

krungsri Research

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REGIONAL ECONOMIC OUTLOOK

2024 Update

August 2024

Krungsri Research

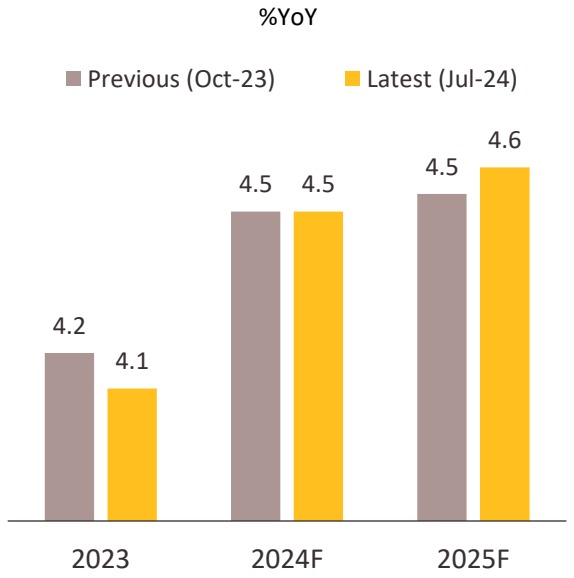
ASEAN: Growth remains solid and is becoming more synchronized, yet trade tension risks are on the rise.

- **In line with the previous report, ASEAN growth is expected to accelerate from 4.1% in 2023 to 4.5% in 2024.** In the first half of 2024, most ASEAN countries depicted a similar perspective of goods exports picking up, though varied economic fundamentals in each country have resulted in different export recovery pictures and impacts on growth. Among ASEAN countries, export-oriented economies like Vietnam and Cambodia have benefited the most in this regard. **Domestic demand remains a key growth driver, driven by easing inflation and robust labor markets,** although it has been somewhat constrained by high real interest rates. Rising exports have helped offset the impact of these higher rates on growth.
- **Monetary policy easing has been delayed from our previous expectations.** Weakness in local currencies and capital outflows, driven by a possibly high-interest-rate environment from the Fed, have caused many central banks to hold back from cutting rates due to concerns over external conditions.
- **For the rest of 2024, a more broad-based growth recovery is expected** as an improving trade cycle is likely to continue driving a more synchronized growth trajectory. With divergences in fiscal policies, domestic consumption will remain the key engine of growth. Growth in 2025 is projected to be solid at 4.6% as the current drivers are expected to maintain their momentum. **In terms of monetary policy, uncertain external financial conditions could keep regional monetary policy stances neutral until late 2024 or early 2025. Regional central banks are likely to conduct policy easing with a more conservative approach.** Indonesia and the Philippines will likely be the first in ASEAN to cut policy rates, given their high real interest rates.
- **Significant headwinds ahead include trade tensions**, which could directly reduce ASEAN exports, exacerbate China's excess production capacities, and worsen external financial conditions and private confidence. This scenario would indirectly affect regional growth through reduced investment. On a positive note, the substitution effect on certain products could lead to an increase in exports to the US. This is evidenced by ASEAN benefiting from trade diversion and production base relocation since the trade tensions began in 2018.

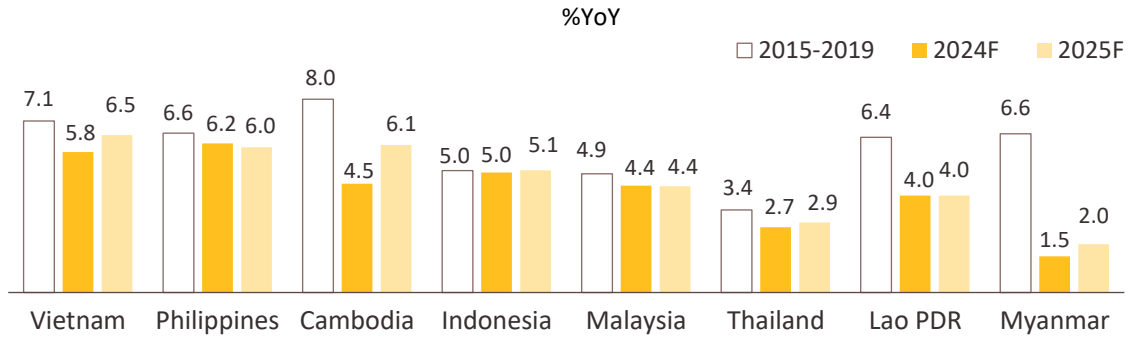
Resilient consumption and export recovery are driving growth.

- **The growth projection for 2024 is expected to be stronger than in 2023, primarily due to the rebound in goods exports. With an improving trade cycle, growth recovery across ASEAN countries has been more synchronized and broad-based. Given growing global trade and resilient domestic demand, the economy will continue to expand in the second half of 2024, with a 4.5% growth for the entire year. Growth is projected to remain steady at 4.6% in 2025.**
- Despite high real interest rates, private consumption remains another key driver, reflected in a pick-up in retail sales, notably in Vietnam. This is driven by easing inflation and robust labor markets, particularly in the service sector. **An increase in the minimum wage in most ASEAN countries this year is anticipated to further support domestic consumption.** Indonesia and Cambodia increased daily minimum wages in early 2024, while Vietnam and the Philippines raised during mid-year. In addition, easing headline inflation tends to boost private consumption. However, geopolitical tensions remain a risk to inflation through higher commodity prices. In countries like Indonesia, potential subsidy adjustments could pose additional upside risks to inflation.

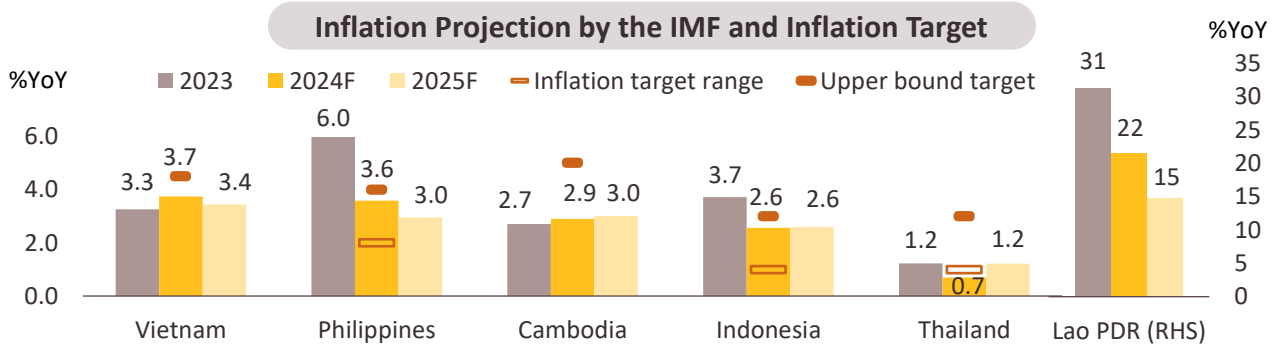
IMF's ASEAN-5 Growth Projection



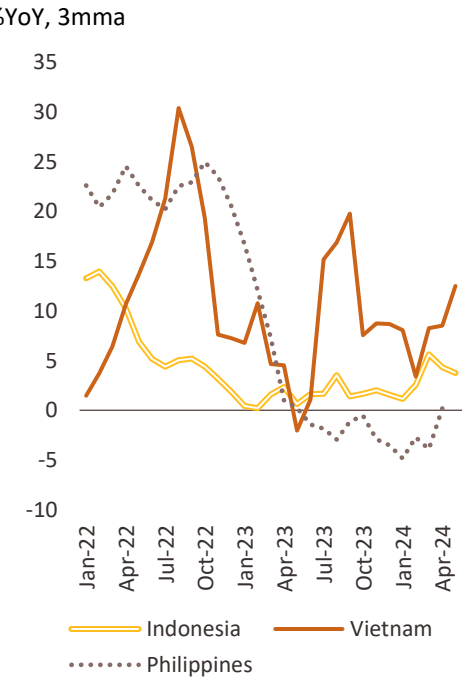
Growth Projection by the IMF and Pre-Pandemic Trend



Inflation Projection by the IMF and Inflation Target



Retail Sale

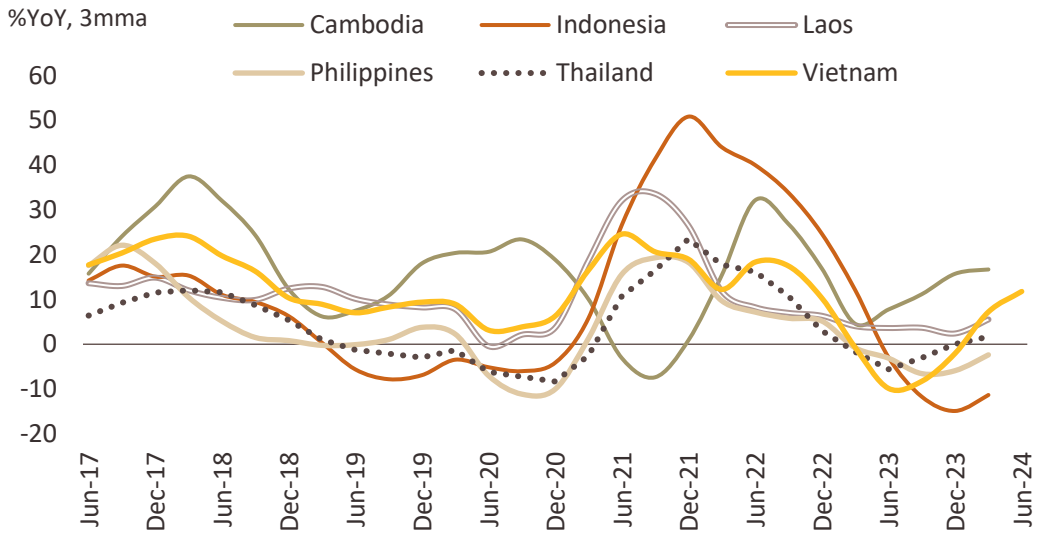


Note: ASEAN-5 economies refer to Indonesia, Malaysia, the Philippines, Singapore, and Thailand.
Source: IMF WEO Database (July 2024), CEIC, and Krungsri Research

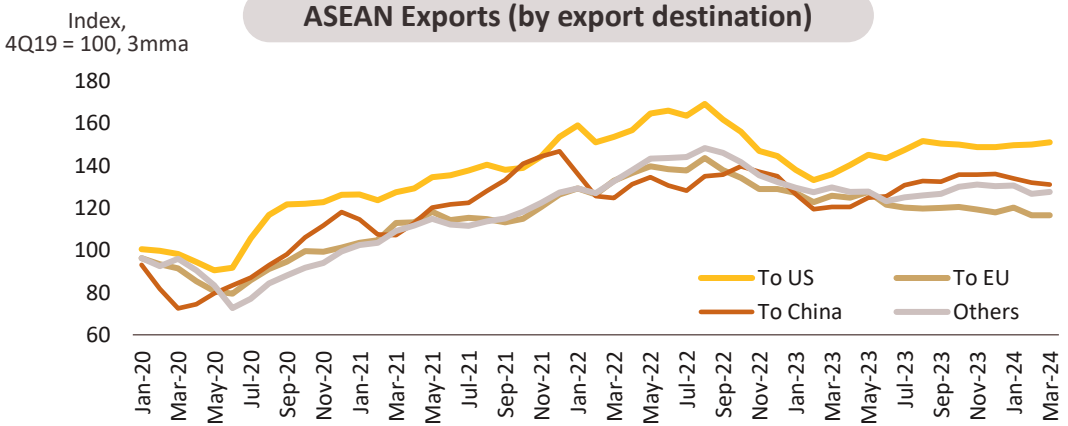
Exports show signs of bottoming out, allowing trade-dependent nations to catch up.

- **In 1H24, ASEAN exports showed a gradual bottoming, led by Vietnam and Cambodia with both garments and non-garments (particularly electronics) showing recovery. Despite a pullback in exports to EU since early 2023 and to China in 2024, resilient exports to the US have been observed. Improving manufactured goods exports have had a positive spillover effect on private investment,** as reflected by the improvement of manufacturing PMI across ASEAN, particularly in Vietnam. However, domestic-demand-oriented economies like Indonesia and the Philippines have also maintained manufacturing PMI in the expansion zone, largely attributed to resilient domestic demand.
- Going forward, goods exports should continue to modestly rebound given loosening supply chain conditions, a diminishing drag of tightened financial conditions, and a resilient, yet gradually slowing US economy. The IMF estimates that global trade volume will improve in 2024, growing by 3.1%, and in 2025, growing by 3.4%, up from 0.8% in 2023. However, trade tensions pose risks to this trade outlook (see more details on pages 6-7).

Regional Export Growth



ASEAN Exports (by export destination)



Note: Calculated from the export data of ASEAN-5, Vietnam, and Cambodia

S&P Global Manufacturing PMI

> 50 indicates expansion from previous month

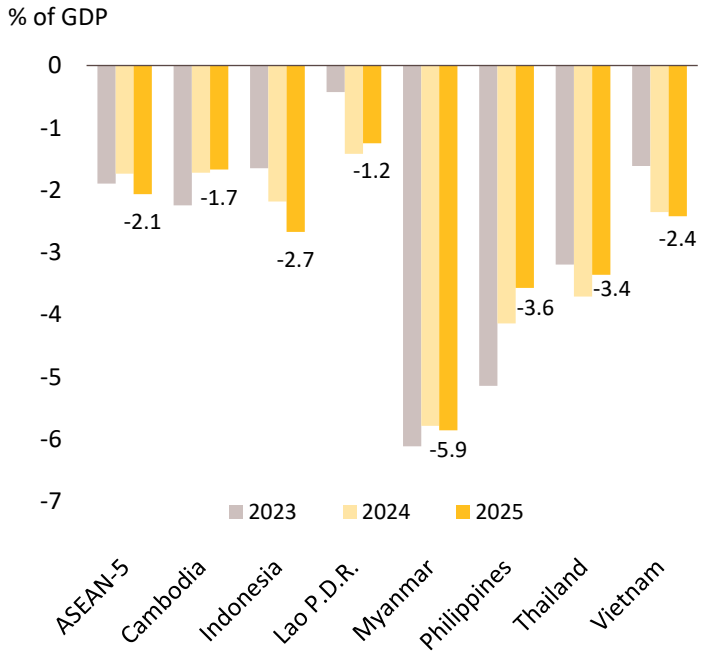
	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24
Global	49.6	49.3	48.9	49	47	50.7
Indonesia	51.5	51.8	53.2	51.8	53.3	51.9
Philippines	52.90	51.50	50.7	52.2	50.9	51.8
Malaysia	47.9	48.1	47.5	47.5	49.0	49.7
Myanmar	52.1	53.6	51.4	46.7	46.4	50.9
Thailand	54.1	57.3	49.1	46.7	47.0	50.2
Vietnam	48.77	46.07	49.6	48.6	50.2	51.8

Source: CEIC, FocusEconomics, and Krungsri Research

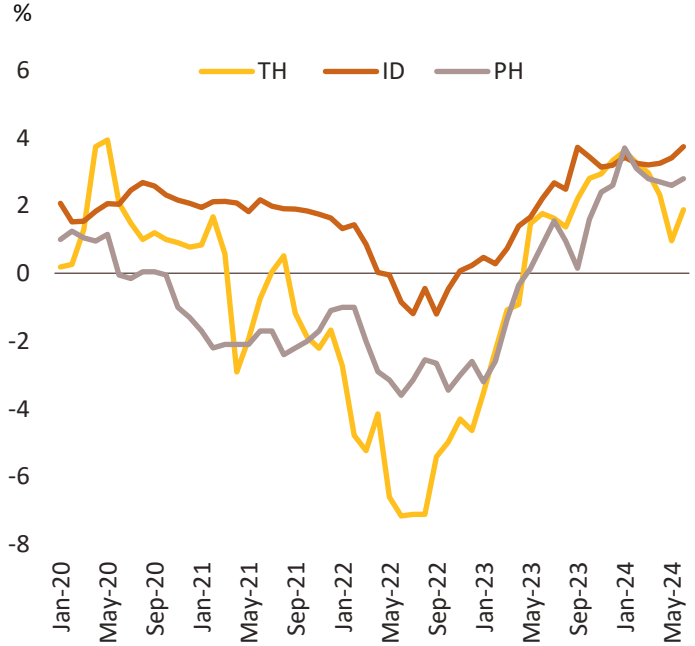
Fiscal policy divergences are observed. Monetary policy is more constrained in countries exposed to global financial conditions.

- **Divergences in fiscal policy across countries are expected.** While fiscal stimulus is likely in some countries such as Indonesia and Vietnam, others like the Philippines are conducting fiscal consolidation to rebuild fiscal space after the pandemic.
- In terms of monetary policy, during the first half of 2024, **ASEAN Central banks have maintained their policy rates, except for Indonesia and Lao PDR,** which hiked their respective policy rates to stabilize local currency against the US dollar and to curb inflationary pressures, respectively. All regional currencies weakened against the US dollar following the Fed's decision to delay rate cuts. This change in monetary policy expectations, combined with ongoing geopolitical tensions, has led to increased volatility in capital flows and exchange rates throughout the ASEAN region.
- Despite inflation staying within target ranges and high real interest rates pressuring domestic activities, central banks in the region are likely to keep policy rates unchanged until late 2024 or early 2025. Monetary policy easing may proceed cautiously due to uncertain external conditions, including a high-interest-rate environment, geopolitical conflicts, and trade tensions.

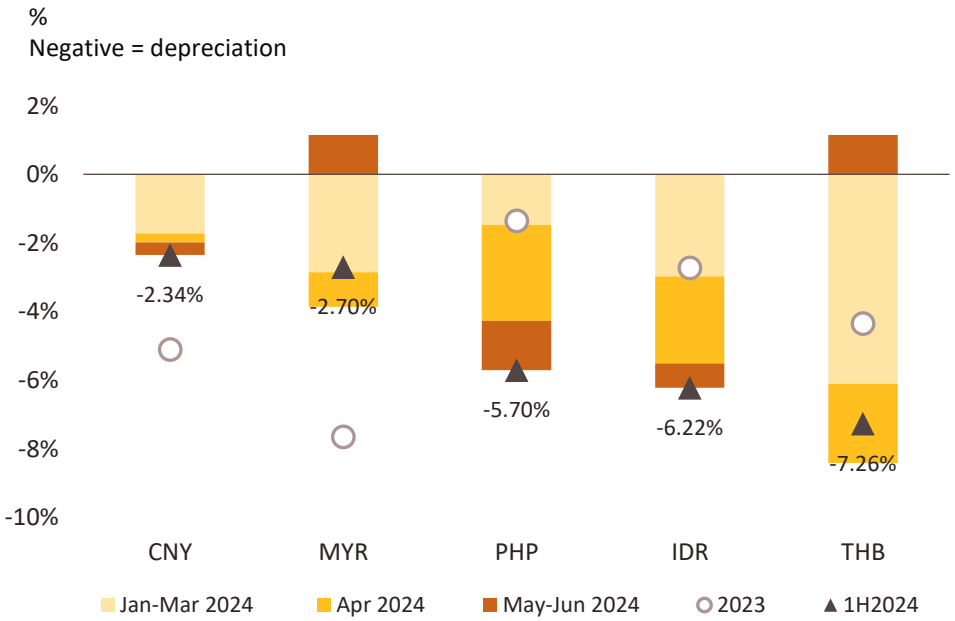
Fiscal Balance



Real interest rates



Currency moves against the USD



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

Biden's latest tariffs: impacts transmitted to ASEAN mostly via China's supply chains

- **On May 14, US President Joe Biden increased tariffs on USD 18 bn in Chinese imports across a handful of sectors** – an attempt to protect American workers and businesses from China's unfair trade practices. The decision was based on the mandated four-year review of the tariffs imposed by former President Donald Trump in 2018 under Section 301.
- **The impact of the latest tariff hikes on ASEAN is transmitted via China's supply chains,** affecting both exports and imports and will eventually affect domestic manufacturing activities. Indirect effects via Chinese supply chains could reduce ASEAN exports to China. However, the substitution effect could increase ASEAN exports to the US. There is also a possible increase in imports from China to ASEAN due to an excess supply of related products. **This possibility has already led to further trade protectionism between China and other countries, with Indonesia recently considering tariff hikes of up to 200% on Chinese products to protect local small- and medium-sized businesses.**
- **Since the trade war kicked off in 2018,** ASEAN has benefited from trade diversion and longer-term relocation of the production base (reshoring). Trade diversion is evident in the sharp rise in China's and the US's import shares from ASEAN, while the US's import share from China has significantly declined, suggesting that the trade war has resulted in the diversion of US imports from China to other countries. In parallel, trade destinations among ASEAN countries have changed. Vietnam and Thailand now have higher shares of exports to the US, while Indonesia has seen a surge in exports to China. **However, negative impacts on global growth and trade (due to lower productivity) could limit gains for exports and manufacturing in ASEAN.**

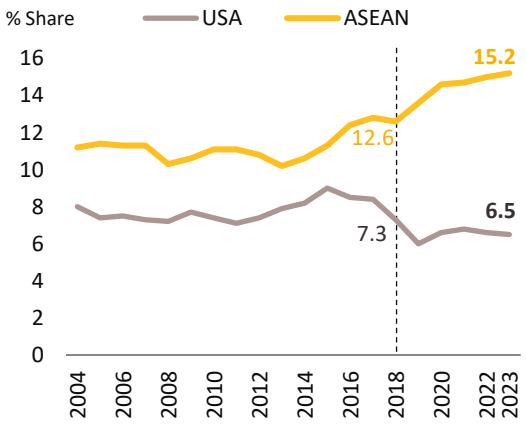
Biden's recent tariffs on China and impact on ASEAN

Product list	Old	New	Effective
Electric vehicles	25%	100%	2024
Solar cells	25%	50%	2024
Semiconductors	25%	50%	2025
Syringes and needles	0%	50%	2024
Lithium-ion batteries for electric vehicles	7.5%	25%	2024
Other lithium-ion batteries	7.5%	25%	2026
Rubber medical and surgical gloves	7.5%	25%	2026
Steel and aluminum products	0-7.5%	25%	2024
Face masks and respirators	0-7.5%	25%	2024

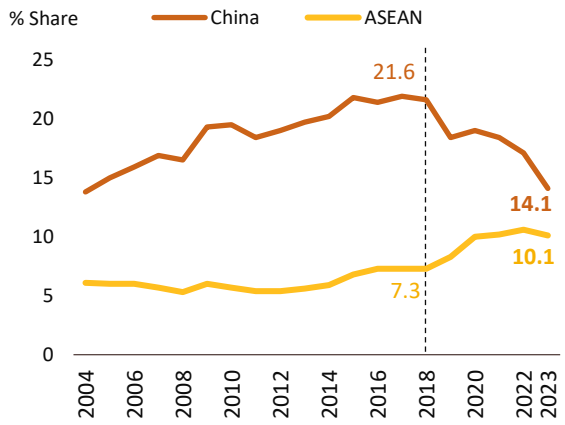
1) Export: (-) lower exports of items within the value chains **(+) higher exports** due to substitution effects, e.g. solar cells
2) Higher imports due to higher and broader excess supply in China

→ **Domestic manufacturing activities** of related products

Share of Chinese Imports

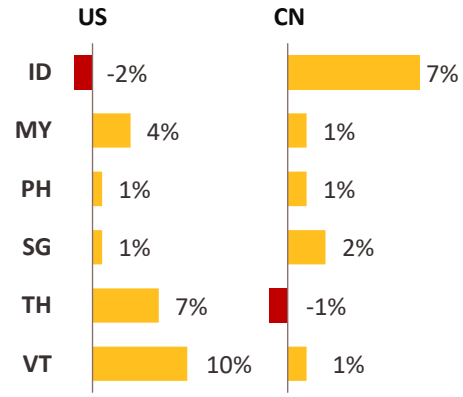


Share of US Imports



Changes in export destination shares

(Dec 2023 vs. Jan 2018, %)

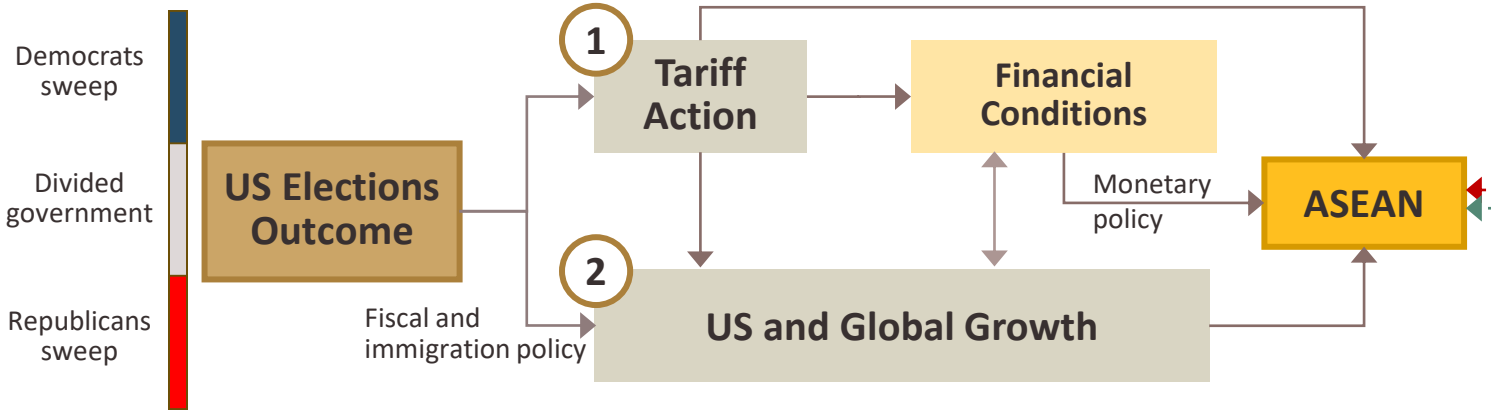


Source: Reuters, Haver Analytics (July 2024), CEIC, Trade map, Krungsri Research

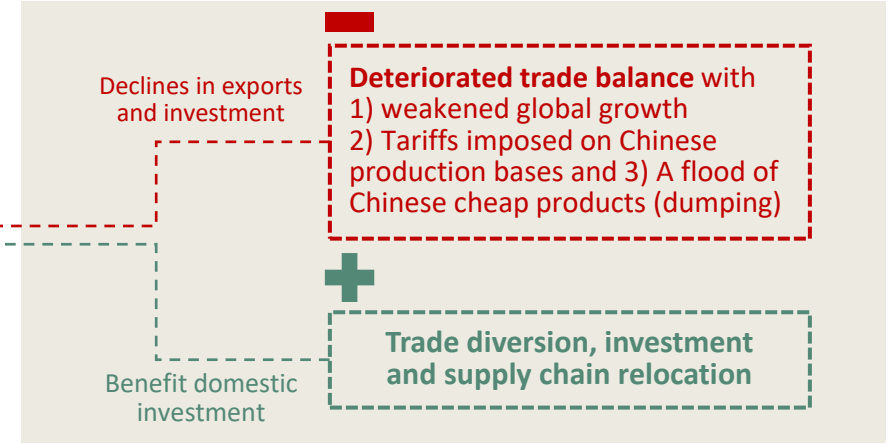
US elections: Tariff risks are rising, the impact on ASEAN depends on election outcomes.

- **The key risk to regional exports and growth is a potential rise in trade tensions which relates to the US election results**, scheduled in November 2024. Generally, the US election outcome will affect ASEAN growth through tariff actions and US economic performance, driven mostly by fiscal policies.
- Further escalation of trade tensions and possible retaliatory measures would lead to i) a significant drop in trade flows and manufacturing activities in the US and China, leading to weakened global growth. Indirectly, it will affect investor confidence and capex.; ii) risk-off sentiment leading to tighter financial conditions (stronger USD, rising rates, and capital reversal); iii) new trade tensions between China and other countries are likely, following dumping.
- **For ASEAN, trade balances are expected to deteriorate due to the global growth slowdown, additional protectionist measures, and the influx of cheap Chinese products. However, there could be some benefits with trade diversion and supply chains being relocated to the region, which could benefit domestic investment in some related sectors.**

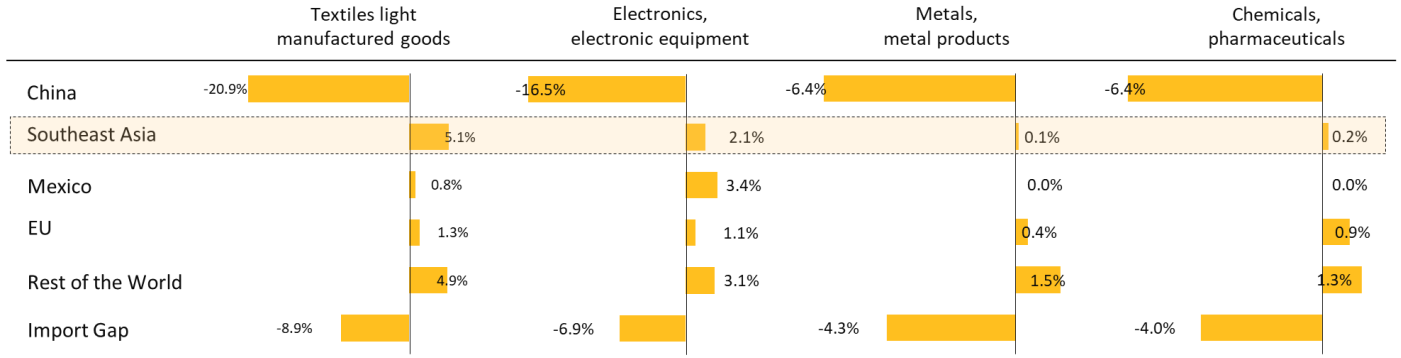
US elections and transmission channels



Possible Trump's tariff action



Projected changes in share of American purchases in 2030



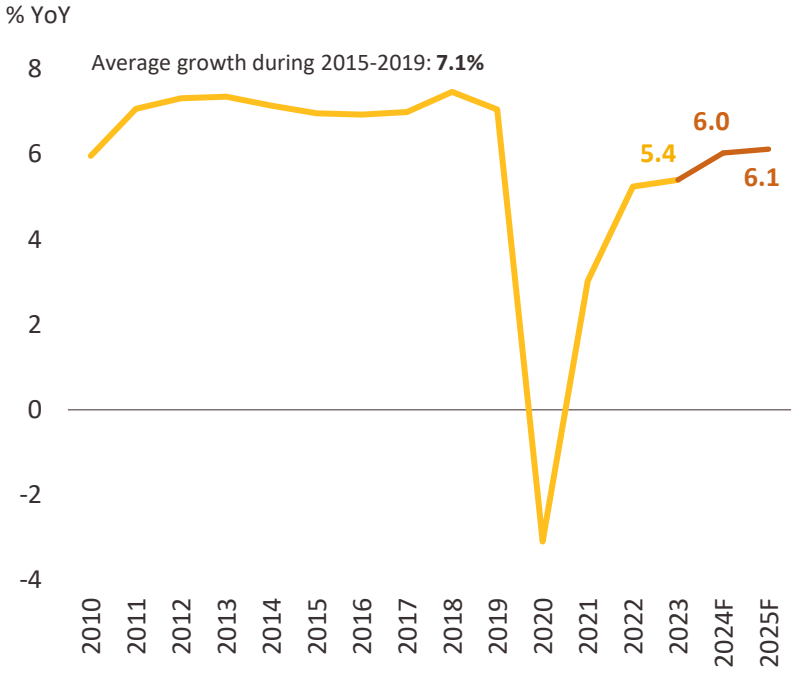
Source: Bloomberg Economics, Krungsri Research

Note: Projections (by Bloomberg) assume Trump's proposed tariff starts in 2025. Donald Trump recently proposed implementing tariff of up to 60% on all imports from China, and 10% universal baseline tariff across the board

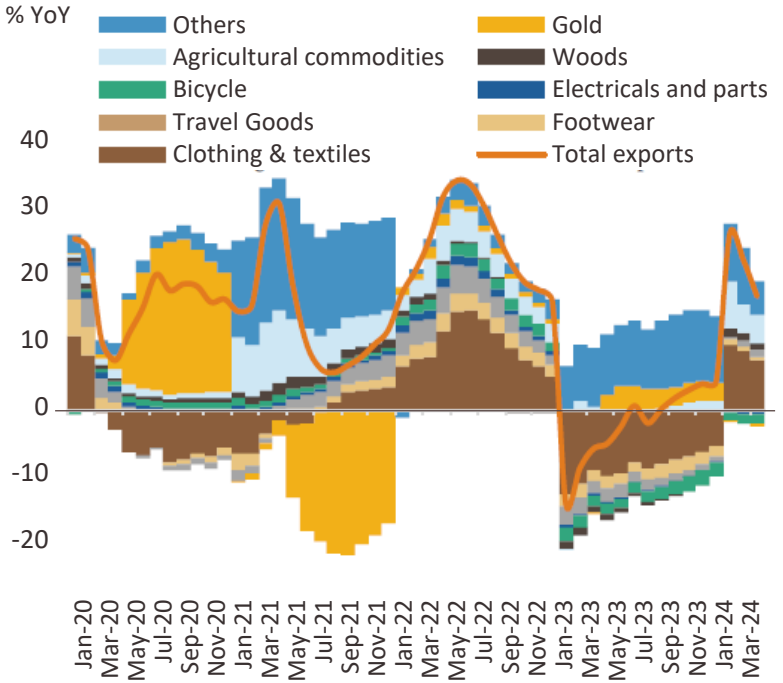
Cambodia: On a recovery trajectory, underpinned by revivals of service and goods exports

- **The economy is steadily recovering, with growth projected at 6% in 2024, driven by a rebound in the tourism sector and strong performance in both garment and non-garment exports.** In the first quarter, international tourist arrivals reached 85% of 2019 levels. Since late 2023, declines in garment-related exports have lessened, and increases in other exports— notably solar panels, electrical parts, and primary products—have contributed to the recovery of goods exports. Improved tourism and goods exports are expected to support economic momentum.
- Inflation rose in late 2023 due to fluctuations in food and fuel prices. However, **inflation is forecast to moderate, reaching 2.3% in 2024. Price stability should continue to support domestic economic activities.**

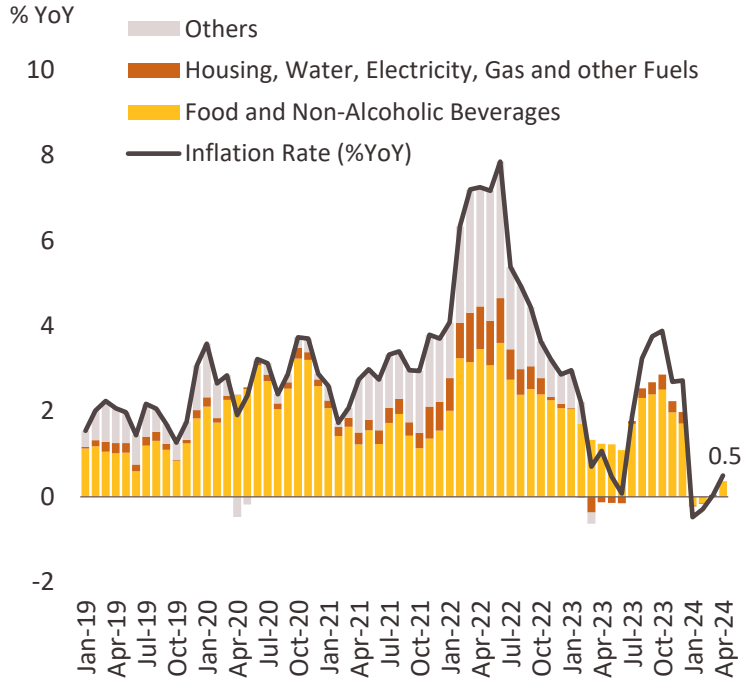
IMF's Annual Growth Projections



Contribution to goods exports



Contribution to Headline Inflation

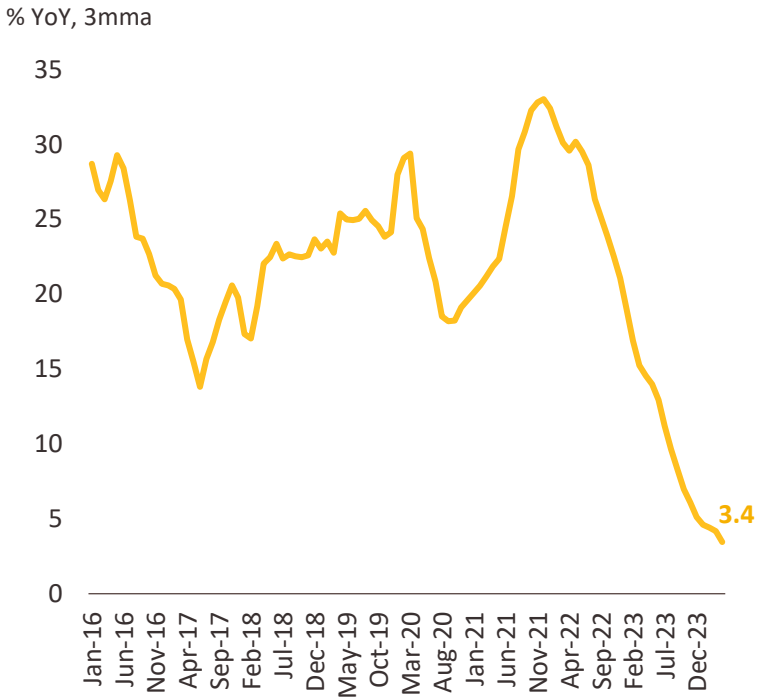


Source: IMF, World Bank. CEIC, National Institute of Statistics, Ministry of Tourism and Krungsri Research

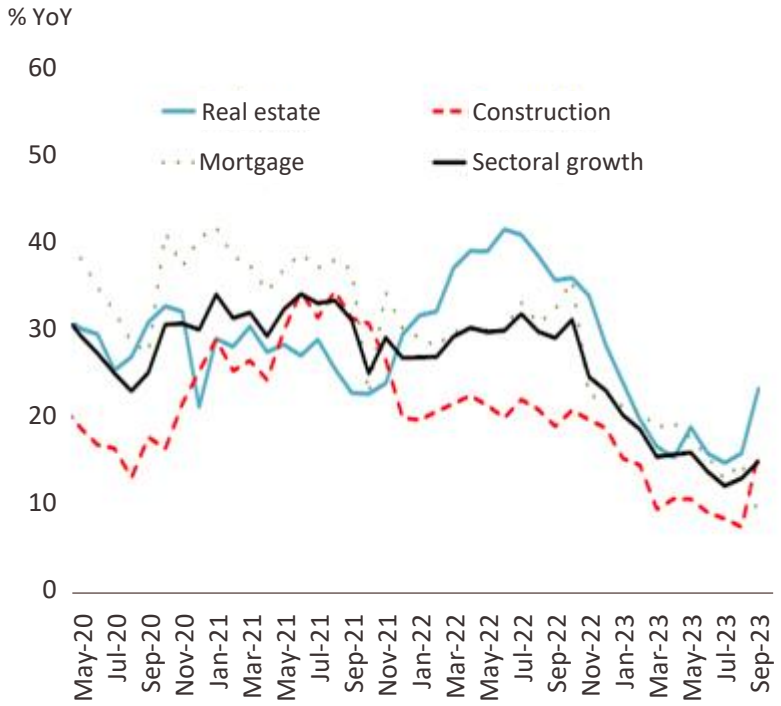
Financial sector shows signs of deleveraging, though close monitoring is needed for deteriorating asset quality in the banking sector.

- **Decelerating credit growth reflects signs of deleveraging in the real estate sector, following a period of overinvestment.** The banking sector is well-capitalized, with a prudent Regulatory Capital to Risk-weighted Assets ratio of 23% as of June 2023. **However**, **the recent deterioration in asset quality following the end of forbearance measures** (particularly loan restructuring)**, coupled with lower profits driven by rising operating costs from higher interest rates, has been observed.**
- NPL ratios rose to 5.9% in March 2024 from 3.1% in 2022. Profitability declined, as reflected by the return on assets dropping by more than half, from 2.4% in 2022 to just 1% in 2023, and the return on equity decreased from 10% in 2022 to 3.2% in 2023.

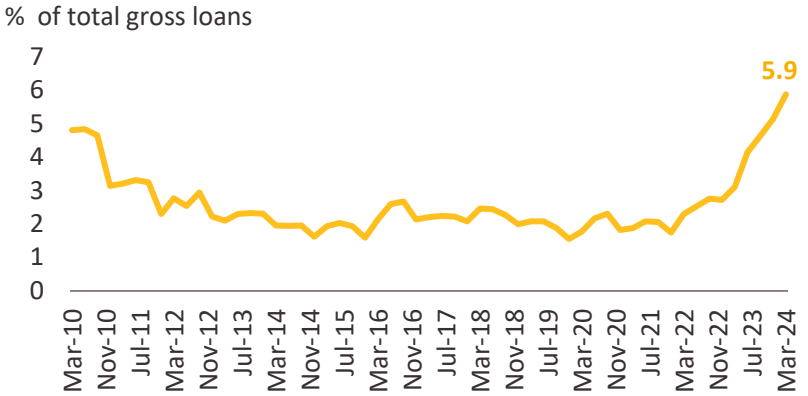
Domestic Credit Growth



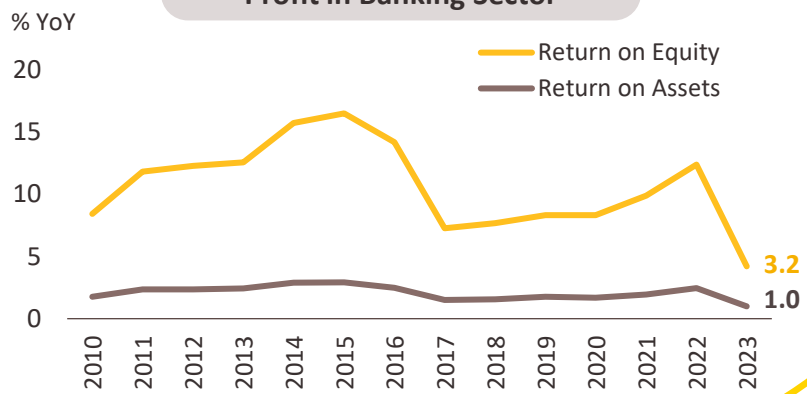
Real Estate Related Credit Growth



Non-preforming Loans



Profit in Banking Sector



Source: IMF, World Bank, NBC, Krungsri Research

The Funan Techo Canal Project: facilitating the trade, stirring the conflicts

- **Funan Techo Canal will connect Phnom Penh Autonomous Port to Kep Province and the Gulf of Thailand**, is a flagship project of the Hun Manet government. The goals are to facilitate trade by creating a direct route for exports and to boost economic development. According to authorities, 33% of cargo to and from Cambodia use Vietnamese ports for their global trade by sending them through the Mekong River, and the canal project aims to reduce that to 10%.
- **This project has now emerged as a new controversy between Cambodia and Vietnam**, as Vietnam could lose revenue from Cambodian goods using its ports. Also, concerns exist about the canal's impact on the Mekong River water flow, potentially affecting Vietnam's Mekong Delta and its agricultural sector. On geopolitical fronts, Vietnam is reportedly concerned that the new canal could facilitate Chinese military access.



About the project

- **Start date**: 5 August, 2024, aim to finish by 2029.
- **Project size**: USD 1.7 billion
- 180 kilometer long, 100 meters wide, 5.4 meters deep

Financing details

The details have not been finalized. It is widely expected that the project will be **majorly funded and invested by the China Road and Bridge Corporation (CRBC) under a BOT (build-operate-transfer) contract.**

Issues to watch

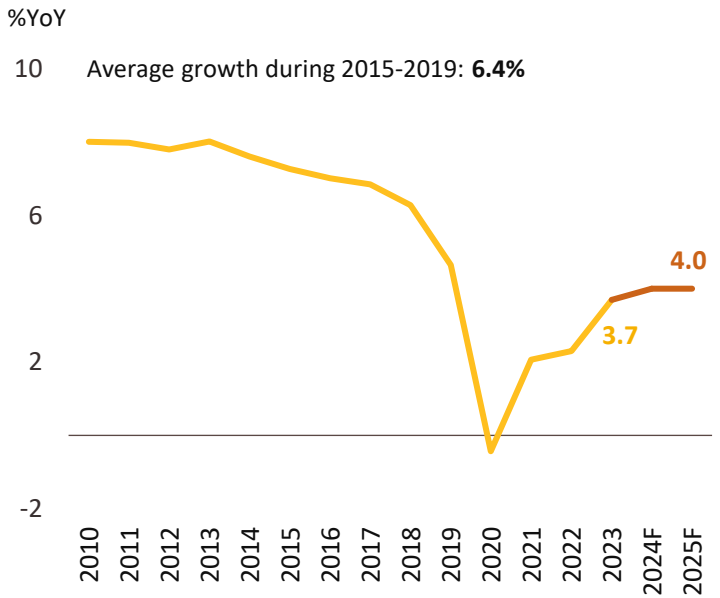
- **Concerns about the country's public debt burden and/or high dependence on China**
- **Conflicts between Vietnam and Cambodia**.
- **Environmental and economic impacts on the region,** such as those affecting the agriculture sector and water management, follow changes in the Mekong River's water flows.
- **Comments from the Mekong River Commission (MRC)**

Source: News websites, Krungsri Research

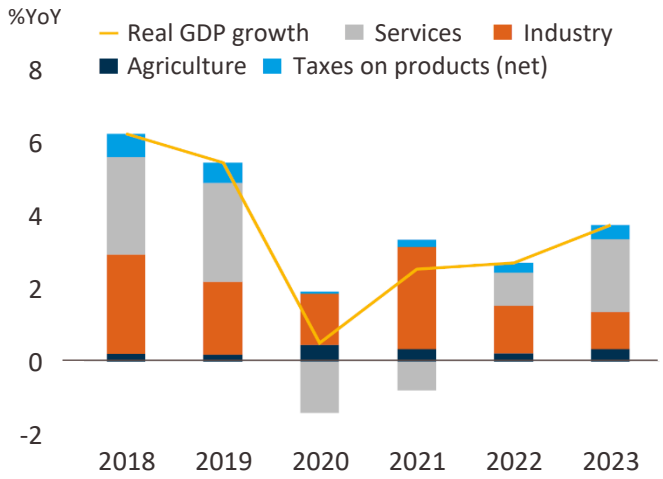
Lao PDR: Growth gradually improved with external drivers (service exports and FDI) being the main engines. Domestic activities still suffered from high inflation and limited fiscal support.

- **Laos' economy is expected to gradually recover due to external drivers, with growth projected at 4% in 2024.** These drivers include improved performance in services exports like tourism, logistics, and transport. In addition, foreign investment has increased significantly, mainly in the electricity and mining sectors.
- **Foreign visitor arrivals reached 1.3 million in 1Q24, up 36% YoY.** The estimated number of 2024 total foreign tourists was revised down from that early this year (4.6 to 3.9 million visitors). To boost tourism in 2H24, the government extended visa exemptions (extending stay durations and including more countries) until the end of this year. In addition, the upcoming La Niña weather conditions may boost hydroelectric exports. Another major driver, **foreign direct investment expanded significantly in 2023 and reached nearly 75% YoY in 1Q24.**
- **Domestic activities remained sluggish as private consumption stayed subdued,** with rising inflation continuing to erode purchasing power. The high cost of living has exacerbated issues in labor migration and the manufacturing sector. Moreover, government spending is unable to provide support due to massive public debt, which has constrained fiscal space.

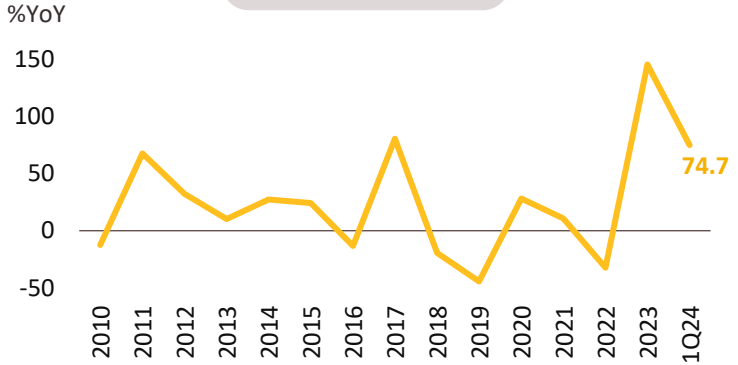
IMF's Annual Growth Projections



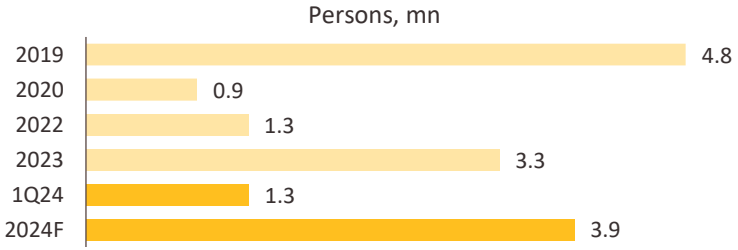
GDP Contribution by Sectors



FDI Inflow



Visitor Arrivals



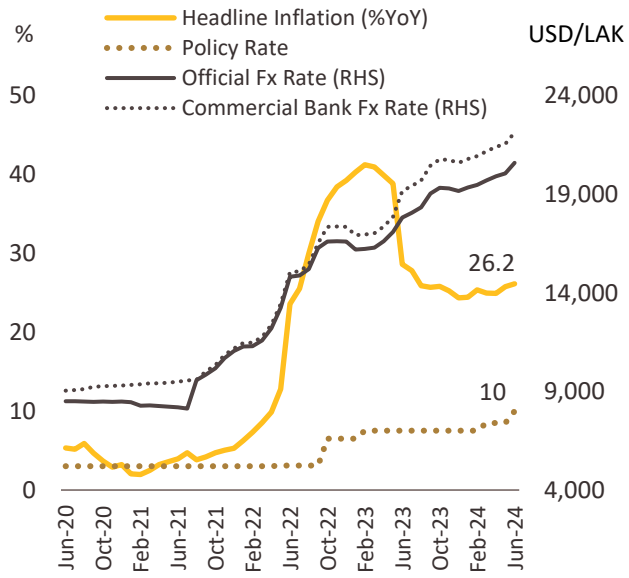
Note: 2021 data is missing.

Source: World Bank, IMF WEO Database (Apr 2024), Bank of the Lao P.D.R., Ministry of Information, Culture and Tourism, CEIC, and Krungsri Research

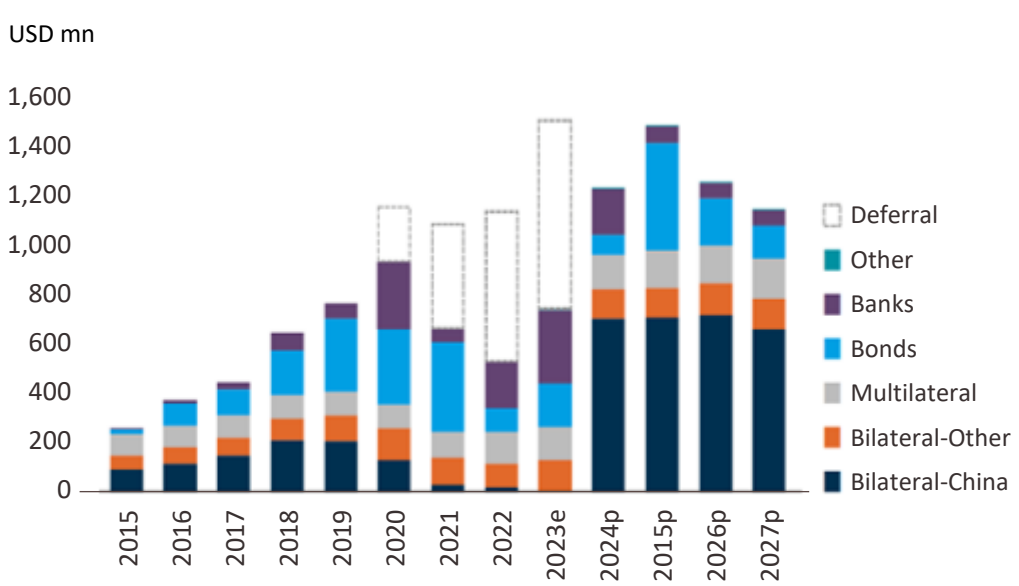
Vulnerable external position and limited policy effectiveness continue to cap Laos' economic performance.

- **Inflation, rising to 26.2% YoY in June 2024, has remained exceptionally high.** Since Laos heavily relies on imports, persistent currency depreciation has significantly increased inflation.
- **High external debt has led to liquidity shortage** (foreign reserves covered only 2 months of imports in 2023) **and weak Lao kip.** The deferrals owed to China from 2020-2023 have no clear details on repayment. However, **the World Bank expects that total financing needs will increase in 2024** due to higher debt repayments and currency depreciation pressure. Liquidity shortages will persist with high external debt obligations, weakening the local currency further and exacerbating external debt, creating a negative feedback loop.
- In the banking sector, foreign currency deposit ratios increased as a hedge against depreciation. More dollarization can exacerbate currency mismatches in banks' balance sheets, reflected by a widening spread between foreign currency assets (credit) and liabilities (deposits), leading to increased exchange rate risks and liquidity pressures for banks.
- To curb currency depreciation and high inflation, BOL tightened financial conditions by raising the policy rate twice, from 7.5% to 8.5% in March 2024 and to 10% in June 2024. **However, recent measures have limited effectiveness given its poor monetary operation, highly dollarized economy, and vulnerable macroeconomic fundamentals.**

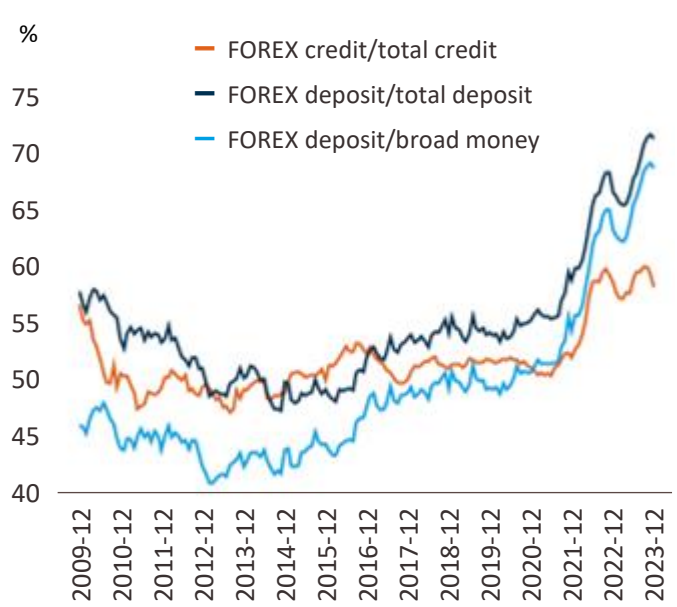
Inflation, Policy Rate, and Exchange Rate



External public debt repayment, by creditor



Foreign currency ratios

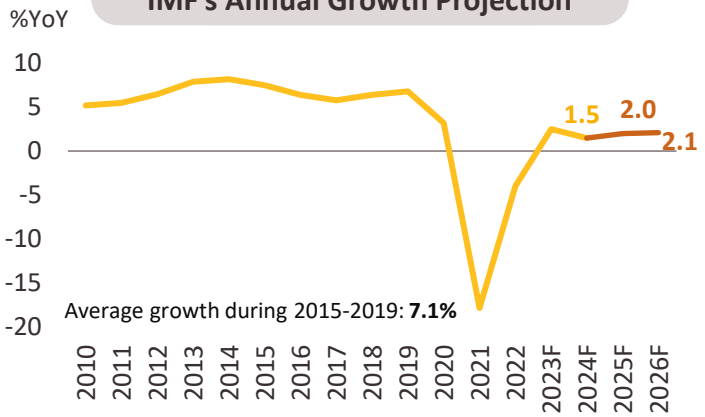


*BOL raised policy rate twice in 1H24, in an attempt to contain inflation.
Source: World Bank, CEIC, and Krungsri Research

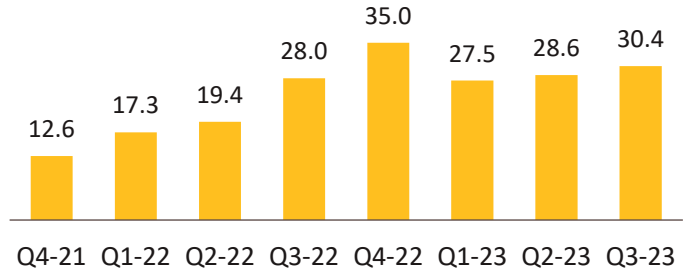
Myanmar: Growth revised down amid political uncertainties and economic instability

- **The IMF revised down growth for 2024 from 2.6% to 1.5%, largely due to escalating political conflicts. The dispersion in growth projections narrowed,** given the World Bank's estimate for GDP for FY2023 and FY2024 at 1%. The economic outlook remains very weak as persistently high inflation, mainly due to disruptions in trade and logistics, and currency depreciation, continue to pressure households. These factors have particularly large impacts on the service sector such as retail trade. In addition, shortages in labor, foreign currencies, and electricity will continue to downplay the manufacturing sector. Meanwhile, agricultural activity is expected to continue to expand. The impact of land border trade disruptions is expected to ease slightly as importers and exporters shift to alternative channels, while production in several major agricultural areas remains relatively unaffected by the conflict.
- **Foreign currency shortages continue as the spread between the official rate and the market rate stands at around 50%.** According to the World Bank, the kyat has depreciated by about 20% since the end of 2023. As of June 2024, the exchange rate was around 4,500 kyat per dollar, while the official rate remains unchanged at 2,100 kyat per dollar.
- **Conflict intensity has trended upwards since January** with armed clashes spreading from Northern Shan to other parts of the country including Rakhine and Kachin. The conflict has curtailed land border trade with Thailand, China, and India. Excluding natural gas, total land trade declined by about 38% in the six months to March 2024 compared to the previous six months.

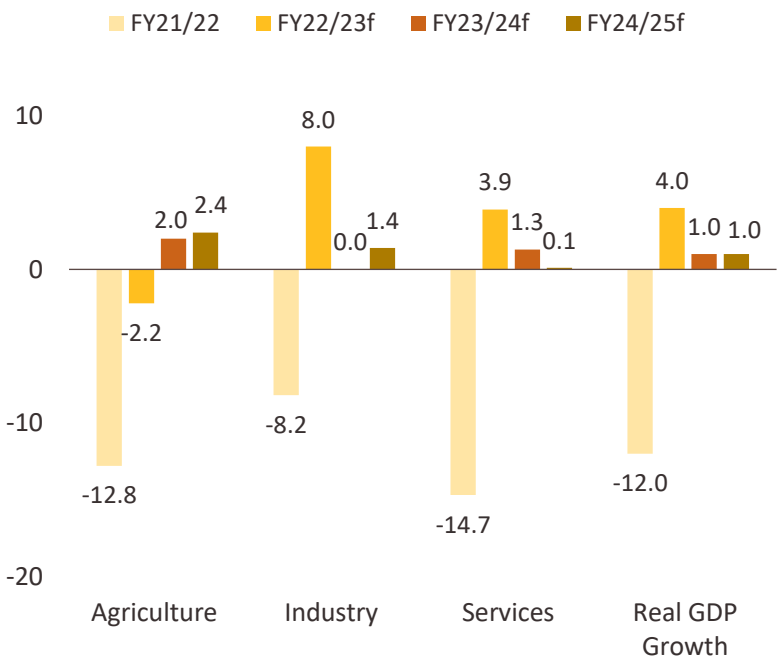
IMF's Annual Growth Projection



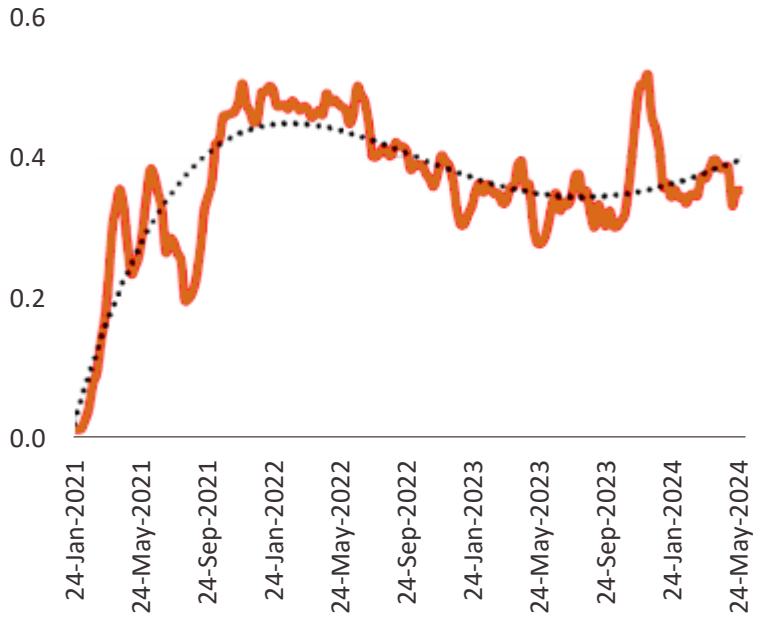
Inflation



World Bank's GDP Projection by Sector



Conflict Intensity Index



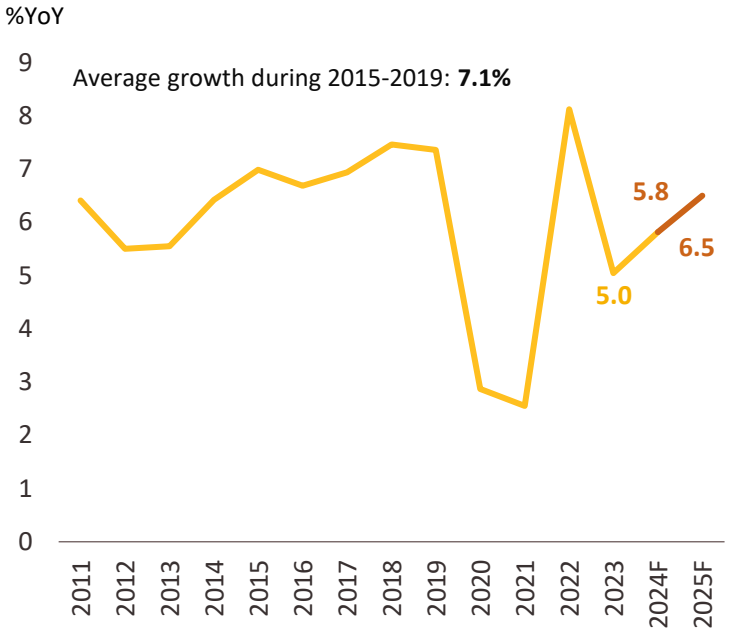
Note: World Bank staff calculations using data from the Armed Conflict Location and Event Data Project (ACLED). Conflict intensity is calculated as a geometric mean of events and fatalities. The data is weekly ending in May 2024, reflecting 4-week moving average.

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

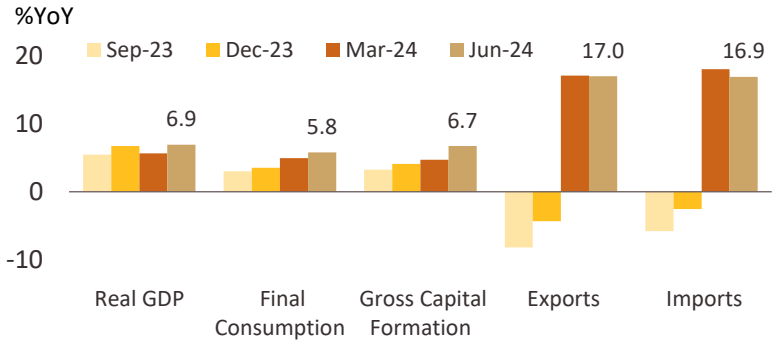
Vietnam: Stronger growth in 2024, driven by resilient domestic demand, improved export, and robust abroad investment

- **Growth will accelerate to 5.8% in 2024. Domestic demand is expected to expand** following the accelerated disbursement of public investment projects and sustain private consumption, supported by ongoing fiscal stimulus measures including extended VAT cuts to 8% until the end of 2024 and a minimum wage increase of 6% nationwide.
- Thanks to global electronics upturn and pick-up in external demand, particularly from the US, exports surged by 17% in 1H24, supported by key sectors like electronics and textiles. **Improved exports have led to expansion in industrial production and enhanced business sentiment. Resilient private consumption and investment are reflected in the accelerated credit growth.**
- Foreign direct investment (FDI) inflows grew robustly at 13% in the 1H24, mostly to the manufacturing and processing industry, followed by the real estate sector. **Despite the effectiveness of the global minimum tax rate (GMT) at the beginning of 2024**, additional government incentives were introduced to compensate for the effect of GMT; thus, **FDI inflows tend to expand in the medium term** due to actively promoting investment opportunities abroad, competitive workforce, development of industrial park infrastructure, and administrative procedure reforms such as streamlining business registration and licensing, providing e-government services.

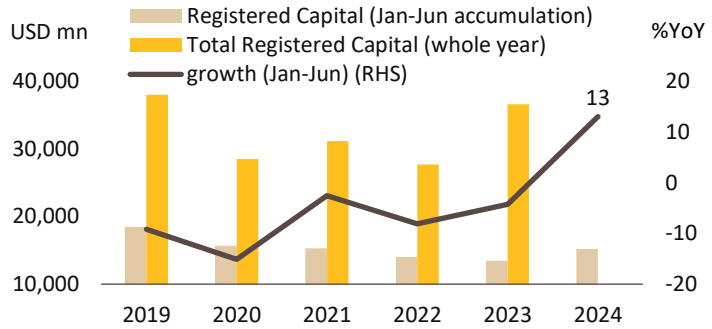
IMF's Annual Growth Projections



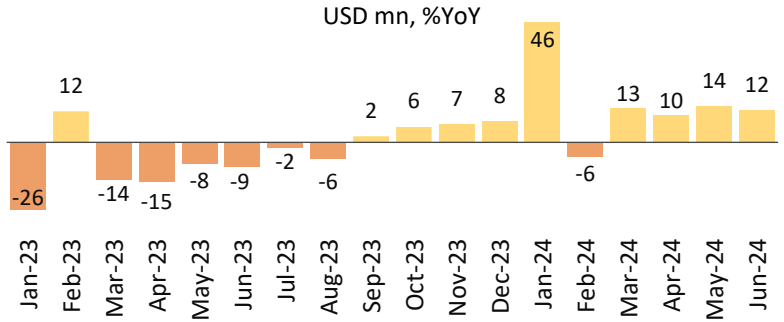
Real GDP Growth by Expenditure



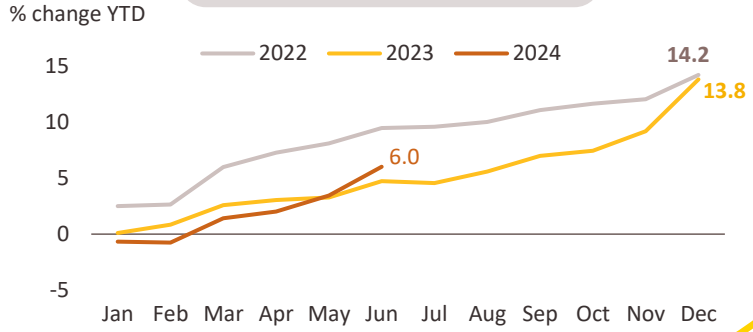
Foreign Direct Investment



Export Growth



Total Credit Growth

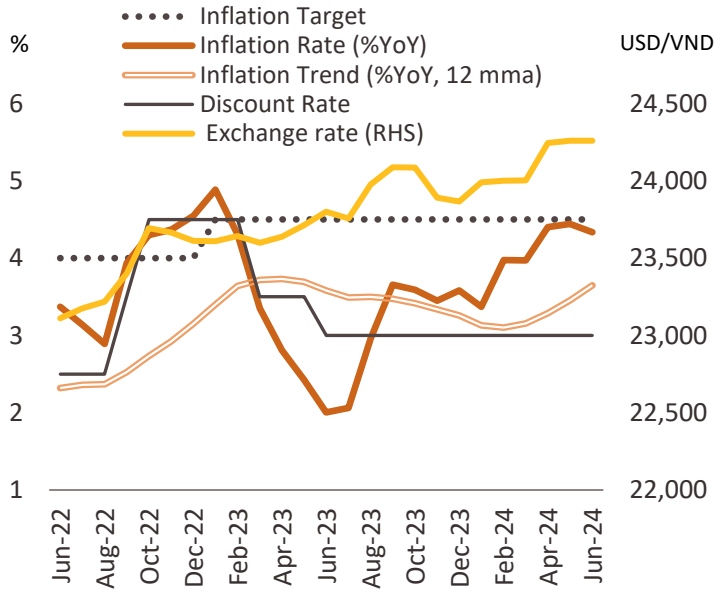


Source: World Bank, CEIC, IMF WEO Database (Apr 2024), and Krungsri Research

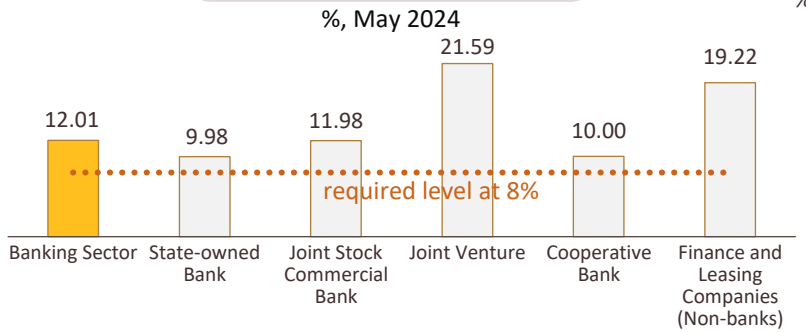
Financial markets gradually recover as supportive policies face lingering risks.

- Inflation trended upward in 1H24, driven by rising global energy prices and VND depreciation. In 1H24**,** VND depreciated roughly 2% YoY against USD, a limited decline due to the SBV's de facto crawl-like exchange rate arrangement[1/]. An increase in minimum wages on July 1, 2024, could add further price pressure in 2H24. Average inflation is expected to stay below the government's 4.5% target through 2024, assuming stable commodity prices. However, the policy rate is expected to remain unchanged at least through early 2025 to manage price pressures and mitigate negative effects from external financial conditions. The rate revision will also be based on the Fed's rate cut decision.
- **The real estate market is projected to gradually improve by late 2024 and into 2025, aided by FDI inflows to the sector, the easing of the corporate bond market freeze, and the upcoming Land Law,** possibly effective in August 2024, which will clarify land pricing and introduce new land use regulations.
- **The banking sector is expected to be relatively resilient in 2024**. **Non-performing loans (NPLs),** albeit remained high, **are likely to decrease** as borrowers' debt repayment capabilities improve, supported by stronger domestic activities, easy monetary conditions, and extended forbearance measures until the end of 2024. In addition, the Land Law is expected to lower the spillover risk of the bond market on the banking sector by alleviating difficulties faced by real estate developers such as streamlining legal procedures, improving land valuation, and enabling independent site clearance. The amended law will likely increase liquidity in the real estate sector and enable highly bond-leveraged developers to continue their projects, thereby enhancing their ability to repay debt and redeem bonds.
- **However, the financial sector faces persistent risks affecting bank asset quality, particularly from slow recovery in the corporate bond market and real estate sector. This could weigh on banks' ability to expand credit and undermine financial stability.**

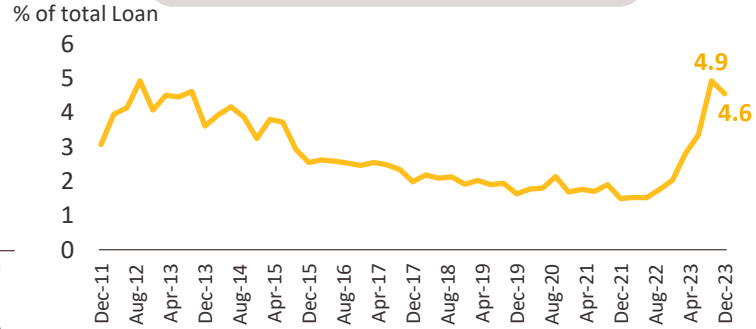
Inflation and Policy Rate



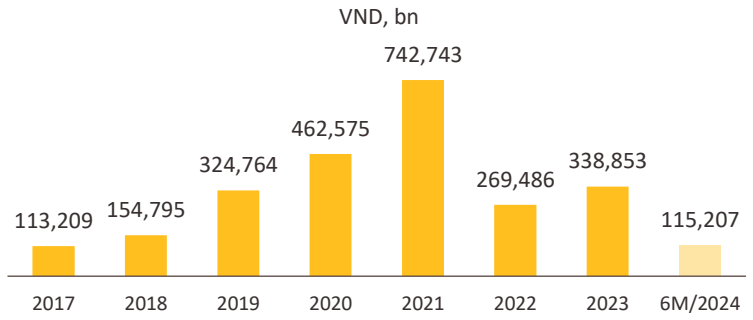
Capital Adequacy Ratio



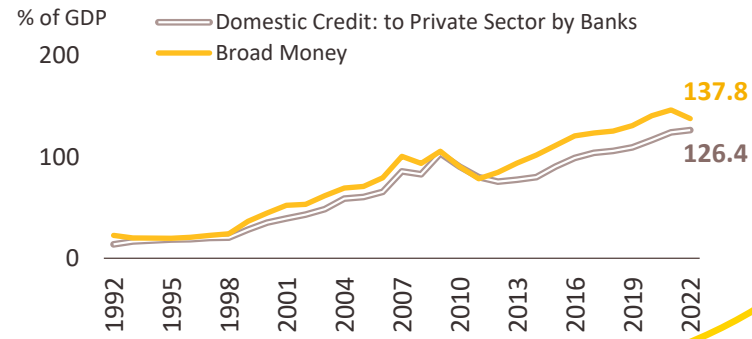
Non-Performing Loans Ratio



Corporate Bond Issuing Value



Domestic Credit and Broad Money



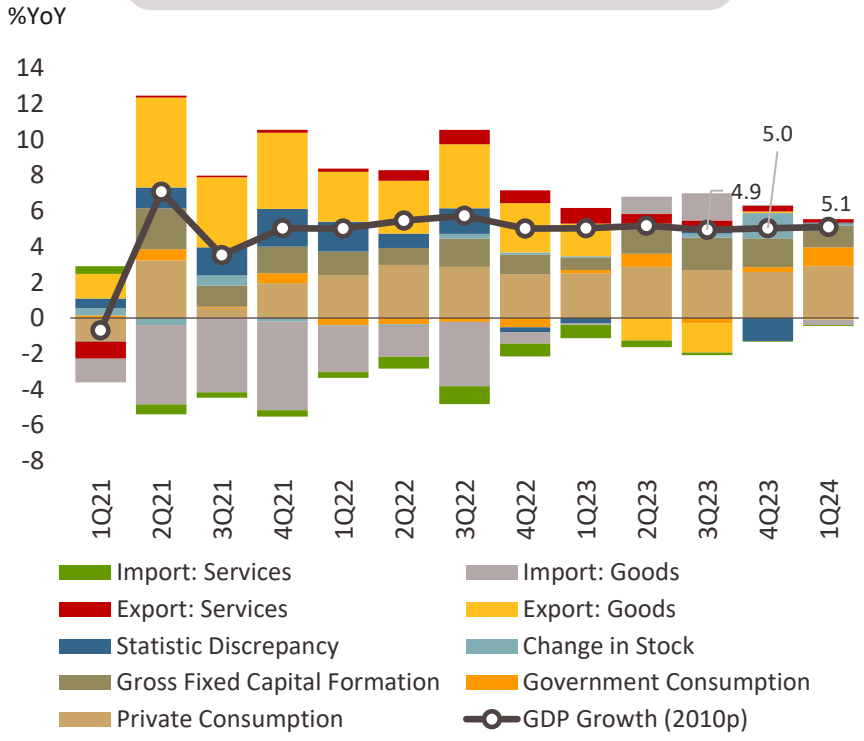
Note: 1/ with a trading band within ±5% around the reference rate.

Source: CEIC, Vietnam MOF, VBMA, SBV, IMF AREAER (2022), and Krungsri Research

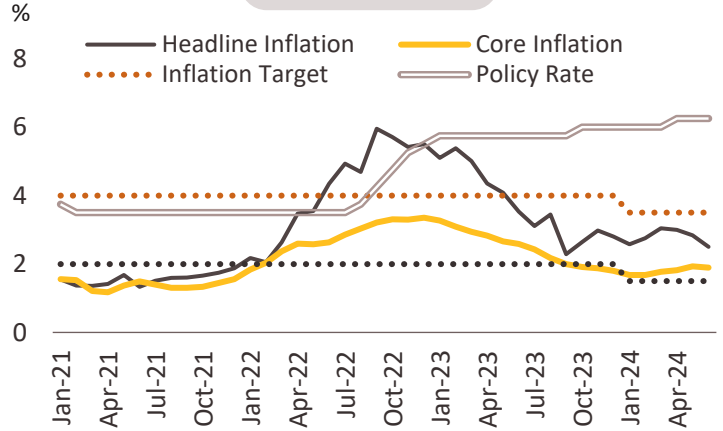
Indonesia: Steady growth with fading election support. Capital outflows raise concerns.

- **Election-related spending mainly supported 1H24 growth, though post-election hangover may pose a drag in domestic demand over 2H24**. Thus, flat growth is forecast at 5% for 2024. In the next couple of years, growth drivers may include more expansionary fiscal policy, increased investments in downstream and automotive (EV) industries, and construction in the new capital city, Nusantara.
- **Inflation this year will remain within the new BI's target of 1.5-3.5%** (down from the 2023 target of 2-4%)**.** Upside risk is potential fuel subsidy cuts amid the increased need to free up fiscal space for a new government, particularly to fund incoming President Prabowo's proposed free lunch program. The rollout of the program is expected to be gradual, aiming to limit the upside of inflationary pressures.
- **On the monetary policy front, a surprise April rate hike was likely a one-off, aimed at mitigating negative impacts from external conditions** due to outflows of bonds and equities and poor IDR performance compared to peers. The watchpoint for BI to cut rates later this year depends on the US rates outlook and other factors that affect global financial conditions, including geopolitical factors and the US election outcome. We still expect BI to cut rates late this year due to elevated real interest rates, but the extent of the cut can be more conservative than previously expected.

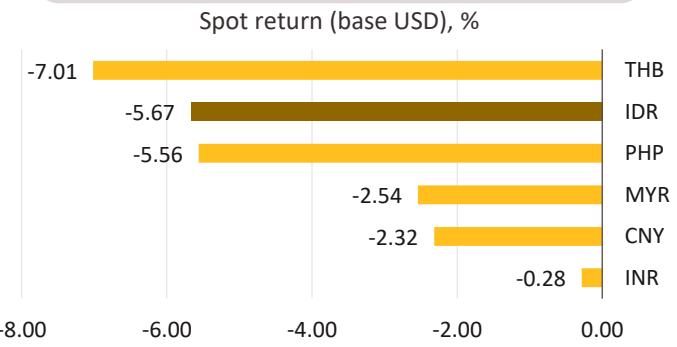
Contribution to Real GDP Growth



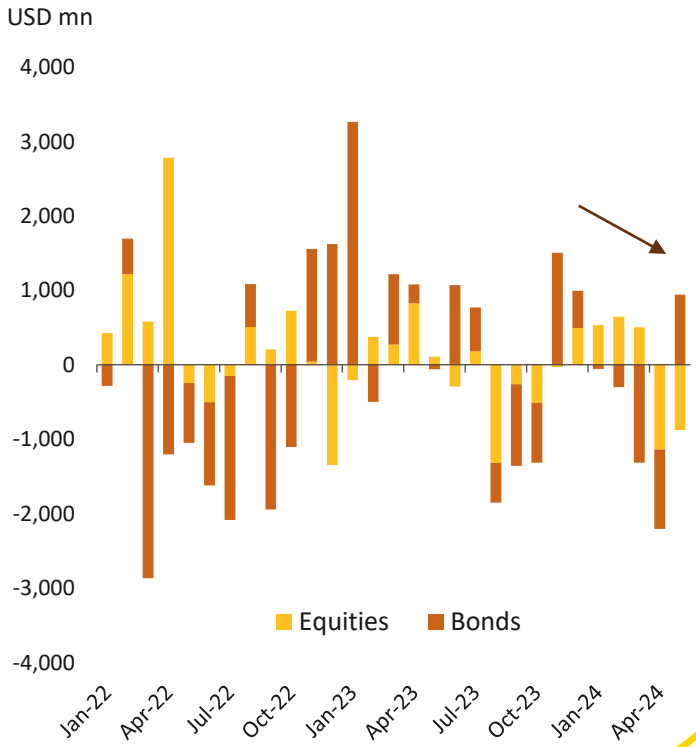
Inflation



Currency Performance (Jan-Jun 2024)



Portfolio Investment

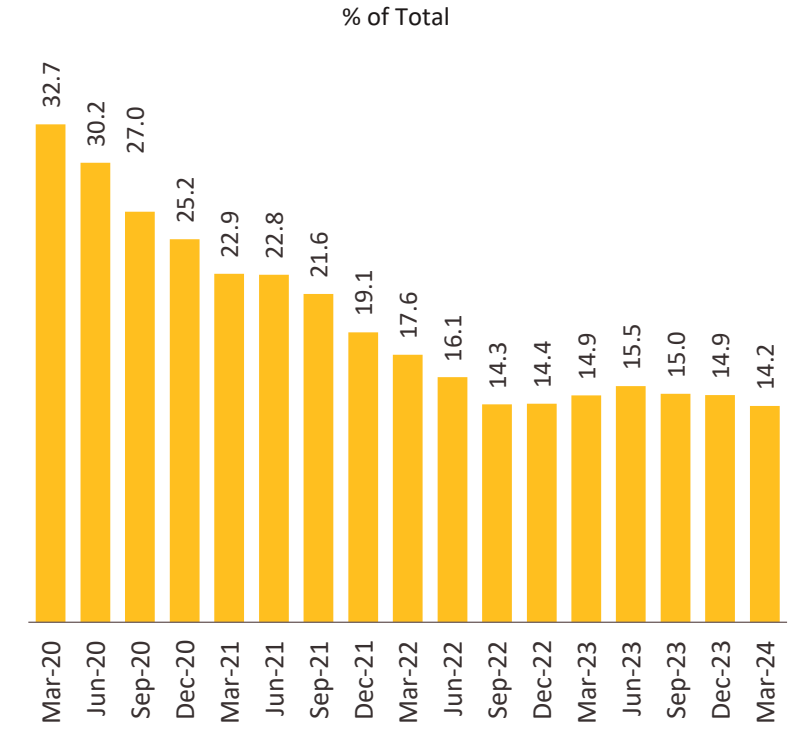


Source: CEIC, IMF WEO Database (Apr 2024), IIF, Bloomberg, Krungsri Research

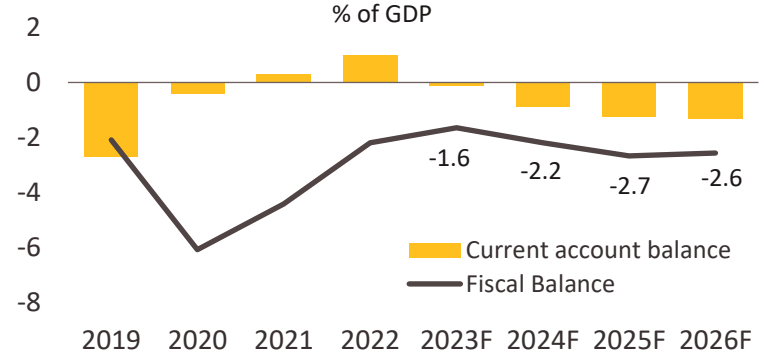
Issues to watch: tariff hikes on Chinese products and fiscal situation

- **Trade tensions:** Indonesia announced measures to curb the flow of cheap imports from China. **They are planning to impose tariffs up to 200% on a range of products including footwear, clothing, and textiles, aimed at protecting local MSMEs**. We do not expect this move to disrupt the mutually beneficial aspects of bilateral ties between Indonesia and China, given that a continued flow of trade and investment is a necessary component of the government's domestic economic agenda.
- **Fiscal stability:** The future conduct of fiscal policy following the election in February this year is a key focus. The incoming administration's proposed free school meal program, estimated to cost 2% of GDP at full implementation by 2029, raises concerns about fiscal stability. This program could involve spending cuts in other areas, particularly energy subsidies. If the fiscal deficit widens, Indonesia's reliance on foreign investor inflows is likely to resurface and the country will be more vulnerable to the external environment.
- Recently, rising concerns about the country's debt have led to capital outflows, higher yield premiums, and currency depreciation, raising refinancing costs for local companies. However, **we currently expect that the new government will be pragmatic and adhere to the fiscal rules, including a fiscal deficit limit of 3% of GDP.**

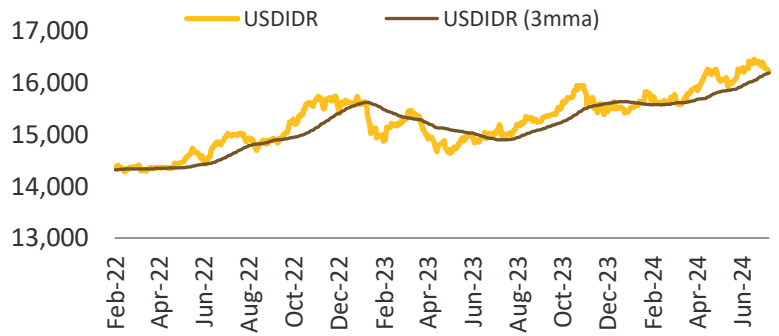
Foreign Holdings in Local Currency Government Bonds



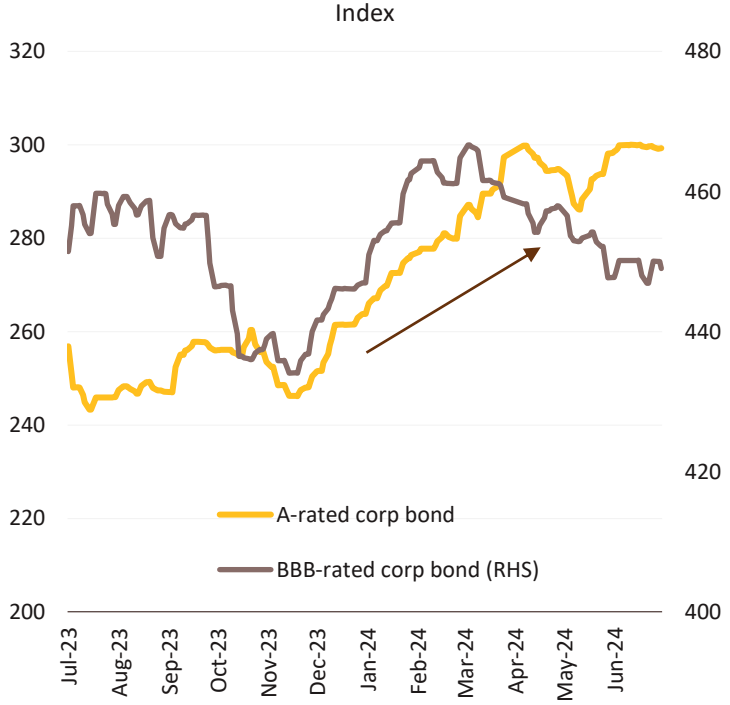
Twin Deficit



USD/IDR Exchange Rates



IBPA Corporate Bond Credit Spread (3Y tenor)



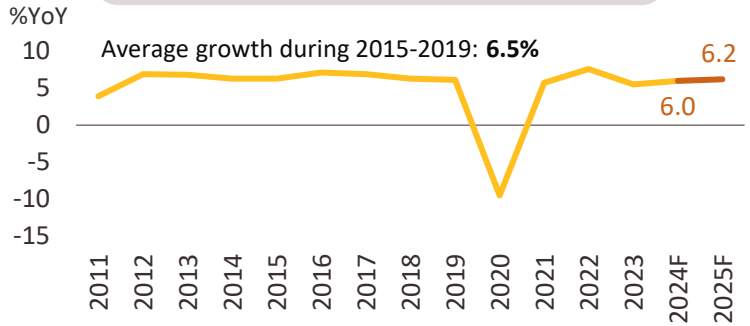
Note: IBPA stands for Indonesia Bond Pricing Agency

Source: CEIC, IIF, IMF WEO (Apr 2024), Bloomberg, Krungsri Research

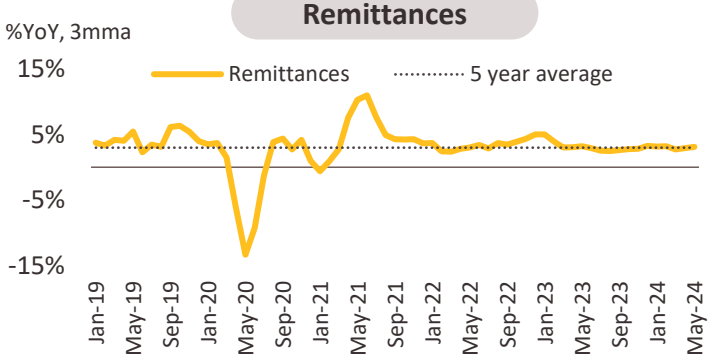
Philippines: Moderating but with still-robust domestic consumption, coupled with export recovery, as the main drivers

- **Economic growth is projected to accelerate to 6% in 2024 from 5.5% in 2023, driven by robust private consumption and recovery in goods exports (electronics).** While private consumption has moderated due to persistent inflation, it is supported by a resilient labor market with low unemployment and minimum wage increases, as well as steady remittances.
- In 1H24, inflation rates rose due to elevated rice prices. Inflationary pressure is projected to decrease as El Niño risks diminish, and the government has approved a reduction in rice import tariffs from 35% to 15% until 2028. This measure is expected to lower grain prices by 20%. However, it could lead to **government revenue loss and increased rice imports, potentially resulting in larger twin deficits.**
- The Build-Better-More Program to improve the country's infrastructure is progressing. In 1Q24, state infrastructure spending increased by 10.2% as a result of the implementation of defense modernization and road infrastructure projects. Disbursements for additional construction activities are expected to gradually increase in the latter quarters of the year. Coupled with a gradual recovery in electronic products' exports and a potential interest rate cut in 2H24, private investment is expected to see positive spillover effects.
- The Philippine peso (USD/PHP) depreciated approximately 5.7%, in line with its peers. **As it is set to rebound following the Fed's anticipated rate cut, the BSP has signaled a less hawkish tone, with the first rate cut possible in 2H24.** Since Oct 23, the BSP has maintained 17-year-high interest rates at 6.5%, putting pressure on domestic activities.
- Downside risks include geopolitical tensions affecting commodity prices, domestic inflation (given the Philippines' high share of commodity imports), and ongoing tensions in the South China Sea.

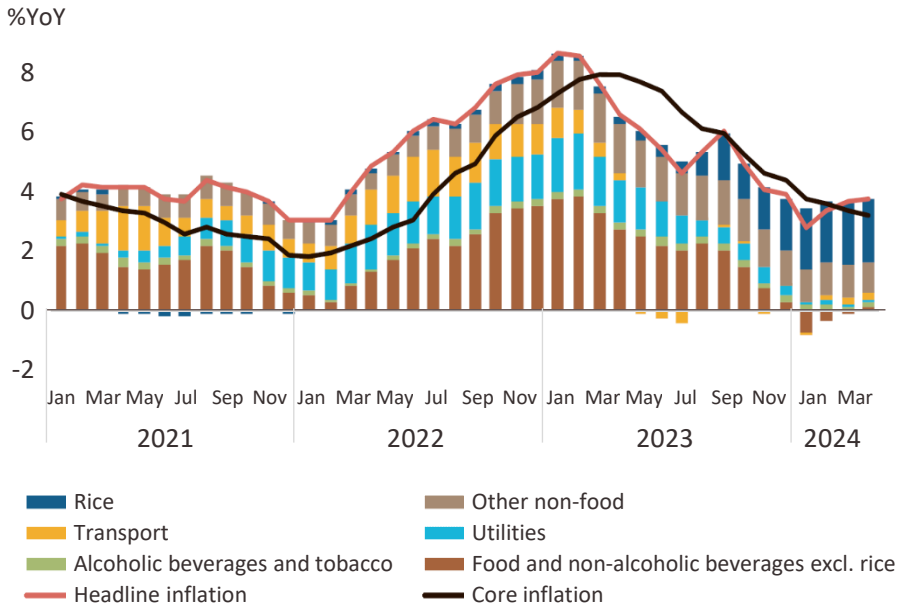
IMF's Annual Growth Projections



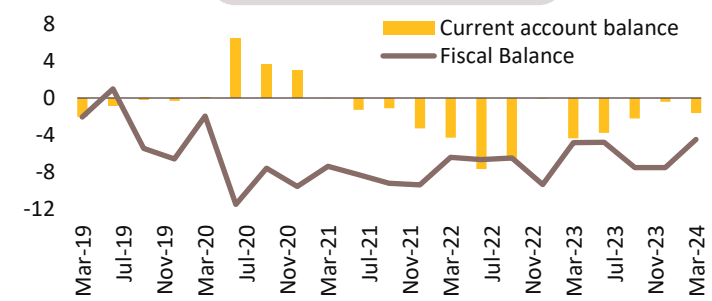
Remittances



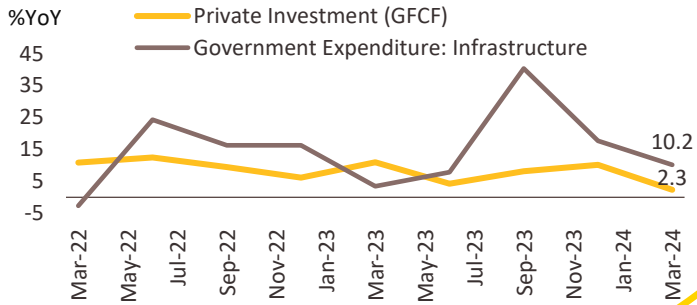
Contribution to Inflation



Twin Deficits



Public and Private Investment



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

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