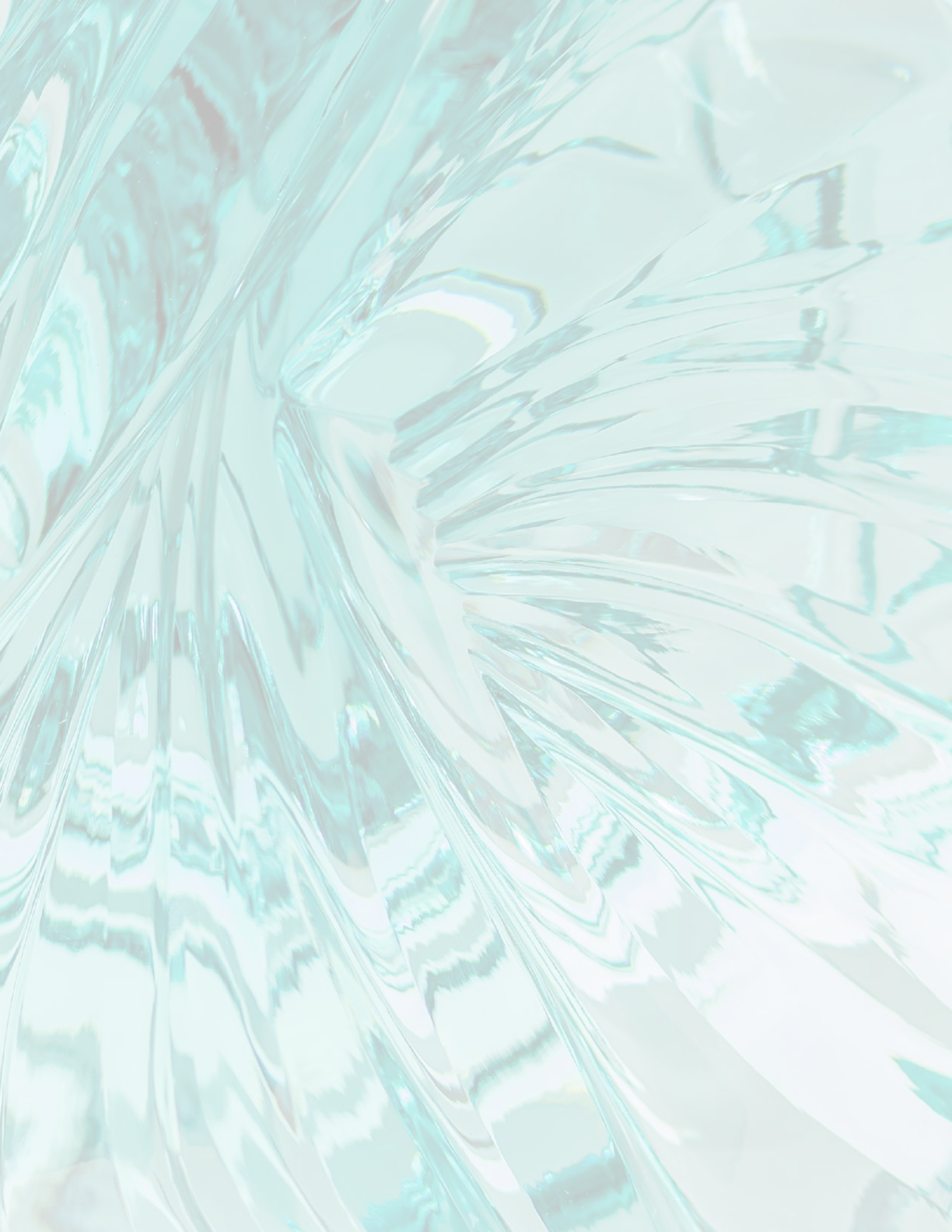




TRADE UNCERTAINTY CHALLENGES RESILIENCE IN ASIA AND THE PACIFIC



TRADE UNCERTAINTY CHALLENGES RESILIENCE IN ASIA AND THE PACIFIC

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

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

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

Developing Asia's Growth Momentum Eases as PRC Consumption Softens

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

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

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

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

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

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

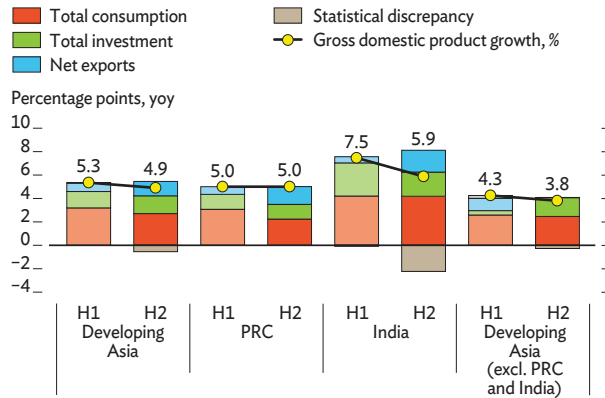
In India, subdued demand slowed expansion in construction-related industries, while lower export prices reduced mining revenues. Outside the PRC and India, industry growth weakened, largely due to slower construction activity in the Republic of Korea and a downturn in chemicals and electronics in the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

Leading indicators suggest continued expansion in manufacturing into 2025.

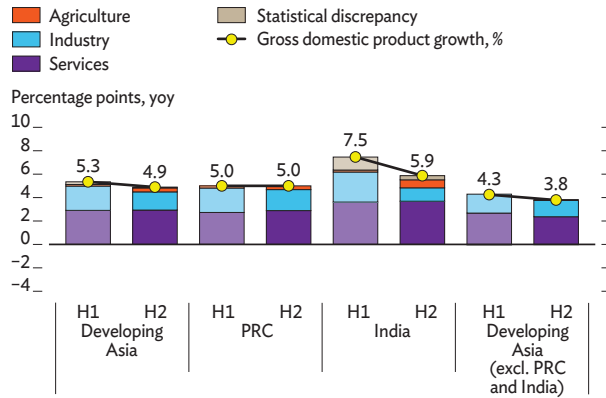
Monthly industrial production figures signaled a recovery trend in some economies emerging in late 2024, while the S&P Manufacturing Purchasing Managers' Index (PMI) showed continued expansion in most economies in early 2025 (Table 1.1.1). Higher export orders drove expansions in the headline PMI, which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

Figure 1.1.1 Contributions to Growth, Developing Asia**A. Demand-side, PRC, India, and Rest of Developing Asia**

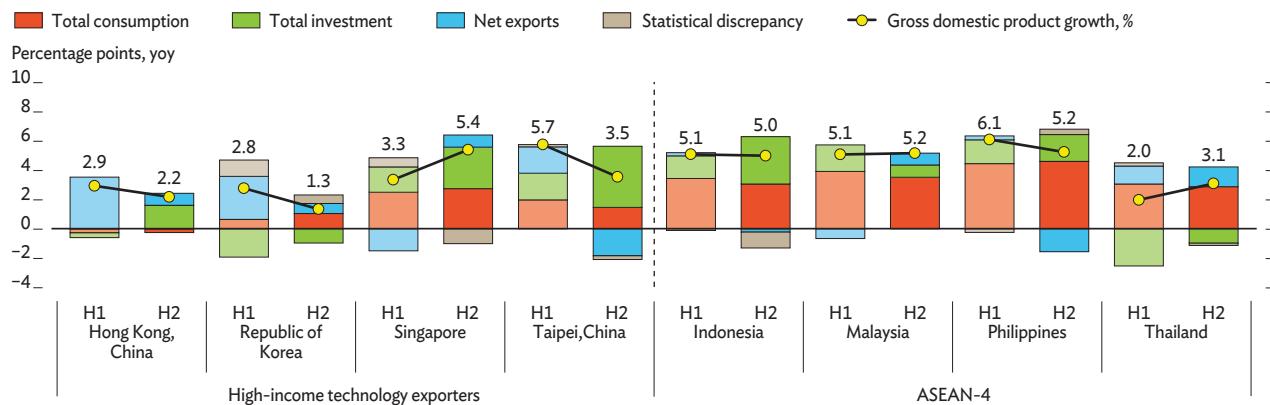
Consumption eased in the second half, but net exports and investments remained solid.

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

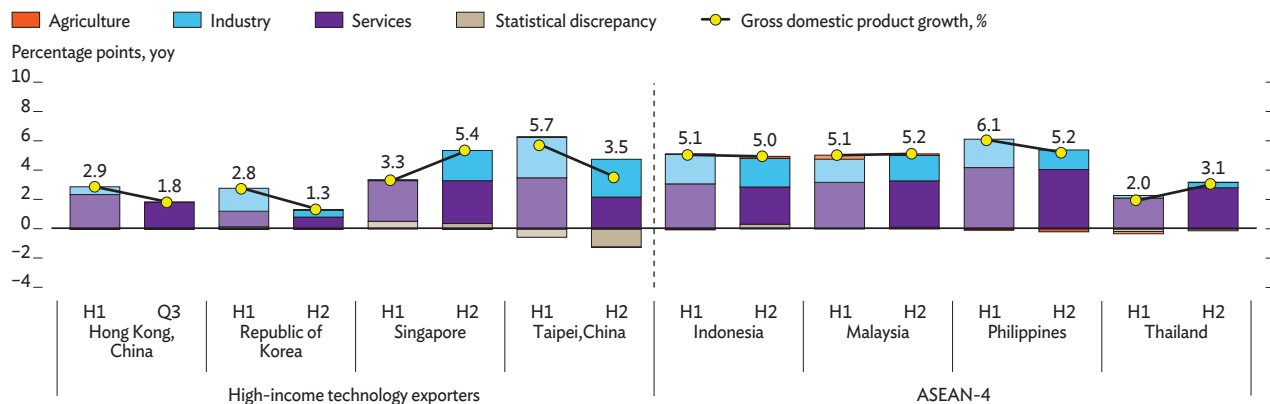
Industry remained largely resilient in the second half, despite the moderation in India.

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

Investment expanded in most HITE and ASEAN-4 economies.

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

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



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

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

Source: Haver Analytics.

Table 1.1.1 Purchasing Managers' Index, Selected Economies

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

Manufacturing PMI, seasonally adjusted

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

Services PMI, seasonally adjusted

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

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

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

Source: CEIC Data Company.

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

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

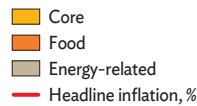
Inflation declined across all subregions heading into 2025, to varying degrees (Figure 1.1.3). The steepest decline occurred in the Caucasus and Central Asia, where inflation dropped by a third since 2023, despite picking up slightly so far this year. This reflected the dampening impact on food prices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

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

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

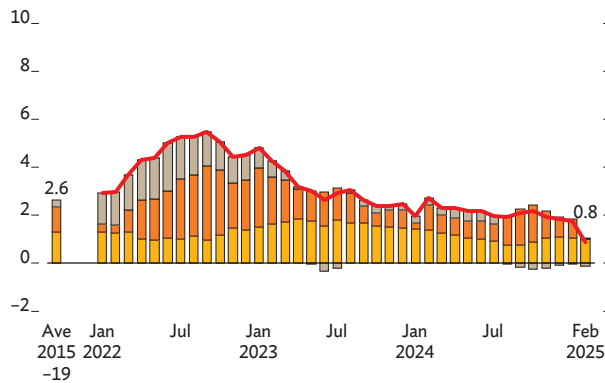
Figure 1.1.2 Contributions to Inflation, Developing Asia

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



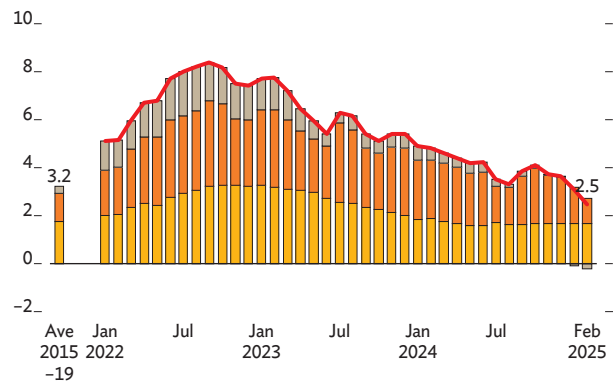
A. Developing Asia

Percentage points, yoy



B. Developing Asia excluding People's Republic of China

Percentage points, yoy



yoy = year on year.

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

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

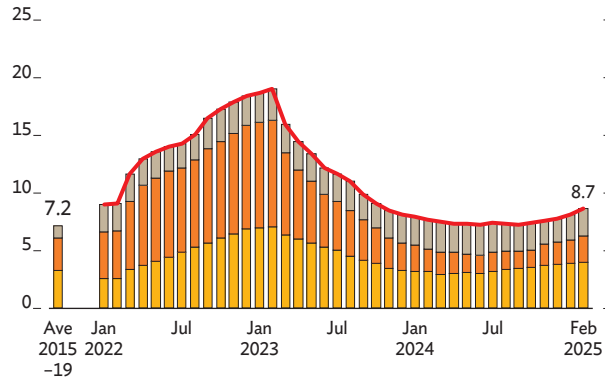
Figure 1.1.3 Contributions to Inflation, Developing Asia

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

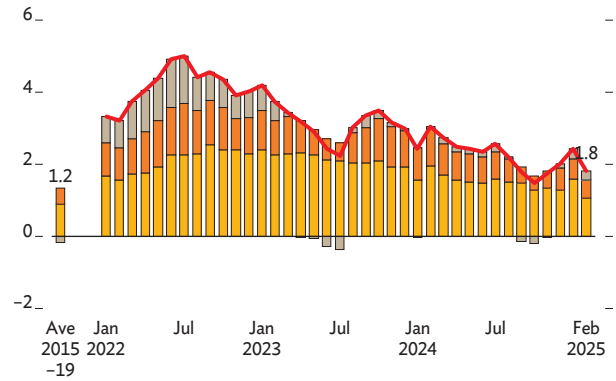
Core
Food
Energy-related
Headline inflation, %

A. Caucasus and Central Asia

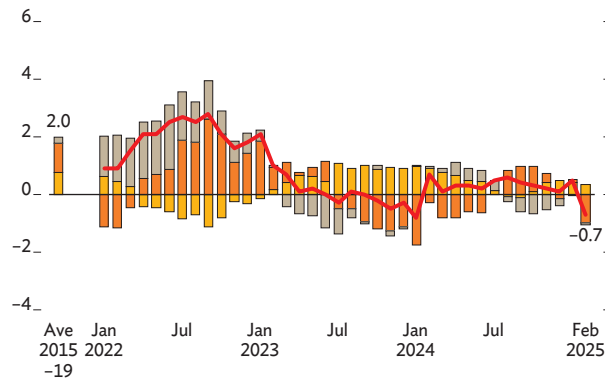
Percentage points, yoy

**B. East Asia excluding People's Republic of China**

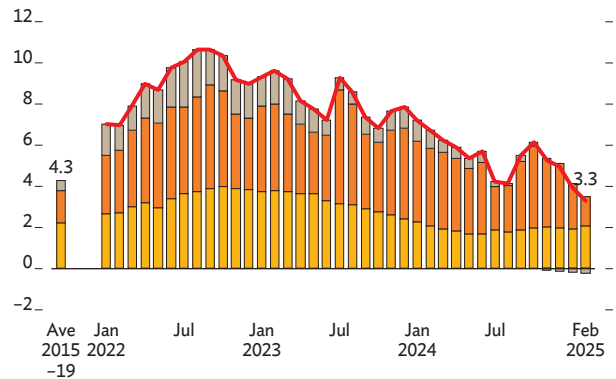
Percentage points, yoy

**C. People's Republic of China**

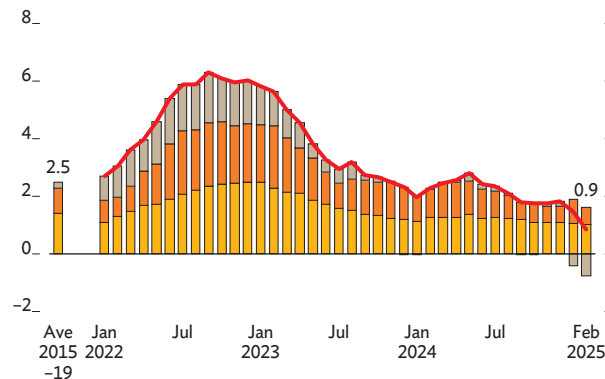
Percentage points, yoy

**D. South Asia**

Percentage points, yoy

**E. Southeast Asia**

Percentage points, yoy



H = half, yoy = year on year.

Note: See Figure 1.1.2.

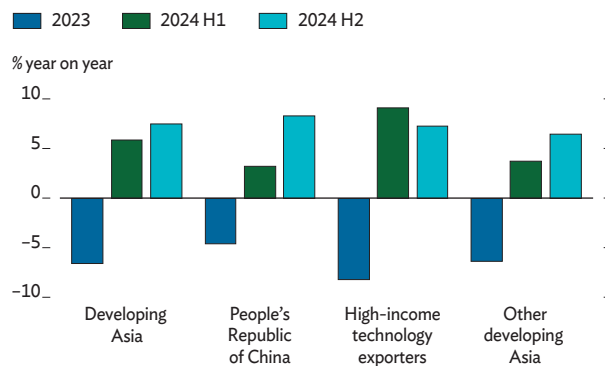
Sources: Asian Development Bank calculations using data from Haver Analytics; CEIC Data Company; official sources.

Exports and Tourism Supported Growth in 2024

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

Figure 1.1.4 Growth in Nominal Goods Exports

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



H = half.

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

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

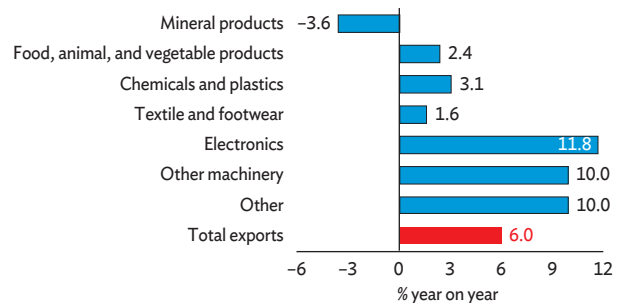
Global demand for electronics fueled Asia's exports.

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

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

Global demand for electronics supported the region's exports.

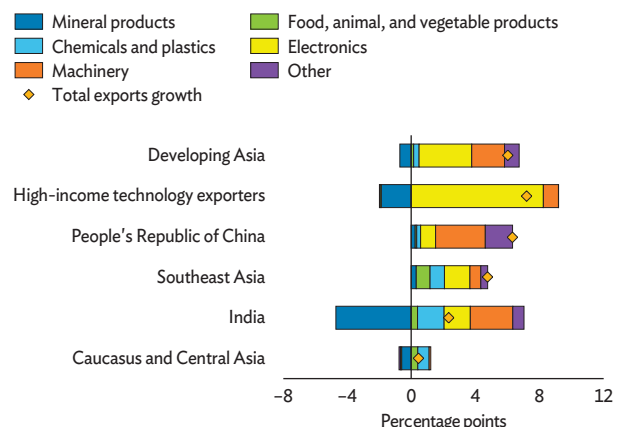
A. Annual Change



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

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

B. Contributions to Change



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

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

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

Trade tensions continued affecting the region's trade dynamics.

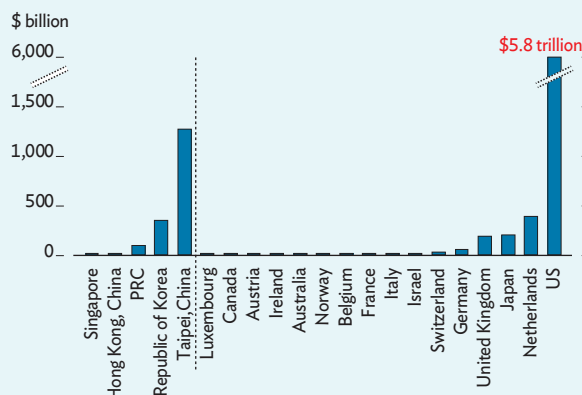
The previous US administration imposed new tariffs on \$18 billion of goods imports from the PRC in September, adding to the tariffs imposed since 2018 on over \$300 billion worth of imports. These additions included tariffs of 100%

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

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

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

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



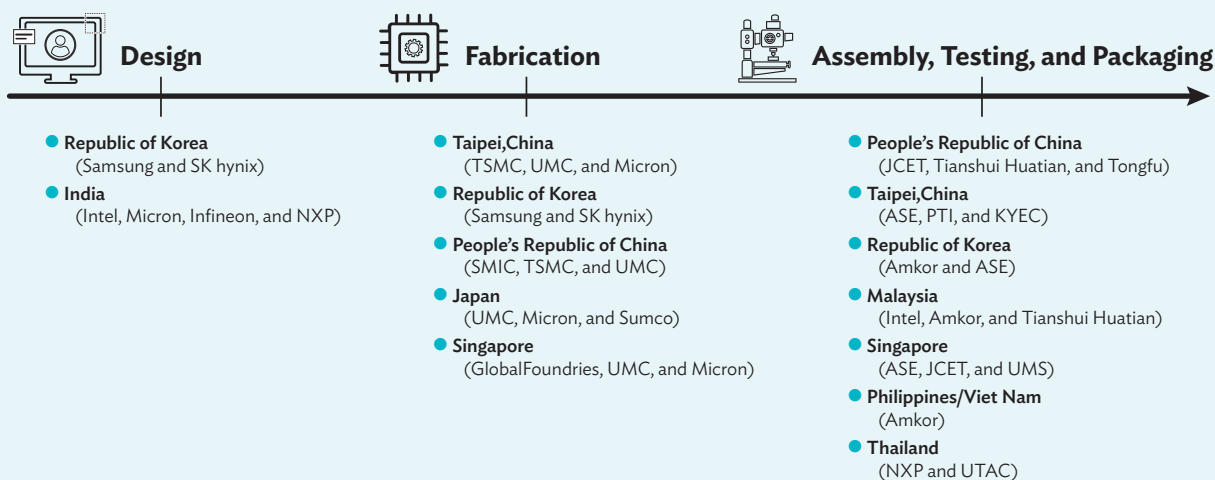
PRC = People's Republic of China, US = United States.

Note: Data refers to 136 top semiconductor companies globally. Data as of 3 February 2025.

Sources: [Largest Companies by Marketcap](#); [Nasdaq](#).

1 Asia's Position in the Global Semiconductor Supply Chain

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



Source: Adapted from Wang and Yue (2024).

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

Box 1.1.1 Continued

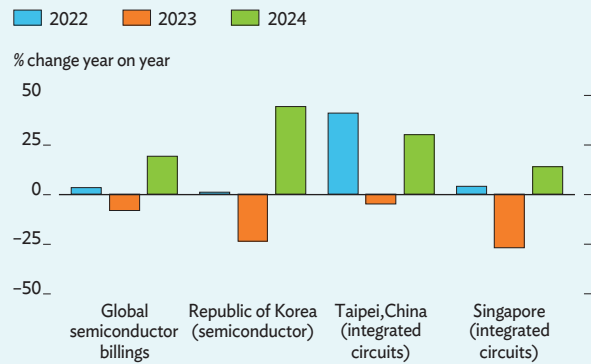
In 2024, semiconductor exports surged in the Republic of Korea and Taipei, China. Nearly all fabrication capacity of chips under 10-nanometres, crucial for advanced AI applications, occurs in these two economies. Taipei, China accounts for about 70% of global foundry revenues, with TSMC alone holding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

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

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

4 Growth in Semiconductor Exports

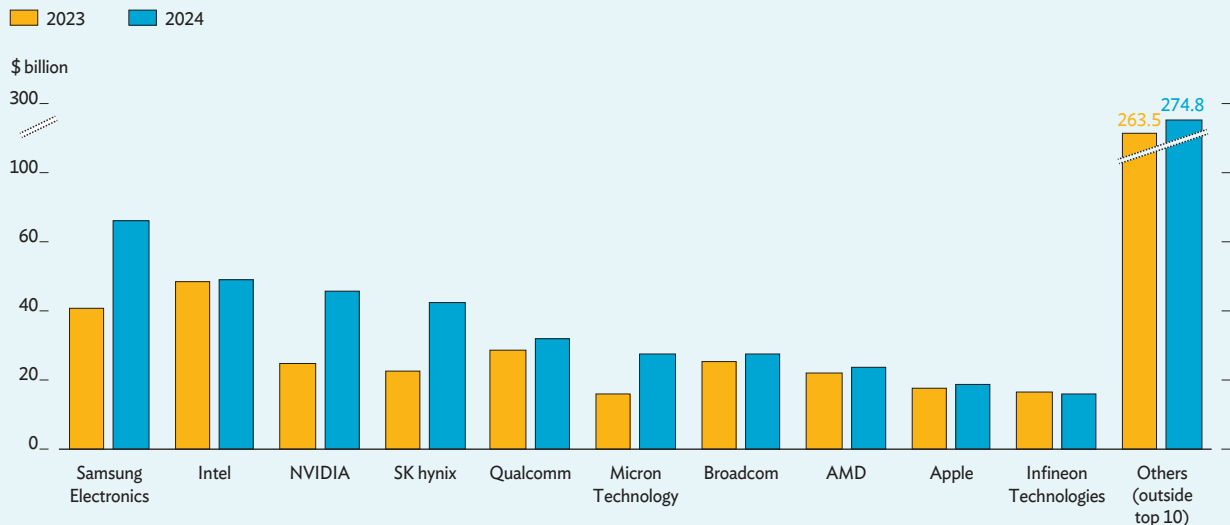
Mirroring the sector's global cycle, semiconductor export growth from developing Asia's high-income technology exporters recovered sharply in 2024.



Sources: CEIC Data Company; Haver Analytics.

3 Top 10 Semiconductor Vendors by Revenue

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

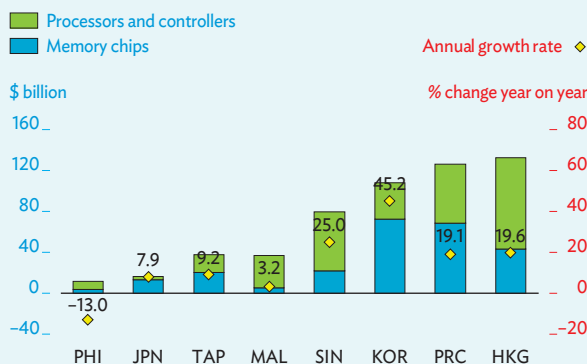


Source: Gartner (2025b).

Box 1.1.1 Continued

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

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



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

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

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

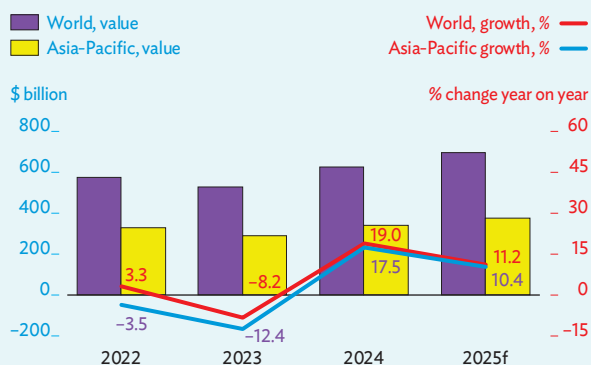
Viet Nam play key roles in the assembly, testing, and packaging segment of the semiconductor supply chain (box figure 1).

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

Model training may now require fewer resources, but substantial investments will still be necessary to advance AI technology and inference. While more efficient training reduces short-term chip demand, Jevons’ Paradox suggests that greater

6 Semiconductor Billings, World and Asia-Pacific

The semiconductor market is poised for continued growth in 2025.



f = forecast.

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

Source: World Semiconductor Trade Statistics.

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

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

Box 1.1.1 Continued

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

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

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

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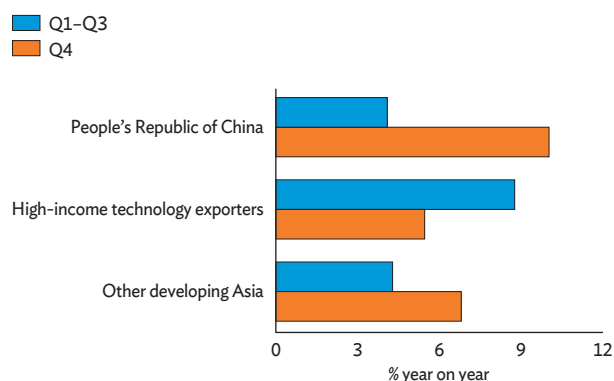
This box was written by Gabriele Ciminelli, Matteo Lanzafame, and Shiela Romance.

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

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

Figure 1.1.6 Growth in Nominal Goods Exports in 2024

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



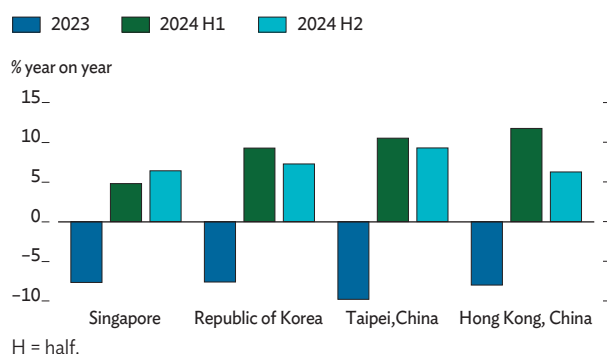
Q = quarter.

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

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

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

Exports grew particularly strongly in Taipei, China.



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

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

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

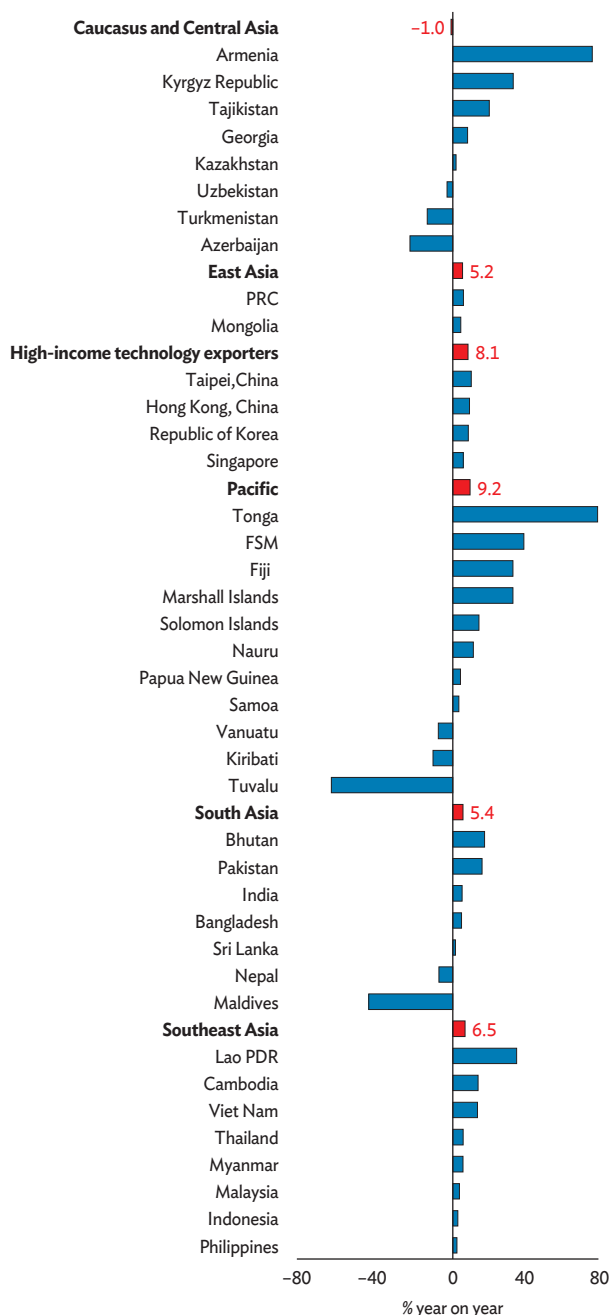
Within the machinery sector, electronics accounted for 48% of exports, which were supported by a 17.2% rise in exports of semiconductor chips. Exports of road vehicles also supported overall export growth. This was mostly driven by exports of non-electric vehicles to emerging markets, while electric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

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

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

Figure 1.1.8 Growth in Nominal Goods Exports in 2024

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



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

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

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

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

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

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

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

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

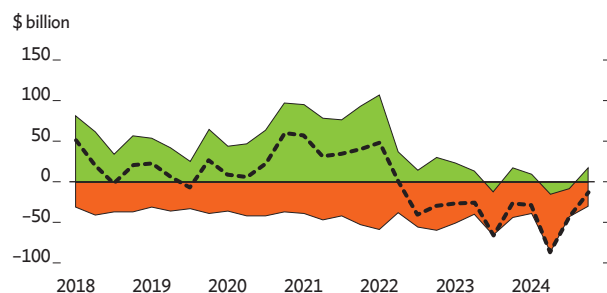
Foreign investment kept rising in India and remained steady in Southeast Asia. In the first 9 months of last year, India's outward FDI still exceeded inward investments, but by only \$7 billion, down from \$33 billion in 2022 (Figure 1.1.9, panel B). This was driven by surging FDI inflows while outflows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

Figure 1.1.9 Foreign Direct Investment

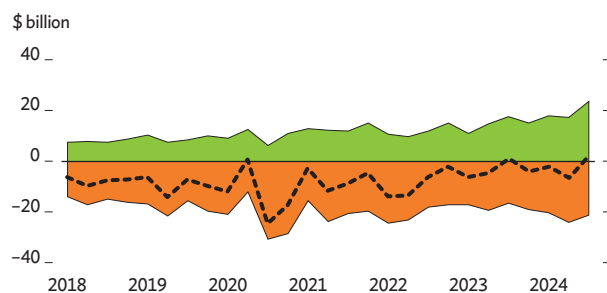
Net outflows
Net inflows
Net FDI

A. People's Republic of China

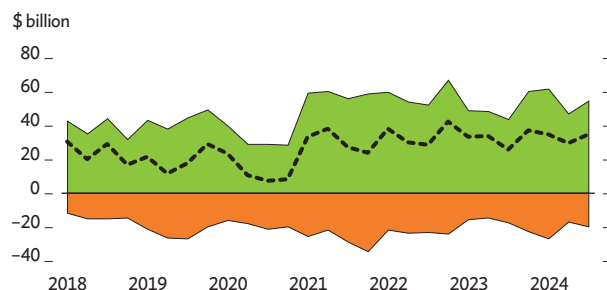
The PRC now invests more abroad than it receives in foreign investments.

**B. India**

India is becoming a net recipient of FDI.

**C. Southeast Asia**

FDI remains steady in Southeast Asia.



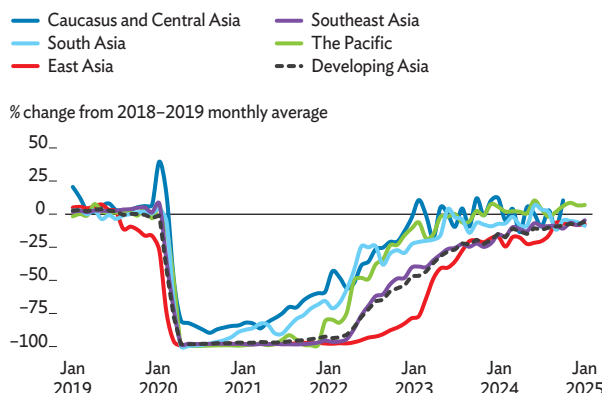
PRC = People's Republic of China, FDI = foreign direct investment.
Notes: Southeast Asia includes Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam. FDI net inflows are nonresidents' investments in the domestic economy. Negative values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

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

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

Figure 1.1.10 International Tourist Arrivals

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



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

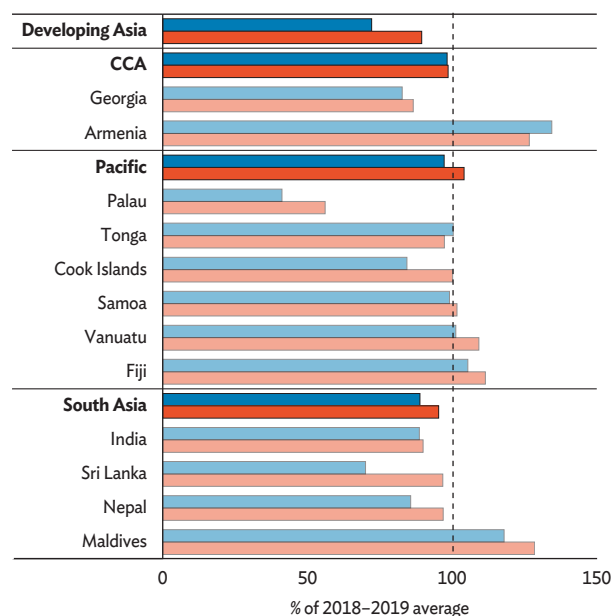
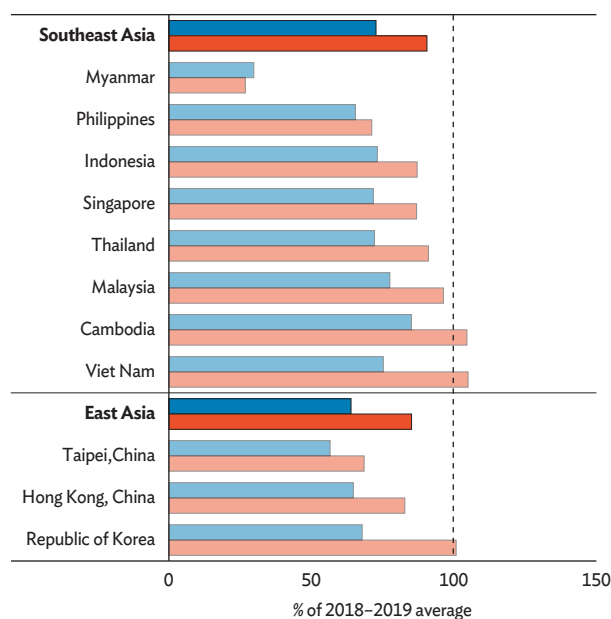
Sources: CEIC Data Company; official sources.

Tourists from the PRC have still not fully returned.

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

Figure 1.1.11 International Visitors Arrivals in 2024, by Subregion and Economy*Tourist arrivals still lag behind in East Asia and Southeast Asia.*

■ 2023
■ 2024

A. Developing Asia, Caucasus and Central Asia, Pacific, and South Asia**B. East Asia and Southeast Asia**

CCA = Caucasus and Central Asia.

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

Sources: CEIC Data Company; official sources.

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

Remittances Remain a Steady Source of Income

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

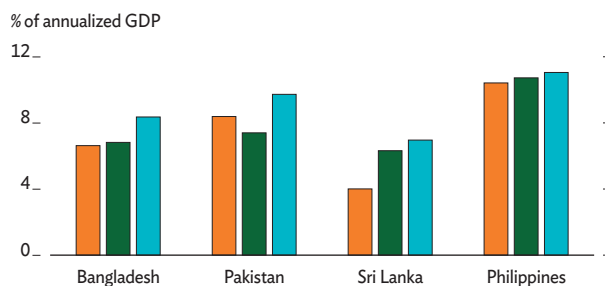
increased sharply last year—22.7% in Bangladesh, 31.5% in Pakistan, 10.1% in Sri Lanka, and 6.0% in Fiji (Figure 1.1.12, panels A and B). This is a welcome development to mitigate pressure which may arise on current accounts. In Pakistan, the upturn reflected a narrowing in the gap between interbank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

Figure 1.1.12 Incoming Cross-Border Money Transfers

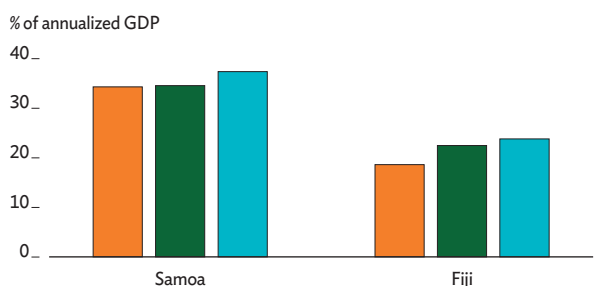
Money transfers remain a steady source of income across the region.

2022 2023 2024

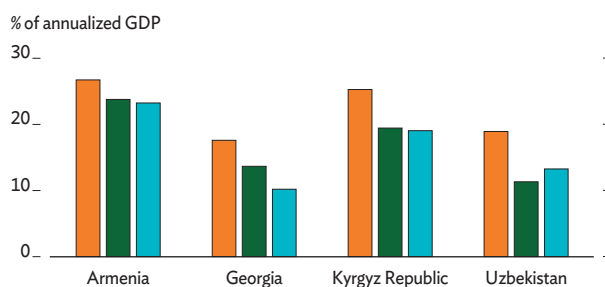
A. South Asia and Southeast Asia



B. Pacific



C. Caucasus and Central Asia



GDP = gross domestic product.

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

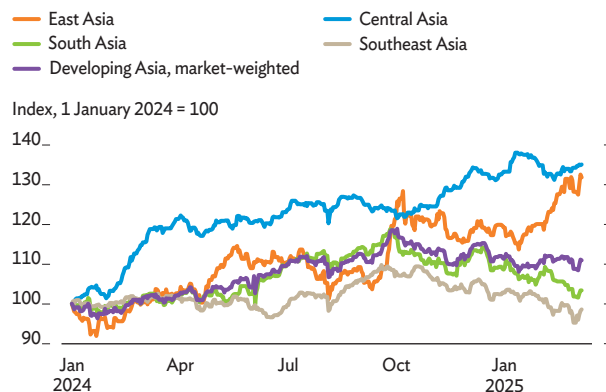
Rising Global Uncertainties Weigh on Regional Financial Market Conditions

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

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

Figure 1.1.13 Equity Market Performance, by Subregion

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



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

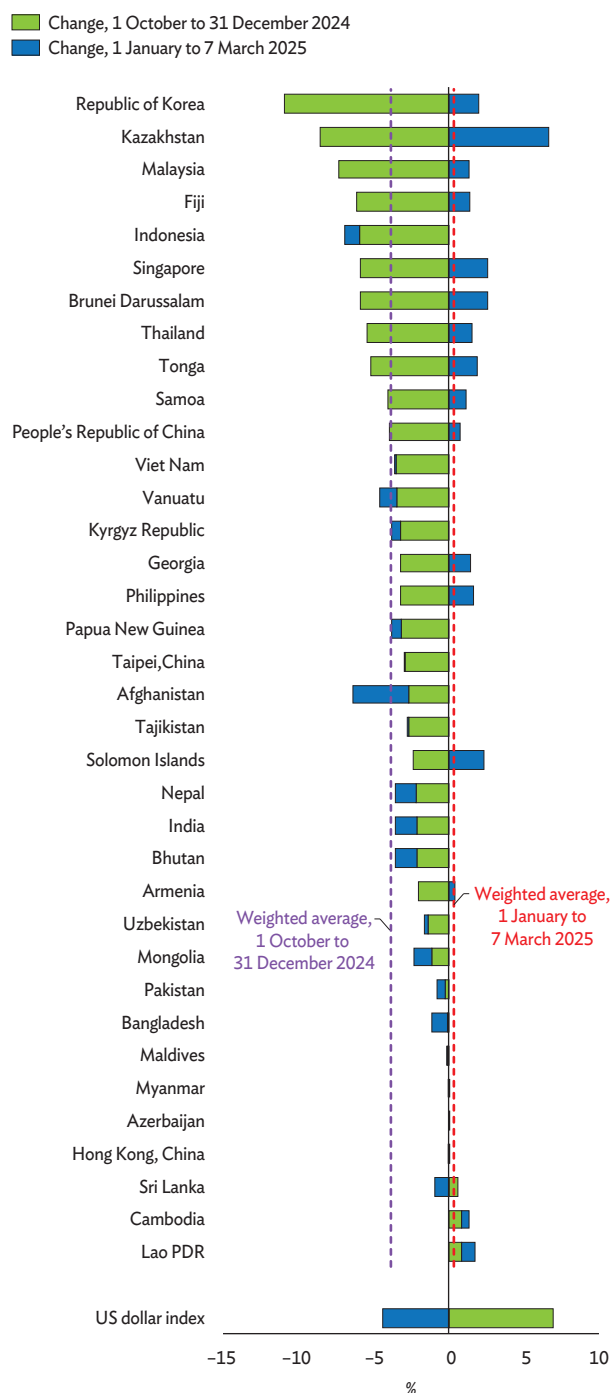
Source: Bloomberg.

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

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

Figure 1.1.14 Exchange Rate Against US Dollar in Developing Asia

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



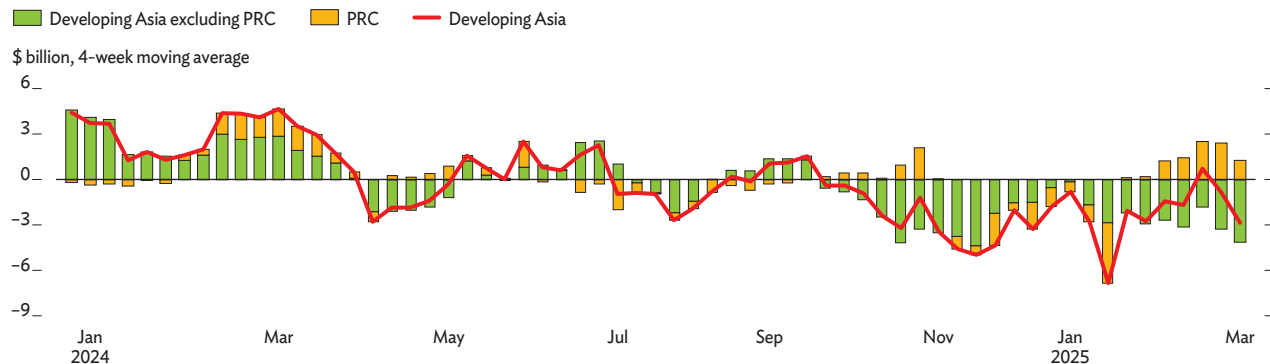
Lao PDR = Lao People's Democratic Republic, US = United States.

Note: Changes in exchange rates are aggregated using gross domestic product purchasing power parity shares as weights.

Source: Bloomberg.

Figure 1.1.15 Portfolio Flows into the Region

Outflows recorded since October 2024 amid global market uncertainty.



PRC = People's Republic of China.

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

Source: Institute of International Finance.

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

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

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

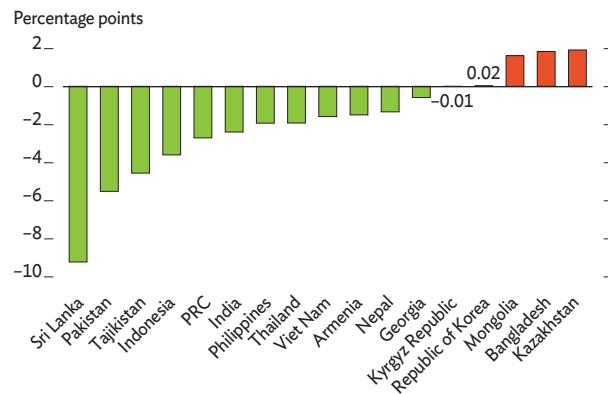
Slower Monetary Easing Amid Persistent Fiscal Vulnerabilities

Inflation is now below target or within target bands for most inflation-targeters in the region (Figure 1.1.16). Price dynamics in Sri Lanka remained deflationary for the sixth month in a row, with inflation well below target at -4.2%.

In contrast, inflation

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

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



PRC = People's Republic of China.

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

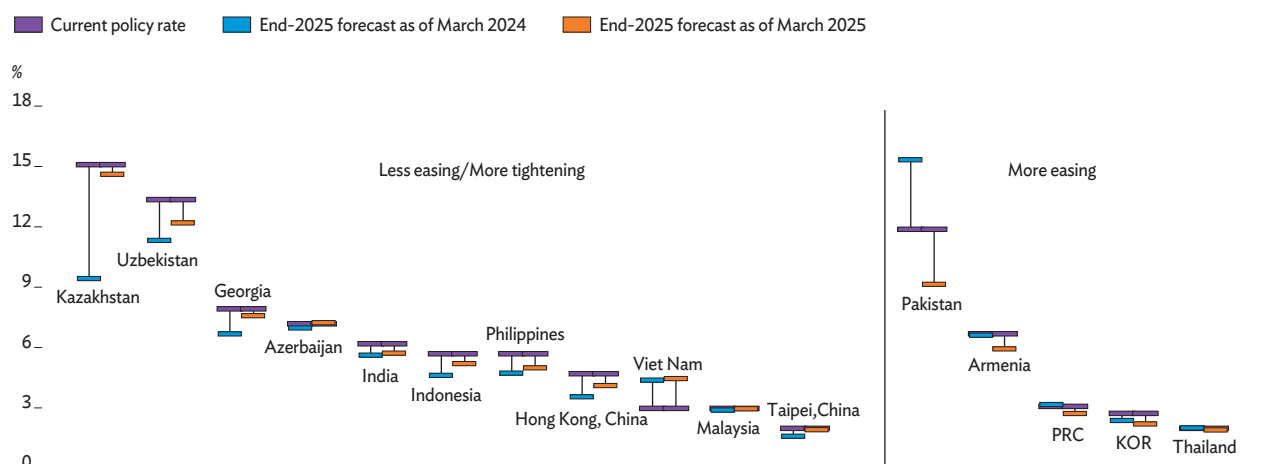
Source: CEIC Data Company.

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

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

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

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



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

Sources: Focus Economics; CEIC Data Company.

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

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

Factors outside of economic growth and interest rates are also affecting debt dynamics in the region.

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

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

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

2024

150 _

100 _

50 _

0 _

0

50

2019

100

150

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

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

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

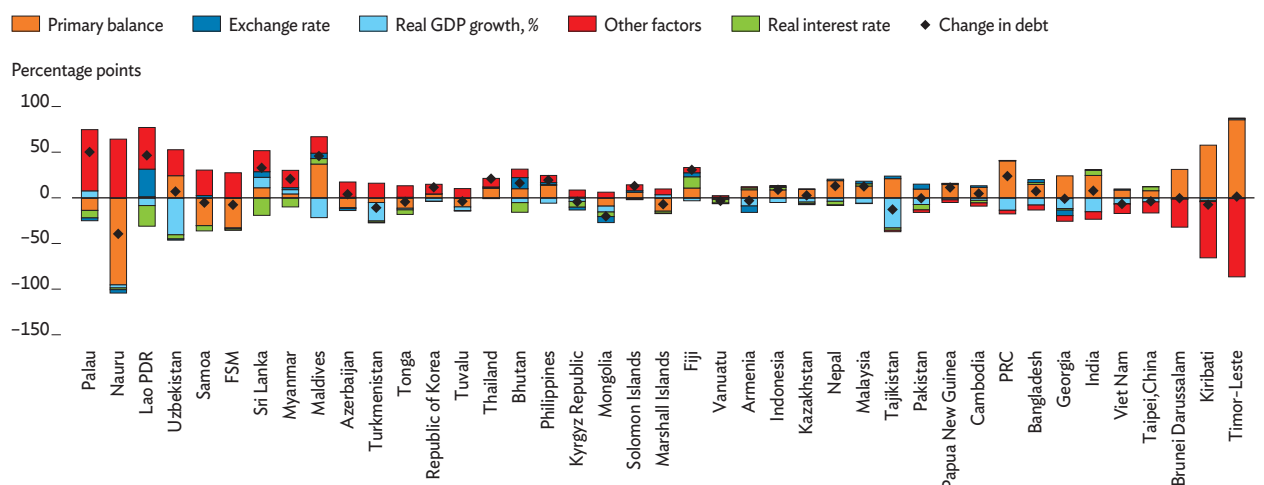
Most economies in the region now face substantially higher interest payments relative to GDP than in 2019 as a result of higher debt levels and interest rates (Figure 1.1.20). Amortization payments were also substantial for several economies. Meanwhile, the change in fiscal balances over this period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

Some economies face persistent vulnerabilities.

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

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

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

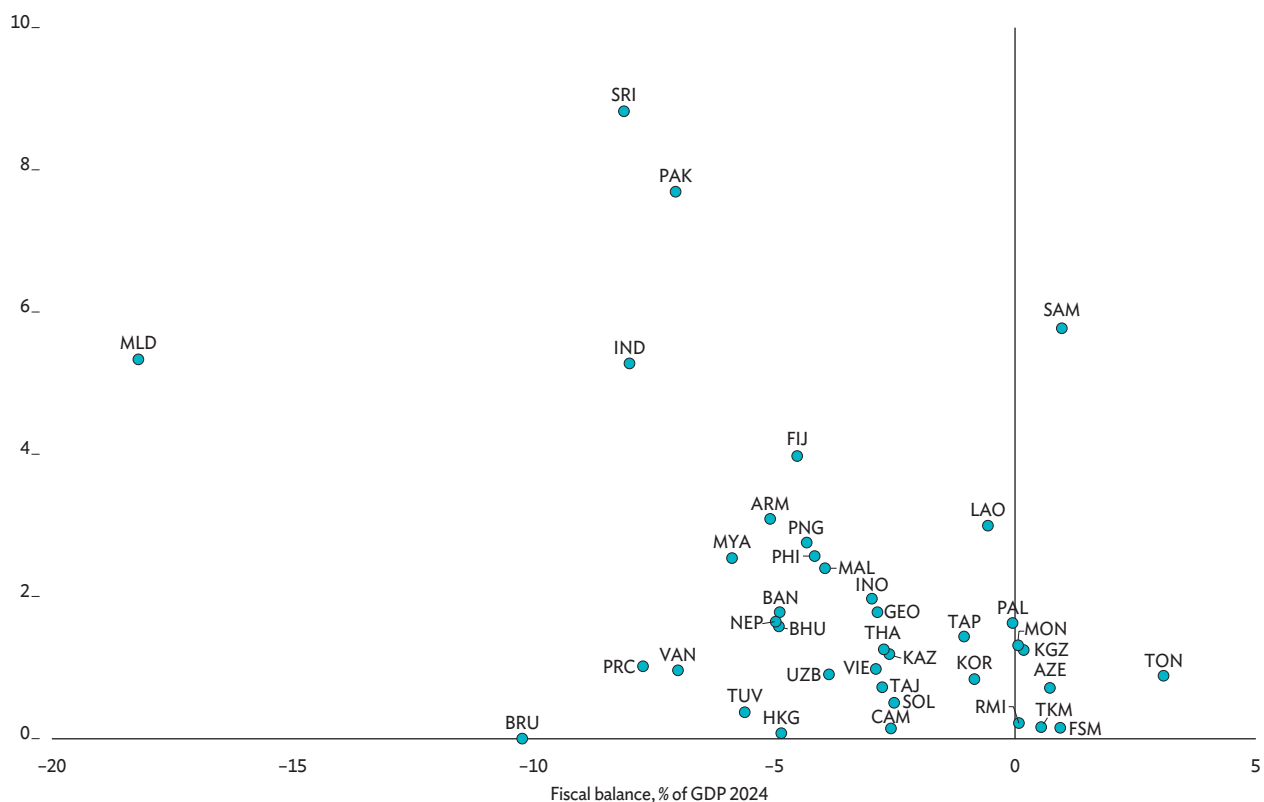


PRC = People's Republic of China, FSM = Federated States of Micronesia, GDP = gross domestic product, Lao PDR = Lao People's Democratic Republic.
Source: Asian Development Bank. Asian Sovereign Debt Monitor database.

Figure 1.1.20 Fiscal Balances and Interest Payments, 2024

High interest payments can put additional pressure on fiscal deficits.

Interest payments, % of GDP 2024



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

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

A Challenging Outlook Amid Heightened Trade Uncertainty

Global Economic Conditions Are Set to Weaken Slightly

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

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

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

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

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

Table 1.2.1 Baseline Assumptions on the International Economy

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

GDP = gross domestic product.

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

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

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

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

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

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

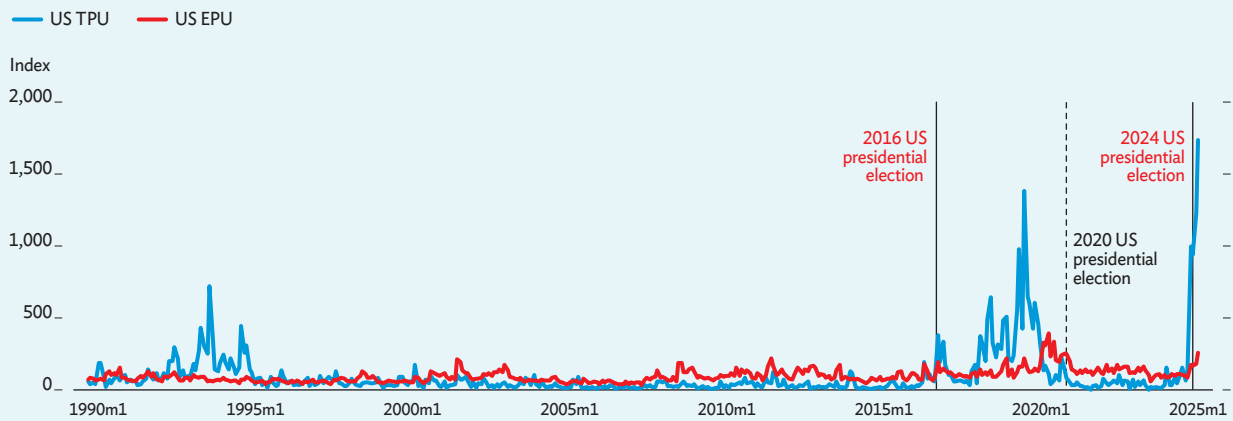
In financial markets, uncertainty may influence investors’ decisions about portfolio allocation.

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

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

1 United States Economic and Trade Policy Uncertainty Indexes

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



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

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

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

Box 1.2.1 Continued

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

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

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

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

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

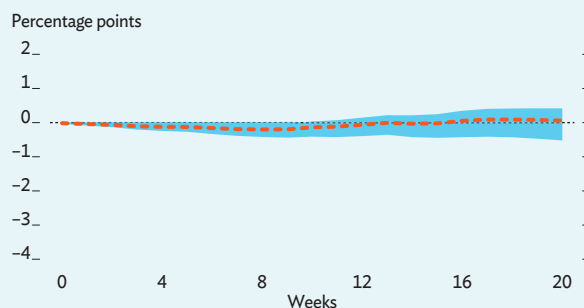
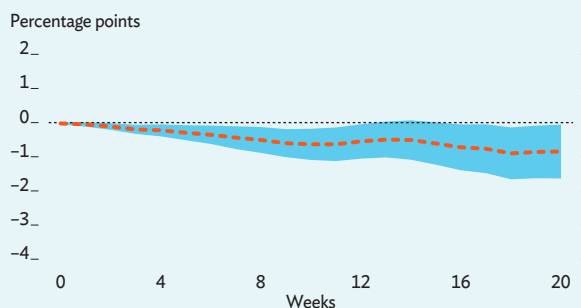
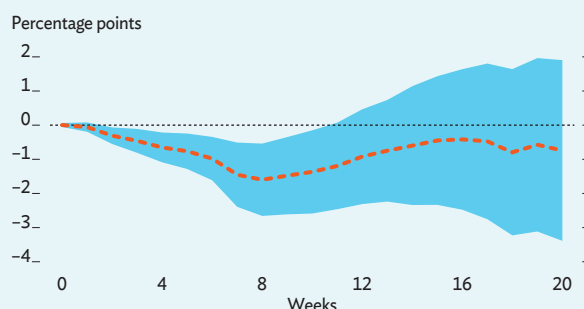
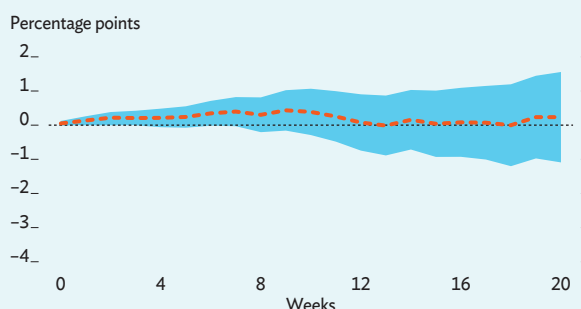
Investors selecting into emerging Asia regional funds seek a diversified exposure to the region and may view trade policy uncertainty as a sustained risk, given the region's integration into global supply chains, leading to more permanent reallocations. In contrast, the sharp but short-lived outflows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

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

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

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

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

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

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

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

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

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

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Box 1.2.1 Continued

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

Box 1.2.2 The Impact of US Reciprocal Tariffs in Developing Asia

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

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

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

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

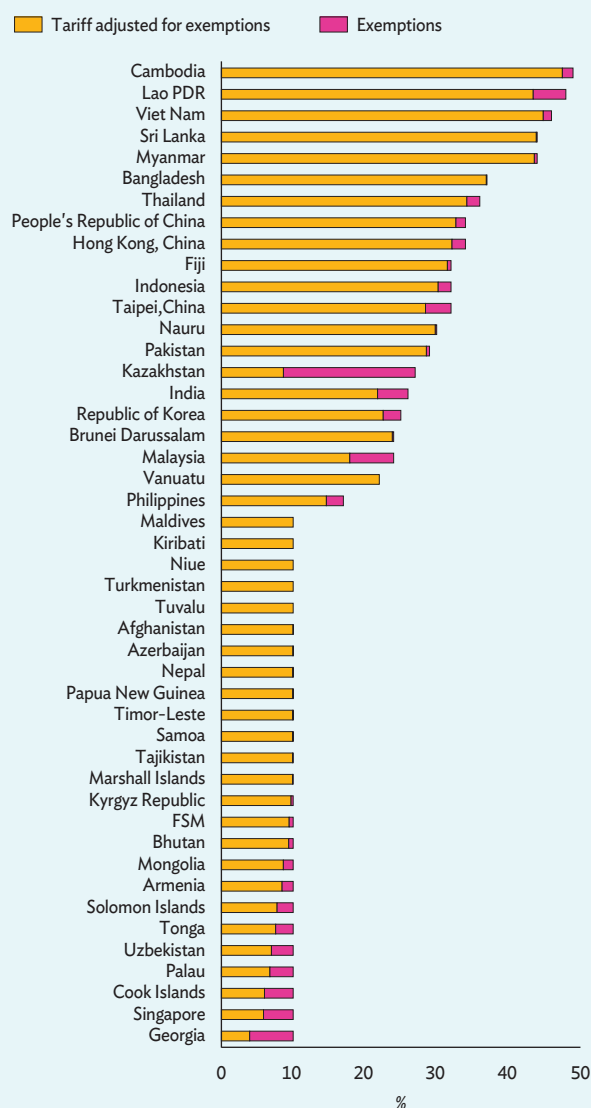
This box discusses the effects of US reciprocal tariffs and retaliatory measures. The analysis considers a scenario in which the additional US duties are imposed from the second quarter of 2025 as announced on 2 April and the US trading partners retaliate partially, with tariff hikes equal to 50% of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

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

Box 1.2.2 Continued

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

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



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

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

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

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

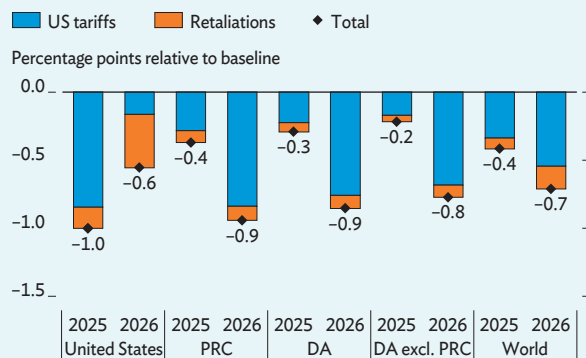
The simulations abstract from discretionary policy responses in tariff-affected economies, as well as other US policy changes. Fiscal policy is maintained unchanged in the simulations, while monetary policy changes are endogenously determined in the model. This is an important caveat, as actual policy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

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

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

Box 1.2.2 Continued**2 Estimated Impacts of US Reciprocal Tariffs on GDP Growth**

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



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

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

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

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

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

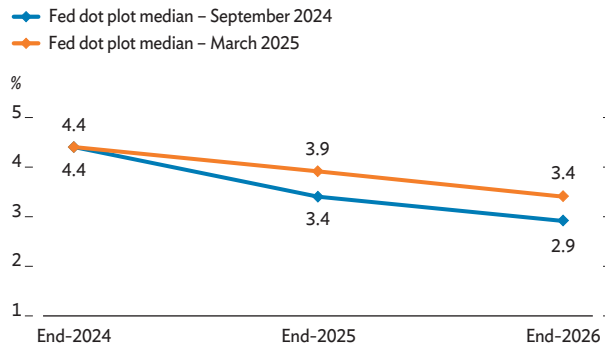
consider whether or to what extent they should retaliate. As much as possible, negotiating to ease tensions and reduce tariffs should be pursued. More generally, developing Asian economies should remain committed to open trade and investment, bolstering economic integration, reconfiguring supply chains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

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

Reference:

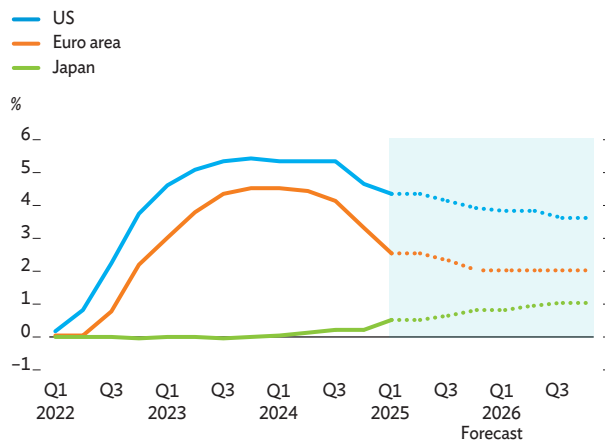
The White House. 2025. [Regulating Imports with a Reciprocal Tariff to Rectify Trade Practices that Contribute to Large and Persistent Annual United States Goods Trade Deficits](#). 2 April.

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

Figure 1.2.1 Expectations of US Fed Target Rate*Higher-for-longer US interest rates are now expected.*

US = United States.

Source: US Federal Open Market Committee.

Figure 1.2.2 Policy Rates in Major Advanced Economies*Monetary policy to continue easing at a moderate pace.*

Q = quarter, US = United States.

Sources: Haver Analytics; Asian Development Bank estimates.

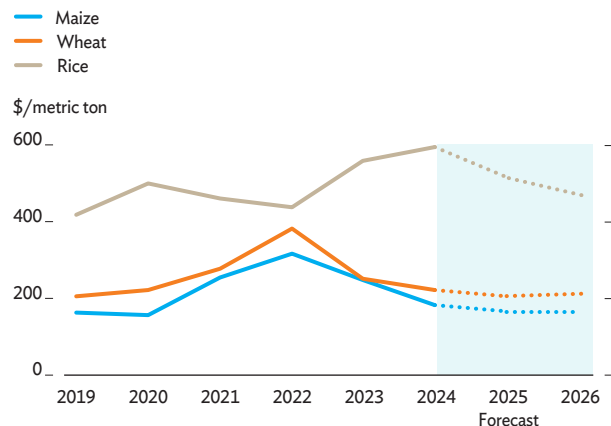
policy rates over the forecast horizon (Figure 1.2.2). As the yen appreciates on narrowing interest rate differentials relative to the US, lower import costs will also shape the inflation outlook for Japan.

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

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

Grain prices are expected to remain tempered.

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

Figure 1.2.3 Food Commodity Prices*Grain prices are expected to ease.*

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

Sources: World Bank Commodity Pink Sheet; Focus Economics.

Regional Growth to Slightly Moderate

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

Table 1.2.2 GDP Growth in Developing Asia, %*Growth will moderate slightly in 2025 and 2026.*

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

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

Source: Asian Development Outlook database.

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

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

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

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

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

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

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

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

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

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

Inflation Will Remain Low and Stable

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

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

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

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

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

e = estimate, f = forecast.

Source: Asian Development Outlook database.

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

In South Asia, inflation is expected to decline

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

Inflation will accelerate slightly in Caucasus and

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

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

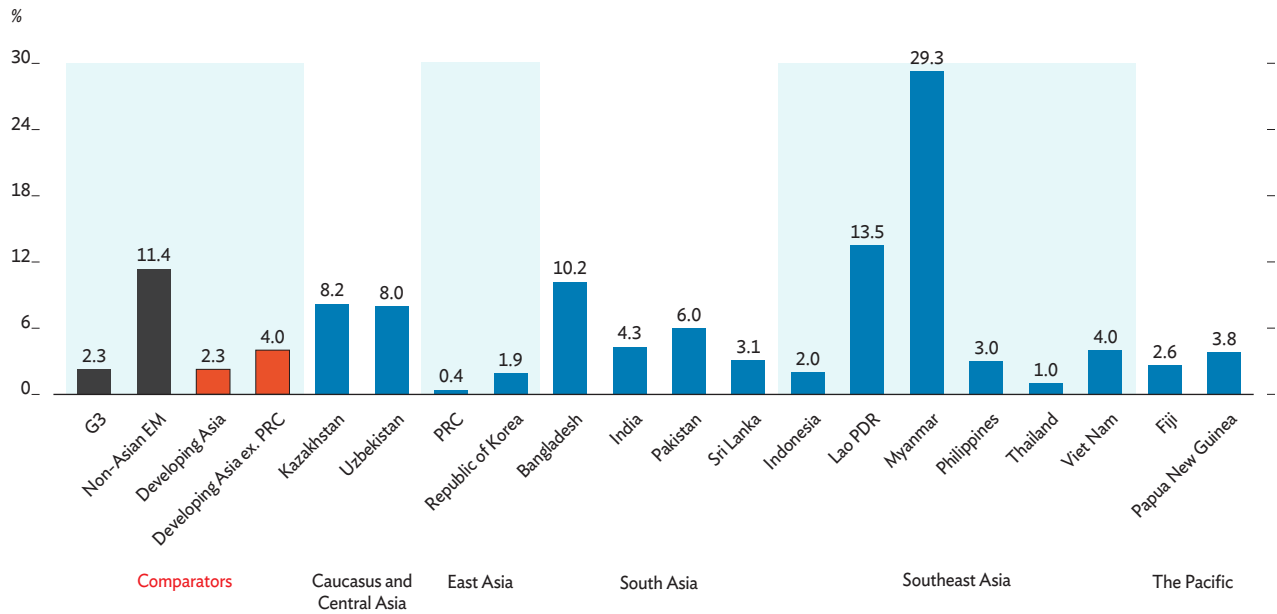
In Southeast Asia, inflation will remain subdued.

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

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

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

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



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

Source: Asian Development Outlook database.

Risks Mount as Tariffs Escalate

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

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

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

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

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



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

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

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

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

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

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

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

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

Box 1.3.1 Recent Developments in Critical Minerals and Rare Earths

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

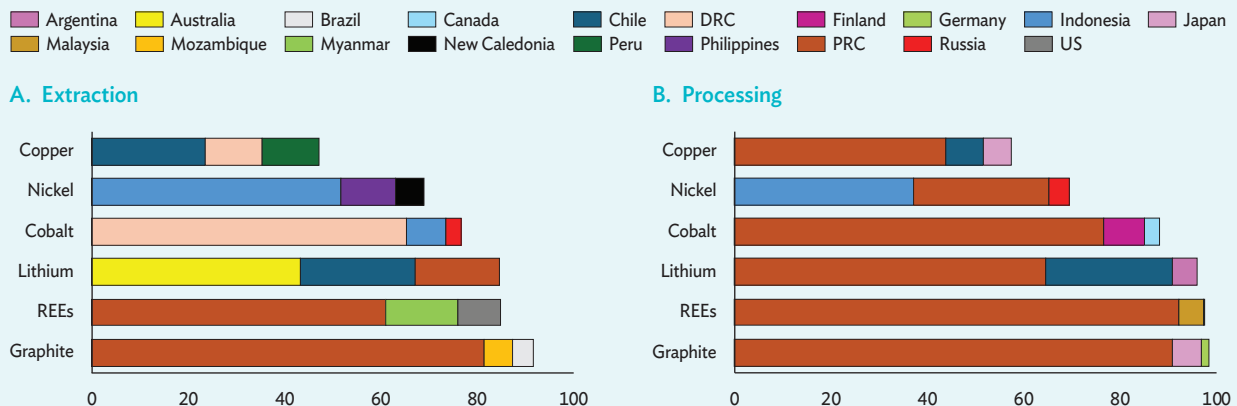
Critical minerals are raw materials used to produce consumer electronics, artificial intelligence (AI) infrastructure, new energy technologies, and weapons. In 2022, the US Geological Survey published a list of 50 such minerals,^a including arsenic for semiconductors; beryllium for aerospace and defense;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

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

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

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

Supply of critical minerals is heavily concentrated.



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

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

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

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

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

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

Box 1.3.1 Continued

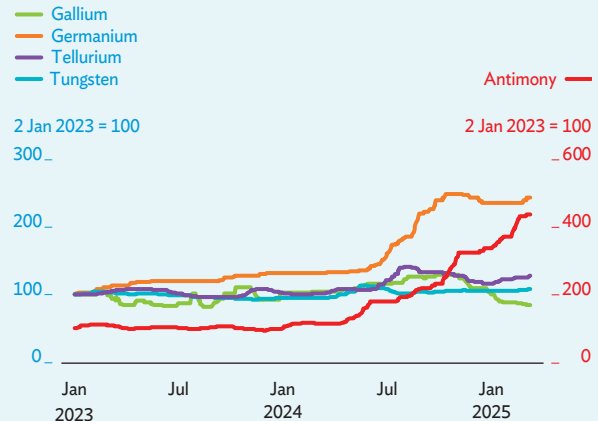
Developing Asia holds considerable mineral resources and a large potential for critical mineral production and processing (Park and Melendez 2024). Kazakhstan, Mongolia, and the Kyrgyz Republic hold vast reserves of copper, lithium, and rare earths, much of it processed in the PRC. Papua New Guinea,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

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

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

2 Price Movements of Selected Critical Minerals

Prices of various critical minerals increased notably in 2024.



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

Source: Bloomberg.

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

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

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

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

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

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

Box 1.3.1 Continued

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

The region's integration into global supply chains, industrial base, and workforce offer vast opportunities for sustainable mineral development. For the region to seize this opportunity, national policies and regional cooperation must be pursued to strengthen capacities, facilitate trade and investment, improve infrastructure connectivity, and enable project identification and development. Park and Melendez (2024) and Kim et al. (forthcoming) suggest several policy actions, including: building domestic production and downstream capabilities, forging strategic supply chain partnerships, encouraging innovation and technology transfer, and establishing regional data sharing and policy dialogue.

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

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

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

Policy Uncertainties Cloud Growth Outlook Amid Looming Tariffs

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

Table A.1 Baseline Assumptions on the International Economy

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

GDP = gross domestic product.

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

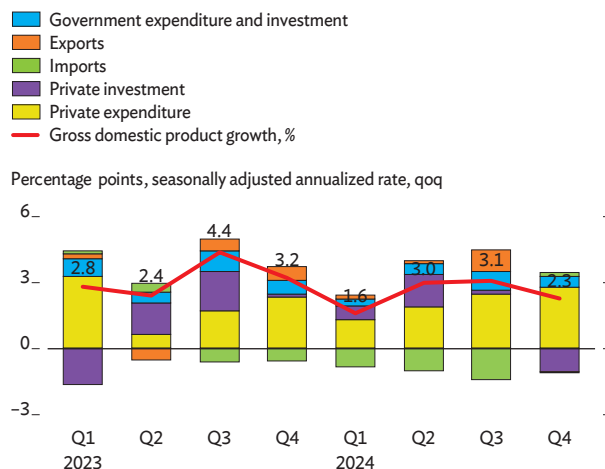
Recent Developments in the Major Advanced Economies

United States

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

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

GDP growth slowed in Q4 as investment declined.



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

Sources: Department of Commerce. [Bureau of Economic Analysis](#); Haver Analytics.

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

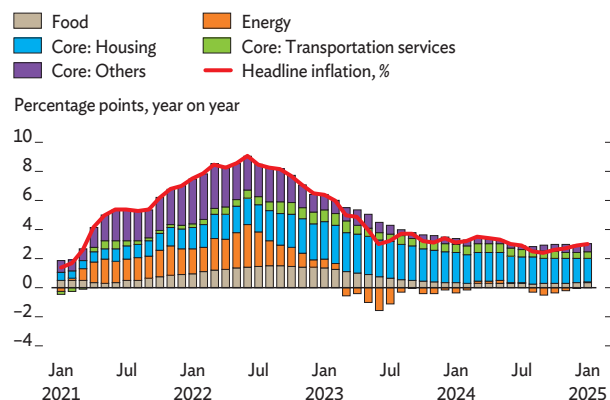
The US manufacturing sector rebounded slightly in early 2025, with the Institute for Supply Management (ISM) Manufacturing Index climbing to 50.9 in January—marking its first expansion since 2022 (Table A.2). This uptick was driven by broad-based improvements in production and new orders, signaling renewed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

Economic sentiment declined as inflation concerns rose amid policy shifts.

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

Figure A.2 Inflation, United States

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



Sources: Asian Development Bank estimates; Haver Analytics.

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

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

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

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

Source: Haver Analytics.

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

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

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

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

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

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

Euro area

The euro area economy grew 0.9% seasonally adjusted annualized rate (saar) (1.2% year-on-year) in Q4 2024. This brings 2024 annual growth in at 0.9%, up from 0.4% in 2023, but still much weaker than the 2% 2015–2019 pre-pandemic average (Figure A.3, Panel A). Looking at individual countries, output fell in Q4 2024 relative to Q3 in the region's two largest economies—Germany (–0.8% saar), France (–0.4%)—while it expanded 3.1% in Spain, 3.7% in Greece, and 6.3% in Portugal.

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

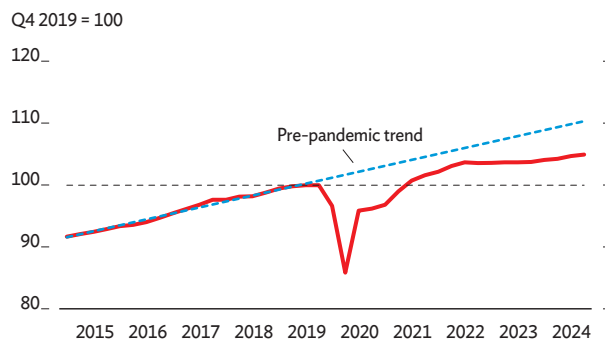
(Figure A.4, Panel A). Consumer spending remained weak in 2024, as households saved more, despite supportive labor market conditions (Figure A.4, Panel B). Net exports contributed positively to growth, driven by strong tourism, especially in southern economies.

Under forecasts made before the 2 April US tariffs announcement, GDP is expected to increase by 1.2% in 2025 and 1.4% in 2026. Moderately strengthening private consumption should support growth this year, on the back of rising real incomes amid tight labor markets and increased credit availability as monetary policy continues to ease. Industrial production is expected to recover, due to the anticipated decline in energy prices, but this recovery may be challenged if the steep tariffs on exports to the US announced on 2 April are confirmed. An expected substantial fiscal loosening to finance infrastructure and military expenditures in Germany will support growth in the euro area's largest economy and positively spill over to the rest of the bloc. Increasing military spending in other countries and planned increases in capital expenditures financed through EU-wide debt issuance under the NewGenerationEU recovery plan will offset reductions in current government expenditures under multi-year deficit-reduction plans. Growth is expected to pick up further in 2026, as the full impact of fiscal loosening in Germany will be felt, which will compensate the increasingly negative impact of higher US tariffs and the diminishing support from earlier monetary easing.

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

GDP and industrial production have been weak post pandemic.

A. Real GDP



GDP = gross domestic product, Q = quarter.

Note: Data are seasonally and calendar adjusted.

Source: Haver Analytics.

B. Industrial Production and Energy Prices

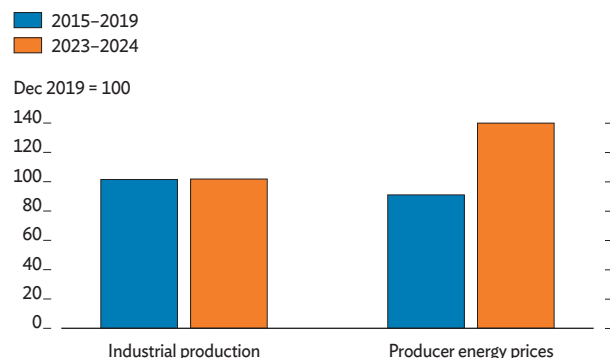
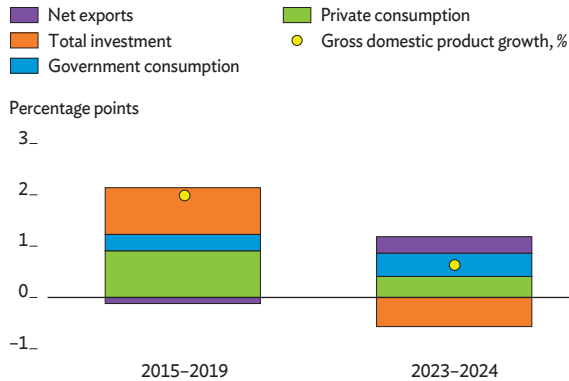


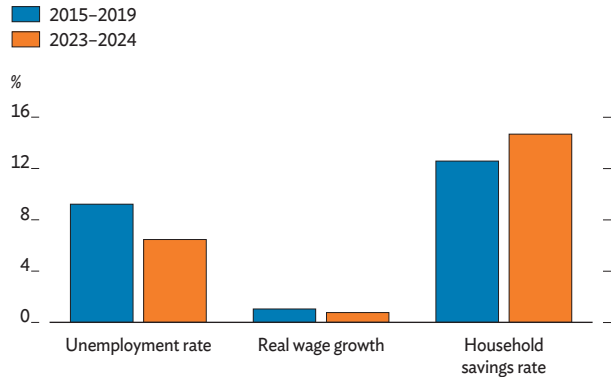
Figure A.4 Demand Side Contributions to Growth, Labor Market, and Household Savings, Euro Area

Consumers have been cautious despite supporting labor market conditions.

A. Demand-Side Contributions to Growth



B. Labor Market and Household Savings



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

Source: Haver Analytics.

Inflation eased to 2.4% in 2024 and is projected to settle at 2.2% in 2025 and 2.0% in 2026.

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

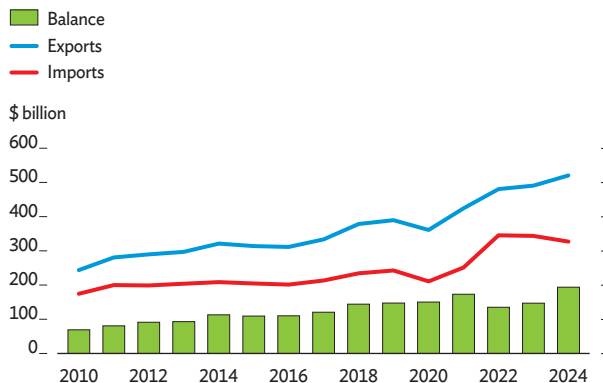
Risks are tilted to the downside. The forecast assumes modest tariffs on euro area exports to the US, with targeted retaliation by the euro area. Downside

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

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

The euro area is highly exposed to US tariffs.

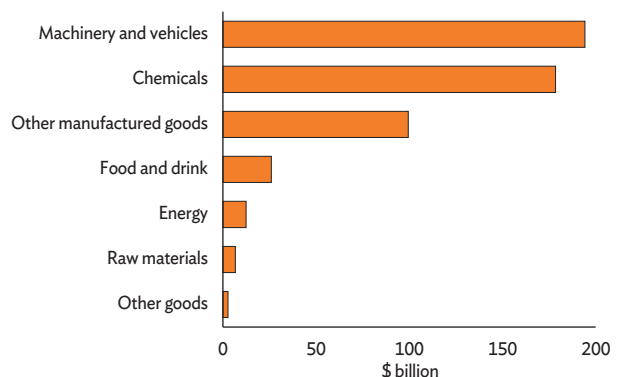
A. Trade Balance and Trends



US = United States.

Sources: CEIC Data Company; EuroStat.

B. Exports by Type of Goods, 2024

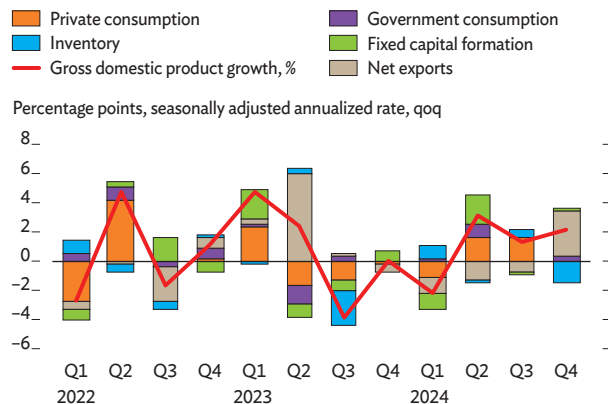


Japan

Japan's economy showed resilience in 2024, achieving modest 0.1% real GDP growth, bolstered by a stronger-than-expected 2.2% annualized growth in Q4. This late-year surge was driven mainly by robust exports and a recovery in private fixed capital investment. Real exports grew 4.1% annually, fueled by high demand for chipmaking equipment from Taipei, China and the PRC, and as a weaker yen enhanced competitiveness. Japanese exporters also accelerated shipments ahead of anticipated US tariffs and trade disruptions, with seasonally adjusted exports to the US surging 20.5% in December. Private consumption slowed, rising just 0.1% annually in Q4—down from 3% in Q2 and Q3—with persistence in inflation and high living costs exerting pressure on real wage growth. Meanwhile, seasonally adjusted core machinery orders, a key investment indicator, increased in October and November, led by strong manufacturing demand (Figure A.6).

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

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



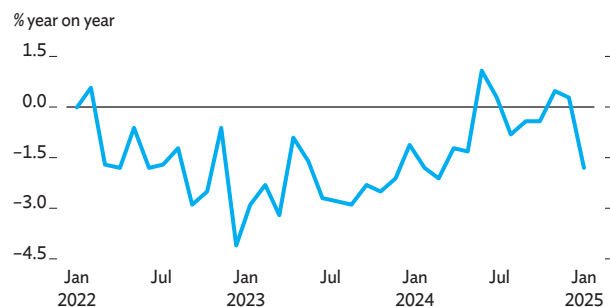
GDP = gross domestic product, Q = quarter, qoq = quarter on quarter.
Source: CEIC Data Company.

Japan's economy is projected to grow 1.2% in 2025 and 0.8% in 2026 under forecasts made before the 2 April US tariffs announcement, with real wage growth boosting private consumption. The Bank of Japan expects wage growth to outpace inflation, strengthening consumer spending, while a ¥13.9 trillion (\$92.6 billion) stimulus package will further boost demand. External demand is also expected to rise,

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

Figure A.7 Real Wage Increase, Japan

Real wages generally increased in 2024.

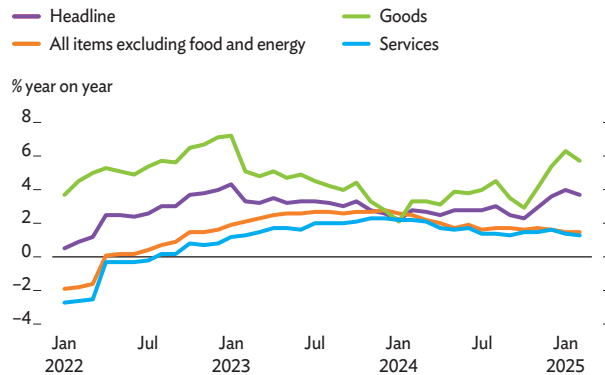


Source: Ministry of Health, Labour and Welfare of Japan. [Final Report of Monthly Labour Survey](#).

Headline inflation averaged 2.7% in 2024, down from 3.3% in 2023. Goods inflation contributed around two-thirds to overall inflation, increasing by 3.7%, compared to the 1.7% increase in services (Figure A.8). Food prices surged 4.3%, contributing 1.1 percentage points to headline inflation. Energy prices also increased significantly, rising 3.8%, partly reversing the previous year's decline of 6%. Core inflation, excluding fresh food and energy, was 2.4%, remaining above the Bank of Japan's 2% target. The Japanese yen depreciated significantly, reaching a 37.5-year low of 161.77 yen per US dollar in July 2024. The decline mainly reflected the widening interest rate differential between Japan and the US, exacerbating import costs and contributing to domestic inflationary pressures. Given persistent, above-target inflation and positive wage growth developments, the Bank of Japan raised the short-term interest rate from 0.25% to 0.5% in January 2025, its highest level in 17 years.

Figure A.8 Monthly Inflation, Japan

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



Source: CEIC Data Company.

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

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

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

Recent Developments and Outlook in Nearby Economies

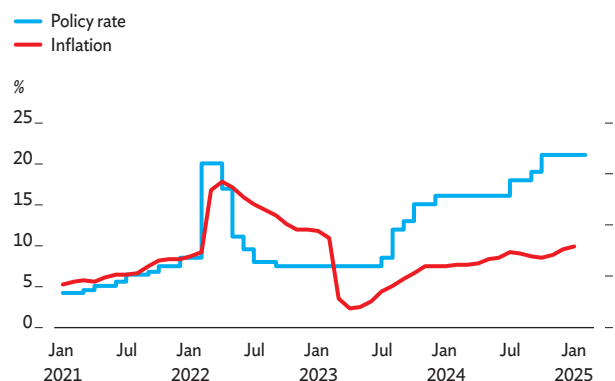
Russian Federation

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

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

Figure A.9 Policy Rate and Inflation, Russian Federation

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



Source: Haver Analytics.

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

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

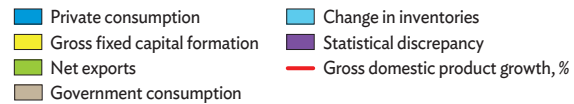
The domestic economy will grapple with extremely high interest rates, labor shortages, and a weakening ruble that exacerbates inflation. Nevertheless, strong defense spending will keep offering positive support. Falling oil prices due to rising output in the US is a downside risk to the outlook. Widening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

Australia

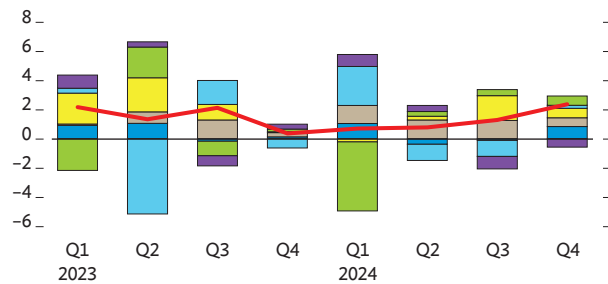
Economic growth slowed to a seasonally adjusted 1.0% last year from 2.1% in 2023, weighed down by weak external demand (Figure A.10). Net exports subtracted 1.0 percentage points (pps) from GDP growth in 2024, as exports slowed significantly relative to imports. Export growth weakened to 0.9% from 6.9%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

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

Growth slowed in 2024 on weak external demand.



Percentage points, seasonally adjusted annualized rate, qoq



Q = quarter, qoq = quarter on quarter.

Source: CEIC Data Company.

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

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

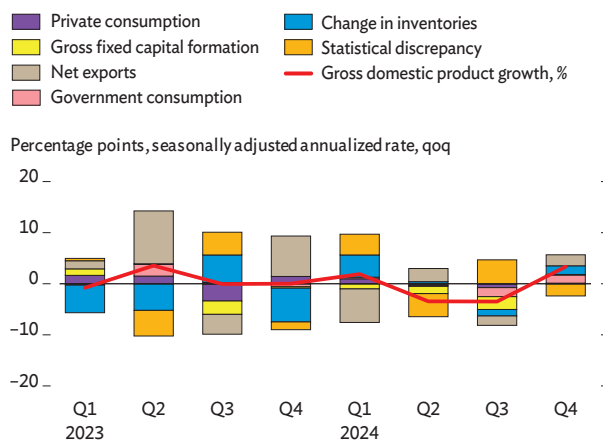
New Zealand

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

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

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

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



Source: CEIC Data Company.

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

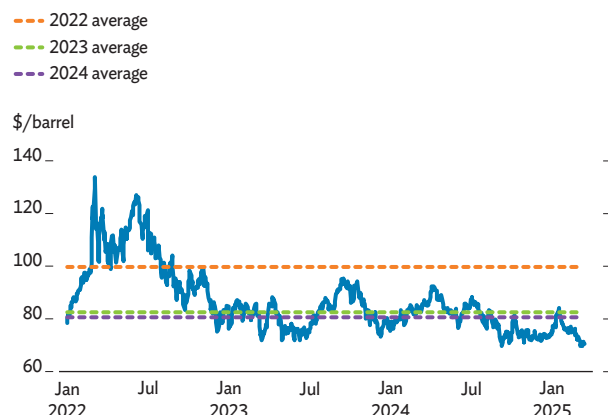
Oil Prices

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

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

Figure A.12 Brent Crude Oil Prices

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



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

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

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

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