



Annex:

# Developments in ASEAN+3 Economies



# Brunei Darussalam

Brunei's economy is expected to continue growing in 2020, despite the adverse impact of the COVID-19 pandemic. After expanding quite strongly at 3.9 percent in 2019, growth moderated to 1.9 percent in the first three quarters of 2020. The slowdown was due to the decline in the growth of the oil and gas sector because of weakened global demand and lower oil production, which was partly driven by the national commitment to the OPEC and non-OPEC Cooperation to stabilize the global oil market. Meanwhile, the growth in the non-oil and gas sector was mainly due to the downstream activities following the new production of petroleum and chemical products. In addition, restrictions on overseas travel during the COVID-19 period have encouraged locals to increase domestic consumption, as evidenced in the increase in retail sales and car sales. The economy is expected to grow by around 0.9 percent in 2020 despite continued contraction in the oil and gas sector in Q4 2020. In 2021, economic growth is projected to rebound to 3.1 percent, based on the assumption of improving world oil demand and the commencement of some large investment projects.

CPI inflation turned positive in 2020. Inflation, which was -0.4 percent in 2019, has been rising since the beginning of the year and reached 2.6 percent in June 2020, with an average of 1.9 percent for the first nine months of the year. The increase in inflation partly reflected COVID-19 supply chain disruptions and the weakening of the exchange rates, which led to higher prices in imported food items and household products. Inflation is estimated at 1.7 percent in 2020 and projected to be 1.2 percent in 2021.

The overall external position has remained strong, with ample official reserves and foreign assets, despite the decline in the trade balance surplus in recent years. The export value fell sharply from January to October 2020, but increased by 5.3 percent from the same period in 2019. The export slowdown was driven by the contraction in crude oil and gas exports by more than 40 percent owing to reduced global demand and lower oil and gas prices. Meanwhile, exports of petroleum and chemical products have continued to grow steadily since the commencement of operations of the Petrochemical Industry in November 2019. On the other hand, import growth rose strongly in 2020, driven by an increase in crude oil imports as raw material for oil refinery production. As a result, the trade balance and current account surplus are expected to shrink further in 2020.

The financial sector remains sound with credit risks under control, amid slowing credit growth. Banks continue to be well capitalized, with ample liquidity and reasonable profitability. The policy of deferment of principal or interest payments since April 2020 has been successful in containing the deterioration in the nonperforming loan ratio. Credit growth, which had previously continued to increase and peaked in Q1 2020, slowed down and subsequently contracted in Q4 2020, mainly driven by a decline in credit to the household. On the upside, credit to the corporate sector has continued to increase.

The fiscal deficit has increased in recent years, due to the sharp decline in oil and gas revenues. After recording a surplus of 0.2 percent of GDP in FY 2018/19, the fiscal balance again recorded a deficit of 5 percent of GDP in FY2019/20. Although the government has succeeded in its fiscal consolidation efforts, as evidenced by the decline in current spending, the decline in oil and gas prices has resulted in an increase in the deficit in recent years. In the FY 2020/21, the sharp fall in oil and gas prices, accompanied by a reduction in the volume of oil exports in OPEC countries, contributed to a widening deficit, estimated at 11.1 percent of GDP. This deficit is expected to improve to 5.4 percent in the next fiscal year, in line with expectations of increasing world oil demand and prices.

In the short term, any economic recovery from the effects of the COVID-19 pandemic will depend on global oil demand and the realization of major FDI projects. Improvements in the former will have a significant impact on the economy, given the large role of the oil and gas sector in the country. The forecast for economic growth in 2021 also depends on the startup production of the Brunei fertilizer industry, as well as the commencement of the Hengyi Phase 2 project construction.

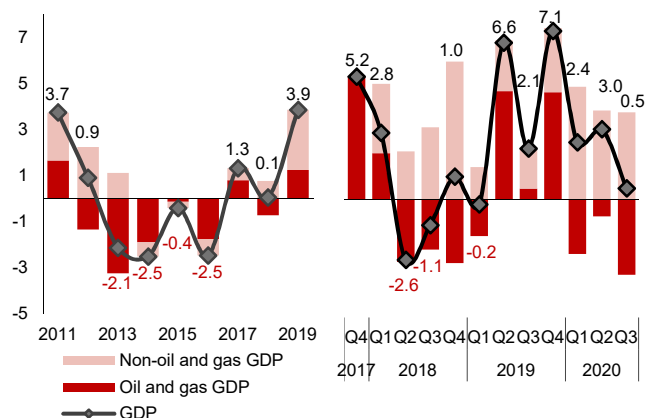
In the longer term, the main risk facing Brunei's economy comes from its high dependence on the oil and gas sector. The COVID-19 pandemic provides an important lesson that a broad-based global recession can lead to a decline in world demand and oil prices, which in turn affect economic growth, fiscal balance, and the external sector of Brunei. Therefore, efforts to diversify Brunei's economy through various structural reforms need to be continued to improve the prospects for economic growth in the future.

## Brunei Darussalam: Selected Figures and Tables

*The recovery momentum is slowing down amid the COVID-19 pandemic.*

### Contributions to Real GDP Growth, by Sector

(Percentage points, year-over-year)

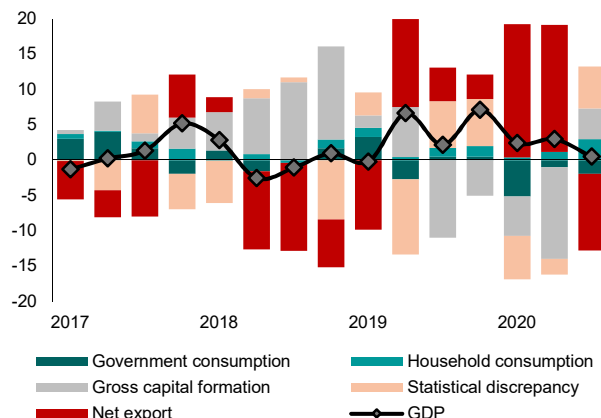


Sources: Department of Economic Development and Planning via CEIC; and AMRO staff calculations.

*Public consumption is still quite high notwithstanding the various restrictions imposed during the pandemic.*

### Contributions to Real GDP Growth, by Expenditure

(Percentage points, year-over-year)

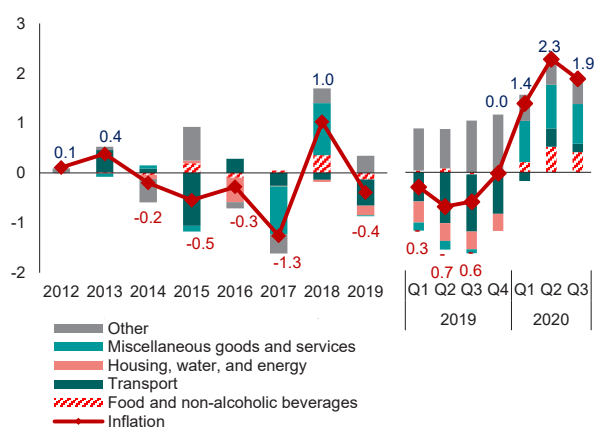


Sources: Department of Economic Development and Planning via CEIC; and AMRO staff calculations.

*Although moderating, inflation has risen considerably on the back of currency depreciation and supply disruptions.*

### Contributions to CPI Inflation

(Percentage points, year-over-year)

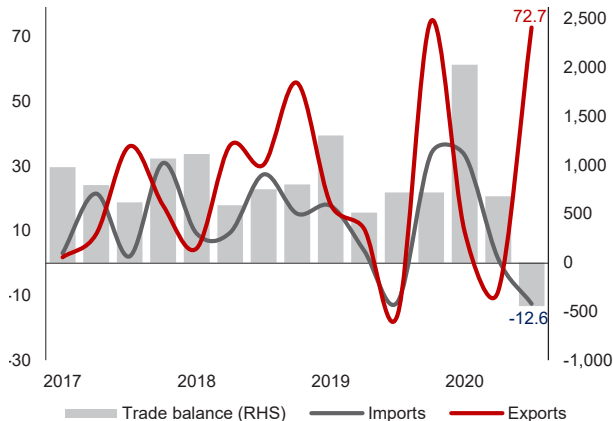


Sources: Department of Economic Development and Planning via CEIC; and AMRO staff calculations.

*The trade surplus shrank further in 2020 as a result of lower oil and gas export volumes and prices.*

### Trade Balance

(Percent, year-over-year; millions of US dollars)



Sources: Department of Economic Development and Planning via CEIC; and AMRO staff calculations.

*The banking sector remains sound with high levels of capital, liquidity, and profitability and contained credit risks.*

### Financial Soundness Indicators

(Percent)

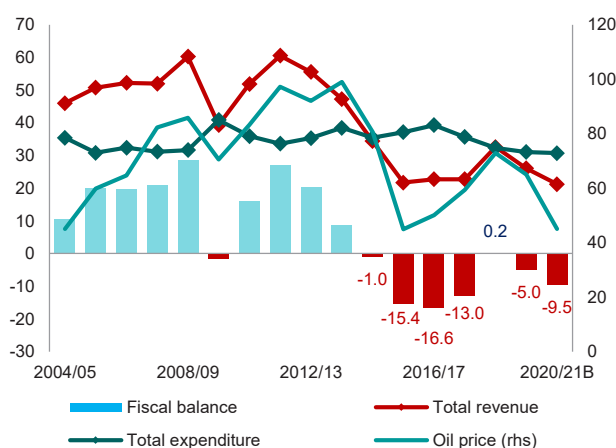
Indicator	2016	2017	2018	2019	2020
Capital Adequacy					
CAR	21.5	18.9	19.3	20.9	20.8
CAR tier 1	23.2	18.2	18.9	20.5	20.5
Asset Quality					
NPL gross	5.9	4.4	5.7	4.7	4.7
NPL net	3.3	1.6	2.9	2.4	2.4
Profitability					
ROA	1.0	1.3	1.5	1.8	1.5
ROE	6.5	8.9	11.2	12.6	10.6
Liquidity					
Liquid assets to total assets	50.4	51.0	51.7	46.8	48.2
Loan to deposit ratio	35.8	34.5	35.7	37.2	39.8

Sources: Autoriti Monetari Brunei Darussalam; and AMRO staff calculations.  
Note: CAR = capital adequacy ratio; NPL = nonperforming loan; ROA = return on assets; ROE = return on equity.

*The fiscal deficit has widened due to the decline in oil and gas revenues.*

### Fiscal Position and Oil Prices

(Percent of GDP; US dollars per barrel)



Sources: Ministry of Finance and Economy; and AMRO staff calculations.  
Note: Budget data are for FY2020/21. B = budget.

## Brunei Darussalam: Selected Economic Indicators

Indicator	2017	2018	2019	2020
<b>Real sector</b>	(in annual percentage change)			
Real GDP	1.3	0.1	3.9	0.9
Private consumption	4.7	2.2	5.9	–
Government consumption	7.4	1.6	1.8	–
Gross fixed capital formation	8.0	28.1	–4.4	–
Exports of goods and services	–5.3	5.7	14.9	–
Imports of goods and services	1.3	28.1	13.8	–
<b>External sector</b>	(in percent of GDP, unless otherwise specified)			
Current account balance	16.4	7.8	6.6	3.0
Trade balance	19.8	17.4	16.4	–
Capital and financial account balance	–11.8	–0.7	–7.7	–
Errors and omissions	–6.8	–6.3	–6.2	–
Overall balance	–2.3	–0.1	–7.4	–
International reserves (in USD million, end of period)	3,300	3,221	4,052	3,721
<b>Fiscal sector<sup>1</sup></b>	(in percent of GDP)			
Revenue and grants	22.7	32.7	26.1	21.2
Expenditure	35.7	32.5	31.1	30.7
Fiscal balance	–12.9	0.2	–5.0	–11.1
<b>Monetary and financial sectors</b>	(in annual percentage change)			
Broad money	–0.4	2.8	4.3	–0.4
Domestic credit <sup>2</sup>	–16.7	3.5	2.3	18.4
Private sector credit	–5.3	–3.1	2.0	0.2
<b>Memorandum items</b>				
Nominal GDP (in BND million)	16,748	18,301	18,375	19,080
Nominal GDP (in USD million)	11,412	12,136	13,469	13,826
Headline inflation (in percent yoy, period average)	–1.3	1.0	–0.4	1.7
Exchange rate (in BND/USD, period average)	1.37	1.35	1.36	1.38

Sources: National authorities via CEIC; and AMRO staff estimates.

Note: Numbers in red denote AMRO staff estimates. yoy = year-over-year.

<sup>1/</sup> Figures are for fiscal year that run from April 1 to March 31; 2020 data are budget figures for FY2020/21.

<sup>2/</sup> Domestic credit is based on "domestic claims" from Financial Corporations Survey.

# Cambodia

Cambodia's economy has faced massive headwinds from the COVID-19 pandemic and is estimated to have contracted by 3 percent in 2020. Garment exports fell by 9.5 percent in 2020. Tourism has also been badly affected, with international arrivals falling by almost 80 percent. Amid these challenges, the domestic economy has slowly recovered following the relaxation of lockdown measures and relatively successful containment of the COVID-19 infections within the country. Agriculture has proven to be a bright spot, supported by the continued development of agro-processing and strong agriculture exports. Growth is expected to return to positive territory in 2021, but recovery could be slow due to the weak demand in major export markets and bleak prospects in the tourism sector.

Inflation rose to 2.9 percent in 2020 from 1.9 percent in 2019, as higher food prices generally offset lower energy prices. A spike in prices of key food items due to disrupted supply lines at the onset of the pandemic pushed up overall prices, which remained elevated until June 2020. Floods and higher pork prices also led to higher food prices in Q4 2020. Food prices are expected to stabilize in 2021, while any upward pressure on prices is expected to emanate mainly from higher oil prices.

The current account deficit narrowed to 10.3 percent of GDP in 2020 from 15 percent of GDP in 2019. Total exports were able to maintain growth as the contraction in garment exports was fully offset by surging gold exports and increasing exports of agricultural products and other manufactured items. Meanwhile, imports fell across the board due to slower economic activity. After registering inflows in the past due to strong tourism receipts, the services account recorded a net deficit following the collapse in tourism while remittances dipped by double digits. Foreign direct investment (FDI) inflows fell in 2020, with some projects either delayed or put on hold as a result of the pandemic. However, FDI inflows could fully offset the current account deficit, keeping the overall balance of payments in surplus. International reserves increased to USD 21.3 billion as of the end of December 2020, equivalent to 11.6 months of imports of goods and services.

Credit growth has steadily slowed to below 20 percent since April 2020 but stabilized at about 16 percent toward the end of 2020, amid supportive policies implemented by the National Bank of Cambodia (NBC) to enhance liquidity and maintain financial stability. These measures included cutting interest rates, reducing the reserve requirement

and providing guidance to banks to help ease the debt burden of companies. Nonperforming loans have remained relatively low, attributable in part by the regulatory forbearance exercised by the NBC. Meanwhile, the Capital Adequacy Ratio remains well above the minimum requirement, which may provide a buffer against losses from any deterioration in the loan portfolio.

The economy was supported by expansionary fiscal policy in 2020, with the fiscal deficit rising to about 6.7 percent of GDP (excluding grants) from 1.2 percent in 2019. A broad fiscal stimulus package of 5.1 percent of GDP was rolled out in response to the COVID-19 pandemic, which included additional health spending, provision of cash transfers to the poor, and support for workers and firms through wage subsidies and soft loans. Despite the significant increase in the fiscal deficit, public debt remained manageable at 32.2 percent of GDP in 2020, an increase from 28.1 percent in 2019. The government has been drawing on its sizable fiscal savings, in addition to foreign financing from development partners, to finance the stimulus measures. With several support measures set to continue at least until Q1 2021, coupled with increased capital expenditure, the fiscal deficit is expected to widen further to 8 percent of GDP in 2021.

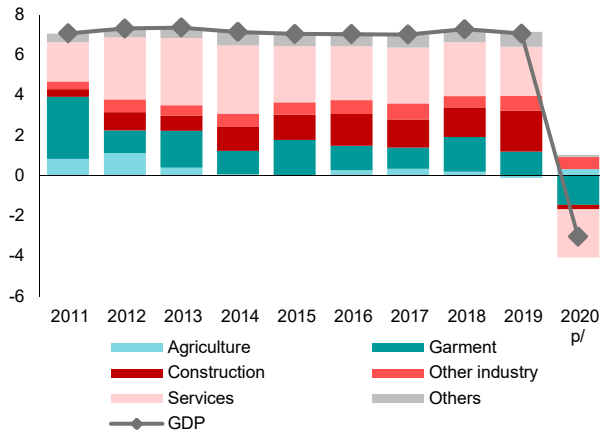
Main risks could come from weaker than expected global growth due to the pandemic, which will severely impact Cambodia due to its high reliance on garment exports and tourism. The risks to garment exports are intensified by their concentration in the US, EU, and UK markets, which continue to record high numbers of COVID-19 cases. Regulatory forbearance and other policy support have provided a lifeline for businesses during the pandemic. However, the extent of the deterioration in credit quality once support is withdrawn remains unclear. The duration of the pandemic, combined with continuing travel restrictions and slow recovery in international travel, could result in greater damage to company balance sheets, with knock-on effects for the financial sector.

Given Cambodia's vulnerability to external downturns amid the continuing global pandemic, any rollback of support measures needs to be effected cautiously and gradually. Fiscal policy will need to shift away from providing short-term support toward allocating more resources to boost medium-term economic resilience. However, targeted assistance to those most in need has to continue, while facilitating sectoral resource allocation and enhancing investments in infrastructure and social safety nets.

# Cambodia: Selected Figures

The Cambodian economy is estimated to have contracted in 2020 after many years of high growth.

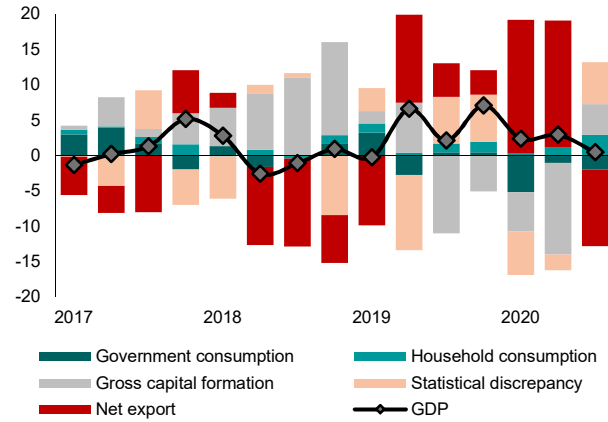
**Contributions to Real GDP Growth**  
(Percentage points, year-over-year)



Sources: National Institute of Statistics of Cambodia; and AMRO staff estimates. Note: p denotes preliminary.

Inflation rose in 2020 due to higher food prices, which generally offset the lower energy prices.

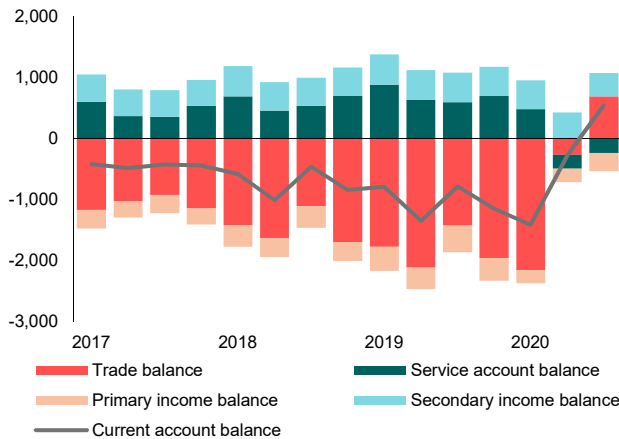
**Contributions to CPI Inflation**  
(Percentage points, year-over-year)



Sources: National Bank of Cambodia; and AMRO staff calculations. Note: Food includes non-alcoholic beverages.

The current account turned positive in Q3 2020 due to a drop in imports, while exports continued to grow.

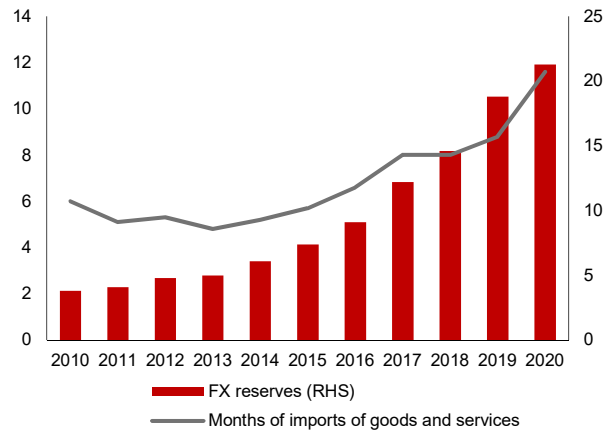
**Current Account Balance**  
(Millions of US dollars)



Sources: National Bank of Cambodia; and AMRO staff calculations.

International reserves continued to rise, reaching USD 21.3 billion as of the end of December 2020.

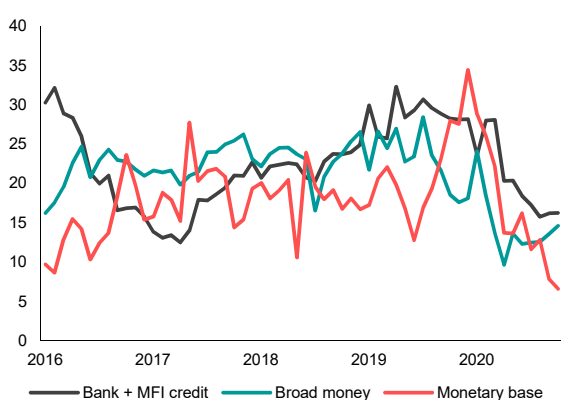
**International Reserves**  
(Months of imports; billions of US dollars)



Sources: National Bank of Cambodia; and AMRO staff calculations.

Credit to the economy has moderated since April 2020, in line with monetary aggregates, and has recently stabilized.

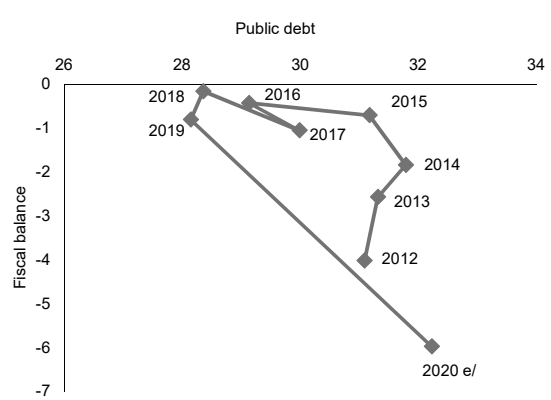
**Credit and Monetary Aggregates**  
(Percent, year-over-year)



Sources: National Bank of Cambodia; and AMRO staff calculations. Note: MFI = microfinance institution.

After steady improvement, the fiscal deficit rose in 2020 due to measures to mitigate the impact of the pandemic.

**Fiscal Balance and Public Debt**  
(Percent of GDP)



Source: Ministry of Economy and Finance. Note: e/ denotes estimate.

## Cambodia: Selected Economic Indicators

Indicator	2017	2018	2019	2020
<b>Real sector</b>	(in annual percentage change)			
Real GDP	7.0	7.3	7.1	-3.0
Agriculture	1.7	1.1	-0.5	2.0
Industry	9.8	11.0	11.3	-2.9
Services	7.0	6.8	6.2	-6.2
<b>External sector</b>	(in percent of GDP, unless otherwise specified)			
Current account balance	-8.1	-11.8	-15.0	-10.3
Trade balance	-19.3	-23.8	-26.8	-12.8
Capital and financial account balance	16.6	16.2	24.8	9.6
Direct investment	12.1	12.6	13.1	11.8
Portfolio investment	0.0	-0.2	0.0	0.0
Other investment	3.3	2.5	10.4	-3.2
Errors and omissions	1.1	1.5	0.6	0.9
Overall balance	7.4	5.9	9.8	0.2
External debt	51.8	53.8	54.5	53.7
International reserves (in USD billion, end of period)	12.2	14.6	18.8	21.3
<b>Fiscal sector</b>	(in percent of GDP)			
Revenue and grants	21.9	23.8	26.2	20.4
Expenditure	23.4	24.5	27.3	27.2
Fiscal balance <sup>1</sup>	-2.6	-1.7	-1.2	-6.7
Government debt	30.0	28.4	28.1	32.2
<b>Monetary and financial sectors</b>	(in annual percentage change)			
Broad money	23.8	24.0	25.5	14.5
Domestic credit	15.6	21.1	24.4	18.1
Private sector credit	18.5	23.2	24.3	18.3
<b>Memorandum items:</b>				
Nominal GDP (in KHR billion)	89,831	99,544	110,014	109,776
Nominal GDP (in USD million)	22,177	24,572	27,089	26,896
Headline inflation (in percent yoy, period average)	2.9	2.5	1.9	2.9

Sources: National authorities via CEIC; and AMRO staff estimates.

Note: Numbers in red denote AMRO staff estimates. yoy = year-over-year.

<sup>1</sup> Excluding grants.

# China

The Chinese economy has rebounded sharply from the acute contraction in Q1 2020. The economy was hit hard by the COVID-19 outbreak and contracted by 6.8 percent in Q1 2020. It has since rebounded sharply, growing by 4.9 and 6.5 percent in Q3 and Q4 2020 following success in containing the spread of infections and the timely and effective stimulus package.

The recovery was uneven but has broadened significantly. The recovery was led by the manufacturing sector as production resumed rapidly with the lifting of the lockdown. The services sector, such as retail, has also improved but at a slower pace. In recent months, the services sector has been catching up with easing travel restrictions and increasing consumer spending.

Labor market conditions have improved significantly with declining unemployment. The surveyed unemployment rate peaked at 6.2 percent in February 2020 and declined to 5.2 percent in November 2020. In H1 2020, a sizable number of workers temporarily dropped out of the labor force, particularly migrant workers. Since then, many of these workers have been able to return to their jobs, with the steady improvement in labor market conditions alongside recovering economic conditions.

CPI inflation has declined as a result of decelerating pork prices and is expected to be stable in the coming quarters. CPI inflation peaked at 5.4 percent in January 2020 following a spike in pork prices as a result of a swine fever. Prices declined sharply by 0.5 percent in November, reflecting the passing of base effects and the pandemic impact on the economy. CPI inflation is expected to recover gradually, as the economy continues to recover and energy prices rise, and then stabilize.

The Chinese authorities have taken effective measures to contain the COVID-19 outbreak, support growth, and mitigate the impact on micro, small, and medium enterprises (MSMEs), vulnerable groups, and lower-tier governments. Economic policy measures at the beginning of the outbreak were responsive but measured. Subsequent measures have become more sizable and more targeted to shore up growth and employment.

Targeted fiscal measures have provided timely and needed support since the beginning of the COVID-19 outbreak. The government responded to the pandemic by deploying significant tax and fee relief measures. The government's revenue declined with the economic contraction in H1 2020. So far, spending on social security, employment and health has increased significantly. However, total expenditure has

decelerated due to the constraint from the sharp fall in revenue. The deficit in the government's general account is expected to rise significantly to 3.6 percent of GDP in 2020, from 2.8 percent in 2019. It is expected to decline to 3 percent of GDP in 2021 as the economy rebounds, leading to growing revenue and as policy support is gradually phased out.

Several monetary policy measures were deployed to ensure ample liquidity and stimulate credit growth. Open market operations were quickly adjusted to support the sharp liquidity needs in Q1 2020. The central bank increased medium-term lending facility operations and cut the reserve requirement ratio. Moreover, the central bank expanded the usage of targeted relending and rediscounting and introduced new targeted tools, to support key sectors and MSEs. Regulatory requirements were eased and macroprudential assessment parameters were adjusted to enhance the banking sector's capacity and incentives for credit extension during the pandemic period. Meanwhile, the central bank has also continued to strengthen the pricing of the loan prime rate, the policy rate.

To mitigate systemic risks arising from highly leveraged real estate developers, the authorities have introduced tight financing rules on both property developers and banks, given the former's linkages with banks and other financial institutions, and upstream and downstream enterprises. The authorities have introduced the "three red lines" rules for developers, by setting thresholds for the debt-to-asset ratio, net gearing ratio and cash-to-short-term debt ratio. They also have imposed quantitative constraints on banks' real estate-related loans.

In response to high and rising corporate debt and an increasing number of state-owned enterprise (SOE) bond default, the authorities have taken measures to rein in debt and manage spillover risks. China's corporate debt-to-GDP ratio was 151.3 percent in December 2019, among the highest in emerging markets, rising further to 165 percent in September 2020. SOE bond default has risen significantly, and default events have had spillover effects on other SOEs in the same provinces or industries. The authorities have also emphasized the need to rein in growth in local government financing vehicle debt and taken timely measures to prevent spillovers from bond defaults.

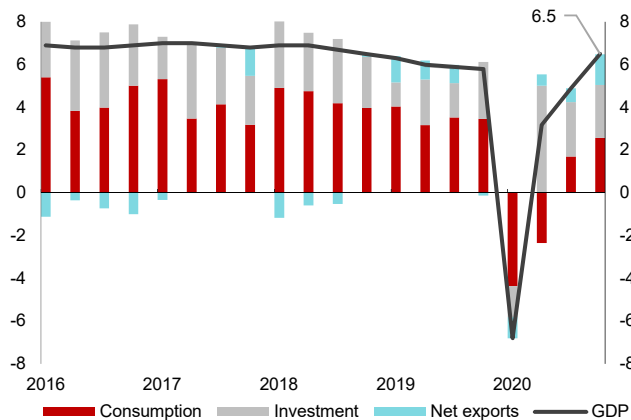
As economic growth has gained momentum and become more broad based, policymakers have paid more attention to the need to reduce long-term risks and boost economic growth potential.



# China: Selected Figures

GDP has rebounded sharply and sequentially, after an acute fall in Q1 2020.

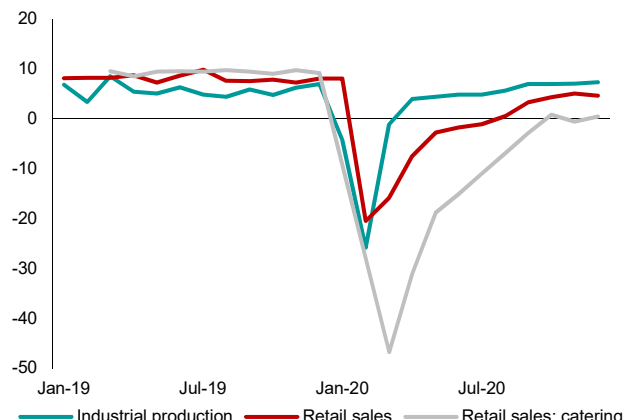
**Contributions to Real GDP Growth**  
(Percentage points, year-over-year)



Sources: Wind; and AMRO staff calculations.

Divergences have emerged among sectors, with retail sales, especially catering, lagging behind.

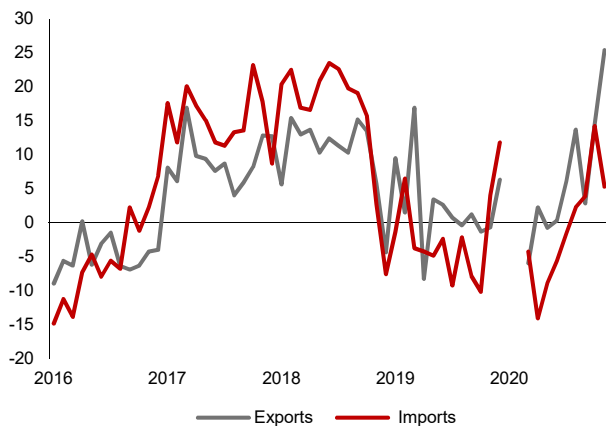
**Industrial Production and Retail Sales**  
(Percent, year-over-year)



Sources: Wind; and AMRO staff calculations.

Exports grew sharply, as China quickly restored production with policy support, and overseas demand surged.

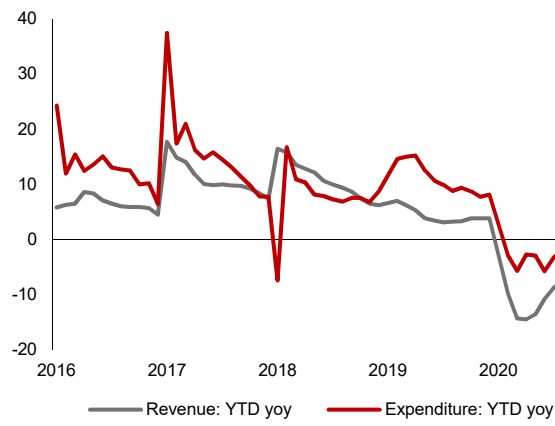
**Trade Volume**  
(Percent, year-over-year, seasonally adjusted)



Source: Wind.

Fiscal revenue declined sharply, as a result of tax and fee cuts and the economic slowdown, while expenditure declined moderately.

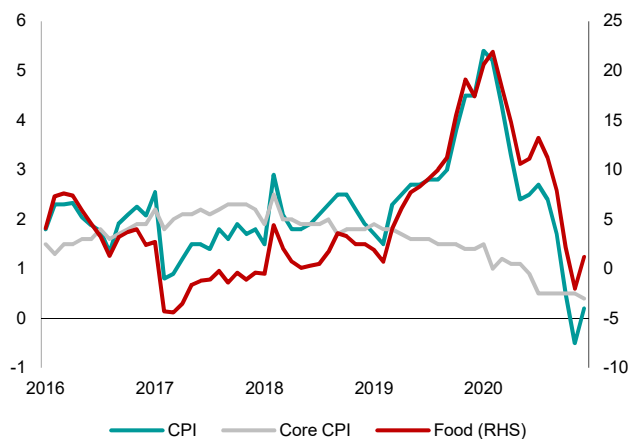
**Fiscal Revenue and Expenditure**  
(Percent, year-over-year)



Source: Wind.  
Note: yoy = year-over-year; YTD = year-to-date.

Inflation has declined with falling pork prices and will increase modestly with continued economic recovery.

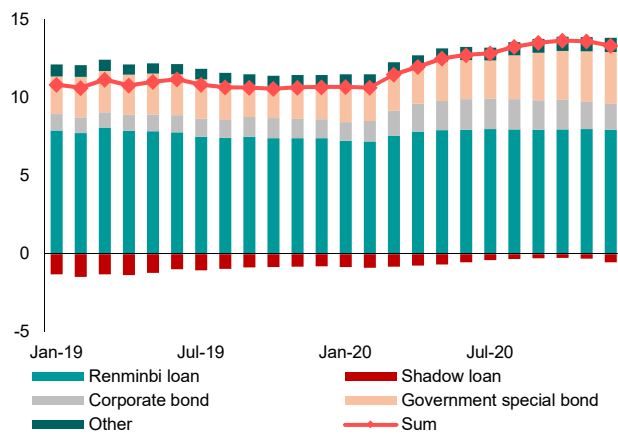
**CPI Inflation**  
(Percent, year-over-year)



Source: National Bureau of Statistics.  
Note: CPI = consumer price index.

Credit expansion has been strong on the back of policy measures to support the economy.

**Total Social Financing Growth**  
(Percentage point contribution, year-over-year)



Sources: Wind; and AMRO staff calculations.

## China: Selected Economic Indicators

Indicator	2017	2018	2019	2020
<b>Real Sector</b>	(in annual percentage change)			
Real GDP	6.9	6.7	6.0	2.3
Private consumption	11.1	10.4	9.0	–
Government consumption	11.2	11.9	8.9	–
Gross fixed capital formation	6.1	6.6	4.5	–
Imports of goods and services	15.5	13.0	1.0	–
Exports of goods and services	12.1	7.2	5.4	–
<b>External sector</b>	(in percent of GDP, unless otherwise specified)			
Current account balance	1.6	0.2	1.0	–
Trade balance	1.8	0.8	1.1	–
Capital and financial account balance	0.1	1.1	0.4	–
Direct investment	0.2	0.7	0.4	–
Portfolio investment	0.2	0.8	0.4	–
Other investment	0.4	–0.6	–0.5	–
Errors and omissions	–1.7	–1.3	–1.4	–
Overall balance	2.5	1.3	2.3	–
Gross external debt	14.6	14.8	14.4	–
International reserves (in USD billion, end of period)	3,139.9	3,072.7	3,107.9	3,216.5
<b>Fiscal sector<sup>1</sup></b>	(in percent of GDP)			
Revenue	22.0	21.6	21.3	18.0
Expenditure	24.4	24.0	24.2	24.2
Fiscal balance	–2.9	–2.6	–2.8	–3.6
<b>Monetary and financial sectors</b>	(in annual percentage change)			
Broad money <sup>2</sup>	8.1	8.1	8.7	10.1
Total social financing	14.1	10.3	10.7	13.3
Bank loans	12.7	13.5	12.3	12.8
<b>Memorandum items:</b>				
Nominal GDP (in CNY trillion)	83.2	91.9	99.1	101.6
Headline inflation (in percent yoy, period average)	1.6	2.1	2.9	2.5
Shanghai Interbank Offered Rate, Overnight (in percent)	2.8	2.6	1.7	2.4
Exchange rate (in USD/CNY, period average)	6.8	6.6	6.9	6.5

Sources: National authorities via CEIC; and AMRO staff estimates.

Note: Numbers in red denote AMRO staff estimates. yoy = year-over-year.

<sup>1/</sup> Includes only general government account, and incorporates AMRO staff estimates.

<sup>2/</sup> Refers to M2, the measure of broad money supply or aggregate, which has implications for the conduct of monetary policy.

# Hong Kong, China

Hong Kong's economy was in recession in 2020 due to the COVID-19 pandemic, with growth coming in at -6.1 percent for the year, but recovery momentum improving through the course of the year. Key factors include the unemployment rate rising above 6 percent, the government having to impose stringent social distancing measures, and confidence remaining subdued.

The inflation rate has eased markedly as a result of the downturn. The headline CPI inflation rate eased and turned negative in the later months of the year. The underlying inflation rate (netting out the effects of all of the government's one-off relief measures) came in marginally positive. Price pressures are likely to remain low because of subdued domestic demand and the global recession, as well as supportive government policy measures.

Domestic financial conditions eased moderately, and are likely to remain accommodative. Moderate bank credit growth has been supported by government actions to underwrite credit risks, particularly for loans to small and medium enterprises (SMEs). Meanwhile, Hong Kong Interbank Offered Rates have fallen, reflecting the US Federal Reserve's monetary policy easing. The Hong Kong Monetary Authority's establishment of the US Dollar Liquidity Facility in April 2020, and subsequent extension of the facility to September 30, 2021, have helped build confidence.

The external position is strong, with the balance of payments in surplus for most quarters alongside capital inflows. The international investment position remains robust. Foreign currency reserve assets cover more than 40 months of retained imports. Confidence in the Hong Kong dollar is well-anchored; the pandemic's impact on sentiment has been offset by a continuing flow of funds into the banking system and stock market.

Overall, risks have heightened markedly since the turn of the year—similar to other economies across the region:

- The main risk is that recurring outbreaks of COVID-19 infections in Hong Kong and globally could exert a sharp drag on growth by dampening domestic activities as well as exports including trade-related services and tourism activities.
- Stress on businesses especially SMEs could worsen. If so, more workers could be retrenched and wages could

fall, while investment could dip further, both of which would impede recovery.

- Worsening credit quality for hard-hit sectors and SMEs will pose challenges for banks, although the banking sector will likely remain resilient and effective.
- Uncertainty from US–China tensions also has risen following the enactment of the National Security Law and the US decision to remove Hong Kong's special status.
- Risks related to real estate will likely be contained, although a prolonged recession could lead to significant property price corrections.

Pandemic policy response has been swift, large in scale, and broad in scope. Fiscal support has totaled more than HKD 300 billion or about 11 percent of GDP. The measures have provided comprehensive support for businesses, jobs, and livelihoods. Policy support has also entailed leveraging the banking sector's strong buffers, with authorities exercising regulatory forbearance, implementing a pre-approved principal payment holiday scheme and boosting credit guarantees for businesses.

Fiscal reserves provide ample policy space to deal with the difficult near term and address long-term challenges. The annual fiscal deficit is estimated to average 3.2 percent of GDP between FY2021/22 and FY2024/25. Fiscal reserves are anticipated to fall from about HKD 902.7 billion (33.3 percent of GDP) in FY2020/21 to about HKD 540 billion (about 16 percent of GDP) by end-FY2024/25, which could still cover about 8–9 months of government spending.

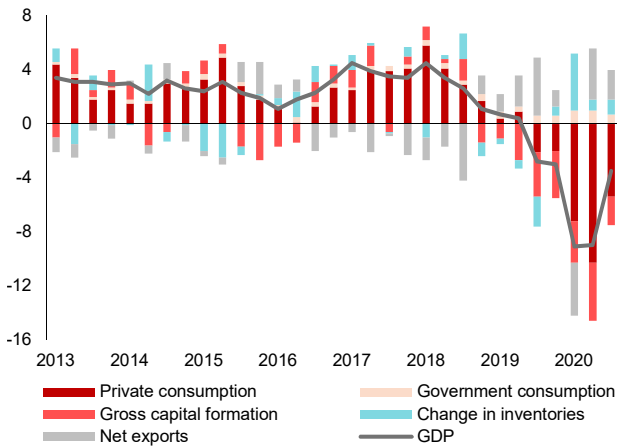
This crisis highlights the need for measures to sustain growth potential, strengthen resilience, enhance inclusiveness, and boost safety nets. Further diversifying sources of growth and playing a key role in connecting China with the world would enhance growth. Strengthening support for the least upwardly mobile groups and creating more jobs across wage brackets would boost inclusiveness and resilience. Strengthening safety nets such as an enhanced unemployment benefits program would help policy support to kick in promptly when needed. Boosting affordable housing supply rightly remains a top priority. Increasing fiscal revenue to meet long-term challenges and preserve fiscal reserves will be important.



# Hong Kong, China: Selected Figures

*Hong Kong's economy was in recession in 2020 as a result of the COVID-19 pandemic.*

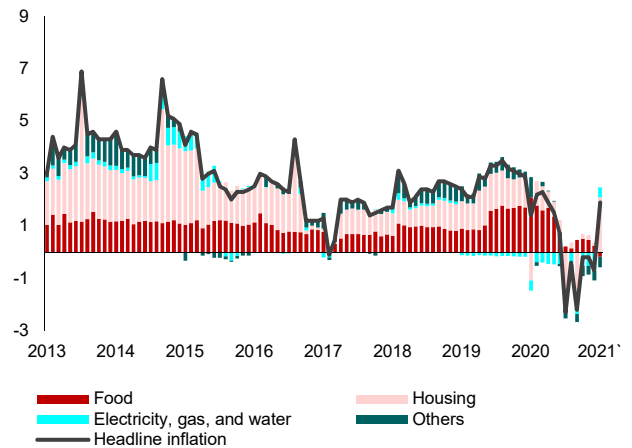
**Contributions to Real GDP Growth**  
(Percentage points, year-over-year)



Sources: Hong Kong authorities via CEIC; and AMRO staff calculations.

*Inflation has eased markedly given the economic downturn and is likely to remain muted ahead.*

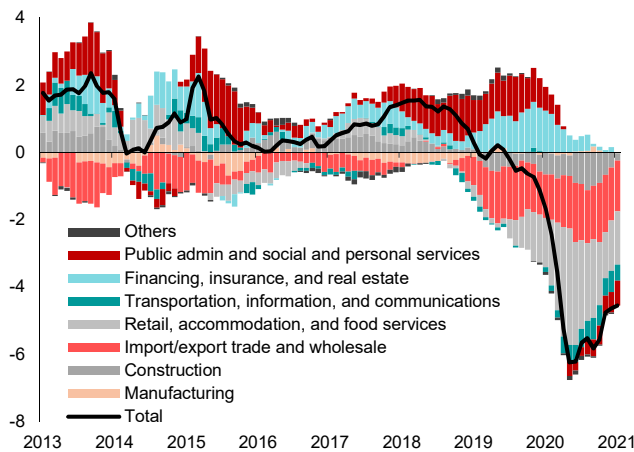
**Contributions to CPI Inflation**  
(Percentage points, year-over-year)



Sources: Hong Kong authorities via CEIC; and AMRO staff calculations.  
Note: CPI = consumer price index.

*Employment conditions worsened markedly, before showing signs of stabilization toward the end of 2020.*

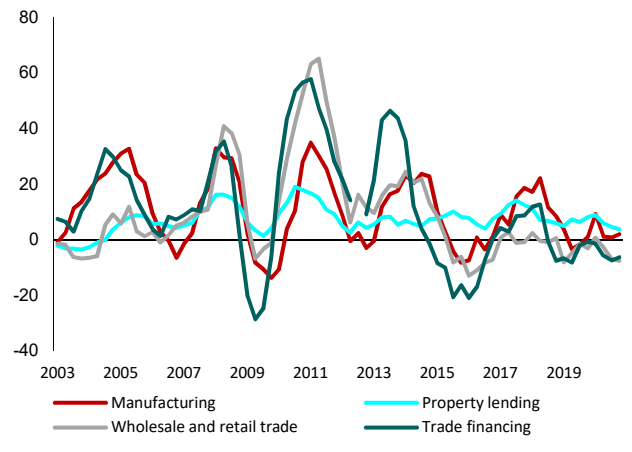
**Contributions to Employment Creation**  
(Percentage points, year-over-year)



Sources: Hong Kong authorities via CEIC; and AMRO staff calculations.

*Credit growth remained supportive, with help from strong policy action.*

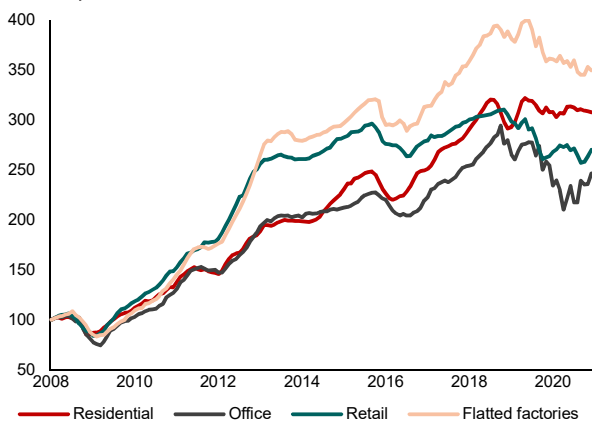
**Credit Growth**  
(Percent, year-over-year)



Sources: Hong Kong authorities via CEIC; and AMRO staff calculations.

*Residential property prices have remained resilient despite the sharpness of the economic downturn.*

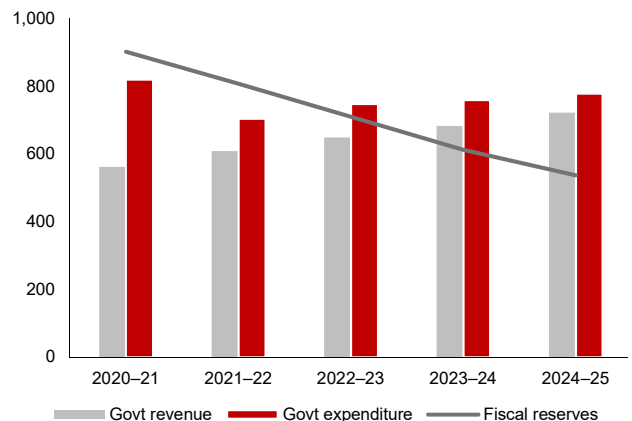
**Property Price Indices**  
(January 2008 = 100)



Sources: Hong Kong authorities via CEIC; and AMRO staff calculations.

*Despite sizable use of fiscal reserves in response to the pandemic, reserves are projected to remain substantial in the coming years.*

**Fiscal Revenue, Expenditure, and Reserves**  
(Billions of HK dollars)



Sources: Hong Kong authorities; and AMRO staff calculations.

## Hong Kong, China: Selected Economic Indicators

Indicator	2017	2018	2019	2020
<b>Real sector</b>	(in annual percentage change)			
Real GDP	3.8	2.8	-1.2	-6.1
Private consumption	5.5	5.3	-1.1	-10.1
Government consumption	2.8	4.2	5.1	7.8
Gross fixed capital formation	3.1	1.7	-12.3	-11.5
Imports of goods	7.3	4.7	-7.3	-2.1
Imports of services	2.0	2.8	-2.4	-35.1
Exports of goods	6.5	3.5	-4.6	-0.3
Exports of services	2.8	4.6	-10.2	-36.8
<b>External sector</b>	(in percent of GDP, unless otherwise specified)			
Current account balance	4.6	3.7	6.0	-0.5
Goods trade balance	1.0	-0.2	1.7	-1.1
Capital and financial account balance	6.6	-5.9	-8.6	-6.8
Direct investment	7.0	6.1	5.6	4.0
Portfolio investment	9.9	-21.7	-7.5	-5.5
Other investment	-12.7	8.6	-6.7	-1.8
Errors and omissions	-1.7	2.4	2.3	1.8
Overall balance	9.4	0.3	-0.3	0.5
International reserves (in USD billion, end of period)	432.8	424.2	438.9	486.0
<b>Fiscal sector</b>	(in percent of GDP)			
Revenue and grants <sup>1</sup>	23.3	21.2	20.6	20.7
Expenditure	17.7	18.8	21.2	30.2
Fiscal balance	5.6	2.4	-0.6	-9.5
Government debt	0.1	0.1	0.3	0.1
<b>Monetary and financial sectors</b>	(in percent)			
Total loans (in annual percentage change)	16.1	4.4	6.7	7.2
Loan to deposit ratio	73.0	72.6	75.3	83.5
Classified loan ratio	0.6	0.6	0.5	0.8
Capital adequacy ratio	19.1	20.3	20.7	20.0
<b>Memorandum items:</b>				
Nominal GDP (in HKD billion)	2,659.4	2,835.2	2,865.7	2,710.7
Headline inflation (in percent yoy, period average)	1.5	2.4	2.9	0.3
Three-month HIBOR (end of period)	1.3	2.3	2.4	0.3
Exchange rate (in HKD/USD, end of period)	7.81	7.83	7.79	7.75

Sources: National authorities via CEIC; and AMRO staff estimates.

Note: Numbers in red denote AMRO staff estimates. HIBOR = Hong Kong Interbank Offered Rate; yoy = year-over-year.

<sup>1</sup> Includes 0.7 percentage point from the net proceeds from the issuances of green bonds.

# Indonesia

The economy of Indonesia remains resilient despite COVID-19 and is on the way to recovering from the adverse impact of the pandemic. Real GDP contracted by 2.1 percent in 2020, as the imposition of large-scale social restrictions led to a decline in domestic demand. Economic activity had gradually turned around in H2 2020, following the resumption of mobility and aided by pro-active monetary and fiscal stimulus measures. The launch of a vaccination program, together with continued supportive policies and the global economic recovery, are expected to underpin a rebound in growth to 4.9 percent in 2021.

The external position remains resilient. Muted domestic demand led to a decline in imports, while exports have gained traction on the back of a recovery in commodity prices. Consequently, the current account deficit narrowed to 0.5 percent of GDP in 2020. Inflows to financial markets have resumed—underpinned by improved investor sentiment and global portfolio rebalancing—after the large sell-off in early 2020. Improvement in the current account balance and the return of capital inflows have supported the rupiah rebound and reserve accumulation.

Strong capital buffers and increased provisioning have underpinned overall banking resilience, as the economic downturn affected banks' asset quality. Weakened household and corporate sector balance sheets have spilled over to banks' asset quality, as reflected in an increase in banks' nonperforming loans (NPLs). To provide a cushion for affected businesses, banks have been allowed to relax their quality assessment for loans of up to IDR 10 billion and restructured loans. Meanwhile, banks have stepped up loan loss provisioning, in part because of the implementation of new financial reporting standards, sufficient to cover about 165 percent of NPLs, as of September 2020. At close to 24 percent, the Indonesian banking system's capital adequacy ratio remains among the highest in the region.

Bank Indonesia (BI) has actively recalibrated its policy mix to support economic recovery while safeguarding financial stability. The measures include providing substantial liquidity support and conducting triple interventions in the spot exchange rate, domestic non-deliverable forwards, and secondary government bond markets to buffer against volatility shocks while maintaining rupiah flexibility. Given the subdued inflation environment,

BI lowered its benchmark 7-day reverse repo rate by a cumulative 150 basis points, to 3.5 percent, as of February 2021. Macroprudential measures have also been eased to stimulate financing to priority sectors. Total liquidity injected into the system—notably through lower reserve requirements, term repos, FX swaps, and purchase of government bonds in the secondary market—is estimated at IDR 727 trillion (about 4.7 percent of GDP) as of the end of 2020.

Sizable fiscal packages have provided assistance to affected households and businesses. The revised Budget for 2020 introduced fiscal packages of about IDR 695 trillion (4.4 percent of GDP), to cover COVID-19 healthcare spending, social assistance to affected households, and sectoral and regional support ("public goods" package), and support to businesses, including both micro, small, and medium enterprises (MSMEs) and non-MSME firms. Additional fiscal stimulus has also been approved for the 2021 Budget, to provide continuing support for a sustainable recovery.

A forward-looking regulation, Perppu 1/2020, was issued to suspend the fiscal deficit ceiling of 3 percent of GDP in 2020–22. It also allows BI to purchase government bonds in the primary market to finance the budget. BI has done so through market-based mechanisms in line with a joint decree with the Finance Minister in April 2020. Under a one-off burden sharing agreement in July 2020, BI also financed the "public goods" package through private placements and absorbed the interest costs, as well as shared part of the interest costs of the MSME and corporate support packages.

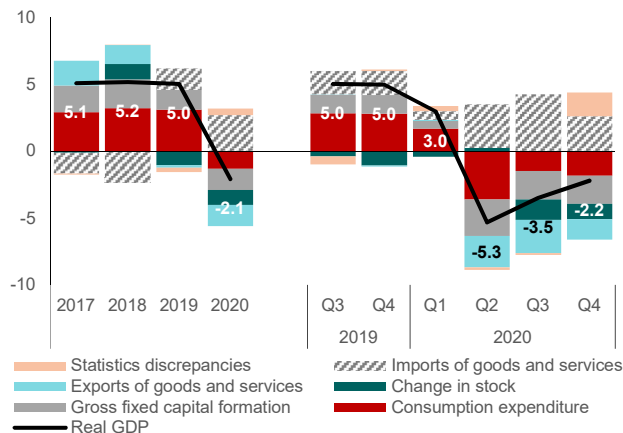
With speedy vaccine developments and continuing policy support lifting the outlook for 2021, downside risks are attributable to ongoing pandemic uncertainties in the short-term. The pace of rebound may be capped by current elevated infections and tightened social restrictions. Possible delays in inoculation or weaker-than-expected vaccine efficacy could trigger renewed lockdowns elsewhere and cast a shadow on global prospects, which may affect the demand for Indonesia's commodity exports. On the upside, a swift and effective vaccination program will enable a stronger recovery by Indonesia. The recent passage of an Omnibus Law on Job Creation is a major breakthrough in improving the investment climate and facilitating job generation.



# Indonesia: Selected Figures

The economy is on the way to recovering from a sharp contraction in Q2 2020.

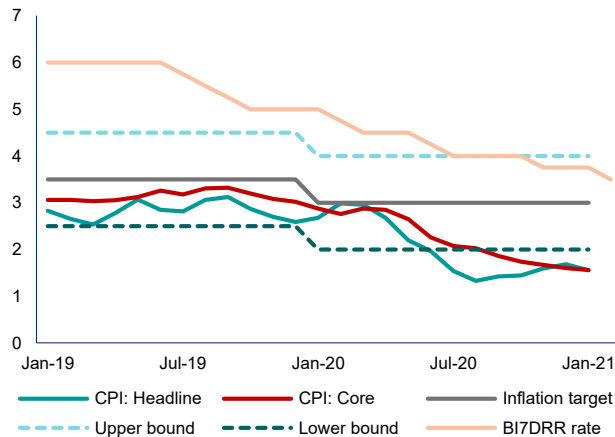
**Contributions to Real GDP Growth**  
(Percentage points, year-over-year)



Sources: Statistics Indonesia via CEIC; and AMRO staff calculations.

Bank Indonesia lowered its policy rates and injected liquidity to support the economy, amid subdued inflation.

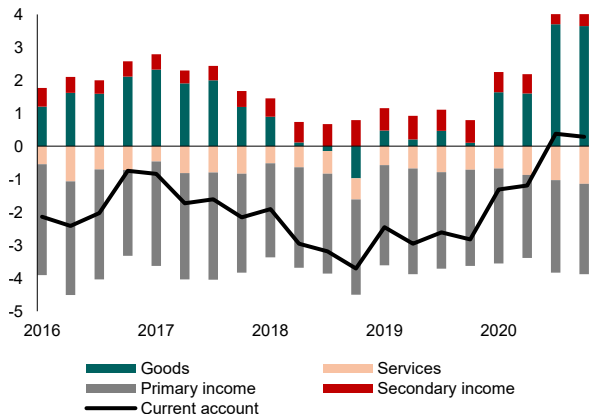
**Policy Rate and Inflation**  
(Percent)



Source: Statistics Indonesia via CEIC.  
Note: BI7DRR refers to Bank Indonesia's 7-day reverse repo rate. CPI = consumer price index.

The current account balance improved.

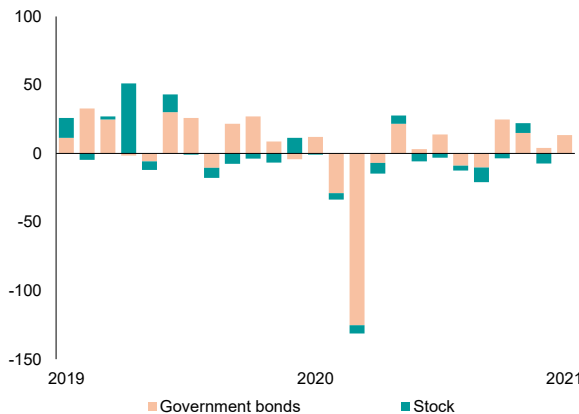
**Current Account Balance**  
(Percent of GDP)



Sources: Bank Indonesia via CEIC; and AMRO staff calculations.

And capital inflows into the government bond market resumed.

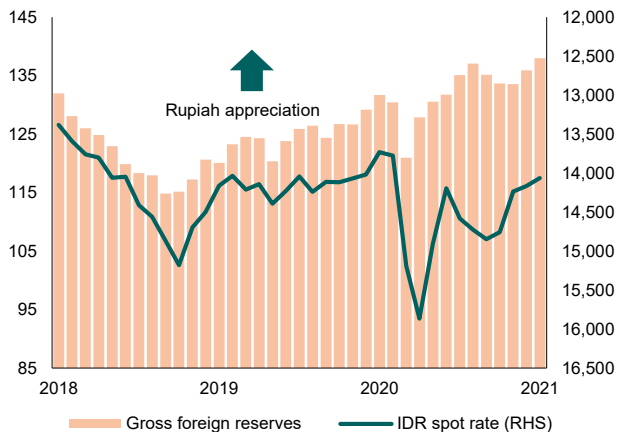
**Net Capital Flows to Bond and Equity Markets**  
(Trillions of Indonesian rupiah)



Sources: Bank Indonesia, Indonesia Stock Exchange and Ministry of Finance all via CEIC; and AMRO staff calculations.

The rupiah rebounded and BI accumulated foreign exchange reserves.

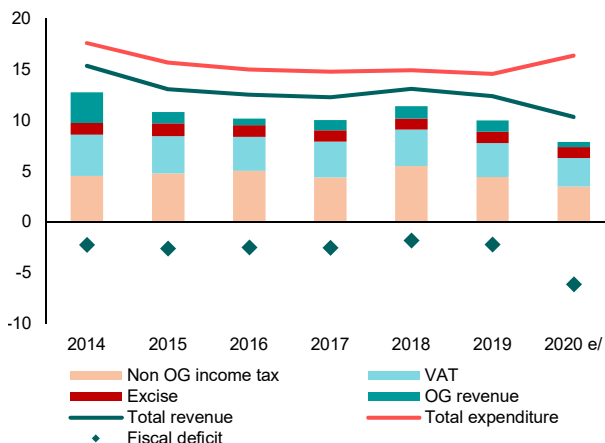
**Gross Foreign Reserves and Rupiah Spot Rate**  
(Billions of US dollars; IDR/USD inverse)



Source: Bank Indonesia via CEIC.

Budget expenditure increased to support affected sectors while revenue declined, widening the deficit.

**Budget Revenue, Expenditure, and Overall Balance**  
(Percent of GDP)



Sources: Ministry of Finance via CEIC; and AMRO staff estimates.  
Note: Data for 2020 are AMRO staff estimates based on the preliminary fiscal realization data reported by Ministry of Finance of Indonesia. OG = oil and gas; VAT = value-added tax.

## Indonesia: Selected Economic Indicators

Indicator	2017	2018	2019	2020
<b>Real sector</b>	(in annual percentage change)			
Real GDP	5.1	5.2	5.0	-2.1
Household consumption	4.9	5.1	5.0	-2.6
Government consumption	2.1	4.8	3.3	1.9
Gross fixed capital formation	6.2	6.7	4.5	-5.0
Imports of goods and services	8.1	12.1	-7.4	-14.7
Exports of goods and services	8.9	6.5	-0.9	-7.7
<b>External sector</b>	(in percent of GDP, unless otherwise specified)			
Current account balance	-1.6	-2.9	-2.7	-0.5
Trade balance	1.9	0.0	0.3	2.7
Capital and financial account balance	2.8	2.4	3.3	0.7
Direct investment	1.8	1.2	1.8	1.3
Portfolio investment	2.1	0.9	2.0	0.4
Other investment	-1.1	0.3	-0.5	-1.0
Overall balance	1.1	-0.7	0.4	0.2
Gross external debt	34.7	36.0	36.1	39.4
International reserves (in USD billion, end of period)	130.2	120.7	129.2	135.9
<b>Fiscal sector</b>	(in percent of GDP)			
Revenue and grants	12.3	13.1	12.4	10.3
Expenditure	14.8	14.9	14.5	16.4
Fiscal balance	-2.5	-1.8	-2.2	-6.1
Government debt	29.4	30.4	30.6	37.7
<b>Monetary and financial sectors</b>	(in annual percentage change)			
Broad money	8.3	6.3	6.5	12.4
Private sector credit	8.0	12.5	5.5	-2.4
<b>Memorandum items:</b>				
Nominal GDP (in IDR trillion)	13,590	14,838	15,834	15,434
Headline inflation (in percent yoy, period average)	3.8	3.2	3.0	2.0
Policy rate (in percent per annum)	4.3	6.0	5.0	3.8
Exchange rate (in IDR/USD, period average)	13,385	14,246	14,148	14,525

Sources: National authorities via CEIC; and AMRO staff estimates.  
 Note: Numbers in red denote AMRO staff estimates. yoy = year-over-year.

# Japan

The Japanese economy has started to rebound after being severely hit by the COVID-19 pandemic. After the first wave of infections in April 2020, the economy contracted by 29.3 percent (annualized quarter-over-quarter) as economic activity, particularly private consumption, shrank sharply amid the nationwide state of emergency. In Q3 and Q4, real GDP expanded by 22.7 and 12.7 percent, respectively, mainly driven by a sharp rebound in private consumption and net exports. For the whole year of 2020, the economy has contracted 4.8 percent. Private consumption began to recover strongly in H2 2020, but the pace was uneven between goods and services consumption. Exports bounced back on growing external demand in H2, while imports remained weak. Business investment jumped in Q4. Public investment accelerated on the back of large-scale economic stimulus packages. The unemployment rate rose to above 3 percent in H2 2020 but avoided a huge spike-up, largely attributable to the government's enhanced Employment Adjustment Subsidy program.

Looking ahead, GDP growth is expected to rebound in 2021. Private consumption is projected to expand at a moderate pace, while another state of emergency, declared in January 2021, will lead to a temporary reduction in Q1. Business investment will slowly recover under the assumption of a wider deployment of vaccines in H2 2021. Exports are likely to accelerate with stronger global demand. Public spending will continue to provide support to growth.

CPI inflation decelerated in 2020, falling into the negative territory in Q4. Service prices declined sharply whereas goods prices have fared well since the onset of the pandemic. The recent drag on consumer prices may be attributable to not only the sharp economic downturn, but also policy measures such as free education and the travel subsidy program. Looking ahead, CPI inflation is projected to stay slightly negative in 2021.

Japan's current account remained resilient, posting a surplus amounting to 3.3 percent of GDP in 2020. The trade balance has recovered from a temporary dip in Q2 following a surge in global demand for goods, in particular, for automobiles. The services account, which was hit hard by international travel restrictions, posted a deficit. The primary income account remained the major contributor to Japan's strong current account surplus. Outbound foreign direct investment (FDI) and portfolio investment have been robust, suggesting that the impact of the pandemic on Japanese overseas investments could be limited.

The overall financial system remains sound, although financial institutions face some pressure from rising credit risks. In response to the COVID-19 pandemic, the Bank of Japan strengthened its liquidity support for corporate financing, mainly through a special program totaling about JPY 140 trillion. The growth in bank lending has jumped to 5–6 percent year-over-year since Q2 2020, reflecting a surge in demand from firms, amid highly accommodative financing conditions. Overall, the banking sector has sufficient capital buffers, while nonperforming loan ratios have stayed low. However, Japanese mega banks posted a significant decline in net profits because of increased provisions in H1 FY2020, led by the economic fallout from the pandemic.

The fiscal deficit is projected to widen sharply in FY2020, mainly attributable to the government stimulus packages to combat the COVID-19 pandemic. Given the sharp economic downturn, tax revenues in FY2020 are likely to fall short of the budget. The government has adopted unprecedented large economic stimulus packages, amounting to about 52 percent of GDP, including three supplementary budgets in FY2020. As a result, the fiscal deficit is expected to widen significantly in FY2020, before narrowing in FY2021.

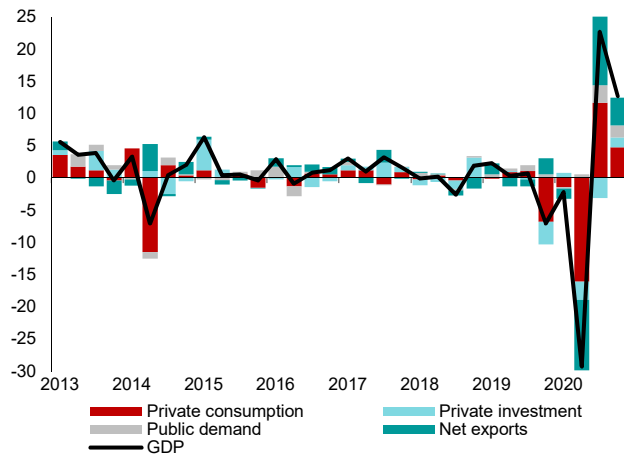
The economy is facing significant uncertainty in the macro-financial outlook, which is highly dependent on the future path of pandemic. Given the continuing uncertainty about when the COVID-19 vaccines will be widely available globally, recurrent waves of infections would have significant and lasting impact on economic activity at home and abroad. This could, in turn, further postpone firms' investment decisions while impairing labor market conditions and SME businesses, in particular, in the services sector. Delayed economic recovery may continue to put downward pressure on the prices of goods and services, while dampening inflation expectations of both households and firms. A prolonged pandemic would also have adverse effects on financial institutions, in particular on regional banks, in the form of deteriorating asset quality and profitability. Meanwhile, eventual unwinding of the government's special lending programs for SMEs, when the COVID-19 infections are contained, may lead to a pick-up in bankruptcies. Structural challenges include lack of digitalization, demographic drag from population aging and low fertility rates, prolonged easing of monetary policy, and a deterioration in the fiscal situation, which has been exacerbated further by massive economic stimulus packages against the pandemic.



# Japan: Selected Figures

The Japanese economy strongly rebounded in H2 after being severely hit by the COVID-19 pandemic in Q2 2020.

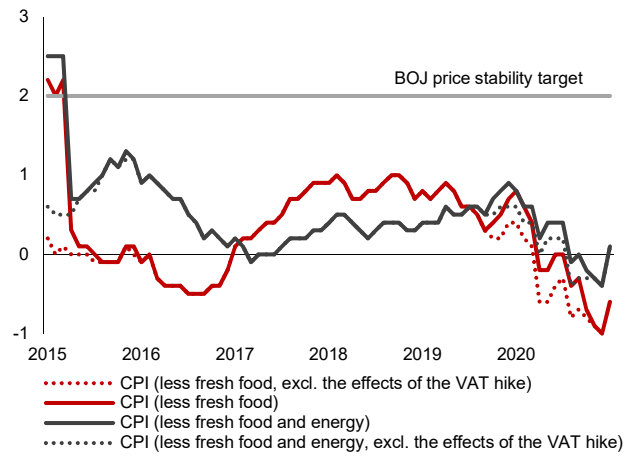
**Contributions to Real GDP Growth**  
(Percentage points, quarter-over-quarter, seasonally-adjusted annualized rate)



Sources: Cabinet Office via CEIC; and AMRO staff calculations.

Core CPI inflation decelerated in 2020, falling into the negative territory in Q4 2020.

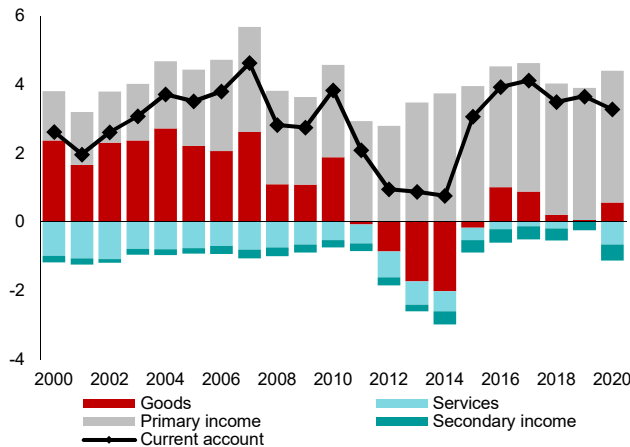
**CPI Inflation**  
(Percent, year-over-year)



Sources: Ministry of Internal Affairs and Communications via Haver Analytics; and AMRO staff calculations.  
Note: BOJ = Bank of Japan; CPI = consumer price index.

The current account surplus remained robust at about 3.3 percent of GDP in 2020.

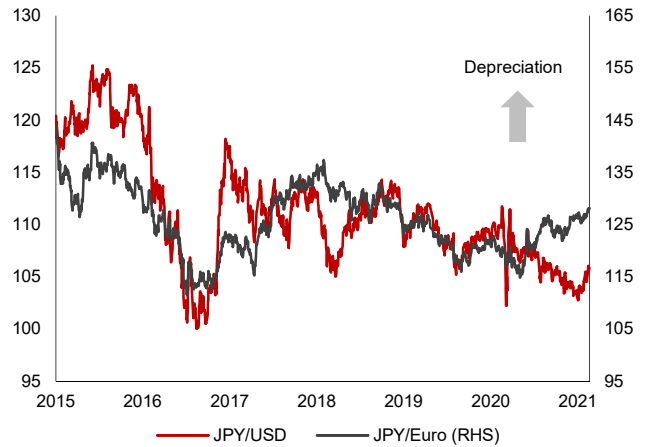
**Current Account Balance**  
(Percent of GDP)



Source: Ministry of Finance via Haver Analytics.  
Note: The 2020 figures are based on AMRO staff estimates.

In 2020, the Japanese yen has gradually strengthened against the US dollar following the market turmoil in March.

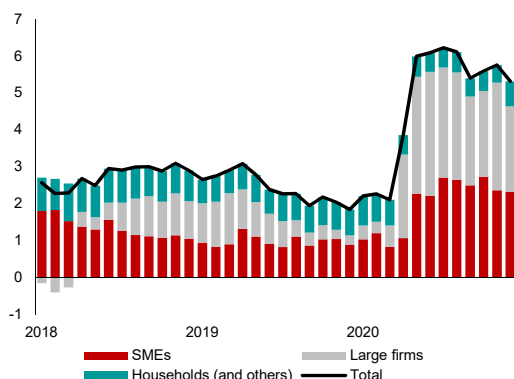
**Exchange Rates**  
(Japanese yen/US dollar; Japanese yen/euro)



Source: Bank of Japan via CEIC.

Bank lending growth has jumped in 2020 amid highly accommodative financing conditions.

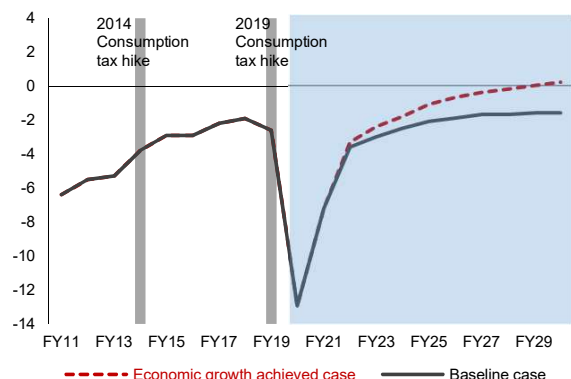
**Bank Lending Growth**  
(Percent, year-over-year)



Sources: Bank of Japan via CEIC; and AMRO staff calculations.  
Note: SME = small and medium enterprise.

Fiscal deficit has widened sharply due to unprecedentedly large economic stimulus packages in FY2020.

**Primary Balance of Central and Local Governments**  
(Percent of GDP)



Source: Cabinet Office via CEIC (January 2021).

## Japan: Selected Economic Indicators

Indicator	2017	2018	2019	2020
<b>Real sector</b>	(in annual percentage change)			
Real GDP	1.7	0.6	0.3	-4.8
Private consumption	1.1	0.3	-0.3	-5.9
Government consumption	0.1	1.0	1.9	2.7
Gross fixed capital formation	1.6	0.2	0.9	-4.1
Imports of goods and services	3.3	3.8	-0.4	-6.8
Exports of goods and services	6.6	3.8	-1.4	-12.3
<b>External sector</b>	(in percent of GDP, unless otherwise specified)			
Current account balance	4.1	3.5	3.7	3.3
Trade balance	0.8	0.1	0.1	-0.1
Capital account balance	-0.1	0.0	-0.1	0.0
Financial account balance	2.9	3.1	3.9	3.1
Direct investment	3.1	2.7	4.2	2.1
Portfolio investment	-1.0	1.8	1.7	0.8
Financial derivatives	0.6	0.0	0.1	0.2
Other investment	0.2	-1.4	-2.0	0.1
Errors and omissions	-0.7	0.2	0.8	0.1
Overall balance	0.5	0.5	0.5	0.2
Gross external debt	73.5	80.0	82.4	93.0
International reserves (in USD billion, end of period)	1,264.3	1,271.0	1,323.8	1,394.7
<b>Fiscal sector<sup>1</sup></b>	(in percent of GDP)			
Revenue and grants	34.8	35.5	35.3	37.2
Expenditure	37.7	37.8	38.3	53.9
Fiscal balance	-2.9	-2.4	-3.1	-16.7
Government debt	233.9	237.9	236.8	255.0
<b>Monetary and financial sectors</b>	(in annual percentage change)			
Broad money	3.0	2.1	1.9	4.1
Domestic credit	4.3	3.1	3.0	5.2
Private sector credit	5.9	4.2	3.8	5.5
<b>Memorandum items:</b>				
Nominal GDP (in JPY trillion)	553.1	556.2	561.3	539.3
Headline inflation (in percent yoy, period average)	0.5	1.0	0.5	0.0
Core inflation, less fresh food (in percent yoy, period av)	0.5	0.9	0.6	-0.2
Policy rate (in percent per annum, end of period)	-0.1	-0.1	-0.1	-0.1
Exchange rate (in JPY/USD, period average)	112.2	110.4	109.0	106.8

Sources: National authorities via CEIC; and AMRO staff estimates.

Note: Numbers in red denote AMRO staff estimates. yoy = year-over-year.

<sup>1</sup> Refers to fiscal year.

# Korea

The Korean economy contracted by 1 percent in 2020, from an expansion of 2 percent in 2019, following the outbreak of the COVID-19 pandemic. That said, the magnitude of growth shrinkage was the lowest among OECD countries, primarily attributable to not implementing a nationwide lockdown, various economic relief measures, and robust demand for information and communication technology (ICT) products. Private investment inched up from the expansion of ICT facilities, even though domestic private consumption remained weak. By sector, small merchants and self-employed business operators in face-to-face services were the most severely hit by the pandemic, while production in the manufacturing sectors recovered gradually in H2 2020, in line with the global economic recovery.

The labor market continued to experience job losses, although many industries resumed production. The number of job losses averaged 218,400 jobs per month in 2020, larger than the 87,200 job losses per month recorded during the global financial crisis. Restrictions on cross-border travel and social distancing practices dampened employment, especially in face-to-face service sectors. The manufacturing sector also continued to retrench workers, although production had almost returned to pre-COVID-19 levels.

Headline inflation remained well below the Bank of Korea's (BOK's) 2 percent target for the second consecutive year. The pandemic and a plunge in global oil prices have softened inflationary pressures, in part attributable to policy-induced reductions in education and telecommunications costs. CPI inflation stayed at 0.5 percent in 2020.

Amid lingering global economic uncertainty, Korea's external position remained strong, supported by a sustained surplus in the current account, a net external asset position, and ample international reserves. The current account is expected to remain in surplus amounting to 4.6 percent of GDP in 2020, on the back of strong goods exports. The bulk of the current account surplus continued to be channeled overseas through direct and portfolio investment, including through pension funds and insurance companies, which expanded their portfolio investment abroad. Gross international reserves rose to USD 443 billion at the end of December 2020, equivalent to more than 10 months of goods and services imports and almost three times short-term external debt.

Monetary conditions were eased through the BOK's policy rate cuts and unconventional monetary tools, compounded by the government's finance support measures. The acceleration in small and medium enterprises (SMEs) loan growth was driven by rising corporate demand, while household loan growth

also strengthened, with a significant proportion flowing into equities and residential property purchases.

Korea's financial system has remained generally sound. Korean commercial banks are well capitalized, with low substandard-and-below loan ratios at 0.4 percent. Meanwhile, the US dollar liquidity squeeze, which occurred in March 2020, was stabilized by the activation of the BOK-US Federal Reserve swap line. By the end of the 2020, a brighter outlook for the Korean economy, together with the implementation of economic stimulus measures by many countries around the world, led to sustained gains in the Korean won and equity market.

On the fiscal front, the government rolled out sizable economic stimulus packages in 2020 to stimulate economic activity. Total government spending was expanded dramatically to 29.6 percent of GDP in 2020, while revenue was expected to be at 25.5 percent of GDP. The boom in asset markets helped shore up government revenue, although revenue from income taxes was expected to decline as a result of the economic fallout. The fiscal deficit (excluding the Social Security Fund) was expected to widen to 5.9 percent of GDP in 2020 from 2.8 percent of GDP in 2019, because of stimulus spending.

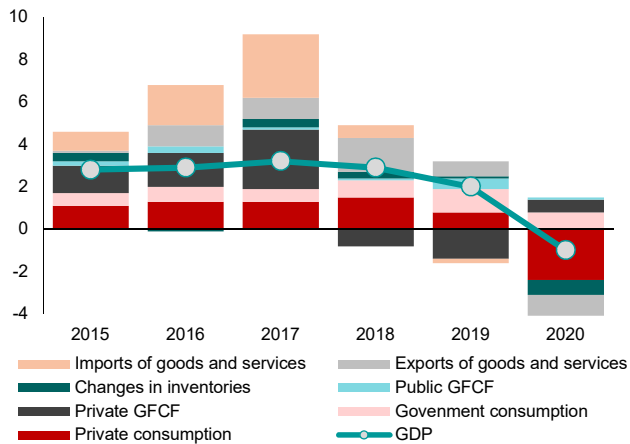
Going forward, Korea's economic growth is forecast to rebound to 3.2 percent in 2021, underpinned by strong global demand for ICT products, and government spending. Upside risks to the growth outlook would come from the resumption in global economic activity. At the same time, downside risks to Korea's economy may stem from lingering US-China trade tensions, any sustained recurrence of COVID-19 infections globally, as well as the delayed recovery of local SMEs, small merchants and self-employed business operators.

From a longer-term perspective, economic fallout from the pandemic has manifested in a very divergent impact between low- and high-income earners, and between large corporations and SMEs. Similar to other countries, higher-paid workers in Korea are able to work from home and keep their jobs, while low-paid blue-collar workers, especially daily and temporary ones, have been retrenched. Among firms, large Korean companies have been able to withstand the crisis, but small merchants, SMEs and self-employed business operators are at risk from the slow recovery in demand and lean financial buffers. Income inequality will most likely worsen in the post-pandemic period. In addition, the rise in non-face-to-face economic activity is expected to accelerate the shift toward the digital economy. To pre-emptively mitigate any deterioration in income distribution, the Korean government is taking several measures and initiatives to strengthen and expand the coverage of social safety nets and create quality jobs.

# Korea: Selected Figures

Growth contraction in 2020 was underpinned by investment slump of domestic demand.

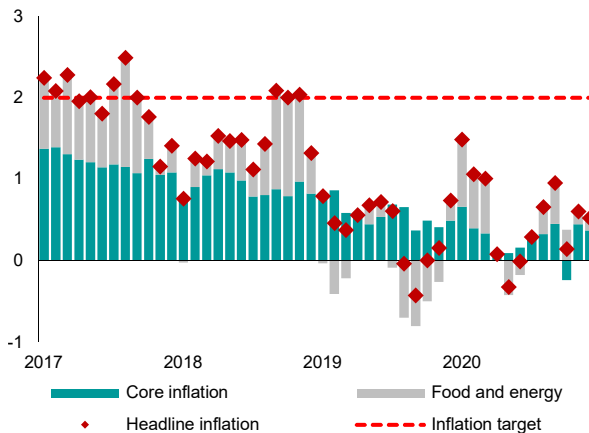
**Contributions to Real GDP Growth**  
(Percentage points, year-over-year)



Sources: Bank of Korea; and AMRO staff calculations.  
Note: GFCF = gross fixed capital formation.

Headline inflation stayed below the Bank of Korea's 2 percent target for the second year running, in 2020.

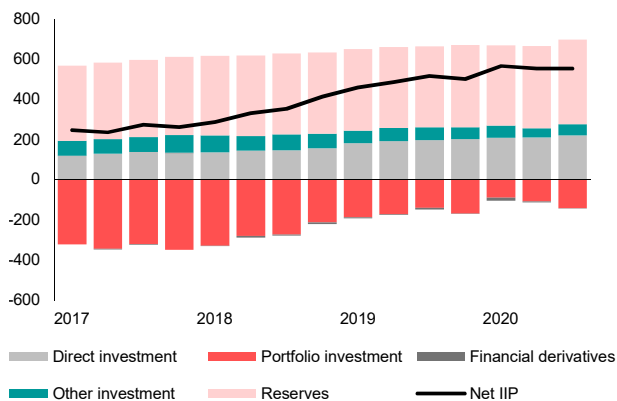
**CPI Inflation**  
(Percent, year-over-year)



Sources: Statistics Korea; and Bank of Korea.  
Note: CPI = consumer price index.

Korea's net asset position expanded further despite external uncertainty.

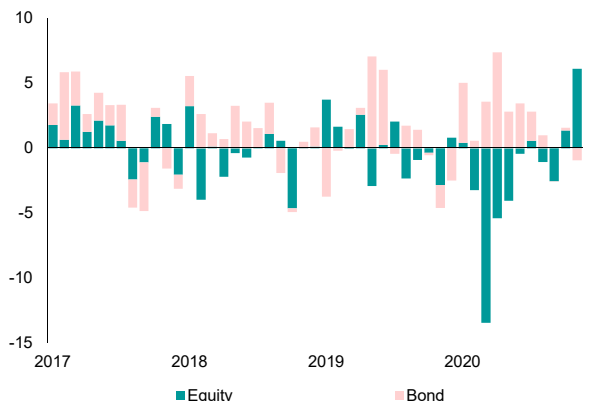
**Net International Investment Position**  
(Billions of US dollars)



Sources: Bank of Korea; and AMRO staff calculations.  
Note: IIP = international investment position.

Nonresident portfolio flows pointed to opposite positions in Korean equities and bonds.

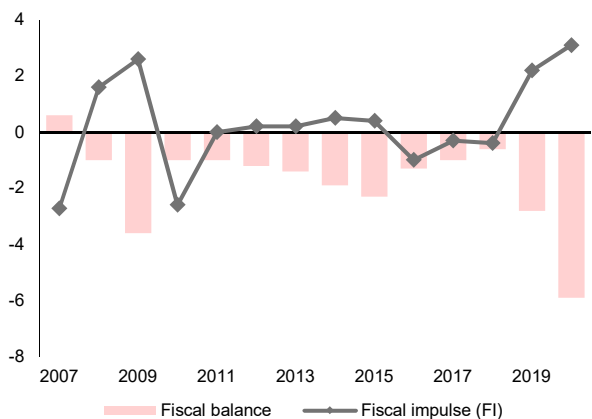
**Portfolio Flows**  
(Billions of US dollars)



Source: Bank of Korea.

The sizable fiscal deficit in 2020 was the result of economic stimulus packages to combat the pandemic.

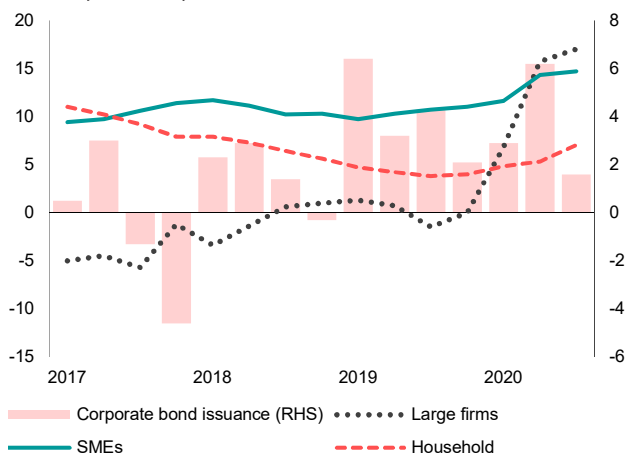
**Fiscal Balance**  
(Percent of GDP)



Sources: Ministry of Economy and Finance; and AMRO staff estimates.  
Note: Fiscal balance does not include the Social Security Fund. FI is the difference between fiscal balance of the current and previous fiscal years. FI<0 indicates less expansionary (or more contractionary), while FI>0 indicates more expansionary (or less contractionary) policy.

Private loan growth accelerated in 2020 as monetary conditions were eased.

**Credit Growth**  
(Percent year-over-year; Trillions of Korean won)



Sources: Bank of Korea; and AMRO staff calculations.  
Note: SME = small and medium enterprise.

## Korea: Selected Economic Indicators

Indicator	2017	2018	2019	2020
<b>Real sector</b>	(in annual percentage change)			
Real GDP	3.1	2.9	2.0	-1.0
Private consumption	2.7	3.1	1.7	-5.1
Government consumption	3.9	5.2	6.4	4.8
Gross fixed capital formation	9.3	-2.2	-2.9	2.6
Imports of goods and services	8.5	1.7	-0.6	-3.9
Exports of goods and services	2.5	3.9	1.7	-2.6
<b>External sector</b>	(in percent of GDP, unless otherwise specified)			
Current account balance	4.9	5.1	3.6	4.5
Trade balance	7.4	7.2	4.6	5.1
Capital and financial account balance	5.2	3.9	3.2	2.8
Direct investment	5.5	4.7	3.6	1.6
Portfolio investment	1.1	1.6	1.5	1.5
Other investment	3.8	2.9	2.3	-0.7
Errors and omissions	-0.5	-0.1	0.3	0.0
Overall balance	0.9	-0.8	-0.7	1.8
Gross external debt	25.0	26.9	26.7	30.5
International reserves (in USD billion, end of period)	389.3	403.7	408.8	443.1
<b>Fiscal sector</b>	(in percent of GDP)			
Revenue and grants	23.5	24.5	24.7	25.5
Expenditure	22.1	22.9	25.3	29.6
Fiscal balance <sup>1</sup>	-1.0	-0.6	-2.8	-5.9
Government debt	36.0	35.9	37.7	44.5
<b>Monetary and financial sectors</b>	(in annual percentage change)			
Broad money <sup>2</sup>	5.1	6.7	7.9	9.8
Domestic credit <sup>3</sup>	5.5	7.2	9.1	9.9
Private sector credit <sup>4</sup>	6.7	7.1	7.0	10.1
<b>Memorandum items:</b>				
Nominal GDP (in KRW trillion)	1,740.8	1,835.7	1,888.6	1,887.9
Headline inflation (in percent yoy, period average)	1.9	1.5	0.4	0.5
Policy rate (in percent per annum)	1.50	1.75	1.25	0.50
Exchange rate (in KRW/USD, period average)	1,122.3	1,100.6	1,165.2	1,180.3

Sources: National authorities via CEIC; and AMRO staff estimates.

Note: Numbers in red denote AMRO staff estimates. yoy = year-over-year.

<sup>1/</sup> Excludes social security fund.

<sup>2/</sup> Refers to M2, which includes currency in circulation, demand deposits, transferable saving deposits, money market funds, short-term time and savings deposits, beneficiary certificates, marketable financial instruments, short-term debentures, short-term money in trust.

<sup>3/</sup> Domestic credit refers to claims of other depository corporations on domestic agencies that comprise the central government, local governments, social security office and private sector. It does not include claims of the Bank of Korea.

<sup>4/</sup> Private sector credit refers to corporate loans and consumer loans lent by commercial banks, specialized banks and non-banks.



# Lao People's Democratic Republic

The Lao PDR economy is estimated to have grown by 0.5 percent in 2020 amid the global COVID-19 outbreak. The service sector was hit hardest by containment measures—namely, lockdown and border closure—and agricultural production suffered from severe drought and flooding. The mining sector contracted as the reopening of gold mines could not offset the closure of major copper mines. However, increased electricity generation from added capacity and continued large-scale construction projects have contributed positively to growth. In 2021, the economy is expected to gradually recover as restrictions are lifted and economic activities normalize, as long as there is no resurgence in COVID-19 virus infections or natural disasters.

Inflation remained high at 5.1 percent on average in 2020, gradually moderating throughout the year after peaking at 6.9 in January. Repeating natural disasters since the second half of 2019, such as floods, drought, and African swine flu, led to price hikes of agricultural goods, while persistent depreciation of the Lao kip caused lingering effects on prices of not only imported consumer goods, but also other goods and services under the multicurrency environment. Going forward, continued depreciation of the Lao kip is likely to impose inflationary pressure, although domestic food prices are expected to stabilize without severe natural disasters.

The current account is estimated to have posted a surplus of 1.5 percent of GDP in 2020, after chronic deficits in the past. Notwithstanding the COVID-19 pandemic and border closure, exports grew as electricity exports to neighboring countries increased substantially. On the other hand, imports plummeted across all types of goods, reflecting sluggish domestic demand. The service balance in 2020 stayed similar to 2019 as both inbound and outbound tourists disappeared after March. Interest payments for external debt remained elevated, constraining the improvement of the current account balance. The financial account showed net inflows, mainly attributable to FDI inflows to ongoing infrastructure projects and the government's external borrowings exceeding the repayment of maturing debt. The overall balance of payments recorded a surplus, and gross international reserves rose to USD 1.3 billion at the end of 2020 from USD997 million at the end of 2019.

Meanwhile, the Lao kip continuously depreciated by 4.7 percent against the US dollar and 10.7 percent against the Thai baht throughout 2020. Tight US dollar liquidity in the foreign exchange market widened the gap between

commercial and parallel exchange rates to 10 percent at the end of 2020.

Liquidity was relatively ample, supported by the Bank of the Lao PDR's policy measures to mitigate the impacts of the pandemic, such as a policy rate cut, a required reserve rate cut, lending to small and medium enterprises (SMEs) to support domestic production. However, credit growth was subdued due to low borrowing demand and cautious lending behavior of banks. On the contrary, deposits grew substantially, dragging down the loan-to-deposit ratio. Lao PDR's financial sector remained broadly sound. The nonperforming loans ratio and capital adequacy ratio remained at similar levels compared to pre-pandemic, while profitability deteriorated but maintained positive.

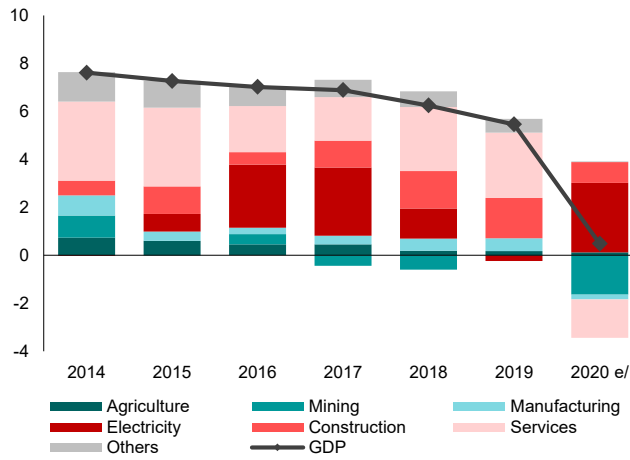
The government revised down the revenue and expenditure targets for 2020, reflecting revenue shortfalls and reprioritized spending. The fiscal deficit widened to 5 percent of GDP in 2020 from 3.2 percent of GDP in 2019, and public debt rose to 62.8 percent of GDP in 2020 from 57.5 percent of GDP in 2019. As a fiscal consolidation effort, the 2021 budget targets a deficit of less than 3 percent of GDP, by maintaining domestic spending within domestic revenue, while financing capital expenditure externally from international donors.

The Lao PDR economy is confronted with risks and challenges from various sources. First, given limited public healthcare capacity, the economic recovery remains susceptible to another wave of the COVID-19 pandemic. The authorities should remain vigilant in monitoring and controlling the virus spread, while enhancing the public health readiness, including the procurement of vaccines. Second, public debt has continuously risen and the external debt service burden has increased. Policy priority should be given to securing affordable financing sources, while fundamentally improving debt management capacity, strengthening revenue mobilization, and enhancing expenditure efficiency. Third, financial stability will be at risk if the pandemic is prolonged and economic recovery delayed. The authorities should closely monitor the financial soundness of the banking sector, support banks to strengthen capital buffers, and carefully normalize forbearance measures, to avoid sudden shocks to beneficiary companies and the financial system. Fourth, the economy continues to be vulnerable to external shocks with low international reserves. More structural reforms to improve the current account should be accompanied by immediate policy efforts to enhance external buffers.

# Lao PDR: Selected Figures

Growth slowed in 2020 after being hit by the COVID-19 pandemic and natural disasters.

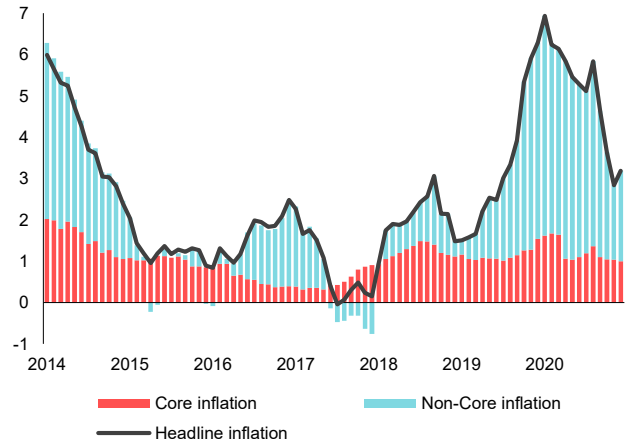
**Contributions to Real GDP Growth**  
(Percentage points, year-over-year)



Sources: Lao Statistics Bureau; and AMRO staff estimates.

Inflation remained high in 2020, attributable to frequent natural disasters and the steep depreciation of the Lao kip.

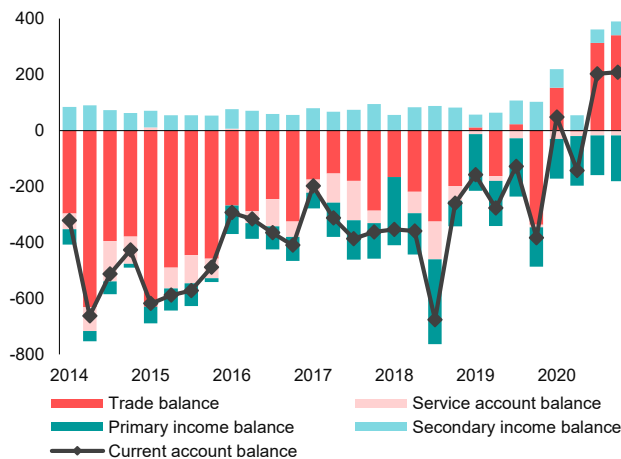
**Contributions to CPI Inflation**  
(Percentage points, percent year-over-year)



Sources: Lao Statistics Bureau; and AMRO staff calculations.  
Note: CPI = consumer price index.

The current account recorded a surplus in 2020, driven by rising electricity exports and shrinking imports.

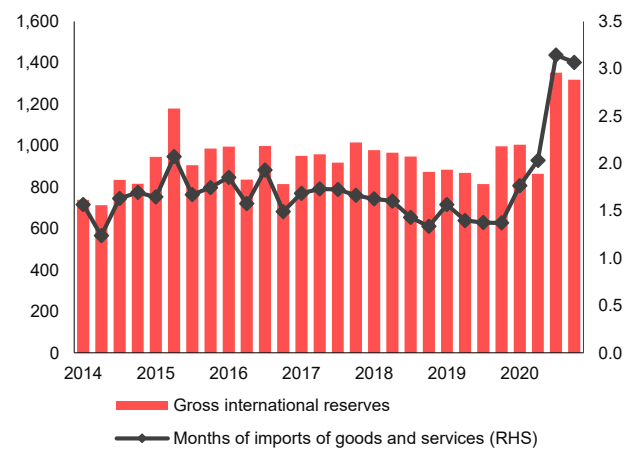
**Current Account**  
(Millions of US dollars)



Source: Bank of Lao PDR.

Foreign exchange reserves rose to USD 1.32 billion at the end of 2020, which would cover 2.8 months of imports.

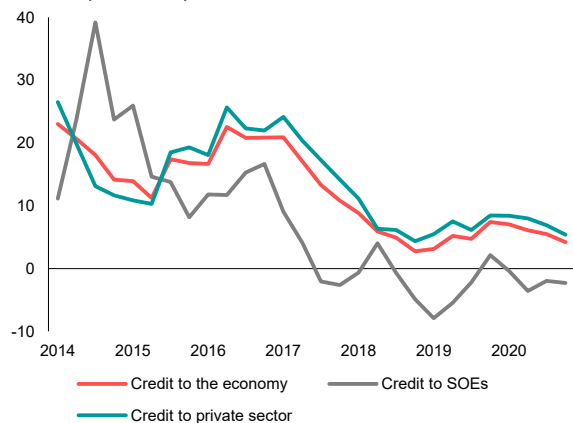
**International Reserves**  
(Millions of US dollars; months of imports)



Sources: Bank of Lao PDR; and AMRO staff estimates.

Credit growth was subdued due to low borrowing demand and cautious lending behavior of banks.

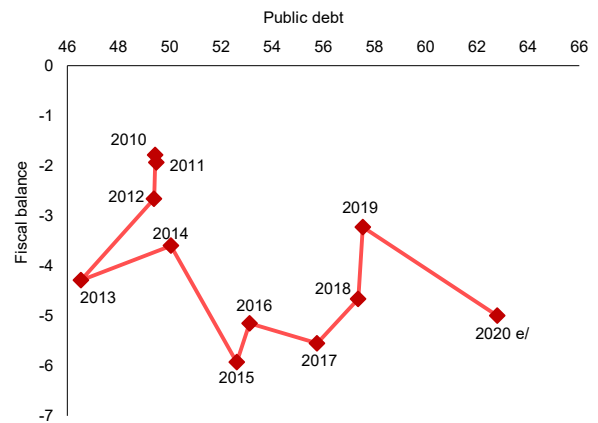
**Credit Growth**  
(Percent year-over-year)



Sources: Bank of Lao PDR; and AMRO staff calculations.  
Note: SOE = state-owned enterprise.

The fiscal deficit increased substantially due to revenue shortfall despite spending cuts, accumulating public debt.

**Fiscal Balance and Public Debt**  
(Percent of GDP)



Source: Bank of Lao PDR.  
Note: e/ denotes estimate.

## Lao PDR: Selected Economic Indicators

Indicator	2017	2018	2019	2020
<b>Real sector</b>	(in annual percentage change)			
Real GDP	6.8	6.3	5.5	0.5
Agriculture	2.9	1.3	1.2	0.9
Industry	11.6	7.8	5.6	5.4
Services	4.5	6.8	6.9	-4.0
<b>External sector</b>	(in percent of GDP, unless otherwise specified)			
Current account balance	-7.4	-9.1	-5.0	1.5
Trade balance	-4.7	-5.0	-2.5	4.2
Capital and Financial account balance	12.7	12.1	10.7	3.6
Direct investment	9.8	7.5	4.0	4.8
Portfolio investment	1.9	2.9	-0.2	-1.7
Other investment	1.0	1.7	6.9	0.5
Errors and omissions	-4.3	-3.9	-5.1	-3.5
Overall balance	1.2	-0.8	0.7	1.7
External debt	82.6	82.2	82.9	88.1
International reserves (in USD million, end of period)	1,016.0	873.2	997.2	1,319.2
<b>Fiscal sector</b>	(in percent of GDP)			
Revenue and grants	16.3	16.2	15.4	13.3
Expenditure	21.8	20.9	18.7	18.3
Fiscal balance	-5.6	-4.7	-3.2	-5.0
Government debt	55.8	57.4	57.5	62.8
<b>Monetary and financial sectors</b>	(in annual percentage change)			
Broad money	12.2	8.4	18.9	17.0
Credit to the economy	10.8	2.8	7.4	4.2
Private sector credit	14.2	4.4	8.5	5.4
<b>Memorandum Items:</b>				
Nominal GDP (in LAK billion)	140,698	152,414	164,017	170,156
Headline inflation (in percent yoy, period average)	0.8	2.0	3.3	5.1
Policy rate (in percent per annum)	4.25	4.00	4.00	3.00
Exchange rate (in LAK/USD, period average)	8,247	8,407	8,690	9,055

Sources: National authorities via CEIC; and AMRO staff estimates.

Note: Numbers in red denote AMRO staff estimates. yoy = year-over-year.

# Malaysia

Following a steep recession in Q2 2020, a strong recovery momentum took hold in Malaysia in the following quarter as the nationwide lockdown was lifted and production caught up with backlogs and pent-up demand. However, the resurgence of infections in September prompted partial lockdowns in some parts of the country, which consequently dampened the growth momentum in Q4. Malaysia may face another recession in Q1 2021, as most of the country underwent lockdowns at the start of 2021. That said, the recession is expected to be less severe than that of 2020, given the targeted coverage of the latest movement restrictions, including allowing more businesses in the affected areas to remain open.

The pandemic has had an uneven impact on the Malaysian economy. The manufacturing sector recorded an export-led expansion in H2 2020 as global economic activity improved, while construction and service-oriented activities remained largely depressed. Still, labor market conditions have weakened, with the unemployment rate rising to an average of 4.7 percent over the March–December 2020 period, from the long-term average of 3.3 percent.

As the collapse in oil prices spilled into domestic fuel prices, headline inflation dropped to –1.2 percent in 2020 from 0.7 percent in 2019. It was also pulled down by policy measures such as electricity bill discounts and a sales tax exemption on passenger cars, as part of the economic stimulus package. Meanwhile, core inflation stayed in positive territory but likewise moderated over the course of 2020 owing to weak domestic demand.

The weak inflationary environment provided Bank Negara Malaysia (BNM) with ample room to ease monetary conditions, stabilize financial markets, and support the economy. The policy rate was cut by a total of 125 basis points in the first seven months of 2020, to a record low of 1.75 percent. Additional liquidity was injected into the financial system in 2020 through adjustments to banks' statutory reserve requirements and increased monetary operations by the BNM. The subsequent improvement in risk sentiment manifested in a decline in bond yields and rebound in the equity market after March 2020. Supported by the easing in domestic financing conditions and economic support measures, bank lending and corporate bond issuances expanded by 4 percent in 2020.

The resumption of foreign capital inflows after the massive sell-off in March 2020 reinforced BNM's reserves buffer and Malaysia's strong external position. Portfolio investments by

both nonresidents and residents recorded nearly USD10 billion of outflows in Q1 2020, but sentiment improved thereafter, with the bond market sustaining nonresident inflows from May through the end of the year. The resumption of inflows supported the Malaysian ringgit/US dollar exchange rate and facilitated a steady rebuilding of BNM's international reserves after the decline in Q1 2020. Malaysia's external position remains strong, supported by a sustained surplus in the current account and buoyant foreign direct investment inflows.

Strong capital and liquidity buffers have placed banks in a position to implement an extensive loan repayment assistance and withstand increased credit risks. The six-month automatic loan repayment moratorium until September 2020 and the subsequent targeted repayment assistance still in place have provided affected borrowers time to rebuild their finances. The measures have likewise kept loan impairments low and stable at 1.6 percent in 2020. Stress-testing exercises by AMRO and BNM indicate that the banks have ample room to absorb loan impairments before capital buffers fall below regulatory thresholds. BNM estimates that impairments will rise to 4.1 percent at the end of 2021.

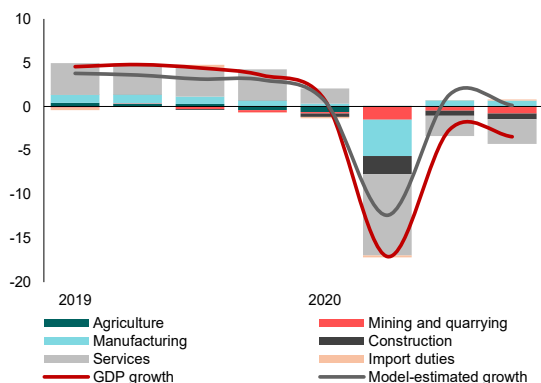
Economic stimulus measures were recalibrated progressively as the health and economic crisis continued to evolve. The economic stimulus package grew from the initial amount of MYR 20 billion in February 2020 to MYR 320 billion by January 2021. The bulk of the package comprised non-fiscal measures, such as the loan moratorium extended by banks, withdrawal of pension savings and reduced contributions, credit guarantees, and BNM's soft loans to small and medium enterprises (SMEs). Meanwhile, the fiscal burden totals only less than 20 percent of the entire package, and primarily comprises cash transfers to vulnerable households and wage subsidies to SMEs. Despite fiscal prudence, the deficit rose to 6.2 percent of GDP in 2020, and is expected to post 5.4 percent in 2021, up from 3.3 percent in the preceding five years. Government debt likewise expanded, prompting a temporary upward revision in the statutory debt limit, to 60 percent of GDP in 2020–22, before returning to the pre-pandemic level of 55 percent from 2023 onward.

The greater debt burden underscores the importance of restoring fiscal buffers over the medium term. At the same time, sustaining the policy momentum to protect the people's welfare and raise productivity would be critical to achieving a dynamic and inclusive economy in the post-pandemic new normal.

# Malaysia: Selected Figures

*Renewed movement restrictions dampened the growth momentum in Q4 2020 after the sharp rebound in Q3.*

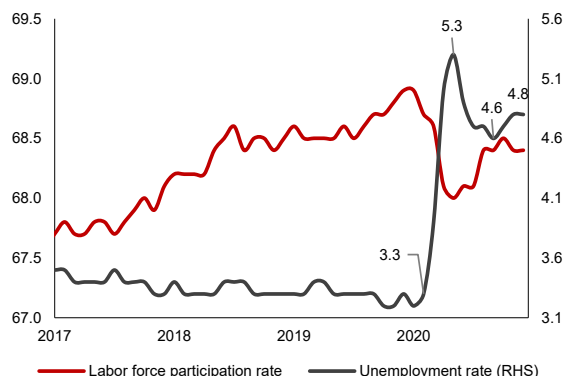
**Actual and Model-Estimated GDP Growth**  
(Percentage points, year-over-year, contributions to growth)



Sources: Department of Statistics Malaysia; and AMRO staff estimates.  
Note: Estimates and projections are by AMRO staff. GDP growth is modeled as a function of inflation and growth rates of industrial production, car sales, bank loans, and government expenditure.

*Labor market conditions improved slightly in H2 2020, but remained weaker than pre-pandemic levels.*

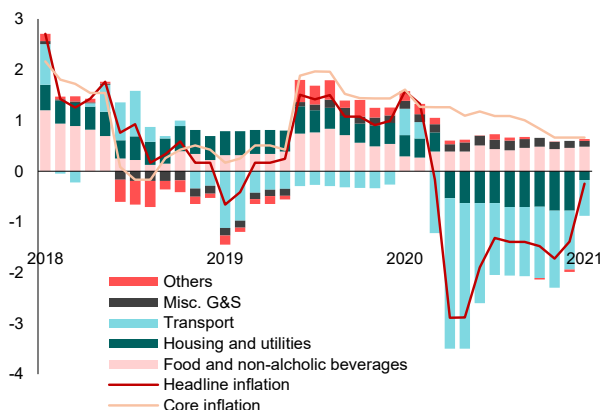
**Labor Force Participation and Unemployment**  
(Percent; percent, seasonally-adjusted)



Source: Department of Statistics Malaysia.

*The collapse in oil prices spilled into domestic fuel prices and led to a sharp decline in headline inflation.*

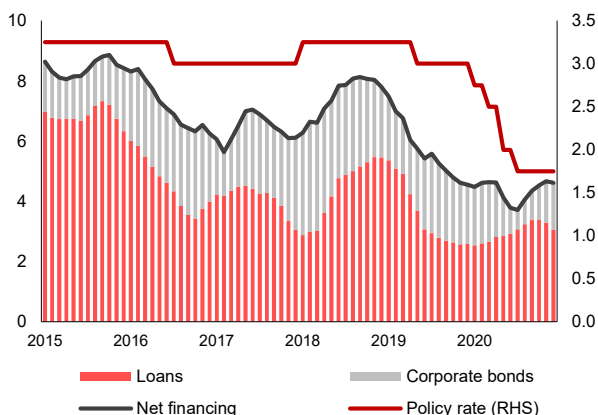
**Contributions to Headline and Core Inflation**  
(Percentage points, year-over-year)



Source: Department of Statistics Malaysia.  
Note: Misc. G&S = miscellaneous goods and services.

*Easier monetary conditions helped to sustain the growth in bank lending and corporate bond issuances.*

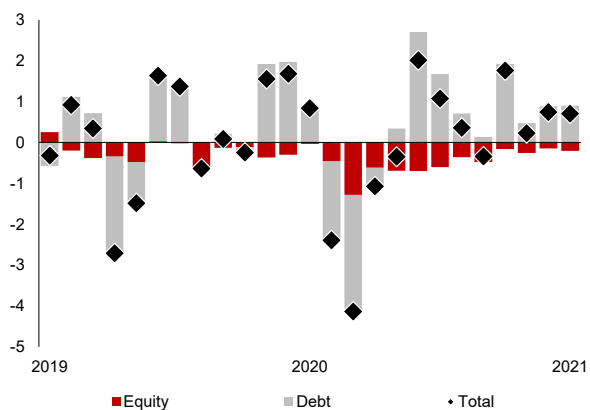
**Net Financing and Overnight Policy Rate**  
(Percent, year-over-year, 3-month moving average; percent)



Source: Bank Negara Malaysia.

*Risk sentiment improved after the sharp sell-off in March 2020, led by sustained foreign bond inflows through end-2020.*

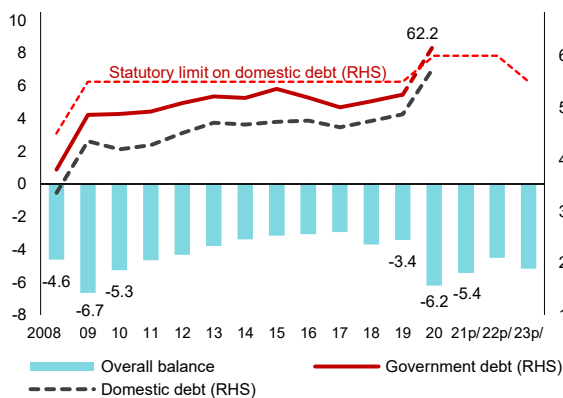
**Nonresident Portfolio Flows**  
(Billions of US dollars)



Sources: Bank Negara Malaysia; Bursa Malaysia; and AMRO staff calculations.

*The fiscal stimulus led to an increase in the fiscal deficit and a temporary upward adjustment to the debt ceiling.*

**Fiscal Balance and Federal Government Debt**  
(Percent of GDP)



Sources: Bank Negara Malaysia; Department of Statistics Malaysia; and AMRO staff calculations.  
Note: Projections by the government. Domestic debt refers to Malaysian Government Securities, Malaysian Government Investment Issues, and Malaysian Islamic Treasury Bills. p/ denotes projections.



## Malaysia: Selected Economic Indicators

Indicator	2017	2018	2019	2020
<b>Real sector</b>	(in annual percentage change)			
Real GDP	5.8	4.8	4.3	-5.6
Private consumption	6.9	8.0	7.6	-4.3
Government consumption	5.7	3.2	2.0	4.1
Gross fixed capital formation	6.1	1.4	-2.1	-14.5
Imports of goods and services	10.2	1.5	-2.5	-8.3
Exports of goods and services	8.7	1.9	-1.3	-8.8
<b>External sector</b>	(in percent of GDP, unless otherwise specified)			
Current account balance	2.8	2.2	3.4	4.4
Trade balance	8.5	7.9	8.2	9.8
Capital and financial account balance	-0.3	0.8	-2.2	-5.6
Direct investment	1.2	0.7	0.4	0.0
Portfolio investment	-1.1	-3.4	-1.9	-3.5
Other investment	-0.4	3.4	-0.7	-2.2
Errors and omissions	-1.2	-2.5	-0.6	-0.1
Overall balance	1.2	0.5	0.6	-1.4
Gross external debt	64.5	63.8	62.6	67.7
International reserves (in USD billion, end of period)	102.4	101.4	103.6	107.6
<b>Fiscal sector</b>	(in percent of GDP)			
Revenue and grants	16.1	16.1	17.5	15.9
Expenditure	19.0	19.8	20.9	22.1
Fiscal balance	-2.9	-3.7	-3.4	-6.2
Government debt	50.1	51.2	52.5	62.2
<b>Monetary and financial sectors</b>	(in annual percentage change)			
Broad money	4.9	9.1	3.5	4.0
Private sector credit	5.8	8.4	4.4	3.5
Loans	3.8	7.1	4.2	3.2
Securities	23.6	18.5	5.7	6.0
<b>Memorandum items:</b>				
Nominal GDP (in MYR billion)	1,372	1,447	1,511	1,415
Headline inflation (in percent yoy, period average)	3.7	1.0	0.7	-1.2
Policy rate (in percent per annum)	3.00	3.25	3.00	1.75
Exchange rate (in MYR/USD, period average)	4.30	4.04	4.14	4.20

Sources: National authorities via CEIC.  
Note: yoy = year-over-year.

# Myanmar

Myanmar's economy was significantly affected by the COVID-19 pandemic in 2020. Growth slowed to 3.2 percent in FY19/20 from 6.8 percent in the previous fiscal year.<sup>1</sup> The economic downturn came from both manufacturing and service activities. The agricultural sector remained stable and provided some support to growth. Foreign direct investment inflows continued to be sluggish in 2020, despite an accelerated process for investment approval. As of January 2021, the purchasing managers' index was contractionary as the infection rate remained high even though it has been on the decline. The declaration of a one-year state of emergency by the military in early February has caused significant uncertainty and could weigh on the economy going forward. Growth momentum will remain soft in the short term, while the outlook depends on the progress of vaccinations and the development of the political situation.

Inflation slowed to 5.8 percent in FY19/20 as the pandemic and social distancing measures dampened consumption and investment. The appreciation of the Myanmar kyat in FY19/20 also helped to contain imported inflation. Since the declaration of the state of emergency, the Myanmar kyat has depreciated against the US dollar by about 6 percent within one week. Overall, inflation in FY20/21 is expected to be stable in an environment of below-potential economic growth.

As service receipts fell sharply and the trade deficit deteriorated, the current account balance worsened in FY19/20. Tourism-related services dropped as international arrivals were banned due to the pandemic. The trade deficit narrowed as imports contracted amid the decline in domestic demand. Since October 2020, exports have been rebounding supported by agriculture exports, leading to a mild trade surplus.

Overall monetary conditions have remained accommodative to support the economy. The Central Bank of Myanmar (CBM) cut the interest rate three times in March and April 2020, from 10 percent to 7 percent. To boost liquidity conditions, the CBM lowered the minimum reserve requirement ratio from 5 percent to 3.5 percent. It also extended the regulatory compliance timeline by three years on capital and loan restructuring. Broad money grew by 15 percent in Q3 2020, same as in

the previous year. On the other hand, credit growth to the private sector stayed soft, slowing to 8.6 percent as of Q3 2020, from 16.1 percent one year ago.

Fiscal policy was focused on overcoming the economic fallout from the pandemic. The government rolled out various fiscal measures for economic relief, as described in the Myanmar COVID-19 Economic Relief Plan—a package of 2–3 percent of GDP to be implemented in 2 years. The fiscal deficit in FY19/20 was estimated to widen to –6.2 percent of GDP, compared to –3.6 percent in FY18/19. Against subdued tax revenues, the fiscal deficit is expected to widen further in FY20/21, to about 8 percent of GDP, as the government aims to scale up infrastructure projects, to be financed externally.

Risks to growth arise mainly from a prolonged COVID-19 pandemic and uncertainty associated with the recent political situation. The ongoing wave of infections has hit Myanmar strongly although the infection rate has been trending downward recently. Given that the virus has been mutating and continues to spread globally, a more adverse scenario would drag growth further down.

With rising nonperforming loans, the whole banking sector has become more vulnerable and risks are rising. However, restructuring and rescheduling have helped to reduce the pressure temporarily. But recapitalization remains slow and lags behind the deterioration in asset quality. For some individual banks, the pandemic-induced economic crisis is likely to pose solvency risks.

Myanmar can sustain its expansionary fiscal policy as its debt level is modest. The domestic bond market has been growing rapidly, allowing for more government bond issuance rather than direct CBM financing. There could be more room for external borrowing to push forward much-needed infrastructure projects. Banks have been using their funds to purchase government securities, as a sign of their risk aversion. Meanwhile, the CBM should ensure that banks are strengthening their balance sheets before regulatory forbearance ends.

The authorities should continue to push their agenda of contributing to medium-term economic development, while implementing measures aimed at short-term economic relief this year.

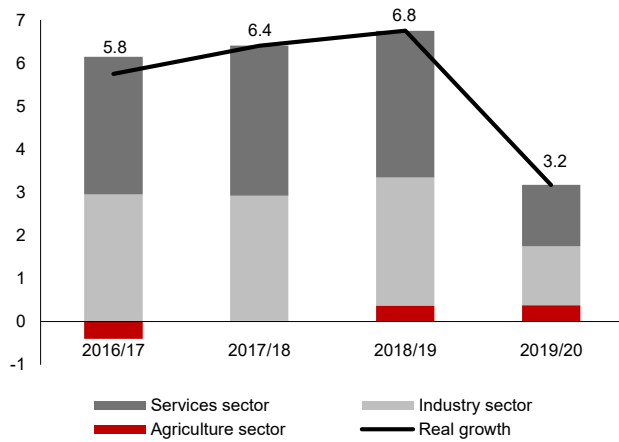
The author of this note is Jerry Xianguo Huang.

<sup>1</sup> The fiscal year in Myanmar runs from October 1 to September 30.

# Myanmar: Selected Figures

Growth slowed significantly in FY2019/20.

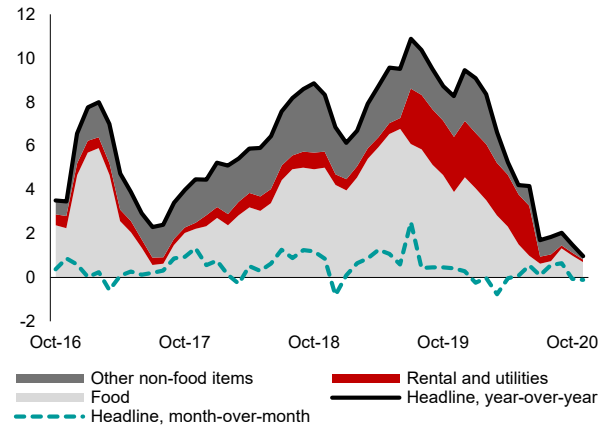
**Contributions to Real GDP Growth**  
(Percentage points, year-over-year)



Sources: Ministry of Planning, Finance, and Industry; and AMRO staff calculations.

Inflation softened in FY2019/20 as a result of the diminishing base effect of the electricity tariff hike and sluggish demand.

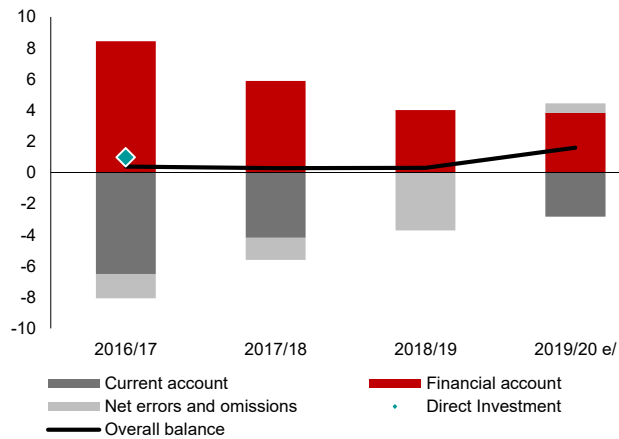
**Contributions to CPI Inflation**  
(Percentage points, year-over-year; percent month-over-month)



Source: Central Statistical Organization.

The current account deteriorated in FY2019/20.

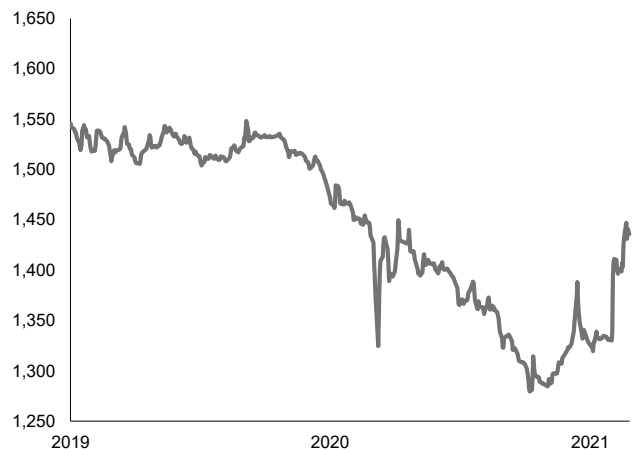
**Balance of Payments**  
(Percent of GDP)



Sources: Central Bank of Myanmar; and AMRO staff calculations. Note: e/ denotes estimate.

Appreciation in the Myanmar kyat has been reversed.

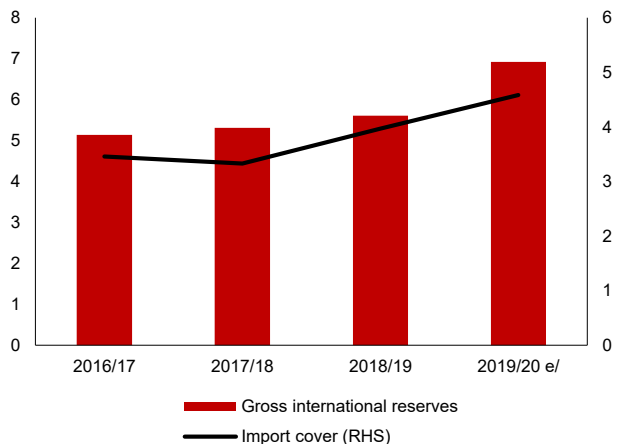
**Exchange Rate**  
(Myanmar kyat/US dollar)



Source: Central Bank of Myanmar.

The foreign exchange buffer improved on the back of stronger official inflows to offset low FDI.

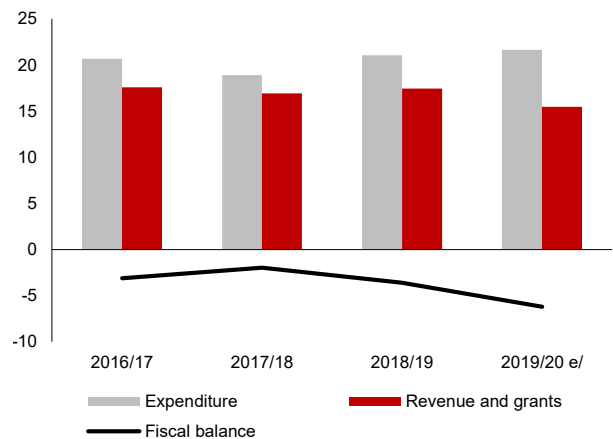
**Gross International Reserves**  
(Billions of US dollars; months of total imports)



Sources: Central Bank of Myanmar; and AMRO staff calculations. Note: e/ denotes estimate.

Fiscal policy was expansionary in FY19/20 to support of growth.

**Fiscal Balance**  
(Percent of GDP)



Source: Ministry of Planning, Finance, and Industry. Note: e/ denotes estimate.

## Myanmar: Selected Economic Indicators

Indicator	FY16/17	FY17/18	FY18/19	FY19/20
<b>Real sector</b>	(in annual percentage change)			
Real GDP	5.8	6.4	6.8	3.2
<b>External sector</b>	(in percent of GDP, unless otherwise specified)			
Current account balance	-6.5	-4.2	0.0	-2.8
Trade balance	-9.5	-6.5	-4.3	-4.8
Capital and financial account balance	8.4	5.9	4.0	3.8
Direct investment	5.8	4.8	3.1	2.2
Other investment	2.6	1.1	0.9	1.6
Errors and omissions	-1.6	-1.4	-3.7	1.2
Overall balance	0.4	0.3	0.3	2.2
Net external debt	13.4	15.5	14.7	15.1
International reserves (in USD billion, end of period)	5.1	5.3	5.6	6.9
<b>Fiscal sector<sup>1</sup></b>	(in percent of GDP)			
Revenue and grants	17.6	16.9	17.4	15.4
Expenditure	20.7	18.9	21.1	21.6
Fiscal balance	-3.1	-2.0	-3.6	-6.2
Government debt	35.6	38.4	38.7	42.2
<b>Monetary and financial sectors</b>	(in annual percentage change)			
Broad money	21.4	18.6	15.4	15.0
Domestic credit	22.3	21.4	17.4	14.4
Private sector credit	27.6	21.1	16.1	8.6
<b>Memorandum items:</b>				
Nominal GDP (in MMK billion)	82,700.0	92,789.0	105,258.5	112,774.0
Headline inflation (in percent yoy, period average)	4.7	5.9	8.6	5.8
Policy rate (in percent per annum)	10.00	10.00	10.00	7.00
Exchange rate (in MMK/USD, period average)	1,345	1,382	1,532	1,426

Sources: National authorities via CEIC; and AMRO staff estimates.

Note: Numbers in red denote AMRO staff estimates. yoy = year-over-year.

<sup>1</sup> Refers to fiscal year, which starts on October 1 and ends on September 30.

# The Philippines

The Philippine economy plunged into a deep recession amid the COVID-19 crisis in 2020 and contracted by 9.5 percent (at constant 2018 prices) in 2020. The dampened domestic demand was broad-based and particularly acute in sectors requiring physical contact and close engagement, such as the hotel and accommodation industry. As community quarantine restrictions have been gradually lifted, the economy will continue to recover with government policy support.

Despite some supply disruptions, inflation generally remained low and stable. Headline inflation fluctuated within the 2–4 percent range and averaged 2.6 percent in 2020, while core inflation (excluding selected food and energy items) hovered about 3 percent for the whole year. Going forward, annual inflation is expected to continue to stay within the target range, albeit possibly at the high end of the range in 2021, amid a gradual recovery of domestic demand and a relative benign outlook of global oil prices.

The current account shifted to a large surplus in Q1 2020, largely because of the sharp contraction in domestic demand. In Q1–Q3 2020, the current account recorded a surplus of USD 8.7 billion (3.4 percent of GDP). The sharp narrowing of the goods trade deficit was the main contributor to the surplus. Capital flows became more balanced following large outflows in Q1, in part supported by large government external borrowing. As a result, the overall balance of payments significantly improved and international reserves rose to a record high level of USD 110.1 billion as of December 2020, which reflected inflows mainly from the foreign exchange operations and the national government's foreign currency deposits.

A series of unprecedented monetary and timebound regulatory policy responses were deployed to mitigate the adverse impact of the COVID-19 crisis. Financial assistance was provided to affected micro, small, and medium enterprises and vulnerable households through specialized microfinancing loans and loan restructuring. The Bayanihan II Act of September 11, 2020, provides additional fiscal support (about 0.8 percent of 2019 GDP) to vulnerable households, workers and businesses in hard-hit industries; the use of the unspent Bayanihan II funds has been extended to June 30, 2021. The government also announced a series of regulatory relief measures for the banking sector. Moreover, the 200 basis point policy rate cuts and up to 200 basis point reserve requirement ratio cuts ensured ample liquidity

in financial markets and the banking system. However, credit growth has continued to moderate owing to subdued demand and tighter lending standards.

The government devised a four-pillar strategy in response to COVID-19 and its economic impact. Fiscal expenditure has been reprioritized to address the pandemic crisis. The budget for pandemic containment was significantly increased, and critical support was provided to businesses and households. However, reallocation of the budget has come at the expense of capital spending. Meanwhile, the government has proposed several legislative measures to hasten the economic recovery. The Corporate Recovery and Tax Incentives for Enterprises Act and the Financial Institutions Strategic Transfer (FIST) bill have already been passed by the Congress.

Government borrowing was significantly increased to meet the revenue shortfalls. As of the end of December, total government debt rose by 26.7 percent to PHP 9.8 trillion, or from 39.6 percent of GDP in 2019 to 54.5 percent of GDP in 2020. Domestically, the government mainly increased issuance in the local bond market, but also borrowed directly from the Bangko Sentral ng Pilipinas, as a temporary source of financing; externally, the government sourced most of its funds from multilateral development partners, it also issued US dollar and euro-denominated bonds in international bond markets.

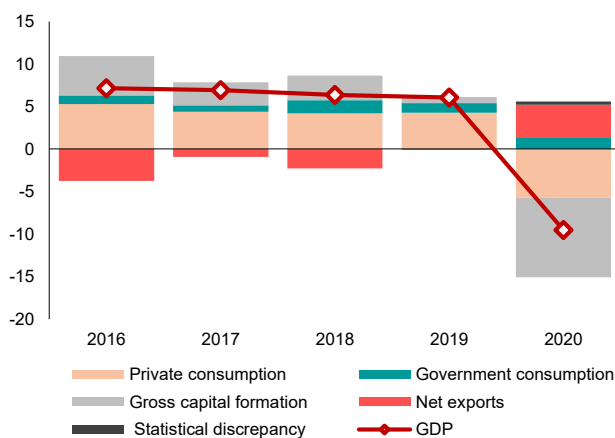
Despite the progress in containing the virus, the Philippine economy continues to face multiple risks and challenges on the path to recovery. Risks to recovery may come from another prolonged wave of COVID-19 infections, a slower-than-expected global recovery, potential financial distress of businesses in the short term, and possible lower potential growth owing to the scarring effects of the pandemic in the medium to long term. Mitigation of these risks mainly hinge on the effective management of COVID-19 infections, a calibrated reopening of the economy and speedy passage of key reforms. Although the global success in vaccine development is encouraging, significant challenges and uncertainties remain, including their wide availability, distribution and logistical challenges, and financial costs. The worldwide resurgence of new infections since November 2020 could delay the fragile global recovery. Moreover, a service-oriented and micro, small, and medium enterprise-dominant economic structure also makes any economic recovery in the Philippines more arduous.



# The Philippines: Selected Figures

Economic growth contracted sharply as a result of the COVID-19 pandemic.

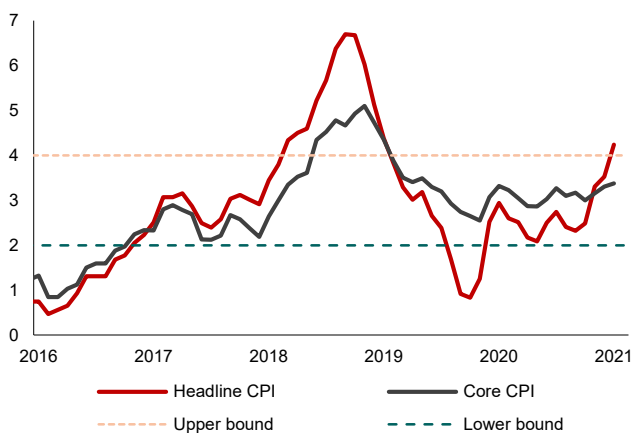
**Contributions to Real GDP Growth**  
(Percentage points, year-over-year)



Sources: Philippine Statistics Authority; and AMRO staff calculations.

Inflation remained generally stable within the target range.

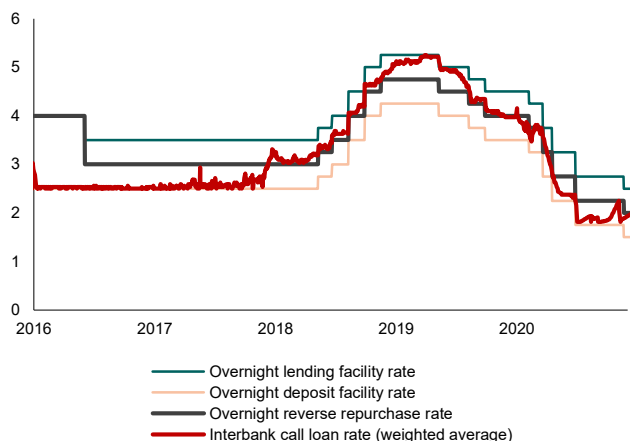
**Headline CPI and Core CPI**  
(Percent year-over-year)



Sources: Philippine Statistics Authority; and AMRO staff calculations.  
Note: CPI = consumer price index.

Monetary conditions were significantly eased in response to the adverse impact of the pandemic.

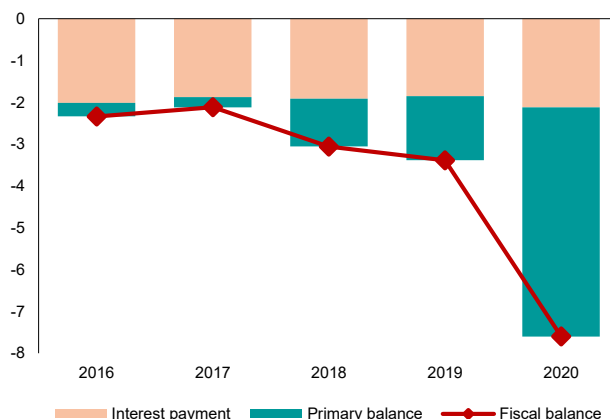
**Monetary Policy and Market Rate**  
(Percent)



Source: Bangko Sentral ng Pilipinas.

Fiscal deficit widened markedly due to a sharp loss of revenue and higher spending.

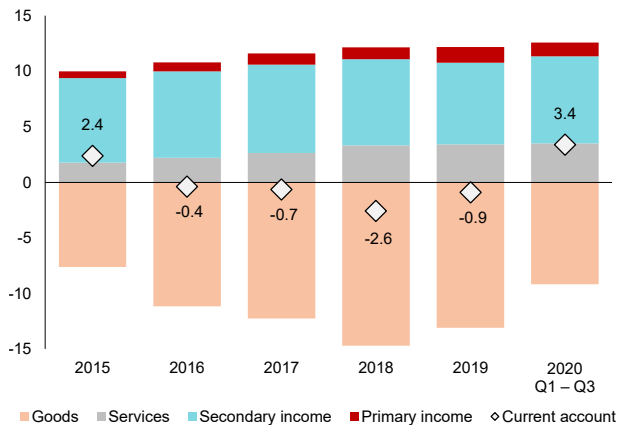
**Fiscal Balance**  
(Percent of GDP)



Source: Bureau of the Treasury.

The current account reversed to a large surplus.

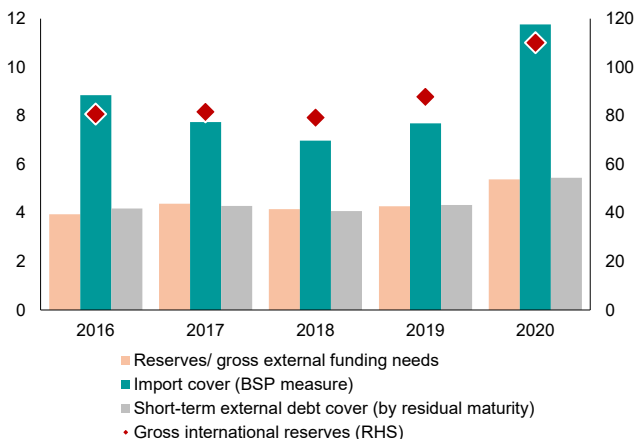
**Current Account Balance**  
(Percent of GDP)



Source: Bangko Sentral ng Pilipinas.

International reserves increased to record highs.

**International Reserve Adequacy**  
(Times; billions of US dollars)



Source: Bangko Sentral ng Pilipinas.  
Note: Import cover refers to number of months of average imports of goods and payment of services and primary income. BSP = Bangko Sentral ng Pilipinas.

## The Philippines: Selected Economic Indicators

Indicator	2017	2018	2019	2020
<b>Real sector</b>	(in annual percentage change)			
Real GDP	6.9	6.3	6.0	-9.5
Private consumption	6.0	5.8	5.9	-7.9
Government consumption	6.5	13.4	9.6	10.4
Gross fixed capital formation	10.6	12.9	3.9	-27.5
Imports of goods and services	15.1	14.6	1.8	-21.9
Exports of goods and services	17.4	11.8	2.4	-16.7
<b>External sector</b>	(in percent of GDP, unless otherwise specified)			
Current account balance	-0.7	-2.6	-0.9	3.4
Trade balance	-9.6	-11.3	-9.7	-8.6
Capital and financial account balance	-0.8	-2.7	-1.9	0.7
Direct investment	-2.1	-1.7	-1.2	-1.0
Portfolio investment	0.7	0.4	-0.9	1.3
Other investment	0.5	-1.4	0.2	0.5
Errors and omissions	-0.5	-0.8	1.0	0.4
Overall balance	-0.3	-0.7	2.1	3.1
Total external debt	22.3	22.8	22.2	26.4
International reserves (in USD billion, end of period)	81.6	79.2	87.8	110.1
<b>Fiscal sector</b>	(in percent of GDP)			
Revenue and grants	14.9	15.6	16.1	15.9
Expenditure	17.1	18.7	19.5	23.5
Fiscal balance	-2.1	-3.1	-3.4	-7.6
Government debt	40.2	39.9	39.6	54.5
<b>Monetary and financial sectors</b>	(in annual percentage change)			
Broad money <sup>1</sup>	11.3	9.0	9.8	8.6
Domestic claims	13.9	14.9	10.7	4.7
Claims on private sector	16.4	15.1	7.8	-0.6
<b>Memorandum items:</b>				
Nominal GDP (in PHP billion)	16,556.7	18,265.2	19,516.4	17,976.0
Headline inflation (in percent yoy, period average)	2.9	5.2	2.5	2.6
Policy rate (in percent per annum, end of period)	3.0	4.75	4.0	2.0
Exchange rate (in PHP/USD, period average)	50.4	52.7	51.8	49.6

Sources: National authorities via CEIC; and AMRO staff estimates.

Note: Numbers in red denote AMRO staff estimates. yoy = year-over-year.

<sup>1</sup> Refers to M4, which is the broadest measure of liquidity in the monetary system.

# Singapore

Singapore's economy has been severely affected by the COVID-19 pandemic. Real GDP contracted by 5.4 percent in 2020, from 1.3 percent growth in 2019. Services activities declined as a result of travel restrictions and Circuit Breaker measures, which significantly affected domestic demand. Notwithstanding the economic contraction, the manufacturing sector grew in 2020, led by strong expansion in the biomedical and electronics sectors.

Overall employment declined at a record pace. Based on preliminary estimates, overall employment fell by 186,600 in 2020, notably in the services sector. While employment among nonresidents continued to contract in Q4 2020, resident employment rose for the second consecutive quarter. Workers who were placed on short work weeks or temporary layoffs also fell sharply with the resumption of business activities. The overall unemployment rate has eased slightly in January 2021 but remained elevated.

The Monetary Authority of Singapore's (MAS') core inflation declined and turned negative in 2020 because of the contraction in growth and employment. The fall in global oil prices, which led to a decline in fuel and utilities costs, has also contributed to disinflationary pressures.

After contracting in 2019, non-oil domestic exports (NODX) have turned around despite the global pandemic, led by pharmaceuticals and specialized machinery, as well as electronics. NODX to key markets, such as the European Union, Japan, and the United States, rose while it declined for China and a few countries in the region.

Domestic bank lending to businesses slowed while lending to households continued to contract further. Nonbank loan growth slowed sharply due to weak demand. The banking system's overall nonperforming loan ratio rose to 2.7 percent in Q3 2020 from 2 percent in 2019. It increased to 5.9 percent in the general commerce segment, reflecting the impact of the pandemic on the retail and tourism-related sectors. Nevertheless, local banking groups continue to maintain strong capital and liquidity buffers, which are well above regulatory requirements.

The prices and transactions of residential properties recovered as homebuyer sentiment improved. Private residential property prices fell initially but rebounded in H2 2020. Prices of resale public housing also increased further during this period. Transactions fell during the lockdown period but picked up following the easing of the Circuit Breaker measures.

Four large fiscal stimulus packages were deployed to support businesses and households in 2020. The total size of the fiscal support was close to SGD 100 billion (19.2 percent of GDP). Past reserves of up to SGD 52 billion could be drawn down to help fund the large fiscal spending. In 2021, the government announced that SGD 11 billion would be set aside for a COVID-19 Resilience Package to help safeguard public health, ensure safe re-opening, support workers and businesses, and provide targeted support for sectors under stress.

Monetary policy remains accommodative in view of the growth slowdown and subdued inflation outlook. The slope of the SGD nominal effective exchange rate policy band was kept unchanged in October 2020, after it was set to neutral and the mid-point of policy band was re-centered at a lower prevailing level of the exchange rate in March 2020. Further easing may be necessary if another wave of COVID-19 infections emerges.

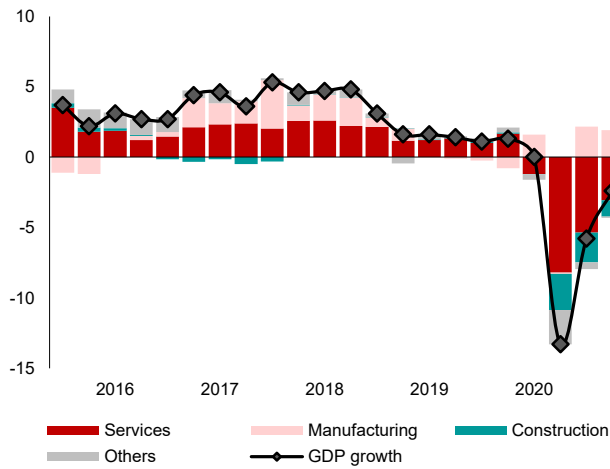
Measures to ease the cash flow constraints of businesses and households have been extended to avoid any cliff effect. The loan moratorium for households and businesses has been extended, with the resumption of loan repayments but at a lower level. The extension of the MAS Singapore dollar facility for Environmental, Social, Governance loans in partnership with Enterprise Singapore would help ensure that small and medium enterprises continue to have access to low financing costs amid the prolonged uncertainties and economic headwinds from the pandemic, and to emerge stronger. In addition, the MAS has made adjustments to financial regulations and supervision programs so that banks can better assist their customers during the pandemic. These measures, including adjusting banks' capital and liquidity requirements, allowing banks to take into account the government's fiscal assistance in setting loan loss provisioning, and deferring the implementation of regulatory reforms, amongst others.

A possible resurgence of the COVID-19 infections domestically—notwithstanding the development of vaccines—or among major trade partners, and a prolonged downturn in global growth are the major risks to growth. Any renewed spread of the virus could lead to a temporary resumption of lockdowns and additional social distancing measures, which would further inhibit the recovery in Singapore's services and travel-related sectors.

# Singapore: Selected Figures

Growth contracted sharply in 2020 as a result of the pandemic.

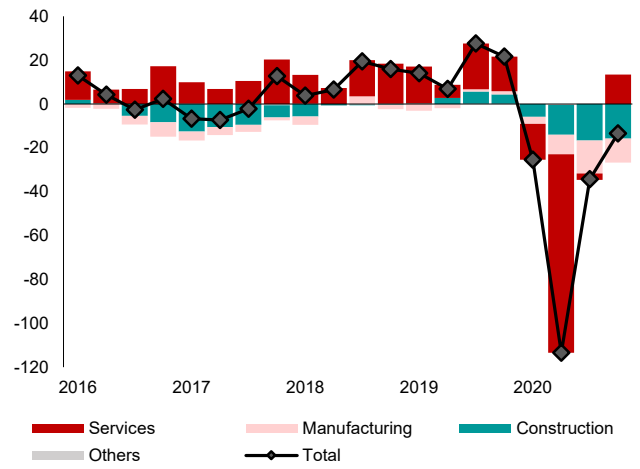
**Contributions to Real GDP Growth**  
(Percentage points, year-over-year)



Source: Singapore Department of Statistics.

Overall employment has also declined at a record pace, particularly in the services sector.

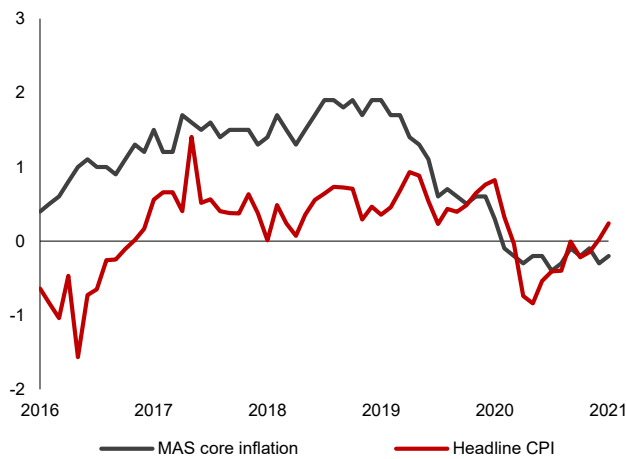
**Net Change in Employment by Sector**  
(Change in employment, thousands of persons)



Source: Manpower Research & Statistics Department, Ministry of Manpower.

Inflation turned negative from disinflationary pressures.

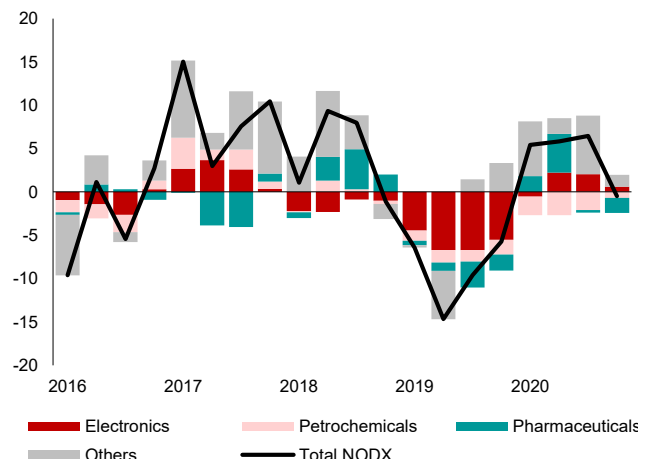
**Headline and MAS Core Inflation**  
(Percent year-over-year)



Source: Singapore Department of Statistics.  
Note: MAS = Monetary Authority of Singapore.

Exports were resilient to the downturn and rebounded in 2020.

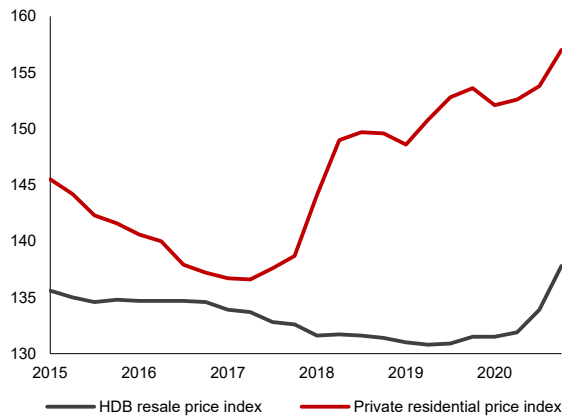
**Contributions to Non-Oil Domestic Export Growth**  
(Percentage points, year-over-year)



Source: Enterprise Singapore.  
Note: NODX = non-oil domestic exports.

Private residential property prices rebounded while resale prices of public housing increased more.

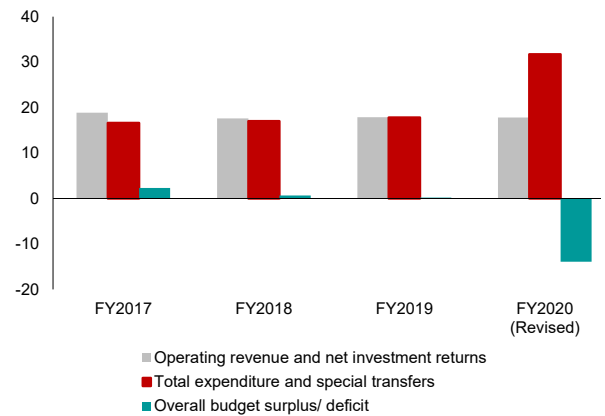
**Private Residential and HDB Price Index**  
(Index, Q1 2009 = 100)



Sources: Housing and Development Board (HDB); and Urban Redevelopment Authority.

Fiscal policy was highly expansionary in support of growth in 2020.

**Overall and Accumulated Budget Surpluses**  
(Percentage of GDP)



Source: Ministry of Finance Singapore.

## Singapore: Selected Economic Indicators

Indicator	2017	2018	2019	2020
<b>Real sector</b>	(in annual percentage change)			
Real GDP	4.5	3.5	1.3	-5.4
Private consumption	3.1	4.0	3.3	-14.1
Government consumption	3.1	3.2	3.4	12.6
Gross fixed capital formation	5.4	-4.3	1.2	-13.7
Imports of goods and services	7.8	7.5	0.2	-7.1
Exports of goods and services	7.1	7.7	0.1	-4.3
<b>External sector</b>	(in percent of GDP, unless otherwise specified)			
Current account balance	17.3	15.4	14.3	17.6
Goods balance	29.5	27.0	25.9	27.6
Capital and financial account balance	10.0	12.1	16.5	-4.2
Direct investment	-10.5	-16.3	-18.7	-16.2
Portfolio investment	5.7	13.1	28.4	15.1
Other investment	12.3	9.7	4.2	-7.3
Derivatives	2.4	5.6	2.5	4.1
Errors and omission	0.7	0.0	0.0	0.2
Overall balance	8.0	3.3	-2.2	22.0
Net international investment position <sup>1</sup>	244.5	207.2	236.3	273.5
International reserves (in USD billion, end of period)	279.9	287.7	279.5	362.3
<b>Fiscal sector<sup>2</sup></b>	(in percent of GDP)			
Revenue <sup>3</sup>	18.9	17.6	17.9	17.8
Expenditure <sup>4</sup>	16.6	17.0	17.8	31.7
Fiscal balance	2.3	0.7	0.2	-13.9
Government debt <sup>5</sup>	105.9	107.8	125.5	150.2
<b>Monetary and financial sectors</b>	(in annual percentage change)			
Broad money	4.2	5.1	4.4	11.9
Total domestic credit (DBU and ACU)	4.0	5.7	4.8	-1.0
<b>Memorandum items:</b>				
Nominal GDP (in SGD billion)	474.1	507.1	510.7	469.1
Headline inflation (in percent yoy, period average)	0.6	0.4	0.6	-0.2
Exchange rate (in SGD/USD, period average)	1.3807	1.3491	1.3642	1.3792

Sources: National authorities via CEIC; and AMRO staff estimates.

Note: Numbers in red denote AMRO staff estimates. ACU = Asian currency unit; DBU = domestic banking unit; yoy = year-over-year.

<sup>1/</sup> Net International Investment Position (IIP) as a percentage of GDP indicated under reference year 2020 is computed based on the net IIP as of end Q3 2020, divided by sum of quarterly GDP from 4Q 2019 to 3Q 2020; 4Q 2020 IIP estimates will be available by end-March 2021.

<sup>2/</sup> Refers to fiscal year. Figures may not add up due to rounding.

<sup>3/</sup> Revenue refers to the sum of operating revenue and net investment returns contribution.

<sup>4/</sup> Expenditure refers to the sum of total expenditure and special transfers.

<sup>5/</sup> Presently, the Singapore government issues domestic debt securities to: (1) develop the domestic debt market using marketable Singapore Government Securities; (2) meet the investment needs of CPF (Singapore's national pension fund) using Special Singapore Government Securities; and (3) provide individual investors with a long-term savings option that offers safe returns using the Singapore Savings Bonds. The borrowing proceeds from the issuance of these securities under the Government Securities Act cannot be spent and are invested. Singapore is in a net asset position; its financial assets are well in excess of its liabilities.



# Thailand

The Thai economy was severely impacted by the COVID-19 pandemic in 2020. Thailand's GDP contracted sharply by 12.1 percent year-over-year in Q2 2020, and by 6.4 percent and 4.2 percent in Q3 and Q4 2020, respectively. Private consumption started to rebound, partly supported by the relaxation of domestic containment measures and implementation of fiscal stimulus policies (for example, cash handouts, consumption support, domestic travel perks), while private investment contracted less. The economic rebound of trading partners also helped lift Thai exports in H2 2020. On the production side, accommodation and food services were boosted by government domestic tourism and consumption support initiatives.

Going forward, the economy is expected to recover gradually, but remain below its pre-pandemic GDP levels in 2021 and through most of 2022. The growth trajectory will depend on the speed of vaccinations as well as the effective containment of the second wave of virus infections. Domestic demand, although likely to remain soft, is expected to be the main driver of growth until international tourists gradually return, likely in the second half of 2021 as vaccines become more widely available.

Inflation fell into negative territory. Headline inflation softened to an average of -0.8 percent in 2020 from 0.7 percent in 2019, driven by the decline in oil prices, as well as a softening in core inflation. Going forward, inflationary pressures are likely to be subdued, reflecting the weak economic conditions, and headline inflation is projected to be close to the lower bound of the Bank of Thailand's (BOT's) inflation targeting band.

The external position remains strong, supported by ample international reserves and the still substantial current account surplus. In 2020, imports contracted more than exports, increasing the trade balance, while tourist arrivals fell by 83.2 percent year-over-year. Overall, the current account surplus declined in 2020 compared to the previous year, although it remained sizable at USD 16.5 billion. The capital account remained in deficit, as residents continued their direct investments abroad, while foreigners pulled back their portfolio investments in Thailand. The overall balance of payments recorded a surplus and international reserves increased.

Bond yields spiked in March and April 2020 but started to stabilize following BOT measures to stabilize financial

markets. The intensity of capital outflows and the equity market's decline in the early part of the year have also receded. The BOT lowered the policy rate three times in 2020, by a cumulative 75 basis points, to a historical low of 0.5 percent. To address liquidity and financial stability risks, the BOT established mutual fund liquidity and corporate bond stabilization facilities. At the same time, it is supporting small and medium enterprises (SMEs), households, and banks with soft loans, household debt burden relief, regulatory forbearance, and a reduction in the Financial Institutions Development Fund fee.

Fiscal policy has become more expansionary in support of the weak economy, with the fiscal deficit expanding from 3 percent of GDP in FY2019 to 5.2 percent in FY2020. With the implementation of three rounds of stimulus packages, expenditure has increased from 18.2 percent in FY2019 to 19.9 percent in FY2020.

Downside risks to growth stem mainly from delays in the administration of vaccines and resurgence of infections, and a wider-than-anticipated impact of COVID-19 on external demand. In an adverse scenario, any delay in the rollout of vaccines or new round of infections could result in a longer-than-expected return of international tourists as well as lower domestic tourism activity and consumer confidence. A resurgence of infections, either locally or in major trading partners, could also deepen the contraction or delay the recovery. Potentially higher job losses and prolonged recovery of firms' capacity utilization may also result in a slower recovery.

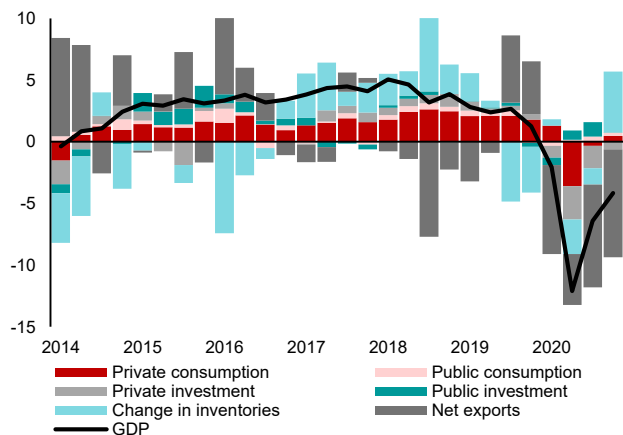
Risks to financial stability have been contained thus far. The potential increase in the nonperforming loan ratio requires increased vigilance, particularly for loans to SMEs and other vulnerable sectors, as well as loans issued by specialized financial institutions. The household debt-to-GDP ratio, which is high compared to regional peers, had increased somewhat even before the pandemic.

With a very low fertility rate, Thailand is aging at a relatively fast pace and pension and health-related spending is expected to rise in the medium-term. Considering the significant increase in public debt arising from the large COVID-19 fiscal stimulus, fiscal sustainability would need to be safeguarded. Post-pandemic, economic restructuring should be facilitated to adjust to the new normal.

# Thailand: Selected Figures

*The Thai economy was significantly impacted by the COVID-19 pandemic.*

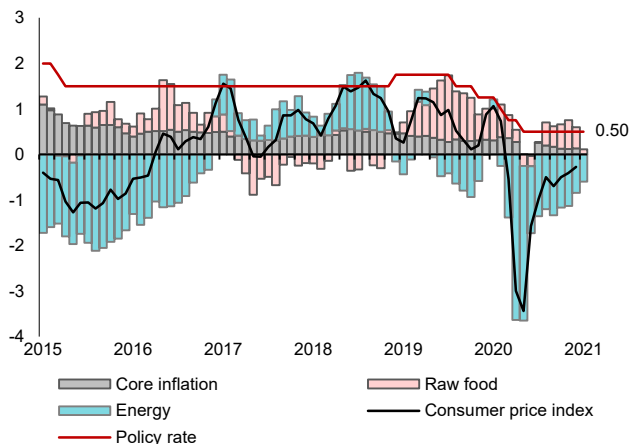
**Contributions to Real GDP Growth**  
(Percentage points, year-over-year)



Sources: National Economic and Social Development Council via CEIC; and AMRO staff calculations.

*Inflation fell into negative territory.*

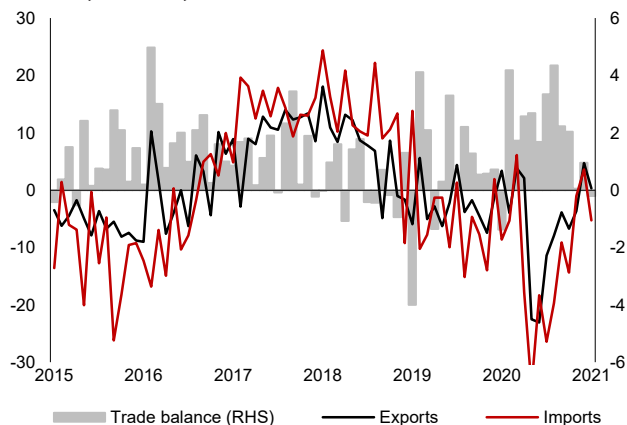
**Contributions to CPI Inflation**  
(Percentage points, year-over-year)



Sources: Bank of Thailand, Bureau of Trade and Economic Indices, all via CEIC; and AMRO staff contributions.

*Imports contracted more than exports.*

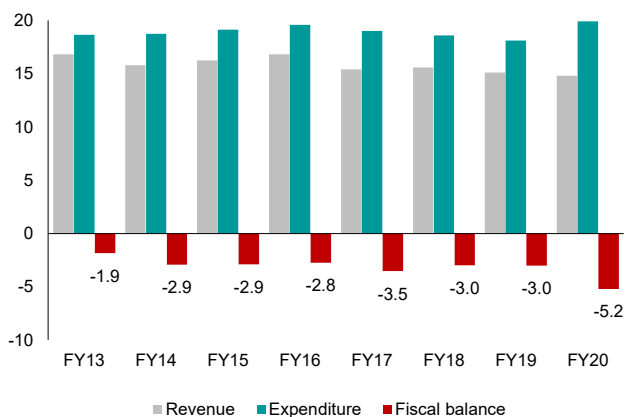
**Trade Balance**  
(Percent year-over-year; Millions of US dollars)



Sources: Ministry of Commerce via CEIC; and AMRO staff calculations.

*Fiscal policy has become more expansionary in support of the economy.*

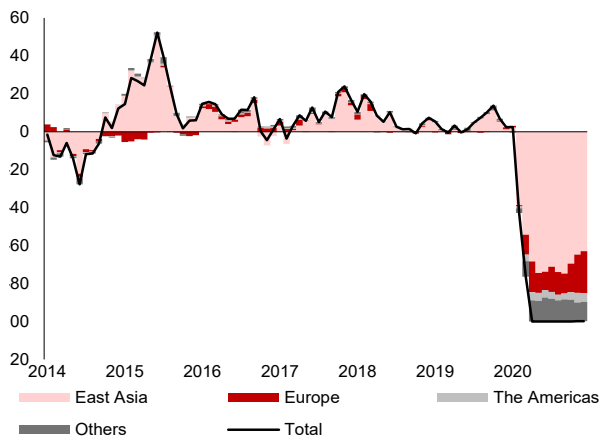
**Government Fiscal Position**  
(Percent of GDP)



Sources: Bureau of Budget and Fiscal Policy Office, both via CEIC.

*Risks to growth stem mainly from delays in vaccine rollout and resurgence in infections, which could delay the return of international tourists.*

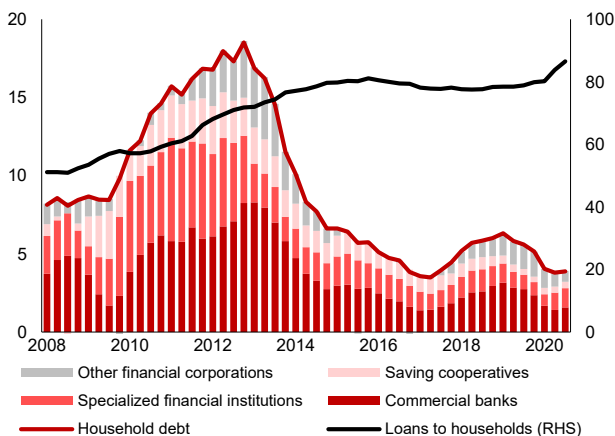
**International Tourist Arrivals**  
(Percent year-over-year; percentage point contribution)



Sources: Ministry of Tourism and Sport via CEIC; and AMRO staff calculations.

*The household debt-to-GDP ratio, which is high compared to regional peers, had increased somewhat even before the pandemic.*

**Household Debt**  
(Percent year-over-year; percent of GDP)



Sources: Bank of Thailand via CEIC; and AMRO staff calculations.

## Thailand: Selected Economic Indicators

Indicator	2017	2018	2019	2020
<b>Real sector</b>	(in annual percentage change)			
Real GDP	4.1	4.2	2.4	-6.1
Private consumption	3.1	4.6	4.5	-1.0
Government consumption	0.1	2.6	1.4	0.8
Gross fixed capital formation	1.8	3.8	2.2	-4.8
Exports of goods and services	5.2	3.3	-2.6	-19.4
Imports of goods and services	6.2	8.3	-4.4	-13.3
<b>External sector</b>	(in percent of GDP, unless otherwise specified)			
Current account balance	9.6	5.6	7.0	3.3
Trade balance	7.1	4.4	4.9	7.9
Capital and financial account balance	-2.3	-2.7	-2.9	-
Direct investment	-1.3	-0.8	-1.0	-
Portfolio investment	-0.5	-1.2	-1.6	-
Other investment	-0.6	-0.6	-0.5	-
Errors and omissions	-1.6	-1.4	-1.6	-
Overall balance	5.7	1.4	2.5	3.7
Total external debt	36.8	35.5	34.2	-
Gross official reserves excl net forward position				
(in USD billion, end of period)	202.6	205.6	224.3	243.0
<b>Fiscal sector<sup>1</sup></b>	(in percent of GDP)			
Revenue	15.4	15.6	15.1	14.8
Expenditure	19.0	18.6	18.1	19.9
Budget balance	-3.5	-3.0	-3.0	-5.2
Public debt	41.8	42.0	41.1	49.3
<b>Monetary and financial sectors</b>	(in annual percentage change)			
Policy rate (percent per annum, end of period)	1.50	1.75	1.25	0.50
10-year government bond yield (end of period)	2.5	2.5	1.5	1.3
<b>Memorandum items:</b>				
Nominal GDP (in THB billion)	15,488.6	16,368.7	16,898.1	15,703.0
Headline inflation (in percent yoy, period average)	0.7	1.1	0.7	-0.8
Unemployment rate (in percent, period average)	1.2	1.1	1.0	1.7
Exchange rate (in THB/USD, period average)	33.9	32.3	31.1	31.3

Sources: National authorities via CEIC; and AMRO staff estimates.

Note: Numbers in red denote AMRO staff estimates. yoy = year-over-year.

<sup>1/</sup> Fiscal year 2019 runs from October 1, 2018 to September 30, 2019.

# Vietnam

After a slump due to the pandemic, growth started to rebound in Q3 2020 and recovered further in Q4, registering 2.9 percent on an annual basis for 2020. Manufacturing activity was boosted by robust exports, while domestic consumption recovered following containment of the COVID-19 infections and the relaxation of mobility restrictions. The rebound further benefited from an acceleration in public investment disbursement. Growth is expected to rise to 7 percent in 2021.

High food prices were chiefly responsible for elevated inflation in early 2020. However, effective food supply management helped bring down inflation later in the year. Moreover, the decline in energy prices dragged down transportation and housing costs, allowing the authorities to maintain inflation within the 4 percent target ceiling.

Despite a relatively subdued export performance in a number of sectors, continued demand for Vietnam's electronics exports has helped the export sector recover. Meanwhile, capital inflows have been dragged down by a decline in portfolio investment and other investment. As a result, the balance of payments surplus has narrowed, slowing the accumulation of foreign reserves—which stood at about USD 92 billion as of September 2020—while the Vietnamese dong was relatively stable in 2020.

Strengthened tax administration helped offset the impact of soft economic growth and emergency measures, allowing revenue collection to reach 98 percent of the target. Meanwhile, the government's total expenditure reached 102 percent of the target on the back of pandemic support measures and higher investment spending. Consequently, the 2020 deficit increased to 3.4 percent of GDP, from the original target of 2.9 percent of GDP. As for 2021, the budget targets a conservative level of revenue collection and relatively flat expenditure, with a deficit of about 3.9 percent of GDP.

The State Bank of Vietnam (SBV) has cut key policy rates by a total of 150–200 basis points since the start of 2020, which has supported credit growth. Furthermore, the SBV issued guidelines for banks to reschedule loan payments and reduce or waive interest and fees, in addition to providing regulatory forbearance with respect to loan classification.

Key external and domestic risks stem mainly from the impact of the pandemic. The recovery remains susceptible to the risks of a slump in external demand, supply chain disruptions, as well as further waves of domestic COVID-19 infections. Moreover, lasting scars from the pandemic may

undermine the prospect of growth recovery. At the end of 2020, Vietnam was labeled a currency manipulator by the US Treasury, a decision that could lead to the imposition of some trade measures on Vietnam.

Financial sector risks may arise from the impact of the pandemic on asset quality. Vulnerabilities may also emerge from the rising holdings of corporate bonds by banks. Furthermore, the SBV's forbearance policy on loan classification has made it difficult to accurately assess banking system soundness.

With economic recovery still subject to heightened uncertainty, greater fiscal support may be warranted to help support economic recovery. Meanwhile, targeted support to micro, small, and medium enterprises and low-income households needs to continue and be regularly reviewed for their relevance and effectiveness. Furthermore, enhancements to the operationalization of support programs will help facilitate the effective disbursement of government funds. In addition, it is important to ensure continuing acceleration in public investment disbursement.

The easing of monetary policy has been beneficial, and it is essential that monetary policy remains supportive of economic recovery going forward. The forthcoming expansion of debt rescheduling is welcome and is expected to ease the pressure on affected borrowers.

The SBV's heightened supervision of lending to risky sectors and sizeable consumer lending is warranted. Meanwhile, regulatory forbearance demands regular monitoring, and the forthcoming three-year roadmap on normalization of provisioning is a welcome move.

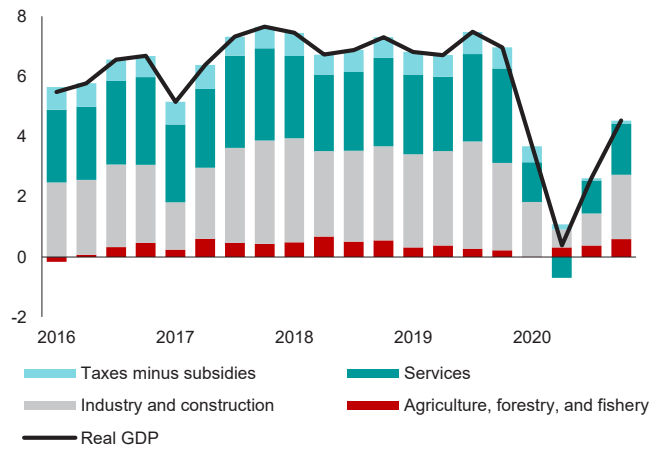
Supported by strong export performance, foreign direct investment inflows, as well as remittances, Vietnam has accumulated foreign reserves up to about 4.3 months of imports as of the end of 2020. Considering the ongoing uncertainty in the global economic environment, the country needs to continue strengthening its external buffer flexibly, with greater reliance on exchange rate variability.

With state-owned enterprise equitization slowing substantially in recent years, resolving structural obstacles is critical. Further efforts to develop domestic-supporting industries are increasingly needed. Lastly, it is essential to ensure continuing support for long-term development issues while carefully managing risks to long-term fiscal sustainability.

# Vietnam: Selected Figures

The economy has been quite resilient, having been able to maintain growth in positive territory throughout 2020.

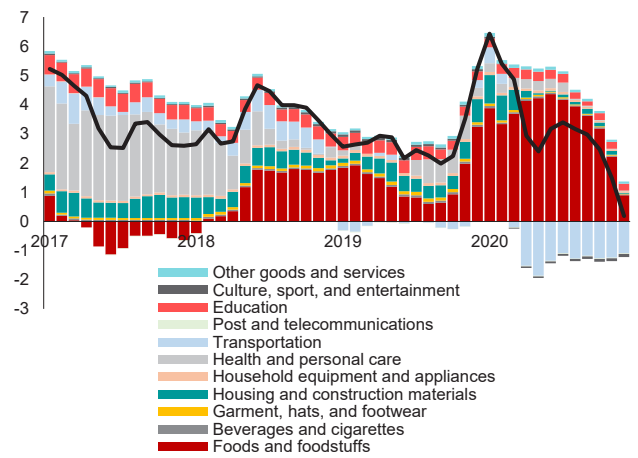
**Contributions to Real GDP Growth**  
(Percentage points, year-over-year)



Sources: General Statistics Office via CEIC; and AMRO staff calculations.

Subdued global oil prices and cooling aggregate demand have kept inflation under control.

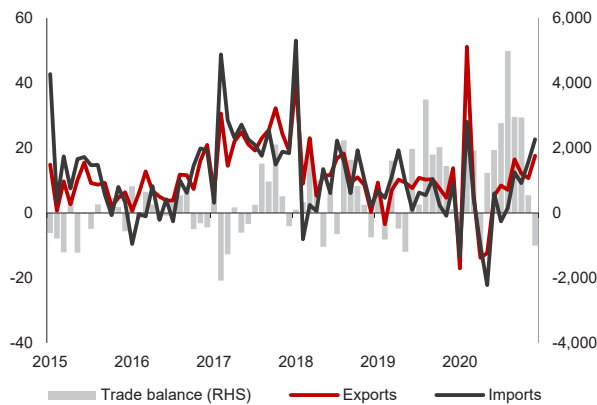
**Contributions to Headline CPI Inflation**  
(Percentage points, year-over-year)



Sources: General Statistics Office via CEIC; and AMRO staff calculations.

Export growth has been recovering over the past few months.

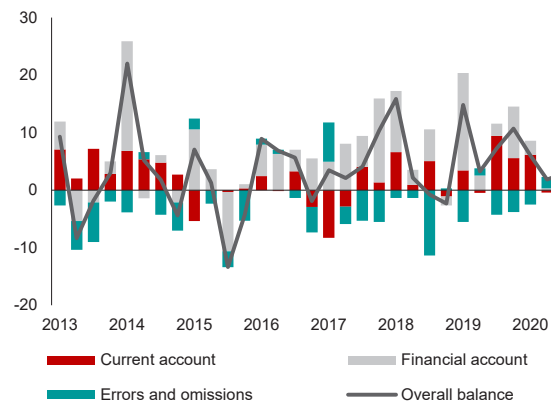
**Export and Import Growth, and Trade Balance**  
(Percent, year-over-year; millions of US dollars)



Sources: General Statistics Office via CEIC; and AMRO staff estimates.

Moderation in capital inflows have narrowed the balance of payments surplus.

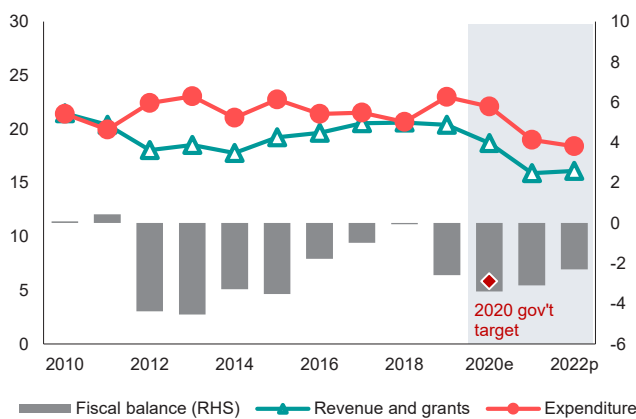
**Balance of Payments**  
(Percent of GDP)



Sources: State Bank of Vietnam via CEIC; and AMRO staff estimates.

The 2020 fiscal deficit widened to about 3.4 percent of GDP, compared to the budget target of 2.9 percent of GDP.

**Fiscal Revenue and Expenditure, Fiscal Balance**  
(Percent of GDP)

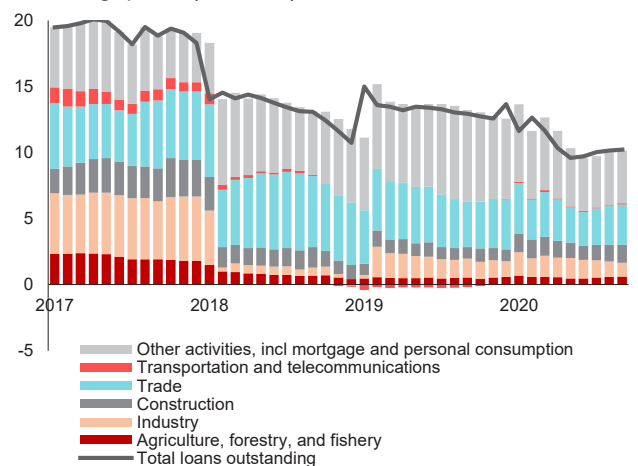


Sources: Ministry of Finance and National Assembly Economic Committee, both via CEIC; and AMRO staff calculations.

Note: The data are based on revised GDP; based on the old GDP data, the 2020 target is 3.4 percent of GDP.

Reductions in policy rates by 150–200 basis points have helped support the recovery in credit growth.

**Contributions to Credit Growth**  
(Percentage points, year-over-year)



Sources: IMF and State Bank of Vietnam, both via CEIC; and AMRO staff calculations.

## Vietnam: Selected Economic Indicators

Indicator	2017	2018	2019	2020
<b>Real sector</b>	(in percentage point contribution to GDP growth)			
Real GDP (in annual percentage change)	6.8	7.1	7.0	2.9
Agriculture, forestry, and fishery	0.4	0.4	0.3	0.4
Industry and construction	2.8	2.9	3.1	1.4
Services	2.9	2.9	3.0	0.9
Taxes minus subsidies	0.7	1.0	0.6	0.2
<b>External sector</b>	(in USD billion, unless otherwise specified)			
Current account balance	-1.6	5.9	12.5	15.6
Trade balance	10.8	16.5	21.2	25.4
Capital and financial account balance	20.0	8.5	19.0	8.6
Direct investment	13.6	14.9	15.7	15.3
Portfolio investment	2.1	3.0	3.0	2.1
Other investment	4.3	-9.5	0.3	-8.8
Errors and omissions	-5.8	-8.3	-8.2	-7.5
Overall balance	12.5	6.0	23.3	16.7
Gross external debt (in percent of GDP)	38.9	38.8	39.6	39.4
International reserves (in USD billion, end of period)	49.1	55.5	78.3	95.0
<b>Fiscal sector</b>	(in percent of GDP)			
Revenue and grants	20.6	20.5	20.3	18.7
Expenditure	21.5	20.5	22.8	22.1
Fiscal balance	-1.0	-0.1	-2.6	-3.4
Public debt	48.8	46.2	43.4	43.6
<b>Monetary and financial sectors</b>	(in annual percentage change)			
Broad money	14.3	12.7	13.6	12.5
Private sector credit	17.4	13.8	13.5	12.1
<b>Memorandum items:</b>				
Nominal GDP (in VND trillion)	6,294	6,998	7,654	8,003
Headline inflation (in percent yoy, period average)	3.5	3.5	2.8	3.2
Exchange rate (in VND/USD, period average)	22,374	22,609	23,504	23,209

Sources: National authorities via CEIC; and AMRO staff estimates.

Note: Numbers in red denote AMRO staff estimates. yoy = year-over-year.