Annex:

Developments in ASEAN+3 Economies

Brunei Darussalam

Economic activities in Brunei started to recover in 2022 after the setback to growth in 2021 due to the outbreak of the Delta variant of COVID-19. Thanks to high vaccination rates, daily new cases declined sharply, enabling containment measures and border restrictions to be lifted. The resumption of economic activities amid fuller economic re-opening has benefited the non-oil and gas (O&G) sector. Particularly, with the return of travel, transport services have notably improved. The diversion of domestic O&G supplies to the downstream industry has also provided the impetus to the non-O&G sector growth. However, the O&G sector continues to face production challenges, reflecting ongoing efforts to rejuvenate offshore O&G fields and the compound effect of disruptions during COVID-19 restrictions.

Real GDP grew by 0.9 percent in Q3 2022 —the first quarterly expansion since Q3 2020, driven by the robust activities in the non-O&G sector. The O&G sector also improved during the period, with the decline in O&G production bottoming out. Despite positive outturns, real GDP contracted by 2.6 percent in the first three quarters of 2022, reflecting the unexpectedly large contraction in the O&G sector in the first half of 2022 (–9.4 percent year-on-year). For 2022, the economy is estimated to have contracted by 1.2 percent from –1.6 percent in 2021, benefiting from fuller economic re-opening.

Labor market condition has improved markedly since 2021. Constraints on labor supply have started to ease since 2022 with more migrant workers expected to return after the lifting of border restrictions. Total and youth unemployment rates fell in 2021 (4.9 percent and 16.3 percent, respectively) as local jobseekers filled jobs in several industries previously dominated by foreign workers. Local workers in the private sector also grew in number, though at a slower pace of 3.7 percent in 2021 from 16.2 percent in 2020.

Inflation has risen to multi-year highs, driven mainly by global commodity price shocks. As Brunei is a net food importer, elevated global food prices, especially in the first half of 2022, contributed significantly to the broadening of food inflation. Meanwhile, the spike in prices of transport services and vehicles has also induced higher transport inflation. Miscellaneous goods and services inflation, chiefly in the form of higher vehicle insurance premiums influenced by market prices of cars, added to overall price pressures. As a result, inflation remained high at 3.7 percent in 2022, increasing from 1.7 percent in 2021.

The external position remained strong, with an estimated balance of payments (BOP) of 6.4 percent of GDP in 2022. This reflects significant widening of the current account surplus (12.8 percent of GDP) amid favorable O&G prices and robust non-O&G exports. The overall BOP surplus translates to higher international reserves, estimated at USD 6.1 billion in 2022 from USD 5.0 billion in 2021, or equivalent to 7.2 months of imports.

The financial sector remains sound with ample capital buffers and recovering profitability. Financial institutions continued to be highly capitalized, with capital adequacy ratio of over 20 percent in 2022. Non-performing loan ratio declined to 3.3 percent in 2022 from 3.6 percent in 2021, suggesting an improvement in asset quality. Profitability also improved, with returns on equity increasing to 9.5 percent in 2022 from 8.6 percent in 2021.

After being curtailed by the pandemic, credit growth recovered, driven mainly by corporate sector loan demand. Credit growth strengthened to 4.7 percent in 2022 from 4.6 percent in 2021. The shift in the composition of bank lending toward productive sectors has been notable. As of 2022, lending to manufacturing and other services sectors doubled in size from a decade ago, reaching 15.5 percent and 10.1 percent of total credit, respectively.

The fiscal position has improved considerably since FY2021, led by the significant gains in O&G revenue. High energy prices have benefited Brunei, which led to a surge in O&G revenue since early FY2021. As a result, the fiscal deficit narrowed sharply to 5.2 percent of GDP in FY2021 from 20.0 percent in FY2020. In the first half of FY2022, fiscal revenue reached BND 3.4 billion, exceeding the revenue target of BND 3.2 billion for the whole year of FY2022. Meanwhile, expenditure realization reached 47.2 percent of the total budget. In view of the strong revenue performance, a fiscal surplus of 0.5 percent of GDP is expected for FY2022.

Risks to Brunei's outlook are tilted to the downside. Continuing reliance on the O&G sector makes Brunei vulnerable to both domestic and external shocks, which could derail the growth prospects and put strains on the external and fiscal positions. Possible re-emergence of new and more virulent COVID-19 variants could set back the economic recovery. Sharply higher borrowing costs could exert downward pressure on corporate earnings, at a time when external demand is moderating. Perennial risks, such as those posed by climate change, could also undermine Brunei's macro-financial stability in the longer term.

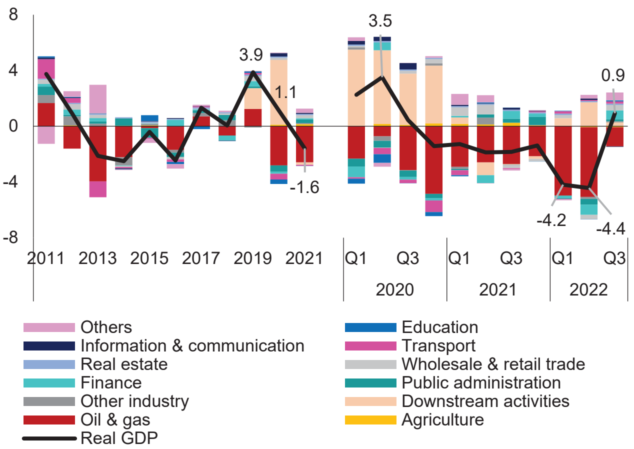
The author of this note is Vanne Khut.

Brunei Darussalam: Selected Figures

Brunei's economic activities have started to gain traction.

Contributions to Real GDP Growth (Production)

(Percentage points, year-on-year)

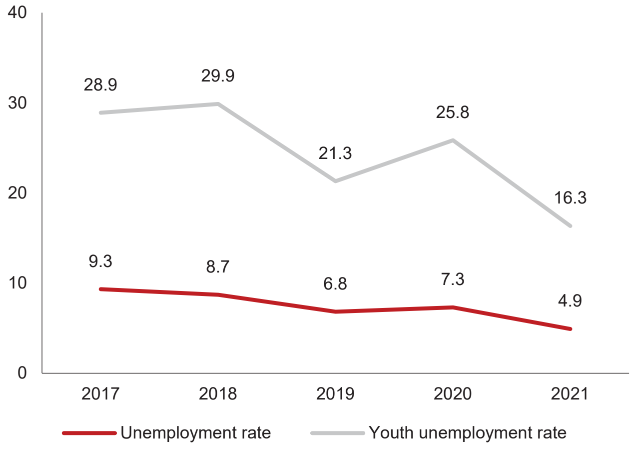


Source: Department of Economic Planning and Statistics; AMRO staff calculations.

Labor market conditions markedly improved in 2021.

Unemployment Rate and Youth Unemployment Rate

(Percent)

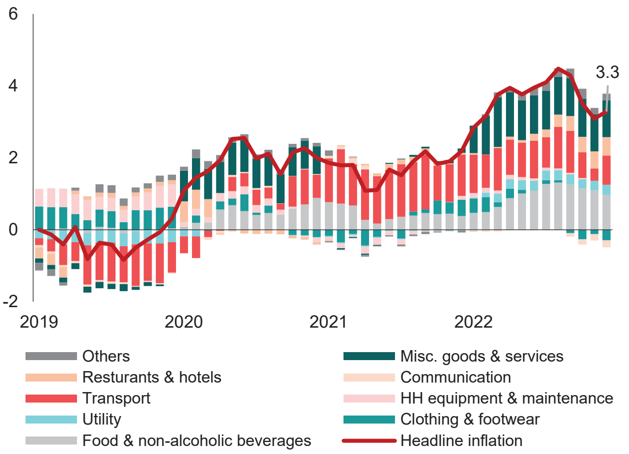


Source: Department of Economic Planning and Statistics

Inflation has risen to multi-year highs, driven by soaring food and transport prices.

Contributions to Consumer Price Inflation

(Percentage points, year-on-year)

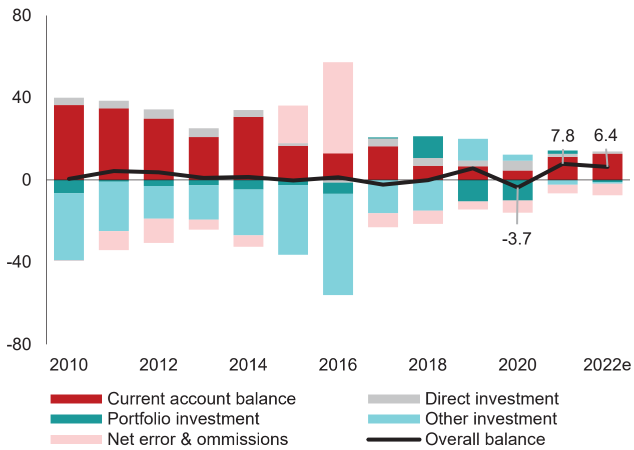


Source: Department of Economic Planning and Statistics; and AMRO staff calculations.
Note: HH = household; Misc. = miscellaneous.

The external position remains strong, benefiting from high commodity prices and robust growth of non-O&G exports.

Balance of Payments

(Percent of GDP)

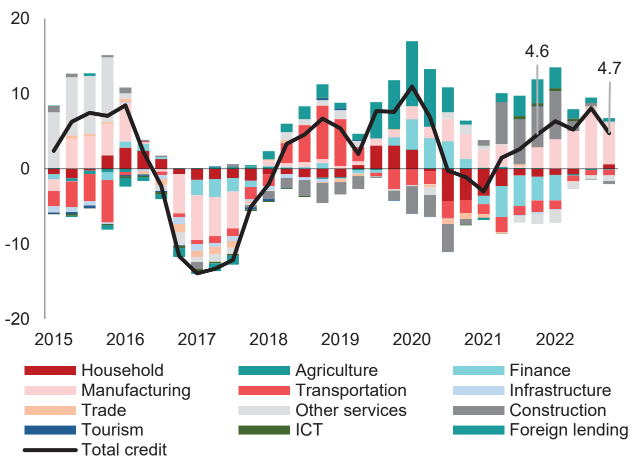


Source: Department of Economic Planning and Statistics; AMRO staff calculations.
Note: e denotes estimate. Brunei's BOP follows BPM6. Financial account sign is reversed for charting purpose.

Credit growth has recovered, led by stronger corporate sector demand.

Contributions to Banking Sector Credit Growth

(Percentage points, year-on-year)

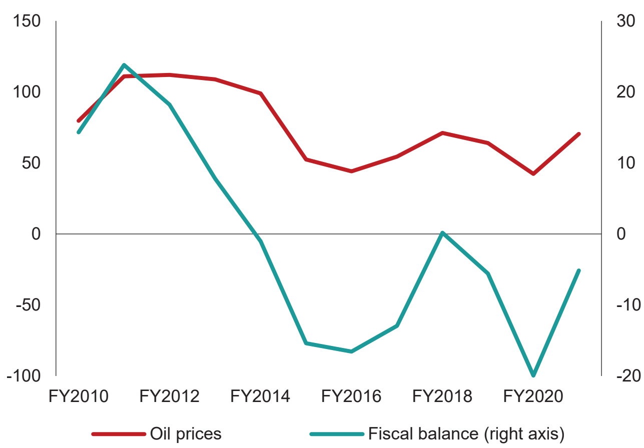


Source: Brunei Darussalam Central Bank; AMRO staff calculations.
Note: ICT = information and communication technology.

Fiscal deficit narrowed significantly on higher oil and gas revenue, reflecting the favorable commodity prices.

Fiscal Balance and Oil Prices

(USD/barrel; percent of GDP)



Source: Ministry of Finance and Economy; AMRO staff estimations.
Note: Brunei's fiscal data are in fiscal year (FY) starting from April to March.

Brunei Darussalam: Selected Economic Indicators

Indicator	2019	2020	2021	2022
Real sector	(in annual percentage change)			
Real GDP	3.9	1.1	–1.6	–1.2
Private consumption	5.9	5.3	21.9	6.8
Government consumption	1.8	–9.6	2.6	0.1
Gross fixed capital formation	–4.4	–9.3	–13.9	–0.5
Imports of goods and services	13.8	–2.1	29.5	10.7
Exports of goods and services	14.9	7.5	8.8	4.5
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance[1]	6.6	4.5	11.2	12.8
Trade balance	7.6	4.4	14.2	15.7
Capital and financial account balance	–3.0	2.2	–0.9	0.7
Direct investment	–2.8	–4.8	–1.5	–1.1
Portfolio investment	10.4	9.9	–1.7	1.1
Other investment	–10.6	–2.9	2.3	0.7
Errors and omissions	–4.0	–6.0	–4.2	–5.7
Overall balance	5.6	–3.7	7.8	6.4
International reserves (in USD billion, end of period)[2]	4.3	4.0	5.0	6.1
Fiscal sector[3]	(in percent of GDP)			
Revenue and grants	26.4	12.6	24.3	23.7
Expenditure	31.9	32.6	29.5	23.2
Fiscal balance	–5.6	–20.0	–5.2	0.5
Monetary and financial sectors	(in annual percentage change)			
Broad money	4.3	–0.4	2.7	1.3
Domestic credit[4]	2.2	18.3	–19.6	–15.6
Private sector credit	2.0	0.2	2.7	6.0
Memorandum items:				
Nominal GDP (in BND billion, calendar year)	18.4	16.6	18.8	23.4
Nominal GDP (in BND billion, fiscal year)	18.4	16.2	19.6	23.8
Headline inflation (in percent y-o-y, period average)	–0.4	1.9	1.7	3.7
Exchange rate (in BND/USD, period average)	1.4	1.4	1.3	1.4

Source: National Authorities via CEIC and Haver Analytics; AMRO staff estimates.
Note: Numbers in red denote AMRO staff estimates. y-o-y = year-on-year.
1/ Brunei's balance of payments follows BPM6. A negative (positive) financial account balance indicates net inflow (outflow). Overall balance = Current account balance - Capital and financial account balance + Errors and omissions.
2/ Gross international reserves include gold.
3/ Fiscal data are in fiscal year, which starts from April to March.
4/ Domestic credit refers to domestic claims from the Depository Corporations Survey.

Cambodia

Cambodia's economy continued to recover in 2022. Driven by the strong external demand and a resumption in domestic activity, real GDP growth is estimated to have accelerated to 5.0 percent in 2022 from 3.0 percent in 2021. The manufacturing sector was robust, supported by expansion of both garment and non-garment exports. Tourism grew rapidly from a low base but remained far below pre-pandemic levels. For 2023, the economy is projected to expand at a faster pace, with services sectors expected to benefit from a robust return of tourism, reflecting the re-opening of China. However, the rebound in services could be partially mitigated by a weaker outlook for manufacturing.

Headline inflation spiked to 5.3 percent in 2022 from 2.9 percent in 2021, reflecting soaring global energy and food prices. Inflation pressures were particularly acute during the first half of 2022, with inflation peaking at 7.8 percent in June. Inflation has since trended downward and is projected to further ease in 2023.

The current account deficit is expected to narrow but remain high for 2022. Despite a strong export performance, the trade deficit remained large at an estimated trade deficit of 34.8 percent of GDP, given increased spending on petroleum imports due to elevated global oil prices, and that imports of gold remained substantial. With tourism receipts and remittances recovering, the current account deficit is estimated to have narrowed to around 31 percent of GDP, down from the historical high of 46 percent of GDP seen in 2021. Despite steady foreign investment inflows, Cambodia is estimated to have recorded an overall balance of payments deficit in 2022, resulting in a reduction in international reserves. Nonetheless, external buffers remained a sizable USD 17.8 billion as of end-2022, equivalent to 8.4 months of imports of goods (excluding gold) and services.

Financial conditions remained easy in 2022 with sufficient liquidity and strong credit growth. Liquidity is ample as the National Bank of Cambodia (NBC) maintained several measures to ease conditions in the financial system, particularly keeping reserve requirement at a low 7 percent.[1] Credit growth has remained resilient and although a loan restructuring program was phased out as scheduled in June 2022, nonperforming loan ratios have remained manageable. With capital adequacy ratios well above regulatory requirements and banks' increased provisions, balance sheets are expected to stay healthy even with the end of loan restructuring program.

The fiscal deficit narrowed in 2022 due to higher revenue and the rollback of pandemic stimulus. Revenue was buoyant in 2022 by the resumption of economic activity. With most of the population already vaccinated and COVID-19 infection rates low, healthcare spending declined, while spending on other key measures remained stable or increased slightly. The net result was a stimulus package 1.4 percent of GDP smaller than it was 2021. The gradual withdrawal of fiscal stimulus and higher revenue collection enabled the fiscal deficit to fall to 5.4 percent of GDP from 8.5 percent in 2021. Public debt is estimated have risen only slightly to 35.9 percent of GDP at end-2022 from 35.0 percent at end-2021, as Cambodia drew down its fiscal reserves to finance its deficit.

The economy's growth trajectory toward a robust recovery faces several external and domestic risks. Headwinds from slowing global demand amid monetary tightening of most central banks could further dampen Cambodia's manufacturing exports. A tail risk with potentially large impact would be the emergence of more virulent COVID-19 variants, which could lead to the return of tight containment measures and delay the expected recovery of international tourism. Despite the recent trend of easing inflation pressures in Cambodia, a resurgence remains a risk, particularly if oil prices soar again due to geopolitical tensions and supply constraints.

Cambodia's large current account deficits are a potential source of external vulnerability. Most of Cambodia's external liabilities are funded from FDI inflows and concessional loans from multilateral and donor agencies, which are relatively stable. However, capital inflows from external private debt and banks' nonresident deposits, which are more short-term in nature, have become substantial in the past five years. If a shock were to reverse these short-term flows, the external position could come under pressure.

Prolonged rapid credit growth amid already high private debt may result in a deterioration in loan quality. The country's rapid credit growth and credit-to-GDP ratio of 177 percent have given rise to concerns of financial distress. Risks may have shifted away from banks toward shadow banking activities with the emergence of property developers providing their own long-term financing with lax loan screening and minimal supervision. Such shadow banking activities are more vulnerable to shocks, such as from a fall in property prices.

The author of this note is Paolo Hernando.

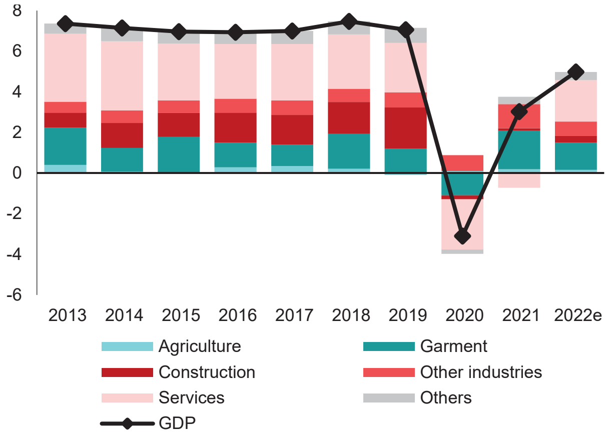
1/ With the economic recovery on track, the NBC in January 2023 raised the minimum reserve requirement for foreign exchange deposits and released plans for a gradual normalization of monetary conditions back to pre-pandemic level.

Cambodia: Selected Figures

The economy gradually recovered in 2022 amid steady reopening after a surge in COVID-19 in 2021.

Contributions to Real GDP Growth

(Percentage points, year-on-year)

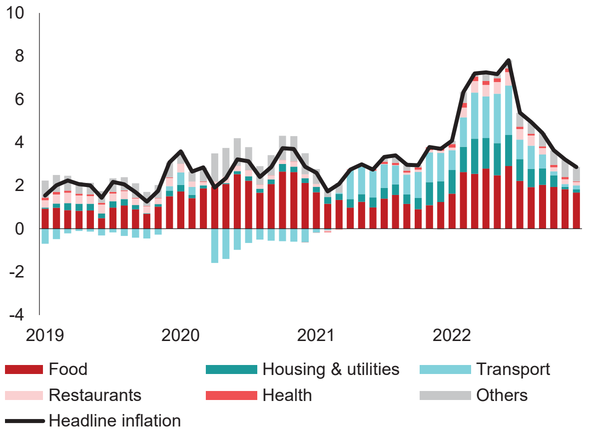


Source: National Institute of Statistics of Cambodia; AMRO staff estimates.
Note: e denotes estimate.

Inflation rose significantly in the first half of 2022 driven by rising energy prices but slowed in the second half.

Contributions to Consumer Price Inflation

(Percentage points, year-on-year)

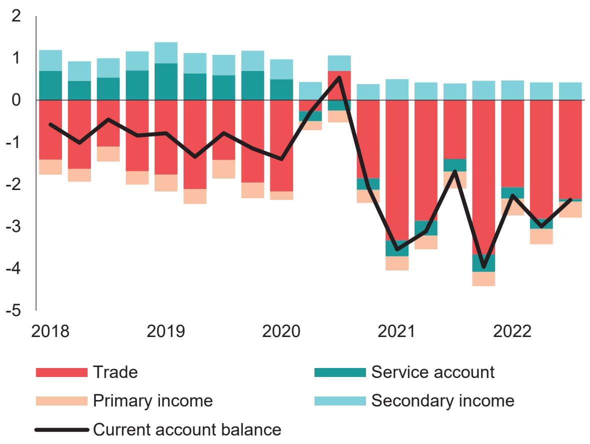


Source: National Bank of Cambodia; AMRO staff calculations.
Note: Food includes non-alcoholic beverages.

The current account deficit narrowed in 2022 from the historical high seen in 2021, but remains large.

Current Account Balance

(Billions of US dollars)

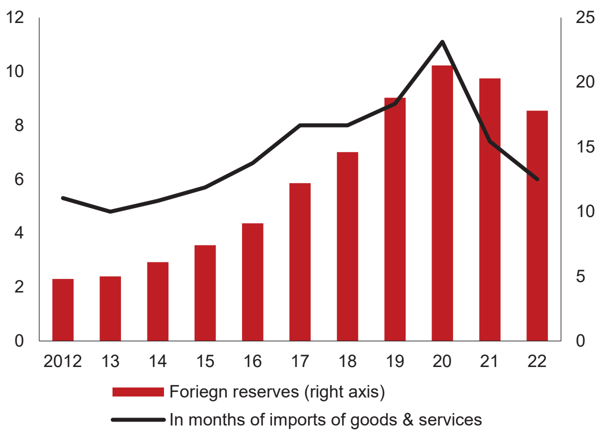


Source: National Bank of Cambodia; AMRO staff calculations.

Cambodia's gross international reserves remained high, but dropped to USD 17.8 billion as of end-2022 from USD 20.3 billion in 2021.

International Reserves

(Months of imports; billions of US dollars)

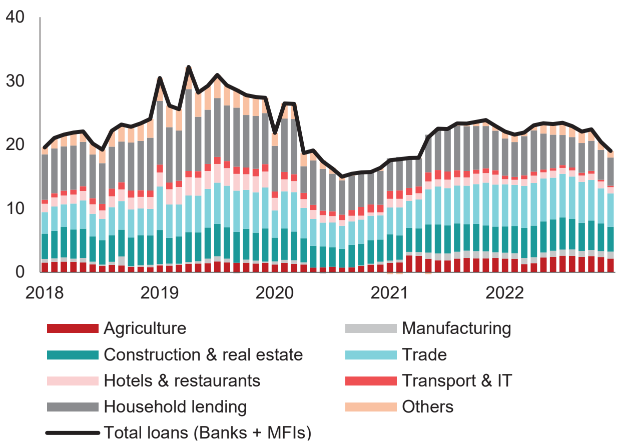


Source: National Bank of Cambodia; AMRO staff calculations.
Note: The figures for 2022 are as of the end-September.

Credit growth remained robust in 2022 at above 20 percent led by increased lending to households, trade, construction, and real estate.

Contributions to Credit by Banks and Microfinance Institutions (MFIs)

(Percentage points, year-on-year)

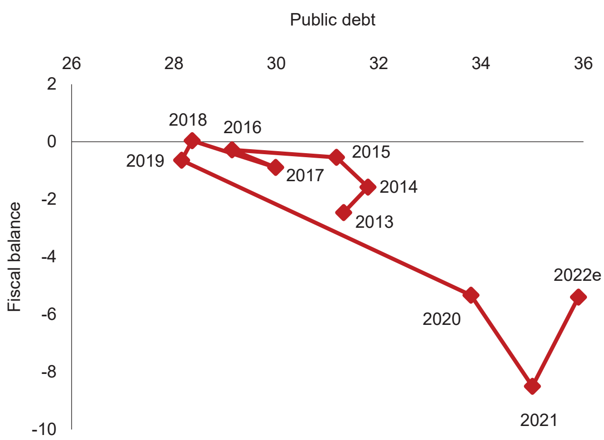


Source: National Bank of Cambodia; AMRO staff calculations.
Note: IT = information technology.

As the pandemic waned, fiscal policy was tightened in 2022 with the government ramping up revenue efforts and scaling back fiscal stimulus.

Fiscal Balance and Public Debt

(Percent of GDP)



Source: Ministry of Economy and Finance.

Cambodia: Selected Economic Indicators

Indicator	2019	2020	2021	2022
Real sector	(in annual percentage change)			
Real GDP	7.1	–3.1	3.0	5.0
Private consumption	6.1	–4.3	–3.7	11.6
Government consumption	6.8	13.0	78.7	–3.3
Gross fixed capital formation	14.3	–2.7	6.8	5.3
Imports of goods and services	11.1	–8.9	23.1	4.3
Exports of goods and services	13.3	–11.3	13.5	9.0
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	–15.0	–8.5	–45.7	–32.7
Trade balance	–16.4	–10.8	–47.1	–34.2
Capital and financial account balance	24.8	12.7	45.8	26.2
Direct investment	13.1	13.5	12.6	12.0
Portfolio investment	0.0	–0.4	–0.2	–0.4
Other investment	10.4	–1.5	32.6	14.1
Errors and omissions	0.0	–1.7	0.1	–0.2
Overall balance	9.8	2.5	0.3	–6.7
Gross external debt	56.8	68.1	74.4	75.7
International reserves (in USD billion, end of period)	18.8	21.3	20.3	17.8
Fiscal sector	(in percent of GDP)			
Revenue and grants	26.2	23.4	21.2	23.3
Expenditure	26.9	28.8	29.9	28.6
Fiscal balance	–0.6	–5.3	–8.5	–5.4
Government debt	28.1	33.8	35.0	36.5
Monetary and financial sectors	(in annual percentage change)			
Broad money	18.2	15.3	16.3	10.3
Domestic credit	24.4	20.0	32.3	18.4
Private sector credit	28.0	17.2	23.4	19.3
Memorandum items:				
Nominal GDP (in KHR trillion)	110.0	105.9	110.5	120.2
GDP per capita (USD)	1,694	1,544	1,585	1,706
Headline inflation (in percent y-o-y, period average)	1.9	2.9	2.9	5.4
Exchange rate (in KHR/USD, period average)	4,061	4,093	4,099	4,096

Source: National authorities; AMRO staff estimates.
Note: Numbers in red denote AMRO staff estimates. y-o-y = year-on-year.

China

China's economy has been resilient while being hit by multiple shocks since the start of the global pandemic. These include recurrent COVID-19 outbreaks, supply chain disruptions and input cost pressures due to the Ukraine crisis, and financial distress in the property sector. In 2022, as many of these pressures intensified, GDP growth came in at a subdued 3.0 percent with both consumption and investment faltering, while exports contracted on a year-on-year basis in Q4.

Labor market conditions deteriorated significantly through 2022. The surveyed urban jobless rate was an elevated 5.5 percent in December, having risen as high as 5.7 percent earlier in the year. Some groups such as fresh graduates and migrant workers faced difficulties securing jobs although the 12.06 million urban jobs created in 2022 exceeded the policy target of 11 million. Overall wage growth slowed.

Inflation was contained in 2022 due to weak demand and administrative measures. In 2022, headline consumer price inflation was 2.0 percent, core inflation was 0.9 percent, and producer price inflation was 4.1 percent. Subdued demand was a key factor. Authorities' efforts to address supply disruptions and ensure timely supply of daily necessities also helped contain inflation.

China's external position is strong. The balance of payments recorded a surplus in 2022—with strong export performance being a key driver even as shipments contracted year-on-year in Q4. Affected by the asset price changes and devaluation of non-US currencies, foreign currency reserves decreased through most of 2022, but rose in the last two months to reach USD 3.1 trillion. After having depreciated in the middle of 2022, the renminbi has strengthened from November 2022, and the performance of renminbi is relatively stable compared with other major currencies.

The banking system remains sound and stable overall although some banks experienced significant asset quality deterioration. Capital buffers and liquidity are ample for the stronger banks but considerably weaker for some smaller and mid-sized banks. Bank' profits have generally decreased reflecting the marked slowdown of the economy and the continued downturn of the real estate sector. Total social financing growth slowed significantly in 2022 but was still a firm 9.6 percent for the year and picked up to 9.7 percent in January 2023.

The property sector remains depressed, and a firm recovery will need strong efforts and time for policy measures to take effect as well as confidence to be restored. Several developers are still distressed. Prices continue to fall across cities, especially Tier-2 and Tier-3 cities. Transaction volumes remain markedly lower than those seen in previous years. Several banks and asset management companies and a state-owned bond insurer, guided by authorities, have strengthened their support for property developers and the real estate sector, while managing credit risks and keeping the economy on track for multiyear deleveraging.

China's fiscal position remains sound but the budget deficit widened significantly in 2022. The economic growth slowdown and tax reduction policies have weakened revenue collection. The need to stabilize and lift the property sector while strengthening the recovery of the entire economy and labor market has posed a stiff fiscal challenge. Given the economic and fiscal conditions in 2022, the general budget revenue growth could be 0.6 percent, while the general public expenditure growth could be an elevated 6.1 percent, resulting in a sizeable general account deficit of 4.9 percent.

In this context, the authorities have made greater use of both monetary and credit policy tools and fiscal resources to support the economy and contain risks over the past few years.

China's economic recovery should become increasingly firm in 2023, with momentum markedly stronger in the second half of the year. A baseline scenario entails the economy strengthening markedly in Q2 as pandemic conditions come under control, and gaining further traction through the rest of the year. As the labor market improves, consumption should rebound as the key driver of recovery. Investment should also pick up as business operations normalize, the property sector turns around, and infrastructure projects continue to ramp up.

Risks to China's economic outlook remain significant and elevated. The most pronounced are those related to COVID-19 outbreaks, particularly the emergence of more virulent variants; renewed strains in the property sector; production and supply chain challenges due to geopolitical tensions; and weakening global demand. Besides these, intermittent power shortages, which affected industrial production in the past, may recur in 2023, while capital challenges facing some small and mid-sized banks may squeeze credit supply to micro, small and medium-sized enterprises.

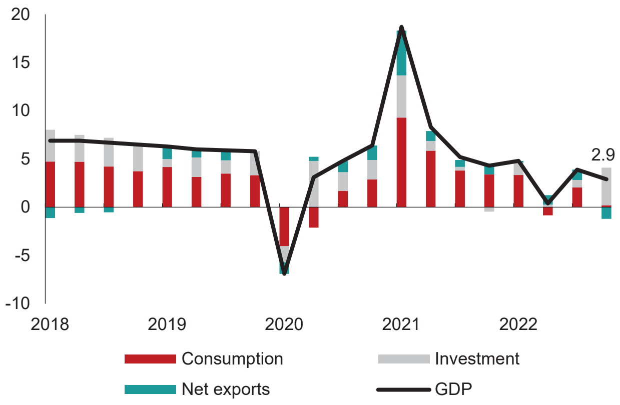
The author of this note is Suan Yong Foo.

China: Selected Figures

China's economic recovery has been bumpy due to factors including recurrent COVID-19 outbreaks and the Ukraine crisis.

Contributions of GDP Growth

(Percentage points, year-on-year)

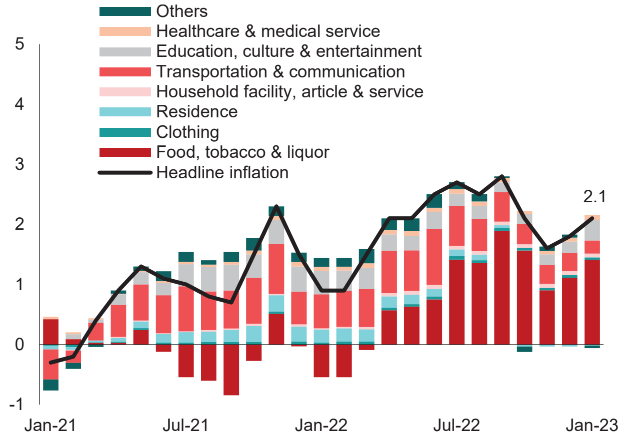


Source: National Bureau of Statistics.

Consumer price inflation has stayed low, with authorities taking several measures to deal with supply-side issues.

Contributions to Consumer Price Inflation

(Percentage points, year-on-year)

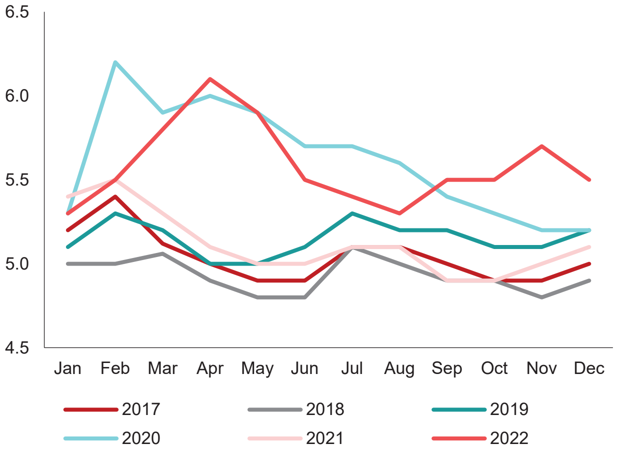


Source: National Bureau of Statistics.

The surveyed urban unemployment rate has risen due to weak economic conditions and pandemic control measures.

Surveyed Urban Unemployment Rate

(Percent)

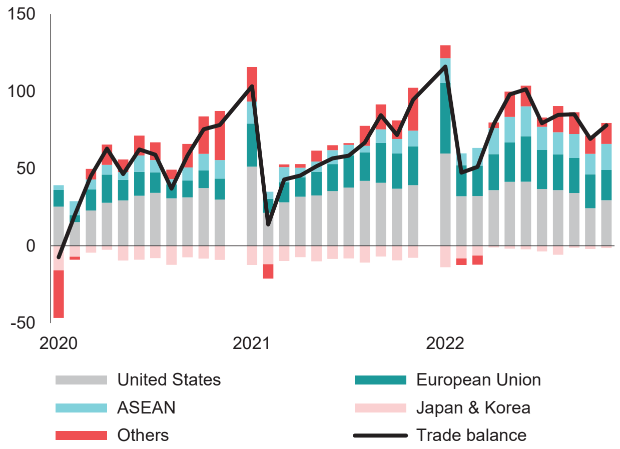


Source: National Bureau of Statistics.

China's sizeable trade surplus has been a key driver of the health of its overall BOP position.

Trade Balance

(Billions of US dollars)

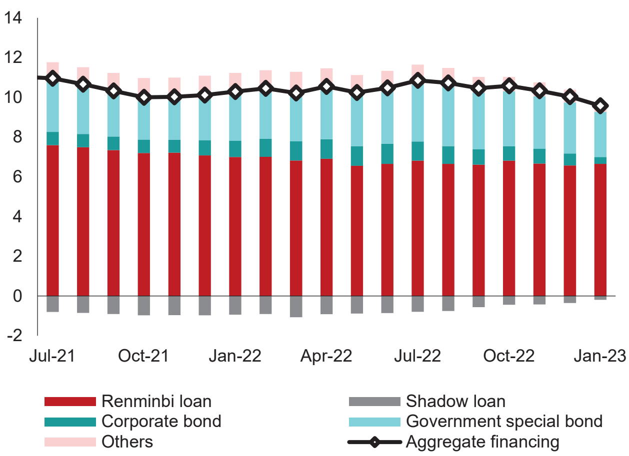


Source: General Administration of Customs.

Growth in total social financing came in at a firm 9.58 percent in 2022 despite constrains on the demand and supply side.

Contributions to Total Social Financing

(Percent year-on-year, year-to-date)

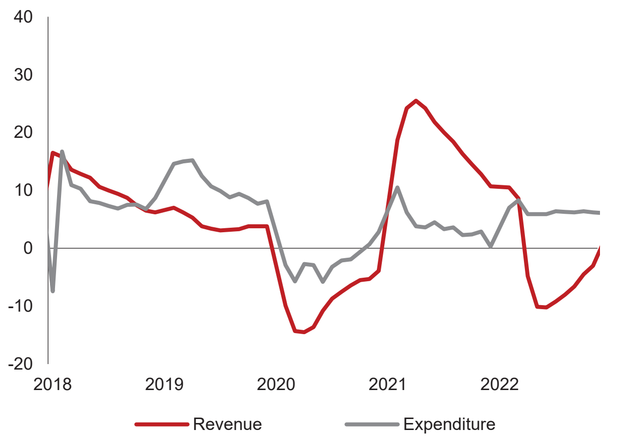


Source: The People's Bank of China.

Fiscal revenue growth slowed markedly in 2022 as the economy slowed, while spending growth stayed brisk.

Fiscal Revenue and Expenditure Growth

(Percent, year-on-year, year-to- date)



Source: China Ministry of Finance.

China: Selected Economic Indicators

Indicator	2019	2020	2021	2022
Real sector	(in annual percentage change)			
Real GDP	5.9	2.2	8.4	3.0
Private consumption	6.4	–0.9	9.8	1.8
Gross fixed capital formation	4.5	5.1	2.6	5.1
Imports of goods and services	–2.8	–0.4	30.1	7.9
Exports of goods and services	0.5	9.9	29.9	13.7
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	0.7	1.7	1.8	2.3
Trade balance	0.9	2.4	2.6	3.3
Capital and financial account balance	0.2	–0.6	–0.8	–1.7
Direct investment	0.4	0.7	1.2	0.2
Portfolio investment	0.4	0.6	0.3	0.3
Other investment	–0.7	–1.7	–1.3	–1.5
Errors and omissions	0.1	–0.2	–1.1	0.0
Overall balance	–0.1	0.9	0.1	0.3
Gross external debt	14.5	16.2	15.5	15.2
FX reserves (in USD billion, end of period)	3,107.9	3,216.5	3,250.2	3,127.7
Fiscal sector[1]	(in percent of GDP)			
Revenue and grants	19.3	18.0	17.7	16.8
Expenditure	24.2	24.2	21.5	21.5
Fiscal balance	–4.9	–6.2	–3.8	–4.9
Government debt	38.6	45.9	46.8	51.0
Monetary and financial sectors	(in annual percentage change)			
Broad money[2]	8.7	10.1	9.0	11.8
Total Social Financing	10.7	13.3	10.3	9.6
Memorandum items:				
Nominal GDP (in CNY trillion)	98.7	101.4	113.4	121.0
Headline inflation (in percent y-o-y, period average)	2.9	2.5	0.9	2.0
Lending prime rate, 1 year (period-end)	4.15	3.85	3.80	3.65
Exchange rate (in CNY/USD, period average)	6.91	6.90	6.45	6.74

Source: National authorities via CEIC and WIND; AMRO staff estimates.
Note: Numbers in red denote AMRO staff estimates. FX = foreign exchange. y-o-y = year-on-year.
1/ Includes only general government account and incorporates AMRO staff estimates.
2/ Broad money refers to M2.

Hong Kong, China

Economic recovery was interrupted by the outbreak of the fifth wave of the COVID-19 pandemic in the first quarter of 2022. Soaring new infections and stringent social distancing measures weighed heavily on domestic demand in Q1 2022, while the deteriorated external environment and regional logistical disruptions related to COVID-19 depressed exports, and tightened financial conditions posed constraint on domestic demand in the rest of the year. As a result, GDP contracted by 3.5 percent in 2022.

Labor market conditions deteriorated in early 2022 before improving gradually in the rest of the year. The seasonally adjusted unemployment rate increased to 5.4 percent in February–April, before declining to 3.5 percent in October–December, with total employment growing from 3.56 million to 3.67 million over the same period. Despite that unemployment rate was largely back to the pre-COVID-19 level of November 2019–January 2020, total employment was still 4.5 percent lower through those months, reflecting the impact of a shrinking labor force.

Inflation rose modestly in 2022 with headline CPI increasing by 1.9 percent, primarily due to the rising prices of imports. The geopolitical conflict and pandemic-related supply chain disruptions pushed up local energy and food prices, contributing the rise in the headline CPI. The private housing rental component of inflation decreased in 2022, helping to contain overall price pressures.

The overall external position has remained strong. Following a robust performance in 2021, Hong Kong's merchandise exports contracted by 8.6 percent in value in 2022. Supported by strong services and primary income surpluses, Hong Kong maintained a large current account surplus in the first three quarters of 2022. Reflecting outflows from the Hong Kong dollar and the triggering of the weak-side Convertibility Undertaking, foreign reserves decreased from USD 497 billion at the beginning of 2022 to USD 424 billion at the end of December.

The FY2022 fiscal budget aimed to deploy timely and effective fiscal measures to support the economy while buttressing long-term growth. The government budgeted over HKD 170 billion of counter-cyclical measures, including HKD 66 billion for a second round of consumption vouchers and HKD 54 billion for anti-pandemic and other measures targeted at supporting vulnerable sectors and households. Apart from the pandemic measures, the government also set aside funds to enhance Hong Kong's innovation and technology ecosystem and to deepen its integration into the Guangdong-Hong Kong-Macao Greater Bay Area. The updated fiscal outlook in September 2022 suggested that the consolidated fiscal deficit in FY2022 would likely exceed HKD 100 billion, which compared to HKD 56.3 billion announced in the February 2022 Budget Speech.

The banking sector remains resilient, bolstered by strong buffers and supported by COVID-19 relief measures. Bank capital and liquidity positions remain strong, together with improved profitability, providing a cushion against shocks despite lower profitability. Despite a slight uptick of nonperforming loan ratio from 0.88 percent at end-2021 to 1.38 percent at end-2022, the overall asset quality of Hong Kong's banking sector remains sound by historical and international standards.

Domestic financial and credit conditions have tightened in recent months. Loan demand weakened in 2022, mainly due to an uncertain external environment and rising interest rates. Hong Kong dollar interest rates have risen in tandem with United States' interest rates while volatility in financial markets has heightened amid the economic downturn and global financial backlash. The residential property market has softened, with its various segments displaying signs of downward pressure.

The government has stepped up efforts to boost the supply of both public and private housing to address the supply-demand imbalance and housing affordability. In 2022, the government announced it had identified sufficient land for providing 360,000 public housing units in the coming decade (i.e. from 2023–24 to 2032–33). The government also planned to introduce a new Light Public Housing scheme, which promises to produce 30,000 units of public housing in the coming five years. Taking into account the total supply of Light Public Housing and traditional public rental housing, the target is to cap the waiting time at about 6 years and shorten it to 4.5 years in four years' time (2026–27).

The growth outlook has improved on the back of the reopening of both mainland China and Hong Kong, although downside risks remain in the short term. A higher-for-longer United States policy interest rate would lead to much tighter domestic financial conditions, and weaken the recovery. If the United States and Europe were to go into recession, this could weaken Hong Kong's already feeble economic recovery in the short term. The mainland China's economic growth outlook would also would affect Hong Kong's inbound tourism and economic recovery. A sharp downshift in Hong Kong's property market, should it happen, would weigh on economic growth. In the medium term, further escalation of China-US tensions could undermine Hong Kong's role as an international financial and business center.

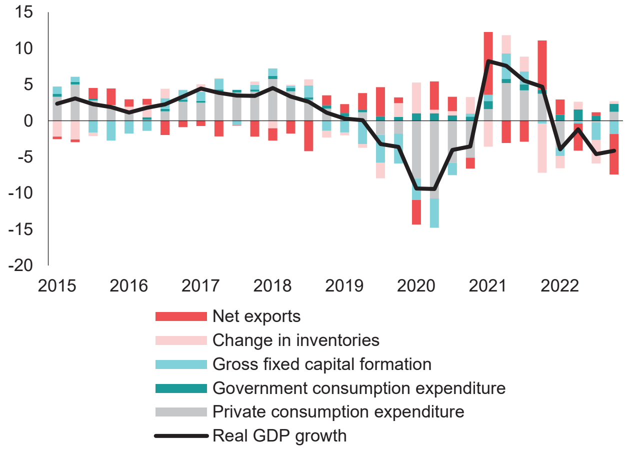
The author of this note is Fan Zhai.

Hong Kong, China: Selected Figures

Hong Kong's economy contracted in 2022 after a strong recovery in 2021.

Contributions of GDP Growth

(Percentage points, year-on-year)

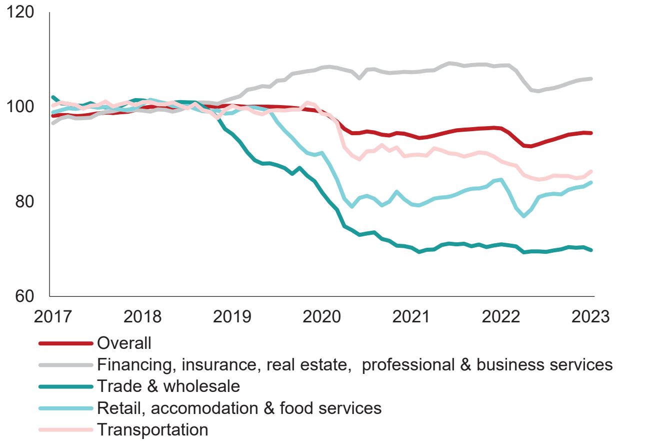


Source: Census and Statistics Department.

Overall employment improved in the second half of 2022, but the recovery remained uneven across sectors.

Employment by Sector

(Index, 2018=100, non-seasonally adjusted, three-month moving average)

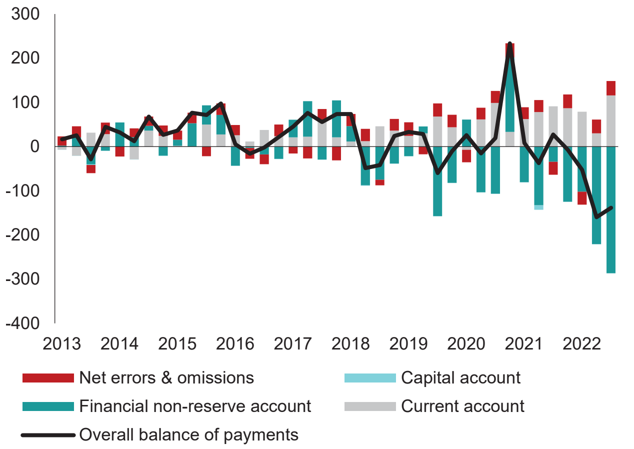


Source: Census and Statistics Department.

The external position deteriorated in 2022 amid capital outflow driven by rising US dollar interest rates.

Balance of Payments

(Billions of Hong Kong dollars)

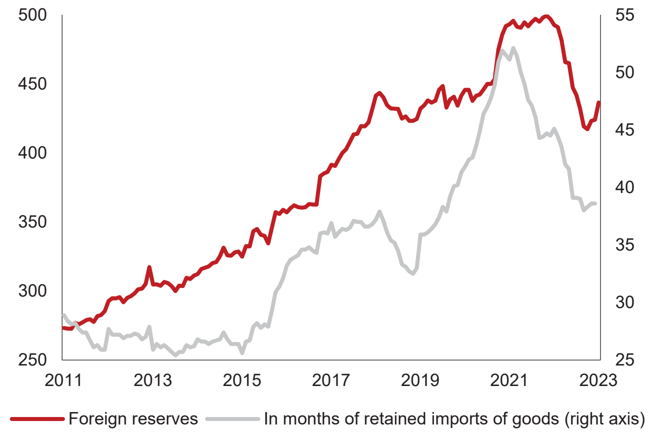


Sources: Census and Statistics Department.

Foreign exchange reserves remained ample, covering about 39 months of retained imports.

Foreign Reserves

(Millions of US dollars; months of imports)

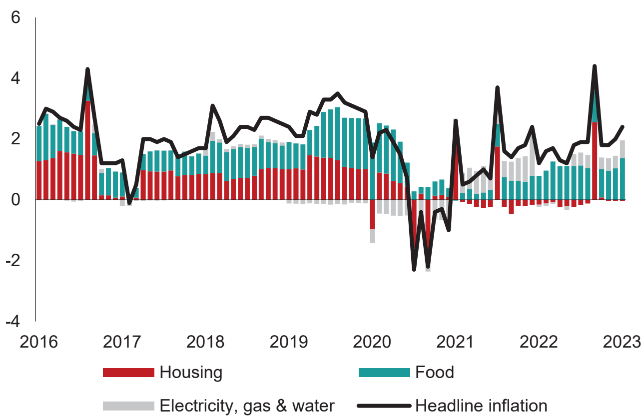


Source: Hong Kong Monetary Authority.

Inflation rose moderately on rising energy and food prices.

Contributions to Consumer Price Inflation

(Percentage points, year-on-year)

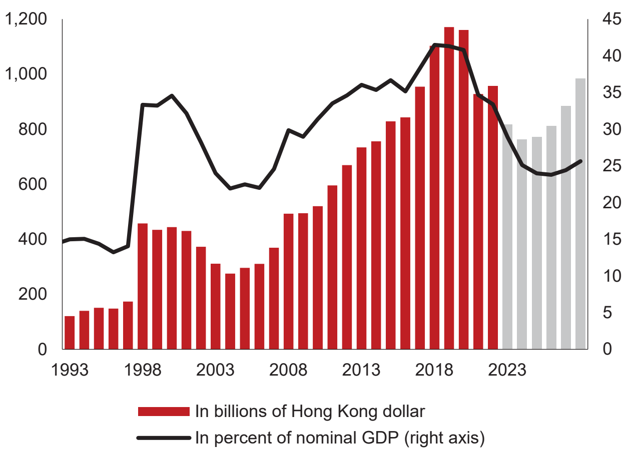


Source: Census and Statistics Department.

The government projected fiscal reserves as a percentage of GDP would revert its declining trend in FY2024.

Fiscal Reserves Projections

(Billions of Hong Kong dollars; percent of GDP)



Source: Financial Services and the Treasury Bureau.
Note: Grey bars denote government projections in the 2022 Budget Speech.

Hong Kong, China: Selected Economic Indicators

Indicator	2019	2020	2021	2022
Real sector	(in annual percentage change)			
Real GDP	–1.7	–6.5	6.4	–3.5
Private consumption	–0.8	–10.6	5.6	–1.0
Government consumption	5.1	7.9	5.9	8.1
Gross fixed capital formation	–14.9	–11.1	8.3	–8.5
Imports of goods and services	–7.2	–6.9	15.8	–12.2
Exports of goods and services	–6.1	–6.7	17.0	–12.6
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	5.9	7.0	11.8	6.6
Trade balance	1.6	1.9	5.6	0.5
Capital and financial account balance	–8.7	0.7	–13.4	–22.0
Direct investment	5.6	9.9	11.9	2.0
Portfolio investment	–7.6	–19.7	–21.6	–9.6
Other investment	–6.7	9.9	–4.8	–16.5
Errors and omissions	2.5	2.1	1.2	2.0
Overall balance	–0.3	9.8	–0.3	–13.4
Gross external debt	458.6	518.4	508.8	483.4
International reserves (in USD billion, end of period)	441.4	491.9	496.9	424.0
Fiscal sector[1]	(in percent of GDP)			
Revenue and grants	20.8	21.1	24.2	21.4
Expenditure	21.4	30.5	24.2	28.6
Fiscal balance	–0.6	–9.4	0.0	–7.3
Government debt	0.3	1.0	2.0	4.3
Monetary and financial sectors	(in annual percentage change)			
Broad money[2]	2.7	5.8	4.3	1.6
Domestic credit	6.7	1.2	3.8	–3.0
Private sector credit	6.8	1.6	4.8	0.0
Memorandum items:				
Nominal GDP (in HKD trillion)	2.8	2.7	2.9	2.8
Headline inflation (in percent y-o-y, period average)	2.9	0.3	1.6	1.9
Policy rate (in percent per annum)	2.54	0.90	0.50	2.13
Exchange rate (in HKD/USD, period average)	7.84	7.76	7.77	7.83

Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates.
Note: Numbers in red denote AMRO staff estimates. y-o-y = year-on-year.
1/ Refers to fiscal year, which starts on 1 April and ends on 31 March.
2/ Broad money refers to M3.

Indonesia

The Indonesian economy posted a solid recovery in 2022. Growth momentum was boosted by strengthened domestic demand, while exports benefited from elevated commodity prices and downstream efforts in natural resource-based industries. Real GDP grew by 5.3 percent in 2022 and is likely to remain firm in 2023, supported by resilient domestic demand amid an expected slowdown in global demand. Despite pass-through from soaring global food and fuel prices onto domestic prices, consumer price inflation was relatively more contained than in regional peers, and has moderated recently.

The external position remained strong in 2022. Like other emerging markets, Indonesia saw outflows from the government bond market due to risk aversion triggered by the US Federal Reserve aggressive monetary tightening. Rupiah stability was, nevertheless, maintained thanks to a current account surplus and increased FDI inflows. External debt declined steadily to about 30 percent of GDP by end-2022, down from about 35 percent in 2021 and 39 percent in 2020. The debt maturity structure remained sound with short-term external debt accounting for only about 17 percent of total external debt.

Listed firms' financial performance has improved. Increased earnings were observed in commodity exporters on the back of higher demand and prices. Likewise, resumed domestic activity benefited sectors that produce consumer goods. This was in line with the movement of the Jakarta Composite Index which outperformed regional peers in 2022.

Banking sector soundness has remained intact. Banks' profitability indicators improved on the back of a strong recovery in loan growth. Economic recovery also underpinned improved loan quality. Notably, the size of restructured loans moderated from 11 percent of total loans outstanding in 2021 to 8 percent as of October 2022. The nonperforming loan ratio also fell to 2.4 percent in December 2022, from 3.0 percent as at end-2021. At the same time, Indonesian banks remained well buffered with elevated capital adequacy ratio and provisions.

The central bank's policy mix has been appropriately adjusted in response to external headwinds to maintain growth momentum while ensuring financial stability. Bank Indonesia (BI) started to normalize the monetary policy by raising the rupiah reserve requirement ratio. BI also increased its benchmark policy rate to contain rising inflation expectations and support the rupiah exchange rate. As the banks remained financially sound, macroprudential policies stayed relaxed in line with other policy measures of the Financial System Stability Committee to support economic recovery.

Efforts to upgrade payment systems and promote financial inclusion have accelerated. Notably, BI launched the real-time retail payment system BI-FAST and expanded the standardized quick response payments at home and with neighboring countries. The recent publication of a white paper on Project Garuda on central bank digital currency was another step toward enhancing the payment system in the digital era.

The government has actively taken policy measures to contain inflation and maintain people's purchasing power. These include efforts to strengthen the inter-regional supply and distribution of necessity goods, notably food and food ingredients. To absorb the global commodity price shock, the government raised the subsidy spending in the 2022 budget and kept subsidized fuel prices unchanged. More recently, the government increased the prices of several types of subsidized fuel to minimize pressures on the budget, while providing additional cash transfers and wage subsidies to vulnerable groups.

The fiscal position has consolidated faster than budgeted on the back of robust revenue collection. Implementation of the 2021 tax reform package, coupled with rebounding economic activity and commodity price windfalls, underpinned a strong revenue performance in 2022. The budget deficit narrowed to 2.4 percent of GDP in 2022, one year ahead of the government plan of restoring a fiscal rule capping the budget deficit at 3 percent.

Indonesia's short-term outlook is weighed down by risks of a global slowdown and potential recession in some major trading partners. Meanwhile, a deepening of the global energy crisis may stoke inflation pressures, and cause the US Federal Reserve to tighten further, heightening uncertainty in global financial markets. On a positive note, recent easing of China's zero-COVID policy and a re-opening of its borders will benefit tourism and present an upside opportunity for Indonesia. Challenges in the medium to long-term arise from the need to improve the investment climate, supported by infrastructure development and connectivity enhancement. A smooth transition to a green and sustainable economy is also critical.

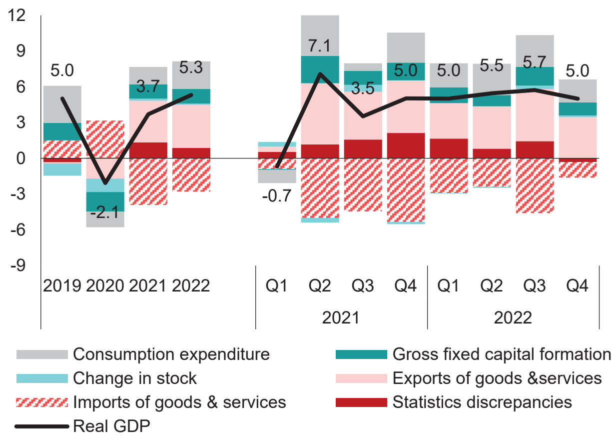
The author of this note is Thi Kim Cuc Nguyen.

Indonesia: Selected Figures

Recovery momentum strengthened in 2022, boosted by stronger domestic demand and resilient exports.

Contributions to Real GDP Growth

(Percentage points, year-on-year)

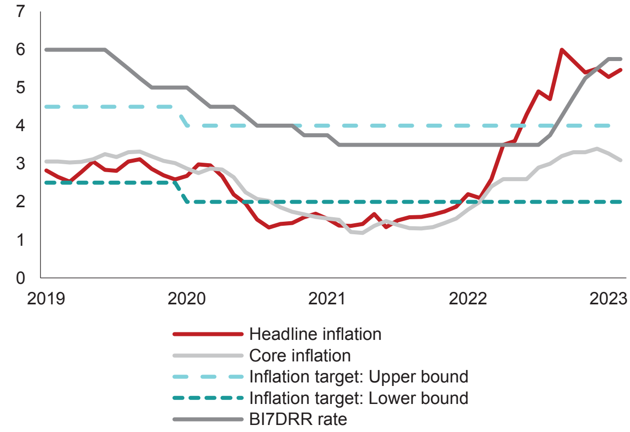


Source: Statistics Indonesia.

Bank Indonesia raised its benchmark policy rate from a record-low to contain inflation expectations arising from global commodity price shocks

Consumer Price Inflation and Policy Rate

(Percent)

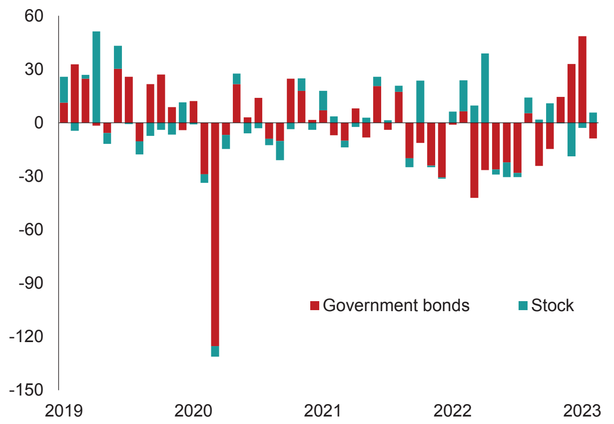


Source: Statistics Indonesia, Bank Indonesia.
Note: BI7DRR refers to Bank Indonesia's 7-day reverse repo rate.

Despite capital outflows, especially from the government bond market…

Net Capital Flows to Government Bond and Equity Markets

(Trillions of Indonesian rupiah)

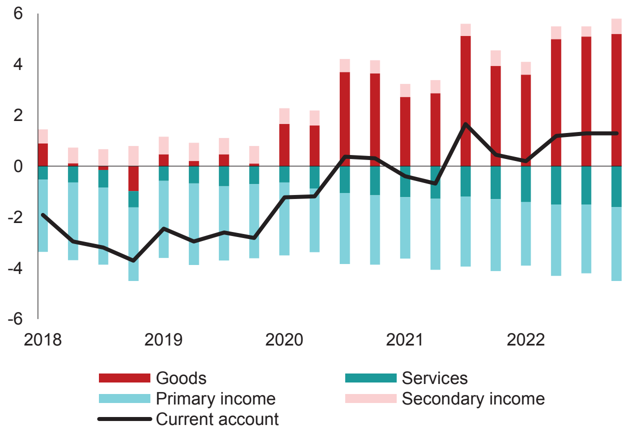


Source: Indonesia Stock Exchange; Ministry of Finance of Indonesia.

… an improved current account balance, coupled with continued FDI…

Current Account Balance

(Percent of GDP)

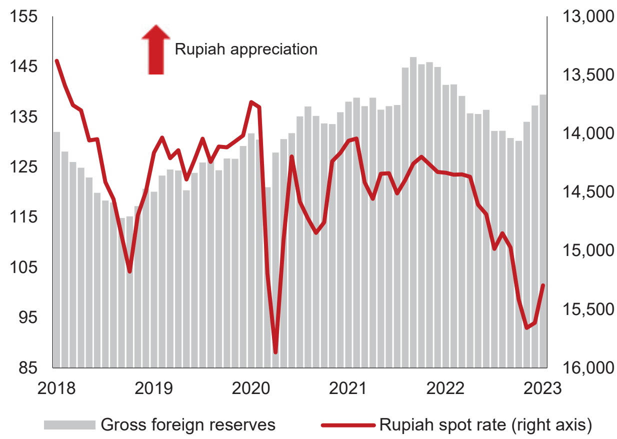


Source: Bank Indonesia.

… supported the rupiah and reserve position in 2022.

Gross Foreign Reserves and Rupiah Spot Rate

(Billions of US dollars; IDR/USD-reverse order)

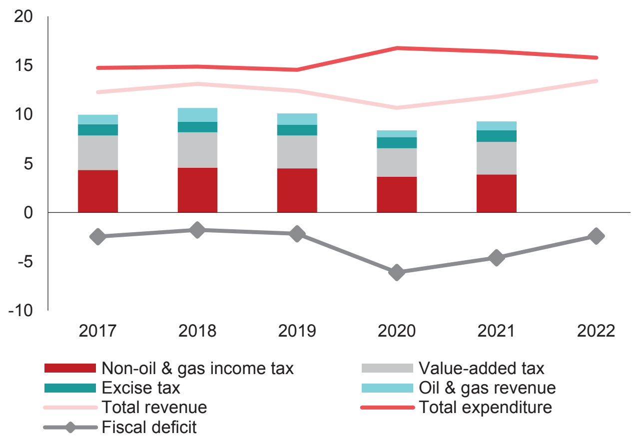


Source: Bank Indonesia

A strong revenue performance underpinned the fiscal deficit to narrow to below 3 percent of GDP ahead of the government plan.

Budget Revenue, Expenditure, and Balance

(Percent of GDP)



Source: Ministry of Finance of Indonesia
Note: Data for 2022 are preliminary fiscal realization data announced by Ministry of Finance of Indonesia.

Indonesia: Selected Economic Indicators

Indicator	2019	2020	2021	2022
Real sector	(in annual percentage change)			
Real GDP	5.0	–2.1	3.7	5.3
Household consumption	5.0	–2.6	2.0	4.9
Government consumption	3.3	2.0	4.2	–4.5
Gross fixed capital formation	4.5	–5.0	3.8	3.9
Imports of goods and services	–7.1	–16.7	23.3	14.7
Exports of goods and services	–0.5	–8.1	24.0	16.3
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	–2.7	–0.4	0.3	1.0
Trade balance	–0.4	1.7	2.5	3.2
Capital and financial account balance	3.3	0.7	1.1	–0.7
Direct investment	1.8	1.3	1.5	1.1
Portfolio investment	2.0	0.3	0.4	–0.7
Other investment	–0.5	–0.9	–0.9	–1.1
Overall balance	0.4	0.2	1.1	0.3
Gross external debt	36.1	39.3	34.9	30.1
International reserves (in USD billion, end of period)	129.2	135.9	144.9	137.2
Fiscal sector	(in percent of GDP)			
Revenue and grants	12.4	10.7	11.9	13.4
Expenditure	14.5	16.8	16.4	15.8
Fiscal balance	–2.2	–6.1	–4.7	–2.4
Government debt	30.2	39.4	40.7	39.5
Monetary and financial sectors	(in annual percentage change)			
Broad money	6.5	12.5	14.0	8.4
Private sector credit	5.5	–1.7	5.2	10.6
Memorandum items:				
Nominal GDP (in IDR trillion)	15,834	15,434	16,971	19,588
Headline inflation (in percent y-o-y, period average)	3.0	2.0	1.6	4.2
Policy rate (in percent per annum)	5.00	3.75	3.50	5.50
Exchange rate (in IDR/USD, period average)	14,237	14,148	14,308	14,850

Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates
Note: Numbers in red denote AMRO staff estimates. y-o-y = year-on-year.

Japan

The Japanese economy continued to recover at a moderate, though sometimes volatile, pace as the COVID-19 pandemic shifts to an endemic phase. An Omicron variant surge shrank GDP by 1.8 percent (annualized, quarter-on-quarter) in Q1 2022, and a strong 4.7 percent rebound in Q2 was followed by contraction again, by 1.1 percent, amid another spike in infections before the economy returned to growth of 0.1 percent in Q4. Overall, GDP grew 1.0 percent in 2022. Private consumption remained robust amid the recovery and business investment began to show some signs of improvement from the second quarter. However, exports continued to grow at a slower pace than imports.

Employment remained firm in 2022, as the growth of non-regular workers turned positive, recovering from the pandemic. The unemployment rate gradually declined to 2.4 percent in January 2023 from its 3.1 percent pandemic peak of October 2020. Nominal wage growth is now on a rising trend. However, escalating inflation has led to real wage growth turning negative since April 2022.

Consumer price inflation accelerated in 2022, mainly driven by soaring energy and food prices. Core CPI, less fresh food, rose by 4.2 percent year-on-year in January 2023, exceeding the Bank of Japan's (BOJ) price stability target. Stripping out fresh food and energy, "core-core" CPI inflation also rose strongly by 3.2 percent in the same month. That said, Japan's inflation remains relatively low compared to peer economies, with a modest increase in services prices, coupled with a limited pass-through of the cost of imported goods to consumer prices. Meanwhile, medium-term inflation expectations increased significantly to over 2 percent according to the BOJ Tankan survey.

Japan's external position remained resilient, supported by a large primary income surplus and substantial foreign reserves despite widening trade deficits. In 2022, the current account remained in surplus, while declining to 2.1 percent of GDP from 3.9 percent in 2021, reflecting higher commodity prices. The services account stayed in deficit, largely due to a sharp drop in inbound tourism. The primary income surplus remained strong in 2022, offsetting the trade deficit. The yen depreciated sharply against the US dollar by more than 12 percent in 2022, reflecting a diverging monetary policy stance from the US Federal Reserve and a widening trade deficit.

The banking sector remained largely sound. Bank lending expanded moderately in 2022 by 3.0 percent year-on-year, and broadly comparable to the pre-pandemic rate of 2–3 percent. The financing needs of small and medium-sized enterprises and households largely drove the loan growth. Asset quality in the banking system remained solid with the average nonperforming loan ratio standing at 1.3 percent as of March 2022. Capital adequacy ratios have been well above the regulatory requirements. Profitability picked up in FY2021 at major and regional banks, partly attributable to the BOJ's policy support during the pandemic. Liquidity conditions remained robust as deposits grew faster than loans. The liquidity coverage ratios at Japanese megabanks were higher than, or were comparable to, those of other global systemically important banks.

The fiscal deficit narrowed in FY2021 on the back of strong revenue collection after widening in FY2020 because of the massive COVID-19 stimulus packages. For FY2022, the government launched an emergency package of JPY 6.2 trillion, equivalent to 1.1 percent of GDP, primarily to mitigate the impacts of soaring crude oil and commodity prices, which was partly funded by a supplementary budget of JPY 2.7 trillion. In October 2022, the government announced another economic package, totaling JPY 39 trillion, equivalent to 6.9 percent of GDP, to mitigate the impact of price increases and to support investment and reforms for sustainable growth, which would be backed by a second supplementary budget proposal of JPY 29.6 trillion.

Japan's macro-financial outlook is tilted to the downside with substantial uncertainties, mainly from the external sector. A resurgence of global energy prices would hurt the Japanese economy, which relies on energy imports, by worsening the terms of trade and weighing down domestic consumption. A recession in the United States and Europe would dampen global demand and so make conditions difficult for Japan's manufacturing and export sectors.

Medium- to long-term vulnerabilities and challenges include the low profitability of regional banks, weakening fiscal discipline, side-effects from prolonged monetary easing, and the demographic drag from population aging and low fertility rates.

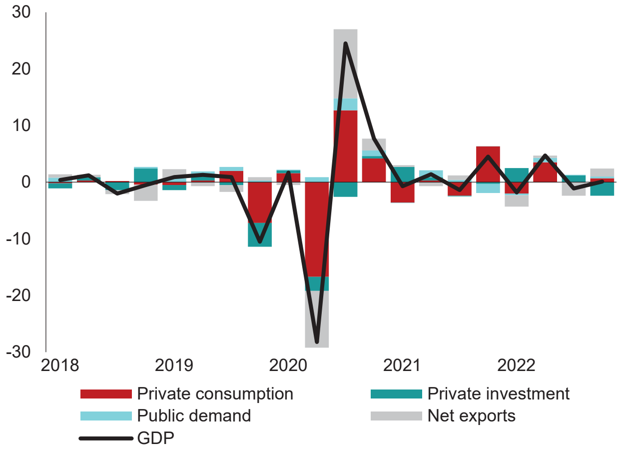
The author of this note is Jinho Choi.

Japan: Selected Figures

Japanese economy continued to expand at a moderate pace in 2022.

Contributions to Real GDP Growth

(Percent, quarter-on-quarter, seasonally adjusted annualized rate)

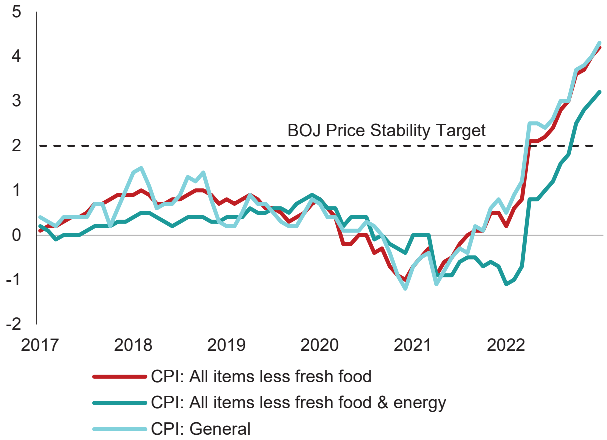


Source: Cabinet Office via Haver Analytics

Consumer price inflation accelerated in 2022 on the back of soaring energy and food prices.

Consumer Price Inflation

(Percent, year-on-year)

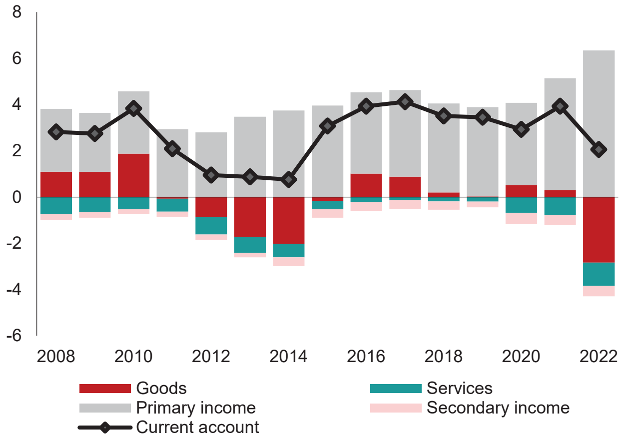


Source: Ministry of Internal Affairs and Communications via Haver Analytics.
Note: CPI = consumer price index

The current account surplus remained resilient in 2022 on the back of a large primary balance surplus.

Current Account Balance

(Percent of GDP)

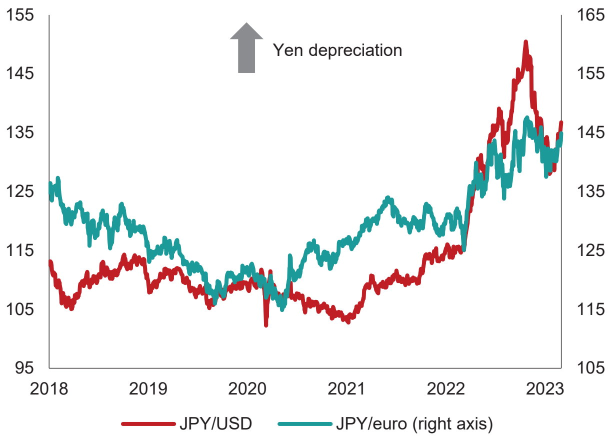


Source: Ministry of Finance via Haver Analytics

The yen depreciated sharply against the US dollar by more than 12 percent in 2022.

Exchange Rates

(JPY/USD; JPY/euro)

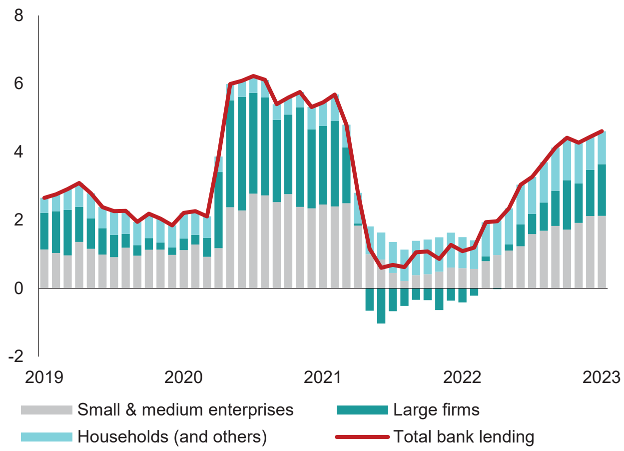


Source: Bank of Japan via Haver Analytics

Loan growth recovered to pre-pandemic levels, driven by financing needs of small and medium enterprises, and households.

Contributions to Bank Lending Growth

(Percentage points, year-on-year)

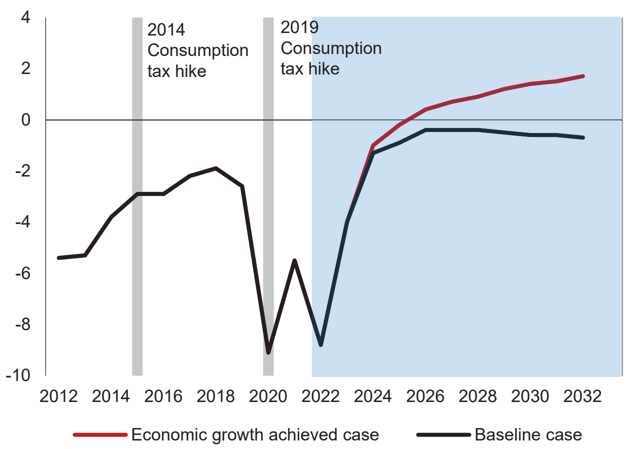


Source: Bank of Japan via Haver Analytics

The fiscal deficit narrowed in FY2021 amid strong revenue collection.

Primary Balance of Central and Local Governments

(Percent of GDP)



Source: Cabinet Office (January 2023) via Haver Analytics.
Note: The shaded area indicates the Cabinet Office's projection period.

Japan: Selected Economic Indicators

Indicator	2019	2020	2021	2022
Real sector	(in annual percentage change)			
Real GDP	–0.4	–4.3	2.1	1.0
Private consumption	–0.6	–4.7	0.4	2.1
Government consumption	1.9	2.4	3.5	1.5
Gross fixed capital formation	0.5	–3.6	–0.1	–1.1
Imports of goods and services	1.0	–6.8	5.0	7.9
Exports of goods and services	–1.5	–11.6	11.7	4.9
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	3.5	2.9	3.9	2.1
Trade balance	–0.2	–0.2	–0.5	–3.8
Capital account balance	–0.1	0.0	–0.1	0.0
Financial account balance	4.0	2.4	1.8	2.7
Direct investment	4.3	1.7	3.6	3.2
Portfolio investment	1.7	0.8	–4.0	–3.5
Financial derivatives	0.1	0.1	0.4	0.9
Other investment	–2.1	–0.3	1.8	2.0
Errors and omissions	1.1	–0.3	–0.8	–0.6
Overall balance	0.5	0.2	1.3	–1.3
Gross external debt	83.0	92.7	96.4	101.8
International reserves (in USD billion, end of period)	1,323.8	1,394.7	1,405.8	1,227.6
Fiscal sector[1]	(in percent of GDP)			
Revenue and grants	35.4	36.8	38.0	41.2
Expenditure	38.6	46.8	43.9	50.6
Fiscal balance	–3.1	–10.0	–5.9	–9.4
Government debt	238.8	261.6	259.0	268.4
Monetary and financial sectors	(in annual percentage change)			
Broad money	1.7	4.1	5.6	4.0
Domestic credit	2.6	4.9	4.9	1.5
Private sector credit	3.6	5.4	7.0	0.3
Memorandum items:				
Nominal GDP (in JPY trillion)	557.9	539.1	549.4	556.4
Headline inflation (in percent y-o-y, period average)	0.5	0.0	–0.3	2.5
Core inflation[2] (in percent y-o-y, period average)	0.6	–0.2	–0.2	2.3
Policy rate (in percent per annum, end of period)	–0.1	–0.1	–0.1	–0.1
Exchange rate (in JPY/USD, period average)	109.0	106.8	109.8	131.4

Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates.
Note: Numbers in red denote AMRO staff estimates. y-o-y = year-on-year.
1/ Refers to fiscal year, which starts on 1 April and ends on 31 March.
2/ Refers to CPI of all items less fresh food

Korea

The Korean economy rebounded during 2021 and 2022 mainly on strong export growth and recovering private consumption. Real GDP growth in 2022 was 2.6 percent, above the potential growth rate estimate of 2.0 percent, driving the output gap into positive territory for the first time since 2020. However, economic recovery from the pandemic remains uneven across sectors. While manufacturing rebounded quickly, services recovered only gradually.

The labor market remained tight. The unemployment rate fell to 2.9 percent in 2022 from 4.0 percent in 2020. Total employment exceeded pre-pandemic levels, although again the jobs recovery was uneven, with accommodation and food services still lagging due to a heavy toll from the pandemic.

Headline inflation has probably peaked and is expected to decline to 3.3 percent in 2023 from 5.1 percent in 2022. The increase in inflation was broad-based in 2022, both from the supply side, reflecting rising energy and food prices, and from the demand side, spurred by the economic reopening and larger-than-expected fiscal stimuli. Core inflation, which excludes food and energy prices, also rose at a fast pace of 3.6 percent. Higher inflation appears to have transmitted to wage growth to some extent, but an inflation-wage spiral is expected to be unlikely even as the labor market is tight. Short-term inflation expectations have been high, although long-term expectations remain well anchored.

The external sector has been resilient despite widening trade deficits and some decline in foreign reserves. The current account surplus is forecast to narrow from 4.7 percent in 2021 to 1.8 percent in 2022 mainly due to trade deficits. International reserves dropped by USD 40 billion to USD 423 billion in 2022 amid the depreciation of the won and a continual net increase in residents' overseas portfolio investments. Despite the recent decline, foreign reserves remain ample, covering about 2.4 times short-term external debts and about six months' of imports.

Monetary policy tightening has become restrictive. To tame the rapid and broad-based increase in inflation following the surge in commodity and import prices together with elevated household debts, the Bank of Korea (BOK) has raised the base rate on 10 occasions since August 2021, to 3.50 percent from 0.50 percent, including two big hikes of 50 basis points each.

Financial institutions have slowed down lending since the BOK embarked on its hiking cycle, but borrowers' debt-servicing capacity has remained broadly robust. The slowdown of loan growth has been driven mainly by fewer household and small and medium enterprise loans as the cost of borrowing rose. Overall, the loan quality of banks and nonbank financial institutions remains sound. This is reflected by the low average delinquency rates. That said, the debt-servicing capability of young adults and small firms has deteriorated somewhat and could continue to worsen amid the increase in interest rates.

The property market has been slowing down since mid-2021. Housing demand softened due to the tighter financial environment amid stringent macroprudential measures and real estate taxes, and a slowdown in the domestic economy. Accordingly, mortgage lending moderated. Meanwhile, the supply shortage eased amid new housing coming on the market and a relaxation of housing redevelopment regulations. As a result, property and rental prices, especially for apartments, have continued to fall across the country.

The budget for 2023 and the National Fiscal Management Plan (NFMP) 2022–26 envisage a fiscal policy shift from expansion to consolidation. The fiscal deficit, excluding social security funds (SSFs), is budgeted to decline sharply to 2.6 percent of GDP in 2023, mainly attributable to the spending being cut by 6.0 percent relative to the second supplementary budget in 2022. Over the medium term, the NFMP 2022–26 aims to maintain the fiscal deficit (excluding SSFs) at mid-2 percent of GDP and the government debt at below mid-50 percent of GDP.

Risks to the economic outlook are tilted to the downside in the near term, with a lot of uncertainty surrounding the baseline forecast. Short-term risks include a weaker-than-expected recovery in China, more aggressive policy rate hikes by the US Federal Reserve, a sharper economic slowdown in advanced economies, the spread of new and more infectious coronavirus variants in Korea and its major trading partners, renewed commodity price hikes, and supply chain disruptions.

Over the medium term, a rising interest burden and slowing economy could lead to financial distress in vulnerable families and businesses, although household and corporate debt are generally sound. Vulnerabilities could also arise among some land developers and small securities companies. In addition, geopolitical tensions could intensify and dampen economic activities. In the long term, rapid population aging will aggravate the fiscal burden and weigh on the country's economic potential.

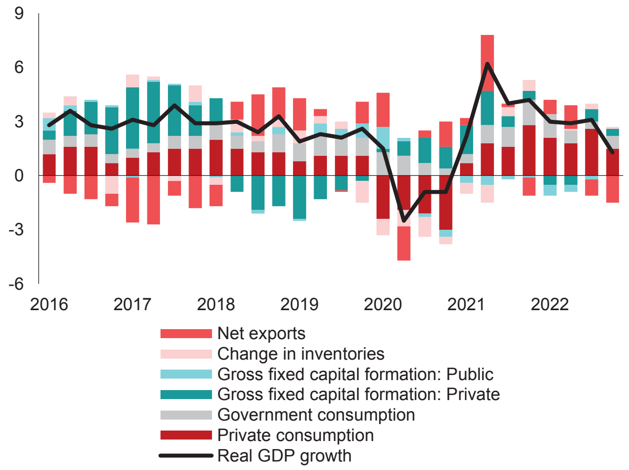
The author of this note is Xu (Kimi) Jiang.

Korea: Selected Figures

The Korean economy rebounded during 2021 and 2022, mainly on strong export growth and recovering private consumption.

Contributions to Real GDP Growth

(Percentage points, year-on-year)

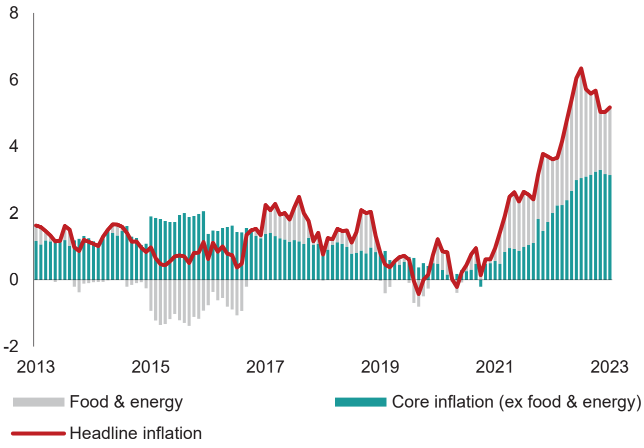


Source: Bank of Korea via Haver Analytics;

The increase in inflation was broad-based in 2022, both from the supply side and the demand side.

Contributions to Consumer Price Inflation

(Percentage points, year-on-year)

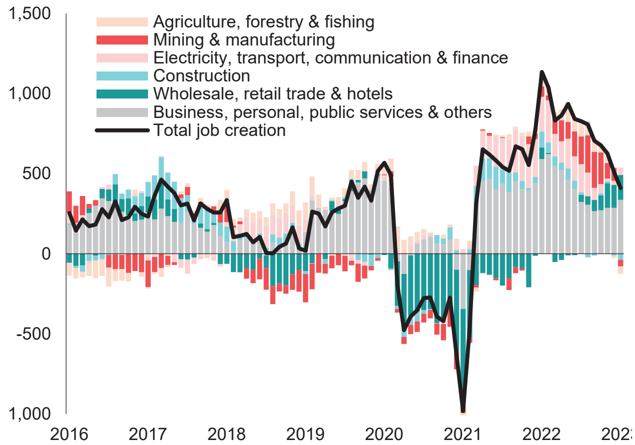


Source: Statistics Korea via Haver Analytics;

Job growth was strong in 2022, although uneven across sectors.

Change in Employment

(Thousands, year-on-year, non-seasonally adjusted)

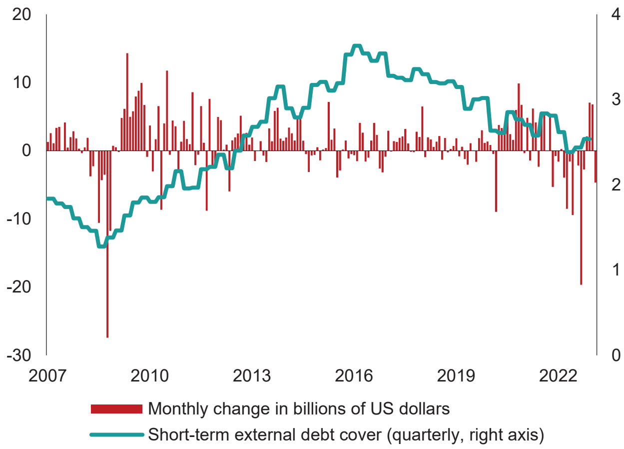


Source: Statistics Korea via Haver Analytics; AMRO staff calculations

Despite the recent decline, foreign reserves remain ample, covering about 2.4 times short-term external debt.

Foreign Exchange Reserves

(Billions of US dollars; times)

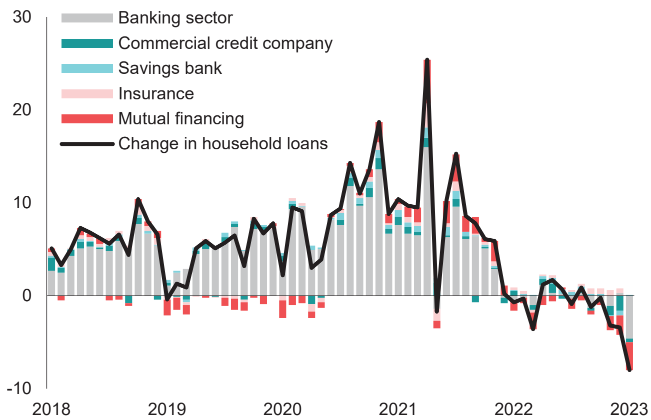


Source: Bank of Korea via Haver Analytics; AMRO staff calculations

Loans to the household declined in 2022, led by banking sector.

Change in Household Loans

(Trillions of Korean won, non-seasonally adjusted)

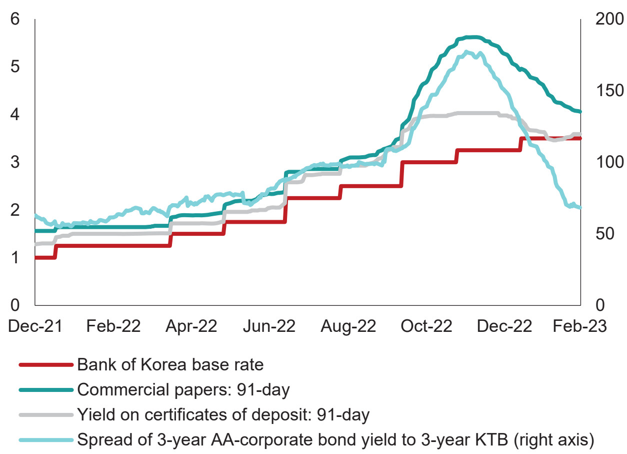


Source: Financial Supervisory Service via Haver Analytics

Yields of corporate bonds and short-term money market instruments rose rapidly in October and November 2022 following the default of the Legoland Korea developer.

Policy and Market Interest Rates

(Percentage; basis points)



Source: Bank of Korea via Haver Analytics; AMRO staff calculations.
Note: KTB = Korean treasury bond.

Korea: Selected Economic Indicators

Indicator	2019	2020	2021	2022
Real sector	(in annual percentage change)			
Real GDP	2.2	–0.7	4.1	2.6
Private consumption	2.1	–4.8	3.7	4.4
Government consumption	6.4	5.1	5.6	4.2
Gross fixed capital formation	–2.1	3.5	2.8	–0.9
Imports of goods and services	–1.9	–3.1	10.1	3.5
Exports of goods and services	0.2	–1.7	10.8	2.9
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	3.6	4.6	4.7	1.8
Trade balance	3.2	4.0	3.9	0.6
Capital and financial account balance	3.5	3.9	3.4	4.0
Direct investment	1.6	1.6	2.4	2.9
Portfolio investment	2.6	2.5	1.1	1.5
Other investment	–1.0	–0.5	–0.1	–0.9
Errors and omissions	0.0	0.4	–0.4	0.5
Overall balance	0.1	1.1	0.8	–1.7
Gross external debt	28.5	33.5	34.9	39.7
International reserves (in USD billion, end of period)	408.8	443.1	463.1	423.2
Fiscal sector	(in percent of GDP)			
Revenue	24.6	24.7	27.5	28.6
Expenditure	25.2	28.3	29.0	31.2
Fiscal balance (include social security funds)	–0.6	–3.7	–1.5	–2.7
Government debt[1]	37.6	43.6	46.9	49.5
Monetary and financial sectors	(in annual percentage change)			
Broad money	7.9	9.8	12.9	3.5
Domestic credit	9.6	9.7	12.1	8.0
Private sector credit	9.0	9.1	11.3	7.0
Memorandum items:				
Nominal GDP (in KRW trillion)	1,924.5	1,940.7	2,071.7	2,162.4
Headline inflation (in percent y-o-y, period average)	0.4	0.5	2.5	5.1
Policy rate (in percent, end of period)	1.25	0.50	1.00	3.50
Exchange rate (in KRW/USD, period average)	1,165.7	1,180.1	1,144.4	1,292.2

Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates
Note: Numbers in red denote AMRO staff estimates. y-o-y = year-on-year.
1/ Government debt refers to only debt securities and loans.

Lao People's Democratic Republic

The Lao PDR's economy in 2022 continued to recover from the pandemic. The recovery was underpinned by strong construction and mining. Mobility data suggest that movement restrictions were no longer a constraint on domestic business amid the reopening of borders. On the other hand, extremely high inflation since mid-2022 dampened consumption. GDP growth is estimated at 4.0 percent in 2022. The closure of copper and gold mines could weaken growth in 2023, while the reopening of the Chinese border would increase FDI and tourist arrivals to Laos through the recently completed Lao-China railway.

Inflation has surged since mid-2022, driven by domestic and external factors. Domestic energy prices increased in 2022 due to the global oil price increase and depreciation of the kip. The Lao currency's sharp depreciation also pushed up food prices, partly due to the reliance on food imports. In addition, food prices spiked in September and October 2022, on account of higher logistics costs due to flooding.

The kip depreciated 30 percent against the US dollar in the parallel market between March and June 2022 and then stabilized. The depreciation was due to a sharp rise in spending on imports as a result of higher global oil prices, as well as high debt repayments and low repatriation of export earnings. The pace of depreciation slowed after July, helped by the Bank of the Lao PDR (BOL) issuing high-yield bonds in June to mop up liquidity. The kip gradually appreciated from around 19,000 LAK/USD in November 2022 to 17,000 LAK/USD in January 2023 amid the weakening of US dollar.

The external balance weakened in 2022, resulting in lower gross international reserves. The current account balance deteriorated with slower export growth while recovery and higher energy prices pushed up imports. The financial account turned negative due to an increase in debt repayments and a slowdown in FDI. Gross international reserves declined from USD 1.3 billion at the end of 2021 to USD 1.1 billion in September 2022.

Bank lending has picked up, while deposit growth has slowed in recent months. Strong loan growth, especially in kip loans, may be related to the improved financial position of construction companies as government arrears were cleared in 2021. In addition, two state-owned banks were recently recapitalized. Following the issuance of BOL bills in June, bank liquidity declined as depositors switched out of bank deposits. The kip loan-to-deposit ratio increased to 91.0 percent as of October 2022, up from 79.4 percent at the end of 2021.

The government continued its fiscal consolidation in 2022. The budget deficit was reduced to 0.6 percent of GDP in 2022 from 1.3 percent in 2021. In 2022, revenue growth was robust, driven by strong activity in the hydropower and mining sectors, while expenditure growth was moderate due to slower capital expenditure disbursements. However, despite fiscal consolidation, the public debt-to-GDP ratio estimated to have risen further from 75 percent to 97 percent of GDP in 2022 due to the decline in the exchange rate.

The external sector is exposed to downside risks. The global economic slowdown and the closure of copper and gold mines could weigh on growth and the external balance in future, although the reopening of the Chinese border would provide a boost to tourism. Given low gross international reserves, the kip remains vulnerable to external shocks, including higher energy prices and tighter US dollar financing conditions, amid large external debt repayments. Another round of kip depreciation could further accelerate inflation and weaken the balance sheets of firms whose borrowings are denominated in foreign currencies and revenues are in the kip, including Électricité du Laos (EDL), the state-owned electricity company.

Although financial soundness varies across banks, loan quality is subject to downside risks. Banque Pour Le Commerce Exterieur Lao Public, the largest bank with a 40 percent share in total bank deposits, reported a further decline in its capital adequacy ratio to below 6 percent in Q2 2022, against a regulatory minimum of 8 percent. While nonperforming loans ratios remained low and stable, bank asset quality could be affected by the withdrawal of regulatory forbearances on COVID-19-related restructured loans.

Given the low level of gross international reserves and limited access to external financing, the government's debt service capacity is a major concern. External debt service is expected to remain above USD 1 billion a year for the next few years, while securing external financing is challenging due to unfavorable market conditions and Lao PDR's low credit ratings. EDL's financial position continues to deteriorate due to operational and foreign exchange losses. EDL's financial difficulties could strain the fiscal position through delayed on-lending payments and potential bailout costs.

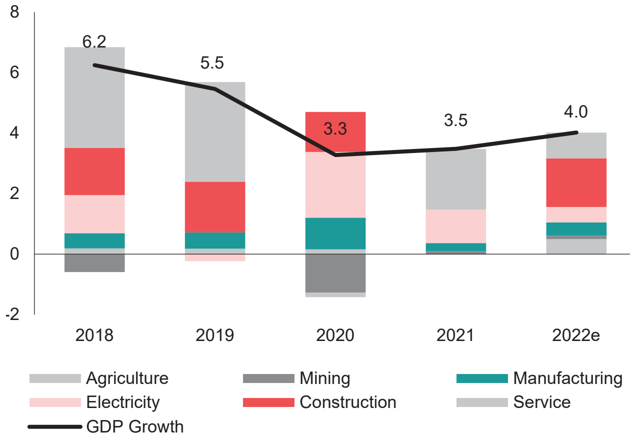
The author of this country note is Yoki Okawa.

Lao PDR: Selected Figures

The Lao PDR economy continues its recovery from pandemic in 2022.

Contributions to Real GDP Growth

(Percentage points, year-on-year)



Sources: Lao Statistics Bureau; and AMRO staff estimates.
Note: e denotes estimate.

Inflation accelerated in 2022, driven by food price and currency depreciation.

Contributions to Consumer Price Inflation

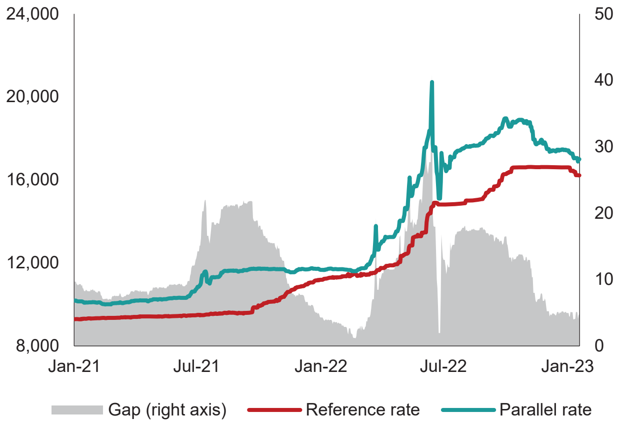
(Percentage points, year-on-year)

Source: Lao Statistics Bureau.
Note: CPI = consumer price index.

The kip depreciated sharply from March to June 2022 while it gradually appreciated from November 2022 to January 2023.

Exchange rates

(LAK/USD; percentage points)

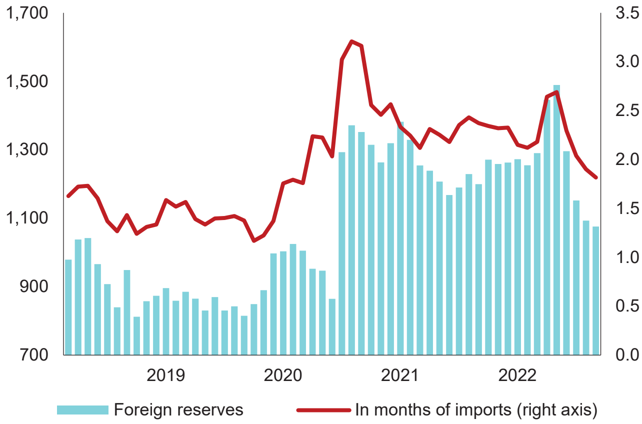


Source: Bank of Lao PDR
Note: Gap is a difference between parallel rates and reference rates.

Foreign exchange reserves were on a downward trend in 2022.

International Reserves

(Millions of US dollars; months of imports)

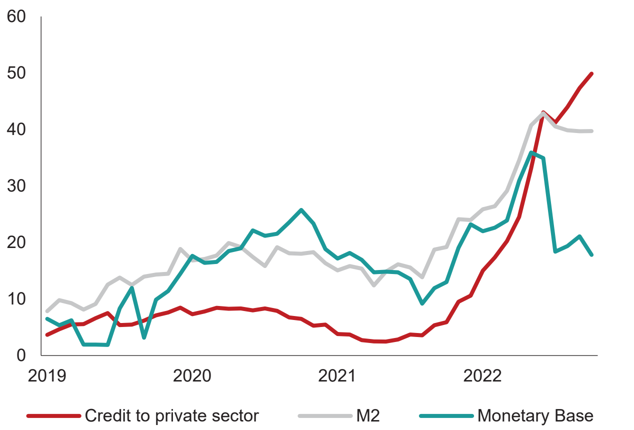


Source: Bank of Lao PDR; AMRO staff estimates.

Credit growth accelerated partly due to the improved financial conditions as public arrears were resolved.

Credit Growth

(Percent, year-on-year)

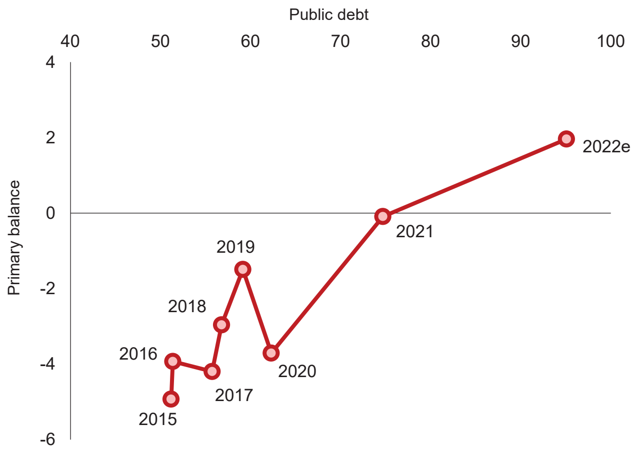


Source: Bank of Lao PDR.

The primary balance improved in 2022 but public debt increased because of currency depreciation.

Primary Balance and Public Debt

(Percent of GDP)



Source: Ministry of Finance; AMRO staff estimates.
Note: e denotes estimate.

Lao PDR: Selected Economic Indicators

Indicator	2019	2020	2021	2022
Real sector	(in annual percentage change)			
Real GDP	5.5	3.3	3.5	4.0
Agriculture	1.2	1.1	1.5	2.4
Industry	5.6	9.2	6.1	4.8
Services	6.9	–1.2	1.4	3.9
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	–7.0	–1.2	2.7	–0.3
Trade balance	–2.8	3.4	6.8	5.3
Capital and financial account balance	10.4	5.7	1.6	–1.8
Direct investment	4.0	5.1	5.6	2.9
Portfolio investment	–0.2	–1.3	–1.6	–0.5
Other investment	6.6	1.9	–2.4	–4.1
Errors and omissions	–2.7	–2.8	–4.3	0.7
Overall balance	0.7	1.7	–0.3	–1.3
Gross external debt[1]	85.3	84.8	94.2	119.2
International reserves (in USD billion, end of period)	997.0	1,319.0	1,263.0	1,066.0
Fiscal sector	(in percent of GDP)			
Revenue and grants	15.6	12.7	14.7	15.3
Expenditure	18.8	17.9	16.0	16.3
Fiscal balance	–3.3	–5.2	–1.3	–1.0
Primary balance	–1.5	–3.7	–0.1	2.2
Government debt	59.1	62.3	74.7	95.1
Monetary and financial sectors	(in annual percentage change)			
Broad money	18.9	16.3	24.0	41.5
Domestic credit[2]	7.4	4.3	11.5	43.4
Private sector credit[3]	8.5	5.5	10.6	44.2
Memorandum items:				
Nominal GDP (in LAK billion)	162,657	172,612	184,981	211,604
Nominal GDP (in USD million)	18,737	19,076	19,056	14,742
GDP per capita (in USD)	2,630	2,637	2,593	1,974
Headline inflation (in percent y-o-y, period average)	3.3	5.1	3.8	23.0
Exchange rate (in LAK/USD, period average)	8,681	9,048	9,707	14,076

Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates
Note: Numbers in red denote AMRO staff estimates. y-o-y = year-on-year.
1/ Using end of period exchange rates.
2/ Domestic credit composes net claims from central government, local government, nonfinancial corporations and households.
3/ Private sector credit excludes credit to state-owned enterprises.

Malaysia

The economy rebounded strongly in 2022, but with growth momentum eased somewhat toward the end of the year. From 3.1 percent in 2021, GDP growth increased to 8.7 percent in 2022. A strong recovery in domestic demand, particularly private consumption, drove Malaysia's GDP to expand by 6.9 percent year-on-year in the first half of 2022. Growth surged further to 14.2 percent in Q3 from a low base and due to robust exports, which received a boost from 1 April 2022 as international borders were reopened. Growth eased to 7.0 percent year-on-year in Q4, as weakening global demand began to weigh on Malaysia's manufacturing and external sectors, and the strong rebound in private consumption, which started in Q4 2021, peaked toward end-2022 as pandemic support measures were gradually unwound. Nonetheless, going forward, consumer demand is likely to remain supported by the sustained recovery of the labor market—in line with the pick-up in infrastructure investment and a strong pipeline of FDI—as well as ample household savings.

Price controls and subsidies have put a lid on inflation, although the broadening of price pressures has prompted a normalization of monetary policy. Headline inflation rose to 3.3 percent in 2022 from 2.5 percent in 2021, with price controls on selected food items and energy subsidies mitigating the pass-through of global inflation to domestic prices. However, a rebound in demand from the lifting of COVID-19 restrictions has contributed to a broadening of price pressures, with core inflation rising to its highest in nearly seven years, at 4.0–4.2 percent in September–December 2022. After taking its policy rates to a record low of 1.75 percent in 2020, Bank Negara Malaysia (BNM) started to normalize monetary policy in May 2022, raising the policy rate in four 25-basis-point increments to 2.75 percent by February 2023.

Robust trade surpluses and FDI inflows have kept Malaysia's external position strong despite some outflows of portfolio investment following aggressive monetary policy tightening by the US Federal Reserve in 2022. The trade surplus was supported by favorable terms of trade and upbeat demand for Malaysia's exports of commodities, electrical and electronic products, and other manufactured goods. At the same time, FDI rose remarkably to 4.1 percent of GDP in 2022, from 3.1 percent in 2021 and 2.2 percent in 2018–19. These positive developments have helped mitigate the decline in BNM's international reserves amid currency depreciation pressures and portfolio investment outflows as the US Federal Reserve monetary tightening triggered a reallocation of global funds to safer assets. BNM's international reserves remain adequate to cover short-term external liabilities despite a decline of USD 1.7 billion from USD 116.9 billion at end-2021 to USD 115.2 billion as of end-January 2023.

The banking system, with its ample capital and liquidity buffers, remains able to facilitate continued credit growth. The banking system's capital and liquidity buffers are well above their regulatory requirements of 10.5 percent (inclusive of the capital conservation buffer) and 100 percent, respectively. Loan impairments have likewise remained low at 1.72 percent of total loans at the end of 2022, only 0.05 percentage point higher from end-2021, despite heightened credit risks from the phasing out of the loan repayment assistance in June 2022 and higher borrowing costs. Loan growth picked up from 4.4 percent at end-2021 to peak at 6.8 percent in August before easing to 5.5 in November and 5.7 percent in December.

Fiscal performance in 2022 beat initial Ministry of Finance (MOF) projections, while the revised 2023 budget seeks to balance growth and fiscal consolidation. The fiscal deficit was at 5.6 percent of GDP in 2022 compared to the MOF's initial estimate of 6.0 percent, with fiscal revenue getting a boost from the surprise upside in global commodity prices and a robust domestic recovery. The revised 2023 budget, tabled by the new government on 24 February 2023, aims to continue to support growth and alleviate cost-of-living pressures. Yet, it takes on a faster pace of fiscal consolidation, with a projected fiscal deficit of 5.0 percent in 2023 and narrowing further to 3.2 percent in 2025, by raising new sources of revenue such as a luxury goods tax.

While the economy has recovered strongly from the COVID-19 pandemic, its near-term outlook faces multifaceted risks. Chief among them are: (1) a deeper, or more protracted, recession in the US and Europe, and a weak recovery of the Chinese economy, (2) elevated inflation due to supply related disruptions, such as from prolonged geopolitical conflicts and spikes in COVID-19 cases causing worker shortages in China, and (3) a sharp tightening of financial conditions, including renewed currency depreciation pressures, from the US Federal Reserve continued rate hikes. On the upside, the recent reopening of China's international borders could expedite recovery in Malaysia's tourism industry and support merchandise export.

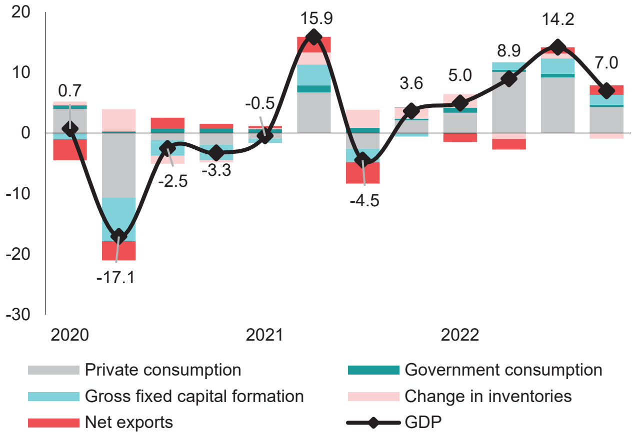
The authors of this country note are Diana del Rosario and Wee Chian Koh.

Malaysia: Selected Figures

A strong recovery in consumer demand and a low base pushed up GDP growth to 8.7 percent in 2022.

Contributions to Real GDP Growth

(Percentage points, year-on-year)

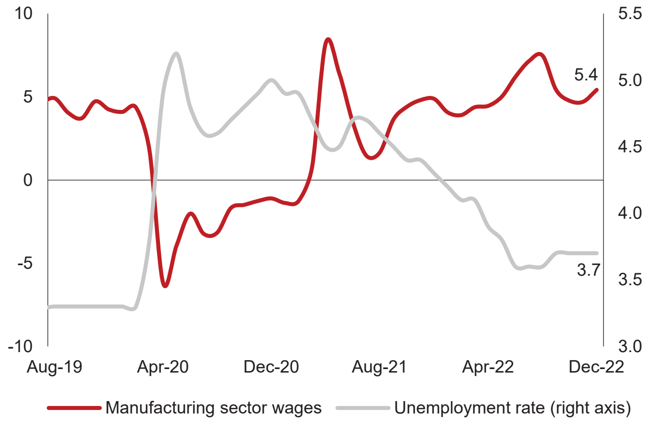


Source: Department of Statistics Malaysia; AMRO staff estimates.

Employment and wage growth are supporting the rebound in private consumption.

Wages and Unemployment Rate

(Percent year-on-year; percent, seasonally adjusted)

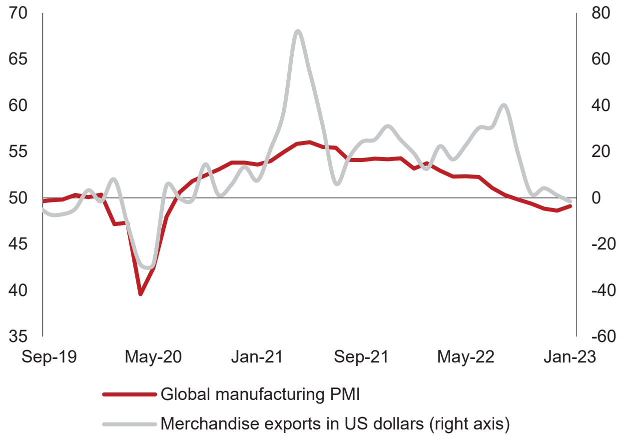


Source: Department of Statistics Malaysia.

Merchandise exports posted robust growth until closer to end-2022 when the global manufacturing outlook dimmed.

Manufacturing Sector PMI and Merchandise Exports

(Index; percent year-on-year)

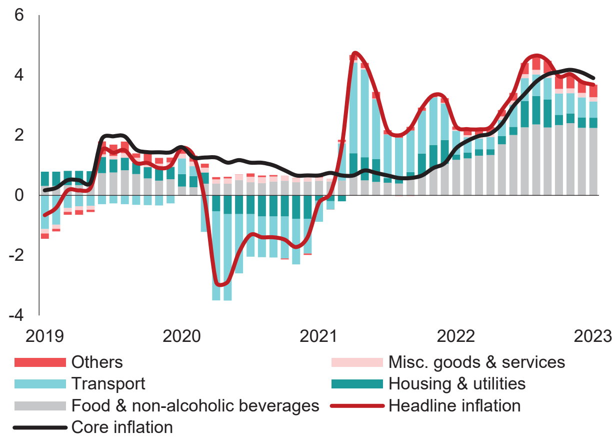


Source: Bank Negara Malaysia; Department of Statistics Malaysia; S&P Global.
Note: For global manufacturing purchasing managers' index (PMI), data above level 50 denote expansion.

Price controls and subsidies have put a lid on headline inflation but have not kept core inflation from rising steadily.

Contributions to Consumer Price Inflation

(Percentage points, year-on-year)

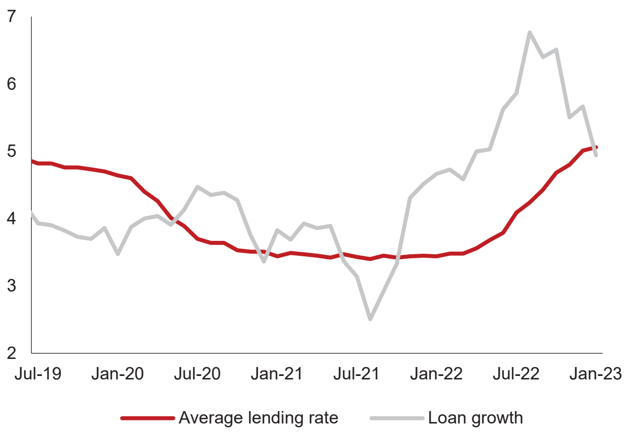


Source: Department of Statistics Malaysia.
Note: Misc. = miscellaneous.

Loan growth strengthened in 2022 despite the increase in lending rate following BNM's policy rate normalization.

Lending Rate and Loan Growth

(Percent, percent year-on-year)

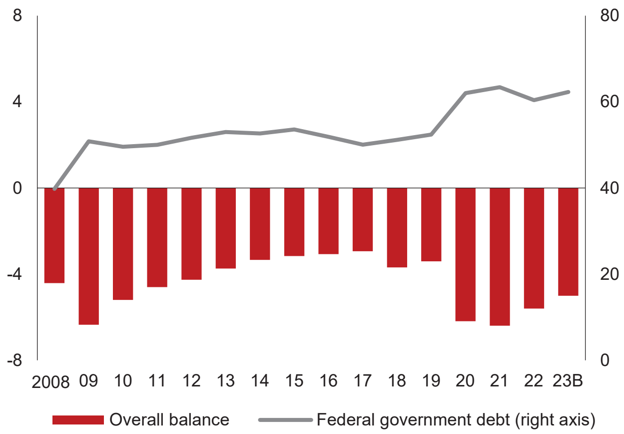


Source: Bank Negara Malaysia.

The fiscal deficit and government debt, after rising in 2020-2021, have remained well above pre-pandemic levels.

Fiscal Balance and Federal Government Debt

(Percent of GDP; percent of GDP)



Source: Bank Negara Malaysia; Department of Statistics Malaysia; Malaysia Ministry of Finance; AMRO staff estimates.
Note: 23B refers to estimates under the revised 2023 budget.

Malaysia: Selected Economic Indicators

Indicator	2019	2020	2021	2022
Real sector	(in annual percentage change)			
Real GDP	4.4	–5.5	3.1	8.7
Private consumption	7.7	–4.2	1.9	11.3
Government consumption	1.5	5.0	5.3	3.9
Gross fixed capital formation	–2.1	–14.4	–0.9	6.8
Imports of goods and services	–2.4	–7.9	17.7	14.2
Exports of goods and services	–1.0	–8.6	15.4	12.8
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	3.5	4.2	3.8	2.6
Trade balance	7.5	6.4	7.1	6.9
Capital and financial account balance	–2.5	–5.5	0.8	0.8
Direct investment	0.4	0.2	1.8	0.9
Portfolio investment	–2.1	–3.5	1.2	–2.9
Other investment	–0.8	–2.2	–2.1	2.9
Errors and omissions	–0.5	0.0	–1.6	–0.5
Overall balance	0.6	–1.4	3.0	3.0
Gross external debt	62.6	67.6	70.0	64.0
International reserves (in USD billion, end of period)	103.6	107.6	116.9	114.6
Fiscal sector	(in percent of GDP)			
Revenue and grants	17.5	15.9	15.1	16.5
Expenditure	21.0	22.2	21.5	22.0
Fiscal balance	–3.4	–6.2	–6.4	–5.6
Government debt	52.4	62.0	63.4	60.4
Monetary and financial sectors	(in annual percentage change)			
Broad money	3.5	4.0	6.4	4.3
Private sector credit	4.4	3.5	3.8	5.2
Loans	4.2	3.2	4.5	5.7
Securities	5.7	6.0	–0.7	1.2
Memorandum items:				
Nominal GDP (in MYR billion)	1,513	1,418	1,545	1,788
Headline inflation (in percent y-o-y, period average)	0.7	–1.2	2.5	3.3
Policy rate (in percent per annum)	3.00	1.75	1.75	2.75
Exchange rate (in MYR/USD, period average)	4.14	4.20	4.14	4.40

Source: National authorities via CEIC and Haver Analytics; AMRO staff estimation.
Note: y-o-y = year-on-year.

Myanmar

After a sharp decline in GDP 2021, the Myanmar economy recovered modestly in 2022. The COVID-19 infection has subsided and caseload has remained low after slightly picking up in September. The ban on international flights was lifted since late April. Google mobility data show that activities such as the workplace and grocery shopping have recovered in big cities. Overall, domestic consumption is resilient and gradually recovering with the resumption of activities. Manufacturing has been weighed down in recent months by electricity outages, supply-chain disruptions, and spikes in fuel prices, while garment exports have started to recover, yet remain below pre-pandemic level.

Inflation rose significantly in 2022 on the back of higher energy and food prices amid the significant depreciation of kyat. Headline inflation has been trending up, reaching 19.6 percent year-on-year in July 2022, up from 12.6 percent at the end of 2021. Rising energy prices and exchange rate depreciation were the key factors behind the surge. Food inflation has also been rising on the back of supply chain disruptions and higher transport costs.

Myanmar's external position deteriorated amid a decline in exports, a pullback in FDI, and a drop in overseas remittances. Trade volumes, especially border trade, have been gradually rebounding after Thailand and China reopened their borders. Service income deteriorated amid a collapse in tourism-related services during the pandemic. Investment has fallen due to a halt in new FDI inflows as business conditions worsened and amid continuing uncertainties since a state emergency was announced in February 2021. As a result, the current account turned into a deficit of USD 1 billion in FY2021/22 while the financial account deteriorated to a small surplus of USD 0.9 billion. The overall balance of payments was estimated to be in a slight deficit of USD 0.06 billion.

Overall financial condition has remained constrained since 2021. Outstanding loans to the private sector increased by only 0.02 percent in 2021, down from 4.2 percent in 2020, reflecting the weak economy. Bank funding also tightened as deposits fell by 12.9 percent in 2021. The Central Bank of Myanmar (CBM) has maintained its policy rate at 7 percent since May 2020.

In FY2020/21, both expenditure and revenue declined significantly. Notwithstanding a sharp contraction in GDP, government revenue is estimated to have increased by 36.7 percent due to an improvement in tax collection on local production, import duties, and consumption. Government expenditure is estimated to have increased by 24.8 percent due to a rise in interest payments. The overall fiscal deficit narrowed to 7.0 percent of GDP in FY 2021/22, down from 7.7 percent in FY2020/21. External financing declined significantly, with USD 837 million in disbursements in 2021, down from almost USD 2 billion in 2020.

The uncertain business environment amid recurrent COVID-19 outbreaks, political uncertainties, and sanctions from advanced economies, will continue to dampen investor sentiment. Uncertainties linger and headwinds are gathering, particularly on the political front. Targeted sanctions imposed primarily by the United States and European Union have discouraged new FDI inflows, cut off support from international donors, and prompted several multinational corporations to adopt a wait-and-see strategy. Furthermore, a blacklisting by the Financial Action Task Force after banks in Myanmar failed to implement counter-terrorism and anti-financial crime measures in October 2022 would pose difficulties to businesses in transferring funds in and out of the country.

The banking sector remains highly vulnerable amid mounting risks. Although some bank functions have resumed, overall banking sector soundness, including asset quality and capital adequacy, has deteriorated since the state emergency was declared. Also, as deposits have stagnated and the business outlook is uncertain, bank credit support to the private sector will continue to be tepid, and informal lending may play a bigger role.

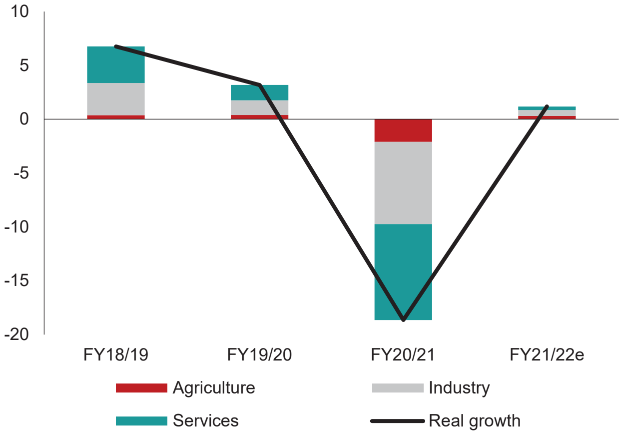
The kyat continues to be under significant pressure, with a persistent divergence between the official and parallel rates. Foreign exchange has been a severe shortage in Myanmar since 2021. In response, the CBM has tightened regulations, including foreign exchange surrender requirements, which has had significant negative impacts on businesses and households.

The author of this note is Tanyasorn Ekapirak.

Myanmar: Selected Figures

After a sharp decline in GDP in 2021, the Myanmar economy started to recover modestly in 2022.

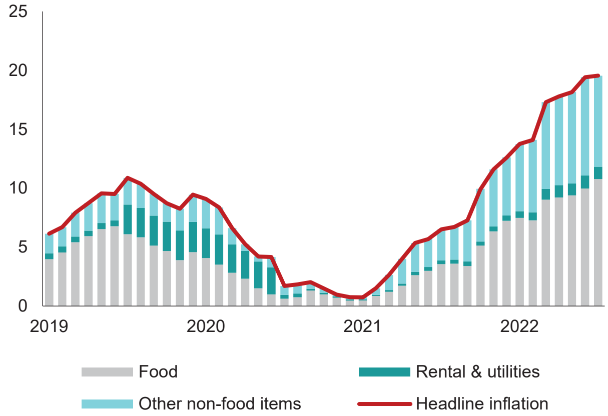
Contributions to Real GDP Growth
(Percent points, year-on-year)



Source: Ministry of Planning and Finance; AMRO staff estimation.
Note: e denotes estimate. FY denotes fiscal year.

Inflation has risen significantly in 2022 on the back of higher energy and food prices

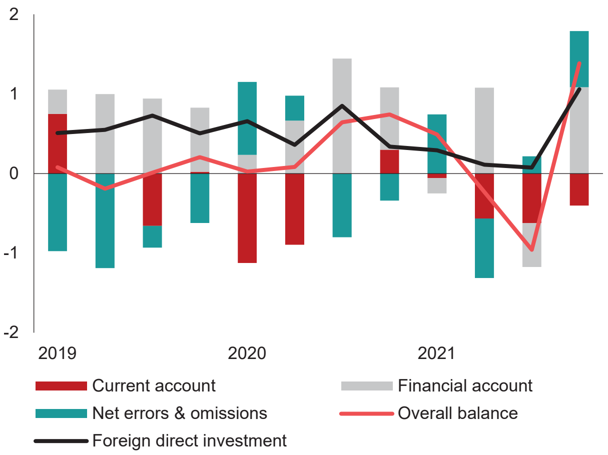
Contributions to Consumer Price Inflation
(Percentage points, year-on-year)



Source: Central Statistical Organization.

External position deteriorated amid a pullback in FDI and a drop in overseas remittances.

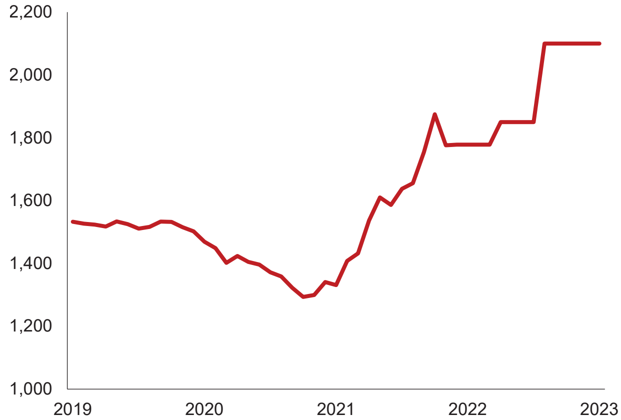
Balance of Payments
(Percent of GDP)



Source: Central Bank of Myanmar; AMRO staff calculations.

The Central Bank of Myanmar set the official exchange rate at 2,100 MMK/USD amid significant downward pressure on the currency.

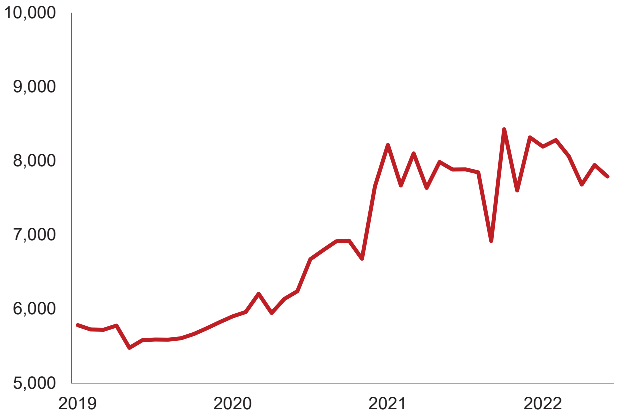
Exchange Rate
(MMK/USD)



Source: Central Bank of Myanmar.

Foreign reserves continued to be under pressure amid significant uncertainties.

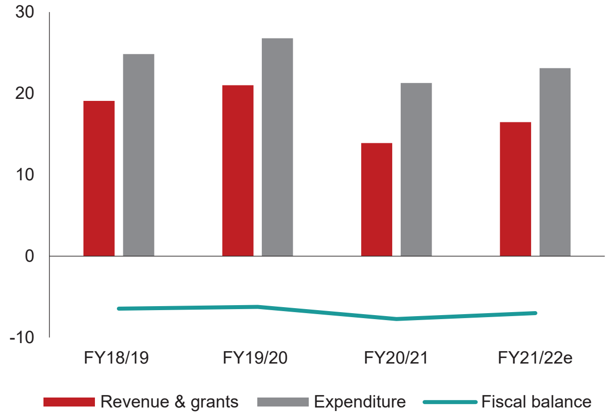
Gross International Reserves
(Millions of US dollars)



Source: Central Bank of Myanmar.

The fiscal deficit remained elevated.

Fiscal Balance
(Percent of GDP)



Source: Ministry of Planning and Finance.
Note: e denotes estimate. FY denotes fiscal year.

Myanmar: Selected Economic Indicators

Indicator	2019	2020	2021	2022
Real sector	(in annual percentage change)			
Real GDP	6.8	3.2	–18.7	1.2
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	–0.2	–2.5	–0.2	–4.3
Trade balance	–4.3	–5.3	–1.6	–3.7
Capital and financial account balance	3.3	4.3	2.6	2.4
Direct investment	2.4	3.0	1.4	1.8
Other investment	1.5	1.8	1.5	–1.2
Errors and omissions	–2.7	–0.2	–2.4	2.6
Overall balance	0.3	1.5	0.0	0.8
Gross external debt	14.7	15.1	15.6	17.1
International reserves (in USD million, end of period)	5,604.6	6,913.4	6,917.9	6,858.7
Fiscal sector[1]	(in percent of GDP)			
Revenue and grants	18.7	20.5	13.5	16.4
Expenditure	24.9	26.8	21.3	23.1
Fiscal balance	–6.5	–6.2	–7.7	–6.7
Government debt	38.7	42.2	51.0	55.8
Monetary and financial sectors	(in annual percentage change)			
Broad money	15.4	15.0	11.4	–0.7
Domestic credit	17.4	14.4	14.5	7.9
Private sector credit	16.1	8.6	1.5	0.6
Memorandum items:				
Headline inflation (in percent yoy, period average)	8.6	5.8	3.6	18.2
Policy rate (in percent per annum, end period)	10.00	7.00	7.00	7.00
Exchange rate (in MMK/USD, period average)	1,531.9	1,426.0	1,493.7	1,856.7

Source: National authorities via CEIC and Haver Analytics; AMRO staff estimation.
Note: Red number denotes AMRO staff estimate. y-o-y = year-on-year.
1/ Refers to fiscal year, which starts on 1 October and ends on 30 September.

The Philippines

The Philippine economy registered a strong recovery in 2022 amid a calibrated relaxation of quarantine protocols and continued progress in the government's vaccination program. GDP growth was 7.6 percent in 2022, following a post-pandemic rebound of 5.7 percent in 2021. The recovery was mainly driven by an improvement in private investment and household consumption. On the production side, the main driver of GDP recovery was the services sector, particularly wholesale and retail trade. The labor market also improved markedly. Unemployment rate was at 4.3 percent in December 2022, which was lower than the pre-pandemic rate of 4.6 percent. In addition, both employment and the labor force participation rates have surpassed pre-pandemic levels.

Headline inflation picked up rapidly in 2022 owing to rising oil and food prices. The average inflation rate rose from 3.9 percent in 2021 to 5.8 percent in 2022 following higher energy prices, domestic food shortages, which eventually led to second-round effects. Core inflation, which is the headline inflation excluding food and energy items, also increased from 3.0 percent to 3.9 percent, suggesting that the inflation pressures were broad-based.

The external position remained sound despite an increase in the current account deficit from USD 6.0 billion in 2021 to USD 17.8 billion in Q1–Q3 2022, or 6.1 percent of GDP. The widening was partly offset by net inflows in the financial account of USD 10.3 billion. Weakening in the current account, mainly due to an increase in the trade deficit coupled with the US dollar strength to exert downward pressure on the peso. The peso depreciated from 50.8 PHP/USD in early 2022 to an all-time low of 59.2 PHP/USD in late September before rebounding to 56.1 PHP/USD at the end of the year. Over 2022, while the peso depreciated by 10.5 percent against the US dollar, it was by only 3.3 percent in nominal effective terms. Meanwhile, the gross international reserves declined from USD 108.8 billion at end-2021 to USD 96.1 billion at end-2022, due mainly to the government's repayments of its foreign currency debt. That level is sufficient to cover short-term external funding needs with import coverage of 7.3 months and 3.9 times the short-term external debt as of December 2022.

The Bangko Sentral ng Pilipinas (BSP) started to normalize its monetary policy stance in May 2022 as inflation pressure intensified. In 2022, the BSP raised the policy rate seven times from a historic low of 2.0 percent to 5.5 percent in December. The BSP has already started to unwind some of the measures implemented to cushion the pandemic impact. Measures included repo transactions, and treasury bond purchases in the secondary market.

In 2022, loan growth picked up steadily across sectors, rising from 4.8 percent year-on-year in December 2021 to 13.4 percent in December 2022. Benefiting from relaxing pandemic restrictions, loans to the real estate, manufacturing, and services sectors, and for household consumption expanded significantly. Meanwhile, loan growth was boosted by write-offs of nonperforming loans under the Financial Institutions Strategic Transfer Act, which helped to free up banks' balance sheets for new lending.

The fiscal situation improved in 2022, driven mainly by solid revenue performance. In 2022, the government revenue increased by 18 percent compared to 2021. This was attributable to robust economic recovery, high commodity prices, and improved tax administration. Meanwhile, expenditure grew by 10.4 percent while infrastructure spending rose by 14.3 percent in the first eleven months, consistent with economic growth. As a result, the fiscal deficit fell to 7.3 percent of GDP in 2022, compared with 8.6 percent of GDP in 2021.

Several risks and challenges are clouding the Philippine economic recovery. High inflation and global economic slowdown weigh on growth prospect. High inflation caused by the Ukraine crisis and the influence of other supply factors could dampen domestic consumption. High food and oil prices in particular have impacted households' ability to afford other discretionary items. A weak economic recovery in China and slower global growth would affect exports, although the direct impact will be limited as the contribution of merchandise trade to the economy is less significant. In addition, capital flow volatility could heighten in the short term should, as expected, global financial conditions tighten significantly. Over a longer term, scarring effects of the pandemic could become more apparent. The challenge will be to address the learning losses from repeated school closures during the pandemic, which may impact productivity and growth potential. Moreover, the Philippines' social and economic costs of natural disasters are increasing due to global climate change, given that the Philippines is among the countries that are most susceptible to natural disasters. These points raise the urgency for the Philippines to take action to build resilient, sustainable, and inclusive long-term growth.

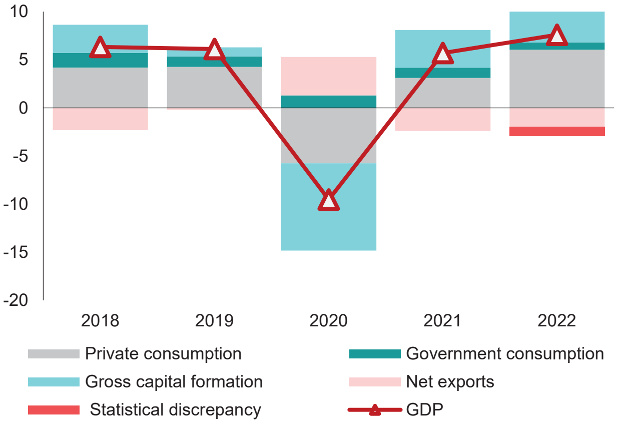
The author of this note is Heung Chun (Andrew) Tsang.

The Philippines: Selected Figures

The momentum of economic recovery strengthened.

Contributions to Real GDP Growth

(Percentage points, year-on-year)

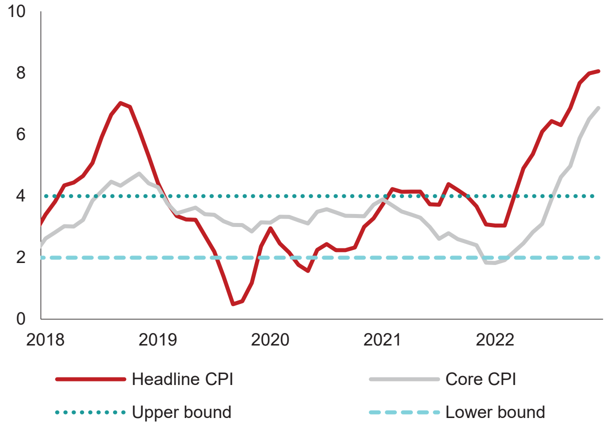


Source: Philippine Statistics Authority; AMRO staff calculations.

Inflation accelerated and stayed above the 2–4 percent target range.

Consumer Price Inflation and Inflation Target

(Percent, year-on-year)

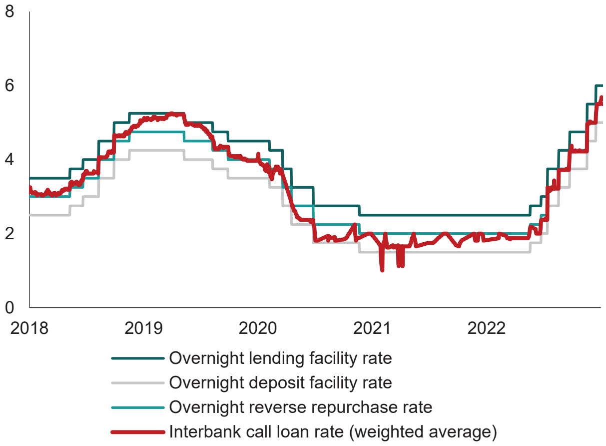


Source: Philippine Statistics Authority; AMRO staff calculations.
Note: Data for inflation is calculated from consumer price index (CPI, base year = 2018).

Monetary policy started to tighten in 2022.

Monetary Policy and Market Rates

(Percent)

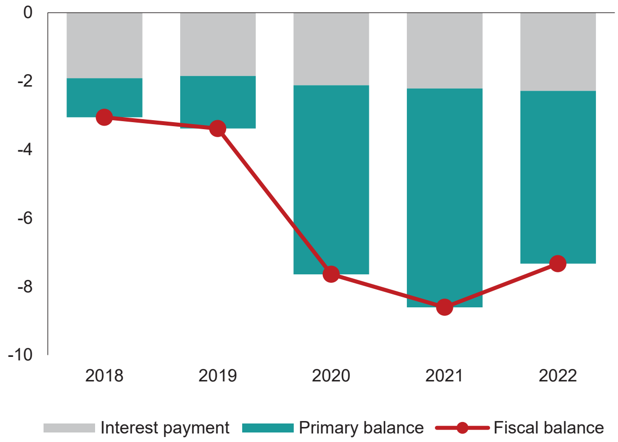


Source: Bangko Sentral ng Pilipinas.

The fiscal deficit narrowed with solid revenue performance.

Fiscal Balance

(Percent of GDP)

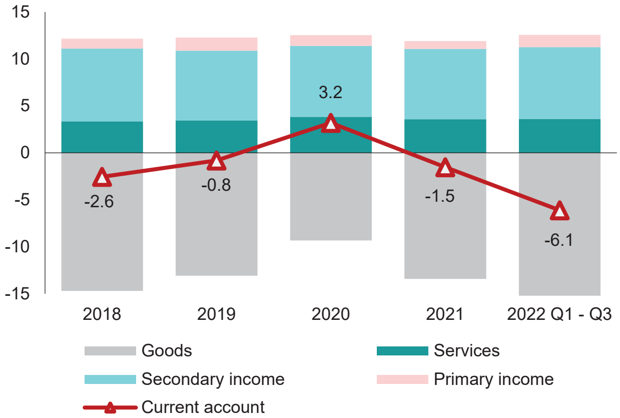


Source: Bureau of Treasury.

The current account deficit widened, driven by a surge in imports.

Current Account Balance

(Percent of GDP)

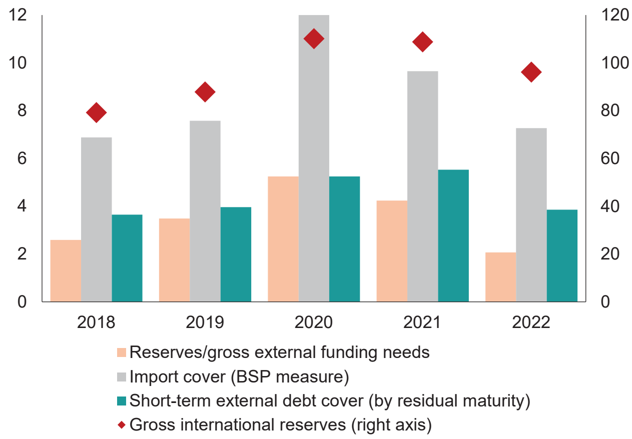


Source: Bangko Sentral ng Pilipinas.

International reserves remained sufficient for external funding needs.

International Reserve Adequacy

(Months or times; billions of US dollars)



Source: Bangko Sentral ng Pilipinas.(BSP)
Note: Import cover (BSP measure) refers to number of months of average imports of goods and payment of services and primary income.

The Philippines: Selected Economic Indicators

Indicator	2019	2020	2021	2022
Real sector	(in annual percentage change)			
Real GDP	6.1	–9.5	5.7	7.6
Private consumption	5.9	–8.0	4.2	8.3
Government consumption	9.1	10.5	7.1	5.0
Gross fixed capital formation	3.9	–27.3	9.9	10.4
Imports of goods and services	2.3	–21.6	13.0	13.1
Exports of goods and services	2.6	–16.1	8.0	10.7
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance[1]	–0.8	3.2	–1.5	–5.3
Trade balance	–9.6	–5.5	–9.8	–13.7
Capital and financial account balance	–2.1	–1.9	–1.8	–3.5
Direct investment	–1.4	–0.9	–2.5	–2.0
Portfolio investment	–0.7	–0.5	2.6	–0.3
Other investment	0.0	–0.5	–1.7	–1.0
Errors and omissions	0.7	–0.7	0.0	0.0
Overall balance	2.1	4.4	0.3	–1.8
Total external debt	22.2	27.2	27.0	26.4
International reserves (in USD billion, end of period)	87.8	110.1	108.8	96.1
Fiscal sector	(in percent of GDP)			
Revenue and grants	16.1	15.9	15.5	16.1
Expenditure	19.5	23.5	24.1	23.4
Fiscal balance	–3.4	–7.6	–8.6	–7.3
Government debt	39.6	54.6	60.4	60.9
Monetary and financial sectors	(in annual percentage change)			
Broad money[2]	9.8	8.7	8.0	7.4
Domestic claims	10.7	4.7	8.2	12.5
Claims on private sector	7.8	–0.2	3.8	10.5
Memorandum items:				
Nominal GDP (in PHP billion)	19,517.9	17,951.6	19,410.6	22,023.3
Headline inflation (in percent y-o-y, period average)	2.4	2.4	3.9	5.8
Policy rate (in percent per annum, end of period)	4.0	2.0	2.0	5.5
Exchange rate (in PHP/USD, period average)	51.8	49.6	49.3	54.5

Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates.
Note: Red number denotes AMRO staff estimate. y-o-y = year-on-year
1/ The Philippines' balance of payments follows BPM6. A negative (positive) financial account balance indicates net inflow (outflow). Trade balance refers to the trade balance of goods and services. Overall balance = Current account balance - Capital and financial account balance + Errors and omissions.
2/ Broad money refers to M4.

Singapore

Singapore's growth momentum moderated as the reopening tailwinds subside. After growing by 8.9 percent year-on-year in 2021, Singapore's GDP growth slowed to 3.6 percent in 2022, as normalization continued. Manufacturing lost some steam as global growth slowed, while the services sector remained strong, thanks to the recovery in tourism and the relatively resilient retail sector. Growth is expected to slow as prospects for global growth worsen and inflation pressures constrain domestic demand.

Inflation rose significantly in 2022. Singapore's headline inflation rose from 4.0 percent year-on-year at the end of 2021 to a high of 7.5 percent in September 2022 before moderating in the subsequent months. While the main contributors were largely domestic (car ownership and accommodation costs), external pressure was also significant as it was responsible for rising prices of in food, electricity, and petrol.

In light of heightened inflation pressure, throughout 2022, exchange rate policy was tightened with the slope of the Singapore dollar nominal effective exchange rate (SGD NEER) policy band adjusted upward twice, in January and April, and the band re-centered upward three times, in April, July, and October. As a result, the SGD NEER appreciated by about 6.8 percent in Q4 2022.

The labor market improved considerably, with more signs of tightness evident. The seasonally adjusted overall unemployment rate declined significantly, from a high of 3.6 percent in October 2020 to 2.0 percent in December 2022. Relaxation of border restrictions supported nonresident employment, particularly easing the labor shortage in the construction sector. However, the labor market is exhibiting signs of tightness, with the job vacancy-to-unemployed person ratio up from an average of 1.0 during the few years pre-pandemic to 2.6 in June 2022.

Non-oil domestic exports (NODX) slowed along with softening external demand. After growing at 12.1 percent in 2021, NODX slowed to 3 percent in 2022, as reflected in the deceleration of both electronics and non-electronics exports.

The financial sector has remained resilient throughout the pandemic period. The banking system's overall nonperforming loan (NPL) ratio fell further, to 1.9 percent in Q2 2022 from 2.1 percent in Q4 2021, although the NPL ratios of 5.0 percent in the wholesale trade segment and 8.6 percent in the transport and storage segment remained relatively high. This reflected the significant impact of the pandemic on trade and tourism-related sectors. Meanwhile, nonbank lending to residents grew by around 6 percent year-on-year in Q3. Capital and liquidity buffers remained strong and well above regulatory requirements.

A phased hike in the Goods and Services Tax rate will support revenue collection in the medium term. The staggered increase—from the current 7 percent to 8 percent in 2023 and 9 percent in 2024—is in line with the government's revenue mobilization drive to meet growing social spending needs. A number of support packages in the form of cash payouts, rebates, and vouchers, has been rolled out to help offset rising living costs, especially for low-income households.

A spate of macroprudential measures has been rolled out to cool the property market. In December 2021, the Additional Buyer's Stamp Duty was raised by between 5 percentage points and 15 percentage points, except for Singapore citizens and permanent residents buying their first property. In addition, the Total Debt Servicing Ratio (TDSR) for housing loans granted by financial institutions was lowered from 60 percent to 55 percent, and the Loan-to-Value (LTV) limit for public housing loans was lowered from 90 percent to 85 percent. In September 2022, the authorities further tightened LTV limit for public housing loans and the TDSR, and introduced a 15-month wait-out period for former private property owners wishing to buy resale public flats. The impact of the measures thus far appears to be limited. Demand remains resilient, backed by strong household balance sheets and sustained growth in household income, albeit with lower transaction volumes. This has sustained real estate prices amid limited supply, with pronounced price increases of 10.3 percent and 8.6 percent year-on-year observed in both public (resale) and private housing in 2022, respectively.

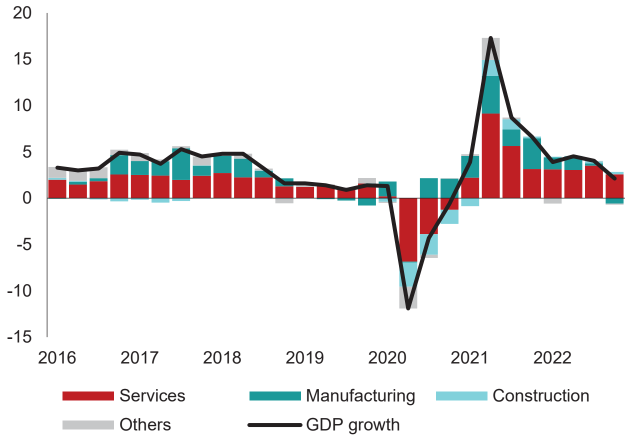
A gloomier outlook for global demand and elevated price pressure constitutes key risks for the coming quarters. First, the uptrend in policy rates in key global economies clouds the prospects for global growth, which will directly affect Singapore's manufacturing and export performance. Second, inflation pressure is likely to persist in the near term on the back of both external and domestic factors; supply chain disruptions and elevated prices of some key commodities pose challenges on the external front, while rising car ownership fees and accommodation costs remain key domestic inflation risks. Over the longer term, Singapore will need to contend with challenges arising from an aging population and climate change.

The author of this note is Jade Vichyanond.

Singapore: Selected Figures

Singapore's growth momentum has moderated as the reopening tailwinds subside.

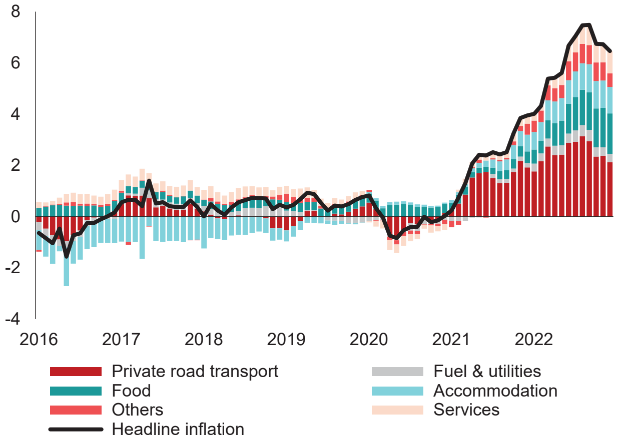
Contributions to Real GDP Growth
(Percentage points, year-on-year)



Source: Singapore Department of Statistics via CEIC; AMRO staff calculations

Inflation rose significantly in 2022 due to both external and domestic factors.

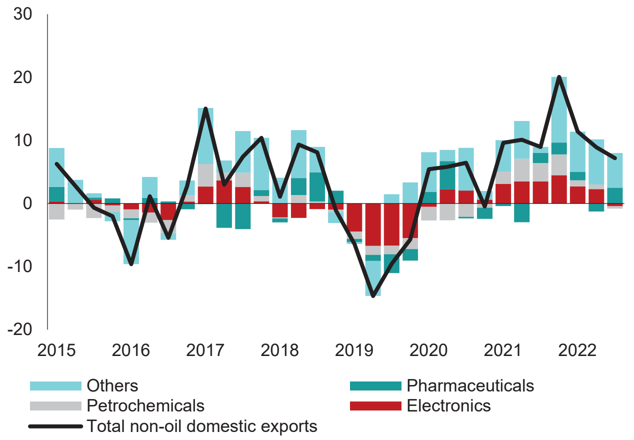
Contributions to Consumer Price Inflation
(Percentage points, year-on-year)



Source: Singapore Department of Statistics and Monetary Authority of Singapore via CEIC; AMRO staff calculations

Non-oil domestic exports slowed along with softening external demand.

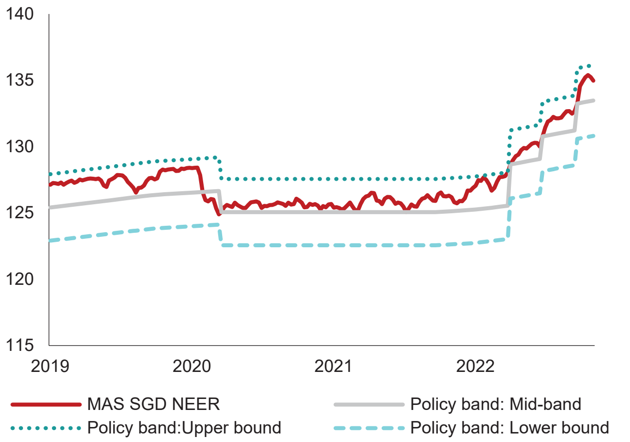
Contributions to Non-oil Domestic Exports
(Percentage points, year-on-year)



Source: Enterprise Singapore via CEIC; AMRO staff calculations.

In light of inflation pressure, throughout 2022, the slope of the SGD NEER policy band was adjusted upward twice, and the band was re-centered upwards three times.

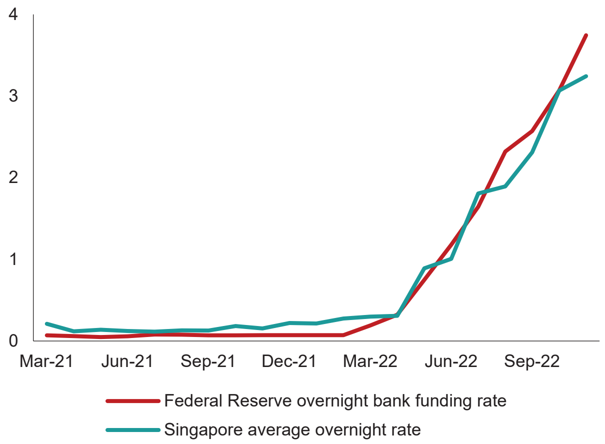
SGD NEER and Policy Band
(Index)



Source: Monetary Authority of Singapore (MAS) via CEIC; AMRO staff calculations and estimates.
Note: SGD NEER = Singapore dollar nominal effective exchange rate. Upper, mid and lower bounds of policy band are AMRO staff estimates.

The Singapore overnight rate average has risen along with the US Federal Reserve's overnight bank funding rate.

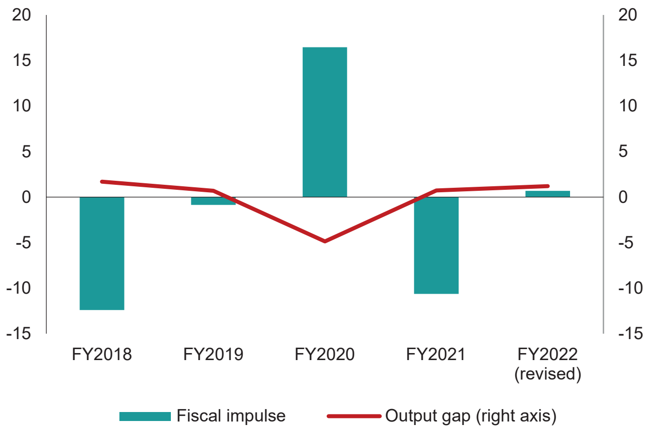
Overnight Interest Rates
(Percent per annum)



Source: United States Federal Reserve and Monetary Authority of Singapore via CEIC; AMRO staff calculations

A small negative fiscal impulse is expected in FY2022.

Estimated Fiscal Impulse and Output Gap
(Percent of GDP; percent of potential GDP)



Source: Ministry of Finance via CEIC; AMRO staff calculations and estimates.
Note: FY denotes fiscal year. Fiscal impulse data are estimated by AMRO staff.

Singapore: Selected Economic Indicators

Indicator	2019	2020	2021	2022
Real sector	(in annual percentage change)			
Real GDP	1.3	–3.9	8.9	3.6
Private consumption	2.8	–13.1	6.6	9.7
Government consumption	3.2	13.0	3.7	–2.3
Gross fixed capital formation	2.3	–14.8	18.0	1.6
Exports of goods and services	0.2	0.4	11.7	–1.3
Imports of goods and services	0.0	–1.1	12.0	–1.9
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance[1]	16.2	16.5	18.0	19.3
Trade balance	26.0	30.5	29.7	29.2
Capital and financial account balance	19.1	–5.0	2.0	43.4
Direct investment	–10.4	–11.5	–20.7	–19.3
Portfolio investment	28.8	17.4	14.2	14.8
Other investment	–1.1	–10.1	8.8	47.4
Errors and omissions	0.7	0.0	–0.4	–0.4
Overall balance	–2.2	21.5	15.6	–24.5
International reserves (in USD billion, end of period)	279.5	362.3	417.9	289.5
Fiscal sector	(in percent of GDP)			
Revenue and grants	14.5	14.0	13.9	13.8
Expenditure	14.7	20.2	16.0	16.4
Fiscal balance[2]	0.2	–10.5	0.3	–0.3
Government debt	124.7	146.6	136.6	167.8
Monetary and financial sectors	(in annual percentage change)			
Broad money	4.4	10.7	8.8	7.8
Domestic credit	2.4	1.1	9.3	–0.3
Memorandum items:				
Nominal GDP (in SGD billion)	514.1	480.7	569.4	643.5
Headline inflation (in percent y-o-y, period average)	0.6	–0.2	2.3	6.1
Core inflation (in percent y-o-y, period average)	1.0	–0.2	0.9	4.1
Exchange rate (in SGD/USD, period average)	1.36	1.38	1.34	1.38

Source: National authorities via CEIC; and AMRO staff estimates.
Note: Numbers in red denote AMRO staff estimates. y-o-y = year-on-year.
1/ Singapore's balance of payments follows BPM6. A negative (positive) financial account balance indicates net inflow (outflow). Overall balance = Current account balance - Capital and financial account balance + Errors and omissions
2/ Fiscal balance denotes the overall fiscal position, i.e., the difference between operating revenue and expenditure, minus special transfers and top-ups to endowment and trust Funds, plus Net Investment Returns Contribution and capitalization of nationally significant infrastructure, net of depreciation and Significant Infrastructure Government Loan Act interest costs and loan expenses.

Thailand

The Thai economy grew at a faster pace of 2.6 percent year-on-year in 2022, after growing by 1.5 percent in 2021. The recovery was underpinned by strengthening domestic demand and a stronger rebound in tourist arrivals following the further relaxation of border restrictions in Thailand and other countries since end-2021. The faster reopening boosted recovery in the services sector, particularly accommodation and food services. On the demand side, private consumption grew strongly, supported by robust tourism spending, a labor market recovery, and rising farm incomes.

Headline inflation climbed to 6.1 percent in 2022 from 1.2 percent in 2021 due to the surge in global oil, domestic pork, and commodity prices. Meanwhile, core inflation increased to 2.5 percent in 2022 from 0.2 percent in 2021, reflecting mainly higher prices in the prepared and cooked food categories.

Thailand's current account deficit widened further in 2022, reflecting a smaller trade surplus due to strong imports, and notwithstanding an improvement in the tourism services account. The trade surplus narrowed as imports continued to grow faster than exports, driven by soaring energy, commodity and fertilizer prices. International reserves fell to USD 216.6 billion in December 2022 from USD 246.0 billion in December 2021, although it continues to be high and covers more than 2.3 times Thailand's short-term external debt.

Reflecting the significant tightening of global financial conditions, the yields of Thai Treasury bills and government bonds rose sharply in 2022. Domestic monetary conditions have also tightened, with the overnight interbank rate rising slightly since August in tandem with the Bank of Thailand's policy rate hikes. Notwithstanding the tighter financial conditions, the corporate bond market expanded at a faster pace. Moreover, the well-diversified domestic bond market remains sufficiently deep to absorb the government bond issuances, with other depository corporations continuing to play a larger role in 2022.

The banking sector has weathered the pandemic shock well. Banks' overall loan growth slowed to 2.1 percent year-on-year in 2022 from 6.5 percent in 2021. The capital adequacy ratio remained high at 19.4 percent, and the same was true for Common Equity Tier 1 ratio of 15.9 percent. As a result of financial assistance measures and banks' loan portfolio management, nonperforming loans (NPLs) ratio remained stable at 2.7 percent in 2022, broadly unchanged from 3.1 percent in 2020, while the NPL ratio of small and medium enterprise loans remained elevated at 6.8 percent.

Fiscal policy remained on an expansionary track. The authorities rolled out phases 4 and 5 of the co-payment and "We Travel Together" schemes, totalling THB 67.7 billion, to continue supporting consumer spending and businesses affected by the pandemic. For lower-income households, cost-of-living measures included on-budget social assistance programs, such as increasing the cooking gas subsidy from THB 45 to THB 100 per welfare cardholder every three months for six months between April and September 2022. In addition, the government also rolled out quasi-fiscal operations by government-backed institutions such as the State Oil Fund, which the government has approved to subsidize half of any further increases of the diesel market price above the latest capped price of THB 35 per liter.

Downside risks to the near-term outlook remain high. Risks to growth stem mainly from a protracted global slowdown, further supply chain disruptions, and the emergence of more virulent strains of COVID-19. A prolonged and sharper rise in United States' interest rates would heighten the risk of capital outflows and exchange rate depreciation while further increasing borrowing costs. Inflation may stay elevated for longer due to the withdrawal of price subsidies and higher wages.

Thailand will need to address its long-term structural challenges. Government-linked institutions are bearing the high costs of providing the subsidies through their quasi-fiscal operations, which will increase total public debt. At the same time, the significant economic scars from the pandemic can be a drag on growth in the long term. Thailand will also need to address structural challenges stemming from a rapidly aging population, digital transformation and climate change.

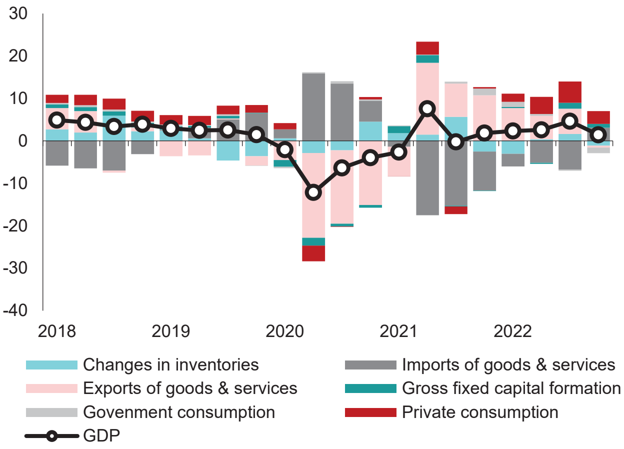
The author of this note is Ming Han (Justin) Lim.

Thailand: Selected Figures

Growth expanded at a faster pace in 2022 due to higher private consumption.

Contributions to Real GDP Growth

(Percentage points, year-on-year)

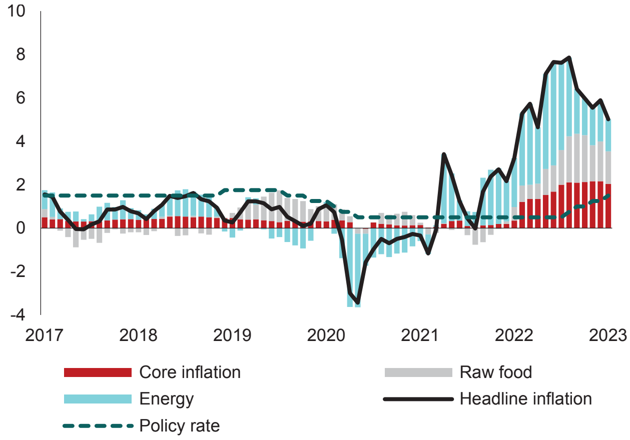


Source: Office of the National Economic and Social Development Council.

Headline inflation rose sharply due to the surge in global oil, pork and commodity prices.

Contributions to Consumer Price Inflation

(Percentage points, year-on-year)

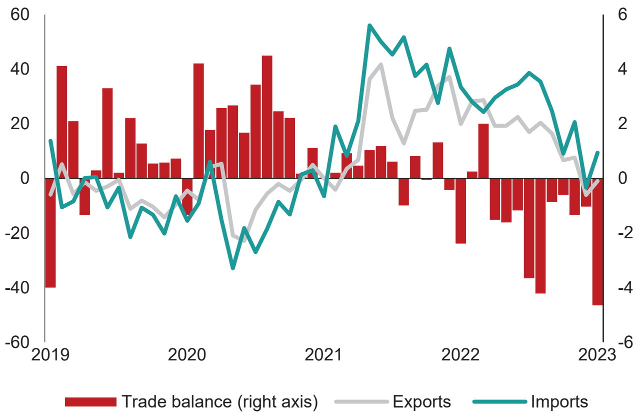


Source: Bank of Thailand; Thailand Ministry of Commerce.
Note: Policy rate refers to 1-day repurchase rate of Thailand.

The trade deficit widened significantly as imports continued growing at a faster pace while the growth in exports slowed.

Trade Balance

(Percent, year-on-year; billions of US dollars)

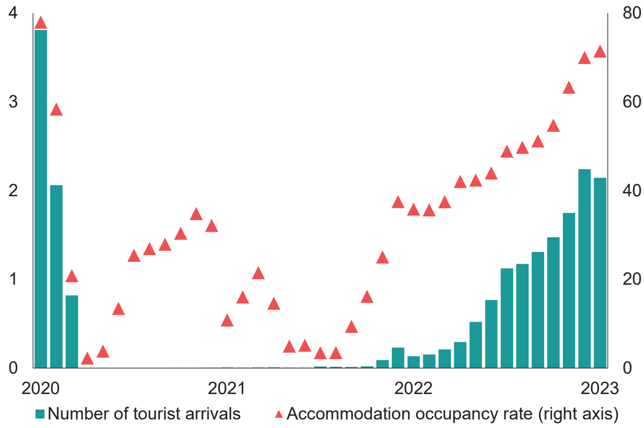


Source: Bank of Thailand; AMRO staff calculations.
Note: Data for exports and imports are on customs basis.

Tourist arrivals rebounded sharply, and the hotel occupancy rate rose but remained lower than before the pandemic.

Tourism Sector

(Millions of persons; percent)

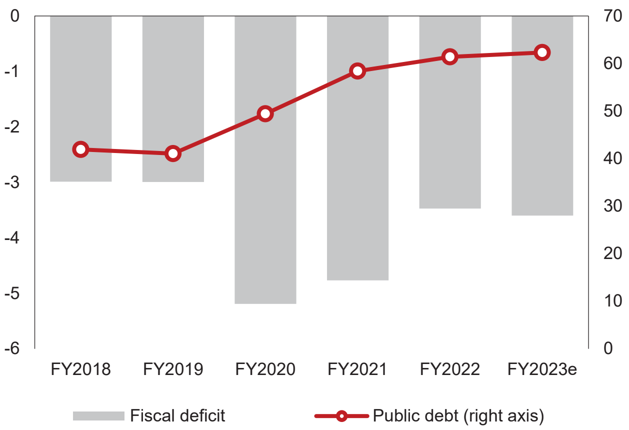


Source: Bank of Thailand.

The public debt-to-GDP ratio rose at a slower pace as the budget deficit narrowed and off-budget COVID-19 spending decreased.

Fiscal Balance and Public Debt

(Percent of GDP; percent of GDP)

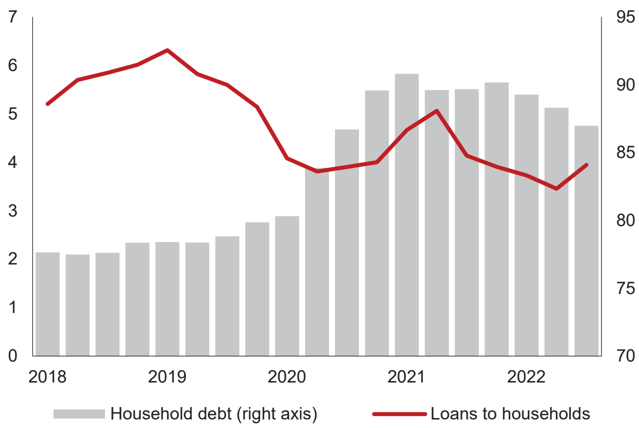


Source: Ministry of Finance; AMRO staff estimations.
Note: e denotes estimate. A fiscal year (FY) runs from 1 October to 30 September.

The high household debt-to-GDP ratio eased slightly but remained elevated.

Household Debt and Bank Lending to Households

(Percent, year-on-year; percent of GDP)



Source: Bank of Thailand; AMRO staff calculations.

Thailand: Selected Economic Indicators

Indicator	2019	2020	2021	2022
Real sector	(in annual percentage change)			
Real GDP	2.2	–6.1	1.5	2.6
Private consumption	4.0	–0.8	0.6	6.3
Government consumption	1.6	1.4	3.7	0.0
Gross fixed capital formation	2.0	–4.8	3.1	2.3
Imports of goods and services	–5.2	–13.9	17.8	4.1
Exports of goods and services	–3.0	–19.7	11.1	6.8
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	7.0	4.2	–2.1	–3.4
Trade balance	4.9	8.0	6.5	2.2
Capital and financial account balance	–2.7	–2.3	–1.2	1.0
Direct investment	–0.9	–4.6	–0.9	0.0
Portfolio investment	–1.6	–2.4	–2.4	–0.7
Other investment	–0.4	4.8	2.3	1.7
Errors and omissions	–1.8	1.8	1.9	0.3
Overall balance	2.5	3.6	–1.4	–2.1
Gross external debt	31.6	38.1	38.8	37.9
International reserves (in USD billion, end of period)	224.3	258.1	246.0	216.6
Fiscal sector[1]	(in percent of GDP)			
Revenue and grants	15.3	15.1	14.9	14.7
Expenditure	18.1	20.0	20.1	18.3
Fiscal balance	–2.8	–4.9	–5.2	–3.6
Government debt	41.0	49.4	58.4	60.4
Monetary and financial sectors	(in annual percentage change)			
Broad money	3.6	10.2	4.8	3.9
Domestic credit [2]	2.0	8.1	8.8	3.1
Private sector credit	3.7	5.0	4.8	4.1
Memorandum items:				
Nominal GDP (in THB trillion)	16.9	15.7	16.2	17.4
Headline inflation (in percent y-o-y, period average)	0.7	–0.8	1.2	6.1
Policy rate (in percent per annum)	1.25	0.50	0.50	1.25
Exchange rate (in THB/USD, period average)	31.0	31.3	32.0	35.1

Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates
Note: Numbers in red denote AMRO staff estimates. y-o-y = year-on-year.
1/ A fiscal year (FY) runs from 1 October to 30 September. For example, FY2023 is from 1 October 2022 to 30 September 2023.
2/ Domestic credit composes net claims from central government, local government, nonfinancial corporations and households.

Vietnam

Following a slump due to the pandemic, the Vietnamese economy rebounded rapidly in 2022, recording GDP growth at 8 percent for the year. The recovery has been broad-based—manufacturing was boosted by robust exports and strong FDI inflows, while domestic consumption expanded, driven by the relaxation of mobility restrictions and the economic stimulus package.

High oil prices were chiefly responsible for elevated consumer price inflation in 2022. However, state-administered prices and temporary tax cuts helped curb inflation. Although inflation still exceeded the State Bank of Vietnam's (SBV's) 4-percent target in Q4, average headline inflation stood at 3.2 percent in 2022, lower than in other regional economies.

Continued demand for Vietnam's manufacturing products helped the export sector recover rapidly in the first three quarters of 2022. However, slow global economic activity started to weigh down on manufacturing exports in the last quarter. Meanwhile, capital inflows were dragged down by large deposit outflows from banks despite resilient FDI. In addition, the record of net errors and omissions was large. As a result, the balance of payments turned into deficit, leading to a USD 23.5 billion decline in foreign reserves from end-2021—which stood at around USD 82.4 billion as of October 2022, equivalent to 2.5 times the short-term external debt.

The SBV started to raise key policy rates in September 2022 in response to a sharp depreciation of the dong, triggered by the US Federal Reserve's rate hikes. At the same time, the SBV increased its credit growth target by 1.5–2 percent at the end of the year from the initial target of 14 percent to support economic recovery. Meanwhile, bank lending to risky sectors, including real estate, was closely monitored, to ensure that credit was sufficiently redirected to productive sectors.

The impact of temporary tax reduction reduced revenue collection to 17.0 percent of GDP in 2022 from 18.5 percent in 2021. Meanwhile, as a result of the economic stimulus package, the government's expenditure remained above 21 percent of GDP. Fiscal deficit thus widened significantly to 4.4 percent of GDP in 2022 from 3.4 percent of GDP in 2021.

Looking ahead, Vietnam's economy is expected to moderate to a more sustainable rate of 6.8 percent in 2023. Weakening global demand will likely dampen manufacturing production. Meanwhile, the relaxation of China's border restrictions will benefit Vietnam's services sector and export.

Key downside risks to Vietnam's growth outlook are derived mainly from the chances of a global economic slowdown. A weakening of the global economy, in tandem with tightened monetary conditions across various countries, may worsen Vietnam's external demand. The recovery also remains susceptible to the risk of further waves of COVID-19 infection. In addition, a prolonged Ukraine crisis will put pressure on energy prices.

Elsewhere, financial sector risks may arise from the lingering impact of COVID-19 on asset quality and uncertainty in the real estate market. Meanwhile, tepid sentiment in the real estate market has exacerbated vulnerabilities in Vietnam's financial system.

The government should accelerate structural reforms to ensure a sustainable development path. Corporate bond market development is at an early stage, with private placements by property developers and banks dominating the market. Meanwhile, the equitization and the divestment of state-owned enterprises (SOEs) has slowed down substantially in recent years. Therefore, SOEs still command a significant share of the economy, a dominance which can, at times, impede development of the private sector. In addition, the delayed development of domestic industries and a shortage of skilled labor continue to hinder the country's efforts to move up the global value chain.

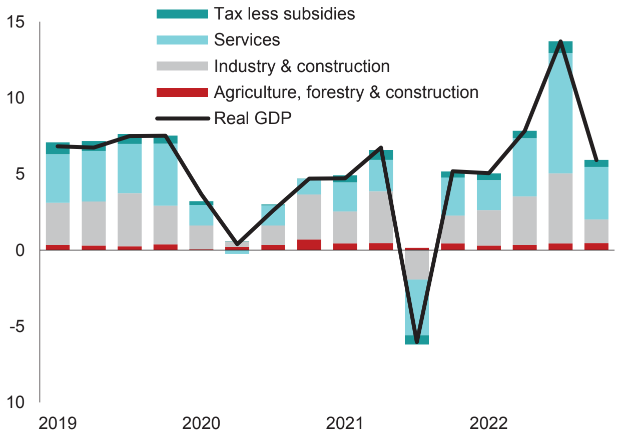
The author of this note is Wanwisa (May) Vorranikulkij.

Vietnam: Selected Figures

Growth has rebounded from 2021 on the back of robust manufacturing production.

Contributions of Real GDP Growth

(Percentage points, year-on-year)

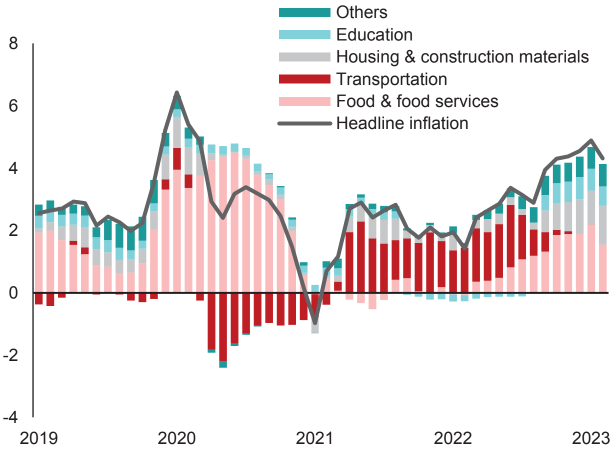


Source: General Statistics Office via CEIC; AMRO staff calculations

State-administered prices and tax cuts have kept Vietnam's inflation lower than regional peers' despite inflation pressure from high global oil prices.

Contributions to Consumer Price Inflation

(Percentage points, year-on-year)

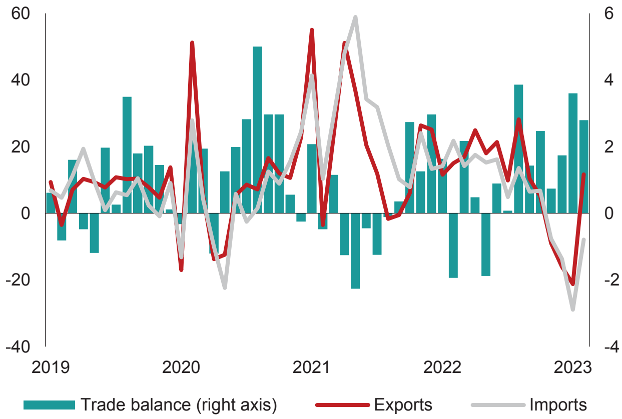


Source: General Statistics Office via CEIC; AMRO staff calculations

Trade balance registered a surplus through 2022 on the back of exports.

Trade Balance

(Percent year-on-year; billions of US dollars)

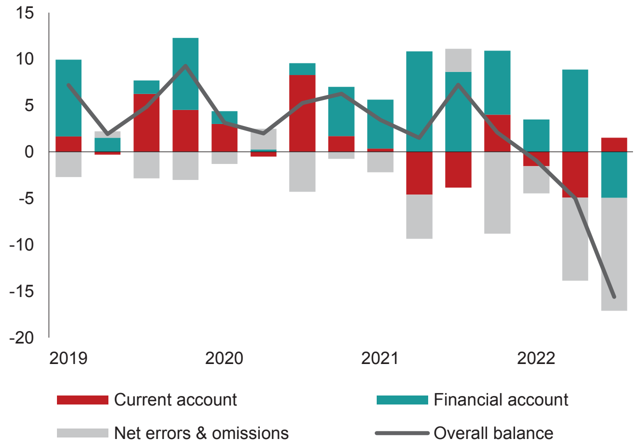


Source: General Statistics Office via CEIC; AMRO staff calculations

A large number of net errors and omissions and deposit outflows widened the balance of payments deficit.

Balance of Payments

(Billions of US dollars)

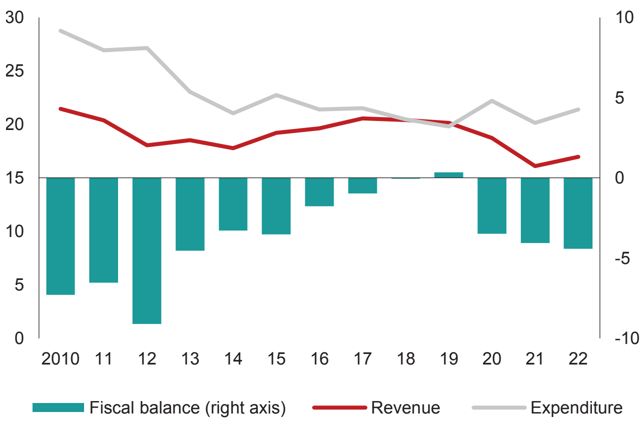


Source: State Bank of Vietnam via CEIC; AMRO staff calculations

The fiscal deficit widened in 2021 as a result of the economic stimulus package in response to the COVID-19 pandemic.

Fiscal Balance

(Percent of GDP)

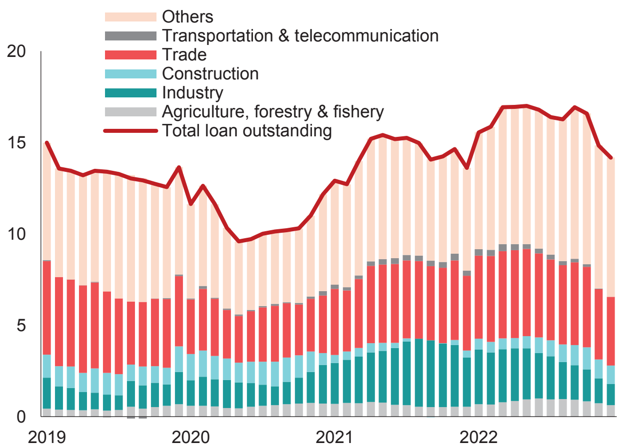


Source: Ministry of Finance via CEIC; AMRO staff estimations

Credit growth remained high last year, in line with the SBV's credit policy to support economic recovery.

Contributions to Credit Growth

(Percentage points, year-on-year)



Source: State Bank of Vietnam via CEIC; AMRO staff calculations

Vietnam: Selected Economic Indicators

Indicator	2019	2020	2021	2022
Real sector	(in annual percentage change)			
Real GDP	7.4	2.9	2.6	8.0
Agriculture, forestry, and fishing	2.7	3.0	3.3	3.4
Industry and construction	8.2	4.4	3.6	7.8
Services	8.1	2.0	1.6	10.0
Product tax excluding subsidy	6.0	6.0	6.0	7.0
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	3.7	4.4	–1.1	0.3
Trade balance	6.4	8.9	4.5	7.2
Capital and financial account balance[1]	5.7	2.5	8.5	8.4
Direct investment	4.7	4.5	4.2	5.3
Portfolio investment	1.0	–0.4	0.1	0.4
Other investment	0.1	–1.6	4.2	2.8
Errors and omissions	–2.4	–2.0	–3.5	–1.8
Overall balance	6.9	4.9	3.9	6.9
Gross external debt	35.2	36.4	37.6	40.4
International reserves (in USD billion, end of period)	78.8	95.5	110.0	83.0
Fiscal sector	(in percent of GDP)			
Revenue and grants	20.2	18.8	18.5	17.0
Expenditure	19.8	21.3	21.9	21.4
Fiscal balance	0.3	–2.5	–3.4	–4.4
Government debt	43.4	44.2	43.1	42.8
Monetary and financial sectors[2]	(in annual percentage change)			
Broad money	13.6	13.6	9.7	9.6
Domestic credit	9.3	12.4	12.6	11.6
Private sector credit	12.8	11.6	13.5	14.7
Memorandum items:				
Nominal GDP (in VND trillion)	7,707	8,044	8,480	9,513
Headline inflation (in percent y-o-y, period average)	2.8	3.2	1.8	3.2
Policy rate (in percent per annum)	4.0	2.5	2.5	4.5
Exchange rate (in VND/USD, period average)	23,051	23,208	23,160	23,271

Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates
Note: Numbers in red denote AMRO staff estimates. y-o-y = year-on-year.

1/ Vietnam's financial accounts are recorded in the way to reflect a nature of fund flows. Positive figures show net inflows into the country while negative figures show net outflows from the country.

2/ Monetary and financial sector data for 2022 are as at the end of November 2022.