

ASEAN economies' resilience to inflation is tested as a possible rise in US interest rates draws closer

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As global supply constraints and the rise in resource prices grow more serious, a wave of high inflation has already hit many emerging economies, and countries such as Brazil, Mexico and Russia have carried out multiple interest rate hikes since the start of 2021 in order to control inflation and protect their currencies.

The growth of consumer prices in ASEAN economies is generally within the range of inflation targets with the exception of the Philippines, where food prices continue to rise due to the effects of African swine fever. This is in contrast with emerging economies in Central and South America and Russia (Chart 1, upper. In the middle of 2021, the balance between supply and demand in ASEAN economies eased due to another rise in COVID-19 cases, which is not greatly different to the situation in other emerging economies). In addition, in terms of financial stability – the other side of the coin from price stability – currencies of ASEAN countries have been comparatively stable, even during the COVID-19 pandemic, and there is little need to protect them. As a result, ASEAN countries are maintaining their accommodative monetary policies (Chart 2).

Nevertheless, ASEAN economies will not be immune from rising inflation and tightening monetary policies in the future. Thailand and Malaysia have recorded the highest Producer Price Index results over the past few years (Chart 1, lower). It is thought that a tightening gap between logistics supply and demand – which have experienced sluggish demand due to restrictions on movement – and a rise in resource prices have started to appear as economic activities are restarted at full swing. Furthermore, analysis by production stage shows the price of raw materials is rising considerably, and appears to have already started to spill over to the price of intermediate goods. There is thought to be a substantial risk that the wave of inflation will affect consumer prices too in the future.

It is also important to keep a close eye on the normalisation of monetary policy in developed countries. At the Federal Open Market Committee in December, the US Federal Reserve Board decided to accelerate its tapering and suggested it will raise interest rates three times in 2022 as its median forecast. Taking into account the pressure from capital outflow caused by the US starting to raise its federal funds rate, other countries will be forced to raise their interest rates too in order to prevent a growing gap between their interest rates and the US'. It appears ASEAN

countries will enter a new phase in their recovery from the COVID-19 pandemic: rising interest rates.

Chart 1: Prices in ASEAN Member Economies

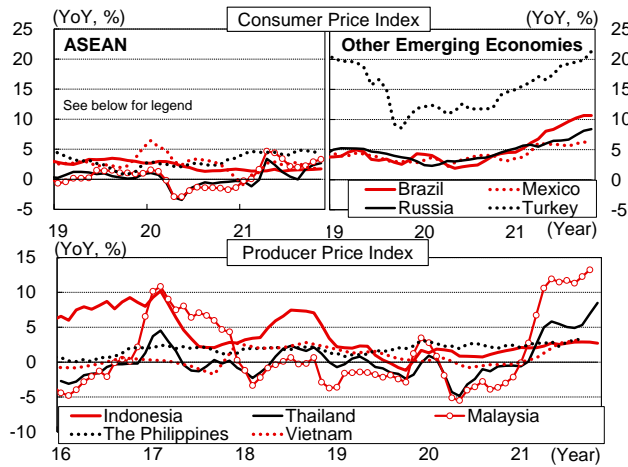
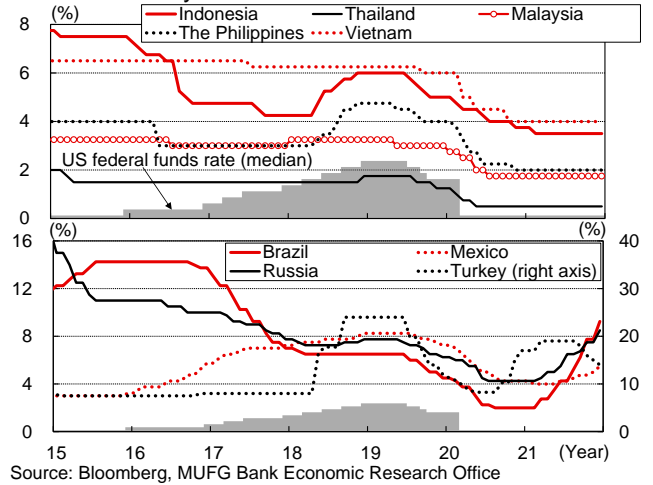


Chart 2: Policy Rates in ASEAN Member Economies



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