CLMV Outlook

CLMV Economic Outlook 2024
As of March 2024

The CLMV economies are expected to witness stronger growth in 2024. However, downside risks remain, leading to slower growth than pre-pandemic levels.

SCB EIC

Executive Summary: CLMV Economy 2024

Cambodia

Cambodia's economy will continue to strengthen by 6.0% in 2024 after growing 5.6% in 2023. Continued recovery in foreign tourist arrivals and revenue will be a key driver for the economy, while exports should see stronger expansion in line with global trade recovery. In turn, this should bolster the labor market and private consumption. Despite those factors, the economy remains below its growth potential due to the impact of China's economic slowdown, particularly in the real estate sector.

Lao PDR

Lao PDR's economy is projected to slightly strengthen to 4.7% in 2024, up from 4.5% in 2023. This is supported by a rebound in external demand as the regional economy recovers, as well as investors' interest in the country's renewable energy and logistics sectors. However, fiscal and external stability concerns will continue to dampen the country's economic growth potential. Fiscal consolidation is underway, with a focus on debt restructuring and improving financial access channels in the short-term to maintain fiscal stability.

Myanmar

Myanmar's economic recovery will remain weak at 2.5% in FY23/24 (April 2023 – March 2024) and 3% in FY24/25 (April 2024 – March 2025) due to persistent conflicts leading to weak economic activity and demand. Political uncertainties and risks in Myanmar will limit its medium-term economic growth potential. A stronger and sustained recovery hinges on greater political stability and policy certainty, which are difficult in the short-term.

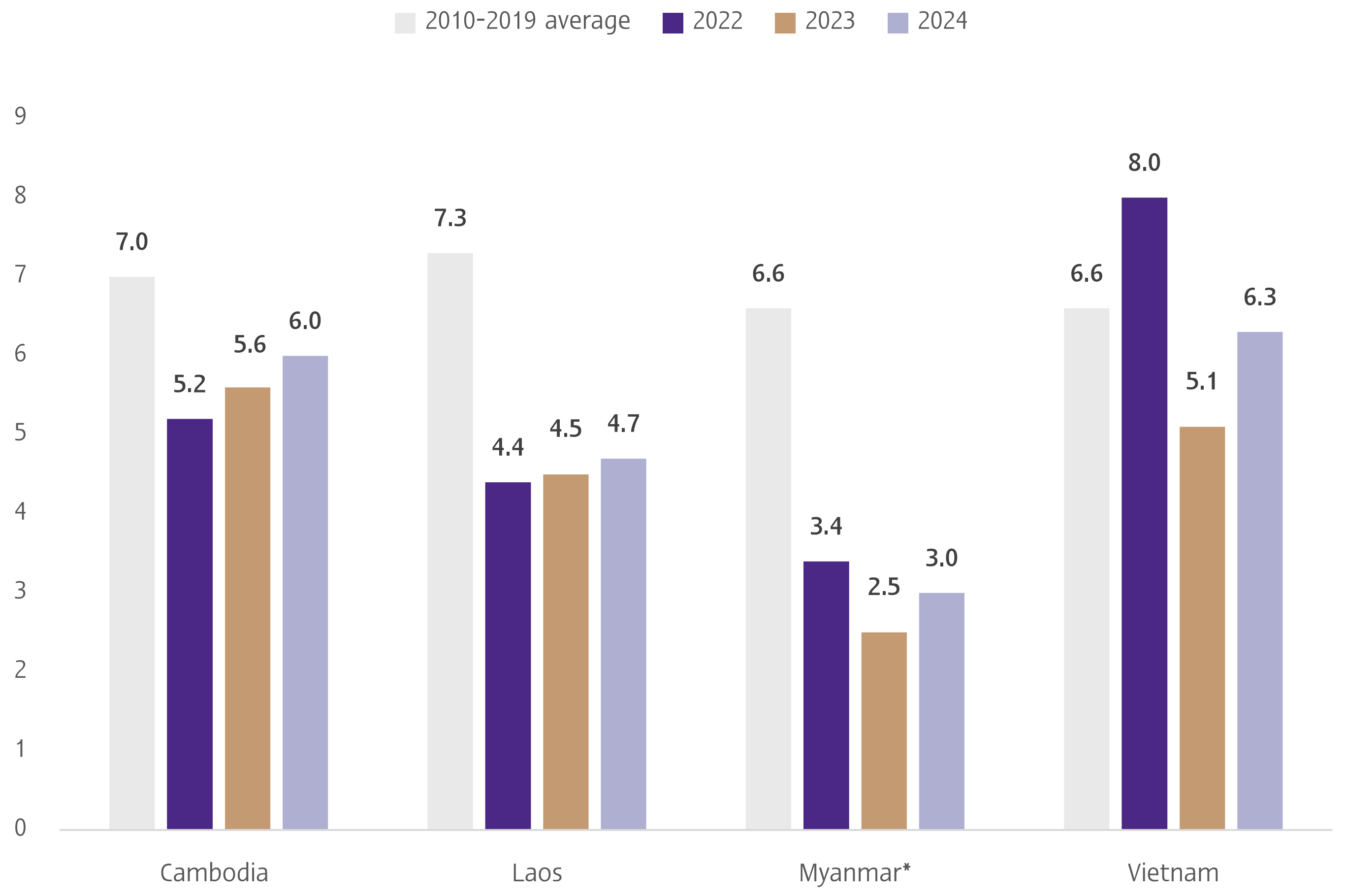
Vietnam

Vietnam's GDP growth should accelerate to 6.3% in 2024 after a subdued 5.1% in 2023, supported by recovering exports and the global electronics upcycle. FDI inflows have been resilient with robust FDI approvals, suggesting strong future disbursement. An improving labor market will also support private consumption. Nonetheless, the real estate and credit growth slowdown remains a drag to economic activity, while rising NPLs may impede bank lending. The State Bank of Vietnam is expected to hold rates throughout 2024 to keep monetary policy accommodative while maintaining currency stability.

The CLMV economies are expected to see stronger growth in 2024 after softening in 2023. Downside risks remain, leading to slower growth than the pre-pandemic average.

CLMV economic growth forecasts

Unit: %YOY



Note: *For Myanmar, 2024 refers to Fiscal Year 2024/2025 (April 2024- March 2025)

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

Positive factors

- **Continued recovery in the tourism sector**, in both the number of foreign tourist arrivals and tourism revenue.
- **Improving exports** in line with global trade recovery.
- **China+1 manufacturing relocation trend** should support FDI.
- **Stronger labor market** to bolster domestic demand.

Negative factors

- **China's economic slowdown** affecting sectors with high linkages to China (such as real estate and tourism) and FDI.
- **Sluggish credit growth** from both demand and supply factors.
- **Country-specific challenges**, such as political uncertainties in Myanmar.

Risk factors

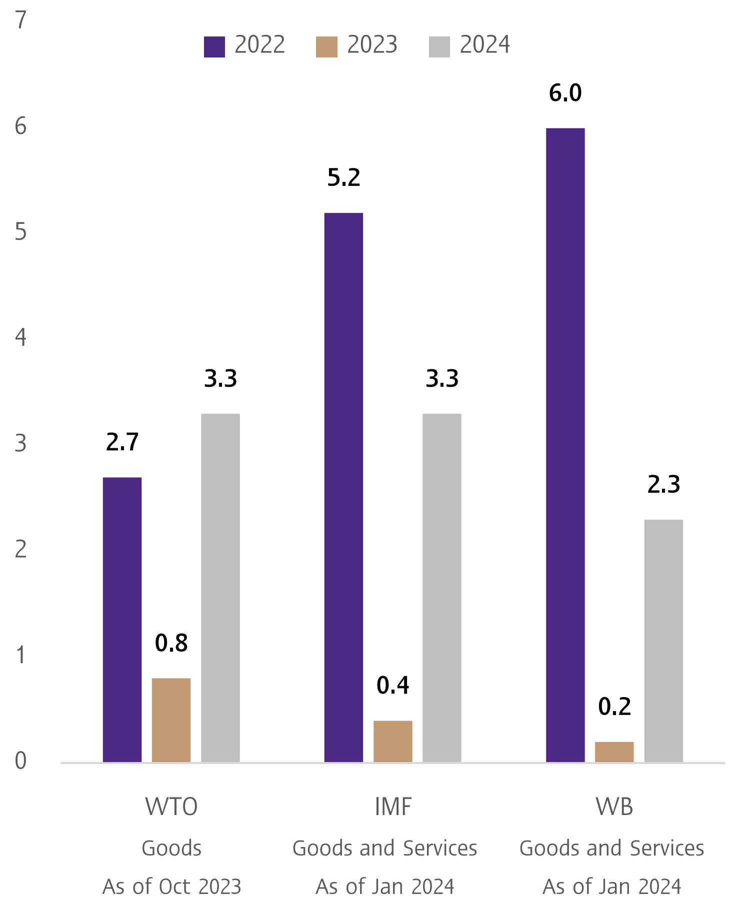
- **High debt in some countries,** such as Lao PDR's public external debt and Vietnam's property debt.
- **Rising non-performing loans** after forbearance ended.
- **Global supply chain disruptions** from Red Sea attacks and drought in the Panama Canal.
- **Climate change** could impact agricultural yields.

The recovery in global trade, manufacturing, and tourism will benefit the CLMV economies.

This will support external demand and strengthen the domestic labor market.

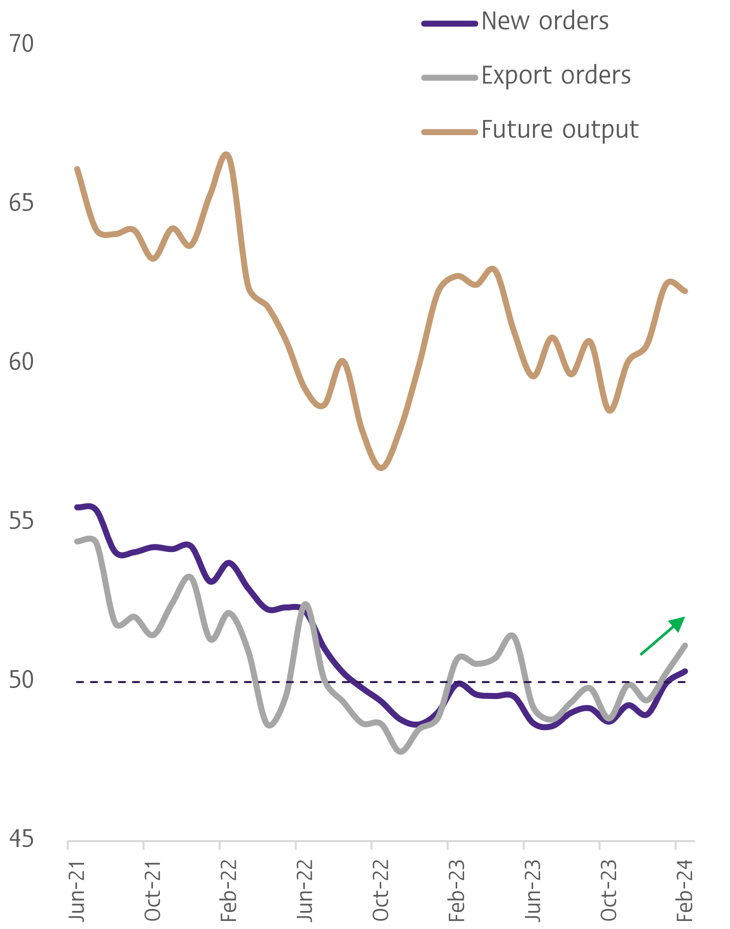
Global trade volume growth forecasts

Unit: %YOY



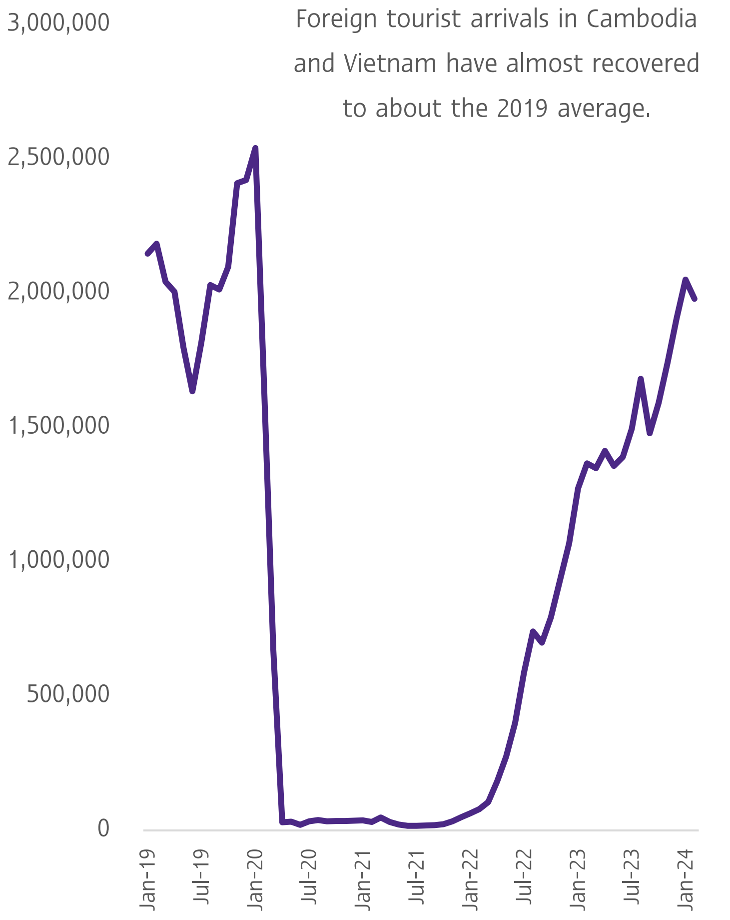
Global manufacturing PMI

Unit: Index, >50 = expansion



Tourist arrivals recovery in Cambodia and Vietnam*

Unit: persons



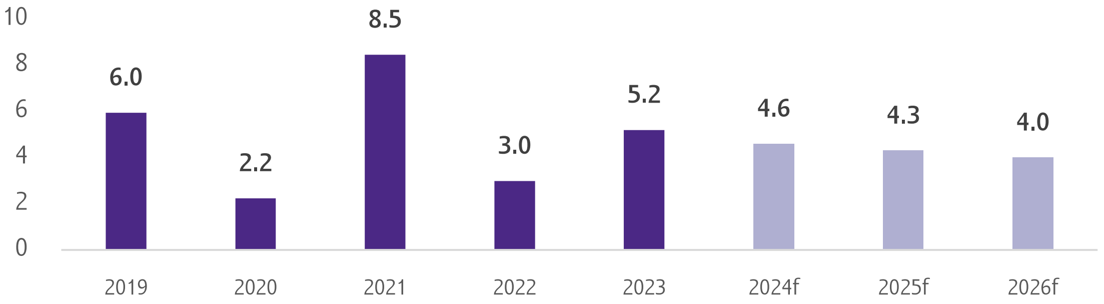
Note: *Lao PDR excluded due to lack of monthly data. Myanmar excluded since the country is an outlier due to political turmoil.
Source: SCB EIC analysis based on data from the WTO, IMF, WB, JP Morgan, and CEIC

Key global trends that have significant implications for CLMV economies: 1) China's economic slowdown and 2) Interest rate cuts in major economies.

China's economic slowdown

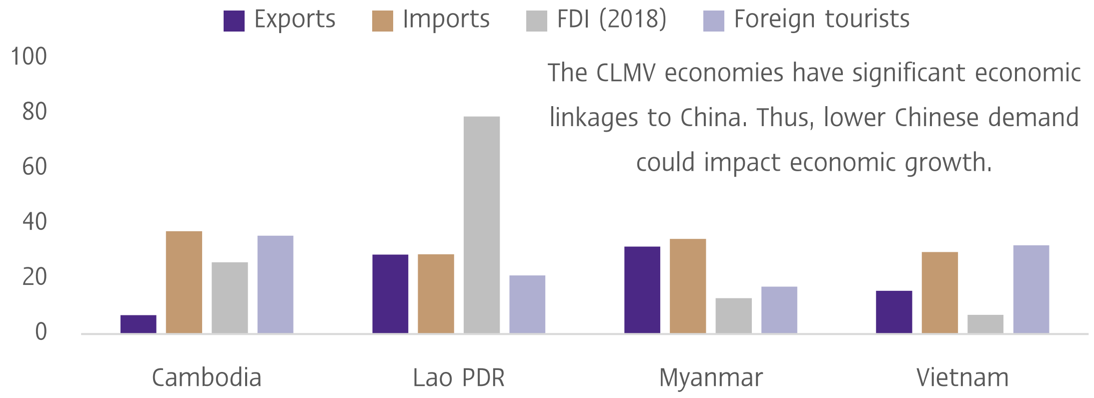
SCB EIC's China economic growth forecasts (as of March 2024)

Unit: %YOY



CLMV economic ties to China (pre-pandemic: 2019)

Unit: % of total



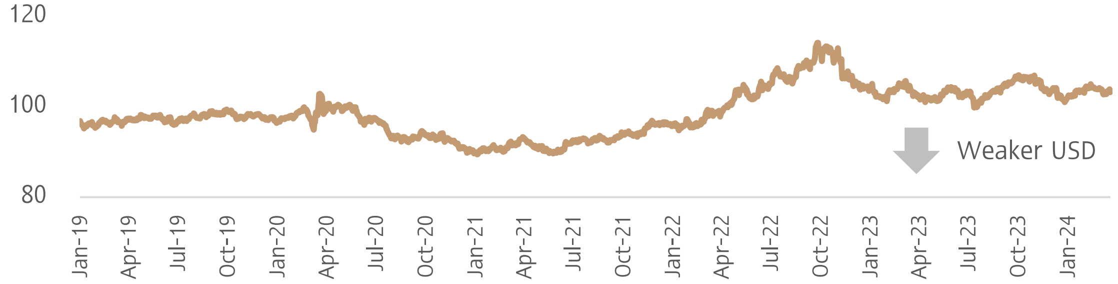
Interest rate cuts in major economies

SCB EIC's forecast of policy rate changes in major economies in 2024

	Cutting commences	BPS cut in 2024	Policy rate YE 2024
FED	June 2024	75 BPS	4.75%
ECB	June 2024	100 BPS	3%
BOE	June 2024	100 BPS	4.25%

US Dollar Index (DXY)

Unit: Index



CLMV currencies may face softer downward pressures in 2024, as central banks in major economies are likely to lower their policy rates from mid-2024 onwards. These anticipated rate cuts will help bolster FDI through lower funding costs. Nonetheless, country-specific challenges remain pivotal in local currency dynamics and some CLMV currencies could continue to depreciate.

Source: SCB EIC analysis based on data from Bloomberg, Trademap, ASEAN, and CEIC

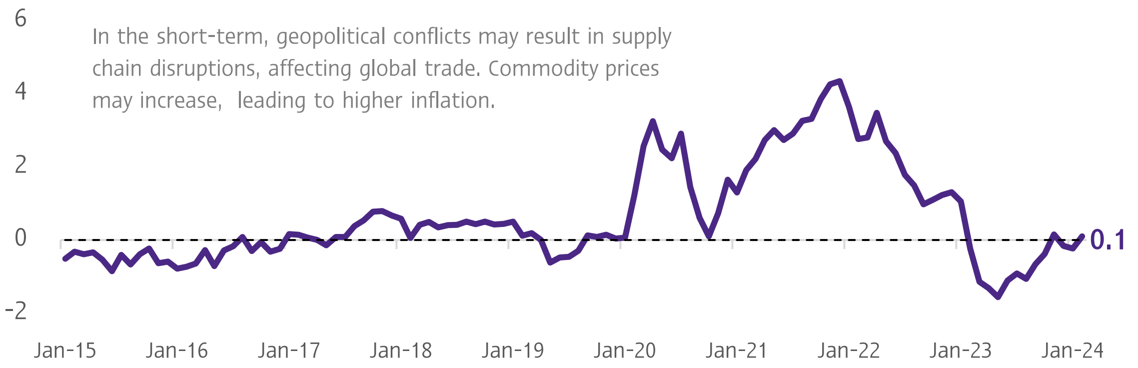
Key risks to monitor for CLMV economies: 1) Geopolitical risks, presenting both opportunities and threats to economies and 2) Debt sustainability.

Geopolitical risks

Global supply chain pressure index

Unit: Standard deviation from the average, higher = more pressure

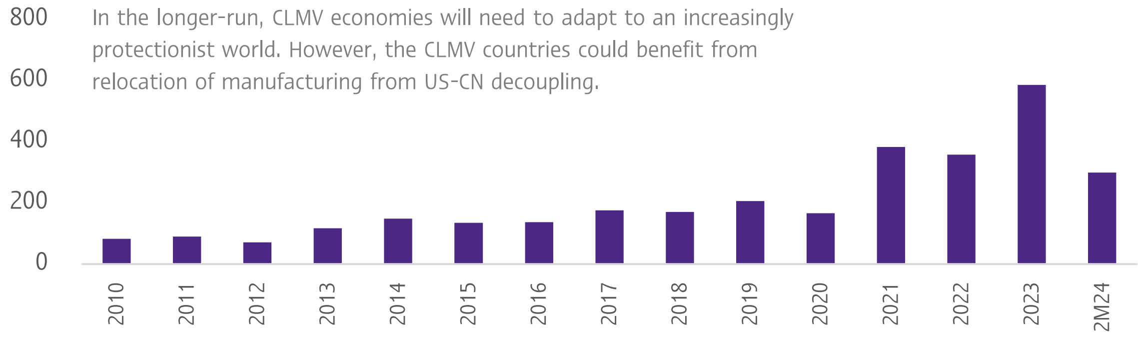
In the short-term, geopolitical conflicts may result in supply chain disruptions, affecting global trade. Commodity prices may increase, leading to higher inflation.



Volume of trade, investment, and labor mobility intervention policies

Unit: Number of new intervention policies enacted each year

In the longer-run, CLMV economies will need to adapt to an increasingly protectionist world. However, the CLMV countries could benefit from relocation of manufacturing from US-CN decoupling.

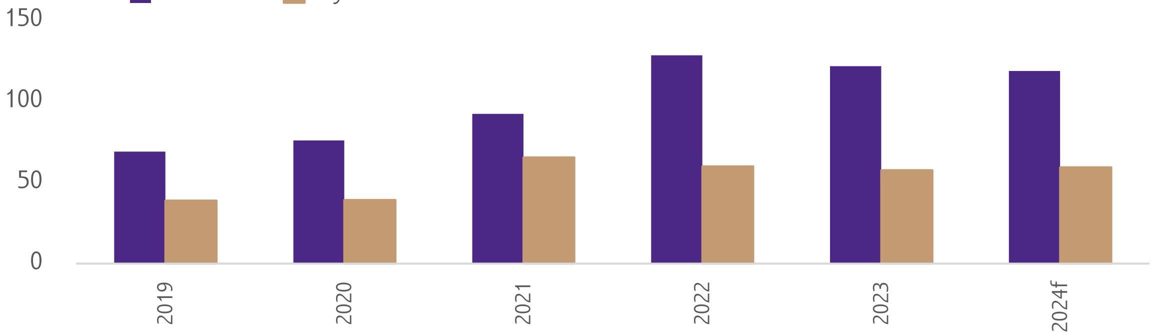


Public and private debt sustainability

General government gross debt (IMF forecast as of October 2023)

Unit: % of GDP

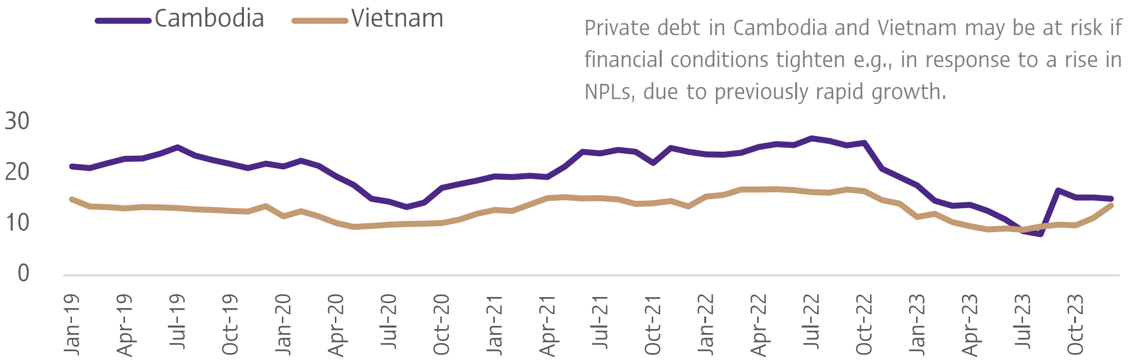
Lao PDR and Myanmar face fiscal risks due to structural issues and limited channels for financing.



Credit growth to non-financial corporations

Unit: %YOY

Private debt in Cambodia and Vietnam may be at risk if financial conditions tighten e.g., in response to a rise in NPLs, due to previously rapid growth.

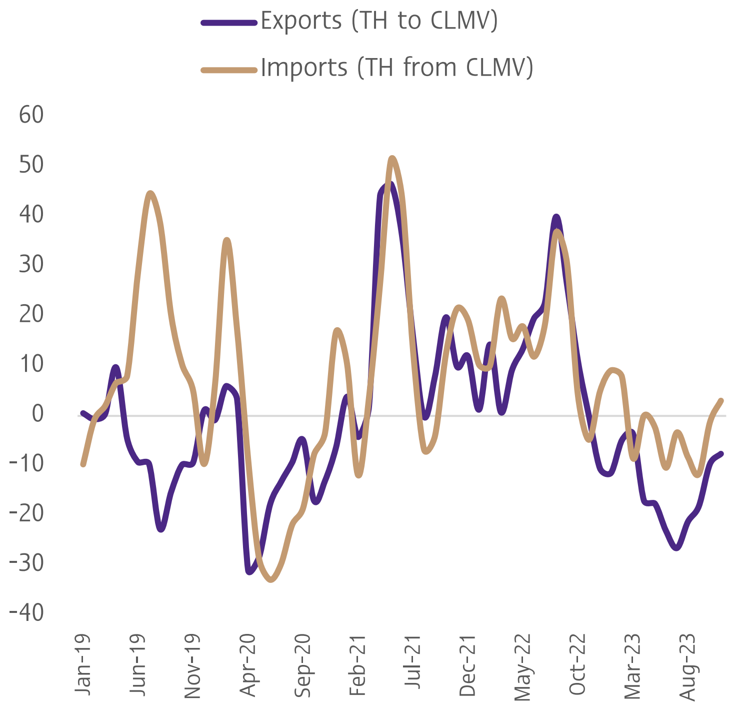


Source: SCB EIC analysis based on data from Global Trade Alert, the IMF, and CEIC

Trade and outward direct investment from Thailand showed signs of gradual recovery in late 2023. This trend is expected to continue into 2024 as economic growth in the region picks up.

Thailand's exports and imports with CLMV

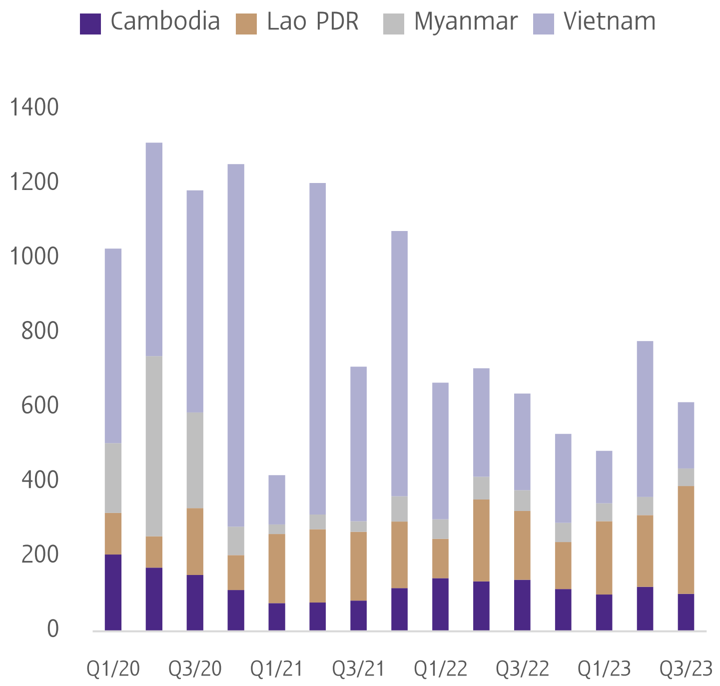
Unit: %YOY



Thailand's trade with CLMV improved from a low base, in line with global trade recovery. Looking forward, trade is expected to rebound as the regional economy recovers.

Thailand's direct investment outflow (TDI) to CLMV

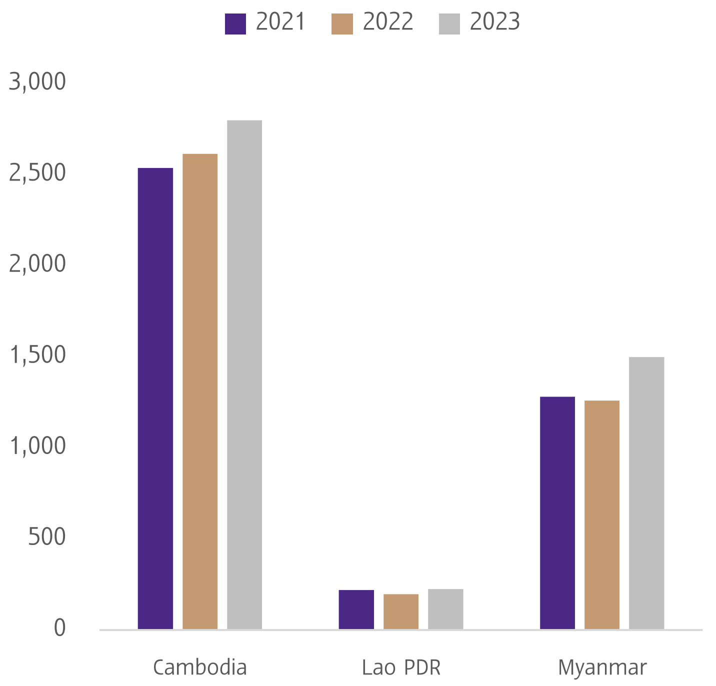
Unit: USD million



TDI outflows to CLMV started to stabilize after several quarters of decline. However, it remains significantly below pre-pandemic levels. A gradual recovery is expected in 2024.

Inward remittances (Cambodia, Lao PDR, Myanmar)*

Unit: USD million



In 2023, remittances inflow increased, and it is expected to remain resilient in 2024 due to the regional economic recovery and improving labor market.

Note: *Countries that contribute a significant portion to migrant workers in Thailand.

Source: SCB EIC analysis based on data from the Ministry of Commerce, Bank of Thailand, and the World Bank

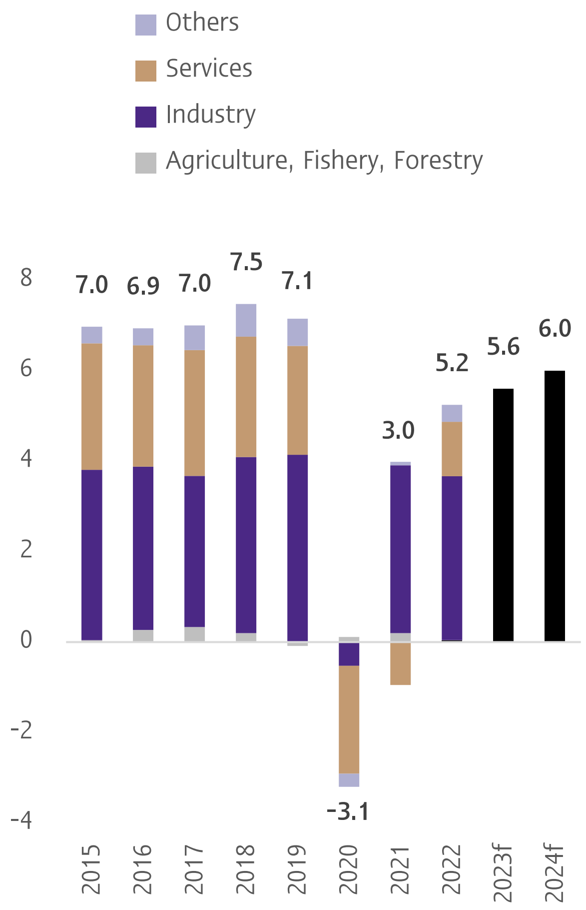
Cambodia's Economy

Cambodia's economy will continue to strengthen by 6.0% in 2024 after growing 5.6% in 2023**.** Continued recovery in foreign tourist arrivals and revenue will be a key driver for the economy, while exports should see stronger expansion. Nonetheless, the economy remains below its growth potential due to the impact of China's economic slowdown, especially in real estate.

SCB EIC forecasts Cambodia's economy to grow 6.0% in 2024 on the back of a recovery of tourism and exports. However, this is still below the previous trend growth due to various negative factors.

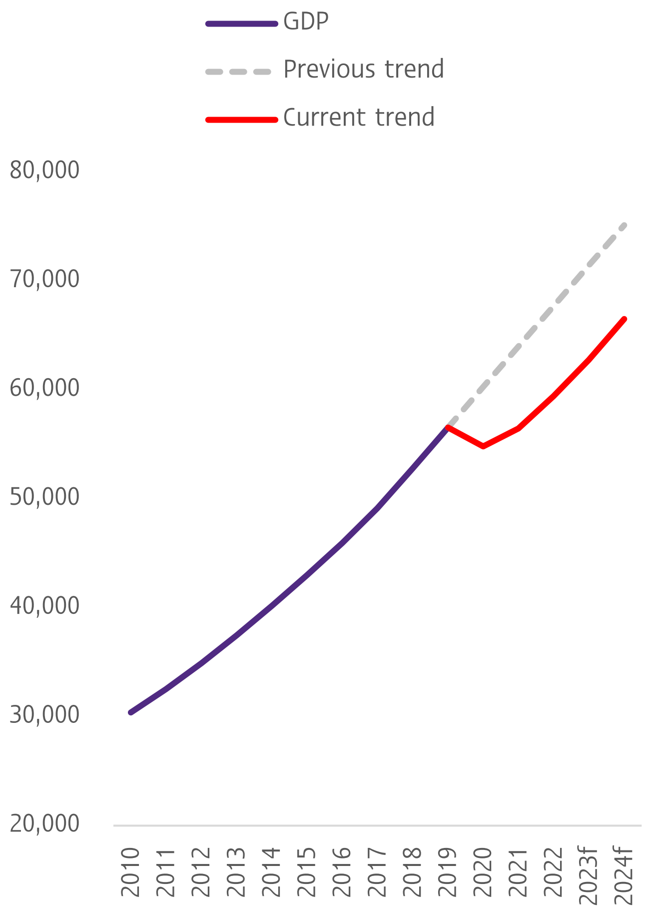
Economic growth

Unit: %YOY



Output deviation from pre-COVID19 trend

Unit: KHR billion



Positive factors

- **Foreign tourist arrivals and spending** continue to recover.
- **Exports are** rebounding in line with global trade.
- **Foreign direct investment** may rise due to the updated investment law and China +1 investment relocation.
- **Domestic demand** should remain resilient from a stronger labor market.

Negative factors

- **China's economic slowdown,** especially Chinese tourism and real estate investment.
- **Sluggish real estate and construction sectors.**
- **Slowdown in credit growth.**

Risk factors

- **High private debt and rising non-performing loans** could be a risk to financial stability and bank lending.
- **Global supply chain disruptions** from Red Sea attacks and Panama Canal drought.
- **Geopolitical risks** may disrupt trade and FDI flows.
- **Climate change** could impact agricultural yields and incomes.

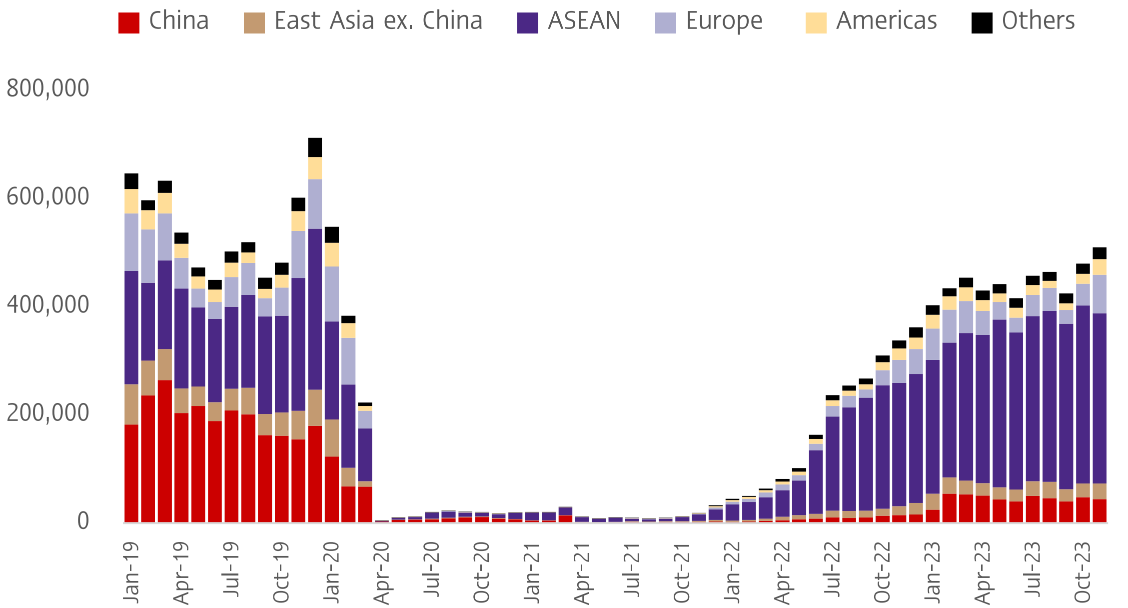
Source: SCB EIC analysis based on data from CEIC, National Institute of Statistics, National Bank of Cambodia, and the IMF

SCB EIC

The tourism sector, a key economic growth driver, is expected to continue recovering in 2024. However, tourism revenue remains subdued as Chinese tourists are slow to return.

Visitor Arrivals

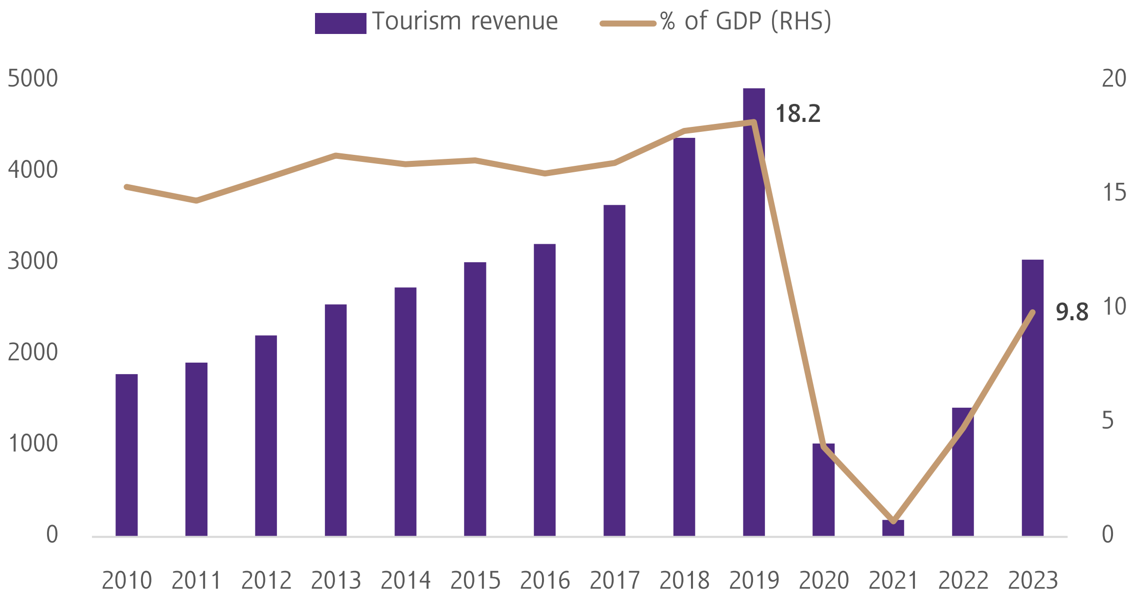
Unit: persons



Tourism Revenue

Unit: USD million

Unit: % of GDP



- **The recovery of Cambodia's tourism sector in 2024 should continue toward 2019 levels. However, tourism revenue has declined over the post-pandemic period.** Most of the recovery has been from short-haul tourists travelling by land from neighboring countries. A rebound in spending per tourist would depend on the recovery of Chinese tourists, which have been slow to return. Although the number of Chinese tourists is expected to rise this year, slower economic growth in China, Chinese travelers' changing preference for domestic travel, and high competition among ASEAN countries to promote tourism may impede recovery.
- **The government has promoted tourism** through "Visit Siem Reap 2024" and "2024 Cambodia-China People-to-People Exchange Year" campaigns. The opening of the Siem Reap-Angkor International Airport may also boost tourism.

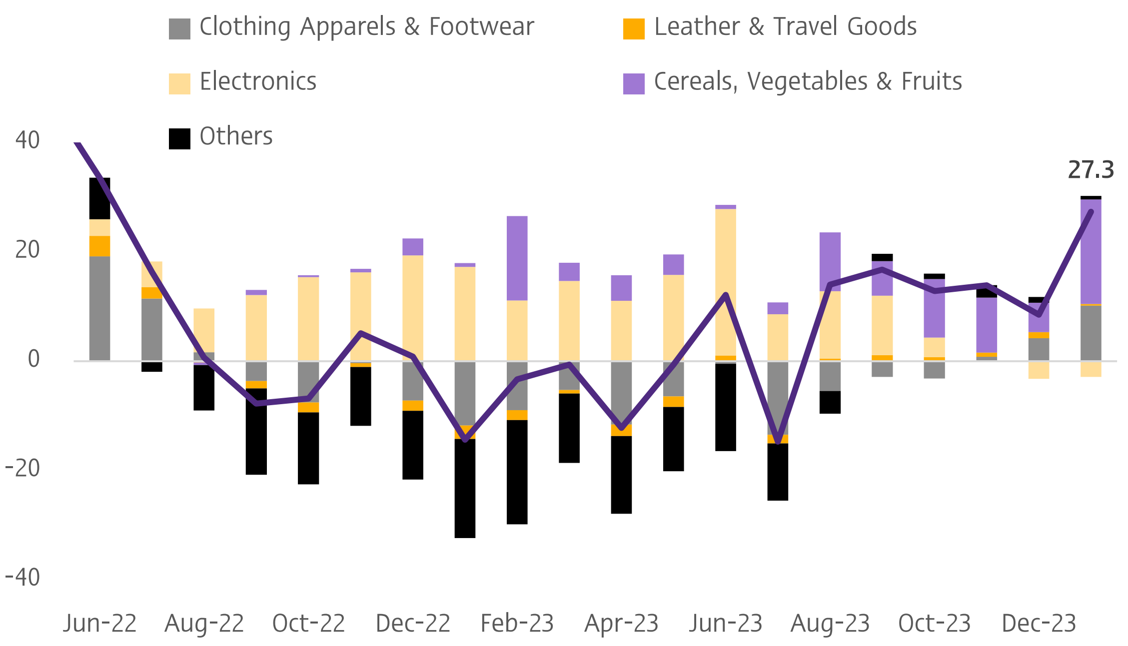
Source: SCB EIC analysis based on data from the Ministry of Tourism and foreign news agencies

SCB EIC

Exports are forecast to improve in line with global trade volumes. FDI will recover slowly in the near-term as it relies significantly on China.

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

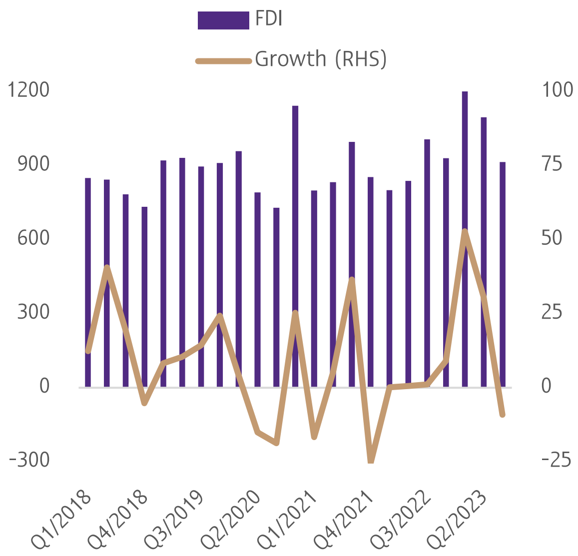
Unit: %YOY



- **Demand for Cambodian exports should strengthen** as global growth momentum continues, driven by a recovery in the manufacturing sector.
- **Cambodian exports have become more diverse** in recent years through a combination of government support and changing consumer trends. This should bolster resiliency and value-added in the medium-term.

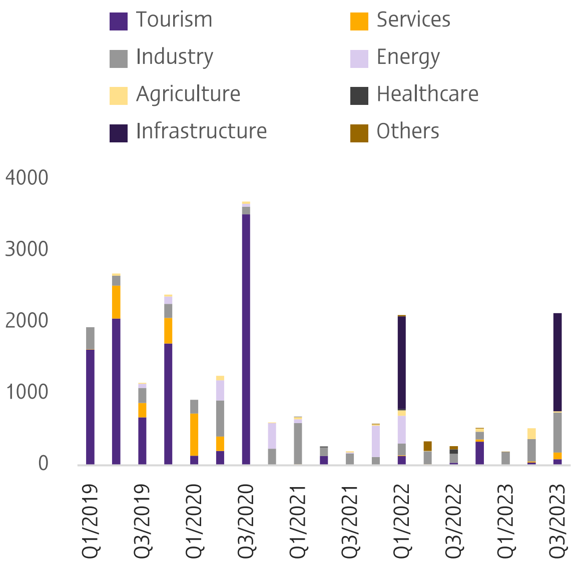
Net foreign direct investment flow

Unit: USD million Unit: %YOY



Investment approvals*

Unit: USD million



FDI Tailwinds:

- **The "China Plus One" Strategy** adopted by businesses to diversify supply chains.
- **An updated investment law** is expected to streamline the approval process and provide incentives.
- **Lower funding costs and interest rates** as the Fed and PBOC are expected to cut rates.

FDI Headwinds:

- **Slowing Chinese economy** as China is Cambodia's main FDI partner.
- **Low investment approvals** suggest sluggish FDI in the pipeline.
- **Oversupply in some sectors**, such as hotels and real estate, may reduce investment demand.

Note: *Both domestic and foreign

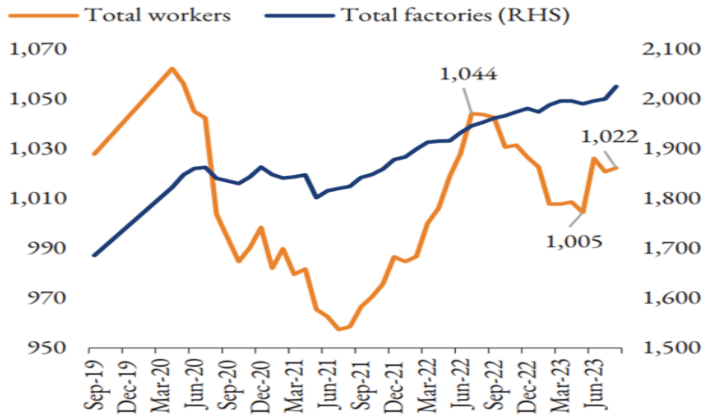
Source: SCB EIC analysis based on data from General Department of Customs and Excise of Cambodia and NBC

Domestic demand should continue to be resilient, supported by higher employment in the manufacturing and tourism sectors. However, there is weakness in the real estate sector.

Supportive factors

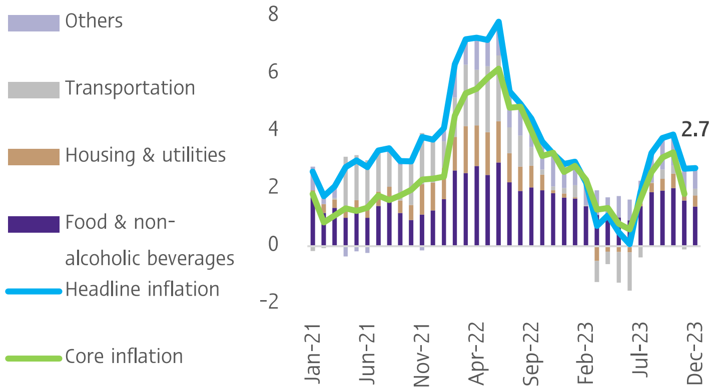
Manufacturing employment and factories*

Unit: thousands



Inflation rate

Unit: %YOY

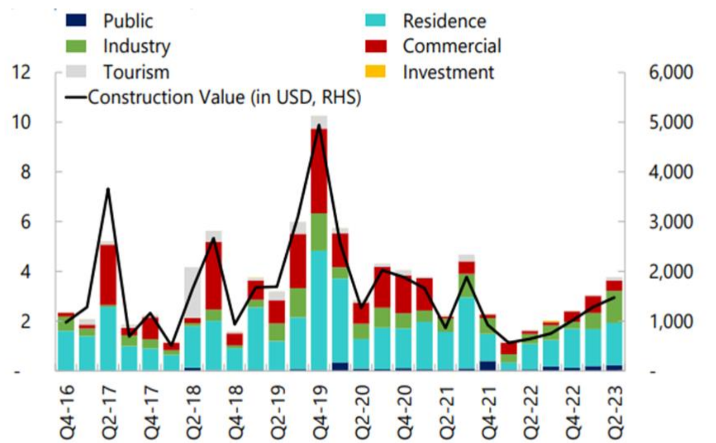


- **Employment in the manufacturing and service sectors is expected to rebound** in line with exports and a tourism recovery.
- **Low inflation should also support real income and domestic demand.**
- **Other supporting factors for domestic demand include** resilient remittances from stronger economic growth in neighboring countries such as Thailand and a rise in farm incomes from elevated agricultural prices.

Negative factors

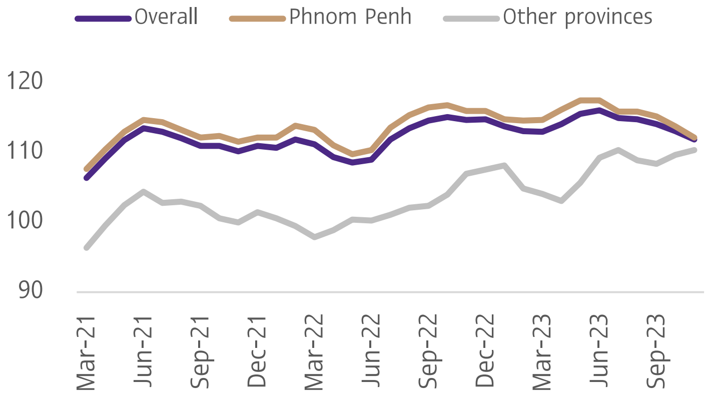
Approved construction projects by area**

Unit: square kilometer



Residential property price index

Unit: Index (2020 = 100)



- **Construction activities showed signs of bottoming out but remained sluggish** due to an oversupply after a pre-pandemic boom, especially in the commercial real estate and hotel segments.
- **Lower foreign demand and higher financing costs** are also pressuring demand. Nonetheless, demand for residential real estate was relatively resilient, particularly for affordable housing, while demand for high-end housing is slower to recover.

Note: *Figure taken from the World Bank's Cambodia Economic Update November 2023 report. **Figure taken from the IMF's Cambodia 2023 Article IV Consultation report.

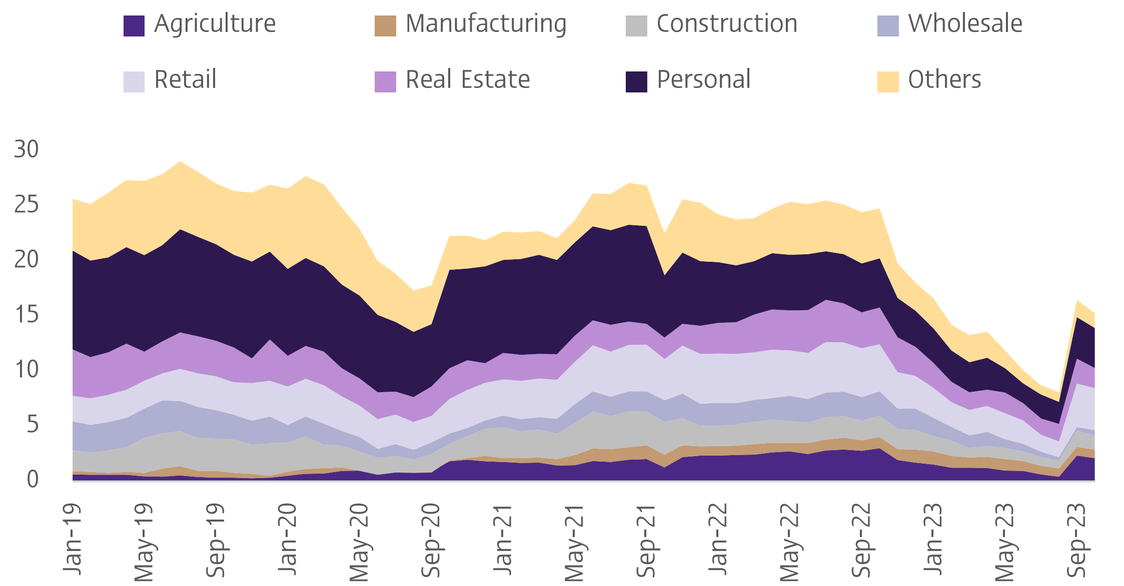
Source: SCB EIC analysis based on data from the World Bank, the National Bank of Cambodia, and the IMF

SCB EIC

Credit growth slowed in 2023 due to both demand and supply factors, including subdued investment and tighter bank lending from rising NPLs. A rebound is likely in 2024 as credit costs decline.

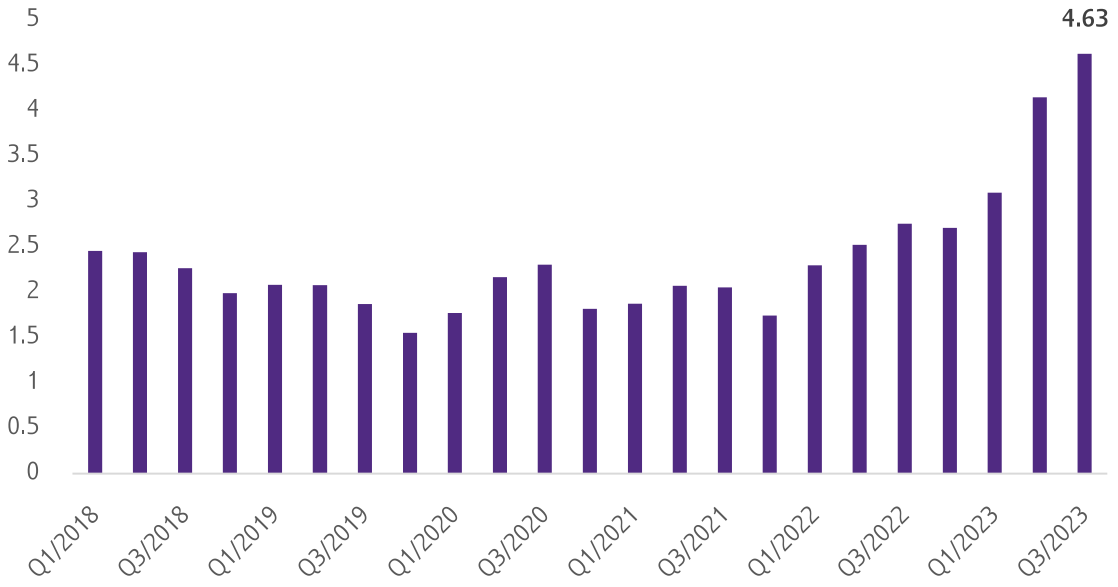
Credit growth by sector

Unit: %YOY



NPL ratio (deposit takers institutions)

Unit: % of total gross loans



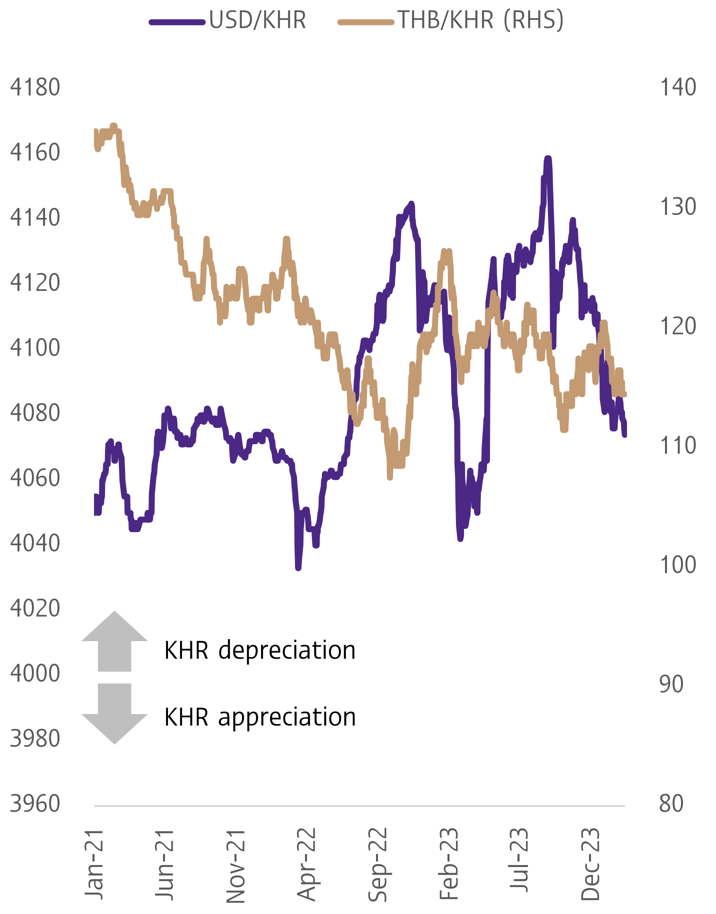
- **Credit growth was subdued in 2023 due to both demand and supply side factors:**
  - **On the demand side,** investment remains weak as the economy has not fully reached its growth potential. The real estate and construction sectors, usually important drivers of credit growth, were sluggish, which led to lower investment. Some investors may also be reluctant to invest in a high interest rate environment.
  - **On the supply side**, domestic banks tightened lending in response to a rise in non-performing loans after forbearance measures ended. Banks also faced higher credit costs in 2023 in line with rising global interest rates.
  - **In 2024, credit growth is likely to rebound as SCB EIC expects rate cuts in major economies.** A stronger economy should also increase investor confidence.

Source: SCB EIC analysis based on data from the National Bank of Cambodia and the IMF

The Khmer Riel may appreciate slightly due to a current account surplus and lower global interest rates but should remain broadly stable.

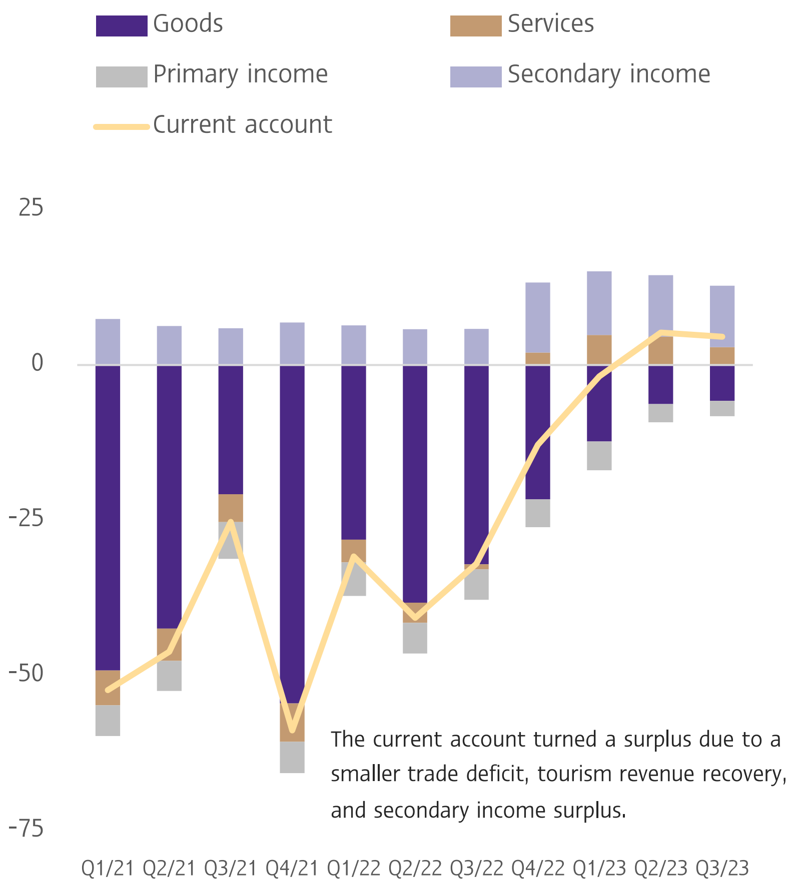
Exchange rate

Unit: USD/KHR | Unit: THB/KHR



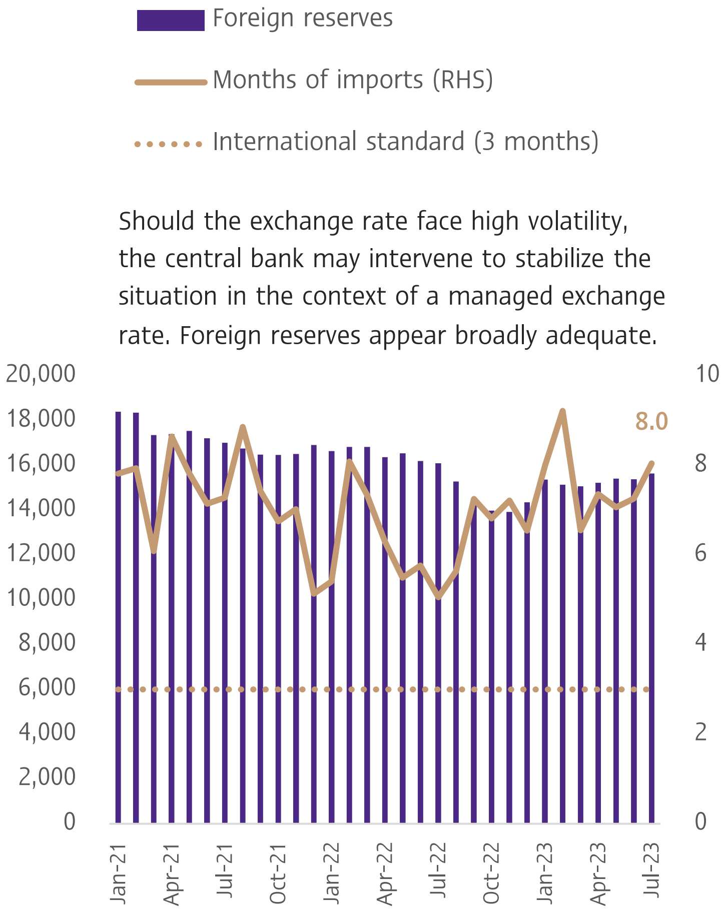
Current account

Unit: % of GDP



Foreign reserves

Unit: USD million | Unit: Months of imports



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

Lao PDR's economy

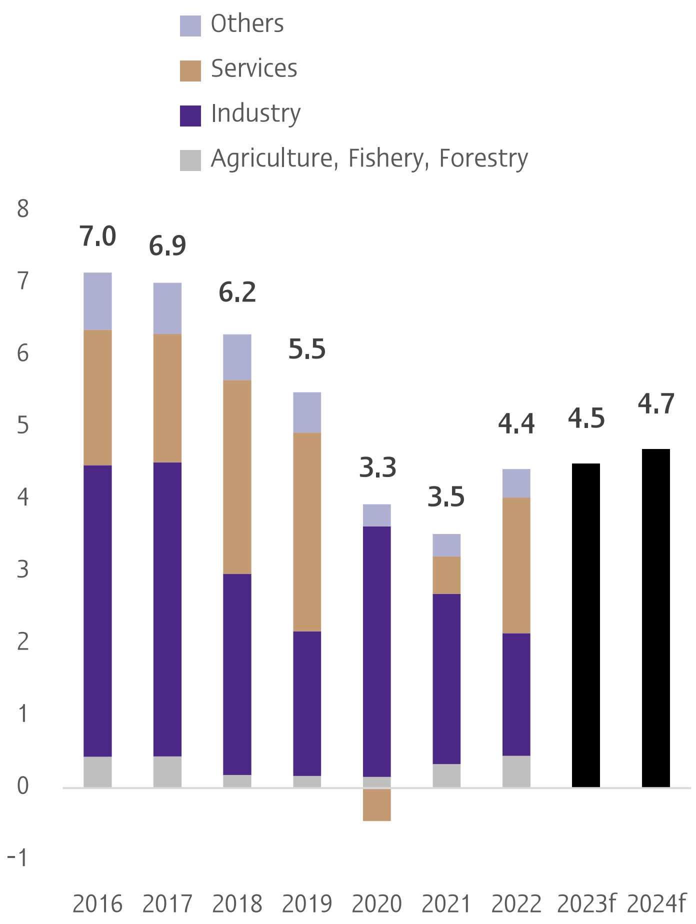
Lao PDR's economic growth is expected to strengthen slightly to 4.7% in 2024 from 4.5% in 2023, supported by a rebound in external demand. However, structural issues including high external public debt, low foreign reserves, and high inflation, exacerbated by a sharp depreciation of the Kip, will continue to dampen the economic growth potential.

SCB EIC

Lao PDR's economic growth in 2024 is expected to strengthen slightly to 4.7% from recovering external demand. However, structural issues will continue to dampen the economic growth potential.

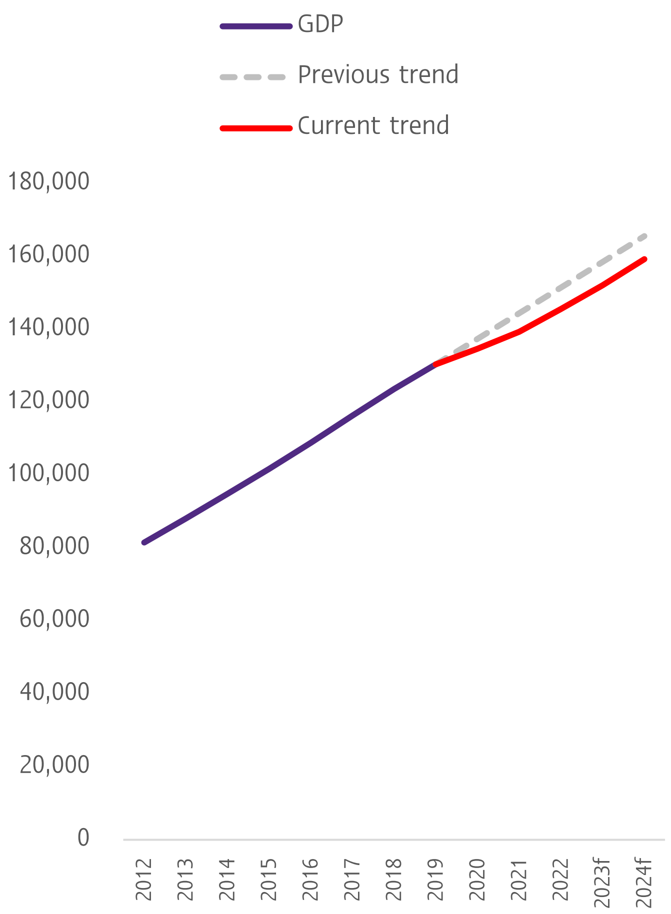
Lao PDR's GDP growth (based on official statistics*)

Unit: %YOY



Economic output deviation from trend

Unit: LAK billion



Positive factors

- **Recovering external demand** (exports, FDI, and tourism).
- **Development of logistics infrastructure** should strengthen trade and tourism connectivity in the region.
- **Strong interest from foreign investors in the country's hydro and renewable energy sectors** due to their high potential.

Negative factors

- **Sharp Kip depreciation** and limited foreign reserves.
- **Persistently high inflation** reduces consumer purchasing power and increases business costs.
- **Limited fiscal space** constrains the government's capacity to invest and stimulate the economy.

Risk factors

- **High foreign public debt burden** poses fiscal risks.
- **Labor shortages** from high demand of workers seeking jobs abroad for higher pay.
- **Weather fluctuations** could affect agricultural production and hydropower generation.

Note: *There is a significant difference between GDP data reported by official statistics and the IMF. The chart and forecast are based on official statistics.

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

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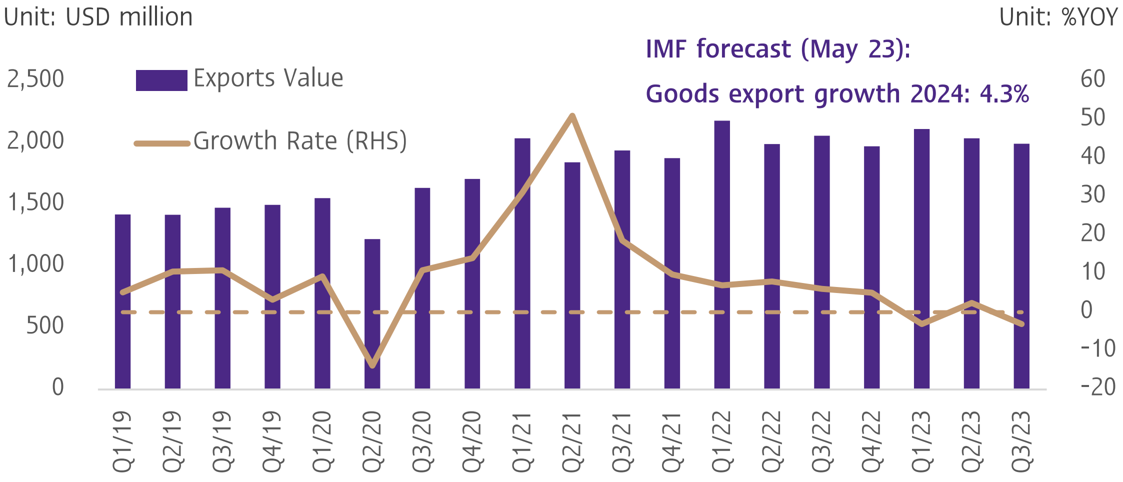
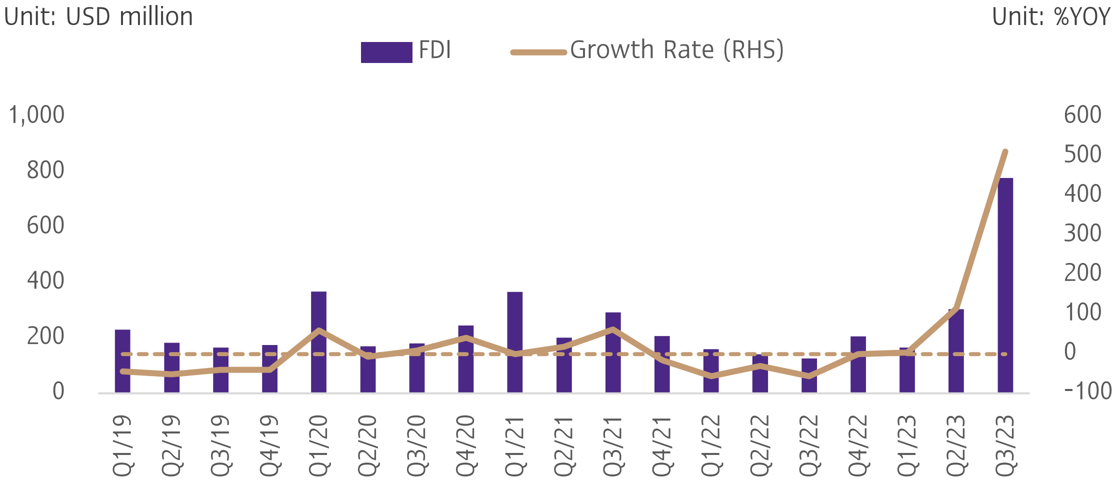
Stronger external demand should support Lao PDR's economy in 2024 in line with regional economic recovery and investments in the renewable energy and logistics sectors.

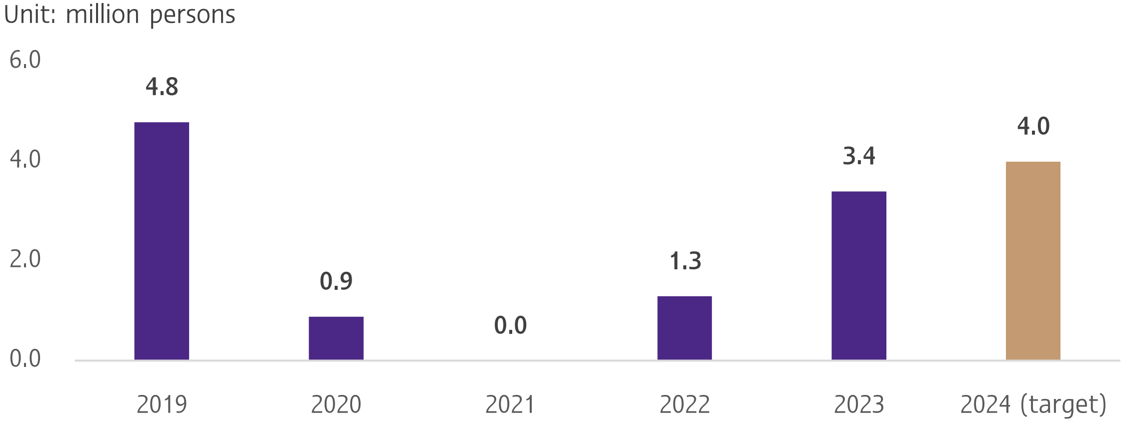
Exports of goods



Foreign direct investment (net)



Foreign tourist arrivals



Goods exports: After a contraction in 2023, goods exports in 2024 should benefit from stronger economic growth in neighboring countries (Lao PDR's top trade partners).

FDI: FDI accelerated sharply in Q3/23 and positive momentum should continue in 2024 even as FDI moderates closer to average. Lao PDR's high potential for renewable energy generation and logistics makes it attractive to foreign investors. However, concerns about fiscal and financial stability could impede some investors.

Tourism: A continued recovery is expected by achieving the government target of 4 million international arrivals. To support this goal, authorities launched the "Visit Laos Year 2024" campaign to promote cultural events. Nonetheless, the number of foreign tourist arrivals is still below 2019 and tourism revenue is yet to recover fully.

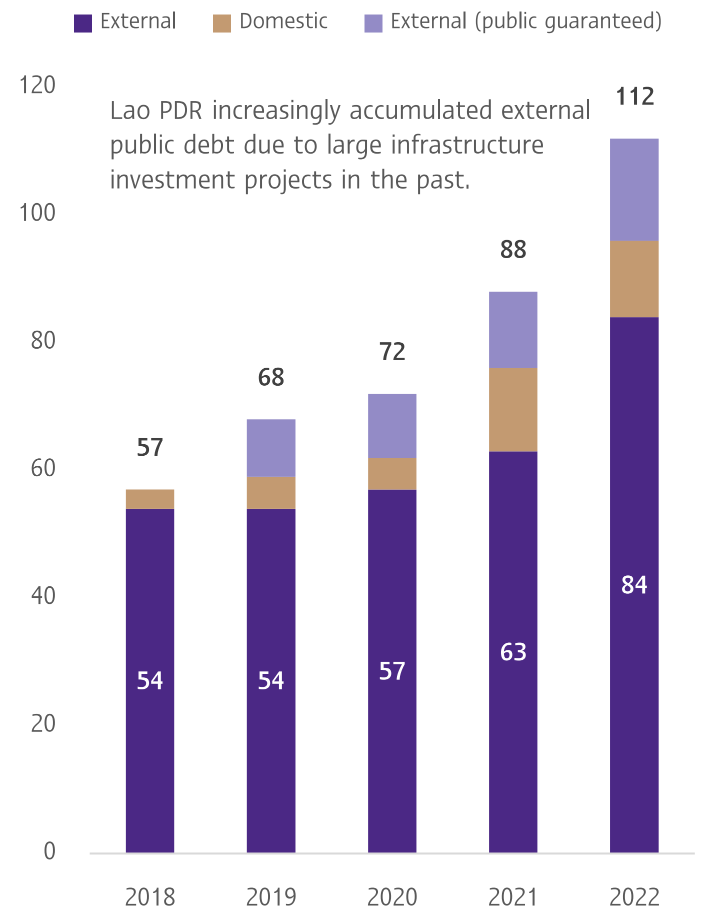
Source: SCB EIC analysis based on data from Bank of the Lao PDR, IMF, CEIC, and local news agencies

Nonetheless, Lao PDR's potential economic growth is constrained by structural issues.

A key concern is high public debt, which is denominated mostly in foreign currency.

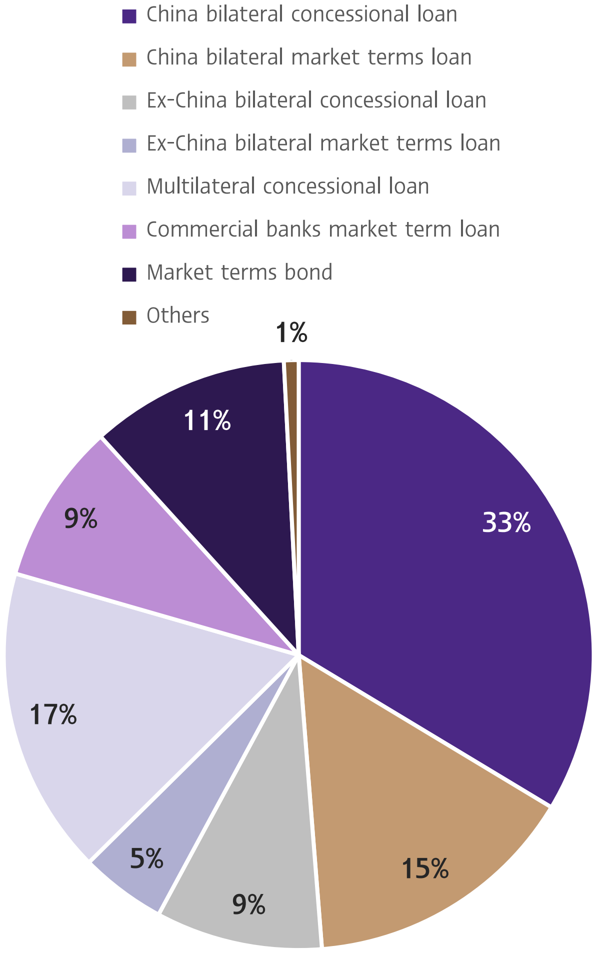
Public and public guaranteed debt

Unit: % of GDP



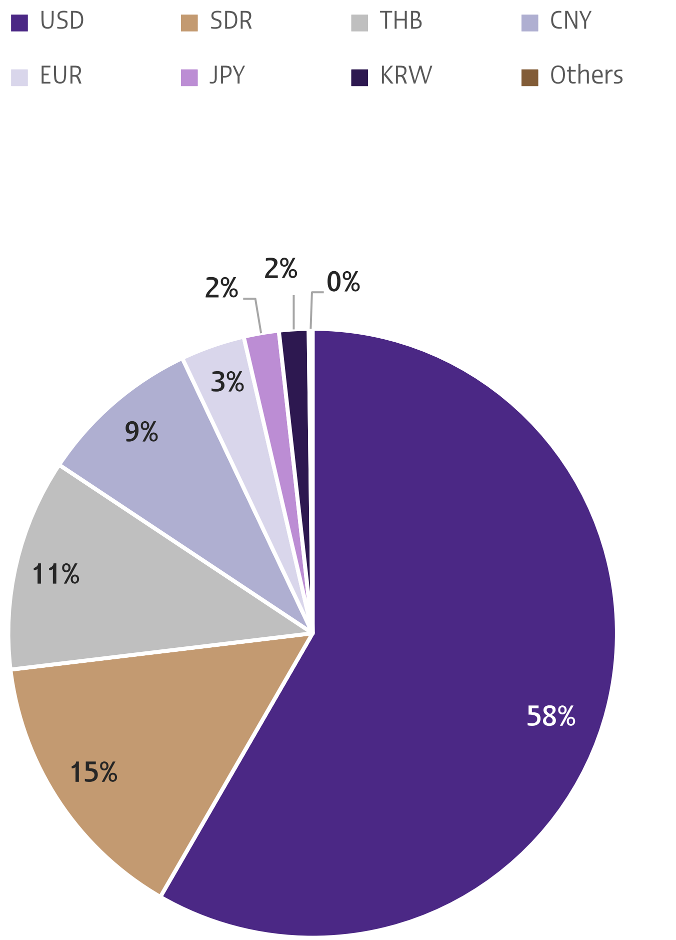
External public debt by creditors (2022)

Unit: % of total



External public debt by currency (2022)

Unit: % of total

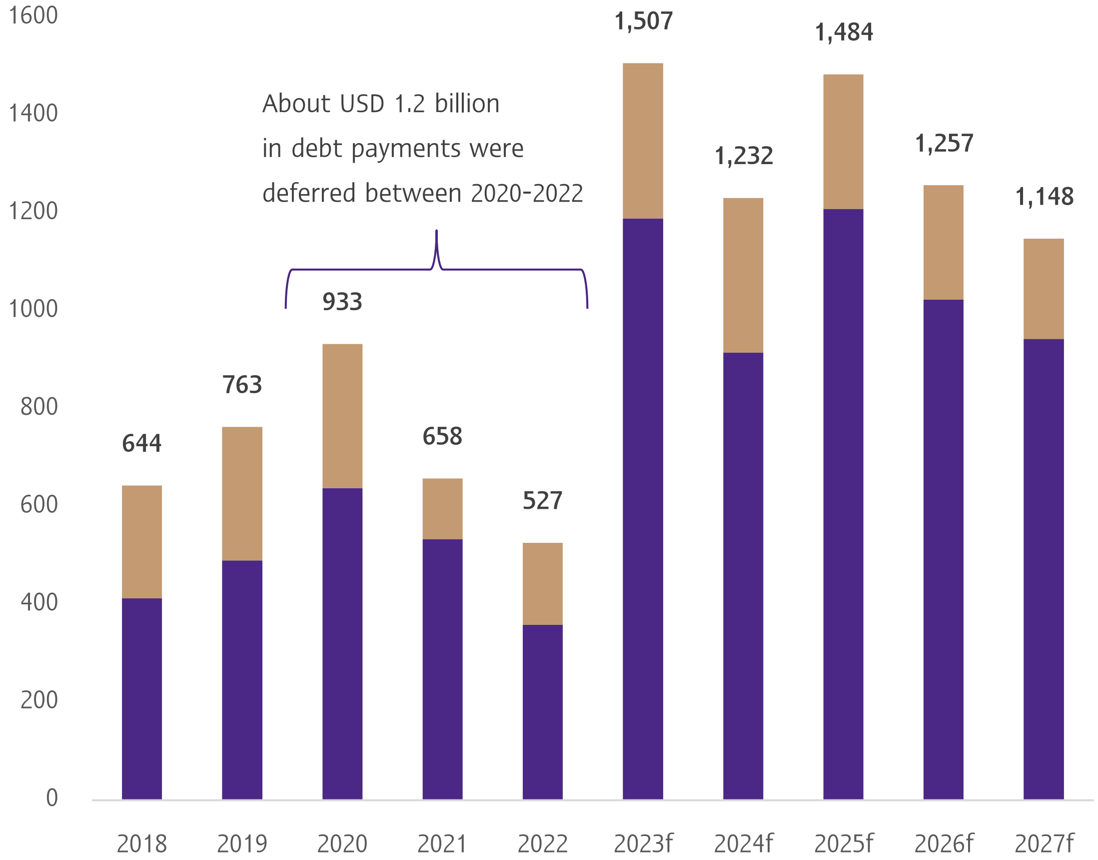


Source: SCB EIC analysis based on data from the Ministry of Finance Lao PDR

External public debt servicing will remain high amid low foreign reserves. This has led to credit rating downgrades to speculative levels, which may deter investors and limit financing options.

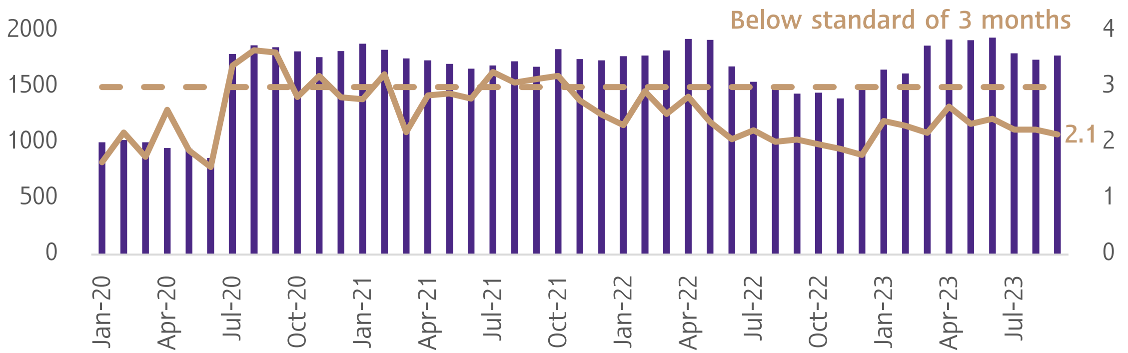
External public debt service (projection as of Q4/2022)

Unit: USD Million



Foreign reserves

Unit: USD million
Unit: Months



Development of Lao PDR rating during 2022 to 2023 (by TRIS)

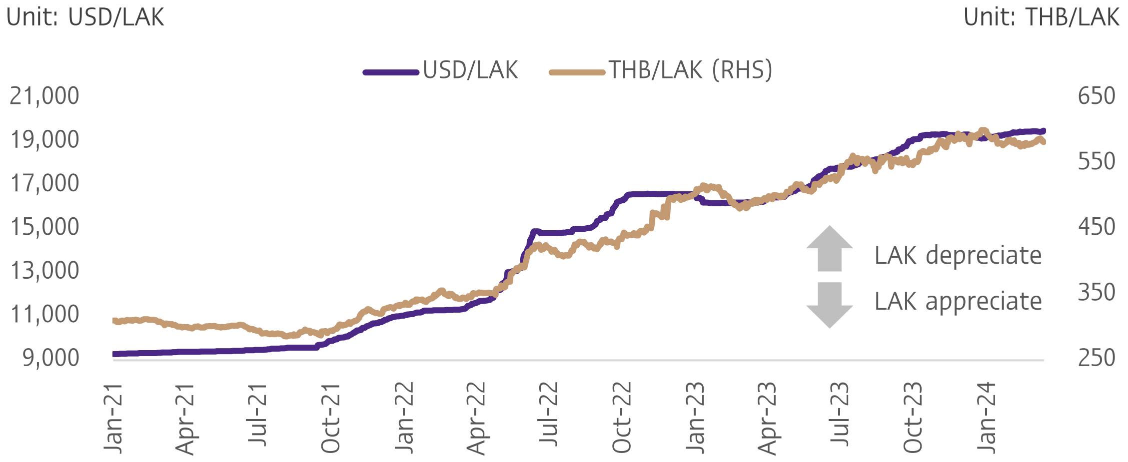
Date	Credit Rating	Outlook
22 Sep 2023	BB+	Negative
19 May 2023	BBB-	Negative
20 May 2022	BBB-	Stable

TRIS Rationale for downgrade (Sep 2023): "Significant deterioration in the debt serviceability of the country, due to weaker-than-expected economic fundamentals and depreciation of the Laotian kip (LAK), and the country's lower financial flexibility. The "negative" outlook reflects the prospect of further deterioration in the country's debt serviceability over the next 12-18 months."

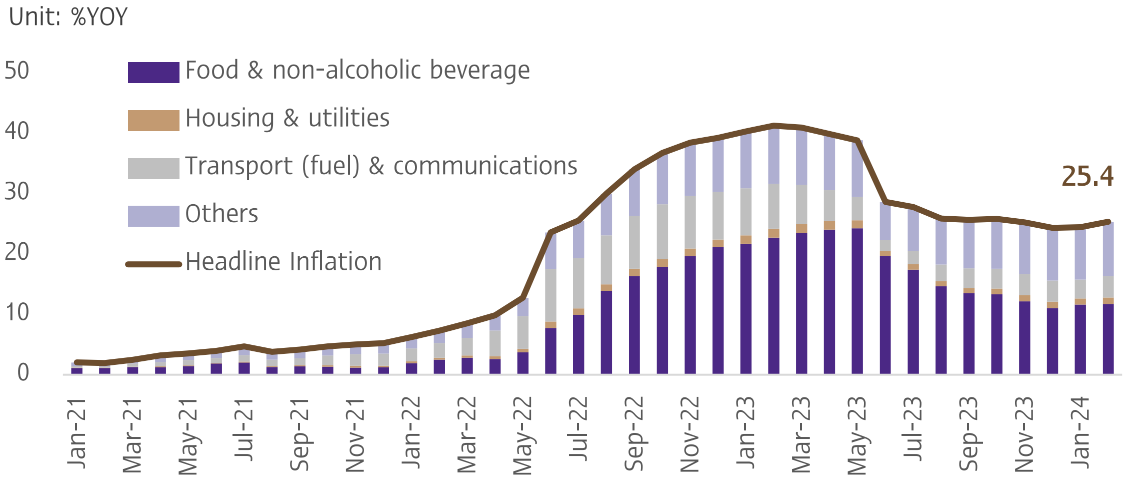
Source: SCB EIC analysis based on data from the Ministry of Finance Lao PDR, TRIS, and IMF

The LAK is likely to remain weak given the structural pressures facing the economy, thus keeping inflation elevated. As the Fed cuts rates, depreciation pressures could somewhat subside.

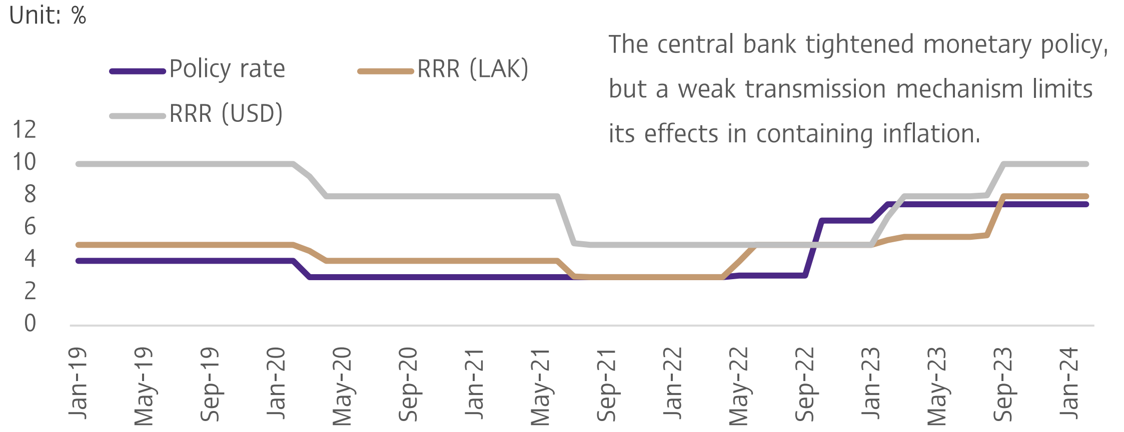
LAK exchange rates



Headline inflation



Policy rate and reserve requirements ratio (RRR)



- **The LAK depreciated sharply from many concurrent factors,** including credit rating downgrades, high external debt service costs, global interest rate hikes, and lower income from tourism and FDI. **Looking forward, the LAK may face lesser depreciation pressures due to lower global interest rates. Yet, the LAK should continue to be weak due to ongoing fiscal and external vulnerabilities.**

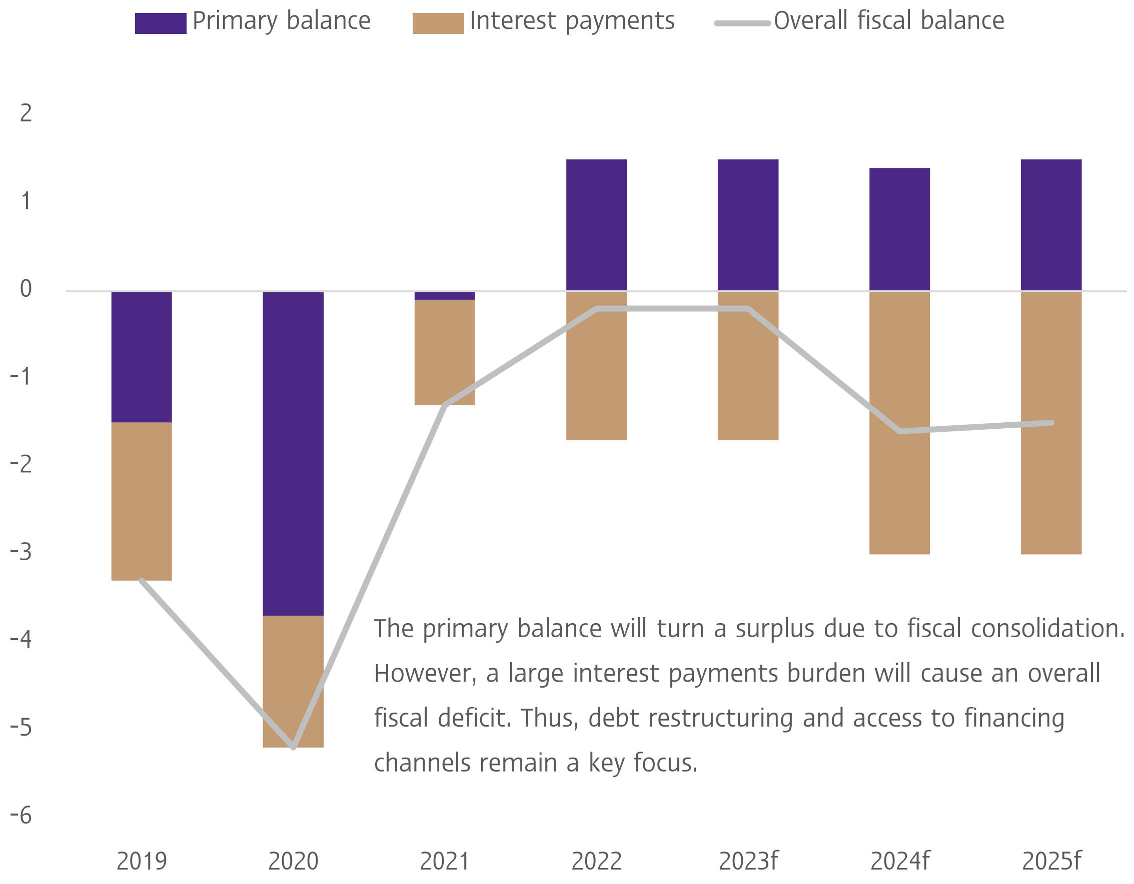
- **Headline inflation accelerated** as prices of imported goods (about 30% of the inflation basket) increased due to sharp LAK depreciation. This impacted consumers, forcing many to cut consumption, while businesses faced higher costs. Many Lao workers have left the country to seek higher pay overseas, resulting in labor shortages. In the short-term, **the weak currency will keep inflation high.**

Source: SCB EIC analysis based on data from the CEIC, Bank of Lao PDR, Lao Statistics Bureau, Bank of Thailand, and foreign news agencies

Fiscal consolidation is underway, with a focus on debt restructuring and financial access channels in the short-term. The ability to stimulate the economy through fiscal measures is likely to be constrained.

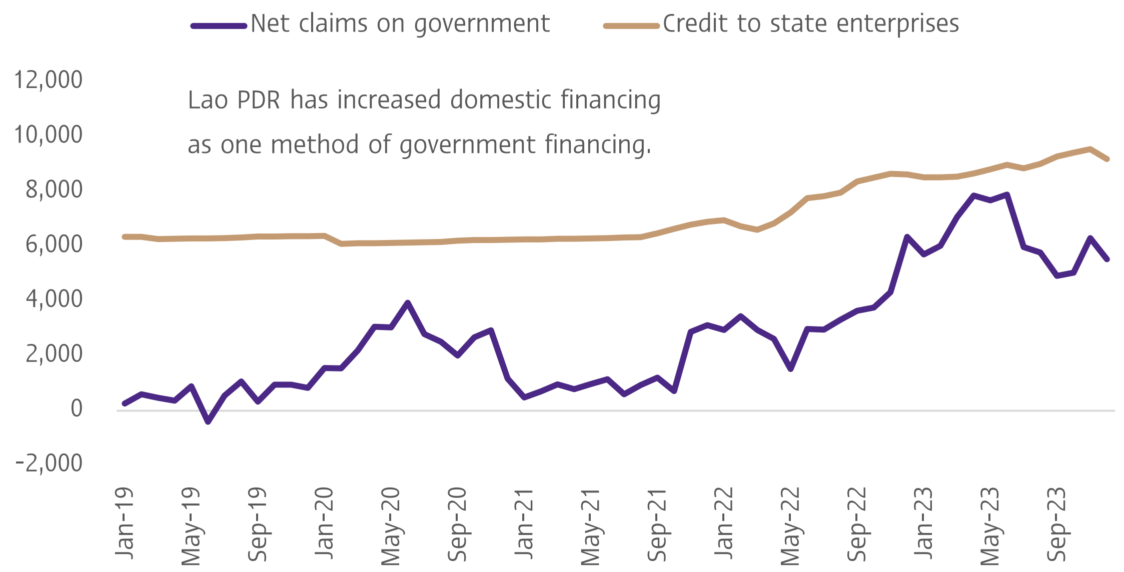
Fiscal balance (World Bank's forecasts)

Unit: % of GDP



Central bank net claims on government and credit to state enterprises

Unit: LAK billion



Fiscal consolidation measures:

- Reforming state-owned enterprises including tightening financial reporting and converting some SOEs into joint ventures with private or overseas partners.
- New taxes and modernized tax collection.
- Debt deferral and restructure negotiations.
- Preparing a medium-term fiscal framework.

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

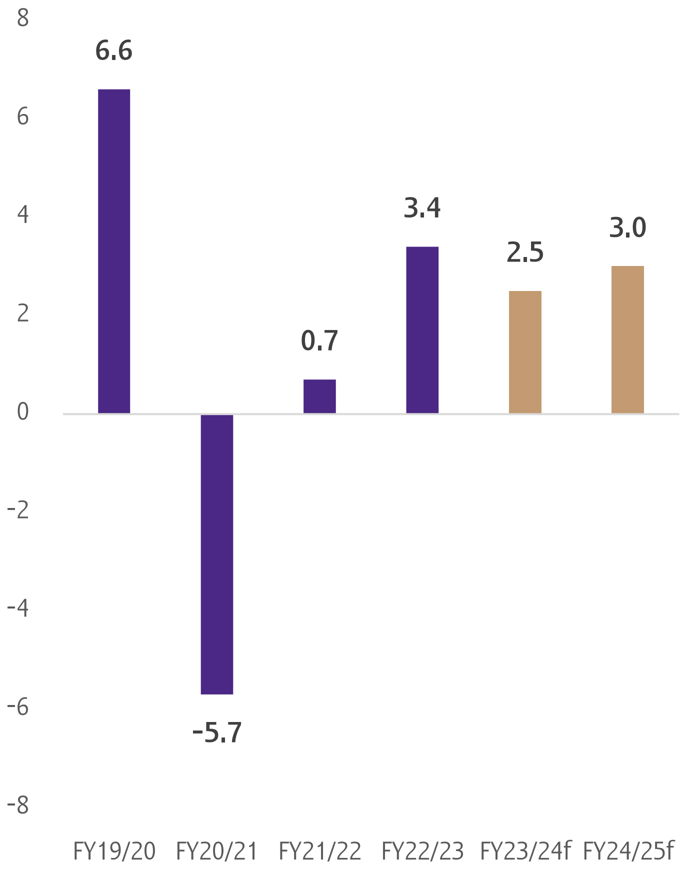
Myanmar's Economy

Myanmar's economic recovery will remain weak at 2.5% in FY23/24 and 3% in FY24/25 due to persistent conflicts leading to weak economic activity and demand. Political uncertainties and risks in Myanmar will limit its medium-term economic growth potential.

Myanmar's economy is expected to see a weak recovery in FY23/24 and FY24/25* at 2.5% and 3% respectively, pressured by ongoing conflicts and large scarring effects.

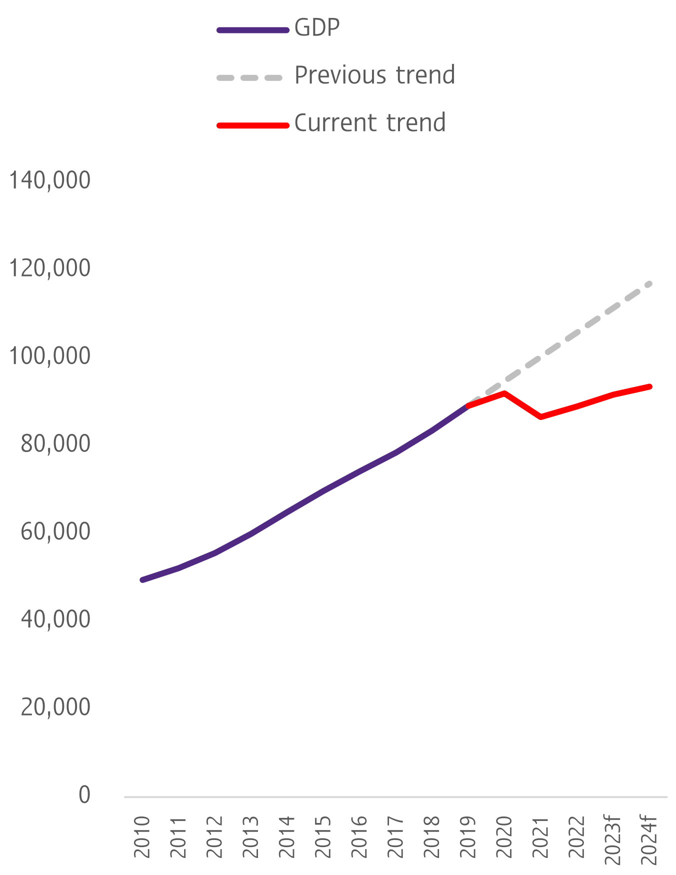
Economic growth (official data)**

Unit: %YOY



Economic output deviation from trend***

Unit: MMK billion



Positive factors

- **Global trade recovery** could benefit exports.

Negative factors

- **Reescalation of conflicts** disrupted economic activity.
- **Domestic supply chain disruptions** in conflict areas.
- **High inflation** due to Kyat depreciation.
- **Shortages of critical inputs** such as electricity, raw materials, and fuel.
- **Sanctions by western countries** continue to lower investors' confidence and limit international market access.

Risk factors

- **Exchange rate volatility**, especially Kyat depreciation, could prolong high inflation.
- **Further escalation of conflict and government policy uncertainty**, such as conscription laws.
- **Additional sanctions by western countries.**
- **Risks of fiscal stability** due to declining revenue collection and limited government fund raising channels.
- **Capital control and related policies** may distort market mechanisms.

Note: *Myanmar's new fiscal years (FY) are from April-March i.e., FY24/25f = April 2024 to March 2025 **There is a significant difference between GDP data reported by official statistics and the IMF. The chart and forecast are based on official statistics. ***Old FY (October-September).
Source: SCB EIC analysis based on data from the Central Statistical Organization, IMF, and the World Bank.

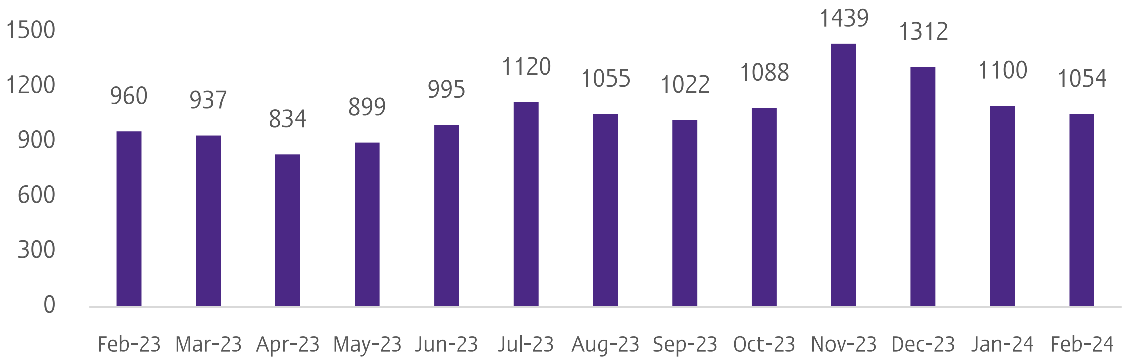
The conflict in Myanmar intensified toward the end of 2023, depressing economic activity.

As it is unlikely to be resolved in the short-term, demand weakness will continue to persist.

An intensification of conflict pressured economic and travel activities

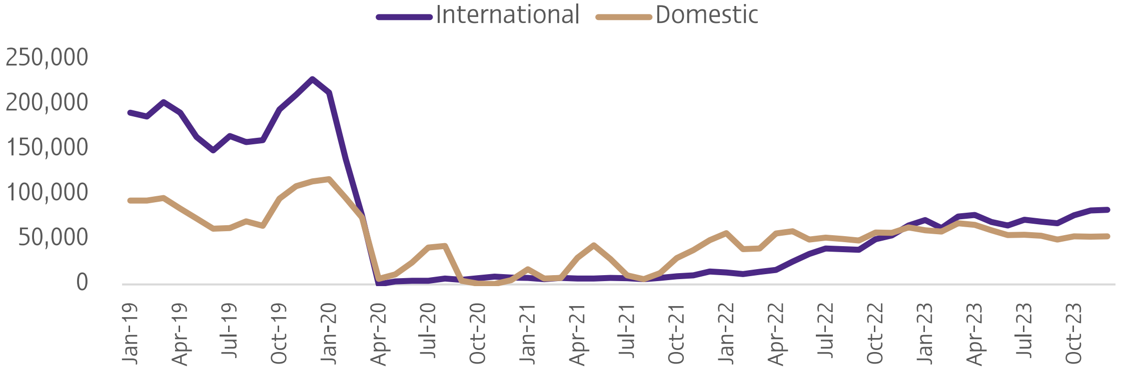
Number of conflict events*

Unit: Number of events



Passenger arrivals at Yangon International Airport

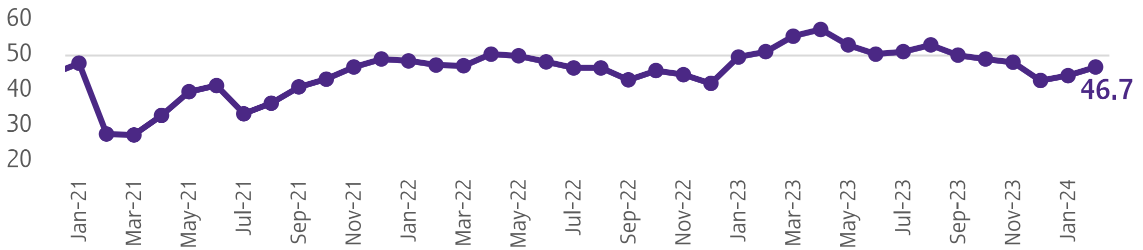
Unit: Persons



Manufacturing activity contracted due to disruptions caused by the conflict

Manufacturing Purchasing Manager Index (PMI)

Unit: Seasonally adjusted index (>50 = expansion, <50 = contraction)



Insights from the Manufacturing PMI (Feb 24):

1. **New orders and output continued to decline.** Weak demand was cited by firms as the main reason.
2. **Shortages of critical inputs pressured output**, particularly a shortage of raw materials and power outages. This resulted in an increase in backlogged work.
3. **Firms purchase fewer raw materials** and use existing inventory to meet the decline in new orders.
4. **Employment declined** as firms reduce staff hiring. The conscription law also led to many workers resigning.
5. **Supply chain disruptions** continued, caused by conflicts and import restrictions.
6. **Costs increased** due to supply shortages and the weak currency.
7. **Negative sentiment was recorded for only the second time since surveys began in 2015** due to worries about political instability and reescalation of conflicts.

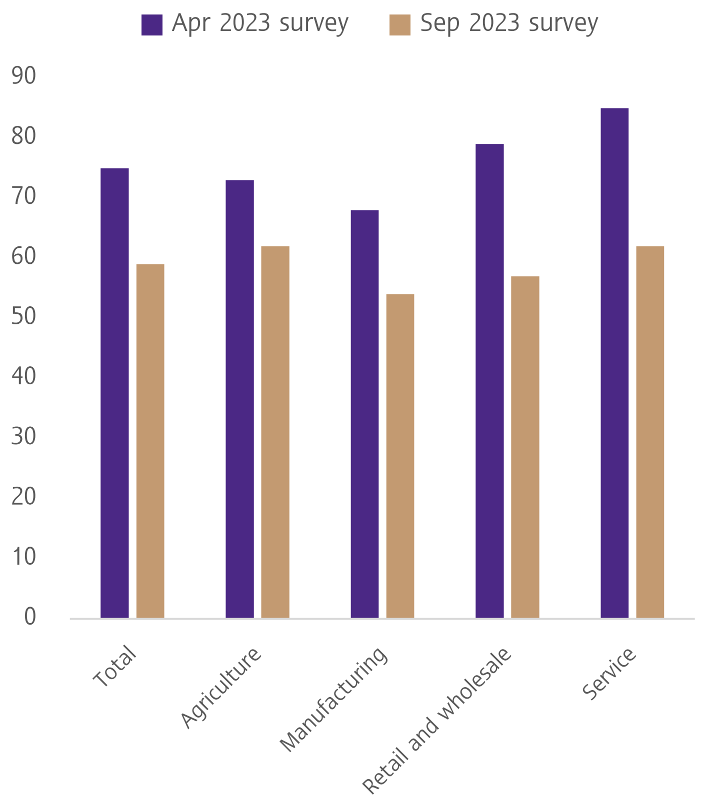
Note: *Conflict events include battles, explosions/remote violence, protests, riots, strategic developments, and violence against civilians

Source: SCB EIC analysis based on data from the ACLED (https://acleddata.com/) [accessed March 20, 2024], S&P Global, Ministry of Transport and Communications, and CEIC.

The business environment and sales have deteriorated due to factors such as weak demand, increased costs, and power outages.

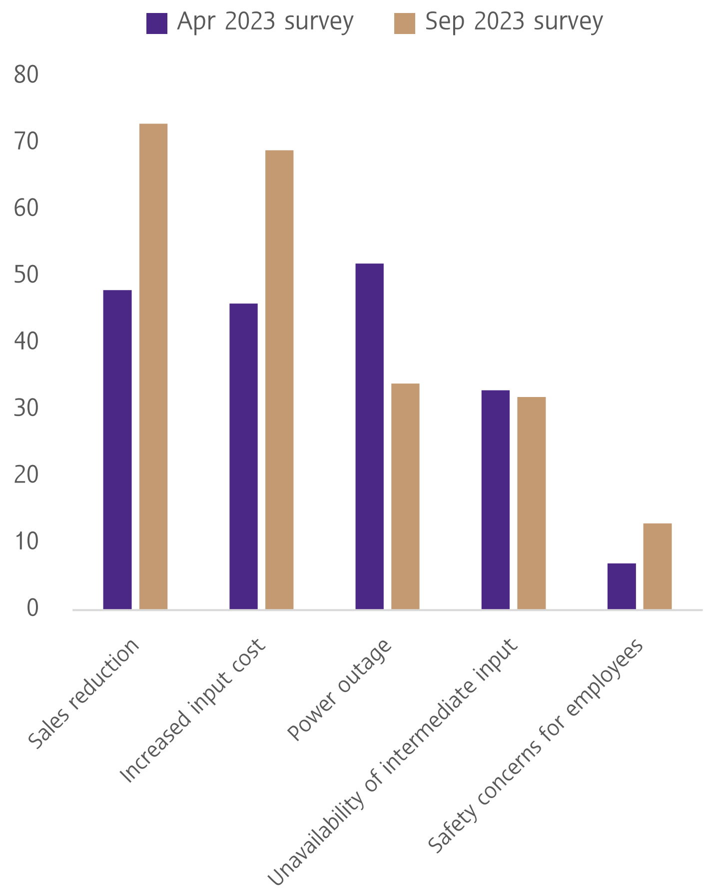
Average firm operating capacity by sector

Unit: % of operating capacity



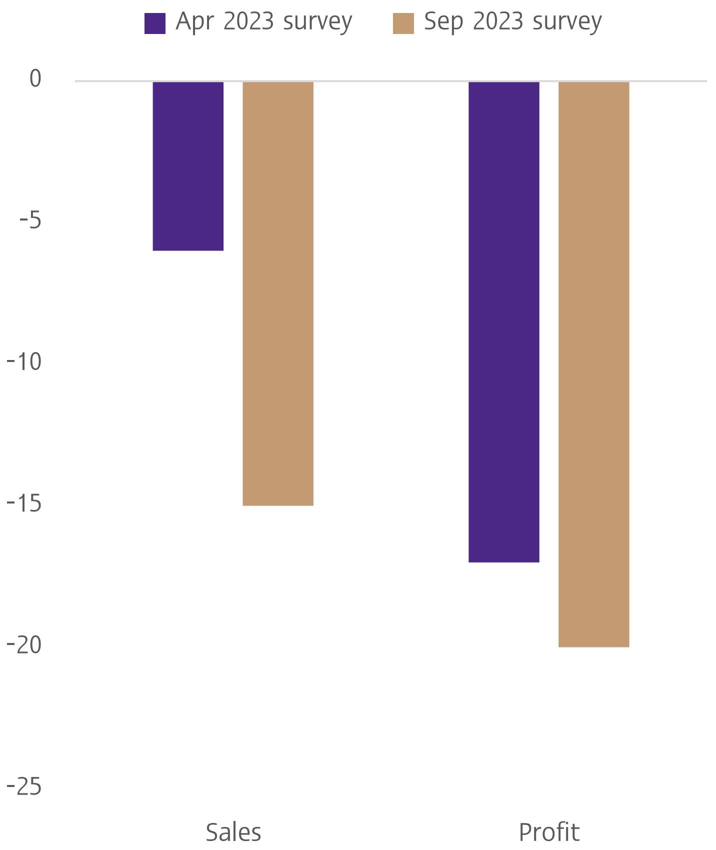
Selected reasons for not operating at max capacity

Unit: % of firms (all sectors)



Change in sales and profits compared to a year ago

Unit: % change (all sectors)



Source: SCB EIC analysis based on data from the World Bank (Myanmar Firm Monitoring Survey).

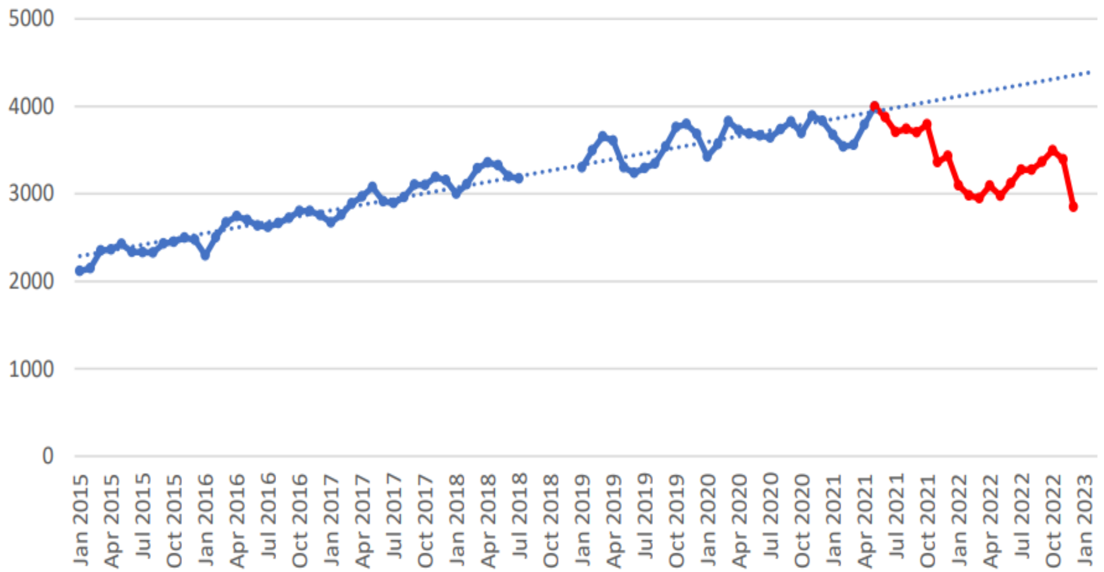
SCB EIC

Myanmar's economy is being impacted by several factors, including power outages and a weak labor market. Recovery is challenging as it necessitates both political stability and policy certainty.

The generation and transmission of electricity has been significantly impacted

Monthly maximum load*

Unit: Megawatt (MW)

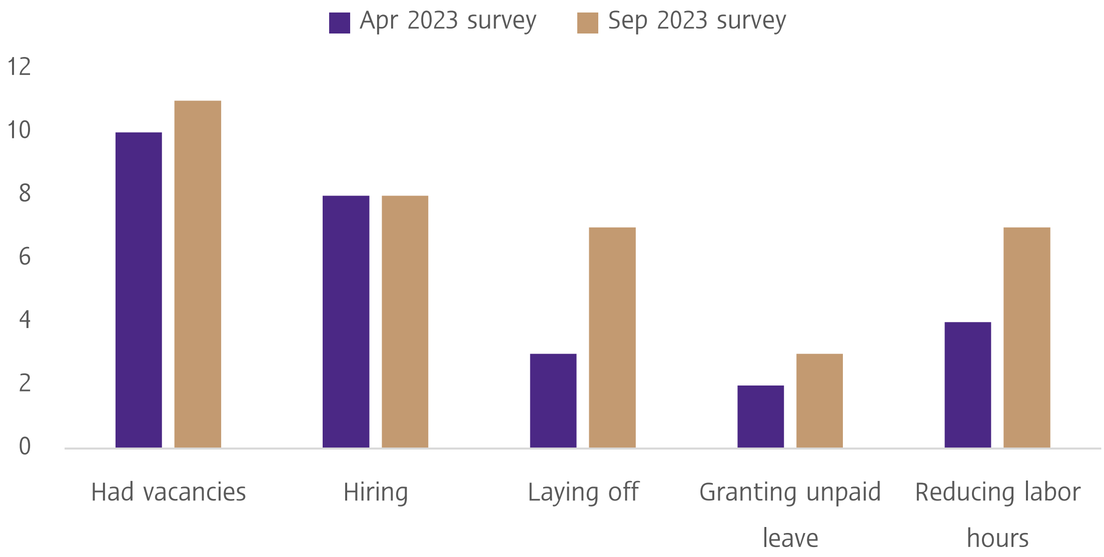


- **Damage to power infrastructure** from conflicts has reduced the reliability of energy transmission.
- **Many investments in power projects have been put on hold,** while some foreign investors have decided to withdraw their investments.
- **Natural gas shortages and low water levels** also impacted electricity generation.

The political crisis has left a lasting impact on Myanmar's labor market

Labor activities of firms (from World Bank's Myanmar Firm Survey)

Unit: % of firms (all sectors)



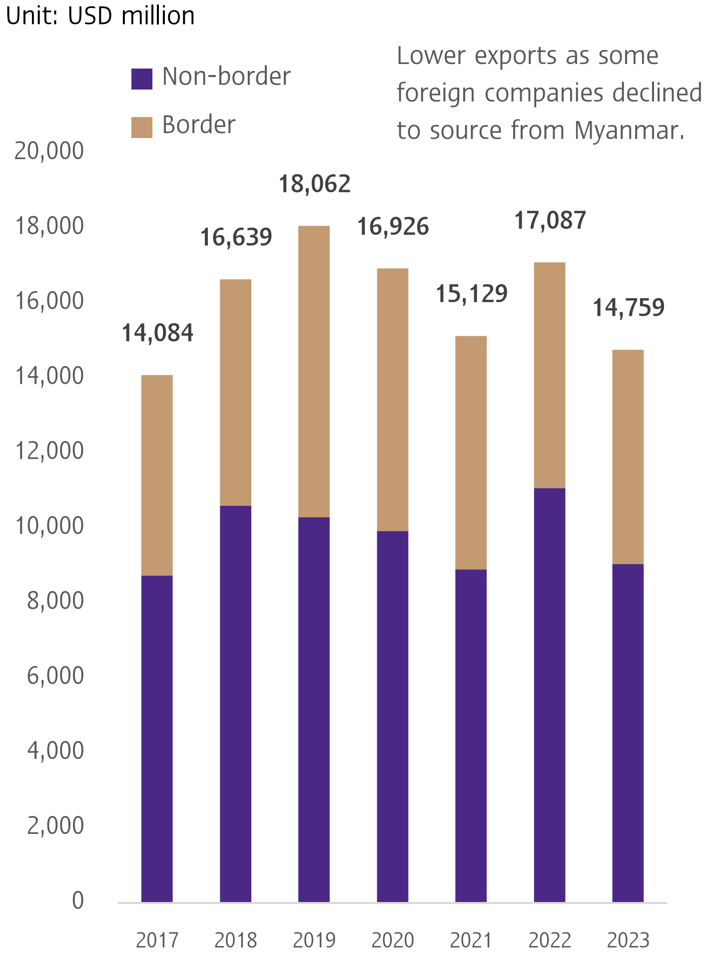
- **Some workers have left their previous work due to safety concerns** and return to engage in agricultural or part-time work which paid less.
- **Businesses have laid off workers and did not increase hiring** despite greater vacancies in response to the weak demand environment.
- **Policy uncertainty such as the recently imposed conscription law** may influence workers' decisions to remain in their current job.

Remark: *Figure taken from the World Bank's "In the Dark: Power Sector Challenges in Myanmar" report
Source: SCB EIC analysis based on data from the World Bank.

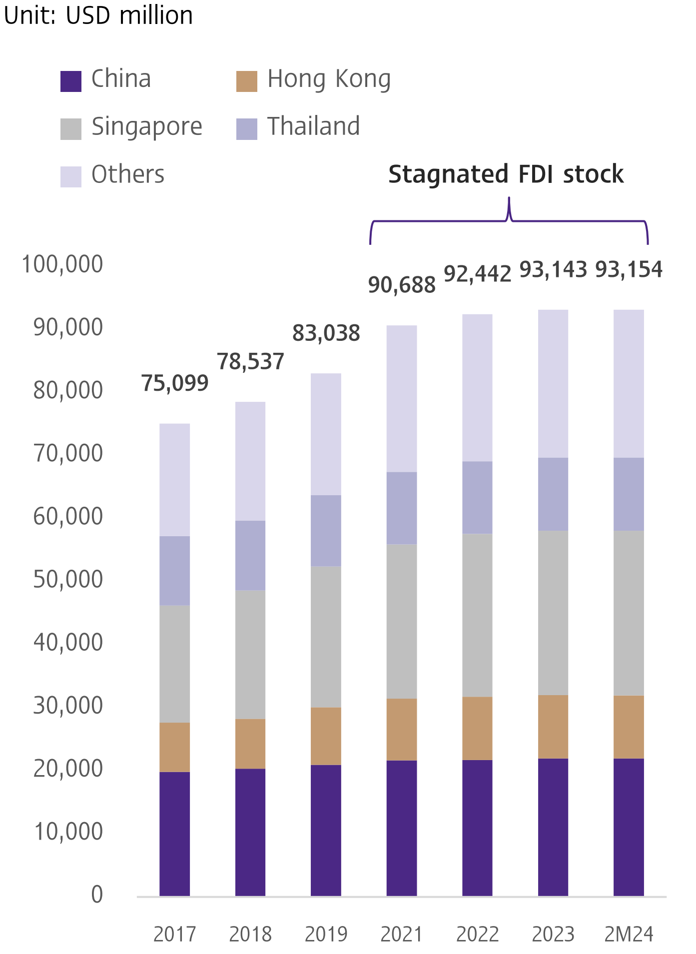
SCB EIC

In the medium-term, external demand is likely to be affected due to concerns about politics, safety, sanctions risks, and reputational risks among foreign businesses and travelers.

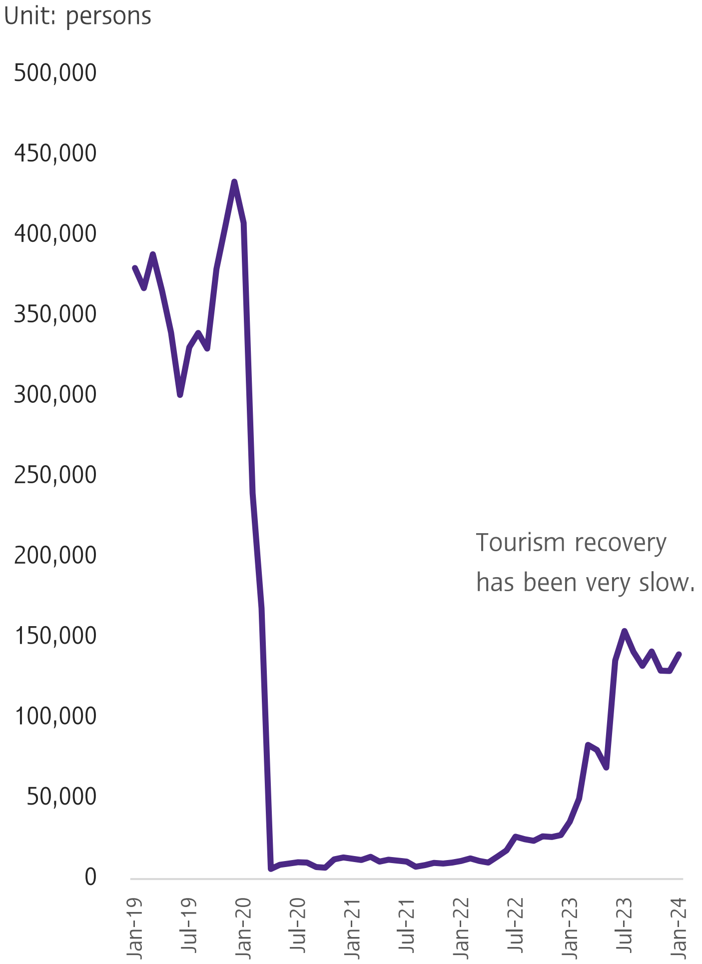
Exports (calendar year)



Cumulative approved FDI stock* (calendar year)



Foreign visitor arrivals



Note: *2020 excluded due to lack of data

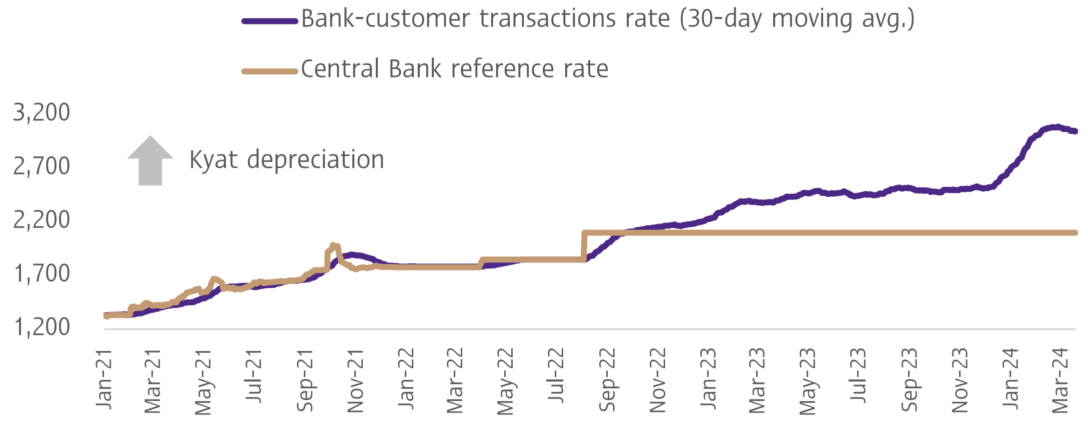
Source: SCB EIC analysis based on data from the Ministry of Commerce, DICA, and Ministry of Planning and Finance.

SCB EIC

The MMK is expected to remain weak due to USD shortages, sanctions, and economic uncertainty. As a result, inflation is likely to remain high and only gradually decline.

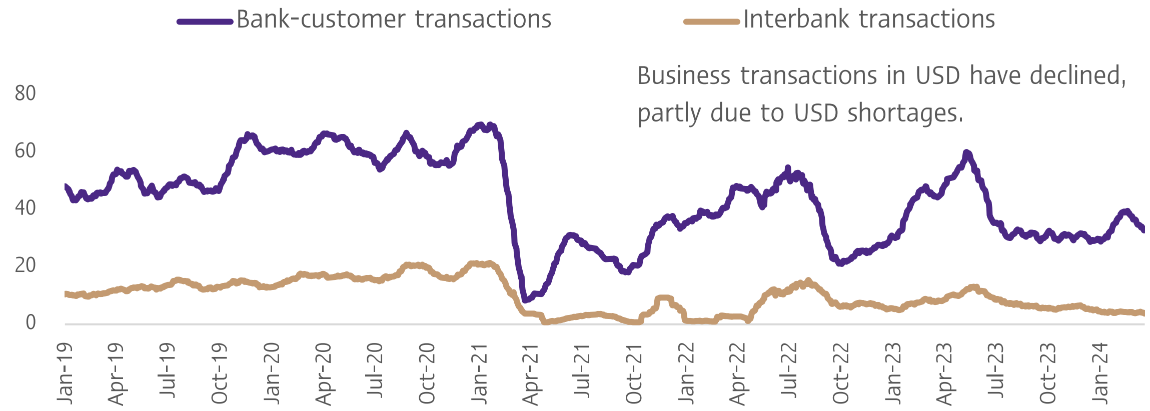
Exchange Rate

Unit: USD/MMK



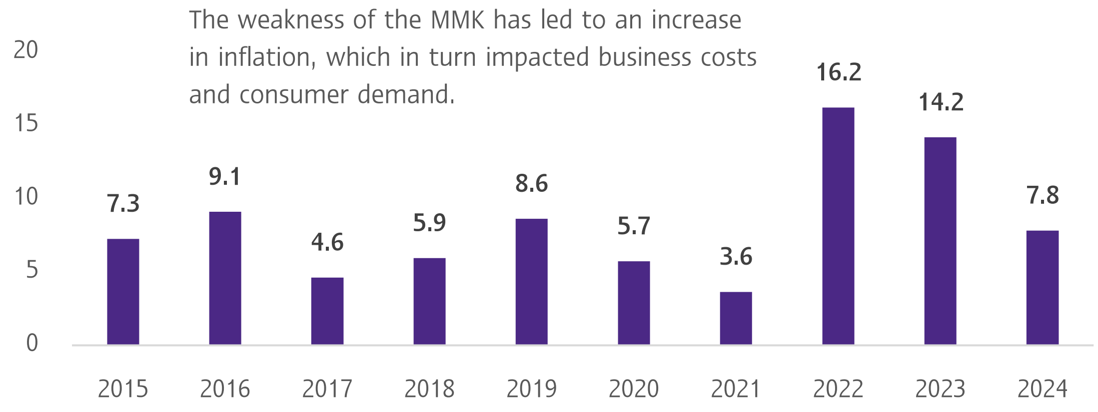
Total USD transactions turnover

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



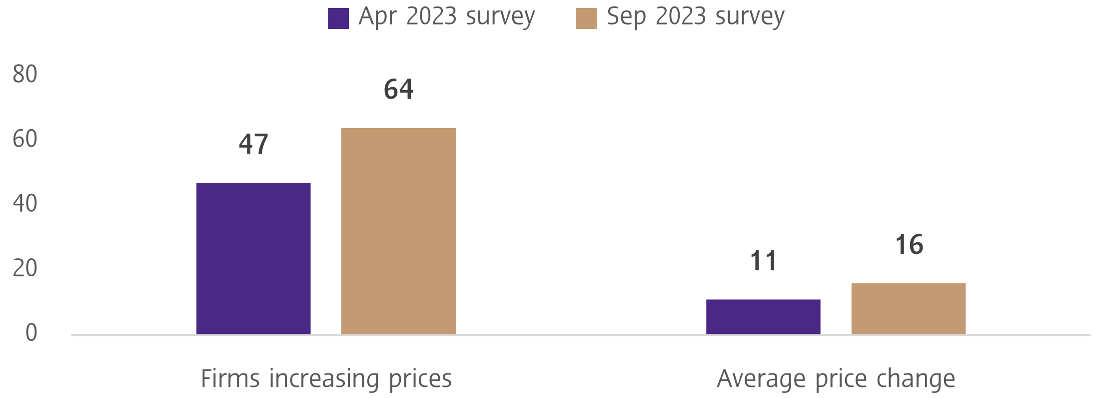
Average inflation rate (IMF forecasts as of October 2023)

Unit: %YOY



Shares of firms increasing prices and average price change (WB Firm Survey 2023)

Unit: %



Source: SCB EIC analysis based on data from the CEIC, Central Bank of Myanmar, the IMF, and WB.

Vietnam’s Economy

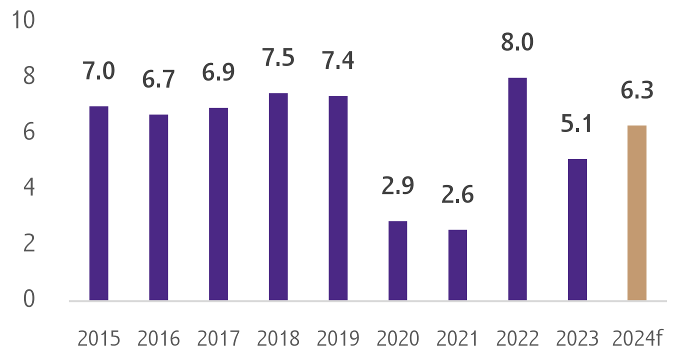
Vietnam’s GDP growth should accelerate to 6.3% in 2024 after a subdued 5.1% in 2023, supported by recovering exports. Resilient FDI inflows and domestic demand will also drive the economy. Nonetheless, the real estate and credit growth slowdown remains a drag to economic activity. A key risk to monitor is rising non-performing loans, which may affect bank lending and financial stability.

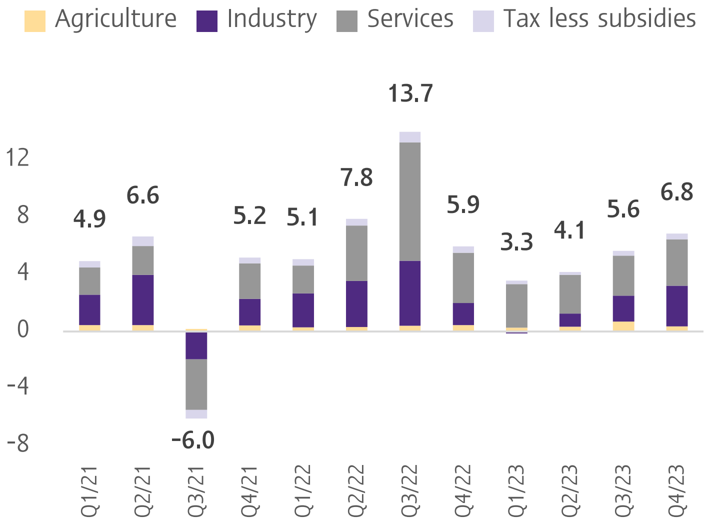
SCB EIC

SCB EIC forecasts Vietnam's GDP growth to strengthen to 6.3% in 2024 after a subdued 5.1% in 2023, supported by recovering exports. Yet, the real estate slowdown remains a key pressure.

Vietnam's GDP growth

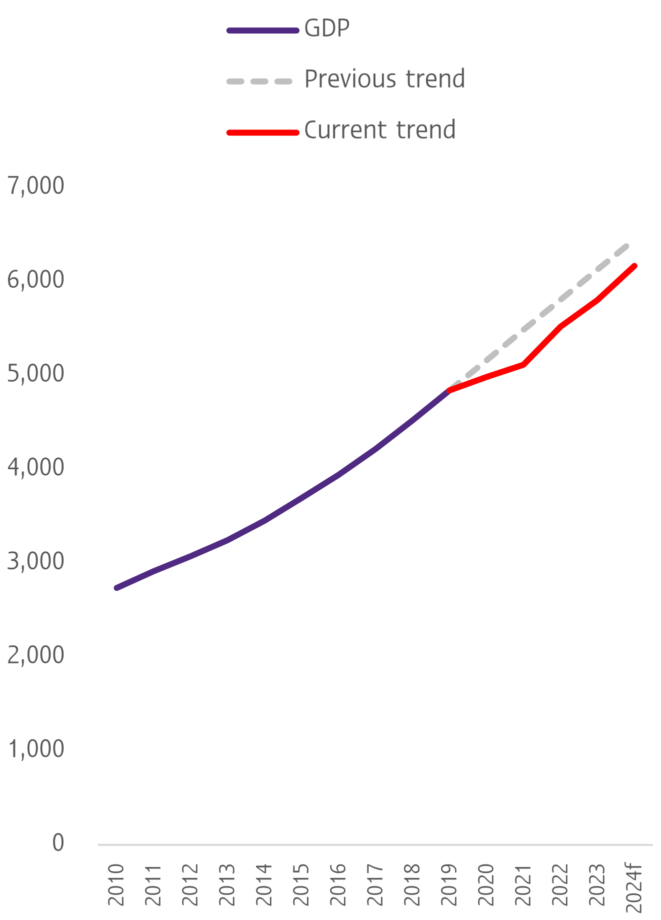
Unit: %YOY





Economic output deviation from trend

Unit: VND trillion



Positive factors

- **Recovering exports** in line with recovering global trade volume and global electronics upcycle
- **Tourism sector** continues to strengthen
- **Manufacturing base relocation** as part of China+1 strategy
- **Resilient domestic demand** as employment improves

Negative factors

- **Liquidity shortage, tight financial conditions, and slower credit growth**, although improving, may continue to affect business confidence and fundraising
- **Real estate slowdown**, particularly a decline in new supply of residential property

Risk factors

- **Debt default and rising non-performing loans (NPLs)** may impact bank lending and financial stability
- **Electricity shortages** affect production capability
- **Escalating geopolitical tensions**
- **Climate change** impacting agricultural yields
- **Lower confidence** during anti-graft crackdowns

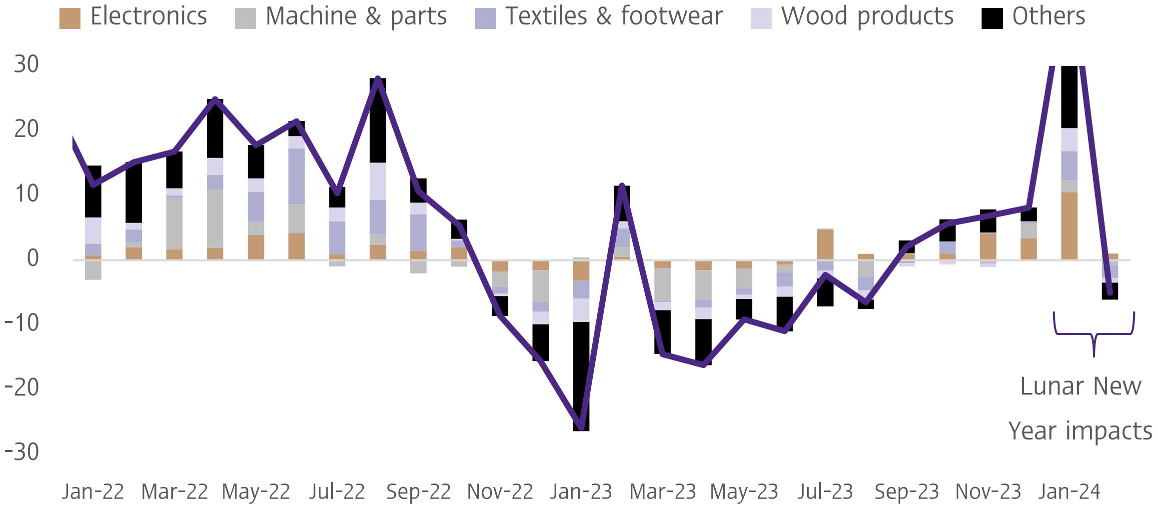
Source: SCB EIC analysis based on data from CEIC and the General Statistics Office

SCB EIC

Exports are expected to strengthen this year, in line with recovering global trade volumes and global electronics upcycle. The continued recovery in the tourism sector will also support the economy.

Exports growth by product

Unit: %YOY

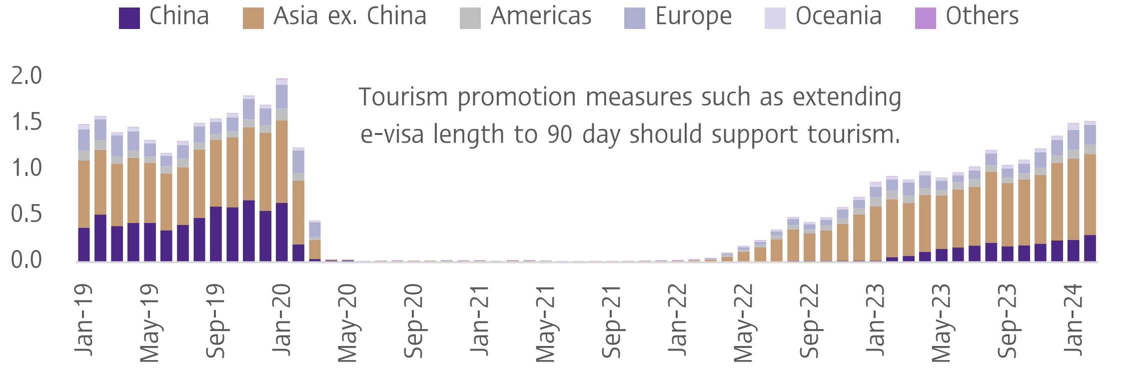


Vietnam's exports are expected to strengthen in 2024 in line with a recovery in global trade volumes. The rebound in the global electronics sector should also bolster exports as Vietnam is a key manufacturing hub for many electronics parts and equipment.

Nonetheless, there are risks to exports from supply chain disruptions in the Red Sea and Panama Canal. Although shipping costs have eased from their peak, an escalation could negatively impact trade.

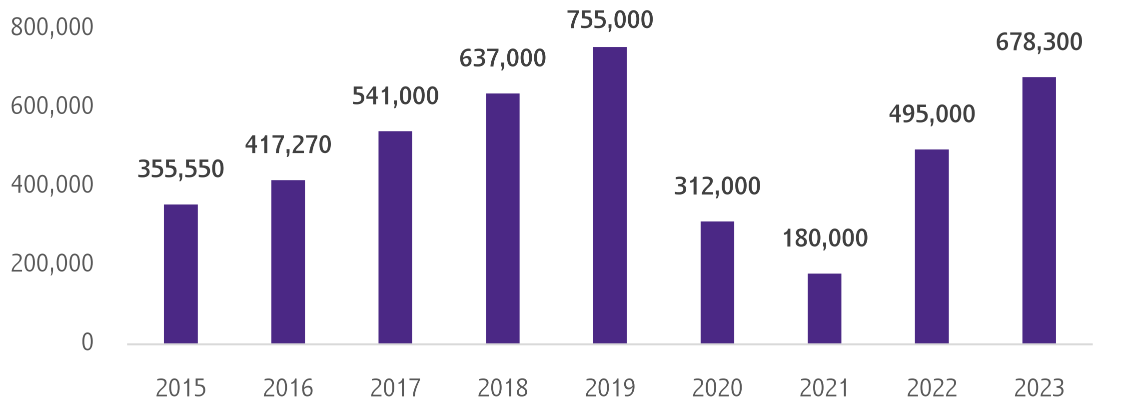
International tourist arrivals

Unit: Million persons



Tourism receipts (international and domestic)

Unit: VND billion



Although Chinese tourists are slower to return, leading to lower tourism receipts, domestic tourism has been robust which support the sector.

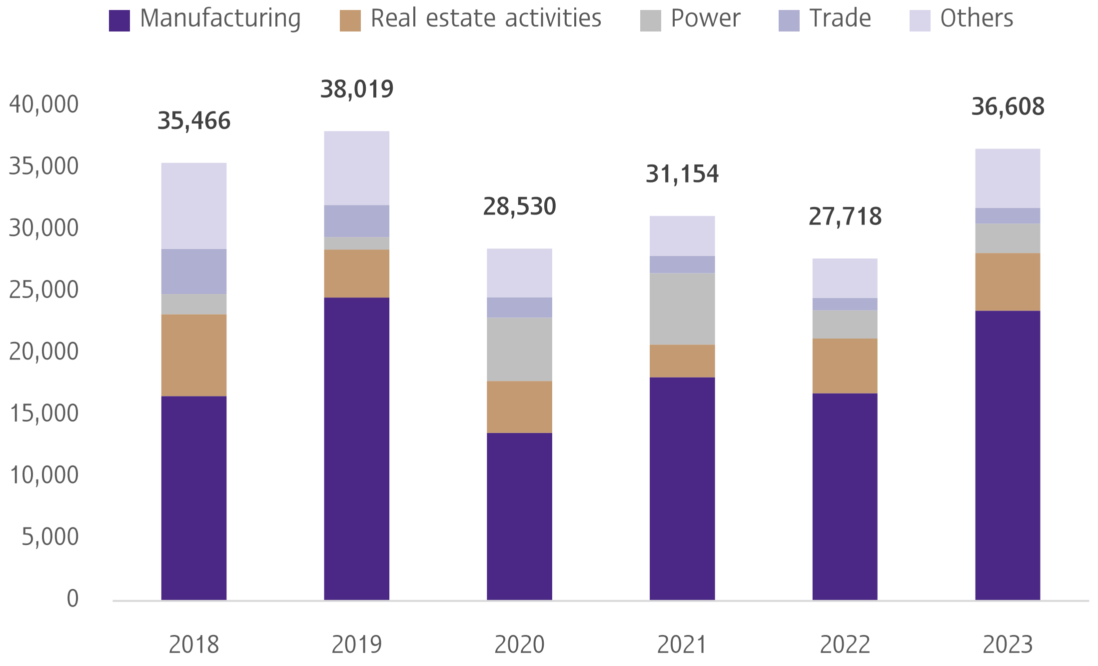
Source: SCB EIC analysis based on data from CEIC, the General Statistics Office, and the National Administration of Tourism

SCB EIC

Foreign direct investment remains resilient, with a significant rise in FDI approvals, suggesting strong future disbursements. An issue to monitor is the implementation of the global minimum tax resolution.

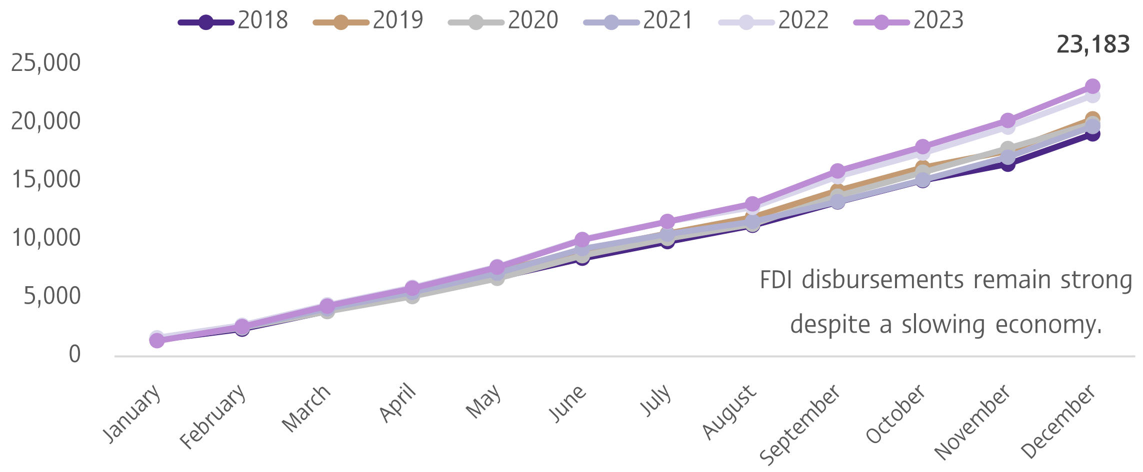
Approved foreign direct investment by sector (total registered capital)

Unit: USD million



Disbursed foreign direct investment

Unit: USD million (year-to-date)



Vietnam continues to attract FDI due to its strategic location, large and young labor force, relatively low wages, growing domestic market, and various free trade agreements. Investment promotion schemes and credit rating upgrade by Fitch Ratings (to BB+ stable outlook) are also positive signs for foreign investors.

2024 Vietnam's implementation of global minimum tax (OECD Pillar II)

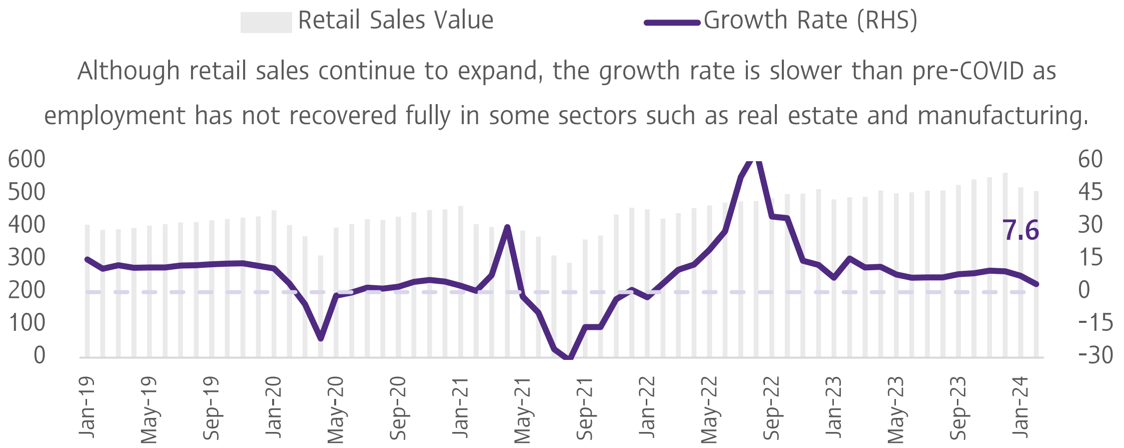
- **Resolution on Global Minimum Tax was passed** by the National Assembly and will apply for tax year 2024
- **Multinationals with consolidated annual revenues of EUR 750 million or more for at least 2 out of the past 4 years** are subjected to the new tax resolution
- **A top-up corporate income tax will be applied if effective tax rate is below 15%**
- **Vietnam is drafting an investment support fund** via reimbursements

Source: SCB EIC analysis based on data from the Ministry of Planning and Investment, Vietnam Briefing, DFDL, and international news agencies

Domestic consumption is growing as incomes and employment recover, partly driven by an improvement in the manufacturing sector. However, retail sales growth has not yet reached pre-COVID levels.

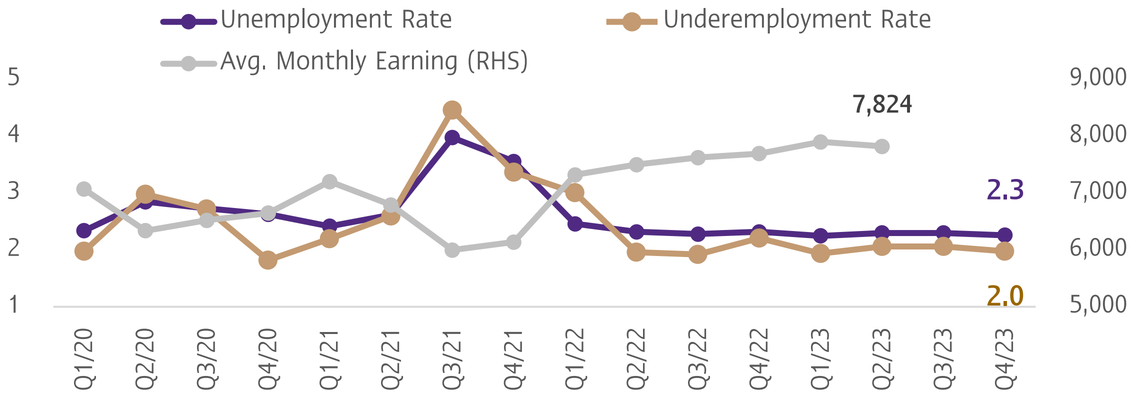
Retail sales

Unit: VND trillion Unit: %YOY



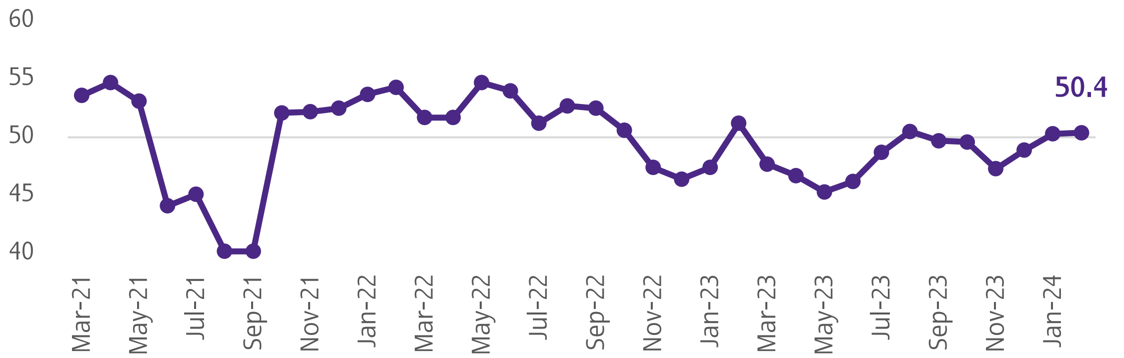
Unemployment rates and average monthly earnings

Unit: % Unit: VND thousand



Manufacturing PMI

Unit: index (>50 indicates expansion, seasonally adjusted)



Insights from Manufacturing PMI (Feb24):

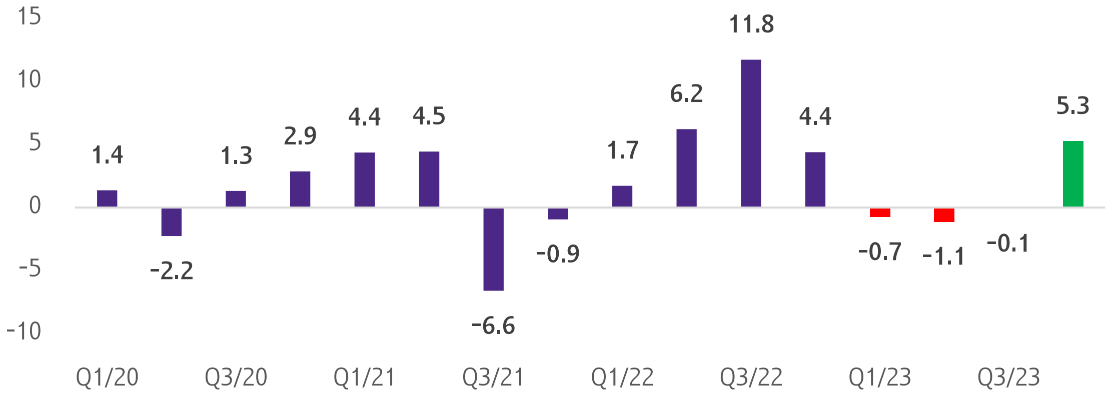
1. **The manufacturing sector is recovering gradually**, with output and new orders rising. Output grew in the consumer and capital goods sector, but intermediate goods declined.
2. **Employment in the manufacturing sector rose by the most in a year** and turned positive for the first time in four months. Nonetheless, some hires may be temporary.
3. **Business confidence rose to a one-year high**, with about 55% expressing optimism, likely reflecting hopes for a gradual rebound, especially during the New Year.
4. **Firms preferred to use their inventory of raw materials** rather than purchasing, suggesting some cautiousness for the outlook of future demand.
5. **Input costs rose** from higher oil price and shipping disruptions. Some manufacturers partially passed these costs on to consumers.

Source: SCB EIC analysis based on data from the General Statistics Office and S&P Global

A slowdown in the residential real estate sector caused by liquidity shortages and tight financial conditions may impede Vietnam's recovery. Nonetheless, the situation is gradually improving.

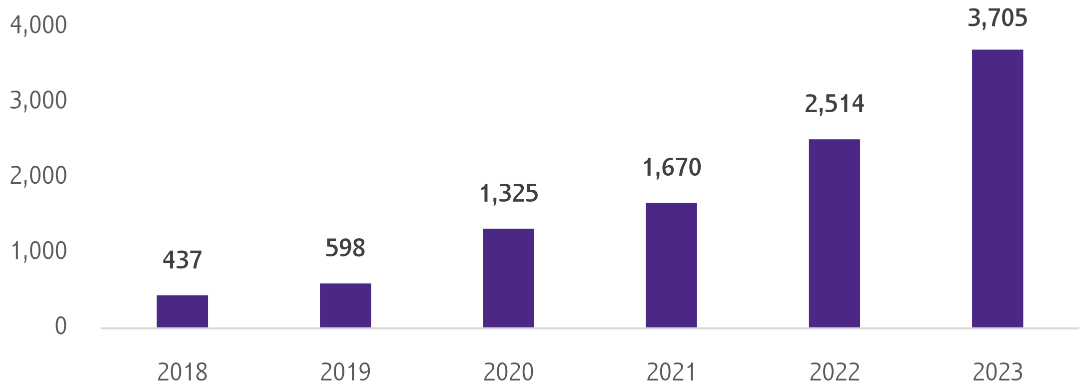
GDP growth by industry: real estate activities

Unit: %YOY



Number of real estate businesses temporarily suspended

Unit: businesses



VNAllshare Real Estate Sector Index

Unit: Index

Although the supply of residential real estate is slowing, demand is more resilient due to a growing population and increasing urbanization.

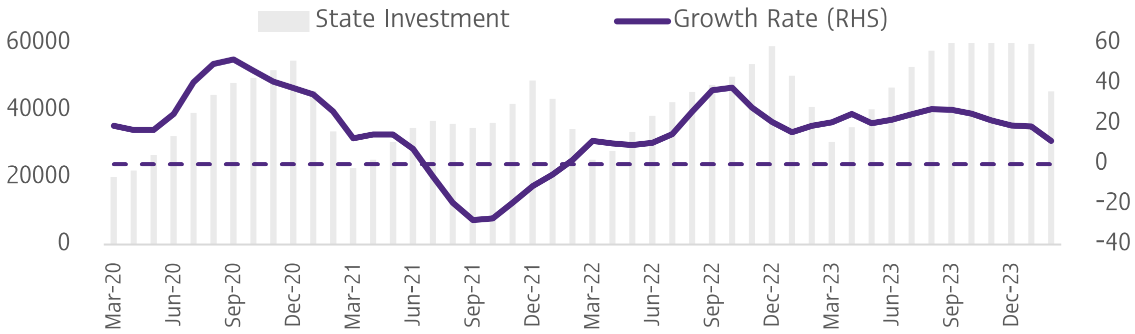
Other types of real estate are expected to be more solid. Industrial real estate still sees demand from foreign investors, while commercial real estate is benefiting from the opening of various luxury shopping centers.

Source: SCB EIC analysis based on data from the General Statistics Office and TradingView

Government stimulus measures will support economic recovery through state investments and tax reductions, although the fiscal stance may be tightened from 2023.

Total disbursement of public investment

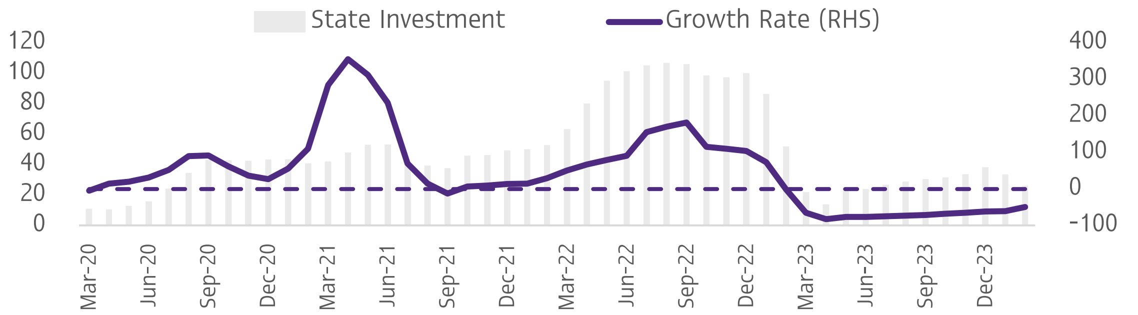
Unit: VND billion (3-month moving average) Unit: %YOY (3-month moving average)



The disbursement of public investment continued to expand in line with the government's short- and medium-term economic stimulus measures.

Disbursement of public investment by Ministry of Construction

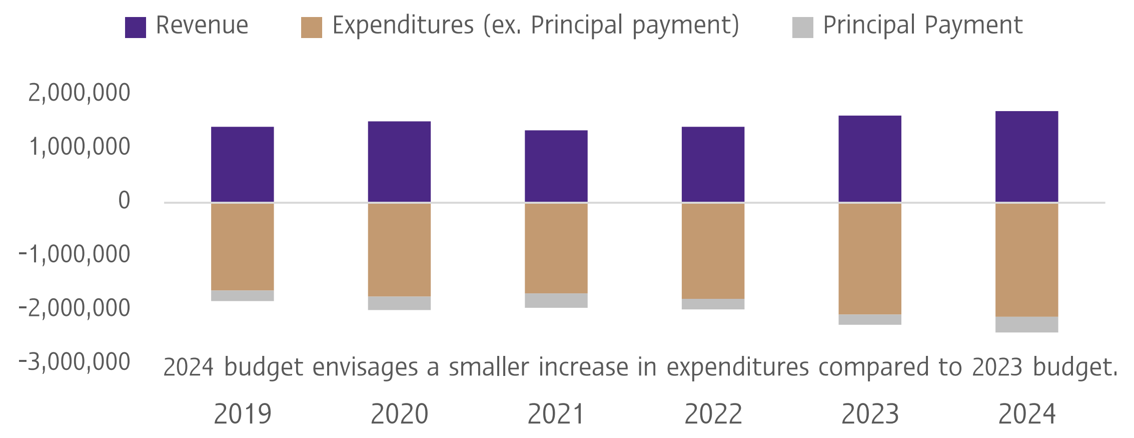
Unit: VND billion (3-month moving average) Unit: %YOY (3-month moving average)



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

State government budget plan

Unit: VND billion



Short- and medium-term government policies to watch

1. VAT reduction

VAT reduction to 8% from 10% approved for extension from Jan1 to Jun30, 2024

2. Just Energy Transition Partnership Mobilization Plan

Outlining Vietnam's path towards GHG reduction and net zero through priority investments, regulatory reforms, and financial commitments

3. Power Development Plan 8

Outlines Vietnam's energy plans towards 2030 with an outlook to 2050 such as electricity demand, energy mix, and financing needs

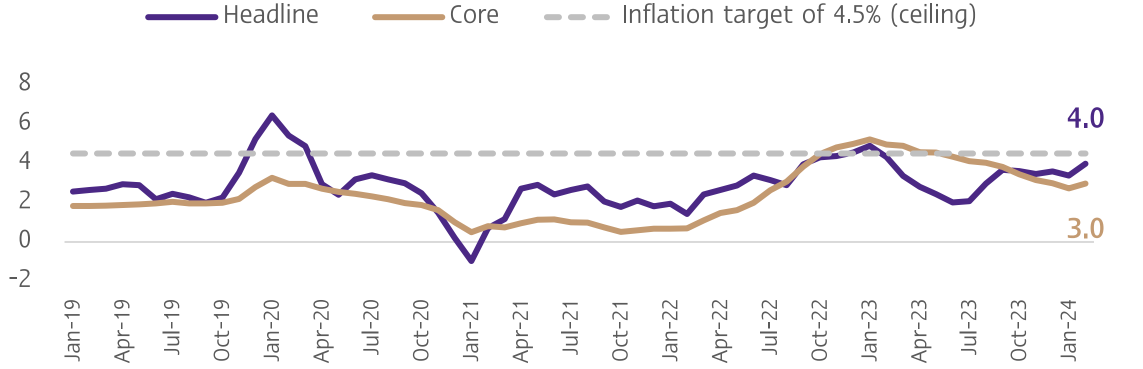
Source: SCB EIC analysis based on data from the General Statistics Office, Vietnam Briefing, DFDL, and international news agencies.

SCB EIC

Despite high services inflation, headline inflation in 2024 will remain below the target following a decline in input prices. This allows the central bank to hold rates to support the economy.

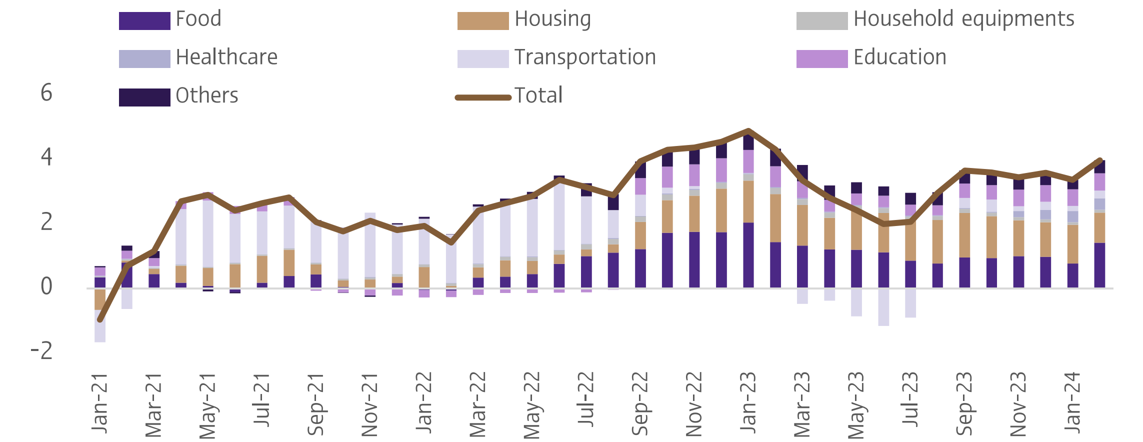
Inflation rate

Unit: %YOY



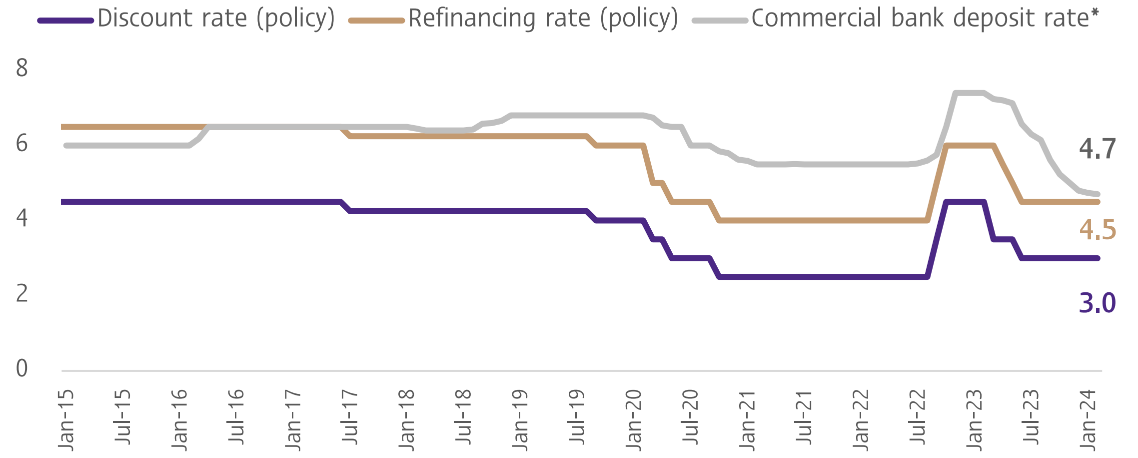
Composition of headline inflation

Unit: %YOY



Policy rates and deposit rate

Unit: %



Although input prices are declining, **inflation may remain elevated in 2024 from:**

1. Demand/supply mismatch for housing keeping prices elevated

2. Rising price hikes in the education and healthcare sector (which are state-administered)

3. **Minimum wage hike 6%** from July 2024

Nonetheless, inflation should remain below target, allowing the central bank to hold rates to support economic recovery. Additional rate cuts are possible, but unlikely as the central bank may be concerned about currency weakness.

Note: *12-month savings account interest rates for individuals of a commercial bank

Source: SCB EIC analysis based on data from the General Statistics Office, State Bank of Vietnam, Vietnam Briefing, and foreign news agencies

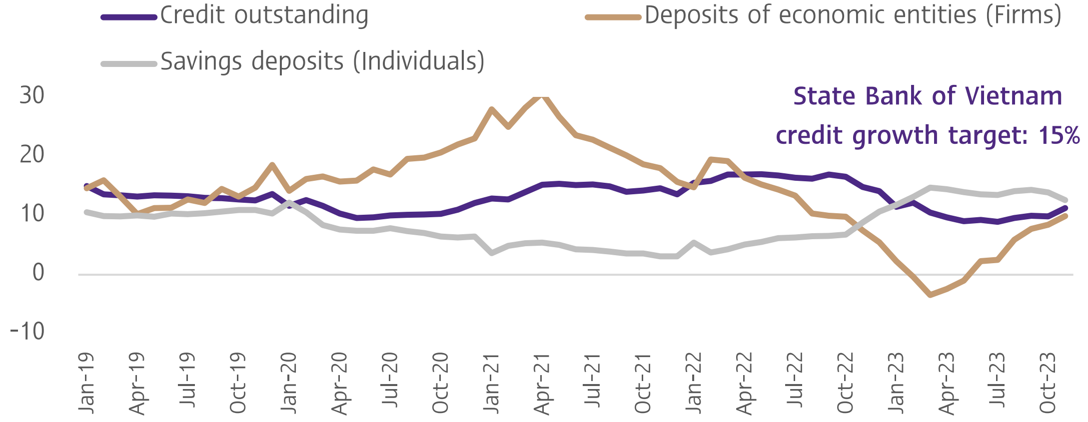
SCB EIC

Financial conditions are easing from the effects of policy rate cuts. However, credit growth is still below target as banks tighten lending in response to a rise in non-performing loans.

Financial conditions are easing

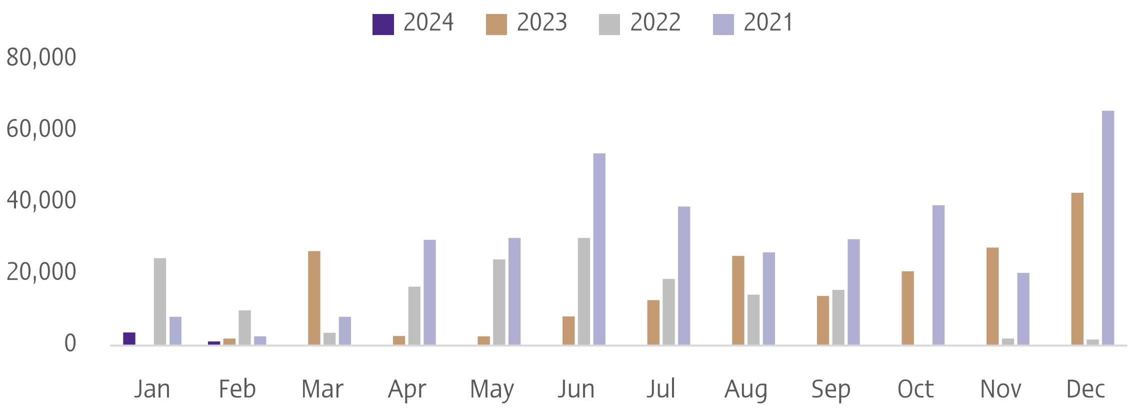
Credit outstanding and deposits growth

Unit: %YOY



Value of new corporate bond issuance

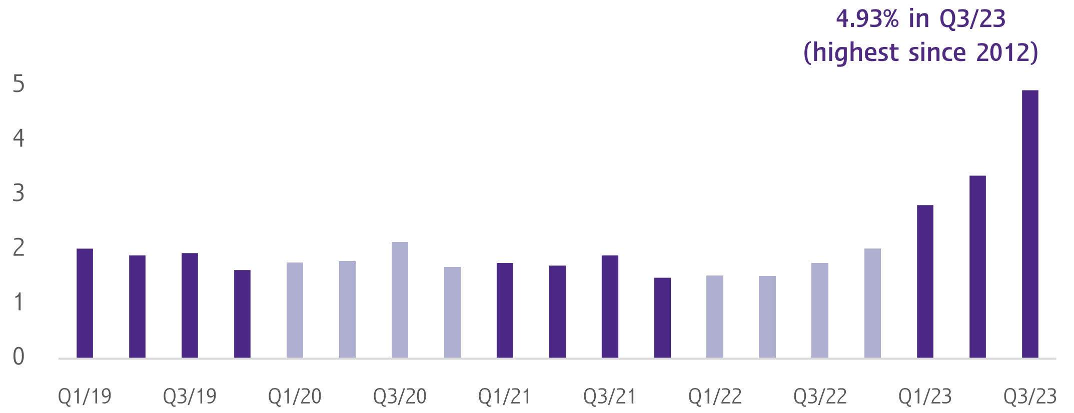
Unit: VND billion



But NPL is on the rise

NPL ratio

Unit: %



- **NPLs are on the rise in 2023-24** as liquidity shortages in businesses have not been fully resolved.
  - **SBV announced a set of aid measures in April 2023,** including debt restructuring and NPL sales to Asset Management Companies, which can partly help control NPLs. **If these measures are discontinued (currently until 30 Jun 24), NPLs could rise further.**
  - **Banks may need to increase provisions**, which will affect banks' profit and loan approval standard.
- **Vietnam's banks have higher CAR than the benchmark of 8%.** However, there are differences in capitalization between banks, which could potentially lead to higher financial system vulnerability in certain areas.
- **Liquidity shortages have resulted in temporary suspension of some businesses**, which could impact business confidence in future investment and employment.
- **SCB EIC expects that the combination of SBV measures** will gradually alleviate the NPL situation. However, new credit approval may remain subdued for a period.

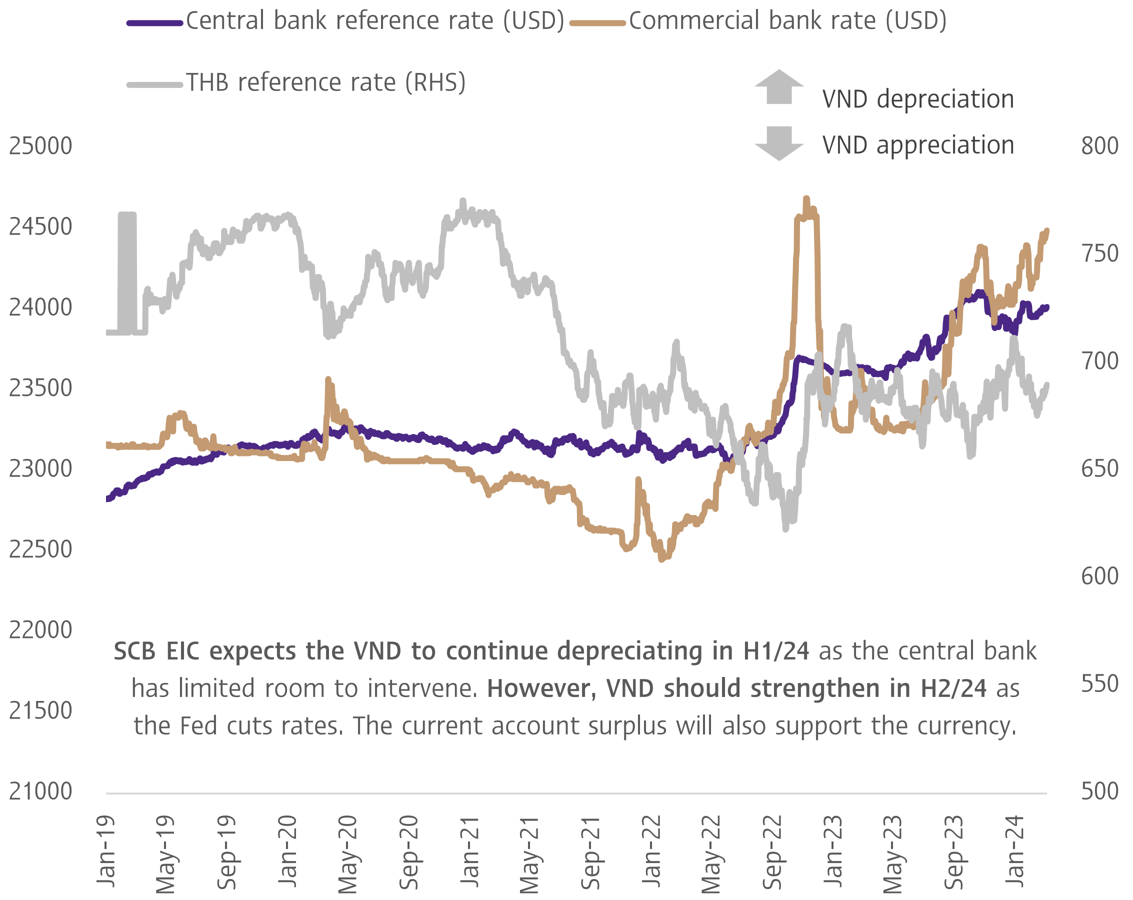
Source: SCB EIC analysis based on data from State Bank of Vietnam and Vietnam Bond Market Association

SCB EIC

VND may face depreciation pressures against the USD as financial markets reduce expectations of a Fed rate cut. In addition, Vietnam prefers to maintain its foreign reserves level above the benchmark.

Exchange rate

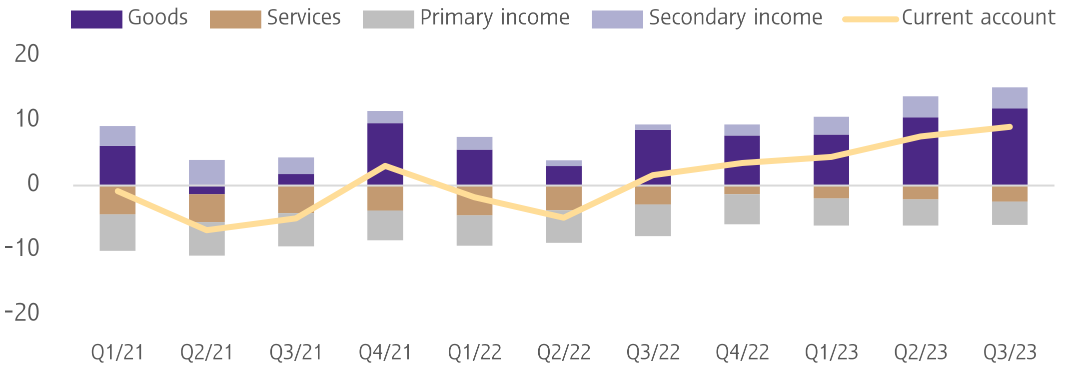
Unit: USD/VND | Unit: THB/VND



SCB EIC expects the VND to continue depreciating in H1/24 as the central bank has limited room to intervene. **However, VND should strengthen in H2/24** as the Fed cuts rates. The current account surplus will also support the currency.

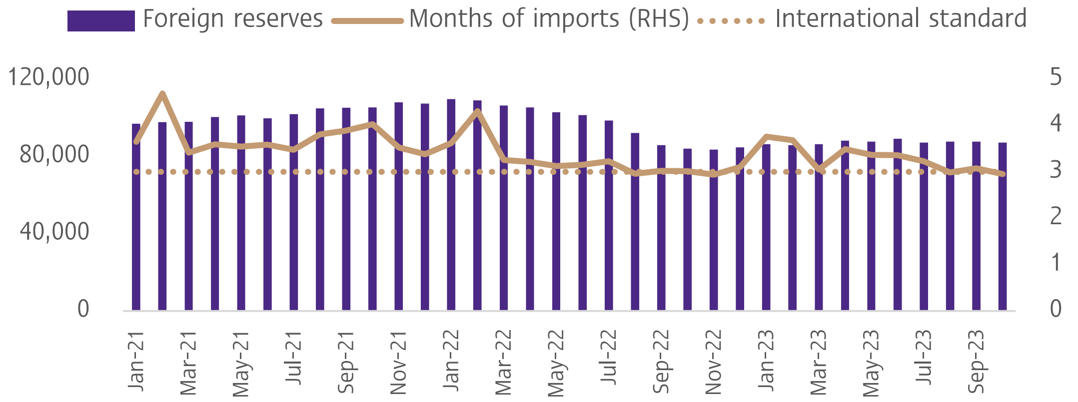
Current account balance

Unit: % of GDP



Foreign Reserves

Unit: USD million | Unit: Months of imports



Source: SCB EIC analysis based on data from the State Bank of Vietnam, Joint Stock Commercial Bank for Foreign Trade of Vietnam, Bank of Thailand, and the IMF

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