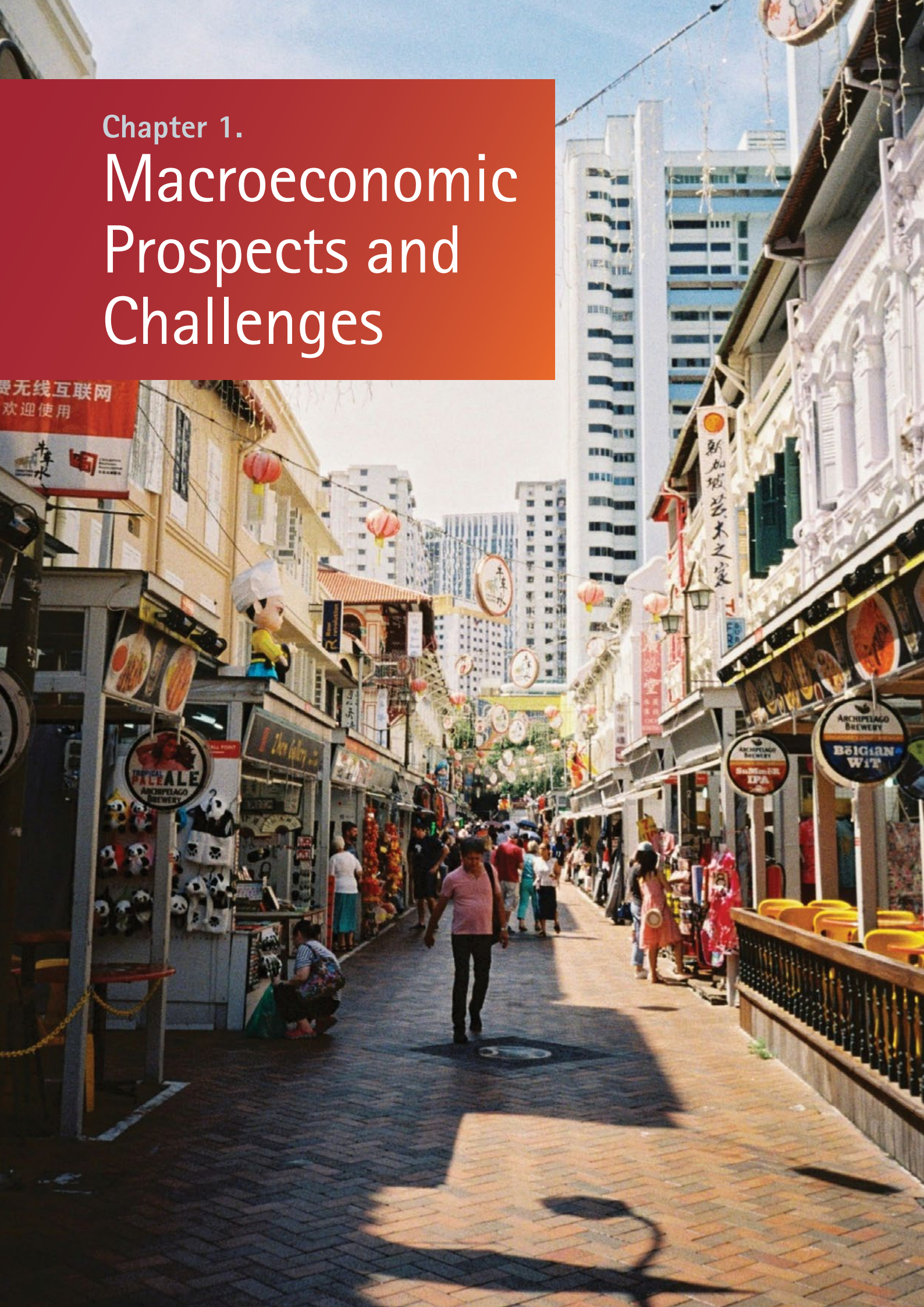
Chapter 1.

Macroeconomic Prospects and Challenges



Highlights

- 2024 was a year of resilient global growth and continued disinflation, despite multiple sources of uncertainty. The global economy entered a new phase as major central banks began monetary easing after three years of tightening. However, challenges mounted throughout the year—geopolitical tensions triggered periodic spikes in commodity prices and the US presidential election campaign raised concerns about major shifts in US trade and broader economic policies. Despite these headwinds, the US economy demonstrated strength, driven by robust consumer spending and tech sector investment, while inflation fell to its lowest since the pandemic began. The euro area, however, maintained modest expansion.

- ASEAN+3 registered stable growth of 4.3 percent in 2024, sustained from a 4.4 percent expansion in 2023. Domestic demand remained the primary driver of growth for most economies, underpinned by strong labor market conditions and a recovery in investment. A rebound in exports, particularly in semiconductors and tourism, provided additional momentum. Inflation continued to moderate, although supply-driven price spikes in energy and shipping costs caused periodic disruptions. Financial markets strengthened in the first half of the year but experienced increased volatility in the second half, with equity markets reversing earlier gains and bond yields rising. Despite heightened global uncertainties and financial market fluctuations, the region's international reserves remained ample, reinforcing external resilience.

- The region is expected to maintain robust growth of above 4 percent in 2025 and 2026. Domestic demand will remain a key pillar of growth, supported by improving investment activity, while external demand—particularly from the technology sector and tourism—will provide additional support. However, the outlook is subject to significant uncertainties, especially from US trade policies, that could weigh on the region's growth. In the medium term, ASEAN+3 is expected to remain a key driver of global growth, contributing about 43 percent of global growth—slightly below its pre-pandemic average. Meanwhile, inflation is expected to pick up slightly but will remain low at 1.7 percent in 2025 and 2026.

- Risks to the near-term outlook are tilted to the downside. The most prominent is the potential for more aggressive protectionist policies from the United States, which could disrupt trade flows and investment and dampen regional growth. Other key risks include tighter global financial conditions, slower growth in major economies, and potential spikes in commodity prices due to geopolitical tensions or weather-related shocks. Over the longer term, structural challenges such as aging populations, climate change, and technological disruptions continue to pose risks to macrofinancial stability.

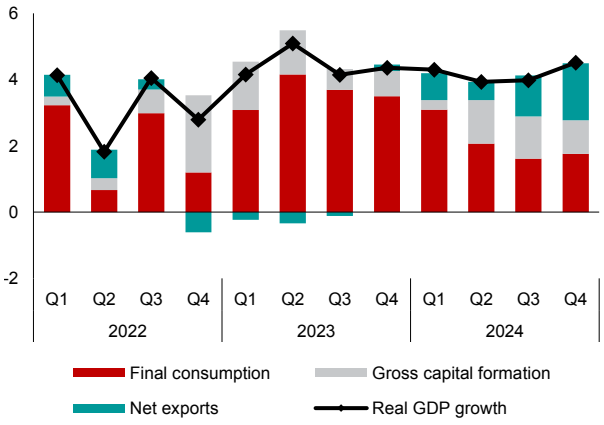
- The favorable baseline outlook for ASEAN+3 provides an opportunity to rebuild policy space, although policymakers must navigate an increasingly uncertain external environment. While both fiscal consolidation and monetary policy easing continued to progress in 2024, policy challenges have become more complex. Looking ahead, policies should focus on strengthening long-term resilience while maintaining flexibility to address near-term challenges, with the appropriate policy mix tailored to each economy's specific circumstances and constraints. On the fiscal front, this means balancing the rebuilding of buffers with providing targeted support for growth. For monetary policy, authorities need to carefully recalibrate policy stance based on domestic conditions while preserving exchange rate flexibility and maintaining vigilance against financial stability risks, particularly given prospects of heightened trade tensions and volatile global financial conditions.

I. Economic Developments in 2024: Solid Growth Despite Rising Uncertainties

The global economy was resilient in 2024, maintaining steady growth and continued disinflation despite mounting uncertainties. Several significant developments shaped the global landscape throughout the year. The shift in monetary policy stance—from tightening to gradual easing after three consecutive years of rate hikes—marked a key turning point. However, geopolitical tensions triggered periodic spikes in commodity prices, while rising trade restrictions pushed protectionist measures to historic highs. The US presidential election campaign added another layer of uncertainty, raising concerns about potential shifts in trade policies, global economic fragmentation, and monetary policy direction. Nevertheless, the US economy proved remarkably resilient, expanding by 2.8 percent, driven by robust consumer spending and sustained investment, particularly in high-tech sectors. US inflation continued its downward trend, moderating to 2.9 percent, the lowest since the pandemic outbreak. Meanwhile, the euro area maintained modest growth despite headwinds from elevated input costs for manufacturing and energy and subdued external demand amid ongoing geopolitical tensions.

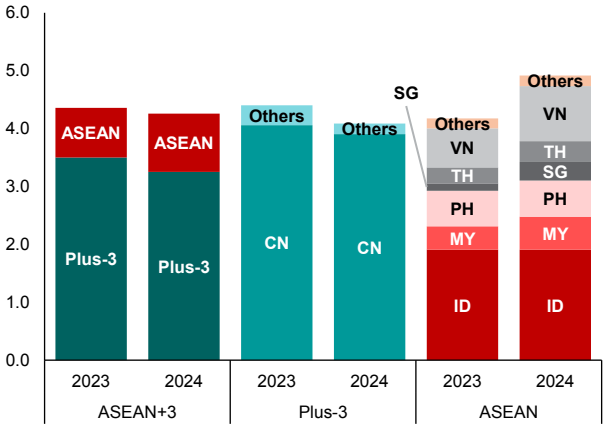
The ASEAN+3 region demonstrated similar resilience, sustaining solid growth of 4.3 percent in 2024 despite heightened external uncertainty. Overall, the region's performance was anchored by robust domestic demand and reinforced by strengthening external demand (Figure 1.1). However, growth dynamics varied across economies. The Plus-3 economies saw growth moderate to 4.1 percent from 4.4 percent in 2023, primarily reflecting China's continued property sector correction despite ongoing policy support (Figure 1.2). In contrast, ASEAN economies gathered momentum, with growth accelerating to 4.9 percent from 4.1 percent in 2023. This stronger performance was underpinned by firm domestic demand—supported by favorable labor market conditions, moderating inflation, and rising investment—and further boosted by a strong rebound in export of goods and services.

Figure 1.1. Selected ASEAN+3: Real GDP Growth
(Percentage point, year-on-year)



Source: National authorities; AMRO staff calculations.
Note: Excludes Cambodia, Lao PDR, Myanmar, and Vietnam due to data unavailability.

Figure 1.2. ASEAN+3: Contribution to Real GDP Growth
(Percentage point, year-on-year)



Source: National authorities; AMRO staff calculations.
Note: CN= China; ID = Indonesia; MY = Malaysia; PH = the Philippines; SG = Singapore; TH = Thailand; VN = Vietnam; Plus-3 = China, Hong Kong, Japan, and Korea.

Robust Domestic Demand Anchored Growth

Breaking down the components of growth, private consumption continued to be the primary driver, supported by favorable labor market conditions. Household consumption was particularly robust in ASEAN-5 and Brunei, while in China, subdued consumer confidence dampened spending despite government efforts to boost durable goods consumption (Figure 1.3). Meanwhile, in Japan and Korea, consumption remained subdued overall but showed signs of improvement. The strength in household spending was underpinned by robust income growth, with steady wage growth, declining unemployment rates, and sustained high labor force participation across most economies (Figure 1.4).

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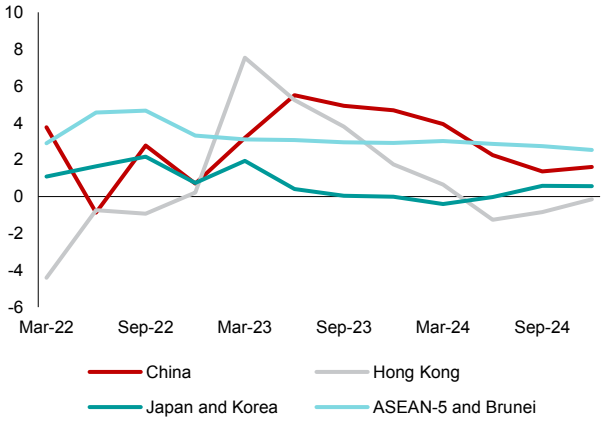
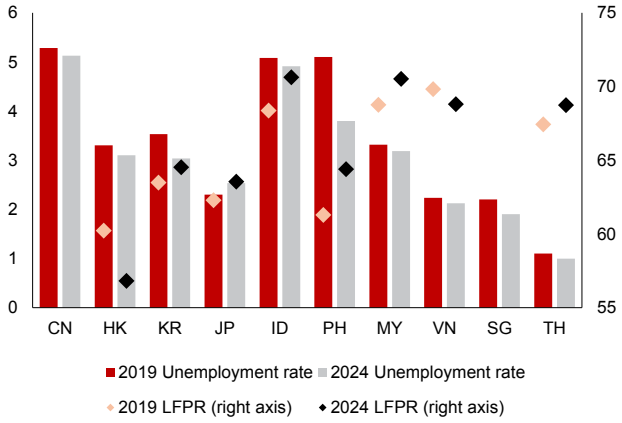
Complementing strong consumption, domestic demand was further bolstered by a pickup in investment activity. Investment accelerated in Japan and most ASEAN economies, particularly in high-growth sectors such as electric vehicles, data centers, and semiconductors, benefitting from improving external demand (Figure 1.5). Similarly, infrastructure investment in Korea gained momentum in the second half of the year, driven by the high demand for advanced semiconductor chips. However, overall investment growth for the year was weighed down by the prolonged slump in the construction sector. In contrast, investment recovery in China remained uneven. While investment in infrastructure, new energy, and high-tech manufacturing continued to expand robustly, capital expenditure in property-related sectors remained sluggish amid the ongoing correction in the sector (Figure 1.6).

Figure 1.3. Selected ASEAN+3: Contribution of Private Consumption to GDP Growth
(Percentage point contribution)



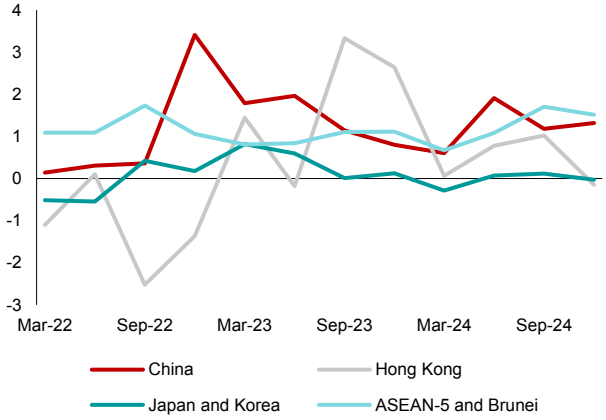
Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: ASEAN-5 = Indonesia, Malaysia, the Philippines, Singapore, and Thailand. Data are unavailable for Cambodia, Lao PDR, Myanmar, and Vietnam. Data for China refers to the contribution of total consumption to year-on-year GDP growth.

Figure 1.4. Selected ASEAN+3: Unemployment Rates and Labor Force Participation
(Percent of working-age population, seasonally adjusted; percent, seasonally adjusted)



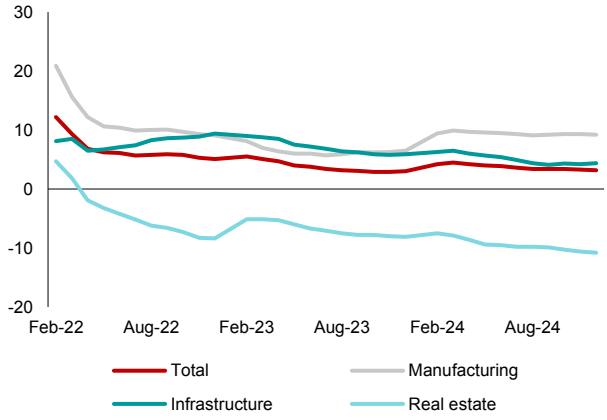
Source: National authorities via Haver Analytics.
Note: CN= China; HK = Hong Kong; JP = Japan; KR = Korea; ID = Indonesia; MY = Malaysia; PH = the Philippines; SG = Singapore; TH = Thailand; VN = Vietnam. Unemployment rate data are up to Q4 2024. Labor force participation rate data are up to Q4 2024, except for Indonesia (August 2024).

Figure 1.5. Selected ASEAN+3: Contribution of Gross Fixed Capital Formation to GDP Growth
(Percentage point contribution)



Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: ASEAN-5 = Indonesia, Malaysia, the Philippines, Singapore, and Thailand. Data are unavailable for Cambodia, Lao PDR, Myanmar, and Vietnam.

Figure 1.6. China: Fixed Asset Investment
(Percent, year-on-year)



Source: National authorities via Haver Analytics; AMRO staff calculations.

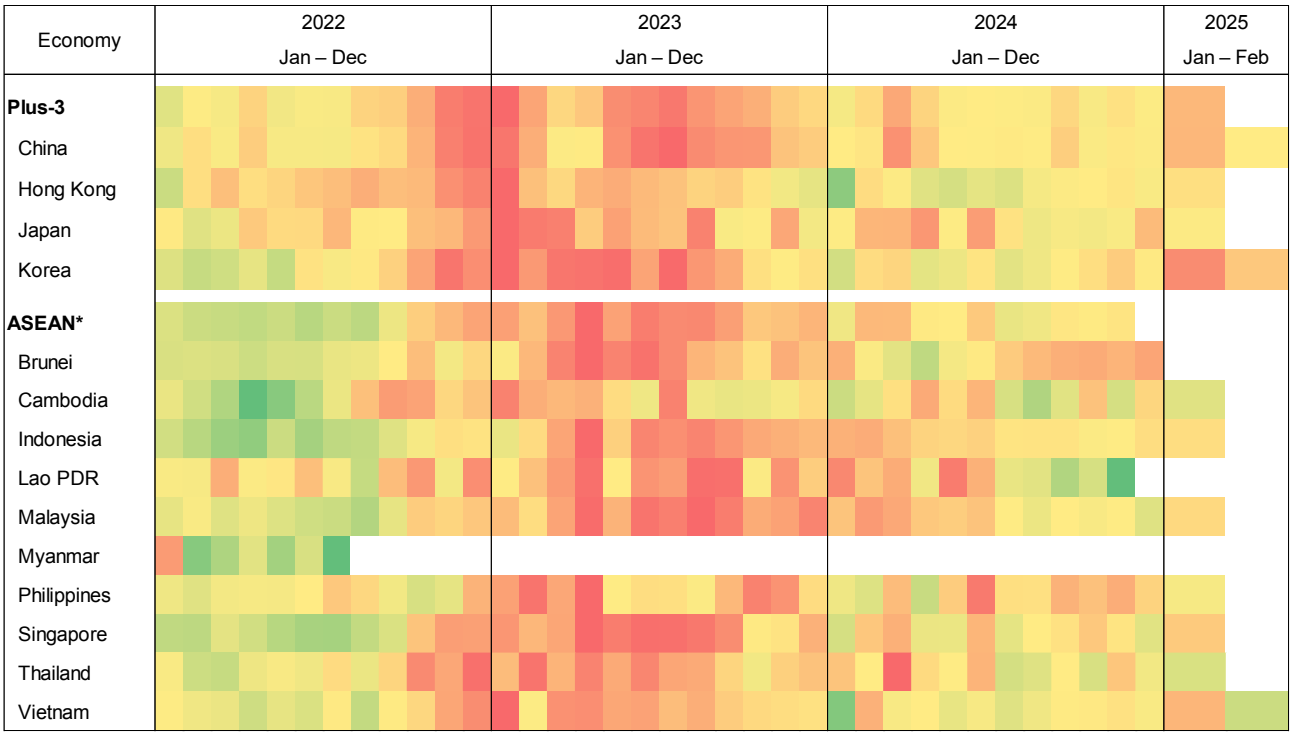
External Sector Recovery Strengthened Growth Momentum

The external sector performance strengthened in 2024, led by a rebound in goods exports amid improving global demand and surging technology orders. After a prolonged semiconductor downcycle in 2023, strong global demand for semiconductors—particularly AI-related chips—boosted semiconductor exports for many regional economies (Figure 1.7). The impact was especially pronounced in high-tech semiconductor manufacturing economies like Korea and Taiwan Province of China, where semiconductor exports rose by 40 percent in the first nine months of 2024—double the growth of global semiconductor sales. The AI-led semiconductor upswing also generated positive spillovers to the mature chip producers across ASEAN (Box 1.1). This, combined

with improving global consumer demand and overall semiconductor upcycle, provided a strong lift to overall goods exports across the region.

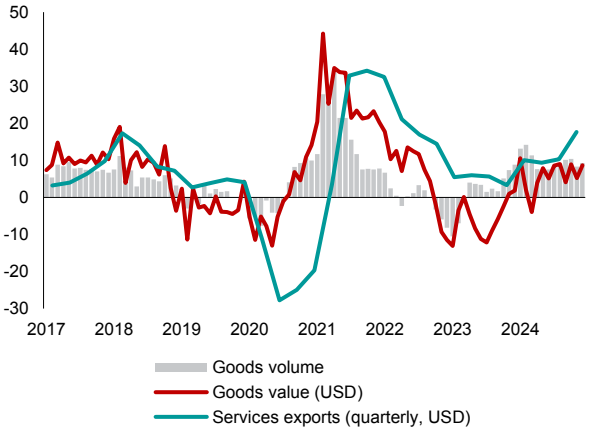
The recovery in services trade provided additional support to external sector growth. Transportation and manufacturing services gained momentum in the first half of 2024, benefiting from strong goods exports (Figure 1.8 and Figure 1.9). Meanwhile, travel services maintained their strong recovery, growing 34 percent in the first half of 2024 compared to the same period in 2023. Tourist arrivals have fully recovered in Japan, while tourist arrivals in Korea, Malaysia, Vietnam, and Cambodia have surpassed pre-pandemic levels in some months during 2024. Monthly tourist arrivals for most other regional economies have also reached over 80 percent of what they were in 2019 (Box 1.2). However, outbound tourism from China continues to lag, with Chinese tourists accounting for 25 percent of the region's arrivals, still below the pre-pandemic average of around 30 percent.

Figure 1.7. ASEAN+3: Goods Export Growth
(Percent, year-on-year)



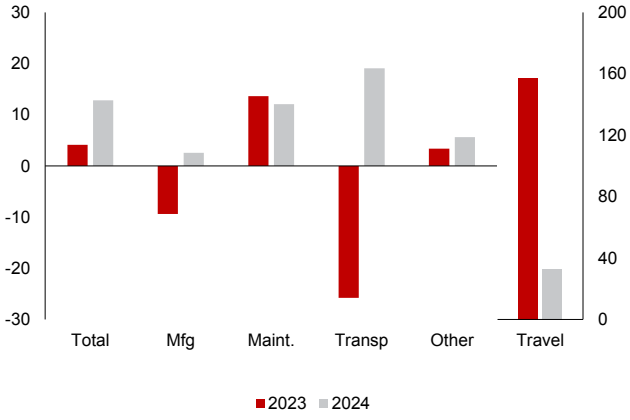
Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: Calculated based on merchandise exports in US dollars for all economies. Colors indicate the size and direction of change: the deeper the shade of red, the larger the negative change, with the darkest shade indicating a decrease of more than 30 percent year-on-year; the deeper the shade of green, the larger the positive change, with the darkest shade indicating an increase of more than 30 percent year-on-year. Regional aggregate for ASEAN excludes Myanmar after July 2022 due to data unavailability.

Figure 1.8. Selected ASEAN+3: Goods and Services Export
(Percent, year-on-year)



Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: Goods exports value data are not available for Lao PDR, and Myanmar. Goods exports volume data are not available for Brunei, Cambodia, Lao PDR, and Myanmar. Services exports data are not available for Brunei and Myanmar.

Figure 1.9. Selected ASEAN+3: Services Exports, by Category
(Percent, year-on-year)



Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: Mfg = manufacturing; Maint. = maintenance and repair; Transp = transport. Data refers to an average of annual growth rates. 2024 data is up to Q3 2024. Excludes Brunei and Myanmar due to data unavailability.

Box 1.1:

Shifting Global Semiconductor Landscape and What it Means for ASEAN+3

In recent years, geopolitical tensions and the push for supply chain resilience have prompted a reconfiguration of the semiconductor supply chain, emphasizing both advanced technology development and regional diversification.

Global semiconductor sales have been on an upward trajectory since late 2023, propelled by rising demand for advanced integrated circuits. After contracting by 8.2 percent in 2023, the Semiconductor Industry Association (SIA) reported an increase in global semiconductor sales by 19.9 percent in the first nine months of 2024—driven by high-speed and high value integrated circuits. Logic chips also continued to expand, while Metal-Oxide-Semiconductor (MOS) memory chips expanded sharply, growing by 89.2 percent during the same period in 2024, driven by the demand for AI developments. The surge in sales was notably led by China and the United States, both of which have significantly increased their use of MOS memory—though China's growth rate has shown signs of deceleration. Other economies such as Japan and Europe also reported increases in sales value. The growth in semiconductor sales in 2024 was significantly influenced by price dynamics, especially pricing recovery in the storage segment related to higher-capacity flash memory.

Korea and Taiwan Province of China have benefited significantly from the current AI-centric tech upcycle while the rebound in other regional peers has been more moderate. Electronics exports from Korea and Taiwan Province of China have expanded by double-digits since the end of 2023 given the strong demand for products linked to the artificial intelligence (AI) boom, such as AI servers, graphics cards, and other devices (Figure 1.1.1). These products require leading-edge logic chips and high bandwidth memory, which are mainly produced in large volume by frontier manufacturers such as TSMC, Samsung, and SK Hynix. Despite being the world's largest semiconductor exporter, accounting for one-quarter of global chip exports, the recovery in ASEAN economies has been more moderate compared to past semiconductor cycles as they are not as plugged into the AI space. Malaysia is primarily an assembly, testing, and packaging hub for legacy chips, while Singapore produces specialty chips that are essential for automotive, consumer electronics, and industrial applications. The Philippines, Vietnam, and Thailand are much smaller semiconductor players in the lower value-add segments (Figure 1.1.2). Similarly, China, which produces a substantial volume of mature and low-end semiconductors, experienced lackluster growth.

The memory-led recovery in the current semiconductor cycle has benefited economies with a larger concentration of memory products more significantly. It is therefore not surprising that Korea has been the frontrunner in the current upcycle, as its product mix is highly concentrated in memory products, including high bandwidth memory, dynamic random-access memory, flash memory, and solid-state drives (Figure 1.1.3). Japan, with about one-third of its product mix in memory, has also performed relatively well.[1] Meanwhile, Singapore and Malaysia, with a larger product mix in discrete, analog, optoelectronics, and sensors, have been slower to recover amid a normalization of inventories.

Economies that are important in areas supporting the semiconductor value chain, such as manufacturing equipment and materials, have also benefited from the semiconductor upcycle. Within the ASEAN+3 region, Japan is a major global player in semiconductor manufacturing equipment, with a 32 percent market share, and the materials market, with a 56 percent share in 2023.[2] Singapore is also an important supplier of semiconductor manufacturing equipment.[3] Exports of semiconductor manufacturing equipment for both Japan and Singapore have seen much higher growth compared to semiconductor exports (Figure 1.1.4).

This box was written by Xianguo (Jerry) Huang and Wee Chian Koh.

1/ Primarily flash memory produced by Kioxia and Western Digital.

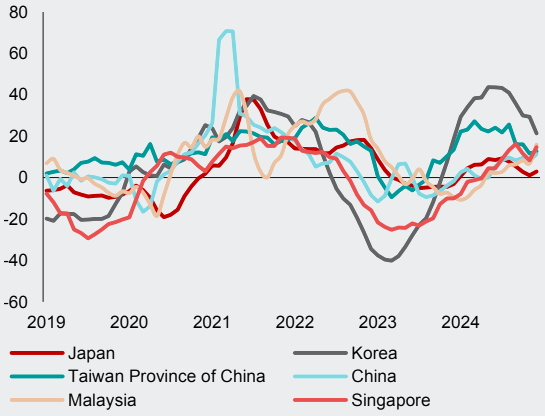
2/ Tokyo Electron and SCREEN have a combined 88 percent market share for coaters/developers, while Advantest has a 58 percent market share for testing equipment. In the photoresist market, four Japanese companies (JSR, Tokyo Ohka Kogyo, Shin-Etsu Chemical, and Fujifilm Electronics Materials) have a combined market share of about 90 percent.

3/ Singapore's semiconductor manufacturing exports are largely attributable to US firms Applied Materials and KLA Corporation. Singapore has been established as their regional headquarters and largest production hub outside the United States.

China and Malaysia have significantly increased their shares in the global semiconductor market, leveraging government support and strategic positioning. China's share grew by 3.7 percentage points, from an average of 9.2 percent in 2015–2017 to 12.9 percent in 2023, because of the 'Made in China 2025' initiative, cost advantages, and its pivotal role in the electronics supply chain. Malaysia gained 1.5 percentage points over the same period by attracting foreign direct investment. It also benefitted from the global semiconductor supply chain reconfiguration amid US-China tensions—with approved investments in the electronics sector reaching a record high in 2021.

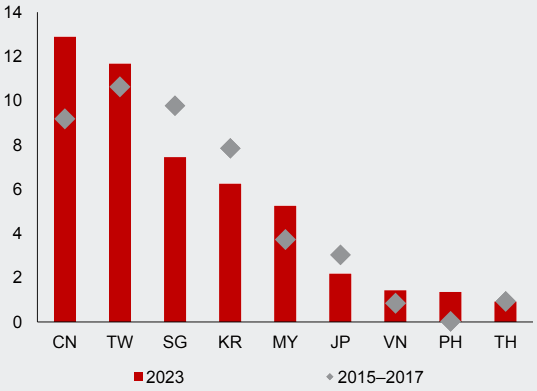
Other ASEAN+3 economies are also making strides in the semiconductor industry through various strategic moves. Despite a decline in Singapore's export share, its electronics investment commitments hit a record high in 2022 due to an exceptional inflow of large manufacturing projects in the electronics sector, which are not captured in merchandise exports. Japan's semiconductor landscape has been reinvigorated by investments from companies like TSMC, supported by government subsidies. The Philippines is poised to further benefit from friendshoring given its access to the US CHIPS Act's ITSI Fund—it has experienced a marked increase in global export share, though starting from a low base. Vietnam, a new semiconductor player, has recently seen a surge in investments in chip design and R&D, thanks to its large pool of affordable engineering talent. Meanwhile, Thailand has lagged in attracting similar investments.

Figure 1.1.1. Selected ASEAN+3: Electronics Exports
(Percent, year-on-year, three-month moving average)



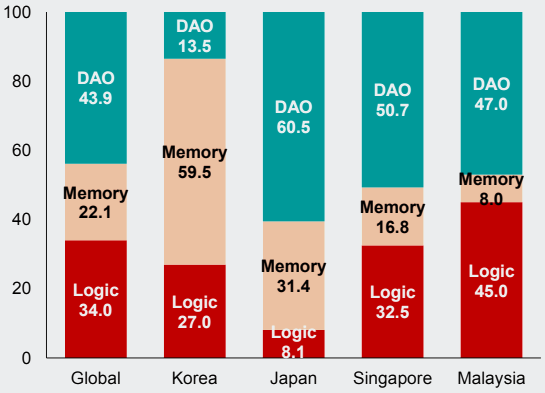
Source: CEIC; National authorities; AMRO staff calculations.

Figure 1.1.2. Selected ASEAN+3: Share of Global Semiconductor Exports
(Percent of total)



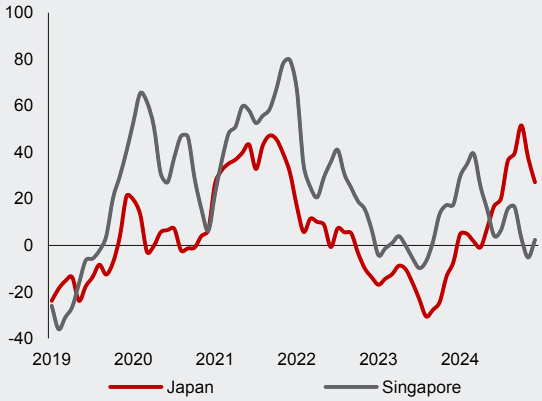
Source: S&P Global Trade Atlas; UN Comtrade; AMRO staff calculations.
Note: CN= China; TW = Taiwan Province of China; SG = Singapore; KR = Korea; MY = Malaysia; JP = Japan; VN = Vietnam: PH = the Philippines; TH = Thailand. Semiconductor exports refer to HS code 8541 and 8542.

Figure 1.1.3. Selected ASEAN+3: Composition of Semiconductor Exports
(Percent of total)



Source: S&P Global Atlas; UN Comtrade; AMRO staff calculations.
Note: Shares are 2019–2023 average. DAO = discrete, analog, and others (including optoelectronics and sensors).

Figure 1.1.4. Japan and Singapore: Semiconductor Manufacturing Equipment Exports
(Percent, year-on-year, three-month moving average)



Source: S&P Global Trade Atlas; UN Comtrade; AMRO staff calculations.

Box 1.2:

Tourism in ASEAN+3: Recovery from COVID-19 and Shifting Trends

Tourism is a key economic sector for the region, contributing a higher share of GDP than the global average for many of the economies (Figure 1.2.1). In economies like Cambodia and the Philippines, the industry accounted for over 15 percent of GDP and total employment in 2023. Over the past two decades, the tourism sector has expanded at a remarkable pace, with tourist arrivals growing at an average annual rate of 6 percent and tourism expenditure rising by 9 percent. This growth was largely fueled by intraregional tourism, with the share of visitors from ASEAN+3[1] rising from 60 percent in 2000 to about 70 percent in 2024 (Figure 1.2.2). China played a significant role in this growth, with its share of total arrivals more than tripling from 11 percent in 2000 to a peak of 37 percent just before the COVID-19 pandemic.

The pandemic had a devastating impact on the tourism sector. Restrictions on international travel caused visitor arrivals to plummet by 85 percent in 2020, and tourism spending to decline by 78 percent. Economies highly reliant on tourism saw sharp contractions, with the industry's contribution to GDP more than halving and its share of employment falling substantially.

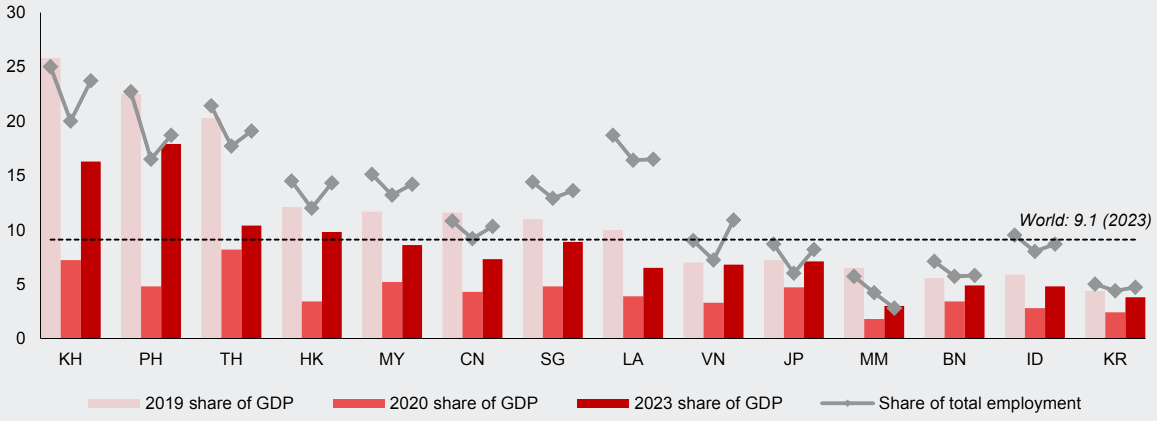
Recovery in the region has lagged behind the global average, with only a few economies—Japan, Korea, Malaysia, Thailand, Vietnam, and Cambodia—seeing tourist arrivals return to pre-pandemic numbers.[2] High transportation and accommodation costs, coupled with broader economic challenges, have been key obstacles to recovery (UNWTO 2024). In Asia-Pacific, 50 percent of experts expect that international tourism will not reach 2019 levels until 2025 or later, compared to just 34 percent globally (UNWTO 2024). While the share of tourist arrivals from China remains below prior to the pandemic, the expected resurgence of outbound Chinese tourism is likely to accelerate the recovery across the region (Figure 1.2.3).

Apart from international tourists, domestic tourism plays a significant role in driving the tourism industry. In 2019, it accounted for 75 percent of total spending—exceeding half of total tourist spending in 8 out of 14 regional economies and surpassing 80 percent in China, Japan, and the Philippines (Figure 1.2.4). This strong domestic tourism growth is driven by a growing or sizable middle-class population, an increase in spending power among domestic consumers, and the large geographical size of some of these economies (WTTC 2018). Domestic tourism played a critical role in supporting the sector's recovery from the pandemic—accounting for 80 percent of total tourist spending in 2023. In 2024, 8 out of 14 regional economies already saw domestic tourist spending reaching or exceeding 2019 levels.

As tourism recovers, shifting preferences are reshaping the sector.

- Average spending per tourist has increased in most economies (Figure 1.2.5), supported by longer

Figure 1.2.1. ASEAN+3: Share of Travel and Tourism in the Economy
(Percent share; 2019, 2020, and 2023)



Source: World Travel and Tourism Council; Organisation for Economic Co-operation and Development; AMRO staff calculations.
Note: Bars and markers refer to the share of travel and tourism to GDP and total employment in 2019, 2020, and 2023.

This box was written by Megan Wen Xi Chong.

1/ Region excluding China, as tourist arrivals by source country is unavailable.

2/ For Cambodia, while total foreign tourist arrivals have surpassed pre-pandemic levels, the increasing share of land arrivals and the lagged recovery in Siem Reap imply relatively shorter stays or lower daily expenditures than pre-pandemic.

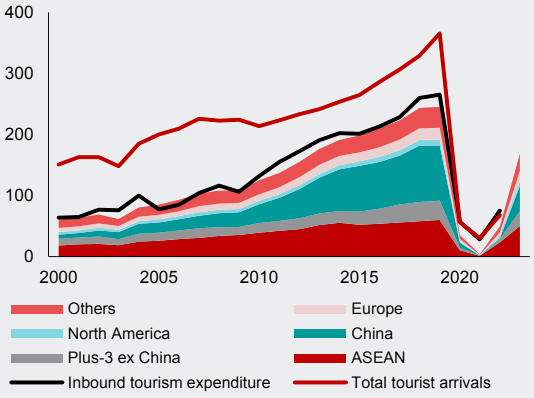
trips; the average length of stay rose from 6.3 days in February 2020 to 7.3 days in March 2024, well above the global average of 5.5 days (Mastercard Economics Institute 2024).[3]

- Travelers are also prioritizing experiences over material purchases. In ASEAN-6 economies, spending on experiences has grown by 60 percent since 2019, far outpacing the 20 percent growth in spending on goods (Mastercard Economics Institute 2023).[4] ADB research also indicates greater preference for proximity tourism and environmentally sustainable tourism, which could boost intraregional tourism (ADB 2022).

- Future trends point to continued emphasis on domestic tourism, driven by shifts in consumer preferences and the economic impact of high inflation (OECD 2023).

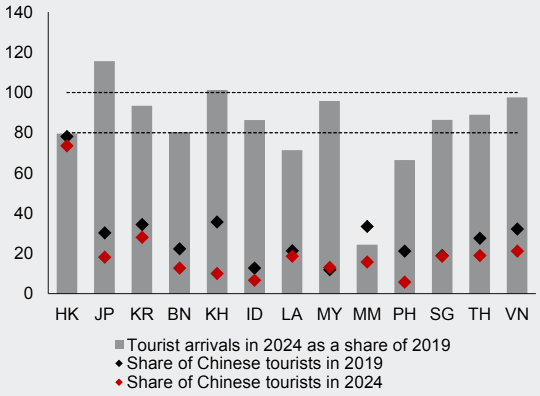
By adapting to these trends, regional economies can harness tourism's potential to remain a key driver of growth and resilience.

Figure 1.2.2. ASEAN+3: Tourist Arrivals by Region
(Million persons; millions of US dollars)



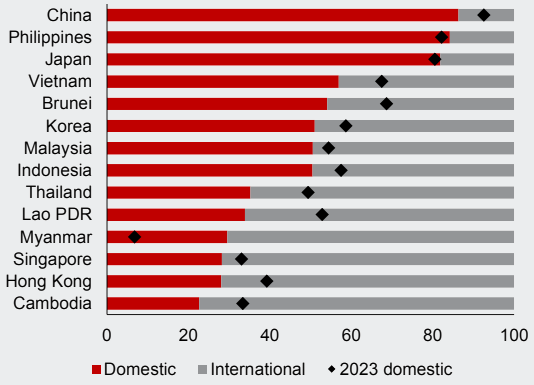
Source: National authorities; ASEANstats; World Tourism Organization via Haver Analytics; AMRO staff calculations.
Note: Plus-3 ex China = Hong Kong, Japan, and Korea. Tourist arrivals by region excludes tourist arrivals in China due to data unavailability.

Figure 1.2.3. Selected ASEAN+3: Tourism Recovery
(Percent of 2019 total; percent share)



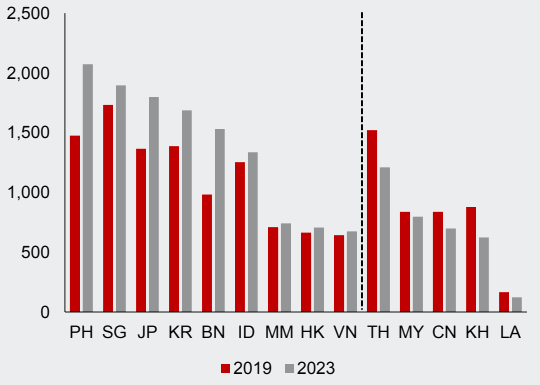
Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: Share of Chinese tourist arrivals data are up to December 2024, except for Japan (November 2024); Brunei, Cambodia, Lao PDR, Myanmar, and Indonesia (2023). Tourist arrivals data are up to December 2024, except for Lao PDR (2023). Horizontal lines are at 80 and 100 percent for ease of reference.

Figure 1.2.4. ASEAN+3: Domestic vs International Visitor Spending
(Percent of total spending)



Source: World Travel and Tourism Council; AMRO staff calculations.

Figure 1.2.5. ASEAN+3: Average Spending Per Tourist
(US dollars)



Source: World Travel and Tourism Council; National authorities via Haver Analytics; National Bureau of Statistics of China; AMRO staff calculations.
Note: BN = Brunei; CN = China; HK = Hong Kong; ID = Indonesia; JP = Japan; KH = Cambodia; KR = Korea; LA = Lao PDR; MY = Malaysia; MM = Myanmar; PH = the Philippines; SG = Singapore; TH = Thailand; VN = Vietnam. Values are calculated as international tourist spending divided by total international tourist arrivals. Values are in constant 2023 prices and exchange rates.

3/ Average across Hong Kong, Indonesia, Japan, Korea, Malaysia, the Philippines, Thailand, and Vietnam.

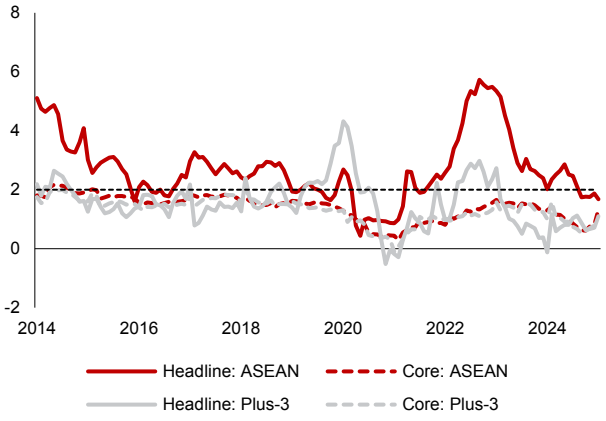
4/ "Experiences" includes tourists spending at restaurants, amusement recreation activities, casinos, nightclubs, bars and other events, while "Things" includes convenience store chains, apparel, cosmetics, sporting goods, jewelry, footwear, bookstores, electronics, toys and department stores. Excludes transportation and lodging spending.

Inflation Normalized from Post-Pandemic Surge

After the extraordinary price pressures of 2022–23, headline and core inflation in ASEAN+3 have normalized to more moderate levels (Figure 1.10). The broad moderation in headline inflation reflected primarily normalizing commodity prices (Figure 1.11), though this trend experienced temporary disruptions throughout the year. Oil prices spiked in April amid escalating Middle East conflicts and rose again in June following OPEC+'s production cuts, pushing up utilities inflation. Shipping disruptions in the Red Sea also led to higher freight costs, temporarily boosting transportation inflation across the region. Rice prices—a food staple in most ASEAN+3 economies—rose in the first half of 2024 as supply was impacted by El Niño and India's rice export ban. Rice prices moderated in the second half of the year due in part to India lifting its export ban on non-basmati rice in September 2024. Core inflation's decline was more gradual but steady, supported by well-anchored inflation expectations and the cumulative effects of earlier monetary policy tightening.

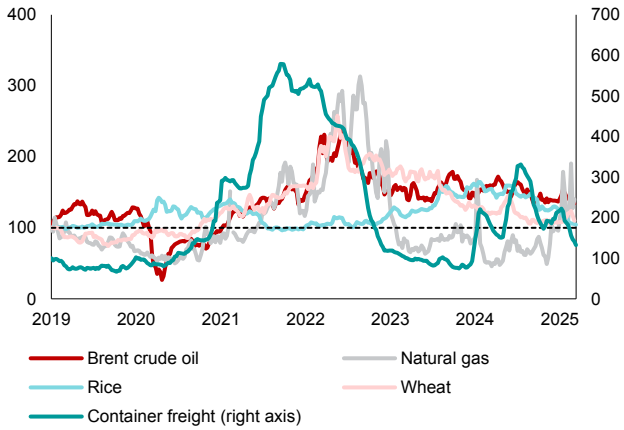
For most ASEAN+3 economies, inflation has stabilized at levels aligned with policy objectives. Headline inflation has retreated from pandemic-period highs across most ASEAN+3 economies, with inflation rates now in line with their pre-pandemic levels. For some economies like Korea and Singapore, inflation remained higher than historical averages but have stabilized at about or below 2 percent, while it has remained above the target in Japan (Figure 1.12). However, Lao PDR and Myanmar have yet to see significant reduction in price pressures, reflecting persistent currency weakness, although in Lao PDR, the exchange rate has stabilized recently due to the adoption of tight monetary policy. A detailed analysis of the region's inflation dynamics during and after the pandemic period is presented in Chapter 2.

Figure 1.10. ASEAN+3: Headline and Core Inflation
(Percent, year-on-year)



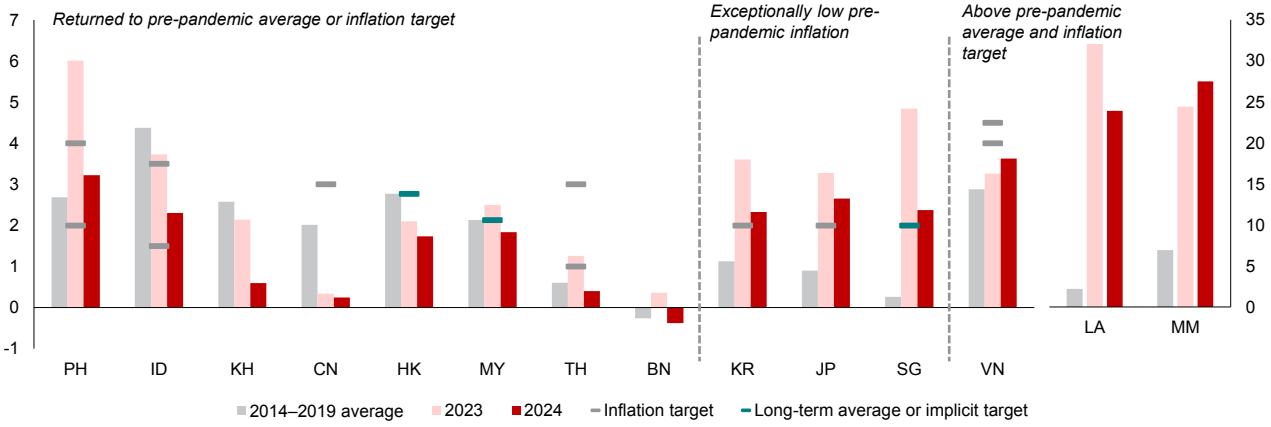
Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: Plus-3 = China, Hong Kong, Japan, and Korea. Regional aggregates are GDP-weighted. Data up to December 2024, except Myanmar (September 2024). Core inflation data excludes Brunei and Myanmar due to data unavailability.

Figure 1.11. World: Selected Commodity and Shipping Prices
(Index, January 4, 2019 = 100)



Source: Energy Information Administration, Drewry Shipping Consultants Ltd via Haver Analytics; AMRO staff calculations.
Note: Freight costs refer to the Drewry Composite Freight Rate for 40-foot containers.

Figure 1.12. ASEAN+3: Headline Inflation
(Percent, year-on-year)



Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: CN= China; HK = Hong Kong; JP = Japan; KR = Korea; ID = Indonesia; MY = Malaysia; PH = the Philippines; SG = Singapore; TH = Thailand; BN = Brunei; KH = Cambodia; LA = Lao PDR; MM = Myanmar; VN = Vietnam. 2024 inflation for Myanmar refers to AMRO staff estimates due to data unavailability. Markers for Hong Kong and Malaysia refer to 2014–2019 average inflation. Singapore's inflation target refers to MAS' implicit target of just under 2 percent for core inflation.

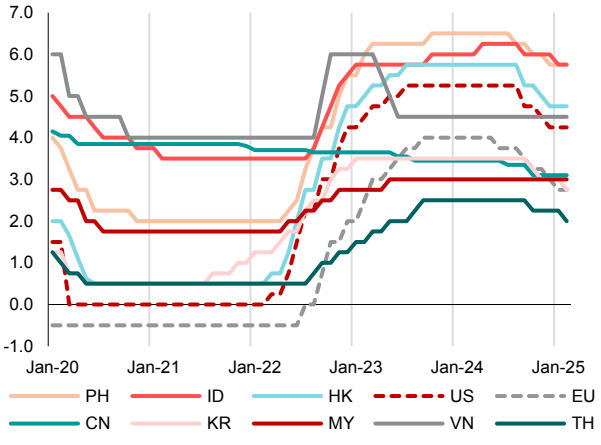
Financial Conditions Continued to Ease

Overall financial conditions in ASEAN+3 tightened in the first half of 2024, but eased in the latter half of the year. The global monetary easing cycle which started with the ECB reducing its policy rate in June, followed by the US Federal Reserve in September, set the stage for most regional central banks to adopt more accommodative stance as inflation had moderated significantly (Figure 1.13). Financial markets reflected this transition with regional sovereign yields declining while equity markets' performance stabilized, particularly after September. Corporate credit conditions also improved with narrowing spreads, while the Federal Reserve's monetary easing and consequent US dollar weakness—particularly in the third quarter of the year—supported regional currencies and portfolio inflows (Figure 1.14). The policy measures introduced by China in the third and fourth quarters to spur domestic demand boosted investor confidence and led to a strong recovery in the equity markets in China and Hong Kong in the last few months of the year.

Credit growth across most ASEAN+3 economies grew at a moderate pace. Bank lending to the nonfinancial private sector was sustained for most regional economies, in line with robust private sector activity (Figure 1.15). However, credit growth in China, Korea and Hong Kong slowed further, reflecting lingering weakness in the real estate sector, while credit in Vietnam and Thailand grew at a slower pace following more moderate domestic economic activities. Nonperforming loan ratios declined for most regional economies, except Cambodia, Vietnam, the Philippines, and Hong Kong reflecting economy-specific factors, including distress in the real estate sector, and the impact of high interest rate and inflationary pressures on the repayment ability of firms and consumers (Figure 1.16). Despite the different trends in credit conditions across the region, ASEAN+3 banks remain well-capitalized, with capital buffers increasing, and remaining well above the regulatory minima (Figure 1.17). See the *ASEAN+3 Financial Stability Report (AFSR) 2024* for more detailed discussions on financial sector developments.

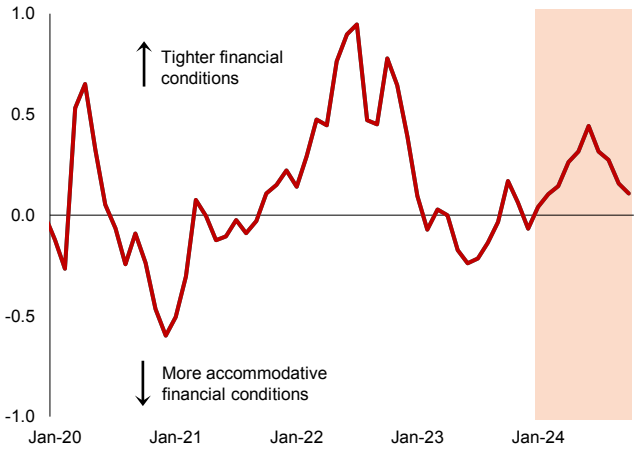
Financial markets' performance broadly improved in the first half followed by increased volatility and reversal in the second half of 2024. In the first half of the year, regional equity market price indices generally rose or remained stable, buoyed by positive investor sentiment and strong performance in the tech sector (Figure 1.18). Bond yields trended downward during this period, as weaker US economic data fueled expectations of rate cuts (Figure 1.19). In the second half, weaker US economic data and renewed tariff concerns triggered financial market volatility leading to a sharp, but brief sell-off in US and regional equities. The sell-off was likely compounded by an unwinding of the yen carry trade, which was triggered by multiple factors including Bank of Japan's monetary policy tightening on 31 July 2024. While most regional equity markets rebounded, Korea's performance remained subdued due to weaker economic indicators and political turmoil. Meanwhile, China's equity markets rallied sharply in late-September following the introduction of major government stimulus measures, and then partially corrected. Bond yields across the region (except China and Korea) rose toward the end of the year as stronger US job data and expectations of sustained higher-than-expected US policy rate reversed prior easing expectations.

Figure 1.13. Selected ASEAN+3: Policy Interest Rates
(Percent)



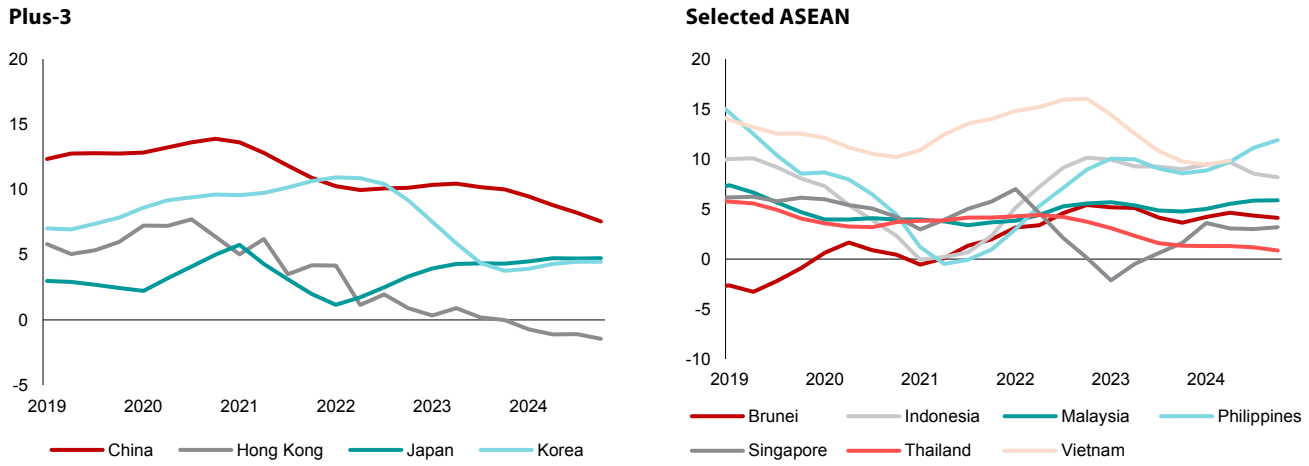
Source: National authorities via Haver Analytics.
Note: Policy rates refer to one-year loan prime rate (China, CN); BI Rate (Indonesia, ID); base rate (Hong Kong, HK; Korea, KR); overnight policy rate (Malaysia, MY); target reverse repurchase rate (the Philippines, PH); one-day repurchase rate (Thailand, TH); refinancing rate (Vietnam, VN); federal funds rate (upper range) (United States, US).

Figure 1.14. Selected ASEAN+3: Financial Conditions Index
(Normalized scores)



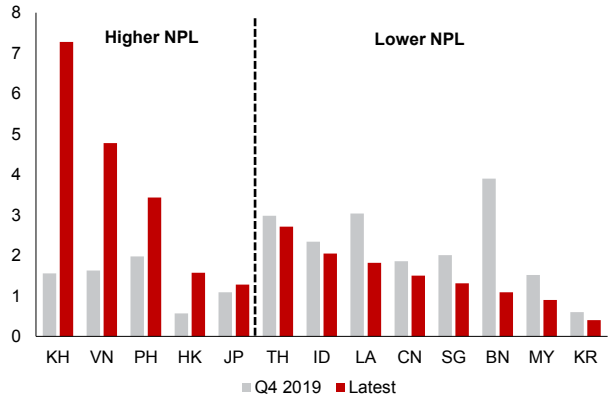
Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates.
Note: AMRO's financial conditions index is based on indicators covering the banking system, foreign exchange market, bond and equity markets. Data covers China, Hong Kong, Indonesia, Korea, Malaysia, the Philippines, Singapore, and Thailand.

Figure 1.15. Selected ASEAN+3: Growth in Credit to Private Nonfinancial Sector
(Percent, year-on-year, four-quarter moving average)



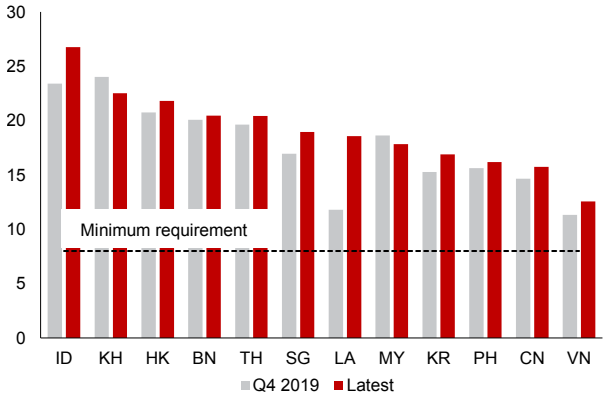
Source: National authorities and International Monetary Fund via Haver Analytics; AMRO staff calculations.
Note: The private nonfinancial sector includes nonfinancial firms and households. Data refer to: claims on nonfinancial institutions and other resident sectors by depository corporations other than the central bank (China); loans and advances by authorized institutions to nonfinancial sectors (Hong Kong); loans to corporations and households by domestic banks (Japan); claims on nonfinancial corporations and households by depository corporations other than the central bank (Korea); claims on the private sector by commercial and rural banks (Indonesia); loans by the banking system (Malaysia); claims on private sector by depository corporations other than the central bank (the Philippines); the sum of household liabilities and credit to nonfinancial corporations (Singapore); and claims on private nonfinancial corporations and other resident sectors by depository corporations other than the central bank (Thailand). Credit growth is calculated based on local currency terms. Remaining economies are omitted due to data unavailability.

Figure 1.16. Selected ASEAN+3: Banking Sector Nonperforming Loan Ratios
(Percent)



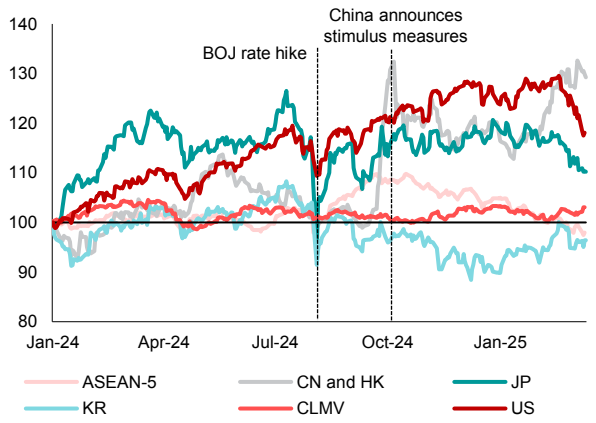
Source: National authorities via Haver Analytics; IMF.
Note: CN= China; HK = Hong Kong; JP = Japan; KR = Korea; ID = Indonesia; MY = Malaysia; PH = the Philippines; SG = Singapore; TH = Thailand; BN = Brunei; KH = Cambodia; LA = Lao PDR; VN = Vietnam. Data are up to Q4 2024, except for Hong Kong, Indonesia, Lao PDR, Philippines (Q3 2024); Japan (Q1 2024), and Vietnam (Q1 2024). Data for Myanmar are unavailable.

Figure 1.17. Selected ASEAN+3: Capital Adequacy Ratio
(Percent of Risk-Weighted Assets)



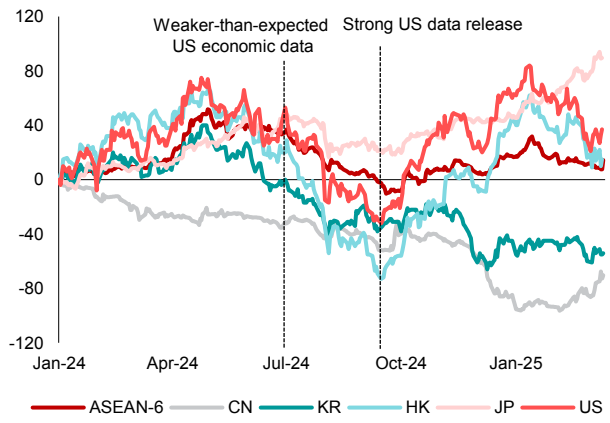
Source: National authorities via CEIC.
Note: CN= China; HK = Hong Kong; KR = Korea; ID = Indonesia; MY = Malaysia; PH = the Philippines; SG = Singapore; TH = Thailand; BN = Brunei; KH = Cambodia; LA = Lao PDR; VN = Vietnam. Data are up to Q4 2024, except for Lao PDR, Singapore, Korea, and Vietnam (Q3 2024).

Figure 1.18. Selected ASEAN+3: Equity Market Indices
(Index, January 2, 2024 = 100)



Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: CN= China; HK = Hong Kong; JP = Japan; KR = Korea; ASEAN-5 = Indonesia, Malaysia, the Philippines, Singapore, and Thailand; CLMV = Cambodia, Lao PDR, Myanmar, and Vietnam. US = United States. Data for Brunei are unavailable.

Figure 1.19. Selected ASEAN+3: 10-year Government Bond Yields
(Basis point change from January 2, 2024)



Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: CN= China; HK = Hong Kong; JP = Japan; KR = Korea; ASEAN-6 (average) is the simple mean of changes for Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. US = United States. Data are up to March 13, 2025.

External Position Remained Resilient

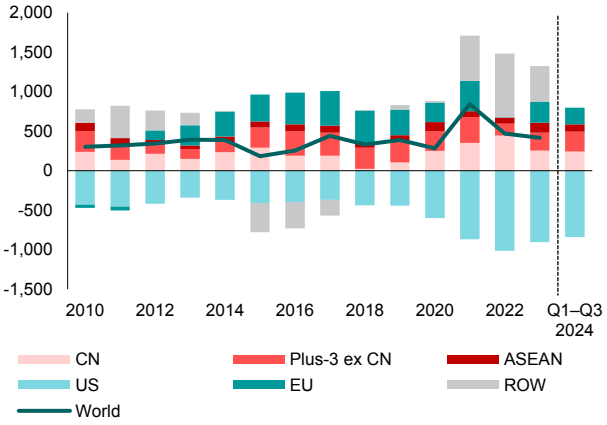
ASEAN+3 maintained a current account surplus and continued to attract foreign direct investment (FDI). Strong exports of goods and services led to a widening of the region's aggregate current account surplus (Figure 1.20). FDI inflows also remained robust, despite shifting investment patterns resulting from ongoing geoeconomic reconfiguration. In terms of subregions, FDI inflows to China continued to moderate, while ASEAN-5 saw higher inflows, and Plus-3 economies, excluding China, continued to receive stable investments (Figure 1.21). For many ASEAN economies, the increase was primarily due to higher FDI from China. The aggregate FDI from China to Indonesia, Malaysia, the Philippines, and Thailand rose from 5.2 percent of total FDI inflows in 2019 to 9.5 percent in the first 3 quarters of 2024—surpassing Japan as the primary source of intraregional FDI.

Meanwhile, nonresident portfolio flows saw strong inflows in the first half before reversing in the second half of the year. ASEAN+3 received nearly USD 100 billion in portfolio inflows in the first half of 2024, as improved global financial conditions and expectations of US monetary policy easing supported investor sentiment. These inflows were mainly channeled into China's bond market and into equity investments in Japan and Korea. In September, China's equity market temporarily surged following the announcement of a major stimulus package to reinvigorate the domestic economy, especially the real estate sector. However, portfolio flows reversed in the second half of the year, with moderate outflows from both bond and equity markets, driven by shifts in global investor sentiment, including expectations of prolonged high US interest rates and concerns over trade policies (Figure 1.22).

Regional exchange rates were also impacted by the shifting expectations of US monetary policy direction. All ASEAN+3 currencies depreciated against the US dollar in the first half of 2024 as a robust US economy fueled expectations of higher-for-longer interest rates (Figure 1.23). This trend reversed from mid-2024 through September with regional currencies appreciating sharply, as weaker US labor market data and declining inflation led to market reassessment of the timing and pace of the Federal Reserve's policy action. However, the appreciation momentum for regional currencies began to wane in the last quarter of the year following concerns over potential US trade policy changes—particularly, increases in US import tariffs and their implications for US inflation and consequently its policy rate trajectory. Both nominal and real effective exchange rates followed similar trajectories with the bilateral exchange rate, although with more moderate fluctuations (Figure 1.24).

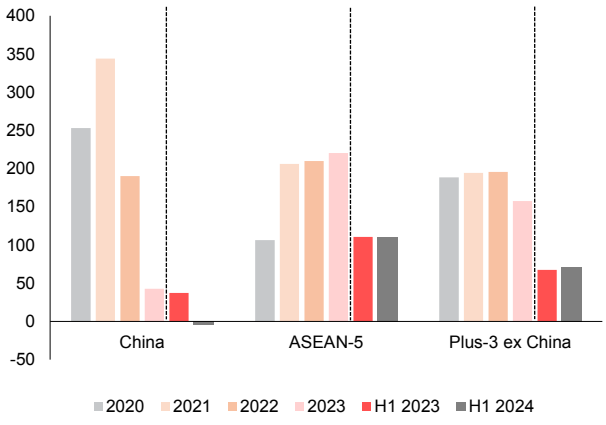
Despite greater global uncertainties and financial market volatility, international reserves for the region remained ample. Regional reserves held steady at around USD 6 trillion or about 23 percent of GDP and more than 40 percent of global reserves—providing a strong buffer against external shocks (Figure 1.25). In particular, the ASEAN-5 region accumulated reserves steadily throughout the year and surpassed its 2021 levels by late-2024. Meanwhile, Plus-3 and BCLV (Brunei, Cambodia, Lao PDR, and Vietnam) economies maintained relatively stable reserves (Figure 1.26).

Figure 1.20. World: Current Account Balance
(Billions of US dollars)



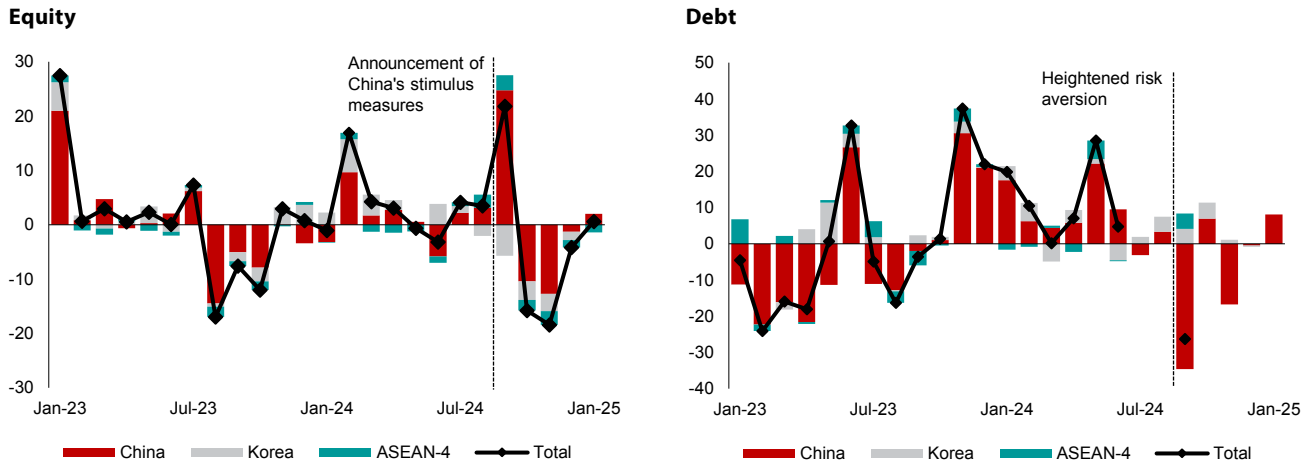
Source: IMF via Haver Analytics; AMRO staff calculations.
Note: Data for Myanmar is up to 2019. CN= China; Plus-3 ex CN = Hong Kong, Japan, and Korea; EU = Euro area; ROW = rest of the world. Data for 2024 are up to Q3, except for Brunei, Lao PDR, and euro area (Q2 2023). Aggregate data for the world is only available up to 2023.

Figure 1.21. Selected ASEAN+3: Foreign Direct Investment, by Regional Grouping
(Billions of US dollars)



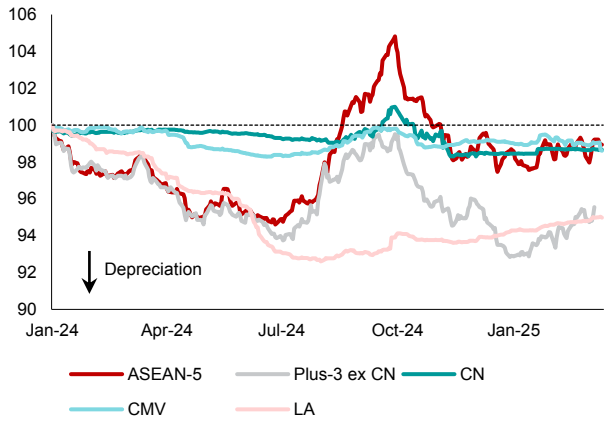
Source: International Financial Statistics database, IMF; AMRO staff calculations.
Note: ASEAN-5 = Indonesia, Malaysia, the Philippines, Singapore, and Thailand; Plus-3 ex China = Hong Kong, Japan, and Korea. Data refer to the direct investment liabilities item in the balance of payments.

Figure 1.22. Selected ASEAN+3: Nonresident Portfolio Flows by Economy
(Billions of US dollars)



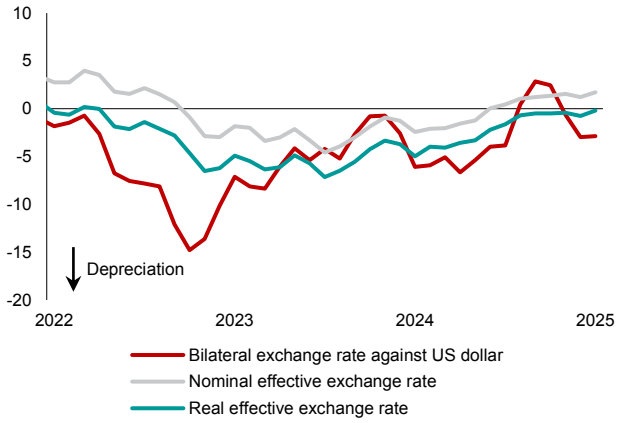
Source: Institute of International Finance via Haver Analytics; AMRO staff calculations.
Note: ASEAN-4 = Indonesia, Malaysia, the Philippines, and Thailand. Data may differ from official balance of payments statistics due to several factors, including differences in data sources, timing of recording (settlement-based vs. trade-based), and scope of transactions included (e.g., reinvested earnings, offshore trading).

Figure 1.23. ASEAN+3: Exchange Rates against the US Dollar
(Index, January 2, 2024 = 100)



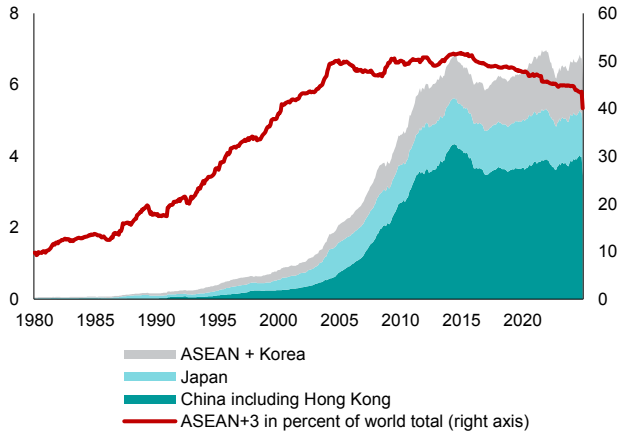
Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: ASEAN-5 = Indonesia, Malaysia, the Philippines, Singapore, and Thailand; CMV = Cambodia, Myanmar, and Vietnam; CN = China; LA = Lao PDR; Plus-3 ex CN = Hong Kong, Japan, and Korea. Exchange rate data are up to March 13, 2025.

Figure 1.24. Selected ASEAN+3: Nominal and Real Effective Exchange Rates
(Percent, year-on-year)



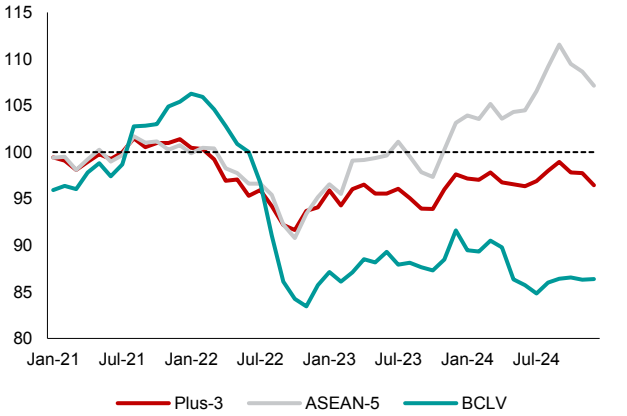
Source: Haver Analytics; Bank for International Settlements via Haver Analytics; AMRO staff calculations.
Note: Selected ASEAN+3 includes China, Hong Kong, Indonesia, Japan, Korea, Malaysia, the Philippines, Singapore, and Thailand. Exchange rate averages are weighted by GDP.

Figure 1.25. ASEAN+3: Net International Reserves
(Trillions of US dollars; percent of total)



Source: IMF via Haver Analytics; AMRO staff calculations.
Note: Data are up to December 2024, except Myanmar (March 2024), Lao PDR (June 2024), and Vietnam (November 2024).

Figure 1.26. Selected ASEAN+3: Net International Reserves by Subregion
(Index, 2021 average = 100)



Source: National authorities; IMF via Haver Analytics; AMRO staff calculations.
Note: ASEAN-5 = Indonesia, Malaysia, the Philippines, Singapore, and Thailand; BCLV = Brunei, Cambodia, Lao PDR, and Vietnam; Plus-3 = China, Hong Kong, Japan, and Korea. Data excludes scheduled contractual commitments in foreign currencies. Data are up to December 2024, except Lao PDR (June 2024), and Vietnam (November 2024). Singapore's foreign exchange reserves have been adjusted for transfers to its sovereign wealth fund. Myanmar is omitted due to data unavailability.

II. Outlook for ASEAN+3: Steady Growth amid Heightened Uncertainties

AMRO staff expect growth for the ASEAN+3 region to remain above 4 percent in 2025 and 2026. Regional growth is projected to remain resilient at 4.2 percent in 2025, before moderating to 4.1 percent in 2026 (Table 1.1). The outlook reflects steady expansion in Plus-3 economies in 2025, which helps offset an expected moderation in ASEAN growth. As both subregions trend toward their respective potential growth rates, regional growth is anticipated to move closer to 4 percent in 2026.

- ***Plus-3.*** Growth is projected to remain steady in 2025, supported by stronger activity in Japan as private sector spending picks up. However, growth in other Plus-3 economies is expected to moderate. In China, while the property sector is showing signs of stabilization, growth is likely to face headwinds from higher US tariffs. The impact of rising global trade tensions is also expected to weigh on activity in Hong Kong and Korea. Growth across Plus-3 economies is projected to moderate further in 2026 as output gaps close.

- ***ASEAN.*** Growth is expected to ease in 2025–2026, following the strong export recovery in 2024. Indonesia, the Philippines, Vietnam, and Cambodia are projected to lead growth in the subregion, growing above the ASEAN average. Other economies are likely to experience more moderate growth amid increased external headwinds. In Myanmar, economic activity is expected to remain subdued due to the continuing prolonged state of emergency.

Headline inflation is expected to rise in 2025 but is estimated to remain low at 1.7 percent.[1] Aggregate regional inflation is projected to increase from 1.2 percent in 2024 to 1.7 percent in 2025 and 2026, primarily reflecting higher inflation in the Plus-3 economies. In China, inflation is projected to rise gradually from a low base, driven mainly by improving domestic demand. Inflation in some ASEAN economies is expected to face temporary upward pressures in 2025 due to planned subsidy rationalization measures, with these effects likely to dissipate in 2026. In Lao PDR and Myanmar, continued currency depreciation and base year effects are expected to keep headline inflation elevated. Excluding these two economies, regional inflation is projected to remain stable at about 2 percent over 2025–2026, supported by stable global commodity prices and well-anchored inflation expectations (see further analysis of inflation dynamics in Chapter 2).

ASEAN+3 is set to remain a key driver of global growth in the medium term. The region is forecast to expand by an average of 4.3 percent in 2025–2030, outpacing global growth of 3.2 percent (Figure 1.27). The medium-term outlook is underpinned by the region's strong macroeconomic fundamentals and domestic demand from its rapidly growing middle class, as well as the prospects of improvements in technological capabilities and further deepening production networks, with Plus-3 economies leading in advanced technologies and ASEAN economies moving up global value chains (Box 1.3 and Chapter 3 feature analysis of the long-term growth drivers for the region). However, in the short-to-medium term, external challenges remain, with global trade uncertainty and shifting supply chains posing headwinds to growth. Nonetheless, resilient domestic demand and strengthening intraregional trade will help offset some of these pressures. ASEAN+3 is thus poised to contribute about 43.4 percent of global growth, slightly below its pre-pandemic average of 44.6 percent due mainly to a moderation in potential growth of China as it moves towards advanced economy status (Figure 1.28).

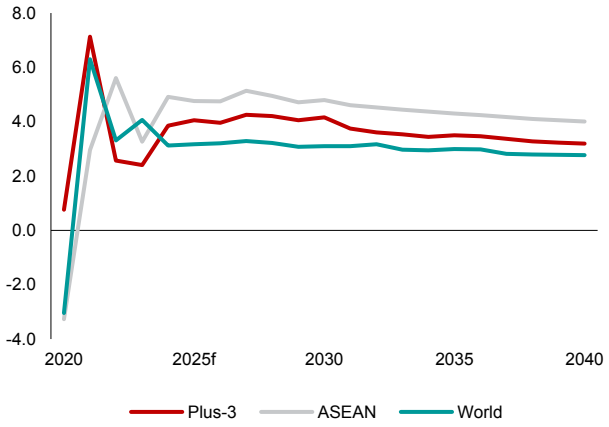
[1/] Regional inflation aggregates are now weighted by 2024 GDP at purchasing power parity, whereas previous reports used simple averages.

Table 1.1. ASEAN+3: AMRO Staff Growth and Inflation Estimates and Forecasts, 2025–26
(Percent, year-on-year)

Economies	GDP Growth			Inflation		
	2024e	2025f	2026f	2024e	2025f	2026f
ASEAN+3	**4.3**	**4.2**	**4.1**	**1.2**	**1.7**	**1.7**
Plus-3	**4.1**	**4.1**	**4.0**	**0.7**	**1.4**	**1.5**
China	5.0	4.8	4.7	0.2	1.1	1.3
Hong Kong	2.5	2.4	2.3	1.7	2.2	2.0
Japan	0.1	1.3	1.0	2.7	2.5	2.1
Korea	2.0	1.6	1.9	2.3	1.9	1.8
ASEAN	**4.9**	**4.7**	**4.7**	**2.9**	**3.0**	**2.9**
Brunei	4.2	2.6	2.6	–0.4	0.6	0.4
Cambodia	6.0	5.8	6.0	0.8	2.9	2.5
Indonesia	5.0	5.0	5.1	2.3	2.2	2.7
Lao PDR	4.5	4.6	4.6	23.1	10.1	6.4
Malaysia	5.1	4.7	4.5	1.8	2.7	2.5
Myanmar	3.2	1.0	1.0	27.5	25.0	18.0
Philippines	5.7	6.3	6.3	3.2	3.3	3.2
Singapore	4.4	2.7	2.4	2.4	1.8	1.8
Thailand	2.5	2.9	3.0	0.4	1.2	1.3
Vietnam	7.1	6.5	6.2	3.6	3.5	3.0

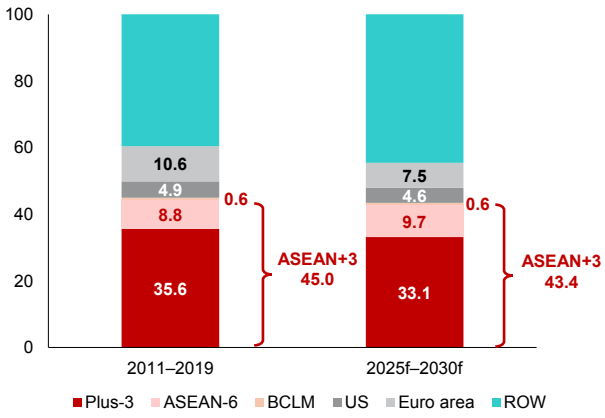
Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates and forecasts.
Note: e = estimates; f = forecast. Myanmar's growth and inflation numbers are based on its fiscal year, which runs from April 1 to March 31. Inflation estimates and forecasts refer to the yearly average; regional aggregates for growth and inflation are estimated using the weighted average of 2024 GDP on purchasing power parity basis.

Figure 1.27. World: Real GDP Growth on PPP Basis
(Percent, year-on-year)



Source: National authorities via Haver Analytics; Oxford Economics; AMRO staff calculations.
Note: Plus-3 = China, Hong Kong, Japan, and Korea; f = forecast. Real GDP is forecast in local currency and converted to purchasing power parity (PPP).

Figure 1.28. World: Contribution to Real GDP Growth on PPP Basis
(Percent share)



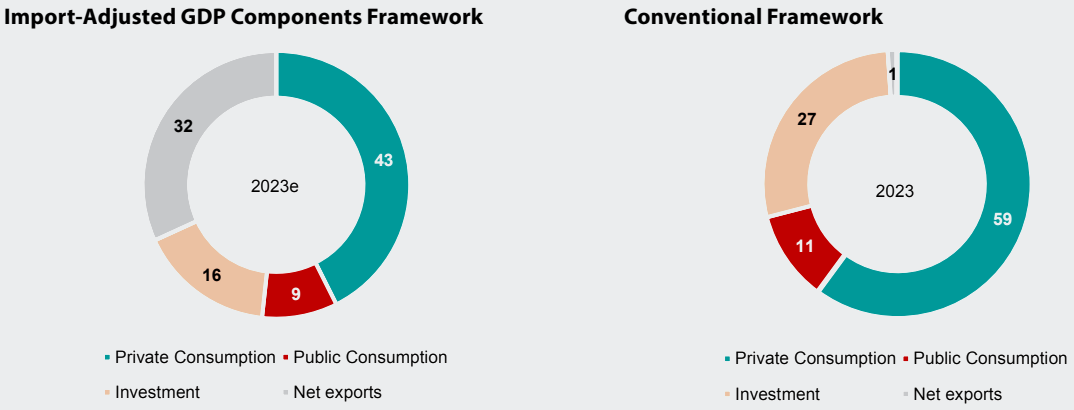
Source: National authorities via Haver Analytics; Oxford Economics; IMF *World Economic Outlook* January Update 2024; AMRO staff calculations
Note: ASEAN-6 = Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam; BCLM = Brunei, Cambodia, Lao PDR, and Myanmar; Plus-3 = China, Hong Kong, Japan, and Korea; ROW = rest of the world. f = forecast. Real GDP is forecast in local currency and converted to purchasing power parity (PPP).

Box 1.3:

Evolution of Growth Drivers in ASEAN-4 and Vietnam: Analysis Using the Import-Adjusted GDP Component Framework[1]

Over the past decades, ASEAN-4 (Indonesia, Malaysia, the Philippines, Thailand) and Vietnam have emerged as a key growth powerhouse in the region, shaped by a dynamic mix of export-oriented industrialization, expanding domestic consumption fueled by a growing middle class, and sustained foreign direct investment. However, the composition and the relative contributions of these drivers have evolved over time. Conventional methods of analyzing growth drivers, while useful for deriving the contribution of net exports to GDP growth, can obscure true growth drivers by overstating the true impact of domestic demand on domestic value-added, as imports that help satisfy domestic demand (consumption and investment) are not netted out (Figure 1.3.1). This box examines the evolution of growth drivers in ASEAN-4 and Vietnam using the import-adjusted GDP (IAGDP) framework.

Figure 1.3.1. ASEAN-4 and Vietnam: GDP Decomposition (Expenditure Components)
(Share of GDP, 2023)



Source: National authorities; Organisation for Economic Co-operation and Development; AMRO staff estimates.
Note: Data may not add up because statistical discrepancies are not shown. Regional aggregations are based on simple averages.

Pre-2008/2009 Global Financial Crisis: Toward a More Export-Oriented Economy

Applying the IAGDP framework to the demand components in ASEAN-4 and Vietnam reveals key insights into the drivers of economic expansion before the global financial crisis. During this period, aggressive export-oriented industrialization drove rapid growth, leveraging comparative advantages in manufacturing to penetrate global markets and deepen integration into the global economy.

A study by Tan and Khut (2024) revealed that exports accounted for about half of the bloc's growth during this period (Figure 1.3.2a). The United States and the European Union were key export markets, driving demand for goods from electronics and textiles to palm oil and rubber. This fueled the expansion of manufacturing sectors, creating jobs and driving technological and productivity improvements. As these countries developed their export capabilities, they cemented their positions in global supply chains, which not only facilitated foreign direct investment but also fostered technology transfer and skill development, further enhancing the region's economic resilience.

ASEAN-4 and Vietnam's reliance on external markets underscored their deep integration with global economic trends. Before the global financial crisis, their strategies focused on enhancing competitiveness and attracting investment, leading to a robust growth trajectory. This increasing openness made them more dependent on external demand until the outbreak of the crisis.

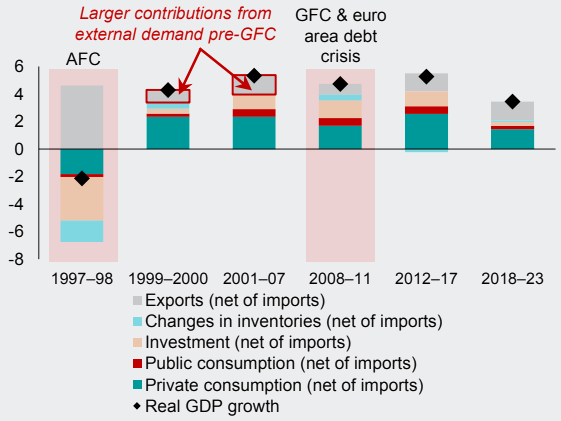
This box was written by Anthony Tan and Vanne Khut.

1/ This box is based on AMRO staff working paper "Changing Growth Drivers in the ASEAN+3 Region: An Import-Adjusted GDP Component Approach" by Anthony Tan and Vanne Khut, published on October 18, 2024.

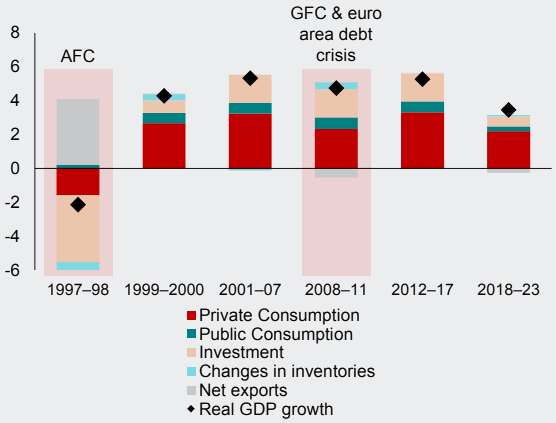
In contrast, the conventional growth accounting framework suggests that external demand contributed little to GDP growth, despite strong evidence that exports drove recovery from the Asian Financial Crisis till 2001–2007 (Figure 1.3.2b).[2] This underestimation overlooks the crucial role of exports in the recovery and the profound impact on these economies' growth trajectories in the period before the global financial crisis.

Figure 1.3.2. ASEAN-4 and Vietnam: Contributions to Real GDP Growth (Conventional vs IAGDP Framework)
(Percentage point contributions)

(a) IAGDP Framework



(b) Conventional Framework



Source: National authorities; Organisation for Economic Co-operation and Development; IMF; World Bank; AMRO staff estimates.
Note: Statistical discrepancies are not shown. AFC = Asian Financial Crisis; GFC = global financial crisis; ASEAN-4 = Indonesia, Malaysia, the Philippines and Thailand. Growth is aggregated based on simple averages.

Post-Crisis: Emerging Strength of Domestic Demand Amid Weaker Global Trade

The global financial crisis marked a turning point for the global economy. Along with the euro area sovereign debt crisis, it led to a collapse in global trade, which weakened global growth expectations as the United States and Europe underwent multiyear deleveraging. With weak growth in advanced economies, regional economies saw a relative shift toward domestic demand, which anchored the region's robust growth over the past decade (Hinojales and others 2023; AMRO 2018; AMRO 2020).

Several factors drove the strengthening of regional domestic demand. Rapid urbanization has expanded cities and new economic hubs, increasing demand for housing, infrastructure, and services. A growing middle class with higher disposable incomes has boosted consumption, particularly in retail, healthcare, and education (Tan and Khut 2024). Furthermore, regional integration through trade agreements and improved infrastructure has strengthened intraregional trade and investment, reducing reliance on external demand, especially from major advanced economies. In ASEAN-4 and Vietnam, the share of exports in real GDP is estimated to have fallen from nearly 40 percent in 2005 to about 30 percent in 2023 (Figure 1.3.3). This is also reflected in international trade statistics, where the United States and European Union share of the region's gross exports fell from 18 percent in 2005 to 13 percent in 2023.[3] Recent escalation of global trade tensions and rising protectionism have further weighed on exports over the last five years.

Although domestic demand has become the primary growth engine after the global financial crisis, exports remain crucial, especially for trade-dependent economies like Hong Kong, Singapore, Korea, Vietnam, and Cambodia. Nevertheless, deeper regional integration through trade agreements and improved connectivity has significantly increased intra-regional trade, reducing their reliance on external demand. In particular, ASEAN economies have also seen structural changes in sources of demand, moving away from traditional markets like United States and the European Union. With deeper regional integration, China has emerged as a key export partner for both intermediate and final goods, absorbing about 16 percent of ASEAN's total domestic value-added in gross exports in 2023—double the 8 percent in 2005—surpassing the United States (Figure 1.3.4).

2/ Growth in ASEAN-4 economies rebounded in 1999, mainly attributable to the increase in exports, particularly electronics-related goods to the United States and Japanese markets as well as intraregional trade (Fujita and Noguchi 2000).

3/ Source: World Integrated Trade Solutions by World Bank; AMRO staff calculations.

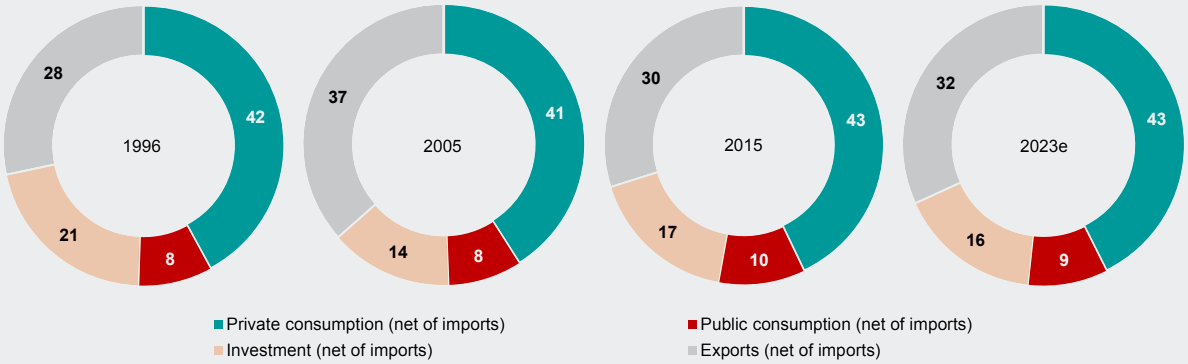
Looking Ahead: Strengthening Intraregional Connectivity and Bolstering Regionalism

Intensifying geostrategic rivalry, alongside ongoing geopolitical conflicts in Europe and the Middle East, has highlighted ASEAN's need to safeguard growth, stability, and strategic autonomy. External challenges like rising protectionism and trade disruptions have prompted ASEAN to deepen regional economic integration as a buffer against external shocks. Strengthening intraregional connectivity and regionalism has become central to building economic resilience.

In this context, the Regional Comprehensive Economic Partnership (RCEP), which took effect on January 1, 2022, was a pivotal achievement. It aims to reduce tariffs and nontariff barriers, facilitate freer trade in goods and services, promote investment, and strengthen supply chains. By harmonizing trade rules across diverse economies, RCEP offers ASEAN countries a platform to deepen economic ties with regional partners while reducing reliance on traditional markets like the United States and the European Union. In addition, it enables ASEAN to assert a role in shaping regional economic architecture amid global uncertainties. As a cornerstone for trade diversification, enhanced competitiveness, and inclusive growth, RCEP reflects ASEAN's commitment to resilience and its proactive approach to navigating the complexities of an evolving global order.

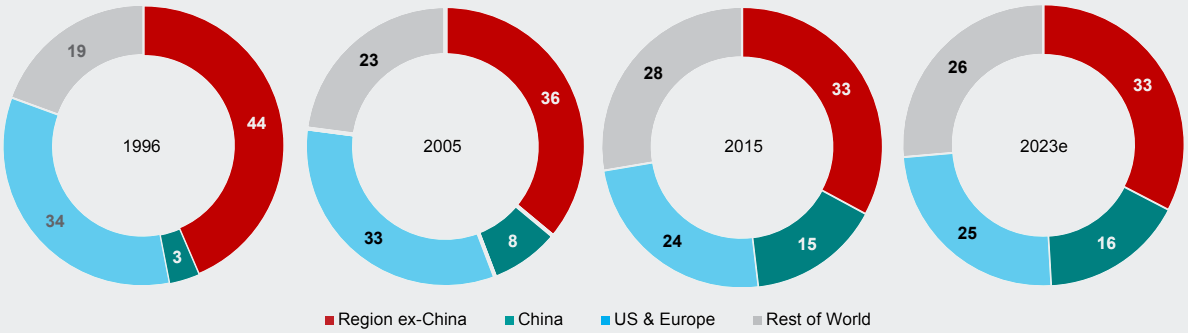
ASEAN's shifting growth dynamics reflects a broader evolution toward resilience and adaptability. While domestic demand has become a primary growth driver, exports remain crucial for trade-dependent economies, albeit with more diversified destinations. Rising intraregional trade and investment have also reduced vulnerability to external shocks. Amid geopolitical tensions and increasing protectionism, deeper regional cooperation in trade, investment, and financial integration is essential. Such efforts will help ASEAN strengthen its internal market, leverage its collective economic potential, and maintain its position as a vital contributor to global growth.

Figure 1.3.3. ASEAN-4 and Vietnam: GDP Decomposition (IAGDP Framework), Selected Years



Source: National authorities; Organisation for Economic Co-operation and Development; AMRO staff estimates.
Note: Data may not add up due to rounding. Regional aggregations are based on simple averages.

Figure 1.3.4. ASEAN: Domestic Value-Added Embodied in Gross Exports
(Selected Final Demand Destinations)



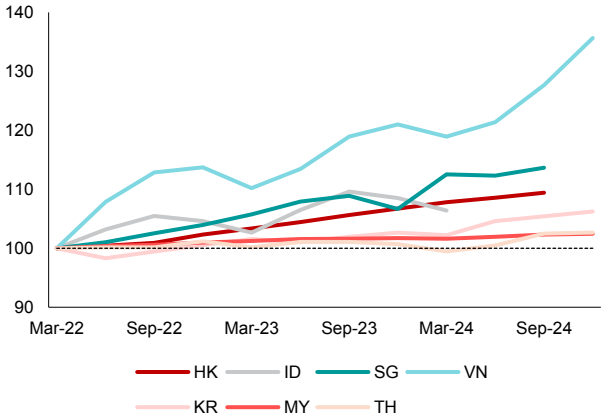
Source: Organisation for Economic Co-operation and Development TiVA; AMRO staff estimates.
Note: Domestic value-added content of gross exports includes the value-added generated by the exporting industry during its production processes as well as any value-added coming from upstream domestic suppliers that is embodied in the exports. Region refers to ASEAN+3 economies, excluding Lao PDR and Myanmar due to data unavailability. Europe refers to EU28. The data points refer to the median shares.

Key Factors Shaping Near-Term Outlook

ASEAN+3 growth is expected to remain steady in 2025 and 2026, but the baseline outlook is subject to significant uncertainties. Under AMRO's baseline forecast, growth is projected to remain firm, underpinned by strong domestic demand, with external demand providing additional support. Private consumption and investment will be the main growth drivers, supported by rising wages, stable inflation, and sustained FDI inflows. Support from external demand is expected to come from the semiconductor cycle, steady US demand, and continued recovery and expansion in tourism, though this contribution will be restrained by slower global trade growth and rising trade protectionism. AMRO's baseline projection assumes the imposition of 10 percent tariff on US imports from China beginning in the first quarter of 2025, followed by another 10 percent tariffs beginning in the second quarter and a further increase of 5 percent in the third quarter of 2025. This baseline outlook, however, is subject to considerable uncertainties. In particular, disorderly escalation of trade tension driven by erratic US trade policies could upend the anticipated steady growth path of the region.

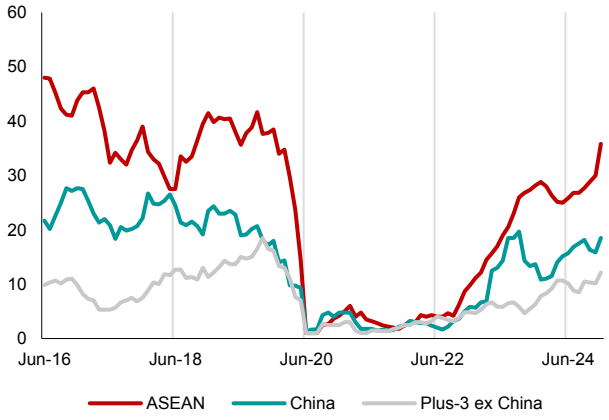
Robust domestic demand will be the key driver of growth. Private consumption is set to remain strong, supported by rising household incomes, improving labor market conditions, and low inflation (Figure 1.29). At the same time, domestic investment is gaining momentum, buoyed by sustained FDI inflows. The region continues to attract substantial FDI commitments, reflecting investor confidence in its long-term prospects—underpinned by a large and growing consumer base, competitive labor costs, expanding digital economy, a well-developed manufacturing ecosystem, and strategic position in global supply chains (Figure 1.30). Investment activity is expected to be reinforced by infrastructure development and the ongoing expansion in export-oriented sectors. In China, ongoing policy measures are likely to continue to provide support to overall investment activities and recovery in the real estate sector (Box 1.4).

Figure 1.29. Selected ASEAN+3: Nominal Wages
(Index, Q1 2022 = 100, seasonally adjusted)



Source: National authorities via Haver Analytics; AMRO staff calculations.
HK = Hong Kong; ID = Indonesia; KR = Korea; MY = Malaysia; SG = Singapore; TH = Thailand; VN = Vietnam.

Figure 1.30. ASEAN+3: Aggregate Inward Investment Announcements by Subregion
(Number of projects)



Source: Orbis Crossborder; AMRO staff calculations.
Note: Plus-3 ex China = Hong Kong, Japan, and Korea. Data refers to the six-month moving average number of announced projects for each month. Data is up to December 2024.

Box 1.4:

China's Growth and Policy Outlook: A Brief Overview

China's gradual and still-uneven economic recovery extended into 2024, supported by policy measures that kept growth on track and a recovery in exports. After a strong start, growth weakened between March and September, before picking up in October, for a 5.0 percent annual growth (Figure 1.4.1). Recovery gained traction after September as the authorities' comprehensive fiscal, monetary, and real estate policy measures bolstered confidence. After expanding significantly at the start of the year, industrial production slowed thereafter, while consumption growth fluctuated before stabilizing in the fourth quarter. Fixed asset investment excluding real estate grew robustly, led by high-tech sectors, but lost momentum in the second quarter. Export recovered strongly led by an upswing in the semiconductor cycle and stronger consumer spending in the US and Europe. In December 2024 and January 2025, authorities signaled more expansionary policies in the year ahead to support growth and address challenges.

Inflation remains low, reflecting weak demand, strong competition, and a bumper harvest of agricultural products, with consumer price inflation at 0.2 percent in 2024 (Figure 1.4.2). Some supply-side factors that contribute significantly to low inflation have benefited businesses and households. For example, the fall in factory-gate prices, coupled with the depreciation of the renminbi, has lowered China's export prices, making its manufacturing exports more competitive.

Adjustments in the real estate sector are ongoing, facilitated by an array of policy measures, with the sector likely to bottom out by mid-2025. However, property prices have continued to fall across most of the 70 major cities, although housing transactions have started to pick up from a low base. These trends are consistent with the real estate cycle being in the early phase of recovery. AMRO staff's recent discussions with property developers and analysts suggest that the sector may bottom out around the middle of 2025, as policy measures take fuller effect.

China's near-term economic growth outlook is relatively positive, though risks remain. Consumption will be a key driver, supported by lower interest rates and improved local government finances. Investment in infrastructure, high-tech manufacturing, and services are expected to gain traction in 2025, while real estate investment is expected to bottom out by middle of 2025. This economic recovery should be further enhanced by policy measures aimed at boosting enterprises' upgrading of industrial equipment. The strong export sector is likely to moderate due to a turnaround in the tech cycle and other headwinds from US protectionist policy. After expanding by 5 percent in 2024, AMRO projects China's GDP growth to moderate to 4.8 percent in 2025, and 4.7 percent in 2026, before slowing to its estimated potential of 4.0 percent in 2030.

China faces several risks. Externally, escalating geopolitical tensions and emerging protectionist measures by the new US administration could slow global growth and weigh on exports, dampen investment sentiment, and increase financial market volatility. Domestically, real estate sector uncertainty, local governments financial strains, and weaker asset quality in some banks pose challenges. While the likelihood of near-term risks materializing is moderate, longer-term challenges—such as climate change, population aging, labor force shrinkage, and geoeconomic fragmentation—represent greater threats.

Nonetheless, China has policy space to manage these risks, undertake further economic restructuring, and continue pursuing high-quality growth. Macroeconomic fundamentals remain sound, supported by structural reforms that have strengthened the economy and financial system. Fiscal and monetary policy space remains sizable to safeguard macro stability and support economic restructuring. The external position remains strong, with sustained current account surpluses and ample foreign reserves (Figures1.4.3 and 1.4.4). The banking system remains sound with strong capital buffers,

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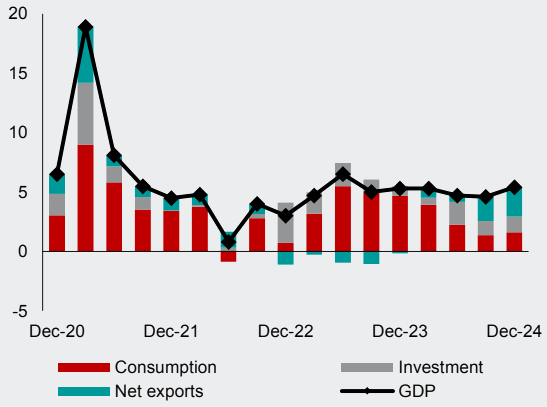
This box was written by Suan Yong Foo.

though some banks with large exposures to the real estate sector may need capital injection (Figure 1.4.5). On the fiscal front, authorities are balancing proactive fiscal policy measures with restoring fiscal buffers. In the near term, a proactive fiscal stance remains appropriate. Fiscal policy should continue to provide targeted support for economic recovery and job creation while keeping the budget deficit in check (Figure 1.4.6).

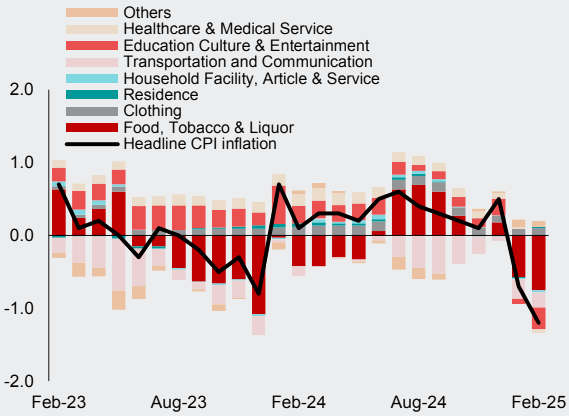
To fully realize its economic potential, China would need to strengthen reforms, rebalance the economy towards domestic demand, and leverage technology to drive productivity and new growth engines—including the development of emerging strategic industries and the "low-altitude economy". Efforts to strengthen resilience against trade sanctions include expanding high-tech manufacturing, particularly advanced semiconductors, and growing the renewable energy sector. Key policy priorities include comprehensive, multiyear plans focused on revitalizing real estate, enhancing production capacity, diversifying markets to counter protectionism, and collaborating with partners to strengthen a rules-based multilateral trading system, including regional free trade arrangements.

Figure 1.4.1. China: GDP Growth
(Percent, year-on-year)



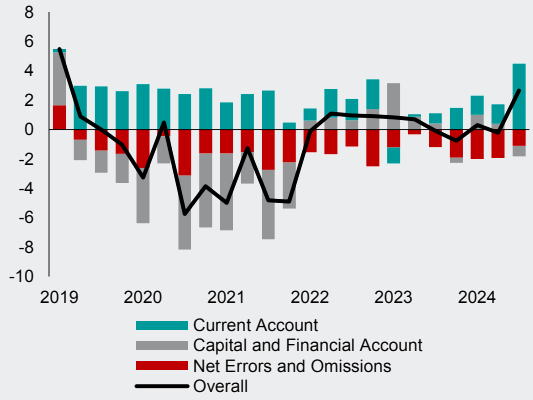
Source: China NBS; Wind.

Figure 1.4.2. China: CPI Inflation
(Percent, year-on-year)



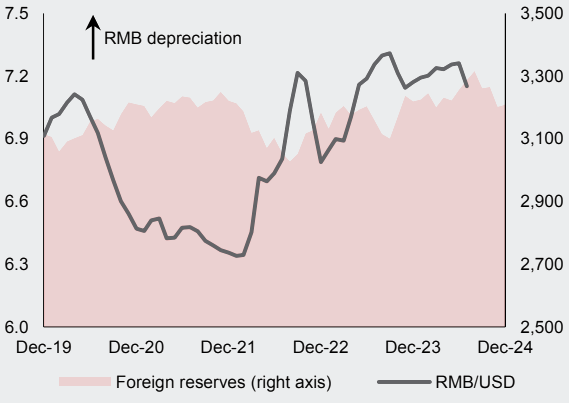
Source: China NBS, CEIC.

Figure 1.4.3. China: Balance of Payments
(Percent of GDP)



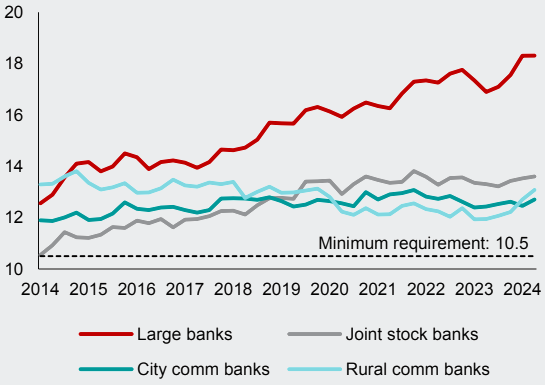
Source: China NBS, CEIC.

Figure 1.4.4. China: Foreign Currency Reserves
(RMB per USD; USD Billion)



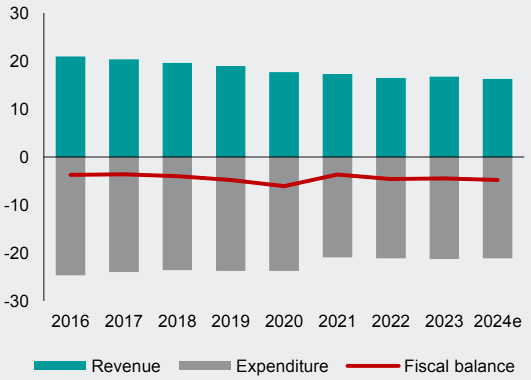
Source: China NBS, CEIC.

Figure 1.4.5. China: Banking System Capital Adequacy Ratio
(Percent)



Source: China NBS, CEIC.

Figure 1.4.6. China: Total Fiscal Revenue and Total Fiscal Expenditure
(Percent of GDP)



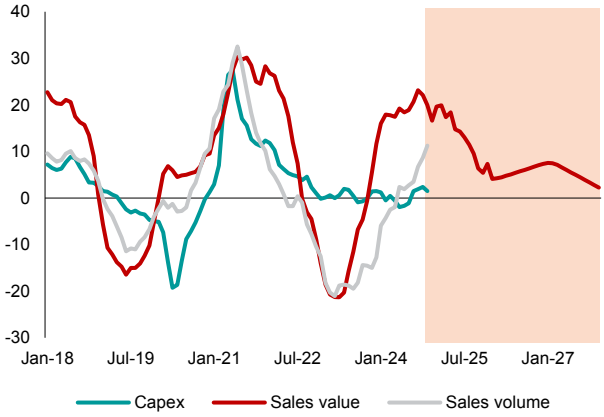
Source: China NBS, CEIC; AMRO staff estimation.
Note: Fiscal balance is derived based on the revenue and expenditure from China's general public budget. e = estimates.

External demand is expected to provide additional lift to growth. The US economy is projected to remain resilient and continue to support demand for ASEAN+3 exports. In the technology sector, global semiconductor sales are forecast to grow by 11.2 percent in 2025, moderating from the 19 percent rebound in 2024 (Figure 1.31). While demand for advanced integrated circuits remains firm and a rebound in sensors and optoelectronics is anticipated, semiconductor-related capital expenditure has begun to moderate, suggesting softening exports demand in the second half of 2025. Services exports, particularly tourism and modern services, offer brighter prospects. Tourist arrivals are set to increase further, supported by normalized travel patterns, visa-free policies, improved flight connectivity, and rising Chinese outbound tourism (Figure 1.32). Modern services exports are also expanding, driven by continued growth in IT, software development, and healthcare services.

The near-term outlook for the region is subject to considerable uncertainties. Studies have shown that heightened uncertainty can adversely affect growth through both real and financial sector channels (Londono, Ma, and Wilson 2021; Miescu 2023). Faced with elevated uncertainty, firms typically adopt a "wait-and-see" approach, leading to reduced private investment as businesses hesitate to initiate new projects or expand existing ones (Leduc and Liu 2016). This conservative stance in business planning and investment can persist even after the initial source of uncertainty subsides. Consumer behavior is similarly affected, with households often postponing major purchases and adjusting spending patterns. These changes in firm and household behavior can create a self-reinforcing cycle of slower economic activity. In financial markets, heightened uncertainty tends to increase market volatility, affecting asset prices and complicating the management of capital flows and exchange rates. These effects can amplify the impact on real economic activity through tighter financial conditions and increased borrowing costs.

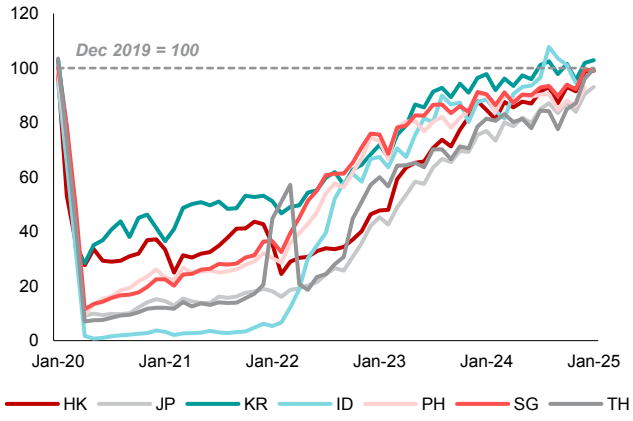
Trade policy uncertainty from the United States currently stands as the foremost source of uncertainty to the region's near-term outlook. Recent tariff threats from the new US administration have heightened concerns about potential disruptions to regional trade (Figure 1.33). AMRO's empirical analysis suggests that increased trade policy uncertainty can have material and lasting effects on regional economic activity. The impact unfolds in stages—beginning with an immediate decline in exports, followed by spillovers to manufacturing activity as firms adjust their production plans, and eventually affecting broader economic growth as households and businesses modify their spending and investment decisions. Estimates indicate that a one-standard-deviation shock to measured trade uncertainty can reduce the region's export growth to the United States by up to 2 percentage points, with recovery taking six quarters, while industrial production could decline by up to 1.9 percentage points (Figure 1.34). The effect on overall GDP emerges more gradually, declining by up to 0.9 percentage points from the second quarter, but persists throughout the two-year forecast horizon—suggesting that trade policy uncertainty can have lasting consequences for economic activity even after export growth recovers.

Figure 1.31. World: Semiconductor Sales Forecast
(Percent, year-on-year, three-month moving average)



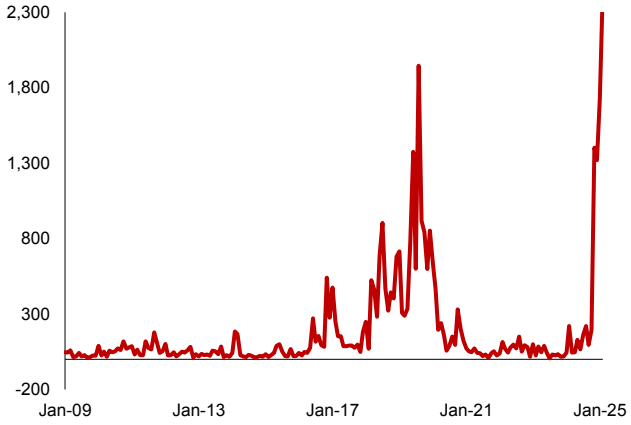
Source: World Semiconductor Trade Statistics; AMRO staff estimates.
Note: Forecast is made by World Semiconductor Trade Statistics as updated in November 2024.

Figure 1.32. Selected ASEAN+3: International Flight Arrivals
(Index, December 2019 = 100)



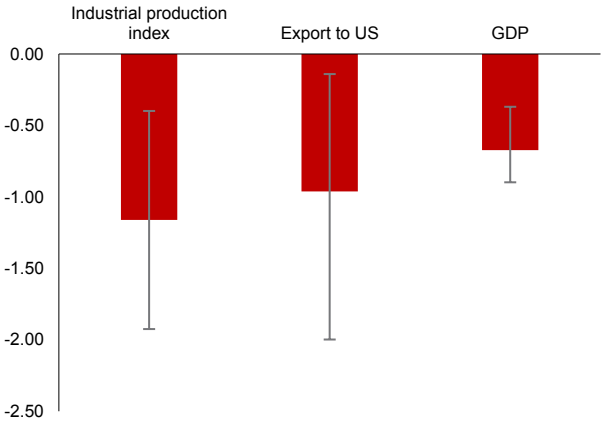
Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: HK = Hong Kong; ID = Indonesia; JP = Japan; KR = Korea; PH = the Philippines; SG = Singapore; TH = Thailand. Brunei, Cambodia, China, Lao PDR, Malaysia, Myanmar, and Vietnam are excluded due to data unavailability. Data for Japan include both arrivals and departures. Data for Indonesia refer to departures only.

Figure 1.33. United States: Trade Policy Uncertainty
(Index, 1985–2010 = 100)



Source: Baker, Bloom, and Davis (2016).
Note: Daily US Economic Policy Uncertainty (EPU) index is based on news-based measures by Baker, Bloom, Davis (2016). Each categorical series is multiplicatively normalized to have a mean of 100 from 1985–2010.

Figure 1.34. ASEAN+3: Impulse Response to Trade Policy Uncertainty Shock
(Percentage points)



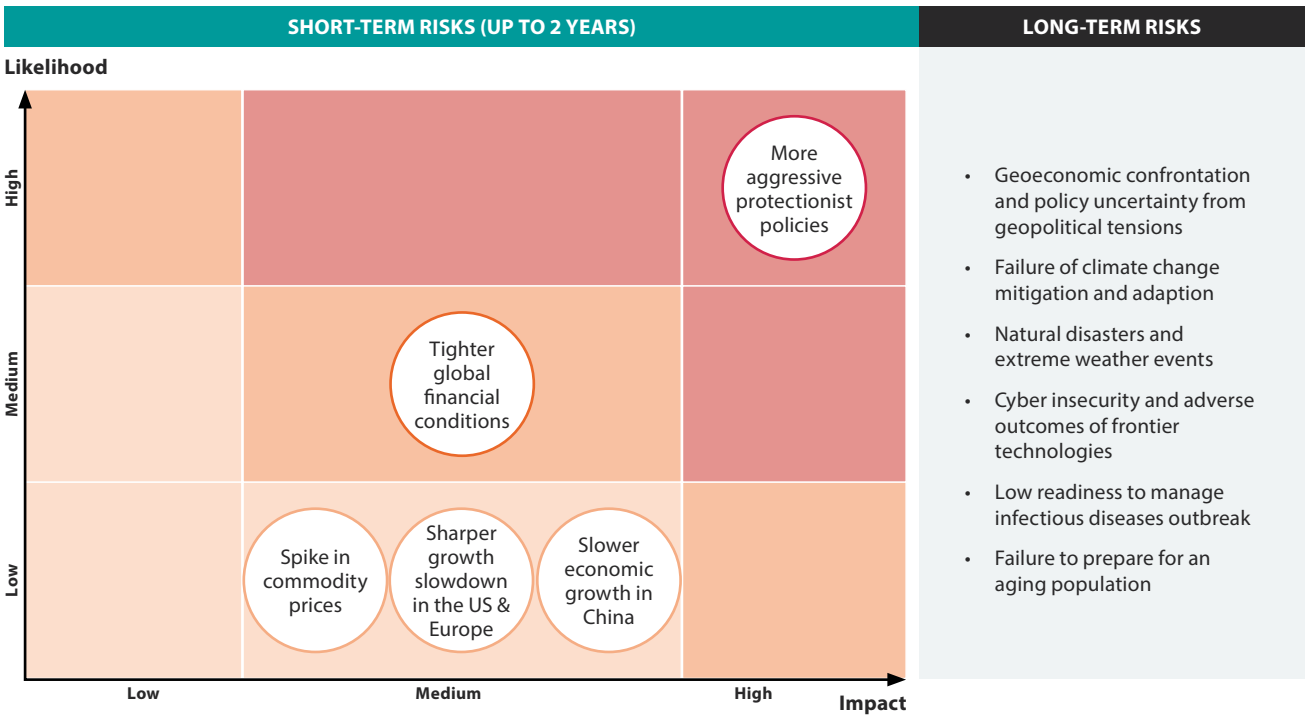
Source: National authorities via CEIC and Haver Analytics; AMRO staff calculations.
Note: The results are based on a panel vector autoregression estimated for Q1 2010 to Q4 2024 for China, Hong Kong, Japan, Korea, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. The model includes, in this order, the Trade Policy Uncertainty (TPU) index from Baker, Bloom, Davis (2016), log S&P 500 index, the effective federal funds rate, Industrial Production Index growth, Exports growth, Inflation, and GDP growth, with two lags. Bars show the decline in growth rates of respective variables to a one-standard-deviation increase in uncertainty in the TPU index.

III. Risks to the Outlook: Tilted to the Downside

The balance of risks to the region's outlook is tilted to the downside, with external risks being the most prominent. The most immediate concern is potential shifts in trade policy under the new US administration, which could significantly impact global trade flows, financial markets, and weigh on the region's growth. In addition, tighter global financial conditions, growth slowdowns in major economies, and potential spikes in inflation remain key downside risks.

The key risks facing the region are summarized in AMRO's Regional Risk Map (Figure 1.35).

Figure 1.35. Regional Risk Map, April 2025



Source: AMRO staff.
Note: The Regional Risk Map captures those risks and challenges that could derail the region's macro-stability. These are in relation to (1) growth and inflation outlook, (2) financial stability concerns, and (3) other key long-term challenges. The risks and challenges are divided into two categories; (1) short-term risks (these are conjunctural risks, up to two years, where the risks represent scenarios that could materially alter the baseline path), and (2) long-term risks (these are more persistent or secular trends and/or challenges, including perennial risks).

- ***More aggressive protectionist policies from the United States.*** The new US administration has signaled readiness to impose wide-ranging tariff measures on all trading partners to achieve a broad range of economic and noneconomic objectives. While the exact details of these measures remain uncertain—including their timing, scope, and implementation—their enactment could significantly impact the ASEAN+3 region through multiple channels. Higher tariffs would directly reduce the region's exports to the United States, particularly affecting economies deeply integrated into US-centric supply chains. The impact could be amplified if affected economies retaliate with countermeasures, potentially triggering a broader trade conflict that would further dampen global demand and disrupt regional supply chains. The spillover effects could extend beyond trade, as reduced external demand could weigh on domestic investment and consumption, while heightened trade tensions could increase financial market volatility and affect capital flows to the region. Other contemplated measures such as expanded "Buy American" requirements, stricter investment screening, and broader export controls on critical technologies could compound these effects.

  Model-based scenario analysis suggests that the impact of potential US tariffs on the region could vary considerably, depending on their scope and implementation. Under a scenario where tariffs are confined to 10 percent on imports from China, regional growth in 2026 could decline by 0.4 percentage points. In a more adverse scenario where tariffs are levied on a broader range of economies, the growth impact could reach 1.7 percentage points.[2] The effects would be substantially larger if affected economies retaliate. These negative impacts would accumulate over time, potentially leading to regional GDP being up to 2.5 percent lower by the end of the current US administration's term in 2029. Box 1.5 provides detailed analysis of these scenarios.

- ***Sharper growth slowdown in the United States and Europe.*** In the United States, heightened uncertainty over trade, fiscal, and immigration policies could lead to increased market volatility and risk aversion. In particular, tighter immigration policies—including large-scale deportations—could adversely affect labor supply and wage growth, dampening consumer demand and investment. In Europe, escalating global trade tensions and spikes in energy and shipping costs due to geopolitical conflicts could stall recovery. If growth in the United States and Europe were 1 percentage point lower in 2025, ASEAN+3 growth could be lower by 1.3 percentage points (Figure 1.38).

- ***Tighter global financial conditions.*** Recent US economic indicators, such as a persistently tight labor market and firmer core inflation, have fueled concerns about sustained inflationary pressures and prolonged high interest rates. Furthermore, policy shifts by the new US administration, including higher tariffs and tax cuts, may further heighten stagflation risks—with tariffs increasing production costs and consumer prices, and tax cuts widening the fiscal deficits and spurring stronger demand. A resurgence of inflation in the United States could lead to higher interest rates, leading to a stronger US dollar and overall tighter global financial conditions. The upward revision in US interest rate expectations could widen the divergence between US and regional interest rate paths, complicating the conduct of monetary policy for ASEAN+3 economies as central banks may be compelled to raise or maintain high policy rates in response to capital outflows and sustained exchange rate depreciation. Economic activity across the region could moderate further as a result.

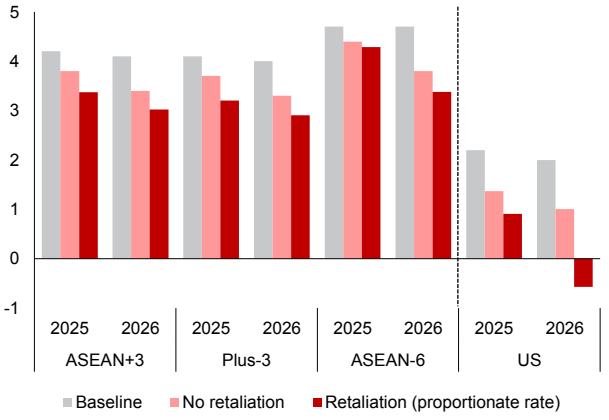
- ***Spike in global commodity prices.*** The risk of a spike in global commodity prices has moderated as geopolitical conflicts have shown signs of stabilizing, but it remains a concern. While the Gaza-Israel conflict has de-escalated following recent ceasefires, tensions remain high, posing risks of renewed hostilities that could drive up global energy prices and fuel inflationary pressures across the region. At the same time, weather-related factors could cause global food prices to spike. La Niña conditions, expected to last through April 2025, could increase the likelihood of extreme weather and climate hazards such as droughts, floods, excessive rainfall and cyclones (NOAA 2025). This could threaten agricultural productivity, potentially affecting the global supply of key food products such as grain and oilseed (FAO 2024).

- ***Slower economic growth in China.*** Economic growth in China has remained resilient, supported by targeted policy measures. However, although China's property sector has shown tentative signs of stabilization, a further weakening of the real estate sector remains a key risk, as property price declines and financial strain on developers continue to weigh on consumer and investor confidence. Sudden shifts in US protectionist policies toward China could also worsen investor and consumer confidence, further weighing on growth. Slower growth in China, in turn, would adversely impact trade, investment, and tourism flows in the rest of the region. In the event that China's growth were to slow to 4 percent in 2025, ASEAN+3 growth could be reduced by 0.6 percentage point (Figure 1.39).

2/ Assumes 60 percent tariff on China, 25 percent on Mexico, Canada, euro area and ASEAN—with proportionate retaliation by affected economies.

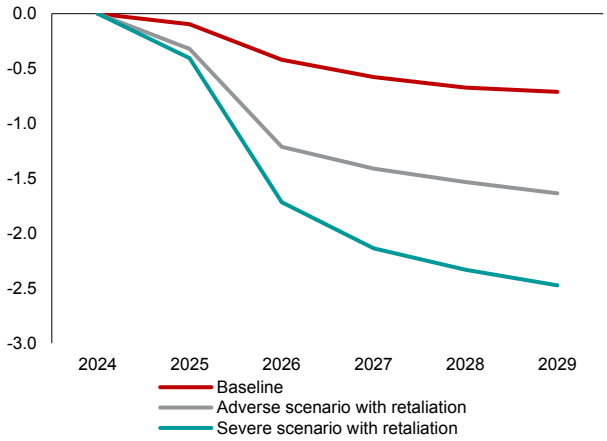
Beyond the near-term, the region also faces significant structural challenges that could weigh on long-term economic stability and growth prospects. In addition to higher protectionism, the ongoing geoeconomic fragmentation remains a key risk, as escalating geopolitical tensions and economic decoupling continue to reshape global trade, supply chains, and investment flows. The shift toward greater fragmentation could disrupt ASEAN+3's trade relationships, making economies—especially trade-dependent ones—more vulnerable to external shocks. At the same time, the region is confronting demographic shifts, with rapidly aging populations posing risks to labor supply, productivity, and fiscal sustainability. Meanwhile, the region also confronts several other pressing long-term challenges. First, rapidly aging populations pose mounting risks of shrinking labor supply, lower productivity growth, and fiscal unsustainability. At the same time, climate change and extreme weather events increasingly threaten food security, infrastructure, and economic resilience, with the region particularly vulnerable to rising sea levels and natural disasters. Furthermore, while the accelerating pace of technological change creates new opportunities, it also brings emerging risks such as dislocations in labor markets, cybersecurity threats, and potential financial instability as digital adoption increases. Lastly, the COVID-19 pandemic highlighted the continuing importance of health security, with model simulations suggesting a 50 percent likelihood of another pandemic within the next 25 years (UNDP 2023).

Figure 1.36. Selected Economies: Real GDP under Different Scenarios
(Percent, year-on-year)



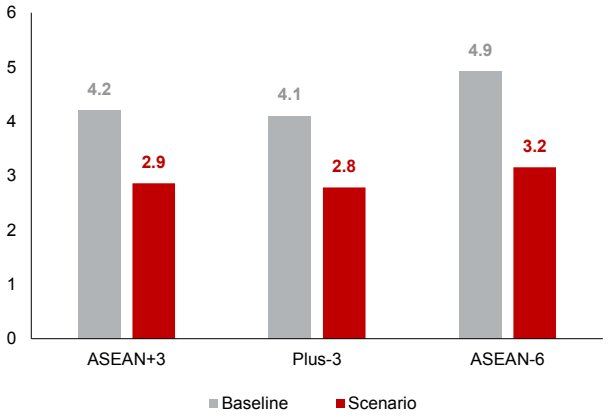
Source: Oxford Economics Model, AMRO staff calculations.
Note: Regional aggregates are weighted using 2023 GDP on PPP basis. Brunei, Cambodia, Lao PDR and Myanmar are excluded due to data unavailability. Estimates do not account for the indirect impact(s) that could arise from the tariff measures such as those from adverse sentiments channel.

Figure 1.37. ASEAN+3: Impact of US Tariffs on Real GDP
(Percent deviation from baseline)



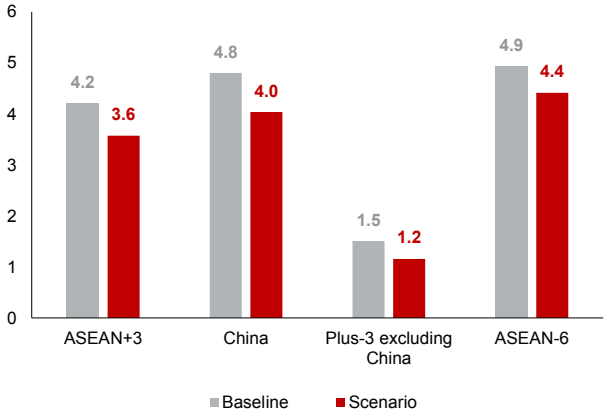
Source: Oxford Economics Model; AMRO staff calculations.
Note: Regional aggregates are weighted using 2023 GDP on PPP basis. Brunei, Cambodia, Lao PDR and Myanmar are excluded due to data unavailability. Estimates do not account for the indirect impact(s) that could arise from the tariff measures such as those from adverse sentiments channel.

Figure 1.38. Selected ASEAN+3: Impact of 1 Percentage Point Lower Growth in the United States and Europe on Baseline GDP Growth
(Percent, year-on-year, 2025)



Source: Oxford Economics Global Economics Model; AMRO staff estimations.
Note: ASEAN-6 = Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam; Plus-3 = China, Hong Kong, Japan, and Korea. Estimates refer to the impact on Plus-3 and ASEAN-6 economies, which account for 99 percent of ASEAN+3's GDP in 2023 (purchasing power parity basis). Remaining economies are omitted due to data unavailability.

Figure 1.39. Selected ASEAN+3: Impact of Slower Growth in China on Baseline GDP Growth
(Percent, year-on-year, 2025)



Source: Oxford Economics Global Economics Model; AMRO staff estimations.
Note: ASEAN-6 = Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam; Plus-3 = China, Hong Kong, Japan, and Korea. Estimates refer to the impact on Plus-3 and ASEAN-6 economies, which account for 99 percent of ASEAN+3's GDP in 2023 (purchasing power parity basis). Remaining economies are omitted due to data unavailability.

Box 1.5:

Scenario Assessment: Impact of US Import Tariffs on ASEAN+3

The wide range of possible tariff escalation scenarios under the new US administration could introduce significant disruptions to the global economy. To assess the potential economic impacts, AMRO staff have run simulations on three scenarios—Baseline, Adverse, and Severe—each with different degrees of tariff implementation and disruption (Table 1.5.1).

Baseline: Incorporates tariffs impacting regional economies that are already announced by the new US administration. This includes a 10 percent tariff on imports from China that took effect on February 4, 2025, and another 10 percent increase on March 4, 2025. In view of the continued escalation of trade tensions, AMRO staff assumes another 5 percent increase to be levied by the third quarter of 2025. As a result, trade-weighted tariff rates are expected to rise sharply, from 19 percent in 2024 to nearly 45 percent by the end of 2025 (Figure 1.5.1). In this scenario, no additional tariffs are imposed on imports from the rest of the world.[1]

Adverse scenario: Assumes a broader escalation of tariffs beyond China. Canada and Mexico face 25 percent tariffs on non-energy goods and a lower 10 percent tariff on energy imports from Canada. These tariffs had been planned to take effect in February 2025, but have been delayed subject to further negotiation on a broad range of bilateral geopolitical and economic issues. Under this scenario, it is assumed that these tariffs are reinstated and take effect in the second quarter of 2025, with the euro area similarly subjected to a 25 percent tariff. Furthermore, to curb the rerouting of Chinese exports, the United States is assumed to impose a 10 percent tariffs on imports from remaining ASEAN+3 economies[2], starting in the second quarter of 2025.

Severe scenario: Tariffs are assumed to be levied on all economies—to varying degrees. Tariffs on Chinese imports are raised to 60 percent, fulfilling election campaign promise made by President Trump during the run-up to the US elections in November 2024. Other ASEAN+3 economies face higher tariffs of 25 percent starting in the second quarter of 2025. In addition, a 10 percent tariff is levied on all imports from the rest of the world, amplifying global trade disruptions.

Each of the above scenarios together with a more adverse one where affected economies retaliate proportionately by imposing their own tariffs on imports from the US over the next five years, are simulated and the results are reported in Table 1.5.2.

This box was written by Catharine Kho and Megan Chong.

1/ Although various tariffs have been announced against Canada, Mexico and euro area at the time of writing, their implementation remains subject to complex negotiations, with significant fluctuations in dates and details, complicating their inclusion into AMRO staff's baseline assumption. On March 12, 2025, a 25 percent tariff has been imposed on steel and aluminum imports. However, these products account for less than 3 percent of total US imports and are therefore not included in the baseline. The US administration has also threatened to impose reciprocal tariffs on all nations, set to take effect on April 2, 2025. The specific tariff rate remains unclear, as multiple measures are under consideration; however, a 10 percent tariff increase is estimated to reduce GDP for affected economies by 0.1 to 0.8 percent in 2026. Due to the lack of details, this measure is not assumed under the baseline.

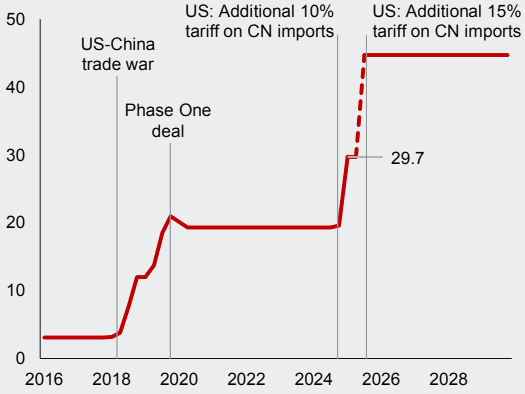
2/ Direct tariff is only applied to Japan, Korea, Malaysia and Vietnam due to the limitations of the Oxford Economics Global Economic Model. For other economies, the impact reflects the spillover effects of reduced demand from these economies.

Table 1.5.1. United States: Tariffs on Imports
(Percent)

Scenarios	China	ASEAN+3 (excluding China)	Mexico, Canada and the euro area	Rest of the world
Baseline	45	0	0	0
Adverse	45	10	25	0
Severe	60	25	25	10

Source: AMRO staff estimates.

Figure 1.5.1. United States: Tariff on Imports from China
(Import-weighted percent)



Source: PIIE, Oxford Economics Global Economics Model.

Table 1.5.2. ASEAN+3: Impact on Real GDP Under Various Scenarios of US Import Tariffs
(Percent deviation from baseline; 2025–2029)

Scenarios	Impact on Real GDP (Percent deviation from baseline)		
	ASEAN+3	Plus-3	ASEAN
Baseline US implements 10 percent additional tariffs China beginning 1Q 2025, followed by another 10 percent tariffs beginning in the second quarter and a further increase of 5 percent in 3Q 2025.	–	–	–
Affected economies retaliate proportionately.	–0.1	–0.1	–0.1
Adverse scenario US implements 45 percent tariffs on imports from China, 25 percent tariffs on imports from Mexico and Canada, and 10 percent tariff on imports from ASEAN+3 (excluding China).	–0.4	–0.3	–0.6
Affected economies retaliate proportionately.	–0.7	–0.6	–1.1
Severe scenario US implements 60 percent tariffs on imports from China, 25 percent tariffs on Mexico, Canada and ASEAN+3 (excluding China), and 10 percent tariff on imports from all other economies.	–0.8	–0.5	–0.9
Affected economies retaliate proportionately.	–1.3	–1.2	–1.8

Source: Oxford Economics Model; AMRO staff calculations
Note: Regional aggregates are weighted using 2023 GDP on PPP basis. Brunei Darussalam, Cambodia, Lao PDR and Myanmar are excluded due to data unavailability. Estimates do not take into account the indirect impact(s) that could arise from the tariff measures such as those from adverse sentiments channel etc.

IV. Policy Considerations: Preparing for a Highly Uncertain Environment

The favorable growth and inflation baseline outlook for ASEAN+3 provides an opportunity to rebuild policy space, even as policymakers navigate an increasingly uncertain and treacherous external environment. While several regional central banks have begun to ease monetary policy and consolidate their fiscal positions, the pace and scope of policy normalization varies across economies, reflecting differences in growth momentum, inflation dynamics, and available policy buffers (Table 1.2). The unpredictable nature of externally driven policy changes—particularly potential shifts in US trade and monetary policy—demands that authorities maintain flexibility to implement countercyclical measures if needed. This challenging environment is further complicated by persistent supply-side inflation risks and the need to safeguard financial and external stability amid volatile global financial markets. Looking ahead, policies should focus on enhancing long-term resilience while preserving capacity to address near-term challenges, with the appropriate policy mix determined by each economy's specific circumstances and constraints.

Table 1.2. ASEAN+3 Policy Matrix: AMRO Staff Assessment of Current Policy Stance and Recommendations

	Fiscal Policy				Monetary Policy			
	2024 Policy Stance	2025 Policy Stance	2025 Policy Space	Recommended Policy Direction	2024 Policy Stance	2025 Policy Stance	2025 Policy Space	Recommended Policy Direction
Plus-3								
China	Expansionary	Expansionary	Moderate	↓	Expansionary	Expansionary	Moderate	↑
Hong Kong*	Expansionary	Contractionary	Ample	↔	Contractionary	Contractionary	Limited	↑
Japan*	Neutral	Contractionary	Limited	↓	Expansionary	Expansionary	Moderate	↓
Korea	Neutral	Contractionary	Moderate	↑	Contractionary	Contractionary	Moderate	↑
ASEAN								
Brunei*	Expansionary	Expansionary	Ample	↓	Contractionary	Contractionary	Limited	↑
Cambodia	Contractionary	Neutral	Moderate	↓	Expansionary	Expansionary	Limited	↔
Indonesia	Expansionary	Neutral	Moderate	↔	Contractionary	Contractionary	Moderate	↑
Lao PDR	Contractionary	Expansionary	Limited	↓	Expansionary	Contractionary	Limited	↔
Malaysia	Neutral	Neutral	Moderate	↓	Neutral	Neutral	Moderate	↔
Myanmar*	Expansionary	Expansionary	Limited	↓	Expansionary	Expansionary	Moderate	↓
Philippines	Contractionary	Neutral	Moderate	↓	Contractionary	Contractionary	Moderate	↑
Singapore*	Neutral	Neutral	Ample	↔	Contractionary	Contractionary	Moderate	↑
Thailand*	Neutral	Expansionary	Moderate	↓	Contractionary	Neutral	Moderate	↑
Vietnam	Neutral	Expansionary	Moderate	↑	Expansionary	Expansionary	Moderate	↔

Legend

AMRO's assessment of current policy stance

- Expansionary/Accommodative
- Neutral
- Contractionary/Tight

AMRO's recommendation

- ↑ More expansionary/accommodative (Less contractionary/tight)
- ↓ Less expansionary/accommodative (More contractionary/tight)
- ↔ Maintain current policy stance

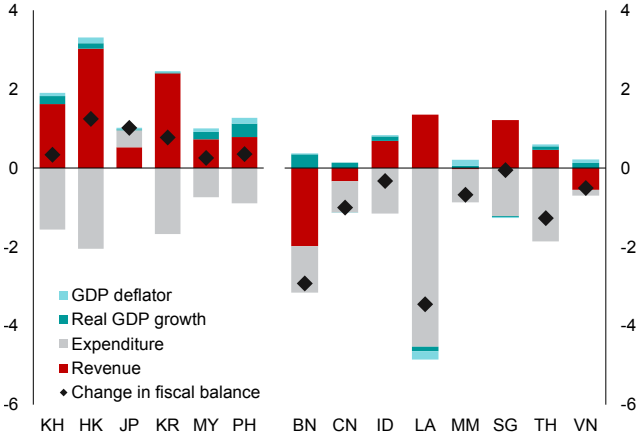
Note: Asterisk (*) denotes fiscal year from April 1 to March 31. The fiscal policy stance is assessed by the fiscal impulse based on structural primary balance. The fiscal policy stance in 2024 is based on 2024 estimates, while the fiscal stance in 2025 is based on the 2025 budget. The 2024 monetary policy stance refers to the monetary policy stance as of *AREO 2024* or the respective economy's Annual Consultation Report, whichever is later. For Brunei and Hong Kong, which have a currency board arrangement, the current monetary stance refers to current monetary condition.

Fiscal Policy

Fiscal developments across ASEAN+3 showed mixed progress in FY2024, with fiscal deficit (surplus) of member economies generally remaining larger (smaller) than pre-pandemic levels. While both revenue and expenditure increased as a share of GDP in most economies, the pace of fiscal consolidation moderated in several members due to higher-than-planned spending to promote growth—through measures such as supplementary budgets in Japan and targeted social transfers in Thailand—and prolonged temporary support programs. Revenue performance was generally positive, supported by a broad-based increase in tax collection amid economic recovery. Most economies maintained expansionary or neutral fiscal stances in FY2024, as several adopted more expansionary policies to support weak recovery or slowing growth. Looking ahead to FY2025, fiscal stances are projected to be contractionary or neutral in economies operating at or near potential output (Figure 1.40 and Table 1.3). However, the extent of fiscal improvement will vary significantly across economies, as some members maintain more accommodative stances to support growth and development priorities. Notably, while government debt ratios have begun declining or stabilizing in several economies including Indonesia, Japan, Lao PDR, the Philippines, and Vietnam, they are projected to remain significantly higher than FY2019, highlighting the continued need for medium-term consolidation to rebuild fiscal buffers (Box 1.6).

The favorable baseline growth outlook presents an opportunity for rebuilding fiscal buffers, while maintaining flexibility to respond to evolving economic conditions. Given the gradual pace of fiscal consolidation and generally narrowed fiscal space post-pandemic, steady efforts to strengthen fiscal positions over the medium term would help rebuild fiscal space for future countercyclical responses. Meeting the twin objectives of sustainable growth and fiscal sustainability calls for careful calibration of revenue and spending measures, guided by medium-term consolidation frameworks. The current environment of heightened uncertainty underscores the importance of preserving policy flexibility. Alignment with monetary policy would enhance the effectiveness of any fiscal response. However, for economies where monetary policy space may be constrained by external sector considerations, fiscal policy could play a more active role in responding to adverse shocks, with pre-emptive measures potentially warranted when downside risks appear imminent. The fiscal response measures should be carefully calibrated to target areas with significant economic spillovers, and transparent exit strategy will help maintain progress toward medium-term consolidation goals while balancing near-term stability with longer-term resilience.

Figure 1.40. Selected ASEAN+3: Contribution to the Change in Fiscal Balance, FY2025
(Percent of GDP)



Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates.
Note: Change and contribution are computed by comparing the 2025 budget with the estimated or realized 2024 budget.

Table 1.3. ASEAN+3: Fiscal Stance, FY2024–2025

FY2024 \ FY2025	Expansionary	Neutral	Contractionary
Expansionary	BN, CN, MM	ID	HK
Neutral	TH, VN	MY, SG	JP, KR
Contractionary	LA	KH, PH	

Source: AMRO staff assessment.
Note: Fiscal stance assessment is based on the fiscal impulse, measured by the changes in the budgeted structural primary balance in FY2025 compared to the actual or estimated structural primary balance in FY2024. The fiscal stance of Brunei is assessed by the change in expenditure growth as its GDP and revenue is heavily dependent on oil and gas sector.

Box 1.6:

Fiscal Development, Government Debt and Financing Needs in ASEAN+3 Economies

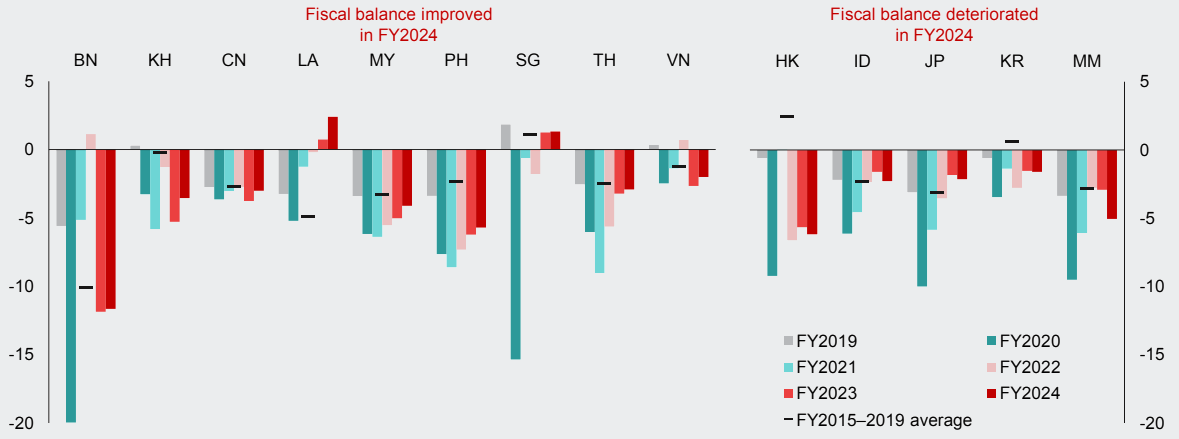
Fiscal developments in FY2024 were mixed, with the fiscal deficit (surplus) of most economies remaining larger (smaller) than pre-pandemic levels due to a stronger increase in expenditure (Figure 1.6.1). The pace of improvement in fiscal position generally slowed as fiscal spending exceeded initial budget in order to support economic recovery (e.g., supplementary budgets in Japan and the digital wallet program in Thailand) and revenue fell short of projections due to unexpected weak business performance (e.g., semiconductor downcycle in Korea and a weaker property market in Hong Kong). Compared to FY2015–2019 averages, the fiscal balance in FY2024 improved only in Japan, Indonesia, Lao PDR, and Singapore.

- Robust income- and consumption-based tax collections supported revenue growth in most economies, except for Korea where corporate income tax revenue declined due to the prolonged semiconductor downcycle. Despite stabilizing global commodity prices, resource revenue in Brunei is estimated to have increased, benefiting from the commencement of production of a new offshore oil field in late 2023. In most economies, growth in nontax revenue further supported overall revenue performance.

- Expenditure increases were primarily driven by growing current outlays, including targeted measures to mitigate high living costs or boost weak household spending, increased administrative spendings or higher interest payments.

The government debt-to-GDP ratio has begun to decline or stabilize in more economies, including Indonesia, Japan, Lao PDR, Malaysia, the Philippines, and Vietnam. In other economies, the debt ratio continued to rise, mostly at a slower rate (Figure 1.6.2). Reductions in the debt ratio were supported by nominal GDP growth, while elevated primary deficits and high effective interest rates contributed to upward pressures. Additionally, significant currency depreciation in Lao PDR and Myanmar inflated the nominal value of their foreign currency (FCY) denominated debt (Figure 1.6.3). The debt ratio is projected to rise further in FY2025 in half of the member economies, where the budgeted primary balance falls below the debt-stabilizing primary balance (Figure 1.6.4).

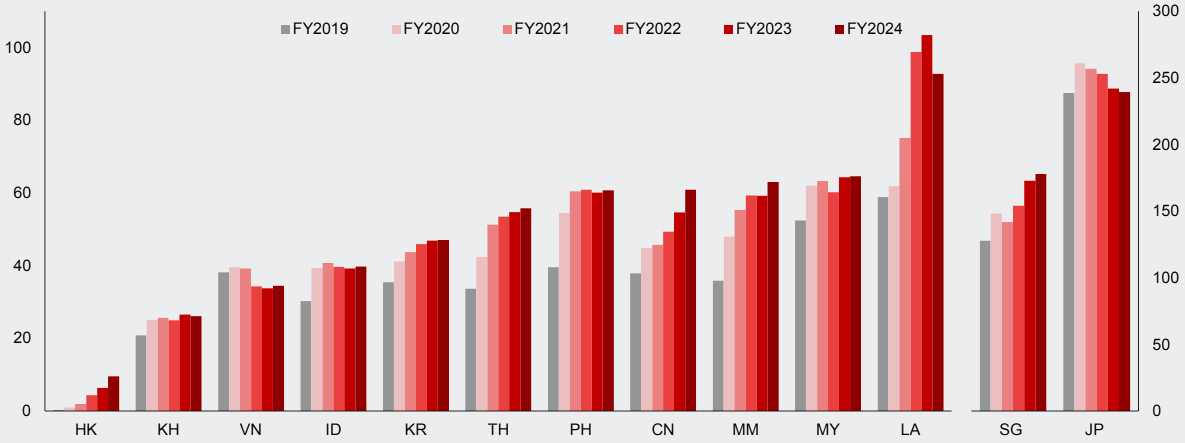
Figure 1.6.1. ASEAN+3: Fiscal Balance, FY2019–2024
(Percent of GDP)



Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates.
Note: (1) Fiscal indicators for FY2024 are based on AMRO staff estimates, except for Thailand; (2) Fiscal indicators closely follow the authorities' published data except for the followings: (a) Japan: fiscal indicators are based on general government; (b) Myanmar: fiscal indicators for FY2018–2021 (October to September) were converted to April-March based on quarterly data, and revenue excludes borrowing and expenditure excludes principal repayments; (c) Singapore: fiscal balance is based on the overall budget surplus/deficit, while excluding top-ups to endowment and trust funds and including spending from those funds; (d) Thailand: expenditure includes off-budget emergency loans.

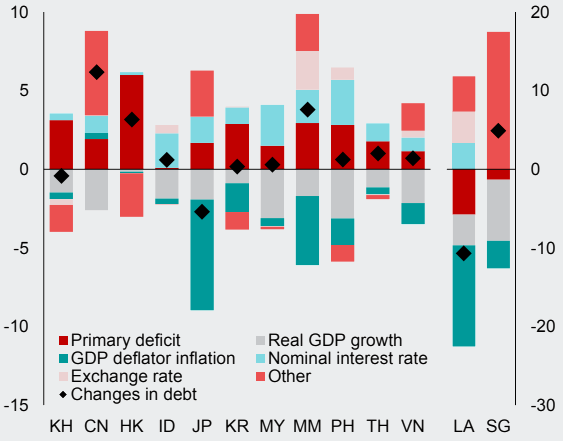
This box was written by Byunghoon Nam.

Figure 1.6.2 ASEAN+3: Government Debt, FY2019–2024
(Percent of GDP)



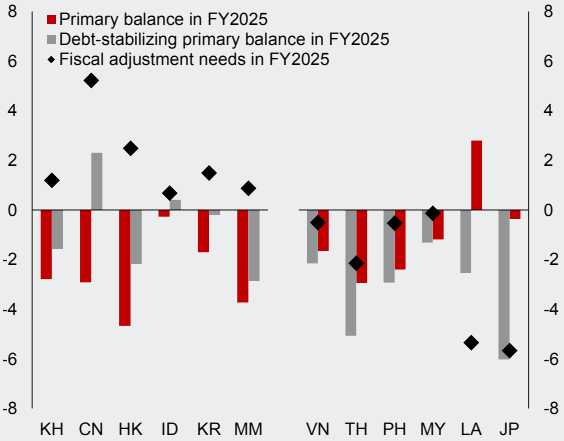
Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates.
Note: CN = China; HK = Hong Kong; ID = Indonesia; JP = Japan; KH = Cambodia; KR = Korea; LA = Lao PDR; MY = Malaysia; MM = Myanmar; PH = the Philippines; SG = Singapore; TH = Thailand; VN = Vietnam. (1) Government debt in Lao PDR includes the suspended interest payments; (2) Brunei is not shown as it has virtually zero government debt.

Figure 1.6.3. Selected ASEAN+3: Contribution to the Change in Debt-to-GDP Ratio in FY2024[1]
(Percent of GDP)



Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates.
Note: CN = China; HK = Hong Kong; ID = Indonesia; JP = Japan; KH = Cambodia; KR = Korea; LA = Lao PDR; MY = Malaysia; MM = Myanmar; PH = the Philippines; SG = Singapore; TH = Thailand; VN = Vietnam. Brunei is not shown as it has virtually zero government debt.

Figure 1.6.4. Selected ASEAN+3: Debt-stabilizing Primary Balance and Fiscal Adjustment Needs
(Percent of GDP)



Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates.
Note: CN = China; HK = Hong Kong; ID = Indonesia; JP = Japan; KH = Cambodia; KR = Korea; LA = Lao PDR; MY = Malaysia; MM = Myanmar; PH = the Philippines; SG = Singapore; TH = Thailand; VN = Vietnam. The debt-stabilizing primary balance in FY2025 is the primary balance to maintain the debt ratio at the end of FY2024 level. The fiscal adjustment need in FY2025 is defined as the difference between the budgeted primary balance in FY2025 and the debt-stabilizing primary balance in FY2025, which captures how much the primary balance should be improved additionally compared to the budgeted primary balance in FY2025 to stabilize the debt ratio.

The gross financing needs (GFN) to GDP ratio remains elevated (Figure 1.6.5). The increase in the GFN ratio in FY2024 was primarily driven by higher primary deficits (Hong Kong, Indonesia, and Myanmar) or by rising amortization (Lao PDR, the Philippines, Singapore, and Thailand) (Figure 1.6.6).[2] Looking ahead, increased principal payments on maturing debts across various tenors are projected to keep GFNs elevated over the medium term in most member economies (Figure 1.6.7). The interest

1/ Decomposition:

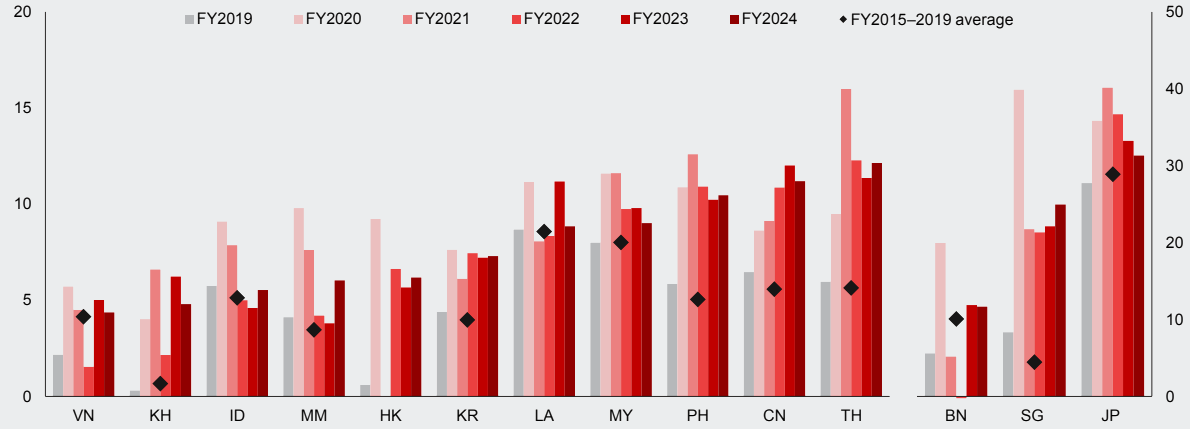
$$d_t - d_{(t-1)} = \underbrace{\left[\frac{i_t^w}{(1+g_t)(1+\pi_t)}\right] d_{t-1}}_{\text{contribution of nominal interest rate}} - \underbrace{\left[\frac{\pi_t(1+g_t)}{(1+g_t)(1+\pi_t)}\right] d_{t-1}}_{\text{contribution of GDP deflator inflation}} - \underbrace{\left[\frac{g_t}{(1+g_t)(1+\pi_t)}\right] d_{t-1}}_{\text{contribution of real GDP growth}} + \underbrace{\left[\frac{\varepsilon_t a_{t-1}(1+i_t^f)}{(1+g_t)(1+\pi_t)}\right] d_{t-1}}_{\text{contribution of exchange rate}} - \underbrace{pb_t}_{\text{contribution of primary deficit}} + \underbrace{o_t}_{\text{contribution of other flows}}$$

where d=debt-to-GDP ratio, pb=primary balance, o=other flows, i^w=effective interest rate of total debt, i^f=effective interest rate of external debt, g=real GDP growth, π=GDP deflator inflation, ε=exchange rate against USD, and a=share of external debt.

2/ The increase in amortization is mainly due to the maturing government bonds that were extensively issued during the pandemic.

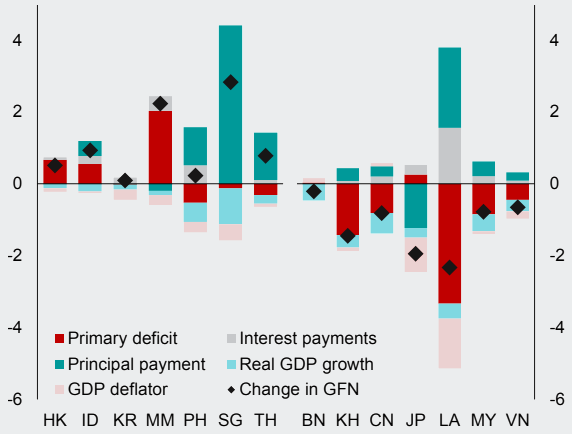
burden is also expected to remain high due to accumulated debt, as policy rate cuts may have only a gradual impact on new borrowing costs due to other risks factors affecting the passthrough to sovereign bond coupon rates and on the average borrowing costs given the medium- to long-term debt maturity structure with fixed coupon rates. Although the debt profiles of member economies are broadly sound, economies with a significant share of foreign-currency denominated debt face heightened risks of rising nominal debt values and debt service burdens in the event of currency depreciation.

Figure 1.6.5. ASEAN+3: Gross Financing Needs, FY2019–2024
(Percent of GDP)



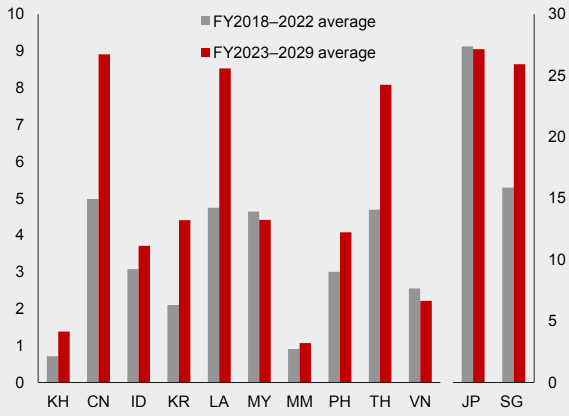
Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates.
Note: (1) Debt service in Lao PDR is based on its original amount, including debt restructuring under negotiation; (2) Amortization in the Philippines includes the redemption by the bond sinking fund; (3) Amortization in Singapore includes the redemption of publicly held Singapore government securities and Treasury bills; (4) For Brunei, there is no issuance of debt to finance fiscal needs.

Figure 1.6.6. ASEAN+3: Contribution to the Change in GFN-to-GDP Ratio in FY2024[3]
(Percent of GDP)



Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates.
Note: 1) Debt service in Lao PDR is based on its original amount, including debt restructuring under negotiation; 2) Amortization in the Philippines includes redemptions by the bond sinking fund; 3) Amortization in Singapore includes the redemption of publicly-held Singapore government securities and Treasury bills; 4) For Brunei, there is no issuance of debt to finance fiscal needs; 5) See footnotes for the decomposition methodology.

Figure 1.6.7. Selected ASEAN+3: Amortization Needs, FY2018–2029
(Percent of GDP)



Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates.
Note: Amortization needs over the medium term are projected, based on AMRO staff's debt projections, assuming the same average maturity of government debt outstanding as of 2025.

3/ Decomposition:

$$gfn_t - gfn_{t-1} = \underbrace{\Delta pd_t}_{\text{contribution of primary deficit}} + \underbrace{\Delta ip_t}_{\text{contribution of interest payment}} + \underbrace{\Delta pp_t}_{\text{contribution of principal payment}} - \underbrace{\frac{gfn_{t-1}}{(1+g_t)(1+\pi_t)}\, g_t}_{\text{contribution of real GDP growth}} - \underbrace{\frac{(1+g_t)gfn_{t-1}}{(1+g_t)(1+\pi_t)}\, \pi_t}_{\text{contribution of GDP deflator inflation}}$$

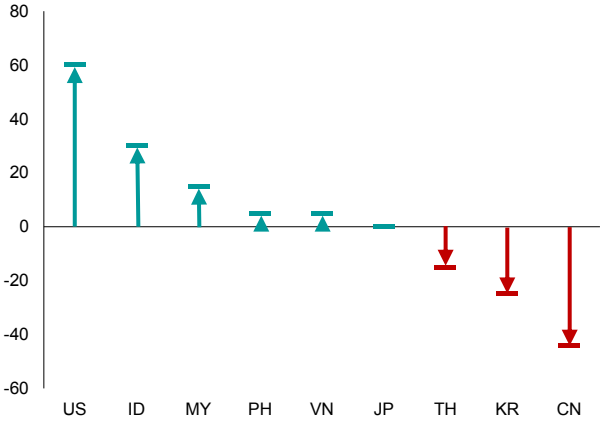
where $\Delta pd_t = \frac{PD_t - PD_{t-1}}{P_t Y_t}$, $\Delta ip_t = \frac{IP_t - IP_{t-1}}{P_t Y_t}$, $\Delta pp_t = \frac{PP_t - PP_{t-1}}{P_t Y_t}$, and *gfn*=gross financing needs as a percentage of GDP, *PD*=primary deficit, *IP*=interest payment, *PP*=principal payment, *P*=GDP deflator, *Y*=real GDP, *g*=real GDP growth, π=GDP deflator inflation.

Fiscal policy should remain responsive to near-term shocks while continuing medium-term fiscal consolidation and addressing structural challenges through a comprehensive policy framework. The effectiveness of fiscal consolidation could be improved through sound public financial management practices and realistic medium-term fiscal frameworks, with the pace of adjustment varying across economies depending on their growth and consolidation needs. Fiscal consolidation should involve a combination of revenue-enhancing measures and spending rationalization, while emergency support measures introduced during and after the pandemic to support the economy should be withdrawn. On the revenue side, opportunities exist to strengthen tax administration, improve compliance, and streamline tax expenditures in line with evolving global tax reforms. Expenditure policies could benefit from a systematic review and reallocation of resources to align with national development priorities, while safeguarding and enhancing the efficiency of public investment and social safety nets that support long-term growth and basic welfare for the poor and vulnerable. These efforts to strengthen fiscal sustainability become particularly important when addressing structural challenges such as aging populations and climate change, which demand comprehensive policy responses extending beyond fiscal measures alone. The *ASEAN+3 Fiscal Policy Report (AFPR) 2025* provides more detailed analysis and policy considerations on these fiscal challenges facing the region.

Monetary Policy

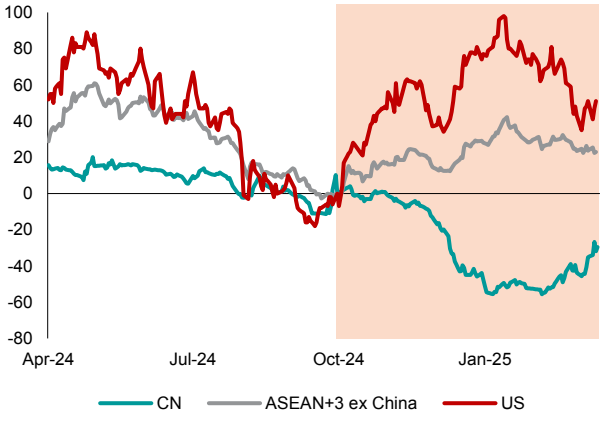
Most ASEAN+3 central banks pivoted toward a less restrictive monetary policy stance in 2024 as inflation pressures moderated and inflation returned to pre-pandemic levels. The Philippines, Indonesia and Thailand lowered policy rates in the second half of the year—with the Philippines being the first to cut rates in August. Among Plus-3 economies, China and Korea also lowered policy rates during the same period to support their economies. Japan stood out as an exception, ending its long-standing unconventional monetary stimulus program and raising its policy rate as inflation remained above its 2 percent target level. Despite episodes of market volatility throughout the year, financial markets continued to function in an orderly manner, supported by central bank liquidity measures. However, since September 2024, interest rate expectations between the United States and the region have widened substantially. Policy rate forecasts for the United States have increased due to persistent labor market tightness and core inflation stickiness, leading to rising expectations of high interest rates for longer. By contrast, policy rate expectations for regional economies have mostly remained unchanged or even declined—especially for China, where forecasts have dropped amid expectations of more monetary policy support for the economy (Figure 1.41). Long-term yields have also moved in tandem: China's 10-year government bond yield fell below 1.6 percent in early January 2025, while rates in Japan, Korea, and ASEAN-6 either declined or showed minimal increases (Figure 1.42). This has widened interest rate differentials with the United States, putting pressure on regional currencies and making monetary policy management more challenging.

Figure 1.41. United States and Selected ASEAN+3: Change in Policy Rate Forecasts for Q4 2025
(Basis point change between September 2024 and January 2025 forecasts)



Source: Bloomberg, Consensus Economics; AMRO staff calculations.
Note: US = United States, CN = China, ID = Indonesia, JP = Japan, KR = Korea, MY = Malaysia, PH = the Philippines, TH = Thailand. Data shows the changes in Q4 2025 policy rate forecasts between Bloomberg's September 2024 and January 2025 median forecasts. Data for China refers to the change in one-year-ahead forecast for One-Year Loan Prime Rate from Consensus Economics over the same period.

Figure 1.42. Selected ASEAN+3: 10-year Government Bond Yields
(Basis point change from September 30, 2024)



Source: National authorities via Haver Analytics; AMRO staff calculations.
Note: ASEAN+3 ex China = Hong Kong, Japan, Korea, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. Data for ASEAN+3 ex China refers to simple average of the changes in 10-year government bond yields since September 30, 2024.

The highly uncertain operating environment calls for careful calibration of monetary policy adjustments across the region. With most economies assessed to have moderate policy space amid expectations of low and stable inflation, scope exists for supporting growth should downside risks to the outlook materialize. Nevertheless, economies that are facing continued inflationary pressures have more limited room to maneuver. Supply-side factors present additional challenges for monetary policy calibration—energy price volatility, supply chain disruptions, and extreme weather events could reignite inflationary pressures, potentially complicating the path of policy normalization. The growing interest rate differential with the United States introduces further complexity, potentially affecting capital flows and exchange rates. A careful data-driven and outlook-dependent approach to policy adjustments, with close attention to both domestic and external conditions, would help policymakers strike the right balance in the growth-inflation trade-off while taking into consideration financial and external stability risks in this challenging and highly uncertain environment.

Looking ahead, financial and external stability considerations warrant continued attention. High household debt in several economies highlight the need for policymakers to balance the need to normalize interest rate to support the economy with the implications of lower interest rates for household debt. Sectoral vulnerabilities—particularly in real estate markets, household debt, and financial market intermediation—could be addressed more effectively by complementing monetary policy with targeted macroprudential measures (see *ASEAN+3 Financial Stability Report 2024* for further discussion). External sector resilience also requires careful consideration, with exchange rate flexibility and reserves adequacy serving as important buffers against volatile capital flows and external shocks. Exchange rate flexibility will be particularly important in the near term to help absorb the impact of potential new tariffs and partially offset losses in export competitiveness. However, policymakers must carefully calibrate currency adjustments to avoid disorderly movements that could trigger financial instability or spark competitive devaluation. Overall, the foundation for effective monetary policy lies in monetary authorities' capacity to navigate increasingly complex domestic and external conditions while maintaining price stability. These considerations become particularly relevant given the prospects of more volatile global financial conditions and ongoing changes in the financial systems amid greater use of technology. Building and maintaining policy credibility while preserving flexibility to respond to shocks remains central to monetary policy effectiveness over the longer term.

Overall, ASEAN+3 policymakers face a delicate balancing act in the period ahead. While the region's solid foundations provide a strong basis for rebuilding policy space, shifting global conditions require continued policy agility. The normalization of fiscal and monetary policy settings in the post-pandemic period needs to be balanced against readiness to respond if the outlook deteriorates. At the same time, ongoing structural reforms to lift potential growth and strengthen resilience remain essential even as near-term stability is prioritized. Clear and credible policy frameworks, underpinned by strong buffers and regional cooperation, could help anchor this challenging transition while reinforcing ASEAN+3's role as a key driver of global growth and stability.

Appendix: Selected Key Macroeconomic and Financial Indicators

	2023	2024e	2025f	2026f
Brunei Darussalam				
Real GDP growth (percent, year-on-year)	1.4	4.2	2.6	2.6
Headline inflation (period average, percent, year-on-year)	0.4	–0.4	0.6	0.4
Current account balance (percent of GDP)	12.9	13.8	13.0	10.4
Government fiscal balance (percent of GDP)	–11.9	–11.7	–9.6	–9.1
Cambodia				
Real GDP growth (percent, year-on-year)	5.0	6.0	5.8	6.0
Headline inflation (period average, percent, year-on-year)	2.1	0.8	2.9	2.5
Current account balance (percent of GDP)	1.3	–0.1	–2.2	–4.1
Government fiscal balance (percent of GDP)	–5.3	–3.6	–3.2	–2.7
China				
Real GDP growth (percent, year-on-year)	5.2	5.0	4.8	4.7
Headline inflation (period average, percent, year-on-year)	0.2	0.2	1.1	1.3
Current account balance (percent of GDP)	1.5	2.3	1.0	1.1
Government fiscal balance (percent of GDP)	–3.8	–3.0	–4.0	–4.0
Hong Kong, China				
Real GDP growth (percent, year-on-year)	3.2	2.5	2.4	2.3
Headline inflation (period average, percent, year-on-year)	2.1	1.7	2.2	2.0
Current account balance (percent of GDP)	8.5	10.7	10.5	10.6
Government fiscal balance (percent of GDP)	–3.4	–1.5	0.2	0.9
Indonesia				
Real GDP growth (percent, year-on-year)	5.0	5.0	5.0	5.1
Headline inflation (period average, percent, year-on-year)	3.7	2.3	2.2	2.7
Current account balance (percent of GDP)	–0.1	–0.6	–0.8	–1.3
Government fiscal balance (percent of GDP)	–1.6	–2.3	–2.7	–2.7
Japan				
Real GDP growth (percent, year-on-year)	1.5	0.1	1.3	1.0
Headline inflation (period average, percent, year-on-year)	3.3	2.7	2.5	2.1
Current account balance (percent of GDP)	3.8	4.8	4.1	4.0
Government fiscal balance (percent of GDP)	–1.9	–2.1	–2.9	–1.2
Korea				
Real GDP growth (percent, year-on-year)	1.4	2.0	1.6	1.9
Headline inflation (period average, percent, year-on-year)	3.6	2.3	1.9	1.8
Current account balance (percent of GDP)	1.9	5.3	4.9	4.3
Government fiscal balance (percent of GDP)	–3.6	–3.9	–3.0	–2.9

Appendix: Selected Key Macroeconomic and Financial Indicators

	2023	2024e	2025f	2026f
Lao PDR				
Real GDP growth (percent, year-on-year)	4.2	4.5	4.6	4.6
Headline inflation (period average, percent, year-on-year)	31.2	23.1	10.1	6.4
Current account balance (percent of GDP)	2.9	0.6	0.7	0.4
Government fiscal balance (percent of GDP)	0.7	2.4	–0.8	–0.9
Malaysia				
Real GDP growth (percent, year-on-year)	3.6	5.1	4.7	4.5
Headline inflation (period average, percent, year-on-year)	2.5	1.8	2.7	2.5
Current account balance (percent of GDP)	1.5	1.7	1.6	1.8
Government fiscal balance (percent of GDP)	–5.0	–4.1	–3.9	–3.6
Myanmar[1]				
Real GDP growth (percent, year-on-year)	3.5	3.2	1.0	1.0
Headline inflation (period average, percent, year-on-year)	27.5	25.0	18.0	18.0
Current account balance (percent of GDP)	–2.1	–1.7	–0.8	–
Government fiscal balance (percent of GDP)	–3.7	–4.1	–5.0	–
Philippines				
Real GDP growth (percent, year-on-year)	5.5	5.7	6.3	6.3
Headline inflation (period average, percent, year-on-year)	6.0	3.2	3.3	3.2
Current account balance (percent of GDP)	–2.8	–3.8	–2.4	–2.1
Government fiscal balance (percent of GDP)	–6.2	–5.7	–5.6	–4.7
Singapore				
Real GDP growth (percent, year-on-year)	1.8	4.4	2.7	2.4
Headline inflation (period average, percent, year-on-year)	4.8	2.4	1.8	1.8
Current account balance (percent of GDP)	17.7	17.5	19.9	21.3
Government fiscal balance (percent of GDP)	–0.4	0.9	0.9	0.5
Thailand				
Real GDP growth (percent, year-on-year)	2.0	2.5	2.9	3.0
Headline inflation (period average, percent, year-on-year)	1.2	0.4	1.2	1.3
Current account balance (percent of GDP)	1.5	2.3	1.2	0.5
Government fiscal balance (percent of GDP)	–3.3	–4.0	–4.4	–3.6
Vietnam				
Real GDP growth (percent, year-on-year)	5.0	7.1	6.5	6.2
Headline inflation (period average, percent, year-on-year)	3.3	3.6	3.5	3.0
Current account balance (percent of GDP)	5.8	4.2	5.1	4.7
Government fiscal balance (percent of GDP)	–2.7	–2.0	–2.5	–2.4

Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates.
Note: Numbers in red are AMRO staff estimates and forecasts. Data refer to calendar year; except for government fiscal balances, and Myanmar, which refer to fiscal year. Data for 2024 refer to AMRO staff estimates, for data releases that are not yet available. Government fiscal balance refers to balance of the central and local governments for Cambodia; general government for Japan; and central government for all other economies. e = estimates; f = forecasts.

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