

Highlights

- 2023 was a tale of two halves for the global economy and ASEAN+3. The first half saw continued aggressive monetary policy tightening and short-lived financial market instability in the United States (US) and Europe, and elevated inflation. In the second half, monetary policy tightening paused, financial markets stabilized, and growth in the US and Europe proved resilient alongside moderating inflation.
- ASEAN+3 registered stronger growth of 4.3 percent in 2023—an increase from 3.2 percent in 2022—driven by robust domestic demand amid weakness in exports. Inflation in the region moderated, although core inflation remained high given firm domestic demand. Financial conditions improved toward the end of the year, with credit growth remaining firm, equity markets recovering, bond yields moderating, and exchange rates stabilizing. Healthy international reserves levels contributed to the region's external resilience.
- ASEAN+3 is expected to grow at a faster pace of 4.5 percent in 2024, before moderating to 4.2 percent in 2025. Domestic demand is likely to remain resilient, underpinned by recovering investment and firm consumer spending. Export recovery, especially in semiconductors, and tourism should provide an additional lift to growth. In the medium term, the ASEAN+3 region is expected to continue to be an engine of growth in the global economy—growing faster than the world average and contributing around 45 percent of global growth in 2024–2030. Inflation is forecast to continue moderating but disinflation would be gradual and core inflation is likely to remain elevated as domestic demand remains robust.
- The near-term prospects for ASEAN+3 could be impacted by various risks. A sudden spike in global commodity prices due to an escalation in geopolitical tensions or weather shocks is the most salient risk. Other key risks include a slower-than-expected growth in China, adverse spillovers from US Presidential election campaign, and possible recession in major advanced economies outside the region. Over the longer term, escalating geopolitical confrontations, failure to prepare for an aging population, climate change, cyber-attacks, and pandemic outbreaks pose complex challenges to macrofinancial stability.
- Nonetheless, the current positive outlook for ASEAN+3 provides an opportunity for the region to rebuild policy space lost during the pandemic. In 2023, fiscal consolidation continued in most ASEAN+3 economies, though most have not fully regained pre-pandemic policy space, while almost all central banks in the region have kept their monetary policy relatively tight to contain inflationary pressures. Going forward, the priority for fiscal policy should be directed mainly at restoring buffers while providing targeted support for the economy. Meanwhile, it is essential for monetary policy to be focused on anchoring inflation expectations given the continued upside risks to inflation.
- Looking back to developments since the onset of COVID-19, despite a strong initial recovery, GDP growth for the region has remained below pre-pandemic trend. This reflects ongoing adjustments and scarring effects that have lowered underlying growth amid a challenging global environment. Notably, the recovery in investment has been particularly weak. Policies to support investment in productivity- and resilience-enhancing areas, especially for smaller firms, are crucial to steer growth back toward pre-pandemic trends. Closer regional collaboration could also strengthen growth potential eroded by the pandemic.