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REGIONAL ECONOMIC OUTLOOK 2023 UPDATE

August 2023

Krungsri Research

ASEAN: Growth will soften in 2023/24, domestic landscape pivotal amid uncertainties



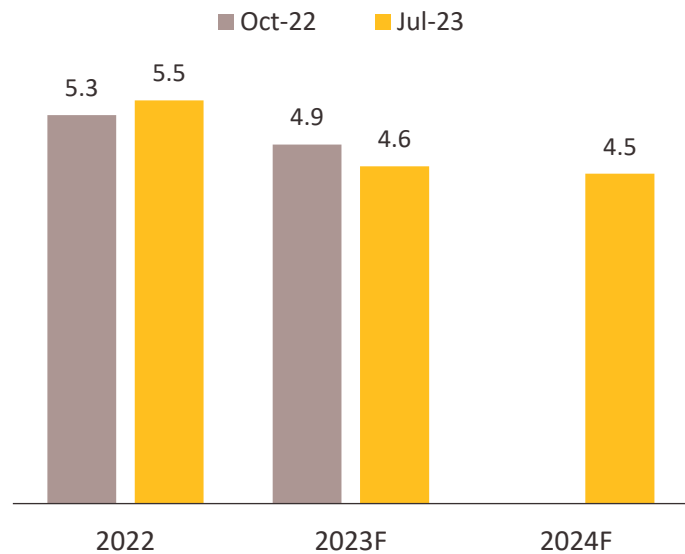
- **Growth is projected to slow from 5.5% in 2022 to 4.6% in 2023, instead of previous projection of 4.9%.** The primary reason is weaker goods exports due to slowing external demand. However, ASEAN economies will remain resilient, thanks to the robust recovery in domestic demand, buoyant labor markets, improving contribution from the services sector, and a likely end to the rate hike cycle. We project a steady recovery in 2024 with growth at 4.5%, premised on domestic conditions being strong enough to sustain growth amid global uncertainties.
- **ASEAN faces lower inflationary pressure** due to falling commodity prices and tighter monetary policies, and wage pressure is benign. Given easing concerns over inflation and external financial conditions, there is less pressure on central banks to raise rates. However, disruptions to food production from the El Nino weather could pose a significant upward inflationary risk ahead.
- **Major challenges include a global economic slowdown, especially in the US and China, along with risk of disruption by El Nino conditions.** These present downside risk to global growth, with the impact differing across countries, contingent on their unique economic fundamentals.
- **Medium-term growth outlook remains solid.** ASEAN is projected to be the fastest growing regional bloc in the world. This would be led by Indonesia, the Philippines, and Vietnam, which will benefit from shifts in global supply chains and new growth opportunities.

Cyclical Outlook: Economy will continue to recover but at a slower pace, and inflation will return to central banks' comfort zones

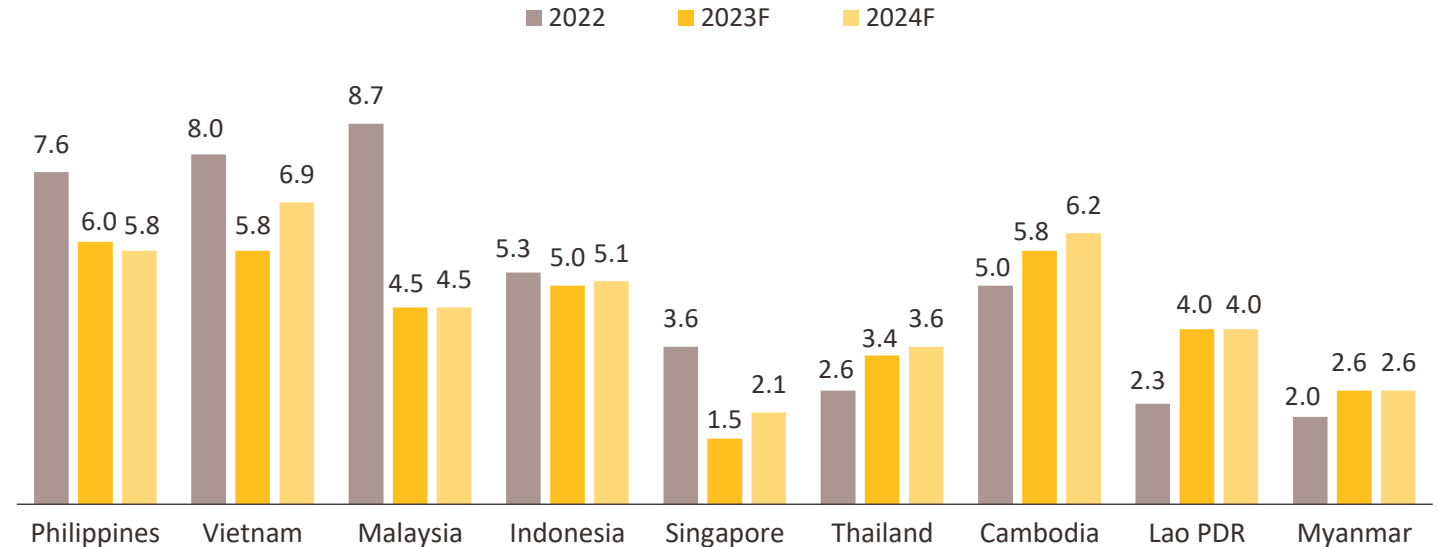


- In 2023, ASEAN economy will continue to recover but at a slower pace than last year because of weaker external demand for export goods. The economy will continue to expand in 2H 2023 and into 2024, driven by resilient domestic demand, strong job markets, improving contribution from the service sector, and likely an end to the current rate hike cycle. **Headline inflation has moderated and is heading towards the central banks' targets**, thanks to lower commodity prices, easing supply chain disruption, and tight monetary policies. Most central banks in ASEAN have paused rate hikes and will likely stay that way. Besides, disinflation in most countries would open to door for rate cuts, if necessary.
- Vietnam, the Philippines, Indonesia, and Cambodia are projected to be the fastest growing economies in the region.

Revision of IMF's ASEAN-5 Growth Projection (%YoY)



Economic Growth Projection by the IMF (%YoY)



Note: ASEAN-5 economies refer to Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

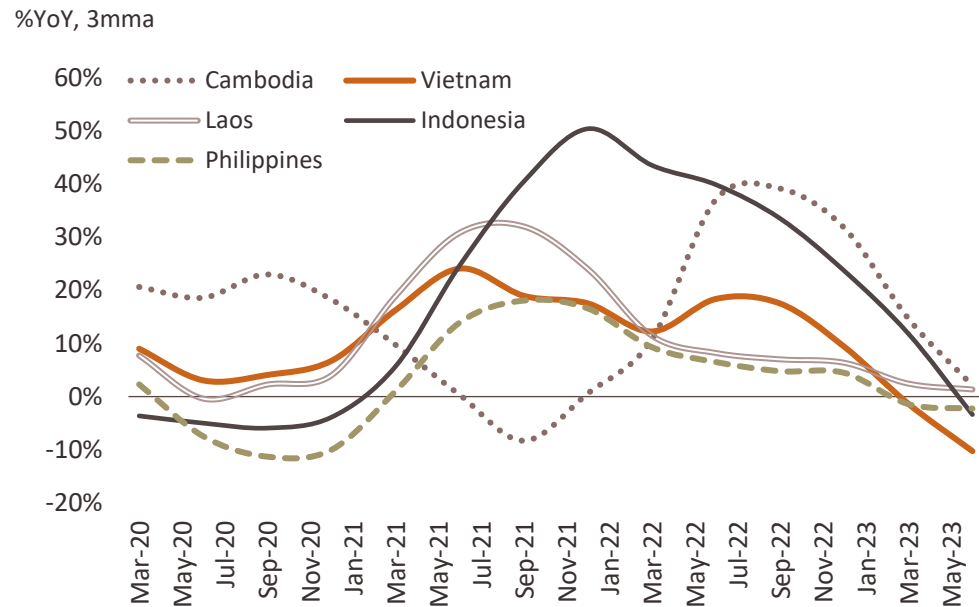
Source: IMF WEO Database (July 2023), and Krungsri Research

2023 regional growth projected to dip to 4.6% amid slowing exports



In 1H23, exports decelerated as global demand for manufactured goods slowed. However, the regional economy expanded, driven by recovering domestic demand and tourism activity. Weaker global demand was reflected in slower industrial activity, especially in manufacturing exports-heavy countries like Vietnam and Malaysia. The contraction in their respective PMI readings suggested the same. Conversely, the indicators were strong in the Philippines and Indonesia, largely attributed to their strong reliance on domestic demand. Weak global demand has depressed goods exports, but service exports – especially tourism - is recovering rapidly and should partly offset the slowdown in goods exports

Regional Export Growth

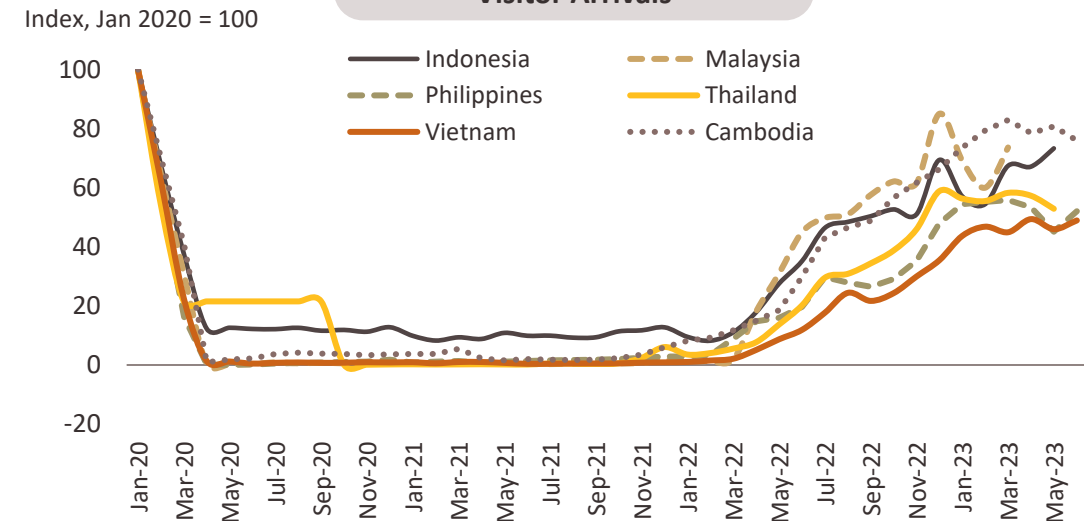


S&P Global Manufacturing PMI

	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23
Vietnam	53.23	53.47	52.13	48.13	48.77	46.07
Myanmar	47.63	49.50	45.37	44.13	52.07	53.60
Philippines	52.00	54.07	51.63	52.80	52.90	51.50
Indonesia	52.07	50.97	52.23	51.00	51.47	51.83
Malaysia	50.33	50.70	50.00	48.13	47.90	48.10

> 50 indicates expansion from previous month

Visitor Arrivals



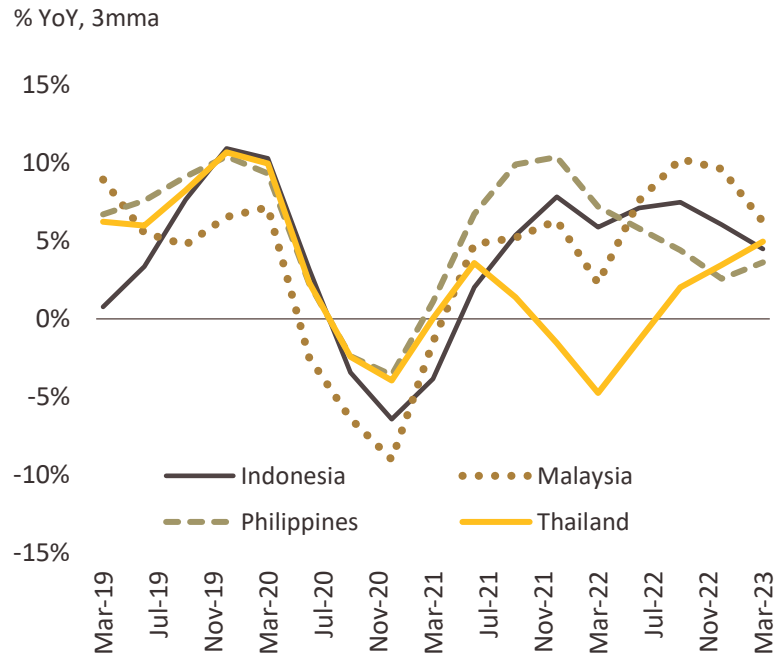
Source: CEIC, and Krungsri Research

Tailwinds: Growth drivers include relatively strong domestic demand and resilient FDI inflows in most countries

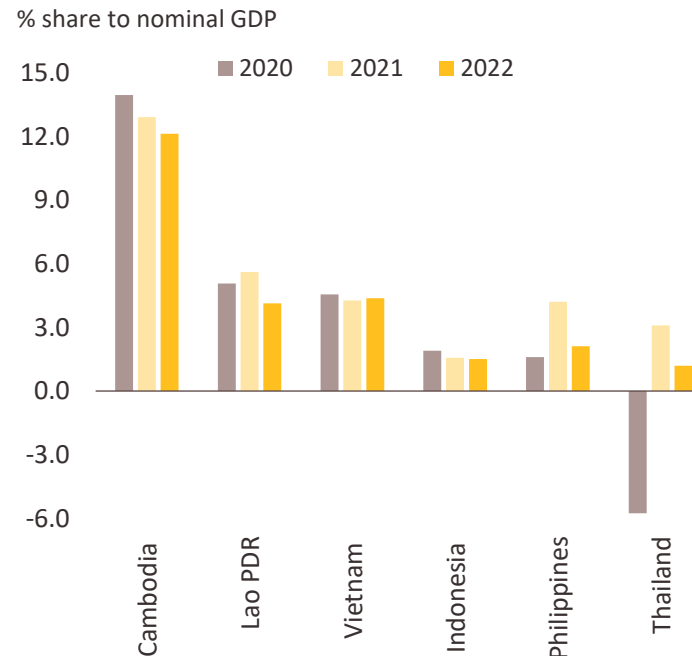


Growth in ASEAN is being supported by resilient domestic demand with a steady recovery in the labor market and easing inflation. FDI slowed down recently because of cyclical factors but remains resilient despite weaker global growth and financial headwinds. According to UNCTAD's World Investment Report 2023, FDI inflows to the region increased by 5% YoY to USD 223bn in 2022, the strongest on record. There are challenges posed by trade protectionism and slower Western economies. However, several trade agreements, including the Regional Comprehensive Economic Partnership (RCEP), are expected to create robust platforms to expand trade and investment in the region. As the focus shifts away from China, ASEAN nations will remain attractive destinations for FDI inflows.

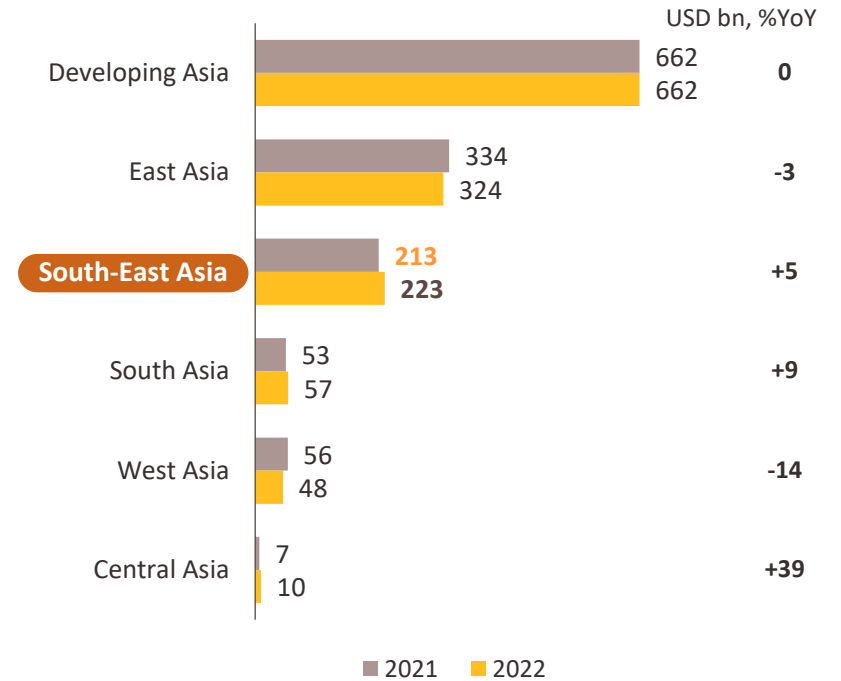
Private Consumption Expenditure



FDI Share to Nominal GDP



FDI Inflow by Subregion, 2021-2022



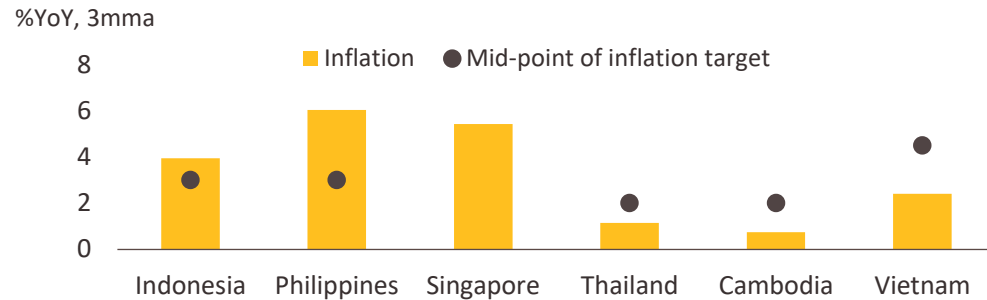
Source: CEIC, AMRO Regional Economic Outlook July 2023, UNCTAD's World Investment Report July 2023, and Krungsri Research

Central banks are likely to pause rate hikes given easing inflation and improving external conditions



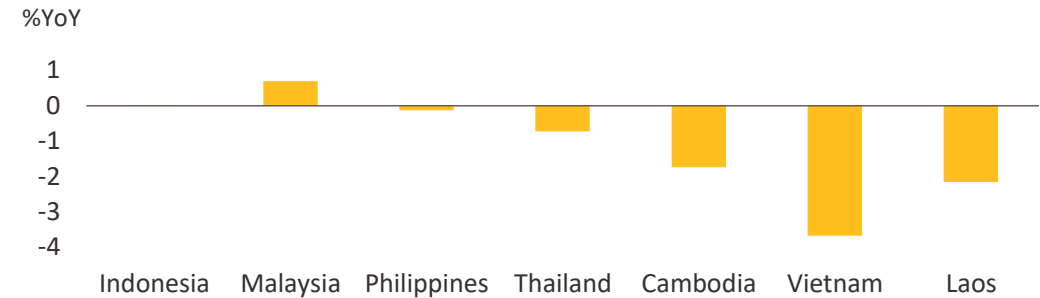
- **Most economies in ASEAN are seeing lower inflation**, mainly due to stable commodity prices, easing supply chain bottlenecks, and tighter monetary policies.
- **External conditions have improved.** ASEAN currencies experienced a sharp depreciation last year amid tightening global financial conditions. They have appreciated since 4Q22 but saw mild weakness again recently. Current account balances have also improved thanks to easing commodity prices, except for commodity-exporter Indonesia. **Receding inflation and external pressures have prompted central banks in the region to become less hawkish** by pausing rate hikes. In order to balance financial stability with growth and inflation, we expect central banks in the region to hold policy rates for the rest of the year (except for Lao PDR and Myanmar). Vietnam, nonetheless, is ahead in the business cycle and has started to cut its policy rates.

Headline Inflation and Central Bank's Target

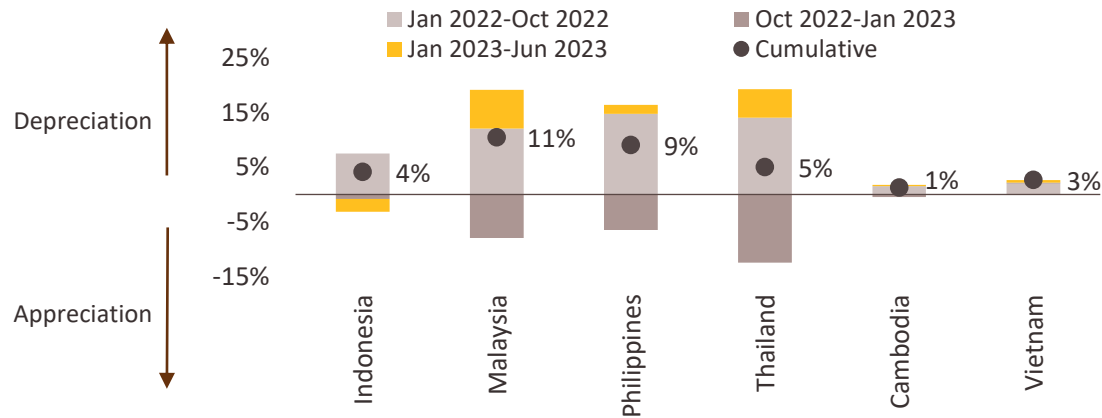


Note: inflation data as of June 2023

Deviation between GDP Growth and its Long-term Average^{1/}

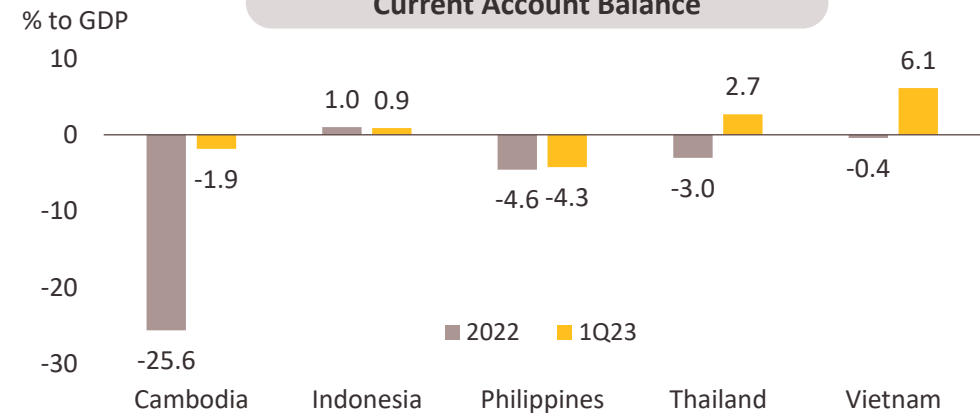


Exchange Rate Movement against USD



Source: National Authorities, CEIC, and Krungsri Research

Current Account Balance



Note: 1/ The long-term growth average is calculated over the 2015-2019 period. The 'gaps' refer to the deviations between the 1Q23 GDP and these averages. For Lao PDR and Cambodia, the annual GDP in 2022 is used

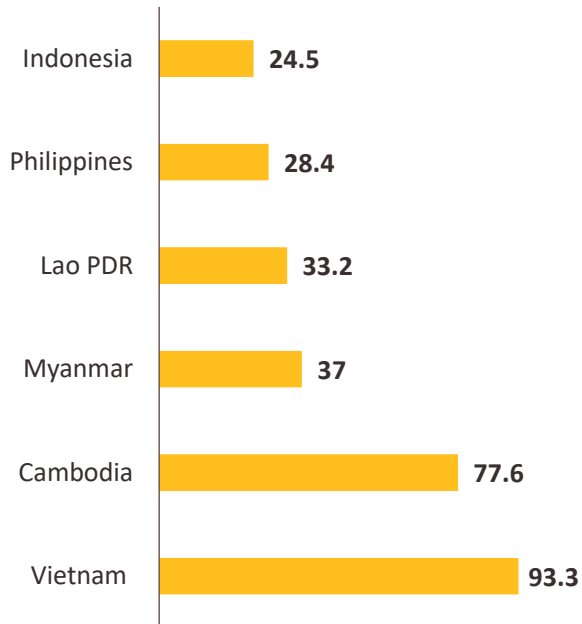


Headwinds: External factors such as global economic slowdown and El Niño effects could drag ASEAN economies, primarily through trade channels

- **Manufacturing- and export-dependent countries will feel the brunt of the slowdown.** The impact of these headwinds will differ across countries based on their respective exposure to exports. Those which have significant trade ties with the US and China will be most vulnerable in a global economic downturn. On this note, Vietnam and Cambodia would be most vulnerable.
- **Spillover effects of China’s structural slowdown will differ based on exposure to demand for consumption, investment, and degree of integration in global value chains (GVCs) through China.** Looking at value-added exports, Cambodia, Vietnam, and Lao PDR could be the worst hit by slowing growth in China.

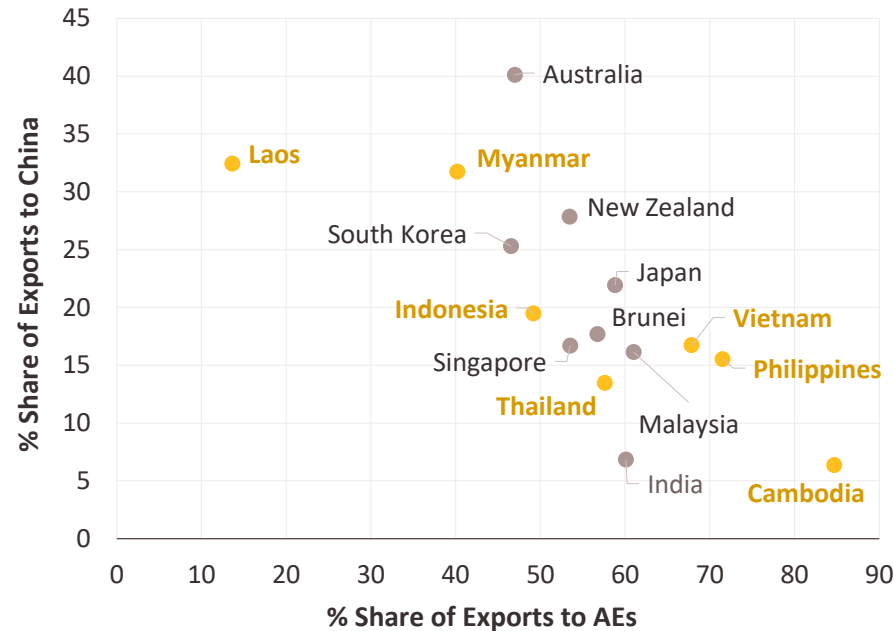
Exports of Goods and Services

% of GDP, 2022



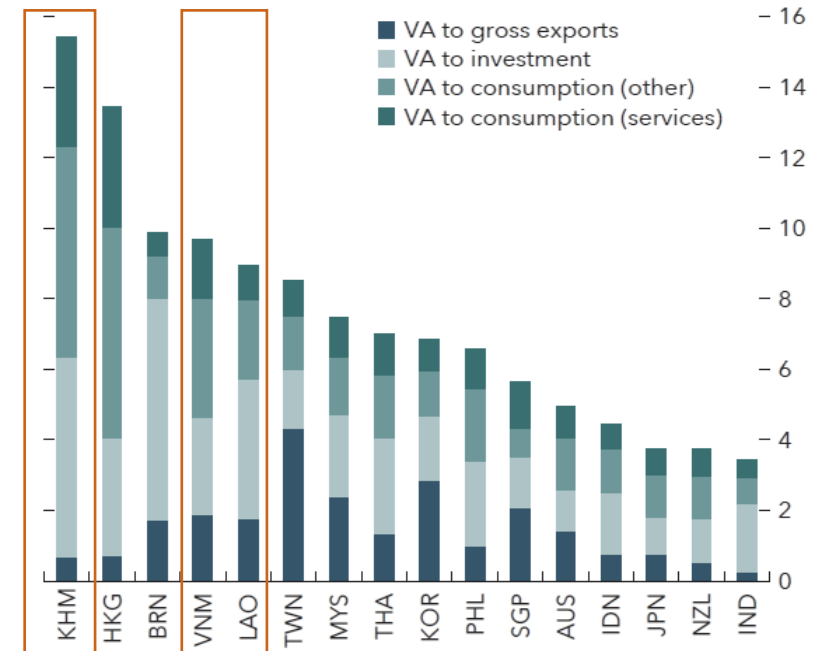
Exports to Advanced Economies (AEs) and China

% of total export, 2022



Decomposing Exports Value Added to China

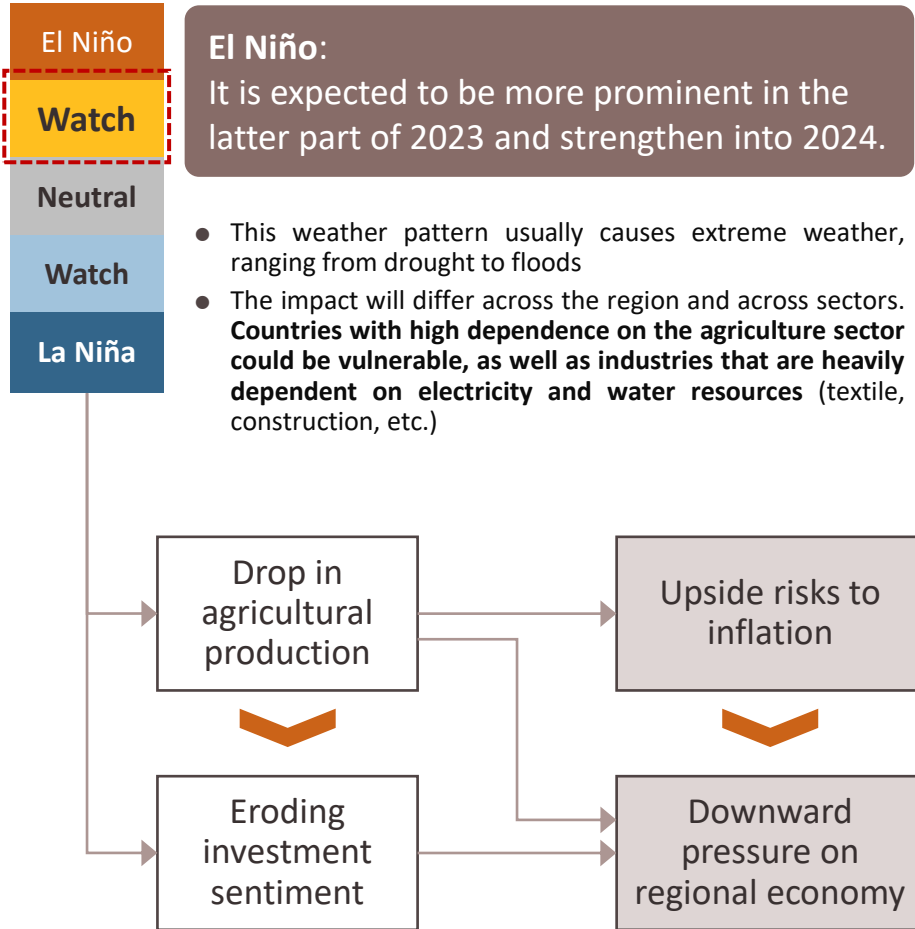
% of GDP



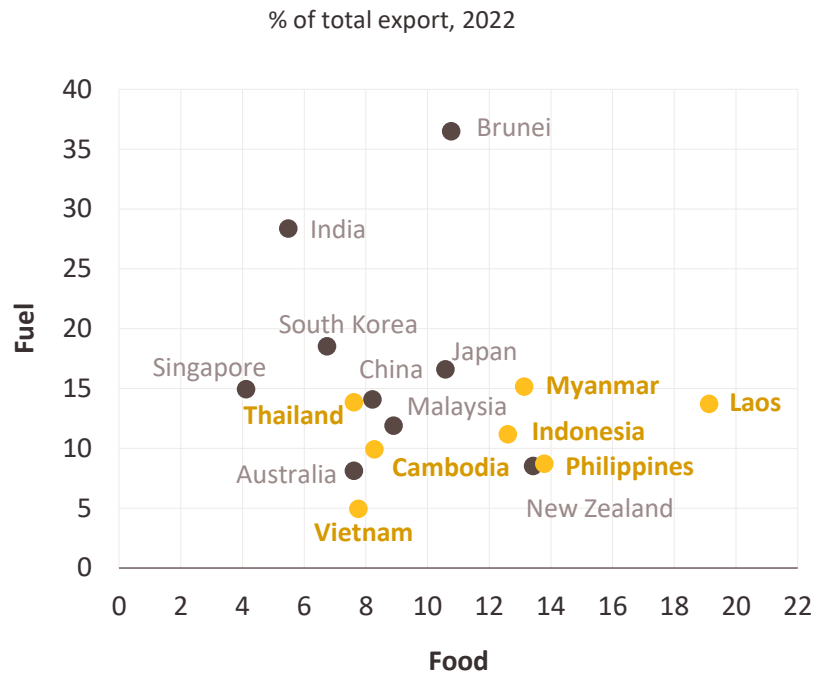
Source: World Bank, IMF’s Asia Pacific Outlook May 2023, CEIC, and Krungsri Research



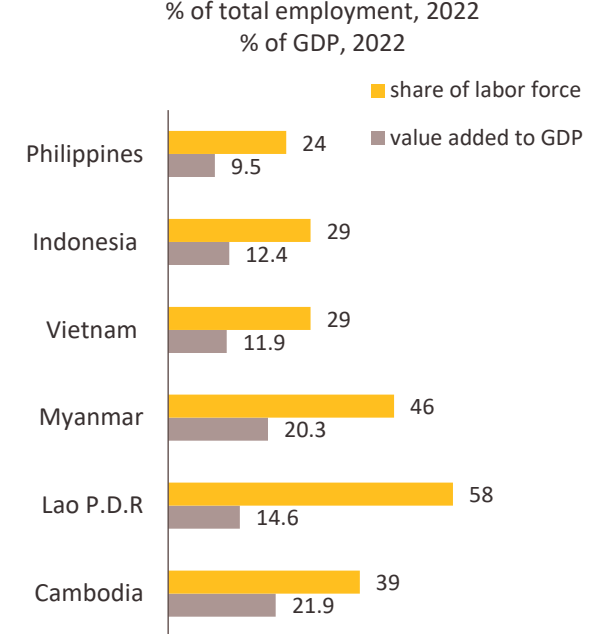
El Niño threatens regional economic growth. Lao PDR, the Philippines, Indonesia, Myanmar, and Cambodia would be relatively more vulnerable.



Imports of Food and Fuel



Agricultural Sector



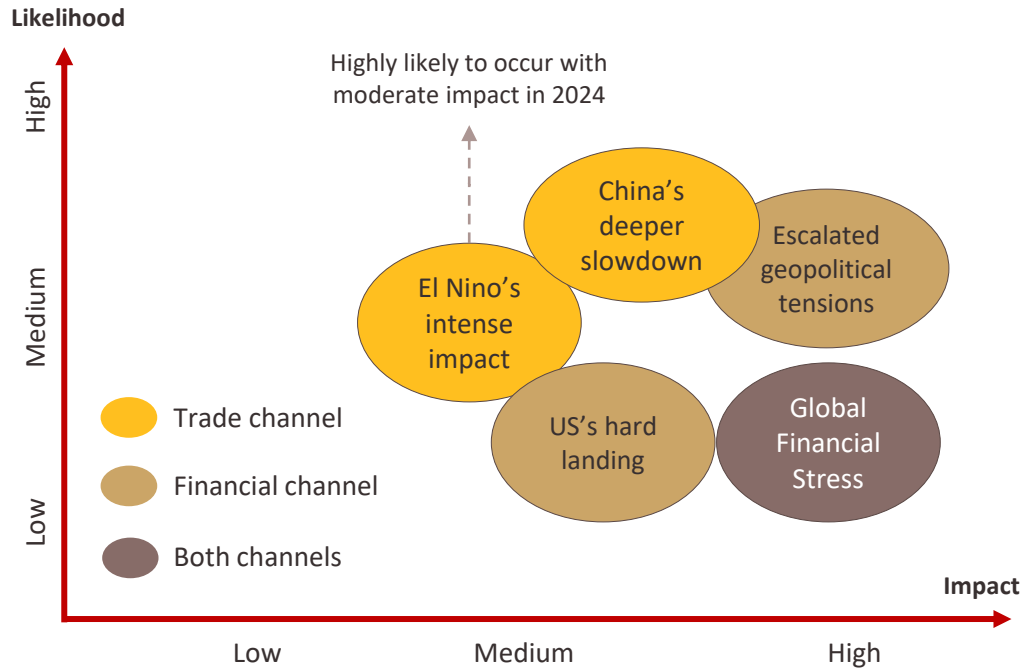
- Food prices could rise because of El Niño weather, and **countries with higher food imports are more susceptible to price shocks**. On this note, Lao PDR, the Philippines, Indonesia, and Myanmar would be more vulnerable.
- In addition, a significant share of labor in Lao PDR, Myanmar, and Cambodia is employed in the agriculture sector. This group would be vulnerable as El Niño normally reduces agricultural output.

Source: CIEC, ENSO, and Krungsri Research

Lingering downside risks are still present amid stronger headwinds, global financial distress, and geopolitical tensions



Potential Risks: Likelihood and Impact



1. US - Hard Landing

There is a lingering risk of a hard landing given the uncertain impact of monetary policy tightening. Countries with significant trade exposure to the US are most at risk.

2. China - Deeper Slowdown

Spillover from structural changes in China's economy will vary based on the end-demand for consumption and investment. The impact will be larger with a deeper slowdown.

3. El Nino - Severe Impact:

We are experiencing the El Niño phase with the impact projected to intensify in 2024. Severe droughts could reduce agricultural output significantly and cause food prices to surge.

4. Global Financial Distress

The current high inflation and interest rate environment could lead to turmoil in the banking industry, triggered by more cases of defaults in loan repayment. It could worsen global financial conditions, threaten financial stability, and lead to global financial distress. Countries which are exposed to significant external imbalances would be most vulnerable.

5. Geopolitical Tensions

Escalating Russia-Ukraine tensions could renew energy and food security challenges, rekindle inflationary pressure, and tighten global financial conditions further. US-China trade tensions would lead to a severance of existing trade and investment linkages and hurt growth prospects in the region.

Source: Krungsri Research

External financial stability: countries with large external financing needs are vulnerable amid volatile global financial conditions.

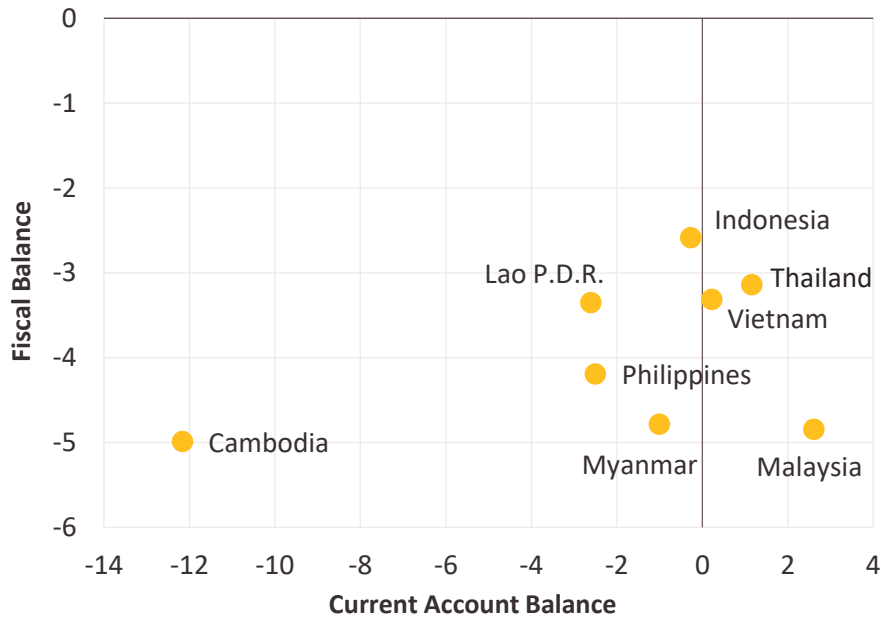


In a global financial distress scenario, the USD will appreciate and funding and borrowing costs would rise. **This could be disruptive for countries running twin deficits and with large external financing needs**, as they would be pressured by higher repayments for USD-denominated debts and would find it difficult to rollover debt due to surging borrowing costs.

Countries with significant external imbalances, including twin deficits, high short-term debts, and low foreign exchange reserves, would not have the ability to absorb external shocks in financial conditions. **Lao PDR has high risk of experiencing debt distress, followed by Cambodia and Myanmar.**

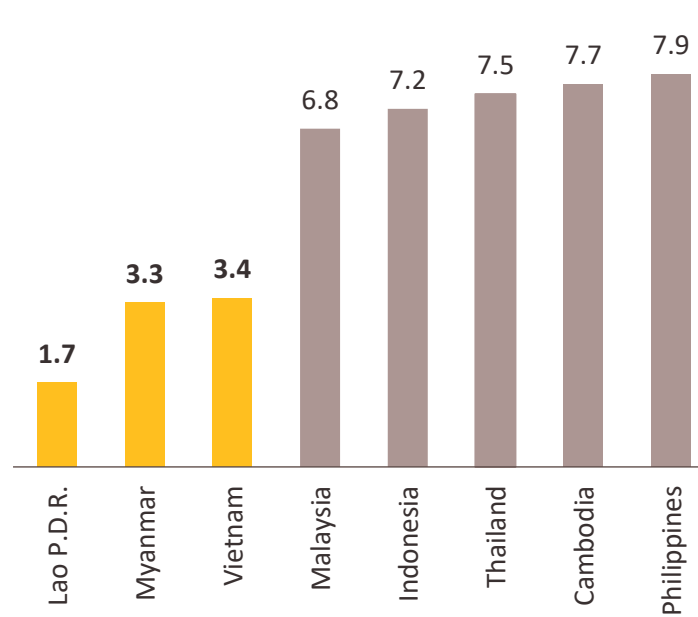
Twin Deficit

% of GDP, 2022



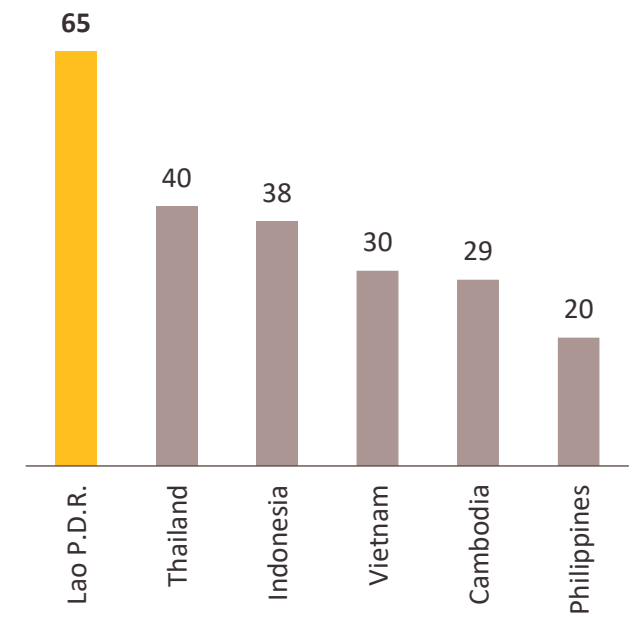
International Reserves

Months of imports, May 2023



Short-term External Debt

% of total reserves, 2023



Note: Due to data availability, the figure for Myanmar's months of imports is from 2021, while Lao PDR's data is from 2022. The short-term external debt ratios for both countries are also based on 2021 data

Source: IMF WEO Database (April 2023), World Bank, CEIC, and Krungsri Research

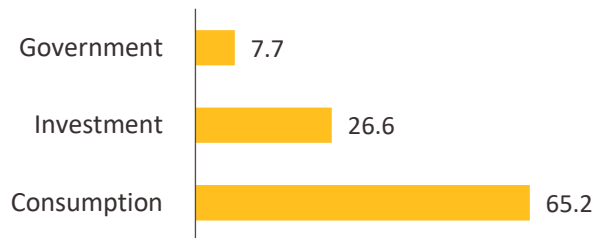
Cambodia: Economy is recovering firmly with growth drivers rotating from manufacturing sector to services sector



In 1H23, Cambodia's recovery was hampered by falling goods exports due to weaker external demand, especially from the US and Europe, which accounted for more than half of its total exports. Cambodia's economy is projected to grow by 5.8% in 2023 and remains strong in 2024, primarily driven by **tourism and robust household consumption**, which would help to cushion the impact of weak global demand. According to IMF projections, growth and inflation trajectories have returned to their pre-pandemic levels. However, despite some improvements, **financial stability remains fragile due to high credit growth** that is concentrated in specific sectors.

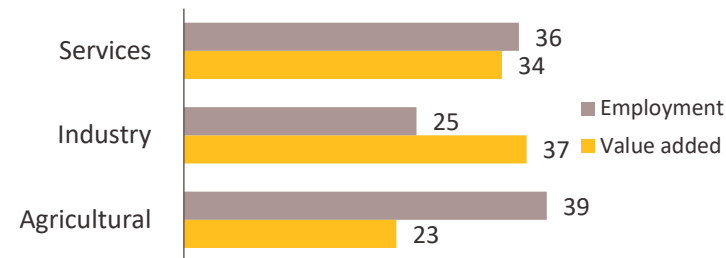
GDP Structure (demand side)

% of nominal GDP, 2021

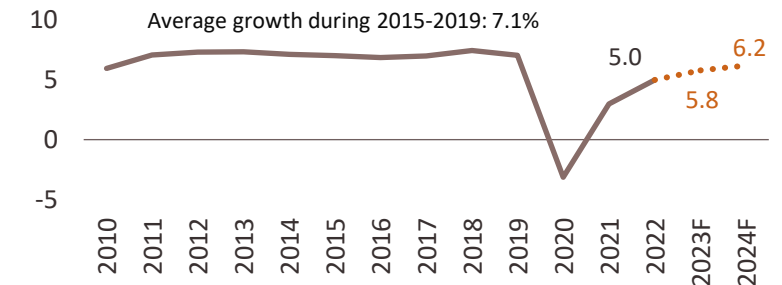


GDP and Employment by Sector

% of nominal GDP and % of total employment, 2021

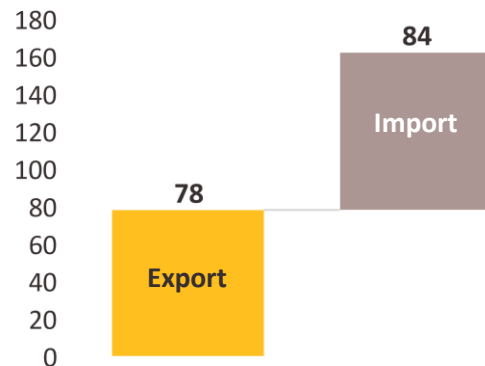


IMF's Annual Growth Projections (%YoY)



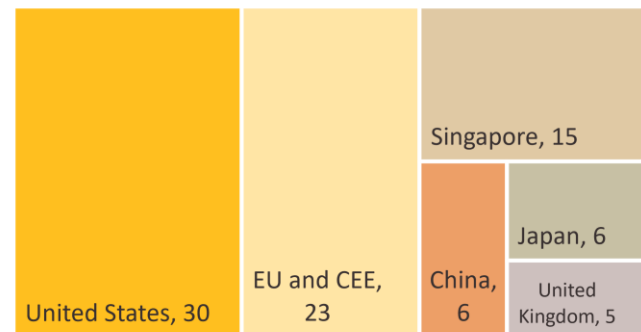
Trade openness at 162% to GDP

% of GDP, 2021

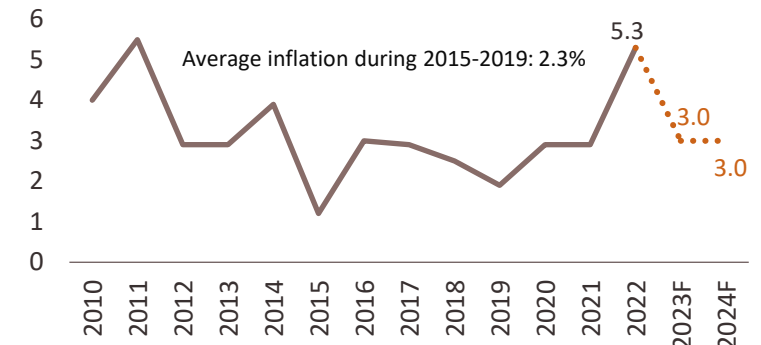


Share of export partners

% of total export



IMF's Annual Inflation Projections (%YoY)



The main industrial sector, clothing and footwear, generating about 35% of GDP, around 55% of exports and employing over 40% of industrial jobs.

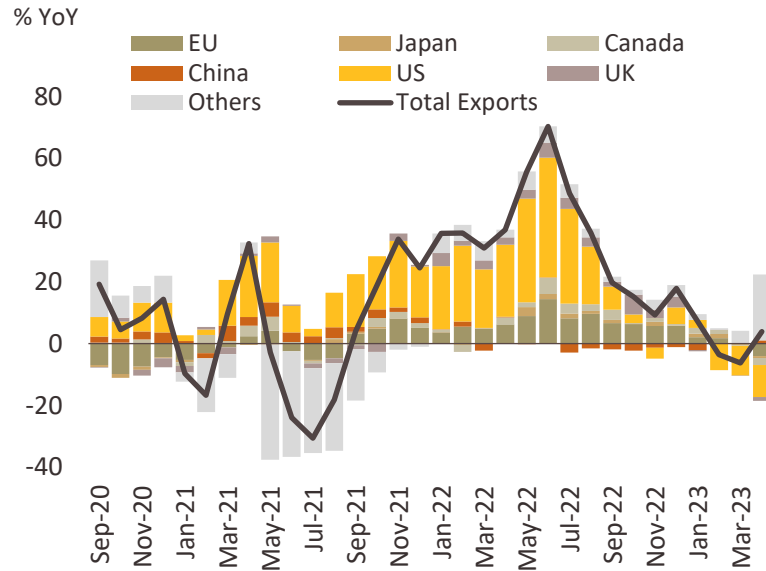
Source: World Bank, WTIS, CEIC, IMF WEO Database (Apr 2023), and Krungsri Research



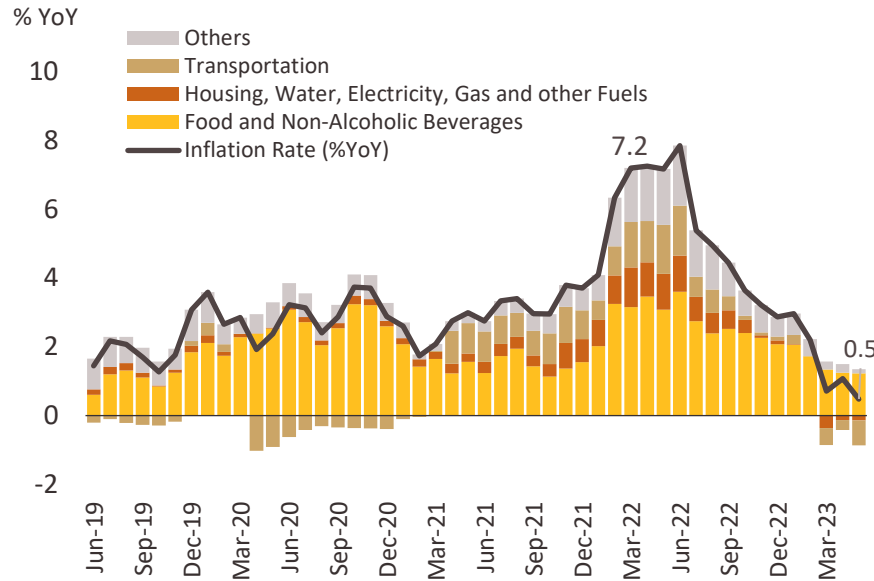
Recovery fueled by tourism while goods exports acting as a drag

Export surged in 2022 led by textiles and related products. However, **waning demand from US and Europe accounted for 70% of the drop in goods exports** (peak to trough, June 2022-April 2023) in 2023. **Economic recovery is now underpinned by a strong rebound in the service sector**, driven by the return of foreign tourists and pent-up domestic demand that is also being fueled by cooling inflation, the latter easing pressure on real income. Visitor arrivals have recovered to 80% of the pre-pandemic level, providing an impetus for a services sector recovery.

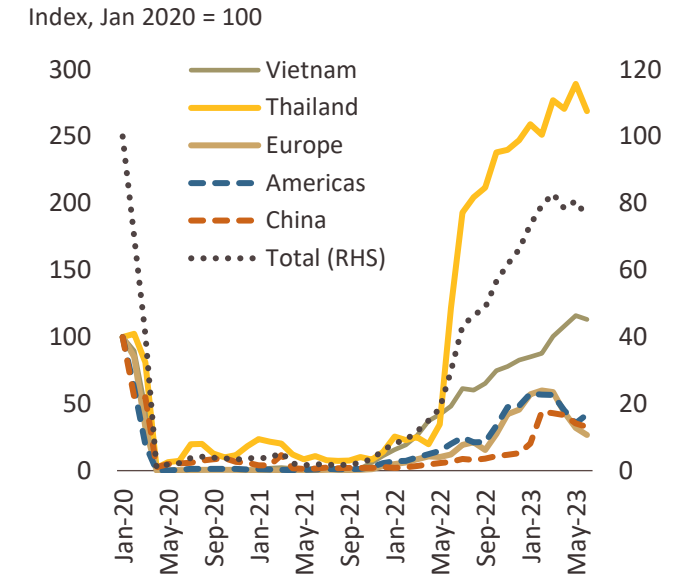
Contribution of Export Growth by Market



Contributors to Headline Inflation



International Arrivals



The General Election and Economic Implication

*Hun Sen's Cambodian People's Party (CPP) declared a landslide victory in the 23-July election. The U.S. State Department has taken steps to pause some foreign assistance programs for Cambodia and has imposed visa bans on individuals who undermined democracy. **Going forward, the transition in power to his eldest son, Hun Manet, would be smooth and will not change the geopolitical strategy. Cambodia will continue to rely heavily on investment financed by China.***

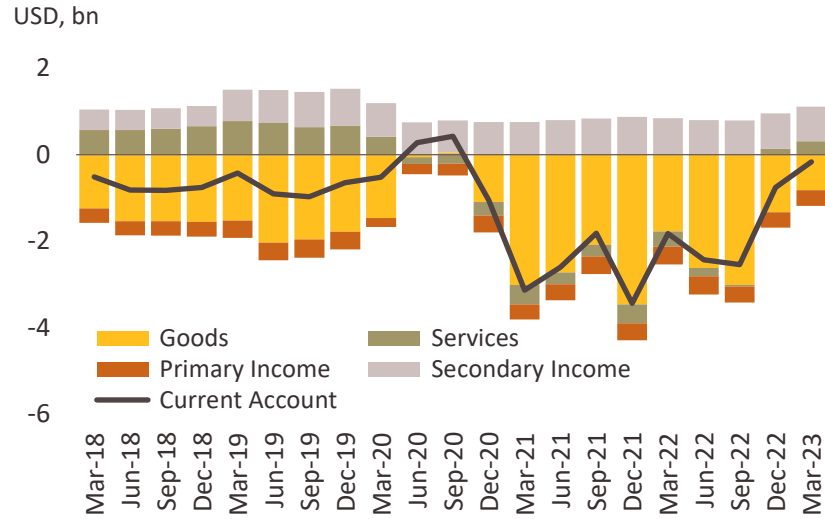
Source: NBC, CEIC, and Krungsri Research

Despite improved external stability, a lack of diversification leaves country vulnerable to external headwinds

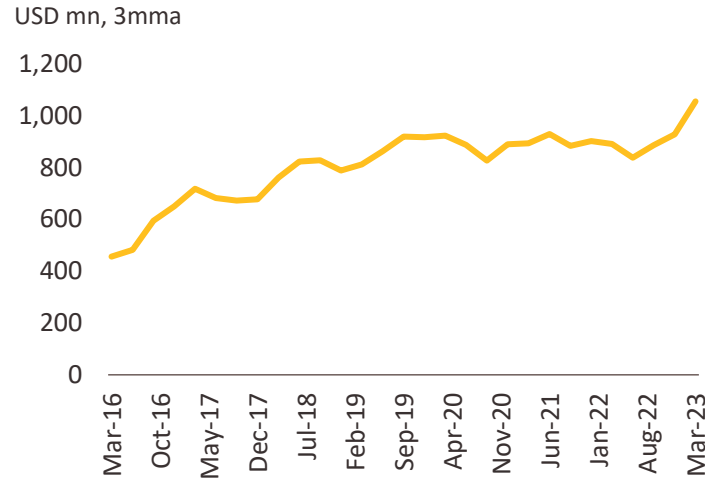


The IMF forecasts Cambodia's current account deficit will narrow from 27% of GDP in 2022 to 12% in 2023, thanks to the recovering services sector and falling commodity prices. FDI inflows to Cambodia have surged over the past decade and remain resilient even through the pandemic. Half the FDI inflows is from China and is concentrated in the accommodation, construction, real estate and financial sectors. Low diversification on both good exports and FDI would make country vulnerable to external shocks.

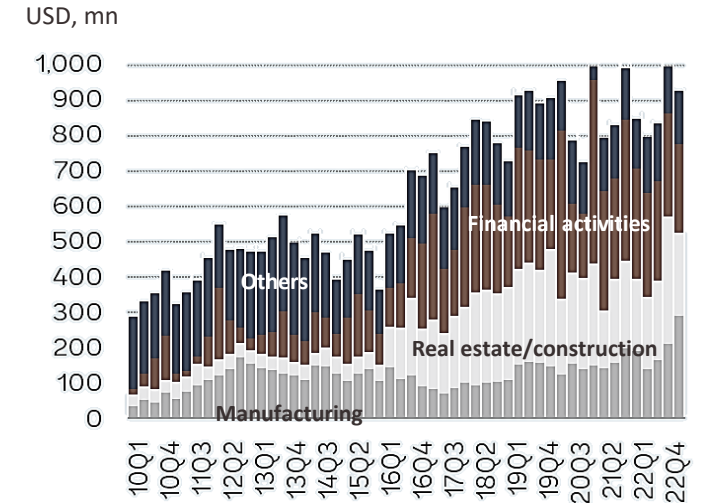
Current Account Balance



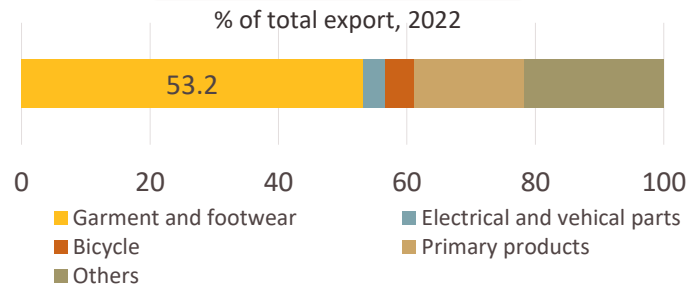
FDI Inflows



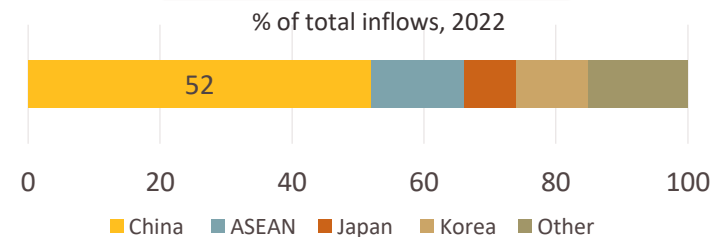
FDI Inflows by Sector



Share of Goods Export



FDI Inflows by country



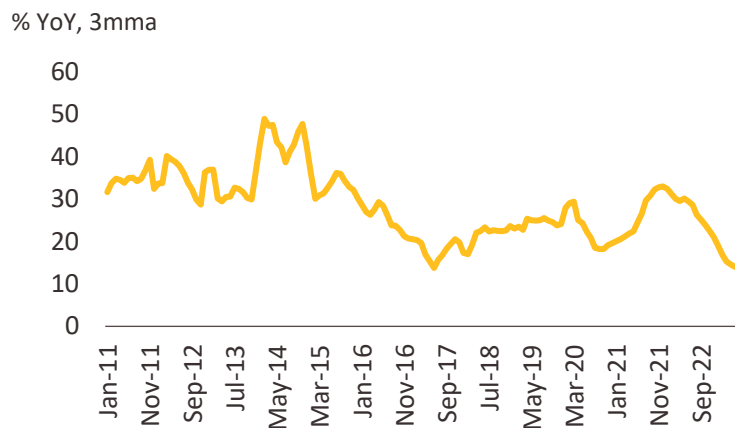
Source: World Bank's Cambodia Economic Update (May 2023), IMF WEO Database (Apr 2023), CEIC, and Krungsri Research



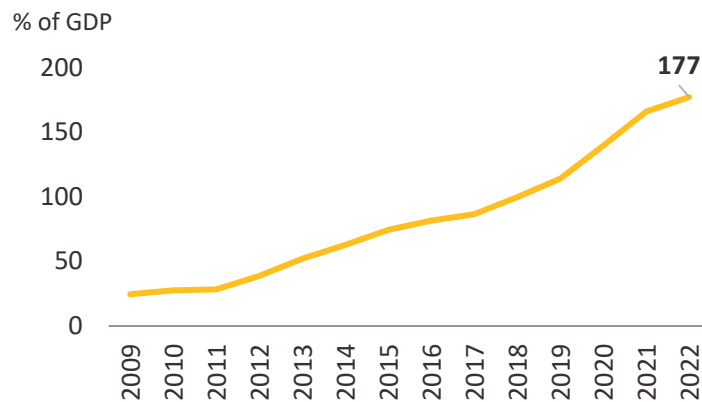
Domestic credit is concentrated in the construction sector, which poses a key risk to domestic financial stability.

- **Credit growth slowed significantly to 14% YoY in May**, in response to higher borrowing costs caused by a surge in global interest rates. However, the credit-to-GDP ratio continued to rise to 177% in 2022 as domestic credit continued to outpace nominal GDP. According to the World Bank, **a larger share of domestic credit concentrated in the construction and real estate sectors suggest greater speculation activity in real estate. Highly-leveraged sectors remain vulnerable amid rising funding costs.**
- **Twin deficits will persist despite an improving fiscal balance and current account balance.** Continued capital inflows and concessional financing will largely cover external financing needs. With 44.2% of public debt denominated in USD, **the projected global financial distress could exacerbate concerns over repayment and currency mismatch.**

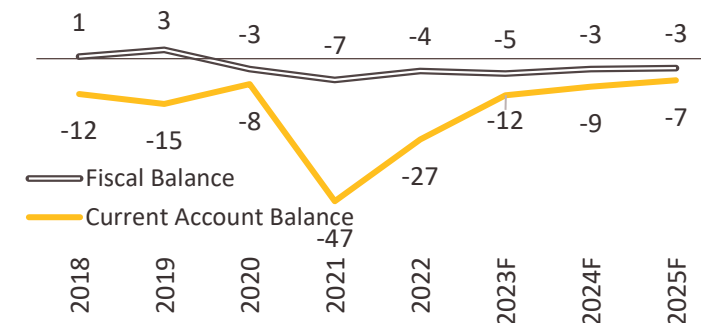
Domestic Credit Growth



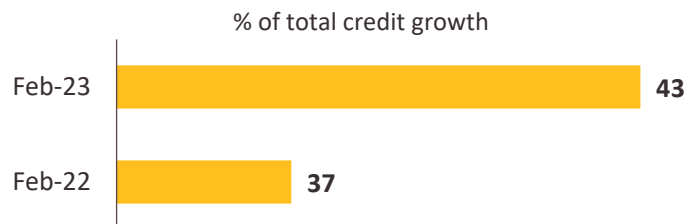
Domestic Credit to Private Sector to GDP



Twin Deficits (% of GDP)



Contribution of construction, real estate, and mortgage to total credit growth



Public Debt Stock and Main Creditors



Note: Multilateral creditors include ADB, World Bank and other creditors, which are concessional loans

Source: World Bank's Cambodia Economic Update (May 2023), IMF WEO Database (Apr 2023), CEIC, and Krungsri Research

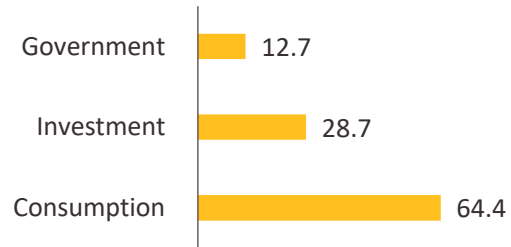
Lao PDR: Growth to pick up in the near-term amid persistently high inflation



Economic growth in Lao PDR is projected to accelerate to 4.0% in 2023, from 2.3% in the previous year, provided there is sustainable momentum in the service sector. Falling commodity prices are driving down inflation, but inflation remains exceptionally high because of the weak currency. This will continue to erode real income. BOL's measures to curb currency depreciation pressure have been limited by a poor monetary operation framework and a largely dollarized environment. Over the medium-term, growth is expected to remain below the pre-COVID level, hovering at 4.0% compared to the pre-pandemic average of 6.4%, because of structural vulnerabilities.

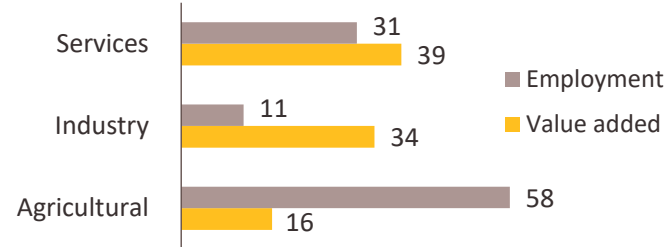
GDP Structure (demand side)

% of nominal GDP, 2021

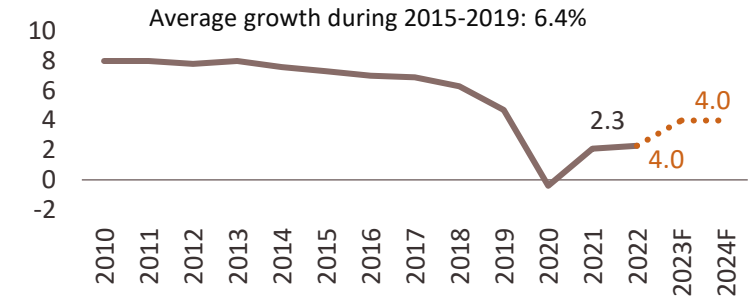


GDP and Employment by Sector

% of nominal GDP and % of total employment, 2021

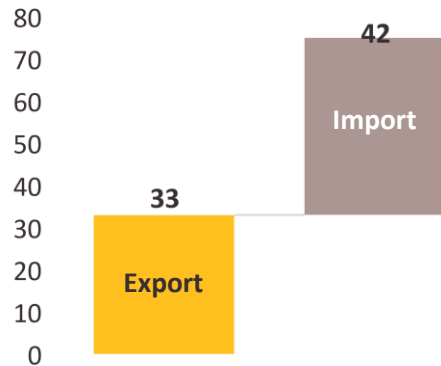


IMF's Annual Growth Projections (% YoY)



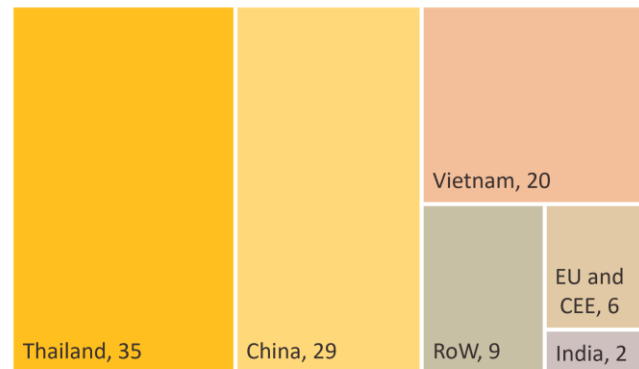
Trade openness at 75% to GDP

% of GDP, 2021

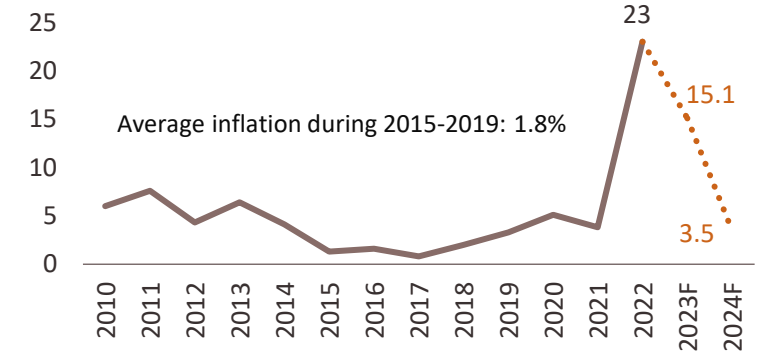


Share of export partners

% of total export



IMF's Annual Inflation Projections (%YoY)



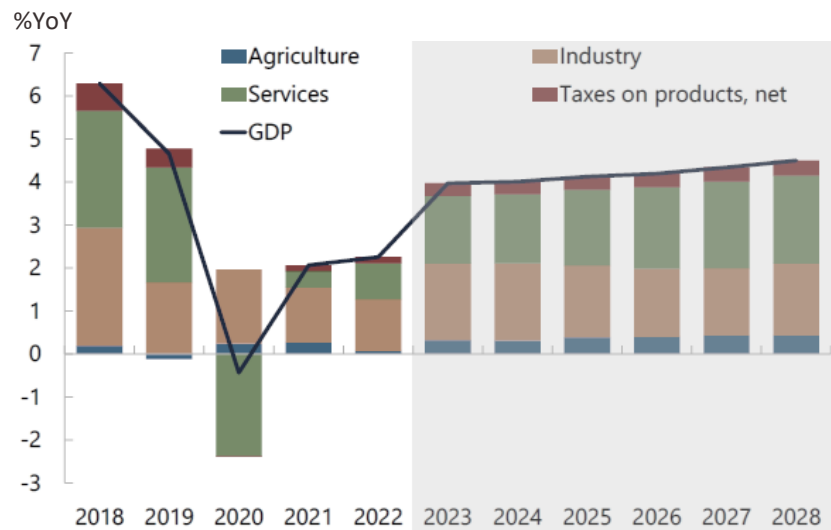
Source: World Bank, WTIS, CEIC, IMF WEO Database (Apr 2023), and Krungsri Research

Cyclical outlook appears positive as the service sector sees a post-pandemic rebound

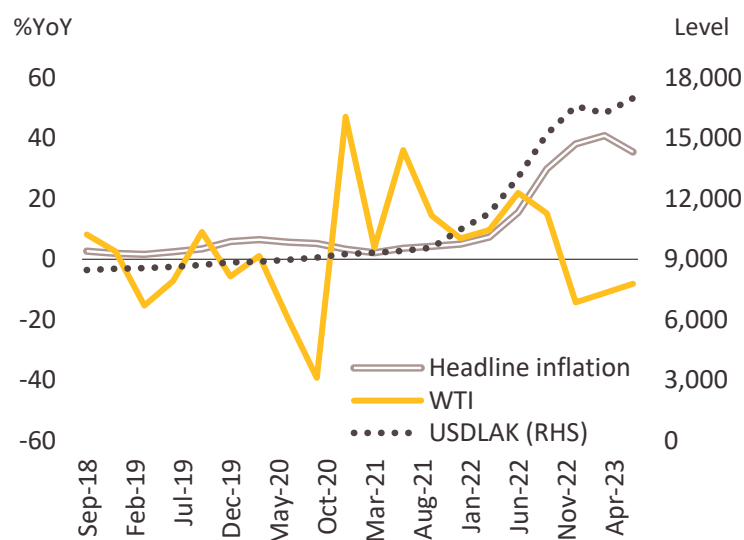


- **Growth is anticipated to pick up in the near term driven by the service sector, notably logistics and tourism.** This uptick is in response to the reopening, which (i) has led to a resurgence of tourists, especially from China and Thailand, and (ii) ensures the uninterrupted operation of the Laos-China railway. The trade account is anticipated to show positive trends. Additionally, the domestic economy could benefit from FDI inflows, especially in hydropower and renewable energy projects. However, persistently high inflation threatens to erode real household income and could undermine domestic demand
- **Total goods exports have slowed, contributed mostly by weaker export to China.** Exports to Thailand and Vietnam are picking up in line with relatively resilient domestic demand in those two markets, despite the recent slowdown in Vietnam.

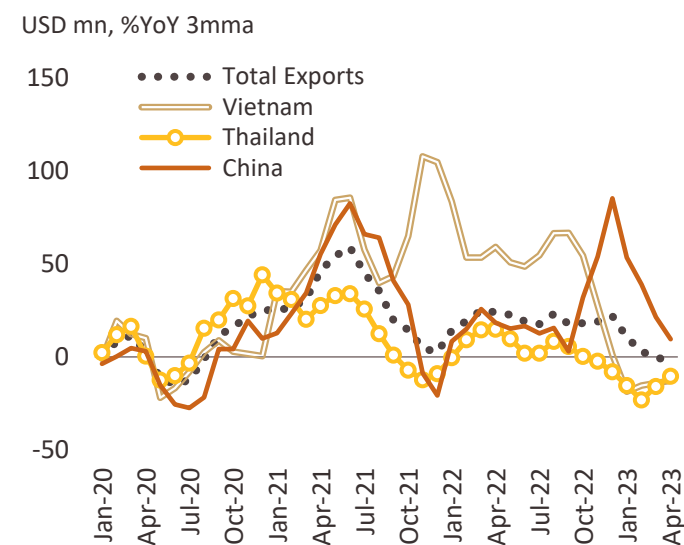
GDP Contribution by Sectors



Inflation, WTI price, USD/LAK



Goods Export Growth by Market



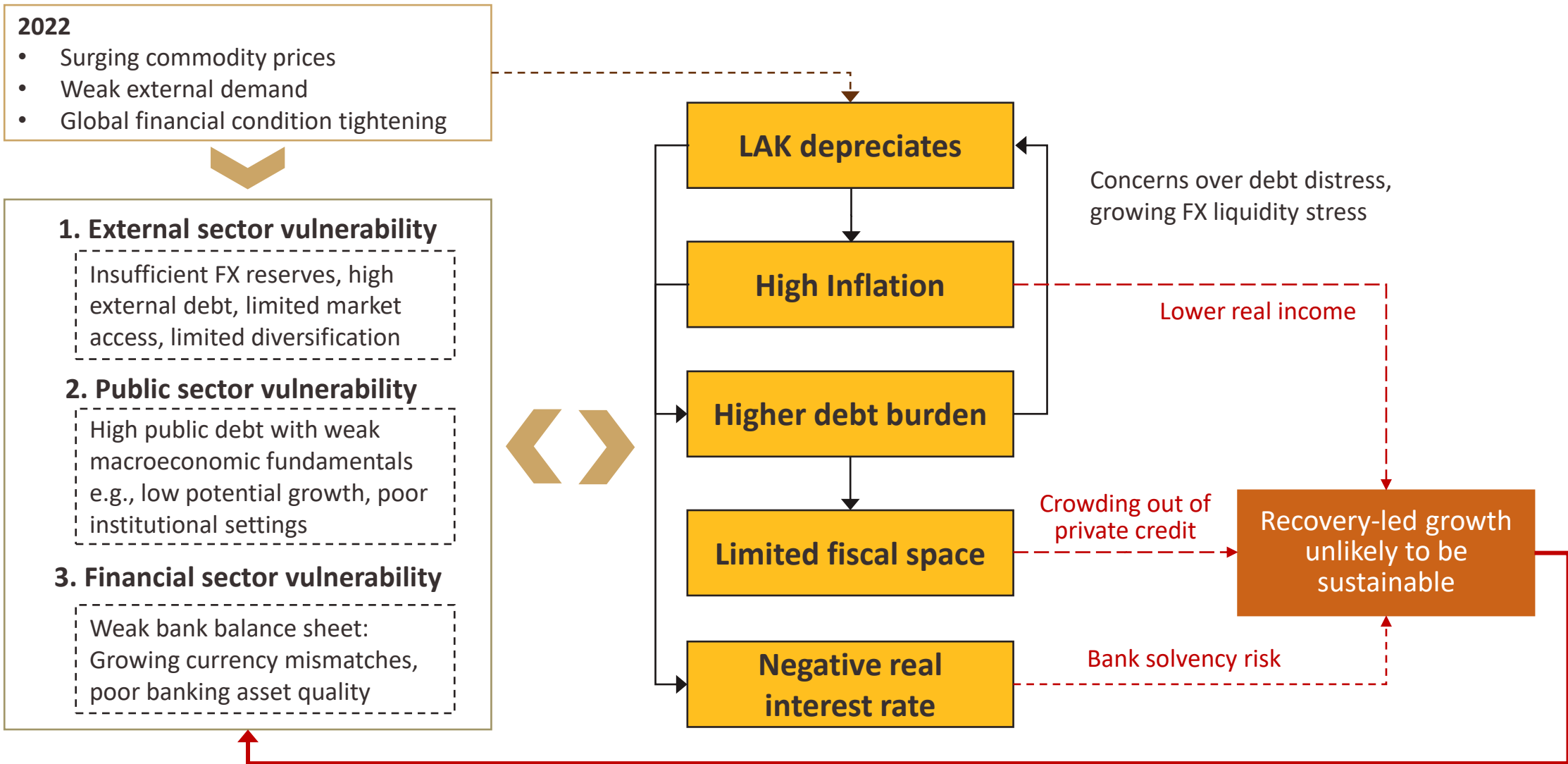
BOL's measures to curb currency depreciation pressure

Adopted several measures but the effects have been limited by weak monetary transmission mechanism and highly dollarized environment.

1. **Tightening Monetary Condition:** (i) BOL raised RRR for Kip, RRR for foreign currency, and policy rate from 3%, 5% and 3% at the beginning from 2022 to 5.5%, 8%, and 7.5%, respectively, and (ii) issued central bank bonds to absorb excess Kip liquidity
2. **Exchange Rate Controls and Flexibility:** (i) Imposed daily limits on FX transaction, and (ii) widened exchange rate band from 1.5% to 4.5% in 2022. The band was widened further to 7.5% in May 2023

Source: CEIC, IMF Article IV (May 2023), and Krungsri Research

Persistent structural vulnerabilities ...



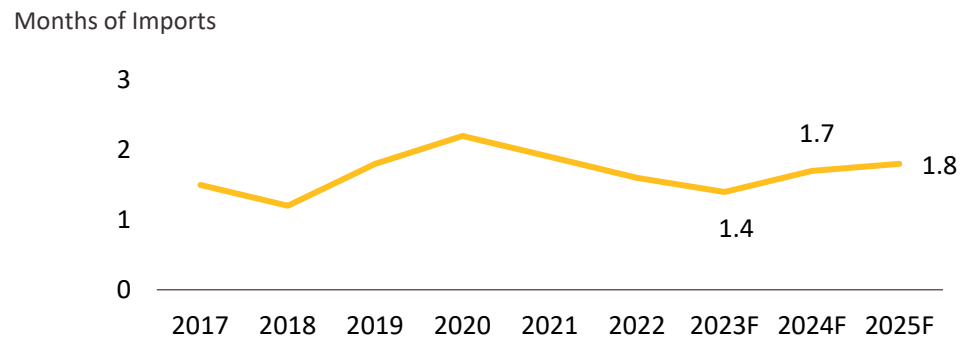
Source: Krungsri Research

Vulnerabilities in public, external, and financial sectors will dampen recovery and cap medium-term growth at below pre-covid level.



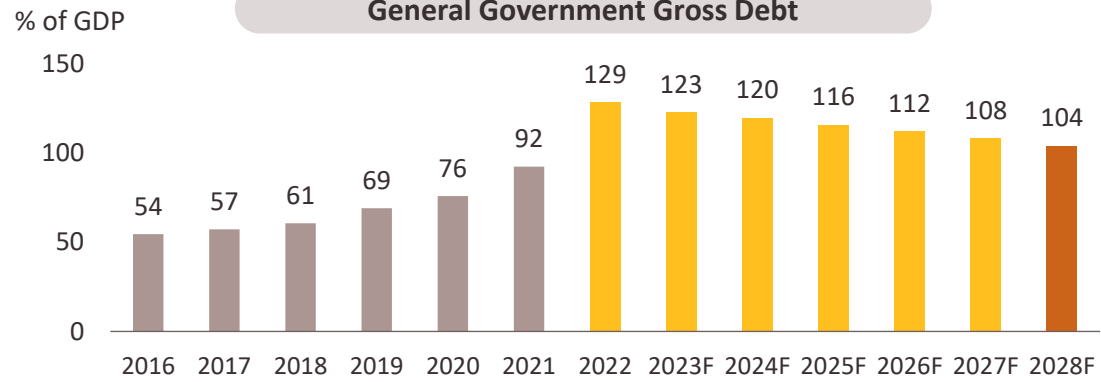
- **External vulnerability remain pronounced.** Despite an improving current account led by the recovery in its services account balance, overall international investments have deteriorated. Coupled with substantial external debt repayment, this situation had exerted considerable pressure on its foreign reserves and currency due to heightened foreign exchange demand. Consequently, foreign reserves dropped to USD 1.1 bn in 2022, covering less than 2 months of imports. Moreover, external debt service is estimated to exceed its foreign reserves at USD 1.3 bn per year over 2023-26. **High debt obligation will continue to pressure external stability and limit the BOL's ability to withstand external shocks.**
- **Public sector remains vulnerable** with exceptionally-high total public debt. The IMF estimates it will remain above 100% of GDP for the next 7 years.

Foreign Reserves: Import Cover

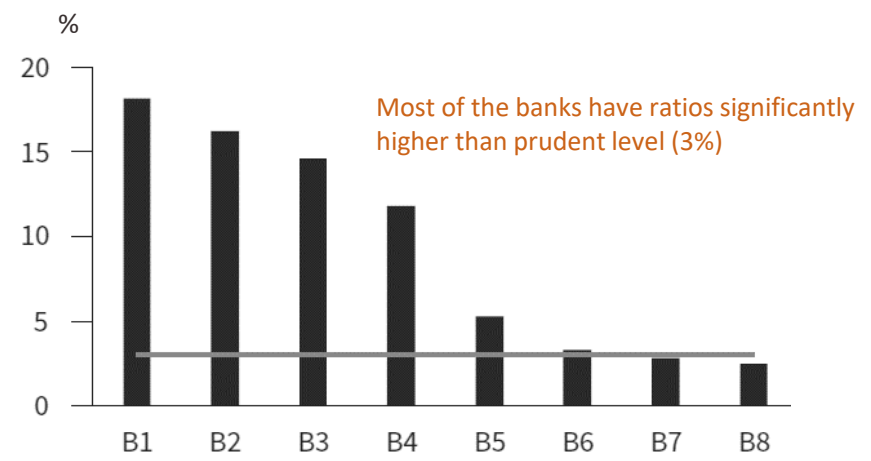


- **Financial sector - persistent liquidity and solvency risks.** NPLs are understated because domestic regulations dictate losses would be realized when policies end. Also, sufficient system-wide CAR reflects the restructuring of only two SOE banks.
- **Interest rate mismatch and delays in loan repayments are depressing profits,** as most banks reported CAR below the regulatory minimum at 8%.

General Government Gross Debt



Accrued Interest/Total Loans Ratios by Banks



Note: Each bar represents a different bank, as of Sep 2022

Source: CEIC, IMF WEO Database (Apr 2023), World Bank, and Krungsri Research

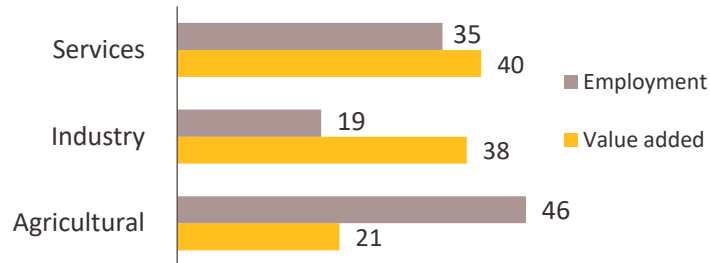
Myanmar: Visible signs of stability with low base, but headwinds will prevent a full recovery.



The IMF has revised down 2023 economic growth forecast from 3.3% to 2.6%, citing the slower-than-expected manufacturing sector. Despite improving economic activities, several external and internal headwinds will prevent a full recovery of consumption and investment and cap its growth trajectory at well below the pre-covid level. Exports will be pressured by waning external demand. Inflation has eased in food and fuel prices but remains disturbingly high and will continue to erode household purchasing power. Lingering political and policy uncertainties and the unfavorable business environment would worsen the business and investment climate in the country. **Medium-term growth is expected to reach 2.8% p.a. compared to the pre-COVID level of 7.0%.**

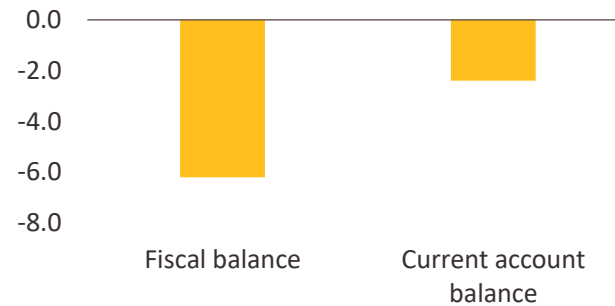
GDP and Employment by Sector

% of nominal GDP and % of total employment, 2020



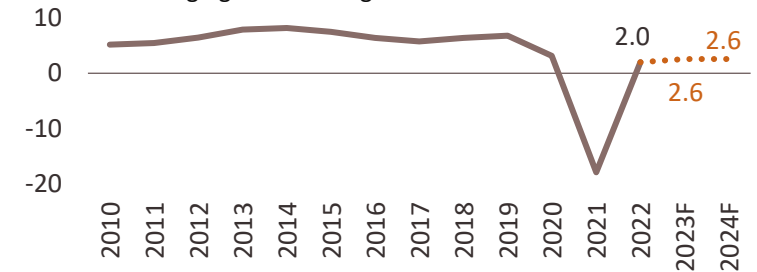
Recorded twin deficits

% of nominal GDP, 2020



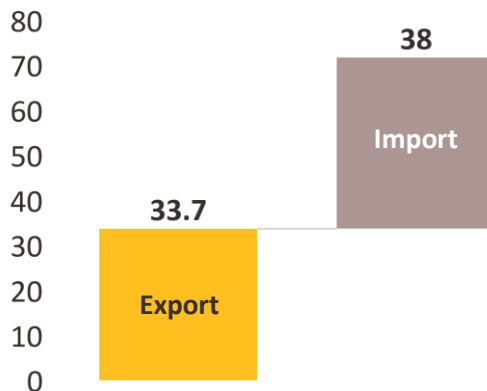
IMF's Annual Growth Projections (% YoY)

Average growth during 2015-2019: 7.1%



Trade openness at 72% to GDP

% of GDP, 2022



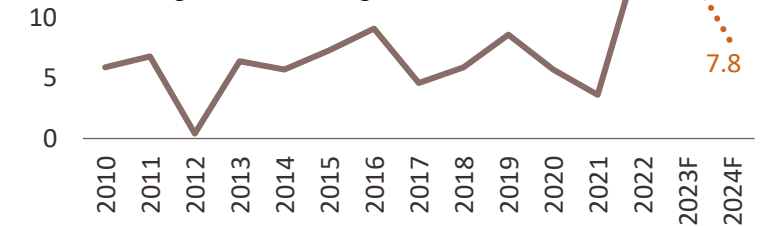
Share of export partners

% of total export



IMF's Annual Inflation Projections (% YoY)

Average inflation during 2015-2019: 2.3%



Source: World Bank, WTIS, CEIC, IMF WEO Database (Apr 2023), and Krungsri Research

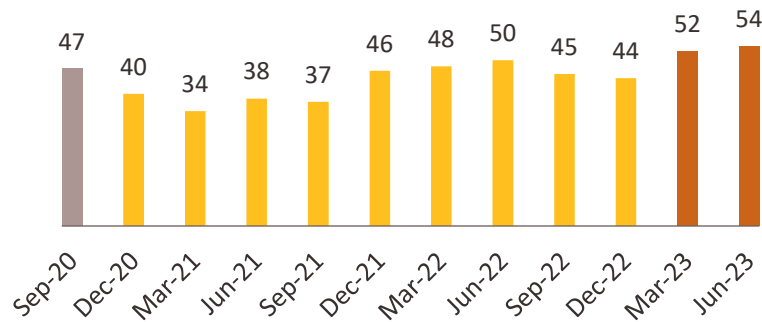
Fragile recovery is visible in a tough business climate.



- **We expect moderately stronger growth in the industrial and service sectors, but the agriculture sector will continue to contract.** After a long period of contraction, Manufacturing PMI data have exceeded-50 since the beginning of the year, albeit from a low base. **The recovery in investment will be sustainable but would be capped by an** unfavorable business environment. Businesses are finding it difficult to source the inputs they need to operate. The weak investment sentiment is reflected in capital imports which are at half of pre-pandemic levels and in negligible FDI commitments.
- **Looking at trade data, international tourist arrivals have been rising but remain insignificant** at well below pre-pandemic and pre-coup levels. Furthermore, **goods exports would be pressured** by weak external demand, an overvalued currency, and foreign conversion restrictions.

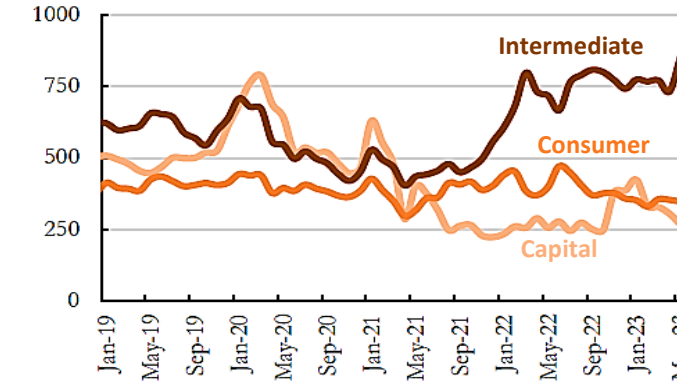
Manufacturing PMI

Index (>50 indicates expansion from previous month)



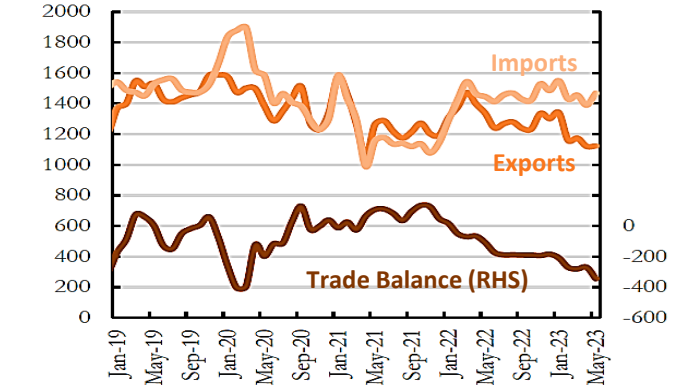
Major Import Trends

USD, mn

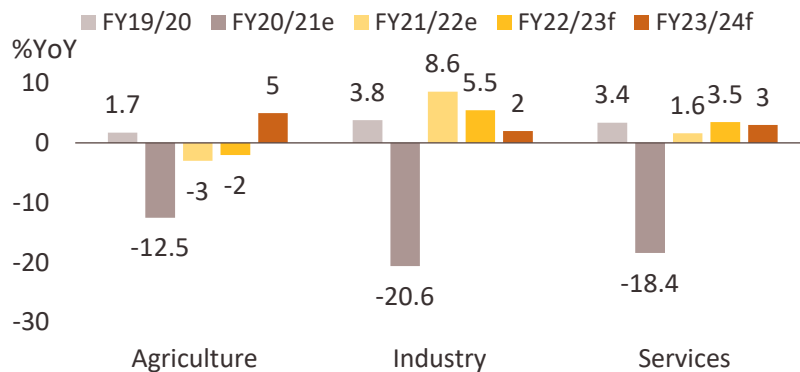


Trade Trends

USD, mn

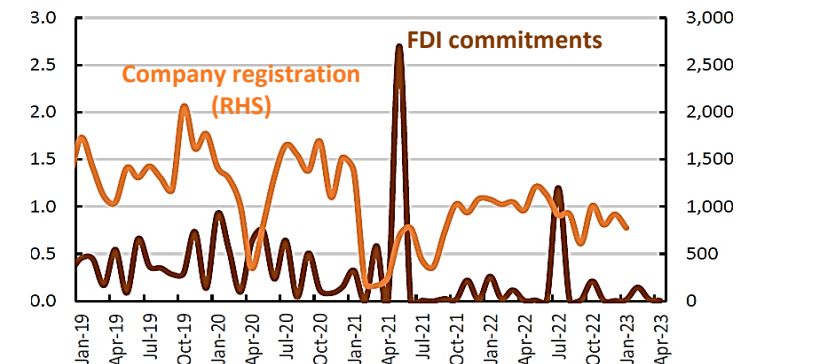


Real GDP Projection by Sector



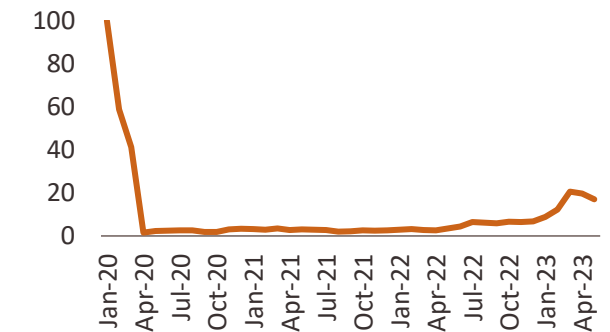
FDI Commitments and Company Registration

USD bn



Total Visitor Arrivals

Index, 2020 = 100



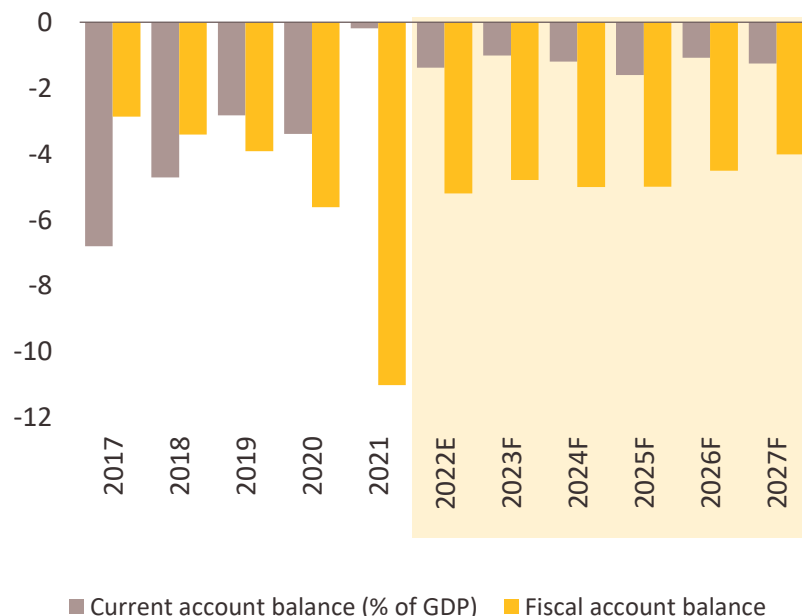
Source: CEIC, World Bank's Myanmar Economic Monitor (June 2023), and Krungsri Research

Macroeconomic stability continues to waver

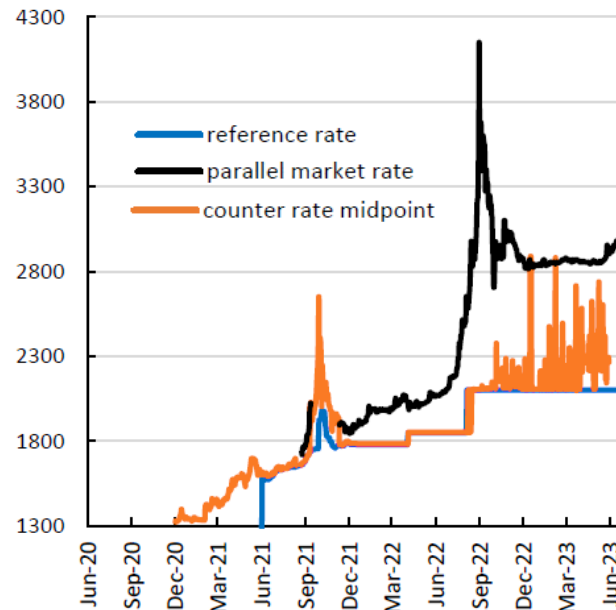


- **Persistent twin deficits.** The current account deficit is expected to widen further due to an expanding trade deficit. **There is insufficient FDI to meet financing needs** as MNCs have been exiting the country due to an unfavorable investment climate. Against this backdrop, foreign exchange reserves is now insufficient, covering only about 3 months of imports (2021), and reserves could slip further going forward.
- The official exchange rate is unchanged (capped at 2,100) but the MMK has weakened by 25-30% in the black market, suggesting a shortage of foreign exchange supply. The Central Bank of Myanmar (CBM) has adopted a moderately tight monetary policy. It raised required reserve ratio by 50 bps to 3.5% in April and there are still several foreign exchange restrictions in place. The use of the yuan and baht has been mandated. The CBM is negotiating with its Indian counterpart to establish a rupee-kyat payment and settlement mechanism. **The deteriorating external position remains a risk as it could worsen the USD liquidity shortage and prompt authorities to impose even stricter regulations and restrictions.**

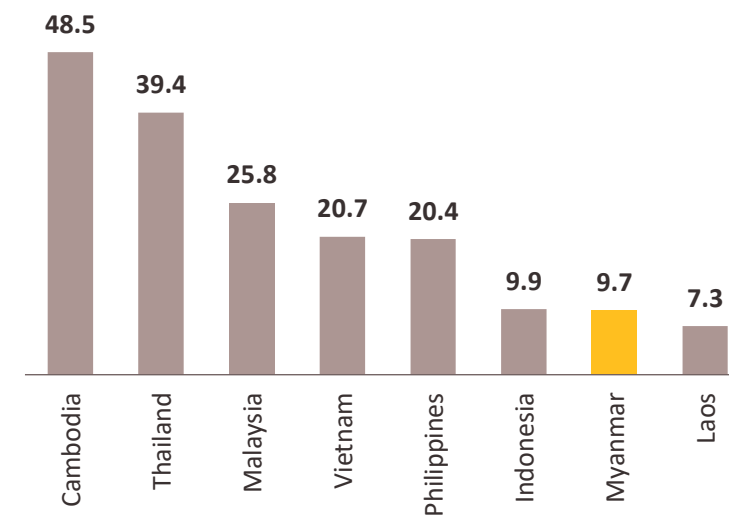
Twin Deficits (% of GDP)



Reference Rate: USD/MMK



Foreign Reserve: % of Nominal GDP



Note: Latest data for Myanmar is in March 2021

Source: IMF WEO Database (April 2023), World Bank's Myanmar Economic Monitor (June 2023), CEIC, and Krungsri Research

Despite the deferred 2023 general election, we still expect a smooth political transition in 2024 albeit the ongoing violence. The military is likely to retain control.



The government has canceled the general election that was scheduled to be held in August this year, citing ongoing violence. The government also extended the state of emergency by 6 months. **We view that the election is unlikely to happen this year due to slow progress in collecting national census data**, although the authorities claimed the process would be completed by October. Even if the general election is held next year, the military-backed Union Solidarity and Development Party (USDP) is poised to win given the military leaders' intent to maintain their hold on power.

Scenarios for Myanmar's Political Landscape and Development Paths

Economic Implications

Possible political development

Election held in 2024

No election in 2024

1. Pre-2015 Scenario

- Political stability resumes after the election.
- Military-backed party wins the election (a quasi-civilian government).
- Sanctions impede economic liberalization.

2. Post-2015 Scenario

- General election is held as announced
- Quasi-democratic administration resumes with continued economic liberalization.
- Economic reforms continue.

3. Pre-2008 Scenario: Return of military dictatorship

- No election
- Resumption of autarky policy where the country follows a self-sufficient economic system.
- More sanctions.

4. The status quo

- No election and terms of the caretaker government are renewed.
- Closer economic integration and political cooperation with China.
- Slow to modernize economy

Stalled

Progressive

Economic modernization and reforms

- **Without an election this year, the current caretaker government will remain in power.** We anticipate high level of conflict and political uncertainty. That would prevent an economic recovery, particularly in tourism-related sectors, and the business environment will continue to be challenging. Economic reforms will be delayed as international development partners continue to distance themselves from the military leadership. Myanmar will seek deeper integration with China, politically and economically.
- **Post-2023 political landscape - most likely the pre-2015 scenario where a military-backed political party would form the government (scenario #1).** Also known as a quasi-civilian government, military leaders would become civilians and occupy senior positions, as the National League for Democracy (NLD) Party might boycott the election (assuming the NLD is not dissolved). Widespread opposition, potential sanctions, and lack of international support are expected to further weaken the investment climate and cause potential growth to continue to decline.
- **Another possible scenario would be the Status Quo (#4).** This is where the other two scenarios are unlikely to materialize - the post-2015 scenario (#2) and the pre-2008 scenario (#3).

Source: Krungsri Research

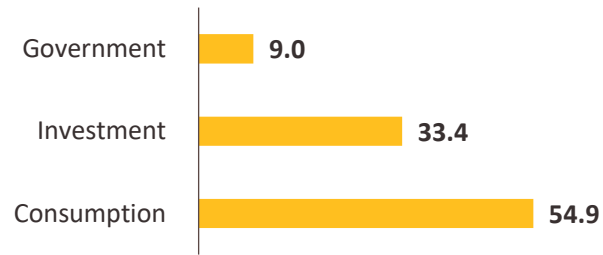
Vietnam: Domestic and external headwinds will constrain cyclical growth, but we still project robust medium-term growth.



- **Growth momentum will moderate in 2023 to 5.8% from 8% in 2022**, reflecting slowing global growth and concerns over domestic financial vulnerabilities. **Public investment will be the key driver of economic growth** in the coming years. The country will also benefit from revived tourism and related services since China's reopening. Key risks remain deep-seated financial sector vulnerabilities.
- Over the medium term, Vietnam is expected to be one of the fastest growing economies in the region (expected growth to average 6.7% p.a. in the next 5 years) as its increasingly important role in global value chains (GVCs) would continue to attract robust FDI inflows.

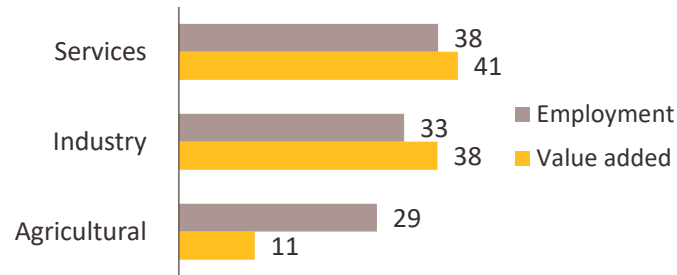
GDP Structure (demand side)

% of nominal GDP, 2021

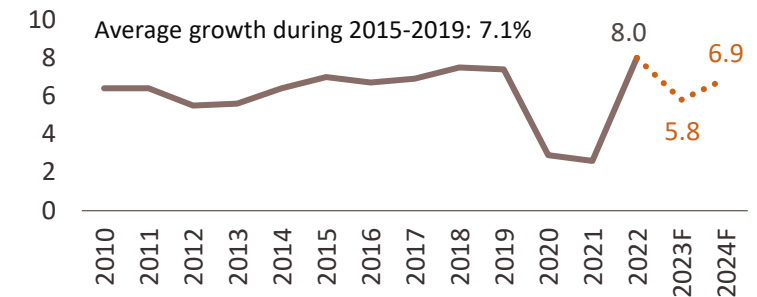


GDP and Employment by Sector

% of nominal GDP and % of total employment, 2021

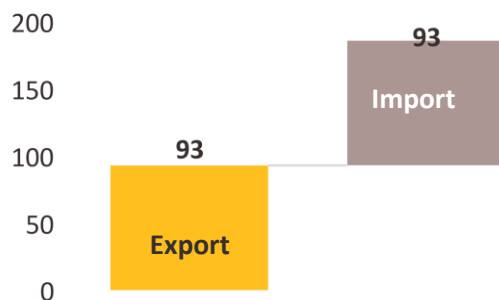


IMF's Annual Growth Projections (% YoY)



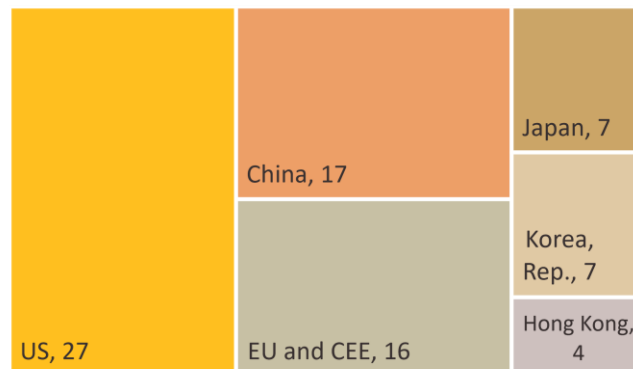
Trade openness at 186% to GDP

% of GDP, 2021

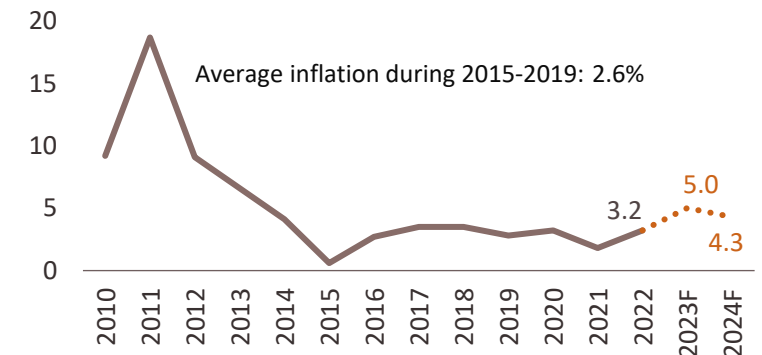


Share of export partners

% of total export



IMF's Annual Inflation Projections (% YoY)

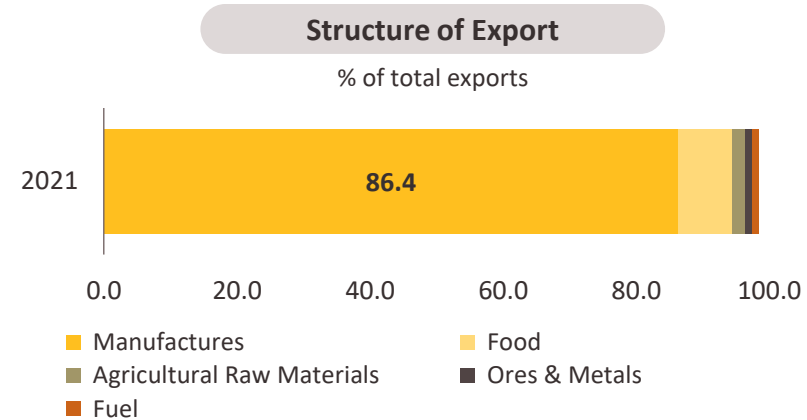
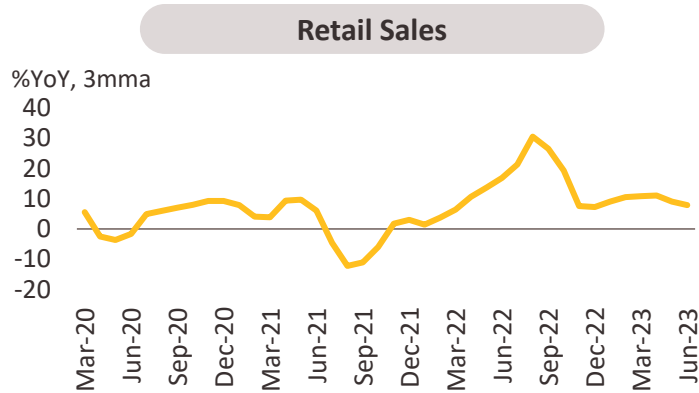
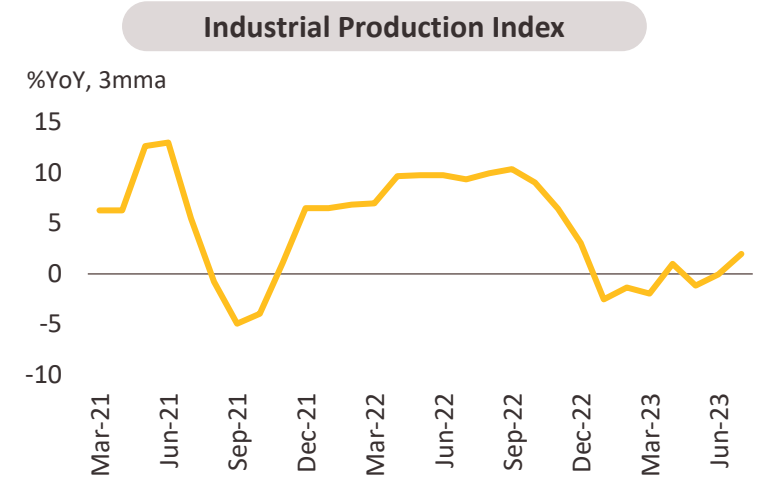
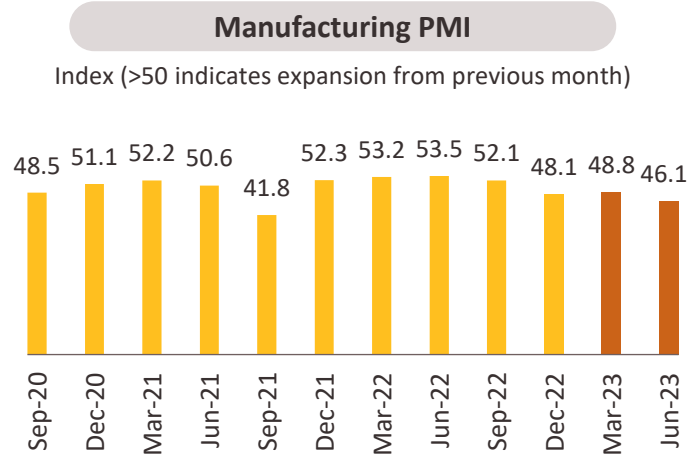
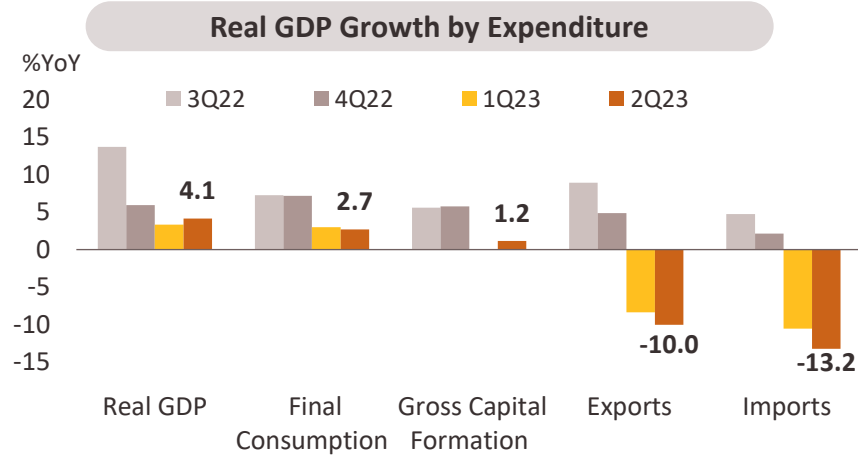


Source: World Bank, WTIS, CEIC, IMF WEO Database (Apr 2023), and Krungsri Research



Major dampeners are weak exports and industrial production

- In 1H23, growth decelerated from 8.0% in 2022 to 3.7%, reflecting the global economic slowdown and cautious consumer and investor sentiment against the backdrop of domestic financial vulnerabilities and tighter domestic financial conditions last year. Weaker domestic activities are reflected in retail sales, which fell from last year's levels.
- External weakness is weighing heavily on manufacturing, especially since the country's exports are dominated by manufacturing products that are highly sensitive to an economic slowdown. Manufacturing PMI data has been below 50 since late 2022, indicating a contraction in export-driven manufacturing. This trend is also evident by the Industrial Production Index which has decelerated from the previous year.



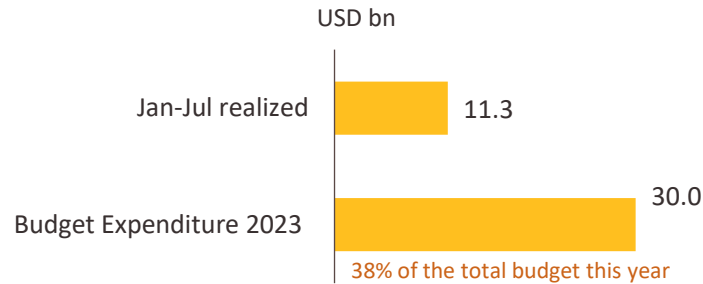
Source: CEIC and Krungsri Research

Looking ahead, domestic conditions are crucial to sustain growth

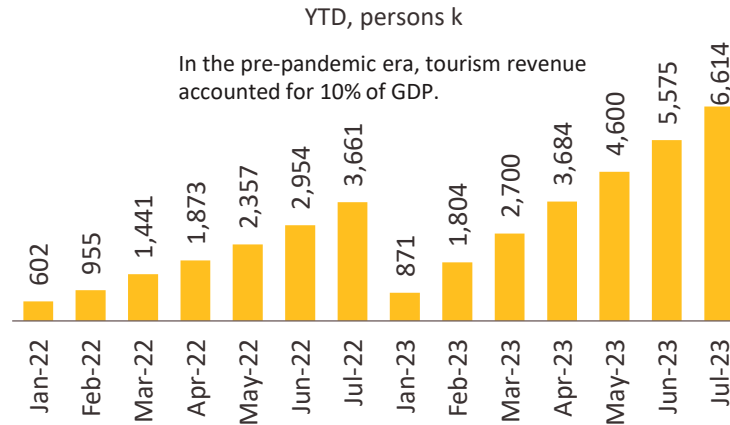


Next year, public investment and the recovering tourism sector will be the key growth drivers. Government spending will generate a substantial multiplier effect. As of July, only 40% of the total budget has been disbursed, indicating room to accelerate spending. Additionally, the resumption of international tourism will boost growth with a substantial increase in visitor arrivals this year. On monetary policy, the SBV has cut discount rate by a total of 150 bps since February to address slowing external demand and deteriorating domestic activities. **With the combination of more relaxed financial conditions and higher government expenditure, we expect support for domestic activities and a relief in the credit crunch in the property sector.**

Fiscal Disbursement

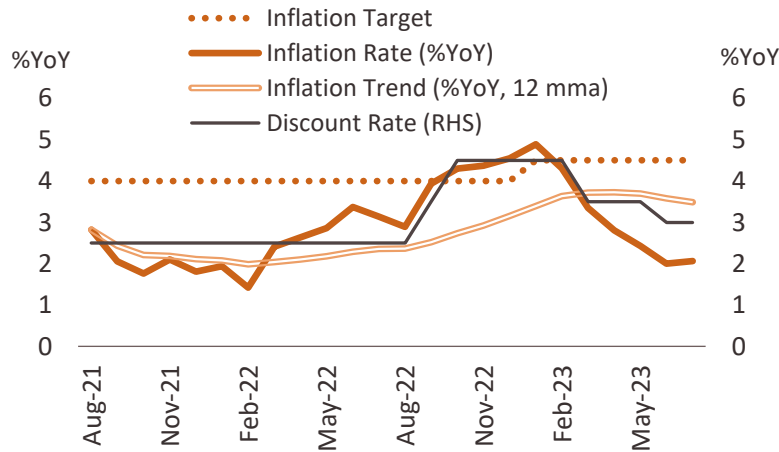


Visitor Arrivals

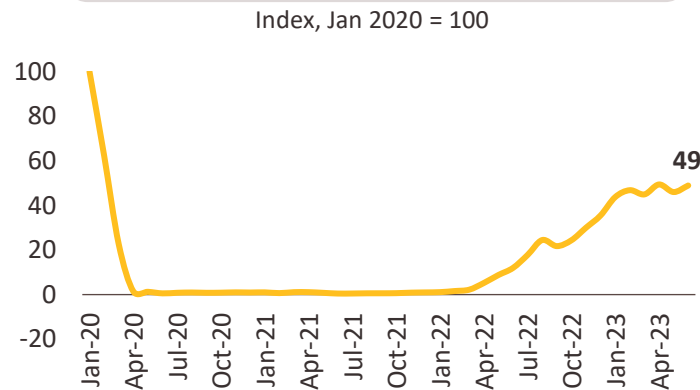


Global and domestic slowdown would impede inflows, **capital registered for FDI projects remain resilient, the total value inching-up 4%** over the same period in 2022. Most of it went to the processing and manufacturing industries, at 63% of the total. This was followed by banking & finance sector at 11.4%.

Inflation and Policy Rate

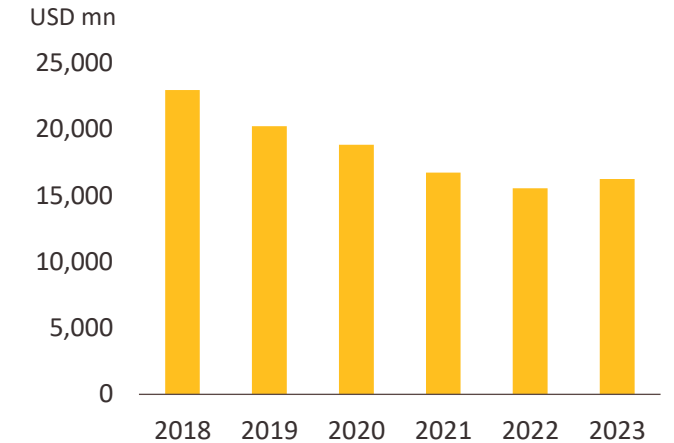


Tourism Recovery (% of pre-covid level)



Foreign Direct Investment

(total registered capital, Jan-Jul accumulation)



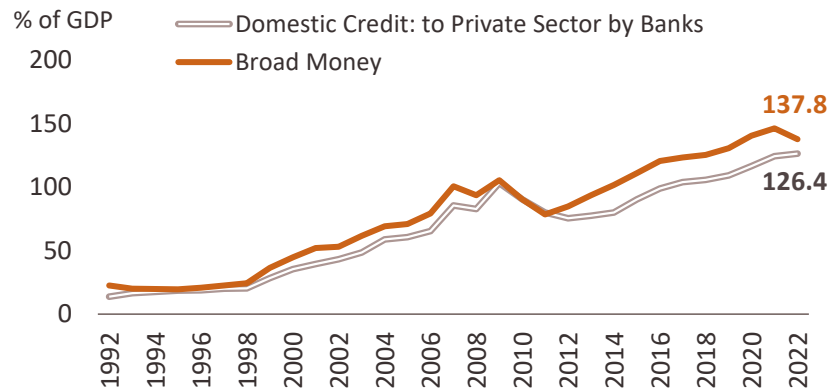
Source: MOF, MPI, CIEC, and Krungsri Research



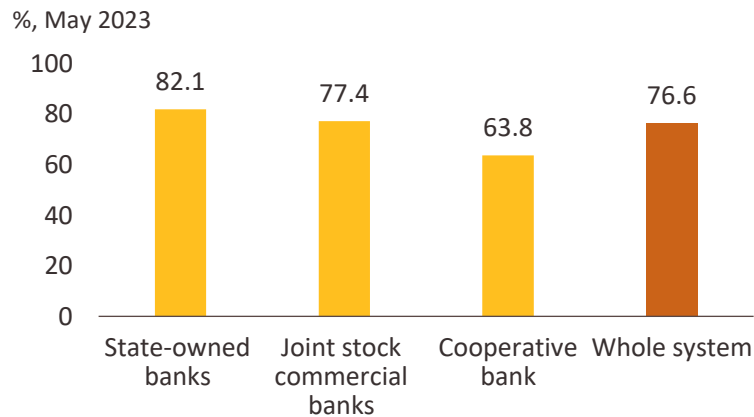
Lingering vulnerabilities in property and banking sectors remain, but refinancing risk is smaller with the combined efforts of policymakers.

Currently, Vietnam has exceptionally high level of outstanding domestic credit, with bank borrowings to the private sector at 126% of GDP. **The primary concern is the over-leveraged property and banking sectors.** There is lingering refinancing risk in the property sector as tough economic conditions have made it challenging for companies, especially developer, to meet bond obligations. However, the banking sector's capital adequacy ratio (CAR) is well above the required level, and loan-to-deposit ratio remains below the 85% threshold. These would insulate the sector from systemic risks arising from the real estate sector. **Coordinated responses by policymakers and banks are essential to reduce refinancing risk, ease liquidity constraints, restore credit flow, and ensure stability in the real estate and banking sector.**

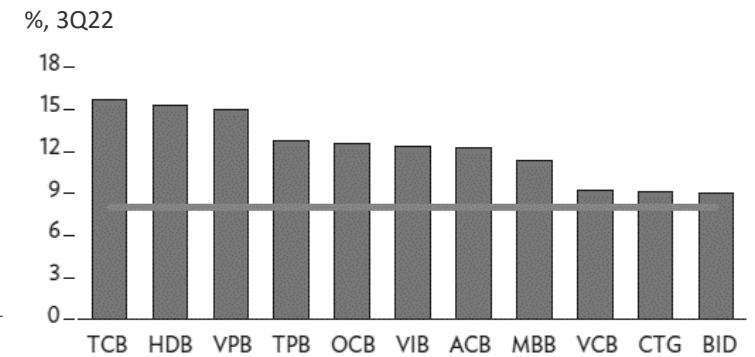
Domestic Credit and Broad Money



Loan-to-deposit Ratio



Capital Adequacy Ratio of Selected Banks



Regulatory Measures

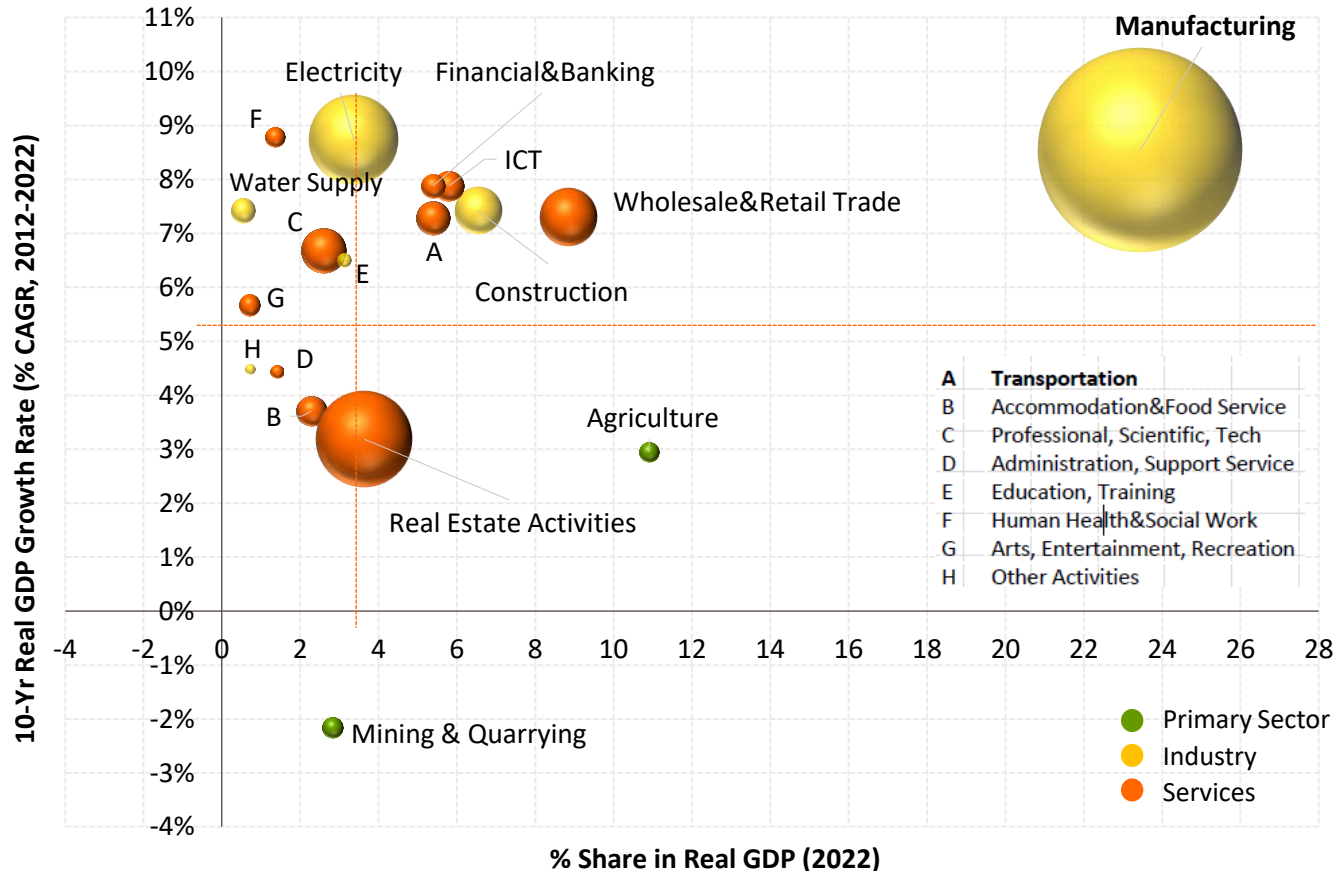
- In September 2022, decree 65 was introduced promptly to boost the corporate bonds market through tighter regulations and a mandatory increase in private placement of corporate bonds. However, that had dampened investor sentiment and resulted in a 90% drop in bond issues.
- In February 2023, the State Bank of Vietnam (SBV) proposed a credit program worth USD 5 billion for social housing to be implemented by four state-owned banks.
- In March 2023, decree 65 was replaced by decree 8 which allowed companies to rollover maturing bonds by up to two years, subject to agreement from investors. **There were also positive developments with a higher number of agreements between bond issuers and holders to extend payment deadlines.**
- In July 2023, it launched a trading platform for private placement corporate bonds (PPBs) that is meant to enhance market transparency and liquidity.
- **The SBV's accommodative stance will play a vital role in easing the tight credit market.**

Source: SBV, CIEC, ADB's Economic Outlook May 2023, and Krungsri Research

Over the medium-term, Vietnam will climb the global value chain via FTAs and attracting FDI with structural reforms and infrastructure development projects



Vietnam's Growth Drivers and Potential Sector



Key drivers and challenges for Vietnam

Key drivers

- Vietnam will remain one of the brightest points in the region with GDP growth averaging 6.7% over the next 5 years. Its competitive labor costs and participation in multiple trade agreements will support a steady inflow of FDI.
- Vietnam will be a key beneficiary of FDI due to its labor supply advantage, a sizeable domestic market, and opportunities to expand industrial exports to China.
- The country also benefits from supply-chain diversification following the China+ 1 strategy.
- Continued reforms have improved Vietnam's ranking in Ease of Doing Business, and it now outstrips Indonesia and the Philippines.
- Extensive FTAs will help the country to integrate into global supply chains.
- Vietnam's digital economy is the fastest-growing market in Southeast Asia.

Challenges

- Risk of political instability and conflicts within the Communist Party of Vietnam.
- Banking sector vulnerabilities and mismanagement of macroeconomic policy (credit-led growth policy) with a fixed FX policy.

Note: Size of the bubble represents % share of cumulative FDI inflows (2010-2022) by sector; 10-yr Real GDP growth rate (CAGR) between 2012-2022 is 6.1%.

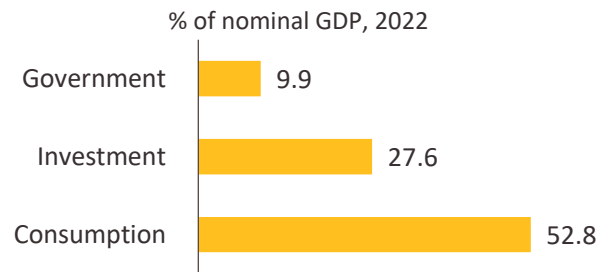
Source: CEIC, IMF, World Bank, WEF, ADB, AMRO, PwC, McKinsey, and Krungsri Research

Indonesia: Solid growth ahead with resilient domestic demand

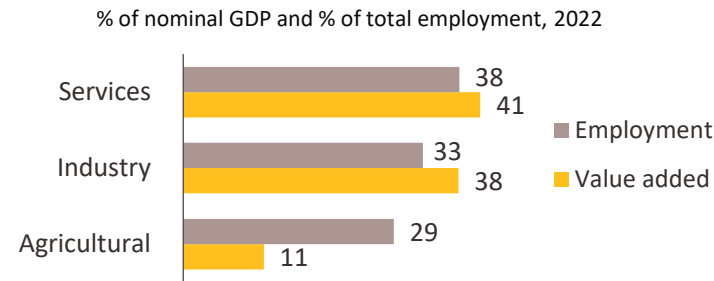


- Indonesia's exports tumbled in 1H23 mainly due to the large drop in commodity prices. **Given its domestic-oriented economy, growth will slow but remain solid at 5.0% in 2023-2024, from 5.3% in 2022**, as Indonesia is less vulnerable to a global slowdown. Private investment remains strong amid the diversification of supply chains by MNCs and structural reforms initiated by the government. The election next year should spur the economy with extra spending by the government and for campaign activities.
- Resilient macroeconomic stability.** Inflation has eased rapidly and returned to the BI's 2-4% target. While the reversal in commodity prices means reduced support from terms of trade, the current account is expected to register a mild deficit as commodity prices are still above pre-covid levels. El Nino risk is also on the radar; Indonesia's agriculture sector was badly affected by severe El Nino conditions in 2015-2016. However, the impact is predicted to be weak-to-moderate this year.

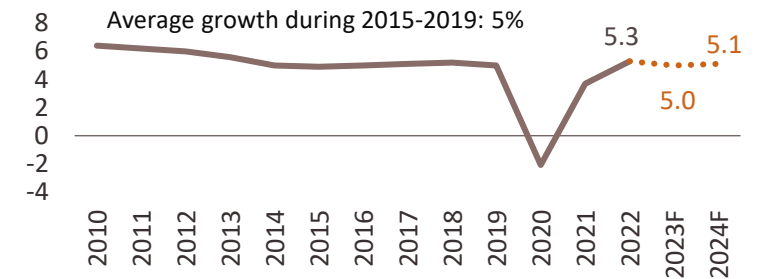
GDP Structure (demand side)



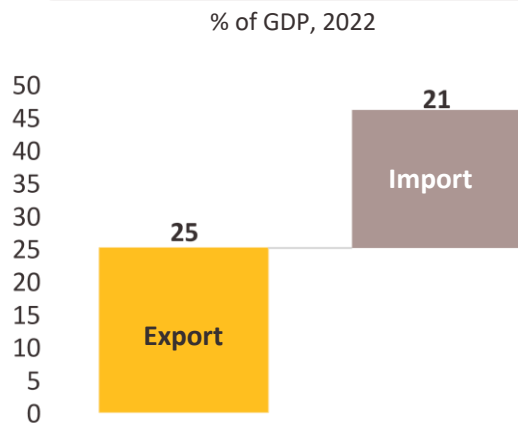
GDP and Employment by Sector



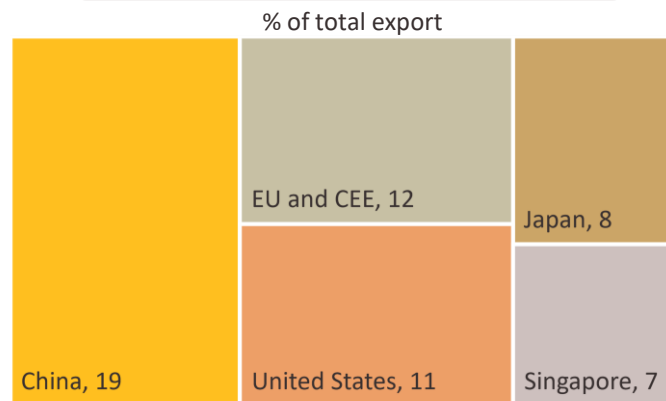
IMF's Annual Growth Projections (% YoY)



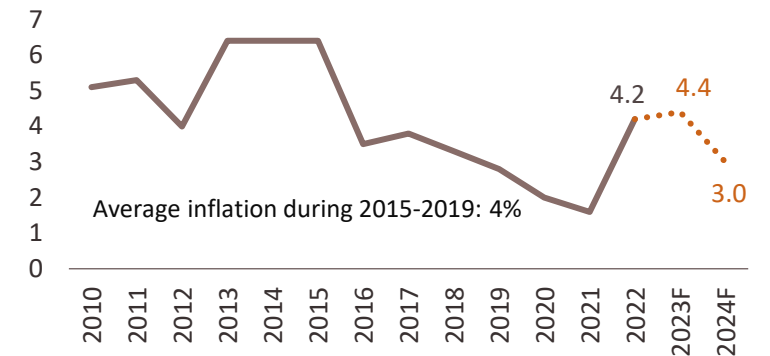
Trade openness at 45% to GDP



Share of export partners



IMF's Annual Inflation Projections (% YoY)



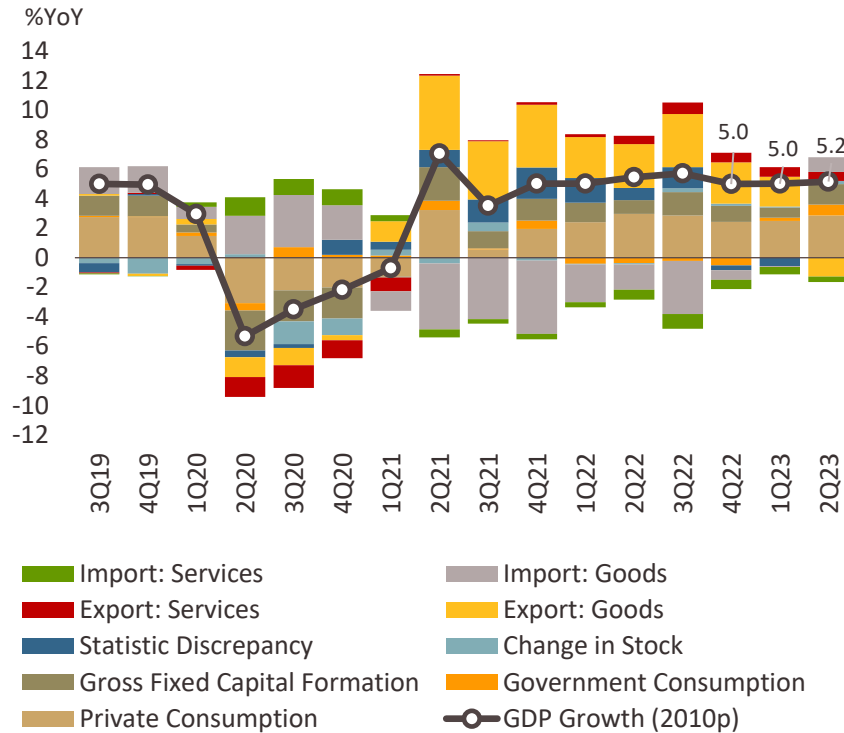
Source: World Bank, WTIS, CEIC, IMF WEO Database (Apr 2023), and Krungsri Research

Growth would soften but resilient domestic conditions would offset part of the impact of external headwinds



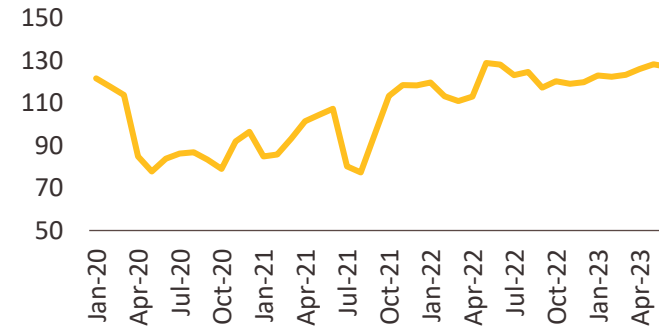
- Net export strength is not sustainable as Indonesia's key commodity exports continue to drop. However, **private consumption remains resilient** as firm consumer sentiment and easing inflation should also lift consumer purchasing power. **There is continued investment in the downstream commodity sector, especially the nickel supply chain.** FDI inflows remain resilient due to the region's rich resources, and reforms have made it attractive to invest in the manufacturing of stainless steel and battery material.
- On the fiscal front, **there is ample room to accelerate fiscal spending** prior to the general election in February 2024 (only 41% of its 2023 budget has been disbursed) and hasten progress in the Nusantara Capital City (IKN) project. Furthermore, preliminary guidance for 2024 budget signals higher spending, especially in infrastructure. However, private investment might need to wait until 2024 to see stronger recovery, following greater clarity on the policy environment post-election. With inflation returning to target range, the BI's next move would be to cut rates if domestic recovery stays relatively subdued and there is still disinflation. The Fed's extended rate pause is a pre-requisite for the cut.

Contribution to Real GDP Growth



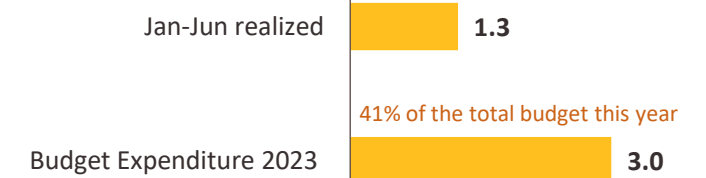
Consumer Sentiment Index:

Both Income and Employment Conditions

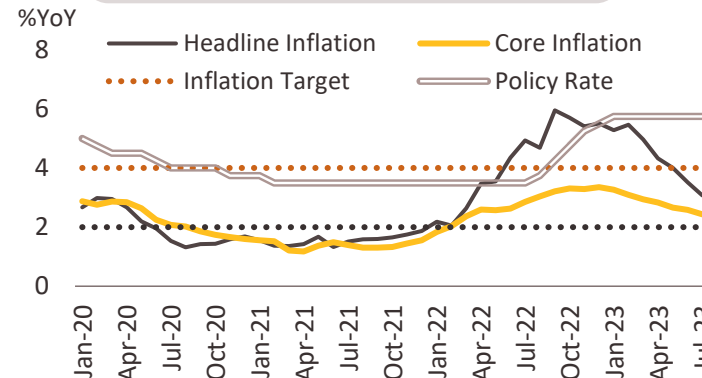


Fiscal Disbursement

IDR Trillion

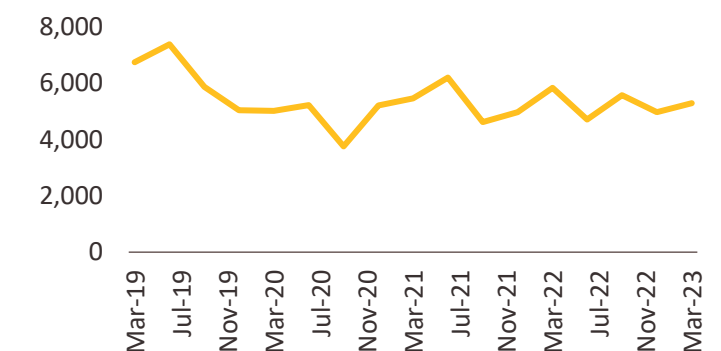


Inflation and Policy Rate



Foreign Direct Investment

USD mn



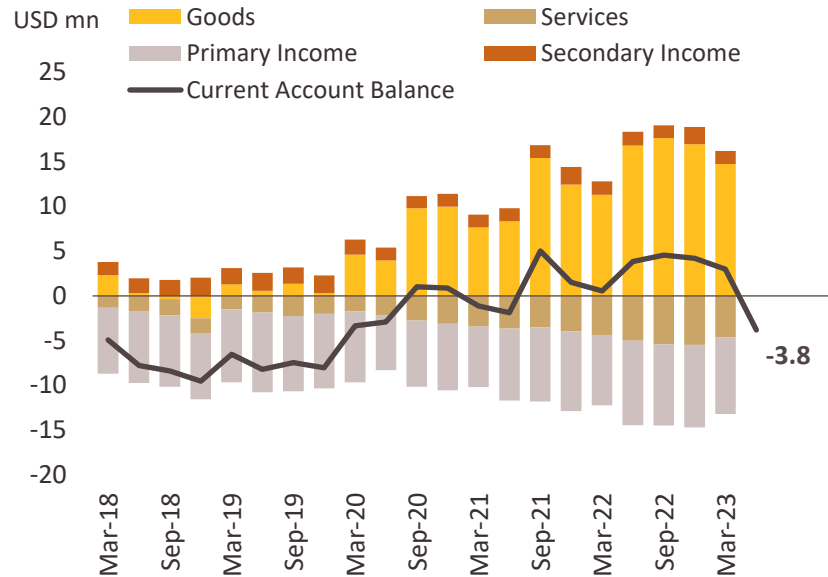
Source: MOF, CEIC, and Krungsri Research

Prudent macroeconomic policies will improve the country's stability

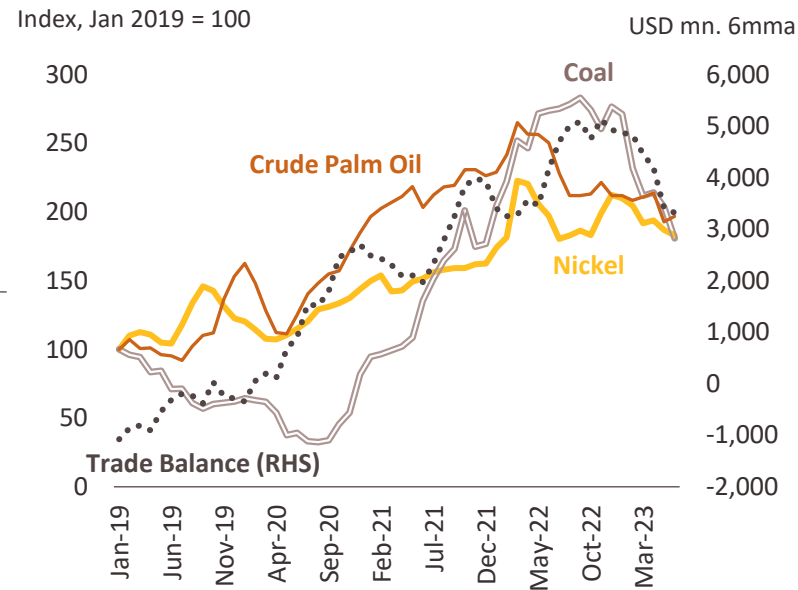


- **Indonesia's current account position has peaked.** The cyclical deterioration in terms of trade, coupled with recovering domestic demand, will narrow its goods surplus. Notably, the decline in prices of Indonesia's key commodity exports - coal, crude palm oil, and nickel which comprised 20%, 9.3%, and 2.4% of total exports in 2022, respectively - has been more pronounced since the beginning of 2023. Its current account balance is expected to mark a mild deficit as prices remain relatively high compared to pre-pandemic levels, which is unlikely to create funding risks.
- **On the domestic front, healthy private sector balance sheets** mean that there is ample room for corporates and households to leverage up and support the ongoing domestic demand recovery. Additionally, prudent public finance policies, reflected by its lowest fiscal deficit among peers, ensure sufficient room to introduce fiscal stimulus if needed.

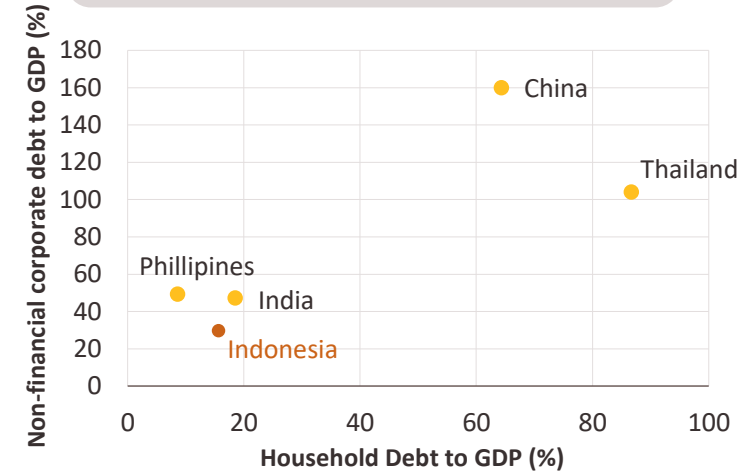
Current Account Balance



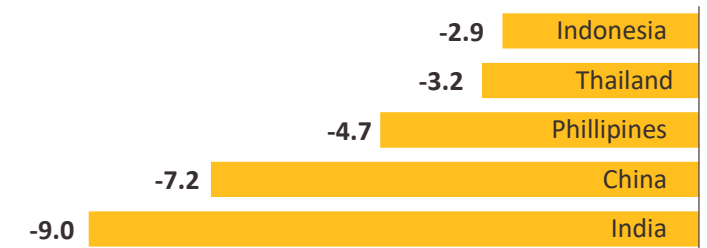
Trade Balance and Commodity Prices



Household Debt and Corporate Debt



IMF General Government Deficit (% of GDP)



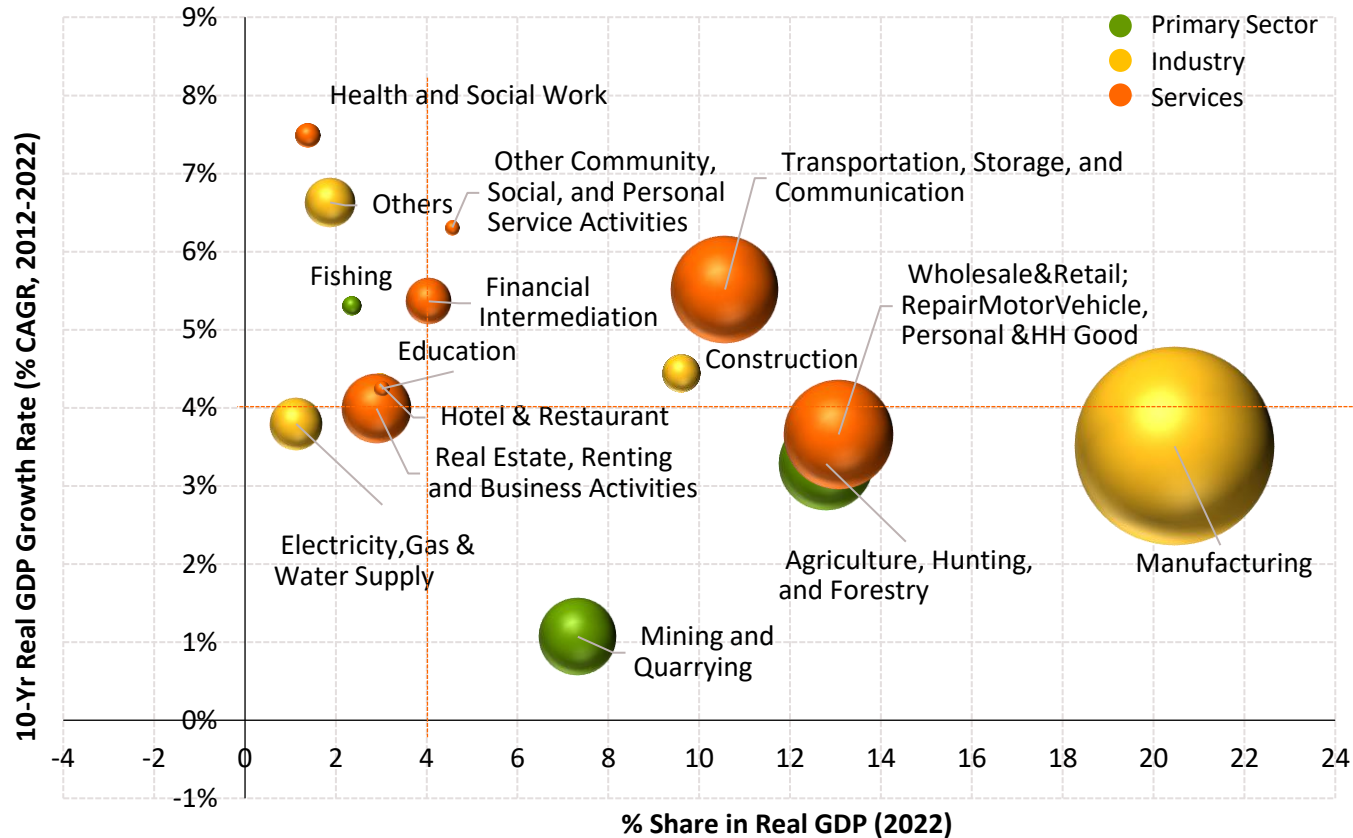
BI-MOF debt-burden sharing scheme: BI bond holders will likely let the bonds mature in 2025-2030 instead of selling them. The MOF will ultimately come up with the cash to repay the principal from 2025 onwards. We do not expect additional pressure on funding and IDR in the coming years.

Source: World Bank, CEIC, and Krungsri Research

In the medium-term, Indonesia wants to integrate its manufacturing sector into global supply chains through structural reforms and infrastructure modernization



Indonesia's Growth Drivers and Potential Sectors



Note: Size of the bubble represents % share of cumulative FDI inflows (2010-2022) by sector; 10-yr Real GDP growth rate (CAGR) between 2012-2022 is 4.2%
 Source: CEIC, IMF, World Bank, WEF, ADB, AMRO, PwC, McKinsey, and Krungsri Research

Key drivers and challenges for Indonesia

Key drivers

- Indonesia's economy is expected to grow by 5.0 % p.a. in the next 5 years.
- The next **general election** will be held in February, 2024.
- Building a **new and green capital city** called **Nusantara** (budget USD34bn).
- Implementing structural reforms to enhance potential growth by introducing the **Job Creation Law**.
- Developing an **electric vehicle (EV) ecosystem**.
- Introducing policies to attract FDI in the EV ecosystem and subsidies to encourage the adoption of EVs.
- Modernizing its infrastructure, including the Jakarta-Bandung high-speed rail which will start commercial operated in September 2023.
- As a **resource-rich country**, it is developing its downstream industries and related businesses.
- Rising **urbanization**.
- Growing **working-age population**; strong consumer spending prospects thanks to a rapidly **growing middle class**.
- A **digital and technology-driven nation**. Indonesia introduced CBDC with the intention apply that in the metaverse.

Challenges

- Structural challenges include unpredictable policy shifts.
- Unfavorable labor market policies and labor productivity.

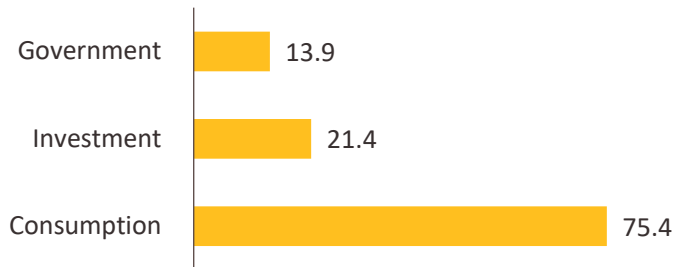
Philippines: Widespread slowdown, hope anchored in domestic consumption



In 1H23, economic growth came in at 5.4% as elevated real rates weighed on the economy. The IMF predicts growth will moderate to 6.0% in 2023 from 7.6% in 2022, in line with the pre-pandemic average. However, given the weaker and more broad-based slowdown in 2Q data, the full-year 2023 growth forecast might be revised down. The silver lining is easing inflation, thanks to fading second-round effect of high food and fuel prices. June headline CPI print at 5% was the lowest in a year and close to the central bank's target of 2-4%. Going forward, major challenges include rising funding costs, maturing pent-up demand, fiscal consolidation, and lackluster private investment and exports. Private consumption is expected to slow but at a milder pace than other components, thanks to stable remittances and solid employment.

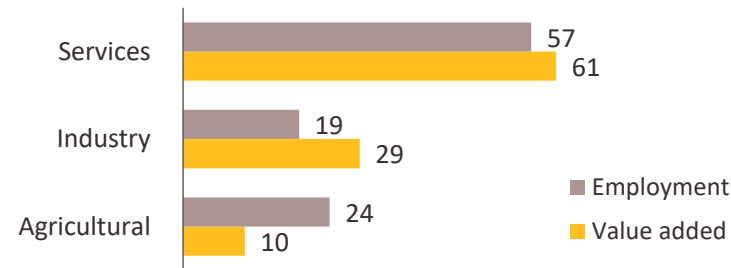
GDP Structure (demand side)

% of nominal GDP, 2022



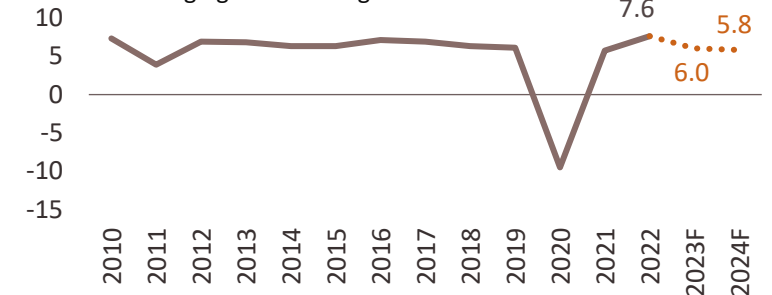
GDP and Employment by Sector

% of nominal GDP and % of total employment, 2022



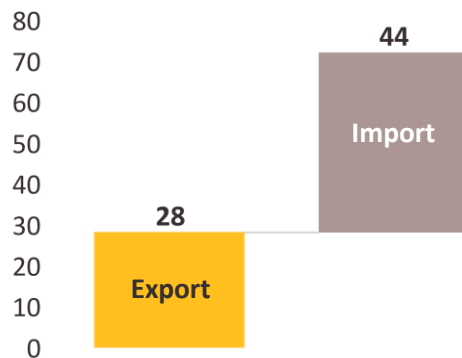
IMF's Annual Growth Projections (% YoY)

Average growth during 2015-2019: 6.5%



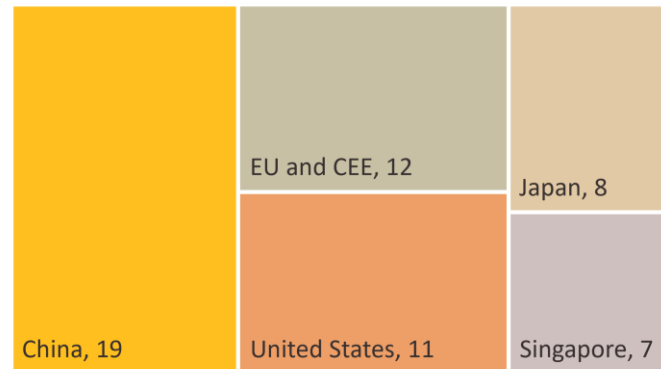
Trade openness at 72% to GDP

% of GDP, 2022



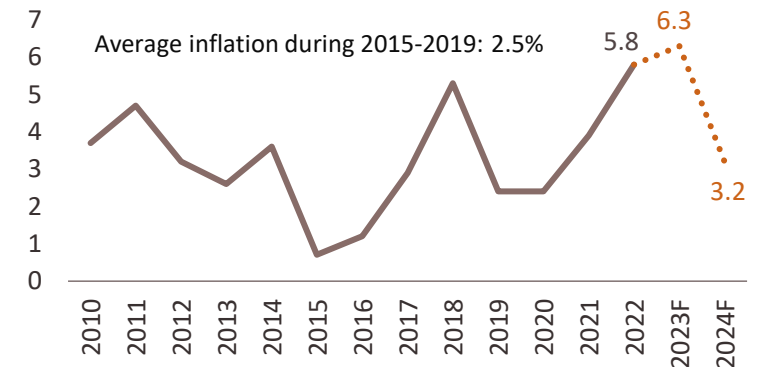
Share of export partners

% of total export



IMF's Annual Inflation Projections (% YoY)

Average inflation during 2015-2019: 2.5%

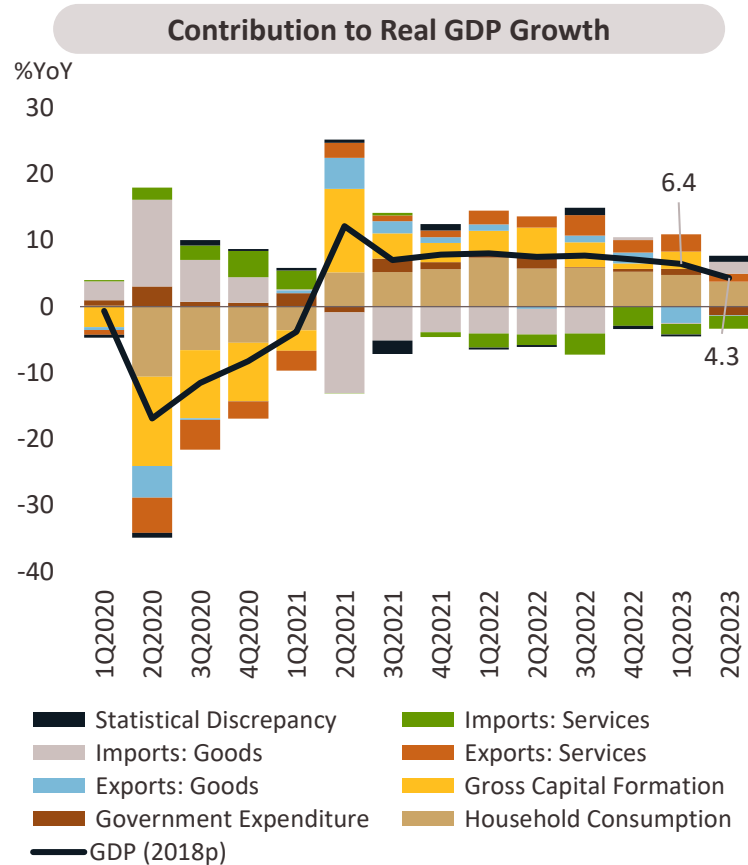


Source: World Bank, WTIS, CEIC, IMF WEO Database (Apr 2023), and Krungsri Research

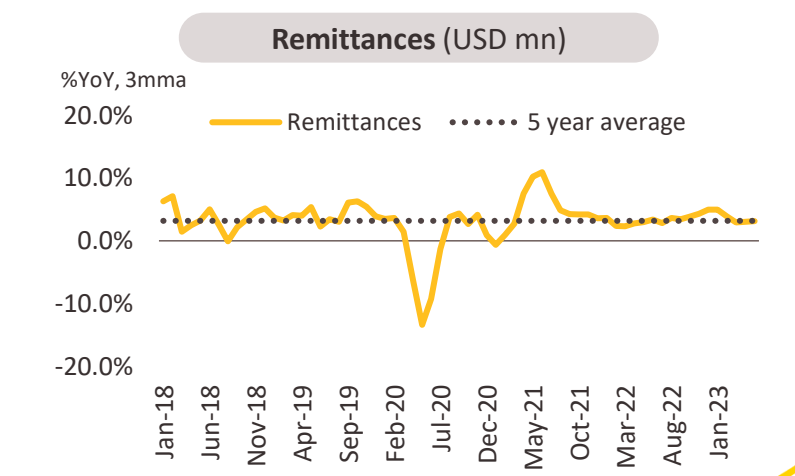
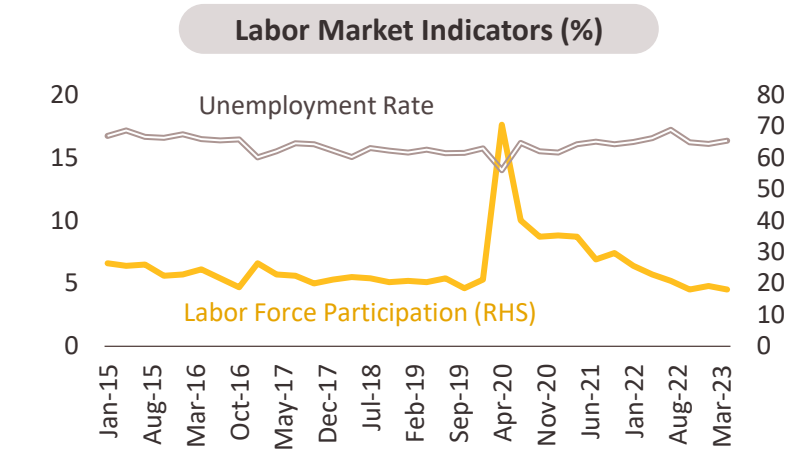
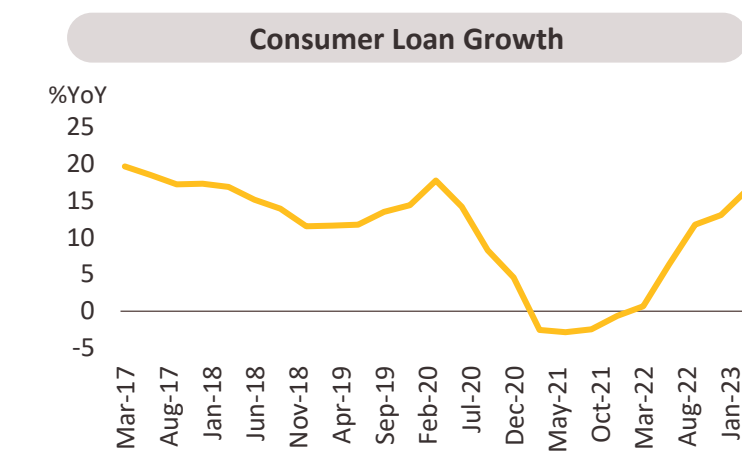
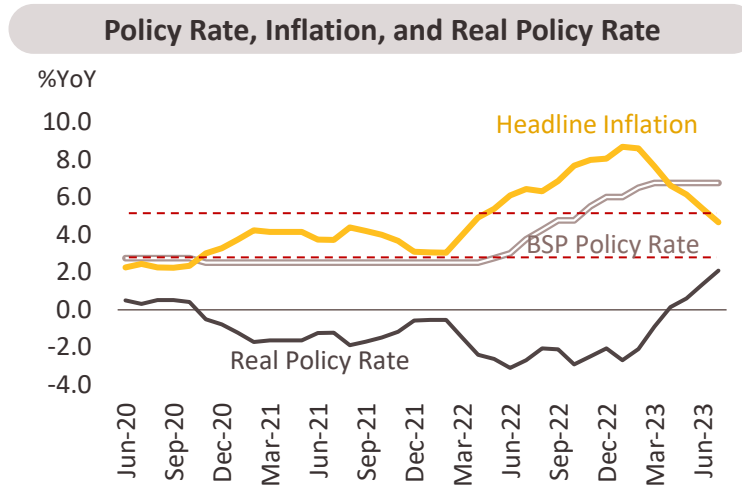
Post-pandemic recovery has matured, rising real rates could hamper economic activity



Growth has started to slow across the board, reflecting a mature post-pandemic recovery and the impact of rising interest rates. Real rates have turned positive and continued to rise as inflation recedes and policy rates rise. Looking ahead, with final consumption making up almost 80% of the country's nominal GDP, **key growth drivers in 2023 and early next year would remain domestic demand**. Manufacturing PMI remains above 50, the labor market is solid, credit growth is resilient, and remittances are stable (accounting for 10% of GDP), suggesting relatively strong consumption momentum. However, **positive real rates will pressure consumer credit growth and domestic activity**. Higher borrowing costs and uncertain demand prospects could dampen investment activity in the near term. Furthermore, the central bank's fiscal consolidation plan will not support growth.



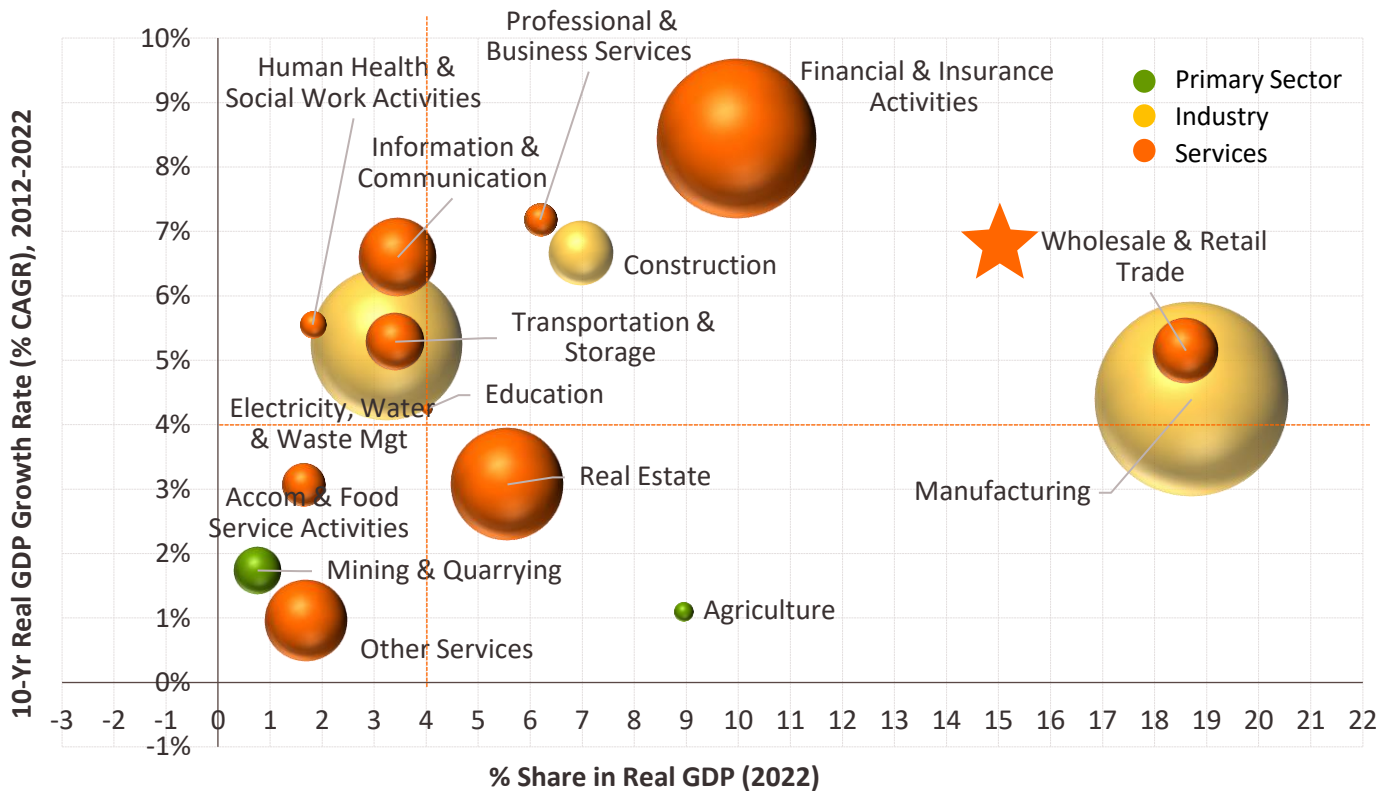
Source: CEIC and Krungsri Research



Over the medium-term, pursuing reforms and infrastructure overhaul to ensure strong growth amid structural challenges



Philippines' Growth Drivers and Potential Sectors



Note: Size of the bubble represents % share of cumulative FDI inflows (2010-2022) by sector; 10-yr Real GDP growth rate (CAGR) between 2012-2022 is 4.9%
 Source: CEIC, IMF, World Bank, WEF, ADB, AMRO, PwC, McKinsey, and Krungsri Research

Key drivers and challenges for Philippines

Key drivers

- **Economy is projected to grow by 6.2% p.a. over the next 5 years** driven by household consumption, investment, and exports.
- **Large domestic market.** Sustainable growth supported by strong consumer spending along with a favorable demography (working-age population to grow by 1.5% p.a. up to 2030).
- **RCEP Agreement** ratified in February 2023 will benefit the export sector.
- The government has launched several infrastructure projects through the public-private partnership initiative, which will lead to a faster capital accumulation
- **Continue to implement reforms** to improve the Philippines' competitiveness and to attract FDI.
- **To introduce a digital national ID system to support the digital economy.**
- **Allow digital banks** to operate in the country to promote financial inclusion.
- **CBDC** launched a platform to enhance the country's payment system and reduce cross-border transaction costs.

Challenges

- Quality and coverage of infrastructure
- Philippines is among the most susceptible to natural disasters.

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