	2024	2025	2026
Developing Asia	3.2	2.6	4.4	3.3	2.6	2.3	2.2
Developing Asia excluding the PRC	3.9	4.3	6.7	6.2	4.8	4.0	3.7
Caucasus and Central Asia	7.4	9.6	12.3	10.2	6.8	6.9	5.9
Armenia	1.2	7.2	8.6	2.0	0.3	3.0	2.8
Azerbaijan	2.8	6.7	13.9	8.8	2.2	4.2	3.5
Georgia	5.2	9.6	11.9	2.5	1.1	4.0	3.5
Kazakhstan	6.8	8.0	15.0	14.5	8.7	8.2	6.5
Kyrgyz Republic	6.3	11.9	13.9	10.8	5.0	6.0	7.8
Tajikistan	9.4	8.0	4.2	3.8	3.6	5.0	5.8
Turkmenistan	6.1	19.3	3.0	1.3	5.5	6.0	6.0
Uzbekistan	12.9	10.7	11.4	10.0	9.4	8.0	7.0
East Asia	2.2	1.1	2.3	0.6	0.5	0.6	0.9
People's Republic of China	2.5	0.9	2.0	0.2	0.2	0.4	0.7
Hong Kong, China	0.3	1.6	1.9	2.1	1.7	1.9	2.0
Republic of Korea	0.5	2.5	5.1	3.6	2.3	1.9	1.9
Mongolia	3.7	7.1	15.2	10.3	6.8	9.1	7.0
Taipei, China	-0.2	2.0	2.9	2.5	2.2	2.0	1.8
South Asia	6.5	5.8	7.9	7.9	6.6	4.9	4.5
Afghanistan	5.6	5.8	7.8	10.6	-7.7	-5.3	5.0
Bangladesh	5.7	5.6	6.2	9.0	9.7	10.2	8.0
Bhutan	5.6	7.3	5.6	4.2	2.8	3.4	3.5
India	6.2	5.5	6.7	5.4	4.7	4.3	4.0
Maldives	-1.4	0.5	2.3	2.9	1.4	4.7	2.2
Nepal	6.2	3.6	6.3	7.7	5.4	5.2	5.0
Pakistan	10.7	8.9	12.2	29.2	23.4	6.0	5.8
Sri Lanka	4.6	6.0	46.4	17.4	1.2	3.1	4.5
Southeast Asia	1.4	2.0	5.2	4.2	3.0	3.0	2.8
Brunei Darussalam	1.9	1.7	3.7	0.4	-0.4	0.5	-0.2
Cambodia	2.9	2.9	5.3	2.1	0.8	3.7	2.4
Indonesia	2.0	1.6	4.1	3.7	2.3	2.0	2.0
Lao People's Democratic Republic	5.1	3.8	23.0	31.2	23.3	13.5	10.4
Malaysia	-1.1	2.5	3.4	2.5	1.8	2.5	2.5
Myanmar	5.7	3.7	27.2	27.5	27.8	29.3	20.0
Philippines	2.4	3.9	5.8	6.0	3.2	3.0	3.0
Singapore	-0.2	2.3	6.1	4.8	2.4	2.0	1.7
Thailand	-0.8	1.2	6.1	1.2	0.4	1.0	1.1
Timor-Leste	0.5	3.8	7.0	8.4	2.1	2.9	2.6
Viet Nam	3.2	1.8	3.2	3.3	3.6	4.0	4.2
The Pacific	3.0	3.2	5.2	3.1	1.9	3.4	3.7
Cook Islands	0.7	1.8	3.6	13.2	4.6	2.3	2.0
Fiji	-2.6	0.2	4.3	2.4	4.5	2.6	2.4
Kiribati	2.5	2.1	5.3	9.3	3.0	2.5	2.2
Marshall Islands	-0.7	2.2	2.8	7.4	4.7	3.6	3.0
Federated States of Micronesia	1.0	1.8	5.0	6.2	4.1	3.0	2.7
Nauru	0.7	1.7	1.5	5.2	5.0	3.5	2.5
Niue	1.9	1.9	4.6	5.1	5.4	3.7	3.2
Palau	0.7	-0.5	13.2	12.4	3.7	2.5	2.6
Papua New Guinea	4.9	4.5	5.3	2.3	0.7	3.8	4.3
Samoa	1.5	-3.0	8.8	12.0	3.6	3.0	2.7
Solomon Islands	2.7	0.8	5.4	5.1	4.1	2.7	2.5
Tonga	0.2	1.4	8.5	10.2	4.6	3.2	3.0
Tuvalu	1.6	6.7	12.2	7.2	1.2	2.5	2.0
Vanuatu	5.3	2.3	6.7	11.2	4.8	3.5	2.4

PRC = People's Republic of China.

Table A7 Change in Money Supply, % per year

	2020	2021	2022	2023	2024
Caucasus and Central Asia					
Armenia	9.0	13.1	16.1	17.4	13.7
Azerbaijan	1.1	18.7	23.6	5.3	3.2
Georgia	23.3	11.3	11.6	14.5	14.5
Kazakhstan	16.9	20.8	13.9	11.7	19.2
Kyrgyz Republic	23.9	19.1	30.6	15.0	31.9
Tajikistan	18.0	8.6	40.4	-0.8	28.8
Turkmenistan	11.8	18.1	19.9	...	...
Uzbekistan	17.7	29.7	30.2	12.2	30.6
East Asia					
People's Republic of China	10.1	9.0	11.8	9.7	7.3
Hong Kong, China	5.8	4.3	1.6	4.0	7.4
Republic of Korea	9.8	12.9	4.0	3.9	6.6
Mongolia	16.2	13.8	6.5	26.8	15.2
Taipei, China	9.4	7.3	6.7	5.6	5.4
South Asia					
Afghanistan	12.1	9.4	-4.9	2.5	0.6
Bangladesh	12.6	13.6	9.4	10.5	7.7
Bhutan	27.7	13.1	9.2	4.8	8.0
India	12.3	8.7	9.0	15.6	11.0
Maldives	14.2	26.2	6.0	7.0	-0.1
Nepal	18.1	21.8	7.6	11.2	13.0
Pakistan	17.3	16.0	13.1	15.6	16.0
Sri Lanka	23.4	13.2	15.4	7.3	8.6
Southeast Asia					
Brunei Darussalam	-0.4	2.7	1.3	2.7	3.6
Cambodia	15.3	16.3	8.3	12.5	17.5
Indonesia	12.5	14.0	8.4	3.5	4.8
Lao People's Democratic Republic	16.3	24.0	36.9	33.3	15.5
Malaysia	4.0	6.4	4.3	6.0	3.6
Myanmar	15.0	11.4	12.7	15.9	16.0
Philippines	9.6	7.9	6.9	6.3	7.7
Singapore	12.7	7.2	8.7	4.7	5.3
Thailand	10.2	4.8	3.9	1.9	3.4
Timor-Leste	10.2	28.7	8.6	2.7	7.3
Viet Nam	14.5	10.7	0.2	8.8	14.6
The Pacific					
Cook Islands	14.8	-6.6	14.6	2.2	4.8
Fiji	0.9	11.9	3.8	12.2	8.2
Kiribati	...	...	...	...	...
Marshall Islands	...	...	...	...	...
Federated States of Micronesia	...	...	...	...	...
Nauru	...	...	...	...	...
Niue	...	...	...	...	...
Palau	...	...	...	...	...
Papua New Guinea	7.0	11.7	14.8	11.5	...
Samoa	-0.9	8.1	2.2	16.3	7.7
Solomon Islands	6.6	1.9	5.3	6.1	2.0
Tonga	1.2	26.0	10.7	-0.6	7.6
Tuvalu	...	...	...	...	...
Vanuatu	-0.7	8.9	7.3	5.9	7.4

... = not available.

Table A8 Central Government Revenues, % of GDP

	2020	2021	2022	2023	2024
Caucasus and Central Asia					
Armenia	25.2	24.1	24.3	25.0	25.5
Azerbaijan	34.1	28.3	22.9	28.9	29.4
Georgia	24.9	25.1	26.6	27.4	28.3
Kazakhstan	20.6	18.9	19.5	20.9	20.0
Kyrgyz Republic	23.8	26.8	29.5	29.4	30.5
Tajikistan	29.9	29.7	30.5	33.1	30.6
Turkmenistan	11.4	10.7	12.0	12.1	11.7
Uzbekistan	25.6	26.0	31.0	30.1	30.5
East Asia					
People's Republic of China	17.7	17.3	16.5	16.8	16.3
Hong Kong, China	21.1	24.2	22.1	18.4	17.6
Republic of Korea	18.1	20.7	21.7	18.9	17.5
Mongolia	27.9	32.8	34.3	34.6	39.2
Taipei, China	10.8	11.0	11.9	12.3	12.3
South Asia					
Afghanistan	25.7	25.7	...	...	15.6
Bangladesh	8.4	9.3	8.4	8.2	8.2
Bhutan	29.1	30.9	25.1	25.3	27.0
India	8.5	9.4	9.1	9.3	9.5
Maldives	26.7	26.4	30.5	33.7	31.9
Nepal	19.7	20.7	20.4	17.1	17.0
Pakistan	13.2	12.4	12.1	11.5	12.6
Sri Lanka	8.8	8.3	8.4	11.2	13.7
Southeast Asia					
Brunei Darussalam	12.6	24.3	27.7	17.4	...
Cambodia	18.0	16.1	18.3	16.2	14.5
Indonesia	10.7	11.8	13.5	13.3	13.3
Lao People's Democratic Republic	16.6	17.2	19.6	17.4	19.2
Malaysia	15.9	15.1	16.4	17.3	16.8
Myanmar	20.5	14.3	12.6	11.3	10.6
Philippines	15.9	15.5	16.1	15.7	16.7
Singapore	17.8	17.5	15.9	15.2	15.9
Thailand	17.1	16.5	16.5	16.8	14.1
Timor-Leste	46.4	45.4	43.6	40.5	42.6
Viet Nam	18.8	18.8	19.0	17.2	16.3
The Pacific					
Cook Islands	41.7	52.5	50.9	37.1	33.2
Fiji	25.4	23.4	21.3	23.1	27.7
Kiribati	105.1	90.8	91.1	98.7	108.0
Marshall Islands	70.3	70.0	68.4	66.7	69.9
Federated States of Micronesia	66.9	71.7	67.0	53.5	61.3
Nauru	156.0	137.7	155.3	124.0	141.3
Niue	69.2	103.2	105.2	142.7	146.4
Palau	45.2	55.1	56.7	50.8	50.4
Papua New Guinea	14.7	15.1	16.7	17.9	18.7
Samoa	34.9	36.5	38.0	35.4	39.2
Solomon Islands	30.1	30.3	27.8	25.4	27.1
Tonga	43.1	43.8	47.7	54.3	53.4
Tuvalu	129.3	102.6	92.4	117.9	60.1
Vanuatu	38.1	40.5	32.3	37.2	32.1

... = not available, GDP = gross domestic product.

Table A9 Central Government Expenditures, % of GDP

	2020	2021	2022	2023	2024
Caucasus and Central Asia					
Armenia	30.6	28.7	26.4	26.9	29.2
Azerbaijan	36.5	29.4	23.9	29.6	29.9
Georgia	34.1	31.1	29.2	29.8	30.6
Kazakhstan	24.5	21.9	21.6	23.2	22.7
Kyrgyz Republic	26.9	27.0	30.5	28.5	28.0
Tajikistan	29.6	29.0	29.9	32.4	29.8
Turkmenistan	11.6	10.3	9.6	11.0	10.9
Uzbekistan	30.0	32.2	34.9	35.6	35.5
East Asia					
People's Republic of China	23.7	20.9	21.1	21.2	21.1
Hong Kong, China	30.5	24.2	28.9	24.2	23.8
Republic of Korea	25.2	25.6	28.1	24.2	21.2
Mongolia	37.1	35.9	33.7	32.0	38.0
Taipei, China	12.2	11.6	11.6	13.3	11.9
South Asia					
Afghanistan	27.9	27.9	...	...	17.0
Bangladesh	13.3	13.0	13.0	12.8	12.2
Bhutan	30.9	36.6	32.1	28.8	27.2
India	17.7	16.1	15.6	14.8	14.2
Maldives	50.4	40.7	42.1	46.5	45.9
Nepal	25.1	24.7	23.5	22.9	20.1
Pakistan	20.3	18.5	19.9	19.2	19.4
Sri Lanka	21.0	20.0	18.6	19.5	20.5
Southeast Asia					
Brunei Darussalam	32.6	29.4	26.6	29.2	...
Cambodia	20.5	21.4	18.5	19.1	16.4
Indonesia	16.8	16.4	15.8	14.9	14.4
Lao People's Democratic Republic	18.1	17.5	18.7	16.7	16.7
Malaysia	19.4	19.0	20.2	22.3	20.9
Myanmar	26.8	22.4	19.1	17.3	16.3
Philippines	23.5	24.1	23.4	21.9	22.4
Singapore	28.5	17.3	16.5	15.5	15.4
Thailand	28.8	33.2	27.2	23.0	25.0
Timor-Leste	79.1	97.3	109.2	85.5	94.9
Viet Nam	21.3	20.1	22.6	20.6	19.8
The Pacific					
Cook Islands	47.6	81.0	59.7	39.5	32.3
Fiji	31.3	34.8	33.2	30.2	31.1
Kiribati	101.3	99.4	109.4	94.0	114.7
Marshall Islands	67.8	69.8	67.7	66.0	68.4
Federated States of Micronesia	60.3	64.5	59.2	57.9	58.3
Nauru	123.3	93.1	131.1	107.0	113.1
Niue	61.6	112.2	101.8	117.1	145.6
Palau	58.2	65.0	60.7	49.8	47.0
Papua New Guinea	23.5	22.0	21.9	22.3	22.6
Samoa	28.5	34.7	32.7	32.3	29.0
Solomon Islands	32.6	32.2	30.8	32.3	29.1
Tonga	37.9	44.6	48.6	48.2	50.0
Tuvalu	121.2	116.4	106.4	112.4	68.1
Vanuatu	41.0	41.7	37.7	37.2	35.4

... = not available, GDP = gross domestic product.

Table A10 Fiscal Balance of Central Government, % of GDP

	2020	2021	2022	2023	2024
Caucasus and Central Asia					
Armenia	-5.4	-4.6	-2.1	-2.0	-3.7
Azerbaijan	-2.4	-1.1	-1.0	-0.7	-0.4
Georgia	-9.2	-6.0	-2.6	-2.4	-2.3
Kazakhstan	-4.0	-3.0	-2.1	-2.4	-2.7
Kyrgyz Republic	-3.1	-0.2	-1.0	1.0	2.4
Tajikistan	0.3	0.7	0.6	0.7	0.8
Turkmenistan	-0.1	0.4	2.4	1.2	0.8
Uzbekistan	-4.4	-6.2	-3.9	-5.5	-5.0
East Asia					
People's Republic of China	-6.1	-3.7	-4.6	-4.5	-4.8
Hong Kong, China	-9.4	0.0	-6.7	-5.8	-2.7
Republic of Korea	-7.1	-4.9	-6.4	-5.2	-3.6
Mongolia	-9.2	-3.1	0.6	2.7	1.3
Taipei, China	-1.4	-0.7	0.3	-0.9	0.3
South Asia					
Afghanistan	-2.2	-2.2	...	...	-1.4
Bangladesh	-4.9	-3.7	-4.6	-4.6	-4.0
Bhutan	-1.8	-5.8	-7.0	-3.5	-0.2
India	-9.2	-6.7	-6.5	-5.5	-4.7
Maldives	-23.7	-14.2	-11.6	-12.8	-14.0
Nepal	-5.4	-4.0	-3.2	-5.8	-3.1
Pakistan	-7.1	-6.1	-7.9	-7.8	-6.8
Sri Lanka	-12.2	-11.7	-10.2	-8.3	-6.8
Southeast Asia					
Brunei Darussalam	-20.0	-5.2	1.1	-11.9	...
Cambodia	-2.6	-5.3	-0.3	-2.8	-1.9
Indonesia	-6.1	-4.6	-2.4	-1.6	-1.1
Lao People's Democratic Republic	-1.4	-0.2	1.0	0.7	2.5
Malaysia	-3.5	-3.9	-3.8	-5.0	-4.1
Myanmar	-6.2	-8.1	-6.5	-6.0	-5.7
Philippines	-7.6	-8.6	-7.3	-6.2	-5.7
Singapore	-10.7	0.2	-0.6	-0.3	0.5
Thailand	-11.7	-16.7	-10.7	-6.2	-11.0
Timor-Leste	-32.6	-51.9	-65.7	-45.0	-52.3
Viet Nam	-2.5	-1.4	-3.6	-3.5	-3.5
The Pacific					
Cook Islands	-5.9	-28.5	-8.8	-2.4	0.9
Fiji	-6.0	-11.4	-11.9	-7.1	-3.4
Kiribati	3.8	-8.6	-18.3	4.8	-6.7
Marshall Islands	2.5	0.2	0.7	0.7	1.5
Federated States of Micronesia	6.7	7.2	7.8	-4.4	3.0
Nauru	32.7	44.6	24.3	17.1	28.2
Niue	7.5	-8.9	3.4	25.7	0.8
Palau	-13.0	-9.9	-4.0	0.9	3.4
Papua New Guinea	-8.9	-6.8	-5.3	-4.3	-3.9
Samoa	6.4	1.7	5.4	3.0	10.2
Solomon Islands	-2.4	-1.9	-2.9	-7.0	-2.0
Tonga	5.2	-0.9	-0.9	6.1	3.4
Tuvalu	8.1	-13.9	-14.0	5.4	-8.0
Vanuatu	-2.9	-1.2	-5.5	0.0	-3.3

... = not available, GDP = gross domestic product.

Table A11 Growth Rate of Merchandise Exports, % per year

	2020	2021	2022	2023	2024
Developing Asia	-1.0	30.9	8.5	-5.4	5.0
Caucasus and Central Asia	-20.1	41.4	34.6	0.7	2.7
Armenia	-19.1	20.5	74.3	51.4	44.5
Azerbaijan	-36.6	72.3	94.6	-30.8	...
Georgia	-12.4	27.4	35.8	7.7	7.5
Kazakhstan	-26.0	49.3	30.2	-6.3	-0.5
Kyrgyz Republic	-1.3	37.9	-19.4	-6.5	...
Tajikistan	13.3	53.4	-18.9	20.1	-0.8
Turkmenistan	...	...	...	...	...
Uzbekistan	-7.7	10.2	12.4	22.2	1.7
East Asia	3.5	28.1	4.2	-5.4	7.4
People's Republic of China	5.2	28.1	4.1	-5.0	7.2
Hong Kong, China	-0.3	24.5	-8.8	-6.2	9.5
Republic of Korea	-7.0	25.4	6.9	-7.3	8.2
Mongolia	-2.7	16.4	21.1	41.2	6.0
Taipei, China	-8.3	33.5	5.8	-10.4	8.7
South Asia	-8.5	38.3	10.8	-4.5	0.8
Afghanistan	-10.1	-12.6	10.0	116.1	-3.5
Bangladesh	-17.1	12.4	33.4	-11.9	-5.9
Bhutan	-5.4	21.2	-7.7	-11.5	21.0
India	-7.5	44.8	6.3	-3.2	0.4
Maldives	-28.6	10.8	40.1	5.4	-9.7
Nepal	-7.0	30.0	43.9	-19.9	-2.5
Pakistan	-7.1	13.8	26.7	-14.2	11.1
Sri Lanka	-15.9	24.4	4.9	-9.1	7.2
Southeast Asia	-3.0	28.3	16.1	-8.1	3.4
Brunei Darussalam	-9.4	68.3	28.4	-20.5	...
Cambodia	23.6	5.4	18.7	1.7	13.5
Indonesia	-3.0	42.5	25.6	-11.9	1.6
Lao People's Democratic Republic	5.3	25.8	6.5	2.1	12.1
Malaysia	-5.9	30.7	15.8	-17.7	7.1
Myanmar	-4.1	-2.6	2.0	12.5	-5.0
Philippines	-9.8	12.5	6.4	-4.3	-0.4
Singapore	-5.2	22.9	18.5	-7.9	4.2
Thailand	-6.5	19.2	5.4	-1.5	3.1
Timor-Leste	123.7	76.1	-34.5	-64.8	-68.9
Viet Nam	7.0	18.9	10.6	-4.4	9.2
The Pacific	-16.0	14.3	28.6	-6.4	5.4
Cook Islands	110.6	-12.3	-40.5	38.5	...
Fiji	-20.3	6.1	21.2	1.3	4.6
Kiribati	-21.9	1.4	-14.8	11.7	13.5
Marshall Islands	11.6	51.8	-18.1	-9.7	...
Federated States of Micronesia	-12.6	-1.0	...	...	...
Nauru	-61.5	126.4	156.8	-26.2	-16.0
Niue	...	...	...	...	...
Palau	-60.5	-75.3	96.9	-16.8	186.5
Papua New Guinea	-17.1	19.6	34.8	-11.9	4.8
Samoa	-9.5	-23.1	-8.6	37.0	-13.1
Solomon Islands	-17.7	-2.1	-8.5	26.8	17.8
Tonga	14.3	-9.8	-6.6	-14.0	-16.5
Tuvalu	-65.9	201.4	-64.6	...	...
Vanuatu	12.4	3.2	36.3	-18.4	4.3

... = not available.

Table A12 Growth Rate of Merchandise Imports, % per year

	2020	2021	2022	2023	2024
Developing Asia	-11.3	35.9	9.9	-5.4	2.9
Caucasus and Central Asia	-9.9	14.1	27.3	20.6	3.6
Armenia	-19.3	16.6	58.5	47.3	30.8
Azerbaijan	-11.1	3.4	29.7	21.4	...
Georgia	-13.5	24.2	35.3	12.4	7.8
Kazakhstan	-7.5	9.2	21.8	19.2	0.1
Kyrgyz Republic	-26.0	50.4	76.4	27.2	...
Tajikistan	-8.3	36.2	23.5	12.7	25.0
Turkmenistan	...	...	...	...	...
Uzbekistan	-10.1	21.0	24.1	20.5	2.2
East Asia	-1.3	32.7	2.9	-4.8	2.3
People's Republic of China	0.3	32.7	1.1	-3.6	2.2
Hong Kong, China	-2.1	22.7	-7.6	-4.4	6.9
Republic of Korea	-8.3	31.2	18.3	-10.7	-1.6
Mongolia	-13.1	29.2	27.4	8.6	26.0
Taipei, China	-16.6	39.0	13.4	-19.9	9.9
South Asia	-15.8	48.2	19.0	-7.4	2.6
Afghanistan	-4.6	0.1	-16.8	44.6	13.5
Bangladesh	-8.6	19.7	35.9	-14.2	-10.6
Bhutan	-8.4	35.8	23.7	-13.1	-1.8
India	-16.6	55.3	16.6	-4.9	4.0
Maldives	-37.7	40.0	38.7	-0.6	3.7
Nepal	-18.3	25.7	21.9	-22.0	-2.5
Pakistan	-15.9	24.4	31.8	-26.3	0.7
Sri Lanka	-19.5	28.5	-11.4	-8.1	12.1
Southeast Asia	-39.2	31.5	17.1	-8.3	5.3
Brunei Darussalam	3.5	60.8	7.9	-17.1	...
Cambodia	-5.3	45.9	4.2	-17.0	17.7
Indonesia	-18.1	39.9	21.6	-8.0	5.0
Lao People's Democratic Republic	-14.4	16.8	15.4	5.6	13.3
Malaysia	-8.5	30.7	19.3	-15.5	10.3
Myanmar	5.9	-22.8	18.4	-8.5	-24.6
Philippines	-20.2	30.5	19.0	-4.8	2.0
Singapore	-9.0	24.6	14.3	-10.1	8.1
Thailand	-13.6	27.9	13.8	-3.8	2.3
Timor-Leste	-9.2	16.0	40.7	-1.6	8.8
Viet Nam	-203.7	26.7	7.2	-9.2	10.3
The Pacific	-16.8	17.4	40.6	-2.7	-5.5
Cook Islands	-5.3	-12.4	19.7	-8.6	...
Fiji	-26.1	6.4	71.8	6.1	3.7
Kiribati	0.9	35.0	22.0	2.5	11.7
Marshall Islands	-37.0	12.1	0.3	-9.8	...
Federated States of Micronesia	-10.2	7.4	...	...	...
Nauru	4.8	24.8	8.4	-11.5	-15.0
Niue	...	...	...	...	...
Palau	1.5	-16.9	24.4	3.0	-8.1
Papua New Guinea	-15.1	22.0	34.6	-7.9	-9.0
Samoa	-9.5	0.9	7.9	28.2	-0.1
Solomon Islands	-18.6	15.8	16.7	15.2	-3.9
Tonga	-5.5	2.6	0.7	8.0	-0.7
Tuvalu	-14.4	19.3	-25.3	...	...
Vanuatu	-1.9	11.3	26.9	6.4	-10.5

... = not available.

Table A13 Trade Balance, \$ million

	2020	2021	2022	2023	2024
Developing Asia	681,282	661,356	621,211	588,134	778,891
Caucasus and Central Asia	-20,170	-2,590	907	-39,846	-61,570
Armenia	-1,382	-1,505	-1,866	-2,515	-2,100
Azerbaijan	2,512	11,274	28,698	12,806	...
Georgia	-4,708	-5,856	-7,966	-9,517	-10,315
Kazakhstan	6,009	24,228	34,997	19,901	19,415
Kyrgyz Republic	-1,440	-2,420	-6,919	-8,286	...
Tajikistan	-14,945	-19,407	-33,327	-37,179	-53,077
Turkmenistan	...	...	...	...	...
Uzbekistan	-6,216	-8,904	-12,711	-15,057	-15,494
East Asia	663,408	730,944	745,434	715,588	969,700
People's Republic of China	511,103	562,706	665,049	593,896	767,900
Hong Kong, China	-5,328	3,174	-5,167	-16,132	-1,973
Republic of Korea	80,605	75,731	15,620	37,658	100,127
Mongolia	1,756	1,370	1,233	4,549	2,947
Taipei, China	75,273	87,963	68,699	95,617	100,699
South Asia	-163,112	-269,159	-364,076	-321,515	-341,741
Afghanistan	-5,096	-5,096	-3,837	-5,267	-6,289
Bangladesh	-17,858	-23,778	-33,250	-27,384	-22,432
Bhutan	-252	-437	-788	-672	-515
India	-102,152	-189,459	-265,291	-244,897	-270,880
Maldives	-1,450	-2,105	-2,916	-2,874	-3,036
Nepal	-9,186	-11,510	-13,759	-10,701	-10,431
Pakistan	-21,109	-28,634	-39,050	-24,819	-22,089
Sri Lanka	-6,008	-8,139	-5,185	-4,900	-6,069
Southeast Asia	197,636	197,823	233,446	229,977	207,363
Brunei Darussalam	1,359	2,679	5,153	3,800	...
Cambodia	-2,544	-11,205	-8,826	-2,986	-4,504
Indonesia	28,301	43,806	62,672	46,269	39,926
Lao People's Democratic Republic	745	1,419	954	721	723
Malaysia	32,708	42,873	42,552	29,855	25,588
Myanmar	-4,204	-1,216	-3,415	-2,586	-136
Philippines	-33,775	-52,806	-69,701	-66,036	-68,744
Singapore	102,859	121,171	160,102	157,259	148,124
Thailand	40,402	31,945	13,543	19,379	21,907
Timor-Leste	1,077	2,186	1,012	-140	-644
Viet Nam	30,708	16,971	29,400	44,443	45,122
The Pacific	3,521	4,337	5,501	3,930	5,139
Cook Islands	-102	-90	-119	-146	-153
Fiji	-649	-693	-1,629	-1,779	-1,836
Kiribati	-98	-135	-169	-172	-192
Marshall Islands	-56	-35	-55	-49	...
Federated States of Micronesia	-114	-127	...	...	...
Nauru	-68	-77	-59	-58	-78
Niue	...	...	...	...	...
Palau	-150	-127	-157	-162	-146
Papua New Guinea	5,485	6,474	8,736	7,455	8,562
Samoa	-271	-284	-313	-398	-403
Solomon Islands	-26	-97	-207	-199	-98
Tonga	-191	-199	-201	-221	-221
Tuvalu	-27	-32	-24	...	...
Vanuatu	-213	-242	-302	-339	-295

... = not available.

Table A14 Current Account Balance, % of GDP

	2020	2021	2022	2023	2024
Developing Asia	1.9	1.5	1.3	1.2	1.8
Caucasus and Central Asia	-4.9	0.0	4.2	-1.3	-1.9
Armenia	-4.0	-3.5	0.3	-2.3	-3.8
Azerbaijan	-0.5	15.1	29.8	11.5	...
Georgia	-12.3	-10.3	-4.4	-5.6	-5.1
Kazakhstan	-6.5	-1.4	2.9	-3.4	-1.5
Kyrgyz Republic	4.5	-8.0	-42.1	-45.0	...
Tajikistan	4.5	8.2	15.3	4.8	4.2
Turkmenistan	...	6.5	7.1	4.7	4.0
Uzbekistan	-5.0	-7.0	-3.5	-1.3	-5.0
East Asia	2.5	2.9	2.9	2.1	3.1
People's Republic of China	1.7	1.9	2.4	1.4	2.2
Hong Kong, China	7.0	11.8	10.2	8.5	12.9
Republic of Korea	4.3	4.4	1.4	1.8	5.3
Mongolia	-5.1	-13.8	-13.4	0.6	-9.3
Taipei, China	14.5	15.2	13.3	14.0	14.3
South Asia	0.5	-1.3	-2.5	-0.9	-0.9
Afghanistan	11.2	...	...	...	...
Bangladesh	-1.3	-1.1	-4.0	-2.6	-1.4
Bhutan	-14.4	-21.8	-35.5	-28.5	-16.4
India	0.9	-1.2	-2.0	-0.7	-0.9
Maldives	-35.8	-8.7	-16.9	-21.3	-20.4
Nepal	-0.9	-7.7	-12.6	-0.9	3.9
Pakistan	-1.5	-0.8	-4.7	-1.0	-0.5
Sri Lanka	-1.4	-3.7	-2.0	1.9	1.3
Southeast Asia	2.9	1.1	0.9	2.1	1.8
Brunei Darussalam	4.3	11.2	19.6	12.9	...
Cambodia	-2.6	-30.1	-19.2	1.3	-0.2
Indonesia	-0.4	0.3	1.0	-0.1	-0.6
Lao People's Democratic Republic	-1.7	2.3	-3.0	2.8	3.6
Malaysia	4.2	3.9	3.2	1.5	1.7
Myanmar	-2.5	-1.3	-3.0	-2.4	-2.2
Philippines	3.2	-1.5	-4.5	-2.8	-3.8
Singapore	17.5	19.8	18.4	17.7	17.5
Thailand	4.2	-2.1	-3.5	1.4	1.9
Timor-Leste	32.6	104.7	24.4	-9.9	-27.9
Viet Nam	4.3	-2.1	0.3	6.0	5.5
The Pacific	6.9	6.0	4.8	5.4	4.6
Cook Islands	9.6	-16.1	-7.0	5.1	...
Fiji	-13.6	-9.6	-17.2	-7.7	-7.4
Kiribati	31.8	7.0	-2.4	10.2	9.7
Marshall Islands	14.9	22.7	10.0	16.8	...
Federated States of Micronesia	3.3	0.6	...	...	...
Nauru	2.5	3.1	-0.6	3.5	5.4
Niue	...	...	...	...	...
Palau	-43.4	-43.3	-48.7	-48.8	-25.8
Papua New Guinea	14.4	12.6	14.5	11.5	9.7
Samoa	0.5	-14.5	-11.3	-3.3	4.8
Solomon Islands	-1.6	-5.1	-14.4	-10.4	-4.4
Tonga	-6.4	-6.0	-6.3	-5.9	-3.9
Tuvalu	16.3	24.1	4.6	...	...
Vanuatu	-1.2	-4.3	-13.4	-0.3	-7.1

... = not available, GDP = gross domestic product.

Table A15 Exchange Rates to the United States Dollar, annual average

	Currency	Symbol	2020	2021	2022	2023	2024
Caucasus and Central Asia							
Armenia	Dram	AMD	489.01	503.77	435.67	392.48	392.73
Azerbaijan	Azerbaijan new manat	AZN	1.70	1.70	1.70	1.70	1.70
Georgia	Lari	GEL	3.11	3.22	2.92	2.63	2.72
Kazakhstan	Tenge	T	412.95	425.91	460.10	456.17	468.96
Kyrgyz Republic	Som	Som	77.35	84.64	84.12	87.86	87.15
Tajikistan	Somoni	TJS	11.27	11.30	11.03	10.84	10.81
Turkmenistan	Turkmen manat	TMM	3.50	3.50	3.50	3.50	3.50
Uzbekistan	Sum	SUM	10,050.15	10,611.36	11,045.33	11,735.75	12,652.43
East Asia							
People's Republic of China	Yuan	CNY	6.90	6.45	6.73	7.05	7.12
Hong Kong, China	Hong Kong dollar	HK\$	7.76	7.77	7.83	7.83	7.80
Republic of Korea	Won	W	1,179.60	1,144.54	1,291.88	1,306.14	1,363.51
Mongolia	Togrog	MNT	2,813.29	2,849.32	3,140.68	3,467.40	3,389.55
Taipei, China	NT dollar	NT\$	29.45	27.93	29.80	31.15	32.10
South Asia							
Afghanistan	Afghani	AF	76.81	76.92	87.74	88.53	78.76
Bangladesh	Taka	Tk	84.78	84.81	86.30	99.46	111.06
Bhutan	Ngultrum	Nu	74.11	73.94	78.60	82.60	83.70
India	Indian rupee/s	Re/Rs	74.22	74.50	80.36	82.79	84.63
Maldives	Rufiyaa	Rf	15.41	15.39	15.40	15.40	15.40
Nepal	Nepalese rupee/s	NRe/NRs	116.31	117.87	120.84	130.75	133.00
Pakistan	Pakistan rupee/s	PRe/PRs	158.00	160.33	178.01	248.00	283.24
Sri Lanka	Sri Lanka rupee/s	SLRe/SLRs	185.52	198.88	324.55	327.53	302.12
Southeast Asia							
Brunei Darussalam	Brunei dollar	B\$	1.38	1.34	1.38	1.34	1.34
Cambodia	Riel	KR	4,078.00	4,095.00	4,115.00	4,110.00	4,071.00
Indonesia	Rupiah	Rp	14,581.92	14,310.00	14,849.92	15,236.83	15,855.42
Lao People's Democratic Republic	Kip	KN	9,049.00	9,737.25	14,035.00	17,881.00	20,200.78
Malaysia	Ringgit	RM	4.20	4.14	4.40	4.56	4.58
Myanmar	Kyat	MK	1,429.05	1,490.40	2,100.00	3,105.00	4,550.00
Philippines	Peso	P	49.62	49.26	54.48	55.63	57.29
Singapore	Singapore dollar	S\$	1.38	1.34	1.38	1.34	1.34
Thailand	Baht	B	31.29	31.98	35.06	34.80	34.37
Timor-Leste	US dollar	US\$	1.00	1.00	1.00	1.00	1.00
Viet Nam	Dong	D	23,208.82	23,159.72	23,271.48	23,794.63	24,167.78
The Pacific							
Cook Islands	New Zealand dollar	NZ\$	1.57	1.44	1.47	1.62	1.65
Fiji	Fiji dollar	F\$	2.17	2.07	2.20	2.25	2.27
Kiribati	Australian dollar	A\$	1.45	1.33	1.44	1.51	1.52
Marshall Islands	US dollar	US\$	1.00	1.00	1.00	1.00	1.00
Federated States of Micronesia	US dollar	US\$	1.00	1.00	1.00	1.00	1.00
Nauru	Australian dollar	A\$	1.45	1.33	1.44	1.51	1.52
Niue	New Zealand dollar	NZ\$	1.57	1.44	1.47	1.62	1.65
Palau	US dollar	US\$	1.00	1.00	1.00	1.00	1.00
Papua New Guinea	Kina	K	3.46	3.51	3.52	3.58	3.83
Samoa	Tala	ST	2.70	2.57	2.61	2.73	2.76
Solomon Islands	Sol. Islands dollar	SI\$	8.21	8.03	8.16	8.17	8.45
Tonga	Pa'anga	T\$	2.31	2.28	2.28	2.36	2.37
Tuvalu	Australian dollar	A\$	1.45	1.33	1.44	1.51	1.52
Vanuatu	Vatu	Vt	115.38	109.45	115.35	119.11	119.47

Table A16 Gross International Reserve, \$ million

	2020	2021	2022	2023	2024
Caucasus and Central Asia					
Armenia	2,616	3,230	4,112	3,608	3,602
Azerbaijan	6,369	7,075	8,996	11,613	10,959
Georgia	3,900	4,300	4,900	5,000	4,500
Kazakhstan	35,638	34,378	35,076	35,944	45,823
Kyrgyz Republic	2,808	2,978	2,798	3,236	5,088
Tajikistan	2,238	2,499	3,803	3,607	4,485
Turkmenistan	...	...	...	...	...
Uzbekistan	34,904	35,139	35,768	35,600	41,200
East Asia					
People's Republic of China	3,356,529	3,426,908	3,306,529	3,449,691	...
Hong Kong, China	491,775	496,867	424,029	425,554	421,503
Republic of Korea	443,098	463,118	423,164	420,148	415,604
Mongolia	4,534	4,366	3,400	4,921	5,510
Taipei, China	529,911	548,408	554,932	570,595	576,677
South Asia					
Afghanistan	9,763	9,763	...	...	...
Bangladesh	36,037	46,391	41,827	31,203	26,714
Bhutan	1,454	970	767	607	701
India	576,984	607,309	578,449	646,419	630,607
Maldives	985	806	832	591	673
Nepal	11,646	11,753	9,513	11,709	15,271
Pakistan	12,132	17,299	9,815	4,445	9,390
Sri Lanka	5,664	3,139	1,898	4,392	6,091
Southeast Asia					
Brunei Darussalam	3,997	4,982	5,035	4,483	4,032
Cambodia	21,334	20,265	17,805	19,998	22,500
Indonesia	135,897	144,905	137,233	146,384	145,669
Lao People's Democratic Republic	1,821	1,737	1,480	1,677	1,800
Malaysia	102,861	117,503	114,365	114,209	113,660
Myanmar	6,772	7,800	...	...	...
Philippines	110,117	108,794	96,149	103,753	106,256
Singapore	362,305	417,904	289,484	351,031	371,433
Thailand	247,579	256,812	213,442	220,600	233,191
Timor-Leste	19,647	20,667	18,212	18,331	18,300
Viet Nam	95,149	109,439	86,694	92,302	133,844
The Pacific					
Cook Islands	...	...	...	...	...
Fiji	1,011	1,546	1,558	1,494	1,330
Kiribati	173	139	116	...	...
Marshall Islands	...	...	...	...	...
Federated States of Micronesia	...	...	...	...	...
Nauru	...	...	...	...	...
Niue	...	...	...	...	...
Palau	...	...	...	...	...
Papua New Guinea	2,686	3,240	4,032	3,870	2,956
Samoa	220	285	312	402	491
Solomon Islands	647	700	669	707	684
Tonga	235	314	382	...	...
Tuvalu	98	126	114	119	130
Vanuatu	572	678	647	629	584

... = not available.

Table A17 External Debt Outstanding, \$ million

	2020	2021	2022	2023	2024
Caucasus and Central Asia					
Armenia	6,059	6,648	6,445	6,501	6,454
Azerbaijan	8,822	9,400	8,136	6,461	5,130
Georgia	17,043	18,358	18,731	20,467	22,571
Kazakhstan	163,980	164,131	161,163	163,551	...
Kyrgyz Republic	7,367	7,667	7,813	7,980	...
Tajikistan	3,780	3,747	3,653	3,640	3,574
Turkmenistan	...	...	...	...	...
Uzbekistan	36,333	41,619	...	...	...
East Asia					
People's Republic of China	2,400,807	2,746,559	2,452,765	2,447,537	...
Hong Kong, China	1,789,612	1,873,329	1,776,208	1,845,525	1,907,488
Republic of Korea	550,628	630,694	673,296	672,548	670,025
Mongolia	32,362	33,806	33,345	34,570	37,117
Taipei, China	189,873	213,592	202,146	206,499	219,947
South Asia					
Afghanistan	1,482	1,482	...	...	...
Bangladesh	44,095	50,880	55,602	62,406	71,195
Bhutan	2,990	3,012	3,023	3,049	3,151
India	573,663	619,076	624,060	663,760	711,800
Maldives	1,620	2,068	2,149	2,468	...
Nepal	7,047	7,930	8,489	8,943	9,414
Pakistan	113,014	122,294	130,196	126,141	131,037
Sri Lanka	49,041	51,775	49,678	54,832	...
Southeast Asia					
Brunei Darussalam	...	...	...	...	...
Cambodia	8,810	9,505	9,969	11,188	11,917
Indonesia	416,935	413,972	396,529	408,524	424,849
Lao People's Democratic Republic	17,431	17,188	...	...	...
Malaysia	238,844	258,706	259,617	270,621	300,980
Myanmar	13,407	13,759	12,538	12,162	...
Philippines	98,488	106,428	111,268	125,394	137,628
Singapore	1,689,455	1,833,976	1,890,983	1,960,990	2,067,383
Thailand	190,125	196,870	201,426	196,547	...
Timor-Leste	218	237	254	259	269
Viet Nam	129,479	139,853	146,627	...	...
The Pacific					
Cook Islands	55	115	148	139	131
Fiji	788	1,170	1,528	1,590	1,641
Kiribati	37	39	34	31	29
Marshall Islands	68	66	63	60	55
Federated States of Micronesia	65	61	59	54	49
Nauru	90	6	15	15	14
Niue	...	...	...	...	...
Palau	134	165	171	211	209
Papua New Guinea	6,417	7,199	7,824	8,298	7,433
Samoa	372	389	364	312	276
Solomon Islands	133	152	151	200	241
Tonga	181	193	187	177	157
Tuvalu	4	4	3	3	...
Vanuatu	357	364	352	342	406

... = not available.

Table A18 Debt Service Ratio, % of exports of goods and services

	2020	2021	2022	2023	2024
Caucasus and Central Asia					
Armenia	10.4	7.8	3.9	3.9	3.8
Azerbaijan	8.1	5.7	...	...	...
Georgia	27.8	24.2	23.1	24.1	...
Kazakhstan	69.2	44.6	45.1	54.0	...
Kyrgyz Republic	44.4	26.7	44.6	15.3	...
Tajikistan	15.8	10.7	14.5	14.7	16.1
Turkmenistan	...	...	...	...	...
Uzbekistan	23.3	17.1	18.1	18.1	...
East Asia					
People's Republic of China	6.5	5.9	10.5	7.6	...
Hong Kong, China	...	...	...	...	...
Republic of Korea	...	...	...	...	...
Mongolia	44.3	35.8	29.0	27.7	29.7
Taipei, China	1.6	1.2	1.6	3.9	3.5
South Asia					
Afghanistan	...	...	...	...	...
Bangladesh	4.4	4.3	3.5	5.3	4.3
Bhutan	6.5	10.8	14.9	13.2	11.8
India	8.2	5.2	5.3	6.7	6.7
Maldives	4.9	7.2	5.3	4.3	...
Nepal	10.8	13.2	11.0	11.4	11.5
Pakistan	52.1	42.5	38.1	58.7	43.6
Sri Lanka	35.2	30.7	15.4	14.9	...
Southeast Asia					
Brunei Darussalam	...	...	...	...	...
Cambodia	1.8	1.9	1.8	1.8	1.7
Indonesia	27.7	22.1	16.6	17.7	18.7
Lao People's Democratic Republic	10.6	8.8	...	...	...
Malaysia	14.5	10.7	11.4	13.2	14.3
Myanmar	5.4	5.3	6.6	7.0	7.0
Philippines	6.7	7.5	6.3	10.3	11.5
Singapore	...	...	...	...	...
Thailand	7.5	6.3	7.3	7.9	...
Timor-Leste	0.5	0.4	0.9	3.3	9.0
Viet Nam	5.9	6.1	6.8	7.5	...
The Pacific					
Cook Islands	6.6	9.8	-15.5	-1.9	...
Fiji	4.3	20.1	1.5	3.0	4.4
Kiribati	8.6	20.0	12.1	10.8	9.0
Marshall Islands	7.8	5.6	6.9	7.3	...
Federated States of Micronesia	9.3	8.0	...	...	...
Nauru	1.1	0.8	0.7	4.1	5.1
Niue	...	...	...	...	...
Palau	14.7	47.2	25.8	22.9	20.3
Papua New Guinea	1.5	0.8	0.8	1.7	2.0
Samoa	11.3	25.6	23.7	12.7	10.0
Solomon Islands	1.5	1.6	0.4	0.8	0.7
Tonga	13.0	16.2	20.8	15.7	20.3
Tuvalu	...	...	...	...	...
Vanuatu	17.3	36.3	24.1	12.3	16.4

... = not available.

Asian Development Outlook April 2025

Trade Uncertainty Challenges Resilience in Asia and the Pacific

Forecasts finalized before the announcement of new tariffs by the US administration on 2 April indicate that growth in Asia and the Pacific will slightly moderate this year and next. Weak consumption in the People's Republic of China will partly offset robust domestic demand in South Asia. Disinflation is expected to continue, driven by lower food and energy prices, along with the lagged effects of previous monetary policy tightening. The region's high-income technology exporters remain a bright spot, benefiting from strong global demand for electronics. However, rising trade uncertainty and escalating tariffs have created headwinds, weighing on financial markets and investor confidence. The region must navigate these challenges to sustain its economic momentum.

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