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Southeast Asia quarterly economic review: Steady amid uncertainty

In the fourth quarter of 2024, the economies of Southeast Asia held up despite increasing external headwinds, with most economies seeing 5 percent growth or more.

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March 2025

Southeast Asian economies held up in the face of increasing global uncertainties in the fourth quarter of 2024, with almost all economies achieving 5 percent growth or above in the quarter. Vietnam continued as the region's top-performing economy with 7.55 percent growth, while Thailand, the only economy in the region with -5.0 percent growth, saw growth accelerate to 3.2 percent, its third highest year-on-year quarterly growth for the past five years. Indonesia experienced a slight growth uptick and the Philippines held steady, while growth moderated in Malaysia and Singapore (Exhibit 1). Core growth drivers remained steady, with investments into the region particularly strong in the fourth quarter, while exports, output, and consumption remained broadly stable. Regional currencies, however, weakened against the US dollar on expectations of an extended high-interest rate climate in the United States.[1]

Overall, in 2024, Southeast Asia's economies performed stronger than in 2023. Labor markets were more resilient, while inflationary conditions improved during the year. Despite this, the region still faces challenges as it grapples with the effects of growing global uncertainties, including weakening global demand, rising trade tensions, and geopolitics. Most central banks in Southeast Asia eased rates in recent weeks, which could stimulate the economy and help counter these challenges. More rate cuts are likely in the near term.

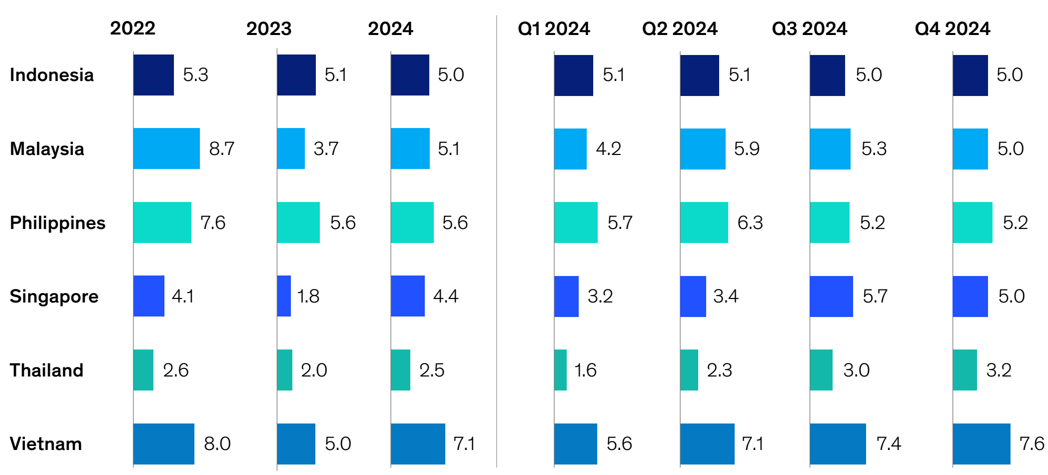
In this article, we focus on the economies of six countries in Southeast Asia: Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. We start by setting the scene with a regional overview.

[1] For the purposes of this article, most of the statistics used have been taken from countries' national statistics offices and central banks as a primary source. Oxford Economics has been used as a secondary source unless otherwise stated.

Exhibit 1

Southeast Asian economies held up in the fourth quarter of 2024, with a stronger economic performance overall in the year.

Real GDP growth rate vs previous period, %



Source: Countries' national statistics offices; Oxford Economics

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Macroeconomic outlook

GDP

The region's economy held up and ended 2024 on a steady note, with all countries but Thailand achieving 5 percent GDP growth or more in the fourth quarter of 2024. Exports and investments drove growth, while contributions from consumption remained broadly stable. Vietnam continued to be the region's best-performing economy, with a 7.55 percent growth. Thailand grew from strength to strength during the year, achieving 3.2 percent growth in the fourth quarter, representing the third consecutive quarter of economic growth acceleration. Indonesia saw a very slight growth uptick, while the Philippines kept a similar growth rate to the third quarter. Singapore's growth moderated to 5 percent, still a credible expansion for a developed economy. Malaysia's growth moderated to 5.0 percent from 5.3 percent in the previous quarter on the back of a slower energy and commodities sector performance.

Trade momentum

Trade broadly continued its robust trajectory. Indonesia recorded stronger exports growth in the fourth quarter, while Thailand continued its turnaround story to achieve its strongest exports expansion in 11 quarters. Exports in the Philippines rebounded, having contracted in the third quarter, while Malaysia, Singapore, and Vietnam saw their exports growth moderate in the fourth quarter. Overall, in 2024, Southeast Asia experienced strong trade growth, supported by demand from key trading partners such as China and the United States, particularly in electronics, which benefited from the global technology upcycle. Imports strengthened too following an increase in local demand for intermediate and capital goods to support industrial production and investment activities.

Industrial activity

Industrial activities showed mixed expansion across the region. Indonesia and the Philippines recorded stronger growth in the fourth quarter, while the rest of the region grew at a slower pace. The technology upcycle, coupled with strong local and foreign demand in areas such as food and beverage, mining, and transport engineering, helped support manufacturing output in the region. Likewise, the Purchasing Managers' Index (PMI) provided mixed readings. PMI for Indonesia and the Philippines reentered the expansionary territory for the first time in the fourth quarter since November 2017 and June 2024, respectively, while Singapore's PMI was at a six-year high. Malaysia and Vietnam were in the contractionary zone because output growth and new orders were expected to slow as business sentiments dampened, given the uncertain macroeconomic conditions.

Private consumption

Private consumption strengthened in the fourth quarter across most Southeast Asian economies. A mix of strong labor markets, easing prices, and, in some countries, the prevalence of policy support measures helped boost consumption. The Philippines and Singapore were the only two economies that experienced a moderation in consumption growth in the fourth quarter.

Labor

Labor markets remained resilient in the fourth quarter, with labor demand and participation in Southeast Asian markets having recovered to pre-COVID-19 levels. Levels of unemployment improved in the fourth quarter in most countries in the region, except for Malaysia and Singapore, where both remained unchanged but close to the lowest level recorded in the past ten years. New jobs continued to be added to the markets, although job gains in some countries were slower than in the previous quarter. While the labor indicators may have appeared robust overall, developing markets such as Indonesia and the Philippines remained dominated by people working in the informal sectors, necessitating efforts to improve the employment rate in the formal sector.

Prices

Inflation further eased across the region in the fourth quarter, except for the Philippines and Thailand, which both saw higher inflation attributed to increases in food and energy prices. In 2024, inflation moderated across all countries except for Vietnam, which experienced a minor 0.1 percent increase. Prices appear to have stabilized, with inflation rates within each respective country's target inflation rates or at levels deemed acceptable.

Financial markets

Currency

Southeast Asian currencies tumbled against the US dollar in the fourth quarter, reversing gains seen in the previous quarter. Escalating trade tensions could result in US policy rates being kept at the same level for longer, providing a boost to the US dollar. The Philippines peso and Vietnamese dong hit record lows in the fourth quarter. Meanwhile, the Malaysian ringgit, despite its depreciation in the fourth quarter, emerged as one of the few currencies in Asia to strengthen in 2024.

Interest rates

Bank Indonesia (BI) was the only central bank in the region to act in the third quarter, cutting its policy rate by 25 basis points to 6 percent in September 2024, the first time since the progressive hikes in February 2021. The central banks of the Philippines and Thailand cut rates a bit later, in October 2024. This marked the second rate cut in 2024 for the Philippines, while the revision was the first cut for Thailand in four years. Other central banks were comfortable with their prevailing positions. Growth, inflation, and stable monetary conditions will continue to be core considerations in determining the region's central banks' assessments of their policy rates in the future.

Capital flows

In the third quarter, Southeast Asian countries continued to build on the positive momentum from the previous quarter. Indonesia, the Philippines, Thailand, and Vietnam saw higher foreign direct investment (FDI) inflow this quarter. This reflects the region's attractiveness as an investment destination as businesses continue to reassess and reconfigure their global operational and supply chain footprints. Southeast Asia attracted investments in sectors including automotive, electronics, mining, and services, with each country developing clear strength and value propositions in specific sectors over others.

Key indicator details can be found in Exhibit 2.

Exhibit 2

Economic fundamentals were broadly firm in the fourth quarter, with strong investment performance but weakened regional currencies.

Change over previous quarter[1]

Declining | No significant change | Improving

Category	Indicator	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam
Macro-economic	Private consumption	No significant change	No significant change	No significant change	Declining	No significant change	No significant change
	Fixed investment	Improving	Declining	Improving	Declining	Improving	Declining
	Business/ industry	No significant change	Declining	No significant change	Declining	No significant change	Declining
	PMI[2]	Improving	Declining	Improving	No significant change	No significant change	Declining
	Exports	No significant change	No significant change	No significant change	Declining	No significant change	Improving
	Prices	No significant change	No significant change	Declining	Improving	No significant change	Improving
	Labor market	No significant change	No significant change	Improving	No significant change	No significant change	No significant change
Financial	Currency	Declining	Declining	Declining	Declining	Declining	Declining
	FDI[3] inflows	Improving	Improving	Improving	Improving	Improving	Improving
	Policy rate	No significant change	No significant change	Improving	No significant change	No significant change	No significant change

[1]Defined as % change in growth rate over previous quarter. Worsening = more than 0.5% decline; no significant change = 0.0 to 0.5% change; improving = more than 0.5% increase.
[2]Purchasing managers' index.
[3]Foreign direct investment.
Source: Countries' national statistics offices; Oxford Economics

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In the following section, we focus on the six specific countries in Southeast Asia, examining their macroeconomic conditions and financial markets.

Indonesia

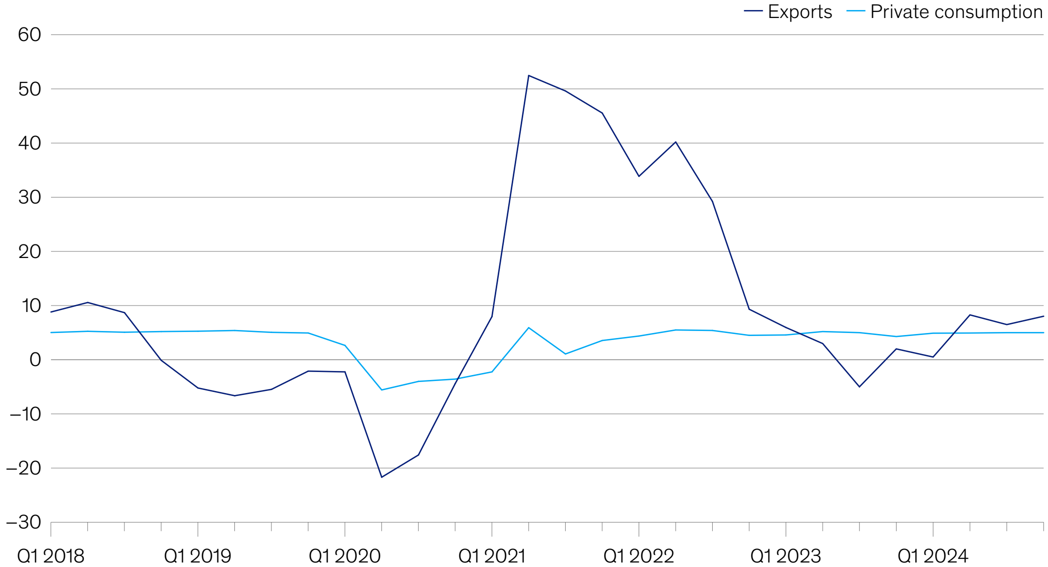
Indonesia's economic growth remained broadly flat in the fourth quarter, with GDP expanding 5.02 percent year on year from 4.95 percent in the previous quarter. Exports emerged stronger, while household consumption, which contributed to more than 50 percent of GDP, remained stable, supported by a declining inflationary environment and strong employment conditions (Exhibit 3).

Full-year 2024 GDP growth came in at 5.03 percent, consistent with the years post-COVID-19 but well behind President Prabowo's target of 8.0 percent

Exhibit 3

Exports emerged stronger, while private consumption remained stable, enabling Indonesia's economy to hold up in the fourth quarter.

Indonesia exports vs private consumption,[1] % value growth



[1]Year-on-year change, quarterly, through Q4 2024.
Source: Countries' national statistics offices; Oxford Economics

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GDP growth within his term until 2029.[2] The central bank, meanwhile, has not ruled out further rate cuts in the near term to provide the economy with another boost.

Macroeconomic outlook

GDP

Indonesia recorded 5.02 percent in GDP growth in the fourth quarter, slightly ahead of the previous quarter's growth of 4.95 percent. Processing services, trade, agriculture, construction, and mining were the larger GDP contributors, while transport and warehousing recorded one of the highest growth rates this quarter.[3] Full-year 2024 GDP growth, meanwhile, came in at 5.03 percent, similar to the 5.05 percent growth recorded in 2023 and broadly within Indonesia's 5.0 to 6.0 percent annual year-on-year growth range since the COVID-19 pandemic.

Private consumption

Household consumption growth improved slightly to 4.98 percent year on year in the fourth quarter from 4.91 percent recorded in the third quarter. Household consumption contributed 53.71 percent to overall GDP, and strong holiday spending over sectors such as food and beverages, hotels, and transportation across air, sea, and rail helped to prop up consumption in the fourth quarter.[4]

Trade

Trade stayed resilient in the fourth quarter, with exports recording stronger growth of 8.03 percent year on year compared to 6.49 percent growth in the prior quarter, while imports remained consistent at 9.46 percent and 9.74 percent growth year on year in the fourth and third quarters, respectively. Overall, exports in 2024 expanded by 2.29 percent, while imports grew by 5.31 percent. Exports of commodities and fertilizers, machinery, and motor vehicles contributed close to half of Indonesia's exports in 2024. On the imports front, intermediate and capital goods to support industrial and investment activities were among key import products. The ASEAN region and China were Indonesia's top two trading partners.[5]

Industrial activity

Expansion in the manufacturing sector inched further in the fourth quarter of 2024, growing by 4.89 percent, higher than the 4.72 percent growth in the third quarter. Demand was strong from both local and foreign buyers, particularly in sectors such as food and beverages and base metals, including steel and fertilizers, as well as computers, electronics, optics, and electrical products.[6] PMI reentered the expansionary territory in December 2024, the first time since June 2024. The December reading came at 51.2, which saw further uplift in January 2025 to 51.9. Growth in factory activity and new orders have been strong in recent months as firms raised buying activities ahead of Ramadan.

Labor

Indonesia's National Labor Force Survey's latest release indicated an improvement in the unemployment rate, which declined to 4.91 percent in August 2024 from 5.32 percent in the same month of 2023. The improvement was driven by gains in sectors such as agriculture and services.[7] There has been a gradual decline in unemployment from its peak in 2020 and it is back at the pre-COVID-19 levels. Moving forward, Indonesia has set a target for 2025 to reduce unemployment to within 4.5 to 5.0 percent.[8]

Inflation

Inflation moderated to 1.57 percent at the end of the fourth quarter of 2024 from 1.84 percent recorded at the end of the previous quarter. Soft consumer demand, stable global energy prices, and lower impact from weather-related food price shocks helped to keep prices manageable.[9] Food and

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[2] "Indonesia's sticky 5 percent GDP growth tests Prabowo's 8 percent growth ambition," Bloomberg, February 5, 2025.
[3] Gayatri Suruyo and Stefanno Sulaiman, "Indonesia's economy expands 5 percent, more rate cuts seen in bumpy 2025," Reuters, February 5, 2025.
[4] "Official statistics news," BPS-Statistics Indonesia, February 5, 2025.
[5] "Official statistics news (exports)," BPS-Statistics Indonesia, January 15, 2025.
[6] "Official statistics news," BPS-Statistics Indonesia, February 5, 2025.
[7] "Unemployment rate was 4.91 percent," BPS-Statistics Indonesia, November 5, 2024.
[8] Arnoldus Kristianus, "Unemployment rate drop signals recovery, males earn 28 percent more than females," Jakarta Globe, November 5, 2024.
[9] Elisa Valenta, "Indonesia's December inflation rate eases to 1.57% yoy, just below forecast," *Business Times,* January 2, 2025.

beverages and personal care items grew fastest in the fourth quarter, while prices in the transport services declined. Inflation has broadly been on a declining trend post the first quarter of 2024, with 2024 numbers coming in at 1.57 percent, lower than the 2.61 percent recorded in 2023 and 5.51 percent attained during the high inflationary environment in 2022.[10] Moving forward, the central bank is targeting inflation to come in the range of 1.5 to 3.5 percent in 2025.[11]

Financial markets

Currency

The Indonesia rupiah weakened against the US dollar over the course of the fourth quarter, reversing its gain from the third quarter. The rupiah's tepid performance mirrors the trend seen in most parts of the region, and despite assurance from the central bank that the currency depreciation is under control, in mid-January 2025, the rupiah slid to its lowest level in more than six months. This followed a surprise cut in the policy rate as the central bank continues to navigate carefully to balance between stimulating economic growth and facilitating a stable rupiah.[12]

Policy rate

Having embarked on its policy rate cut in September 2024, the first since February 2021, Indonesia kept its policy rate constant in the fourth quarter of 2024. However, in January 2025, the central bank lowered its policy rate by 25 basis points to 5.75 percent as part of a bid to further stimulate economic growth and thereafter held the rate steady in February 2025.[13] The central bank has not ruled out further rate cuts during the year but emphasized that the timing depended on global dynamics.[14]

Capital flows

Indonesia recorded a stellar FDI performance in the fourth quarter of 2024, with FDI growing by 33.3 percent year on year to US $15.11 billion (245.8 trillion rupiah). The pace of expansion almost doubled from the 18.6 percent growth recorded in the third quarter. The base metals, paper, and mining sectors accounted for almost half of FDIs, in line with the government's push to accelerate the development of the commodities sector, encouraging international manufacturers to set up plants in the country.[15] China, Hong Kong, and Singapore, meanwhile, were the largest sources of FDI. Overall, Indonesia's FDI in 2024 strengthened to US $55.3 billion (900.2 trillion rupiah), an expansion of 21 percent from 2023.[16]

[10] "Series of consumer price index," BPS-Statistics Indonesia, January 2, 2025.
[11] "BI-rate lowered 25bps to 5.7 percent maintaining stability, strengthening economic growth," Bank of Indonesia, January 15, 2025.
[12] "Indonesia central bank says rupiah's weakness under control," Reuters, January 16, 2025.
[13] Arnoldus Kristianus, "Bank Indonesia cuts key interest rate to 5.75 percent," *Jakarta Globe,* January 15, 2025.
[14] Gayatri Suruyo and Stefanno Sulaiman, "Bank Indonesia pauses easing cycle, but says more cuts to come," Reuters, February 19, 2025.
[15] Jayantya Nada Shofa, "Indonesia attracts $105 billion investment in 2024," *Jakarta Globe,* January 31, 2025.
[16] "Indonesia FDI at $55.3 bln in 2024," Reuters, January 31, 2025.

Malaysia

Malaysia capped off a positive year with the economy recording 5.1 percent growth in 2024, well ahead of 3.7 percent growth attained in 2023, despite growth moderating to 5.0 percent in the fourth quarter—the second consecutive quarter to do so.

Core economic drivers continued to remain stable in the fourth quarter; private consumption was sustained and exports and industrial output grew (Exhibit 4). The labor market recorded low unemployment, and investments remained robust. Inflation continued to inch lower to 1.8 percent this

Exhibit 4

Sustained exports and private consumption growth provided continued growth support for Malaysia in the fourth quarter.

Malaysia exports vs private consumption,[1] % value growth

[1]Year-on-year change, quarterly, through Q4 2024.
Source: Countries' national statistics offices; Oxford Economics

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quarter, while the Malaysia ringgit appreciated by 2.7 percent in 2024 to become one of the few currencies in Asia to have strengthened over the year.[17]

Macroeconomic outlook

GDP

Malaysia's economy saw growth moderate to 5.0 percent in the fourth quarter, from 5.3 percent in the third quarter, driven by strong investment activities, an increase in exports, and sustained domestic spending. Contractions in the commodities sector and a slower-than-expected recovery in oil production, meanwhile, weighed down growth during the quarter. The full-year growth of 5.1 percent in 2024 reflected a much stronger performance than the 3.7 percent attained in 2023.[18]

The government projects growth for 2025 to be between 4.5 to 5.5 percent.[19] The outlook, however, is subjected to lingering risks including an economic slowdown with major trading partners, investment restrictions, and lower-than-expected commodity production.[20]

Private consumption

Private consumption growth was sustained in the fourth quarter, increasing by 4.9 percent, 0.1 percent higher than the growth recorded in the prior quarter. Strong labor market conditions and policy support measures, such as civil sector pay hikes and minimum wage revisions, helped prop up consumption activities.[21]

Trade

Following a very strong performance in the third quarter of 2024, trade activities moderated in the fourth quarter. Exports grew slower at 7.3 percent in the fourth quarter from 7.8 percent recorded in the previous quarter, while imports grew 5.3 percent this quarter compared to 20.8 percent growth in the third quarter. Continued strong performance in the electrical and electronics (E&E) sector helped drive exports, while imports saw a moderation in domestic demand for capital and intermediate goods used to support investment activities and the production of manufactured exports.[22] Trade results from January 2025 showed that Malaysia's trade continues to expand, marking the 13th consecutive month of trade growth, albeit at a slower pace following global uncertainties, with concerns over the potential impact of US trade protectionism.[23]

Industrial activity

Manufacturing output grew 4.4 percent in the fourth quarter, slower than the 5.6 percent growth experienced in the third quarter, which then also was the strongest quarterly performance in 2024. While E&E continued to drive growth, slower transport manufacturing activities were seen in the fourth quarter.[24] PMI eased in the quarter from 49.5 in October to 48.6 in December 2024, although it strengthened slightly to 48.7 in January 2025 to snap a declining streak since May 2024. At the start of 2025, manufacturing sector conditions remained muted and within the contractionary zone as production and new orders stayed moderated.[25]

Labor

Malaysia's unemployment rate kept constant at 3.2 percent in the fourth quarter, continuing to be anchored low and at pre-COVID-19 levels. Labor demand strengthened, with overall employment increasing by another 100,000 in the fourth quarter to 16.8 million. The labor participation rate bettered the previous quarter's historic high and

[17] "Economic and financial development in Malaysia in the fourth quarter of 2024," Bank Negara Malaysia, February 14, 2025.
[18] "Economic and financial development in Malaysia in the fourth quarter of 2024," Bank Negara Malaysia, February 14, 2025.
[19] Nor Ain Mohamed Radhi, "Malaysia set for strong economic growth in 2025, with potential rise of up to 5.5 pct," *New Strait Times,* February 19, 2025.
[20] Daniel Azhar, "Malaysia's economy ends 2024 on high note amid strong investment, domestic spending," Reuters, February 14, 2025.
[21] "Economic and financial development in Malaysia in the fourth quarter of 2024," Bank Negara Malaysia, February 14, 2025.
[22] "Economic and financial development in Malaysia in the fourth quarter of 2024," Bank Negara Malaysia, February 14, 2025.
[23] Azanis Shahila Aman and S. Birruntha, "Malaysia's trade outlook remain strong amidst global uncertainty, US protectionism," *Business Times,* February 20, 2025.
[24] "Economic and financial development in Malaysia in the fourth quarter of 2024," Bank Negara Malaysia, February 14, 2025.
[25] "Malaysia manufacturing PMI," S&P Global, February 3, 2025.

grew by a further 0.1 percent to 70.6 percent in the fourth quarter of 2024.[26]

Inflation

Inflation declined to 1.8 percent in the fourth quarter, 0.1 percent lower than the previous quarter. Promotions in the mobile communications services segment and deflation in petrol prices helped to ease inflation. Food and beverages prices, though, rose by 2.5 percent, faster than the 1.6 percent experienced in the previous quarter. Overall, 2024 inflation came to 1.8 percent, lower than 2.5 percent in 2023. The central bank expects 2025 inflation to remain manageable as global costs ease and domestic demand remains stable, with the Ministry of Finance projecting the inflation rate to be between 2.0 and 3.5 percent.[27]

Financial markets

Currency

The ringgit depreciated by 7.6 percent against the US dollar in the fourth quarter of 2024, having appreciated in the previous quarter. Overall, in 2024, the currency appreciated by 2.7 percent against the dollar, becoming one of the few currencies in Asia to have strengthened. The central bank believes the ringgit will continue to be supported in the medium term, as it remains optimistic about its macroeconomic prospects with the implementation of ongoing economic structural reforms.[28]

Policy rate

The central bank opted to maintain the policy rate at 3 percent at its most recent Monetary Policy Committee (MPC) meetings in November 2024 and January 2025. It believes the decision is consistent with its assessment of inflation, which it expects to remain manageable, and the positive economic growth prospects in the near term.[29]

Capital flows

Malaysia's FDI inflows stood at 18.4 billion ringgit (US $4.16 billion) in the fourth quarter from 14.5 billion ringgit in the preceding quarter, and was the highest quarterly FDI inflow in 2024. The services sector continued to be the largest beneficiary of FDI in Malaysia, predominantly in the information and communication and finance subsectors, followed by the manufacturing sector, with Hong Kong, Singapore, and the United States being the country's top investors.[30]

[26] "Economic and financial development in Malaysia in the fourth quarter of 2024," Bank Negara Malaysia, February 14, 2025.
[27] "Economic and financial development in Malaysia in the fourth quarter of 2024," Bank Negara Malaysia, February 14, 2025.
[28] "Economic and financial development in Malaysia in the fourth quarter of 2024," Bank Negara Malaysia, February 14, 2025.
[29] *Monetary policy statement,* Bank Negara Malaysia, January 22, 2025.
[30] "Malaysia's balance of payments statistics fourth quarter of 2024," Department of Statistics Malaysia, February 14, 2025; "Malaysia FDI," Trading Economics, accessed on February 21, 2025.

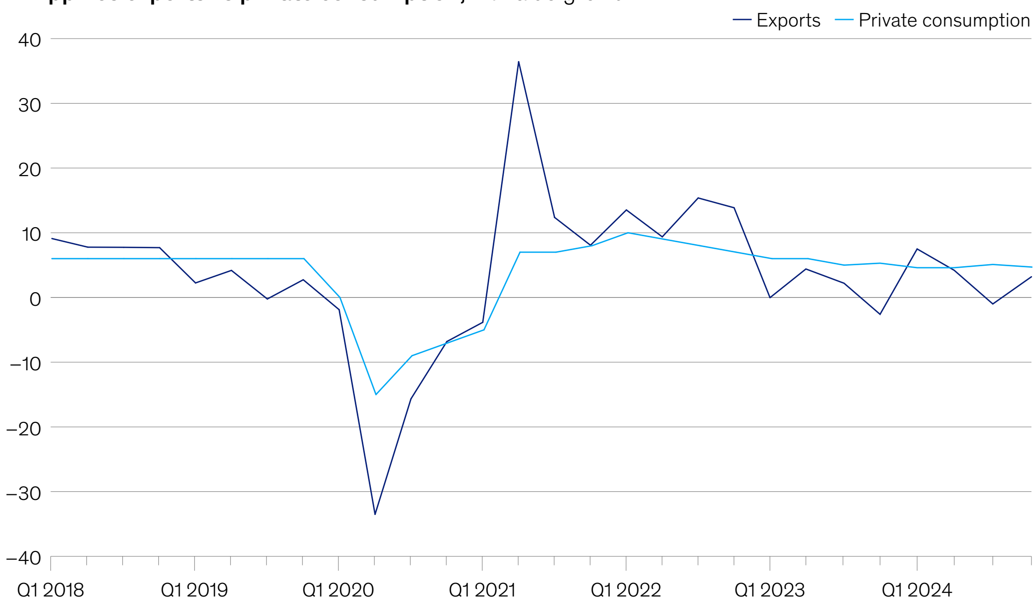
The Philippines

The Philippines' economy maintained its growth momentum in the fourth quarter to expand at 5.2 percent, equal to that of the previous quarter. Consumption, which historically contributed to about 70 percent of GDP, grew slower during the quarter, while exports recorded a rebound (Exhibit 5). The labor market was robust, with unemployment at its lowest level since 2005. Full-year growth, though, landed at 5.6 percent, below the government's 6.0 to 6.5 percent growth target for 2024. Extreme weather events, geopolitical tensions, and subdued global demand were impediments to stronger growth in 2024.

Exhibit 5

Exports rebounded and private consumption remained tepid as the Philippines maintained its growth rate in the fourth quarter.

Philippines exports vs private consumption,[1] % value growth



[1]Year-on-year change, quarterly, through Q4 2024.
Source: Countries' national statistics offices; Oxford Economics

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For 2025, the central bank has set a GDP growth target of between 6 to 8 percent. Inflation is expected to remain in check, catalyzing stronger consumption in the year ahead, which together with investments is expected to fuel the economy in 2025.

Macroeconomic outlook

GDP

The Philippines' economy recorded growth of 5.2 percent in the fourth quarter of 2024, similar to that seen in the third quarter. On a sector level, the services sector grew stronger this quarter at 6.7 percent compared to 6.3 percent in the previous quarter, while industrial growth moderated to 4.4 percent from 5.0 percent in the third quarter. The agriculture sector experienced its third round of contraction, following severe weather and typhoons, which disrupted crop production, livestock, and fishing activities. The fourth quarter's outcome brought the country's 2024 GDP expansion to 5.6 percent, missing the government's target of 6.0 to 6.5 percent for 2024.[31]

Private consumption

Household consumption grew 4.7 percent year on year, slower than the 5.1 percent growth attained in the previous quarter, despite the typical uptick in demand experienced ahead of the holiday season. Overall growth of 4.8 percent for 2024 also marked a slowdown from the 5.6 percent growth in 2023.[32] Powerful storms battered the Philippines in the second half of 2024, stoking food prices as farm output was disrupted, thus impacting demand and spending on travel and leisure activities.[33]

Trade

Having contracted by 1.0 percent in the previous quarter, exports rebounded to a record 3.2 percent year-on-year growth in the fourth quarter. The growth was driven by services exports, which increased 13.5 percent and helped tame the 4.6 percent contraction in goods exports. Full-year overall exports still grew faster at 3.4 percent year on year in 2024 compared to 1.4 percent in 2023. Fourth quarter imports, meanwhile, grew by 3.1 percent in the fourth quarter, which is slower than the prior quarter, but did not derail the full-year numbers, as imports grew by 4.3 percent in 2024 compared to 1.0 percent in 2023.[34]

Industrial activity

Manufacturing production in the Philippines improved in the fourth quarter of 2024, growing by 3.1 percent from 2.8 percent year on year in the third quarter. This marked the first uptick in manufacturing output growth since the start of 2024.[35] Manufacturing PMI, too, rose to 54.3 in December 2024, the highest recorded factory expansion since November 2017, on the back of increased output and an increased number of new orders.[36]

Labor

The labor market improved for its sixth consecutive month in December 2024, with the Philippines' unemployment rate declining to 3.1 percent. This brought the overall 2024 unemployment rate to 3.8 percent, the lowest recorded since 2005.[37] The services sector had the largest share of the employed force at 60.5 percent, followed by the agriculture and industrial sectors at 21.3 percent and 18.3 percent, respectively. A resilient and robust job market provides hope for higher consumer spending in 2025, which will ultimately help boost the country's economy.[38]

Inflation

After seeing its lowest inflation in 2024 at the end of the third quarter, the Philippines experienced three consecutive months of faster price increases and recorded 2.9 percent inflation in December. Larger increases in food and utilities were seen in

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[31] "Fourth quarter 2024 national accounts of the Philippines," Philippines Statistics Authority, January 30, 2025.
[32] "Fourth quarter 2024 national accounts of the Philippines," Philippines Statistics Authority, January 30, 2025.
[33] Ian Nicolas P. Cigaral, "Gov't missed 2024 GDP growth target," Inquirer.net, January 31, 2025.
[34] "Fourth quarter 2024 national accounts of the Philippines," Philippines Statistics Authority, January 30, 2025.
[35] "Fourth quarter 2024 national accounts of the Philippines," Philippines Statistics Authority, January 30, 2025.
[36] "Factory activity expands in December," BW World Online, January 3, 2025.
[37] Anna Leah Gonzales, "2024 unemployment, unemployment rate lowest since 2005," Philippines News Agency, February 6, 2025.
[38] "Labour force survey," Philippine Statistics Authority, February 6, 2025.

December. For 2024, the Philippines' inflation averaged 3.2 percent, within the central bank's 2.0 to 4.0 percent target for 2024, and it marked the first time since 2021 that the country has achieved its inflation target.[39]

Financial markets

Currency

The Philippines' peso reversed its third-quarter gain and depreciated in the fourth quarter to hit a historic record low of 59 peso per US dollar mark in December 2024. The peso was one of Asia's worst-performing currencies in 2024 and has been under pressure since the central bank cut rates in the fourth quarter of 2024. Economists predict further weakening of the currency, possibly breaching the 60 peso per US dollar mark by the middle of 2025.[40]

Policy rate

The central bank cut its policy rate twice in the fourth quarter of 2024, as the Philippines sought to stimulate its weakening economy. In October 2024, the central bank reduced its policy rate by 25 basis points, thereafter another 25 basis points to 5.75 percent in December 2024.[41] At its latest policy meeting in February 2025, the central bank kept policy rates constant as it takes stock of and recalibrates against uncertainties over global trade policies. Further rate cuts of at least 50 basis points later in 2025 cannot be ruled out.[42]

Capital inflows

Foreign investment approvals experienced a soft fourth quarter, coming in at US $1.0 billion (57.7 billion pesos), less than half attained in the previous quarter and 85.4 percent lower than during the same quarter in 2023. Despite this, the strong momentum seen in the first three quarters of 2024 enabled the Philippines to register US $33.77 billion in foreign investment approvals in 2024, a 32.7 percent expansion compared to 2023. South Korea was its largest investor, contributing almost half of total investments, while, from a sector perspective, manufacturing, electricity, and transportation were core beneficiaries of investments.[43]

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[39] "Philippines annual inflation quickens to 2.9% in December," Channel NewsAsia, January 7, 2025.
[40] "Philippines peso to test record low as policymakers cut rates," *Star,* January 27, 2025.
[41] Amanda Lee, "Philippines central bank cuts policy rate for third time, signals cautious easing ahead," *Wall Street Journal,* December 19, 2024.
[42] "Philippines held rates steady to hedge against uncertainty, cenbank governor says," Channel NewsAsia, February 14, 2025.
[43] "Q4 2024 approved investments," Philippine Statistics Authority, February 13, 2025.

Singapore

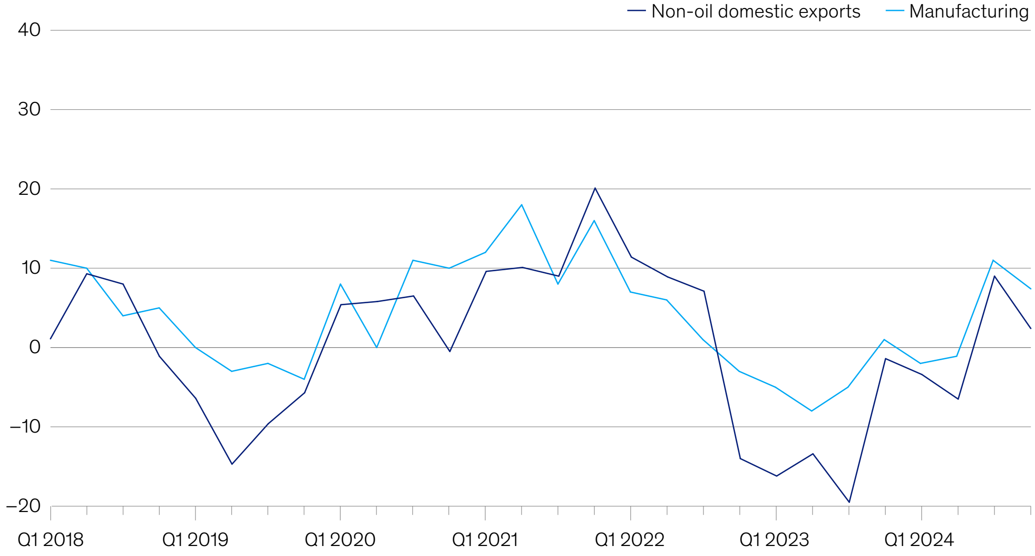
Singapore's economic growth moderated in the fourth quarter to 5.0 percent year on year, from 5.7 percent in the previous quarter, although, when taken in totality, the economy performed strongly in 2024 as pace of growth more than doubled from 2023. Wholesale trade, manufacturing, and finance and insurance continued to be key growth engines in the fourth quarter. Growth moderated in private consumption, exports, and industrial output in the quarter, although the labor market remained resilient and inflation continued to ease. (Exhibit 6).

The central bank has recently moderated its monetary policy in view of a possible slowdown

Exhibit 6

Singapore's exports and production growth moderated as demand from the nonelectronics segment softened.

Singapore exports vs industrial production,[1] % value growth



[1]Year-on-year change, quarterly, through Q4 2024.
Source: Countries' national statistics offices; Oxford Economics

McKinsey & Company

in the economy in the near term. The economy is expected to see growth ease by between 1 to 3 percent in 2025.

Macroeconomic outlook

GDP

Singapore's economy expanded by 5.0 percent year on year in the fourth quarter of 2024, moderating from the previous quarter's 5.7 percent growth, which was the strongest quarterly expansion since 2022. All sectors expanded during the fourth quarter, except for retail trade, administration and support services, and food and beverages, while wholesale trade, manufacturing, and finance and insurance were key growth engines, contributing to 70 percent of fourth-quarter growth.

For the full-year 2024, the economy grew by 4.4 percent, accelerating from the 1.8 percent expansion in 2023.[44] Looking forward, the economy is forecast to grow between 1 to 3 percent in 2025.[45]

Price consumption

Private consumption growth moderated to 4.8 percent year on year in the fourth quarter, from 6.9 percent in the previous quarter. Transport, health, and miscellaneous goods and services categories formed the higher growth expenditure segments during the quarter.[46]

Trade

Singapore's total merchandise trade grew faster at 6.8 percent in the fourth quarter from 5.3 percent in the prior quarter, while growth in the total services trade moderated to 7.4 percent year on year from 10.8 percent in the third quarter. Exports experienced a slower fourth quarter, with growth weakening in both merchandise and services exports. Non-oil domestic exports (NODX), as a reference for production and Singapore's trade, saw growth moderate to 2.4 percent in the fourth quarter year on year, from 9.0 percent in the previous quarter. Electronics NODX grew slightly slower, but the nonelectronics segment declined significantly, decelerating by 0.7 percent in the fourth quarter from 7.0 percent growth in the prior quarter.

The year still turned out to be a positive year on the trade front, with 2024 merchandise trade rebounding from a –11.7 percent contraction in 2023 to 6.6 percent growth, while services trade growth almost doubled from 4.8 percent in 2023 to 8.6 percent in 2024. Electronics, transport services, and financial services were the stronger performing sectors.[47]

Industrial activity

The manufacturing sector expanded by 7.4 percent in the fourth quarter year on year, moderating from 11.2 percent recorded in the previous quarter. Growth was mainly led by higher output in the electronics and transport engineering sectors, while output in biomedical, precision engineering, and chemicals sectors contracted in the fourth quarter. Overall, 2024 was a positive year for the manufacturing sector, which grew 4.3 percent in 2024, reversing the 4.2 contraction recorded in 2023. All manufacturing sectors saw output expansion in 2024, except for the biomedical manufacturing segment.[48] Manufacturing PMI hit a six-year high at the end of the fourth quarter, marking the 16th consecutive month of expansion as December 2024's PMI came in at 51.1.[49] Demand is expected to remain resilient in the manufacturing sector in the near term, although

[44] "Economic survey of Singapore 2024," Singapore Ministry of Trade and Industry, February 14, 2025.
[45] Abigail Ng, "Singapore's economy grew 4.4% in 2024, beating forecasts and advance estimates," Channel NewsAsia, February 14, 2025.
[46] "Economic survey of Singapore 2024," Singapore Ministry of Trade and Industry, February 14, 2025.
[47] "Economic survey of Singapore 2024," Singapore Ministry of Trade and Industry, February 14, 2025.
[48] "Economic survey of Singapore 2024," Singapore Ministry of Trade and Industry, February 14, 2025.
[49] Renald Yeo, "Singapore's PMI hits 6 year high in December, edges up 0.1 point," *Business Times,* January 2, 2025.

overhanging clouds remain given uncertainty on the Trump administration's tariff policies. January 2025 could be an indicator of the road ahead. PMI slipped by 0.2 points to 50.9, mirroring the trend in the region where most economies recorded lower PMI in January 2025 than in December 2024.[50]

Labor

Singapore's labor market remained broadly resilient, with the fourth quarter unemployment rate unchanged from the previous quarter, at 1.9 percent. The market experienced 12,900 new jobs, mainly from the services sector, although this is less than the previous quarter's gains of 24,900 new jobs. Retrenchments inched slightly higher, 550 more than the third quarter.[51] Hiring expectations in the first quarter of 2025 are positive but slightly weaker compared to the same period in 2024, with selected sectors such as transport, logistics, and automotive expecting better prospects.[52]

Inflation

Inflation further eased to 1.6 percent on a year-on-year basis in the fourth quarter of 2024 as price inflation continues to moderate since the fourth quarter of 2022. The overall rate of inflation in 2024, meanwhile, halved to 2.4 percent, compared to 4.8 percent in 2023. Healthcare costs climbed the most in 2024, on the back of more costly outpatient and hospital services and health insurance, with recreation and culture and housing and utilities rounding up the top three.[53] Moving forward, the central bank expects inflation to land within the region of 1.5 to 2.5 percent.[54]

Financial markets

Currency

After hitting a ten-year high against the US dollar in the third quarter of 2024, the Singapore dollar subsequently weakened by 6.2 percent in the fourth quarter. The weakening of the Singapore dollar is in line with regional currencies as escalation in trade tensions could lead to increased inflation, and US rates that could stay higher than longer, a boost for the US dollar. In January 2025, Singapore announced an easing of its monetary policy and the Singapore dollar has since strengthened slightly by about 1 percent.[55]

Policy rate

The Monetary Authority of Singapore kept its policy stance unchanged in its policy meeting in October 2024, but in January 2025 announced an easing of its monetary policy stance, the first time in nearly five years.[56] Amid expectations for slower growth in 2025 and with inflation expected to ease, the central bank plans to slightly reduce the slope of the Singapore dollar nominal effective exchange rate (S$NEER) policy band, while the width of the policy band and level at which it is centered remain unchanged.[57]

Capital inflows

Singapore recorded FDI net inflows of US $45.6 billion (60.8 billion Singapore dollars) in the fourth quarter of 2024, an uptick of US $12.1 billion compared to the prior quarter.[58]

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[50] Sharon See, "Singapore factory activity cools in January, amid region-wide slowdown," *Business Times,* January 2, 2025.
[51] "Economic survey of Singapore 2024," Singapore Ministry of Trade and Industry, February 14, 2025.
[52] Tay Hong Yi, "S'pore employment outlook for Q1 positive, but slightly weaker than a year ago: Survey," *Straits Times,* February 7, 2025.
[53] "Economic survey of Singapore 2024," Singapore Ministry of Trade and Industry, February 14, 2025.
[54] "Monetary policy statement," Monetary Authority of Singapore, January 25, 2025.
[55] Tan Weizhen, "US dollar surges against Singapore dollar, major currencies on Trump's tariffs," *Business Times,* February 3, 2025.
[56] Tang See Kit, "MAS eases its monetary policy for the first time in nearly five years, lowers 2025 core inflation forecast," Channel NewsAsia, January 24, 2025.
[57] "Monetary policy statement," Monetary Authority of Singapore, January 25, 2025.
[58] "Singapore foreign direct investment—net inflows," Trading Economics, accessed February 2025.

Thailand

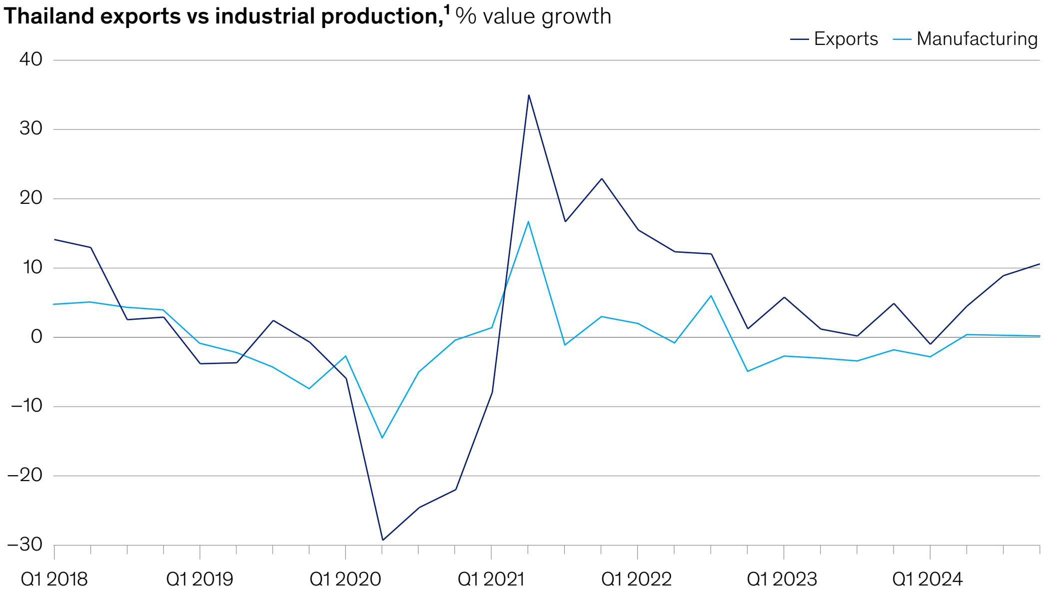
Thailand's economy continued to pick up pace, growing 3.2 percent in the fourth quarter, marking the third consecutive quarter in which growth accelerated. Strong investments, exports, and consumption helped drive growth, while industrial production continued to hold steady (Exhibit 7). Private consumption strengthened marginally, although inflation increased and the labor sector remained robust.

Full-year growth came in at 2.5 percent, faster than 2.0 percent growth in 2023, with 2025 growth forecast to fall within the range of 2.3 to 3.3 percent.

Exhibit 7

Exports picked up pace in line with Thailand's growth in the fourth quarter, with production levels holding up.

Thailand exports vs industrial production,[1] % value growth



[1]Year-on-year change, quarterly, through Q4 2024.
Source: Countries' national statistics offices; Oxford Economics

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Macroeconomic outlook

GDP

Thailand's economy grew by 3.2 percent in the fourth quarter, faster than the 3.0 percent growth in the second quarter, supported by stronger investments, exports performance, and consumption. The services sector continued to drive growth, with the accommodation and food services and transportation and storage segments attaining the highest growth in the services cluster at 10.2 and 9.0 percent, respectively. Construction accelerated to 18.3 percent, having rebounded in the previous quarter. Manufacturing growth inched moderately stronger, increasing 0.2 percent, while the agriculture sector reversed four quarters of contraction to expand by 1.2 percent in the fourth quarter.

The fourth-quarter result represented the third straight quarter of growth for Thailand and enabled the country to record stronger growth in 2024, at 2.5 percent, compared to 2.0 percent in 2023. Meanwhile, economic growth in 2025 is projected to be within the range of 2.3 to 3.3 percent, driven by expansion in private consumption, government expenditure, merchandise exports, and tourism sector recovery.[59]

Private consumption

Private consumption growth in the fourth quarter increased marginally to 3.4 percent from 3.3 percent in the previous quarter. Most expenditure categories increased in the fourth quarter, supported by the government's economic stimulus in the form of cash transfers and an improvement in consumer confidence levels.[60]

Trade

The exports sector continued its turnaround story, growing by 10.6 percent in the fourth quarter, the highest rate in 11 quarters and accelerating from 8.9 percent growth attained in the previous quarter. Electronics exports such as computers, computer parts and machinery, and rubber were key growth drivers. Imports continued its double-digit growth, albeit slower at 10.7 percent compared to 11.3 percent in the previous quarter. All import categories saw an expansion, which supported exports and consumption activities. For 2024, both exports and imports expanded, at 5.8 and 6.3 percent, respectively, with a trade surplus of US $19.3 billion (678.2 trillion).[61]

Industrial activity

The manufacturing sector continued to grow in the fourth quarter, albeit at a slower rate of 0.2 percent compared to 0.3 percent in the previous quarter. This marked the third consecutive quarter of growth for the sector, which has seen almost continual contractions for the past three years before finally turning a corner in the second quarter of 2024. The electronics sector upcycle helped Thailand's manufacturing sector, with computers and machinery recording double-digit growth in the fourth quarter, along with apparel manufacturing. Overall, in 2024, production recorded a smaller contraction of 0.5 percent compared to the 2.7 percent decline in 2023.[62] PMI remained in the expansionary territory in the fourth quarter and ended higher in December at 51.4 compared to September's reading of 50.4. An increase of new orders, the highest since May 2023, helped boost December numbers.[63] The sector, however, registered a slight deterioration in business conditions in January 2025, with PMI declining to 49.6 on the back of lower output and new orders.[64]

Labor

The unemployment rate in the fourth quarter continued to fall to 0.88 from 1.02 percent in the third quarter.[65] Although the number bodes well on the surface, a deeper look at recent data from

[59] "Thai economic performance in Q4 of 2024," Thailand Office of the National Economic and Social Development Council, February 17, 2025.
[60] "Thai economic performance in Q4 of 2024," Office of the National Economic and Social Development Council, February 17, 2025; "Press release on the economic and monetary conditions for December and the fourth quarter of 2024," Bank of Thailand, January 31, 2025.
[61] "Thai economic performance in Q4 of 2024," Thailand Office of the National Economic and Social Development Council, February 17, 2025.
[62] "Thai economic performance in Q4 of 2024," Thailand Office of the National Economic and Social Development Council, February 17, 2025.
[63] "Thailand manufacturing PMI: Demand strengthens at end of 2024," S&P Global, January 2, 2025.
[64] "Thailand Manufacturing PMI: Manufacturing sector contracts in January," S&P Global, February 2, 2025.
[65] "Thai economic performance in Q4 of 2024," Office of the National Economic and Social Development Council, February 17, 2025.

the National Economic and Social Development Council (NESDC) reveals an underlying challenge around rising unemployment among university graduates, who now form the largest group of the unemployed population.[66]

Inflation

Inflation increased in the fourth quarter to 1.0 percent from 0.6 percent in the previous quarter. Higher core inflation, as well as an increase in energy prices due to the low base effects from prior year's government subsidies, drove inflation higher this quarter. Inflation in 2024 was recorded at 0.4 percent, lower than 1.2 and 6.1 percent recorded in 2023 and 2022, respectively. Inflation for 2025, meanwhile, is expected to be stable in the range of 0.5 to 1.5 percent.[67]

Financial markets

Currency

After rallying by 12.0 percent in the third quarter, and at one point reaching its highest level in 31 months against the greenback, the Thai baht depreciated by 5.41 percent in the fourth quarter. Escalating concerns about tariffs from the United States have supported the strengthening of the dollar, and although the baht has strengthened by 2.13 percent against the US dollar in the first two months of 2025, it is likely to remain under pressure. It is forecasted to depreciate to 35.50 to the US dollar by the end of 2025.[68]

Policy rate

In the fourth quarter, the Bank of Thailand (BOT) cut its policy rate by 25 basis points to 2.25 percent in October 2024, and thereafter kept the rate constant coming out of its December 2024 policy meeting. The move in October represented the bank's first rate cut in over four years and is hoped to alleviate the debt servicing burden of borrowers and, at the same time, provide an impetus to revive the country's sluggish economy.[69] In February 2025, the policy rate was further cut to 2.0 percent.[70]

Capital inflows

In the fourth quarter, Thailand recorded an FDI inflow of US $8.51 billion (285.5 billion baht), an uptick from US $6.58 billion received in the third quarter. This brought the FDI value for 2024 to US $24.79 billion (32.1 billion baht), a significant increase of 25.5 percent from 2023. E&E manufacturing, digital industry, and machinery and vehicles manufacturing were key to driving FDI in 2024, accounting for 70.6 percent of FDI received.[71]

[66] Graduate unemployment surges as Thai jobless figures rise," *Nation,* February 19, 2025.
[67] "Thai economic performance in Q4 of 2024," Office of the National Economic and Social Development Council, February 17, 2025; "Press release on the economic and monetary conditions for December and the fourth quarter of 2024," Bank of Thailand, January 31, 2025.
[68] "Baht may experience significant fluctuations in 2025, KResearch says," *Nation,* January 5, 2025.
[69] "Monetary policy committee's decision 5/2024," Bank of Thailand, October 16, 2024; "Monetary policy committee's decision 6/2024," Bank of Thailand, December 18, 2024.
[70] "Monetary Policy Committee Meeting No. 1/2025, BOT News No. 6/2025," Bank of Thailand, February 26, 2025.
[71] "Capital flows: Foreign direct investment statistics and summary January–December 2024," Thailand Board of Investments, accessed February 2025.

Vietnam

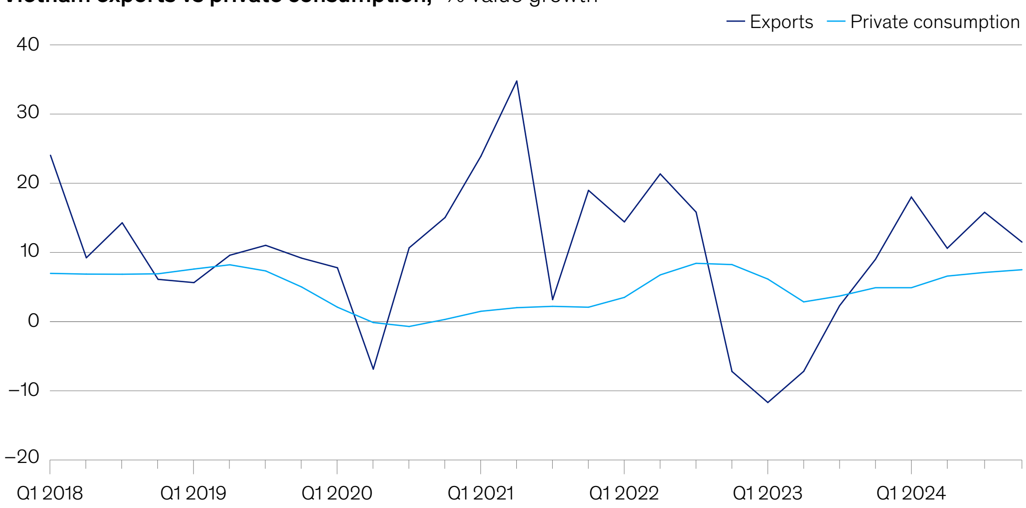
Vietnam's GDP grew 7.55 percent in the fourth quarter of 2024, its fastest quarterly growth in the past two years. The strong fourth-quarter growth enabled Vietnam's economy to expand by 7.09 percent in 2024, surpassing the government's target of 7.0 percent and stronger than 2023's GDP growth of 5.05 percent.[72] Strong exports and robust foreign investment inflows, coupled with growth in industrial output that ended a record high over the past four years, helped propel growth in 2024. Consumption continued to improve as inflation eased, supported by the strength in the labor market (Exhibit 8).

[72] "Vietnam's 2024 GDP growth accelerates to 7.09%, driven by strong exports," Channel NewsAsia, January 6, 2025.

Exhibit 8

Vietnam's private consumption maintained its growth trajectory, while exports growth dipped slightly.

Vietnam exports vs private consumption,[1] % value growth



[1]Year-on-year change, quarterly, through Q4 2024.
Source: Countries' national statistics offices; Oxford Economics

McKinsey & Company

For 2025, the government has set an ambitious GDP growth target of 8 percent, although economists exercise caution about Vietnam's ability to meet its planned growth trajectory, given uncertainty surrounding the policies of the Trump administration on Vietnam, with exports and FDIs at greater risk of adverse impact.[73]

Macroeconomic outlook

GDP

Vietnam attained 7.55 percent in year-on-year GDP growth in the fourth quarter, stronger than the revised 7.43 percent growth recorded in the third quarter, marking the third straight quarter of accelerated growth in 2024. The services sector helped prop growth, following a strong contribution from trade and tourism activities. The solid fourth-quarter performance enabled Vietnam's economy to expand by 7.09 percent in 2024 and surpass the government's target of 7.0 percent for the year. The services sector was the primary growth driver in 2024, contributing almost half of the year's growth, while the industrial and construction sector contributed 45.17 percent.[74]

Private consumption

Private consumption rose by 7.54 percent year on year in the fourth quarter as consumption recovered, having expanded by 7.02 percent in the third quarter and 6.58 percent in the second quarter. Retail sales also saw positive traction, growing 9.3 percent year on year in the fourth quarter, ending the year with 9.0 percent growth overall over 2023.[75]

Trade

Exports of goods saw slower growth of 11.5 percent in the fourth quarter compared to the revised 15.9 percent year-on-year growth in the previous quarter. Among key exports segments, exports of mobile phones shrank, while electronics, textiles and footwear, and machinery saw stronger momentum. Overall exports for 2024 experienced a 14.3 percent uptick over the previous year, with a goods trade surplus of US $24.77 billion (lower than US $28.4 billion in 2023). The United States was Vietnam's biggest export market, while China emerged as Vietnam's top import partner.[76] It remains to be seen if Vietnam can avoid incurring trade tariffs under the new US administration. Reuters reported that Vietnam's trade surplus with the United States hit a record high in 2024 at US $123.46 billion, behind only China, the European Union, and Mexico.[77]

Industrial activity

Growth in industrial activity decelerated to 7.9 percent in the fourth quarter from 9.59 percent in the third quarter. Despite this, growth for 2024 came in strong at 8.4 percent, a record high over the past four years. Manufacturing of rubber and plastics, furniture, and motor vehicles saw the fastest growth of more than 20 percent in 2024.[78] Meanwhile, PMI experienced a declining trend in the fourth quarter, after a rebound in October after typhoon Yagi, ending the year slightly in the contractionary zone at 49.8. Slower growth was experienced in output growth and new orders as business sentiment slightly dampened, partly driven by uncertainty surrounding tariff policies from the United States.[79]

Labor

The labor and employment situation in the fourth quarter showed broad signs of improvement. The unemployment rate in the fourth quarter of 2024 continued to fall, albeit marginally to 2.22 percent from 2.24 percent and 2.29 percent in the third and second quarters, respectively. Unemployment for 2024 came at 2.24 percent, down 0.04 percentage points compared to 2023. This was despite an increase in the labor force,

[73] "Vietnam to raise 2025 GDP growth target to at least 8% despite US tariff risks," Reuters, February 12, 2025; Jamile Tran, "Vietnam's posts 2024 GDP growth of 7.09%, faces challenges to meet 2025 growth target," *Business Times,* January 6, 2025.
[74] "Socioeconomic situation in the fourth quarter and 2024," General Statistics Office of Vietnam, January 6, 2025.
[75] "Socioeconomic situation in the fourth quarter and 2024," General Statistics Office of Vietnam, January 6, 2025.
[76] "Socioeconomic situation in the fourth quarter and 2024," General Statistics Office of Vietnam, January 6, 2025.
[77] Transesco Guarascio, "Vietnam's trade surplus with US hits record high in 2024," Reuters, February 6, 2025.
[78] "Socioeconomic situation in the fourth quarter and 2024," General Statistics Office of Vietnam, January 6, 2025.
[79] "Vietnam manufacturing PMI: New order growth slows to three month low in December," S&P Global, January 2, 2025.

which grew to 53.2 million people, an increase of 390,100 people in the fourth quarter compared to the previous quarter and 625,300 over 2023. Average income continued to increase in the fourth quarter with employees attaining an 8.6 percent increase in overall income in 2024.[80]

Prices

Inflation continued to ease in the fourth quarter to 2.87 percent year on year, compared to 3.48 percent recorded in the third quarter. The continued easing enabled inflation to be kept to 3.63 percent in 2024, lower than the government's target of 4.0 to 4.5 percent, albeit slightly higher than the 3.5 percent inflation recorded in 2023.[81] For 2025, Vietnam's National Assembly has set a target for inflation to be kept within 4.5 percent.[82]

Financial markets

Currency

The Vietnamese dong closed 2024 at a record low against the US dollar, having depreciated by 2.5 percent in the fourth quarter, reversing its appreciation against the US dollar from the previous quarter. In the first two months of 2025, the dong continued to remain weak against the greenback, as escalating tariff threats from the United States boosted the dollar. Trade-reliant nations such as Vietnam, which has a large trade surplus with the United States, could be significantly affected by protectionist trade policies from the United States, thereby putting the dong currency under pressure against the dollar.[83]

Policy rate

The central bank kept the policy rate constant at 4.5 percent throughout the fourth quarter of 2024, and moving forward will likely continue to manage policy rates in line with market developments, macroeconomic conditions, and inflation, while aligning to its monetary policy objectives.[84]

Capital inflows

Vietnam's disbursed FDI recorded a 9.4 percent growth year on year and reached an all-time high of US $25.4 billion in 2024. However, FDI commitments, which represent future inflows, fell by 3 percent year on year to US $38.2 billion.[85] The processing and manufacturing industry obtained the lion's share of FDI commitments at 66.9 percent, while real estate accounted for a 16.5 percent share. Vietnam receives investments from 114 countries and territories in total, with Singapore contributing the largest share at 26.7 percent, followed by South Korea with a 20.7 percent share, and China, Hong Kong, and Japan rounding off the top five investors.[86]

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[80] "Socioeconomic situation in the fourth quarter and 2024," General Statistics Office of Vietnam, January 6, 2025.
[81] "Socioeconomic situation in the fourth quarter and 2024," General Statistics Office of Vietnam, January 6, 2025.
[82] "Vietnam's inflation forecast to range between 3–4.5% in 2025," Vietnam Plus, January 10, 2025.
[83] "Vietnam dong falls to record low on Trump tariff concerns," Bloomberg, February 1, 2025.
[84] "Operating monetary policy contributes to promoting growth associated with macroeconomic stability and inflation control," State Bank of Vietnam, January 8, 2025.
[85] "Vietnam posts 2024 GDP growth of 7.09%, faces challenges to meet faster 2025 growth target," *Business Times,* January 6, 2025.
[86] "FDI attraction in 2024," Vietnam Ministry of Planning and Investment, January 6, 2025.

In the spotlight

Navigating geo-economic challenges in Southeast Asia

Southeast Asian economies in the main held steady in 2024 and look to do so in 2025. However, while global trade integration levels remain high, a reconfiguration of supply chains and trade, coupled with geopolitical pressures, could challenge their resilience and derail the economic linkages and prosperity that Southeast Asia has built over the years. The region needs to act to counter this. To successfully navigate the increasingly complex geo-economic environment, countries could identify key watch points and adopt certain strategies.

Watch points

Southeast Asian countries face risks arising from recent global and regional policies and pronouncements. Six geo-economic watch points are of particular relevance for countries in the region:

— *A potential scaling up of direct tariffs* on produce type, trade surpluses, and perceived lack of reciprocity and circumvention of existing tariffs

— *A redirection of supply chains* as multinational companies shift from exposed markets, creating risks and opportunities due to diverted overcapacity, which will affect regional industries

— *Expanding export controls* around access to and transit of critical and emerging technologies in the region

— *Evolving investment screening regimens* that could affect the ability of companies in Southeast Asia to pursue overseas investments

— *Scrutiny of critical infrastructure* such as ports in terms of access and ownership

— *Regional growth* trajectory as escalating trade tensions may more broadly dampen economic prospects for ASEAN economies with high trade dependence

Strategies

Bearing these watch points in mind, policymakers and business leaders in Southeast Asia could consider three approaches to take to remain resilient:

Keeping a trifocal lens: This involves acting on an affirmative trade and connectivity agenda that starts in Southeast Asia, extends across Asia, and expands to the rest of the world. Trade agreements (such as the ASEAN Trade in Goods Agreement or the Digital Economy Framework Agreement) and infrastructure investment strategies—particularly for transport that can support trade flows—could help catalyze this agenda.[87]

Calibrating strategy: Business leaders and policymakers in Southeast Asian countries could carefully assess their strategies and responses in light of a sometimes contradictory host of factors in a global environment of protectionism. These strategies can be summed up by the acronym, "INDRA" (Exhibit 9).

Building geopolitical resilience: Countries and companies could look to foster geopolitical resilience in three domains:[88]

— *Insight:* Policymakers, while honing their own sources of insights and early warning systems, could also share them with local companies that may not have the resources to make their own insights.[89]

— *Oversight:* Companies in Southeast Asia could take a critical overview by understanding their supply chains with increased granularity and how their R&D is configured.[90]

— *Foresight:* Times are uncertain but opportunities amid the volatility are there for countries that stay alert to possibilities.[91]

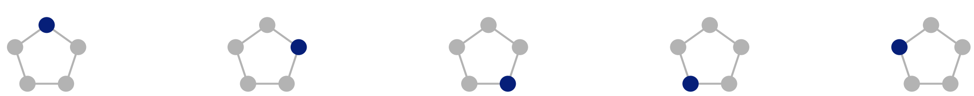
Southeast Asian economies showed resilience, improved inflationary conditions, and higher FDI in the fourth quarter of 2024, despite global uncertainties, which led to stronger performances for the overall year than in 2023. However, with the ongoing effects of geopolitical pressures, along with weakening global demand and rising trade tensions facing the region, central banks appear to remain prepared to counter these types of challenges in 2025, such as by easing rates to stimulate the economy. Going forward, countries and companies in Southeast Asia could identify watch points and consider strategies to bolster resilience amid geo-economic volatility and maintain the prosperity achieved over the past few decades.

87 "ASEAN Trade in Goods Agreement (ATIGA)," ASEAN, December 11, 2020; "Digital Economy Framework Agreement (DEFA): ASEAN to leap forward its digital economy and unlock US $2 tn by 2030," ASEAN, August 19, 2023.
88 Cindy Levy, Shubham Singhal, and Matt Watters, "A proactive approach to navigating geopolitics is essential to thrive," McKinsey, November 12, 2024.
89 Ziad Haider, "Eye in the sky: Launching a geopolitical risk unit," McKinsey, May 6, 2024.
90 Andrew Grant, Michael Birsham, Olivia White, and Ziad Haiden, "Can your company remain global and if so, how?" *McKinsey Quarterly,* May 17, 2024.
91 Andrew Grant, Ziad Haider, and Anke Raufuss, "Black swans, gray rhinos, and silver linings: Anticipating geopolitical risks (and openings)," McKinsey, February 24, 2023.

Exhibit 9

Some countries and companies are adopting a specific strategy to navigate geopolitics.

The INDRA strategy: initiate, negotiate, diversify, respond, and accelerate



Initiate
Announce investments into or purchases from key markets to preempt the imposition of tariff and other measures

Negotiate
Negotiate tariff delays and exemptions or other agreements

Diversify
Pursue new and expanded agreements with trade partners

Respond
Impose tariffs and other restrictions in response to new measures

Accelerate
Expedite investments into key markets in anticipation of tariff increases

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The authors wish to thank Elaine Ee, Lily Ong, and Vidhya Ganesan for their contributions to this article.