

## Our three calls for Asia

2022 will see Asia continuing to move forward, but not at a rapid pace amidst rising inflation, rate increases, a return to fiscal conservatism and rating pressure.



A man looks at screens in an electronics store in Malaysia

### Progress on vaccination at last, but too late?

The biggest improvement to the outlook for non-China Asia is in the progress that's being made with vaccinations. Only the Philippines and Indonesia still lag with less than 50% of the population at least partially vaccinated. 2022 should see all economies of the region rising to internationally comparable levels of vaccination.

However, as Singapore has shown, even very high levels of vaccination do not offer complete protection. And that may be lessened further if the new Omicron variant proves vaccine-resistant. With overseas rates of Covid infection often lower than those in Asia, some further progress in re-opening international travel is possible, though this view could be heavily challenged by the characteristics of the latest variant and borders are being slammed shut once more. Any recovery in tourism we do see later in the year would go a long way to reviving South-East Asia's economies. A slower China remains a concern for North-East Asia's industrial economies.

Domestic recovery could also bring complications. Current accounts are likely to worsen as imports rise faster than tourism receipts rebound. Increased demand for credit may also clash with rising inflationary pressures and less supportive central banks. A return of rating pressure may also

mean that a return to normality if that is what we get in 2022, is not trouble-free for Asia.

**Our three calls for 2022:**

## 1 Ratings downgrades possible

In 2020, rating agencies in Asia mostly stood on the sidelines, understanding that economic survival meant abandoning fiscal prudence. In 2021, they began to comment that the emergency policies introduced in 2020 should not be made permanent fixtures and that lasting damage to the economy could damage the longer-term growth potential of those in the region. In 2022, we believe the warnings will result in actual downgrades. The Philippines is top of the risk list, but we also have some concerns about Indonesia and India, which is on the cusp of dropping to high yield status.

## 2 Rate rises will become more common

Rising global inflation is not confined to the G-7, and though Asian inflation rates have not risen as sharply as elsewhere, current inflation is no longer compatible with emergency levels of rates achieved in 2020 and 2021. The Bank of Korea was the first central bank in the region to start hiking, and we expect more from them in 2022. The Monetary Authority of Singapore also shifted its Singapore dollar Nominal Effective Exchange Rate (SGD NEER) path to an appreciating one and could well step up the pace in May 2022. We also expect rates to start slowly rising in the Philippines and India.

## 3 We do not expect a repeat of 2018/19

At the end of 2018, going into 2019, investors began to worry that rising US rates and a stronger dollar would undermine Emerging Market assets. Prompted by some catalysts outside the region, this resulted in a short, but worrying sell-off. This time around, although we may well see the Fed tighten more rapidly than they are indicating, the peak in US rates is anticipated to be much lower, and the extent of USD strength more limited. So some retrenchment in risk assets and currencies, yes. But full-scale panic selling, probably not.

### Author

#### Robert Carnell

Regional Head of Research, Asia-Pacific

[robert.carnell@asia.ing.com](mailto:robert.carnell@asia.ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose

possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.