

# REGIONAL ECONOMIC OUTLOOK

ASIA AND PACIFIC



**ASIA AND PACIFIC  
DEPARTMENT**

Economic and Fiscal  
Challenges in Asia and  
the Pacific

**KRISHNA SRINIVASAN**

**11TH TOKYO FISCAL FORUM**

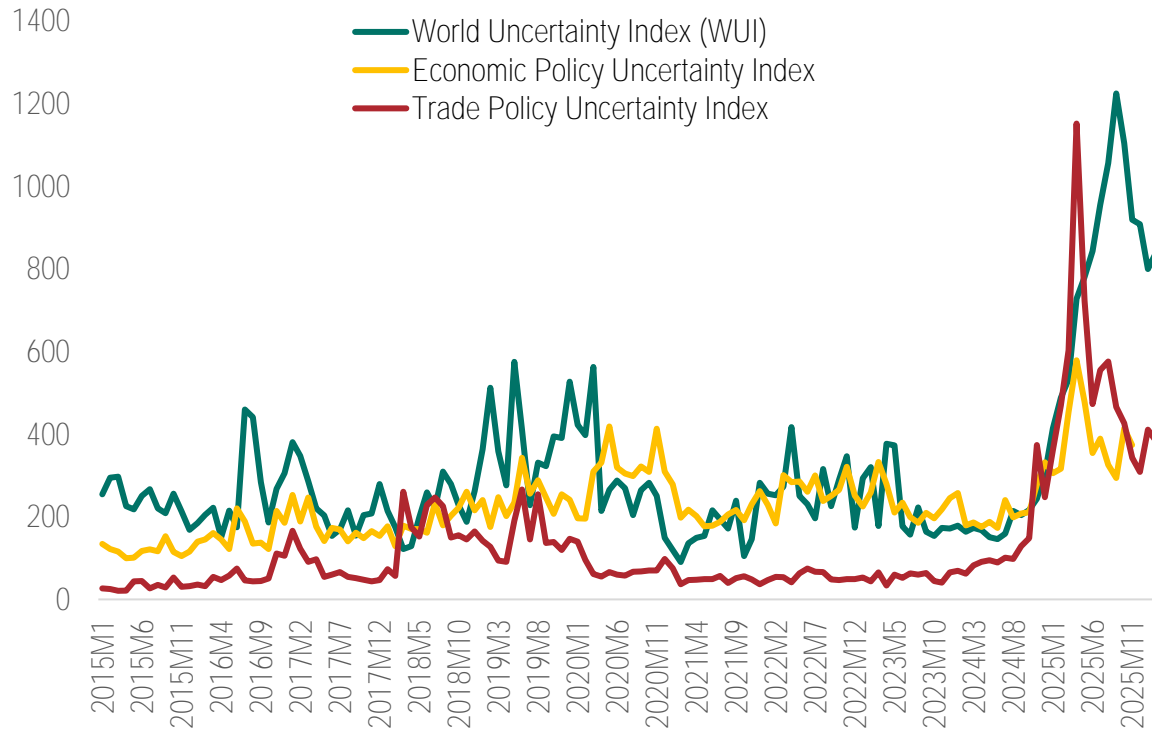
**JUNE 10, 2026**

# Global Outlook

# The remarkable resilience of the global economy in 2025...

*Notwithstanding elevated trade and policy uncertainty throughout most of 2025...*

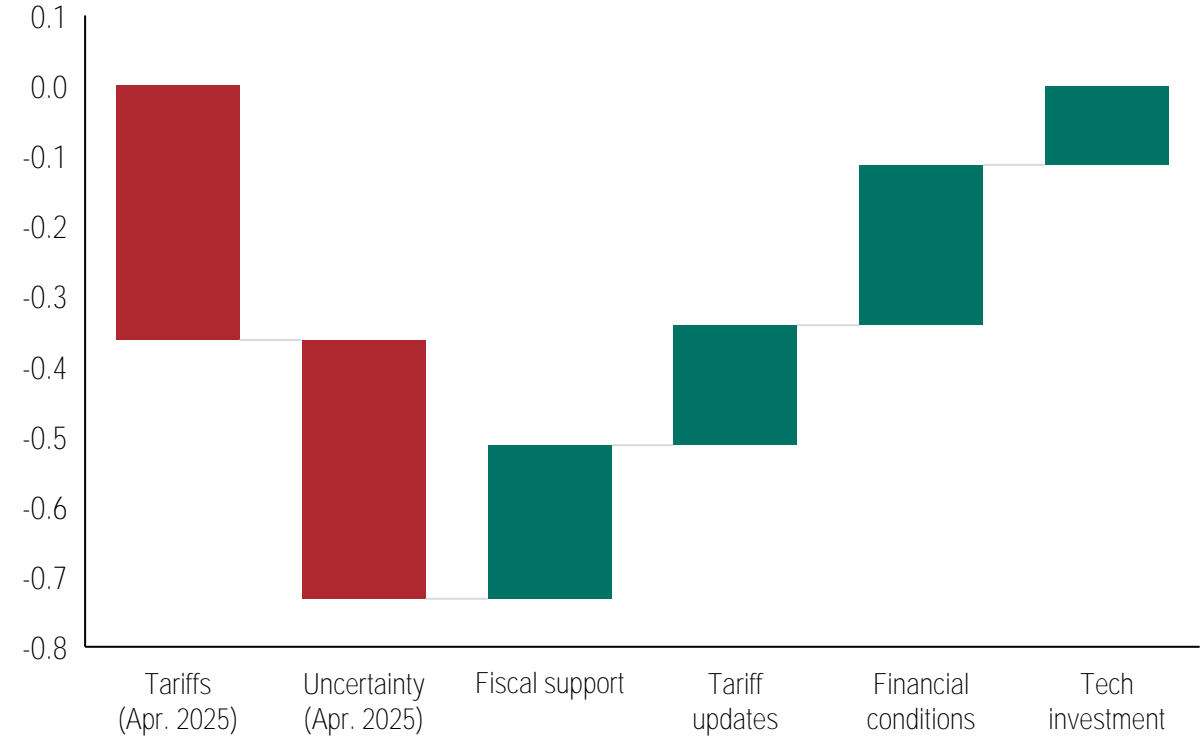
Global Uncertainty  
(Index)



Sources: Ahir, Bloom, and Furceri 2022 ([worlduncertaintyindex.com](http://worlduncertaintyindex.com)); Baker, Bloom, and Davis 2016 ([policyuncertainty.com](http://policyuncertainty.com)); and Caldara and others 2020 ([matteoiacoviello.com/tpu.htm](http://matteoiacoviello.com/tpu.htm))

*... Global growth remained resilient, shaped by large offsetting forces.*

World GDP Growth  
(percent, relative to January 2025 WEO)



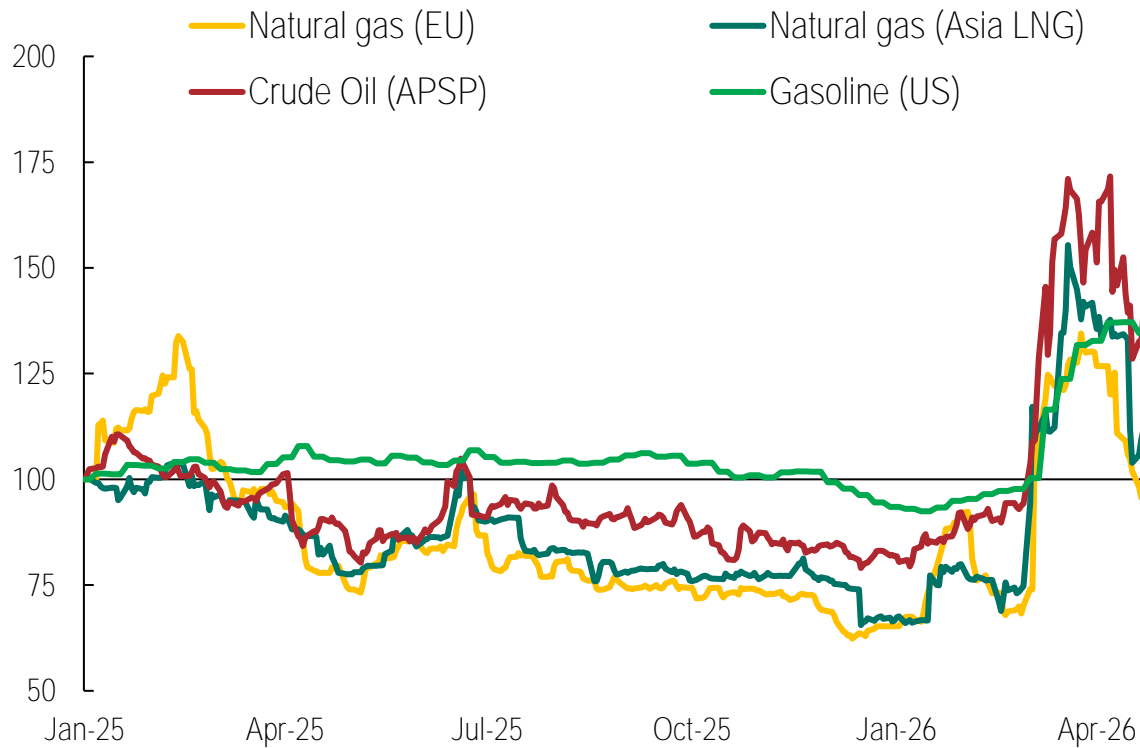
Sources: IMF, *World Economic Outlook*; and IMF staff calculations.  
1/ Staff estimate using the IMF's Global Integrated Monetary and Fiscal (GIMF) model.

# ... is being tested again by the war-driven energy shock

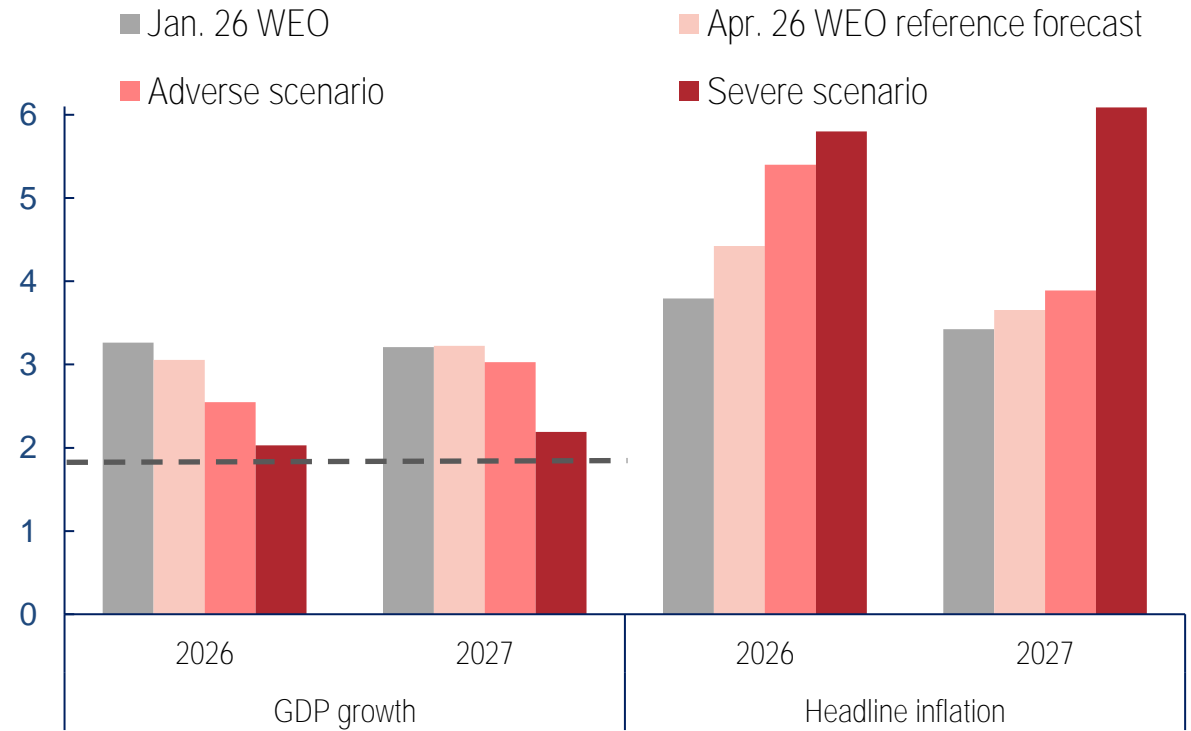
Energy markets have been significantly disrupted by the war in the Middle East...

... which scale and duration will shape the global outlook.

Energy Prices  
(index; Jan 2025 = 100)



World Growth and Inflation  
(percent)



Source: Bloomberg Finance L.P.; and IMF staff calculations.

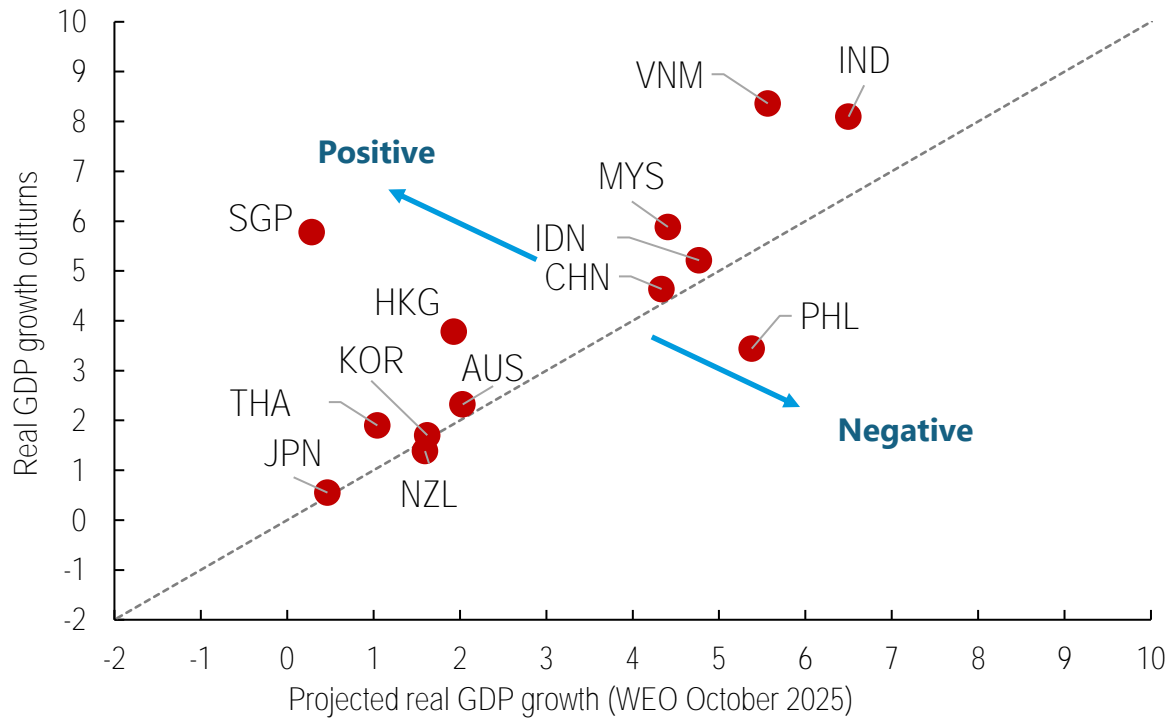
Sources: IMF, *World Economic Outlook*; and IMF staff calculations.

# Recent Developments and Risk: Resilience amid the New Shock

# The pre-war baseline was for strong growth and largely contained inflation

*Growth remained resilient, exceeding earlier projections for most economies...*

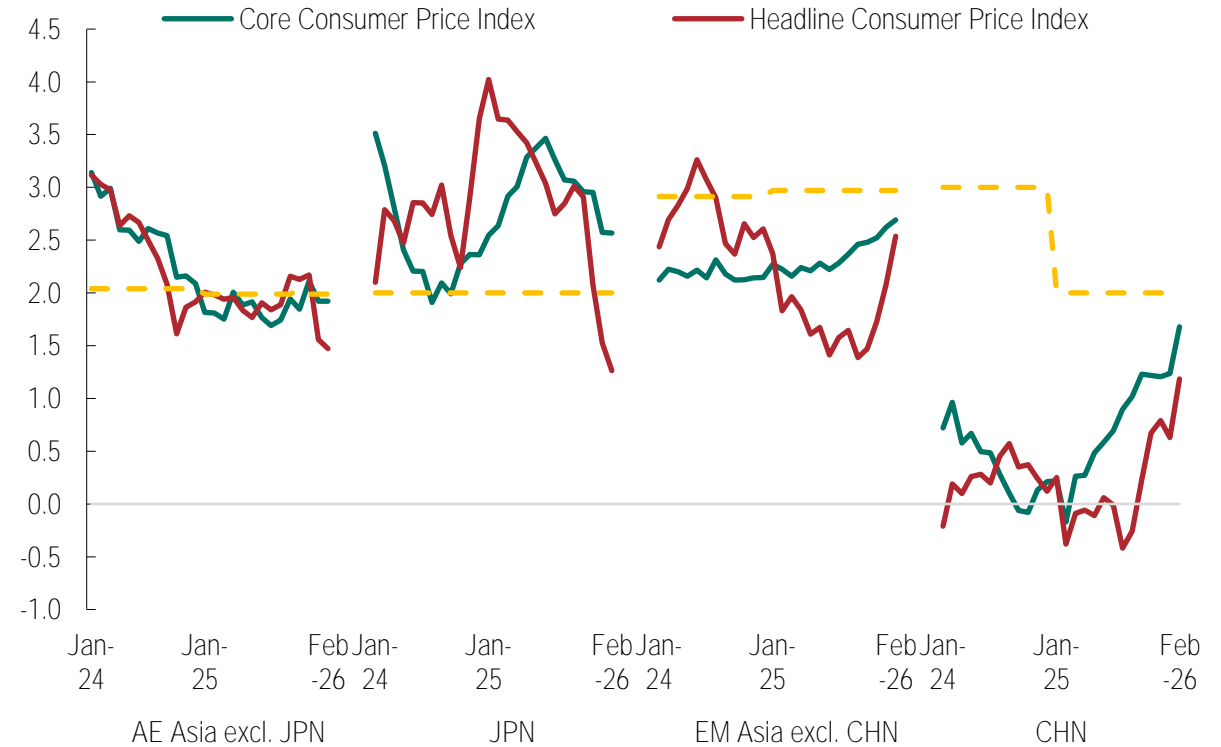
Growth Surprises 2025:H2  
(year-on-year growth; percent)



Sources: Haver Analytics, WEO; and IMF staff calculations.  
Note: Data for IND are based on calendar year.

*...While, despite recent increases, inflation is below target in some parts of EM Asia.*

Asian Headline and Core Inflation from Target  
(yoy percent, Jan 2024 – Feb 2026)



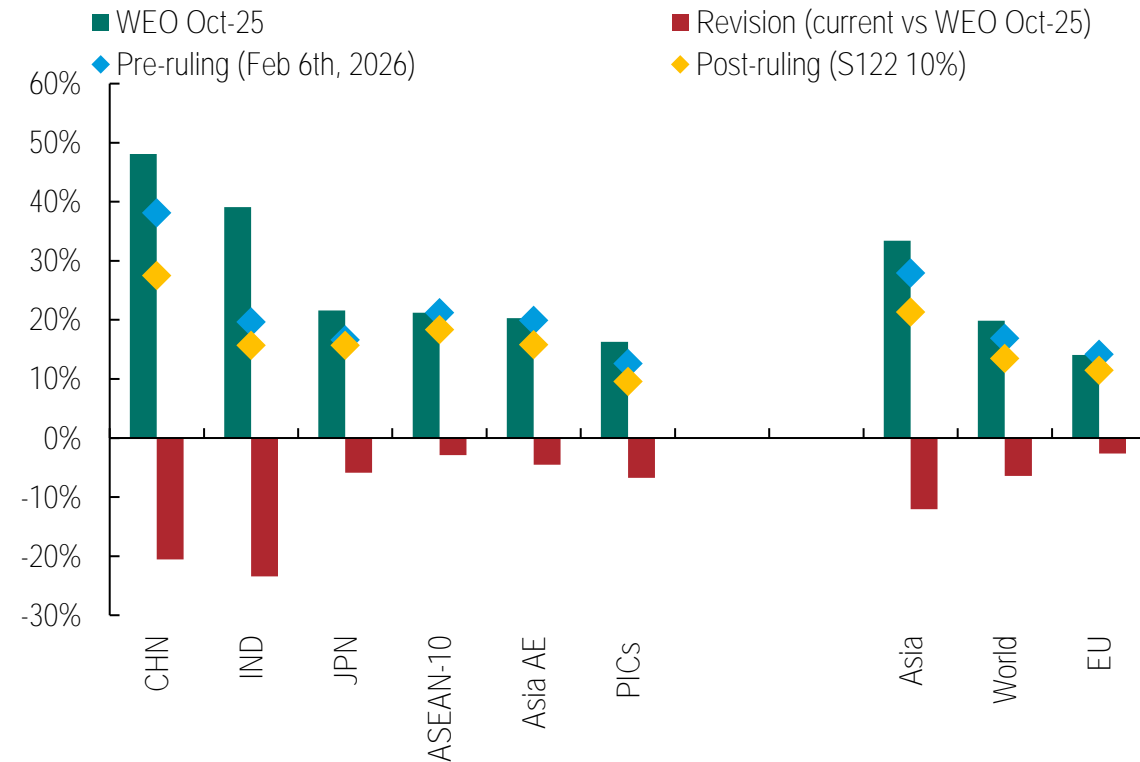
Sources: Haver Analytics; IMF staff calculations.

Note: Core refers to CPI basket excluding food and energy, fuel, and transport. The exact categories used in the decomposition of these categories varies across economies. We use the historical average to set CB target for HKG and MYS. We use the inflation target for CHN, IND, JPN, and KOR. For other economies, we use the mid-point of their target range as the target. No 2026 data for AUS and NZL.

# Tariffs are lower, but the energy shock is a significant new headwind

*Tariff rates have declined heterogeneously across economies, but remain high.*

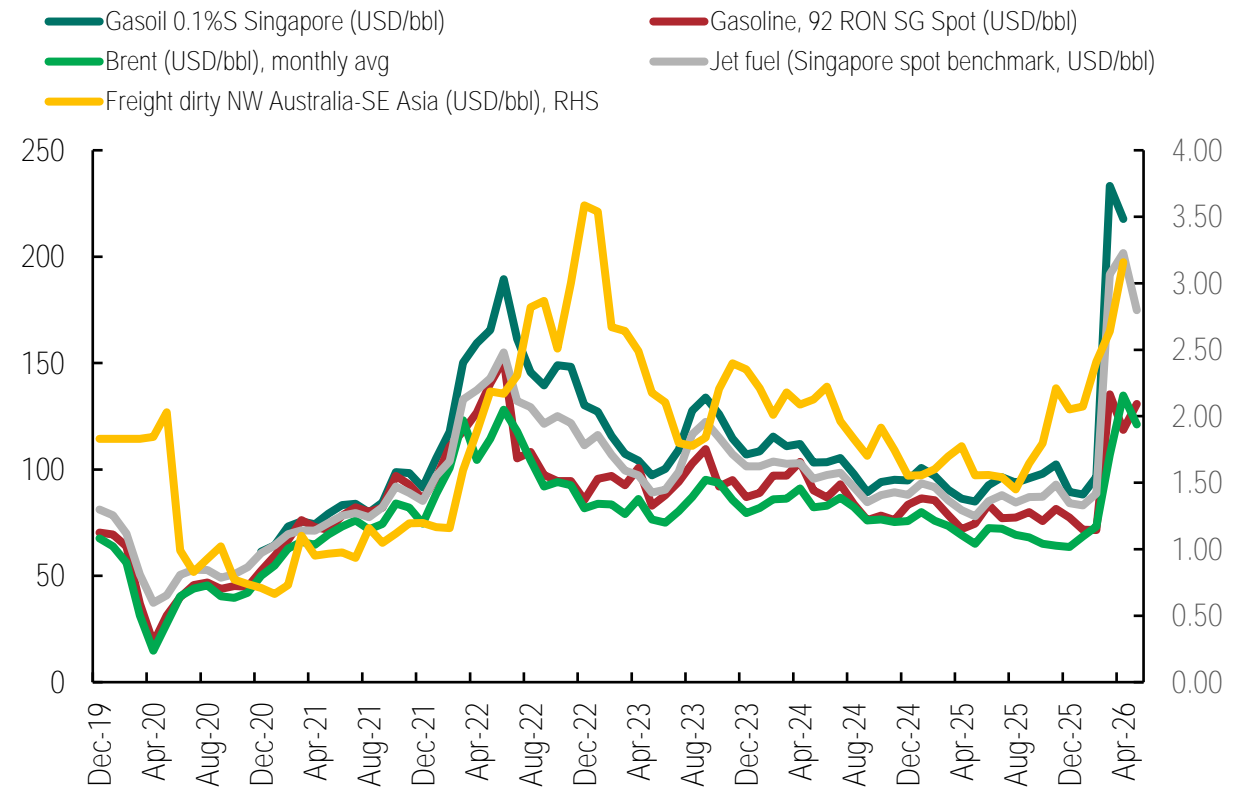
U.S. Effective Tariff Rate by Economy (percent)



Source: WTO; and IMF staff calculations.

*The energy shock poses new risks to the region, not only through higher crude prices, but also through refining margins and freight costs.*

Oil Product and Freight Spot Prices

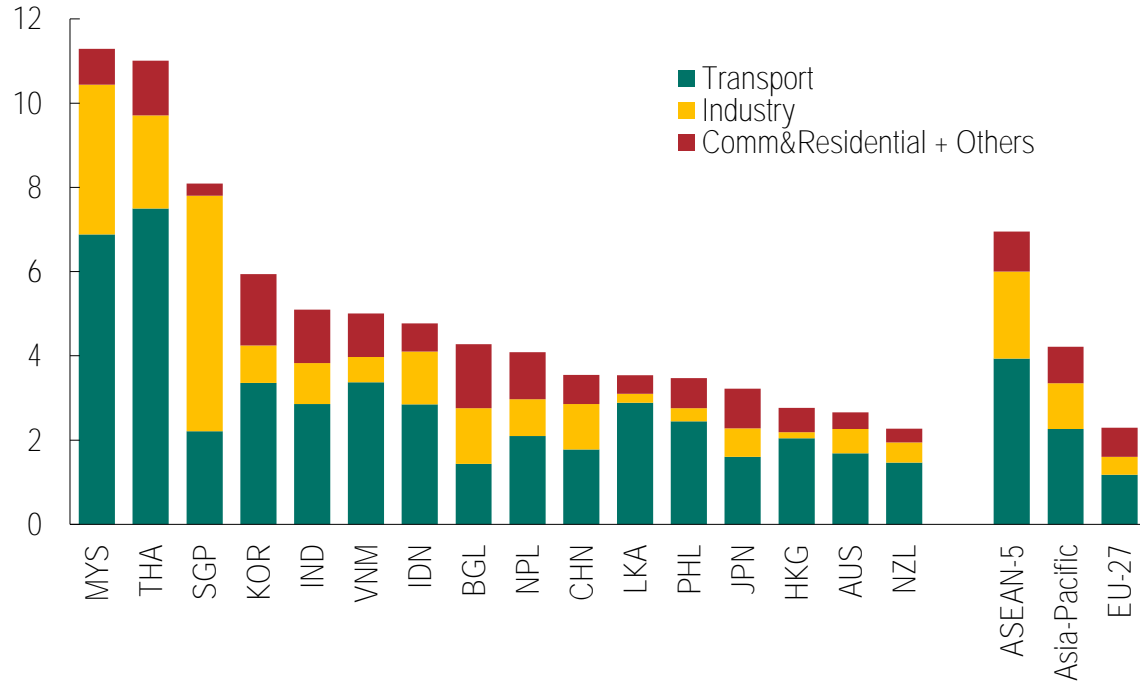


Source: Argus and Bloomberg.

# Asia is especially exposed to energy shocks...

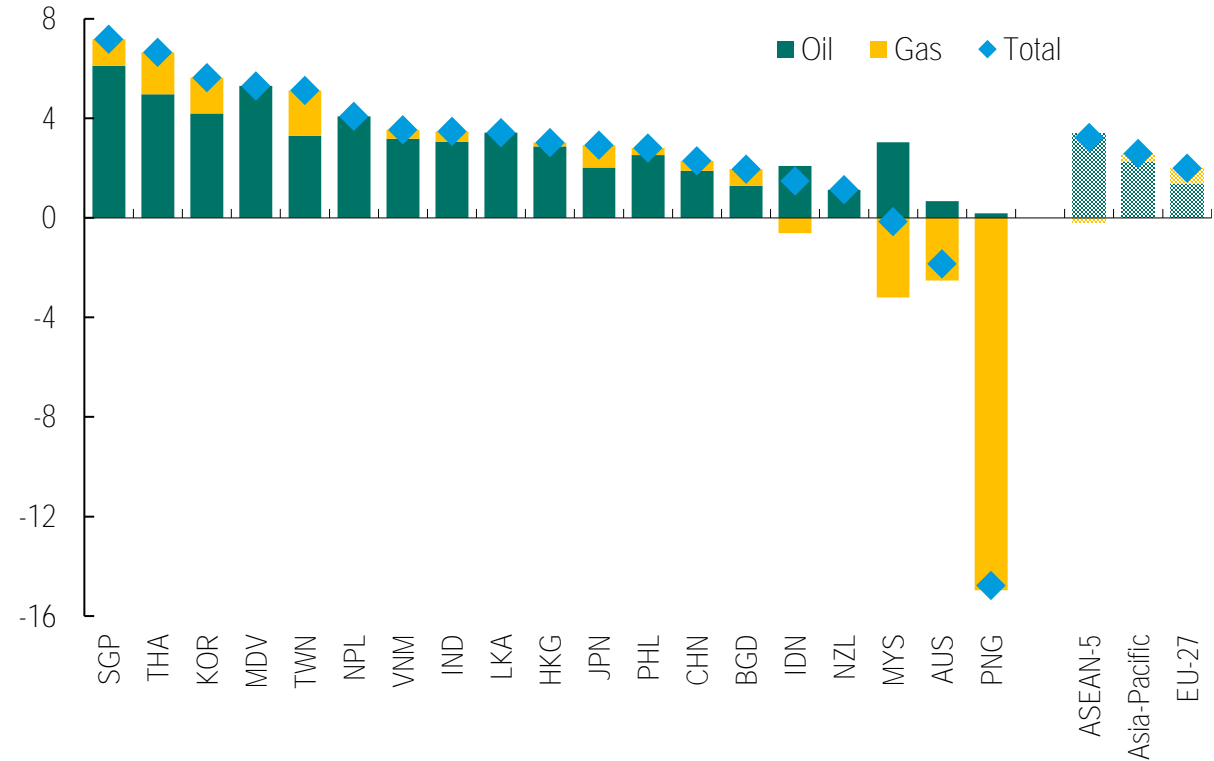
Asia's oil and gas use by households and industrial production is significant...

Oil and Gas Use: Asia-Pacific  
(as percent of GDP)



... with the region highly dependent on oil and gas imports, albeit to varying degrees across economies.

Net Imports of Oil and Gas  
(as percent of GDP)



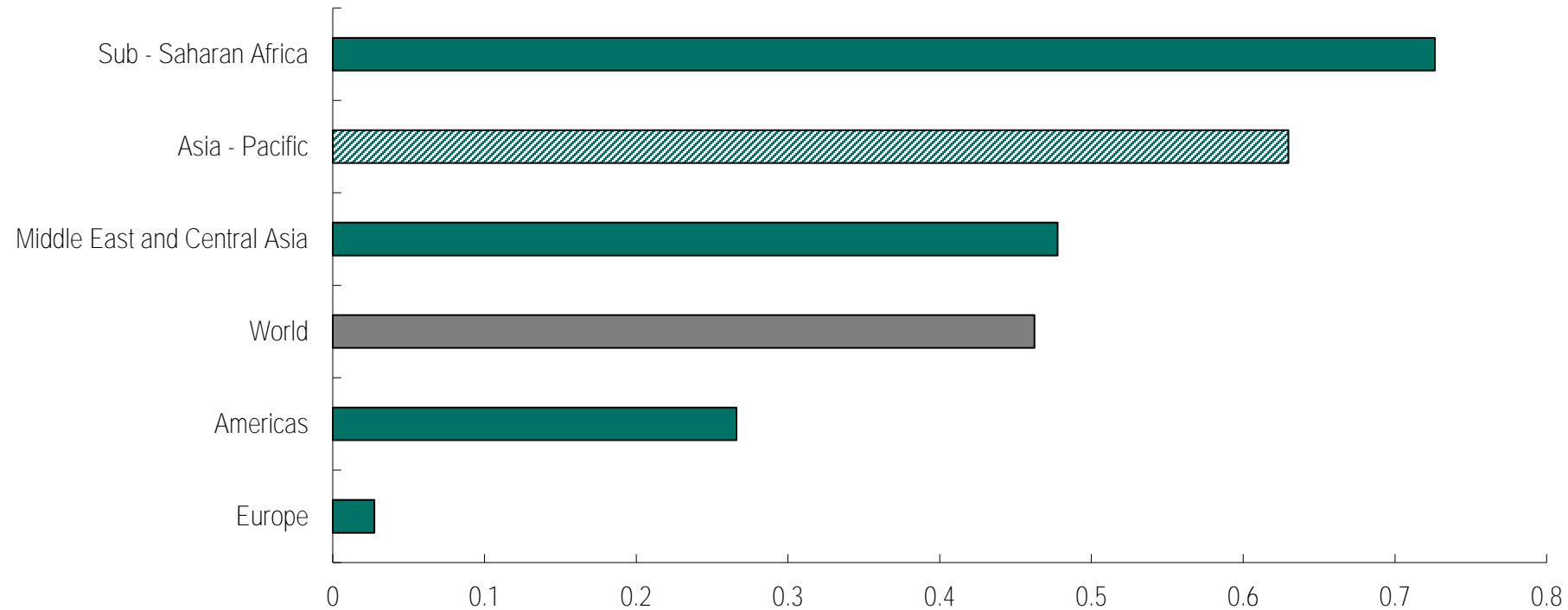
Source: Energy Institute (Statistical Review of World Energy 2025), IEA, JODI Oil and Gas World Databases; WEO; and IMF staff calculations.

Note: Data are based on 2024, or 2023 for some economies. Oil includes crude oil, inland demand plus international aviation and marine bunkers and refinery fuel and loss. Consumption of biogasoline (such as ethanol), biodiesel and derivatives of coal and natural gas are also included. Natural gas includes dry natural gas, pipeline gas, and liquefied natural gas (LNG). Energy price assumptions are: 80 \$/bbl for oil and 12 \$/MMBtu for gas. "Others" includes agriculture and forestry, fishing, and residual categories. "Others" includes agriculture and forestry, fishing, and residual categories.

# ...and through impacted supply chains

*Asia-Pacific is among the most exposed to the energy shock through indirect channels, such as imports of fertilizer inputs.*

Exposure to Imports of Fertilizer Inputs from the Middle East  
(Middle East share of sulfur imports, 2024)



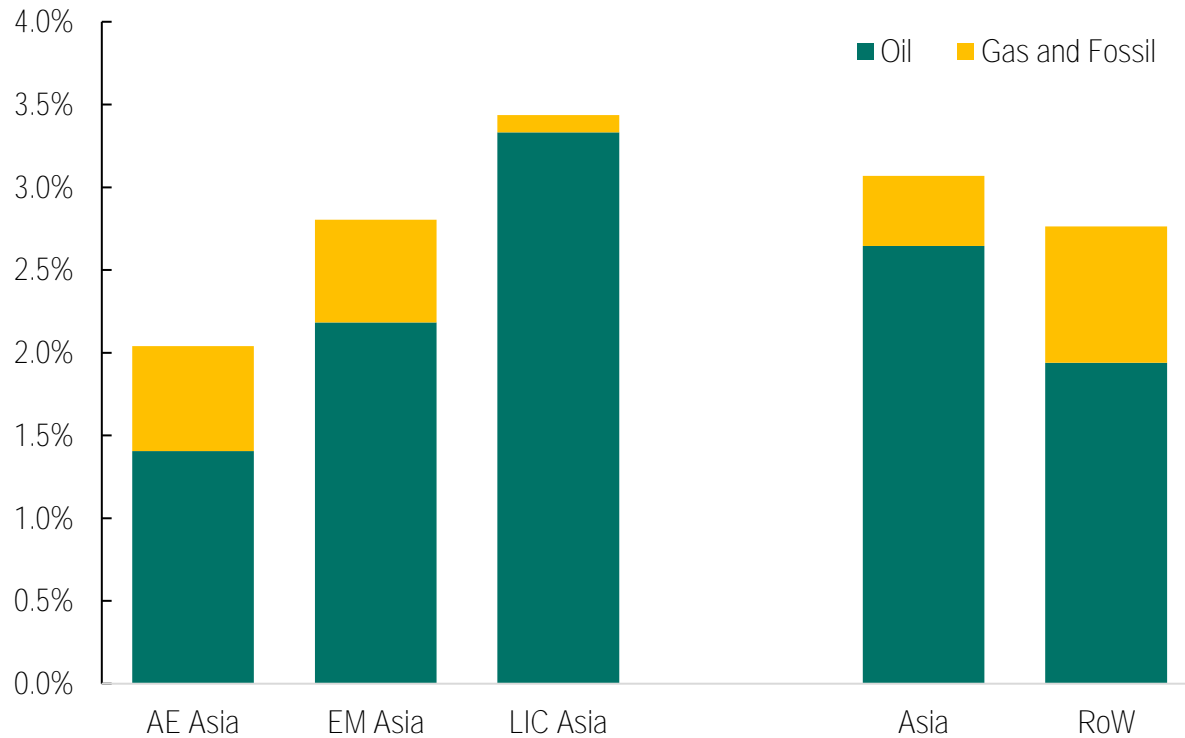
Source: UN Comtrade; IMF staff calculations.

Note: Share of total sulfur (HS 2503) imports sourced from Middle Eastern exporters (Saudi Arabia, the United Arab Emirates, Qatar, Oman, Bahrain, Kuwait, Iran, Iraq, and Jordan) in 2024. The Middle East and Central Asia share includes intra-regional trade, as the listed exporters fall within this region. Data compiled May 28 2026.

# A prolonged shock could trigger inflationary pressures and dampen growth in Asia

*Asia's inflation is sensitive to energy shocks given the meaningful weight of energy in its PCE basket...*

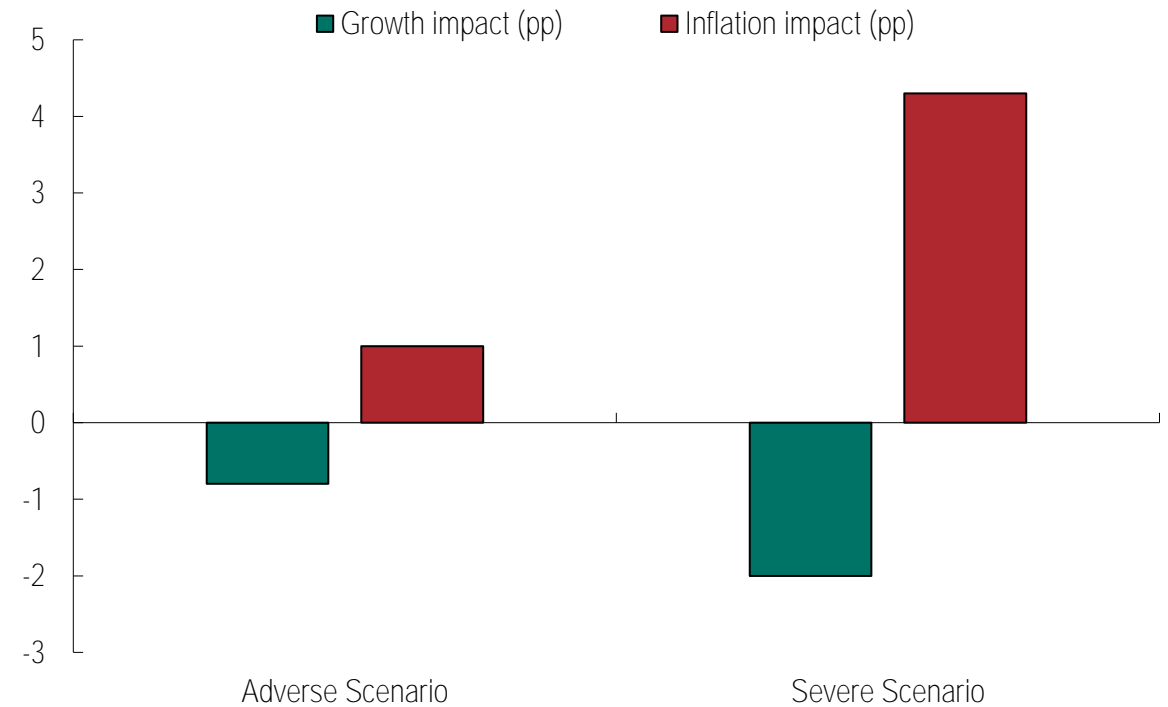
Energy Weights in PCE Deflator  
(in percent)



Sources: GLORIA IMRO Database, IMF staff calculations.

*... with a prolonged shock leading to stronger inflation pressures and a deeper output contraction.*

Asia Pacific: Growth and Inflation Impact under Different Scenarios  
(deviation from baseline, cumulative by 2027, percentage points)



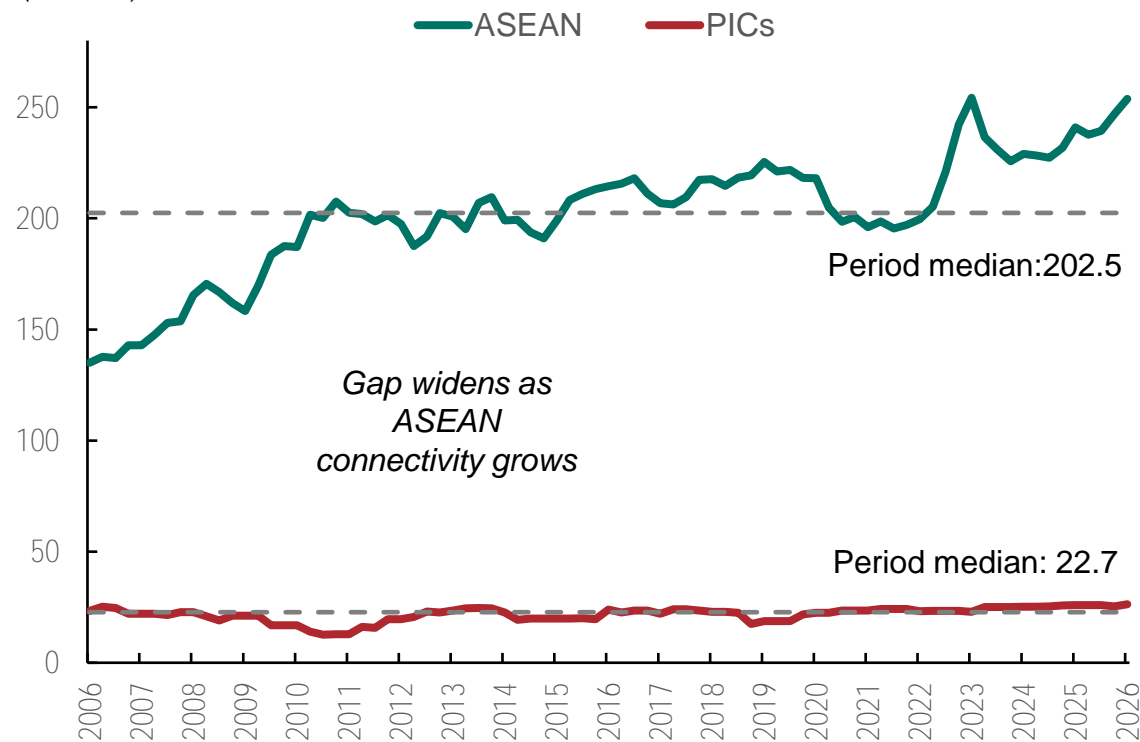
Sources: IMF staff calculations.

Note: Deviations from reference scenario, cumulative by 2027.

# PICs are particularly vulnerable due to their remoteness

*Pacific Islands remain poorly connected to global shipping networks...*

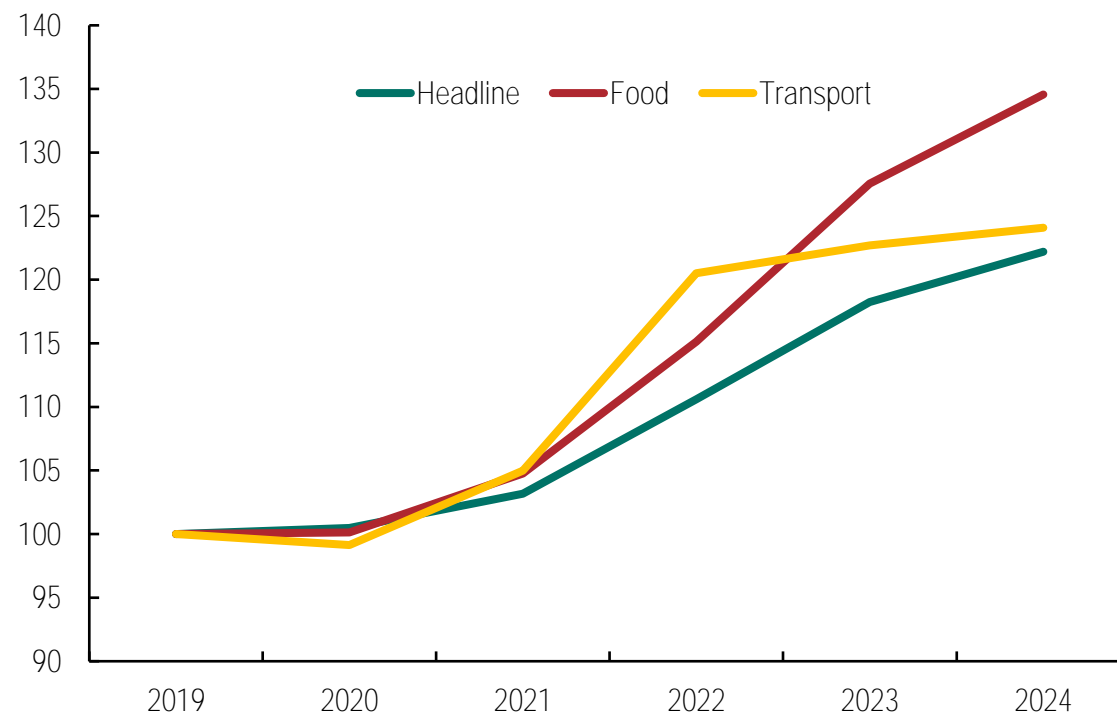
Shipping Connectivity Index: ASEAN vs. PICs  
(Median)



Sources: UNCTAD Liner Shipping Connectivity Index; IMF staff calculations.  
Note: ASEAN aggregate excludes Lao PDR (landlocked). PIC aggregate covers 12 economies, of which roughly half report consistently across the period; median is used to mitigate composition effects from sparse reporting.

*...while cost-of-living pressures, especially food and transport, have risen sharply.*

PIC CPI and Key Components  
(2019 = 100)



Sources: Country's authorities, WEO, and IMF staff calculations.

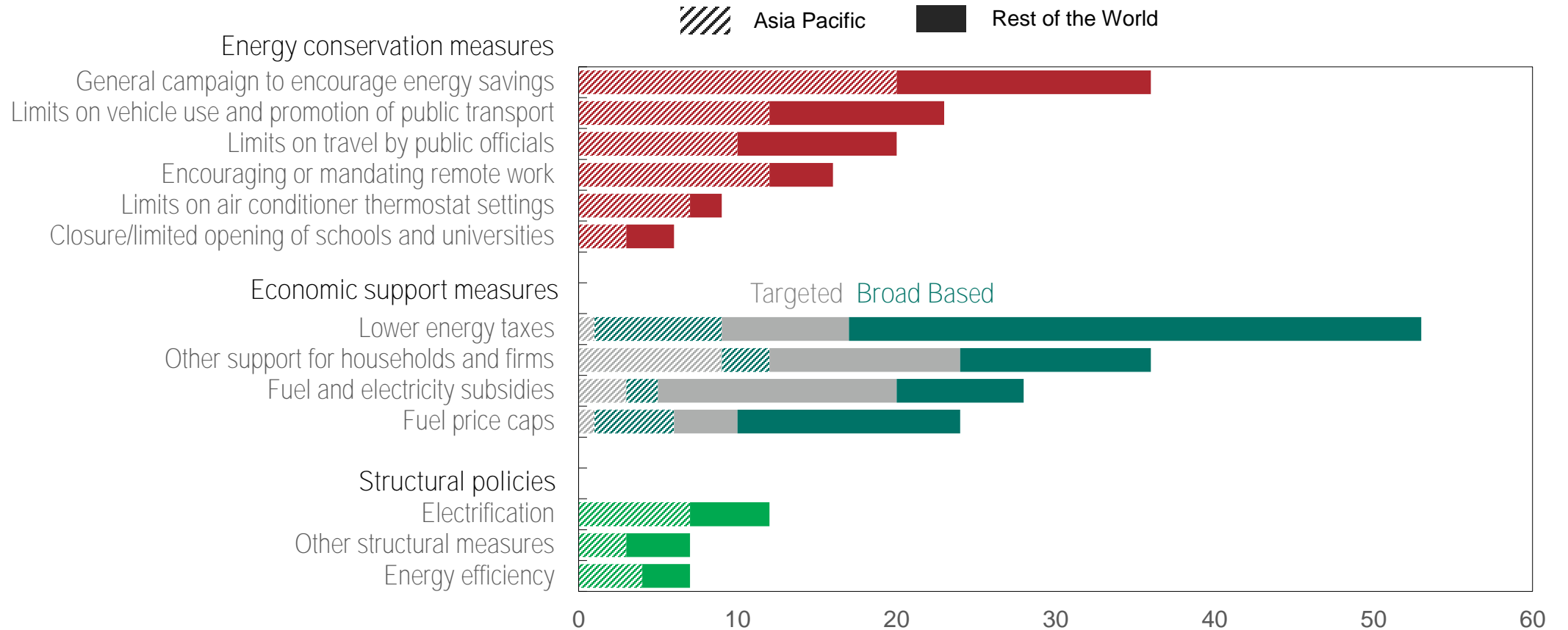
# Near-Term Policies and Structural Challenges

# Asian countries have proactively responded to the energy shock

*Asia-Pacific is leading on energy conservation and structural reforms, restrained on broad fiscal support.*

## National Energy Policy Responses

(number of countries that have implemented each measure type)



Source: International Energy Agency and IMF staff calculations.

Notes: Bars show the number of countries that have implemented each measure type; a country is counted once per measure type but may appear across multiple categories. Economic support measures are split into "targeted" (time-limited, aimed at specific groups, or funded by reallocation) and "broad-based" (generic tax/excise cuts, untargeted subsidies, broad price caps).

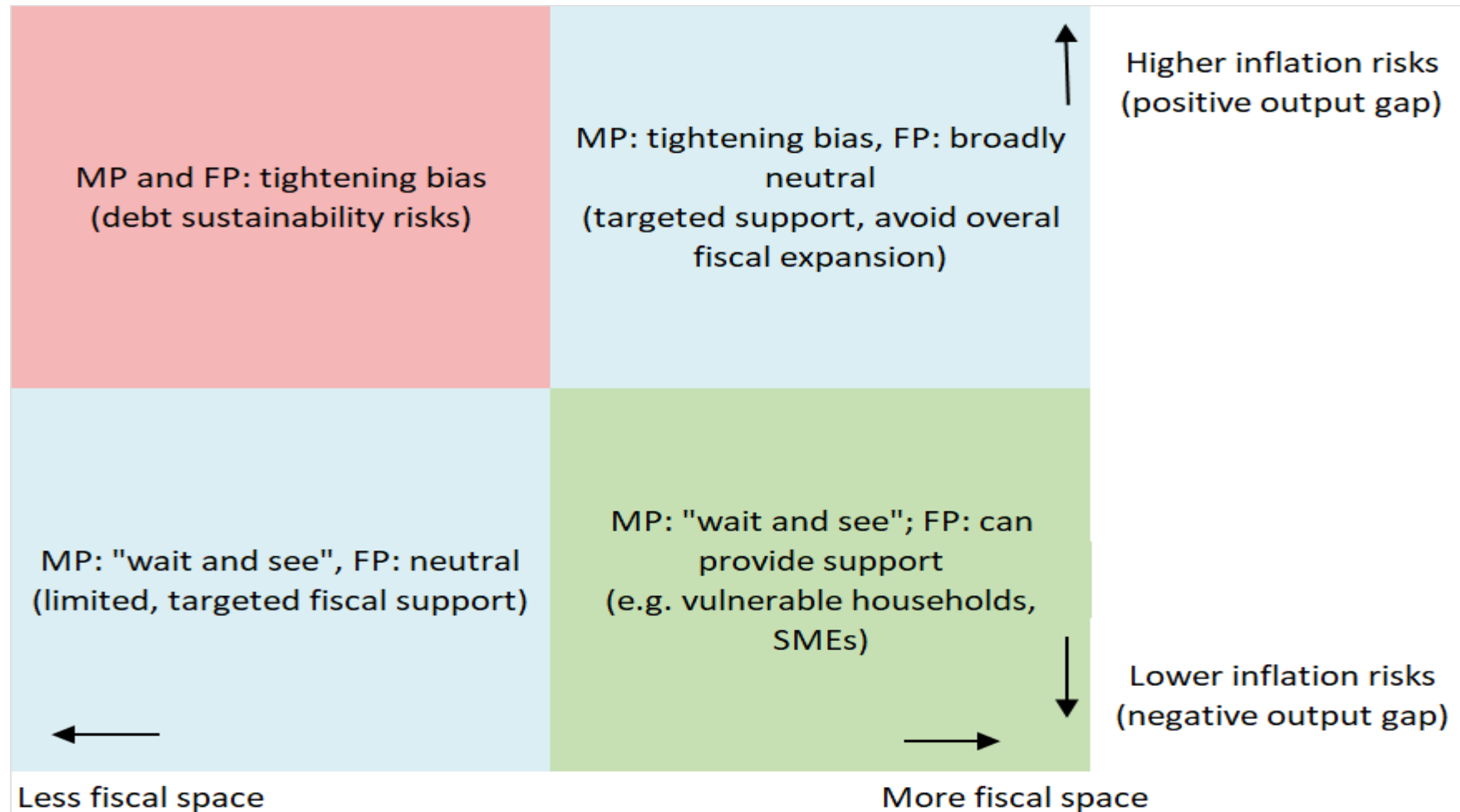
# Responses depend on exposure, buffers, and domestic conditions

Country	Energy Indicators				Fuel Prices	Policy Responses		
	Oil and Gas Net Imports <sup>(1)</sup>	Share of Oil and Gas from the Middle East <sup>(1)</sup>		Estimated Oil Inventory <sup>(2)</sup>	Increase at the Pump <sup>(4)</sup>	Price Cap	Quantitative Measures	Fuel Tax Cuts/ Fuel Subsidies
	% GDP	% Oil Imports	% Gas Imports	Days of Net Import	%			
CHN	2.3	38	17	~120	14.4	Yes	-	No explicit announcement has been made in addition to the existing ones.
IND	3.5	46	54	~80	0	Yes	Flight Cuts	Tax reduction on domestic diesel and petrol consumption while also increase export tax.
IDN	1.5	21	-	21-28 <sup>(3)</sup>	0	Yes	Plans to Apply WFH, Limit Fuel Sales, and Increase Palm Oil Share in Biodiesel	Yes
JPN	2.9	95	11	~200	8	Yes	-	Subsidies introduced for gasoline, diesel, kerosene, heavy oil, and jet fuel.
KOR	4.4	70	23	~210	12	Yes <sup>(6)</sup>	Mobility Limits	Yes
MYS	-0.2	68	-	NA	0 <sup>(5)</sup>	Yes	Work From Home	Yes
PHL	2.8	95	-	~51	68	-	Plan to Cut Flights, WFH <sup>(7)</sup> , National Energy Emergency Announced	Excise tax cut is currently being considered.
SGP	7.2	52	14	31	17	-	-	-
THA	6.8	58	18	NA	48	-	Work From Home	Yes
Pacific Island Countries (PICs) <sup>(8)</sup>	9-14	52 <sup>(9)</sup>		45-60	0-35	Yes in SLB	Fuel Rationing, Work From Home	Excise tax cuts in SLB.

Source: Authorities, News Sources, Energy Institute (Statistical Review of World Energy 2025), IEA, JODI Oil and Gas World Databases; WEO; UN Comtrade; and IMF staff calculations.

Note: (1) 2024 data. (2) Crude oil inventory includes both government reserves as well as inventory that resides in the private sector. Data as of end-March 2026. (3) IDN number is in days of use rather than imports. (4) Fuel price change are calculated from April 1<sup>st</sup> compared to Feb 27<sup>th</sup>. (5) Applicable for RON95 gasoline only. (6) KOR price cap is not a static but rather a sliding maximum price cap (i.e., fuel prices are raised every two weeks by applying the growth rate in international oil prices). (7) 1-Day WFH obligation mandated for public sector officials only. (8) Typical values from available data. (9) FJI sources from SGP almost entirely, and the rest of the South Pacific (i.e. KIR, NRU, WSM, SLB, TON, TUV, VUT) reportedly sources from FJI.

# Effectively responding to the energy shock requires policy coordination

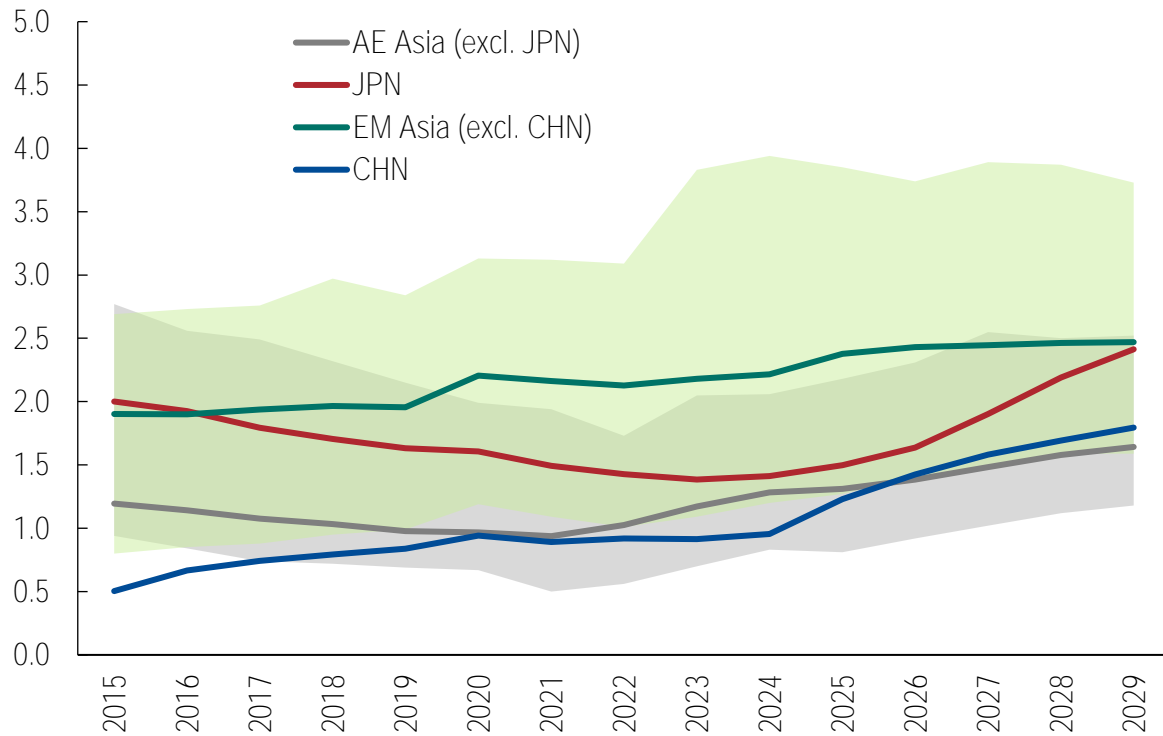


Note: Inflation risks = risk of persistently high inflation (beyond initial impact of energy prices spike) due to second round effects and de-anchoring of inflation expectations; MP=monetary policy; FP=fiscal policy

# Constrained fiscal space calls for balancing (temporary and targeted) support **and sustainability**...

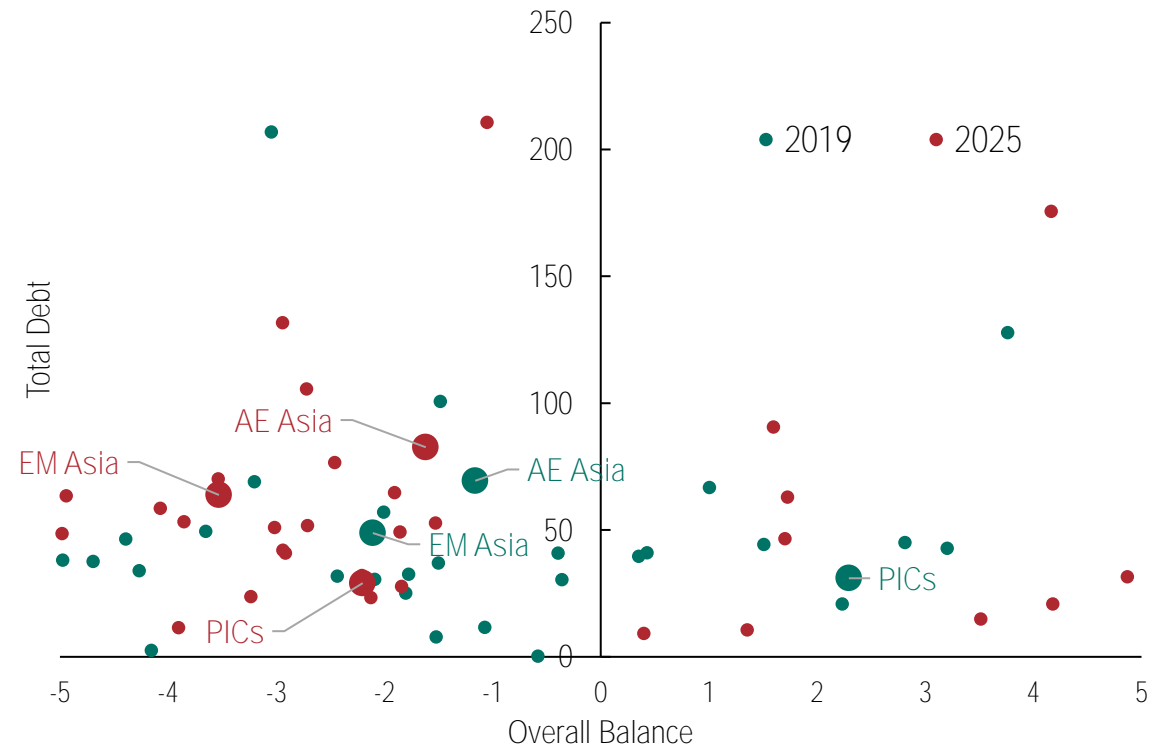
*Fiscal prudence remains critical to alleviate the debt service burden...*

Interest Payments  
(percent of GDP, simple average)



*... as fiscal space has narrowed compared to the pre-Covid period.*

Overall Balance and Total Debt  
(Percent of GDP)



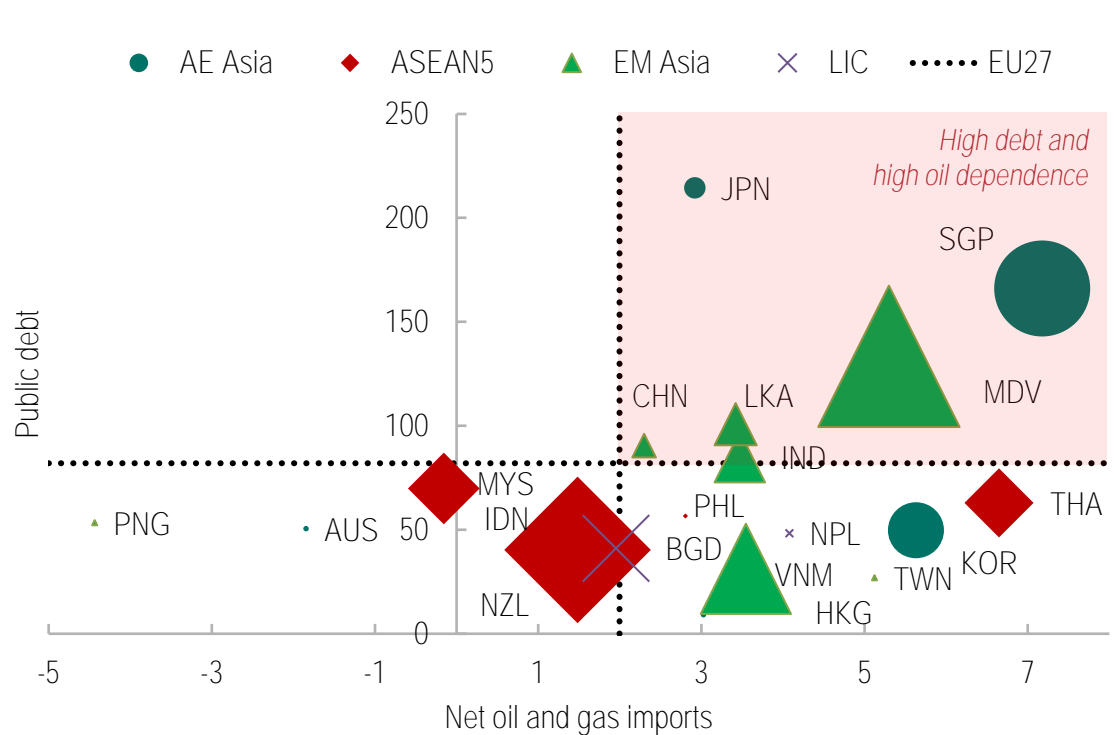
Source: World Economic Outlook, IMF April 2026 Fiscal Monitor; IMF staff calculation  
Notes: SGP and TWN data are not available. The shade represent interquartile range (25<sup>th</sup> and 75<sup>th</sup>) for both AE Asia excl. JPN (grey) and EM Asia excl. CHN (green).

Source: World Economic Outlook, IMF Fiscal Monitor; IMF staff calculations

# ...taking into account countries' initial conditions, including energy dependence, public debt levels, and revenue capacity

Some net oil importers—especially EM Asia—face a difficult policy trade-off between fiscal support and debt sustainability.

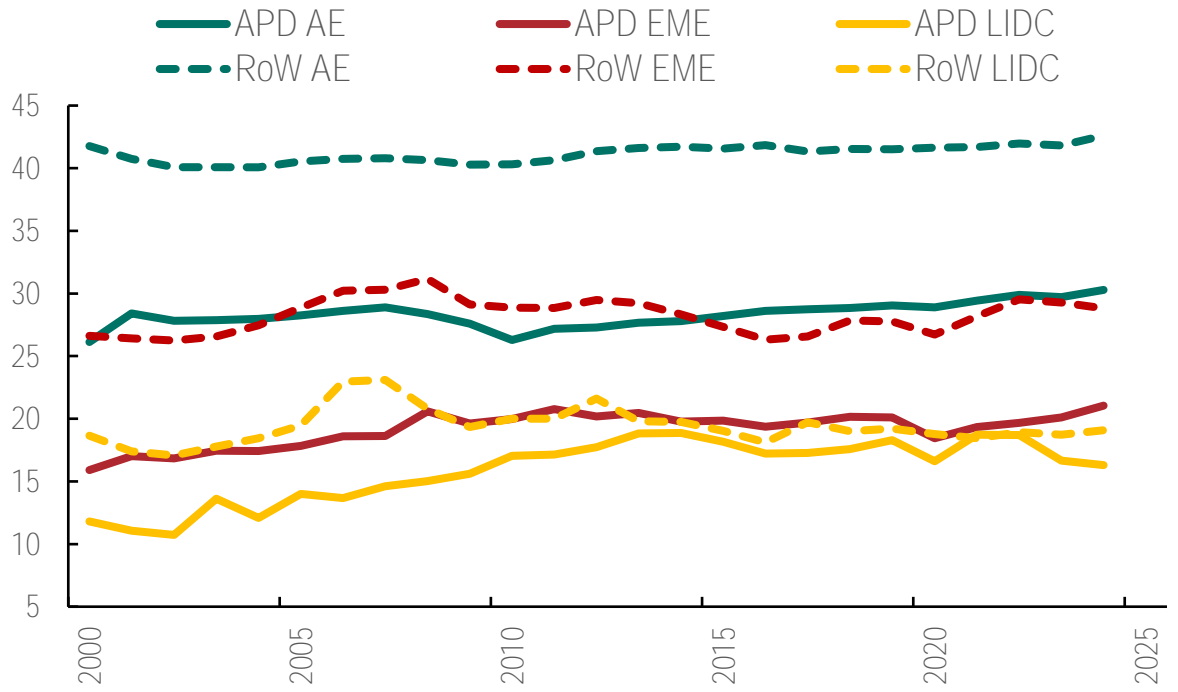
Public debt, net import of oil and gas, and fuel subsidies (in percent of GDP)



Sources: Country's authorities, WEO, and IMF staff calculations.  
 Note: Bubble size denotes total subsidies as percent of GDP in 2024 or latest available year.

Asia's lower revenue-to-GDP ratios than other regions of the world further complicate this trade-off.

Total Revenue (in percent of GDP)

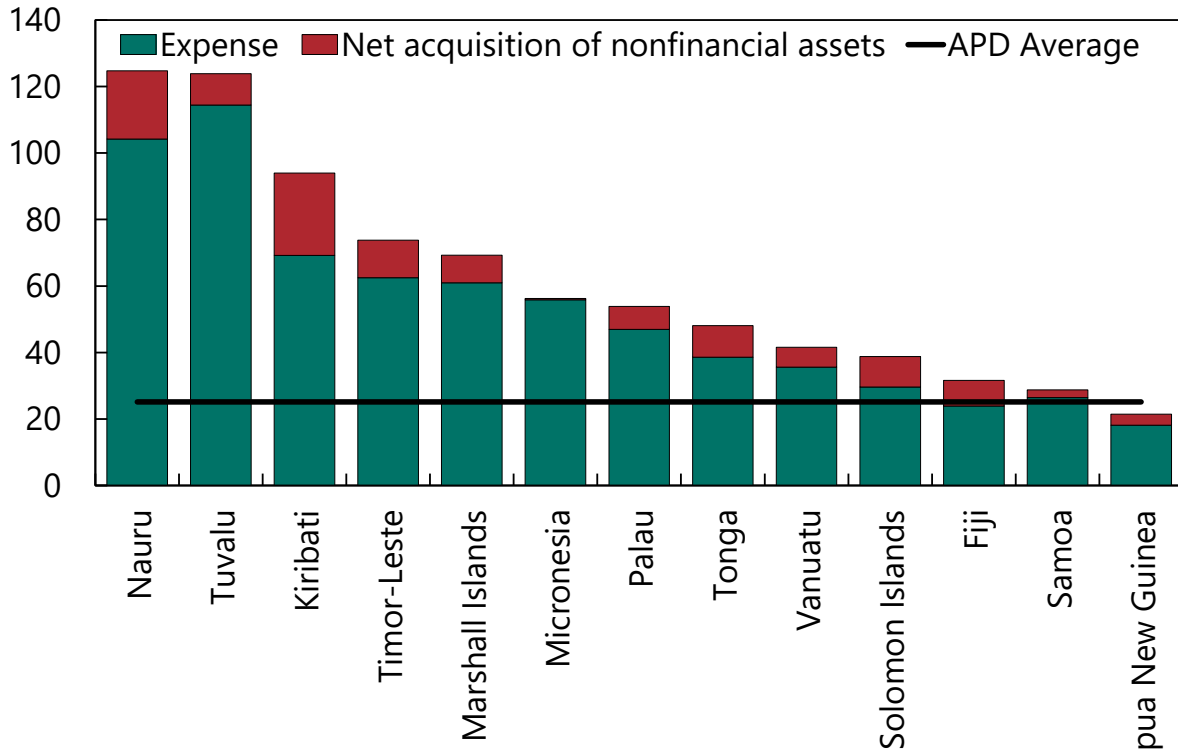


Sources: WoRLD data; IMF staff calculations.  
 Note: Unbalanced sample using all non-missing observations. Arithmetic means by group. Hong Kong, Macao, and Brunei are excluded.

# Countercyclical fiscal policy is difficult in PICs

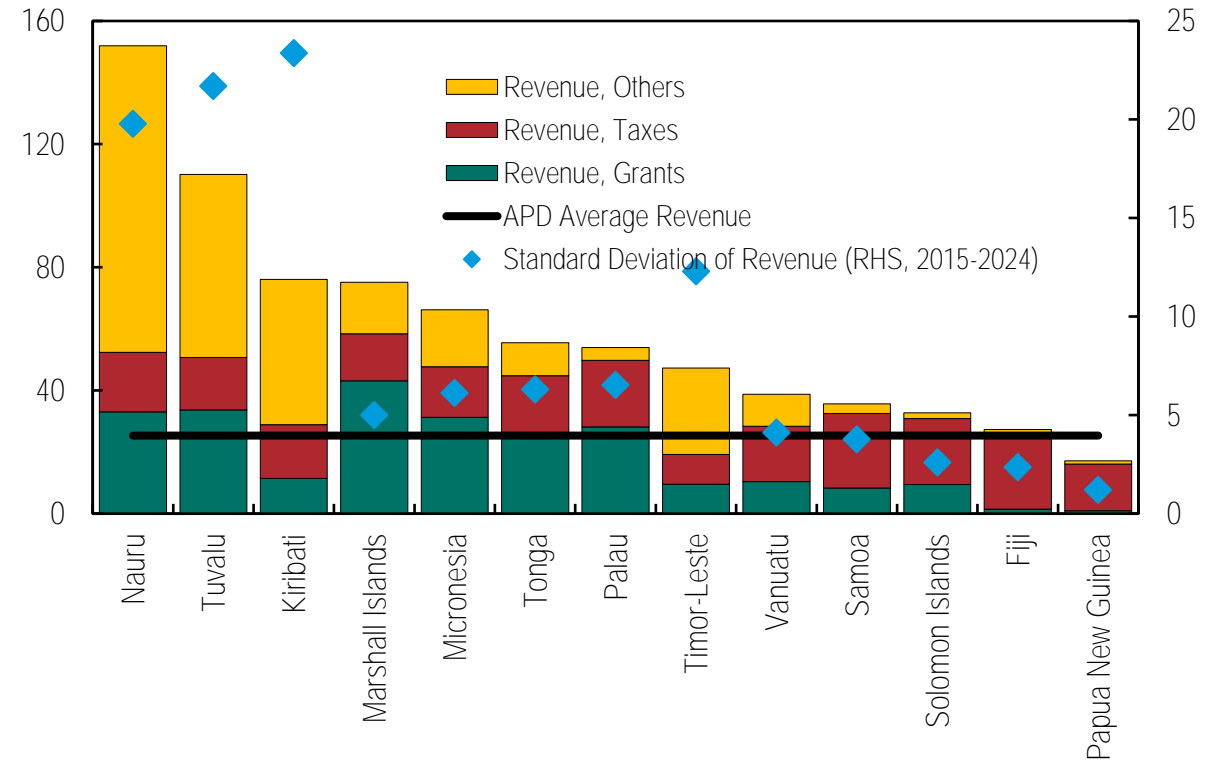
*PICs face significant public expenditure demands.*

Government Expenditure  
(In Percent of GDP, average 2022-24)



*Public revenues are volatile with a narrow tax base and highly dependent on external grants.*

Volatility of Public Revenue  
(In Percent of Fiscal Year GDP, 2024)



Sources: ND-GAIN vulnerability index, INFORM risk index, and IMF Staff estimates.

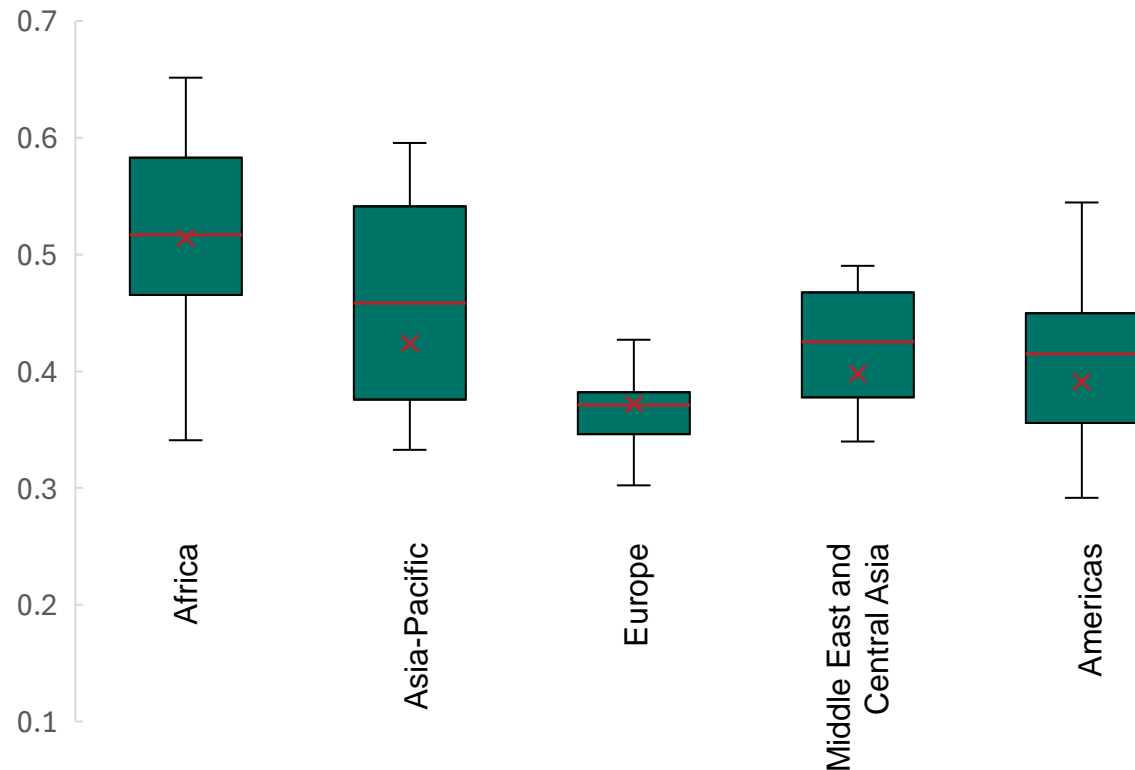
<sup>1/</sup> "Others" include social contributions, commodity-related revenues, net privatization proceeds, and other revenues.

<sup>2/</sup> In case of Nauru, the Regional Processing Center accounts for more than half of other revenues.

# Asia's spending efficiency gaps are concentrated in infrastructure, where fiscal space can be unlocked

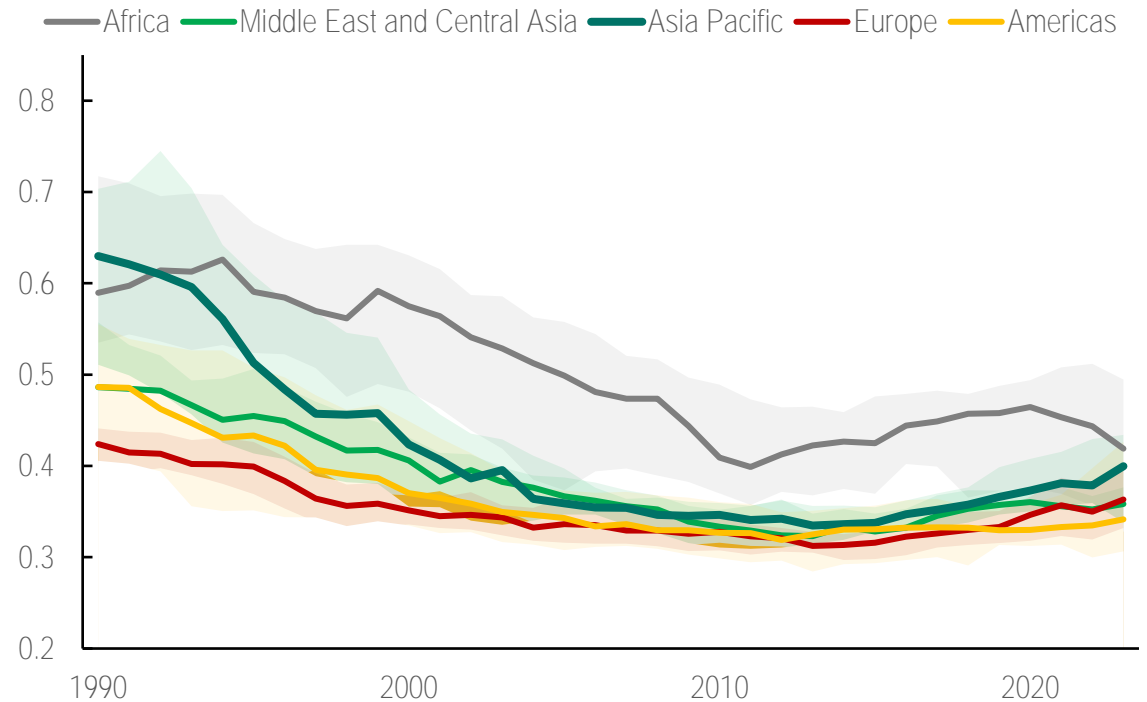
*Asia's infrastructure spending efficiency gap remains large relative to other regions...*

Infrastructure: Spending Efficiency Gaps Across Regions  
(Regional median; interquartile range)



*... though these gaps have declined since the 1990s.*

Infrastructure: Evolution of Efficiency Gaps Across Regions  
(Regional median; interquartile range)



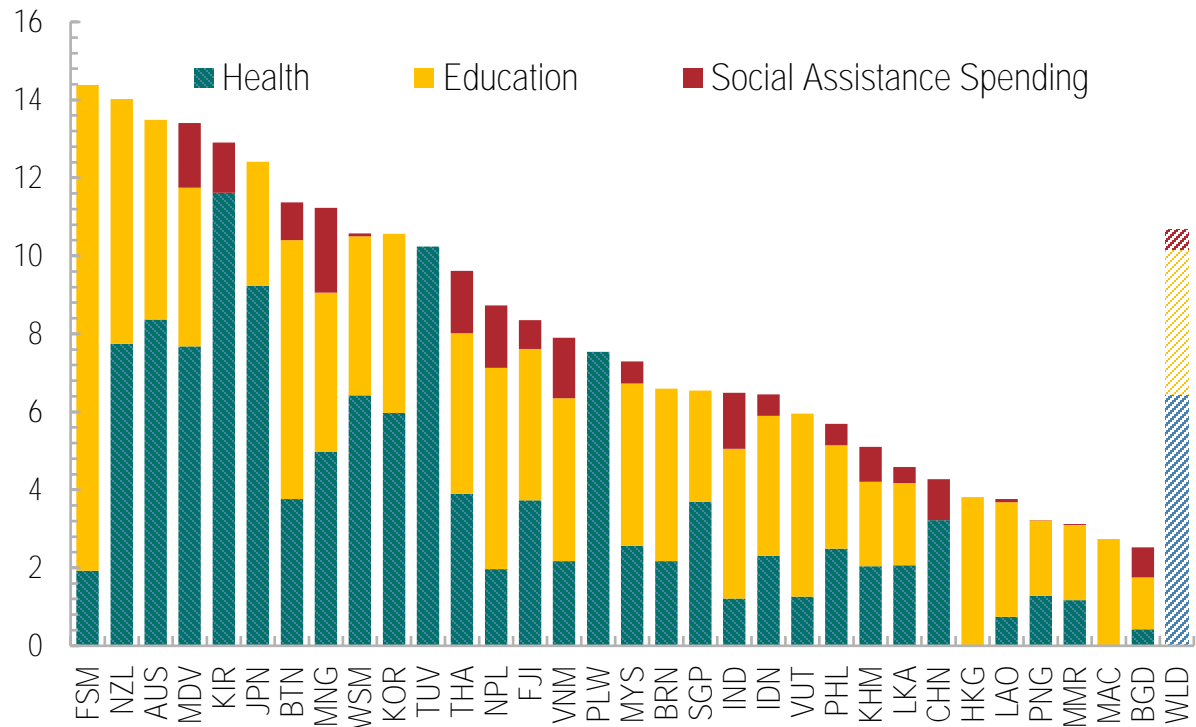
Source: IMF October 2025 Fiscal Monitor; IMF staff estimates.

Notes: Efficiency gaps range from 0 (fully efficient) to 1 (fully inefficient). Box plots show regional medians and interquartile ranges (25<sup>th</sup>-75<sup>th</sup> percentiles), averaged over time. Whiskers represent the minimum and maximum values.

# Asia also needs to start saving to meet medium-term spending pressures

Many Asian countries are lagging in social spending...

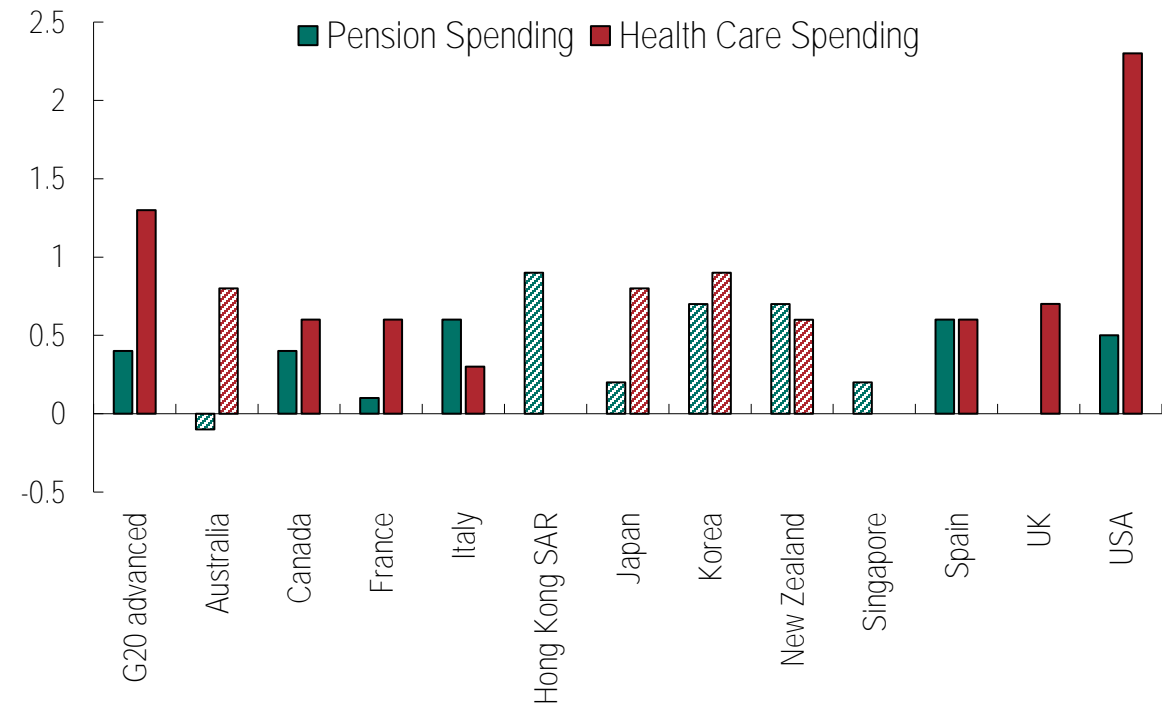
Social Spending in Asia  
(percent of GDP)



Source: IMF, Expenditure Assessment Tool; and IMF staff calculations.

... and will experience sizable increases in pensions or health care spending needs over the next five years.

Public Social Spending  
(percent of GDP, expected change in 2025-30)



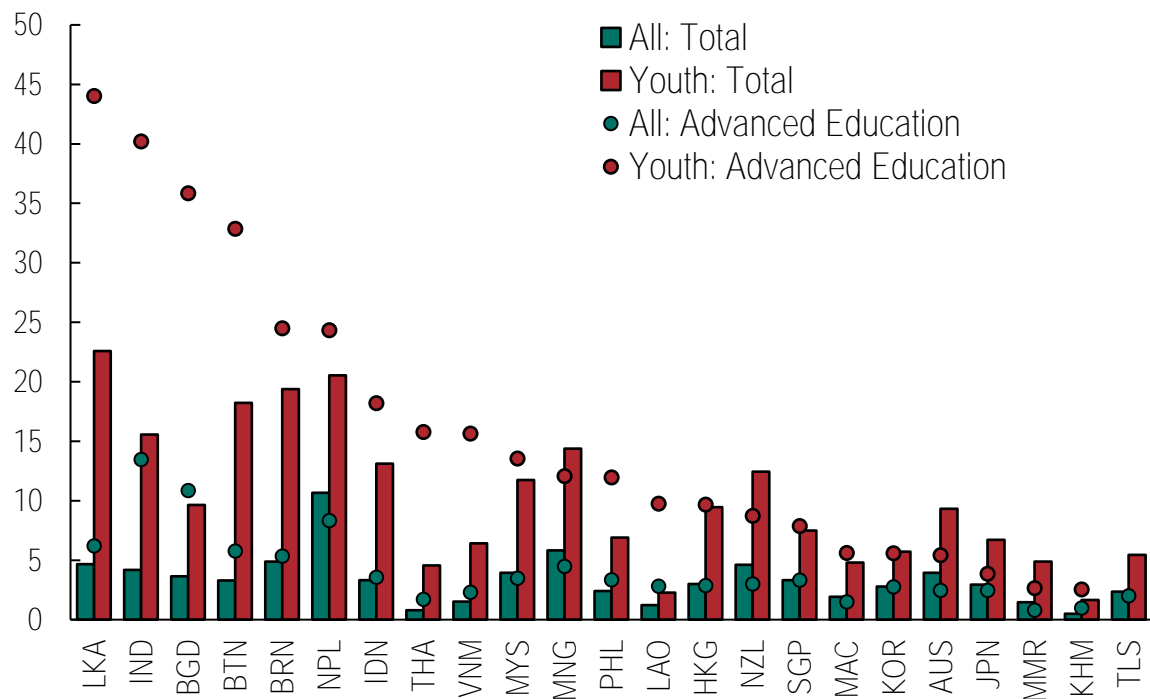
Source: IMF Fiscal Monitor, April 2026; IMF staff calculations.

Note: Hatched bars denote Asia-Pacific Department (APD) economies; solid bars denote selected non-APD advanced economy comparators. Health spending data not available for Hong Kong SAR and Singapore.

# The current shock can spur efforts to build resilience through meaningful structural reforms

*Unemployment rates are high for highly-educated youth.*

Unemployment Rate, Age Group and Education  
(percent, 2025 or the latest)



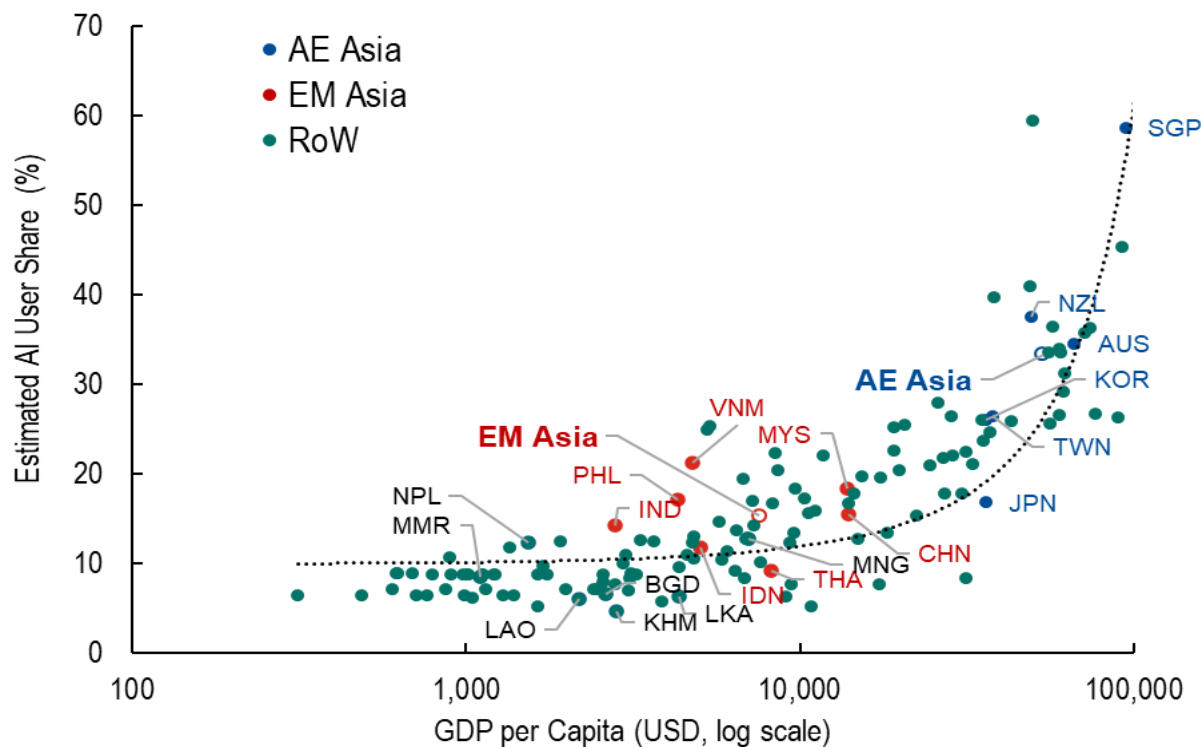
Source: ILO and IMF staff calculations.

Notes: Youth unemployment is defined as unemployed people aged 15-24 years old.

Advanced Education is unemployed person with tertiary education.

*Unequal pace in AI adoption could worsen inequality.*

AI Usage and GDP per Capita  
Percent of estimated AI user in 2025, 2024 GDP per capita



Source: Misra et al. (2025), IMF World Economic Outlook, IMF Staff Calculations

Notes: Misra et al. (2025) uses data from devices using Microsoft software to estimate the share of working-age population that actively use AI tools over 2025. Values for AE Asia and EM Asia are averages.

Thank You