# ASEAN in Focus

**Economics**
ASEAN

## Resilient

- Amid all the noise, from elections to geopolitics, ASEAN's economic performance continues unperturbed
- Still, policy easing may be required for the region to take the next meaningful step up in the pace of growth
- Nevertheless, cooling inflation and robust trade should help ASEAN sustain its solid momentum this year

Growth in **Indonesia** remains soft, amid tight fiscal policy and high interest rates. Macroprudential easing, however, has lifted credit growth, which should support demand. **Thailand** should see a growth pick-up as fiscal spending has been turned back on and tourists are beginning to return. **Malaysia**'s exports have lagged the region, but there are signs of a turn, while foreign direct investment (FDI) keeps pouring in. **Singapore** is still grappling with sticky price pressures, but growth has cooled sufficiently to tame inflation over time. **The Philippines** continues to impress with its growth resilience, with cooling inflation, and a pick-up in FDI inflows pointing to further demand gains. **Vietnam** is over its growth dip of the past year, with local demand steadying and the export recovery slated to broaden out.

**Economy profiles**

*Indonesia* | *Malaysia* | *Philippines* | *Singapore* | *Thailand* | *Vietnam*

**Key upcoming events**

| Date | Event |
|---|---|
| 4 July | **Philippines** inflation, June |
| 11 July | **Malaysia** interest rate announcement |
| 11 July | **Indonesia** GDP, 2Q |
| 16 July | **Indonesia** interest rate announcement |
| 31 July | **Vietnam** manufacturing PMI |
| 15 Aug | **Philippines** interest rate announcement |
| 18 Aug | **Thailand** GDP, 2Q |
| 22 Aug | **Singapore** GDP, 2Q |

Source: Refinitiv Eikon, HSBC

HSBC

# Indonesia

## The tide is turning

**Eyes on new government's people and policies**

Following the elections on 14 February, the General Election Commission (KPU) announced on 20 March that Prabowo Subianto has won an outright majority, garnering 58.6% of the votes, and is set to be Indonesia's next president. All eyes are now on the key people and policies the new government champions. The continued presence of technocrats in key ministerial posts **would signal a desire to push ahead with reforms**, and the final legislative count will determine the parliamentary muscle behind potential reforms.

**Reform challenges include slower global demand**

Prabowo has spoken at length about continuing Jokowi's reforms – embarking on down-streaming 2.0, and continuing the infrastructure build-out. However, we believe there will be challenges along the way: **for instance, slower global demand for nickel EV batteries, lowering Indonesia's carbon footprint, and restructuring certain SOEs**. Prabowo has outlined plans to upgrade defence systems and enhance social welfare schemes (in particular a new free lunch programme for schools). The challenge here would be to keep a lid on the fiscal deficit, and hold on to Indonesia's well-maintained macro stability over the next five years.

**Buffers are in place from a decade of reforms**

We do believe that **a decade of reforms has put in place several buffers, which would help keep the house in order**, at least over the short term. For instance, better infrastructure and lower logistics costs should keep a lid on core inflation, as has been clear in recent months. Supply-side reforms could help control the rise in food inflation. And rising exports of processed metals should keep the external deficits manageable.

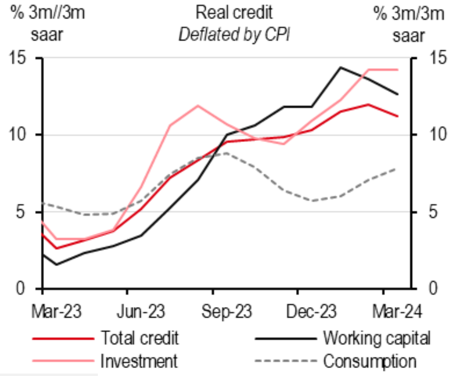
**Growth may accelerate over the near term**

**Growth is likely to be higher in the post-election period**, led by: (1) a positive fiscal impulse, (2) the realisation of FDI inflows waiting on the sidelines for election-related uncertainties to end, and (3) a recent rise in capacity utilisation and credit growth. The latter, in particular, has been rising across the board, and may get a shot in the arm when Bank Indonesia (BI) embarks on monetary policy easing. We expect GDP growth to come in higher in 2024 (5.2% vs 5% in 2023).

**Climbing the value chain may support long-term growth**

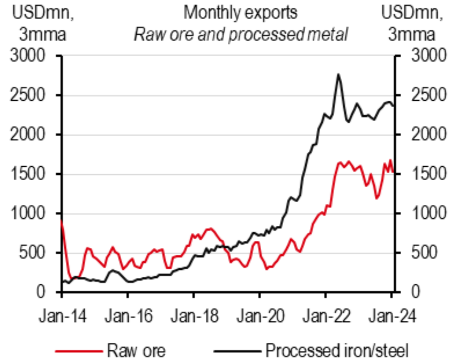
Moving to the medium term, we believe Indonesia is one of the economies where the next decade's growth is likely to be **higher than the previous decade's growth, as the economy climbs up the manufacturing value chain**: from ores to processed metals and electric vehicles (EVs). In fact, we forecast that potential growth will accelerate by 0.5ppt over the medium term, rising from 5.3% in the period before the pandemic to 5.8% by 2028.

**Credit growth is rising**




Source: CEIC, HSBC

**Down-streaming has led to higher exports of metals**




Source: CEIC, HSBC

# Malaysia

## All eyes on subsidies

After a few quarters of lacklustre data, Malaysia started 2024 with encouraging signs of an economic recovery. 1Q24 GDP growth accelerated to 4.2% y-o-y, beating market expectations. While the recovery is still nascent, it nonetheless signals a positive picture of Malaysia's economic rebound.

**External demand boosted 1Q GDP but headwinds remain**

Similar to its export-oriented peers, the trade downturn significantly weighed on Malaysia's growth in 2023. Fortunately, the worst has passed. The pillar manufacturing sector finally turned to growth after three quarters of disappointing performance. Indeed, **the turn in external demand has fuelled 1Q GDP.** That being said, Malaysia is not out of the woods yet, as its flagship electronics sector is still waiting anxiously for a meaningful pick-up. The good news is that semiconductor industrial production (IP) has started to improve, although it remains in contraction.

**Services continue to see robust growth**

While waiting for manufacturing to regain its swagger, Malaysia's services remain more than resilient. Despite fading re-opening tailwinds, **there continues to be decent growth in consumer-oriented and tourism-related sectors**. The former still enjoys the ongoing recovery in the labour market and generous support, although subsidy rationalisation has started in June to reduce long-term fiscal burdens. The tourism sector likely provided much-needed support to growth, despite no release of 2024 tourism data. Malaysia is likely to be one of the main beneficiaries in ASEAN of an influx of Chinese visitors after the introduction of visa-free schemes. A proxy indicator of direct flight restoration with China already signals a recovery rate exceeding 90% of pre-pandemic levels.

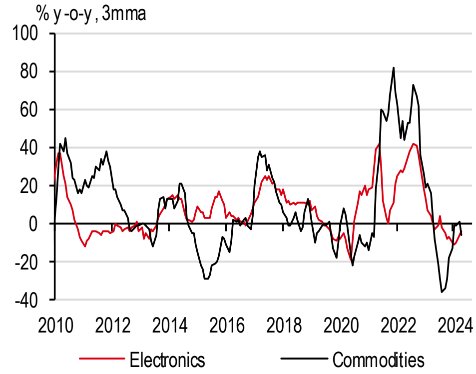
**We forecast GDP growth of 4.5% in 2024**

All in all, **we forecast GDP growth 4.5% for 2024**, accounting for a gradual turnaround in the trade cycle and additional boost from the tourism sector.

**Inflation is largely under control**

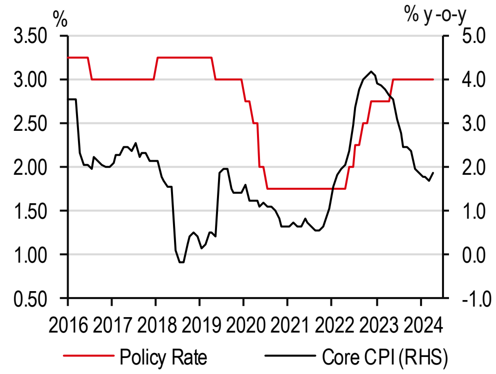
Meanwhile, inflation remains largely in check. **Headline inflation cooled from 2.5% y-o-y on average in 2023 to only 1.7% in the first four months of 2024**. Quite positively, the impact of elevated global rice prices has been partially blunted, with food inflation down to 2% y-o-y. That being said, upside risks to inflation remain, particularly after the implementation of targeted diesel subsidies from June. Given the recent development, we upgraded our inflation forecast to 2.7% for 2024 (previously 2.2%) and 3.0% for 2025 (previously 2.3%), but there is a degree of uncertainty, pending the details of the subsidy rationalisation on RON95 fuel.

**Malaysia's external sector is still suffering from a "double whammy" trade dip**




Source: CEIC, HSBC

**Inflation has largely remained benign, warranting a prolonged hold from BNM**




Source: CEIC, HSBC

# Philippines

## From strength to strength

**Savings rates have improved and inflation has cooled**

All things considered, the Philippine economy is doing well, but things could get even better. Yes, growth surprised – marginally – on the downside in 1Q24 at 5.7% y-o-y. But we think this dip in domestic demand was necessary to guide the economy back to balance and re-anchor inflation expectations to within the Bangko Sentral ng Pilipinas' (BSP) 2-4% target band. **The national saving rate has improved**, enough to close the economy's investment-saving gap. For the same reason, the economy's current account deficit is narrowing faster than expected – a testament that the economy is relying less on foreign capital today than in 2022 when the peso weakened to a historical low against the USD. **Inflation, too, has been surprising on the downside** throughout the first half of the year and is likely to continue to do so (after a short uptick) with the government set to slash the tariff rates on rice to 15% (from 35%). We estimate this will reduce inflation by as much as 1.8ppt. This will increase the Philippines' real policy rates, incentivising capital to remain within the country's borders.

**Growth has remained intact despite increasing savings**

And yet, amidst all these adjustments, **growth remained intact**. An economy usually slows when it is building back up its savings. But the Philippines bucked this trend. The unemployment rate remains at historical lows, showcasing the country's main driver of growth: its people. In fact, despite high inflation, Filipino consumers are still shifting their preferences from purchasing 'essential' goods, to 'non-essential' goods and services.

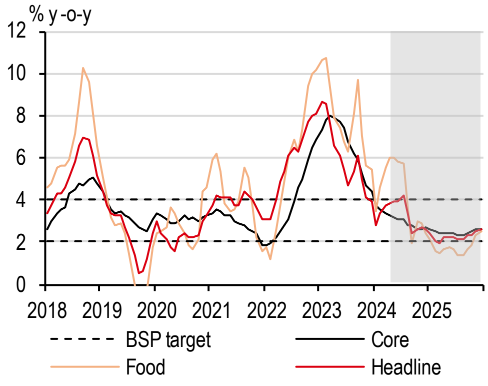
**The central bank is mulling rate cuts ahead of the Fed**

The BSP, however, surprised many during the last rate-setting meeting. It said it is mulling the possibility of **cutting its policy rate ahead of the Fed**. It has been a view long-held by many, including HSBC, that the BSP will only cut after the Fed. So when the BSP made the remark, the market reacted and the USD-PHP went up to as high as 58.8, the second highest level in history.

**We do not expect the first rate cut until 4Q24**

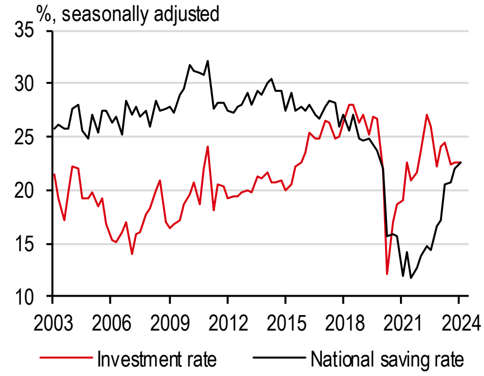
Although the current account and the real policy rate have improved back to pre-pandemic levels, we think these indicators would have to perform even better for the BSP to have ample room to cut ahead of the Fed. That being said, we maintain our view that the BSP will only cut after the Fed. Since we expect the Fed to begin its easing cycle in September this year, **we expect the BSP to make its first 25bp rate cut in 4Q24** wherein the year-end policy rate will be 6.25%. But when inflation drops due to the tariff rate cuts, the room to cut faster than the Fed will open.

**Due to the tariff reductions on rice, we expect inflation to be subdued in 2025**




Note: Grey area represents HSBC forecasts.
Source: CEIC, HSBC

**Due to high interest rates, the economy's investment-saving gap closed in 1Q24**




Source: CEIC, HSBC

# Singapore

## Mindful of the 'last mile' of disinflation

**Growth accelerated to the fastest pace in 18 months**

Singapore has finally seen some green shoots materialising. Despite a small downside surprise, **its growth accelerated to 2.7% y-o-y in 1Q24, the fastest pace in 18 months**.

While the manufacturing sector suffered from a one-off correction in 1Q24, Singapore has largely **benefitted from an improving trade cycle**, particularly in the electronics sector. After 16 months of outright y-o-y declines, semiconductor non-oil domestic exports (NODX) momentum turned positive.

**Trade and services have propelled growth**

But Singapore's growth is not limited to just the trade recovery. Its **services sector has remained more than resilient**, thanks to a rapid pick-up in visitors. Despite being the last ASEAN country to introduce a visa-free scheme for Chinese tourists, Singapore reaped imminent benefits, now attracting Chinese visitors equivalent to 80% of 2019 levels.

All in all, we kept our **growth forecasts unchanged at 2.4% for 2024**, expecting an ongoing recovery in the tech-led global trade cycle and continued resilience in travel-related services.

**But the disinflation process has been slower…**

Despite better growth prospects, **the disinflation progress has been more halting**. Core inflation remained flat at 3.2% y-o-y in the first four months of 2024, acutely reminding one that the 'last mile' of disinflation is difficult to achieve. But Singapore's story is not quite the same as the US case.

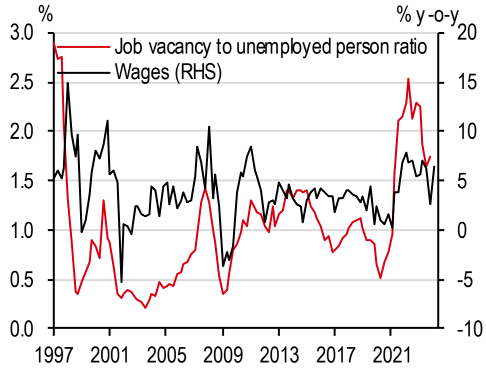
Singapore's core inflation includes energy. Fuel and utilities costs have been ticking up again since 1Q24. This is exacerbated by a five-fold increase in the carbon tax to USD25/tonne this year. Both electricity and water tariffs have increased further in 2Q24, pushing up inflation momentum.

**…partly driven by sticky services inflation**

Apart from "Singapore exceptionalism" in the definition, **part of the elevated core inflation is an acute reflection of the stickiness in services**. This is particularly the case in those sectors that have imbalances in labour availability, which resembles developments in the US.

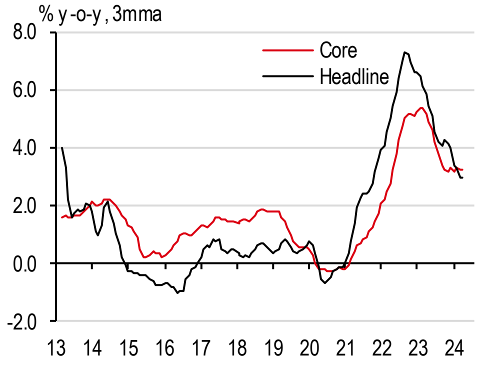
While the disinflationary forces continue, the pace is likely to be rather slow. Overall, we maintain **our average core inflation forecast at 3.1% for 2024 and 2.2% for 2025**.

**While there are initial signs of a cooling job market, conditions are still tight**




Source: CEIC, HSBC

**Despite disinflation progress, core inflation remains rather sticky**




Source: CEIC, HSBC

# Thailand

## Turning the corner

**Growth slowed to 1.5% y-o-y in 1Q24**

Thai GDP has been a story of growth drivers or, more precisely, the lack thereof. Mid-2023, growth surprised on the downside. Mainland Chinese tourists, Thailand's biggest market for visitors, did not return as fast as many had hoped for, requiring many forecasters to slash their growth estimates. By end-2023, the result was the same, but the cause was different. The delayed formation of the government led to the delayed passage of the FY24 budget (which started in 4Q23). Thailand's fiscal engine was absent, and growth in 4Q23 decelerated to 1.7% y-o-y. 1Q24 was even more dismal. The fiscal engine was still down but Thailand's export engine continued to sputter as manufacturers face increasing competition from mainland China. **Growth slowed further to 1.5% y-o-y**, but at least it was above the Bank of Thailand's (BoT) bearish expectation of just 1.0% y-o-y. To the surprise of many, **private consumption and investment remained robust**, putting a floor under how much growth could slow.

**The worst may be over as more growth drivers are up and running**

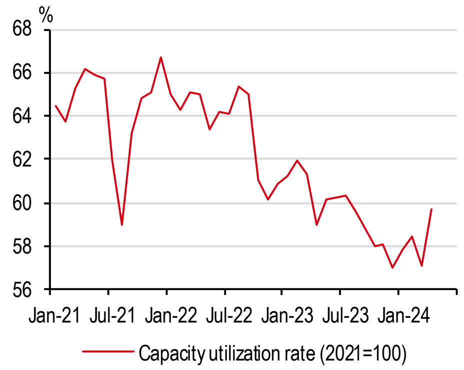
We do think the Thai economy has finally turned for the better **with more growth drivers finally up and running**. Private demand remains strong despite the BoT's decade-high policy rate. The recovery in tourism is exceeding expectations, thanks to a growing intra-ASEAN market. The fiscal engines are also finally churning. After six months of delay, the FY24 budget was passed and the 'catch-up' spending in the remaining two quarters of the fiscal year will eventually boost growth. However, the extent of the recovery is likely to be limited, with Thailand's export engine still looking for its spark. All in all, **we think the worst is finally over**.

**Policy rate could stay at 2.5% up to 2025**

With the growth outlook improving (but still below trend), we think the BoT has more **legroom to keep its policy rate steady at 2.50% up to 2025**. This is to help guide the economy's much needed deleveraging cycle, particularly in household debt. The BoT already specified the goal: the household debt ratio will need to go down to 80% of GDP. It is now at 91%.

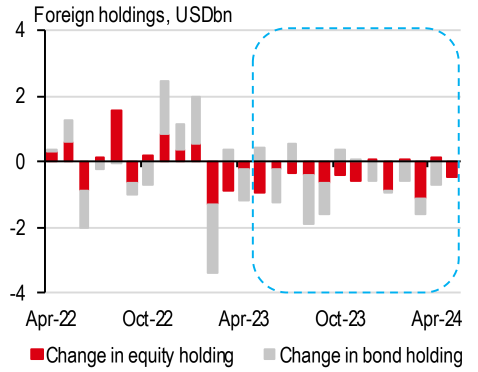
Although the growth outlook may have turned, there are blindsides. Policy uncertainty still lingers with the Digital Wallet Scheme still subject to debate in parliament – more so with the Constitutional Court deciding whether to suspend the Prime Minister or not on charges over appointments (Bloomberg, 23 May 2024). The internal selection of the Senate is also ongoing, with no clear view of what the likely outcome will be.

**Although there was a slight recovery, Thai manufacturers continue to face challenges**




Source: CEIC, HSBC

**Foreign portfolio flows have remained net negative since February 2023**




Note: May bonds data is n/a.
Source: Bank of Thailand, Bloomberg, HSBC

# Vietnam

## Uneven recovery

**Growth accelerated to 5.7% y-o-y in 1Q24 but the recovery is uneven**

After seeing slow growth, the worst appears to have passed for Vietnam. Despite disappointing the market slightly, **growth in 1Q24 accelerated to 5.7% y-o-y** from 5.1% in 2023. While high frequency indicators suggest a sustained rebound, the recovery is quite uneven.

**Electronics exports strong, textiles facing pressure**

Fortunately, the external-facing manufacturing sector continues to regain strength. Export growth jumped by double-digits, largely driven by an upturn in the electronics cycle, particularly benefitting from Samsung's encouraging pre-sale performance. However, certain shipments, including textiles and footwear, have been facing some pressures amid the Red Sea disruptions. To achieve stronger growth in the export cycle, **a broad-based recovery across major sectors is required**. But leading indicators, including the PMI, suggest a positive direction. In particular, long-term business interest also shows few signs of slowing. Foreign Direct Investment (FDI) remains well on track to sustain the momentum seen in 2023, with new FDI growing at a double-digit pace y-t-d.

**Retail sales are below trend, tourism faces competition**

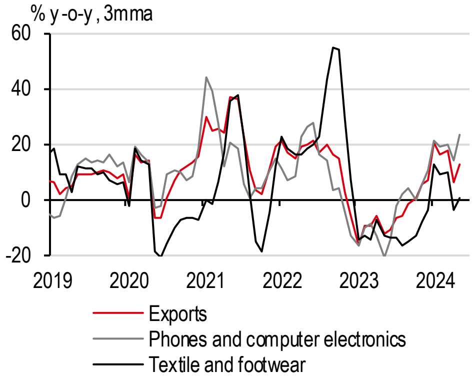
But **the domestic sector saw some softening**. Despite decent growth since the start of this year, retail sales are still almost 10% lower than what the trend growth would suggest. On the tourism front, Vietnam has seen good progress in attracting international visitors. While its annual target of 17-18m tourists for this year looks well within reach, Vietnam is facing intense competition from regional peers who have introduced more visa-free schemes.

All in all, we tweaked our quarterly profile, but **maintained our GDP growth forecast at 6.0% for 2024 and 6.5% for 2025**.

**Inflation close to the central bank's ceiling**

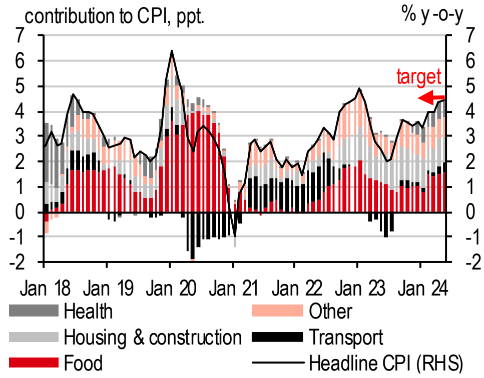
Meanwhile, **inflation creeped up close to the State Bank of Vietnam's (SBV) target ceiling** of 4.5% in April and May. But this was not entirely surprising, as unfavourable base effects are largely at play. In fact, inflation came in lower than our forecasts in 2Q24. Despite lingering upside risks to inflation from food and commodity prices, we trim our 2024 inflation forecast to 3.6% (previously 3.9%) and keep our 2025 inflation forecast at 3.0%.

**A recovery in the global trade cycle is supporting Vietnam's export revival**




Source: CEIC, HSBC

**Inflation almost breached the 4.5% ceiling in April and May, but should moderate**




Source: CEIC, HSBC

# Disclosure appendix

**Additional disclosures**

1 This report is dated as at 28 June 2024.

2 All market data included in this report are dated as at close 27 June 2024, unless a different date and/or a specific time of day is indicated in the report.

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