15 December 2023

ASEAN in Focus

Economics
ASEAN

Growth recovering as inflation cools

- With green shoots emerging in exports, we expect trade to stabilise across ASEAN next year
- Cooling inflation may open the door to rate cuts in some parts, but the cycle could prove quite shallow
- All considered, much of the region should see respectable growth in the Year of the Dragon

Indonesia is facing elections amid growth that's set to tick along, and could see household spending pick up steam. **Thailand** is grappling with weak investment, but fiscal easing offers a welcome boost. **Malaysia** should see improvements as well, helped by steadying exports. **The Philippines** is on course to deliver another impressive year, achieving the second-highest growth rate in ASEAN, after **Vietnam**, which should enjoy a snap-back from a challenging 2023. **Singapore**, meanwhile, more exposed to global fluctuations than most, should benefit as well from stabilising demand across the region in 2024.

Economy profiles

Indonesia | *Malaysia* | *Philippines* | *Singapore* | *Thailand* | *Vietnam*

Key upcoming events

Date	Event
1-8 Jan	**Philippines** CPI, December
1-5 Jan	**Indonesia** inflation, December
2 Jan	**Vietnam** Manufacturing PMI
24 Jan	**Malaysia** interest rate announcement
Jan	**Malaysia** GDP 4Q
7 Feb	**Thailand** interest rate announcement
8-15 Feb	**Singapore** GDP 4Q
19 Feb	**Thailand** GDP, 4Q
7 Mar	**Malaysia** interest rate announcement

Source: Refinitiv Eikon, HSBC

HSBC

Indonesia

Indonesia will have a new president nex year

The tide is turning

It's politics... **Indonesia will have a new president in 2024**, given President Jokowi cannot stand again due to a two-term limit. The leading presidential candidate must secure 50% of the votes in the 14 February elections; otherwise, there will be a run-off on 26 June. Prabowo Subianto is leading in the polls currently, and, while under 50%, his share of the vote looks to be rising (Lembaga Survei Indonesia, November 2023).

GDP growth was soft in the third quarter

But not just politics. Even the state of the economy could change in 2024. Recall that Indonesia was an oasis of stability in the last few years, with inflation, the current account and fiscal deficit, all under control. **What gave way was the growth recovery.** As evidenced by tepid credit growth, GDP growth was soft (e.g. 4.9% in the September quarter versus 5.3% potential growth), led by tight fiscal and monetary policy, and exacerbated by China's soft recovery, which is an important trade partner.

In fact, **weak credit growth was a key reason for the macro stability Indonesia enjoyed**. Firstly, low credit growth means that much of the banking sector's excess liquidity remained captive, and did not spill out into the real economy, stoking inflation. Secondly, low credit growth reflected higher 'net' household saving, keeping the current account balance (CAB) strong (recall CAB = Saving - Investment). Thirdly, low credit growth meant that banks didn't have to scramble for liquidity, thereby keeping deposit rates low; in fact, keeping deposit rates lower than bond yields incentivised domestic investors to move towards buying government bonds, helping fund the fiscal deficit.

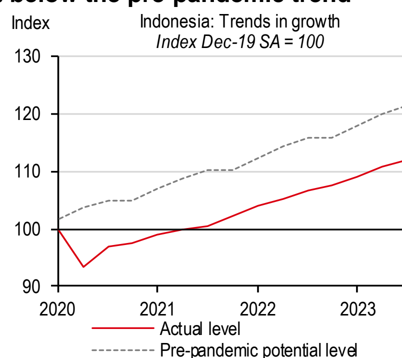
Bank credit growth and FDI inflows are supporting GDP

But all of that could gradually change. **Bank credit growth seems to be picking up across the board**, steadily getting back to long-term averages, and could rise further if Bank Indonesia (BI) cuts rates in 2024. **There is also substantial foreign direct investment (FDI) waiting on the side-lines**, which could manifest once elections are over. USD30bn of foreign investment has already happened in the processed metals space over the last few years, with an equal amount waiting on the side-lines, as per our analysis of FDI intentions. Meanwhile, USD45bn of investment intentions have been announced in the EV space (i.e. batteries and autos). **We forecast GDP growth to average 5.2% in 2024 versus 5.0% in 2023.**

GDP growth picking up, with focus still on macro stability

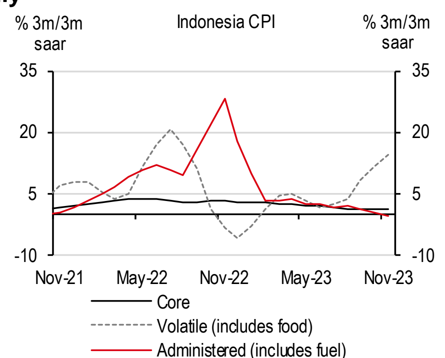
In fact, Indonesia is one of the economies where the next decade's growth **will likely be higher than the previous decade's growth**, as the economy climbs up the manufacturing value chain – from ores, to processed metals and EVs. In fact, we forecast that growth will accelerate by 0.5ppt over the medium term; a keen focus on macro stability will be central to that.

GDP is c12% above pre-pandemic levels but 8% below the pre-pandemic trend



Source: CEIC, HSBC estimates

'Volatile CPI' inflation has been rising since July



Source: CEIC, HSBC

Malaysia

3Q GDP growth surprised on the upside

The emergence of green shoots

Due to a delayed hit to its export performance, Malaysia's growth slowed notably in 2Q23, a reminder that no export-oriented economies could escape the global trade downturn unscathed. However, **positive signs of recovery have emerged in 2H23, with higher-than-expected GDP growth of 3.3% y-o-y in 3Q23** – an impressive performance, as Malaysia saw a significantly high base of 14.1% y-o-y in 3Q22.

The improving electronics cycle is benefiting exports

Granted, Malaysia is still grappling with a downturn in global trade. The manufacturing sector contracted by 0.1% y-o-y in 3Q23, a small downturn after a positive 0.1% growth in 2Q23. Trade also showed a similar trend, with exports declining by single digits in October. The weakness was mostly led by a sharp correction in global commodity markets, particularly oil, LNG and palm oil. But the nascent recovery in the global electronics cycle, as seen in peers like Korea and Singapore, **provides some hope that Malaysia's exports are seeing the light at the end of the tunnel**. After all, consistent FDI continues to pour into Malaysia, making it still one of the top recipients in ASEAN. The added capacity should enable **Malaysia's manufacturing sector to rebound strongly when the trade cycle turns**.

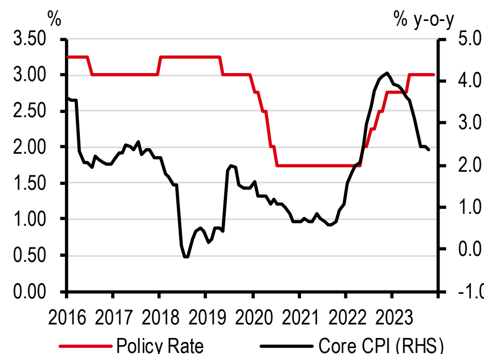
Tourism continues to pick up

In addition to the green shoots in trade, **Malaysia's tourism-related sectors continue to provide much-needed support**. In particular, Malaysia is among the frontrunners in ASEAN in attracting Chinese visitors. The tourism outlook has brightened further, after the recent announcement of China and Malaysia's mutual visa exemption programme, making it more competitive among regional peers, not only in attracting tourists, but also potential investors. We recently raised our growth forecast to 4.1% (from 3.8%) for 2023 but retained our 2024 forecast at 4.5%, accounting for the better outturn in 3Q and a gradual uplift in the trade cycle.

Headline inflation continues to cool

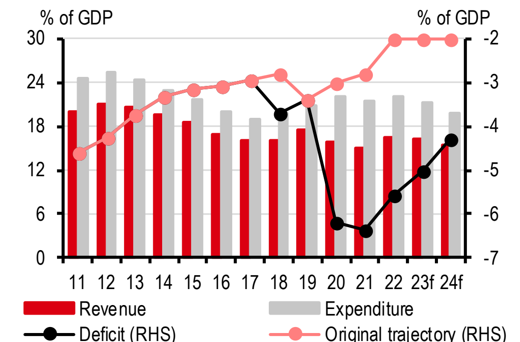
Meanwhile, inflation has been well contained. **Headline inflation continued to cool in 3Q, to below 2% y-o-y, the second lowest rate in ASEAN**, after Thailand. Quite positively, the impact from a recent rally in global rice prices has been partially blunted, thanks to the government's efforts to ramp up domestic supply. But, upside risks to inflation remain, particularly from the changes in the 2024 budget, including a 2ppt hike in the services tax and some cuts to fuel subsidies. We forecast headline inflation of 2.5% for 2023 and 2.4% in 2024.

Core inflation continues to cool, allowing BNM to remain on hold



Source: CEIC, HSBC

Malaysia expects a smaller fiscal deficit of 4.3% of GDP in 2024 budget



Source: CEIC, HSBC

Philippines

GDP growth ran above expectations in 3Q

Strength in numbers

The Philippine economy still found momentum to run the engines in 3Q 2023, **growing at 5.9% y-o-y, well above what the market had expected**. After this impressive clip, the archipelago is now well poised to become the fastest-growing ASEAN economy in 2023 despite seeing the fastest inflation rate and most aggressive monetary tightening. We recently raised our full-year GDP forecast for 2023 to 5.3% (from 4.8%) and acknowledged the archipelago's robust display of resilience.

The labour market is booming…

It helped that the Philippines was better insulated from the global headwinds relative to other economies. However, the main engine that kept the economy going was its people. **The country's labour market is currently booming with the unemployment rate the lowest in history**, but with the labour force participation rate high. In absolute terms, there are roughly three million more people working compared to what the historical trend would suggest, with many using digitalization as leverage to seek employment in the informal sector. Yes, these jobs may not be the best in the world, but there is no doubt that what has been supporting growth amidst the challenges in 2023 was 'strength in numbers,' or having more hands on deck in the economy. And with a median age as young as 25 years old, this unique characteristic of demographic resilience should help buoy the Philippine economy for years to come.

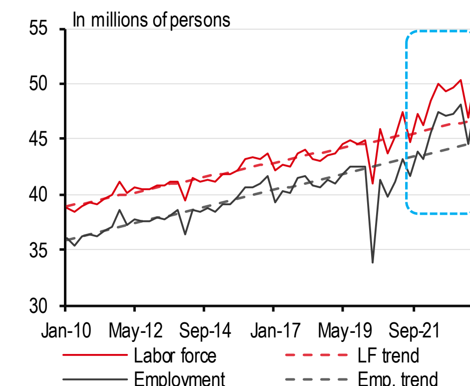
…but inflation ticked up while monetary policy is tight

This isn't to say that the Philippines is in the clear. We still expect growth to come in softer than historical trend due to several domestic headwinds. For instance, headline **CPI flared up** in October as global rice prices surged, while **monetary policy will likely remain tight** to maintain balance in the economy. True, consumption by households and credit by large banks have been growing at their slowest pace since the Global Financial Crisis (barring the COVID-19 pandemic) and they have yet to enter their troughs. Investment, however, should continue to support growth with the government determined to continue its ambitious goal of spending 5% of GDP on infrastructure.

We don't expect the central bank to cut rates until 3Q'24

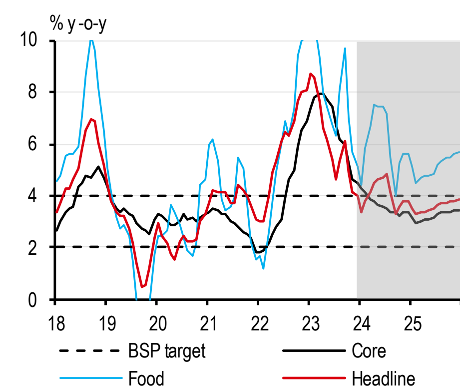
Although growth will likely be softer than usual, **we don't think the Bangko Sentral ng Pilipinas (BSP) will cut its policy rate anytime soon from 6.50%**. Inflation will likely remain problematic until 2H 2024 while it is unlikely that the BSP cuts ahead of the Federal Reserve (Fed) to lend some support to the currency. We only expect the BSP to cut by 25bp after the Fed begins its easing cycle in 3Q 2024. We then expect the BSP to follow the Fed's pace, cutting by 25bp in each quarter until the policy rate normalises at 5.00% by 4Q 2025.

Supporting growth is the resilient labour market, with employment exceeding trend



Source: CEIC, HSBC

We expect headline CPI to flare up in 2Q 2024 and exceed the BSP 2-4% target band



Source: CEIC, HSBC. Grey area represents HSBC forecasts.

Singapore

GDP growth was broad-based in 3Q

Manufacturing is showing signs of improvement

Travel-related services has further room to improve

Core inflation continues fall

Waiting for the tech boom

After narrowly avoiding a technical recession in 2Q23, the worst seems to have passed for Singapore as its GDP rose by 1.4% q-o-q in 3Q23. More importantly, **this growth has been broad-based**.

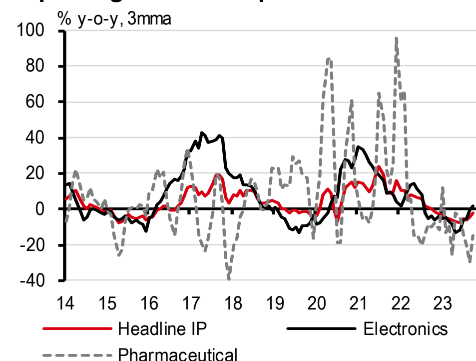
This is mostly evident in its key manufacturing sector, which has been in the doldrums for over a year. While external demand remains sluggish, **the manufacturing sector saw its first sequential growth in 2023**, though the magnitude was still marginal. In particular, a few green shoots appeared in electronics production, which grew double digits in October and November on average. While the recovery in the global electronics cycle is still at a nascent stage, it provides hope for tech-heavy economies of a key growth driver for 2024. Yet, we caution on the magnitude of the rebound.

Despite trade weakness, domestic demand provided much-needed support. After a few quarters of strength, private consumption still shows positive momentum from a tight labour market but reflects early signs of cooling from rising retrenchments. Also, **travel-related services are driving growth**, **but with potential to improve further**, as few sectors are yet to return to pre-pandemic levels. With the arrival of winter in the northern hemisphere, Singapore's aviation industry is set to benefit sizeably. All in all, we forecast GDP growth of 1.2% for 2023 and 2.4% for 2024, on the back of an ongoing recovery in travel and a modest turn in the tech-led global trade cycle.

In addition, disinflation continues to be the dominant theme, **with core inflation consistently cooling from its peak of 5.5% y-o-y to 3.3% y-o-y lately**. However, October's higher-than-expected core inflation reminds the market that this remains sticky, and it is still a long process for inflation to decelerate to the Monetary Authority of Singapore's (MAS) comfort zone. We forecast core inflation of 4.1% for 2023, but recently raised our 2024 forecast to 3.1% (from 2.9%) given upside risks from energy shocks and planned administrative hikes next year.

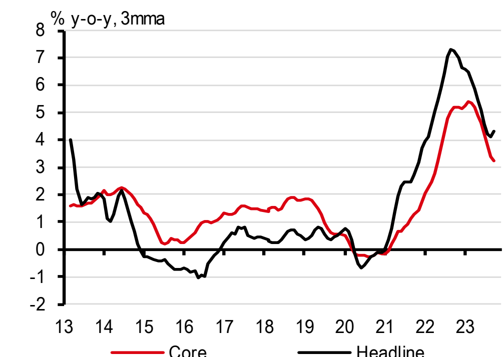
While the MAS will shift its focus from inflation to growth next year, **imminent upside risks to inflation will constrain the MAS to start reversing its tightening cycle**. We only expect the MAS to reduce its SGD Nominal Effective Exchange Rate (NEER) slope in April 2024 at the earliest.

IP has started to bottom out, led by improving electronics production



Source: CEIC, HSBC

Core inflation has continued to decelerate but remains elevated



Source: CEIC, HSBC

Thailand

GDP remains below pre-pandemic levels

Forward-looking indicators appear lackluster

Cash hand outs should boost consumption in 2024

After all the jitters

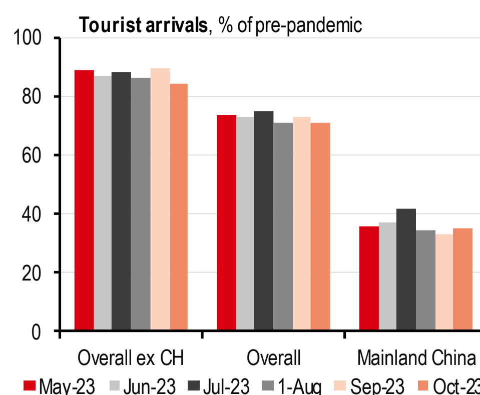
Many expected 2023 to be the year that the Land of Smiles would stage a strong recovery with the return of Chinese tourists, the economy's biggest source of visitors, supporting the economy amidst Thailand's election cycle. But the recovery of Chinese tourists wasn't just slow. It even reversed mid-year, **leading to growth surprising to the downside for three consecutive quarters**. Thailand also didn't see its trade cycle turn as positively as its ASEAN peers. As a result, **GDP is still below pre-pandemic levels**, which is also reflected in the underperformance of its financial markets.

Will the Thai economy shake off its economic woes in 2024? **Forward-looking indicators don't look so promising**. PMI new orders have plunged, the recovery of tourism has stalled, and exports to the US, Thailand's top export destination, are expected to soften. The manufacturing production index (in terms of value) has fallen for 13 consecutive months due to competition from China and demand for hard disk drives falling – a structural issue the Thai economy has recently been grappling with. Travel sentiment from prospective Chinese tourists also remains weak as concerns over safety continue to linger. We don't think the economy's recovery is stuck, but it is pretty clear that Thailand's export engine is sputtering.

To get moving again, the authorities are looking to the economy's domestic drivers for help. In the first four months in office, the new government has been generous in providing subsidies: diesel and gasoline prices were cut, electricity tariffs were lowered, sugar prices were controlled, and train fares were capped. This has resulted in headline CPI falling to negative territory, which, in turn, boosted consumption. In fact, the Bank of Thailand's (BoT) private consumption index is growing near its fastest pace, barring the COVID-19 pandemic. And as its main policy for 2024, the government is determined to stimulate the economy and empower consumers through a THB10k digital cash hand-out scheme worth 2.6% of GDP. **This should bolster consumption in the Year of the Dragon, and we expect growth to accelerate from 2.5% in 2023 to 3.8% in 2024**. Other policies should also provide some fuel to growth, such as Thailand's visa-free schemes to attract in tourists, as well as subsidies for electric vehicle production to spur investment.

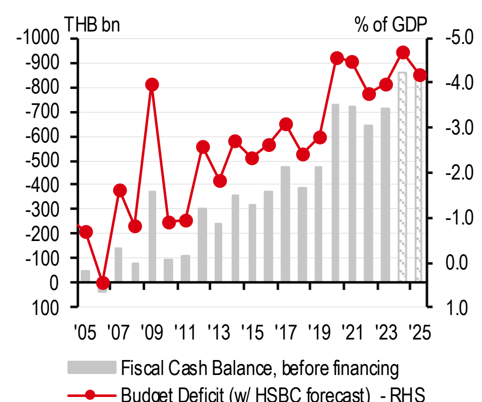
Nonetheless, a fiscal stimulus of this size can stoke concerns over inflation. Mindful of this risk, we expect the BoT to stay pat and let fiscal policy do the work in supporting growth.

The tourism recovery has stalled due to the reversal of Chinese visitors



Source: CEIC, HSBC

The THB10k digital cash hand-out will likely widen the fiscal deficits in 2024 and 2025



Source: CEIC, HSBC. 2023 to 2025 are HSBC forecasts

Vietnam

Improving trade has lead to stronger GDP growth

Electronics shipments have been the standout

Manufacturing FDI is booming

Inflation appears broadly under control

Cautious optimism

2023 was no doubt a tough year for Vietnam's economy. Fortunately, the worst looks to have passed, as Vietnam's GDP growth has recovered to 5.3% y-o-y in 3Q, from subdued growth of below-4% y-o-y in 1H. **This is thanks to early signs of improving trade**, which has strengthened into 4Q, though in part due to favourable base effects.

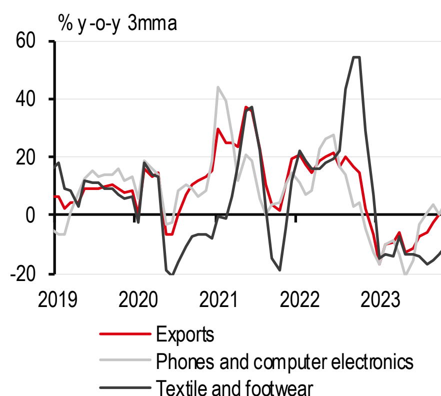
That said, **the recovery is uneven**. In particular, electronics shipments have been driving a gradual recovery in exports. However, other major exports, such as textiles and footwear, remain under pressure, leading to sizeable layoffs. For instance, Garmex Saigon Corporation, a textile giant, reportedly laid off 2,000 workers this year alone (*VNExpress*, 29 October). This suggests that it may take a while to see a broad-based recovery in trade.

However, a more gradual trade recovery does not mean a subdued investment landscape. In fact, **newly registered manufacturing FDI is at record highs**, a reflection of Vietnam's ongoing attractiveness as a rising manufacturing hub. What is even more encouraging are signs of higher value-added manufacturing capability, exemplified by the inauguration of US-based Amkor's USD1.6bn chip factory. One recent development that merits attention is Vietnam's approval of a global minimum corporate tax of 15%, which will impact a handful of large multinational corporations (MNCs) in the manufacturing space.

Overall, we forecast 2023 GDP growth of 5.0%, but we recently trimmed our 2024 forecast to 6.0% (from 6.3%), given the uncertainty in the magnitude of a trade turnaround next year.

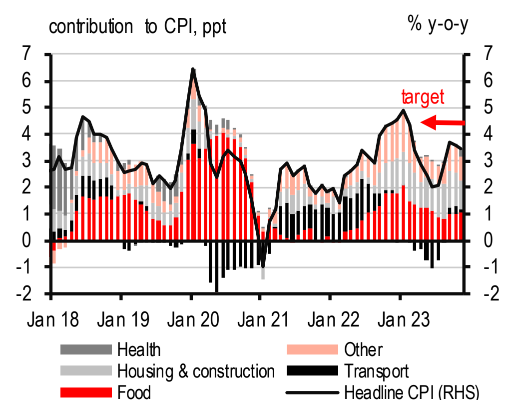
Meanwhile, **inflation has been broadly in check, moderating to 3.5% y-o-y in November**, well under the State Bank of Vietnam's (SBV) 4.5% target. Despite lingering upside risks from food and energy, underlying price pressures are on a steady disinflation trajectory. Therefore, we expect inflation to come in around 3.3% in 2023 and 3.4% in 2024. This will warrant the SBV to stay put throughout our forecast horizon.

Vietnam's exports have been improving, led by electronics



Source: CEIC, HSBC

Inflation remains well below the State Bank of Vietnam's 4.5% target



Source: CEIC, HSBC

Disclosure appendix

Important disclosures

Additional disclosures

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