

# ASIAN DEVELOPMENT OUTLOOK

JULY 2024

## HIGHLIGHTS

- Growth in developing Asia accelerated in the first quarter of 2024 on resilient domestic demand and strong export growth, particularly in electronics. The region's growth forecast for 2024 is increased slightly to 5.0%, while the 2025 projection is maintained at 4.9%.
- East Asia's 2024 growth projection is revised up to 4.6% on strong exports of semiconductors and other goods driven by the artificial intelligence boom, with the 2025 projection maintained at 4.2%.
- Despite some changes in individual economies, growth forecasts for Southeast Asia remain at 4.6% in 2024 and 4.7% in 2025, and for the Pacific at 3.3% in 2024 and 4.0% in 2025.
- The growth forecast for South Asia remains steady at 6.3% for 2024, with the 2025 projection down marginally to 6.5%.
- The outlook for growth in the Caucasus and Central Asia is raised to 4.5% from 4.3% in 2024 and 5.1% from 5.0% in 2025.
- Headline inflation in developing Asia is now forecast to ease further from 3.3% last year to 2.9% this year, stabilizing at 3.0% in 2025.
- Interest rates in the United States and other advanced economies continue to shape the outlook, which is subject to several downside risks. Uncertainty on the United States election outcome, elevated geopolitical tensions and trade fragmentation, property market fragility in the People's Republic of China, and weather-related events could hurt growth. Meanwhile, La Niña is an upside risk due to expected higher rainfall and cooler temperatures.

## STEADY GROWTH, SLOWING INFLATION

### Recent Developments

**Developing Asia's growth accelerated early this year, supported by a relatively stable global economy.** The region's economy remained robust in the first quarter (Q1) of 2024, driven by strong export growth and solid domestic demand. Inflation continued to moderate toward pre-pandemic levels, mainly due to the lagged effects of monetary policy tightening. While growth projections remain broadly unchanged, downside risks persist, including heightened geopolitical tensions, trade fragmentation, and uncertainties related to elections in major economies.

**Growth remains weak in major advanced economies, with oil prices subdued.**

Gross domestic product (GDP) growth in the United States (US) slowed to a seasonally adjusted annualized rate (saar) of 1.4% in Q1 2024, the lowest since Q2 2022, due to weak consumer spending and exports. Despite a strong labor market, headline inflation decelerated for the second consecutive month to 3.3% year-on-year in May, supported by moderating food and transport inflation. After a very mild technical recession in the second half of 2023, the euro area rebounded in Q1, growing by 1.3% saar with a broad-based recovery across economies. Leading economic indicators suggest the expansion will continue. Japan's economy contracted by 2.9% saar in Q1, in part due to a temporary shock caused by production shutdowns at major automobile manufacturers, which adversely affected private investment and merchandise exports. After the wider conflict in the Middle East pushed the price of Brent crude oil to a six-month high of \$92.30/barrel in early April, oil prices fell but remained above \$85/barrel in early July. Upward pressure on

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oil prices from a seasonal increase in demand, ongoing geopolitical tensions, and the Organization of the Petroleum Exporting Countries (OPEC)+ managed supply has been tempered by the effects of higher-for-longer interest rates and increased oil supply from US producers.

### Developing Asia's economy grew faster, fueled by solid domestic demand and strong export growth.

Growth accelerated in Q1 2024 across most of the region compared with the second half of last year (Figure 1). Shifting away from the post-pandemic recovery driven mostly by domestic demand, exports rebounded and are helping propel the region's growth. In the People's Republic of China (PRC), GDP rose by 5.3% in Q1 from higher consumer spending on services, strong industrial activities, a rebound in exports of automobiles (including electric vehicles), passenger and cargo ships, and electronics, along with strong demand for high-technology manufacturing goods. However, contrary to earlier expectations, the country's property market has not shown signs of stabilizing, and recent data on property sales and home prices indicate further deterioration. In response, the government introduced several additional support measures in May. Major high-income technology exporters, such as the Republic of Korea (ROK) and Taipei, China, continued to benefit

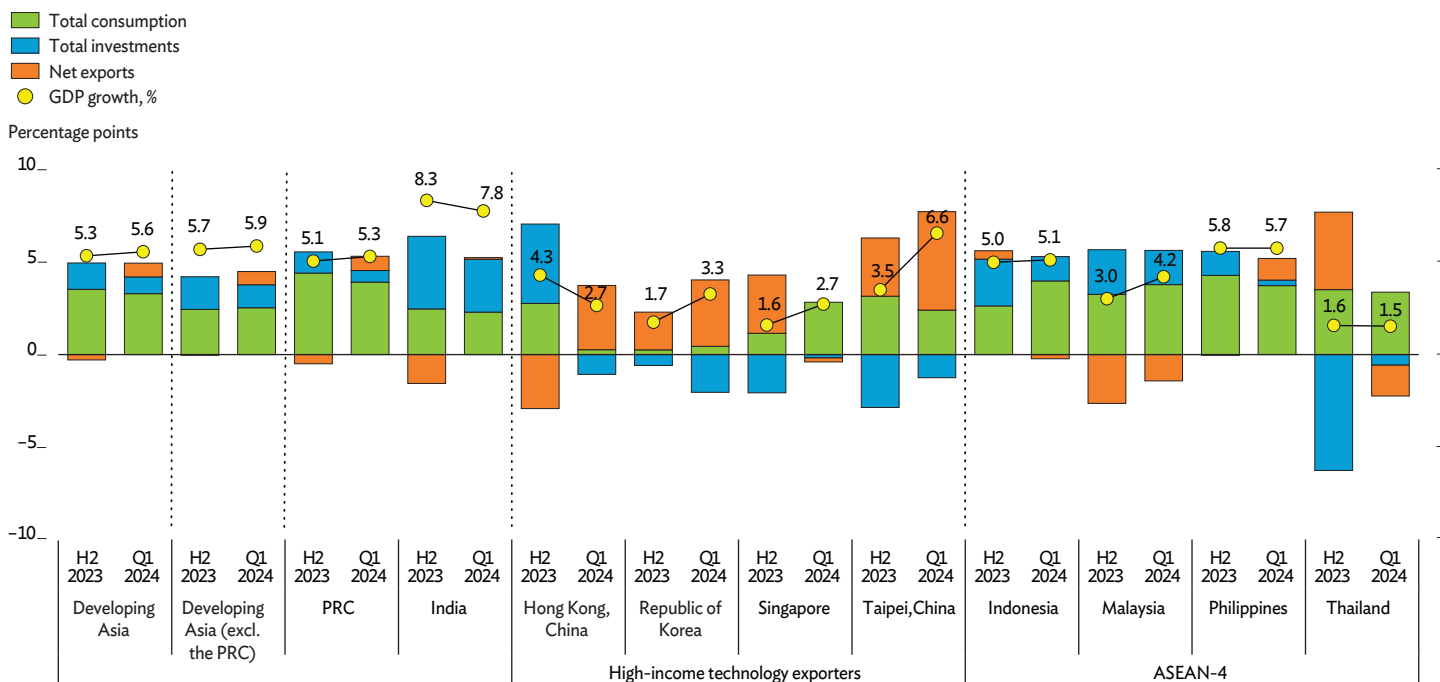
from surging global demand for electronics. In the Association of Southeast Asian Nations economies, while domestic demand remained strong, relatively weak export growth and higher imports kept overall growth subdued. India's economic growth decelerated to 7.8% in Q1 but remains the fastest in the region. Leading indicators are consistent with continued robust activity in developing Asia going forward. In June, most purchasing managers' indexes (PMIs) continued to rise, with the PMI above 50 for most economies with available data, signaling a broad-based expansion in manufacturing (Table 1).

### Global demand for semiconductors and electronics continued to rise.

Growth in these sectors is driven by strong demand for products used in emerging high-technology and artificial intelligence (AI) applications. While East Asia dominates high-technology goods production, other economies are also benefiting from the current semiconductor boom. These include the Philippines and Viet Nam, which specialize in integrated circuit packaging and electronics assembly. In the ROK, semiconductor exports increased by 52.5% year-on-year for the first 5 months of 2024, driven by sales of memory chips for storing the large programs and data needed for AI. Similarly, Taipei, China's exports of information, communication, and audiovisual products surged by 107.8%.

**Figure 1 Contributions to GDP Growth, H2 2023 and Q1 2024**

Growth in developing Asia accelerated in Q1 2024, driven by net exports.



ASEAN = Association of Southeast Asian Nations, GDP = gross domestic product, H = half, PRC = People's Republic of China, Q = quarter.

Notes: Economies included are those with available quarterly GDP data and demand-side breakdowns, accounting for about 90% of developing Asia. Components do not add up to the total due to statistical discrepancies and the chain-linking method. All data are for calendar years. H2 2023 GDP growth is the percentage growth rate of GDP in the last 2 quarters of 2023 over the same period in 2022.

Sources: Haver Analytics; CEIC Data Company.

**Table 1 Manufacturing Purchasing Managers’ Indexes in Selected Developing Asian Economies**

Manufacturing activity continued to expand in June in several economies.

Economy	2023						2024					
	Q3			Q4			Q1			Q2		
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
India	57.7	58.6	57.5	55.5	56.0	54.9	56.5	56.9	59.1	58.8	57.5	58.3
Viet Nam	48.7	50.5	49.7	49.6	47.3	48.9	50.3	50.4	49.9	50.3	50.3	54.7
Taipei,China	44.1	44.3	46.4	47.6	48.3	47.1	48.8	48.6	49.3	50.2	50.9	53.2
Republic of Korea	49.4	48.9	49.9	49.8	50.0	49.9	51.2	50.7	49.8	49.4	51.6	52.0
PRC	49.2	51.0	50.6	49.5	50.7	50.8	50.8	50.9	51.1	51.4	51.7	51.8
Thailand	50.7	48.9	47.8	47.5	47.6	45.1	46.7	45.3	49.1	48.6	50.3	51.7
Philippines	51.9	49.7	50.6	52.4	52.7	51.5	50.9	51.0	50.9	52.2	51.9	51.3
Indonesia	53.3	53.9	52.3	51.5	51.7	52.2	52.9	52.7	54.2	52.9	52.1	50.7
Singapore	49.8	49.9	50.1	50.2	50.3	50.5	50.7	50.6	50.7	50.5	50.6	50.4
Malaysia	47.8	47.8	46.8	46.8	47.9	47.9	49.0	49.5	48.4	49.0	50.2	49.9

Q = quarter; PRC = People’s Republic of China.

Notes: Pink to red indicates deterioration (<50) and white to green indicates improvement (>50). All series are seasonally adjusted except for Singapore.

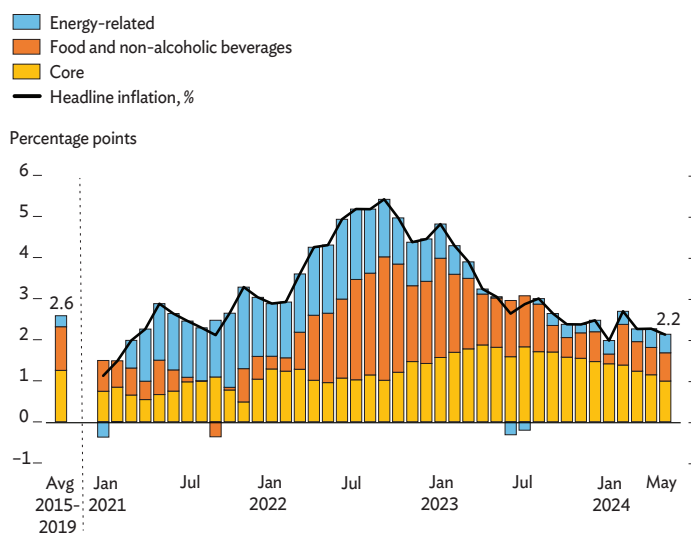
Source: CEIC Data Company.

**Inflation continued to decline, although more slowly, across most of developing Asia.** Headline inflation continued decreasing toward pre-pandemic levels, mainly due to the lagged effects of tight monetary policy and a slight easing of global food prices (Figure 2). Core inflation also continued to fall but remains elevated in the ROK; Mongolia; and Taipei,China. After a period of deflation in late 2023, inflation in the PRC picked up to an 11-month high of 0.7% in February 2024 and remained positive, though moderating, through May. In South Asia, Southeast Asia, and the Pacific, food inflation remains high, with its contribution to overall inflation still above pre-pandemic levels. Adverse weather and food export restrictions in some economies limited supply in these subregions. Rice prices, up sharply since late 2023, remain relatively high, driven by tight supply from El Niño effects and continued export restrictions from India.

**Most central banks continue to hold policy rates steady, though easing is gathering pace.** Thirty percent of monetary policy decisions from January–June this year were policy rate cuts, compared to 14% for all of 2023. In the Kyrgyz Republic, the central bank cut rates twice as inflation fell to 4.5% from double digits for most of last year. Pakistan also cut policy rates as inflation fell to 11.8% in May, down from 38.0% in the same period last year. Easing also continued in Armenia and Georgia. In contrast, Taipei,China raised its policy rate slightly in anticipation of an electricity rate hike pushing prices up, while Indonesia hiked its rate to support its currency.

**Figure 2 Contributions to Inflation in Developing Asia by Food, Energy, and Core Price Basket**

Inflation is trending downward across developing Asia.



Notes: Core inflation excludes volatile energy and fuel prices. The regional average is calculated using gross domestic product purchasing power parity shares as weights for 23 economies.

Sources: Asian Development Bank calculations using data from Haver Analytics and CEIC Data Company.

**Continued tight US monetary policy weighed marginally on developing Asia's currencies, while regional financial conditions remained resilient.** The US dollar was bolstered by a still-high US federal funds rate, investor repositioning with the delayed start to US monetary easing, and heightened geopolitical risks that fueled risk aversion. Most currencies in developing Asia weakened slightly against the US dollar, resulting in a GDP-weighted average depreciation of 2.6% in the first half of 2024. Meanwhile, risk premia across the region narrowed during the period. Equity markets continued to perform well, despite some temporary volatility primarily linked to shifting expectations on US monetary policy.

**Public debt ratios eased somewhat, but risks remain.** The average government debt-to-GDP ratio for developing Asia is projected to be around 47% this year, slightly lower than expected in April, with robust growth continuing to offset upward pressure from primary deficits. Nonetheless, a few high-risk countries remain in a difficult position despite gradual improvement. Sri Lanka's public debt eased from its peak in 2022, as the primary balance gradually improved from an average deficit of 4.5% of GDP in 2019–2021 to 3.7% in 2022 before turning to a surplus of 0.6% by 2023. In Pakistan, public debt is forecast to decline by 7 percentage points to 70% of GDP in 2024–2025. Still, interest payments are expected to require a staggering 62% of fiscal revenues, up from 41% in 2022–2023. In the Lao People's Democratic Republic (Lao PDR), the Ministry of Finance reported that public and publicly guaranteed debt as a share of GDP declined from 112% in 2022 to 108% in 2023, while debt service payments were reported at a high 55% of fiscal revenues.

**The growth outlook in major advanced economies improved slightly, but remains constrained by tight monetary policy.**

The GDP growth forecast for the US has been revised slightly up to 2.0% in 2024, reflecting resilience amid tight monetary conditions. Growth is projected to moderate to 1.7% in 2025 on weaker consumer and investor sentiment, as monetary policy eases less than assumed in *Asian Development Outlook (ADO) April 2024*. The US Federal Reserve is now expected to begin its monetary easing cycle in late Q3, one quarter later than assumed in April. Euro area growth projections remain unchanged. In line with expectations, the European Central Bank's June rate cut indicates that monetary easing in the second half of this year will support a nascent recovery. Japan's growth forecast remains at 0.6% for 2024 and has been revised up to 1.0% for 2025, as rising wages and slowing inflation should boost consumption along with a rise in inbound tourism and goods exports.

**Developing Asia's growth forecast is revised up to 5.0% in 2024 and maintained at 4.9% in 2025.** Growth projections remain broadly unchanged with respect to *ADO April 2024* (Table 2). Resilient domestic demand along with improved exports and manufacturing will support growth this year. The region's 2024 growth forecast has been marginally adjusted up by 0.1 percentage points due to upward revisions in the Caucasus and Central Asia along with East Asia. Meanwhile, the inflation forecast for the region has fallen to 2.9% in 2024, largely due to downward revisions in the PRC and the Caucasus and Central Asia, which offset a slight increase in South Asia. The region's inflation forecast for 2025 remains at 3.0%.

**Risks to the outlook are tilted to the downside.** Policy uncertainty related to elections in major economies, particularly the US, clouds the outlook. Heightened geopolitical tensions—including potential escalations in the Middle East and Russia's war in Ukraine—and trade fragmentation could once again disrupt supply chains and induce commodity price volatility. The PRC property slump could deepen, leading to weaker growth prospects in the PRC. In addition, adverse weather conditions and climate change impacts could threaten crop production. One positive development is that El Niño has ended and La Niña, which tends to bring cooler temperatures and more rain to parched areas, such as in Southeast Asia, could begin during the latter half of this year.

## Growth and Inflation Outlook by Subregion

### East Asia

**The 2024 growth outlook for East Asia has been revised slightly up to 4.6%, remaining at 4.2% for 2025.** The upward adjustments in 2024 forecasts for the ROK and Taipei, China, due to strong exports of semiconductors and AI goods, led to a slight rise in the subregional average. GDP projections for the PRC are unchanged, supported by a recovery in services consumption and robust exports, which counterbalances the continued property market downturn.

**The PRC growth forecasts for 2024 and 2025 have not changed.** The PRC economy grew by 5.3% year-on-year in Q1 2024, driven by continued recovery in services consumption and stronger-than-expected exports and industrial activity growth. The strong start of the year supported growth momentum, surpassing earlier expectations. However, the property market has not stabilized as earlier expected. In May, property market



**Table 2 GDP Growth Rate and Inflation, %**
*Growth in developing Asia remains robust, inflation moderates.*

	GDP Growth					Inflation				
	2023	2024		2025		2023	2024		2025	
		April	July	April	July		April	July	April	July
<b>Developing Asia</b>	<b>5.1</b>	<b>4.9</b>	<b>5.0</b>	<b>4.9</b>	<b>4.9</b>	<b>3.3</b>	<b>3.2</b>	<b>2.9</b>	<b>3.0</b>	<b>3.0</b>
<b>Developing Asia excluding the PRC</b>	<b>5.1</b>	<b>5.0</b>	<b>5.1</b>	<b>5.3</b>	<b>5.3</b>	<b>6.3</b>	<b>5.1</b>	<b>5.2</b>	<b>4.4</b>	<b>4.4</b>
<b>Caucasus and Central Asia</b>	<b>5.3</b>	<b>4.3</b>	<b>4.5</b>	<b>5.0</b>	<b>5.1</b>	<b>10.2</b>	<b>7.9</b>	<b>7.6</b>	<b>7.0</b>	<b>6.8</b>
Kazakhstan	5.1	3.8	3.8	5.3	5.3	14.5	8.7	8.7	6.3	6.3
<b>East Asia</b>	<b>4.7</b>	<b>4.5</b>	<b>4.6</b>	<b>4.2</b>	<b>4.2</b>	<b>0.6</b>	<b>1.3</b>	<b>0.8</b>	<b>1.6</b>	<b>1.6</b>
People's Republic of China	5.2	4.8	4.8	4.5	4.5	0.2	1.1	0.5	1.5	1.5
Hong Kong, China	3.2	2.8	2.8	3.0	3.0	2.1	2.3	2.3	2.3	2.3
Republic of Korea	1.4	2.2	2.5	2.3	2.3	3.6	2.5	2.5	2.0	2.0
Taipei,China	1.3	3.0	3.5	2.7	2.7	2.5	2.3	2.3	2.0	2.0
<b>South Asia</b>	<b>6.9</b>	<b>6.3</b>	<b>6.3</b>	<b>6.6</b>	<b>6.5</b>	<b>8.4</b>	<b>7.0</b>	<b>7.1</b>	<b>5.8</b>	<b>5.8</b>
India	8.2	7.0	7.0	7.2	7.2	5.4	4.6	4.6	4.5	4.5
<b>Southeast Asia</b>	<b>4.1</b>	<b>4.6</b>	<b>4.6</b>	<b>4.7</b>	<b>4.7</b>	<b>4.1</b>	<b>3.2</b>	<b>3.2</b>	<b>3.0</b>	<b>3.0</b>
Indonesia	5.0	5.0	5.0	5.0	5.0	3.7	2.8	2.8	2.8	2.8
Malaysia	3.7	4.5	4.5	4.6	4.6	2.5	2.6	2.6	2.6	2.6
Philippines	5.5	6.0	6.0	6.2	6.2	6.0	3.8	3.8	3.4	3.4
Singapore	1.1	2.4	2.4	2.6	2.6	4.8	3.0	3.0	2.2	2.2
Thailand	1.9	2.6	2.6	3.0	3.0	1.2	1.0	0.7	1.5	1.3
Viet Nam	5.1	6.0	6.0	6.2	6.2	3.3	4.0	4.0	4.0	4.0
<b>The Pacific</b>	<b>3.5</b>	<b>3.3</b>	<b>3.3</b>	<b>4.0</b>	<b>4.0</b>	<b>3.0</b>	<b>4.3</b>	<b>4.3</b>	<b>4.1</b>	<b>4.1</b>

GDP = gross domestic product, PRC = People's Republic of China.

Note: **Developing Asia** refers to the 46 developing members of the Asian Development Bank. **Caucasus and Central Asia** comprises Armenia, Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan. **East Asia** comprises the People's Republic of China; Hong Kong, China; the Republic of Korea; Mongolia; and Taipei, China. **South Asia** comprises Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. **Southeast Asia** comprises Brunei Darussalam, Cambodia, Indonesia, the Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Timor-Leste, and Viet Nam. **The Pacific** comprises the Cook Islands, Fiji, Kiribati, the Marshall Islands, the Federated States of Micronesia, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.

 Source: *Asian Development Outlook* database.

indicators such as property sales and home prices declined instead of bottoming out. In response, the government announced several support measures in May, including abandoning the nationwide floor on mortgage rates, lowering required down payments for home buyers, and lending support for affordable housing program. Continued policy support and the export recovery should help offset challenges from increased trade tensions and the property market.

**The Taipei, China growth forecast is raised for 2024 and maintained for 2025.** In Q1 2024, GDP grew 6.6%, led by a 9.1% increase in exports, fueled by high demand for electronics and other AI-related goods. Imports grew 0.8%, resulting in net exports adding 5.5 percentage points to growth. As expected, private consumption moderated slightly. Investment remained weak but has likely bottomed out and in line with expectations of a gradual pick-up this year. Export growth slowed to 4.3% in April and 3.5% in May, well below the 12.6% average in Q1.

This suggests growth will moderate at least through the next quarter. Prospects for 2025 remain the same as in *ADO April 2024*, with consumption slowing further and investment picking up moderately with the rebound in exports. Imports will increase as investment rises, mitigating the contribution of the external sector to growth.

**The growth forecast for the ROK is revised up to 2.5% in 2024 and retained at 2.3% in 2025.** The economy grew by a higher-than-expected 3.3% year-on-year in the first quarter of 2024. Growth was fueled by the export surge, particularly in the semiconductors which saw a remarkable 52.5% increase in the first 5 months of the year. Sales of memory chips for high-tech and AI applications almost doubled. Automobile production and exports were also strong. By contrast, domestic consumption and investment remained weak given high interest rates. The economy is forecast to grow 2.5% in 2024 driven by strong exports, and 2.3% in 2025 as domestic demand improves.

**Growth projections for Hong Kong, China remain at 2.8% for 2024 and 3.0% for 2025.** The economy grew by a moderate 2.7% year-on-year in the first quarter of 2024. Services exports remained an important source of growth as the revival in tourist arrivals continued, while goods exports improved further in the quarter. Growth in private consumption and overall investment expenditure moderated somewhat. Rising employment earnings and government initiatives to boost sentiment should help private consumption, but changing consumption patterns could pose challenges. Services exports will remain firm on strong travel and transport services exports and despite weak financial and business services exports. Goods exports and imports will improve this year and next. Also, public and private investment should rise further amid expected interest rate cuts and resuming government investment.

**The inflation forecast for East Asia is adjusted down to 0.8% in 2024, remaining at 1.6% in 2025.** In the PRC, consumer price inflation averaged 0.1% in the first 5 months of 2024, down from 0.8% a year earlier. Nonfood inflation increased to 0.8% from 0.4% a year ago, driven by higher service prices. Food prices fell by an average 2.8%, with pork prices down 2.7%. Lower inflation has led to a downward adjustment in the 2024 forecast, while the 2025 forecast remains unchanged at 1.5%, given ongoing policy stimulus to boost domestic demand and help the property market recover. Inflation forecasts for other East Asian economies remain unchanged and on target.

### South Asia

**South Asia is on course to largely achieve ADO April 2024 growth forecasts.** Downward revisions for GDP growth in Bangladesh and Maldives over the forecast period are offset in 2024 by upward revisions for Bhutan, Nepal, and Pakistan, leaving the region's 2024 growth forecast unchanged at 6.3%. The growth forecast for 2025 is revised down marginally to 6.5%. In Bangladesh, the lower growth forecasts for fiscal year 2024 (FY2024, ending 30 June 2024) and FY2025 come mainly from downward revisions to growth in industry. Dampened performance of the construction sector is the main reason for lower growth forecasts for Maldives in 2024 and 2025, with lower-than-expected growth in the fisheries sector this year also contributing. Bhutan's GDP growth forecast for 2024 is adjusted upward due to a greater-than-expected increase in the government budget for FY2024 (ended 30 June 2024) and better tourism prospects. Nepal's GDP projection for FY2024 (ending mid-July 2024) is also revised up due to higher-than-expected growth in agriculture and services. The

provisional government estimate of GDP growth in Pakistan for FY2024 (ending 30 June 2024) stood at 2.4%, reflecting robust agricultural output due to improved weather conditions and subsidized government credit, among other factors. Although the economic performance in Q1 2024 in Sri Lanka exceeded ADO April 2024 expectations, growth forecasts for 2024 and 2025 are retained as there remain uncertainties as the election cycle begins in the latter half of the year. While Afghanistan's economy is showing signs of recovery, the weak investment climate, tight fiscal space, and waning international humanitarian and basic needs support underlines its fragility.

**The Indian economy is on track to grow by 7.0% in FY2024 (ending 31 March 2025) and 7.2% in FY2025, as projected in ADO April 2024.** Services continued to expand robustly in Q4 of FY2023, and the forward-looking services PMI is well above its long-term average. Industry is also expected to grow robustly, driven by manufacturing and strong demand for construction led by housing. After muted growth in FY2023, a rebound in agriculture is expected given the above-normal monsoon projections. This is notwithstanding the slower advance of the monsoon in June. A rebound in agriculture will be important to sustain growth momentum in rural areas. Investment demand continues to be strong, led by public investments. Bank credit is fueling robust housing demand and improving private investment demand. However, export growth will continue to be led by services, with merchandise exports showing relatively weaker growth. The stronger-than-expected fiscal position of the central government could provide a further boost to growth. However, this must be weighed against downside risks arising from weather events and geopolitical shocks.

**The inflation forecasts for South Asia are nudged up to 7.1% in 2024 and maintained at 5.8% in 2025.** Although inflation forecasts of Bhutan, India, and Pakistan for FY2024 and FY2025 remain the same as in ADO April 2024, the inflation projections for Bangladesh and Maldives are now expected to be higher. Despite several measures to curb inflation, monthly inflation rates in Bangladesh continued to be near double digits in the first 11 months of FY2024 and may persist due to high domestic food prices. Inflation in Maldives is forecast to be higher due to the shift to targeted subsidies instead of a broader set of subsidies. In contrast, the inflation forecast in Sri Lanka for 2024 is revised down as supply-side conditions improved alongside better external buffers and the availability of foreign currency. In Nepal, average inflation moderated to 5.8% in the first 10 months of FY2024, prompting a downward adjustment in the FY2024 forecast. Inflation is also revised down in FY2025 as transport-related prices should moderate further.

## Southeast Asia

### **Growth forecasts for Southeast Asia remain at 4.6% in 2024 and 4.7% in 2025 on solid improvement in both domestic and external demand.**

Consumption—fueled in part by stable prices and increasing tourism-related activities—continued to lift Southeast Asian economies, though tempered a bit by the tight monetary environment. Higher spending on infrastructure projects in the subregion’s big economies continues to boost investment demand and growth. The expected export recovery is also fueling growth with manufacturing purchasing managers’ indexes remaining positive for major exporting economies, signaling increasing production. Except for the Lao PDR, growth forecasts are unchanged for all economies in 2024 and 2025.

### **Indonesia’s growth projections remain at 5.0% for both 2024 and 2025.**

Domestic demand continues as a key driver of economic growth. Private consumption picked up, boosted by election-related and government social spending, reduced inflation for nonfood products, and an increase in civil servant salaries. The surge in public consumption outpaces the negative contribution to growth from net exports, the result of weak global demand and volatile commodity prices. Also, the cautious business approach during the election period slowed investment growth.

### **The GDP growth outlook for Malaysia for 2024 and 2025 remains with quarterly GDP growth expected to pick up in the coming quarters.**

GDP grew by 4.2% in Q1 2024 supported by strong private consumption (up 4.7%) and continued improvements in employment and wages. Investment posted strong growth, underpinned by solid infrastructure investment (11.9%) and spending on machinery and equipment (8.9%). Tourism arrivals continue to bounce back (32%), along with growth in accommodation, transport, real estate, and construction. Manufactured exports posted a modest recovery (2.4%), supported by strong export growth from liquid natural gas (4.2%) and crude petroleum products (13.3%).

### **Growth forecasts for the Philippines for 2024 and 2025 are unchanged.**

Domestic demand, along with a recovery in merchandise exports, drove the 5.7% GDP growth in Q1 2024. Household consumption growth, while below last year’s level, remained the main contributor supported by low unemployment and remittances from overseas workers. Brisk public infrastructure spending continued to lift growth. Merchandise exports rebounded, particularly electronic products (about 60% of total exports), while services exports remained buoyant, including tourism and business process outsourcing. The growth forecast remains at 6.0% for 2024 and 6.2% for 2025. Moderating inflation and expected monetary easing in the second half of 2024 will support household consumption and investment.

### **Singapore’s GDP forecasts for 2024 and 2025 remain unchanged.**

GDP grew by 2.7% in Q1 2024, driven by strong growth in services and construction despite a decline in manufacturing. Consumption expenditure boosted growth, but investment contracted. Both exports and imports grew robustly, though slower than in the previous quarter. Despite manufacturing’s weak Q1 performance, its PMI remained expansionary in May, with positive business sentiment. Services has a positive outlook for the next 6 months, though slightly below earlier expectations. Domestic demand and exports will remain robust and continue to contribute to growth, despite headwinds from higher consumer prices and interest rates.

### **The growth outlook for Thailand remains the same as in ADO April 2024, supported mainly by the continued tourism recovery and private consumption.**

Q1 GDP outturn was in line with the expectations in April. Private consumption growth should continue with spending on services lifted by rising tourist receipts. However, consumer confidence may decline due to the slow economic recovery. Investment should rise in line with higher domestic sales and robust services. The low growth in public investment this year is caused by a delay in the FY2024 budget. New construction projects, especially in the eastern economic corridor, are expected to start in Q4 2024. Growth in goods and services exports remains strong this year and next led by services as forecast. From January to May 2024, there were 14.8 million international tourists, within ADO April 2024 expectations.

### **Viet Nam’s growth projections for 2024 and 2025 remain unchanged.**

The economy continued its steady recovery, with a 6.4% expansion in the first half of 2024. Growth was supported by the strong recovery of both imports and exports and the revival of domestic demand as monetary policy remained accommodative. External demand for major electronics exports fueled industrial production, but subdued global economic prospects leave some uncertainty. Growth is supported by fiscal measures such as the continued 2% reduction in value-added tax and efforts to better implement public investment. Going forward, the economic recovery should continue, with growth forecasts remaining at 6.0% for 2024 and 6.2% for 2025.

### **ADO April 2024 inflation forecasts for Southeast Asia are retained for 2024 and 2025.**

In 2024, inflation fell in most economies as global food prices eased despite oil price volatility. Thailand’s inflation forecast for this year was reduced from 1.0% to 0.7% as the average inflation for the first 5 months was below ADO April 2024 expectations. Prices of meat, fish, pork, short mackerel, sea bass, and fresh vegetables were lower than expected due to large market supply. For 2025, inflation is adjusted down from 1.5% to 1.3%. The inflation forecast was

raised for Myanmar this year due to the pass-through effects from currency depreciations and the Lao PDR next year with core inflation rising steadily and expectations having set in. Except for the surprise rate hike by Bank Indonesia in April, monetary authorities have delayed policy rate cuts to keep local currencies competitive against the US dollar. The Indonesian rupiah, Philippine peso, Thailand baht, and Vietnamese dong all depreciated since the start of the year as investors moved to safe assets such as gold and the US dollar.

### *Caucasus and Central Asia*

**The Caucasus and Central Asia growth forecast is revised up to 4.5% from 4.3% in 2024 and 5.1% from 5.0% in 2025, driven by stronger-than-expected growth in Azerbaijan and the Kyrgyz Republic.** Azerbaijan's economy expanded by 4.3% in January–April 2024, driven by transport and construction aided by public spending. The Kyrgyz Republic's growth rate is estimated to have been 8.8% in Q1 2024 due to strong output in services and construction funded by domestic and foreign investment. Economic activity in other subregional economies has been similarly robust. Armenia grew by 9.2% in Q1 2024, led by growth in manufacturing. Georgia's economy expanded by 9.0% in the first 4 months of 2024, as strong credit supported both domestic consumption and investment. Partly due to a sharp rise in exports, including gold sales, Tajikistan continued its strong growth, at the rate of 8.2% in Q1 2024. Growth in Turkmenistan is driven by public investment and net gas exports. A surge in fixed capital investment in Uzbekistan led to 6.2% growth in Q1 2024.

**Growth prospects for Kazakhstan, the subregion's largest economy, remain unchanged.** In Q1 2024, the economy grew by 3.7%, supported mainly by construction, manufacturing, and services. This year, construction and manufacturing will remain the main drivers of economic growth. Government's assistance to victims and reconstruction of damaged infrastructure after the worst floods in 30 years will sustain robust construction growth. The central bank's consolidated business activity index showed business activities expanding in May 2024, supported by positive business sentiment as reported by the S&P Global's manufacturing purchasing managers' index. The mining is expected to make a sizable contribution to Kazakhstan's medium-term growth after the completion of the Tengiz oil field expansion project in Q2 2025.

**Inflation forecasts for 2024 and 2025 in the Caucasus and Central Asia are revised down.** The revised forecast mostly reflects lower-than-expected price levels observed in Armenia, Georgia, and the Kyrgyz Republic. In Armenia, a strong local currency, among other factors, brought a 0.8% deflation in the first 5 months of 2024, a substantial decline from the 5.2% inflation in the same period of 2023. Amid currency appreciation, Georgia's inflation for the first 5 months of 2024 was also limited to 0.9%. In the Kyrgyz Republic, inflation dropped to 4.6% in May 2024, primarily reflecting price movements of major commodities, from 11.3% a year ago. Inflationary pressures are also subsiding in other economies of the subregion. In January–May 2024, Kazakhstan's inflation rate slowed to 9.0%, down from 18.5% in the same period in 2023, due to a stable exchange rate and relatively tight monetary policy. Tajikistan's inflation was 3.8% in the first 4 months of 2024. In Uzbekistan, inflation decelerated to 9.2% in the first 5 months of 2024 from 11.4% a year earlier.

### *The Pacific*

**Growth forecasts for the Pacific remain at 3.3% in 2024 and 4.0% in 2025.** Robust international arrivals and the resumption of public infrastructure projects continue to drive the growth outlook, along with revived mining activity in Papua New Guinea, the subregion's largest economy. However, the unchanged subregional average does not reflect the downward revision in Vanuatu's forecast arising from the May 2024 liquidation of Air Vanuatu, the national carrier, which had an immediate impact on tourism and will likely have fiscal implications as well. The projections for Solomon Islands are adjusted upward because data updates indicate the economy has been performing more strongly than earlier estimated.

**Inflation in the Pacific remains unchanged and forecast to rise to 4.3% in 2024 and 4.1% in 2025.** The subregional averages are driven by higher inflation expected in Papua New Guinea and Fiji, the subregion's largest economies. However, they mask upward revisions in the 2024 projection for the Cook Islands and the 2024–2025 projections for the Marshall Islands. Both changes result from data updates that show inflation, driven largely by increases in food prices, has been higher than previously estimated.



## Box Global Assumptions

**The aggregate growth forecasts for major advanced economies remain at 1.3% for 2024 and 1.5% for 2025 in line with ADO April 2024 projections (box table).** Weak global demand and the lingering impact of monetary tightening will continue to affect US economic growth. However, the economy's resilience despite sustained tight monetary conditions led to a slight upward revision in the 2024 growth forecast to 2.0% from 1.9%. Following a brief technical recession in the euro area in the second half of 2023, the economy is poised to gradually recover to meet the initial forecasts of 0.7% growth in 2024 and 1.4% in 2025. Japan's 2024 growth forecast remains unchanged, but revised to 1.0% in 2025 as a recovery is expected after a Q1 contraction.

### Baseline Assumptions on the International Economy

	2023		2024		2025	
	Actual	April	July	April	July	
<b>GDP growth, %</b>						
<b>Major advanced economies</b>	<b>1.7</b>	<b>1.3</b>	<b>1.3</b>	<b>1.5</b>	<b>1.5</b>	
United States	2.5	1.9	2.0	1.7	1.7	
Euro area	0.5	0.7	0.7	1.4	1.4	
Japan	1.9	0.6	0.6	0.8	1.0	
<b>Prices and inflation</b>						
Average Brent crude spot prices, \$/barrel	83	82	84	79	81	
CPI inflation, major advanced economies' average, %	4.5	2.4	2.7	2.0	2.2	

CPI = consumer price index, GDP = gross domestic product.

Note: Average rates are weighed by GDP purchasing power parity.

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

**The US economy cools down while the disinflationary process slows.** GDP expanded by 1.4% in Q1 2024 (quarter-on-quarter saar), down from 3.4% in Q4 2023. The cooling was driven mainly by slower consumer spending, which grew by 1.5% (down from 3.3% in Q4 2024), and higher import growth (6.1%) relative to weakening export growth (1.6%). Private investment grew by 4.4%, contributing 0.8 percentage points to the overall growth rate. Headline inflation eased to 3.3% in May from 3.4% in April. The stickier inflation rate is mainly driven by persistent core inflation, which declined to 3.4% in May from 3.6% in April, particularly on higher non-energy services costs. The labor market continued easing, with the

unemployment rate up to 4.0% in May from 3.9% in April. The US Federal Reserve has kept its policy rate target range on hold at 525–550 basis points since July 2023, the peak of this hiking cycle, and continues to emphasize a data-dependent approach.

**Growth is expected to slow to 2.0% in 2024 and 1.7% in 2025, while inflation is revised up to 2.9% in 2024 and maintained at 2.2% for 2025.** The GDP growth forecast for 2024 is revised up by 0.1 percentage points on the economy's resilience despite continued tight monetary conditions. Nonetheless, weak global demand and the lagged effects of monetary tightening will remain a drag on growth throughout 2024. Although private consumption continues to grow, consumer appetite is expected to slow in the near term, consistent with the recent softening of retail sales and consumer sentiment. Investment's resilience to high interest rates will also be tested as PMI readings indicate a slowdown in both manufacturing and services. As the US Federal Reserve is now expected to start monetary easing only in late Q3, 1 quarter later than projected in *ADO April 2024*, growth will rebound toward the second half of 2025. Inflation for 2024 was revised up by 0.3 percentage points as services prices continue to rise. Yet inflation will continue to soften as the labor market eases with the economic slowdown and is expected to converge to the Federal Open Market Committee's inflation target of 2% toward the end of 2025.

**GDP in the euro area is forecast to grow by 0.7% in 2024 and 1.4% in 2025.** Growth in Q1 2024 was relatively healthy, at 1.3% saar, after a very mild technical recession during the second half of 2023. Preliminary estimates show that the recovery is broad-based across economies. The labor market remains resilient, with the unemployment rate reaching a record low in April 2024 and wage growth continuing, thus boosting real incomes for households. Leading indicators point to expanding business activity in the second half of 2024, with the composite PMI reaching 51.7 in May 2024, its highest since June 2023. Expected monetary policy easing in the second part of 2024 and into 2025 will support the nascent recovery. Growth is expected to recover gradually over the rest of 2024 and accelerate in 2025.

**Headline inflation is forecast to soften to 2.5% in 2024 and 2.3% in 2025.** After declining rapidly from over 10% in October 2022, largely thanks to energy prices falling or stabilizing, headline inflation has stayed at around 2.5% since February 2024 on the back of sticky underlying inflation. Services prices continue to rise at around 4% year-on-year. Wage growth remains robust amid a tight labor market. These factors will counterbalance decreasing cost pressures from energy prices. Despite this, the European Central Bank is expected to cautiously cut interest rates over the forecast horizon.

*continued on next page*

**While the euro area economy recovers, significant headwinds remain.** A further spike in geopolitical tensions may lead to higher energy prices, which would dent household purchasing power through higher inflation, prolong the contraction of energy-intensive sectors, and complicate the expected easing of monetary policy. Higher shipping costs could reduce exports of European goods to other markets. The results of the 2024 US presidential election could result in higher tariffs on European exports to the US as well as in higher defense spending for European countries. Slow progress in implementing the NextGenerationEU recovery package may lead to a lower fiscal impulse. High public deficits and debt in some economies pose a long-term downside financial risk.

**Japan's economy contracted in Q1 2024.** GDP declined by 2.9% in Q1 (saar), as private fixed investment, private consumption, and exports fell. Production shutdowns at major automobile factories reduced shipments of transport equipment, contributing to the declines in private investment and exports of goods and services. Exports contracted more than imports, resulting in net exports subtracting from growth. Private consumption fell for the fourth consecutive quarter, highlighting the impact of inflationary pressure on purchasing power. In addition, the production shutdowns contributed to a 12.2% quarter-on-quarter (-40.5% saar) plunge in private durable goods spending. In contrast, government consumption and investment rebounded and contributed to growth, as did inventories.

**Inflation remains above target but is moderating.** Inflation was 2.5% in April, down from 2.7% in March. While the April rate was the lowest since January, it marked 25 consecutive months of inflation above the Bank of Japan's 2.0% target. The deceleration was largely due to lower price pressures for food, furniture and household utensils, health care, and culture.

**The growth forecast for Japan remains unchanged at 0.6% for 2024 but revised up to 1.0% for 2025.** Despite the economy contracting in Q1, a rebound later this year is likely. The au Jibun Bank Flash Japan Composite PMI<sup>®</sup> rose to 52.4 in May, the highest since August 2023, up from 52.3 in April. The manufacturing PMI improved to 50.5 in May from 49.6 in April, marking its first rise in over a year, while the services PMI remained above the 50-point threshold. With wage growth picking up and inflation slowing, the prolonged slump in real household incomes is expected to ease, boosting consumption. In addition, an upturn in goods exports is expected as global demand for electronics rises and other major economies grow moderately. Inbound tourism is also projected to remain strong.

**Inflation forecasts have been revised up to 2.2% for 2024 and 1.7% for 2025 as inflation persists.** Inflation averaged 2.5% for the first 4 months of 2024. Going forward, inflationary pressures on electricity and gas will likely increase as import prices of liquefied natural gas increase with the phasing out of government subsidies for utilities. This will likely keep headline inflation above 2% for most of the year. Inflation should decelerate in 2025 as cost-push pressures on consumer prices moderate and depreciating pressure on the yen subsides.

**The spot price of Brent crude oil averaged \$82.73/barrel in May, a decrease of \$6.85/barrel from April.** After hitting a 6-month high above \$92/barrel in early April, prices fell to around \$81/barrel by the end of May, influenced by uncertainty over monetary policy and concerns over the global economy and oil demand. Also, reports of progress toward a truce in Gaza exerted downward pressure on prices. However, the widening conflict in the Middle East tempered the decline, providing some support for crude oil prices amid the already heightened tensions in the region.

**On 2 June, OPEC+ agreed to extend output reductions of 5.86 million barrels/day, roughly 5.7% of global demand.** The extended cuts include 2 million barrels/day agreed by all 23 OPEC+ members extended through the end of 2025, along with voluntary reductions of 1.65 million barrels/day by a smaller group of members. Also, 2.2 million barrels/day in voluntary cuts, initially set to expire at the end of June, were extended until September. These cuts will then be gradually reduced monthly until fully eliminated in September 2025. The agreement is provisional and subject to review, with Saudi Arabia indicating that the group can change direction if necessary. Market reaction was limited, with Brent crude oil prices falling below \$80/barrel for the first time since February.

**Forecasts for Brent crude oil prices have been revised up to \$84/barrel in 2024 and \$81/barrel in 2025.** Despite an expected decline in crude oil prices by the end of the year, the forecast average price for 2024 was slightly increased due to the rapid price rise in late March and April. Brent crude oil prices averaged \$83.73/barrel for the first 5 months of 2024. The International Energy Agency's May 2024 report indicates that global oil demand growth is slowing, while global oil supply is forecast to grow as OPEC+ unwinds its production cuts and non-OPEC+ output rises, leading to a fall in oil prices in 2025.

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