QNB Economics
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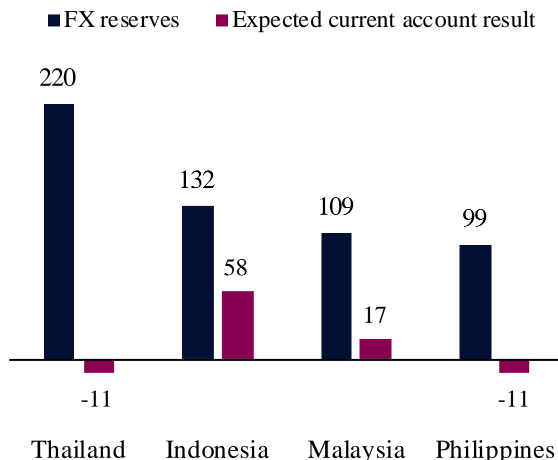
Are ASEAN economies resilient to global financial shocks?

With a strong economic recovery from the temporary collapse produced by different variants of the Covid-19 pandemic since Q4 2020, select emerging markets (EM) in Asia are benefitting from a "great Asian re-opening." However, the tailwinds from the Asian re-opening can be offset by headwinds from global conditions, particularly as commodity prices are still elevated and major central banks are hiking policy rates aggressively. Higher import bills and tighter international financial conditions often pressure the external balances of vulnerable EM. Hence, it is ever more important to track and analyse different measures of external vulnerabilities in EM.

We assess external vulnerability along two dimensions: the current account balance and the overall level of official foreign exchange (FX) reserves. Countries that run current account deficits need to finance it with either foreign capital or drawing down their own FX wealth. 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 deficits without drawing down FX assets. That is why current account balances are an important metric to assess the exposure of countries to capital flows and risk sentiment. The below graph delineates the level of FX reserves versus the expected 2022 current account deficit or surplus.

FX reserves and expected current account in 2022
(USD Bn)

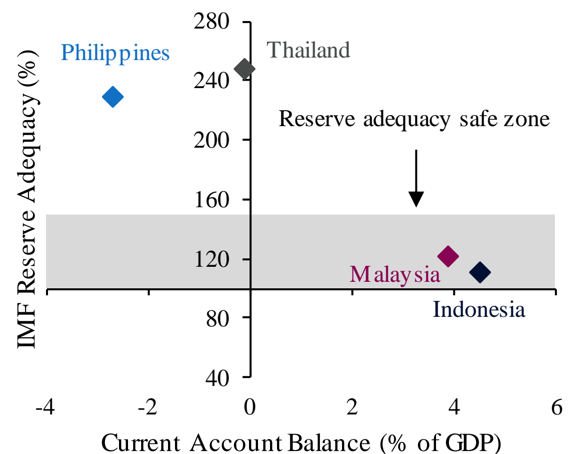


Sources: Haver, national central banks, QNB analysis

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 current account 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.

Our analysis delves into the current account position and FX reserves of the four large emerging economies of the Association of Southeast Asian Nations (ASEAN), namely Indonesia, Thailand, Malaysia and the Philippines, drawing conclusions about their resilience against potential global or regional shocks.

Current account and reserve adequacy metrics
(2022 estimates and projections)



Sources: Haver, IMF, QNB analysis

Despite a high exposure to the global economic cycle (manufacturing exports and tourism) and a slight current account deficit, Thailand is still in a good position to weather sudden changes in capital flows.

Even with international tourism still down by more than 80% from pre-pandemic levels and with terms-of-trade deteriorating on the back of stronger commodity prices, the situation remains stable. The country had run sizable current account surpluses for years and amassed USD 220 Bn in official FX reserves, which comfortably covers 249% of the IMF reserve adequacy metric.

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 3% of GDP. While the deficits are partially driven by a healthy push for much needed investment, high commodity prices are a big drag on the external accounts of the country. The deterioration of the external position has so far been sizable. However, monetary authorities control ample FX reserves. Official reserves of USD 99 Bn cover 230% 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, which resulted in a bigger current account surplus. Malaysia's reserve adequacy metrics are much tighter than those for Thailand are, with the central bank holding less than half of the amount of FX reserves that Thailand holds at USD 109 Bn. However, Malaysia is still in the safe zone of the IMF reserve adequacy metric with a 122% coverage.

Indonesia, traditionally the large ASEAN country most exposed to potential external shocks, is now benefiting from a commodity boom that has propped up its external revenues, despite low tourism figures. High prices for coal, gas and palm oil are being particularly supportive for Indonesia. In fact, the country is expected to run a current account surplus of about 4.5% of GDP this year, after breaking nine consecutive years of deficits last year. However, the surplus is not expected to last more than a couple of years, as both more momentum for the economic re-opening and the delivery of a sizable pipeline of capital expenditure projects will require more imports. Indonesian official FX reserves amount to USD 132 Bn, covering 111% 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 financial tightening and geopolitical conflicts.

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