Annex:

Developments in ASEAN+3 Economies

Brunei Darussalam

Brunei's economy recovered strongly in 2023, with real GDP expanding by 1.4 percent. Growth was mainly led by the services sector, notably the transport and financial services. A larger volume of passenger and cargo traffic contributed to a significant improvement in air transport activities, which increased by 75.8 percent in 2023. Similarly, in the finance subsector, growth surged to 37.4 percent in 2023, buoyed by higher income receipts from banking activities. However, the oil and gas (O&G) sector continued to contract by 2 percent in 2023, albeit at a slower pace compared to –7.3 percent in 2022, partly reflecting the progress made in rejuvenation efforts. Meanwhile, the downstream activities subsector declined by 2.8 percent, due to the planned facility maintenance of a major petrochemical refining plant.

The labor market condition was generally stable. However, in certain sectors such as accommodation/food services, wholesale/retail trade, and construction, labor market conditions remained challenging, given the dependency on migrant workers. Encouragingly, the number of returning migrant workers continued to increase as reflected in the increased number of foreign worker license applications for clearance letter by 323.4 percent to 171,197 applications in 2022. Latest data in 2022 showed that the unemployment rate remained stable (at around 5 percent).

Headline inflation fell sharply to 0.4 percent in 2023, reflecting lower commodity prices and post-pandemic supply chain normalization. Food prices, however, remained higher than pre-pandemic levels, driven largely by higher prices of cereals, meat, and dairy produce.

The external position stayed strong, with the overall balance of payments (BOP) surplus of 0.5 percent of GDP in 2022. The positive BOP reflected the surge in the current account surplus to 19.6 percent of GDP, which helped offset the outflows in the financial account. In 2023, the current account surplus is expected to have sustained, albeit narrowing to 16.0 percent of GDP, given the softer export outlook and lower production in both the upstream and downstream O&G sectors. International reserves are estimated at around USD 5 billion in 2023.

Credit growth continued to be robust, reflecting strong domestic and offshore financing activities. Total outstanding banking sector credit expanded by 11.3 percent in 2023, mainly due to robust growth of foreign lending and loans to household and other services sectors. Foreign lending firmed, mainly in the finance and commercial property sectors. In the household sector, credit demand was stronger in 2023, mostly for property financing and general consumption.

The banking sector's financial soundness continued to be preserved. The capital adequacy ratio stood at 20.1 percent in 2023, well above 10-percent minimum regulatory requirement. Overall asset quality generally improved, with the nonperforming loan ratio falling further to 2.6 percent in 2023 from 3.3 percent in 2022. Profitability wise, the banking sector benefited from the rising interest rate environment, resulting in a better-than-expected return on equity of 13.6 percent in 2023.

Higher oil revenue has helped restore fiscal buffers. The fiscal balance registered a better-than-expected surplus of 1.3 percent of GDP in Fiscal Year (FY) 2022, as the spike in energy prices helped offset lower O&G production and exports. The overall fiscal balance is estimated to weaken to a deficit of 9.8 percent of GDP in FY2023, due mainly to lower O&G export receipts relative to 2022. The fiscal outlays are also estimated to increase, albeit slightly, due to the planned increase in spending for the remaining development projects (RKN11).

Risks to Brunei's growth outlook are tilted toward the downside. Near-term risks stem from a worsening external environment, with a potential sharp decline in global energy prices and weaker economic growth in Brunei's major trading partners being the key risks. Sustained high global interest rates could amplify the risk of financial distress in major global economies, which could potentially trigger a credit crisis and/or heightened risk aversion with global and regional spillovers. Over the longer term, challenges stem from the potential setback to economic diversification as some domestic growth engines, including the tourism sector, could take longer to recover from the pandemic. Climate change transition risk is also becoming more salient, underscoring the urgency to accelerate the transformation of Brunei's economy toward one that is less carbon-intensive, while nurturing new and emerging growth areas to safeguard future economic prosperity.

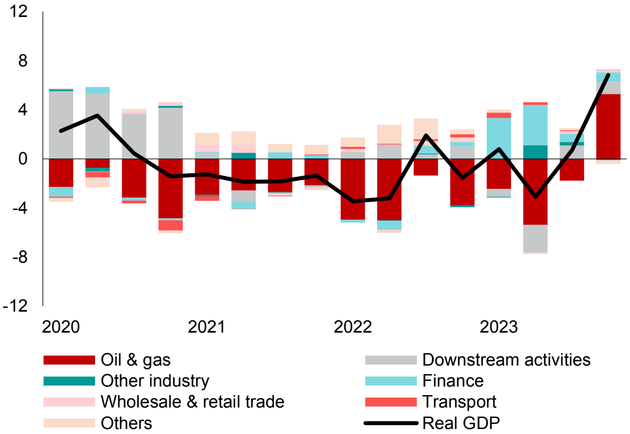
The author of this note is Vanne Khut.

Brunei Darussalam: Selected Figures

Brunei's economy recovered strongly in 2023.

Contributions to Real GDP Growth (Production)

(Percentage points, year-on-year)

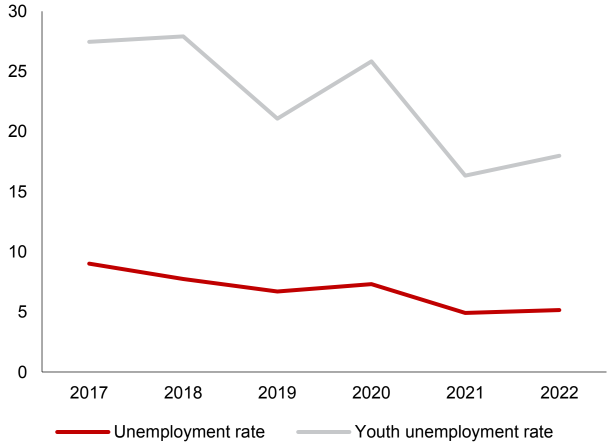


Source: Department of Economic Planning and Statistics; AMRO staff calculations.

Labor market conditions are generally stable.

Unemployment Rate and Youth Unemployment Rate

(Percent)

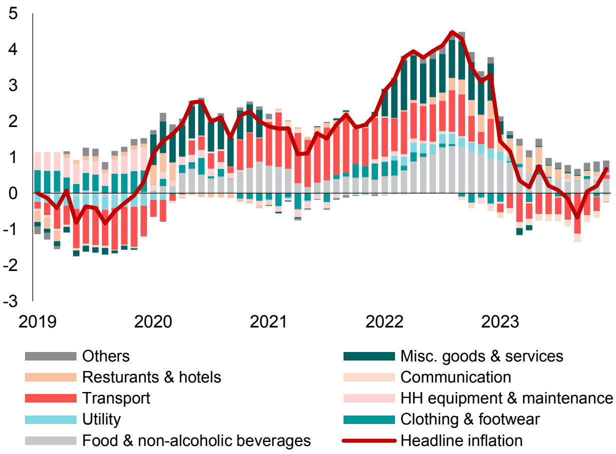


Source: Department of Economic Planning and Statistics.

Inflation has moderated sharply since early 2023.

Contributions to Consumer Price Inflation

(Percentage points, year-on-year)

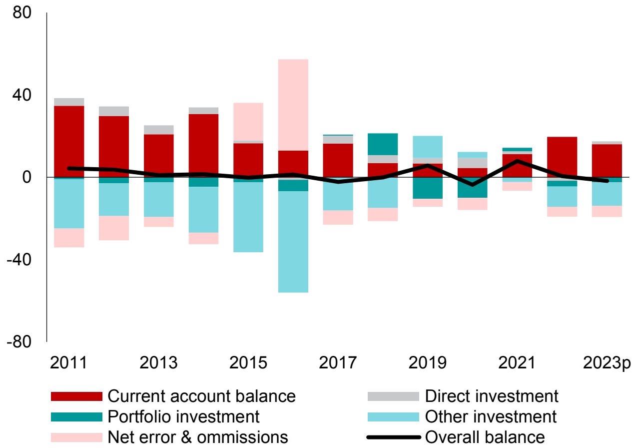


Source: Department of Economic Planning and Statistics; AMRO staff calculations.
Note: HH = household; Misc. = miscellaneous.

External position remains strong, supported by a sustained current account surplus.

Balance of Payments

(Percent of GDP)

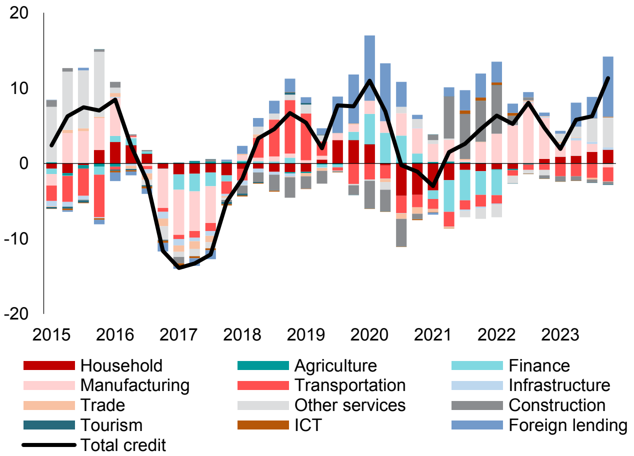


Source: Department of Economic Planning and Statistics; AMRO staff calculations.
Note: p denotes AMRO staff projection. Brunei's BOP follows BPM6. The financial account sign is reversed for charting purposes.

Credit growth has recovered, led by stronger domestic demand and offshore lending.

Contributions to Banking Sector Credit Growth

(Percentage points, year-on-year)

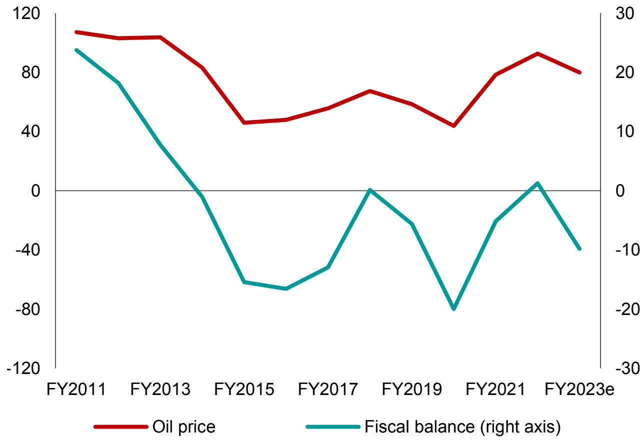


Source: Brunei Darussalam Central Bank; AMRO staff calculations.
Note: ICT = information and communication technology.

Fiscal position strengthened in FY2022, driven mainly by better-than-expected O&G revenue.

Fiscal Balance, and Oil and Gas Prices

(USD/barrel; percent of GDP)



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

Brunei Darussalam: Selected Economic Indicators

Indicator	2020	2021	2022	2023e
Real sector	(in annual percentage change)			
Real GDP	1.1	–1.6	–1.6	1.4
Private consumption	5.3	21.9	8.3	11.1
Government consumption	–9.6	2.6	6.9	–2.4
Gross fixed capital formation	–9.3	–13.9	–1.8	0.2
Imports of goods and services	–2.1	29.5	9.5	–7.8
Exports of goods and services	7.5	8.8	6.9	–2.2
External sector[1]	(in percent of GDP, unless otherwise specified)			
Current account balance	4.5	11.2	19.6	16.0
Trade balance	4.4	14.2	25.8	22.1
Capital and financial account balance	2.2	–0.9	14.3	12.4
Direct investment	–4.8	–1.5	1.8	–1.5
Portfolio investment	9.9	–1.7	2.7	2.5
Other investment	–2.9	2.3	9.8	11.3
Errors and omissions	–6.0	–4.2	–4.8	–5.4
Overall balance	–3.7	7.8	0.5	–1.8
International reserves (in USD billion, end of period)[2]	4.0	5.0	5.1	4.8
Fiscal sector[3]	(in percent of GDP)			
Revenue and grants	12.6	24.3	27.4	19.7
Expenditure	32.6	29.4	26.1	29.5
Fiscal balance	–20.0	–5.2	1.3	–9.8
Monetary and financial sectors	(in annual percentage change)			
Broad money	–0.4	2.7	1.3	2.7
Domestic credit[4]	18.3	–19.6	–15.6	51.7
Private sector credit	0.2	2.7	6.0	3.9
Memorandum items:				
Nominal GDP (in BND billion, calendar year)	16.6	18.8	23.0	20.3
Nominal GDP (in BND billion, fiscal year)	16.2	19.7	22.9	20.5
Headline inflation (in percent y-o-y, period average)	1.9	1.7	3.7	0.4
Exchange rate (in BND/USD, period average)	1.38	1.34	1.38	1.34

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

1/ Brunei's balance of payments follows BPM6. A negative (positive) financial account balance indicates net inflow (outflow). Overall balance = Current account balance - Capital and financial account balance + Errors and omissions.

2/ Gross international reserves includes gold.

3/ Refers to fiscal year, which is from April to March.

4/ Refers to domestic claims from Depository Corporations Survey.

Cambodia

The economic recovery is likely to have continued in 2023. A robust tourism recovery alongside pent-up domestic consumption sustained ongoing improvement in the services sector. Although growth in the garment sector is estimated to have decelerated due to persistently subdued US and EU demand, the non-garment manufacturing sector continued experiencing high growth in 2023. GDP growth is estimated to reach 5.3 percent in 2023, from 5.2 percent in 2022.

Consumer price inflation should ease significantly in 2023, thanks to the moderation of global oil and food prices. During the first half of 2023, headline inflation continued its decline, averaging 1.2 percent, reflecting a 6.3 percent reduction in energy prices. However, starting from July 2023, the inflation trend picked up, partly reflecting the base effect of last year as well as a tightening of global rice supplies. Throughout 2023, inflation declined to 2.1 percent from 5.3 percent in 2022.

The external position is expected to turn to a surplus in 2023, mainly reflecting improvement in trade balances. The current account deficit narrowed significantly to 25.7 percent of GDP in 2022 from 40.4 percent in 2021, and turned into a surplus of 2.7 percent of GDP in the first three quarters of 2023 on the back of a sudden stop in gold imports, sustained remittance inflows and a recovery in tourism. The current account balance is set to show a small surplus at 1.0 percent of GDP for the whole year of 2023 due to the resumption of gold imports since July.

The riel depreciated against the US dollar in 2023 on average. The depreciation, particularly from May to September, prompted the National Bank of Cambodia's to spend USD 50 million to support the riel in September, its first 2023 foreign exchange (FX) intervention, followed by USD 40 million more in October. After these interventions, the Khmer riel gradually appreciated to 4,085 to the US dollar at the end of 2023, a slight improvement from the 4,118 recorded a year earlier.

The real estate sector remained weak due to a combination of a cyclical downturn and oversupply. The oversupply stemmed primarily from the construction boom and increases in foreign investments during 2018–2019. The contraction in demand in 2022 further exacerbated the oversupply problem, while slower sales and downward pressure on property prices resulted in liquidity problems for developers. In response to this weakness, the government implemented real estate sector support measures in April 2023, mainly by postponing or exempting tax payments for Borey (gated community) developers and home buyers.

Credit expansion slowed down, and the banking sector saw a surge in the nonperforming loan ratio, but the financial sector remained sound with sufficient capital buffer and liquidity. Credit growth moderated from 18.2 percent in 2022 to an average of 13.4 percent from January to November 2023, driven mostly by real estate-related lending, as well as in the wholesale and retail trade sectors. Nonperforming loans increased sharply to 5.4 percent of bank loans in November 2023 from 3.1 percent in December 2022. That said, the banking sector remains well buffered with a capital adequacy ratio of more than 20 percent. The liquidity coverage ratio for banks stood at 168 percent in November 2023.

The fiscal deficit is expected to have widened to 6.9 percent of GDP in 2023, before steadily declining as plans for fiscal consolidation take effect. The widened fiscal deficit was mainly driven by the slowdown of revenue collection as well as higher fiscal stimulus due to expansion of the cash transfer program to "near-poor" households and flood-hit communities, a civil service wage increase, and investment in digital and green infrastructure projects. Moving forward, the fiscal deficit is set to shrink in line with the government's consolidation plan, while remaining higher than the pre-pandemic level given the integration of the COVID-19 cash transfer program into a permanent "Family Package" program targeted at vulnerable households.

Cambodia's path toward a strong economic recovery could be mainly derailed by several external risks. External short-term risks stem from a faltering of economic growth in China, which is the largest contributor to Cambodia's FDI and a major source of tourism, as well as a sharper slowdown of major economic partners such as the United States (US) and the European Union (EU). A spike in global oil prices driven by heightened geopolitical tensions, or a surge in global food prices triggered by severe El Niño conditions, could cause inflation to spike.

Domestically, a prolonged weakness in the real estate sector could put pressure on the financial sector and the broader economy, particularly through unregulated shadow banking activities. Cambodia's financial account faces potential reversal risk in short-term funds due to a growing reliance on short-term external debt and nonresident bank deposits.

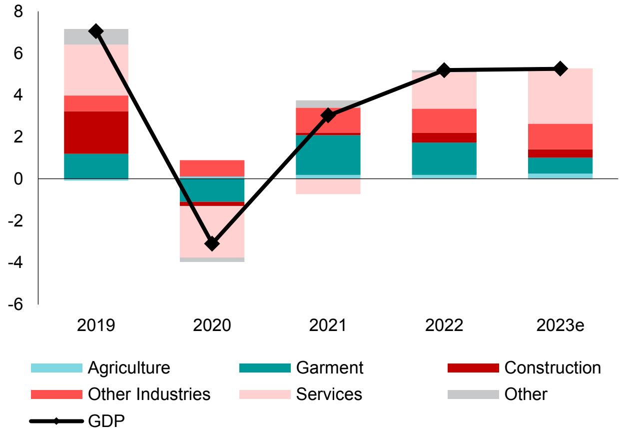
The author of this note is Chunyu Yang.

Cambodia: Selected Figures

The economy is likely to continue its recovery in 2023 on the back of a robust tourism recovery and domestic activity.

Contributions to Real GDP Growth

(Percentage points, year-on-year)

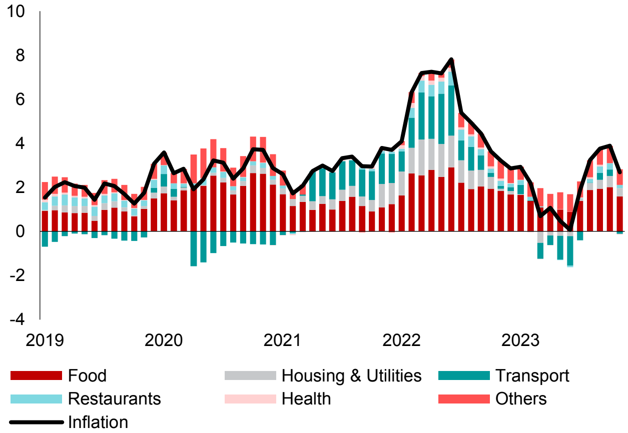


Source: National Institute of Statistics of Cambodia; AMRO staff estimates.

Headline inflation eased significantly in 2023, thanks to the moderation of oil and food prices.

Contributions to Headline Inflation

(Percentage points, year-on-year)

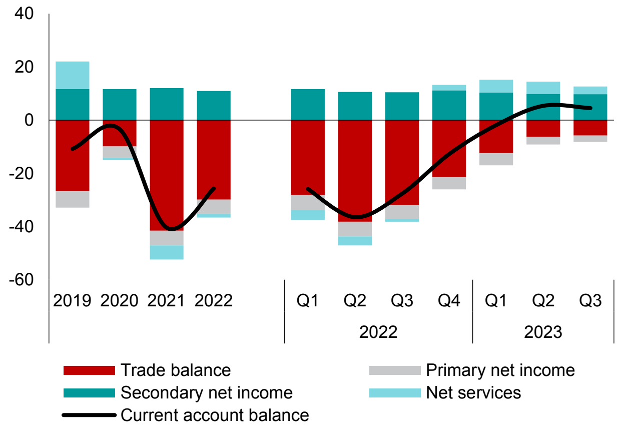


Source: National Bank of Cambodia; AMRO staff calculations.
Note: Food includes non-alcoholic beverages.

The current account registered a narrower deficit in Q1 2023 compared with 2022, before turned to a surplus in Q2 and Q3 2023

Current Account Balance

(Percent of GDP)

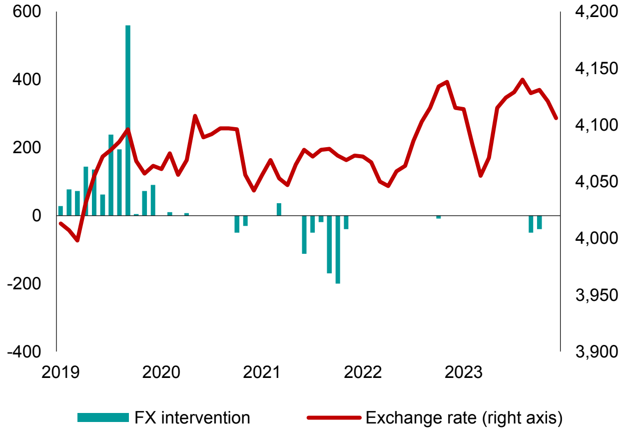


Source: National Bank of Cambodia; AMRO staff calculations.
Note: Nominal GDP figures in 2023 are based on AMRO staff estimations.

Since May 2023, the riel has depreciated against the US dollar, leading to NBC interventions in September and October 2023.

Central Bank's FX Intervention and Exchange Rate

(Millions of US dollars; KHR/USD)

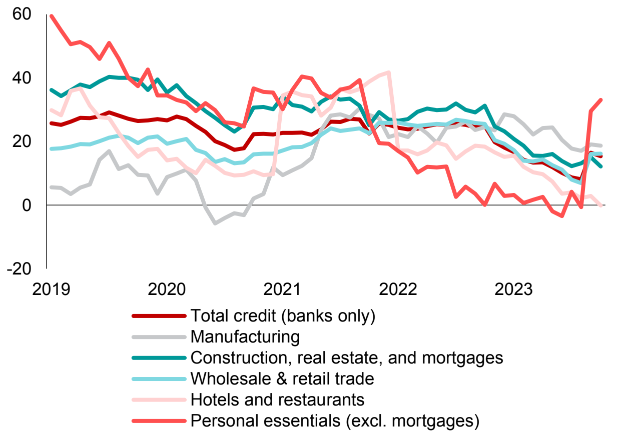


Source: National Bank of Cambodia; AMRO staff calculations.

In 2023, credit growth slowed down in most sectors, except for personal essential loans, which spiked up starting from September.

Credit Growth by Sector

(Percentage points, year-on-year)

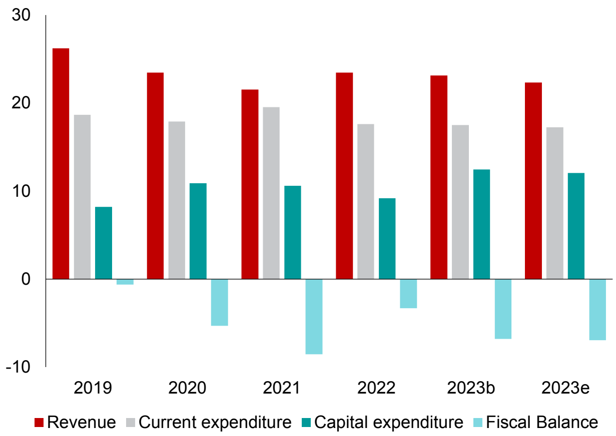


Source: National Bank of Cambodia; AMRO staff calculations.
Note: This chart refers to the credit distributed to the nonfinancial institutions by banks only.

The fiscal deficit is expected to widen to 6.9 percent of GDP in 2023 due to slowdown of revenue collection and higher spending related to the expansion of the cash transfer program.

Fiscal Balance

(Percent of GDP)



Source: Ministry of Economy and Finance.

Cambodia: Selected Economic Indicators

Indicator	2020	2021	2022	2023e
Real sector	(in annual percentage change)			
Real GDP	–3.1	3.0	5.2	5.3
Private consumption	–3.0	3.7	3.3	9.2
Government consumption	13.0	78.7	8.3	35.1
Gross fixed capital formation	–2.7	6.8	2.1	14.9
Imports of goods and services	–8.9	23.1	1.2	11.5
Exports of goods and services	–11.3	13.5	13.5	8.7
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	–3.4	–40.4	–25.7	–2.6
Trade balance	–9.8	–41.8	–29.9	–7.8
Capital and financial account balance	12.7	45.5	23.8	6.8
Direct investment	13.5	12.6	11.6	11.0
Portfolio investment	–0.4	–0.2	–0.4	–0.4
Other investment	–1.5	32.3	11.9	–4.7
Errors and omissions	–6.8	–4.8	3.1	–2.2
Overall balance	2.5	0.3	1.2	1.9
Gross external debt	67.8	73.8	75.0	75.8
International reserves (in USD billion, end of period)	21.3	20.3	18.0	18.4
Fiscal sector	(in percent of GDP)			
Revenue and grants	23.4	21.5	23.5	22.3
Expenditure	28.8	30.1	26.8	29.3
Fiscal balance	–5.3	–8.6	–3.3	–6.9
Government debt	33.7	35.0	34.0	35.4
Monetary and financial sectors	(in annual percentage change)			
Broad money	15.3	16.4	8.2	11.0
Domestic credit	20.0	32.5	19.2	13.6
Private sector credit	17.2	23.6	18.5	15.0
Memorandum items:				
Nominal GDP (in KHR billion)	106	111	121	130
Headline inflation (in percent y-o-y, period average)	2.9	2.9	5.3	2.6
Exchange rate (in KHR/USD, period average)	4,093	4,099	4,102	4,110

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

China

Economic recovery in 2023 was bumpy, with comprehensive policy measures helping to cushion drags from the later-than-expected pick-up of consumption, strains in the real estate sector, subdued external trade, and cautious sentiment. GDP growth in 2023 was 5.2 percent, characterized by a strong rebound in the first quarter after the reopening from the pandemic, a sharp slowdown in the second quarter, and a notable recovery from then until the end of the year.

As China's macroeconomic fundamentals remain sound, the recovery is expected to further normalize in 2024. Data for January and February was generally positive except for real estate sector fixed asset investment (FAI). For this year, consumption will continue as the primary driver of growth, supported by further improvements in labor market conditions. Investment may gain greater traction in the later months, driven by the expansion of traditional infrastructure, construction of modern and advanced infrastructure, and robust investments in high-tech manufacturing and services. Real estate investments may also start to recover gradually by then. Exports should pick up as the global electronics cycle turns around.

China's labor market conditions were relatively stable in 2023, and there is room for improvements in 2024. The urban surveyed unemployment rate, which peaked at 6.2 percent in February 2020 and averaged 5.2 percent in 2023. The 12.4 million jobs created exceeded the official 12 million target. In 2024, labor market conditions are expected to improve but will also reflect structural challenges and the varying pace of recovery across sectors. Challenges are pronounced for low-skilled migrant workers, recent university graduates, real estate sector employees, and those working in micro, small, and medium enterprises.

Inflation was exceptionally low at 0.2 percent in January, flat in January–February 2024. and anticipated to rise gradually in 2024. In general, the low inflation in 2023 reflected a negative output gap stemming from weak growth in 2022, ample supplies in the consumer market, and falling global commodity prices. Inflation will remain well-contained in 2024, barring any supply shocks.

China's external position is strong, marked by a substantial current account surplus and sizeable foreign reserves. In 2023, China's current account had a surplus of CNY 1,862 billion. This included a surplus of CNY 4,312 billion under trade in goods, a deficit of CNY 1,629 billion under trade in services, a deficit of CNY 929 billion under primary income, and a surplus of CNY 107 billion under secondary income. Foreign currency reserves remain substantial at USD 3.2 trillion as of December 2023, providing a solid buffer against sizeable capital outflows during several months in 2023.

The banking system was sound in 2023, facilitating initiatives to boost credit growth to support the economic recovery. Bank capital and liquidity buffers were solid overall. This is despite some pockets of vulnerability among city and rural commercial banks, where consolidation is ongoing. Total social financing growth, which slowed from 13.3 percent in 2020 to 10.0 percent in 2022, was 9.8 percent in 2023. Authorities implemented several measures to strengthen banks and encouraged them to increase lending to creditworthy borrowers while reducing exposure to high-risk borrowers and projects. In 2024, credit growth will be supported by the economic rebound, restored confidence, and improved asset quality. These factors will reduce the need for accommodative policy measures.

The real estate sector's recovery will be gradual. Fixed asset investments have been subdued, and funding for property development remains tight. Authorities have taken several policy measures to ensure the recovery continues. These include completing stalled residential property projects and having developers make progress in resolving their financial difficulties through asset sales, deferred bond payments, loan restructuring, and possibly even liquidation. These measures need time to take full effect and bring about the full recovery of the real estate sector.

China has maintained fiscal soundness overall, but there are pressures leading to budget deficit widening. Due to the economic slowdown and real estate sector downturn in 2022 and 2023, government spending on support measures increased. As a result, the general public budgetary account deficits were as follows: 3.2 percent of GDP (the actual implementation was 3.1 percent) in 2021, 2.8 percent in 2022, and 3.8 percent in 2023.

There are several domestic challenges and external uncertainties. The recovery of the real estate sector could face setbacks. Financial strains on some local governments may dampen the economic recovery in affected regions. In some sectors of the economy, high leverage remains a vulnerability, and orderly deleveraging is necessary to avoid financial distress. In the external environment, forces pulling in the direction of geoeconomic fragmentation could remain formidable, making conditions for trade, investment, and technological gains difficult. Perennial challenges, such as population aging, socioeconomic disparities, and climate change, require bold and forward-looking policy actions. These near-term risks and longer-term challenges will strain China's financial resources and policy capacity, necessitating continuous policy adjustments and structural reforms.

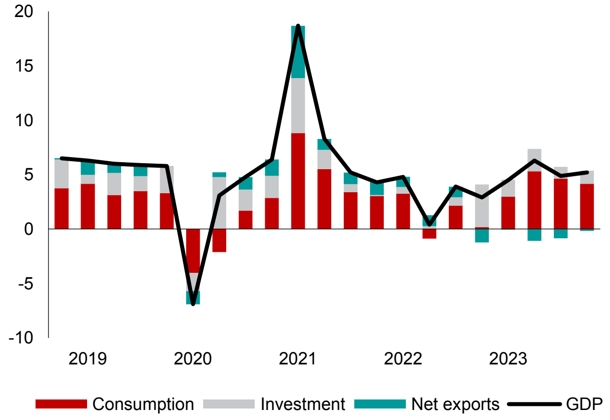
The author of this note is Suan Yong Foo and Fan Zhai.

China: Selected Figures

In 2023, China's economic recovery faced hurdles with delayed pick-up of consumption, weak real estate investment, and cautious sentiment.

Contributions to GDP Growth

(Percentage points, year-on-year)

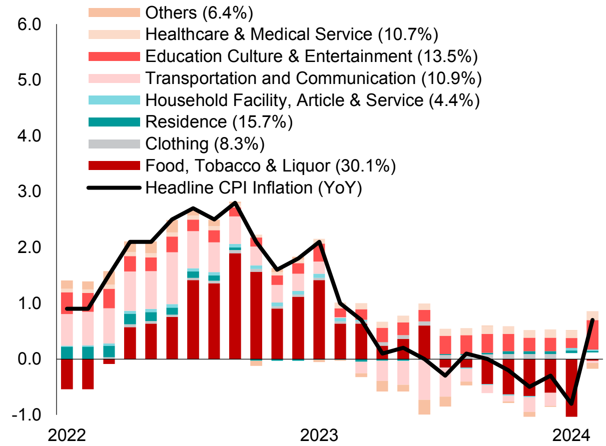


Source: China authorities via WIND.

Consumer price inflation was exceptionally low in 2023, due to robust food harvests, some pandemic-induced weakness in consumer spending, and softening of consumer sentiment.

Consumer Price Inflation

(Percentage points, year-on-year)

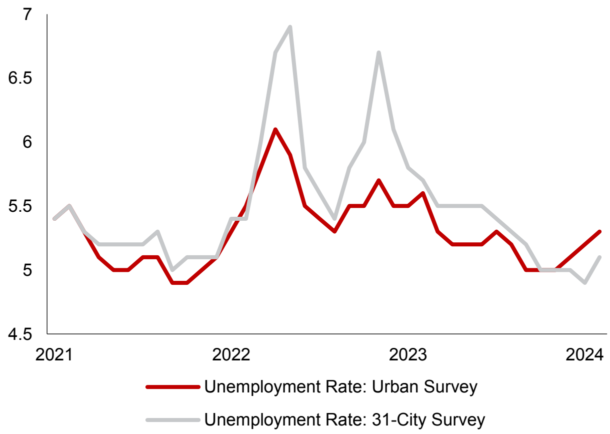


Source: China authorities via CEIC.

The surveyed urban unemployment rate averaged 5.2 percent in 2023, with labor market conditions having considerable room for further improvements in 2024.

Surveyed Urban Unemployment Rate

(Percent)

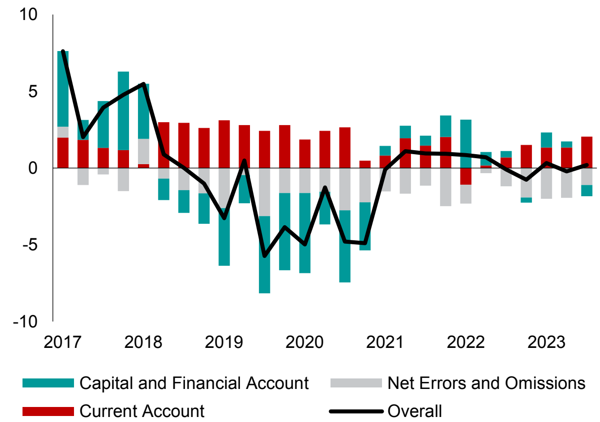


Source: China authorities via CEIC and WIND.

China's external position is strong, marked by a substantial current account surplus and sizeable foreign reserves.

Overall Balance of Payments

(Percent of GDP)

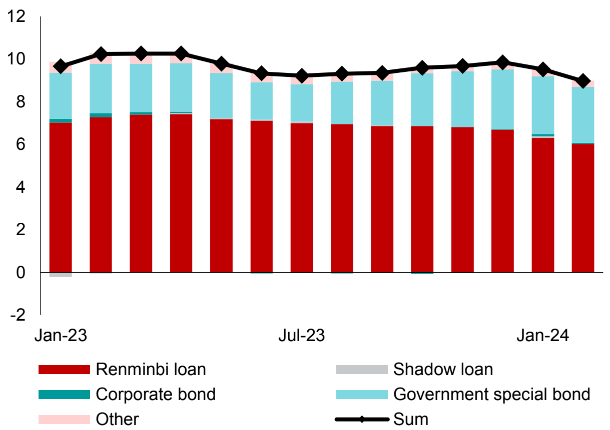


Source: China authorities via CEIC.

Total social financing increased by 9.8 percent in 2023, supported by policy measures and banking system soundness.

Total Social Financing

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

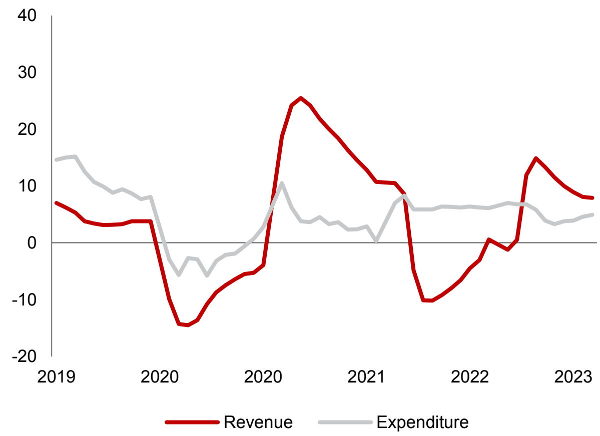


Source: China authorities via WIND.

Fiscal revenue growth moderated in mid-2023 when the economic recovery slowed while the pace at which spending increased also eased as policies became more targeted.

Fiscal Revenue and Expenditure Growth

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



Source: China authorities via WIND.

China: Selected Economic Indicators

Indicator	2020	2021	2022	2023e
Real sector	(in annual percentage change)			
Real GDP	2.2	8.4	3.0	5.2
Private consumption	–0.9	9.8	1.8	5.7
Gross fixed capital formation	5.1	2.6	5.1	3.0
Imports of goods and services	–0.4	30.1	1.1	–0.5
Exports of goods and services	9.9	29.9	7.7	0.3
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	1.7	2.0	2.2	1.5
Trade balance	2.4	2.6	3.2	2.1
Capital and financial account balance	–0.6	–1.2	–1.7	–1.0
Direct investment	0.7	0.9	0.2	–0.9
Portfolio investment	0.6	0.2	–1.6	–2.0
Other investment	–1.7	–1.4	0.3	0.2
Errors and omissions	–1.1	–0.8	–0.5	0.0
Gross external debt	15.0	15.5	14.1	14.2
Foreign exchange reserves (in USD billion, end of period)	3,217	3,250	3,128	3,238
Fiscal sector[1]	(in percent of GDP)			
Revenue and grants	18.0	17.7	16.8	17.4
Expenditure	24.2	21.5	21.5	21.8
Fiscal balance	–6.2	–3.8	–4.7	–4.4
Government debt	45.8	47.0	51.0	54.8
Monetary and financial sectors	(in annual percentage change)			
Broad money[2]	10.1	9.0	11.8	9.9
Total Social Financing	13.3	10.3	10.0	9.8
Memorandum items:				
Nominal GDP (in RMB trillion)	101	113	121	129
Headline inflation (in percent y-o-y, period average)	2.5	0.9	2.0	0.2
Lending rate (LPR), 1 year (period-end)	4.35	3.85	3.65	3.45
Exchange rate (in RMB/USD, period average)	6.90	6.45	6.74	7.07

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

Hong Kong, China

After a significant downturn in 2022, the economy showed resilience and revived as activities gradually normalized. With the progressive reopening of Hong Kong and mainland China since late 2022, the economy resumed a growth of 3.2 percent year-on-year in 2023, driven by resilient domestic consumption and a rebound in tourism. Gross fixed asset investment grew by 10.6 percent, underpinned by recovery in both real estate investment and investment in machinery and equipment. Due to sluggish global trade and the cyclical downturn in the semiconductor industry, (re)export activities remained lackluster, impeding the recovery.

The labor market continued to improve. Seasonally adjusted unemployment rate declined from its most recent peak of 5.5 percent in February–April 2022 to 2.9 percent in October–December 2023. Total employment recovered significantly to 3.7 million in October–December 2023, but remained 3.7 percent below what it was in the fourth quarter of 2019, reflecting the compounding effects of population aging and the pandemic.

Inflation remained soft despite the economic recovery. Headline consumer prices rose 2.1 percent in 2023. The moderation in food inflation and the declining prices of durable goods helped contain consumer prices. Low food inflation in mainland China and the appreciation of the Hong Kong dollar against the renminbi through the first half of 2023 also contributed.

The overall external position stayed strong. The value of Hong Kong's merchandise exports decreased by 7.8 percent year-on-year in 2023, due mainly to subdued global demand. Supported by strong services and primary income surpluses, Hong Kong maintained a large current account surplus in the first three quarters of 2023. Capital outflows moderated after late 2022 because local interest rates rose sharply and rate differentials between the Hong Kong dollar and US dollar shrank. Foreign reserves were largely stable throughout 2023, fluctuating from a high of USD 437 billion at the end of January to a low of USD 416 billion at the end of September.

The fiscal budget for Fiscal Year (FY) 2023 aims to strike a balance between supporting the economic recovery and ensuring fiscal prudence. While the government continues to provide support to individuals and companies through tax relief and consumption vouchers, this has been scaled back amid an improving economic outlook. The package of relief measures was reduced sharply from HKD 170 billion in FY2022 to HKD 59.4 billion in FY2023, resulting in a 6.1 percent reduction in budgeted fiscal expenditure. Besides these relief measures, the government has allocated funds to revitalize the tourism sector, enhance Hong Kong's innovation and technology ecosystem, and promote development of the digital economy and infrastructure.

The banking sector remained sound, underpinned by ample capital and liquidity buffers. The aggregate capital adequacy ratio stood at 20.9 percent at the end of the third quarter of 2023 and the liquidity coverage ratio increased to 174.5 percent from 161.8 percent in the fourth quarter 2022. Despite an uptick of nonperforming loan ratio from 1.2 percent in the third quarter of 2022 to 1.6 percent a year later, the overall asset quality of Hong Kong's banking sector is healthy. That said, close attention should be paid to the quality of mainland China-related loans. Their nonperforming ratio rose from 1.8 percent in the third quarter of 2022 to 2.7 percent a year later.

Domestic financial and credit conditions have tightened in recent months. Total credit contracted by 3.6 percent year-on-year at the end of 2023, mainly driven by declines in credit for use outside Hong Kong and trade finance. The Hong Kong Interbank Offered Rate has followed the upward trend of rising US interest rates. The property market, despite signs of recovery in the first quarter of 2023, remained under pressure, with various segments exhibiting downward prices.

Whereas the growth outlook has improved, downside risks in the short term remain high. The risk of a protracted global trade downcycle remains a significant concern given the Hong Kong economy's strong connections with the global economy. Recession in the US and Europe would hurt Hong Kong's economic growth. A faltering economic recovery in mainland China would also weaken Hong Kong's economic recovery. Weakness in the property market, if prolonged, could weigh on the finance of households and firms. In the medium term, any escalation of US-China tensions and broader global geoeconomic fragmentation would stand as major risks for Hong Kong's economy.

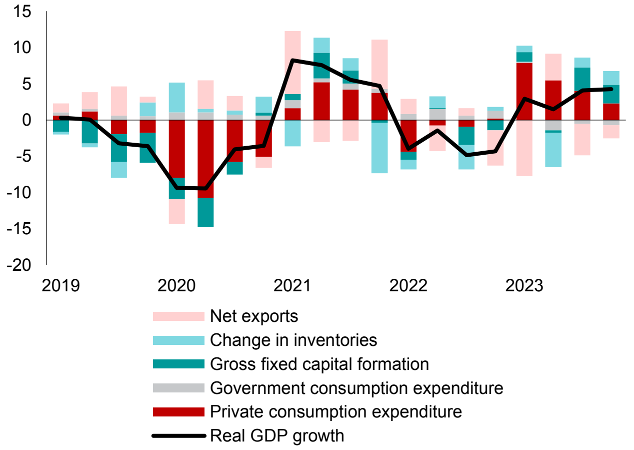
The author of this note is Fan Zhai.

Hong Kong, China: Selected Figures

Hong Kong's economy recovered in 2023 after contracting in 2022.

Gross Domestic Product

(Percentage points contribution, year-on-year)

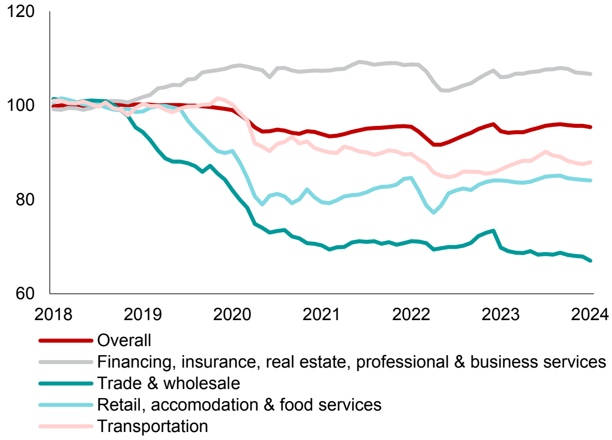


Source: Census and Statistics Department.

Overall employment improved in 2023, but the recovery remained uneven across sectors.

Employment by Sector

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

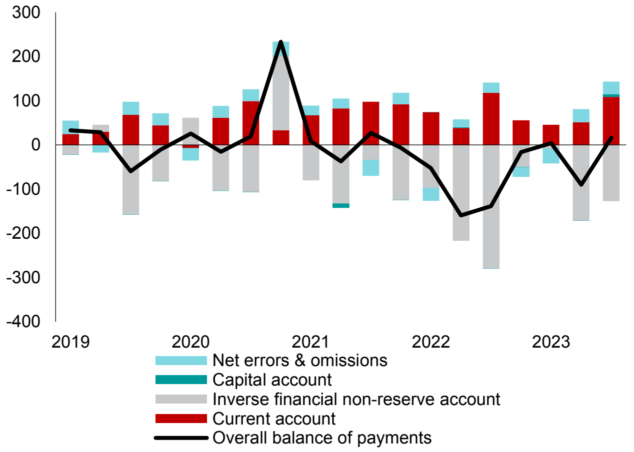


Source: Census and Statistics Department.

The external position was stable in 2023, supported by current account balance and moderated capital outflows.

Balance of Payments

(Billions of Hong Kong dollars)

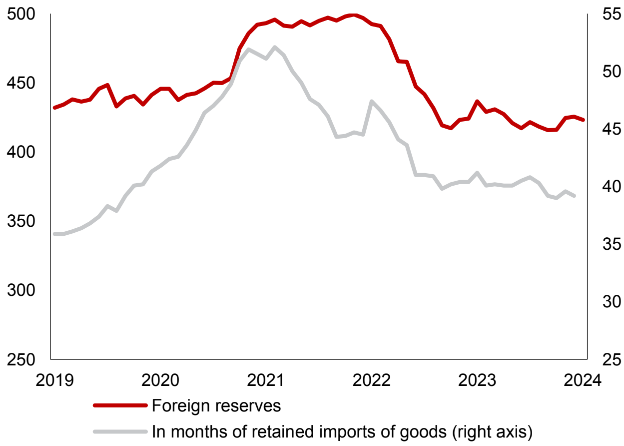


Sources: Census and Statistics Department.

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

Foreign Reserves

(Billions of US dollars; months of imports)

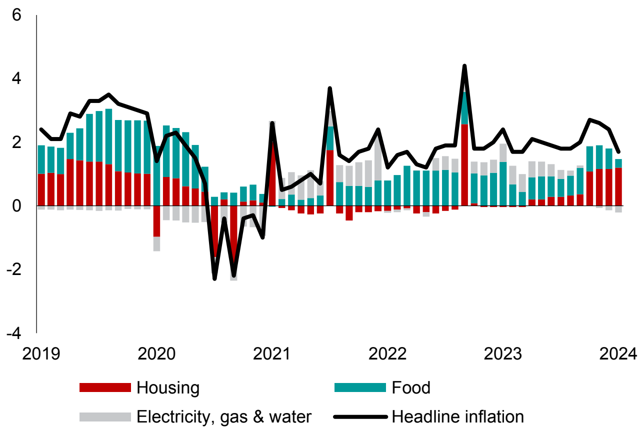


Source: Hong Kong Monetary Authority.

Inflation rose moderately on rising housing rentals.

Consumer Price Inflation

(Percentage points contribution, year-on-year)

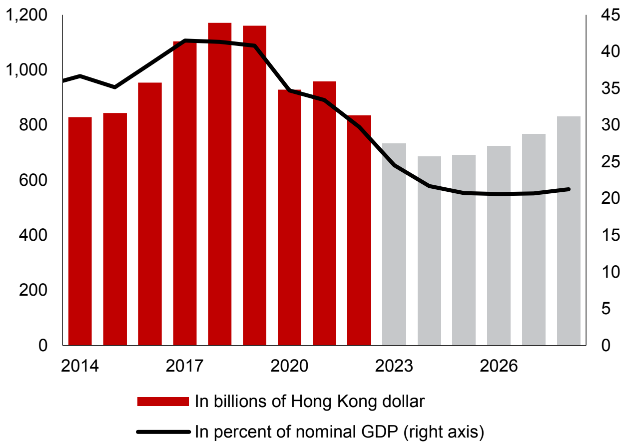


Source: Census and Statistics Department.

The government projected fiscal reserves as a percentage of GDP would reverse its declining trend in FY2027.

Fiscal Reserves Projections

(Billions of Hong Kong dollars; percent of GDP)



Source: Financial Services and the Treasury Bureau.

Note: gray bars denote government projections in the 2024 Budget Speech.

Hong Kong, China: Selected Economic Indicators

Indicator	2020	2021	2022	2023e
Real sector	(in annual percentage change)			
Real GDP	–6.5	6.5	–3.7	3.2
Private consumption	–10.6	5.6	–2.2	7.3
Government consumption	7.9	5.9	8.0	–4.3
Gross fixed capital formation	–11.1	8.3	–7.4	10.8
Imports of goods and services	–7.0	15.8	–12.2	–5.3
Exports of goods and services	–7.1	16.9	–12.5	–6.5
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	7.0	11.8	10.0	7.5
Trade balance	1.9	5.6	3.9	1.3
Capital and financial account balance	0.7	–13.3	–22.8	–12.3
Direct investment	9.9	11.9	1.0	2.8
Portfolio investment	–19.7	–21.6	–11.3	–17.8
Other investment	9.9	–4.8	–17.5	–1.8
Errors and omissions	2.1	1.2	–0.2	–0.1
Overall balance	9.8	–0.3	–13.0	–5.0
Gross external debt	518.7	507.1	494.9	489.9
International reserves (in USD billion, end of period)	492	497	424	426
Fiscal sector[1]	(in percent of GDP)			
Revenue and grants	21.1	24.2	22.1	19.7
Expenditure	30.5	24.2	28.8	25.4
Fiscal balance	–9.4	0.0	–6.7	–5.7
Government debt	1.0	2.0	4.3	6.2
Monetary and financial sectors	(in annual percentage change)			
Broad money[2]	5.8	4.3	1.6	4.0
Domestic credit	1.2	3.8	–3.0	–3.6
Private sector credit	1.6	4.8	0.0	–0.5
Memorandum items:				
Nominal GDP (in HKD trillion)	2.7	2.9	2.8	3.0
Headline inflation (in percent y-o-y, period average)	0.3	1.6	1.9	2.1
Policy rate (in percent per annum, period average)	0.90	0.50	2.10	5.45
Exchange rate (in HKD/USD, period average)	7.76	7.77	7.83	7.83

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

Indonesia

The economy continued to grow strongly in 2023 in the face of external headwinds. Strengthening consumption and investment underpinned growth of 5.0 percent for the year even as exports weakened. Robust domestic demand backed by consumer confidence and election-related spending and investment in national strategic projects (including the new capital city), together with a gradual recovery in exports, are expected to support a pickup in growth in 2024.

Supply and demand-side measures anchored inflation within the target range. A consistent policy response from Bank Indonesia (BI) and a close policy synergy between the central bank and the government to control inflation[1] contributed to a decline in the headline consumer price index to within 3.0±1 percent in 2023. In addition to energy subsidies, the government increased rice imports and strengthened interregional supply and distribution of necessity goods, especially food, to combat the impact of the El Niño weather system. Continued policy synergy is expected to keep inflation within a lower target range of 2.5±1 percent in 2024.

The external position remained resilient, with the trade balance still recording surpluses despite less favorable terms of trade. This, coupled with a rebound in tourism, supported the current account amid persistent primary income deficits. Continued FDI inflows buttressed the capital and financial accounts. In addition, nonresident portfolio inflows resumed in most of 2023, except for August–October when risk aversion heightened, due to renewed concerns about a tighter-for-longer monetary policy by the US Federal Reserve. External debt moderated to 29.7 percent of GDP by the end of the year. The debt structure remained sound, with short-term external debt accounting for about 17.2 percent of total external debt and 47.8 percent of gross international reserves as of December 2023.

Bank Indonesia has strengthened its mix of monetary, macroprudential, and payment system policies to maintain stability and support sustainable economic growth. The central bank has raised the policy rate, maintained rupiah stability, strengthened monetary operations with the issuance of BI bills, known as SBRI, and enhanced financial deepening. As the banking sector remained sound, an accommodative macroprudential policy stance was maintained through a further reduction in the reserve requirement ratio among banks that lend to priority sectors and micro, small and medium-sized enterprises to encourage lending to businesses. Efforts were also stepped up to support a secure, steady, and reliable digital payment system and promote local currency transactions.

Strong revenue collection allowed the government to increase spending while keeping the fiscal deficit below the fiscal rule of 3 percent of GDP in 2023. Solid tax revenue backed by the implementation of tax reforms since 2022 and increased profit transfers from state-owned enterprises underpinned a stronger-than-budgeted revenue collection as commodity windfalls waned. The government raised capital spending to support growth and increased cash/food handouts to low-income households to support their purchasing power (actual expenditure is estimated at IDR 3,122 trillion versus IDR 3,061 trillion in the original budget plan). Meanwhile, the fiscal deficit narrowed to 1.7 percent of GDP in 2023 (compared with a planned 2.8 percent), from 2.4 percent in 2022. The government is likely to pursue a neutral fiscal stance in 2024.

With domestic demand underpinning solid economic growth, Indonesia's near-term outlook could be affected by ongoing external headwinds. A sharp slowdown in major trading partners, especially China, could weigh on export recovery. The risk of global food and energy price spikes persists amid El Niño conditions and geopolitical tensions. While risk aversion has eased as the US Federal Reserve signaled the end of its interest rate hiking cycle, emerging markets (EMs), including Indonesia, might continue to experience capital flow volatility if tight US monetary policy were to be prolonged into 2024. As with other EMs, Indonesian financial markets might be adversely impacted by spillovers from the US presidential election campaign.

Indonesia faces challenges in its efforts to improve economic resiliency and transition smoothly to a green economy. The country's economic, trade, and fiscal structure remains resource-based in comparison to several ASEAN peers, exposing its vulnerability to commodity price shocks. While significant progress has been achieved in improving connectivity and reducing the cost of logistics, the need for infrastructure development is still large. Limited fiscal resources and recent financial difficulties experienced by state-owned enterprises in the construction and infrastructure sectors may affect future infrastructure financing. Likewise, significant investment would be required to achieve Indonesia's climate change commitment, while securing financing for this remains a challenge.

The author of this note is Thi Kim Cuc Nguyen.

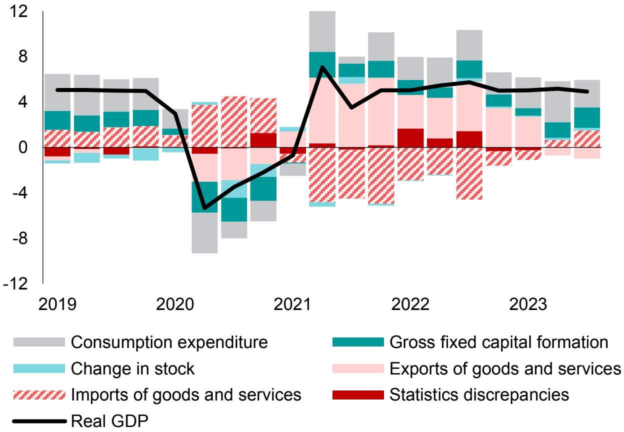
1/ Policy synergy has been strengthened through the Central and Regional Inflation Control Teams (TPIP and TPID), as well as the National Movement for Food Inflation Control (GNPIP) in various regions.

Indonesia: Selected Figures

Robust growth was sustained in 2023, backed by strengthening consumption and investment as exports weakened.

Contribution to Real GDP Growth

(Percentage points, year-on-year)

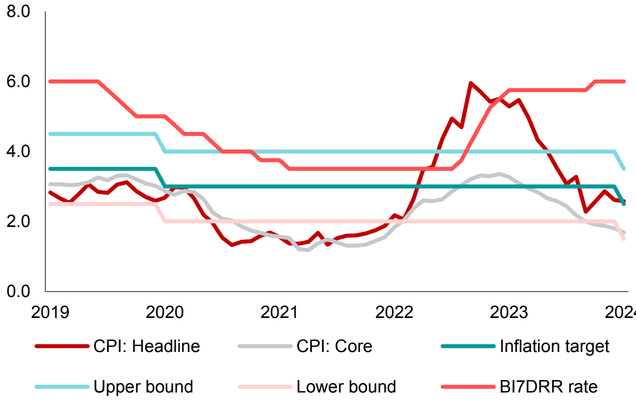


Source: Statistics Indonesia.

Bank Indonesia has kept policy rates elevated to anchor inflationary expectations and support rupiah stability.

Bank Indonesia's Policy Rate and Inflation

(Percent)

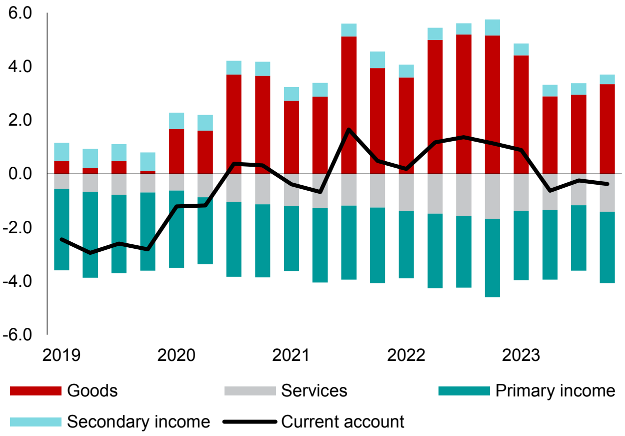


Source: Statistics Indonesia, Bank Indonesia.
Note: CPI = consumer price inflation. BI7DRR refers to Bank Indonesia's 7-day reverse repo rate.

Continued trade surpluses and a tourism rebound supported the current account balance.

Current Account Balance

(Percent of GDP)

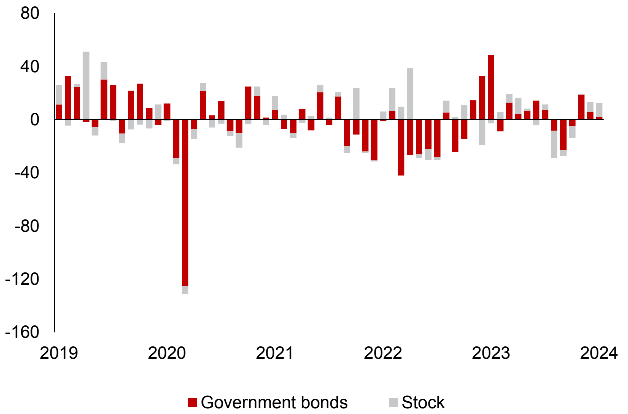


Source: Bank Indonesia.

Capital inflows resumed as risk aversion eased in most of 2023 ...

Net Capital Flows to Government Bond and Equity Markets

(Trillions of rupiah)

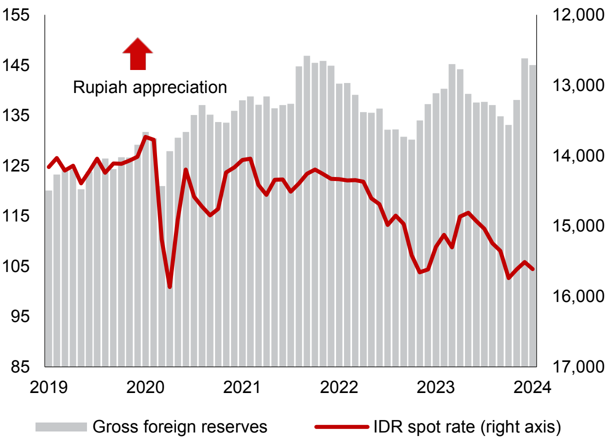


Source: Indonesia Stock Exchange, Ministry of Finance of Indonesia.

… supporting the rupiah and reserve position.

Gross Foreign Reserves and Rupiah Spot Rate

(Billions of US dollars; IDR/USD)

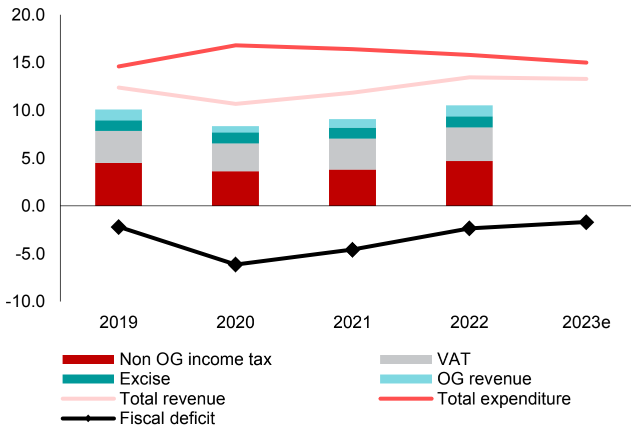


Source: Bank Indonesia.

Strong revenue collection and spending normalization post-pandemic underpinned fiscal consolidation.

Budget Revenue, Expenditure, and Overall Balance

(Percent of GDP)



Source: Ministry of Finance of Indonesia, AMRO Staff Calculations.
Note: Data for 2023 are AMRO staff estimates based on the preliminary fiscal realization data announced by Ministry of Finance of Indonesia.

Indonesia: Selected Economic Indicators

Indicator	2020	2021	2022	2023e
Real sector	(in annual percentage change)			
Real GDP	–2.1	3.7	5.3	5.0
Household consumption	–2.6	2.0	4.9	4.8
Government consumption	2.1	4.3	–4.5	2.9
Gross fixed capital formation	–5.0	3.8	3.9	4.4
Imports of goods and services	–17.6	24.9	15.0	–1.6
Exports of goods and services	-8.4	18.0	16.2	1.3
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	–0.4	0.3	1.0	–0.1
Trade balance	1.7	2.5	3.2	2.1
Capital and financial account balance	0.7	1.1	–0.7	0.6
Direct investment	1.3	1.5	1.4	1.1
Portfolio investment	0.3	0.4	–0.9	0.2
Other investment	–0.9	–0.9	–1.2	–0.6
Overall balance	0.2	1.1	0.3	0.5
Gross external debt	39.3	34.9	30.1	29.7
International reserves (in USD billion, end of period)	136	145	137	146
Fiscal sector	(in percent of GDP)			
Revenue and grants	10.7	11.8	13.5	13.3
Expenditure	16.8	16.4	15.8	14.9
Fiscal balance	–6.1	–4.6	–2.4	–1.7
Government debt	39.4	40.7	39.7	39.0
Monetary and financial sectors	(in annual percentage change)			
Broad money	12.5	14.0	8.4	3.5
Private sector credit	–1.8	6.7	9.9	10.7
Memorandum items:				
Nominal GDP (in IDR trillion)	15,434	16,971	19,588	20,892
Headline inflation (in percent y-o-y, period average)	2.0	1.6	4.2	3.7
Policy rate (in percent per annum)	3.75	3.50	5.50	6.00
Exchange rate (in IDR/USD, period average)	14,148	14,308	14,850	15,255

Source: Bank Indonesia; Ministry of Finance of Indonesia; Statistics Indonesia; CEIC; AMRO staff estimates.
Note: y-o-y = year-on-year. Trade balance data refer to goods and services trade. Numbers in red denote AMRO staff estimates.

Japan

The economy rebounded at a strong pace of 1.9 percent in 2023 following the full post-pandemic reopening. In the first quarter of 2023, real GDP grew by 4.0 percent (at a seasonally adjusted annual rate, quarter-on-quarter), and remained strong at 4.2 percent in the second quarter. The economy contracted by 3.2 percent in the third but recovered to grow by 0.4 percent in the fourth quarter on the back of strong investments. Exports have consistently surprised on the upside while imports have contracted. Exports were supported by robust global demand for automobiles and a boost in service exports from tourism. Private consumption was weak, as consumer spending was dampened by escalating prices that have so far outpaced wage growth, while business investment has gradually stabilized reflecting ongoing efforts toward digitalization and the adoption of labor-saving technologies.

Labor market conditions remained tight amid economic recovery and structural constraints in the labor market, while wage hikes lagged inflation. The unemployment rate declined gradually to 2.4 percent in December 2023 from its 3.1 percent pandemic peak of October 2020. Although nominal wage growth gained momentum, the surge in inflation has led to negative real wage growth since April 2022. Continued pressure for higher wages is expected to result from the combination of elevated inflation and a structural labor shortage caused by population aging.

Consumer price inflation moderated but continued to be relatively high. In December 2023, excluding fresh food the consumer price index remained elevated at 2.3 percent year-on-year, although down from 4.2 percent peak in January 2023, primarily because energy prices decreased. Inflation has continued to exceed the Bank of Japan's 2 percent target since April 2022. The "core-core" inflation index, which excludes fresh food and energy, declined to 3.7 percent in December due to price rises of processed food moderating. Although consumer price inflation (less fresh food) is decreasing as the pass-through effects of cost increases diminish, it is expected to fall very gradually and remain still above the central bank's inflation target.

Japan's external position stayed strong, supported by a substantial primary income surplus and a steadily narrowing trade deficit. For 2023, the current account surplus increased to 3.5 percent of GDP, from 1.9 percent in 2022, driven by the recovery of exports, mainly rising automobiles and capital goods exports to the United States and Europe. Meanwhile, imports declined sharply due to lower energy prices. The services account deficit also narrowed, thanks largely to the steady rise of inbound tourism following the easing of border restrictions. Meanwhile, the primary income surplus remained strong. The yen continued to depreciate against the US dollar, by about 6 percent in 2023, reflecting the divergence of monetary policy stance between the Bank of Japan and the US Federal Reserve.

The banking sector continued to be sound with stable credit growth. Bank lending expanded by more than 4 percent in 2023, with most pandemic-related financial relief measures having been terminated. Corporate lending expanded across a wide range of sectors, including real estate, manufacturing, and electricity and gas, while personal loans also continued to rise reflecting the accommodative lending stance of banks. The asset quality of the banking system continued to be strong, with the low nonperforming loan ratio at 0.8 percent for major banks and 1.7 percent for regional banks respectively as of March 2023. At the same time, capital adequacy ratios (CARs) remain well above the regulatory requirements. For major banks, profitability picked up in 2023, while regional banks saw a decrease in profit due to a decline in gains from investment trust redemptions.

Amid ongoing stimulus spending, strong tax revenue growth played a key role in reducing the fiscal deficit to 3.6 percent of GDP in Fiscal Year (FY) 2022 from 5.9 percent of GDP in FY2021. In November 2023, the government announced a supplementary budget equivalent to 2.2 percent of GDP. As a result, the fiscal deficit for FY2023 is estimated to rise to 5.2 percent of GDP, as fiscal policy remains supportive of the economy.

Key risk factors for Japan's economy in the short term stem from the external sector and risks to growth are tilted to the downside. With Japan's heavy reliance on energy and raw material imports, an upward spike in commodity prices would be a major shock to its economy, worsening the terms of trade and weighing down domestic consumption. A sharp slowdown in the United States or Europe would adversely affect Japan's manufacturing and export sectors by dampening demand. Another key risk in the short term is the resurgence of inflation that would dampen economic growth and lead to stagflation, which may complicate the exit from ultra-easy monetary policy. Medium to long-term vulnerabilities and challenges include weakening fiscal discipline, side effects of prolonged monetary easing, and the demographic drag caused by population aging and low fertility rates.

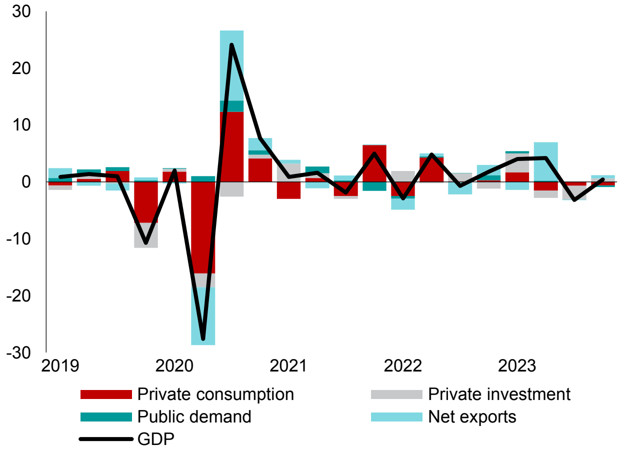
The author of this note is Paolo Hernando.

Japan: Selected Figures

The Japanese economy rebounded strongly in 2023 following the full reopening post-pandemic.

Gross Domestic Product

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

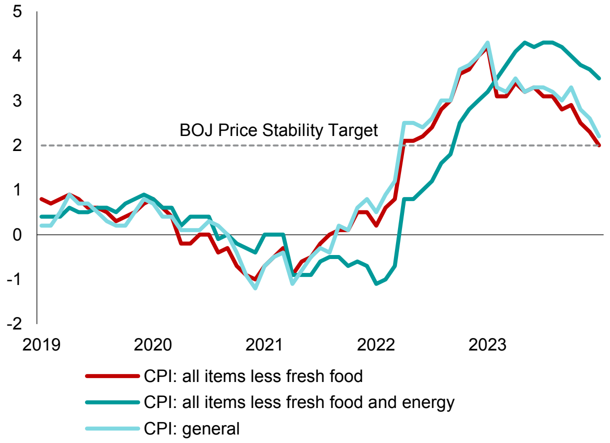


Source: Cabinet Office via Haver Analytics.

Although inflation has moderated, it has matched or exceeded the central bank target since April 2022.

Consumer Price Inflation

(Percent, year-on-year)

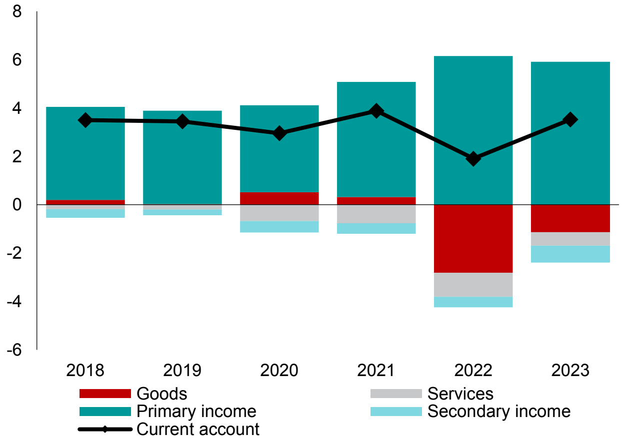


Source: Ministry of Internal Affairs and Communications via Haver Analytics.

The current account balance strengthened in 2023 supported by a large primary balance surplus and narrowing trade deficit.

Current Account Balance

(Trillions of yen)

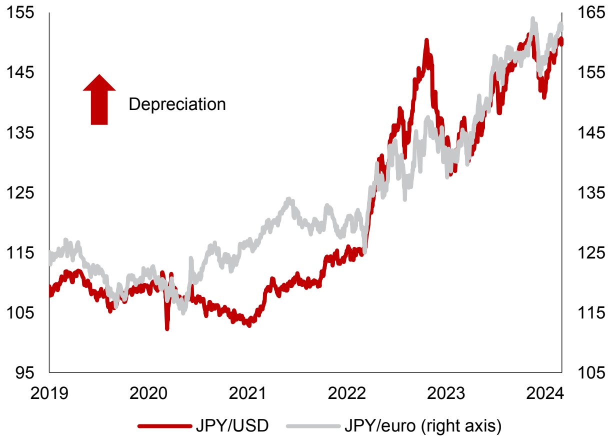


Source: Ministry of Finance via Haver Analytics.

The yen continued to depreciate against the US dollar by about 6 percent in 2023.

Exchange Rates

(JPY/USD; JPY/EUR)

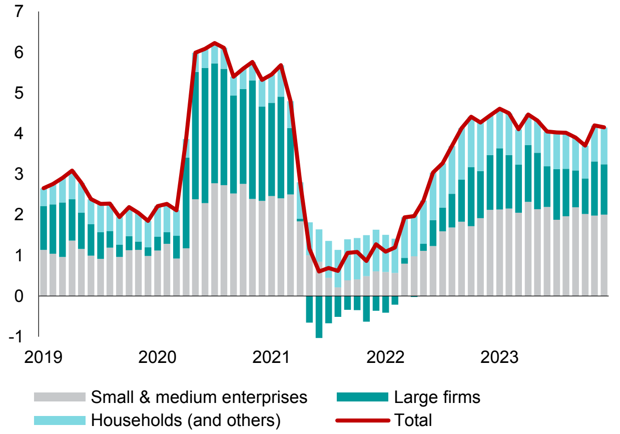


Source: Bank of Japan via Haver Analytics.

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

Bank Lending Growth

(Percent, year-on-year)

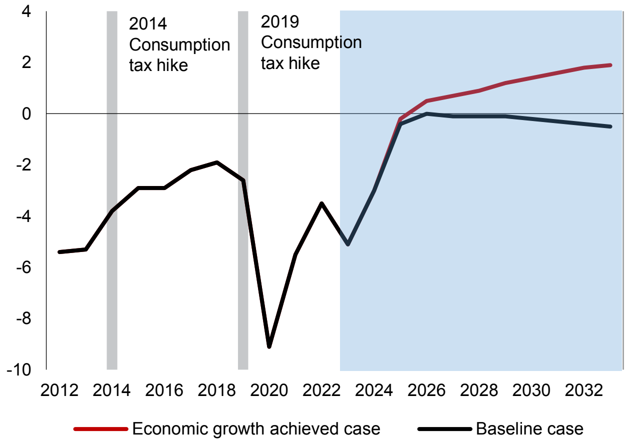


Source: Bank of Japan via Haver Analytics.

The fiscal deficit is expected to remain elevated in FY2023.

General Government Fiscal Balance

(Percent of GDP)



Source: Cabinet Office via Haver Analytics.

Japan: Selected Economic Indicators

Indicator	2020	2021	2022	2023e
Real sector	(in annual percentage change)			
Real GDP	–4.1	2.6	1.0	1.9
Private consumption	–4.4	0.8	2.2	0.6
Government consumption	2.4	3.4	1.7	0.9
Gross fixed capital formation	–3.6	–0.1	–1.4	2.1
Imports of goods and services	–6.8	5.1	7.9	–1.3
Exports of goods and services	–11.6	11.9	5.3	3.0
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	3.0	3.9	1.9	3.5
Trade balance	0.5	0.3	–2.8	–1.1
Capital account balance	0.0	–0.1	0.0	–0.1
Financial account balance	2.4	1.8	2.3	3.2
Direct investment	1.7	3.5	2.9	3.8
Portfolio investment	0.8	–4.0	–3.4	4.7
Financial derivatives	0.1	0.4	0.9	1.1
Other investment	–0.3	1.9	1.9	–6.5
Errors and omissions	–0.3	–0.8	–0.9	0.4
Overall balance	0.2	1.2	–1.3	0.7
Gross external debt	92.6	95.9	104.1	104.5
International reserves (in USD billion, end of period)	1,395	1,406	1,228	1,295
Fiscal sector[1]	(in percent of GDP)			
Revenue and grants	36.7	37.8	38.8	35.5
Expenditure	46.7	43.6	42.3	40.7
Fiscal balance	–10.0	–5.9	–3.6	–5.2
Government debt	261.1	258.6	261.0	260.0
Monetary and financial sectors	(in annual percentage change)			
Broad money	4.1	5.6	3.8	2.6
Domestic credit	4.9	4.8	1.0	2.7
Private sector credit	5.4	7.0	0.3	3.6
Memorandum items:				
Nominal GDP (in JPY trillion)	540	553	560	592
Headline inflation (in percent y-o-y, period average)	0.0	–0.3	2.5	3.3
Core inflation, less fresh food (in percent y-o-y, period average)	–0.2	–0.2	2.3	3.1
Policy rate (in percent per annum, end of period)	–0.10	–0.10	–0.10	–0.10
Exchange rate (in JPY/USD, period average)	107	110	131	141

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

Korea

Economic momentum weakened in the first half of 2023 and improved in the second half of 2023. GDP growth declined from 2.6 percent year-on-year in 2022 to 0.9 percent in the first half of 2023, mainly because exports declined. Growth improved in the second half of 2023 to 1.8 percent thanks to an export recovery, particularly in semiconductors. Facility investments showed signs of recovery in the fourth quarter of 2023, driven by an upturn in the semiconductor industry.

The labor market was tight in 2023 despite the softening economic momentum. The unemployment rate fell to 2.7 percent in 2023 from 2.9 percent in 2022, while the labor force participation rate was at 64.4 percent at the end of 2023, higher than pre-pandemic levels. Job growth decelerated in 2023, from an exceptionally high pace in 2022, due to lower hiring in manufacturing and services, especially in education and public administration services, while employment of senior citizens aged 60 or above continued to rise.

Headline inflation declined to 3.6 percent in 2023, from 5.1 percent in 2022, driven by declines in energy prices and government support measures before rebounding to above 3.0 percent in the last few months of 2023 as a result of rising food and oil prices. Meanwhile, core inflation, the main driver of overall inflation in 2023, fell steadily. Moderate wage growth, despite the tight labor market, and declining short-term inflation expectations have helped limit the second-round effects of inflation.

The external sector remained resilient with recovering current account balances and ample reserves. The current account turned to a surplus from May 2023. Increased net outflows on the financial account resulted from a decrease in other investment caused by decreased loans in liabilities despite a fall in outward investments due to prolonged high interest rates, concerns over a global economic slowdown, and high volatility in foreign exchange (FX) markets. Foreign reserves were ample at USD 416 billion at the end of January 2024, covering about 6.6 months' worth of imports and 3.1 times the short-term external debt.

The Bank of Korea has maintained its restrictive policy stance given still-high inflation. The central bank has kept the base rate unchanged at 3.5 percent since February 2023 after delivering seven consecutive rate hikes from April 2022 to January 2023. Concerns over the strength of the US dollar amid the US Federal Reserve's hawkish stance, high inflation, and a rebound in household debt prompted the Bank of Korea to maintain its tight policy.

Amid weak economic conditions and high interest rates, total loan growth decelerated to 3.5 percent year-on-year in October 2023 from 6.7 percent at the end of 2022, primarily driven by slower growth of loans to small and medium-sized enterprises and self-proprietors. However, month-on-month household loan growth turned around in May 2023 alongside a recovery of housing prices and transaction volumes. However, as the government actively responds to the housing market and maintains adequately tight macroprudential measures[1], the household debt-to-GDP ratio is expected to decline to 100.8 percent in 2023 from 104.5 percent in 2022.

The fiscal position in 2023 improved, although less than budgeted due to a sizeable revenue shortfall. Fiscal revenue is estimated to have shrunk 6.9 percent in 2023 due to declining income taxes and lower VAT and customs duty. Meanwhile, fiscal spending is estimated to have fallen by 10.8 percent, largely after the withdrawal of pandemic-related support and a reduction in mandatory transfers for funding local government and education. The fiscal deficit in 2023, excluding social security funds, is estimated at 3.8 percent of GDP, higher than the budgeted 2.6 percent but lower than the 5.4 percent budgeted in 2022.

The National Fiscal Management Plan 2023–2027 envisages a slowdown in fiscal consolidation. The fiscal deficit is set to decrease to below 3 percent of GDP in 2025 and gradually approach about 2.5 percent by 2027, adhering to the fiscal deficit ceiling of the proposed fiscal rules. However, the fiscal balance improvement is expected to not happen as fast as in the previous fiscal management plan (2022–2026) as revenue is expected to be lower following the contraction in 2023 while expenditure growth is projected to be lower than that in the previous plan.

The near-term economic outlook remains highly uncertain. Key near-term risk factors include (1) high inflation leading to interest rates being higher for longer, (2) weaker external demand arising from economic recession in the United States and Europe and limited spillover effects from China's economic recovery, and (3) financial distress in the project finance market.

Over the medium term, geopolitical tensions could intensify. This would lead to disruptions in manufacturing and a weakening of investment sentiment. In addition, the high level of household debt continues to be a vulnerability in the financial system.

Structural headwinds could impede long-term economic stability and potential. The substantial increase and ongoing upward trend in government debt have raised concerns about fiscal sustainability. Rapid population aging will weigh on economic potential, other things being equal.

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

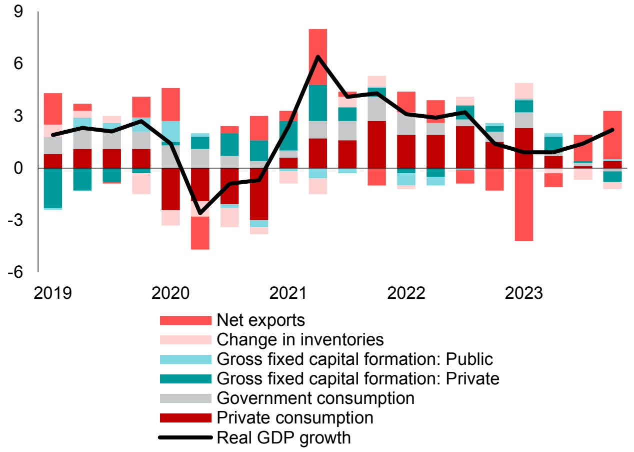
1/ 50 percent loan-to-value limit for new residential mortgages and 40 percent debt service coverage ratio for personal loans.

Korea: Selected Figures

GDP growth declined in 2023, mainly due to weak private consumption and exports.

Contribution to GDP Growth

(Percentage points contribution, year-on-year)

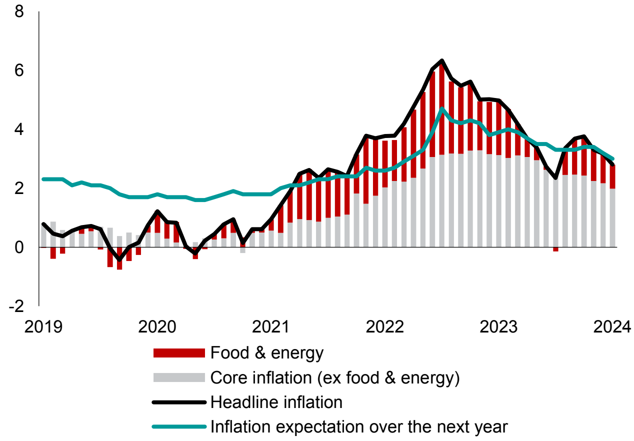


Source: Bank of Korea; Haver Analytics.

Headline inflation has rebounded to exceed 3.0 percent in the last months of 2023, while core inflation continued to edge down.

Inflation and Inflation Expectation

(Percentage points contribution, year-on-year)

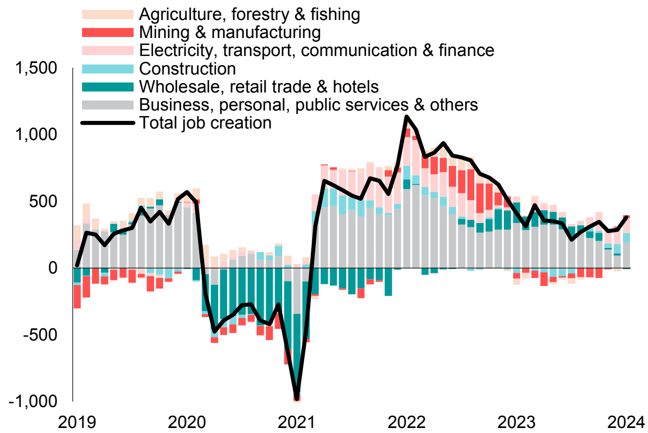


Source: Statistics Korea; Haver Analytics.

Job growth slowed due to lower hiring in manufacturing and services.

Job Growth

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

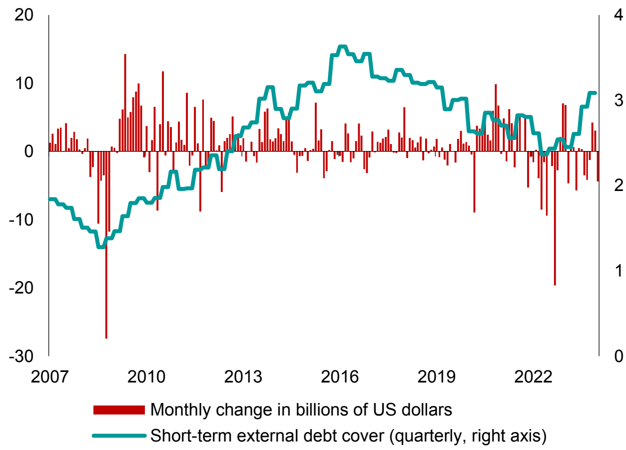


Source: Statistics Korea; Haver Analytics; AMRO staff calculations.

Foreign reserves remained ample despite some declines due mainly to currency interventions.

Foreign Reserves

(Billions of US dollars)

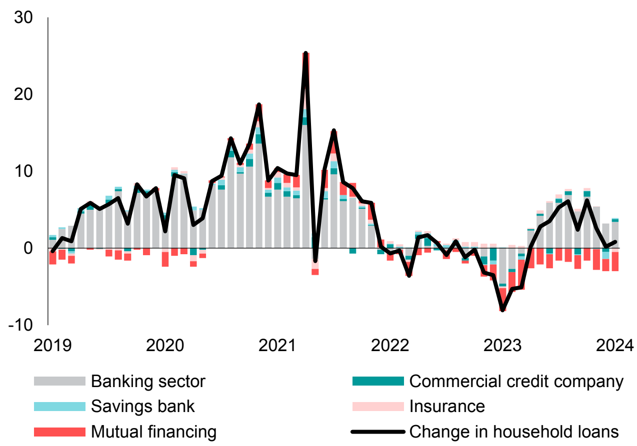


Source: Bank of Korea; Haver Analytics; AMRO staff calculations.

Loans to the households have turned around since May 2023, led by bank lending.

Change in Household Loans

(Trillions of won, non-seasonally adjusted)

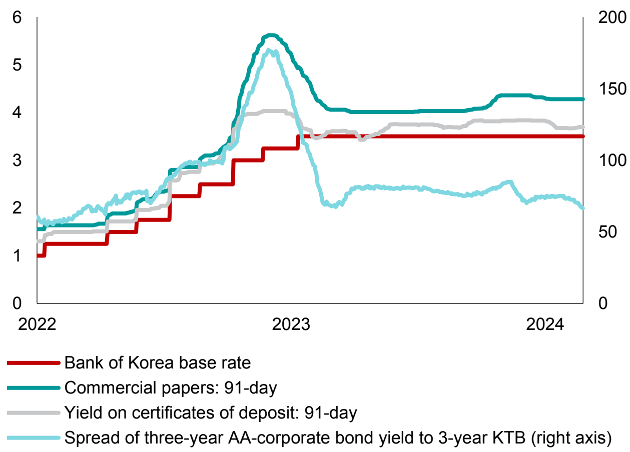


Source: Financial Supervisory Service; Haver Analytics.

Short-term money market rates stabilized after the episode of credit market stress in late 2022.

Policy and Short-term Interest Rates

(Percentage, basis points)



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

Korea: Selected Economic Indicators

Indicator	2020	2021	2022	2023e
Real sector	(in annual percentage change)			
Real GDP	–0.7	4.3	2.6	1.4
Private consumption	–4.8	3.6	4.1	1.8
Government consumption	5.1	5.5	4.0	1.3
Gross fixed capital formation	3.5	3.2	–0.5	1.2
Imports of goods and services	–3.1	10.1	3.5	3.0
Exports of goods and services	–1.7	11.1	3.4	2.8
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	4.6	4.7	1.5	2.0
Trade balance	4.9	4.2	0.9	2.0
Capital and financial account balance	3.9	3.5	3.3	2.1
Direct investment	1.6	2.4	2.4	1.1
Portfolio investment	2.5	1.1	1.5	0.4
Other investment	–0.5	0.0	–1.1	0.6
Errors and omissions	0.4	–0.4	0.1	–0.2
Overall balance	1.1	0.8	–1.7	–0.8
Gross external debt	33.5	34.9	40.0	32.3
International reserves (in USD billion, end of period)	443	463	423	420
Fiscal sector	(in percent of GDP)			
Revenue	24.7	27.7	28.6	25.6
Expenditure	28.3	29.2	31.6	27.1
Fiscal balance (include social security funds)	–3.7	–1.5	–3.0	–1.5
Government debt[1]	43.6	46.7	49.4	50.4
Monetary and financial sectors	(in annual percentage change)			
Broad money	9.8	12.9	4.0	3.9
Domestic credit	9.7	12.1	7.9	5.1
Private sector credit	9.1	11.3	6.9	4.0
Memorandum items:				
Nominal GDP (in KRW trillion)	1,941	2,080	2,162	2,249
Headline inflation (in percent y-o-y, period average)	0.5	2.5	5.1	3.6
Policy rate (in percent per annum, period average)	0.50	1.00	3.25	3.50
Exchange rate (in KRW/USD, period average)	1,180	1,144	1,291	1,300

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

Lao People's Democratic Republic

The economy was still facing headwinds in 2023 as droughts and continued currency depreciation weighed on growth recovery. While services and construction sectors continued to recover from the pandemic, driven by the tourism and logistic industry as well as FDI inflows, overall GDP growth slowed slightly as El Niño weather conditions affected hydropower and agriculture. Elevated inflation and continued depreciation of the kip likely dampened real incomes and consumption. GDP growth is estimated to have slowed to 4.3 percent in 2023 from 4.4 percent in 2022.

Inflation peaked in 2023, driven by rising food prices and continued currency depreciation. Weak agriculture sector activity driven by droughts could have upward pressure on food prices. Annual consumer price inflation averaged 31.2 percent in 2023. Month-on-month inflation declined in late 2023, from 3.5 percent in September to 0.1 percent in December, reflecting the recent kip appreciation and lower oil prices.

The external balance is estimated to have improved in 2023. According to official statistics, gross international reserves increased to USD 1,782 million in September 2023, up from USD 1,480 million at the end of 2022.[1] The overall balance of payments is supported by improved trade balance, a recovery in tourism receipts, and higher FDI inflows, although drought reduced electricity exports while increasing its imports during the dry season. Having depreciated about 30 percent between February and October 2023, the kip rebounded somewhat in November and December amid a decline in oil prices.

The kip liquidity condition was tighter toward the end of 2023. The loan-to-deposit ratio for kip increased to almost 100 percent as of October 2023, reflecting robust loan growth amid a slowdown in deposit growth. To reduce the liquidity in the system, the central bank continued to issue bills with 15 percent interest rates and raised the reserve requirement ratio in the third quarter of 2023. New Bank of Lao PDR (BOL) bills issued in the first 9 months of 2023 amounted to LAK 9.5 trillion, of which 7.0 trillion was issued to the public and 2.5 trillion to banks via open market operations. The BOL bill issuance net out the amount matured in the year was hence LAK 6.3 trillion, of which LAK 3.9 trillion was held by the public. Consequently, the growth in the monetary base slowed from the peak of 39 percent year-on-year in the second quarter of 2023 to 26 percent in the third quarter.

Bank-level data continued to indicate financial fragility. While the aggregate capital adequacy ratio improved following bank recapitalization, it was still low among local banks, with the largest bank falling below the minimum requirement. Moreover, the scale of low nonperforming loans could be masked by uncleared expenditure arrears related to government projects.

The fiscal balance is estimated to have turned to a surplus of 0.1 percent of GDP in 2023 from a 0.2 percent deficit in 2022. Robust revenue growth, fueled by strong taxation and high inflation, and delays in public investment execution led to the improvement.

The external environment poses risks to the Lao economic outlook. Slower recovery in China would weigh on the growth and external position through lower exports and foreign direct investment. A possible spike in global food and energy prices could put pressure on the exchange rate, inflation, and trade balance.

Persistent currency depreciation or a deterioration of the primary fiscal balance could undermine government debt sustainability. The government debt-to-GDP ratio is estimated to have increased to 99.7 percent in 2023 despite a fiscal surplus, which reflects the effects of depreciation. Ongoing arrears clearance could push up government debt further. Financial weakness in state-owned electricity company EDL could inflict a fiscal burden.

It remains a challenge for the government to meet its increased foreign exchange needs. In August, Ministry of Finance of Lao PDR (LMOF) attracted USD 22 million in bond investment in Thai market, falling USD 99 million short of target. A sovereign bond downgrade from investment grade to non-investment grade in September from TRIS Rating could further narrow access to the Thai market and create challenges in repaying maturing debt. Given thin gross international reserves, the government has secured foreign exchange (FX) through tax and non-tax revenue in foreign currencies, and suspended repayment on some external debt pending negotiation.

Pockets of financial vulnerability remain as banks have potentially higher impaired loans. Nonperforming loans could increase on the withdrawal of regulatory forbearance and/or the deterioration of electricity-sector loans into bad debt. Continued kip depreciation would likely affect the debt service capacity of borrowers with foreign-currency loans but earnings in kip.

The author of this note is Yoki Okawa.

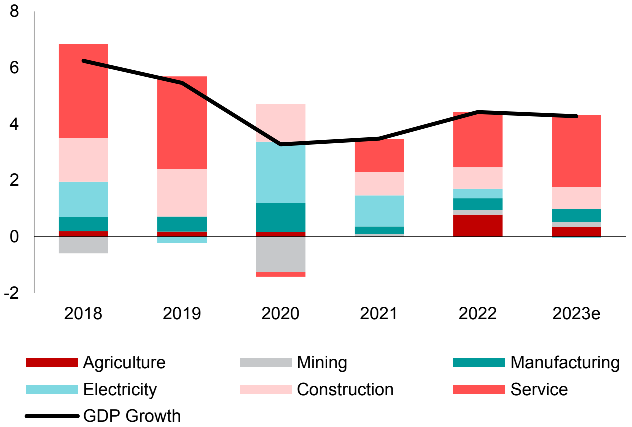
1/ The authorities have recently updated the gross international reserves (GIR) data by including the foreign exchange swap transaction with the People's Bank of China in foreign assets since July 2020. The new statistics is higher than previous statistics by USD 501 million as of July 2020. However, full information on the swap agreement and its activation has not been disclosed.

Lao PDR: Selected Figures

GDP growth slowed as drought and continued depreciation weighed the economic activity.

Contributions to Real GDP Growth

(Percentage points contribution, year-on-year)

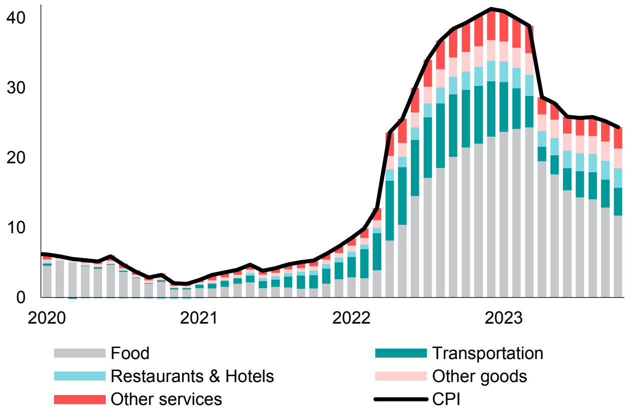


Sources: Lao Statistics Bureau; AMRO staff estimates.
Note: e denotes AMRO staff estimates.

Inflation peaked in early 2023 driven by food price.

Contributions to Consumer Price Inflation

(Percentage points contribution, year-on-year)

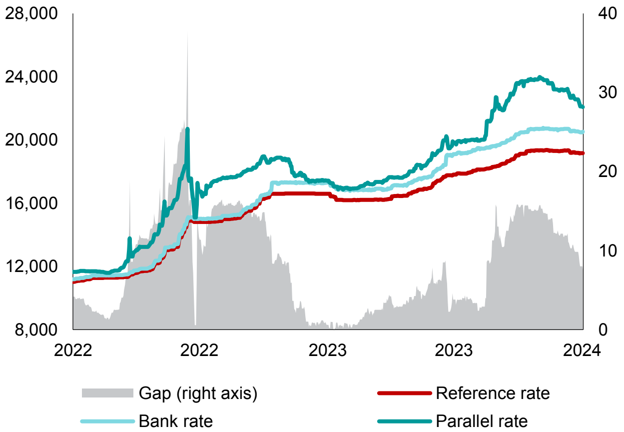


Source: Lao Statistics Bureau.
Note: CPI = Consumer Price Index.

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

Exchange Rate

(LAK/USD)

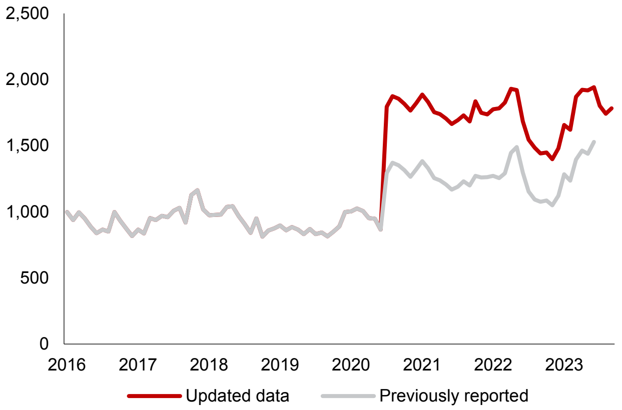


Source: Bank of Lao PDR.
Note: Gap is a difference between parallel rate and bank rate.

FX reserve rebounded in 2023 after hitting the bottom in late 2022.

Gross International Reserves

(Millions of US dollars)

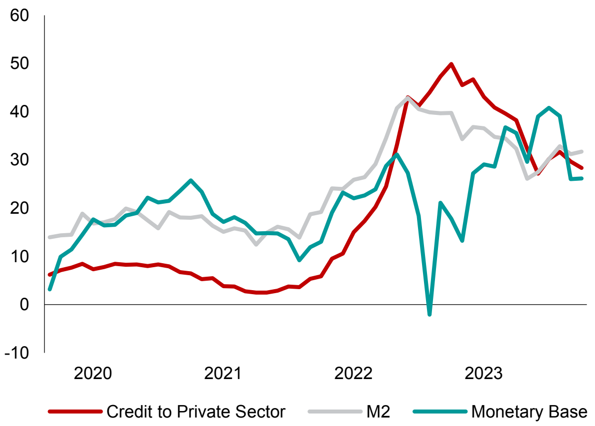


Sources: Bank of Lao PDR.
Note: The authorities have recently updated the gross international reserves (GIR) data by including the FX swap foreign exchange transaction with People's Bank of China in foreign assets since July 2020. The new statistics is higher than previous statistics by USD 501 million as of July 2020. However, full information on the FX swap agreement and its activation has not been disclosed. Updated data ends in September 2023, and previously reported data is to July 2023.

Both credit growth and M2(deposit) growth remain elevated in 2023.

Monetary and Credit Growth

(Percent, year-on-year)

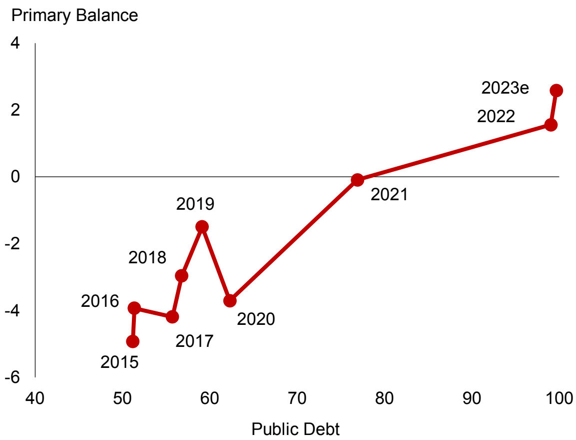


Source: Bank of Lao PDR.
Note: Data ends in October 2023.

The primary balance improved in 2023 but public debt increased because of currency depreciation.

Primary Balance and Public Debt

(Percent of GDP)



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

Lao PDR: Selected Economic Indicators

Indicator	2020	2021	2022	2023e
Real sector	(in annual percentage change)			
Real GDP	3.3	3.5	4.4	4.3
Agriculture	1.1	2.5	3.3	2.6
Industry	9.2	6.1	4.4	3.5
Services	–1.3	1.4	5.0	5.7
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	–1.2	2.4	–0.1	3.0
Trade balance	3.9	7.5	6.3	5.1
Capital and financial account balance	5.7	1.7	2.0	6.0
Direct investment	5.1	5.6	4.2	11.0
Portfolio investment	–1.3	–1.6	0.5	–0.5
Other investment	1.9	–2.4	–2.7	–4.5
Errors and omissions	–2.8	–4.3	–2.9	–7.6
Overall balance	1.7	–0.3	–0.9	1.4
Gross external debt	84.8	95.7	126.5	119.6
International reserves, newly reported[1] (in USD billion, end of period)	1,821	1,737	1,480	1,807
International reserves, previously reported (in USD billion, end of period)	1,319	1,263	1,121	1,326
Fiscal sector	(in percent of GDP)			
Revenue and grants	12.6	14.7	14.8	15.2
Expenditure	17.8	16.0	15.0	15.1
Fiscal balance	–5.2	–1.3	–0.2	0.1
Primary balance	–3.7	–0.1	1.6	2.6
Government debt	62.3	76.9	99.0	99.7
Monetary and financial sectors	(in annual percentage change)			
Broad money	16.3	24.0	36.9	30.3
Domestic credit	4.3	11.5	45.6	27.0
Private sector credit	5.5	10.6	47.3	26.4
Memorandum items:				
Nominal GDP (in billions of kip)	172,919	184,982	215,602	265,029
Nominal GDP (in millions of US dollar)	19,099	18,984	15,060	14,168
Exchange rate (in LAK/USD, average)	9,054	9,744	14,316	18,707
Headline inflation (in percent y-o-y, period average)	3.8	3.8	23.0	31.2

Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates.
Note: y-o-y = year-on-year. Numbers in red denote AMRO staff estimates.
1/ The authorities have recently updated the gross international reserves (GIR) data by including the transaction of FX swap with People's Bank of China in foreign assets since July 2020. The new statistics is USD 501 million higher than previous statistics as of July 2020. However, full information on the FX swap agreement and its activation has not been disclosed.

Malaysia

The economy continued to show robust growth in 2023, with resilient domestic demand cushioning soft external demand. Malaysia's GDP growth moderated from 8.7 percent in 2022 to 3.7 percent in 2023, partly reflecting high base effects. Private consumption growth remained robust, benefiting from favorable labor market conditions. Labor force participation reached a historical high of 70.2 percent and the unemployment rate fell to the pre-pandemic level of 3.3 percent in December 2023. While merchandise exports declined because of the slowdown in global trade, their effect was offset by higher travel receipts. International tourist arrivals in 2023 reached 77 percent of pre-pandemic levels, with room for Chinese tourists for further catch up. There are some signs that exports are starting to turn around, supported by a pickup in the global technology cycle. Investment growth was supported by business expanding capacity and higher government spending on fixed assets.

Inflation trended lower, in line with easing global supply chain disruptions and a decline in global commodity prices. Headline inflation moderated to 2.5 percent in 2023 from 3.3 percent in 2022. Core inflation also declined, averaging 3.0 percent in 2023, although still elevated relative to its long-term average. In 2023, Bank Negara Malaysia (BNM) raised the overnight policy rate by 25 basis points to 3.0 percent in May 2023—the only adjustment last year—and kept the rate unchanged for the fourth consecutive time in January 2024. Although inflation cooled, upside risks stem from the government's planned shift to a targeted subsidy mechanism as well as higher commodity prices due to geopolitical conflicts and El Niño weather conditions.

The external position weakened amid a challenging external environment. The current account recorded a surplus of 1.2 percent of GDP in 2023, smaller than the 3.1 percent in 2022. A continued goods trade surplus, particularly exports of electrical and electronic products and commodities, supported the current account surplus, as did a strong recovery in tourism. Although FDI moderated to 2.2 percent of GDP in 2023, from 4.2 percent in 2022, approved investments have remained high. These positive developments have helped mitigate the decline in BNM's international reserves amid currency depreciation pressures and portfolio investment outflows as a result of the US Federal Reserve's higher-for-longer interest rates. The ringgit weakened by 3.5 percent against the US dollar in 2023, following a 6.2 percent depreciation in 2022. BNM's international reserves fell to USD 113.5 billion as of the end of 2023, from USD 114.7 billion at the end of 2022, but remain adequate to finance 5.4 months of imports and sufficient to cover 1.0 time of short-term external debt.

The banking system, with ample capital and liquidity buffers, is in a position to facilitate continued credit growth. The banking system's 18.2 percent capital adequacy ratio and common equity tier 1 capital ratio, at 14.6 percent as of December 2023, were above their regulatory thresholds of 10.5 percent and 7.0 percent (inclusive of the capital conservation buffer). Banks also maintained strong liquidity positions, with the liquidity coverage ratio well above 150 percent and a net stable funding ratio of well above 100 percent. Loan impairments remained low at 1.7 percent as of December 2023, slightly lower than at the end of 2022. Despite the increase in lending rates from BNM policy normalization, average loan growth remained healthy at 4.8 percent in 2023, with sustained high approval and disbursement rates.

Fiscal performance was in line with official projections, while the 2024 Budget remains committed to fiscal consolidation. The fiscal deficit narrowed from 5.6 percent of GDP in 2022 to 5.0 percent in 2023, meeting the official target. The 2024 government budget is the largest on record, but represents a reduction compared to total expenditure in 2023, primarily due to the absence of 1Malaysia Development Berhad (1MDB) bond redemption and a reduction in spending from the government's planned subsidy rationalization program.

The key risks to Malaysia's outlook in the near-term stem mostly from external factors. Weaker-than-expected growth in the world's major economies—including uncertainty over whether the United States can pull off a "soft landing" and the underwhelming post-pandemic recovery in China—could derail the nascent upturn in the global technology cycle, with consequences for employment and wages. The US presidential election this year also could have wide-ranging impact on global trade and technology. Meanwhile, supply-related disruptions, such as those arising from geopolitical conflicts, could keep inflation elevated and dampen domestic demand. An extended higher-for-longer interest rate environment in the United States can lead to continued currency depreciation pressures and tight financial conditions.

Medium to long-term risks include global economic fracturing which could pose challenges to cross-border financial flows, technology transfers, and supply chain security; the shortage of skilled labor amid an aging population; inadequate retirement savings; and the physical and transition risks from climate change.

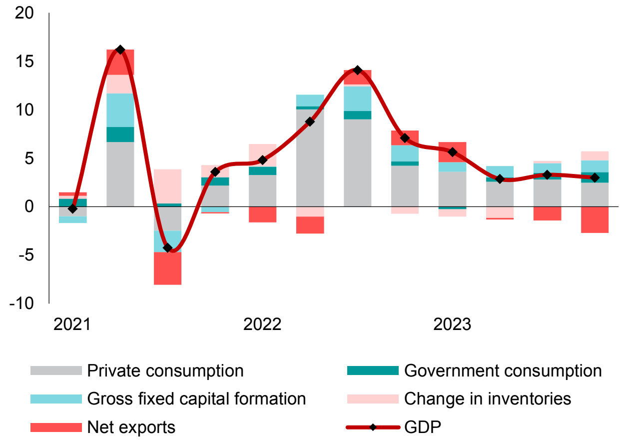
The author of this note is Wee Chian Koh.

Malaysia: Selected Figures

GDP growth moderated to 3.7 percent in 2023, partly reflecting the high base in 2022, with domestic demand staying resilient.

Contributions to Real GDP Growth

(Percentage points, year-on-year)

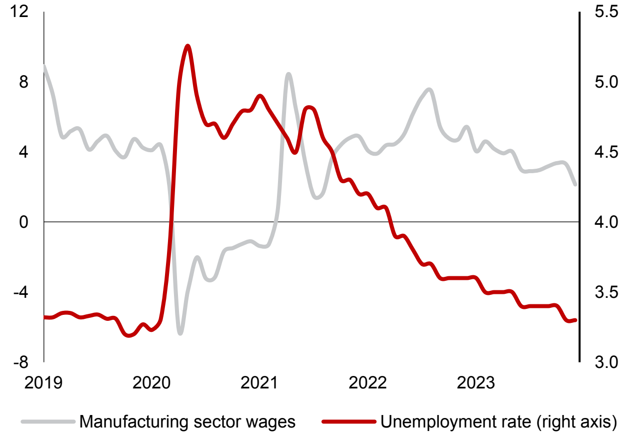


Source: Department of Statistics Malaysia.

Labor conditions continue to improve, with sustained wage growth and declining unemployment rate.

Wages and Unemployment Rate

(Percent, year-on-year; percent)

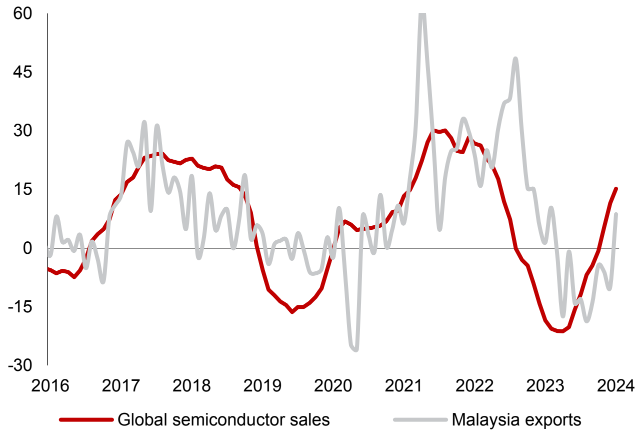


Source: Department of Statistics Malaysia.

Merchandise exports appear to have bottomed out in Q3 2023, broadly in line with the trend in the global technology cycle.

Global Semiconductor Sales and Malaysia's Merchandise Exports

(Percent, year-on-year)

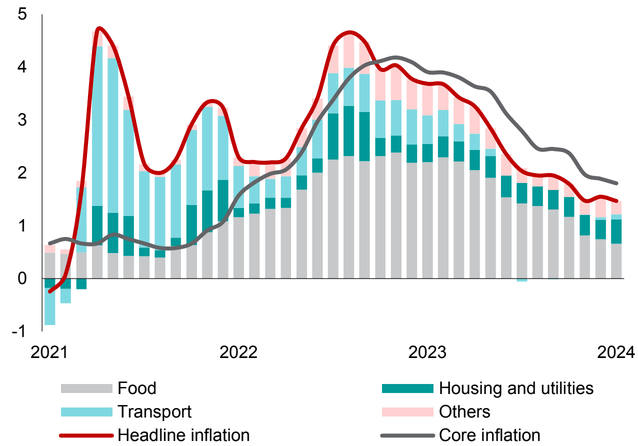


Source: Department of Statistics Malaysia; Semiconductor Industry Association.

Both headline and core inflation have declined steadily.

Contributions to Consumer Price Inflation

(Percentage points, year-on-year)

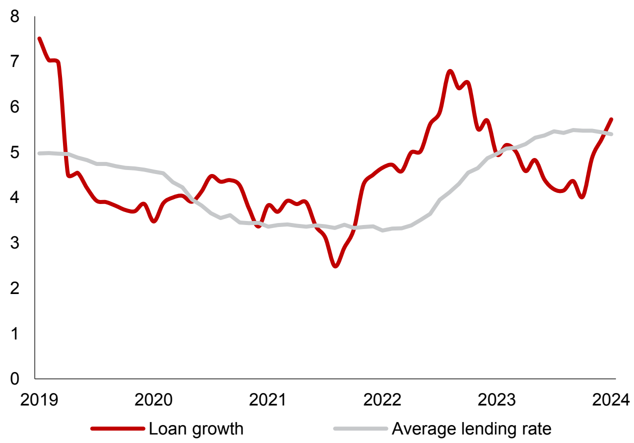


Source: Department of Statistics Malaysia.

Loan growth remained robust in 2023 despite the increase in lending rate following BNM's monetary policy normalization.

Loan Growth and Lending Rate

(Percent, year-on-year; percent)

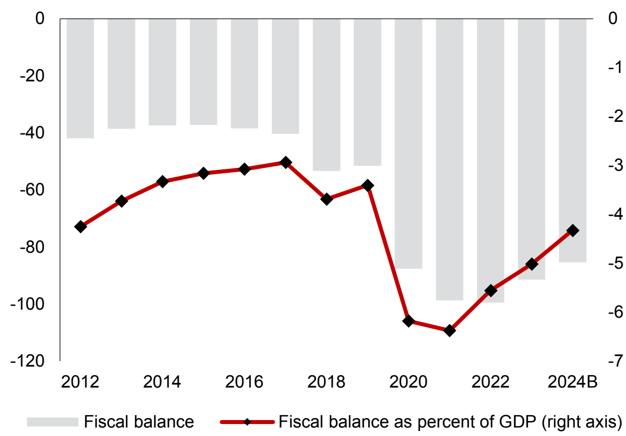


Source: Bank Negara Malaysia.

The fiscal deficit has continued to narrow as the government remains committed to fiscal consolidation.

Fiscal Balance

(Billions of ringgit; percent of GDP)



Source: Department of Statistics Malaysia; Malaysia Ministry of Finance.
Note: 2024B based on estimates in Budget 2024.

Malaysia: Selected Economic Indicators

Indicator	2020	2021	2022	2023
Real sector	(in annual percentage change)			
Real GDP	–5.5	3.3	8.7	3.7
Private consumption	–3.9	1.9	11.2	4.7
Government consumption	4.1	6.4	4.5	3.9
Gross fixed capital formation	–14.4	–0.8	6.8	5.5
Imports of goods and services	–7.9	21.2	15.9	–7.6
Exports of goods and services	–8.6	18.5	14.5	–7.9
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	4.2	3.9	3.1	1.2
Trade balance	9.7	11.5	10.4	7.3
Capital and financial account balance	–5.5	1.0	0.7	–1.1
Direct investment	0.2	2.0	0.9	0.3
Portfolio investment	–3.5	1.2	–2.8	–2.5
Other investment	–2.2	–2.0	2.7	1.4
Errors and omissions	0.0	–2.0	–0.8	–1.3
Overall balance	–1.4	2.9	3.0	–1.1
Gross external debt	67.6	70.0	63.9	68.2
International reserves (in USD billion, end of period)	108	117	115	113
Fiscal sector	(in percent of GDP)			
Revenue and grants	15.9	15.1	16.4	17.3
Expenditure	22.0	21.5	22.0	22.3
Fiscal balance	–6.2	–6.4	–5.6	–5.0
Government debt	62.0	63.3	60.3	64.3
Monetary and financial sectors	(in annual percentage change)			
Broad money	4.0	6.4	4.3	6.0
Private sector credit	4.2	4.2	4.7	4.7
Loans	3.7	4.2	4.7	4.9
Corporate bonds	6.3	4.2	4.6	4.2
Memorandum items:				
Nominal GDP (in MYR billion)	1,418	1,549	1,791	1,823
Headline inflation (in percent y-o-y, period average)	–1.2	2.5	3.3	2.5
Policy rate (in percent per annum)	1.75	1.75	2.75	3.00
Exchange rate (in MYR/USD, period average)	4.20	4.14	4.40	4.56

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

Myanmar

Economic recovery gained momentum in 2023, though at a modest pace, after the significant downturn experienced in 2021. Domestic demand remained constrained by sluggish economic activities and elevated inflation. Investments from both domestic and foreign sources continued to be subdued, primarily because persistent political uncertainties eroded investor confidence. This hindered the economy's full recovery and its ability to reach pre-pandemic levels. Despite the general slowdown of the manufacturing, there are signs of a modest recovery in Micro, Small and Medium Enterprises (MSMEs) and garment export manufacturing activities. While air transport and freight activities grew steadily during the past year, land and inland water transport were constrained by high fuel cost, and other logistical barriers.

Inflation surged from late 2022 because of rising import and food costs as well as a notable decline in the value of the local currency. Headline inflation accelerated to 28.6 percent year-on-year in June 2023. The surge in inflation was driven primarily by rising imported goods prices and exchange rate depreciation. Food inflation increased as a result of supply chain disruptions and higher transport costs. The foreign exchange liquidity crunch, coupled with implementation of an import license and quota system, reduced imports, adding to inflationary pressures.

The external position worsened due to a substantial decline in foreign investment, discontinuation of development financing, and a terms-of-trade shock. The suspension of operations by international firms, partly due to geopolitical uncertainties and domestic instability, has continued to discourage FDI inflows. Access to external financing has since been severely restricted, with all multilateral loans suspended. Trade activities have remained relatively stable but with limited improvements, as importers continue to face challenges from the large number of licenses needed to trade and the limited quota imposed on them for certain products. Remittances from overseas workers improved, benefiting from a new incentive program introduced by the Central Bank of Myanmar (CBM).

Following the severe local currency liquidity crunch in the banking system in 2021, liquidity conditions have now stabilized. Both the current account balances and cash in vaults in banks stabilized after large deposit withdrawals occurred in 2021. The CBM provided kyat liquidity through various channels, including a foreign exchange (FX) swap facility, credit lines, and a discount window facility. Bank profitability improved due to non-interest income from digital services but remained below levels prior to the COVID-19 pandemic. Overall, the banking system remains fragile despite a modest recovery in operations.

Tax and non-tax revenue collection in Fiscal Year (FY) 2022/23 increased in line with the economic recovery from the COVID-19 pandemic, particularly evident in the improvement of commercial tax and personal income tax collection. Grants remained considerably lower than anticipated due to continued international sanctions. The Ministry of Planning and Finance announced a clear expenditure policy aimed at reducing administrative costs while prioritizing essential spending such as on education, health, infrastructure development, and expenses related to the COVID-19 recovery. The reduction in the fiscal deficit can be attributed to a combination of increasing revenue and lower expenditure.

Rising prices pose upside risks to Myanmar, as inflation remains at double-digits for several months and is expected to persist. This trend has resulted from a combination of factors, including increases in commodity prices, a sharp depreciation of the kyat exchange rate, and disruptions in the supply chain caused by international isolation. A major concern lies in the potential second-round effects of inflation, particularly through the link between inflation, wage increases, and currency depreciation.

The high government debt-to-GDP ratio raises concerns about debt sustainability, particularly in relation to the medium-term fiscal outlook for Myanmar. The elevated government debt presages a potential strain on public finances and the ability to meet future debt obligations. Such a situation can impede economic growth, limit investment opportunities, and hinder the government's ability to provide essential public services.

Myanmar's FX market remains volatile and susceptible to external shocks, exacerbated by ongoing international isolation. The persistent shortage of FX liquidity puts a significant strain on the economy. Moreover, FX policies pose considerable challenges for businesses. Fluctuating exchange rates, restrictions on foreign currency transactions, and uncertainties regarding the repatriation of funds, are risks and obstacles for companies operating in Myanmar. In December 2023, the CBM announced that it will no longer determine the exchange rate on foreign currency transactions in the FX market online trading platform. The exchange rate is free to operate depending on the rates set between exporters and importers in accordance with market trends. The CBM’s policy change may spark another rise in prices of basic goods.

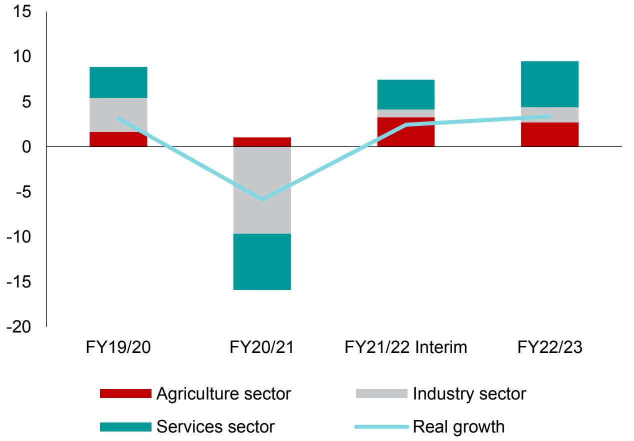
The author of this note is Tanyasorn Ekapirak.

Myanmar: Selected Figures

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

Contributions to Real GDP Growth

(Percent points, year-on-year)

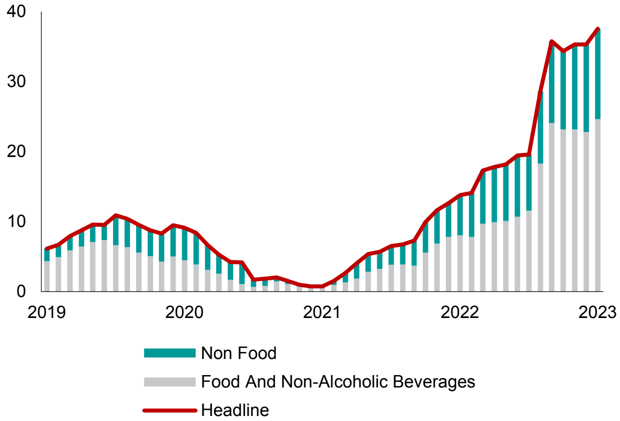


Source: Ministry of Planning and Finance; and AMRO staff estimation.
Note: FY19/20 and FY20/21 started on 1 October and ended 30 September; FY21/22 started on 1 October and ended on 31 March; FY22/23 started on 1 April and ended on 31 March.

Inflation has continued to rise in 2023 on the back of higher energy and food prices.

Contributions to Consumer Price Inflation

(Percentage points, year-on-year)

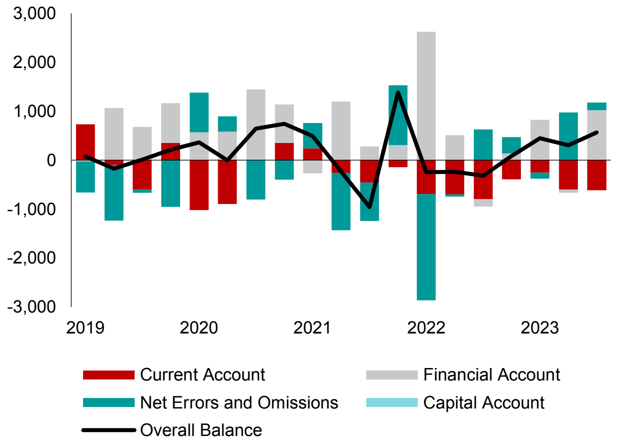


Source: Central Statistical Organization.

The overall balance has been picked up in 2023 after deteriorated in 2022.

Balance of Payments

(Millions of US dollars)

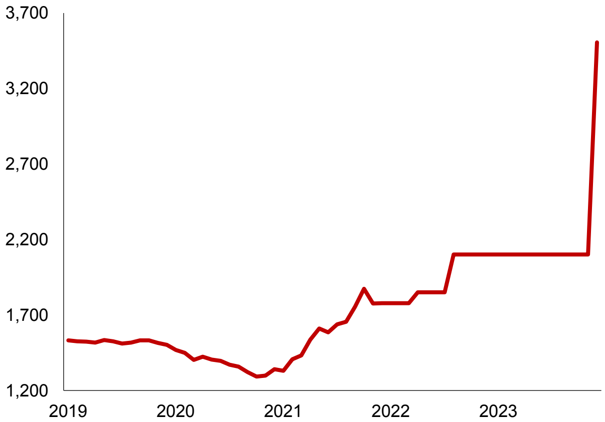


Source: Central Bank of Myanmar; AMRO staff calculations.

CBM announced that it will no longer set and maintain fixed exchange rates for foreign currencies in December 2023.

Exchange Rate

(MMK/USD)

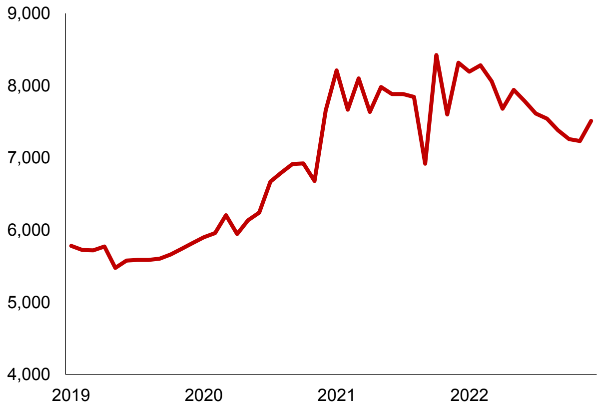


Source: Central Bank of Myanmar.

Foreign reserves continued to be under pressure amid significant uncertainties.

Gross International Reserves

(Billions of US dollars)

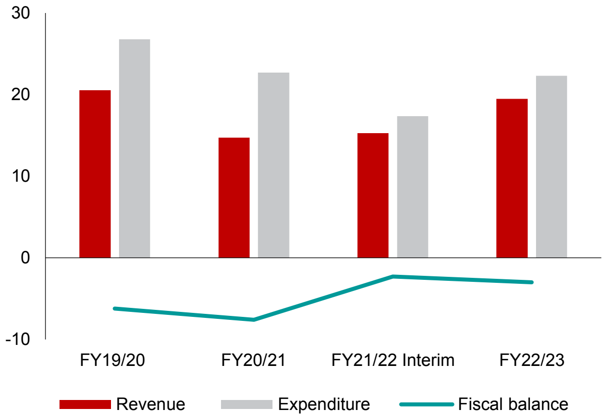


Source: Central Bank of Myanmar.

The reduction in the fiscal deficit can be attributed to a combination of increasing revenue and lower expenditure.

Fiscal Balance

(Percent of GDP)



Source: Ministry of Planning and Finance.
Note: FY19/20 and FY20/21 started on 1 October and ended 30 September; FY21/22 started on 1 October and ended on 31 March; FY22/23 started on 1 April and ended on 31 March.

Myanmar: Selected Economic Indicators

Indicator	FY19/20	FY20/21	FY21/22	FY22/23
Real sector	(in annual percentage change)			
Real GDP	3.2	–5.9	2.4	3.4
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	–2.0	–0.2	–2.0	–3.4
Trade balance	–5.3	–1.7	–1.8	–5.5
Capital and financial account balance	4.3	2.7	7.0	2.1
Direct investment	3.0	1.5	5.4	2.9
Other investment	1.8	1.6	–1.0	–0.8
Errors and omissions	–0.8	–1.2	–4.6	1.3
Overall balance	1.5	1.4	0.4	0.0
International reserves (in USD billion, end of period)	6,913	7,879	8,067	7,960
Fiscal sector	(in percent of GDP)			
Revenue and grants	20.5	14.7	15.3	19.5
Expenditure	26.8	22.7	17.4	22.3
Fiscal balance	–6.2	–7.6	–2.3	–3.0
Government debt	42.2	53.8	52.7	55.6
Monetary and financial sectors	(in annual percentage change)			
Broad money	15.0	11.4	3.8	8.6
Domestic credit	14.4	14.5	13.0	8.9
Private sector credit	8.6	1.5	–0.9	6.4
Memorandum items:				
Headline inflation (in percent y-o-y, period average)	5.7	3.6	13.2	24.4
Policy rate (in percent per annum, end period)	7.00	7.00	7.00	7.00
Exchange rate (in MMK/USD, period average)	1,429	1,490	1,793	2,016

Source: National authorities via WIND/ CEIC/ Haver Analytics; AMRO staff estimates.
Note: y-o-y = year-on-year. Numbers in red denote AMRO staff estimates.
[1/] FY19/20 and FY20/21 started on 1 October and ended 30 September; FY21/22 started on 1 October and ended on 31 March; FY22/23 started on 1 April and ended on 31 March.

The Philippines

The economy maintained its robust growth momentum in 2023. GDP grew by 5.6 percent in the year due to high base effects and weaker external demand, following a multidecade high of 7.6 percent in 2022. Economic growth was supported by resilient household consumption helped by a strong labor market recovery and driven primarily by the services sector. Meanwhile, private and public construction and durable equipment sustained their robust growth and played a major role in driving overall investment.

Headline inflation increased to 6.0 percent in 2023 from 5.8 percent in 2022, while core inflation rose faster at 6.6 percent in 2023—a notable increase from 3.9 percent in 2022. The high inflation was driven by local supply constraints, coupled with domestic demand factors such as a positive output gap and second-round effects induced by minimum wage hikes and expectations of persistently high inflation. Nevertheless, due to a moderation in international commodity prices, headline inflation declined throughout the year to 3.9 percent year-on-year in December 2023 from an 8.7 percent peak in January. Meanwhile, from May 2022 to the end of the year, Bangko Sentral ng Pilipinas (BSP) tightened monetary policy aggressively by raising the policy rate 10 times from a historic low of 2.0 percent to 6.5 percent to address rising inflation.

Overall labor market conditions continued to improve in 2023. However, the quality of jobs has worsened as the share of higher-income positions declined. The unemployment rate fell to an all-time low at 3.1 percent in December 2023, below the pre-pandemic level of 5.3 percent (January 2020). Total employment has surpassed pre-pandemic levels, although the increase is concentrated in low-paying jobs.

The external position was sound, while the peso fluctuated in the second half of 2023 in line with regional currencies. The current account deficit of 2.6 percent of GDP in 2023, narrowed from 4.5 percent in 2022 and was offset by net inflows into the financial account (3.5 percent of GDP). The peso stabilized in the first half of 2023 before depreciating by 2.8 percent in the third quarter as the US Federal Reserve was expected to keep interest rates higher for longer, then rebounded 2.5 percent to PHP 55.57 by the end of the year. In 2023, the peso appreciated by 1.0 percent against the US dollar and appreciated by 1.4 percent in nominal effective terms. Meanwhile, gross international reserves (GIR) rose from USD 96.1 billion at the end of 2022 to USD 104 billion at the end of 2023, mainly on account of valuation gains. The GIR level is sufficient to cover the country's short-term external funding needs with import coverage of 7.8 months and 3.8 times of short-term external debt in residual maturity as of December 2023.

Resilient bank lending has provided support for economic activities, with a strong expansion in consumer loans. Loans increased by 7.9 percent year-on-year in December 2023, lower than the 11.5 percent increase in 2022, while corporate loans grew by 5.9 percent and household loans by 24.6 percent. Corporate loan growth slowed down due to higher interest rates and a delay in borrowing in anticipation of a decline in lending rates. On the other hand, household loan growth was driven by credit card loans.

The fiscal position continued to improve in 2023, attributable to robust revenue collection and moderate expenditure. Fiscal revenue increased by 7.9 percent year-on-year in 2023, reflecting the strong economic recovery since 2022. Meanwhile, expenditure rose by 3.4 percent, despite buoyant disbursement of capital expenditure, mainly due to a decline in transfers to local government units. The fiscal deficit fell to 6.2 percent of GDP in 2023, from 7.3 percent of GDP in 2022.

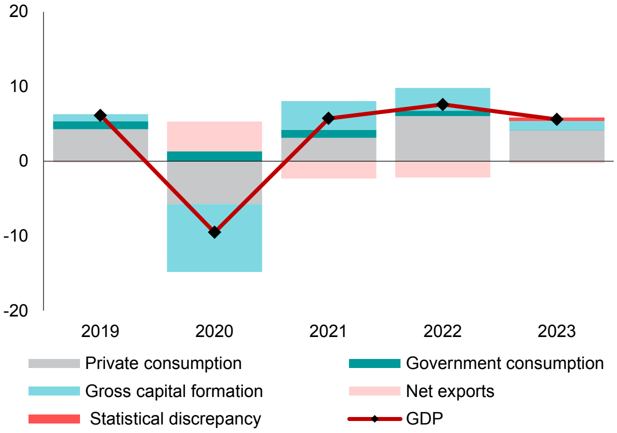
The Philippine economic outlook is clouded by various risk factors and challenges. In the near term, growth prospects are relatively robust, but high inflation is a risk, especially as a result of local supply shocks in the food sector and the impacts of geopolitical conflicts on international energy prices. These will exert upward pressure on inflation which can dampen domestic demand. Additionally, an economic slowdown in major trading partners and volatility in the global financial market, along with tighter financial conditions that increase funding costs for the government, corporates, and households, also pose risks. Looking at the longer term, growth potential will largely hinge on the economic scarring effects of the pandemic, the pace of infrastructure development, and heightened geopolitical tensions between China and the United States. Meanwhile, as one of the most disaster-prone countries, the Philippines faces increasing social and economic costs due to global climate change. These factors underscore an urgent need for a comprehensive strategy to foster resilient, sustainable, and inclusive long-term growth.

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

The Philippines: Selected Figures

The momentum of economic recovery was still robust.

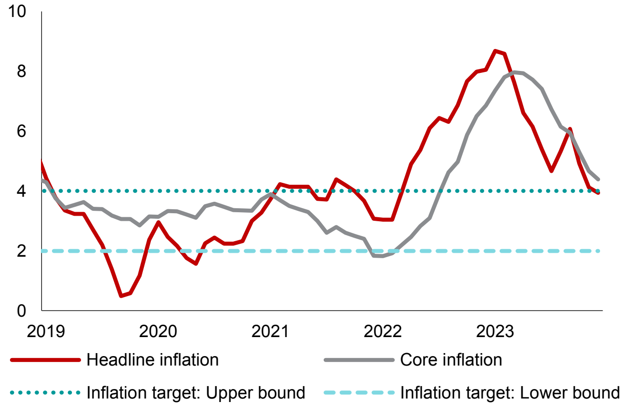
Contributions to Real GDP Growth
(Percentage points, year-on-year)



Sources: Philippine Statistics Authority; AMRO staff calculations.

Inflationary pressure eased but inflation remained elevated at above the 2–4 percent target range.

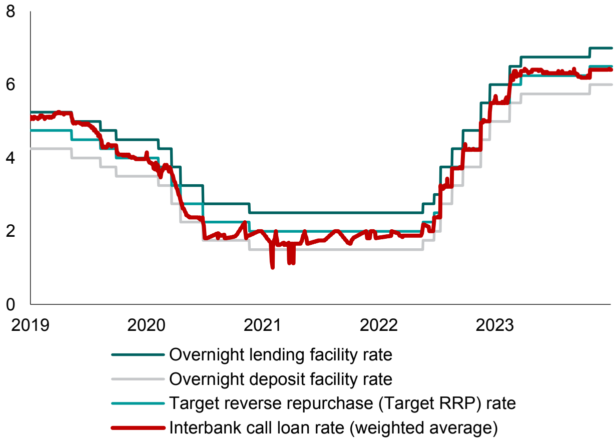
Headline CPI and Core CPI
(Percent, year-on-year)



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

The monetary policy continued to tighten in 2023.

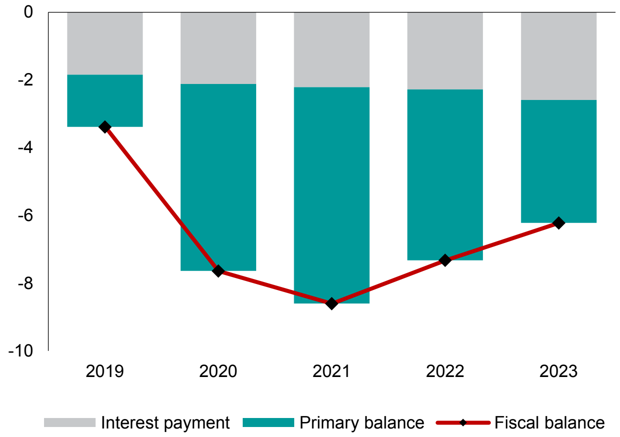
Monetary Policy and Market Rate
(Percent)



Source: Bangko Sentral ng Pilipinas.

The fiscal deficit narrowed with solid revenue performance.

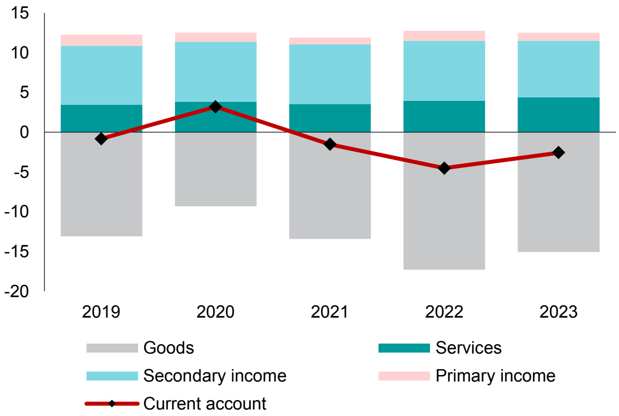
Fiscal Balance
(Percent of GDP)



Source: Bureau of Treasury.

The current account deficit narrowed, driven by slowed imports.

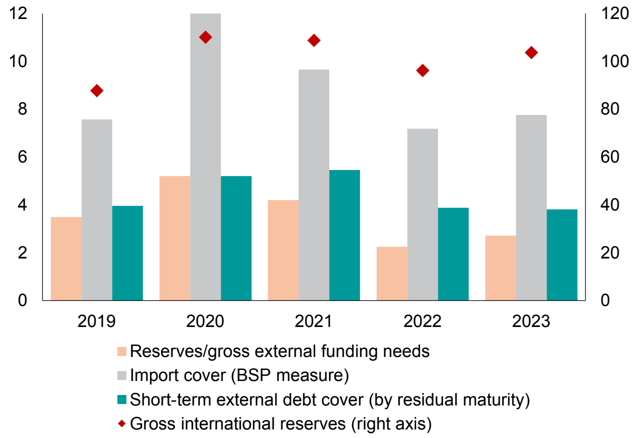
Current Account Balance
(Percent of GDP)



Source: Bangko Sentral ng Pilipinas.

International reserves remained sufficient for external funding needs.

International Reserve Adequacy
(Months/times; billions of US dollars)



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

The Philippines: Selected Economic Indicators

Indicator	2020	2021	2022	2023
Real sector	(in annual percentage change)			
Real GDP	–9.5	5.7	7.6	5.6
Private consumption	–8.0	4.2	8.3	5.6
Government consumption	10.5	7.2	4.9	0.4
Gross fixed capital formation	–27.3	9.8	9.7	8.1
Imports of goods and services	–21.6	12.8	13.9	1.6
Exports of goods and services	–16.1	8.0	10.9	1.3
External sector[1]	(in percent of GDP, unless otherwise specified)			
Current account balance	3.2	–1.5	–4.5	–2.6
Trade balance	–5.5	–9.8	–13.3	–10.7
Capital and financial account balance[1]	–1.9	–1.6	–3.2	–3.5
Direct investment	–0.9	–2.5	–1.3	–1.1
Portfolio investment	–0.5	2.6	–0.3	0.2
Other investment	–0.5	–1.8	–1.5	–2.6
Errors and omissions	–0.7	0.2	–0.5	–0.1
Overall balance[1]	4.4	0.3	–1.8	0.8
Total external debt	27.2	27.0	27.5	24.9
International reserves (in USD billion, end of period)	110	109	96.1	104
Fiscal sector	(in percent of GDP)			
Revenue	15.9	15.5	16.1	15.7
Expenditure	23.5	24.1	23.4	22.0
Fiscal balance	–7.6	–8.6	–7.3	–6.2
Government debt	54.6	60.4	60.9	60.2
Monetary and financial sectors	(in annual percentage change)			
Broad money[2]	8.7	8.0	8.0	7.3
Domestic claims	4.7	8.2	12.9	9.2
Claims on private sector	–0.2	3.8	11.1	8.8
Memorandum items:				
Nominal GDP (in PHP billion)	17,952	19,411	22,025	24,289
Headline inflation (in percent y-o-y, period average)	2.4	3.9	5.8	6.0
Policy rate (in percent per annum, end of period)	2.00	2.00	5.50	6.50
Exchange rate (in PHP/USD, period average)	49.60	49.30	54.50	55.60

Source: National authorities via CEIC and Haver Analytics; AMRO staff estimates.
Note: y-o-y = year-on-year.
1/ The Philippines' balance of payments follows BPM6. A negative (positive) financial account balance indicates net inflow (outflow). Overall balance = Current account balance - Capital and financial account balance + Errors and omissions.
2/ Refers to M4.

Singapore

Growth momentum moderated in the face of strong global headwinds. After growing at 3.8 percent in 2022, the economy expanded by 1.1 percent in 2023. In particular, the manufacturing sector weakened significantly as goods exports fell. The services sector remained strong, thanks to the return of tourists and relatively resilient private consumption. The construction sector continued to recover as the return of foreign labor following the reopening eased the supply constraint.

Inflationary pressure abated. Headline inflation declined from a high of 7.5 percent in September 2022 to 3.7 percent in December 2023 as food and private transport price pressure subsided.

The labor market stayed relatively tight in 2023, with the ratio of job vacancies to unemployed persons still relatively high, at 1.6 in September 2023, compared to the pre-pandemic level of 0.9 in December 2019. The seasonally adjusted overall unemployment rate continued to decline, to 2.0 percent in December 2023 from a high of 3.5 percent in October 2020. Following the relaxation of border restrictions in 2022, employers backfilled vacancies that rely more on foreign workers, easing labor shortages to the extent that resident and nonresident employment have exceeded their pre-pandemic levels. While there are signs that labor demand is cooling in some sectors, the ratio of job vacancies to unemployed persons is still relatively high, at 1.6 in September 2023, compared to the pre-pandemic level of 0.9 in December 2019.

Non-oil domestic exports slowed along with output growth. After growing at 3 percent in 2022, Singapore's exports were anemic in 2023, with non-oil domestic exports contracting by about 13 percent, dragged down by both electronics and non-electronics exports.

The banking sector remained sound thanks to effective macroprudential measures, strong capital buffers, adequate liquidity, and robust asset quality. The banking system's overall nonperforming loan (NPL) ratio fell to 1.7 percent in the third quarter of 2023 from 2.0 percent in the fourth quarter of 2021, although the NPL ratios in construction and transport and storage segments were higher at 6.4 percent and 5.2 percent respectively, reflecting the greater impact of the pandemic on certain sectors. Capital and liquidity buffers remain strong and well above regulatory requirements.

Recent cooling measures and high interest rates appear to have moderated transactions in the private residential property market. The rising private residential prices in 2021–2022 reflected robust demand stemming from strong household balance sheets and sustained income growth, as well as investors from other countries, amid relatively tight supply conditions. More recently, in April 2023, the Additional Buyer's Stamp Duty (ABSD) rates for some buyer groups were raised pre-emptively to curb investment demand. The private residential property market has since shown signs of moderation, with private residential prices increasing at a slower pace of 6.8 percent in 2023, compared to the increase of 8.6 percent and 10.6 percent in 2022 and 2021 respectively.

The Fiscal Year (FY) 2024 budget maintains a similar fiscal stance to that of FY2023 outturn. The FY2024 basic budget balance (which does not include top-ups to endowment and trust funds, Net Investment Returns Contribution, and SINGA) is expected at –0.9 percent of GDP, compared with –0.8 percent of GDP in FY2023, as higher revenue from GST and asset taxes are offset by higher operating expenditure and continued financial support for households and businesses amid higher living costs. However, the overall fiscal balance in FY2024 is forecast to be in surplus, at 0.1 percent of GDP, compared with a deficit of 0.5 percent of GDP in FY2023, largely on the back of a decline in top-ups to endowment and trust funds.

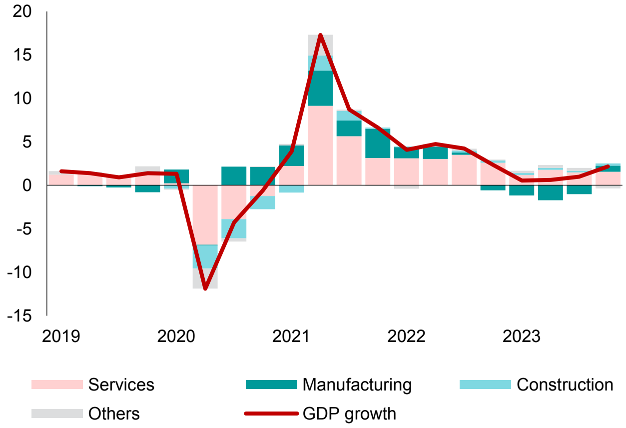
A gloomier outlook for global demand and commodity price volatility constitute key risks through 2024. First, although policy rates in major global economies are expected to decline, the effect of past tightening likely has yet to be fully transmitted, hence weighing on global growth and affecting Singapore's highly export-dependent manufacturing sector in the near term. Second, although both headline and core inflation are expected to ease, commodity price volatility remains a major external risk amid elevated geopolitical tensions and the El Niño weather pattern. Domestically, private transport costs and wage pressure warrant monitoring on the domestic front. Over the longer term, Singapore will need to contend with challenges arising from an aging population and climate change.

The author of this note is Jade Vichyanond.

Singapore: Selected Figures

Singapore's growth momentum moderated in the face of strong external headwinds …

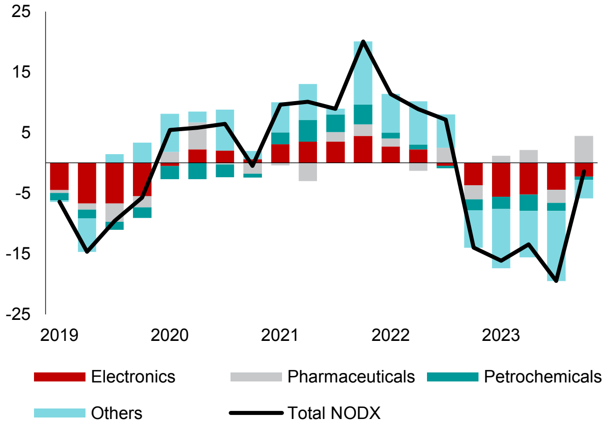
Contributions to Real GDP Growth
(Percentage points, year-on-year)



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

… as reflected in the sharp deceleration of exports.

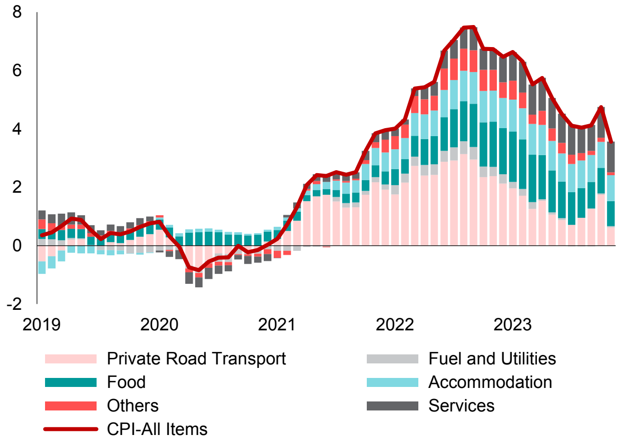
Contributions to Export Growth
(Percentage points, year-on-year)



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

Inflation abated as food and private transport price pressure subsided.

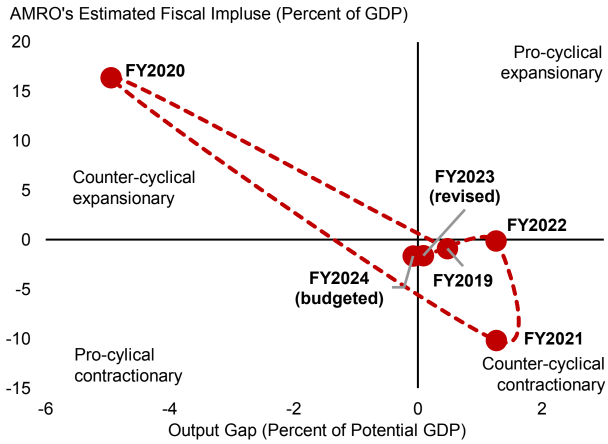
Contributions to Consumer Price Inflation
(Percentage points, year-on-year)



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

The FY2024 budget maintains a similar fiscal stance to that of FY2023 realization.

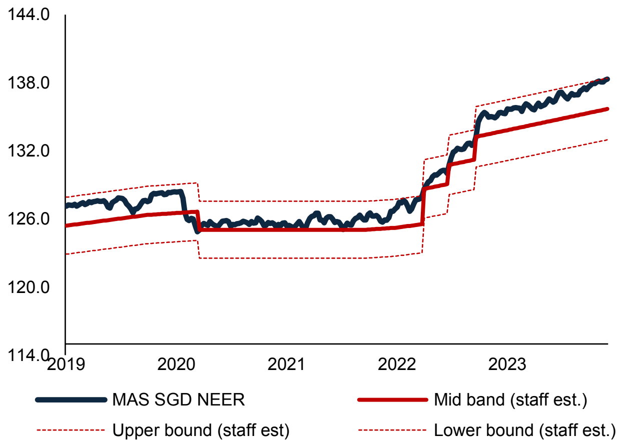
Change in Fiscal Impulse
(Percent of GDP)



Source: Ministry of Finance; CEIC; AMRO staff calculations.

The SGD NEER appreciated throughout 2023.

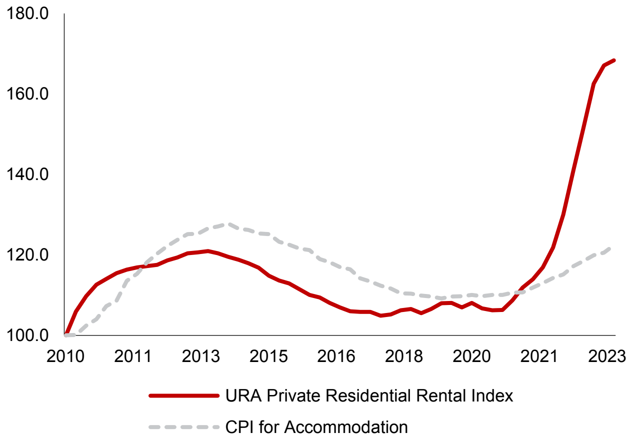
Nominal Effective Exchange Rate
(Index, Jan 1999 = 100)



Source: MAS; CEIC; AMRO staff calculations.

Accommodation costs remain high despite having cooled in recent months.

Private Housing Rental Prices
(Index, Q1 2010 = 100)



Source: Singapore Department of Statistics; URA; CEIC; AMRO staff calculations.

Singapore: Selected Economic Indicators

Indicator	2020	2021	2022	2023e
Real sector	(in annual percentage change)			
Real GDP	–3.9	9.7	3.8	1.1
Private consumption	–13.3	8.1	8.2	3.8
Government consumption	13.2	3.9	–1.9	2.6
Gross fixed capital formation	–14.2	23.6	2.5	–0.2
Imports of goods and services	–1.7	9.6	3.3	1.0
Exports of goods and services	–0.2	9.2	3.0	2.4
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	16.6	19.8	18.0	19.8
Trade balance	29.7	28.0	30.2	30.9
Capital and financial account balance	–4.8	4.6	40.6	7.1
Direct investment	–11.7	–17.5	–19.4	–22.4
Portfolio investment	17.2	17.0	12.1	19.1
Other investment	–10.3	5.1	47.9	10.3
Errors and omissions	0.0	0.0	–0.3	–0.6
Overall balance	21.4	15.2	–22.9	12.2
International reserves (in USD billion, end of period)	362	418	289	351
Fiscal sector[1]	(in percent of GDP)			
Revenue and grants	13.8	13.9	13.8	14.0
Expenditure	17.6	15.5	15.3	15.6
Fiscal balance[2]	–10.5	0.3	0.3	–0.5
Government debt	146.1	133.4	157.1	170.8
Monetary and financial sectors	(in annual percentage change)			
Broad money	10.7	8.8	7.8	-
Resident non-bank loan growth	1.1	9.3	–0.3	-
Memorandum items:				
Nominal GDP (in SGD billion)	482.2	583.2	687.2	673.3
Headline inflation (in percent y-o-y, period average)	–0.2	2.3	6.1	4.8
Exchange rate (in SGD/USD, period average)	1.38	1.34	1.38	1.34

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

Thailand

Economic growth in 2023 was underpinned by resilient private consumption and investment, as well as a rebound in tourist arrivals, but weighed down by a drop in government consumption and public investment due to delays in the budgetary process. Private consumption and investment grew by 7.1 percent and 3.2 percent respectively, in contrast to the 4.6 percent decline in government consumption and public investment. Overall GDP grew by 1.9 percent in 2023. On the production side, the rebound in tourism bolstered expansion in the services sector, whereas manufacturing activities remained subdued given weak external demand. Inventories declined mainly due to a depletion in the rice stock.

The unemployment rate edged down to 1.0 percent in 2023 from the pandemic peak of 2.3 percent in 2021, in line with the economic recovery. The number of underemployed workers also fell to pre-pandemic levels.

Headline inflation declined to 1.2 percent in 2023, from 6.1 percent in 2022, mainly due to a drop in oil and food prices. Core inflation also fell from 2.5 percent in 2022 to 1.3 percent in 2023 as prices of prepared and cooked foods moderated, while other prices of major items such as housing, transportation, and medical and personal care services remained low and stable.

Gross international reserves rose to USD 224.5 billion as of December 2023 from a multiyear low of USD 199.4 billion in September 2022. They are sufficient to cover 2.3 times short-term external debt. Although exports contracted by 1.7 percent in 2023 due to weak global demand, especially for electronics, machinery and automobiles, the current account balance registered a surplus of 1.3 percent in 2023 due to higher tourism receipts and lower oil and gas import prices.

Banks' asset quality continued to be stable with low levels of nonperforming loans and high buffers for capital, liquidity, and provisioning. Total credit growth to the private sector moderated to 2.2 percent in the end of 2023 from 4.0 percent at the end of 2022. The decline in lending reflects a normalization of bank lending activities, in line with the progressive rollback of measures which supported continued credit intermediation during the COVID-19 pandemic. The interbank market remained orderly, as reflected by smooth adjustments of the Bangkok Interbank Offered Rates in response to changes in the Bank of Thailand's policy rate.

The overall fiscal deficit narrowed from 5.8 percent of GDP in Fiscal Year (FY) 2022 to 3.3 percent in FY2023 due to higher revenue outturns. The public debt-to-GDP ratio is expected to remain stable at slightly above 60 percent in the medium term. In FY2024, the authorities intend to rollout a digital wallet scheme with a budget of THB 500 billion (2.6 percent of GDP in year 2022). Although the proposed plan is expected to stimulate short-term growth, it may potentially lead to higher inflation and will likely delay the pace of fiscal consolidation.

Downside risks to growth still remain. A weaker-than-expected recovery in China could hinder the recovery in tourism and the Thai economy. In addition, any recession in the United States and Europe could curtail demand for Thai manufacturing exports. Supply-side disruptions such as a more severe El Niño could affect food production and prices, as well as the implementation of new stimulus policies and wage increases by the government.

Despite a decline in the household debt-to-GDP ratio to 90.9 percent in the third quarter of 2023 from its peak of 95.5 percent early in 2021, it remains high, posing a risk to the Thai economy. Young adults, low-income earners, farmers, and small businesses are especially susceptible to economic shocks, which could impair their ability to service debts and potentially lead to higher nonperforming loans in the banking sector.

The government's debt-to-GDP ratio rose to 62.4 percent in FY2023 from 41.0 percent in FY2019, compressing the policy space for authorities to take countercyclical measures to support the economy during a downturn. In addition, social welfare spending in the medium to long term is on a rising trend, and if it is not accompanied by increases in revenue, the higher spending will narrow the fiscal space available to respond effectively to future shocks.

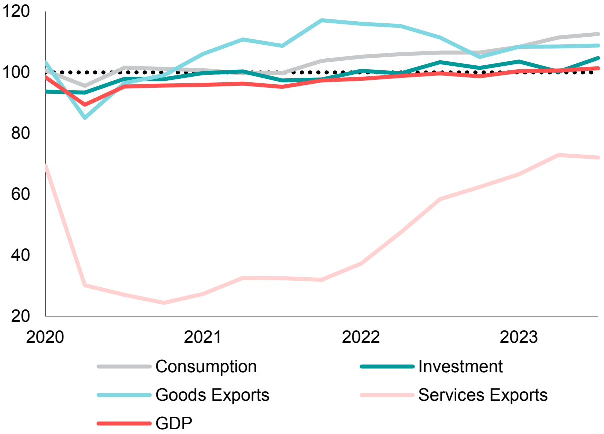
The author of this note is Ming Han (Justin) Lim and Haobin Wang.

Thailand: Selected Figures

Thailand's GDP has recovered to pre-pandemic levels since early 2023.

Real GDP Growth, Seasonally Adjusted

(Index, 100 = December 2019)

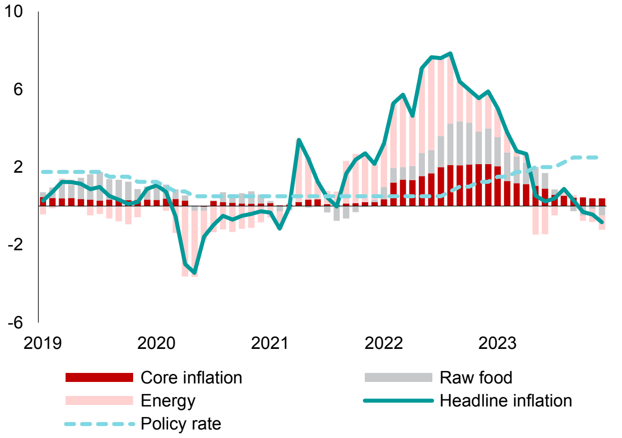


Source: Office of the National Economic and Social Development Council.

Headline inflation contracted due to lower oil and commodity prices.

Contribution to Consumer Price Inflation

(Percentage points, year-on-year)

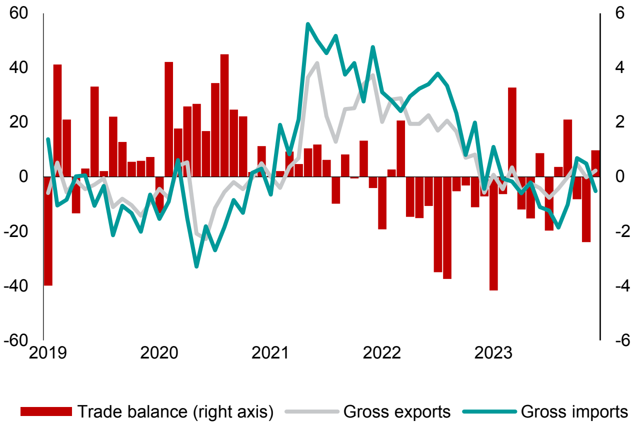


Source: Bank of Thailand; Thailand Ministry of Commerce.
Note: Policy rate refers to 1-day repurchase rate of Thailand.

The trade deficit narrowed as imports contracted at a faster pace than exports in 2023.

Trade Balance

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

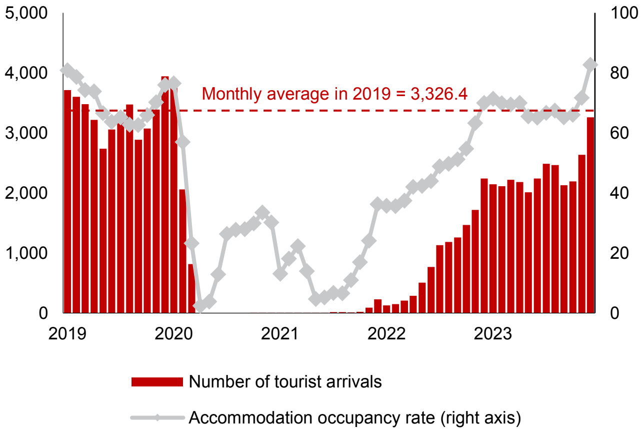


Source: Bank of Thailand; AMRO staff calculations.
Note: Data for exports and imports are on customs basis.

Tourist arrivals recovered and the hotel occupancy rate rose but remained lower than pre-pandemic levels.

Tourism Sector

(Millions of persons; percent)

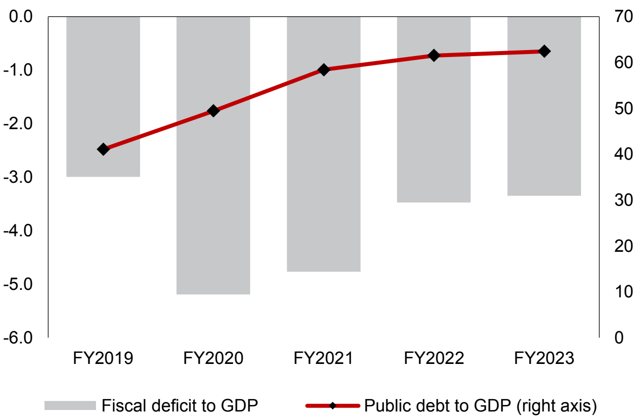


Source: Bank of Thailand.

The public debt-to-GDP ratio rose more slowly due to the narrower budget deficit.

Fiscal Balance and Public Debt

(Percent of GDP; percent of GDP)

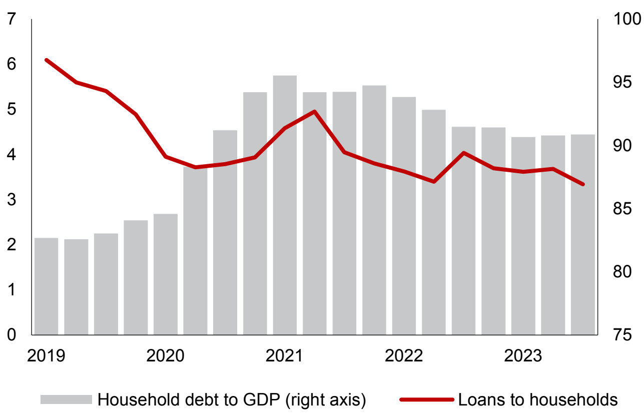


Source: Ministry of Finance; AMRO staff estimations.
Note: The fiscal year (FY) runs from 1 October to 30 September.

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

Household Debt and Bank Lending to Households

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



Source: Bank of Thailand; AMRO staff calculations.

Thailand: Selected Economic Indicators

Indicator	2020	2021	2022	2023e
Real sector	(in annual percentage change)			
Real GDP	–6.1	1.6	2.5	1.9
Private consumption	–0.8	0.6	6.2	7.1
Government consumption	1.4	3.7	0.1	–4.6
Gross fixed capital formation	–4.7	3.1	2.3	1.2
Imports of goods and services	–14.0	17.8	3.6	–2.2
Exports of goods and services	–20.0	11.1	6.1	2.1
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	4.2	–2.0	–3.2	1.3
Trade balance	8.0	6.5	2.8	3.3
Capital and financial account balance	–2.3	–1.0	1.3	2.0
Direct investment	–4.6	–0.8	0.8	3.1
Portfolio investment	–2.4	–2.4	1.2	–2.5
Other investment	4.8	2.4	–0.6	1.2
Errors and omissions	1.8	1.6	–0.2	0.0
Overall balance	3.6	–1.4	–2.1	4.3
Gross external debt	38.0	38.8	40.4	37.4
International reserves (in USD billion, end of period)	258	246	217	225
Fiscal sector[1]	(in percent of GDP)			
Revenue and grants	15.0	14.8	14.8	15.0
Expenditure	20.0	20.0	18.4	18.3
Fiscal balance	–4.9	–5.2	–3.6	–3.3
Government debt	49.4	58.4	60.5	62.4
Monetary and financial sectors				
Broad money	10.2	4.8	3.9	2.0
Domestic credit[2]	8.1	8.8	3.5	3.4
Private sector credit	5.0	5.0	4.0	2.4
Memorandum items:				
Nominal GDP (in THB trillion)	15.7	16.2	17.4	17.9
Headline inflation (in percent y-o-y, period average)	–0.8	1.2	6.1	1.2
Policy rate (in percent per annum)	0.50	0.50	1.25	2.50
Exchange rate (in THB/USD, period average)	31.29	31.98	35.05	34.78

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

Vietnam

Economic growth weakened to 5.1 percent in 2023, primarily due to external pressures. Subdued overseas orders led to weak manufacturing production, delayed capital investment and job retrenchment in the first half of the year. Uncertainty in the employment outlook weighed down on consumer confidence and thus household consumption. Construction and real estate market activities were also lukewarm. However, in the second half, the economy bottomed out, attributed to a recovery in new overseas orders.

Inflation remained under control. Headline inflation was well below the government's 4.5 percent annual ceiling in 2023, due to softening domestic demand, adequate domestic food production, and lower energy prices. Amid a temporary 2 percent cut in value-added tax, average headline inflation stood at 3.3 percent. Meanwhile, core inflation was elevated at 4.2 percent in 2023, reflecting a higher cost of services and increasing rents.

Despite the weak external demand, trade surpluses and resilient FDI inflows were the key factors behind the improvement of external balance in 2023. The export contraction was offset by import compression and a recovery in tourism. FDI inflows remained strong amid global supply chain reconfiguration. The improvement in the external balance allowed the State Bank of Vietnam (SBV) to accumulate its foreign reserves. The reserves stood at USD 89.7 billion as of the end of October, sufficient to cover 2.7 times of short-term external debt.

The Vietnamese government employed macroeconomic policy judiciously to tackle the weakening economic growth. VAT on certain goods and services was cut temporarily by 2 percent to reduce prices affecting households' living expenses, while deferrals of VAT, corporate income tax, personal income tax on self-employed businesses, and land rent were introduced in the second half of 2023. Registration fees for domestically manufactured cars were also halved during the period. Public capital investment was also expedited. Primarily due to lower tax revenue collection, the budget deficit widened to 4.0 percent of GDP in 2023 from 3.6 percent in 2022.

In view of muted inflationary pressure and weakening economic growth, the SBV employed accommodative monetary policy and rolled out special credit support measures. The SBV cut operating interest rates four times in 2023 and set an annual credit growth target at 14–15 percent, slightly up from the 14 percent target in 2022. The central bank also implemented credit support measures, including the 2 percent interest rate support program and the loan moratorium program.

Risks to the growth outlook are tilted toward the downside. The primary downside risk stems from external factors, such as slower-than-expected economic growth in the United States, the European Union, and China. On the domestic front, certain developers are grappling with persistent risks of subdued revenue and financial distress. Additionally, there are upside risks to consumer prices arising from extreme weather affecting food production and the depreciation of the dong.

Elsewhere, asset quality in the financial sector has deteriorated. The weakening economic activities have led to rising nonperforming loans. Some property developers are struggling to repay debt, refinance bank loans and roll over bonds, and thus face heightening difficulties to meet payment obligations going forward. Moreover, there remains room to enhance corporate governance practices and raise capital buffers of local banks.

Over the longer term, Vietnam's growth potential faces a confluence of structural challenges. The country's high growth is primarily attributable to multinational corporations; however, domestic supply chains need to be built up as part of the manufacturing ecosystem. Local micro, small and medium-sized enterprises have faced difficulties in advancing up the value chains. Skilled labor is also in shortage. Additionally, the country faces intensifying climate risks and exposure to extreme weather due to the concentration of economic activities along the extensive coastline. Lastly, aging population and thus a decline in working population would become an imminent risk facing the Vietnamese economy in the coming decade as the country is one of the most rapidly aging countries in the region.

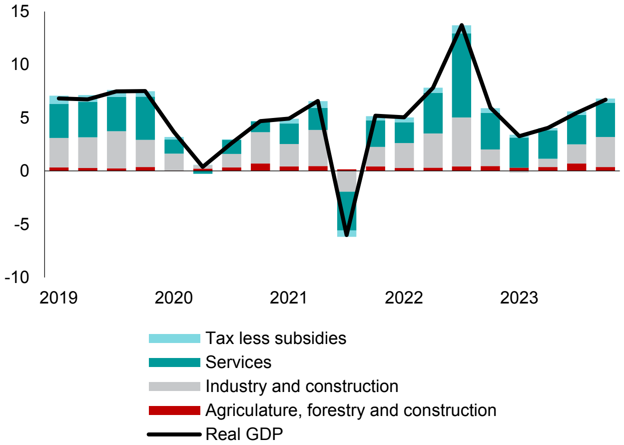
The author of this note is Wanwisa (May) Vorranikulkij.

Vietnam: Selected Figures

Growth slowed down in the first half of 2023 due to weak external demand, before improving in the second half.

Contributions to Real GDP Growth

(Percentage points contribution, year-on-year)

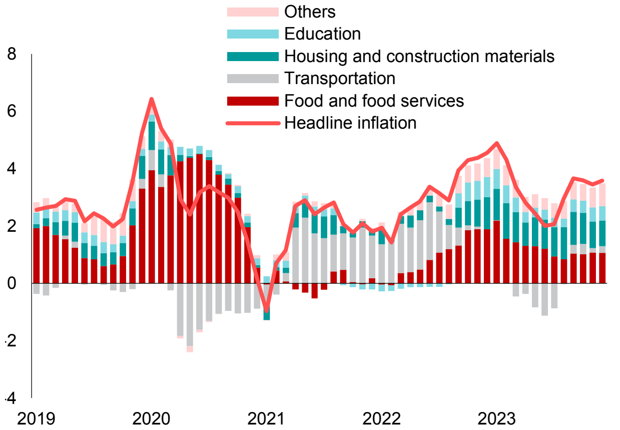


Source: General Statistics Office; Haver Analytics; AMRO staff calculations.

Softening demand and lower energy prices kept inflation lower than the government's ceiling.

Contributions to Consumer Price Inflation

(Percentage points contribution, year-on-year)

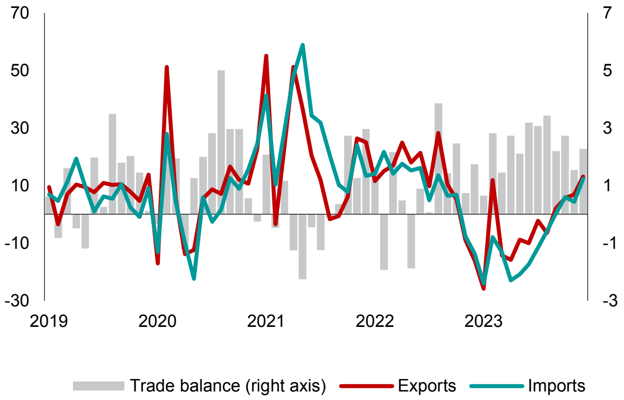


Source: General Statistics Office; Haver Analytics; AMRO staff calculations.

Trade balance registered a surplus on the back of import compression.

Trade Balance

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

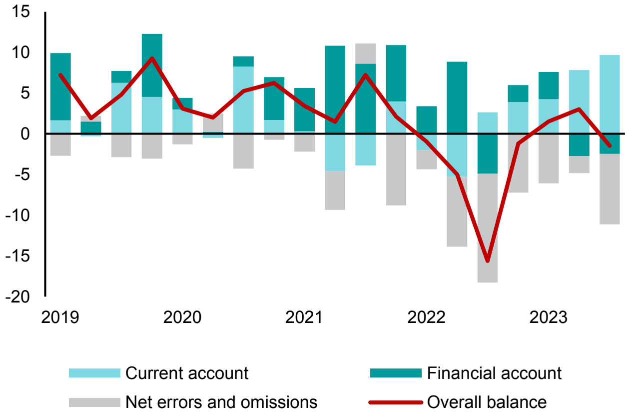


Source: General Statistics Office; Haver Analytics; AMRO staff calculations.

Strong current account surplus was the key factor behind the improvement of external balance.

Balance of Payments

(Millions of US dollars)

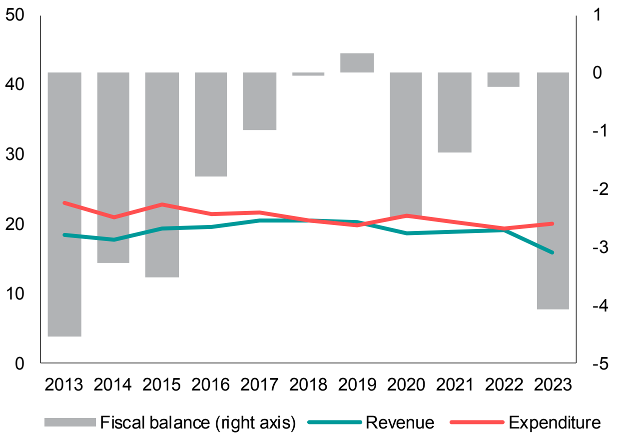


Source: State Bank of Vietnam; Haver Analytics; AMRO staff calculations.

The budget deficit widened in 2023, primarily due to lower tax revenue.

Fiscal Balance

(Percent of GDP)

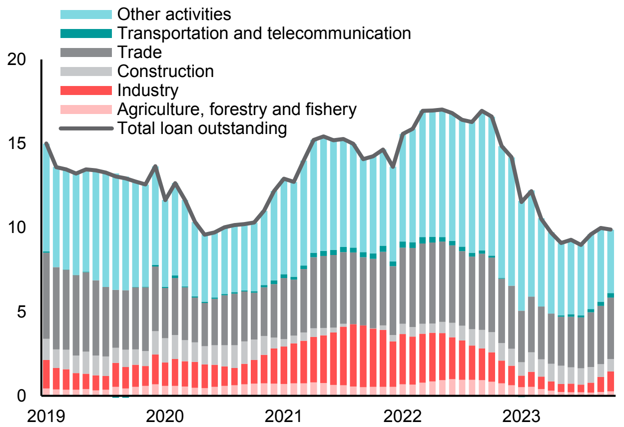


Source: Ministry of Finance; Haver Analytics; AMRO staff estimations.

Weak loan demand led to a slowdown of credit growth.

Credit Growth

(Percentage points contribution, year-on-year)



Source: State Bank of Vietnam; Haver Analytics; AMRO staff calculations.

Vietnam: Selected Economic Indicators

Indicator	2020	2021	2022	2023e
Real sector	(in annual percentage change)			
Real GDP	2.9	2.6	8.1	5.1
Agriculture, forestry, and fishing	3.0	3.7	3.5	4.4
Industry and construction	4.4	3.2	7.9	3.5
Services	2.0	1.7	10.1	7.1
Product tax excluding subsidy	0.9	2.3	5.8	8.0
External sector	(in percent of GDP, unless otherwise specified)			
Current account balance	4.3	–2.2	–1.1	–4.3
Trade balance	8.9	4.3	6.3	6.8
Capital and financial account balance	2.4	8.4	2.3	0.9
Direct investment	4.4	4.2	3.7	4.6
Portfolio investment	–0.4	0.1	0.4	–2.0
Other investment	–1.6	4.2	–1.8	–3.4
Errors and omissions	–2.0	–2.3	–7.6	–4.8
Overall balance	4.8	3.9	–5.6	0.6
Gross external debt[1]	47.9	38.1	36.1	33.6
International reserves (in USD billion, end of period)	95.5	110	87.2	89.7
Fiscal sector	(in percent of GDP)			
Revenue and grants	18.7	18.8	19.1	15.9
Expenditure	21.3	20.1	19.3	19.9
Fiscal balance	–2.5	–1.4	–0.2	–4.1
Government debt	39.6	39.3	34.7	37.0
Monetary and financial sectors	(in annual percentage change)			
Broad money	14.0	9.2	8.1	9.6
Domestic credit	12.2	13.6	14.2	13.8
Private sector credit (in percent of GDP)	114.3	123.2	125.3	143.8
Memorandum items:				
Nominal GDP (in VND trillion)	8,044	8,480	9,513	10,222
Headline inflation (in percent y-o-y, period average)	3.2	1.8	3.2	3.3
Operating rate (in percent per annum)[2]	2.50	2.50	4.50	3.00
Exchange rate (in VND/USD, period average)	23,240	22,900	23,429	23,854

Source: National authorities via CEIC; and AMRO staff estimates.
Note: y-o-y = year-on-year. Numbers in red denote AMRO staff estimates.
1/ The Gross External Debt to GDP ratio from 2020-2022 refers to data published by the Vietnam Ministry of Finance's Public Debt Bulletin. The 2023 ratio is estimated by AMRO staff, based on the outstanding external debt as at the end of June 2023.
2/ Discount rate of the State Bank of Vietnam.