ASIAN DEVELOPMENT OUTLOOK

DECEMBER 2024

STEADY GROWTH AMID A SHIFTING GLOBAL POLICY LANDSCAPE

HIGHLIGHTS

- Developing Asia's growth remains steady, but policies under the incoming Trump administration in the United States (US) may impact the region. Changes to US trade, fiscal, and immigration policies could dent growth and boost inflation in developing Asia. Because these significant policy changes are expected to take time and be rolled out gradually, the effects on the region would mostly materialize beyond this Asian Development Outlook's (ADO) 2024–2025 forecast horizon.
- The short-term impact of the recent US election on the People's Republic of China (PRC) is expected to be muted. Growth in the PRC in 2025 could benefit from frontloading of US imports but there may also be lower investment in anticipation of the negative effects of US tariffs. Limited adverse impacts of the US tariffs on the PRC are expected to be felt only beyond the forecast horizon. Growth forecasts for the PRC are maintained at 4.8% for 2024 and 4.5% for 2025. The *Special Topic* in this ADO details the potential economic effects of the new US administration on Asia and the Pacific.
- The growth forecast for developing Asia is trimmed to 4.9% for 2024 and 4.8% for 2025. Most adjustments to 2024 growth projections for individual economies and subregions are based on recent data releases. The downward revisions to East Asia and South Asia offset the stronger growth in the Caucasus and Central Asia and Southeast Asia, shaving 0.1 percentage points from growth in the region. For 2025, slower growth is expected in South Asia due to weaker domestic demand prospects.
- Developing Asia's inflation forecasts are adjusted down to 2.7% in 2024 and 2.6% in 2025, mainly due to softening global commodity prices. In the PRC, the 2024 inflation forecast has been reduced to 0.3% on weaker-than-expected domestic demand, while the 2025 forecast is also lowered, to 0.9%. In South Asia and Southeast Asia, several economies downgraded their forecasts due to slower-than-expected inflation in recent months and an expected decline in oil prices during 2025.
- Risks have evolved and remain tilted to the downside. Larger and more rapid US policy shifts than assumed in the baseline could worsen the outlook, as could greater geopolitical tensions or property market fragility in the PRC.

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ADB

Developing Asia's growth remains solid, but the new US presidential administration promises consequential changes. Domestic demand remains strong in much of the region, and exports continue to support growth, although momentum has moderated. The incoming Trump administration promises significant policy changes with implications for the region, as discussed in this report's *Special Topic*. Most of the impact will be felt beyond this ADO's forecast horizon, however. While growth projections for 2024–2025 remain largely unchanged from September, downside risks persist and include faster and larger US policy shifts than currently envisioned, a worsening of geopolitical tensions, and an even weaker PRC property market.

Significant policy uncertainty looms as the second Trump administration approaches. The new Trump administration is expected to roll out tax cuts, broad-based tariffs, and stricter immigration measures. The baseline assumptions in this report postulate a limited and gradual implementation of the policy proposals advanced by President-elect Trump in these areas during his electoral campaign. The policy shifts in the US are expected to dent growth and boost inflation beginning in 2026. However, uncertainty is significant about the magnitude and speed of implementation of the second Trump administration's policies. This report's *Special Topic* summarizes anticipated policy changes and the potential effects of an alternative scenario that assumes faster and more aggressive policy shifts.

Recent Developments

Growth in major advanced economies remained steady. The US economy continued to exceed expectations. Gross domestic product (GDP) expanded 2.8% in the third quarter (Q3) 2024, seasonally adjusted annualized rate (saar), fueled by strong consumer spending, increased government expenditure, and a rebound in exports. The labor market remained resilient and inflation moderated as energy prices declined. The US Federal Reserve continued its easing cycle, cutting the federal funds target rate by another 25 basis points in November. In the euro area, preliminary estimates show that the economy grew 1.5% saar in Q3, its strongest performance in 2 years, with most economies expanding. However, leading indicators point to slower economic activity in the last quarter of the year. The European Central Bank reduced key policy rates for a third time, in October, as inflation continued to decline. Japan's growth moderated to 0.9% saar in Q3, as declining capital spending and slower export growth partially offset a pickup in consumption.

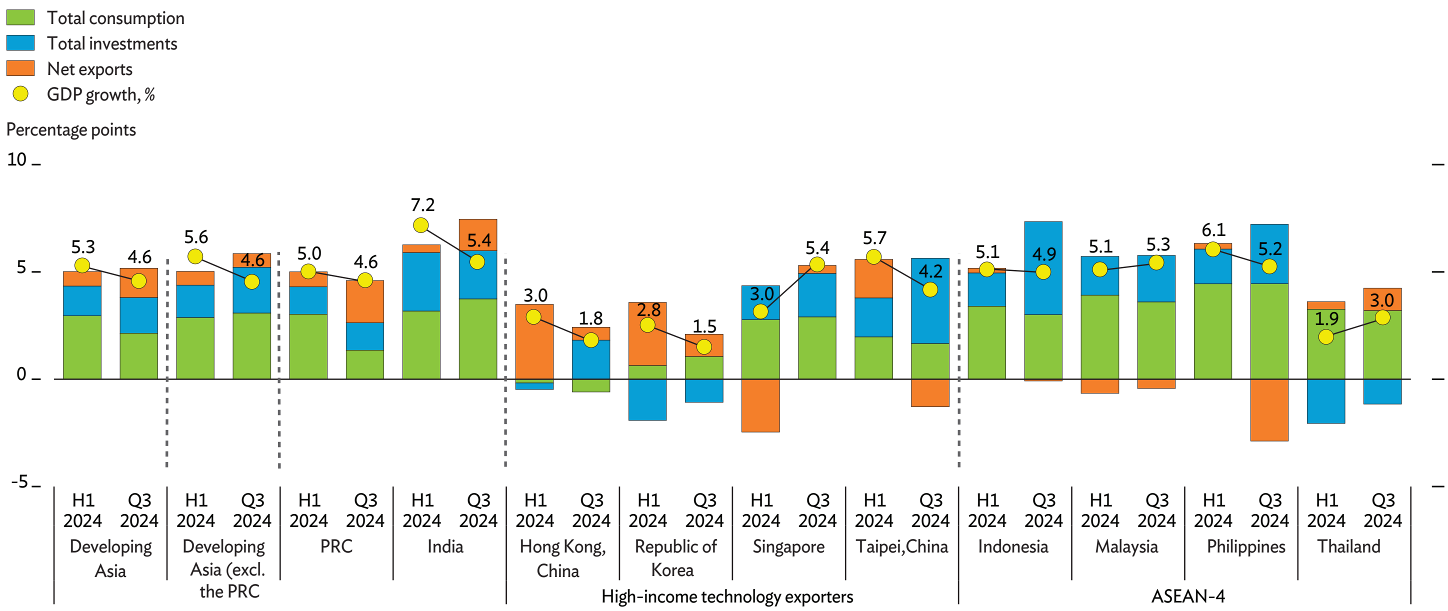
In developing Asia, weaker consumption and moderating export growth led to a slowdown in Q3 2024 (Figure 1.1), bringing year-to-date growth to 5.0%. Exports continue to support growth, driven by global demand for semiconductors, but demand from key export markets such as the US, as well as within Asia, weakened in Q3. This led to slower Q3 growth in major high-income technology exporters the Republic of Korea and Hong Kong, China. Export growth remains robust in Taipei,China, where strong exports of goods related to artificial intelligence (AI) have also fueled double-digit growth in investment. But Q3 growth slowed there too, as private consumption weakened and a surge in manufacturing and investment-related imports more than offset export growth. The PRC's economy slowed to 4.6% growth in Q3, due to weak domestic demand and a prolonged property sector downturn. To boost liquidity and support the property market, authorities have introduced several additional measures since late September, including cuts to key lending rates, the reserve requirement ratio, and mortgage rates. India's growth in Q2 (FY 2024, ending 31 March 2025) slowed more than expected, due to weak industrial output as tighter prudential norms by the central bank curtailed growth in unsecured personal loans, along with muted public capital spending and elevated food prices. Elsewhere in the region, GDP growth surprised on the upside in Association of Southeast Asian Nations (ASEAN) economies, lifted by strong domestic demand.

Leading indicators are consistent with diverging patterns of economic activity across developing Asia. Manufacturing purchasing managers' indexes (PMIs) remained expansionary in most economies in October but edged lower from the previous month. But PMIs for Indonesia, Malaysia, and the Republic of Korea remained below 50 in October, portending slower manufacturing activity in Q4 (Table 1.1). Services PMIs rose in October, driven by increased service activities related to manufacturing in the PRC and strong domestic demand in India, suggesting a pickup in services activity in the last quarter of the year.

Inflation stabilized in developing Asia (Figure 1.2). Headline inflation in the region picked up slightly to 2.1% year on year in October, from 2.0% in the previous month, bringing year-to-date inflation to 2.2%. Core inflation remained steady during the same period. In the PRC, inflation eased to 0.3% in October, driven mainly by lower energy prices, although food prices have risen since August. Excluding the PRC, inflation has accelerated since August due to higher food inflation in India caused by adverse weather conditions. Inflation in the Lao People's Democratic Republic, however, stayed in double-digits in November, fueled by elevated food prices amid weak domestic production and currency depreciation.

Figure 1.1 Contributions to GDP Growth, H1 2024 and Q3 2024

Growth remains robust in developing Asia despite moderation in the third quarter.



ASEAN-4 = Association of Southeast Asian Nations-4, PRC = People's Republic of China, GDP = gross domestic product, H = half, Q = quarter.

Note: Economies included are those with available quarterly GDP figures with demand-side breakdowns, which account for about 90% of developing Asia. Components do not add up to the total, due to statistical discrepancy and chain-linking method. All data are in calendar years and non-seasonally adjusted terms.

Source: Haver Analytics.

Table 1.1 Purchasing Managers' Index in Selected Developing Asian Economies, 2024

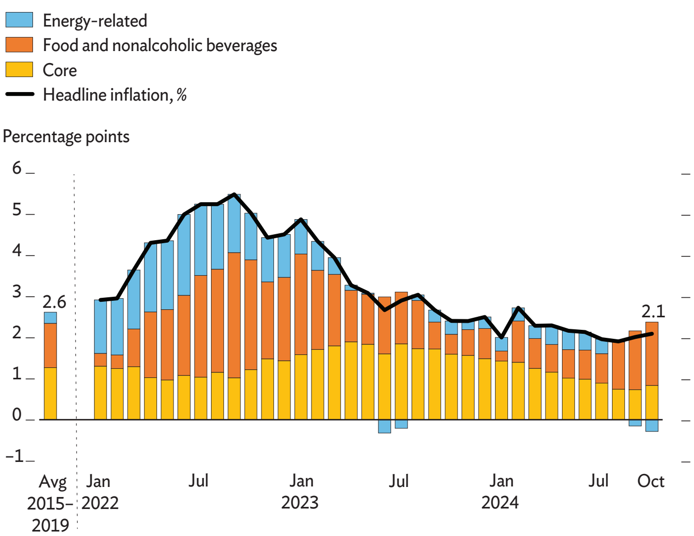
Manufacturing PMIs diverge, services PMIs remain robust.

Economy	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Manufacturing PMI										
India	56.5	56.9	59.1	58.8	57.5	58.3	58.1	57.5	56.5	57.5
Philippines	50.9	51.0	50.9	52.2	51.9	51.3	51.2	51.2	53.7	52.9
Viet Nam	50.3	50.4	49.9	50.3	50.3	54.7	54.7	52.4	47.3	51.2
Singapore, nsa	50.7	50.6	50.7	50.5	50.6	50.4	50.7	50.9	51.0	50.8
People's Republic of China	50.8	50.9	51.1	51.4	51.7	51.8	49.8	50.4	49.3	50.3
Taipei,China	48.8	48.6	49.3	50.2	50.9	53.2	52.9	51.5	50.8	50.2
Thailand	46.7	45.3	49.1	48.6	50.3	51.7	52.8	52.0	50.4	50.0
Malaysia	49.0	49.5	48.4	49.0	50.2	49.9	49.7	49.7	49.5	49.5
Indonesia	52.9	52.7	54.2	52.9	52.1	50.7	49.3	48.9	49.2	49.2
Republic of Korea	51.2	50.7	49.8	49.4	51.6	52.0	51.4	51.9	48.3	48.3
Services PMI										
India	61.8	60.6	61.2	60.8	60.2	60.5	60.3	60.9	57.7	58.5
People's Republic of China	52.7	52.5	52.7	52.5	54.0	51.2	52.1	51.6	50.3	52.0
Sri Lanka, nsa	60.1	53.0	67.7	56.7	55.0	63.5	71.1	65.2	53.4	60.3
Philippines, nsa	52.0	50.9	51.8	55.8	54.6	54.0	48.5	49.0	51.3	52.7

nsa = not seasonally adjusted; PMI = purchasing managers' index.
Notes: Pink to red indicates deterioration (<50) and white to green indicates improvement (>50). All series are seasonally adjusted, unless otherwise indicated.
Source: CEIC Data Company; Philippine Institute for Supply Management; Singapore Institute of Purchasing and Materials Management.

Figure 1.2 Contributions to Inflation in Developing Asia by Food, Energy, and Core Price Basket

Inflation stabilized in 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 and includes data for 22 economies. Data are as of October 2024.

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

Global oil and rice prices remain tempered. Although oil prices rose above $80/barrel briefly in early October, Brent crude was trading around $75/barrel in late November. The Organization of the Petroleum Exporting Countries (OPEC+) decided to postpone its planned production increase until the end of December, marking the second delay to its production schedule. Weak demand from the PRC and abundant supply from the US continue to exert downward pressure on prices. Rice prices also dropped sharply in October, after India lifted its export ban on non-basmati white rice in late September. With India re-entering the market, prices for rice exports from Thailand, Viet Nam, and Pakistan fell significantly as they adjusted to the renewed competition, easing price pressures that had built up in recent months.

Financial market conditions weakened in October. Regional equity markets lost momentum in October, when the release of stronger-than-expected US labor market data for September raised expectations of slower US monetary easing. By contrast, US equities continued to rally but this briefly halted at the end of October due to uncertainty around the US presidential election. Expectations that US interest rates may remain elevated for longer were reinforced by the US election result, strengthening the US dollar. Bond yields in many Asian economies rose since October, driven by post-US election expectations of tighter global financial conditions. Majority of regional currencies depreciated against the US dollar during the same period. After several weeks of portfolio inflows up to September, developing Asia recorded outflows in October and November. These were most notable in India, where equity markets slumped, and in the Republic of Korea, over concerns about the profitability of tech and AI-related companies.

Central banks in the region continued to ease despite renewed uncertainty about US monetary policy. With inflation falling, growth moderating, and the easing cycle in advanced economies well under way, eight economies in the region have cut rates since September. Most of the cuts came from East Asia and Southeast Asia. However, there are some expectations of slower Fed easing in anticipation of a policy shift under the new Trump administration. As of 21 November, market-based measures suggest the target rate will only be 75 basis points lower in October 2025, whereas a total of 125 basis points of cuts were expected prior to the US election result. With the US Fed target rate possibly staying elevated for longer, central banks in developing Asia may also recalibrate how fast they ease their own policy rates.

The aggregate growth forecast for the major advanced economies is revised up to 1.6% for 2024, on stronger-than-expected expansion in the US. The 2024 US growth forecast is raised to 2.7%, from 2.4% in September 2024. The US economy has remained remarkably resilient this year despite tight monetary conditions, as also evidenced by upward revisions to historical GDP data. The Fed's aggressive start to monetary easing also improves the outlook for 2025, with the growth forecast upgraded to 1.8% on expectations that lower lending rates will boost private investment and consumption. The euro area growth projection is unchanged at 0.8% for 2024 but lowered slightly to 1.3% for 2025 amid uncertainty about future US tariff policies. Japan's 2024 forecast is revised down to a 0.2% contraction, as growth in Q3 surprised on the downside and recent data suggest economic activity will further decelerate in Q4. Growth is expected to recover next year, with the forecast revised up to 1.2%.

Developing Asia's growth outlook is slightly lowered to 4.9% for 2024 and 4.8% for 2025 (Table 1.2). Partly due to the expected limited impact of the new Trump presidency in the near term, growth drivers and dynamics for the remainder of this year remain broadly unchanged compared to *ADO September 2024*. The latest growth projections are marginally lower, 0.1 percentage points, from September estimates. Weaker-than-expected growth in East Asia and South Asia necessitated a downward revision of their 2024 growth forecasts, which offset upward revisions for Caucasus and Central Asia, particularly in Azerbaijan, Georgia,

Table 1.2 GDP Growth Rate and Inflation, %

Growth in developing Asia remains solid, inflation further moderates.

	GDP Growth					Inflation				
	2023	2024		2025		2023	2024		2025	
		Sep	Dec	Sep	Dec		Sep	Dec	Sep	Dec
Developing Asia	**5.1**	**5.0**	**4.9**	**4.9**	**4.8**	**3.4**	**2.8**	**2.7**	**2.9**	**2.6**
Developing Asia excluding the PRC	**5.1**	**5.1**	**5.0**	**5.2**	**5.1**	**6.3**	**5.1**	**4.9**	**4.5**	**4.2**
Caucasus and Central Asia	**5.4**	**4.7**	**4.9**	**5.2**	**5.3**	**10.5**	**6.9**	**6.8**	**6.2**	**6.2**
Kazakhstan	5.1	3.6	3.6	5.1	5.1	14.5	8.5	8.5	6.1	6.1
East Asia	**4.7**	**4.6**	**4.5**	**4.2**	**4.2**	**0.6**	**0.8**	**0.6**	**1.3**	**1.1**
People's Republic of China	5.2	4.8	4.8	4.5	4.5	0.2	0.5	0.3	1.2	0.9
Hong Kong, China	3.3	2.8	2.5	3.0	2.3	2.1	1.8	1.7	2.3	1.9
Republic of Korea	1.4	2.5	2.2	2.3	2.0	3.6	2.5	2.3	2.0	2.0
Taipei,China	1.3	3.5	4.0	2.7	2.5	2.5	2.3	2.2	2.0	2.0
South Asia	**6.8**	**6.3**	**5.9**	**6.5**	**6.3**	**8.4**	**7.0**	**6.9**	**6.1**	**5.4**
India	8.2	7.0	6.5	7.2	7.0	5.4	4.7	4.7	4.5	4.3
Southeast Asia	**4.1**	**4.5**	**4.7**	**4.7**	**4.7**	**4.3**	**3.3**	**3.0**	**3.2**	**3.1**
Indonesia	5.0	5.0	5.0	5.0	5.0	3.7	2.8	2.4	2.8	2.8
Malaysia	3.6	4.5	5.0	4.6	4.6	2.5	2.4	2.2	2.7	2.6
Philippines	5.5	6.0	6.0	6.2	6.2	6.0	3.6	3.3	3.2	3.2
Singapore	1.1	2.6	3.5	2.6	2.6	4.8	2.6	2.5	2.2	2.2
Thailand	1.9	2.3	2.6	2.7	2.7	1.2	0.7	0.5	1.3	1.2
Viet Nam	5.1	6.0	6.4	6.2	6.6	3.3	4.0	3.9	4.0	4.0
The Pacific	**3.5**	**3.4**	**3.4**	**4.1**	**4.1**	**3.0**	**3.6**	**3.6**	**4.1**	**4.1**

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

Note: **Developing Asia** refers to the following 46 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.

Sources: *Asian Development Outlook* database.

Tajikistan, and Uzbekistan, and for Southeast Asia. For 2025, the downward revision was mainly due to a lower projection for South Asia on weaker domestic demand prospects. Price pressures are now seen to moderate more rapidly. The 2024 inflation forecast is revised down slightly to 2.7% on slower-than-expected inflation in most subregions in recent months. The inflation outlook for 2025 is cut by 0.3 percentage points to 2.6%, reflecting weaker price pressures in East Asia, South Asia, and Southeast Asia.

The growth outlook faces notable downside risks. One key risk comes from the magnitude and speed of expected policy shifts under the second Trump presidency. Higher-than-expected tariffs and faster implementation across the board by the US on the PRC and major trading partners could amplify trade tensions and fragmentation. As discussed in this report's *Special Topic*, other risks related to US policies under the second Trump presidency are associated with more restrictive immigration policy than expected, more expansionary fiscal policy, a potentially more dovish Fed, less green environmental policies, more inward-looking US international relations, and greater deregulation. Additionally, rising geopolitical tensions could lead to volatility in commodity prices and global financial markets. Meanwhile, further deterioration in the PRC's property market could weaken growth prospects in developing Asia's largest economy, affecting the rest of the region.

Growth and Inflation Outlook by Subregion

East Asia

The forecast for East Asia's growth in 2024 is revised downwards marginally to 4.5% from 4.6% and remains unchanged at 4.2% for 2025. The PRC is on track to meet the growth forecast in the *ADO September 2024*, supported by exports and supportive policies, which are offsetting weak domestic demand. However, weaker-than-expected growth in Q3 in the Republic of Korea and modest prospects for domestic demand and exports has led to a downward revision in the growth projection for 2024. In Hong Kong, China, the decline in private consumption, along with a deceleration in fixed investment and goods exports growth, has lowered the growth forecast for 2024.

The PRC's GDP growth forecasts for 2024 and 2025 remain at 4.8% and 4.5%, respectively. GDP grew 4.8% in the first 3 quarters of 2024, in line with expectations, driven by robust exports and industrial activity. Export growth and policies promoting equipment upgrades boosted industrial activity, particularly in high-end manufacturing. However, weak domestic demand and continued fragility in the property sector held back growth. On the demand side, consumption remained weak, while net exports and investment in high-end manufacturing and infrastructure provided some support. Since late September, the government announced several support measures, including using special purpose bonds and increasing the debt ceiling to assist local governments. To support the real estate market, the central bank reduced benchmark interest rates, mortgage rates, and down payments, signaling its intent to boost liquidity and stimulate home buying. However, fiscal expansion may be limited by rising debt and weak revenues, while continued monetary easing faces challenges due to subdued credit demand, with trade tensions, particularly with the United States (US), also posing a key risk to growth.

In Hong Kong, China, growth projections are lowered to 2.5% for 2024 and 2.3% for 2025. Growth slowed to 1.8% year-on-year in the third quarter of 2024. Private consumption expenditure declined, while growth in fixed investment and goods exports slowed. Meanwhile, growth in services exports rose on increased cross-border economic and financial activities. Although real GDP grew 2.6% in the first 3 quarters, key drivers like private spending lost momentum. However, a solid labor market and government support provided respite. Some easing in global financial conditions bodes well for fixed investment. On the other hand, rising geopolitical uncertainty, in particular around the US–PRC trade conflict, is expected to weigh on exports.

The Republic of Korea's growth forecast for 2024 has been downgraded to 2.2%, with a further slowdown expected in 2025 to 2.0%, driven by modest prospects for exports and domestic demand. While exports and manufacturing may benefit from strong global demand for AI-related semiconductors, moderation is anticipated, partly due to ongoing labor strikes in the automobile sector and cooling demand from key export markets such as the US and ASEAN. The PMI signaled contractionary activity for the second consecutive month in October. While domestic demand may improve due to easing inflation, possible interest rate cuts, and government measures for vulnerable sectors, the growth outlook faces risks from global trade tensions, geopolitical uncertainties, a weak domestic property market, and high household debt.

The growth forecast for Taipei,China is raised to 4.0% in 2024 and reduced to 2.5% in 2025. Growth through Q3 2024 turned out to be stronger than expected. Although private consumption is moderating, exports are booming, fueled by strong demand for electronics and AI-related goods. Imports are also strong, however, which reduces the contribution to growth of net exports. But because import growth is mainly due to robust investment, overall GDP growth has risen, from 0.1% in Q1 to 0.9% in Q3, seasonally adjusted annualized rate. For 2025, private consumption will continue to slow and exports are expected to slacken somewhat, due to modest growth in the PRC and global trade disruptions.

Inflation forecasts for East Asia are revised down to 0.6% from 0.8% for 2024 and to 0.9% from 1.2% for 2025. In the PRC, the inflation forecast is lowered to 0.3% for 2024 and 0.9% for 2025, down from 0.5% and 1.2% in *ADO September 2024*, against the softer-than-expected domestic demand. Consumer price inflation averaged 0.3% for the 10 months of 2024, compared to last year's average of 0.4%. Non-food inflation increased by 0.5%, while food prices declined by 0.7%. Food prices have rebounded since August, increasing by 2.9% in October, primarily driven by a 7.2% rise in pork prices. Non-food inflation and core inflation have softened recently due to weak domestic demand. At the same time, producer prices declined by an average of 2.1%. With the recovery in food prices, a pickup in inflation is expected in Q4.

In line with lowered growth projections, the inflation forecast in Hong Kong, China is slightly reduced to 1.7% for 2024, and more significantly to 1.9% for 2025. Headline inflation averaged 1.8% in the first 10 months of the year and is expected to remain low over the forecast horizon amid slower growth and a strong Hong Kong dollar.

In the Republic of Korea, inflation forecast for 2024 is slightly lowered to 2.3%, while the 2025 forecast remains unchanged at 2.0%. Inflation slowed to 1.3% in October 2024, the lowest rate since January 2021. This brings year-to-date inflation to 2.4%. The moderation was primarily driven by deflation in transport costs due to declining global oil prices, and slower increase in food prices. Core inflation, which excludes food and energy, also moderated to 1.8% in October.

The inflation forecast for Taipei,China is reduced to 2.2% for 2024 and maintained at 2.0% for 2025. The subdued outlook is based on global commodity price inflation continuing to abate and domestic growth to moderate.

South Asia

The growth forecasts for South Asia have been revised downward to 5.9% for 2024 and 6.3% for 2025. The lower forecast for 2024 is mainly due to India's lower-than-expected Q2 growth, driven by dampened manufacturing sector performance and lagging government spending. While growth forecasts for Pakistan and Sri Lanka have been upgraded due to their recovery from the macroeconomic challenges of 2022–2023, downward revisions for Bangladesh and Maldives have further weighed on the 2024 outlook. The latter two economies' growth forecasts are also revised downward for 2025 due to the lingering effects of the political unrest of July-August 2024 in Bangladesh and fiscal consolidation measures in Maldives. Some weakening of growth is also expected for 2025 in Nepal relative to earlier forecasts.

India's growth forecast is lowered to 6.5% for FY2024 (ending 31 March 2025) and 7.0% for FY2025. The lowering of the forecast for FY2024 reflects a deceleration of growth in Q2 FY2024 to 5.4% from 8.2% in Q2 FY2023. This is on account of lower-than-expected industrial growth at 3.6% year on year, while growth in the agriculture and services sectors has remained strong at 3.5% and 7.1%, respectively. Industrial demand, on the other hand, is affected by tighter prudential norms from the central bank for unsecured personal loans and continued elevated food prices. Government capital expenditure for FY2024 also continues to lag behind the budget target, a risk highlighted in *ADO September 2024*. Regardless, India's growth will remain robust, with the economy supported by higher agriculture output resulting from the summer (or kharif) crop season (which will also put downward pressure on food prices); continued resilience of the services sector; and lower-than-expected Brent crude prices in 2024 and 2025. Strong forward looking and labor market indicators (such as PMI for industry and services, urban labor force participation and Reserve Bank of India's industrial outlook) suggest that economic momentum will recover in the coming quarters. The forecast for FY2025 has been reduced slightly due to lower-than-expected growth in private investment and housing demand, due to tight monetary policy aimed at combating inflation. Downside risks remain from geopolitical threats to supply chains and adverse weather conditions.

In Bhutan, GDP growth forecasts for 2024 and 2025 are unchanged. Recent developments from the tourism industry and on hydropower production, including the full operation of Punatsangchhu hydropower plant-II (PHP-II) in 2025, are in line with earlier expectations.

Growth in Bangladesh for FY2024 (ended June 2024) and FY2025 (ending June 2025) is revised down. A slowdown across all three major sectors—agriculture, industry, and services—in the last quarter of FY2024 contributed to the decline in GDP growth. The downward revision for FY2025 growth is due to moderate growth of exports and manufacturing amid subdued external demand, supply disruptions, power and energy shortages, and impacts of political unrest and financial sector vulnerabilities.

Maldives' growth forecast is revised downward for 2024 and 2025. The decline in growth forecast in 2024 is due to lower-than-expected government spending driven by reduced Public Sector Investment Program expenditure and the rollout of Aasandha health insurance reform. Several austerity measures and tax amendments will be implemented to narrow the budget deficit and may impact growth in 2025.

For Nepal, the FY2025 (ending mid-July 2025) growth forecast is revised downward. Economic activity was affected by heavy rain in late September that caused unprecedented floods and landslides, damaging infrastructure and paddy plantations, leading to lower growth in industry and agriculture. However, services are expected to grow, supported by higher tourist arrivals, and domestic demand is expected to recover gradually with supportive monetary policy and increased capital spending.

The growth forecast for Sri Lanka for this year and the next is expected to be higher than projected in September. The upward revision for GDP growth in 2024 reflects continued growth momentum due to improving business and consumer sentiment and lower interest rates. Sri Lanka's GDP accelerated to 5.0% in the first half of 2024, driven by strong growth in the industrial sector and modest growth in the agriculture and services sectors. Growth momentum in 2025 is expected to moderate slightly due to temporary election cycle disruptions and normalizing base effects from 2024.

Pakistan's growth in FY2025 is projected at 3.0%, revised upwards from 2.8% in September. For FY2024, growth is revised upwards to 2.5%, in line with the updated official estimate. Greater macroeconomic stability following the approval of the new IMF program under the Extended Fund Facility in September will support recovery. Industrial output growth is projected to accelerate with the suspension of import management measures, higher investor confidence, and easier access to foreign exchange. A more accommodative monetary policy because of faster-than-expected easing of inflationary pressures should further support economic activity through rebounding private investment. However, growth in agriculture is expected to weaken due to the heavy monsoon downpours during July–September 2024 and flood-like conditions in parts of the country. Wheat and cotton, two of Pakistan's five major crops, are projected to perform poorly in FY2025.

Afghanistan grew a modest 2.7% in FY2024 (ending March 2024), supported by improvements across all three sectors: agriculture, industry, and services. International humanitarian and basic needs support have stabilized the economy, including higher liquidity in the financial market and greater exchange rate stability. However, the economic outlook remains highly uncertain, with risks of stagnation in the short to medium term due to a lack of domestic growth drivers.

Inflation projections for South Asia are revised down to 6.9% in 2024, and to 5.4% in 2025. The revision reflects lower inflation forecasts for Sri Lanka and Maldives in 2024, and lower inflation for India in 2025. India's inflation forecast for FY2024 is retained as it is still in line with recent data. However, inflation in FY2025 is revised down to 4.3% given the expected decline in Brent crude prices leading to lower energy inflation.

Inflation forecasts for 2024 and 2025 for Sri Lanka are both revised downwards. Lower-than-expected inflation in 2024 is underpinned by greater economic stability, an appreciating currency, and a low-interest rate environment. Inflation is likely to pick up from Q2 2025 onwards due to improved consumer demand, though this pick up may be slower if the proposed 30% electricity tariff cut and tax cuts expected in the 2025 budget materializes.

Maldives' inflation forecast for 2024 is reduced, while it has been raised for 2025. The downward revision in 2024 is due to government subsidies and utility discounts that kept prices low in the first half of the year and continued softening of global prices expected to keep inflation muted for the rest of the year. However, inflation is expected to accelerate in 2025 as the government starts to implement subsidy reforms in the first half of the year.

The inflation forecast for FY2025 for Pakistan is revised downwards to 10.0% from 15.0% in *ADO September 2024* due to faster-than-expected easing of inflationary pressures. CPI inflation declined to single digits in August, reflecting high base effects, the impact of contained demand-side pressures, improved supplies of major food items, more favorable global commodity prices, and a delay in upward adjustments in administered energy prices.

In Afghanistan, the deflationary trend that began in April 2023 is expected to continue into FY2025 (ending March 2025). Subdued domestic demand and low import prices for essential items mainly contribute to this deflation.

Inflation forecasts for the rest of South Asia are unchanged. Despite the implementation of several inflation control measures, Bangladesh's monthly inflation consistently remained in double digits in the initial 4 months of FY2025. However, inflation is expected to ease in the second half of FY2025, amid a projected fall in global fuel and commodity prices and in conjunction with the effects of tight monetary policy. The inflation forecasts for Nepal in FY2025 are unchanged, because expected food inflationary pressure resulting from the damage of paddy output is outweighed by an expected decline in global oil prices and lower cost of agriculture produce from Nepal's neighboring countries. Bhutan's inflation forecasts for 2024 and 2025 also remain unchanged relative to projections in September 2024.

Southeast Asia

Southeast Asia's growth outlook for 2024 has improved, revised up to 4.7% from 4.5%, driven by stronger manufacturing exports and public capital spending in larger economies. The subregion's manufacturing and trade sectors benefited from the global electronics upturn and shifts in global supply chains, with high-income tech exporters seeing gains from rising semiconductor sales. Growth picked up in Malaysia, Thailand, Singapore, and Viet Nam, supported by domestic demand, lower inflation, and sustained public investment. While Viet Nam sees rising foreign investment, other Southeast Asian economies like Indonesia and the Philippines are on track to meet previous growth forecasts. However, geopolitical tensions, trade fragmentation, and severe weather events—such as Typhoon Yagi and Tropical Storm Trami—pose risks to growth, particularly in agriculture and infrastructure.

The growth forecasts for 2024 and 2025 for Indonesia remain unchanged at 5.0%, sustained by robust private consumption, public infrastructure spending, and gradually improving investment. Indonesia's economy grew 5.0% in Q3 and also averaged 5.0% in the first 3 quarters, in line with the September ADO forecast. Private consumption remained solid while public infrastructure spending increased in Q3, driven by developments in the new capital city and toll road construction. Net exports modestly contributed to growth as imports grew faster in Q3, driven by increased domestic activities. Regional elections should still provide support for growth in Q4. Bank Indonesia lowered its policy rate by 25 basis points to 6.0% in September in support of economic growth amid benign risk to price stability.

In Malaysia, the 2024 growth forecast is revised upward to 5.0% from 4.5% and kept at 4.6% in 2025. Malaysia's economy performed better-than-expected as exports, fixed investment, and public spending surged in Q3. Merchandise exports increased 5.2% in January to September, after contracting 8.4% in the same period last year, due to a substantial increase in demand from the US; Taipei,China; ASEAN; and India. Greater exports spilled over to manufacturing activities, which also grew substantially in Q3 2024. Construction activities expanded almost 20% in Q3, boosted by major public infrastructure projects such as Phase 1 of the Sarawak-Sabah Link Road and the Pan Borneo Highway. Better consumer sentiment and favorable labor market conditions support private consumption.

The growth forecast for the Philippines is unchanged in 2024 and 2025. GDP averaged 5.8% in the first 3 quarters. Household consumption and investment continue to drive the economy with both rising faster in Q3. Moderating inflation and monetary policy easing should continue to support growth. On the supply side, buoyant services sector, construction, and manufacturing are contributing to overall growth. Services will continue to be the dominant growth driver, with retail trade, tourism, and information technology–business process outsourcing as major contributors. The manufacturing PMI remained above the 50 threshold at 53.8 in November, the highest in over 2 years, with strong upticks in production and employment. Public infrastructure projects continue to lift growth, along with brisk private construction.

In Singapore, the GDP forecast for 2024 is revised up to 3.5% from 2.6% and maintained at 2.6% for 2025. Better-than-expected growth in manufacturing will support Singapore's strong growth for the rest of 2024, led by solid electronics output. The manufacturing sector rebounded 11.0% year-on-year in Q3, reversing the 1.1% contraction in Q2, amid output expansions across almost all manufacturing clusters. The sector's PMI stayed in expansionary territory in October, at 50.8, supported by increased production, new orders, and new exports orders. Business sentiment in the manufacturing sector remains positive, despite ongoing trade tension among trading partners. Meanwhile, growth in construction during the quarter was driven by the increase in public sector construction activity. Exports in electronics continued to drive export growth.

Thailand's GDP growth for 2024 is revised up from 2.3% to 2.6%, reflecting stronger-than-expected public spending and export recovery, and maintained at 2.7% for 2025. The economy grew faster in the first 9 months of 2024, driven by higher public spending, strong tourism, expanded manufacturing, and rising gold exports. Government consumption rose 6.3%, and public investment surged 25.9% in Q3. The outsized growth rates partly reflect the delayed adoption of the FY2024 budget with disbursement pushed out to the second half of the fiscal year. Fiscal policy, including a cash handout scheme, will continue to support growth. Exports of goods and services increased 8.9%, with merchandise exports up 8.3%, led by rice exports and manufacturing products (electronic products, particularly for computer parts and telecommunication equipment, passenger cars, air conditioning units and machinery). Gold exports also grew significantly. Services exports rose 21.9% due to stronger tourism.

Viet Nam's growth forecast for 2024 is revised upward to 6.4% from 6.0% and for 2025 to 6.6% from 6.2%. Strong trade performance, a resurgence in export-led manufacturing, and ongoing fiscal stimulus measures drove Viet Nam's economic growth to 6.8% for the first 3 quarters of 2024. The robust rebound in export-led manufacturing and trade, bolstered by the resilient US economy, is expected to continue supporting GDP growth. Accelerated public investment and accommodative fiscal and monetary policies are anticipated to further stimulate domestic demand. Despite the severe impacts caused by Typhoon Yagi in various parts of the country, the swift government response and recovery efforts limited the impacts on growth.

Inflationary pressures continued to ease across Southeast Asia as global food and oil prices trended downward. The inflation forecast for Southeast Asia is revised down to 3.0% from 3.3% in 2024 and 3.1% from 3.2% in 2025 forecasts in *ADO September 2024*. Only inflation forecasts for Cambodia and Myanmar are unchanged in 2024. In contrast, further easing in price pressures is expected in Brunei Darussalam, the Lao PDR, Malaysia, and Thailand in 2025. In most economies, a moderation in inflation provided scope for monetary policy easing—following the US Federal Reserve's rate cut in September.

Inflation in Indonesia has remained within the government and Bank Indonesia's target range. This reflects a broader trend of price stability that will support household purchasing power. Inflation eased from 2.6% in January to 1.7% in October, averaging 2.5% in the first 10 months of 2024, at the midpoint of the 1.5%–3.5% inflation target range. Core inflation remained muted in September and October. Recovering food prices post-harvest and rising gold prices were the main inflation drivers. The inflation forecast for 2024 is revised down from 2.8% to 2.4%.

In the Philippines, inflation averaged 3.2% in the first 11 months, compared to 6.2% in the same period in 2023. The reduction in rice import tariffs from June 2024 helped to contain food inflation. Food inflation was 3.5% in November to average 4.6% in the first 11 months. Core inflation has been moderate, averaging 3.0% during the same period. Inflation is expected to remain within the central bank's 2% to 4% target, providing scope for further monetary policy easing. Policy rates were cut by a total of 50 basis points in August and October 2024. The 2024 inflation forecast is revised down to 3.3% from 3.6% and maintained at 3.2% in 2025.

Malaysia's inflation in the first 9 months averaged 1.8%, well below Bank Negara Malaysia's target of 2.0% to 3.5%. Inflation of food and beverages, which accounts for 29.8% of CPI, averaged 1.8% from January to September, lower than the 5.5% in the same period in 2023. Among commodities, inflation of housing, water, electricity, gas and other fuels rose steeply, averaging 3.0%, from 1.7% in the same period a year earlier. Core inflation was also low, averaging 1.8%. The inflation forecast for 2024 is revised down from 2.4% to 2.2% and from 2.7% to 2.6% in 2025 with potential upward pressure from planned fuel subsidy cuts at the latter part of the year.

Inflation for Singapore, Thailand, and Viet Nam are also adjusted down. From January to October Thailand's headline inflation averaged 0.3%, below the *ADO September 2024* projection. In October, the Bank of Thailand cut its policy interest rate to 2.25% from 2.5%, which reduced the debt-servicing burden for borrowers. With these developments, inflation forecasts are slightly down, from 0.7% to 0.5% in 2024 and from 1.3% to 1.2% in 2025. Notwithstanding the upward adjustments in government-controlled prices of education and healthcare, along with rising wages earlier in the year, Viet Nam's inflation forecast is revised slightly down to 3.9% for 2024. The country's prudent and flexible monetary policy, combined with subdued global oil prices due to the global economic slowdown, is expected to keep inflation in check at 4.0% in 2025. In Singapore, inflation eased on moderating import prices and reduced domestic cost pressures.

Caucasus and Central Asia

The growth projection for the Caucasus and Central Asia is revised upward to 4.9% from 4.7% for 2024 and to 5.3% from 5.2% for 2025. The adjustment reflects robust growth in Azerbaijan, Georgia, Tajikistan, and Uzbekistan to date, higher than expected in *ADO September 2024*. Driven by the non-hydrocarbon sectors supported by public investment, Azerbaijan's economy expanded 4.7% in the first 3 quarters of 2024. In the same period, GDP growth in Georgia reached 9.8%, due to strong consumption supported by credit and salary growth, as well as public spending on infrastructure. With strong remittances and gold exports, Tajikistan's economy grew 8.4%. With a surge of fixed investment, Uzbekistan's grew 6.6% in the first 9 months of 2024. The growth outlook remains unchanged for Armenia, Kazakhstan, the Kyrgyz Republic, and Turkmenistan.

GDP growth in Kazakhstan, the subregion's largest economy, was 4.0% in January-September 2024. Among major sectors of the economy, agriculture recovered to grow 11.4%, thanks to favorable weather, after contracting 9.9% in the same period a year earlier. Construction, transport, trade, and manufacturing also drove overall growth. Yet, ratings in the central bank's consolidated business activities index and business climate index both moderated in October 2024, partly due to contraction of the services sector. In the first 9 months of 2024, Kazakhstan's oil production declined marginally over the same period in 2023. On 3 November 2024, OPEC+ collectively announced extension of voluntary oil production cuts until the end of December.

The Caucasus and Central Asia subregional inflation projection for 2024 has been adjusted downward to 6.8%, from 6.9% in *ADO September 2024*, and the 2025 forecast held at 6.2%. The downward revision reflects low inflation in Armenia, Georgia, the Kyrgyz Republic, and Tajikistan. With service prices having increased 3.0%, Armenia's inflation rate is now 0.0% for January-October 2024, improving from the deflation recorded in the first 7 months of the year. With prudent monetary policy, Georgia's inflation also remained modest, at 1.1% in January-September 2024. With decelerating price increases in most product categories, the average inflation rate for the first 9 months of 2024 remained 4.8% in the Kyrgyz Republic. Low global commodity prices benefited Tajikistan, where inflation for the first 3 quarters was 3.5%, well below the central bank's target. There is no change in inflation projections for Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan.

The Pacific

Growth projections for the Pacific are maintained at 3.4% in 2024 and 4.1% in 2025. Papua New Guinea still largely drives the subregional economic outlook, supported by its mining and agriculture sectors and consumption spending; as does Fiji, where tourism drives expansion. Growth projections for these two largest economies in the subregion remain unchanged. Continued growth in tourism and stimulus from public infrastructure projects drive the outlook elsewhere in the Pacific. Although the subregional average is unchanged, Samoa's economy grew slightly slower than initially estimated in FY2024 (ended 30 June 2024), with moderating growth in visitor arrivals at the end of the period. Furthermore, limited fiscal space, labor shortages, risks of disasters, and increasing debt burdens remain the key constraints to economic expansion in the subregion.

Inflation in the Pacific is still forecast to pick up to 3.6% in 2024 and 4.1% in 2025. International commodity price trends continue to drive the outlook across the subregion, although domestic factors such as supply chain disruptions and increased wages could also exert pressures in certain economies. The subregional average for 2024 masks lower than projected inflation in Palau, where price increases were significantly more muted across all major components of the consumer price basket.

Box 1.1 Global Assumptions

The growth forecast for major advanced economies has been revised marginally up for 2024 and held steady for 2025. The US economy continues to outperform, amid resilient consumer spending, strong recovery in exports, and higher government spending. Monetary easing by the Federal Reserve and the European Central Bank is expected to improve the outlook for the US and the euro area in 2025. Japan's economy and is projected to contract in 2024, then rebound in 2025, amid a swift recovery in real wage growth, supporting domestic demand. Overall, major advanced economies are projected to grow 1.6% in 2024 and 1.5% in 2025.

Baseline Assumptions on the International Economy

	2023	2024		2025	
	Actual	Sep	Dec	Sep	Dec
GDP growth, %					
Major advanced economies	**1.8**	**1.5**	**1.6**	**1.5**	**1.5**
United States	2.9	2.4	2.7	1.7	1.8
Euro area	0.5	0.8	0.8	1.4	1.3
Japan	1.7	0.4	-0.2	1.0	1.2
Prices and inflation					
Average Brent crude spot prices, $/barrel	83	83	80	81	77
CPI inflation, major advanced economies' average, %	4.5	2.7	2.6	2.2	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 continues to outperform. GDP expanded 2.8% in the third quarter of 2024 in seasonally adjusted annualized terms (saar, as assumed for all quarterly growth rates in this box unless otherwise stated), down slightly from 3.0% in the second quarter. Resilient consumer spending—up 3.7% (vs. 2.8% in Q2 2024)—strong recovery in export growth (8.9% vs. 1.0% in the previous quarter), and higher government spending growth (5.0% vs. 3.1% in the previous quarter), is underpinning GDP growth. Investment growth slowed to 0.3% (vs. 8.3% in Q2 2024) while import growth surged to 11.2% (vs. 7.6% in Q2 2024). Headline inflation rose to 2.6% year on year in October, from 2.4% in September, while core inflation remained unchanged at 3.3%, amid persistent inflation in shelter and transportation services. Energy costs increased slightly in October but remained relatively low, subtracting 0.5 percentage points from the latest headline figure. The labor market remained resilient, with unemployment declining to 4.1% in September and October after peaking at 4.3% in July. The Federal Reserve began monetary easing with a 50-basis-point cut to the federal funds target range in September and another 25 in November. It is expected to cut an additional 25 basis points in December 2024. In early November, Americans re-elected Donald J. Trump while his Republican Party secured a legislative majority in Congress.

Growth is expected to slow to 2.7% in 2024 and 1.8% in 2025, and inflation to slow to 2.9% in 2024 and 2.3% in 2025. The GDP growth forecast for 2024 is revised up by 0.3 percentage points amid strong economic performance and upward revisions to historical growth rates. The economy has proven resilient to tight monetary conditions, especially the household sector. The recent surge in imports, partly anticipating an East Coast ports strike in early October, will subside while exports will remain moderate as global demand stabilizes. The Federal Reserve's aggressive start to monetary easing also improves the 2025 outlook, with the growth forecast revised up 0.1 percentage points, as lower lending rates boost private investment and consumption. Stronger economic activity and monetary easing will impact disinflation, with the inflation forecast for 2025 revised up 0.1 percentage points as the effects of lower energy costs fade away and core inflation proves more persistent.

The US presidential election results pose significant risks to the outlook, but mainly beyond 2025. Key campaign proposals including higher trade tariffs, fiscal loosening, and curbs on immigration, could significantly impact the US and other economies (see *Special Topic*). Fiscal loosening and the impacts of lower immigration on the labor market may reignite wage and inflation pressures and lead the Fed to slow monetary easing. Higher tariffs and trade barriers are also likely to dent growth as industry struggles to substitute key imported intermediate inputs and retaliations by trading partners hurt exports. While the baseline forecasts assume these policies will be implemented only partially and phased in slowly, a more aggressive stance on these proposals poses downside risks. In the near term, uncertainty about actual policies may hinder private investment growth, but, even if aggressive, the time it takes to enact the required legislation means the effects of these policies are unlikely to be felt before 2026.

GDP growth in the euro area is forecast at 0.8% for 2024 and 1.3% for 2025. Growth in Q2 2024 slowed to 0.8% saar, from 1.2% in Q1. However, preliminary estimates show GDP grew 1.5% saar (0.9% year-on-year) in Q3, the strongest

continued on next page

Box *Continued*

in 2 years. Most economies in the region recorded upbeat quarterly growth, including Germany, which avoided a technical recession. The labor market remains strong, with unemployment still at a record low in September 2024 and wage growth remaining elevated, boosting household real incomes. However, leading indicators suggest weaker activity in the last quarter 2024, with both services and manufacturing PMI below 50 in November 2024 and declining relative to October. Growth in 2025 is expected to increase as the European Central Bank eases monetary policy, enhancing availability of credit. However, the forecast has been revised slightly downwards, from 1.4% to 1.3%, amid high uncertainty about future US tariff policies, which are likely to hamper investment.

Headline inflation is forecast to soften from 5.4% in 2023 to 2.3% in 2024 and 2.1% in 2025. Headline inflation has decreased in the last 24 months, from a peak of 10.6% in October 2022, to 2.9% in October 2023 and to 2.0% in October 2024. The last decrease was due to weaker energy prices and slower growth in services inflation. The European Central Bank has cut the key interest rate three times this year and is expected to continue easing into 2025. In 2025, inflation is expected to average 2.1%.

In Japan, the economy lost momentum in Q3, with GDP growth slowing to 0.9% (quarter-on-quarter [qoq], saar) from 2.2% in Q2. Consumer spending rose 0.9% qoq, outperforming Q2's 0.7% increase, despite the latter benefiting from a surge in car sales as major automakers resumed production. However, private and public investment declined and net exports subtracted 1.6 percentage points from GDP growth, due to higher import volumes and only a slight increase in exports. We expect subdued economic activity in Q4, as real household spending remained negative in September and real wages turned negative after briefly outpacing inflation in June and July. Trade was mixed: real merchandise trade rebounded in Q3 (1.9% qoq vs. 0.5% in Q2), but the "new export orders" in the manufacturing PMI signals a likely decline. Private investment also weakened in Q3 (-0.2% qoq vs. 0.9% in Q2) and is expected to stay weak in Q4. The October composite PMI flash estimate dropped to 49.6, its lowest since August 2022, signaling challenges. The GDP forecast for Japan is downgraded to -0.2% in 2024 but upgraded to 1.2% in 2025, with real wage growth expected to recover from negative territory quicker than anticipated, supporting domestic demand.

Japan's headline inflation slowed to 2.3% in October, down from 2.5% in September, the lowest level since January, primarily due to the government's reinstatement of utility subsidies. Core inflation, which excludes fresh food, eased to 2.3% but remained above the Bank of Japan's 2% target. Services prices increased 1.5% year-on-year, up from 1.3% in September. The central bank regards services prices as a key indicator of price trends driven by wage growth and consumer demand. Inflation is expected to move toward the central bank's target, bolstered by ongoing government subsidies. Further fiscal measures to address cost-of-living concerns are also expected. However, the recent depreciation of the yen could sustain inflationary pressures through the end of the year, hampering the outlook for real wage growth. The Bank of Japan held its key short-term interest rate at 0.25% during its October meeting, given outlook uncertainty. We now project inflation to average 2.6% in 2024.

Brent crude prices fluctuated significantly in September and October 2024. In September, Brent averaged $74 per barrel, down from $81 in August, due to demand concerns. Early October brought a 13% increase to above $80/barrel amid rising geopolitical tensions. However, with minimal hurricane-related oil supply disruptions in the US, a resolved Libyan political issue, and weak demand, prices stabilized. As key oil facilities in Iran remained operational, fears of supply disruptions eased, causing Brent to drop to $71.09/barrel by 29 October. An unexpected drop in US oil inventories and renewed speculation over OPEC+ delaying production increases lifted Brent crude, closing October around $74/barrel. The postponement of OPEC+ production hike to January 2025 did little to boost prices. Brent crude traded around $75/barrel in the last week of November, with the year-to-date average standing around $81/barrel.

Oil price forecasts have been revised down to an average of $80/barrel for 2024 and $77/barrel for 2025, assuming no Middle Eastern supply disruptions. OPEC+'s high spare capacity and global oil stockpiles are seen as buffers against potential shocks. The International Energy Agency projects slower global oil demand growth, with an increase of under 900,000 barrels per day in 2024 and around 1 million in 2025, down from 2 million in 2023. PRC demand remains weak, with a year-on-year decline of 500,000 barrels/day in August, marking 4 consecutive months of decrease. The effects of recent stimulus measures on demand are still uncertain. Rising non-OPEC supply, led by the US, Brazil, Guyana, and Canada, and potential OPEC+ in 2025, should more than cover expected demand growth.

Oil price forecasts remain uncertain. Brent crude currently trades below its 50- and 200-day moving averages, signaling downward momentum. While geopolitical risk premiums remain low, conflict could heighten the risk premium and affect prices at any time.

Special Topic: The Potential Impacts of the Second Trump Term on Economies in Asia and the Pacific

The re-election of Donald J. Trump on 5 November 2024 for a second presidential term in the US has raised interest in the potential impacts of his policy proposals. President-elect Trump's new administration is widely expected to pursue significant changes in several policy areas, which could produce substantial domestic and external effects via direct or indirect channels. These policies will likely and largely build on measures implemented during his first term, which impacted the global, US, and Asia and Pacific economies in multifaceted ways (Box 2.1).

Uncertainty remains significant about the type of policies the new Trump administration will pursue, their extent, and how rapidly they will be implemented. This has been compounded by President-elect Trump's statements on 25 November. In a partial deviation from his campaign pledges, he declared that, on the first day of his new Presidency, he would use executive orders to charge Canada and Mexico a 25% tariff on all their exports to the US to address illegal immigration and drug issues, and that the PRC will face 10% higher tariffs on its exports to the US, on top of existing tariffs. Assuming retaliatory tariffs on US exports are imposed in response, preliminary analysis suggests these immediate and sharp tariff increases on the rest of North America and the PRC could dent US GDP growth by more than 1 percentage point in 2025. But research shows that, quite apart from actual policy actions, the rising trade uncertainty itself could exert sizable economic impacts. By one measure, the spike in trade policy uncertainty during the first Trump term reduced aggregate US investment by $23–$47 billion in 2018 alone (Caldara et al. 2020).

This report builds into the baseline only the main policy proposals advanced by President-elect Trump during his electoral campaign in key areas. As such, his more recent pronouncements, implying a swift deterioration of trade relations with key trading partners, are considered as risks to the outlook. The reason for adopting this baseline approach is twofold. First, it is as yet unclear whether sweeping tariffs on Canada, Mexico, and the PRC could be immediately introduced via executive order. This is because, with a few exceptions, the constitutional authority to tax is given to Congress in the US.[1] Second, details are still lacking for several announced policy measures, including those advanced by the President-elect on 25 November. For instance, it is not clear whether these tariffs would cover services or energy imports from Canada, or whether the opening of negotiations with Canada, Mexico, and the PRC would suffice to delay or halt them. These factors preclude an assessment of their potential effects at this stage. In contrast, the contours of the proposed policy shifts were clearly outlined during the electoral campaign in at least three main areas.

The first area is trade, where during the electoral campaign President-elect Trump proposed 60% tariffs on imports from the PRC and 10%–20% tariffs on imports from all other economies. These pledges may be negotiating starting points, rather than strict policy targets, but a turn toward a more protectionist trade stance is also suggested by other proposals. These include a review of the United States-Mexico-Canada Agreement, possibly revoking the PRC's permanent normal trade relations status and imposing a carbon-border adjustment tax (Hogan, McKibbin, and Noland 2024). Because legislation will most likely be required to implement new trade tariffs, they could come into force in the third quarter (Q) of 2025 at the earliest, but the timing may vary. Additionally, tariffs may be introduced all at once or in a staggered manner.

While initially improving the trade balance, hiking tariffs is likely to boost inflation and subtract from gross domestic product (GDP) growth in the US as the economy adjusts (McKibbin, Hogan, and Noland 2024). In the short term, tariffs can be expected to reduce US imports and the country's trade deficit. By shifting demand from foreign to domestic goods in an economy already at or close to full employment, tariffs will also put upward pressure on wages and prices. This would likely lead the US Federal Reserve (Fed) to maintain a tighter monetary stance than otherwise to keep inflation in check. As the economy adjusts, higher interest rates and an improved trade balance could lead to an appreciation of the US dollar, reducing exports and curtailing the trade deficit improvement. Retaliatory tariffs

This *Special Topic* was written by Abdul Abiad, Shiela Camingue-Romance, Jaqueson Galimberti, Matteo Lanzafame, and Nedelyn Magtibay-Ramos of the Economic Research and Development Impact Department.

[1] Section 232 of the Trade Expansion Act of 1962 gives the US President the power to adjust imports that are deemed to threaten national security. Section 301 of the Trade Act of 1974 allows the President to take appropriate action, including tariff-based, to address any unfair act, policy, or practice of a foreign government burdening US commerce. The International Emergency Economic Powers Act (IEEPA) authorizes the President to regulate international commerce and economic transactions during a national emergency.

Box 2.1 President Trump's First Term Policies and Effects in Asia and the Pacific

President Donald Trump's administration in its first term in 2017–2021 made significant interventions in several policy areas. Domestically, two fiscal policies were particularly relevant. The first is the Tax Cuts and Jobs Act of 2017, which reduced the top corporate tax rate from 35% to 21% and provided temporary individual tax cuts. The second is the Coronavirus Aid, Relief, and Economic Security Act—a $2 trillion fiscal package to support the economy during the COVID-19 pandemic, which included direct payments to consumers, enhanced unemployment benefits, and provisions for businesses. Other policy interventions focused on immigration and border security, deregulation, healthcare, education, energy, cuts to welfare programs, climate policy, withdrawal from the Iran nuclear agreement, and trade relations with the People's Republic of China (PRC), chiefly, and other economies.[a]

The US–PRC trade conflict was the most consequential policy for Asia and the Pacific, reshaping trade relations between the world's two largest economies. Between March 2018 and December 2019, the first Trump administration imposed steep tariffs on imports of PRC goods to reduce the US trade deficit and challenged the PRC on issues such as intellectual property.[b] The PRC responded with retaliatory tariffs targeted at agriculture, automobiles, and other sectors. Continued escalation through December 2019 saw tariffs imposed or threatened on approximately $536 billion worth of PRC exports to the US and about $120 billion worth of US exports to the PRC (ADB 2019). Non-tariff measures were also used or explored, including investment restrictions, export controls on strategic products, and the targeting of specific companies. The Phase One Trade Agreement signed by the two countries in January 2020 put a stop to the escalation and helped ease tensions, reducing PRC exports to the US subject to an average 19.3% tariff to roughly $350 billion, and US exports to the PRC subject to an average 20.7% tariff to about $100 billion (Bown 2021). However, most tariffs remained through the end of his term on 20 January 2021 and the administration of President Joe Biden mostly maintained them.

The trade conflict impacted the PRC and the rest of the region, producing "winners" and "losers". Analysis in the Asian Development Outlook 2019 Update showed that PRC exports to the US subject to tariffs had dropped 30%–40% year-on-year by June 2019, and tariff-affected US exports to the PRC had contracted by a similar magnitude. The negative impact of the trade conflict spilled over to other economies in Asia and the Pacific via regional supply chain channels. As PRC exports to the US declined, PRC imports of intermediate and other goods from the rest of the region followed suit—e.g., decreasing 6% in the first 7 months of 2019 and as much as 10% for imports from high-income technology exporters. However, other economies benefited from trade redirection. Excluding the PRC, in the first 6 months of 2019, US imports from Asia and the Pacific rose about 10%, and as much as 33% from Viet Nam, 20% from Taipei,China, and 13% from Bangladesh.

[a] As well as deploying tariffs on imports from the PRC and other trading partners, the first Trump administration renegotiated the North American Free Trade Agreement, leading to its replacement with the United States-Mexico-Canada Agreement; blocked appointments to the World Trade Organization (WTO) appellate body, rendering it unable to adjudicate disputes; and withdrew from the Trans-Pacific Partnership (TPP). Immigration policy was aimed at reducing both legal and illegal immigration, emphasizing border security, including via beginning the construction of a wall along the US-Mexico border. Refugee or asylum approvals plummeted by 86.5%, while legal immigration and the issuance of green cards and temporary work visas fell by more than 40% each between end-2016 and the end of 2020. Deregulatory efforts were especially significant in sectors like finance and energy, with the latter also seeing expanded oil and gas exploration, including in the Arctic. Buoyed by lowered restrictions, oil and natural gas production increased and the US became a net exporter of oil by 2019. Climate policy included the rollback of measures such as the Clean Power Plan and the withdrawal from the Paris Climate Accord.

[b] The Trump administration imposed 25% tariffs on approximately $34 billion of US imports from the People's Republic of China (PRC) in July 2018 and an additional $16 billion in August. When the PRC retaliated, the trade conflict escalated. In September 2018, the administration imposed 10% tariffs on an additional $200 billion of imports, raising the rate to 25% in June 2019. In September 2019, 15% tariffs were applied to another $102 billion of imports, later reduced to 7.5% with the implementation of the US–China Phase One agreement in February 2020. Source: Chad P. Bown 2022. *Four Years into the Trade War, Are the US and China Decoupling?*. Peterson Institute for International Economics (PIIE), 20 October.

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This box was written by Shiela Camingue-Romance and Matteo Lanzafame of the Economic Research and Development Impact Department.

from the PRC, European Union (EU), and other trade partners would further constrain US exports and dent the benefits produced by higher tariffs for the trade balance. Ultimately, by reducing imports and exports, tariffs could significantly hinder US economic activity (Blanchard 2024).

The second area is immigration, where President-elect Trump has put a major focus on cracking down on illegal migrants. The policy mix to achieve this objective could involve measures including deporting up to 1 million illegal immigrants a year. It could also include lowering refugee admissions, resuming construction of the US-Mexico border wall, ending catch and release, using military forces for border security, and reinstating the Migrant Protection Protocols—commonly referred to as the “remain in Mexico” policy (AIC 2024). Legal immigration criteria may also be tightened. Sharply lower net migration would reduce labor supply and dent economic growth in the US in the medium term. Such measures would affect the low-skilled-labor intensive sectors more than others—such as agriculture, construction, hospitality, food and personal-services, where most undocumented migrants find jobs.[2] Since the US economy is arguably close to full employment, a falling labor supply could fuel wage and price inflation. In the short term, however, migration flows to the US could increase as a result of prospective migrants anticipating their move to avoid the forthcoming restrictions (APNews 2024).

The third area is fiscal policy and tax cuts. The $4.6 trillion in tax cuts implemented in President-elect Trump’s first term with the 2017 Tax Cuts and Jobs Act, which are set to expire at the end of 2025, could be extended or even made permanent. Additionally, other measures could be implemented to end taxation of tips, overtime, and Social Security benefits, and lower the top corporate tax rate further to 15% for manufacturing firms. Meanwhile, overall spending is expected to rise because of higher defense outlays and possibly higher spending in other sectors. Tariff revenues and lower spending on climate-related policies and the social safety net would likely not fully offset these expansionary fiscal measures. As a result, the President-elect’s fiscal policies are expected to further increase the already high budget deficit, about 6.5% of GDP at present, and push the federal debt-to-GDP ratio above the current 100%.

The global baseline assumptions in this report postulate a partial and gradual implementation of President-elect Trump’s main policy proposals on trade, immigration, and fiscal policy, given uncertainty on their magnitudes and the speed with which they can come into play. First, the baseline assumes US tariff hikes are targeted toward certain products and trading partners, including the PRC, the EU, Mexico, and Canada. It is assumed that the tariff increases are implemented at the start of 2026 and phased in over the course of the year. The EU is expected to retaliate in full, and the PRC to respond by hiking tariffs on US imports less than proportionally and allowing a depreciation of the RMB against the US dollar. Second, it is assumed that US immigration policy becomes more restrictive from mid-2025. The annual net migration is expected to fall to about 800,000 per year, before reverting after the second Trump term to the roughly 1.1 million average in 2022–2023 (Frey 2024). Third, the expiring provisions of the Tax Cuts and Jobs Act on personal tax are assumed to be fully preserved and some of the business tax provisions are expected to become more generous, with overall spending rising. As a result of this, from 2026 onwards, the fiscal stance is assumed to be more expansionary than previously projected.

Under the baseline, the combined impact of President-elect Trump’s main policy proposals will not materially affect developing Asia in 2024 and 2025. The impacts of new tariffs on US imports and a more expansionary fiscal policy in the US are not expected to affect developing Asia over this report’s forecasting horizon, given the assumption that both will take effect from 2026 onwards. Similarly, the more restrictive US immigration policy from mid-2025 is likely to have indirect and lagged effects in the region only from 2026.

A risk scenario

This *Special Topic* considers a risk scenario in which President-elect Trump’s policy measures are implemented more harshly relative to the baseline. Taking into account the uncertainty surrounding actual policy measures of the second Trump administration, the *Special Topic* investigates a risk scenario in which policy changes are introduced more aggressively than assumed in the baseline. To estimate the impact on the US and other major economies, as well as in developing Asia and the Pacific, the Oxford Economics Global Economic Model was used. It is assumed that:

- **The US imposes higher tariffs across the board, both on the PRC and other major trading partners, starting in 2026.** Rather than targeting specific sectors, the US introduces 60% tariffs on imports from the PRC and 10% tariffs on imports from all other major trading partners, phased in during 2026 and 2027. In this scenario, it is assumed that the

[2] Estimates indicate that in 2017 unauthorized migrants accounted for about 4.6% of the civilian labor force in the US, but constituted 14.6% of the total in agriculture (McKibbin, W. J, M. Hogan, and M. Noland 2024).

PRC responds by also hiking tariffs on US imports, but less than proportionally, and letting the RMB depreciate. Given the lower size of the US tariff hike compared to that imposed on the PRC, it is assumed that other economies retaliate in full with 10% higher tariffs on US imports.

- **More stringent curbs from Q2 2025 halve annual net immigration to the US compared to 2022–2023.** Net US immigration drops to 560,000 a year, against 800,000 in the baseline assumptions and 1.1 million on average in 2022–2023.

- **US fiscal policy is more expansionary than in the baseline.** The expiring Tax Cuts and Jobs Act provisions are extended. Only certain aspects of the Inflation Reduction Act are undone, and the clean energy tax credits are largely preserved. Spending on the social safety net (e.g., Medicaid and Medicare) falls but, as in the first Trump term, overall spending on defense and nondefense rises—albeit less than in the Bipartisan Budget Act of 2018. In addition, tax cuts are more aggressive and spending is higher. All of this results in a fiscal stance looser than in the baseline from Q4 2025. Federal fiscal conditions worsen and the federal debt-to-GDP ratio increases.

Table 2.1 summarizes the risk scenario assumptions and policy proposals advanced by the Trump campaign, as well as this report's baseline assumptions.

While the assumed policy changes under the risk scenario primarily affect the US and the PRC, the magnitude of the impacts are rather modest and limited given the size of the policy changes, notably on tariffs. World GDP growth is slightly dented by a cumulative 0.5 percentage points over the next 4 years. Across the major economies, the PRC faces the largest loss, but even there, cumulative growth declines by only 1.2 percentage points over 2025–2028—or 0.3 percentage points per year. This is despite an initial positive impact driven by increasing exports, in turn boosted by the RMB depreciation. A stronger frontloading of PRC imports by US businesses before the new tariffs take effect may also further attenuate the impacts on PRC growth. The US displays the second largest loss, with growth lower in the period by a cumulative 0.7 percentage points (Figure 2.1A). The large impact on the PRC drags down growth in developing Asia by 0.6 percentage points. Growth in the euro area and Japan falls to a lesser extent, by 0.4 and 0.5 percentage points, respectively. Due to the lagged nature of the underlying policy changes, the growth impacts are not immediate, with most economies impacted mainly from 2027 onwards. Growth dynamics in the US diverge from this trend, as the largest impact materializes in 2026 following the implementation of policy measures. Moreover, the threat of higher inflation leads to a deceleration of monetary easing and higher interest rates in the US compared to the baseline from 2026 onwards.

The growth impacts in the rest of developing Asia are mixed and smaller in magnitude. Due to their stronger trade linkages with the PRC, economies in East Asia also see a decline in GDP growth. South Asian and Southeast Asian economies benefit from the US-PRC trade disputes as trade diversion and production relocation open new opportunities. Reflecting these heterogeneous effects across economies, the overall cumulative impact on growth in developing Asia excluding the PRC is marginally positive.

Global inflation is only marginally affected by the renewed trade conflict, but price pressures rise in the US and the PRC. Higher tariffs, fiscal loosening, and labor shortages boost prices in the US. By the end of the second Trump presidency, US inflation is 1.1 percentage points above the baseline (Figure 2.1B). The inflationary impacts of the trade conflict are felt even more strongly in the PRC, where inflation is lifted by 1.8 percentage points above the baseline over the period, due to the compounded effects that higher tariffs and a depreciation of the RMB have on the prices of imported goods and production costs. The euro area and Japan can withstand price pressures given their lesser involvement in trade disputes and more favorable positioning to deal with exchange rate pressures. In the aggregates, world and developing Asia inflation rates end up 0.3 percentage points and 0.5 percentage points above the baseline, respectively.

Contrary to the PRC, rising inflationary pressures across the rest of developing Asia are short-lived. The impact of a stronger US dollar, and consequential effects on prices of imported goods, is eventually counterbalanced by declining commodity prices brought about by slowing global growth (Figure 2.2A). Specifically, the pass-through of lower food and energy prices to the prices of consumption goods peaks in 2027 and developing Asia excluding the PRC sees a cumulative decrease in inflation of 0.7 percentage points.

The results of this risk scenario analysis are broadly in line with those of other similar studies, based on different models and assumptions. In particular, the escalation of the trade disputes and tariff hikes between the US and the PRC is consistently shown to produce GDP losses for both economies, while other economies in developing Asia are less affected. For instance, one of the scenarios considered in McKibbin, Hogan, and Noland (2024) isolates the impact of higher tariffs, assuming the US introduces a 10% additional tariff on all trading partners

Table 2.1 President-Elect Trump's Key Campaign Proposals, Baseline and Risk Scenario Assumptions

President-elect Trump's key campaign proposals on trade, immigration, and fiscal policy are implemented gradually and partially in the baseline, more harshly in the risk scenario.

Policy Areas	Key Campaign Proposals	ADO December 2024 Baseline Assumptions	Risk Scenario Assumptions
Trade	60% United States (US) tariffs on imports from the PRC. 10%–20% US tariffs on imports from all other economies. Review of United States-Mexico-Canada Agreement. Revoking the People's Republic of China's (PRC) permanent normal trade relations status. Imposing a carbon-border adjustment tax.	Phased in during 2026: 25% US tariffs on machinery, electronics and chemicals imports from the PRC. The PRC raises tariffs on imports of the same goods from the US less than proportionally. Renminbi (RMB) depreciates against the US dollar. 25% US tariffs on steel, aluminum, and motor vehicle imports from the European Union. The EU retaliates in full. Targeted US tariffs on imports of steel, aluminum, and Chinese-made electric vehicles from Mexico, as well as on some Canadian goods.	Phased in during 2026–2027: 60% US tariffs on imports from the PRC and 10% tariffs on imports from all other major trading partners. The PRC hikes tariffs on US imports less than proportionally. RMB depreciates against the US dollar. Other economies retaliate in full with higher tariffs on US imports.
Immigration	Deporting up to 1 million illegal immigrants a year. Lowering refugee admissions. Resuming construction of the US-Mexico wall. Ending catch and release. Using military forces for border security. Reinstating the "Remain in Mexico" policy. Tightening legal immigration criteria.	Immigration policy becomes more restrictive from mid-2025. Annual net migration to the US falls by about 300,000, to 800,000 per year. Annual net migration to the US reverts to the 2022–2023 average of 1.1 million after the second Trump term.	Immigration policy becomes even more restrictive than in the baseline from mid-2025. Annual net migration to the US falls to 560,000 per year. Annual net migration to the US reverts to the 2022–2023 average of 1.1 million after the second Trump term.
Fiscal policy	Extending the Tax Cuts and Jobs Act (TCJA) $4.6 trillion in tax cuts set to expire at the end of 2025. Ending taxation of tips, overtime pay, Social Security benefits, lower the corporate tax rate to 15% for manufacturing firms. Eliminating green energy tax credits introduced under the Inflation Reduction Act. Cutting housing-related and green energy expenditures. Increasing defense spending significantly.	The expiring TCJA provisions on personal tax are fully preserved, some of the business tax provisions become more generous. Only certain aspects of the Inflation Reduction Act are undone, the clean energy tax credits are largely preserved. Spending on the social safety net (e.g., Medicaid and Medicare) falls but overall spending on defense and nondefense rise. Federal fiscal conditions worsen and the federal debt-to-GDP ratio increases.	US fiscal policy is more expansionary than in the baseline, as tax cuts are more aggressive, and spending is higher.

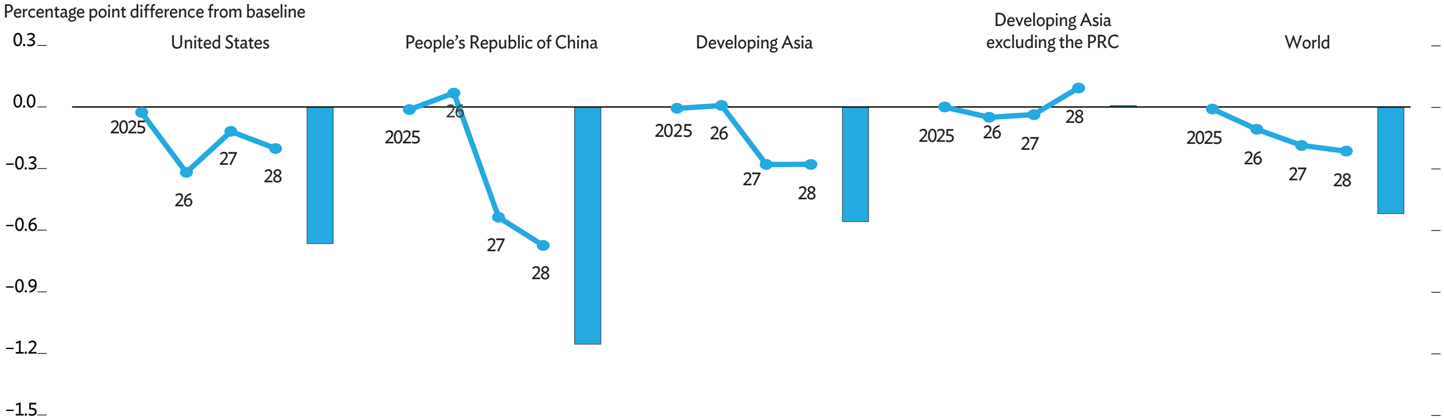
GDP = gross domestic product.

Sources: Committee for a Responsible Federal Budget. 2024. The Fiscal Impact of the Harris and Trump Campaign Plans. *US Budget Watch 2024*; York, E, G. Watson, A. Durante, and H. Li. 2024. *Donald Trump Tax Plan Ideas: Details and Analysis.* Tax Foundation; authors.

Figure 2.1 Growth and Inflation Impacts Under the Trump Presidency Risk Scenario, 2025–2028

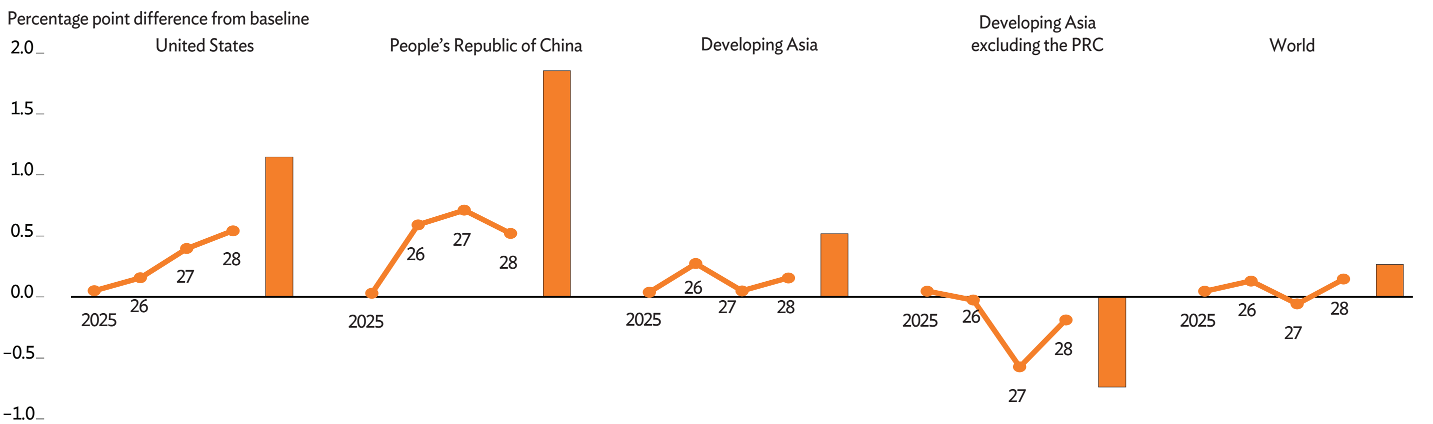
A. GDP Growth Impacts

The negative effects on growth are limited, with the PRC and the US primarily affected.



B. Inflation Impacts

Price pressures rise in the US and the PRC.



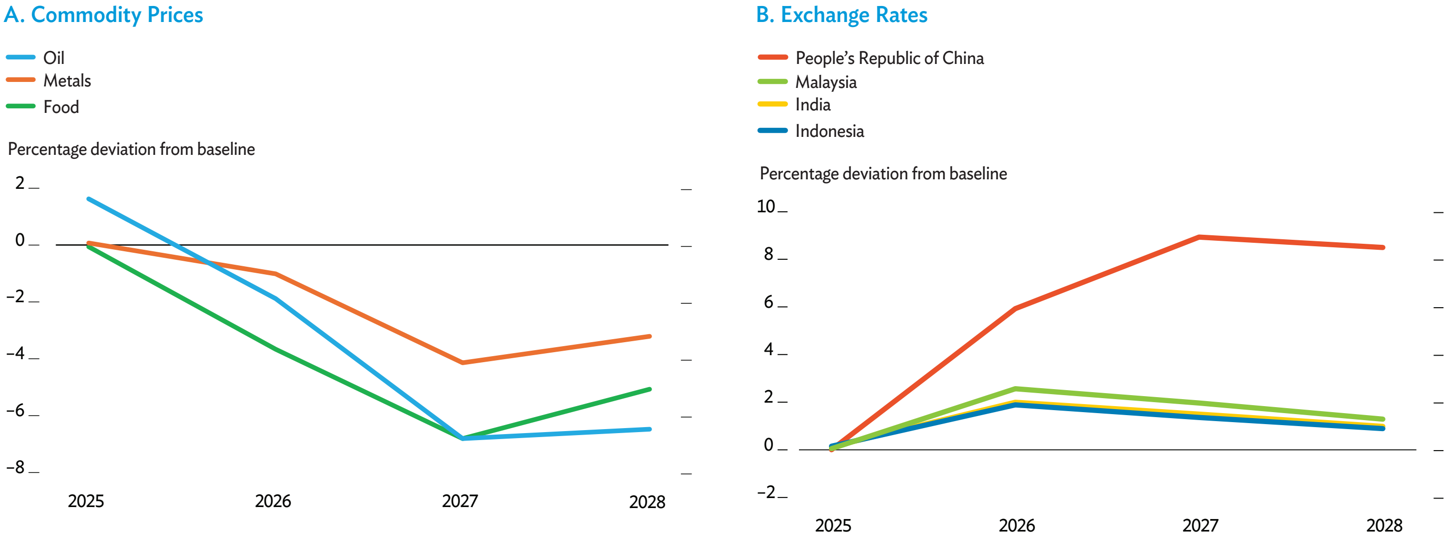
PRC = People's Republic of China, GDP = gross domestic product, US = United States.
Notes: The bars represent the cumulative differences from 2025–2028.
Sources: Oxford Economics Global Economic Model; authors' calculations.

and a 60% additional tariff on the PRC, with all economies retaliating in kind by imposing steeper tariffs on US imports. The associated cumulative real GDP loss up to 2028 is 1.17 percentage points for the PRC, and 0.38 percentage points for the US. In contrast, in other Asian economies cumulative GDP rises marginally, e.g., by 0.10 percentage points in the Republic of Korea, 0.17 percentage points in India, and 0.22 percentage points in Indonesia. An analysis by the Institute of International Finance (2024) finds that under full tariff retaliation, the PRC would face the largest economic shock, with GDP potentially contracting by 1.5–2.0 percentage points in the first year.

This risk scenario analysis should be interpreted cautiously, recognizing several caveats around the modelling assumptions and quantitative work. First, the results are underpinned by assumptions made on the magnitude and speed of implementation of the proposed shifts in US policy, about which there is significant uncertainty. Second, this scenario analysis does not capture the scale or timing of potential policy responses by the PRC, and other economies, which could be stronger than assumed. For example, the negative impacts on economic activity and growth in the PRC could be cushioned by additional fiscal stimulus, measures to support exporters, households, the property market, and policy rate cuts. Third,

Figure 2.2 Impacts on Commodity Prices and Exchange Rates of Selected Asian Economies Under the Trump Presidency Risk Scenario, 2025–2028

Commodity prices decline due to the global growth slowdown, while exchange rates depreciate against the US dollar.



Sources: Oxford Economics Global Economic Model; authors' calculations.

trade policies can have a significant impact on regional trade networks, while anticipation effects can significantly alter the dynamics of the estimated impacts. Given that these channels are not incorporated in the model, the regional impact estimates should be interpreted cautiously. Finally, as with all modelling exercises of this nature, point estimates of impacts are subject to uncertainty, which is related to a lack of precision in the scenarios.

Additional Risks to the Outlook

President-elect Trump could impose tariffs on the PRC and other trading partners more rapidly than assumed in the risk scenario. This could happen if the new US administration bypassed Congress, which has the constitutional authority to tax. Exceptions to this general rule give the US President the power to implement tariffs for national security reasons, during a national emergency, or to address any unfair act, policy, or practice of a foreign government burdening US commerce. A faster introduction of the tariffs would anticipate the effects described in the risk scenario, thus amplifying the cumulative impact until 2028. The more aggressive pace of change in the US trade stance could also trigger additional indirect effects via expectations, consumer and business confidence channels, and by adding to uncertainty. In particular, this could lead to domestic private investment and foreign direct investment falling in 2025 already, in anticipation of the negative effects of the tariffs.

Proposals and possible intervention in other policy areas could also produce significant domestic effects and external spillovers. While still less well-defined or certain, President-elect Trump's proposed policy measures cover areas beyond trade, fiscal policy, and immigration. These pose risks to the outlook in developing Asia and the Pacific. In particular, possible changes in monetary policy, environmental policy, international relations, and deregulation stand out.

The second Trump term could be associated with a more dovish Fed. While monetary policy lies outside the control of the executive, President-elect Trump has repeatedly stated his preference for lower interest rates even as the US Federal Reserve was engaged in the most aggressive monetary tightening in 40 years to rein in inflation. Some of President-elect Trump's advisors have already suggested that current Fed Chairman Jerome Powell should resign, reinforcing the expectation that he will be replaced in early 2026 with a more dovish Fed chair. But even before then, the new administration's attitude toward the Fed could affect economic outcomes. For instance, some research suggests that President-elect Trump's tweets criticizing the Fed have impacted actual monetary policy, the stock market, bond premiums, and the macroeconomy (Bianchi et al. 2023). Given the importance of Fed monetary policy as a factor driving other central banks' decisions, this could lead to generally lower policy rates and higher inflation rates across the world—including in Asia and the Pacific.

US environmental policy is expected to turn decidedly less green. Under President Trump, the US may withdraw again from the Paris Climate Accord, roll back various environmental regulations and cut green subsidies, boost oil and gas production, reverse elements of the Inflation Reduction Act, and consider a carbon border adjustment tax, as noted. It is unclear which of these actions will be pursued in practice, but market expectations are consistent with a substantial shift in US environmental policy, as suggested by stock prices of renewable energy and climate technology firms falling sharply after the election result. The lack of commitment to climate deals by the US could (at least partly) undermine the progress made so far on collaborative efforts for the fight against climate change (Capital Economics 2024a). As such, the US environmental policy overhaul could negatively impact the trajectory of the green transition globally, with particularly deleterious effects in developing Asia and the Pacific given the region's exposure to climate change impacts.

US international relations may become more inward-looking and unilateral. President-elect Trump's stance on multilateralism has been generally critical, favoring bilateral deals and an "America First" approach over participating in multilateral organizations and agreements. The new Trump administration is also expected to seek a reduced involvement in international security. This is anticipated to involve pushing for an end to Russia's war in Ukraine, for example. Such expectations could lead to short-run intensification in pursuit of the best possible status quo. As a result, geopolitical tensions may rise or escalate in the short term, before adjusting to a new equilibrium characterized by lower multilateral cooperation and more bilateral or regional agreements.

The deregulatory banking, energy, and climate policy agenda of the first Trump presidency may be revived. Additionally, a renewed focus on government efficiency could lead to a reduction in wasteful government spending. This could boost businesses' confidence in a friendlier competition environment than during the Biden administration, and thus economic activity. Faster growth in the US could benefit developing economies in Asia and the Pacific to varying degrees, via trade and other channels. However, based on the available evidence on the deregulation efforts of the first Trump administration, it is unclear whether these new measures would have a meaningful economic impact (Capital Economics 2024b).

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