ASEAN

Economics Focus

Braking hard

- Global economic slowdown is imminent, with recession likely in some parts of the world. However, GDP still has some growth momentum left in 2022F.
- The onus to provide growth is on 2023, as the pace of accommodation dries up and pent-up demand is exhausted.
- Persistent elevated levels of commodity prices, rising debt levels and geopolitical issues could pose further risks to global economic growth.
- Meanwhile, ASEAN economies are only starting to feel the positive impact from their borders reopening, softening the blow from high prices.
- We lift Malaysia's 2022F GDP growth given its strong fiscal support, but lower Singapore's for weaker sentiment, and retain Indonesia's and Thailand's.

Key macro forecasts

		MY	ID	SG	TH
Real GDP	2022F	6.2	5.3	3.8	3.3
%yoy	2023F	5.0	5.1	2.0	3.5
Inflation rate	2022F	3.1	3.5	5.1	6.0
Average, %yoy	2023F	3.2	3.1	2.6	2.7
Current account	2022F	1.7	0.6	17.5	-0.5
% of GDP	2023F	2.1	-0.9	16.7	2.6
Policy rate	2022F	2.50	4.25	-	1.00
%p.a.	2023F	3.00	5.00	-	1.50
Exchange rate	2022F	4.25	14,700	1.35	34.4
End of period, per US$	2023F	4.15	14,400	1.32	33.8

Unrelenting drive to fight inflation is weakening growth prospects

The global economy is on the brink of a significant economic slowdown owing to the near simultaneous increase in policy interest rates, geopolitical issues, and the persistently elevated commodity prices. A contraction in qoq annualised GDP growth in the US is a possibility, even in 2Q22F, taking its economy into a technical recession. However, the bigger concern is in 2023F, as the US Federal Reserve (the Fed) remains hawkish to fight inflation, putting global economic growth at further risk of a slowdown. We expect the Fed's rate hikes to continue until the end of the year before pausing in 2023F. In Europe, the Ukraine crisis is likely turning into a war of attrition with no clear end in sight while more sanctions are being put in place. Combined, global commodity prices could either peak in 2Q22F or 3Q22F, and we expect them to stay elevated vs. 2021 and pre-Covid-19 levels.

Regional economies still robust

In ASEAN, the upward momentum in GDP growth has only just started, driven by delayed reopening of their borders. The return of foreign tourists will soften the blow from high inflationary pressures. However, there is no guarantee for a robust 2023F, especially if global economic growth slows down. Meanwhile, some countries may struggle with the end of pent-up demand and domestic price adjustments.

- **Malaysia:** We raise our 2022F GDP growth forecast to 6.2% yoy from 5.6%, and project the economy to expand 5.0% in 2023F. Malaysia is not as hurt by rising prices, as with its neighbours, due to the extensive subsidies which have allowed consumer spending to continue somewhat unabated. However, challenges lie ahead from the potential withdrawal of policy support, a shift towards targeted subsidies, domestic political risks, as well as headwinds from the global economy affecting export-oriented industries.
- **Indonesia:** We retain our GDP growth forecast of 5.3% for 2022F, and project an expansion of 5.1% in 2023F. The broad-based commodity price rally since 2H21 has been a mixed blessing for Indonesia's current account balance and fiscal position. The net impact is unarguably positive, hastening its economic recovery momentum and fortifying its relative economic stability against the backdrop of rising financial volatility.
- **Singapore:** We lower our 2022 GDP forecast to 3.8% from 4.2%. The rise in domestic inflation is weighing on sentiment while coordinated monetary tightening globally could cause a protracted decline in consumption and hinder export demand. In addition, many headwinds such as elevated commodity prices, end of the global pent-up demand, and the lingering effects of the global monetary tightening will likely hurt its economy next year.
- **Thailand:** We maintain our GDP forecasts at 3.3% for 2022F and 3.5% for 2023F. Consumption is likely to moderate going forward as high inflation chips away at households' disposable income; however, this could be partially offset by the revival in tourism activities. Meanwhile, external trade is robust but likely to normalise going forward, given the risk of a more protracted global slowdown which could affect the external sectors.

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GLOBAL & REGIONAL OUTLOOK

Braking hard

Figure 1: Key global assumptions

	4Q21	1Q22	2Q22F	3Q22F	4Q22F	1H23	2H23	2021	2022F	2023F
Real GDP (%yoy)										
United States	5.5	3.5	2.9	2.4	1.5	0.8	1.5	5.7	2.6	1.2
European Union	4.7	5.4	3.0	1.3	1.5	1.2	1.8	5.4	2.8	1.5
China	8.1	4.8	1.5	4.7	5.1	5.7	4.7	8.1	4.0	5.2
Japan	0.4	-0.5	0.5	1.1	2.4	2.5	1.1	1.8	0.9	1.8
Headline inflation, average (%yoy)										
United States	6.7	8.0	8.0	7.5	6.2	4.1	2.7	4.7	7.4	3.4
European Union	4.8	6.3	8.2	7.6	6.6	3.9	2.3	2.7	7.2	3.1
China	1.8	1.1	2.2	2.8	2.6	2.5	1.9	0.9	2.2	2.2
Japan	0.5	0.9	2.6	2.5	2.2	1.4	0.6	-0.3	2.1	1.0
Policy interest rates, end-period (%)										
United States	0.25	0.50	1.75	3.00	3.50	3.50	3.50	0.25	3.50	3.50
European Union	0.00	0.00	0.00	0.25	0.50	0.75	1.00	0.00	0.50	1.00
China	4.35	4.35	4.35	4.30	4.30	4.30	4.30	4.35	4.30	4.30
Japan	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Commodity prices										
Brent oil, US$/bbl	79.6	100.3	111.7	111.3	105.0	98.0	96.5	70.7	107.1	97.3

SOURCES: CEIC, CGS-CIMB RESEARCH

The global economy is still expanding post-Covid-19 rebound and has yet to fully face the imminent economic slowdown. High inflation, coordinated global interest rate hikes, and the spillover from the war in Ukraine are dampening consumer sentiment and leading to massive supply chain readjustments. However, labour market continues to recover, with unemployment reaching record lows in many countries, which should support consumption growth. In the regional economies, growth momentum is still robust as border reopening is fairly recent. We expect a surge in tourism-related growth as free travel in ASEAN countries is reinstated. Moreover, in some countries, consumers are shielded by high subsidies and price controls, mitigating the dampening effects of inflation.

For 2023F, growth outlook looks more uncertain. We are less optimistic that commodity prices will significantly come off from the current levels while a series of rate hikes eats away at consumers' ability to spend. In many parts of the world, without government support, consumers will start to cut down on purchases, dampening demand. We also expect regional economies to see price pressure, as government efforts to control inflation end as fiscal room nears limit. On the plus side, most central banks' reluctance to go hard on inflation means that policy interest rates will still favour growth. Broadly speaking, our forecasts for global and regional economies are slightly more optimistic than Bloomberg consensus for 2022F while the opposite is true for 2023F.

Theme 1: Rates rise, slowdown imminent, but recession is still 50-50

The global economy is likely heading for a slowdown. The sudden and unprecedented commodity price shocks in 2H21 and the continued supply chain bottlenecks have caused inflation to rise, jeopardising nascent recovery in consumer spending, and rising past the level deemed comfortable by most central banks. In response, authorities have launched the most coordinated policy interest rate hikes over the past decade, reflecting a sudden reversal of support away from the ultra-low accommodative stance.

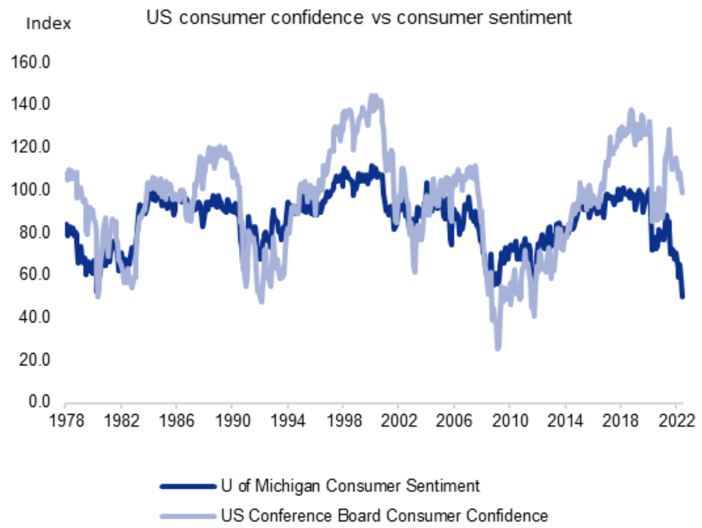
Granted, rates are still low compared to pre-pandemic levels, reflecting monetary conditions that are still supportive of growth. The rise in policy rates has been below the increase in inflation, as central banks are still looking to engineer a soft landing. However, central banks can only manage the demand side of inflation, whereas the supply side has been a major contributor to the rise in prices. Hence, to dampen inflation, we believe that demand has to be curbed aggressively to compensate for the producers' inability to adjust supply rapidly.

We project global economic growth momentum to slow down in 2H22F and into 2023F. We expect the increase in policy rates globally to continue for the rest of this year and start to significantly weigh on the real economy towards the earlier part of 2023F. On the other hand, commodity prices may have peaked as more supplies come online, yet the decline is unlikely to be significant, in our view. Meanwhile, we project the supply chain disruption to ease as China's production returns to normal although bottlenecks may still persist in Europe.

For the US, we project 2022F GDP growth at 2.6%, a milder pace compared with 5.7% in 2021 but still positive growth overall. There is a possibility of a technical recession in 2Q22F (defined as two consecutive quarters of negative qoq annualised GDP growth), as the latest Atlanta Fed GDP tracker pointed out. However, the worst could be ahead, as the current economic conditions are still robust, supported by the rising wages and strong investment growth.

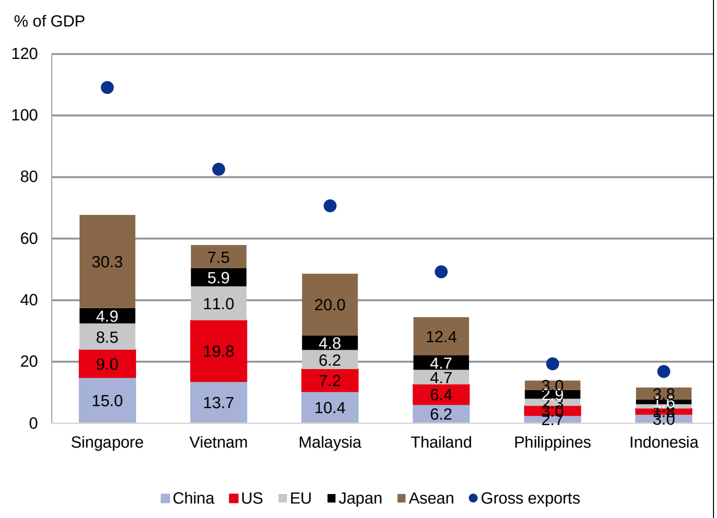
The onus to provide growth is on 2023, as the pace of accommodation dries up and pent-up demand ends. This would leave US consumers and businesses with persistently high inflation, especially if the wage-inflation spiral continues owing to the tight labour market. At this point, the risk of recession or stagflation is likely heightened, especially if the pace of monetary tightening is overdone. So far, we pencil in a possibility of mild GDP contractions on a qoq annualised basis in 1H23 (defined as a hard landing), owing to our assumption of central banks' careful yet mildly successful manoeuvring, while geopolitical tensions, supply strains, and food insecurities start to gradually subside.

Figure 2: US sentiment is falling fast, raising risk of a hard landing



SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 3: ASEAN countries with a large exports-to-GDP ratio are more vulnerable to the risk of global economic slowdown



SOURCES: CEIC, CGS-CIMB RESEARCH

Theme 2: Ukraine conflict could turn into a war of attrition

The Russia-Ukraine conflict exacerbated in Mar 2022, causing new bottlenecks in the global supply chain and wide-ranging price shocks not seen in years. The impact of the conflict on the global commodity market cannot be overstated, as Russia is a major producer of oil, gas, and metals, and, alongside Ukraine, of corn and wheat. The crisis will certainly drag down some of the global economic recovery momentum that we have seen so far, as well as contribute towards the elevated commodity price levels.

What is most concerning is the uncertain end-game. Russia's carving out of portions of Ukraine as a neutral zone to use as a bargaining chip for a peace deal is a goal not shared by many. The continued delivery of weapons to the frontline means that a quick resolution may not be the base case assumption anymore. In fact, the longer the war continues, the more likely the war escalates into a broader NATO-Russia conflict. The amplification of the crisis will only lead to more sanctions which could cause more supply disruptions, lifting commodity prices further and weakening economic growth. As we speak, the EU is already trying to wean itself off Russian energy, a massive feat given that the union gets 40% of its gas from Russia. Thus far, only a partial agreement has been reached.

Given the bleak prospects for a quick end to the conflict, we expect the conflict to persist in 2H22F and 2023F, likely turning it into a long war of attrition. Outside of Europe, the impact from the Russia-Ukraine crisis is not directly felt but the indirect impact from the disruption in supply chains and high commodity prices is likely to remain for some time. We project commodity prices to remain elevated, as the sanctions on Russian exports put more strain on the alternative suppliers. Meanwhile, the EU's strategic motives for partial energy independence from Russia will take at least 6-8 months, while slow supply-side reaction by producers means that commodity prices are slow to move downwards, in our view.

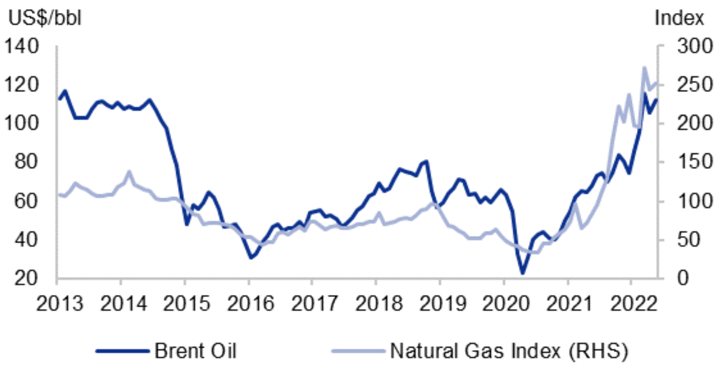
On the plus side, ASEAN stands to lose very little if Russia's economy falters from the heightened sanctions. Trade linkages with Russia and Ukraine are limited, with ASEAN countries having only 1-2% of their share of total trade coming directly from both countries. Within this, the bulk of the goods are in mineral fuels, iron & steel, fertilisers and wheat. Even then, the share has fallen further in recent months as countries avoided trading with Russia for fear of retaliation by the western nations. Nevertheless, the ongoing conflict only means prolonged supply chain disruptions and high prices going forward.

Figure 4: ASEAN's exposure to Russia and Ukraine is limited

2020	Total trade with		Exports to		Imports from	
	Russia	Ukraine	Russia	Ukraine	Russia	Ukraine
	% of total trade		% of exports		% of imports	
Asean	0.7	0.1	0.5	0.1	0.8	0.2
Indonesia	0.6	0.4	0.6	0.1	0.7	0.7
Malaysia	0.3	0.1	0.3	0.1	0.4	0.1
Singapore	0.3	0.0	0.1	0.0	0.4	0.0
Thailand	0.6	0.1	0.3	0.0	0.9	0.1
Philippines	0.6	0.1	0.1	0.0	0.9	0.2
Vietnam	0.9	0.1	1.0	0.1	0.8	0.1
Myanmar	0.2	0.1	0.2	0.0	0.2	0.3
Laos	0.1	0.0	0.0	0.0	0.1	0.1
Cambodia	0.2	0.0	0.3	0.0	0.1	0.0
Brunei	1.7	0.0	0.0	0.0	3.8	0.0

SOURCES: CEIC, COMTRADE, CGS-CIMB RESEARCH

Figure 5: Commodity prices likely to remain elevated until 2023F



SOURCES: CEIC, CGS-CIMB RESEARCH

Theme 3: Supply chain easing as demand falters

Supply chains disruptions continue to be a major drag on the global economic recovery. Originally triggered by the global lockdowns for Covid-19, the delays are now being exacerbated by the Russian invasion of Ukraine and China's zero-Covid-19 policy.

In Europe, supply chain disruptions are largely caused by the European Union's (EU) embargo on Russian imports. Thus far, prohibited items include coal, iron, steel, wood, cement, seafood, liquor, technologies used in oil refining, as well as luxury goods. Due to the restrictions, Russian shipments are being held at European ports awaiting inspections by customs, causing massive delays. According to Eurostat, in 2021, Russia was the fifth largest exporter of goods to the EU with a 5.8% share; more than 60% of the exports were energy related.

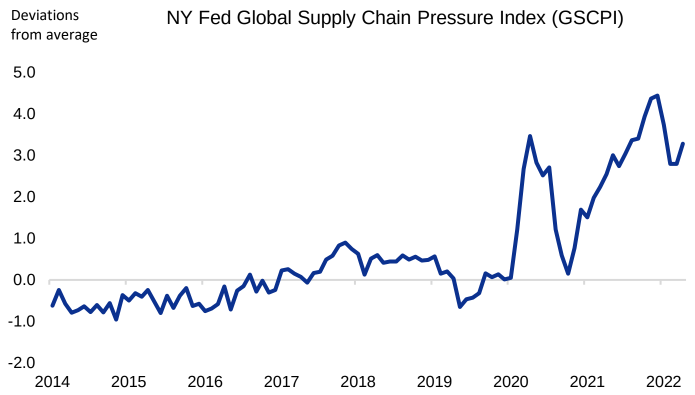
The future of the supply chain issues in Europe is highly uncertain. If the sanctions on Russia escalate into a wider embargo, we could see continued supply disruptions as well as high and volatile commodity prices for much of this year. As a consequence, consumers' spending power will be eroded, contributing to a decline in business and consumer confidence and leading to a slowdown in global economic growth. The International Monetary Fund (IMF), in its April World Economic Outlook, already downgraded its euro area 2022F GDP growth forecast to 2.8% (110bp lower than in its January estimate), with the biggest downgrades for Germany and Italy given their sizeable manufacturing sectors and greater dependence on Russian energy imports.

On the other side of the globe, China's Covid-19 lockdowns are being lifted gradually. Shanghai reported zero Covid-19 cases in Jun 22 for the first time since March, and cities such as Beijing have seen partial reopening. Restrictions remain tight, however, at the time of writing, as residents still have to get tested every 72 hours to take public transport and to enter malls and public places. Nevertheless, the resumption of economic activities means that production capacity can return to normal, easing the supply shortage we have seen since March this year. Leading indicators such as the purchasing managers' index (PMI) for China's National Bureau of Statistics (NBS) non-manufacturing PMI rebounded strongly to 54.7 in June, up from its low of 41.9 in April, while Caixin manufacturing PMI increased to 51.7 in Jun 2022 from April's 26-month low of 46.0.

Multinational companies based in China have already seen higher production capacity. In addition, port congestion has also improved, as demand slowdown from China and the US has allowed carriers and port operators to catch up with orders and allow delivery of cargoes to speed up, according to June supply chain report by Project 44. This allowed the logistics companies to match the expected wave of additional pent-up demand from China's latest reopening.

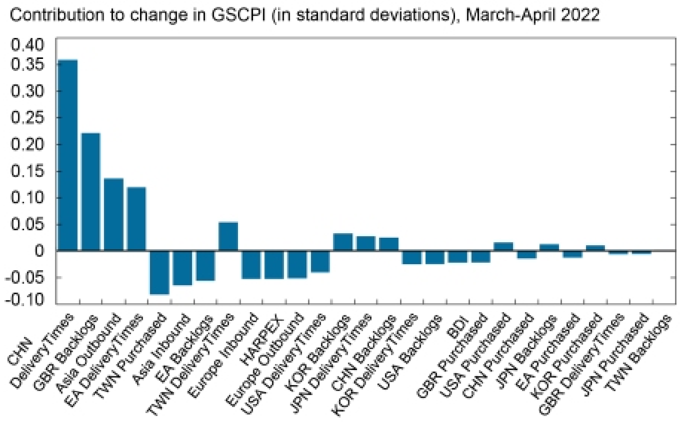
Going forward, we expect supply chain constraints to gradually taper off towards end-2022F due to the balance of three factors. On the negative side, we believe sanctions on Russia can only get worse at this point, leading to suppliers scrambling for alternatives. On the positive side, the tightening of the monetary policy around the world in an effort to pare down the rise in inflation will likely result in weakening demand. This will translate into softer trade volumes and a chance for supply to catch up with demand. Third, we project China's post lockdown 'revenge spending' to be temporary, as consumers may maintain a cautious approach given the lack of clarity on its government's 'zero-Covid' exit strategy and lingering possibility of another wave of infections.

Figure 6: Supply chain projected to ease post June…



SOURCES: NY FED, CGS-CIMB RESEARCH

Figure 7: …as China reopens its economy



SOURCES: NY FED, CGS-CIMB RESEARCH

Theme 4: Inflation could worsen if protectionism rise

Commodity prices peaked in Mar 22 following the Russian invasion of Ukraine, but the subsequent developments, including European sanctions on Russia, have kept prices elevated. Oil prices remain comparatively high, with Brent oil's YTD average at US$103 per barrel vs. US$71 in 2021, while prices as at end-2Q22 were above US$110 per barrel.

Similarly, staples too are not immune to the effects of supply disruptions. Goods like grains, vegetable oils and meats are among the worst affected foodstuffs. According to UN Food and Agriculture Organization (FAO), May data shows a mom decline in average food price index but prices such as poultry were higher, exacerbated by the surge in demand, slow and inelastic supply, as well as bouts of protectionism.

Protectionism, especially on food items, is a threat. Domestic scarcity and the increase in input prices for production have led to a spike in prices and lower supplies. According to International Food Policy Research Institute, at least 15 countries have some form of restrictions on food exports, including Malaysia which has banned chicken exports.

Among the regional economies, inflation and food security pose an existential problem. For lower-income economies, the proportion of food in the consumption basket is larger, eating away at their real disposable incomes. Even in more developed countries with limited agricultural output, such as Singapore, reliance on food imports is high, leaving it vulnerable to the export bans of other countries.

Going forward, we believe several key developments will determine prices:

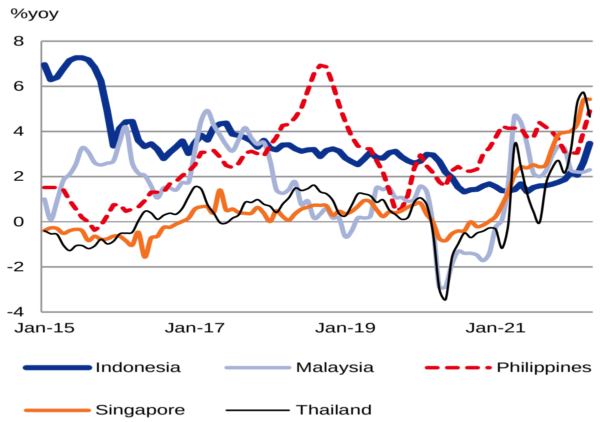
- Oil prices are set to remain elevated into 2023F. OPEC+ has committed to raise production but the EU's recent 6th sanction package, including its partial ban on Russian oil imports, could add to volatility. The US Energy Information Administration (EIA) in its June forecast projects 2022F Brent price to average US$103 per barrel, with 2023F trailing at US$97 per barrel.
- High prices for fertiliser, key for agricultural production, may cause food supply disparity. Countries may scramble to raise their own domestic food production, utilising more fertilisers and pushing prices higher. However, higher costs may also deter production in less developed nations. On a net basis, global farming output may not rise overall in 2H22 and 2023.
- The risks are skewed towards ongoing protectionism. Although protectionism could be temporary and sporadic, it might lead to more volatility in prices, which could compound the shortages and exacerbate the situation.
- Food and energy price increases are likely to impact other costs. Inflation in services, in particular, is seeing an increase in momentum, especially for those related to food and transport, such as restaurants and airfares.

- On the downside, we expect a global increase in interest rates to lead to a sustained and gradual slowdown in economic activity, capping the demand-pull inflation.

On balance, global prices may have peaked but will remain elevated for some time, in our view. As a result, the price momentum on a mom basis may remain strong in early-2H22F, as current price shocks trickle down to the rest of the economy before easing in the latter part of the year and into 2023F, in our view. However, on a yoy basis, inflation should already start to trend lower, partly attributable to the base effects from the rise in oil prices last year. That said, risks to inflation still remain on the upside – China may reinstate another hard lockdown if Covid-19 cases flare up, weather issues could disrupt food production, or geopolitical conflict could broaden.

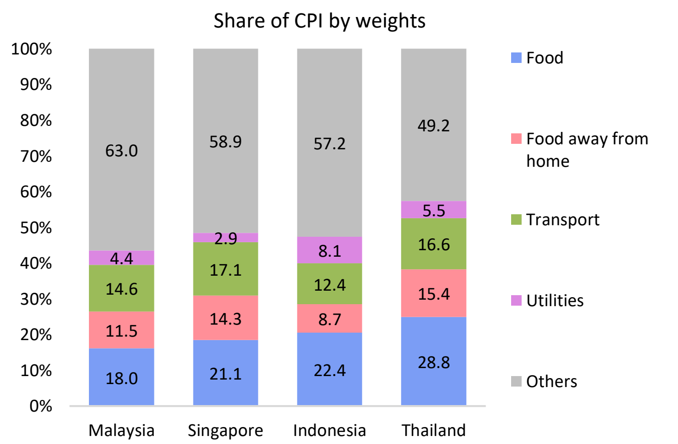
For the four regional economies, the impact of inflation will differ depending on the governments' ability to manage prices. Malaysia appears to have the highest control, with generous subsidies on fuel and cooking oils, alongside extensive price caps and anti-profiteering measures. As a result, we project the country's inflation to be milder compared with its peers. In Indonesia and Thailand, subsidies are more limited, especially for the latter as a net oil importer, causing larger spikes in prices. Singapore's appreciation of its Singapore dollar allows it to dampen imported inflation. Nevertheless, price shocks, especially due to unexpected events (such as the ban on chicken exports by Malaysia), would still impact its domestic prices. Regardless, future price readjustments cannot be ruled out, especially if the burden of government subsidies becomes too heavy to bear.

Figure 8: Inflationary pressures differ across economies…



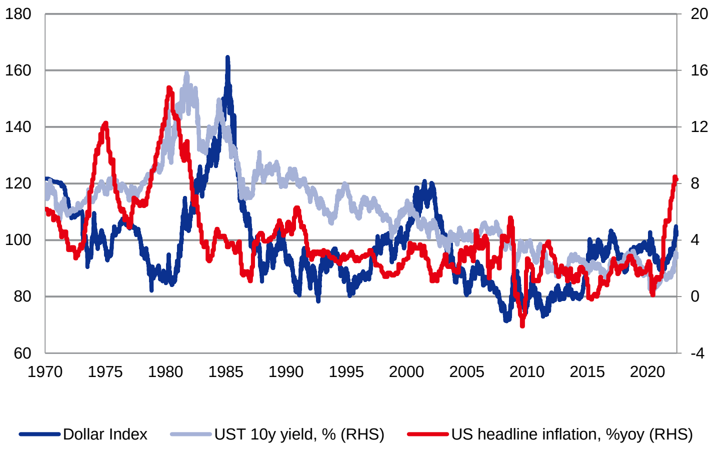
SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 9: …partly reflecting different share of food and energy in the CPI



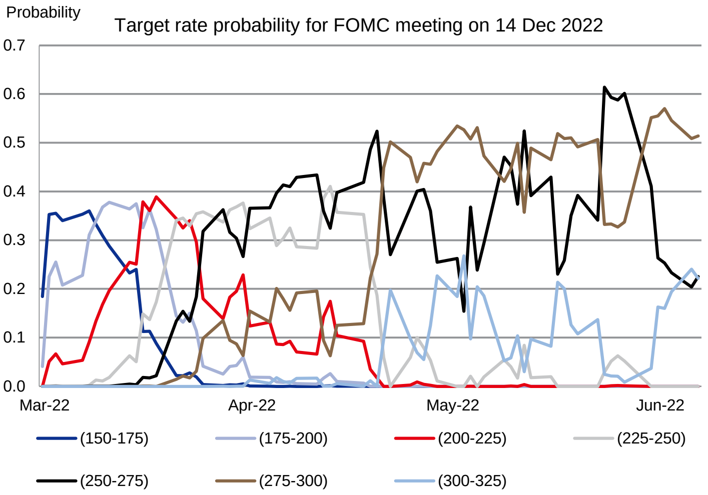
SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 1: Persistent inflation in the US is…



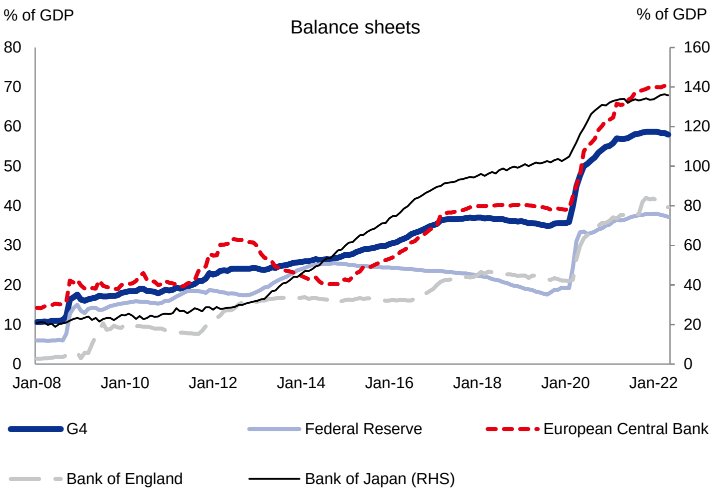
SOURCES: BLOOMBERG, CGS-CIMB RESEARCH

Figure 2: …raising US Fed rate hike bets



SOURCES: CME GROUP, CGS-CIMB RESEARCH

Figure 3: Easy money era is coming to an end…

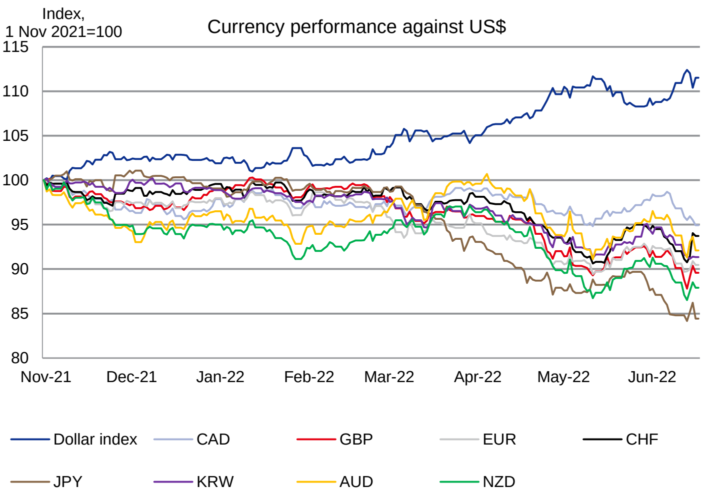


SOURCES: BLOOMBERG, CGS-CIMB RESEARCH

Figure 4: …as global central banks tighten policy rates

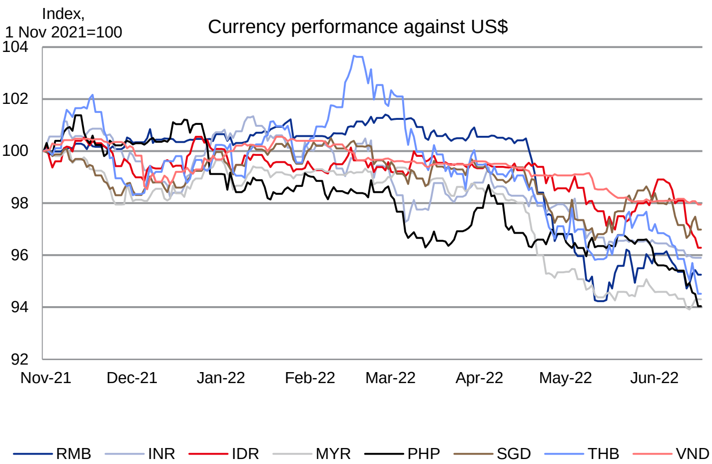
SOURCES: BLOOMBERG, CGS-CIMB RESEARCH

Figure 5: Dollar strength from aggressive US Fed tightening



SOURCES: BLOOMBERG, CGS-CIMB RESEARCH

Figure 6: The hawkish Fed and China's slowdown are taking a toll on emerging Asian currencies



SOURCES: BLOOMBERG, CGS-CIMB RESEARCH

Figure 6: Highly leveraged economies are vulnerable in a rising interest rate environment

		Asean-6						Other Asian economies					Other EMs		
Indicator	**Period**	**ID**	**MY**	**PH**	**SG**	**TH**	**VN**	**IN**	**CN**	**HK**	**TW**	**KR**	**BR**	**MX**	**TR**
GDP growth (%yoy)	FY10-14	5.8	5.8	6.2	6.8	3.9	6.1	7.2	8.6	3.8	4.7	3.9	3.4	3.3	7.6
	FY15-19	5.0	4.9	6.6	3.2	3.4	7.0	6.6	6.7	1.9	2.6	2.8	-0.5	2.0	4.2
	FY20-21	0.8	-1.3	-2.0	1.7	-2.3	2.8	1.2	5.2	0.0	4.8	1.6	0.4	-1.7	6.4
	Long-term average (2005-19)	5.6	4.9	5.8	5.2	3.5	6.5	7.3	8.9	3.3	3.6	3.5	2.2	2.1	5.0
Inflation rate, average (%yoy)	FY10-14	5.5	2.4	3.6	3.2	2.8	9.5	9.0	3.2	4.1	1.3	2.3	5.9	3.9	8.1
	FY15-19	4.0	1.9	2.5	0.1	0.3	2.6	4.2	2.0	2.4	0.7	1.1	5.7	4.0	11.6
	FY20-21	1.8	0.7	3.2	1.1	0.2	2.5	5.8	1.6	0.9	0.8	1.5	5.8	4.5	15.9
	Long-term average (2005-19)	6.1	2.4	3.9	1.8	2.1	7.7	7.0	2.6	2.8	1.1	2.1	5.6	4.1	9.4
Current account (% of GDP)	FY10-14	-1.7	6.5	3.3	19.1	1.0	2.3	-2.9	2.3	3.2	9.2	3.9	-3.5	-1.5	-6.0
	FY15-19	-2.2	2.8	-0.5	16.5	7.8	1.1	-1.3	1.3	4.3	12.6	5.2	-2.3	-1.7	-2.7
	FY20-21	0.0	3.8	0.6	17.5	1.0	1.9	-0.4	1.8	9.2	14.5	4.8	-1.7	0.9	-3.3
Fiscal balance (% of GDP)	FY10-14	-1.7	-4.2	-1.8	0.9	-2.2	-2.8	-4.8	-1.9	3.0	-1.2	-1.1	-2.9	-2.6	-1.6
	FY15-19	-2.3	-3.3	-2.5	0.7	-3.0	-2.5	-3.8	-2.7	2.5	-0.6	-1.6	-7.4	-2.2	-1.8
	FY20-21	-5.3	-6.3	-8.1	-5.6	-5.0	-	-7.8	-3.4	-3.6	-0.1	-5.0	-9.0	-2.9	-3.0
Total trade (% of GDP)	FY10-14	48.6	150.2	54.5	327.2	150.3	129.9	56.5	47.8	369.2	126.0	79.5	27.0	63.2	49.1
	FY15-19	41.4	127.6	66.4	330.6	140.8	156.5	43.0	37.5	361.7	120.9	80.1	27.0	71.3	46.7
	FY20-21	38.9	124.7	63.7	346.1	127.0	175.4	44.1	36.2	367.9	117.4	80.1	27.6	74.1	43.7
Credit to non-financial sector (% of GDP)	Dec-09	54.3	172.8	-	259.6	159.2	-	173.0	175.1	257.9	-	198.8	122.2	57.7	95.1
	Dec-14	66.8	185.5	-	298.3	186.0	-	167.5	221.7	350.6	-	215.9	132.6	69.1	105.0
	Dec-19	73.1	189.0	-	336.4	188.5	-	159.1	263.0	416.7	-	235.4	168.4	77.2	111.5
	Sep-21	83.4	209.1	-	379.4	229.7	-	172.7	284.7	464.1	-	266.3	182.4	82.4	115.6
General government (% of GDP)	Dec-09	26.8	49.4	-	103.3	26.8	-	74.1	34.6	63.5	-	25.4	64.8	27.5	43.5
	Dec-14	24.6	52.7	-	97.1	29.9	-	66.4	40.2	67.0	-	36.3	61.6	32.6	28.5
	Dec-19	30.2	52.4	-	125.5	34.0	-	71.9	57.4	66.9	-	39.1	87.1	36.1	32.7
	Sep-21	40.9	64.7	-	150.4	51.1	-	85.0	67.6	83.9	-	45.9	92.3	41.0	37.7
Household & NPISH (% of GDP)	Dec-09	12.2	58.8	-	51.1	57.2	-	37.4	23.5	55.5	-	73.1	21.7	13.5	13.9
	Dec-14	17.1	68.9	-	66.9	80.2	-	33.3	35.7	65.5	-	80.1	27.8	14.6	18.6
	Dec-19	17.0	68.1	-	58.0	80.2	-	34.5	55.5	81.6	-	95.0	33.0	16.0	14.6
	Sep-21	17.2	73.6	-	60.2	90.2	-	34.7	61.6	92.4	-	106.7	36.6	16.4	15.5
Non-financial corporation (% of GDP)	Dec-09	15.0	64.7	-	103.4	75.4	-	64.0	116.9	139.1	-	98.0	35.8	16.8	35.0
	Dec-14	25.0	63.9	-	131.9	75.8	-	67.8	145.8	218.1	-	99.5	43.2	21.9	56.0
	Dec-19	26.0	68.5	-	151.7	74.3	-	52.7	150.1	268.2	-	101.3	48.3	25.1	65.1
	Sep-21	25.2	70.9	-	168.9	88.4	-	53.0	155.5	287.8	-	113.7	53.6	25.0	64.9
Total external debt (% of GDP)	Dec-09	31.8	52.0	36.7	447.9	26.7	24.3	20.0	-	332.8	20.9	35.9	11.9	21.1	42.3
	Dec-14	32.9	66.5	26.1	446.1	34.8	31.0	23.8	-	446.4	33.2	28.5	14.4	32.4	44.3
	Dec-19	36.1	62.6	22.2	424.2	31.6	35.5	20.4	14.5	461.4	30.2	28.5	17.2	36.6	54.7
	Latest	33.7	69.6	26.7	437.8	39.3	36.4	20.1	15.5	508.9	28.0	36.4	20.2	34.6	54.3
Short-term external debt (% of GDP)	Dec-09	5.8	22.3	3.7	365.8	11.8	3.6	3.7	-	232.2	17.4	15.3	1.9	3.0	8.6
	Dec-14	6.7	32.4	5.5	343.9	14.0	5.8	4.4	-	318.5	30.4	7.7	2.4	7.2	15.2
	Dec-19	5.7	25.8	4.6	290.2	11.0	7.4	3.9	8.0	302.5	28.5	8.2	4.2	5.2	12.7
	Latest	5.1	26.8	3.8	304.2	14.8	7.8	3.7	7.7	335.4	25.9	9.7	4.9	4.2	14.8
Reserves (US$ bn)	Dec-09	66	97	44	188	138	17	283	2,399	256	348	270	239	100	75
	Dec-14	112	116	80	257	157	35	321	2,415	329	419	364	364	196	127
	Dec-19	129	104	88	279	224	79	460	2,425	441	478	409	357	183	106
	Latest	136	113	104	345	229	110	597	2,447	465	549	448	353	207	107
Reserves (months of imports)	Dec-09	8.2	9.4	12.3	9.1	12.4	2.9	13.2	28.7	8.8	23.6	10.0	22.1	5.1	6.4
	Dec-14	7.5	6.7	14.6	8.2	8.3	2.8	8.3	14.8	7.2	17.9	8.3	18.9	5.9	6.3
	Dec-19	9.1	6.1	9.4	9.3	11.4	3.7	11.4	14.1	9.4	20.1	9.7	23.0	4.8	6.3
	Latest	7.6	5.3	9.8	9.6	9.7	3.8	11.4	10.7	8.1	16.1	8.1	17.9	4.6	4.4
Reserves to short-term external debt ratio	Dec-09	2.1	2.0	6.8	0.3	4.2	3.5	6.1	-	0.5	5.1	1.9	7.7	3.7	1.3
	Dec-14	1.9	1.1	4.9	0.2	2.8	2.5	3.7	-	0.4	2.6	3.2	6.3	2.1	0.9
	Dec-19	2.0	1.1	5.1	0.3	3.8	3.2	4.3	2.1	0.4	2.7	3.0	4.5	2.8	1.1
	Latest	2.2	1.1	6.9	0.3	3.1	4.1	5.2	1.8	0.4	2.8	2.6	4.5	3.8	0.9
Reserves to total external debt ratio	Dec-09	0.4	0.8	0.7	0.2	1.8	0.5	1.1	-	0.4	4.2	0.8	1.2	0.6	0.3
	Dec-14	0.4	0.5	1.0	0.2	1.1	0.5	0.7	-	0.3	2.4	0.9	1.0	0.7	0.3
	Dec-19	0.3	0.5	1.1	0.2	1.3	0.7	0.8	1.2	0.3	2.6	0.9	1.1	0.5	0.3
	Latest	0.3	0.4	1.0	0.2	1.2	0.9	1.0	0.9	0.2	2.6	0.7	1.1	0.6	0.2
Sovereign rating															
S&P	-	BBB Stable	A- Stable	BBB+ Stable	AAA Stable	BBB+ Stable	BB+ Stable	BBB- Stable	A+ Stable	AA+ Stable	AA+ Stable	AA Stable	BB- Stable	BBB Negative	B+ Negative
Moody's	-	Baa2 Stable	A3 Stable	Baa2 Stable	Aaa Stable	Baa1 Stable	Ba3 Positive	Baa3 Stable	A1 Stable	Aa3 Stable	Aa3 Positive	Aa2 Stable	Ba2 Stable	Baa1 Negative	B2 Negative
Fitch	-	BBB Stable	BBB+ Stable	BBB Negative	AAA Stable	BBB+ Stable	BB Positive	BBB- Negative	A+ Stable	AA- Stable	AA Stable	AA- Stable	BB- Negative	BBB- Stable	B+ Negative

SOURCES: BLOOMBERG, CEIC, IMF, BIS, CGS-CIMB RESEARCH

MALAYSIA: Clearing the hurdles

We revise 2022F GDP upwards to 6.2%

We raise our 2022F GDP growth forecast from 5.6% to 6.2%, and project the economy to expand 5.0% in 2023F. After better-than-expected GDP growth of 5.0% yoy in 1Q22 (3.1% in 2021), we expect a continual outperformance in the following quarters. Extensive subsidies have allowed consumer spending to continue somewhat unabated despite rising prices.

That said, we expect robust GDP growth in 2Q22F and 3Q22F, before moderating in 4Q22F and 2023F. Challenges to growth are 1) withdrawal of extraordinary policy support, 2) policy shift into a more targeted subsidies, 3) domestic political risks, and 4) global economic headwinds affecting export-oriented industries.

Revenge spending still has legs

We expect private consumption to rise 10.9% in 2H22F and 5.4% in 2023F. We believe that revenge spending still has legs in the near term, as reflected in an upbeat 16.6% yoy and 6.2% mom increase in retail trade index for Apr 2022. Other catalysts for consumer spending include the reopening of borders on 1 Apr 2022, extensive subsidies for food and energy, as well as the special Employee Provident Fund (EPF) withdrawals of up to RM10,000 in late-Apr 2022.

Adding support to consumption is the robust labour market. Unemployment rate fell to a 25-month low of 3.9% in Apr 2022. Moreover, workers income received a boost with 25% increase in minimum wage, while elevated CPO prices is lifting rural income. Nevertheless, the demand recovery momentum is restrained by sub-optimal production capacity as businesses struggle with persistent migrant labour shortage; this poses a challenge to agriculture, manufacturing, construction and services sectors, including tourism-related industries. Nevertheless, we expect the labour shortage to ease gradually in 2H22F on the approval and entry of foreign workers, which should lift production capacity and mitigate demand-supply imbalances.

Investment to moderate as pent-up demand gets exhausted

We anticipate Malaysia's gross fixed capital formation (GFCF) to grow 9.7% yoy in 2H22F and 6.1% in 2023F, partly owing to the low base. We project investment to taper off from 2H22F onwards as businesses start to project more normalised demand. Thus far, the mom seasonally adjusted (sa) growth in loan disbursement for manufacturing and construction has stayed positive, which likely supported 2Q22F GDP performance. However, signs of a slowdown, namely from the declining sale of motor vehicles as well as lower production of construction materials point towards modest GDP growth ahead. In addition, the ongoing global supply chain disruptions, rising input costs, as well as acute manpower shortage is adding downward pressure to the investment segment. Similarly, public investments are likely to moderate owing to the near completion of major projects. MRT2 is nearing completion with Phase 1 having begun operations in June with Phase 2 to reopen in Jan 2023, while Pan Borneo Highway is 80% complete. For the MRT3, we expect disbursements to be minimal and likely to be concentrated on land acquisitions. That said, small projects with fast rollouts could gain traction amidst the looming 15th General Elections (GE15).

Net exports to be a drag on GDP growth

We project real export growth to weaken to 8.4% in 2022F (2023F: 6.0%). Risks of stagflation – in particular of the US falling into a recession on the back of a hawkish US Fed, as well as China's slowdown, pose downside risk to Malaysia's export performance. Exports to the US and China account for a quarter of Malaysia's total exports, and ~20% of nominal GDP in 2020. Meanwhile, as growth drivers shift from exports to domestic demand, we expect Malaysia's net exports to remain a drag on its GDP growth in 2H22F. The revival of domestic demand and restocking activities in tandem with its broader economic reopening should bolster import demand, in our view. On a positive note, we expect positive terms of trade shocks and recovery of tourist receipts to remain supportive of Malaysia's current account surplus (1.7% of GDP in 2022F and 2.1% of GDP in 2023F).

Fiscal adjustments expected in 2023F

We believe the Malaysian government can consolidate its fiscal deficit from 6.0% of GDP in 2022F to 5.0% of GDP in 2023F. Although the Ministry of Finance has recently guided for a record high subsidy bill of RM77.3bn for 2022F (from RM31bn in Budget 2022), the additional RM46bn spending could be funded by:

- Extra oil-related revenue (excluding Petronas dividend) of RM12bn-16bn given the higher average crude oil price of US$107 per barrel estimated this year compared to US$66 per barrel in Budget 2022.
- Additional tax collection announced in Budget 2022, estimated to raise an additional RM6.2bn in revenue, as well as higher Sales and Services Tax (SST), and corporate and personal income tax amid the stronger economic growth.
- More collections from CPO export duty and windfall tax levy of RM2bn-3bn due to higher CPO prices.
- RM15bn-20bn shortfall can be plugged with additional Petronas dividend on top of the RM25bn projected in Budget 2022.
- The remainder can be financed through reduction in expenditure.

In our view, further tax reforms in 2023F to broaden the government's revenue base are likely and re-orientation of fuel subsidy looks inevitable should commodity prices remain elevated. The government has indicated that a targeted fuel subsidy mechanism is in the works, and reintroduction of Goods and Service Tax (GST) is being studied.

Feeling the pinch of inflation

We project Malaysia's headline inflation to average 3.1% in 2022F and 3.2% in 2023F, higher than 2021 average of 2.5%. The inflationary pressure is poised to build up further, following the government's decision to end bottled cooking oil subsidies and raise price caps for chicken and eggs. On the flipside, the continued subsidies for fuel, electricity, and certain food items keep the prices for these stable (vs. large price fluctuations seen in other countries), and cap the price growth of other non-durable goods. On a yoy basis, as low base effect dissipates, we see headline inflation inching higher in 2H22F. The eventual cost pass-through of higher oil prices to retail fuel prices should lift headline inflation. Nonetheless, we believe this is unlikely to happen until GE15 takes place. Therefore, we believe that the transition to targeted fuel subsidy could occur in 2023F, rather than 2H22F.

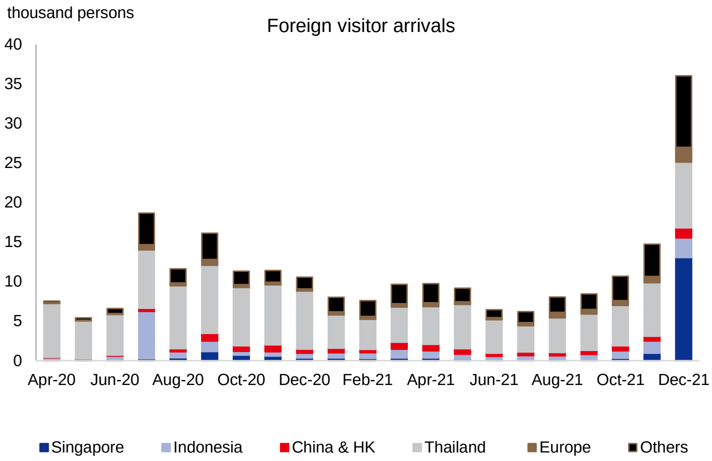
BNM to stick to its gradual tightening cycle

We see Bank Negara Malaysia (BNM) raising the overnight policy rate (OPR) by 25bp twice in 2H22F, ending the year with an of 2.50%, followed by another two 25bp hikes in 2023F. We expect BNM to remain steadfast in policy normalisation even if that means a greater divergence from the more hawkish US Fed. BNM's key focus is to prioritise domestic growth and address inflationary pressures, and will utilise other approaches to handle currency volatility, in our view. That said, we estimate an end-2022F US$/RM rate of 4.25, and 4.15 for end-2023F. Given the slowdown in China's economy and fast-rising US Federal Funds rates (FFR), the outlook for ringgit is bleak. However, the ringgit depreciation is probably nearing the end as the market has priced in the Fed's hawkish stance and China's bearish outlook. On top of that, the return of foreign tourists should bring in the much needed inflows.

Figure 17: Momentum in private consumption is picking up…

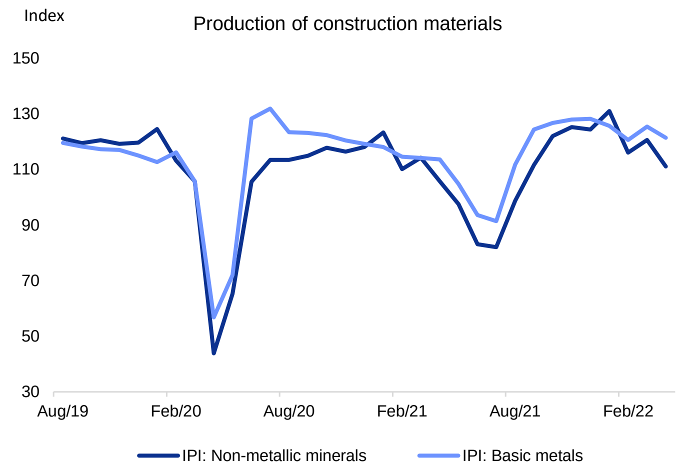
SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 18: …further supported by the reopening of borders and the EPF withdrawals



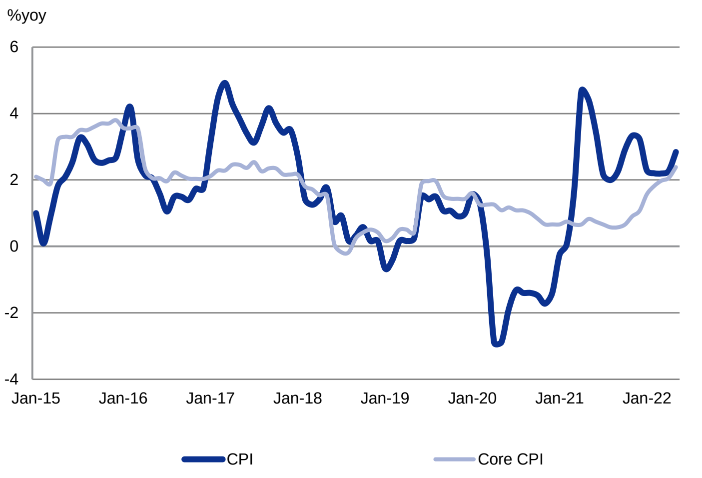
SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 19: However, some investment indicators are showing signs of moderating



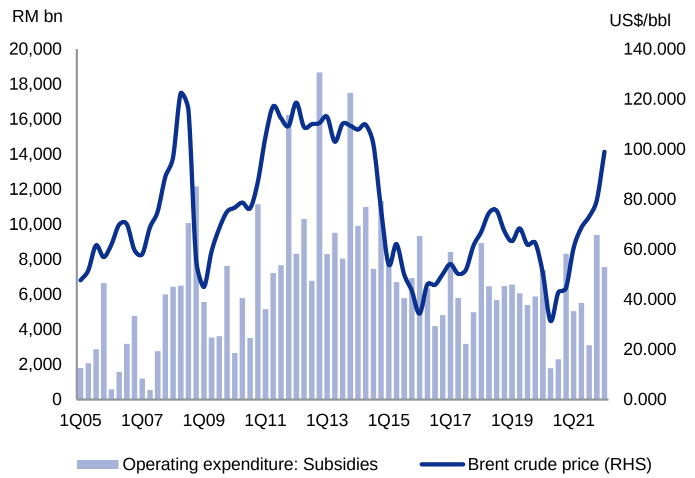
SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 20: Inflationary pressure is likely trending higher amid recent adjustments to subsidised prices



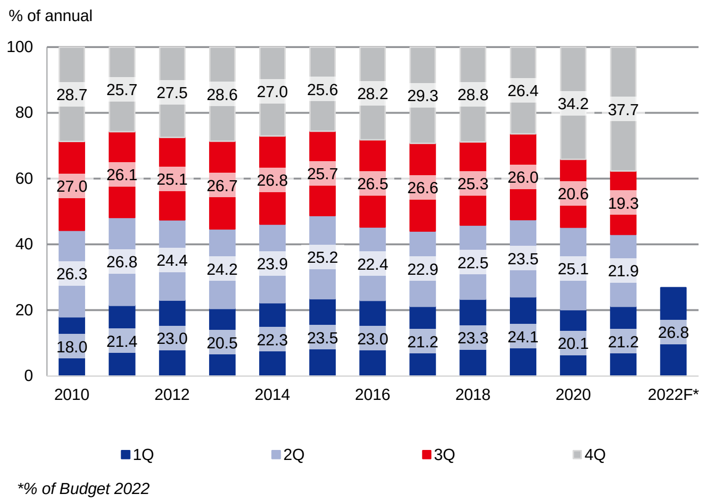
SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 21: Subsidy commitment expected to soar this year, likely matching 2011-14



SOURCES: CEIC, CGS-CIMB RESEARCH

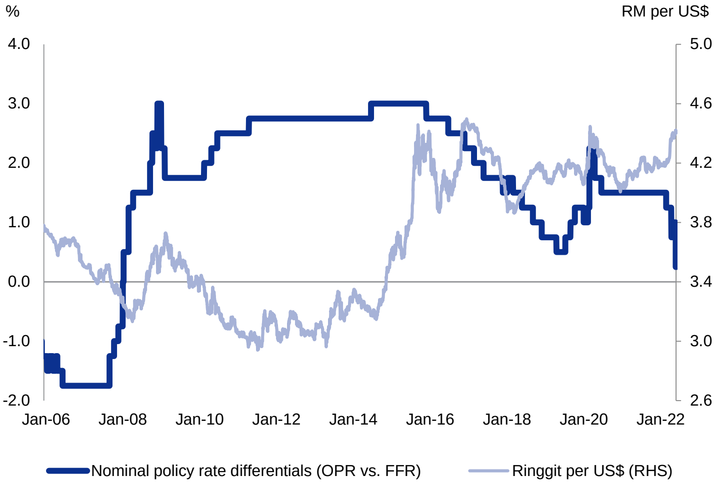
Figure 22: Higher revenue collection helps to balance higher spending. 1Q22 fiscal revenue has exceeded past trends



*% of Budget 2022

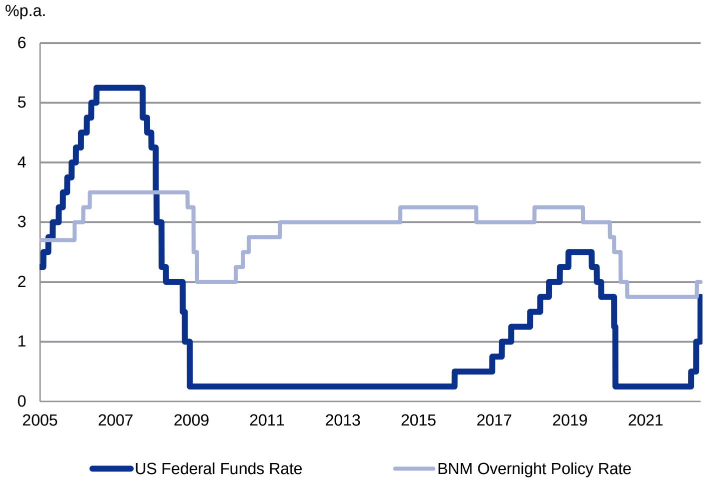
SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 23: Interest rate differential is narrowing, leading to pressure on the ringgit



SOURCES: BLOOMBERG, CGS-CIMB RESEARCH

Figure 24: We expect BNM to hike the OPR twice in 2022F, by 25bp each, followed by another two 25bp hikes in 2023F



SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 25: Forecasts on Malaysia's GDP components

	2019	2020	2021	2022F	2023F	2019	2020	2021	2022F	2023F
			%yoy					% of GDP		
Real GDP	**4.4**	**-5.5**	**3.1**	**6.2**	**5.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
By expenditure										
Private consumption	7.7	-4.2	1.9	11.7	5.4	58.7	59.5	58.8	61.8	62.1
Public consumption	1.5	5.0	5.3	8.8	3.1	12.1	13.5	13.8	14.1	13.9
Gross fixed capital formation	-2.1	-14.4	-0.9	14.5	6.1	23.1	20.9	20.1	21.7	21.9
Net exports	-	-	-	-	-	7.1	6.5	6.0	2.4	2.2
Exports	-1.0	-8.6	15.4	8.4	6.0	63.8	61.7	69.1	70.6	71.3
Imports	-2.4	-7.9	17.7	14.7	6.4	56.7	55.2	63.1	68.1	69.1
By sector										
Agriculture	1.9	-2.4	-0.2	0.3	6.0	7.1	7.4	7.1	6.7	6.8
Mining	-0.6	-9.7	0.3	-0.6	0.6	7.2	6.9	6.7	6.3	6.0
Manufacturing	3.8	-2.7	9.5	6.3	5.0	22.2	22.9	24.3	24.3	24.3
Construction	0.4	-19.3	-5.3	1.0	12.4	4.7	4.0	3.7	3.5	3.7
Services	6.2	-5.4	1.9	8.2	4.9	57.6	57.7	57.0	58.1	58.0

SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 26: Forecasts for other economic indicators

	Unit	2016	2017	2018	2019	2020	2021	2022F	2023F
Real GDP	%yoy	4.4	5.8	4.8	4.4	-5.5	3.1	6.2	5.0
Industrial production index	%yoy	4.1	4.4	3.1	2.4	-4.1	7.2	4.0	4.1
Gross exports	%yoy	1.2	18.8	7.3	-0.8	-1.1	26.0	19.8	7.5
Gross imports	%yoy	1.9	19.7	5.2	-3.5	-5.8	23.3	24.6	11.2
Trade balance	RM bn	87.0	98.4	123.5	145.9	182.6	251.7	255.0	220.7
Current account balance	% of GDP	2.4	2.8	2.2	3.5	4.2	3.8	1.7	2.1
International reserves	US$ bn	94.5	102.4	101.4	103.6	107.6	116.9	117.9	124.8
Headline inflation, average	%yoy	2.1	3.8	1.0	0.7	-1.1	2.5	3.1	3.2
Headline inflation, end-period	%yoy	1.7	3.5	0.2	1.0	-1.4	3.2	3.7	2.9
Unemployment rate, end-period	%	3.5	3.3	3.3	3.3	4.8	4.2	3.7	3.3
Fiscal balance	% of GDP	-3.07	-2.94	-3.69	-3.40	-6.18	-6.39	-6.00	-5.00
Overnight Policy Rate	%p.a.	3.00	3.00	3.25	3.00	1.75	1.75	2.50	3.00
Ringgit per US$, average	MYR/US$	4.14	4.30	4.04	4.14	4.20	4.15	4.30	4.20
Ringgit per US$, end-period	MYR/US$	4.49	4.05	4.13	4.09	4.02	4.17	4.25	4.15

SOURCES: CEIC, CGS-CIMB RESEARCH

INDONESIA: Sailing steadily in turbulent waters

On track for a solid recovery

We retain our GDP growth forecast of 5.3% for 2022F, and 5.0% for 2023F. As Indonesia's commodity-related segments account for 20% of GDP, one-third of employment, and nearly half of exports, the broad-based commodity price rally since 2H21 has been a mixed blessing for its current account balance and fiscal position. Despite the acute cooking oil shortage and rising consumer price pressure, the net impact of commodity price rally is, in our view, undeniably positive in hastening Indonesia's economic recovery momentum and fortifying the relative stability of its economy against the backdrop of rising financial volatility driven by a hawkish US Fed.

Trajectory-wise, a sustained economic reopening remains our base case, with a pick-up in growth from 5.2% in 1H22F to 5.4% in 2H22F. After a 5.0% yoy GDP expansion in 1Q22, Indonesia's economic recovery continues to gain traction with broad-based economic reopening and improving mobility. Seven weeks post the Lebaran holiday, weekly Covid-19 cases in the country have increased eightfold on the back of more transmissible Omicron sub-variants BA.4 and BA.5, though the caseloads remain significantly lower than the previous outbreaks with a low death toll.

Uninterrupted growth in consumption and investment

We project household consumption to grow 5.4% in 2022F and 5.1% in 2023F, led by pent-up spending broadening from goods to services, continued policy support via higher subsidies and cash handouts, falling unemployment rate (5.8% in February 2022 vs. 6.5% in August 2021), rising consumer confidence index (128.9 in May 2022 vs. 113.1 in April 2022) as well as a boost to rural income from soaring CPO prices.

We forecast investment activity to expand 5.2% in 2022F and 5.4% in 2023F, driven by 1) continuation of major infrastructure projects such as Jakarta-Bandung high speed rail (HSR), Jakarta-Surabaya HSR, Trans-Java toll road, Trans-Sumatra toll road, and Jakarta MRT; 2) investment in downstream industries such as coal gasification; 3) development of battery and electric vehicle (EV) supply chains; and 4) development of basic infrastructure in new capital city, Nusantara.

Normalising current account

We project real exports to moderate from 14.8% in 1H22F to 9.6% yoy in 2H22F (2022F: 12.2%) and weaken further to 4.2% in 2023F. We believe that double-digit export growth since 2021 is unlikely to reoccur due to 1) dissipating low base effect, and 2) lower demand for commodities amidst global demand slowdown.

Granted, the prices of some commodities such as coal continue to soar, which could support nominal exports. However, demand destruction is likely to weigh on the volume of real exports. Potential protectionist measures are a concern, as Indonesia has a history of drastic policies including temporary export ban on coal (Jan 2022) and palm oil (late-Jan to mid-Mar 2022, 28 Apr-22 May 2022). Nevertheless, we think the risk of protectionist measures is minimal as the government has brought supplies and prices under control.

With non-energy commodity prices starting to lose some of their gains, and imports rising amid a recovery in domestic demand, Indonesia's trade surplus is likely to normalise lower in 2H22F and 2023F, in our view. On the other hand, the return of international tourist arrivals with the reopening of its borders should bolster services trade after a two-year hiatus. We cut our current account surplus forecast for 2022F from 1.4% of GDP to 0.6% of GDP, and project a deficit of 0.9% of GDP for 2023F.

Taking inflationary pressure in its stride

We raise our forecast on Indonesia's 2022F headline inflation from 3.3% to 3.5% to reflect rising price pressure in 2H22F (4.1% vs. 3.0% in 1H22F), driven by higher food prices. Nonetheless, the authorities' efforts to maintain prices of subsidised fuels, LPG, electricity for category <3,000VA, as well as cooking oil – which collectively account for 9-10% in Indonesia's CPI basket – imply that the price pressure remains relatively modest. Current price conditions are relatively milder compared to previous episodes of elevated crude oil prices which led to headline inflation peaking at 18.3% in 2005, 12.0% in 2008 and 8.2% in 2013. We expect headline inflation to average 3.1% in 2023F as we expect the government to maintain subsidised fuel prices ahead of its general elections in 2024, while limiting the purchase of Pertalite and/or Solar diesel to selected consumer segments to ease subsidy burden on the state budget.

Prudent fiscal management with the return of 3% fiscal rule in 2023

We believe that Indonesia can achieve a fiscal deficit of 3.9% of GDP in 2022F as per what the Finance Minister has indicated recently and better than its earlier projection of 4.5% of GDP. This would be a continuation of its outperformance in 2021 when its fiscal deficit was 4.6% of GDP compared with its official forecast of 5.8% of GDP. We expect the fiscal strength to be driven by extraordinary state revenue collection from broad-based commodity price increases, tax reforms and prudent fiscal spending.

In 5M22, the government recorded a fiscal surplus of Rp132tr (0.7% of GDP) on the back of a 47.3% yoy increase in state revenue and a 0.8% yoy decline in state expenditure. This, however, has not reflected additional compensation to Pertamina and PLN. In Jun 2022, the government proposed to Parliament that its total energy subsidies for the year be raised – including compensation to Pertamina and PLN – by Rp291.0tr, i.e. up 191% from Rp152.5tr to Rp443.6tr based on a revised crude oil price assumption of US$100 per barrel (vs. US$63 initially). That said, we project fiscal expenditure accelerating in 2H22F once the compensation is disbursed to the two state-owned enterprises (SOEs).

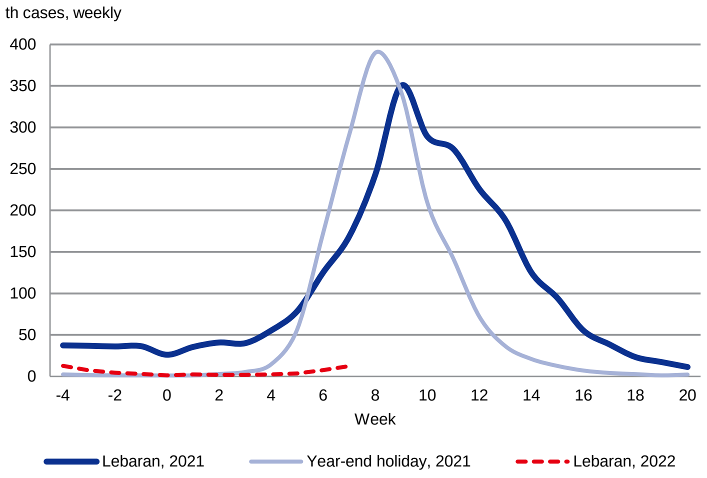
We project the 3% of GDP fiscal deficit rule to make a comeback in 2023F whilst commodity revenue windfalls are likely to fade as (non-energy) commodity prices moderate on easing global supply-demand imbalances. Nonetheless, the 1% pt increase in its value-added tax (VAT) rate from 11% to 12% effective 1 Apr 2022 helps to broaden the Indonesian government's tax base. Furthermore, resilient domestic demand growth is poised to support state revenue collection, in our view. Based on the preliminary data from the Ministry of Finance (MOF), the fiscal deficit target in 2023F will be 2.6-2.9% of GDP, with relatively flat state revenue (Rp2,267tr-2,398tr in 2023F vs. Rp2,266tr in 2022F), and a decline in state expenditure (Rp2,796tr-2,933tr in 2023F vs. Rp3,106tr in 2022F) from the withdrawal of Covid-19 spending under National Economic Recovery Programme (PEN).

Bank Indonesia to pull the trigger soon

We expect three 25bp rate hikes by Bank Indonesia (BI) in 2H22F, followed by another three 25bp increases in 2023F to bring the 7-Day Reverse Repo Rate (7DRRR) to 5.00% by end-2023F. Positive commodity terms-of-trade shocks and modest consumer price increases have earned BI some time to continue focusing on bolstering domestic economic recovery YTD. Nonetheless, we expect BI's monetary policy to prioritise currency stability in 2H22F, with rising domestic price pressure and a hawkish Fed pointing to steeper rate increases and quantitative tightening in the US.

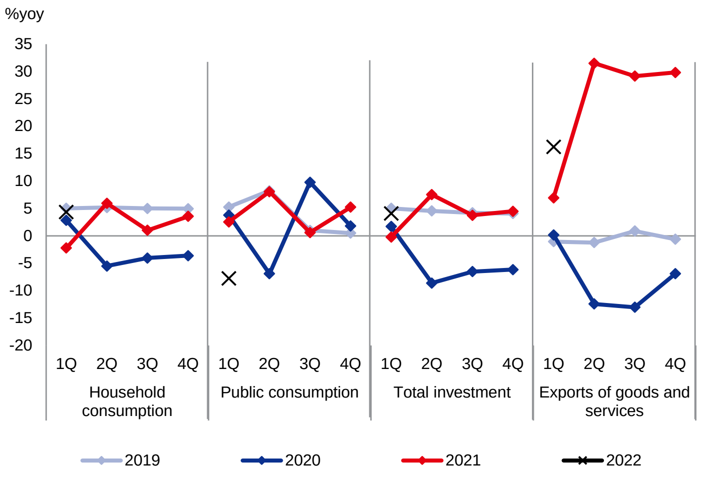
The latest monetary policy statement had stronger language on inflation, and the central bank signalled its readiness to normalise its policy rate if there are signs of rising core inflation. We expect US$/Rp to end 2022F at 14,700 before rising to 14,400 by end-2023F on narrowing interest rate differentials once the BI starts tightening policy rate cycle.

Figure 27: Despite the risk of new variants, Covid-19 cases remain under control



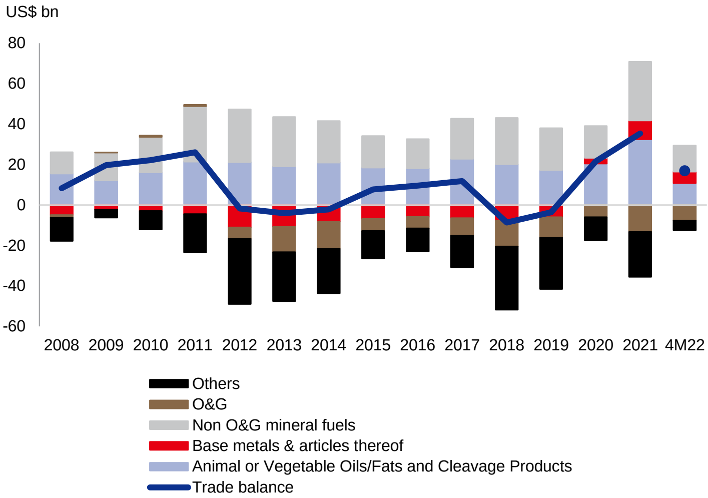
SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 28: Spillover from exports to domestic demand



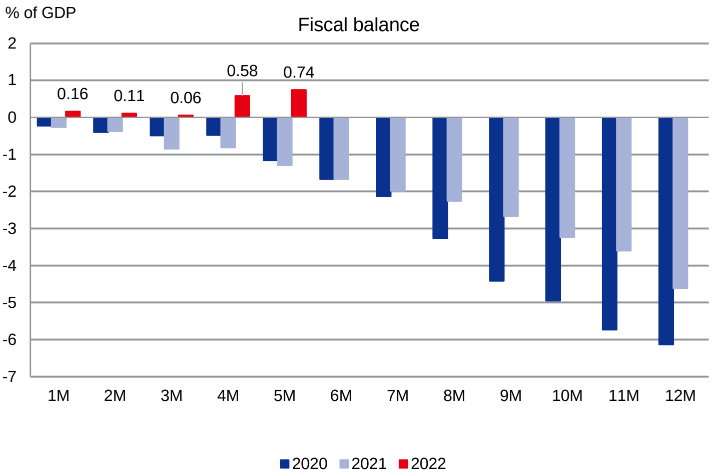
SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 29: Indonesia's trade surplus to normalise as non-energy commodity price rally fades



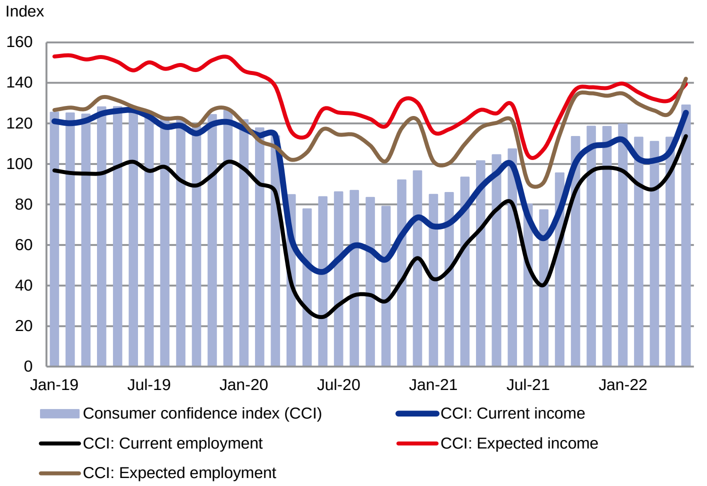
SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 30: Additional fiscal room from commodity price rally and 1% pt increase in VAT rate on 1 Apr 2022 allows higher subsidy spending to fight inflation



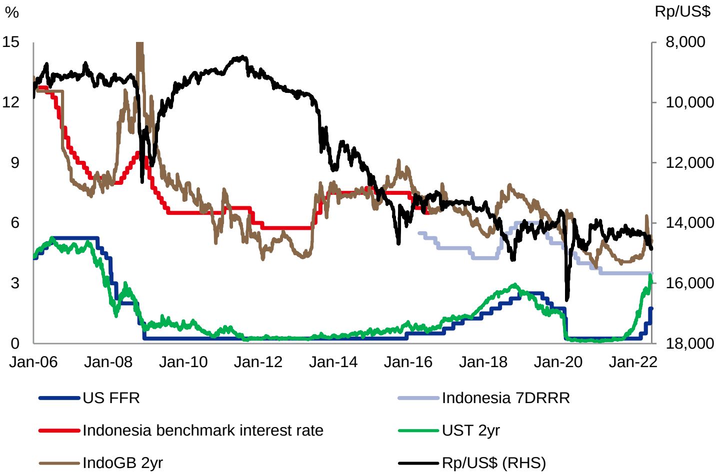
SOURCES: MOF, CGS-CIMB RESEARCH

Figure 31: Improving consumer confidence on income and employment recovery



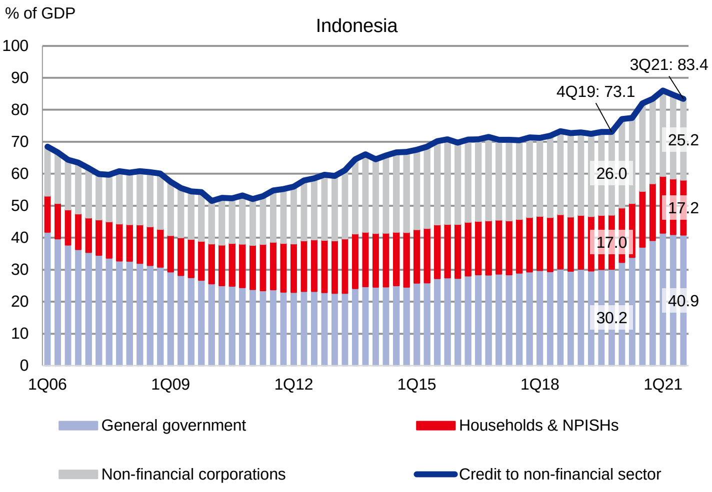
SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 32: Bank Indonesia's monetary policy to focus on currency stability in 2H22F on the back of steep US FFR hikes



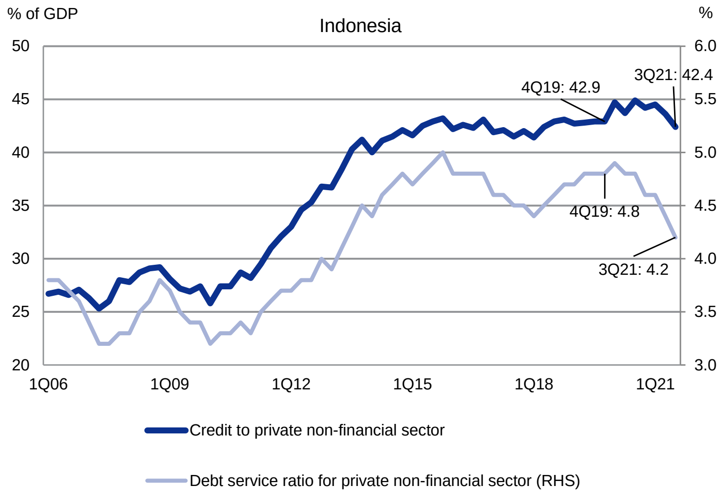
SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 33: Higher public debt during the Covid-19 pandemic due to fiscal stimulus



SOURCES: BIS, CGS-CIMB RESEARCH

Figure 34: DSR for private non-financial sector to increase in a rising interest rate environment, though it remains at a low level



SOURCES: BIS, CGS-CIMB RESEARCH

Figure 35: Forecasts on Indonesia's GDP components

	2019	2020	2021	2022F	2023F	2019	2020	2021	2022F	2023F
			%yoy					*% of GDP*		
Real GDP	**5.0**	**-2.1**	**3.7**	**5.3**	**5.1**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
By expenditure										
Private consumption	5.2	-2.7	2.0	5.4	5.0	55.5	55.1	54.2	54.3	54.2
Household	5.0	-2.6	2.0	5.4	5.1	54.2	53.9	53.0	53.1	53.1
Non-profit institution	10.6	-4.2	1.6	3.7	4.3	1.2	1.2	1.2	1.2	1.2
Public consumption	3.3	2.0	4.2	3.6	4.7	7.8	8.1	8.2	8.0	8.0
Gross fixed capital formation	4.5	-5.0	3.8	5.2	5.4	32.9	31.9	31.9	31.9	32.0
Net exports	-	-	-	-	-	2.1	3.6	4.4	4.5	3.9
Exports	-0.5	-8.1	24.0	12.2	4.2	20.8	19.5	23.3	24.8	24.6
Imports	-7.1	-16.7	23.3	13.6	7.1	18.7	15.9	18.9	20.4	20.8
By sector										
Agriculture	3.6	1.8	1.8	2.0	3.8	12.4	12.9	12.6	12.2	12.1
Mining	1.2	-2.0	4.0	1.5	1.8	7.4	7.4	7.4	7.1	6.9
Manufacturing	3.8	-2.9	3.4	4.8	4.9	20.8	20.6	20.5	20.4	20.4
Construction	5.8	-3.3	2.8	5.0	5.3	10.1	10.0	9.9	9.9	9.9
Services*	6.3	-1.5	3.6	7.1	6.1	45.2	45.5	45.5	46.2	46.7

**Sum of other sectors*

SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 36: Forecasts for other economic indicators

	Unit	2016	2017	2018	2019	2020	2021	2022F	2023F
Real GDP	%yoy	5.0	5.1	5.2	5.0	-2.1	3.7	5.3	5.1
Gross exports	%yoy	-3.4	16.3	6.6	-6.8	-2.7	41.9	24.6	1.8
Gross imports	%yoy	-4.9	15.7	20.2	-9.2	-17.3	38.6	24.0	13.2
Trade balance	US$ bn	9.5	11.8	-8.7	-3.6	21.6	35.3	45.3	18.4
Current account balance	% of GDP	-1.8	-1.6	-2.9	-2.7	-0.4	0.3	0.6	-0.9
International reserves	US$ bn	116.4	130.2	120.7	129.2	135.9	144.9	139.2	142.4
Headline inflation, average	%yoy	3.5	3.8	3.2	2.8	2.0	1.6	3.5	3.1
Headline inflation, end-period	%yoy	3.0	3.6	3.1	2.6	1.7	1.9	3.9	2.7
Unemployment rate, end-period	%	5.6	5.5	5.2	5.2	7.1	6.5	5.7	5.5
Fiscal balance	% of GDP	-2.5	-2.5	-1.8	-2.2	-6.1	-4.6	-4.2	-2.9
7DRRR	%p.a.	4.75	4.25	6.00	5.00	3.75	3.50	4.25	5.00
Rupiah per US$, average	IDR/US$	13,305	13,384	14,247	14,141	14,529	14,297	14,550	14,500
Rupiah per US$, end-period	IDR/US$	13,473	13,568	14,390	13,866	14,050	14,253	14,700	14,400

SOURCES: CEIC, CGS-CIMB RESEARCH

SINGAPORE: Recovery and slump

2022F GDP revised lower

We lower our 2022 GDP forecast to 3.8%, from 4.2% earlier, to reflect: 1) higher inflation weighing on consumer and business sentiment; 2) the Russia-Ukraine conflict causing protracted supply-chain complications, and; 3) large and coordinated monetary tightening globally hindering consumption and export demand. However, the downside could be mitigated by 1) its border reopening, 2) still-high global demand for electronic products, and 3) the recent support package for households.

For 2023F, we pencil in GDP growth of 2.0%, as we expect a protracted global slowdown. Recessions in some of the global economies remain a possibility, posing a major downside to our projections for Indonesia. In addition, there are headwinds such as elevated commodity prices, fading of global pent-up demand, and the lingering effects of the global monetary tightening.

Export of consumer products to take first hit

We estimate real exports to rise 6.6% yoy in 2H22F (1H22: 5.3%), which implies an average increase of 6.0% in 2022F. While we expect a slowdown, especially towards late-2022F, the current pace of exports is still robust and should remain so in the near term. For 2023F, we project real export growth of 3.3%.

The good news is that shipment for electronics exports has been elevated and is likely to continue for the rest of 2022F and in 2023F, although that momentum will gradually dissipate. The World Semiconductor Trade Statistics (WSTS) in its July forecast estimates a 16% increase in chip demand in 2022F, and a further 5.1% in 2023F. The strong pent-up demand for consumer electronics and automotive, coupled with the expanded role of semiconductors in many other product segments has caused demand to soar since 2020, while supply had been slow to match, leading to a large supply-demand imbalance. WSTS projects this gap to narrow in 2H22F as demand falters while supply caches up. However, for some product segments, the long lead times would likely continue well into 2023F, in according to WSTS. Electronics accounted for 25% of Singapore's non-oil domestic exports (NODX) in 2021.

On the other hand, we expect the performance of the non-electronics segments to be mixed in 2H22 and in 2023. We project exports of specialised machinery to mirror the growth of the electronics segment as global chip manufacturers scramble to shore up supply to meet demand by investing heavily in production facilities. However, products that are more consumer-oriented might be the first to take a hit from the global demand destruction. This means that exports of petrochemicals could moderate as demand for clothing, plastic packaging, and cars (tyres) soften. Similarly, pharmaceuticals, albeit more resilient to business cycle fluctuations, is also likely to weaken slightly as the healthcare sector experiences a downturn.

We project Singapore's current account surplus to shrink slightly from 17.5% of GDP in 2022F to 16.7% in 2023F due to a weaker global environment.

Bleak prospects for private consumption

We project that with the easing of movement restrictions and reopening of borders, private consumption is likely to sustain its momentum in 2H22F, thanks to the pent-up demand. We estimate private consumption to rise 8.6% in 2022F (2021: 4.5%), albeit partly propelled by the low base effect from the lockdowns in 2021. Up to 2Q22, the impact of rising inflation is only affecting a small portion of consumer spending although this is likely to change as inflation creeps higher. On a positive note, the Singapore government's recent S$1.5bn targeted support package should provide some relief for the lower-income households and vulnerable groups.

From the macro perspective, retail sales in Apr 2022 were still doing quite well. In fact, certain retail segments have seen a significant increase in mom growth, such as the apparel & footwear segment, department stores, food and beverages, as well as recreational goods. Some of these are considered discretionary spending which should falter first when consumers cut down on purchases. Granted, the improvement comes off a low base as a result of the prolonged lockdown and is likely to be temporary, in our view.

For 2023F, we project private consumption growth to weaken to 0.9%. The global economic slowdown will have reached Singapore's shores, while the rising cost of living is likely to eat into consumer spending. In addition, the planned GST hike from 7% to 8% in 2023 is still on the cards. On the plus side, the Assurance Package totalling S$6.6bn will be paid out in December 2022 and disbursed annually for five years, offsetting some of the impact of the tax increase.

GST hike will bring in more revenue

Singapore's Budget 2022 (Apr 2022 to Mar 2023) projects a deficit of 0.5% of GDP. The government's latest S$1.5bn targeted support package drew on excess revenues from 2021. Hence, it has limited impact on current deficit projections. In addition, the current fiscal performance could exceed projections given the robust economic performance thus far.

For 2023F, we project a fiscal balance of 0% of GDP. The planned GST hike will bring in the needed revenue although collection could be limited in a weak economic environment. In addition, a sharper-than-expected global slowdown could compel the government to fork out more fiscal support.

Inflation projected to peak in 3Q22F

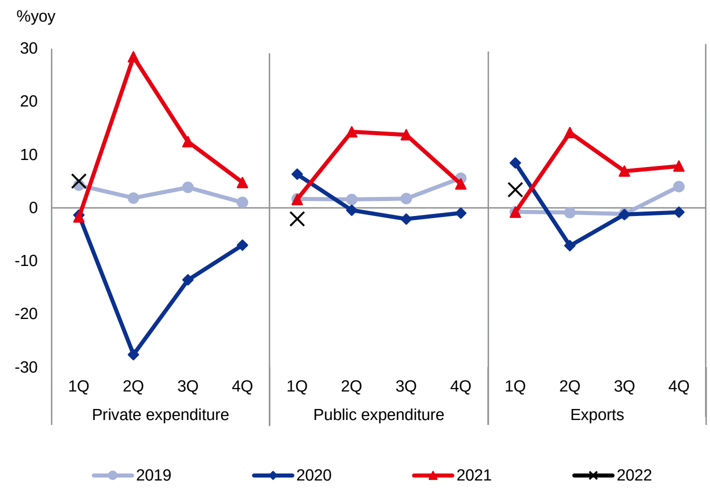
We project inflation to rise to 5.1% in 2022F before moderating to 2.6% in 2023F. On the supply side, Singapore is on the receiving end of the spike in commodity prices worsened by export curbs following the rise in global food protectionism. Demand-pull inflation is fuelled by sustained consumer spending and wage growth amid the economic reopening. In May 2022, CPI grew 5.6% yoy, the fastest since Nov 2011. Importantly, price inflation was not only driven by food and energy component but recreation & culture, clothing & footwear as well as accommodation which are likely demand-pull driven.

We expect inflation in Singapore to peak in 3Q22F on a yoy basis with a gradual moderation in CPI growth throughout 2023F. Mortgage rates are already on the rise following the increase in global policy rates. This, coupled with global economic slowdown ahead, will dampen some of the demand-pull pressure, in our view. In addition, the Monetary Policy of Singapore's (MAS) stance of favouring stronger currency appreciation could absorb some of the inflation coming from imports.

MAS could reduce its S$NEER slope in October

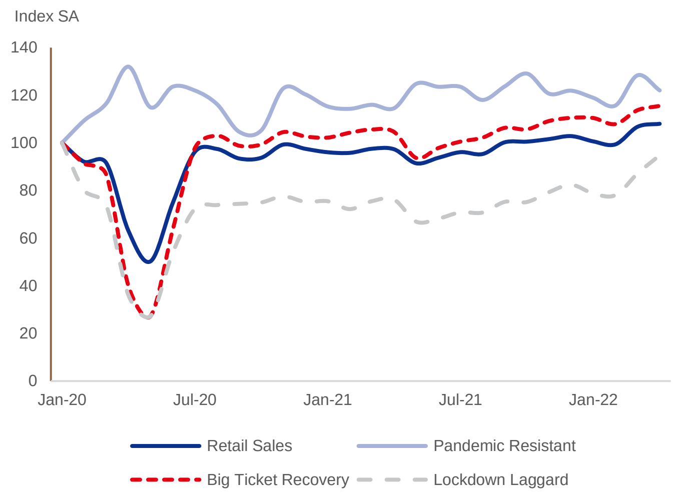
Assuming commodity prices have peaked in 2Q22F and a moderation in global economic trajectory ahead, we expect the MAS to slightly reduce the slope of its current S$NEER policy stance in its upcoming Oct 2022 policy review. We reduce our implied slope of the S$NEER projection to 1.5-2.0% (from 2.0-2.5%) which will allow the currency to appreciate at a more moderate pace, giving space for policymakers to weaken the currency, if needed, in the event of a sharper slowdown in growth. Thus far, MAS has made three consecutive tightening since October 2021, by increasing slightly the slope of the S$NEER with the additional re-centring of the currency midpoint upwards in its latest April meeting. This has already allowed the S$NEER to gain 2.5% YTD.

Figure 37: Strong momentum in private consumption…



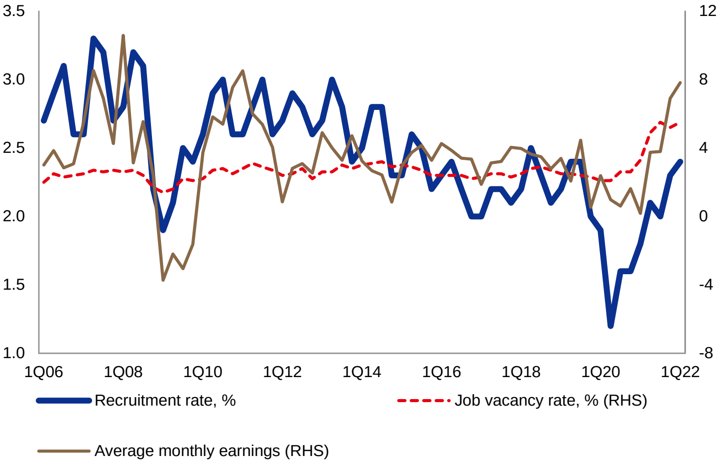
SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 38: …amid a firm recovery in private expenditure



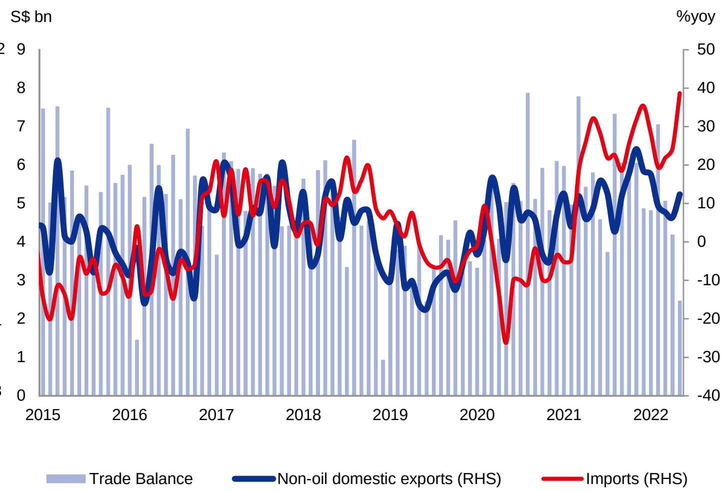
SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 39: Tight labour market highlighted by elevated job vacancy rate and recruitment rate



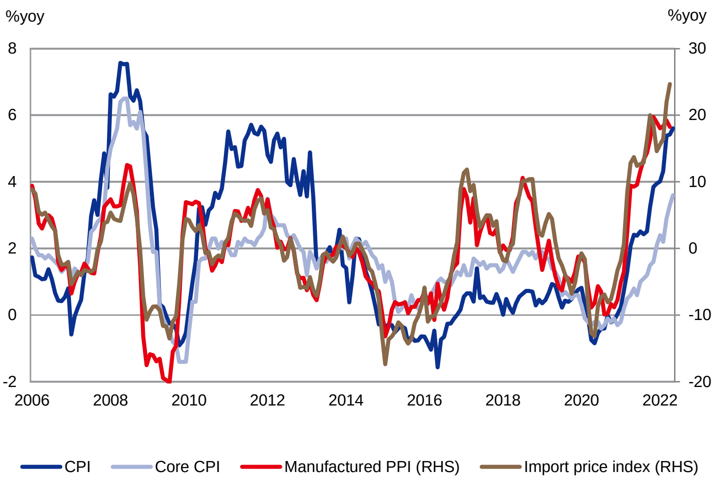
SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 40: Imports increasing faster than exports due to domestic demand recovery and soaring import costs



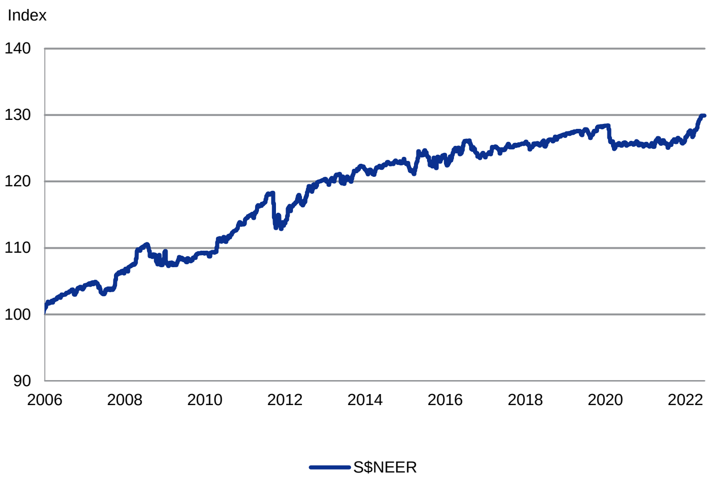
SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 41: Soaring imported inflation suggests price pressure is set to persist …



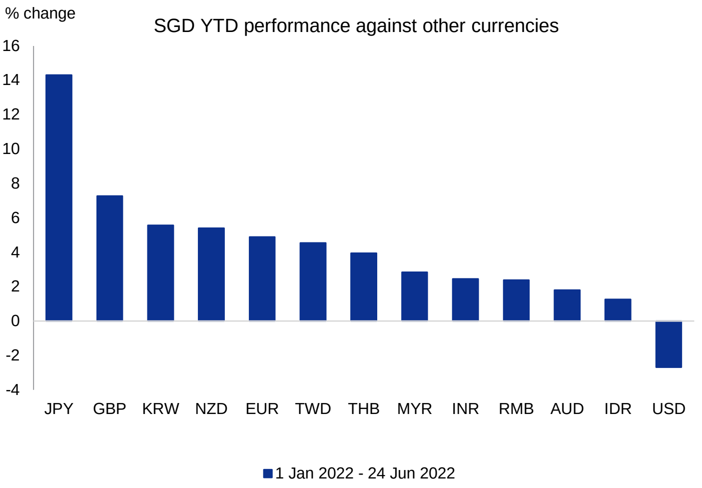
SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 42: …adding pressure to further S$ appreciation



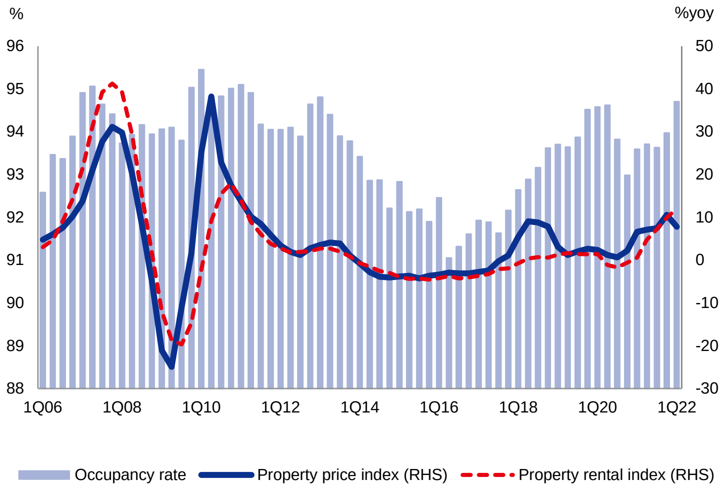
SOURCES: BLOOMBERG, MAS, CGS-CIMB RESEARCH

Figure 43: S$ stays resilient as MAS tightens its exchange rate-based monetary policy



SOURCES: BLOOMBERG, CGS-CIMB RESEARCH

Figure 44: Gap between housing demand and supply drives up property prices



SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 45: Forecasts on Singapore's GDP components

	2019	2020	2021	2022F	2023F	2019	2020	2021	2022F	2023F
	%yoy					% of GDP				
Real GDP	**1.1**	**-4.1**	**7.6**	**3.8**	**2.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
By expenditure										
Private consumption	3.2	-12.9	4.5	8.6	0.9	37.4	34.0	33.0	34.5	34.2
Public consumption	3.4	13.3	4.5	0.5	3.1	10.2	12.1	11.8	11.4	11.5
Gross fixed capital formation	1.7	-14.3	19.6	2.8	-2.7	24.5	21.9	24.3	24.1	23.0
Net exports	-	-	-	-	-	27.5	31.9	30.5	30.1	31.2
Exports	0.3	-0.2	6.8	6.0	3.3	182.0	189.4	188.0	192.0	194.3
Imports	0.1	-2.3	7.6	6.7	2.8	154.5	157.5	157.5	161.9	163.1
By sector										
Agriculture	-	-	-	-	-	-	-	-	-	-
Mining	-	-	-	-	-	-	-	-	-	-
Manufacturing	-1.5	7.5	13.2	5.3	1.6	19.2	21.6	22.7	23.0	22.9
Construction	0.3	-38.4	20.1	4.8	1.8	4.1	2.6	2.9	2.9	2.9
Services	1.6	-5.1	5.6	4.3	2.5	64.8	64.2	63.0	63.3	63.6

SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 46: Forecasts for other economic indicators

	Unit	2016	2017	2018	2019	2020	2021	2022F	2023F
Real GDP	%yoy	3.6	4.7	3.7	1.1	-4.1	7.6	3.8	2.0
Non-oil domestic exports (NODX)	%yoy	-2.8	8.8	4.2	-9.2	4.3	12.1	8.5	3.7
Imports	%yoy	-4.7	12.1	10.6	-2.1	-7.4	20.4	5.2	4.1
Trade balance	S$ bn	63.6	62.9	55.5	42.8	62.2	68.2	51.5	45.3
Current account balance	% of GDP	17.6	17.3	15.2	14.5	16.8	18.1	17.5	16.7
International reserves	US$ bn	246.6	279.9	287.7	279.5	362.3	417.9	411.0	434.0
Headline inflation, average	%yoy	-0.5	0.6	0.4	0.6	-0.2	2.3	5.1	2.6
Headline inflation, end-period	%yoy	0.2	0.4	0.5	0.8	0.0	4.0	4.2	1.9
Unemployment rate, end-period	%	1.9	1.8	1.9	2.0	2.8	2.1	2.1	2.1
Fiscal balance*	% of GDP	1.4	2.3	0.7	0.2	-10.8	-0.9	0.5	0.0
Singdollar per US$, average	S$/US$	1.38	1.38	1.35	1.36	1.38	1.34	1.36	1.32
Singdollar per US$, end-period	S$/US$	1.45	1.34	1.36	1.35	1.32	1.35	1.35	1.32

*FISCAL YEAR APR-MAR

SOURCES: CEIC, CGS-CIMB RESEARCH

THAILAND: Treading the last mile

High inflation and global slowdown a risk to growth

We maintain our 2022 GDP forecast at 3.3%, implying 2H22F growth of 4.0% vs. 1H22F of 2.6%. We project yoy growth to improve on three factors. Firstly, its recent economic reopening will impart some positive support in 2H22F although consumption is likely to be capped by the rising cost of living. Secondly, external trade is robust although this is likely to normalise ahead. Thirdly, some base effect will play out on a yoy basis in 3Q22F (3Q21: +0.2% yoy).

For 2023F, we project GDP growth of 3.5% as the Thai economy continues to catch up to its potential. Risk of a more protracted global slowdown remains, and this could affect the external sectors, however Thailand's still-accommodative monetary policy and a solid labour market should cushion the impact, in our view.

Private consumption to soften

We expect private consumption to grow 5.3% yoy in 2H22F, bringing the year's average to 5.3%. Excluding the base effects, consumption is likely to moderate going forward as high inflation chips away at households' disposable income, in our view. This is evidenced by the drop in consumer sentiment for the fifth consecutive month in May as consumers remained concerned over the ever rising cost of living. As we project high inflation growth for the year, we see limited upside to consumption growth. Already, the 1Q22 seasonally-adjusted (SA) figures shows that private consumption decelerated to +3.2% qoq SA in 1Q22 vs. +4.0% qoq SA the quarter prior.

That said, there are some additional support from the revival in tourism activity. Beginning 1 Jun 2022, all unvaccinated or partially vaccinated foreign travellers will no longer need to be quarantined on arrival; this marked a significant move for a country whose tourism industry accounted for about 18% of its GDP in 2019. However, we expect 2022F tourist arrivals to reach only 20% of 2019's levels, or 8m out of the 40m visitors in 2019. For 2023F, we project foreign arrivals to reach 70% of 2019's levels. This is due to several factors:

- Firstly, Chinese tourists arrivals in 2022F is likely to be limited due to China's still-closed borders under its zero-Covid policy. Our estimates thus far put its border reopening to early-2023F owing to the government's preference for social stability prior to the President Xi's re-election in 4Q22. China accounted for the largest group of arrivals in Thailand at 30% share in 2019.
- Secondly, Russian travellers may not travel due to financial sanctions. Russians accounted for 8% of tourist arrivals in Thailand in 2019.
- Finally, high cost for travel such as expensive flight tickets may be a deterrence, although a weaker baht is a pull factor.

Investment still below potential

We anticipate Thailand to record a robust gross fixed capital formation (GFCF) growth rate of 7.7% yoy in 2H22F, partly owing to the low base (2021: -0.3%). For the full year, we project GFCF growth of 5.3% (2023: 2.7%). However, the investment environment is likely to be marred by supply chain problems and weaker demand. Thus far, capacity utilisation in Thailand is low, at 63.7% at end-Apr 22, having trailed downwards since end-2021, highlighting excess capacity and negating the need for capacity expansion.

That said, the Thai government is looking into passing a higher allocation for infra investment in Budget 2023 (Oct 2022 to Sep 2023) – THB84bn or 14% higher than the allocation for fiscal year 2022. We estimate most of this is for rail transport and logistics. In addition, some major projects are picking up post-reopening with investments related to 5G, green technologies, and the Eastern Economic Corridor receiving renewed attention.

Food protectionism a boost to exports

Thailand's real exports should continue to outperform vs. pre-Covid in 2H22F before normalising in 2023F, in our view. We project real exports growth at 7.1% in 2022F before moderating at 1.1% in 2023. Thus far in 1H22, global demand is still at elevated levels and this should continue to support the growth of Thailand's manufactured goods exports, particularly of electrical and electronics. In addition, Thailand is currently benefitting from the global rise in food demand amid increased food protectionism in the developing world as the nation is a large producer of food items including sugar, chicken and rice. On the domestic side, Thailand's own food production is sufficient to cater to its domestic needs, allaying fears of an export ban. Agriculture and agro-industrial products made up about 18% of total Thai exports in 2019.

On the current account perspective, we project a shrinking of its deficit to -0.5% of GDP in 2022F (2021: -2.1%). We expect its goods account to moderate given the softer global demand, though likely to be offset by an improvement in its services account. The revival of its tourism industry will help to bring in the much needed foreign exchange and help to shrink the services outflows it has seen since the Covid-19 pandemic broke. For 2023F, we project Thailand's current account to further improve to +2.6% of GDP.

Inflation to mirror high commodity prices

We revise up our 2022 CPI forecast to 6.0% from 5.2% earlier. We project 2023F CPI at 2.7%. The momentum of price inflation is likely to remain quite strong in the near term owing to the high commodity prices and their impact on the prices of other goods, in our view. Unlike its regional peers, Thailand has limited ability to absorb commodity price volatility given that it is a net energy importer. Our model indicates that monthly CPI growth could reach above 7.0% yoy in 3Q22F before coming off gradually in 4Q22F and 2023F, though part of the decline would be due to the high base effect. We expect commodity prices to remain relatively elevated this year and the next, with further domestic price adjustments likely in the months ahead especially on fuel and electricity tariff.

Fiscal pressure increasing

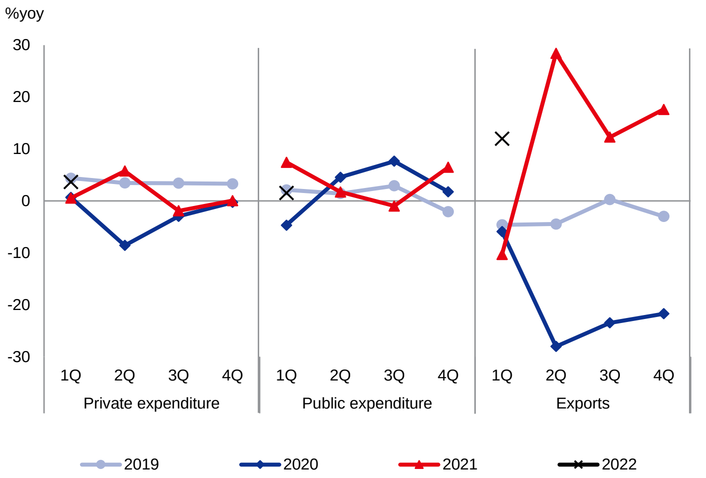
We project fiscal deficit of -4.5% of GDP in 2022F, weaker than the Thai government's official estimate of -4.2%. In our view, the government's bid to control the rise in energy prices through forgone taxes and higher subsidy spending is impacting its bottom line. For fiscal year 2023F (starting Oct 2022), the first tabling of the budget projects 2.7% growth in expenditure with a fiscal deficit of THB695bn, or about 3.9% of GDP.

Expect two 25bp hikes, in 2H22F and 2023F

Following Bank of Thailand's (BOT) hawkish statement in June, we now price in two 25bp rate hikes in 2H22F, and another two 25bp hikes in 2023F, projecting the 1-day repurchase rate at 1.00% by end-2022F, and 1.50% by end-2023F. We think BOT's focus will shift from pro-growth towards price stability in its subsequent Monetary Policy Committee (MPC) meetings as the risks on its currency and inflation are building up. That said, an end-2022F policy rate of 1.00% would still be accommodative, in our view. We believe a global economic slowdown in 2023F is eminent and hence, Thailand's economic growth may need to be driven primarily by domestic demand. We project its policy rate to reach 1.50% by end-2023F.

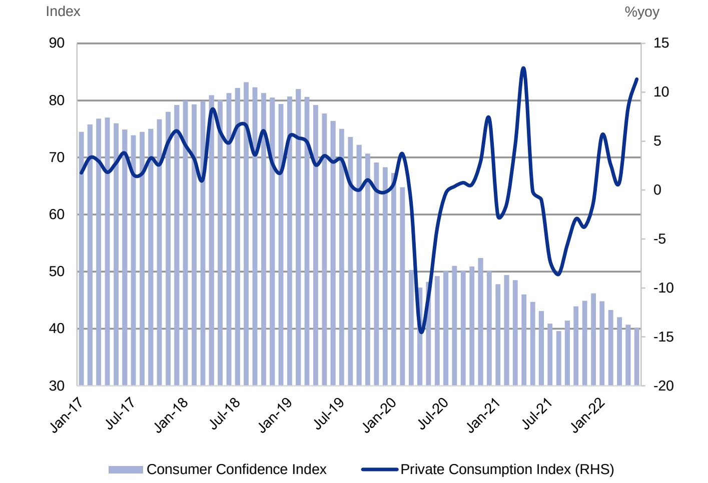
Meanwhile, the US$/THB has lost ground over the past few months amid the Fed's aggressive rate hikes. Nevertheless, we believe the baht's weakness is likely to be capped in 2H22F due to the shift in BOT's monetary policy towards tightening while the return of foreign tourists should dampen the currency outflow. We project the US$/THB to strengthen to 34.4 by end-2022F (end-2023F: 33.8).

Figure 47: Private consumption post-Covid has shown some nascent pickup…



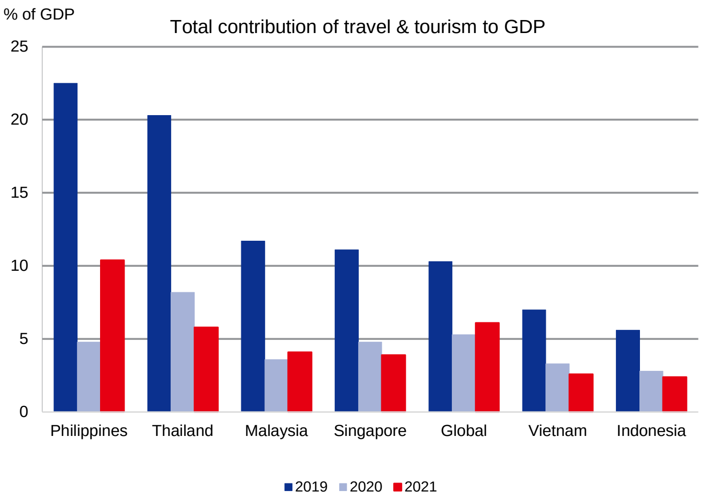
SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 48: …however, sentiment is falling while the private consumption index is being propped by low base effect



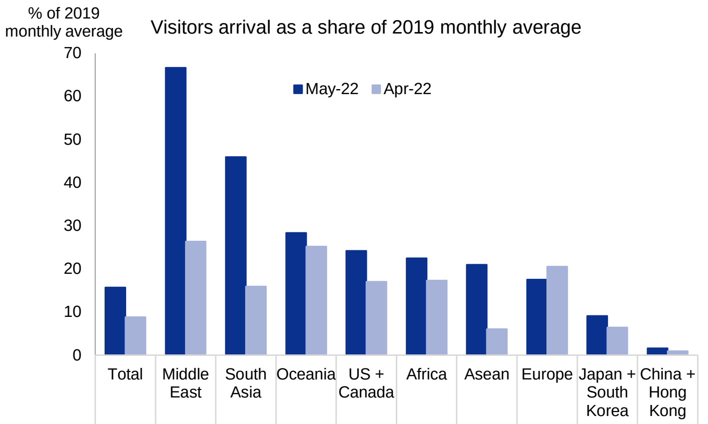
SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 49: Tourism recovery to be sluggish…



SOURCES: WORLD TRAVEL AND TOURISM COUNCIL, CGS-CIMB RESEARCH

Figure 50: … due to heavy reliance on Chinese tourists

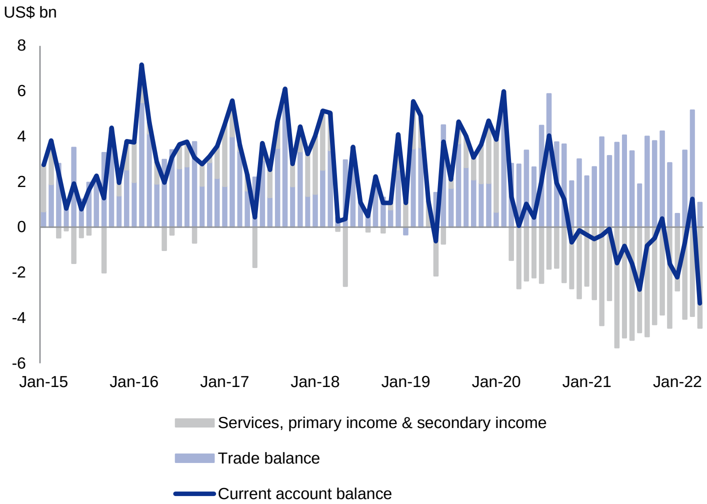


	Total	Middle East	South Asia	Oceania	US + Canada	Africa	Asean	Europe	Japan + South Korea	China + Hong Kong
May 2022	100.0	7.5	17.6	4.0	5.6	0.7	35.8	18.8	5.4	5.7
2019	100.0	1.8	6.0	2.2	3.6	0.5	26.8	16.9	9.3	55.2

% share of total visitors arrival (May 2022 vs. 2019)

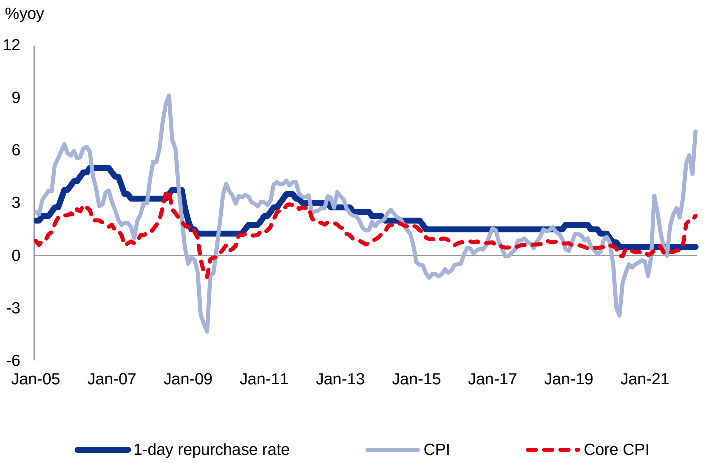
SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 71: External imbalances to persist amid rising import bills from elevated commodity prices, as well as slow gains in tourist receipts



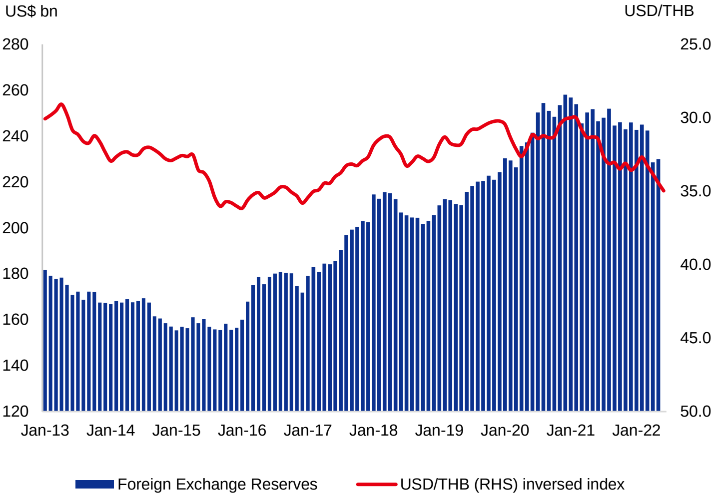
SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 52: Inflationary pressure adds woes to nascent consumption recovery and complicates monetary policy calibration



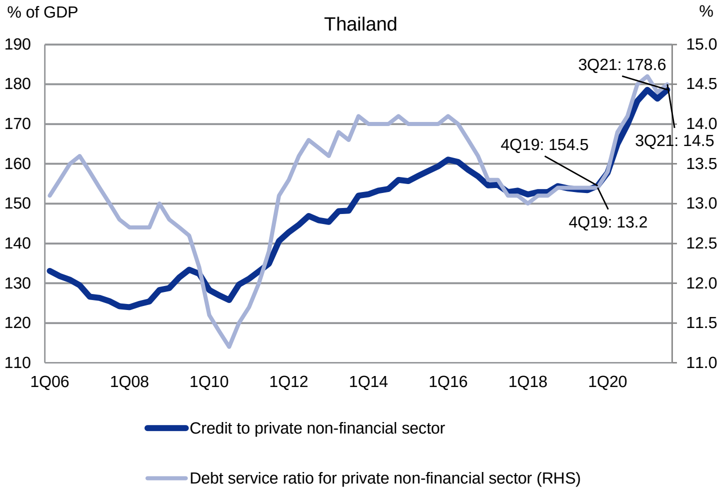
SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 83: Reserves shrinking to maintain baht stability



SOURCES: BIS, CGS-CIMB RESEARCH

Figure 54: Elevated levels of debt service ratio for private non-financial sector



SOURCES: BIS, CGS-CIMB RESEARCH

Figure 55: Forecasts on Thailand's GDP components

	2019	2020	2021	2022F	2023F	2019	2020	2021	2022F	2023F
		%yoy						*% of GDP*		
Real GDP	**2.2**	**-6.2**	**1.6**	**3.3**	**3.5**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
By expenditure										
Private consumption	4.0	-1.0	0.3	5.3	4.2	51.8	54.7	54.1	55.2	55.5
Public consumption	1.6	1.4	3.2	1.4	1.5	14.6	15.8	16.0	15.7	15.4
Gross fixed capital formation	2.0	-4.8	3.4	5.3	2.7	23.9	24.3	24.7	25.2	25.0
Net exports	-	-	-	-	-	7.1	2.3	-1.8	0.2	1.8
Exports	-3.0	-19.7	10.4	7.1	1.1	71.2	60.9	66.2	68.8	67.2
Imports	-5.2	-14.1	17.9	4.0	-1.3	64.0	58.6	68.0	68.6	65.4
By sector										
Agriculture	-0.9	-3.5	1.4	2.9	3.0	6.1	6.3	6.3	6.3	6.3
Mining	1.7	-8.9	-7.1	-10.1	-3.0	2.1	2.0	1.9	1.7	1.5
Manufacturing	-0.8	-5.6	4.9	3.3	3.8	26.4	26.6	27.4	27.5	27.5
Construction	1.6	1.3	2.7	-1.0	5.0	2.7	2.9	2.9	2.8	2.8
Services	3.9	-7.0	0.6	7.5	3.5	60.5	59.9	59.3	61.8	61.8

SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 56: Forecasts for other economic indicators

	Unit	2016	2017	2018	2019	2020	2021	2022F	2023F
Real GDP	%yoy	3.4	4.2	4.2	2.2	-6.2	1.6	3.3	3.5
Exports, custom basis	%yoy	0.5	9.9	6.9	-2.6	-5.9	17.1	7.3	4.3
Imports, custom basis	%yoy	-4.2	14.1	12.0	-4.8	-12.7	29.8	10.5	5.5
Trade balance, custom basis	US$ bn	21.2	15.1	4.8	10.0	25.5	3.6	5.5	12.0
Current account balance	% of GDP	10.5	9.6	5.6	7.0	4.2	-2.1	-0.5	2.6
International reserves	US$ bn	171.9	202.6	205.6	224.3	258.1	246.0	230.0	242.0
Headline inflation, average	%yoy	0.2	0.7	1.1	0.7	-0.8	1.2	6.0	2.7
Headline inflation, end-period	%yoy	1.1	0.8	0.4	0.9	-0.3	2.2	4.9	1.2
Unemployment rate, end-period	%	0.8	1.0	0.9	1.0	1.5	1.9	1.4	1.3
Fiscal balance*	% of GDP	-2.8	-3.5	-3.0	-3.0	-5.2	-4.8	-4.5	-3.9
1-day repurchase rate	%p.a.	1.50	1.50	1.75	1.25	0.50	0.50	1.00	1.50
Thai baht per US$, average	THB/US$	35.3	33.9	32.3	31.0	31.3	32.0	34.2	33.7
Thai baht per US$, end-period	THB/US$	35.8	32.6	32.5	30.0	30.0	33.4	34.4	33.8

*FISCAL YEAR OCT-SEP

SOURCES: CEIC, CGS-CIMB RESEARCH

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Description:	Excellent	Very Good	Good	N/A	N/A

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