krungsri Research

A member of MUFG a global financial group

REGIONAL ECONOMIC OUTLOOK 2021 Update

July 2021



Krungsri Research

Regional economy: Traversing a bumpy road to exit the pandemic-driven recession

Economic Outlook for the second half of 2021

- **ASEAN region is on the road to recovery driven by rising merchandise exports and FDI inflows,** on the back of the improving global economy and normalization of economic activities in advanced economies (AEs). **Vietnam, Indonesia, and Cambodia could lead the exit from the pandemic-induced recession**. However, the rebound in overall economic activities would not be as strong as previously expected because of latest COVID-19 outbreaks in the region.
- **The recovery trajectory will be bumpy and there are downside risks**, especially from extended outbreaks and the emergence of new variants of concern (VoC) amid a slow progress in vaccination and reports of lower-than-expected efficacy of vaccines. Therefore, the recovery will hinge on the ability of each country to deploy an effective vaccination strategy.
- **Economic structure matters this time.** Against the backdrop of the two-track global recovery, there are four key conditions for ASEAN countries to achieve a sustainable recovery in 2021:
    1. High degree of trade openness with a large share of exports to AEs and China, as well as lower dependence on international tourism
    2. Maintain accommodative macroeconomic policies and other types of policy support
    3. Implement a credible vaccination strategy and effective deployment
    4. Ability to attract FDI

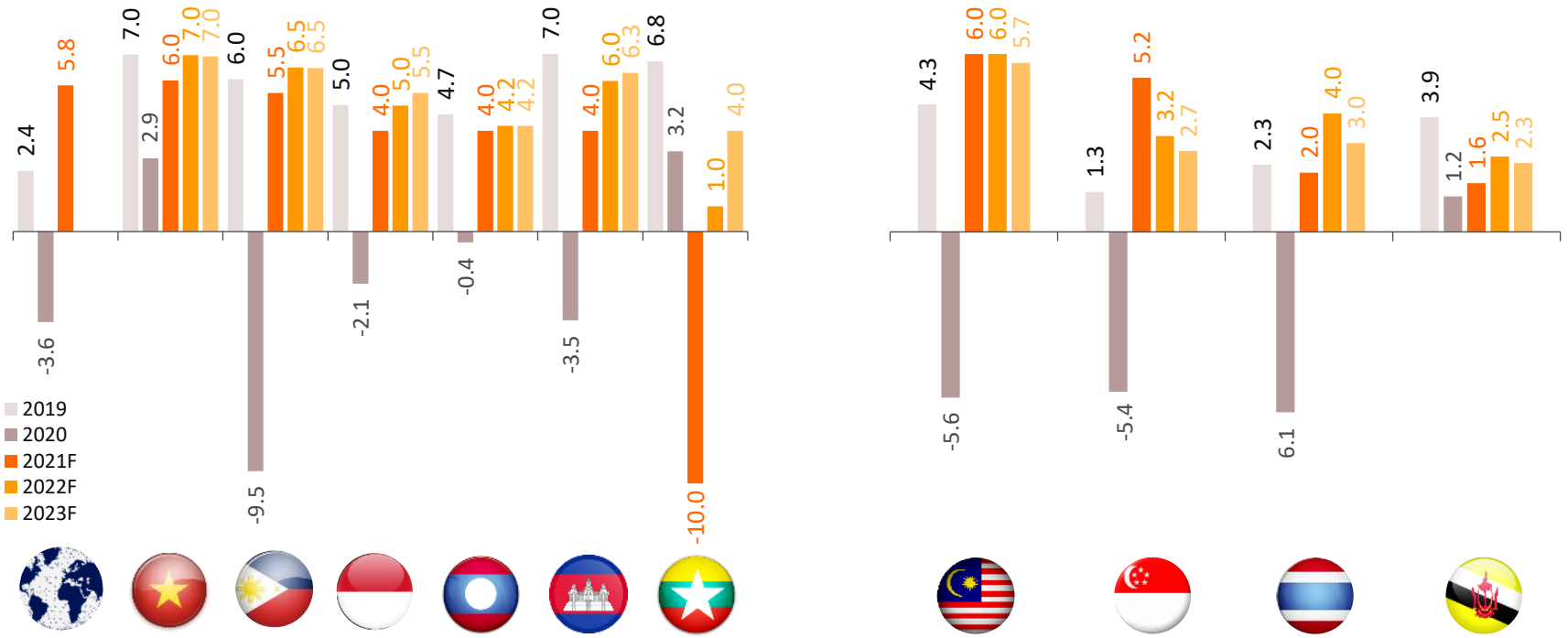
Based on these, Singapore, Vietnam, Cambodia, and Malaysia could experience a sustainable recovery for the rest of the year.

- **Benign inflationary pressure will allow the countries to maintain an accommodative macroeconomic policy at least up to the end of 2021, to nurture the fragile economic recovery trajectory.**
- **Myanmar would be one of the last to exit the crisis because the political turmoil has hurt its economy.** The twin impact of the pandemic and political crisis leading to FDI diversion would undermine macroeconomic stability severely and dampen growth prospects in the medium term.

Uneven and bumpy recovery ahead amid uncertainties over the latest outbreaks

The economic recovery in ASEAN countries is gaining traction in the second half of 2021 but the pace is uneven and not as strong as previously expected. The lingering pandemic has quelled domestic demand, but growth will be primarily driven by rising merchandise exports on the back of the global economic recovery and the normalization of economic activity in most of the advanced economies (AEs). In this region, Vietnam, Indonesia, and Cambodia would likely experience a sharply rebound and sustainable growth. The exception would be Myanmar, where growth would remain subdued as a result of the twin impact of the pandemic and political crisis. Risks to the near-term outlook are tilted to the downside. The recent outbreaks which have been dominated by the Delta variant is a major risk amid the slow rollout of vaccination and mounting doubts over the efficacy of vaccines to curb infection.

Growth projection for ASEAN countries (%YoY)



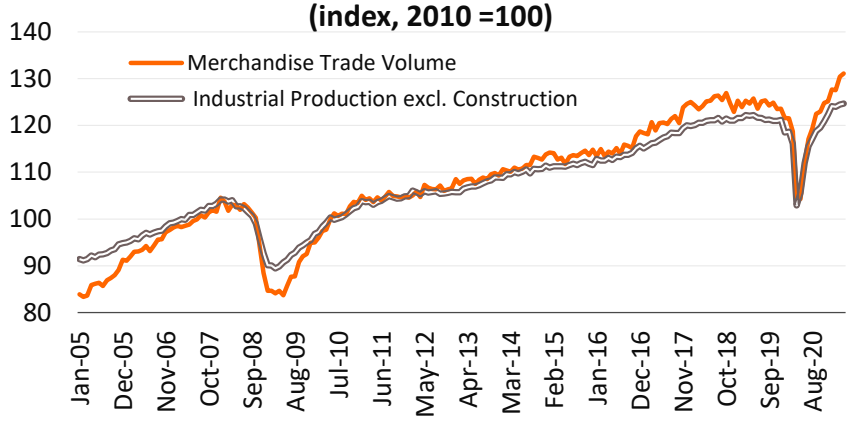
Note: Growth figures are projected based on the fiscal year (Oct-Sept cycle) for Myanmar

Source: IMF WEO (April 2020), Krungsri Research

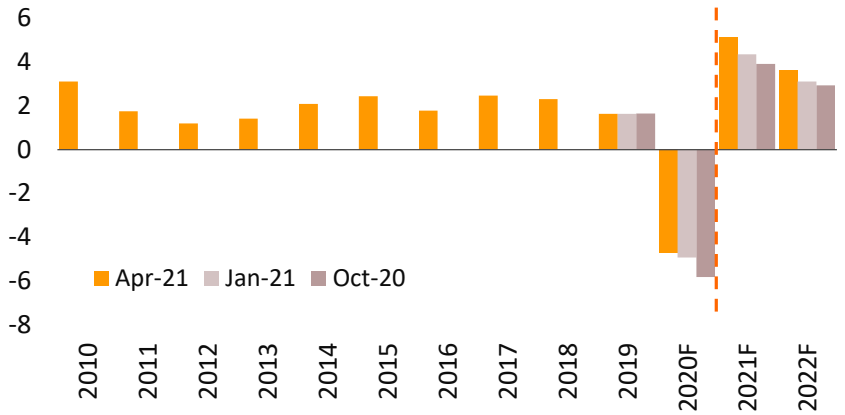
Recovery in global trade and normalization of economic activity in advanced economies will pave the way for ASEAN to exit the pandemic-induced recession

The recovering global trade and economy, and the normalization of manufacturing and services activities in most of the AEs, should boost external demand for ASEAN exports, especially manufactured and electronic products. However, this will not benefit ASEAN countries equally.

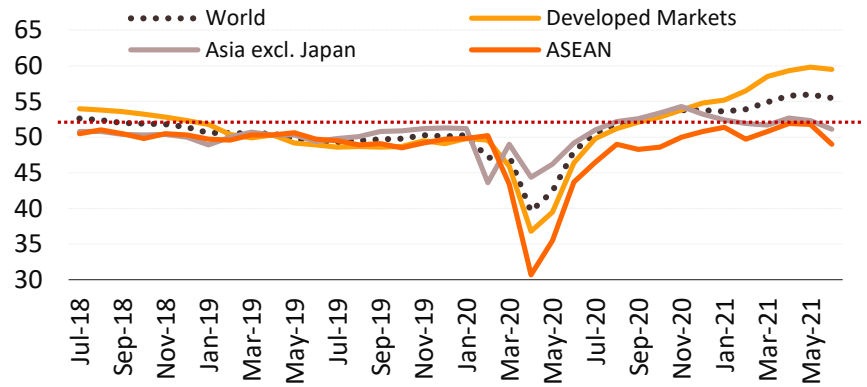
Global trade and production activity (index, 2010 =100)



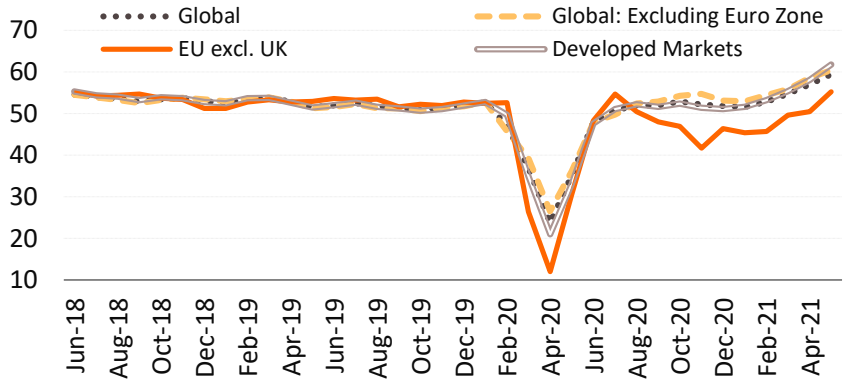
IMF growth projections for AEs



Manufacturing Purchasing Managers' Index[1/]



Service Purchasing Managers' Index[1/]



Note: 1/ Reading above 50 signals expansion, less than 50 a contraction

Source: CEIC, CPB Netherlands Bureau for Economic Policy Analysis, Krungsri Research

Economic structure matters; a sizeable export-oriented manufacturing sector will accelerate economic recovery

Countries with a large share of export-oriented manufacturing and trade openness such as Singapore, Vietnam, Cambodia, Malaysia, and Thailand could reap the benefits of the recent pickup in global trade. However, to achieve a robust recovery at home, there are more conditions to be met, especially a credible and effective vaccination rollout strategy to boost consumer confidence, domestic demand, as well as domestic tourism. And there needs to be an accommodative macroeconomic policy in place. Countries with the capability to attract FDI are also in a better position to enjoy strong economic recovery.

Conditions for economic recovery in ASEAN

1. High degree of trade openness with a large share of exports to AEs and China, as well as lower dependence on international tourism
2. Maintain accommodative macroeconomic policies and other types of policy support
3. Implement credible vaccination strategy and effective deployment
4. Ability to attract FDI

Heatmap of tailwinds and headwinds for ASEAN economic recovery in 2H2021

Annual Data (as of 2019) % share of GDP, otherwise indicated	Trade Openness	Exports	Imports	Manufactured exports	Exports to Advanced Economies (AEs)	Exports to the US	Exports to China	% of tourism sector	% of buget deficits in 2021	Policy rate (June 2021)	No. of Covid case % of population (as of 2 Jul	% of vaccinated population (as of 2 Jul 2021)	% of net FDI	**Estimate net impact**
Brunei										n.a.				
Cambodia										n.a.				
Indonesia														
Laos														
Malaysia														
Myanmar														
Philippines														
Singapore										n.a.				
Thailand														
Vietnam														

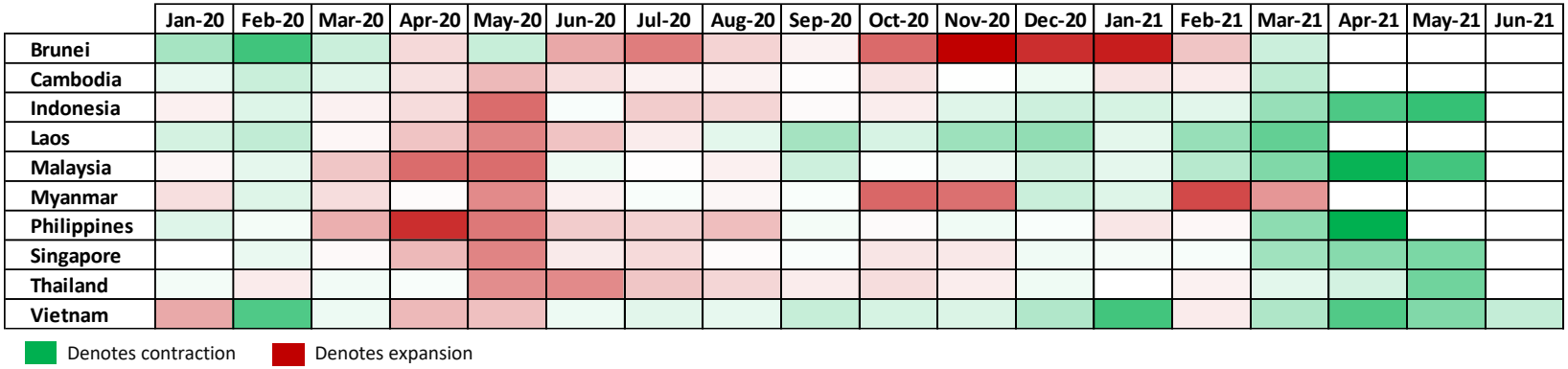
Denotes tailwinds to growth
Denotes headwinds to growth

Source: CEIC, Krungsri Research

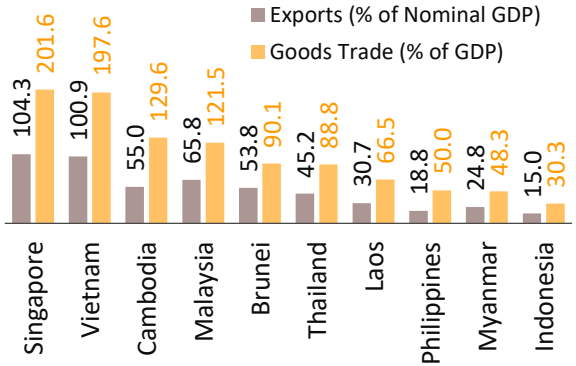
Vietnam, Indonesia, and Cambodia will witness stronger economic recovery than regional peers

Vietnam, Indonesia, and Cambodia[1/] could lead the exit from the recession. The recovery in global trade is a boon for these countries because of their sizeable share of exports to GDP. Export growth in Vietnam, Indonesia, Cambodia, and the Philippines had surged in the first half of 2021. This was driven by stronger demand for their manufactured products, and soaring prices of several commodities had benefitted Indonesia's exports. While prospects for international trade are improving, there are imminent near-term risks. These include higher freight rates and lingering trade tension between the US and China.

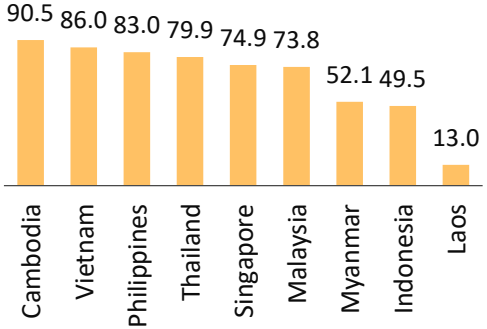
Heatmap of export growth in ASEAN countries (%YoY)



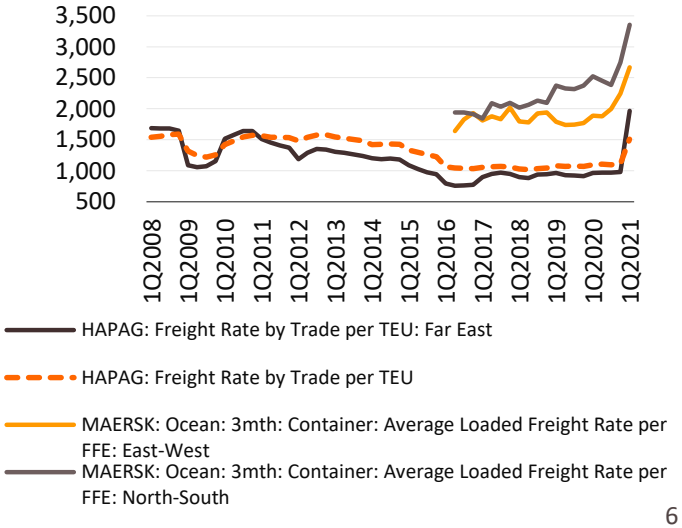
Openness to trade of ASEAN members



Exports of manufactured products (% of total exports)



Freight rates (USD)



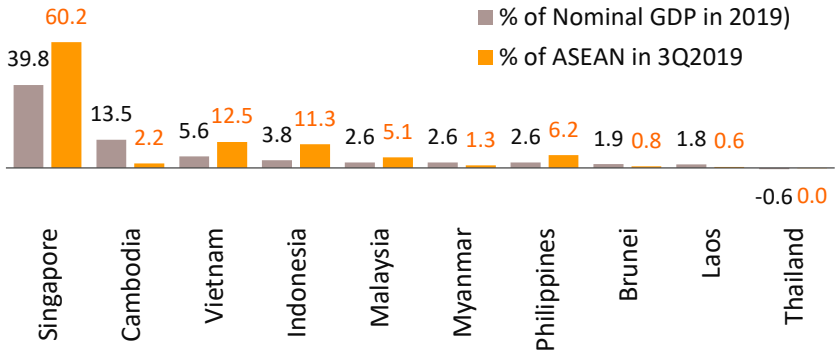
Note: 1/ Others include Singapore and Malaysia

Source: IMF WEO (April 2020), IMF 2019 Article IV Staff Report on Vietnam, Krungsri Research

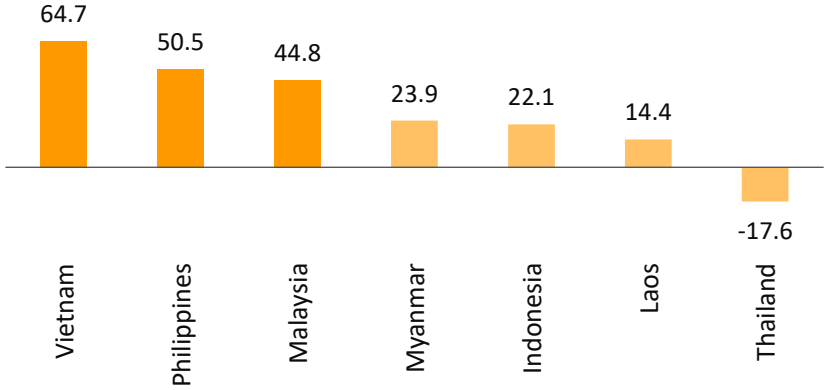
Strong FDI inflows will continue to spur export-oriented manufacturing and lift domestic business sentiment

Countries in Southeast Asia with strong fundamentals will continue to attract FDI amid the ongoing supply chain diversification and lingering trade tension between the US and China. FDI has played crucial roles in boosting export-oriented manufacturing in ASEAN frontiers – CLMV countries – as well as in Indonesia and the Philippines.

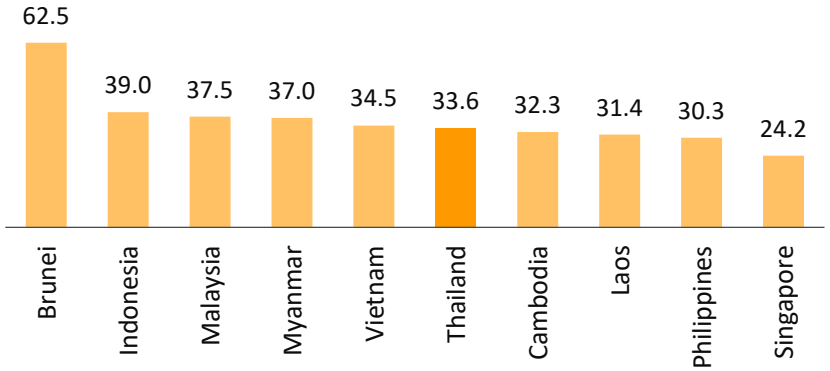
Foreign direct investment (FDI) inflows to ASEAN



FDI: Manufacturing (% of total FDI, 2020)[1/]



Industry (% of nominal GDP)



Note 1/ Negative figure represents net outflows

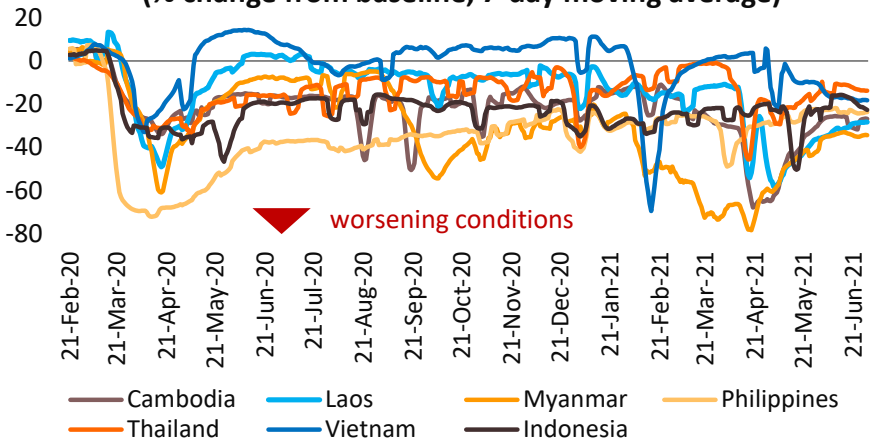
Source: CEIC, Krungsri Research

Krungsri Research's view

- **Both push and pull factors at the global and regional levels will ensures resilient inflows of FDI to ASEAN, especially Vietnam, Indonesia, Cambodia and Laos.** Following the adverse impact of the pandemic on domestic demand, inward FDI is one of the tailwinds to boost growth across ASEAN in 2021. The resilient FDI inflows will continue to boost the export-oriented manufacturing sector which has been a key growth driver in all ASEAN economies.
- Macro fundamentals matter in attracting FDI, but regional trade agreements such as the Regional Comprehensive Economic Partnership (RCEP) which would be effective in January 2022, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), as well as other bilateral trade agreements, are among key pull factors to draw foreign investment to ASEAN.

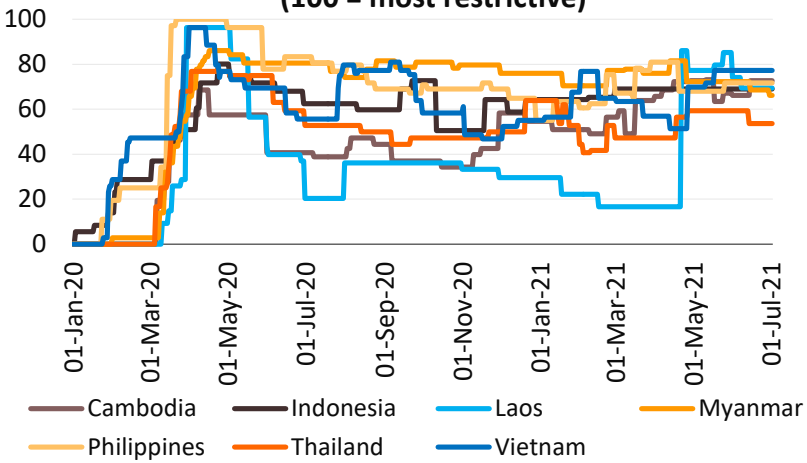
The recovery path will depend on the pace of vaccine rollout and successful containment of domestic COVID-19 situation

Google Mobility Changes: Workplaces
(% change from baseline, 7-day moving average)

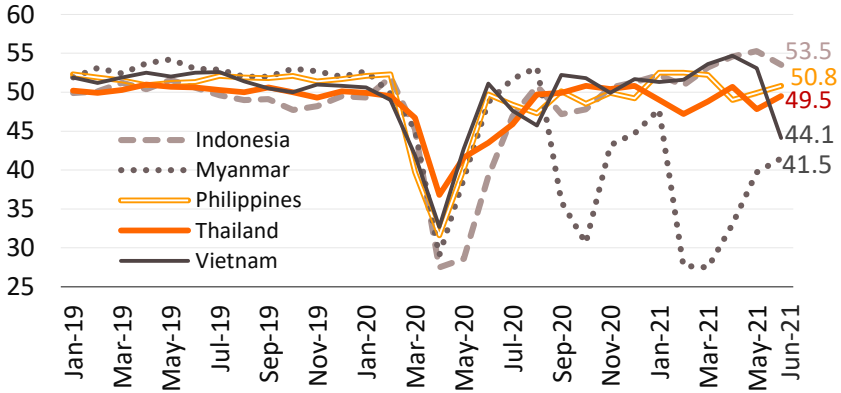


Note: 1/Google calculates changes in mobility data for each day compared to a baseline value for that day of the week. The baseline is the median value, for the corresponding day of the week, during the 5-week period 3 Jan – 6 Feb 2020. The data are daily but are updated only once a week. We take a 7-day moving average. A more/less negative number indicates more/fewer people are staying at home instead of going to their workplaces.

COVID-19 Government Response Stringency Index
(100 = most restrictive)



Manufacturing Purchasing Managers' Index[2/]



Note: 2/ Reading above 50 signals expansion, less than 50 a contraction
Source: CEIC, Google Mobility Index, Krungsri Research

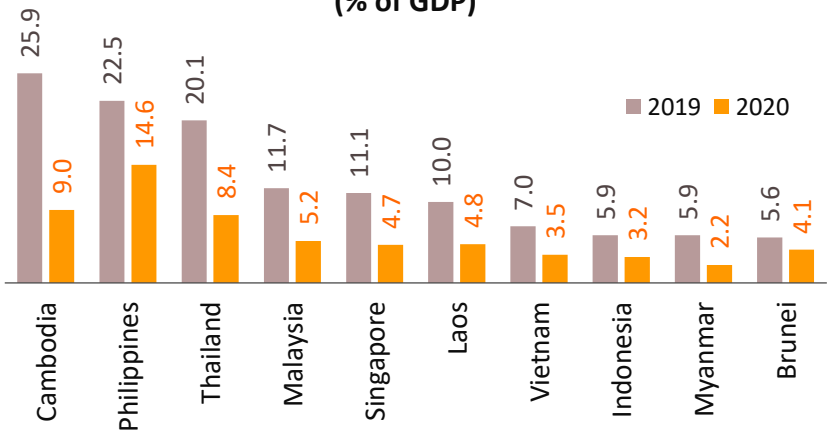
Krungsri Research's view

- **The latest high frequency indicators – Google Mobility Index and the PMI – show promising signs of a rebound of overall economic activity across ASEAN, except Myanmar.** Based on the indicators, the economic activity is gradually recovering and returning to the pre-pandemic level. It is also clear that the outbreaks in 1H21 has hit the region severely, leading to the re-introduction of lockdown measures and mobility restrictions. Therefore, the normalization trajectory in 2H21 will hinge primarily on successful containment of the outbreaks.
- **This is in line with the latest state of the manufacturing sector in the region which is returning to contractionary territory, except for Indonesia.** Myanmar's economy is expected to slip into an extended and deep recession in 2021 triggered by the political crisis and the prolonged adverse impact of the pandemic at home and abroad.

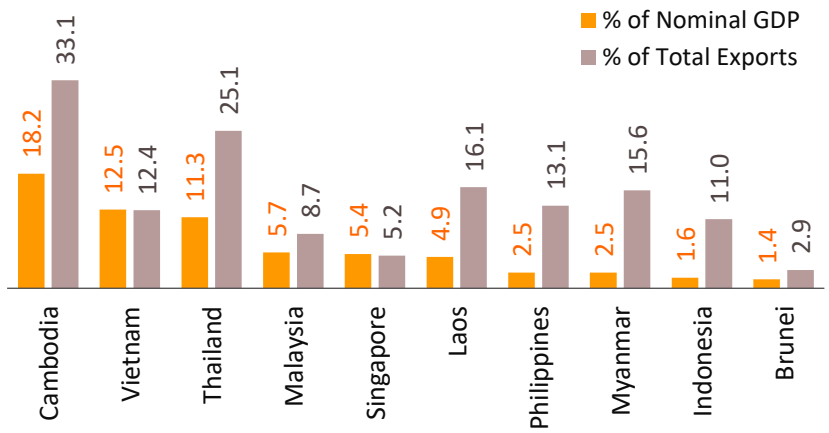
Tourism-dependent economies will see slower recovery

The tourism sector is among that which has been hardest hit by the pandemic, and it is expected to be the last sector to recover as the global pandemic has not been brought under control and new variants continue to emerge. For ASEAN, tourism has been a key growth driver and source of foreign exchange and has provided job and income opportunities for locals.

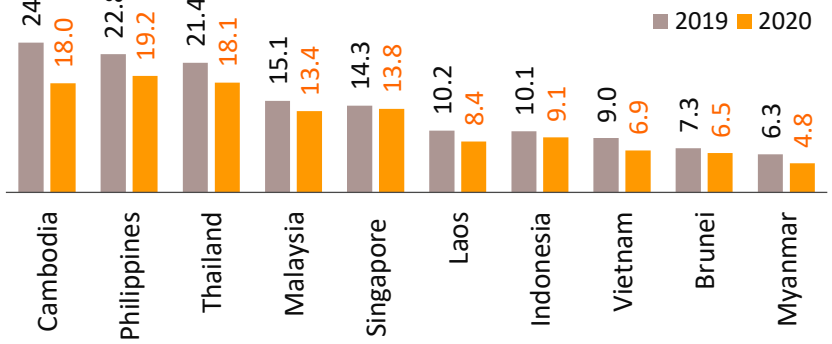
Total contribution from travel and tourism (% of GDP)



Tourism revenue (2019)



Total contribution of tourism to employment (% of total employment)



Source: CEIC, Krungsri Research

Krungsri Research's view

- **International tourism will not recover soon. Most countries will continue to ban cross-border travel in the medium-term, until the international community is confident the pandemic has been effectively contained.** This will continue to weigh on the recovery of some ASEAN countries such as Cambodia, the Philippines, and Thailand where tourism plays crucial roles in the economy and the labor market.
- **However, domestic travel could help to shore up the tourism sector in countries which have achieved herd immunity and the vaccines dispensed are able to curb new infections and contain new variants.** These conditions would help to accelerate reopening and normalization of economic activity. In our view, Singapore, Malaysia, and Vietnam would likely lead the reopening of the domestic tourism industry in ASEAN region.

Benign inflationary pressures will continue to facilitate accommodative macro policies to nurture still-fragile recovery

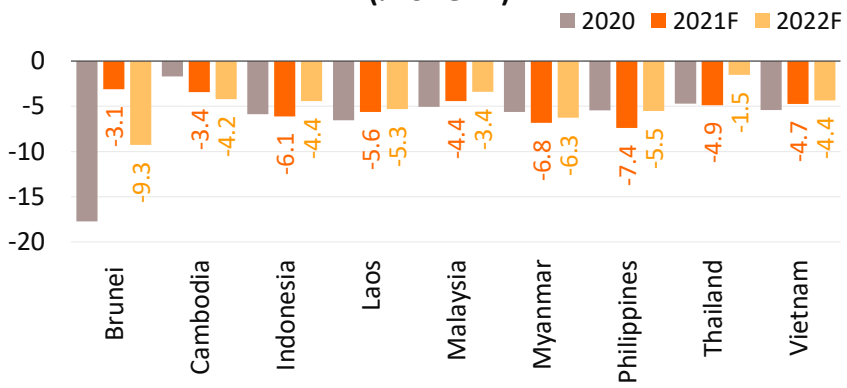
We expect most ASEAN countries to continue to implement loose macro policies in the medium-term because they need to nurture the still-fragile recovery. Weak demand-side pressure resulting in muted inflationary pressure on the horizon would allow policymakers to maintain an accommodative policy stance. On fiscal policy, we expect most ASEAN countries to start withdrawing their stimulus packages in 1H23. On monetary policy, we expect BI to keep policy rate unchanged at 3.5% at least until 2H22, and the BSP to hold key rate at 2.0% until the end of 2022.

Inflation rate (%YoY)

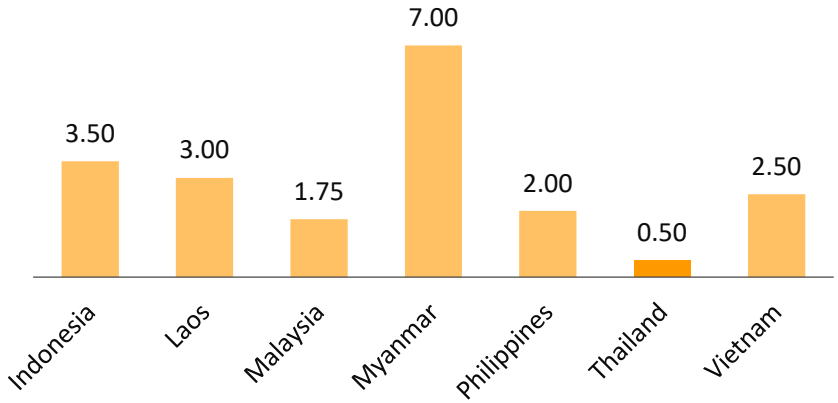
	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21
Brunei																		
Cambodia																		
Indonesia																		
Laos																		
Malaysia																		
Myanmar																		
Philippines																		
Singapore																		
Thailand																		
Vietnam																		

Denotes rising inflationary pressure

General government net lending/borrowing (% of GDP)



Policy rate (% p.a.) as of July 2021

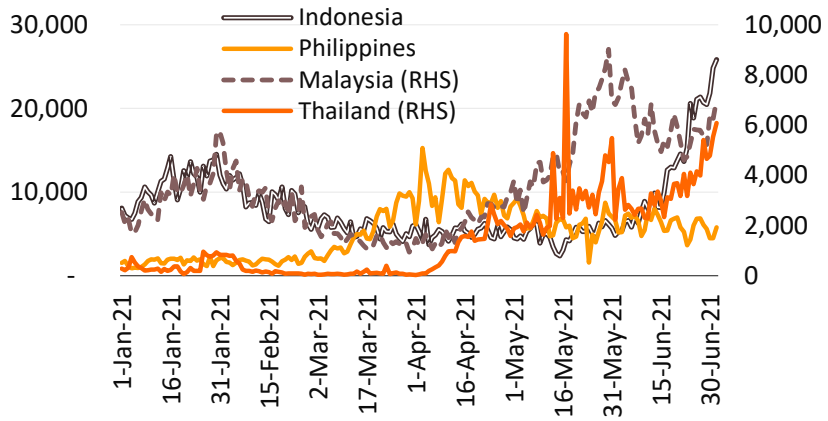


Source: CEIC, Krungsri Research

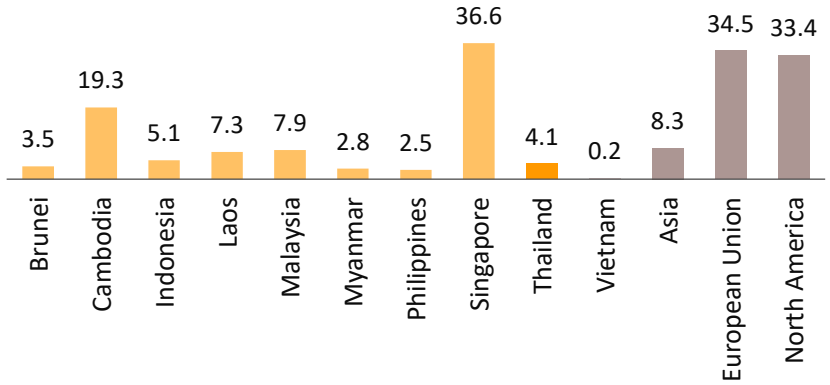
New waves and VoC present major downside risks to the near-term outlook

ASEAN countries – particularly Singapore and Vietnam – were among the most successful in curbing and controlling the first wave of COVID-19 outbreaks in the first half of 2020. However, the region has suffered from a series of new outbreaks since 1Q this year. This, coupled with the emergence of VoC are the key headwinds that could derail economic recovery.

New cases in selected ASEAN countries



Fully vaccinated people per 100 population (as of 5 July 2021)



Expected timeline to vaccinate 75% of population[1/]

	3Q21	4Q21	1H22	2H22	Beyond 2023
Brunei		X			
Cambodia					X
Indonesia				X	
Laos					
Malaysia			X		X
Myanmar					X
Philippines					X
Singapore	X				
Vietnam				X	

Note: 1/The expected timeline is projected based on the current pace of the vaccination deployment and the available data on the secured supply of vaccines and their efficacy.

Source: CEIC, Krungsri Research

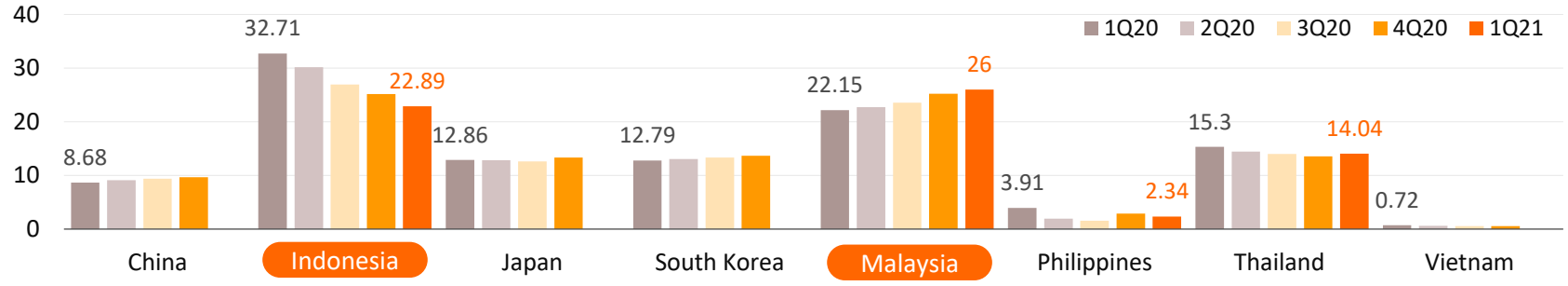
Krungsri Research's view

- **Amid the slow and still-fragile recovery, vaccine efficacy and vaccination rate will determine the economic recovery trajectory and normalization of economic activity across ASEAN.** In the near-term, outbreaks dominated by the more infectious Delta variant remain the major risk to recovery, especially in Indonesia, Thailand, Malaysia, and the Philippines.
- **Singapore and Malaysia would lead the exit from the pandemic-induced economic slump, followed by Indonesia and Vietnam** based on vaccine efficacy and the pace of inoculation. The rapid spread of the Delta variant makes it challenging for many ASEAN countries to secure sufficient supply of high-quality vaccines to achieve herd immunity. This is particularly relevant to Cambodia, Lao PDR, and the Philippines which might only achieve herd immunity after 2023.

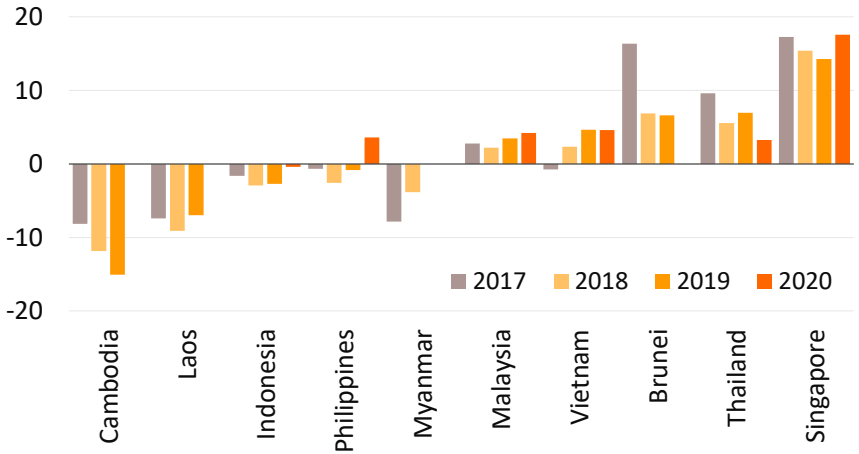
Surprise US monetary policy tightening could trigger sudden capital outflows and external instability in some ASEAN countries

Given effective control of the pandemic and speed of vaccine deployment, the US is on a strong economic recovery trajectory. Against this backdrop, the Fed is expected to withdraw its ultra-accommodative monetary policy soon. But if that happens sooner-than-expected, it could be disruptive to economies where capital inflows – particularly portfolio flows – play important roles in financing the current account deficit. This is particularly relevant to Indonesia where foreign holding of local currency (LCY) government bonds is about 23%, higher than its regional peers .

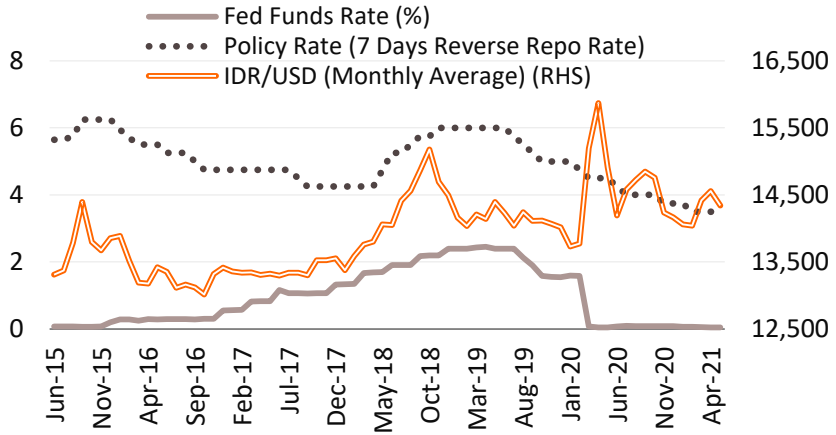
Foreign holdings of LCY government bonds (% of total, as of July 2021)



Current account balance (% of GDP)



Fed Funds Rate, Indonesia' s policy rate and exchange rate

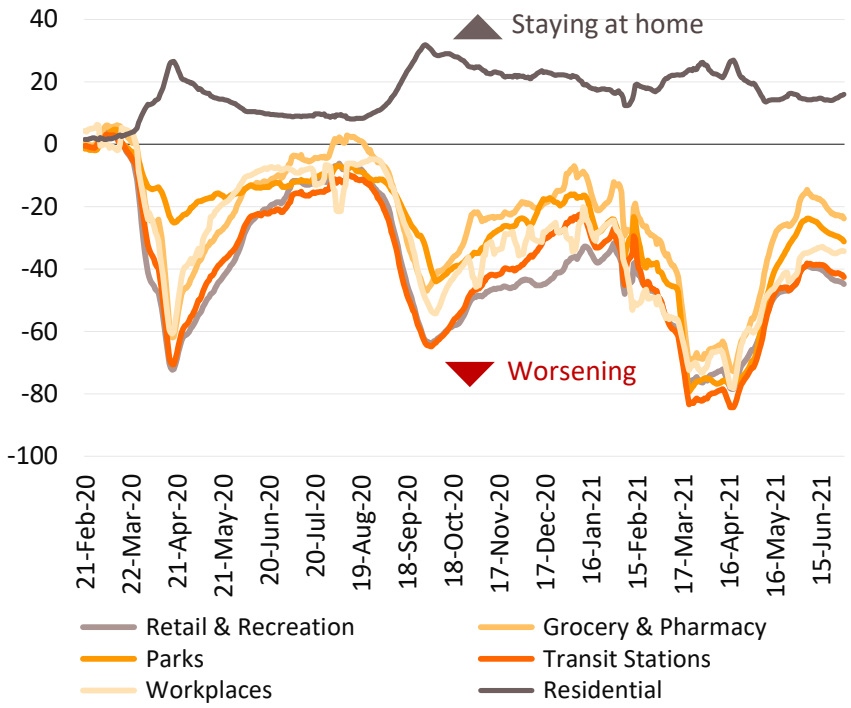


Source: CEIC, Krungsri Research

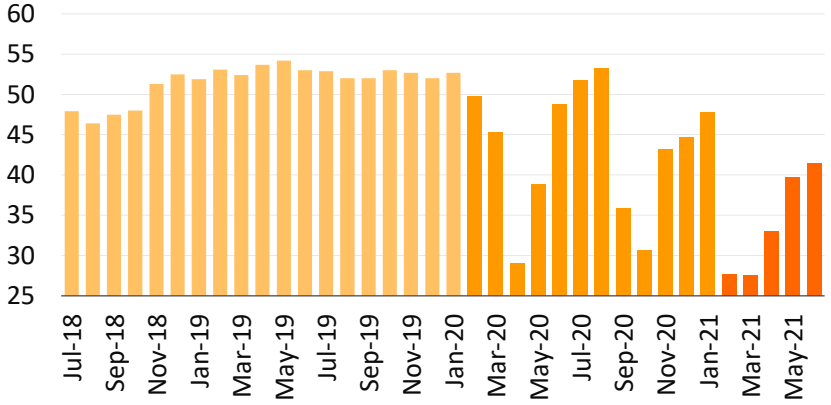
Update on Myanmar: Politics-induced recession would dampen medium-term growth prospects amid sporadic outbreaks

Despite the improved mobility indicators, Myanmar could suffer from an extended politics-induced recession in the medium-term given sporadic outbreaks and slow rollout of vaccines. This is based on most-recent PMI trends which show its export-oriented manufacturing sector – a key growth driver for Myanmar – has been hit the hardest.

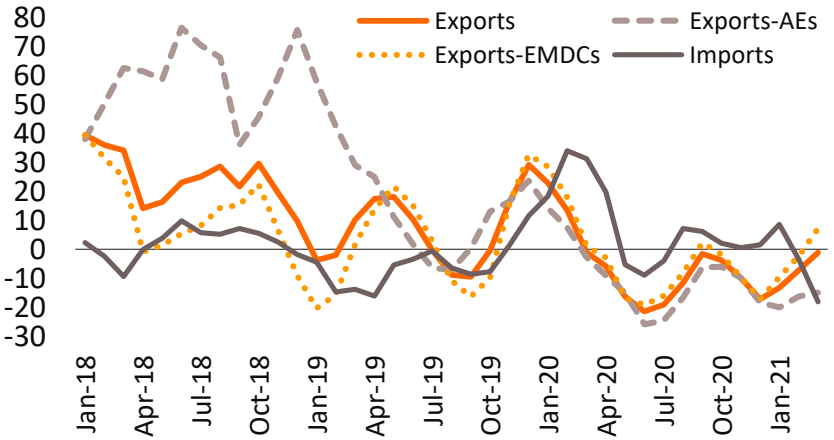
Google Mobility Indicators (% change from baseline)[1/]



Manufacturing Purchasing Managers' Index (PMI)[2/]



Exports and imports (%YoY, 3mma)



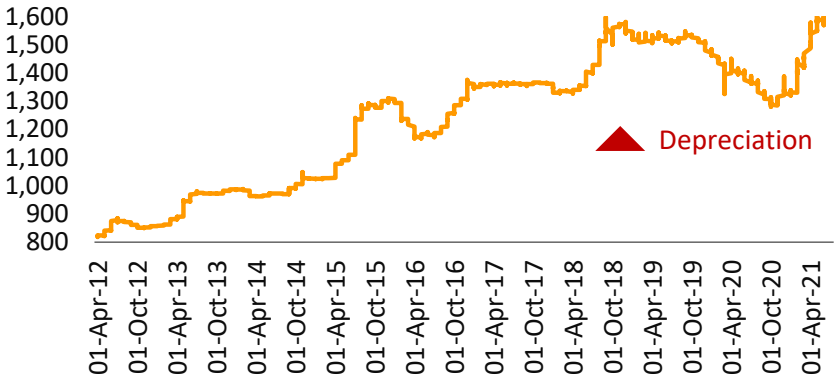
Note: 1/ The mobility is smoothed by taking 7-day moving average. A more/less negative number indicates more/less people are staying home (corresponding to the residential indicator) instead of going outdoor e.g. going to work.
2/ Reading above 50 signals expansion, less than 50 a contraction

Source: CEIC, Krungsri Research

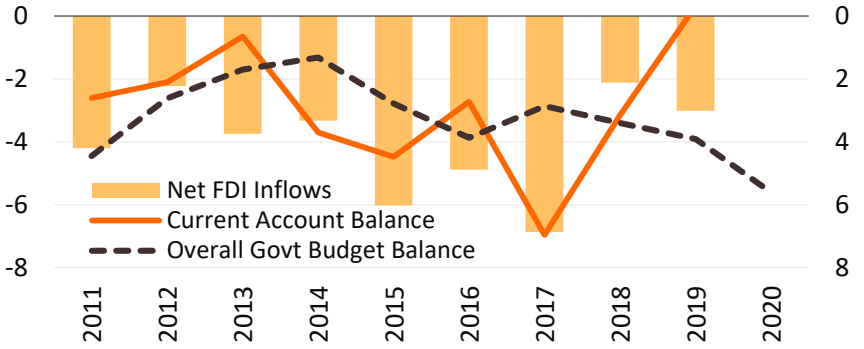
Macroeconomic stability has become more vulnerable as FDI inflows might dry up amid persistent twin deficits

FDI – which has fueled Myanmar's manufacturing sector and financed its external imbalances - will be diverted to other countries in the region because of lingering political unrest and worsening uncertainties after the coup on 1 February. Without sufficient inflows of FDI, Myanmar's external stability could worsen due to persistent twin deficits.

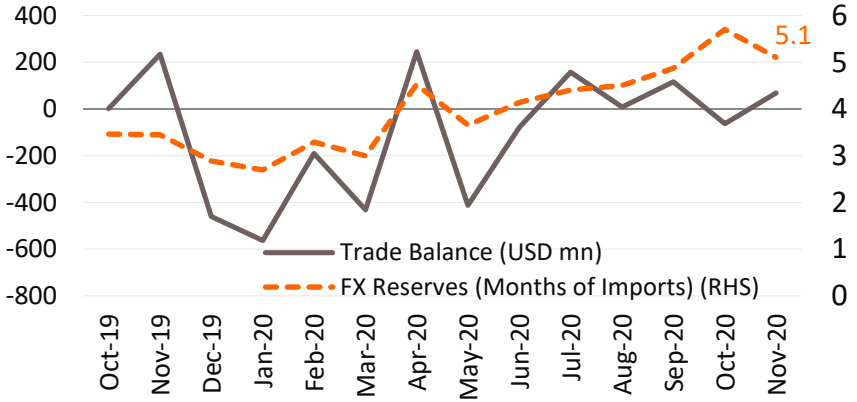
MMK/USD exchange rate (period average, as of 2 July)



Myanmar's twin deficits and net FDI inflows (% of GDP)



Trade balance and FX reserves



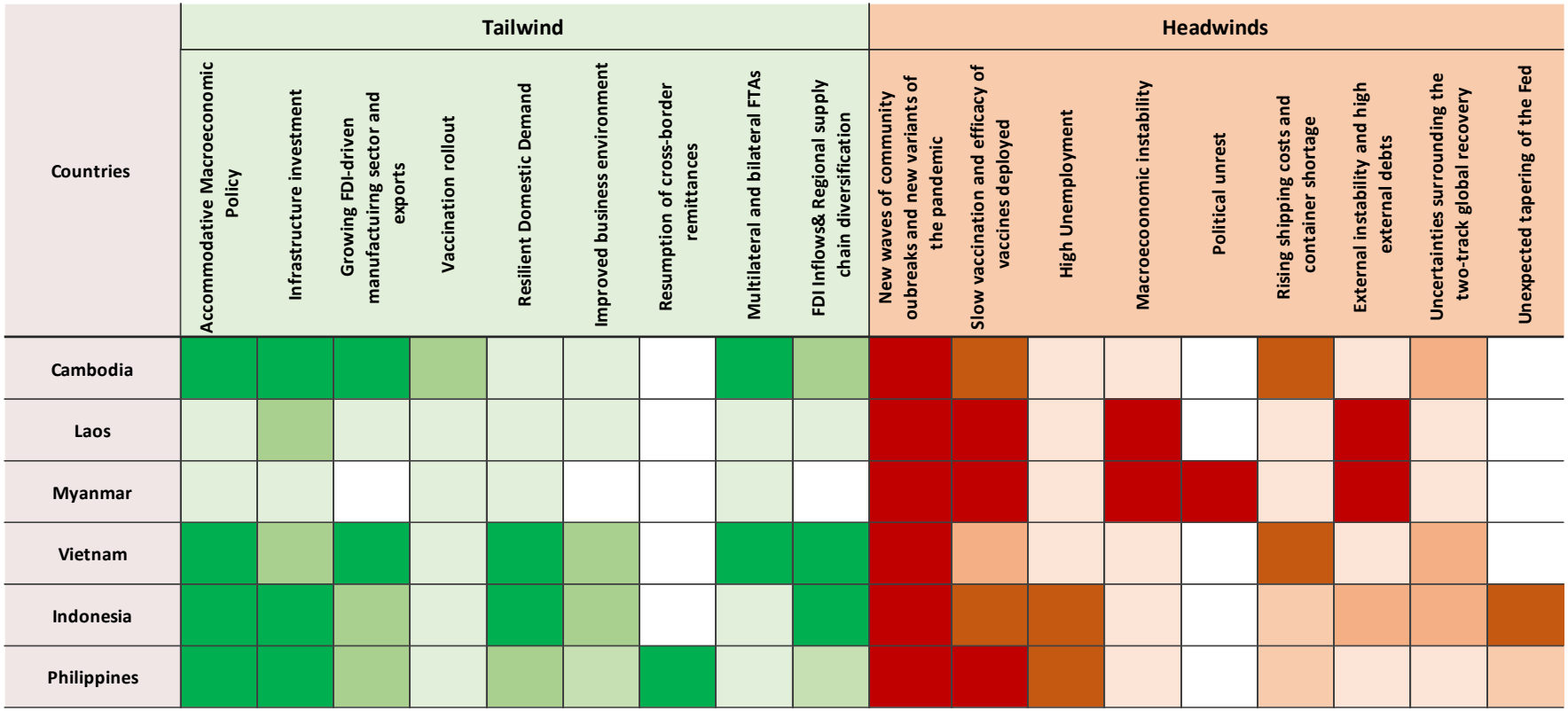
Source: CEIC, Krungsri Research

Krungsri Research's view

- **The ongoing political crisis has dampened Myanmar's near-term growth prospects, and it will not realize the high-potential trajectory in the medium-term.** In FY2020/21, the country would be hit hard by both the pandemic and political crisis. Therefore, it will suffer from a deep and extended economic slump in the near-term.
- **FDI inflows would fade in the medium-term because of the extended political crisis**. The diversion of FDI away from Myanmar would further weigh on exchange rates and external stability, against the backdrop of weak manufacturing exports triggered by domestic outbreaks and civil disobedience measures (CDMs). Over the past decade, in addition to financing persistent twin deficits, FDI has also played crucial roles in driving the export-oriented and labor-intensive manufacturing sector, as well as provided job and income opportunities for the sizeable young workforce. In 2019, the sector accounted for about 25% of GDP.

Key takeaways: ASEAN economies are on track to recover from the pandemic-induced recession. But there are risks to the near-term outlook

Tailwinds and headwinds that could influence ASEAN growth trajectory in 2H21



Note: The more green means the stronger tailwinds, while the more red means the stronger headwinds. Only 6 countries, CLMV plus Indonesia and the Philippines, are covered here.

Source: Krungsri Research

Issues to watch: Vaccination rollout to curb new cases is a common challenge for ASEAN region

Key issues to watch for selected ASEAN countries in 2H 2021

	Issues to watch
Cambodia	• Vaccination rollout and ability to control community outbreaks
Lao PDR	• External stability and external debt payments • Ability to control domestic outbreaks and deployment of vaccines
Myanmar	• Political stability • Macroeconomic and external stability • Financial sector stability • Control of local outbreaks and VoC
Vietnam	• Resurgence of community outbreaks and VoC • State of global economic recovery
Indonesia	• Timely and effective deployment of vaccines • Unexpected Fed tapering and disruptions to global financial markets • High unemployment • Efficacy of vaccines deployed
Philippines	• Resurgence of community outbreaks and VoC • High unemployment • Sufficient supply and efficacy of vaccines deployed

Source: Krungsri Research

KRUNGSRI RESEARCH

Somprawin Manprasert, Ph.D. — **Head of Research Division and Chief Economist**

Phornphan Phoksuphat — Head of Macroeconomic and Industry Research

Macroeconomic Team

- Sujit Chaivichayachat — Head of Macroeconomic Research
- Chamadanai Marknual, Ph.D. — Senior Economist
- Churailuk Pholsri — Senior Economist (Forecasting)
- Sathit Talaengsatya — Senior Economist (Regional Economy)
- Kusalin Charuchart — Economist

Industry Team

- Taned Mahattanalai — Senior Analyst (Digital)
- Poonsuk Ninkitsaranont — Senior Analyst (Healthcare, Mobile Operators)
- Piyanuch Sathapongpakdee — Senior Analyst (Transport & Logistics)
- Narin Tunpaiboon — Senior Analyst (Power Generation, Modern Trade, Chemicals, Medical Devices)
- Puttachard Lunkam — Analyst (Hotels, Construction Contractors, Construction Materials, Industrial Estate)
- Patchara Klinchuanchun — Analyst (Real Estate)
- Wanna Yongpisanphob — Analyst (Automobile, Electronics & Electrical Appliances, Food & Beverages)
- Chaiwat Sowcharoensuk — Analyst (Agriculture)
- Aphinya Khanunthong — Analyst (Energy, Petrochemicals)

Intelligence Team

- Pimnara Hirankasi, Ph.D. — Head of Intelligence Team
- Rachot Leingchan — Analyst
- Arpakorn Nopparattayaporn — Analyst
- Chutipha Klungjaturavet — Analyst

MIS and Reporting Team

- Suratchanee Somprasong — Administrator
- Thamon Sernsuksakul — Administrator
- Chirdsak Srichaiton — MIS Officer
- Wongsagon Keawuttung — MIS Officer

Subscribe Us

For research subscription, contact

krungsri.research@krungsri.com

Disclaimer

All material presented in this report, unless specifically indicated otherwise, is under copyright to Krungsri Research. None of the material, nor its content, nor any copy of it, may be altered in anyway, or copied to any other party, without the prior express written permission of Krungsri Research. This document is based on public information believed to be reliable. Nevertheless, Krungsri Research would not affirm the accuracy and completeness of this information. We accept no liability whatsoever for any direct or consequential loss arising from any use of this document or its content. Information, opinions and estimates contained in this report are our own, which are not necessarily the opinions of Bank of Ayudhya Public Company Limited and its affiliates. It reflects a judgment at its original date of publication by Krungsri Research and are subject to change without notice.