

ASIAN DEVELOPMENT OUTLOOK

DECEMBER 2025

GROWTH STEADIES BUT UNCERTAINTY LINGERS

HIGHLIGHTS

- The 2025 growth forecast for economies in developing Asia and the Pacific (developing Asia) is raised by 0.3 percentage points from September, to 5.1%. The upgrade is due to stronger-than-expected growth in India, driven by robust domestic consumption, and solid export performance in the region's high-income technology-exporting economies.
- The 2026 growth forecast is also revised up by 0.1 percentage points, on reduced trade uncertainty following the conclusion of several trade agreements. However, regional growth is expected to slow to 4.6% next year, dented by higher US tariffs and weaker global economic activity.
- Robust external demand, particularly for electronics-related products, prompted upward revisions to growth projections for East Asia, to 4.6% in 2025 and 4.1% in 2026.
- Growth in South Asia is now forecast at 6.5% in 2025, up by 0.6 percentage points, on an improved outlook for India. The 2026 projection is unchanged at 6.0%.
- Southeast Asia's growth projections are also revised up, to 4.5% in 2025—reflecting a strong third-quarter performance in Indonesia, Malaysia, Singapore, and Viet Nam—and to 4.4% in 2026, on an improved external environment and supportive public spending.
- Growth forecasts for the Caucasus and Central Asia are upgraded to 5.8% in 2025 and to 5.0% in 2026, supported by strong public investment, rising remittances, robust domestic demand, and stable macroeconomic conditions. Growth forecasts for the Pacific are held steady, at 4.1% in 2025 and 3.4% in 2026.
- Inflation in developing Asia is expected to ease further to 1.6% in 2025, down from 1.7% projected in September, mainly reflecting lower-than-expected food inflation in India. The 2026 inflation forecast remains unchanged at 2.1%.
- Renewed tariff tensions and trade policy uncertainty, and higher financial market volatility, remain key risks. Geopolitical pressures and weakness in the People's Republic of China's property market could also weigh on the region's growth outlook.

The recent developments section was written by Melanie Quintos, Nedelyn Magtibay-Ramos, Ed Kieran Reyes, Shiela Camingue-Romance, Patrick Jaime Simba, and Mai Lin Villaruel under the guidance of Abdul Abiad, John Beirne, and Matteo Lanzafame of the Economic Research and Development Impact Department (ERDI). The Asian Development Bank Regional Economic Outlook Task Force led the preparation of the revised subregional outlook. The task force is chaired by ERDI and includes representatives of the Central and West Asia Department, East Asia Department, Pacific Department, South Asia Department, and Southeast Asia Department. ADB placed its regular assistance to Afghanistan on hold effective 15 August 2021. Effective 1 February 2021, ADB placed a temporary hold on sovereign project disbursements and new contracts in Myanmar. The box on recent US tariff cuts was written by Jules Hugot and Ed Kieran Reyes of ERDI. The box on global assumptions was written by John Beirne, Gabriele Ciminelli, Jaqueson Galimberti, Pilipinas Quising, and Dennis Sorino of ERDI, and Emmanuel Alano, ERDI consultant. The box on changes in the *Asian Development Outlook* composition and economy groupings was written by Jules Hugot and Priscille Villanueva of ERDI.

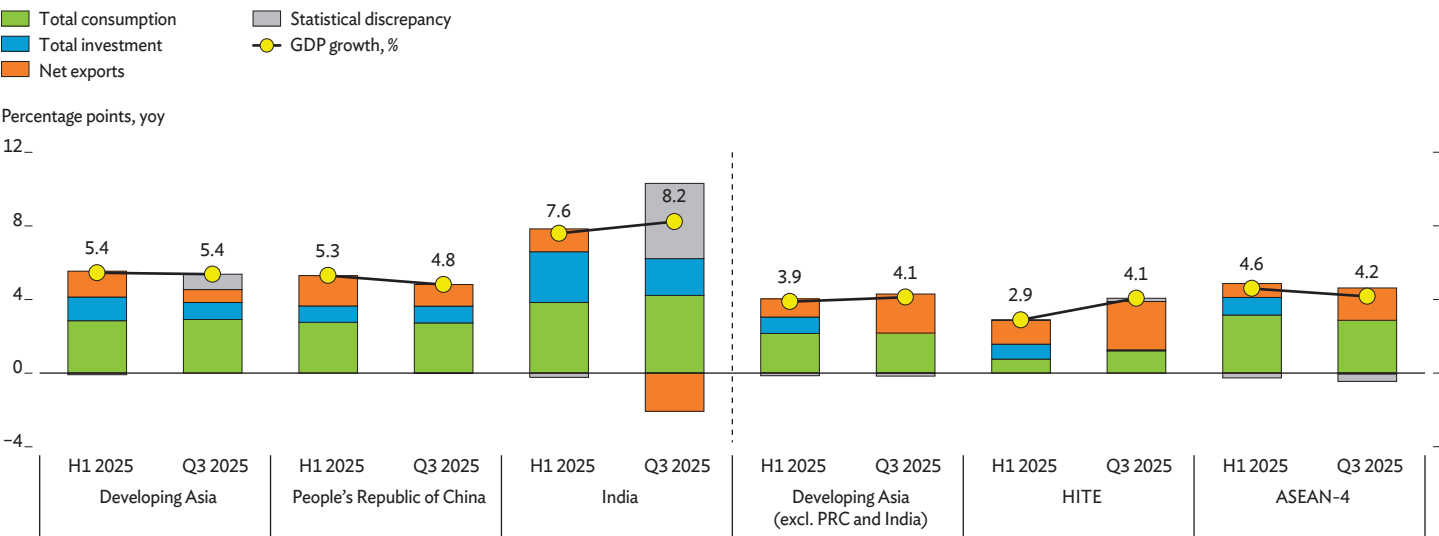
Economic growth in developing Asia remains resilient, underpinned by solid consumption and continued export strength. Except for India, where growth surprised on the upside, third quarter (Q3) developments in the region were in line with projections in Asian Development Outlook (ADO) September 2025. Resilient consumption supported domestic demand even as investment weakened, weighed down by inventory destocking and persistent, albeit moderating, trade uncertainty. Exports remained robust, bolstered by strong demand for electronics and semiconductors and export market diversification, which helped to mitigate the impact of higher United States (US) tariffs. Inflation in the region continued to ease, primarily as food prices fell. Reflecting these developments, growth forecasts for developing Asia are raised by 0.3 percentage points to 5.1% for 2025 and by 0.1 percentage points to 4.6% for 2026. While regional growth is expected to moderate next year, export strength, underpinned by the upturn in the AI and electronics cycle, will help to sustain economic activity, alongside lower trade uncertainty after several governments concluded trade agreements with the US. Possible re-escalations of tariffs and trade policy uncertainty, and intensification of financial market volatility, remain significant downside risks for the outlook. Geopolitical strains, localized tensions, and a deeper-than-expected property market deterioration in the People's Republic of China (PRC) could also weigh on the region's prospects.

Recent Developments

Growth in developing Asia stabilized at 5.4% in Q3 2025, unchanged from the first half (H1), as a slowdown in the PRC was offset by acceleration in India. External headwinds shaped economic activity and economy-specific drivers led to some divergence (Figure 1). In the PRC, growth decelerated less than anticipated in ADO September 2025, to 4.8% from 5.3% in H1. Weak domestic demand, ongoing property market strains, and scaling back of trade-in incentives in some provinces, weighed on growth. In contrast, exports proved stronger than expected, supported by export market diversification. Growth in India exceeded expectations as gross domestic product (GDP) expanded by 8.2% in the second quarter of the current fiscal year (July to September 2025), the fastest growth in 6 quarters, driven by strong private consumption and despite muted government consumption. Excluding the PRC and India, average growth in the rest of the region picked up slightly, but trends varied across economies. Bolstered by strong global demand for electronics and semiconductors, most high-income technology exporters and Association of Southeast Asian Nations (ASEAN) economies grew robustly. Taipei,China's AI-related exports helped maintain its growth at a strong 7.6%, while gains were also solid in Indonesia and Malaysia. However, investment weakness

Figure 1 Contributions to GDP Growth, H1 2025 and Q3 2025

Growth remained steady in developing Asia in Q3, as quicker expansions in India and the rest of the region offset the moderation in the PRC.



ASEAN = Association of Southeast Asian Nations; ASEAN-4 = Indonesia, Malaysia, Philippines, and Thailand; PRC = People's Republic of China; GDP = gross domestic product; H = half; HITE = high-income technology exporters (Hong Kong, China; Republic of Korea; Singapore; and Taipei,China); Q = quarter, yoy = year on year. Notes: Economies included are those with available quarterly GDP figures with demand-side breakdowns, which account for about 90% of developing Asia's GDP. 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.

partly offset external tailwinds in several economies. Meanwhile, GDP growth slowed in Singapore, as higher imports offset export gains, and in Thailand, where consumption eased amid reduced spending on services. GDP growth slowed to 4.0% in the Philippines—the lowest rate since Q1 2021—as stricter fiscal and budget-execution controls and adverse weather curbed public investment and household spending.

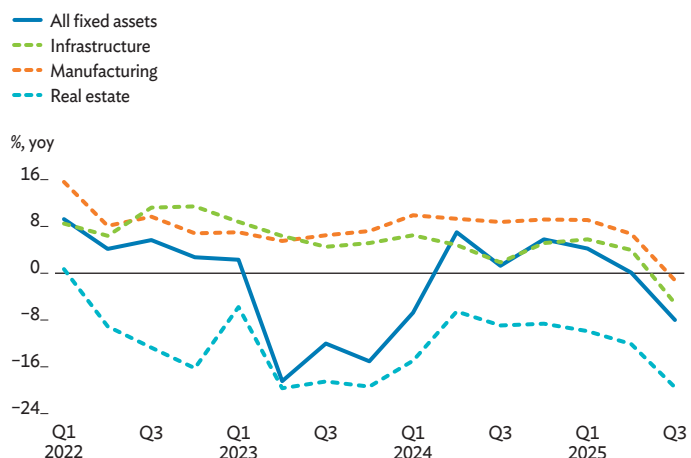
Investment growth slowed markedly in Q3 compared to H1 2025.

The deceleration in investment was broad-based. In the PRC, fixed asset investment contracted by 8% in Q3 (Figure 2). This reflected continued weakness in the property market, but also slowing growth in manufacturing and infrastructure investment, as business confidence remained muted. Following strong gains earlier in the year, investment growth weakened sharply in Q3 in several high-income technology exporters and ASEAN economies (Figure 3). The downturn was largely driven by inventory drawdowns, which in several economies swung from making positive to strongly negative contributions. Private investment momentum also decelerated in some economies. These dynamics are consistent with a cyclical correction, likely linked to weakening external demand as export frontloading effects fade. In contrast, private investment was higher in Hong Kong, China; Singapore; and Thailand, bolstered by rising construction works and increased

investment in equipment and intellectual property products. In addition, growth in fixed capital investment weakened only modestly in India and remained resilient in Indonesia on robust building and machinery and equipment outlays.

Figure 2 Fixed Asset Investment in the PRC

Fixed asset investment fell in Q3, with contractions in manufacturing and infrastructure compounding the prolonged slump in real estate investment.

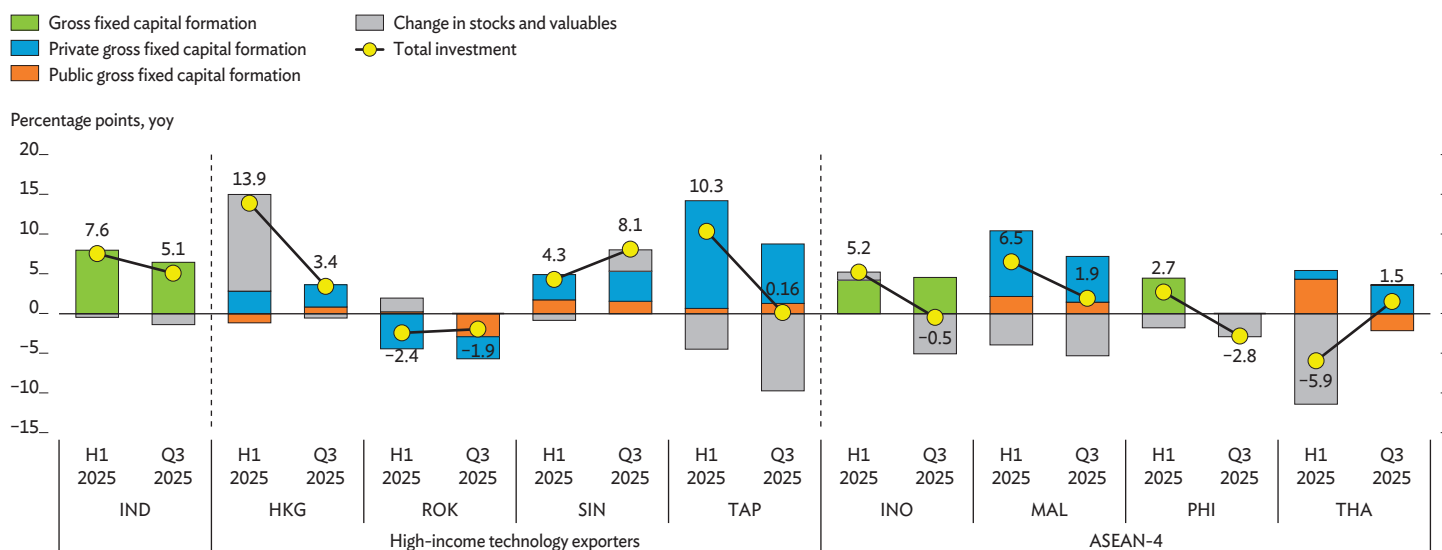


PRC = People's Republic of China, Q = quarter, yoy = year on year.

Source: CEIC Data Company.

Figure 3 Contributions to Investment Growth, H1 2025 and Q3 2025

Inventory drawdowns consistent with weakening demand drove the downturn.



HKG = Hong Kong, China; IND = India; INO = Indonesia; ROK = Republic of Korea; MAL = Malaysia; PHI = Philippines; SIN = Singapore; TAP = Taipei, China; THA = Thailand. ASEAN = Association of Southeast Asian Nations; ASEAN-4 = Indonesia, Malaysia, Philippines, and Thailand; GDP = gross domestic product; H = half; Q = quarter; yoy = year on year.

Note: Economies included are those with available quarterly GDP figures with demand-side breakdowns, which account for about 50% of developing Asia's GDP. All data are in calendar years and non-seasonally adjusted terms.

Sources: Asian Development Bank calculations using data from Haver Analytics; national sources.

Leading indicators are consistent with diverging patterns of economic activity across developing Asia.

S&P Global manufacturing purchasing managers' indexes (PMIs) suggest economic activity was broadly resilient in November. Values above 50 signaled improving conditions in 6 out of 10 economies with available data while, compared to the previous month, PMIs increased in half of the economies and edged lower in the rest (Figure 4). Although still firmly above 50, the manufacturing PMI declined to a 9-month low in India as US tariffs dented export orders and production activity. Meanwhile, the Philippines' PMI dropped to its lowest level in more than 4 years, amid declining manufacturing output and new orders, partly reflecting typhoon-related disruptions. Readings edged up and were consistent with improving manufacturing activity in Indonesia, Malaysia, and Thailand. In contrast, the PMI swung back below 50 in the PRC as growth in new orders eased to a near-neutral level, while it remained in contractionary territory in the Republic of Korea and Taipei, China. Notably, Taipei, China's PMI suggests that manufacturing activity remains broadly weak, in sharp contrast to its high-tech sector which continues to expand apace: export orders for electronics and information and communications technology products surged by about 32% in October. In services, India's services PMI strengthened in November on the back of stronger demand, recent goods and services tax (GST) relief measures, and easing inflationary pressures. October readings for the Philippines and Sri Lanka also point to continued improvement in wholesale and retail trade-related activities. In the PRC, however, services activity weakened marginally in November to its softest pace in 5 months as new businesses growth slowed and job shedding continued.

Inflation edged up in the PRC but continued to decline on average in the rest of developing Asia.

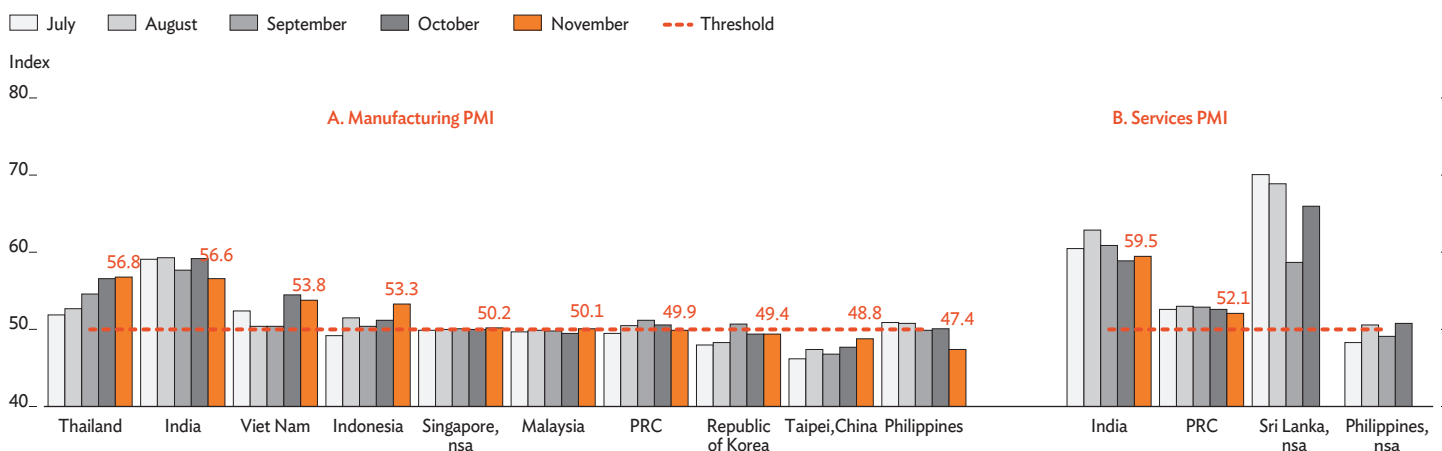
After falling into negative territory in August and September, headline inflation in the PRC increased to 0.2% in October (Figure 5). Rising core goods prices reduced deflationary pressures in the region's largest economy, even as food prices continued to fall for the ninth consecutive month. Excluding the PRC, average regional inflation decelerated to 1.6%. This was mainly driven by sharply falling price pressures in India, where inflation came in at 0.3% in October. This decline was due to GST reductions and food price deflation for a second successive month, supported by favorable agricultural output and benign weather conditions. Taken together, these dynamics lifted developing Asia's headline inflation to 0.9% year on year in October and year-to-date inflation to 1.1%, even as core inflation remained broadly unchanged.

US trade policy uncertainty decreased after tariffs on the PRC were reduced and bilateral trade deals clarified, but it remains elevated (Figure 6).

Trade tensions between the US and the PRC declined somewhat in November. The US lowered "fentanyl-related" tariffs on PRC imports from 20% to 10%, while the PRC suspended export restrictions on rare earth and critical minerals. The US also finalized the trade deal with the Republic of Korea and announced additional tariff exemptions for food products. Provisions for additional tariff exemptions were also included in trade deals between the US and several ASEAN economies (Box 1). Meanwhile, new US tariffs were introduced in October on softwood and wooden furniture imports, and on trucks and buses in November. These additional measures, however, will have minimal impact on the region given

Figure 4 S&P Purchasing Managers' Index in Selected Developing Asian Economies

Manufacturing performance in November was mixed, with minor gains and dips in some economies suggesting uneven yet resilient growth; services activity remained robust.



PRC = People's Republic of China; nsa = not seasonally adjusted; PMI = purchasing managers' index.

Notes: Values below 50 indicate deterioration, and above 50, improvement. All series are seasonally adjusted, unless otherwise indicated.

Sources: CEIC Data Company; Singapore Institute of Purchasing and Materials Management.

Figure 5 Headline Inflation: PRC and Developing Asia excluding PRC

Inflation edged up in the PRC but, on average, continued to moderate in the rest of the region.

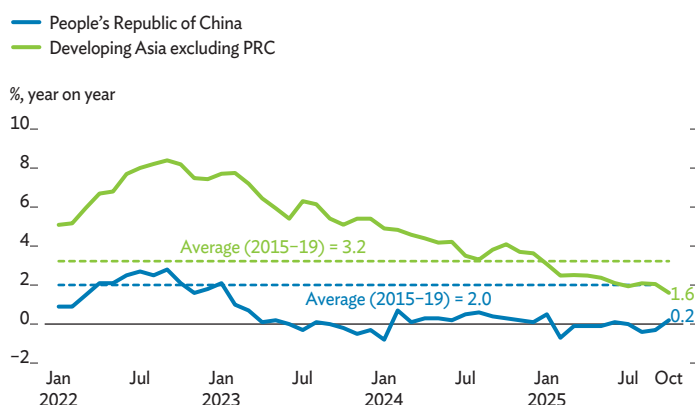
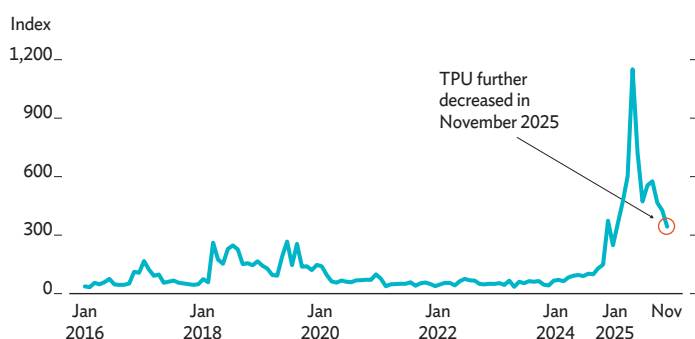


Figure 6 Trade Policy Uncertainty Index, Monthly Average

Trade policy uncertainty declined following US tariff and trade deal announcements in October and November.



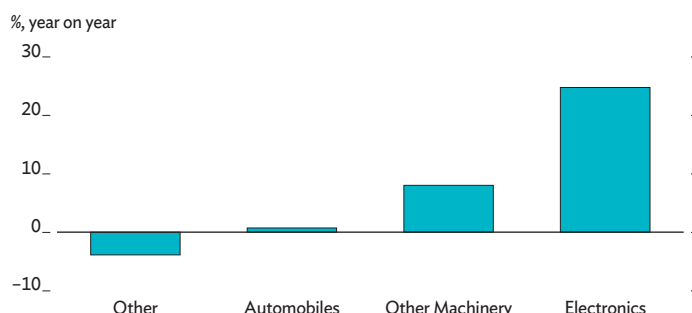
limited exports of these items. Uncertainty remains on other sector-specific tariffs for branded drugs and semiconductors, announced in August and September, as these measures have not been formally introduced.

Regional exports continued to rise in the second half of the year, underpinned by robust electronics demand. Between January and September, electronics exports increased by 25% in developing Asia excluding the PRC (Figure 7, panel A),

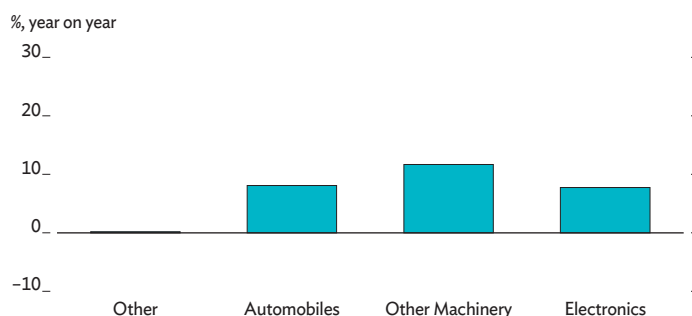
Figure 7 Changes in Exports (USD) by Sector in Jan-Sep 2025

Machinery drove the PRC's export resilience, while electronics boosted exports in the rest of the region.

A. Developing Asia excluding the People's Republic of China



B. People's Republic of China

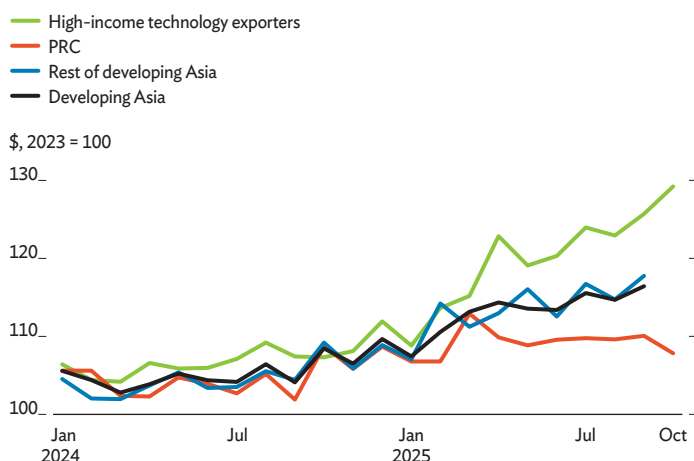


with steady gains through the year. Exports from high-income technology exporters increased by 22% year on year in October, led by a 49% surge in Taipei, China amid strong global demand for semiconductor chips (Figure 8). The PRC's exports were down 1% in October, partly because of base effects and weighed down by the renminbi's recent trade-weighted appreciation. Overall, however, the PRC's exports increased by 5% in the first 10 months of the year. This relative resilience of the PRC's exports reflects gains in machinery exports and electronics (Figure 7, panel B), and the reallocation of its exports from the US to other markets, particularly within Asia (Figure 9). Exports from the rest of the region continued rising steadily, led by Southeast Asia's exports to the US as well as other markets. India's exports were also resilient—notably rising to the US up to July, driven by tariff-exempt sectors such as smartphones and pharmaceuticals and frontloading in other sectors.

Financial market conditions remain broadly stable, supported by a firmer global trade environment. Regional equity markets gained between 1 October and 30 November, despite brief pullbacks. Valuations dipped modestly around 14 October amid renewed US-PRC trade tensions and again

Figure 8 Monthly Exports of Developing Asian Economies

Exports rose further in the second half of the year, driven by high-income technology exporters and despite a slowdown in the PRC.



PRC = People's Republic of China.

Notes: High-income technology exporters include Hong Kong, China; Republic of Korea; Singapore; and Taipei, China; Developing Asia includes high-income technology exporters, PRC, India, Indonesia, Malaysia, Pakistan, Philippines, Thailand, and Viet Nam.

Source: CEIC Data Company (accessed 27 November 2025).

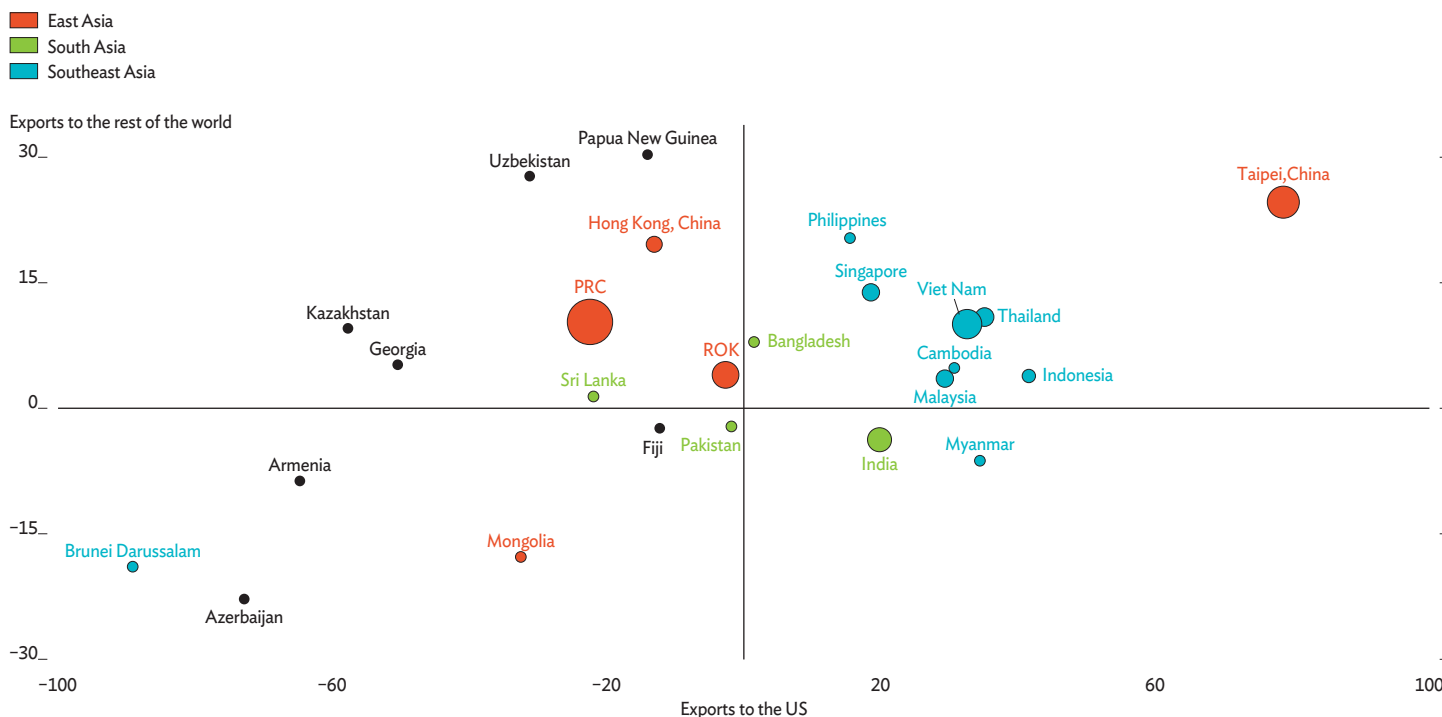
in November as concerns over AI stock valuations resurfaced. Markets recovered on the back of new trade deals between regional economies and the US, an extended US–PRC trade truce, and expectations of further rate cuts by the US Federal Reserve (Fed). Investor sentiment was further buoyed by a more positive economic outlook, as Q3 GDP growth exceeded forecasts in several regional economies. Risk premiums widened only modestly, while 10-year sovereign bond yields declined in 5 out of 10 economies with available data. In a deviation from pattern, the region recorded net portfolio outflows in the period, as inflows in October were outweighed by large outflows in November. This reversal was driven by renewed fears over AI stock overvaluations and a more stable US dollar, as persistent US inflation heightened uncertainty over the Fed's dovish stance.

With price pressures subdued, monetary easing persisted across developing Asia.

In September and October, inflation rates were at or below target for 13 out of 17 inflation-targeting economies. In response to muted inflation dynamics, central banks in Hong Kong, China; Indonesia; the Philippines; and Tajikistan cut policy rates. In contrast, monetary authorities in Kazakhstan and the Kyrgyz Republic tightened policy further

Figure 9 Changes in Exports to the US and the Rest of the World, May–July (% year on year)

Export growth was broad-based, with Taipei, China's and Southeast Asia's US exports rising despite higher tariffs.



PRC = People's Republic of China, ROK = Republic of Korea, US = United States.

Note: Circles are proportional to the value of exports to the US, unless they are lower than \$3.6 billion.

Sources: International Monetary Fund. [International Merchandise Trade Statistics](#) and CEIC Data Company.

to counter persistent inflationary pressures. Looking ahead, looser US monetary policy may provide room for further easing in the region. The Fed lowered its benchmark federal funds rate by 25 basis points in September and again on 29 October, bringing the target range to 3.75%–4.00%. Market expectations are consistent with additional Fed policy easing into 2026, but substantial uncertainty remains over its speed and terminal point. This uncertainty may be reflected in a more cautious easing stance in developing Asia, as regional central banks' balance efforts to support growth against the risks of an inflation revival and financial instability.

Aggregate growth projections for major advanced economies remain unchanged from September (Box 2). US growth forecasts are maintained at 1.7% in 2025 and 1.8% in 2026, as elevated inflation and policy uncertainty continue to weigh on domestic demand. The government shutdown, which ran 43 days from 1 October to 13 November 2025, was the longest in history and delayed data releases, complicating policy making and amplifying US policy uncertainty. With inflation remaining above target, the Fed is expected to ease less than markets anticipate, supporting the US dollar, and weakening export competitiveness. Meanwhile, surging investment in AI-related infrastructure will partly offset subdued demand. The euro area growth forecast remains unchanged at 1.2% for both 2025 and 2026, supported by rising real wages and low unemployment. In 2026, low interest rates and expansionary fiscal policies are expected to support economic activity. Japan's growth outlook remains at 1.1% for 2025 and 0.6% for 2026. Expansionary fiscal policies under the new government are expected to support near-term growth, though external conditions remain challenging. The recent yen depreciation, which could raise imported cost pressures, and slower-than-expected monetary policy tightening, prompted an upward revision to the 2025 inflation forecast.

Developing Asia's growth outlook is revised to 5.1% for 2025 and 4.6% for 2026, up by 0.3 and 0.1 percentage points, respectively, from September (Table 1). In the PRC, the 2025 growth forecast is raised on resilient exports to non-US markets and continued fiscal stimulus. Following stronger-than-anticipated growth in Q3, India's 2025 growth projection is upgraded by 0.7 percentage points to 7.2%, driven primarily by robust domestic consumption supported by recent tax cuts. Similarly, growth projections for high-income technology exporters, as well as Southeast Asian economies such as Indonesia, Malaysia, and Viet Nam, are revised upward due to better-than-expected performance in Q3, mostly driven by robust export activity. For Kazakhstan, the 2025 projection is raised due to the postponement of this year's planned oil production cuts to 2026. For 2026, the upward revision to the region's growth projection is primarily driven by improved growth prospects in East Asia and the Caucasus and Central Asia. Stronger domestic

demand, sustained export growth driven by semiconductors and electronics, and reduced trade uncertainty prompted the upward revisions for Hong Kong, China and the Republic of Korea, while the upgrade for Taipei, China reflects surging AI and technology exports. Higher-than-anticipated public infrastructure investment led to the upward revisions for Armenia and Kazakhstan. Growth forecasts for next year have also been raised for several Southeast Asian economies. For Indonesia, the adjustment was driven by stronger domestic demand, supported by fiscal and monetary stimulus; for Malaysia, by substantial digital investments and reduced trade uncertainty; for Singapore, by strong global investments in AI and increased infrastructure spending; for Timor-Leste, by expansionary fiscal policy; and for Viet Nam, by robust exports and improvements in public spending. In the case of South Asia, 2026 growth forecasts have been revised upward for Sri Lanka and Pakistan—respectively, due to increased public investment and a less-severe-than-anticipated impact of flooding. In contrast, growth projections were cut for the Philippines, largely due to weak public infrastructure investment, and Bangladesh, amid weak exports and ongoing port strikes. The growth outlook for the rest of developing Asia remains unchanged. Inflation in the region is expected to ease to 1.6% in 2025, down from 1.7% in September, largely due to lower-than-expected food inflation in India. The inflation forecast for 2026 remains unchanged.

Asia and the Pacific's growth outlook faces several downside risks. Possible re-escalations of tariff tensions and trade policy uncertainty, as well as elevated financial market volatility, are key concerns and could weigh on exports and investment. Sharp asset price corrections could also intensify debt vulnerabilities, triggering capital outflows and debt distress. Geopolitical risks further threaten regional prospects, with localized tensions potentially disrupting investment and business confidence. The PRC's property market stress is another significant vulnerability, as worse-than-expected deterioration could impact regional growth and financial stability. In addition, an unexpected technology cycle cooldown could dampen export performance, particularly for economies reliant on electronics and AI-driven sectors.

Growth and Inflation Outlook by Subregion

East Asia

The forecast for East Asia's growth is revised upward to 4.6% from 4.4% for 2025 and to 4.1% from 3.9% for 2026. The PRC; Hong Kong, China; the Republic of Korea; and Taipei, China all recorded stronger-than-expected growth in Q3 2025, driven largely by robust external demand—particularly for electronics-related products.

Table 1 GDP Growth Rate and Inflation, %

Subregion/Economy	GDP Growth					Inflation				
	2024	2025		2026		2024	2025		2026	
		Sep	Dec	Sep	Dec		Sep	Dec	Sep	Dec
Developing Asia	5.1	4.8	5.1	4.5	4.6	2.6	1.7	1.6	2.1	2.1
Developing Asia excluding the PRC	5.1	4.9	5.4	4.8	4.9	4.8	3.3	3.1	3.7	3.8
Caucasus and Central Asia	5.8	5.5	5.8	4.9	5.0	6.8	7.7	8.0	6.6	7.1
Kazakhstan	5.0	5.3	5.8	4.3	4.5	8.7	10.5	11.2	8.4	9.5
East Asia	4.7	4.4	4.6	3.9	4.1	0.5	0.3	0.3	0.6	0.6
People's Republic of China	5.0	4.7	4.8	4.3	4.3	0.2	0.0	0.0	0.4	0.4
Hong Kong, China	2.5	2.2	3.4	2.0	2.6	1.7	1.6	1.6	1.6	1.6
Republic of Korea	2.0	0.8	0.9	1.6	1.7	2.3	1.9	2.1	1.9	2.1
Taipei,China	4.8	5.1	7.3	2.3	4.0	2.2	1.8	1.6	1.5	1.5
South Asia	5.9	5.9	6.5	6.0	6.0	6.5	3.7	3.3	4.7	4.7
India	6.5	6.5	7.2	6.5	6.5	4.6	3.1	2.6	4.2	4.2
Southeast Asia	4.8	4.3	4.5	4.3	4.4	3.0	2.5	2.4	2.7	2.8
Indonesia	5.0	4.9	5.0	5.0	5.1	2.3	1.7	1.7	2.0	2.5
Malaysia	5.1	4.3	4.5	4.2	4.3	1.8	1.8	1.6	2.2	2.2
Philippines	5.7	5.6	5.0	5.7	5.3	3.2	1.8	1.8	3.0	3.0
Singapore	4.4	2.5	4.1	1.4	2.1	2.4	1.0	1.0	1.2	1.2
Thailand	2.5	2.0	2.0	1.6	1.6	0.4	0.5	0.0	0.8	0.5
Viet Nam	7.1	6.7	7.4	6.0	6.4	3.7	3.9	3.9	3.8	3.8
The Pacific	3.8	4.1	4.1	3.4	3.4	1.9	3.0	2.5	3.4	3.4

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

Notes: 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. There will be updates to ADO composition and economy groupings starting in April 2026 (see Box 3).

Source: Asian Development Outlook database.

The PRC's 2025 growth forecast is revised up to 4.8% from 4.7% in ADO September, while the 2026 projection remains unchanged at 4.3%. The upward revision reflects stronger-than-expected GDP growth of 5.2% in the first three quarters of 2025 and new policy support, even as domestic demand remained subdued. The persistent property sector downturn continued to weigh on activity, with a sharper decline in property investment pulling fixed asset investment down and slowing infrastructure and manufacturing investment. Despite the policy easing, housing market conditions remained weak: new and existing home prices fell in September, and residential sales were down. Combined with slower real disposable income growth, these factors dampened household consumption, with retail sales growth easing from 5.0% in Q2 to 4.5% in September. In contrast, external demand provided a stronger boost than anticipated. Net exports contributed 1.5 percentage points to growth—0.4 points higher than last year—exceeding expectations. During the same period, exports rose 6.1% in US dollar terms (8.3% in volume), driven mainly by non-US markets. The recent easing of US–PRC trade

tensions, export market diversification strategies, and the country's strength in high-tech and new-energy products should support export resilience in Q4 despite a high base. Imports declined 1.1% in US dollar terms (1.0% in volume) due to weak domestic demand, lower commodity prices, and PRC tariffs on US goods, and are expected to remain subdued. Consequently, net exports are expected to contribute more to growth in Q4 than previously anticipated. In addition, the recently announced policy support of RMB1 trillion for investment and local governments, along with stronger net export performance, likely outweigh domestic weaknesses, supporting a slight upward revision to the 2025 growth forecast.

Growth projections for Hong Kong, China are revised up to 3.4% for 2025 and 2.6% for 2026. GDP growth accelerated to 3.8% year on year in Q3 2025, up from 3.1% in Q2, driven by both exports and domestic demand. Goods exports rose a solid 12.1% on strong demand for electronic-related products and buoyant intraregional trade. Services exports rose by 6.3% on increasing

inbound tourism and bullish financial markets. Overall, net exports contributed 1.6 percentage points to growth. A more modest 2.1% rise in private consumption contributed another 1.4 percentage points. Fixed investment rose by 4.3%, supported by the stabilization in the property market, adding another 0.8 percentage points. The relative easing of trade tensions and resilient demand for electronics will keep supporting external demand in Q4 and next year. Healthy tourism and financial markets should also sustain services exports. On the domestic side, interest rate cuts should contribute to the nascent recovery of the property market, while recovering consumer confidence and rising household incomes should support private spending. However, growth could be weighed down by a slowdown in goods export growth on a re-escalation of trade tensions. Slower-than-expected interest rate cuts in the US would also dent economic activity.

The Republic of Korea's growth forecasts are revised slightly upward to 0.9% for 2025 and 1.7% for 2026. The upward revision for 2025 is mainly due to stronger-than-expected performance in Q3, supported by government stimulus measures that have boosted domestic consumption and are expected to continue through Q4. Robust global demand for semiconductors, which helped to offset weakness in other product categories, contributed to a moderate expansion in exports. For 2026, the growth projection is raised on expectations of stronger domestic demand and reduced trade uncertainty following recent progress on trade agreements with the US. However, downside risks remain, including weakness in the property sector and renewed global trade and geopolitical tensions.

Taipei, China's AI-driven export boom is projected to raise growth to 7.3% in 2025 and 4.0% in 2026. Both are upward revisions from the September ADO. In the first three quarters of 2025, exports grew by 26%, the fastest since the 1980s. In US dollar terms, total exports rose by 30% and tech exports by 50%. And these strong exports stimulated fixed investment. However, public and private consumption increased by only around 1%. Global trade shocks and weak trickle-down to wages from the capital-intensive tech sector dampened consumer confidence. The upward revision to the growth projection for 2026 assumes that the AI boom will be sustained at least through midyear and that trade tensions with the US will ease, supporting exports and accompanying fixed investment. The projection also assumes that reduced uncertainty and trickle down from tech will boost consumer confidence and purchasing power, while government transfers to households and increased defense outlays will underpin domestic demand.

Inflation forecasts for East Asia are maintained at 0.3% for 2025 and 0.6% for 2026. In the PRC, inflation forecasts remain unchanged and low due to weak demand. Consumer price inflation averaged -0.1% in the first 9 months of 2025 compared

to 0.3% last year. Nonfood inflation rose to 0.2%, while food prices dropped 1.7%. Core inflation edged up to 0.6%, driven by services inflation. Despite a favorable base effect in Q4, weak demand, price competition, and low food prices are expected to continue exerting downward price pressures.

Inflation forecasts for Hong Kong, China are maintained at 1.6% for 2025 and 2026. Headline inflation averaged 1.5% in the first 10 months of 2025. Somewhat stronger growth and renewed US interest rate cuts since September could raise inflation slightly in Q4, but the rise in consumer prices is expected to remain low over the forecast horizon with domestic and external price pressures projected to remain subdued.

The inflation forecasts for the Republic of Korea are revised upward to 2.1% for both 2025 and 2026. Inflation accelerated to 2.4% year on year in November, driven by higher food and petroleum costs, bringing year-to-date inflation to 2.1%. The planned reduction in fuel tax subsidies beginning in November 2025, along with the recent depreciation of the Korean won, is expected to contribute to inflationary pressures next year.

In Taipei, China, the inflation forecast for 2025 is revised downwards to 1.6% but the forecast for 2026 is kept at 1.5%. Recent data confirmed that overall price pressures remain subdued and may even be weakening. Even if CPI inflation were to be relatively high at 1.5% in November and December, full-year inflation would be no more than 1.7%, compared to the September ADO projection of 1.8%.

South Asia

Growth in South Asia is expected to remain robust, with the 2025 forecast revised upward to 6.5% from 5.9%, and the 2026 forecast maintained at 6.0%. This is driven by upgrades to India's outlook based on robust growth in domestic consumption. Sri Lanka's forecast is revised upward for 2025 and 2026 due to robust credit expansion, buoyant consumption, and improved investor confidence following rating upgrades. In contrast, Bangladesh's fiscal year (FY) 2026 (ending 30 June 2026) projection is lowered due to weaker exports amid subdued global demand and supply disruptions, while the forecast for FY2025 remains unchanged. Pakistan's FY2025 growth outlook is upgraded following a stronger-than-expected Q4. Growth forecasts for the remaining South Asian economies are retained, although Nepal faces lingering uncertainty in the aftermath of civil unrest in September and the ongoing political transition.

India's growth forecast for FY2025 (fiscal year ending March 2026) is revised to 7.2% from 6.5% in the September ADO. GDP grew faster-than-expected 8.2% in second quarter FY2025

(July to September 2025), leading to an average growth of 8% in the first half of the fiscal year. The strong growth is attributable to robust expansion of the manufacturing and services sectors on the supply side and consumption and investment on the demand side. Exports remained resilient due to frontloading ahead of elevated US tariffs and diversification to non-US markets. Growth is expected to moderate in the second half, as the central government's capital spending eases amid fiscal consolidation efforts, and export growth softens, driven by elevated US tariffs impacting select Indian exports. However, stronger-than-expected consumption demand, helped by a robust rural economy, the impact of GST rate cuts, and steady credit growth will support growth. On the supply side, domestic industrial demand will be tempered by muted goods exports and strong imports. The services sector, which has grown by 9.3% in first half of FY2025, will continue to grow strongly, helped by robust domestic and external demand. Growth in FY2026 is maintained at 6.5%. A strong growth outcome in the first half of FY2025 will result in an unfavorable base effect for the corresponding period in FY2026. However, this is likely to be offset by an array of recent measures incentivizing growth, such as enhanced labor market flexibility through a revamp of the labor laws, simplification of GST, relaxation of import restrictions for selected products, and credit relief and support to exporters affected by US tariffs. Risks remain balanced, with downside risks coming from potential escalation of trade tensions and weather-related shocks, while upside potential could emerge if trade negotiations with the US yield a lower tariff rate for India.

Growth outlooks for Afghanistan, Bhutan, Maldives, and Nepal are broadly in line with the ADO September forecasts. In Afghanistan, about 2.7 million refugees returned from neighboring countries in January–August 2025, intensifying pressure on social services, unemployment, and security. In Bhutan, the Punatsangchhu II hydroelectric power plant, a significant growth driver, was fully commissioned and began exporting power to India on 19 September 2025. Similarly, recent tourism numbers are aligned with earlier expectations of continued recovery in tourism and support the growth outlook. In Maldives, tourism remained robust, with total arrivals as of early November supporting the 2025 full year projection of 2.0 million arrivals. Together with fisheries, which continued to outperform expectations following the removal of a price cap on fish purchases, this helped offset subdued construction spending amid continued fiscal constraints and rising debt obligations. In Nepal, the economy slowed as expected after civil unrest in September 2025 and the ensuing political uncertainties. Construction activity has softened, while tourism and real estate remain weak amid travel advisories and regulatory changes. Hydropower generation was briefly disrupted but has largely recovered. The effects of heavy flooding in early October turned out to be more contained than initially expected.

Bangladesh's growth outlook for FY2026 (ending 30 June 2026) is revised downwards. The lower forecast reflects weaker-than-expected export performance and greater investment uncertainty arising out of the effect on policy of upcoming national elections in February. It also reflects weaknesses in the financial sector. Exports have been weighed down not only by subdued global demand but also by supply disruptions resulting from a major strike in October at Chattogram Port, which handles more than 90% of Bangladesh's imports–exports.

The growth outlooks for Pakistan and Sri Lanka have improved for both 2025 and 2026. The Government of Pakistan updated its estimate of GDP growth for FY2025 to 3.0% from a previously reported 2.7%. Despite disruptions that resulted from floods in June 2025, the economy grew 5.7% in Q4 FY2025, and the country's large-scale manufacturing expanded robustly in recent months in FY2026. Sri Lanka's economic outlook has also been upgraded on the back of robust growth in the first half of 2025. The growth forecast for 2025 is revised upwards, supported by strong private sector credit growth, robust consumption, and increased investment, driven by a rebound in industry and steady gains in the services sector. This growth momentum is expected to carry into 2026, and the GDP forecast for that year is also revised upwards, underpinned by planned infrastructure investments and favorable business sentiment. External demand is expected to remain subdued amid trade policy uncertainties. However, Sri Lanka's growth prospects may be dampened by the impact of Cyclone Ditwah, which struck on 28 November 2025, with economic costs of the disaster yet to be determined.

Inflation projections for South Asia are revised down to 3.3% in 2025, compared to 3.7% in the ADO September, and retained at 4.7% for 2026. The downward revision reflects lower inflation in India for FY2025, driven by favorable monsoon conditions, strong monsoon crop output, and GST rate cuts. Sri Lanka's forecast is also revised lower as prolonged deflation through much of 2025 held back price recovery, with inflation turning positive only late in the year. For 2026, Sri Lanka's inflation is expected to recover gradually. India's forecast, meanwhile, remains unchanged as base effects reverse. Inflation forecasts for Bangladesh, Bhutan, Maldives, and Nepal remain unchanged.

Inflation in India is projected to ease in FY2025, with the forecast revised down to 2.6%, from 3.1% in September. The moderation of inflation reflects lower-than-expected food prices due to favorable monsoon conditions and strong monsoon crop output, alongside GST rate cuts in select sectors. Headline inflation fell markedly in recent months, supported by deflation in vegetables and pulses. Inflation is expected

to stay subdued through FY2025 but rise in early FY2026 as base effects reverse, with the forecast for FY2026 maintained at 4.2%.

Inflation forecasts across several South Asian economies remain unchanged. Fueled by the return of refugees, headline inflation in Afghanistan rose to 0.6% year-on-year in January–August 2025, a sharp reversal from the –7.9% in the same period of 2024. In Bangladesh, the outlook is retained as assumptions hold for tighter monetary and fiscal policies, efforts to mitigate exchange rate volatility, and declining global commodity prices. Bhutan’s forecast is steady, supported by anticipated moderation in food prices and stable nonfood inflation. Maldives expects inflation to stay contained, with recent developments aligning with earlier projections. Nepal’s inflation in FY2026 is projected to rise slightly compared to FY2025, consistent with previous expectations, due to flood-related crop losses and a delayed monsoon, but it will remain below the central bank’s 5.0% ceiling. Pakistan’s inflation for the first 4 months of FY2026 was 4.7%, down from 8.7% in the same period a year ago. After a sharp increase in the months immediately after the floods, prices of key food items have begun to stabilize.

Prolonged deflation through much of 2025 in Sri Lanka, with inflation turning positive only late in the year, has led to a downward revision of the forecast. Inflation was held back by lower-than-expected fuel costs, continued declines in transport fares, and cost-reflective pricing adjustments. Better supply conditions, including improved domestic production, helped to keep inflation low, reinforcing a downward trend. For 2026, inflation is revised lower amid expectations that prices will recover only gradually, driven mainly by energy tariff adjustments and fading base effects, with food prices likely to remain contained with improved agricultural output.

Southeast Asia

Southeast Asia’s GDP growth forecasts for 2025 and 2026 have been raised to 4.5% and 4.4%, from 4.3% in both years. The revision reflects strong Q3 performance in Indonesia, Malaysia, Singapore, and Viet Nam, steady growth in Thailand, and lower growth prospects for the Philippines due to weak infrastructure spending amid investigations of publicly-funded projects, and natural hazards. The outlook in the subregion varies with the different influences of global and domestic factors on economies, with some benefiting from resurgent exports and sectoral growth and others facing constraints from high household debt, slowing investment, and infrastructure bottlenecks. Several risks to the subregion’s prospects remain, notably from global uncertainty, climate-related disruptions, and

domestic political developments. Despite these risks, Southeast Asia remains resilient, with prospects depending on sustained policy support and flexible economic strategies.

Indonesia’s GDP growth forecast for 2025 has been raised to 5.0%, from 4.9%, due to stronger-than-expected third-quarter results led by robust exports to the PRC, ASEAN, the US, and European Union. Third-quarter growth was 5.0% year-on-year, with average growth slightly above 5.0% for the first three quarters. The PMI rose above 50 from August to October, signaling expansion in industrial activity. Government spending increased through better budget execution and stimulus, although investment and household consumption moderated after earlier gains. The 2026 growth forecast is now at 5.1% from 5.0%, supported by expected improvements in domestic demand driven by fiscal and monetary stimulus.

Malaysia’s growth forecasts improved to 4.5% from 4.3% for 2025 and 4.3% from 4.2% for 2026. Q3 growth exceeded expectations, led by strong domestic demand, exports, and a mining rebound. Construction, services, and manufacturing remained active. Construction works continued to climb in Q3, recording a 10.6% increase, fueled by both private and public investment and persistent demand for data centers. Meanwhile, consumer- and tourism-related services including food and beverages, accommodation, and transport, expanded at least 8.0%. Despite earlier export concerns, Q3 exports rose by 6.7% due to higher demand from Singapore and the US and greater exports of electrical products, which increased by 17.5%. Mining and quarrying expanded after an H1 decline, driven by higher output of natural gas and oil. Consumer spending stayed strong, supported by the ringgit 100 cash assistance introduced on 31 August, and unemployment has held steady at 3.0% since April 2025.

Singapore’s growth forecast for 2025 has been revised up to 4.1% from 2.5%, and for 2026 to 2.1% from 1.4%, due to an improving global trade environment. GDP grew by 4.2% in Q3 2025, lifting average growth for the first 3 quarters to 4.3%, driven by better-than-expected outputs from manufacturing and wholesale trade, with services maintaining steady growth. On the demand side, consumption moderated while investment rebounded on higher public and private spending. Export growth remained strong but was outweighed by faster import growth, resulting in modest growth of net exports. For the rest of the year, strong AI-related electronics demand, resilient services sectors, and stronger infrastructure demand will support growth. Growth prospects for 2026 have improved due to progress in trade negotiations with the US and the slower-than-expected rollout of possible sectoral tariffs on pharmaceuticals and semiconductors, while sustained global demand for AI-related chips should provide additional lift and positive spillovers to domestic economy.

Growth forecasts for the Philippines are now at 5.0% (from 5.6%) for 2025 and 5.3% (from 5.7%) for 2026, reflecting reduced public infrastructure spending.

GDP growth slowed to 4.0% in the third quarter, averaging 5.0% for the year up to that period, mainly due to lower government spending on flood control projects amid investigations and stricter controls. Despite subdued investor sentiment, private construction grew and October's PMI indicated expansion in services (50.8) and retail/wholesale (51.3). In November, the S&P Global manufacturing PMI dropped to 47.4 from 50.1 in October, though the outlook over the next 12 months was positive with firms expecting higher output. Household consumption moderated but remains supported by low unemployment (3.8% in September 2025) and steady remittances. Low inflation and ongoing monetary easing should sustain domestic demand, supporting stronger growth in 2026. However, uncertainties arising out of investigations of publicly-funded infrastructure projects and weather-related disruptions pose downside risks.

Thailand's GDP growth forecast is maintained at 2.0% for 2025 and 1.6% for 2026, as recent data remain broadly consistent with ADO September assumptions.

The economy decelerated to 1.2% from 2.8% in Q2 2025 and averaged 2.4% in January to September this year. Nevertheless, growth is supported by late-quarter stabilization, aligning with expectations of a temporary boost from front-loaded exports, selective government stimulus, and a gradual recovery in tourism. The anticipated slowdown in late-2025 and 2026 from the impact of US trade measures, modest private consumption constrained by high household debt, and slowing investment continue to shape the forecast. Floods in southern Thailand, particularly in economic and tourism areas in Songkhla province in late November, caused significant disruptions across several sectors. Tourism is expected to be severely hit, with Malaysian travelers cancelling all trips to southern Thailand due to safety concerns. Risks remain tilted to the downside, including global uncertainty, weaker-than-expected tourism, and domestic political fragility.

Viet Nam's growth forecast for 2025 is revised upward, reflecting stronger-than-anticipated export growth and sustained foreign direct investment in Q3 2025.

GDP growth is now forecast at 7.4% for 2025, up from 6.7% in September 2025, and at 6.4% for 2026, up from 6.0%. The export-led manufacturing sector continues to benefit from resilient external demand, while robust domestic service performance supports GDP growth. These factors, combined with ongoing improvements in public investment disbursement and reforms targeting national priority transport projects, are expected to further boost economic activity in coming months. However,

risks from natural hazards, currency depreciation, moderate domestic consumption demand, and external challenges mean that continued vigilance and policy responsiveness will be required to sustain momentum and achieve growth targets.

Average inflation for the subregion has been revised down in 2025 but raised in 2026.

The slight downward revision in 2025 from 2.5% to 2.4% reflects stable energy and food prices, lower supply pressures, weaker domestic demand, and prompt government actions. Meanwhile, a pick-up in domestic demand in Indonesia is expected to lift average inflation in 2026. Most economies are expected to keep inflation within target, though risks remain from possible climate disruptions and currency volatility.

Indonesia's inflation forecast is maintained at 1.7% for 2025 but raised to 2.5% from 2.0% for 2026.

Inflation in Indonesia has remained within the official target range, reflecting sustained price stability that supports household purchasing power. Headline inflation averaged 1.7% in the first 10 months of 2025, down from 2.5% a year earlier, as stable food and administered prices helped offset increases in some nonfood items and services. Core inflation remained subdued, consistent with a gradual recovery in domestic demand.

Malaysia's 2025 inflation forecast is lowered to 1.6%, while for 2026 it remains at 2.2%.

Inflation averaged 1.4% in the first 9 months of 2025, below Bank Negara Malaysia's 1.5%–2.3% target. Core inflation edged up to 1.9% from 1.8% in 2024. The largest price hikes were in personal care, social protection, and miscellaneous goods (from 2.9% to 3.9%), with food and beverage prices rising from 1.8% to 2.2%. Inflation may rise later due to budgetary reforms.

Inflation forecasts for the Philippines are maintained at 1.8% in 2025 and 3.0% in 2026.

Inflation remained low, averaging 1.7% in the first 10 months, although the impact of recent typhoons and weather disturbances could put upward pressure on prices. Inflation is projected to pick up in 2026 on higher electricity rates and base effects, reverting to within the central bank's 2% to 4% target.

Singapore's inflation forecasts remain unchanged at 1.0% for 2025 and 1.2% for 2026.

Core inflation rose to 1.2% year-on-year in October and headline inflation up to 0.8%, driven by higher prices in services, foods, and private transport. For the first 10 months of 2025, headline inflation averaged 0.8% and core inflation 0.6%. The Monetary Authority of Singapore has held its policy stance steady since July after two Singapore dollar nominal effective exchange rate (\$NEER) slope reductions, which caused a mild depreciation of the Singapore dollar, which

may have contributed to a temporary rise in imported inflation. Domestic inflation should normalize as government measures end, while weak global demand and falling oil prices could keep inflation subdued.

Thailand's inflation is revised down to 0.0% in 2025 and 0.5% in 2026, reflecting persistently weaker-than-expected price pressures throughout the first 10 months of 2025. Average inflation was actually slightly negative (deflation), driven by lower global crude prices, government measures to suppress domestic retail oil prices, and abundant raw food supply following favorable weather. These factors, combined with continued energy subsidies and subdued demand conditions, have kept headline inflation below ADO September projections.

Inflation in Viet Nam remains unchanged at 3.9% for 2025 and 3.8% for 2026. Recent pricing trends support current inflation forecasts for Viet Nam. For the first 10 months of 2025, inflation averaged 3.3%, lower than the 3.8% recorded in the same period in 2024, and within the government's target range. Certain food prices rose following amid storm damage and flooding, while rents and utility prices increased following an electricity tariff adjustment. However, headline inflation year on year in October rose to 3.3% from 2.9% a year earlier, driven by the higher costs of health care and utilities.

Caucasus and Central Asia

The growth forecast for Caucasus and Central Asia is revised upward to 5.8% for 2025 and 5.0% for 2026, from the September ADO projections of 5.5% and 4.9%, respectively. The upward revision is driven by stronger-than-expected activity in Kazakhstan. Across most of the subregion, growth surprised on the upside in the third quarter of 2025, underpinned by public investment, rising remittances, robust domestic demand, and stable macroeconomic conditions. Armenia's solid growth was led by construction and agriculture despite weaker expansion in services and falling net exports. Georgia's economy expanded strongly led by services, resilient foreign inflows, and expanding tourism and remittances. Azerbaijan recorded modest growth, despite persistent challenges in the energy sector. Central Asia experienced strong momentum, with the Kyrgyz Republic's growth driven by consumer demand, infrastructure investment, and remittance inflows. Tajikistan's growth was supported by mining, manufacturing, exports, and continued high remittances. Uzbekistan exceeded expectations with a broad-based growth supported by investment, reforms, and sturdy external balances.

Kazakhstan's growth forecast is revised up to 5.8% for this year, compared to 5.3% in the September ADO, and from 4.3% to 4.5% for 2026. In the third quarter of 2025, the Kazakh economy continued to expand, supported by strong performance in transport, construction, manufacturing (especially machinery and automobiles), robust agriculture supported by favorable weather, while public spending was stronger than expected. In 2026, although growth is projected to be slightly stronger than expected in September, it will moderate compared to this year on tighter monetary and credit conditions, a VAT increase from 12% to 16% that will weigh on consumption and add inflationary pressure, and reduced fiscal stimulus from lower National Fund transfers. Oil production is also expected to decline due to maintenance and production limits, with a baseline forecast of 96.2 million tons and an upside to 100 million tons that could push GDP growth above 6%.

Caucasus and Central Asia subregional inflation projections are raised, from 7.7% to 8.0% for this year, and from 6.6% to 7.1% for 2026. The upward revision reflects mounting inflationary pressures in Kazakhstan and the Kyrgyz Republic, driven by higher food and service prices, utility tariff hikes, and currency depreciation. In Kazakhstan, inflation rose to 11.2% amid persistent increases in utility prices, with the 2026 forecast raised to 9.5%. In the Kyrgyz Republic, inflation rose driven by higher food, transport, and utility costs. For Tajikistan, the inflation forecast was revised down as subdued imported inflation, tax reductions, and a weaker labor market supported more moderate rates, with similar expectations for 2026. Inflation rates in Armenia, Azerbaijan, Georgia, Turkmenistan, and Uzbekistan remain contained, supported by prudent policies and stable commodity prices.

The Pacific

Growth projections for the Pacific are maintained at 4.1% in 2025 and 3.4% in 2026. The forecasts for Papua New Guinea and Fiji, the subregion's two largest economies, are retained. Strong resource-related output, higher prices for key exports, and improved foreign exchange availability continue to drive the outlook for Papua New Guinea, while stable tourism supports growth prospects in Fiji. Tourism also remains a key growth driver elsewhere in the Pacific, along with public spending stimulus. Although the subregional average is unchanged, Samoa's economy grew slightly faster than initially estimated in FY2025 (ended 30 June 2025) on strong growth in construction, trade, and transport. Capacity and institutional constraints and extreme vulnerability to external shocks—including natural hazards related to La Niña, which may occur at the end of 2025 or in early 2026—remain the key constraints to growth in the Pacific.

The inflation projection is lowered to 2.5% in 2025 but retained for 2026. Price trends in Fiji drive the downward adjustment, with measures in that country to reduce the cost of essential goods and services having a larger impact than anticipated. Inflation was also lower than projected in Palau during FY2025 (ended 30 September 2025) as price growth remained muted across most of the consumer price basket and costs of transport and utilities declined. However, inflation was higher than estimated in the Marshall Islands in FY2025 (ended 30 September 2025), driven largely by significant increases in utilities costs. This,

and the roll-out of two social transfer programs approved earlier in 2025, are behind the upward revision in the FY2026 projection for the economy. International commodity price movements and supply chain dynamics remain significant factors in inflation prospects across the Pacific. Declining global commodity prices, particularly energy prices, is likely to ease “imported” inflation across the subregion in 2026. Nonetheless, inflationary pressures from domestic factors, such as increased wages and local price adjustments, are still present in certain economies, such as Kiribati and the Federated States of Micronesia.

Box 1 Recent US Tariff Cuts Offer Some Relief for Developing Asia

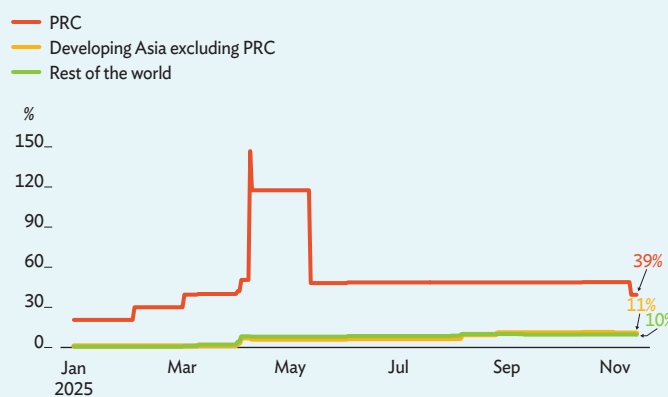
The United States (US) has eased its tariff policy further since September. Following a sharp increase since February and a spike in April, US tariffs settled at historically high levels in August and September (box figure). Trade deals and further adjustments brought the US effective tariff down to 15% by mid-November, from 17% in September. Notably, the “Fentanyl-related” tariff on the People’s Republic of China (PRC) was cut from 20% to 10% on 10 November. This lowered the effective tariff applied on imports from the PRC from 49% to 39%, though it remains about 18 percentage points higher than at the end of 2024. The trade deal with the Republic of Korea, formalized on 13 November, cut the automobile tariff from 25% to 15%, aligning it with the tariff applied on automobile imports from the European Union and Japan. Finally, the US rolled back tariffs on 237 food products on 14 November. While these new exemptions have slashed effective tariffs for Papua New Guinea, Samoa, and Timor-Leste, the effect for developing Asia as a whole will be marginal as these products account for less than 2% of the region’s exports to the US. Even after these adjustments, US effective tariffs on developing Asia remain at 27%, well above the 15% on the rest of the world and still up by 17 percentage points compared to the end of 2024.

Recent bilateral deals involve significant concessions to the US. In October, Cambodia, Malaysia, Thailand, and Viet Nam all pledged to address non-tariff barriers and strengthen intellectual property standards, as well as labor and environmental standards. Thailand and Viet Nam committed to purchasing more US commodities, while Malaysia agreed

to provide preferential market access for certain US agricultural goods. Cambodia and Thailand also agreed to eliminate digital services taxes on US firms, and Viet Nam is finalizing commitments on digital trade facilitation. The PRC suspended some retaliatory measures, notably export controls on rare earths and critical minerals, and it committed to purchase more US agricultural goods, including sorghum and soybeans, and ramp up efforts to curb fentanyl flows. While some of these measures are not finalized, they highlight a widening of concessions obtained by the US.

US Effective Tariff Rates

Even after the recent reduction, the PRC still faces much higher US tariffs than the rest of the world.



PRC = People’s Republic of China, US = United States.

Source: Asian Development Bank calculations.

Box 2 Global Assumptions

Aggregate growth projections for major advanced economies remain unchanged from September. In the United States (US), forecasts are steady as elevated inflation and policy uncertainty continue to weigh on domestic demand, though strong investment in AI-related infrastructure will partly offset subdued spending. The euro area outlook is also unchanged, supported by rising real wages and low unemployment. In Japan, expansionary fiscal policies under the new government are expected to bolster near-term growth, although external conditions remain challenging.

Baseline Assumptions About the International Economy

The outlook for major advanced economies remains broadly unchanged.

	2024	2025		2026	
	Actual	ADO Sep	ADO Dec	ADO Sep	ADO Dec
GDP growth, %					
Major advanced economies	1.7	1.4	1.4	1.4	1.4
United States	2.8	1.7	1.7	1.8	1.8
Euro area	0.9	1.2	1.2	1.2	1.2
Japan	0.1	1.1	1.1	0.6	0.6
Inflation, %					
Major advanced economies	2.7	2.5	2.6	2.3	2.4
United States	3.0	2.8	2.8	2.8	2.8
Euro area	2.4	2.1	2.2	1.9	2.0
Japan	2.7	3.0	3.2	1.9	1.9
Brent crude spot prices, average, \$/barrel	81	67	69	57	57

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.

United States

The US economy grew by an annualized 3.8% in Q2 2025, rebounding from a 0.6% contraction in Q1. Growth was underpinned by a solid 2.5% rise in consumer spending, led by services, and a 4.4% increase in private investment. Investment in IT equipment, software, and R&D increased by 19.0% during the first half of 2025, driven by surging demand for AI computing. Imports plunged by 29.3% as the tariff-driven frontloading faded, boosting net exports despite a 1.8% decline in exports. Government spending edged down

0.1%, while inventory drawdowns subtracted 3.4 percentage points from growth following the pre-tariff stockpiling in Q1. Meanwhile, the October 2025 ISM Manufacturing Index declined to 48.7 on weaker production, despite modest gains in new orders and employment, while consumer confidence and sentiment declined amid job security concerns.

Headline inflation accelerated to 3.0% year-on-year in September, while core inflation eased to 3.0%. The uptick in headline inflation was driven primarily by higher gasoline prices, which surged amid supply constraints. In contrast, core inflation moderated as rent pressures eased. Labor market conditions also weakened, with unemployment rising to 4.3% in August, while Automatic Data Processing private payrolls rose by 42,000 in October, signaling only a modest recovery following three declines in 4 months. The Fed cut its policy rate by 25 basis points during the October Federal Open Market Committee meeting, bringing the target range down to 3.75%–4.00%, also signaling a more hawkish stance in upcoming meetings.

GDP growth is projected to slow to 1.7% in 2025 and 1.8% in 2026, as inflation and policy uncertainty hit consumer spending and investment. Inflation is expected to remain elevated at 2.8%, above the Fed's 2% target, as tariff-related price pressures increase and inventories are drawn down. The 43-day government shutdown beginning 1 October, the longest on record, amplified policy uncertainty and is expected to have indirectly impacted spending as consumers' and firms' sentiment remains subdued. With inflation persisting above target, the Fed is likely to ease less than the financial markets had previously priced in, supporting the US dollar and weakening export competitiveness. Risks are tilted to the downside as uncertainty clouds the outlook, and swift market fluctuations may lead to financial instability.

Euro Area

GDP growth in the euro area is projected at 1.2% in 2025 and 2026, unchanged from the September ADO.

Growth remained modest at 0.9% in Q3, following a sharp deceleration from 2.3% (seasonally adjusted annual rate [saar]) in Q1 to 0.5% in Q2. Leading indicators suggest a rebound in the last quarter of this year. With gains in both services and manufacturing, the composite PMI rose for the fifth consecutive month, to 52.2 in October, the highest reading since May 2024. At 6.3%, the unemployment rate remains near its historic low, with positive real wage growth supporting incomes. However, early signs of a labor market softening have emerged, with a decline in vacancies and employment growth. Economic activity is projected

continued on next page

Box Continued

to strengthen in 2026, with low interest rates supporting domestic demand. Fiscal policy will also help offset external challenges, as cuts in current expenditures ease and public investment picks up, including for infrastructure and defense-related outlays.

Inflation forecasts are upgraded slightly by 0.1 percentage points, to 2.2% in 2025 and 2.0% in 2026.

Headline inflation eased to 2.1% in October, down from a 5-month high of 2.2% in September. The pickup was driven by persistent price pressures in the services sector amid strong wage growth and tight labor markets, while goods and energy inflation moderated. Services inflation is expected to decline in 2026, as labor market conditions ease. With inflation close to target, the European Central Bank is set to maintain low interest rates over the forecast horizon.

Several downside risks cloud the outlook. High debt and lingering concerns about fiscal sustainability in some member economies could erode the stimulus effect of expanded public investment. The recent trade deal with the US has reduced uncertainty, but tensions could flare up again, delaying the recovery of the manufacturing sector. A further strengthening of the euro could also weaken export competitiveness and manufacturing activity. Full implementation of the sanctions on Russian oil announced by the US administration could renew energy price pressures, compelling the European Central Bank to tighten monetary policy.

Japan

Japan's economy lost momentum in Q3, contracting by 1.8% quarter-on-quarter (qoq) (saar) after a 2.3% expansion in Q2, with both domestic and external demand weighing on growth.

Private consumption edged up only 0.1% qoq (vs. 0.4% in Q2), weighed down by weak purchasing power, with real wages contracting in September for the ninth consecutive month. Residential investment declined significantly following the stricter building code revisions in April, and nonresidential investment saw only a modest uptick, reinforcing subdued investment activity. Public investment also turned only marginally positive after a slight Q2 contraction. Externally, net exports dragged on growth as exports declined 1.2% qoq (after +2.3%)—driven by a 2.1% drop in services and a moderate 0.8% fall in goods—outpacing the modest 0.1% dip in imports. PMI readings confirm continued weakness: manufacturing activity contracted for the fifth consecutive month amid a weaker external environment and yen-driven cost pressures. New orders declined again in November, extending the downturn to 2.5 years as client budgets tightened, demand softened, and

capital investment fell. Foreign sales also continued to drop, with manufacturers reporting waning new demand. Output likewise contracted amid weak demand—particularly in automotive and semiconductors.

Headline inflation remained above target, edging up for the second consecutive month, to 3.0%, in October.

The uptick was driven by a 4-month high in electricity costs following the end of government subsidies in September, alongside notable price increases in labor-intensive sectors such as transport, communication, and entertainment. Consistent with these sectoral price gains, services inflation—a key Bank of Japan (BOJ) gauge of domestic demand and wage-driven inflation—rose to 1.6%. Food inflation continues to rise but at a slower pace, while core inflation (excluding fresh food and energy) rose to 3.1%, indicating broad-based price pressures. Inflation averaged 3.3% over January to October, well above the BOJ's 2% target. The BOJ kept its short-term policy rate at 0.50% in September and is expected to maintain a cautious stance.

GDP growth forecasts for Japan remain at 1.1% in 2025 and 0.6% in 2026, while inflationary pressures are expected to persist.

Although US tariffs on Japanese automobile imports were reduced to 15% from 25% in September, the external environment remains challenging. In addition, on the domestic side, expansionary fiscal policies under new Prime Minister Sanae Takaichi may support growth but could exert upward pressure on bond yields and debt sustainability. Meanwhile, the recent yen depreciation is expected to sustain imported cost pressures through year-end. With slower-than-expected monetary policy normalization by the BOJ this year, the 2025 inflation forecast has been raised to 3.2% compared to 3.0% in September. The 2026 inflation forecast remains unchanged at 1.9%.

Oil Prices

Brent crude oil spot prices averaged about \$65 per barrel in October, roughly \$3 lower than the September average.

The decrease reflected mounting signs of a supply surplus as Organization of the Petroleum Exporting Countries plus (OPEC+) increased output and global inventories rose. The International Energy Agency estimates that the oil market ran a surplus of around 1.9 million barrels per day through September 2025. Against this backdrop, two factors prevented a sharper fall in prices. First, global manufacturing activity continued its modest but steady expansion, with the October global PMI falling only marginally from September to 50.8. Coupled with robust crude oil imports by the People's Republic of China (PRC), this continued to support demand.

continued on next page

Box Continued

Second, geopolitical tensions, risks of further disruptions from Russia's war in Ukraine, and uncertainty over trade policies, have maintained a risk premium in oil markets.

Oil price forecasts for 2025 are revised up slightly to an average of \$69 per barrel, from \$67. The revision is underpinned by oil prices proving more resilient than expected, despite rising production and inventories. Brent crude averaged \$69 per barrel from January to end-November. On 5 October and 2 November, OPEC+ announced modest output hikes of 137,000 barrels per day each for November and December. Despite these increases, prices held firm amid strong crude imports by the PRC and persistent geopolitical risks. The International Energy Agency projects a growing supply surplus in 2026 of nearly 4 million barrels per day, as OPEC+ unwinds production cuts and non-OPEC+ producers—such as the US and Brazil—raise output steadily. The 2026 forecast remains at \$57 per barrel,

reflecting oversupply and weaker demand growth as expected in September ADO amid improved operational efficiency among non-OPEC+ producers and sustained electric-vehicle adoption, with electric vehicle sales rising sharply in 2025 and remaining strong thereafter.

Oil price forecasts remain uncertain. Brent crude currently trades below its 50- and 200-day moving averages, signaling continued downward pressure. While no major disruptions are expected, geopolitical risks—including Russia's war in Ukraine, sanctions, and trade tensions—could still affect supply and demand. The US National Oceanic and Atmospheric Administration indicates that the ongoing La Niña is weak, but any intensification could introduce weather-related volatility in oil markets. Potential OPEC+ adjustments, such as revising production targets or delaying output increases, could also affect near-term prices.

Box 3 Changes in the Asian Development Outlook Composition and Economy Groupings

The Asian Development Outlook (ADO) reports will start covering Türkiye from April 2026. Türkiye, a nonregional member of the Asian Development Bank (ADB) since 1991, changed status and became the 50th regional member of ADB in May 2025. As a result, Türkiye is now eligible for ADB support, including sovereign and private sector projects. Following this development, Türkiye will be covered in ADO reports from April 2026. It will be grouped with economies in the Caucasus and Central Asia, forming a new aggregate labeled the Caucasus and Central and West Asia.

The ADO series will also update its economy groupings in April 2026, to reflect long-standing economic shifts. Four economies currently included in the developing Asia grouping have long advanced beyond developing status. Hong Kong, China; the Republic of Korea; Singapore; and Taipei, China all surpass the World Bank's high-income threshold and are no longer classified as emerging or developing by the International Monetary Fund. To align with these realities, ADB regional members will be grouped into "Advanced Asia and the Pacific"—comprising these four economies plus Australia, Japan, and New Zealand—and "Developing Asia and the Pacific", including all other regional members. This update brings ADO classifications closer to those of peer institutions and ensures regional analyses better capture the diversity of development experiences across Asia and the Pacific.

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