

10/2025

East Asia and the Pacific

MACRO POVERTY OUTLOOK

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



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East Asia and the Pacific

CAMBODIA

Cambodia faces multiple shocks—real estate slowdown, border tensions, and trade policy uncertainty. Domestic demand slowed, pressuring fiscal policy and exposing banking sector risks. Labor market strains and rising nonperforming loans threaten macro-financial stability. While foreign direct investment remains strong, poverty reduction is slowing. Authorities have fiscal and monetary space but must act to safeguard stability and support vulnerable groups.

Key conditions and challenges

The Cambodian economy is experiencing multiple shocks. An ongoing correction in the domestic real estate sector has led to declining property investment and deteriorating labor market conditions. An escalation in border tensions with Thailand has added to labor market pressures with the return of 910,000 migrant workers. Exports have temporarily spiked due to frontloaded shipments ahead of anticipated trade restrictions, but this boom is expected to normalize in the coming period.

Fiscal policy is under pressure as weaker domestic demand has led to lower revenue collection. Monetary policy remains accommodative to support the economy, but deteriorating asset quality in the banking sector calls for heightened vigilance over macro-financial stability. The authorities have committed to safeguarding macro-economic stability and living standards, while addressing short-term structural bottlenecks and promoting diversification and competitiveness over the medium to long term.

The growth outlook remains subdued. While the authorities have fiscal space to respond to labor market shocks stemming from

Population ¹ million	Poverty
17.6	..
Life expectancy at birth ² years	School enrollment ³ primary (% gross)
70.7	111.4
GDP ⁴ current US\$, billion	GDP per capita ⁵ current US\$
46.9	2657.4

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

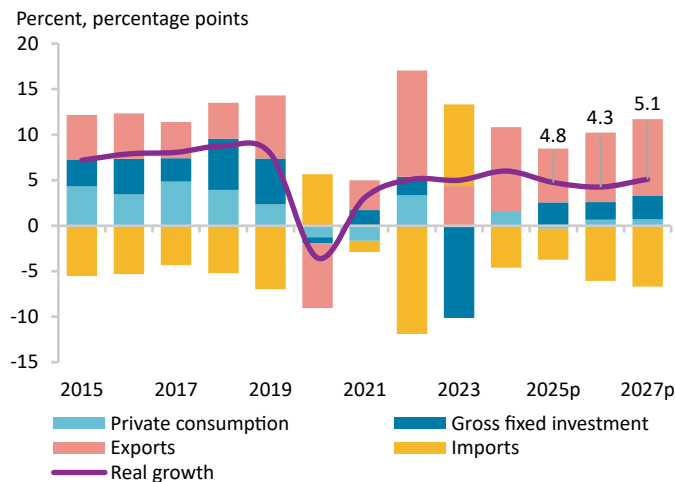
border tensions, they will also need to consider alternative measures to mitigate macro-financial risks. Rising nonperforming loans (NPLs), with loan restructuring masking underlying distress, underscore the need for bank-led resolutions and comprehensive legal reforms.

Recent developments

Economic indicators point to a slowdown in domestic demand in the first half of (H1) 2025. Investment in real estate has continued to decline. Approved construction permit values declined 10.8 percent y/y in January–July 2025, consistent with an ongoing market correction, as property prices have trended down since 2023—including a 4 percent y/y fall in the Property Price Index in July 2025.

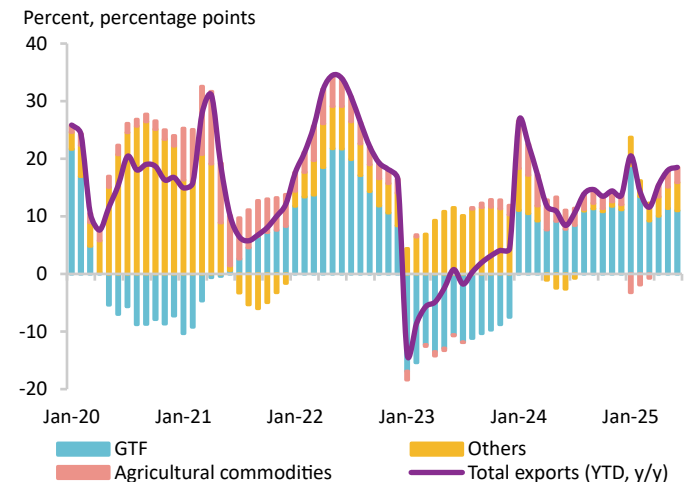
Domestic demand conditions were further weighed down by the escalation of border tensions between Cambodia and Thailand in July. In the very near-term, demand has been affected by declining remittances, cross-border trade, and tourism flows. A temporary spike in exports of manufacturing goods to the US has boosted external demand. Exporters front-loaded shipments of garments, travel goods, footwear, and bicycles ahead of anticipated trade restrictions.

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 export growth, and contributions to merchandise export growth



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

The slowdown in domestic demand has contributed to a consistent decline in core inflation since the beginning of the year. Headline inflation has also declined due to easing pressures on food and energy prices. However, early indications are that supply chain disruptions due to border tensions have already started to fuel price pressures in provinces bordering Thailand.

The spike in manufacturing exports contributed to a 10.5 percent y/y increase in manufacturing jobs. But weak domestic demand has weighed on non-tradable sectors with sluggish recovery in the large informal sector, including retail and wholesale trade, as well as construction sector workers. Labor market challenges have been exacerbated by the return of 910 thousand migrant workers from Thailand.

Ongoing conflict along the Cambodian-Thai border is exacerbating poverty by displacing families, undermining livelihoods, and disrupting economic activity. As of August 2025, the resulting tensions impose additional financial hardship on affected households with over 31,000 people including children still displaced, heighten the risk of impoverishment, and hinder the country's efforts to advance inclusive growth and poverty reduction. A combination of these factors has contributed to a slowdown in poverty reduction.

The expansion of manufacturing exports fueled rapid growth in imports, and a widening current account deficit. External pressures however have been moderated by strong foreign direct investment (FDI) inflows particularly in manufacturing—traditionally garments, travel goods, and footwear (GTF)—with rising investments in vehicle tires, home appliances, and furniture. FDI in the first half of 2025 grew by 28.4 percent y/y. This has supported a sustained appreciation of the Riel since July 2024. It has also helped boost forex reserves (equivalent to about 7 months of imports).

Domestic economic conditions have put pressure on fiscal policy, though the government has prioritized continued consolidation.

The fiscal deficit in H1 2025 is estimated to have stood at 1.6 percent of GDP compared to 1.2 percent in the same period last year. The higher deficit was driven by a 10 percent decline in revenue collection, associated with the economic slowdown, and a 4 percent increase in spending on salaries and wages. Monetary policy has remained accommodative with reserve requirements for U.S. dollar deposits held at 12.5 percent amid accelerating broad money growth, to support weak domestic demand and due to low inflation. Credit growth, however, has slowed down, reflecting economic conditions in non-tradable sectors.

Outlook

Real GDP growth is projected at 4.8 percent in 2025 and 4.3 percent in 2026 (estimates in April 2025 stood at 4.0 percent and 4.5 percent respectively). The 2025 upgrade reflects front-loaded exports of GTF products, whilst the moderation in 2026 is reflective of weaknesses in domestic demand. Downside risks include growing labor market pressures, higher inflation, rising NPLs, and renewed border clashes. On the external front, risks include weaker global demand and a slower-than-expected recovery in China—Cambodia's main source of FDI and tourism.

The momentum in poverty reduction is likely to moderate, reflecting uneven sectoral performance, persistent regional disparities in economic opportunity, and ongoing disruptions in provinces bordering Thailand. This challenge is compounded by the absence of supplemental social assistance beyond the existing family package.

Cambodia has fiscal space to help mitigate labor market shocks stemming from border tensions, targeting support to the hardest-hit sectors and vulnerable groups. Monetary policy can remain accommodative to sustain demand, provided it is complemented by measures to curb macro-financial risks arising from weakening asset quality in the banking system.

Recent history and projections

	2022	2023	2024	2025e	2026f	2027f
Real GDP growth, at constant market prices	5.1	5.0	6.0	4.8	4.3	5.1
Private consumption	5.2	-0.2	2.5	-0.5	1.2	1.3
Government consumption	-1.2	35.1	-2.5	0.3	0.8	0.6
Gross fixed capital investment	5.4	-26.7	-0.2	10.3	7.5	9.6
Exports, goods and services	21.3	6.9	14.4	8.5	10.6	11.1
Imports, goods and services	18.6	-12.4	7.5	5.6	9.8	10.3
Real GDP growth, at constant factor prices	5.1	5.0	6.1	4.8	4.3	5.1
Agriculture	0.6	1.6	1.0	1.4	1.5	1.6
Industry	8.2	7.6	9.5	6.5	6.4	6.5
Services	3.6	3.4	4.0	3.9	2.6	4.6
Inflation (consumer price index)	5.5	2.1	2.2	2.7	3.0	3.0
Current account balance (% of GDP)	-18.8	1.3	0.7	-1.8	-3.7	-3.6
Net foreign direct investment inflow (% of GDP)	8.7	8.5	8.7	7.6	7.7	7.8
Fiscal balance (% of GDP)	-3.2	-3.9	-3.0	-3.4	-2.6	-2.1
Revenues (% of GDP)	17.2	15.9	15.3	14.8	15.5	15.6
Debt (% of GDP)	24.9	26.3	25.7	26.6	26.8	27.0
Primary balance (% of GDP)	-3.0	-3.6	-2.8	-3.1	-2.3	-1.8
GHG emissions growth (mtCO2e)	-3.8	1.2	1.6	1.1	1.0	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.

CENTRAL PACIFIC ISLANDS

Medium-term growth is expected to soften, with Kiribati and Tuvalu maintaining comparatively stronger performance. In Nauru, the Regional Processing Centre (RPC) renewal and Nauru-Australia Treaty will help ease fiscal strain. However, countries must manage the risks associated with limited economic diversification and climate risks to induce growth and reduce poverty. Asset price fluctuations could impact fiscal and economic trajectories in Kiribati and Tuvalu.

Key conditions and challenges

Kiribati has an economy dominated by the public sector, with public expenditure at 98 percent of GDP in 2024. Recurrent spending on public wages, social protection, and the copra subsidy has continued to expand. This has helped reduce poverty but distorted markets and heightened fiscal risks, as volatile fishing license fees accounted for over two-thirds of revenues. To ensure fiscal sustainability and mitigate the risk of sharp adjustments that could reverse progress in poverty reduction, it is important to curtail recurrent spending, foster private enterprise, and stabilize fiscal revenues using the Revenue Equalization Reserve Fund (RERF), the country's sovereign wealth fund.

Nauru relies on volatile revenues from fishing and revenues from operating the RPC for refugees, with the latter accounting for 67 percent of fiscal revenues and 90 percent of GDP in 2024. With RPC earnings uncertain, broadening growth drivers is urgent. Investments in port infrastructure could support future fish processing, while improving the business environment would help foster the

	KIR	NRU	TUV
Population ¹ thousand	134.5	11.9	9.6
Poverty thousand living on less than \$4.20/day	27.3 ²	2.2 ³	2.3 ⁴
GDP ¹ current US\$, billion	0.22	0.15	0.06
GDP per capita ¹ current US\$	1702	12078	4908

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

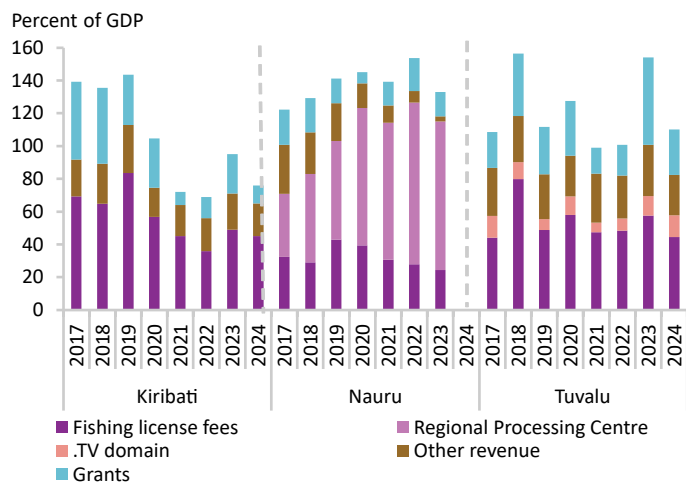
private sector. Nauru grapples with environmental challenges from climate change and land degradation linked to phosphate mining. Without diversification, the growth model and fiscal outlook will remain dependent on volatile resource rents.

Tuvalu remains highly exposed to climate-related risks, which pose serious challenges to its development. Private sector development is constrained by inadequate infrastructure and limited economies of scale. As of 2010, 21 percent of the population is estimated to have lived below the national poverty line. Structural reforms are essential to build resilience, improve infrastructure, sustain growth, and enable economic diversification.

Recent developments

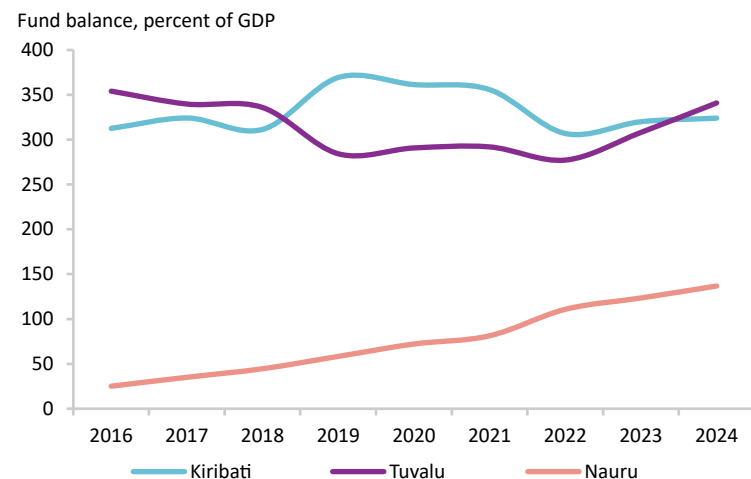
In 2024, Kiribati's public wage expansion lifted growth to 5.3 percent but increased the fiscal deficit to 22 percent of GDP, funded by withdrawals from cash reserves and the RERF. Inflation remains moderate at 2.5 percent due to global commodity price trends and improved supply conditions. Poverty is projected at 14.3 percent

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: Notes: Nauru data are June years; Kiribati and Tuvalu are calendar years. The Nauru Trust Fund was established in 2016.

in 2024 (using the US\$4.20 Lower Middle Income Country (LMIC) poverty line) down from 22 percent in 2019/20. As the estimate does not account for the expansion of social programs, including the copra subsidy, unemployment benefits, and disability and old-age payments, the actual rate is likely even lower. Public debt (12 percent of GDP) is sustainable but assessed at high risk of distress. The RERF was valued at 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, driven by higher consumption, reflected in wholesale and retail trade, financed by the RPC revenues. Inflation was 4.7 percent due to supply-side constraints. Grants increased sharply 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 boosted the Intergenerational Trust Fund to 152 percent of GDP in March 2024, up from 111 percent in June 2022. Public debt, around 20 percent of GDP, is sustainable, and liabilities have been significantly reduced. Poverty data are outdated, with the last estimates (2012-13) showing 9.7 percent of the population in extreme poverty (below the US\$3 per day international poverty line). Further, 68.5 percent of the population were poor compared to Upper Middle Income Country standards (US\$8.30 per day). A new poverty estimate for 2024 is expected by the end of the year.

Tuvalu's economy is projected to grow by 3.1 percent in 2024, supported by infrastructure investments, public spending, and donor assistance. Inflation eased to 1.2 percent. The current account surplus narrowed sharply from 40 percent in 2023 to 7.3 percent in 2024 due to reduced fishing license revenue and lower grant inflows. Accordingly, the fiscal balance shifted from a surplus of 15.3 percent of GDP to a deficit of 8.2 percent of GDP. Public debt, at 11.1 percent of GDP, remains sustainable, but is assessed at high risk of debt distress due to climate vulnerability and revenue volatility. Assets held by the country's sovereign wealth funds rose to 341 percent of GDP at end-2024, providing an important buffer. Welfare and poverty data are scarce. An experimental longform census in 2022 estimated a national "cost of basic needs" poverty rate of 21.5 percent, but poverty using international poverty lines has not been estimated.

Outlook

In Kiribati, growth is expected to moderate to 3.9 percent in 2025 and further ease to around 2.5 percent in 2027, as growth in household demand softens and investment projects stabilize. Inflation is forecast to peak at 7.8 percent in 2025 due to delayed fuel

and electricity tariff adjustments, before gradually easing. The fiscal deficit is projected to narrow to 15 percent in 2025, reflecting a nominal wage freeze and streamlined subsidies, but will remain heavily financed through withdrawals from the RERF. This could lead to substantial fiscal risk because the current RERF withdrawal rule allows withdrawals only if nominal returns exceed 2 percent. A rule based on the fiscal balance and not on volatile returns would stabilize financing and grow the RERF's real value. Growth is projected to reduce poverty further to 12.3 percent by 2027. Updated poverty estimates from a new 2023/24 HIES, which will capture the impact of various expansions in government transfers introduced during the COVID-19 pandemic, are expected by end of 2025.

Nauru's growth is expected to pick up to 2.1 percent in FY25, before moderating to 1.9 in FY26 driven largely by public demand, sustained donor support and the continuation of RPC operations. Inflation remains elevated at 6 percent in FY25 due to supply-side factors tied to shipment of imports and strong domestic demand. The fiscal surplus is expected to fall to 3.6 percent of GDP due to higher spending on healthcare, education, and social benefits, financed partly by a large surplus carried forward from the year before. The fiscal responsibility framework weakened in 2024 moving from requiring a surplus every year to a surplus across a 3-year rolling average. While this provides more flexibility, it weakens fiscal discipline and could reduce buffers against sudden shocks.

Tuvalu's growth is expected to moderate to 2.7 percent by 2027, driven by construction, hospitality, finance, and public administration. The 2023 Australia-Tuvalu Falepili Union Treaty is expected to boost remittances over the medium term, but outward migration could dampen productivity and long-term growth by reducing the supply of skilled labor. Inflation is projected to slow to 2.5 percent by 2027 as global inflation pressures subside. Weaker revenues will likely widen fiscal and current account deficits, while sovereign wealth fund values are projected to fall to 311 percent of GDP by 2027, reflecting asset volatility and lower returns. Despite strong sovereign assets, the economy's dependence on volatile revenues and external migration creates long-term risks for growth and fiscal sustainability.

The Central Pacific outlook faces several risks, including persistent trade policy uncertainty and a slowdown in global growth, which could weigh on exports, remittances, and donor financing. Rising outward migration and unstable revenue streams pose economic headwinds and threaten fiscal space. These challenges are compounded by the increasing frequency and severity of climate-related disasters that further threaten resilience across the region, economic stability and poverty reduction.

Recent history and projections

	2022	2023	2024e	2025f	2026f	2027f
Real GDP growth, at constant market prices						
Kiribati	4.6	2.7	5.3	3.9	3.2	2.5
Nauru	2.8	0.6	1.8	2.1	1.9	1.7
Tuvalu	-11.8	4.0	3.1	3.0	2.6	2.7
Poverty rates of Kiribati						
International poverty rate (\$3.00 in 2021 PPP) ^{1,2}	4.2	3.9	3.2	2.9	2.7	2.5
Lower middle-income poverty rate (\$4.20 in 2021 PPP) ^{1,2}	17.6	16.6	14.3	13.3	13.1	12.3
Upper middle-income poverty rate (\$8.30 in 2021 PPP) ^{1,2}	70.5	69.7	67.4	66.2	64.7	63.8

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/ Poverty rates for 2020-2025 are projections based on real GDP per capita growth.

CHINA

China's growth remained robust in the first half of 2025, but headwinds persist from a protracted property sector downturn, weak domestic demand, and shifts in global trade policies. Growth is projected to ease from 5.0 percent in 2024 to 4.8 percent in 2025 and 4.2 percent in 2026, with balanced risks. While fiscal and monetary easing have helped offset headwinds, structural reforms are critical to restore confidence, support job creation, and boost growth potential.

Key conditions and challenges

China's growth momentum remained robust in H1 2025, underpinned by accommodative macroeconomic policies and strong exports. The country is navigating a challenging economic environment marked by a deep property sector contraction, subdued confidence, and deflationary pressures from weak domestic demand, alongside shifts in global trade policies. Higher fiscal stimulus and some monetary easing have partly offset headwinds to growth.

The economy faces structural headwinds from slowing productivity growth, high debt, and an aging population. Productivity growth has decelerated over the past 15 years despite ongoing innovation, reflecting less efficient resource allocation. Reliance on debt-financed stimulus is adding to already elevated debt, heightening financial vulnerabilities. Meanwhile, an aging population constrains growth by reducing the labor force and increasing fiscal pressures.

To raise medium-term growth, China should complement counter-cyclical stimulus with structural reforms—restructuring

Population ¹ million	Poverty ² millions living on less than \$8.30/day
1409.0	296.2
Life expectancy at birth ³ years	School enrollment ⁴ primary (% gross)
78.0	99.3
GDP ⁵ current US\$, billion	GDP per capita ⁶ current US\$
19004.9	13488.5

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

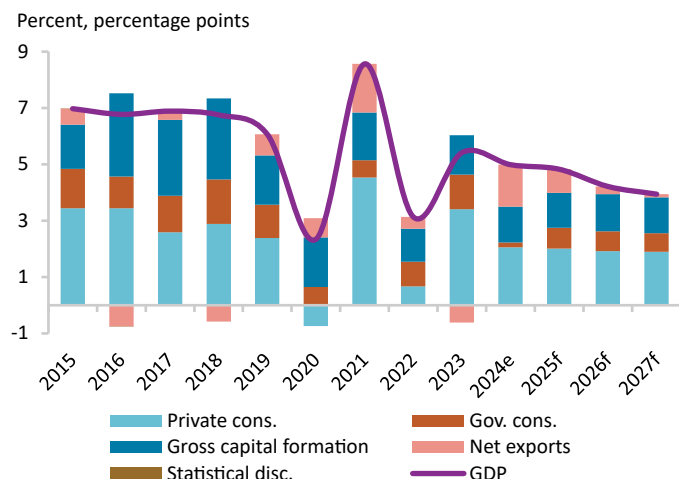
overleveraged property developers and subnational public debt, expanding social protection, and fully liberalizing the hukou (household registration system), as well as deepening business environment reforms such as lowering entry barriers, especially in the services sector, to raise investor confidence and support job creation.

Recent developments

Real GDP expanded by 5.3 percent y/y in H1 2025, higher than 5.0 percent in the same period last year. Fiscal support through consumer subsidies helped sustain consumption. Infrastructure and manufacturing investment, supported by policy stimulus and export strength, partly offset the contraction in the property sector. Weak domestic demand kept inflation low and labor market conditions subdued.

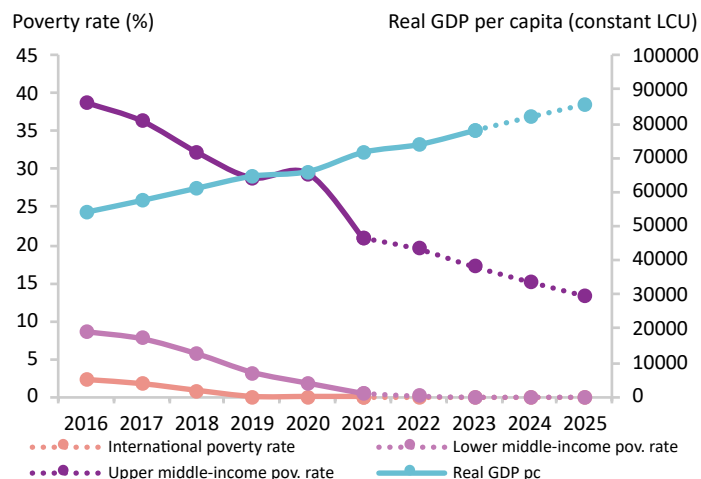
Exports remained resilient partly driven by frontloading. Merchandise exports grew 6.1 percent y/y in the first seven months, with exports to non-US markets offsetting contractions in US-bound shipments. Amid higher trade policy uncertainty, China has pursued broader trade integration and openness within the

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.

region and beyond, for instance, through an upgraded China-ASEAN Free Trade Area 3.0. It also expanded zero-tariff imports from 53 African countries while diversifying agricultural imports.

The government has deployed fiscal and monetary measures to support domestic activity. A stimulus package focused on infrastructure investment, along with higher social spending and expanded subsidies for consumer goods and equipment upgrades, has widened the budget deficit, with a fiscal impulse estimated at 1.6 percent of GDP in 2025. The central bank cut policy rates and lowered the required reserve ratio, injecting liquidity of 4.1 percent of GDP in Q2. Yet, credit demand has remained subdued due to the property downturn, economic uncertainty, and high real borrowing costs.

Progress with structural reform has been incremental. Social measures such as childcare subsidies and free pre-school education aim to lower childcare costs and increase fertility rate, while gradual retirement age increases and hukou reforms in smaller cities have supported workforce participation and mobility. However, limitations to social protection schemes keep household precautionary savings high and consumption low. Property debt restructuring remains slow, while the RMB 12 trillion (0.8 percent of GDP) swap of off-budget for on-budget local government debt has eased near-term refinancing pressure.

Poverty reduction has broadly kept pace with growth. In 2024, an additional 28 million people attained a daily consumption level above US\$8.30/day, a benchmark used by the World Bank to compare poverty reduction across upper middle-income countries. This is fewer than 32 million people in 2023 amid slower growth. Per capita household disposable income grew faster (6.2 percent) in rural areas than in cities (4.7 percent) in H1 2025. For rural households, income from transfers (7.3 percent) and wages and

salaries (6.5 percent) were among the fastest growing segments. For urban households, net business income and wages and salaries grew by 5.8 percent and 5.0 percent respectively while income from property, which accounts for about 10 percent of household incomes, grew at 1.5 percent.

Outlook

Growth is projected at 4.8 percent in 2025 and 4.2 percent in 2026. Export growth is expected to decelerate in the remainder of 2025, following a period of export frontloading. Elevated uncertainty will likely weigh on manufacturing investment and labor demand, but fiscal policy is expected to partly offset these headwinds. The protracted property downturn will continue to dampen real estate investment. Expanded policy support, including centrally funded childcare and preschool education subsidies, will support household consumption, contributing to a marginal uptick in consumer price inflation. Growth is expected to decelerate in 2026, driven by slower export growth and less accommodative fiscal policy, but also structural growth deceleration.

The pace of poverty reduction is expected to slow in line with growth in 2025 and 2026. The poverty rate at the World Bank's benchmark of US\$8.30/day is projected to fall to 13.4 and 11.9 percent, respectively, in 2025 and 2026.

Risks to the outlook are balanced but significant. Globally, uncertainty around trade policy and growth poses downside risks. Domestically, a longer-than-expected property slump could further curtail investment. Further softening of labor market conditions due to higher uncertainty and delayed corporate investment could weigh on consumption. On the upside, higher-than-expected fiscal spending could lift growth above baseline projections.

Recent history and projections

	2022	2023	2024	2025e	2026f	2027f
Real GDP growth, at constant market prices	3.1	5.4	5.0	4.8	4.2	3.9
Private consumption	1.7	9.0	5.2	5.1	4.9	4.8
Government consumption	5.3	7.3	1.0	4.5	4.3	4.0
Gross fixed capital investment	3.4	4.5	3.0	3.2	3.5	3.4
Exports, goods and services	-1.9	1.1	11.5	5.1	2.5	1.7
Imports, goods and services	-5.1	5.6	4.3	1.1	1.6	1.5
Real GDP growth, at constant factor prices	3.1	5.4	5.0	4.8	4.2	3.9
Agriculture	4.2	4.0	3.5	3.4	3.2	3.0
Industry	2.3	4.4	5.3	4.7	3.9	3.5
Services	3.6	6.3	5.0	5.1	4.6	4.4
Employment rate (% of working-age population, 15 years+)	62.0	62.3	62.3	62.3	62.1	62.2
Inflation (consumer price index)	2.0	0.2	0.2	0.3	1.4	2.0
Current account balance (% of GDP)	2.4	1.4	2.2	2.1	0.9	0.3
Net foreign direct investment inflow (% of GDP)	-0.1	-0.8	-0.9	-0.5	-0.2	-0.1
Fiscal balance (% of GDP)¹	-6.1	-5.5	-6.5	-8.1	-7.6	-7.0
Revenues (% of GDP)	31.7	31.7	29.9	28.9	28.7	28.6
Debt (% of GDP)	49.4	54.7	60.7	70.8	77.9	82.5
Primary balance (% of GDP)	-5.4	-4.7	-5.7	-7.1	-6.6	-5.9
Upper middle-income poverty rate (\$8.30 in 2021 PPP)^{2,3}	19.5	17.2	15.2	13.4	11.9	10.5
GHG emissions growth (mtCO2e)	0.1	3.3	3.2	3.0	2.6	2.5

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

GDP growth is projected to soften to 2.9 percent in 2025, supported by sustained tourism. Expansionary fiscal policy is expected to persist through the 2026 election period, supporting growth but slowing debt reduction. Risks include elevated trade uncertainty, natural disasters, skilled labor shortages, and commodity price shocks. Structural reforms along with fiscal consolidation are critical to mitigate risks and ensure sustainable growth and poverty reduction.

Key conditions and challenges

Fiji became an upper-middle-income country (UMIC) in 2014. To reach the government objective of high-income status within 20 years, it must overcome development challenges linked to its small size and remoteness such as import dependence and climate vulnerability. This requires implementing reforms that enhance private investment, productivity, workforce skills, and gender equality, including improving business climate to support growth.

Output returned to pre-pandemic levels in 2023, led by a strong tourism recovery following the reopening of international borders in late 2022. However, the pandemic left behind a substantially higher public debt, limiting fiscal space for future shocks. Tourism remains a key growth driver, but demand may be constrained by high destination costs and supply-side challenges such as limited hotel capacity and labor shortages.

The 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\$8.30/day in 2021PPP),

Population ¹ million	Poverty ² millions living on less than \$8.30/day
0.9	0.6
Life expectancy at birth ³ years	School enrollment ⁴ primary (% gross)
67.3	107.6
GDP ⁵ current US\$, billion	GDP per capita ⁶ current US\$
5.7	6085.5

Sources: WDI, MFM, and official data. 1/ 2024. 2/ 2019 (2021 PPPs). 3/ 2023. 4/ 2023. 5/ 2024. 6/ 2024.

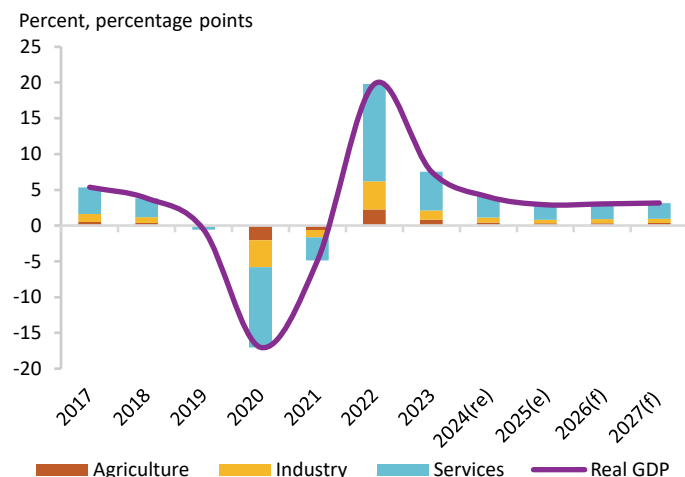
estimate that poverty fell to 58.7 percent in 2024, which is below the pre-pandemic level of 61.3 percent measured in the 2019/20 Household Income and Expenditure Survey. Extreme poverty (US\$3/day in 2021PPP) is very low in Fiji, at 4.7 percent in 2019/20 and estimated at 3.8 percent in 2024.

Recent developments

The economy grew by 4 percent in 2024, above the 2010–19 average of 3.3 percent, driven by robust tourist arrivals that exceeded pre-pandemic levels by 10 percent. Key growth sectors include accommodation, transport, financial services, and retail. Average inflation reached 4.5 percent in 2024, partially attributed to VAT rate hike from 9 percent to 15 percent and minimum wage increase in August 2024. A monthly panel survey by the World Bank showed that nearly all households felt the pressures of inflation in 2024. Monetary policy remained accommodative with the overnight policy rate held steady at 0.25 percent since 2020.

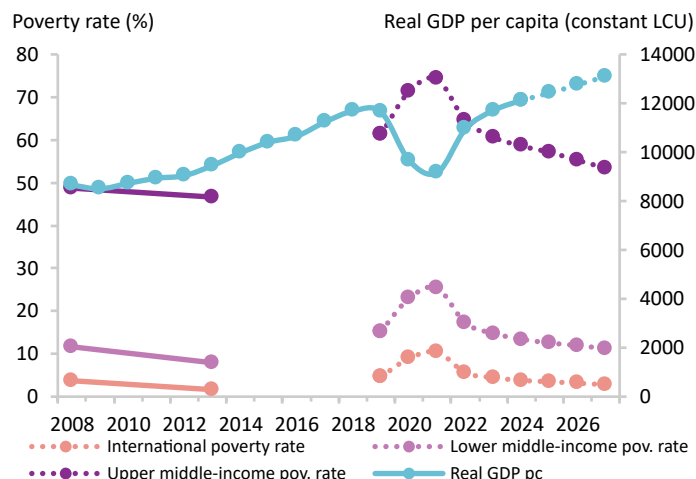
The current account deficit stabilized at 7.7 of GDP in 2024 due to steady tourism receipts and remittance inflows, partially driven

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.

by Fijians in labor mobility schemes in Australia and New Zealand. Foreign reserves remain at a comfortable level, equivalent to six months of retained imports as of end-2024.

The fiscal deficit narrowed to 2.3 percent of GDP in 2024 from 4.5 percent in 2023, driven by tax buoyancy reflecting FY24 Budget fiscal consolidation measures that include adjustments to the VAT, corporate income tax, departure tax, water resource tax, and customs and excise duty rates. Gains from these fiscal consolidation policies were partly offset by higher recurrent spending. The deficit was financed through external concessional and domestic borrowing. Public debt declined from 81.2 percent of GDP in 2023 to 80.9 percent in 2024, supported by a primary surplus of 1.6 percent of GDP and above average economic growth.

Outlook

The economy is expected to grow by 2.9 percent in 2025, up from the 2.6 percent projection made in April during the peak of the global tariff policy uncertainty. Growth is expected to reach 3.1 percent by 2027, supported by stable tourism. Robust growth is projected to reduce poverty to 57.2 percent in 2025 and 53.5 percent by 2027 by upper middle-income country standards. The World Bank's panel survey shows inflation eased slightly in early 2025, and respondents felt it was a better time to find work or start a business than in 2024. The headline inflation is projected to decrease to around 3 percent over the medium term.

The current account deficit is projected to reach 7.3 percent of GDP in 2025, driven by a narrowing trade deficit and stable inflows from tourism and remittances. Remittances are projected to stay above a tenth of GDP and tourism earnings to gradually approach a fifth of GDP over the medium term. The deficit will be largely financed by official borrowing. Foreign reserves are projected to remain adequate over the medium term at above 4.5 months of imports, slightly below the International Monetary Fund's (IMF) recommended threshold of 4.9 months which is based on the Assessing Reserve Adequacy (ARA) metric for Fiji.

The FY26 Budget adopted an expansionary fiscal stance in response to global tariff policy shifts, marking a departure from the fiscal consolidation path pursued in previous years. This is expected to continue through 2026, delaying the debt reduction and keeping projected public debt close to 80 percent of GDP by 2027. The IMF's 2024 Article IV Debt Sustainability Analysis (DSA) rated Fiji's risk of sovereign stress as moderate, considering its vulnerability to macroeconomic shocks and contingent liabilities. The World Bank's 2024 DSA also found Fiji's public debt sustainable but facing high risk of debt distress.

The outlook faces downside risks, including a renewed spike in global trade uncertainty, skilled labor shortages, international price shocks, and natural disasters. To mitigate these risks, structural reforms are essential, particularly those that enhance investment, productivity, and fiscal consolidation. These efforts are essential to strengthen resilience, preserve macroeconomic stability, and advance poverty reduction.

Recent history and projections

	2022	2023	2024	2025e	2026f	2027f
Real GDP growth, at constant market prices	19.8	7.5	4.0	2.9	3.0	3.1
Real GDP growth, at constant factor prices	16.0	9.1	4.0	2.9	3.0	3.1
Agriculture	4.0	4.7	1.8	4.5	4.5	4.1
Industry	8.3	-4.9	7.9	3.6	5.0	5.8
Services	20.7	13.9	3.4	2.5	2.3	2.3
Inflation (consumer price index)	3.1	5.1	1.3	1.5	2.8	3.0
Current account balance (% of GDP)	-17.3	-7.7	-7.7	-7.3	-7.9	-7.5
Net foreign direct investment inflow (% of GDP)	1.8	1.1	2.8	3.8	4.0	3.6
Fiscal balance (% of GDP)	-10.3	-4.5	-2.3	-4.7	-5.2	-3.8
Revenues (% of GDP)	21.7	25.3	29.0	28.0	27.0	27.0
Debt (% of GDP)	86.5	81.2	80.9	81.4	81.6	80.7
Primary balance (% of GDP)	-6.6	-0.5	1.6	-0.9	-1.7	-0.5
International poverty rate (\$3.00 in 2021 PPP)^{1,2}	5.6	4.4	3.8	3.5	3.1	2.8
Lower middle-income poverty rate (\$4.20 in 2021 PPP)^{1,2}	17.2	14.7	13.4	12.5	11.9	11.1
Upper middle-income poverty rate (\$8.30 in 2021 PPP)^{1,2}	64.7	60.7	58.7	57.2	55.4	53.5
GHG emissions growth (mtCO₂e)	19.8	7.5	4.0	2.9	3.0	3.1

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

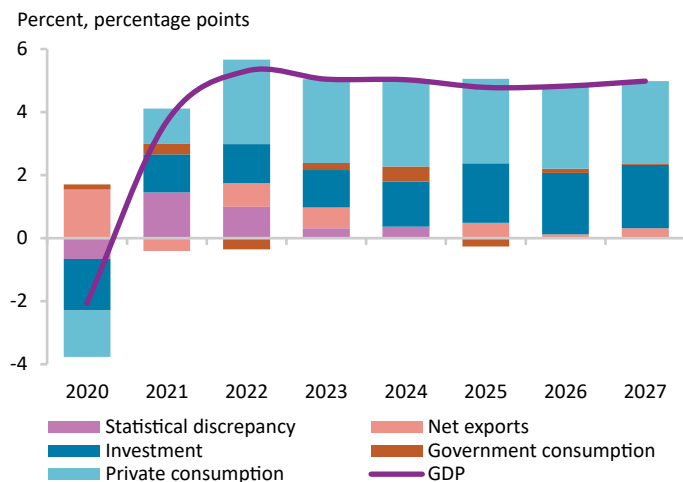
Supported by rising investment and fiscal stimulus, growth is projected at 4.8 percent despite challenging global environment and slightly softening consumption. Poverty continues to decline, underpinned by increased fiscal transfers, but limited creation of quality jobs has fueled social pressures. Sustaining robust growth and expanding better jobs will require accelerating structural reforms.

Key conditions and challenges

Sustained strong growth has lifted 12 million out of poverty since 2000, enabling the country to reach upper middle-income status in 2023. Unemployment has halved and labor force participation is steady at 70 percent. Rising labor earnings have driven poverty reduction. However, jobs are concentrated in low-productivity, informal services. Due to barriers to competition and policy distortions, manufacturing and high-value services have not generated sufficient high-quality jobs, which entrenched informality, hampered productivity and real wage growth, and constrained opportunities for the growing workforce. Real consumption growth among middle-class has lagged both the poorest and richest groups, raising concerns about social mobility.

Achieving the government goal of high-income status by 2045 calls for a reversal of these trends. Beyond investments in human and physical capital, a more predictable and competitive business environment, and greater private capital mobilization into productive, job-rich activities will be critical. Reforms in licensing, investment liberalization, trade and logistics, digital

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



Sources: National Statistics Agency and World Bank.

Population ¹ million	285.1	Poverty ² millions living on less than \$4.20/day	56.7
Life expectancy at birth ³ years	71.1	School enrollment ⁴ primary (% gross)	100.2
GDP ⁵ current US\$, billion	1396.3	GDP per capita ⁶ current US\$	4897.7

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

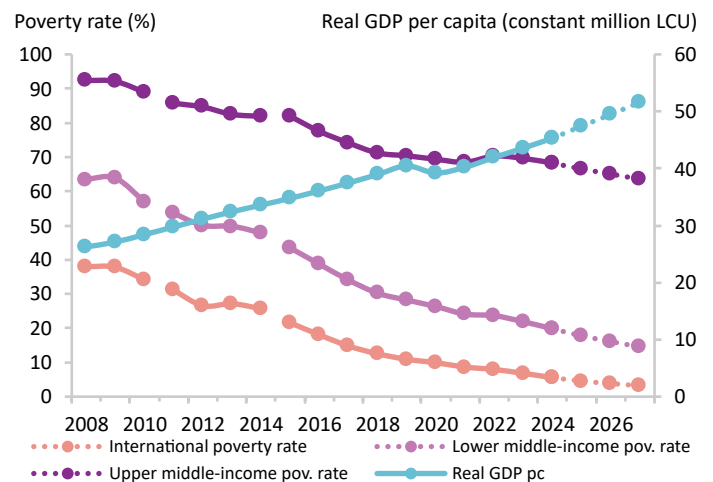
services, and financial sector deepening, could raise potential growth and foster better job creation.

Recent developments

The economy grew by 5 percent year-on-year (y/y) in the first half of 2025 (H1-2025). Private consumption contributed more than half of this growth, buoyed by government stimulus. Investment added another 27 percent, driven by private construction and public procurement of defense equipment. On the supply side, growth was led by services such as tourism and transport (up 6.9 and 8.8 percent y/y, respectively), while tradable manufacturing grew more slowly (up 4.3 percent).

Inflation rose gradually from 1.6 percent at end-2024 to 2.4 percent y/y in July, partly driven by rice distribution delays and gold price rallies, but remained within Bank Indonesia's (BI) target band. With inflation low and the Rupiah relatively stable, BI cut interest rates by a cumulative 125 basis points in 2025. Yet, shallow financial markets have limited policy transmission, keeping lending rates elevated and private credit growth below BI's 2025 target of 8-11 percent.

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 fiscal deficit widened to 0.9 percent of GDP in H1-2025, as revenues declined while spending was re-prioritized towards social programs. Revenues dropped to 5.0 percent of GDP, reflecting lower commodity prices, forgone state-owned enterprise (SOE) dividends redirected to the new holding company Danantara, and VAT rate hike reversal. Meanwhile, spending fell to 5.9 percent of GDP, but shifted toward social transfers such as nutritious meals, housing, and cooperatives programs (combined 1.1 percent of GDP), two stimulus packages, as well as energy and food security. This helped support private consumption, but at the cost of investment weighing on future growth.

The current account deficit (CAD) remained flat at 0.1 percent of GDP in H1-2025. Tightening financial conditions led to a reversal of portfolio investment in April, prompting BI to intervene to stabilize the Rupiah, resulting foreign reserves dropped by USD 3.1 billion compared to end-2024 but remain adequate, covering 6.2 months of imports and external debt service.

Amid robust growth and low inflation, the poverty rate declined from 21.9 percent in March 2023 to 19.9 percent in March 2024 (USD 4.2 2021 PPP). However, the labor market remains soft, with unemployment at 4.8 percent in February 2025 and high informality. Job quality weakened further as real wages in high-value services declined. Nationwide demonstrations in August, highlight the risk of social unrest if growth does not deliver more inclusive opportunities.

Outlook

Growth is projected at 4.8 percent in 2025 and will be anchored by private investment and private consumption supported through

lower interest rates, fiscal stimulus, and low inflation. Planned investments through Danantara are expected to gradually accelerate, further boosting domestic demand with growth projected to edge up to 5.0 percent by 2027. As the output gap closes, inflation is projected to pick up but will remain within BI's target band.

The fiscal deficit is projected to reach 2.8 percent of GDP by 2027 with increased fiscal spending on priority programs partly financed through higher revenue from improved tax administration. However, higher borrowing costs and budget deficits will increase interest payments to 2.5 percent of GDP and raise gross financing needs to 7.0 percent of GDP by 2027, financed largely from domestic sources.

The CAD is expected to widen to 1.7 percent of GDP by 2027 as commodity prices soften and growth slows in China. Downstreaming projects are expected to attract foreign direct investment (FDI), the largest source of external financing.

The risks to the outlook are balanced. Downside risks include global trade uncertainty, delays in implementing investment projects, social instability and shifts in fiscal priorities. Upside risks include a rebound in commodities prices, faster progress on deregulation, and new trade agreements that could boost exports and investment.

Sustained growth will drive continued poverty reduction through 2027, with the poverty rate falling by 5.2 percentage points to 14.7 percent. Employment growth and job quality, including expanding social insurance coverage, is crucial to providing greater security for vulnerable and middle-class households.

Recent history and projections

	2022	2023	2024	2025e	2026f	2027f
Real GDP growth, at constant market prices	5.3	5.0	5.0	4.8	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	-3.6	2.0	0.5
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	7.0	6.0	7.0
Imports, goods and services	15.0	-1.6	7.9	5.9	6.7	6.9
Real GDP growth, at constant factor prices	4.9	5.1	5.1	4.8	4.8	5.0
Agriculture	2.3	1.3	0.7	3.6	3.0	3.0
Industry	4.1	5.0	5.2	4.0	4.2	4.2
Services	6.5	6.1	6.2	5.9	5.8	6.1
Employment rate (% of working-age population, 15 years+)	64.6	65.8	67.2	67.7	67.7	67.7
Inflation (consumer price index)	4.1	3.7	2.3	1.7	2.6	2.6
Current account balance (% of GDP)	1.0	-0.1	-0.6	-1.3	-1.6	-1.7
Net foreign direct investment inflow (% of GDP)	1.4	1.1	1.1	1.2	1.3	1.5
Fiscal balance (% of GDP)	-2.4	-1.6	-2.3	-2.7	-2.7	-2.8
Revenues (% of GDP)	13.5	13.3	12.8	11.9	12.2	12.4
Debt (% of GDP)	39.7	39.2	39.8	41.1	41.8	42.4
Primary balance (% of GDP)	-0.4	0.5	-0.1	-0.5	-0.3	-0.3
International poverty rate (\$3.00 in 2021 PPP)^{1,2}	7.9	6.7	5.4	4.5	3.8	3.2
Lower middle-income poverty rate (\$4.20 in 2021 PPP)^{1,2}	23.7	21.9	19.9	17.9	16.3	14.7
Upper middle-income poverty rate (\$8.30 in 2021 PPP)^{1,2}	70.3	69.6	68.3	66.6	65.2	63.7
GHG emissions growth (mtCO2e)	6.5	4.2	3.4	2.5	2.7	2.9

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

Macroeconomic imbalances persist despite policy tightening, which has helped to stabilize the exchange rate and ease inflation. High public debt constrains growth and poverty reduction. GDP growth is projected to ease to 3.7 percent in 2025 while household income growth remains below inflation. Poverty, measured at the international poverty line for lower-middle income countries (\$4.20, 2021 PPP), largely remains unchanged relative to 2024 at 33.1 percent.

Key conditions and challenges

Despite recent improvements, macroeconomic imbalances persist. Public and publicly guaranteed (PPG) debt declined but remained high at 94 percent of GDP in 2024. Between 2020 and 2024, deferred external debt repayments totaled around 15 percent of GDP, easing short-term foreign exchange liquidity pressures but leaving long-term solvency challenges unresolved. External debt service is projected to average \$1.2 billion (6 percent of GDP) annually from 2025-2029, implying liquidity and exchange rate risks.

Debt pressures weigh on exchange rate stability and inflation. Large debt servicing requirements make it essential to create fiscal space for human capital development and other growth-oriented priorities. Declining real wages and currency depreciation have fueled outward migration and discouraged wage employment. Recent growth has been driven by external demand, making it susceptible to slowdown in main trading partners.

Population ¹ million	7.8	Poverty ² millions living on less than \$4.20/day	2.5
Life expectancy at birth ³ years	69.0	School enrollment ⁴ primary (% gross)	96.8
GDP ⁵ current US\$, billion	15.4	GDP per capita ⁶ current US\$	1977.9

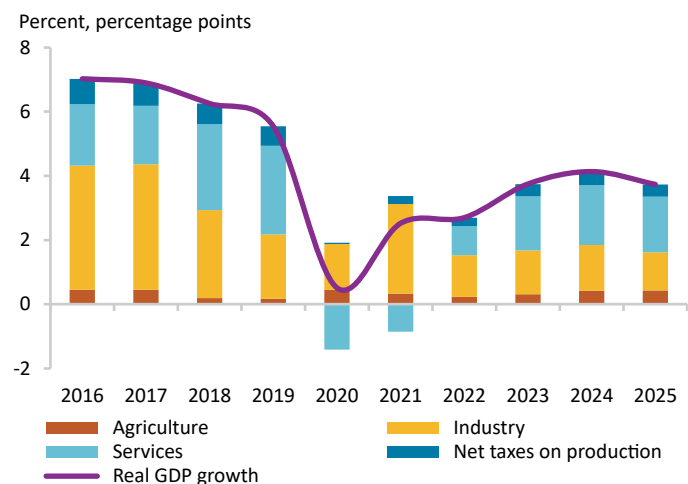
Sources: WDI, MFM, and official data. 1/ 2024. 2/ 2018 (2021 PPPs). 3/ 2023. 4/ 2023. 5/ 2024. 6/ 2024.

Recent developments

Economic activity was resilient in early 2025, with real growth decelerating to 3.7 percent, supported by tourism, transport, mining, and electrical manufacturing. Inflation fell sharply from 26.1 percent in July 2024 to 5 percent in August 2025, aided by exchange rate stabilization. The average official Kip/US\$ exchange rate appreciated 1.3 percent during January-July 2025 year-on-year, and the parallel market gap narrowing to 1.1 percent in July. These developments eased pressures on households and firms but sustaining momentum will require addressing underlying structural imbalances.

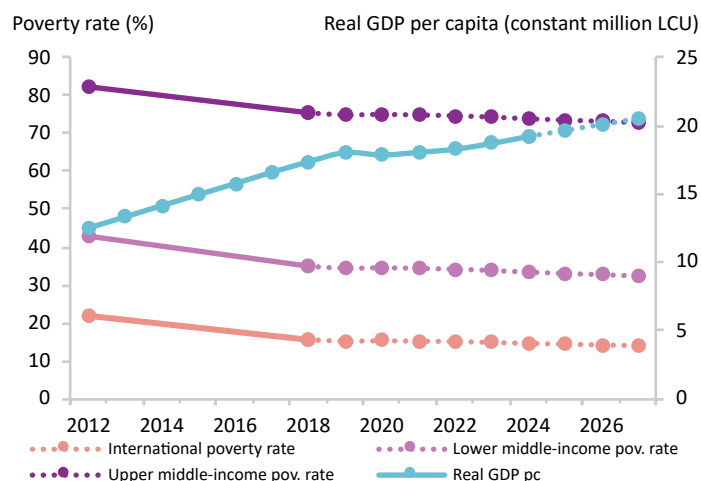
Macro instability reshaped labor market dynamics, with wage employment falling from 43.7 to 36.1 percent, while self-employment more than doubled from 27.6 to 58.6 percent and agriculture employment rose from 43.5 to 50.9 percent. Declining real wages and currency depreciation fueled outward labor migration, with official numbers to South Korea doubling and to Thailand rising by 25.2 percent between December 2023 and December 2024.

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.

Recently, however, the shift toward self-employment has slowed and wage growth outpaced the growth of non-farm business profit in December 2024. The share of commercial farming households also increased from 55.4 to 60.2 percent between mid-2024 and January 2025. These trends highlight not only the costs of instability, such as reduced wage employment, heightened informality and labor outflows, but also the potential for stabilization to gradually restore more sustainable employment.

High inflation forced households to cut spending sharply: nearly half reduced food consumption and a third cut health and education spending in early 2025. Out-of-school rates increased to 7.4 percent in January 2025 from 6.6 percent a year earlier overall and particularly among rural and low-income households. These developments underscore how macroeconomic volatility directly erodes human capital and slows poverty reduction.

The external balance improved in the first half of 2025, with a larger current account surplus. This was supported by a 35 percent surge in exports, driven by front-loaded electrical equipment exports prior to anticipated trade barriers. Gross reserves rose to \$2.8 billion in May, but net foreign reserves, excluding the currency swap, covered only 2.1 months of imports, highlighting foreign exchange liquidity risks.

Fiscal consolidation strengthened, with fiscal and primary surpluses rising to 3.3 and 3.6 percent of GDP, respectively, in Q12025 from 1.2 and 1.9 percent a year earlier. Domestic revenue grew by 35 percent year-on-year, supported by hydropower royalties, income tax, and VAT, while fiscal spending remained stable. However, interest payments are projected to account for 19 percent of total expenditures in 2025, compared to only 10 percent for human capital investment.

Higher monetary policy rate and issuance of securities in 2024 slowed broad money growth, helping to ease exchange rate and inflation pressures. The introduction of the Treasury Single Account and repatriation and conversion requirements for foreign exchange complement these effects. The central bank is now

signaling gradual monetary easing, balancing stabilization with the need to support growth.

Outlook

Growth is projected to ease from 4.1 percent in 2024 to 3.7 percent in 2025, with inflation moderating as the Kip stabilizes. Direct exposure to new trade barriers is limited (under 3 percent of exports), but spillovers from slower growth in China, Thailand, and Vietnam, destinations for over 80 percent of exports, pose larger risks. The authorities plan to sustain fiscal surpluses, through strengthening tax administration, restoring fuel excises, and control spending growth.

Macroeconomic volatility will continue to hinder poverty reduction efforts. Inflation, although easing, will continue eroding real wages and household incomes, while cuts in household spending on food and human capital spending threaten long-term poverty reduction. About 44.8 percent of low-income households reported climate-related crop losses, compared with 38.8 percent of better-off households, underscoring rising vulnerability. The poverty rate is projected to decline only marginally, from 33.4 percent in 2024 to 33.1 percent in 2025.

Risks remain significant. Global trade uncertainty and spillovers from key partners could weaken external demand and undermine exports. Foreign exchange liquidity pressures, limited capital market access, slow structural reforms, weak bank balance sheets, and rising financing needs pose vulnerabilities. Exchange rate volatility, higher-than-expected inflation, natural disasters, and emigration pose additional risks to growth.

Addressing macroeconomic instability requires five critical reforms: (i) revenue mobilization (curbing tax exemptions, restoring fuel excises, and reforming health taxes); (ii) establishing a strong institutional and legal framework for public-private partnerships; (iii) finalizing debt negotiations; (iv) enhancing bank supervision; and (v) modernizing registration, simplifying licensing process and advancing electronic customs procedures.

Recent history and projections

	2022	2023	2024	2025e	2026f	2027f
Real GDP growth, at constant market prices	2.7	3.7	4.1	3.7	3.6	3.4
Real GDP growth, at constant factor prices	2.7	3.7	4.1	3.7	3.6	3.4
Agriculture	1.6	2.4	3.0	3.1	3.1	3.0
Industry	3.3	2.6	3.7	3.1	3.1	2.9
Services	2.5	5.5	5.0	4.6	4.3	4.0
Inflation (consumer price index)	22.7	31.2	23.3	8.4	7.9	7.5
Current account balance (% of GDP)	-3.0	2.7	3.4	2.4	2.0	1.5
Fiscal balance (% of GDP)	-0.2	0.7	2.3	1.5	1.0	0.8
Revenues (% of GDP)	14.7	16.5	19.1	19.5	18.9	18.9
Debt (% of GDP)	130.9	115.9	94.0	91.6	86.0	82.0
Primary balance (% of GDP)	1.3	2.7	5.3	4.6	3.5	3.0
International poverty rate (\$3.00 in 2021 PPP)^{1,2}	15.1	14.9	14.6	14.4	14.2	14.0
Lower middle-income poverty rate (\$4.20 in 2021 PPP)^{1,2}	34.2	33.8	33.4	33.1	32.8	32.5
Upper middle-income poverty rate (\$8.30 in 2021 PPP)^{1,2}	74.5	74.2	73.8	73.5	73.1	72.8
GHG emissions growth (mtCO₂e)	-0.3	4.8	6.0	6.2	6.7	7.1

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 growth is expected to ease to 4.1 percent in 2025, reflecting external headwinds that are only partially offset by robust domestic demand. Fiscal consolidation has relied on spending cuts, yet high debt and weakening revenues highlight the need for stronger revenue mobilization. Poverty and inequality remain persistent challenges, requiring structural reforms and sustained efforts to create better jobs, manage living costs, and foster inclusive, sustainable growth.

Key conditions and challenges

Malaysia's economy faces headwinds as external sector activity softened, while domestic demand remained the main growth driver. Growth is expected to ease further amid weaker global demand, heightened trade tensions, and persistent policy uncertainty. Although inflation has moderated, concerns about living costs remain, especially among low-income households. Perceptions that essential prices are rising faster than incomes are reinforced by the July 2025 electricity tariff hike, which adds further pressure on household utility expenses.

On the fiscal front, elevated debt levels highlight the importance of continued fiscal consolidation to comply with statutory debt ceiling limits. However, recent fiscal consolidation efforts have relied primarily on expenditure reductions amid declining revenues, with the 13th Malaysia Plan (13MP) envisaging development expenditure to average 3.3–3.4 percent of GDP between 2026 and 2030, compared to 4.4 percent during 2021–2025. To meet future spending priorities, strengthening revenue mobilization is critical.

Population ¹ million	Poverty ² millions living on less than \$8.30/day
35.6	1.0
Life expectancy at birth ³ years	School enrollment ⁴ primary (% gross)
76.7	98.8
GDP ⁵ current US\$, billion	GDP per capita ⁶ current US\$
422.2	11874.4

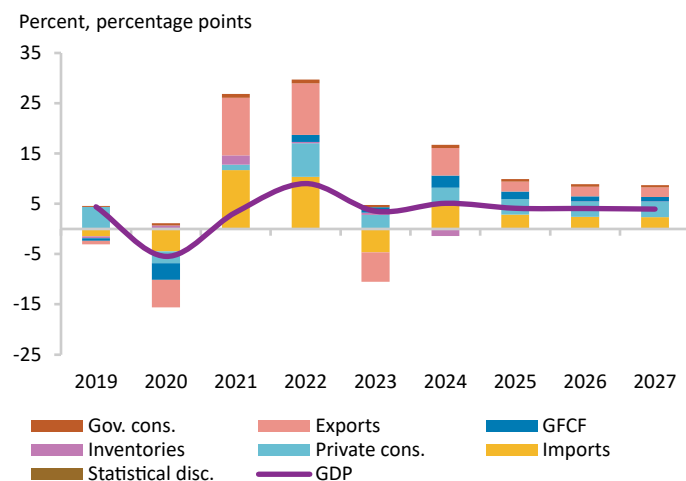
Sources: WDI, MFM, and official data. 1/ 2024. 2/ 2021 (2021 PPPs). 3/ 2023. 4/ 2023. 5/ 2024. 6/ 2024.

Moreover, with 48 percent of workers at high risk of automation, investments in skills, digital infrastructure, and social protection are critical to ensure AI adoption supports quality jobs. Green jobs—paying 3.1 percent more on average—are expanding, offering inclusive growth but requiring fiscal space for reskilling and safety nets.

Recent developments

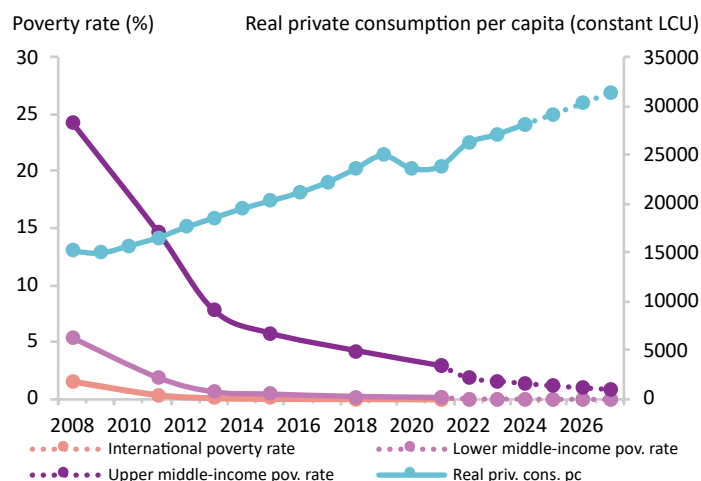
Malaysia's economy expanded by 4.4 percent in 1H 2025, sustained by domestic demand amid softer external activity. Private consumption rose 5.0 and 5.3 percent in 1Q and 2Q, supported by improving labor market conditions, higher minimum wages, and civil service pay adjustments. Gross fixed capital formation (GFCF) expanded 9.7 and 12.1 percent, driven by higher private machinery and equipment spending and stronger capital outlays by public corporations. In contrast, net exports growth slowed to 19.6 percent in 1Q before contracting 72.6 percent in 2Q, weighed down by lower mining exports, underscoring the economy's vulnerability to external shocks despite solid domestic momentum.

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



Sources: Bank Negara Malaysia and World Bank staff calculations.

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.

Headline and core inflation averaged 1.4 and 1.8 percent in 1H 2025, respectively. The decline in headline inflation reflected lower global commodity prices, the base effect from diesel subsidy rationalization, and improved domestic food supply chains. In July, the central bank cut the overnight policy rate by 25 basis points to 2.75 percent—the first adjustment since 2023—citing external headwinds and lowered its 2025 inflation forecast to 1.5–2.3 percent. These measures provide support to household purchasing power and domestic demand in the near term, but they also highlight reliance on domestic drivers as external trade weakens.

Labor market conditions improved modestly in early 2025, with employment growing 1.6 percent year-on-year in 2Q and real median wages rising by about 4 percent annually. Overall, average monthly household income increased to RM9,155 in 2024. These gains supported a continued decline in poverty, with the national poverty rate falling to 5.8 percent in 2024. Using the international upper-middle-income line (\$8.30/day, 2021 PPP), poverty stood at 2.9 percent in 2021. Meanwhile, income inequality also improved slightly, as the Gini index declined from 40.7 in 2021 to 39.0 in 2024.

Outlook

Growth is projected to ease to 4.1 percent in 2025. This 0.2 percentage point upward revision from the April 2025 forecast reflects stronger-than-expected private investment and export growth in 1H 2025, alongside additional fiscal and monetary policy support. Private consumption is projected to expand 5.0 percent on firm labor markets, wage measures, and income support. Public consumption is projected to expand 4.0 percent, partly supported by civil servant salary and pension increases. GFCF is expected to

moderate to 7.2 percent, as investment realization is partly weighed by weaker business sentiment. Export growth is projected to ease to 2.9 percent, weighed by higher tariffs, a stronger currency, and lower commodity output, partly offset by tourism and resilient electronics and electricals demand. Inflation is projected to ease to 1.6 percent in 2025, as cost and demand pressures moderate.

Risks to the growth outlook are tilted to the downside. Externally, rising trade barriers, persistent policy uncertainty, and weaker growth in major economies could dampen global trade and investment, with sizable spillovers to Malaysia. Lower commodity prices could also weigh on terms of trade and commodity-linked fiscal revenues. Domestically, higher-than-expected inflation from subsidy rationalization may constrain household spending, while elevated uncertainty could delay investments. Adverse weather and extended maintenance could disrupt commodity output. Upside risks include favorable trade outcomes, stronger global growth, higher commodity prices, and more resilient household demand and investment implementation.

Poverty and inequality have declined but remain persistent challenges that demand structural reforms. The 13 MP's focus on "Enhancing Social Mobility" underscores the commitment to ensuring growth translates into broader opportunities and shared prosperity. To address immediate cost-of-living pressures, the government has introduced cash transfers, reduced retail fuel prices, and plans to rationalize RON95 fuel subsidies in October 2025. Over the longer term, sustained efforts to strengthen human capital, promote mobility, and broaden economic participation will be essential—not only to ease living-cost concerns but also to reinforce social cohesion and stability, laying the foundation for more sustainable and inclusive growth.

Recent history and projections

	2022	2023	2024	2025e	2026f	2027f
Real GDP growth, at constant market prices	9.0	3.5	5.1	4.1	4.1	4.0
Private consumption	11.4	4.6	5.1	5.0	4.9	4.9
Government consumption	5.6	3.4	4.7	4.0	3.6	3.4
Gross fixed capital investment	6.8	5.4	12.0	7.2	4.7	4.0
Exports, goods and services	14.5	-7.9	8.3	2.9	2.9	2.8
Imports, goods and services	16.0	-6.8	8.2	4.5	3.7	3.7
Real GDP growth, at constant factor prices	8.9	3.5	5.1	4.1	4.1	4.0
Agriculture	1.3	0.2	3.1	1.6	1.7	1.7
Industry	6.7	1.3	4.9	3.6	3.2	3.2
Services	11.5	5.3	5.5	4.8	4.9	4.8
Employment rate (% of working-age population, 15 years+)	63.1	63.1	63.2	63.2	63.2	63.2
Inflation (consumer price index)	3.4	2.5	1.8	1.6	2.2	2.2
Current account balance (% of GDP)	3.2	1.1	1.4	1.2	0.8	0.4
Net foreign direct investment inflow (% of GDP)	0.7	0.0	0.6	0.5	0.5	0.4
Fiscal balance (% of GDP)	-5.5	-5.0	-4.1	-3.8	-3.4	-3.2
Revenues (% of GDP)	16.4	17.3	16.8	16.4	16.6	16.3
Debt (% of GDP)	60.1	64.3	64.6	64.9	64.5	64.3
Primary balance (% of GDP)¹	-3.2	-2.5	-1.5	-1.2	-0.9	-0.8
International poverty rate (\$3.00 in 2021 PPP)²	0.0	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate (\$4.20 in 2021 PPP)²	0.0	0.0	0.0	0.0	0.0	0.0
Upper middle-income poverty rate (\$8.30 in 2021 PPP)²	1.8	1.6	1.4	1.2	1.0	0.9
GHG emissions growth (mtCO₂e)	3.7	-1.0	1.1	1.2	1.6	1.3

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/ The primary balance excludes interest payments received.

2/ Projection using annualized elasticity (2013-2021) with pass-through = 1 based on private consumption per capita in constant LCU.

MONGOLIA

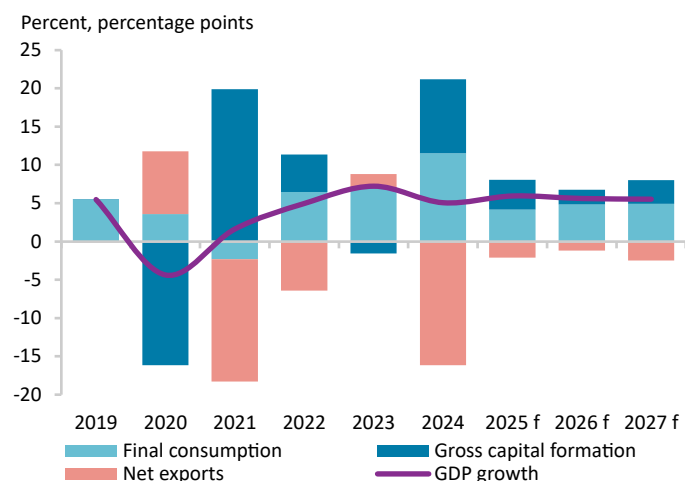
Mongolia's economy is projected to grow 5.9 percent in 2025, driven by a rebound in agriculture, higher copper production, and robust household consumption. Lower coal prices are weighing on fiscal performance and the external position, while global trade uncertainty could further weaken mining exports and dampen investor sentiment. Elevated inflation and stagnant real wages are expected to slow welfare gains, leading to a moderate decline in poverty.

Key conditions and challenges

Despite robust growth, Mongolia's macroeconomic pressures have mounted as falling coal-related revenues, persistent inflation, and external imbalances eroded fiscal and external buffers. Prompted by the revenue shortfall, Parliament approved a mid-year budget amendment. Although expenditure cuts only partly offset revenue losses, the adjustment signaled greater budget discipline than last year. These developments highlight the risks of continued heavy reliance on the volatile mining sector and the urgency of advancing diversification and structural reforms.

After rapid progress in 2024, household welfare gains have slowed, reflecting the impact of high inflation and stagnating real wages on household purchasing power, particularly in the mining and services sectors. At the \$8.3 per day line (2021 PPP), the poverty rate is projected to decline from 14.8 percent in 2024 to 13.1 percent in 2025. With headline inflation remaining above the BoM's target (4-8 percent range) and expected to stay elevated due to exchange rate pressures and the necessary upcoming energy tariff reforms, the scope for further welfare gains is likely to be constrained.

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



Sources: National Statistics Office and World Bank.

Population ¹ million	3.5	Poverty ² millions living on less than \$8.30/day	0.8
Life expectancy at birth ³ years	72.1	School enrollment ⁴ primary (% gross)	95.8
GDP ⁵ current US\$, billion	23.6	GDP per capita ⁶ current US\$	6709.5

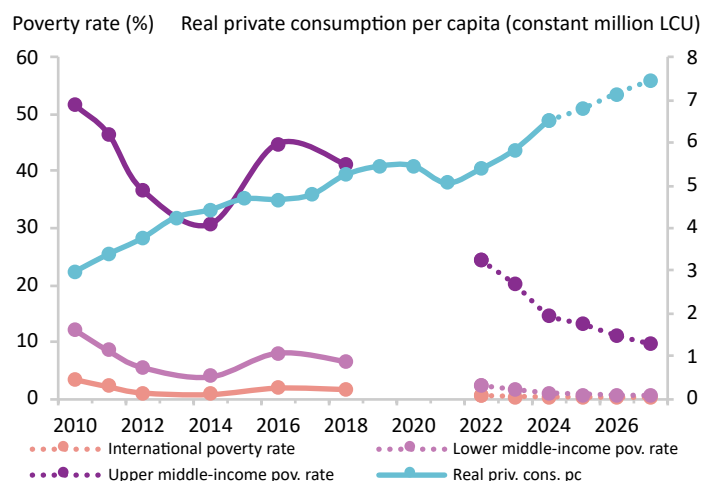
Sources: WDI, MFM, and official data. 1/ 2024. 2/ 2022 (2021 PPPs). 3/ 2023. 4/ 2023. 5/ 2024. 6/ 2024.

Recent developments

The economy remained resilient, expanding by 5.7 percent in the first half of 2025, driven by a strong agricultural rebound after two years of dzud (harsh winter) related losses. Growth was also supported by the construction of major infrastructure projects and moderate gains in services. Mining growth was subdued as lower coal production offset gains from the Oyu Tolgoi (OT) copper and gold mine expansion. On the demand side, weak net exports were more than offset by robust private consumption and investment, boosted by the recovery of the livestock industry and rapid growth of consumer loans. The rebound raised rural incomes, spurring household consumption and contributing to higher investment as the herd was rebuilding. In contrast, government consumption and investment slowed amid mining-related revenue shortfalls.

Inflation eased to 8.1 percent in July 2025, from 9.6 percent in February, driven by slower food price increases. However, inflation remains slightly above the BoM's target. Price pressures persist from last year's energy tariff reform, both directly and from higher

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.

production costs, with a significant adverse impact on urban ger households reliant on electricity for heating.

While real household consumption surged in 2024 on the back of strong employment gains and rising pensions and wages, momentum has recently slowed. Despite robust wage-driven income growth and a dynamic labor market with low unemployment, consumption growth decelerated to 5.3 percent y-o-y in H1 2025, from 16.8 percent a year earlier.

During January to July 2025, the fiscal balance shifted to a deficit of 0.3 percent of GDP, compared with a surplus of 3.0 percent a year earlier, as coal-related revenues fell sharply due to weaker prices, slowing public debt reduction. At the same time, external pressures intensified, with the current account deficit widening to 6.6 percent of GDP in H1 2025, mainly due to a sharp drop in coal exports. Sluggish growth in imports of machinery and investment goods, combined with a rise in copper concentrate exports from the OT mine, helped cushion the impact. As a result, the BoM maintained international reserves of US\$5.5 billion, or about 3.7 months of imports of goods and services.

In response to these pressures, the 2025 budget was amended to revise down revenue and expenditure projections. To contain external imbalances and demand pressures from elevated off-budget spending and rapid consumption credit growth, the BoM has gradually tightened monetary and macroprudential policies since Q4 2024.

Outlook

Despite a weaker global outlook and subdued coal performance, Mongolia's economy is projected to grow 5.9 percent, supported by a strong agricultural rebound and higher copper output from the OT mine. Although the budget amendment reduced capital spending, SOE- and off-budget-financed infrastructure projects remain key growth drivers. Low coal prices are projected to result in a narrow fiscal surplus and sustain a large external deficit.

The 2026-27 outlook remains stable, with GDP growth averaging 5.5 percent, supported by elevated copper mining, continued recovery in agriculture and food processing, and public infrastructure construction. Inflation is projected to fall just below the upper bound of the BoM's target, but slower wage growth is expected to weigh on household consumption. Poverty, measured at the \$8.3 per day (2021 PPP) line is projected to decline moderately, as lingering price pressures constrain further progress.

Risks to the growth outlook remain significant. Prolonged global trade policy uncertainty could further weaken demand in major trading partners, depress commodity prices, and weigh on export growth, fiscal revenues, and investor sentiment. Conversely, stronger-than-expected growth in China could boost external demand and commodity prices. Domestically, a prolonged drought threatens the fall crop harvest and livestock resilience over winter, raising risks of food shortages, higher prices, and a slower agricultural recovery.

Recent history and projections

	2022	2023	2024	2025e	2026f	2027f
Real GDP growth, at constant market prices	5.0	7.2	5.1	5.9	5.6	5.5
Private consumption	8.1	9.7	13.1	5.5	6.4	5.4
Government consumption	6.9	3.2	14.2	1.0	1.1	5.5
Gross fixed capital investment	13.2	5.3	22.4	8.6	3.4	6.5
Exports, goods and services	32.3	33.2	0.7	2.8	6.3	5.3
Imports, goods and services	29.1	18.9	17.5	3.7	4.9	5.6
Real GDP growth, at constant factor prices	4.2	7.5	3.2	5.9	5.6	5.5
Agriculture	12.0	-8.9	-28.7	30.0	6.3	5.2
Industry	-4.5	12.9	6.0	4.5	6.2	5.9
Services	6.9	9.9	10.0	2.6	5.1	5.3
Inflation (consumer price index)	15.2	10.4	6.8	9.0	7.5	6.8
Current account balance (% of GDP)	-13.2	0.6	-10.5	-13.1	-12.3	-10.9
Net foreign direct investment inflow (% of GDP)	13.9	10.6	11.5	8.0	7.1	6.3
Fiscal balance (% of GDP)	0.7	2.6	1.3	0.2	0.3	-0.6
Revenues (% of GDP)	33.8	34.3	39.1	35.1	33.9	33.3
Debt (% of GDP)¹	62.0	44.4	42.8	42.6	37.6	34.3
Primary balance (% of GDP)	1.8	3.8	2.3	1.2	1.3	0.2
International poverty rate (\$3.00 in 2021 PPP)^{2,3}	0.4	0.3	0.2	0.2	0.1	0.1
Lower middle-income poverty rate (\$4.20 in 2021 PPP)^{2,3}	2.3	1.6	0.9	0.8	0.5	0.5
Upper middle-income poverty rate (\$8.30 in 2021 PPP)^{2,3}	24.4	20.2	14.8	13.1	11.1	9.7
GHG emissions growth (mtCO₂e)	4.1	1.2	-2.7	3.9	5.0	4.8

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 2022-HSES. Actual data: 2022. Nowcast: 2023-2024. Forecasts are from 2025 to 2027.

3/ Projection using neutral distribution (2022) with pass-through = 1 (High (1)) based on private consumption per capita in constant LCU.

MYANMAR

The economy suffered severe setbacks from conflict and disasters, including a March 2025 earthquake that caused \$10.97 billion in damage (14 percent of GDP). Poverty rose to 31 percent as job quality and incomes declined. Real GDP is expected to shrink by 2.5 percent in FY2025/26, marking a second consecutive year of decline; a modest 3 percent recovery is possible next year, but conflict and power outages remain key risks.

Key conditions and challenges

Myanmar's economy remains weighed down by conflict, with natural disasters adding to severe structural weaknesses. The March 2025 earthquake, coming only six months after Typhoon Yagi caused a 1 percent contraction in FY2024/25, inflicted damage on the order of 14 percent of GDP. Conflict remains pervasive, with an estimated 3.5 million people displaced as of August 2025, disrupting transport, agriculture, tourism, mining, and border trade.

Poverty has climbed to 31 percent (based on the 2024/25 phone survey), well above the official estimate of 24.8 percent in 2017. Household consumption continues to be adversely affected by declining job quality and falling real income, with nominal wages failing to keep pace with inflation.

Labor is shifting back into low-productivity agriculture, even among the highly educated, from industry and services, reversing earlier gains in structural transformation. The share of college-educated agricultural workers rose from 18 to 22 percent between 2023 and 2024, while service sector employment dropped from

Population ¹ million	Poverty ² millions living on less than \$4.20/day
54.5	15.1
Life expectancy at birth ³ years	School enrollment ⁴ primary (% gross)
66.9	118.9
GDP ⁵ current US\$, billion	GDP per capita ⁶ current US\$
74.1	1359.3

Sources: WDI, MFM, and official data. 1/ 2024. 2/ 2017 (2021 PPPs). 3/ 2023. 4/ 2018. 5/ 2024. 6/ 2024.

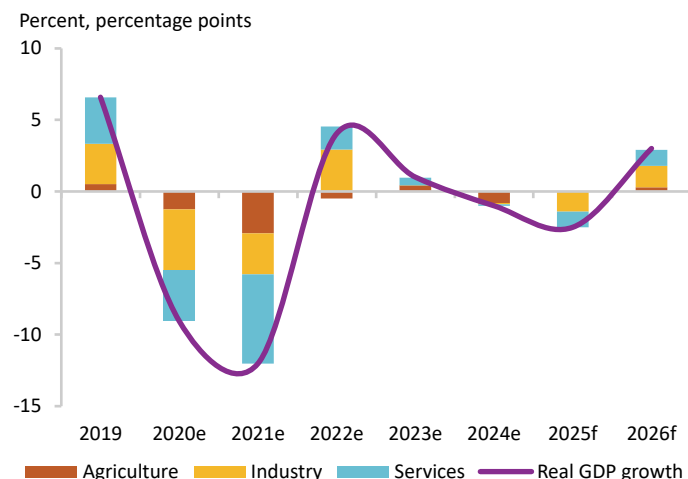
70 to 62 percent. Firms face mounting hiring challenges, driven by insecurity and conflict, natural disasters, and conscription.

These dynamics point to deepening structural vulnerabilities. Persistent conflict and recurring natural disasters are undermining Myanmar's human capital, discouraging private investment, and entrenching reliance on subsistence agriculture. Without greater stability and investment in resilience, the economy risks a prolonged period of stagnation, with limited poverty reduction and a reversal of progress in diversification and productivity growth.

Recent developments

The March earthquake caused an estimated USD 10.97 billion in physical damages (14 percent of GDP) and a 4 percent loss in GDP (USD 2.6 billion), disrupting manufacturing and services sectors. The authorities' relief and reconstruction commitments, roughly USD 1 billion in total, cover only a fraction of recovery and reconstruction needs. Household consumption, in turn, is expected to decline by 3.9 percent, significantly above the GDP loss.

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.

Economic activity has deteriorated across sectors. Manufacturing output contracted sharply following the earthquake, with the Purchasing Managers' Index (PMI) signaling steep declines in new orders, output and employment. Agriculture suffered from flooding and conflict, with rice production dropping by 6 percent to 16.3 million in FY2024/25. Firms report operating at two-thirds of capacity on average, while only one third of firms operate at full capacity. Power outages have intensified, affecting three-quarters of firms and constraining production.

The trade balance recorded a surplus of about 2 percent of GDP in the six months to March 2025, but this reflects import compression rather than stronger competitiveness. Imports fell 12 percent due to tighter import controls, trade restrictions and border conflict, while exports rose 7 percent, largely from stronger agriculture exports. Firms faced shortages of imported inputs, limiting production and fueling inflation.

Inflation, although easing, remains high. Headline inflation fell from 26.9 percent in July 2024 to 21.3 percent in July 2025. As both food and nonfood inflation moderated, due to more stable staple prices, and lower fuel, transport, and cement costs. The kyat stabilized against the US dollar since October, aided by Central Bank of Myanmar (CBM) foreign exchange interventions, import restrictions, and stricter currency controls. However, multiple exchange rates continue to distort prices and hinder investment.

Fiscal pressures have intensified. The budget deficit increased by 1.2 percentage points to 4.1 percent of GDP in FY2024/25, and is projected to widen to 4.9 percent by FY2025/26. Budget financing relies heavily on CBM given limited access to external borrowing.

Public debt is projected to remain around 63 percent of GDP, as higher domestic borrowing and slow growth are offset by the impact of inflation.

Outlook

Real GDP is projected to contract by 2.5 percent in FY2025/26, driven mainly by the impact of the earthquake which has exacerbated existing fragilities, severely disrupting manufacturing, services and construction. Consequently, the economy is expected to be 13 percent smaller than its pre-pandemic size, with the poverty rate anticipated to rise by 2.8 percentage points, particularly in rural areas.

A modest, 3 percent rebound is projected for FY2026/27 supported by reconstruction and some recovery in business activity. However, financing constraints, logistics bottlenecks, power and labor shortages, trade restrictions, and weak domestic demand will limit the rebound. Without stronger investment and stability, growth is unlikely to restore the pre-crisis momentum.

Risks remain tilted to the downside. Delayed recovery in earthquake-hit areas, insufficient reconstruction support from the authorities, and persistent insecurity, including election-related conflict, could stall progress in business activity. Additional disasters or tighter trade restrictions and currency controls would worsen shortages of key imports, raise inflationary pressures, and further undermine business confidence and investor sentiment. In sum, the combination of conflict, disasters, and policy distortions threatens to lock Myanmar into a cycle of weak growth, rising poverty, and increasing vulnerability.

Recent history and projections

	2021	2022	2023e	2024e	2025f	2026f
Real GDP growth, at constant market prices	-12.0	4.7	1.0	-1.0	-1.8	3.0
Real GDP growth, at constant factor prices	-12.0	4.0	1.0	-1.0	-2.5	3.0
Agriculture	-12.8	-2.2	2.0	-3.8	0.1	1.4
Industry	-8.2	8.0	0.0	-0.2	-3.7	4.1
Services	-15.5	3.1	1.6	-0.4	-2.5	2.6
Employment rate (% of working-age population, 15 years+)	52.8	53.5	53.6	53.5	53.5	53.5
Inflation (consumer price index)	9.6	27.2	27.5	28.8	26.5	22.1
Current account balance (% of GDP)	-2.4	-3.5	-2.2	1.2	-2.4	-2.1
Fiscal balance (% of GDP)	-1.4	-2.8	-2.8	-4.1	-4.9	-5.0
Revenues (% of GDP)	11.1	21.3	19.9	23.1	22.4	22.9
Public sector debt (% of GDP)	60.1	58.8	62.2	62.4	62.6	63.5
Primary balance (% of GDP)	0.0	-0.6	-0.9	-2.1	-2.9	-2.8
GHG emissions growth (mtCO2e)	-3.3	-4.3	0.6	0.4	-0.3	0.9

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 North Pacific sustained its recovery in FY24, driven by robust fisheries activity, public investment, and tourism. Growth will support a gradual decline in poverty, supported by Compact funding. The outlook remains vulnerable to natural hazards, while unresolved structural constraints, especially labor shortages, cloud long-term growth prospects. Maintaining fiscal buffers is crucial to respond to natural hazards without compromising long-term economic stability.

Key conditions and challenges

The North Pacific's recovery is driven by robust fisheries activity, strong public investment, and a gradual rebound in tourism, but the momentum is uneven. A shrinking labor force and weak infrastructure constrain productivity, while climate shocks regularly disrupt activity and divert fiscal resources. Without a stronger private sector role and investment in diversification, growth will remain reliant on a narrow set of sectors and vulnerable. Enhancing resilience through climate adaptation and infrastructure upgrades is not only critical for sustaining stable growth but also for creating employment opportunities.

Recent developments

In the Federated States of Micronesia (FSM), growth remained modest at 0.7 percent in FY24, supported by fisheries activity and public investment spending, but maybe too little for poverty reduction. Inflation eased to 5.4 percent but stayed above the

	FSM	RMI	PLW
Population ¹ thousand	113.2	37.6	17.7
Poverty thousand living on less than \$4.20/day	47.4 ²	2.9 ³	..
GDP ¹ current US\$, billion	0.47	0.28	0.22
GDP per capita ¹ current US\$	4166	7466	11022

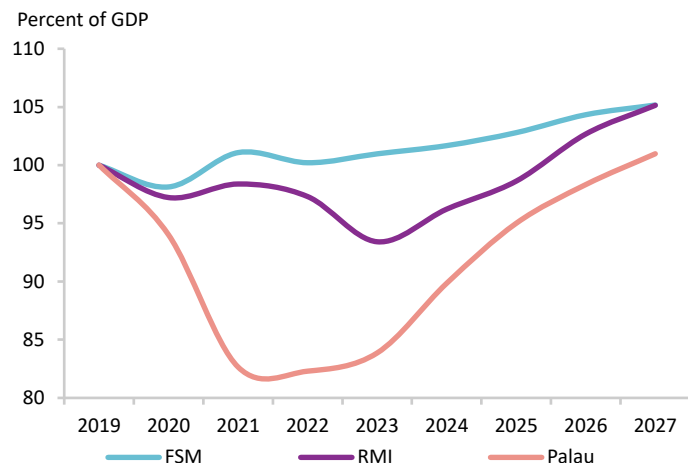
Sources: WDI, World Bank. 1/ 2023. 2/ 2013. 3/ 2019.

pre-pandemic average, weighing on household consumption. Fiscal surpluses remained large at 7.7 percent of GDP, reflecting the renewal of Compact funds and slow implementation of several public infrastructure projects. By end-2024, public debt remained low, at 15.1 percent of GDP.

In the Republic of the Marshall Islands (RMI), growth was stronger at an estimated 3.0 percent in FY24, supported by strong domestic demand, resilient fisheries activity, and solid public investment, and contributing to a decline in poverty. Inflation remained elevated at over 5 percent, reflecting the pass-through effects of minimum wage increases on demand and prices. A fiscal surplus of 3.1 percent of GDP is estimated in FY24, supported by stronger revenues, including grant inflows. Public debt declined to 17.9 percent of GDP, and preliminary assessments suggest an improvement in debt sustainability with the renewal of Compact grants.

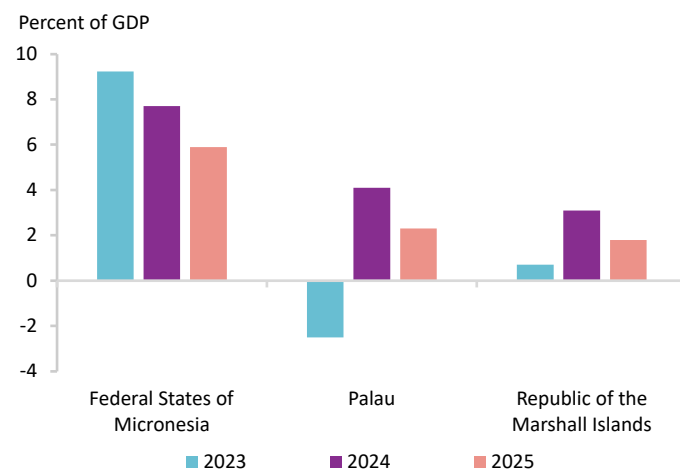
In Palau, economic growth reached an estimated 7.1 percent in FY24, driven by a rebound in tourism—a sector that accounted for roughly 40 percent of GDP before the pandemic. However, the recovery remains incomplete, with visitor arrivals still at just

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.

60 percent of FY19 levels, falling short of earlier projections. Inflation decelerated to around 4 percent, reflecting reduced imported energy and food prices, compared to double-digit rates in the previous year. An overall fiscal surplus of about 4.1 percent of GDP is projected for FY24, supported by new Compact grants and higher tax revenues. The implementation of the new goods and services tax is expected to boost tax revenues by roughly 20 percent compared to FY23. Public debt remains high at around 70 percent of GDP but is largely concessional and on a declining path, helping mitigate sustainability concerns.

Outlook

Growth prospects in the North Pacific remain positive, supported by public investment in FSM, fisheries and construction in RMI, and a delayed but strengthening tourism recovery in Palau. This outlook points to continued poverty reduction across the three countries, although projections are only available for RMI due to data limitations. Downside risks, however, dominate and relate to natural hazard and climate-related shocks combined with persistent global uncertainty. Structural challenges, such as limited labor resources, human capital constraints, and reliance on external funding, particularly Compact funds, add further to vulnerabilities. These factors could weigh on the sustainability of growth, poverty reduction, and fiscal outcomes across the region.

FSM's growth is projected to strengthen slightly to 1.0 percent in FY25, supported by a rebound in public investment linked to infrastructure development in Yap. Collaboration with the Philippines on labor migration is expected to temporarily offset labor shortages. However, growth is projected to gradually soften to 0.8 percent by FY27 as human capital constraints remain

unaddressed, limiting implementation capacity. Inflation is projected to continue moderating but remain above the pre-pandemic average. The fiscal surplus is expected to narrow further in FY25 and beyond, amid declining fishing revenues and despite higher Compact funds disbursements.

In RMI, growth is expected to soften to a still robust 2.5 percent in FY25, supported by an expansionary fiscal policy, income tax relief measures, and Compact-funded spending. Inflation is projected to ease slightly to 4.5 percent in FY25 but remains elevated in FY26 due to wage-driven cost pressures and the rollout of the Universal Basic Income (UBI). While UBI is expected to reduce poverty, its inflationary effects may dilute its impact. Modest fiscal surpluses are projected over the medium-term, supported by continued Compact funding, though rising expenditures will pressure fiscal balances. With population decline, real GDP growth translates into even higher per capita income gains, which are expected to contribute to poverty reduction through FY27.

In Palau, visitor arrivals are projected to increase, driving estimated growth of 5.7 percent in FY25. Arrivals are expected to reach about 90 percent of FY19 levels, supported by flights from Taipei and Australia. A full recovery to pre-pandemic levels is anticipated from FY26 onward, with the potential resumption of flights from Japan and the opening of a large hotel and resort. Thus, Palau's recovery hinges on expected tourism developments. Inflation is forecast to decline to 2.6 percent and remain near that level over the medium term. Following strong tax revenue growth in FY24, the pace of increase is expected to moderate in FY25 but remain positive, contributing to a projected fiscal surplus of 2.3 percent. Over the medium-term, a modest surplus averaging 1.2 percent of GDP is projected, supported by Compact funding and buoyant tax revenues linked to economic activity and tourism.

Recent history and projections

	2022	2023e	2024f	2025f	2026f	2027f
Real GDP growth, at constant market prices						
Federated States of Micronesia	-0.9	0.8	0.7	1.0	1.5	0.8
Republic of the Marshall Islands	-1.1	-4.0	3.0	2.5	4.1	2.4
Palau	-1.3	1.9	7.1	5.7	3.5	2.7
Poverty rates of the Republic of the Marshall Islands						
International poverty rate (\$3.00 in 2021 PPP) ^{1,2}	1.9	2.0	1.9	1.8	1.0	0.9
Lower middle-income poverty rate (\$4.20 in 2021 PPP) ^{1,2}	6.3	6.3	6.3	5.5	4.5	3.8
Upper middle-income poverty rate (\$8.30 in 2021 PPP) ^{1,2}	33.6	34.8	34.1	32.2	28.8	25.5

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

Papua New Guinea's economy is projected to grow by 4.7 percent in 2025, driven by the non-resource sector. Fiscal consolidation progressed, and the current account surplus widened. Many households continue to struggle with rising prices and hardship. Achieving more inclusive growth and poverty reduction will require enhancing human capital via improved access to quality services, prudent macroeconomic management, and a more supportive business environment.

Key conditions and challenges

Since independence in 1975, the economy has more than tripled in size, but real GDP per capita has grown by only 0.9 percent annually. This is significantly below other lower-middle-income, resource-exporting peers. Growth has also been volatile, reflecting high exposure to swings in international commodity prices. The benefits of growth have not been broadly shared: the capital-intensive resource sector has limited spillovers, while the non-resource sector has consistently underperformed.

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, one quarter of youth are not in training, education, or employment, representing a lost generation of potential workers. Weak governance undermines the government's capacity to address these challenges effectively, leaving the country vulnerable to external shocks and fragility-related risks.

Population ¹ million	Poverty ² millions living on less than \$4.20/day
10.6	5.1
Life expectancy at birth ³ years	School enrollment ⁴ primary (% gross)
66.1	109.5
GDP ⁵ current US\$, billion	GDP per capita ⁶ current US\$
31.5	2977.1

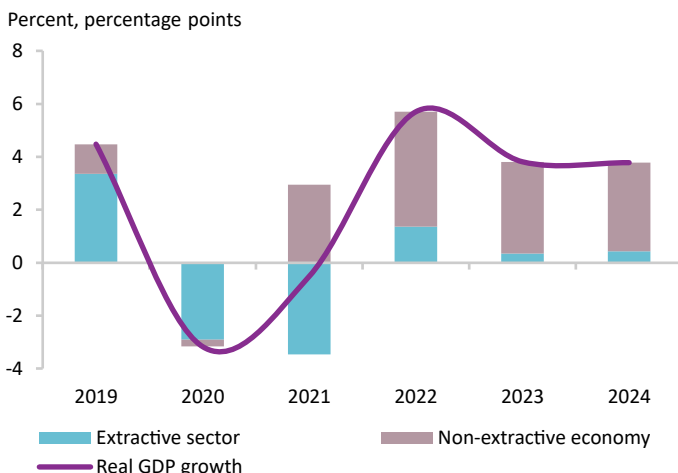
Sources: WDI, MFM, and official data. 1/ 2024. 2/ 2009 (2021 PPPs). 3/ 2023. 4/ 2018. 5/ 2024. 6/ 2024.

Large segments of the population remain excluded from socio-economic progress. According to the last household survey (2009), 40 percent of the population lived below the national poverty line, and more recent surveys show little change. In 2016/18, using close monetary correlates, the estimated poverty rate was 39 percent and 81 percent of the population were multidimensionally poor, one of the highest rates globally. In 2022, only 59 percent had access to safe drinking water and 15 percent to an electricity grid. High-frequency phone surveys conducted from April 2023 through June 2025 indicate persistently high food insecurity, a proxy for continued high poverty.

Recent developments

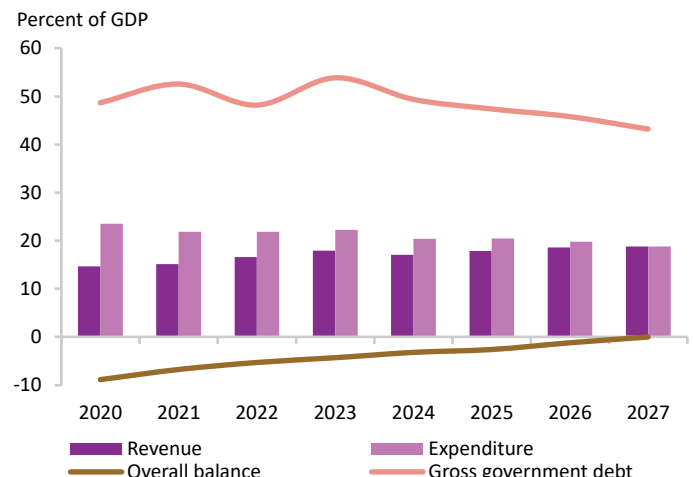
Real GDP growth reached 3.8 percent in 2024, similar to the 2023 growth rate and slightly below the structural peer average of 4.2 percent. Growth was underpinned by strong activity in the non-resource sector, which expanded 4.5 percent on the back of improved access to foreign exchange, increased agricultural production and higher agricultural commodity prices. This shows that

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.

when foreign exchange constraints ease, the non-resource sectors can contribute meaningfully to growth, underscoring the importance of reforms that sustain private sector activity beyond the resource sector.

Headline inflation moderated to 0.6 percent in 2024, mostly driven by lower prices for some locally produced food items (e.g. betelnut). This more than offset the passthrough of the kina depreciation to domestic prices. Nevertheless, food inflation, particularly relevant for poorer households, remained high at 4.4 percent yoy through to Q2-2025, straining poorer households that spend most of their income on staples like rice.

Fiscal consolidation continued in 2024, resulting in a steady narrowing of the budget deficit to 3.2 percent of GDP, a 1.1 percentage point improvement from 2023. This was achieved mainly through tighter controls on goods and services spending and public wages. As a result, public debt continued declining to just below 50 percent of GDP.

The current account surplus improved significantly to 15.1 percent of GDP, approximately 6 percentage points higher than in 2023. This reflected a strong mineral export performance due to the re-opening of the Porgera gold mine, as well as soaring copper and gold prices. Agricultural exports also benefitted from high cocoa and palm oil prices.

However, robust growth and export windfalls have not translated into broad welfare gains, emphasizing the urgency of reforms to strengthen resilience and inclusion. During the early phase of the COVID-19 pandemic, poverty likely increased temporarily as indicated by high food insecurity, recorded in phone surveys conducted in 2020 and 2021. By June 2022, however, food insecurity had significantly declined, with only 9 percent of households reporting that they had gone an entire day without eating in the past 30 days—down from 21 percent in June 2021. Nonetheless, survey data from 2023 to 2025 reveal that many individuals continue to face significant challenges to their well-being.

Outlook

Economic growth is projected to accelerate to 4.7 percent in 2025, driven by both the resource and non-resource sectors. Higher production at the Porgera gold mine and the Ok Tedi copper mine will drive resource sector growth. Medium-term growth is projected at 3 percent as mining production normalizes. Inflation is expected to rise to 4.8 percent in 2025 due to base effects and the passthrough from the kina's depreciation, and converge towards its historical average over the medium term.

The current account surplus will narrow modestly in 2025 as imports rebound, due to improved access to foreign exchange reserves. Nonetheless, the surplus is expected to remain above 10 percent of GDP over the medium term.

Continued implementation of the authorities' fiscal repair plan is expected to narrow the fiscal deficit, with a balanced budget projected from 2027. Public debt is set to decline, assuming continued fiscal discipline and successful implementation of the Medium-Term Debt Strategy (2024-2028).

The economic outlook is broadly positive, but risks are tilted to the downside. Slower growth could result from lower export demand, further decline in commodity prices, reduced business confidence, political and social instability, and the impact of droughts and other climate-related events. Given PNG's dependence on resource exports, commodity price declines could amplify the impact of trade uncertainty, while persistent conflict and violence pose ongoing threats to economic stability. The brief but disruptive episode of violence and looting in January 2024 underscores these risks. An important upside risk is the potential development of large-scale liquefied natural gas (LNG) projects. A positive final investment decision and the start of construction would significantly boost investment and growth prospects, but also reinforce the economy's exposure to resource-driven volatility.

Recent history and projections

	2022	2023	2024	2025e	2026f	2027f
Real GDP growth, at constant market prices	5.7	3.8	3.8	4.7	3.5	3.1
Real GDP growth, at constant factor prices	5.8	3.1	5.3	4.8	3.6	3.1
Agriculture	3.1	1.0	7.1	3.5	3.4	3.4
Industry	6.6	1.6	0.6	4.1	1.6	0.0
Services	6.3	5.0	8.4	5.7	5.0	5.1
Inflation (consumer price index)	5.3	2.3	0.6	4.8	4.6	4.6
Current account balance (% of GDP)	14.4	9.1	15.1	10.8	12.7	11.3
Net foreign direct investment inflow (% of GDP)	-4.0	-0.9	-3.1	-1.2	-1.2	-1.2
Fiscal balance (% of GDP)	-5.3	-4.3	-3.2	-2.6	-1.2	0.0
Revenues (% of GDP)	16.6	17.9	17.1	17.9	18.6	18.8
Debt (% of GDP)	48.2	53.9	49.5	47.5	45.8	43.2
Primary balance (% of GDP)	-2.9	-1.8	-0.7	0.3	1.1	2.2
GHG emissions growth (mtCO₂e)	0.4	-0.1	0.1	0.3	0.2	0.2

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.

PHILIPPINES

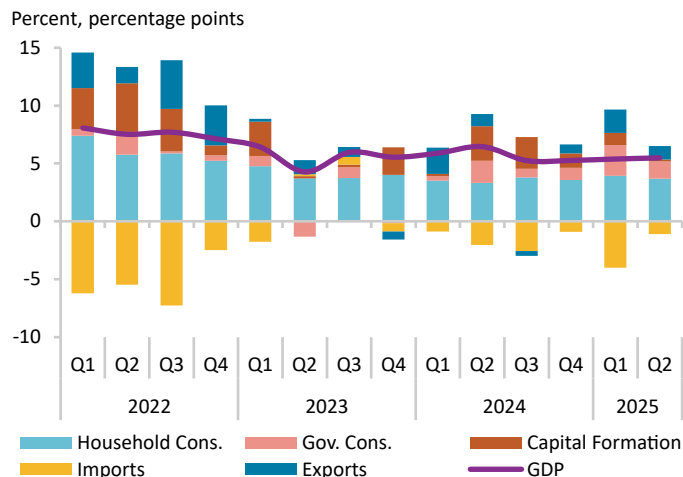
Economic growth remained robust in early 2025, driven by solid consumption and resilient exports. Inflation eased, the labor market remained strong, and poverty continued to fall. Growth is projected at 5.3 percent this year, supported by monetary easing and public investment. Sustaining growth momentum amid global uncertainty requires continued investment in infrastructure and human capital, and structural reforms to reduce business costs and boost resilience.

Key conditions and challenges

Since 2010, the economy has doubled in size, and unemployment has fallen to record lows. This rapid growth expansion was driven by pro-investment reforms and public investment in infrastructure that crowded in private investment. Growth and job creation were particularly dynamic in lagging regions, helping narrow, although not eliminate, regional disparities. Overall productivity growth lagged regional peers, partly due to lower technology adoption and leading firms failing to scale up. Most new jobs were created in non-tradable sectors, while exports lost momentum. To grow faster-for-longer, the economy requires investing in infrastructure and future-ready skills, lowering trade costs, and enhancing the competitiveness and global integration of firms.

Recent economic activity has been underpinned by resilient goods trade, low inflation, and more accommodative macroeconomic policies. Sustained disinflation, largely from declining rice prices, improved household welfare that supported an uptick in private consumption and provided space for continued monetary policy easing. Goods exports grew faster than expected in the first half

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



Source: Philippines Statistics Authority.

Population ¹ million	Poverty ² millions living on less than \$4.20/day
115.8	19.4
Life expectancy at birth ³ years	School enrollment ⁴ primary (% gross)
69.8	93.4
GDP ⁵ current US\$, billion	GDP per capita ⁶ current US\$
461.6	3984.8

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

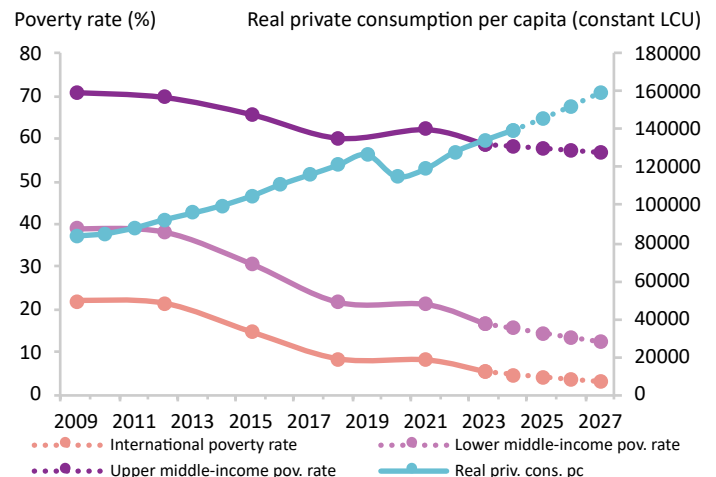
(H1) of 2025, but slower global growth and higher new tariffs taking effect in August are expected to dampen export growth in the near term. Even so, the medium-term growth outlook remains favorable, driven by resilient private domestic demand.

Recent developments

Economic growth remained robust at 5.4 percent year-on-year in H1 2025. On the demand side, low inflation, a strong labor market, and steady remittance inflows buoyed private consumption. Goods trade growth accelerated as firms frontloaded shipments amid heightened global trade policy uncertainty, temporarily boosting manufacturing. However, the pre-election spending ban reduced public construction, and a slump in tourism weighed on services exports, underscoring the unevenness of the recovery across sectors.

Headline inflation averaged 1.7 percent as of August 2025, below the central bank's 2–4 percent target, due to rice and transport price disinflation. With inflation subdued, the central bank has cut its policy rate by 75 basis points in 2025 and signaled further easing, providing support to growth while maintaining price stability.

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.

The fiscal deficit narrowed to 4.6 percent of GDP in Q2 2025, in line with consolidation efforts. This improvement reflected a 1.1-percentage-points decline in spending, both recurrent and capital. Despite the narrowing deficit, public debt is expected to rise marginally to 61.5 percent of GDP in 2025.

Labor market and welfare outcomes highlight progress but also persistent gaps. Higher wages and shifts in employment from agriculture to services precipitated a steady decline in poverty, which fell to 15.5 percent in 2023, returning to pre-pandemic poverty levels. Even so, an estimated 4.8 million Filipinos cannot afford a basic food basket, and 16.9 percent lived on less than \$4.20/day (2021 PPP), the poverty line for lower middle-income countries. In 2023, inequality fell below 40, the international threshold identifying high income inequality, but remains among the highest in the region. This points to the need for policies that ensure growth translates more evenly into welfare gains.

Employment indicators were broadly stable: the employment rate steadied at 63.3 percent in June 2025, reflecting a marginal increase in unemployment and a decline in labor force participation. The underemployment rate fell to 7.2 percent, suggesting some improvement in job quality. Services dominate the economy, employing 61.4 percent of workers, while the primary sector accounts for 20.9 percent. Wage employment accounted for 63.0 percent of jobs, relatively high compared to regional peers, indicating a relatively formal labor market structure.

Outlook

Despite weak global activity, annual growth is projected to average 5.4 percent in 2025–2027. Softer global demand and

persistent trade policy uncertainty will weigh on exports and manufacturing, but the economy is expected to remain one of the fastest-growing in East Asia and the Pacific. Growth will be underpinned by resilient domestic demand, supported by low inflation, monetary easing, and a strong labor market that will sustain consumption. Investment is also expected to remain robust, anchored by public infrastructure spending above 5 percent of GDP even as fiscal consolidation advances, and reinforced by reforms liberalizing key sectors such as telecoms, transport, logistics, and renewable energy.

Poverty is projected to decline to 14.5 percent in 2025 and 12.2 percent by 2027, driven by sustained growth in labor income. Yet nearly 30 percent of Filipinos remain at risk of falling into poverty due to low incomes and exposure to shocks, highlighting the need for improved job opportunities, stronger safety nets, and policies addressing climate shocks and food inflation.

Risks to the short-term outlook remain tilted to the downside. Globally, trade policy uncertainty could further weaken investment, trade, and confidence, while new trade restrictions may raise inflation in key economies and constrain monetary easing. Persistent geopolitical tensions risk lifting commodity prices or disrupting global shipping. Domestically, delays in fiscal and structural reforms could slow consolidation and weigh on medium-term growth, while adverse weather could disrupt supply, depress agricultural output, and raise food inflation. These risks underscore the importance of maintaining structural reform momentum, strengthening social protection and investment for climate adaptation, and safeguarding fiscal and monetary space to buffer shocks.

Recent history and projections

	2022	2023	2024	2025e	2026f	2027f
Real GDP growth, at constant market prices	7.6	5.5	5.7	5.3	5.4	5.5
Private consumption	8.3	5.5	4.9	5.3	5.5	5.6
Government consumption	5.1	0.3	7.3	7.2	6.7	6.4
Gross fixed capital investment	9.8	8.2	6.3	6.3	6.7	7.2
Exports, goods and services	11.0	1.3	3.3	4.1	4.5	4.6
Imports, goods and services	14.0	1.0	4.2	5.9	6.4	6.6
Real GDP growth, at constant factor prices	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	6.5	6.4	6.5
Employment rate (% of working-age population, 15 years+)	59.8	60.0	59.7	59.7	59.7	59.7
Inflation (consumer price index)	5.8	6.0	3.2	2.1	2.7	2.9
Current account balance (% of GDP)	-4.5	-2.8	-3.8	-4.3	-3.9	-3.8
Net foreign direct investment inflow (% of GDP)	-2.3	-2.0	-1.9	-1.8	-1.7	-1.7
Fiscal balance (% of GDP)	-7.3	-6.2	-5.7	-5.6	-5.2	-4.9
Revenues (% of GDP)	16.1	15.7	16.7	16.1	16.3	16.3
National Government Debt (% of GDP)	60.9	60.1	60.7	61.5	61.2	61.1
Primary balance (% of GDP)	-5.0	-3.6	-2.8	-2.4	-2.1	-1.7
International poverty rate (\$3.00 in 2021 PPP)^{1,2}	..	5.3	4.7	4.1	3.5	3.0
Lower middle-income poverty rate (\$4.20 in 2021 PPP)^{1,2}	..	16.9	15.7	14.5	13.3	12.2
Upper middle-income poverty rate (\$8.30 in 2021 PPP)^{1,2}	..	58.7	58.3	57.9	57.5	57.0
GHG emissions growth (mtCO2e)	3.0	2.3	4.0	5.2	6.1	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

Real GDP is projected to grow by 2.5 percent in 2025, driven by services, agriculture and mining, though contractions in logging and fishing will offset some gains. Fiscal deficit widened as infrastructure spending continued amid lower grants. Inflation eased with moderating global food and energy prices, cushioning vulnerable groups. Yet, high informality constrains job creation and service delivery, increasing vulnerability and risking setbacks in poverty reduction.

Key conditions and challenges

Geographic dispersion—across nine provinces and 90 inhabited islands—combined with frequent natural disasters constrain economic growth and complicates effective public service delivery. With low adaptive capacity (127th of 182 on the 2020 ND-GAIN Readiness Index), the country faces multiple hazards—earthquakes, extreme temperatures, storm surges, heavy rainfall, strong winds, and volcanic activity—that threaten coastal communities, over 80 percent of whom live within 1.5 km of the shoreline. These challenges limit trade, service delivery, and private sector activity, which are key to sustainable development.

Overreliance on forestry—alongside weak regulatory oversight and limited transparency—undermines fiscal sustainability and growth, underscoring the urgency of economic diversification. Logging has long been central to growth, exports, and fiscal revenues, but its role has diminished sharply, with contributions to growth and fiscal revenues roughly halving in recent years. The sector is in structural

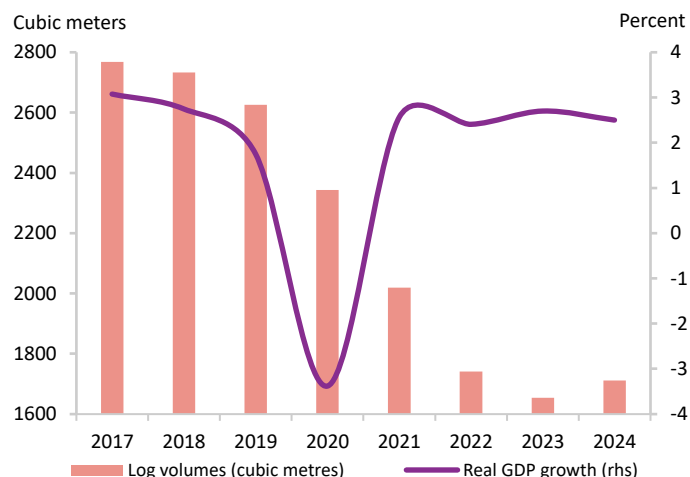
Population ¹ million	Poverty ² millions living on less than \$4.20/day
0.8	0.4
Life expectancy at birth ³ years	School enrollment ⁴ primary (% gross)
70.5	84.7
GDP ⁵ current US\$, billion	GDP per capita ⁶ current US\$
1.8	2152.9

Sources: WDI, MFM, and official data. 1/ 2024. 2/ 2012 (2021 PPPs). 3/ 2023. 4/ 2023. 5/ 2024. 6/ 2024.

decline due to resource depletion and the exit of major operators. Without accelerating diversification into agriculture, fisheries, tourism, renewable energy, and responsibly developed mining, fiscal revenues and jobs will continue to erode. Addressing binding structural constraints, such as enhancing governance and public investment management, and reducing regulatory obstacles to private sector development, will be key to catalyzing new drivers of growth.

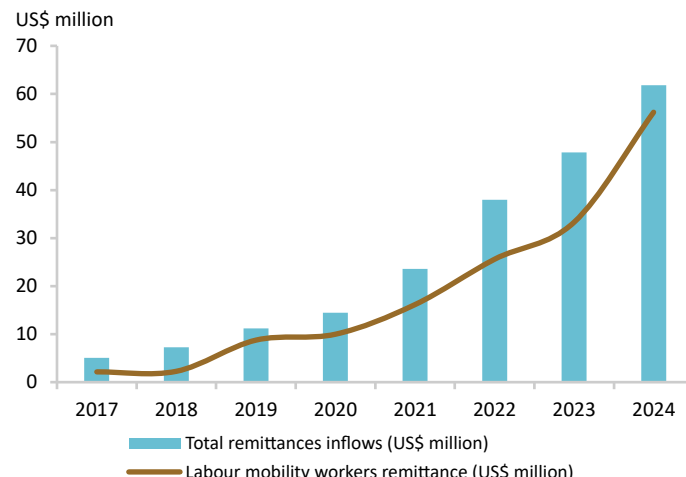
High unemployment, amounting to 7.9 percent in 2019, according to the Population Census, signals the formal sector's limited capacity to absorb a growing workforce. This constrains poverty reduction: 62.9 percent of the population were poor in 2012 based on the lower-middle-income poverty line (\$4.20 per day, 2021 PPP). Furthermore, persistent urban–rural gaps in multidimensional poverty (16 percent vs. 43 percent in 2019), highlight inequality of opportunity, while widespread deprivation in access to basic services and productive assets constrain the ability of low-income households to build resilience. Without stronger job creation and investment in human capital, poverty and inequality will remain entrenched, raising risks of instability.

FIGURE 1 / Real GDP and logging production



Sources: Solomon Islands National Statistics Office and Central Bank of Solomon Islands.

FIGURE 2 / Total remittances and labour mobility remittances



Sources: Solomon Islands National Statistics Office and Central Bank of Solomon Islands.

Recent developments

Economic activity was mixed in the first half of 2025. Mining, agriculture, and services expanded, while logging and fishing contracted. Copra, cocoa, and palm oil production rose by double digits, but these gains were offset by sharp declines in logging and fishing. Services growth slowed as a result, although a 13 percent rise in tourist arrivals and ongoing government infrastructure projects provided some support. Private sector credit growth picked up by 3 percent, signaling tentative investment and business expansion, while easing inflation bolstered domestic demand. With price pressure subdued, the central bank maintained an accommodative stance, keeping the cash reserve requirement at 5.5 percent in March 2025 to support economic activity. Given these dynamics, real GDP growth in 2025 is estimated at a muted 2.5 percent, well below what is needed to generate stronger job creation and poverty reduction.

The fiscal deficit widened in the first half of 2025 as the government continues with infrastructure projects, while development partner support waned following the end of Pacific Games-related assistance. Domestic revenue increased to 13 percent of GDP, with non-tax revenue outpacing tax revenue as the government adjusted various fees. Expenditure expanded, led by capital spending, but was partly constrained by lower spending on goods and services. Public debt, at 23.7 percent of GDP, remains elevated, and debt service costs have risen to 10 percent of government revenue, narrowing fiscal space for social spending and investment.

The trade balance shifted to a surplus in the first half of 2025 as exports of minerals and agricultural commodities outpaced imports. Mining exports (gold, nickel, and bauxite) recorded double-digit growth, while higher production of copra, palm oil, and cocoa supported a more than 20 percent rise in exports year-on-year. Meanwhile, gross foreign reserves rose to 11 months of import cover in June 2025 from 10.4 months a year earlier, providing a robust buffer against external shocks.

Outlook

The economy is projected to recover, with growth averaging 2.7 percent in 2025–2027, supported by infrastructure investments in transport, energy, and telecom, as well as increased mining activity. Tourism will continue to rebound, and labor mobility programs will boost household incomes through remittances. Easing global food and energy prices and accommodative monetary policy will keep inflation low, sustaining domestic demand. However, the decline in logging will weigh on transport, exports, and fiscal revenues. With rapid population growth, economic gains may not translate into significant poverty reduction.

The current account deficit is projected to widen to an average of 7.6 percent of GDP over 2025–2027, reflecting limited export growth (weak log exports) and strong import demand for infrastructure projects. Foreign reserves are expected to fall to 7 months of imports, remaining within the adequacy range. However, this trend highlights the need for economic diversification and prudent fiscal management to ensure external stability.

The fiscal deficit is projected to remain stable averaging 3.2 percent over the medium term, as 2023 Pacific Games and 2024 election spending eases and revenues rise. Ongoing tax and non-tax reforms are expected to offset part of the decline in aid and grants, but spending pressures to complete infrastructure projects will persist. Public debt is expected to continue rising with new borrowing for infrastructure, thus rebuilding cash reserves is needed to buffer future shocks and prevent debt stress.

Rising participation in Australian and New Zealand labor mobility schemes is expected to support household welfare, though the domestic social impacts remain uncertain. Subdued global growth, heightened policy uncertainty, and trade tensions could weigh on exports, and public finances. High climate-related risks threaten sustainability. Sustaining growth amid these headwinds requires prudent fiscal management, stronger buffers, and economic diversification into agribusiness, fisheries, and tourism to build resilience.

Recent history and projections

	2022	2023	2024	2025e	2026f	2027f
Real GDP growth, at constant market prices	2.4	2.7	2.5	2.5	2.6	2.8
Real GDP growth, at constant factor prices	2.3	4.3	2.5	2.5	2.6	2.8
Agriculture	3.3	1.8	1.0	0.8	0.7	0.8
Industry	1.0	12.8	7.2	6.5	6.3	6.5
Services	2.3	3.3	2.0	2.0	2.2	2.5
Inflation (consumer price index)	5.4	5.1	3.7	3.6	3.7	3.6
Current account balance (% of GDP)	-13.9	-10.6	-4.3	-8.1	-8.0	-7.9
Net foreign direct investment inflow (% of GDP)	2.7	4.4	0.9	2.3	2.6	2.7
Fiscal balance (% of GDP)	-2.4	-3.8	-3.0	-3.5	-3.3	-3.1
Revenues (% of GDP)	38.3	36.3	32.2	32.8	33.1	33.3
Debt (% of GDP)	15.5	20.3	22.0	24.4	26.2	28.1
Primary balance (% of GDP)	-2.1	-3.5	-2.6	-3.0	-2.7	-2.5
GHG emissions growth (mtCO₂e)	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 maintained solid growth in FY25, driven by strong remittances that boosted household spending, rising visitor arrivals, and higher public expenditure. Vanuatu's recovery was subdued following multiple shocks in FY24, while poverty continued to rise. To unlock stronger and more inclusive growth, structural reforms and adaptive fiscal policies will be critical for building resilience.

Key conditions and challenges

Tourism- and remittance-dependent South Pacific economies are highly vulnerable to external shocks, which have hindered economic growth and fiscal stability. Fiscal policy should be directed towards building resilience to shocks by maintaining fiscal buffers, diversifying revenue sources, and ensuring prudent expenditure management. Sustaining growth requires structural reforms to enhance investment and private sector development, which will create more and better livelihood opportunities in the country. In the near term, reconstruction in Vanuatu from multiple natural hazards should be prioritized to restore growth and protect vulnerable households.

Recent developments

In Samoa, growth slowed to an estimated 2.1 percent in FY25, following the sharp post-pandemic rebound in FY23 and FY24. Economic activity was supported by continued growth in remittances,

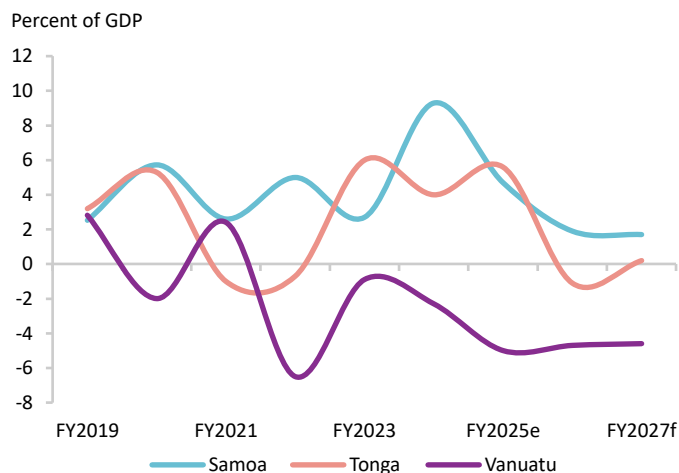
	WSM	TON	VUT
Population ¹ thousand	218.0	104.2	327.8
Poverty thousand living on less than \$4.20/day	22.9 ²	1.9 ³	107.8 ⁴
GDP ¹ current US\$, billion	0.93	0.52	1.10
GDP per capita ¹ current US\$	4114	4886	3323

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

tourism spending, and government outlays related to the Commonwealth Heads of Government Meeting (CHOGM) in October 2024. However, power outages in the first half of 2025 disrupted production across all sectors, underscoring infrastructure vulnerabilities. Annual average inflation has continued to decline to around 2 percent in FY25 from 3.6 percent in FY24, largely due to subdued growth in imported prices. Substantial current account surpluses of 4 to 5 percent of GDP were recorded in FY24- FY25, supported by tourism, remittances, and easing global commodity prices. The latest poverty data show 21.9 percent of the population living below the national poverty line in 2018; international poverty estimates are not yet available.

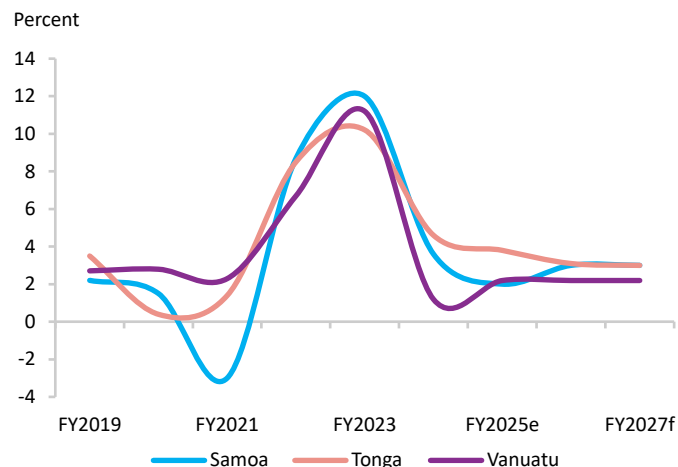
In Tonga, the economy grew by 2.7 percent in FY25, supported by domestic demand, public infrastructure investment, and recovery in agricultural production after El Niño effects last year. Headline inflation decreased to 3.8 percent in FY25, reflecting lower food and energy prices. Higher remittances continue, but higher goods imports, including those related to construction, widened the current account deficit to 5.2 percent in FY25. The fiscal balance remained in surplus at 5.6 percent of GDP in FY25, despite the high public investment. This

FIGURE 1 / Overall fiscal balance



Sources: National sources and World Bank projections.

FIGURE 2 / Inflation (annual average)



Sources: National sources and World Bank projections.

reflects stronger domestic revenues, temporary wage savings from slower public-sector vacancy refilling, and record-high grants from development partners, equaling more than 30 percent of GDP. Poverty rates in 2025 are estimated to be around 23 percent based on the upper-middle income poverty line, declining from around 28 percent in 2022, reflecting the economic recovery.

In **Vanuatu**, growth slowed to 0.9 percent in FY24 as the economy grappled with Air Vanuatu's voluntary liquidation in May 2024 and the resulting tourism disruptions, weaker agricultural output, delays in public investment, and a major earthquake in December 2024. Inflation eased to 1.2 percent in 2024, driven by lower global food and energy prices. The current account deficit widened to 15.4 percent of GDP in 2024, largely due to a sharp drop in travel receipts. The fiscal deficit rose to 2.3 percent of GDP, reflecting weaker revenues and increased expenditures. Poverty worsened, particularly in Shefa Province, where the earthquake severely affected livelihoods. Food security pressures were short-lived, but employment in Shefa declined by 14 percent between December 2024 to February/March 2025 and remained weak for the next few months. By June 2025, employment began to recover with the reopening of the Port Vila Central Market, while tourism's gradual revival is expected to restore more jobs going forward.

Outlook

Although uncertainties in trade policy may weigh on global growth, the impact on the South Pacific's growth outlook is likely to be limited, given its modest export base. However, slower-than-anticipated growth in key trading partners such as New Zealand and Australia could weigh on exports—particularly tourism—and reduce remittances, a key source of income for many households. In Tonga, the November 2025 elections may bring some uncertainty but also mark a key moment for advancing reforms.

In **Samoa**, GDP is projected to grow by 2.5 percent in FY26 and over the medium term. Growth in FY26 will be driven by a pick-up in

investment, continued remittance inflows, and steady growth in tourism spending. While direct poverty estimates are not available, positive GDP per capita growth suggests further poverty reduction over the coming years. The FY26 budget has been deferred until after the August 2025 elections, but additional work on major public investment projects is expected to advance during the year. The fiscal surplus is therefore expected to narrow. Inflation is expected to rise to 3.0 percent in FY26, driven by increases in imported prices. Risks to the outlook include election-related uncertainty and the ongoing potential for global trade and supply chain disruptions.

In **Tonga**, growth is projected to moderate to 2.3 percent in FY26, supported by domestic demand and major infrastructure projects, including the bridge, wharf, and hospital. Headline inflation is expected to remain contained below the 5 percent reference rate in FY26 and subsequent years. However, underlying pressures are emerging due to high core inflation at almost 10 percent in June 2025. This is driven by higher prices for imported goods such as personal care products, clothing, and vehicles, as well as restaurants and hotel services. The current account deficit is projected to gradually widen as grants and remittances normalize, while capital spending remains elevated. The fiscal balance is projected to shift to a deficit in FY26. The poverty rate, measured by the upper-middle-income poverty line, is likely to decrease to approximately 21.3 percent by 2027.

In **Vanuatu**, the economy is projected to expand by 1.7 percent in FY25, supported by increased international flights that boost tourism, stronger construction activity linked to post-earthquake reconstruction and infrastructure development, and higher agricultural production. The recovery, however, is being held back by weak domestic connectivity, limited domestic accommodation, reduced cruise tourism, and uncertainty in trade policy. The fiscal deficit is forecasted to widen further to 5 percent of GDP as revenues decline and expenditures increase to support post-earthquake recovery. Poverty is expected to rise to 48.9 percent by 2027 as income growth remains weak.

Recent history and projections

	2022	2023	2024e	2025e	2026f	2027f
Real GDP growth, at constant market prices						
Samoa	2.3	15.2	4.6	2.1	2.5	2.5
Tonga	-2.3	2.1	2.1	2.7	2.3	1.8
Vanuatu	5.2	2.1	0.9	1.7	2.8	2.7
Poverty rate^{1,2}						
Tonga (Upper-middle-income poverty rate, \$8.30 in 2021 PPP)	28.1	26.8	25.1	23.1	21.8	21.3
Vanuatu (Lower-middle-income poverty rate, \$4.20 in 2021 PPP)	44.2	45.0	46.7	47.9	48.3	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. Tonga improved the methodology for GDP calculation and revised the historical data in late 2024 release. Samoa has recently revised its GDP estimates from 2021-2025 based on improved source data.

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

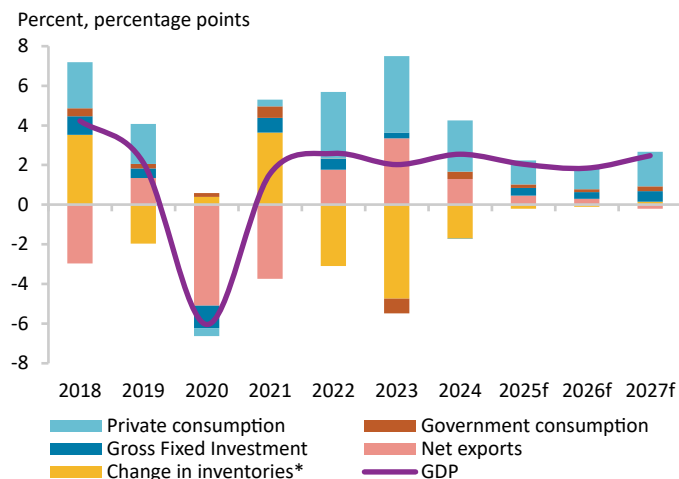
Stronger-than-expected growth in the first half of 2025 due to export front-loading masked weak underlying domestic demand amid household debt deleveraging and a sluggish tourism recovery. After accelerating to 2.5 percent in 2024, growth is projected to slow further to 2.0 percent in 2025. This slowdown is expected to hinder poverty reduction efforts, following a modest decline in the poverty rate to 7.1 percent in 2025.

Key conditions and challenges

Despite sizable fiscal stimulus, including cash transfers to households earlier this year, private consumption growth slowed due to weak sentiment, household debt deleveraging and tightened credit. In the near term, fiscal rebalancing towards public investment, while safeguarding fiscal and financial stability will be essential to mitigate risks and support a more inclusive and sustainable recovery.

Thailand's protracted post-pandemic recovery, the weakest among peers, underscores mounting structural challenges. Medium-term growth is projected to fall to 2.7 percent in 2022–30, down from an average of 3.2 percent in 2011–21 driven by aging, slowing investment, and subdued productivity growth. At this pace, Thailand is unlikely to reach its high-income aspirations by 2037. To navigate these challenges, Thailand must prioritize structural reforms to boost productivity in emerging growth engines—such as digital services—while attracting quality investment and diversifying trade partnerships. Strengthening human capital, improving the investment climate, and accelerating digital transformation are critical to raising productivity and promoting better jobs across multiple sectors including, for example, commerce, finance and public health.

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



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

Population ¹ million	71.7	Poverty ² millions living on less than \$8.30/day	7.1
Life expectancy at birth ³ years	76.4	School enrollment ⁴ primary (% gross)	103.5
GDP ⁵ current US\$, billion	526.1	GDP per capita ⁶ current US\$	7341.4

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

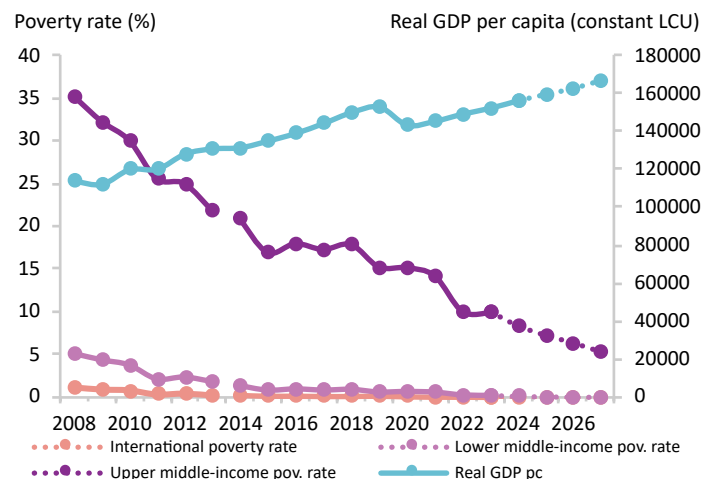
The drop in employment between 2024 and 2025—driven largely by losses in agriculture and manufacturing—along with deteriorating household credit quality, indicates risks to sustained poverty reduction over the medium to long term.

Recent developments

Growth in H1 2025 was driven by temporary factors rather than a broad-based recovery. While the economy expanded in H1 on the back of buoyant frontloaded exports and surging public investment as public infrastructure projects resumed, tourism faltered, and underlying domestic demand momentum slowed. Private consumption slowed significantly due to tightened credit and household debt deleveraging, as well as the faded impact of fiscal cash transfers. On the supply side, manufacturing improved slightly but tourism recovery has slowed. In July, the arrivals reached only 79 percent of pre-pandemic levels as Chinese arrivals fell mainly due to safety concerns.

In July, headline inflation remained the lowest rate among ASEAN peers and emerging markets, falling to -0.7 percent. This was driven by lower energy prices, reflecting both falling global oil prices

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



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

and continued government subsidies as well as weak domestic demand. Responding to persistently low inflation, BOT cut its policy rate further to 1.50 percent, to provide support for SMEs and vulnerable households facing mounting challenges. The fiscal stance became more expansionary, driven by higher current and capital spending.

The current account surplus narrowed to 0.4 percent of GDP in 2025 Q2 with imports accelerating more than exports, dipping tourism receipts, and falling repatriation of foreign earnings during dividend season. The nominal baht effective exchange rate (NEER) appreciated, reflecting a weaker U.S. dollar and an improved current account balance.

Labor market outcomes remain fragile. Employment fell by 0.5 percent between Q1 2024 and Q1 2025 driven by agricultural job losses. The labor force participation rate dropped from 99.4 to 98.2 percent. Gains in services were concentrated in hotels and restaurants but may prove short-lived given slowing tourism. The slightly weaker employment outlook threatens to constrain poverty reduction.

Outlook

Growth is projected to slow to 2.0 percent in 2025 and 1.8 percent in 2026, down from 2.5 percent in 2024, amid intensifying global and domestic headwinds. The deceleration is driven by the negative impact of global trade shifts on exports in H2, following significant front-loading in H1, alongside subdued tourism and domestic demand. Private consumption is expected to moderate

amid household deleveraging, although fiscal stimulus will provide some cushion.

In 2025, the current account is projected to post an adequate surplus of 1.9 percent of GDP, down from a surplus of 2.1 percent in 2024, as global trade conditions soften and tourism earnings remain weak. Inflation will remain subdued, mainly due to falling global commodity prices. Core inflation remains low, highlighting persistent demand-side weaknesses and providing room for continued monetary accommodation.

Household debt has remained high (88.4 percent of GDP Q1 2025), while credit quality has deteriorated. Despite substantial fiscal cash transfers, the combination of falling employment and weakening household credit quality poses risks to sustaining poverty reduction in the medium to long term.

Downside risks to growth remain significant, stemming from global trade shifts and sluggish tourism, which can dampen exports and services growth, respectively. While Thailand's external position remains strong, the economy is increasingly exposed to global trade policy shifts due to a concentrated export goods basket. Continued border tension with Cambodia may result in labor shortages due to repatriation of workers. Internally, potential political transition could result in delays to next year's budget. Fiscal space is narrowing due to increased spending and slower revenue growth. Public debt may approach the ceiling of 70 percent of GDP in the next five years. In the near term, fiscal rebalancing towards public investment while safeguarding fiscal and financial stability will be essential to mitigate risks and support a more inclusive and sustainable recovery.

Recent history and projections

	2022	2023	2024	2025e	2026f	2027f
Real GDP growth, at constant market prices	2.6	2.0	2.5	2.0	1.8	2.5
Private consumption	6.2	6.9	4.4	2.0	1.9	2.9
Government consumption	0.1	-4.7	2.5	1.3	1.0	1.6
Gross fixed capital investment	2.2	1.2	0.0	1.6	1.4	2.3
Exports, goods and services	6.2	2.4	7.8	1.9	1.1	4.1
Imports, goods and services	3.4	-2.5	6.3	1.3	0.7	4.7
Real GDP growth, at constant factor prices	3.4	0.9	3.7	2.0	1.8	2.5
Agriculture	1.2	2.0	-1.1	2.3	1.6	1.8
Industry	4.1	-5.7	0.8	0.1	-0.4	2.0
Services	3.3	4.6	5.7	3.0	2.9	2.8
Inflation (consumer price index)	6.1	1.2	0.4	0.2	0.9	1.4
Current account balance (% of GDP)	-3.5	1.4	2.1	1.9	1.8	1.5
Net foreign direct investment inflow (% of GDP)	0.8	-1.4	0.5	-1.1	-1.1	-1.1
Fiscal balance (% of GDP)	-4.5	-2.0	-1.3	-3.2	-3.2	-2.8
Revenues (% of GDP)	19.8	20.8	21.2	21.4	21.4	21.6
Debt (% of GDP)	59.7	62.0	62.6	65.5	67.3	67.9
Primary balance (% of GDP)	-3.6	-1.2	-0.4	-2.3	-2.3	-1.9
International poverty rate (\$3.00 in 2021 PPP)^{1,2}	0.0	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate (\$4.20 in 2021 PPP)^{1,2}	0.2	0.1	0.1	0.0	0.0	0.0
Upper middle-income poverty rate (\$8.30 in 2021 PPP)^{1,2}	9.9	9.9	8.2	7.1	6.3	5.2
GHG emissions growth (mtCO₂e)	3.6	2.0	2.4	1.9	2.2	3.0

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

Real GDP grew by 4.1 percent in 2024, driven by infrastructure and services. Vulnerabilities persist, including lack of fiscal sustainability, high import dependence and informality. Access to basic services has improved, but delivery is uneven. Medium-term growth relies on infrastructure spending ASEAN integration, and Greater Sunrise negotiations. Urgent reforms are needed to address fiscal fragility, limited diversification, climate shocks, and Petroleum Fund depletion.

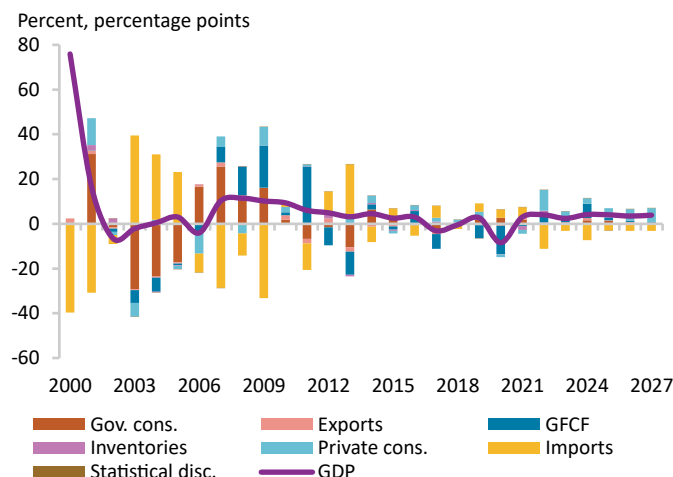
Key conditions and challenges

While recent growth has been positive, the economy still face structural vulnerabilities—regional disparities, large external imbalances, a shallow financial sector, and unsustainable fiscal management. High social protection spending and rising remittances—now exceeding 11 percent of non-oil GDP—support household welfare but also raise reservation wages, discouraging labor force participation, and slowing the transition to a more diversified economy.

The Petroleum Fund (PF) has provided significant deficit financing—well above the Estimated Sustainable Income (ESI), jeopardizing fiscal sustainability. With oil production now halted, the Fund could be depleted by 2038. Without alternative revenue sources and stronger fiscal discipline, fiscal sustainability and the government's capacity to deliver public services will be at risk.

Despite progress in poverty reduction and human development, Timor-Leste remains among the poorest countries in East Asia and Pacific. Access to sanitation, electricity, education, and health services have improved, yet labor force participation is stagnant, productivity has declined, and informality remains high

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



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

Population ¹ million	Poverty ² millions living on less than \$4.20/day
1.4	0.8
Life expectancy at birth ³ years	School enrollment ⁴ primary (% gross)
67.7	123.3
GDP ⁵ current US\$, billion	GDP per capita ⁶ current US\$
1.8	1289.0

Sources: WDI, PIP, and official data. 1/ 2024. 2/ 2014 (2021 PPPs). 3/ 2023. 4/ 2023. 5/ 2024. 6/ 2024.

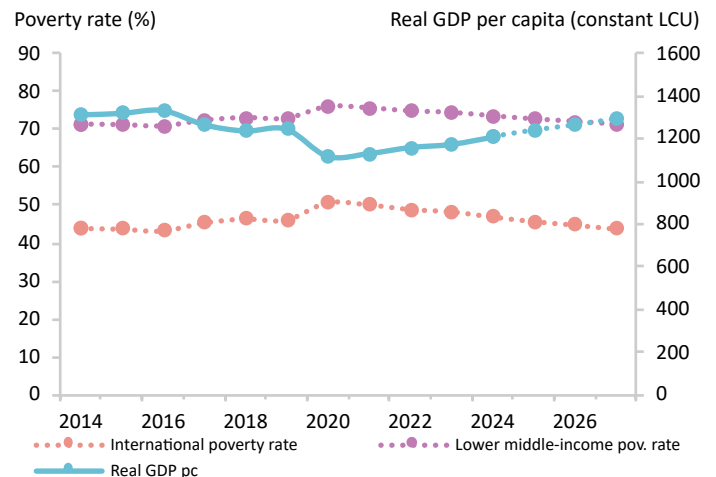
at 77 percent (2021). Looking ahead, opportunities from WTO and ASEAN accession in October could support growth, while tourism, agriculture, and digital services show early momentum. To seize these opportunities, Timor-Leste must prioritize productive public investment, advance land reform, improve access to finance, and maintain political stability.

Recent developments

Non-oil GDP grew by 4.1 percent in 2024, the strongest pace in the last decade, driven by a 48 percent surge in public investment and 28 percent rebound in foreigners' arrival. Travel exports grew 43 percent and private sector credit expanded 39 percent. Although the financial sector is gradually deepening, it remains underdeveloped, with credit-to-GDP at 31.5 percent at end-2024—below the regional average and concentrated in loans to individuals, leaving firms underserved and growth still reliant on public spending.

Inflation plummeted in the first half of 2025 to 0.1 percent year-on-year from 3.4 percent last year, reflecting lower global commodity prices. Timor-Leste's real effective exchange rate (REER) appreciation reduced import costs, which helped ease inflation further but

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



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

hurt external competitiveness. The current account deficit widened in early 2025 amid lower Petroleum Fund revenues and higher imports. Coffee exports edged up but remain too small to narrow the trade gap. Secondary income remained strong last year, due to increased remittance inflow while lower remittance outflow.

Fiscal outcomes show both progress and risks. In H1 2025, budget execution improved, with 31.4 percent of budget disbursed, but capital expenditure remains below pre-COVID levels. Financing still relies heavily on PF withdrawals. Excess withdrawals above the ESI have financed widening fiscal deficits over the last sixteen years, undermining fiscal sustainability and narrowing policy space for future shocks.

The upcoming 2024 Living Standards Survey will shed light on household income growth after a decade-long gap. The Population and Housing Census suggests that electricity access improved from 84 to 96 percent during 2015-22, but municipal discrepancies in living conditions and service delivery remain stark. The Labor Force Survey shows that labor force participation remained at 30 percent since 2013, the lowest among peers. Labor productivity declined at an average annual rate of 2.1 percent in 2013-21, with real wages declining. Non-agricultural employment has been dominated by the public sector, underscoring weak private sector dynamism. Without stronger private sector development and higher productivity, growth will remain heavily state-driven, with limited job creation and fragile welfare gains.

Outlook

Growth is projected to average 3.7 percent in 2025-27, supported by continued public investment, expansion of the service sector,

improved digital and transport connectivity, rising tourism, and remittances that sustain private consumption. ASEAN accession in October, along with progress in Greater Sunrise negotiations could unlock new investment and trade opportunities. Nevertheless, growth remains heavily dependent on government spending, underscoring the need to strengthen budget execution, raise investment efficiency, and further improve service delivery so that fiscal stimuli translate into productivity gains and private sector-led growth.

Inflation is expected to average around 2.1 percent over 2025-27, reflecting lower global inflation, but food prices and external shocks remain key risks given Timor-Leste's reliance on imports and limited monetary policy tools. While price stability improves household welfare, heavy import dependence leaves consumers highly exposed to global food and fuel price volatility.

Fiscal policy is expected to remain expansionary. The 2026 General State Budget projects spending near 90 percent of GDP, with deficits above 50 percent, financed largely through PF withdrawals, far above the 3 percent ESI benchmark and set to rise further. This trajectory heightens fiscal fragility and could deplete the PF by 2038.

Risks to the outlook are tilted to the downside. A narrow export base, high import dependence, weak institutions, limited diversification, climate vulnerability, and political uncertainty all weigh on economic prospects. The most pressing risk is fiscal: without reforms to mobilize revenue, improve spending efficiency, and adopt a medium-term fiscal framework, macroeconomic stability could be at risk as the PF could be depleted by 2038.

Recent history and projections

	2022	2023	2024e	2025f	2026f	2027f
Real GDP growth, at constant market prices	4.0	2.4	4.1	4.0	3.4	3.8
Private consumption	14.0	3.4	3.3	6.0	7.0	8.0
Government consumption	-0.3	-0.8	2.6	2.0	0.8	0.3
Gross fixed capital investment	27.0	11.5	33.6	4.5	2.0	1.2
Exports, goods and services	30.3	31.9	34.0	9.5	10.0	10.0
Imports, goods and services	22.9	4.9	12.5	4.9	5.0	5.0
Real GDP growth, at constant factor prices	3.6	2.5	4.1	4.0	3.4	3.8
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	4.4	3.6	4.1
Inflation (consumer price index)	7.0	8.4	2.1	2.0	2.1	2.1
Current account balance (% of GDP)	24.3	-9.8	-29.3	-31.8	-32.3	-32.7
Net foreign direct investment inflow (% of GDP)	-17.1	7.3	12.6	9.8	9.7	9.8
Fiscal balance (% of GDP)¹	-59.5	-40.9	-50.5	-54.0	-50.2	-47.0
Revenues (% of GDP)	43.6	41.2	40.8	41.3	41.4	41.3
Debt (% of GDP)	15.1	14.4	14.3	14.3	14.3	14.3
Primary balance (% of GDP)	-59.3	-40.6	-50.2	-53.8	-50.1	-46.9
International poverty rate (\$3.00 in 2021 PPP)^{2,3}	48.9	48.3	46.9	45.7	44.8	43.7
Lower middle-income poverty rate (\$4.20 in 2021 PPP)^{2,3}	74.9	74.5	73.5	72.7	72.0	71.3
GHG emissions growth (mtCO2e)	-0.4	-1.2	-1.6	-1.5	-1.5	-1.5

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 sustainable income from Petroleum Fund (PF) is transferred to Government as annual fiscal revenue (above the line), known as ESI (Estimated Sustainable Income). However, extra withdrawals from the PF are also used as the main source to finance the budget deficit (below the line).

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

Viet Nam's economy grew by 7.5 percent in the first half of 2025, boosted by frontloaded exports and domestic demand. Real GDP growth is forecasted to slow to 6.6 percent in 2025 as new trade restrictions take effect and external demand softens. Poverty is expected to decline from 3.8 percent in 2024 to 3.6 percent in 2025, supported by rising incomes and growing manufacturing employment. The outlook remains dependent on further trade developments.

Key conditions and challenges

Viet Nam is targeting double digit growth by 2030 and a high-income transition by 2045 through increased public investment and domestic private sector development. However, the country remains vulnerable to external shocks. Trade tensions have sparked renewed concerns over transshipment for Viet Nam given substantial use of imported inputs for export. Labor market inequities—rooted in limited foreign direct investment (FDI)—domestic ties, skills gaps, and low-skilled job concentration—risk stifling quality job growth and shared gains.

Financial sector risks persist due to loan forbearance, restructuring, and declining loan-loss coverage. Reinforcing the resilience of the banking system is needed, including tightening bank supervision, increasing liquidity and capital buffers.

The ambitious public investment plan aimed at boosting growth requires effective implementation. Viet Nam has engaged in a major institutional reform to enhance efficiency (consolidating central ministries from 18 to 14, merging provinces from 63 to 34, eliminating district-level authorities

Population ¹ million	Poverty ² millions living on less than \$4.20/day
101.0	4.2
Life expectancy at birth ³ years	School enrollment ⁴ primary (% gross)
74.6	122.5
GDP ⁵ current US\$, billion	GDP per capita ⁶ current US\$
471.3	4667.1

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

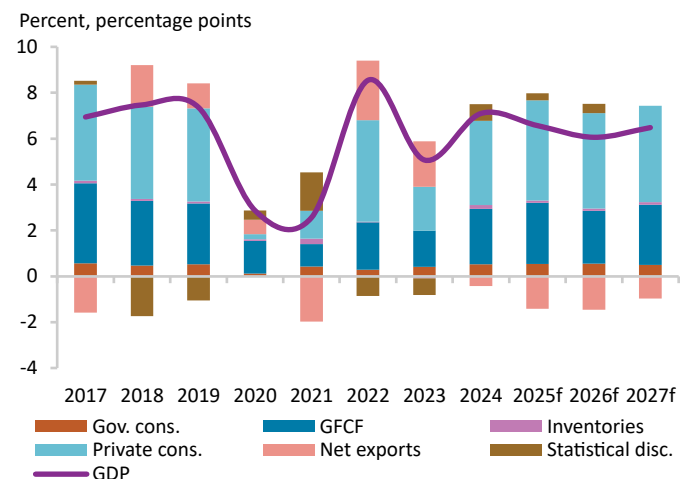
towards a two-tier system, and reducing public headcount by 20 percent over 5 years).

Recent developments

Real GDP grew by 7.5 percent y/y in H1-2025 driven by the front-loading of exports amid trade policy uncertainties, supporting the expansion of manufacturing production and trade-related services. Investment accelerated in H1-2025 thanks to large infrastructure projects, while net FDI inflows remained resilient. Meanwhile, consumption and private investments are recovering at a slower pace, with growth remaining below pre-pandemic rates.

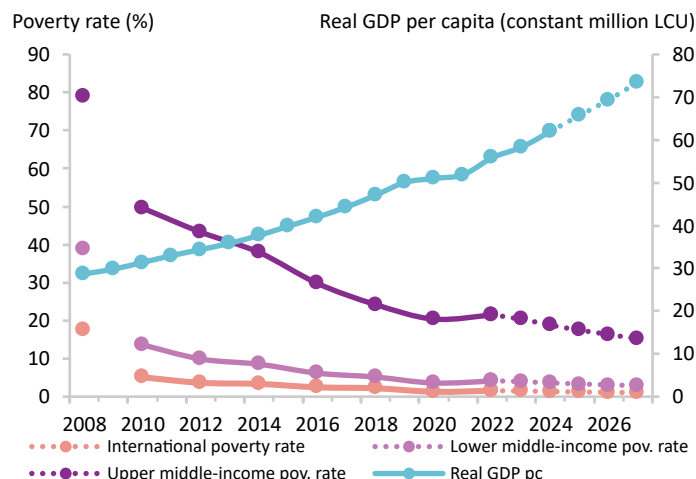
Headline inflation climbed to 3.6 percent by June 2025, driven by construction materials and electricity costs, while core inflation reached 3.5 percent in June 2025. Poverty rates using the lower middle-income country (LMIC) line of \$4.2 in 2021 PPP (and the upper middle-income country (UMIC) Line of \$8.3 in 2021 PPP) are expected to have continued their decline driven by increased employment and labor income during H1-2025. Formal employment remained stable, and the unemployment rate declined marginally from 2.3 percent in Q2-24 to 2.2 percent in

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.

Q2-25. The average monthly real income of employees grew by 6.8 percent y/y in Q2-25. Nevertheless, global uncertainty and rising food prices pose a risk particularly for lower income households.

Banking credit surged to 18.1 percent y/y in H1-2025, largely attributed to the SBV front-loading credit quotas to banks at the beginning of the year. Underlying risks persist due to loan forbearance, restructuring, and declining loan-loss coverage. The systemwide non-performing loans (NPLs) were evaluated to have risen from 5.0 percent in 2024 to 5.3 percent (on-balance sheet) by February 2025. Rapid credit growth risks compromising credit quality, highlighting the need for stronger prudential oversight. The loan-loss coverage for non-performing loans has nearly halved over the past three years, indicating a significant decline in the banking sector's loss-absorbing capacity.

The external position deteriorated slightly due to a smaller current account surplus and larger financial account deficit. The current account surplus shrank in Q1-2025 as increased imports lowered the trade surplus. Large capital outflows turned the financial account into a deficit, driven by the net outflow in money and deposits in the banking sector, reflecting tighter foreign funding conditions or shifts in portfolio liquidity preferences.

The fiscal balance was positive in H1-2025, reaching 3.9 percent of GDP, due to faster revenue collection compared to government expenditure disbursements. Public investment surged by 36 percent y/y in H1-2025, reflecting both higher planned spending and higher execution rates (32.5 percent by June, +3.1pp).

In sum, the strong performance in H1-2025 masks rising vulnerabilities, an economy highly exposed to global trade shifts, households squeezed by food inflation and a financial system with thinning buffers.

The composition of growth marked by frontloaded exports and public investment emphasizes the need to deepen domestic demand, strengthen private sector confidence, and shore up financial resilience.

Outlook

Real GDP growth is forecast to moderate to 6.6 percent in 2025, as export growth normalizes under new trade restrictions and softer external demand. GDP growth is projected to ease to 6.1 percent in 2026 before rebounding to 6.5 percent in 2027 supported by a pickup in global trade and Viet Nam's continued appeal as a competitive industrial base in global supply chains.

Headline inflation is projected to reach 3.8 percent in 2025 due to continued housing price increases, before decelerating to 3.5 percent by 2027. Poverty is expected to continue declining with sustained growth, and by 2027 poverty at the LMIC line of \$4.2 in 2021 PPP is expected to be 3.2 percent.

Downside risks are elevated. A prolonged period of policy uncertainty or a further escalation in global trade tensions could reduce FDI inflows and trade volumes. Fiscal policy should continue to take the lead in supporting medium-term growth and resilience, given limited monetary policy space due to persistent interest rate differentials and exchange rate pressures. Low public debt allows for increased investment, particularly to close infrastructure gaps in energy, logistics and transport, with an emphasis on efficient public investment management and prudent debt and risk oversight. Mitigating financial sector risks and vulnerabilities remains crucial, by improving banks' capital adequacy ratios and strengthening the institutional framework for prudential supervision and early interventions by the central bank.

Recent history and projections

	2022	2023	2024	2025e	2026f	2027f
Real GDP growth, at constant market prices	8.5	5.1	7.1	6.6	6.1	6.5
Private consumption	7.9	3.4	6.7	8.0	7.5	7.5
Government consumption	3.0	4.6	5.8	5.3	5.6	5.1
Gross fixed capital investment	5.9	4.6	7.1	7.6	6.6	7.4
Exports, goods and services	6.2	-2.5	15.5	13.4	8.7	8.9
Imports, goods and services	3.5	-4.5	16.1	14.9	10.0	9.6
Real GDP growth, at constant factor prices	8.8	5.3	7.2	6.9	6.0	6.4
Agriculture	3.7	3.9	3.3	2.4	3.0	3.0
Industry	8.2	3.7	8.2	6.9	6.5	6.5
Services	10.7	6.9	7.4	7.9	6.3	7.1
Employment rate (% of working-age population, 15 years+)	73.3	72.9	72.6	72.6	72.6	72.6
Inflation (consumer price index)	3.1	3.2	3.5	3.8	3.7	3.5
Current account balance (% of GDP)	0.3	6.0	6.5	2.6	2.6	2.6
Net foreign direct investment inflow (% of GDP)	3.7	3.1	-4.2	4.2	4.3	3.9
Fiscal balance (% of GDP)	0.7	-1.6	-1.0	-2.1	-2.2	-1.8
Revenues (% of GDP)	18.9	17.2	17.8	16.2	16.0	15.8
Debt (% of GDP)	36.9	36.0	36.2	36.7	35.0	33.8
Primary balance (% of GDP)	1.7	-0.8	-0.1	-1.2	-1.3	-0.9
International poverty rate (\$3.00 in 2021 PPP)^{1,2}	1.6	1.5	1.4	1.3	1.3	1.2
Lower middle-income poverty rate (\$4.20 in 2021 PPP)^{1,2}	4.2	4.0	3.8	3.6	3.4	3.2
Upper middle-income poverty rate (\$8.30 in 2021 PPP)^{1,2}	21.5	20.8	19.8	18.9	18.1	17.3
GHG emissions growth (mtCO2e)	0.1	3.9	5.5	5.1	5.2	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.

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