Growth slowed down for most economies in Southeast Asia. Deceleration reflected the cumulative effects of rising inflation, monetary tightening, and weaker global demand for manufactured goods from key trading partners. However, robust domestic demand and continued recovery of the services sector—particularly tourism—have contributed to better job and income prospects, keeping growth close to its long-run average. Growth in agriculture is also affected by the early onset of El Niño.

### Subregional Assessment and Prospects

**Economic performance has been mostly weaker across the region, with growth prospects for seven economies revised down.** The main reasons are slowing global growth, high commodity prices, and tightened global financial conditions. Cambodia, the Lao People’s Democratic Republic (Lao PDR), Malaysia, the Philippines, Singapore, Timor-Leste, and Viet Nam are expected to post lower growth this year compared to the ADO April 2023 forecast (Figure 2.4.1). Weaker external conditions and demand for the region’s manufactured and commodity exports are the main reasons behind the slower growth, along with lower agricultural output from adverse weather. Meanwhile, growth forecasts are maintained for Myanmar and raised for Brunei Darussalam, Indonesia, and Thailand on brighter domestic demand prospects. Growth forecasts for 2023 and 2024 are downgraded from 4.7% in ADO April 2023 to 4.6% and from 5.0% to 4.8%, respectively.

**Contractions of manufactured export growth have hurt the major exporting economies in the subregion.** Accelerated rate hikes in major economies created a credit crunch that dragged down demand. As a result, Cambodia, highly dependent on garments, footwear, and travel goods, saw an 18.6% decline in shipments to its key trading partners in the first half of 2023. Viet Nam’s manufacturing output also shrank, by 0.4%, resulting in closures of businesses in the first 8 months of 2023. Lower demand for commodities, meanwhile, reduced exports from Indonesia and Malaysia while the trade slump in Singapore continued for the 10th straight month in July. Weak manufacturing will likely drag down growth in 2023 and 2024 as evident from the manufacturing purchasing managers’ index in August 2023 remaining under 50 for Malaysia and falling below 50 for the Philippines and Thailand, signaling contraction in the sector. Weaker-than-expected demand from the People’s Republic of China and Southeast Asian neighbors, and a delay in the recovery of the semiconductor industry cycle, are also seen to drag exports lower.

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The subregional assessment and prospects was written by James Villafuerte and Dulce Zara. The section on Indonesia was written by Priasto Aji and Henry Ma; Malaysia by James Villafuerte, Mae Hyacinth C. Kiocho, and Joyce Marie P. Lagac, consultants; the Philippines by Cristina Lozano and Teresa Mendoza; Thailand by Chitchanok Annonjarn; Viet Nam by Nguyen Ba Hung, Nguyen Luu Thuc Phuong, and Chu Hong Minh. The other economies, by Emma Allen, Poullang Doung, Kavita Iyengar, Yothin Jinjarak, Soulinthone Leuangkhsing, Eve Cherry Lynn, Nedelyn Magtibay-Ramos, Joel Mangahas, Duong Nguyen, Arief Ramayandi, Shu Tian, Mai Lin Villaruel, and Anthony Baluga, consultant. The authors are in the Southeast Asia and Economic Research and Development Impact departments, ADB. Effective 1 February 2021, ADB placed a temporary hold on sovereign project disbursements and new contracts in Myanmar.
Private consumption remained the biggest contributor to growth in the first half of 2023. Buoyed by improved labor market conditions and income, consumption has benefited from the large regional market, and the recovery in tourism and other associated services. However, tightened financial conditions are holding back further spending particularly for households in Malaysia and Thailand. Credit and investment demand from businesses also faltered due to higher costs of borrowing throughout the region. However, most central banks in the subregion moderated their pace of rate hikes in the first half of 2023. This contrasts with the quick tightening observed from 1 August to 31 December 2022. The State Bank of Vietnam was the first central bank that reversed its monetary policy in 2023 by lowering the key policy rate by 50 basis points in April, May, and June to stimulate economic growth. And some could begin to follow especially if growth continues to weaken further.

Higher interest rates, inflation concerns, global uncertainty, and fiscal constraints have also slowed down investment. Private investment activity remained muted in Thailand. The delay in approving the fiscal 2024 budget bill may lead to postponing approvals of new construction projects from the last quarter of 2023 to next year. In Viet Nam regulatory constraints have impeded accelerated public investment disbursements. Foreign investment will be hampered by the global economic slowdown. Limited fiscal headroom and increasing debt levels are expected to constrain private and public investments. Fiscal policies will likely become tighter going forward as fiscal consolidation measures are introduced to rein in higher fiscal deficit and debt. Public debt rose to 97% of GDP at the end of 2022 from 76% a year earlier in the Lao PDR. Meanwhile, debt-to-GDP ratios increased significantly compared to pre-pandemic levels for Malaysia, the Philippines, and Thailand.

Inflation has slowed but remains elevated in some countries due to currency depreciation and climate impacts on food production. Generally, easing oil and commodity prices have decelerated price increases for most economies in the subregion. In particular, inflation has eased for Brunei Darussalam, Indonesia, Malaysia, Thailand, and Viet Nam in the first 7 months of the year. However, inflation remained elevated (above 5%) in the case of the Lao PDR, Myanmar, the Philippines, and Timor-Leste.

**Services, particularly tourism, have strongly contributed to growth in most economies.**

Economies in the region are getting a lift from higher tourist receipts given the strong rebound in tourist arrivals since last year. Likewise, accommodations, food services, transportation, and storage recorded strong growth. Cambodia has benefited from hosting the 2023 Southeast Asian Games in May. Growth in international arrivals has accelerated for most economies in January to July this year, approaching pre-pandemic monthly averages in the case of Cambodia, Indonesia, and Singapore. Efforts to contain rising inflation and stimulate the economy have also benefited domestic tourism in Viet Nam. Meanwhile, the government’s domestic travel stimulus package aided domestic tourism recovery in Thailand.
Food inflation is also particularly high for the smaller Southeast Asian economies, which have been affected by depreciating local currencies and lower agricultural production due to unpredictable weather conditions. El Niño weather disturbances and the adverse impacts of Cyclone Mocha have affected agricultural production in Myanmar. India’s recent ban on rice exports is seen to affect rice importers such as Indonesia, Malaysia, the Philippines, and Singapore as international rice prices have already gone up by 18.9% year on year in the first 7 months of 2023. The inflation forecast for 2023 for Southeast Asia is slightly down to 4.2% from 4.4% in April but maintained at 3.3% in 2024 (Figure 2.4.2).

**Local currencies have depreciated substantially against the US dollar.** This has added to inflation pressure and elevated the domestic cost of foreign debt repayments. The Lao PDR is the most affected since local currency depreciation is estimated to account for two-thirds of inflation in January to August this year. Its external public debt servicing requirements are sizable and are expected to average $1.3 billion annually over the next 5 years, equivalent to 7% of GDP. Meanwhile, with Malaysia’s foreign currency-denominated debt accounting for 66.6% of total external debt, the depreciation of the ringgit along with increased debt holdings of nonresident investors led to a less improved external debt position. Malaysia’s external debt rose from 64.5% of GDP in the first quarter of 2023 to 67.1% in the second.

**The main risks to the outlook are weak global growth, still elevated oil and commodity prices, and persistent inflation.** These factors coupled with the continuing Russian invasion of Ukraine have impacted food prices in the region. High interest rates also contribute to a wait-and-see attitude for private investments that could further undermine growth in the subregion. Weaker-than-expected recovery in the People’s Republic of China could also dampen the spillover effect to the region and delay the improvement of external demand for Southeast Asian manufactured goods exports. The subregion is also vulnerable to major climate change risks and challenges. For this year, the effect of El Niño is expected to lead to unstable weather conditions, which could lower agriculture harvests and productivity.
Indonesia

Domestic demand is taking over from commodity exports as the driver of growth. Compared with the forecasts in ADO April 2023, growth is now expected to be higher and inflation lower. Fiscal and monetary policy are appropriate for the economy’s stage in the economic cycle. The financial sector is stable, and the external position is sound. While the current account is shrinking, international reserves and the national currency are expected to be broadly stable.

Updated Assessment

Healthy growth continued in the first half of 2023, with signs of acceleration, while inflation kept easing faster than expected. GDP growth was 5.0% in Q1 2023 and rose to 5.2% in the next quarter. Inflation slowed from 5.3% year on year in January to 3.1% in July. The outlook through December is sanguine.

Domestic demand is driving growth somewhat more than expected. The contribution to growth of domestic demand rose from 3.0% in Q1 to 5.2% in Q2, returning to its pre-pandemic share. The bunching in Q2 of religious holidays and wage bonuses spurred spending.

Consumers then turned mainly to low-priced goods and services. But because such spending is generally not import-intensive, import demand was contained. Gross fixed capital formation grew by 4.6%, double the rate in Q1. Construction in Q2 rebounded from its year-long slump and contributed about half of fixed investment growth (Figures 2.4.3–2.4.5).

Figure 2.4.4 Contributions to Private Consumption Growth

Consumers, while not revenge spending, are “rebound spending.”

Figure 2.4.5 Contributions to Investment Growth

Businesses are shrugging off a wait-and-see attitude.
The export boom has started to wane. For the first time since Q1 2021, exports of goods fell in Q2 2023, by 5.6% in national account terms and by 18% in nominal terms in the balance of payments. Prices for Indonesia’s goods exports started falling year on year in January 2023, and volumes started falling in April—both developments partly from base effects. But even on a month on month basis, exports have been slowing since Q3 2022. Exports of services were robust with the recovery of foreign tourism, albeit from a low base. In Q2, service exports grew by 43% in national account terms. Meanwhile, total imports fell in real terms by 3.1%. But these two offsets to slowing merchandise exports were not large enough, and the contribution of net exports to overall growth shrank from 2 percentage points in Q1 to zero in Q2 (Figure 2.4.6).

Figure 2.4.6 Merchandise Trade

A. Commodity prices

Prices of key commodities have fallen sharply this year...

![Graph showing commodity prices](image)

B. Contributions to Growth of Merchandise Exports

... but so have export volumes...

![Graph showing export volumes](image)

C. Merchandise Exports, by Destination

... and the slowdown is evident in all major trading partners.

![Graph showing merchandise exports by destination](image)

D. Contributions to Growth of Merchandise Imports

Commodity exports can be import-dependent; as these exports slowed, so did their imports.

![Graph showing merchandise imports by category](image)

Notes: Prospera Commodity Price Index comprising crude palm oil, coal, nickel, rubber, and copper weighted by their export shares in 2019. The prices are the Malaysian CPO Spot Price, Newcastle Coal Price, CMX Copper Price, LME Nickel Spot Price, and the Singapore TSR20 Rubber Price.

Sources: Prospera; Statistics Indonesia.
Slowing exports and external debt repayments dented international reserves, but the external position remains sustainable. Because imports slowed at about the same pace as exports, the trade balance remained in surplus in July for a 41st consecutive month. The usual deficits in service trade and external incomes, however, led to a current account deficit in Q2 equal to 0.5% of Q2 GDP, the first deficit since early 2021. The financial account was also negative in Q2 as the government and the national oil company made large payments on maturing external debt. International reserves, which had risen by $8 billion in Q1 on increased foreign buying of government bonds, fell back by the same amount in Q2, ending at $137 billion. This is cover for 6 months of imports and external debt service, or twice the stock of short-term external debt by residual maturity. The exchange rate has been about Rp15,000 to the dollar since January (Figure 2.4.7).

Inflation has been brought down to the target band. Inflation jumped to almost 6% in September 2022, after fuel prices were increased to contain subsidies, and averaged 5.4% in the second half of 2023. All throughout, core inflation remained below 3.5%, indicating that inflation expectations were well-anchored. As commodity price shocks in 2022 wore off, headline inflation fell steadily and has been comfortably in the 2%-4% target band since May. The consensus forecast for average inflation in 2023 fell from 4.1% in April to 3.7% (Figure 2.4.8).

The fiscal deficit is on track to remain below the ceiling this year and next. In 2022, a year ahead of the scheduled return to the 3% ceiling, the deficit was 2.3% of GDP. In 2023 to July, the government had a surplus of Rp154 billion, equal to 0.7% of GDP and up from Rp106 billion, or 0.5% of GDP, a year earlier. Slowing exports cut revenue growth from about 50% in January-July 2022 to 4% a year later. However, increased spending on subsidies has so far not been needed this year, and lower inflation has enabled reduced spending on goods and services and a modest increase in wage outlays. Consequently, the government revised its projection of the fiscal deficit for 2023 from 2.85% of GDP to 2.30% and slowed its auctions of public debt. Public spending, particularly for construction, is usually bunched in Q4, which this year will also see election spending. But the size of the surplus so far this year makes it likely that despite

---

**Figure 2.4.7 External Balances**

A. Current Account

Smaller trade surpluses and the usual deficits in services and incomes produced a current account deficit.

B. Balance of Payments

External debt was paid down, reducing the financial account...

C. External Debt Indicators

... but also reducing external vulnerabilities.

GDP = gross domestic product, IMF SDR = International Monetary Fund special drawing rights, Q = quarter.

Note: Net errors and omissions are included in the financial and capital accounts.

Source: Bank Indonesia.
higher spending in Q4, the deficit will be below 2.3% of GDP. Meanwhile, the recently published 2024 budget envisages a deficit equal to 2.29% of GDP (Figure 2.4.9).

Monetary policy, having tamed inflation, remains appropriate. The central bank has kept the policy rate at 5.75% since December. The lagged effect of the monetary tightening has pushed down inflation, as have lower global prices. As inflation expectations fell, the real policy rate edged up. Consequently, the central bank is not expected to raise the policy rate further unless there are downward pressures on the rupiah (Figure 2.4.10).

Domestic financial indicators are stable, but loan growth tepid (Figure 2.4.11). Nonperforming loans remained below 3% of all loans in August 2023, and the average capital adequacy ratio was about 25%. Lending has continued to grow, albeit at a slowing rate. Higher interest rates have induced businesses to self-finance rather than borrow. In any case, banks are attracted to higher rates on government bonds. To spur lending, banks that lend to priority sectors will be granted a small reduction in the minimum reserve requirement. One priority sector is micro, small, and medium-sized enterprises, which the government envisages obtaining 30% of all loans by 2024. To that end, the
authorities are considering a plan for restructuring the nonperforming loans of smaller enterprises to help jump-start lending.

**Measures were recently initiated related to sustainable finance and export proceeds.** In May, Indonesia sold ¥20.7 billion worth of samurai blue bonds, the first issue by a sovereign borrower. It aligns with Indonesia’s commitment to promote sustainable finance, diversify funding sources, and widen its investor base. Starting in August, commodity exporters must deposit 30% of their proceeds in excess of $250,000 for at least 3 months in domestic banks. The regulation is meant to increase domestic dollar availability. At current rates, the deposits would earn 4.7%–5.0% at the central bank’s term facility, or 3.2%–3.4% deposited in commercial banks. This compares with 5.0% in Singapore.

**Policy initiatives continue to address trade and industrialization.** In March, the government began to subsidize purchases of electric scooters, but uptake has been slow, motivating the government to expand buyer eligibility. To speed up the domestic processing of nickel, the government plans to acquire a majority stake in the country’s largest nickel miner. To spur the completion of copper smelting facilities, it has imposed a new tax on exports of copper ore. To ensure that sufficient palm oil is domestically available, it imposes export taxes at progressive rates.

**Social indicators continued to improve.** Indonesia regained the status of upper-middle-income economy, based on the World Bank estimate of nominal gross national income per capita in 2022. From September 2022 to March 2023, the poverty rate fell from 9.6% to 9.4%, and the unemployment rate from 5.9% to 5.5%. However, the Gini coefficient of inequality worsened from 0.381 to 0.388, indicating greater inequality.

**Prospects**

**This update projects a more sanguine scenario for 2023 than ADO April 2023.** The forecast for growth in 2023 is raised from 4.8% in ADO April 2023 to 5.0%, and the projection for 2024 is kept at 5.0% (Table 2.4.1). The projection for inflation in 2023 is revised down from 4.2% to 3.6% and for 2024 is kept at 3.0%.

**Table 2.4.1 Selected Economic Indicators in Indonesia, %**

| Prospects have improved for 2023 and remain unchanged for 2024. |
|---------------|--------|--------|--------|
| 2022          | 2023   | 2024   |
| Apr          | Sep    | Apr    | Sep    |
| GDP growth   | 5.3    | 4.8    | 5.0    | 5.0    |
| Inflation    | 4.2    | 4.2    | 3.6    | 3.0    |

GDP = gross domestic product.
Source: Asian Development Bank estimates.

**Domestic demand is expected to more than offset slowing goods exports.** In the rest of 2023, full normalization of mobility and higher purchasing power with lower inflation will stoke “rebound spending,” though higher interest rates may somewhat crimp demand. Meanwhile, general expectations that the forthcoming election and political handover will be smooth will spur business investment (Figure 2.4.12). International tourism is recovering very strongly and will pick up some of the slack from weakening exports of goods. The current account surplus is projected to shrink but remain in surplus, and foreign direct investment inflow to remain healthy. These developments will offset scheduled repayment of maturing external debt in the remainder of 2023. International reserves are thus expected to remain stable and adequate.
**Downside risks to the 2023 forecasts are mainly external.** Interest rates in the US could stay higher and longer than expected. Demand from the People’s Republic of China, Indonesia’s largest trade partner, could fall further if that economy weakens. El Niño and the continuing Russian invasion of Ukraine could trigger price shocks.

**The economy, however, has enough margin for growth.** A large domestic economy provides a cushion for external demand shocks. Support for growth, if needed, can be readily provided using ample fiscal space or the monetary policy margin enabled by lower inflation. The stable financial sector and healthy foreign reserves should guard against external financial shocks.

**Beyond 2023, it will be a challenge to achieve growth above 6%.** For Indonesia to become a high-income economy by 2045, the Ministry of Planning estimates that GDP would need to grow by at least 6.0% annually, well above the pre-pandemic average of 5.3%. Notable challenges to this goal are potential labor scarring and learning losses from the pandemic; barriers to Indonesian exports arising from trade partners’ regulations on deforestation, carbon border adjustment levies, and geopolitical reshoring; and long-standing inadequacies in domestic infrastructure, skills, and business regulations. On the other hand, potential growth could be enhanced by ongoing structural reforms to promote investment and job creation, improve the business environment, and foster financial deepening and efficiency. Further, the global energy transition could spur a boom in the near term for primary resources such as nickel, lithium, and renewable energy. In any case, the economy is expected to continue its path in 2024 and grow by about 5.0%. This projection assumes a return to the pre-pandemic pattern. Inflation is projected to be 3.0%, assuming no global price shocks and the central bank sustaining its current monetary policy framework.

---

**Figure 2.4.12  Leading Indicators**

**A. Consumer Confidence**

*Consumer demand indicators are broadly at their pre-pandemic levels, ...*

- Blue line: Consumer confidence
- Orange line: Retail sales

Index, 2019 average = 100

<table>
<thead>
<tr>
<th>Year</th>
<th>Index</th>
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<tbody>
<tr>
<td>2021</td>
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<td>2022</td>
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<tr>
<td>2023</td>
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</table>

**B. Business Activity**

*... forward-looking indicators of business activity are healthy, ...*

- Blue line: Bank Indonesia prompt manufacturing index
- Orange line: Capacity utilization index
- Red line: Bank Indonesia business activity index

Index

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Index</th>
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<tbody>
<tr>
<td>Q1 2021</td>
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<td>Q3 2021</td>
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<td>Q4 2021</td>
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<td>Q1 2022</td>
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<td>Q2 2022</td>
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<td>Q3 2022</td>
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<tr>
<td>Q4 2022</td>
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<td>Q1 2023</td>
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<tr>
<td>Q2 2023</td>
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</tbody>
</table>

**C. Tourism**

*... and a robust recovery in tourism will partly make up for slowing exports of goods.*

- Blue line: Tourist arrivals
- Orange line: BOP-based travel exports
- Red line: Average spending per person

Units

<table>
<thead>
<tr>
<th>Year</th>
<th>Units</th>
</tr>
</thead>
<tbody>
<tr>
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<tr>
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<td>2021</td>
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<td>2022</td>
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<td>2023</td>
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Average spending per person

<table>
<thead>
<tr>
<th>Year</th>
<th>Average spending per person</th>
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<tbody>
<tr>
<td>2018</td>
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<td>2019</td>
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<td>2022</td>
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<td>2023</td>
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BI = Bank Indonesia, BOP = balance of payments, Q = quarter.

Notes: In the BI prompt manufacturing index, a value greater than 50 indicates expansion. All data are in 3-month moving averages. Tourist arrivals are in thousand persons, BOP-based travel exports are in $ million. Sources: Bank Indonesia; Statistics Indonesia; Asian Development Bank estimates.
Lao People’s Democratic Republic

This update revises down the 2023 growth forecast and raises inflation projections for this year and next. Growth prospects in the Lao People’s Democratic Republic (Lao PDR) are dimmed by slower growth in the People’s Republic of China, a late monsoon, and macroeconomic pressures arising from high public debt and a weak Lao kip. Sharp depreciation of the kip will translate into much more persistent inflation this year and next than earlier forecast.

Updated Assessment

Public debt rose as a share of GDP from 76% at the end of 2021 to 97% a year later. Even with a decline in nominal terms from $12.4 billion in 2021 to $12.0 billion in 2022, sharp kip depreciation rendered public debt unsustainable, undermining growth prospects (Figure 2.4.13). The government has responded by tightening its borrowing and financing policies, pursuing debt deferrals, and rolling over maturing bonds to improve liquidity and lighten debt service pressures. However, risk aversion in the Thai bond market meant a weak reception for baht-denominated bonds offered in August by the government and its state-owned electricity generator, EDL-Generation Public Company. Domestic banks have stepped in with short-term loans to cover maturities. The government expects that available sources of foreign currency funding will adequately cover all its obligations in the rest of this year.

Rainfall has been hit by the late onset of the monsoon. The World Meteorological Organization expects El Niño weather disturbances in 2023. Previous El Niño events have reduced rainfall by as much as 30% and worsened flood and drought risk. This has implications for hydropower as well as agriculture. EDL-Generation estimates that water flowing into its basins for hydropower this year will be 81.2% of the 2022 flow. This shortfall can be offset to some extent, however, by new generating capacity that has or will commence commercial operations in 2023, generation by independent power producers in the central part of the country, and reservoir storage serving three-quarters of hydropower capacity.

Currency depreciation and consequent high inflation tempered household spending in the first half of the year. After falling by half against the US dollar and by 44% against the Thai baht in the year to the end of 2022, the kip depreciated from January to August 2023 by a further 13.6% against the dollar and 14.8% against the baht (Figure 2.4.14). Consumer price inflation remains elevated, having peaked at 41.3% year on year in February before gradually declining to 25.9% in August. Average inflation in the first 8 months was 35.4%, with currency depreciation estimated to account for two-thirds of it (Figure 2.4.15). In response, Prime Minister Order No. 10 on 14 July facilitated improved oversight of foreign exchange management.

Food inflation averaged 45.6% in the first 8 months of 2023. It rose from 12.3% in the same period a year earlier on pass-through from imported food and higher production costs from imported agricultural inputs. Falling household purchasing power has forced many families to cope by eating less frequently and adopting less diverse diets, which may depress health and development outcomes over the longer term. The government has raised the minimum wage

Figure 2.4.13 Public Debt

Public debt has changed little in nominal terms but is sharply higher as a share of GDP.

<table>
<thead>
<tr>
<th>Year</th>
<th>External public debt</th>
<th>Domestic public debt</th>
<th>Publicly guaranteed debt</th>
<th>Total public debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$15 billion</td>
<td>$12 billion</td>
<td>$2 billion</td>
<td>$15 billion</td>
</tr>
<tr>
<td>2018</td>
<td>$15 billion</td>
<td>$12 billion</td>
<td>$2 billion</td>
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<td>2019</td>
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<td>2020</td>
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<td>2021</td>
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<td>$2 billion</td>
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<tr>
<td>2022</td>
<td>$15 billion</td>
<td>$12 billion</td>
<td>$2 billion</td>
<td>$15 billion</td>
</tr>
</tbody>
</table>

Figure 2.4.14 Exchange Rate

Pressure on the Lao kip continues.

Source: Bank of the Lao PDR.
Macroeconomic pressures have slowed private sector recovery, and a weak labor market has created few jobs. An estimated 39% of youth aged 15–24 years are neither employed nor in school or training. Labor force participation among those aged 15 years and over is only 47%, with most participants engaged in the informal economy. The weak labor market motivates many to travel to neighboring countries for employment, such that more than half of households in the country depend on remittances, which equaled 1.3% of GDP in 2022, to bolster their incomes and mitigate their vulnerability.

Prospects

This update lowers the ADO April 2023 forecast for GDP growth in 2023 from 4.0% to 3.7%. It maintains the 4.0% projection for 2024 (Table 2.4.2). Macroeconomic instability linked to unsustainable public debt and high inflation has eroded household spending and tapered commitments for new public and private investment. Prospects for growth in agriculture and hydropower have moderated with the late onset of the monsoon. These trends, coupled with tightening monetary and fiscal policy and an economic slowdown in the People’s Republic of China, have delayed Lao PDR recovery.

International tourist arrivals are projected to reach 2.6 million in 2023, boosting recovery in related services. With upgrades to connectivity infrastructure complete and borders reopened, the outlook for 2024 remains as earlier forecast. Further, the Lao PDR chairing the Association of Southeast Asian Nations (ASEAN) next year promises to bring in more international travelers, which will boost confidence and demand for transport, accommodation, and dining out. To address fiscal and financing difficulties facing the country, Prime Minister Order No. 13 at the end of August further empowered the central bank to manage foreign exchange toward reducing import dependence, especially on fossil fuels, by shifting to e-vehicles and stimulating local industrial production. A new credit line will provide funds equal to 1.0% of GDP to selected industries, notably in tourism and along the agriculture value chain, to spur the production of domestic goods and services each year over 2023–2025.

Inflation is projected to remain high until year-end, lifting average annual inflation to 28%. With high demand for services in 2024 and price adjustments linked with ongoing kip depreciation, double-digit inflation is expected to persist in 2024 at 10%. Low official reserves and high external debt service payments, averaging $1.3 billion each year in 2023–2027, put continued risk exerting pressure on the kip that will translate into further consumer price inflation. The central bank managed to bolster foreign reserves from $1.1 billion at the end of 2021 to $1.5 billion at the end of June 2023, but reserves still provide only 2 months of import cover.

Liquidity and solvency risks remain critical concerns. Low foreign exchange reserve adequacy and high public debt require urgent attention. Resolving the country’s debt distress will take a coordinated and sustained effort across the government and from all creditors to make public financing practices more transparent and sustainable.

![Figure 2.4.15 Monthly Inflation](image)

Local currency depreciation and rising food prices have kept inflation in double digits in 2023.

![Table 2.4.2 Selected Economic Indicators in the Lao People’s Democratic Republic, %](table)

Growth in 2023 will be lower than previously projected, but inflation much higher this year and next.

<table>
<thead>
<tr>
<th></th>
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<th>2023</th>
<th>2024</th>
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<td>Inflation</td>
<td>23.0</td>
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</tbody>
</table>

GDP = gross domestic product.
Source: Asian Development Bank estimates.
Malaysia

Growth decelerated during the first half (H1) of 2023 with subdued external demand, sluggish commodity production and weak trade performance. Inflation declined, tempered by easing commodity prices and the growth slowdown. With deceleration, GDP growth in 2023 is now projected to slow more than forecast in ADO April 2023. Inflation in 2023 and 2024 is similarly projected to slow marginally more than earlier forecast.

Updated Assessment

Growth in H1 2023 was 4.2%, well below the 6.8% of H1 2022 due to declining exports and a global slowdown. Growth slowed in the first quarter (Q1) of 2023, though domestic demand and the services sector remained resilient. The slowdown continued in Q2 even though consumption and investment remained strong and tourism supported services (Figure 2.4.16).

Private consumption remained robust with improvements in the labor market and income. The increase in private consumption was still solid at 5.1% in H1 2023, but lower than the rapid increase in H1 2022 of 11.4%. The expansion in private consumption was supported by improving labor market conditions with greater employment opportunities and higher incomes. The deceleration in private consumption growth came from receding impacts from pent-up spending since the reopening of the economy in April 2022.

Public consumption increased by only 0.8% in H1 2023, well below the 4.6% increase in H1 2022, primarily due to the zeroing out of the COVID-19 fund this year. In 2022, the COVID-19 fund expenditures reached RM31.0 billion with the government spending approximately RM900 per capita for COVID-19. There was also a delay in the passage of the 2023 budget which also contributed to slightly lower budget execution in the first half of the year.

Positive momentum in investment, supported by large infrastructure projects, tempered the decline in growth. Both private and public investment accelerated in Q2 2023 expanding to 4.9% and 6.7%, respectively, in H1 2023, higher than the increases in the same period in 2022 of 3.4% and 0.9%.

Higher government fixed assets spending and advances in multiyear infrastructure projects such as the Light Rail Transit 3 and the Pan Borneo Highway in Sabah backed the rise in investment.

Weakening global demand continued to drag down exports. In H1 2023, exports contracted by 6.4%, a downturn relative to the growth of 14.1% in the same period in 2022. Lower commodity prices pulled down the exports of petroleum products. In addition, exports of palm and palm oil-related products contracted in H1 2023 by 29.4%. Although exports decreased overall, major merchandise exports such as of petroleum products and electrical products remained resilient in H1 2023, increasing by 17.8% and 1.4%, respectively, but at a more moderate pace compared to the growth in the same period last year of 59.6% and 32.4%, respectively (Figure 2.4.17).

The deceleration in domestic consumption over H1 2023 negatively impacted imports. H1 2023 saw a decline in imports by 8.1%, a reversal compared to the increase of 18.1% in H1 2022. The decrease in imports was mainly driven by the reduction in the imports of intermediate and consumption goods, which decreased by 13.0% and 1.3%, respectively, in the first 6 months of 2023.
Tourist arrivals boosted services. The services sector was second to construction in driving growth, increasing by 6.0% in H1 2023. Relatively good private consumption and a continuous influx of tourist arrivals backed sector expansion. From January to May 2023, tourist arrivals reached 7.5 million, an increase of 544.6% from the number of tourist arrivals in the same period last year (Figure 2.4.19).

Slowing global demand and a downturn in technology continued to diminish expansion in manufacturing. In June 2023, the manufacturing purchasing managers’ index, at 47.7, indicated contraction for a 10th consecutive month (Figure 2.4.20). In H1 2023, the sector expanded by 1.7%, substantially lower than the 7.9% growth in the same period in 2022. Most manufacturing industries decelerated and some contracted in H1 2023 relative to a substantial expansion in H1 2022. Growth in all-important electrical and electronic manufacturing was cut significantly, expanding by only 1.8% in H1 2023 compared to 17.8% growth in H1 2022.

Labor market conditions continued to improve. The unemployment rate declined to 3.5% in Q2 2023 from 3.9% in Q2 2022. Steady growth in the country has continued to generate employment, increasing the number of jobs to 8.83 million in the Q2 2023, up by 21,200 jobs from the previous quarter, and up by 208,200 jobs from a year ago. A large increase in employment came in services, accounting for almost half of job addition over the same quarter last year.
Tight monetary policy was maintained as core inflation and global interest rates remained elevated. In May 2023, the central bank increased monetary policy rates by 25 basis points to 3.0%, the first hike so far this year. Even though inflation trended down, core inflation remained sticky at 3.4% in Q2 2023 on firm demand. Since the increase in May 2023, the Monetary Policy Committee has maintained the policy rate, with inflation expected to be manageable for the rest of the year.

External pressures weakened the Malaysian ringgit. In Q2 2023, the ringgit averaged RM4.58 per US dollar, having depreciated from RM4.38 in the previous quarter (Figure 2.4.22). The ringgit’s depreciation relative to the dollar came from increased demand for safe-haven assets, as the US economy performed relatively well in Q2 2023.

The external position remained stable. The current account surplus as a share of GDP increased to 2.1% in Q2 2023 from 1.0% in the previous quarter. The service and primary income deficits shrank, given increasing tourism receipts and larger income from overseas investment. With debt denominated in foreign currency accounting for 66.6% of all external debt, the depreciation of the ringgit and increased debt holdings of nonresident investors pushed external debt as a share of GDP to 67.1% at the end of H1 2023. Import coverage remained steady at 5.1 months in July 2023, though there was a slight decline in international reserves by 2.2% to $112.9 billion in July 2023 from $115.5 billion in March 2023.

Figure 2.4.20 Manufacturing Purchasing Managers’ Index
Manufacturing was adversely affected by reduced global demand.

Note: A purchasing managers’ index reading <50 signals deterioration, >50 improvement.
Source: CEIC Data Company.

Inflation continued to ease, reaching its lowest rate in the year at 2.4% in June 2023 (Figure 2.4.21). A large part of the decrease in inflation was due to easing pressures in prices of transport goods and services, posting zero inflation in June 2023 compared to 4.0% at the start of the year. The low inflation in transport goods and services prices was attributed to the declining unleaded petrol prices. The average inflation rate in H1 2023 was 3.2%, within the target of 2.8%–3.8% set by Bank Negara Malaysia, the central bank.

Figure 2.4.21 Monthly Inflation
Cheaper transport goods and services eased inflationary pressure.

Source: Haver Analytics.
Prospects

The economic outlook for the rest of 2023 is somewhat weaker than forecast in ADO April 2023 (Table 2.4.3 and Figure 2.4.23). Domestic demand will continue to drive growth with positive developments in the labor market and continuing income support from government policy measures. Stronger tourism is evident as tourist arrivals from major tourism markets improve. Growth in commodities and manufacturing for export remains a key constraint, hampered by weaker external demand for manufactures. This could be partly a lag effect from a weaker external outlook that has since improved. In contrast, fading growth factors are expected to slow growth further with a lower base effect in H2 2023. The GDP growth forecast in 2023 is lowered to 4.5% compared to the 4.7% made in April, while the 2024 GDP growth forecast is maintained at 4.9%.

Private spending will continue to support economic growth. Household spending will be supported by greater employment opportunities, increased incomes, and lower inflationary pressures. The realization of approved investments the previous year may translate to job opportunities this year. An increase in the minimum wage from RM1,200 to RM1,500 in July 2023 is expected to improve household incomes and support further growth of private spending in the latter part of the year.

Reforms to improve the business environment and to develop the digital economy bode well for investment. To attract investment, the government is focusing on simplifying the business procedures, improving the ease of business and turnaround of business approvals, and streamlining the role of investment promotion agencies. Investment opportunities will likely improve through government plans to position the country as a data hub for Asia and by further developing its digital economy. The government has recognized the important role of Malaysia’s digital economy, with the contribution of the digital economy to GDP projected to reach 25.5% by 2025 (Figure 2.4.24).

Table 2.4.3 Selected Economic Indicators in Malaysia, %

The growth projection for 2023 is lowered as well as the inflation forecast for both years.

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<thead>
<tr>
<th></th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth</td>
<td>Apr</td>
<td>Sep</td>
<td>Apr</td>
</tr>
<tr>
<td>GDP growth</td>
<td>8.7</td>
<td>4.7</td>
<td>4.5</td>
</tr>
<tr>
<td>Inflation</td>
<td>3.4</td>
<td>3.1</td>
<td>3.0</td>
</tr>
</tbody>
</table>

GDP = gross domestic product.
Source: Asian Development Bank estimates.

Figure 2.4.23 GDP Growth

Growth is expected to moderate.

Figure 2.4.24 Investment

The steady investment growth can continue to support growth and offer greater employment opportunities.

$ billion

Q = quarter.
Sources: Haver Analytics; CEIC Data Company.
Nevertheless, business optimism and consumer sentiment are on downward trajectories amid global economic uncertainty. The global economic slowdown has affected sales both domestically and abroad. The business conditions index decreased to 82.4 in Q2 2023 from 95.4 during the previous quarter. Similarly, there is growing pessimism among consumers due to inflation and concerns regarding future finances. The consumer sentiment index dropped by 8.4 points from 99.2 in Q1 2023 to 90.8 in Q2 2023 (Figure 2.4.25).

**Figure 2.4.25 Consumer and Business Confidence**

*Consumer and business confidence lessened.*

<table>
<thead>
<tr>
<th>% change year on year</th>
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<tbody>
<tr>
<td>Q1 2019</td>
</tr>
<tr>
<td>Consumer sentiment</td>
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<tr>
<td>Business confidence</td>
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</tbody>
</table>

Q = quarter.
Source: Haver Analytics; CEIC Data Company.

Inflation is forecast to continue its downward path, though upside risk factors could push prices up. Downward pressure will continue to come from weakening global demand, falling commodity prices, and the efforts by the government to reduce the cost of living. Upside risks to inflation include the threat of El Niño, an Indian rice export ban, and changes in price subsidies and controls. The headline inflation rate is forecast at 3.0% in 2023, down from the earlier 3.1% projection. The inflation forecast for 2024 is at 2.7%.

No increase in the short-term monetary policy rate is expected. The central bank maintained its overnight policy rate at 3.0% due to slowing growth and easing inflationary pressures, stating that current monetary policy remained supportive of the economy. The rate is expected to remain unchanged for the rest of this year.

The central bank said it will intervene in the foreign exchange markets if needed to stabilize the ringgit. Although ringgit depreciation can make exports more competitive, it also pushes up foreign debt servicing. In addition, steep ringgit depreciation could undermine investor confidence in the country.

**Figure 2.4.25 Consumer and Business Confidence**

*Consumer and business confidence lessened.*

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<td>Business confidence</td>
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</tbody>
</table>

Q = quarter.
Source: Haver Analytics; CEIC Data Company.

**Philippines**

Domestic demand enabled the economy to post 5.3% GDP growth in the first half (H1) of 2023, though softening in the second quarter (Q2) from the brisk pace in the prior year. The growth forecast is revised down to 5.7% this year and maintained at 6.2% in 2024. Domestic demand and public investment are expected to continue to support growth. As in ADO April 2023, inflationary pressures are projected to moderate next year and the current account deficit to narrow.

**Updated Assessment**

Growth slowed to 4.3% in Q2 2023, bringing H1 2023 growth down to 5.3% from 7.8% in H1 2022. Inflationary pressures, monetary tightening, and external headwinds weighed on growth. Domestic demand fueled the economic expansion, though with
a broad-based moderation in Q2 as pent-up demand eased. High inflation and interest rates weighed on consumer demand and investment.

**Household consumption remained the biggest contributor to GDP growth.** Following the rapid 9.3% increase in H1 2022, private consumption rose by 6.0%, in line with its trend growth prior to the pandemic (5.9% on average in 2010–2019). It was the dominant driver of the economic expansion, followed by investment (Figure 2.4.26). Growth in spending for clothing, household equipment and furnishings declined after a strong rebound last year, while that for transport, recreation, and restaurants and hotels sustained double-digit expansion, reflecting in part vigorous domestic tourism. On the other hand, government expenditures were lower by 1.4% in H1, reversing the 7.6% growth in H1 2022 during the national elections. Procurement-related difficulties were among the factors that led to lower spending.

**Figure 2.4.26 Demand-Side Contributions to Growth**

Domestic demand, led by household consumption, underpinned growth.

- **Household consumption**
- **Government consumption**
- **Investment**
- **Net exports**
- **Statistical discrepancy**
- **Gross domestic product**

Percentage points

![Diagram showing contributions to GDP growth](Figure 2.4.26)

H = half.

Sources: Philippine Statistics Authority; CEIC Data Company.

**Rising employment and steady remittance inflows continued to support household spending.** The unemployment rate declined to 4.5% in June 2023 from 6.0% in June 2022 despite a higher labor force participation rate (66.1% from 64.8%) (Figure 2.4.27). About 2.2 million new jobs were created over the year, mostly in services. Remittances from overseas workers rose by 2.9% in H1.

**Figure 2.4.27 Labor Force Participation and Unemployment Rates**

The unemployment rate continued to decline to below prepandemic levels.

![Graph showing labor force participation and unemployment rates](Figure 2.4.27)

Sources: Philippine Statistics Authority; CEIC Data Company.

**Investment growth slowed to 5.4% in H1 2023 from 17.4% in H1 2022.** It was flat in Q2 as inventories fell and fixed investment moderated. Subdued construction tempered fixed capital growth to 6.9% in H1 (from 11.8% in H1 2022), with growth slowing in Q2 (3.9%). Investment in durable equipment, including road transport and machinery, sustained a healthy expansion of 9.3% in H1 2023.

**Net exports weighed on GDP growth in H1.** Merchandise exports declined by 8.0% in real terms on weak external demand. Merchandise imports also fell, though to a lesser extent, by 2.4%, partly reflecting the subdued demand for raw materials and components for export-oriented manufacturing, as well as the slowdown in domestic demand. Strong services exports (14.8% higher in H1 2023), driven by tourism and business process outsourcing partly cushioned the merchandise trade deficit.

**Services largely fueled the growth in GDP with broad expansion across major subsectors.** Services growth was fairly strong at 7.2% in H1 2023 on top of an 8.8% expansion in H1 2022, contributing 80% of the expansion in GDP (Figure 2.4.28). Transport, accommodations, and restaurants sustained double-digit growth on buoyant tourism. Growth in retail trade, accounting for nearly a fourth of total services, remained buoyant at 6.6% as well as in finance (6.9%) and professional and business services (7.2%).
Industry growth was more than halved (3.0% in H1 2023 from 8.0% H1 2022) on smaller gains in manufacturing and construction. Weak external demand dampened manufacturing growth to 1.6% in H1 2023 from 5.9% in H1 2022. The growth in construction slowed (6.4% in H1 2023 from 16.5% in H1 2022) largely from a moderation in public construction. The agriculture sector rose by 1.2%, with higher output in palay (3.5%), livestock (3.3%), and poultry (2.3%), partly offset by a decline in fisheries (–6.8%).

Elevated food and oil prices have stoked inflation. Headline inflation moderated from February to July this year, though quickened to 5.3% year on year in August to an average of 6.6% in the first 8 months (Figure 2.4.29). Price pressures stemmed from elevated global commodity prices and tight domestic food supply caused in part by bad weather. Food inflation rose to 8.2% in August from 6.3% in July with higher rice and vegetables prices among the key drivers. The government temporarily lowered tariffs on key agricultural commodities and provided targeted cash transfers to mitigate the impact of inflation on poor households. Inflation for nonfood items including transport services also rose in line with higher global oil prices. Fuel subsidy programs have been extended for qualified public utility vehicle drivers and operators, and fuel discounts for farmers and fisherfolk.

Core inflation has steadily eased since April this year to 6.1% in August (year-to-date average 7.4%), though remains higher than headline inflation. The central bank’s policy interest rate has been maintained since a cumulative 425 basis point hike from May 2022 to March 2023 (Figure 2.4.30). The higher policy rate reined in growth in broad money (M3) from 7.2% year on year in June 2022 to 5.9% a year later. Bank lending to businesses continued to grow by 6.3% year on year in June, though slower than 12.0% a year earlier.
The fiscal deficit narrowed as revenues picked up while expenditures grew modestly. The deficit was 4.8% of GDP in H1 2023 compared to 6.5% in H1 2022. Revenue was up by 7.7% year on year, while spending rose marginally (0.4%). Current expenditure declined while infrastructure spending increased by 7.8% year on year. Government debt rose slightly to 61.0% of GDP as of the end of June 2023 from 60.9% at the end of 2022. Domestic debt comprises 70% of total debt, with long-term debt at three-fourths of the total (Figure 2.4.31). In line with the fiscal program of a narrowing fiscal deficit, the ratio of debt to GDP is programmed to start declining in 2024 and reach below 60% by 2025. The country’s investment-grade sovereign credit rating was affirmed in 2023.

Official reserves were $99.8 billion at the end of August 2023. They provided cover for 7.4 months of imports of goods and services and income payments. The ratio of external debt to GDP rose to 29.0% of GDP at the end of March 2023 from 27.5% of GDP at the end of December 2022. The Philippine peso depreciated by 1.6% since the start of the year to the end of August.

Prospects

Growth is expected to remain strong, albeit tempered by inflationary pressures and global headwinds. The growth forecast in 2023 is revised to 5.7% (from 6.0% in April) and maintained at 6.2% in 2024 (Table 2.4.4 and Figure 2.4.33). Private consumption and investment will continue to underpin growth. A moderation in inflationary pressures next year bode well for domestic demand.

Public expenditure is expected to pick up and accelerate next year. Spending, excluding interest payments, recovered with 15.3% growth year on year in July. Expenditure for social services and infrastructure disbursement rose. Measures are being undertaken to improve agencies’ budget utilization, including the conduct of early procurement activities, simplified implementing rules and regulations for procurement, and the digitalization of government disbursements and collections. The digitalization of social registries is also
Growth will moderate in 2023 more than earlier forecast before picking up in 2024, underpinned by domestic demand.

### Table 2.4.4 Selected Economic Indicators in the Philippines, %

<table>
<thead>
<tr>
<th></th>
<th>2022 Apr</th>
<th>2022 Sep</th>
<th>2023 Apr</th>
<th>2023 Sep</th>
<th>2024 Apr</th>
<th>2024 Sep</th>
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<tbody>
<tr>
<td>GDP growth</td>
<td>7.6</td>
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<td>6.0</td>
<td>5.7</td>
<td>6.2</td>
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<tr>
<td>Inflation</td>
<td>5.8</td>
<td>6.2</td>
<td>6.2</td>
<td>4.0</td>
<td>4.0</td>
<td></td>
</tr>
</tbody>
</table>

GDP = gross domestic product.
Source: Asian Development Bank estimates.

### Figure 2.4.33 GDP Growth

Growth is expected to remain strong despite a moderation in 2023.

Source: Asian Development Outlook database.

underway, along with the adoption of the Philippine Identification System, or the national ID, to improve targeting and public service delivery. The government approved in May 2023 the implementation of an integrated financial management information system across all agencies, streamlining processes and paving the way for the full digitalization of public financial management systems. Other priority measures are right-sizing the government bureaucracy by streamlining and restructuring to enhance government operations, and reforming the military pension system to make it financially sustainable.

Public infrastructure spending should hold up with several large projects underway. Infrastructure spending in H1 2023 was equal to 5.3% of GDP, within the government’s target. Among the government’s flagship infrastructure projects, 71 are ongoing, worth about $75 billion as of July 2023, while another 27 have been approved for implementation. Most of the projects aim to improve physical connectivity with railways, bridges, and airports or to strengthen water management through irrigation, water supply, and flood control. Climate change mitigation and adaptation are prioritized, as are projects on digital connectivity, energy, and agriculture. The government has enhanced the guidelines for project formulation, prioritization, and monitoring, and for expediting the issuance of permits and licenses.

The proposed national budget for 2024 is 9.5% higher than the 2023 budget. Larger outlays are planned for social programs and infrastructure. The allocation for infrastructure is 6.6% higher, including road networks and railways, the subway in Metro Manila, school buildings, hospitals, and health centers. Infrastructure spending will be maintained at over 5% of GDP in 2024 and the medium term. The government approved in July 2023 the country’s first sovereign development fund to provide additional financing support for its projects.

Social services comprise nearly 40% of the total budget. Items include education subsidies, national health insurance, conditional cash transfers to poor families, and recently launched food vouchers to address the nutrition needs of food-poor Filipinos. These programs support the adoption of the social protection floor approved in April 2023, which sets basic social security guarantees, including health care and social services, that aim to reduce poverty and vulnerability. Poverty alleviation remains central to the government’s development plan, especially in light of the adverse impact of the pandemic. Poverty incidence declined from 23.5% of the population in 2015 to 16.7% in 2018. But it rose to 18.1% in 2021 under the impact of the pandemic, equivalent to 20 million poor people, an increase of 2.3 million from 2018.

The government is mobilizing more revenue to support higher investment while keeping within its fiscal consolidation goals. The tax revenue increased to 14.6% of GDP in 2022, the highest in over a decade. Measures such as an increase in excise taxes on petroleum products, cigarettes, and alcohol have lifted tax collections. Revenue is planned to rise by 12.2% next year, with the fiscal deficit narrowing to 5.1% of GDP from this year’s 6.1% of GDP deficit ceiling. Proposed additional measures include new taxes on digital service providers and single-use plastics, and higher taxes on sweetened beverages and junk food. The simplification of the taxation of passive
income and financial intermediaries is also being pursued while carbon emission taxes are being studied. Digitalization programs are being ramped up to improve tax administration, including electronic filing of returns and invoicing.

**Private consumption should remain firm in the near term while easing from last year’s rapid growth.** A low unemployment rate and continued growth in remittances should support private consumption. Moreover, a reduction in personal income tax rates in 2023 benefits most workers.

**Indicators of future economic activity are mixed.** The manufacturing purchasing managers’ index fell below the 50 threshold in August to 49.7, signaling a contraction, compared to 51.9 in July (Figure 2.4.34). Still, manufacturers expect growth in output in the next 12 months and were keen to build on stocks in anticipation of greater sales. On the other hand, there was sustained strong growth in building permits for privately constructed commercial establishments and sales of motor vehicles (passenger and commercial). Imports of some capital goods, including transport equipment, and consumer goods continued to rise in July.

**Figure 2.4.34  Manufacturing Purchasing Managers’ Index**

The index slipped below the 50 threshold in August, indicating contraction.

<table>
<thead>
<tr>
<th>Index</th>
<th>Jan 2021</th>
<th>Aug 2022</th>
<th>Jan 2023</th>
<th>Aug 2023</th>
</tr>
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<tbody>
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<td>60</td>
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<td></td>
</tr>
<tr>
<td>30</td>
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</tr>
</tbody>
</table>

Note: A purchasing managers’ index reading <50 signals deterioration, >50 improvement.
Sources: Bangko Sentral ng Pilipinas; CEIC Data Company.

**Private investment will benefit from reforms that have made the economy more open to foreign investment and trade.** Restrictions on the participation of foreign investors have been eased, opening several sectors, such as renewable energy, airports, telecommunications, railways, and expressways, to full foreign ownership. These reforms complement the Philippines’ ratification of the Regional Comprehensive Economic Partnership in February 2023. The Corporate Recovery and Tax Incentives for Enterprises Law reduced the corporate income tax rate from 30% to 25% (20% for micro, small, and medium-sized enterprises).

**The regulatory framework for public–private partnerships is being strengthened.** The guidelines for joint ventures have been simplified and enhanced to improve the competitive processes by which partners are selected, ensure that projects are technically and financially sound, and facilitate fast and efficient implementation. The guidelines align with recently revised implementing rules and regulations governing build-operate-transfer projects and the bill on public–private partnerships currently pending in Congress.

**Growth in services, which provide about 60% of GDP, is expected to remain healthy.** Private consumption will underpin retail trade, while growing international tourist arrivals will benefit a range of services, most notably hotels and restaurants, and transport. There were 3.6 million foreign visitor arrivals from January to August, surpassing the 2.65 million recorded in all of 2022.

**Inflation forecasts are maintained at 6.2% this year and 4.0% in 2024.** Inflation is expected to soften, though the onset of El Niño and elevated global commodity prices may slow the pace of deceleration. Second-round effects from higher transport fares and minimum wage hikes are also factors. The government is considering extending the period for the reduced tariffs for some food items including rice which are due to expire by December 2023, to keep inflation contained. With core inflation easing slowly, the monetary authorities will likely maintain policy rates before considering cutting them next year. The central bank is also looking at reducing banks’ reserve requirement ratio.

**The current account deficit will narrow from 2022, supported by the strength in service exports and steady remittances.** Tourism and business process outsourcing should remain buoyant, while merchandise exports will stay subdued. Weaker economic prospects
for major export markets, including the US, Japan, and the People’s Republic of China, will temper merchandise exports. The steady growth in remittances from overseas workers will continue to help lift the current account.

**Downside risks weigh on the outlook.** Risk factors include a sharper-than-expected slowdown in major advanced economies, heightened geopolitical tensions, and global commodity prices above expectations. An intensified and prolonged El Niño, other severe weather disturbances, and a continuation of the Russian invasion of Ukraine could elevate inflationary pressures.

### Thailand

**The growth forecast published in ADO April 2023 is upgraded for 2023 but unchanged for 2024.** Tourism and private consumption are the main engines of growth, while sluggish merchandise exports subtract from growth amid global economic volatility. Headline inflation is on a declining trend as global oil prices weaken. Risks to the growth outlook remain on the downside, most notably from global economic conditions. A successful transition to a new prime minister in August reduces the biggest domestic risk to the growth outlook.

### Updated Assessment

**In the first half (H1) of 2023, economic recovery remained on track.** Real GDP expanded by 2.2% year on year with tourism and private consumption making strong comebacks. Exports of goods and services grew by 1.4%. The number of international arrivals was 12.9 million, surpassing 11.5 million in the whole of 2022 (Figure 2.4.35). A significant rise in international tourist arrivals was the main driver of service exports, which expanded by 66.1%. In contrast, merchandise exports contracted by 6.0% as global economic uncertainty weighed on demand. While global manufacturing has shown signs of recovery from production chain disruption during and after the pandemic, new export orders did not significantly increase (Figure 2.4.36).

**Private consumption grew by a rapid 6.8% year on year, primarily on purchases of consumer goods in the wake of revived tourism.** Employment and consumer confidence also improved. The unemployment rate hit a 3-year low in H1 2023, declining from 1.3% in H1 2022 to 1.1%. Employment in agriculture expanded by 0.7%. Revived tourism benefited wholesale and retail trade, hotels, and restaurants. However, employment in manufacturing declined slightly from H2 2022 following a slowdown in merchandise exports. In contrast to private consumption, public consumption contracted by 5.3%, reflecting lower social transfers as COVID-19 response wound down.
Growth in private investment decelerated from 2.6% in H1 2022 to 1.8% in H1 2023. This tracked decelerating investment in machinery and equipment and in construction, particularly in export-oriented industries. Public investment increased by 1.9%, mainly on higher road and bridge construction. Meanwhile, the ratio of the public debt to GDP at the end of June 2023 stood at 61.15%, well below the 70% limit set by the State Finance and Financial Discipline Committee (Figure 2.4.37).

Imports declined by 1.7% year on year in H1 2023. This mainly reflected lower imports of raw materials and intermediate goods such as electronics and computer parts, natural gas, steel, and chemicals in line with weakened export demand. Meanwhile, imports of consumer goods increased significantly on skyrocketing electric vehicle imports, especially from the People’s Republic of China (PRC), in line with government policy to promote them. A government incentive package includes a 40% reduction in the import duty for battery-only electric vehicles priced at up to B2 million, a 20% reduction in 2022 and 2023 for those priced at B2 million–B7 million with batteries rated over 30 kilowatt-hours, and an excise tax cut from 8% to 2% for imported electric vehicles.

By sector, agriculture was particularly strong, expanding by 3.4% year on year in H1 2023. Good weather with sufficient rain in Q1 2023, and favorable selling prices for agricultural products, encouraged more production of off-season rice, sugarcane, and maize.

Manufacturing output declined by 3.2% in the first half as merchandise exports remained sluggish. The production of hard disk drives, textiles and apparel, rubber and plastics, and chemical products continued to decline quarter on quarter from Q4 2022. On the other hand, passenger car production was resilient as a shortage of microchips eased. Services expanded by 4.7% year on year in H1 thanks to the significant rise in international tourist arrivals and upward trend in private consumption. Accommodation, food services, transportation, and storage recorded double-digit growth, supported by rising numbers of foreign tourists and a government package to stimulate domestic travel. Apart from a strong rebound in tourism, expansion in transportation and storage was underpinned by an increase in freight transport, especially of agricultural products, in line with growth in agricultural production (Figure 2.4.38).

Inflation and external accounts improved in H1 2023 from a year earlier. Headline inflation averaged 2.5%, slowing from H1 2022 in tandem with lower food and energy prices. A high base also slowed core inflation to 1.9%. In Q1 2023, the current account balance returned to surplus, equal to 2.7% of GDP, reflecting trade surpluses for both goods and services. A fall in oil import payments was the main driver of the trade surplus in goods, while rising international tourism receipts contributed to the surplus in services.
International reserves provided cover for 2.3 times short-term external debt or 8 months of imports. Since April, the Bank of Thailand, the central bank, has raised the policy interest rate from 1.75% to 2.25% as the economy expanded (Figure 2.4.39). In January to July 2023, the Thai baht depreciated against the US dollar by 4%, reflecting policy rate hikes in the advanced economies and domestic political uncertainty.

**Figure 2.4.39 Inflation and Policy Interest Rate**

Inflation slowed, while the policy interest rate increased by 0.25% in May and again in August.

Prospects

The growth forecast for 2023 is upgraded from 3.3% in April to 3.5%. The growth projection for 2024 is maintained at 3.7% (Table 2.4.5 and Figure 2.4.40). The upward revision for 2023 mainly accommodates growth in private consumption and tourism outpacing expectation. A key factor that has constrained the rate of economic recovery in 2023 is weak merchandise exports. However, the economy is expected to gather momentum in H2 2023 and gradually rise in 2024 in line with global economic recovery.

Merchandise exports could slow further in H2 2023 if global demand remains soft. Orders for industrial products such as computers and parts, petroleum, and such agricultural products as rubber and tapioca are projected to decline. On the positive side, PRC reopening and easing chip shortages could boost exports of automobiles, parts, and electric appliances. However, Thailand’s exports remain fragile given signs of weaker manufacturing in its major trade partners.

**Table 2.4.5 Selected Economic Indicators in Thailand, %**

The economy is projected to continue to recover on rebounding tourism and private consumption.

<table>
<thead>
<tr>
<th></th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth</td>
<td>2.6</td>
<td>3.3</td>
<td>3.5</td>
</tr>
<tr>
<td>Inflation</td>
<td>6.1</td>
<td>2.9</td>
<td>2.5</td>
</tr>
</tbody>
</table>
| GDP = gross domestic product. Sources: Office of the National Economic and Social Council; Asian Development Bank estimates.

Buoyant tourism calls for export forecasts to be revised up. The forecast for growth in exports of goods and services in 2023 is revised up from 6.6% to 7.0% and in 2024 from 6.3% to 6.7%. The number of international tourist arrivals in H1 2023 was slightly above the ADO April 2023 forecast and is expected to continue to rise in the rest of 2023 and 2024. The projection for international arrivals in 2023 is revised up from 28 million in April to 30 million, and in 2024 from 35 million to 36 million. This promises to support continued recovery in the labor market, especially employment in tourism and related industries.

Growth in imports and private investment is now projected lower than in ADO April 2023, in line with weaker merchandise exports. The forecast for private investment growth is thus revised down from 2.5% in April to 1.9%. For 2024, the forecast is revised up from
3.5% to 3.9%. The projection for growth in imports of goods and services is adjusted down from 2.6% to 1.6% in 2023, accelerating to 5.2% in 2024. Slowing imports are in line with weaker merchandise exports and easing global oil prices.

**Private consumption should continue to grow on positive prospects for employment.** Easing inflation following lower fuel prices is also expected to support private consumption. However, growth could be dragged down by the struggles of vulnerable households with low income and high debt, as well as by farmers who may be affected by drought under El Niño in H2 2023 and in 2024. While the authorities have continued to relax loan classification norms in favor of borrowers, this will do little to stimulate private consumption. In sum, the forecast for growth in private consumption in 2023 is revised up from 3.0% to 4.2%, and the forecast for 2024 is revised down from 3.6% to 3.0%.

**The budget bill for fiscal year 2024 (FY2024, ending 30 September 2024) awaits possible revision by the new government.** The bill may be further delayed and come into effect only early in calendar 2024. This could hinder budget disbursement. Public consumption in FY2023 is thus projected to contract by 2.7%, not 1.3% as previously forecast. In FY2024, it is still expected to expand slightly by 0.9%, as forecast in April. Projections for growth in public investment are kept at 2.3% in FY2023 and 5.4% in FY2024. New megaprojects with approved bidding and construction, such as the expressway extension and road extension to link with U-Tapao airport, will likely continue under the new government. However, delays affecting the FY2024 budget bill would likely postpone approvals for new construction projects meant to be launched in Q4 2023.

**On the production side, the forecast for growth in agriculture in 2023 is maintained at 3.0%.** Despite surprisingly high output in H1 2023, growth in agriculture is projected to slow in H2 under El Niño weather disturbances, which could be severe. Impacts from El Niño should be limited this year but are expected to worsen in 2024. The forecast for growth in agriculture in 2024 is thus adjusted down from 3.3% to 2.9%. Industry is projected to grow by 2.1% in 2023, with lower export-oriented manufacturing, before rebounding to 3.4% in 2024. According to the Federation of Thai Industry, manufacturers in 25 industries have begun to reduce work shifts and overtime payments following an export downturn. Their capacity utilization is down because of lower overseas purchase orders. In the meantime, manufacturing for the domestic market is expected to continue to grow in line with private consumption. The forecast for growth in services in 2023 is revised up from 9.4% to 10.3%, and in 2024 from 9.7% to 10.6%, owing to strong recovery in tourism and private consumption.

**Forecasts for inflation and external accounts are now more favorable.** Headline inflation in 2023 is adjusted down from 2.9% to 2.5% as energy prices will likely continue to fall for the rest of the year. Decelerating merchandise exports and rising policy interest rates would help contain inflationary pressure (Figure 2.4.41). For next year, the headline inflation forecast is maintained at 2.3%. With a higher growth forecast for exports of goods and services and a downward adjustment for imports, the current account surplus projected for 2023 is now expected to be wider, no longer the equivalent of 2.8% of GDP projected in April, but 3.4%.

**Risks to the outlook remain tilted to the downside, mainly from external factors.** Global economic recovery that fails to meet expectations could hit exports of goods and services. Risk from political uncertainty has eased since a new coalition government was formed in August, but its economic policies will merit close monitoring in light of its political diversity. Potential policy disagreement could complicate effective policy making. Further, weather issues could push up food inflation, which would dampen consumer purchasing power, especially for low-income households.

![Figure 2.4.41 Inflation](https://example.com/gfx/figure2441.png)

*Source: Asian Development Outlook database.*
Viet Nam

The economy slowed more than expected in the first half (H1) of 2023, impacted by falling external demand. Given the unanticipated slowdown, the growth forecast in ADO April 2023 is downgraded to 5.8% in 2023 (from 6.5%) and 6.0% in 2024 (from 6.8%). Inflation is now expected to be slightly lower than forecast in April, with stable domestic commodity prices holding consumer price increases to 3.8% in 2023 and 4.0% in 2024.

Updated Assessment

Economic recovery was adversely impacted by declining external demand. Economic growth slowed to 3.7% in H1 2023 compared to 6.5% in the same period in 2022 (Figure 2.4.42). Thanks to strong domestic consumption, the services sector expanded by 6.3% and contributed 2.7 percentage points to the total growth. In the first 8 months of 2023, international visitors to Viet Nam were 7.8 million, 5.4 times higher than a year earlier (but still slightly below 70.0% of pre-pandemic level).

Weak external demand, including from a subdued recovery in the People’s Republic of China (PRC), hampered export-led manufacturing. The industrial production index shrank by 0.4% in the first 8 months of 2023, resulting in increased closures of businesses. On average, 15,600 firms closed monthly, and hundreds of thousands of workers were laid off. The growth of industry and construction in aggregate dropped to 1.1% in H1 2023. Of this, construction growth however increased to 4.7% from last year’s 4.2% as mobility restrictions were lifted. Agriculture sustained strong growth at 3.1% following a pickup in commodity prices which encouraged increased farming activities.

On the demand side, the recovery of domestic travel led consumption to grow by 2.7% in H1 2023. Investment, however, remained subdued in H1 2023 as gross capital formation growth declined to 1.2% from 3.8% a year earlier. Foreign direct investment (FDI) disbursements were $10 billion in H1 2023, the same level as the previous year. However, FDI commitments in H1 2023, estimated at $13.4 billion, decreased by 4.3% year on year as a result of geopolitical tensions and tightened global financial conditions. Weak external demand worsened trade, impeding overall growth.

During the first 8 months of the year, inflationary pressure eased slightly with a decrease in oil prices and a stable exchange rate (Figure 2.4.43). Although headline inflation averaged at 3.1% over the same period last year, core inflation (which removes the impact of temporary factors) remained high at 4.6%.

Falling growth and slightly moderating inflation led the government to pursue a more pro-growth monetary policy. In June 2023, the State Bank of Vietnam, the central bank, cut its key policy interest rate by 50 basis points, its fourth policy rate adjustment this year (Figure 2.4.44). The refinance rate was cut to 4.5%, the discount rate to 3.0%, and the average lending interest rates of commercial banks were brought down by 1.0% accordingly. To help distressed clients, on 23 April 2023, the central bank allowed banks to restructure business and consumer loans without downgrading the loan category until 30 June 2024.

Figure 2.4.42 Supply-Side Contributions to Growth
Economic growth slowed compared to the same period in 2022.

<table>
<thead>
<tr>
<th>Period</th>
<th>Product tax excluding product subsidy</th>
<th>Agriculture</th>
<th>Industry and construction</th>
<th>Services</th>
<th>Gross domestic product</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1 2020</td>
<td>1.8</td>
<td>3.7</td>
<td>5.8</td>
<td>6.5</td>
<td>9.5</td>
</tr>
<tr>
<td>H2 2021</td>
<td>-0.2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>H2 2022</td>
<td>6.5</td>
<td>3.7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>H1 2023</td>
<td>3.7</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: General Statistics Office.

Figure 2.4.43 Monthly Inflation
Inflationary pressure slightly eased.

% year on year

Source: General Statistics Office.
Nevertheless, credit demand remained weak, reflecting difficulties in the real economy. Credit growth expanded at an estimated 9.3% year on year in H1 2023 compared to a growth of 16.8% recorded a year earlier. Total liquidity growth slowed to 5.3% in H1 2023 from 9.2% in the same period last year (Figure 2.4.45). A flexible monetary policy with accommodative policy interest rate changes and a stable foreign exchange rate helped the economy to recover. The Viet Nam dong depreciated by 1.0% against the US dollar in H1 2023.

The corporate bond market has been shrinking primarily due to turbulence in the real estate sector. Market sentiment has somewhat stabilized due to timely regulatory revisions and policy forbearances, including bond restructuring. However, corporate bond issuances, especially real estate bond issuances, declined significantly. Problematic bonds outstanding are small relative to total bank credit, but irregularities in the corporate bond and real estate markets may have potential spillover into the banking sector. To help stabilize the corporate bond market, the central bank allowed banks to repurchase unlisted bonds with the highest internal ratings without waiting 1 year after selling. It also instructed banks to implement a preferential credit package of D120 trillion for housing finance.

Slow recovery in the global economy pulled down exports and imports. High interest rates in the US and Europe slowed down recovery and reduced demand from major trade partners. Export receipts in the first 8 months of 2023 were down by 10.0% compared to the same period in 2022. The declining demand was much more substantial in Viet Nam’s key markets, with exports to the US down by 20.6%, the European Union by 9.7%, and the Association of Southeast Asian Nations (ASEAN) by 6.8%. Shipments of mobile phones, computers, and electronic products, accounting for 30.0% of total exports, decreased by 15.0%. Meanwhile, export of machinery and equipment, accounting for 12.0% of total exports, fell by 10.0%.

Stagnant manufacturing depressed imports of production inputs. Production inputs account for 93.8% of total imports but dropped significantly by 16.4% to $194.7 billion in the first 8 months of 2023. As imports declined faster than exports, the trade surplus widened, reaching $20.2 billion in the same period. For the first half of 2023, the current account of the balance of payments turned into a surplus estimated at 6.0% of GDP from a deficit of 3.6% a year ago (Figure 2.4.46).

Reduced capital inflows shrunk the financial and capital account surplus from 6.4% of GDP in H1 2022 to an estimated 3.2% in H1 2023. Despite this narrowing, the current account surplus turned the overall balance of payments from a deficit of 3.1% of GDP in H1 2022 into an estimated surplus of 1.6% in H1 2023. By the end of June 2023, foreign reserves were estimated to cover 3.7 months of imports, improving from 2.8 months at the end of 2022.
**Figure 2.4.46 Balance of Payments Indicators**

A current account surplus lifted the overall balance.

<table>
<thead>
<tr>
<th>% of GDP</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>Q2 2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial and capital account balance</td>
<td>-8.0</td>
<td>-7.0</td>
<td>-6.0</td>
<td>-5.0</td>
<td>-4.0</td>
<td>-3.0</td>
</tr>
<tr>
<td>Current account balance</td>
<td>0.0</td>
<td>1.0</td>
<td>2.0</td>
<td>3.0</td>
<td>4.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Errors and omissions</td>
<td>-4.0</td>
<td>-3.0</td>
<td>-2.0</td>
<td>-1.0</td>
<td>0.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Overall balance</td>
<td>-4.0</td>
<td>-3.0</td>
<td>-2.0</td>
<td>-1.0</td>
<td>0.0</td>
<td>1.0</td>
</tr>
</tbody>
</table>

GDP = gross domestic product, Q = quarter.

Sources: State Bank of Vietnam; Asian Development Bank estimates.

**Monthly fiscal deficits continued in 2023, narrowing the state budget fiscal surplus.** A decline in receipts from trade activities and shortfalls in domestic revenue collection made government revenue fall by 8.8% year on year in the first 8 months of 2023. Expenditure increased by 13.0%, with capital expenditure up by 40.3%. However, public investment disbursements still lagged behind the annual plan. The budget surplus narrowed to approximately 1.5% of GDP in H1 2023 from around 5.1% in the same period in 2022.

**Prospects**

**Growth and inflation forecasts are revised down in this update from those in ADO April 2023.** Economic growth is now expected to slow to 5.8% in 2023 before improving to 6.0% in 2024 (Table 2.4.6). The inflation forecast is also marked down. The main forces impacting the economy have been the global economic slowdown, monetary tightening in some advanced countries, and the continuing impact of the Russian invasion of Ukraine.

**Declining global demand hit manufacturing in Viet Nam, leading to cuts in the forecast for related sectors.** The manufacturing purchasing managers’ index edged above 50 (expansionary) in August 2023 after 5 consecutive months of contracting, indicating recovery of consumption-led manufacturing (Figure 2.4.47). Industry is forecast to grow at 7.0% in 2023. Construction could pick up if major infrastructure projects can be implemented as planned.

**Other sectors are forecast to display healthy growth.** Services are expected to continue expanding, supported by revived tourism and the recovery of associated services. In August, retail sales improved 7.6% year on year, increasing sales in the first 8 months of 2023 by 10.0% over the same period last year (Figure 2.4.48). Agriculture will benefit from rising food prices, and the sector is now expected to expand by 3.2% in 2023.

**On the demand side, domestic consumption will be supported by moderate inflation and maintain growth in the rest of the year.** Public investment will be the key driver for economic recovery and growth in 2023. The government is committed to disbursing around $30 billion in the year. In recent months, strong political commitment has resulted in significant improvements in disbursement despite persistent regulatory constraints. In the first 8 months of 2023,
almost 50.0% of the annual planned public investment disbursement were made (increased from 33.0% at the end of June 2023). Accelerating government spending could give a welcomed stimulus to demand in the remaining part of the year. Foreign investment showed signs of recovery despite the global economic slowdown, with FDI commitments by August 2023 at $18.2 billion, an 8.2% annual increase, and disbursed FDI slightly increased by 1.3%, at $13.1 billion (Figure 2.4.49).

**The fiscal deficit will further increase in H2 2023.**

The National Assembly passed a 2.0% reduction in the value-added tax effective until the end of June 2023, and expansionary fiscal policy is expected to continue. Nevertheless, it is critical to swiftly implement this policy as it will spur business activity. Viet Nam should also accelerate the disbursement of public investment projects, as this will directly support industries such as construction and materials, and provide more employment opportunities.

**Weak global demand will dampen trade prospects for the rest of 2023 and 2024.** However, export in August 2023 showed a recovery signal by increasing 7.7% monthly (Figure 2.4.50). Import and export growth are expected to return to a modest rate of 5.0% this year and next year with the revival of external demand. Robust trade activity will help to maintain the current account balance in surplus this year, estimated at around 3.0% of GDP. As manufacturing activity is restored, pushing up imports for production inputs, the current account balance is projected to narrow to 2.0% of GDP in 2024.

**The ADO April 2023 inflation forecast is lowered to 3.8% for 2023 and 4.0% for 2024.** Inflationary pressure in the near term may come from the disruption of global supply chains due to the continued Russian invasion of Ukraine. However, this pressure could be contained by subdued gas and petroleum prices in the year’s second half and stable domestic food prices.

**Coordinated policy can effectively support economic recovery, considering relative price stability and weak demand.** In the near term, monetary policy should be accommodative and fiscal policy expansionary. Slow credit growth indicates that monetary policy loosening must be closely coordinated with fiscal policy implementation to effectively boost...
economic activities. Banks’ credit provision is expected to grow slowly due to rising gross nonperforming loans, estimated at around 5.0% by March 2023, and increased provisioning requirements accordingly.

**Risks to Viet Nam’s economic outlook remain elevated.** Domestically, systemic problems with disbursements of public investment and structural weaknesses in the real economy are the main downside risks to the economy. Externally, a substantial slowdown in global growth and weak recovery in the PRC could adversely affect Viet Nam’s exports, manufacturing activity, and employment. Sustained high interest rates in the US and Europe and a stronger US dollar may cause further problems for the recovery of external demand and lead to weakness in the dong exchange rate.

**Other Economies**

**Brunei Darussalam**

This update revises growth and inflation forecasts offered in ADO April 2023 in light of a downgraded GDP assessment for 2022. With deeper contraction and a lower base GDP realized last year, real growth is now expected to be somewhat higher this year and lower in 2024 (Table 2.4.7). Inflation is expected to moderate more quickly than previously forecast.

The economy contracted more in 2022 than earlier estimated. Actual GDP contraction was much deeper than the April estimate of 0.5%. After recovering in the third quarter (Q3) of 2022 from 7 consecutive quarters of contraction, the economy returned to contraction in Q4, by 1.6% for the quarter and for the whole year. A positive contribution from private consumption of 4.4 percentage points was more than offset by lower net exports, fixed investment, and government expenditure. Full border reopening increased domestic demand, but maintenance on oil and gas plants hampered production enough to induce 4.8% contraction in the large oil and gas industry. Meanwhile, services and other pursuits outside of petroleum posted growth at 2.9%.

Stronger consumption pushed growth to return positive at 0.8% in Q1 2023, despite lower activity elsewhere. The 24% growth of domestic consumption in the quarter—supported primarily by more spending on clothing, food, and travel—compensated for the decline in investment, government spending, and trade. However, net exports still contributed 1.9 ppts to the GDP growth rate as imports decelerated faster than exports. Merchandise exports and imports continued to slow in the first 4 months of the year. Exports declined by 24.5%, mainly reflecting reduced output of petroleum products, particularly mineral fuels, and chemicals. Deceleration in downstream manufacturing caused imports to contract by 25.2%, most notably imports of mineral fuels and manufactured goods. The current account surplus in 2022 equaled 19.6% of GDP but is expected to decline in 2023 and 2024 as prices for liquefied natural gas and crude oil fall in both years.

Lower energy prices softened consumer price inflation. Persistently high inflation over the past 3 years dropped to an average of 0.8% in the first 5 months of 2023. The rate of price increase in April 2023 was 0.2%, the lowest since January 2020, but it revived marginally to 0.8% in May. Transport and communication prices declined, and increases slowed for housing and utilities and for food.

Expansion in investment and trade will boost economic activity. More economic opportunity will derive from the commencement of a direct container ship route connecting Brunei Darussalam with the People’s Republic of China, and from the country’s accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. Investment is expected to increase with the expansion of oil refineries and petrochemical plants, particularly the Hengyi plant.

**Table 2.4.7 Selected Economic Indicators in Brunei Darussalam, %**

<table>
<thead>
<tr>
<th></th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth</td>
<td>-1.6</td>
<td>2.5</td>
<td>2.8</td>
</tr>
<tr>
<td>Inflation</td>
<td>3.7</td>
<td>2.0</td>
<td>1.5</td>
</tr>
</tbody>
</table>

GDP = gross domestic product.
Sources: CEIC Data Company; Asian Development Bank estimates.
Muara Port redevelopment will stimulate downstream chemical and fertilizer production, which will spur exports and GDP growth. Imports of goods will also increase to provide inputs for expansion. In parallel, the services sector will continue to be robust following the removal of COVID-19 restrictions. With the government’s diversification plan, agriculture and fisheries will expand to moderate the country’s reliance on imported food and thus strengthen food security.

**Growth forecasts are revised to accommodate data updates.** Considering all these factors, in particular a lower GDP base in 2022, the growth forecast is revised up for 2023 but down for 2024. Risks to the outlook are evenly distributed and depend mostly on external factors, particularly developments in the global oil market. Government subsidies and the local currency exchange rate link to the Singapore dollar should contain inflation. With further decreases in commodity prices expected this year, inflation forecasts are revised down for both years.

**Cambodia**

**This update lowers the growth forecast for 2023 from 5.5% in ADO April 2023 to 5.3%.** The downgrade reflects industry and agriculture growing less than expected in the first half (H1). The growth forecast for 2024 is unchanged (Table 2.4.8). Inflation forecasts are maintained for this year and next despite quarterly fluctuation in international fuel prices.

<table>
<thead>
<tr>
<th>Table 2.4.8 Selected Economic Indicators in Cambodia, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth forecast is lowered for 2023 but maintained for 2024.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Apr</td>
<td>Sep</td>
<td>Apr</td>
</tr>
<tr>
<td>GDP growth</td>
<td>5.2</td>
<td>5.5</td>
<td>5.3</td>
</tr>
<tr>
<td>Inflation</td>
<td>5.3</td>
<td>3.0</td>
<td>3.0</td>
</tr>
</tbody>
</table>

GDP = gross domestic product.
Source: Asian Development Bank estimates.

**Industry growth slowed in H1 2023 but is expected to improve in H2.** Exports of garments, footwear, and travel goods fell by 18.6% year on year in H1.

The decline was partly offset by a 22.9% rise in exports of manufactures other than garments, notably vehicle parts, solar panels, and furniture. Imports of construction materials dropped by 6.3% over the same period, reflecting weak recovery in construction. Better growth prospects in major advanced economies should improve Cambodian exports in H2. The projection for industry output growth in 2023 is cut from 5.8% to 4.8%, but output is expected to expand by 8.0% in 2024.

**Agriculture experienced tepid growth this year.** Milled rice exports rose by 12.4% in H1 2023 compared with a year earlier. However, rubber exports declined by 9.9%, and banana exports by 10.3%. High production costs, market instability, and unfavorable weather have constrained crop and livestock production.

The forecast for agricultural growth in 2023 is revised down from 1.1% to 0.9% and in 2024 from 1.2% to 1.1%.

**Services made the most significant contribution to growth.** Sector growth beat expectations in H1 2023, mainly as tourism recovered strongly, supported by Cambodia hosting the Southeast Asian Games. Bank credit in the first 5 months to wholesale and retail trade rose by 12.5% year on year, transportation by 9.6%, and hotels and restaurants by 7.4%. The forecast for growth in services in 2023 is revised up from 7.3% to 8.0%, but sector growth is expected to ease to 6.5% in 2024.

**Normalized merchandise trade and tourism recovery should gradually narrow the current account deficit.** Despite lower garment exports, overall merchandise exports fell only marginally because of a threefold rise in gold exports in H1 2023. Merchandise imports fell by 22.9% year on year, with imports of fabric declining by 17.9%, fuel by 10.0%, and vehicles by 26.9%. With the gradual normalization of merchandise trade to pre-pandemic levels and upward trends in tourism receipts and private transfers, the current account deficit is expected to narrow in 2023 and 2024. Foreign direct investment inflow increased by 41.6% year on year in H1 to $2.3 billion, helping to push gross international reserves from $17.8 billion at the end of 2022 to $18.4 billion at the end of June 2023.

**Fiscal consolidation is planned from 2024.** The government has budgeted a $1.6 billion deficit in 2023, equal to 5.1% of GDP. Government revenue is budgeted
at 22.0% of GDP and expenditure at 27.1%. After years of robust fiscal expansion to stimulate the economy, the government plans to gradually shrink the budget deficit starting in 2024 to rebuild its fiscal buffer, which proved critical to the economy during the pandemic.

Bank regulatory forbearance measures introduced during the pandemic are being withdrawn. The National Bank of Cambodia, the central bank, raised the reserve requirement ratio (RRR) for foreign currencies from 7.0% to 9.0% in January 2023. As part of its strategy to phase out COVID-19 measures, the central bank plans to normalize the RRR for foreign currencies to the pre-pandemic level of 12.5% in 2024 while maintaining the RRR for Cambodia’s riel at 7.0%.

Risks to the outlook remain tilted to the downside. They include weakened growth in advanced economies, lower tourist arrivals and foreign direct investment inflow, any prolonged tightening of global financial conditions, rising energy prices, concerns over high private debt and domestic financial stability, and extreme weather worsened by climate change.

Myanmar

Moderate gains in industry and services have driven modest economic recovery. Developments suggest growth this year and next consistent with the ADO April 2023 forecasts (Table 2.4.9). Political uncertainty and continuing domestic conflict undermine prospects for stronger and more sustainable growth able to alleviate widespread poverty and food insecurity.

Inflation is expected to stay higher than in the April forecast in light of lingering effects from sharp depreciation of the Myanmar kyat, supply disruption, and low domestic food production.

Moderest improvement in manufacturing and construction supported growth in industry in the first half of fiscal year 2023 (FY2023, ending 30 September 2023). The S&P manufacturing purchasing managers’ index improved significantly across industries, riding above a neutral forecast reading of 50 since February 2023. Construction gradually recovered with the resumption of public investment projects and increased demand for real estate development. Recovery in the services sector outpaced expectations, driven by moderate growth across the board. While security concerns remain high, international tourist arrivals were more than 4.5 times higher in the first 8 months of FY2023 than a year earlier. Agriculture will likely contract, as projected in ADO April 2023, because of unfavorable weather caused by Cyclone Mocha in May and the effects of El Niño. Also depressing agricultural output were higher transportation and production costs and heightened armed conflict in some rural areas.

This update raises the inflation forecast for FY2023. Inflation accelerated sharply in FY2022 and into FY2023. In the first quarter of FY2023, it reached 31.9% year on year before declining to 24.2% in the second quarter. Despite a huge decline in average food inflation from 41.4% in the first quarter to 27.5% in the second quarter of FY2023, food prices are expected to remain high in the near term given the low agricultural production and high imported inflationary pressure. Following steep depreciation of the kyat in FY2022, the exchange rate stabilized in the first half of FY2023. With lower inflows of foreign direct investment, export earnings, and official development assistance, foreign exchange remains in short supply, which threatens further depreciation of the kyat and intensifying imported inflation in the near term. The forecast for inflation is thus revised significantly higher for this year, with the 2024 forecast for lower inflation unchanged.

External trade has grown moderately this year. Trade grew by 1.9% in the first 10 months of FY2023, driven largely by import growth, which reached 9.5% on strong demand for capital goods. With lower global demand, merchandise exports contracted by 5.4% in US dollar terms in the same period, generating a

<table>
<thead>
<tr>
<th>Table 2.4.9 Selected Economic Indicators in Myanmar, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth forecasts are unchanged, but inflation is now seen more persistent in 2023 than projected in April.</td>
</tr>
<tr>
<td>2022</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>GDP growth</td>
</tr>
<tr>
<td>Inflation</td>
</tr>
</tbody>
</table>

GDP = gross domestic product.
Note: Years are fiscal years ending on 30 September of that year.
Sources: Central Statistical Organization; Asian Development Bank estimates.
trade deficit of $1.6 billion. Foreign direct investment remained low, declining in June by 38.3% year on year to $413.1 million. Given recent developments, this update revises up the ADO April 2023 forecast for the FY2023 current account deficit from the equivalent of 2.0% of GDP to 5.3%.

**Downside risks to the forecast are significant.** They include continued political tensions, logistic constraints, currency depreciation, international sanctions on the country, trade restrictions, and weaker global demand.

**Singapore**

**Economic growth slowed to 0.4% year on year in the first half (H1) of 2023 as external demand weakened.** After a slowdown in the first quarter (Q1) of 2023, the economy grew by 0.5% year on year in Q2. Services rose by 2.3% in H1 as all subsectors posted robust growth except for insurance and banking. Construction grew by 6.8% as both public and private sector construction expanded. However, manufacturing contracted by 6.4% as output declined across all segments except transport engineering. Domestic demand was propped up by higher public consumption as growth in private consumption slowed in response to an increase in the goods and services tax. Weak external demand slowed growth in exports, but imports fell, leaving net exports positive.

**Weak external demand and tighter financial conditions will moderate growth in 2023 and 2024.** The government’s Economic Development Board reported in July 2023 that business sentiment in manufacturing toward the next 6 months remained slightly positive. However, the manufacturing purchasing managers’ index languished that month under 50, albeit slightly improved from June, with the electronics index at 49.3, signaling contraction. Weak manufacturing will likely drag on growth, countered by robust services and sustained expansion in construction, given a sizable pipeline of government projects. Growth in the services sector will be supported by continued improvement in trade services, information and communication, and a robust tourism industry, but tempered by lingering uncertainty regarding monetary tightening in the US that could adversely affect financial services. The boost from border reopening in the region will likely fade in H2 2023. Private consumption is expected to moderate as higher consumer prices restrain spending and higher borrowing costs threaten to dampen investment growth. Any rebound in the People’s Republic of China will be driven largely by consumption, which is unlikely to provide major support to Singaporean exports. Forecasts for GDP growth in Singapore this year and the next are thus revised down from projections made in April (Table 2.4.10).

**Table 2.4.10 Selected Economic Indicators in Singapore, %**

<table>
<thead>
<tr>
<th></th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Apr</td>
<td>Sep</td>
<td>Apr</td>
</tr>
<tr>
<td>GDP growth</td>
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<td>1.0</td>
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<tr>
<td>Inflation</td>
<td>6.1</td>
<td>5.0</td>
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</tr>
</tbody>
</table>

GDP = gross domestic product.


**Inflation has eased but remains elevated.** The consumer price index rose by an average of 5.4% in the first 7 months of 2023, and core inflation by 4.8%. From May to July 2023, both core and headline inflation moderated year on year as price increases slowed for all index components except for health care, recreation, and household durables and services. Nevertheless, the Monetary Authority of Singapore has not changed its monetary policy stance since a tightening in October 2022, because price pressures have remained persistent despite some easing. In the first 7 months of 2023, the Singapore dollar appreciated against the US dollar by 0.7%, and by 1.3% in nominal effective terms. Pressure on consumer prices arising from higher business costs will likely reverse in H2 2023 as oil and food prices moderate. Private transport inflation is expected to moderate in H2 with a higher quota for certificates of entitlement for vehicle ownership, and accommodation cost increases may slow with improved availability of rental units. On balance, the forecast for inflation is unchanged from the April projection for 2023 but revised up for 2024 in line with elevated inflation expected worldwide.
Timor-Leste

This update revises growth and inflation projections in ADO April 2023 based on recent developments (Table 2.4.11). Growth has been hampered by slow execution of fiscal expenditure. Inflation forecasts are revised up largely because of higher global commodity prices.

Growth projections are downgraded for 2023 and 2024. Real GDP growth in Timor-Leste is driven by government spending, which depends in turn on the Petroleum Fund. Execution rates for both current and capital expenditure have fallen short because of the government transitioning after recent elections and an uncertain global outlook. Lower government expenditure held back private consumption and investment.

Inflation is now forecast as more persistent in both years. Timor-Leste has been exposed to rising global commodity prices, notably for food and energy, since the Russian invasion of Ukraine in early 2022. Consumer price inflation remained elevated, averaging 8.5% year on year in the first half of 2023. In June 2023, headline inflation was 7.0%, driven primarily by price hikes for food and nonalcoholic beverages at 8.0%, with the price increases for rice at 10.3% and for bread and cereals other than rice at 9.2%. While tradable goods were subject to significant increases, prices for non-tradable goods remained stable.

Government spending softened, with budget execution falling from 35.3% in January–July 2022 to 30.0% a year later. After Parliament approved a high 2023 budget ceiling of $2.2 billion, budget execution was muted by political changes and an election that brought in a new government in July. Cumulative government spending was down by 17.1% year on year in January–July 2023, and cumulative spending on transfers was down by 37.5%, threatening to weaken private consumption, especially household spending. Cumulative capital spending was down by 1.0%, posing a risk to private sector sentiment toward investment.

The outlook for the current account deficit is little changed from April. Merchandise imports and exports have trended down, reflecting sluggish government spending. With exports outside of the large off-shore petroleum industry down by 14.1% year on year in January–May 2023, and coffee exports plunging by 27.9%, the current account deficit is expected to deteriorate from the equivalent of 21.9% of GDP in 2022 to 41.0% this year and 50.1% in 2024. This is only slightly better than projected in ADO April 2023. Remittance inflow, which has become the largest non-oil contributor to the economy, dropped from $80.3 million in the first quarter of 2022 to only $59.7 million a year later.

Increased annual withdrawals from the Petroleum Fund will undermine its sustainability. The Petroleum Fund had $18.1 billion at the end of June 2023. Though below the 2021 closing value of $19.6 billion, which was the highest ever, it improved on the 2022 closing value of $17.3 billion. As production at the offshore Bayu-Undan oil and gas condensate field started to wind down in 2022, oil and gas output that year fell by 75.4%. With the end of oil production and using current spending rates, the Petroleum Fund is projected to be entirely depleted by 2034.

There are significant risks to the forecast. Timor-Leste depends heavily on crude oil exports and food imports, which expose it to volatile global economic forces. Price volatility caused by supply disruption could further aggravate food insecurity, which may be exacerbated as well by climate and disaster risks that undermine livelihoods, economic performance, and infrastructure. However, recent parliamentary elections brought a single-party majority to power for the first time in 5 years. This is expected to usher in a stable government able to sustain public management reform and thus ensure fiscal sustainability over the long run.

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Table 2.4.11 Selected Economic Indicators in Timor-Leste, %

<table>
<thead>
<tr>
<th></th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth</td>
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<tr>
<td>Inflation</td>
<td>7.0</td>
<td>5.5</td>
<td>5.8</td>
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