ASEAN in Focus

Economics
ASEAN

Improving growth outlook

- Exports are starting to tick up, and consumption is proving quite resilient
- Easing price pressures are set to lend support, opening the door to rate cuts
- For all the jitters about growth, the Year of the Dragon should inspire confidence

Indonesia continues to impress, with resilient growth and low inflation. The latter, however, implies that the former may not be quite at its potential. Stronger credit growth, fortunately, hints at a pick-up in investment, and a new president might eventually loosen the fiscal reins. **Thailand** is counting on tourism to lift growth this year, amid weak investment due to deteriorating competitiveness. In **Malaysia**, growth is decent enough, led by foreign direct investment, though exports have yet to show the same vigour as among some peers. **Vietnam**'s shipments are doing better, and growth should rebound this year as a result. **Singapore**'s headline growth number masks the strength of its domestic economy. And **the Philippines** may deliver once again among Asia's highest rates of growth, helped more by its domestic vitality than the strength of its exporters.

Economy profiles

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

Key upcoming events

Date	Event
8 Apr	**The Philippines** interest rate announcement
9 Apr	**Thailand** interest rate announcement
11 Apr	**Singapore** GDP
24 Apr	**Indonesia** interest rate announcement
1 May	**Indonesia** PMI
1 May	**Vietnam** manufacturing PMI
2 May	**Indonesia** inflation
6 May	**The Philippines** inflation
9 May	**Malaysia** interest rate announcement
19 May	**Thailand** GDP

Source: Refinitiv Eikon, HSBC

HSBC

Indonesia

The tide is turning

Following the elections on 14 February, the General Election Commission (KPU) announced on 20 March that Prabowo Subianto has won an outright majority, garnering 58.6% of votes, and is set to be Indonesia's next president. 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.

Infrastructure build-out likely to continue

Prabowo has spoken at length about **continuing reforms from the previous adminsitration** – embarking on down-streaming 2.0, and continuing the infrastructure build-out. However, the slower global demand for nickel electric vehicle (EV) batteries, lowering Indonesia's carbon footprint, and restructuring certain state-owned enterprises (SOEs), pose challenges. Prabowo has also outlined plans to **upgrade defence systems and enhance social welfare schemes** (in particular a new free lunch programme at schools). The test here would be 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 several buffers in place**, which would help keep the house in order, at least in the short run. 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 control the rise in food inflation. And rising exports of processed metals will likely keep the external deficits manageable.

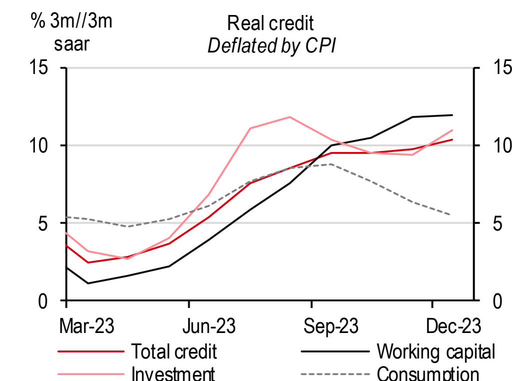
Rising credit growth may boost GDP growth further

Growth is likely to be **higher in the post-elections period**, led by: (1) a positive fiscal impulse, (2) the realisation of foreign direct investment (FDI) inflows waiting on the side-lines for election-related uncertainties to end, and (3) a recent rise in capacity utilisation and credit growth. The latter, in particular, has been rising across the board, and may get a shot in the arm when Bank Indonesia embarks on monetary policy easing. We expect GDP growth of 5.2% in 2024, versus 5% in 2023.

Potential growth rate lifting over the medium term

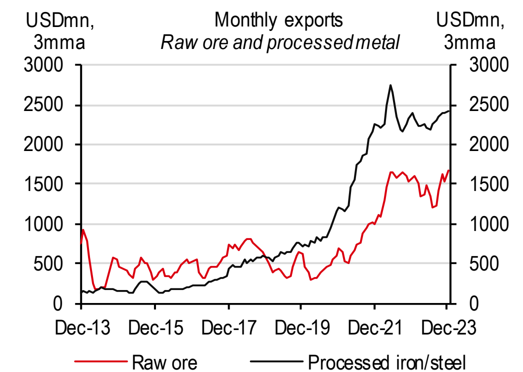
Moving to the medium term, we believe Indonesia is one of the economies where the next decade's growth will likely be higher than the previous decade's growth, **as the economy climbs up the manufacturing value chain**: from ores to processed metals and EVs. This is likely to benefit further from strengthening economic interlinkages with mainland China and stronger trade volumes within the ASEAN region. In fact, we forecast that **potential growth will accelerate** by 0.5ppt over the medium term, rising from 5.3% in the period before the pandemic to 5.8% by 2028.

Credit growth is rising



Source: CEIC, HSBC

Down-streaming has led to higher exports of metals



Source: CEIC, HSBC

Malaysia

Tech, tourism and targeted subsidies

The tech cycle recovery should support growth…

Similar to regional peers, Malaysia's economic growth slowed, to 3.7%, due to a severe downturn in the global trade cycle in 2023. What could move the needle of growth? Indeed, a pick-up in the global electronics cycle is key for tech-reliant economies, but there may be a delay in the transmission to Malaysia's economy: after all, the tech production and export downturn hit Malaysia about two quarters after some other economies in the region.

Still, **we believe Malaysia should benefit from the tech cycle recovery**. It is the only economy in ASEAN (besides Singapore) with foundries for chip testing and assembly. Tech manufacturing in Malaysia is largely labour-intensive, but its impressive gains in lower- to medium-end chips offer optimism for a stronger rebound when the trade tide turns.

…along with a pickup in the tourism sector

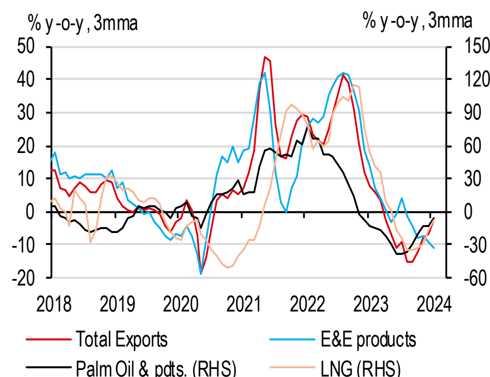
In addition, **the tourism sector is likely to provide much-needed boost to growth**. While Malaysia is not dependent on tourism to the extent of peers, such as Thailand, contributions from related sectors to the economy are fairly sizeable. Although ASEAN tourism has seen a tepid recovery so far, there are perhaps upside risks to Malaysia's tourism outlook. In particular, a visa-free scheme for mainland Chinese tourists, effective from 1 December 2023, is a potential game-changer. While ASEAN broadly saw tourists return to 70% of pre-pandemic's levels in 2023, Malaysia leads the region in seeing a return of mainland Chinese tourists (around 45%). Recall that, in 2019, tourism receipts accounted for over 6% of Malaysia's GDP, above Asia's average of around 4%.

All in all, we forecast GDP growth forecast at 4.5% for 2024, accounting for a gradual turnaround in the trade cycle and additional boost from the tourism sector.

Inflation has been under control

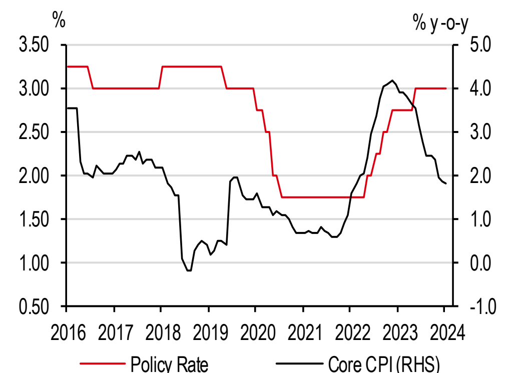
Meanwhile, **inflation has been well contained**. Headline inflation cooled from 2.5% on average in 2023 to only 1.5% y-o-y in January 2024. The impact from elevated global rice prices has been partially blunted, thanks to the government's efforts to ramp up domestic supply. That said, upside risks to inflation remain, particularly from the changes in the 2024 budget, including a 2ppt hike in the services tax and some cuts to fuel subsidies, as well as a weaker currency. We recently cut our 2024 inflation forecast to 2.2% (from 2.4%), but we are cautious on upside risks to inflation, given the uncertainty surrounding the exact timing of subsidy rationalisation.

Malaysia's external sector is only starting to see a turnaround, with electronics lagging



Source: CEIC, HSBC

Core inflation continues to ease at a steady pace, giving BNM room to hold



Source: CEIC, HSBC

Philippines

Goldilocks time?

Consumption and low unemployment driving growth

Last year, the Philippine economy saw the most severe inflation rate and the most aggressive monetary tightening cycle in ASEAN. And yet, it broke expectations and became the fastest growing ASEAN economy with full-year growth coming in at 5.6%, all while the Philippine government successfully consolidated its fiscal resources and brought debt-to-GDP down. Yes, being a **consumption-driven economy**, the Philippines was more insulated from the global headwinds relative to its ASEAN peers. But it was more than that. In December 2023, the country achieved its **lowest unemployment rate in history** at 3.1%. In absolute figures, there were 5.7 million more people working than what the demographic trend would suggest, with many young and tech-savvy Filipinos finding ways to make extra income through the country's burgeoning informal sector.

We expect inflation to fall further this year

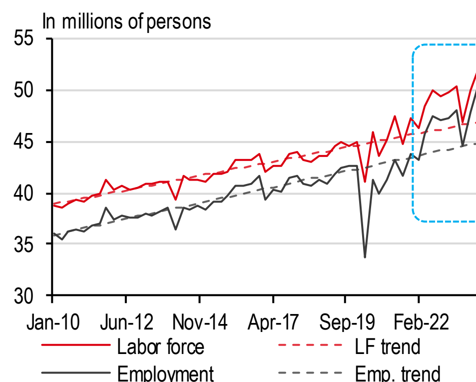
So, if the economy broke expectations during the hard times, what more can it do during the better times? Thanks to the government's timely supply-side measures on food and the central bank's tight monetary stance, **we expect full-year headline CPI to slide to 3.6% in 2024**, which is within the central bank's 2-4% target band and a far cry from last year's 6.0%. This will also give the Bangko Sentral ng Pilipinas (BSP) room to loosen the monetary reins in 2H 2024, which, in turn, can improve private investment by year-end 2024. With lower inflation, more jobs, and the lower cost of borrowing, we expect consumption in the Philippines to lift the archipelago to be one of the top performing economies in ASEAN for 2024 with a growth rate of 5.8%.

Higher rates may delay investment plans

However, it won't be all smooth sailing, and we still expect the Philippine economy, like elsewhere in ASEAN, to grow below its potential. The lagged effect of higher policy rates will likely keep some **investment plans on the sideline** as investors eagerly wait for the BSP to begin cutting rates. We also expect some market jitters once headline CPI breaches the upper-bound range of the BSP's 2-4% target band in 2Q 2024, even if the rise is widely known to be caused by base effects. The February upside surprise in CPI was a testament that these base effects can hit hard.

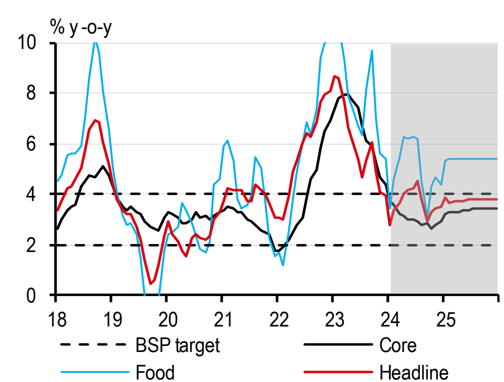
However, base effects naturally dissipate, and we expect this 'inflation breach' to only be short and temporary. We expect headline inflation to return to well within the BSP's 2-4% target band as early as 3Q 2024, when the Fed will likely have started its easing cycle. And both these conditions will likely give the BSP room to do its first 25bp rate cut to 6.25% in 3Q 2024 (previously 2Q 2024).

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. Note: Grey area represents HSBC forecasts.

Singapore

Swiftnomics meets Singnomics

After enjoying three years of surging trade, a severe downturn in the trade cycle, worse than the last one in 2018-19, significantly weighed on Singapore's growth in 2023. Despite successfully avoiding a technical recession, growth moderated to 1.1%. However, **green shoots in trade have emerged** since 4Q23 – a trend that Singapore has been awaiting anxiously.

The manufacturing sector has returned to growth

After four quarters of contraction, **the manufacturing sector finally returned to long-anticipated growth in 4Q23**, albeit still mild. Not surprisingly, this is largely thanks to the nascent recovery in the tech cycle, led by advanced Artificial Intelligence (AI)-related memory chips. Indeed, electronics production has clearly heated up in recent months across tech-reliant economies. Similar to the last cycle, the recovery is not only due to rekindling demand, but also a price uptick in the memory space. In addition, Singapore also possesses sizeable shares in global processor and amplifier chips.

'Concert economics' is a new growth driver

However, Singapore's growth is not limited to just the trade recovery. It is busy making **'concert economics' its new growth driver**. Globally popular names like Coldplay, Ed Sheeran and Taylor Swift have performed, and more are lined up for the rest of the year. The Lion City has traditionally been more a magnet for business travel, but these large-scale global events are a boon for travel-related services that can add up to 10% of its GDP.

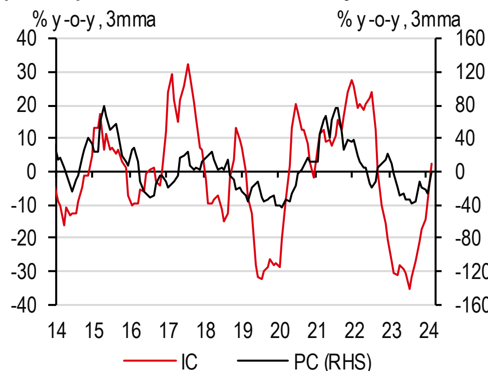
All in all, we forecast GDP growth of 2.4% for 2024, expecting an ongoing recovery in travel-related services and a modest turn in the tech-led global trade cycle.

Core inflation has been lower than expected

In addition, disinflation continues to be the dominant theme. Despite the implementation of the remaining 1ppt hike in the GST, Singapore **started 2024 with lower-than-expected core inflation** from 4.2% on average in 2023 to 3.1% y-o-y in January 2024. But this is mainly due to Lunar New Year-related distortions, particularly impacting food inflation. In particular, energy inflation is not dissipating.

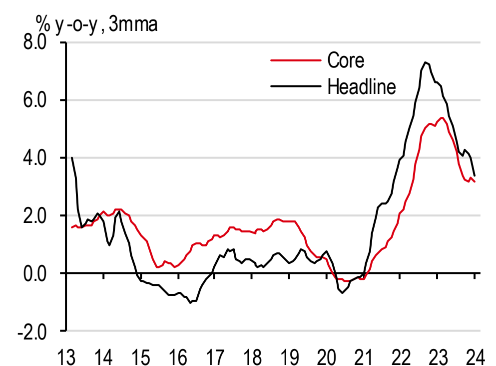
Recall that the Monetary Authority of Singapore (MAS)-style core inflation includes energy CPI. The impact of an electricity tariff hike usually takes a quarter to reflect in CPI, and there will be more hikes in the coming months. All in all, we forecast core inflation of 3.1% for 2024.

The decline in non-oil domestic exports (NODX) has eased of late, led by electronics



Source: CEIC, HSBC

Headline inflation is decelerating faster than core inflation, which remains sticky



Source: CEIC, HSBC

Thailand

Can't catch a break

Weak public investment dragged on growth

Thailand's economy hasn't be able to catch a break. 4Q 2023 GDP significantly surprised to the downside, falling 0.6% q-o-q **as public investment fell**. Due to the long formation of the new government, the FY2024 budget (which should have started in 3Q 2023) has been delayed for six months and counting. And without a legislated budget, the new administration hasn't been able to spend on new projects, leading to a 50% drop in government capital expenditure. Thailand's export engine also continued to sputter amidst increasing competition from mainland Chinese imports (particularly in steel) and weak global demand, while Thailand's major electronics exports, hard disk drives, enter the end of their 'life cycle'. There were, however, a few green shoots. **Tourism numbers continued to improve**, albeit gradually, while private demand was stable, if not improving. Nonetheless, these green shoots weren't enough to offset the drag in public spending.

Policy concerns have weighed on financial markets

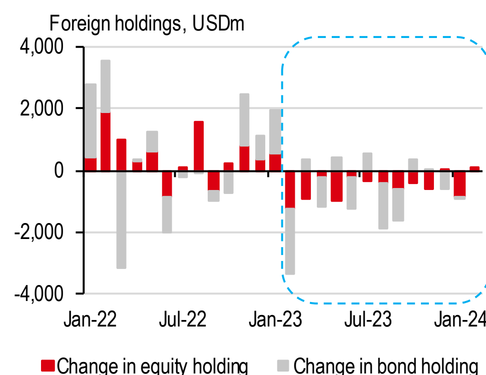
Meanwhile, policy uncertainty lingers. The legality of the proposed Digital Wallet scheme has been put into question**, casting doubt as to whether the THB500bn fiscal stimulus will be realised**. In search of ways to stimulate short-term growth, the new administration advocated for the Bank of Thailand (BoT) to loosen monetary (Bangkok Post, 20 February 2024). However, the BoT raised the need to keep its stance unchanged due to macro-prudential concerns; as of 3Q 2023, household debt was as high as 87% of GDP, half of which is uncollateralised (World Bank, December 2024).

Consequently, both slow growth and policy uncertainty have been well reflected in the underperformance of Thailand's financial markets. The SET has continued to fall while foreign bond and equity flows have mostly been net negative since February 2023. Meanwhile, policy uncertainty could rise again from May 2024, when the Senate loses its right to vote for the prime minister.

Tourism is improving and public spending should lift

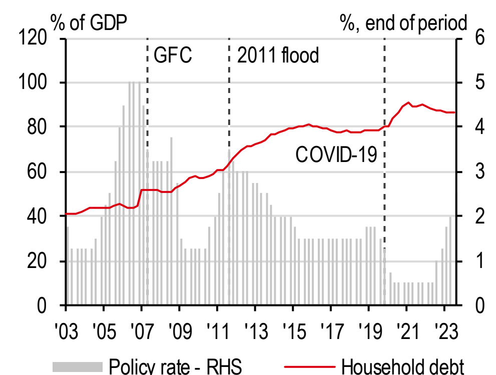
Nonetheless, we don't believe Thailand's economy is stuck. **Tourism continues to improve**, with the visa-free schemes across ASEAN incentivising intra-ASEAN travel. Growth should also rebound once the FY2024 budget is passed and **public spending is back-loaded**. A new source of growth may also emerge when Thailand's EV production starts in 2024. Without the Digital Wallet scheme, we expect growth in 2024 to improve, to 2.7% but with the stimulus, growth may rise to 3.4%.

Foreign portfolio flows have mostly been net negative since February 2023



Source: CEIC, HSBC

Over the past years, household debt increased when the policy rate was cut



Source: CEIC, HSBC

Vietnam

The Year of the Dragon to bring better luck

After a challenging 2023, Vietnam's economy looks to be finally turning the corner. With strong 4Q growth of 6.7% y-o-y, several pressures, which have weighed on the economy – namely sluggish global goods demand and a weak domestic property market – look to be receding.

Growth boosted by a rebound in electronics trade

Similar to tech-exposed peers, the trade recovery has been led by **a strong rebound in electronics products**, which account for one-third of its total exports. In particular, the outlook for phone shipments looks upbeat, reflected by strong pre-order sales for the Samsung S24 lines (*KED Global*, 26 January). However, more encouragingly, the recovery in exports has started to broaden out to non-electronics shipments, albeit gradually.

To mitigate cyclical trade challenges, Vietnam has been actively pushing for **diversified and deeper economic ties with some partners**. Since 2023, Vietnam has upgraded its diplomatic relationship with the US, Japan, and Australia to a "comprehensive strategic partnership", exploring new opportunities in trade, tourism, investment and development aid.

The impact of the new corporate tax should be manageable

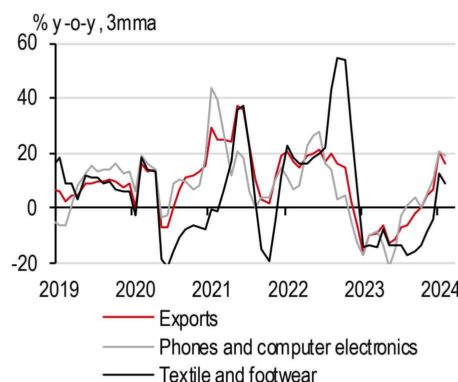
In terms of FDI, a key development to watch closely in 2024 is the implementation of a minimum 15% corporate tax rate for multinational corporations (MNCs), effective 1 January. While it may still be too early to evaluate the implications, **the impact should be manageable**. How the additional tax revenue will be managed and whether subsequent measures or other incentives will be introduced to offset the tax hike will be closely monitored.

All in all, we forecast GDP growth of 6.0% for 2024 and 6.5% for 2025.

Upside risks to inflation have not dissipated

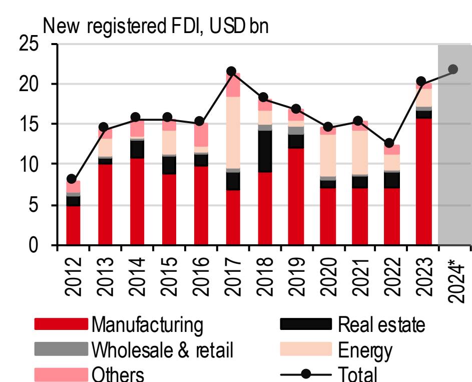
While Vietnam is well positioned to capture the trade recovery, upside risks to inflation linger. Although inflation has remained below the State Bank of Vietnam's (SBV) ceiling of 4.5%, **upside risks from energy and elevated rice prices have not dissipated**. Given the recent upside surprise to February's print, we recently upgraded our inflation forecast to 3.9% (from 3.4%) in 2024, still below the SBV's target. We do not expect that the SBV to move rates this year.

The trade recovery is showing nascent signs of broadening out, albeit gradually



Source: CEIC, HSBC

Despite cyclical trade challenges, Vietnam's FDI prospects remain strong



Source: CEIC, HSBC. NB: 2024* is not forecast, calculated from run-rate in Jan-Feb.

Disclosure appendix

Additional disclosures

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