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REGIONAL ECONOMIC OUTLOOK 2025

January 2025



Krungsri Research

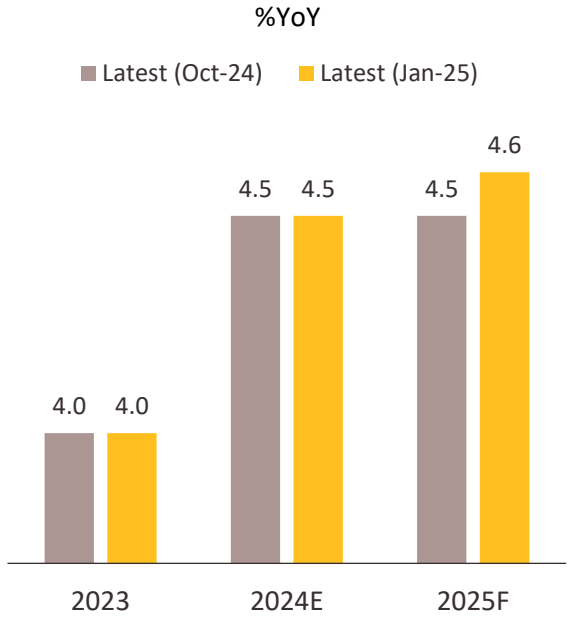
ASEAN: Steady growth on the horizon, but brace for turbulence—domestic resilience and policy flexibility are key to weathering global headwinds.

- **In 2024, ASEAN-5 is anticipated for a stronger growth, with GDP estimated to expand by an average of 4.5%,** an improvement over the previous year at 4%. This acceleration was driven by resilient domestic and external demand across most ASEAN-5 countries. In addition, foreign direct investment (FDI) continued to boost growth, supported by global supply chain diversification, which has positioned ASEAN as a top investment destination.
- **Looking ahead to 2025, ASEAN-5's economic momentum is expected to remain steady, with 4.6% growth.** However, downside risks are expected, particularly from softer external demand, especially in the US and China, and heightened trade tensions, which may impact countries with trade-dependent growth model, particularly Vietnam and Cambodia. In contrast, ASEAN economies with resilient internal growth drivers will be more immune. **We anticipate that domestic consumption and investment will play a major role in sustaining ASEAN's economic resilience in 2025.**
- **The new U.S. administration's trade policy has varying impacts on ASEAN economies.** High trade exposure may make some ASEAN countries more vulnerable in the short term, despite the positive substitution effect. In the medium term, ASEAN could gain as an alternative production hub for certain goods. However, the benefits may be less pronounced compared to the previous round of tariffs, as a broader tariff scenario could subject ASEAN to higher tariffs. Furthermore, overcapacity in China leads to increased imports, and implementing a Global Minimum Tax (GMT) further complicates the situation.
- **The implementation of the GMT poses challenges for ASEAN**, as it could reduce the attractiveness of the region's low-tax regimes for foreign investment. However, some countries, such as Vietnam and Indonesia, have introduced incentives and policies to mitigate the impact and maintain their competitiveness as investment destinations.
- **ASEAN's monetary policy stance in 2025 is expected to lean toward easing.** However, this trajectory faces risks from potential global financial tightening, driven by escalating trade tensions that could trigger risk-off sentiment and limit monetary policy flexibility across the region. The inflationary impact of trade tensions will vary significantly between countries, influenced by differences in currency movements, trade exposure, and domestic economic conditions. While central banks may aim for a more accommodative stance, supported by an anticipated easing by the Fed, the evolving global environment could influence the timing and scale of rate adjustments.

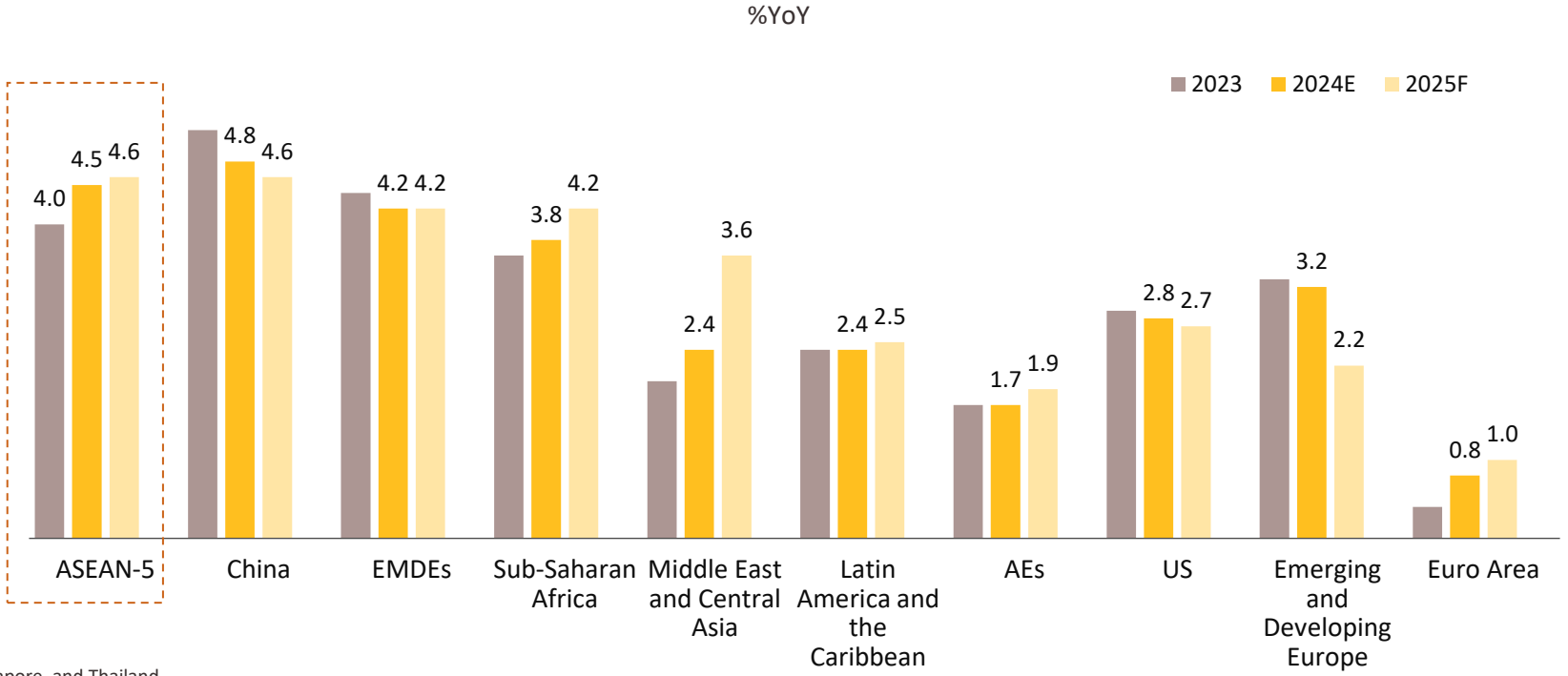
Steady and resilient growth, with drivers potentially shifting more inward in 2025

- **ASEAN-5 economies are projected for stronger growth in 2024, with GDP projected at 4.5%, up from 2023.** In the first half of 2024, the region showed strong growth, exceeding projections in most countries. **Both domestic and external demands were key drivers of this expansion. In addition, foreign direct investment (FDI) is another significant growth driver for ASEAN in 2024**, supported by global supply chain diversification, and is expected to continue contributing to the region's medium-term development. However, escalating trade tensions could pose risks to FDI inflows.
- **In 2025, growth momentum is expected to be sustained, with ASEAN-5 forecast to expand to 4.6%. However**, downside risks persist. Weaker demand in key trading partners and intensifying trade tensions—leading to rising imports from China and volatility in global financial conditions—could challenge the region's trade-driven and externally financed economies. Climate-related events and Global Minimum Tax (GMT) implementation add further uncertainty to the outlook. These headwinds are likely to push ASEAN economies to rely more on internal drivers, with domestic consumption and investments expected to serve as the main drivers of ASEAN's economic resilience.

IMF's ASEAN-5 GDP Growth Projection



IMF's GDP Growth Projection for Different Regions

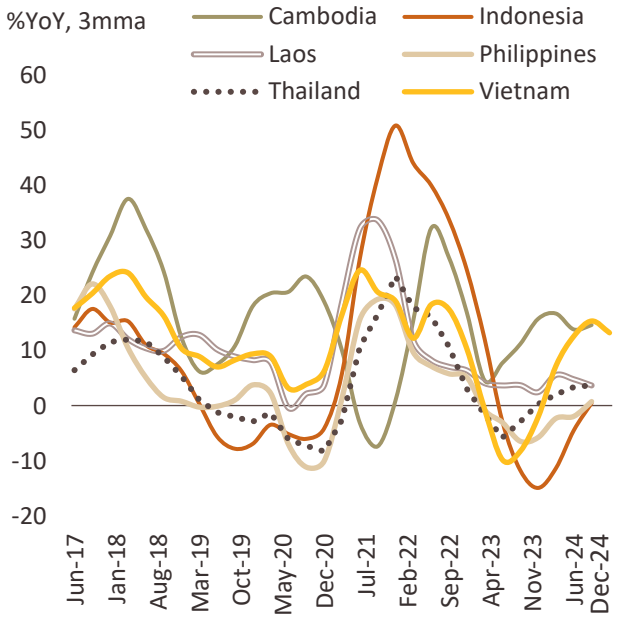


Note: ASEAN-5 economies refer to Indonesia, Malaysia, the Philippines, Singapore, and Thailand.
Source: IMF WEO Database (Jan 2025), CEIC, and Krungsri Research

In 2024, exports and domestic consumption are the main drivers.

- **Exports saw broad-based growth across countries in 2024**, with Vietnam benefiting greatly from the electronics sector. This rebound boosted industrial activity, reflected in improved manufacturing PMI in most countries. The momentum is expected to persist into 2025, driven by demand for technology products and diversified manufacturing exports, though weaker support from the trade cycle may pose challenges. International tourism growth slowed to marginal gains following its sharp recovery in 2023.
- **Domestic consumption remains resilient, as evidenced by improved retail sales and higher real wages**, supported by lower inflation and minimum wage hikes. Inflation in most ASEAN countries (except Lao PDR) has largely returned to or is approaching central bank targets after prolonged monetary tightening and declining commodity prices. Softer inflation and stronger local currencies created room for policy rate cuts in 2H2024. To support real income growth, ASEAN governments, including those in Indonesia, the Philippines, Vietnam, Cambodia, and Lao PDR, raised minimum wages in 2024. **Easing inflation, stabilized wages, and further relaxed monetary policies are expected to continue supporting domestic consumption and investment in 2025**

Regional Export Growth

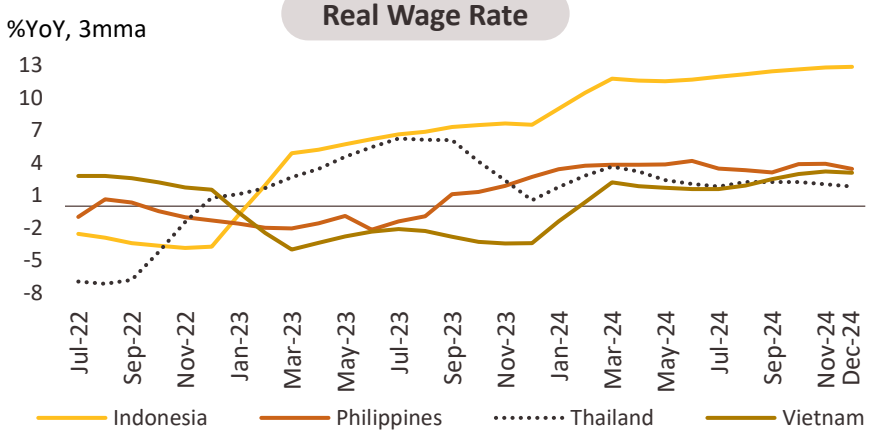


S&P Global Manufacturing PMI

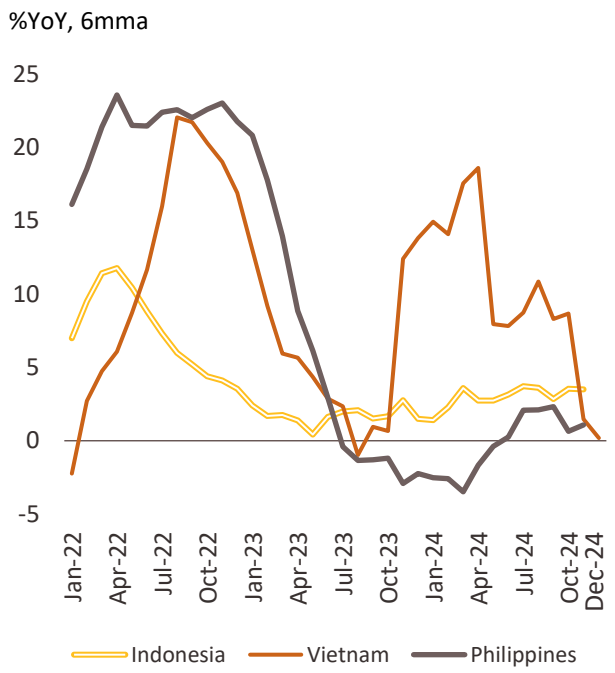
> 50 indicates expansion from previous month

	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24
Global	48.9	49.0	50.3	50.7	49.3	49.7
Indonesia	53.2	51.8	53.3	51.9	49.1	50.0
Philippines	50.7	52.2	50.9	51.8	52.0	53.7
Malaysia	47.5	47.5	49.0	49.7	49.6	49.1
Myanmar	51.4	46.7	46.4	50.9	45.8	49.5
Thailand	49.1	46.7	47.0	50.2	51.7	50.5
Vietnam	49.6	48.6	50.2	51.8	51.5	50.6

Real Wage Rate



Retail Sale

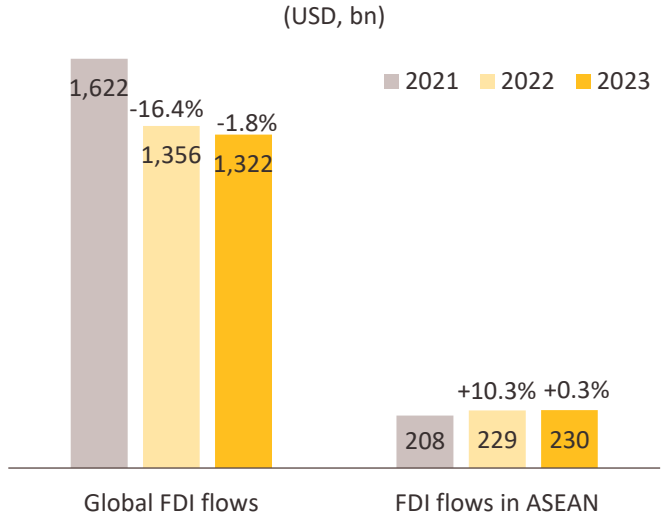


Source: IMF WEO Database (October 2024), CEIC, and Krungsri Research

ASEAN's manufacturing FDI surge amid trade tensions

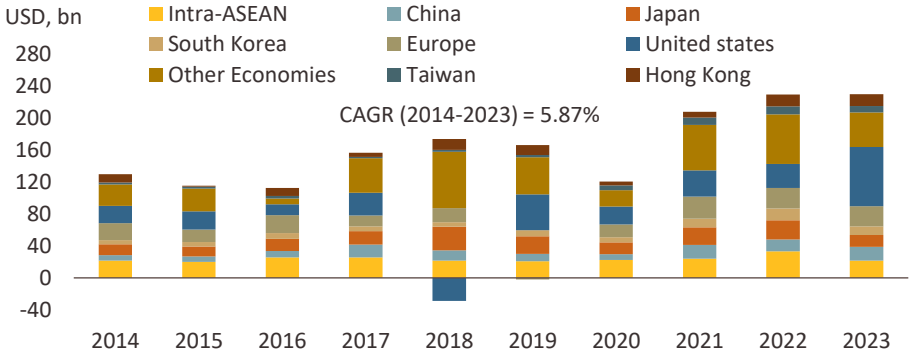
- **Amid shifting global dynamics and supply chain diversification, ASEAN continues to be a top destination for FDI**, accounting for 17% of global inflows in 2023. Despite a global dip in FDI, ASEAN achieved a record-high inflow of USD 230 bn in 2023, marking its third consecutive year leading FDI recipients. **This trend supports ASEAN's ongoing economic development, suggesting that FDI could complement domestic consumption as a pillar of growth.**
- The US doubled its direct investment abroad to USD 74 bn in 2023, largely targeting Singapore's financial sectors, while China's rose nearly 20% to USD 17 bn, focused on manufacturing and real estate. The growing shares from the U.S. and China underline ASEAN's rising strategic base for supply chain relocation.
- **From 2014 to 2023, cumulative FDI in ASEAN (except Singapore) underscores manufacturing as a key sector, reflecting the region's role as a global hub for electronics and greenfield projects**. Wholesale and retail trade followed, driven by the region's expanding consumer market. Additionally, renewable segments and the digital economy are emerging FDI industries, driven by energy transition policies and rising demand for digital infrastructure. **With its strong potential, ASEAN is expected to attract growing investment and emerge as a hub for these sectors. However, escalated trade tensions and GMT could affect FDI inflows into the region.**

Global and ASEAN FDI Flows

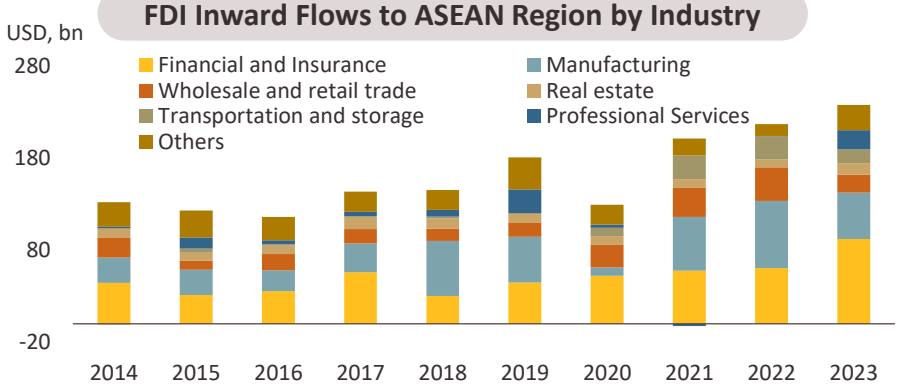


In 2023, the five largest inflows are from the United States (32.35%), China (7.53%), Hong Kong (6.54%), Japan (6.33%), and Singapore (6.3%).

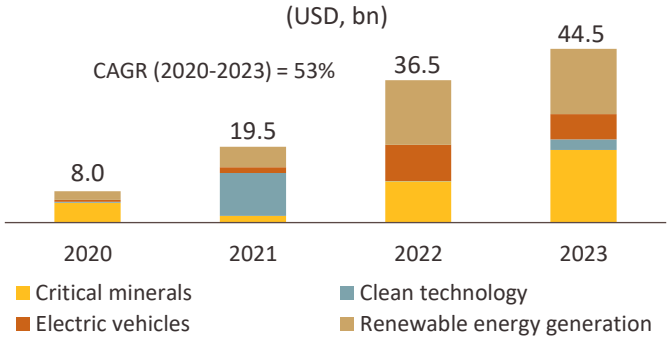
Sources of FDI Inward Flows to ASEAN Region



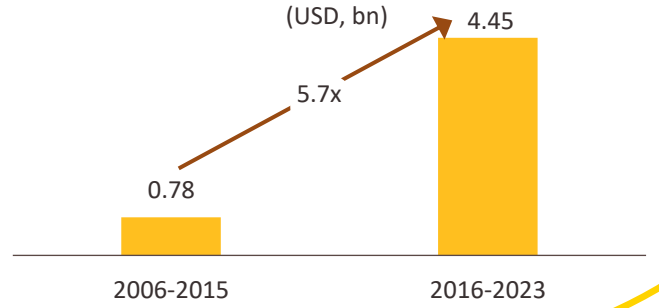
FDI Inward Flows to ASEAN Region by Industry



FDI Renewable Segments to ASEAN



Greenfield Investment in Communication, Data Processing and Hosting to ASEAN

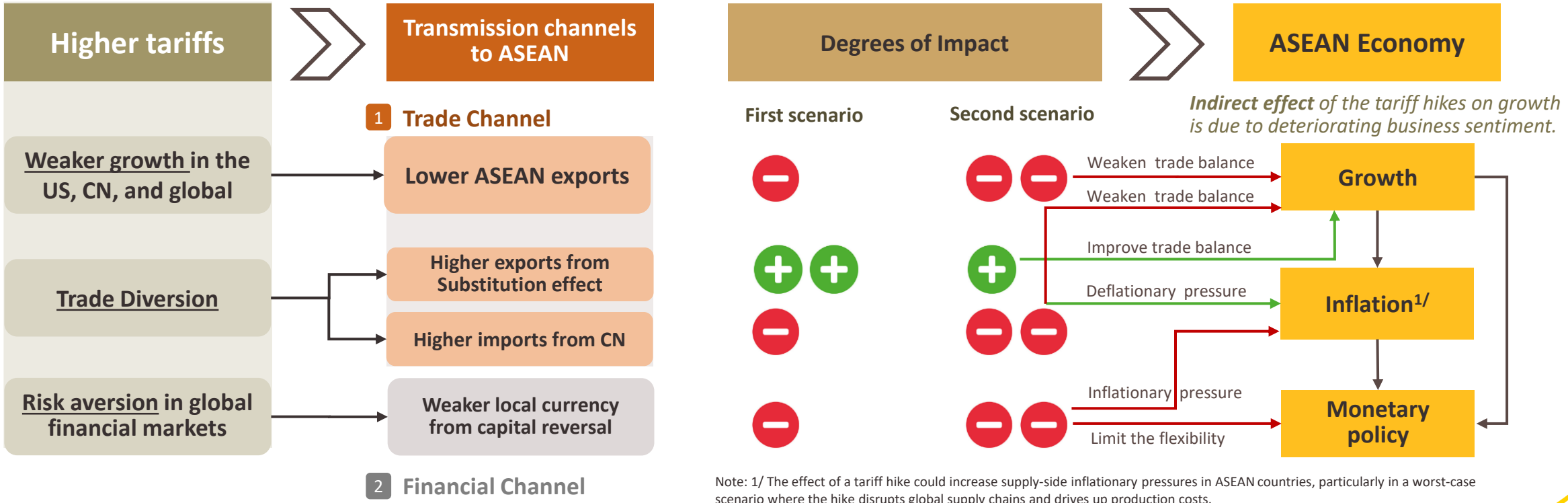


Source: AIR 2024 (ASEAN Secretariat and UNCTAD), UNCTADstat, ASEANstats, and Krungsri Research

Scenarios of Trump's new tariff and impact on ASEAN: (i) a substantial 60% tariff on all Chinese goods and (ii) expanding tariffs to 10-20% on all imports were proposed

As Trump was reelected, his current proposals could be more severe than those previously implemented. In the first scenario, the high tariff will weaken global demand. However, ASEAN countries could see increased demand for certain products as substitutes, benefiting from production shifts out of China. **In the second scenario,** where tariffs also affect imports from other countries, the impact could be more severe, with more deteriorated growth for major economies like the U.S. and China. Tighter global financial conditions, reflected in a stronger dollar and higher U.S. Treasury yields, may limit monetary policy flexibility. Both scenarios could lead to a flood of cheap imports from China due to oversupply, potentially harming domestic manufacturers. Indirectly, higher tariffs could dampen business sentiment, undermining economic growth in ASEAN. **However, the proposed tariffs would have varying economic impacts depending on the rates implemented and the characteristics of each country.**

Short-term impact of Trump's tariffs on ASEAN



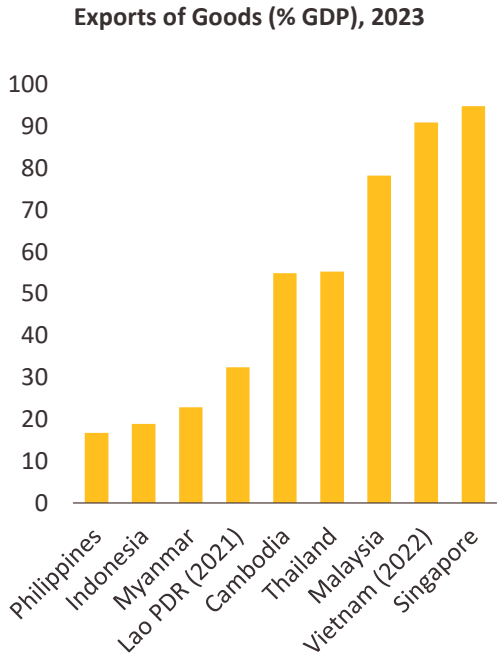
Source: Krungsri Research

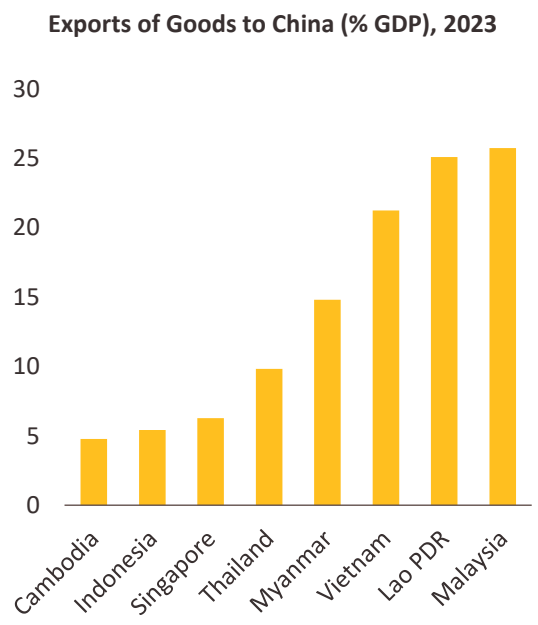
Note: 1/ The effect of a tariff hike could increase supply-side inflationary pressures in ASEAN countries, particularly in a worst-case scenario where the hike disrupts global supply chains and drives up production costs.

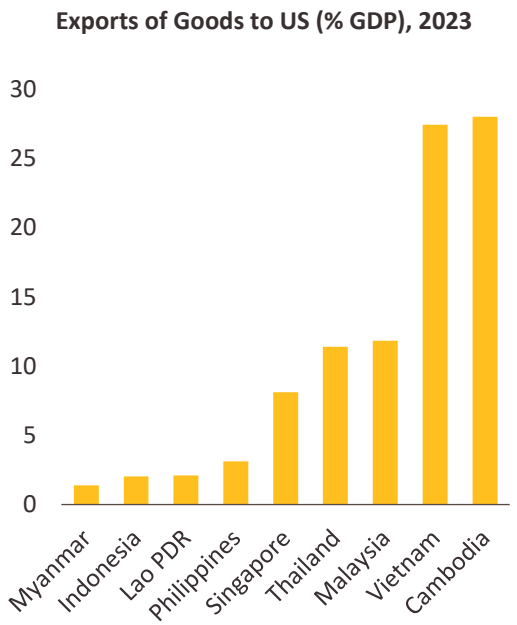
For short-term impact, the effects on individual economies would differ based on trade exposure to China and the US.

ASEAN, particularly trade-dependent economies, has been a key beneficiary of US-China trade tensions since 2018. This has been driven by the substitution effect, with gains observed in sectors such as electronics, electrical equipment, and textiles. This is also known as 'trade diversion'. **However, the benefits may be less pronounced compared to the previous round of tariffs as a broader tariff scenario could subject ASEAN to higher tariffs.** This would adversely affect countries with high trade exposure. **Simultaneously, intensified competition from Chinese exporters in non-US markets could pose challenges to Asian economies with similar export profiles**, such as Vietnam and Thailand. Notably, Vietnam, a primary beneficiary during Trump's first term, may attract unwanted scrutiny from the new US administration due to its rapidly growing trade surplus with the US.

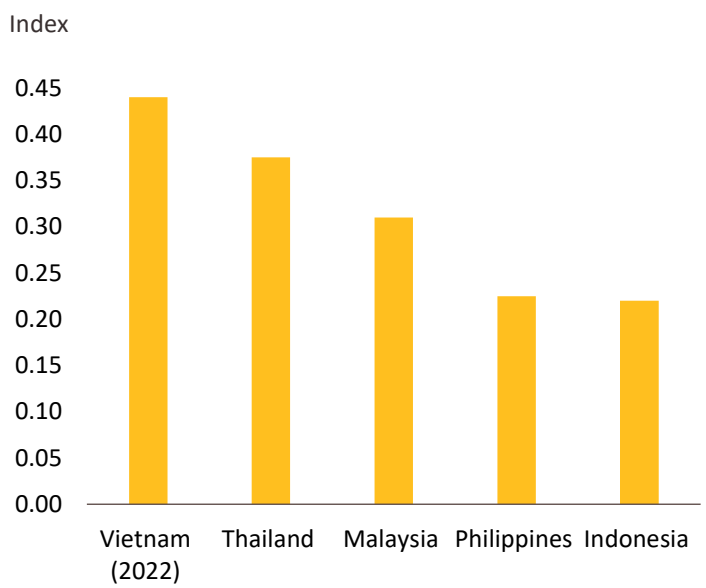
Trade Openness and Trade Exposure to China and US







Export Similarity to China in 2023



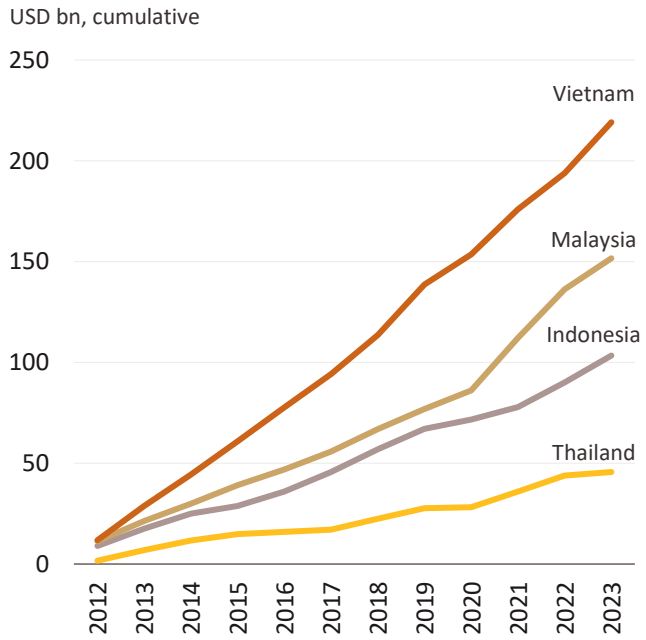
Note: A value of zero indicates no export similarity, while a value of one indicates complete similarity with China's exports, calculated using 6-digit HS codes.

Source: WTIS, CEIC, and Krungsri Research

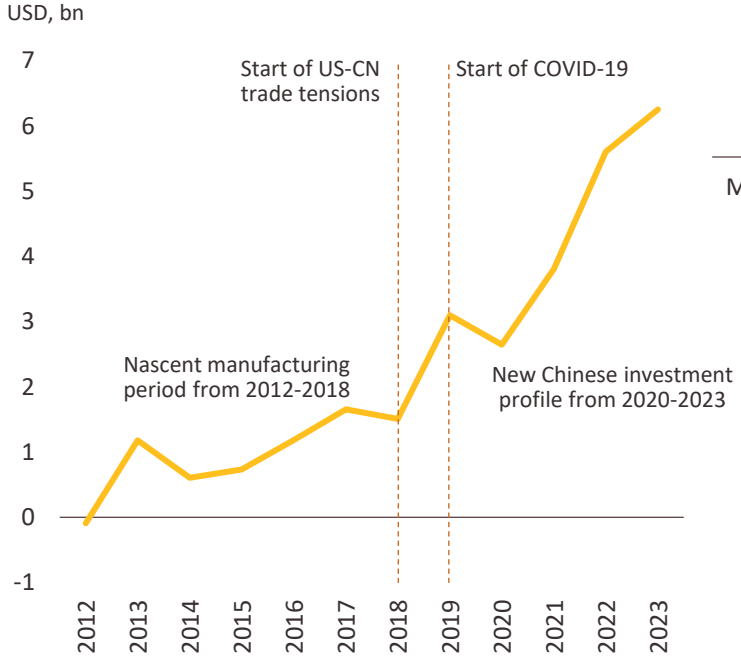
For medium-term impact, renewed US-CN trade war should hasten China+1 and de-risking out of China.

The escalating US-China trade tensions are likely to accelerate 'China+1' strategies, prompting companies to diversify production locations outside China, benefiting ASEAN countries. Since the last trade war, ASEAN has experienced a surge in manufacturing FDI. Although China's share of ASEAN manufacturing FDI remains lower than that of the U.S. and the EU, Chinese investment in ASEAN has been growing since 2018—the year that marked the onset of U.S.-China trade tensions—with the manufacturing sector experiencing the most notable growth, particularly in electronics and EVs. Indonesia leads in EV-related investments, Vietnam in electronics, and Cambodia and Lao PDR in textiles and hydropower. Rising demand for products and intensifying trade tensions are expected to drive further Chinese FDI expansion in ASEAN. **However, the benefits could be limited or could turn to net losses in the case that the US imposes tariffs on countries with manufacturing bases closely tied to China and/or with high trade surpluses with the U.S.**

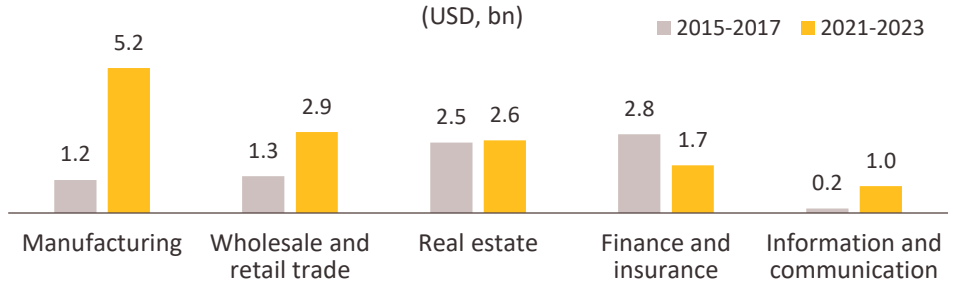
Manufacturing FDI in ASEAN: breakdown by recipient counties



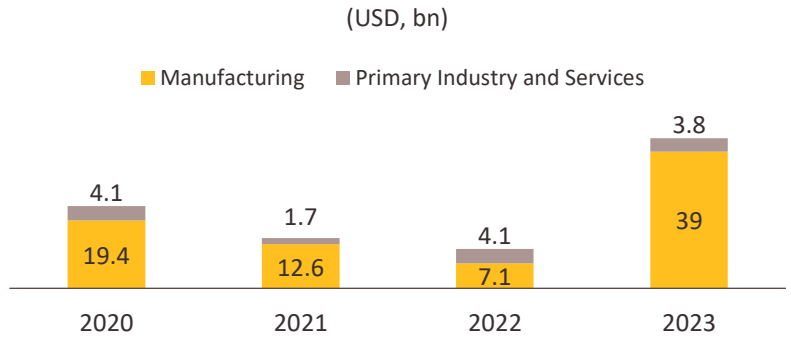
Chinese Manufacturing FDI in ASEAN



Major Industries Invested by Chinese Companies, Annual Average



Chinese Greenfield investment in ASEAN

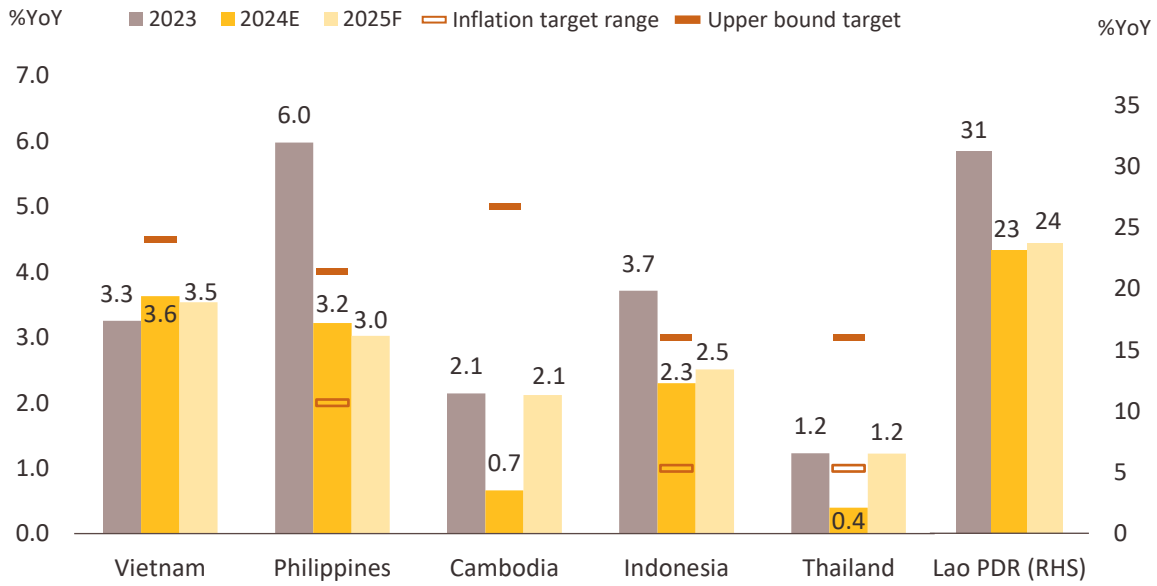


Source: AIR 2024 (ASEAN Secretariat and UNCTAD), UNCTADstat, ASEANstats, and Krungsri Research

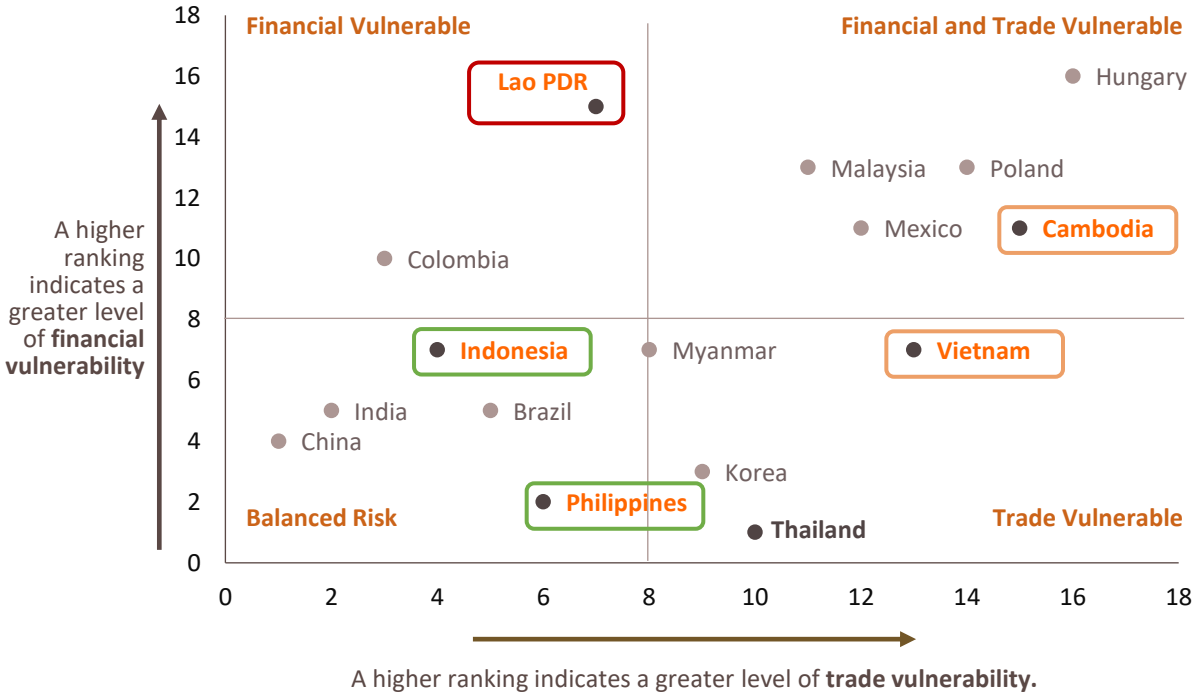
Impact on ASEAN monetary policy is shaped by a mix of growth, inflation, and global financial conditions.

The impact on monetary policy in the ASEAN region depends on growth, inflation, and sensitivity to global financial conditions. The growth impact varies by country, depending on trade characteristics. **Inflation, however, is more complex**. On one hand, an influx of cheaper Chinese products could suppress inflation; on the other, currency depreciation could increase inflationary pressures. The inflation impact then depends on which of these factors dominates in specific countries. More crucially, the response of each central bank depends on its sensitivity to global financial conditions. Indonesia, despite being less open to trade, has one of the most responsive central banks to global financial tightening. That said, we believe that barring a worst-case scenario where trade tensions trigger significant risk-off sentiment in global financial markets, **central banks in the region are likely to resume rate cuts, aligning with the Fed's expected easing stance in 2025. However, the timing and scale of these rate cuts are likely to vary significantly across ASEAN countries.**

Inflation Projection by the IMF and Inflation Target



EM External Vulnerability Metrics



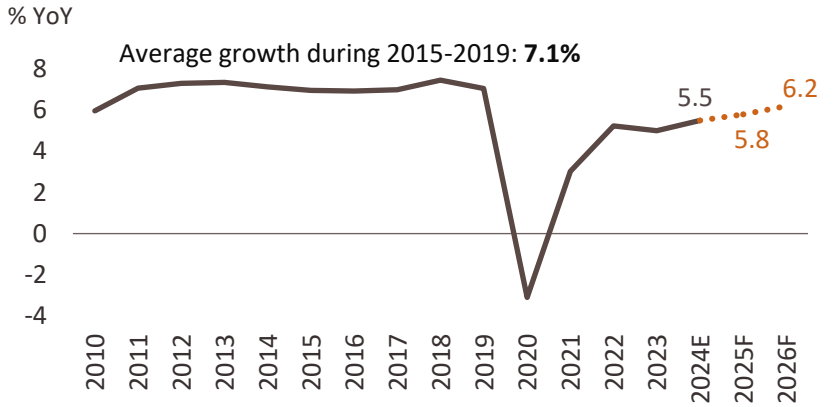
Source: World Bank, WTIS, IMF WEO (October 2024), IIF, CEIC, and Krungsri Research

Note: Financial vulnerability metrics used in the analysis include twin deficit, FX reserves cover (months of imports) and share of short-term debt to total reserves. Trade vulnerability metric is each country's export exposure to the US, China, and Europe relative to GDP

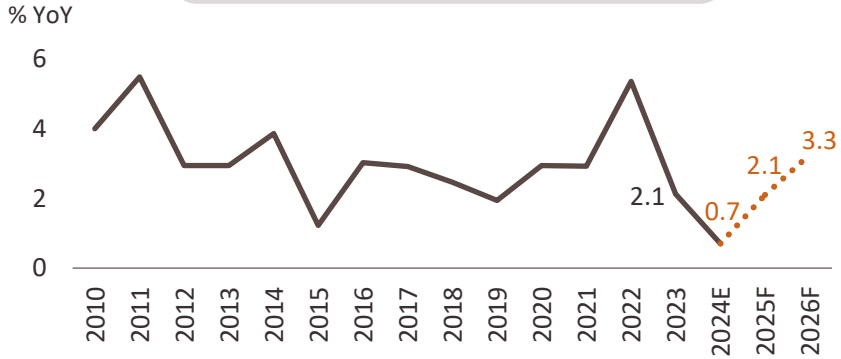
Cambodia: Steady growth amid recovering exports and tame inflation, yet risks loom.

- **Growth in 2025 is expected to reach 5.8%, mainly supported by continued momentum in export-oriented sectors, particularly the garment industry, as well as a recovery in the tourism sector.** However, subdued real-estate-related activities could continue to pose a challenge to the real economy if officials are unable to find alternative drivers sustainably.
- **Inflation in Cambodia is expected to increase to 2.1% in 2025, but it is expected to support domestic consumption,** driven by steady food production and a relatively stable exchange rate. **Key risks to Cambodia's economy include slowing Chinese FDI and rising trade tensions which could negatively affect its investment and exports and exacerbate the vulnerabilities of its highly leveraged financial system.**

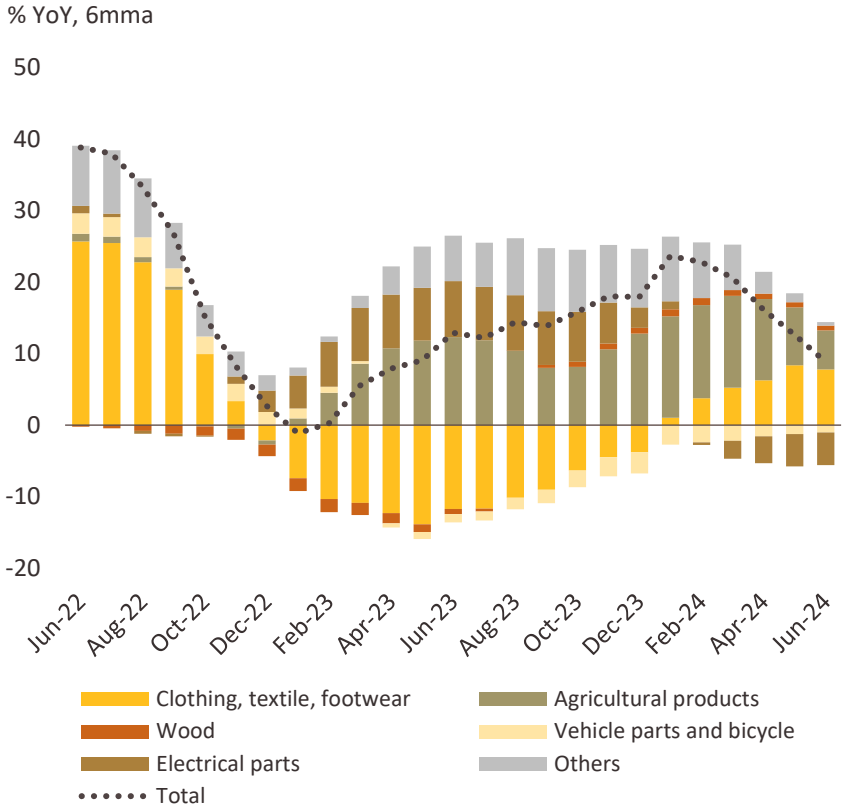
IMF's Annual GDP Growth Projections



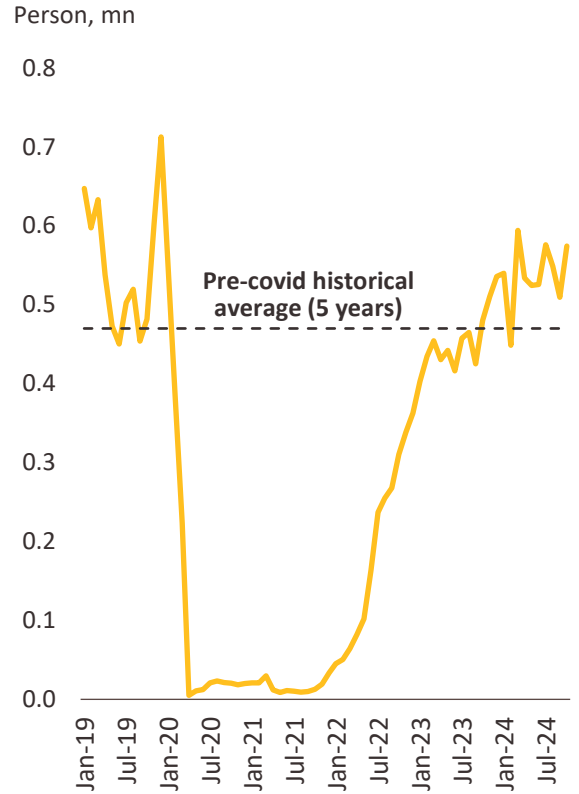
IMF's Annual Inflation Projections



Contribution to goods exports



Visitor Arrivals

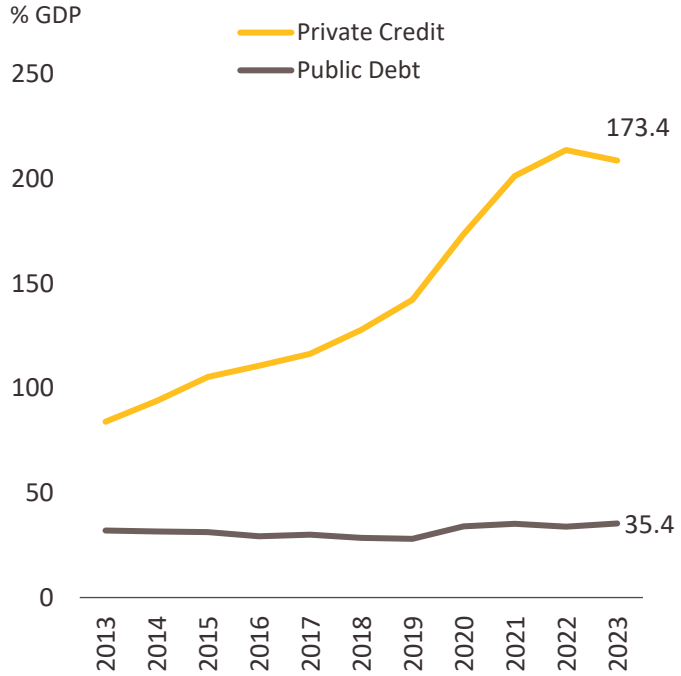


Source: IMF, World Bank. CEIC, and Krungsri Research

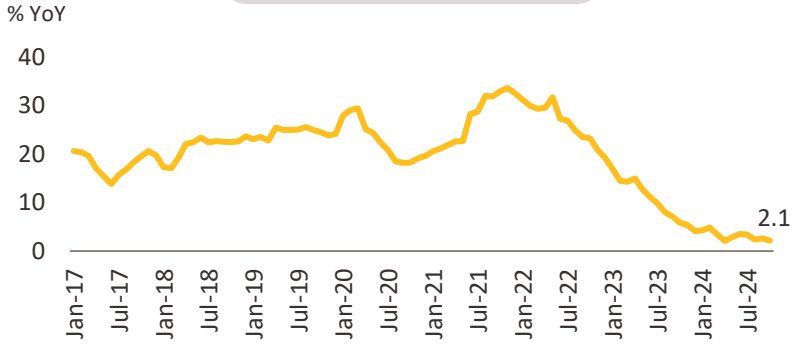
Public debt is manageable, but high private debt poses significant risks.

- **Public debt to GDP remained low at 35.4% in 2023.** The IMF projected that the debt ratio would increase moderately due to higher financing costs of the fiscal deficit, though the risk of debt distress remains low.
- **Private credit to GDP remains high at 173.4% at end-2023 and the largest share of private debt pertains to the corporate sector**, according to the IMF. **However, domestic credit growth has slowed significantly since mid-2022, weighing on private consumption,** driven by **i) subdued construction activity** as the property market has corrected following a period of overinvestment, and **ii) persistent upward pressure on domestic interest rates since mid-2022**. In line with higher U.S. rates and the managed-peg regime, the NBC increased bank reserve requirements for USD from 7% to 9% in 2023, and then to 12.5% in 2024. Consequently, the USD-denominated loan interest rate rose to 10.8% in August 2024, up from 9.9% during the same period in 2023. **However, this upward pressure is expected to ease following the Fed's policy rate cut starting in September 2024. Despite the slowdown in credit growth, banks' asset quality has deteriorated, as reflected by the rise in NPL ratios to 6.8% by mid-2024.**

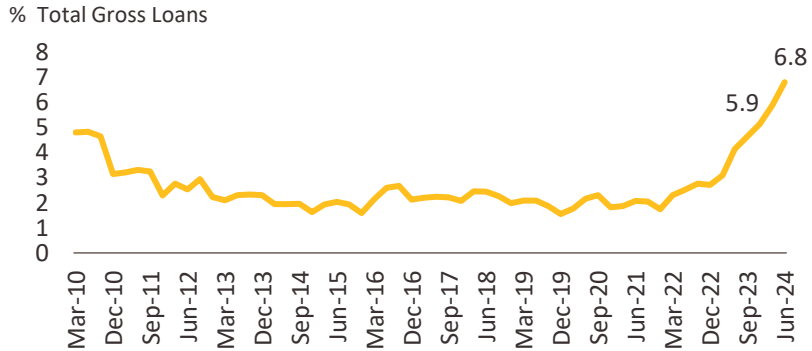
Debt to GDP



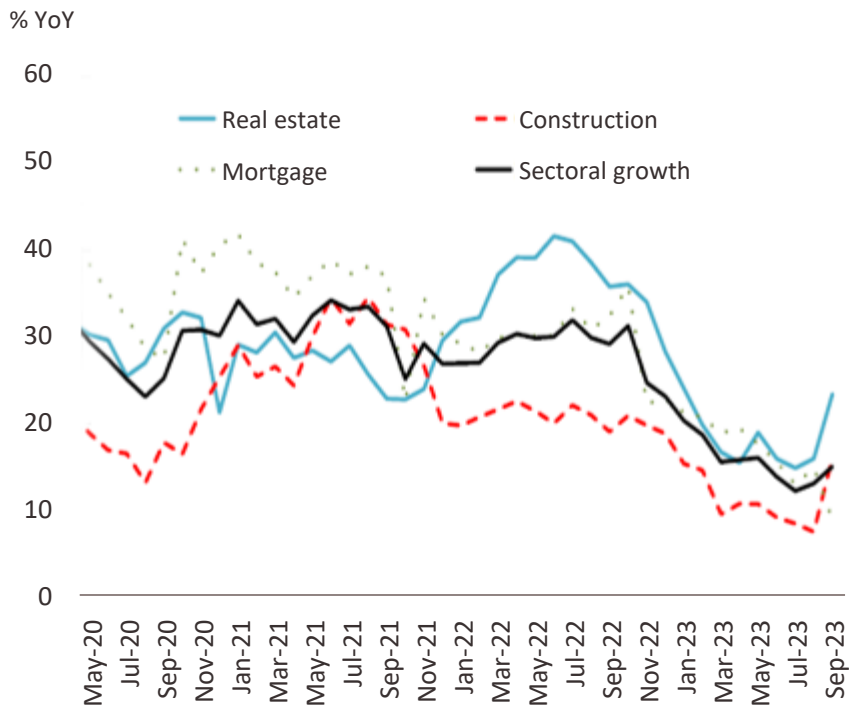
Domestic Credit



Non-preforming Loans



Real Estate Related Credit Growth



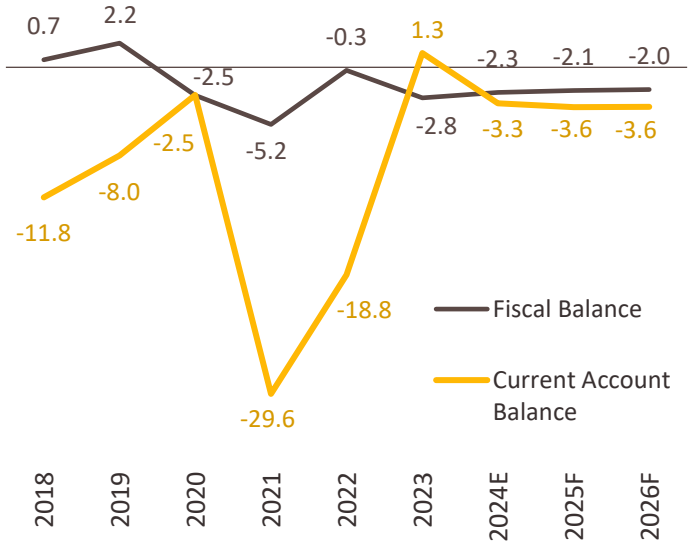
Source: IMF, World Bank. CEIC, EIA, Krungsri Research

A potential decline in Chinese FDI and heightened trade conflicts become key risks.

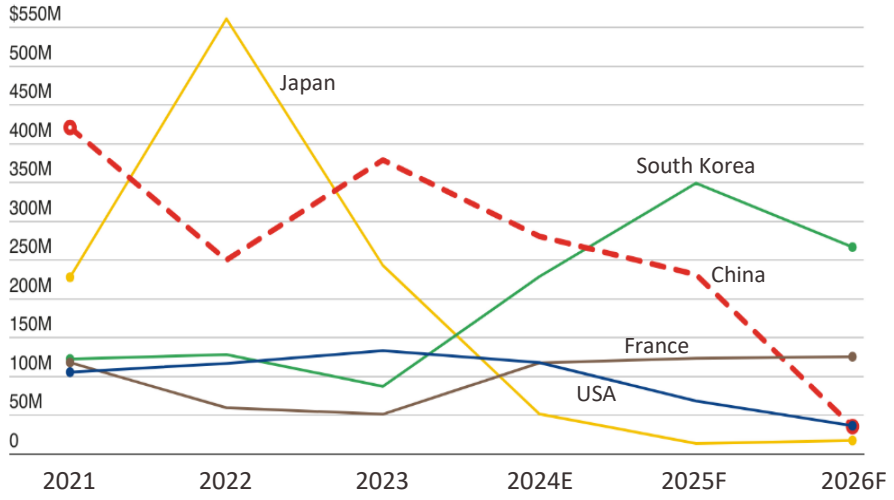
- **External finance dependence, reflected by the twin deficits, in Cambodia is heavily supported by FDI, which remains largely concentrated in investments from China** (accounted about half of FDI inflows, according to the World Bank)**. However, FDI inflows could slow,** as reports[1/]suggest that China may reduce its overseas investments due to its own economic challenges, including domestic demand slowdowns and tighter regulations on foreign investments. A reduction in Chinese FDI, particularly in real estate and infrastructure projects—such as the Funan Techo Canal project—could pose risks to the economy.
- **Trade tensions could impact Cambodia through both trade and financial channels**. A potential global economic slowdown, following tariff hikes, could reduce demand for Cambodia's exports, negatively affecting growth. Specifically, U.S. tariffs on solar panels and solar cells pose a threat to Cambodia's solar energy sector. Financially, Cambodia's highly leveraged system may face tighter liquidity due to the tightening of global financial conditions, further stressing the economy.

Twin Deficits

% of GDP



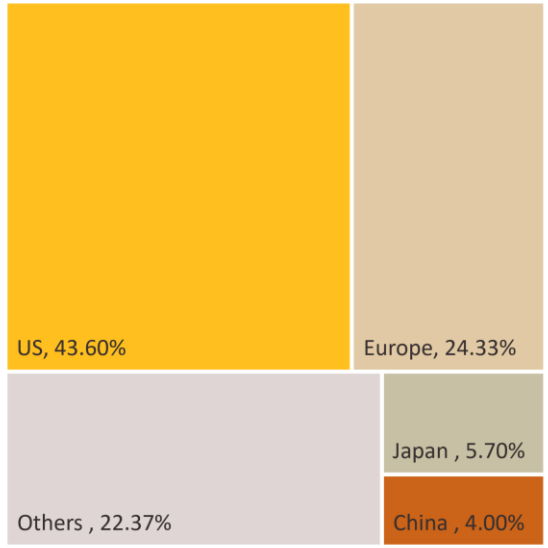
Loans, grants under ODA[2/] projects to Cambodia



Note: Funding from 2024 is based on commitments; earlier funding indicates actual disbursements
Source: Council for Development of Cambodia / by Francesco Guarascio, Reuters, October 2024

Export Partner Share

% share, 2023



Exports of goods and services was at 73.15% of GDP in 2023

Note: 1/ A Reuters article published on December 11 noted that China, the largest creditor over a decade, did not approve any loans to Cambodia in 2024, citing third-quarter data from Cambodia's finance ministry. The absence of new loans and silence on the canal project reflect China's increasingly cautious approach to financing large-scale projects, particularly those with uncertain returns.

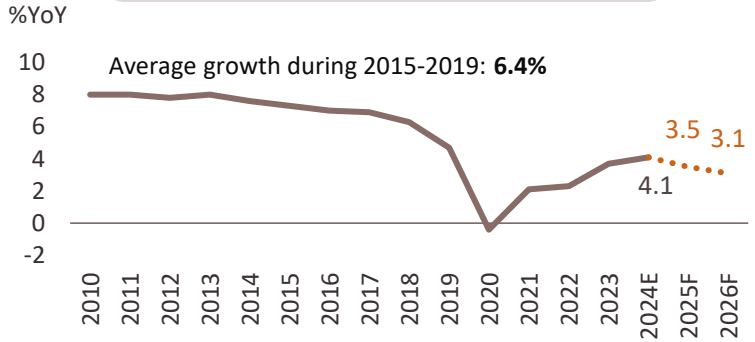
2/ ODA stands for Official Development Assistance loans, which support developing countries by providing low-interest, long-term and concessional funds to finance their development efforts.

Source: IMF, Reuters, WITS, and Krungsri Research

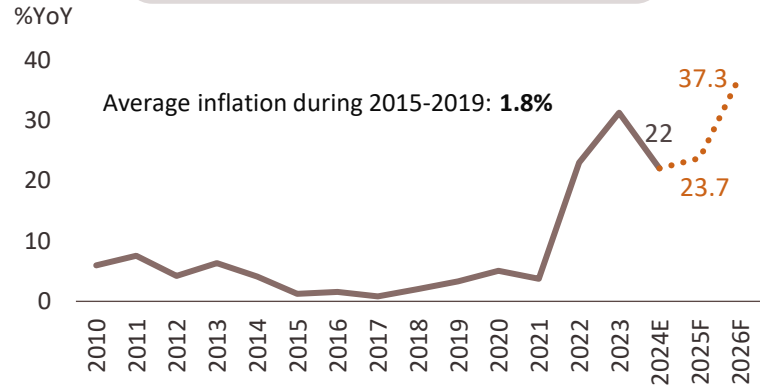
Lao PDR: Medium-term growth dimmed by persistent instability.

- **Lao PDR's growth is projected to reach 4.1% in 2024** up slightly from 3.7% in 2023, **driven by the services sector, natural resources exports** (potassium and gold), **and FDI.** Electrical and electronic goods exports surged, signaling diversification, while electricity remains the key contributor despite drought impacts. **The IMF has revised Laos' GDP growth forecast for 2025 to 3.5%** from 4% in its April 2024 projection, citing persistent inflationary pressures that constrain domestic activities. Despite tighter monetary policies in 2024, including policy rate hikes (from 7.5% to 10.5%) and higher reserve requirements, **inflation remains elevated due to a prolonged weak local currency.**
- Medium-term growth is constrained by macroeconomic instability, including currency depreciation pressures, hyperinflation[1/], and high external debt, compounded by rising external risks such as trade tensions. Moreover, while government asset sales may temporarily ease debt burdens until 2025, they risk reducing future state revenue and are not a sustainable solution for Laos' financing needs. Without fiscal and monetary reforms to build a buffer, these challenges could persist, placing a significant drag on economic growth over time.

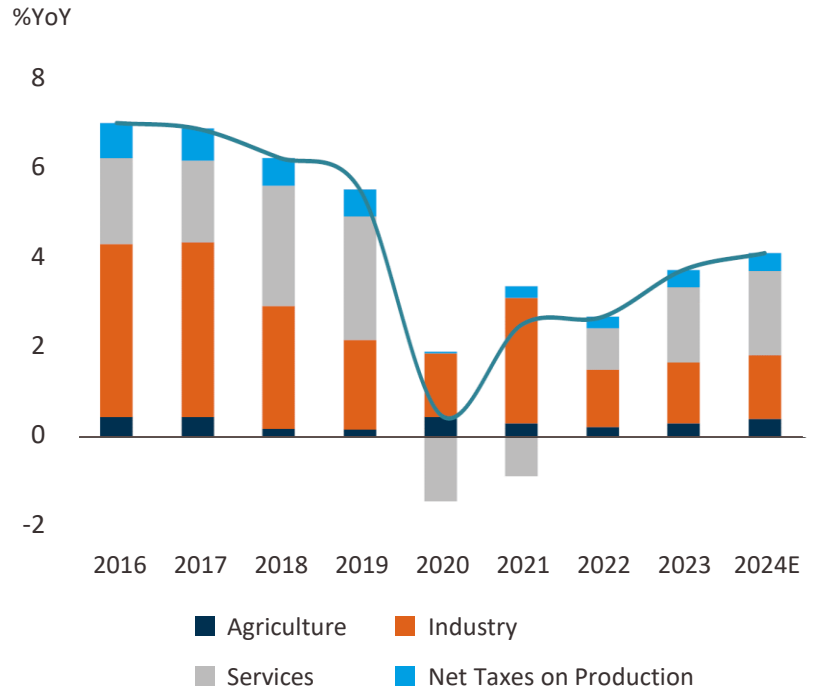
IMF's Annual GDP Growth Projections



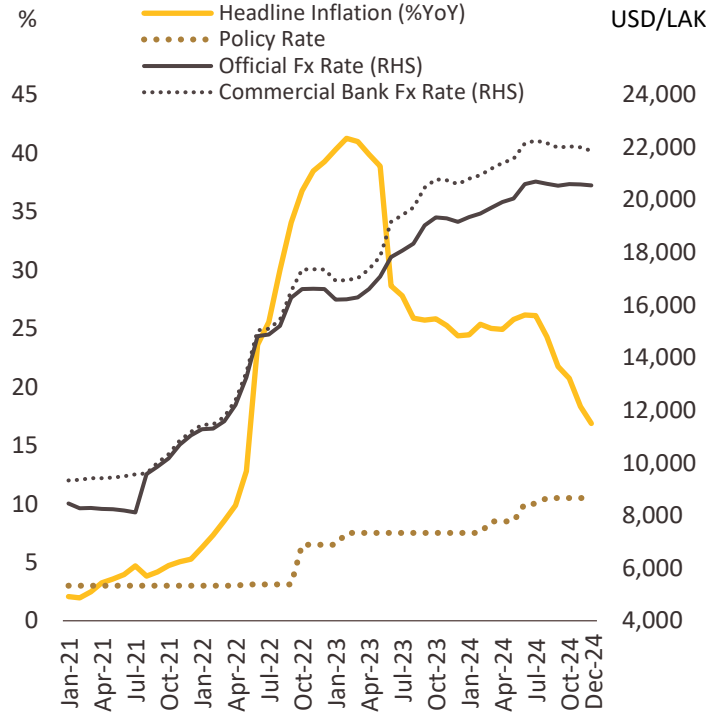
IMF's Annual Inflation Projections



GDP Contribution by Sectors



Inflation, Policy Rate, and Exchange Rate



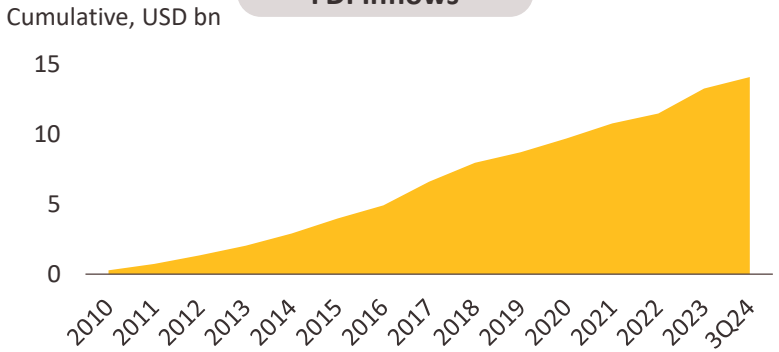
Source: World Bank, IMF WEO Database (Oct 2024), CEIC, and Krungsri Research

Note: 1/ According to International Accounting Standards (IAS 29), a three-year cumulative inflation rate exceeding 100% —equivalent to an average annual inflation rate of around 26%—is used as a practical benchmark for identifying hyperinflationary economies.

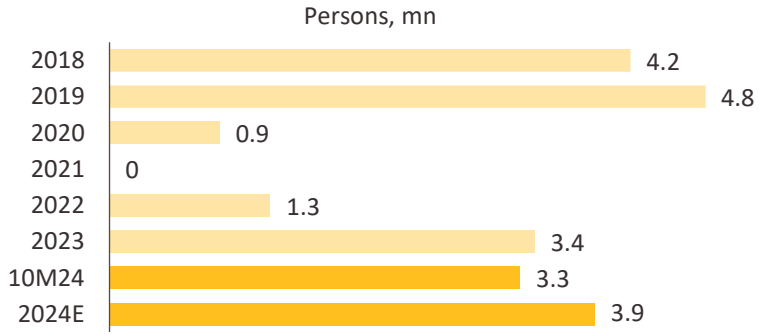
Lao PDR continues to lean on external support as domestic efforts fall short.

- **In the first 10 months of 2024, Laos recorded over 5 million visitors, both domestic and international, credited to the Laos-China Railway and visa exemptions,** with projected revenue of USD 1.3 bn. With significant recovery potential, the government plans to enhance facilities to attract more visitors in the coming years. **La Niña conditions in 2H2024 and 2025 are expected to boost hydroelectric exports and agricultural recovery.** New investments in renewable energy projects will reinforce the role of electricity as a key export.
- **FDI rose 21.8% YoY in 1H2024** to USD 680 mn, driven by power, mining, and banking sectors. **Stronger capital flows into the Vientiane Special Economic Zones** highlight their strategic role in attracting diverse investments beyond electricity.
- **The domestic situation remains dire, with wages struggling to keep pace with rising costs.** While Laos faces persistent labor shortages and the loss of workers to neighboring countries, the 2024 minimum wage hikes, intended to boost purchasing power, have been largely offset by high inflation. In 2025, the government aims to tackle these challenges by raising civil servant salaries and expanding staffing quotas.

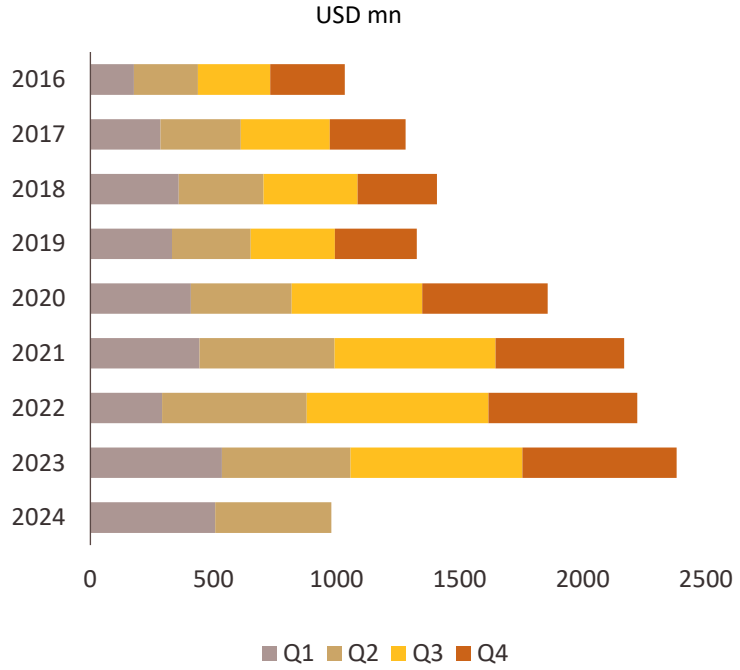
FDI Inflows



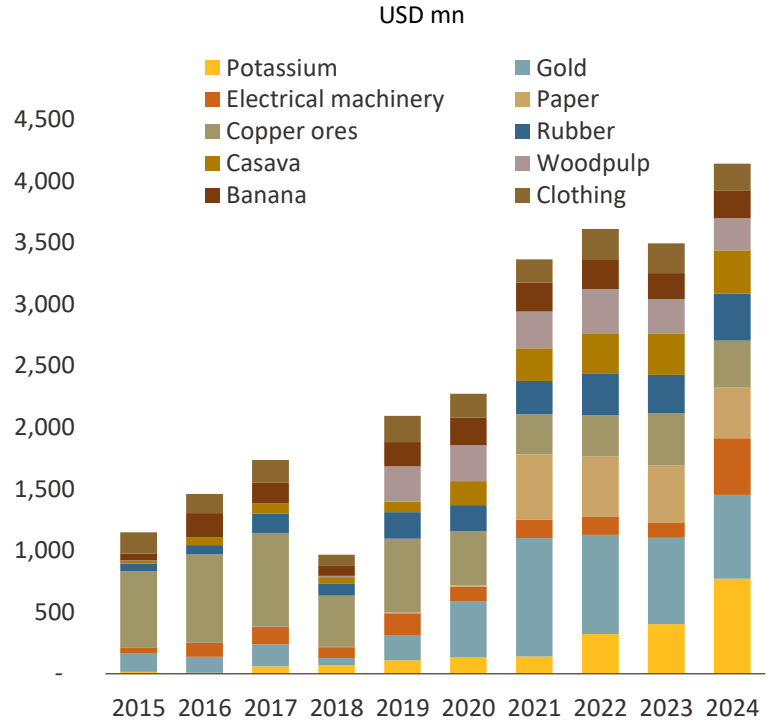
International Visitor Arrivals



Electricity Exports



Top Export Products

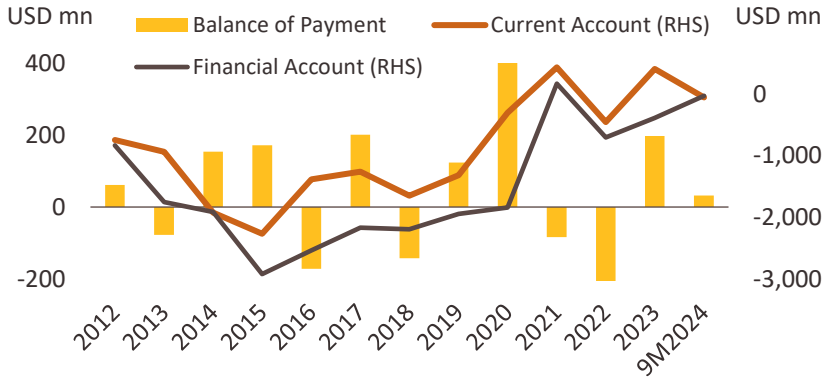


Source: World Bank, Minister of Information, Culture and Tourism, Ministry of Industry and Commerce, CEIC, and Krungsri Research

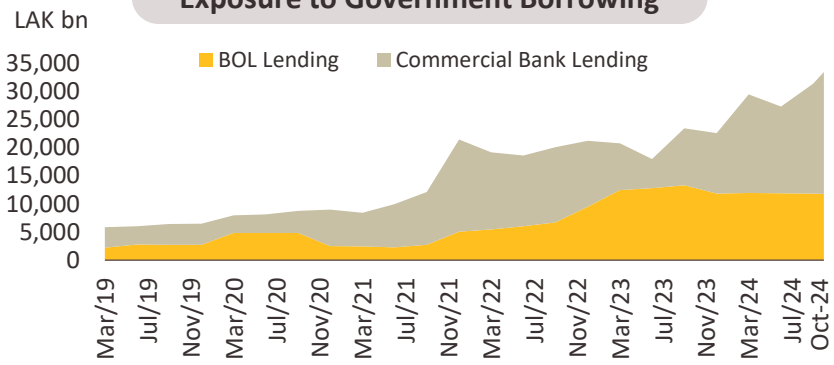
Persistent external stability risks, with trade tensions adding to the pressure

- In 2024, the Lao kip (LAK) continued to depreciate, amplifying external public debt risks. Net financial outflows in the first nine months of 2024, mainly driven by principal debt repayments, partially offset FDI inflows, **leaving foreign exchange reserves critically low at around 2 months of imports.**
- **The government's increasing reliance on domestic borrowing, with bank lending up 74% YoY as of June 2024**, has added pressure to the local financial system, while the phasing out of regulatory forbearance measures risks exposing hidden vulnerabilities in an already fragile system[1/].
- **Escalating US-China trade tensions pose significant risks to Laos through both trade and investment as well as financial channels**. Since 2018, **trade diversion has slightly benefited Laos, increasing its share in US imports**, though these gains are limited by the small export base. Amid a potential decline in China's overseas investments, Laos faces risks to infrastructure development and deferred debt. **Financial risks are more severe** as Laos is highly vulnerable to global financial tightening, which exacerbates exchange rate pressures, worsening inflation, and external debt burdens.

Balance of Payments



Exposure to Government Borrowing



Trade Tension Risks to Laos Economy

1 Financial Channel

(-) Global financial tightening leading to stronger USD, and rising borrowing costs

2 Trade/Investment Channel

(-) Global demand slowdown
(+) Substitution effects
(-/+) Cheap goods from China
(-) Lower FDI from Chinese

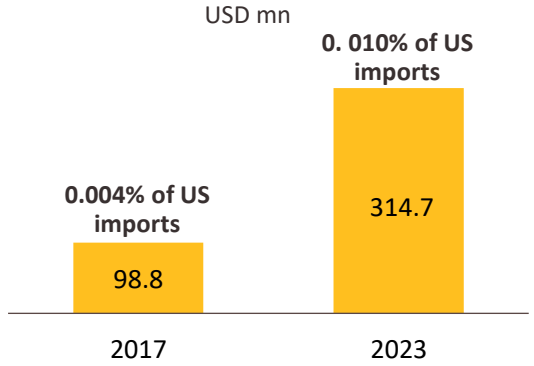
Exacerbate the **country's vulnerabilities**

- High external debt and foreign currency shortage
- Weak bank balance sheet
- Limited fiscal space

LAK depreciation → **High Inflation** → **Weaken domestic activities, both consumption and investment**

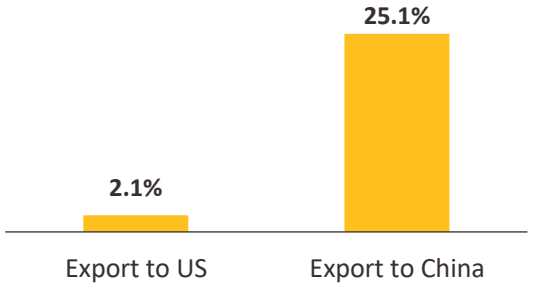
Worsen such vulnerabilities

US Import Share from Lao PDR



Share of Exports

2023, % of GDP



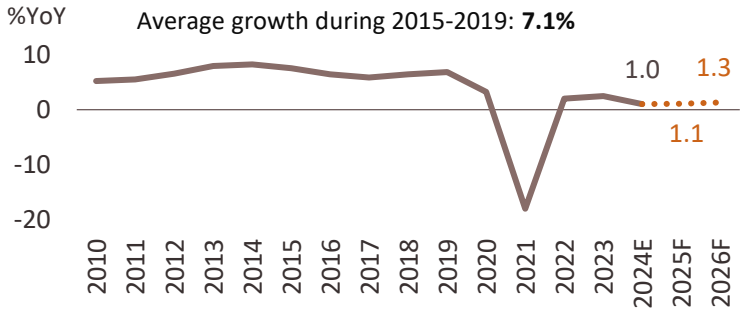
Source: WITS, CEIC, World Bank, and Krungsri Research

Note: 1/ According to the World Bank Economic Monitor in October 2024, the Bank of the Lao PDR recently issued a decision to phase out regulatory forbearance measures, and some banks are gradually withdrawing these measures. However, the exact timing of the withdrawal has not been disclosed.

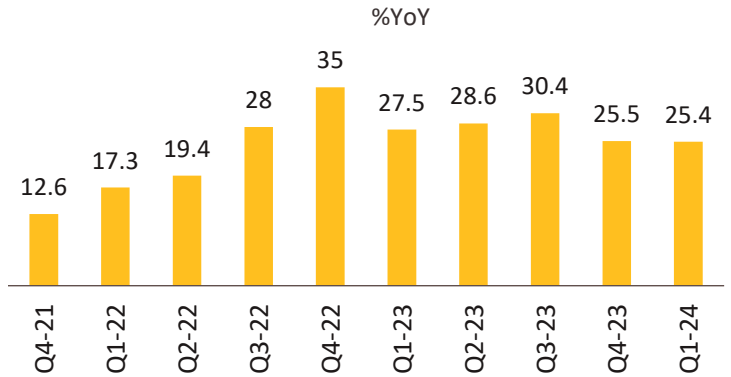
Myanmar: Weighed down by compounding pressures

- **Myanmar's economic outlook remains challenging, with the World Bank revising GDP growth projections downward to a contraction of -1% for the fiscal year ending March 2025.** This downward revision reflects the impact of recent devastating floods, ongoing political conflict, and macroeconomic volatility.
- **In 2024, broad-based slowdown is anticipated across key sectors.** Agriculture is expected to decline due to monsoon flooding, which has disrupted production. Furthermore, weak domestic demand, fueled by high inflation, ongoing conflicts, and shortages of raw materials and electricity, is pressuring growth in manufacturing, services, wholesale, and retail trade.
- **Inflation is projected to remain elevated at an average of 26% annually for the fiscal year 2024-2025,** driven by rapid exchange rate depreciation (the kyat lost 40% of its value against the USD in parallel markets over the first eight months of 2024), shortages of essential goods, and increased electricity tariffs.

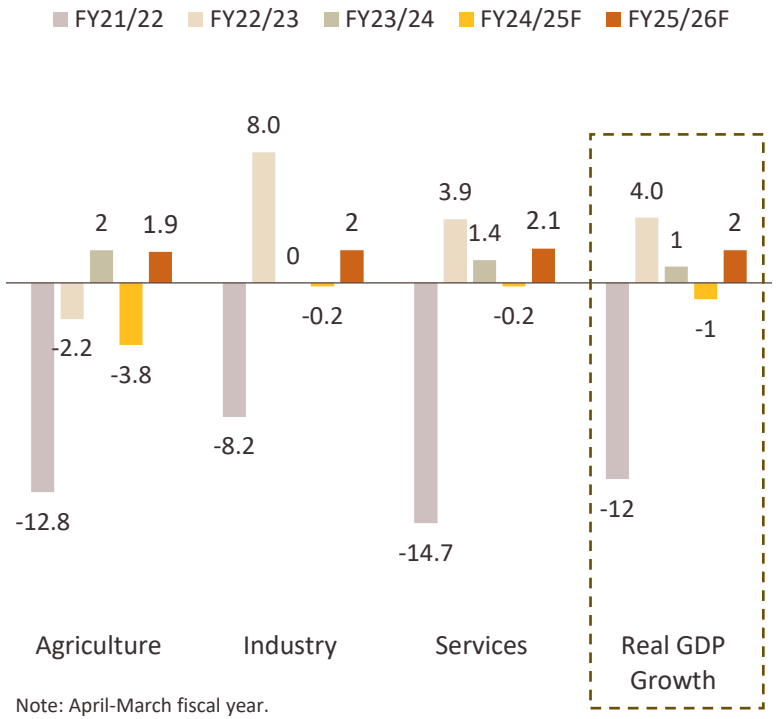
IMF's Annual GDP Growth Projections



Inflation

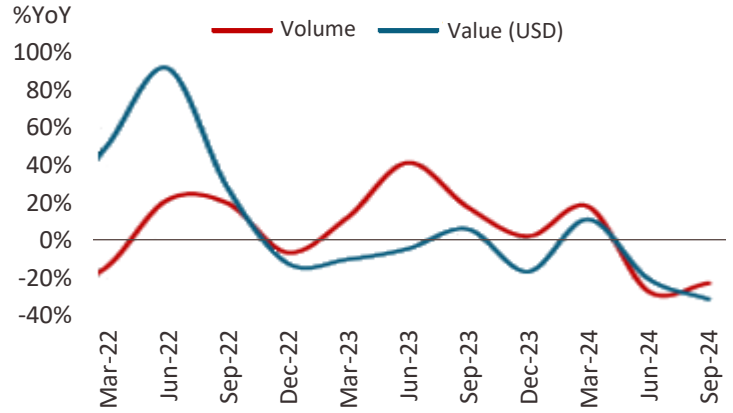


World Bank's GDP Projection by Sector

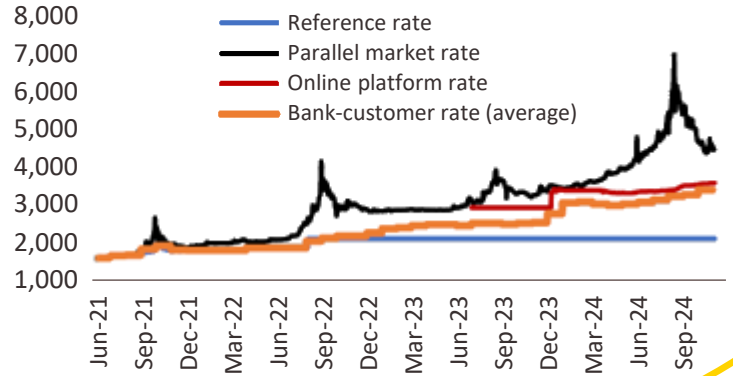


Note: April-March fiscal year.

Imported manufacturing raw materials



Kyat Per USD Exchange Rates

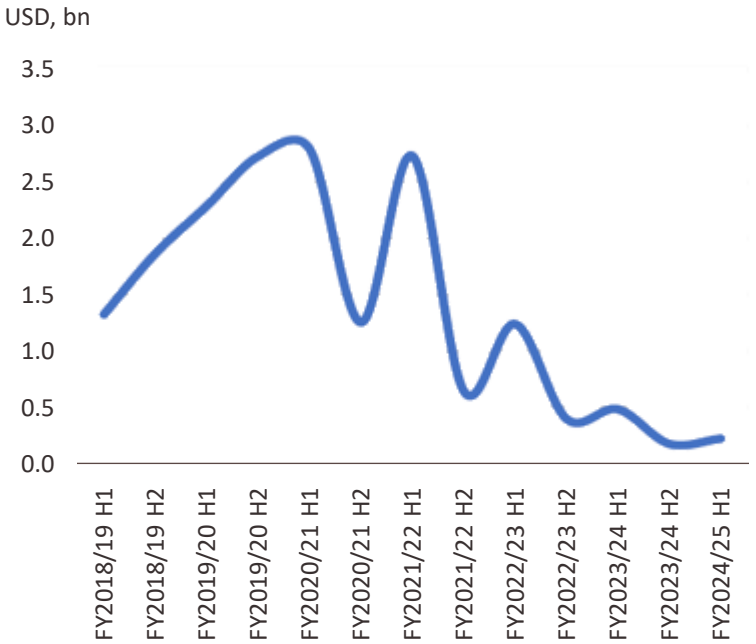


Source: IMF WEO Database (Oct 2024), World Bank Myanmar Economic Monitor (Dec 2024), and Krungsri Research

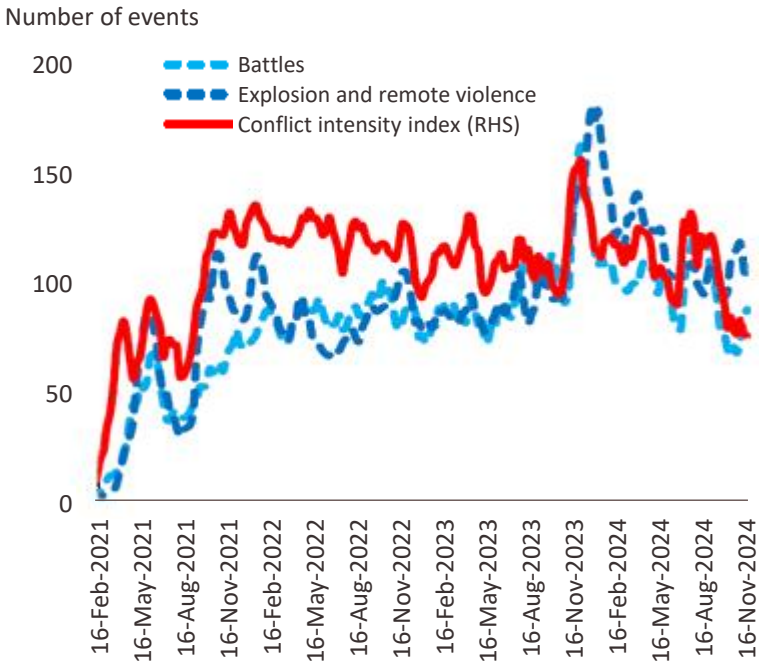
Fragile outlook amid political conflicts; anticipated election unlikely to bring change.

- Public debt, more than two-thirds of which is domestic and denominated in kyat, is projected to remain above 60 % of GDP. Declining FDI commitments, driven by a worsening investment climate, have led to decreased FDI flows in recent years. As a result, deficit financing is anticipated to continue to rely primarily on the Central Bank of Myanmar (CBM). Relatively high fiscal deficits are expected to be broadly offset by high inflation[1/].
- Regarding the political situation, the level and intensity of armed conflict remain high, disrupting production and supply chains and raising uncertainty around the economic outlook. **The possible elections in 2025 are not widely expected to change the status quo,** with the ongoing conflict between the Junta and resistance groups, including the National Unity Government (NUG) and ethnic armed groups, likely to continue.
- **If trade tensions escalate, Myanmar's key exports, such as apparel and agricultural products, could face reduced demand from China, Myanmar's largest trading partners. With an already-disrupted supply chain and a poor investment climate, FDI is not expected to be materially affected by the tensions**. However, the impact of tensions on global financial markets and reduced trade could exacerbate USD shortages in the country, further increasing shortages of essential goods and fueling inflation.

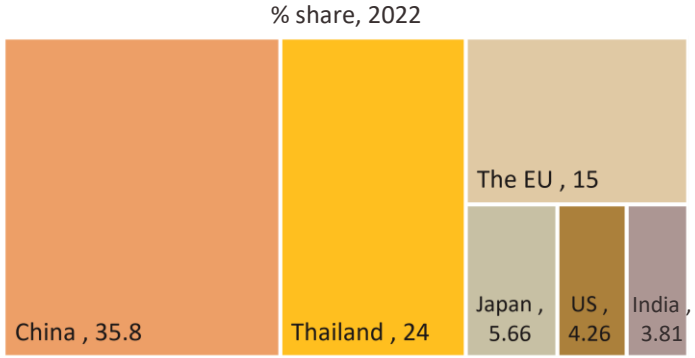
FDI commitments trend



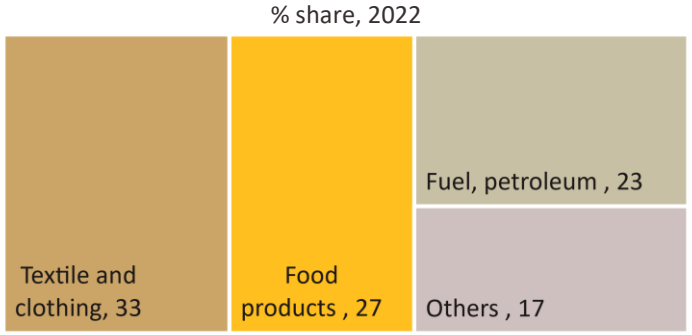
Weekly trends of conflict intensity



Export share by major partners



Export share by major products



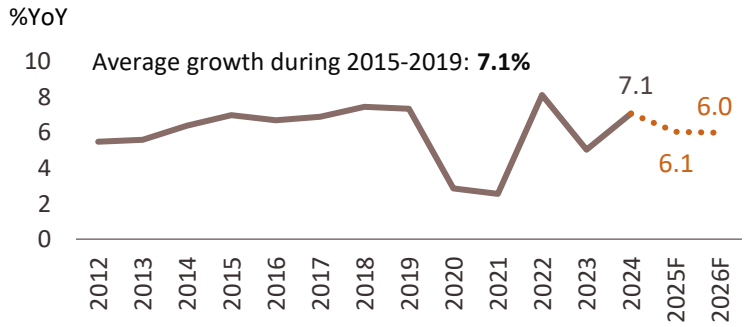
Note: 1/ This inflationary pressure allows the government to utilize "seigniorage", printing additional money to finance its fiscal needs without bearing the real value when the money issued.
2/ World Bank staff calculations using data from the Armed Conflict Location and Event Data Project (ACLED).

Source: World Bank Myanmar Economic Monitor (Dec 2024), WITS, OEC, and Krungsri Research

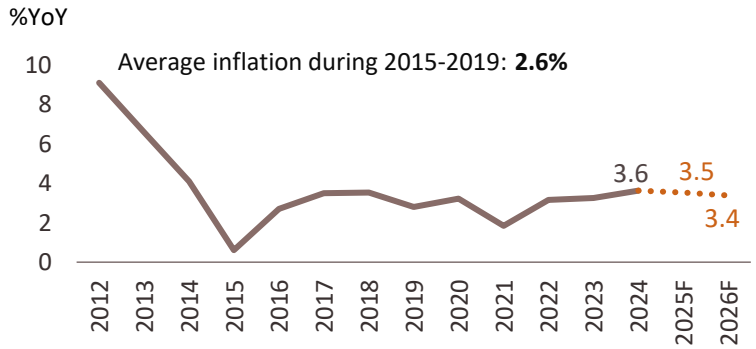
Vietnam: Leading regional growth powered by exports, FDI, and policy support.

- Vietnam's economy led the region with **7.09% growth in 2024,** according to government data, **driven by a resurgence in exports and tourism.** Accommodative fiscal and monetary policies—accelerated public investment and increased liquidity in the banking system—have boosted domestic demand. FDI inflows reached USD 38.2 bn in 2024 (-3% YoY after peaking in 2023), particularly in high-tech manufacturing. On December 31, 2024, the government established the **Investment Support Fund**[1/], applied retroactively from fiscal year 2024, to maintain investment appeal following the **Global Minimum Tax (GMT)** adoption on January 1, 2024.
- **In 2025, the IMF projects Vietnam's GDP growth at 6.1%, while the government is ambitious for an 8% target**, supported by robust exports, committed FDI, and continuing government support and investments. However, medium-term risks remain, **as escalating trade tensions could pressure exports**, weigh on foreign investment, and complicate monetary policy decisions amid currency weakness.
- Policy rate (discount rate) is expected to be maintained at 3% throughout 2025 as inflation stays moderated. To stimulate domestic credit growth, the State Bank of Vietnam has allowed banks to expand their credit growth quotas, based on their credit ratings.

IMF's Annual GDP Growth Projections

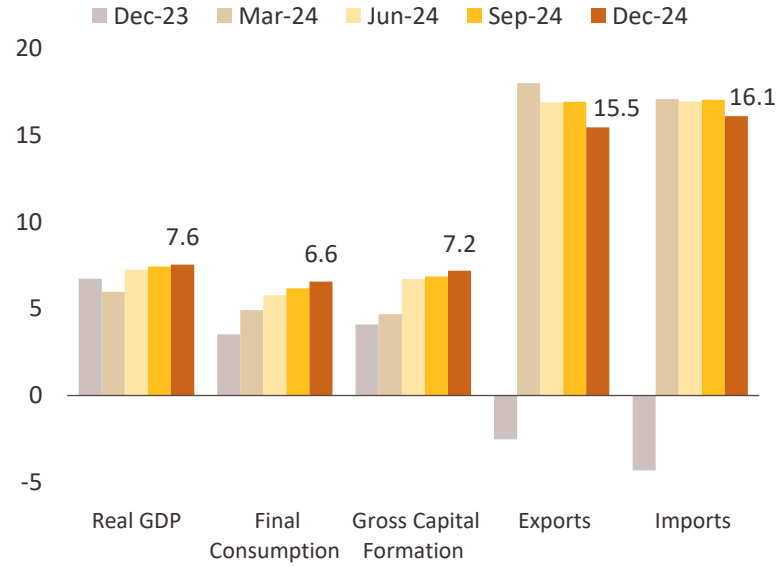


IMF's Annual Inflation Projections



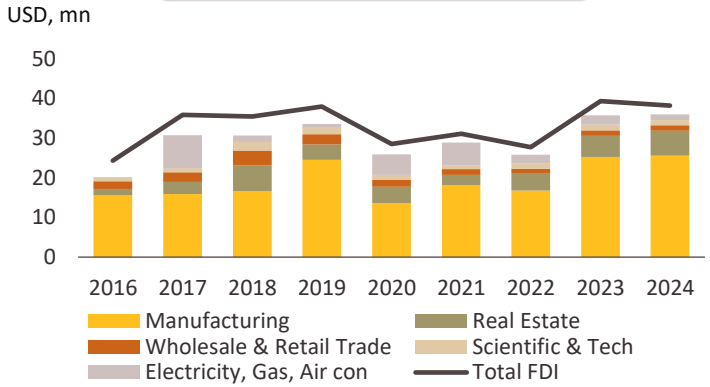
Source: General Statistics Office, World Bank, WTIS, CEIC, IMF WEO Database (Oct 2024), and Krungsri Research

Real GDP Growth by Expenditure

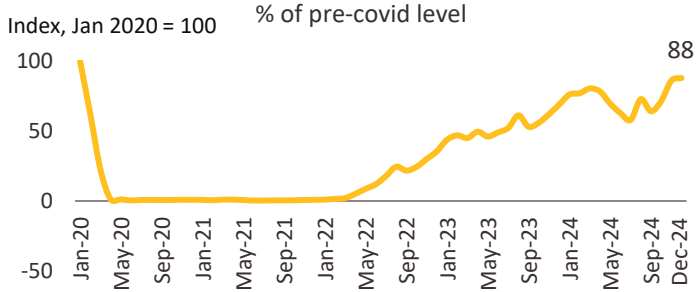


Note: 1/ The Investment Support Fund was created in response to the Global Minimum Tax. It provides financial assistance for workforce development, investments in fixed assets, production, and infrastructure, specifically targeting high-technology firms and R&D center investments. Notably, the fund covers up to 50% of initial investment costs for eligible semiconductor and AI R&D projects.

Foreign Direct Investment



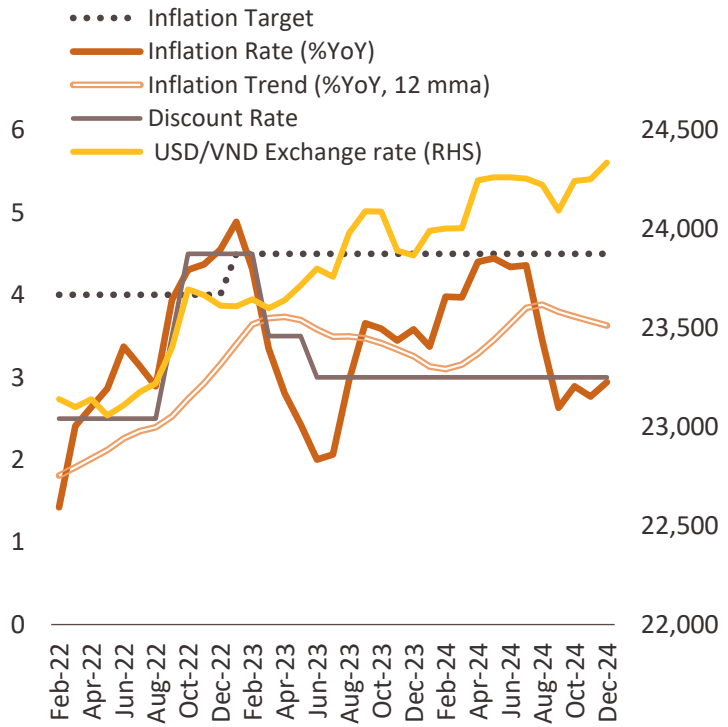
Tourism Recovery



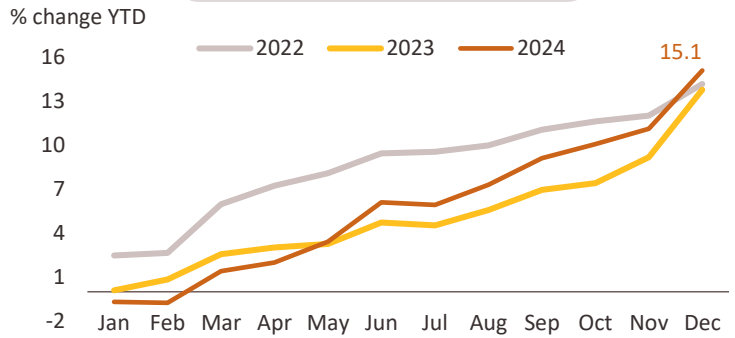
Solid economic growth cushions financial strain amid lingering real estate and bond risks.

- **Total bond issuance rose 31% in 2024**, yet corporate bonds maturing in December 2024 face a potential default rate of up to 30%, with real estate accounting for 60% of overdue value, according to VIS Rating. While housing supply and resumed residential projects—bolstered by government support and low interest rates—have improved market conditions, developers still struggle with liquidity challenges, limiting their ability to redeem maturing bonds and heightening financial sector risks. The banking system remains heavily exposed to the real estate sector, with **property-related loans accounting for 21.5% of total outstanding credit as of May 2024**. Most 3Q2024 credit growth was directed to real estate business activities, further intensifying pressure on NPLs. Moreover, in 2025, the banking industry must focus on meeting NPL targets as forbearance measures expire.
- **However, positive real wage growth and accelerated credit growth indicate that Vietnam's real economy retains supportive factors.** Credit growth in 2024 has been more robust than in previous years, meeting the annual target of 15%, while the central bank aims for 16% in 2025. Additionally, the system capital adequacy ratio (CAR) improved slightly to 12.51% in November 2024 from 12% in May 2024, reflecting the banking sector's resilience to absorb potential losses.

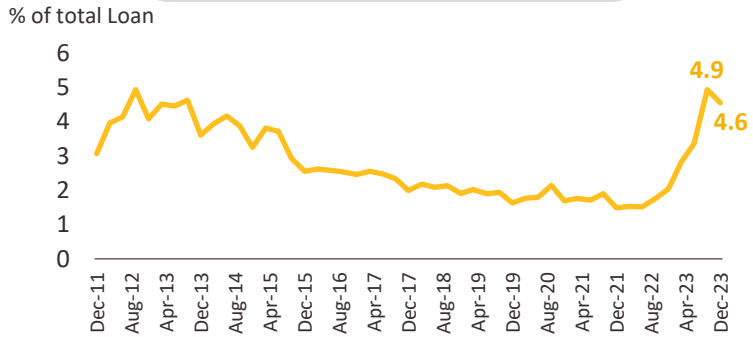
Inflation and Policy Rate



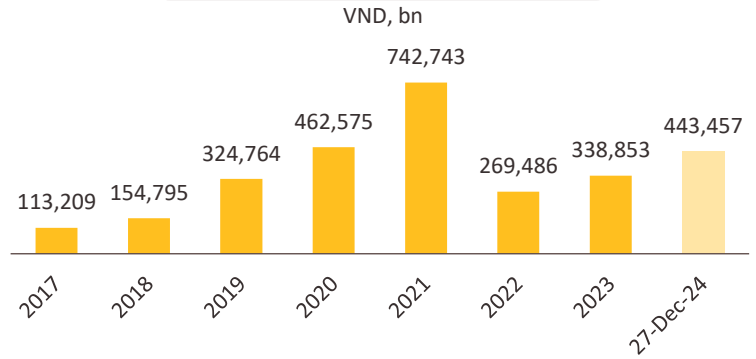
Total Credit Growth



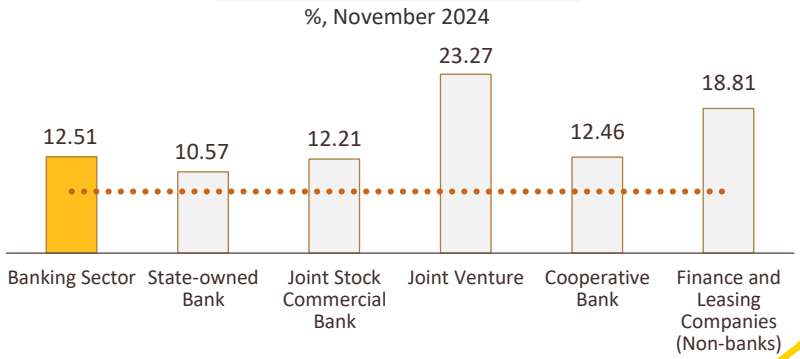
Non-Performing Loans Ratio



Corporate Bond Issuing Value



Capital Adequacy Ratio

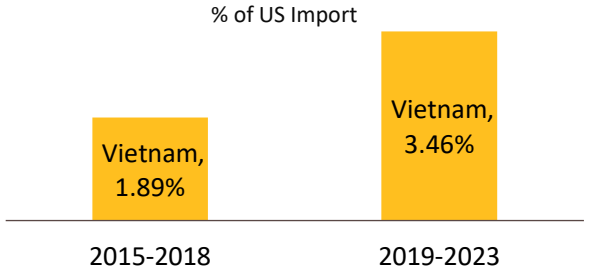


Source: CEIC, Vietnam MOF, VBMA, SBV, Krungsri Research

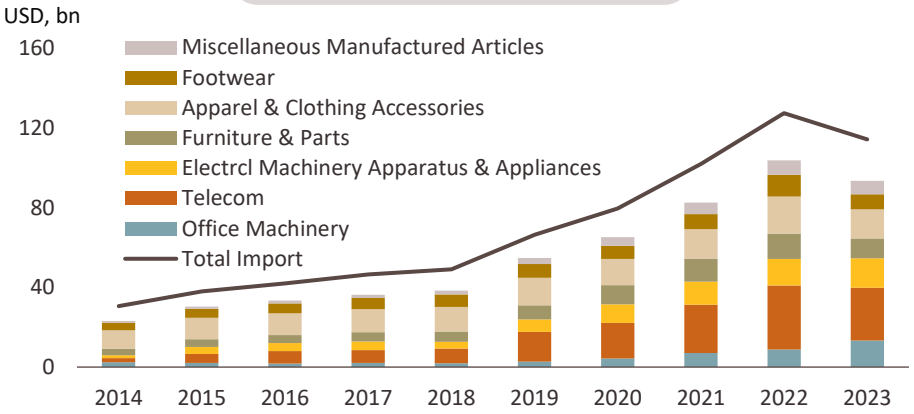
High external reliance poses challenges in the wake of escalated trade tensions.

- **Vietnam is projected to gain more than it suffers from escalating US-China trade tensions.** Supply chain diversification and manufacturing relocations are expected to boost exports and attract foreign investment. However, heavy reliance on Chinese intermediate goods raises concerns about net gains on domestic value added. Furthermore, **despite the establishment of the Investment Support Fund, the GMT could challenge Vietnam's tax-based FDI strategy, particularly in high tax-elastic sectors like manufacturing.**
- **In addition, Vietnam's large trade surplus with the US makes it increasingly vulnerable to protectionist measures**, including higher tariffs targeting its role as a rerouting hub for Chinese goods. With high trade exposure—total exports exceeding 90% of GDP, with the U.S. accounting for 30% of total exports—Vietnam faces significant risks if global demand weakens. Such disruptions could threaten key export sectors—electronics, machinery, textiles, and footwear—by destabilizing trade flows, deterring manufacturing-related FDI, and pressuring currency stability and domestic monetary policy. These challenges may also result in broader economic impacts, including rising unemployment in affected sectors, weaker domestic consumption, and reduced demand for industrial parks and office spaces, which could stall the recovery of commercial real estate.

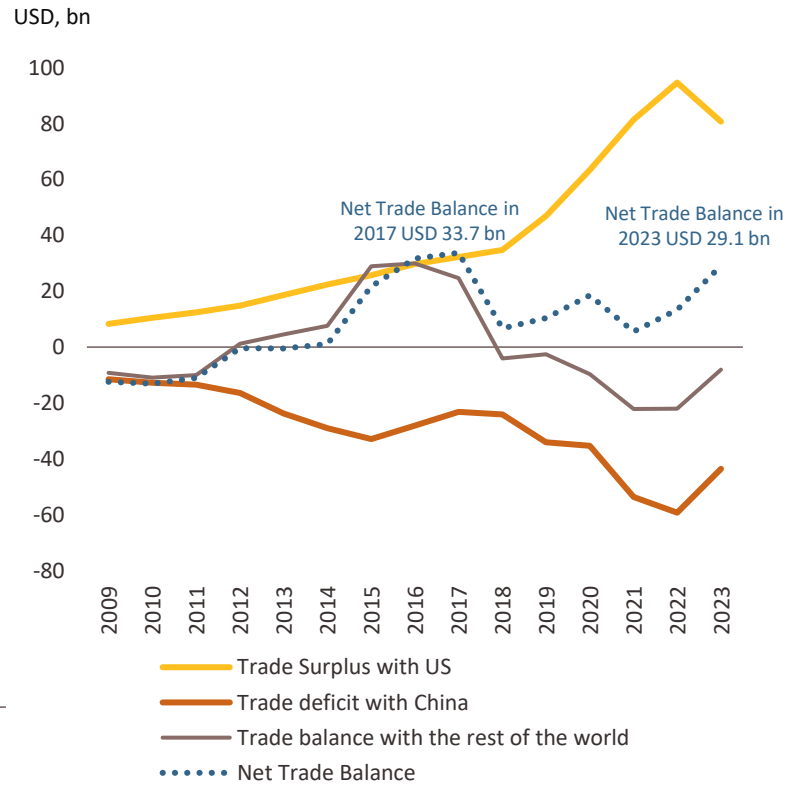
U.S. Import Share from Vietnam



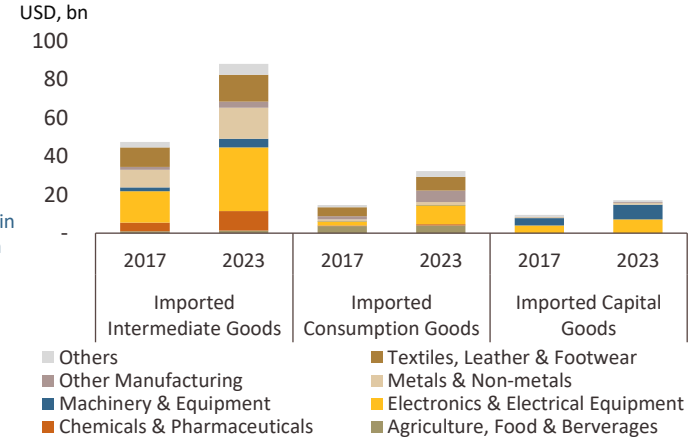
U.S. import from Vietnam



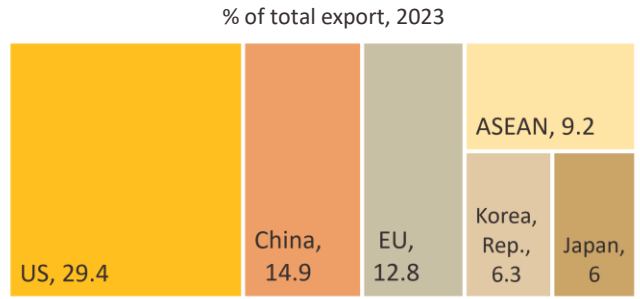
Vietnam's Trade Balance



Vietnam's Total Imported Goods from China



Share of export partners

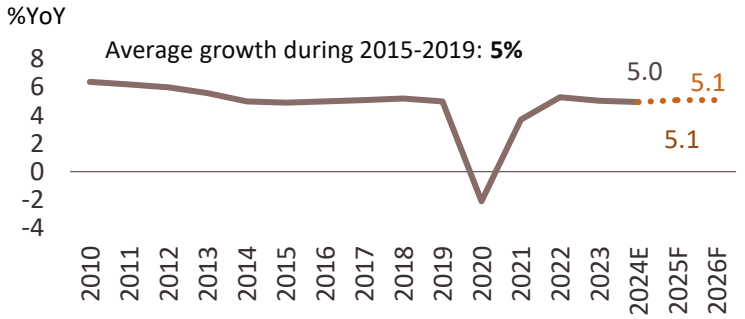


Source: WITS, General Statistics Office, CEIC and Krungsri Research

Indonesia: Steady growth with well-anchored inflation

- **Indonesia's economic outlook remains resilient despite global challenges. The IMF forecasts growth rates of 5.0% in 2024 and 5.1% in 2025, driven by robust domestic demand.** This growth trajectory offsets the drag from lower commodity prices. Inflation remains well-anchored, which supports consumer confidence and broader economic stability.
- **Regarding monetary policy, Bank Indonesia (BI) implemented a 25-bps policy rate cut in September 2024, which was less than expected due to IDR depreciation, followed by another 25-bps cut in January 2025.** In 2025, BI faces the delicate task of balancing domestic conditions (growth and inflation) and volatile global financial conditions, as there are concerns about capital flows and IDR stability, amid heightened global trade friction**. The room for further rate cuts is expected to be gradual, broadly aligning the US Fed.**
- **Nevertheless, Indonesia faces challenges that could affect its growth trajectory.** The country's middle class is shrinking, manufacturing is under pressure from increased competition with China, and global risks—including the impact of US trade policies—continue to pose significant challenges.

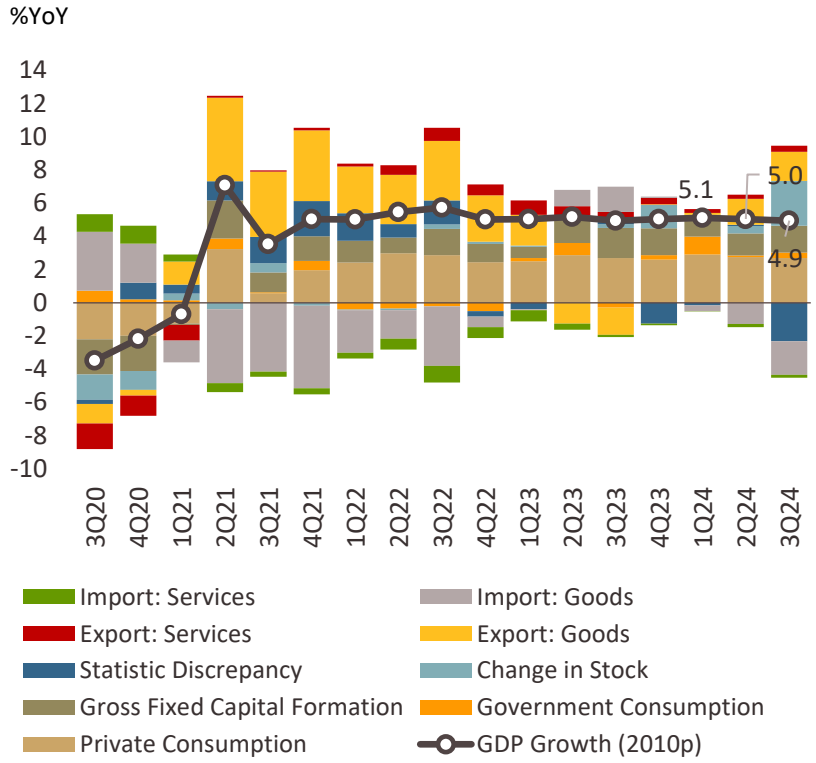
IMF's Annual Growth Projections



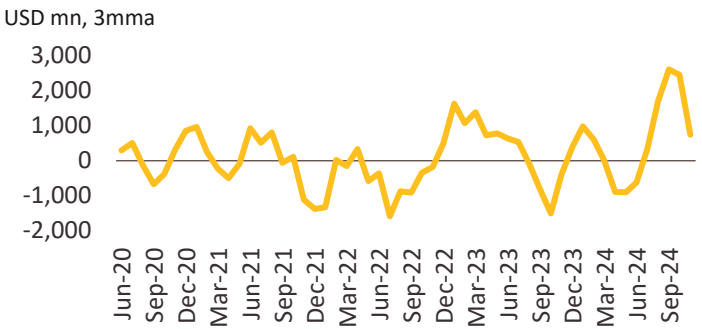
IMF's Annual Inflation Projections



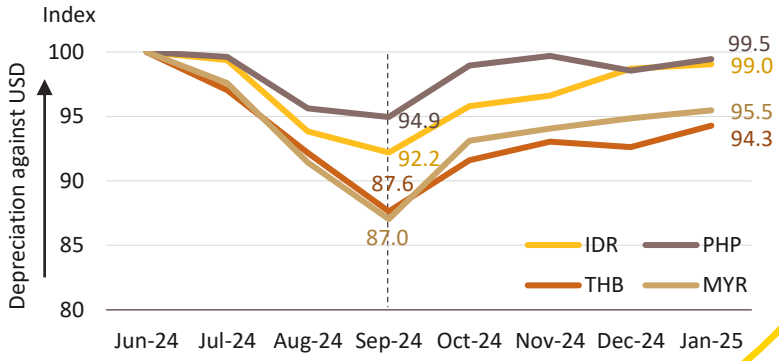
Contribution to Real GDP Growth



Net Non-Resident Equity and Debt Flows



Currency Performance (Jun 2024 - 15 Jan 2025)

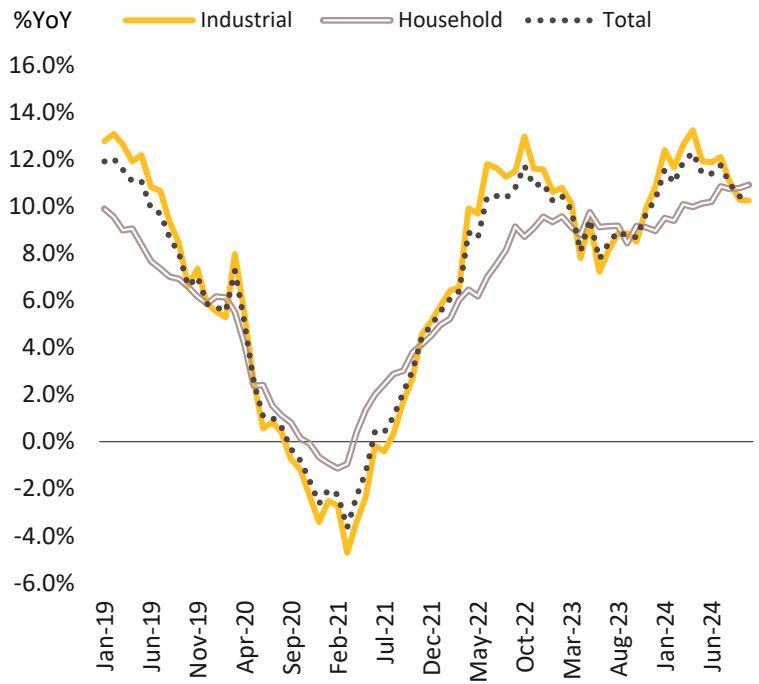


Source: CEIC, IMF WEO Database (Oct 2024 and Jan 2025), and Krungsri Research

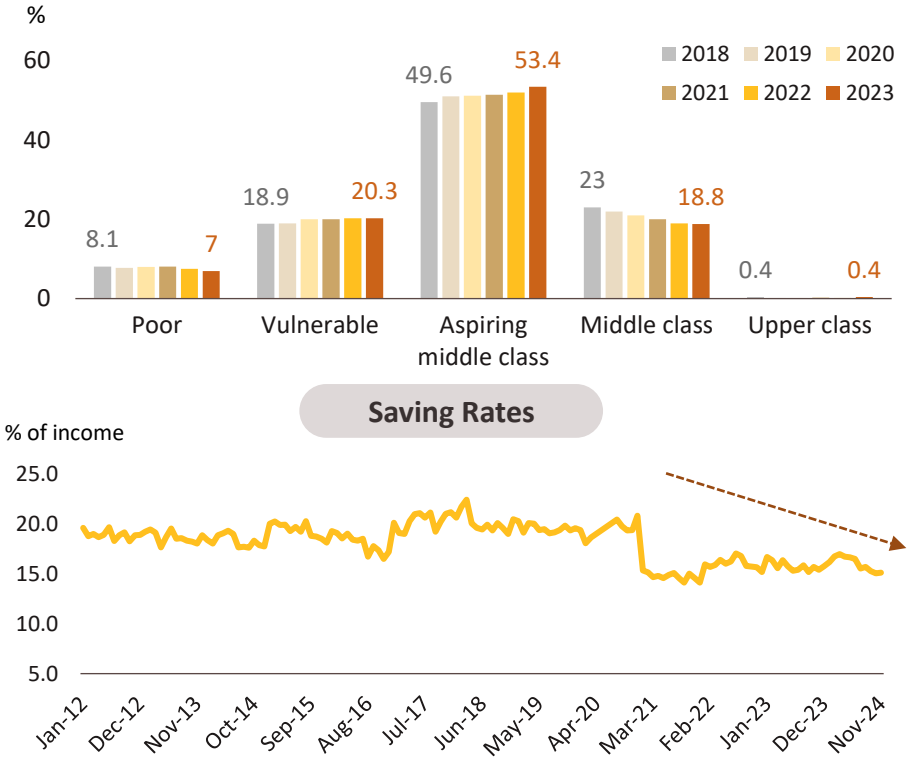
Impact of consumption stimulus policies are expected to be moderate.

- Indonesia's domestic demand has been resilient, supported by accommodative macroprudential policies, as reflected by recovering credit growth to pre-pandemic rates. **In 2025, household consumption will remain a key pillar of growth, supported by government policies. However, the economic impact of the minimum wage increase (by 6.5% in 2025) and social programs,** such as the free meal program targeting 15 million schoolchildren by 2025**, is expected to be moderate.** This is due to slow savings rates and a significant shrinkage in the middle class. According to the Central Statistics Agency, the middle-class people decreased from 57.3 million in 2019 to an estimated 47.8 million (as of Sep 2024), mainly because of increased layoffs following the pandemic and stronger competition from lower-cost producers, such as China, particularly in the textile sector.
- **The decision to impose the VAT increase from 11% to 12% only for specific luxury goods,** such as private jets, and yachts**, significantly reduces the potential impact on private consumption, ensuring that lower- and middle-income households are less affected. However, it could challenge the government's ability to fund its ambitious fiscal programs**—such as large-scale infrastructure projects and welfare schemes—given that VAT accounts for 25% of government revenue, **without incurring higher fiscal deficits.**

Commercial Bank Loan Growth by Type

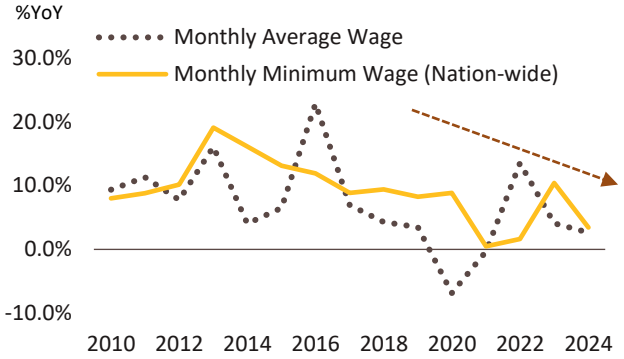


Population by Income Classification



Saving Rates

Average and Minimum Wage Growth

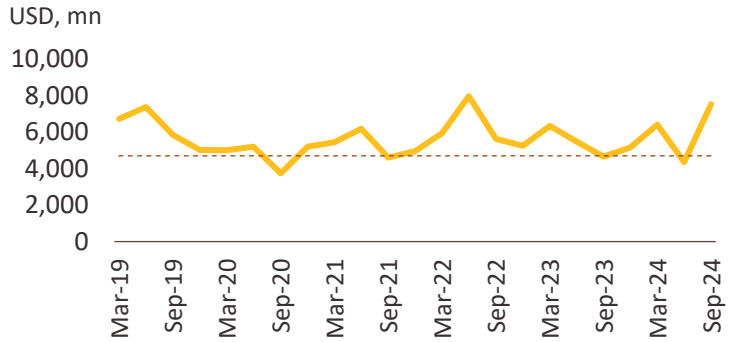


Source: CEIC, Bank Indonesia, and Krungsri Research

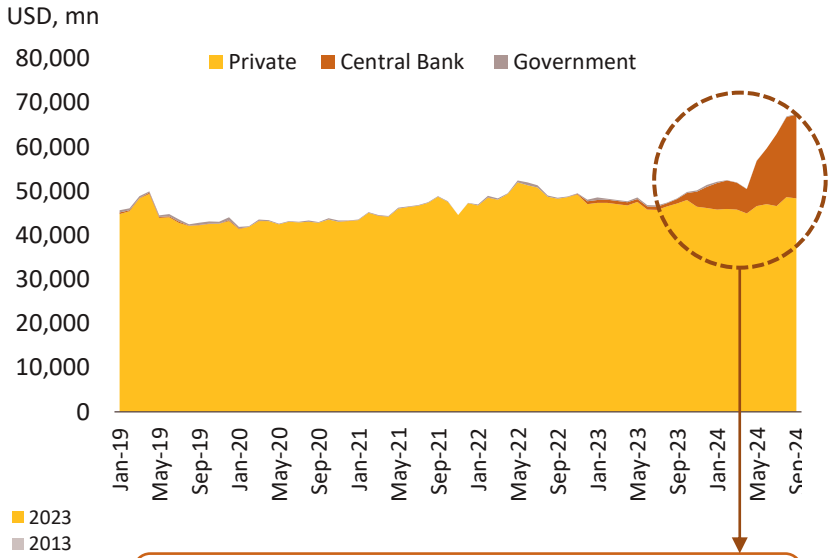
Investment drives growth potential, while trade tension risks pose stability concerns.

- FDI has remained robust in 3Q2024, driven by FDI from China. Much of the realized investment is commodity-sector linked. Policymakers are attempting to address this decline by promoting labor-intensive industries through targeted FDI incentives to absorb some of the displaced workers and maintain employment levels. **To mitigate the impact of the Global Minimum Tax, the government has extended its tax holiday program through December 31, 2025.**
- **Regarding potential heightened trade tensions, the BI believes that the economy will be impacted through two channels: trade and capital flows**. While Indonesia isn't heavily exposed through the trade channel, the impact on trade cannot be entirely ignored, especially with the possibility of lower commodity prices under Trump's second term. However, Indonesia is more exposed through the capital outflow channel due to its reliance on external finance and the risks to the 3% fiscal deficit cap post-2025. So far, the IDR has remained largely stable due to BI's intervention. **The next move by BI should be further easing, though cautiously, in line with the Fed. However, any easing could be constrained by the risks of trade tensions, which may lead to tightening global financial conditions.**

Foreign Direct Investment



Short-term External Debt (by security ownership)



Inflows into BI papers **(SRBI, high-yield rupiah securities designed to attract inflows and support the currency)** offset weak bond flows, leading to an increase in BI's short-term external debt. This indicates that Indonesia has become more reliant on external financing.

Progress on Nusantara (IKN) Project

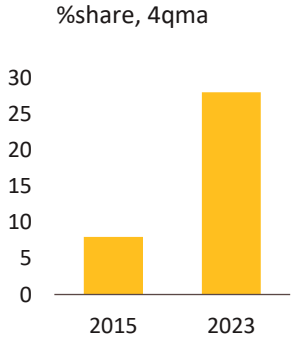
Initial Plan

- **Phase 1:** 2022-2024 — moving some of government agencies and institutions
- **Phase 2:** 2025-2029 — developing facilities to accommodate business
- **Phase 3-5:** 2030-2045 — development of infrastructure to support the population of 2 millions

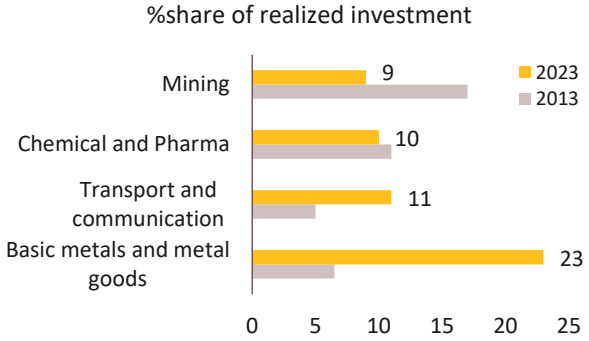
Progress: The construction of the buildings was delayed from the original target. The overall progress reached 80% by end-2024 and will continue in 2025. According to the authority, construction of IKN's airport is projected to be completed by the end of January 2025.

Challenges: Budget limitations pose significant challenges due to constrained fiscal capacity and slow actual investments materialized, creating uncertainty about the project's pace and completion timeline. These challenges have prompted the government to actively seek both domestic and foreign investment

China's realized investment share



Realized investment By industry type

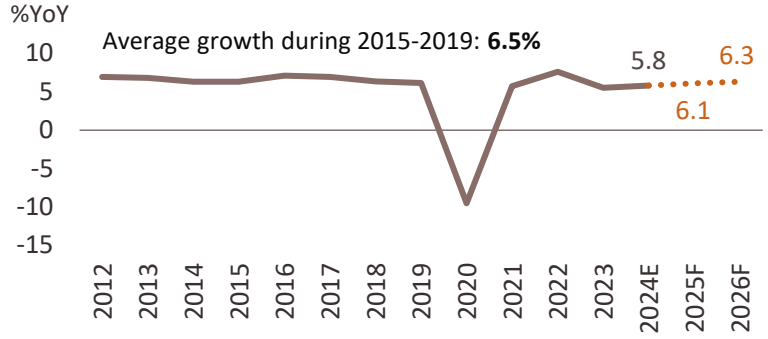


Source: CEIC, PwC, Local News, and Krungsri Research

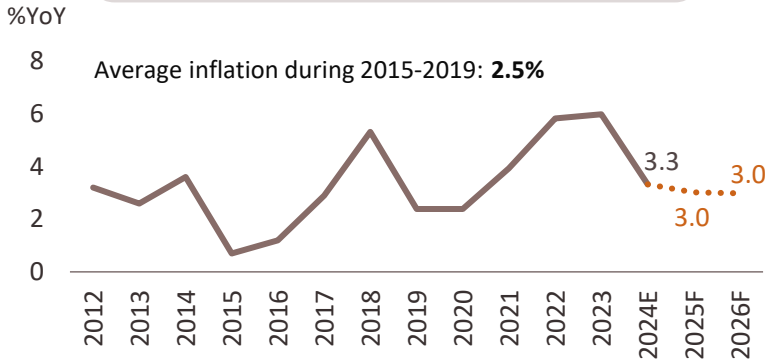
Philippines: Growth is on track driven by domestic demand, exports, and policy support.

- **In 2024, the Philippines is on track to achieve its revised growth forecast of 5.8%**, driven by strong domestic consumption, resilient merchandise and service exports, and increased government spending, particularly on infrastructure projects. Household spending was bolstered by robust employment, higher remittances, and growth in bank loans.
- The Bangko Sentral ng Pilipinas (BSP) **cut its policy rate by a cumulative 75 bps to 5.75% in 2024** to stimulate the economy by encouraging consumption and investment. This decision reflects easing inflation risks, driven by lower food prices and the lagged effects of previous monetary tightening. BSP Governor indicated **the easing cycle could continue, with up to 100 bps of additional cuts possible in 2025**[1/], depending on inflation trends. These accommodative conditions are expected to further support domestic demand, although peso weakness, potentially exacerbated by trade tensions, and inflationary pressure remain the concerns.
- **Growth in 2025 is projected at 6.1%**, with sustained domestic consumption, public investment, and well-anchored inflation. Electronics exports and the strong services sector, particularly tourism and business process outsourcing, are also expected to remain key drivers over 2025 and the medium term.

IMF's Annual GDP Growth Projections

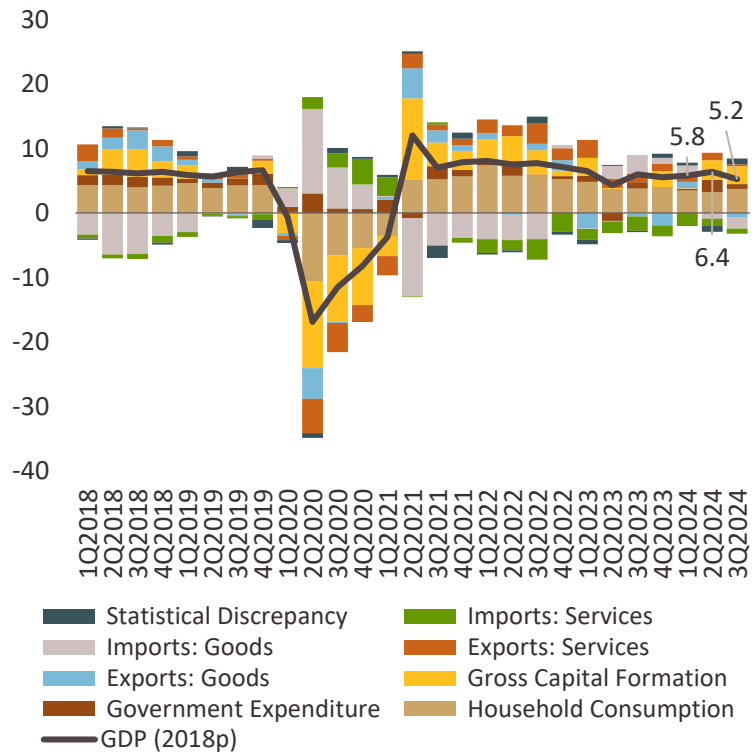


IMF's Annual Inflation Projections

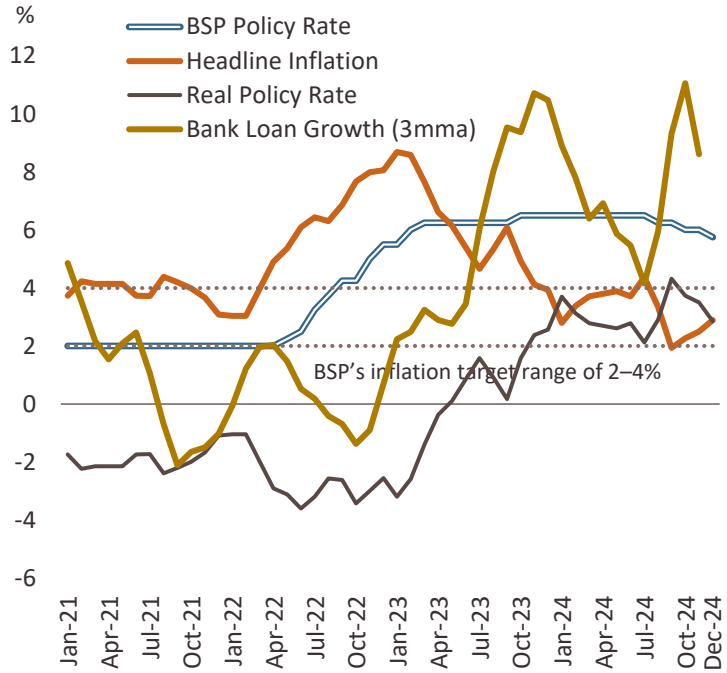


Source: CEIC, IMF WEO Database (Oct 2024 and Jan 2025), and Krungsri Research

Contribution to Real GDP Growth



Policy Rate, Inflation, and Real Policy Rate

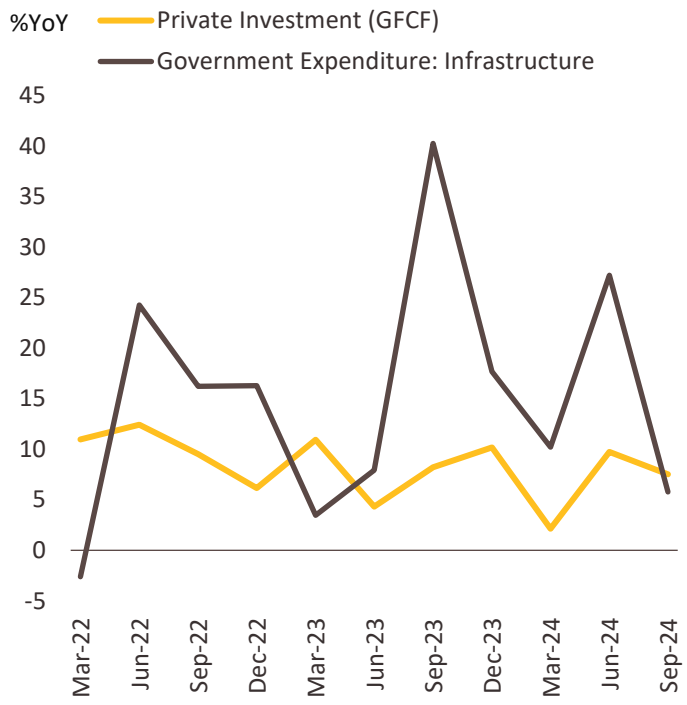


Note: 1/ Referring to BSP Governor Eli Remolona Jr.'s statement at the press conference following the monetary policy board meeting on December 19, 2024.

Public investment drives a crowding-in effect despite challenges from natural disasters.

- From early 2024 to 3Q2024, **public infrastructure spending grew 14.6% YoY**, driven by the "Build, Better, More" program, which extends through 2028. Ongoing high-impact infrastructure flagship projects (IFPs), including the North-South Commuter Railway, New Manila International Airport, and Metro Manila Subway. Infrastructure improvements will play a vital role in transforming the economic landscape of the Philippines in the coming year and are **expected to crowd in private sector investments.**
- However, the Philippines faced **a series of severe typhoons in 3Q2024** that disrupted consumption and supply chains, **causing a slight uptick in inflation due to agricultural losses. Disbursement growth of public infrastructure projects in 3Q2024 also slowed** compared to 1H2024. Given its geolocation, the Philippines remains highly vulnerable to natural catastrophes, posing long-term risks to economic development.
- The coming midterm election in May 2025 poses risks, with **a scheduled ban on new public works spending from March 28 to May 11 possibly slowing government expenditures.**

Public and Private Investment



Source: CEIC, NEDA, and Krungsri Research

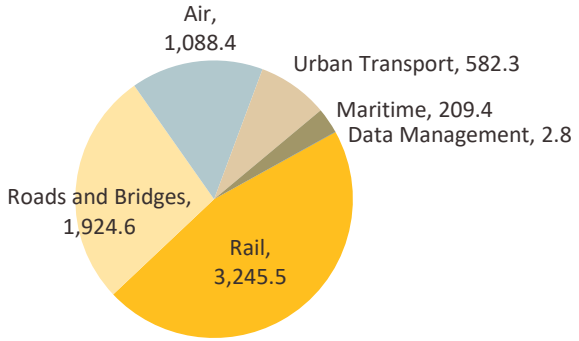
Key IFPs by Estimated Project Cost (PHP bn)

Rank	IFPs	Estimate Project Cost
1	North-South Commuter Railway	873.6
2	New Manila International Airport	735.6
3	Metro Manila Subway Project	488.5
4	North Long-Haul Railway	400.0
5	Daang Maharlika Improvement	251.2
6	MRT Line 5	250.0
7	FMRDP Farm-to-Market Road Projects	249.4
8	Bataan-Cavite Interlink Bridge	219.3
9	Rice Infrastructure Modernization Project	203.4
10	Panay-Guimaras-Negros Inter-Island Bridge	181.5

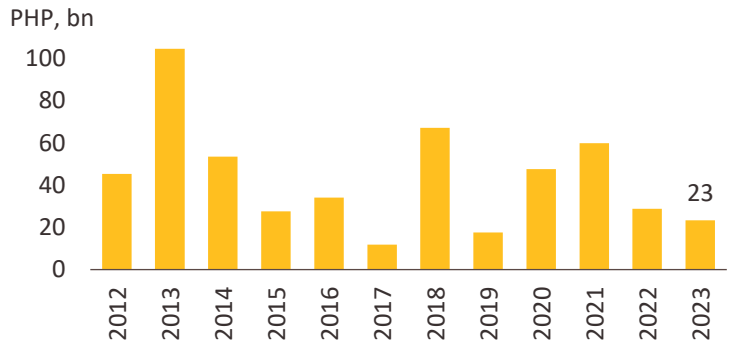
Disaster Events from July 1–December 23, 2024

Disaster type	No. of event
Flood	26
Storm/Tornado	11
Typhoon/Hurricane/Cyclone	7
Earthquake	1
Volcanic activity	1

Physical Connectivity IFPs by Sub-Classification (PHP bn)



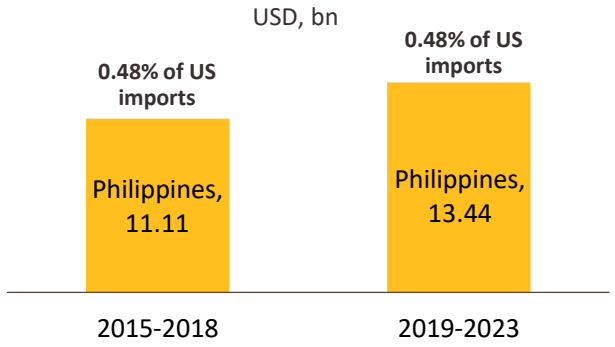
Cost of Damages during Natural Disasters



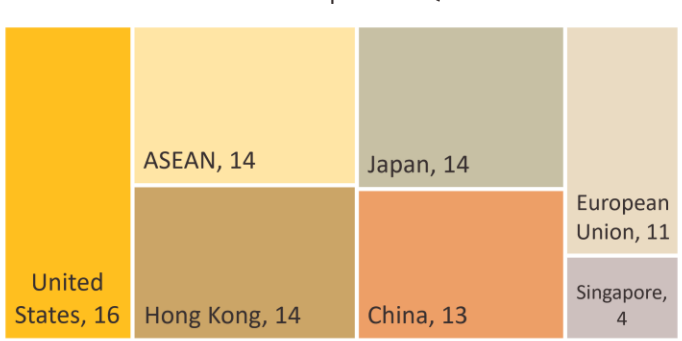
Risks from US political shift include risks to financial sector and remittance inflows.

- Amid escalating US-China trade tensions, **the Philippines is likely to face limited impact through the trade channel**, as export shares to the US have remained stable between pre- and post-tariff periods during Trump's first term. Although the US is the Philippines' largest trade partners, the Philippines' **total merchandise exports account for only about 15% of its GDP**, lowering its exposure to global trade conflicts. **However, financial risks heighten with potential USD appreciation,** putting pressure on BSP's monetary policy. Twin deficits further amplify the country's exposure to global financial shifts.
- **Trump's stricter US immigration policies**, including the deportation of unauthorized migrants, **threaten remittance inflows from Overseas Filipino Workers (OFWs) in the US.** As remittances form a significant share of the Philippines' GDP, any decline **could negatively impact household incomes and weaken domestic consumption.**

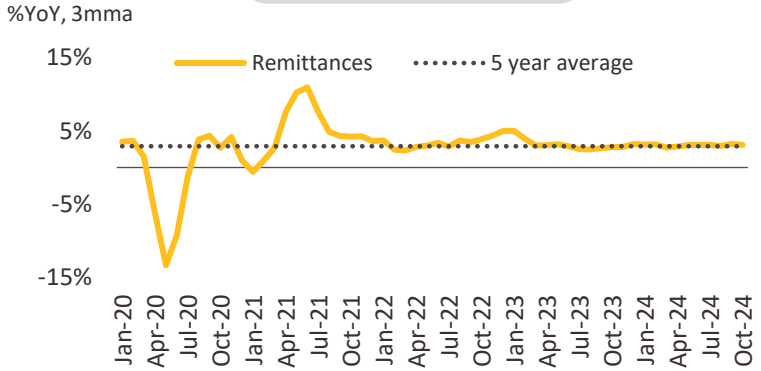
US Import Share from Philippines



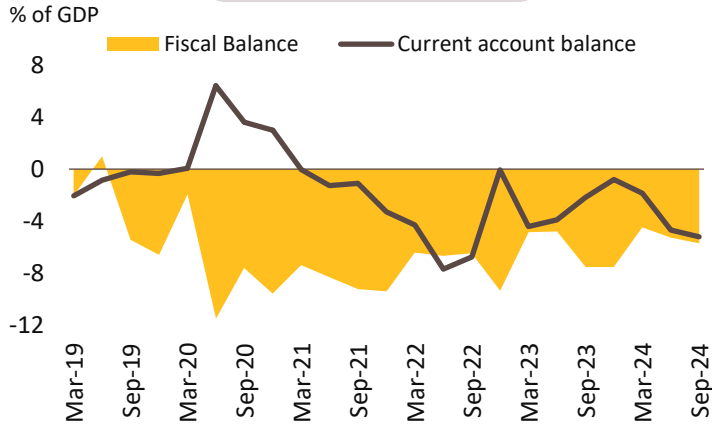
Share of Export Partners



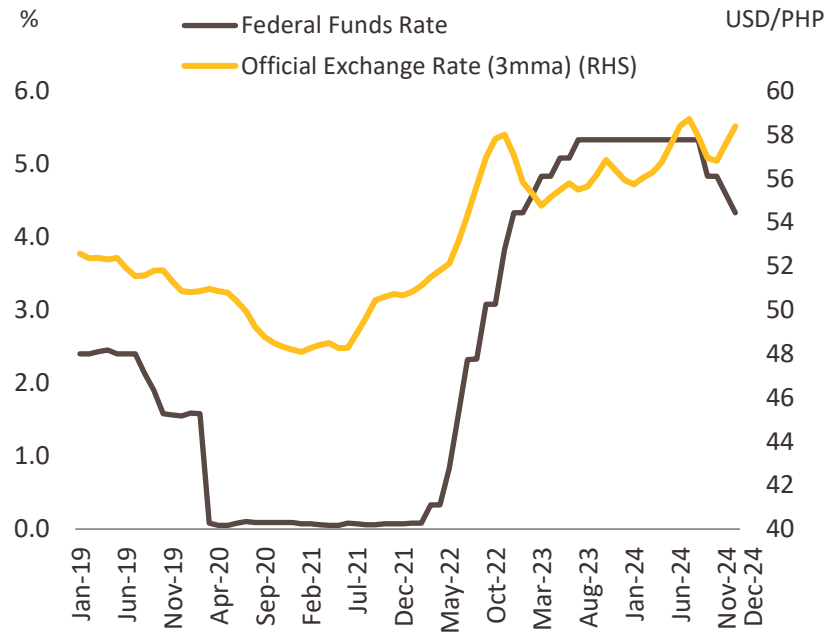
Remittances



Twin Deficits



USD/PHP Exchange Rate and Fed Funds Rate



Source: CEIC, IMF WEO Database (Oct 2023), and Krungsri Research

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