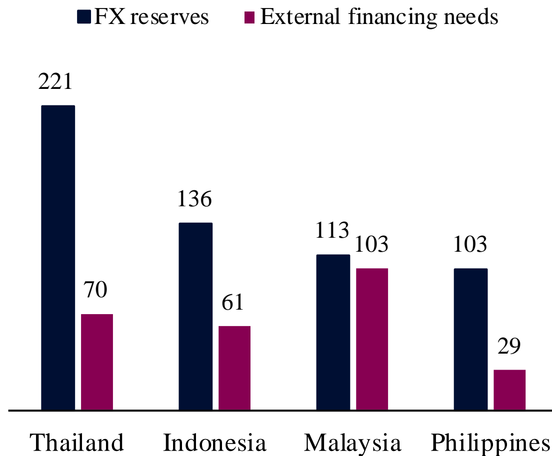
How are ASEAN economies facing external shocks?

Emerging markets tend to be more vulnerable to external shocks or disruptive negative events. This is particularly the case for countries with large external financing needs, which covers both the funding requirements for the current account deficit and for the amortization of external debt.

During challenging times, when global economic or financial conditions are difficult, capital flows can dry up or reverse, making it even more difficult to fund external needs without drawing down FX assets. Hence, it is important to track and analyse different measures of external vulnerability in EM. In this article, we focus the analysis on the large Southeast Asian (ASEAN) economies of Indonesia, Thailand, Malaysia and the Philippines.

FX reserves and external finance needs in 2024
(USD Bn)

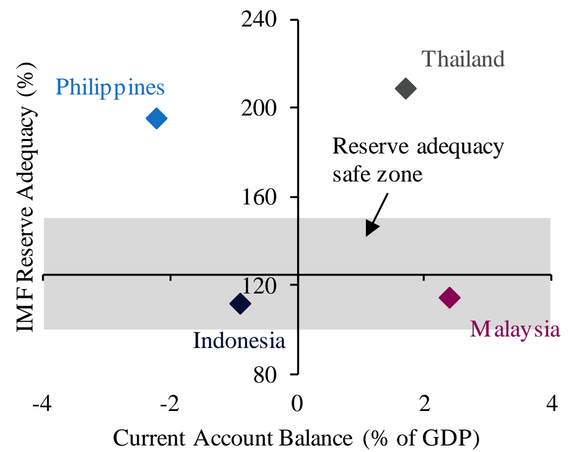


Sources: Haver, IIF, QNB analysis

We assess external vulnerability along two dimensions: the external financing needs and the overall level of official FX reserves. Countries with large external financing needs are required to finance it either with additional foreign capital or drawing down their own FX wealth.

Official FX reserves can be an important backstop to absorb external shocks. However, the level of FX reserves should be considered in context, including not only short-term external financing needs but also other key macro metrics. Traditionally, a country's FX reserves are considered within adequate levels whenever they range above 3 months of imports and they are enough to cover for 20% of the overall volume of local currency held by the public or at least for a full year of external debt obligations. The International Monetary Fund (IMF) created a useful composite indicator for such measures, called the IMF reserve adequacy metric. Countries are deemed to hold adequate levels of FX reserves whenever they can cover the 100-150% threshold of the IMF metric.

Current account and reserve adequacy metrics
(2024 estimates and projections)



Sources: Haver, IMF, QNB analysis

Our analysis delves into the current account position and FX reserves of the ASEAN countries we are analysing, drawing conclusions about their resilience against potential global or regional shocks.

Despite a high exposure to the global economic cycle (manufacturing exports and tourism), Thailand is still in a good position to weather sudden changes in capital flows. Even with international tourism still significantly below pre-pandemic levels, the situation remains stable. The country continues to run sizable current account surpluses, which helped it amass USD 221 Bn in official FX reserves, comfortably covering 209% of the IMF reserve adequacy metric.

Malaysia, a big producer of both manufacturing goods and commodities, is another resilient ASEAN economy. Like Thailand, the country had also run persistent current account surpluses for years. As a

net oil and soft commodity exporter, Malaysia has been positively affected by the overall strength of commodity markets in recent years, which resulted in a bigger current account surpluses. Malaysia's reserve adequacy metrics are much tighter than those for Thailand, with the central bank holding almost half of the amount of FX reserves that Thailand holds at USD 113 Bn. However, Malaysia is still in the safe zone of the IMF reserve adequacy metric with a 115% coverage.

The Philippines is a net external borrower, which means that it runs current account deficits. With a large trade deficit that is currently only partially offset by sizable inflows of remittances from the community of Philippine expatriate workers, the country is expected to run a current account deficit that amounts to around 2% of GDP. While the deficits are partially driven by a healthy push for much needed investment, the deterioration of the external position has so far been sizable. However, monetary authorities control ample FX reserves. Official reserves of USD 103 Bn cover 196% of the IMF reserve adequacy metric.

Indonesia, traditionally the large ASEAN country most exposed to potential external shocks, is now back to a current account deficit position. This comes after a short hiatus benefiting from a commodity boom that has propped up its external revenues, due to high prices for coal, gas and palm oil. In fact, the country is now expected to run a current account deficit of about 1% of GDP this year. The deficit is expected to last for longer, as the delivery of a sizable pipeline of capital expenditure projects will require more imports. Indonesian official FX reserves amount to USD 136 Bn, covering 112% of the IMF reserve adequacy metric.

All in all, large ASEAN economies are relatively resilient to sudden changes in risk sentiment and capital flows. Such resilience is a major source of support in a context of higher uncertainty associated with global monetary conditions and regional FX volatility.

QNB Economics Team:

Luiz Pinto*
Assistant Vice President - Economics
+974-4453-4642
* Corresponding author

Bernabe Lopez Martin
Senior Manager - Economics
+974-4453-4643

DISCLAIMER: *The information in this publication ("**Information**") has been prepared by Qatar National Bank (Q.P.S.C.) ("**QNB**") which term includes its branches and affiliated companies. The Information is believed to be, and has been obtained from, sources deemed to be reliable; however, QNB makes no guarantee, representation or warranty of any kind, express or implied, as to the Information's accuracy, completeness or reliability and shall not be held responsible in any way (including in respect of negligence) for any errors in, or omissions from, the Information. QNB expressly disclaims all warranties or merchantability or fitness for a particular purpose with respect to the Information. Any hyperlinks to third party websites are provided for reader convenience only and QNB does not endorse the content of, is not responsible for, nor does it offer the reader any reliance with respect to the accuracy or security controls of these websites. QNB is not acting as a financial adviser, consultant or fiduciary with respect to the Information and is not providing investment, legal, tax or accounting advice. The Information presented is general in nature: it is not advice, an offer, promotion, solicitation or recommendation in respect of any information or products presented in this publication. This publication is provided solely on the basis that the recipient will make an independent evaluation of the Information at the recipient's sole risk and responsibility. It may not be relied upon to make any investment decision. QNB recommends that the recipient obtains investment, legal, tax or accounting advise from independent professional advisors before making any investment decision. Any opinions expressed in this publication are the opinions of the author as at the date of publication. They do not necessarily reflect the opinions of QNB who reserves the right to amend any Information at any time without notice. QNB, its directors, officers, employees, representatives or agents do not assume any liability for any loss, injury, damages or expenses that may result from or be related in any way to the reliance by any person upon the Information. The publication is distributed on a complementary basis and may not be distributed, modified, published, re-posted, reused, sold, transmitted or reproduced in whole or in part without the permission of QNB. The Information has not, to the best of QNB's knowledge, been reviewed by Qatar Central Bank, the Qatar Financial Markets Authority, nor any governmental, quasi-governmental, regulatory or advisory authority either in or outside Qatar and no approval has been either solicited or received by QNB in respect of the Information.*