

Asian Economies: Weak Currencies and Strong Fundamentals

April 22, 2024

Main messages



Recent developments



Asian currencies accelerated their depreciating trend recently, mainly due to the expectation of a protracted period of high US rates. The weakness of currency has already prompted the central bank of Indonesia to intervene into the FX market while other central banks are still weighing further steps.



Measured monetary policy in the region



Behind their currency weakness is central banks' measured tightening in the region. A number of factors are at play: (i) relatively tamed inflation; (ii) monetary easing in China and Japan; (iii) export-oriented growth model. Compared to their peers, Asian economies appeared to be slower in following US rate hikes previously.



Solid growth outlook



The growth outlook in the region remain solid. Regional economies will benefit from the ongoing recovery of China as well as Japan. The pickup of the global electronic cycle is to boost the manufacturing sectors while the nearshoring trend leads to more investment in some winner economies.



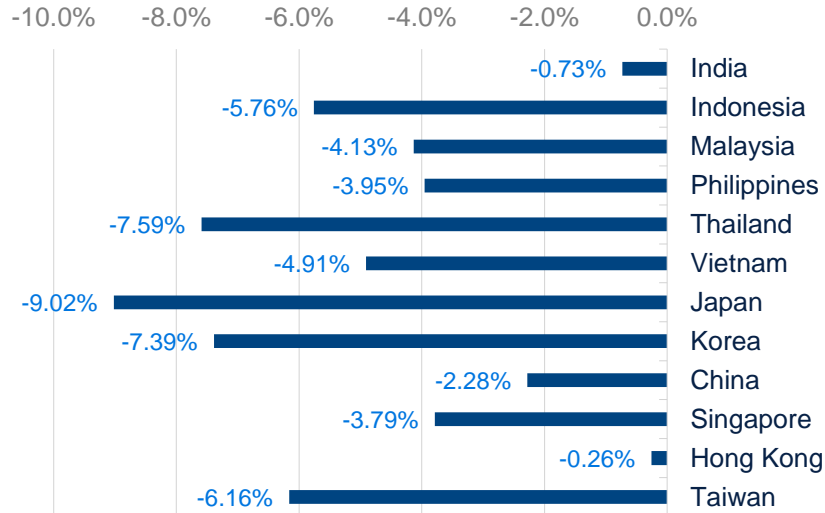
Risks manageable



Overall, the negative impact of currency depreciation is limited in the region and unlikely to endanger financial stability. Most macro indicators are in good shape currently. In some countries, short-term foreign debt as % of foreign reserves are a bit higher than previous stress periods but still manageable (Malaysia might be an exception but it has been managing its capital account cautiously).

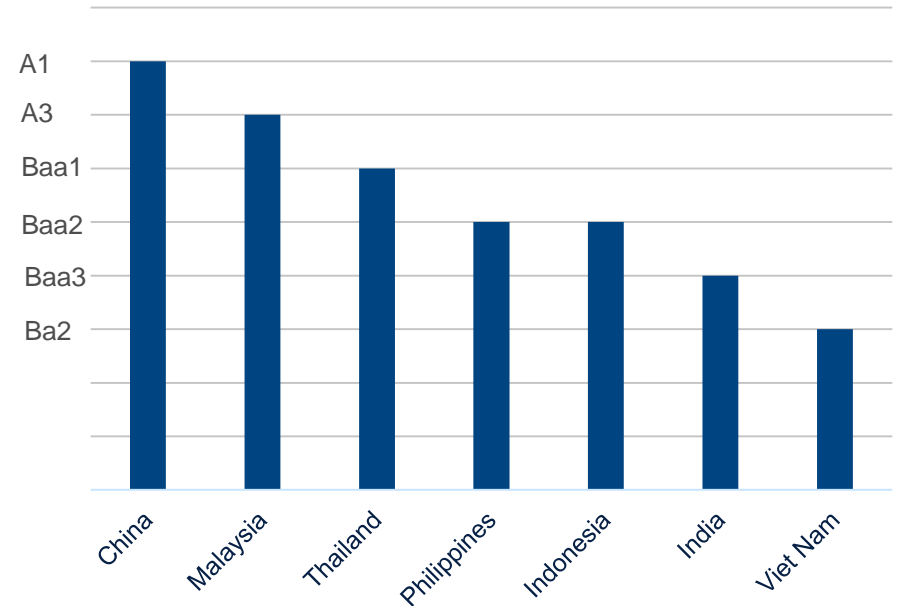
...currencies depreciation at the beginning of 2024 due to Fed's rate cut expectations while sovereign credit ratings remain unchanged

CURRENCIES DEPRECIATION (AGAINST USD YTD % 2024)



Source: BBVA Research based on data from Bloomberg.

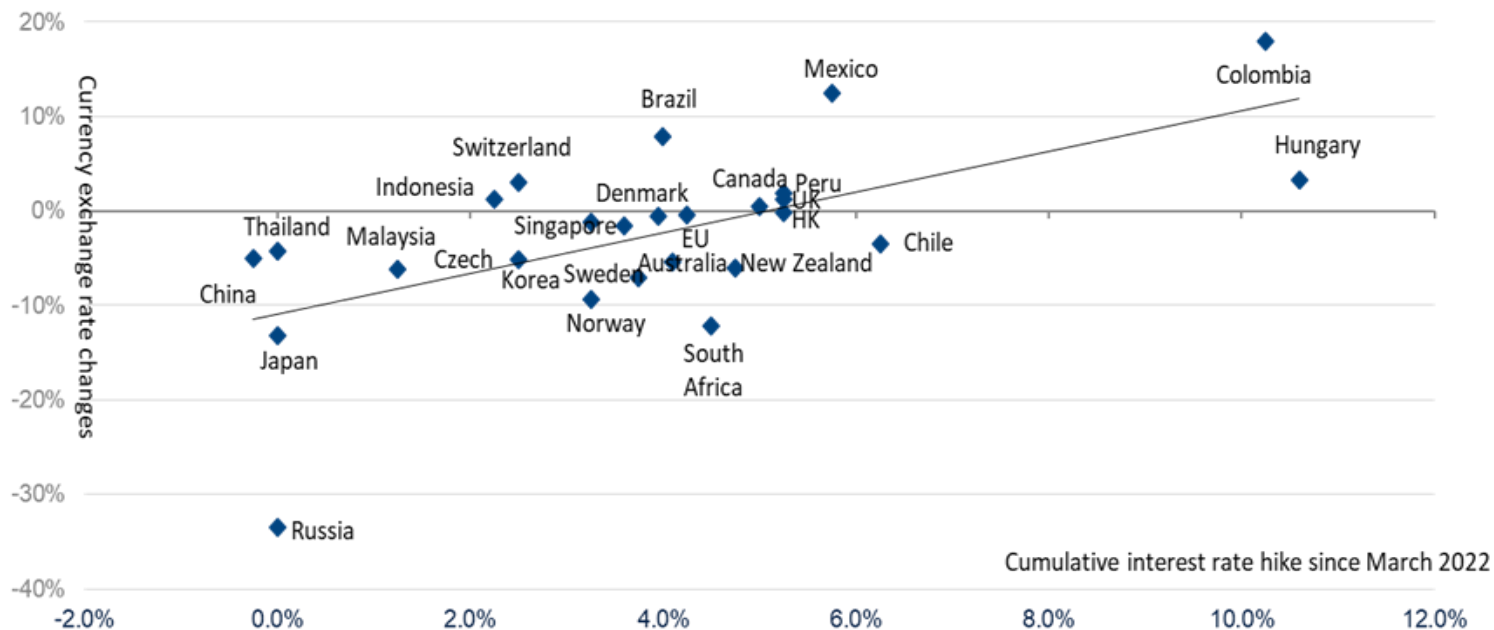
MOODY DOWNGRADED CHINA'S CREDIT OUTLOOK TO NEGATIVE WHILE RETAIN THE A1 RATING



Source: BBVA Research based on Moody's website

Underperformance of Asian currencies can be explained by their measured interest hikes...

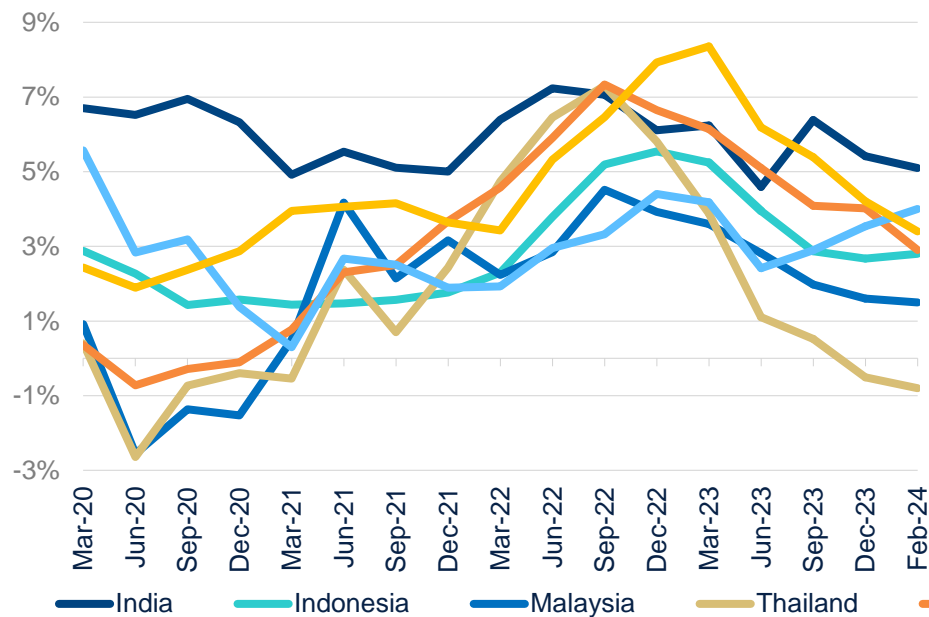
INTEREST RATE VERSUS EXCHANGE RATE (2023)



... which stemmed from tame inflation and independent policy conducts of China and Japan

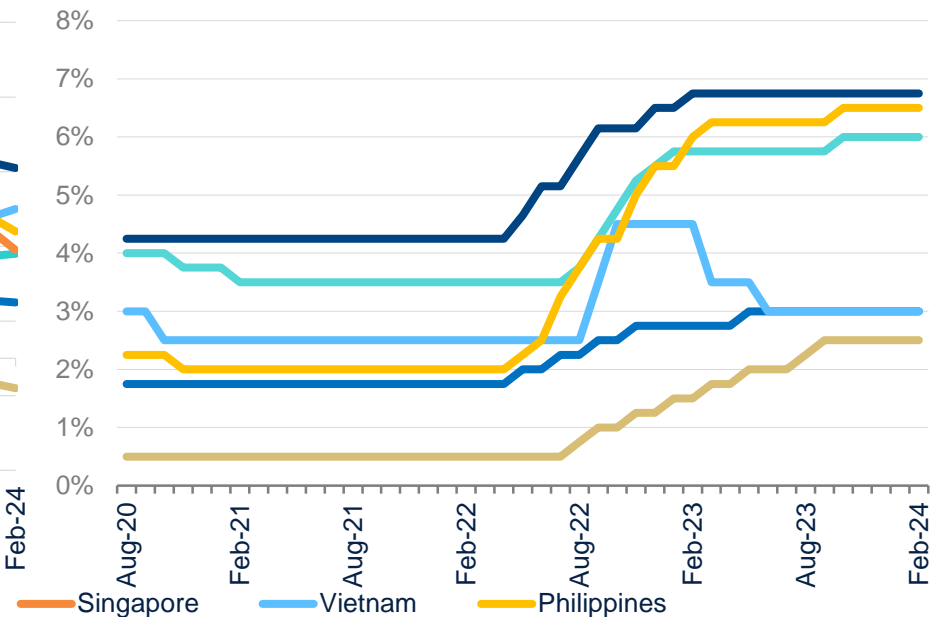
INFLATION

(% YoY, QUARTERLY DATA)



CENTRAL BANKS POLICY RATES

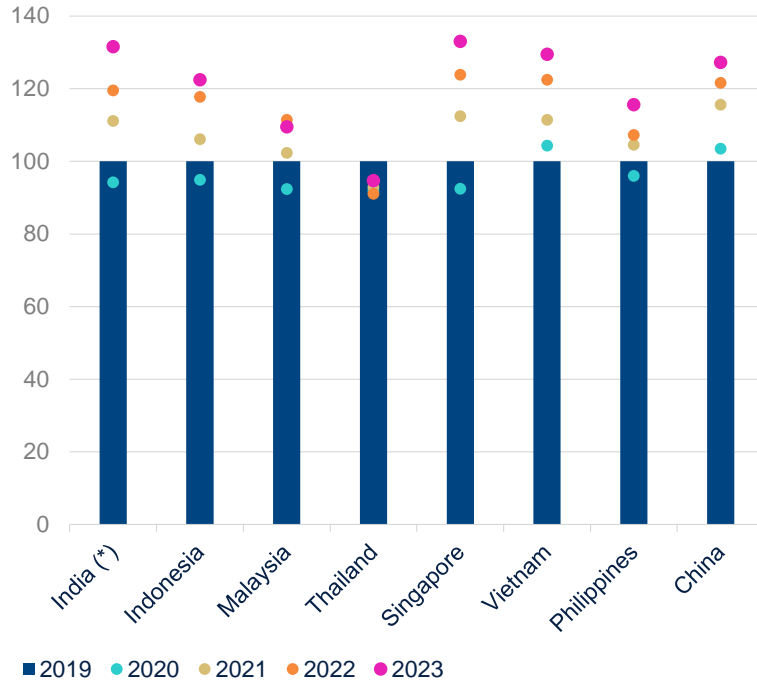
(% MONTHLY AVERAGE)



Economic outlook of the region remain solid

NOMINAL GDP GROWTH

(2019=100)



Source: BBVA Research based on data from CEIC
*India 2023 estimates.

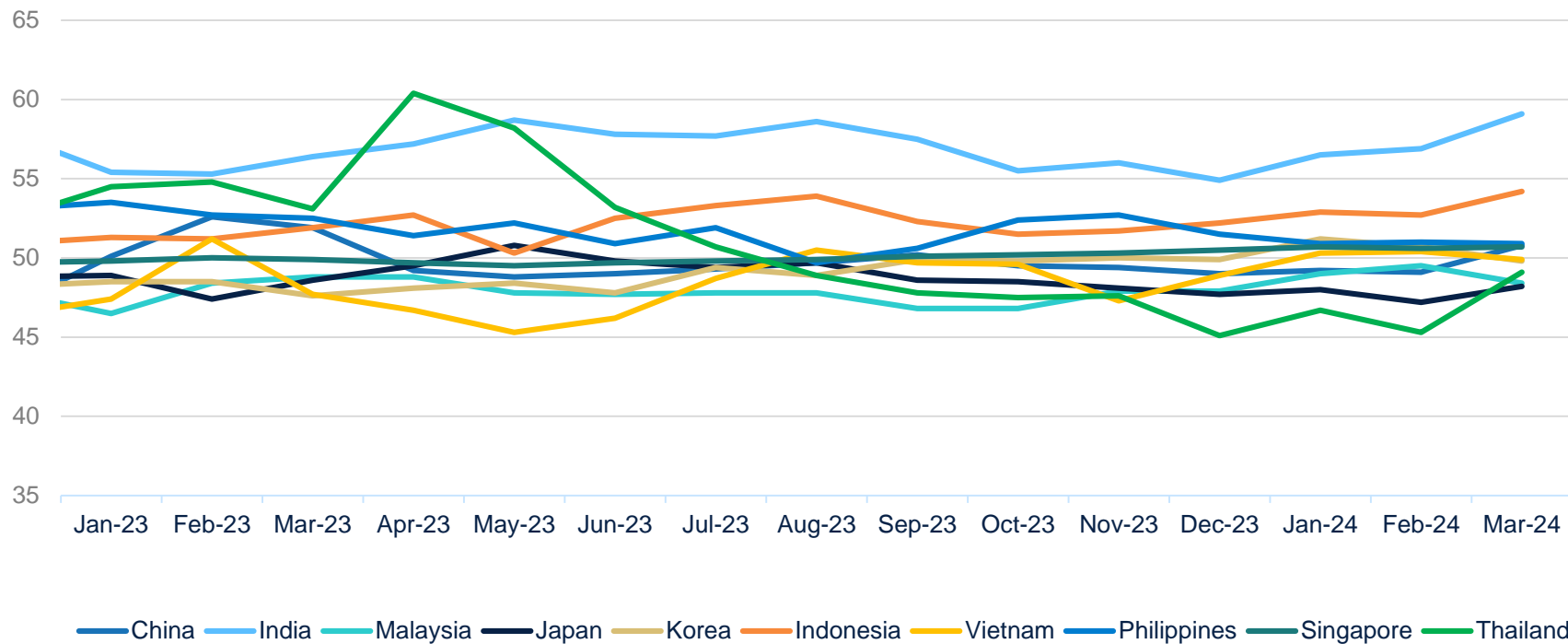
REAL GDP GROWTH AND FORECAST (%)

	2023	2024
India	7.8%	6.8%
Philippines	5.6%	7.0%
China	5,2%	4,6%
Indonesia	5,0%	5,0%
Malaysia	3,7%	4,3%
Singapore	1.1%	2,1%
Thailand	1.9%	3,2%
Japan	1.9%	0.9%
South Korea	1.5%	2.2%
Vietnam	5.1%	5.8%
Southeast Asia	5.2%	4.6%
World	3.0%	2.9%

Source: BBVA Research based on IMF World Economic Outlook (2024 April).

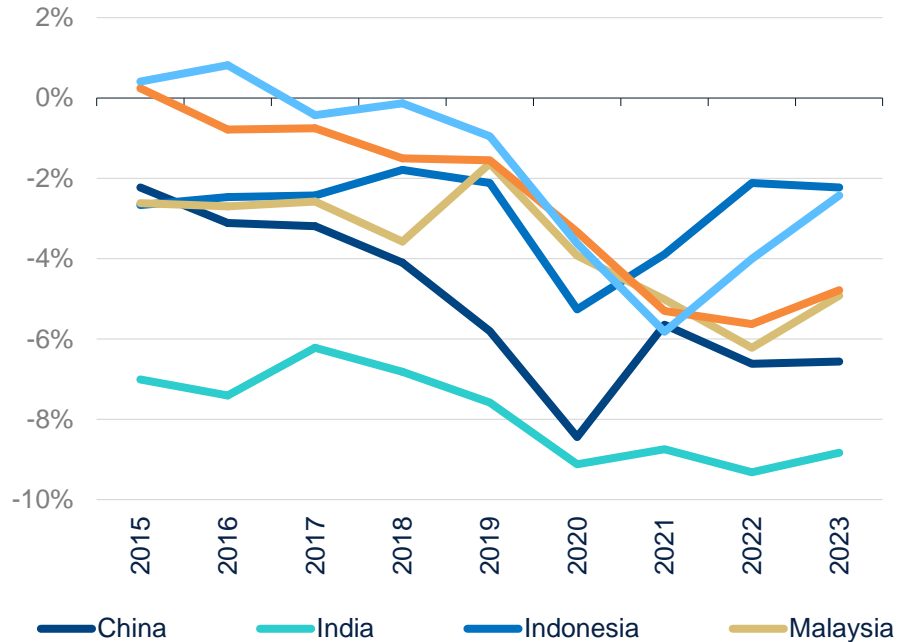
Manufacturing PMIs for India and Indonesia are in the expansion territory for more than two years

MANUFACTURING PMI INDEX

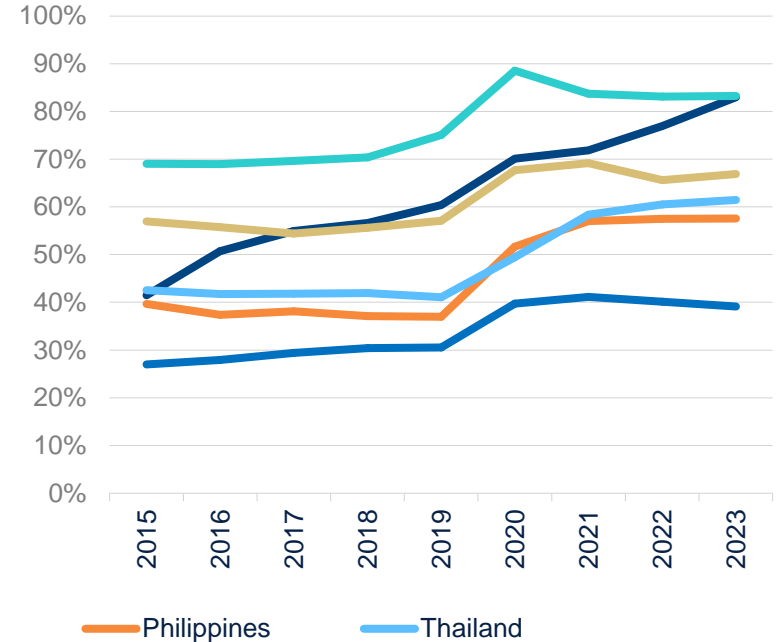


Government spending and debt might face some challenges in the long-term

FISCAL BALANCE TO GDP (%)

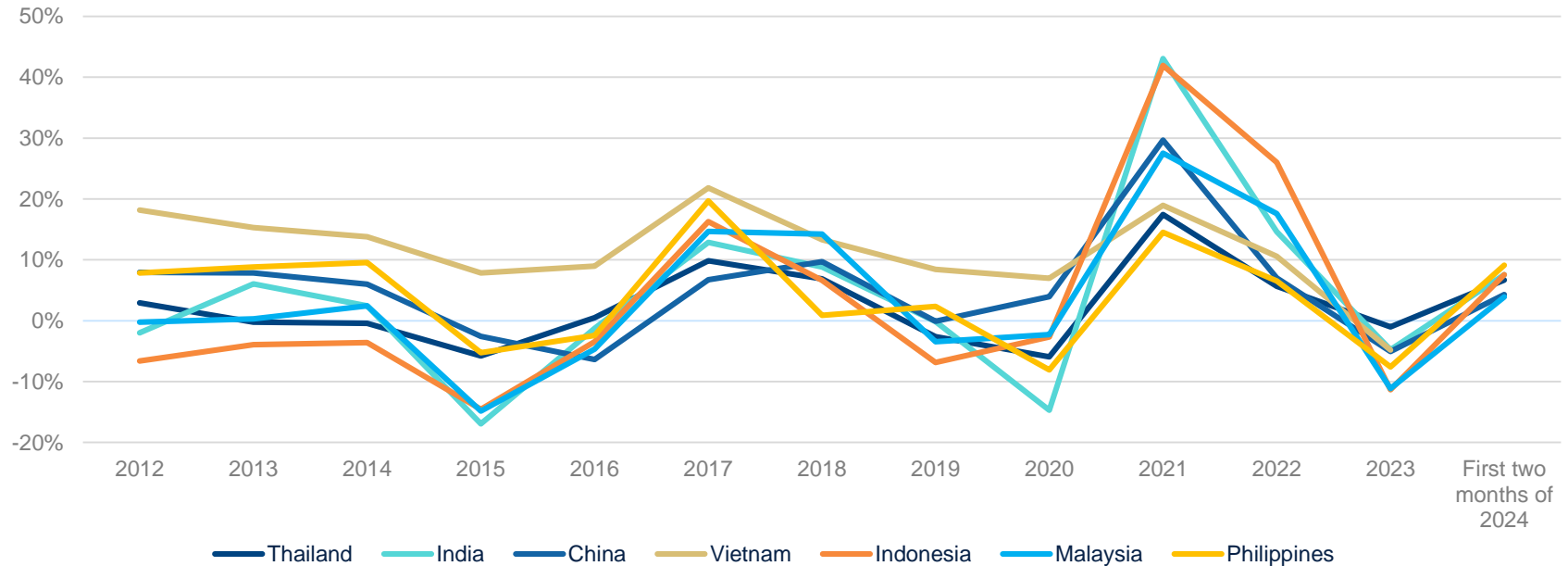


GROSS DEBT TO GDP (%)



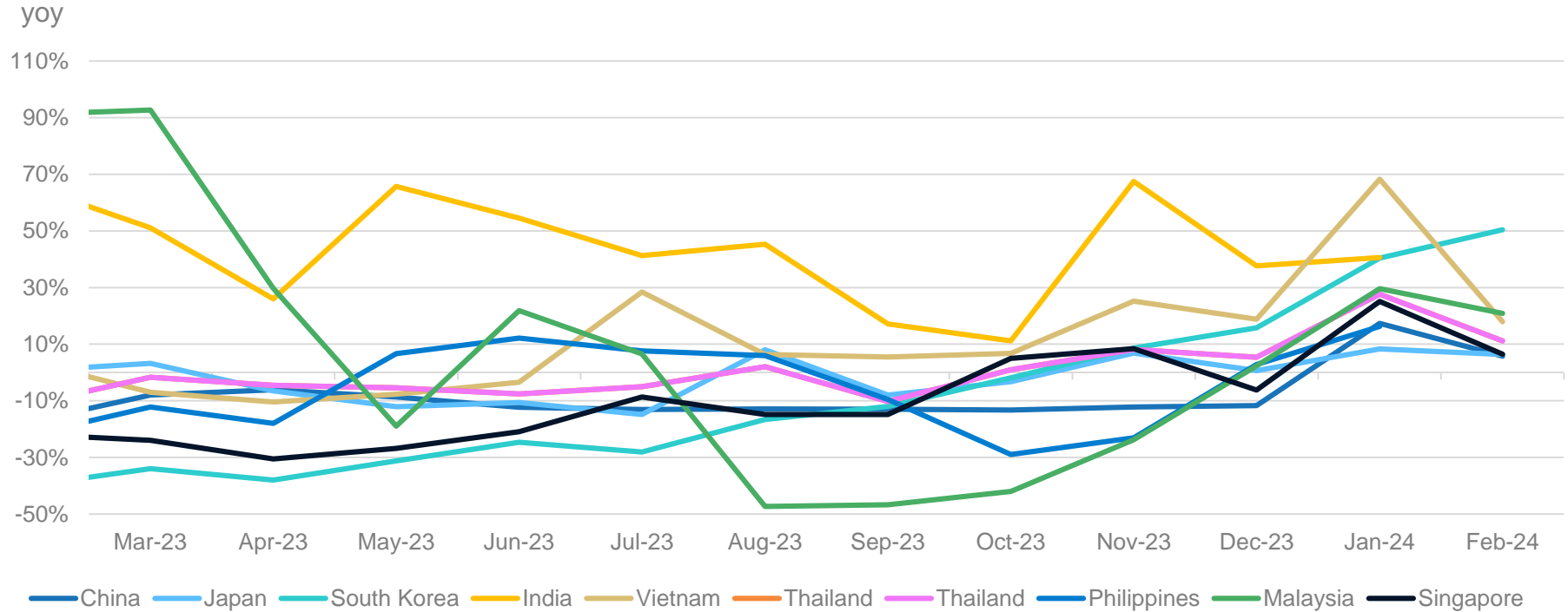
Exports rebounded from the beginning of the year...

ANNUAL EXPORTS GROWTH (YoY %)



... in part driven by global electronic cycle

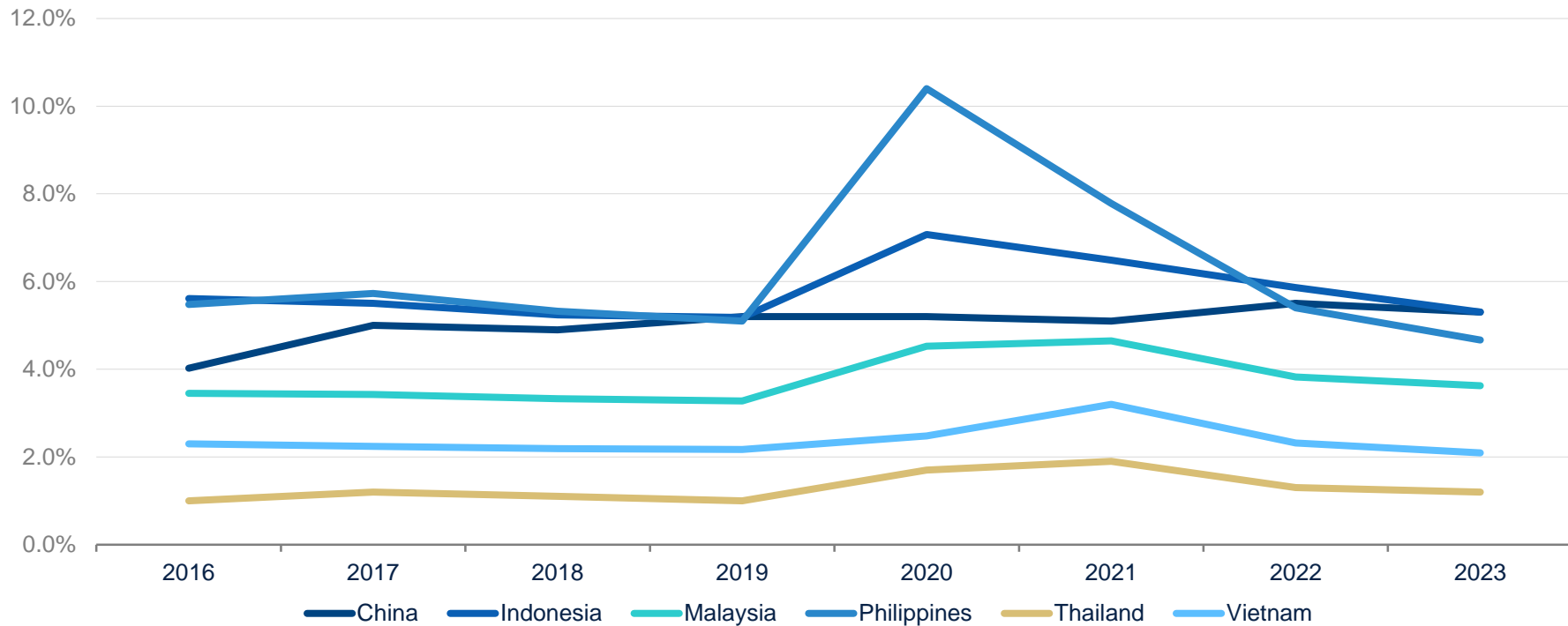
TMT PRODUCT EXPORTS OF ASIAN COUNTRIES (%)



Unemployment rate fell back to pre-Covid level

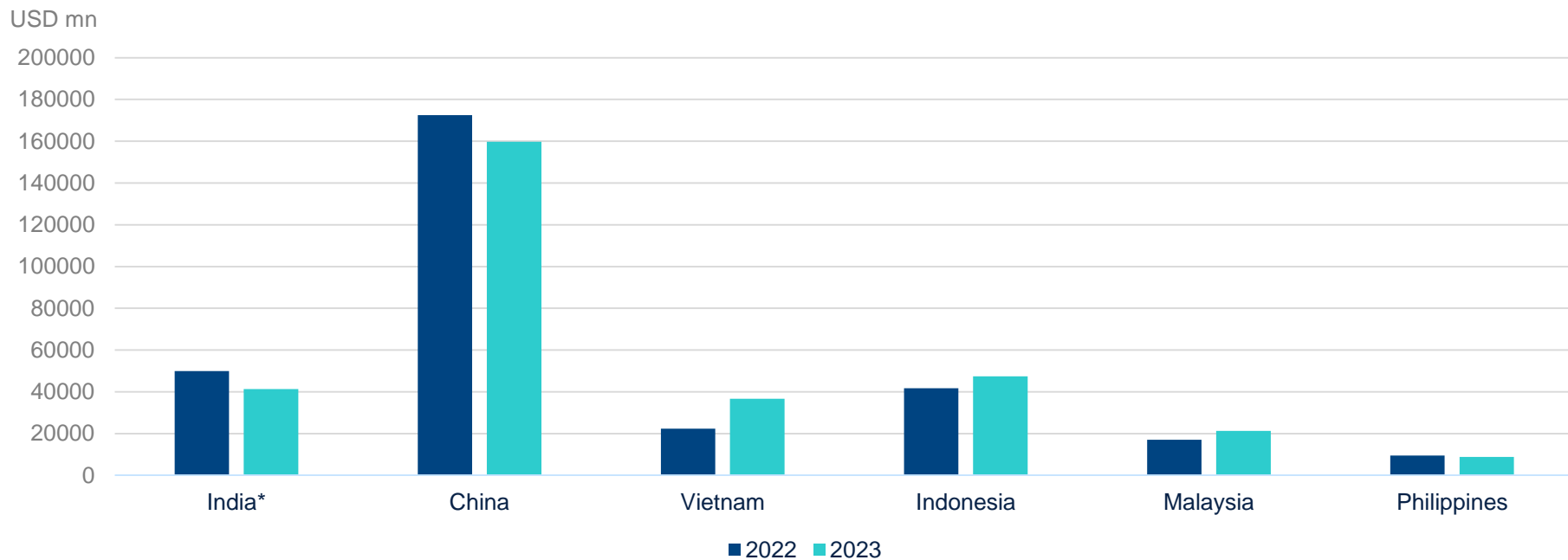
PERCENTAGE OF TOTAL LABOR FORCE

(%)



Inward FDI declined in China and India while pivoting to other countries

ANNUAL INWARD FDI, NET (USD mn)



In some emerging economies, the rise of short-term warrant closer monitor (1)

		Current account balance as % of GDP	Total foreign debt as % of GDP	Fiscal balance as % of GDP	Short-term foreign debt as % of foreign reserves
Indonesia	Taper Tantrum (2013Q4)	-2.05%	31.03%	-3.99%	42.98%
	Pandemic (2020Q4)	0.48%	38.15%	-6.97%	32.19%
	Post-Pandemic (2023Q4)	-0.2% (*)	28.1% (*)	-2.3%	49.3%
Malaysia	Taper Tantrum (2013Q4)	4.20%	64.61%	-2.49%	76.42%
	Pandemic (2020Q4)	4.89%	65.26%	-2.50%	86.90%
	Post-Pandemic (2023Q4)	1.20%	63.26%	-5.0%	119%
Philippines	Taper Tantrum (2013Q4)	3.81%	27.62%	-0.76%	19.71%
	Pandemic (2020Q4)	3.53%	25.91%	-8.07%	11.71%
	Post-Pandemic (2023Q4)	-3.2%	27.43% (*)	-6.2% (*)	28.5% (*)
India	Taper Tantrum (2013Q4)	-0.30%	22.40%	-5.25%	33.10%
	Pandemic (2020Q4)	0.19%	20.90%	-6.17%	22.40%
	Post-Pandemic (2023Q4)	-4.87% (*)	18.61% (*)	-6.70%	20.7% (*)
Thailand	Taper Tantrum (2013Q4)	1.59%	34.80%	-4.13%	33.80%
	Pandemic (2020Q4)	-0.06%	36.35%	-5.89%	25.86%
	Post-Pandemic (2023Q4)	1.3%	37.5%	-3.2% (*)	35.0% (*)
Vietnam	Taper Tantrum (2013Q4)	2.70%	37.30%	-4.75%	
	Pandemic (2020Q4)	1.90%	47.90%	-3.10%	
	Post-Pandemic (2023Q4)	3.4% (*)	37.50% (*)	-2.9 % (*)	

(*) 2023Q3

Source: BBVA Research based on data from Haver, CEIC, IMF

In some emerging economies, the rise of short-term warrant closer monitor (2)

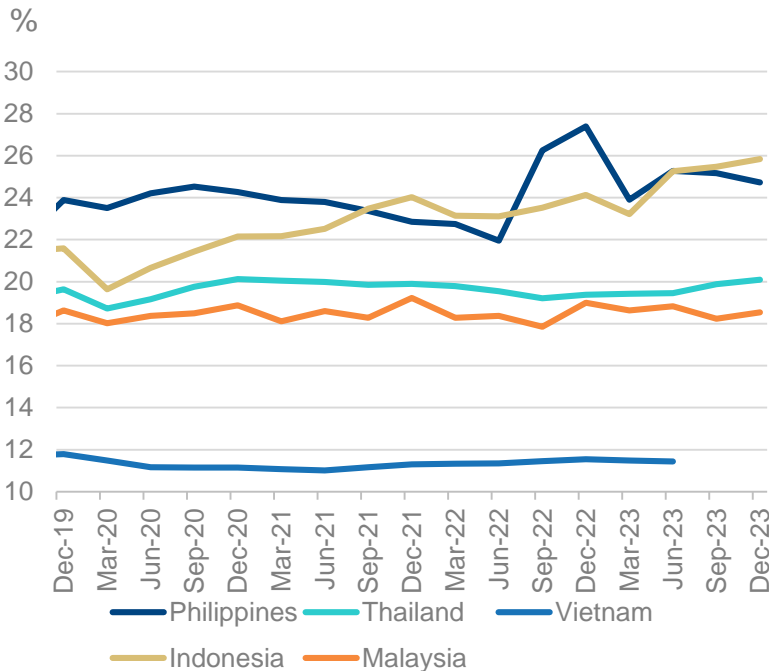
		Current account balance as % of GDP	Total foreign debt as % of GDP	Fiscal balance as % of GDP	Short-term foreign debt as % of foreign reserves
China	Taper Tantrum (2013Q4)	1.54%	8.95%	-0.9%	32.93%
	Pandemic (2020Q4)	1.67%	16.34%	-6.2%	36.40%
	Post-Pandemic (2023Q4)	1.5%	13.75%	-4.6%	29.41%
Japan	Taper Tantrum (2013Q4)	0.88%	58.99%	-7.5%	171.60%
	Pandemic (2020Q4)	2.97%	92.60%	-9.1%	247.24%
	Post-Pandemic (2023Q4)	3.50%	106.85%	-5.3%	266.20%
South Korea	Taper Tantrum (2013Q4)	5.64%	30.77%	0.9%	31.79%
	Pandemic (2020Q4)	4.62%	33.47%	-3.7%	36.09%
	Post-Pandemic (2023Q4)	2.1%	38.76%	-1.9% (*)	32.17%
Singapore	Taper Tantrum (2013Q4)	15.71%	436.02%	1.5%	380.32%
	Pandemic (2020Q4)	16.45%	488.40%	-10.7%	306.23%
	Post-Pandemic (2023Q4)	19.8%	391.10%	-1.0%	437.28%
Hong Kong	Taper Tantrum (2013Q4)	1.52%	420.9%	1.0%	274.33%
	Pandemic (2020Q4)	-0.06%	518.4%	-8.7%	210.91%
	Post-Pandemic (2023Q4)	7.7% (*)	480.1%	-3.4%	270.38%
Taiwan	Taper Tantrum (2013Q4)	11.63%	33.17%	-3.1%	37.34%
	Pandemic (2020Q4)	15.39%	28.20%	-1.0%	33.09%
	Post-Pandemic (2023Q4)	13.9%	27.34%	-1.5% (*)	34.45%

(*) 2023Q3

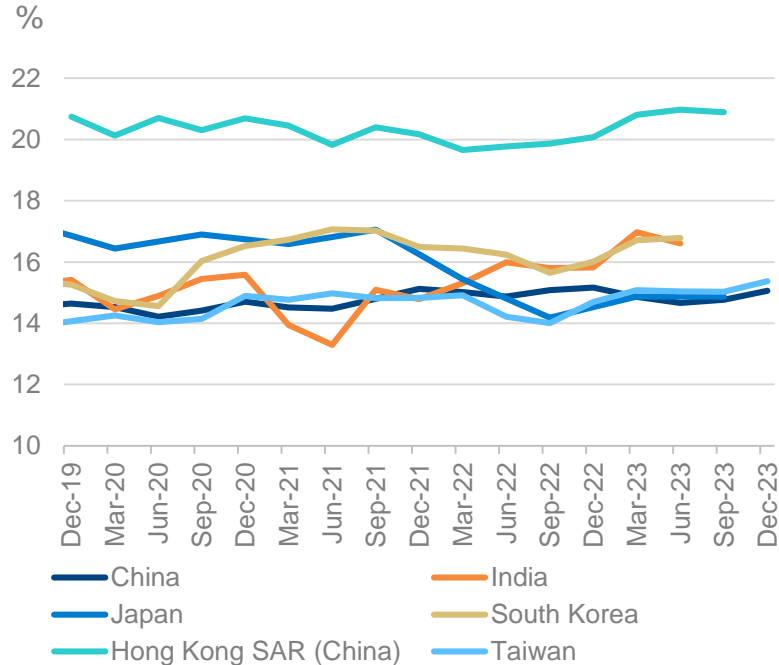
Source: BBVA Research based on data from Haver, CEIC, IMF

Capital adequacy ratio in most Asian countries remained sufficient

CAPITAL ADEQUACY RATIO IN ASEAN COUNTRIES



CAPITAL ADEQUACY RATIO IN OTHER ASIAN COUNTRIES



Source: BBVA Research based on data from CEIC

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