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Krungsri Research

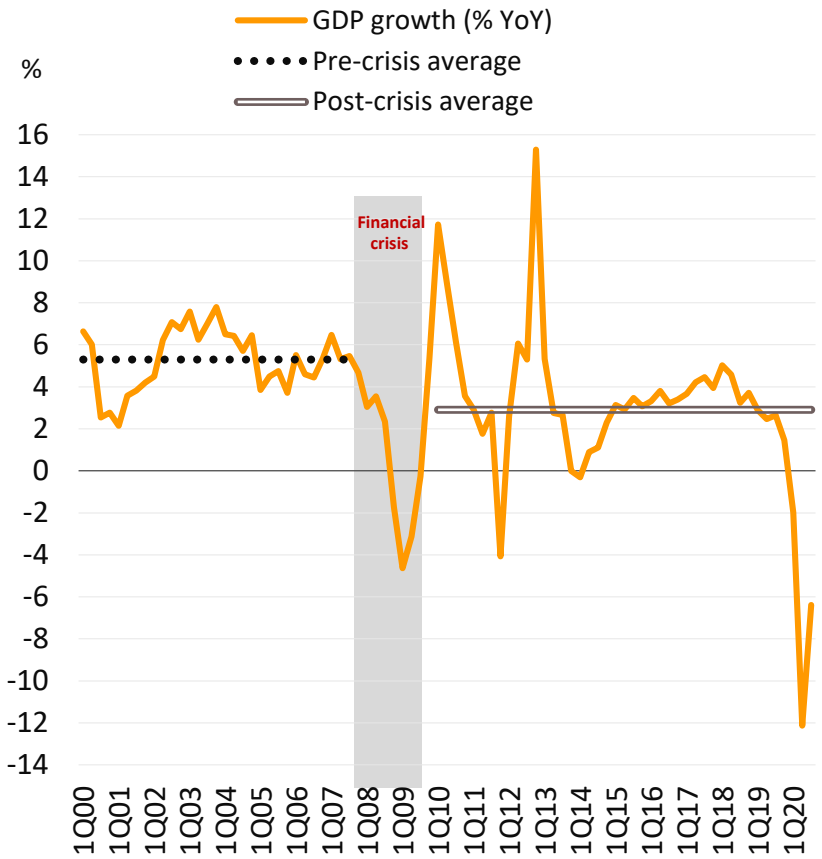
2020 Recap: COVID-19 crisis has hurt tourism industry disrupted supply chains, caused negative income effects

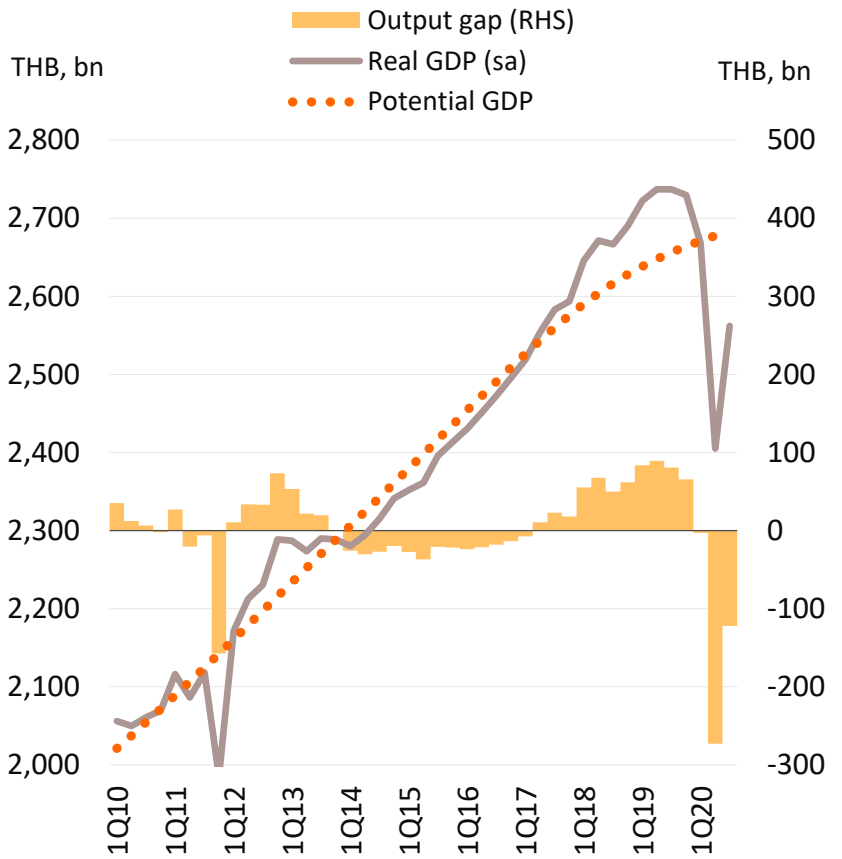
- **Thailand's 2020 GDP growth to hit a 20-year low.** The economy is estimated to contract by 6.4%, down sharply from +2.4% in 2019 and +4.2% in 2018. The COVID-19 crisis has severely disrupted economic activities by grinding tourism to a halt, disrupted supply chains at home and abroad, and caused negative income effects. Despite successfully controlling domestic infections, the economy has been hurt by travel restrictions, behavioral changes, as well as crisis legacies and scars, particularly unemployment and debt problems. Recent domestic political protests also weakened confidence in household and business sectors.
- **Almost no foreign tourist arrivals since April.** Tourist arrivals are projected to reach only 6.7mn in 2020, collapsing from 39.8mn in 2019. The *We Travel Together* program introduced in July only led to a mild recovery in domestic tourism, which is insufficient to offset the sharp drop in foreign tourist receipts (65% of total tourism receipts). Due to Thailand's high-reliance on foreign tourism revenues (13% of GDP), this crisis has harmed the overall economy.
- **Exports contract for the second consecutive year.** This was triggered by global supply disruption during the *great lockdown* and the sharp drop in external demand by major trading partners. However, Thai exports to the US rose and export contraction in other destinations have been capped by demand for products to facilitate *work-from-home* policy and lockdown, and to control the outbreak, such as food, electrical appliances and rubber gloves.
- **Private consumption shrinks for the first time since 1999**. The COVID-19 impact has disrupted economic activities. Falling employment and income have hurt purchasing power and reduced debt repayment capability. However, the negative impacts have been limited by government measures to support household income, boost consumption, and promote domestic tourism.
- **Private investment contracts sharply** in line with falling exports and weakening domestic demand. Investor confidence has been eroded by uncertainties over the COVID-19 crisis with excess production capacity, particularly in tourism-related sectors. Liquidity problems at SMEs and emerging domestic political protests late in the year might rein in investment.
- **Public spending becomes a major growth driver.** In addition to the regular budget for each fiscal year, the government has provided cash aid and assistance to affected sectors and low-income households under the THB1trn emergency loan decree.
- **The Bank of Thailand cut policy rate to new low of 0.50% from 1.25% at end-2019,** as the Thai economy suffered from the COVID-19 crisis and inflation fell into negative territory. Other aid measures included a loan payment holiday, THB500bn soft loan program, reduction in FIDF fee to ease interest rate burden, and a program to stabilize the corporate bond market.
- **Thai baht continued to appreciate** premised on the weakening US dollar, Thailand's success in containing the outbreak, a large current account surplus, signs of economic recovery late in the year, and speculative inflows. In 4Q 2020, the BOT announced measures to advance the development of the Thai FX Ecosystem to mitigate pressure on the baht.

2021 outlook: Gains from cyclical rebound in economic activity limited by domestic headwinds

- **GDP: We see challenges ahead with domestic headwinds.** In 2021, Thailand's economic growth is projected to turn positive from the second quarter of 2021 supported by low-base effect, government spending, and a cyclical rebound in external demand. However, the weak tourism sector will leave excess capacity in several services sectors. Job losses would continue to dampen income and consumer spending. Political unrests could undermine economic growth and raise concerns over continuity of economic policies. We expect economic activity to return to pre-pandemic level in the second half of 2022.
- **Tourism sector recovery is trailing behind other economic growth drivers**. We project foreign tourist arrivals will drop to 4.0m in 2021 from 6.7m in 2020, as a result of pandemic concerns, delayed travel bubble scheme, and longer-than-expected travel restrictions worldwide amid a second outbreak in major countries. Despite positive vaccine news, foreign tourist arrivals will not rise significantly until the fourth quarter of 2021 following mass vaccinations worldwide.
- **Job losses continue to weigh on income and consumer spending.** Further stimulus (remaining THB200bn of supplementary budget) and resilient purchasing power of middle- and high-income earners would continue to foster private consumption. But upside would be limited by fading pent-up demand, end of short-term stimulus, and crisis legacies, especially unemployment and debt.
- **Goods exports to be a growth engine.** This is supported by (i) rising demand for products to curb COVID-19 infection and medical supplies, and work-from-home policy; and (ii) cyclical recovery in the global manufacturing sector, led by growth in advanced economies amid massive stimulus measures. The WTO projects world merchandise exports would grow by 7.2% in 2021 from estimated -9.2% in 2020. Also, there are opportunities in the medium-term as ASEAN region expands economic ties and shifts to greater regionalization.
- **Private investment in export sectors would recover**, premised on a strong historical correlation between exports and investment in machinery & equipment. Also, production capacity utilization rates in several manufacturing sectors have returned to pre-pandemic levels, suggesting more investment ahead. The government's plan to set up a committee to accelerate budget disbursement by state agencies would support both public and private investment.
- **Monetary policy: Stable rates, more assistance programs.** Despite a possible rebound in economic growth in 2021, the fragile economic recovery, crisis legacies, still-low inflation, and extra-loose monetary policies of the world's major central banks suggest the Thai MPC would maintain policy rate at a record low throughout 2021. The uneven economic recovery sets the stage for implementing further targeted monetary easing and more assistance programs, ranging from measures to help businesses stay afloat to preventing a downward spiral triggered by liquidity problems.

2020 growth is estimated to hit a 20-year low; output gap falls into negative territory





Source: Office of the National Economics and Social Development Council (NESDC), Krungsri Research

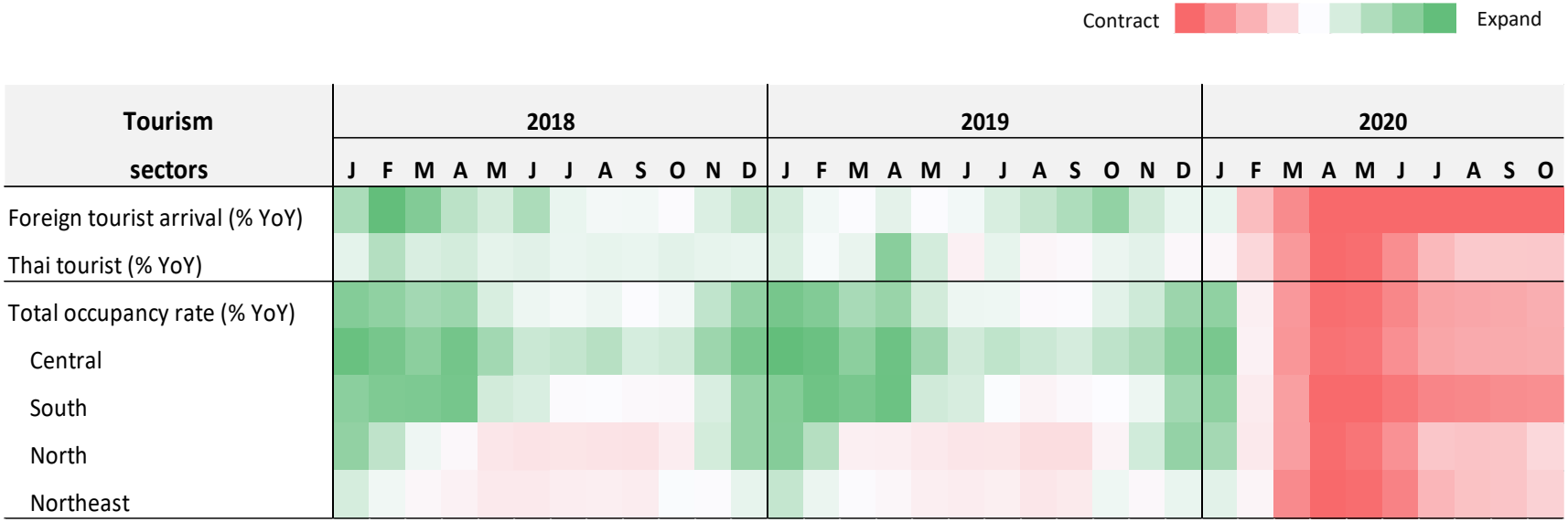
Public spending has become a major growth driver, supporting construction sector; other growth engines contracted



(% YoY)	Share 2019	2017				2018				2019				2020		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
GDP growth	**100.0%**															
Demand-side data																
Private Consumption	50.1%															
Government Consumption	16.1%															
Gross Fixed Capital Formation	22.6%															
Private Investment	*16.9%*															
Public Investment	*5.7%*															
Exports of Goods & Services	59.8%															
Exports of Goods	*44.7%*															
Exports of Services	*15.1%*															
Imports of Goods & Services	50.6%															
Imports of Goods	*39.8%*															
Imports of Services	*10.8%*															
Supply-side data																
Agriculture	6.1%															
Manufacturing	26.4%															
Construction	2.7%															
Wholesale & Retail trade	*15.6%*															
Accommodation & Food Service	*6.2%*															
Transport & Storage	*6.8%*															
Financial & Insurance	*7.2%*															
Real Estate Activities	*3.9%*															

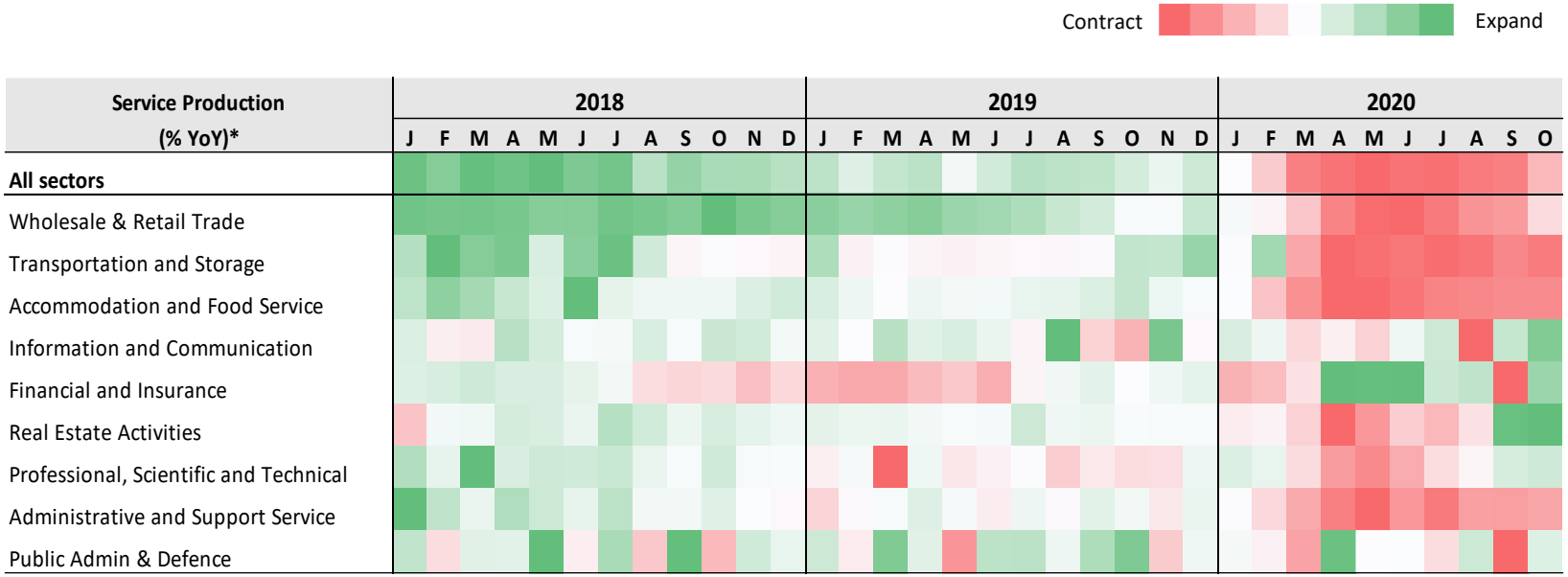
Source: NESDC, Krungsri Research

Tourism sector is hit by COVID-19 and travel restrictions despite measures to boost domestic tourism; weak foreign tourist receipts will hit growth in the south



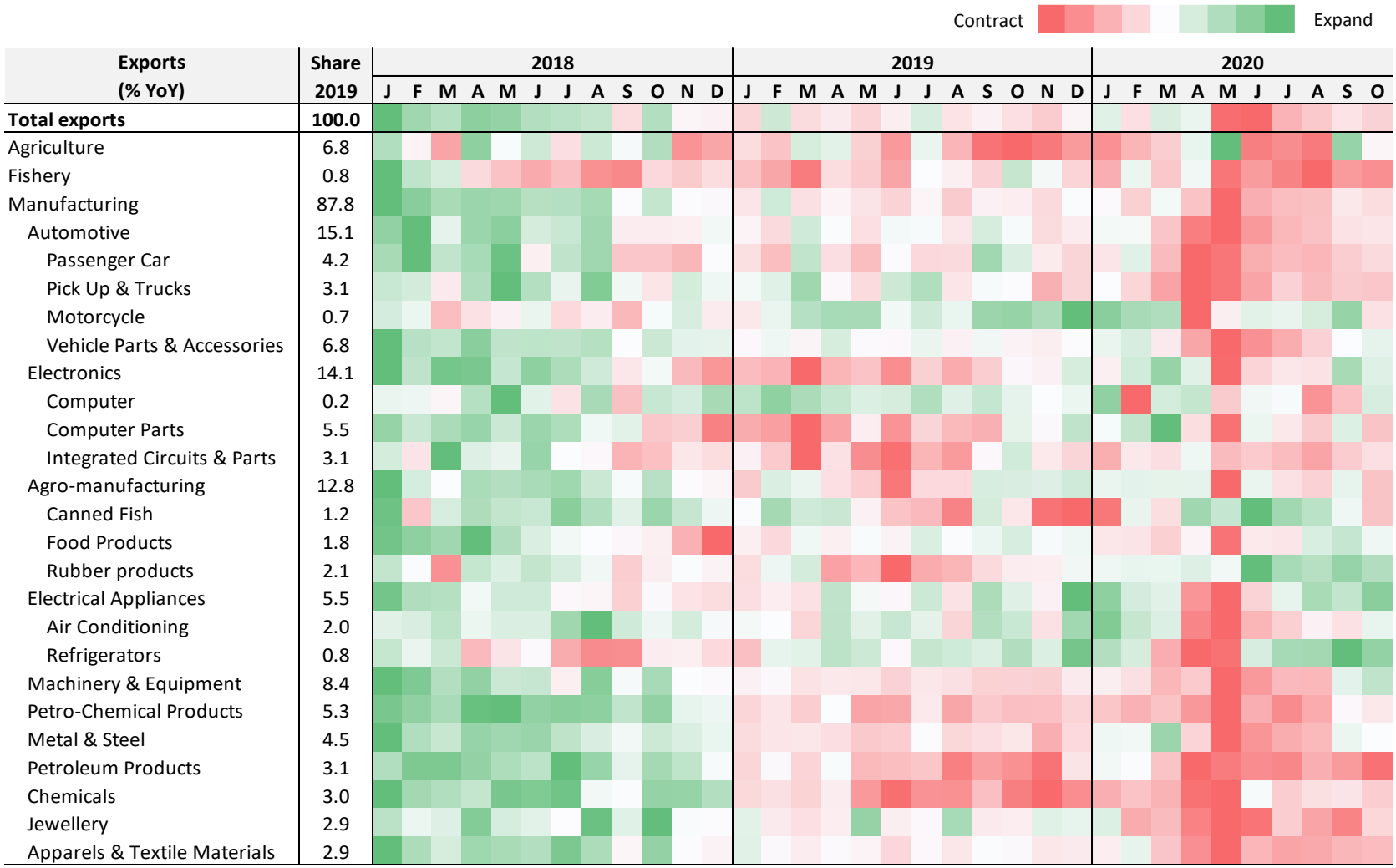
Source: Ministry of Tourism and Sports (MOTS), Krungsri Research

Services sectors related to tourism contract sharply; recovery is trailing other sectors



Source: Bank of Thailand (BOT), Krungsri Research

Exports hit by weak external demand, but work-from-home and social distancing supported several sectors



Exports (% YoY)	Share 2019	2018 J	F	M	A	M	J	J	A	S	O	N	D	2019 J	F	M	A	M	J	J	A	S	O	N	D	2020 J	F	M	A	M	J	J	A	S	O
Total exports	**100.0**																																		
Agriculture	6.8																																		
Fishery	0.8																																		
Manufacturing	87.8																																		
Automotive	15.1																																		
Passenger Car	4.2																																		
Pick Up & Trucks	3.1																																		
Motorcycle	0.7																																		
Vehicle Parts & Accessories	6.8																																		
Electronics	14.1																																		
Computer	0.2																																		
Computer Parts	5.5																																		
Integrated Circuits & Parts	3.1																																		
Agro-manufacturing	12.8																																		
Canned Fish	1.2																																		
Food Products	1.8																																		
Rubber products	2.1																																		
Electrical Appliances	5.5																																		
Air Conditioning	2.0																																		
Refrigerators	0.8																																		
Machinery & Equipment	8.4																																		
Petro-Chemical Products	5.3																																		
Metal & Steel	4.5																																		
Petroleum Products	3.1																																		
Chemicals	3.0																																		
Jewellery	2.9																																		
Apparels & Textile Materials	2.9																																		

Source: BOT, Krungsri Research

Most export markets are sluggish, but exports to the US rise; imports hit by weak domestic demand

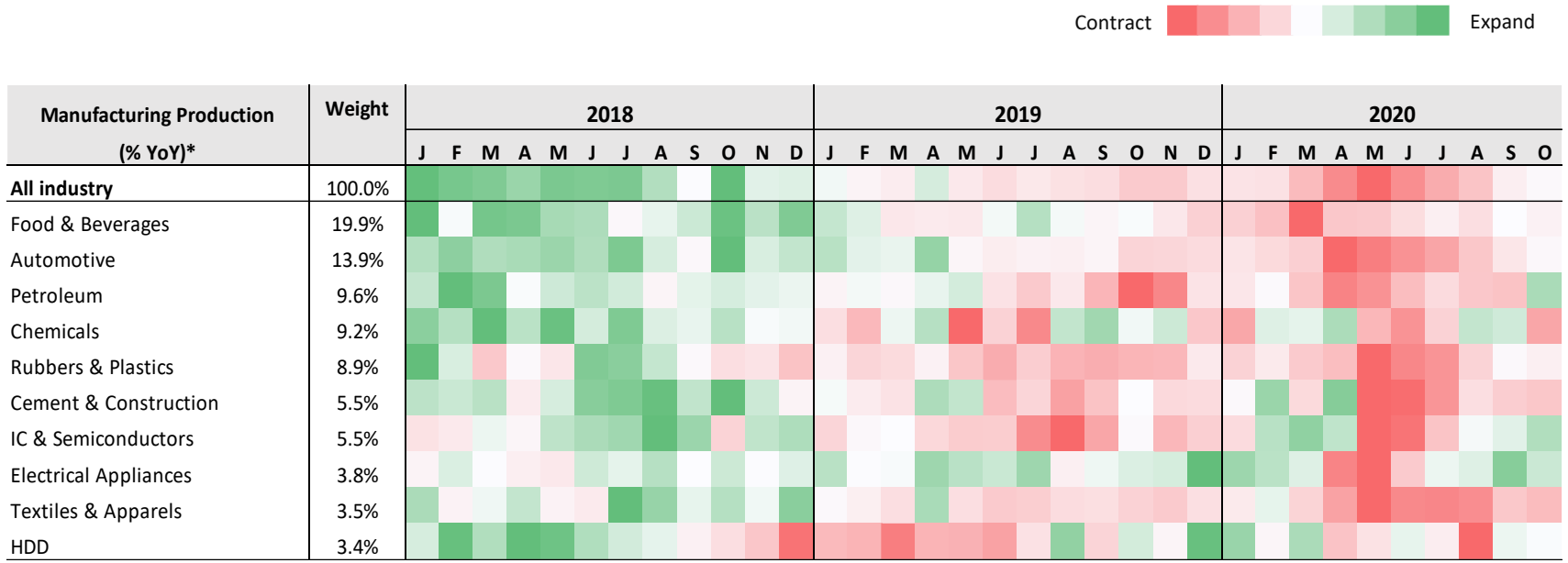


Exports by major destinations (% YoY)	Share 2019	2018 J	F	M	A	M	J	J	A	S	O	N	D	2019 J	F	M	A	M	J	J	A	S	O	N	D	2020 J	F	M	A	M	J	J	A	S	O
US	12.7																																		
China	11.8																																		
Japan	9.9																																		
ASEAN5	15.5																																		
CLMV	11.6																																		
EU15	8.6																																		
Middle East	3.4																																		
Africa	2.8																																		

Imports by type (% YoY)	Share 2019	2018 J	F	M	A	M	J	J	A	S	O	N	D	2019 J	F	M	A	M	J	J	A	S	O	N	D	2020 J	F	M	A	M	J	J	A	S	O
Total import	100.0																																		
Fuel	15.3																																		
Capital goods	26.0																																		
Raw materials (excl. gold)	36.1																																		
Consumer goods	12.1																																		
Automotive	6.3																																		

Source: Ministry of Commerce (MOC), Krungsri Research

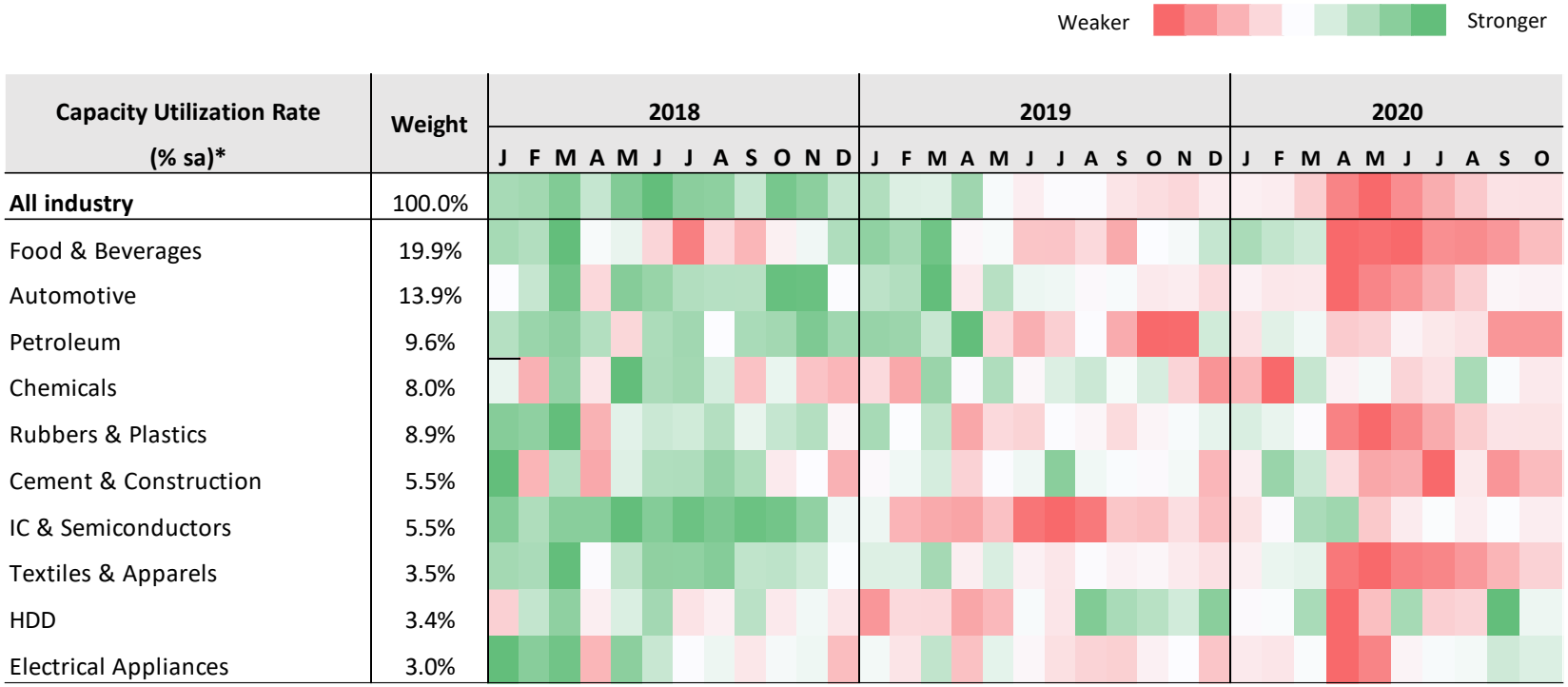
Manufacturing production growth in several sectors turns positive, encouraged by exports, work-from-home policy and infection prevention measures



Manufacturing Production (% YoY)*	Weight	2018												2019												2020								
		J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O
All industry	100.0%																																		
Food & Beverages	19.9%																																		
Automotive	13.9%																																		
Petroleum	9.6%																																		
Chemicals	9.2%																																		
Rubbers & Plastics	8.9%																																		
Cement & Construction	5.5%																																		
IC & Semiconductors	5.5%																																		
Electrical Appliances	3.8%																																		
Textiles & Apparels	3.5%																																		
HDD	3.4%																																		

Source: Office of Industrial Economics (OIE), Krungsri Research

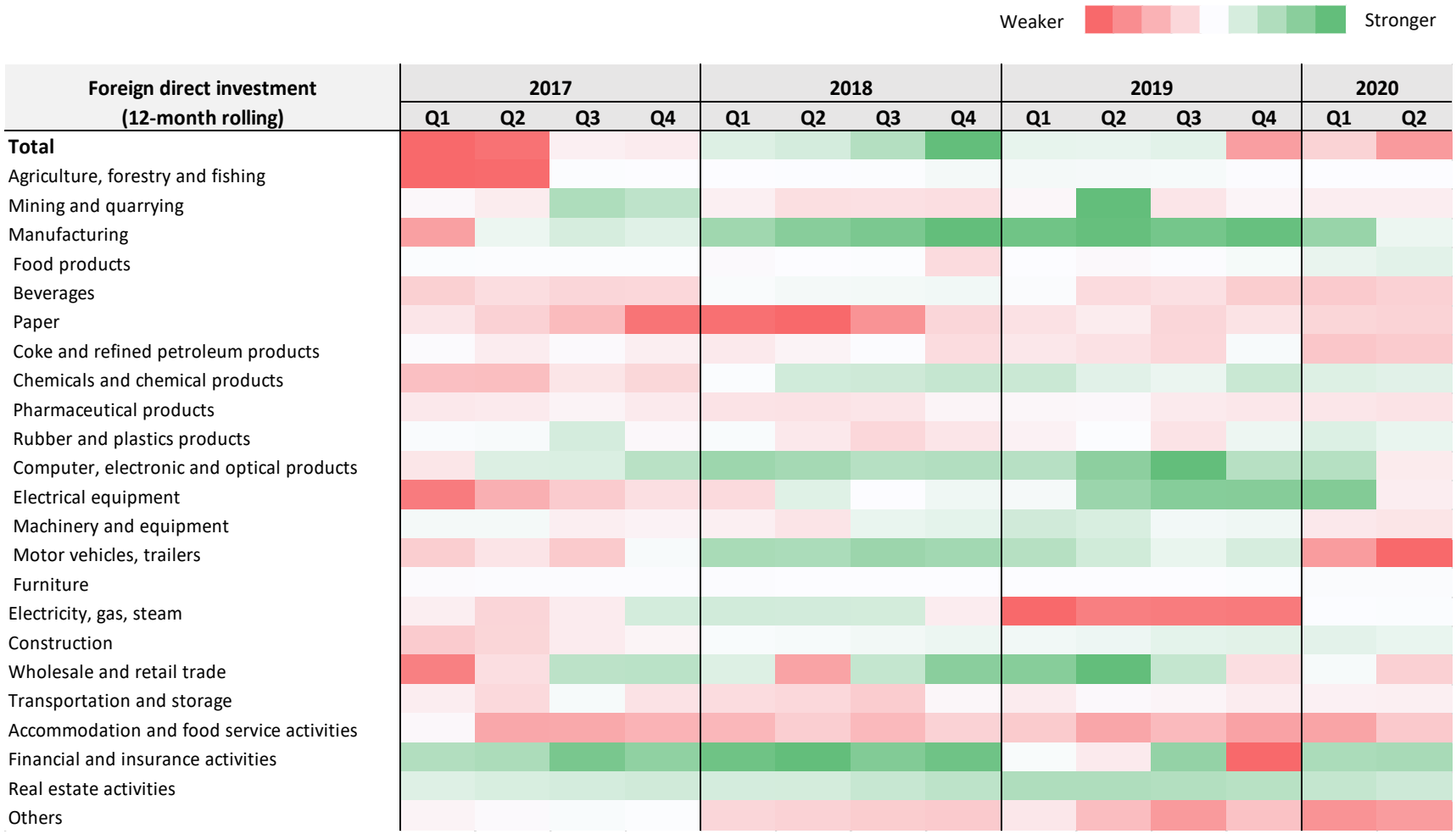
Capacity utilization of manufacturing production has returned to near pre-pandemic level



Capacity Utilization Rate (% sa)*	Weight	2018												2019												2020									
		J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O
All industry	100.0%																																		
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HDD	3.4%																																		
Electrical Appliances	3.0%																																		

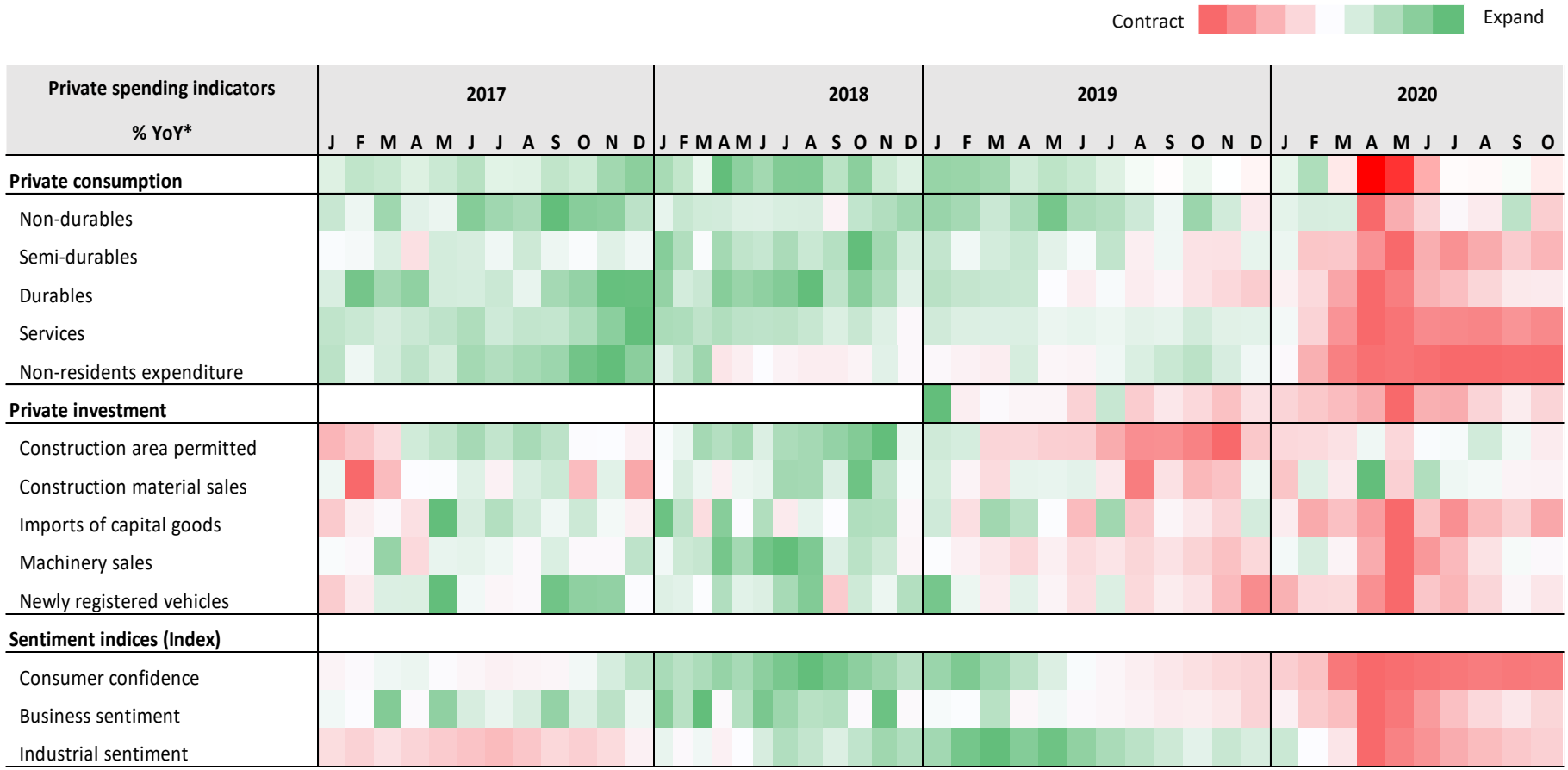
Source: OIE, Krungsri Research

FDI shows net inflows in some industries, such as food and rubber products



Source: BOT, Krungsri Research

Domestic economy is recovering at a slow pace; overall consumption and investment remain weak



Source: BOT, University of the Thai Chamber of Commerce (UTCC), Federation of Thai Industries (FTI), Krungsri Research

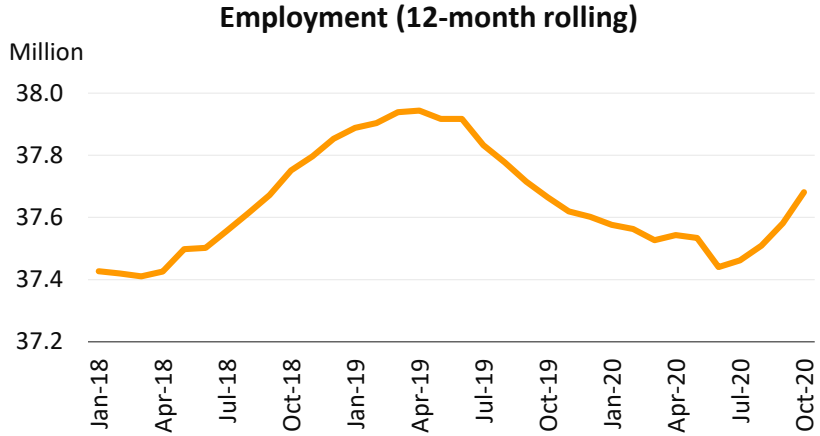
Bank lending improves led by large corporate loans; SME lending remains weak due to limited access to credit

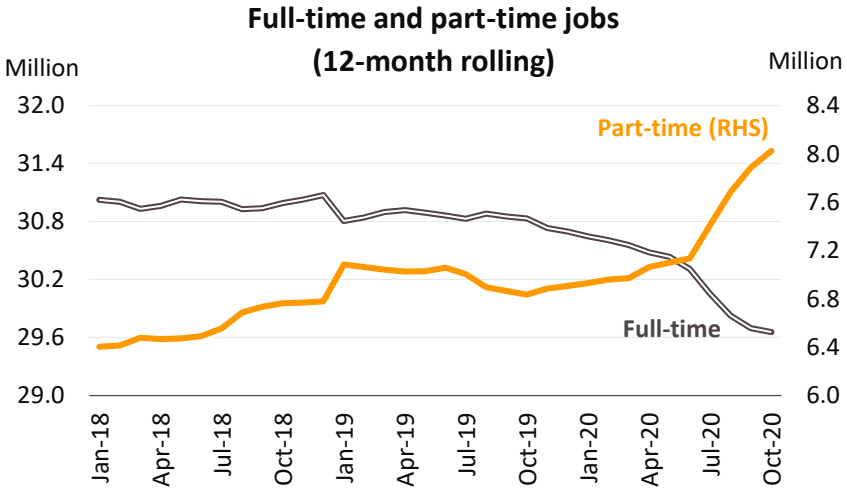


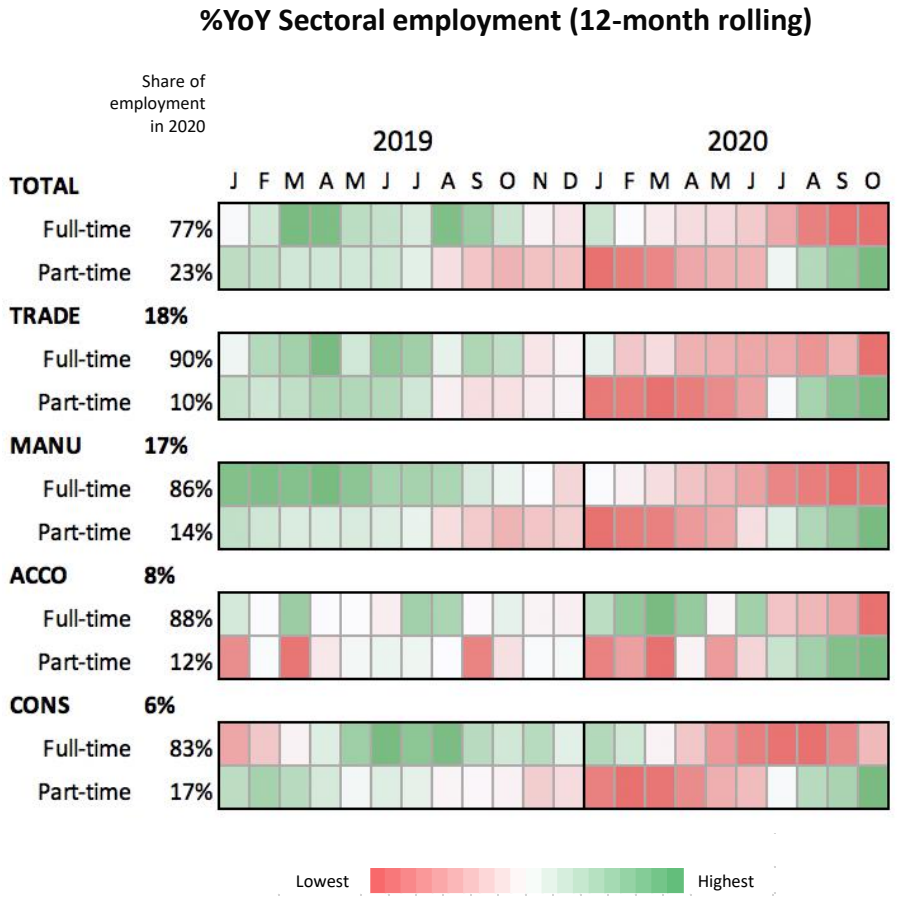
Commercial bank loans (% YoY)	Share (2019)	2017				2018				2019				2020		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Total	**100.0%**															
SMEs	36.4%															
Manufacturing	7.1%															
Electricity, gas and air conditioning	2.2%															
Wholesale and retail trade	10.7%															
Accommodation	1.9%															
Real estate	3.9%															
Large corporate	28.4%															
Manufacturing	8.9%															
Electricity, gas and air conditioning	3.4%															
Wholesale and retail trade	3.8%															
Accommodation	1.1%															
Real estate	1.9%															
Household credits	35.2%															
Mortgage	17.1%															
Hire purchase	8.4%															
Personal Loan	9.3%															

Source: BOT, Krungsri Research

Employment: Increase in part-time jobs suggests a reduction in working hours due to COVID-19 impact



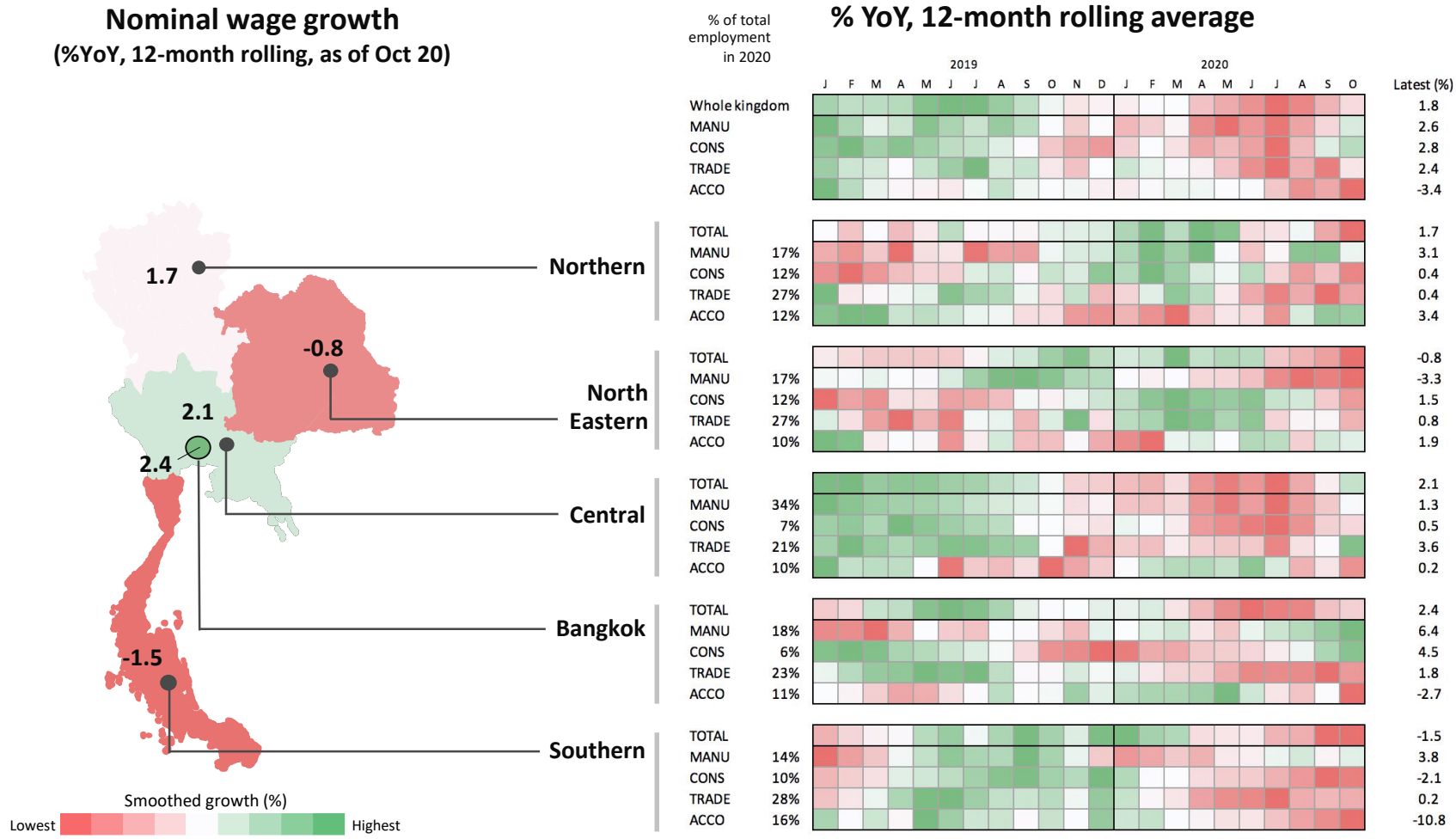




Note: Sectoral code: TRADE = Wholesale and retail trade, MANU = Manufacturing, ACCO = Accommodations and food service activities, and CONS = Construction
Part-time job is defined by those who work less than 34 hours a week. Full time job is defined by those who work more than 34 hours a week
Data is not reported during 2Q20

Source: BOT, National Statistical Office of Thailand (NSO), Krungsri Research

Non-farm income remains subdued, led by southern region; accommodation sees largest contraction



Note: Wage is defined as average wage in the private sector.
Sectoral code: TRADE = Wholesale and retail trade, MANU = Manufacturing, ACCO = Accommodation and food service activities and CONS = Construction
Data is not reported during 2Q20

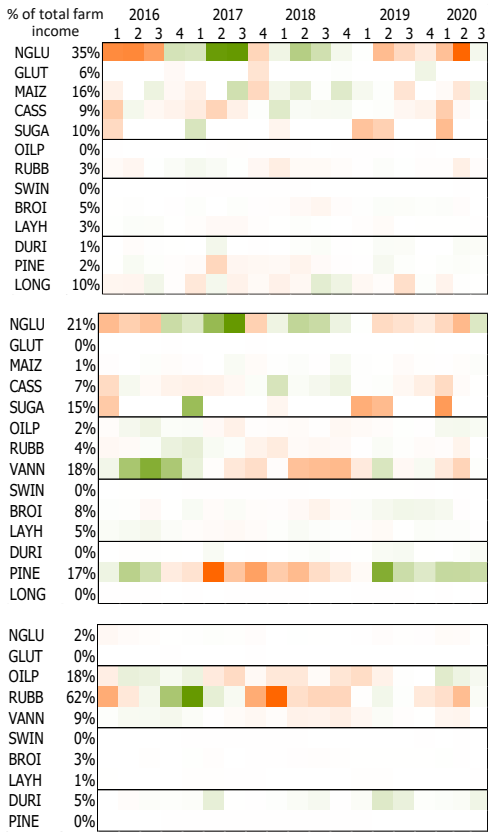
Source: BOT, NSO, Krungsri Research

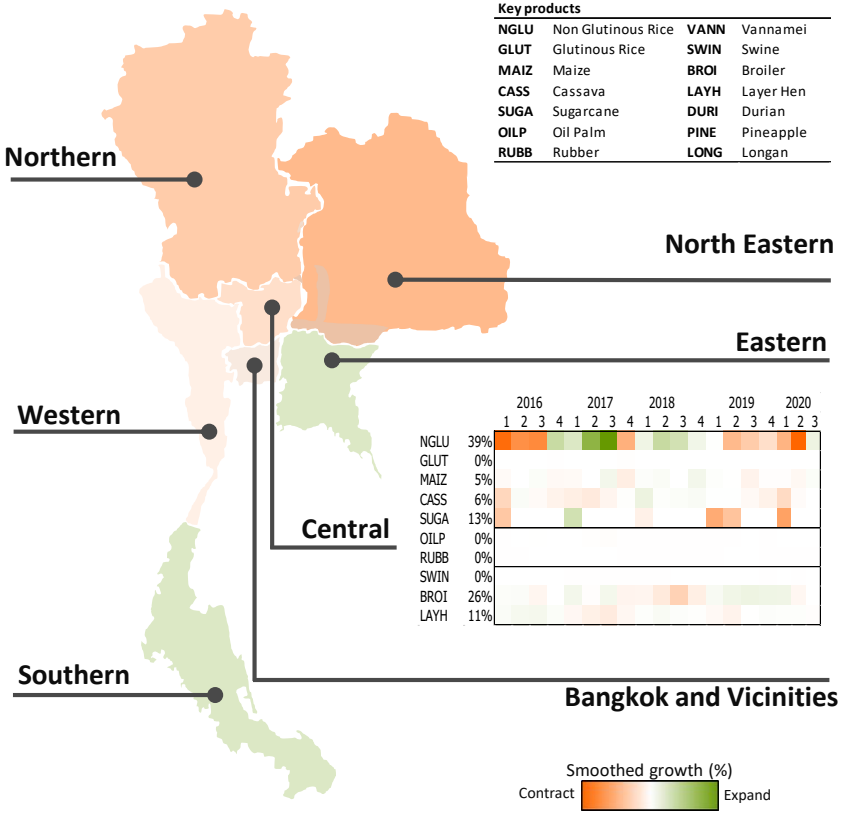
Farmers to benefit from higher prices for major crops and farm price guarantee scheme

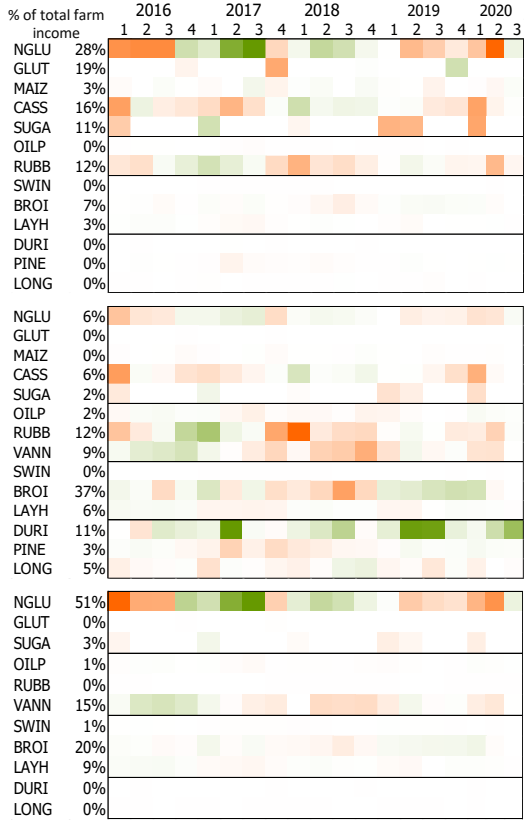
Farm income growth (% YoY)

Regional Box: Color intensity indicates relevance of product, measured by share of total regional farm income.

In the first 10 months of 2020, agricultural prices rose 5.3% YoY but output fell 6.9%, causing farm income to drop by 2.0%. However, farm income growth turned positive in 3Q20, at +6.2% YoY, the strongest rise in 2 years, led by a sharp increase in farm price index (+6.4%). Output was steady at -0.4%.

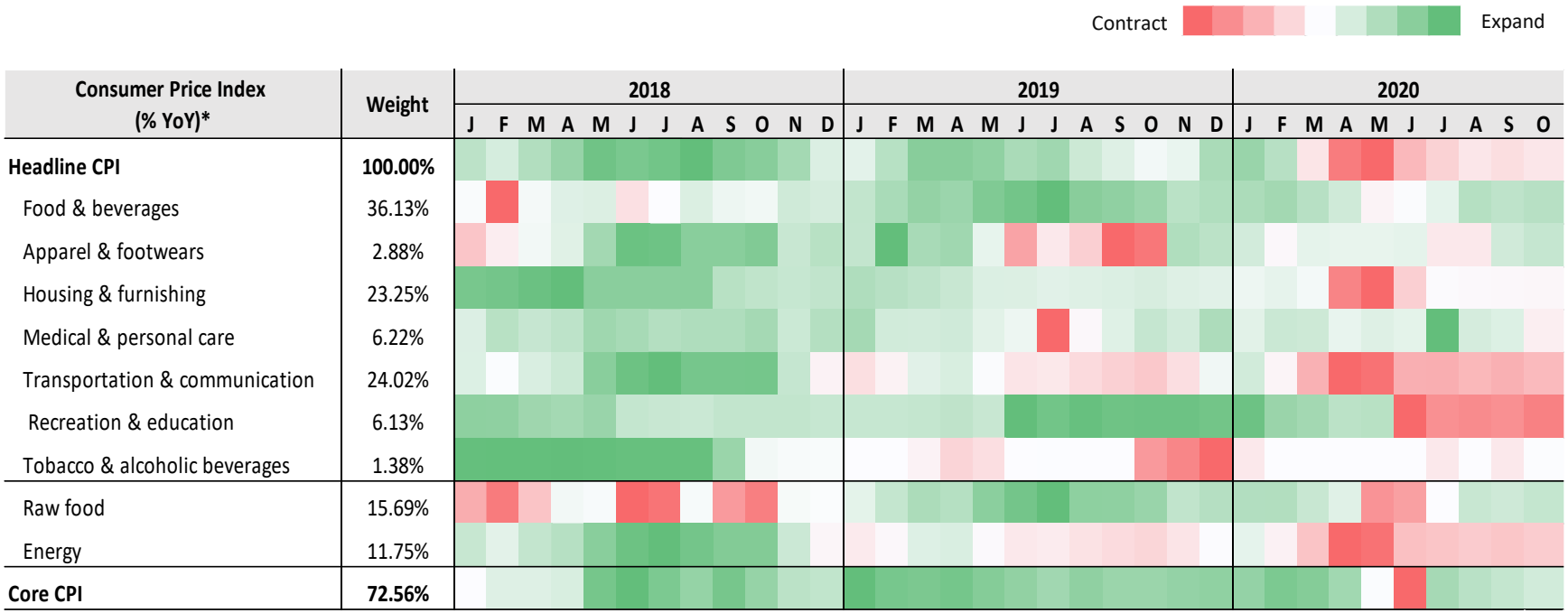






Source: Office of Agricultural Economics (OAE), Krungsri Research

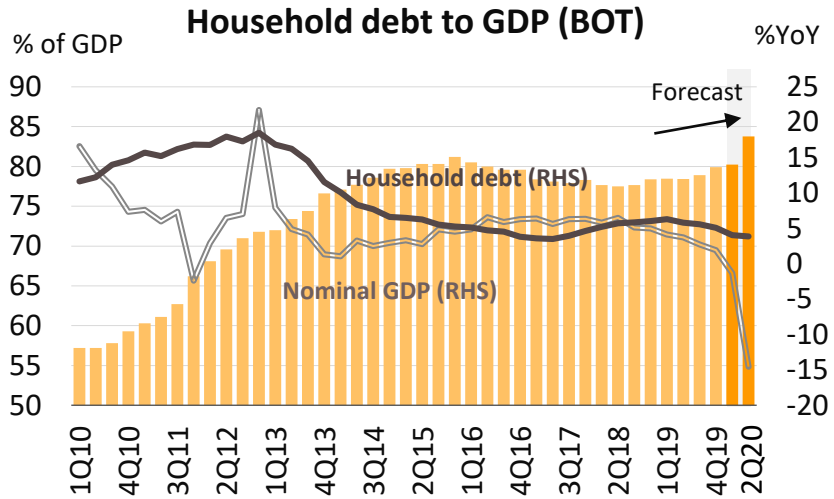
Inflation edges up to mild-negative territory given the slow economic recovery

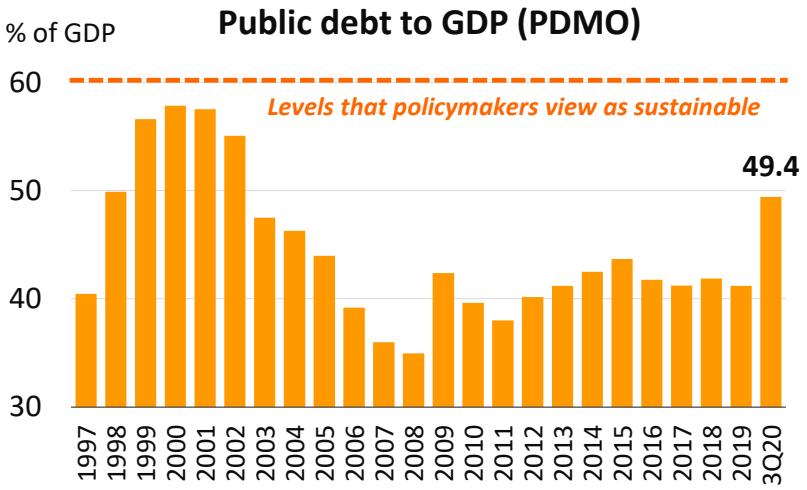


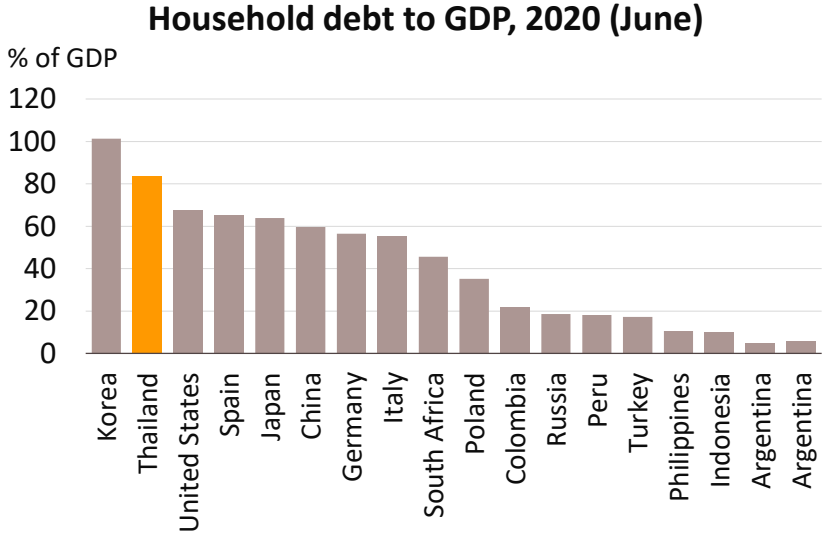
Consumer Price Index (% YoY)*	Weight	2018												2019												2020									
		J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O
Headline CPI	**100.00%**																																		
Food & beverages	36.13%																																		
Apparel & footwears	2.88%																																		
Housing & furnishing	23.25%																																		
Medical & personal care	6.22%																																		
Transportation & communication	24.02%																																		
Recreation & education	6.13%																																		
Tobacco & alcoholic beverages	1.38%																																		
Raw food	15.69%																																		
Energy	11.75%																																		
Core CPI	**72.56%**																																		

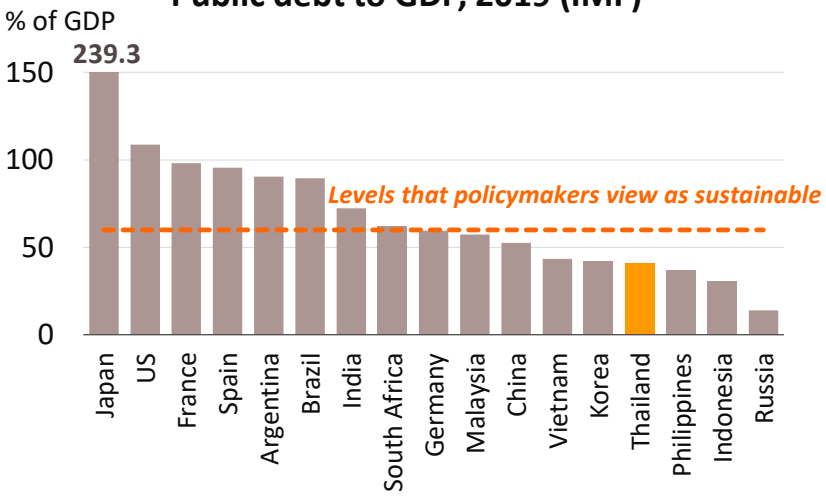
Source: MOC, Krungsri Research

Debt sustainability: Public and household debts at 18-year highs



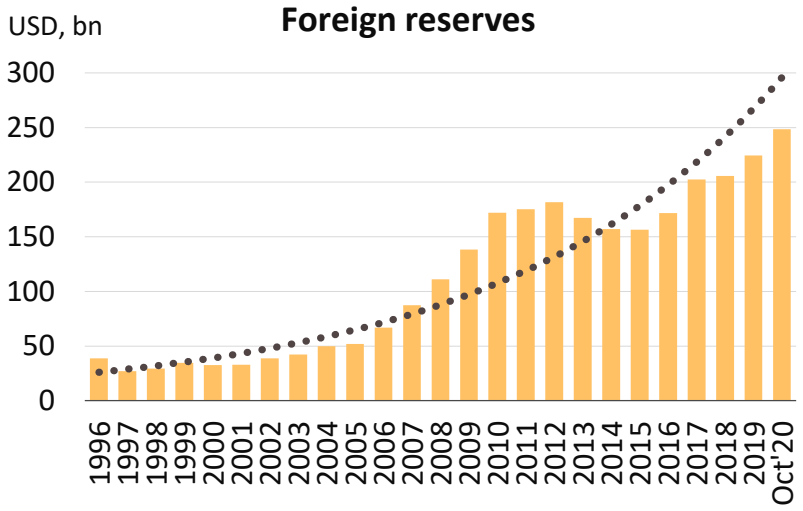


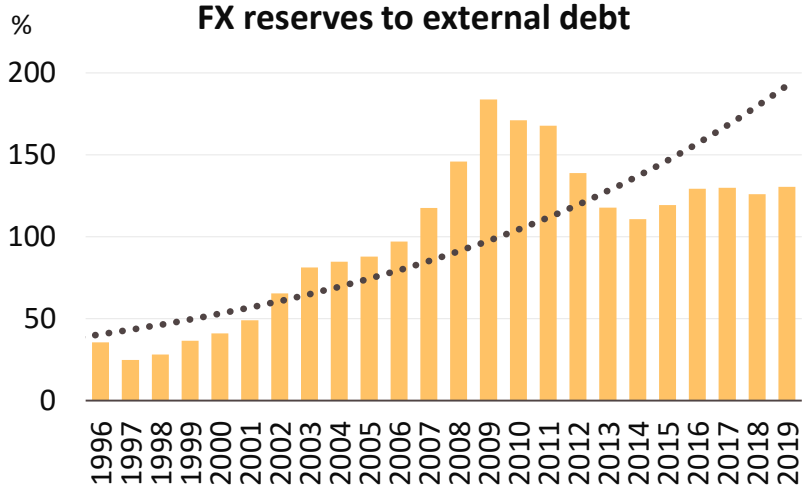


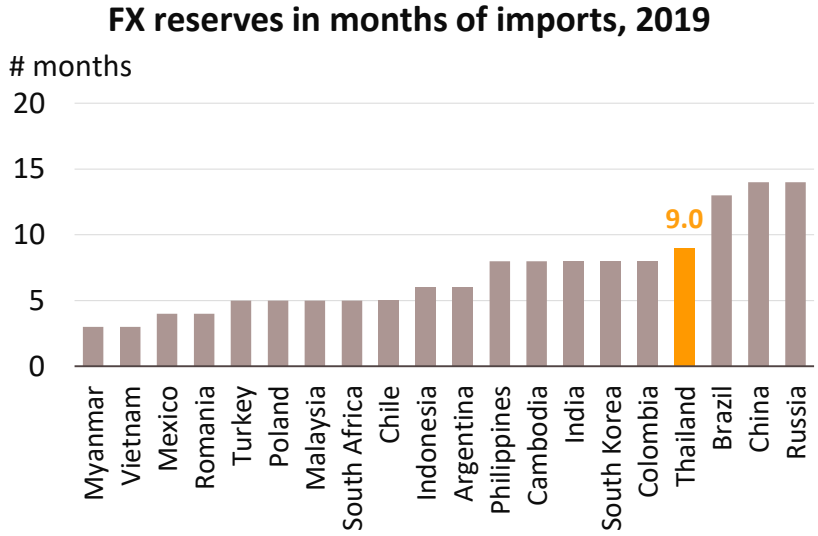


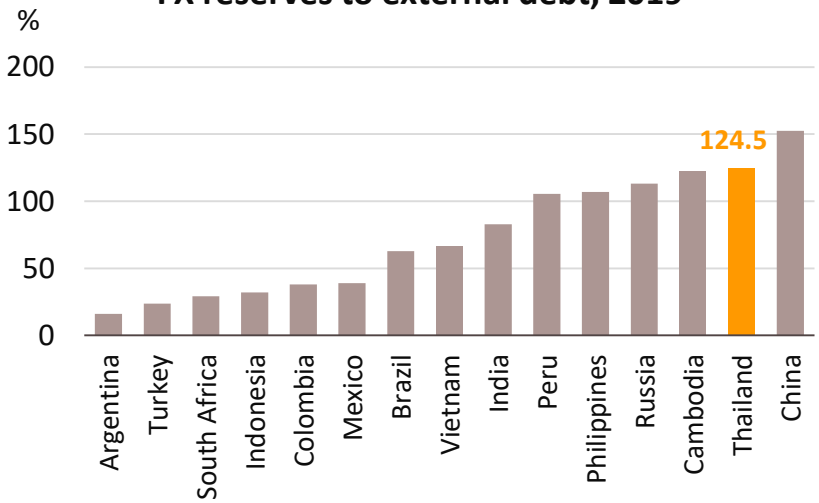
Source: Bank for International Settlements (BIS), BOT, CEIC, Public Debt Management Office (PDMO), Krungsri Research

External stability remains strong with high foreign reserves supported by current account surplus









Source: BOT, World Bank, Krungsri Research

Krungsri Research forecasts 2020-2021

Krungsri Research Forecast		2018	2019	2020F	2021F
GDP growth	YoY (%)	4.2	2.4	-6.4	3.3
Private Consumption Expenditure	YoY (%)	4.6	4.5	-1.1	2.5
Government Consumption Expenditure	YoY (%)	2.6	1.4	3.0	3.8
Private Investment	YoY (%)	4.1	2.8	-11.0	3.2
Public Investment	YoY (%)	2.9	0.2	12.5	10.5
Nominal Exports in USD (f.o.b.)*	YoY (%)	7.5	-3.3	-7.5	4.5
Nominal Imports in USD (f.o.b.)	YoY (%)	13.7	-5.6	-14.0	6.5
Current Account Balance	USD, bn	28.4	38.2	20.3	18.8
Tourist Arrivals	Mn, persons	38.2	39.8	6.7	4.0
Headline Inflation	YoY (%)	1.1	0.7	-0.9	0.8
Core Inflation	YoY (%)	0.7	0.5	0.3	0.3
Exchange rate (end of period)	THB/USD	32.4	30.1	30.3	29.3
Policy Interest rate (end of period)	(%)	1.75	1.25	1.25	0.50
Dubai crude price - period average	USD/bbl	69.3	63.0	41.5	48.0

* Customs-based export growth forecast: -7.0% in 2020, +4.0% in 2021

Source: NESDC, BOT, MOC, MOTS, Bloomberg, Krungsri Research

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