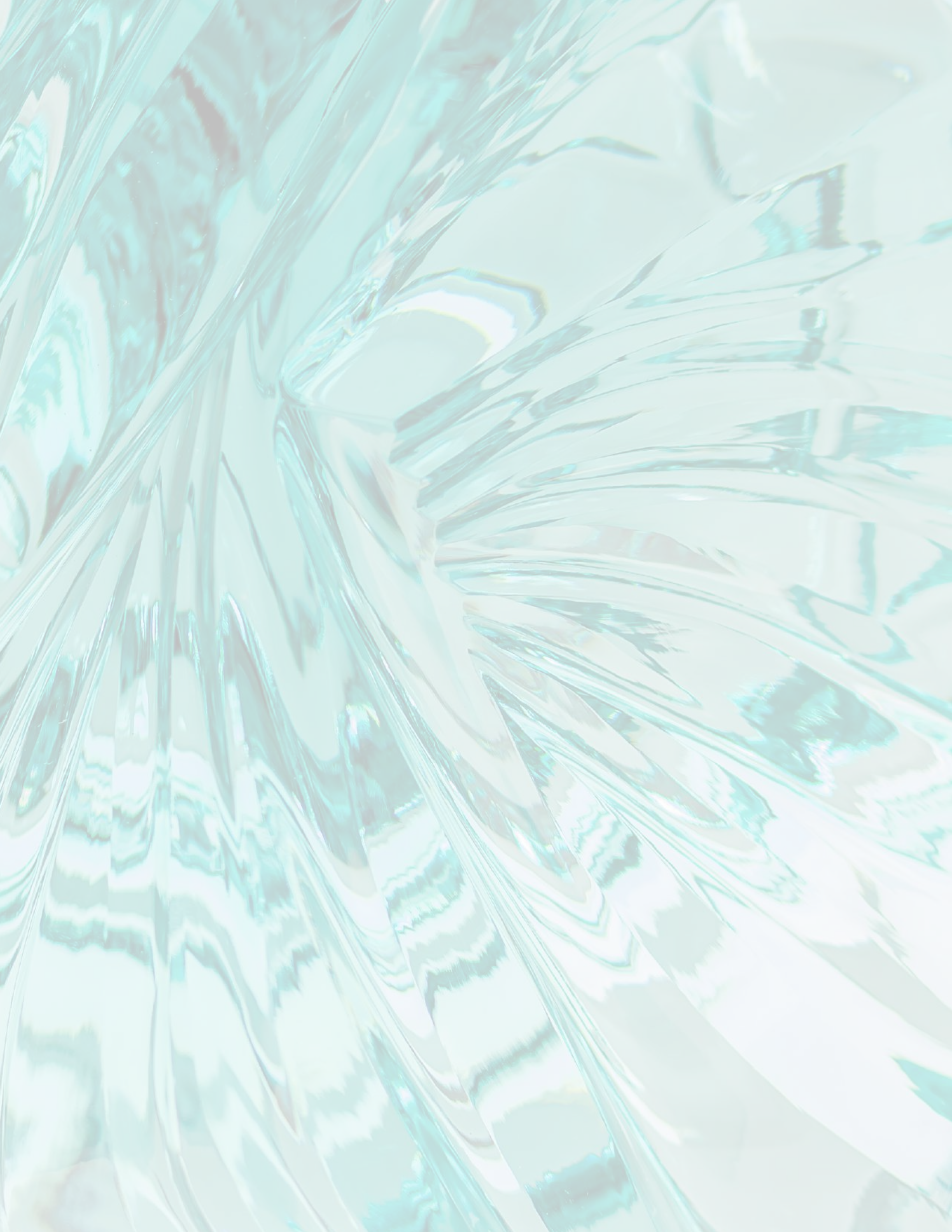
2

ECONOMIC TRENDS AND PROSPECTS IN DEVELOPING ASIA

Brunei Darussalam
Cambodia
Indonesia
Lao PDR
Malaysia
Myanmar
Philippines
Singapore
Thailand
Timor-Leste
Viet Nam

SOUTHEAST ASIA



BRUNEI DARUSSALAM

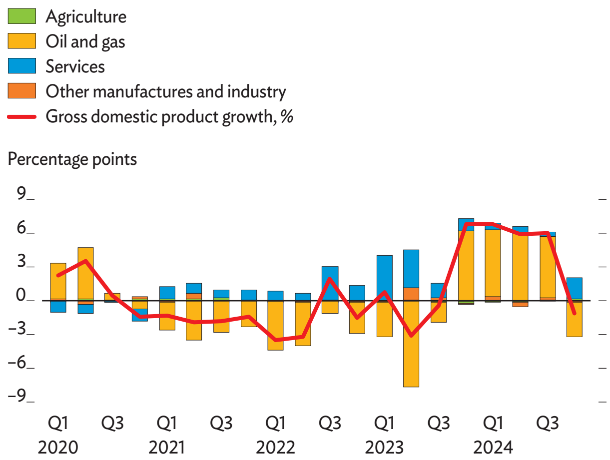
Growth is expected to slow in 2025 and 2026 after last year's rapid expansion. Lower global energy prices will make it difficult for the oil and gas sector to repeat its strong 2024 performance. Inflation is forecast to remain subdued in line with trends in major trading partners. The country is sensitive 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.



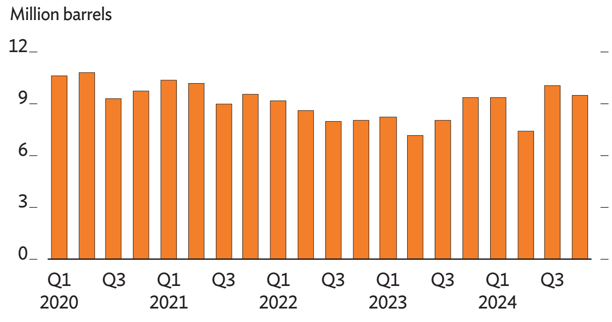
Q = quarter.

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.

This chapter was written by Milan Thomas and Nedelyn Magtibay-Ramos of the Economic Research and Development Impact Department, ADB, Manila.

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).

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.

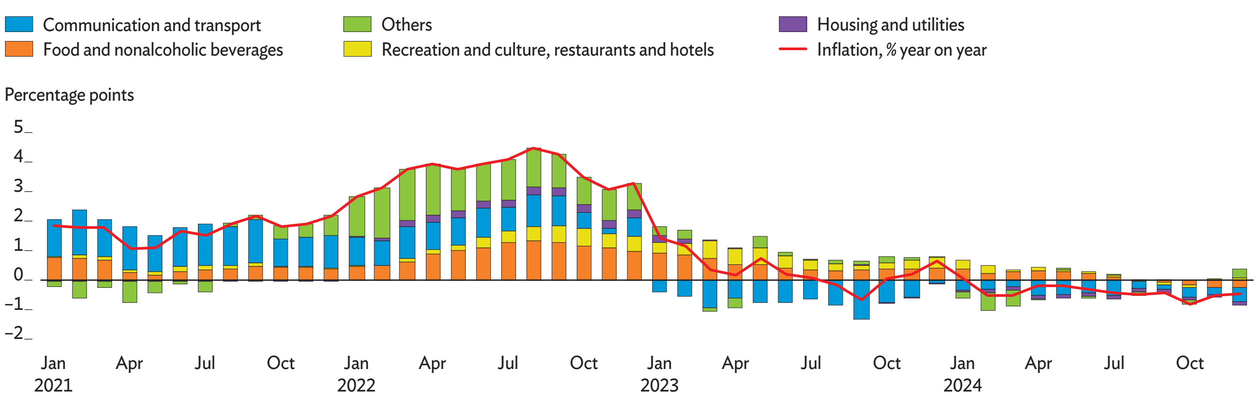
	2023	2024	2025	2026
GDP growth	1.1	4.2	2.5	2.0
Inflation	0.4	−0.4	0.5	−0.2

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

Figure 2.22.3 Sources of Inflation

Inflation has fallen recently, particularly for food.



Source: CEIC Data Company.

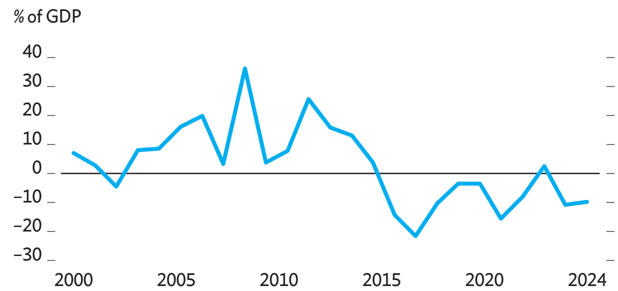
technology, and services. In 2026, the economy is forecast to grow by a modest 2.0%, driven by some expansion in industry. In addition, agriculture should increase its contribution with the establishment of a salmon farm and a seafood processing hub, both supported by foreign direct investment.

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.

Figure 2.22.4 Fiscal Balance

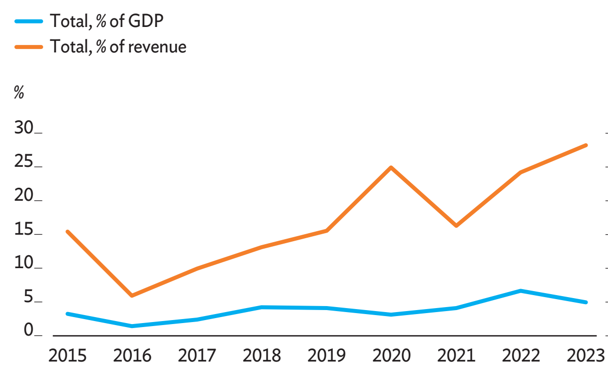
The fiscal balance has fallen in recent years.



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.

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 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

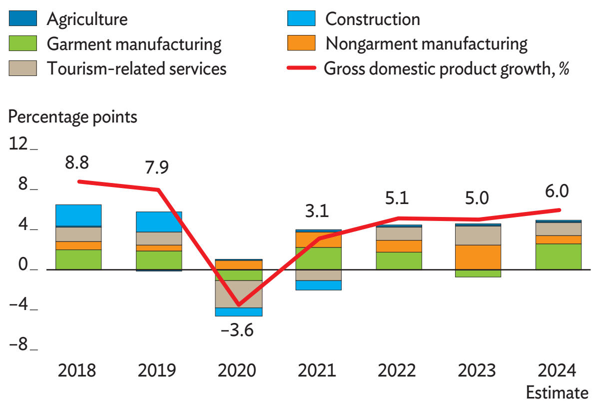
Economic growth accelerated in 2024. Real gross domestic product grew by an estimated 6.0% in 2024, up from 5.0% in 2023, led primarily by a rebound in garment manufacturing, sustained non-garment growth, and a recovery in tourism, coupled with steady agricultural growth (Figure 2.23.1).

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.

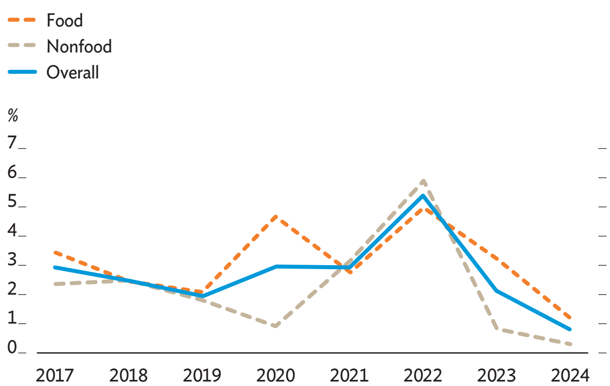
Agricultural production grew by an estimated 0.9% in 2024 despite an El Niño drought until May 2024. Food imports increased by 16.1% to $788.5 million, opening opportunities for local substitution. Demand from neighboring countries and expansion into new markets boosted crop production. Agricultural exports increased by 17.5%, led by cassava, rubber, and cashew nuts. An improved freshwater fish catch significantly supported fish production for the year.

This chapter was written by Poullang Doung of the Cambodia Resident Mission, ADB, Phnom Penh and Milan Thomas of the Economic Research and Development Impact Department, ADB, Manila.

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.

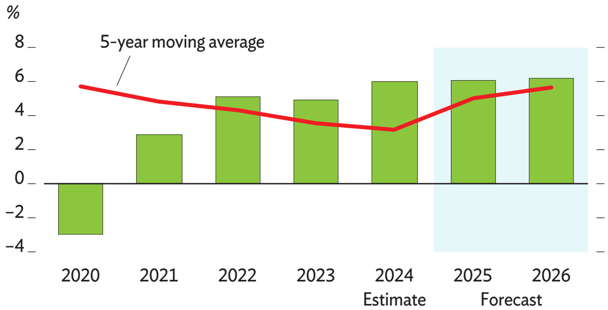
	2023	2024	2025	2026
GDP growth	5.0	6.0	6.1	6.2
Inflation	2.1	0.8	3.7	2.4

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

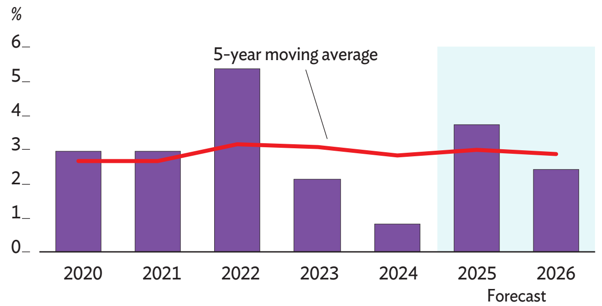
Growth will accelerate in 2025 and 2026 and remain above the 5-year moving average.



Sources: National Institute of Statistics; Asian Development Bank estimates.

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.

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.

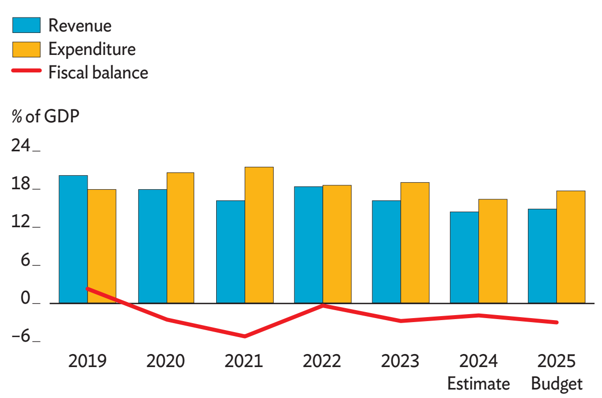
Agriculture will continue to grow. Agriculture is forecast to grow by 1.0% in 2025 and 1.1% in 2026, buoyed by export demand. Growth is further supported by last year's rise in foreign direct investment, recent bilateral free trade agreements with the People's Republic of China and Republic of Korea, 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.

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.

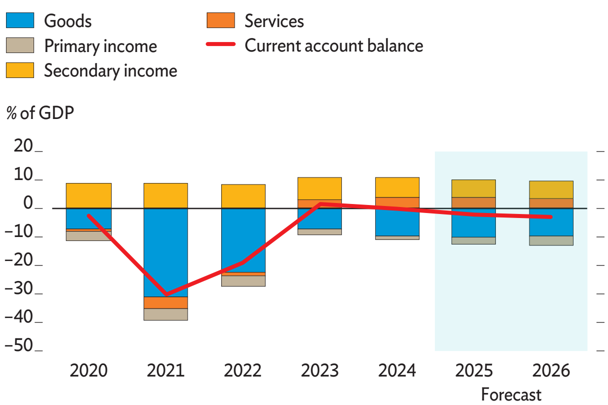
Source: Ministry of Economy and Finance; Asian Development Bank estimates.

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.

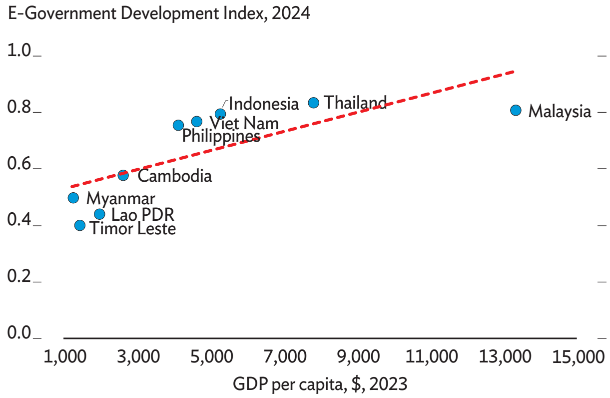
Digital technology offers opportunities to rejuvenate traditional drivers and unleash new sources of growth by boosting productivity across sectors. This will be increasingly important as the country's cost advantage in traditional manufacturing activities diminishes. For example, digital technology 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).

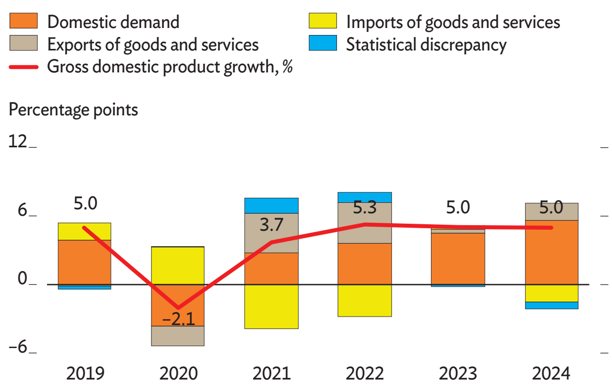
Robust consumption continued as inflation eased and election spending surged. Private consumption, around 55% of GDP, grew by 5.1% in 2024, up from 4.9% in 2023. Lower inflation supported consumer confidence, retail sales, and durable goods spending. Government consumption rose 6.6% in 2024, driven by 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.



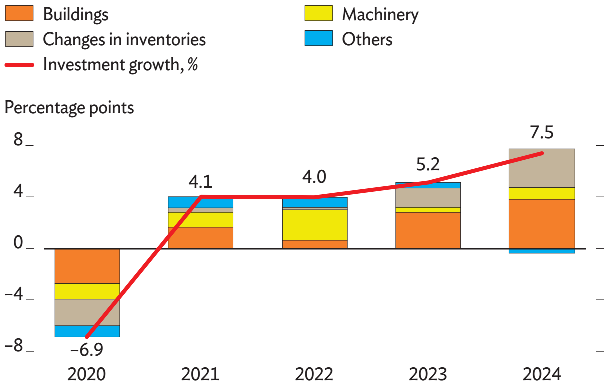
Source: Haver Analytics.

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.

This chapter was written by Reza Anglingkusumo and Priasto Aji of the Indonesia Resident Mission, ADB, Jakarta.

Figure 2.24.2 Contributions of Investment Components to Growth

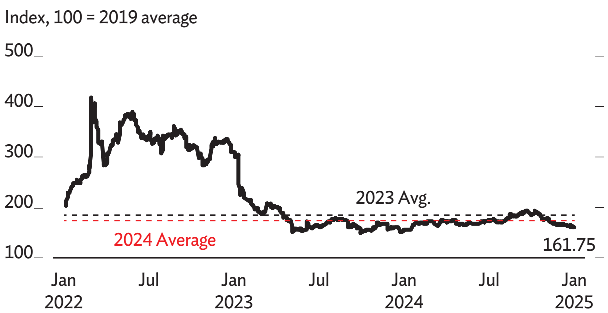
Higher spending on public infrastructure boosted investment.



Source: Haver Analytics.

Figure 2.24.3 Prospera Commodity Price Index

Lower commodity prices reduced export revenue.

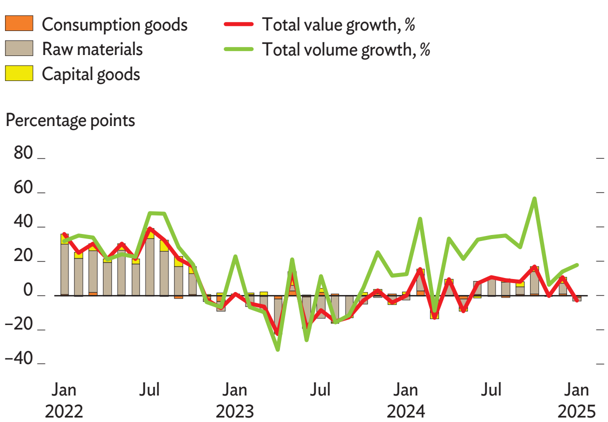


Note: Prospera Commodity Price Index is comprised of crude palm oil, coal, nickel, rubber, and copper weighted by Indonesia's export share of those commodities in 2019.

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.



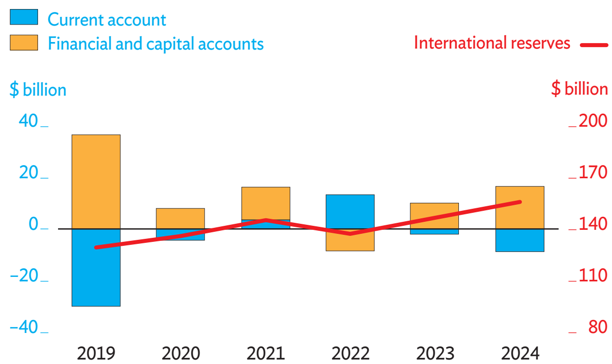
Source: Haver Analytics.

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

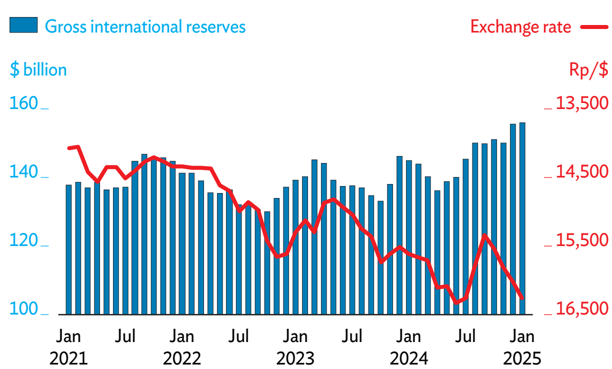
The capital and financial account surplus more than offset the current account deficit.



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.

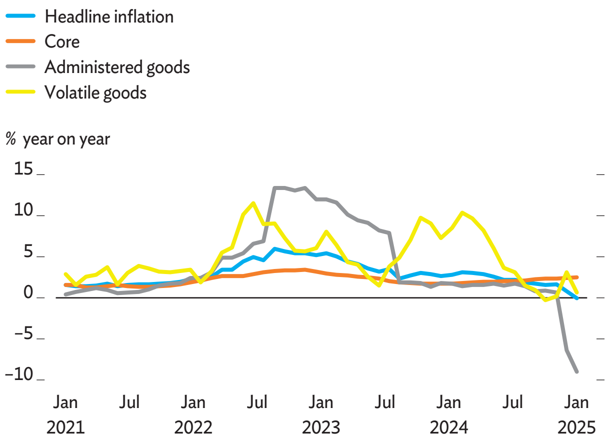


Source: Haver Analytics.

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.



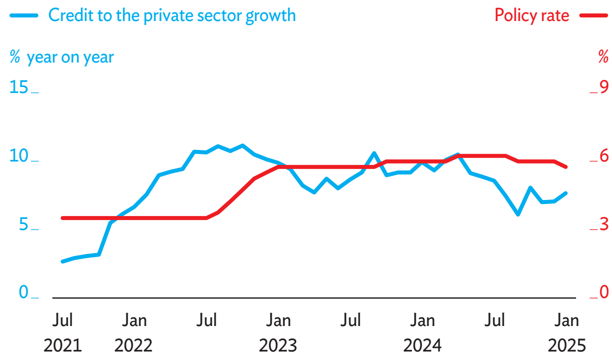
Source: Haver Analytics.

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.

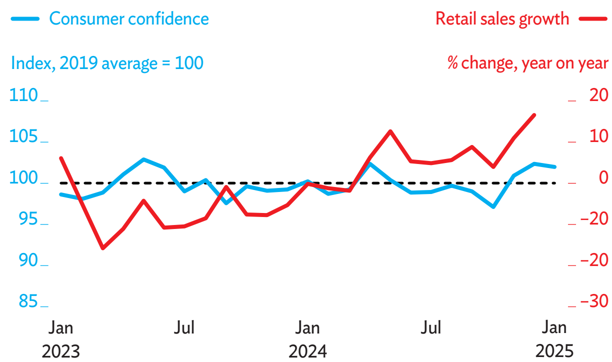
In 2025, the government is expected to maintain a pro-growth fiscal stance. The fiscal deficit is projected to be 2.5% of GDP, up from 2.3% in 2024. The government has allocated funds to support the new administration's priority programs, such as the free nutritious meal program, school renovations, 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.

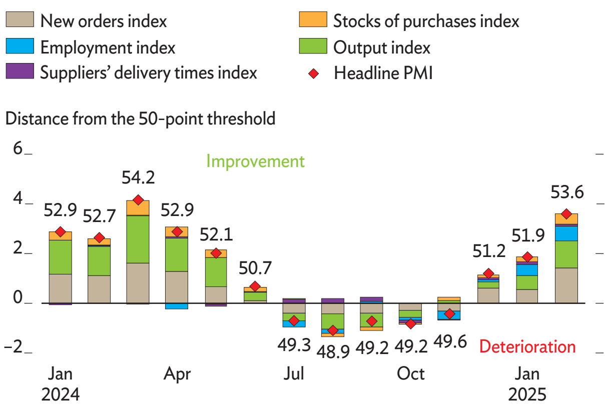
Box 2.24 The Free Nutritious Meal Program

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.

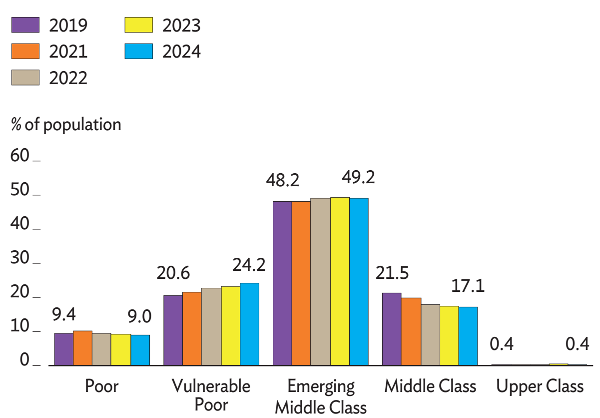
Orienting policies towards addressing risks to the outlook would sustain economic resilience amidst global turbulence. Prolonged tariff wars could dampen exports to main trading partners, thereby affecting Indonesia's growth. Escalation of geopolitical conflict may disrupt global supply chains and increase 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.

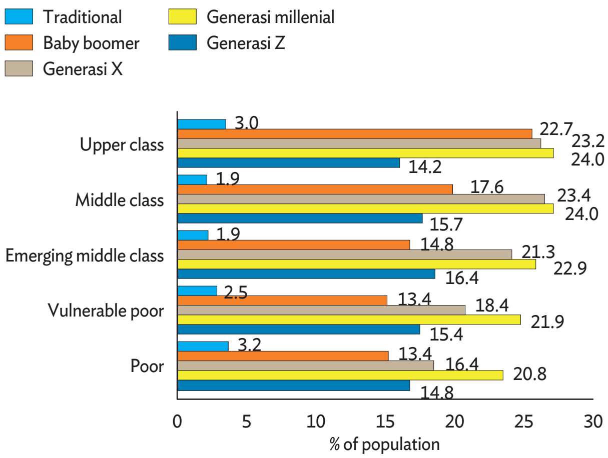


Note: "Poor" refers to households below the Poverty Line (PL), "Vulnerable Poor" are households earning 1.0–1.5×PL, "Emerging Middle Class" includes households with incomes between 1.5–3.5×PL, "Middle Class" are households earning between 3.5–17×PL, and "Upper Class" denotes households earning above 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.

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.

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 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.

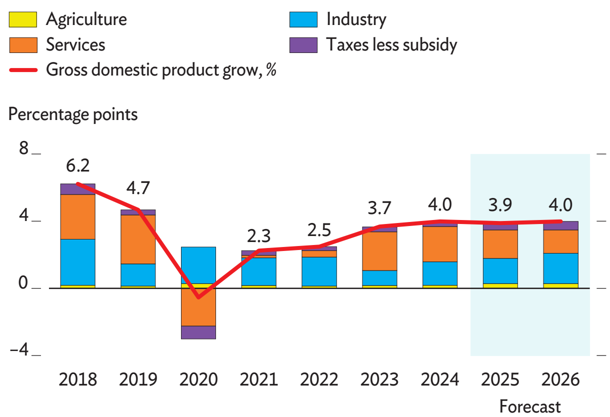
Economic Performance

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

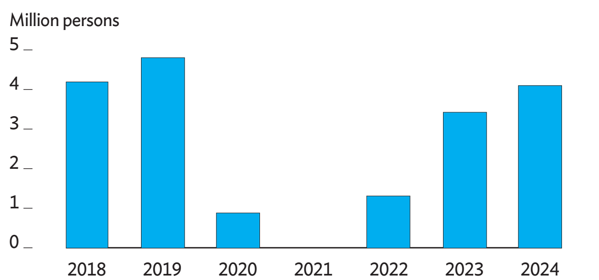
Tourism, transport, and logistics services drove growth.



Sources: Lao Statistics Bureau; Asian Development Bank estimates.

Figure 2.25.2 Tourist Arrivals

Tourist arrivals rose close to pre-pandemic levels.

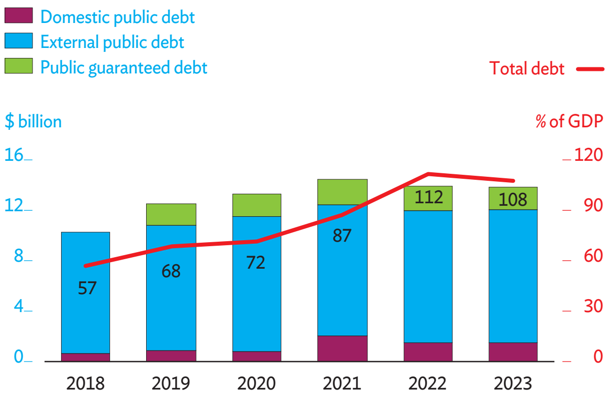


Source: Ministry of Information, Culture, and Tourism.

This chapter was written by Kavita Iyengar, Soulinthone Leuangkhamsing, and Pathoumthip Khounthalyvong of the Lao Resident Mission, ADB, Vientiane.

Figure 2.25.3 Public Debt

Public debt remains high.

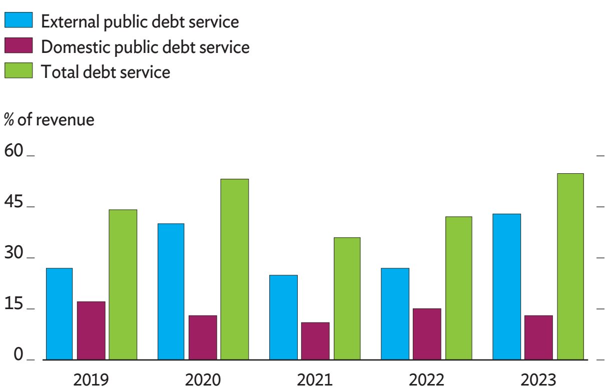


GDP = gross domestic product.

Source: Ministry of Finance.

Figure 2.25.4 Debt Service

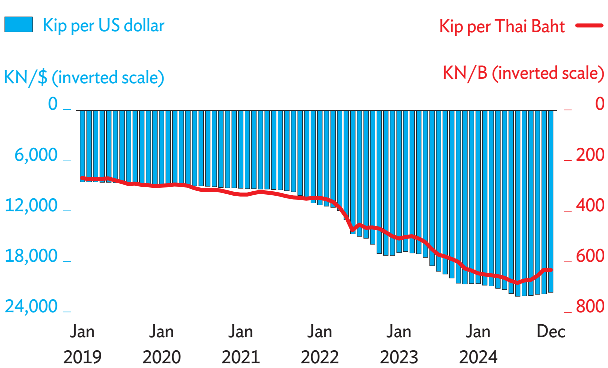
Debt servicing remains a burden.



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%.

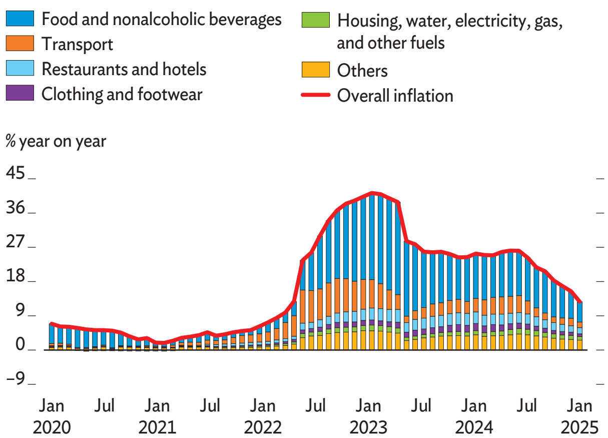
Foreign direct investment (FDI) and favorable rainfall boosted electricity production. Electricity output rose 6.7% to 51,981 million kwh in 2024, driven by higher rainfall with the start of La Niña, with exports reaching $2.8 billion, a 17.1% increase over 2023. However, energy imports including diesel 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

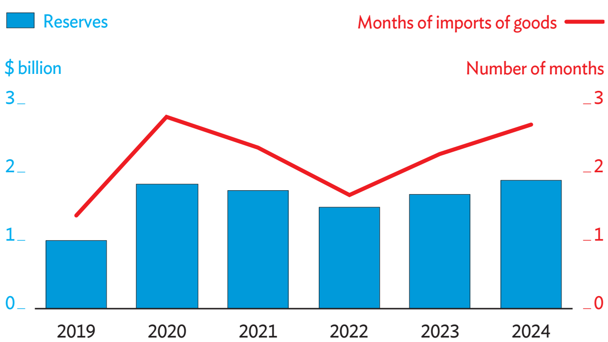
Inflation slowed by year-end as the kip stabilized.



Source: Lao Statistics Bureau.

Figure 2.25.7 Reserves and Imports

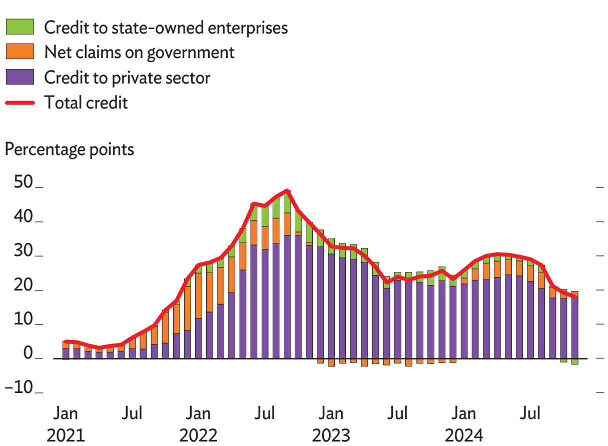
The reserve cover remains inadequate.



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.

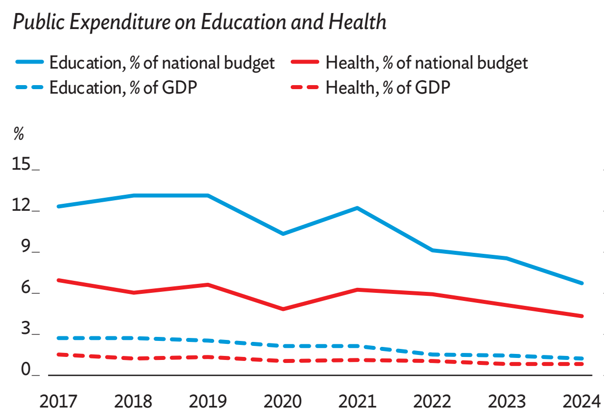
Fiscal policy will remain tight due to the debt burden. The 2025 budget targets a 1.0% GDP deficit, with revenue rising by 35.9% to 68.1 trillion kip and expenditure up by 19.1% to 71.8 trillion kip. Tax reforms and improved tax administration will drive revenue growth. The government aims to enhance 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



GDP = gross domestic product.
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

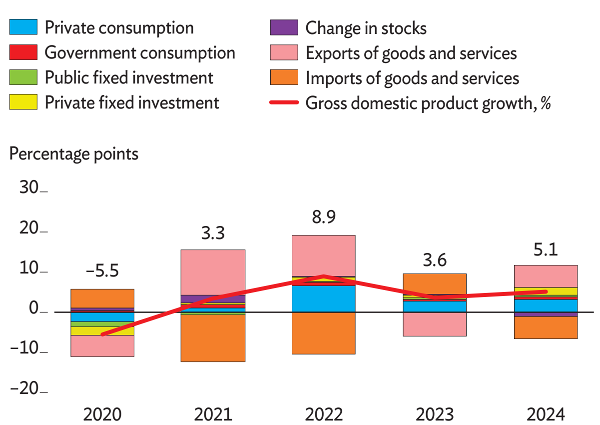
Economic growth was exceptionally strong in 2024, driven by consumer spending, a substantial increase in investment and construction, and a resurgence in manufacturing and external trade. Inflation remained manageable despite rationalized subsidies. However, in 2025 and 2026, growth should moderate slightly 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.

Figure 2.26.1 Demand-Side Contributions to Growth

Investments, resilient consumption, and an export recovery helped drive growth.



Source: Haver Analytics.

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 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

This chapter was written by James Villafuerte of the Southeast Asia Department (SERD), ADB, Manila, and Mae Hyacinth Kiocho and Joyce Marie Lagac, SERD consultants.

Figure 2.26.2 Labor Market Indicators

Favorable labor market conditions and improved incomes boosted consumer spending.

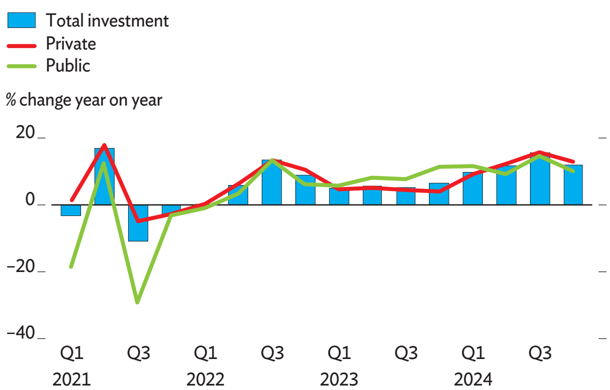
Q = quarter.

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

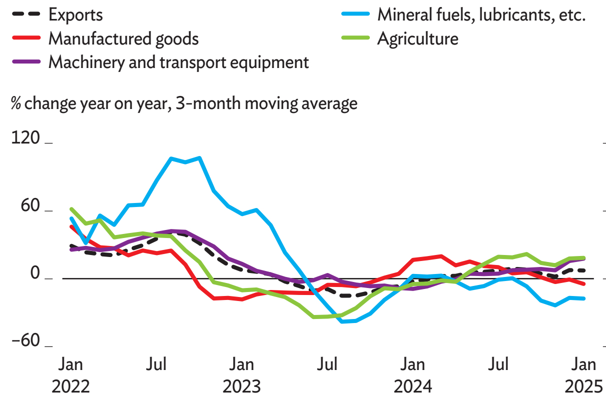
Private and public investment expanded considerably.



Source: Haver Analytics.

Figure 2.26.4 Merchandise Exports

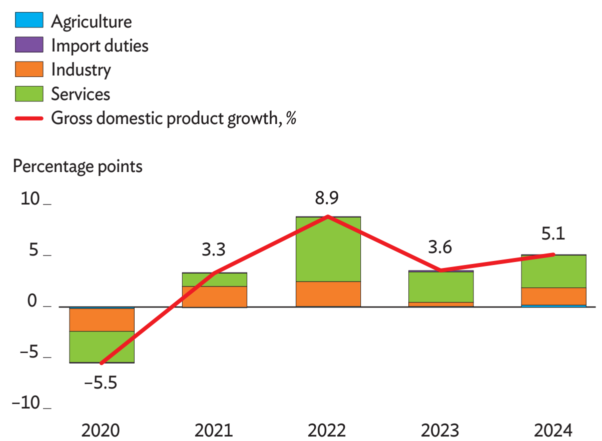
Exports rebounded after declining in 2023.



Source: Haver Analytics.

Figure 2.26.5 Supply-Side Contributions to Growth

Construction and services led growth.



Source: Haver Analytics.

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 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).

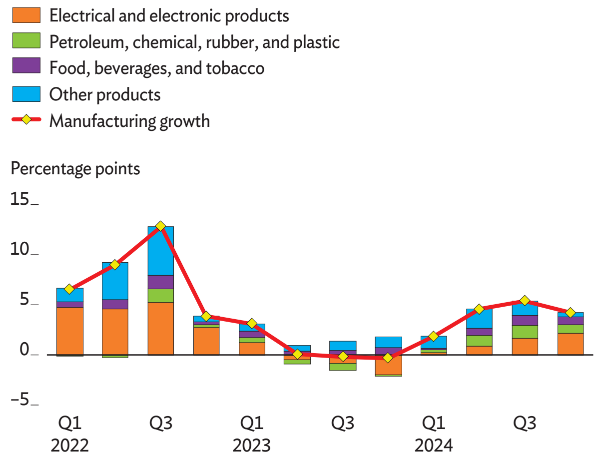
The central bank maintained its monetary policy rate at 3.0% (Figure 2.26.8). Monetary policy remained accommodative, given strong economic growth alongside steady inflation. The Malaysian ringgit, which depreciated substantially starting in 2023, rebounded by the end of 2024. It appreciated against 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

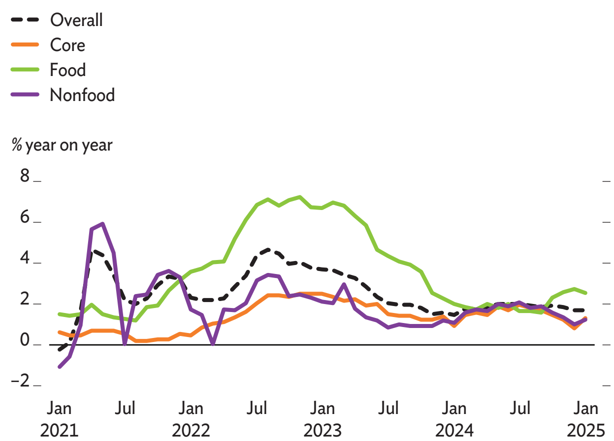
An increase in major manufactured products fueled the recovery.



Source: Haver Analytics.

Figure 2.26.7 Monthly Inflation

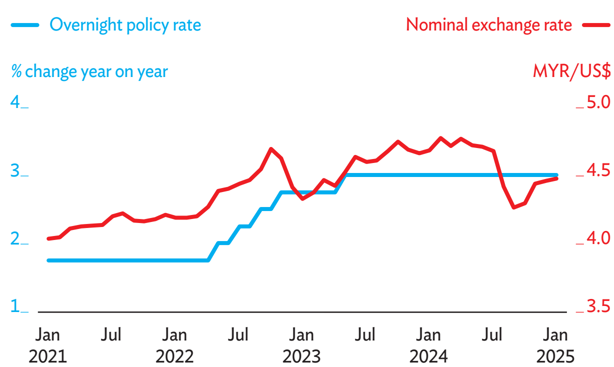
Inflation remained stable throughout the year.



Source: Haver Analytics.

Figure 2.26.8 Monetary Policy

The monetary policy rate remained stable.



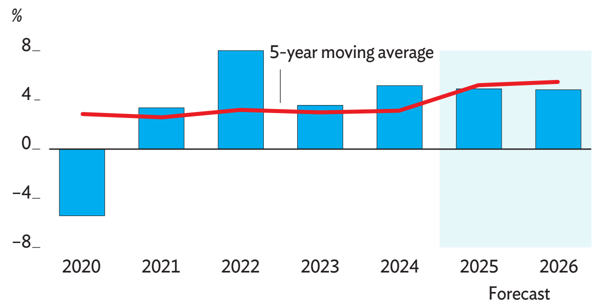
Source: Haver Analytics.

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.

Figure 2.26.9 Gross Domestic Product Growth

Recent strong growth will likely moderate slightly due to greater uncertainties.



Source: *Asian Development Outlook* database.

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.

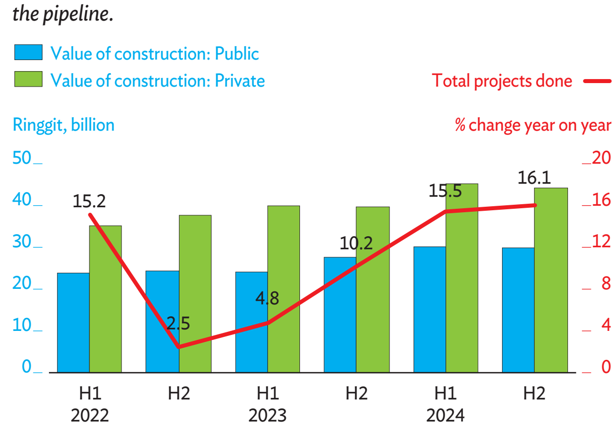
Sources: Department of Statistics Malaysia; Asian Development Bank estimates.

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.

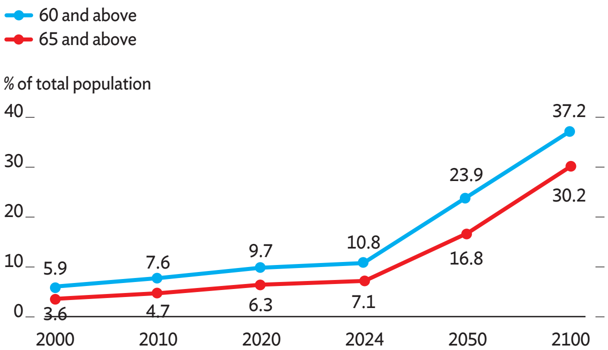
Policy Challenge—A Graying Population and Digital Transformation

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.

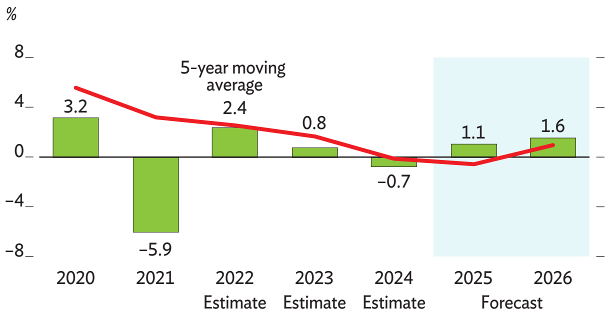
Economic Performance

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.

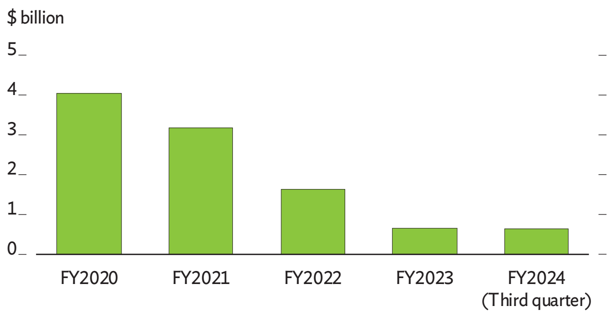
Merchandized trade declined sharply. Trade decreased by 9.5% in the second quarter of FY2024 (latest available data) compared to the latter half of FY2023. This decline was primarily due to a sharp 24.6% drop in merchandized imports. Several factors contributed to the decline, including sluggish investment due to an unfavorable business climate, strict import controls, exchange market fragility,

This chapter was written by Joel Mangahas and Eve Cherry Lynn of the Myanmar Resident Mission, ADB, Nay Pyi Taw.
Effective 1 February 2021, ADB placed a temporary hold on sovereign project disbursements and new contracts in Myanmar.

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.

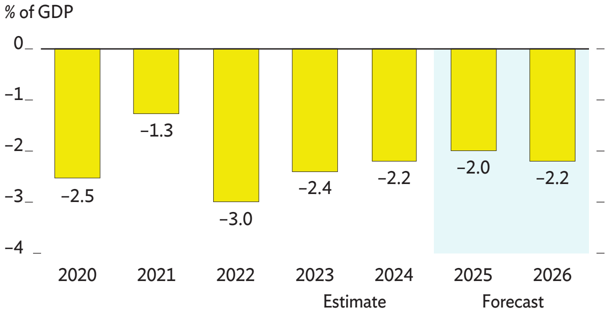
Headline inflation is projected to rise in FY2025. Severe floods in September 2024 disrupted agricultural output and led to high input prices, labor shortages, and security concerns in rural areas, further limiting productivity. Consequently, lower food production will contribute to persistent food inflation, 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

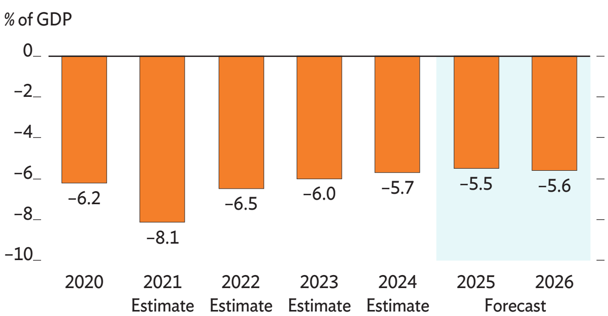
The current account deficit will narrow, mainly due to a sharp drop in imports.



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

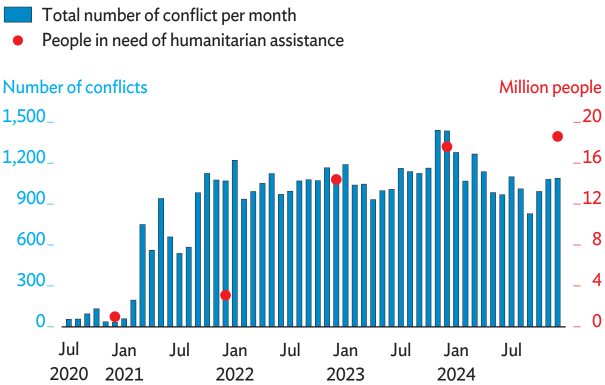
The socioeconomic situation is rapidly worsening. Conflict and instability have significantly impacted economic performance and social outcomes. Out of 14 states and regions, 12 have been hurt by conflict. Between 2021 and 2023, GDP declined by an average 1.2%, accompanied by inflation reaching 27.5%. 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

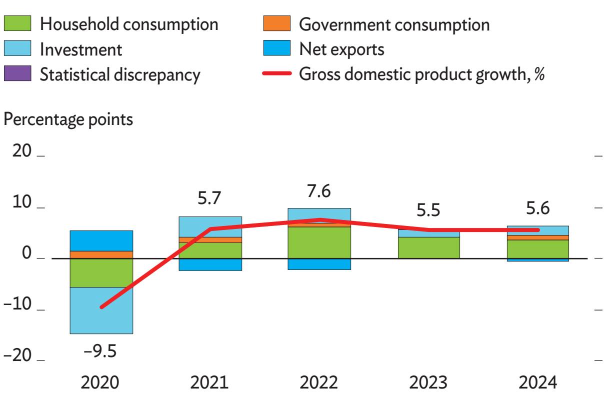
Economic growth remained steady in 2024 supported by consumption and investment. It is expected to pick up in 2025 and 2026 on strengthening domestic demand and sustained public investment. Inflation will likely remain modest and allow scope for further monetary policy easing. Building a sustainable "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.

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.

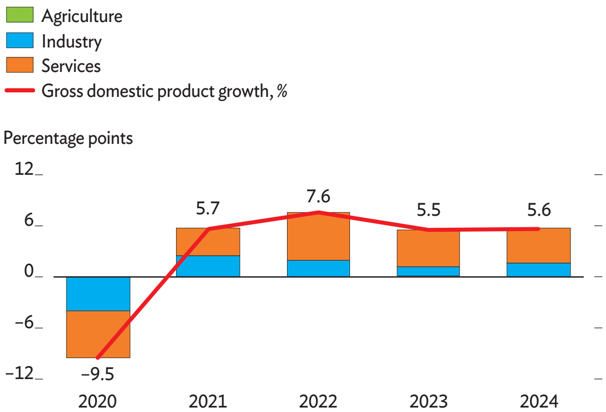
Investment growth increased by 7.5% from 5.9% on brisk public and private construction. Public construction increased by 12.3% from 9.7% in 2023 with large infrastructure projects underway. Private construction expanded by 9.2% from 8.8% in 2023. Spending on industrial machinery continued to grow, while 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.

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,

This chapter was written by Cristina Lozano and Teresa Mendoza of the Philippines Country Office, ADB, Manila.

Figure 2.28.2 Supply-Side Contributions to Growth

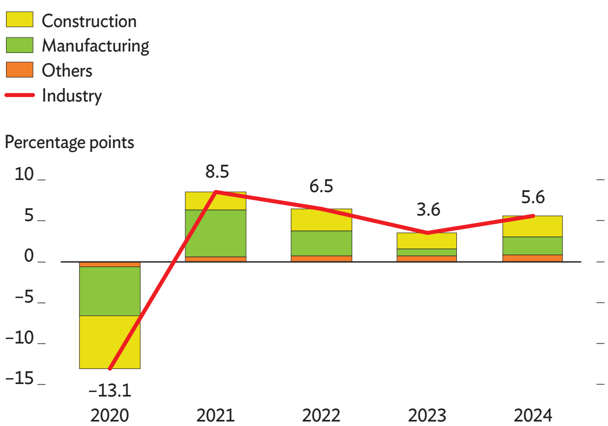
Services largely fueled growth, with trade and tourism as key contributors.



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.

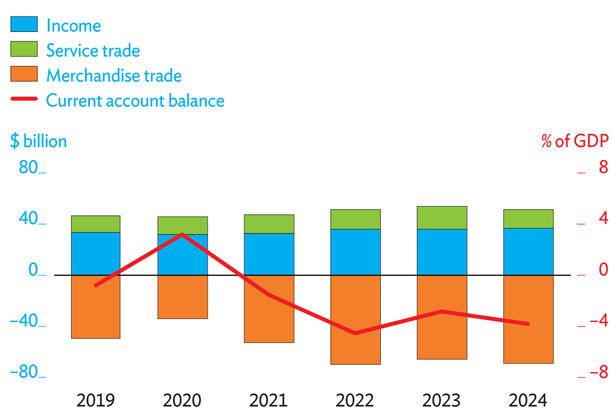
Inflation slowed to 3.2% in 2024 from 6.0% in 2023 as food and transport prices moderated. Food inflation slowed in the second half, helped by lower rice tariffs beginning July 2024. Rice inflation slid from over 20% in the first half to 0.8% year on year in December. The government also extended the 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

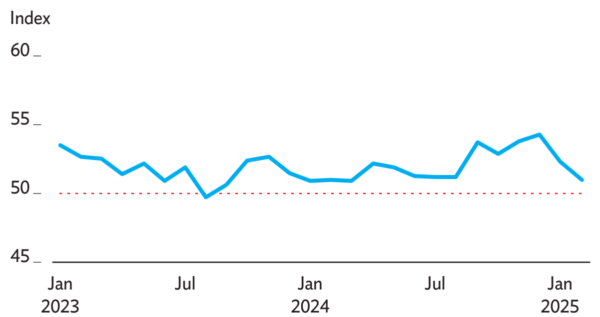
GDP = gross domestic product.
Source: Asian Development Bank estimates.

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.

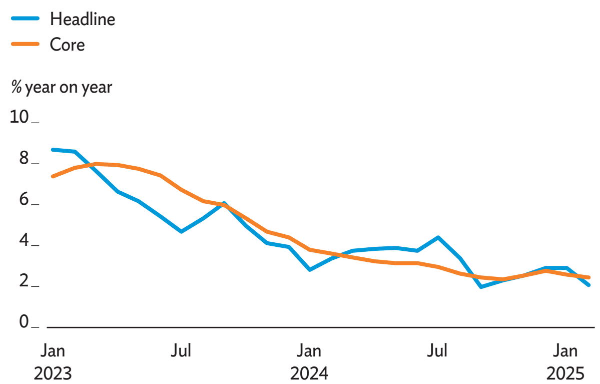
Public private partnerships (PPP) support investment. The 2023 PPP Code enhanced the regulatory environment for PPP projects. Under the government's flagship infrastructure program, 43 projects are PPPs, of which 11 were underway and 6 approved for implementation as of March 2025. The government awarded 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

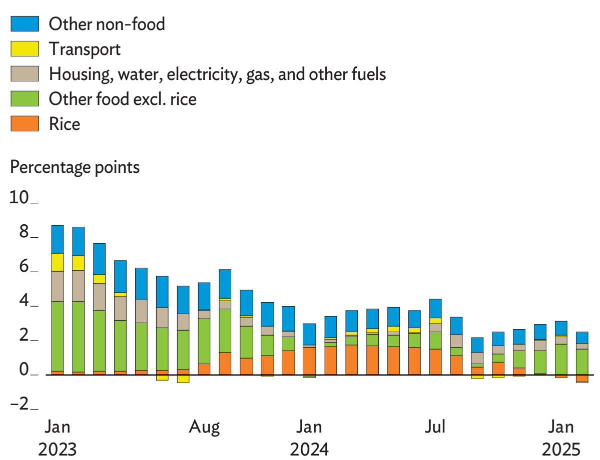
Inflation remained modest and within the 2%–4% target.



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.

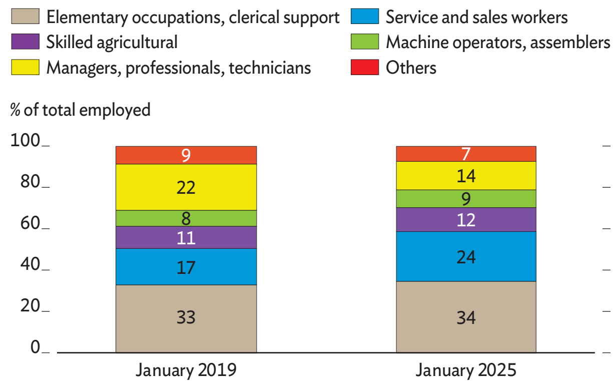
The 2025 national budget is 9.7% higher than 2024, with a third allocated for social services. Programs include national health insurance, nutrition, education, training and livelihood programs, along with conditional cash transfers and food vouchers to poor families. These programs, along with infrastructure 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 $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.

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.

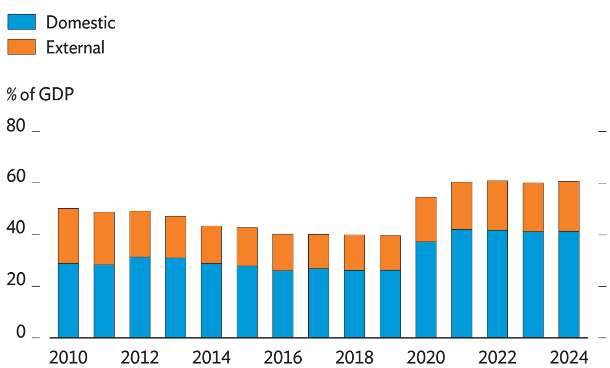
Additional revenues and expenditure reforms are supporting fiscal consolidation. Under the government's medium-term fiscal framework, the fiscal deficit will narrow to 5.2% of GDP in 2025 and reach 3.7% by 2028, anchored by higher revenues. Revenue share in 2024 improved to 16.7% of GDP from 15.7% in 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 Philippine's 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

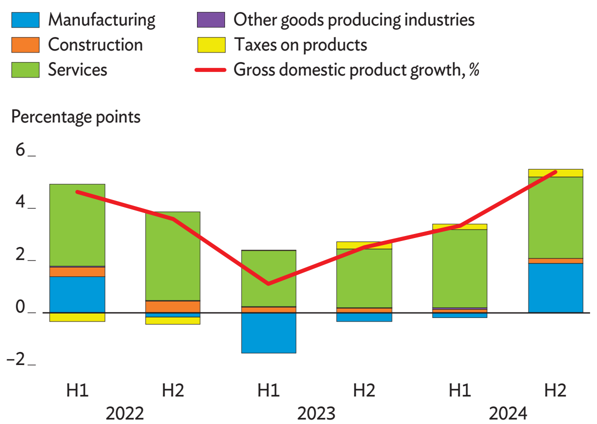
GDP growth in 2024 accelerated, driven by robust manufacturing and services. But the economy will moderate over the next 2 years due to global trade uncertainties. Inflation continued to ease in 2024 and is projected to decline further throughout the forecast period. The government should support small 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.

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.

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).

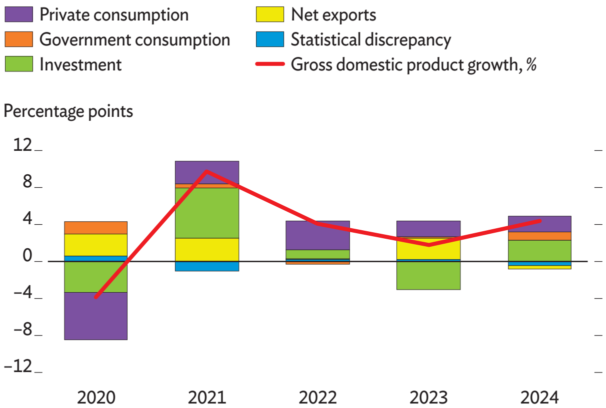
Both headline and core inflation continued to ease in 2024. In December, core inflation eased to 1.8%, down from 1.9% in November, as a rise in food inflation was offset by moderating costs in services (Figure 2.29.3). Headline inflation softened to 1.6% in December, driven by lower private transport 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

This chapter was written by Shu Tian and Mai Lin Villaruel of the Economic Research and Development Impact Department, ADB, Manila.

Figure 2.29.2 Demand-Side Contributions to Growth

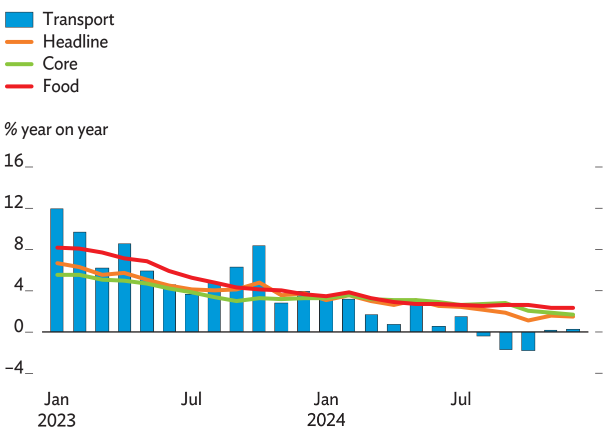
Domestic demand drove growth in 2024, while net exports were negative.



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.



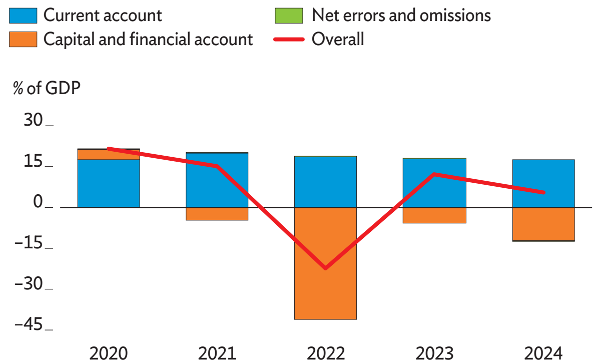
Source: CEIC Data Company.

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 S$3.7 billion, or 0.5% of GDP, driven by strong operating revenue of S$116.6 billion (15.9% of GDP) from higher corporate taxes, a goods and services tax, and personal income taxes. Total expenditure was S$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.

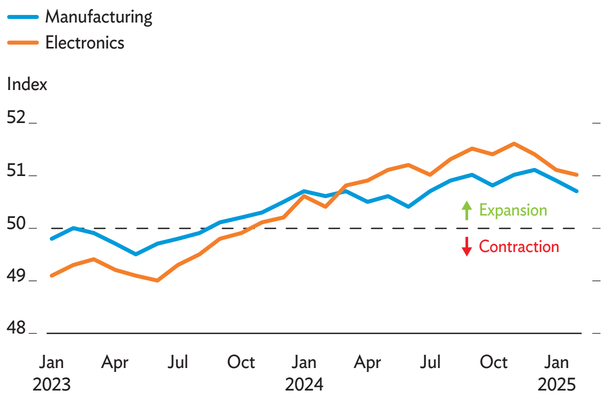
	2023	2024	2025	2026
GDP growth	1.8	4.4	2.6	2.4
Inflation	4.8	2.4	2.0	1.7

GDP = gross domestic product.
Sources: Ministry of Trade and Industry. Economic Survey Singapore; Asian Development Bank estimates.

Figure 2.29.5 Leading Economic Indicators

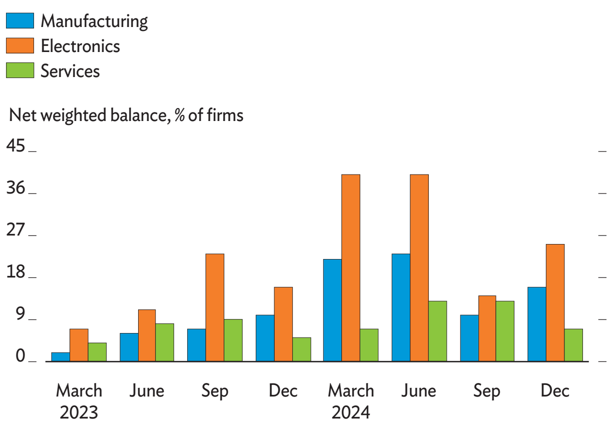
A. Purchasing Managers' Index

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.

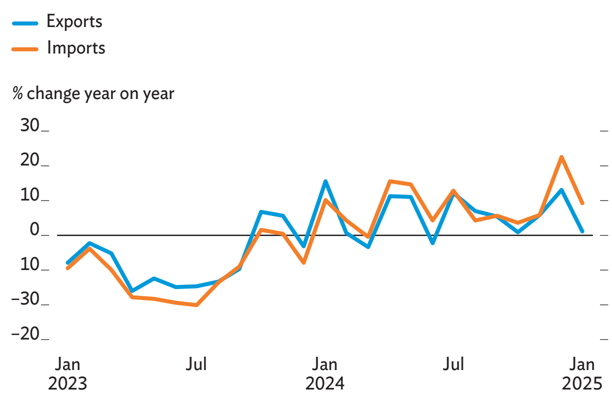
particularly in new orders and exports. Growth in services should remain strong, supported by finance, insurance, and information and communications technology-related services. Domestic-related services will remain subdued. Business expectations for manufacturing and electronics will remain high, although 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.

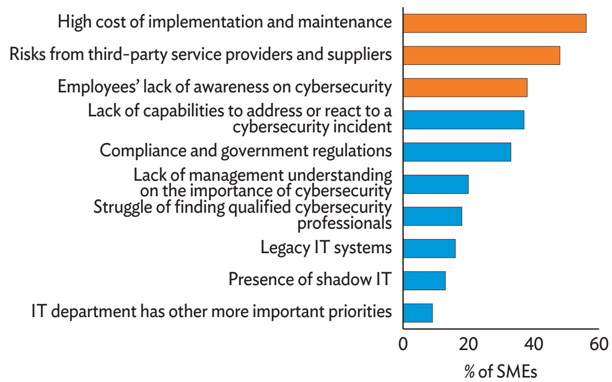
Inflation will ease to 2.0% in 2025 and 1.7% in 2026 as commodity prices decline. In January 2025, headline inflation moderated to 1.8% year on year, driven by lower inflation across all consumer price index categories. During its January meeting, the central bank reduced its policy band slope to support 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.

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).

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, 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

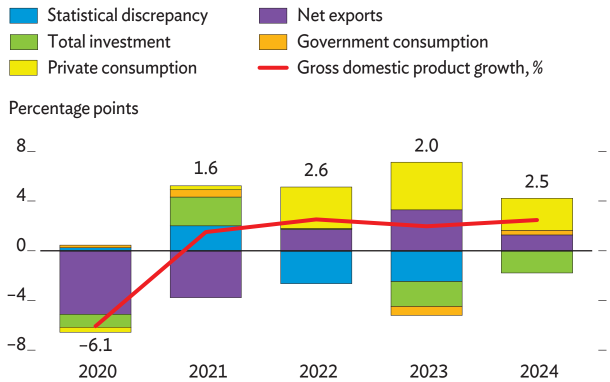
The economy expanded in the latter half of 2024 after sluggish first half growth. The economy expanded by 2.5% year-on-year in 2024. The second half pickup came from a recovery of merchandise exports, normalized public investment after a fiscal year (FY) 2024 (ending September 2024) budget delay, and 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 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.

Figure 2.30.1 Demand-Side Contributions to Growth

Tourism and private consumption were the main drivers of growth in 2024.



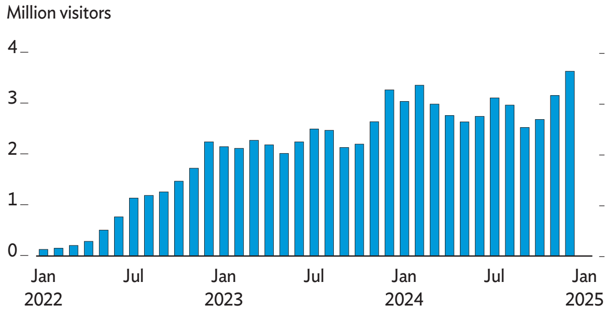
Source: Office of the National Economic and Social Development Council.

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.

This chapter was written by Chitchanok Annonjarn of the Thailand Resident Mission, ADB, Bangkok.

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).

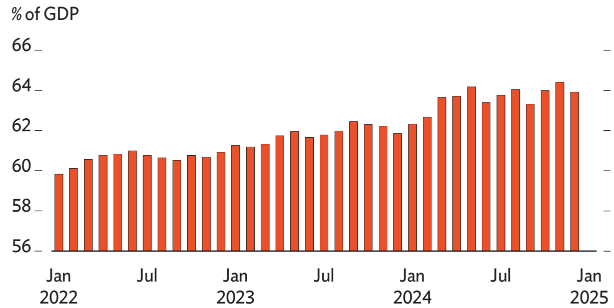
The FY2025 budget will likely be the highest ever, with total planned spending of approximately $103 billion. The 4.3% year-on-year spending increase should support economic growth. The budget deficit will reach roughly $24 billion, equivalent to 4.3% of GDP.

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.

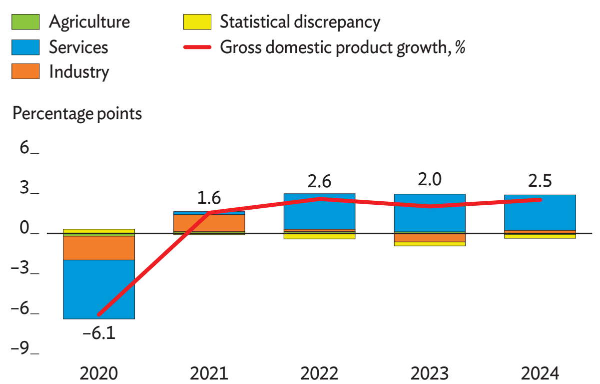


GDP = gross dometic product.

Source: Public Debt Management Office.

Figure 2.30.4 Supply-Side Contributions to Growth

Services significantly contributed to growth.



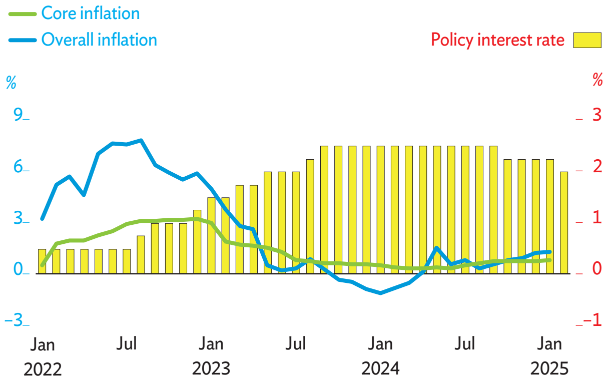
Source: Office of the National Economic and Social Development Council.

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

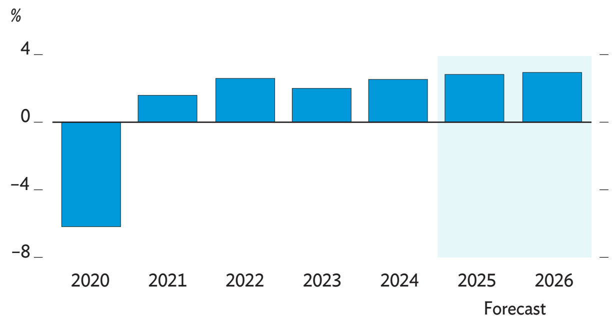
Low inflation continued; the policy rate was cut by a total of 50 basis points in October 2024 and February 2025.



Source: CEIC Data Company.

Figure 2.30.6 Gross Domestic Product Growth

Moderate growth is expected in the near term.



Source: *Asian Development Outlook* database.

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 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.

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.

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.

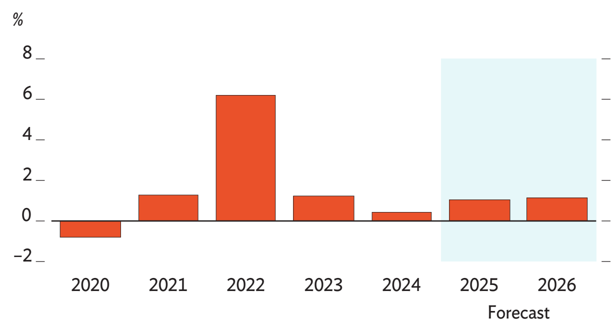
Agriculture is projected to grow by 2.1%, supported by favorable weather and prices. Production of major crops such as rice and rubber are expected to rise given adequate water supply for cultivation. Rubber production is expected to increase as most rubber trees will reach peak production age in 2025. 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.

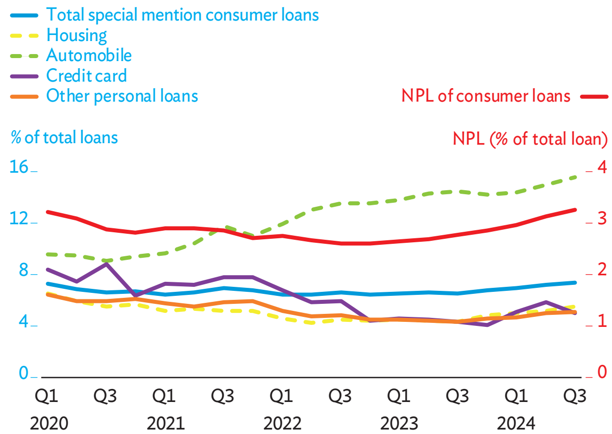
Efforts such as the Debt Clinic program assist credit card and personal loan debtors by stopping further debt accumulation and extending repayment periods. The Bank of Thailand issued new guidelines on Responsible Lending, requiring creditors to lend more responsibly and fairly, while offering debt restructuring 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 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.

.

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.

TIMOR-LESTE

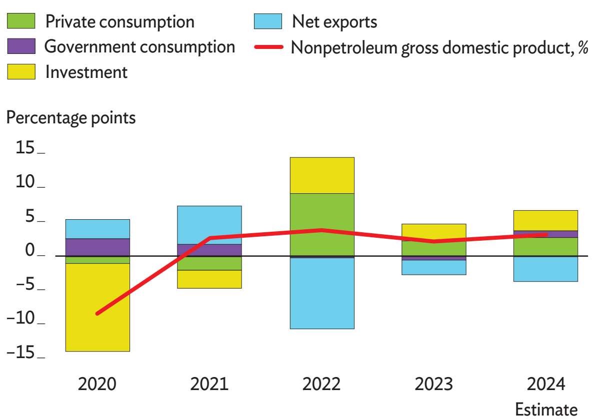
Economic growth accelerated in 2024, driven by increased budget expenditures and robust domestic demand. Inflation reached its lowest point since 2020, while the current account balance deteriorated. Growth is expected to accelerate further in 2025 before moderating slightly in 2026. Inflation is anticipated 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).

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.

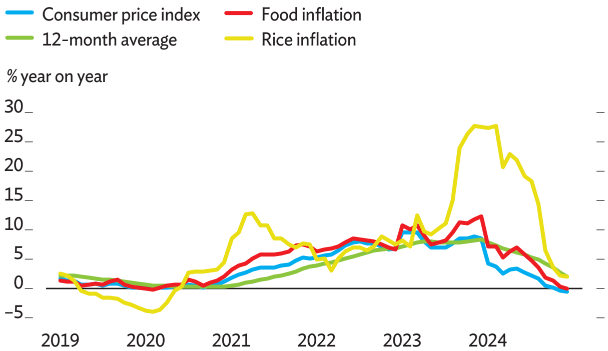
Inflation decreased significantly, transitioning from a 10-year high to a 4-year low. Average consumer price inflation decreased from 8.4% in 2023 to 2.1% in 2024, driven by low price increases in non-tradables and moderation in global food and tradable prices. By December 2024, prices were 0.4% lower 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).

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

This chapter was written by Bold Sandagdorj of the Timor-Leste Resident Mission, ADB, Dili.

Figure 2.31.2 Inflation

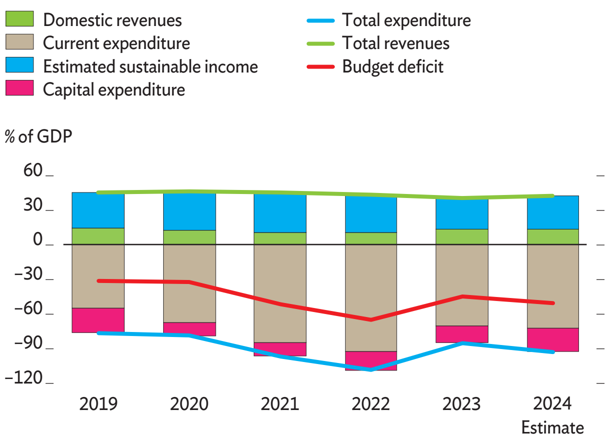
Consumer prices fell into slight deflation by the end of 2024.



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.

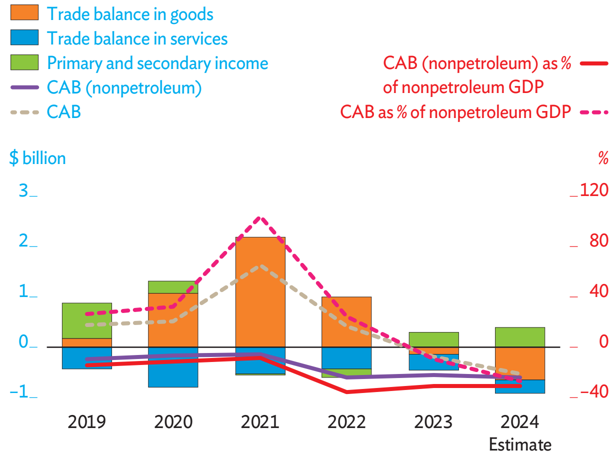


GDP = gross domestic product.

Sources: National Institute of Statistics of Timor-Leste; Ministry of Finance of Timor-Leste. 2025. Budget Transparency Portal; Asian Development Bank estimates.

Figure 2.31.4 Current Account Balance

The external balance deteriorated due to a worsening trade deficit.

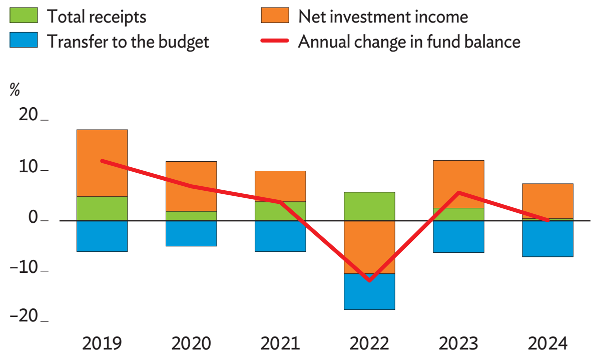


CAB = current account balance, GDP = gross domestic product.

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.

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%, 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

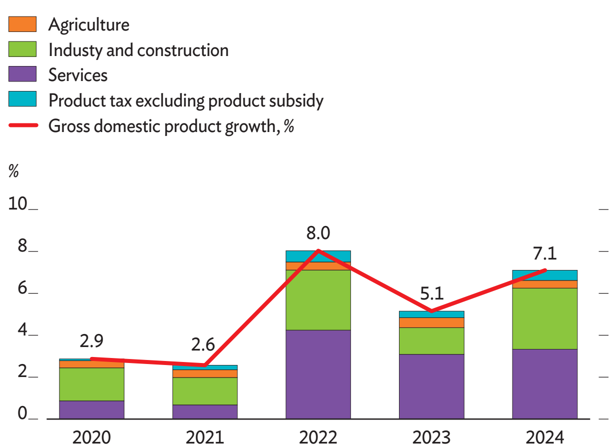
The 2024 economic recovery was impressive with growth rebounding to 7.1% from 5.1% in 2023. Despite the severe damage caused by Typhoon Yagi in various parts of the country, the swift government response and recovery limited its impact on growth.

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.



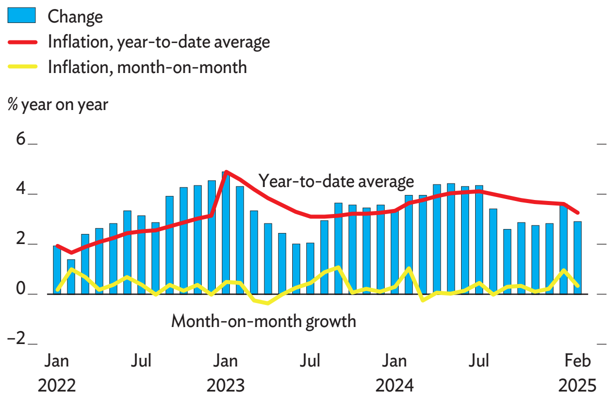
Source: General Statistics Office.

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).

This chapter was written by Nguyen Ba Hung, Nguyen Luu Thuc Phuong, and Chu Hong Minh of the Viet Nam Resident Mission, ADB, Ha Noi.

Figure 2.32.2 Monthly Inflation

Inflationary pressures inched up in 2024.



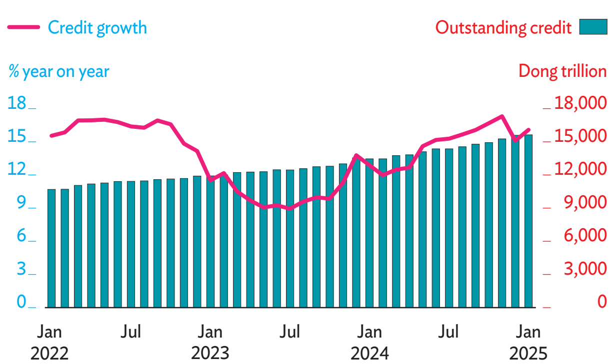
Source: General Statistics Office.

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 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.

Figure 2.32.3 Credit Growth

Credit growth rose due to the recovery in domestic production.



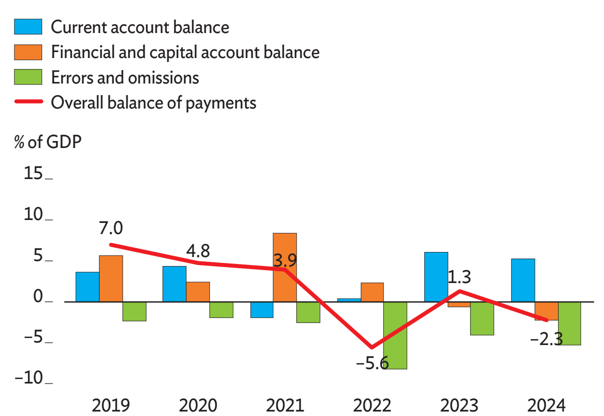
Sources: State Bank of Viet Nam; Asian Development Bank estimates.

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). Industrial growth is projected to slow to 7.0% in 2025. However, construction could see an uptick if major infrastructure projects proceed as planned.

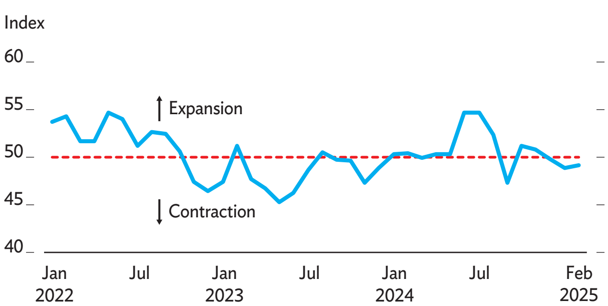
Services is set to grow 7.2% in 2025, driven by a boost in foreign and domestic tourism and technology-driven industries. There were nearly 4 million international arrivals in the first 2 months of the year, up 30.2% from the same period last year. Favorable visa measures, tourism promotions, and international 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 2.32.5 Purchasing Managers' Index

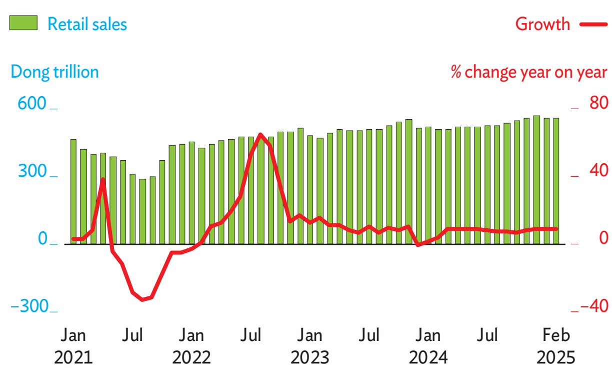
The index signals a slowdown in manufacturing after December 2024.



Note: A purchasing managers' index <50 signals deterioration, and >50 an improvement.
Source: IHS Markit.

Figure 2.32.6 Retail Sales

Retail sales improved in the first months of the year.



Source: General Statistics Office.

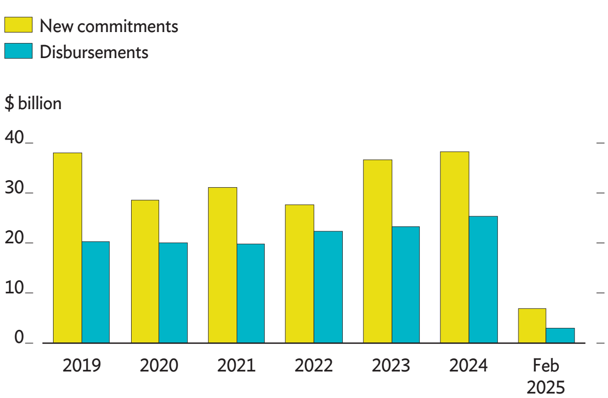
first 2 months of 2025, a 7.0% rise from last year, signaling the challenges businesses face despite strong consumer demand.

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.

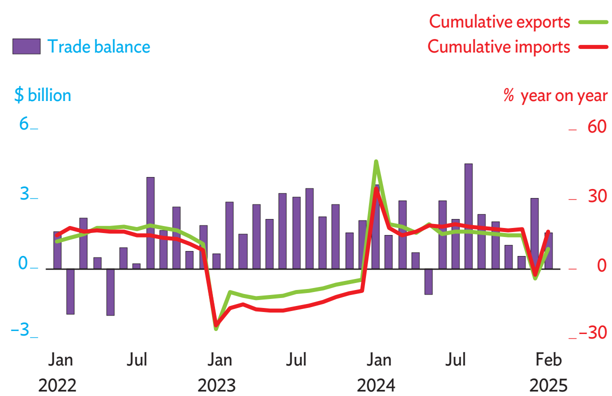


Source: General Statistics Office.

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.

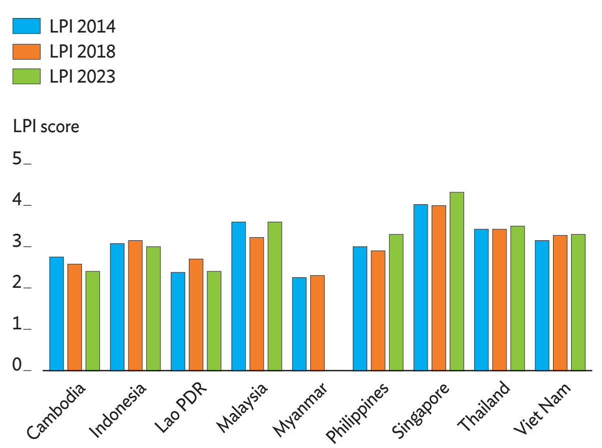
Limited domestic linkages with lead foreign firms and insufficient collaboration among local suppliers are major challenges in improving GVC participation. The lack of innovation and technological absorption capacity hinders firms' ability to upgrade within GVCs. In addition, the absence of a strong 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.