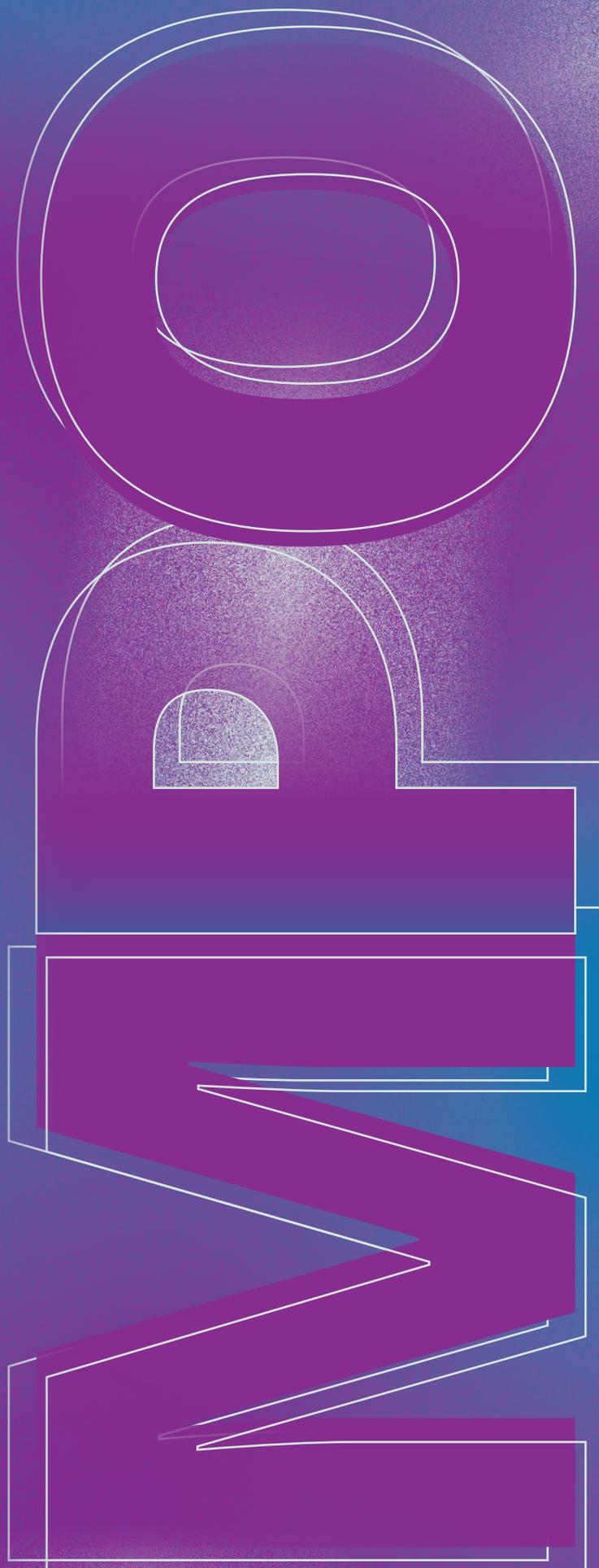


04/2025

*East Asia and the Pacific*

# MACRO POVERTY OUTLOOK

Country-by-country  
Analysis and Projections  
for the Developing World



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1818 H Street NW, Washington DC 20433

Telephone: 202-473-1000

Internet: [www.worldbank.org](http://www.worldbank.org)

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# East Asia and the Pacific

# CAMBODIA

Cambodia's real GDP growth is projected to moderate to 4.0 percent in 2025 amid global trade policy shifts, heightened uncertainty and slower global growth. While poverty is expected to decline gradually, the pace of poverty reduction may be constrained by rising inflation, uneven economic performance across sectors, and heightened vulnerabilities in labor-intensive export industries.

## Key conditions and challenges

As a small open economy with exports accounting for almost 60 percent of GDP, Cambodia is particularly exposed to the ongoing shifts in global trade policies and rising uncertainty in the external environment. The US is Cambodia's largest export destination, accounting for 39 percent of total exports and 29 percent of GDP, nearly double the share of exports going to ASEAN at 20 percent and the EU27 at 17 percent, while China accounts for 47 percent of imports and half of FDI. The domestic value-added embedded in exports to the US amounts to 8 percent of GDP—compared to 6 percent of GDP to Europe and 3 percent to China. The largest exposure by sector is in travel goods, garments, and footwear, which comprise about half of exports to the US and employ around one million workers—80 percent of whom are women.

## Recent developments

Economic activity picked up in the first quarter of 2025, but performance remained uneven. Amid buoyant external demand, goods,

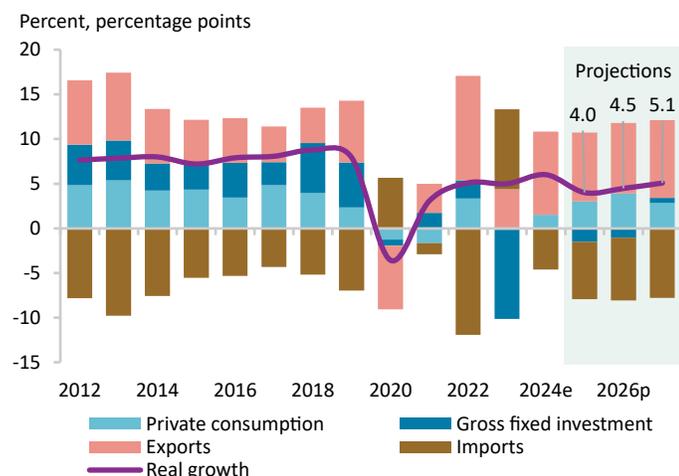
Population <sup>1</sup> million	17.6	Poverty	..
Life expectancy at birth <sup>2</sup> years	69.9	School enrollment <sup>3</sup> primary (% gross)	111.4
GDP <sup>4</sup> current US\$, billion	46.5	GDP per capita <sup>5</sup> current US\$	2636.0

Sources: WDI, MFM0d, and official data. 1/ 2024. 2/ 2022. 3/ 2023. 4/ 2024. 5/ 2024.

especially garments, travel goods, footwear, and bicycles exports to the US and the EU markets, grew at 14.3 percent y/y during the first two months of 2025. In addition, services exports also improved, with international arrivals growing by 23.4 percent in 2024, reaching pre-pandemic levels of over 6 million visitors. However, after excluding business visa holders and trans-frontier workers, the number of international tourists accounted for only 2 million in 2024, compared to 3.5 million in 2019. Similarly, tourist spending continued to improve, indicated by 25.6 percent y/y growth in Angkor Temple entrance fees in January 2025, but the level of revenue from entrance fees remained 44.2 percent below pre-pandemic levels.

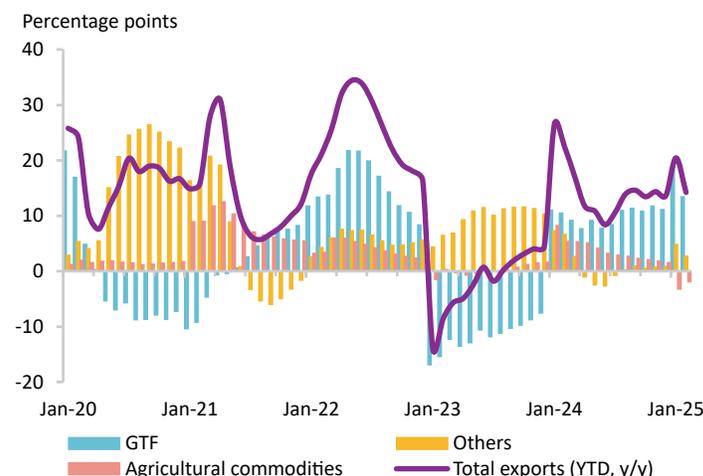
Job growth remained sluggish. Economic activity in the large informal sector has experienced slower progress. Stalled property construction activities have affected seasonal workers. The retail and wholesale sectors saw a decline in demand for domestic credit financing, with growth in domestic credit slowing to 0.3 percent and 1.3 percent, respectively, in 2024. The uneven performance has resulted in disparities in household welfare improvements. Between 2021 and 2023, household consumption per capita increased by 8 percent

**FIGURE 1 /** Real GDP growth and sectoral contributions to real GDP growth



Sources: Cambodian authorities and World Bank staff projections. Notes: e = estimate; p = projection.

**FIGURE 2 /** Merchandise exports and contributions to exports growth



Source: Cambodian authorities. Notes: GTF = garment, travel goods, and footwear (and other textile products); YTD = year-to-date; y/y = year-on-year.

overall, signaling gradual economic gains. However, the benefits were unevenly distributed—consumption per capita rose by 7 percent for the poorest quintile, compared to 10 percent for the richest quintile.

On the external side, increasing remittances and tourism revenues have helped to counterbalance a sizable merchandise trade deficit, with the current account deficit expected to widen this year. Sustained FDI inflows enhanced gross international reserves, reaching US\$22.2 billion—a 15.5 percent y/y increase in January 2025—adequate to cover around 7 months of anticipated imports.

Monetary conditions have become more accommodating due to the easing of US monetary policy. Coupled with the increase in foreign currency deposits, this fueled broad money growth at 17.9 percent y/y in January 2025. Pressures on the exchange rate also eased, and the riel-U.S. dollar exchange rate appreciated in January 2025, reaching 4,030 riel per U.S. dollar.

However, amid the property sector downturn, banking sector asset quality showed signs of deterioration. By the end of 2024, reported nonperforming loan ratios increased to 7.9 percent for the banking sector and 9.0 percent for the microfinance sector, compared to 5.4 percent and 6.7 percent in 2023, respectively.

Fiscal policy tightened mainly due to a slowdown in revenue collection which declined by 9.6 percent y/y in January 2025. Public expenditure continued to decline, dropping by 5.8 percent y/y in January 2025. The fiscal deficit is estimated to have narrowed to 3.0 percent in 2024. Public debt is low, at 27.3 percent of GDP at the end of 2024.

## Outlook

Despite improvements witnessed in the first quarter of 2025, real growth is projected to ease to 4.0 percent in 2025 and 4.5 percent in 2026, anticipating adverse impacts from global trade policy shifts and uncertainty. Jobs and FDI in the labor-intensive manufacturing export sector, particularly in the garment, travel goods, and footwear industries, would be substantially negatively impacted. Economic growth is expected to lead to a reduction in poverty, gradually reversing some of the likely increase in poverty caused by the pandemic. However, as the recovery remains uneven, the pace of poverty reduction will vary across regions and sectors.

The outlook is subject to rising risks. These include challenges from heightened global policy uncertainty, slower-than-expected global growth, and shifts in trade policy. Given the country's relatively high level of private debt, a faster-than-expected increase in non-performing loans, and emerging risks from imported inflation could affect macro-financial stability, while weighing on private investment and growth. In response, policy measures should focus on maintaining macroeconomic and financial sector stability, accelerating trade and investment reforms, and providing social safety nets to protect vulnerable households. Over the medium term, Cambodia needs to rebalance its growth model away from a reliance on construction, real estate, and garment exports toward a more diversified and resilient economy. This transition includes fostering higher value-added manufacturing and service sectors, while improving productivity in agriculture. Strengthening human capital, enhancing infrastructure, and improving regulatory transparency and efficiency will be critical to sustaining long-term, inclusive growth. In parallel, boosting domestic revenue mobilization and reinforcing financial sector resilience will support continued macroeconomic stability.

## Recent history and projections

	2022	2023	2024e	2025f	2026f	2027f
<b>Real GDP growth, at constant market prices</b>	5.1	5.0	6.0	4.0	4.5	5.1
Private consumption	5.2	-0.2	2.5	5.1	6.5	4.7
Government consumption	-1.2	35.1	-2.5	17.0	9.5	8.4
Gross fixed capital investment	5.4	-26.7	-0.2	-6.2	-4.8	2.8
Exports, goods and services	21.3	6.9	14.4	11.1	10.6	11.1
Imports, goods and services	18.6	-12.4	7.5	10.5	10.8	11.3
<b>Real GDP growth, at constant factor prices</b>	5.1	5.0	8.8	3.9	4.5	5.1
Agriculture	0.6	1.6	1.0	1.4	1.5	1.6
Industry	8.2	7.6	9.5	6.3	6.4	6.5
Services	3.6	3.4	11.3	2.0	3.2	4.5
<b>Inflation (consumer price index)</b>	5.5	2.1	2.2	4.0	4.0	4.1
<b>Current account balance (% of GDP)</b>	-18.8	1.3	-1.1	-5.1	-4.6	-4.6
<b>Net foreign direct investment inflow (% of GDP)</b>	8.7	8.5	8.8	7.6	7.6	7.7
<b>Fiscal balance (% of GDP)</b>	-3.2	-5.3	-3.0	-2.7	-2.6	-2.0
<b>Revenues (% of GDP)</b>	17.2	16.5	15.2	15.2	15.0	14.9
<b>Debt (% of GDP)</b>	27.0	28.8	27.0	27.8	27.6	27.1
<b>Primary balance (% of GDP)</b>	-3.0	-5.0	-2.6	-2.4	-2.2	-1.7
<b>GHG emissions growth (mtCO2e)</b>	1.2	1.4	1.5	1.1	1.1	1.2

Source: World Bank, Poverty and Economic Policy Global Departments. Emissions data sourced from CAIT and OECD.  
Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.

# CENTRAL PACIFIC ISLANDS

Medium-term growth is expected to moderate. However, it is projected to remain relatively robust in Kiribati and Tuvalu. In Nauru the Regional Processing Centre (RPC) renewal and Nauru-Australia Treaty will delay a fiscal cliff. Each country will need to address a narrow economic base and climate vulnerability to promote growth and reduce poverty. Asset price volatility may affect Kiribati and Tuvalu's fiscal and growth outlook, but the full impact of recent measures is uncertain.

## Key conditions and challenges

The Central Pacific faces major exogenous challenges like climate change, small size, and remoteness, and endogenous challenges like concentrated, import-reliant, and volatile economies, dependent on the public sector. All three countries have ample trust funds to stabilize fiscal revenues and provide long-term development financing. However, they must diversify these revenues to reduce volatility and fund high recurrent spending.

Kiribati has a centralized economy, with public expenditure at 98 percent of GDP in 2024. Recurrent spending has expanded on public wages, social protection, and the copra subsidy. This has reduced poverty but distorts markets and risks deficits as volatile fishing revenues account for over two-thirds of revenues. It is important to curtail recurrent spending, foster private enterprise, and stabilize fiscal revenues using its Revenue Equalization Reserve Fund (RERF).

	KIR	NRU	TUV
Population <sup>1</sup> thousand	130.5	11.8	10.0
Poverty thousand living on less than \$3.65/day	24.2 <sup>2</sup>	2.2 <sup>3</sup>	2.1 <sup>4</sup>
GDP <sup>1</sup> current US\$, billion	0.22	0.15	0.06
GDP per capita <sup>1</sup> current US\$	1702	11914	4908

Sources: WDI, World Bank. 1/ 2022. 2/ 2019. 3/ 2012. 4/ 2010.

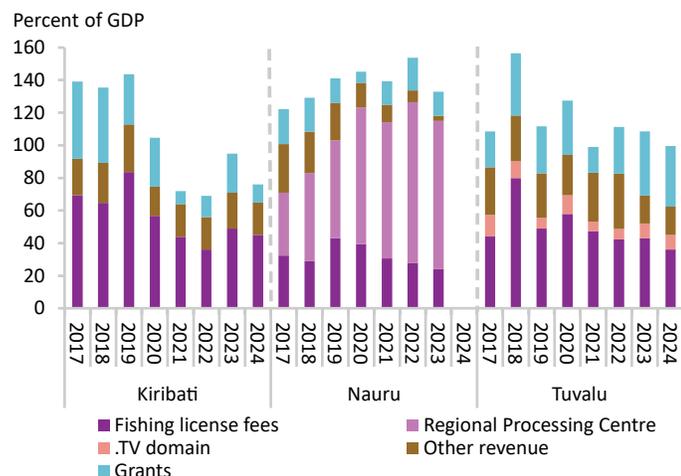
Nauru relies on volatile revenue from fishing and revenue from operating the RPC for refugees (the latter 67 percent of fiscal revenues and 90 percent of GDP in 2024). With RPC earnings uncertain, it is important to find sustainable sources of growth. Nauru grapples with environmental challenges from climate change and phosphate mining.

Tuvalu faces extreme vulnerabilities due to climate change. Private sector development is hindered by inadequate infrastructure and limited economies of scale. 2010 estimates indicate that 26 percent of the population lived below the national poverty line. Structural reforms are essential to promote resilience, sustain growth, and encourage economic diversification.

## Recent developments

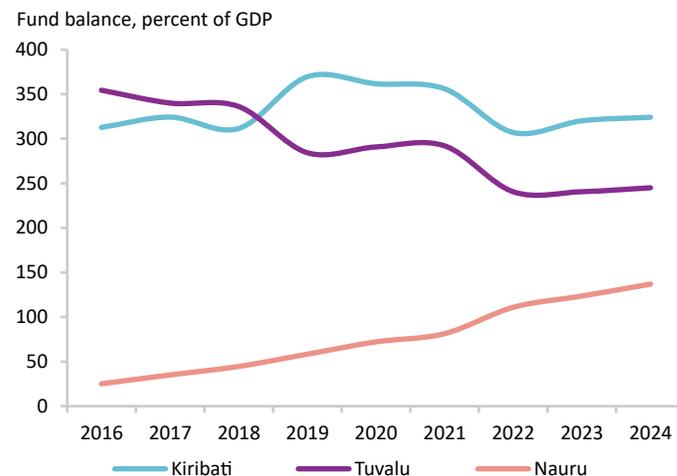
In 2024, Kiribati's public wage expansion increased the fiscal deficit to 22 percent of GDP and lifted growth to 5.2 percent, funded by withdrawing from cash reserves and the RERF. Inflation declined to

FIGURE 1 / Selected fiscal revenues, 2017-2023



Sources: Country authorities, and World Bank and IMF staff estimates and projections. Notes: Nauru data are June years; Kiribati and Tuvalu are calendar years.

FIGURE 2 / Sovereign wealth funds, 2016-2024



Sources: Country authorities, and World Bank and IMF staff estimates and projections. Notes: Nauru data are June years; Kiribati and Tuvalu are calendar years. The Nauru Trust Fund was established in 2016.

2.6 percent as post-COVID supply constraints eased. It is estimated that poverty fell to 13.1 percent in 2024 (US\$3.65 lower-middle-income country (LMIC) line), below 19.5 percent in 2019, benefitting from growth as well as from recent increases in social programs (copra subsidy, unemployment benefits) and public wages. Public debt (12 percent of GDP) is sustainable but at high risk of distress. The RERF was worth 340 percent of GDP in December 2024 after a withdrawal worth 17 percent of GDP in 2024.

**Nauru's** economy grew by 1.8 percent in FY24. Inflation was 4.7 percent, lifted by supply-side constraints. Grants increased from 16 percent of GDP in FY23 to 33 percent in FY24, including higher budget support from China. This contributed to a fiscal surplus of 30 percent of GDP. Prepayments were made into the Intergenerational Trust Fund, which was 152 percent of GDP in March 2024, up from 111 percent in June 2022. Public debt (20.2 percent of GDP) is sustainable. Liabilities have been significantly reduced. Poverty data has not been available for Nauru since 2012, but projections suggest an LMIC poverty rate of 15.3 percent in 2024.

**Tuvalu's** growth is estimated at 3.5 percent in 2024, driven by infrastructure projects, government consumption, and development partner assistance. Inflation slowed to 1.2 percent in 2024. The current account surplus narrowed from 10.7 percent in 2023 to 4 percent in 2024 and the fiscal balance shifted to a 3.9 percent GDP deficit due to declines in fishing license fees and grants. Public debt (6.3 percent of GDP) is sustainable, but at high risk of debt distress. Sovereign wealth funds increased to 245 percent at end-2024. Poverty data has not been available for Tuvalu since 2010, but projections suggest an LMIC poverty rate of 4.6 percent in 2024. A new poverty data point is expected by mid-2025.

## Outlook

In **Kiribati**, growth is expected to moderate to 3.9 percent in 2025 as fiscal spending stabilizes and global trade slows. The fiscal deficit (15 percent of GDP) will be funded by reserves and the RERF. In 2026, growth may moderate further with trade policy uncertainty. This could be significantly more pronounced if financial markets

do not recover in 2025. This could lead to a substantial fiscal contraction because the RERF withdrawal rule, loosened in December 2023, allows withdrawals only if returns exceed 2 percent (nominal). Strict adherence to this rule could also deplete the RERF's balance. A rule spending up to 3 percent of the balance would grow its real value and stabilize withdrawals. Depositing volatile fishing revenues directly into the RERF could also help. Kiribati plans to better target copra subsidies and rationalize public wages and recurrent spending. Further increases in recurrent spending could jeopardize fiscal responsibility rules.

In FY25, **Nauru's** growth is projected to moderate to 1.4 percent with the new port's completion. The budget surplus may narrow to 2 to 7 percent of GDP in the medium term due to increasing expenditures on healthcare, education, and social benefits. The fiscal responsibility policy was weakened in 2024 moving from requiring a surplus every year to a surplus across a 3-year rolling average. In 2026, the East Micronesian Internet Cable could enable Nauru to offer online services, leveraging its favorable time zone between Asia and the Americas, English language proficiency, and widespread literacy. Additionally, a new port will provide transshipment opportunities and local value-addition to fishing products.

**Tuvalu's** growth is expected to slow but remain 2.2 percent by 2027, driven by construction, hospitality, finance, and public administration. The 2023 Australia-Tuvalu Falepili Union Treaty is expected to accelerate outward migration, increasing remittances over the medium term but reducing productivity and growth in the long run. Inflation is projected to moderate to 3.1 percent by 2027 as global inflation pressures subside. Over the medium term, both the current account and fiscal deficits are expected to widen as a result of weaker revenue. The value of sovereign wealth funds is expected to decrease, reaching 223 percent of GDP by 2027, subject to fluctuations in asset valuations and declining returns on investment.

Risks to the Central Pacific outlook include trade shifts and slowing global growth. Additionally, outwards migration and volatile revenues, including grants from development partners, pose significant challenges. Climate-related disasters further exacerbate these risks.

## Recent history and projections

	2022	2023	2024e	2025f	2026f	2027f
<b>Real GDP growth, at constant market prices</b>						
Kiribati	4.6	2.7	5.2	3.9	3.0	2.2
Nauru	2.8	0.6	1.8	1.4	1.3	1.3
Tuvalu	0.4	3.9	3.5	2.8	2.3	2.2
<b>Poverty rates of Kiribati</b>						
International poverty rate (\$2.15 in 2017 PPP) <sup>1,2</sup>	1.2	1.2	1.0	0.8	0.8	0.8
Lower middle-income poverty rate (\$3.65 in 2017 PPP) <sup>1,2</sup>	14.7	14.2	13.1	11.8	11.2	10.8
Upper middle-income poverty rate (\$6.85 in 2017 PPP) <sup>1,2</sup>	64.3	63.4	59.9	58.5	58.0	57.0

Source: Country authorities and World Bank, Poverty and Economic Policy Global Departments.

Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.

Nauru data are based on the fiscal year ended June. Kiribati and Tuvalu are calendar years.

1/ Calculations based on EAPPOV harmonization, using 2019-HIES.

2/ Projection using neutral distribution (2019) with pass-through = 1 (High) based on GDP per capita in constant LCU.

# CHINA

Growth is projected to moderate from 5.0 percent in 2024 to 4.0 percent in 2025. Higher fiscal stimulus is expected to partly offset the negative growth impact of recent trade policy shifts. Poverty reduction, measured by the World Bank poverty line for upper middle-income countries, is expected to continue at a slower pace with moderating growth.

Population <sup>1</sup> million	Poverty <sup>2</sup> millions living on less than \$6.85/day
1407.6	240.6
Life expectancy at birth <sup>3</sup> years	School enrollment <sup>4</sup> primary (% gross)
78.6	99.3
GDP <sup>5</sup> current US\$, billion	GDP per capita <sup>6</sup> current US\$
18977.8	13482.3

Sources: WDI, MFM, and official data. 1/ 2024. 2/ 2021 (2017 PPPs). 3/ 2022. 4/ 2023. 5/ 2024. 6/ 2024.

## Key conditions and challenges

Domestic demand was soft in 2024, even as robust external demand buoyed exports. Domestic demand weakness was driven by the prolonged property sector correction and low consumer confidence. In response, the government progressively increased monetary, fiscal, and property sector-related policy support. Trade policy shifts and higher uncertainty are expected to weigh on China's exports, manufacturing investment, and domestic demand, with the impact partly offset by accommodative policies.

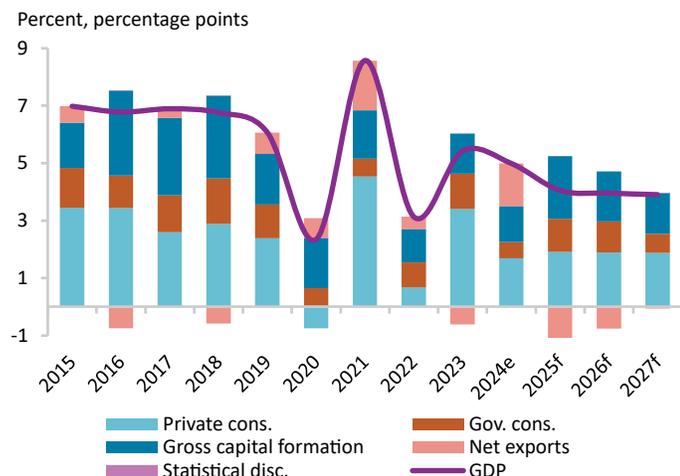
China's recent growth moderation has been in part driven by structural factors such as slowing productivity growth, an aging population, high debt levels, and diminishing returns to capital. A key challenge for policymakers is to balance short-term support to stimulate growth against risks that the measures could exacerbate existing structural imbalances. Short-term policy interventions could be aligned with longer-term objectives such as promoting greener growth and rebalancing the economy toward higher consumption.

## Recent developments

China's growth moderated to 5.0 percent y/y in 2024, from 5.4 percent in 2023. The property sector remains a key drag on economic activity, with real estate investment contracting by 10.1 percent in real terms last year, even as manufacturing and infrastructure investment grew by 9.9 percent. Overall investment contributed 1.3 percentage points (ppts) to real GDP growth in 2024. Consumption growth also weakened, with its contribution to growth declining from 4.6 ppts in 2023 to 2.2 ppts in 2024, as falling property prices and sluggish income growth weighed on consumer confidence. Robust net exports, on the back of resilient external demand, contributed 1.5 ppts to real GDP growth.

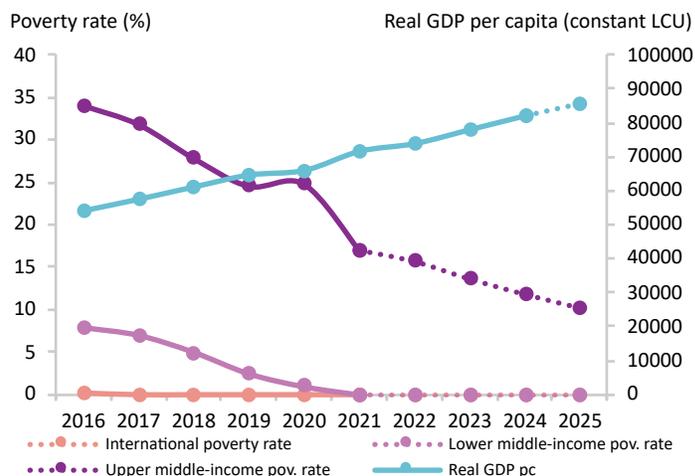
To address the growth slowdown, the government has ramped up policy support since September last year. The authorities lowered key monetary policy rates and introduced a total of RMB 300 billion (0.2 percent of GDP) consumer trade-in and business equipment upgrade fiscal subsidy programs. They also allowed state-financed purchases of idle land and housing inventories while increasing liquidity support to viable property developers.

FIGURE 1 / Real GDP growth and contributions to real GDP growth



Sources: China National Bureau of Statistics and World Bank staff estimates.

FIGURE 2 / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: See footnotes in table on the next page.

Additionally, the government reduced mortgage rates and down payment ratios and relaxed home purchase restrictions to stimulate housing demand. Partly driven by these counter-cyclical policies, as well as stronger exports, growth picked up to 5.4 percent y/y in Q4 2024 from 4.6 percent in Q3.

Poverty reduction has kept pace with aggregate growth. In 2024, around 26 million people are estimated to have surpassed the consumption threshold of US\$6.85/day, a standard benchmark used as a reference by the World Bank to compare progress on poverty reduction across upper middle-income countries. This is lower than the estimated 29 million people who crossed the same threshold in 2023, reflecting the growth slowdown. In real terms, per capita disposable income in urban areas grew at an annual average rate of 4.1 percent between 2019 and 2024, while real per capita consumption expenditure increased by only 3.5 percent, reflecting cautious household spending, especially in urban areas.

## Outlook

Growth is projected at 4.0 percent in both 2025 and 2026. The growth moderation in 2025 will be driven by a decline in exports,

while higher uncertainty could temper manufacturing investment. Fiscal policy will be the main lever in mitigating the negative impact of trade policy shifts and supporting GDP growth. A significant portion of fiscal support is expected to be allocated to infrastructure investment, while some social benefits and the consumer subsidies will also be expanded. Policy support for the property sector is expected to provide a modest boost to housing demand, but stabilization in the sector is not anticipated until late 2025.

Risks to the outlook are broadly balanced. Globally, uncertainty around trade policy and global growth poses risks to China's growth outlook. Domestically, prolonged weakness in the property sector could further curb investment and local government revenues. Tighter local government financing, in turn, could lead to under-execution of fiscal policies. On the upside, higher-than-expected fiscal spending could lift growth above baseline projections.

Lower growth is also expected to weigh on the pace of poverty reduction in 2025 and 2026. The poverty rate at the World Bank's benchmark of US\$6.85/day is projected to fall to 10.5 percent and 9.2 percent, respectively, in 2025 and 2026.

### Recent history and projections

	2022	2023	2024e	2025f	2026f	2027f
<b>Real GDP growth, at constant market prices</b>	3.1	5.4	5.0	4.0	4.0	3.9
Private consumption	1.7	9.0	4.3	4.9	4.8	4.7
Government consumption	5.3	7.3	3.3	6.8	6.3	3.7
Gross fixed capital investment	3.4	4.5	3.6	5.6	4.4	3.6
Exports, goods and services	-1.9	1.1	11.5	-2.6	-1.1	2.0
Imports, goods and services	-5.1	5.6	4.3	4.8	3.8	2.8
<b>Real GDP growth, at constant factor prices</b>	3.1	5.4	5.0	4.0	4.0	3.9
Agriculture	4.2	4.0	3.5	3.0	3.0	2.9
Industry	2.3	4.4	5.3	3.1	3.0	2.9
Services	3.6	6.3	5.0	4.8	4.8	4.7
<b>Employment rate (% of working-age population, 15 years+)</b>	62.0	62.3	62.3	62.2	62.1	62.1
<b>Inflation (consumer price index)</b>	2.0	0.2	0.2	0.5	1.3	2.0
<b>Current account balance (% of GDP)</b>	2.4	1.4	2.2	0.1	0.0	0.1
<b>Net foreign direct investment inflow (% of GDP)</b>	-0.1	-0.8	-0.9	-3.0	-1.5	-1.0
<b>Fiscal balance (% of GDP)<sup>1</sup></b>	-6.1	-5.5	-6.5	-8.7	-9.0	-8.6
<b>Revenues (% of GDP)</b>	31.7	31.7	30.3	28.9	28.5	28.0
<b>Debt (% of GDP)</b>	49.4	54.7	63.0	71.5	77.8	81.9
<b>Primary balance (% of GDP)</b>	-5.1	-4.5	-5.5	-7.6	-7.8	-7.4
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>2,3</sup></b>	15.7	13.7	11.9	10.5	9.2	8.0
<b>GHG emissions growth (mtCO2e)</b>	1.6	2.5	2.3	1.8	2.0	2.2

Source: World Bank, Poverty and Economic Policy Global Departments. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.

1/ The adjusted fiscal balance adds up the public finance budget, the government fund budget, the state capital management fund budget and the social security fund budget.

2/ Last grouped data available to calculate poverty is for 2021 provided by NBS. Actual data: 2021. Nowcast: 2022-2024. Forecasts are from 2025 to 2027.

3/ Projection using neutral distribution (2021) with pass-through = 0.85 based on GDP per capita in constant LCU.

# FIJI

Growth is projected to slow to 3.2 percent GDP by 2027, due to sustained tourist arrivals. Fiscal consolidation is expected to support debt reduction. Risks to the outlook include prolonged trade policy uncertainty, natural disasters, skilled labor shortages, and external commodity price shocks. Investment, productivity, and fiscal consolidation structural reforms are essential risk mitigators, ensuring sustainable growth and poverty reduction.

## Key conditions and challenges

Fiji achieved upper-middle-income status in 2014 but continue to face challenges in raising living standards to match its income level. Tourism drives its economy, but its small size, remote location, import dependence, and climate vulnerability hinder development. To reach high-income status within 20 years, Fiji needs reforms to boost investment and productivity. Key strategies include improving the business climate, fostering competition, attracting foreign investment, developing a skilled workforce, and promoting gender equality in employment while maintaining macroeconomic stability.

The economy recovered fully in 2023, but the legacy left behind by the pandemic combined with multiple disasters, particularly higher debt, limits its ability to respond to future economic shocks. While strong tourism is driving growth, capacity constraints in hotels, labor shortages, and bureaucratic obstacles are expected to hinder further progress.

Full economic recovery has bolstered Fiji's poverty reduction efforts. Projections of poverty rates, as measured by the upper-middle-income country standard of living (US\$6.85/day in 2017PPP),

Population <sup>1</sup> million	0.9	Poverty <sup>2</sup> millions living on less than \$6.85/day	0.5
Life expectancy at birth <sup>3</sup> years	68.3	School enrollment <sup>4</sup> primary (% gross)	107.6
GDP <sup>5</sup> current US\$, billion	5.6	GDP per capita <sup>6</sup> current US\$	5995.5

Sources: WDI, MFM, and official data. 1/ 2024. 2/ 2019 (2017 PPPs). 3/ 2022. 4/ 2023. 5/ 2024. 6/ 2024.

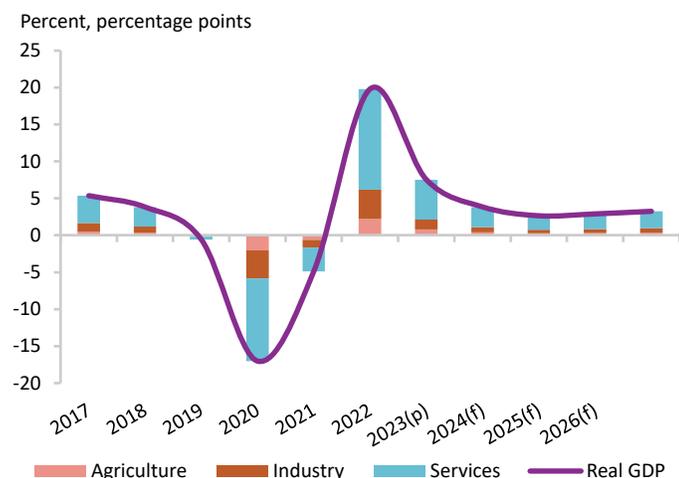
estimate that poverty fell to 50.1 percent in 2024, which is below the pre-pandemic level of 52.6 percent measured in the 2019/20 Household Income and Expenditure Survey. Extreme poverty (US\$2.15/day in 2017PPP) has almost been eliminated in Fiji, at 1.3 percent in 2019/20 and estimated at 1 percent in 2024.

## Recent developments

GDP growth of 3.8 percent is estimated for 2024, tapering off from the strong recovery in 2022-2023 but higher than the 2014-2023 average of 2.7 percent. This was attributed to robust tourist arrivals, which was 10 percent above pre-pandemic levels. Primary drivers of growth include tourism-related sectors such as accommodation, transport, financial services, and wholesale and retail industries. Average inflation was 4.5 percent due to high prices during the year owing to the increase in minimum wages in August 2024. Monetary policy remains accommodative to support growth with the overnight policy rate maintained at 0.25 percent since 2020.

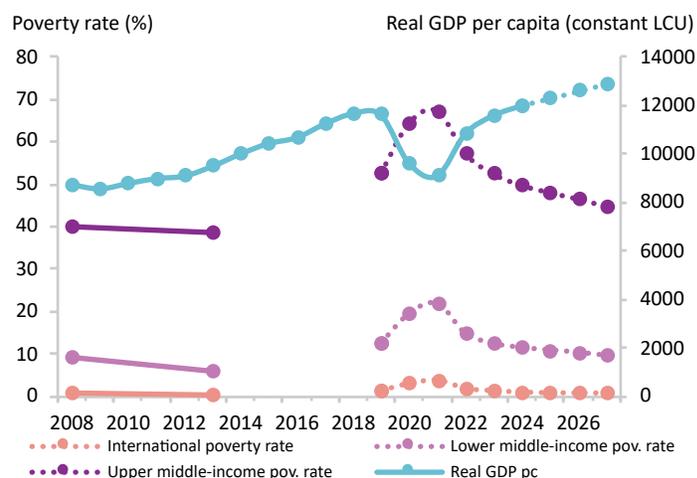
The current account deficit decreased to 4.2 percent of GDP in 2024, as tourism receipts and remittance inflows increased, partly due to Fijians participating in various labor mobility schemes in

**FIGURE 1 /** Real GDP growth and sectoral contributions to real GDP growth



Sources: Ministry of Finance, IMF, and World Bank staff estimates.

**FIGURE 2 /** Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: See footnotes in table on the next page.

Australia and New Zealand. Foreign reserves remained at a comfortable level of 6 months of retained imports as of end-2024.

The fiscal deficit declined to 4 percent of GDP in 2024 from 4.6 percent in 2023 due to high tax buoyancy from VAT and corporate income tax. Revenue gains from measures introduced in 2024 such as departure tax and additional measures on VAT of 0.5 percent of GDP were partly offset by higher recurrent spending. The deficit was financed through external concessional and domestic borrowing. As a result, public debt fell from 81.5 percent in 2023 to 79.8 percent of GDP in 2024 owing to lower primary balance and high growth.

## Outlook

Growth is expected to return to trend over the medium term with 3.2 percent GDP by 2027. Tourist arrivals decreased by 3.8 percent compared to February of last year, but they are expected to recover over the course of the year. While outmigration and labor mobility have slowed, labor shortages are expected to persist with growth supported by manufacturing, wholesale and retail trade, and finance sectors. However, it is difficult to gauge the full impact of recent measures as policy shifts may continue to unfold.

The growth outlook is projected to reduce poverty to 48.7 percent in 2025 and 45.5 percent by 2027 by UMIC standards. Headline inflation is projected to decrease to return to trend to 3 percent over the medium term.

The current account deficit is expected to subside to 2.1 percent of GDP by 2027, driven by reduced trade deficit and stable tourism

receipts and remittances. Remittances are expected to stay above a tenth of GDP while tourism earnings moving close to a fifth of GDP. The current account deficit will be largely financed by official borrowing. Foreign reserves are projected to remain adequate over the medium term at above 5 months of imports. This is slightly higher than IMF's recommended threshold of 4.9 months which is based on the Assessing Reserve Adequacy (ARA) metric for Fiji with high vulnerability to natural disasters.

The fiscal deficit is projected to decrease to 3.4 by 2027, driven by ongoing and planned reforms that promotes revenue generation and rationalization of expenditures. Key initiatives include strengthening compliance, rationalizing tax exemptions, and combating tax evasion and avoidance to boost revenue.

Initiatives to enhance expenditure management include a zero-based budgeting approach, review funding allocations for extra-budgetary units, and focus on high-priority capital projects over the medium term. Public debt is projected to decline to around 77.5 percent of GDP by 2027, backed by primary surpluses. The public debt is considered sustainable but subject to considerable risks.

The outlook is subject to downside risks, primarily stemming from ongoing global trade policy uncertainty, skilled labor shortages, potential international price shocks, and natural disasters. To mitigate these risks and foster sustainable growth, it is essential to implement structural reforms that support investment and productivity, including fiscal consolidation measures. These efforts will be critical in enhancing resilience, maintaining macroeconomic stability, and supporting poverty reduction.

## Recent history and projections

	2022	2023	2024e	2025f	2026f	2027f
<b>Real GDP growth, at constant market prices</b>	19.8	7.5	3.8	2.6	2.9	3.2
<b>Real GDP growth, at constant factor prices</b>	16.0	9.1	3.8	2.6	2.9	3.2
Agriculture	4.0	4.7	1.8	4.5	4.5	4.1
Industry	8.3	-4.9	7.3	2.7	4.5	6.1
Services	20.7	13.9	3.3	2.3	2.2	2.4
<b>Inflation (consumer price index)</b>	3.1	5.1	1.3	3.3	3.1	3.0
<b>Current account balance (% of GDP)</b>	-17.3	-7.7	-4.2	-3.2	-3.2	-2.1
<b>Net foreign direct investment inflow (% of GDP)</b>	1.8	1.1	4.2	4.7	5.1	5.0
<b>Fiscal balance (% of GDP)</b>	-10.3	-4.6	-4.0	-4.3	-3.7	-3.4
<b>Revenues (% of GDP)</b>	21.7	25.2	28.4	28.4	28.1	28.1
<b>Debt (% of GDP)</b>	85.8	81.5	79.8	79.7	78.8	77.5
<b>Primary balance (% of GDP)</b>	-6.6	-0.5	0.0	-0.4	0.2	0.5
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>1,2</sup></b>	1.8	1.3	1.0	0.9	0.8	0.8
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>1,2</sup></b>	14.7	12.3	11.4	11.0	10.4	9.7
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>1,2</sup></b>	57.1	52.4	50.1	48.7	47.3	45.5
<b>GHG emissions growth (mtCO2e)</b>	19.8	7.5	4.1	3.1	3.0	3.2

Source: World Bank, Poverty and Economic Policy Global Departments. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.

1/ Calculations based on EAPPOV harmonization, using 2019-HIES. Actual data: 2019. Nowcast: 2020-2024. Forecasts are from 2025 to 2027.

2/ Projection using neutral distribution (2019) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.

# INDONESIA

Growth remains resilient, poverty and unemployment fell, but middle-class job creation lags. Global and domestic policy uncertainties triggered portfolio outflows, pressuring the Rupiah. Growth is projected to average 4.8 percent through 2027, but uncertainty in trade policy could impact investment and growth. Structural reforms to accelerate productivity growth, alongside fiscal and monetary prudence, are key to advancing the government's growth agenda.

## Key conditions and challenges

Indonesia achieved upper middle-income status in 2023 and aims for high-income status by 2045. To reach this goal, Indonesia must accelerate its growth to at least 6 percent. The Government is targeting 8 percent by 2029 through higher investment. While robust demand has supported steady economic performance and brought poverty down, accelerating growth requires implementing structural reforms to boost the country's growth potential and mitigate overheating risks.

Despite strong macroeconomic foundations, Indonesia is experiencing a slowdown in productivity growth. Structural constraints are impeding a more efficient allocation of resources to the most productive sectors, leading to a continuous decline in total factor productivity growth, from 2.3 to 1.2 percent between 2011 and 2024. To address this issue, Indonesia could advance efficiency reforms, including through financial sector deepening and improving the investment, trade, and business climate.

At 12.7 percent, Indonesia's 2024 revenue-to-GDP is the lowest among middle-income peer countries. Foregone tax revenues are

Population <sup>1</sup> million	Poverty <sup>2</sup> millions living on less than \$3.65/day
285.1	44.3
Life expectancy at birth <sup>3</sup> years	School enrollment <sup>4</sup> primary (% gross)
68.2	100.2
GDP <sup>5</sup> current US\$, billion	GDP per capita <sup>6</sup> current US\$
1396.3	4897.7

Sources: WDI, MFM, and official data. 1/ 2024. 2/ 2024 (2017 PPPs). 3/ 2022. 4/ 2023. 5/ 2024. 6/ 2024.

estimated at 6.4 percent of GDP. Closing this gap will expand the fiscal space for funding Indonesia's Vision 2045.

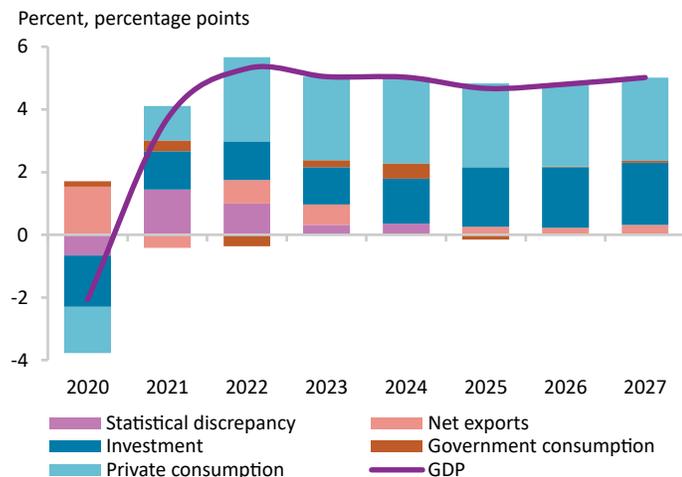
## Recent developments

GDP growth in 2024 was maintained at 5.0 percent due to strong domestic demand. Election-related spending increased public consumption, offsetting the weaker contribution of net exports to growth from falling commodity prices. Service sectors drove growth, while tradeable manufacturing, especially textiles slowed, leading to a 20.2 percent rise in job cuts. Leading indicators point to a potential moderation in domestic demand in early 2025.

Inflation eased in the second half of 2024, thanks to a rebound in agricultural production and price stabilization through fiscal measures. On average, yearly inflation declined to 2.3 percent in 2024, from 3.7 percent in 2023. Temporary electricity subsidies in early 2025 have kept inflation low at 1 percent in March.

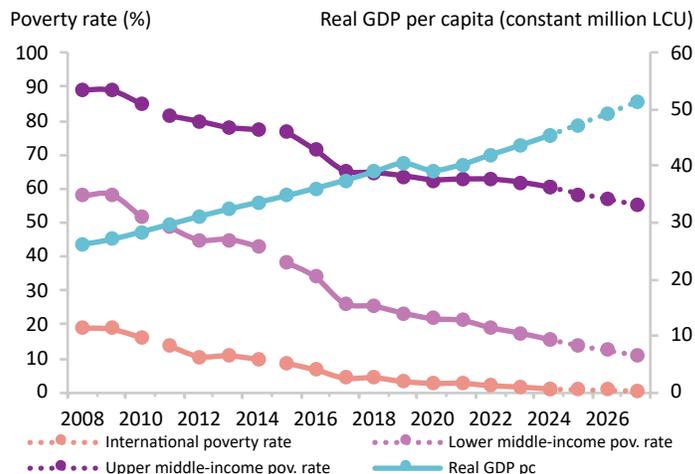
Wages increased by 3.3 percent in 2024, outpacing inflation, with strong gains in the agriculture sector. The real wage increase brought the poverty rate down by 1.9 ppts to 15.6 percent using

FIGURE 1 / Real GDP growth and contributions to real GDP growth



Sources: National Statistics Agency and World Bank.

FIGURE 2 / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: See footnotes in table on the next page.

the lower middle-income country (LMIC) poverty line. Lower food inflation eased the burden on households and contributed to reducing poverty. Unemployment fell to 4.8 percent in February 2024, below pre-pandemic levels. However, the creation of quality jobs has lagged, as underemployment recorded 8.5 percent in February 2024, a 1.5 ppts increase from the previous year.

The government revised its decision to raise the value-added tax in 2025, opting instead to optimize the budget through partial spending cuts. These cuts are being redirected to priority programs and the establishment of a new sovereign wealth fund (Danantara), maintaining overall spending neutrality. However, tax revenues contracted by 0.4 ppts, reaching 1.1 percent of GDP in February amid moderating commodity prices and technical disruptions in the Core Tax Administration System. This led to a fiscal deficit of 0.1 percent of GDP during this period.

The current account deficit increased to 0.6 percent of GDP in 2024 as terms-of-trade softened. Portfolio equity outflows accelerated since February amid global and domestic policy uncertainties. Concurrently, increased domestic demand for USD, driven by external debt repayments and dividend outflows put additional pressure on the Rupiah, which depreciated by 2.3 percent year-to-March. However, the implementation of the mandatory repatriation rule for natural resource export proceeds has partially offset the pressure on foreign exchange reserves, which rose and now cover 6.7 months of imports.

## Outlook

Uncertainty over global trade policies and a drop in commodities prices will impact Indonesia's terms-of-trade and investors'

confidence. While it is difficult to gauge the full impact of recent measures as policy shifts may continue to unfold, growth is projected to moderate to an average of 4.8 percent over 2025-2027. The announced demand stimulus coupled with planned reforms to boost the capacity of the economy could counterbalance this impact. Capital formation is expected to gradually rise as investments through Danantara materialize. Private consumption growth will remain resilient, with some moderation as the lack of quality jobs raises precautionary savings. With sustained demand, the poverty rate, measured at the LMIC line, is projected to decline to 11.5 percent by 2027. A positive output gap will fuel inflation, which is expected to remain within Bank Indonesia's target band.

Spending is projected to accommodate new priority programs, raising the fiscal deficit to 2.7 percent of GDP. Expenditure will shift further towards social expenditures, including the new Nutritious Food Program. Debt will stabilize at around 41 percent of GDP, with higher borrowing costs pushing interest payments to 19 percent of total revenues.

Amid restrictive global financial conditions and trade policy measures, the current account deficit is projected to widen to 1.7 percent of GDP by 2027 below pre-pandemic levels. Foreign direct investment will remain the main source of external funding, mostly directed towards industrial downstreaming, but will pick up gradually over time as foreign investors seek more policy stability.

Risks to the outlook are skewed to the downside. Trade policy uncertainty, weaker commodity prices, and domestic policy uncertainties could pose challenges to growth.

## Recent history and projections

	2022	2023	2024e	2025f	2026f	2027f
<b>Real GDP growth, at constant market prices</b>	5.3	5.0	5.0	4.7	4.8	5.0
Private consumption	5.0	4.9	5.1	4.9	4.9	4.9
Government consumption	-4.4	3.0	6.6	-2.1	0.3	0.9
Gross fixed capital investment	3.9	3.8	4.6	6.1	6.2	6.3
Exports, goods and services	16.2	1.3	6.5	4.8	5.1	5.5
Imports, goods and services	15.0	-1.6	7.9	4.5	5.0	5.1
<b>Real GDP growth, at constant factor prices</b>	4.9	5.1	5.1	4.7	4.8	5.0
Agriculture	2.3	1.3	0.7	3.6	3.0	3.0
Industry	4.1	5.0	5.2	3.8	4.0	4.0
Services	6.5	6.1	6.2	5.7	5.9	6.3
<b>Employment rate (% of working-age population, 15 years+)</b>	64.6	65.8	67.2	67.3	67.7	68.5
<b>Inflation (consumer price index)</b>	4.1	3.7	2.3	2.3	2.6	2.6
<b>Current account balance (% of GDP)</b>	1.0	-0.1	-0.6	-1.3	-1.6	-1.7
<b>Net foreign direct investment inflow (% of GDP)</b>	1.4	1.1	1.0	1.2	1.3	1.5
<b>Fiscal balance (% of GDP)</b>	-2.4	-1.6	-2.3	-2.7	-2.7	-2.7
<b>Revenues (% of GDP)</b>	13.5	13.3	12.8	11.9	12.3	12.4
<b>Debt (% of GDP)</b>	39.5	39.0	39.2	40.1	40.8	41.4
<b>Primary balance (% of GDP)</b>	-0.4	0.5	-0.1	-0.4	-0.4	-0.3
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>1,2</sup></b>	2.2	1.8	1.3	1.0	0.8	0.7
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>1,2</sup></b>	19.1	17.5	15.6	14.2	12.8	11.5
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>1,2</sup></b>	62.6	61.8	60.3	58.7	57.2	55.5
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	2.9	2.5	3.1	2.9	3.0	0.6

Source: World Bank, Poverty and Economic Policy Global Departments. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.

1/ Calculations based on EAPPOV harmonization, using 2011-SUSENAS and 2024-SUSENAS. Actual data: 2024. Forecasts are from 2025 to 2027.

2/ Projection using annualized elasticity (2011-2024) with pass-through = 1 based on GDP per capita in constant LCU.

# LAO PDR

Despite steady growth and improved macroeconomic conditions in 2024, high debt continues to limit fiscal space, and the poverty rate stagnated. For 2025, growth is forecast at 3.5 percent, amid rising trade policy uncertainty. Without sustained reforms in revenue, governance, financial stability, and the business environment, risks to growth and stability are substantial. The poverty rate is projected at 31 percent.

Population <sup>1</sup> million	7.8	Poverty <sup>2</sup> millions living on less than \$3.65/day	2.3
Life expectancy at birth <sup>3</sup> years	69.0	School enrollment <sup>4</sup> primary (% gross)	96.8
GDP <sup>5</sup> current US\$, billion	15.4	GDP per capita <sup>6</sup> current US\$	1977.9

Sources: WDI, MFM, and official data. 1/ 2024. 2/ 2018 (2017 PPPs). 3/ 2022. 4/ 2023. 5/ 2024. 6/ 2024.

## Key conditions and challenges

Macroeconomic imbalances persist despite recent improvements. Public and publicly guaranteed debt (PPG) remains unsustainable at 116 of GDP, including domestic arrears and a currency swap. From 2020-2023, cumulative external debt service deferrals amounted to approximately 16 percent of GDP, reducing short-term pressure on foreign exchange demand but leaving long term solvency issues unresolved. External debt repayments are projected to average \$1.3 billion annually from 2025 to 2027 if there are no further deferrals. This results in high financing needs, which implies a high foreign exchange liquidity risk.

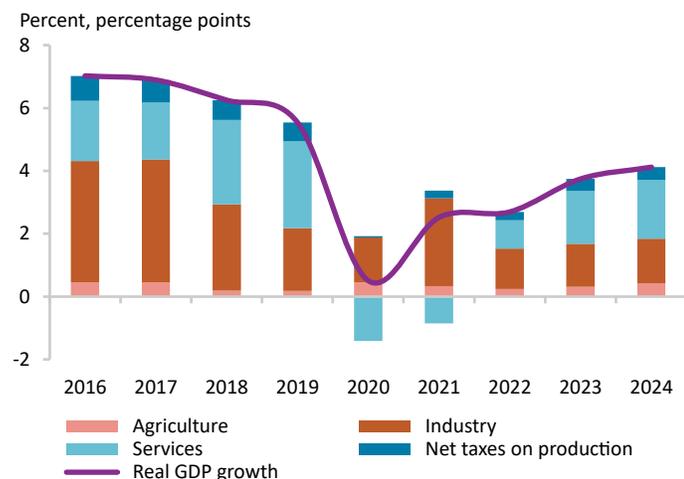
Macroeconomic instability has also had a significant impact on the labor market, household living standards, and human capital development. High inflation, currency depreciation, and declining real wages have driven many workers' transitions from wage employment and unpaid family work to self-employment, while also increasing outmigration to neighboring countries. The prolonged inflation has forced over one-third of households to reduce food consumption and investments in human capital, and limit savings. These pressures pose serious challenges for poverty reduction.

## Recent developments

In 2024, economic imbalances improved. Laos' economic growth remained steady, driven by sectors like tourism, transport, electricity, mining, agriculture, and manufacturing. The average official kip/US\$ exchange rate depreciated by 8 percent year-on-year during July 2024 to February 2025, while the parallel rate weakened by 1 percent. Indicating reduced pressures, the gap between the official and parallel rates narrowed to below 1 percent in January. This improvement was mainly due to tighter monetary policy, increased foreign reserves, stricter foreign exchange management, and fiscal consolidation, with some debt service deferrals in 2024. Inflation moderated to 15.5 percent in January 2025, down from 26.2 percent in mid-2024.

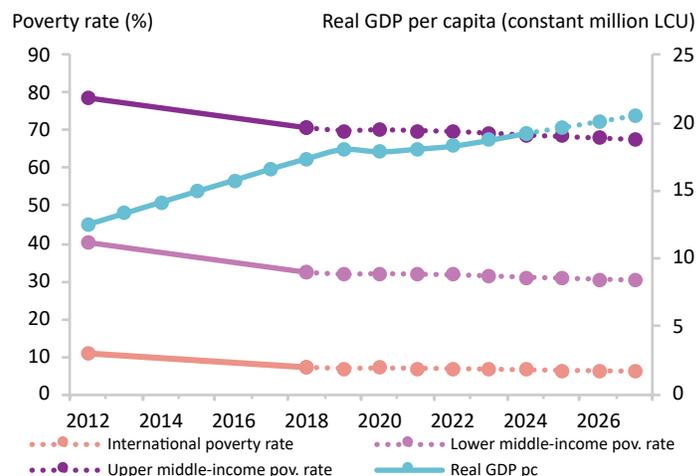
Stronger revenue collection offset increased spending in 2024, resulting in a fiscal surplus. Domestic revenue increased to 17.6 percent of GDP due to higher VAT, profit taxes, export duties, and natural resource taxes, driven by improved economic activity, a tax rate increase, and better tax administration. Public spending rose to 16.7 percent due to higher interest payments. Investment

FIGURE 1 / Real GDP growth and contributions to real GDP growth



Sources: Lao Statistics Bureau and World Bank staff estimates.

FIGURE 2 / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: See footnotes in table on the next page.

in human capital and infrastructure maintenance remains limited (2.1 percent in 2024 plan).

The overall balance of payments improved in 2024, supported by a current account surplus and net financial inflows, helping replenish reserves. Exports, particularly in agriculture, mining, electricity, and electronics, continued to grow. Despite improvement, foreign reserves excluding the currency swap, remain precariously low, covering 1.3 months of imports.

Employment continued to shift from wage and unpaid family jobs to self-employment, along with rising outmigration, leading to labor shortages in some sectors. The share of self-employment rose from 40 percent in 2023 to 59 percent in 2024. Official migration to Thailand increased from 233,132 to 291,844, while migration to South Korea doubled from 2,815 to 5,602. Nominal wages and household income grew by 8 percent and 14 percent, respectively, but lagged inflation. Due to high inflation, half of households reduced food consumption and one-third cut back on human capital investments. The poverty rate (based on the lower-middle-income poverty line in 2017 PPP) was estimated at 31 percent in 2024.

## Outlook

Heightened trade policy uncertainty could impact Laos growth in the short term. Real GDP growth is projected to moderate at 3.5 percent as trade policy shifts and the resulting decline in foreign demand could impact some of the export-oriented manufacturing and services. Despite improvements in revenue collection and deferrals, high debt service will continue to constrain fiscal space. Revenue is expected to benefit from tax policy (such as the

restoration of fuel excise rates) and better administration. High interest obligations could crowd out other essential expenditures. The baseline assumes a primary surplus in coming years, but an overall fiscal deficit.

Inflation is expected to moderate but remain in the double digits, reflecting potential depreciation due to high external debt service and imports.

Macroeconomic volatility will continue to pose a risk to poverty reduction efforts. High inflation will continue to pressure real household incomes and human capital spending. Extreme weather events could exacerbate food price increases while reducing farm income. The poverty rate is projected to remain steady in 2025. In the medium term, a contraction in human capital spending could undermine poverty reduction efforts.

This outlook faces significant risks. Global trade uncertainty could impact external demand and investments from Laos' key trading partners. Domestically, tight foreign exchange liquidity, limited access to international capital markets, slow structural reforms, and deteriorating bank balance sheets pose challenges. With low access to international capital markets, the pressure on domestic financing sources could intensify. Outmigration and labor shortages could hinder growth in labor-intensive sectors.

Addressing macroeconomic instability requires five critical reforms: (i) improving revenue mobilization (curbing tax exemptions, restoring fuel excise rates, and reforming health taxes); (ii) improving governance of public and public-private investments; (iii) finalizing debt negotiations; (iv) strengthening financial sector stability; and (v) improving the business environment.

## Recent history and projections

	2022	2023	2024e	2025f	2026f	2027f
<b>Real GDP growth, at constant market prices</b>	2.7	3.7	4.1	3.5	3.4	3.4
<b>Real GDP growth, at constant factor prices</b>	2.7	3.7	4.1	3.5	3.4	3.4
Agriculture	1.6	2.4	3.0	2.9	2.8	2.8
Industry	3.3	2.6	3.7	2.5	2.5	2.5
Services	2.5	5.5	5.0	4.7	4.5	4.4
<b>Inflation (consumer price index)</b>	22.7	31.2	23.3	11.0	9.8	7.0
<b>Current account balance (% of GDP)</b>	-1.7	2.6	1.6	-0.5	-1.7	-2.0
<b>Fiscal balance (% of GDP)</b>	-0.2	0.7	0.8	-0.5	-0.4	-0.5
<b>Revenues (% of GDP)</b>	14.7	16.5	18.2	18.1	18.1	18.2
<b>Debt (% of GDP)</b>	130.9	115.9	112.2	112.2	110.3	108.8
<b>Primary balance (% of GDP)</b>	1.3	2.7	3.9	2.8	2.7	2.5
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>1,2</sup></b>	6.8	6.7	6.5	6.4	6.3	6.2
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>1,2</sup></b>	31.7	31.4	31.0	30.7	30.4	30.1
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>1,2</sup></b>	69.7	69.3	68.9	68.5	68.2	67.8
<b>GHG emissions growth (mtCO2e)</b>	3.8	4.9	5.6	5.5	5.6	6.4

Source: World Bank, Poverty and Economic Policy Global Departments. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.

1/ Calculations based on EAPPOV harmonization, using 2012-LECS and 2018-LECS. Actual data: 2018. Nowcast: 2019-2024. Forecasts are from 2025 to 2027.

2/ Projection using annualized elasticity (2012-2018) with pass-through = 0.7 based on GDP per capita in constant LCU.

# MALAYSIA

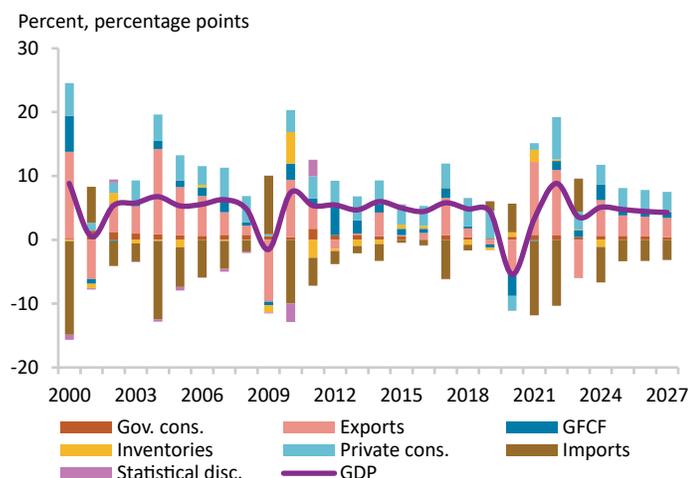
Malaysia's economy grew robustly in 2024, driven by private consumption, strong investments, and a rebound in exports. In 2025, growth is projected to slow to 3.9 percent amid a challenging global environment. Fiscal constraints and income inequality remain key challenges. Structural reforms to enhance fiscal capacity, increase incomes, and promote social mobility are essential for navigating global challenges and ensuring long-term, inclusive growth.

## Key conditions and challenges

Malaysia's economy registered strong growth in the last two quarters of 2024. This expansion was underpinned by resilient private consumption, robust investment, and a rebound in exports. However, limited fiscal space remains a key challenge for the government, with low tax revenue and high rigid expenditures. While optimizing public spending can free up budgetary resources, enhancing revenue mobilization remains vital to restore fiscal space and meet future fiscal needs.

Malaysia has made significant progress in reducing poverty. Measured using the international upper-middle income line of \$6.85 (2017 PPP) dollars per day, poverty stood at 2.3 percent in 2021 and projected to decline further to 1.2 percent in 2025. However, income remains highly concentrated at the top, with the richest 20 percent of households holding 41 percent of total income in 2022. Meanwhile, income mobility remains limited at the bottom, with more than half of those in the poorest 20 percent remaining in the same income decile.

FIGURE 1 / Real GDP growth and contributions to real GDP growth



Sources: Bank Negara Malaysia and World Bank staff calculations.

Population <sup>1</sup> million	Poverty <sup>2</sup> millions living on less than \$6.85/day
35.6	0.8
Life expectancy at birth <sup>3</sup> years	School enrollment <sup>4</sup> primary (% gross)
76.3	98.8
GDP <sup>5</sup> current US\$, billion	GDP per capita <sup>6</sup> current US\$
422.0	11867.3

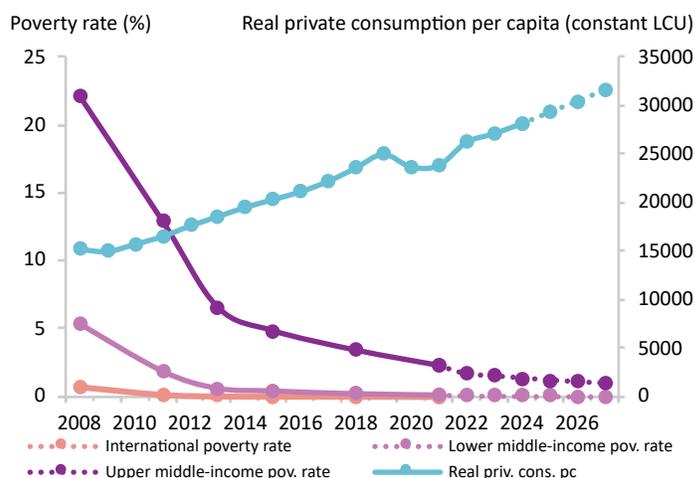
Sources: WDI, MFM, and official data. 1/ 2024. 2/ 2021 (2017 PPPs). 3/ 2022. 4/ 2023. 5/ 2024. 6/ 2024.

## Recent developments

Malaysia sustained strong economic growth of 5 percent in 4Q 2024, bringing overall growth for the year to 5.1 percent. Household consumption remained resilient, driven by sustained employment and wage growth, as well as government income support measures. Private and public investment expanded strongly, driven by capital expenditure in the manufacturing and services sectors. Meanwhile, net export growth turned positive amid continued export expansion and slower import growth but was offset by larger inventory drawdowns which weighed on overall growth. The services sector led expansion while manufacturing grew on the strength of the electrical and electronic (E&E) exports. Agriculture and mining contracted due to unfavorable weather conditions and a continued decline in oil output. Construction saw strong growth, driven by non-residential and specialized projects.

Headline inflation has eased to 1.9 percent in Q3 2024 and 1.8 percent in Q4 2024. This moderation was primarily due to lower inflation in mobile communication services, though partially offset by higher food prices. Core inflation followed a similar trend, standing at 1.9 percent in Q3 2024 and 1.7 percent in Q4 2024. The labor

FIGURE 2 / Actual and projected poverty rates and real private consumption per capita



Source: World Bank. Notes: See footnotes in table on the next page.

market continues to show positive trends, with the national unemployment rate remaining at 3.2 percent while nominal wage growth saw a slight uptick. The central bank maintained the overnight policy rate at 3 percent and deemed that the monetary policy stance remains supportive of the economy, with inflation expected to remain manageable in 2025.

The government has implemented several new measures to enhance wage growth and support workers amidst rising living costs. In February 2025, the monthly minimum wage was increased by 13.3 percent from RM1,500 to RM1,700, benefitting approximately 4.37 million workers. The government has also allocated RM200 million under the Progressive Wage Policy in Budget 2025, aiming to support 50,000 workers by linking wages to productivity and experience.

## Outlook

In 2025, Malaysia's growth is projected to moderate to 3.9 percent amid heightened global economic policy uncertainty, especially regarding trade policy. Growth will be driven mainly by domestic demand, with private consumption supported by government measures. While external challenges are likely to impact investment decisions, private investment is expected to remain supported by ongoing multiyear investments and the implementation of previously approved projects. Exports will face considerable external headwinds arising from the deterioration in the global environment.

Headline inflation is projected to increase to 2.6 percent, reflecting several domestic policy reforms amid moderating cost conditions mainly due to lower commodity prices.

The growth outlook is subject to several significant downside risks, primarily driven by the increased uncertainty around trade and investment. These developments may exacerbate trade fragmentation, contribute to further uncertainty, and lead to a more pronounced deceleration in global economic growth. The impact of commodity price declines may compound the potential effects of trade uncertainty. Domestic risks to Malaysia's growth stem from inflationary pressures from domestic policy measures and potential supply disruptions from unfavorable weather conditions.

Without further efforts to address inequality and enhance economic mobility, over half of Malaysians may continue to have incomes below the high-income threshold even when Malaysia attains high-income country status. Addressing these issues requires comprehensive measures to promote inclusive growth and enhance mobility, including boosting productivity, prioritizing quality education and skills training, and increasing investment in human capital development early in the lifecycle. Strengthening social protection through increased spending, improved targeting, and reduced fragmentation is also crucial. Additionally, financing inclusive investments by expanding health and education investments and creating more fiscal space for equity-enhancing initiatives is essential.

## Recent history and projections

	2022	2023	2024e	2025f	2026f	2027f
<b>Real GDP growth, at constant market prices</b>	8.9	3.6	5.1	3.9	4.3	4.3
Private consumption	11.3	4.7	5.1	4.7	4.8	5.0
Government consumption	5.1	3.3	4.7	4.7	4.3	3.4
Gross fixed capital investment	6.8	5.5	12.0	4.2	4.2	4.0
Exports, goods and services	14.5	-8.1	8.5	2.3	3.5	3.7
Imports, goods and services	16.0	-7.4	8.9	3.2	3.9	4.0
<b>Real GDP growth, at constant factor prices</b>	8.9	3.5	5.1	3.9	4.3	4.3
Agriculture	1.3	0.7	3.1	1.9	1.8	1.6
Industry	6.7	1.3	4.9	2.8	3.2	3.2
Services	11.4	5.2	5.5	4.9	5.3	5.3
<b>Employment rate (% of working-age population, 15 years+)</b>	62.9	62.7	62.7	62.7	62.6	62.6
<b>Inflation (consumer price index)</b>	3.4	2.5	1.8	2.6	2.5	2.5
<b>Current account balance (% of GDP)</b>	3.2	1.5	1.7	1.7	1.7	1.7
<b>Net foreign direct investment inflow (% of GDP)</b>	0.7	0.0	0.6	0.5	0.5	0.4
<b>Fiscal balance (% of GDP)</b>	-5.5	-5.0	-4.1	-3.8	-3.4	-3.1
<b>Revenues (% of GDP)</b>	16.4	17.3	16.8	16.5	16.5	16.2
<b>Debt (% of GDP)</b>	60.2	64.3	64.6	65.0	64.5	64.0
<b>Primary balance (% of GDP)<sup>1</sup></b>	-3.2	-2.5	-1.5	-1.2	-0.9	-0.8
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>2</sup></b>	0.1	0.0	0.0	0.0	0.0	0.0
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>2</sup></b>	1.6	1.5	1.3	1.2	1.1	1.0
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	3.3	-1.0	1.1	1.3	1.3	0.7

Source: World Bank, Poverty and Economic Policy Global Departments. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.

1/ The primary balance excludes interest payments received.

2/ Projection using annualized elasticity (2013-2021) with pass-through = 0.7 based on private consumption per capita in constant LCU.

# MONGOLIA

Despite global uncertainty, Mongolia's GDP is projected to grow by 6.3 percent in 2025, driven by a surge in copper production and a partial recovery of agriculture from a harsh winter. The poverty rate is expected to decrease modestly from 20.2 percent in 2024 to 19.2 percent in 2025, driven by income gains but limited by inflation and lingering impacts of agricultural losses. While favorable, the outlook is subject to sizable uncertainty amid shifting global trade policies.

## Key conditions and challenges

The economy continues to benefit from a mining boom, contributing to strong growth, fiscal surpluses, and public debt reduction. However, rapid wage growth, increased fiscal and quasi-fiscal spending, and higher credit growth have boosted domestic demand, increasing inflation and imports. While fiscal buffers have improved, strong import demand has contributed to a wider current account deficit and greater vulnerability to external shocks. The 2025 budget's focus on a structurally balanced stance marks a positive shift from recent highly procyclical policies. However, large SOE-financed investment projects and dividend transfers to the public present continued quasi-fiscal expansion.

Mongolia introduced energy tariff reforms that are expected to enhance the sector's financial sustainability and, if coupled with additional investments and service improvements, to reduce blackouts and inefficiency. Higher energy efficiency would boost productivity, investment, and growth over the medium term. But, in the short term the tariff hikes have contributed to increased living costs, especially for residents of urban ger districts reliant on electricity for

Population <sup>1</sup> million	Poverty <sup>2</sup> millions living on less than \$6.85/day
3.5	0.8
Life expectancy at birth <sup>3</sup> years	School enrollment <sup>4</sup> primary (% gross)
72.7	95.8
GDP <sup>5</sup> current US\$, billion	GDP per capita <sup>6</sup> current US\$
23.6	6695.8

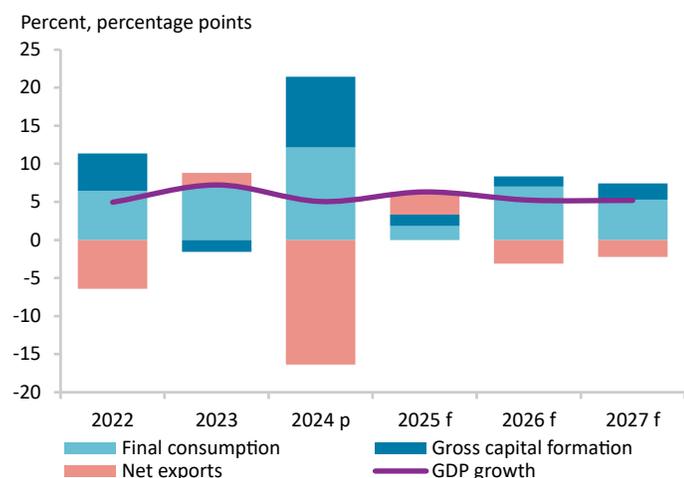
Sources: WDI, MFM, and official data. 1/ 2024. 2/ 2022 (2017 PPPs). 3/ 2022. 4/ 2023. 5/ 2024. 6/ 2024.

heating, which have been only partly offset by rising wages. Meanwhile, the agricultural contraction triggered by the harsh winter challenges rural livelihoods. As a result, poverty reduction is projected to be modest, with the rate declining from 20.2 percent in 2024 to 19.2 percent in 2025 using the \$6.85 line.

## Recent developments

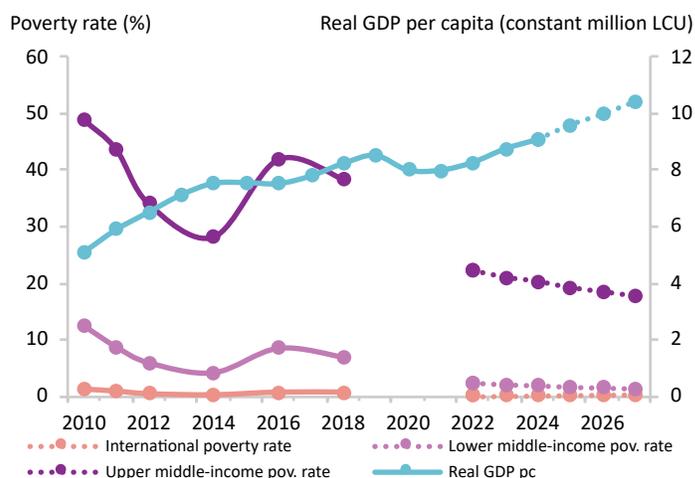
Economic growth reached 5.0 percent in 2024, driven by strong mining and services. Coal output hit a record high, while copper production at Oyu Tolgoi (OT), the largest copper mine, surged underground mining expanded. However, growth slowed from 7.2 percent in 2023 due to a sharp contraction in agriculture following the dzud that led to a 15 percent reduction in agricultural incomes in 2024. On the demand side, rising incomes from wage and pension hikes and higher public spending boosted consumption. Lower inflation earlier in the year and increased household borrowing further supported private spending. Investment was also strong, driven by foreign direct investment (FDI), public capital expenditures, and recovering bank lending. However, strong domestic demand promoted imports, particularly consumer durables and investment goods, weighing on net exports.

FIGURE 1 / Real GDP growth and contributions to real GDP growth



Sources: National Statistics Office and World Bank.

FIGURE 2 / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: See footnotes in table on the next page.

Headline inflation averaged 6.8 percent in 2024, down from 10.4 percent in 2023 due to lower global food and fuel prices. However, inflation had surged to 9.0 percent by year-end, exceeding the central bank's target range of 4–8 percent, driven by supply and demand pressures. The November 2024 energy tariff reform raised household electricity prices, directly adding 1.4 percentage points to inflation and reducing purchasing power. Higher electricity costs also led manufacturers to raise prices. Meanwhile, core inflation (excluding food and fuel) jumped by 2.7 percentage points in the second half of 2024, reflecting growing demand pressures. In response, the central bank tightened monetary conditions in December 2024 and again in January and March 2025 by raising the policy rate and the banks' reserve requirements.

Despite record revenues in 2024, the budget surplus narrowed due to high fiscal spending. Still, strong GDP growth and the fiscal surplus led to a decline in the public debt-to-GDP ratio. The improved fiscal situation led to sovereign credit rating upgrades. Short-term debt risks eased a partial refinancing of a Eurobond maturing in 2026.

Surging imports and declining mineral prices resulted in a current account deficit of 9.3 percent of GDP in 2024, despite strong exports. However, increased FDI and external bond issuance helped maintain reserves at \$5.0 billion (3.4 months of imports) in March 2025, even as the central bank repaid US\$622 million of its currency swap line with the People's Bank of China.

## Outlook

Despite heightened uncertainty stemming from major shifts in global trade policy, Mongolia's economy is projected to grow by 6.3 percent in 2025, largely driven by a projected 70 percent surge in

copper production at OT as its underground mining operations expand. After two years of dzud-related losses, the agriculture sector is also expected to recover moderately. However, private consumption is anticipated to slow, reflecting rising inflation and a gradual recovery in rural livelihoods—resulting in only a modest reduction in poverty in 2025. Private investment growth is also expected to soften due to declining FDI—partly from the tapering of OT-related investment and heightened global uncertainty—along with higher domestic lending rates as the central bank continues efforts to contain inflation, and rising production costs, particularly energy. While the direct impact of recent trade policy shifts is expected to be limited—given Mongolia's minimal trade exposure to the U.S.—the indirect effects of slowing global growth, declining coal and copper prices, and substantial OT-related investment repayments are expected to weigh on fiscal revenues and external balances. Still, strong GDP growth and higher inflation will contribute to a reduction in the public debt-to-GDP ratio.

Growth is projected to average 5.2 percent in 2026–27, with a sustained agricultural recovery, strong industrial expansion, rising incomes and high capital spending. As a result, poverty is expected to decline to 17.8 percent by 2027, though rising cost-of-living pressures may slow further progress.

Risks remain balanced. On the downside, global trade shifts and uncertainty could dampen global growth, reduce external demand for Mongolia's key commodities, and exert downward pressure on prices, with adverse implications for exports, fiscal revenues, and investor sentiment. On the upside, faster completion of key cross-border infrastructure projects could facilitate Mongolian mineral exports. Stronger-than-expected fiscal stimulus in China to offset tariff impacts and a quicker resolution of its property sector challenges would further support demand for Mongolia's exports.

## Recent history and projections

	2022	2023	2024e	2025f	2026f	2027f
<b>Real GDP growth, at constant market prices</b>	5.0	7.2	5.0	6.3	5.2	5.2
Private consumption	8.1	9.7	12.9	2.0	8.6	6.8
Government consumption	6.9	3.2	18.4	1.7	5.3	2.4
Gross fixed capital investment	13.2	5.3	19.7	2.0	2.0	4.3
Exports, goods and services	32.3	33.2	0.7	11.4	5.9	2.6
Imports, goods and services	29.1	18.9	17.7	4.1	6.8	3.8
<b>Real GDP growth, at constant factor prices</b>	4.2	7.5	4.9	6.3	5.2	5.2
Agriculture	12.0	-8.9	-28.7	19.0	12.0	6.0
Industry	-4.5	12.9	6.5	9.9	5.9	5.3
Services	6.9	9.9	12.7	2.4	3.5	5.0
<b>Inflation (consumer price index)</b>	15.2	10.4	6.8	10.0	8.0	7.5
<b>Current account balance (% of GDP)</b>	-13.2	0.6	-9.3	-12.1	-11.4	-11.5
<b>Net foreign direct investment inflow (% of GDP)</b>	13.9	10.6	10.7	7.8	7.5	6.9
<b>Fiscal balance (% of GDP)</b>	0.7	2.6	1.3	-1.1	-1.5	-1.1
<b>Revenues (% of GDP)</b>	33.8	34.3	39.2	35.8	35.4	35.0
<b>Debt (% of GDP)<sup>1</sup></b>	62.0	44.4	43.3	39.3	36.5	33.9
<b>Primary balance (% of GDP)</b>	1.8	4.0	2.6	0.1	-0.5	0.0
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>2,3</sup></b>	0.2	0.2	0.2	0.2	0.2	0.2
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>2,3</sup></b>	2.4	2.1	1.9	1.7	1.5	1.4
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>2,3</sup></b>	22.1	20.9	20.2	19.2	18.5	17.8
<b>GHG emissions growth (mtCO2e)</b>	4.7	1.8	-1.1	3.0	3.9	4.3

Source: World Bank, Poverty and Economic Policy Global Departments. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.

1/ Debt excludes the BoM's liability under the PBOC swap line (3.8% of GDP as of the end of 2024).

2/ Calculations based on EAPPOV harmonization, using 2016-HSES, 2018-HSES, and 2022-HSES. Actual data: 2022. Nowcast: 2023-2024. Forecasts are from 2025 to 2027.

3/ Projection using annualized elasticity (2016-2018) with pass-through = 1 based on GDP per capita in constant LCU.

# MYANMAR

Natural disasters, conflict, and macroeconomic volatility impacted Myanmar's economy. Exchange rate fluctuations, import restrictions, and power outages caused shortages and rising prices. GDP contracted by 1 percent in the year ending March 2025, 11 percent below FY2018/19 levels. The economy is projected to grow by 1.5 percent in FY2025/26, down from an earlier forecast of 2 percent, with further adjustments possible due to earthquake impacts.

## Key conditions and challenges

Myanmar's economy has faced significant challenges in recent months. On March 28, a 7.7-magnitude earthquake struck central Myanmar, resulting in significant loss of life, widespread damage to buildings and essential energy, water, and transport infrastructure, and severe disruptions to health services. Meanwhile, large-scale labor movements have been driven by conflict, weak economic conditions, disasters, and fears of military conscription, leading to significant internal displacement and exacerbating shortages of workers in some areas. Power generation has also declined in recent months, reportedly meeting only 50 percent of demand from businesses and households as of mid-March. The earthquake has exacerbated these shortages, including in Yangon. Night light luminosity in industrial zones decreased by 7 percent in 2024, and by 24 percent in non-industrial areas. States like Rakhine, Chin, Kachin, and Kayin saw reductions of over a third.

Macroeconomic volatility and an unpredictable policy environment continue to weaken economic activity. In addition, recent international trade policy shifts are likely to affect Myanmar's exports in the coming months. Inflation remains high due to

Population <sup>1</sup> million	Poverty <sup>2</sup> millions living on less than \$3.65/day
<b>54.5</b>	<b>10.2</b>
Life expectancy at birth <sup>3</sup> years	School enrollment <sup>4</sup> primary (% gross)
<b>67.3</b>	<b>118.9</b>
GDP <sup>5</sup> current US\$, billion	GDP per capita <sup>6</sup> current US\$
<b>66.8</b>	<b>1224.9</b>

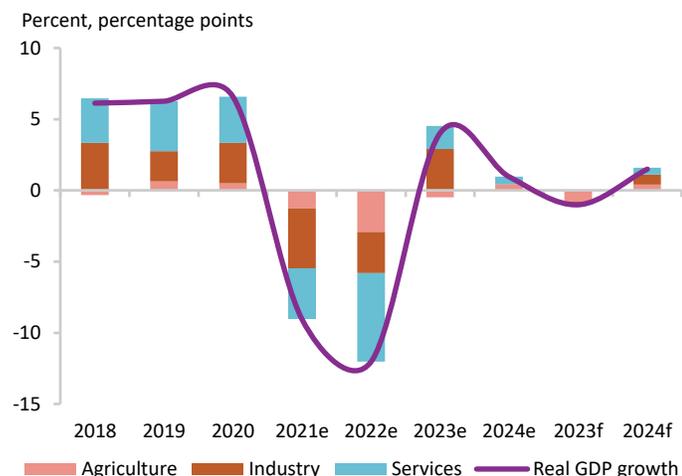
Sources: WDI, MFM, and official data. 1/ 2024. 2/ 2017 (2017 PPPs). 3/ 2022. 4/ 2018. 5/ 2024. 6/ 2024.

currency depreciation and shortages attributable to conflict-related trade disruptions and stricter import licensing. The most recent consumer price inflation data shows 25.4 percent inflation in March 2024 (YoY) driven by food prices. The World Food Program food price index rose 60 percent from April to December 2024, and fuel prices increased by 12 percent. Attempts to impose price controls have exacerbated shortages of some products. As of October 2024, 14.3 million people (25 percent of the population) faced acute food insecurity, up from 10.7 million the previous year.

## Recent developments

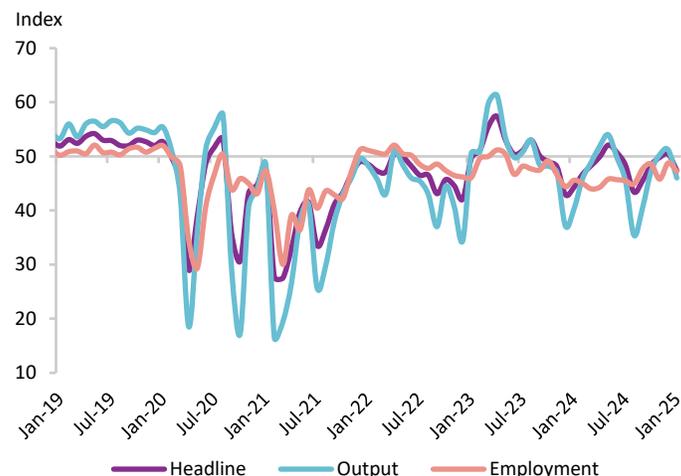
Real GDP is estimated to have contracted by 1 percent in the year ending March 2025. Typhoon Yagi and flooding negatively impacted crop production while raw material shortages, weak domestic demand, power outages, and labor supply constraints constrained manufacturing and services activity. The manufacturing purchasing manager's index has been in contractionary territory since July 2024, except for December, reflecting a decrease in new orders and raw material shortages. Imports of construction materials from China have also declined, and public infrastructure projects have been delayed. The World Bank Firm Survey from

FIGURE 1 / Real GDP growth and contributions to real GDP growth by sector



Sources: Ministry of Planning and Finance, and World Bank staff estimates.

FIGURE 2 / Manufacturing Purchasing Manager's Index



Source: S&P Global Market Intelligence.

September/October 2024 indicates worsening firm sales and profitability, with sales declining by 18 percent in October compared to the same period in the previous year, while profits fell by 25 percent. Domestic air travel and international arrivals have dropped due to insecurity and conflict, and mineral production has declined as key mining areas are affected by conflict.

A sharp drop in imports has narrowed the current account and trade deficits to 1.2 and 2.2 percent of GDP, respectively, in FY2024/25. Manufacturing exports fell due to reduced natural gas production and lower demand for garments from the EU. However, agricultural exports have been supported by favorable global prices for rice and pulses. Conflict-related disruptions to transport and tourism continue to impact service receipts. Remittance incomes remained stable due to Myanmar's large migrant workforce and favorable exchange rates on remittance transfers.

Exchange rate volatility persists. The kyat lost 40 percent of its value against the US dollar from January to August due to reduced foreign exchange receipts, border trade disruption, and higher seasonal demand for foreign exchange. However, the exchange rate has appreciated by about 21 percent since the end of August 2024, supported by declining imports and news of financial support from China for public infrastructure projects.

The fiscal deficit is estimated to have risen by 0.1 points to 5.5 percent of GDP in FY2024/25, due to increased recurrent spending. Total expenditure is expected to have reached 27.4 percent of GDP in FY2024/25, a 2.3 percentage point increase from FY2023/24, mainly due to higher public sector wages, goods and services, and utility costs. Revenues are estimated to be 22.0 percent of GDP in FY2024/25, up from 20.0 percent, primarily due to a 2.0 percentage point rise in non-tax receipts (including oil and gas) to 15.5 percent of GDP. Domestic sources dominate deficit financing, accounting for about 80 percent of total borrowing since FY2023/24. Limited external borrowing has led authorities to rely mainly on the central bank to finance the fiscal deficit.

Poverty is estimated to have risen to 32 percent in 2023/24 due to conflict, natural disasters, high inflation, and negative labor market trends. Mandalay and Sagaing, the epicenter of the recent earthquake, had high poverty rates of 50.1 percent and 37.1 percent, respectively, and are now dealing with increased household vulnerability and hardship due to fatalities and destruction of property.

## Outlook

The outlook remains bleak, with the earthquake likely to have substantial impacts on economic activity in FY2025/26 (year ended March 2026), while ongoing macroeconomic volatility, trade policy uncertainty, and elevated conflict continue to pose constraints. Garments, footwear and apparel-based manufacturing, which account for about a third of total exports, is expected to be affected by reduced external demand from trade policy shifts. This is expected to reduce growth by around half a percentage point. The resulting projection of 1.5 percent growth for FY2025/26 does not yet account for the impacts of the earthquake and will be further revised once more data on these impacts becomes available. Destruction of household assets, rising food insecurity and high inflation are also likely to push more households into poverty.

This already bleak outlook faces significant downside risks. These include risks of persistent negative impacts on production and inadequate support for affected communities and businesses in the wake of the earthquake (including because of recent disruptions to foreign aid flows). Other risks include a potential escalation of conflict in the run up to planned elections (in late 2025 or early 2026) and the risk of another natural disaster, which could further disrupt transport, logistics, and border trade. Further restrictions on trade and foreign exchange transactions would worsen shortages of key inputs, raise consumer prices, and reduce business confidence. These could worsen food insecurity and impoverish more households, while recent negative impacts on physical and human capital are likely to constrain long-term economic growth.

### Recent history and projections

	2021	2022	2023e	2024e	2025e	2026e
<b>Real GDP growth, at constant market prices</b>	-8.6	-12.0	4.7	1.0	-1.0	1.5
<b>Real GDP growth, at constant factor prices</b>	-9.0	-12.0	4.0	1.0	-1.0	1.5
Agriculture	-5.7	-12.8	-2.2	2.0	-3.8	1.8
Industry	-11.8	-8.2	8.0	0.0	-0.2	1.8
Services	-8.4	-14.7	3.9	1.4	-0.3	1.1
<b>Employment rate (% of working-age population, 15 years+)</b>	52.8	53.5	53.8	53.8	53.8	53.8
<b>Inflation (consumer price index)</b>	2.3	9.6	27.2	27.5	26.0	30.0
<b>Current account balance (% of GDP)</b>	-0.4	-2.4	-3.5	-2.2	-1.2	-2.5
<b>Fiscal balance (% of GDP)</b>	-9.1	-1.4	-2.8	-5.4	-5.5	-6.0
<b>Revenues (% of GDP)</b>	14.8	11.1	21.3	20.0	22.0	23.3
<b>Public sector debt (% of GDP)</b>	54.2	54.4	58.8	62.2	62.4	62.5
<b>Primary balance (% of GDP)</b>	-6.7	0.1	-0.6	-3.2	-3.2	-3.8
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	-4.6	-1.1	1.1	1.0	0.8	0.4

Source: World Bank, Poverty and Economic Policy Global Departments. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.

Estimates and projections are for years ended March. The GDP growth forecast for FY25/26 will be revised once the earthquake's economic impact becomes clearer.

# NORTH PACIFIC ISLANDS

The economies in the North Pacific maintained their growth momentum in FY24 driven by fisheries activity in FSM and RMI, grant-related public investment, and delayed tourism recovery in Palau. Poverty rates are expected to continue their downward trend, contingent on sustained growth and continued U.S. Support. Significant reforms are needed to enhance long-term growth, reduce high reliance on foreign aid and ensure fiscal sustainability.

## Key conditions and challenges

The North Pacific maintained its economic recovery in FY24, driven by fisheries activity in the Federated States of Micronesia (FSM) and the Republic of the Marshall Islands (RMI), public investment supported by Compact of Free Association (COFA) grants, and delayed tourism recovery in Palau. While COFA funds are expected remain stable in the short to medium term, the high reliance on grants exposes North Pacific countries to potential shifts in external funding. Global trade policy uncertainty could impact investment and growth. Population decline presents an existential risk in the region due to elevated levels of out-migration since the pandemic. To sustain economic momentum, diversification efforts are critical, including strengthening local industries and attracting private investment. Poverty in the North Pacific rose between 2020–2022 but has declined as the economies recover.

	FSM	RMI	PLW
Population <sup>1</sup> thousand	112.6	38.8	17.7
Poverty thousand living on less than \$3.65/day	44.4 <sup>2</sup>	2.7 <sup>3</sup>	..
GDP <sup>1</sup> current US\$, billion	0.46	0.23	0.22
GDP per capita <sup>1</sup> current US\$	4084	5663	11022

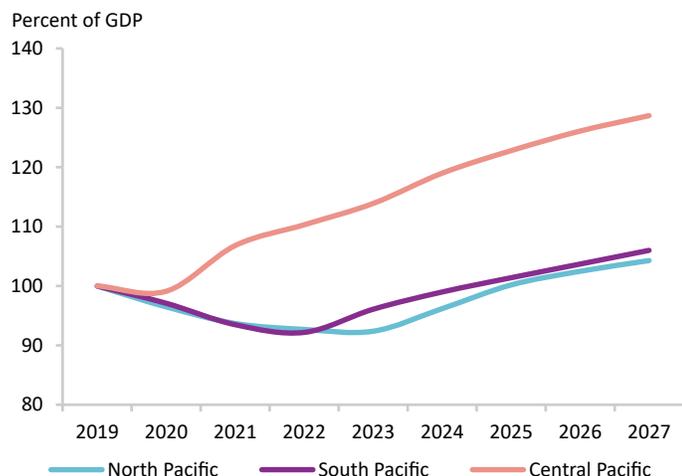
Sources: WDI, World Bank. 1/ 2023. 2/ 2013. 3/ 2019.

## Recent developments

In **FSM**, growth is estimated to have strengthened to 1.1 percent in FY24, supported by pickup in consumption, activity in the fisheries sector, and the resumption of investment projects. After reaching a decade-high, inflation moderated as energy and food prices began to decline, coupled with easing supply-side constraints. FSM is estimated to have recorded a smaller fiscal surplus of 1.3 percent of GDP in FY24, due to both smaller revenues from fishing royalties and higher capital spending. Government debt declined to 10.6 percent in FY24 with overall debt risk rating upgraded to moderate from high risk.

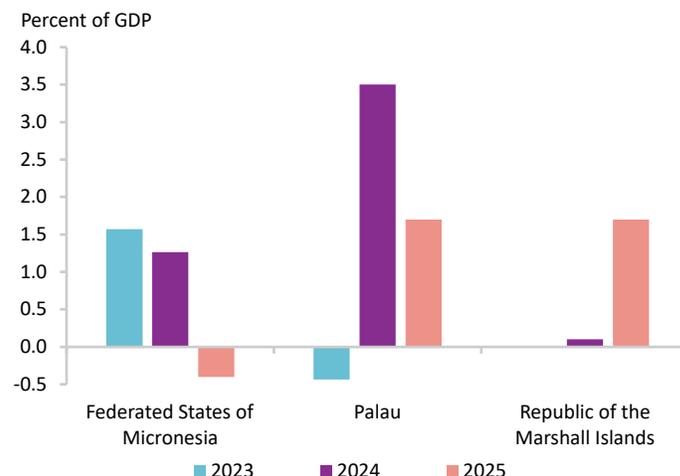
In **RMI**, output is estimated to have expanded by 3.4 percent in FY24, driven by sustained growth in fisheries activity and robust construction sector. Inflation remained elevated at over 4 percent, due to expansionary fiscal policies and an increase in minimum wages. Despite these challenges, a modest fiscal surplus of 0.1 percent of GDP is estimated in FY24 supported by strong grant inflows.

FIGURE 1 / Real GDP, relative to 2019 GDP



Sources: National sources, IMF WEO, and World Bank projections.

FIGURE 2 / Fiscal balance



Sources: National sources, EconMap, IMF WEO, and World Bank projections.

While the debt level remains sustainable at 15.8 percent of GDP, the overall risk of debt distress remains high.

In Palau, economic growth is estimated to have peaked at 9.3 percent in FY24, driven by a surge in tourism (contributing roughly 40 percent of GDP pre-pandemic), that, after several years of delay, has finally rebounded. This reflects the resumption of flights from Asia and the recovery of Asian tourist flows. Inflation has further decreased to around 4 percent due to lower imported energy and food prices. A substantial fiscal surplus of 3.5 percent of GDP is estimated to have been achieved, thanks to higher tax collection from recent goods and services tax reforms and increased revenue from tourism activities. This follows several years of large fiscal deficits. Public debt amounts to 78 percent of GDP, primarily concessional terms and remains sustainable.

## Outlook

The outlook is subject to significant downside risks. Recent trade policy uncertainty could impact the region through depressed global demand, weaker growth in trading partners, reduced remittances and, for Palau, lower tourism flows. However, decline in commodity prices could lower input costs. While Compact funds are not expected to be affected by changes in US development aid policy, an unanticipated reduction in non-Compact US federal programs and grants would reduce public investment, social programs, and ultimately growth. The region's vulnerability to natural disasters and climate change remains an important underlying adverse risk to economic growth and people's welfare.

FSM's growth is projected to reach 1.3 percent in FY25, supported by the resurgence in public investment, including USD 2 billion

dollars infrastructure project supported by the U.S., and activity in the fisheries sector. However, growth in the medium term could moderate to below one percent if structural challenges remain unaddressed, limiting the potential for poverty reduction. Key constraints to sustained growth include high levels of out-migration and moderate public investment. Inflation is expected to continue easing as commodity prices decline. After recording a surplus in FY24, the fiscal balance is projected to turn into a small deficit in FY25 and thereafter, amid declining fishing revenues and normalizing grants.

In RMI, output is expected to grow by 3.3 percent in FY25, mainly driven by the continued expansion of the fishery sector and strong construction activity financed by Compact transfers. Economic activity is expected to exceed pre-pandemic levels in FY25. In line with easing global food and energy prices, inflation in FY24 is expected to subside to 3.5 percent before declining to 2 percent from FY26 onwards. Modest fiscal surpluses are expected in the medium term due to continued Compact funding. Due to population decline, real GDP growth translates to even higher per capita income growth, which is projected to reduce poverty to FY27.

In Palau, tourism recovery is expected to drive robust growth of 8.6 percent in FY25. However, slower-than-anticipated growth in advanced economies could hinder this recovery and weaken Palau's growth prospects. Inflation is forecast to decrease to 2.8 percent and normalize at 2.5 percent in the medium term. A fiscal surplus of 1.7 percent of GDP is projected for FY25, driven by tourism receipts and tax reforms. A modest fiscal surplus, averaging 1.2 percent of GDP, is expected in the medium term, supported by Compact funding and continued implementation of tax reforms.

## Recent history and projections

	2022	2023e	2024f	2025f	2026f	2027f
<b>Real GDP growth, at constant market prices</b>						
Federated States of Micronesia	-0.9	0.8	1.1	1.3	1.4	0.7
Republic of the Marshall Islands	-1.1	-3.9	3.4	3.3	2.7	2.3
Palau	-1.3	1.9	9.3	8.6	3.5	2.4
<b>Poverty rates of the Republic of the Marshall Islands</b>						
International poverty rate (\$2.15 in 2017 PPP) <sup>1,2</sup>	0.8	0.9	0.8	0.6	0.4	0.4
Lower middle-income poverty rate (\$3.65 in 2017 PPP) <sup>1,2</sup>	5.5	5.9	4.6	3.8	3.5	3.1
Upper middle-income poverty rate (\$6.85 in 2017 PPP) <sup>1,2</sup>	29.8	30.3	26.1	23.0	20.5	18.3

Source: Country authorities and World Bank, Poverty and Economic Policy Global Departments.

Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.

Values for each country correspond to their fiscal years ending September 30.

1/ Calculations based on EAPPOV harmonization, using 2019-HIES.

2/ Projection using neutral distribution (2019) with pass-through = 1 (High) based on GDP per capita in constant LCU.

# PAPUA NEW GUINEA

The reopening of a major gold mine boosted growth in 2024. Fiscal consolidation continued to ensure macroeconomic stability. To make growth more inclusive and reduce high poverty, prudent macroeconomic management, building human capital and creating a conducive business environment is critical. As a natural-resource exporter, the impact of commodity price declines may compound the potential effects of trade uncertainty.

## Key conditions and challenges

Since gaining independence in 1975, the economy has more than tripled. However, real GDP per capita has only seen an annual increase of 0.9 percent—a sluggish rate compared to other lower middle-income resource-exporting nations. The growth trajectory has been marked by pronounced fluctuations, reflecting high susceptibility to shifts in international commodity prices. The inclusiveness of growth has been limited by the heavy reliance on capital in the resource sector and the underperformance of the non-resource sector.

Weak human development outcomes present missed opportunities for faster and more inclusive economic growth. Papua New Guinea (PNG) has some of the poorest nutrition outcomes in the world, with 48.2 percent of all children under the age of five being stunted. Furthermore, 26 percent of youth find themselves outside of training, education, and employment. Weak governance compounds the difficulties in effectively addressing these challenges, with external shocks compounding fragility-related risks.

Population <sup>1</sup> million	10.6	Poverty <sup>2</sup> millions living on less than \$3.65/day	5.0
Life expectancy at birth <sup>3</sup> years	66.0	School enrollment <sup>4</sup> primary (% gross)	109.5
GDP <sup>5</sup> current US\$, billion	31.3	GDP per capita <sup>6</sup> current US\$	2958.7

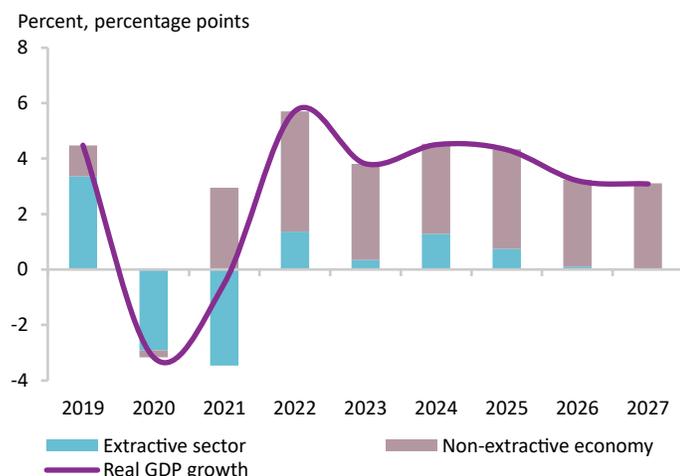
Sources: WDI, MFM, and official data. 1/ 2024. 2/ 2009 (2017 PPPs). 3/ 2022. 4/ 2018. 5/ 2024. 6/ 2024.

Large segments of the population continue to lag in socio-economic development. The most recent Household Income and Expenditure Survey, from 2010, revealed that 40 percent of the population lived below the national poverty line of US\$2.15 per day (in 2017 PPP terms). Despite the lack of an official poverty rate since 2010, household surveys suggest little change in monetary well-being. Using close monetary correlates, the estimated poverty rate in 2016/18 was 41 percent. In 2016/18, 74.2 percent of the population were multidimensionally poor, one of the highest rates globally, up nearly 3 percentage points since 2010. Due to data limitations, recent estimates of multidimensional poverty are unavailable, but in 2022, only 19 percent had access to safe drinking water and 15 percent to electricity, unchanged from 2016/18.

## Recent developments

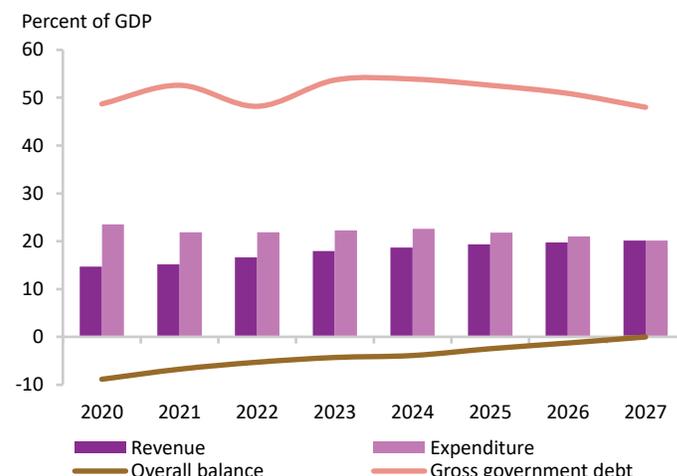
The economy continued to expand, with an above-average growth rate of 4.5 percent estimated for 2024, driven primarily by the reopening of Porgera gold mine in late December 2023. This is expected to create jobs and boost extractive sector growth,

FIGURE 1 / Real GDP growth and contributions to real GDP growth



Sources: Country authorities, IMF, and World Bank staff estimates and projections.

FIGURE 2 / Key fiscal and debt indicators



Sources: Country authorities, IMF, and World Bank staff estimates and projections.

estimated at 5 percent, slightly higher than the 4.4 percent estimated for the non-extractive sector. Improved access to foreign exchange is supporting growth in the non-extractive sector.

The pandemic exacerbated underlying fiscal weaknesses, and the government continued to implement its fiscal consolidation plan. The fiscal deficit is estimated to have narrowed to 3.9 percent of GDP in 2024 from 4.3 percent of GDP in 2023, supported by improved revenue mobilization. In 2024, total revenue increased by 0.8 percentage points of GDP relative to 2023, mostly driven by non-resource tax revenue and a rebound in grants. This offset the lower-than-expected dividend payments from state-owned enterprises and entities, foremost by Kumul Petroleum Holding. The non-resource primary balance also improved in 2024.

Average headline inflation is estimated to have moderated to 0.6 percent in 2024, mostly driven by lower prices for locally produced food items (e.g. betelnut). This more than offset the passthrough of the Kina depreciation to domestic prices. Core inflation is estimated at 3.9 percent at end-2024, below historic average. The BPNG has implemented a crawl-like exchange rate framework, and the Kina has gradually depreciated against the USD. To ensure consistency with the new arrangement and keep inflation expectations in check, BPNG tightened monetary policy. Since April 2024, BPNG increased the policy rate by cumulative 200 basis points, to 4 percent and the cash reserve requirement ratio by 200 basis points to 12 percent. These policies were supported by an IMF program.

During the early COVID-19 pandemic, poverty likely increased, but it returned to pre-pandemic levels by 2022. Surveys conducted at the beginning of the pandemic showed that severe food shortages, which is closely linked to extreme poverty, were higher than those recorded in the 2016-2018 Demographic and Health Survey (DHS).

By 2022, food insecurity and employment had both improved, and food shortage rates were similar to those in the 2016-2018 DHS. However, surveys from 2022 and 2023-2024 indicate that many people still face significant challenges to their well-being.

## Outlook

Growth momentum is expected to continue in 2025. Supported by increased production at the OK Tedi mine and the reopening of the Porgera gold mine, the economy is projected to grow by 4.3 percent. The non-resource sector, supported by improved access to foreign exchange, is also expected to drive growth. Medium-term growth is expected to settle at 3 percent as mining production normalizes. Inflation is projected to rise to 5.1 percent in 2025 due to base effects and the passthrough of exchange rate depreciation. However, it is expected to converge towards its historical average over the medium term.

The economic outlook appears positive, but risks are tilted to the downside. Slower growth could result from lower export demand, the projected decline in commodity prices, reduced business confidence, political and social instability, and the impact of droughts and other climate-related events. The impact of commodity price declines may compound the potential effects of trade uncertainty. However, it is difficult to gauge the full impact of recent measures as policy shifts may continue to unfold. PNG continues to face risks stemming from conflict and violence. The brief episode of violence and looting in January 2024, although short-lived, underscored the potential for such disruptions to adversely affect economic stability. The outlook does not account for potential new resource mega-projects, like Papua LNG. The final investment decision and construction start present an upside risk to the outlook.

## Recent history and projections

	2022	2023	2024e	2025f	2026f	2027f
<b>Real GDP growth, at constant market prices</b>	5.7	3.8	4.5	4.3	3.2	3.1
<b>Real GDP growth, at constant factor prices</b>	5.8	3.1	6.1	4.4	3.2	3.1
Agriculture	3.1	1.0	7.1	3.5	3.4	3.4
Industry	6.6	1.6	2.7	3.0	0.6	0.0
Services	6.3	5.0	8.4	5.7	5.0	5.1
<b>Inflation (consumer price index)</b>	5.3	2.3	0.6	5.1	4.3	4.3
<b>Current account balance (% of GDP)</b>	32.8	23.3	23.0	20.4	20.2	19.2
<b>Net foreign direct investment inflow (% of GDP)</b>	-1.1	-1.2	-1.2	-1.2	-1.2	-1.2
<b>Fiscal balance (% of GDP)</b>	-5.3	-4.3	-3.7	-2.5	-1.3	0.0
<b>Revenues (% of GDP)</b>	16.6	17.9	18.7	19.3	19.7	20.1
<b>Debt (% of GDP)</b>	48.2	52.4	53.9	52.9	50.8	48.6
<b>Primary balance (% of GDP)</b>	-2.9	-1.8	-0.5	0.5	1.3	2.5
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	0.1	0.1	0.1	0.0	0.0	0.0

Source: World Bank, Poverty and Economic Policy Global Departments. Emissions data sourced from CAIT and OECD.  
Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.

# PHILIPPINES

The Philippines remains among the region's top performers as domestic conditions improved. In 2024, inflation fell within target, the fiscal deficit narrowed, and poverty declined. Growth is projected to average 5.4 percent through 2027, anchored on private domestic demand. Safeguarding growth amid heightened external uncertainty and raising growth potential require reforms that strengthen climate resilience, increase investments, and boost productivity.

## Key conditions and challenges

The Philippines has seen broad-based acceleration in economic growth, driven by capital accumulation, a reallocation of jobs towards higher-productivity sectors, and an expansion of the non-tradables sector. However, faster economic growth has relied on investment rather than productivity gains. Leading firms experienced weaker job creation and slower output growth, limiting allocative efficiency and frontier advancements crucial for long-term growth. The relative decline of the tradables sector also raises concern as more globally connected firms outperform their domestically oriented counterparts. Finally, the catch-up process is at risk from increasingly frequent climate events. Addressing these challenges requires strengthening connectivity, improving local governance, and implementing climate adaptation strategies. Enhancing competition and trade policies while streamlining regulations can also boost productivity and resource allocation.

Supportive macroeconomic policies and stronger domestic demand conditions underpin growth prospects. However, trade policy uncertainty could dampen trade and investment prospects. Lower rice prices, and a more benign outlook for oil prices are expected

Population <sup>1</sup> million	115.8	Poverty <sup>2</sup> millions living on less than \$3.65/day	15.7
Life expectancy at birth <sup>3</sup> years	72.2	School enrollment <sup>4</sup> primary (% gross)	93.4
GDP <sup>5</sup> current US\$, billion	461.7	GDP per capita <sup>6</sup> current US\$	3985.7

Sources: WDI, MFM, and official data. 1/ 2024. 2/ 2023 (2017 PPPs). 3/ 2022. 4/ 2023. 5/ 2024. 6/ 2024.

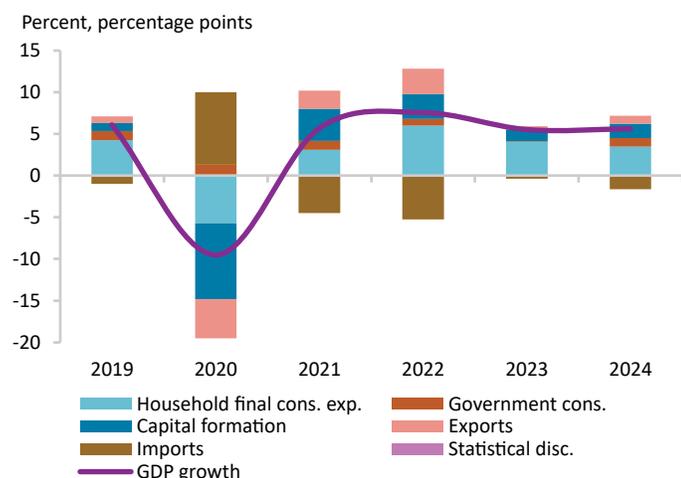
to keep inflation contained. This is expected to alleviate pressure on households, potentially stimulating consumption growth. It also provides space for the central bank to lower interest rates further. The government's commitment to public investment is also expected to support growth.

## Recent developments

Growth inched up to 5.7 percent year-on-year in 2024, above potential growth of 5.5 percent, reflecting the ongoing economic recovery. On the production side, robust domestic activity and tourism fueled services. On the expenditure side, private consumption grew slower partly due to high prices of staple commodities, including rice. Yet, consumption remained the main growth engine, supported by record high remittances and a healthy labor market. In addition, sustained growth in services exports and faster disbursements in public spending partially offset slower private investment growth.

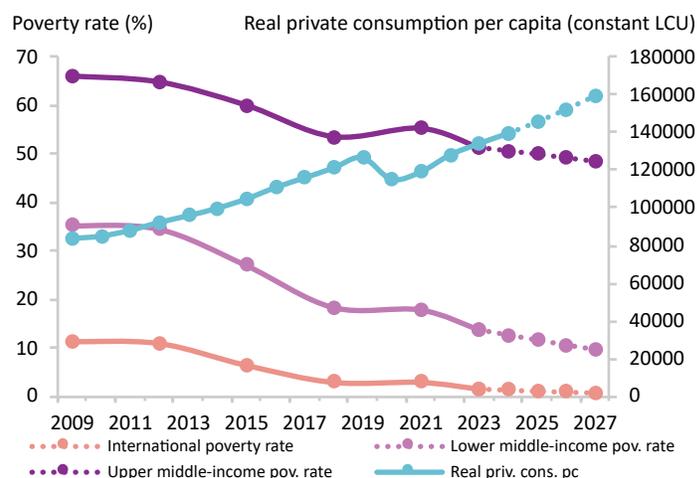
The current account deficit widened to 3.8 percent of GDP in 2024, fueled by a 0.7 percent of GDP decline in semiconductor exports. In addition, services net exports moderated

FIGURE 1 / Real GDP growth and contributions to real GDP growth



Source: Philippines Statistics Authority.

FIGURE 2 / Actual and projected poverty rates and real private consumption per capita



Source: World Bank. Notes: See footnotes in table on the next page.

driven by higher spending of Filipino tourists abroad and slower growth in receipts in Information Technology Business Process Outsourcing exports.

Headline inflation remained within the BSP's 2-4 percent target in the first quarter of 2025 (2.2 percent), led by the reduction in rice and fuel prices. Core inflation continued to decline, allowing the central bank to lower the policy rate.

The fiscal deficit narrowed to 5.7 percent of GDP in 2024. Revenues increased by 1 percentage point of GDP, due to a surge in dividend remittances from government-owned and controlled corporations and robust growth in tax collections. The increase in revenues cushioned the higher-than-programmed disbursements in infrastructure and personnel spending.

The labor market continued to improve, supporting higher household incomes. The unemployment rate remained low at 3.8 percent in February 2025 while underemployment declined to reach 10.1 percent in February 2025. The reallocation of labor away into wage-employment in relatively higher productivity sectors continued. Using the World Bank's poverty line for lower-middle-income countries of \$3.65/day (2017 PPP), poverty incidence is projected to fall from 13.7 percent in 2023 to 12.6 percent in 2024.

## Outlook

Growth is forecast to decelerate to 5.3 percent in 2025, weighed by the slowdown in global activity. Trade policy uncertainty may

hinder exports and manufacturing. Yet, growth is still forecast to be among the fastest in the region over the forecast horizon, reflecting the positive outlook on private domestic demand. Domestic activity will benefit from low and stable inflation, easing monetary policy, and a healthy labor market that will boost private consumption and services. Meanwhile, investment growth will remain anchored on public infrastructure and the implementation of reforms that liberalized investment in key sectors.

The fiscal deficit is projected to fall to 5.4 percent of GDP in 2025, led by a reduction in public spending. Infrastructure spending will remain above 5 percent of GDP over the medium term. However, achieving the medium-term fiscal targets will require the passage of additional tax reforms and a commitment to reduce spending.

The dynamic labor market and the easing of inflation are likely to boost growth in household incomes. Poverty is expected to continue to decline, though extreme climatic events pose risks with La Niña expected in the first quarter of 2025. Poverty incidence is projected to fall to 11.6 percent in 2025 and 9.6 percent in 2027.

Heightened trade policy uncertainty and their combined impact on global growth represents the main downside risk. Financial markets represent a related source of risk: prolonged uncertainty could trigger capital flight. Upside risks to growth include an improvement in domestic activity amid the lower inflationary pressures from declining global commodity prices. Coupled with a negative external demand shock, this could accelerate the path of monetary policy loosening, supporting private domestic demand.

## Recent history and projections

	2022	2023	2024e	2025f	2026f	2027f
<b>Real GDP growth, at constant market prices</b>	7.6	5.5	5.7	5.3	5.4	5.5
Private consumption	8.3	5.5	4.9	5.2	5.4	5.5
Government consumption	5.1	0.3	7.3	8.0	7.1	6.7
Gross fixed capital investment	9.8	8.2	6.3	6.4	6.6	6.9
Exports, goods and services	11.0	1.3	3.3	0.7	1.5	1.9
Imports, goods and services	14.0	1.0	4.2	3.4	4.0	4.4
<b>Real GDP growth, at constant factor prices</b>	7.6	5.5	5.7	5.3	5.4	5.5
Agriculture	0.5	1.2	-1.5	1.3	1.1	1.1
Industry	6.5	3.6	5.6	3.8	4.2	4.3
Services	9.2	7.1	6.7	6.6	6.5	6.5
<b>Employment rate (% of working-age population, 15 years+)</b>	56.6	57.2	57.5	58.9	58.9	58.9
<b>Inflation (consumer price index)</b>	5.8	6.0	3.2	3.1	3.0	3.0
<b>Current account balance (% of GDP)</b>	-4.5	-2.8	-3.8	-4.2	-3.7	-3.4
<b>Net foreign direct investment inflow (% of GDP)</b>	2.3	2.0	1.9	1.8	1.7	1.7
<b>Fiscal balance (% of GDP)</b>	-7.3	-6.2	-5.7	-5.4	-4.9	-4.4
<b>Revenues (% of GDP)</b>	16.1	15.7	16.7	16.2	16.2	16.3
<b>National Government Debt (% of GDP)</b>	60.9	60.1	60.7	60.2	59.7	59.6
<b>Primary balance (% of GDP)</b>	-5.0	-3.6	-2.8	-2.4	-2.0	-1.5
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>1,2</sup></b>	..	1.6	1.4	1.2	0.9	0.8
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>1,2</sup></b>	..	13.7	12.6	11.6	10.6	9.6
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>1,2</sup></b>	..	51.3	50.6	50.0	49.3	48.6
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	5.2	3.7	5.5	4.4	5.9	6.0

Source: World Bank, Poverty and Economic Policy Global Departments. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.

1/ Calculations based on EAPPOV harmonization, using 2018-FIES and 2023-FIES. Actual data: 2023. Nowcast: 2024. Forecasts are from 2025 to 2027.

2/ Projection using annualized elasticity (2018-2023) with pass-through = 0.7 based on private consumption per capita in constant LCU.

# SOLOMON ISLANDS

The economy grew by 2.5 percent in 2024, driven by infrastructure investments and increased mining activity. Medium-term growth is projected to average 2.7 percent of GDP. The fiscal deficit is expected to average 3.2 percent of GDP, with the risk of debt distress upgraded to low. State fragility, climate change, and subdued global economic conditions (due to further trade policy shifts) pose downside risks.

## Key conditions and challenges

Solomon Islands is a small, remote archipelago with 721,000 inhabitants spread across 90 inhabited islands. Geographic dispersion, remoteness from global markets, and vulnerability to natural disasters all pose significant barriers to growth. Limited state capacity, along with complex political and economic dynamics, often hampers the formulation and implementation of effective public policy. Poor infrastructure, chronic underemployment, and a small private sector provide substantial growth hurdles.

Solomon Islands are vulnerable to natural disasters such as earthquakes, cyclones, and tsunamis, which can inflict major economic damage. Historically, the forestry sector has served as a primary engine of growth. However, unsustainable exploitation has led to a rapid decline in logging activity, underscoring the urgent need for alternative sources of growth.

World Bank phone survey data collected in the first nine months of 2024 indicates that about half of all households are worried about

Population <sup>1</sup> million	0.8	Poverty <sup>2</sup> millions living on less than \$3.65/day	0.4
Life expectancy at birth <sup>3</sup> years	70.7	School enrollment <sup>4</sup> primary (% gross)	84.7
GDP <sup>5</sup> current US\$, billion	1.7	GDP per capita <sup>6</sup> current US\$	2121.4

Sources: WDI, MFM, and official data. 1/ 2024. 2/ 2012 (2017 PPPs). 3/ 2022. 4/ 2023. 5/ 2024. 6/ 2024.

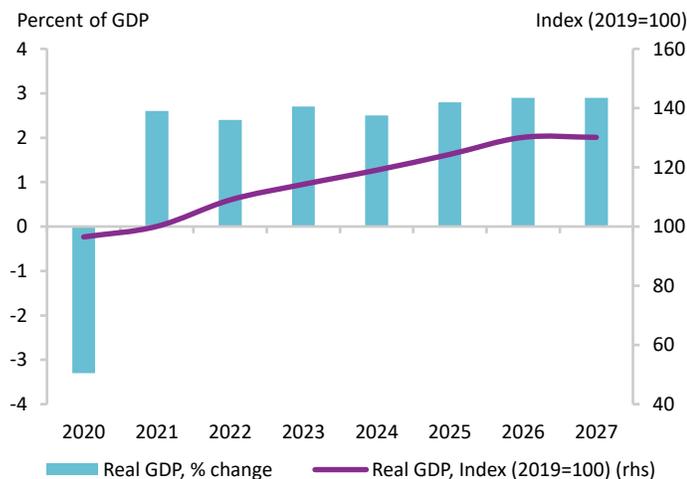
their finances and food insecurity remains high, with about half the population eating less than they thought they should in the past 30 days. According to the 2012/13 Household Income and Expenditure Survey (HIES), 61 percent of the population was considered poor based on the lower-middle-income poverty line (\$3.65 per day in 2017 PPP).

## Recent developments

After the growth driven by the Pacific Games in 2023, the economy grew by 2.5 percent in 2024, driven by national election related spending and public investments in the energy and transportation sectors, alongside a surge in mining activity. Increased international visitor arrivals had a positive impact on accommodation, restaurant, and transportation sectors.

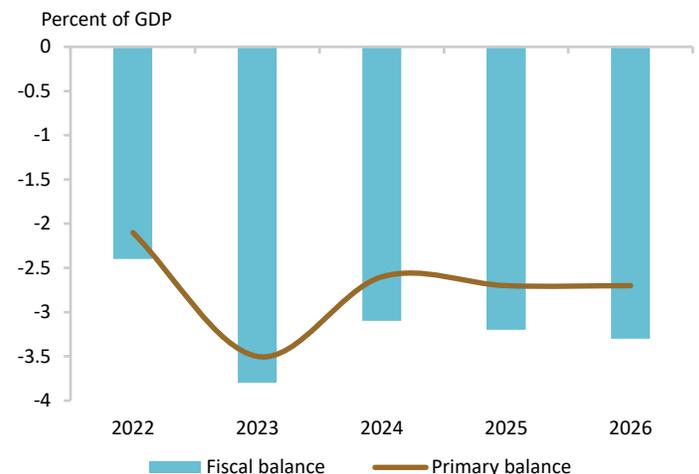
Inflation eased to 3.7 percent in 2024 due to a stabilization of import prices. In response, the central bank adopted an accommodative policy stance. Meanwhile, the financial sector remains relatively stable, with well capitalized banks and adequate liquidity levels.

FIGURE 1 / Real GDP



Source: World Bank staff estimates.

FIGURE 2 / Fiscal balance



Source: World Bank staff estimates.

The current account deficit narrowed to 4.3 percent of GDP in 2024, driven by reduced import demand and rising mineral exports offsetting the long-term decline in logging exports. The balance of payments recorded a slight deficit in 2024, with foreign reserves decreasing from 10.1 months of imports in 2023 to 9.1 months in 2024.

The fiscal deficit reached 3.1 percent of GDP in 2024. Total revenues expanded slightly to 32.7 percent of GDP, with increased mining revenue offsetting declining logging revenue, while total expenditures increased to 35.8 percent in 2024. The government managed to contain expenditure growth, despite facing substantial spending demands, including the organization of the national general election and large infrastructure investments. Public debt increased from 20.3 in 2023 to 22.3 percent of GDP in 2024, due to a rising primary fiscal deficit.

## Outlook

The economy is expected to grow by 2.7 percent on average over the period 2025–27. The continued decrease in logging is anticipated to be offset by a sizable infrastructure pipeline and increased mining activity. Through the remittance channel, the labour mobility program is anticipated to boost economic activity. Since exports to US are negligible, the direct impact of the recent trade policy shift is limited. However, as a growing mineral commodity exporter, the impact of global commodity declines

may negatively affect growth. Inflation is projected to average 3.6 percent in 2025–27. Poverty is expected to decline with projected economic growth and increasing remittances. The new 2024/25 HIES, which will become available in 2026, will help update the poverty measure.

The current account deficit is projected to average 7.7 percent of GDP in 2025–27, primarily due to increased import needs from infrastructure projects and a decline in logging exports. Reserves are expected to decline to 7 months of imports while remaining within the adequacy range of 3 to 8 months of imports.

The fiscal deficit is projected to remain stable over the medium term, reaching 3.1 percent of GDP in 2027. This partly reflects the normalization of development grants after the pandemic, the Pacific Games, and election preparations. Public debt is sustainable, and the risk of external debt distress was upgraded from moderate to low in February 2025, due to increased export performance.

Increased participation in regional labor mobility programs is likely to provide further economic benefits, while substantial infrastructure investments may start generating second-order economic returns in the medium term. Adverse global economic conditions, including further trade policy shifts, may reduce demand for commodity exports, particularly logs. This could negatively impact growth, the current account balance, and government finances. Other downside risks include low levels of cash reserves, societal instability, and climatic shocks.

### Recent history and projections

	2022	2023	2024e	2025f	2026f	2027f
<b>Real GDP growth, at constant market prices</b>	2.4	2.7	2.5	2.6	2.7	2.9
<b>Real GDP growth, at constant factor prices</b>	2.3	4.3	2.5	2.7	2.7	3.0
Agriculture	3.3	1.8	1.0	0.8	0.7	1.4
Industry	1.0	12.8	7.2	7.3	5.9	6.4
Services	2.3	3.3	2.0	2.1	2.6	2.6
<b>Inflation (consumer price index)</b>	5.4	5.1	3.7	3.8	3.7	3.4
<b>Current account balance (% of GDP)</b>	-13.9	-10.6	-4.3	-7.9	-7.7	-7.6
<b>Net foreign direct investment inflow (% of GDP)</b>	2.7	4.4	0.9	2.3	2.6	2.7
<b>Fiscal balance (% of GDP)</b>	-2.4	-3.8	-3.1	-3.2	-3.3	-3.1
<b>Revenues (% of GDP)</b>	38.3	36.3	32.7	32.6	32.8	32.9
<b>Debt (% of GDP)</b>	15.5	20.3	22.3	24.4	26.4	28.0
<b>Primary balance (% of GDP)</b>	-2.1	-3.5	-2.6	-2.7	-2.7	-2.4
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	0.0	0.0	0.0	0.0	0.0	0.0

Source: World Bank, Poverty and Economic Policy Global Departments. Emissions data sourced from CAIT and OECD.  
Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.

# SOUTH PACIFIC ISLANDS

Samoa and Tonga's economy grew in FY24, driven by tourism, reconstruction, and remittances. Although both are projected to recover to pre-pandemic levels in 2025, uncertainties in the global environment pose risks. Vanuatu faced multiple shocks in 2024, leading to subdued growth and rising poverty. Structural reforms and adaptive fiscal policies are needed to boost investment, growth, and resilience.

	WSM	TON	VUT
Population <sup>1</sup> thousand	216.7	104.6	320.4
Poverty thousand living on less than \$3.65/day	21.0 <sup>2</sup>	1.7 <sup>3</sup>	106.3 <sup>4</sup>
GDP <sup>1</sup> current US\$, billion	0.93	0.52	1.10
GDP per capita <sup>1</sup> current US\$	4114	4886	3323

Sources: WDI, World Bank. 1/ 2023. 2/ 2013. 3/ 2021. 4/ 2019.

## Key conditions and challenges

The tourism and remittance-dependent countries in the South Pacific are highly vulnerable to external shocks like COVID-19 and natural disasters, which have hindered economic growth and fiscal stability. Post-disaster supply bottlenecks and rising demand, especially for reconstruction, drive up prices and threaten livelihoods. Fiscal policy should strengthen social protection while building resilience to shocks. Boosting growth requires structural reforms to enhance investment and private sector development. In the near term, reconstruction in Vanuatu from multiple natural hazards should be prioritized.

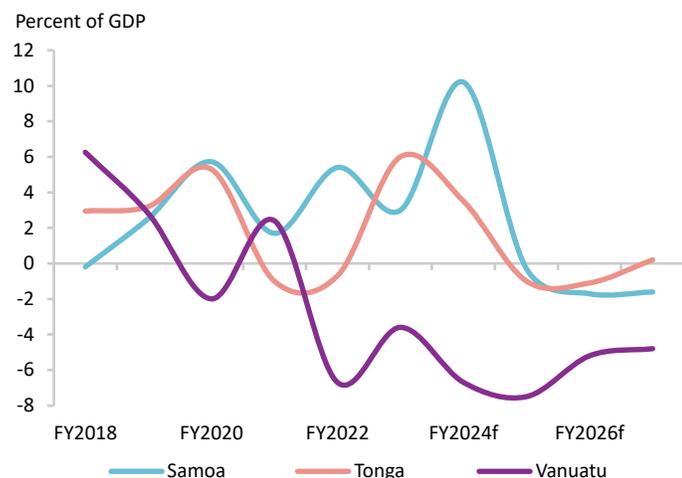
## Recent developments

In **Samoa**, growth reached 9.4 percent in FY24, driven by tourism recovery and strong remittances. Inflation fell from 12.0 percent in FY23 to 3.6 percent in FY24 due to lower food and energy prices and base effects. The current account recorded a surplus,

supported by tourism, remittances, and easing global commodity prices. However, risks remain from slowing growth in tourism markets, commodity price volatility, supply chain disruptions, and rising minimum wages.

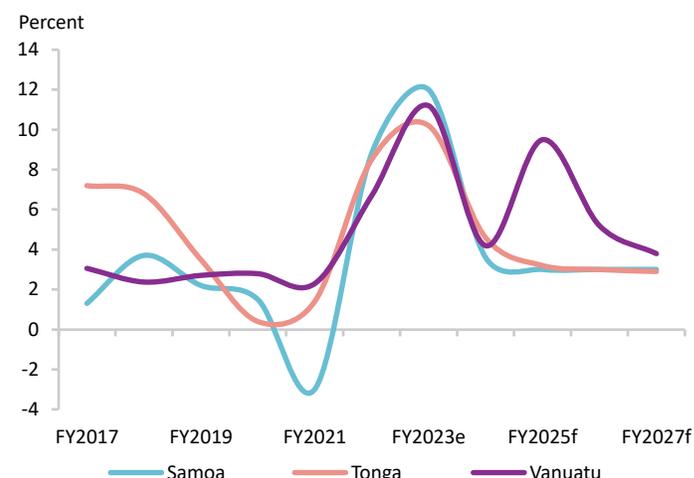
In **Tonga**, the economy grew by 1.8 percent in FY24, driven by reconstruction efforts, resilient consumption, and a gradual tourism rebound. Inflation fell to 4.6 percent as global commodity prices declined, despite a temporary rise in June 2024 due to El Niño's impact on food prices. The current account deficit increased to 7.4 percent of GDP due to high imports for reconstruction and reliance on imported fuel and commodities, despite modest export improvements. The fiscal balance remained in surplus at 3.5 percent in FY24, even with higher reconstruction expenses after slower execution in FY23. Poverty rates in 2021 were 1.6 percent based on the lower-middle-income line and 21.5 percent using the upper-middle-income line. The declining number of Tongan seasonal workers in Australia (52.6 percent drop between June 2023 and November 2024) might have reduced the remittances and slowed the pace of poverty reduction.

FIGURE 1 / Overall fiscal balance



Sources: National sources and World Bank projections.

FIGURE 2 / Inflation (annual average)



Sources: National sources and World Bank projections.

In **Vanuatu**, the economy grew by an estimated 0.9 percent in FY24 due to two shocks: the liquidation of Air Vanuatu in May and a 7.3 MW earthquake in December. The airline's collapse disrupted tourism, while the earthquake caused capital stock damages of 17.5 percent of GDP, mainly in Port Vila. Inflation fell to 4.2 percent due to lower food and energy prices and monetary tightening. Poverty worsened, particularly in Shefa Province, where food security, employment, and income declined for households affected by the earthquake. For example, 55 percent of Shefa households faced difficulties in accessing markets due to the earthquake, and the proportion of the population in moderate food insecurity increased from 29 percent in December 2024 to 48 percent in January/February 2025. A current account deficit of 7.4 percent of GDP resulted from tourism receipts plunging from 14.2 percent in 2023 to 3.5 percent. The fiscal deficit rose to 6.4 percent of GDP due to revenue declines and Air Vanuatu-related expenditures.

## Outlook

The outlook for the South Pacific considers trade policy uncertainty that could affect global growth. While the direct impacts may be limited, the decline of commodity prices might compound the effects of trade uncertainty. It remains challenging to assess the full impact of recent measures as policy changes may continue to develop.

In **Samoa**, growth is projected at 5.3 percent in FY25, then 2.4 percent in the medium term (FY26–27), driven by continuing remittance inflows, public investment and increased expenditure related to the Commonwealth Heads of Government Meeting (CHOGM). Inflation is expected to decline to 3.0 percent in FY25 and is projected to remain at 3 percent over the medium term. The current

account balance is expected to return to a deficit in FY25 due to a sizeable increase in imports, which partially offsets higher tourism earnings but remain below 2 percent of GDP over the medium-term. The fiscal deficit is expected to widen but remain below 2 percent in the medium term as revenues decline with lower grants and tax normalization, while capital spending rises.

In **Tonga**, growth is expected to accelerate to 2.2 percent in FY25 due to strong domestic demand, public investments, and a rebound in agriculture as El Niño effects fade. Headline inflation is projected to ease to 3.2 percent and stay below 5 percent in FY25 and beyond. The current account deficit is forecast to widen to 7.8 percent of GDP in FY25 as grants and remittances normalize. The fiscal balance is expected to shift to a deficit of 1 percent of GDP in FY25 as grant revenues decrease towards its pre-pandemic levels. With projected economic growth, the poverty rate measured by the upper-middle-income poverty line is likely to decline to around 16.9 percent in 2025.

In **Vanuatu**, the economy is expected to contract by 1.8 percent in 2025 before recovering in the medium term. The loss of capital stock and disruption in supply chains due to the earthquake will likely result in a reduction in output in the first quarter of 2025 alongside an increase in inflation. However, the need to rebuild infrastructure and replace capital stock will result in increases in government and private spending, stimulating domestic economic activity amid a challenging global environment. The near-term growth outlook is subject to considerable uncertainty, with early signs of infrastructure recovery pointing to potential upside risks. The fiscal deficit is forecasted at 7.5 percent of GDP due to reduced non-tax revenues and reconstruction spending. Poverty is expected to rise to 48.9 percent by 2027 as income growth remains weak.

## Recent history and projections

	2022	2023e	2024f	2025f	2026f	2027f
<b>Real GDP growth, at constant market prices</b>						
Samoa	-5.3	9.2	9.4	5.3	2.6	2.1
Tonga	0.0	2.0	1.8	2.2	1.8	1.6
Vanuatu	5.2	2.2	0.9	-1.8	2.3	2.6
<b>Poverty rate<sup>1,2</sup></b>						
Tonga (Upper-middle-income poverty rate, \$6.85 in 2017 PPP)	21.5	19.9	18.0	16.9	16.2	15.4
Vanuatu (Lower-middle-income poverty rate, \$3.65 in 2017 PPP)	41.5	42.1	43.9	47.5	48.2	48.9

Source: Country authorities and World Bank, Poverty and Economic Policy Global Departments.

Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise. Financial years for Samoa and Tonga are July-June, for Vanuatu it is January-December. Samoa improved the methodology for GDP calculation and revised the historical data in March 2022 GDP release.

1/ Calculations based on EAPPOV harmonization, using 2021 HIES for Tonga and 2019 NSDP Baseline Survey for Vanuatu.

2/ Projection using neutral distribution with pass-through = 1 (High) based on GDP per capita in constant LCU.

# THAILAND

After accelerating to 2.5 percent in 2024, real GDP growth is projected to slow to 1.6 percent in 2025, as global trade policy shifts and heightened uncertainty weigh on exports and investment. Amid slower growth, the pace of poverty reduction is expected to decelerate with the poverty rate declining to 7.1 percent in 2024. Amid high uncertainty, risks to the outlook are high.

## Key conditions and challenges

The economy grew by 2.5 percent in 2024, surpassing expectations due to an unexpected improvement in goods exports and the roll-out of fiscal stimulus (THB 10,000 cash transfer) which offset slowing private consumption and tourism arrivals. Tighter credit conditions and high household debt weighed on car purchases and manufacturing. As a result, manufacturing weakened.

Due to sluggish growth in household incomes, poverty alleviation has slowed. Policy measures to boost consumption among low-income households is estimated to reduce poverty in the short term, but structural challenges pose risks to medium and long-term poverty reduction.

Despite the recent uptick in GDP growth, Thailand's recovery continued to lag behind peers with GDP remaining below its potential level. Potential growth is expected to decrease by around 0.5 percentage points to 2.7 percent in 2022-30. At this rate, Thailand will not achieve its high-income aspirations by 2037. Raising competitiveness can help attract investments and move economic activity into more innovative or productive global value chains. Thailand's

Population <sup>1</sup> million	Poverty <sup>2</sup> millions living on less than \$6.85/day
<b>71.9</b>	<b>6.1</b>
Life expectancy at birth <sup>3</sup> years	School enrollment <sup>4</sup> primary (% gross)
<b>79.7</b>	<b>103.5</b>
GDP <sup>5</sup> current US\$, billion	GDP per capita <sup>6</sup> current US\$
<b>526.0</b>	<b>7316.9</b>

Sources: WDI, MFM, and official data. 1/ 2024. 2/ 2023 (2017 PPPs). 3/ 2022. 4/ 2023. 5/ 2024. 6/ 2024.

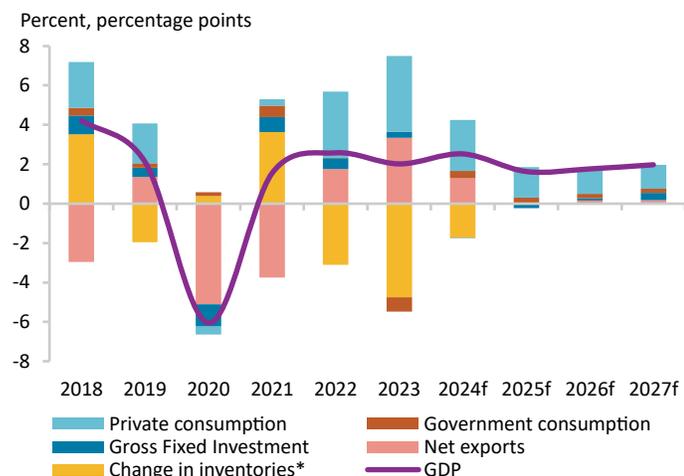
public debt remains fiscally sustainable but faces the challenge of rising spending pressure to meet aging-related public services and investment to boost growth. Public debt is projected to approach the ceiling of 70 percent of GDP in the next five years.

## Recent developments

The latest GDP release showed that growth picked up at 3.2 percent year-on-year in 2024 Q4. Public investment returned to the fore as a growth driver following several quarters of delayed budget execution amid the political transition. Goods exports benefited from the electronics upcycle. Private consumption accelerated marginally as the fiscal stimulus (THB 10,000 cash transfers) helped offset the effects of tightened credit and high household debt. However, manufacturing remained flat and private investment contracted. Tourism recovery also showed signs of slowing; arrivals reached only 88 percent of pre-pandemic levels in 2024.

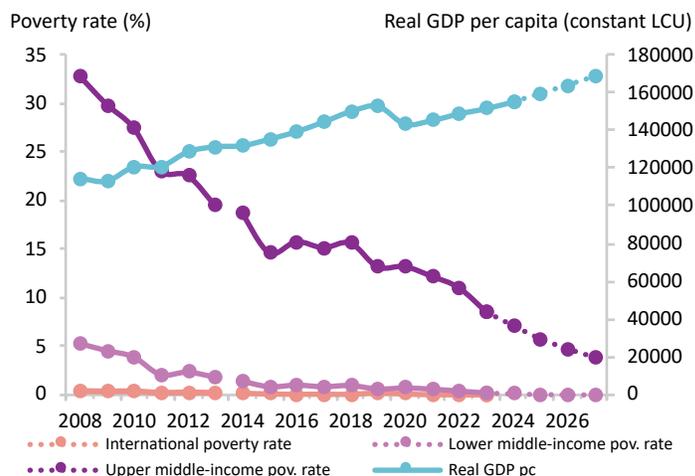
In January, headline inflation edged up to 1.3 percent, marking the fifth consecutive month of increase, due to the effect of stimulus and reduction in fuel subsidy. Given anchored inflation expectations, the Bank of Thailand (BOT) lowered the policy rate

FIGURE 1 / Real GDP growth and contributions to real GDP growth



Sources: World Bank staff calculations and NESDC. Note: \*Includes statistical discrepancy.

FIGURE 2 / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: See footnotes in table on the next page.

to 2.0 percent in February to alleviate household debt-servicing pressure amid recent tightening credit standards. The current account surplus rose to 6.7 percent of GDP as tourism receipts mounted and the trade balance continued to benefit from robust global demand.

Labor market trends were generally stable until 2024 Q3, with only a 0.1 percent reduction in total employment in 2024. However, employment in blue chip manufacturing sectors contracted by 1.4 percent while tertiary services sectors, such as transport, storage, accommodation and food services registered strong growth. The patterns underscore Thailand's challenges in supporting workforce transitions from traditional to more modern sectors. Additionally, while household debt growth decelerated in 2024 Q2, personal consumer loans continued to rise in 2024 Q4 and accounted for a third of household debt. The absence of continued deleveraging could threaten future prospects for poverty reduction.

## Outlook

Recent trade policy shifts and increased global uncertainty are projected to slow Thailand's growth to 1.6 percent in 2025, due to weaker exports and private investment. Tourism may also soften amid a global slowdown. Private consumption will ease with declining earnings and deleveraging, though fiscal stimulus—especially the Digital Wallet and targeted business support—will cushion the impact. Private investment will slow amid uncertainty. Growth is expected to remain subdued at 1.8 percent in 2026. Annual inflation is projected to increase to 0.8 percent but remain below the

central bank's target range in 2025. The general government deficit is projected to increase to 3.1 percent in FY25. This is mainly due to fiscal stimulus spending and acceleration in public investment in FY25, leading to higher public debt. The current account balance is expected to increase to 3.4 percent of GDP in 2025, driven by services trade. The goods trade balance is projected to decline. Poverty is estimated to have declined to 7.1 percent in 2024, driven by stronger economic growth. The one-time cash transfer to 14.6 million state welfare cardholders, introduced under the first round of the Digital Wallet program, likely boosted consumption and contributed to an estimated 3 percentage point reduction in headcount rates. To enhance fiscal resilience, Thailand should reduce energy subsidies, implement tax reforms to raise revenue and promote equity, provide targeted transfers to support vulnerable households, and accelerate public investments in infrastructure, technology, and human capital.

Risks to the outlook are tilted to the downside, driven by the recent earthquake and heightened trade policy uncertainty. The earthquake may dampen growth through a potential slowdown in tourism, as uncertainty around the full extent of the damage persists. Uncertainty surrounding unfolding trade policy is also expected to weigh on investment and growth. While it is difficult to gauge the full impact of recent measures, impacts are potentially significant given Thailand's openness and integration into global value chains. With value added from exports accounting for 10 percent of GDP, Thailand's economy is vulnerable to shifts in trade policy and global economic activity. A slowdown in the US, China, or EU could weaken demand for Thai exports and tourism, which will also affect business investments.

## Recent history and projections

	2022	2023	2024e	2025f	2026f	2027f
<b>Real GDP growth, at constant market prices</b>	2.6	2.0	2.5	1.6	1.8	2.0
Private consumption	6.2	6.9	4.4	2.6	2.1	2.0
Government consumption	0.1	-4.7	2.5	1.9	1.6	1.5
Gross fixed capital investment	2.2	1.2	0.0	-0.8	0.4	1.6
Exports, goods and services	6.2	2.4	7.8	-1.3	2.0	3.0
Imports, goods and services	3.4	-2.5	6.3	-1.4	1.9	3.0
<b>Real GDP growth, at constant factor prices</b>	3.4	0.9	2.5	1.6	1.8	2.0
Agriculture	1.2	2.0	-1.0	2.3	2.0	2.1
Industry	4.1	-5.7	0.7	-1.2	1.0	2.0
Services	3.3	4.6	3.9	3.0	2.1	1.9
<b>Inflation (consumer price index)</b>	6.1	1.2	0.4	0.8	1.2	1.1
<b>Current account balance (% of GDP)</b>	-3.5	1.4	2.4	3.7	4.1	4.1
<b>Net foreign direct investment inflow (% of GDP)</b>	0.8	-1.4	-1.0	-1.2	-1.1	-1.1
<b>Fiscal balance (% of GDP)</b>	-4.4	-2.0	-1.3	-3.1	-2.8	-2.7
<b>Revenues (% of GDP)</b>	19.8	20.7	21.3	21.2	21.4	21.4
<b>Debt (% of GDP)</b>	59.7	62.0	63.3	66.0	68.0	70.1
<b>Primary balance (% of GDP)</b>	-3.4	-1.1	-0.5	-2.3	-2.0	-1.8
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>1,2</sup></b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>1,2</sup></b>	0.4	0.2	0.1	0.1	0.0	0.0
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>1,2</sup></b>	11.0	8.5	7.1	6.3	5.6	4.8
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	1.6	1.9	1.2	2.1	2.5	1.0

Source: World Bank, Poverty and Economic Policy Global Departments. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.

1/ Calculations based on EAPPOV harmonization, using 2016-SES and 2023-SES. Actual data: 2023. Nowcast: 2024. Forecasts are from 2025 to 2027.

2/ Projection using annualized elasticity (2016-2023) with pass-through = 1 based on GDP per capita in constant LCU.

# TIMOR-LESTE

Timor-Leste's economy rebounded in 2024, supported by public spending and a strong recovery in tourism. Inflation eased, but food prices remained high, straining vulnerable households. Medium-term growth will depend on infrastructure, Greater Sunrise negotiations, and membership of the Association of Southeast Asian Nations. A widening external deficit and heavy reliance on the Petroleum Fund pose risks to long-term fiscal and economic stability.

## Key conditions and challenges

Over the past decade, growth has stagnated at an average of just 1 percent annually, reflecting deep-rooted structural weaknesses. The economy remains heavily dependent on public expenditure, with government spending exceeding 80 percent of GDP since 2007—one of the highest levels globally. The non-oil economy remains small and undiversified, resulting in a stagnant labor market and persistent external imbalances. This has compounded challenges in job creation and income diversification, leaving large portions of the population vulnerable to economic shocks. The impact on poverty remains uncertain, as the first living standards survey in ten years has only just been completed and the updated poverty statistics are still being processed. Nevertheless, a recent labor force survey indicates very low workforce participation (around 30 percent) and declining labor productivity between 2013 and 2021 (-2.1 percent per year).

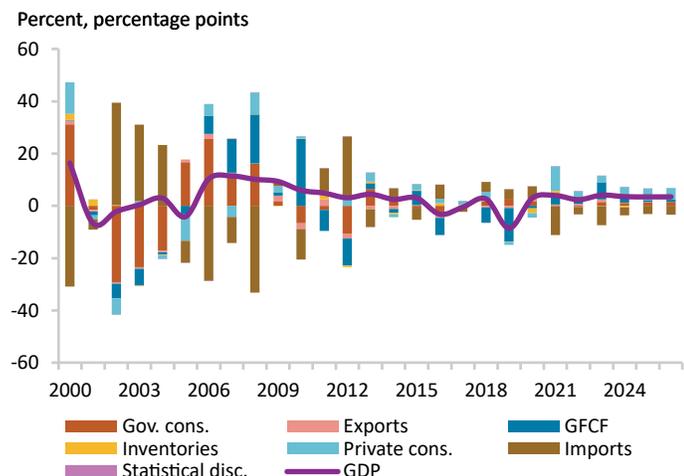
Timor-Leste faces deep external vulnerabilities due to a persistent trade deficit. The country's narrow non-oil export

Population <sup>1</sup> million	Poverty <sup>2</sup> millions living on less than \$3.65/day
1.4	0.8
Life expectancy at birth <sup>3</sup> years	School enrollment <sup>4</sup> primary (% gross)
69.1	123.3
GDP <sup>5</sup> current US\$, billion	GDP per capita <sup>6</sup> current US\$
1.8	1289.0

Sources: WDI, PIP, and official data. 1/ 2024. 2/ 2014 (2017 PPPs). 3/ 2022. 4/ 2023. 5/ 2024. 6/ 2024.

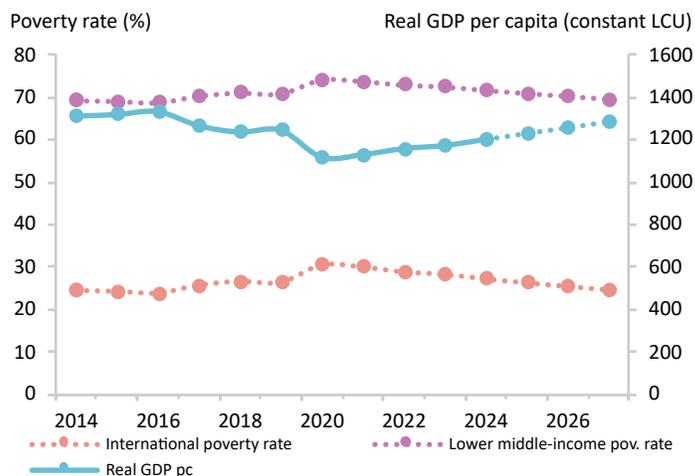
base—dominated by coffee—offers little buffer against oil market fluctuations. Reduced oil production has further widened the trade gap. Heavy reliance on imports, driven by weak domestic production, exacerbate the current account deficit. Though remittances and positive net primary income offer partial relief, they remain insufficient to offset the widening external imbalance. The country has been relying heavily on withdrawals from the Petroleum Fund to finance its current account deficit, raising concerns about long-term sustainability. The Petroleum Fund, the primary source of state funding and foreign exchange reserves, faces potential depletion within the next decade. This is due to excessive withdrawals and the decline in oil production. This presents a critical fiscal sustainability risk, potentially leading to severe spending cuts over the coming decade that could undermine public service delivery and social stability. To safeguard long-term economic stability, Timor-Leste must implement comprehensive fiscal reforms. These should focus on broadening the domestic tax base, rationalizing public expenditure, and enhancing spending efficiency. Equally crucial is to build an environment that encourages private sector investment, supports job creation, and fosters economic diversification.

FIGURE 1 / Real GDP growth and contributions to real GDP growth



Sources: Timor-Leste's Statistics Office (INETL) and World Bank staff calculations.

FIGURE 2 / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: See footnotes in table on the next page.

## Recent developments

In 2024, the economy grew by an estimated 4.1 percent, driven by strong public spending and a rebound in the services sector, particularly tourism. Foreign tourist arrivals surged by 25 percent year-on-year, boosting hospitality and retail sectors. Growth was further supported by gains in telecommunications and transportation.

Improved budget execution contributed to this performance. Capital spending increased by nearly 50 percent (19.3 percent of GDP), surpassing pre-pandemic levels due to preparations for national events. Transfer payments also rose by 5 percent (32 percent of GDP), further stimulating domestic demand and household consumption. However, total government spending remained exceptionally high at 91 percent of GDP.

Inflation eased to an average of 2.1 percent in 2024, though food prices remained elevated due to weak agricultural production and adverse weather. A stronger U.S. dollar (legal tender) helped lower non-food prices. While overall inflation moderated, its cumulative impact over the past two years has disproportionately affected poor and vulnerable households. The full extent of these effects awaits the 2024 Living Standards Survey.

The current account deficit surged to 29 percent of GDP in 2024, from 10 percent in 2023, driven by falling oil exports and rising imports. Oil revenues fell by 73 percent as the Bayu-Undan field neared depletion, while non-oil exports dropped by 30 percent from an already low base. As a dollarized economy, Timor-Leste lacks monetary policy tools to mitigate external shocks. While a stronger U.S. dollar boosts purchasing power, it also increases reliance on imports and deepens external vulnerabilities. Although tourism, remittances, and net primary income provided some relief, they were insufficient to offset the widening gap.

## Outlook

Timor-Leste is expected to maintain steady growth through 2025–2027, with average growth projected at 3.5 percent. Infrastructure development, particularly road construction, will be a primary growth driver. The anticipated 2025 agreement on the Greater Sunrise gas field with Australia could strengthen long-term prospects, while tourism, remittances, and an expanding digital economy—supported by fiber-optic infrastructure—are expected to contribute to growth.

However, structural constraints persist. The narrow export base and heavy reliance on imports will continue to limit non-oil sector expansion and deepen external vulnerabilities. While it is difficult to gauge the full impact of recent measures, uncertainty in trade policy could impact investment and growth. The current account deficit is expected to widen as high import levels persist. Although ASEAN integration offers opportunities for trade diversification and foreign investment, high import dependence and exposure to global market fluctuations may limit its ability to fully leverage these opportunities.

Inflation is expected to ease but vulnerabilities remain. Heavy reliance on imports leaves the economy exposed to global price shocks, especially in food and energy. The use of the U.S. dollar as the national currency further restricts the government's ability to implement monetary policy responses to external shocks.

The fiscal deficit remains a critical concern, projected to average 58 percent of GDP over 2025–2027, financed by continued excessive withdrawals from the Petroleum Fund. Without substantial fiscal reforms, the fund faces potential depletion within the next decade, posing serious risks to long-term stability.

## Recent history and projections

	2022	2023	2024e	2025f	2026f	2027f
<b>Real GDP growth, at constant market prices</b>	4.0	2.4	4.1	3.5	3.4	3.5
Private consumption	14.0	3.4	3.3	5.8	5.8	5.9
Government consumption	-0.3	-0.8	2.6	2.0	2.4	2.6
Gross fixed capital investment	27.0	11.5	33.6	6.8	3.2	3.3
Exports, goods and services	30.3	31.9	34.0	1.8	1.8	1.8
Imports, goods and services	22.9	4.9	12.5	4.9	5.0	5.3
<b>Real GDP growth, at constant factor prices</b>	3.6	2.5	4.1	3.5	3.5	3.4
Agriculture	5.4	2.3	2.3	2.9	2.9	2.9
Industry	36.5	-22.4	10.0	2.4	2.4	2.4
Services	2.4	3.3	4.4	3.6	3.6	3.6
<b>Inflation (consumer price index)</b>	7.0	8.4	2.1	3.0	2.5	2.5
<b>Current account balance (% of GDP)</b>	16.3	-20.6	-49.3	-53.8	-58.4	-63.6
<b>Net foreign direct investment inflow (% of GDP)</b>	1.7	1.7	1.8	1.8	1.7	1.6
<b>Fiscal balance (% of GDP)<sup>1</sup></b>	-59.5	-40.9	-50.5	-55.3	-54.1	-53.9
<b>Revenues (% of GDP)</b>	43.6	41.2	40.8	41.2	41.3	41.5
<b>Debt (% of GDP)</b>	15.1	14.4	14.3	15.1	14.7	13.4
<b>Primary balance (% of GDP)</b>	-59.3	-40.6	-50.2	-55.0	-53.9	-53.8
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>2,3</sup></b>	28.8	28.3	27.0	26.1	25.2	24.4
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>2,3</sup></b>	73.0	72.6	71.6	70.8	70.1	69.5
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	-0.4	-1.2	-1.6	-1.6	-1.4	-1.2

Source: World Bank, Poverty and Economic Policy Global Departments. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.

1/ The ESI is part of total revenue, while excess withdrawals from the PF is a financing item.

2/ Calculations based on EAPPOV harmonization, using 2014-TLSLS. Actual data: 2014. Nowcast: 2015–2024. Forecasts are from 2025 to 2027.

3/ Projection using annualized elasticity (2007–2014) with pass-through = 1 based on GDP per capita in constant LCU.

# VIET NAM

After real GDP growth of 7.1 percent in 2024, GDP growth is projected to slow to 5.8 percent in 2025 given increased uncertainties due to recent trade policy shifts and a projected slowdown of global growth. The share of the population living on less than \$3.65 per day is expected to decline to 3.6 percent.

Population <sup>1</sup> million	Poverty <sup>2</sup> millions living on less than \$3.65/day
<b>101.0</b>	<b>4.2</b>
Life expectancy at birth <sup>3</sup> years	School enrollment <sup>4</sup> primary (% gross)
<b>74.6</b>	<b>122.5</b>
GDP <sup>5</sup> current US\$, billion	GDP per capita <sup>6</sup> current US\$
<b>462.1</b>	<b>4576.2</b>

Sources: WDI, MFM, and official data. 1/ 2024. 2/ 2022 (2017 PPPs). 3/ 2022. 4/ 2023. 5/ 2024. 6/ 2024.

## Key conditions and challenges

As a trade-oriented economy (imports and exports represent almost 170 percent of GDP), Viet Nam is particularly exposed to ongoing shifts in global trade policies and associated uncertainty which would impact exports, investment, and growth. The US remains the largest export destination of Viet Nam, accounting for 30 percent of total exports, compared to 15 percent to China, 13 percent to the EU and 8 percent to ASEAN countries, while China accounts for 38 percent of its imports. Uncertainty may also further weaken consumer confidence and spending which has lagged GDP growth in recent years. Meanwhile, financial sector vulnerabilities persist with the average loan-loss coverage ratio among 26 banks at 83 percent compared to 150 percent in 2022. While the government has fiscal space to support demand, effective implementation may be hampered by chronic under-disbursement in public investment.

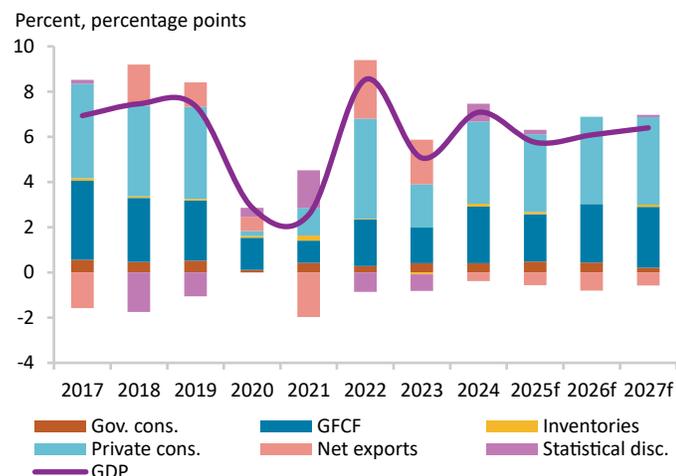
## Recent developments

GDP growth accelerated from 5.1 percent in 2023 to 7.1 percent in 2024, buoyed by a strong rebound in exports. Higher external

demand in 2024 led to the recovery of manufacturing and services exports from a contraction in 2023. The real estate sector showed signs of improvement, contributing to recovery of private domestic investment, as the supply of newly licensed property projects and apartment units picked up in 2024 while more attractive mortgage rates for new loans increased demand.

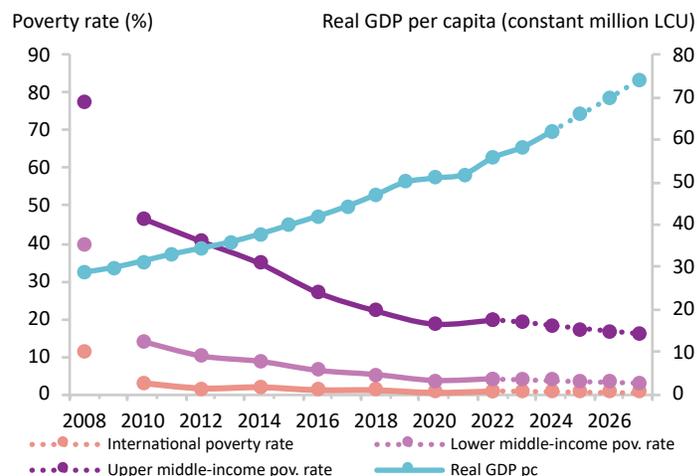
Amid higher growth, labor market conditions improved. Manufacturing employment growth strengthened to 3.4 percent (y/y) by November 2024 from -2.3 percent a year earlier. Real income grew by 4.8 percent compared to 1.3 percent in 2023, due to improved labor market conditions and public sector wage hikes. However, income growth has not fully translated into private consumption, and gross savings rate remains high at 37.2 percent in 2024. Headline inflation inched up to 3.6 percent in 2024 compared to 3.3 percent in 2023, well below the State Bank of Viet Nam (SBV) target of 4-4.5 percent, driven by food, transport, and administered prices for health and education. Core inflation remained subdued at 2.7 percent for the year. Strong GDP growth, easing inflation, and improved labor market conditions in 2024 are expected to have contributed to poverty reduction. The poverty rate declined from 4.0 to 3.8 percent (lower middle-income country line), driven

FIGURE 1 / Real GDP growth and contributions to real GDP growth



Sources: Viet Nam's General Statistics Office and World Bank staff estimates.

FIGURE 2 / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: See footnotes in table on the next page.

by real income growth. However, lower growth in the agriculture sector suggests more limited gains among the poorest.

Viet Nam's external position deteriorated with the current account surplus being offset by financial outflows and large unrecorded capital outflows amid continued interest rate differentials. Further, global strengthening of the US dollar added pressure on the local currency. In response, the SBV intervened by drawing down current reserves to about 2.5 months of imports by Q3-2024 while withdrawing liquidity through OMOs and issuance of T-bills.

Credit growth improved during 2024, reaching the government's target of 15 percent by the end of the year, driven by credit to the wholesale and retail trade, manufacturing, and real estate sectors. However, non-performing loans have remained at 4.6 percent by September 2024, while the average loan-loss coverage ratio among 26 banks declined to 83 percent in Q3-2024, well below the peak of 151 percent in 2022.

Reduced recurrent expenditures, under-disbursement of public investment and higher than planned revenue collection led to fiscal tightening in 2024, with the fiscal account registering an estimated surplus of 1.8 percent of GDP. Execution of public investment was constrained by regulatory and land clearance delays while the government continued its planned annual savings in recurrent expenditures.

## Outlook

Viet Nam's GDP growth is forecast to moderate to 5.8 percent in 2025 due to increased trade policy uncertainty. While real estate

transactions have remained limited, they are expected to recover in 2025-26. Headline inflation is set to remain within target of 4.5-5 percent as oil and commodity prices are projected to continue easing. The projected economic growth augurs well for poverty reduction efforts in the country. Nevertheless, external economic uncertainties pose risks that could lead to job losses among unskilled workers and might put in jeopardy some of the recent gains in poverty reduction.

This outlook is subject to increasing downside risks, particularly on the external side. These include challenges from adverse trade policy shifts, slower-than-expected global growth, and global policy uncertainty. Given the country's exposure to the external environment, stronger-than-expected distortions in trade policy could adversely impact exports and growth. A slower-than-expected global growth could also reduce external demand and affect exports and private investments including FDI. Further, higher-than-expected policy uncertainty could weigh down on investment and growth.

Policy measures should focus on expanding public investment, mitigating fiscal sector risks, and structural reforms. While space for monetary policy intervention remains restrained, fiscal policy could still support growth especially through investment to close emerging infrastructure gaps. Building on recent reforms, such as the revision of Law on Credit institutions, further steps to mitigate financial sector risks and vulnerabilities remain crucial to promote financial sector resilience and stability. Accelerating structural reforms to strengthen the regulatory environment in critical backbone services (information and communication technology, electricity, transport), to green the economy, build human capital, and improve the business environment are crucial to sustain long-term growth.

## Recent history and projections

	2022	2023	2024e	2025f	2026f	2027f
<b>Real GDP growth, at constant market prices</b>	8.5	5.1	7.1	5.8	6.1	6.4
Private consumption	7.9	3.4	6.6	6.3	7.0	7.0
Government consumption	3.0	4.6	4.0	5.5	4.9	2.5
Gross fixed capital investment	5.9	4.6	7.3	6.1	7.5	7.7
Exports, goods and services	6.2	-2.5	15.5	6.2	8.7	9.0
Imports, goods and services	3.5	-4.5	16.1	6.8	9.5	9.5
<b>Real GDP growth, at constant factor prices</b>	8.8	5.3	7.3	5.9	6.0	6.3
Agriculture	3.7	3.9	2.7	3.0	3.0	3.0
Industry	8.2	3.7	9.1	6.0	6.5	6.5
Services	10.7	6.9	6.9	6.4	6.2	6.8
<b>Employment rate (% of working-age population, 15 years+)</b>	72.0	71.8	71.6	71.5	71.3	71.0
<b>Inflation (consumer price index)</b>	3.1	3.2	3.5	3.5	3.5	3.5
<b>Current account balance (% of GDP)</b>	0.3	6.0	1.9	1.6	1.7	2.1
<b>Net foreign direct investment inflow (% of GDP)</b>	3.7	4.6	4.4	4.3	4.3	3.9
<b>Fiscal balance (% of GDP)</b>	0.7	-2.3	1.8	-2.2	-1.8	-1.6
<b>Revenues (% of GDP)</b>	18.9	17.0	18.4	16.4	16.2	16.0
<b>Debt (% of GDP)</b>	36.9	36.6	37.5	36.9	35.0	33.8
<b>Primary balance (% of GDP)</b>	1.7	-1.5	2.7	-1.2	-0.8	-0.6
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>1,2</sup></b>	1.0	0.9	0.9	0.9	0.8	0.8
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>1,2</sup></b>	4.2	4.0	3.8	3.6	3.4	3.2
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>1,2</sup></b>	19.7	19.1	18.2	17.5	16.8	16.1
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	6.1	4.4	6.1	5.0	5.3	5.4

Source: World Bank, Poverty and Economic Policy Global Departments. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.

1/ Calculations based on EAPPOV harmonization, using 2016-VHLSS and 2022-VHLSS. Actual data: 2022. Nowcast: 2023-2024. Forecasts are from 2025 to 2027.

2/ Projection using annualized elasticity (2016-2022) with pass-through = 0.7 based on GDP per capita in constant LCU.

