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Chapter 1: Macroeconomic Prospects and Challenges

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, following 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.

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.

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Chapter 2: Inflation in ASEAN+3: Changing Dynamics and Policy Implications

After over two decades of low and stable inflation in ASEAN+3, the region experienced a surge in 2021 due to the COVID-19 pandemic and global supply shocks. However, the increase was moderate and short-lived compared to other regions, limiting welfare losses. While global commodity prices initially drove broad-based price increases, inflation moderated by late 2022 as commodity prices eased and supply chains normalized. Notably, inflation dynamics shifted post-pandemic—goods inflation dominated early on, while services inflation became the more persistent driver during disinflation. Despite these shifts, inflation expectations remained well-anchored, reflecting confidence in price stability.

Analysis reveals the evolving interplay of supply and demand forces in the region. Supply factors became a more important driver of both core and headline inflation during 2021–2022, particularly through global commodity prices and supply chain disruptions. As external pressures eased by late-2022, demand factors emerged as the main driver amid economic reopening. Plus-3 (China, Hong Kong, Japan, and Korea) economies saw inflation moderating steadily from end-2022 to average below 1 percent by mid-2023, while ASEAN economies maintained higher inflation rates due to stronger recovery in domestic demand.

ASEAN+3 economies used a mix of monetary and non-monetary measures to manage inflationary pressures effectively. Since 2022, monetary tightening has been crucial in anchoring inflation expectations and containing demand pressures. Concurrently, fiscal measures such as energy and food subsidies, cash transfers, and tax adjustments helped contain price increases and provided critical support to households. Other supply adjustment interventions such as price regulation, stockpile management, and trade measures ensured essential goods remain available and affordable.

The ASEAN+3 experience offers key lessons for managing inflation amid complex supply-demand dynamics. Effective policy responses hinge on accurately diagnosing inflation drivers and calibrating the appropriate policy mix. While monetary policy remains the primary tool for managing demand and anchoring expectations, targeted non-monetary measures have proven valuable in addressing supply bottlenecks, capping price increases of essential items, and protecting vulnerable groups.

Looking ahead, managing inflation will be increasingly challenging as structural shifts like geopolitical tensions, demographic changes, and climate transition heighten supply disruption risks. Monetary authorities may need stronger responses to supply shocks if inflation expectations risk becoming de-anchored, particularly given more frequent and persistent supply disruptions. Enhanced monitoring is crucial to better distinguish supply and demand factors in real time, minimizing the risk of delayed responses. However, such responses must balance trade-offs, as monetary tightening to contain supply-driven inflation can exacerbate economic downturns. Building policy buffers and strengthening surveillance capabilities will be crucial for effectively navigating these emerging challenges.

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Chapter 3: Long-term Growth of ASEAN+3: Prospects and Policies

The ASEAN+3 region remains well-positioned to be a key global growth driver in the next few decades. However, its pace of expansion has been slowing since the global financial crisis, further exacerbated by the pandemics and other shocks in the past 10 years. Amid major secular trends confronting the region's economies—such as rapid aging, climate change, and global trade reconfiguration—its declining growth momentum raises critical questions about the region's ability to manage new and emerging risks while sustaining its long-term potential growth.

Potential growth in the region has decelerated from about 6.0 percent in the early 2000s to 4.0 percent in 2023. About 70 percent of the decline is due to slower capital accumulation, with sluggish total factor productivity accounting for another 10 percent. In some economies, slow human capital development and a shrinking labor force have also limited the boost to growth from increased investment. The growth potential is projected to further ease to about 3.0 percent by the end of 2050—but it could fall below that if downside risks, such as deeper geoeconomic fragmentation, failure to contain climate change, and more rapid fertility rate declines, were to materialize.

The productivity slowdown is due in part to the scarring effects of the pandemic which impaired the balance sheets of households and firms and the diverse pace of structural change and industrialization experienced across the region. In particular, productivity gains from structural change have fallen by a third of those over the past two decades. In some economies, industrialization has stalled, while shares of manufacturing in employment and output have not increased. In addition, sectoral productivity gaps compared to the global frontier remain wide in most economies, while the shift to services has primarily been toward lower-productivity activities.

The region is facing not only the enormous task of revitalizing economic growth but also ensuring its future pathway is dynamic and can respond to challenges ahead. While there is no "one-size fits all" formula for sustaining high-quality growth, ASEAN+3's long experience with economic transformation helps provide a compass for development strategies. However, it is imperative that these new growth strategies be tailored to address the new economic challenges that ASEAN+3 economies are facing, including aging workforces, climate change, and geoeconomic fragmentation.

While the precise policy prescription will differ across ASEAN+3 economies based on their specific context, this chapter identifies five policy themes that could guide the region's policymakers craft new growth pathways for the future. These encompass (1) upgrading existing manufacturing capabilities to respond to new demand dynamics; (2) prioritizing the shift toward high skills and quality services; (3) closing investment gaps, especially in productivity-enhancing infrastructures; (4) boosting innovation and leveraging on technology to redefine traditional development pathways; and (5) strengthening state capacity, without which successful growth outcomes would be impossible. Undertaking these policy adjustments would be, in many ways, bolstered by stronger regional cooperation, helping ensure that the ASEAN+3 region of the future not only exhibits high growth, but also growth that is inclusive, equitable, and sustainable.