CLMV Outlook

CLMV Economic Outlook 2023
As of July 2023

CLMV economy will witness continued growth, driven by buoyant tourism and domestic consumption, while exports and foreign direct investment remain subdued. Country-specific challenges are major reasons behind an uneven rebound across the region.

SCB EIC

Executive Summary: CLMV Economy 2023

Cambodia

Cambodia's economy should record a 5.9% growth in 2023, beating a previous forecast of 5.5%. The upward revision is attributed to booming tourism after China's reopening—which bolstered the number of tourist arrivals and inbound tourist spending per capita. Domestic consumption gradually improved alongside the labor market and cooling inflation, whereas exports and FDI remained subdued. Overall, Cambodia's economy should gain a firmer footing in H2/23. Yet, there remain risks from a potential slowdown in manufacturing employment due to weak exports, which could impair domestic consumption.

Laos

Laos' economy is expected to see a modest rebound at 4.0% in 2023 (up from the previous forecast of 3.0%). Major impetus will come from tourism and service sectors—which benefit from China's reopening—and improving logistics landscape thanks to China-Laos high-speed railway and Thanaleng dry port. Nevertheless, Laos' economic fundamentals remained fragile due to soaring inflation, high public debt compared to foreign reserve buffers, and weakening Lao kip. Thus, Laos will stay the course on tight monetary and fiscal policies, which could deter economic growth potential in the medium term.

Myanmar

Myanmar's economy should expand by 3.0% in FY2022/23, gradually normalizing from a low base. Still, political uncertainties are persistent risks that could depress economic activities and the labor market. At the same time, western nations have imposed sanctions that derail Myanmar's economic rebound and deplete market liquidity. The ongoing political crisis will likely keep Myanmar's economic growth low over the medium term.

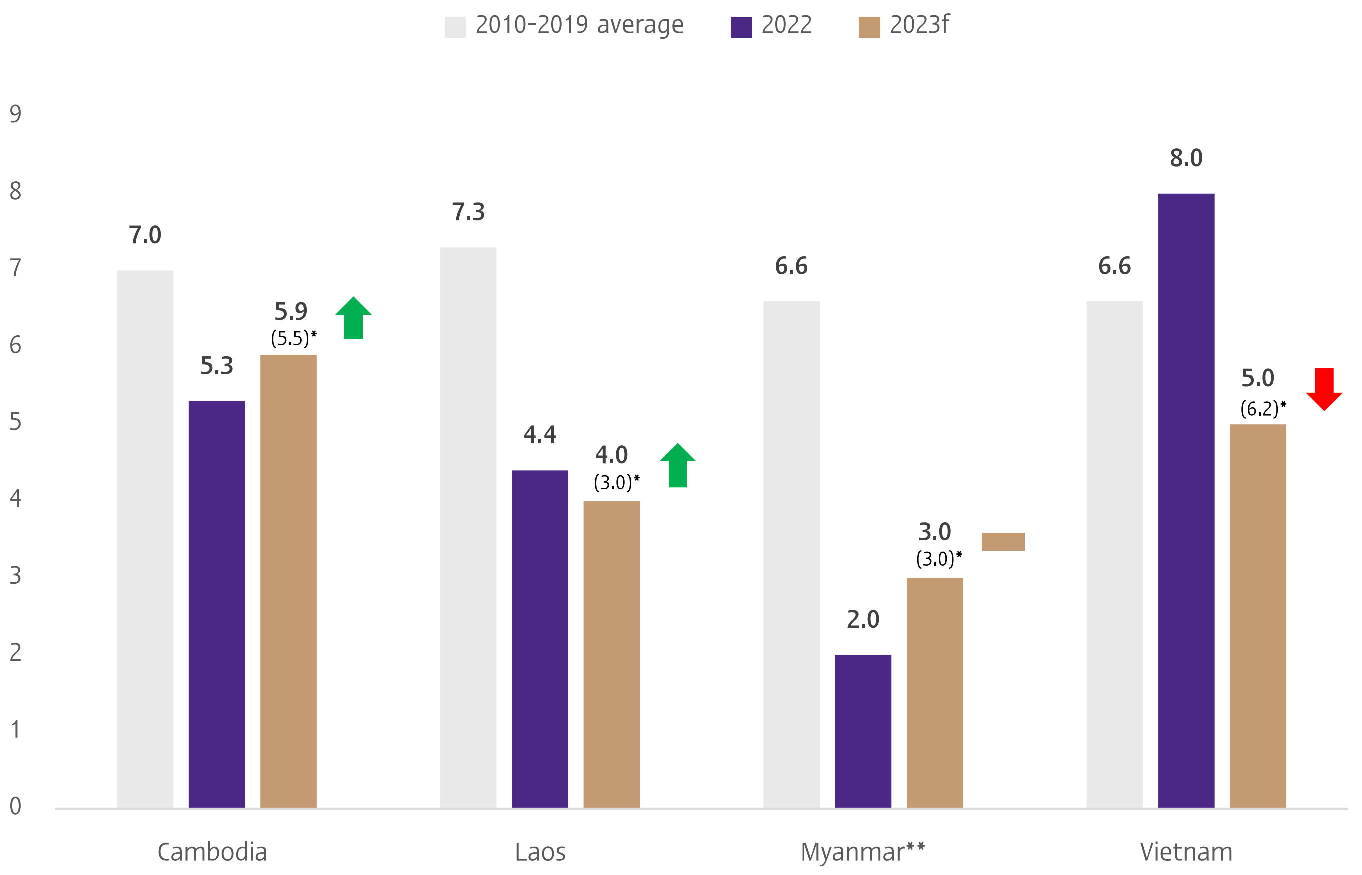
Vietnam

Vietnam's economy should record a weaker growth at 5.0% in 2023, down from the previous forecast of 6.2%. A downward revision is attributed to sluggish exports, weak FDI, and liquidity shortage amid a tightening financial condition. Against this backdrop, the real estate sector saw a sharp slowdown while some businesses struggled to raise funding—thus worsening overall business sentiment and investment. The financial sector might also become increasingly fragile due to rising NPLs. Other acute risks are political uncertainties during the leadership transition to the new president and electricity shortage. On the bright side, Vietnam's domestic consumption continued to rebound, while the monetary and fiscal policies will likely remain accommodative to bolster the economy.

CLMV economies will witness continued growth in 2023, backed by robust tourism and service sectors. Yet, country-specific challenges are the reasons behind an uneven rebound.

CLMV's economic growth forecasts 2023

Unit: %YOY



Note: *Previous forecasts as of Jan 2023 **For Myanmar, 2023F refers to FY2022/2023.

Source: SCB EIC analysis based on data from CLMV statistics bureaus and IMF.

Positive factors

- **Tourism sector rebounded steadily,** as evident in the number of tourist arrivals and tourist spending per head, thanks to China's reopening.
- **Domestic demand gained traction** in line with the labor market improvements.
- **CLMV still attracts foreign investors** with competitive edges in low labor costs and connectivity to regional and fast-growing markets.

Negative factors

- **Global economic slowdown** will undermine exports and FDI in 2023.
- **Tightening financial conditions** have fueled borrowing costs and pressured private investment.
- **Country-specific challenges,** such as political uncertainties in Myanmar.

Risk factors

- **Potential slowdown in manufacturing employment** if the exports recovery loses pace.
- **High debt levels in some countries,** particularly Laos' public debt and Vietnam's property debt.
- **Weakening local currencies** following a stronger US dollar could derail an inflation cooldown.

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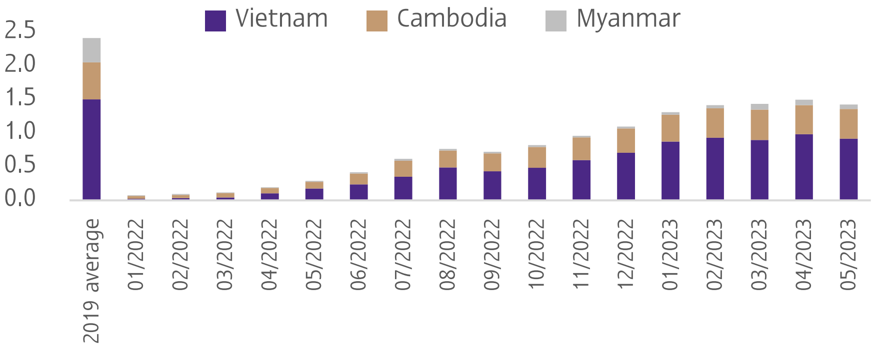
Buoyant tourism sector and domestic consumption, notably in the service industry, help usher the rebound across CLMV. Still, the global economic slowdown—especially in the manufacturing sector—could hamper exports and FDI.

Tourism and domestic consumption saw a steady rebound.

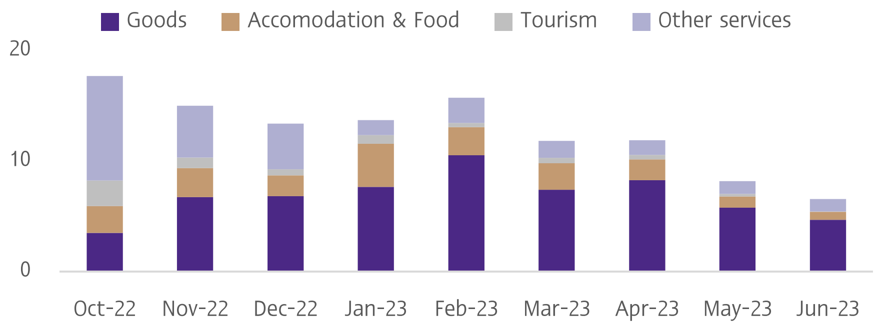
Number of tourist arrivals*

Unit: million persons



Vietnam's retail sales growth

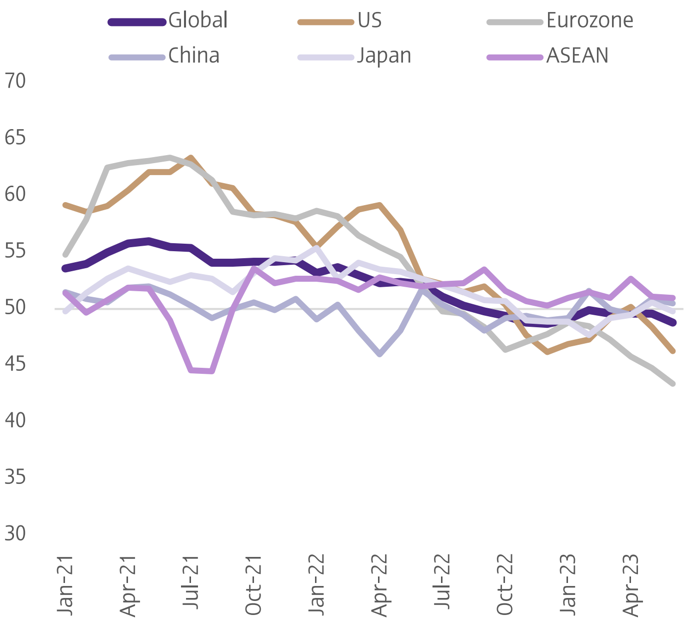
Unit: %YOY



Global manufacturing and business sentiment remained bleak and weighed down on CLMV exports and foreign investment.

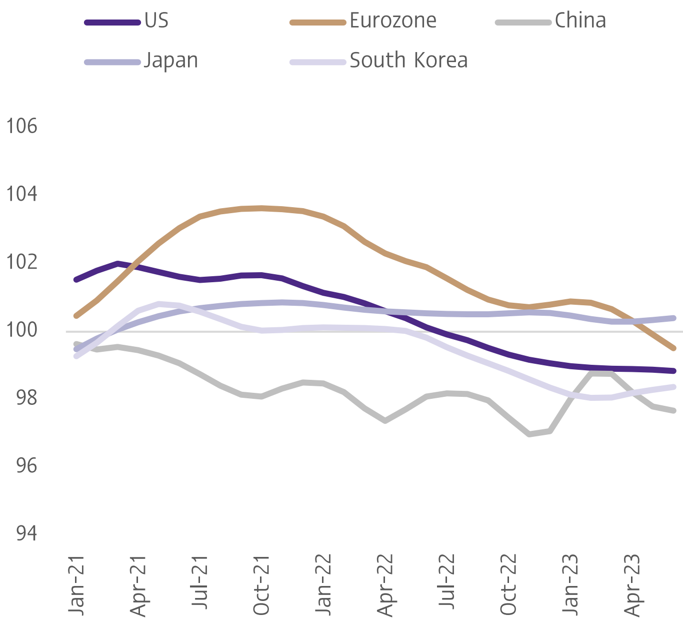
Manufacturing PMI of major trade partners

Unit: Index (>50 = expansion, <50 = contraction)



OECD Manufacturing Confidence Indicator

Unit: Index (>100 = expansion, <100 = contraction)



China's reopening is the crucial driver of the CLMV tourism sector but has lower impact on exports. The rebound in China mainly banked on the service sector, which imports less than the bleak industrial sector.

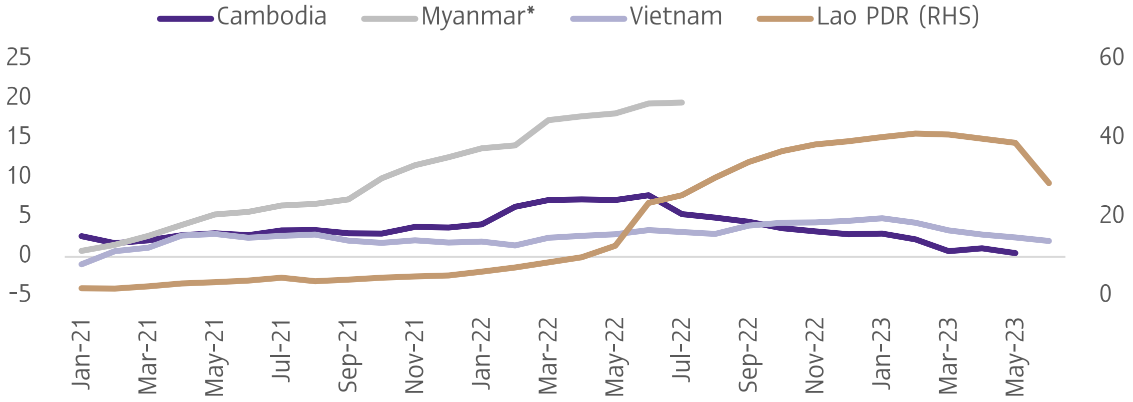
Note: *Laos did not report monthly tourist arrivals since 2020.

Source: SCB EIC analysis based on data from S&P Global, OECD, Vietnam General Statistics Office, and CEIC.

Inflation cooled down alongside global commodity prices, but there remained pressures from weakening local currencies, fueled by Fed's rate hikes and fragile economic fundamentals. CLMV central banks opted for different policy directions depending on national economic backdrops.

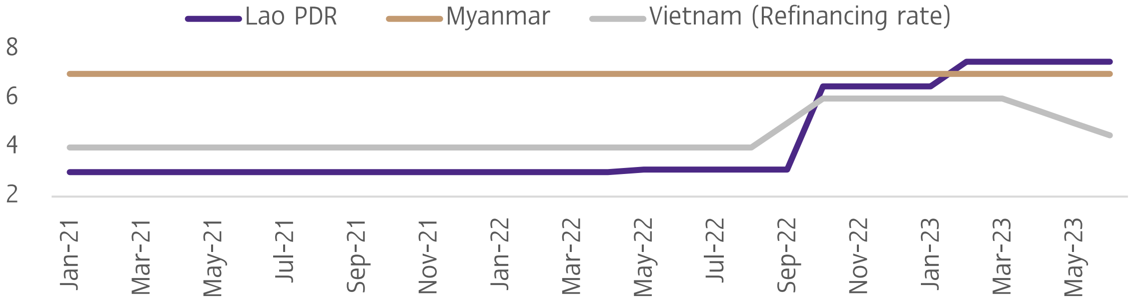
Headline inflation

Unit: %YOY



CLMV policy rate

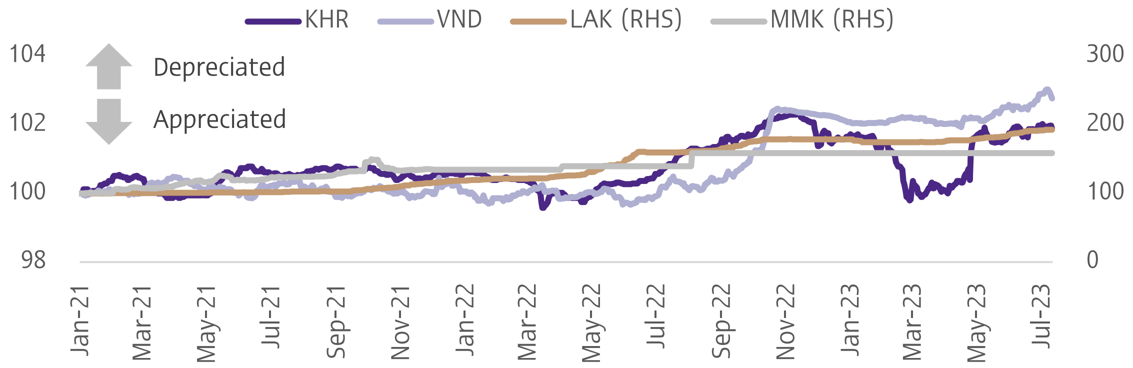
Unit: %YOY



Different monetary policy directions: Vietnam cut the policy rate to bolster economic growth and liquidity, whereas Laos increased its policy rate to maintain price and currency stability.

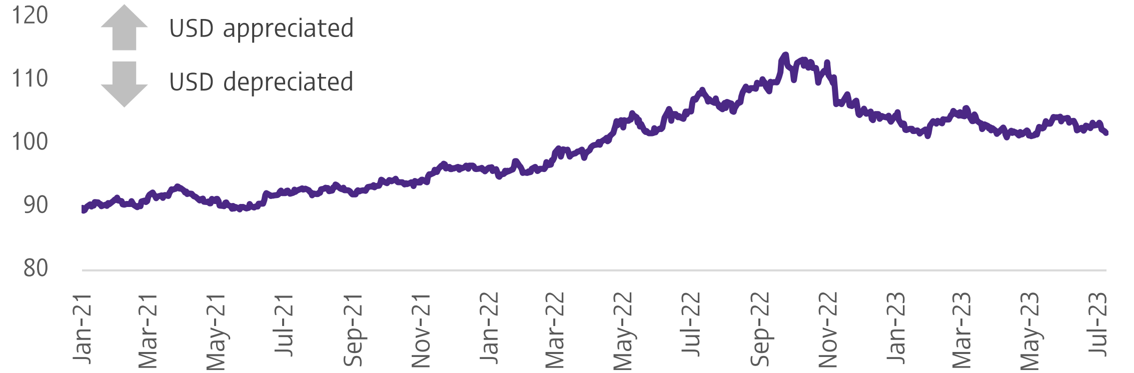
CLMV currencies vs. US dollar

Unit: Index (2 Jan 2021 = 100)



US Dollar Index

Unit: Index

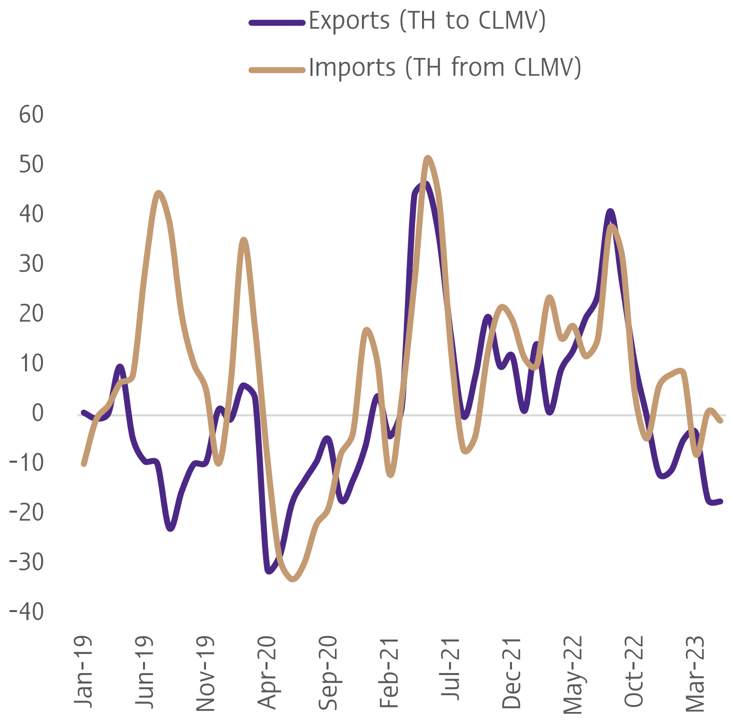


Note: *Myanmar did not report the headline inflation since July 2021.
Source: SCB EIC analysis based on data from CEIC.

Thailand's trading and direct investment with CLMV were sluggish in the first half of the year due to a slowdown in manufacturing sector and the unfavorable business environment in CLMV in the short term, while the number of CLM labors in Thailand was stable.

Thailand's exports and imports with CLMV

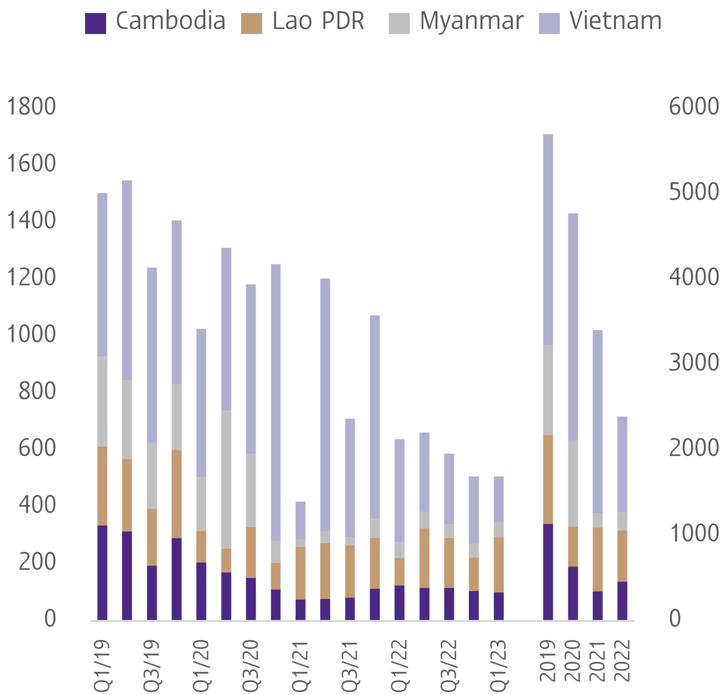
Unit: %YOY



Thai exports and imports with CLMV dropped in H1 2023, in line with the slowdown of global trade. However, Thai trade with CLMV is expected to recover in H2 from low-base effects and better economic growth.

Thailand's direct investment (TDI) to CLMV

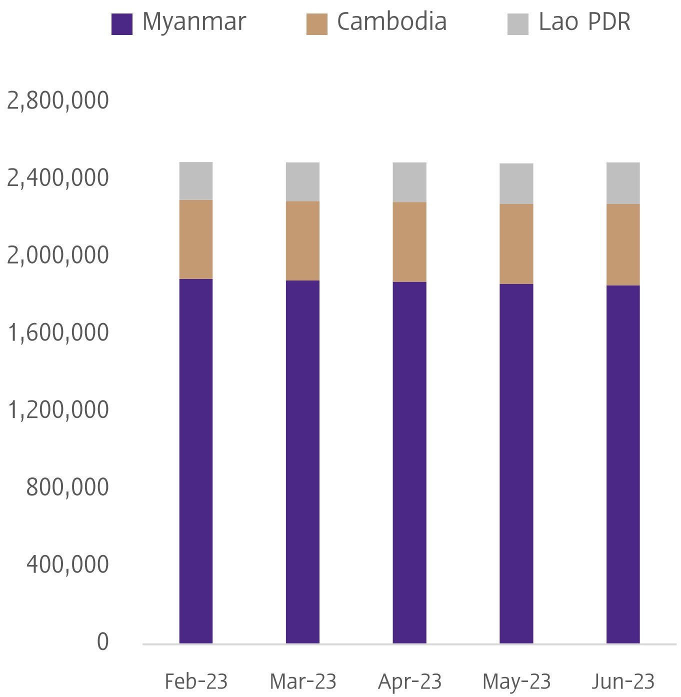
Unit: USD million



Thai direct investment to CLMV continued to stagnate caused by various pressure factors, including higher cost of fund, the economy not fully recovered, and country-specific risks affecting business.

Employment of CLM migrant workers in Thailand*

Unit: Person



The number of CLM migrant workers in Thailand was stable in H1, with higher number of Cambodian and Laos workers and lower number of Myanmar workers.

Note: *Registered with the Foreign Workers Administration Office. The new report published new number of foreign workers to comply with the Cabinet resolution on February 7,2023 from February 2023 onwards.

Source: SCB EIC analysis based on data from Ministry of Commerce, Bank of Thailand, and Foreign Workers Administration Office.

Cambodia Economy

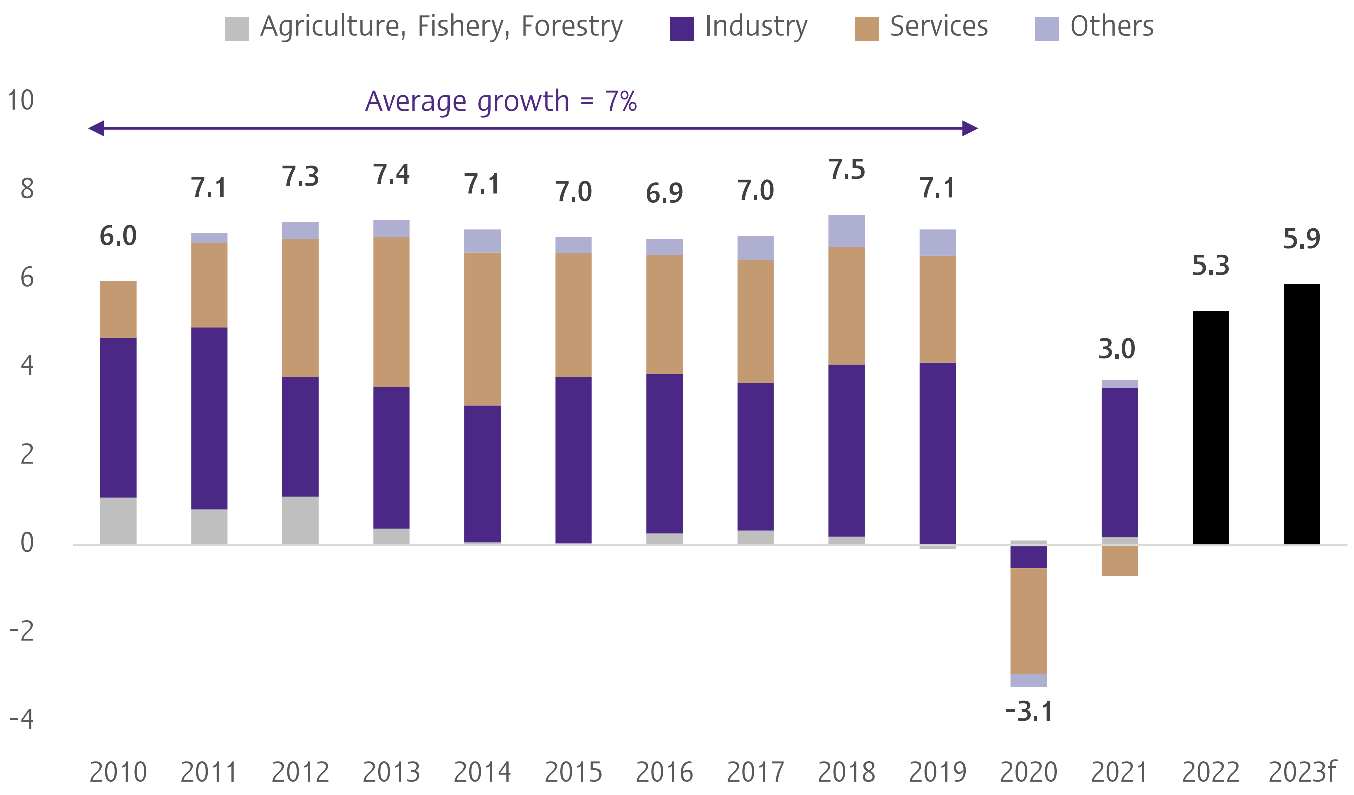
Cambodia's economy is poised toward better-than-expected growth, buoyed by an upbeat rebound in the tourism sector and domestic consumption. Key risks that warrant monitoring include a slowdown in garment manufacturing and exports, as well as stagnant FDI.

SCB EIC

SCB EIC upgraded Cambodia's economic growth forecast to 5.9% (from 5.5%), backed by a steady rebound in domestic consumption and foreign tourist arrivals—particularly from China.

Cambodia's economic growth

Unit: %YOY



Cambodia's economy will likely expand below its pre-pandemic pace. The growth has yet to gain full traction as the number of foreign visitors still fell behind the pre-COVID-19 readings, while labor income rebounded slowly.

Positive factors

- **Tourism sector continued to gain momentum** with the growing number of tourist arrivals and spending per capita, notably after China's reopening.
- **Domestic consumption rebounded** alongside the labor market and the service sector.

Negative factors

- **Global economic slowdown** will weigh on exports and FDI.
- **Tightening financial condition** due to the Fed's rate hike would fuel deposit and lending rates in USD as Cambodia is a highly dollarized economy.

Risk factors

- **High private debt** could be a risk to financial system stability.
- **Potential slowdown in manufacturing employment,** given a subdued garment industry
- **The upcoming general election in July 2023** and implications on the fiscal policy

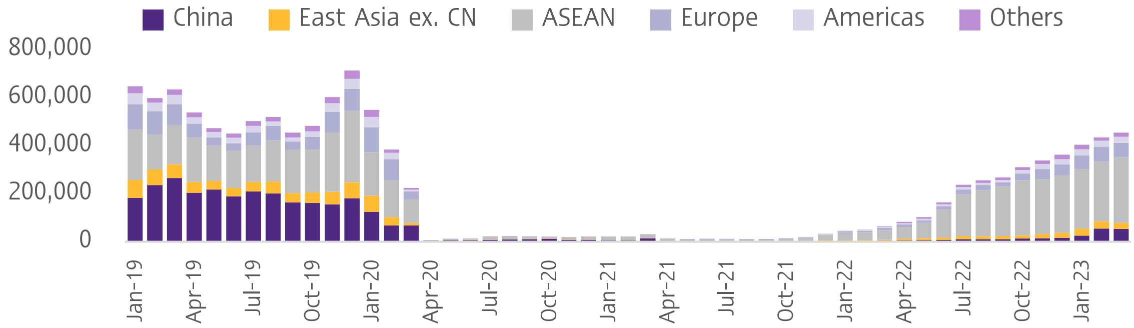
Source: SCB EIC analysis based on data from CEIC, National Institute of Statistics, and National Bank of Cambodia.

SCB EIC

The number of foreign tourists rose after China's reopening, whereas exports remained bleak but will likely improve in H2/23, given low-base effects and impetus from the new spearhead industry.

Number of foreign tourists by region

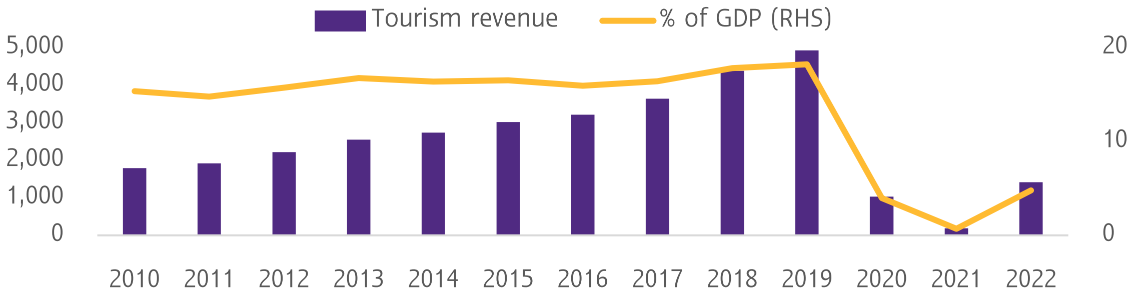
Unit: person



Tourism revenue

Unit: USD million

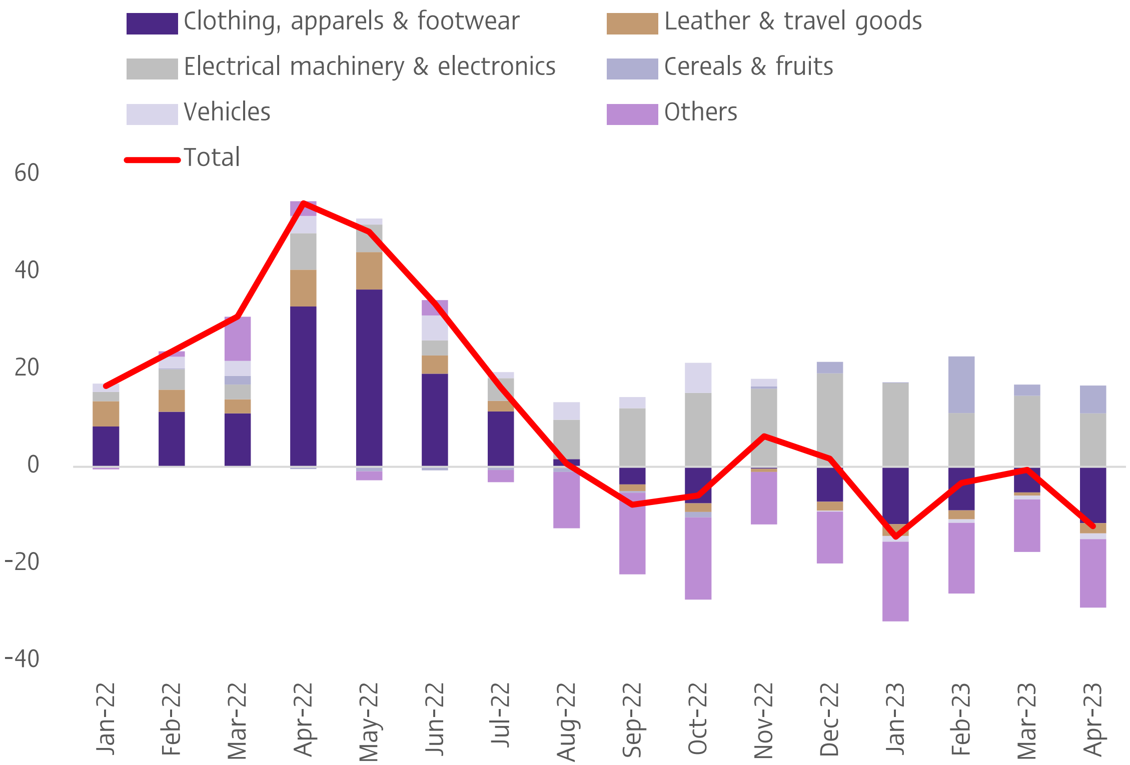
Unit: % of GDP



Cambodia's tourism sector will gain thrust from incoming Chinese visitors. The number remained below the pre-COVID-19 figures, suggesting that inbound tourists to Cambodia still have plenty of room to grow. Tourism receipts will also improve this year, as Chinese tourists' spending per capita is generally higher than ASEAN visitors.

Exports growth breakdown (excl. gold, precious metals, and pearls)

Unit: %YOY



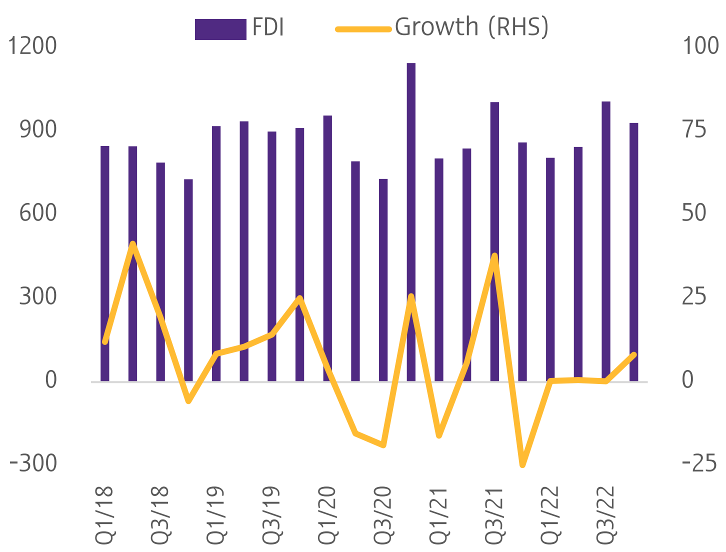
The global demand slowdown has dragged on Cambodia's exports, particularly the garment sector, but there were positives from higher exports of fruits to China and electronic products—the new priority sector. Nonetheless, we anticipate improvements in H2/23 considering low-base effects.

Source: SCB EIC analysis based on data from Ministry of Tourism and General Department of Customs and Excise of Cambodia.

FDI and domestic investment slowly gain ground, particularly in real estate. A slow rebound was attributed to a tightening financial condition in Cambodia, while foreign investors' demand just started to pick up.

Net foreign direct investment (FDI) flow

Unit: million USD | Unit: %YOY

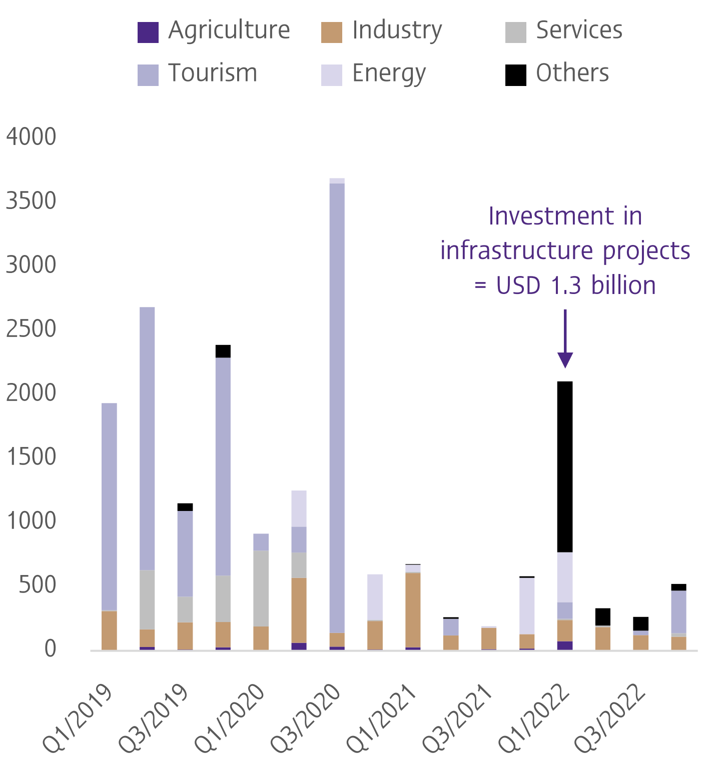


Year	Value	Growth
2018	3,213	15.2%
2019	3,670	14.2%
2020	3,627	-1.2%
2021	3,511	-3.2%
2022	3,591	2.3%

FDI inflows to Cambodia were relatively subdued in 2020-2022—hovering lower than 2019's readings. Yet, there was a sign of improvement as Cambodia reopened after the COVID-19 crisis, and the overall economy gradually gained traction.

Approved investment in fixed asset

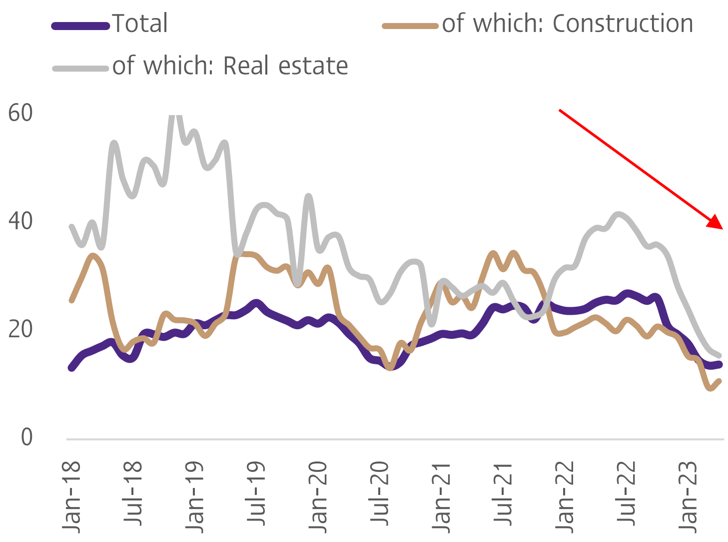
Unit: million USD



SCB EIC views that domestic and foreign investment will witness a modest rebound, especially after China's reopening. Yet downside pressures remain from approved investment*, which has been subdued since 2021.

Outstanding corporate loan**

Unit: %YOY



Year (avg.)	Total (%YOY)	Con. (%YOY)	RE. (%YOY)
2018	17.5%	23.2%	47.8%
2019	22.6%	28.6%	43.2%
2020	17.8%	20.8%	30.6%
2021	22.5%	28.6%	26.7%
2022	24.5%	20.6%	36.1%
4M23	15.0%	12.6%	18.9%

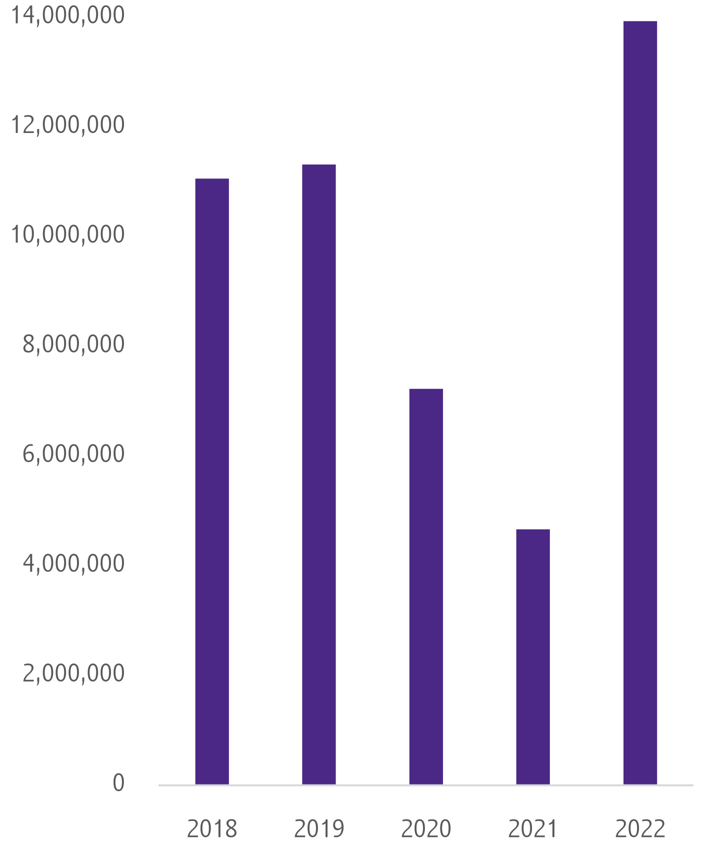
A tightening financial condition is another headwind to Cambodia's investment. The higher cost of borrowing will undermine lending to businesses—particularly in the construction and real estate sectors.

Note: *by the Council for the Development of Cambodia (Cambodian Investment Board) **excluding financial institutions.
Source: SCB EIC analysis based on data from National Bank of Cambodia.

Domestic demand will continue to pick up pace in 2023, driven by an improving labor market, service sector rebound, and subsiding inflation. Yet, a slowdown in manufacturing employment could become an acute risk to future growth.

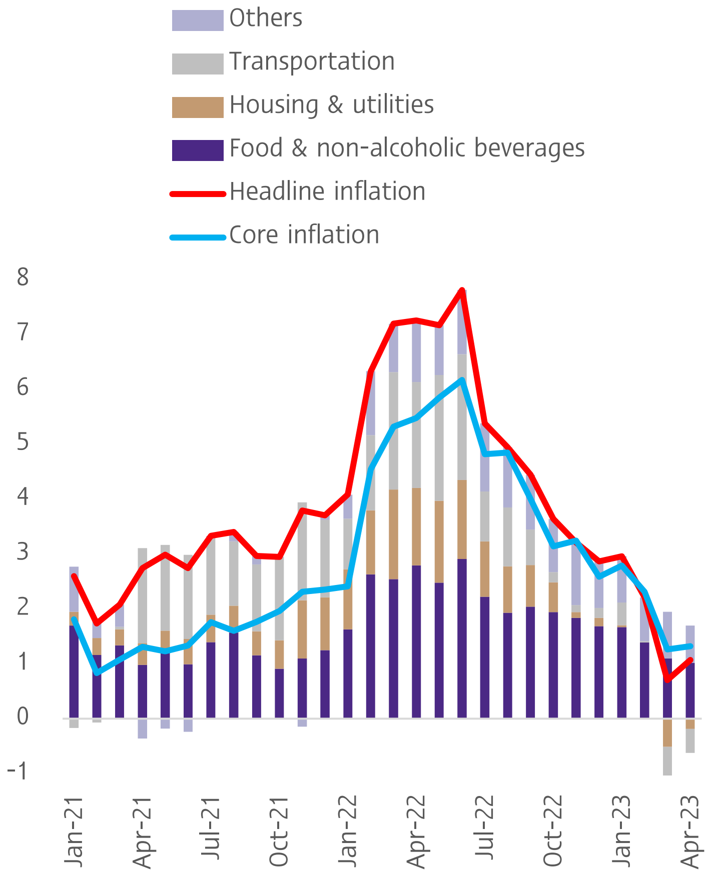
Number of domestic tourists

Unit: number of trip



Inflation

Unit: %YOY



Tailwinds to private consumption

1. **A rebound in tourism and service sectors** will propel consumer sentiment as higher labor incomes should support household spending.
2. **Pent-up demand** as evident in booming domestic tourism in 2022, which already outperformed the pre-COVID-19 era
3. **Inflation cooldown,** due to lower global commodity prices and high-base effects, would shore up consumers' real income.
4. **Government supports for fragile groups**—such as financial aid transfers—should help bolster liquidity among fragile households.

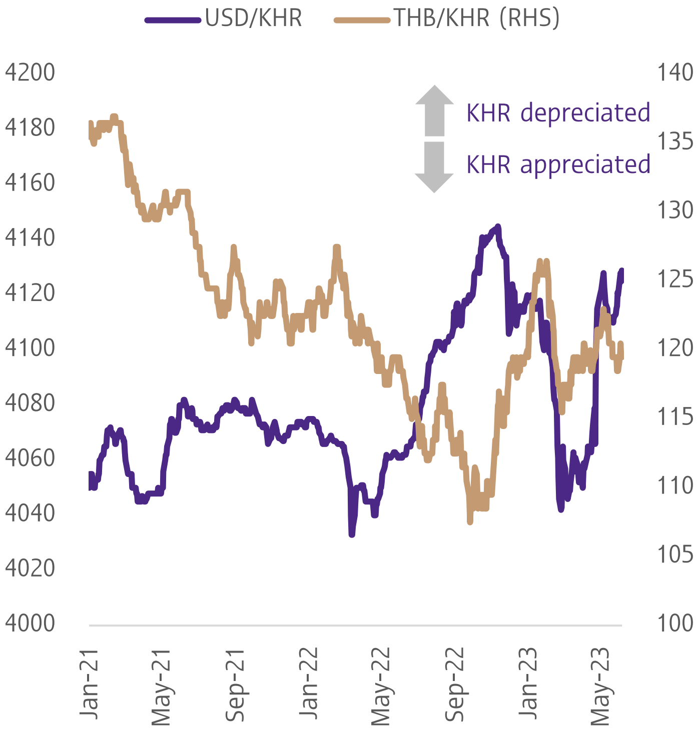
Nonetheless, there remain risks from a potential slowdown in manufacturing employment due to weak exports—especially in the garment sector, and this setback could affect labor income going forward.

Source: SCB EIC analysis based on data from National Institute of Statistics Ministry of Tourism and CEIC.

Current account deficits will likely narrow as the government restricted gold imports, while the tourism sector regained a firm momentum. This helps strengthen international stability against a tightening financial condition—brought by the Fed's rate hike.

KHR

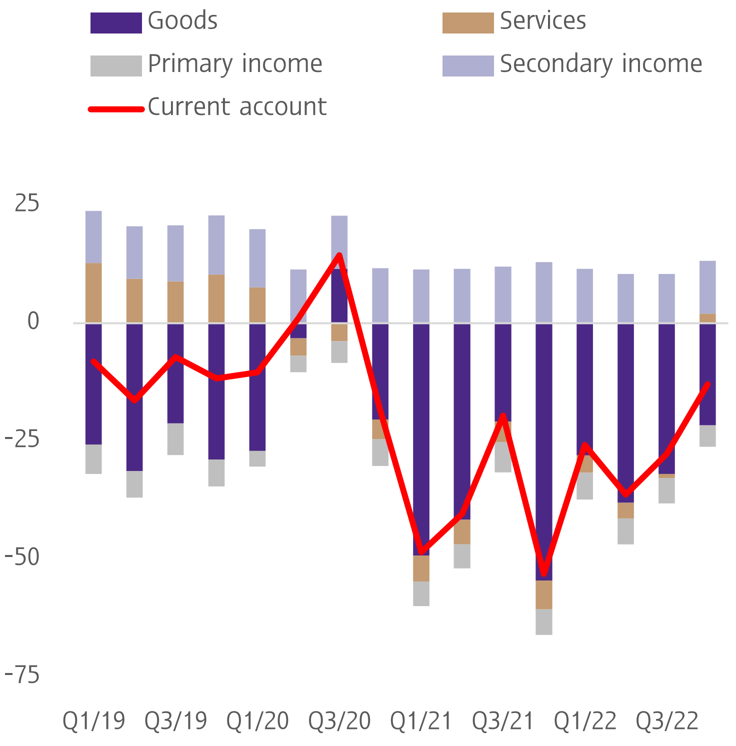
Unit: USD/KHR Unit: THB/KHR



The Khmer riel faced downward pressures again as market expectations on further Fed rate hikes sent the US dollar soaring.

Current account balance

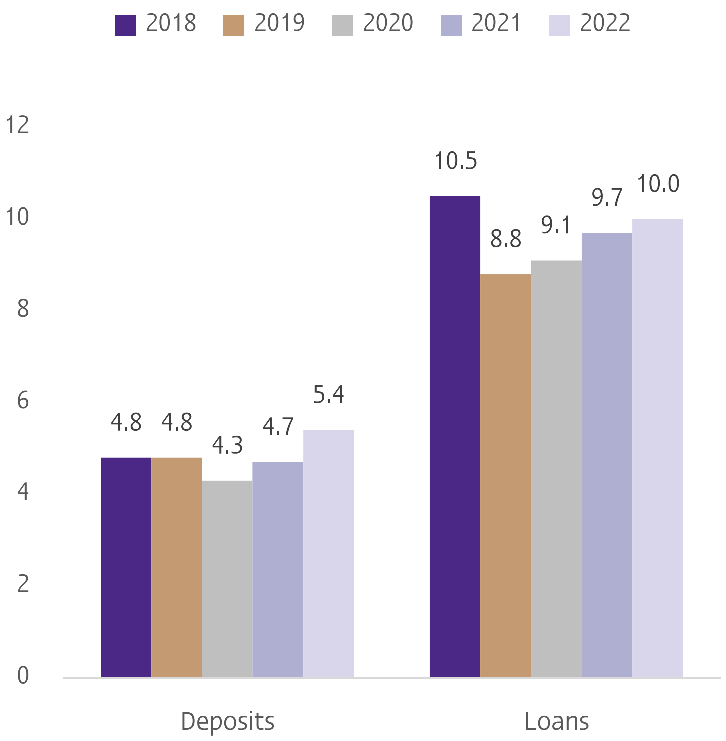
Unit: % of GDP



Current account deficits saw signs of improvement, as gold imports and oil prices plummeted. The rising tourism income will also help strengthen Cambodia's international stability.

Bank's deposit rate and lending rate (for USD)

Unit: %



Since Cambodia is a dollarized economy, **the domestic financial condition is highly tied to the US monetary policy direction.** We thus anticipate a tight financial condition throughout 2023.

Source: SCB EIC analysis based on data from National Bank of Cambodia.

Laos economy

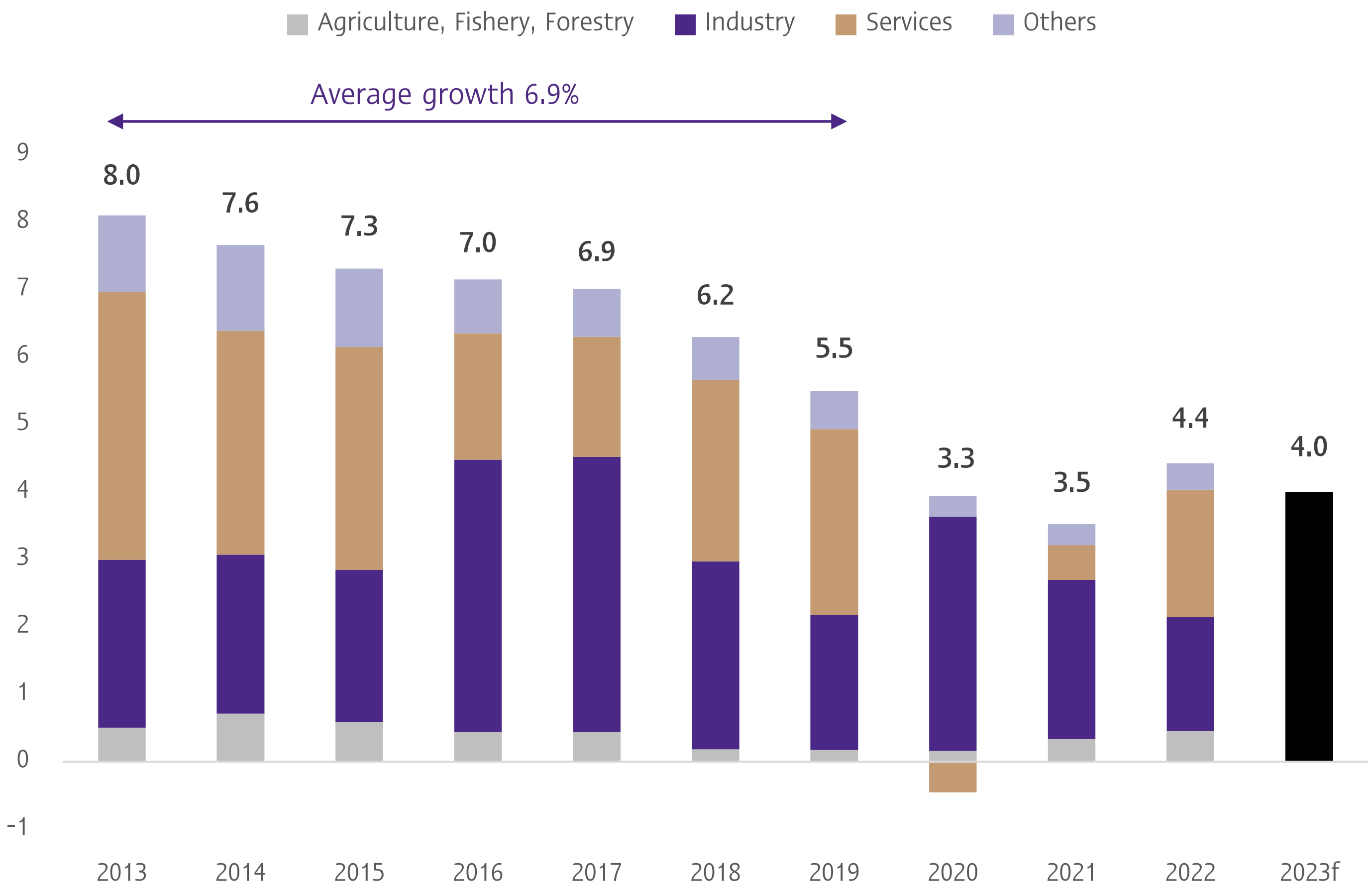
Laos's economy will gradually expand from tourism and service sector following China's reopening. Nevertheless, the economy is still fragile from high public debt while international reserves are low and the Kip depreciates sharply. This will add pressure on economic growth going forward.

SCB EIC

SCB EIC revised Laos's economic growth forecast to 4.0% (from 3.0%), driven by tourism and service sector. However, the economy remains highly vulnerable, resulting in below historical average growth.

Laos' economic growth

Unit: %YOY



Positive factors

- **China's reopening** should boost Laos' exports, foreign direct investment, and tourism.
- **Logistic infrastructure**, such as China-Laos high speed railway and Thanaleng Dry Port* to support regional transportation and logistics.

Negative factors

- **Critically high inflation rate** affects consumer spending and costs of business, such as fertilizer and raw material prices.
- **Limited fiscal space,** pressuring investments in infrastructure projects and economic stimulus measures.

Risk factors

- **High foreign debt burden** amid low internal reserve and limited funding options.
- **The Kip keeps depreciating** due to fragile domestic stability and strengthening US dollar.
- **Drought** could affect agricultural production and hydroelectric power generation, which are key export products.

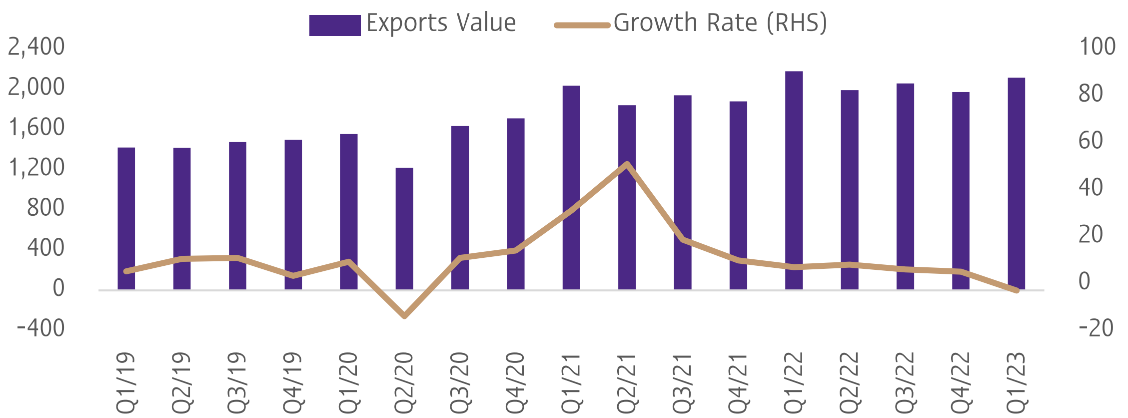
Note: *Thanaleng Dry Port is the center of distribution and a strategic part of integrated Vientiane Logistics Park.

Source: SCB EIC analysis based on data from Bank of the Lao PDR.

Tourism and service sector are key economic drivers this year, with supports from China's reopening and logistic infrastructure projects that promote regional connectivity. These factors are expected to boost exports and investments going forward.

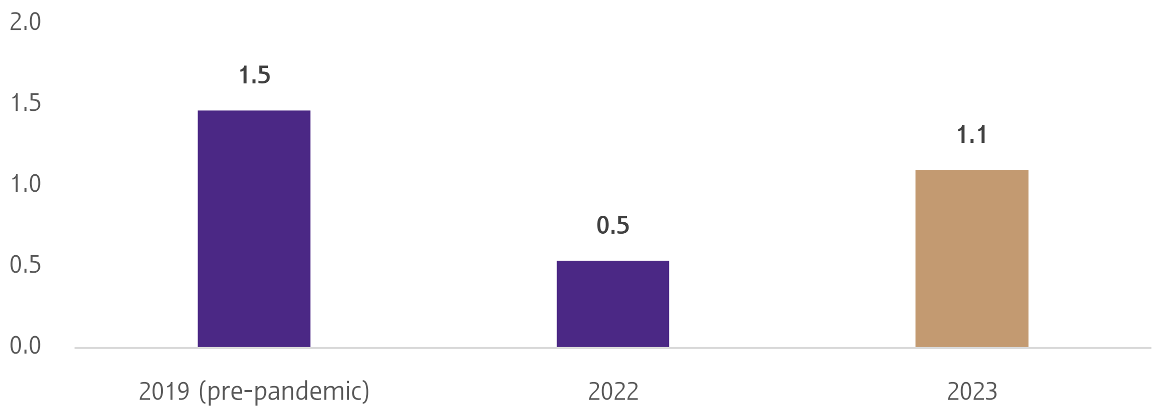
Exports value

Unit: USD million Unit: %YOY



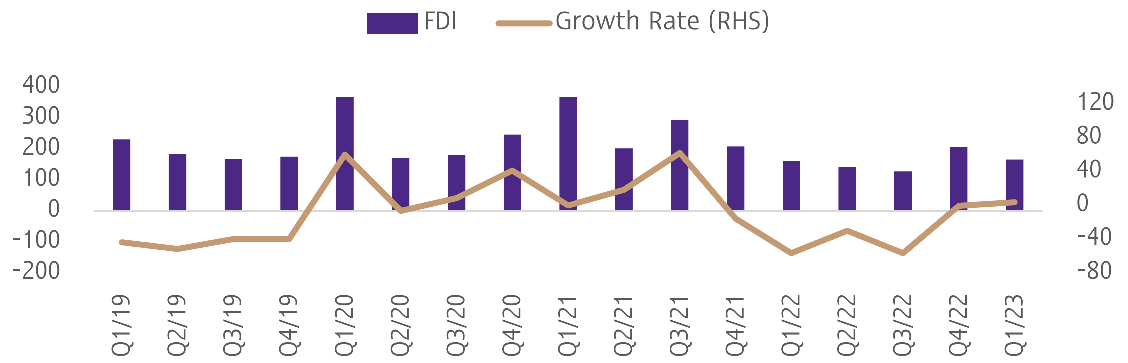
International tourist arrivals in the first 4 months

Unit: Million persons



Foreign Direct Investment (FDI)

Unit: USD million Unit: %YOY



- **Laos' exports slightly contracted in the first quarter**, following lower commodity prices, such as copper and wood. Going forward, exports could rebound in line with healthy growth of Thailand and China, key trading partners, and higher electricity exports.
- **FDI inflows gradually recover from low base,** supported by China's reopening, which is the major investor, and logistic infrastructure projects connecting Lao PDR with China and other countries in the region. However, SCB EIC views that FDI will remain sluggish as the government slows down investment to maintain fiscal stability. Meanwhile, China might consider cutting some investment in Belt and road initiative given Laos' fragile fiscal position.
- **International tourist arrivals in the first 4 months improved significantly** after a full reopening. The main tourists were from Thailand, Vietnam, and China, with an upward trend, especially Chinese tourists who show great potential for further recovery.

Source: SCB EIC analysis based on data from CEIC, Bank of the Lao PDR and international news agencies.

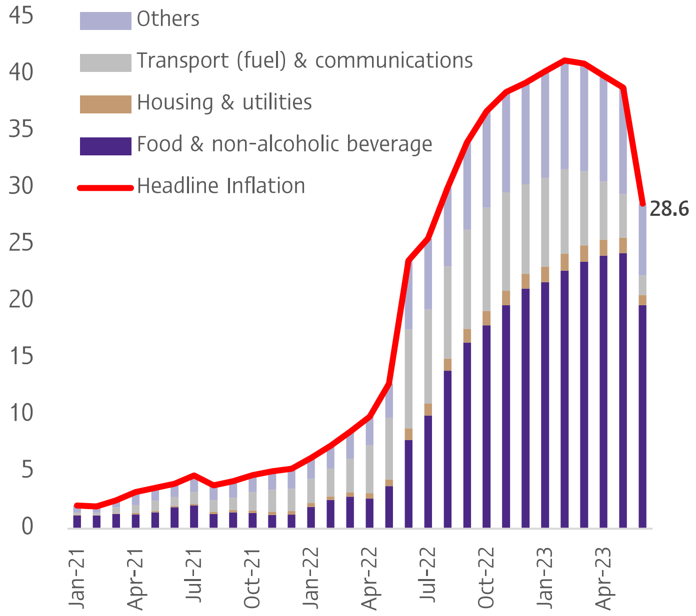
SCB EIC

Persistent high inflation with slow improvement becomes key pressure to Laos' economy.

The World Bank survey shows the negative impact on household consumption and family businesses.

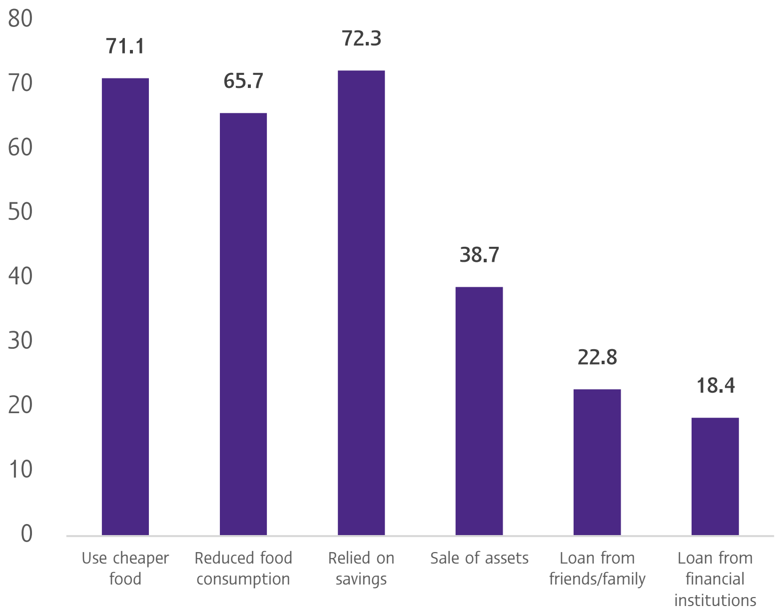
Headline inflation

Unit: %YOY



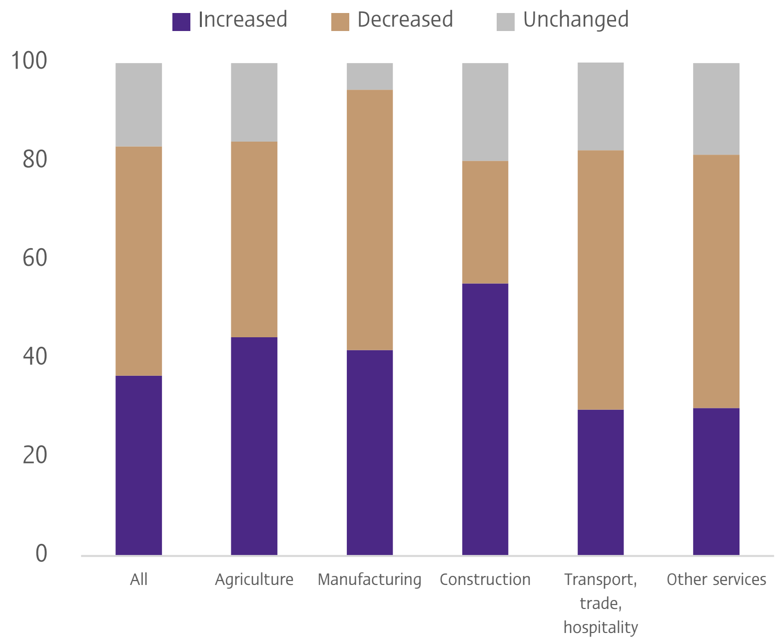
Methods for coping with high inflation faced by households*

Unit: % Respondent households



Effects of inflation on family business profitability*

Unit: % Respondent family businesses



- **Headline inflation rose at a slower pace in June but remained at a high level.** SCB EIC views that inflation rate will continue decelerating but at slow pace as weakening LAK has push up import prices. In addition, consumers and businesses expect rising inflation, potentially leading to wage raise and cost pass-through.
- **The World Bank surveyed the effects of inflation on households and family businesses in Lao PDR** and found that during high inflation most households adapted by spending their savings on daily consumption, buying cheaper food, and reducing food consumption, and some groups sold their assets or borrow money. The effects on family businesses varied, depending on the ability to set prices and raw material costs. Service businesses were the most affected.

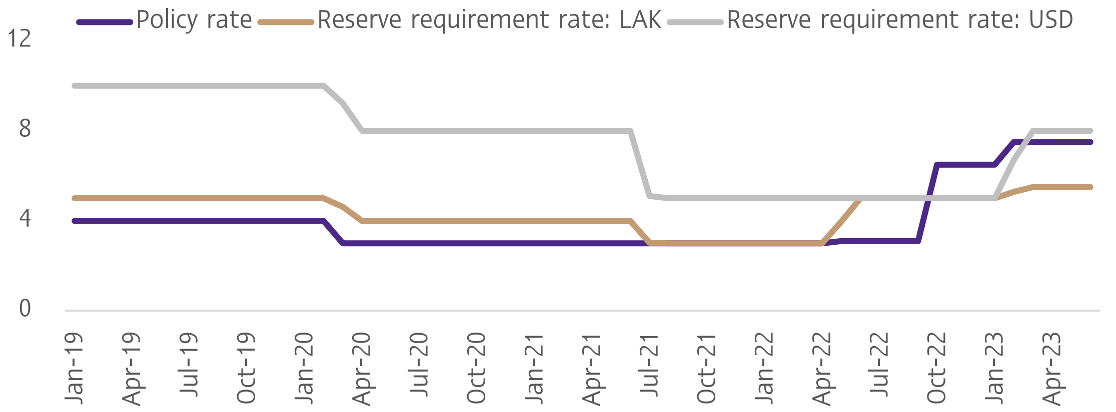
Note: *Surveyed by the World bank.

Source: SCB EIC analysis based on data from Bank of the Lao PDR and World Bank. Lao People's Democratic Republic Economic Monitor: May 2023. Washington, DC: World Bank. 2023.

Monetary policy tightening remains to stabilize LAK and control high inflation. However, LAK continues to depreciate following fragile economy and strengthening USD, leading to a slow decline in inflation.

1. Monetary policy tightening remains to stabilize LAK and control high inflation

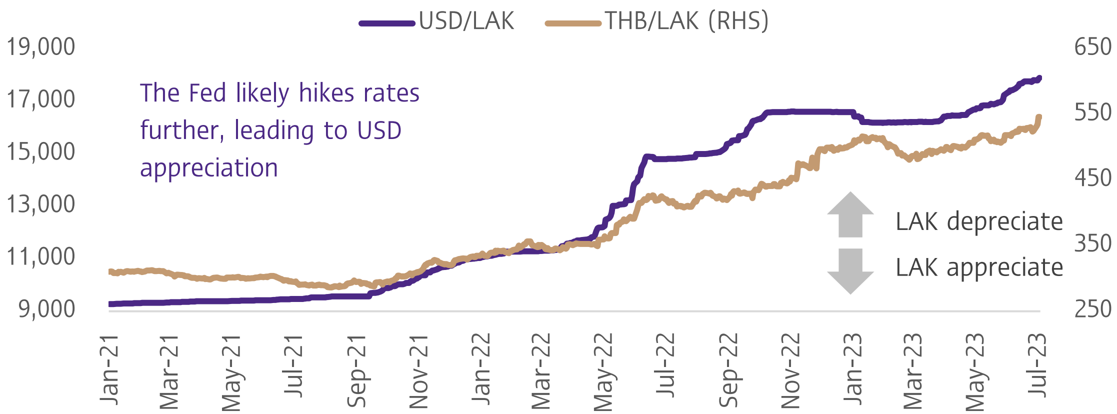
Unit: %



2. LAK continues to depreciate following fragile economy and strengthening USD

Unit: USD/LAK

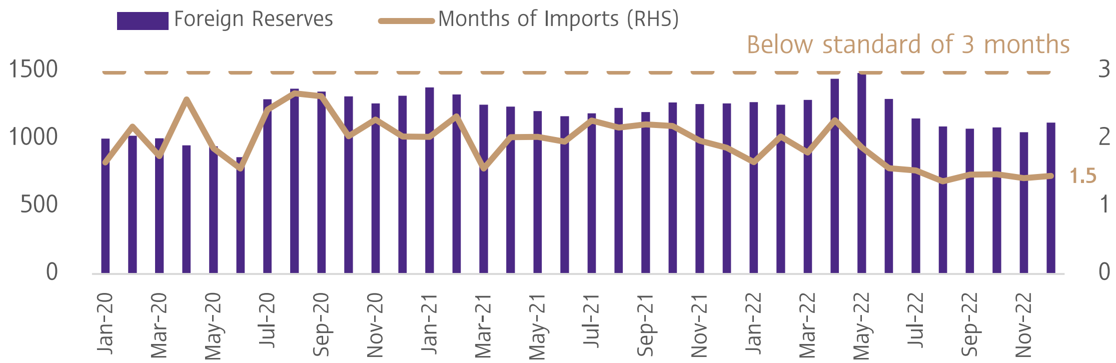
Unit: THB/LAK



3. Low foreign reserves to months of imports limits the ability to control LAK

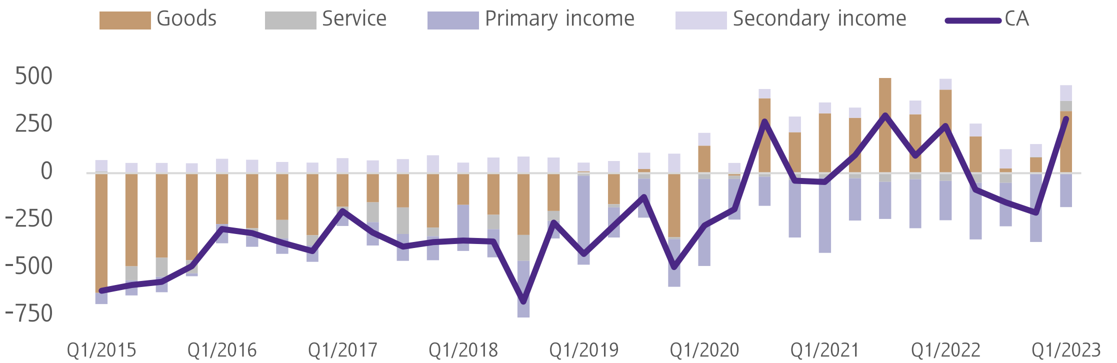
Unit: USD million

Unit: Month



4. Current account balance turned surplus from improving goods and services exports, which may partly support LAK

Unit: USD million



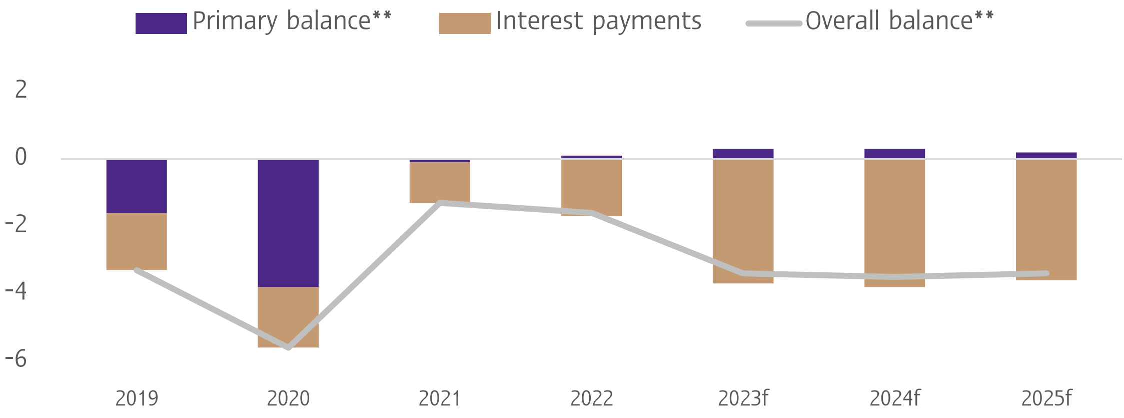
Source: SCB EIC analysis based on data from CEIC, Bank of Lao PDR, and Bank of Thailand.

SCB EIC

Laos' government tends to maintain prudent fiscal policy and accelerate negotiations to restructure public debt, aiming to solve fiscal fragility. This may result in lower government investments and economic growth.

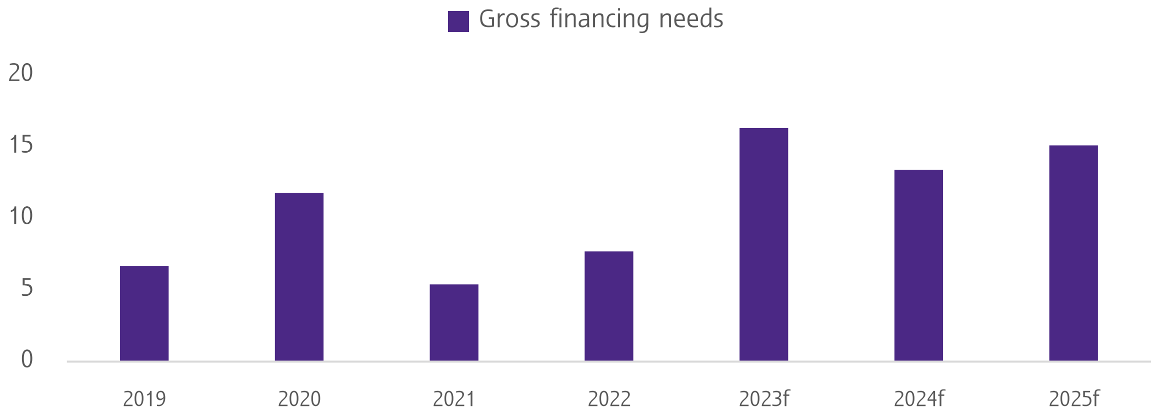
1. Laos government started tight fiscal policy, slightly improving primary balance*

Unit: % of GDP



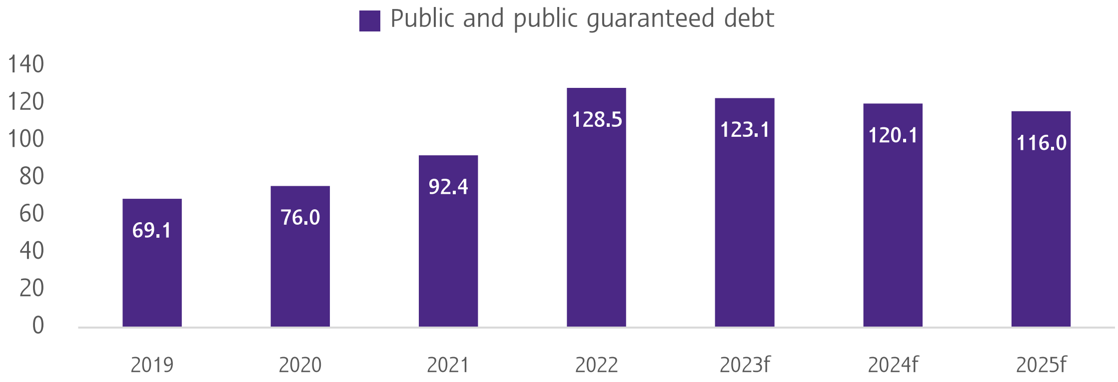
2. High interest burden from past debt forces Lao PDR to borrow more for repayment*

Unit: % of GDP



3. High public debt means Lao PDR should accelerate restructuring negotiations

Unit: % of GDP



- **Laos government started implanting more restrictive fiscal measures,** such as public spending cut, expanding the tax base, postponing new investments in mega project (expect those of high importance). As a results, the primary balance (excluding interest expenses) tends to be a minor surplus.
- **The fiscal balance (including interest expenses) remains deficit**, causing Lao PDR to borrow more money from domestic source of fund as the external markets become more difficult to access. Public debt remains at a high level.
- **Lao PDR should accelerate negotiations to restructure public debts, especially with the biggest debtor China, for a sustainable solution** and ramp up the restructuring of government revenue and expenditure.
- **As fiscal policy becomes tightened, economic growth will be lower than the past** as the momentum from public investment decreases. Moreover, if the government borrows money from the banks, this might hinder the private sector's access to domestic source of fund or increase borrowing costs (crowding out effect). And if the government manage to get funding from the Bank of Lao PDR, it could add pressure on inflation to accelerate and LAK to depreciate further.

Note: *IMF forecast **Overall balance is fiscal balance, Primary balance is primary fiscal balance (net interest expenses).
Source: SCB EIC analysis based on data from IMF Article IV (Lao PDR, May 2023).

Myanmar Economy

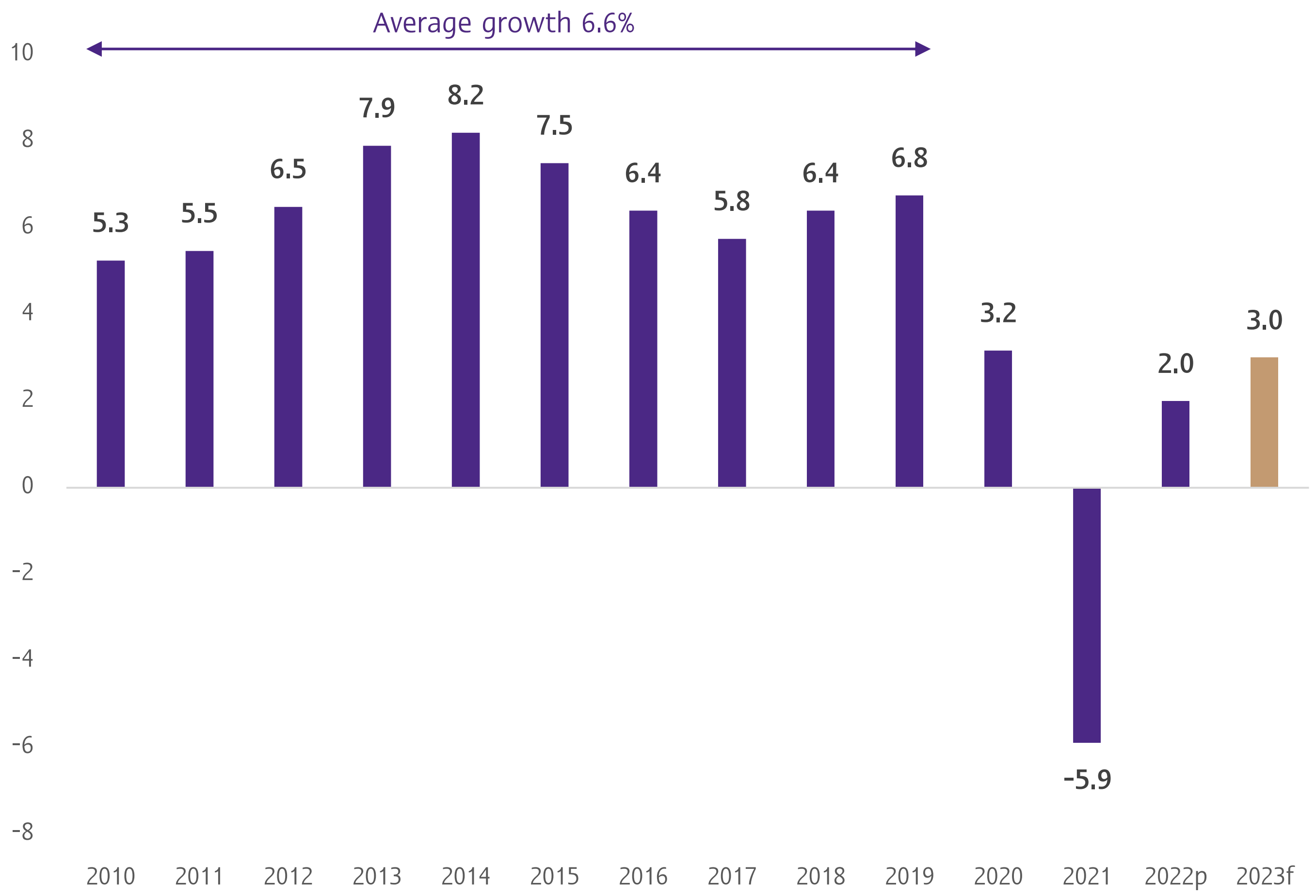
Myanmar's economy has been pressured by ongoing political uncertainties. As a result, economic activities and labor market remain weak, despite a gradual recovery from the low base. The western countries continue to impose sanctions, limiting an economic recovery in the medium term.

SCB EIC

SCB EIC maintains Myanmar economic growth forecast at 3.0% in fiscal year 2022/2023, based on a gradual recovery in economic activities, amid various negative factors that are impeding its growth in the medium term.

Myanmar's economic growth

Unit: %YOY



Note: 2023f is fiscal year 2022/2023.

Source: SCB EIC analysis based on data from Central Statistical Organization and IMF.

Positive factors

- **Economic activities gradually returned and normalized** after political unrest somewhat started to ease.
- **China's economic reopening** will support China's direct investment and border trade.

Negative factors

- **Sanctions from western nations remain** and may potentially escalate, which will affect fund raising and investor confidence.
- **Disruption of critical infrastructure projects,** such as, power plant and transportation, due to the unrests, has resulted in a slowdown in the manufacturing sector.
- **The delay in trade license approval** has impacted the imports and exports of raw materials, thereby increasing business costs.
- **Labor market remains fragile and recovers slowly**
- **Global economy slowdown,** affecting Myanmar's exports.

Risk factors

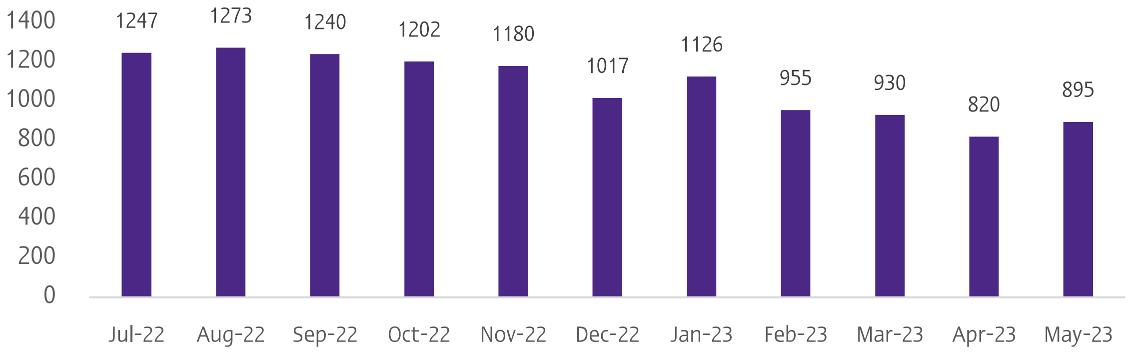
- **Currency volatility** has negatively impacted business costs and may cause the inflation rate to remain elevated.
- **Risks of fiscal stability** due to declining revenue collection and limited fund-raising capabilities.
- **Political uncertainty with potential escalation.**

Economic activities in Myanmar gradually recovered as unrests eased but still much below the pre-COVID level and before the coup. The unresolved conflicts will continue to put pressure on the economic recovery.

The number of domestic unrests started to drop but pressure to economic activities remains.

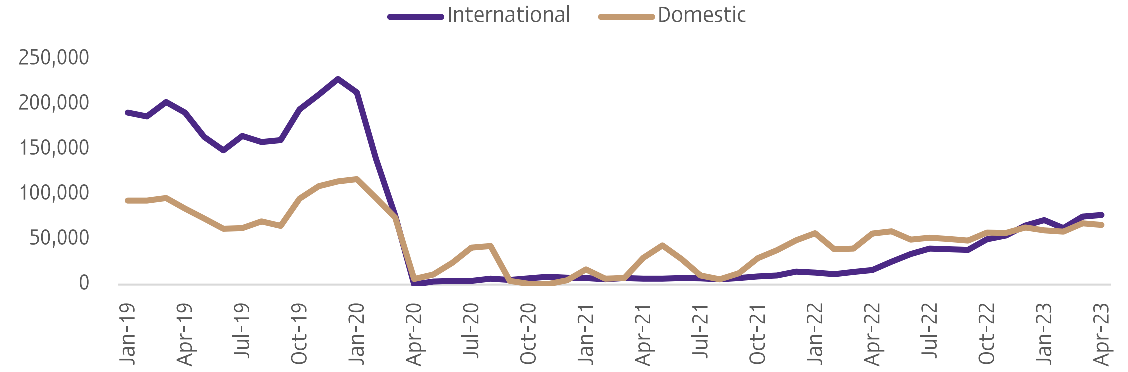
The number of domestic unrests

Unit: Number of events



The number of inbound passenger at Yangon airport

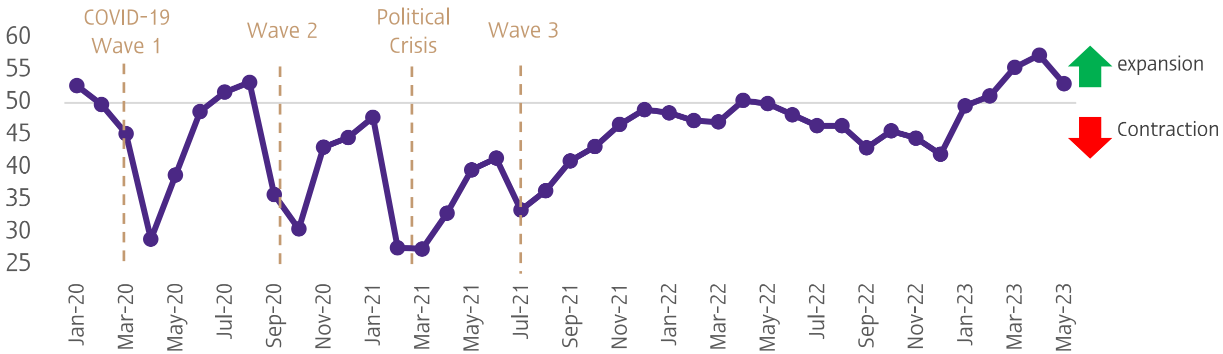
Unit: Persons



Manufacturing sector began to expand in 2023 after a slowdown of more than 3 years but it still faces various factors that hinders its recovery.

Manufacturing Purchasing Manager Index (PMI)

Unit: Index (>50 = expansion, <50 = contraction)



The Manufacturing PMI survey in May indicated that:

1. **Demand for goods increased for the fifth consecutive month,** leading to a continuous expansion in production as well.
2. **Business is facing shortages of raw materials, labors, and electricity,** caused by transportation disruption, import license approval delay, the number of workers not fully returned to the labor market, and investment in power plant decreased.
3. **Production capacity is insufficient to serve the demand for goods,** forcing the business to distribute more inventory.
4. **Higher inflationary pressure**, following the depreciation of the Kyat and raw material shortage.
5. **Improving business sentiment going forward** from business confidence level reaching record high since January 2021.

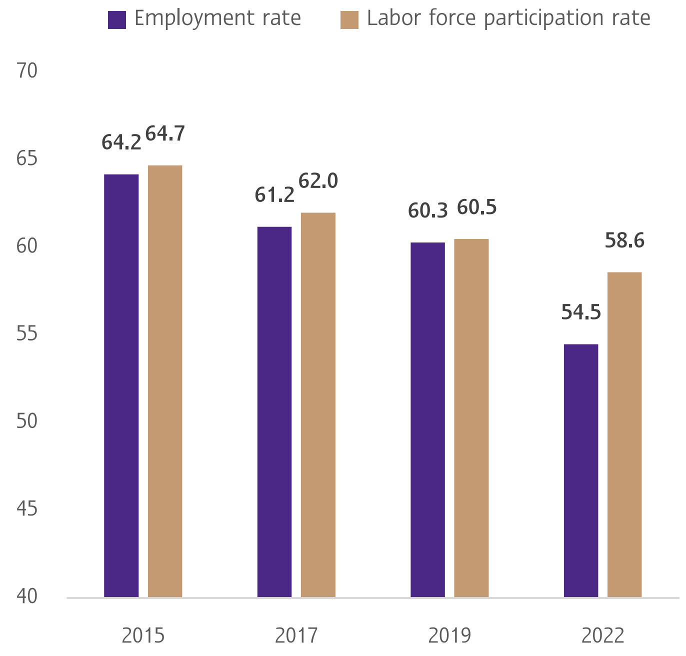
Source: SCB EIC analysis based on data from ACLED (https://acleddata.com/) S&P Global and CEIC.

SCB EIC

Myanmar's household sector has become vulnerable after COVID-19 and the coup. The World Bank survey indicates a decline in income and employment, leaving economic scars that hinders consumption going forward.

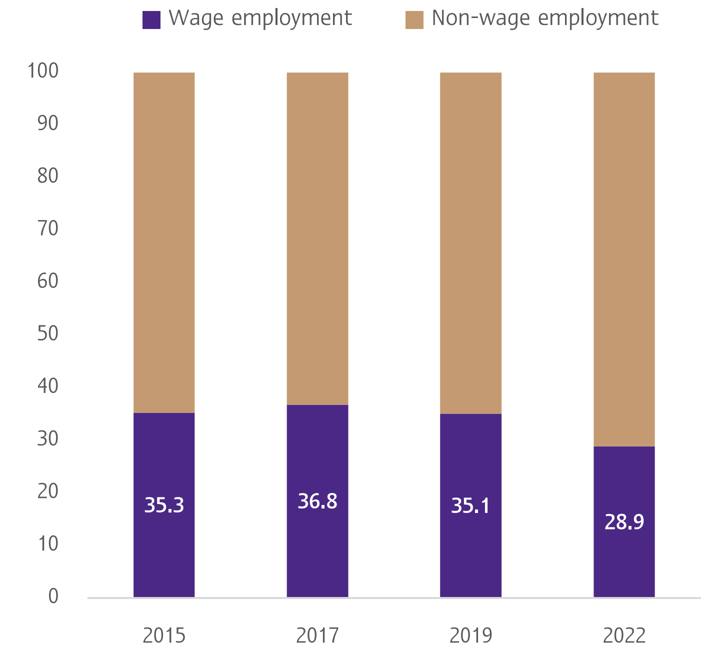
Employment rate and Labor force participation rate

Unit: %



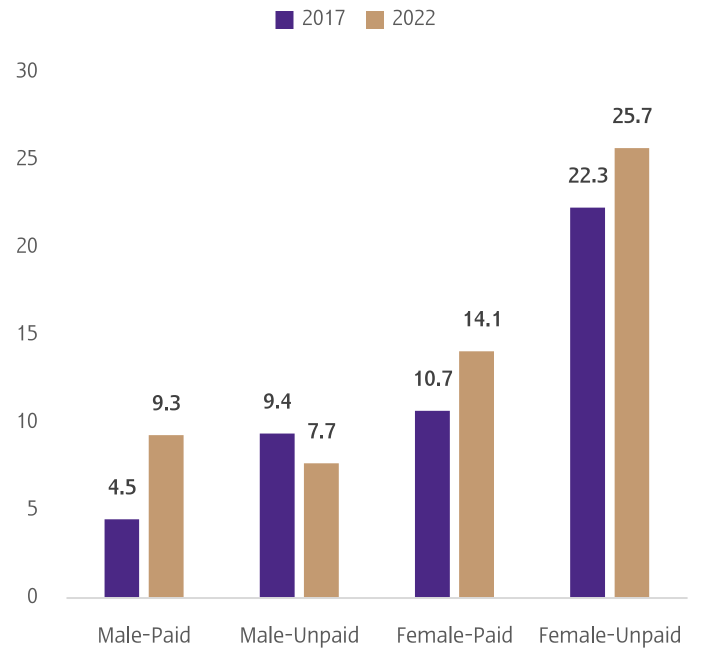
Share of wage employment

Unit: %



Share of part-time worker (Casual work)

Unit: %



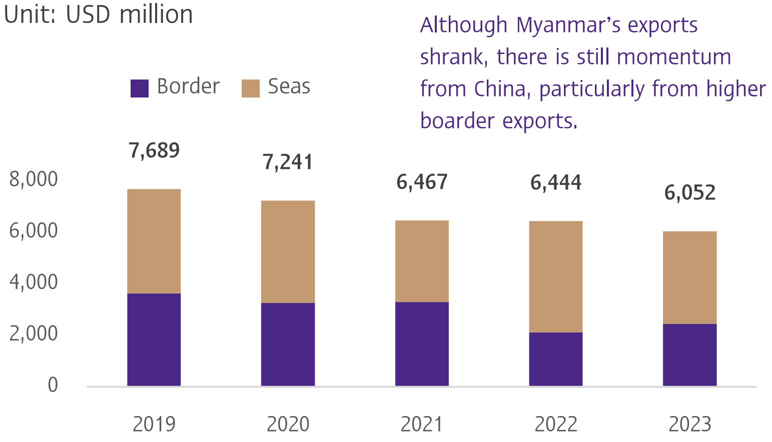
- **Myanmar's labor market has become more fragile due to the stagnant economy.** COVID-19 and the coup resulted in a number of workers losing their jobs and some groups of workers returning to their hometowns. These workers have not yet come back into the labor market, which might be a result of many factors, including safety concerns, higher travel expenses due to rising oil price, or new job opportunity, such as, family farming. This situation is in line with the survey of businesses that they still face labor shortage, especially in manufacturing sector.
- **The proportion of wage employee dropped,** while the proportion of casual work increased. This may cause lower income and more uncertainty to the household sector, which will put additional pressure to consumer spending.

Source: SCB EIC analysis based on data from Sinha Roy, Sutirtha; Demarchi, Giorgia; Rhoads, Elizabeth. 2023. A Growing Crisis: Work, Workers, and Wellbeing in Myanmar? Washington, DC: World Bank.

Western nations continue to sanction Myanmar, pressuring trade, investment, and the Kyat. **However, Myanmar will benefit from China's economic reopening, whose influence is expected to increase as western nations withdraw.**

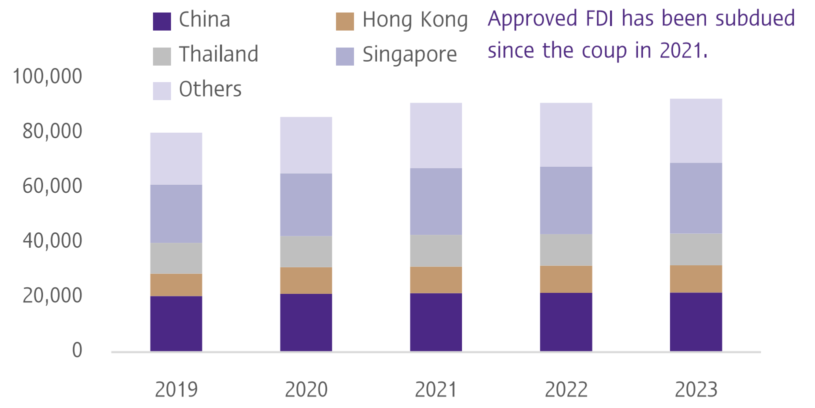
Exports of first 5 months in each year

Unit: USD million



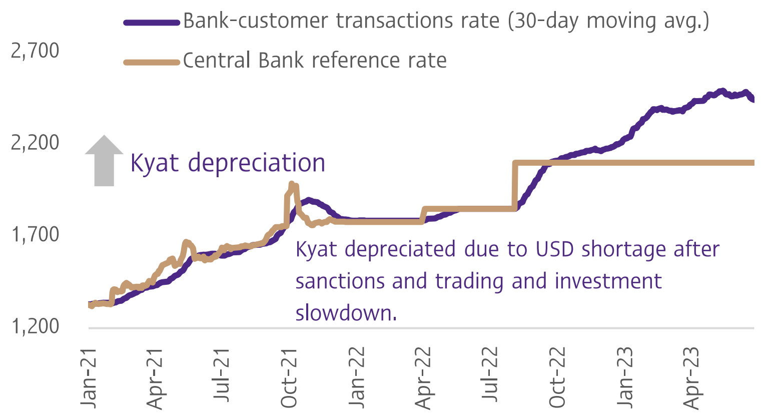
Approved FDI of first 5 months in each year

Unit: USD million



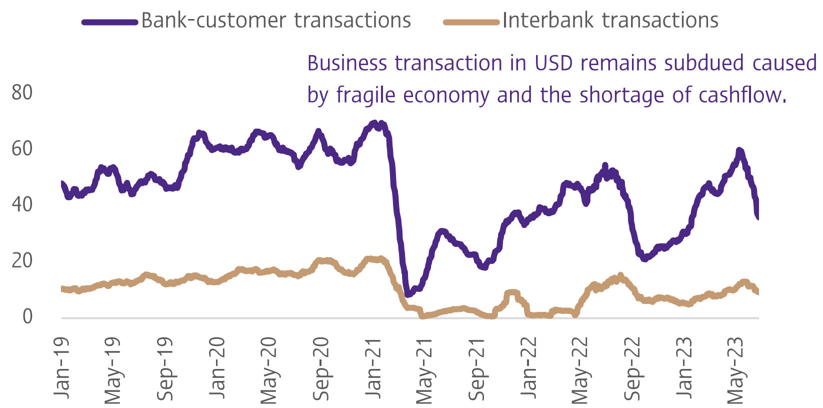
Exchange rate

Unit: USD/MMK



Business transaction value in US dollar

Unit: USD million (30-day moving avg.)



Latest Sanctions (as of June 2023)

US imposed sanctions on the Ministry of Defence and two state banks to limit Myanmar's ability to purchase military equipment, especially from Russia, and access to foreign markets and currencies, which are Myanmar revenue sources. SCB EIC views that the impact on businesses will be limited as the two state banks focus on supporting interstate transactions (Gov. to Gov.).

Currency control policy direction

Myanmar is expected to implement additional measures to maintain Kyat stability. This may involve expediting support for the use of trading partner currencies in international trade. Recently, the government mandated businesses to use Chinese Yuan for trade with China and could potentially expand these measures to other currencies like Thai Baht and Indian Rupee (not currently enforced). Moreover, Myanmar is enforcing a requirement for exporters to convert 65% of their export revenue into Kyat and for currency exchange business to comply with the specific regulations .

Thai and ASEAN views on addressing issues in Myanmar

ASEAN countries have different views to address the crisis in Myanmar*. In Thailand's perspective, there is an urgent need to negotiate with Myanmar's military government for the solution, while some countries like Indonesia and Singapore are reluctant to give legitimacy to the military government. This makes it challenging for ASEAN to find a unified stance in solving Myanmar issues in a sustainable manner. **It is important to closely monitor the policies of Thailand's new government regarding which direction they will take on this matter.**

Note: *ASEAN agreed on a 5-point consensus in April 2021 to find a solution to end violence and support negotiations. However, there has been no clear progress made yet.

Source: SCB EIC analysis based on data from CEIC, Central Bank of Myanmar, US Department of Treasury and international news agencies.

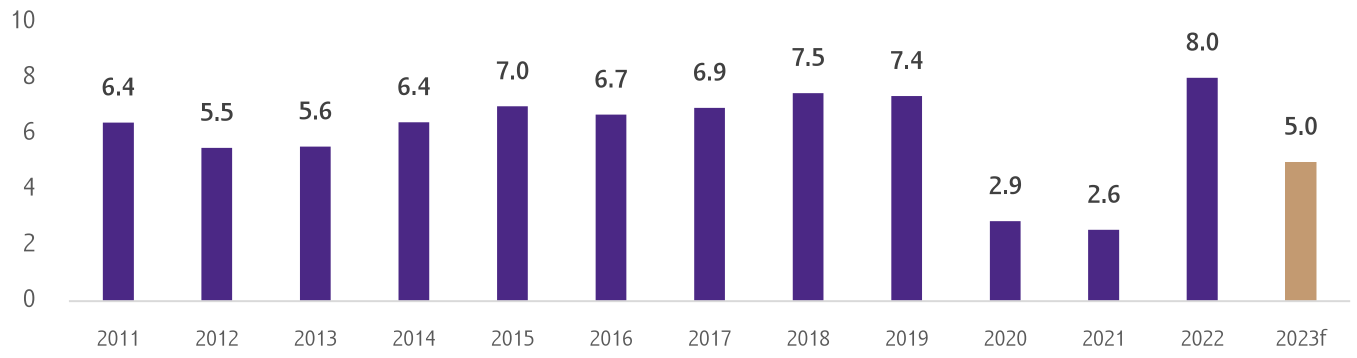
Vietnam economy

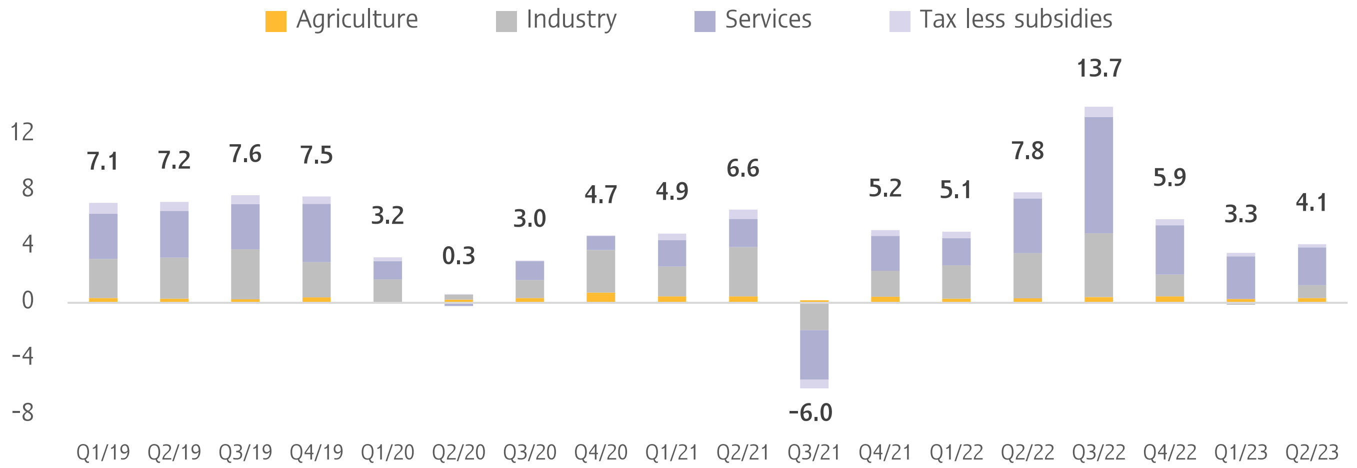
Vietnam's economy should expand at a subdued pace and slower than previously forecasted, primarily due to weak exports and foreign direct investment. Additional risks stem from liquidity shortages caused by tightened financial conditions which have resulted in a severe slowdown in the real estate sector, political uncertainty, and electricity shortage.

SCB EIC revised Vietnam GDP growth forecast down to 5.0% (from 6.2%) from sluggish exports, industrial and real estate sectors, together with various risks pressuring economic growth this year.

Vietnam GDP growth

Unit: %YOY





Positive factors

- **China's reopening** boosts Vietnam's tourism sector.
- **Domestic consumption** continues to expand in line with labor market recovery.
- **Manufacturing base relocation to Vietnam and high investor interest,** driven by advantages in labor costs, location, and various free trade agreements.

Negative factors

- **Global economic slowdown** hinders exports and FDI.
- **Liquidity shortage** from tighter financial conditions affects business confidence and fund raising for debt repayment and investment.
- **Real estate sector slowdown** in both construction and demand

Risk factors

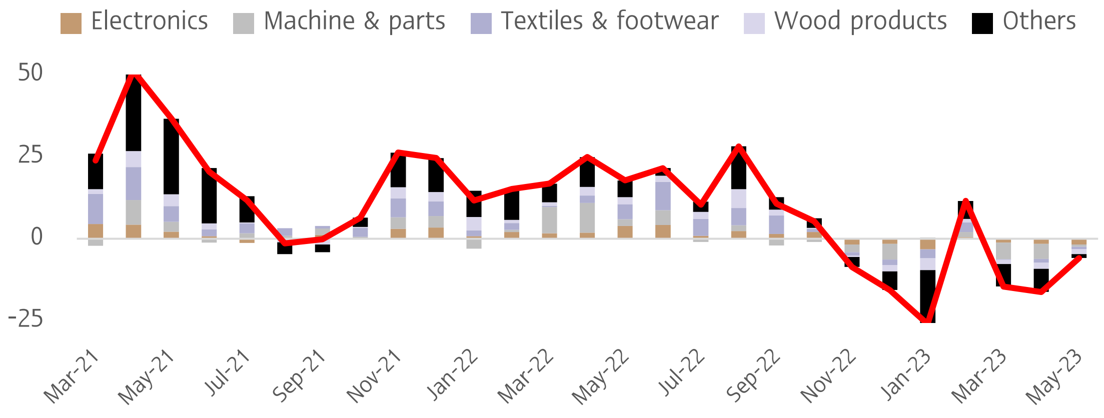
- **Rising debt default** in some business sectors with repayment difficulty has made banks tightened lending. This could impact private sector investment and financial system stability.
- **Electricity shortage** affects production capability
- **Escalating geopolitical tension in South China Sea**

Source: SCB EIC analysis based on data from CEIC and General Statistics Office.

External demand will be stagnant in line with global economic slowdown, especially for exports and investment in electronics, which Vietnam relies heavily on. While the tourism sector continues to recover.

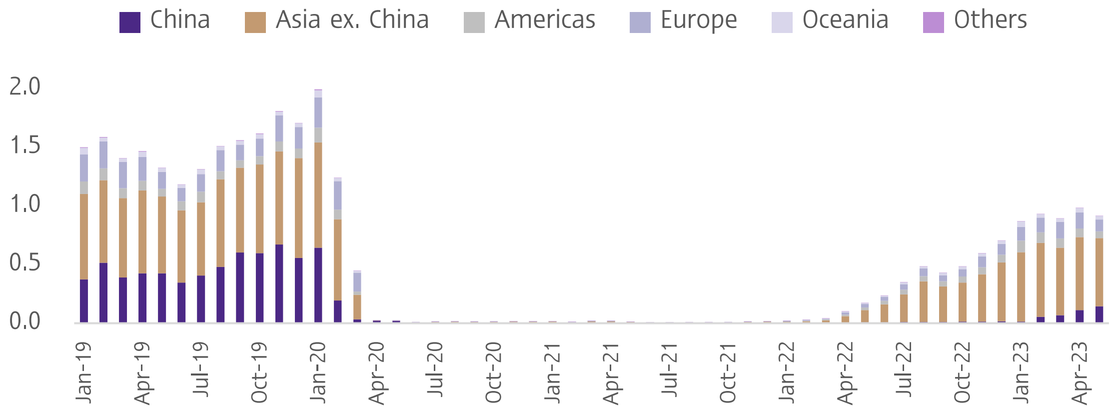
Export growth

Unit: %YOY



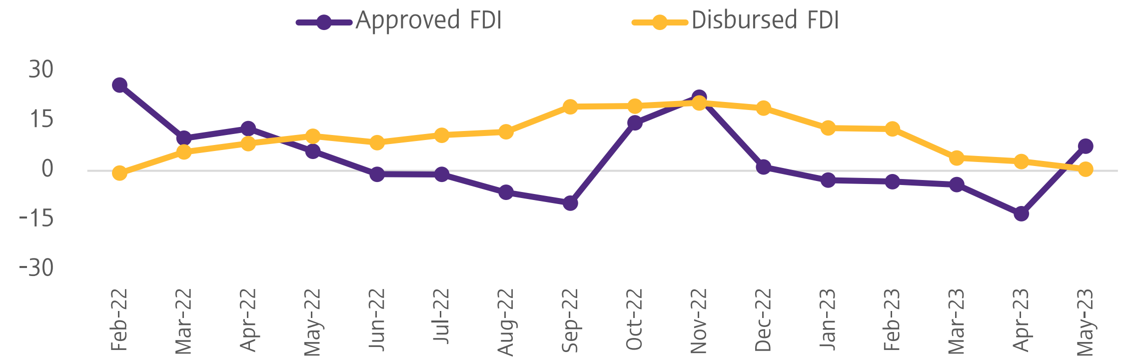
International tourist arrivals

Unit: Million person



Approved Foreign Direct Investment

Unit: %YOY (6-month average)



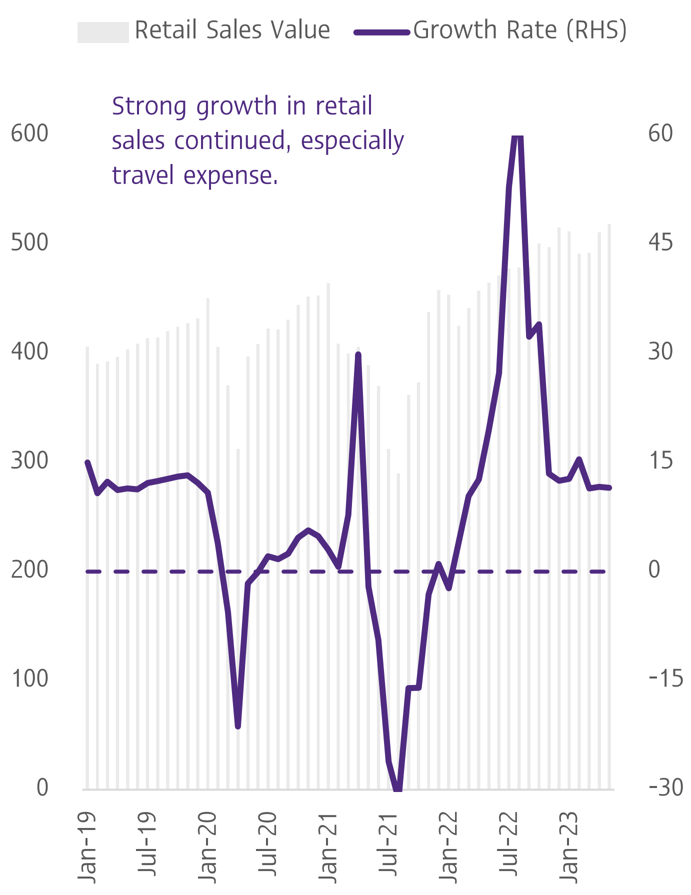
- **Vietnam's exports had contracted for the first 6 months,** dragged by lower demand from trade partners amid global economic slowdown. Meanwhile, China's reopening did not contribute much to Vietnam's exports as key export products were industrial raw materials and China's manufacturing sector remained sluggish during the first half of this year. SCB EIC expects Vietnam's exports to rebound gradually in the second half of the year.
- **Foreign direct investments were suppressed by lower profit from international corporations and rising uncertainties** from global economy, government policies during anti-corruption fight, and President transition.
- **Tourism sector continue to thrive this year,** mainly supported by Chinese tourists, which accounted for 30% of total foreign tourists before COVID-19 outbreaks.

Source: SCB EIC analysis based on data from CEIC General Statistics Office Foreign Investment Agency and Vietnam National Administration of Tourism.

Domestic consumption grew as income and employment recovered. However, the industrial sector started to have some signs of fragility in employment, which could lead to higher unemployment rate in the near future.

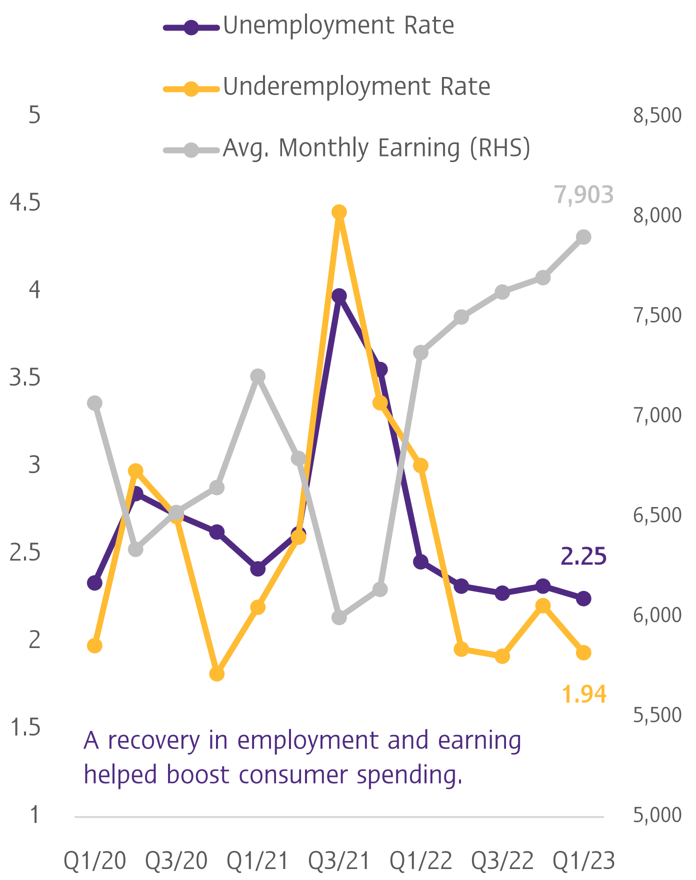
Retail sales

Unit: VND trillion   Unit: %YOY



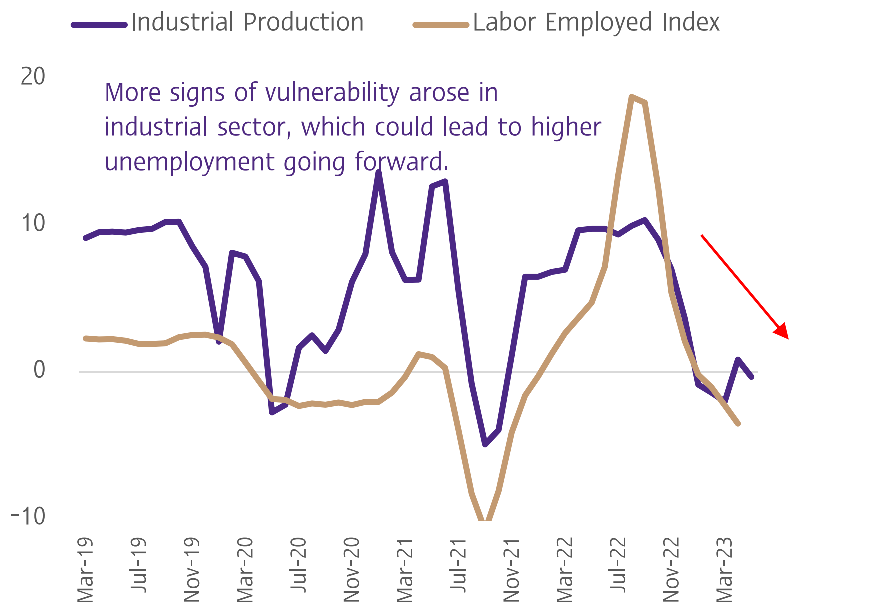
Unemployment rate and average monthly earning

Unit: %   Unit: VND thousand



Industrial Production Index and employment in industrial sector

Unit: %YOY (3-month moving average)



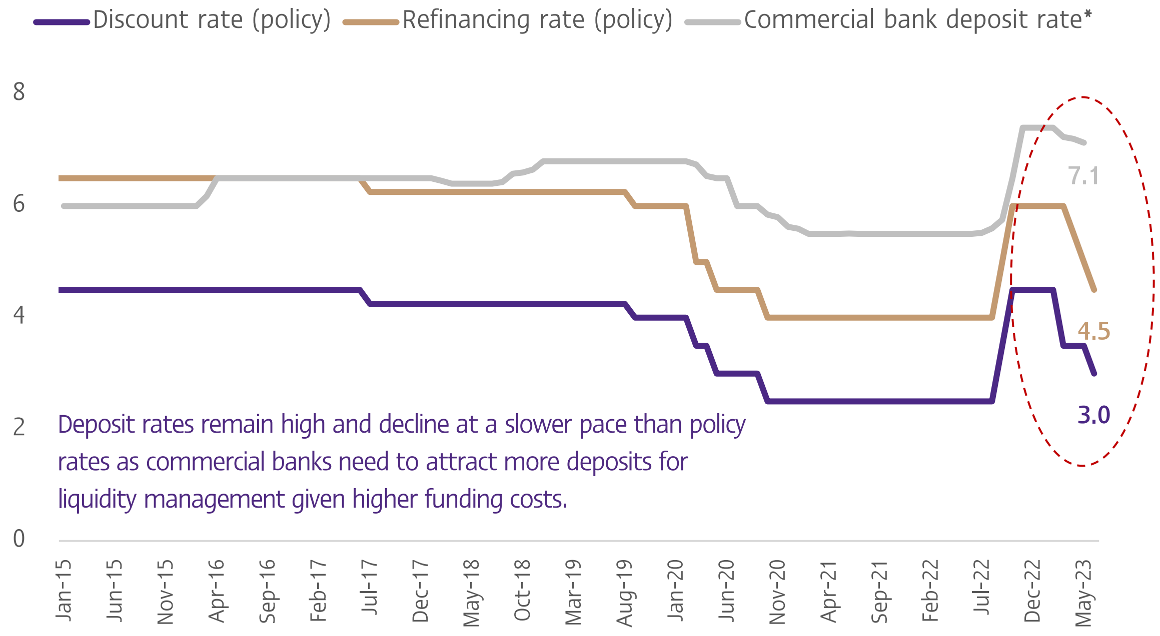
Electricity shortage poses a risk to Vietnam's industrial sector, although the risk should be temporary. Electricity demand increased substantially during hot weather, while droughts have led to lower hydroelectric power generation. If this situation persists, industrial production could temporarily decline, putting additional pressure on employment in the sector.

Source: SCB EIC analysis based on data from General Statistics Office.

Financial condition remains highly tightened, even though it eased slightly after SBV started policy rate cuts. Higher commercial bank rates may lead to businesses facing liquidity shortage, especially in real estate sector.

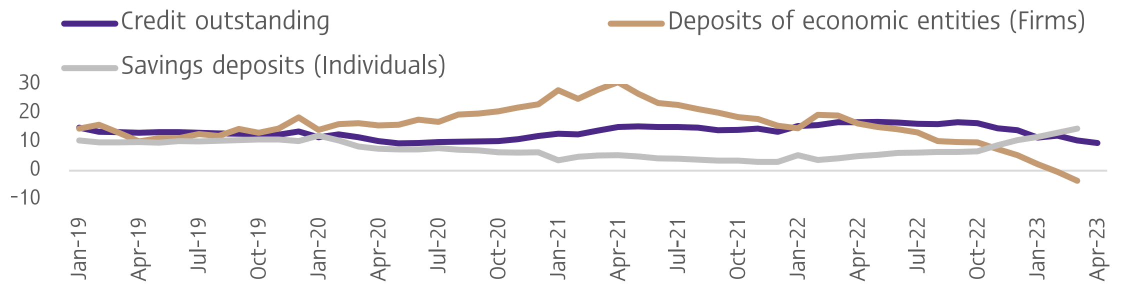
Policy rates and deposit rate

Unit: %



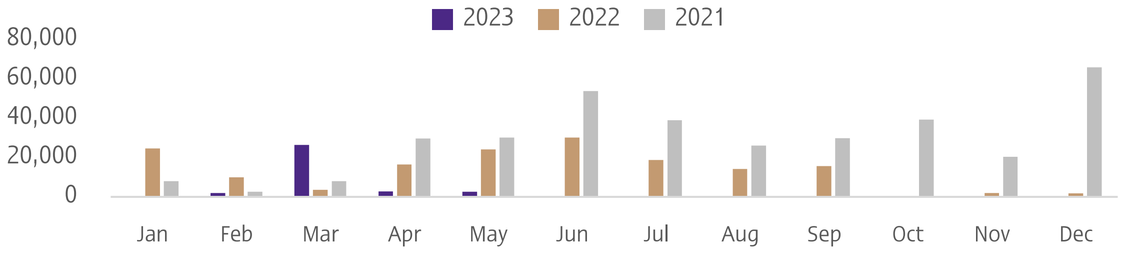
Credit outstanding and deposits growths

Unit: %YOY



Value of newly issued corporate bonds

Unit: VND billion



- **Financial condition became tighter** from aggressive policy rate hikes at the end of last year, tightened regulations on corporate bond issuance, and the arrest of the Chairman of a real estate company for fraud. This had resulted in businesses and banks facing higher funding costs, while investor confidence deteriorated. Although policy rated have been cut, financial condition remains tightened.
- **Credit growth slowed down** in line with interest rates and rising debt defaults, leading to reduced demand for loans and banks tighten loan approval.
- **Value of saving deposits increased** from higher deposit rate and investors' risk aversion, contradicting to business deposits that decreased as businesses withdrew funds during a challenging capital-raising period.
- **Value of newly issued corporate bonds has been subdued since October 2022,** reflecting unimproved investor confidence, which has significantly affected the real estate sector due to high reliance on capital and bond markets.

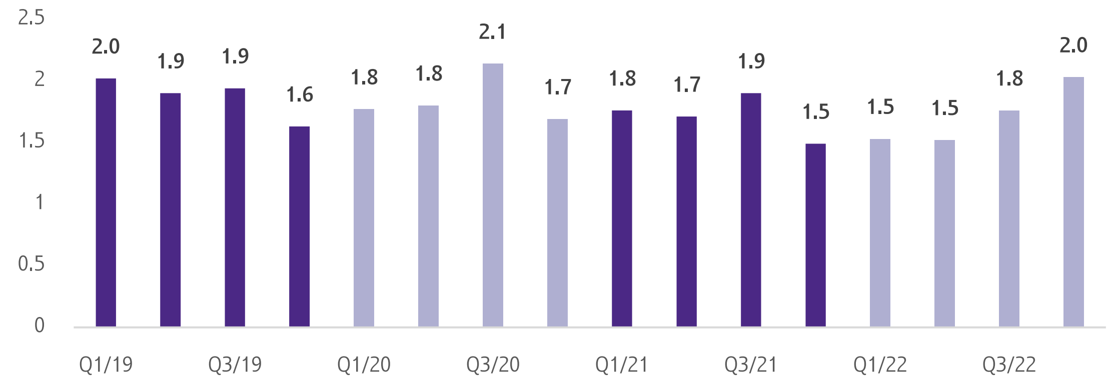
Note: *12-month saving account interest rates for individuals of Vietcombank.

Source: SCB EIC analysis based on data from State Bank of Vietnam and Vietnam Bond Market Association.

Rising NPLs results in increased vulnerability of the financial system stability, tightened credit condition, and more businesses temporarily suspended. This could have a pass-through effects to investment and employment.

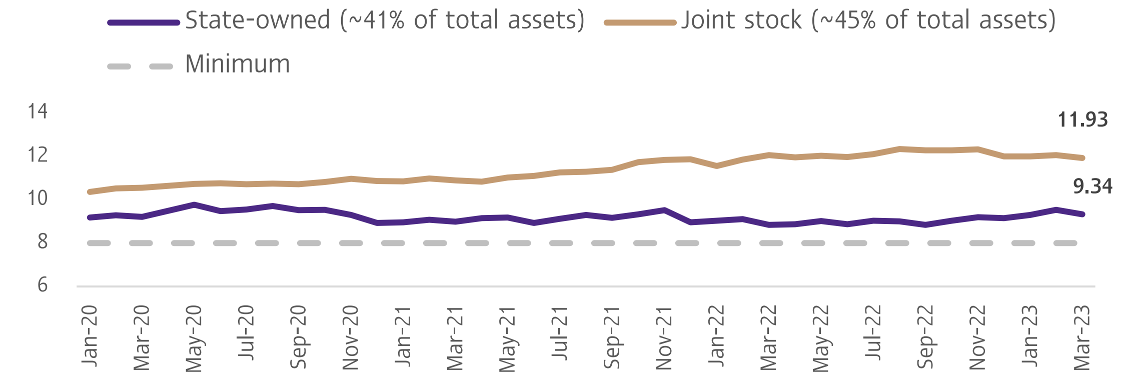
NPL ratio

Unit: %



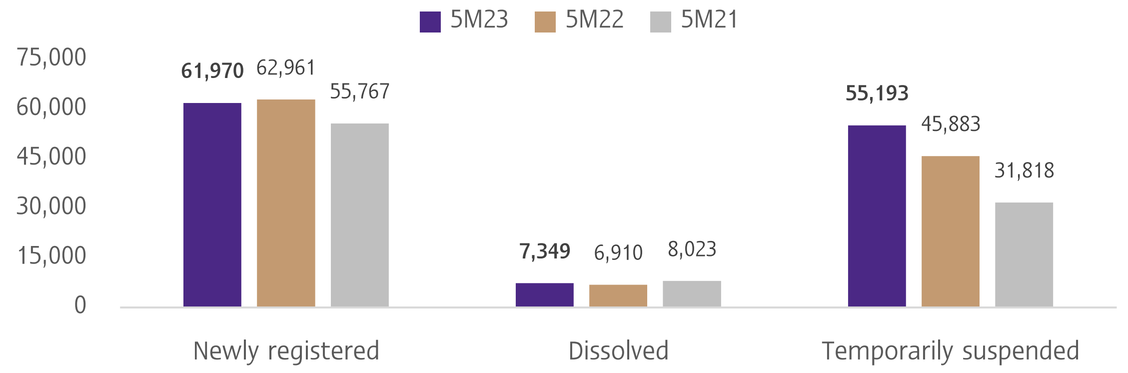
Vietnamese banks' Capital Adequacy Ratio (CAR)

Unit: %



The number of newly registered and dissolved businesses (first 5-month comparison)

Unit: number of businesses



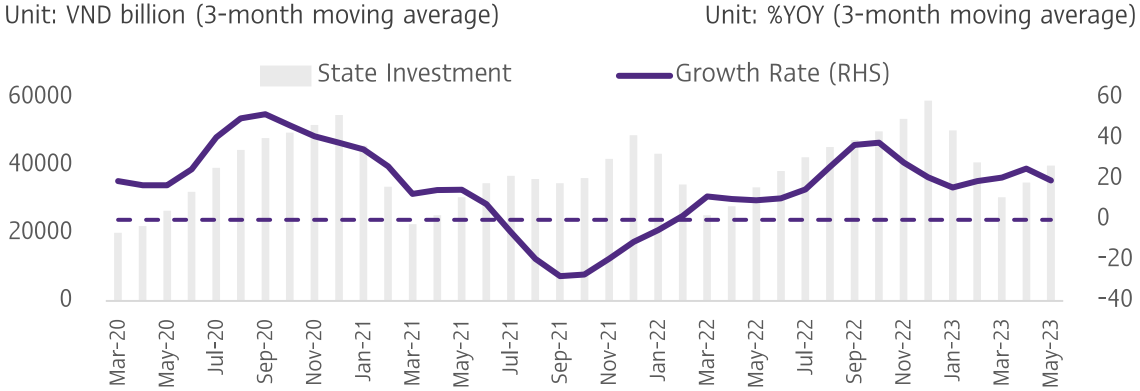
- **NPL ratio is on the rise this year** as liquidity shortage has not been resolved. SBV has announced a set of aid measures, including debt restructuring and NPL sell to Asset Management Companies, which can partly help control NPLs. Consequently, banks need to increase provisions, which will affect banks' profit and loan approval standard.
- **Vietnam's banks have higher CAR than benchmark of 8%.** However, there are differences between banks, which could potentially lead to a higher vulnerability of financial system in certain areas.
- **Liquidity shortage has resulted in business temporarily suspended**, which could impact business confidence in future investment and employment.
- **SCB EIC expects that the combination of SBV rate cuts and government support measures** will gradually alleviate the situations. However, new credit approval may remain subdued for a period.

Source: SCB EIC analysis based on data from State Bank of Vietnam and General Statistics Office.

SCB EIC

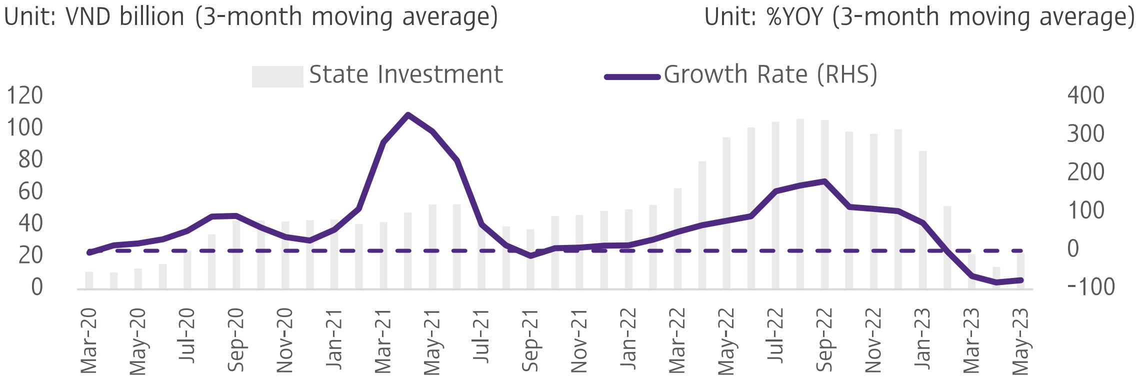
Government stimulus measures and easing of fund-raising regulations will contribute to an economic recovery. However, it takes time to fully restore confidence in the real estate sector.

Total disbursement value of public investment



The disbursement of public investment continued to expand in line with government's economic stimulus measures.

Disbursement value of public investment by Ministry of Construction



However, the stimulus in construction remains subdued following a slowdown in the real estate sector.

Sample of economic stimulus and liquidity support measures

1. VAT reduction from 10% to 8% during July – December 2023
2. Continuous disbursement of approved public investments in infrastructure and other projects (with a total budget of USD 15.3 billion)
3. The 2-year extension of debt repayment period for bond issuers and the flexibility to adjust terms and conditions, subjected to investor approval
4. The permission for bond issues who are unable to repay debts in cash to make in-kind payments if approved by investors
5. The postponement of the implementation of new requirements, such as qualifications for qualified investors and credit rating for bond issuers, to January 1, 2024
6. Debt restructuring measures by commercial banks, including the extension of debt repayment periods, granting of debt moratoriums, and maintaining credit status, for businesses facing financial difficulties for up to 12 months
7. Boosting credit approval by commercial banks though policy rate cuts and encouraging commercial banks to lower lending rates in line with SBV's monetary policy direction

Source: SCB EIC analysis based on data from General Statistics Office Allens and international news agencies.

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