

## BOCHK Research Journals

- Economic Review
- Offshore RMB Express
- Economic Vision
- 中銀財經述評
- 中銀內部研究
- 中銀策略研究

Author: Xie Jinming  
Email: [xiejinming@bochk.com](mailto:xiejinming@bochk.com)  
Tel: +852 398 27180

Contact: Ms. Chan  
Email: [ccchan@bochk.com](mailto:ccchan@bochk.com)  
Tel : +852 282 66208



Please follow BOCHK Research on WeChat for the latest economic and financial markets analyses

## ASEAN Economics Under Global Stagflation

Jinming Xie, Economist

Most economies in the world adopted monetary and fiscal easing policies to boost economic development since the outbreak of COVID-19 in 2020. Although the global economy partially recovered in 2021, the geopolitical conflicts between Russia and Ukraine further impeded the global economy recovery in 2022. Loose monetary and fiscal policies, combined with high energy and commodity prices, have added inflationary pressures around the world, and economies around the world have stepped up monetary tightening to curb inflation. The global economy faces downward pressures on both the supply and demand sides, the pace of recovery slows down and the risks of stagflation increases. The World Bank's Global Economic Prospects, released in June 2022, projected that global economic growth would fall to 2.9 % in 2022, well below the 4.1 % forecast in January. The International Monetary Fund in July also cut its 2022 global economy growth forecast to 3.2 %.

Amid the growing risk of stagflation worldwide, ASEAN's economies were outstanding in the first half of 2022, with major countries in the region growing faster than the U.S. and the global average, continuing the recovery momentum since the second half of 2021. Strong export has been one of the main drivers of the continued economic recovery, and the implementation of the RCEP has strengthened the trades between ASEAN and China. With increased vaccination rates, ASEAN countries gradually eased restrictions on COVID-19 prevention since the second quarter of 2022. Regional economic activities were restarted, tourism is expected to recover, and domestic demand and investment will be strengthened to support sustained economic recovery. In its latest outlook in September, the Asian Development Bank slightly raised its growth forecast for ASEAN to 5.1% from 4.9%.

Although there are few direct links in trade and finance between ASEAN and Russia or Ukraine, the geopolitical conflicts between Russia

and Ukraine spillover to ASEAN. Headline CPIs in ASEAN economies kept rising, reaching the highest levels in recent years and well beyond the inflation target range set by central banks. Food and energy prices are the major drivers of inflation in ASEAN. ASEAN central banks tried to balance economic growth with inflation. The path and pace of policy rate hikes differed among ASEAN central banks. Further interest rate hikes are expected in ASEAN economies in the fourth quarter of 2022 under the pressure of persistently high price levels. With Federal Reserve raising the policy rates, capital flowed back to the United States, causing turmoil in ASEAN's financial markets. The currencies of all ASEAN economies have depreciated against the dollar, the major stock indices of all economies began to fall sharply in the second quarter of this year, and the 10-year government bonds yields have continued to rise since the beginning of this year. Capital outflow pressure is likely to continue in the future, dampening investment activity and slowing the pace of economic recovery.

The stability of the macro environment is conducive to the economy recovery of ASEAN. Different from the 1997 Asian Financial Crisis, the debt-to-GDP ratios of ASEAN economies have remained relatively low in the current cycle. Foreign direct investments in major ASEAN economies have remained strong in recent years. Although the foreign exchange reserves-to-monthly import ratios have declined, the foreign exchange reserves levels are still healthy. In summary, governments in ASEAN still have sufficient fiscal space to support continued economic recovery.

## **1. The economic growths in ASEAN are outstanding, returning to the pre-pandemic level**

In 2022, major ASEAN countries showed impressive economic growth. Comparing cross-sectionally, the economic growth rates of major ASEAN countries are mostly higher than that of the US and the global average. In the first half of 2022, the Philippines, Vietnam, Malaysia, Indonesia, Singapore and Thailand recorded year-on-year GDP growth rates of 7.77%, 7.54%, 6.93%, 5.23%, 4.09% and 2.40%, respectively. On the longitudinal basis, GDP growth in most countries not only recovered to the pre-pandemic levels in the first quarter, but also increased further in the second quarter. In Q2 (Q1), Malaysia, Vietnam, the Philippines, Indonesia, Singapore and Thailand recorded year-on-year GDP growth rates of 8.95% (4.95%), 7.72% (5.05%), 7.42% (8.15%), 5.44% (5.01%), 4.40% (3.80%) and 2.48% (2.32%). In the Q3, Vietnam's GDP even grew 13.67% from a year earlier.

Indonesia and Malaysia, as net commodity exporters, have benefited from the high commodity prices around world. Strong domestic demand and investment underpinned recoveries in Philippines, Malaysia and Indonesia. In addition to a certain degree of low base effect, manufacturing was the growth engine of Vietnam's entire economy. Thailand's economy had been dragged down by the high commodity prices, as a net commodity importer, and the slow recovery in tourism.

Looking ahead for ASEAN economies, on one hand, the external demand momentum is still strong, and the demand momentum from the world's major economies will continue to drive ASEAN's economic growth. However, the slowdown in global economy will dampen global trade to varying degrees, and the export growth is expected to slow down for ASEAN in the future. On the other hand, the domestic demand of most ASEAN countries is relatively high, and the strong domestic demand will play a further role in driving the economy recovery. With the vaccination rates improved, ASEAN countries gradually eased

COVID-19 restrictions since Q2 of 2022, allowing regional economic activities to restart. Moreover, the reopening of borders would help the recovery of tourism, a pillar industry for ASEAN countries and which has been sluggish since the pandemic. Thailand will no longer require fully vaccinated international tourists to be tested for COVID-19 before flying or on arrival from May. Malaysia fully opened its borders on 1st April and further simplified the entry procedures in July and August. The Philippine government lifted most quarantine restrictions and fully reopened schools in August. In its latest outlook in September, the Asian Development Bank slightly raised its growth forecast for ASEAN to 5.1% from 4.9%.

## **2. ASEAN exports remain robust, continuing to support economy recovery**

Exports of ASEAN economies have shown strong resilience since the pandemic, underpinning the economy growth in the region. Since 2021, the export value of ASEAN countries has maintained a high growth rate. Time to 2022, although the growth rates have slowed down to certain extent, they are still stable. In H1 of 2022, the total exports of ASEAN-6 (Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam, the same below) were \$948 billion, up 19.9% yoy. The export performance of commodities, electronic appliances, clothing and textiles was outstanding. In Q2 of 2022, Indonesia, Malaysia, Vietnam and Singapore recorded year-on-year export growth of 38.9%, 23.3%, 21.5% and 20.8%, respectively. With the expected slowdown of global economic growth and weak global demand, the growth of global trade may have peaked. The rising of interest rates and the withdrawal of economic stimulus plans would inhibit global trades to varying degrees, and the growth of ASEAN's export trade is expected to slow down in the future.

In terms of export destinations, most economies in the world have sustained demand momentum for ASEAN and the trading activities between ASEAN and China have been intensified, which have played a role in driving ASEAN's economic growth. The RCEP took effect on January 1, 2022 for China, Japan, Australia, New Zealand and ASEAN members Singapore, Thailand, Vietnam, Brunei, Laos and Cambodia, on 1 February for South Korea, on 28 March for Malaysia. RCEP came into force between China and Myanmar on 1 May. The RCEP was formally approved by the Indonesian Parliament on 30 August and is expected to come into force by the end of 2022. From January to July of 2022, the exports of ASEAN-6 countries to China increased by 8.82% yoy, while the imports from China increased by 14.48% yoy. Growing trade links with China will be an important driver for ASEAN's economic recovery.

The economies of Indonesia and Malaysia have benefited from the high commodity prices globally. Trade balances have been reallocated from net commodity importers to net commodity exporters. After the pandemic, Indonesia's current account surplus increased significantly, moving from deficit to surplus. Indonesia is one of the world's leading commodity exporters. According to the share of GDP, Indonesia is the largest net exporter of commodities in Asia, mainly for coal, palm oil and raw metals such as nickel. For Thailand and Philippines, as net importers of commodities, current account deficits are deteriorating, which could weigh on growth and add to depreciation pressure.

## **3. Prices in ASEAN countries continue to rise, central banks lagged behind Federal Reserve in raising policy rates**

Prices continue to rise in ASEAN countries. Among the major ASEAN countries, Thailand, Singapore and the Philippines have high inflation levels. The headline CPIs in August increased by 7.86%, 7.47% and

6.31% year-on-year, respectively. Indonesia, Malaysia and Vietnam had relatively low inflation of 4.69%, 4.65% and 2.89%, respectively. Inflation in ASEAN countries are relatively modest compared with the high inflation in the US, but in historical terms they reached the highest levels in recent years and go beyond each country's inflation target range. Core inflation has also risen to relatively high levels in recent years.

For most of ASEAN economies, high food and energy prices are the main drivers of high inflation. In response to food inflation domestically, many ASEAN countries restricted exports of related goods. Indonesia imposed export restrictions on palm oil in April and May in a bid to stabilize domestic cooking oil prices at affordable levels for consumers. Malaysia restricted live chicken exports in June until domestic chicken prices and production stabilize. The new Philippine President, Eduardo Marcos Jr., took office as agriculture secretary himself to ensure adequate food supplies. In addition, in response to rising energy prices ASEAN countries have adopted energy subsidy programs. Energy subsidies help smooth inflation and buy time for the central bank policy rate hikes to seek a buffer for further economic recovery, but subsidies also add pressure on government finances and slow down the pace of fiscal policy normalization. Food accounts for a large portion of household consumption in most ASEAN countries. Continued high food prices would dampen household consumption and weigh on economic recovery.

Monetary policies across ASEAN have typically centered on policy rates. Central banks attempt to balance economic recovery and smoothing inflation with varying paths and paces of policy rate hikes. In the face of high inflation, the Federal Reserve started rate hikes in March and has raised the policy rate by 300 basis points by the end of September, to a range of 3.00% to 3.25%. According to the point map forecast of the Federal Reserve, the Federal Reserve may further raise policy rate by at least 100 basis points this year. While fiscal subsidies have bought time for central banks to tighten monetary policy, most ASEAN countries have now embarked on a policy rate hike cycle. Singapore has tightened monetary policy four times since October 2021, with two adjustments made outside the normal window. The Philippines and Malaysia started to raise policy rates in May 2022. By the end of September, the Philippines has raised policy rates by 225 basis points to 4.25%, and Malaysia has raised policy rates by 75 basis points to 2.50%. Indonesia and Thailand started raising their policy rates in August 2022, and by the end of September they have increased to 4.25% (from 3.50%) and 1.00% (from 0.50%), respectively. Vietnam raised interest rates on September 22 with 100 basis points increase, exceeding market expectations. Higher interest rates would help curb inflation, but would also dampen consumption and investment. Further interest rate hikes in ASEAN economies are widely expected in Q4 of 2022 to curb inflation, under pressures from persistently high prices levels.

#### **4. The currencies of ASEAN depreciated, the yields on debt rose, and the stock market fell from the high levels**

ASEAN currencies have depreciated against the US dollar, but relatively modestly compared with other countries and regions. Since the Federal Reserve entered the rate hike cycle in March, the U.S. dollar appreciated. The dollar index has gained 18.3% from the beginning of the year until September 25. Most of the world's currencies have continued to depreciate, not just for currencies of the emerging market economies, but even more for currencies of advanced economies. Among the ASEAN countries, the Myanmar dollar, the Philippine Bissau and the Thai Baht depreciated by 18.0%, 15.2% and 13.1% respectively from the beginning of the year to September 25. The Malaysian Ringgit has depreciated by about 9.9%, the Indonesian Rupiah by about 5.5%, the Singapore Dollar by about 6.1%, and Vietnamese Dong by less.

Yields on 10-year bonds in most ASEAN countries have continued to rise since the start of this year. Since the beginning of March, with the confirmation of the expectation of rate hikes by the Federal Reserve, the medium and long-term debt yields of the ASEAN region rose sharply along with the US bond yield. The 10-year bond yields peaked in mid-June, followed by a slight pullback, and rose further since mid-August as the market's expectation, that Federal Reserve wouldn't slow down the pace for rate hikes, rose again.

Major stock indices in ASEAN countries began Q2 of this year with sharp declines. Vietnam's stock market, which saw a sharp rally from the second half of 2020 to the end of 2021 on the back of capital inflows, fell sharply as the Federal Reserve entered its rate hike cycle in 2022. Stocks in Malaysia, the Philippines, Singapore and Thailand were down about 10%. Indonesia's stock market has been at high levels, benefited from continued capital inflows.

Looking forward, the pressure of capital outflow from ASEAN countries is likely to continue, with Federal Reserve's continued interest rate hikes and the resulted tightening of external financing conditions. Capital outflow inhibits investment activities and slows down the pace of economic recovery, which will also exert downward pressures on financial markets and increase volatility.

## **5. Macro stability provides support for economic growth of ASEAN**

Macroeconomic stability is the foundation of ASEAN's economic growth. After the COVID-19 outbreak in 2020, ASEAN governments took a series of measures to stimulate their economies, and government debt increased as a result. However, ASEAN's debt-to-GDP ratios are relatively low compared with other Asian economies. In addition, if we look at the loan-to-deposit ratios and consolidated fiscal balances, ASEAN governments still have relatively sufficient room for potential fiscal policies to support economic development. Indonesia and Malaysia have been running current account surpluses. The Philippines and Thailand, both as net commodity importers, saw declines in their current accounts. Foreign direct investments in major ASEAN countries have remained strong in recent years. Indonesia, the Philippines and Thailand have low ratios of short-term debt to foreign exchange reserves. Although the foreign exchange reserve-to-monthly import coverage ratios of ASEAN countries declined, they remained in a healthy range. Looking ahead, relatively sound macroeconomic stability would be the cornerstone for ASEAN to realize economic recovery.

## **6. Risks accompany ASEAN's economic recovery**

ASEAN's economic recovery also faces risks that cannot be ignored. The slowdown of global economic growth may lead to a sharp decline in ASEAN's external demand and exert downward pressure on exports. The pace of interest rate hikes by the Federal Reserve also involves much uncertainty. Rapid pace of rate hikes may lead to further tightening of global financing environment, accelerating capital outflow and currency depreciation for ASEAN. The proportion of poor population in ASEAN is high, and the proportion of food among household consumption is also high. The runaway risk in inflation in the future, especially in the aspect of food inflation, would undermine the ASEAN economy. The reopening of pandemic social restrictions could be accompanied by a resurgence of the pandemic, leaving economic activity less resilient than expected.

## Disclaimer & Important Notes

This document is published by Bank of China (Hong Kong) Limited (“BOCHK”) for reference only.

The contents contained in this document have not been reviewed by the Securities and Futures Commission of Hong Kong.

This document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution would be contrary to laws or regulations.

This document is for reference only. It does not constitute, nor is it intended to be, nor should it be construed as any investment recommendation or professional advice, or any offer, solicitation, recommendation, comment or any guarantee to the purchase or sale, subscription or transaction of any investment products or services stated herein. You should not make any investment decision based upon the information provided in this document.

The information provided is based on sources which BOCHK believes to be reliable but has not been independently verified, therefore BOCHK does not make any representation, warranty or undertaking as to the accuracy, completeness or correctness of the information or opinions provided in this document. The forecasts and opinions contained in this document is only provided as general market commentary and is not an independent investment research report and is not to provide any investment advice or return guarantee and should not be relied upon as such. All views, forecasts and estimates are the judgments of the analysts made before the publication date, and are subject to change without further notice. No liability or responsibility is accepted by BOCHK and related information providers in relation to the use of or reliance on any such information, projections and/or opinions whatsoever contained in this document. Investors must make their own assessment of the relevance, accuracy and adequacy of the information, projections and/or opinions contained in this document and make such independent investigations as they may consider necessary or appropriate for the purpose of such assessment.

The securities, commodities, foreign exchanges, derivatives or investments referred to in this document may not be suitable for all investors. No consideration has been given to any particular investment objectives or experience, financial situation or other needs of any recipient. Accordingly, no representation or recommendation is made and no liability is accepted with regard to the suitability or appropriateness of any of the securities and/or investments referred to herein for any particular person’s circumstances. Investors should understand the nature and risks of the relevant product and make investment decision(s) based on his/her own financial situation, investment objectives and experiences, willingness and ability to bear risks and specific needs and if necessary, should seek independent professional advice before making any investment decision(s). This document is not intended to provide any professional advice and should not be relied upon in that regard.

BOCHK is a subsidiary of Bank of China Limited Bank of China Limited the subsidiaries and/or their officers, directors and employees may have positions in and may trade for their own account in all or any of the securities, commodities, foreign exchanges, derivatives or investments mentioned in this document. Bank of China Limited the subsidiaries may have provided investment services (whether investment banking or non investment banking related), may have underwritten, or may act as market maker in relation to these securities, commodities, foreign exchanges, derivatives or investments. Commission or other fees may be earned by Bank of China Limited the subsidiaries in respect of the services provided by them relating to these securities, commodities, foreign exchanges, derivatives or other investments.

No part of this document may be edited, reproduced, extracted, or transferred or transmitted to the public or other unapproved person in any form or by any means (including electronic, mechanical, photocopying, recording or otherwise), or stored in a retrieval system, without the prior written permission of the Bank.

### “Hong Kong Financial Research Institute of Bank of China”

“Hong Kong Financial Research Institute of Bank of China” (“the Institute”) is the core research and strategic planning centre within the Bank of China (Hong Kong) Group. Rooted in Hong Kong, setting our sights on the Greater Bay Area, Southeast Asia, Asia-Pacific and the world, the Institute focuses on macro-economics and policies, financial markets, RMB internationalization and digital currencies, financial sector reforms and innovation, green and sustainable finance development. The Institute, as the knowledge center of BOC, combines original macro, meso and micro researches with real-world practices to provide unique insights and advices to the community. With the core mission of serving the country and Hong Kong, the Institute advises the government agencies, and has built extensive collaborations and joint research with prestigious universities, think tanks and industry leaders in Hong Kong and Mainland China. The Institute has 50 professional researchers and produces close to 1,000 internal and external research papers annually.

### Author:

Jinming Xie, Economist of Bank of China (Hong Kong)

Ms. Xie holds Ph.D degrees in both Finance and System Engineering from the Chinese University of Hong Kong and Bachelor degrees in both Economics and Electronic Engineering from Peking University. Dr. Xie’s research mainly covers the ASEAN economics and strategies.

If you have any suggestions or want to publish your research papers in this journal, please contact us by [espadmin@bochk.com](mailto:espadmin@bochk.com) or directly contact the author(s).



Please follow BOCHK Research on WeChat for the latest economic and financial markets analyses

# 主要經濟指標 (Key Economic Indicators)

	2020	2021	2022/Q1	2022/Q2
<b>一. 本地生產總值 GDP</b>				
總量 (億元) GDP(\$100 Million)	26,757	28,454	6,732	6,682
升幅 (%) Change(%)	-6.5	6.3	-3.9	-1.3
<b>二. 對外貿易 External Trade</b>			<b>2022/08</b>	<b>2022/01-08</b>
外貿總值 (億元) Total trade(\$100 Million)				
總出口 Total exports	39,275	49,607	3,719	30,504
進口 Total imports	42,698	53,078	3,851	32,992
貿易差額 Trade balance	-3,422	-3,471	-133	-2,487
年增長率 (%) YOY Growth(%)				
總出口 Total exports	-1.5	26.3	-14.3	-2.9
進口 Imports	-3.3	24.3	-16.3	-2.1
<b>三. 消費物價 Consumer Price</b>				
綜合消費物價升幅 (%) Change in Composite CPI(%)	0.3	1.6	1.9	1.6
<b>四. 樓宇買賣 Sale &amp; Purchase of Building Units</b>			<b>2022/09</b>	<b>2022/01-09</b>
合約宗數 (宗) No. of agreements	73,322	96,133	4,835	47,898
年升幅 (%) Change(%)	-2.0	31.1	-34.7	-36.6
<b>五. 勞動就業 Employment</b>			<b>2022/05-2022/07</b>	<b>2022/06-2022/08</b>
失業人數 (萬人) Unemployed(ten thousands)	259.1	250.9	16.8	16.2
失業率 (%) Unemployment rate(%)	5.5	5.5	4.3	4.1
就業不足率 (%) Underemployment rate(%)	3.1	2.7	2.2	2.0
<b>六. 零售市場 Retail Market</b>			<b>2022/08</b>	<b>2022/01-08</b>
零售額升幅 (%) Change in value of total sales(%)	-24.3	8.1	-0.1	-1.5
零售量升幅 (%) Change in volume of total sales(%)	-25.5	6.5	-2.9	-4.5
<b>七. 訪港遊客 Visitors</b>				
總人數 (萬人次) arrivals (ten thousands)	356.9	9.1	6.0	18.4
年升幅 (%) Change(%)	-93.6	-97.4	451.4	245.1
<b>八. 金融市場 Financial Market</b>			<b>2022/07</b>	<b>2022/08</b>
港幣匯價 (US\$100=HK\$)				
H.K. Dollar Exchange Rate (US\$100 = HK\$)	775.2	779.8	785.1	784.8
貨幣供應量升幅 (%) change in Money Supply(%)				
M1	30.1	8.0	-7.4	-8.8
M2	5.8	4.3	2.4	2.5
M3	5.8	4.3	2.3	2.5
存款升幅 (%) Change in deposits(%)				
總存款 Total deposits	5.4	4.6	2.5	2.5
港元存款 In HK\$	6.2	1.4	0.7	0.1
外幣存款 In foreign currency	4.6	7.9	4.3	5.0
放款升幅 (%) in loans & advances(%)				
總放款 Total loans & advances	1.2	3.8	-0.1	-1.0
當地放款 use in HK	1.7	4.7	1.1	0.8
海外放款 use outside HK	0.1	1.7	-2.9	-5.3
貿易有關放款 Trade financing	-6.2	14.2	-8.9	-12.4
最優惠貸款利率 (%) Best lending rate (%)	5.0000	5.0000	5.0000	5.0000
恆生指數 Hang Seng index	27,231	23,398	20,157	19,954