

Singapore: Recalibrating our growth forecasts amid cross-currents
Taking stock of foreign direct investment in Asia

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Singapore: Recalibrating our growth forecasts amid cross-currents

- A number of headwinds including supply disruptions abroad, a weaker outlook for financial services (15% of GDP), and slower growth in the real estate sector following macroprudential tightening prompt us to lower our 2022 GDP growth forecast to 4.4% from 5.4% previously.
- We see these headwinds partially offset by an earlier-than-expected reopening of the economy, though the reopening impulse is also blunted by a recovery in outbound tourism.
- The balance of risks to growth is tilted to the downside, with the magnitude and persistence of these growth drags potentially larger if the Ukraine-Russia conflict escalates further and/or the US capex engine loses momentum.

Taking stock of foreign direct investment in Asia

- After declining sharply in 2020, FDI in Asia has recovered spiritedly.
- The robust recovery reflects continued investor confidence in the region. The efforts made by Asian economies to improve their business environment have yielded fruit, but there remains much more room for improvement.
- The robust recovery reflects Asia's continued importance in global value chains, particularly the electronics global value chain.
- FDI in Asia is poised to grow even further with the implementation of the Regional Comprehensive Economic Partnership (RCEP) and the relocation of supply chains from China.
- Massive government infrastructure spending programmes in various Asian economies will also lift FDI inflows in the medium-term.
- Flows of FDI into high-tech economic sectors and FDI related to the secular trends of climate change and the digital economy will facilitate structural economic changes in the region.

Implications of Recent Developments:

- **Biden's apparent commitment to defend Taiwan will further worsen US-China mistrust,** leading to more Chinese efforts to pressure Taiwan.
- **External demand holding up:** Malaysian exports to G3 economies and China remained strong. The moderation in import demand could be indicative of slowing goods demand, which is likely to reflect the diversion in spending back to services.
- **Higher inflation risks in the Philippines** where the policy rate was raised ahead of expectations, following minimum wage hikes that will supercharge inflation pressures. Expect more rate hikes this year.
- **More worrying signs from China:** There are now more indications that the policy response in China would prove ineffectual in spurring a recovery in the second half of the year.
- **Thailand's 1Q22 GDP print masks underlying weaknesses:** inflation is taking a toll on private consumption and investment, but it is not reflected in the numbers because of the ongoing normalisation of economic activity. It seems like the BOT is maintaining a dovish tilt despite the pressures of sharp inflation in the economy.

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| | Year | Growth (%) | Inflation (%) | Current Account (% of GDP) | Policy rate (%) | Currency (vs USD) |
|-------------|------|------------|---------------|----------------------------|-----------------|-------------------|
| China | 2020 | 2.3 | 0.1 | 1.9 | 2.95 | 6.53 |
| | 2021 | 8.1 | 1.8 | 2.8 | 2.95 | 6.36 |
| | 2022 | 3.2 | 2.3 | 2.2 | 2.65 | 6.40 |
| India | FY21 | -7.3 | 5.5 | 0.9 | 4.00 | 73.1 |
| | FY22 | 8.8 | 5.3 | -1.0 | 4.00 | 74.5 |
| | FY23 | 7.0 | 6.3 | -3.2 | 5.30 | 76.5 |
| Indonesia | 2020 | -2.1 | 1.7 | -0.4 | 3.75 | 14,050 |
| | 2021 | 3.7 | 2.0 | 0.3 | 3.50 | 14,300 |
| | 2022 | 5.3 | 3.8 | -0.8 | 4.00 | 14,200 |
| Korea | 2020 | -0.9 | 0.5 | 4.6 | 0.50 | 1,085 |
| | 2021 | 4.0 | 4.0 | 5.0 | 1.00 | 1,188 |
| | 2022 | 2.5 | 3.5 | 3.9 | 2.00 | 1,250 |
| Taiwan | 2020 | 3.1 | -0.2 | 14.1 | 1.125 | 28.0 |
| | 2021 | 6.1 | 3.0 | 14.6 | 1.125 | 27.5 |
| | 2022 | 3.8 | 2.2 | 13.8 | 1.50 | 27.0 |
| Hong Kong | 2020 | -6.1 | -0.6 | 6.9 | - | 7.75 |
| | 2021 | 6.4 | 2.1 | 5.9 | - | 7.80 |
| | 2022 | 1.5 | 3.0 | 5.0 | - | 7.80 |
| Singapore | 2020 | -5.4 | 0.0 | 17.6 | - | 1.32 |
| | 2021 | 7.1 | 4.0 | 17.0 | - | 1.35 |
| | 2022 | 5.4 | 3.3 | 16.1 | - | 1.31 |
| Malaysia | 2020 | -5.6 | -1.4 | 4.2 | 1.75 | 4.02 |
| | 2021 | 3.1 | 2.5 | 4.0 | 1.75 | 4.18 |
| | 2022 | 6.0 | 2.8 | 3.7 | 2.50 | 4.20 |
| Philippines | 2020 | -9.6 | 3.5 | 3.1 | 2.00 | 48.0 |
| | 2021 | 5.6 | 4.4 | -1.8 | 2.00 | 50.9 |
| | 2022 | 6.8 | 4.8 (4.1) | -2.5 | 3.00 (2.75) | 52.0 |
| Thailand | 2020 | -6.1 | -0.8 | 3.5 | 0.50 | 30.0 |
| | 2021 | 1.0 | 1.5 | 0.3 | 0.50 | 33.0 |
| | 2022 | 4.0 | 2.5 | 6.0 | 0.50 | 31.0 |
| Vietnam | 2020 | 2.8 | 3.2 | 3.7 | 4.00 | 23,080 |
| | 2021 | 3.0 | 2.5 | 5.5 | 4.00 | 23,300 |
| | 2022 | 7.0 | 2.0 | 6.5 | 3.50 | 23,050 |

Source: Centennial Asia Advisors. Forecasts for India are on the basis of the fiscal year ending March. Figures in parentheses refer to previous forecast. Figures in red indicate a downgrade; green signal an upgrade.

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