

East Asia and Pacific Region

Challenges and Opportunities Amid a Changing Global Context

Outline

The Status of EAP Macroeconomy

Emerging Vulnerabilities & Trends to Watch

EAP Policy and Reform Response

*** The data used is the latest available and may not fully reflect the rapidly changing global context. The global net effect on trade and policy uncertainties will take time to unfold.**

The Status of EAP Macroeconomy

EAP Macro Conditions - Overview

Current status (Jan 2025 –today)

- ❑ EAP economic performance **stronger** than expected
- ❑ Growth supported by **private consumption** growth & uptick in **exports** due to frontloading
- ❑ **Industrial production** has been resilient so far thanks to strong exports
- ❑ Overall strong **inflows** into **equity** and **debt** markets

Growth Outlook

- ❑ **Rest of 2025** expected as temporal effects of front-loading dissipate, & the full impact of tariff implementation comes into play
- ❑ EAP growth is projected to **slow** from 5% in 2024 to **4.8%** in 2025, still **above global average**
- ❑ **China's** growth is projected to decline from **4.8%** this year to **4.2%** in 2026
- ❑ EAP growth expected to **decelerate** to **4.3%** by 2026

Emerging Vulnerabilities

- ❑ New **export orders** remain weak, and **export prices** are subdued
- ❑ **Retail** momentum has started to ease in parts of the region
- ❑ **Consumer confidence** is weaker than before the pandemic
- ❑ Inflationary pressure easing across EAP, with **China and Thailand** now facing **deflation**
- ❑ **Credit growth** in the **banking sector** is **slowing**, while **NBFIs** showing resilience
- ❑ **Business sentiment** is subdued across the region
- ❑ **CBI volumes** in EAP are on a **declining trend**

Trends to Watch

- ❑ **Companies cautious** on longer-term plans due to persistent trade uncertainty
- ❑ Across most sectors, **companies in China** are **curbing capital expenditure**
- ❑ **Trade flows, supply chains & investment flows** are likely to continue to reshape
- ❑ **High household debt** in some countries (Thailand, China, and Malaysia) pose risks to the durability of consumption growth

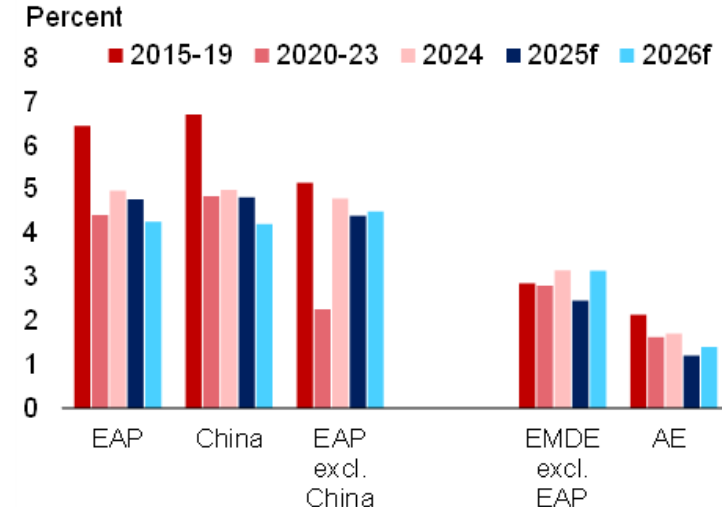
EAP: Strong H1 but softer H2 expected, Growth above global average

- **EAP economies performed stronger than expected in H1** across the board, supported by frontloading of exports. China grew 5.3% year-on-year (YoY) in H1, Viet Nam 7.5%, Indonesia 5%, Philippines 5.4%, and Malaysia 4.4%.
- **Global growth prospects have softened**, with 2025 consensus forecasts revised down since January. **A global slowdown will impact developing EAP negatively** through weaker external demand, lower commodity prices, and tighter financial conditions.

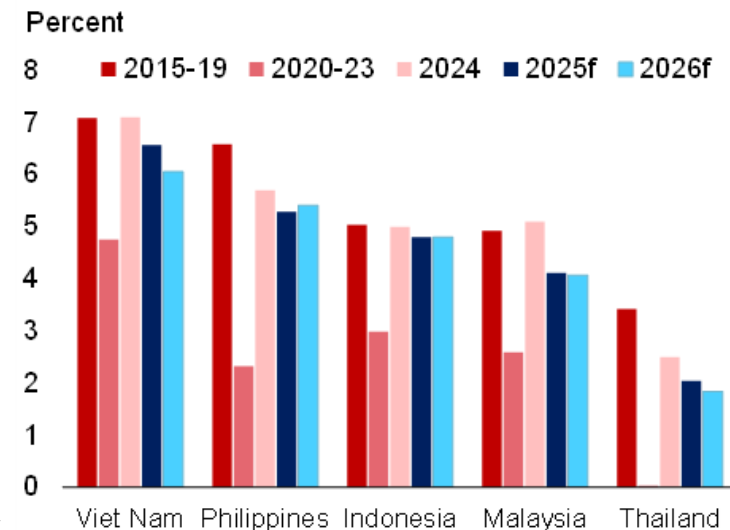
According to World Bank estimates, a 1 percentage point (ppt) decline in G7 growth reduces output growth in developing East Asia by around 0.6 ppt within the following year; a 1 ppt decline in China's growth is estimated to lower growth in the rest of developing East Asia by 0.3 ppt.

- **Within EAP, growth is projected to slow from 5% in 2024 to 4.8% in 2025**, higher than April's projections (4.0%) and still **above the global average**. The sluggishness is due to a less favorable external environment—rising trade restrictions, easing but still elevated global uncertainty, and slowing global growth—and persistent domestic difficulties.
- Countries with **large export-oriented manufacturing sectors** are especially at **risk** in the near term, including China, Malaysia, Thailand, Cambodia, and Viet Nam.
- **Growth in China, the region's largest economy, is projected to decline from 4.8% this year to 4.2% in 2026** as continued fiscal support for consumers is unlikely to outweigh the impact of property market weakness, higher tariffs in the U.S. and low consumer and investor confidence.
- **By 2026, overall regional growth is expected to decelerate to around 4.3%**, reflecting a slowdown in China but partly offset by a slight pickup in the rest of the region to 4.5%. Over the medium-longer term, **South-east Asian economies are expected to steadily contribute more to regional growth**, buoyed by their widening role in regional supply chains.

GDP Growth Rates Across Regions



GDP Growth Rates in Select EAP Countries

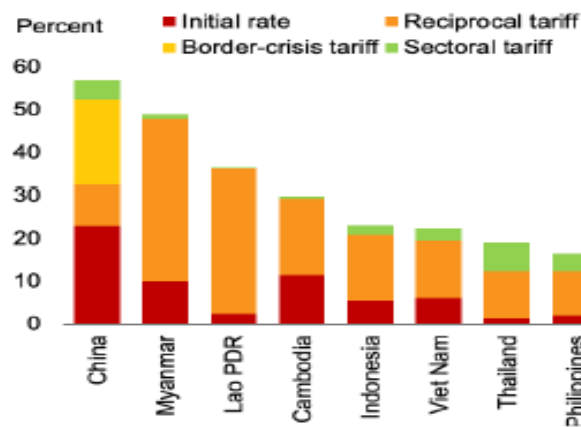


Source: World Bank

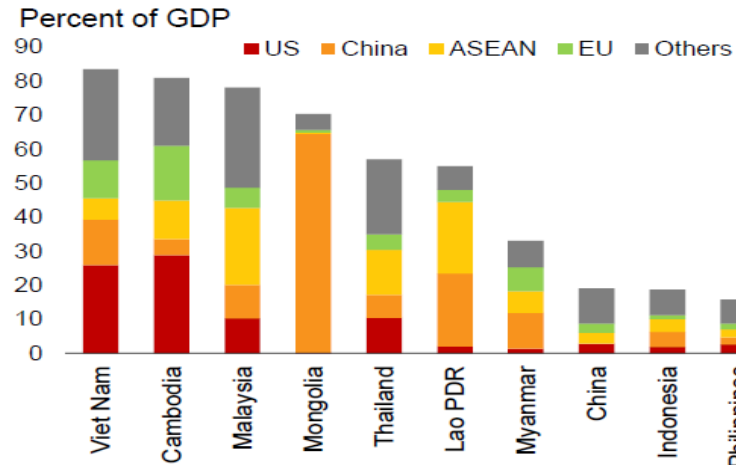
Navigating a tricky external environment of heightened tariffs, trade barriers, and policy uncertainties

- The effective US tariff rates for all Asian countries have drastically **risen** compared to 2024 levels. Countries with large **export-oriented manufacturing sectors** are especially **at risk** in the near term, including Cambodia, China, Malaysia, Thailand, and Viet Nam.
- Several Asian countries reached trade agreements with U.S. to reduce tariffs to **19-20%** from those initially proposed (**25-46%**). During the recent **ASEAN Summit**, there was **further progress** on trade agreements between **US** and several **ASEAN** countries. While **Malaysia** and **Cambodia's** headline reciprocal tariff levels are maintained at 19% and 20%, these countries have now secured a **zero percent** reciprocal tariff rate for **certain products**.
- The overall economic effects of increased tariffs on EAP countries are difficult to predict at this stage. World Bank analysis expects that the current U.S. tariffs (including both the reciprocal and the sectoral tariffs) could eventually **reduce overall exports from EAP to the U.S.** and **real incomes in EAP could fall**, especially in **Viet Nam, Thailand, and Cambodia**.
- Tariffs could intensify both cyclical and structural pressures, for example China's overcapacity, which may result in an **influx of cheaper goods into regional markets** threatening local manufacturers in sectors such as steel, textiles, apparel, and chemicals. More strategically, the new tariff environment is likely to **accelerate supply chain diversification, reshaping regional production networks**.

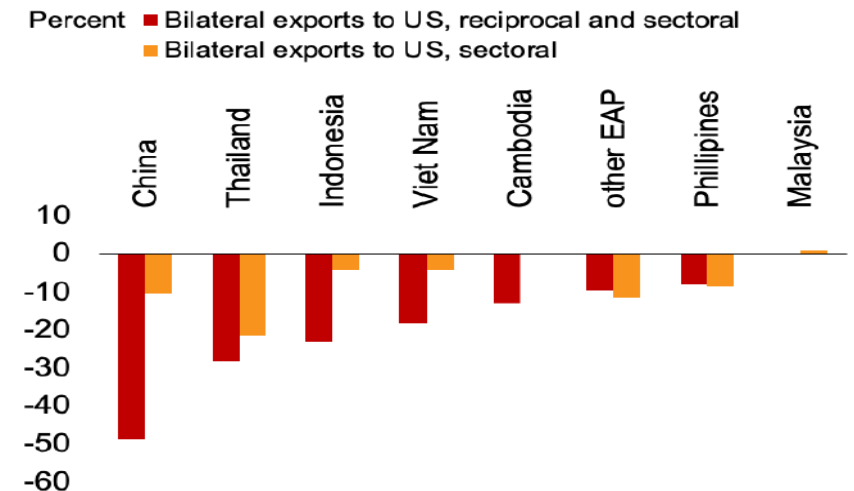
Effective U.S. tariffs against EAP countries



Goods exports as a share of GDP, by destination



Expected change in exports to U.S. from increased tariffs



Source: World Bank

Note: The vertical bars represent effective protection rates (ETR), computed as export weighted averages of U.S. applied tariff rates at HS-8 digits products. The export weights are from 2024.

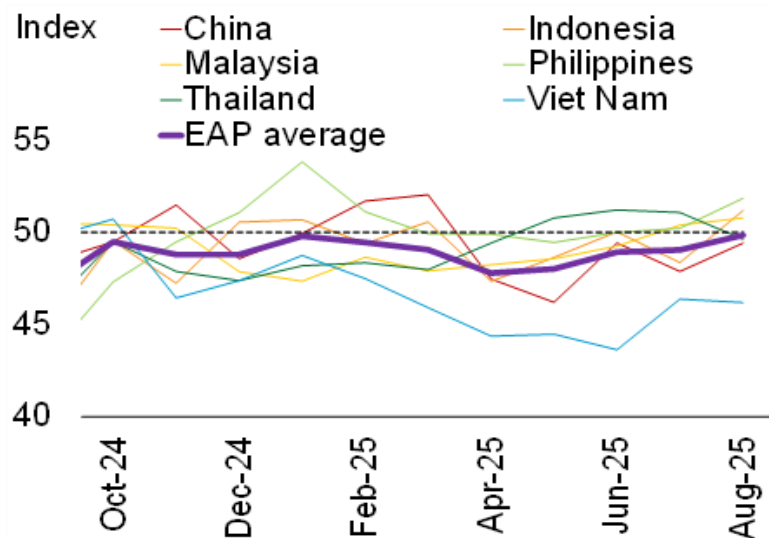
Source: GTAP; World Bank staff estimates

Emerging Vulnerabilities & Trends to Watch

Economies showing resilience on the back of strong exports but could weaken as tariffs bite and retail momentum slows

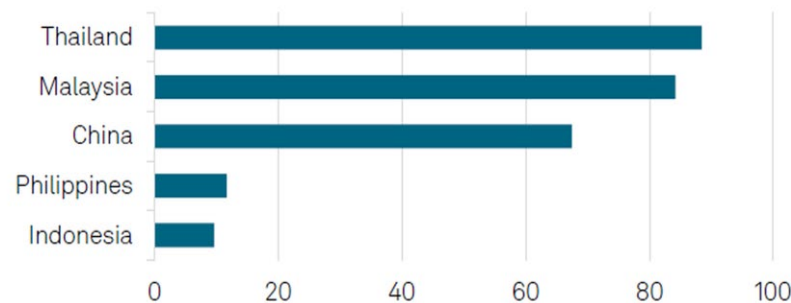
- **Exports** were a main growth driver due to frontloading, but deceleration started in August. **Leading indicators (new export orders) remain weak**, indicating persistent headwinds for external demand. **EAP export prices are subdued**, suggesting that some of the tariff impact is being at least partly borne by exporters in the region.
- **Private consumption** supported growth in all major EAP economies during the first half of 2025, but its contribution has been declining in Thailand. **Retail momentum has started to ease** in parts of the region. From July to August, retail sale growth slowed from 3.7% to 3.4% YoY in **China**, and 4.7% to 2.7% in **Malaysia**.
- **Consumer confidence is weaker than before the pandemic**, and growth in consumption may be affected by policy uncertainty and **high household debt** in some countries—notably **Thailand, China, and Malaysia**.
- **Industrial production** has been growing on a YoY basis in several EAP economies. **Government stimulus policies** (e.g., consumption subsidies) and the **front-loading of demand** ahead of anticipated tariff increases contributed to the resilience of large corporates over the past few quarters. But companies remain cautious on longer-term plans due to persistent trade uncertainty and the Purchasing Managers' Index (PMI) data have yet to reflect significant shifts in regional supply chains.

New export orders PMI



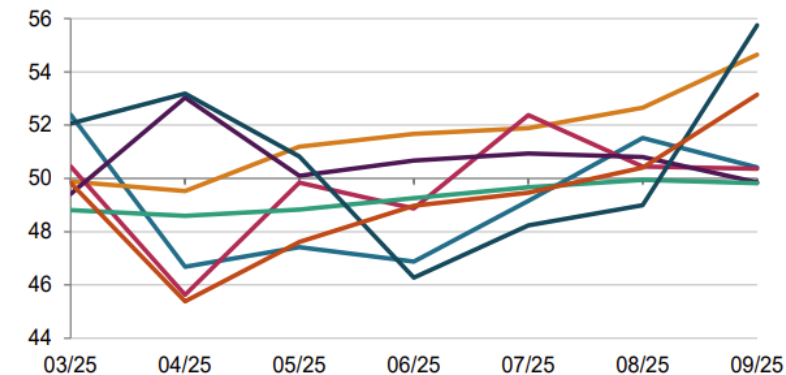
Households have high leverage

Household debt as % of GDP 2024



Data as of period ended December. f--Forecast. Source: Bank of Thailand, S&P Global Ratings.

■ Indonesia ■ Vietnam ■ Malaysia ■ Myanmar
 ■ Thailand ■ Philippines ■ Singapore
 Manufacturing PMI, sa, >50 = improvement m/m

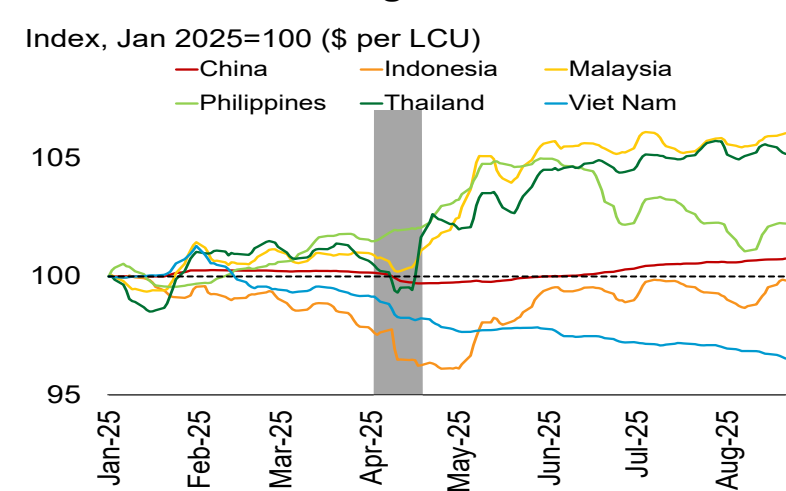


Source: S&P Global PMI. ©2025 S&P Global.

Exchange Rates: Most EAP currencies appreciated against US\$, with some notable exceptions

- Following the announcement in April of reciprocal tariffs to be imposed by the US, the US dollar depreciated against most EAP countries' currencies, except for **Viet Nam**. The DXY index—a benchmark measure of the US dollar's performance against the euro and the currencies of Japan, the United Kingdom, Canada, Sweden, and Switzerland—fell more than 10 percent in the first half of the year, its biggest drop since 1973. For example, **Thai baht** on September 9 appreciated to 31.53 per dollar, the highest since June 2021.
- The appreciation of currencies vis-a-vis the dollar, if significant and prolonged, could **erode export competitiveness**.
- In **Indonesia**, concern over fiscal policy under the new finance minister and economic growth are weighing on sentiment. Indonesia **Rupiah** has continued to **weaken**.
- FX outlook** hinges on tariff impacts on current account balance, FDI and capital flows, capital market performance, etc. Also, continued rate cut is expected to foster both FDI and portfolios back into Asia, especially into country with cheap valuation, clear pro-growth agendas, aligned with multipolar supply chain themes.

Exchange rates



Thai baht at 4-year high against dollar

(Baht per dollar)



Source: LSEG

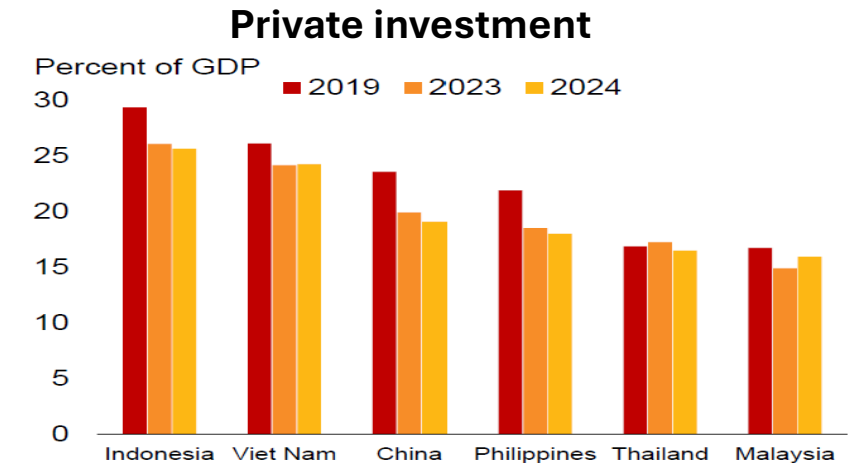
Indonesian Rupiah Has Weakened Almost 3% This Year



Bloomberg

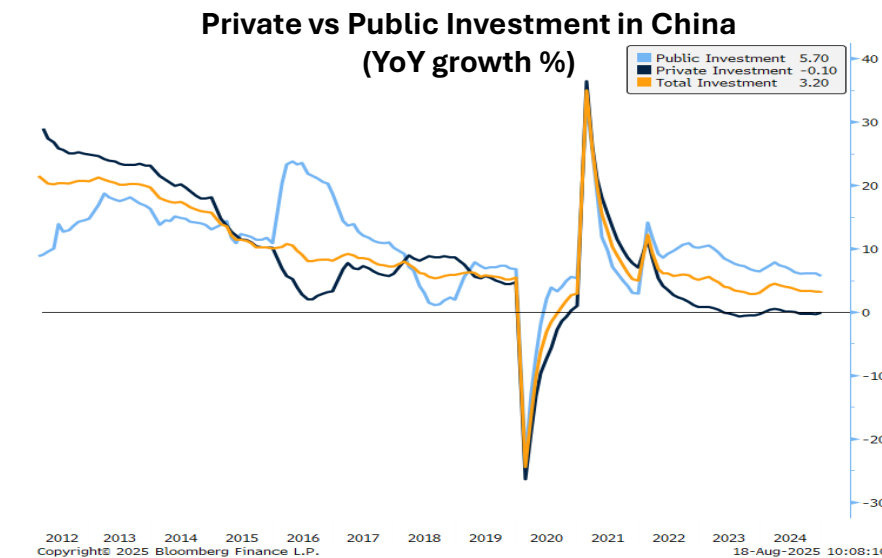
Private Investment: Weak and below pre-pandemic levels, more softening ahead

- **Private investment remains weak, still below pre-pandemic levels** in most EAP economies, constrained by high debt, tighter credit, and weak business confidence.
 - ❑ **China's** private investment fell 0.6% YoY in H1 2025 (vs public investment growth 5.0% YoY), with gains in manufacturing and infrastructure partly offsetting declines in real estate.
- **A few economies registered private investment growth in Q2 2025.**
 - ❑ **Thailand** private investment grew 4.1% YoY in Q2 (vs public investment growth 10.1%), showing improvement for the first time in five quarters.
 - ❑ **Malaysia's** private investment recorded growth at 11.8% YoY in Q2 (vs public investment growth 13.6%) supported by foreign investment in ICT and manufacturing.
- Overall, **business sentiment is subdued** across the region, reflecting **external policy uncertainty** (trade tensions, tariffs) and, in some cases, **domestic uncertainty** (e.g., Indonesia, Thailand).
- Private investment is likely to **soften further in H2** as tariff uncertainty and weaker global demand continue to weigh on capex. This is most visible in China and parts of ASEAN manufacturing, while **a few niche areas (data centers, EV value chains, power) still draw capital.**



Source: Haver, World Bank

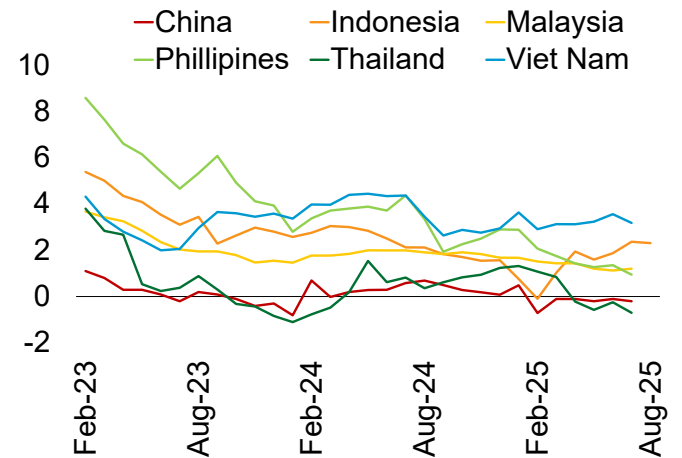
Note: Other than Thailand and Malaysia, private investment are estimated by using fixed assets investment statistics.



Prices & Financial Conditions: Disinflation driven by weak demand, divergent financial conditions, bank credit growth slowing

- Inflationary pressure has eased significantly across EAP**, with **China and Thailand** now facing **deflation**. **Weak domestic demand** is confining inflationary pressure:
 - ☐ Growth slowdowns and **property downturns** weigh on confidence, especially in China. Indonesia faces pressure as the economy recorded 42,000 layoffs in the first six months of this year, up 32.1% from a year earlier, denting sentiment.
 - ☐ **Wage growth is slowing**; rising labor-force participation in Indonesia, Malaysia, and the Philippines suppresses wages and consumption. Thailand's weak domestic demand and falling energy prices have been contributing factors.
- Financial conditions in most EAP countries improved** as global volatility and sovereign spreads declined. Despite ongoing U.S. trade policy announcements and elevated policy uncertainty, **equity markets remain buoyant, while financial market volatility is subdued**.
 - ☐ January to October 2025, MSCI Emerging Markets equities are up ~27.6%, clearly outperforming the S&P 500 (which is up ~12.6%). A sizable part of those gains comes from EAP markets.
 - ☐ Market outperformance is concentrated in certain countries/sectors (e.g. **China tech, Taiwan, Korea, AI-/semiconductor-linked** names). Many other emerging markets outside these hubs are seeing flat or modest gains.
- Credit growth in the banking sector** has been **slowing** in many parts of EAP, due to weak demand, more cautious lending behavior by banks, and policy/regulatory tightening (rising risk aversion).
- NBFIs are growing faster** than before, increasing their share of financial sector assets in many countries.

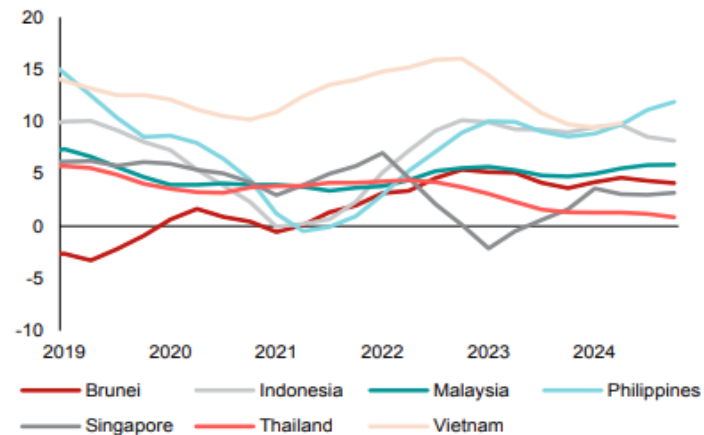
CPI Inflation for major EAP economies
Percent



Source: Haver, World Bank

Growth in Credit to Private Nonfinancial Sector

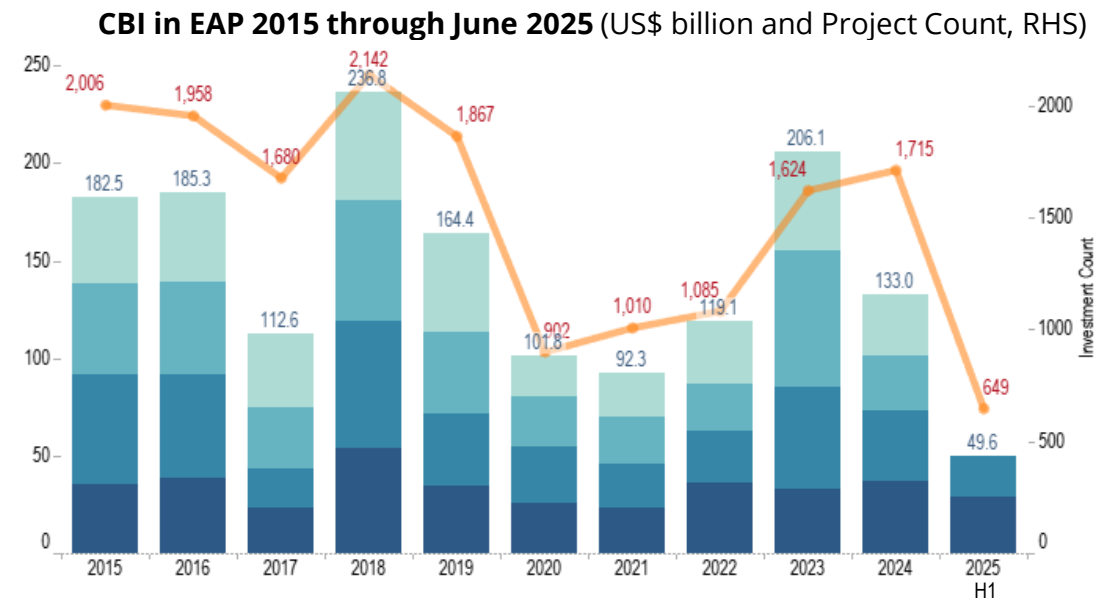
Selected ASEAN



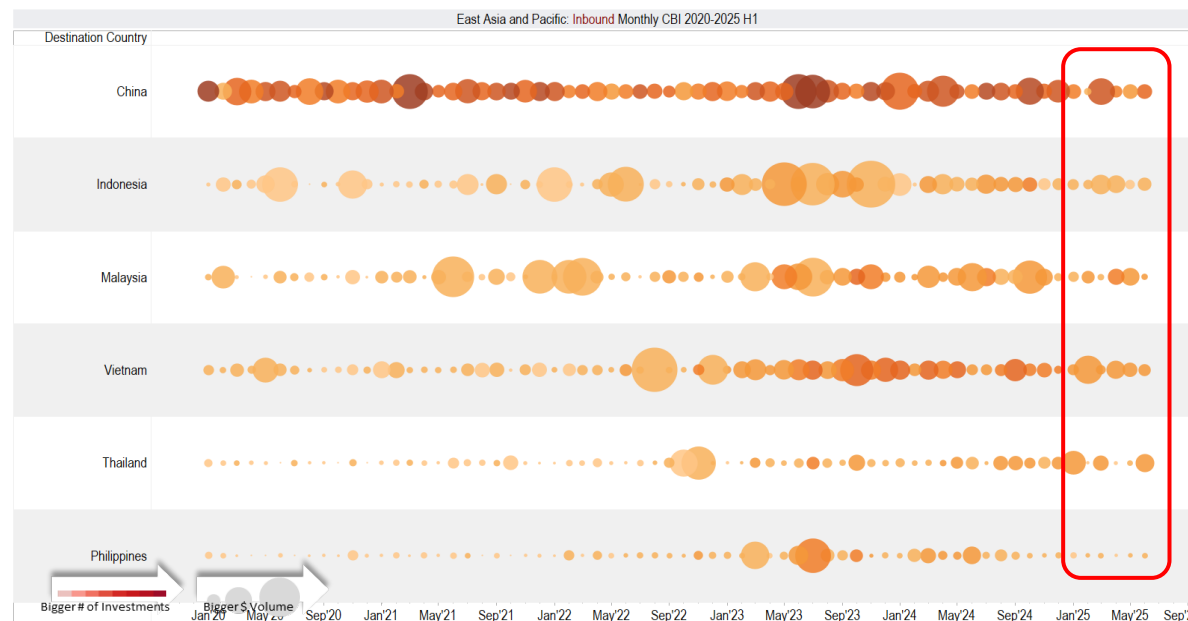
Cross-Border Investment (CBI) indicate cooling trend in H1 2025

- **CBI volumes in EAP on a declining trend.** H1 2025 CBI volume -- at nearly US\$50 billion -- are lower compared to last three years, closer to Covid levels. More pronounced CBI dip in Q2 compared to previous years.
- **China has been historically the #1 destination for EAP** through 2021 but has been “dethroned” since. In the years that followed, Indonesia, Malaysia and Viet Nam accounted for most CBI.
- In H1 2025, **Viet Nam was in the lead as the largest EAP destination**, with 24% of total EAP inbound CBI, closely followed by China (22%), Thailand and Indonesia (17%), and Malaysia (13%)
- **From Q1 to Q2 2025, CBI volumes cooled across EAP** -- China declined from 24% of total EAP CBI to 20% (of total EAP CBI), Thailand from 20% to 12%, Viet Nam remained relatively flat -- from 25% to 23%, while Malaysia surged from 8% to 21% and Indonesia jumped from 15% to 20%.
- **Communications has been the top sector in EAP** since 2023 with investment concentrated heavily in **data centers**.
- **Semiconductors sector was the second most attractive sector in H1 2025** with most investment going to Viet Nam and Malaysia.
- **China was the major source of inbound CBI in EAP in H1** (22% of total EAP CBI), followed by the U.S. (18%), Singapore (9%), UK (9%) and Japan (7%).

Source: fDi Markets, a service from the Financial Times Ltd.; calculations by IFC



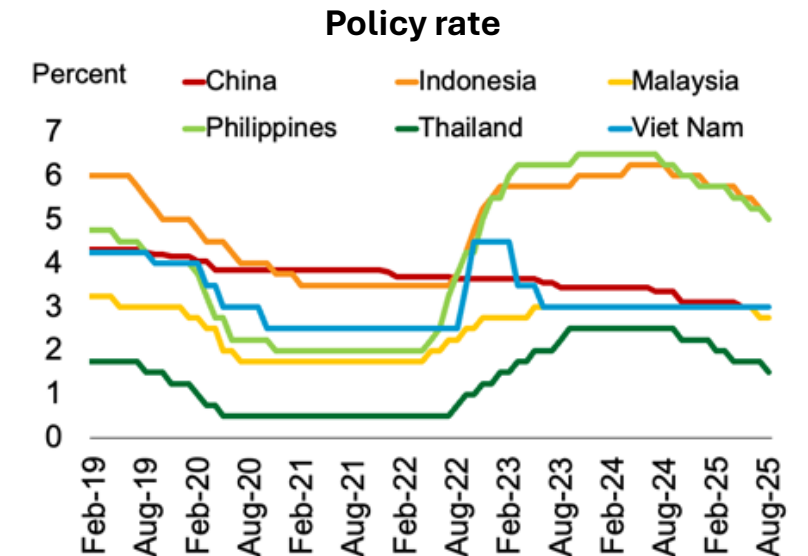
Monthly CBI in EAP by Country, 2020 through Jun 2025



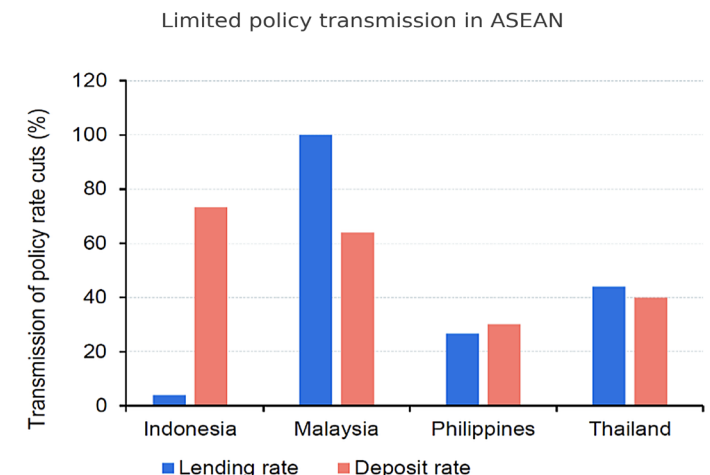
EAP Policy and Reform Response

Monetary/Fiscal Policy & Structural Reforms: Developments in 2025

- Most EAP central banks cut rates in 2025**, aiming to ensure policy transmission supports activity as growth slows in late Q3-Q4, when frontloading effect is expected to fade. However, transmission of rate cuts to lending and deposit rates has been weak. Indonesia had the weakest transmission to lending rates, lending rates have risen despite a cumulative 125bp policy rate cut.
- Fiscal policy has been expansionary in China and Thailand but less so in the rest of the region.**
 - China:** Besides infrastructure investment, the government provided targeted **fiscal support towards domestic consumption** and **households** via interest subsidy for consumer loans, social security net, and subsidies for consumption. The pivot is important though the scale is still modest. World Bank estimates that these fiscal measures will give the economy an extra boost equal to about **1.6% of GDP** in 2025.
 - Thailand:** The central-government deficit widened in FY2025 due to the expansionary stance, with spending accelerating incl. capital outlays and subsidies. The 2025 budget allocates funds to large-scale projects, such as development of entertainment complexes and infrastructure megaprojects like the high-speed rail link.
- Several countries are pursuing structural reforms:**
 - Philippines** enacted the Capital Markets Efficiency Promotion Act in May 2025 which entails a tax reform measure designed to simplify and rationalize taxation on passive income and financial transactions.
 - China** is advancing reforms in **social welfare** (pensions, unemployment insurance, minimum living allowances, etc.) and **service sectors** (internet, telecom, healthcare and education), as part of efforts to **rebalance** the economy from investment-led towards consumption-driven growth.



Source: Haver, World Bank



Lending and deposit rates averaged across various types
 Source: Central banks, Macrobond, ANZ Research