ASEAN in Focus

Economics
ASEAN

Staying the course

- Surging exports are providing a powerful boost to growth across much of ASEAN…
- …while foreign direct investment continues to remain a bright spot for the region
- Easing inflation and interest rates should provide a cushion beyond the Year of the Dragon

Indonesia looks to pick up a little steam as well next year, though it will need to heed the pitfalls of easy choices and fiscal slippage to make gains stick for the long term. Things are also ticking up in **Thailand**, as a new government gets to work, and the tourism recovery continues apace. **Malaysia** is riding the wave of inward investment, though growth may cool at the margin over the coming year. **Singapore**, meanwhile, is chugging along, with its growth so far this year better than hoped, though slower global trade could soon add a little drag. **The Philippines** is taking a little breather this year, before revving up again in 2025 as inflation tumbles and spending power increases. **Vietnam** has overcome its dip in growth, helped by a robust external sector, while local demand is reviving.

Economy profiles

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

Key upcoming events

Date	Event
14 Oct	**Singapore** GDP
16 Oct	**Thailand** interest rate announcement
16 Oct	**Philippines** interest rate announcement
16 Oct	**Indonesia** interest rate announcement
1 Nov	**Indonesia** inflation
1 Nov	**Vietnam** manufacturing PMI
6 Nov	**Malaysia** interest rate announcement
18 Nov	**Thailand** GDP
20 Nov	**Indonesia** interest rate announcement
2 Dec	**Indonesia** inflation

Source: Refinitiv Eikon, HSBC

HSBC

Indonesia

A new innings

Following the election in February, the General Election Commission (KPU) announced in March that Prabowo Subianto has won an outright majority, garnering 58.6% of the votes, and is set to be Indonesia's next president, starting on 20 October. All eyes are now on the key people and policies the new government champions. The continued presence of technocrats in key ministerial posts would signal a desire to push ahead with reforms, and the final legislative count will determine the parliamentary muscle power behind potential reforms.

Reforms likely to continue but challenges persist

Prabowo has spoken at length about continuing current President Jokowi's reforms – **embarking on down-streaming 2.0 and continuing the infrastructure build-out**. However, we believe there will be challenges along the way: for instance, slower global demand for nickel electric vehicle (EV) batteries, lowering Indonesia's carbon footprint, and restructuring certain state-owned enterprises (SOEs). Prabowo has outlined plans to upgrade defence systems and enhance social welfare schemes (in particular a new free lunch programme at schools). The challenge is to keep a lid on the fiscal deficit and hold on to Indonesia's well-maintained macro stability over the next five years.

We do believe that a **decade of reforms has put in place several buffers that would help keep the house in order**, at least in the short term. For instance, better infrastructure and lower logistics costs will likely keep a lid on core inflation, as has been clear in recent months. Supply-side reforms could help further control the rise in food inflation. And rising exports of processed metals will likely keep the external deficits manageable.

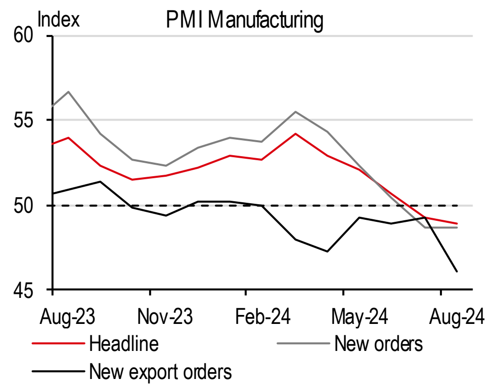
Lower rates and FDI inflows may boost growth prospects

For now, however, growth is rather weak. Q2 GDP was 7.8% below pre-pandemic trend levels. The contraction in July and August PMIs suggest that activity weakened into Q3. As Bank Indonesia (BI) cuts rates, the new government takes over and announces its vision, thereby lowering policy uncertainty, and FDI inflows waiting on the side-lines flow in, **we believe growth prospects could improve**. We expect GDP growth to rise from 5% in 2024 to 5.3% in 2025 and 2026.

Moving up the manufacturing value chain to boost potential growth

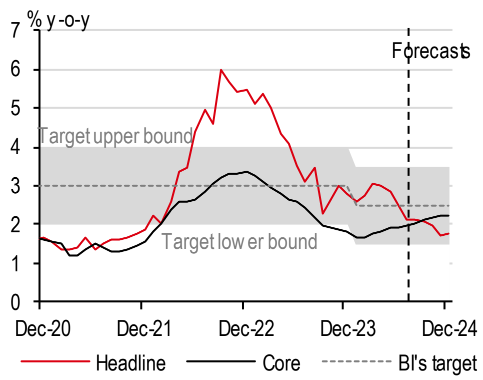
Our growth model suggests that switching to loose fiscal and monetary policy could help raise growth, but only partially. **Moving further up the manufacturing value chain**, and graduating from exporting just ores and metals, **to exporting EV batteries and EVs**, and thereby reducing the impact of commodity price shocks on the economy, could push potential growth to 5.8% by 2028.

PMI Manufacturing has slipped into contraction



Source: CEIC, HSBC

Inflation is well below BI's 2.5% target



Source: CEIC, HSBC

Malaysia

At full steam

After slow growth in 2023, Malaysia's economy has been roaring again, expanding by 5.1% y-o-y in 1H24. The momentum has also been impressive, hitting 2.9% q-o-q, seasonally adjusted, in 2Q. Beyond strong headline numbers, what is more encouraging is the breadth of the recovery.

Electronics shipments have returned to growth…

For one, the long-anticipated revival in manufacturing is rather outstanding. Albeit delayed compared to peers, Malaysia's manufacturing and trade sectors have finally turned the corner, riding the global tech upturn. After a long stretch of annual declines, **electrical and electronics shipments returned to growth** on a three-month moving average basis, albeit this remains at a nascent stage. Meanwhile, there is a mixed performance in commodities, with palm oil and LNG exports leading.

…while construction expanded in double digits

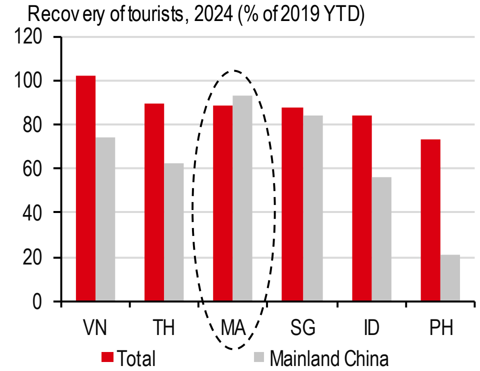
In addition to manufacturing, **what was a great surprise is the performance of construction**, which expanded by a double-digit y-o-y pace for the second consecutive quarter. Coupled with the expenditure side of the gross fixed capital formation data, this is not only related to the government's recent increase in public investment but also reflects rising interest in FDI-related large-scale projects. Meanwhile, services continue to show strength. Not only has private consumption shown resilience, but **tourism has also added much-needed fuel**, as Malaysia has welcomed tourists equivalent to 90% of its pre-pandemic levels.

Given the upside surprise in 2Q, we recently upgraded our GDP growth for 2024 to 5.0% (previously: 4.5%), while keeping 2025 growth at 4.6%.

We expect interest rates to stay on hold for a while

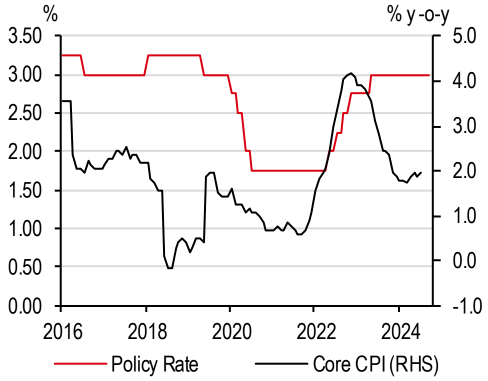
Outside of growth, inflation pressure remains largely muted, despite diesel subsidy rationalisation in June. Headline inflation averaged around 1.8% y-o-y in the first seven months of the year. Even after taking into account unfavourable base effects, we expect manageable inflation. We forecast inflation at 2.3% in 2024 and 3.0% in 2025, though acknowledge uncertainty from the potential subsidy rationalisation on the petrol RON95. Our base case is for Bank Negara Malaysia (BNM) **to keep its policy rate steady at 3.0% for a prolonged period**. As long as inflation falls within BNM's 2-3.5% forecast range, we do not expect the central bank to move. That said, the risk of a hike is higher than a cut in Malaysia, compared to regional peers.

Malaysia has seen a near-full recovery in mainland Chinese tourists



Source: CEIC, HSBC. Note: YTD is July for all except MA (June).

Inflation has remained manageable, providing room for BNM to stay on hold



Source: CEIC, HSBC

Philippines

Red-eye flight to easing

The Philippines started its easing cycle in August…

The Philippine central bank, Bangko Sentral ng Pilipinas (BSP), **embarked on its easing cycle in August**, cutting its policy rate by 25bp to 6.25% – even before the Federal Reserve (Fed) had lowered its policy rate.

It is good to look back to see how impressive this was. From 2022 to 2023, not only was inflation in the Philippines the highest in ASEAN, but the economy's current account deficit was as wide as it was in the run-up to the Asian Financial Crisis. Many, including HSBC, thought that monetary policy in the Philippines had the least independence from the Fed when compared to others in ASEAN.

…as headline inflation dropped below 3% y-o-y

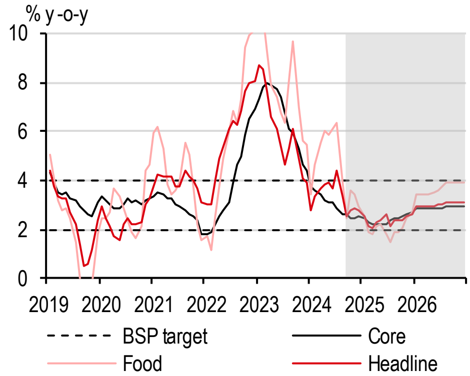
However, the Philippines in 2024 held itself together and turned the corner. The authorities cut the tariff for rice – the country's most ubiquitous staple – from 35% to 15%, **setting the stage for headline inflation to ease to below 3% y-o-y**, or to within the lower bound range of the BSP's 2-4% target band. The current account deficit is also moderating at a pace faster than expected, thanks to the economy's Business Process Outsourcing (BPO) sector booming over the past year. This provides the BSP with inflows to help strengthen the peso and some support to wiggle away from the Fed. And, given how far inflation can still ease, the BSP already signalled that more rate cuts are to come.

Rate cuts should stimulate growth in 2025 & 2026

The easing cycle comes at a good time. Although growth in the Philippines has held up relative to the rest of Asia, some cracks are already showing. For instance, growth in household consumption dipped to its lowest level since the Global Financial Crisis, barring the COVID-19 pandemic, while growth in durable equipment investment has fallen for the second consecutive quarter. Credit in the economy also remains weak with the cost of borrowing high. That said, we expect the BSP's easing cycle **to reinvigorate small- to medium-scale investments and reduce the debt burden of households**, bolstering growth in 2025 and 2026. We are even more bullish on next year's prospects, with the tariff rate cut on rice potentially freeing-up 1.1% of the economy for growth.

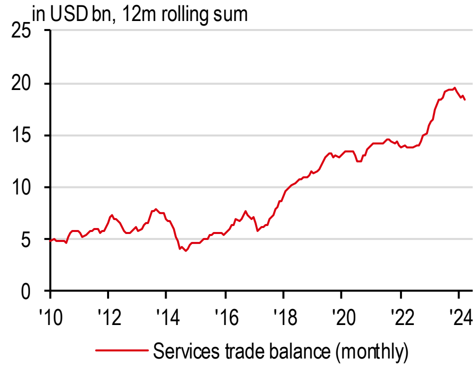
With inflation on its way down but nothing terrible happening to GDP, we expect the BSP's easing cycle to be gradual. We expect only one more 25bp rate cut (to 6.00%) in 2024 and pencil in a total of 100bp worth of rate cuts in 2025, bringing the year-end policy rate to 5.00%. We think the easing cycle will end in 2025, so we expect the policy rate to remain at 5.00% throughout 2026.

Due to the tariff reduction on rice, we expect inflation to be below 3% in 2025



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

The services trade surplus widened in 2023-24 due to a boom in BPO exports



Source: CEIC, HSBC

Singapore

A mixed bag

Singapore has made good progress in its economic recovery in 2024. While the possibility of a technical recession was still on the cards in 2Q23, the recovery momentum continues, helping Singapore to emerge from a severe downturn in the trade cycle to see healthy growth of c3% y-o-y in 1H24.

Consumer electronics is set to lead Singapore's recovery

While manufacturing remained in contraction, the magnitude was much smaller, and it is also a mixed story. The culprit was falling pharmaceutical output, which is volatile in nature, and could swing back to growth later. Electronics output still saw a decent recovery, though the pace lags behind other tech-exposed economies like Korea and Taiwan. But this is because they have heavier exposure to Artificial Intelligence (AI)-related production, and **Singapore is set to ride a broader recovery in consumer electronics**.

Services came in better-than-expected

Despite still subdued manufacturing activity, **better-than-expected services came to the rescue**. But it is also a mixed bag. On a sequential basis, domestically oriented sectors fared better, while consumer-facing and travel-related ones saw large corrections in 2Q. But this was largely expected, as a busy line-up of large-scale international concerts was concentrated in 1Q. That said, there is still potential to grow further. Singapore has welcomed visitors equivalent to almost 90% of 2019's level in 1H24. July saw for the first time the return of Chinese tourists exceeding the monthly 2019's level.

All in all, we recently upgraded our growth forecast to 3.0% (previously: 2.4%) for 2024 and maintain our 2025 growth forecast at 2.6%.

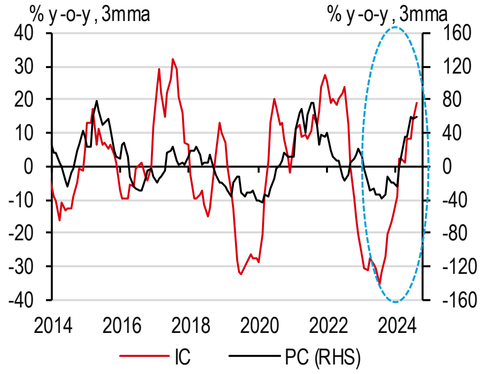
Core inflation continued to decelerate in July…

In addition, the disinflation progress also continues with **core inflation decelerating to 2.5% y-o-y in July**. Services inflation like education and healthcare continued to trend down, but entertainment-related costs barely budged. Most importantly, fuel and utilities cost momentum was muted, and oil prices are likely to stay relatively range-bound for now. As such, we recently revised down our core inflation forecast to 2.8% for 2024 (previously: 3.1%) and 1.9% for 2025 (previously: 2.2%).

…although we do not think the MAS will cut rates soon

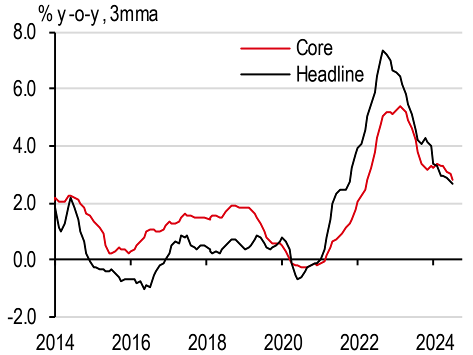
Despite cooling inflation, **we do not believe this will prompt the Monetary Authority of Singapore (MAS) to ease anytime soon**; at least inflation trends on their own may not be enough to warrant an easing bias from the MAS.

Singapore's semiconductor NODX has rebounded to double-digit growth



Source: CEIC, HSBC

Core inflation has been consistently slowing



Source: CEIC, HSBC

Thailand

It's complicated

Manufacturing and goods exports picked up steam

Thailand's GDP growth accelerated to 2.3% y-o-y in 2Q 2024, with its fiscal engines finally up and running, despite delaying the release of its budget for six months. The **manufacturing production index in July also at last turned positive** after falling for roughly 21 months, while **goods exports leaped** by 21.8% y-o-y as Thailand benefitted from the global tech upcycle. This coincides with the PMI new orders index, which just turned expansionary for the first time in 12 months back in July. All in all, it seems the economy is finally revving up. We expect Thailand to stage a V-shaped recovery for the remainder of 2024, growing 2.7% and 3.7% y-o-y in 3Q and 4Q 2024, respectively.

However, a lot happened before the economy got to where it is now. Amidst tough competition from mainland Chinese imports, headline inflation dropped back to below the Bank of Thailand's (BoT) 1-3% target band, while the trade balance swung back into deficit. Thailand also saw its political landscape change quickly: in less than 48 hours after Srettha Thavisin was removed from office, parliament elected Paetongtarn Shinawatra as Thailand's youngest Prime Minister in history.

Although progress hasn't been a straight line, the general direction is improving. In fact, amidst the political volatility, **financial markets in Thailand finally ticked up** after underperforming for 12 straight months. The SET index in September jumped for the first time this year, while the THB nominal effective exchange rate (NEER) is nearing its pre-pandemic levels.

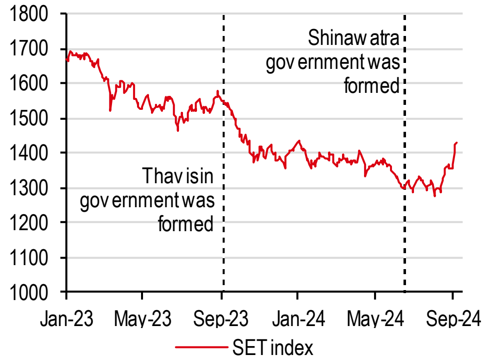
Government spending and tourism are fuelling growth, but headwinds persist

The Thai economy, however, isn't all in the clear. Yes, **government spending and tourism continue to fuel growth**. But headwinds persist in manufacturing and consumption. Competition from mainland Chinese imports may limit how far manufacturing can improve while Thailand's high household debt will likely be a major drag on private consumption.

We expect rates to stay on hold until at least 2027

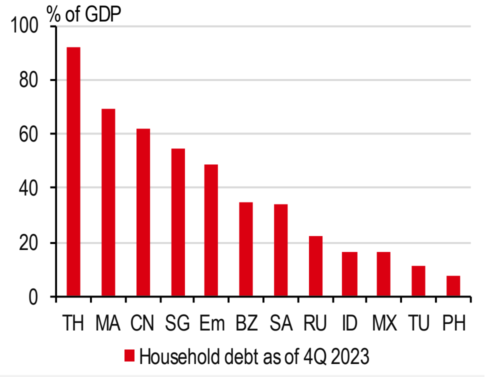
That's the complicated part. Although headwinds are strong and inflation is weak, **we do not expect the Bank of Thailand (BoT) to ease monetary policy from now until 2027**. Keeping the policy rate at 2.50% should help guide Thailand's much-needed deleveraging cycle, particularly on household debt.

The SET index finally turned after the new government was formed in August



Source: Bloomberg, HSBC

Household debt is a structural issue that the authorities have prioritised to tackle



Source: BIS, Macrobond, HSBC. CN – Mainland China, Em – Emerging, BZ – Brazil SA – South Africa, MX – Mexico, RU – Russia, and TU – Türkiye.

Vietnam

Waiting for further lift

Vietnam's growth surprised on the upside in 2Q…

Vietnam's economic recovery continues to firm up as the Year of the Dragon progresses. **Growth improved and surprised on the upside in 2Q24, rising 6.9% y-o-y in 2Q24**. The recovery in the external sector has started to broaden out beyond consumer electronics, although the pass-through to lifting the domestic sector still remains to be seen.

…helped by manufacturing and industrial production

For one, the manufacturing sector has emerged strongly from last year's woes. **PMIs have registered five consecutive months of expansion**, while industrial production (IP) has registered a bounce-back in activity for the textiles and footwear industry as well. This has supported robust export growth at double digits, with structural forces, such as expanding market access for Vietnamese agricultural produce, also underway.

However, retail sales are still lagging

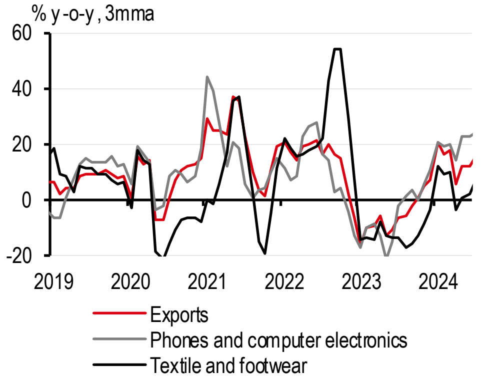
However, the domestic sector is recovering more slowly than initially expected, with **retail sales growth still below the pre-pandemic trend**. Encouragingly, the government has put in place measures to support a wide range of domestic sectors that is expected to shore up confidence with time. Environment tax cuts on fuel and value-added tax cuts for certain goods and services will last until year-end 2024, while the revised Land Law effective from August will buttress the outlook for real estate. Albeit still early, the latter seems to have already contributed to a boost in foreign investment in the sector, with recent FDI showing broad-based gains.

We believe the potential upside risks can offset the temporary economic disruptions from Typhoon Yagi. All in all, we forecast GDP growth at 6.5% for both 2024 and 2025.

Inflation is cooling as unfavourable base effects fade

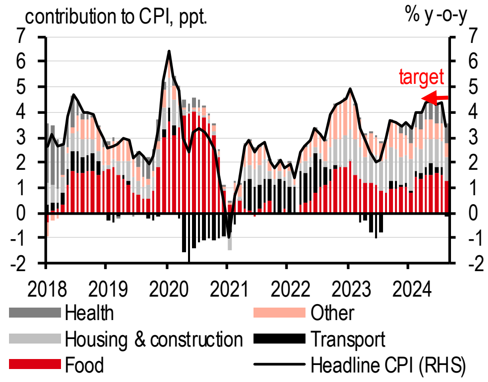
On inflation, **price developments are turning more favourable in 2H24**, as unfavourable base effects from energy have faded. An expected Fed easing cycle will also help to alleviate some exchange rate pressures. Taking all these into consideration, we forecast inflation at 3.6% in 2024 and 3.0% for 2025, both well below the State Bank of Vietnam's target ceiling of 4.5%.

Vietnam's key exports continue to recover, with signs of broad-based growth



Source: CEIC, HSBC

Inflation moderated notably in August and is expected to remain well below target



Source: CEIC, HSBC

Disclosure appendix

Important disclosures

Additional disclosures

1 This report is dated as at 07 October 2024.

2 All market data included in this report are dated as at close 04 October 2024, unless a different date and/or a specific time of day is indicated in the report.

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