Annex:

Developments in ASEAN+3 Economies

Brunei Darussalam

Brunei's economy experienced broad-based growth in 2024, marking its strongest expansion in decades. Real GDP expanded by 4.2 percent in 2024. Activities in the upstream O&G sector recovered strongly, benefiting from the accelerated production from newly developed oil wells which came on stream earlier-than-expected in October 2023. The completion of major post-pandemic rejuvenation works further supported growth in the sector. Similarly, in the non-O&G sector, growth was driven by a strong rebound in downstream activities, and the continued expansion of the services sector.

Labor market conditions remained stable. Employment grew by 2.8 percent in 2024, mainly led by expansion in local hires notably in the accommodation and food services, education as well as other services sectors. The strong job creation in the non-O&G sector, coupled with the active participation of locals in the workforce have supported the labor market. This helped to bring the unemployment rate down to 4.8 percent in 2024 from 5.2 percent in 2023, even though migrant worker levels remained below pre-pandemic figures.

Headline inflation has turned negative since February 2024. In 2024, the inflation reading came in at –0.4 percent, driven mainly by declines in prices of transport, communication, clothing and footwear. Of significance, transport CPI fell by 1.2 percent, driven by falling prices of vehicles and transport services. In contrast, food prices moderated sharply to 0.5 percent during the same period.

Overall balance of payments (BOP) position weakened slightly in June 2024, amid larger net outflows in the financial account. Despite a large surplus in the current account in the first half of 2024 (18.9 percent of GDP), net capital outflows were sizeable, amounting to USD 1.5 billion. As a result, overall BOP registered a deficit of 3.9 percent of GDP during the period. This is reflected in lower international reserves, which fell to USD 4.2 billion as of June 2024. For the year, the current account surplus is estimated to be largely sustained, at 13.8 percent of GDP, mainly on account of stronger export outlook in both the upstream O&G and downstream non-O&G sectors.

Bank lending continued to be broad-based and robust. Total banking sector credit strengthened by 7.9 percent (year-on-year) in 2024, in line with the sustained expansion in economic activity. From the sectoral point of view, household and other services sectors continued to be important drivers of credit growth. Banks' offshore financing activities—mainly in the financial and commercial property sectors—were also important in supporting lending activities.

Key financial soundness indicators showed that banking institutions remain highly capitalized with ample liquidity. The aggregate capital adequacy ratio stood at 20.5 percent in 2024, staying well above the minimum regulatory requirement. Asset quality has strengthened, with nonperforming loan ratio decreasing further to 2.0 percent in 2024. Key liquidity metrics also point to ample buffers in the banking system.

Brunei's fiscal balance reversed to a large deficit in FY2023 due to weaker O&G revenue. The deficit outturn stood at 11.9 percent of GDP in FY2023 (from 1.1 percent of GDP in FY2022), as O&G revenue collection nearly halved from the previous fiscal year. This reflects the headwinds in O&G production and lower energy prices relative to the previous fiscal year, which impacted export receipts. In FY2024, the fiscal deficit is estimated at 11.7 percent of GDP.

Risks to the growth outlook are broadly balanced. Since late 2023, the outlook has improved, benefiting from new O&G field discoveries, offering significant upsides to growth. Downside risks in the near-term stem from potential production headwinds from the maturation of O&G fields and supply chain disruptions due to heightened geopolitical tensions in the Middle East. In the medium term, maintaining economic diversification momentum will remain challenging, especially in an increasingly less friendly global environment. Geostrategic competition and shifting trade patterns add to the complexities of sustaining economic diversification. These global dynamics heighten uncertainty and intensify competition for foreign direct investment (FDI), making it more challenging to attract strategic capital and technology flows critical to diversification.

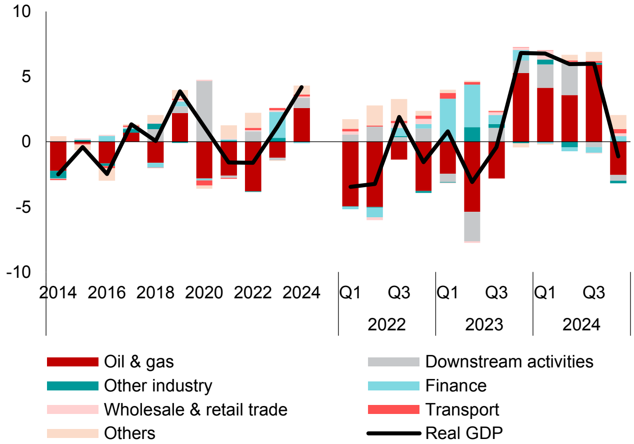
Structural transformation to achieve a more diversified and inclusive economic structure remains a key long-term challenge. To achieve sustained and well-balanced economic growth that is inclusive, the government has identified five priority areas for targeted development—downstream O&G, food, tourism, ICT, and services. However, the diversification progress across these sectors has so far been uneven. These efforts are complicated by the dominant role the O&G sector plays in upholding the current high standard of living, which poses difficulties in attracting investment in other industries.

The author of this note is Vanne Khut.

Brunei Darussalam: Selected Figures

The economy has seen a strong recovery since the fourth quarter of 2023.

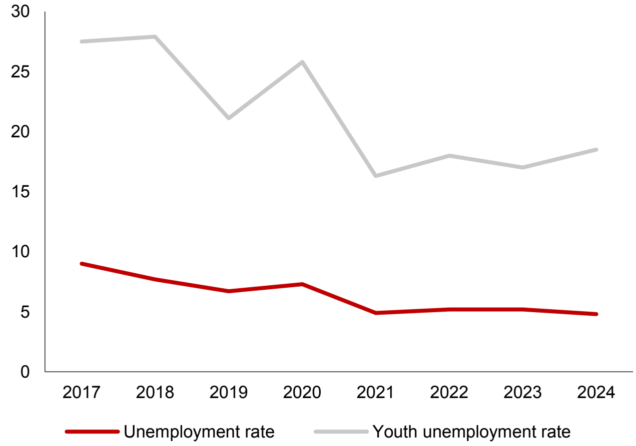
Contributions to Real GDP Growth (Production-Side)
(Percentage points, year-on-year)



Source: Department of Economic Planning and Statistics; AMRO staff calculations.

Labor market conditions have remained generally stable.

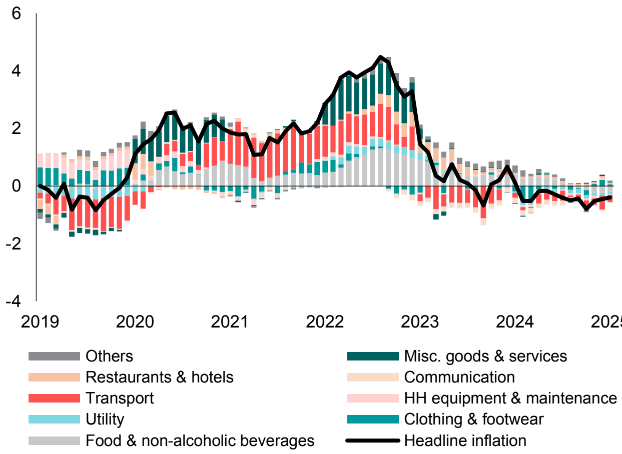
Unemployment Rate and Youth Unemployment Rate
(Percent)



Source: Department of Economic Planning and Statistics.

Inflation has moderated sharply since early 2023.

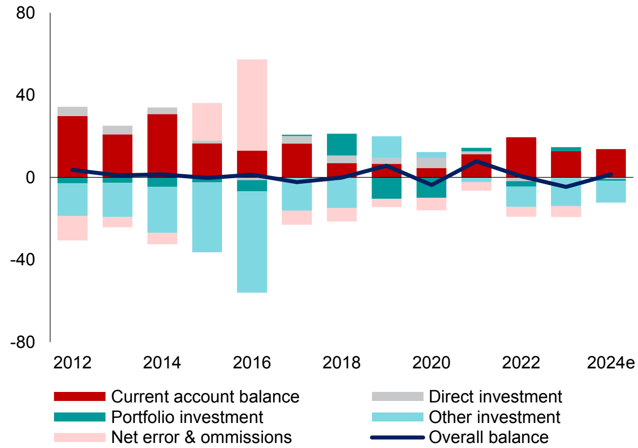
Contributions to Consumer Price Inflation
(Percentage points, year-on-year)



Source: Department of Economic Planning and Statistics; and AMRO staff calculations.
Note: HH = household; Misc. = miscellaneous.

The external position remains strong, supported by a sustained current account surplus.

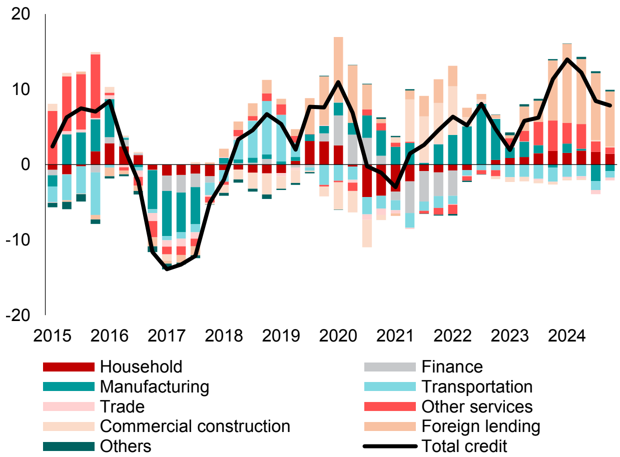
Balance of Payments
(Percent of GDP)



Source: Department of Economic Planning and Statistics; AMRO staff calculations.
Note: "e" denotes AMRO staff estimates. Brunei's BOP follows BPM6. The financial account sign is reversed for charting purposes.

Credit growth remains robust, led by stronger household demand and offshore bank lending.

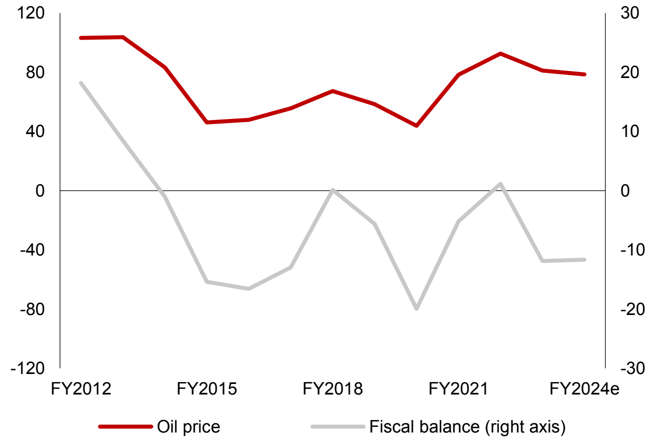
Contributions to Banking Sector Credit Growth
(Percentage points, year-on-year)



Source: Brunei Darussalam Central Bank; AMRO staff calculations.
Note: ICT = information and communication technology.

The fiscal deficit widened in FY2023 due to weaker O&G revenue.

Fiscal Balance, and Oil and Gas Prices
(USD/barrel; percent of GDP)



Source: Ministry of Finance and Economy; AMRO staff estimations.
Note: Brunei's fiscal data are in fiscal year (FY) starting from April to March. "e" denotes AMRO staff projections.

Brunei Darussalam: Selected Economic Indicators

Indicator	2021	2022	2023	2024e
Real sector	(in annual percentage change)			
Real GDP	–1.6	–1.6	1.4	4.2
Private consumption	21.9	8.3	11.1	5.9
Government consumption	2.6	6.9	–2.4	0.7
Gross fixed capital formation	–13.9	–1.8	0.2	–2.4
Imports of goods and services	29.5	9.5	–7.8	0.2
Exports of goods and services	8.8	6.9	–2.2	4.0
External sector[1]	(in percent of GDP, unless otherwise specified)			
Current account balance	11.2	19.6	12.9	13.8
Trade balance	14.2	25.8	16.5	16.5
Capital and financial account balance	–0.9	14.3	12.2	12.3
Direct investment	–1.5	1.8	0.3	0.7
Portfolio investment	–1.7	2.7	–1.8	1.0
Other investment	2.3	9.8	13.7	10.5
Errors and omissions	–4.2	–4.8	–5.3	0.0
Overall balance	7.8	0.5	–4.6	1.5
International reserves (in USD billion, end of period)[2]	5.0	5.0	4.5	4.7
Fiscal sector[3]	(in percent of GDP)			
Revenue and grants	24.3	27.7	17.4	17.7
Expenditure	29.4	26.6	29.2	29.4
Fiscal balance	–5.2	1.1	–11.9	–11.7
Monetary and financial sectors	(in annual percentage change)			
Broad money	2.7	1.3	2.7	3.6
Domestic credit[4]	–19.6	–15.6	51.7	4.7
Private sector credit	2.7	6.0	3.9	3.0
Memorandum items:				
Nominal GDP (in BND billion, calendar year)	18.8	23.0	20.3	20.7
Nominal GDP (in BND billion, fiscal year)	19.7	22.9	20.3	20.8
Headline inflation (in percent y-o-y, period average)	1.7	3.7	0.4	–0.4
Exchange rate (in BND/USD, period average)	1.34	1.38	1.34	1.34

Source: National authorities via CEIC/ Haver Analytics; AMRO staff estimates.
Note: y-o-y = year-on-year. Numbers in red denote AMRO staff estimates.
1/ Brunei's balance of payments follows BPM6. A negative (positive) financial account balance indicates net inflow (outflow).
2/ Gross international reserves include gold.
3/ Refers to fiscal year, which is from April to March.
4/ Refers to domestic claims from Depository Corporations Survey.

Cambodia

Cambodia's economy continued to expand moderately in 2024 at a faster pace than in the previous year. GDP growth was recorded at 6.0 percent in 2024, from 5.0 percent in 2023, but the recovery remained uneven. The garment sector rebounded strongly, serving as a major growth driver. Garment exports in 2024 increased by 23.5 percent compared to 2023, supported by strong demand from the United States (US) and the European Union (EU). The agriculture sector also grew steadily, continuing to benefit from multilateral free trade agreements and investments in agri-food processing. However, the services sector underperformed, largely because the tourism recovery was slow, with Angkor Wat ticket sales reaching only 51.7 percent of pre-pandemic levels. The real estate sector remained weak.

Consumer price inflation fell sharply in 2024, averaging below 1 percent, from 2.1 percent in 2023. Headline consumer price inflation plummeted at the beginning of the year and hovered at around 0–1 percent from January to September, driven by lower energy and subdued food prices, before moving up to 2 percent in November 2024. Core inflation grew modestly, averaging 0.9 percent, partly reflecting lingering weak domestic demand.

The current account balance is estimated to turn into a moderate deficit for 2024, driven by a widened trade deficit compared to the previous year. Goods imports rose 17.6 percent in 2024, outpacing exports growth of 13.6 percent. As a result, the trade deficit based on customs data doubled to 4.4 percent of GDP from the previous year, with the second and fourth quarters contributing the most. However, the primary income deficit is expected to narrow, while the net service surplus is anticipated to remain stable. Meanwhile, FDI inflows remained resilient at 8.7 percent of GDP in the first three quarters. International reserves stood at USD 22.5 billion in 2024, covering 9.4 months of imports.

The riel appreciated slightly against the US dollar in 2024 on average at KHR 4,071 per USD. It generally follows a seasonal pattern, depreciating until June—mostly during the dry season—and appreciating afterward during the rainy season.

The real estate sector remained weak with oversupply and subdued demand. New residential projects were limited in 2024, with only four condominium projects and eight *Borey* (gated community) developments launched. Moreover, housing demand remained sluggish, with a 5 percent year-on-year decline in mortgage loans in 2024, along with a continued decline in the residential property price index since September 2023.

Credit growth slowed to 3.2 percent by December 2024, while asset quality worsened with rising nonperforming loans ratios. Weaker-than-expected economic growth has prompted banks to adopt a more cautious and stringent lending approach. Meanwhile, credit demand has weakened due to a slowdown in the services sector, especially in real estate. Asset quality has been declining, with rising nonperforming loan ratios at 7.3 percent in December 2024. Bank profitability significantly declined, with a return on assets at 0.2 percent in the second quarter of 2024, well below regional peers. Nevertheless, the banking sector remains robust with a capital adequacy ratio exceeding 20 percent and liquidity coverage ratio surpassing 160 percent.

The fiscal deficit has narrowed in 2024, primarily due to a sizable spending cut, despite weak revenue collection. While non-tax revenue collection remained stable, tax revenue grew modestly by 2.1 percent compared to 2023, reaching only 86.9 percent of the target set in the budget law and falling short of expectations. This reflected a combination of weak domestic demand and the government's generous tax incentives introduced in 2023. In this regard, budget rationalization has been made to cut certain expenditures. As a result, the fiscal deficit has improved to 3.6 percent of GDP in 2024 from 5.3 percent in 2023. Public debt fell to 26.1 percent of GDP in 2024 from 26.6 percent in 2023, mainly driven by narrower primary deficit and robust economic growth.

Cambodia's growth outlook is vulnerable to a sharper-than-expected slowdown in major economies and potential shifts in US and EU trade policies. Slower growth in China may weaken FDI inflows and hinder tourism recovery. Meanwhile, over half of Cambodia's goods exports go to the US and EU, exposing trade performance in these economies to a sharp slowdown and trade policy uncertainties, especially under the new US administration and the EU's resolutions, which highlight the need to assess Cambodia's eligibility for preferential trade tariffs under the "Everything but Arms" scheme.

Further deterioration in loan asset quality could weaken profitability and capital adequacy, particularly in smaller, weaker banks. In addition, the weak finances of some real estate developers, driven mostly by subdued demand, could further heighten credit risks in related sectors.

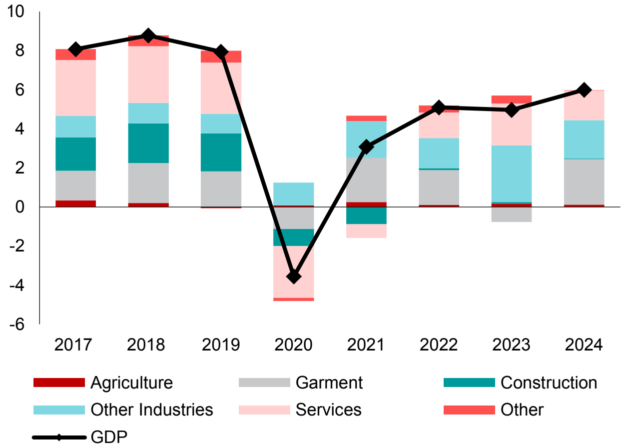
The author of this note is Chunyu Yang.

Cambodia: Selected Figures

The economy continued to expand moderately in 2024 on the back of a strong rebound in the garment sector.

Contributions to Real GDP Growth

(Percentage points, year-on-year)

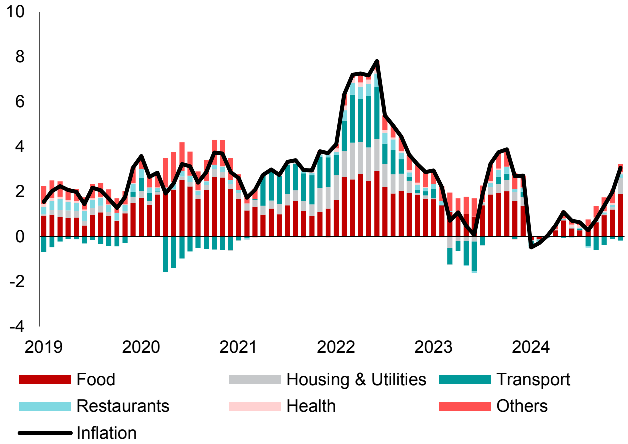


Source: National Institute of Statistics of Cambodia; AMRO staff estimates.
Note: The sectoral contributions for 2023 and 2024 GDP growth are based on AMRO staff estimates.

Consumer price inflation rapidly dropped at the beginning of 2024 before moving up.

Contributions to Headline Inflation

(Percentage points, year-on-year)

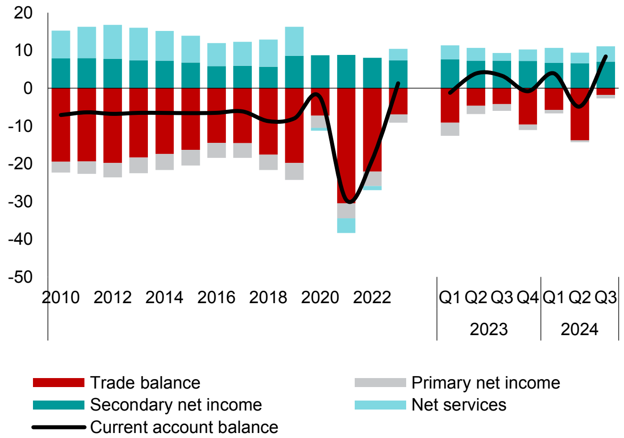


Source: National Bank of Cambodia; AMRO staff calculations.
Note: Food includes non-alcoholic beverages.

The current account registered a small deficit in the first half of 2024, down from a surplus in 2023.

Current Account Balance

(Percent of GDP)

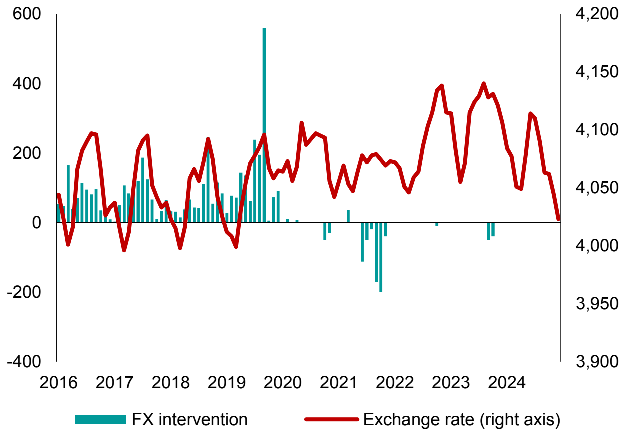


Source: National Bank of Cambodia; AMRO staff calculations.
Note: Nominal GDP figures in 2023 are based on AMRO staff estimations.

The riel slightly appreciated against the US dollar in 2024 on average at KHR 4,071 per USD.

Central Bank's FX Intervention and Exchange Rate

(Millions of US dollars; KHR/USD)

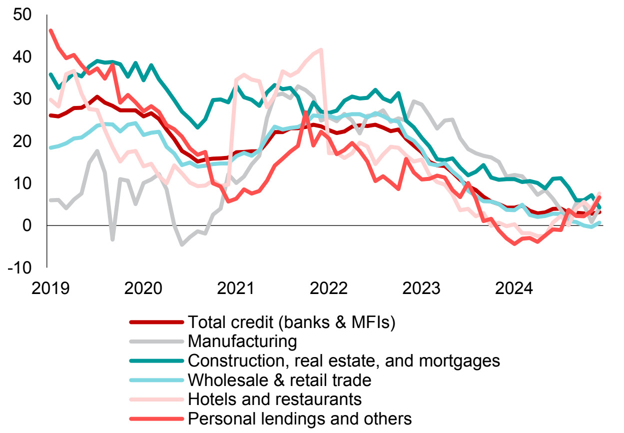


Source: National Bank of Cambodia; AMRO staff calculations.

Credit growth continued to slow down in most sectors due to banks' more cautious lending approach and weak credit demand.

Credit Growth by Sector

(Percentage points, year-on-year)

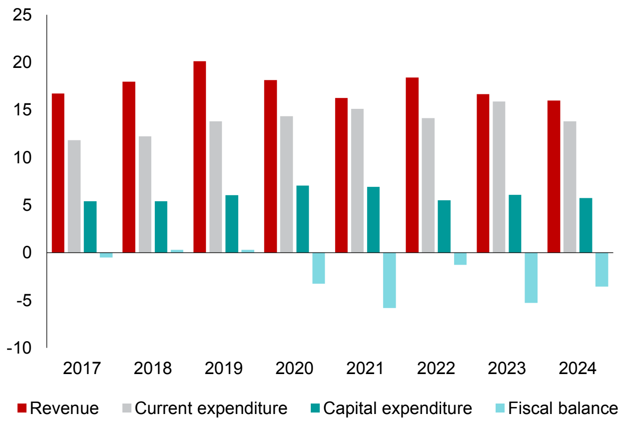


Source: National Bank of Cambodia; AMRO staff calculations.
Note: This chart refers to the credit distributed to the nonfinancial institutions by banks only. MFI = microfinance institution.

The fiscal deficit has narrowed in 2024, primarily due to a sizable spending cut, despite weak revenue collection.

Fiscal Balance

(Percent of GDP)



Source: Ministry of Economy and Finance.

Cambodia: Selected Economic Indicators

Indicator	2021	2022	2023	2024e
Real sector	(in annual percentage change)			
Real GDP	3.1	5.1	5.0	6.0
Agriculture	1.5	0.6	1.1	0.8
Industry	8.4	8.4	5.3	10.2
Services	–1.8	3.6	6.0	4.2
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	–29.6	–19.0	1.3	–0.1
Trade balance	–30.5	–22.1	–7.1	–7.8
Capital and financial account balance	33.3	17.5	1.5	3.1
Direct investment	9.2	8.6	9.0	9.0
Portfolio investment	–0.1	–0.3	–0.8	–0.2
Other investment	23.7	8.8	–6.9	–6.2
Errors and omissions	–3.5	2.3	–2.7	–2.6
Overall balance	0.2	0.9	0.2	0.4
Gross external debt	54.5	55.5	56.8	57.6
International reserves (in USD billion, end of period)	20.3	17.8	20.0	22.5
Fiscal sector	(in percent of GDP)			
Revenue and grants	16.2	18.4	16.7	16.0
Expenditure	22.1	19.7	22.0	19.6
Fiscal balance	–5.8	–1.3	–5.3	–3.6
Government debt	25.6	25.0	26.6	26.1
Monetary and financial sectors	(in annual percentage change)			
Broad money	16.4	8.2	12.5	17.5
Domestic credit	32.5	19.2	4.1	2.2
Private sector credit	23.6	18.5	3.5	3.1
Memorandum items:				
Nominal GDP (in KHR billion)	150,793	164,059	174,027	187,447
Headline inflation (in percent y-o-y, period average)	2.9	5.3	2.1	0.8
Exchange rate (in KHR/USD, period average)	4,099	4,102	4,111	4,071

Source: National authorities; AMRO staff estimates.
Note: y-o-y = year-on-year. Numbers in red denote AMRO staff estimates.

China

China's gradual and still-uneven economic recovery extended from 2023 into 2024, with policy measures helping to keep official growth targets on track. After a firm start, growth slowed between March and September, before picking up markedly in the fourth quarter. This was the broad pattern across industrial production, fixed asset investment, and consumption. Export growth across destinations generally stayed firm. Imports were weaker overall; strong demand for high-tech products was counterbalanced by softer demand in other categories.

The policy response has been broad in scope yet targeted. Between September 2024 and January 2025, the authorities announced a wide range of measures—including fiscal, monetary, and real estate measures—to strengthen the recovery. Some of the measures started taking effect quickly, enabling GDP growth to reach 5.0 percent for 2024 and bringing some cautious optimism that the economic recovery would progress in 2025. The authorities also stepped up policy communication, conveying their strong intent to make policy adjustments through 2025 to boost growth and address both near-term and long-term challenges.

Inflation has been very low for the past two years, due to weak demand and strong competition. Intense competition among manufacturers of consumer products, bountiful agricultural harvests, and insufficient consumer demand have been key factors. CPI inflation was 0.2 percent in both 2023 and 2024, and –0.1 percent in the first two months of 2025.

China's external position is strong. The healthy current account surplus reflects its export competitiveness. In 2023, China's exports and imports contracted due to weak external and domestic demand. However, both rebounded in 2024 although the start of the 2025 was less firm—exports rose 7.1 percent in 2024 and 3.4 percent year-on-year in January–February 2025, while imports increased 2.3 percent in 2024 and contracted 7.3 percent y-o-y in January–February 2025. Two-way FDI flows remain sizeable. As of February 2025, China's foreign reserves remained stable at USD 3.2227 trillion.

The banking system is generally sound; the overall capital buffer is strong. Some banks with large exposure to the real estate sector and enterprises hit harder by the unevenness of the economic recovery may need sizeable capital injection and more careful credit risk management. So far, credit growth has been reasonably firm, with total social financing growth at 8.0 percent in 2024 and January 2025.

Financial conditions have been accommodative. These are due to supportive monetary and credit policies.

Adjustments in the real estate sector are ongoing and the sector may bottom out around mid-2025. Property prices continued to fall in most of the 70 major cities, but housing transactions have begun to show signs of increasing. These trends are consistent with homebuyers remaining cautious, many property developers trying to clear inventories, and the sector being in a multiyear process of shifting to a markedly downsized and more sustainable steady state.

The authorities have adopted a proactive fiscal policy stance and introduced measures to defuse risks related to hidden local government debt. In 2024, the authorities extended fiscal support by boosting central government transfers and raising local government debt ceilings, leading to a larger consolidated deficit while keeping the overall fiscal stance neutral. However, on- and off-budget local government spending has decreased, partly because of fiscal strains from lower tax revenue collections and land financing, alongside tax and fee policy measures to support the economic recovery, while a package of central government-funded investment in natural disaster reconstruction and resilience was introduced in late-2023. In the fourth quarter of 2024, the authorities introduced an RMB 12 trillion (9.7 percent of GDP) package to defuse medium-term risks related to hidden local government debt.

China faces certain near-term risks and must address several long-term challenges to sustain its growth trajectory.

Externally, escalating geopolitical tensions and emerging protectionist measures threaten to slow global growth and deepen geoeconomic fragmentation. The imposition of new US tariffs on Chinese imports could dampen China's exports and weigh on China's growth. Sudden shifts in US policies could exacerbate uncertainties, dampen investment sentiment, and increase financial market volatility. A global economic slowdown or recession in major economies could weigh further on China's growth prospects.

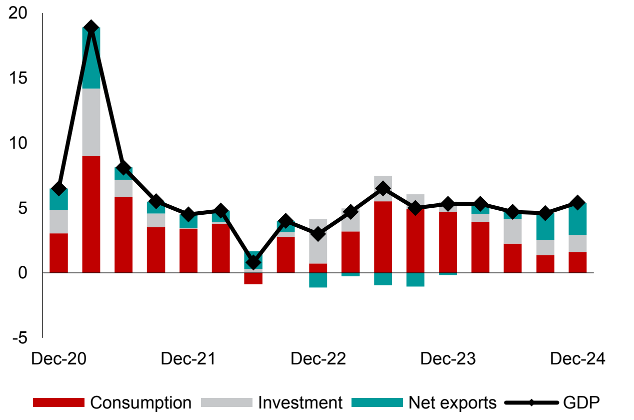
Domestically, China faces cyclical and structural challenges, including potential setbacks in the real estate sector recovery, financial strains on local governments, and decline in asset quality of some small and medium-sized banks. Longer-term challenges—such as climate change, population aging, labor force shrinkage, the need to reduce debt, and geoeconomic fragmentation—could weigh on long-term growth potential.

The author of this note is Suan Yong Foo.

China: Selected Figures

China's economic recovery continued to be uneven in 2024, with GDP growth at 4.8 percent in the first through third quarters of 2024.

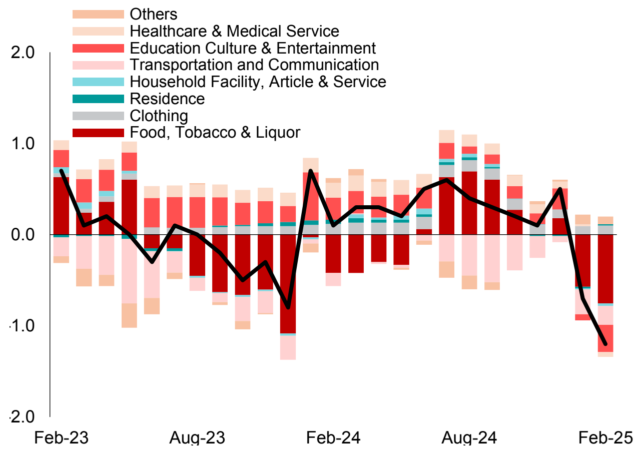
Contributions to Real GDP Growth
(Percentage points, year-on-year)



Source: China National Bureau of Statistics (NBS); Win.d.

CPI inflation was very low at 0.2 percent in both 2023 and 2024, and negative at –0.1 percent y-o-y.

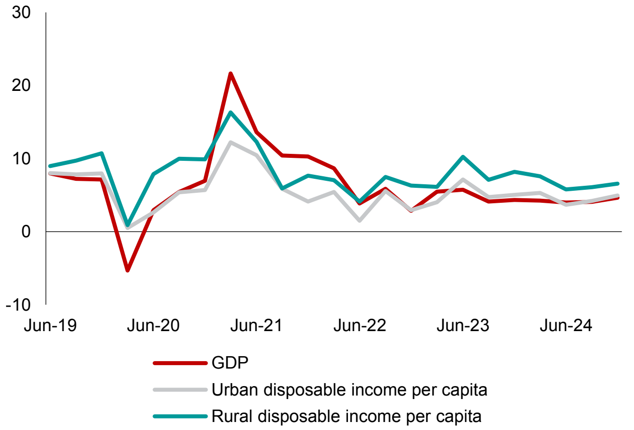
Consumer Price Inflation
(Percentage points, year-on-year)



Source: China NBS; CEIC.
Note: CPI = consumer price index.

Income growth over the past few years has been modest compared to the pre-pandemic years.

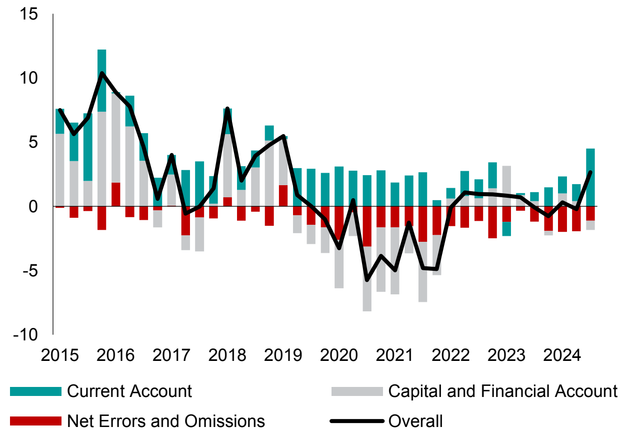
Disposable Income Growth: Urban and Rural
(Percentage points, year-on-year)



Source: China NBS; CEIC.

The overall BOP position has remained healthy, driven by a significant current account surplus.

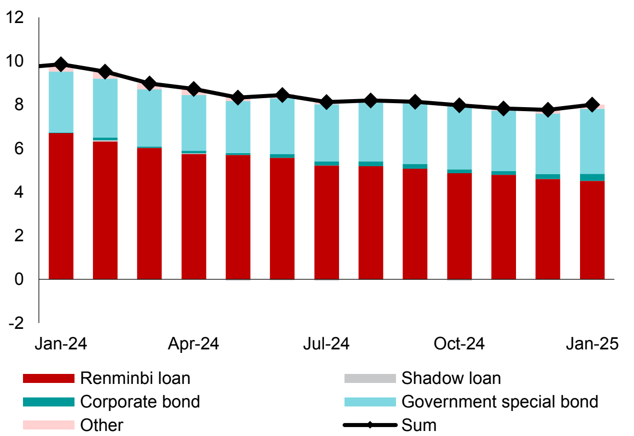
Balance of Payments
(Percent of GDP)



Source: China State Administration of Foreign Exchange (SAFE); CEIC.

Total social financing increased by 9.8 percent in 2023 and 8.0 percent in 2024, with banks receiving policy guidance.

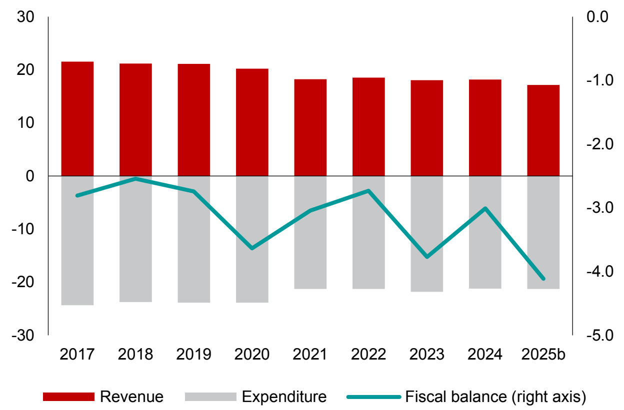
Contributions to Banking Sector Credit Growth
(Percentage points, year-on-year)



Source: People's Bank of China (PBC); Win.d.

Net issuance of local government bonds has been adjusted to support local economies and China's growth.

Fiscal Balance
(Percent of GDP)



Source: China Ministry of Finance (CMOF); Win.d.

China: Selected Economic Indicators

Indicator	2021	2022	2023	2024e
Real sector	(in annual percentage change)			
Real GDP	8.4	3.0	5.2	5.0
Private consumption	9.8	1.8	8.0	4.0
Gross fixed capital formation	2.6	5.1	1.8	5.0
Imports of goods and services	30.1	1.1	–0.3	2.3
Exports of goods and services	29.9	7.7	0.6	7.1
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	2.0	2.2	1.5	2.3
Trade balance	2.6	3.2	4.4	5.4
Capital and financial account balance	–0.6	1.7	–1.2	–1.7
Direct investment	0.9	0.2	–0.8	0.1
Portfolio investment	0.2	–1.6	–0.3	–0.3
Other investment	–1.4	0.3	0.0	–0.7
Errors and omissions	–0.8	–0.5	0.2	0.2
Gross external debt	15.5	14.1	13.4	14.0
Foreign exchange reserves (in USD billion, end of period)	3,250	3,128	3,278	3,202
Fiscal sector[1]	(in percent of GDP)			
Revenue and grants	18.2	18.5	18.1	18.2
Expenditure	21.2	21.2	21.8	21.2
Fiscal balance	–3.0	–2.7	–3.8	–3.0
Government debt	45.8	49.4	54.7	60.9
Monetary and financial sectors	(in annual percentage change)			
Broad money[2]	9.0	11.8	9.7	7.3
Total social financing	10.3	10.0	9.5	8.0
Memorandum items:				
Nominal GDP (in CNY trillion)	114.4	121.0	129.4	134.9
Headline inflation (in percent y-o-y, period average)	0.9	2.0	0.2	0.2
Policy rate (in percent per annum, end of period)	3.85	3.65	3.45	3.10
Exchange rate (in CNY/USD, period average)	6.45	6.74	7.07	7.19

Source: National authorities via CEIC and WIND; AMRO staff estimates.
Note: y-o-y = year-on-year. Numbers in red denote AMRO staff estimates.
1/ Includes only general government account and incorporates AMRO staff estimates.
2/ Refers to M2.

Hong Kong, China

Hong Kong's economy grew at a steady yet modest pace in 2024 as activities gradually returned to pre-pandemic levels. In the first half of the year, the economy expanded by 3.0 percent year-on-year, driven by net exports amid rising external demand and a recovery in electronics orders linked to the tech cycle. However, shifts in consumption, including increased cross-border shopping by Hong Kong residents, along with softening growth in goods exports, contributed to a slower growth of 2.2 percent year-on-year in the second half, highlighting a deceleration in recovery momentum. Gross fixed asset investment experienced a slowdown, contracting by 0.9 percent in the fourth quarter, as the real estate market-related investment remained sluggish.

The labor market continued to improve. Seasonally adjusted unemployment rate declined from its most recent peak of 5.5 percent in February–April 2022 to 3.1 percent in October–December 2024. Total employment rose significantly to 3.7 million in October–December 2024, though it remained 3.7 percent below levels observed in the pre-pandemic fourth quarter of 2019. This shortfall reflects the compounded effects of population aging and the pandemic.

Inflation remained moderate despite the ongoing economic recovery. Headline consumer price inflation stayed stable at 1.7 (year-on-year) percent for 2024. Inflation in the housing component edged up from 1.1 percent in the second quarter to 3.3 percent in the third quarter before slowing down to 0.9 percent in the fourth quarter. However, moderation in food inflation and declining prices of durable goods helped to contain overall consumer price inflation. Additionally, low food inflation in mainland China and the Hong Kong dollar's appreciation against the renminbi during the first half of 2024 also contributed to keeping inflation in check.

The overall external position remained strong. The value of Hong Kong's merchandise exports increased by 9.2 percent (year-on-year) in the year 2024. Supported by its buoyant services and primary income surpluses, Hong Kong maintained a large current account surplus in the first three quarters of 2024. Capital outflows have increased due to decreases in local interest rates and widening rate differentials between the Hong Kong dollar and US dollar. Foreign reserves were largely stable throughout 2024, fluctuating from USD 423 billion at the end of January to USD 422 billion at the end of December.

The FY2024 fiscal budget aims to bolster the economic recovery and foster sustainable, high-quality growth over the long term. While the government continues to support individuals and firms through tax relief, the amount has been scaled back as the overall economic condition improves. The package of relief measures reduced significantly from HKD 59.4 billion in FY2023 to HKD 11.5 billion in FY2024. Apart from the relief measures, the government has allocated funds to revitalize the tourism sector, enhance Hong Kong's innovation and technology ecosystem, and promote the development of the infrastructure.

The banking sector is sound, underpinned by ample capital and liquidity buffers. The aggregate capital adequacy ratio stood at 21.8 percent at the end of the third quarter of 2024, and the liquidity coverage ratio increased to 178.4 percent in the third quarter of 2024 from 166.0 percent in the first quarter of 2023, Despite an uptick of nonperforming loan ratio from 1.46 percent in the first quarter of 2023 to 1.99 percent in the third quarter of 2024, the overall asset quality of Hong Kong's banking sector remains healthy. That said, close attention should be paid to the quality of mainland China-related loans, as the nonperforming loan ratio for these loans has risen from 2.3 percent in the first quarter of 2023 to 2.8 percent in the third quarter of 2024.

Domestic financial and credit conditions tightened over the year. Total credit continued to contract by 2.8 percent (year-on-year) at the end of 2024, mainly driven by declines in credit for use outside Hong Kong and construction activity. The Hong Kong Interbank Offered Rates mirrored the downward trend of US interest rates. Despite signs of recovery in the third quarter of 2024, the property market remained under pressure, with various segments exhibiting downward price trends, including commercial real estate.

As the economic outlook gradually moderates, downside risks in the short term remain high. The risk of a protracted global trade downturn caused by aggressive protectionism remains a significant concern for the Hong Kong economy, given its heavy connections with the global economy. If the US and Europe were to go into recession, Hong Kong's economic growth would fall. A faltering economic recovery of mainland China would also weaken Hong Kong's economic recovery. Weaknesses in the property market, if prolonged, could weigh on the finances of households and firms. In the medium term, an escalation of US-China tensions, broader global geoeconomic fragmentation, and decreasing trend of labor participation ratio are major risks for Hong Kong's economy.

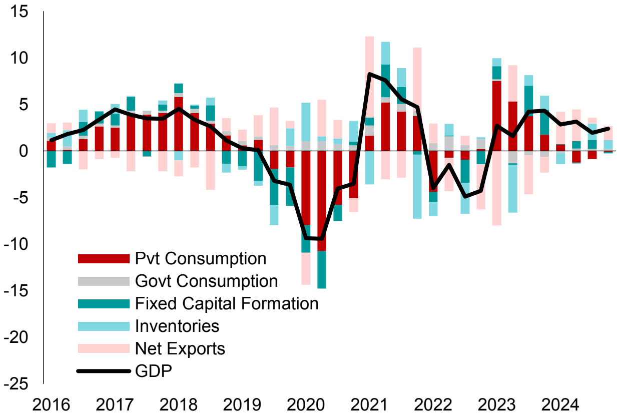
The author of this note is Fan Zhai.

Hong Kong, China: Selected Figures

Hong Kong's economy maintained a strong recovery in the first half of 2024, but growth slowed in the second half of 2024.

Gross Domestic Product

(Percentage points, year-on-year)

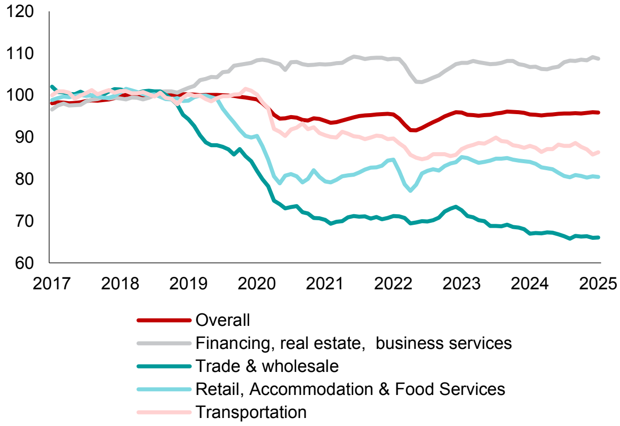


Source: Census and Statistics Department.

Overall employment improved in 2024, but the recovery remained uneven across sectors.

Employment by Sector

(2018 = 100, non-seasonally adjusted, 3-month moving average)

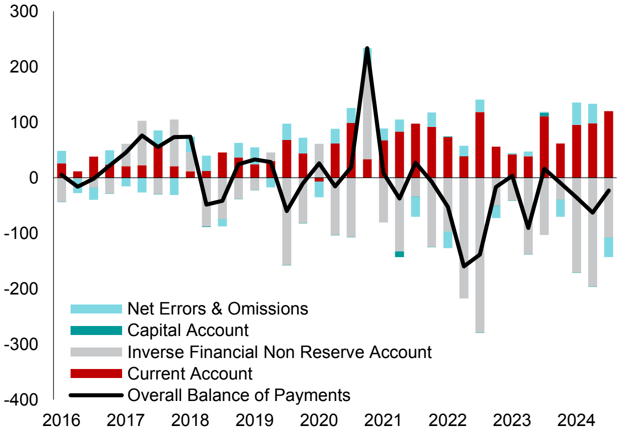


Source: Census and Statistics Department.

The external position was stable in 2024, supported by the current account balance.

Balance of Payments

(Billions of Hong Kong dollars)

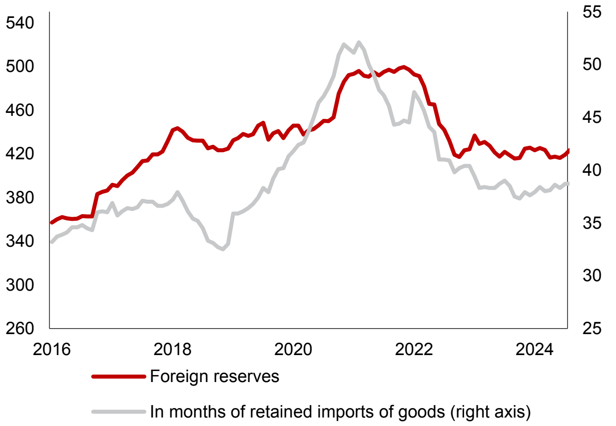


Sources: Census and Statistics Department.

Foreign exchange reserves remained ample, covering about 40 months of retained imports.

Foreign Reserves

(Billions of US dollars; months of import)

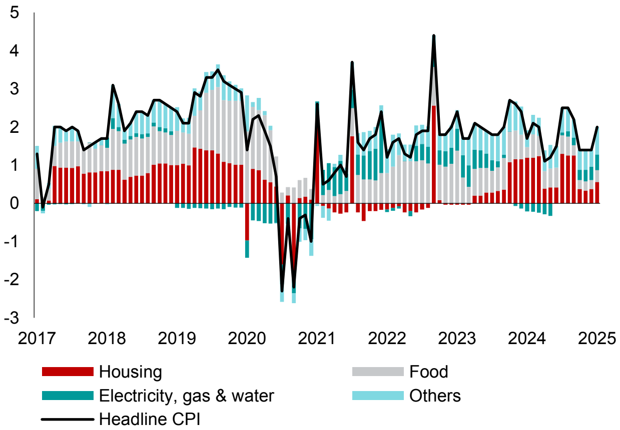


Source: Hong Kong Monetary Authority.

Inflation rose moderately on rising housing rentals.

CPI Inflation

(Percentage points, year-on-year)

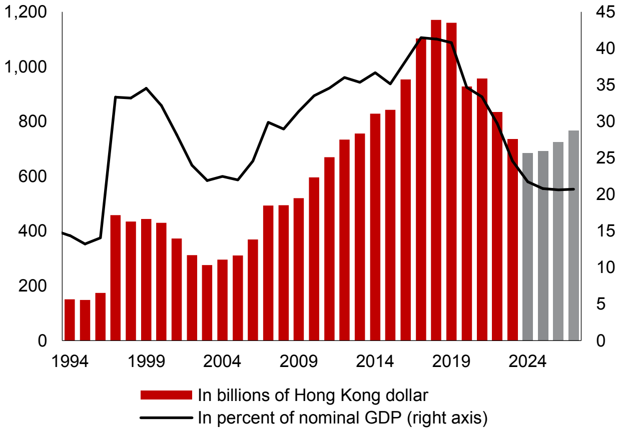


Source: Census and Statistics Department.
Note: CPI = consumer price index.

The government projected that fiscal reserves as a percentage of GDP would revert its declining trend in FY2026.

Fiscal Reserves Projections

(Billions of Hong Kong dollars; percent of GDP)



Source: Census and Statistics Department.
Note: Grey bars denote government projections in the 2024 Budget Speech.

Hong Kong, China: Selected Economic Indicators

Indicator	2021	2022	2023	2024e
Real sector	(in annual percentage change)			
Real GDP	6.5	–3.7	3.2	2.5
Private consumption	5.6	–2.2	6.8	–0.6
Government consumption	5.9	8.0	–3.9	0.9
Gross fixed capital formation	8.3	–7.4	11.4	2.4
Imports of goods and services	15.8	–12.2	–5.4	3.9
Exports of goods and services	17.0	–12.5	–6.6	5.3
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	11.8	10.2	8.5	10.7
Trade balance	5.6	4.1	0.6	2.8
Capital and financial account balance[1]	–13.3	–22.9	–10.6	–16.6
Direct investment	11.9	1.0	6.8	5.5
Portfolio investment	–21.6	–11.3	–15.2	–25.8
Other investment	–4.8	–17.6	–5.8	3.8
Errors and omissions	1.2	–0.4	–0.6	–0.6
Overall balance	–0.3	–13.1	–2.7	–6.5
Gross external debt	508.8	494.6	483.3	497.5
International reserves (in USD billion, end of period)	496.9	424.1	425.7	421.5
Fiscal sector[2]	(in percent of GDP)			
Revenue and grants	24.2	22.1	18.5	20.2
Expenditure	24.2	28.9	24.3	24.5
Fiscal balance	0.0	–6.7	–5.8	–4.5
Government debt	2.0	4.4	6.5	9.1
Monetary and financial sectors	(in annual percentage change)			
Broad money	4.3	1.6	4.0	7.3
Domestic credit	3.8	–3.0	–3.6	–2.8
Private sector credit	4.8	0.0	–1.1	–1.8
Memorandum items:				
Nominal GDP (in HKD trillion)	2.9	2.8	3.0	3.2
Headline inflation (in percent y-o-y, period average)	1.6	1.9	2.1	1.7
Policy rate (in percent per annum, period average)	0.50	2.13	5.45	5.52
Exchange rate (in HKD/USD, period average)	7.77	7.83	7.83	7.80

Source: National authorities via CEIC and Haver Analytics; IMF; BIS; AMRO staff estimates.
Note: y-o-y = year-on-year. Numbers in red denote AMRO staff estimates.
1/ Financial account balance refers to financial non-reserve assets.
2/ Refers to fiscal year which starts on 1 April and ends on 31 March.

Indonesia

The Indonesian economy remained solid amid ongoing challenges. Economic activity sustained 5.0 percent growth in 2024. Resilient household consumption, increased government spending, and strengthening investment supported domestic demand. The gradual export recovery was driven by rebounding manufactured goods exports to US, ASEAN and European markets. Commodity exports, meanwhile, remained weak on softer Chinese demand and lower domestic production of several commodities.

Inflation was under control. In 2024, headline inflation averaged 2.3 percent and moderated to 1.6 percent in December, close to the lower bound of the 2.5±1 percent target, underpinned by policy synergy between the government and Bank Indonesia (BI). The government has continued to provide energy subsidies, ramped up the stock of necessity goods, especially food, and strengthened interregional distribution to counter the El Niño weather impact. Core inflation has been anchored, reflecting the central bank's commitment to anchoring inflation expectations.

The external position was resilient. In 2024, sustained trade surpluses helped contain the current account deficit. Foreign direct and portfolio investment inflows supported the capital and financial account. That said, the fourth quarter of 2024 saw domestic market outflows and rupiah weakness amid heightened uncertainty after the US election. The outflows started since November 2024, adding pressure on the rupiah exchange rate. Gross international reserves rose to USD 155.7 billion by the end of the year, covering 6.7 months of imports. External debt was contained at 30.4 percent of GDP, with short-term external debt at remaining maturities at 19.5 percent of external debt, equivalent to 53.1 percent of gross international reserves in December 2024.

In 2024, BI strengthened its policy mix with a prudent interest rate policy and judicious foreign exchange interventions to support inflation control and rupiah exchange rate stability. The introduction of pro-market financing instruments, notably Bank Indonesia rupiah securities (SRBI), deepened the money market and attracted additional nonresident inflows in most of 2024. The BI Rate was lowered by 25 basis points to 5.75 percent in early 2025 to support economic growth in view of low inflation projections and manageable rupiah exchange rate movements.

To ensure sufficient liquidity in the banking system, BI strengthened incentives related to reserve requirements to encourage banks to lend to micro, small, and medium-sized enterprises and sectors that support growth and job creation. Other relaxed macroprudential policies, including the 100 percent loan-to-value for property loans and zero downpayment for car loans, were also extended. Bank credit sustained robust expansion to support investment and household consumption. Following the phase-out of COVID-19 related forbearance, banks remained well capitalized and reported stable nonperforming loan ratios.

The fiscal stance turned expansionary in 2024 to support the domestic economy. Revenue mobilization moderated in percent of GDP as revenue collected from natural resources declined with subdued commodity prices. Meanwhile, the government increased spending to support purchasing power, particularly for low-income households, and expedite the implementation of national strategic projects, notably the construction of Nusantara, the new capital city. Consequently, the fiscal deficit widened to 2.3 percent of GDP in 2024, compared to 1.6 percent in 2023.

Indonesia's near-term outlook is susceptible to external spillovers. Growth uncertainty in major trading partners, notably China but also in the US and European countries, could weigh on the recovery in Indonesia's exports and growth. It is especially severe considering the likelihood of aggressive protectionist policies and heightened US-China trade tensions with the incoming US administration.

Risks of capital flow volatility and higher borrowing costs remain. Domestic markets may see continued outflows amid policy uncertainty under the new US administration. Indonesian government bond yields rose about 50 basis point in 2024 and could rise further if global financial conditions tighten due to slower US rate cuts. Higher yields would lift the government's interest payment burden, reducing the budget for discretionary spending.

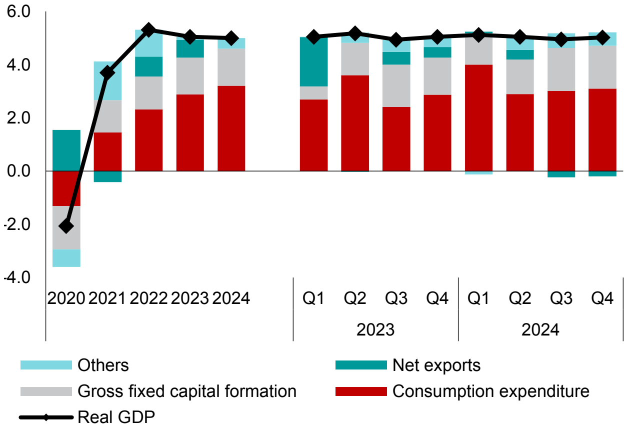
Indonesia faces challenges in achieving high-income status, an inclusive and sustainable growth. Economic growth has stabilized at 5 percent—solid but still below the 7 percent target to achieve high-income country status by 2045. Efforts in economic diversification and moving up the value chain, including developing a domestic electric vehicle ecosystem, face global trade headwinds and domestic challenges. Despite fiscal decentralization and industrialization efforts, regional income disparities remain significant because of gaps in infrastructure development and local government capacity. Failures of climate change mitigation and adaptation will hinder sustainable growth. Limited financing options, reflected in modest financial deepening and inclusion, add to these challenges.

The author of this note is Thi Kim Cuc Nguyen.

Indonesia: Selected Figures

Resilient consumption and investment sustained solid growth in 2024 as exports remained soft.

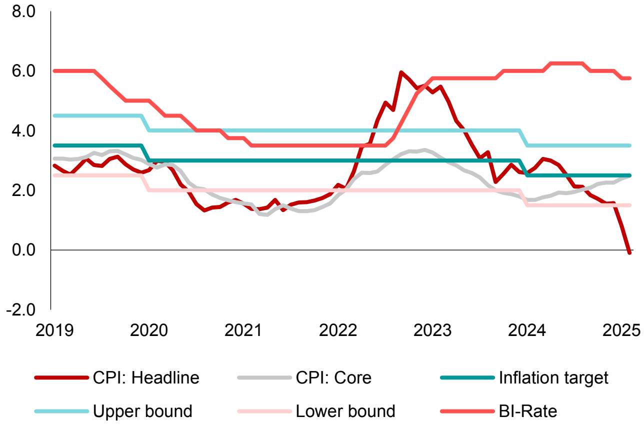
Contribution to Real GDP Growth
(Percentage points, year-on-year)



Source: Statistics Indonesia.

BI reduced policy rates in early 2025 to support the economy in views of low inflation projections and the rupiah exchange rate was consistent with fundamentals.

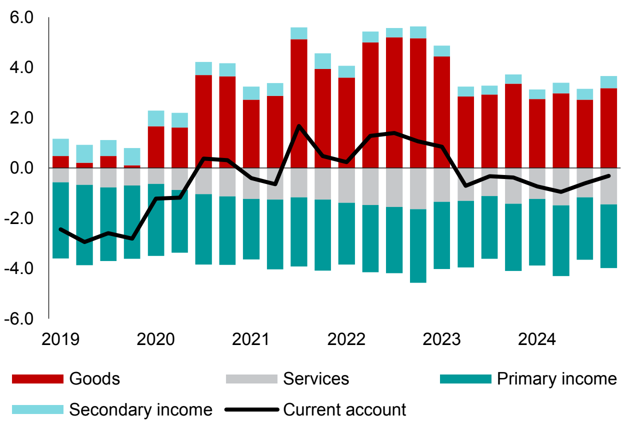
Bank Indonesia's Policy Rate and Inflation
(Percent)



Source: Statistics Indonesia, Bank Indonesia.
Note: CPI = consumer price index.

Continued trade surpluses supported the current account balance.

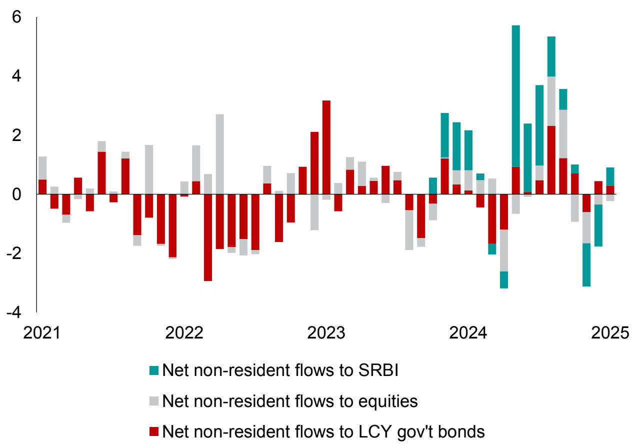
Current Account Balance
(Percent of GDP)



Source: Bank Indonesia.

Domestic markets witnessed capital inflows in most of 2024, which reversed in Q4 amid heightened global uncertainty post US elections.

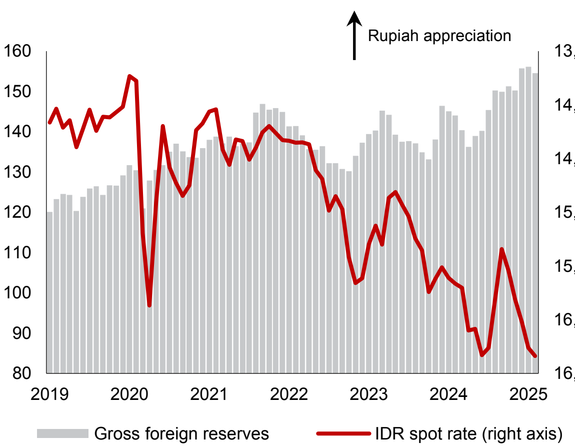
Net Capital Flows to SRBI, Government Bond and Equity Markets
(Billions of USD)



Source: Indonesia Stock Exchange, Ministry of Finance of Indonesia.

Reserve position, meanwhile, strengthened.

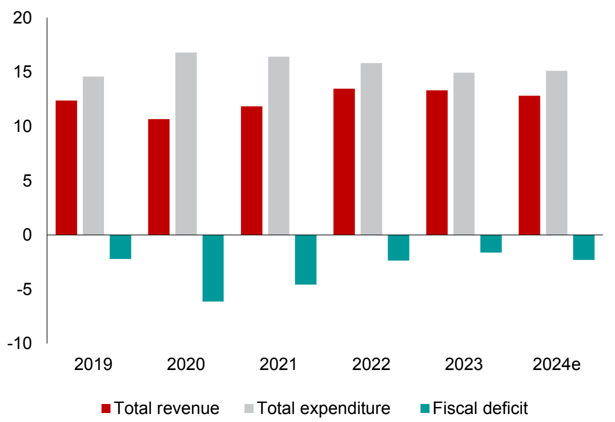
Gross Foreign Reserves and Rupiah Spot Rate
(Billions of US dollars; IDR/USD)



Source: Bank Indonesia.

Fiscal deficit widened on the back of lower revenue growth and increased spending to support the economy.

Budget Revenue, Expenditure, and Overall Balance
(Percent of GDP)



Source: Ministry of Finance of Indonesia; AMRO Staff Calculations.
Note: Data for 2024 are AMRO staff estimates based on the preliminary fiscal realization data announced by Ministry of Finance of Indonesia.

Indonesia: Selected Economic Indicators

Indicator	2021	2022	2023	2024
Real sector	(in annual percentage change)			
Real GDP	3.7	5.3	5.0	5.0
Private consumption	2.0	4.9	4.8	4.9
Government consumption	4.3	–4.5	3.0	6.6
Gross fixed capital formation	3.8	3.9	3.8	4.6
Imports of goods and services	24.9	15.0	–1.6	7.9
Exports of goods and services	18.0	16.2	1.3	6.5
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	0.3	1.0	–0.1	–0.6
Trade balance	2.5	3.2	2.1	1.8
Capital and financial account balance	1.1	–0.7	0.7	1.2
Direct investment	1.5	1.4	1.1	1.0
Portfolio investment	0.4	–0.9	0.2	0.6
Other investment	–0.9	–1.2	–0.5	–0.5
Overall balance	1.1	0.3	0.5	0.5
Gross external debt	34.9	30.1	29.8	30.4
International reserves (in USD billion, end of period)	144.9	137.2	146.4	155.7
Fiscal sector	(in percent of GDP)			
Revenue and grants	11.8	13.5	13.3	12.8
Expenditure	16.4	15.8	14.9	15.1
Fiscal balance	–4.6	–2.4	–1.6	–2.3
Government debt	40.7	39.7	39.2	39.8
Monetary and financial sectors	(in annual percentage change)			
Broad money	14.0	8.4	3.5	4.4
Private sector credit	6.7	9.9	10.7	8.5
Memorandum items:				
Nominal GDP (in IDR trillion)	16,971	19,588	20,892	22,139
Headline inflation (in percent y-o-y, period average)	1.6	4.2	3.7	2.3
Policy rate (in percent per annum, period average)	3.50	5.50	6.00	6.00
Exchange rate (in IDR/USD, period average)	14,308	14,850	15,237	15,781

Source: Bank Indonesia; Ministry of Finance of Indonesia; Statistics Indonesia; CEIC; AMRO staff estimates.
Note: y-o-y = year-on-year. Trade balance data refer to goods and services trade. Numbers in red denote AMRO staff estimates.

Japan

Japan's economic growth moderated following the post-pandemic rebound. After a 1.5 percent expansion in 2023, the economy grew by only 0.1 percent in 2024, reflecting the slow recovery in consumption, supply chain disruptions caused by the car safety certification issue, and a downward revision of first quarter construction data. In the first quarter of 2024, real GDP contracted by 2.2 percent (saar, quarter-on-quarter), as private consumption contracted for a fourth consecutive quarter and automobile production stalled. The economy rebounded over the subsequent three quarters, supported by consumption, as the wage hikes resulting from the *Shunto* (Spring) wage negotiations began to take effect.

Japan's consumer price inflation has remained above the 2 percent target of the Bank of Japan (BOJ) since April 2022. The elevated inflation in 2024 has been driven by higher food prices and rising wages. In December 2024, CPI (less fresh food) inflation accelerated to 3.0 percent from 2.7 percent in the previous month, reflecting the expiration of energy subsidies and elevated rice prices. Meanwhile, "core-core" CPI inflation, which excludes both fresh food and energy, remained stable at 2.4 percent after increasing in successive months since July.

Wage growth in Japan gained significant momentum in 2024, driven by historically high agreements from the *Shunto* wage negotiations and supported by a tight labor market. Nominal wages rose by 4.4 percent year-on-year in December 2024, accelerating from a 3.9 percent increase in the previous month. This helped keep real wages in positive territory, growing by 0.3 percent. Labor market conditions remained tight, with the unemployment rate at 2.5 percent in December 2024. This tightness is expected to persist as the economy continues to recover. Additionally, structural factors such as Japan's aging population and the limited room for further expansion of women and elderly workers in the workforce, given already high participation rates, are likely to sustain labor market tightness. These conditions are expected to support strong wage growth going forward.

Japan's current account surplus remained substantial at 4.8 percent of GDP in 2024, up from 3.8 percent in the same period of 2023. The larger surplus primarily reflects a narrower trade deficit and a higher primary income surplus. While automobile exports were negatively affected by factory closures related to safety certification issues, exports of semiconductors and semiconductor equipment surged reflecting the upswing in the tech cycle. The yen continued to depreciate against the US dollar by 7.3 percent in 2024, amid speculation over the wider-for-longer interest rate gap between the US and Japan due mainly to the delayed prospect of US rate cuts and the strength of the US economy.

The banking sector continued to be sound with stable credit growth. Bank lending expanded by over 3.3 percent in 2024. Resilient domestic demand has increased loan demand for both fixed investment and working capital, as banks have maintained an accommodative lending stance. The banking sector overall has maintained sufficient capital buffer, while the nonperforming loan ratio increased to 1.3 percent in March 2024 from 1.2 percent in September 2023. Profitability picked up in FY2023 partly because net losses on debt securities fell.

Strong tax revenue growth has played a key role in reducing the fiscal deficit from 3.5 percent of GDP in FY2022 to 1.9 percent of GDP in FY2023. The fiscal deficit is estimated to widen to 2.1 percent of GDP in FY2024 despite the gradual phase-out of some economic support packages. This increase reflects lower carryover revenue from the previous year, and higher spending from a supplementary budget amounting to JPY 13.9 trillion. While public debt has been declining steadily after a significant increase during the COVID-19 pandemic, it is estimated to remain high, at 239.3 percent of GDP in FY2024.

Japan's growth outlook is skewed to the downside, reflecting substantial uncertainties, particularly from external factors. Key risks include a pronounced economic slowdown in other major economies and a spike in global commodity prices triggered by escalating geopolitical tensions, which can lead to higher inflation and slower consumption. On the domestic front, a slowdown in wage growth could undermine the BOJ's efforts to achieve its 2 percent inflation target. Conversely, a significant overshoot of inflation above its target could force a sharp tightening of monetary policy, straining households and businesses. Higher interest rates would also challenge fiscal sustainability by driving up interest payments on the government's substantial debt.

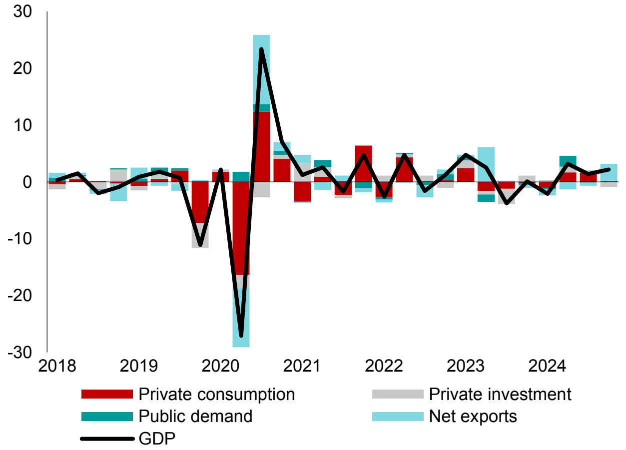
The author of this note is Paolo Hernando.

Japan: Selected Figures

Japanese economy contracted in the first quarter of 2024 but has since bounced back.

Gross Domestic Product

(Percent quarter-on-quarter, seasonally adjusted annualized rate)

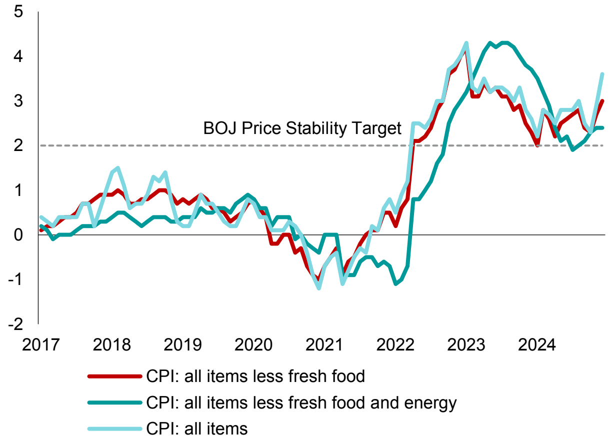


Source: Cabinet Office via Haver Analytics.

Although inflation moderated, it has exceeded the Bank of Japan's target since April 2022.

Consumer Price Inflation

(Percent, year-on-year)

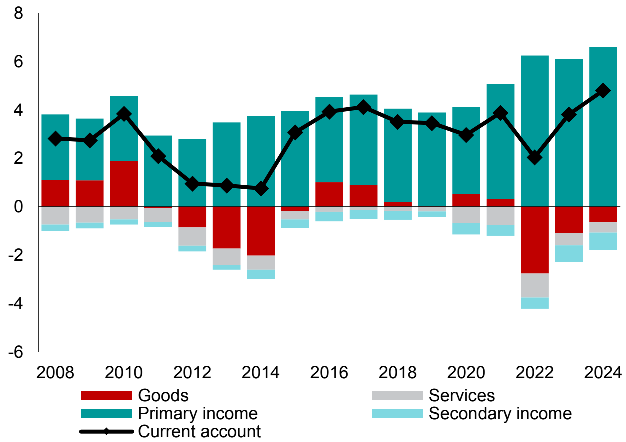


Source: Ministry of Internal Affairs and Communications via Haver Analytics.

The current account balance remained resilient in 2024 on the back of a large primary balance surplus and narrowing trade deficit.

Current Account Balance

(Trillions of yen)

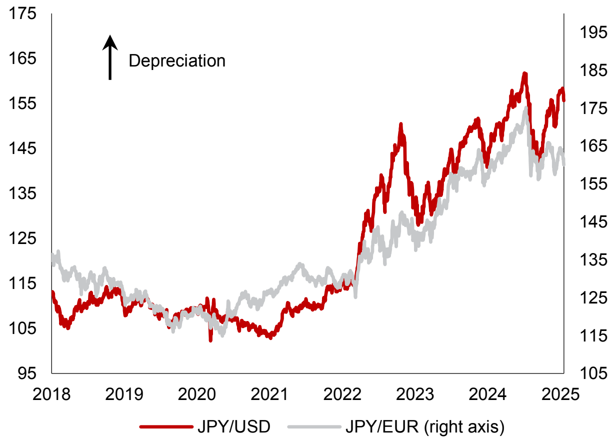


Source: Ministry of Finance via Haver Analytics.

The yen continued to depreciate against the US dollar, by 7.3 percent in 2024.

Exchange Rates

(JPY/USD; JPY/EUR)

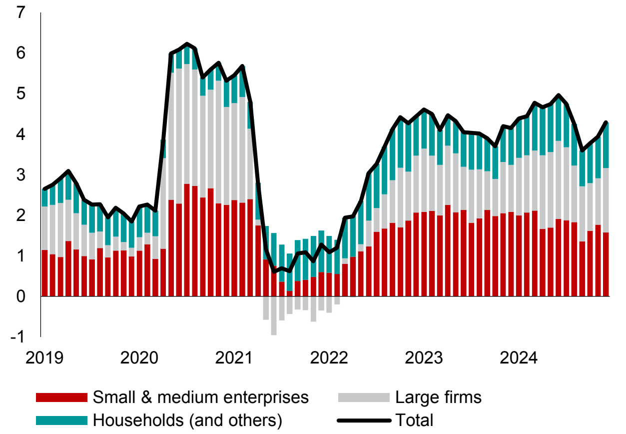


Source: Bank of Japan via Haver Analytics.

Loan growth has continued to expand in 2024 driven by resilient domestic demand.

Bank Lending Growth

(Percent, year-on-year)

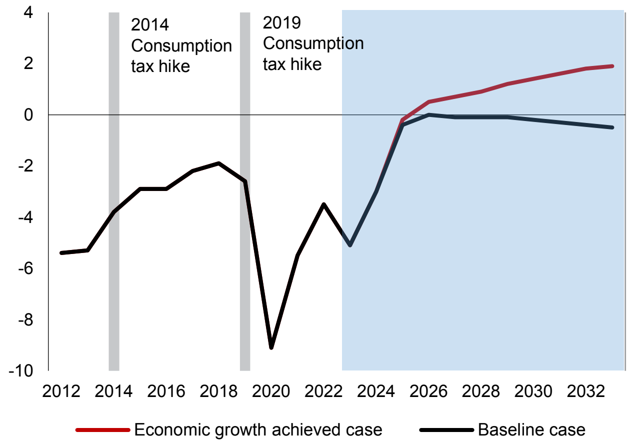


Source: Bank of Japan via Haver Analytics.

Japan now expects to miss its 2025 primary balance goal due to higher spending.

General Government Fiscal Balance

(Percent of GDP)



Source: Cabinet Office via Haver Analytics.

Japan: Selected Economic Indicators

Indicator	2021	2022	2023	2024e
Real sector	(in annual percentage change)			
Real GDP	2.7	0.9	1.5	0.1
Private consumption	0.7	2.1	0.8	–0.1
Government consumption	3.4	1.4	–0.3	0.9
Gross fixed capital formation	0.5	–0.6	1.5	0.3
Imports of goods and services	5.2	8.3	–1.5	1.3
Exports of goods and services	11.9	5.5	3.0	1.0
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	3.9	2.0	3.8	4.8
Trade balance	–0.4	–3.8	–1.6	–1.1
Capital account balance	–0.1	–0.0	–0.1	–0.0
Financial account balance	1.8	2.4	3.4	6.2
Direct investment	3.5	3.0	4.1	4.8
Portfolio investment	–4.0	–3.4	4.7	2.3
Financial derivatives	0.4	0.9	1.1	0.8
Other investment	1.9	1.9	–6.4	–1.7
Errors and omissions	–0.8	–0.9	0.4	–0.3
Overall balance	1.2	–1.3	0.7	–1.7
Gross external debt	95.8	103.9	107.7	99.7
International reserves (in USD billion, end of period)	1,406	1,228	1,295	1,231
Fiscal sector[1]	(in percent of GDP)			
Revenue and grants	37.7	38.7	37.9	36.7
Expenditure	43.6	42.3	39.7	38.9
Fiscal balance	–5.9	–3.5	–1.9	–2.1
Government debt	256.9	253.0	242.0	239.3
Monetary and financial sectors	(in annual percentage change)			
Broad money	5.5	3.8	2.5	3.0
Domestic credit	4.8	1.0	2.8	3.2
Private sector credit	7.0	0.3	3.7	3.9
Memorandum items:				
Nominal GDP (in JPY trillion)	553	561	592	609
Headline inflation (in percent y-o-y, period average)	–0.3	2.5	3.3	2.7
Core inflation, less fresh food (in percent y-o-y, period average)	–0.2	2.3	3.1	2.6
Policy rate (in percent per annum, end of period)	–0.1	–0.1	–0.1	0.25
Exchange rate (in JPY/USD, period average)	110	131	141	151

Source: Japanese authorities via CEIC and Haver Analytics; AMRO staff estimates.
Note: y-o-y = year-on-year. Numbers in red denote AMRO staff estimates.
1/ Refers to fiscal year, which starts on 1 April and ends on 31 March.

Korea

Growth improved in 2024 on the back of strong exports. The economy expanded by 2.0 percent in 2024, driven by exports benefiting from the upswing in the global semiconductor cycle. On the other hand, private consumption was relatively tepid due to the high price level and interest rates in recent years and construction remains weak amid real estate project finance distress. Looking ahead, domestic demand is expected to gradually improve as the export momentum moderates. Growth is expected to be around 1.6 percent in 2025.

Inflation has been on a downward trend. CPI declined to 1.9 percent year-on-year in December 2024 from 3.2 percent year-on-year in December 2023, largely due to deceleration in energy and food prices. Meanwhile, core inflation has been decreasing on the back of subdued growth in the costs of services.

The BOK (Bank of Korea) reduced the policy rate in October 2024 and again the following month. After keeping the Base Rate unchanged since early 2023, the BOK cut the rate twice by a total of 50 basis points amid steadily declining inflation and weak domestic demand. The rate reduction was also prompted by early signs of cooling house prices in Seoul and abatement in exchange rate pressure.

The external sector continues to be strong. The trade balance recorded surpluses in the first half of 2024, supported by strong semiconductor exports. Outward direct investment remained stable, while residents' investment in equities drove portfolio outflows. At USD 409.2 billion as of February 2025, foreign reserves remained ample, equivalent to 6.5 months of imports.

Credit quality continues to deteriorate, although the financial system remains sound. The debt service capacity of listed companies has improved, while the average interest coverage ratio of non-listed companies, especially SMEs, has decreased considerably. That said, CARs of banks and NBFIs are well above regulatory standards, and banks' liquidity buffers remain ample.

Comprehensive measures have been put in place to ensure orderly project finance resolution. The measures include enhanced standards for evaluating project viability, increased funding for viable projects, and stronger facilitation and funding by financial institutions for the restructuring and liquidation of nonviable projects. The second round of the evaluation showed that around 10.9 percent of project finance exposure was risky and could be subject to restructuring.

The fiscal position has deteriorated. Tax revenue has continued to decline in 2024, driven by lower corporate income tax. However, total revenue has risen owing to the increase in fund and nontax revenue. Fiscal spending has risen modestly, largely due to reduced mandatory transfers to local governments and education. The 2024 deficit, excluding social security funds, is estimated at 4.0 percent of GDP, higher than the budgeted and actual 3.6 percent in 2023.

Commodity price volatility remains a key inflation risk. To the extent that Middle East conflicts continue to flare up, they may push up energy prices and shipping prices. Meanwhile, extreme weather conditions can disrupt agricultural production and drive up food prices. Lastly, inflationary pressure remains subject to adjustments to domestic energy prices.

Unexpected slowdowns in major economies and changes in the US trade policy pose risks for Korea's exports. A sudden growth deceleration in the US, Europe, or China may dampen global demand and affect Korea's exports. The country's export prospects may also be eroded by new protectionist policies by the incoming US administration.

Interest burden and scarring effects of the pandemic continue to exert pressure on borrowers. The debt servicing capability of small and medium-sized enterprises, small merchants, self-employed business operators, and low-income households remains weak. Although bank credit quality has stabilized, nonbank deposit-taking institutions have been experiencing a steady rise in delinquency.

There are pockets of risk in savings banks. A sizable portion of troubled project finance loans is in non-metropolitan areas and financed by savings banks, whose financial buffers may be insufficient to absorb a surge in nonperforming loans.

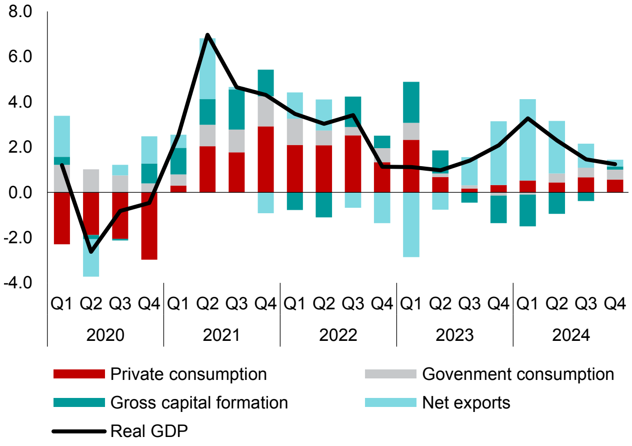
The author of this note is Jade Vichyanond.

Korea: Selected Figures

Output growth improved in 2024 thanks to strong export performance and, more recently, recovering domestic demand.

Gross Domestic Product

(Percent quarter-on-quarter, seasonally adjusted annualized rate)

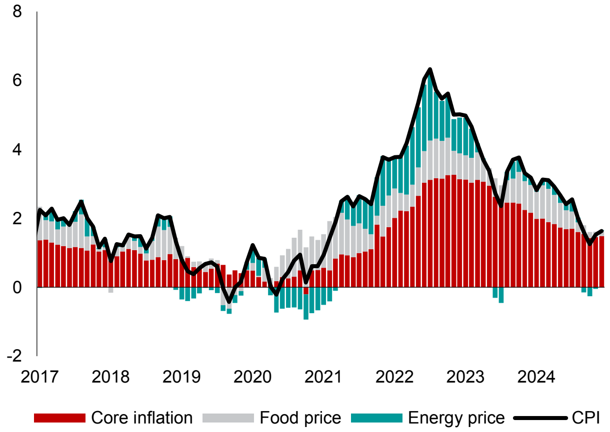


Source: Bank of Korea; Haver; AMRO staff calculations.

The CPI continued to decline, thanks to subsiding food and energy price pressure and muted core inflation.

Consumer Price Inflation

(Percent, year-on-year)

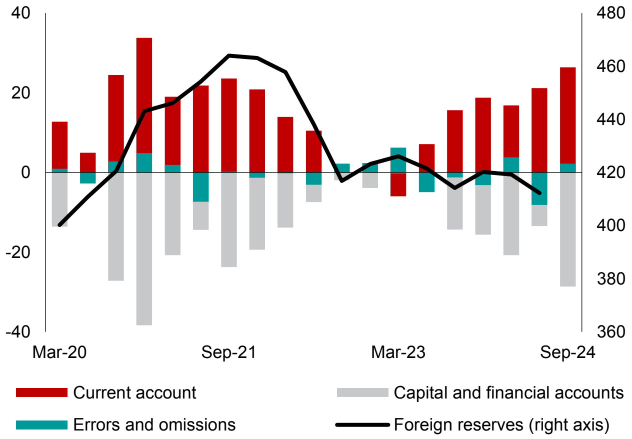


Source: Statistics Korea; Haver; AMRO staff calculations.
Note: CPI = consumer price index.

Strong current account surpluses have benefited from robust exports, while financial outflows have been driven by portfolio investment.

Balance of Payments and Foreign Reserves

(Billions of USD)

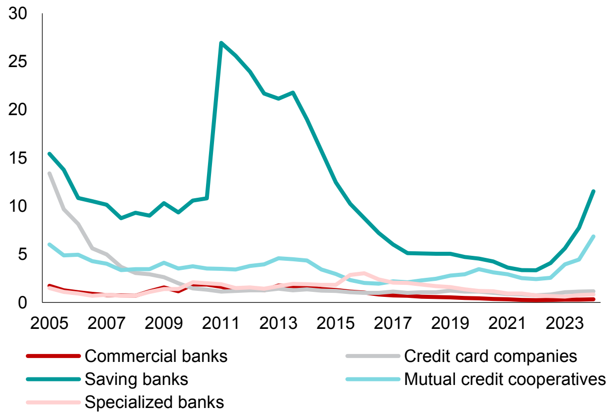


Source: Bank of Korea; Haver; AMRO staff calculations.

Savings banks and credit cooperatives have experienced worsening credit quality.

Substandard-and-below loan ratio

(Percent)

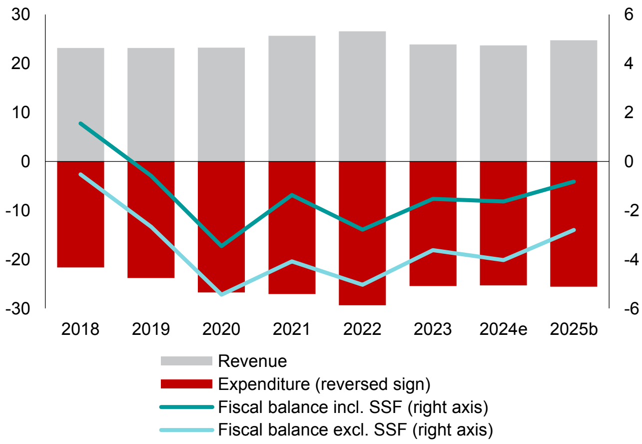


Source: FSS; CEIC; Haver; AMRO staff calculations.

The fiscal deficit, excluding social security funds (SSFs), is estimated to rise from 3.6 percent of GDP in 2023 to 4.0 percent in 2024.

Fiscal Balance

(Percent of GDP)

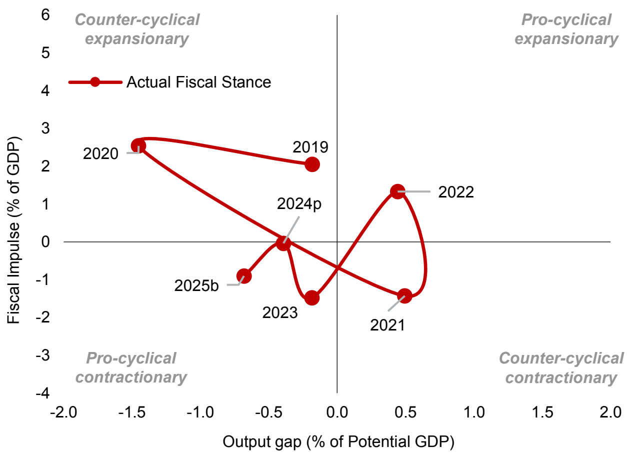


Source: Ministry of Economy and Finance; AMRO staff estimates.

The fiscal stance in 2024 was broadly neutral, while the 2025 budget suggests a contractionary stance.

Fiscal Impulse and Output Gap

(Percent of GDP; Percent of Potential GDP)



Source: Ministry of Economy and Finance; AMRO staff estimates.

Korea: Selected Economic Indicators

Indicator	2021	2022	2023	2024e
Real sector	(in annual percentage change)			
Real GDP	4.6	2.7	1.4	2.0
Private consumption	3.7	4.2	1.8	1.1
Government consumption	5.6	4.0	1.3	1.7
Gross fixed capital formation	4.3	–0.2	1.4	–0.6
Imports of goods and services	10.2	4.2	3.5	2.4
Exports of goods and services	10.8	3.9	3.6	6.9
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	4.4	1.4	1.9	5.3
Trade balance	3.9	0.9	1.9	5.9
Capital and financial account balance	3.3	3.1	2.0	5.8
Direct investment	2.4	2.4	1.1	2.0
Portfolio investment	1.1	1.5	0.4	3.0
Other investment	0.0	–1.1	0.6	–0.3
Errors and omissions	–0.3	0.0	–0.1	–0.2
Overall balance	0.8	–1.7	–0.2	–0.2
Gross external debt	32.5	37.4	36.6	35.5
International reserves (in USD billion, end of period)	463	423	420	416
Fiscal sector	(in percent of GDP)			
Revenue and grants	25.7	26.6	23.9	23.2
Expenditure	27.0	29.4	25.4	24.8
Fiscal balance (includes social security funds)	–1.4	–2.8	–1.5	–1.6
Government debt[1]	43.7	45.9	46.9	47.1
Monetary and financial sectors	(in annual percentage change)			
Broad money	12.9	4.0	3.9	4.3
Domestic credit	10.4	5.5	3.4	1.4
Private sector credit	10.6	6.3	2.1	1.3
Memorandum items:				
Nominal GDP (in KRW trillion)	2,080	2,162	2,236	2,549
Headline inflation (in percent y-o-y, period average)	2.5	5.1	3.6	2.3
Policy rate (in percent per annum, period average)	0.65	2.13	3.50	3.40
Exchange rate (in KRW/USD, period average)	1,144	1,291	1,305	1,364

Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates.
Note: y-o-y = year-on-year. Numbers in red denote AMRO staff estimates.
1/ Government debt refers to only debt securities and loans.

Lao People's Democratic Republic

Despite strong domestic and external headwinds, the Lao economy continued to grow at a moderate pace in 2024. Real GDP is likely to have expanded by 4.5 percent in 2024, from 4.2 percent in 2023. Growth was supported by a recovery in the electricity sector and improvement in tourism. Meanwhile, agriculture production was affected by Typhoon Yagi.

Inflation remained high at 23.1 percent in 2024, though it decreased from its peak of 31.2 percent in 2023. The continued tightening of monetary policy and the recent stabilization of the kip helped to ease inflationary pressures in the Lao economy. By the end of 2024, month-on-month inflation turned negative, averaging –1.2 percent in November and December.

Since July 2024, the kip strengthened by over 20 percent in the parallel market while its gap with the commercial bank exchange rate narrowed. As of mid-January 2025, the commercial bank kip rate was less than 6 percent weaker than at the end of 2023. The stabilization of the kip value has been supported by a series of measures by the Bank of Lao PDR (BOL), including the tightening of kip liquidity, the enforcement of repatriation and conversion requirements, and the launch of the Lao Forex Exchange (LFX) platform, a bank-supported foreign exchange trading system.

Nevertheless, the external position remains vulnerable. A small surplus was recorded in the overall balance of payments in the first three quarters of 2024, supported by a continued current account surplus and FDI inflows. However, persistent outflows related to external debt repayment obligations and residents' acquisition of overseas assets continue to exert pressure on the balance of payments. Gross international reserves increased to USD 1,893 million in November 2024, up from USD 1,677 million at the end of 2023, but are still below the threshold of three months' import coverage.

The BOL has stepped up measures to absorb kip liquidity. Since mid-2022, the BOL has tightened monetary policy through the issuance of higher-rate BOL bills, raising BOL policy rates and bank reserve requirement ratios. In 2024, the BOL issued seven-day, three-month, and six-month bills at fixed, high interest rates. Growth in the monetary base has slowed since mid-2023, contracting at an average pace of –3.3 percent between June to August 2024.

Bank-level data show large divergence among banks with pockets of financial vulnerabilities. Several banks reported higher capital adequacy ratios due to improved profits and increased capital contributions from shareholders. In contrast, the capital buffer of the largest state-owned bank declined and remained well below the minimum regulatory requirement. Official nonperforming loan ratios remain low, but could rise significantly upon the termination of regulatory forbearance. Banks' asset quality also remains vulnerable to the financial weakness in major electricity companies.

The fiscal balance turned into a deficit but remained low at 0.7 percent of GDP in 2024. The rise in public spending, driven mainly by higher interest payments and increased investments, has more than offset the boost in revenues from the hike in the value-added tax rate. In 2024, the government debt-to-GDP ratio is projected to fall to 90.1 percent of GDP, down from 103.4 percent in 2023, reflecting higher growth and slower depreciation of the kip.

Lao PDR's economic outlook is dampened by the slowdown in key trading partners, particularly China, under a potential escalation of US-China trade tensions. Extreme weather would also affect agriculture and electricity production, fueling inflationary pressures.

Renewed kip depreciation would exacerbate macrofinancial instability, driving up import prices and inflation. External debt burdens would also rise, pressing already strained government finances. An intensification of currency substitution would lead to further kip depreciation and higher dollarization, complicating monetary policy conduct.

Risks to public debt sustainability persist. The government's external debt service burden is worsening in the context of elevated foreign currency debt service. The government faces significant challenges in issuing offshore bonds, exacerbated by the recent downgrade of its sovereign credit rating in the Thai market. At the same time, public investment and expenditure arrears could accumulate again if fiscal discipline is not strictly enforced. The external financing gap could expand further on prolonged financial weakness of state-owned enterprises, in particular Electricité du Laos (EDL).

Lao PDR still faces significant structural challenges hindering its medium-term growth. While the Lao-China Railway is a positive development, infrastructure bottlenecks remain acute, restraining connectivity and trade efficiency. Outward labor migration poses another significant challenge as domestic labor shortages inhibit the ability of local industries to grow.

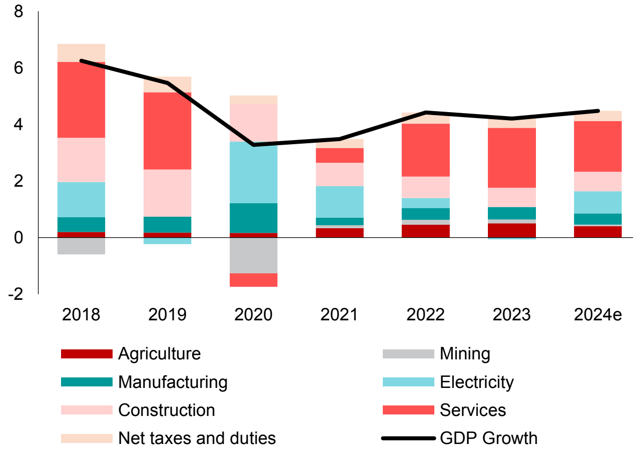
The author of this note is Poh Lynn Ng.

Lao PDR: Selected Figures

Growth in 2024 was supported by a recovery in the electricity sector and a robust expansion in services.

Real GDP Growth

(Percent, year-on-year)

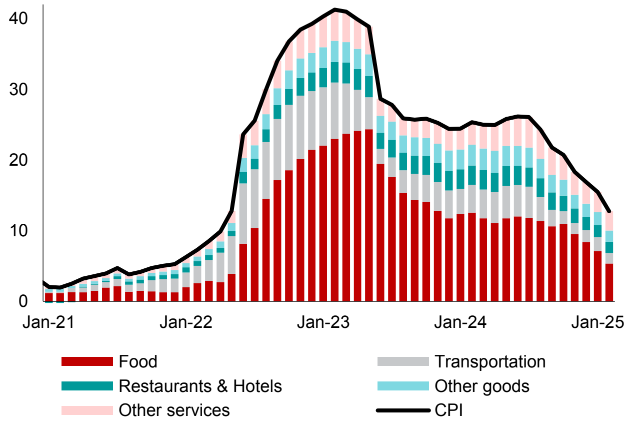


Sources: Lao Statistics Bureau; AMRO staff estimates.
Note: e denotes estimate.

Headline inflation slowed in 2024 but remained high at double-digit levels.

CPI Inflation

(Percent, year-on-year)

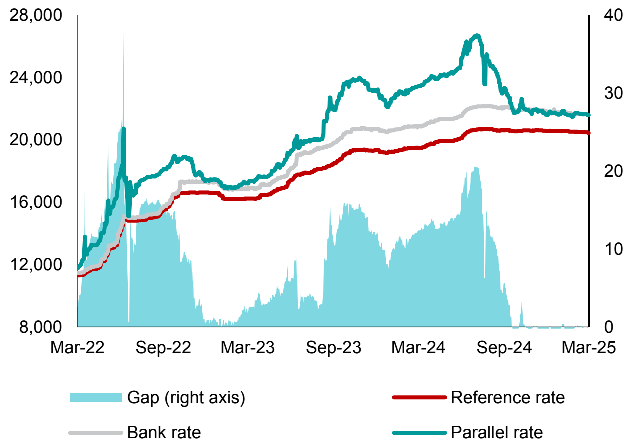


Source: Lao Statistics Bureau.
Note: CPI = Consumer Price Index

The kip has stabilized since mid-2024, while the bank and parallel rate gap has nearly closed.

Exchange Rate

(LAK/USD; percentage points)

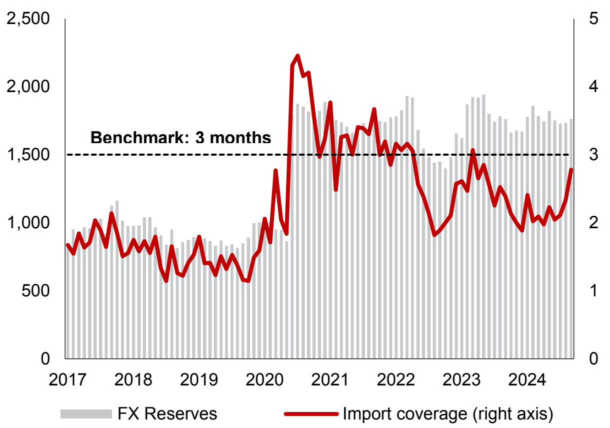


Source: Bank of Lao PDR
Note: The gap is the difference between the parallel rate and commercial bank rate.

Gross international reserves have increased but are still insufficient to cover three months of imports.

Gross International Reserves

(Millions of US dollars; months of imports)

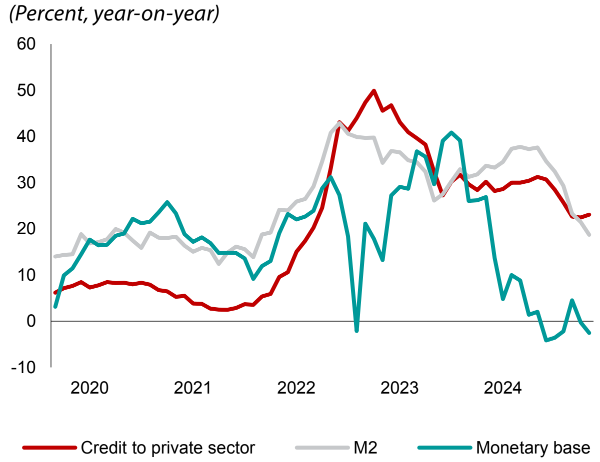


Sources: Bank of Lao PDR; AMRO staff estimates.
Note: FX = foreign exchange.

Growth in the monetary base moderated significantly in 2024, alongside slower growth in M2 (deposit) and credit.

Monetary and Credit Growth

(Percent, year-on-year)

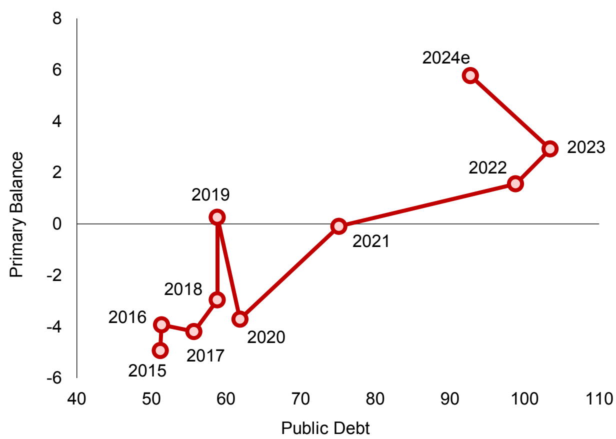


Source: Bank of Lao PDR.
Note: Data ends in September 2024.

The public debt-to-GDP ratio declined in 2024, while the primary balance narrowed but remained in a surplus.

Primary Balance and Public Debt

(Percent of GDP)



Source: Lao PDR Ministry of Finance; AMRO staff estimates.
Note: e denotes estimate.

Lao PDR: Selected Economic Indicators

Indicator	2021	2022	2023	2024e
Real sector	(in annual percentage change)			
Real GDP	3.5	4.4	4.2	4.5
Agriculture	2.4	3.4	3.7	3.0
Industry	6.1	4.4	3.1	5.0
Services	1.4	5.0	5.6	4.7
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	2.3	–3.0	2.9	0.6
Trade balance	7.5	6.3	5.1	4.9
Capital and financial account balance	–0.9	4.7	2.7	2.7
Direct investment	5.6	4.8	12.6	9.6
Portfolio investment	–1.6	0.5	–0.7	–2.1
Other investment	–4.9	–0.6	–9.1	–4.8
Errors and omissions	–1.9	–3.4	–4.2	–3.2
Overall balance	–0.4	–1.7	1.4	0.2
International reserves (in USD billion, end of period)	1,737	1,480	1,677	1,893
Fiscal sector	(in percent of GDP)			
Revenue and grants	14.7	14.8	17.4	20.0
Expenditure	16.0	15.0	16.6	17.6
Fiscal balance	–1.3	–0.2	0.7	2.4
Primary balance	–0.1	1.6	2.9	5.8
Government debt	75.1	98.8	103.4	92.8
Monetary and financial sectors	(in annual percentage change)			
Broad money	24.0	36.9	33.3	13.9
Domestic credit	23.5	36.5	23.4	24.7
Private sector credit	10.6	46.7	28.2	15.4
Memorandum items:				
Nominal GDP (in LAK billion)	184,982	215,609	265,475	316,750
Nominal GDP (in USD million)	18,984	15,061	14,191	14,694
Headline inflation (in percent y-o-y, period average)	3.8	23.0	31.2	23.1
Exchange rate (in LAK/USD, period average)	9,744	14,316	18,707	21,556

Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates.
Note: y-o-y = year-on-year. Numbers in red denote AMRO staff estimates.

Malaysia

The economy continued to show robust growth momentum, driven by resilient domestic demand and recovery in external demand. Malaysia's GDP growth accelerated to 5.1 percent in 2024 from 3.6 percent in 2023. Private consumption remains firm, benefiting from favorable labor market conditions and government cash assistance. As at December 2024, labor force participation reached a historical high of 70.6 percent and the unemployment rate has fallen to 3.1 percent, below pre-pandemic levels. Investment growth has been strong, reflecting progress of private sector and public infrastructure projects. Recent policies like the New Industrial Master Plan 2030, the National Energy Transition Roadmap, the National Semiconductor Strategy, and the Johor-Singapore Special Economic Zone, have also reinvigorated business and investor sentiment. On the external front, merchandise exports have recovered amid the global tech upcycle.

Inflation moderated and remained stable, suggesting limited spillover to broader prices from subsidy rationalization and new tax measures. Both headline and core inflation averaged 1.8 percent in 2024, down from 2.5 percent and 3.0 percent in 2023. Bank Negara Malaysia (BNM) has kept the overnight policy rate unchanged since May 2023, in view of contained inflationary pressures and stable economic conditions. Following the adjustment in electricity and water tariffs and a full float of diesel prices, the government has decided to implement a two-tiered pricing mechanism for the targeted RON95 fuel subsidy in mid-2025.

The external position improved after weakening in 2023 amid a challenging external environment. The current account recorded a surplus of 1.7 percent of GDP in 2024, slightly higher than 2023. A continued goods trade surplus, particularly exports of electrical and electronic products and commodities, supported the current account, as did a strong recovery in tourism. International tourist arrivals surpassed pre-pandemic levels, with a surge in Chinese tourists since early 2024. FDI improved to 3.7 percent of GDP in 2024, up from 2.0 percent in 2023, amid record high approved investments. The ringgit depreciated by only 0.3 percent against the US dollar in 2024, emerging as the top performer among regional currencies. The ringgit's strength was in part driven by the US Federal Reserve's shift toward a monetary easing stance and ongoing efforts by the government and BNM to encourage repatriation of foreign investment income and conversion to ringgit. BNM's international reserves increased to USD 116.2 billion at the end of 2024, up from USD 113.5 billion at the end of 2023, and is adequate to cover 5.0 months of imports and 1.0 time of short-term external debt.

The banking system has ample capital and liquidity buffers to facilitate continued credit growth. Both capital and liquidity buffers far exceeded regulatory requirements, with the total capital adequacy ratio, common equity Tier-1 capital ratio, and liquidity coverage ratio at 17.8, 14.3, and 161 percent as of end-2024. On asset quality, the share of nonperforming loans declined to 1.44 percent at the end of 2024, from 1.65 percent at the end of 2023. Despite the increase in lending rates from BNM's policy normalization, loan growth remained healthy at 5.6 percent in 2024.

Fiscal performance was better than official projections, while the 2025 Budget remains committed to fiscal consolidation. The fiscal deficit narrowed from 5.0 percent of GDP in 2023 to 4.1 percent in 2024, beating the target set by the Ministry of Finance. The 2025 Budget is the largest on record but represents a reduction as a share of GDP compared to 2024, primarily because of lower subsidy spending. The government plans to further narrow the fiscal deficit to 3.8 percent of GDP in 2025. The Public Finance and Fiscal Responsibility Act, enacted in October 2023, is a major institutional milestone, and the government intends to table the Government Procurement Act in parliament in 2025 to strengthen governance, accountability, and transparency.

Risks to the near-term growth outlook are skewed to the downside mainly due to external factors. These include weaker-than-expected growth in major economies and protectionist policies under the new US administration that may have wide-ranging impact on trade and investment. Meanwhile, risks to the inflation outlook are tilted to the upside. Supply-related disruptions, such as those arising from geopolitical conflicts and adverse weather conditions, and potential spillover from the planned RON95 fuel subsidy rationalization are key risks.

Medium to long-term challenges include global economic fracturing which could pose challenges to cross-border financial flows, technology transfers, and supply chain security; lack of skilled talent that could hinder industrial upgrading; inadequate retirement savings amid an aging population; and low preparedness for natural disasters and climate change.

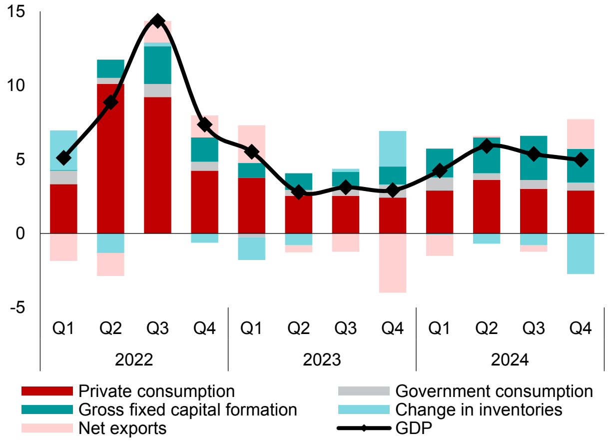
The author of this note is Wee Chian Koh.

Malaysia: Selected Figures

GDP growth improved to 5.1 percent in 2024, supported by resilient domestic demand and a recovery in external demand.

Contributions to Real GDP Growth

(Percentage points, year-on-year)

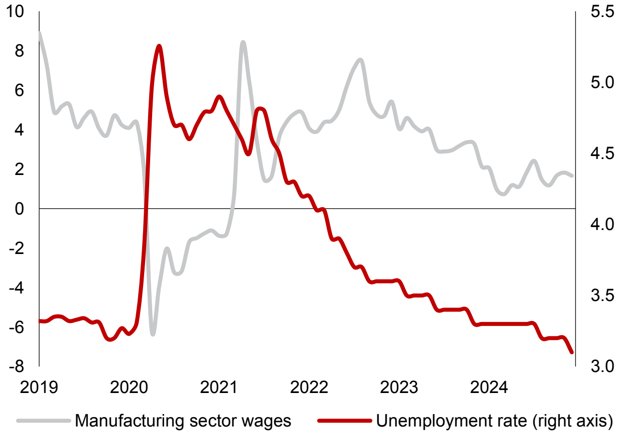


Source: Department of Statistics Malaysia.

Labor conditions continued to improve, with sustained wage growth and a declining unemployment rate.

Wages and Unemployment Rate

(Percent, year-on-year; percent)

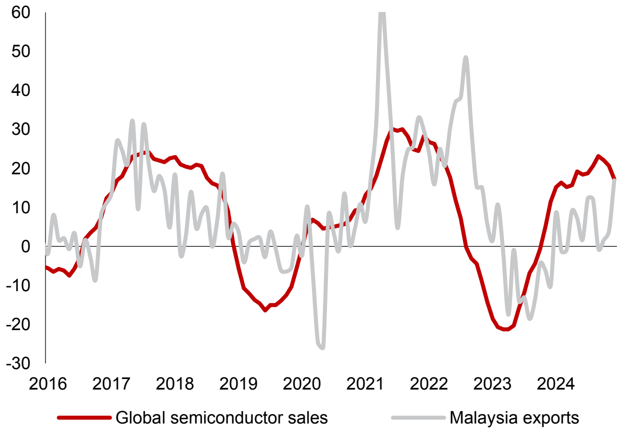


Source: Department of Statistics Malaysia.

Merchandise exports continued to recover, broadly in line with the trend in the global technology cycle.

Global Semiconductor Sales and Malaysia's Exports

(Percent, year-on-year)

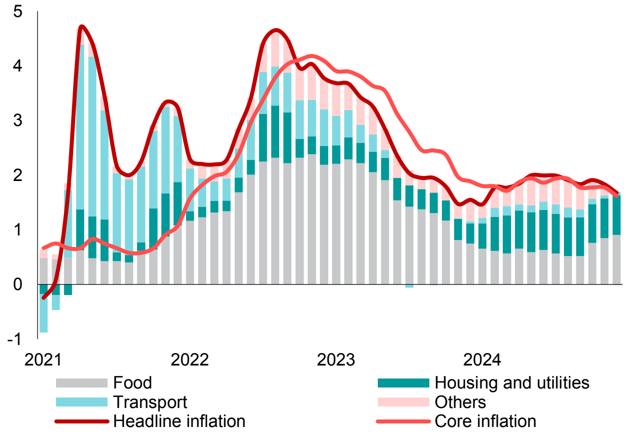


Source: Department of Statistics Malaysia; Semiconductor Industry Association.

Headline and core inflation were moderate and stable, suggesting limited spillover to broader prices from subsidy rationalization and new tax measures.

Contributions to Consumer Price Inflation

(Percentage points, year-on-year)

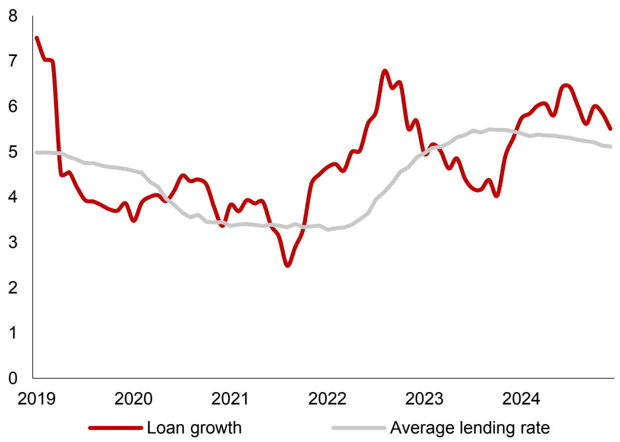


Source: Department of Statistics Malaysia.

Loan growth remained robust in 2024 despite an increase in the lending rate following monetary policy normalization.

Loan Growth and Lending Rate

(Percent, year-on-year; percent)

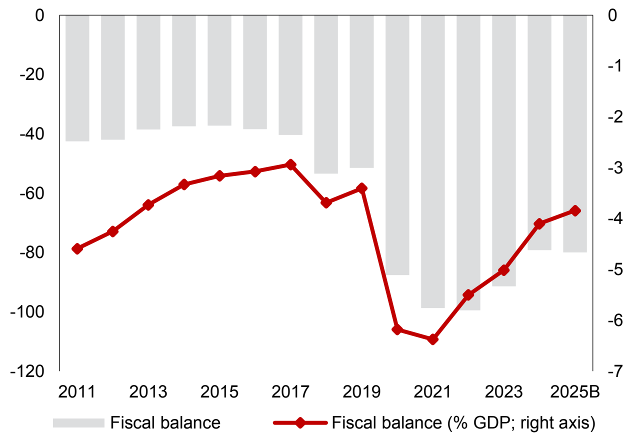


Source: Bank Negara Malaysia.

The fiscal deficit continued to narrow as the government remained committed to fiscal consolidation.

Fiscal Balance

(Billions of ringgit; percent of GDP)



Source: Department of Statistics Malaysia; Malaysia Ministry of Finance.
Note: 25B denotes estimates in Budget 2025.

Malaysia: Selected Economic Indicators

Indicator	2021	2022	2023	2024e
Real sector	(in annual percentage change)			
Real GDP	3.3	8.9	3.6	5.1
Private consumption	1.8	11.3	4.7	5.1
Government consumption	5.8	5.1	3.3	4.7
Gross fixed capital formation	–0.7	6.8	5.5	12.0
Imports of goods and services	18.5	14.5	–8.1	8.5
Exports of goods and services	21.2	16.0	–7.4	8.9
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	3.9	3.2	1.5	1.7
Trade balance	11.5	10.4	7.5	6.1
Capital and financial account balance	1.0	0.5	–0.9	–0.8
Direct investment	2.0	0.7	0.0	0.6
Portfolio investment	1.2	–2.8	–2.0	–4.4
Other investment	–2.0	2.7	1.4	2.9
Errors and omissions	–2.0	–0.7	–1.8	–0.1
Overall balance	2.9	3.0	–1.1	0.8
Gross external debt	69.8	63.9	68.2	69.7
International reserves (in USD billion, end of period)	116.9	114.7	113.5	116.2
Fiscal sector	(in percent of GDP)			
Revenue and grants	15.1	16.4	17.3	16.8
Expenditure	21.5	22.0	22.3	20.9
Fiscal balance	–6.4	–5.5	–5.0	–4.1
Government debt	63.3	60.2	64.3	64.6
Monetary and financial sectors	(in annual percentage change)			
Broad money	6.4	4.3	6.0	4.0
Private sector credit	4.2	4.7	4.8	5.2
Loans	4.2	4.7	5.0	5.6
Corporate bonds	4.2	4.6	4.2	3.4
Memorandum items:				
Nominal GDP (in MYR billion)	1548.7	1793.9	1822.9	1931.1
Headline inflation (in percent y-o-y, period average)	2.5	3.3	2.5	1.8
Policy rate (in percent per annum, period average)	1.8	2.8	3.0	3.0
Exchange rate (in MYR/USD, period average)	4.1	4.4	4.6	4.6

Source: National authorities; AMRO staff estimates.
Note: y-o-y = year-on-year. Numbers in red denote AMRO staff estimates.

Myanmar

Myanmar's economy continued to face significant challenges amid the ongoing geopolitical uncertainties. While the geopolitical environment saw periods of relative calm recently, underlying tensions have remained unresolved, weighing heavily on growth. The impact of Typhoon Yagi, which struck Myanmar in September 2024, compounded these challenges, causing significant damage to agricultural lands and worsening supply shortages. The manufacturing sector was hit by frequent power outages, material shortfalls, and labor challenges. Meanwhile, the tourism recovery remained modest.

Inflation experienced upward momentum due to rising transportation costs, expanded supply restrictions on imported goods, and the residual effects of the currency. The geopolitical uncertainties led to significant delays in bringing goods to market, leading to an increase in transportation and transaction costs, which in turn contributed to inflation. A shortage of essential supplies, such as fuel, is also intensifying price pressures. Administrative measures to curb imports have been broadened, with many items—including consumer products, raw materials, and intermediate goods—requiring import license. This has intensified supply challenges, contributing to high inflation that further erodes household incomes and exacerbates supply disruptions.

The volume of external trade has declined, reflecting ongoing challenges in maintaining stable trade relationships and logistical operations. Border trade activities have dropped sharply due to stringent custom clearance procedures which have slowed the movement of goods and increased transaction costs. The closure of key border crossings in China and Thailand in recent months has added to these issues, disrupting trade and affecting local businesses dependent on cross-border commerce. Likewise, inward foreign direct investment has been further constrained by the less friendly investment climate amid frequent regulatory changes and ongoing international sanctions. These challenges have exerted downward pressure on the external position. However, sizeable import compression from the broadening of import restrictions and sustained inward remittances from migrant workers abroad following the new incentive program and other regulations have helped to support the external position.

In the banking sector, the local currency liquidity conditions experienced some stress in the midyear but have since stabilized. Deposit withdrawals at some private banks have led to tighter local currency liquidity conditions. However, the liquidity situation has since stabilized, as the Central Bank of Myanmar (CBM) intervened by providing kyat liquidity through various channels, including credit lines, discount window, and repos. The CBM tightened monetary policy to curb inflation. In May 2024, the CBM increased the minimum reserve requirement ratio for MMK to 3.75 percent. Simultaneously, in May 2024, the interest rate on excess reserve was raised to 3.8, up from 3.6 percent. More recently, in September 2024, the policy rate increased to 9 percent, from 7 percent.

The fiscal deficit widened in FY23/24 from increased expenditure. While both tax and non-tax revenue collections in FY23/24 remained steady, in line with the economic recovery, expenditures increased mainly due to additional cash transfer for basic government salary. As a result, the fiscal deficit widened to 3.2 percent of GDP in FY23/24, from 3.0 percent in FY22/23.

Changes in inflation and local currency fluctuations could present challenges, including rising operational costs for businesses. These conditions may influence investment decisions, affect market confidence, and economic growth.

The external position and the foreign exchange liquidity conditions remain precarious. A persistent trade deficit, coupled with the discontinuation of official development financing, has placed downward pressure on reserves, constraining the ability of the economy to pay for critical imports. However, FDI flows, especially from China, and robust remittances are expected to mitigate the downward pressures.

Widespread labor movements, driven by ongoing political uncertainties, are posing challenges to doing business, already under strain from weakened investor confidence. The outflows of skilled Myanmar citizens abroad have raised concerns about the potential erosion of skilled labor supply in the country, while business disruptions have further dampened labor demand, exacerbating economic instability.

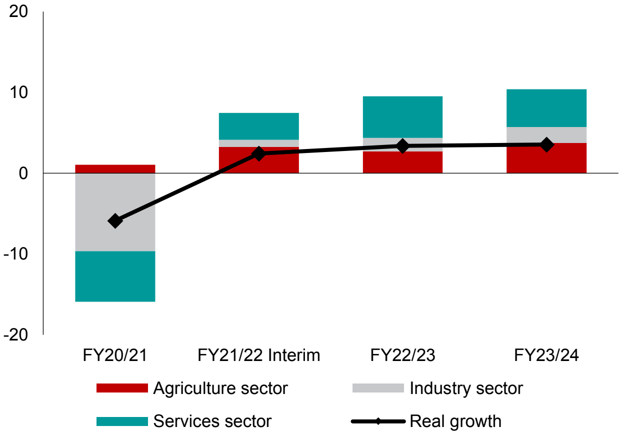
The author of this note is Tanyasorn Ekapirak.

Myanmar: Selected Figures

The economy continues to recover in FY22/23 and FY23/24, although at a modest pace.

Contributions to Real GDP Growth

(Percent points, year-on-year)

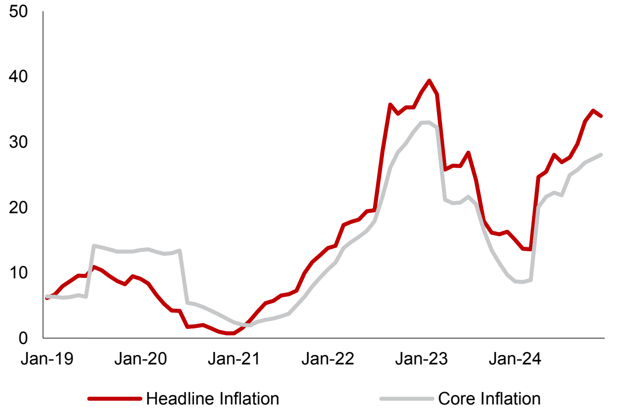


Source: Ministry of Planning and Finance; AMRO staff estimation.

Inflation saw renewed upward pressure, partly due to the effects of Typhoon Yagi.

Contributions to CPI Inflation

(Percentage points, year-on-year)

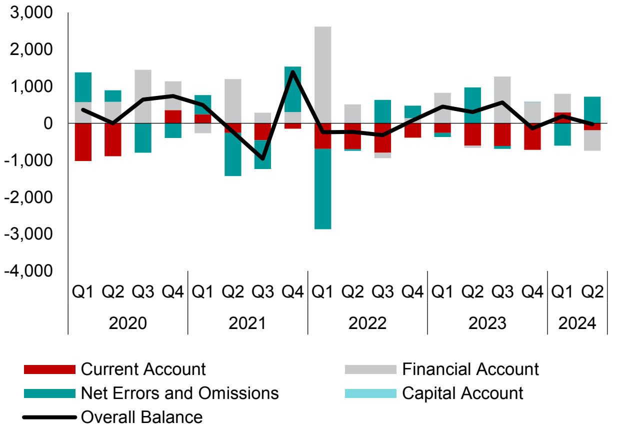


Source: Central Statistical Organization; AMRO staff calculations.

Overall balance of payments shifted to a small surplus in FY23/24, partly reflecting sustained remittances flows.

Balance of Payments

(Millions of US dollars)

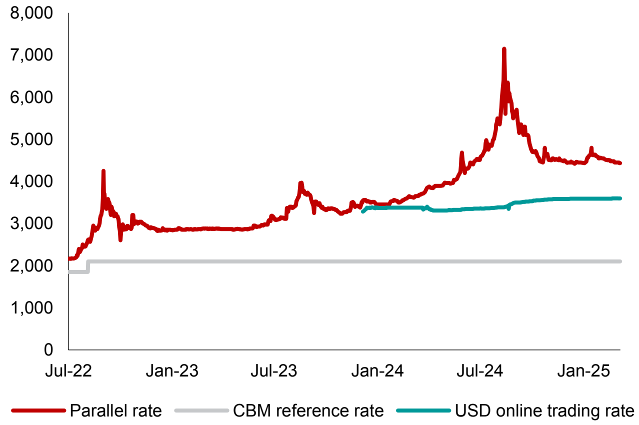


Source: Central Bank of Myanmar; AMRO staff compilation.

In recent months, the kyat exchange rate against the US dollar has stabilized at about 4,500 USD/MMK.

Exchange Rate

(MMK/USD)

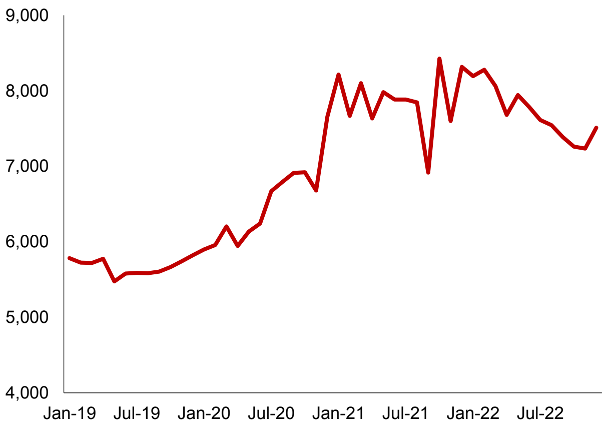


Source: Central Bank of Myanmar; AMRO staff compilation.

Foreign reserves continued to be under pressure amid significant uncertainties.

Gross International Reserves

(Billions of US dollars)

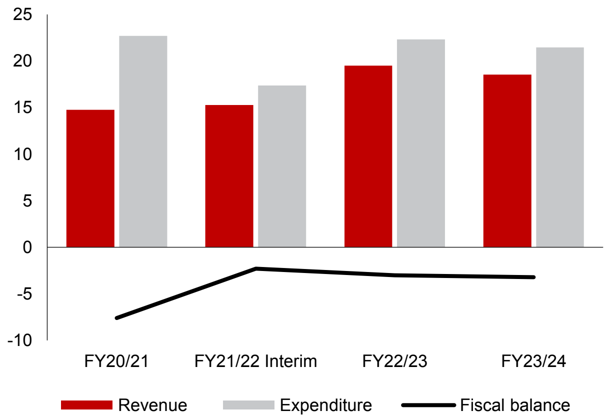


Source: Central Bank of Myanmar.

The fiscal deficit widened in FY23/24 on account of higher expenditures.

Fiscal Balance

(Percent of GDP)



Source: Ministry of Planning and Finance.

Myanmar: Selected Economic Indicators

Indicator	FY20/21	FY21/22	FY22/23	FY23/24
Real sector	(in annual percentage change)			
Real GDP	–5.9	2.4	3.4	3.5
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	–0.2	–2.0	–3.5	–2.1
Trade balance	–1.7	–1.8	–5.5	–3.9
Capital and financial account balance	2.7	7.0	1.8	3.9
Direct investment	1.5	5.4	2.5	2.9
Other investment	1.6	–1.0	–0.8	–0.4
Errors and omissions	–1.2	–4.6	1.7	–0.3
Overall balance	1.4	0.4	0.0	1.4
International reserves (in USD billion, end of period)	7,879	8,067	8,030	7,768
Fiscal sector	(in percent of GDP)			
Revenue and grants	14.7	15.3	19.5	18.5
Expenditure	22.7	17.4	22.3	21.5
Fiscal balance	–7.6	–2.3	–3.0	–3.2
Government debt	53.8	52.7	55.6	52.3
Monetary and financial sectors	(in annual percentage change)			
Broad money	11.4	3.8	8.6	15.9
Domestic credit	14.5	13.0	8.9	15.4
Private sector credit	1.5	–0.9	6.4	19.7
Memorandum items:				
Headline inflation (in percent y-o-y, period average)	3.6	13.2	24.4	27.5
Policy rate (in percent per annum, end of period)	7.00	7.00	7.00	7.00
Exchange rate (in MMK/USD, period average)	1,494	1,792	2,016	2,100

Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates.
Note: y-o-y = year-on-year. Numbers in red denote AMRO staff estimates.
[1/] FY20/21 started on 1 October and ended 30 September; FY21/22 started on 1 October and ended on 31 March; FY22/23 and FY23/24 start on 1 April and end on 31 March.

The Philippines

The economy maintained its robust growth momentum in 2024, at a steady pace of 5.7 percent. The economic growth was mainly supported by a recovery in public consumption and construction investment, while household consumption, underpinned by a strong labor market and robust remittances, continued to expand. On the production side, growth was primarily driven by the construction and services sectors.

Headline inflation fell to 3.2 percent in 2024 from 6.0 percent in 2023, while core inflation decreased faster to 3.0 percent from 6.6 percent. A moderation of supply-push factors, particularly lower global commodity prices, combined with tight monetary policy and other non-monetary measures such as tariff cuts on food items, has driven down headline inflation. With inflation staying within the target range of 2 percent–4 percent, the Bangko Sentral ng Pilipinas (BSP) adjusted monetary policy toward a less restrictive stance by lowering the policy rate three times since August 2024, from 6.5 percent to 5.75 percent at the end of 2024, the first among the ASEAN-5.

The labor market continued to be strong, which helped support consumption in 2024. The unemployment rate fell to 3.1 percent in December, and employment surpassed pre-pandemic levels. However, the double-digit underemployment rate and the relatively low share of high-income positions reflect that the economy has yet to generate sufficient high-quality jobs.

On the external front, the BOP registered a surplus in 2024, while external debt remained at prudent levels. Specifically, the current account deficit widened, driven by lower net receipts in trade in services following the surge in travel imports and a higher deficit in trade in goods; net financial account inflows increased. However, the peso had depreciated by 4.4 percent against the US dollar in 2024, and the nominal effective exchange rate (NEER) fell by 2.8 percent. Meanwhile, gross international reserves rose from USD 103.8 billion at the end of 2023 to USD 106.3 billion at the end of 2024, mainly due to upward asset valuation, and net income from the central bank's investments abroad. The reserves are sufficient to cover 7.3 months of imports and 3.8 times of short-term external debt in residual maturity as of end-December 2024.

The banking system remained sound, while bank loans grew steadily in 2024. The banking system has ample liquidity, robust profitability, and high capital buffers. Despite high interest rates, overall loans continued to grow robustly by 10.6 percent in December, driven largely by lending to the household segment (24.3 percent), which was pronounced in unsecured segments such as credit card loans and salary-based general consumption loans. Meanwhile, the BSP also announced a reduction in the reserve requirement ratio in September 2024, which would lower intermediation costs and promote better pricing for financial services such as bank lending.

The fiscal position continued to improve in 2024. In 2024, fiscal expenditure rose by 11.0 percent year-on-year, while fiscal revenue grew by 15.6 percent. The increase in expenditure was mainly due to higher capital outlay, maintenance and other operating expenses, allotments to local government units, and interest payments, while the rise in revenue was driven largely by better-than-expected non-tax revenue collection. The fiscal deficit fell to 5.7 percent of GDP in 2024 from 6.2 percent in 2023. Meanwhile, the Development Budget Coordination Committee recalibrated the government's medium-term fiscal program in 2024, signaling a slower pace of consolidation to reflect a more realistic GDP growth target considering recent domestic and global developments. The government now plans to gradually reduce the fiscal deficit from 5.7 percent of GDP in 2024 to 3.7 percent in 2028, and to cut government debt from 60.7 percent of GDP in 2024 to 56.0 percent by 2028.

The growth prospects of the Philippines are relatively robust, but they could be subject to several risks. In the near term, higher inflation triggered by local food supply disruptions and utility price shocks could be a risk to the economy, as higher living costs would reduce households' ability to afford discretionary items and constrain household consumption. Meanwhile, the economy could be challenged by a sharp slowdown in major trading partners, through their impacts on merchandise and services trade, tourist arrivals, overseas remittances, and foreign investment inflows. Heightened geopolitical risks could increase the likelihood of global supply disruptions that cause another round of upward inflation pressures, as well as further global economic fragmentation.

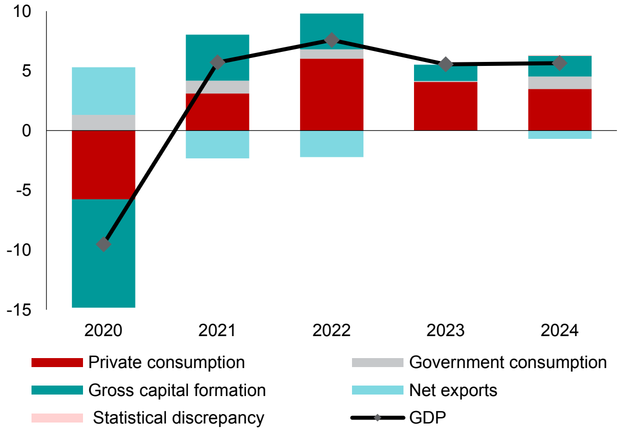
Over the long term, the country's potential growth could be constrained by scarring effects caused by the pandemic, such as a gradual labor force upgrade, modest gains in labor productivity due to job quality concerns, and a subdued recovery in private investment due to financial constraints on firms; limited physical infrastructure; and climate change vulnerabilities; prompting the government to intensify efforts to address the challenges.

The author of this note is Heung Chun (Andrew) Tsang.

The Philippines: Selected Figures

The momentum of economic growth was still robust.

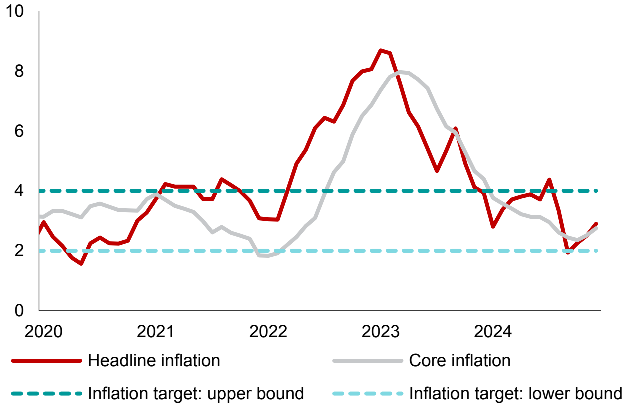
Contributions to Real GDP Growth
(Percentage points, year-on-year)



Sources: Philippine Statistics Authority; AMRO staff calculations.

Inflationary pressure eased, and inflation fell into the 2–4 percent target range.

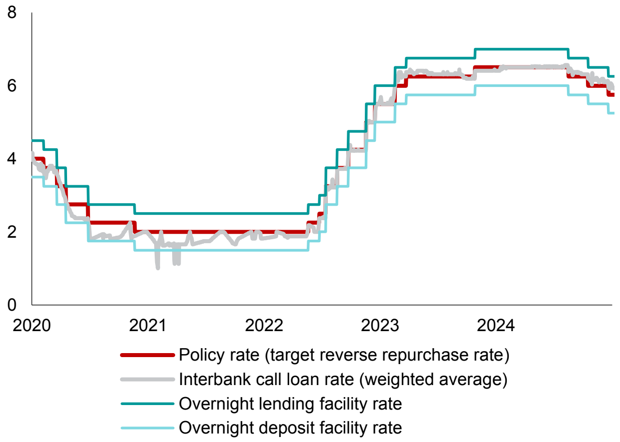
Headline CPI and Core CPI
(Percent, year-on-year)



Sources: Philippine Statistics Authority; Haver Analytics; AMRO staff calculations.
Note: CPI = consumer price index (base year = 2018).

The central bank started to cut the policy rate in August 2024.

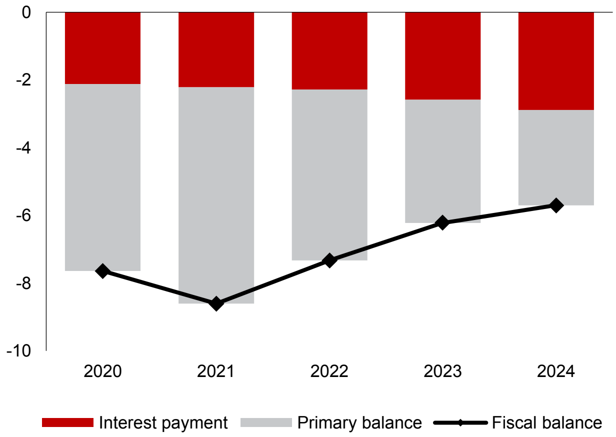
Monetary Policy and Market Rate
(Percent)



Source: Bangko Sentral ng Pilipinas.

The fiscal deficit continued to narrow with solid revenue performance.

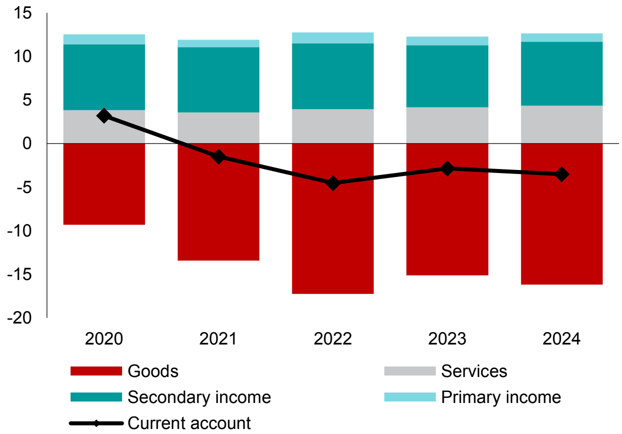
Fiscal Balance
(Percent of GDP)



Source: Bureau of the Treasury.

The current account deficit widened, driven by the pickup in imports.

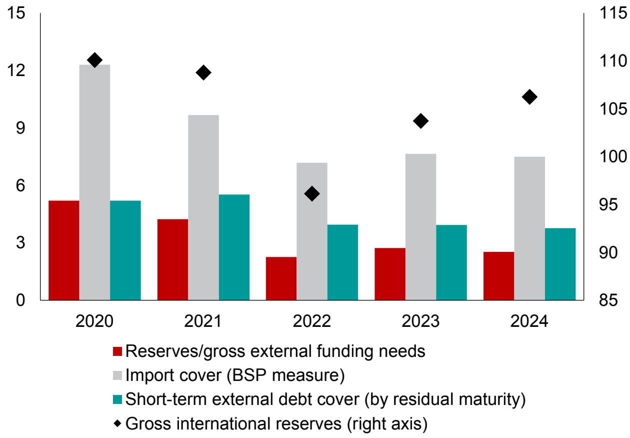
Current Account Balance
(Percent of GDP)



Source: Bangko Sentral ng Pilipinas.

International reserves remained sufficient for external funding needs.

International Reserve Adequacy
(Months/times; billions of US dollars)



Source: Bangko Sentral ng Pilipinas.
Note: Import cover refers to the number of months of average imports of goods and payment of services and primary income.

The Philippines: Selected Economic Indicators

Indicator	2021	2022	2023	2024e
Real sector	(in annual percentage change)			
Real GDP	5.7	7.6	5.5	5.7
Private consumption	4.2	8.3	5.6	4.8
Government consumption	7.2	5.1	0.6	7.2
Gross fixed capital formation	9.8	9.8	8.2	6.2
Imports of goods and services	12.8	14.0	1.0	4.3
Exports of goods and services	8.0	11.0	1.4	3.4
External sector[1]	(in percent of GDP, unless otherwise specified)			
Current account balance	–1.5	–4.5	–2.8	–3.8
Trade balance	–9.8	–13.3	–10.9	–11.7
Capital and financial account balance[1]	–1.6	–3.4	–3.1	–3.8
Direct investment	–2.5	–1.4	–1.2	–1.3
Portfolio investment	2.6	–0.4	0.8	–0.8
Other investment	–1.8	–1.6	–2.7	–1.7
Errors and omissions	0.2	–0.7	0.5	0.1
Overall balance[1]	0.3	–1.8	0.8	0.1
Gross external debt	27.0	27.5	28.7	29.8
International reserves (in USD billion, end of period)	108.8	96.1	103.8	106.3
Fiscal sector	(in percent of GDP)			
Revenue and grants	15.5	16.1	15.7	16.7
Expenditure	24.1	23.4	21.9	22.4
Fiscal balance	–8.6	–7.3	–6.2	–5.7
Government debt	60.4	60.9	60.1	60.7
Monetary and financial sectors	(in annual percentage change)			
Broad money[2]	8.0	8.0	7.4	7.6
Domestic credit	8.2	12.7	9.3	10.4
Private sector credit	3.8	11.1	9.1	12.2
Memorandum items:				
Nominal GDP (in PHP billion)	19,411	22,028	24,319	26,437
Headline inflation (in percent y-o-y, period average)	3.9	5.8	6.0	3.2
Policy rate (in percent per annum, end of period)	2.00	5.50	6.50	5.75
Exchange rate (in PHP/USD, period average)	49.3	54.5	55.6	57.3

Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates.
Note: y-o-y = year-on-year.
1/ The Philippines' balance of payments follows BPM6. A negative (positive) financial account balance indicates net inflow (outflow). Overall balance = Current account balance - Capital and financial account balance + Errors and omissions.
2/ Refers to M4.

Singapore

Singapore's economic growth strengthened to 4.4 percent in 2024, up from 1.8 percent in 2023. The stronger-than-expected growth was driven by a robust recovery in gross fixed capital formation and consumption as the borrowing cost and cost-of-living pressures eased. The turnaround in non-oil domestic exports (NODX) during the second half of the year further bolstered growth, supported by the electronics cycle upturn and frontloading of shipments ahead of potential trade tariffs expected in 2025. Reflecting the rebound in NODX, the manufacturing sector showed a sharp improvement late in the year. Meanwhile, the services sector experienced robust growth throughout the year, underpinned by strong activities in the wholesale trade, as well as finance and business services.

Labor market tightness gradually dissipated in 2024. Hiring demand has softened, as evidenced by a moderation in employment growth from a peak of 6.9 percent year-on-year in the third quarter of 2022 to 1.2 percent in the fourth quarter of 2024, approaching the pre-pandemic average of about 0.7 percent (2015–2019). In addition, the ratio of job vacancies to unemployed persons declined to 1.6 in the fourth quarter of 2024 from the 25-year-high of 2.3 in 2022, though it remained above the pre-pandemic average of around 1.0. The seasonally adjusted overall unemployment rate stabilized at 1.9 percent in December 2024, close to the pre-pandemic average of 2.1 percent (2015–2019).

Inflation continued to moderate in 2024, amid easing global inflation, the appreciation of the Singapore dollar in terms of the nominal effective exchange rate, and government measures to mitigate cost-of-living pressures. Price moderation was observed across key categories, including goods, services, accommodation, and transport. CPI all-items inflation fell to 1.5 percent year-on-year in December 2024, while MAS core inflation eased to 1.7 percent in the same period. For the full year, CPI all-items inflation averaged 2.4 percent, compared to 4.8 percent in 2023, while core inflation averaged 2.8 percent, compared to 4.2 percent in the previous year.

On the financial conditions front, the nominal effective exchange rate of the Singapore dollar strengthened 0.5 percent year-on-year against a basket of trading partner currencies in 2024, as MAS maintained the appreciation slope of the exchange rate policy band throughout the year. However, on the bilateral basis, the Singapore dollar depreciated 2.8 percent against the US dollar, ending the year at 1.36 SGD per USD. Domestic interest rates moved in tandem with US interest rates, with the three-month Compounded SORA declining 60 basis points year-on-year to 3.1 percent at the end of 2024, while the 10-year government bond yield rose by 15 basis points to 2.9 percent.

In January 2025, with core inflation projected to ease below 2 percent in 2025 and economic growth moderating, MAS slightly reduced the slope of the policy band for the Singapore dollar's nominal effective exchange rate. The decision marked the first easing move since 2020.

Singapore's banking sector remained sound in 2024, underpinned by strong capital buffers, ample liquidity, and robust asset quality. The Total Capital Adequacy Ratio rose to 19 percent and the Tier-1 ratio of the banking system rose to 17 percent in the third quarter of 2024—well above regulatory requirements. Liquidity Coverage Ratios and Net Stable Funding Ratios of D-SIBs also remained above minimum requirements. Asset quality also improved, as the banking system's nonperforming loan ratio declined to 1.4 percent in the third quarter of 2024 from 1.7 percent in the fourth quarter of 2023.

The fiscal position for FY2024 is expected to record a slight surplus of 0.9 percent of GDP, compared to a deficit in FY2023. While top-ups to endowment and trust funds were lower than in FY2023, special transfers continued to support households, small businesses, and long-term economic resilience. Key measures included financial support packages for households and SMEs to ease the cost-of-living pressures and rising business costs, contributions to the Future Energy Fund for critical energy infrastructure, and allocations to the Financial Sector Development Fund to improve Singapore's competitiveness as a financial hub. Overall, AMRO estimated that the FY2024 budget maintained a broadly neutral fiscal stance.

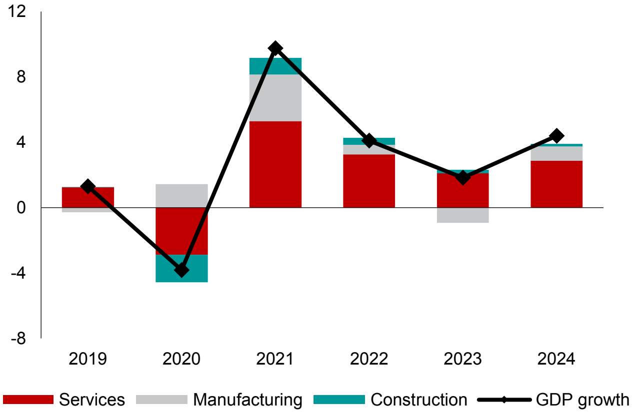
Looking ahead, Singapore's near-term economic outlook will be subject to external risks. First, a slower-than-expected recovery in major trading partners such as China could dampen export demand and reverse the global electronics cycle upturn. Second, protectionist trade policies abroad could disrupt trade and investment flows, posing significant challenges for small and highly open economies like Singapore. Lastly, over the longer term, Singapore will face challenges from an aging population. The demographic shift will have a sizable impact on fiscal burden through higher costs of healthcare and social protection. Addressing these challenges will be critical to ensuring fiscal sustainability and long-term economic resilience.

The author of this note is Pim-orn Wacharaprapapong.

Singapore: Selected Figures

Growth strengthened to 4.4 percent in 2024, led by services and manufacturing sectors.

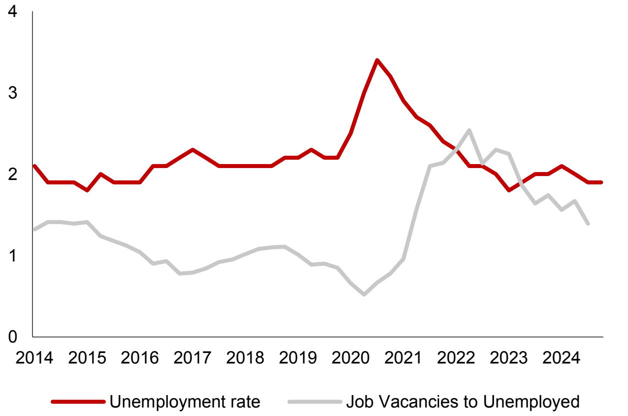
Contributions to Real GDP Growth
(Percentage points, year-on-year)



Source: Singapore Department of Statistics; CEIC; AMRO staff calculations.

Labor market conditions gradually normalized.

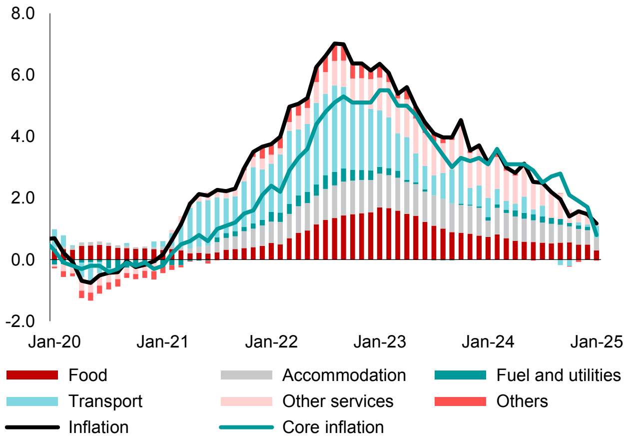
Unemployment rate and Job Vacancies to Unemployed Persons
(Percent, seasonally adjusted; ratio)



Source: Ministry of Manpower; Haver Analytics; AMRO staff calculations.

Headline and core inflation continued the easing trend.

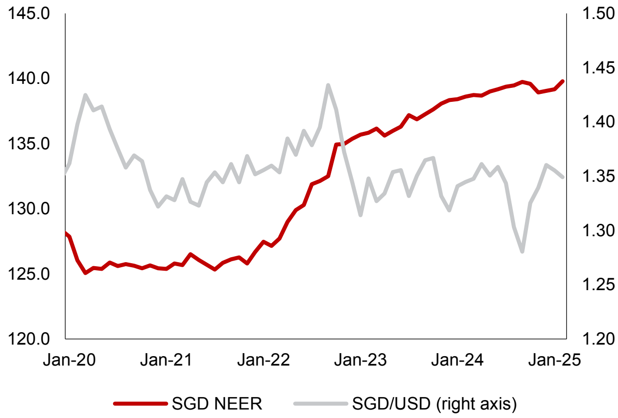
Headline and Core CPI
(Percentage points, year-on-year)



Source: Singapore Department of Statistics; MAS; CEIC; AMRO staff calculations.
Note: CPI = consumer price index.

SGD NEER strengthened in 2024. However, in January 2025 MAS slightly reduced the slope of the policy band.

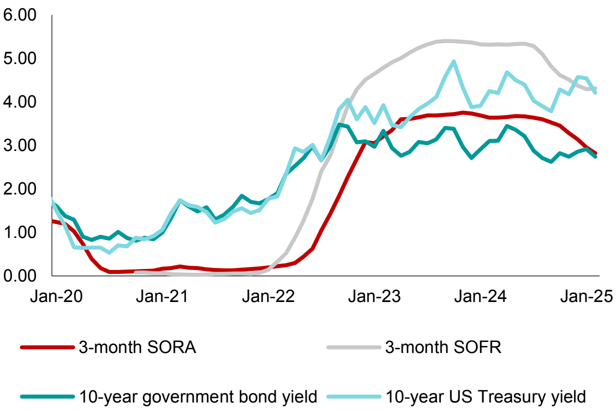
SGD NEER and SGD per USD
(Index; SGD/USD)



Source: MAS; Haver Analytics; AMRO staff calculations.
Note: NEER = Nominal Effective Exchange Rate

Domestic interest rates moved in tandem with US interest rates.

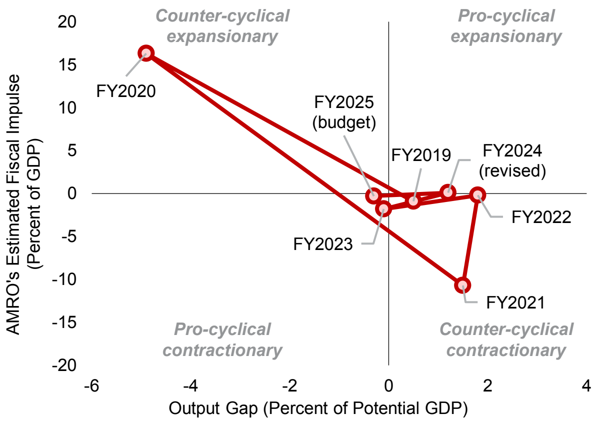
Singapore and US Interest rates
(Percentage points)



Source: MAS, Tullett Prebon Information; CME; Haver Analytics; AMRO staff calculations.
Note: SORA = Singapore Overnight Rate Average, SOFR = US Secured Overnight Financing Rate

The FY2024 budget maintains a broadly neutral fiscal stance, based on AMRO estimates.

Estimated Fiscal Impulse and Output Gap
(Percent of GDP)



Source: Ministry of Finance; CEIC; AMRO staff calculations.

Singapore: Selected Economic Indicators

Indicator	2021	2022	2023	2024e
Real sector	(in annual percentage change)			
Real GDP	9.8	4.1	1.8	4.4
Private consumption	7.2	9.7	4.9	4.8
Government consumption	3.9	–2.3	1.8	8.3
Gross fixed capital formation	23.2	4.7	–0.9	2.9
Imports of goods and services	8.9	5.8	5.3	6.6
Exports of goods and services	8.8	4.9	5.7	5.4
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	19.8	18.4	17.7	17.5
Trade balance	27.8	31.5	31.1	27.1
Capital and financial account balance	4.8	41.1	5.8	12.0
Direct investment	–16.6	–17.6	–18.5	–17.7
Portfolio investment	16.9	12.1	19.4	14.4
Other investment	5.1	46.1	5.2	15.0
Errors and omissions	0.1	0.3	0.2	–0.1
Overall balance	15.2	–22.4	12.1	5.4
International reserves (in USD billion, end of period)	418	289	351	371
Fiscal sector[1]	(in percent of GDP)			
Revenue and grants	13.4	13.0	15.0	15.8
Expenditure	15.4	14.9	15.3	15.3
Fiscal balance	0.3	0.2	–0.4	0.9
Government debt	142	154	173	178
Monetary and financial sectors	(in annual percentage change)			
Broad money	8.8	7.8	3.2	6.7
Resident non-bank loan growth	9.3	–0.3	–2.4	5.2
Memorandum items:				
Nominal GDP (in SGD billion)	587	702	679	731
Headline inflation (in percent y-o-y, period average)	2.3	6.1	4.8	2.4
Exchange rate (in SGD/USD, period average)	1.34	1.38	1.34	1.34

Source: National authorities via CEIC; and AMRO staff estimates.
Note: y-o-y = year-on-year. Numbers in red denote AMRO staff estimates.
1/ Refers to fiscal year, which starts on April 1 and ends on March 31.

Thailand

Thailand's growth strengthened in 2024. GDP expanded by 2.5 percent in 2024, up from 2.0 percent in 2023, driven by accelerated public spending and a recovery in goods exports, particularly in electronics. However, signs of private sector weakness emerged, as consumption growth moderated to 4.4 percent from over 7 percent in 2023, mainly due to slower durable goods spending. Private investment also contracted, notably in the automotive and construction sectors. The labor market remained stable, with the unemployment rate at 1.02 percent in the third quarter of 2024.

Inflation remained subdued in 2024 but edged toward the central bank's target range by end-year. Both headline and core inflation stayed low due to energy subsidies and adequate supply of essential items. In December 2024, headline consumer prices rose 1.23 percent year-on-year, reaching the central bank's target range for the first time since May 2023.

The external sector remained stable with signs of improvement in 2024. The current account surplus expanded, supported by continued recovery in tourism and rebound in goods exports. While the financial account recorded deficits for seven consecutive quarters through the third quarter of 2024, resilient FDI served as a stabilizing force. Foreign exchange reserves remained ample at USD 237.0 billion as of December 2024.

Overall financial conditions tightened somewhat, with unevenness across different segments. In 2024, loan growth remained subdued, with both business and consumer loan growth turning negative mid-year. However, the contraction eased slightly in the last quarter, driven mainly by large corporate loans, which rebounded to 3.4 percent growth year-on-year. However, SME loans continued to decline, contracting by 5.0 percent year-on-year in the fourth quarter following the phase-out of pandemic support measures. Asset quality has deteriorated slightly, particularly in housing, credit card, and auto loans, though banks maintain strong capital and liquidity buffers.

The fiscal deficit widened due to the digital wallet scheme, pushing public debt closer to the 70 percent ceiling. The deficit increased from 3.3 percent of GDP in FY2023 to 4.0 percent in FY2024, largely due to funding for the digital wallet program. This expansion is expected to drive public debt from 62.4 percent of GDP in FY2023 to 63.2 percent in FY2024, further constraining the authorities' policy space for countercyclical support during economic downturns.

The balance of risks to Thailand's growth is tilted to the downside. Short-term risks include export weakness—in part given rising US protectionism, possible delays in government disbursement, and softening private sector performance. In addition, the slowdown in private consumption and contraction in investment in 2024 are particularly concerning given the private sector's role as a key growth driver.

Elevated debt and slow recovery may create a self-reinforcing cycle that makes it challenging for the economy to grow out of high indebtedness. High household debt (89.0 percent of GDP in the third quarter of 2024) and slow income recovery among vulnerable groups lead to cautious bank lending, which further constrains credit access for SMEs and low-income households. This may push borrowers toward informal lenders and dampen consumption, hindering economic recovery and complicating deleveraging efforts.

Beyond the near term, Thailand faces multiple structural challenges that could impede long-term growth potential. Thailand's economic growth has declined over the past two decades due to sluggish investment, aging demographics, and labor market inefficiencies including a large informal sector. Looking ahead, additional headwinds include infrastructure and skill gaps amid increasing digitalization, the need to adapt export sectors to digital and decarbonization trends, and mounting challenges from climate risks and geoeconomic shifts.

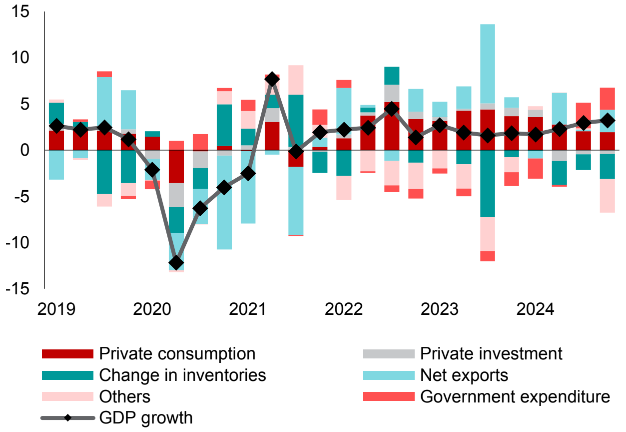
The author of this note is Haobin Wang.

Thailand: Selected Figures

2024 saw improved government expenditure and exports but weaker private sector performance.

Contributions to Real GDP Growth

(Percentage points, year-on-year)

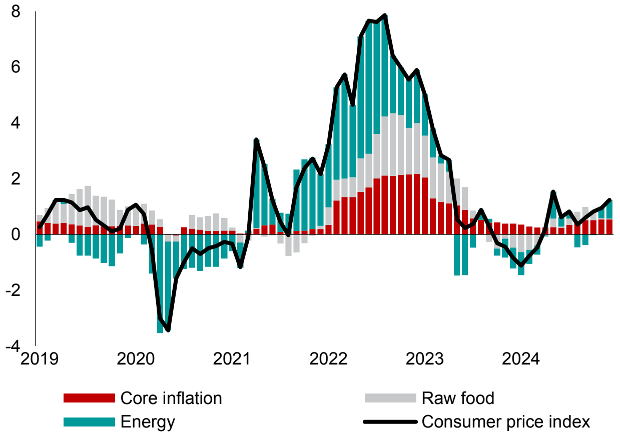


Source: Office of the National Economic and Social Development Council.

Latest headline inflation is within the central bank's target range of 1.0–3.0 percent.

Contribution to Consumer Price Inflation

(Percentage points, year-on-year)

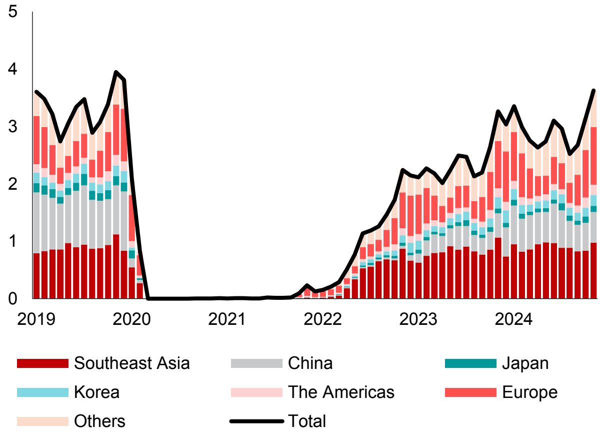


Source: National authorities via CEIC.

Tourism is slowly reaching pre-pandemic levels.

Contributions to Tourism Recovery

(Index, 2019 = 100)

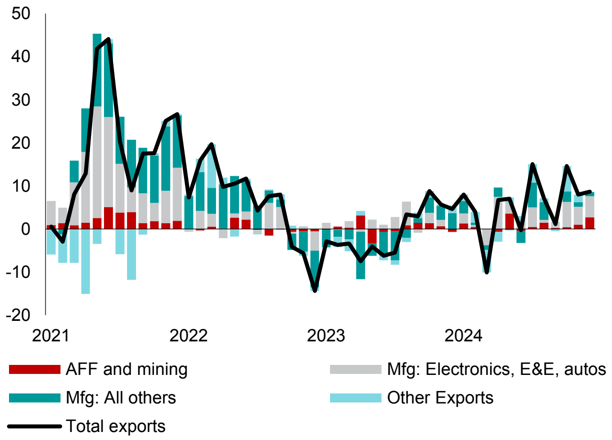


Source: National authorities via CEIC.

External demand for key exports, such as electronics and autos, has been picking up gradually.

Export Growth by Sector

(Percent, year-on-year)

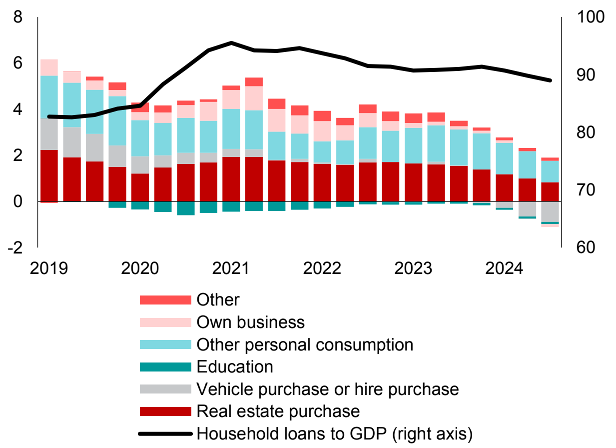


Source: CEIC; Bank of Thailand; and AMRO staff calculations.
Note: AFF = agriculture, fishery, and forestry; E&E = electrical machinery and equipment; Mfg = manufacturing.

Household debt remains high at 89.0 percent, with most growth driven by personal consumption.

Sectoral Loan Growth and Household Debt to GDP

(Percent, year-on-year; Percent of GDP)

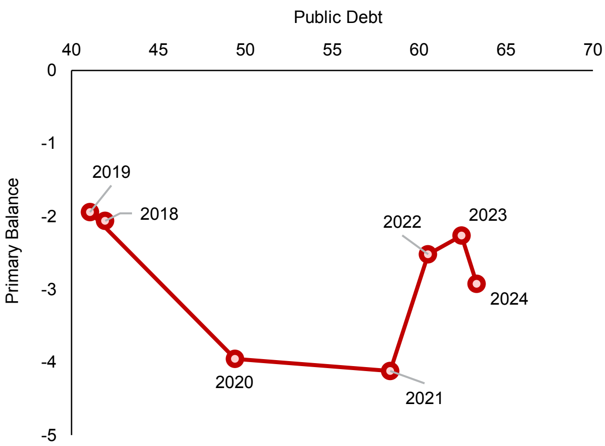


Source: Bank of Thailand.

The widening primary balance due to the digital wallet scheme has led to rising public debt.

Public Debt and Primary Balance

(Percent of GDP)



Source: Thai Ministry of Finance; AMRO staff projections.

Thailand: Selected Economic Indicators

Indicator	2021	2022	2023	2024e
Real sector	(in annual percentage change)			
Real GDP	1.6	2.6	2.0	2.5
Private consumption	1.0	6.2	6.9	4.4
Government consumption	3.7	0.1	–4.7	2.5
Gross fixed capital formation	3.1	2.2	1.2	0.0
Imports of goods and services	17.8	3.4	–2.5	6.3
Exports of goods and services	11.1	6.2	2.4	7.8
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	–2.0	–3.5	1.5	2.3
Trade balance	6.4	2.8	3.8	3.7
Capital and financial account balance	–1.4	1.4	–2.3	0.0
Direct investment	–0.8	0.8	–1.4	–0.8
Portfolio investment	–2.4	1.2	–2.7	–1.3
Other investment	2.0	–0.7	1.8	1.2
Errors and omissions	2.1	0.1	1.4	0.0
Overall balance	–1.4	–2.1	0.5	2.4
Gross external debt	38.9	40.6	38.1	35.3
International reserves (in USD billion, end of period)	246	217	225	237
Fiscal sector[1]	(in percent of GDP)			
Revenue and grants	14.8	14.8	15.0	15.2
Expenditure	20.0	18.4	18.3	19.3
Fiscal balance	–5.2	–3.6	–3.3	–4.0
Government debt	58.4	60.5	62.4	63.2
Monetary and financial sectors	(in annual percentage change)			
Broad money	4.8	3.9	1.9	3.4
Domestic credit[2]	9.4	4.3	4.1	1.9
Private sector credit	5.0	4.0	2.4	0.3
Memorandum items:				
Nominal GDP (in THB trillion)	16.2	17.4	17.9	18.6
Headline inflation (in percent y-o-y, period average)	1.2	6.1	1.2	0.4
Policy rate (in percent per annum, end of period)	0.50	1.25	2.50	2.25
Exchange rate (in THB/USD, period average)	32.0	35.1	34.8	35.3

Source: National authorities via CEIC; and AMRO staff estimates.
Note: y-o-y = year-on-year. Numbers in red denote AMRO staff estimates.

1/ The fiscal year (FY) runs from 1 October to 30 September. FY2024 is from 1 October 2023 to 30 September 2024.
2/ Domestic credit composes net claims from central government, local government, nonfinancial corporations and households.

Vietnam

In 2024, Vietnam's economy grew at a robust 7.1 percent, primarily driven by strong external demand. Exports surged as uncertainties surrounding US tariff policies led to the frontloading of shipments to the US. The construction sector benefited from resilient foreign direct investment, despite a tepid housing market. The services sector experienced strong growth, bolstered by a recovery in tourist arrivals. Meanwhile, household spending remained cautious, weighing down on business performance of micro, small, and medium-sized enterprises.

Inflation remains under control. Rising food and dining prices, fueled by the effects of El Niño, led to the acceleration of headline inflation in the first half of 2024. However, inflationary pressures were mitigated in the second half by a decline in global oil prices. Consumer price inflation averaged 3.6 percent for the year, comfortably below the government's 4.5 percent operating target ceiling. Core inflation remained stable, fluctuating between 2.6 percent to 2.8 percent throughout the year.

Vietnam's current account registered a surplus for the third consecutive year, bolstered by a strong export growth and increased service income. The financial account presented a mixed picture: FDI remained resilient, while portfolio investment and other investment experienced outflows, largely due to interest rate differentials between the US and Vietnam. The State Bank of Vietnam (SBV)'s foreign exchange interventions to support the dong, coupled with substantial unrecorded outflows, resulted in a balance of payments deficit. Consequently, international reserves declined to USD 85.2 billion as of September 2024.

To bolster economic recovery, the government maintained several supportive fiscal measures in 2024. These included: continuing the 2 percent reduction in value-added tax; further reducing land rent and environmental taxes on gasoline, grease, and oil; and reintroducing deferrals of taxes and land rent. Despite these tax reductions, robust economic growth significantly boosted government revenue collection. Consequently, the fiscal deficit is projected to narrow to 2.0 percent of GDP in 2024, down from 2.7 percent in 2023.[1]

SBV maintained accommodative financial conditions by keeping low operating interest rates—including the caps on short-term bank deposit and bank lending rates to priority sectors, increased the indicative credit growth target to 15 percent from 14–15 percent in 2023, and extended the loan moratorium program by another six months. State-owned commercial banks also reduced short-term deposit and lending rates to guide market rates. Central bank bills were used proactively to manage liquidity and the exchange rate in response to unpredictable global developments.

Vietnam's export outlook and incoming foreign direct investment could face headwinds due to uncertainty surrounding President Trump's trade policies. Additional downside risks may arise from weaker-than-expected demand from major export destinations, including the US, Europe, and China.

Credit risks in Vietnam's financial sector remained elevated. Robust economic growth could help prevent further deterioration in banks' asset quality. That said, while the new real estate laws approved in 2024 aim to address legal bottlenecks in the real estate sectors, delays in implementing related regulations could slow the housing market's recovery. A stagnation in the market recovery could make debt rollovers more challenging and further strain developers' liquidity. In response to these challenges, authorities introduced a credit program for social housing to foster sustainable market development.

Structural challenges are dampening Vietnam's growth potential. Insufficient physical infrastructure, the mismatch between workforce skills and industry needs and the underdevelopment of domestic MSMEs and supporting industries further hinders Vietnam's progress in moving up the global value chains. The country is also facing emerging challenges from increasing frequency and intensity of climate change-induced weather events, which have caused damage and disruptions to the country's economic activity. The shift to an aged society by 2036 could also pose substantial economic challenges and insufficient social protection. These challenges could be mitigated by the country's ongoing initiatives to enhance infrastructure, develop human capital, adapt to and mitigate climate change, and implement regulatory and social security reforms.

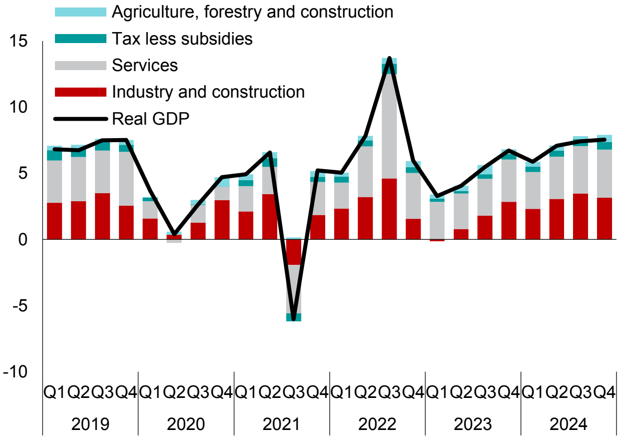
The author of this note is Wanwisa (May) Vorranikulkij.

1/ The fiscal balance figures for 2023 and 2024 are AMRO staff estimates that diverge from the government's estimations. This discrepancy arises because the government's estimates for 2023 and 2024 do not account for carry-over expenditures from previous years, while AMRO's estimates incorporate these carried-over expenditures. This approach aligns AMRO's estimations with the historical outturns of final budget performances.

Vietnam: Selected Figures

Strong external demand bolstered economic growth in 2024.

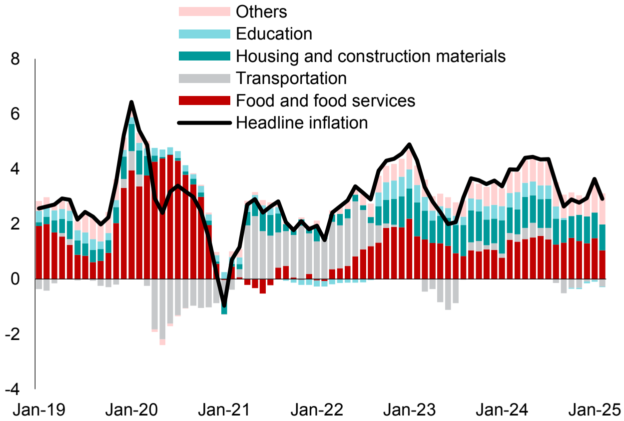
Contribution of GDP Growth
(Percentage points, year-on-year)



Source: General Statistics Office; Haver Analytics; AMRO staff calculations.

A decline in global oil prices and state-administered prices kept inflation under the government's ceiling.

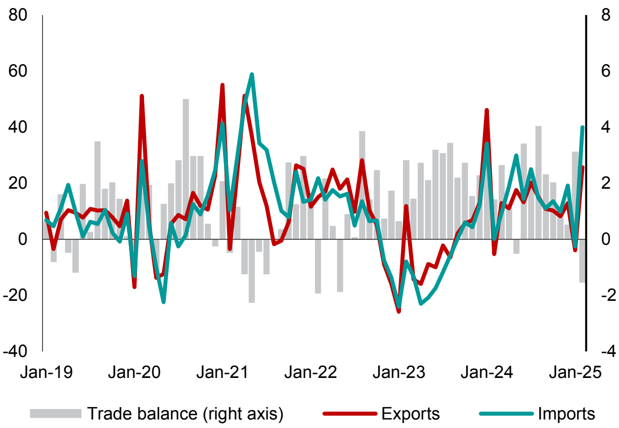
Inflation
(Percentage points, year-on-year)



Source: General Statistics Office; Haver Analytics; AMRO staff calculations.

The trade balance registered a surplus on the back of robust export performance.

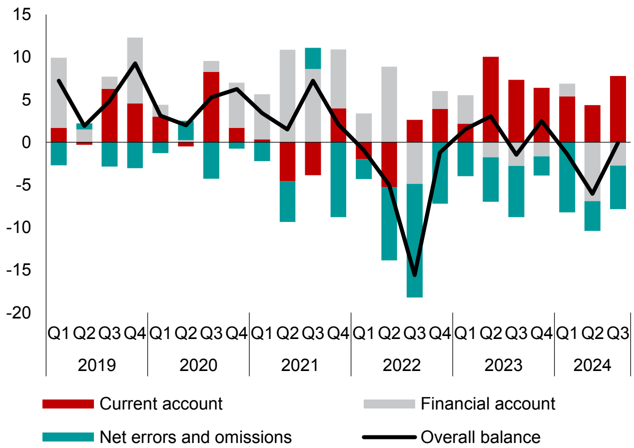
Trade Balance
(Percent, year-on year; millions of US dollars)



Source: General Statistics Office; Haver Analytics; AMRO staff calculations.

Despite capital outflows, the trade surplus and resilient foreign direct investment shored up the external balance.

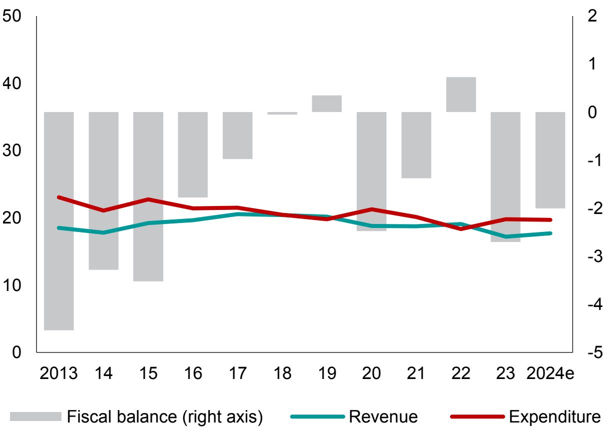
Balance of Payments
(Millions of US dollars)



Source: State Bank of Vietnam; Haver Analytics; AMRO staff calculations.

The government employed a neutral fiscal stance in 2024.

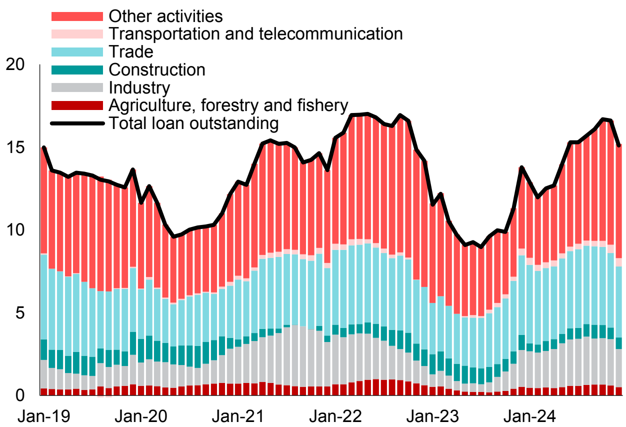
Fiscal Balance
(Percent of GDP)



Source: Ministry of Finance; Haver Analytics; AMRO staff estimations.
Note: The fiscal balance figures for 2023 and 2024 are AMRO staff estimates. They diverge from government estimations because the government's estimates for 2023 and 2024 do not account for carry-over expenditures from previous years. To maintain consistent data coverage, AMRO estimates for the fiscal balance in 2023 and 2024 incorporated these carried-over expenditures. This approach aligns with the historical outturns of final budget performances from 2013 to 2022, which included carry-over expenditures.

Credit growth accelerated in the second half of 2024, driven by household consumption loans.

Credit Growth
(Percentage points, year-on-year)



Source: State Bank of Vietnam; Haver Analytics; AMRO staff calculations.

Vietnam: Selected Economic Indicators

Indicator	2021	2022	2023	2024e
Real sector	(in annual percentage change)			
Real GDP	2.6	8.0	5.0	7.1
Agriculture, forestry, and fishing	2.9	3.4	3.8	3.3
Industry and construction	4.1	7.8	3.7	8.3
Services	1.2	10.0	6.8	7.4
Product tax excluding subsidy	8.8	8.5	8.4	8.1
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	–2.2	0.3	5.8	4.2
Trade balance	4.2	7.2	10.2	7.9
Capital and financial account balance	8.3	2.3	–0.7	–2.1
Direct investment	4.1	3.7	4.6	3.9
Portfolio investment	0.1	0.4	–0.3	–1.6
Other investment	4.1	–1.8	–5.0	–4.9
Errors and omissions	–2.3	–8.2	–3.9	–3.8
Overall balance	3.8	–5.5	1.3	–1.7
Gross external debt	37.6	35.7	36.1	34.0
International reserves (in USD billion, end of period)	110.0	87.2	92.8	84.5
Fiscal sector [1]	(in percent of GDP)			
Revenue and grants	18.8	18.9	17.0	17.7
Expenditure	20.1	18.2	19.7	19.7
Fiscal balance	–1.4	0.7	–2.7	–2.0
Government debt	39.3	34.3	33.8	34.5
Monetary and financial sectors [2]	(in annual percentage change)			
Broad money	10.7	6.2	12.5	8.1
Domestic credit	12.6	11.5	13.6	10.9
Private sector credit (in percent of GDP)	123.1	123.9	131.5	132.6
Memorandum items:				
Nominal GDP (in VND trillion)	8,487	9,549	10,222	11,512
Headline inflation (in percent y-o-y, period average)	1.8	3.2	3.3	3.6
Policy rate [3] (in percent per annum, end of period)	4.00	6.00	4.50	4.50
Exchange rate (in VND/USD, period average)	22,833	23,263	23,660	24,615

Source: National authorities via CEIC; and AMRO staff estimates.
Note: y-o-y = year-on-year. Numbers in red denote AMRO staff estimates.

1/ The fiscal balance figures for 2023 and 2024 are AMRO staff estimates that diverge from the government's estimations. This discrepancy arises because the government's estimates for 2023 and 2024 do not account for carry-over expenditures from previous years. To maintain consistency in data coverage, AMRO has produced its own estimates for the fiscal balance in 2023 and 2024, incorporating these carried-over expenditures. This approach aligns with the historical outturns of final budget performances from 2013 to 2022, which have consistently included carry-over expenditures.

2/ The figures for 2024 are as of November 2024.

3/ Due to the absence of an official policy rate, the State Bank of Vietnam's refinancing rate is used as an approximation.