Annex:

Developments in ASEAN+3 Economies

Brunei Darussalam

The Bruneian economy registered year-on-year declines for 4 consecutive quarters through Q3 2021. Real GDP declined by 1.7 percent year-on-year in the first 9 months of 2021, driven mainly by contraction in the oil and gas sector. Turnaround activities and a limited onsite workforce because of COVID-19 reduced the sector's ability to recover from unscheduled deferment of well, reservoir and facilities management activities. The non-oil and gas sector registered positive growth in Q3 2021, thanks to subsectors such as finance, communication, health services, and manufacturing of food and beverages. Growth in the non-oil and gas sector was mainly driven by increased domestic demand. Retail sales performed well in the first 9 months of 2021 as restrictions on overseas travel prompted a rise in domestic consumption, but dropped by 5.2 percent in Q3 2021 as movement restriction mandates took effect. The economy is expected to have rebounded in Q4 2021 with the relaxation of border restrictions and containment measures. As a result, real GDP is expected to have grown marginally by 0.2 percent for the whole year of 2021. Economic growth should continue to pick up in 2022 to 4.1 percent, benefiting from high oil and gas prices, the ongoing global recovery, and the low-base effect.

Consumer price inflation averaged 1.7 percent year-on-year for the first 10 months of 2021, compared to 1.9 percent in 2020. Price increases were mainly in imported food items and household products, due to supply chain disruptions, particularly during the second wave of the COVID pandemic. For the entirety of 2021, inflation is estimated at 1.7 percent. Looking ahead, inflation is projected at 1.3 percent in 2022, as supply constraints ease.

The external sector expanded strongly in 2021. The value of exports in January–October 2021 increased significantly, by 54.3 percent, from the same period in 2020, reflecting the pickup in crude oil and gas exports driven by rising oil and gas prices. The value of imports also increased strongly, by 58.9 percent year-on-year in January–October 2021, reflecting an increase in crude oil imports as raw material for oil refinery production. As a result, the trade surplus was BND 2,619 million in the first 10 months of 2021, 40 percent higher than the same period in 2020. The current account surplus is expected to increase to 8.2 percent of GDP in 2021 and 10.9 percent in 2022. Overall, the external position remains strong with ample official reserves and foreign assets.

The financial sector remains sound as credit risk is under control and banks continue to be well-capitalized with ample liquidity and reasonable profitability. The deferment of principal and interest payments—a policy in place since April 2020—has succeeded in containing nonperforming loans (NPLs): the NPL ratio declined to 3.7 percent in Q3 2021 from over 4 percent in 2020. The capital adequacy ratio remained high at 19.9 percent and liquidity was ample in the banking system in Q3 2021. Banks maintained a reasonable return on equity of about 9.5 percent in Q3 2021. Bank credit grew for the second consecutive quarter in Q3 2021, underpinned by a significant increase in credit to the household sector.

After registering a record budget deficit of 20.1 percent of GDP in FY2020 because of the huge drop in oil and gas revenue, the fiscal deficit is expected to narrow to 9.1 percent and 6.0 percent in FY2021 and FY2022, respectively. The improvement in the fiscal deficit is attributable to increased oil revenue due to higher global oil demand and prices.

In the short term, major risks facing the economy continue to revolve around its concentration in the oil and gas sector and the COVID-19 pandemic. The country's high dependence on the oil and gas sector makes it less resilient to domestic and external shocks which adversely impact its external position and fiscal balance. The plunge in global demand for oil and gas in 2020, for instance, affected the economy significantly. In addition, the second wave of COVID-19 infections due to the Delta variant and the COVID-related border restrictions have adversely affected the country's short-term performance. Despite the easing of containment policies in late 2021 as the second wave of infections subsided, any new and sustained wave of the Omicron variant could threaten the near-term outlook, especially considering the slow progress in economic diversification.

Over the longer term, structural reform efforts need to be continued to diversify Brunei's economy to improve its economic growth prospects. Without economic diversification, a broad-based global recession that leads to a decline in world demand and oil prices will affect Brunei's economic growth, fiscal balance, and external sector. Climate change, particularly the low-carbon transition, is also a key perennial risk impacting the country's economic sustainability.

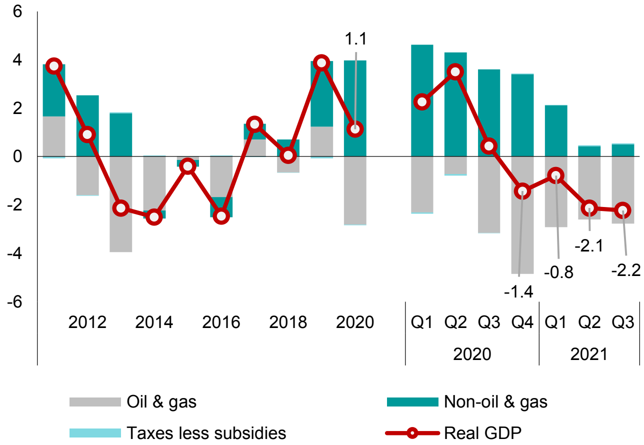
The author of this note is Heung Chun (Andrew) Tsang.

Brunei Darussalam: Selected Figures

Growth momentum is slowing down due to the COVID-19 pandemic.

Contributions to Real GDP Growth by Sector

(Percentage points, year-on-year)

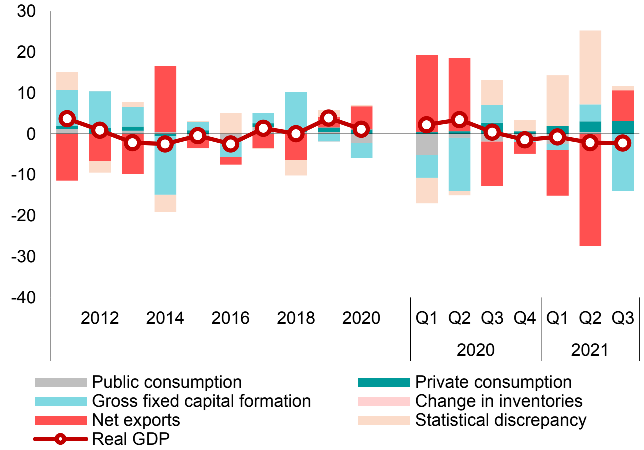


Sources: Department of Economic Development and Planning via CEIC; and AMRO staff calculations.

Net exports and private consumption were the main drivers of economic growth in Q3 2021.

Contributions to Real GDP Growth by Expenditure

(Percentage points, year-on-year)

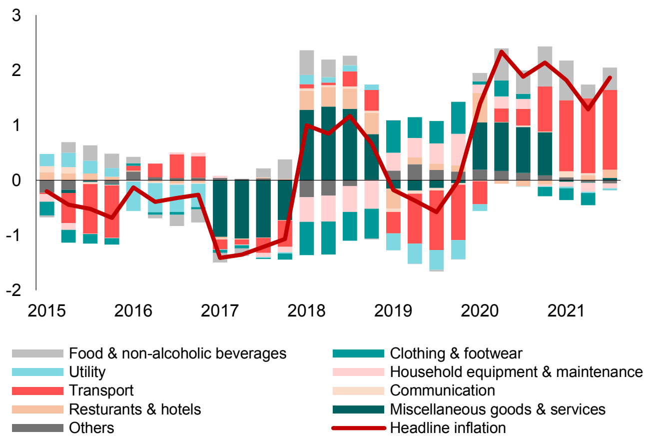


Sources: Department of Economic Development and Planning via CEIC; and AMRO staff calculations.

Inflation has risen considerably as a result of supply chain disruptions.

Contributions to CPI Inflation

(Percentage points, year-on-year)

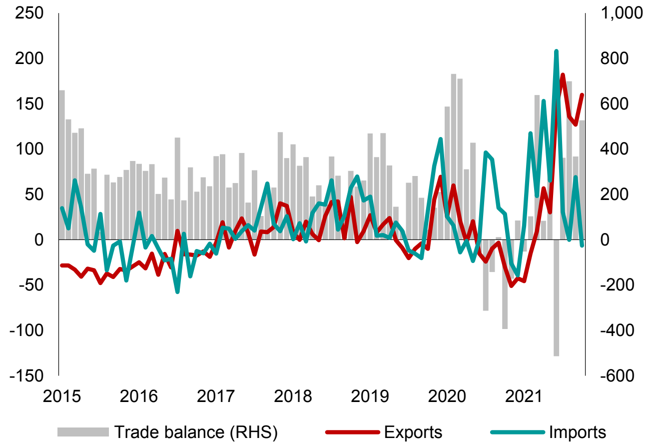


Sources: Department of Economic Development and Planning via CEIC; and AMRO staff calculations.

The trade balance has registered a strong surplus since mid-2021 due to the strong rebound in oil and gas export prices.

Trade Balance

(Percent, year-on-year; millions of Bruneian dollars)

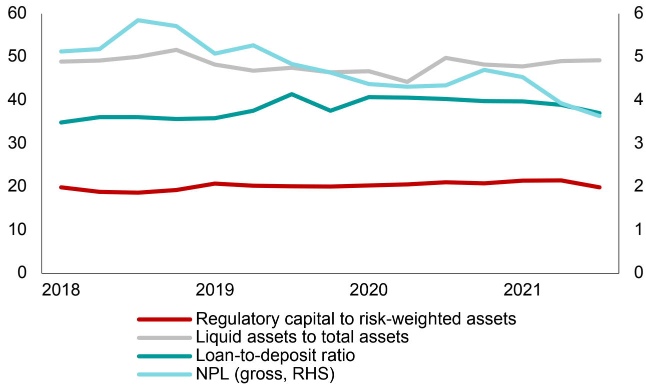


Sources: Department of Economic Development and Planning via CEIC; and AMRO staff calculations.

The banking sector remains sound with high levels of capital and liquidity, and credit risks are contained.

Financial Soundness Indicators

(Percent)

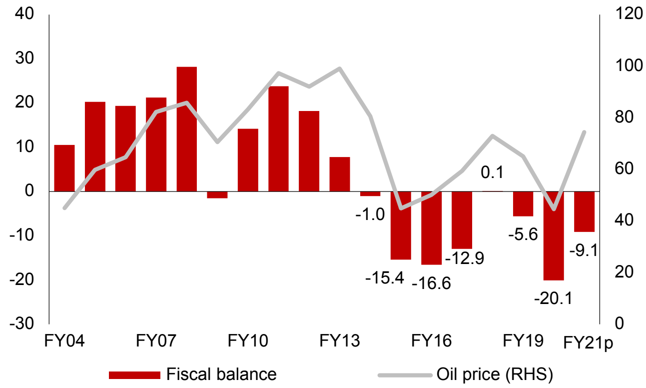


Sources: Brunei Darussalam Central Bank; and AMRO staff calculations. CAR = capital adequacy ratio; NPL = nonperforming loan.

The fiscal deficit has narrowed due to the increase in oil and gas revenues.

Fiscal Position and Oil Prices

(Percent of GDP; US dollars per barrel)



Sources: Ministry of Finance and Economy; and AMRO staff calculations.
Note: p = AMRO staff projection. The oil price for FY2021/22 is the average prices during April to October 2021.

Brunei Darussalam: Selected Economic Indicators

Indicator	2018	2019	2020	2021
Real sector	(in annual percentage change)			
Real GDP	0.1	3.9	1.1	0.2
Private consumption	2.2	5.9	5.3	–
Government consumption	1.6	1.8	–9.6	–
Gross fixed capital formation	28.1	–4.4	–9.3	–
Imports of goods and services	28.1	13.8	–2.1	–
Exports of goods and services	5.7	14.9	7.5	–
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	6.9	6.6	4.5	8.2
Trade balance	17.4	16.4	11.5	–
Capital and financial account balance	–0.5	3.0	–2.2	–
Direct investment	3.8	2.8	4.8	–
Portfolio investment	10.6	–10.4	–9.9	–
Other investment	–14.9	10.6	2.9	–
Errors and omissions	-6.4	–4.0	–6.0	–
Overall balance	-0.1	5.6	–3.7	2.2
International reserves (in USD million, end of period)	3,220.6	4,051.9	3,721.3	4,000.0
Fiscal sector[1]	(in percent of GDP)			
Revenue and grants	32.7	26.4	12.6	20.5
Expenditure	32.5	31.9	32.6	29.6
Fiscal balance	0.1	–5.6	–20.1	–9.1
Monetary and financial sectors	(in annual percentage change)			
Broad money	2.8	4.3	-0.4	4.6
Domestic credit	5.9	2.2	18.3	–16.4
Private sector credit	-3.1	2.0	0.2	2.8
Memorandum items:				
Nominal GDP (in BND million)	18,300.6	18,375.0	16,564.4	18,904.5
Nominal GDP (in USD million)	13,567.4	13,469.4	12,005.8	14,107.8
Headline inflation (in percent y-o-y, period average)	1.0	–0.4	1.9	1.7
Exchange rate (in BND/USD, period average)	1.35	1.36	1.38	1.34

Sources: National Authorities via CEIC and Haver Analytics; World Bank; and AMRO staff estimates.
Note: Numbers in red denote AMRO staff estimates. y-o-y = year-on-year.

1/ Refers to fiscal year, which starts from April 1 and ends on March 31, 2021; data are budget figures for FY2020/21.

2/ Domestic credit is based on Domestic claims on Financial Corporation Survey data.

Cambodia

Cambodia suffered a surge in COVID-19 infections in 2021, which severely dampened domestic economic activity. Strong performance in the agriculture and manufacturing sectors partially mitigated the adverse impact of the pandemic and helped drive GDP growth to an estimated 2.9 percent year-on-year in 2021 from a contraction of 3.1 percent year-on-year in 2020. The economy is expected to steadily recover in 2022, supported by the continued expansion of garment and non-garment manufacturing. High vaccination rates have facilitated the resumption of businesses, especially in the services sector. Despite the relatively open borders of Cambodia, tourism recovery is projected to proceed at a slower pace, as it hinges largely on the global pandemic situation and resumption of international and regional tourism.

Inflation remained stable at 2.9 percent year-on-year in 2021 as lower prices for most food items—particularly rice, as good weather resulted in a bumper harvest—offset the impact of increased energy and transportation costs. Inflation is projected to rise in 2022 from higher oil prices, although prices of pork, fish, and seafood are anticipated to decline with a projected increase in domestic supply.

Strong exports in 2021 were led by agriculture, garments and non-garment manufactured products, as Cambodia benefitted from strong external demand, particularly from the United States. Meanwhile, imports bounced back across most major items after the contraction in 2020. With tourism receipts remaining depressed and remittances low, the current account deficit is estimated to have widened in 2021 to about 40 percent of GDP (20 percent if excluding gold). The current account deficit is expected to have been partially offset by steady foreign investment inflows. Thus, Cambodia is estimated to have recorded an overall balance of payments deficit in 2021, resulting in a reduction in international reserves. Nonetheless, external buffers remain sizeable at USD 20.3 billion, equivalent to 7.9 months of imports of goods and services as of end-December 2021.

Liquidity remained ample in 2021 as monetary policy continued to be accommodative. Credit growth recovered across a broad range of sectors in 2021, rising above 20 percent since May 2021, despite the rise in COVID-19 community cases. NPLs remained low at 2.4 percent, while the reopening of the economy has resulted in the steady decline of restructured loans. The National Bank of Cambodia (NBC) provided timely and welcome guidance to banks on assessing the creditworthiness of and increasing provisioning for restructured loans.

Fiscal policy continued to be expansionary in 2021, with the fiscal deficit rising to 9.2 percent of GDP from 5.3 percent of GDP in 2020. In response to the community outbreak of infections in 2021, the government almost doubled its COVID-19 intervention package to USD 1,291 million, with the bulk allocated to COVID-19 treatment and prevention, while also increasing the budget for cash transfers to the poor. Public debt is estimated to have risen slightly to 34.6 percent of GDP at end-2021 from 33.8 percent at end-2020, as Cambodia drew down its fiscal reserves to finance the deficit.

Despite its high vaccination rate and significantly upgraded health system since the pandemic started, risks of a large outbreak from new virus variants remain, which could derail economic recovery.

Slow and uneven recovery, coupled with economic scarring may adversely affect businesses and households, leading to rising NPLs. Economic damage brought about by the prolonged pandemic may lead to permanent job losses and business closures, potentially resulting in a deterioration in the quality of outstanding loans. It is estimated that NPLs could rise by 1 percentage point from current levels if regulatory forbearance is withdrawn. However, a larger-than-anticipated shock could push NPLs higher, dampening the prospects for economic recovery.

Moreover, narrowing fiscal space may limit the government's capacity to provide support in case of another surge in infections. With government savings drawn down by USD 1.7 billion to help finance the stimulus budget in 2020–21, government savings that can be tapped for discretionary spending have gone down by almost a third compared to their pre-pandemic level. This steady decline in fiscal savings could limit the government's capacity to provide counter-cyclical support in the future, particularly given the persistent risk of further waves of infections from new virus variants. The reduction in fiscal revenues relative to pre-pandemic trends has also made it more challenging to rebuild fiscal buffers.

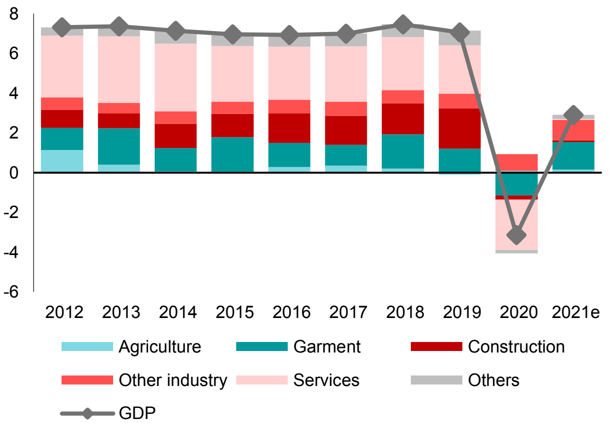
The author of this note is Paolo Hernando.

Cambodia: Selected Figures

Growth is estimated to have returned to positive territory in 2021 after the contraction in 2020.

Contributions to Real GDP Growth

(Percentage points, year-on-year)

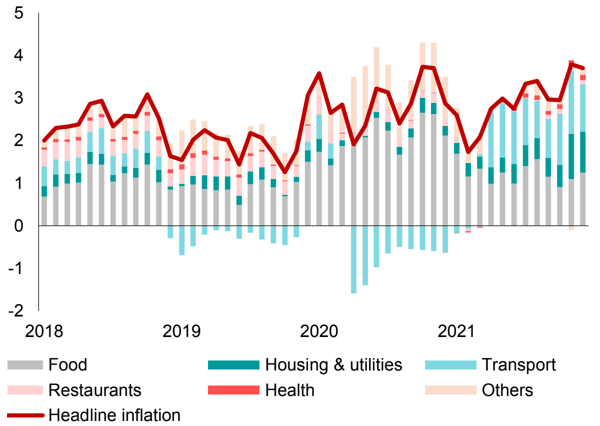


Sources: National Institute of Statistics of Cambodia; and AMRO staff estimates.
Note: e denotes estimate.

Inflation remained stable in 2021 as lower food prices offset higher energy prices.

Contributions to CPI Inflation

(Percentage points, year-on-year)

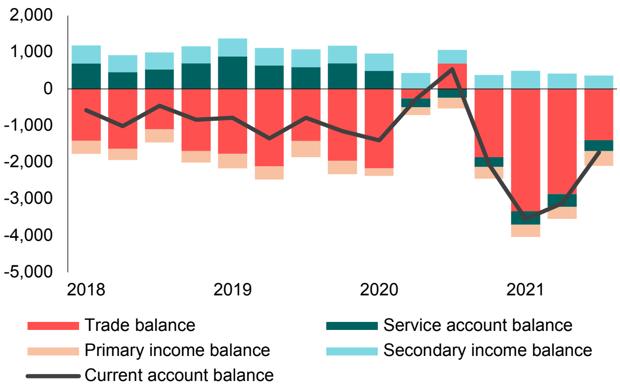


Sources: National Bank of Cambodia; and AMRO staff calculations.
Note: Food includes non-alcoholic beverages. CPI = consumer price index.

The current account registered a large deficit in 2021 as growth of imports outpaced that of exports and net services plummeted due to the decline in tourism.

Current Account Balance

(Millions of US dollars)

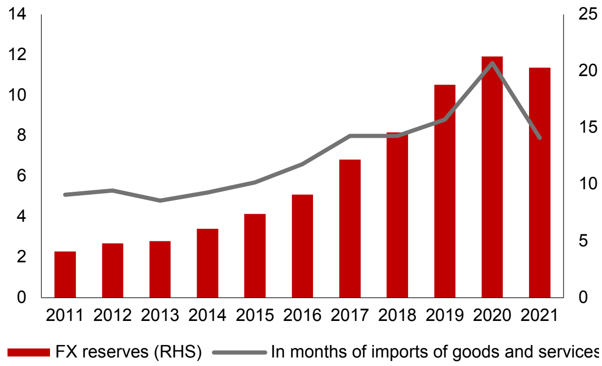


Sources: National Bank of Cambodia; and AMRO staff calculations.

International reserves fell to USD 20.3 billion at the end of December 2021, equivalent to 7.9 months of imports.

International Reserves

(Months of imports; billions of US dollars)

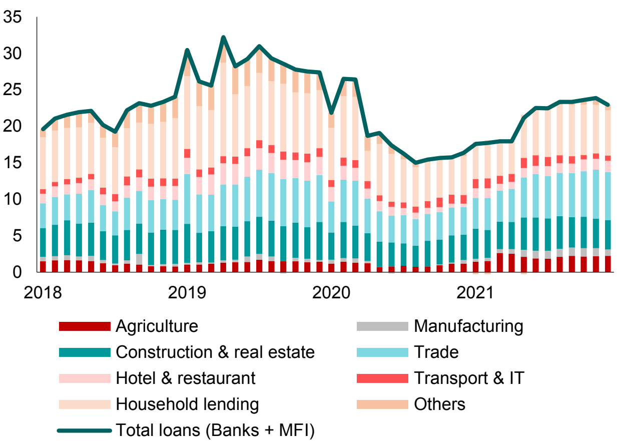


Sources: National Bank of Cambodia; and AMRO staff calculations.
Note: FX = foreign exchange.

Credit to the economy has recovered since May 2021, led by increased lending to households, trade, construction, and real estate.

Contributions to Credit by Banks and Microfinance Institutions (MFI)

(Percentage points, year-on-year)

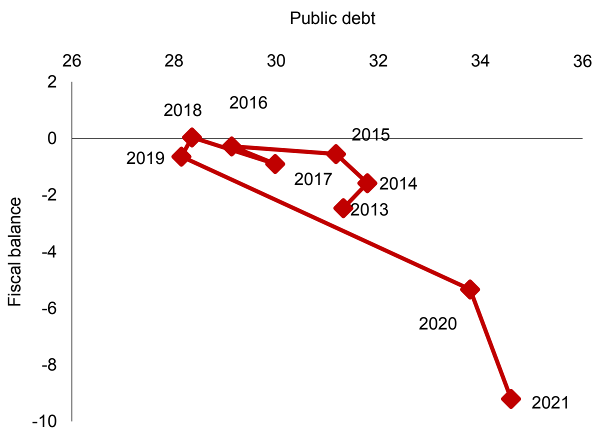


Sources: National Bank of Cambodia; and AMRO staff calculations.
Note: IT = information technology.

Further fiscal support measures were rolled out in 2021 to mitigate the impact of the COVID-19 pandemic on lives and livelihood.

Fiscal Balance and Public Debt

(Percent of GDP)



Source: Ministry of Economy and Finance.

Cambodia: Selected Economic Indicators

Indicator	2018	2019	2020	2021
Real sector	(in annual percentage change)			
Real GDP	7.5	7.1	–3.1	2.9
Agriculture	1.1	–0.5	0.6	1.0
Industry	11.6	11.3	–1.4	6.7
Services	6.8	6.2	–6.5	0.1
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	–11.8	–15.0	–11.9	–41.6
Trade balance	–23.8	–26.8	–13.9	–40.0
Capital and financial account balance	16.2	24.8	15.9	36.8
Direct investment	12.6	13.1	13.5	14.5
Portfolio investment	–0.2	0.0	–0.4	0.0
Other investment	2.5	10.4	1.8	21.7
Errors and omissions	1.5	0.6	–1.6	0.9
Overall balance	5.9	9.8	2.5	–3.9
Gross external debt	53.3	56.5	65.3	70.4
International reserves (in USD billion, end of period)	14.6	18.8	21.3	20.3
Fiscal sector	(in percent of GDP)			
Revenue and grants	23.8	26.2	23.5	20.9
Expenditure	23.8	26.9	28.8	30.1
Fiscal balance	0.0	–0.6	–5.3	–9.2
Government debt	28.4	28.1	33.8	34.6
Monetary and financial sectors	(in annual percentage change)			
Broad money	24.0	18.2	15.3	16.3
Domestic credit	21.1	24.4	20.0	22.9
Private sector credit	23.2	26.7	17.7	24.1
Memorandum items:				
Nominal GDP (in KHR billion)	99,544	110,014	105,857	111,903
Nominal GDP (in USD million)	24,572	27,089	25,864	27,233
Headline inflation (in percent y-o-y, period average)	2.5	1.9	2.9	2.9

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

China

China's economic recovery remains intact despite a slowdown in the second half of 2021, and inflation is contained. GDP growth was a brisk 8.1 percent for the year, although the momentum slowed markedly in the second half and was moderate in the early part of 2022 due to various factors including supply-side disruptions and COVID-19 outbreaks. The surveyed urban unemployment rate was a low 5.1 percent in 2021, before rising to 5.5 percent in February 2022. Firm job market conditions have supported consumption, the key driver of growth. CPI inflation has been contained, coming in at 0.9 percent for 2021 and January–February 2022. The external position remains strong.

The overall banking system continues to have adequate capital and liquidity buffers. Total social financing growth eased to 10.3 percent in 2021 from 13.3 percent in 2020; it stood at 10.2 percent in February 2022. Credit conditions should remain supportive ahead, with the People's Bank of China providing guidance and having cut the required reserve ratio and relending rates.

Real estate activities have slowed significantly, and property prices have fallen in some cities – triggered by tightening of macroprudential measures, and financial difficulties of some large property developers. With property markets cooling since mid-2021, authorities have adjusted policy settings measuredly to facilitate orderly adjustments.

China's fiscal deficit has narrowed. As the revenue in the general public budgetary account (general account) increased by 10.7 percent year-on-year in 2021 while expenditure rose by only 0.3 percent, the general public budgetary account deficit is expected to narrow from 6.2 percent of GDP in 2020 to 3.8 percent of GDP in 2021. The authorities expect the official fiscal deficit, based on China's accounting method, to narrow from 3.6 percent of GDP in 2020 to 3.2 in 2021 and to 2.8 percent in 2022.

For 2022, GDP growth is projected at 5.2 percent, with sequential momentum picking up through the year. Consumption should remain the key driver, with investment playing an important supporting role.

However, risks will still be elevated in 2022. The pandemic and geopolitical tensions remain key risks to the global economy and the Chinese economy. The recovery of China's domestic economy and labor market could remain uneven. US–China technology tensions will probably be prolonged. Pockets of vulnerabilities in the financial and property sectors persist. Some policy measures to reduce imbalances and boost the sustainability of economic growth could have unintended effects in the near term. These will need careful management.

Given these risks, using available policy levers to safeguard macro-financial stability in the near term is vital— this will involve delicate trade-offs. First, China needs to strike a judicious balance when adjusting its pandemic control measures as conditions change and devise a plan for border reopening. Second, fiscal policy should continue to support economic growth and job creation. Third, monetary policy should ensure that liquidity and credit conditions are supportive, and macroeconomic and financial stability are safeguarded. At the same time, it is important to make steady progress in overall deleveraging.

To address climate change, China needs concrete policies and careful risk mitigation measures. Following the commendable action plan for peaking carbon emissions before 2030, a similar plan for the 2060 carbon neutrality target is needed. The national emissions trading scheme could be strengthened. Carbon taxes should be considered. Further targeted measures should be deployed to support technology development and innovation. There is a need to provide income transfers for less wealthy regions, strengthen safety nets for the vulnerable, and mitigate financial risks from asset stranding and green investment.

Dual Circulation and Common Prosperity are key overarching strategies for pursuing high-quality inclusive growth. A systematic approach is needed to implement policies, monitor results, assess trade-offs, and make adjustments. The design and execution of Common Prosperity policy measures need to guard against unintended effects such as weakening incentives for entrepreneurship and innovation. There should be transparency and predictability, to avoid disrupting businesses.

Efforts to safeguard fiscal sustainability must continue. On the revenue side, the property market slowdown and carbon reduction efforts are key challenges. For expenditure, risks could arise from the need to significantly strengthen social welfare. Uncertainty over public spending for climate change is high. Ways need to be found to: (1) improve fiscal spending efficiency and reallocate expenditure to priority areas; (2) boost revenue by making further progress on tax administration reform, including expanding the tax base; (3) make the income tax system more progressive; and (4) strengthen debt management.

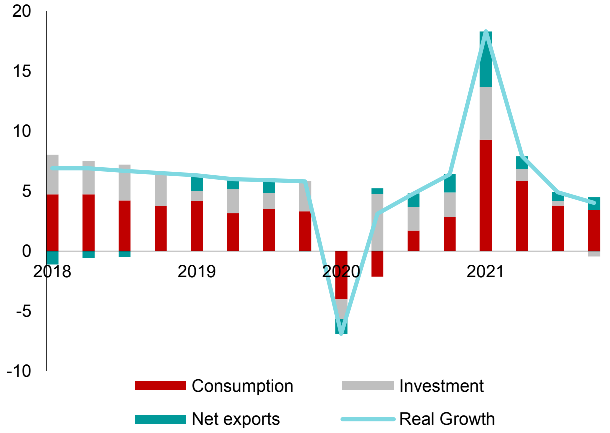
China has strong economic foundations to pursue sustained high-quality growth. There are also several promising growth drivers. These include productivity gains through technological advancement, strong innovation by enterprises, continued uplift of the middle class, and further development of the services sector. With well-considered policies, close coordination among government bodies and effective policy communication, China can stay the course for robust and inclusive growth.

The author of this note is Suan Yong Foo.

China: Selected Figures

China's recovery from the 2020 downturn has remained intact in 2021 and the early part of 2022.

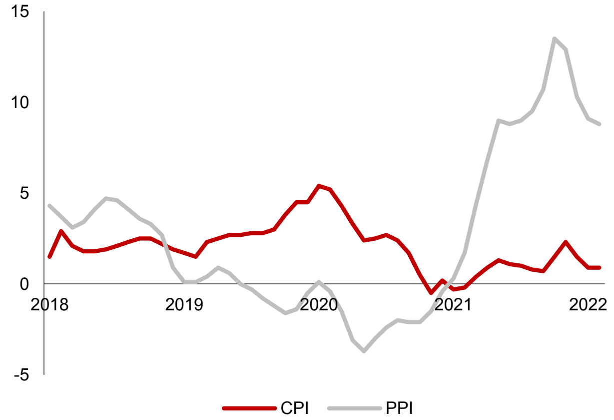
Contributions to Real GDP Growth
(Percentage points, year-on-year)



Source: National Bureau of Statistics.

Despite a surge in the PPI, CPI inflation has remained well contained.

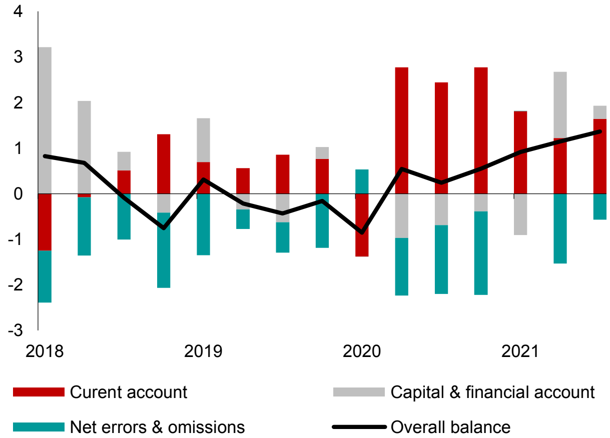
Inflation
(Percent, year-on-year)



Source: National Bureau of Statistics.
Note: CPI = consumer price index. PPI = producer price index.

The overall balance of payments position has been healthy, with the current account surplus being a key factor.

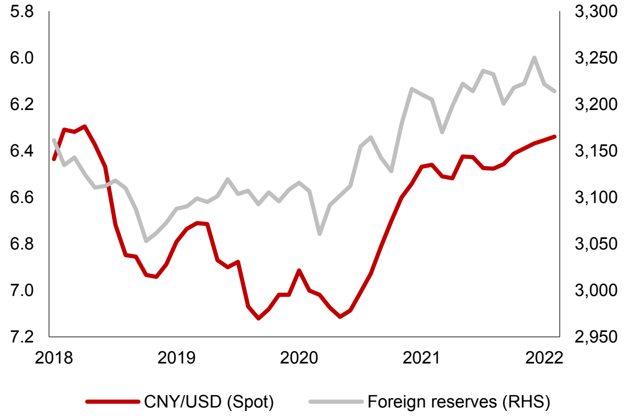
Balance of Payments
(Percent of GDP)



Source: State Administration of Foreign Exchange.

Foreign reserves have trended up slightly to reach USD 3.21 trillion in February 2022.

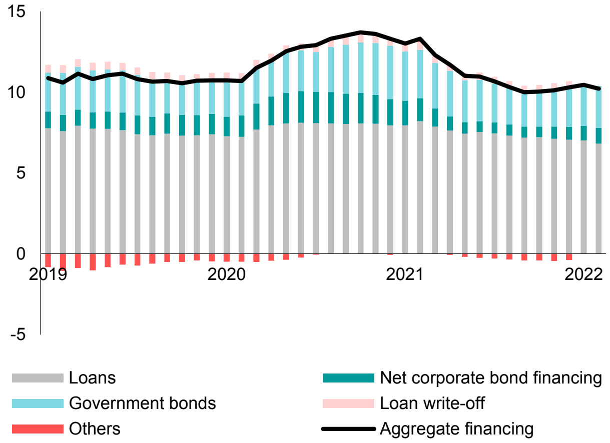
USD-RMB Exchange Rate and Foreign Reserves
(Chinese yuan/US dollar inverse; billions of US dollars)



Sources: China Foreign Exchange Trading Center; and The People's Bank of China.

Total social financing growth has trended up gradually, with the deleveraging policy still in place.

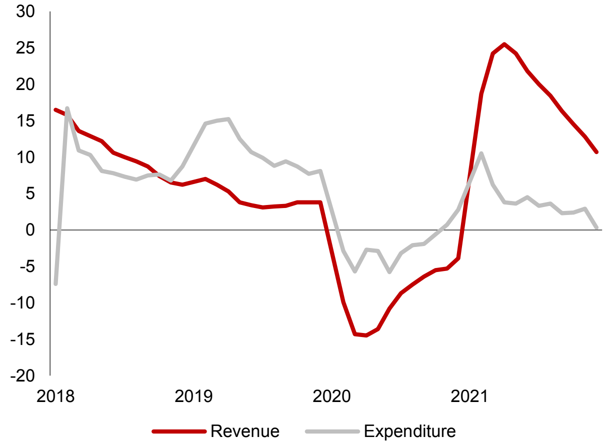
Contributions to Outstanding Total Social Financing Growth
(Percent, year-on-year)



Source: The People's Bank of China.

Fiscal revenue growth slowed in the second half of 2021 while spending was restrained throughout the year.

Fiscal Revenue and Expenditure
(Percent year-on-year, year-to-date)



Source: China Ministry of Finance.

China: Selected Economic Indicators

Indicator	2018	2019	2020	2021
Real sector	(in annual percentage change)			
Real GDP	6.7	5.9	2.2	8.1
Private consumption	8.1	6.4	–0.9	9.8
Gross fixed capital formation	6.6	4.5	5.1	2.6
Imports of goods and services	15.8	–2.8	–0.4	30.1
Exports of goods and services	9.9	0.5	9.9	29.9
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	0.2	0.7	1.9	1.8
Trade balance	0.6	0.9	2.5	2.6
Capital and financial account balance	1.1	0.2	–0.7	0.3
Direct investment	0.7	0.4	0.7	1.2
Portfolio investment	0.8	0.4	0.6	0.5
Other investment	–0.1	–0.7	–1.7	0.0
Errors and omissions	–1.3	–0.9	–1.1	0.0
Gross external debt	14.3	14.3	15.0	14.0
Foreign exchange reserves (in USD billion, end of period)	3,072.7	3,107.9	3,216.5	3,250.0
Fiscal sector[1]	(in percent of GDP)			
Revenue and grants	19.9	19.3	18.0	17.7
Expenditure	24.0	24.2	24.2	21.5
Fiscal balance	–4.1	–4.9	–6.2	–3.8
Government debt	36.2	38.3	45.8	48.3
Monetary and financial sectors	(in annual percentage change)			
Broad money[2]	8.1	8.7	10.1	9.0
Total Social Financing	10.3	10.7	13.3	10.3
Memorandum items:				
Nominal GDP (in RMB trillion)	91.9	98.7	101.4	114.4
Headline inflation (in percent y-o-y, period average)	2.1	2.9	2.5	0.9
Lending rate (LPR), 1 year (period-end)	4.35	4.35	4.35	4.35
Exchange rate (in RMB/USD, period average)	6.62	6.91	6.90	6.45

Sources: National authorities via CEIC and Haver Analytics; and AMRO staff estimates.
Note: Numbers in red denote AMRO staff estimates. y-o-y = year-on-year. LPR = loan prime rate.
1/ Includes only general government account and incorporates AMRO staff estimates.
2/ Refers to M2.

Hong Kong, China

The economy rebounded in 2021, but the recovery has remained uneven across sectors. Growth rebounded strongly to 6.4 percent year-on-year in 2021, following a 6.5 percent year-on-year contraction in 2020. On the demand side, exports, private consumption, and investment rebounded in 2021. Activities in retail, transportation, and accommodation improved but remained well below pre-recession levels in 2018 as inbound tourism was at a standstill. Looking ahead, effective pandemic control and further progress in COVID-19 vaccination toward the target rate would facilitate a gradual phase-out of social distancing measures and allow for targeted border reopening.

Labor market conditions have improved steadily after a marked deterioration in 2020. The unemployment rate declined quickly to 3.9 percent in November 2021–January 2022 from the peak of 7.2 percent in December 2020–February 2021, led by the recovery of employment in labor-intensive and hard-hit sectors, such as transportation, retail, and accommodation. The overall recovery is expected to continue in 2022 as the economy further rebounds and cross-border travel partially resumes.

Inflation rose in 2021 on the back of the economic recovery after a sharp decline in 2020. Headline inflation rose to 1.6 percent year-on-year, in 2021 from 0.3 percent year-on-year in 2020, largely due to rising energy and food prices. Overall price pressures are likely to increase further as housing rentals are expected to bounce back due to the pass-through effect from elevated housing prices.

The government announced countercyclical measures worth HKD170 billion to combat the recent wave of COVID-19 infections. The package includes HKD67 billion anti-epidemic package, HKD45 billion tax/fee reductions or subsidies, and HKD10,000 consumption vouchers. As a result, the fiscal deficit in FY2022/23 is projected to reach 1.9 percent of GDP, reversing from a surplus position equivalent to 0.7 percent of GDP in FY2021/22. Over the medium term, fiscal reserves are projected to be around 30 percent of GDP during FY2023/24– FY2025/26, declining from the current level of 35 percent. They would cover 13–16 months of government spending.

Hong Kong banks have remained resilient, bolstered by strong buffers and policy support during the pandemic. They maintained strong capital and liquidity ratios, well above the regulatory minimums. The NPL ratio increased from 0.6 percent in Q1 2020 to 0.9 percent in Q4 2020 and then declined slightly to 0.8 percent in Q3 2021, in part thanks to the government's loan guarantee programs and Pre-approved Principal Payment Holiday Scheme. However, the low-interest rate environment has weighed on banks' profitability as net interest margins declined sharply during the pandemic.

The residential property market remained resilient throughout the 2-year recession in 2019 and 2020, but the commercial property market was hit hard. Private residential property prices have held up well and will likely remain elevated as the economy recovers further. Prices for private office and retail space dipped pronouncedly due to work-from-home arrangements, social distancing, and strict cross-border restrictions. Since the latter part of 2020, transactions in these markets have recovered steadily and prices have bottomed out.

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 2021, the government pledged to provide about 330,000 public housing units during FY2022/23 to FY2031/32, and as many as 926,000 residential units in the Northern Metropolis, a new international information technology hub, which would accommodate about 2.5 million people. The government also introduced short-term transitional housing, cash allowances, and tenancy control to support vulnerable households in the interim.

While the growth outlook has improved, downside risks are still significant in the near term. A protracted wave of COVID-19 infections and the resulting weakening domestic and global demand could hinder economic recovery. Prolonged strict border controls and quarantine measures could affect business sentiment and encourage some foreign companies and expatriates to relocate. Business and investor sentiments could worsen from an escalation of geopolitical tensions including the US-China tensions and the Russia-Ukraine conflicts. Moreover, an earlier-than-expected tightening in US monetary conditions could lead to a sharp reversal of domestic financial conditions.

In the medium term, there is also uncertainty about the impact of the implementation of international tax changes on multinational corporations' investments and government revenue. In the longer term, the aging population and climate change could pose significant risks to growth and financial stability.

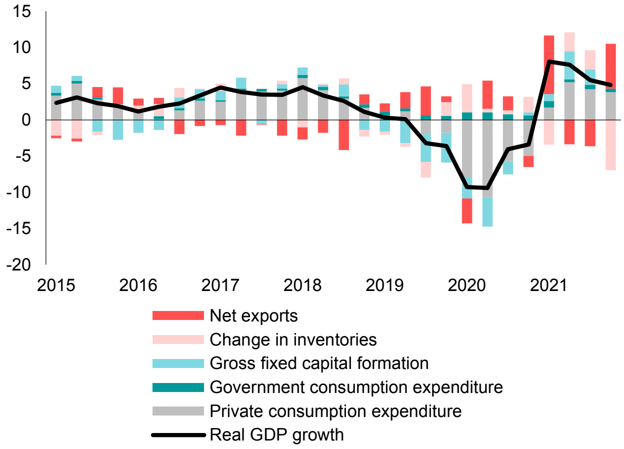
The author of this note is Xu (Kimi) Jiang.

Hong Kong, China: Selected Figures

Hong Kong's economy rebounded sharply in 2021 after a pronounced contraction in 2020 due to the pandemic.

Contributions to Real GDP Growth

(Percentage points, year-on-year)

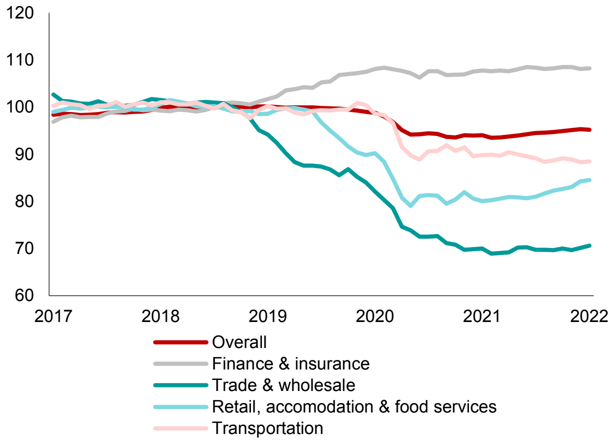


Sources: Census and Statistics Department; and Haver Analytics.

Overall employment improved in 2021, but the recovery remained uneven across sectors.

Employment by Sector

(2018 = 100, non-seasonally adjusted, 3-month moving average)

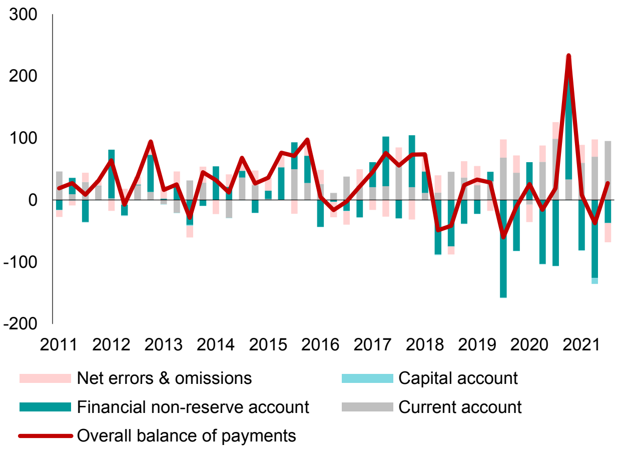


Sources: Census and Statistics Department; and Haver Analytics.

The external position has remained resilient since the outbreak of the pandemic.

Balance of Payments

(Billions of Hong Kong dollars)

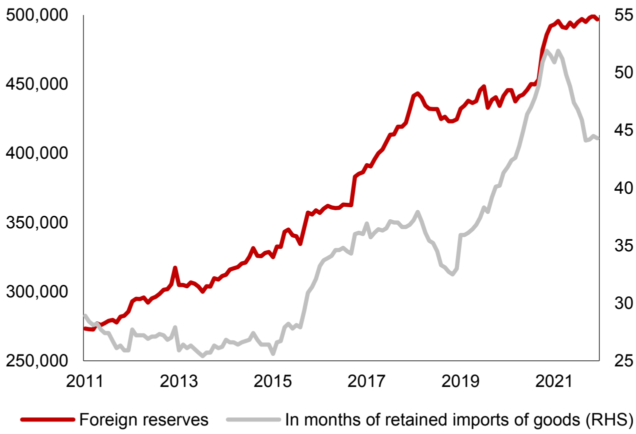


Sources: Census and Statistics Department; and Haver Analytics.

Foreign reserves remained ample, covering about 45 months of retained imports.

Foreign Reserves

(Millions of US dollars; months of imports)

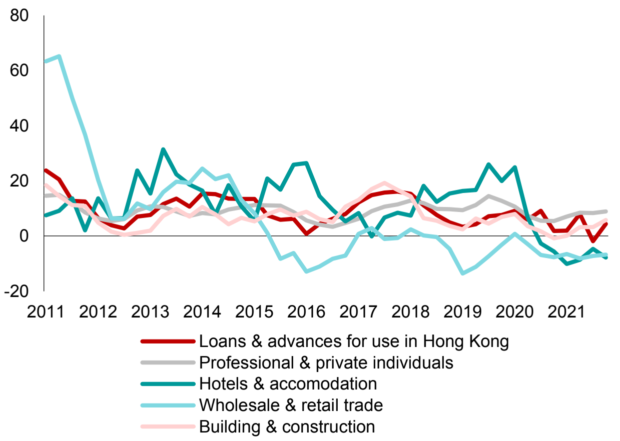


Sources: Hong Kong Monetary Authority; and Haver Analytics.

Bank lending to wholesale and retail trade, building and construction, and hotels and accommodation continued to contract.

Bank Lending Growth by Sector

(Percent, year-on-year)

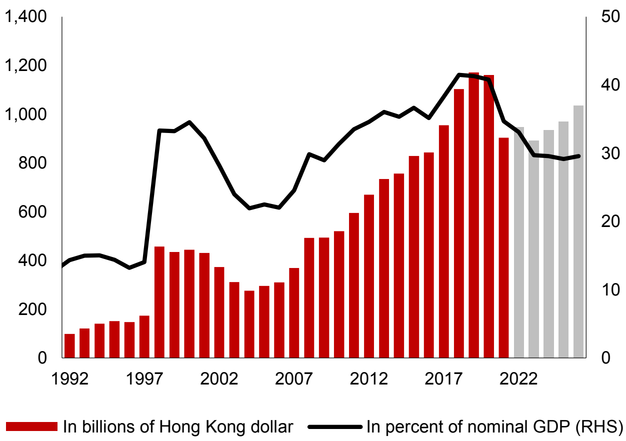


Sources: Haver Analytics; and Hong Kong Monetary Authority.

The government has projected that fiscal reserves would stabilize at 30 percent of GDP over the medium term.

Fiscal Reserves Projections

(Billions of Hong Kong dollars; percent of GDP)



Sources: CEIC; and Financial Services and the Treasury Bureau.

Note: Grey bars denote government projections in the 2022 Budget Speech.

Hong Kong, China: Selected Economic Indicators

Indicator	2018	2019	2020	2021
Real sector	(in annual percentage change)			
Real GDP	2.8	–1.7	–6.5	6.4
Private consumption	5.3	–0.8	–10.5	5.7
Government consumption	4.2	5.1	7.9	4.6
Gross fixed capital formation	1.7	–14.9	–11.3	10.1
Imports of goods and services	4.5	–7.2	–6.9	17.0
Exports of goods and services	3.7	–6.1	–6.7	16.1
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	3.7	5.8	6.5	5.5
Trade balance	–8.9	–4.2	–1.5	–0.8
Capital and financial account balance	–6.2	–8.3	–9.0	–8.4
Direct investment	6.1	5.7	9.8	10.6
Portfolio investment	–21.7	–7.6	–19.6	–27.1
Other investment	8.6	–6.7	9.8	4.6
Errors and omissions	2.4	2.5	2.4	2.9
Overall balance	0.3	–0.3	9.8	–2.7
Gross external debt	1,695	1,675	1,789	1,800
International reserves (in USD billion, end of period)	425.0	441.0	491.8	495.0
Fiscal sector[1]	(in percent of GDP)			
Revenue and grants	21.2	20.8	21.0	22.8
Expenditure	18.8	21.4	30.3	24.4
Fiscal balance	2.4	–0.4	–8.7	0.7
Government debt	0.1	0.3	1.0	1.3
Monetary and financial sectors	(in annual percentage change)			
Broad money	-0.4	–1.0	10.9	16.3
Domestic credit	4.4	6.7	1.2	3.8
Private sector credit	5.4	7.1	1.6	9.4
Memorandum items:				
Nominal GDP (in HKD trillion)	2.8	2.8	2.7	2.9
Headline inflation (in percent y-o-y, period average)	2.4	2.9	0.3	1.6
Policy rate (in percent per annum)	2.75	2.50	0.50	0.50
Exchange rate (in HKD/USD, period average)	7.84	7.84	7.76	7.77

Sources: Bank for International Settlements; International Monetary Fund; national authorities via CEIC and Haver Analytics; and AMRO staff estimates.
Note: Numbers in red denote AMRO staff estimates. y-o-y = year-on-year.
1/ Refer to fiscal year, which starts on April 1 and ends on March 31.

Indonesia

The recovery of the Indonesian economy has regained traction, thanks to effective containment of the Delta variant outbreak and ongoing policy support. Real GDP rebounded by 3.7 percent year-on-year in 2021, led by robust exports and stronger domestic demand, and is projected to grow further by 5.2 percent year-on-year in 2022. Demand recovery is expected to lift inflation from a subdued 1.6 percent year-on-year (period average) in 2021 to 2.8 percent year-on-year (period average) in 2022.

Stellar export performance and increased foreign investment inflows have supported Indonesia's external position. Merchandise exports posted a 43 percent year-on-year growth in 2021, underpinned by the global demand recovery and higher prices for Indonesia's key commodities. Foreign direct investment realization also increased by 8.5 percent year-on-year in 2021, with sustained inflows to metal-processing, automotive manufacturing, and mining activities. These developments supported the rupiah and led to an increase in gross international reserves to USD 144.9 billion in December 2021.

Financial markets remained resilient to external headwinds. Outflows were observed in the government bond market in 2021, as investor sentiment toward emerging markets (EMs) was adversely affected by uncertainties over the US Federal Reserve's policy normalization and the virus resurgence in the region. Indonesia's government bond yields have picked up, albeit moderately relative to its EM peers, as inflation remained low. Improved corporate performance, underpinned by higher commodity prices and a recovery in domestic demand, has attracted inflows to the stock market.

Improved economic conditions are supporting a recovery in loan growth and a moderation in loan restructuring. Commercial bank loans rebounded by 5.2 percent year-on-year at the end of 2021, and further to 6.3 percent year-on-year in February 2022, the highest growth since mid-2020. With more borrowers making repayments, the total amount of restructured loans declined to about IDR 663 trillion in December 2021, equivalent to 11.5 percent of total loans. Banks have downgraded or even written off nonviable loans voluntarily, aiming to avoid a potential spike in NPLs post-restructuring. High capital adequacy ratios of above 20 percent, alongside elevated loan loss provisions that cover close to 200 percent of NPLs, should provide adequate support to the banking sector's resilience moving forward.

Bank Indonesia's (BI's) policy mix continues to support economic recovery. BI has kept its policy rate at a record low of 3.5 percent following 6 rate cuts since the pandemic broke out in 2020. A low-interest environment, coupled with BI's quantitative easing measures and fiscal-monetary policy synergy to support economic recovery from the pandemic, have underpinned loose liquidity conditions. As the banking sector remains sound, macroprudential regulations on automotive and property loans have been further relaxed, in sync with the government's tax incentives on car and home purchases, to boost domestic demand. Efforts have also been stepped up to digitalize the payment system and enhance financial inclusion.

Fiscal policy remains supportive. The government increased the fiscal support package to about 4.4 percent of GDP in 2021 to combat the impact of the Delta variant outbreak, of which 88.4 percent or about 3.9 percent of GDP was disbursed. The 2022 Budget has been designed to sustain the recovery momentum in view of continuing pandemic uncertainties. BI has contributed to the financing of pandemic-related healthcare cost and humanitarian aid in 2021–22, by buying government bonds through private placement at variable rates equivalent to the 3-month reverse repo rate. To support fiscal consolidation post-pandemic, the government has succeeded in pushing through parliament a comprehensive tax reform package, including a higher value-added tax rate and a new carbon tax, a signal of its commitment to the climate change agenda.

Risks to Indonesia's near-term outlook continue to stem from possible COVID-19 resurgences and US Federal Reserve policy uncertainties, as well as ongoing geopolitical tensions. Repeated waves of infections, especially with the emergence of new virus variants, followed by tighter containment measures, would weigh on recovery prospects. A spike in risk aversion among global investors, triggered by a sharper-than-expected tightening by the US Fed, or intensified geopolitical tensions, could heighten volatility in domestic financial markets. However, reduced foreign holdings of government bonds, a strengthened external position, and low inflation, should help mitigate possible spillovers.

Indonesia is facing challenges in executing a smooth exit from its expansionary pandemic policies in the medium term. The country's elevated debt-service burden, aggravated by higher government debt during the pandemic, could increase further should Fed tightening lead to significantly higher domestic interest rates, reducing the room for much-needed capital spending. This will be critical when Indonesia restores the fiscal rule of a maximum budget deficit of 3 percent of GDP in 2023.

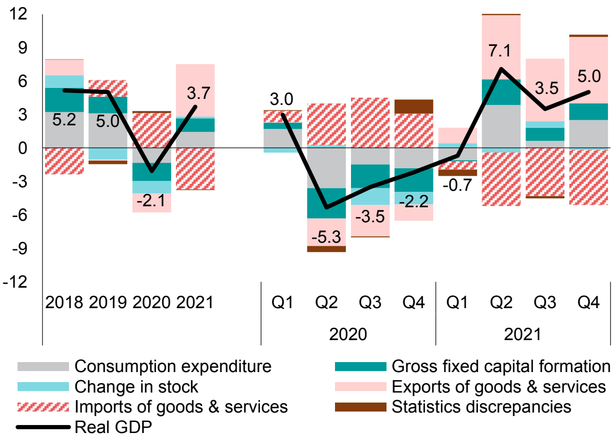
The author of this note is Thi Kim Cuc Nguyen.

Indonesia: Selected Figures

A strong export performance and rebounding domestic demand underpinned the economic recovery in 2021.

Contributions to Real GDP Growth

(Percentage points, year-over-year)

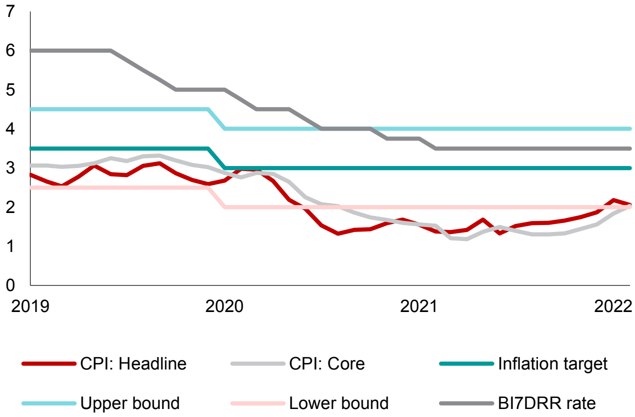


Source: Statistics Indonesia.

In light of subdued inflation, Indonesia kept its policy rate at a record-low to support the economy.

Bank Indonesia's Policy Rate and Inflation

(Percent)

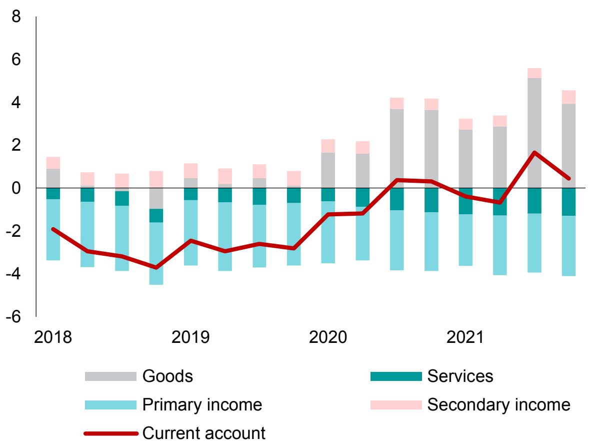


Sources: Statistics Indonesia; and Bank Indonesia.
Note: BI7DRR refers to Bank Indonesia's 7-day reverse repo rate.

An improved current account balance …

Current Account Balance

(Percent of GDP)

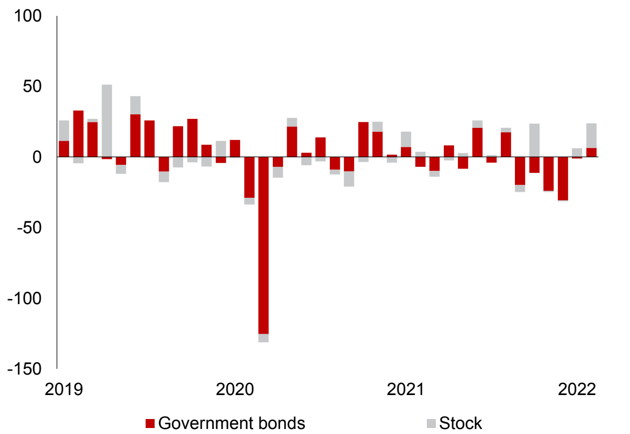


Source: Bank Indonesia.

…amid intermittent capital outflows, notably from the government bond market…

Net Capital Flows to Government Bond and Equity Markets

(Trillions of Indonesian rupiahs)

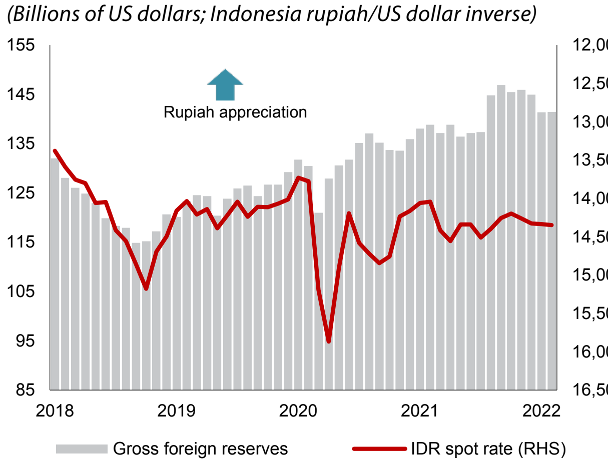


Sources: Bank Indonesia; Indonesia Stock Exchange; and Ministry of Finance of Indonesia.

… supported the rupiah and reserves accumulation in 2021.

Gross Foreign Reserves and Rupiah Spot Rate

(Billions of US dollars; Indonesia rupiah/US dollar inverse)

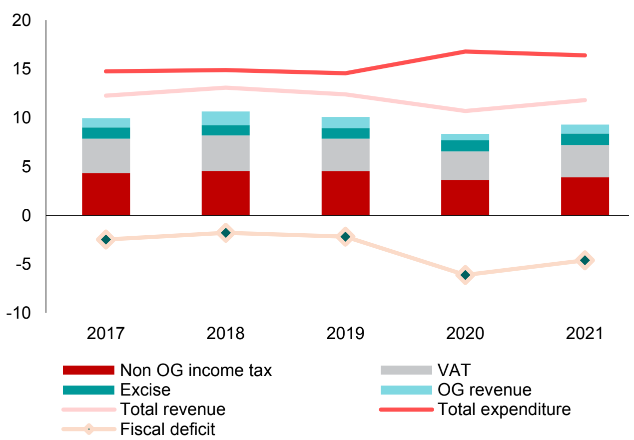


Source: Bank Indonesia.

Despite a still-elevated budget expenditure, the fiscal deficit narrowed in 2021, thanks to a revenue windfall from higher commodity prices.

Budget Revenue, Expenditure, and Overall Balance

(Percent of GDP)



Sources: Ministry of Finance via CEIC; and AMRO staff estimates.
Note: Data for 2021 are AMRO staff estimates based on the preliminary fiscal realization data announced by Ministry of Finance of Indonesia. OG = oil & gas.

Indonesia: Selected Economic Indicators

Indicator	2018	2019	2020	2021
Real sector	(in annual percentage change)			
Real GDP	5.2	5.0	–2.1	3.7
Household consumption	5.1	5.0	–2.6	2.0
Government consumption	4.8	3.3	2.0	4.2
Gross fixed capital formation	6.7	4.5	-5.0	3.8
Imports of goods and services	12.1	–7.1	–16.7	23.3
Exports of goods and services	6.5	–0.5	–8.1	24.0
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	–2.9	–2.7	–0.4	0.3
Trade balance	0.0	0.3	2.7	3.7
Capital and financial account balance	2.4	3.3	0.7	1.0
Direct investment	1.2	1.8	1.3	1,4
Portfolio investment	0.9	2.0	0.3	0.4
Other investment	0.3	–0.5	–0.9	–0.9
Overall balance	–0.7	0.4	0.2	1.1
Gross external debt	36.0	36.1	39.3	35.0
International reserves (in USD billion, end of period)	120.7	129.2	135.9	144.9
Fiscal sector[1]	(in percent of GDP)			
Revenue and grants	13.1	12.4	10.7	11.8
Expenditure	14.9	14.5	16.8	16.4
Fiscal balance	–1.8	–2.2	–6.1	–4.6
Government debt	30.4	30.2	39.5	40.7
Monetary and financial sectors	(in annual percentage change)			
Broad money	6.3	6.5	12.5	13.9
Private sector credit	12.5	5.5	–1.7	5.4
Memorandum items:				
Nominal GDP (in IDR trillion)	14,838	15,834	15,434	16,971
Headline inflation (in percent y-o-y, period average)	3.2	3.0	2.0	1.6
Policy rate (in percent per annum)	6.0	5.0	3.8	3.5
Exchange rate (in IDR/USD, period average)	14,246	14,237	14,582	14,310

Sources: National authorities via CEIC and Haver Analytics; and AMRO staff estimates.
Note: Numbers in red denote AMRO staff estimates. y-o-y = year-on-year.
1/ 2021 fiscal data are estimated based on the preliminary 2021 budget realization data provided by Ministry of Finance.

Japan

The Japanese economy experienced a bumpy recovery with growth averaging 1.6 percent in 2021, after being severely battered by the COVID-19 pandemic in 2020. In Q1, real GDP contracted by 2.2 percent (seasonally adjusted annualized rate) against the backdrop of a renewed state of emergency. The economy expanded by 2.4 percent in Q2 before shrinking again by 2.8 percent in Q3 amid the extension of the state of emergency. In Q4, real GDP rebounded by 4.6 percent, reflecting strong private consumption, which had been highly volatile during the whole year, fluctuating in line with repeated waves of infections. Business investment was weak, dragged down by global supply chain disruptions. Exports grew rapidly in the first half of 2021, led by strong external demand, before slowing in the second half as auto shipments declined sharply due to parts shortages. Overall labor market conditions have been resilient, despite the pandemic. The unemployment rate declined gradually to 2.7 percent in December 2021, after peaking at 3.1 percent in October 2020, mainly driven by job losses among non-regular workers.

Looking forward, the Japanese economy is forecast to register a stronger expansion in 2022, reflecting pent-up private consumption and business investment as the rapid spread of the Omicron variant is contained and the economy gradually reopens. Households are expected to increase spending on the back of huge savings accumulated during the pandemic. Firms are poised to expand investments to strengthen their production capacity, improve their resilience against supply chain disruptions, and meet digital transformation and green-economy goals. Meanwhile, exports will likely moderate with the global economic slowdown.

Consumer price inflation remained weak in 2021 due to declining prices for services. In 2021, the CPI (less fresh food) fell by 0.2 percent on average while the prices of services declined sharply, primarily due to reduced mobile phone charges. Meanwhile, the increase in goods prices accelerated to 3.4 percent year-on-year in December, driven by rising import prices of industrial products. Looking ahead, CPI inflation is projected to rise moderately in 2022.

Japan's external position has stayed strong, supported by a continued large primary income surplus. In 2021, the current account surplus amounted to 2.8 percent of GDP. The goods account posted a surplus, driven by a strong recovery in exports, but the services account deteriorated led by a sharp drop in the travel account surplus. The primary income surplus remained the main contributor to Japan's continued current account surplus.

Financial conditions have been accommodative, with substantial financial and liquidity support from the government and the Bank of Japan since the outbreak of the pandemic. Bank lending grew sharply by 5–6 percent year-on-year from Q2 2020 to Q1 2021, before decelerating to about 1 percent year-on-year from Q3 to Q4 2021. The overall financial system remained stable with sufficient liquidity and capital buffers. The NPL ratio inched up from 1.1 percent in March 2020 to 1.2 percent in March 2021. In terms of profitability, most banks, particularly regional banks, continue to see low returns on assets. That said, net income improved in FY2020 on the back of rapid loan growth and cuts in administrative expenses.

The fiscal deficit widened sharply in FY2020, as a result of the massive stimulus packages deployed in response to the pandemic. Government spending increased sharply from 38.5 percent of GDP in FY2019 to 47.0 percent of GDP in FY2020 with 3 supplementary budgets, which led the fiscal deficit to widen from 3.1 percent of GDP in FY2019 to 10.0 percent of GDP in FY2020. Moreover, in November 2021, the government announced yet another sizable stimulus package for FY2021, backed by a supplementary budget, and subsequently proposed its largest-ever initial budget of JPY 107.6 trillion for FY2022. Going forward, the fiscal deficit, which is estimated to have narrowed modestly in FY2021, is expected to shrink further in FY2022.

The Japanese economy is confronted with several near-term risks, including recurrent COVID-19 infections and protracted supply chain disruptions, as well as lingering structural challenges. Any recurrent waves of the COVID-19 infections will have a significant impact on economic activities at home and abroad. Sustained global supply chain disruptions and bottlenecks will adversely affect Japanese manufacturers' production and exports. The Russia-Ukraine conflict could delay Japan's economic recovery by triggering high energy import prices, deteriorating corporate profits, and dampening consumer and business sentiments. Meanwhile, a premature unwinding of the government's special lending programs for small- and medium-sized enterprises, before the pandemic comes well under control, could put an upward pressure on the number of bankruptcies. Structural challenges include deterioration of fiscal situation, side effects from prolonged monetary easing, the declining profitability of regional banks, and demographic drag from population aging and low fertility rates.

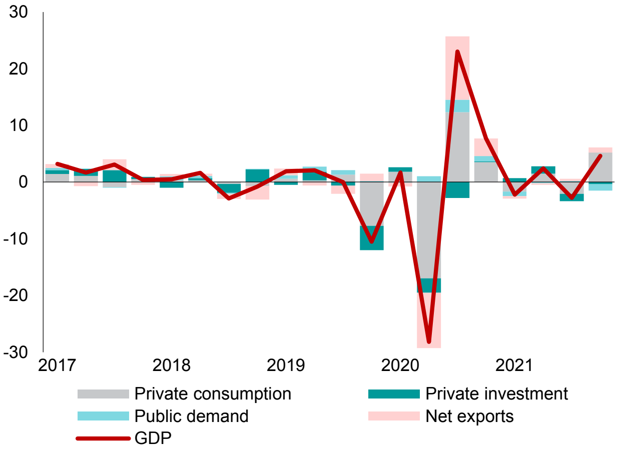
The author of this note is Jinho Choi.

Japan: Selected Figures

The Japanese economy experienced a bumpy recovery in 2021 after being severely hit by the COVID-19 pandemic.

Contributions to Real GDP Growth

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

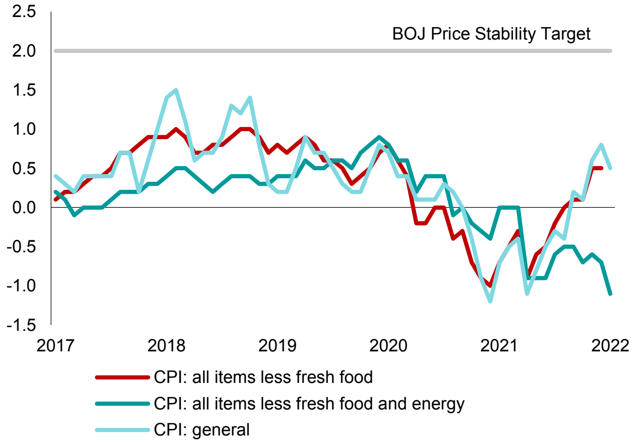


Source: Cabinet Office via Haver Analytics.

CPI inflation remained weak in 2021 but turned positive in the second half of the year reflecting rising oil prices.

CPI Inflation

(Percent, year-over-year)

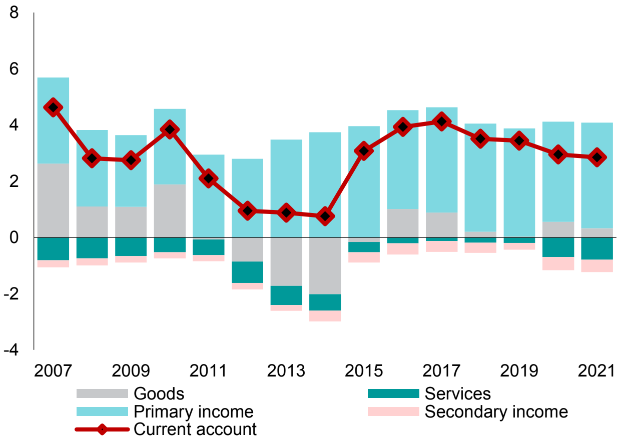


Source: Ministry of Internal Affairs and Communications via Haver Analytics.
Note: BOJ = Bank of Japan; CPI = consumer price index.

The current account surplus remained strong in 2021 on the back of a large primary balance surplus.

Current Account Balance

(Percent of GDP)

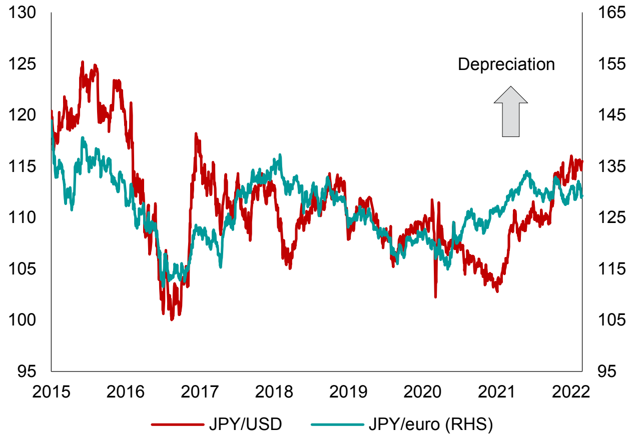


Source: Ministry of Finance via Haver Analytics.

In 2021, the JPY depreciated on the back of a stronger USD and rising long-term US interest rates.

Exchange Rates

(Japanese yen/US dollars; Japanese yen/euros)

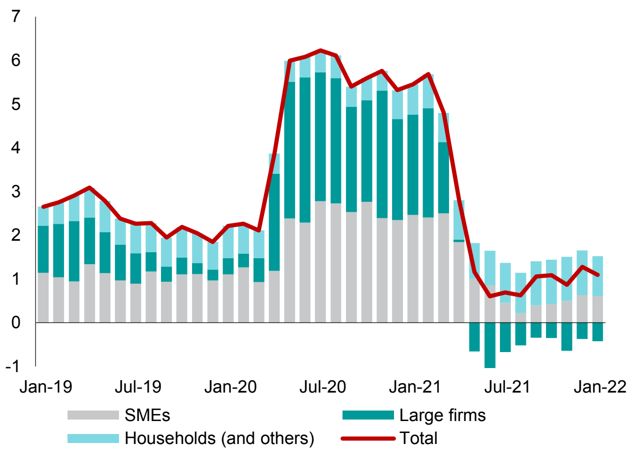


Source: Bank of Japan via CEIC.

Loan growth slowed gradually, reflecting the reduction in large firms' financing needs.

Contributions to Bank Lending Growth

(Percentage points, year-on-year)

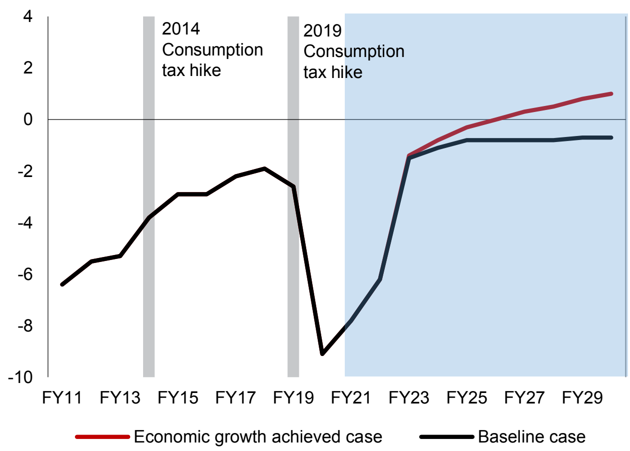


Source: Bank of Japan via CEIC.
Note: SME = small- and medium-sized enterprise.

The fiscal deficit widened sharply in FY2020 as a result of massive stimulus packages in response to the COVID-19 pandemic.

Primary Balance of Central and Local Governments

(Percent of GDP)



Source: Cabinet Office (January 2022) via CEIC.

Japan: Selected Economic Indicators

Indicator	2018	2019	2020	2021
Real sector	(in annual percentage change)			
Real GDP	0.6	–0.2	–4.5	1.6
Private consumption	0.2	–0.5	–5.2	1.3
Government consumption	1.0	1.9	2.3	2.1
Gross fixed capital formation	0.4	1.0	–4.6	–1.5
Imports of goods and services	3.8	1.0	–7.2	5.2
Exports of goods and services	3.8	–1.5	–11.8	11.6
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	3.5	3.4	3.0	2.8
Trade balance	0.0	–0.2	–0.1	–0.5
Capital account balance	0.0	–0.1	0.0	–0.1
Financial account balance	3.1	3.9	2.3	0.7
Direct investment	2.7	4.3	1.8	2.4
Portfolio investment	1.8	1.7	0.8	–4.1
Financial derivatives	0.0	0.1	0.2	0.5
Other investment	–1.4	–2.1	–0.4	1.9
Errors and omissions	0.2	1.1	–0.4	–0.8
Overall balance	0.5	0.5	0.2	1.3
Gross external debt	79.9	82.9	92.8	98.0
International reserves (in USD billion, end of period)	1,271.0	1,323.8	1,394.7	1,405.8
Fiscal sector[1]	(in percent of GDP)			
Revenue and grants	35.5	35.4	37.0	39.5
Expenditure	37.9	38.5	47.0	48.8
Fiscal balance	–2.4	–3.1	–10.0	–9.4
Government debt	237.8	238.5	262.2	271.6
Monetary and financial sectors	(in annual percentage change)			
Broad money	2.2	1.7	4.1	5.6
Domestic credit	3.2	2.6	4.8	4.8
Private sector credit	4.1	3.6	5.3	6.7
Memorandum items:				
Nominal GDP (in JPY trillion)	556.3	558.5	538.2	541.9
Headline inflation (in percent y-o-y, period average)	1.0	0.5	0.0	–0.3
Core inflation, less fresh food (in percent y-o-y, period average)	0.9	0.6	–0.2	–0.2
Policy rate (in percent per annum, end of period)	–0.1	–0.1	–0.1	–0.1
Exchange rate (in JPY/USD, period average)	110.4	109.0	106.8	109.8

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

Korea

Despite lingering outbreaks of COVID-19, Korea's economic growth is expected to have rebounded robustly at 4.0 percent in 2021 from its 0.9 percent slump in 2020. The strong growth was on the back of semiconductor exports, underpinned by a tremendous rise in global demand. Facilities investment expanded in line with exports. Despite prolonged containment measures and limits on social gathering, domestic private consumption also grew strongly due to the low-base effect and flourishing e-commerce. Meanwhile, construction was sluggish due to rising material prices, underpinned by supply chain disruption of construction materials, and worsening weather in the summer.

By sector, the Korean economy continued to exhibit a K-shape recovery, where large companies and firms in the manufacturing sector recovered strongly while small- and medium-sized firms in the services sectors did not.

The labor market largely recovered and created more jobs in 2021. Only close- contact services sectors including food services, restaurants, and hotels continued to experience job losses due primarily to restrictions on cross-border travel and social distancing practices.

Consumer price inflation rose to about 3.5–4.0 percent in late 2021, exceeding the Bank of Korea's (BOK's) 2 percent target. The soaring CPI was underpinned by both supply and demand factors. Cost-push pressures were due to rising global energy prices and local fresh food prices, while demand-pull pressures had built up in line with the recovery of domestic demand.

Korea's external position continued to be strong, supported by a sustained surplus in the current account, a net external asset position and ample international reserves. The current account surplus is expected to have remained at 5.1 percent of GDP in 2021 on the back of strong goods exports and air cargo and shipping service income. The bulk of the current account surplus continued to be invested overseas in the form of direct investment and portfolio investment despite the pandemic. Gross international reserves rose to USD 464 billion at the end of November 2021, equivalent to more than 9 months of goods and services imports and about 2.8 times short-term external debt.

Monetary conditions are still accommodative, although the BOK started normalizing the policy rate in the second half of 2021. The government's credit support measures and strong loan demand led to high growth in SME loans, while household loan growth also surged with an increase in stock investment and residential property purchases.

Korea's financial system has remained generally sound. Korean banks and nonbank financial institutions are well capitalized with declining NPL ratios. Meanwhile, Korean Treasury bond yields spiked in the last quarter of 2021, reflecting market concerns over global inflation and tapering of support by the US Federal Reserve, as well as expectations of a BOK rate hike.

On the fiscal front, the government continued its expansionary policy stance in 2021 to support the economic recovery amid the pandemic. Total government spending was expanded further to 29.5 percent of GDP in 2021 from 28.9 percent in 2020. Meanwhile, the boom in asset markets led to strong revenue collection. Government revenue is expected to have increased to 25.1 percent of GDP in 2021 from 25.0 percent in 2020. The fiscal deficit is expected to have widened minimally to 4.4 percent of GDP in 2021 from 3.7 percent in 2020.

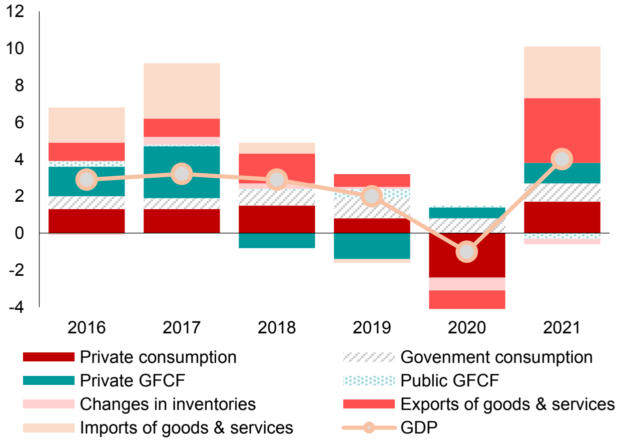
Going forward, Korea's economic growth is forecast to continue at a robust 3.0 percent in 2022. The growth driver is expected to shift from external demand toward domestic demand. Downside risks to the growth outlook stem from a resurgence of COVID-19 infections and the emergence of new virus variants locally and abroad and rising consumer price inflation. On the financial stability front, financial imbalances from surging house prices and rising household debt continue to build up and warrant close monitoring.

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

Korea: Selected Figures

Growth in 2021 rebounded strongly on the back of semiconductor exports.

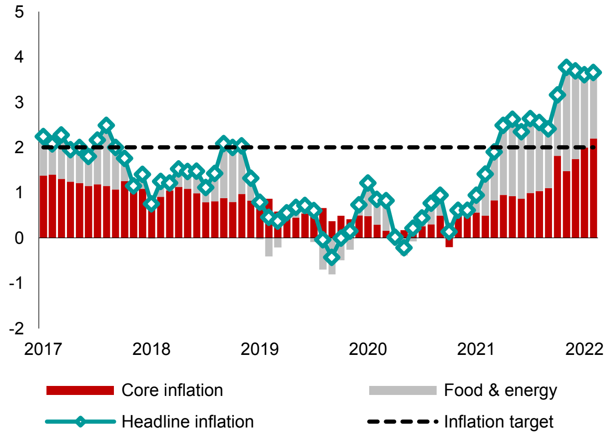
Contributions to Real GDP Growth
(Percentage points, year-on-year)



Sources: Bank of Korea; and AMRO staff estimations.
Note: GFCF = gross fixed capital formation.

Headline inflation soared in the second half of 2021 on the back of rising global oil prices.

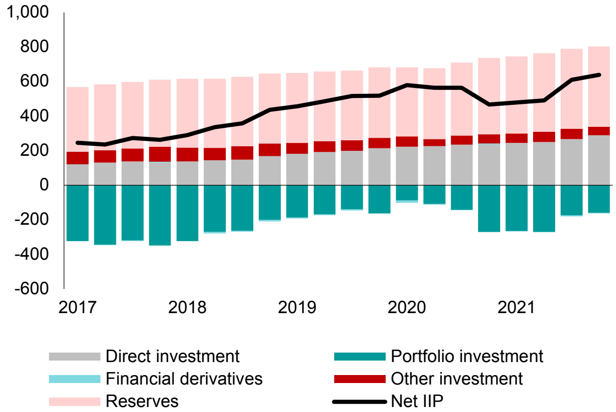
Contributions to CPI Inflation
(Percentage points, year-on-year)



Sources: Statistics Korea; and Bank of Korea.
Note: CPI = consumer price index.

Korea's net asset position rebounded from the decline in The first half of 2021.

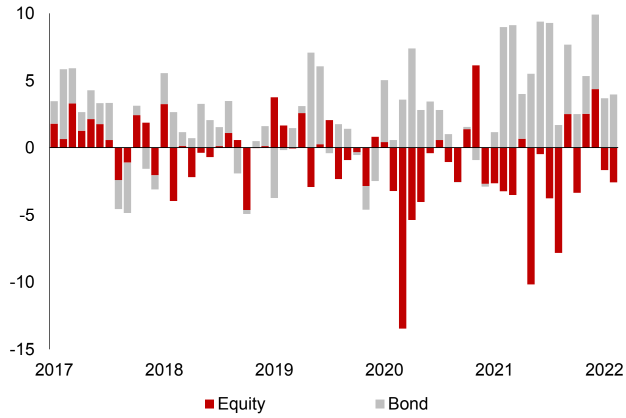
Net International Investment Position
(Billions of US dollar)



Sources: Bank of Korea; and AMRO staff calculations.
Note: IIP = international investment position.

Nonresident flows to Korea's bond market were strong in 2021, while flows to the stock market turned around in the second half of the year.

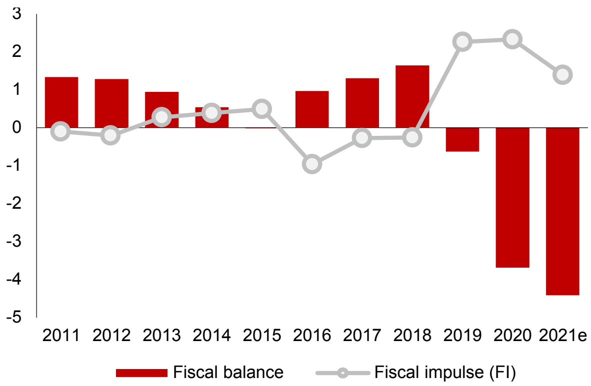
Portfolio Flows
(Billions of US dollar)



Source: Bank of Korea.

Korea employed an expansionary fiscal stance amid the COVID-19 pandemic.

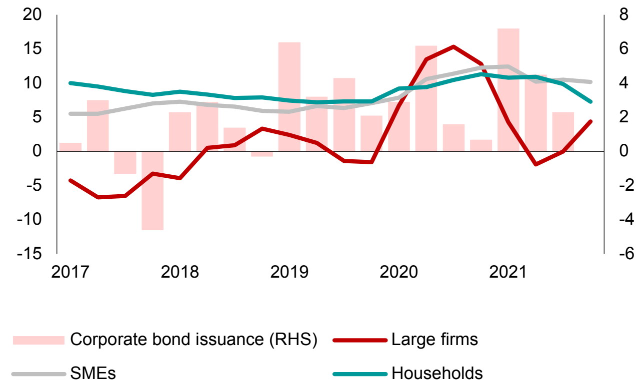
Fiscal Balance
(Percent of GDP)



Sources: Ministry of Economy and Finance; and AMRO staff estimates.
1/ Fiscal balance includes Social Security Fund.
2/ FI is the difference between fiscal balance of the current and previous fiscal years. FI<0 indicates less expansionary (or more contractionary) while FI>0 indicates more expansionary (or less contractionary) policy. e denotes estimate.

Accommodative monetary policy, high loan demand, and the government's support measures led to robust credit growth.

Credit Growth
(Percent, year-on-year; trillions of Korean won)



Source: Bank of Korea.
Note: SME = small- and medium-sized enterprise.

Korea: Selected Economic Indicators

Indicator	2018	2019	2020	2021 [1]
Real sector	(in annual percentage change)			
Real GDP	2.9	2.2	–0.9	4.0
Private consumption	3.2	2.1	–5.0	3.6
Government consumption	5.3	6.4	4.9	5.5
Gross fixed capital formation	–2.2	–2.1	2.6	2.5
Imports of goods and services	1.7	–1.9	–3.3	8.4
Exports of goods and services	4.0	0.2	–1.8	9.7
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	4.5	3.6	4.6	5.1
Trade balance	6.4	4.8	5.0	4.4
Capital and financial account balance	4.4	3.6	4.7	2.3
Direct investment	1.5	1.6	1.4	1.7
Portfolio investment	2.7	2.6	2.5	0.9
Other investment	–0.8	–1.0	–0.6	–0.2
Errors and omissions	–0.1	0.0	0.1	0.0
Overall balance	1.0	0.1	1.1	2.3
Gross external debt	25.6	28.5	33.2	31.6
International reserves (in USD billion, end of period)	403.7	408.8	443.1	463.1
Fiscal sector	(in percent of GDP)			
Revenue and grants	24.5	24.6	25.0	25.1
Expenditure	22.9	25.2	28.9	29.5
Fiscal balance	1.6	–0.6	–3.7	–4.4
Government debt	35.9	37.6	43.8	47.3
Monetary and financial sectors	(in annual percentage change)			
Broad money [2]	6.7	7.9	9.8	11.9
Domestic credit [3]	7.2	9.1	9.0	12.2
Private sector credit [4]	7.1	7.0	10.1	10.4
Memorandum items:				
Nominal GDP (in KRW trillion)	1,835.7	1,898.2	1,924.5	2,039.7
Headline inflation (in percent y-o-y, period average)	1.5	0.4	0.5	2.5
Policy rate (in percent per annum)	1.75	1.25	0.50	1.00
Exchange rate (in KRW/USD, period average)	1,100.6	1,165.2	1,180.3	1,146.4

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

1/ National income indicators are based on the advance estimate of GDP, published by the Bank of Korea. Fiscal and external indicators are estimated by AMRO, and monetary and financial indicators are as of September 2021.
2/ Refers to M2.
3/ Domestic credit refers to claims of other depository corporations on domestic agencies that comprise the central government, local governments, Social Security Office, and private sector. It does not include claims of the Bank of Korea.
4/ Private sector credit refers to corporate loans and consumer loans lent by commercial banks, specialized banks, and nonbanks.

Lao People's Democratic Republic

The pandemic continued to weigh on Lao PDR's economy in 2021, with growth estimated at 2.6 percent year-on-year, as repeated tightening of containment measures severely constrained economic activities, especially in the hospitality and transport sectors. The unemployment rate increased by 11 percent to 20.1 percent in 2020 and increased further to 21.1 percent in 2021. Meanwhile, the capital-intensive electricity and mining sectors and agricultural production and manufacturing in several special economic zones, grew robustly despite rising community infections. The economy is projected to grow by 3.9 percent year-on-year in 2022, supported by continued expansion of power generation capacity, an increase in agricultural exports, and a gradual resumption of tourism.

Inflation accelerated toward the end of 2021 due to high energy and food prices and rising import prices. Inflation was moderate from late 2020 till early 2021, which lowered the average inflation rate in 2021 to 3.8 percent from 5.1 percent in 2020. As inflationary pressures are projected to continue, inflation is expected to increase to 5.0 percent in 2022.

Despite the current account surplus, the overall balance of payments in Q1–Q3 2021 recorded a small deficit due to the large external debt service burden. The 2020 trade surplus continued in 2021, as robust exports outstripped the recovery in imports. Sizeable interest payments and the government's repayment of external debt were offset by trade surplus and robust FDI leading to a small decline in foreign reserves. With the recovery in imports, import cover remains at a low level and is projected to decline further in 2022 and 2023.

Structural external imbalances continue to put pressure on the thin external buffer and the Lao kip exchange rate. An unexpected large depreciation could erode public confidence in the Lao kip, increase consumer price inflation, and weaken the financial position of the public sector.

Continued deposit growth did not lead to strong private credit growth in 2021, weakening the profitability of the banking sector. Despite the Bank of Lao PDR's policy efforts to support liquidity and lending through reserve requirement ratio cuts and loan restructuring, commercial banks increased their investment in securities, including government bonds and their balances at the Bank of Lao PDR and credit growth was subdued. Although profitability indicators dropped, other financial soundness indicators seemed to be less affected by the pandemic, but underestimated risk of asset quality deterioration of restructured loans may be in a factor. Also, heterogeneity among banks implies heightened risks for some banks with thin capital buffers and high NPL ratios. Enhanced supervision and a well-phased withdrawal of pandemic measures are essential to maintain financial sector stability.

The fiscal deficit narrowed in 2021. With a rebound in revenue collection and a reduction in fiscal spending, the fiscal deficit is estimated to have declined to 2.0 percent of GDP in 2021 from 5.2 percent of GDP in 2020. However, the government debt-to-GDP ratio is estimated to have increased from 61.9 percent of GDP in 2020 to 70.4 percent in 2021 because of the growth slowdown and increase in nominal value of external debt. With the government's continued commitment to fiscal consolidation, the 2022 budget targets a fiscal deficit of 2.5 percent of GDP.

The high and rising government debt and debt service burden have raised concerns about debt sustainability, in the medium term. Amid unfavorable market conditions and worsening sovereign credit ratings, it has become difficult for the government to obtain new loans or roll over existing loans. Contingent liabilities arising from state-owned enterprises and large-scale public-private-partnership projects may put an additional financial burden on the government.

Economic recovery prospects remain vulnerable to the uncertain evolution of the pandemic. Lao PDR's vaccination rate and coverage are lower than neighboring countries. Careful reopening of economic activities and a ramping up of vaccination efforts should continue, while job support programs for unemployed workers need to be strengthened.

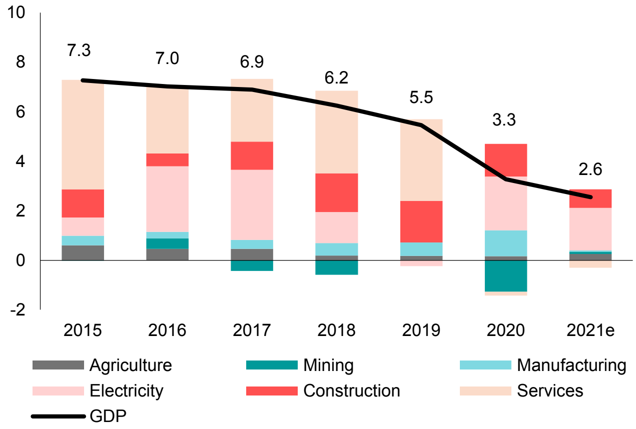
Past strong growth was driven by a few capital-intensive sectors, including hydropower generation and mining, which tend to yield relatively low benefits for the domestic economy and create limited job opportunities, which encourages outward labor migration. The low contribution of those projects to government revenue constrains the government capacity in pursuing the United Nations Sustainable Development Goals, including poverty reduction, quality education, and climate change adaptation and mitigation. Policy efforts to diversify the economy are essential to achieve a more inclusive and sustainable economic recovery.

The author of this country note is Yohei Okawa.

Lao PDR: Selected Figures

The Lao PDR economy is estimated to have slowed in 2021 due to the pandemic.

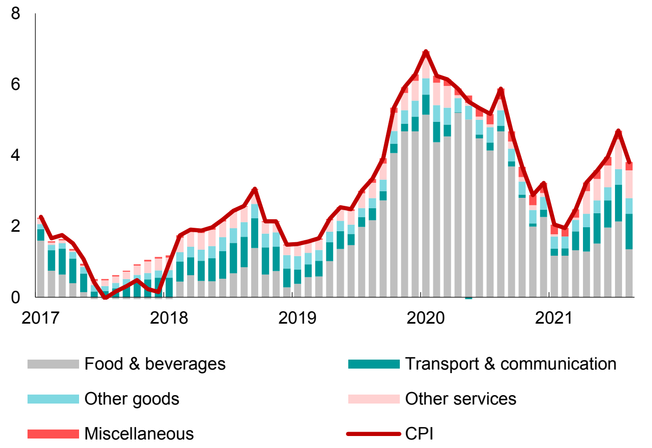
Contributions to Real GDP Growth
(Percentage points, year-on-year)



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

Inflation accelerated in late 2021, due to high energy and food prices and rising import prices.

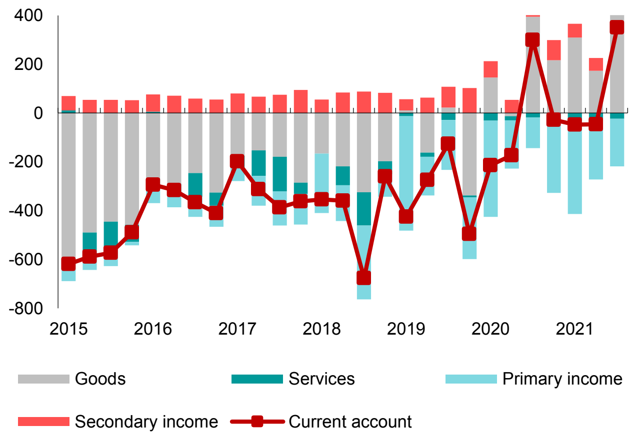
Contribution to CPI Inflation
(Percentage points, year-on-year)



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

The current account improved in 2021, driven by strong electricity and mining exports.

Current Account
(Millions of US dollars)



Source: Bank of Lao PDR.

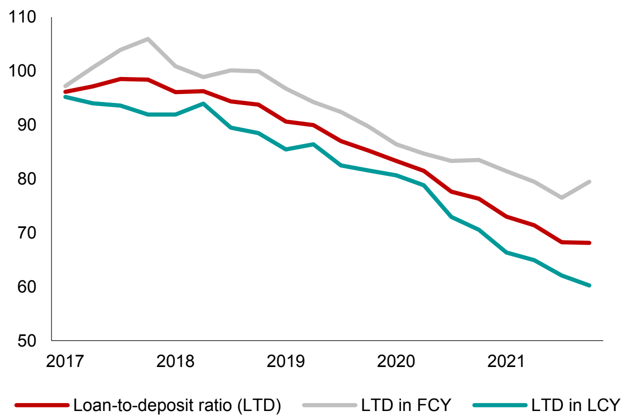
Foreign exchange reserves are on downward trend, despite the SDR allocation in August 2021.

International Reserves
(Millions of US dollars; months of imports)

Sources: Bank of Lao PDR; and AMRO staff estimates.

The loan-to-deposit ratio continued its declining trend amid steady deposit growth.

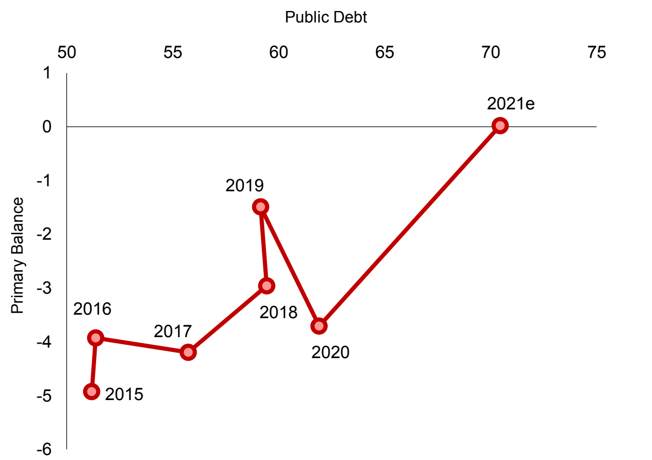
Loan-to-Deposit Ratio
(Percent)



Source: Bank of Lao PDR.
Note: FCY = foreign currency; LCY = local currency.

The primary balance improved in 2021, but public debt increased because of currency depreciation.

Primary Balance and Public Debt
(Percent of GDP)



Source: Bank of Lao PDR.
Note: e denotes estimate.

Lao PDR: Selected Economic Indicators

Indicator	2018	2019	2020	2021
Real sector	(in annual percentage change)			
Real GDP	6.2	5.5	3.3	2.6
Agriculture	1.3	1.2	1.1	1.5
Industry	7.8	5.6	9.2	6.9
Services	6.8	6.9	–1.2	–1.5
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	–9.1	–7.0	–0.6	1.1
Trade balance	–5.0	–2.5	3.9	6.5
Capital and financial account balance	–12.1	–10.4	–6.1	–3.5
Direct investment	–7.5	–4.0	–5.1	–5.0
Portfolio investment	–2.9	0.2	1.3	0.5
Other investment	–1.7	–6.6	–2.4	1.1
Errors and omissions	–3.8	–2.7	–3.9	–5.4
Overall balance	–0.8	0.7	1.7	–0.8
Gross external debt[1]	84.7	85.3	85.7	97.2
International reserves (in USD million, end of period)	873.0	997.0	1,319.0	1,168.0
Fiscal sector	(in percent of GDP)			
Revenue and grants	16.2	15.6	12.7	14.5
Expenditure	20.9	18.8	17.9	16.5
Fiscal balance	–4.7	–3.3	–5.2	–2.0
Government debt	59.4	59.1	61.9	70.4
Monetary and financial sectors	(in annual percentage change)			
Broad money	8.4	18.9	16.3	24.0
Domestic credit[2]	9.2	4.4	7.6	11.5
Private sector credit[3]	4.4	8.5	5.5	10.6
Memorandum items:				
Nominal GDP (in LAK trillion)	152.4	162.7	172.6	182.0
Headline inflation (in percent y-o-y, period average)	2.0	3.3	5.1	3.8
Policy rate (in percent per annum, end period)	4.00	4.00	3.00	3.0
Exchange rate (in LAK/USD, period average)	8,403.0	8,681.0	9,048.0	9,707.0

Sources: National authorities via CEIC and Haver Analytics; and 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 (SOEs).

Malaysia

The Malaysian economy is on track to recover in 2022 after the COVID-19 disruptions for the most part of 2021. The resurgence of COVID-19 infections and subsequent tightening of movement curbs constrained private sector spending and brought the economy into a recession in Q3 2021. That said, the economy has regained momentum since mid-Q3 2021 as the sharp decline in daily infections and wide vaccination coverage allowed for domestic economic and social activities to resume. A sustained rebound in domestic demand and continued improvement in the labor market, in addition to buoyant external demand, is expected to drive GDP growth higher in 2022. However, a potentially slow resumption of international travel and tourism, owing to lingering concerns over virus infections, would continue to weigh on the recovery of the services sector.

Despite upward pressures, headline inflation has been largely contained and has in part kept the policy rate unchanged at a record low. While the base effect from the increase in fuel prices has begun to dissipate, higher food prices and the expiry of electricity bill discounts for domestic consumers have pushed headline inflation higher toward end-2021. Ongoing measures by the Malaysian authorities to stabilize food prices, such as the price control scheme for essential items and financial assistance to farmers facing higher input costs, are expected to cap headline inflation at 2.7 percent year-on-year in 2022. Core inflation has likewise increased, although subdued domestic demand is likely to keep it well below headline inflation. Against the emergence of cost-push inflation, the policy rate has been maintained at 1.75 percent since September 2020.

Robust trade surpluses and foreign investment inflows have strengthened Malaysia's external position. Despite constraints on operating capacity and some production facility shutdowns following the wave of COVID-19 infections in July and August, the export recovery broadened and strengthened in 2021. As such, merchandise trade continued to support the current account surplus as the deficit in services and primary income widened. At the same time, strong foreign portfolio and direct investment inflows drove the financial account into surplus. Aside from Malaysia's sound macro fundamentals, capital inflows may have also been aided by Bank Negara Malaysia's (BNM's) further liberalization of the foreign exchange policy. Amid these developments and the USD 5 billion SDR allocation by the IMF, BNM's international reserves rose by USD 9.3 billion to USD 116.9 billion in 2021. The reserves position is more than sufficient to cover the short-term external debt at end-2021.

The banking system is able to support the economic recovery and withstand credit and liquidity risks. Underpinned by low interest rates and measures to encourage demand for residential property and passenger vehicles, loan growth was higher at 4.5 percent year-on-year at end-2021 (end-2020: 3.4 percent) despite renewed movement curbs. While loan impairments could increase once the extensive loan relief measures are unwound in 2022, banks have capital buffers that are well above regulatory thresholds, which should enable them to weather the increase in credit risks. Liquidity risks are likewise mitigated by the banking system's liquidity coverage and net stable funding ratios of above 100 percent.

Fiscal policy has been expanded to counter the economic cost of the pandemic. On top of the stimulus measures in 2020, 4 additional packages—amounting to MYR 225 billion (14.6 percent of 2021 GDP)—were rolled out in the first half 2021. The bulk of these measures were non-fiscal injection, such as the loan moratorium, pre-retirement withdrawals from the Employees Provident Fund, credit guarantees, and BNM's soft loans to SMEs. The direct fiscal support, largely in the form of cash aid to households and wage subsidies to SMEs, amounted to MYR 25 billion (1.6 percent of GDP). As a result, the fiscal deficit increased to 6.4 percent of GDP in 2021 from the initial government target of 5.4 percent. The fiscal stimulus entailed greater domestic borrowing, while increased dividends from government-linked institutions augmented the revenue. Meanwhile, the 2022 Budget will continue to keep the fiscal deficit elevated at about 6 percent of GDP, in line with the government's commitment to support the recovery.

The resulting increase in government debt, in addition to the narrowed tax base and large committed operating expenses of the government, underscores the importance of restoring fiscal buffers over the medium term. Doing so would entail a faster pace of fiscal consolidation primarily through tax reforms once the recovery is firmly established. At the same time, sustaining the policy momentum to protect people's welfare, attract quality and strategic investment, and raise productivity, is crucial to rebuild incomes and savings buffers post-pandemic. Moreover, integrating environmental, social, and governance principles in the medium-term development plan would enhance economic resilience as Malaysia advances to a progressive, high-income nation.

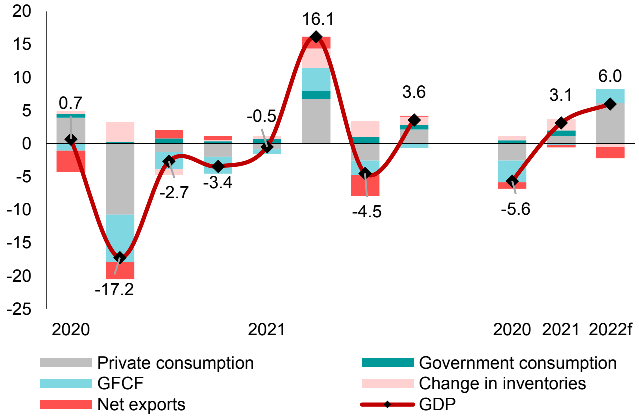
The author of this country note is Diana del Rosario.

Malaysia: Selected Figures

GDP growth is set to rebound in 2022 as widespread vaccinations keep the COVID-19 situation under control.

Contributions to Real GDP Growth

(Percentage points, year-on-year)

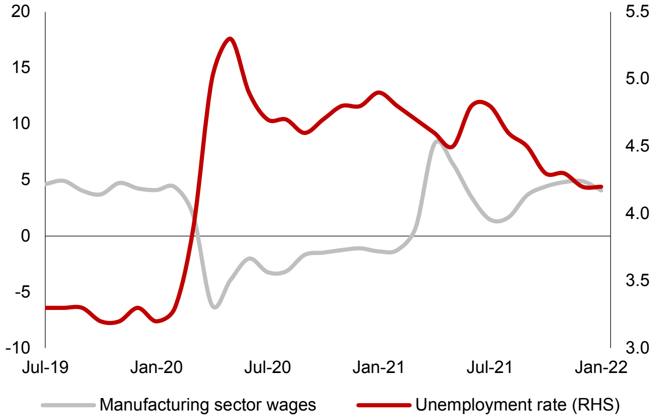


Sources: Department of Statistics Malaysia; and AMRO staff estimates.
Note: GFCF denotes gross fixed capital formation.

Labor market conditions have improved in line with the easing of movement restrictions since July 2021.

Wages and Unemployment Rate

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

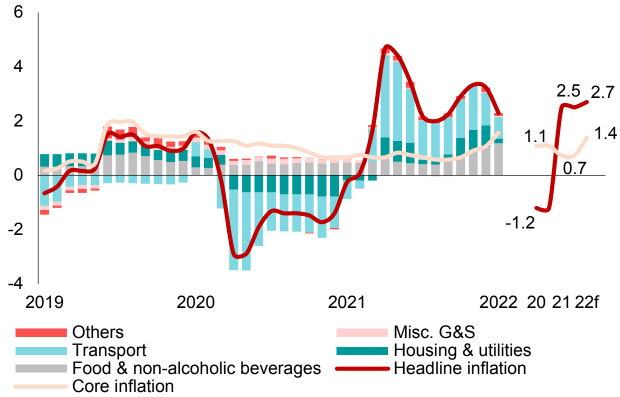


Source: Department of Statistics Malaysia.

Despite upside risks primarily from food prices, inflation is likely to remain manageable in 2022.

Contributions to Headline and Core Inflation

(Percentage points, year-on-year)

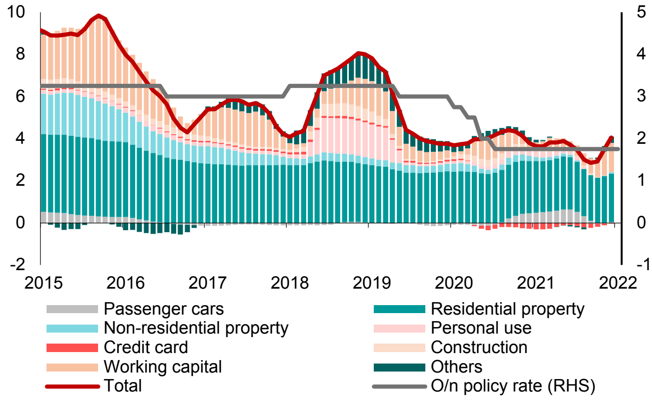


Sources: Department of Statistics Malaysia; and AMRO staff estimates.
Note: Misc. G&S = miscellaneous goods and services. f denotes forecast.

Low interest rates and incentives to encourage domestic demand continued to support loan growth in 2021.

Contributions to Loan Growth and Policy Rate

(Percentage points, year-on-year, 3-month moving average; percent)

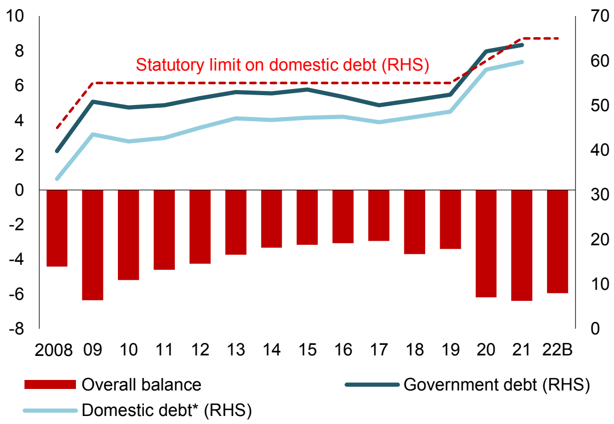


Source: Bank Negara Malaysia.
Note: O/n denotes overnight.

Pandemic-related fiscal support since 2020 has led to increases in the fiscal deficit and government debt.

Fiscal Balance and Federal Government Debt

(Percent of GDP; percent of GDP)

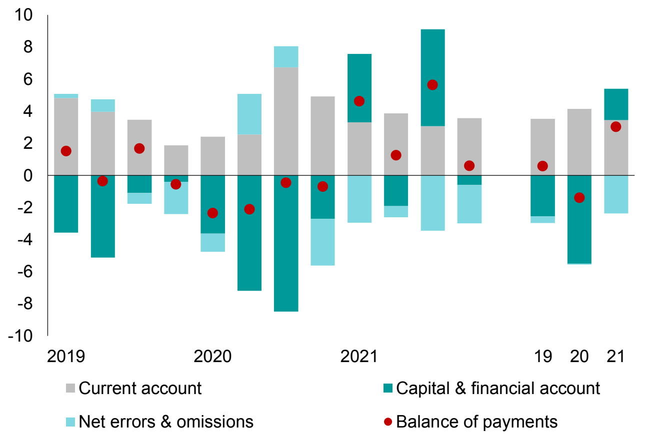


Sources: Bank Negara Malaysia; Department of Statistics Malaysia; and Malaysia Ministry of Finance.
Note: 22B refers to the estimates under the 2022 Budget, respectively. * Domestic debt refers to Malaysian Government Securities, Malaysian Government Investment Issues, and Malaysian Islamic Treasury Bills.

A robust trade surplus and strong foreign investment inflows drove the balance of payments into surplus in 2021.

Balance of Payments

(Percent of GDP)



Sources: Bank Negara Malaysia; and Department of Statistics Malaysia.

Malaysia: Selected Economic Indicators

Indicator	2018	2019	2020	2021
Real sector	(in annual percentage change)			
Real GDP	4.8	4.4	–5.6	3.1
Private consumption	8.0	7.7	–4.3	1.9
Government consumption	3.4	1.8	3.9	6.6
Gross fixed capital formation	1.4	–2.1	–14.5	–0.9
Imports of goods and services	1.5	–2.4	–8.4	18.5
Exports of goods and services	1.9	–1.0	–8.9	15.9
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	2.2	3.5	4.2	3.5
Trade balance	7.9	8.2	9.8	11.0
Capital and financial account balance	0.8	–2.5	–5.4	1.9
Direct investment	0.7	0.4	0.2	2.1
Portfolio investment	–3.4	–2.1	–3.4	1.2
Other investment	3.4	–0.8	–2.2	–1.4
Errors and omissions	–2.5	–0.5	–0.2	–2.4
Overall balance	0.5	0.6	–1.4	3.0
Gross external debt	63.8	62.6	67.6	69.3
International reserves (in USD billion, end of period)	101.4	103.6	107.6	116.9
Fiscal sector	(in percent of GDP)			
Revenue and grants	16.1	17.5	15.9	15.1
Expenditure	19.8	21.0	22.2	21.5
Fiscal balance	–3.7	–3.4	–6.2	–6.4
Government debt	51.2	52.4	62.1	63.4
Monetary and financial sectors	(in annual percentage change, end of period)			
Broad money	9.1	3.5	4.0	6.4
Private sector credit	8.4	4.4	3.5	3.8
Loans	7.1	4.2	3.2	4.5
Securities	18.5	5.7	6.0	–0.6
Memorandum items:				
Nominal GDP (in MYR billion)	1,448	1,513	1,417	1,544
Headline inflation (in percent y-o-y, period average)	1.0	0.7	–1.2	2.5
Policy rate (in percent per annum)	3.25	3.00	1.75	1.75
Exchange rate (in MYR/USD, period average)	4.04	4.14	4.20	4.14

Sources: National authorities via CEIC and Haver Analytics; and AMRO staff estimation.
Note: Red number denotes AMRO staff estimate. y-o-y = year-on-year.

Myanmar

Myanmar's growth was significantly affected in FY2020/21 (October 2020 to September 2021) due to the COVID-19 pandemic and the state of emergency in 2021. After the COVID-19 outbreak in 2020, the economy deteriorated further with the announcement of the state of emergency in February 2021. Investment dried up without new FDI inflows. Consumption and domestic manufacturing activities were also subdued. The economy is estimated to have contracted by 18.7 percent year-on-year in FY2020/21. That said, there have been some signs of stabilization since November 2021. Google's mobility index suggests that activities such as retail and recreation have recovered, and the Purchasing Managers' Index shows that manufacturing activities are entering a modest expansion.

Inflation has been picking up since February 2021 and will rise further in 2022. Monthly average CPI inflation slowed to 3.6 percent in FY2020/21 compared to 5.8 percent in the previous year. After slowing to a low of 0.7 percent year-on-year in January 2021, headline inflation has trended up, and recorded at 9.9 percent in October 2021. Supply chain disruptions and the sharp devaluation of the exchange rate could be key driving factors for the higher inflation, as demand remained subdued. Inflation is likely to continue to increase in 2022, driven by the low-base effect and easing COVID-19 restrictions.

While the goods trade balance improved due to a faster contraction in imports than exports, there were smaller inflows of primary income receipts and overseas workers' remittances. Meanwhile, receipts from tourism-related services vanished, and the garment sector's cut-make-pack service receipts also dropped significantly. As a result, a current account deficit of USD 0.6 billion was recorded in the first half of 2021, compared to a surplus of USD 0.3 billion in the second half of 2020. Meanwhile, the financial account surplus deteriorated to 0.9 billion from 2.2 billion during the same period above due to a significant drop in FDI and official development assistance (ODA) loan inflows.

With physical cash becoming scarce and the outlook uncertain, banks' credit growth to the private sector edged down further, slowing to 3.0 percent as of Q2 2021, from 11.5 percent 1 year ago. On a quarter-on-quarter basis, it contracted by 1.5 percent. The Central Bank of Myanmar had reduced the policy rate from 10 percent to 7 percent and specified a longer timeline for regulatory compliance in 2020 and no further adjustments were made in 2021.

Government revenue in FY2020/21 contracted by 33.2 percent year-on-year, and expenditure decreased by 19.6 percent. The fiscal deficit in FY2020/21 was estimated to have widened to about 8.6 percent of GDP, compared to 6.2 percent in FY2019/20.[1] Bond financing was limited without much demand from commercial banks for government securities, and Central Bank of Myanmar helped the government to finance its deficit.

Risks to growth arise mainly from a recurrence of COVID-19 outbreaks and further virus mutations. While confirmed cases have been trending down and the Omicron virus variant has not yet spread in Myanmar, a new wave of infections could significantly affect Myanmar's growth as the vaccination rate remains low among the population.

Further isolation of Myanmar from the international community could lead to a narrower economic base and lower growth potential. The halt of new investments into Myanmar has reduced the chance for Myanmar to tap its advantage in labor-intensive sectors further and build other value-added industries. Public infrastructure investment has also stalled without further ODA support.

The banking sector continues to be highly stressed amid accumulating imbalances. Although some banking functions have returned to operation in the past few months, overall banking sector soundness, including asset quality and capital adequacy, deteriorated after the state emergency.

Priority should be placed on containing the COVID-19 pandemic, resuming economic activity and restoring public confidence. A ramp-up in the vaccination rate is needed to protect the population from being severely affected by new waves of infections going forward. Stronger efforts are needed to restore public trust and instill investor confidence.

The author of this note is Xianguo (Jerry) Huang.

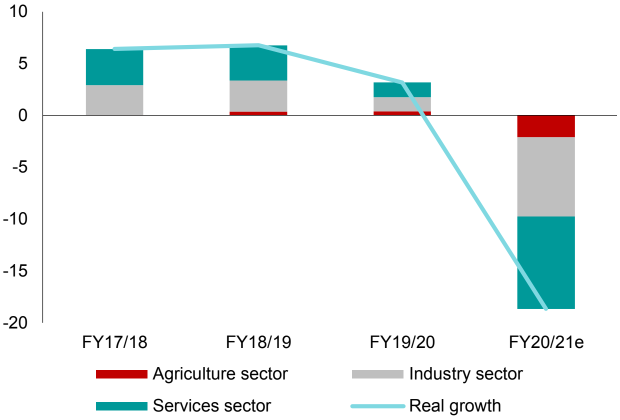
1/ A mini 6-month budget was prepared by the government for October 2021—March 2022 to shift the FY cycle back to starting from April 1.

Myanmar: Selected Figures

Growth contracted significantly in FY2020/21 due to the continued COVID-19 pandemic and the state of emergency that started in February 2021.

Contributions to Real GDP Growth

(Percent points, year-on-year)

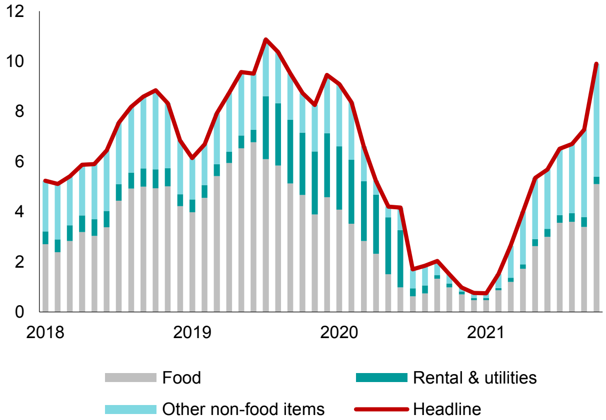


Sources: Ministry of Planning and Finance; and AMRO staff estimates.
Note: e denotes estimate.

Inflation has trended up since February 2021, driven by supply-side disruptions and exchange rate deprecation.

Contributions to CPI Inflation

(Percentage points, year-on-year)

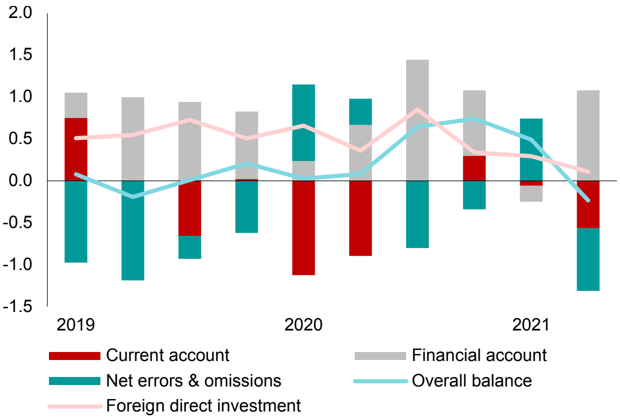


Source: Central Statistical Organization.

The overall balance deteriorated after the state of emergency due to reduced exports and FDI inflows.

Balance of Payments

(Percent of GDP)

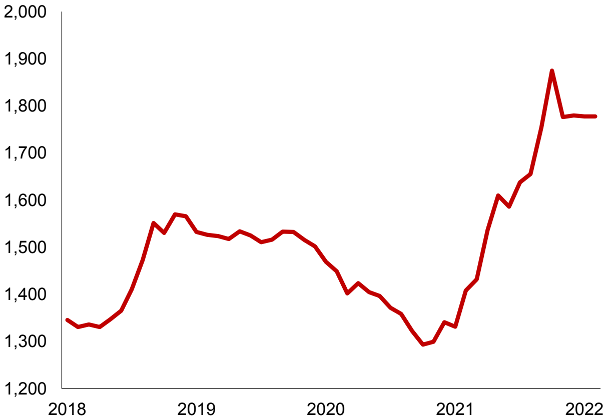


Sources: Central Bank of Myanmar; and AMRO staff calculations.

The Myanmar kyat experienced a significant depreciation in 2021 but stabilized somewhat toward the end of the year.

Exchange Rate

(Myanmar kyat/US dollar)

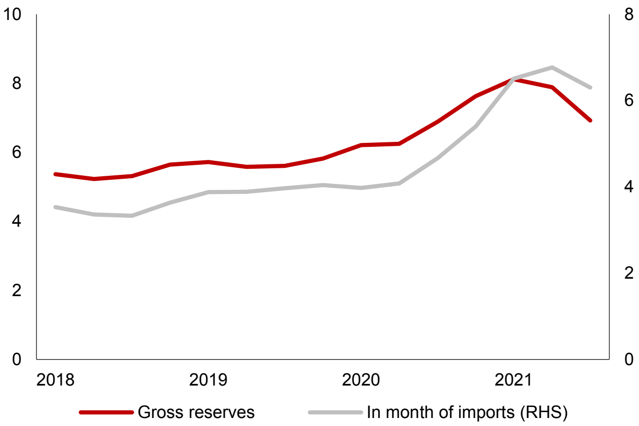


Source: Central Bank of Myanmar.

Foreign exchange reserves have deteriorated since the state of emergency, and imports have contracted fast.

Gross International Reserves

(Billions of US dollars; months of imports)

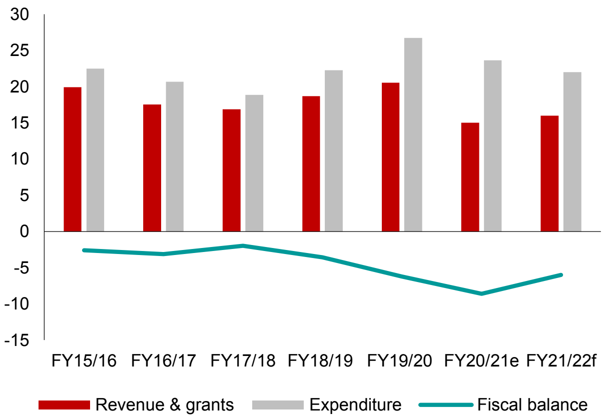


Sources: Central Bank of Myanmar; and AMRO staff calculations.

The fiscal deficit is expected to increase significantly due to a slump in revenue in FY2020/21.

Fiscal Balance

(Percent of GDP)



Source: Ministry of Planning, Finance and Industry.
Note: e denotes estimate. f denotes forecast. Revenue and expenditure data are tentative actual in FY20/21, and GDP is estimated.

Myanmar: Selected Economic Indicators

Indicator	2018	2019	2020	2021
Real sector	(in annual percentage change)			
Real GDP	6.4	6.8	3.2	–18.7
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	–4.9	–0.2	–2.5	–1.8
Trade balance	–6.5	–4.3	–5.3	–1.7
Capital and financial account balance	6.0	3.3	4.3	2.7
Direct investment	4.9	2.4	3.0	1.2
Other investment	0.5	1.5	1.8	1.3
Errors and omissions	–0.8	–2.7	–0.2	–1.2
Overall balance	0.3	0.3	1.5	–0.4
Gross external debt	15.5	14.7	15.1	17.4
International reserves (in USD billion, end of period)	5,306.5	5,604.6	6,913.4	6,917.9
Fiscal sector[1]	(in percent of GDP)			
Revenue and grants	16.9	18.7	20.5	15.0
Expenditure	18.9	22.3	26.7	23.6
Fiscal balance	–2.0	–3.6	–6.2	–8.6
Government debt	38.4	38.7	42.2	56.7
Monetary and financial sectors	(in annual percentage change)			
Broad money	18.6	15.4	15.0	11.4
Domestic credit	21.4	17.4	14.4	14.5
Private sector credit	21.1	16.1	8.6	1.5
Memorandum items:				
Nominal GDP (in MMK trillion)	92.8	105.3	112.8	102.7
Headline inflation (in percent y-o-y, period average)	5.9	8.6	5.8	3.6
Policy rate (in percent per annum, end of period)	10.00	10.00	7.00	7.00
Exchange rate (in MMK/USD, period average)	1,383.3	1,531.9	1,426.0	1,493.7
Exchange rate (in MMK/USD, end of period)	1,560.0	1,532.8	1,308.5	1,927.1

Sources: National authorities via CEIC and Haver Analytics; and AMRO staff estimations.
Note: Red number denotes AMRO staff estimate. y-o-y = year-on-year. All data are based on fiscal year which starts on October 1 and ends on September 30.
1/ Revenue and expenditure for FY20/21 are tentative actual while nominal GDP is estimated.

The Philippines

Despite recurrent waves of COVID-19 infections, economic recovery has remained on track. Recovery slowed due to a new wave of infections in March 2021; however, it regained momentum in Q3 amid the second wave of infections as targeted containment measures lessened the adverse impact of mobility restrictions. Overall, GDP growth rebounded to 5.6 percent in 2021 from a contraction of 9.6 percent in 2020 and is expected to accelerate to 6.5 percent in 2022.

Headline CPI inflation (base year = 2018) rose from 2.4 percent in 2020 to 3.9 percent in 2021, close to the upper bound of the 2—4 percent inflation target range. Core CPI inflation, excluding food and energy items, has been hovering about 3.6 percent, suggesting that the inflationary pressures were mainly caused by supply-side factors, including the African swine fever outbreak, weather disturbances, and a steep rise in global oil prices.

The current account recorded a deficit of USD 2.6 billion in Q1–Q3 2021, or 0.9 percent of GDP, mainly owing to widening of goods trade deficit. The financial account recorded net inflows of USD 0.8 billion in Q1–Q3 2021. The modest weakening in the overall BOP and a stronger US dollar led the peso to depreciate by 5.9 percent from about PHP 48 per US dollar in early 2021 to about PHP 51 per US dollar by end 2021.

The Bangko Sentral ng Pilipinas (BSP) maintained an accommodative monetary policy stance throughout 2021 by keeping the policy rate at a historic low of 2.0 percent and ensuring ample liquidity through open market operations, while continuing to provide support for national government financing. Further effort was made to encourage credit growth including the implementation of regulatory measures and facilitating the disposal of non-performing assets. The BSP also strengthened consumer protection by imposing ceiling rates for credit card charges.

The BSP has further enhanced its efforts to promote digital transformation in the financial sector for greater financial inclusiveness. Since the release of the *Digital Payments Transformation Roadmap 2020-2023* in late 2020, the BSP has continued to develop and improve the rules and infrastructure to facilitate the increased usage of digital payments, including integrating QR code-based payment facilities into the payment system. The BSP also started licensing new digital banks to serve the (large) segments of the population that are unbanked or underbanked; 6 digital bank licenses have been issued to start. In addition, the BSP issued the Open Finance Framework in December 2021 to foster innovation and inclusion in the financial ecosystem.

Fiscal expenditure accelerated in 2021 as the government stepped up its efforts to revive the economy and mitigate the impact of the pandemic. In the first 3 quarters of 2021, government spending increased from 23.6 percent of GDP in 2020 further to 24.6 percent of GDP, a historic high. The increase in government spending was primarily due to infrastructure expenditure, which increased from 3.8 percent of GDP in 2020 to 4.7 percent of GDP in 2021. Government current spending declined from 18.5 percent of GDP in 2020 to 18.3 percent of GDP in 2021, notwithstanding COVID-19 related expenditures, such as financial assistance to households and companies.

The Philippine economy continues to face several risks and challenges. A potential resurgence of COVID-19 infections remains the biggest threat to the recovery in the short term. Firm solvency continues to pose a risk to the financial health of the banking sector. The impact from these 2 risks may have abated somewhat; however, capital flow volatility is set to rise in 2022 as global financial conditions tighten. In addition, some lasting damage caused by the pandemic as well as new trends catalyzed by the pandemic, have become clearer, raising the urgency for the authorities to take action to ensure resilient, sustainable, and inclusive long-term growth.

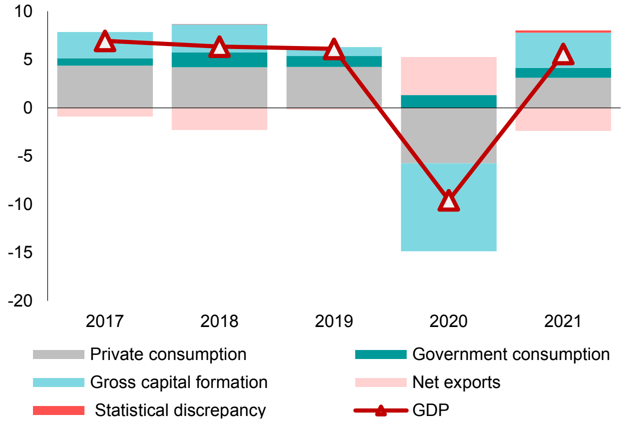
The author of this note is Zhiwen Jiao.

The Philippines: Selected Figures

Economic recovery remained on track.

Contributions to Real GDP Growth

(Percentage points, year-on-year)

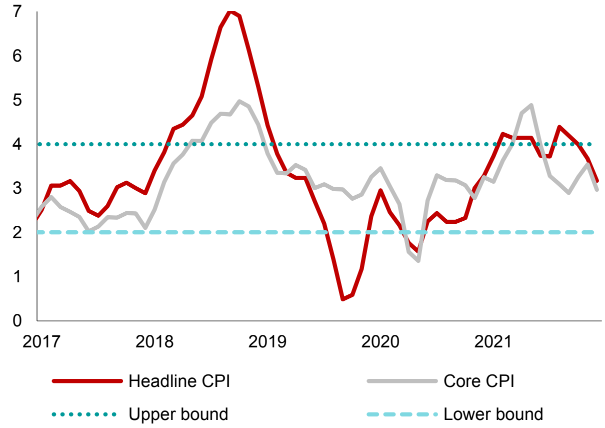


Sources: Philippine Statistics Authority; and AMRO staff calculations.

Inflation stayed above the 2–4 percent target range.

Headline CPI and Core CPI

(Percent, year-on-year)

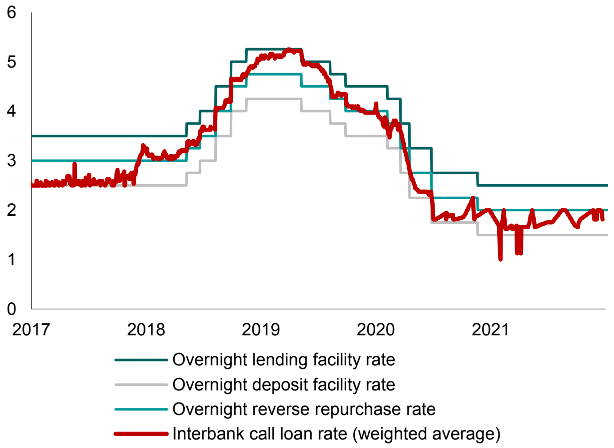


Sources: Philippine Statistics Authority; Haver Analytics and AMRO staff calculations.
Note: CPI = consumer price index (base year = 2018).

Monetary policy remained accommodative.

Monetary Policy and Market Rate

(Percent)

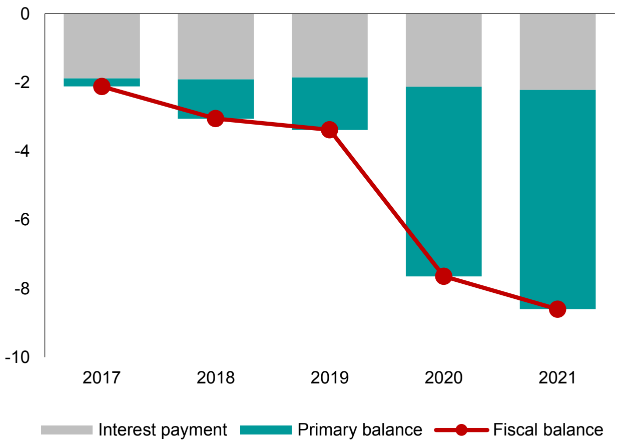


Source: Bangko Sentral ng Pilipinas.

The fiscal deficit widened as the government accelerated spending.

Fiscal Balance

(Percent of GDP)

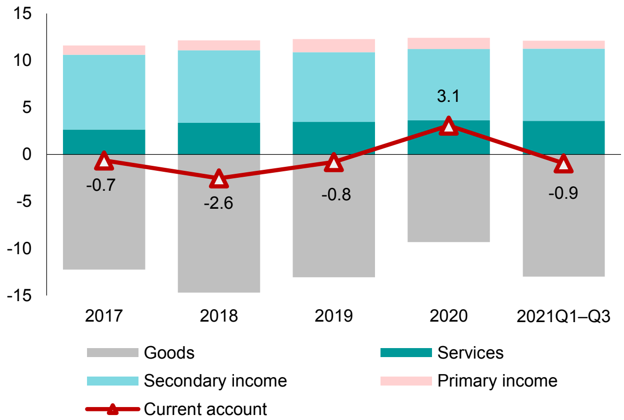


Source: Bureau of Treasury.

The current account reversed to a small deficit.

Current Account Balance

(Percent of GDP)

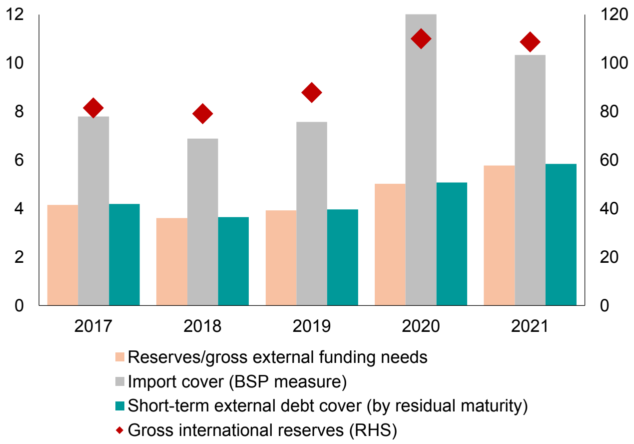


Source: Bangko Sentral ng Pilipinas.

International reserves remained stable at high levels.

International Reserve Adequacy

(Times; billions of US dollars)



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

The Philippines: Selected Economic Indicators

Indicator	2018	2019	2020	2021
Real sector	(in annual percentage change)			
Real GDP	6.3	6.1	–9.6	5.6
Private consumption	5.8	5.9	–7.9	4.2
Government consumption	13.4	9.1	10.5	7.0
Gross fixed capital formation	12.9	3.9	–27.5	9.6
Imports of goods and services	14.6	2.3	–21.6	12.9
Exports of goods and services	11.8	2.6	–16.3	7.8
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	–2.6	–0.8	3.1	–1.0
Trade balance	–14.7	–13.1	–9.3	–13.3
Capital and financial account balance	–2.7	–2.1	–1.9	–0.4
Direct investment	–1.7	–1.4	–0.8	–1.7
Portfolio investment	0.4	–0.7	–0.5	1.3
Other investment	–1.4	0.0	–0.6	0.5
Errors and omissions	–0.8	0.7	–0.6	0.2
Overall balance	–0.7	2.1	4.4	0.3
Total external debt	22.8	22.2	27.2	28.1
International reserves (in USD billion, end of period)	79.2	87.8	110.1	108.8
Fiscal sector	(in percent of GDP)			
Revenue and grants	15.6	16.1	15.9	15.5
Expenditure	18.7	19.5	23.6	24.1
Fiscal balance	–3.1	–3.4	–7.6	–8.6
Government debt	39.9	39.6	54.6	60.5
Monetary and financial sectors	(in annual percentage change)			
Broad money[1]	9.0	9.8	8.7	7.4
Domestic claims	14.9	10.7	4.7	7.7
Claims on private sector	15.1	7.8	–0.2	2.8
Memorandum items:				
Nominal GDP (in PHP billion)	18,265.2	19,517.9	17,938.6	19,387.2
Headline inflation (in percent y-o-y, period average)[2]	5.2	2.4	2.4	3.9
Headline inflation (in percent y-o-y, period average)[3]	5.2	2.5	2.6	4.5
Policy rate (in percent per annum, end of period)	4.8	4.0	2.0	2.0
Exchange rate (in PHP/USD, period average)	52.7	51.8	49.6	50.2

Sources: National authorities via CEIC and Haver Analytics; and AMRO staff estimates.
Note: Red number denotes AMRO staff estimate. y-o-y = year-on-year
1/ Refers to M4.
2/ Inflation rate is based on 2018 as the base year.
3/ Inflation rate is based on 2012 as the base year.

Singapore

Singapore's economy rebounded strongly in 2021, on the back of strong policy support, robust external demand, and easing of containment measures. Real GDP grew by 7.6 percent in 2021 after contracting by 4.1 percent in 2020. Growth was led by a turnaround in the services sector and a continued robust expansion in the manufacturing sector. Meanwhile, the recovery in the construction and tourism-related sectors continued to lag behind the rebound in the broader economy.

The labor market has improved. Overall employment rose by 39,700 in 2021 compared to the large decline of 181,100 in 2020. In addition, the relaxation of border restrictions towards end-2021 has supported non-resident employment, particularly in the construction sector. The overall unemployment rate fell steadily to 2.4 percent in Q4 2021 after peaking at 3.5 percent in Q3 2020.

Inflationary pressures rose in 2021. The headline and core Inflation rebounded to 2.3 percent and 0.9 percent respectively in 2021. The rise in the Monetary Authority of Singapore core inflation was attributed to higher services costs and food prices. Meanwhile, the sharper rise in headline inflation reflected the surge in private transportation costs (which was attributed to the increase in car prices) and the rise in accommodation costs.

Non-oil domestic export (NODX) growth strengthened further in 2021. NODX growth accelerated in both electronics and non-electronics sectors following their steady expansion in 2020. NODX to key markets, such as China, Hong Kong, Korea, and a few ASEAN countries grew strongly.

The financial sector has remained resilient throughout the pandemic period. Bank lending activities rebounded in 2021. The banking system's overall NPL ratio fell to 2.1 percent in Q4 2021 from 2.6 percent at the end of 2020. The NPL ratio in the general commerce segment remained high at 5.3 percent, reflecting the significant impact of the pandemic on the retail and tourism-related sectors. Meanwhile, nonbank lending to residents and nonresidents shifted from a contraction in 2020 to a steady expansion in 2021. Capital and liquidity buffers remained strong and well above regulatory requirements.

Prices of residential properties, including resale of public housing and private residential properties, rose strongly in 2021. The number of transactions also increased in tandem, reflecting robust homebuyer sentiment, bolstered by the low interest-rate environment.

Targeted support for affected businesses and households was extended under the FY2021 Budget and the July Ministerial Statement. In the FY2021 budget, a total of SGD 11 billion was set aside to safeguard public health, ensure safe reopening, support workers and businesses, and provide targeted support for distressed sectors. An additional SGD 3.4 billion was redeployed to support affected businesses and households from May to December 2021.

Monetary policy was tightened in view of rising inflation amidst a robust growth outlook. The slope of the SGD nominal effective exchange rate policy band was raised slightly in October 2021 and again in January 2022, from zero percent previously. The monetary policy normalization reflected the rising inflationary pressures amid the strong economic rebound and increasing tightness in the labor market.

Measures to ease cash flow constraints of businesses and households have been phased out, in line with the robust economic outlook. The extended loan moratorium for households and businesses expired in September 2021 in view of the continued steady recovery. Meanwhile, the extension of the Monetary Authority of Singapore's Singapore dollar facility for Enterprise Singapore's loans until March 2022 would help ensure that SMEs continue to have access to low financing costs amid the prolonged uncertainties from the pandemic.

Macroprudential measures have been tightened to cool the property market. In December 2021, the additional buyer's stamp duty was raised, the total debt-servicing ratio and loan-to-value limits for public housing loans were lowered.

A renewed resurgence of the COVID-19 pandemic is still the main risk to the outlook. Despite Singapore's high vaccination rate, the emergence of new and more virulent COVID-19 variants could derail Singapore's reopening plans, especially if the resulting surge in COVID-19 infections leads to a re-imposition and retightening of containment measures. Potential acute supply chain disruptions stemming from prolonged containment measures in its key trading partners can, in turn, affect Singapore's manufacturing and trading activities.

In the medium term, potential changes to international tax rules could affect tax revenues and investments by multinational companies.

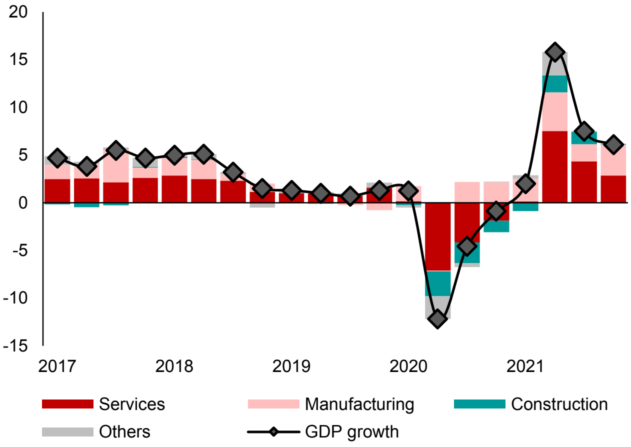
Over the longer term, Singapore will also need to contend with significant challenges arising from an aging population and climate change.

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

Singapore: Selected Figures

Singapore's economy rebounded in 2021, led by a turnaround in the services sector and a continued robust expansion in the manufacturing sector.

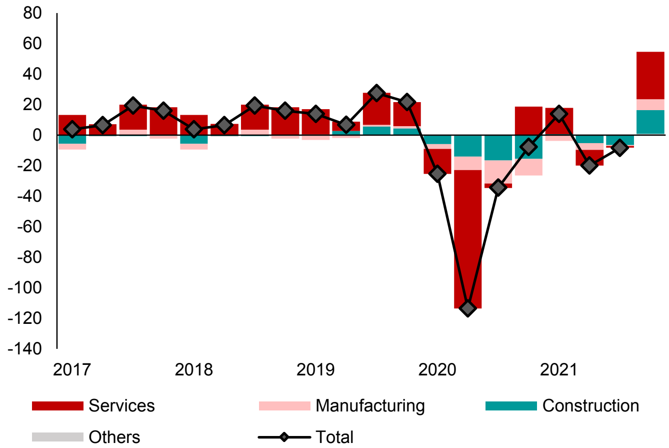
Contributions to Real GDP Growth
(Percentage points, year-on-year)



Source: Singapore Department of Statistics.

Overall employment improved but remained weak in 2021.

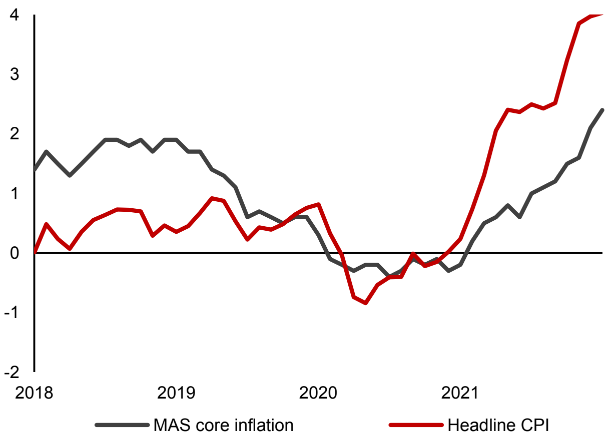
Net Change in Employment by Sector
(Change in employment; thousands of persons)



Source: Ministry of Manpower.

Headline and MAS core inflation continued to rise.

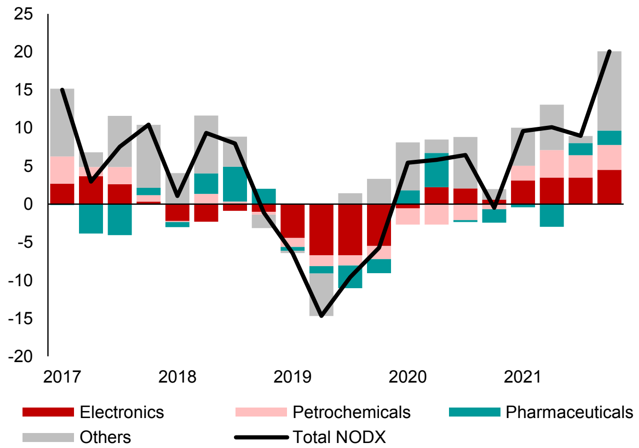
Headline and Monetary Authority of Singapore Core Inflation
(Percent, year-on-year)



Sources: Singapore Department of Statistics; and Monetary Authority of Singapore (MAS).
Note: CPI = consumer price index.

Electronics and non-electronics exports expanded robustly in 2021.

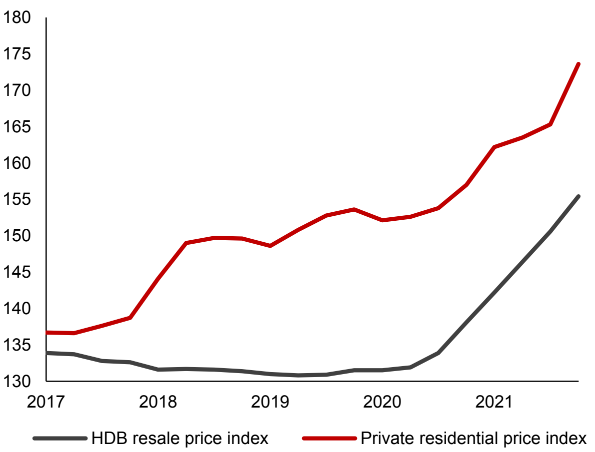
Contributions to Non-Oil Domestic Export Growth
(Percentage points, year-on-year)



Source: Enterprise Singapore
Note: NODX = non-oil domestic exports.

Prices of resale public housing and private residential properties rose steadily.

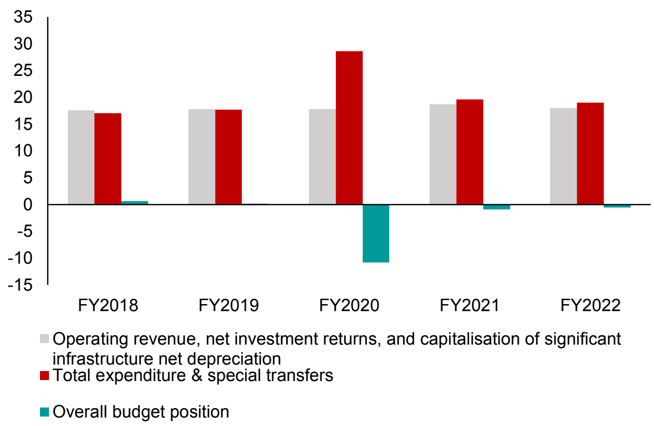
Private Residential and HDB Price Index
(Index, 2009Q1 = 100)



Sources: Housing and Development Board (HDB); and Urban Redevelopment Authority.

The overall budget deficit narrowed further in FY2022.

Overall Budget Position
(Percentage of GDP)



Source: Ministry of Finance Singapore.

Singapore: Selected Economic Indicators

Indicator	2018	2019	2020	2021
Real sector	(in annual percentage change)			
Real GDP	3.7	1.1	–4.1	7.6
Private consumption	4.0	3.2	–12.9	4.5
Government consumption	3.0	3.4	13.3	4.5
Gross fixed capital formation	–5.1	1.7	–14.2	19.6
Imports of goods and services	7.2	0.1	–2.3	7.6
Exports of goods and services	7.6	0.3	–0.2	6.8
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	15.2	14.5	16.8	18.1
Trade balance	27.6	26.1	30.0	29.8
Capital and financial account balance	11.8	16.6	–4.6	2.1
Direct investment	–15.7	–14.9	–12.5	–14.6
Portfolio investment	14.1	28.9	17.5	14.4
Other investment	7.8	0.8	–9.2	1.6
Derivatives	5.6	1.8	–0.4	0.8
Errors and omissions	0.0	0.0	0.3	0.6
Overall balance	3.3	–2.2	21.7	16.7
Net investment international position[1]	188.4	205.0	295.1	287.6
International reserves (in USD billion, end of period)	287.7	279.5	362.3	417.9
Fiscal sector[2]	(in percent of GDP)			
Revenue[3]	17.6	17.8	17.8	18.7
Expenditure[4]	17.0	17.7	28.6	19.7
Fiscal balance	0.7	0.2	–10.8	–0.9
Government debt[5]	107.5	125.2	147.9	145.9
Monetary and financial sectors	(in annual percentage change)			
Broad money[6]	5.1	4.4	10.7	10.2
Total domestic credit (Resident non-bank loan)[7]	5.1	2.4	1.1	6.0
Memorandum items:				
Nominal GDP (in SGD billion)	508.5	512.2	476.4	533.4
Headline inflation (in percent y-o-y, period average)	0.4	0.6	–0.2	2.3
MAS core inflation (in percent y-o-y, period average)	1.7	1.0	–0.2	0.9
Private Residential Property Index (2009Q1=100)	149.6	153.6	157.0	173.6
Exchange rate (in SGD/USD, period average)	1.3491	1.3642	1.3792	1.3439

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

1/ Net International investment position (IIP) as a percentage of GDP indicated under reference year 2021 is computed based on the net IIP as of end Q3 2021, divided by sum of quarterly GDP from 4Q 2020 to 3Q 2021; 4Q 2021 IIP estimates will be available by end-March 2022.
2/ Refers to fiscal year. Figures may not add up due to rounding.
3/ Revenue refers to the sum of operating revenue, net investment returns contribution, and capitalisation of nationally significant infrastructure net depreciation.
4/ Expenditure refers to the sum of total expenditure and special transfers.
5/ Presently, the Singapore government issues domestic debt securities to: (1) develop the domestic debt market using marketable Singapore Government Securities; (2) meet the investment needs of CPF (Singapore's national pension fund) using Special Singapore Government Securities; and (3) provide individual investors with a long-term savings option that offers safe returns using the Singapore Savings Bonds. The borrowing proceeds from the issuance of these securities under the Government Securities Act cannot be spent and are invested. Singapore is in a net asset position; its financial assets are well in excess of its liabilities.
6/ AMRO's estimates. With the removal of the DBU-ACU divide from July 2021, the 2021 data on broad money are compiled using the all-currencies data, while the historical data from 2018–20 are compiled based on the aggregate of DBU and ACU data.
7/ On 1 July 2021, 2 major changes in MAS' banking sector regulatory framework took effect, which led to changes in the way data are reported by financial institutions including the removal of the DBU-ACU divide. The affected statistical releases now directly present data based on whether the counterparty to the banks' or merchant banks' transactions are resident or nonresident, and these transactions are reported in Singapore dollars or in all currencies (including Singapore dollars).

Thailand

After contracting sharply by 12.1 percent year-on-year in Q2 2020 at the onset of the pandemic, the Thai economy's growth rate gradually improved to –5.3 percent year-on-year in the second half of 2020 and 1.6 percent in 2021. Notwithstanding the opening of quarantine-free entry for vaccinated travelers in November 2021, exports of services remained depressed in 2021 as international tourists remained hesitant to travel amid the continuing pandemic and border restrictions. Overall, economic performance has varied considerably across sectors as the contact-sensitive tourism and related sectors are still depressed, while manufacturing goods sectors are rebounding from strong external demand.

Going forward, the economy is expected to recover more strongly, albeit unevenly, across sectors, with GDP remaining below its pre-COVID-19 level. Domestic demand will likely remain weak, while exports and public sector expenditures are expected to be the main drivers of growth until international travel is able to recover fully.

Headline inflation increased in Q4 2021 due to high oil prices and the low-base effect, while core inflation has been soft. Going forward, inflationary pressure is likely to pick up but remain contained, given the expected stabilization of crude oil and pork prices, and gradual easing of semiconductors shortages and port congestions globally. The headline inflation is projected to average 2.4 percent in 2022, up from 1.2 percent in 2021, still within the Bank of Thailand's inflation target band.

Despite the weakening of the current account balance, the external position has remained strong, underpinned by large international reserves. In 2021, imports recovered faster than exports, reducing the trade surplus, while tourism receipts fell further, resulting in a deficit in both the current account and the overall balance of payments. International reserves fell to USD 246 billion in 2021 from USD 258.1 billion in December 2020, although they were still high and is sufficient to cover about 2.9 times of short-term external debt.

Fiscal policy has become highly expansionary to support the economy amid the COVID-19 pandemic, with significant increases in both budget and off-budget expenditures. Apart from the budget, the fiscal stimulus was financed by an additional THB 1.5 trillion in bond issuance in total (almost 9.0 percent of 2019 GDP) for COVID-19 relief measures. The budget deficit expanded from 3.0 percent of GDP in FY2019 to 5.2 percent in FY2020 and 4.7 percent in FY2021. In September 2021, under the Fiscal Responsibility Act B.E. 2561, the Fiscal Policy Committee increased the ceiling on the public debt-to-GDP ratio from 60 percent to 70 percent, giving the authorities more room to provide fiscal support to the economy, if necessary.

Downside risks to growth stem mainly from uncertainties due to recurrent waves of COVID-19 infections. Globally, the resurgence of COVID-19 infections could also weaken Thailand's recovery through trade and investment linkages. Domestically, in an adverse scenario, a fourth wave of infections, leading to a retightening of travel restrictions, could result in a much slower return of international tourists.

Risks to financial stability remain contained thus far, although they require vigilant monitoring going forward. Markets have rebounded from the capital outflows and stock market decline in the early part of 2020. The authorities have taken steps to conduct a fresh round of stress tests to ensure that banks' capital buffers are adequate. Overall, the banking system's NPL ratio has been broadly stable, helped by the Bank of Thailand's debt relief programs and regulatory relief. Commercial banks remain sound, supported by strong buffers from capital and loan-loss reserves.

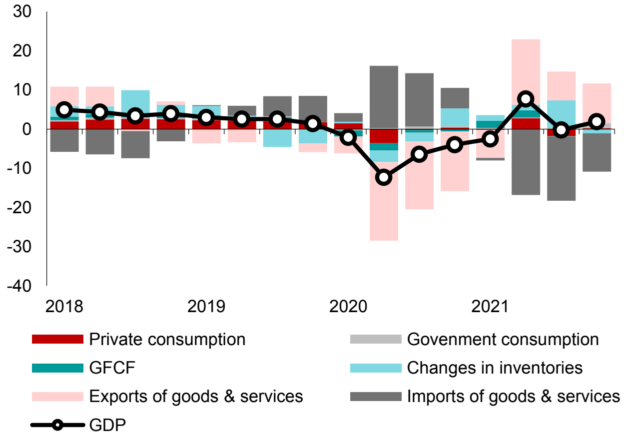
Economic scarring from the pandemic could weaken the recovery. There is a risk that the need by corporates to repair their balance sheets may cause the recovery to take longer than expected, and if liquidity problems drag out, some firms may become insolvent. Additionally, high household debt and unemployment can be a drag on private consumption. The need for re-skilling and upskilling workers who were laid off or underemployed may slow adjustment to the post-pandemic new normal.

The co-authors of this note are Ming Han (Justin) Lim, Ruperto Majuca, and Wanwisa (May) Vorranikulkij.

Thailand: Selected Figures

Growth in 2021 rebounded on the back of strong goods export.

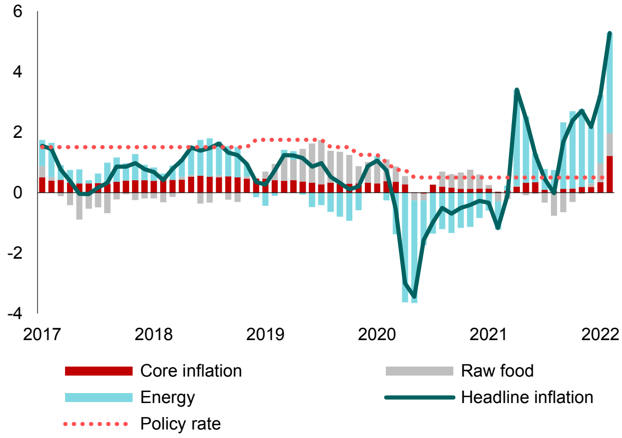
Contribution of Real GDP Growth
(Percentage points, year-on-year)



Sources: Office of the National Economic and Social Development Council; and AMRO staff estimations.
Note: GFCF = gross fixed capital formation.

Headline inflation 2021 was pushed up by rising oil prices, while demand-pull pressure remained weak.

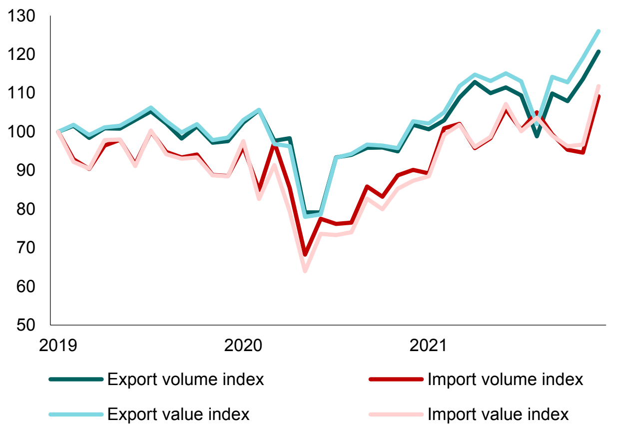
Contributions to CPI Inflation
(Percentage points, year-on-year)



Sources: Bank of Thailand; and Thailand Ministry of Commerce.
Note: CPI = consumer price index.

Merchandise goods exports recovered in line with global demand.

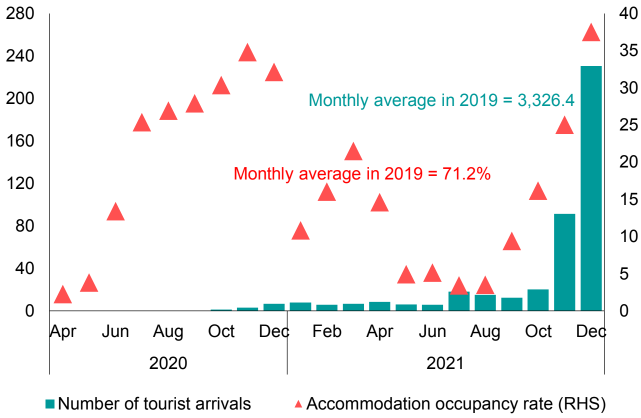
Merchandise Goods Trade
(Index, January 2019 = 100, seasonally-adjusted)



Sources: Bank of Thailand; and AMRO staff calculations.

Tourist arrivals and hotel occupancy rates rose marginally but remained much lower than the pre-pandemic levels.

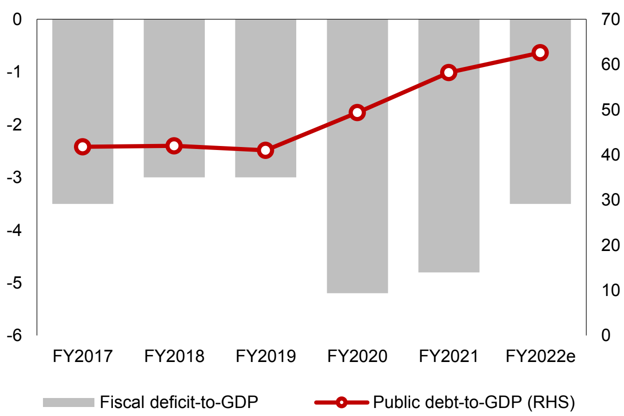
Tourism Sector
(Thousands of persons; percent)



Source: Bank of Thailand.

The public debt-to-GDP ratio increased with the continued implementation of fiscal stimulus measures.

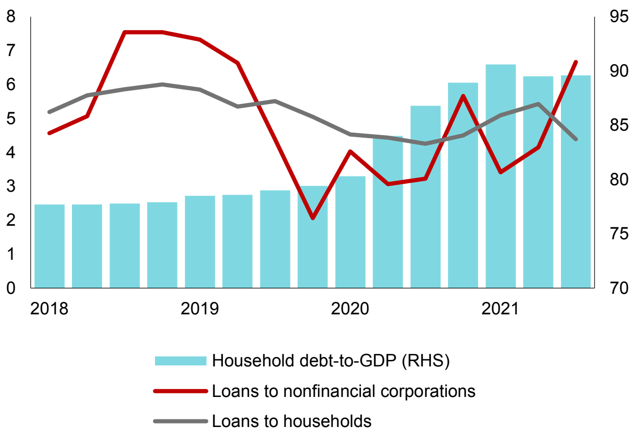
Fiscal Balance
(Percent of GDP)



Sources: Ministry of Finance; and AMRO staff estimations.
Note: Fiscal year (FY) runs from October 1 to September 30. For example, FY2022 is from October 1, 2021, to September 30, 2022. e denotes estimate.

Loans to the private sector trended upward during the pandemic.

Credit Growth from Financial Institutions
(Percent, year-on-year; percent of GDP, seasonally-adjusted)



Sources: Bank of Thailand; and AMRO staff calculations.

Thailand: Selected Economic Indicators

Indicator	2018	2019	2020	2021
Real sector	(in annual percentage change)			
Real GDP	4.2	2.3	–6.1	1.6
Private consumption	4.6	4.0	–1.0	1.0
Government consumption	2.6	1.7	0.9	0.3
Gross fixed capital formation	3.8	2.0	–4.8	3.4
Imports of goods and services	8.3	–5.2	–13.3	17.9
Exports of goods and services	3.4	3.0	–19.4	10.4
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	5.6	7.0	4.2	–2.2
Trade balance	4.4	4.9	8.2	7.9
Capital and financial account balance	–2.6	–2.9	–2.4	–0.4
Direct investment	–0.8	–1.0	–4.8	0.2
Portfolio investment	–1.2	–1.6	–2.4	–3.0
Other investment	-0.6	–0.2	4.8	2.4
Errors and omissions	–1.4	–1.6	1.8	0.3
Overall balance	1.4	2.5	3.7	–2.6
Gross external debt	35.5	34.2	36.8	–
International reserves (in USD billion, end of period)	205.6	224.3	258.1	246.0
Fiscal sector[1]	(in percent of GDP)			
Revenue and grants	15.6	15.1	14.8	15.3
Expenditure	18.6	18.1	20.0	20.0
Fiscal balance	–3.0	–3.0	–5.2	–4.7
Government debt	42.0	41.0	49.4	58.1
Monetary and financial sectors[2]	(in annual percentage change)			
Broad money	4.9	3.9	10.3	4.9
Domestic credit[3]	6.5	2.0	8.0	8.7
Private sector credit	6.7	3.7	5.0	4.8
Memorandum items:				
Nominal GDP (in THB billion)	16,368.7	16,898.1	15,698.3	16,179.8
Headline inflation (in percent y-o-y, period average)	1.1	0.7	–0.8	1.2
Policy rate (in percent per annum)	1.75	1.25	0.50	0.50
Exchange rate (in THB/USD, period average)	32.3	31.1	31.3	32.0

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

1/ Fiscal year (FY) runs from October 1 to September 30. For example, FY2021 are from October 1, 2020, to September 30, 2021.
2/ Numbers in 2021 are as at end of September 2021.
3/ Domestic credit composes net claims from central government, local government, nonfinancial corporations, and households.

Vietnam

Vietnam's economy started to rebound in Q4 2021, at 5.2 percent year-on-year, after a significant contraction of 6.0 percent year-on-year in the previous quarter. The loosening of mobility restrictions at the beginning of Q4 allowed economic activities to recover across the board. The manufacturing sector expanded once again with workers gradually returning to cities and factories resuming operations. The services sector also rebounded along with the easing of restrictions on social distancing, transportation, and logistics, although the hospitality segment remained hamstrung by international border restrictions. The rebound in Q4 helped Vietnam achieve an annual growth rate of 2.6 percent in 2021. Looking ahead, the economy is expected to continue on the path of recovery on the back of sustained progress in vaccination and resilient external demand.

More stable food prices helped offset the impact of higher fuel prices, allowing the authorities to contain headline inflation, at 1.8 percent year-on-year as of December 2021, well below the target ceiling of 4 percent. Going forward, greater inflationary pressure is on the horizon in light of a pickup in domestic demand as well as rising commodity prices.

The return of workers into cities and the gradual resumption of factory operations led to a recovery in export growth and brought the trade balance back into surplus over the last 4 months of 2021. Meanwhile, continued FDI inflows have helped shore up the financial account. As of Q3 2021, the BOPs remained in surplus, with foreign reserves increasing to USD 105.2 billion, from USD 94.4 billion at the end of 2020.

Relatively flat tax collection due to subdued economic growth and a decrease in fees and charges as part of pandemic support measures led to a decline in revenue collected to 16.3 percent of GDP in 2021, from 18.9 percent of GDP in 2020. Meanwhile, expenditure declined to 20.4 percent of GDP in 2021, from 22.4 percent of GDP in 2020, in light of limited expenditure support. The budget deficit widened slightly to 4.1 percent of GDP in 2021, from 3.5 percent of GDP in 2020. As a result, the wider deficit is estimated to have increased public debt slightly to 44.2 percent of GDP in 2021, still far below the authorities' ceiling of 60 percent of GDP. Going forward, the deficit is expected to rise further as a result of the most recent stimulus package—approved in January this year—which focuses on public investment expansion.

After cutting key policy rates by a total of 150–200 basis points in 2020, the State Bank of Vietnam (SBV) has since left the rates unchanged to support economic recovery. The accommodative monetary stance has left the banking system flush with liquidity and supported credit growth, which is estimated at 13.5 percent year-on-year as of end-2021, above the SBV's credit growth target of 12 percent. Similarly, looser macroprudential policy, including regulatory forbearance, has been kept in place to assist borrowers and support banks' balance sheets.

Despite experiencing elevated levels of COVID-19 infections since November 2021, the country has not applied the type of restrictions imposed in previous infection surges with a view to supporting the economy. Looking ahead, pandemic containment remains the major domestic challenge, with the ongoing recovery in domestic demand as well as export performance resting crucially on the nature of containment measures. On the external front, while Vietnam is well-placed to benefit from the recovery in global demand in light of the outsize role of exports in the economy and its membership in several free trade agreements, major flare-ups in COVID-19 infections across the world would continue to pose a significant downside risk for Vietnam's exports. Moreover, lasting scars from the pandemic on corporate sector balance sheets and on labor and employment, may undermine the strength of economic recovery in the medium to long term.

Despite banks' efforts on loan restructuring, further action should be undertaken to safeguard banks' asset quality to limit the erosion of their capital buffers—the banking system's capital adequacy ratio stood at 11.5 percent as of December 2021. Against the backdrop of the SBV's forbearance policy on loan classification, it is vital to maintain heightened monitoring of the potential deterioration in asset quality—the on-balance sheet NPL ratio was 1.5 percent as of end-2021—so as to provide timely warning and intervention.

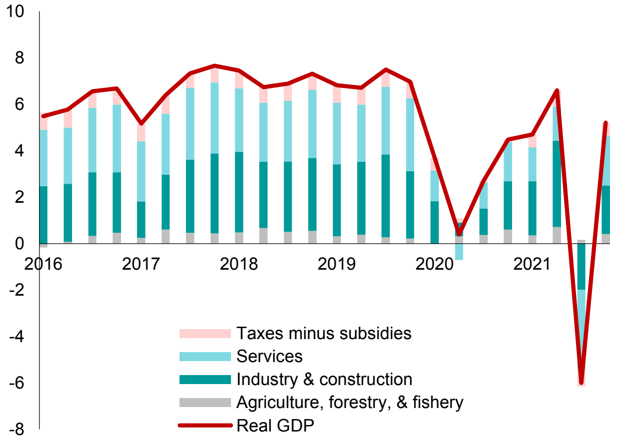
The author of this note is Jade Vichyanond.

Vietnam: Selected Figures

The economy started to rebound in Q4 last year after a significant contraction the previous quarter.

Contributions to Real GDP Growth

(Percentage points, year-on-year)

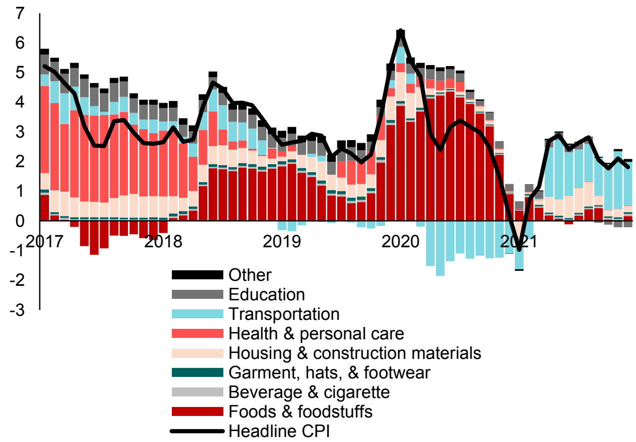


Sources: General Statistics Office; and AMRO staff calculations.

Moderation in food prices was the main driver of the decline in headline inflation in 2021.

Contributions to CPI Inflation

(Percentage points, year-on-year)

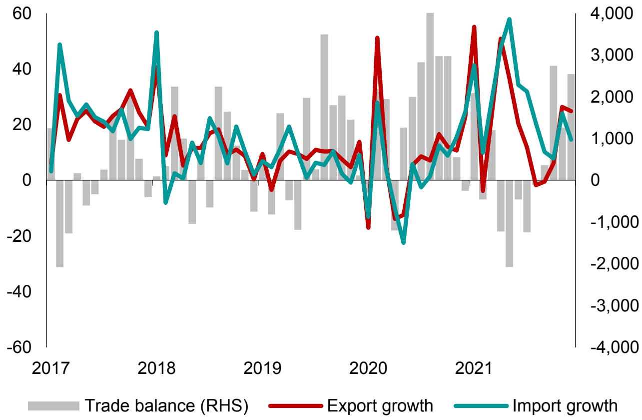


Sources: General Statistics Office; and AMRO staff calculations.
Note: CPI = consumer price index.

The return of workers into cities and the gradual resumption of factory operations led to a recovery in export growth…

External Trade

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

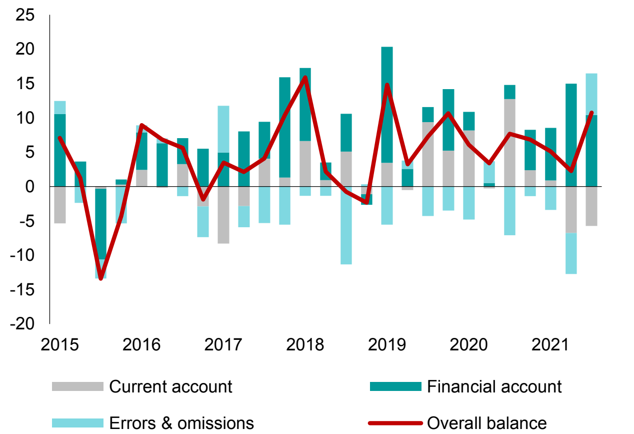


Sources: General Statistics Office; and AMRO staff calculations.

…while continued capital inflows shored up the financial account, keeping the balance of payments in surplus.

Balance of Payments

(Billions of US dollars)

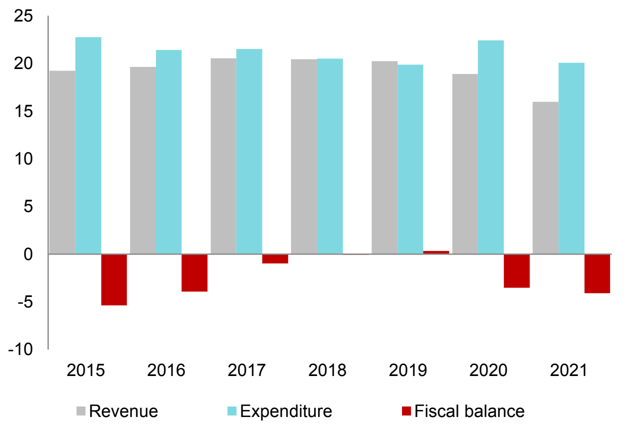


Sources: General Statistics Office; AMRO staff calculations.

The budget deficit widened slightly to 4.1 percent of GDP in 2021 as revenue collection slowed.

Fiscal Balance

(Percent of GDP)

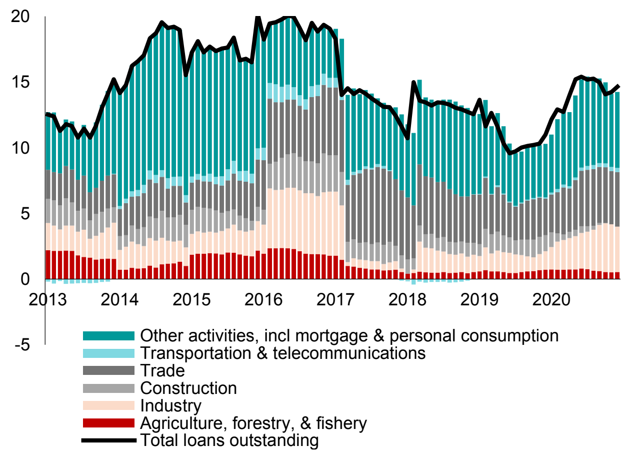


Sources: Ministry of Finance; and AMRO staff calculations.
Note: Calculations involving GDP and fiscal data are based on the recently revised GDP data for 2010–17 and AMRO staff GDP estimates for 2018–20.

The SBV's accommodative stance has supported the banking sector's credit growth.

Contributions to Credit Growth

(Percentage points, year-over-year)



Sources: State Bank of Vietnam; and AMRO staff calculations.

Vietnam: Selected Economic Indicators

Indicator	2018	2019	2020	2021
Real sector	(in annual percentage change)			
Real GDP	7.1	7.0	2.9	2.6
External sector	(in USD billion, unless otherwise specified)			
Current account balance	6.9	12.5	15.1	–5.8
Trade balance	16.2	21.0	30.7	4.6
Capital and financial account balance	8.5	19.0	8.7	17.8
Direct investment	14.9	15.7	15.4	13.5
Portfolio investment	3.0	3.0	-1.3	1.3
Other investment	–9.5	0.3	-5.5	3.0
Errors and omissions	–9.4	–8.2	–7.1	–2.0
Overall balance	6.0	23.3	16.7	10.0
Gross external debt (in percent of GDP)	38.8	39.5	39.4	38.5
International reserves (end of period)	55.5	78.3	94.4	104.4
Fiscal sector[1]	(in percent of GDP)			
Revenue and grants	20.5	20.2	18.9	16.3
Expenditure	20.5	19.9	22.4	20.4
Fiscal balance	–0.1	0.3	–3.5	–4.1
Public debt	46.2	43.4	43.6	44.2
Monetary and financial sectors	(in annual percentage change)			
Broad money	12.4	14.8	14.5	13.7
Domestic credit	12.7	12.8	11.6	13.3
Memorandum items:				
Nominal GDP (in VND trillion)	6,998.4	7,677.8	7,974.1	8,398.6
Headline inflation (in percent y-o-y, period average)	3.5	2.8	3.2	1.8
Policy rate (in percent per annum, end of period)	6.25	6.00	4.00	4.00
Exchange rate (in VND/USD, period average)	22,609	23,054	23,202	23,160

Sources: National authorities via CEIC and Haver Analytics; and AMRO staff estimates.
Note: Numbers in red denote AMRO staff estimates. y-o-y = year-on-year.
1/ Calculations involving GDP and fiscal data are based on the recently revised GDP data for 2010–17 and AMRO staff's GDP estimates for 2018–20.