

krungsri Research

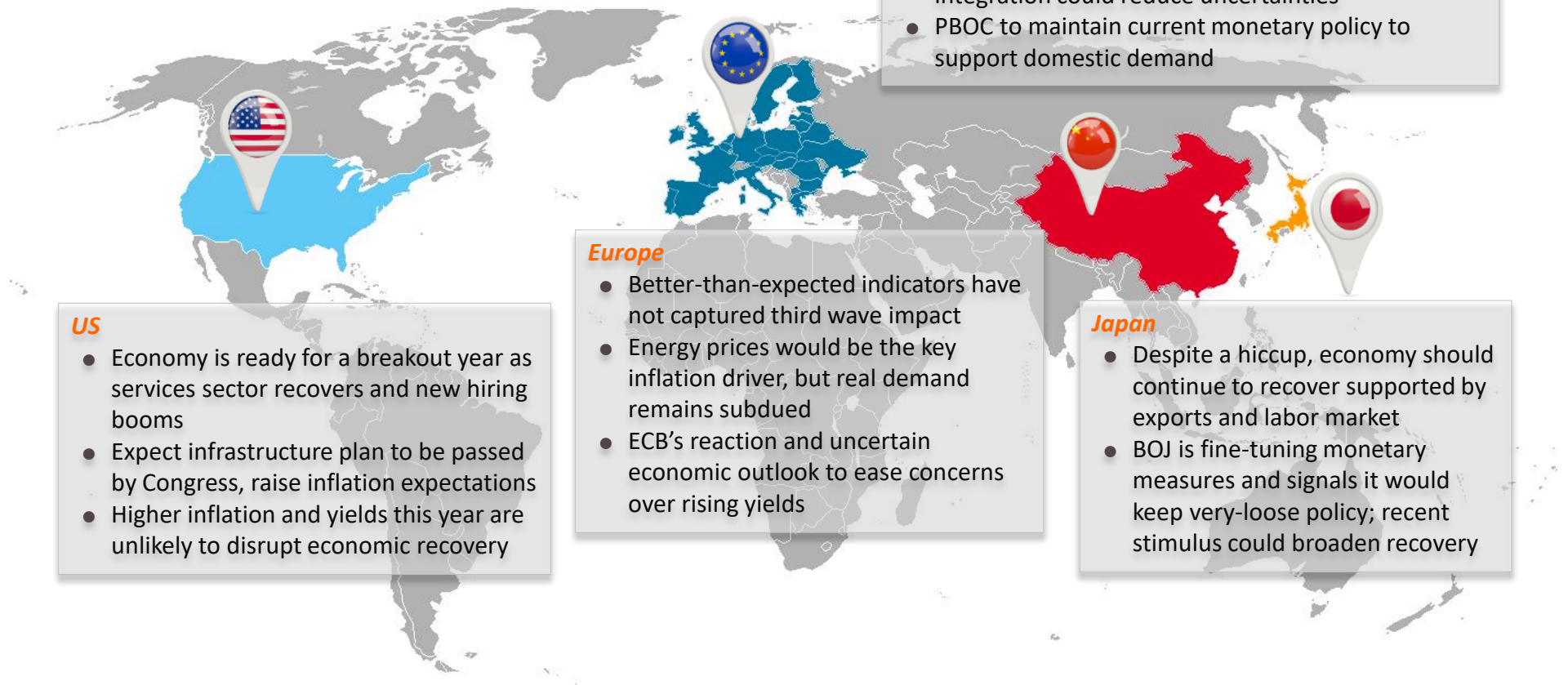
A member of MUFG a global financial group

MONTHLY ECONOMIC BULLETIN

April 2021

Krungsri Research

Global: Striving with COVID-19 aftershocks



China

- Economic recovery led by supply side; domestic demand should improve as COVID-19 impact fades
- Exports should expand well despite pressures; trade integration could reduce uncertainties
- PBOC to maintain current monetary policy to support domestic demand

US

- Economy is ready for a breakout year as services sector recovers and new hiring booms
- Expect infrastructure plan to be passed by Congress, raise inflation expectations
- Higher inflation and yields this year are unlikely to disrupt economic recovery

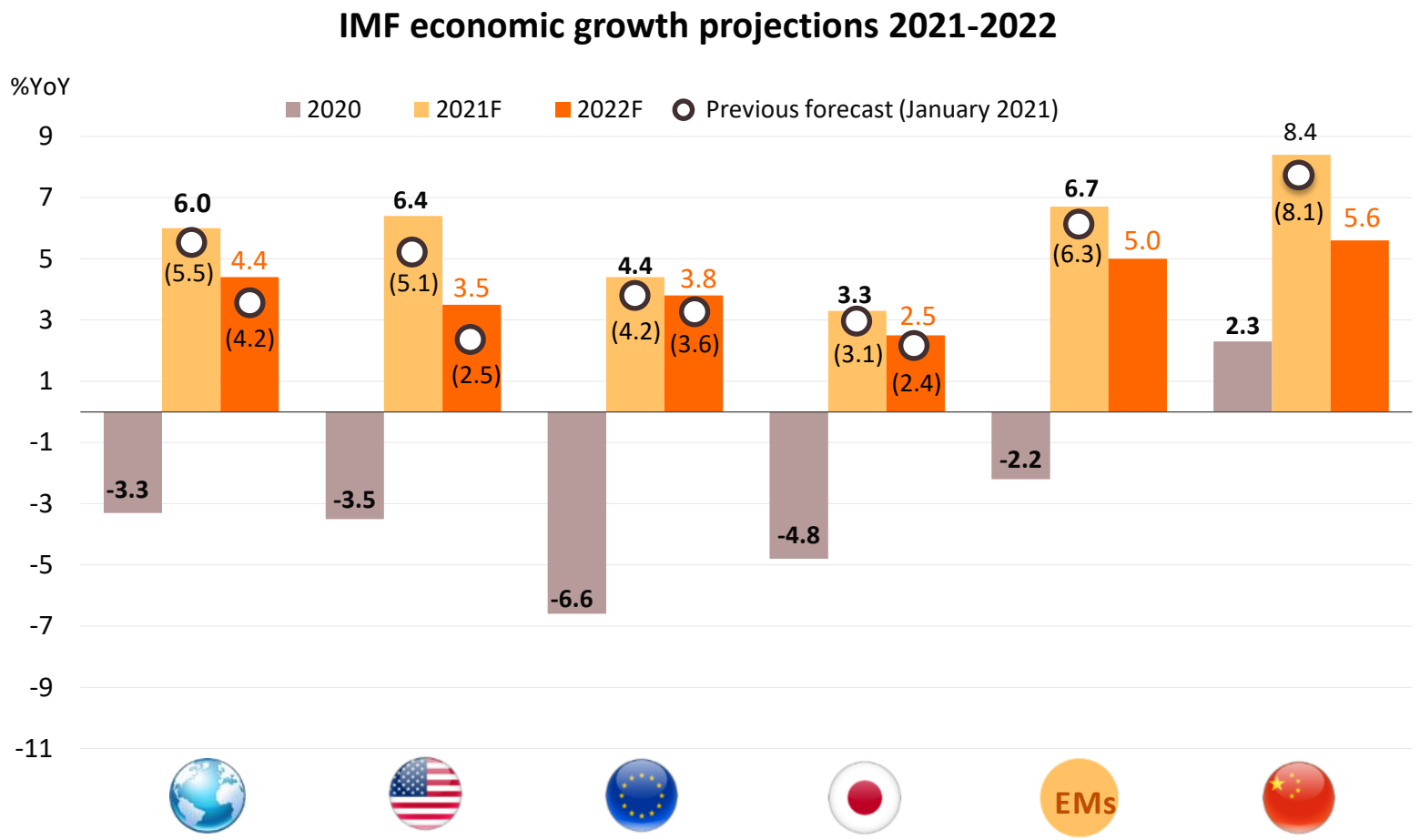
Europe

- Better-than-expected indicators have not captured third wave impact
- Energy prices would be the key inflation driver, but real demand remains subdued
- ECB's reaction and uncertain economic outlook to ease concerns over rising yields

Japan

- Despite a hiccup, economy should continue to recover supported by exports and labor market
- BOJ is fine-tuning monetary measures and signals it would keep very-loose policy; recent stimulus could broaden recovery

IMF raises 2021 and 2022 global growth forecasts to reflect additional fiscal support and vaccine-powered recovery in 2H21



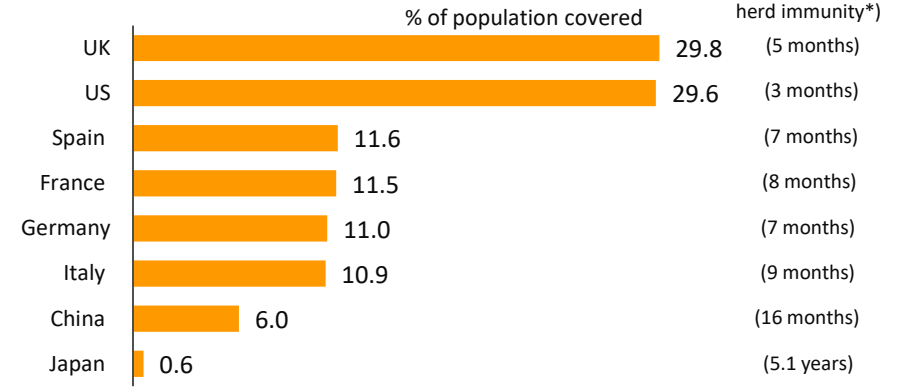
Note: ( ) January 2021 forecast

Source: IMF World Economic Outlook as of April 2021, Krungsri Research

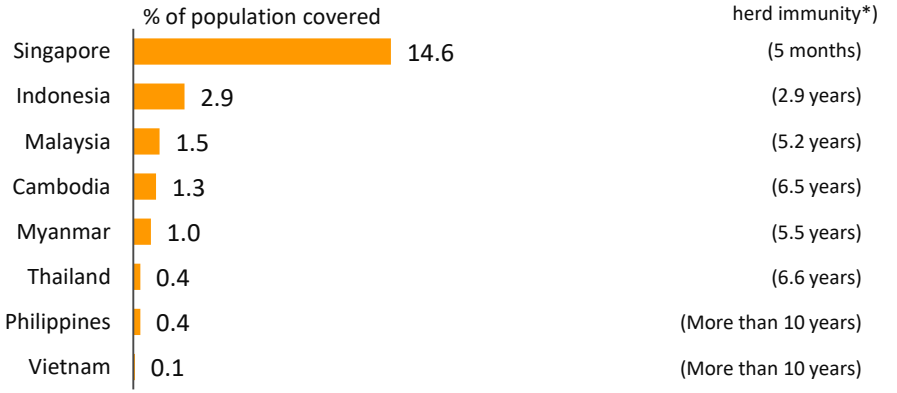
Some countries are accelerating inoculation, but many are still seeing large numbers of new COVID-19 cases

Progress in mass vaccination programs worldwide will determine when activities can return to normal. Currently, the US is ahead among major major countries, and could achieve herd immunity by the middle of this year. However, the rising number of new COVID-19 cases in many countries could delay overall economic recovery. Meanwhile, vaccination progress is slow in countries with relatively low number of infections such as Japan, China, Vietnam and Thailand.

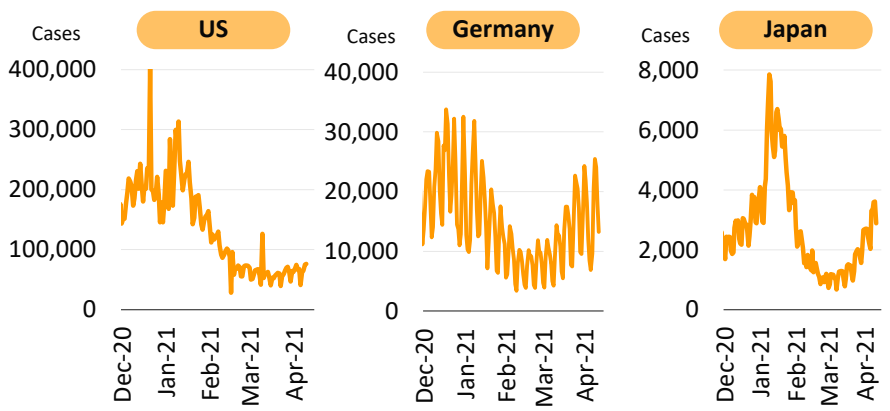
Global COVID-19 vaccination progress



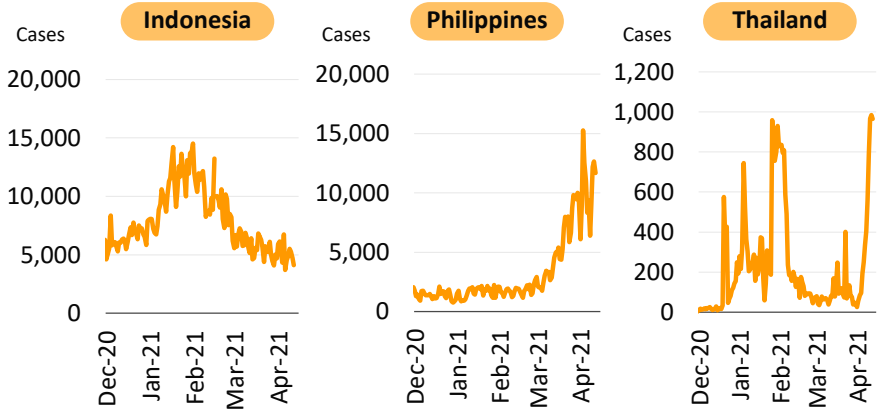
ASEAN COVID-19 vaccination progress



COVID-19 new cases in major countries



COVID-19 Infections in ASEAN



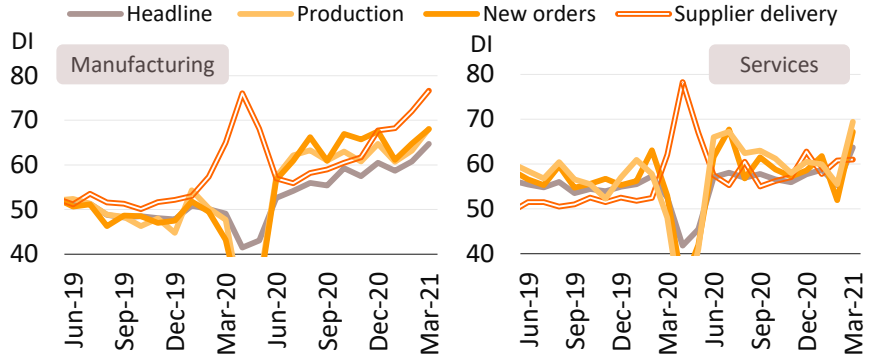
Note: *75% of population completely vaccinated (based on the current pace of vaccination)

Source: Bloomberg (Data as of 12 April 2021), WHO, Krungsri Research

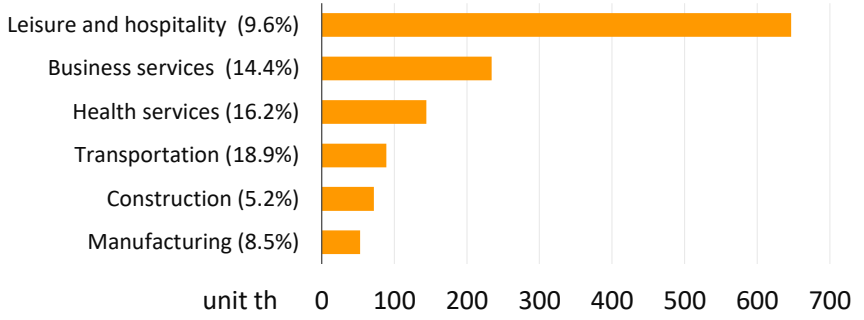
US: Economy is ready for a breakout year as services sector recovers and new hiring booms

Services sector continued to recover after the country lifted restrictions. Services PMI reached a new high of 63.7 in March driven by new orders and accelerating activities. Manufacturing PMI rose to 64.7 mainly due to longer supplier delivery period and recovering global demand. **Latest non-farm payrolls indicate an increase in hiring, with leisure & hospitality and healthcare sectors** booking the largest increases of 647k, 234k and 144k jobs since December last year, respectively. **High-frequency data suggest services activities have resumed since March along with recovering confidence and notable progress in the mass vaccination program.** Consumption would surge in 2Q21 supported by new stimulus and large stimulus checks contribution this year. This could lead to higher inflation in the second-half of 2021 but it will remain manageable. **The steady growth of the manufacturing sector, resumption of services activities, and the potentially stronger domestic spending could push the economy to experience impressive expansion this year.**

ISM PMI survey

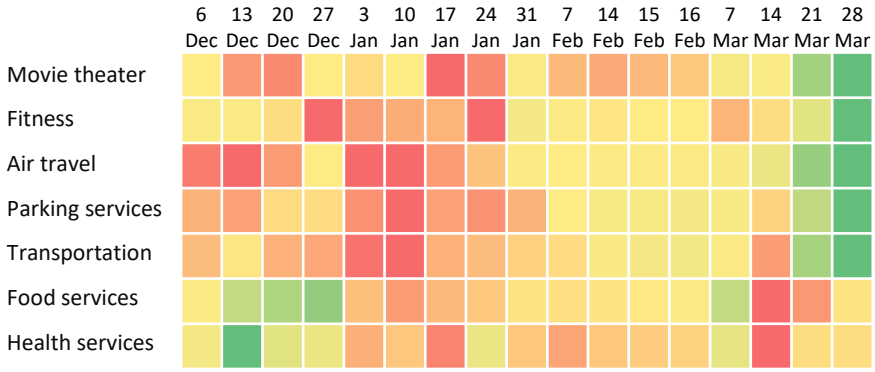


Change in payrolls from end-2020 to Mar-21

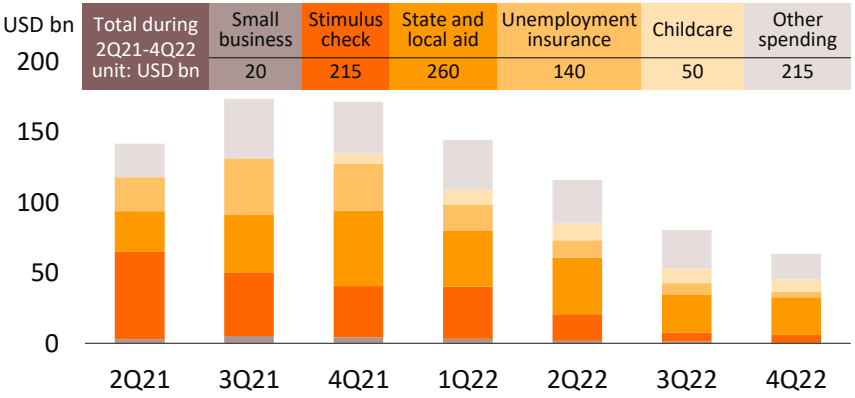


(%) is a share of employment to total non-farm payrolls

Services sector activities dashboard (% change from the same period last year)



Contribution of stimulus packages by quarter



Source: Institute for Supply Management, Bureau of Economic Analysis (BEA), Bureau of Labor Statistics (BLS), Facteus, Bloomberg, Krungsri Research

Expect infrastructure plan to be passed by Congress, raise inflation expectations

President Biden has proposed the "American Jobs Plan", a USD2.25trn infrastructure expenditure plan that aims to create jobs and lift the US to a stronger position over China in the next 8-10 years. Moreover, there would be an additional USD1trn package for long-term social security and healthcare. Biden also mulled raising corporate income tax rate from 21% to 28% to fund this plan. **Due to the large size of the plan, it could raise inflation expectations to more than 2.5% in 2021. However, the impact on actual inflation would be limited** as the spending would be distributed over a decade and money velocity would remain low; that means inflation would only tick up and there would be less impact on the real economy. On higher taxes, Republicans are likely to oppose this due to concerns over a larger fiscal deficit and federal public debt had surpassed the size of the economy. This leave **two main cards for the Biden administration: (i) increase corporate income tax to only 25%** instead of 28%, or **(ii) use the budget reconciliation to pass the plan without Republican support**. **The latter option seems more feasible. In our view, the total packages could be passed in the next fiscal year and the government would allow for larger fiscal deficit before it is offset by tax revenues.**

American Jobs Plan

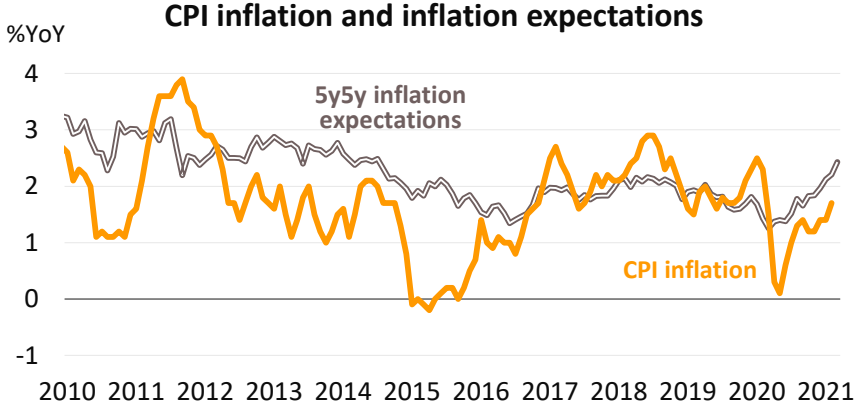
Transportation and EVs	USD 621bn (2.9% of GDP)
Green energy	USD 561bn (2.7% of GDP)
R&D and manufacturing subsidy	USD 480bn (2.3% of GDP)
Job training	USD 400bn (1.9% of GDP)
Elder and disability care	USD 200bn (0.9% of GDP)

Biden's revenue plan

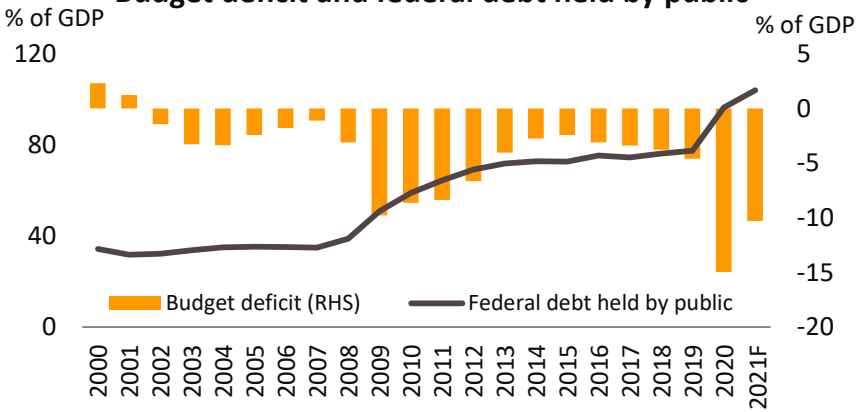
Revenue program	Expected revenues (USD bn)	% of GDP
Corporate tax increase	695	3.3
Global minimum tax increase*	495	2.4
Tax for Foreign Derived Intangible Income (FDII**)	217	1.0
End fossil fuel tax breaks	54	0.3

* Global minimum tax is a taxation of multinational companies' profits and revenues
** FDII is income from exporting products, such as patents, trademarks, and copyrights

CPI inflation and inflation expectations



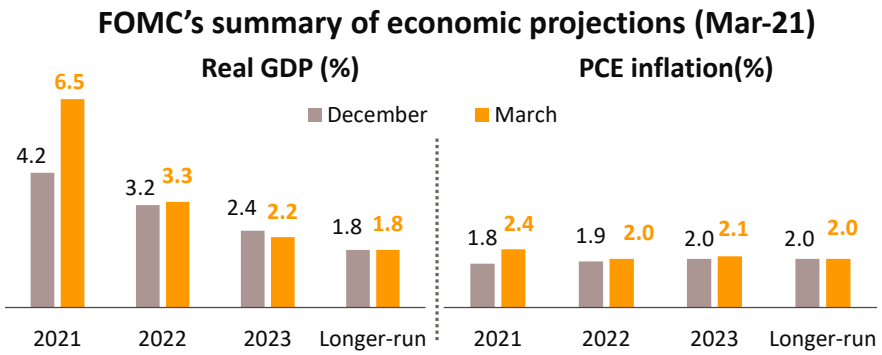
Budget deficit and federal debt held by public

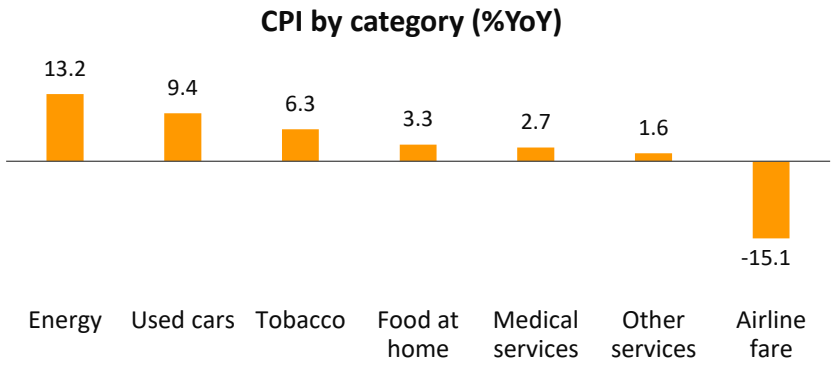


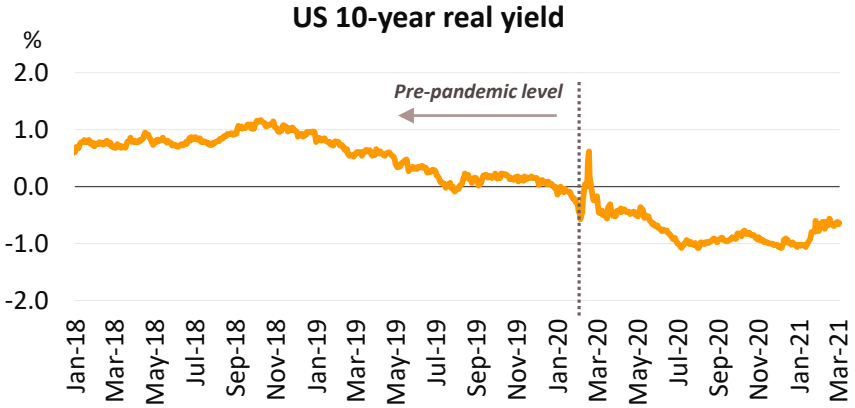
Source: Office of Budget and Management (OBM), Office of Congressional Budget (CBO), Bureau of Labor Statistics (BLS), Bloomberg, Krungsri Research

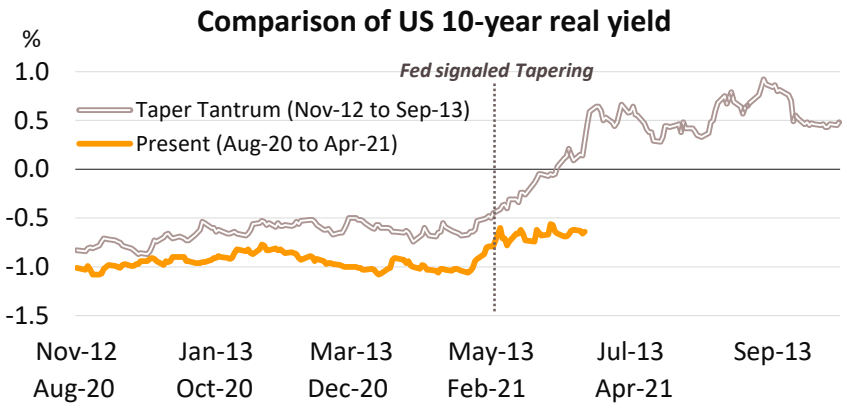
Higher inflation and yields this year are unlikely to disrupt economic recovery

The FOMC upgraded economic and inflation outlook at the latest meeting as more Americans are vaccinated and activities recover faster-than-expected. US Real GDP growth could reach +6.5% this year and +3.3% in 2022. Inflation could rise to 2.4% in 2021 from 1.8% previous forecast, due to base-effects and the spike in energy prices. **Inflation would rise again after services activities resume.** Airfares will recover in 2H21 as Americans are allowed to travel across states, while services prices had risen 1.6% YoY in March vs +1.3% in February. Bond yields would remain on upward trend due to more optimism on economic outlook. **The US 10-year treasury yield could exceed 2% in 2Q21 but is unlikely to disrupt economic recovery** as the Fed would allow that to curb market speculation and ease the overheating mortgage sector. The US 10-year "real yield" remains negative compared to pre-pandemic level and remains below the Taper Tantrum level. This implies the steepening yield would be unlikely to have significant impact on borrowing cost for businesses. Furthermore, rising inflation expectations could pressure real yield to remain negative. **Therefore, rising yields and inflation should not disrupt economic growth and stability, suggesting the Fed would be patient and not over-react but continue to monitor developments.**







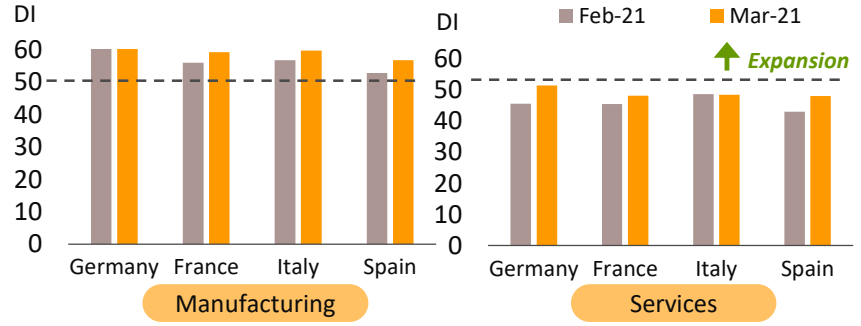


Source: Federal Reserve Board, Bureau of Labor Statistics (BLS), Federal Reserve Bank of St.Louis, Bloomberg, Krungsri Research

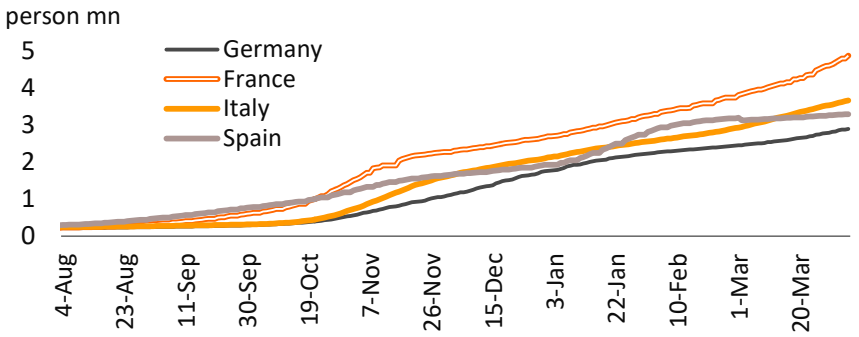
Europe: Better-than-expected indicators have not captured third wave impact

Eurozone activities have improved since mid-February, but the third wave of COVID-19 cases which started in April has returned as a major threat. Manufacturing PMI expanded in March led by Germany (66.6) as manufacturers reported a longer delivery period. Services sector improved slightly but still contracted. **These improvements are probably did not capture the impact of the latest outbreak.** France and Italy have been registering the highest number of new cases. Economic confidence show a similar development as industrial confidence rebounded to positive territory for the first time since February 2019, to 2.0 in March. However, confidence in the services and retail sectors are still far from pre-crisis levels. Apart from rising COVID-19 cases, **supply problem due to ships cargo stuck in the Suez Canal is likely to leave a longer impact as businesses reported more equipment shortage in 1Q21,** especially in investment and durable goods. Accounting for the latest outbreak and supply disruption, **Germany's GDP could return to pre-pandemic level (4Q19 level) by 2Q22, the fastest in eurozone**. GDP data for the other countries could reach pre-crisis levels from 3Q22 onwards, due to larger output losses. **This indicates the EU should not delay the implementation of the EUR750bn Recovery Fund in 2H21 to avoid a bumpy recovery this year.**

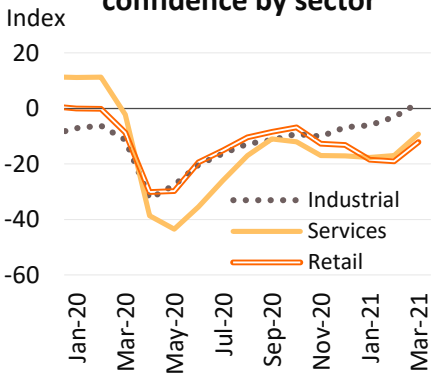
PMI survey by country



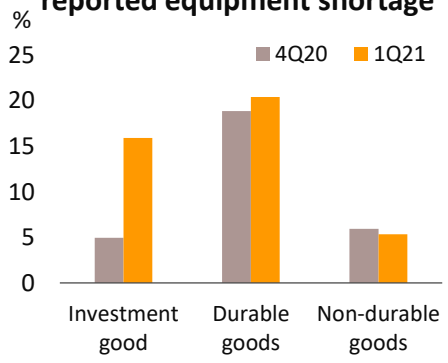
Cumulative confirmed cases



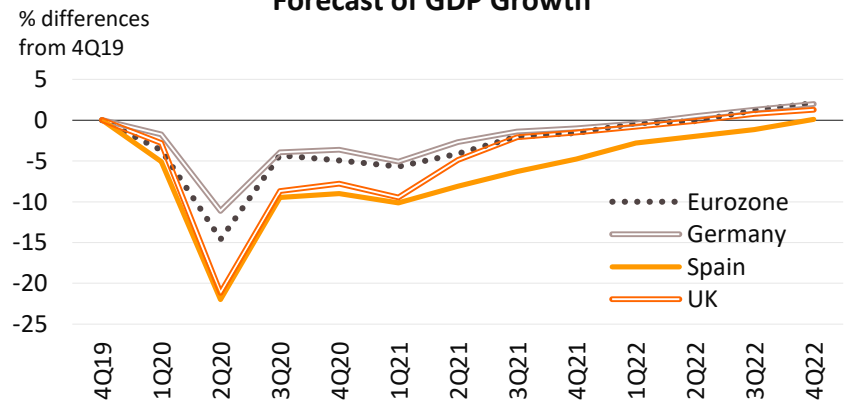
Eurozone economic confidence by sector



% of businesses that reported equipment shortage



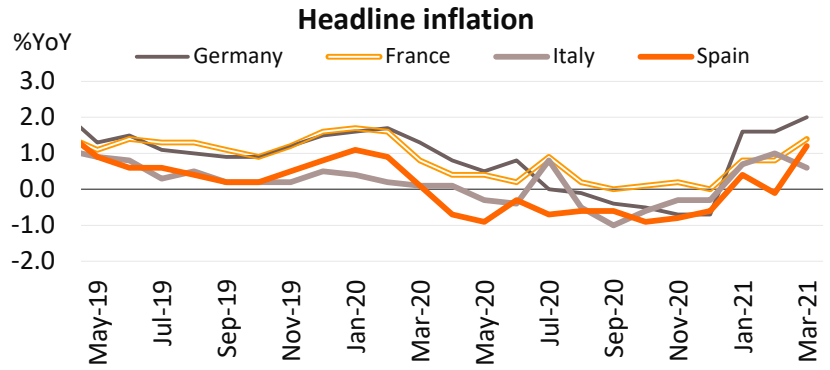
Forecast of GDP Growth

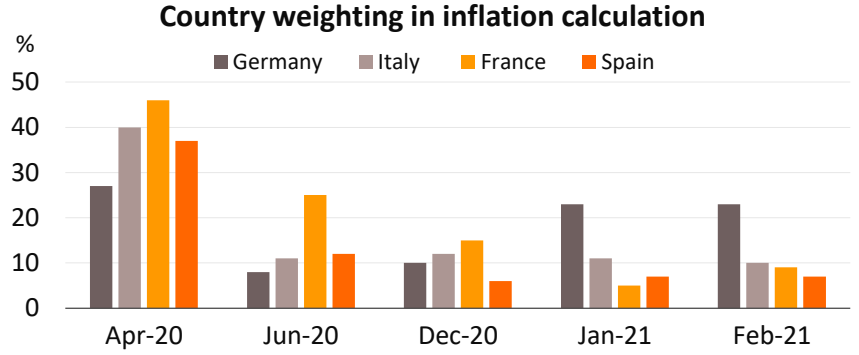


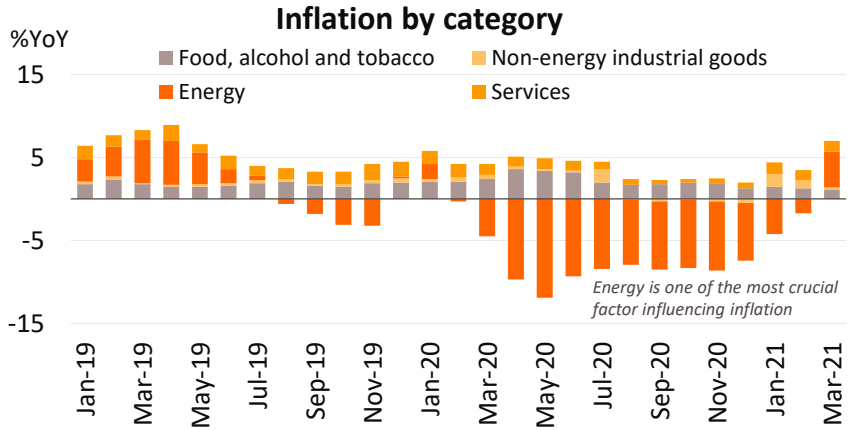
Source: IHS Markit, Johns Hopkins University, Eurostat, ING, Bloomberg, Krungsri Research

Energy prices would be the key inflation driver, but real demand remains subdued

Eurozone headline inflation rose from 0.9% YoY in February to 1.3% in March, led by Germany which inflation showed the largest expansion in two years at 2%. Eurozone inflation could stay high throughout this year due to Germany's large weighting in the inflation calculation. **We expect inflation to rise beyond 2% in 2Q21, exceeding the ECB's target. Higher inflation would be triggered by supply side rather than demand.** Energy price index surged to 4.3% in March following the spike in crude oil price to USD64 in March from USD32 in the same period last year. In the second-half, inflation would drop to around 2% due to softer oil prices and limited recovery in the services sector. Moreover, **rising inflation in 2021 would be temporary as it would be driven by one-off factors that will fade next year, such as the VAT hike in Germany. Looking forward, headline inflation would drop in 2022 due to the smaller marginal impact of VAT hike, weak demand, absence of additional stimulus, slow progress in vaccination programs, and relatively low wage growth.** Germany's wage growth was -0.5% last December. Although wages could improve in 2021, the historical-low level indicates it would take time to recover and to push spending back to normal.





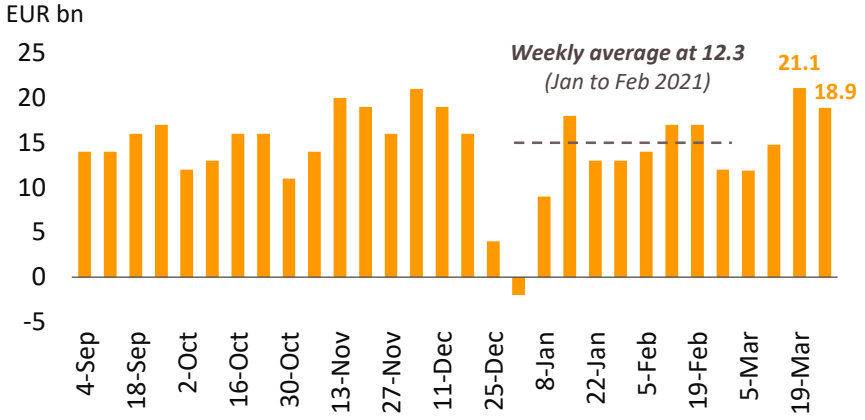




Source: Eurostat, European Central Bank (ECB), Federal Statistical Office of Germany, Bloomberg, Krungsri Research

ECB's reaction and uncertain economic outlook to ease concerns over rising yields

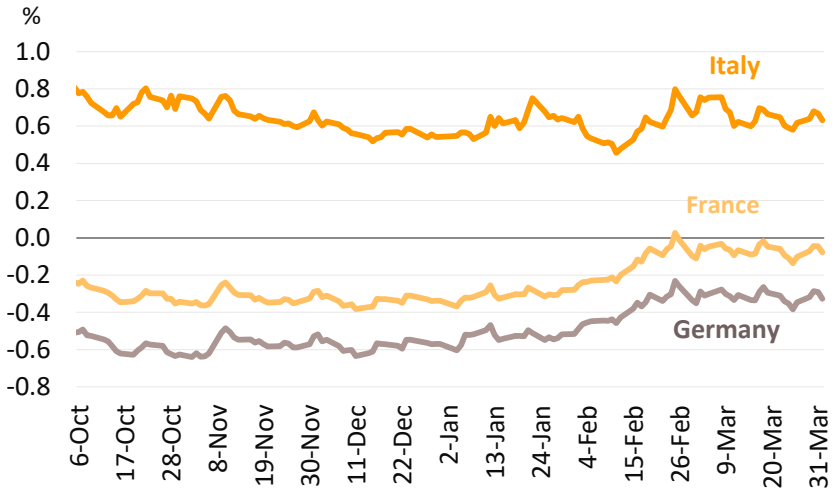
ECB weekly PEPP net purchases



Eurozone 10-year real yield



10-year government bond yields



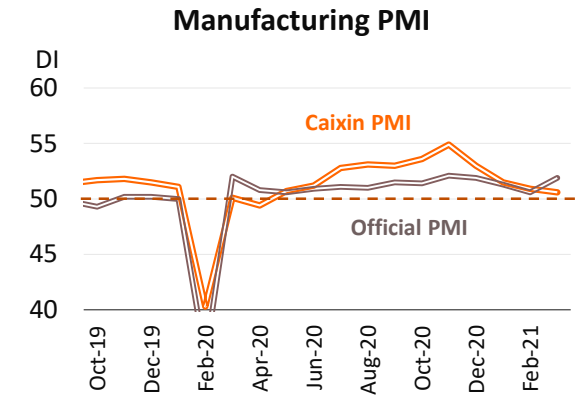
Source: European Central Bank (ECB), CEIC, Bloomberg, Krungsri Research

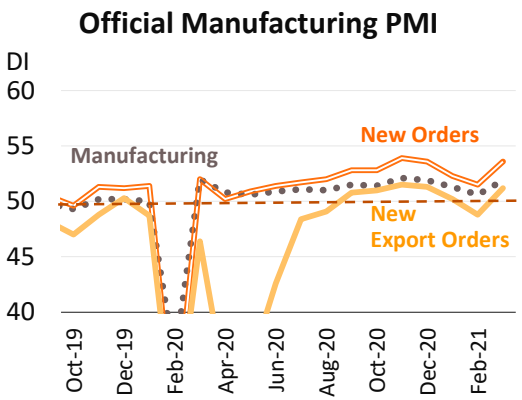
Krungsri Research's view

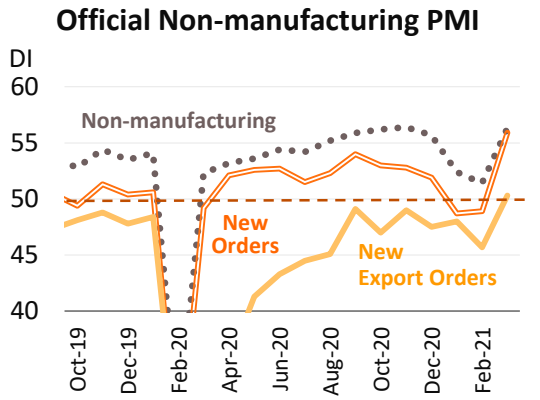
- **The ECB had increased weekly PEPP purchases from EUR12.3bn in the first two months of this year to EUR18.9bn and EUR21.1bn in late-March. We expect the ECB to continue to buy at least EUR20bn worth of notes through June 2021** because they had said they would look through the price increases and that the economy still needed support. The current support focuses on preventing steepening of the yield curve. Moreover, ECB President Christine Lagarde has reiterated that policymakers would not shy away from using all tools if investors try to push bond yields higher.
- **Fundamentally, rising eurozone bond yields is not worrying because they are still below historical levels and US yields.** The eurozone 10-year "real yield" is at -1.7%, the lowest in 2 years and has been in negative territory since June 2016. Germany's 10-year government yield remains negative at -0.3% and has dropped after the ECB's purchases.
- Furthermore, reflation - which had pushed up bond yields - would be less of a concern in the euro area as surging number of new COVID-19 cases has fueled caution among investors due to fear of larger economic impact and inability to contain the outbreak. **Supportive actions from the central bank and the uncertain economic outlook imply rising yields in eurozone should be manageable and is unlikely to hurt economic recovery.**

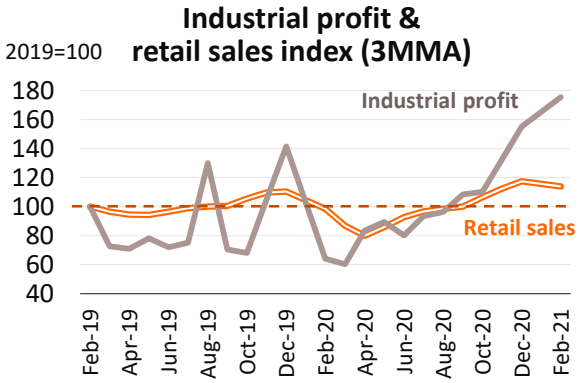
China: Economic recovery led by supply side; domestic demand should improve as COVID-19 impact fades

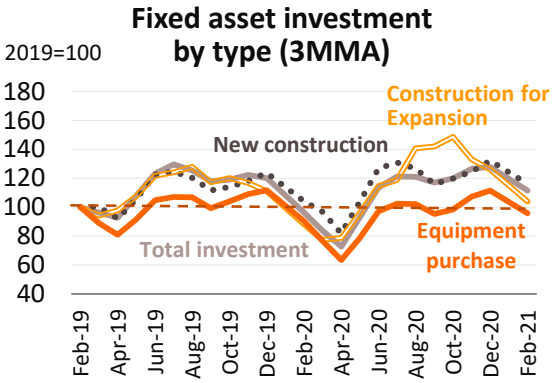
Recovery is being led by supply-side factors, as reflected in the Official and Caixin Composite PMI data for March which remained in expansion territory. In addition, the pick-up in new orders and new export orders sub-indices for both Manufacturing and Non-manufacturing PMI suggest the recovery momentum is driven by both domestic and external demand. The improving export orders implies exports would continue to support recovery. The uptick in supply-side factors was also reflected by rising industrial profits. **The improvements in March PMI data signal over February data suggests ongoing recovery.** The slowdown in consumption and investment in February reflects the impact of the second wave and temporary shutdown of activities during the Lunar New Year. However, there was continual recovery in investment in the computer & electronics sector, which could be driven by work-from-home policy. **Overall, China's economy should continue to recover, especially demand-side factors, as the pandemic impact fades.**

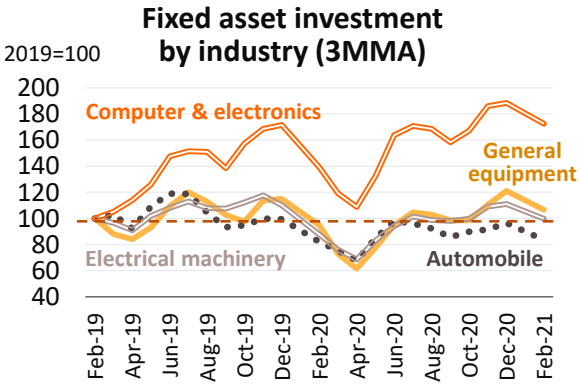










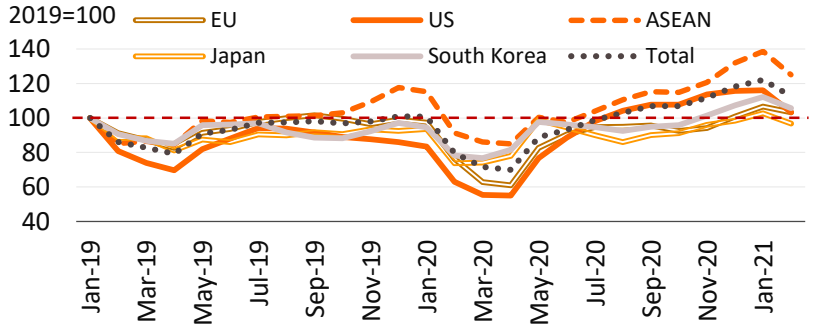


Source: National Statistics Office, Caixin-Markit, CEIC, Capital Economics, Krungsri Research

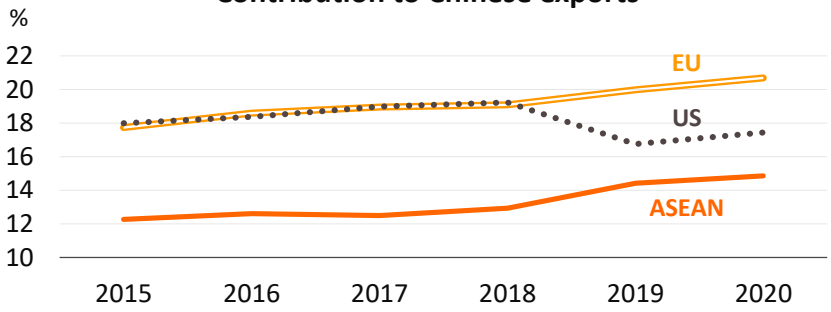
Exports should expand well despite pressures; trade integration could reduce uncertainties

Despite several uncertainties, including the new wave of COVID-19 cases in many countries and the global shortage of container-shipping capacity, Chinese exports in February remained above pre-pandemic levels. The PMI New Export Orders sub-index for March suggests exports would improve in the next period. Meanwhile, the Sino-US tension under President Biden could worsen as the conflict has extended to cover human rights issues and blacklisting supercomputing entities. Although the share of Chinese exports to the US shrank in 2019, China's trade with the US remains sizeable with the US being China's second largest export destination in 2020. **Looking ahead, China's trade relations with the EU and ASEAN would further support its exports given several economic deals** such as the Regional Comprehensive Economic Partnership (RCEP) and EU-China Comprehensive Agreement on Investments (CEI). Both agreements are expected to enhance China's role in trade and investment in Asia and Europe. Hence, exports would remain crucial to support China's ongoing economic recovery.

Exports by major destinations (3MMA)



Contribution to Chinese exports



Biden's strategic competition policy against China

Areas	Strategic focus
International relations policy	Promote the adoption of human rights and democracy in China Scrutinize financial transactions for potential national security risks
Trade policy	Continuation of acrimonious trade relationship Repatriation of manufacturing and supply chains
Digital policy	Strengthen cybersecurity

Recent development of Chinese economic ties

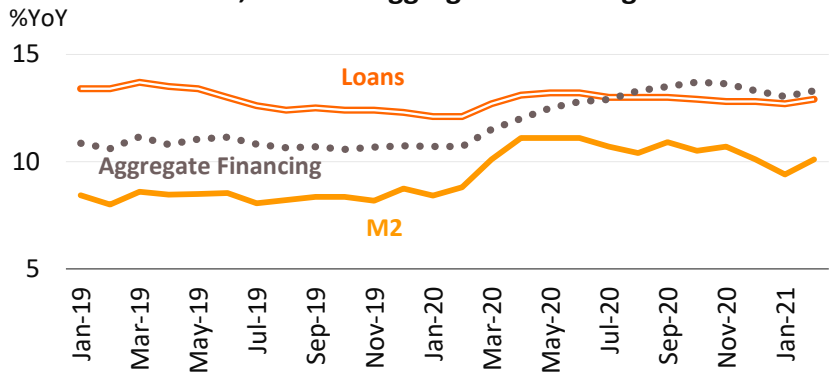
Agreement	Core focus	Timeline
Regional Comprehensive Economic Partnership (RCEP) Agreement	Facilitate trade and investment by reducing or eliminating tariffs for ASEAN and 5 non-member states, including China	China's ratification date 8 Mar 2021 Expected effective date Jan 2022
EU-China Comprehensive Agreement on Investments (CEI)	Provide opportunities and improve conditions for access to the 27 EU member states and Chinese markets	Date of agreement in principle 30 Dec 2020 Expected effective date Early 2022

Source: CEIC, Capital Economics, China Briefing, Bloomberg, Krungsri Research

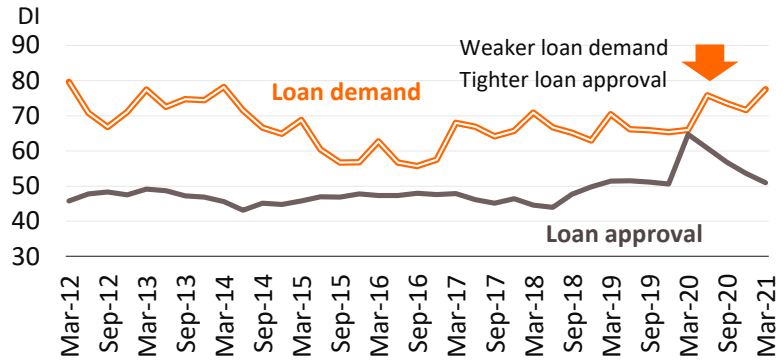
PBOC to maintain current monetary policy to support domestic demand

Krungsri Research maintains view that the People's Bank of China (PBOC) would keep policy rate unchanged until there are signs that domestic demand is able to drive the broad economy without large stimulus measures. In February, money supply, aggregate financing as well as loans continued to expand, reflecting the continuity of accommodative monetary policy. Demand for loans also increased, while financial institutions are starting to be cautious with approving new loans almost similar to the pre-pandemic period. Recently, narrower spreads between Chinese and US bond yields had led to the depreciation of the Chinese yuan. The PBOC would likely allow the yuan to weaken to support Chinese exports. In addition, the PBOC governor revealed his intension to maintain easing monetary policy with preemptive measures to mitigate financial exposure, explaining *"monetary policy should balance between supporting growth and preventing risks"*. This statement is in line with our view. The continuity of monetary easing with targeted measures would help to reduce the pandemic impact and continue to support recovery.

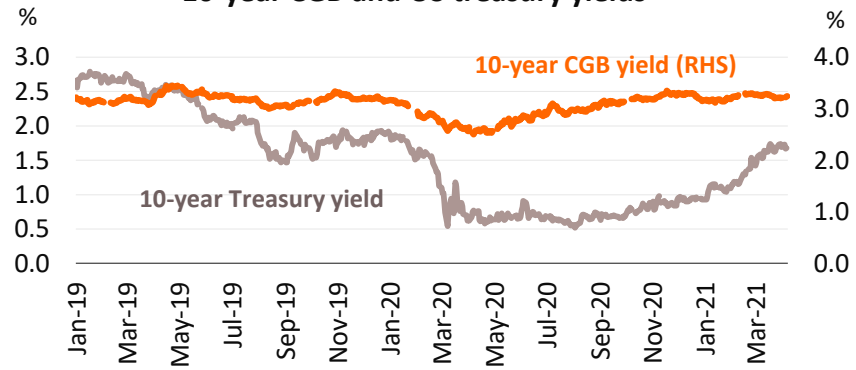
M2, Loans & Aggregate Financing



Lending conditions



10-year CGB and US treasury yields



Exchange rate

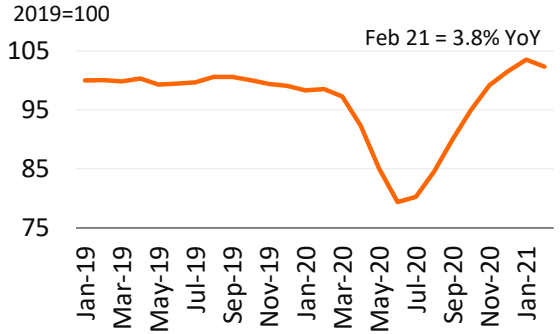


Source: The People's Bank of China (PBOC), Bloomberg, Capital Economics, Reuters, Krungsri Research

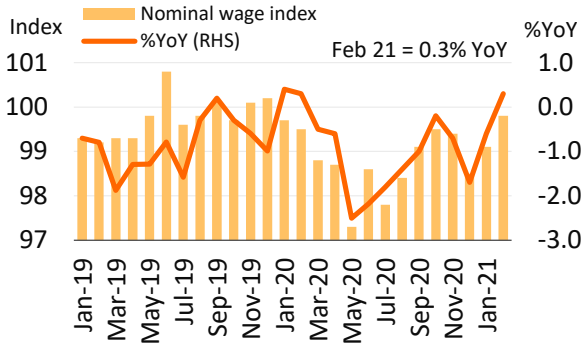
Japan: Despite a hiccup, economy should continue to recover supported by exports and labour market

The economy should continue to recover, driven by a further expansion in exports. The gradual rebound in exports would support employment. Real wage rose for the first time in a year in February. The higher purchasing power helped boost retail sales to register positive growth. Economic activity should improve, as reflected in an increase in the Apple mobility index after the state of emergency was lifted in March. The resumption of activities was also reflected in better PMI in March. Manufacturing PMI data was at its highest since December 2018, while Services PMI data has climbed to a 3-month high. However, there could be a hiccup due to the latest quasi-emergency measures imposed in some areas of Tokyo, Osaka and 4 other prefectures, though the impact should be limited. The mass vaccination program is progressing slower than expected as only 1.3 million doses have been administered. The decision to ban foreign spectators from the Tokyo Olympic games is estimated to result in limited loss, at 0.1% of GDP. In all, despite several headwinds, the overall economy should continue to recover gradually but Japan would still need stimulus measures.

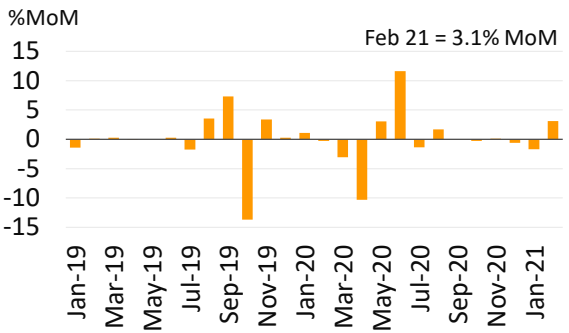
Export volume index (3MMA)



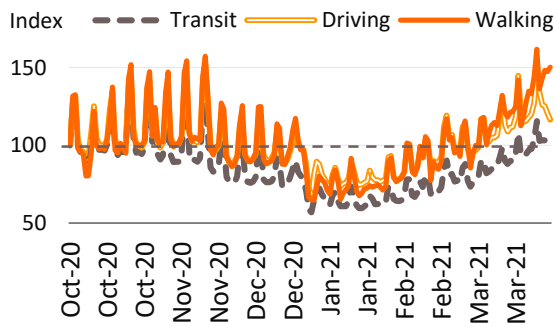
Real wage index sa



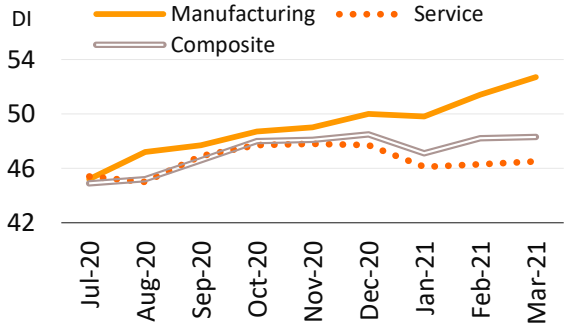
Retail sales index sa



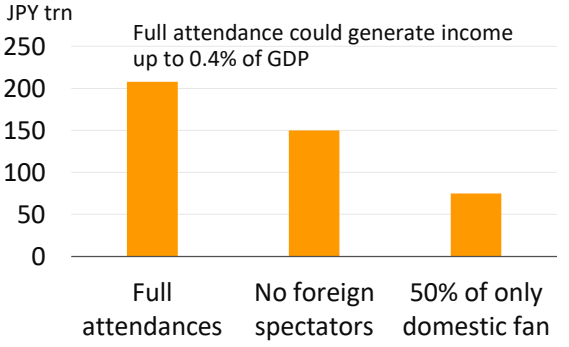
Apple mobility trend



Jibun PMI



Estimated spending by Tokyo Olympic Games audience



Source: CEIC, Bloomberg, Capital Economics, Krungsri Research

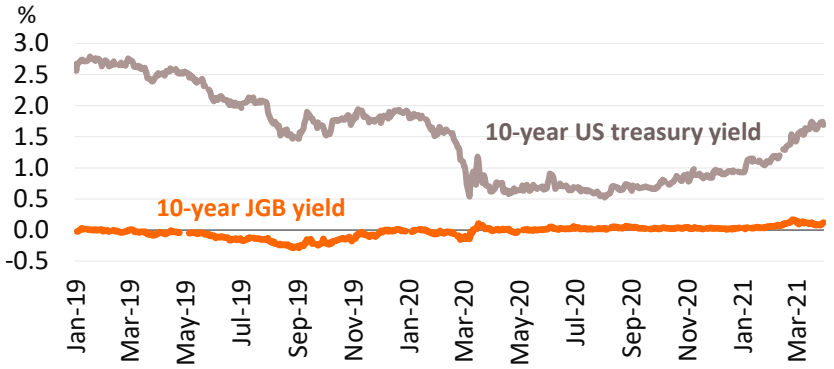
BOJ is fine-tuning monetary measures and signals it would keep very-loose policy; recent stimulus could broaden recovery

At the last monetary policy meeting on 18-19 March, the Bank of Japan (BOJ) kept policy interest rates unchanged and continued to employ QE and yield curve control measures. It also widened the tolerance band for 10-year bond yield and scrapped its annual target of JPY 6trn ETF purchases. **This move is only a policy tweak to allow financial markets to function more freely, and the BOJ is expected to maintain very accommodative policy stance by (i) widening tolerance band for bond yield by only ±5 bps, and (ii) Governor Kuroda assuring *"the BOJ would not stop buying the ETFs"*.** The rising yields could also improve the banks' profitability. Nonetheless, higher bond yields should not adversely affect the real sector since policy makers have announced additional supportive measures, including soft loans for mid- and large-size firms and subsidies for restaurants and bars. These measures could ease the impact on those hit hardest by the latest wave of infections. Looking ahead, the targeted stimulus packages coupled with very-loose monetary policy could support recovery in laggard sectors, especially service-related businesses, and lift domestic demand going forward.

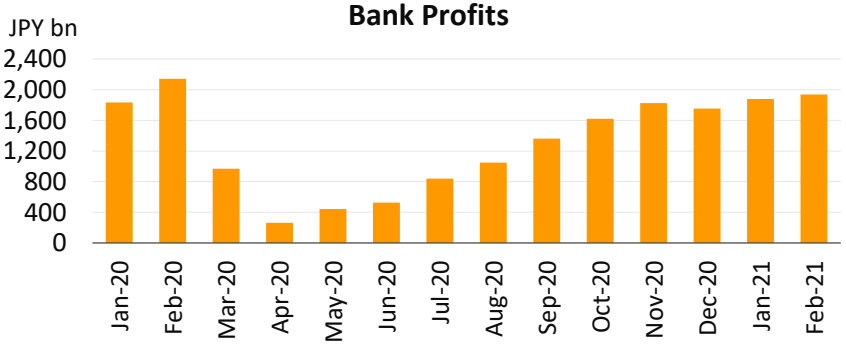
BOJ tweaks monetary policy

Revised measures	Objective
Widening tolerance band for 10-year bond yields to ±25 bps (from ±20 bps)	- To curb speculation and improve banks' and pension funds' earnings - BOJ has also pledged to buy unlimited bonds to keep yields low and to prevent a sharp rise in yields
Removing JPY6trn annual limit for buying exchange-traded fund (ETF)	- Allow markets to function more efficiently - Buy ETFs when markets are volatile, with a JPY12 trn ceiling

10-year JGB and US treasury yields



Bank Profits



Additional monetary and fiscal stimulus measures

New stimulus	Details
Stepping-up loans for mid-size and large-scale firms	Loans at c.1% p.a. interest rate for an initial three years, targeted at medium and large size restaurants and travel-related businesses.
Additional JPY2.17trn in FY2020 reserve funds to finance businesses and individuals who are suffering from the pandemic	- JPY1.54trn to provide JPY40,000 per day subsidy to eligible restaurants and bars that have been ordered to close early. - JPY341bn to facilitate zero-interest (up to JPY200,000) loan per household from April to June.

Source: Bank of Japan, Japanese Cabinet Office, CEIC, Bloomberg, Krungsri Research

Thailand: Déjà vu, but in a different setting

Third wave of COVID-19 could be more severe

The latest COVID-19 outbreak which started in early April is spreading much faster than the previous outbreaks in March-April last year and early this year, in term of pace and number of clusters. Our model suggests this wave could peak in late-April to early-May and the cumulative number of cases in Thailand could surge above 100,000. At worst, the toll could reach over 300,000 and the pandemic could stretch into 3Q21. And given slow progress in vaccination, the Thai economy might not recover so soon.

We trimmed 2021 GDP growth forecast by 0.25ppt to 2.2% to reflect COVID-19 and drought impacts; upbeat exports and stimulus to limit downside

The third wave will delay Thailand's economic recovery. Our base case scenario assumes new daily COVID-19 cases will peak in late-April to early-May and drop within two-months of a soft lockdown, and that would reduce Thai GDP growth by 1.6 ppt this year. Moreover, the drought is estimated to shave 0.15 ppt off growth. Nonetheless, the better-than-expected export performance would lift GDP growth by 0.3 ppt. In addition, the larger-than-anticipated stimulus measures and expectations of more stimulus programs to cushion the COVID-19 impacts could lift GDP growth by a total of 1.2 ppt. As a result, the net impact on GDP growth would be minus 0.25 ppt, which would take 2021 full-year growth forecast to 2.2% vs 2.5% in the previous projection.

Despite rising risk to growth, MPC is likely to maintain record-low policy rates and step-up targeted measures

Instead of employing an interest rate policy with limited room to maneuver, the BOT is employing targeted measures because of the uneven economic recovery. Before the third wave hit Thailand, the BOT governor had expected "*Thai GDP could return to pre-pandemic level by 3Q22*". This indicates policy interest rate would remain at record low through next year.

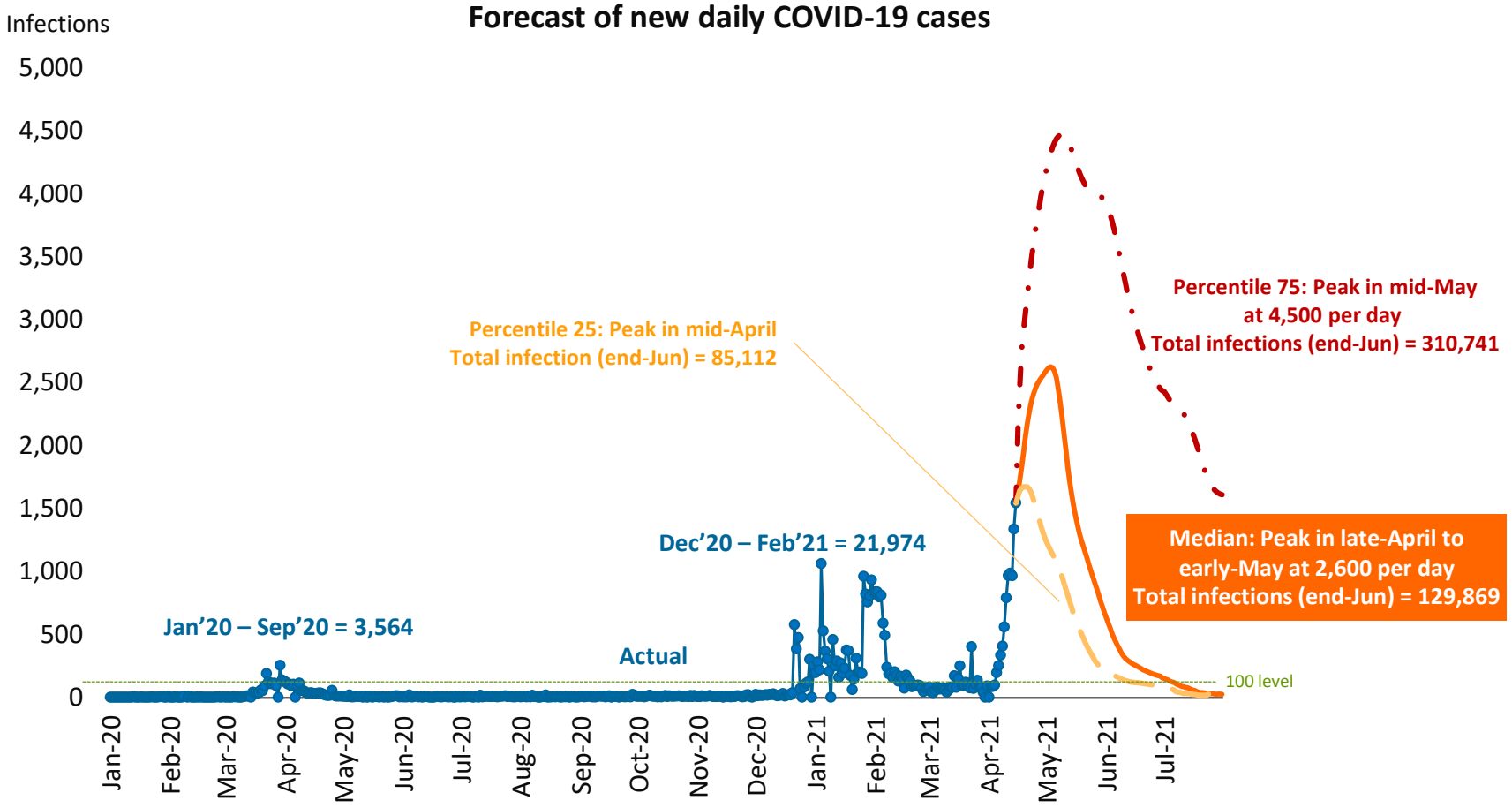
Thailand Economic Outlook 2021

Krungsri Research Forecast		2019	2020	2021F	
				Previous	Latest
GDP growth	YoY (%)	2.3	-6.1	2.5	2.2 ▼
Private Consumption Expenditure	YoY (%)	4.0	-1.0	1.8	2.0 ▲
Government Consumption Expenditure	YoY (%)	1.7	0.8	4.3	4.3 =
Private Investment	YoY (%)	2.7	-8.4	2.9	3.3 ▲
Public Investment	YoY (%)	0.1	5.7	10.5	7.8 ▼
Nominal Exports in USD (f.o.b.)	YoY (%)	-3.3	-6.6	3.8	6.0 ▲
Nominal Imports in USD (f.o.b.)	YoY (%)	-5.6	-13.5	5.2	12.5 ▲
Current Account Balance	USD, bn	38.2	16.5	19.6	8.8 ▼
Tourist Arrivals	Mn, persons	39.8	6.7	4.0	3.0 ▼
Headline Inflation	YoY (%)	0.7	-0.8	1.1	1.1 =
Exchange rate (end of period)	THB/USD	30.1	30.0	29.3	30.5 ▲
Policy Interest rate (end of period)	(%)	1.25	0.50	0.50	0.50 =
Dubai crude price (period average)	USD/bbl	63	42	62	62 =

Source: Office of the National Economic and Social Development Council (NESDC), Bank of Thailand (BOT), Ministry of Commerce (MOC), Ministry of Tourism and Sports (MOTS), Krungsri Research

COVID-19 pandemic: Third wave could be more severe

The latest COVID-19 outbreak which started in early April is spreading much faster than the previous outbreaks in March-April last year and early this year, in term of pace and number of clusters. Our model suggests this wave could peak in late-April to early-May with the number of new daily infections of 2,600. The cumulative number of cases in Thailand could surge above 100,000. The number of new daily infections is expected to fall below 100 in early July. At worst, the toll could reach over 300,000 and the pandemic could stretch into 3Q21. And given slow progress in vaccination, the Thai economy might not recover so soon.

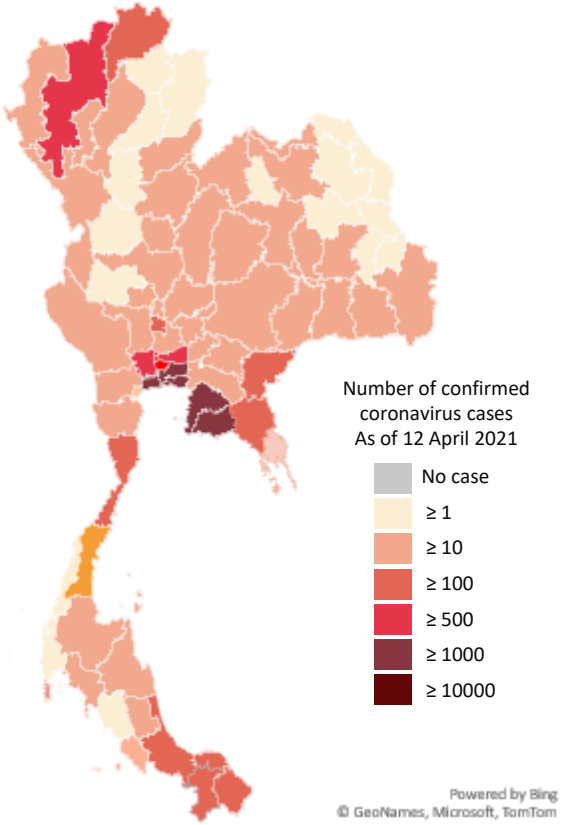


Source: WHO, forecast by Krungsri Research

Rising COVID-19 cases have led to stricter restrictions, which would delay economic recovery

The latest outbreak that started in early-April has spread to many provinces. Before the long Songkran holidays, the government maintained nine provinces including Bangkok under "Control Zone" (orange zone) to avoid a lockdown of economic activity. However, after ending the holidays, **the government has classified 18 provinces as "High-Control Zone" (red zone) by introducing stricter restrictions, including social distancing rules, to control the latest outbreak which saw a surge in the number of inflections in wider areas. This could disrupt economic activity and delay recovery in the Thai economy.**

COVID-19 situation in Thailand



Source: Wikipedia, MOICOVID, Krungsri Research

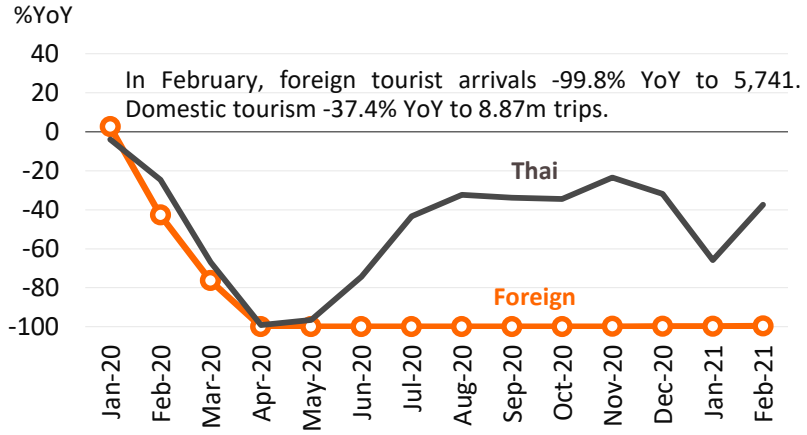
COVID-19 control zones

Zone	Started on 1 Feb	Started on 23 Feb	Started on 19 Mar	Started on 18 Apr
Maximum control	**1 province** (Samut Sakhon)	**1 province** (Samut Sakhon)	-	-
High-control	**4 provinces** (Bangkok, Samut Prakan, Nonthaburi, Pathum Thani)	-	-	**18 provinces** (Bangkok, Chiang Mai, Chon Buri, Samut Sakhon, Samut Prakan, Nonthaburi, Tak, Nakhon Prathom, Pathum Thani, Prachuap Khiri Khan, Phuket, Rayong, Nakon Rachasrima, Songkhla, Udon Thani, Suphan Buri, Sra Kaeo, Khon Kaen)
Control	**20 provinces** (Ratchaburi, Nakhon Prathom, Samut Songkram, Ayutthaya, Kanchanaburi, Suphan Buri, Chon Buri, Sing Buri, Chumphon, Trad, Lop Buri, Saraburi, Nakhon Nayok, Chachoeng-sao, Rayong, Phetchaburi, Sra Kaeo, Ang Thong , Prachin Buri, Chanthaburi)	**8 provinces** (Bangkok, Samut Prakan, Samut Songkram, Nonthaburi, Tak, Nakhon Prathom, Pathum Thani, Ratchaburi)	**9 provinces** (Bangkok, Samut Sakhon, Samut Prakan, Samut Songkram, Nonthaburi, Tak, Nakhon Prathom, Pathum Thani, Ratchaburi)	**59 provinces** (the rest of Thailand)
High-surveillance	**17 provinces**	**14 provinces**	**14 provinces**	-
Surveillance	**35 provinces**	**54 provinces**	**54 provinces**	-

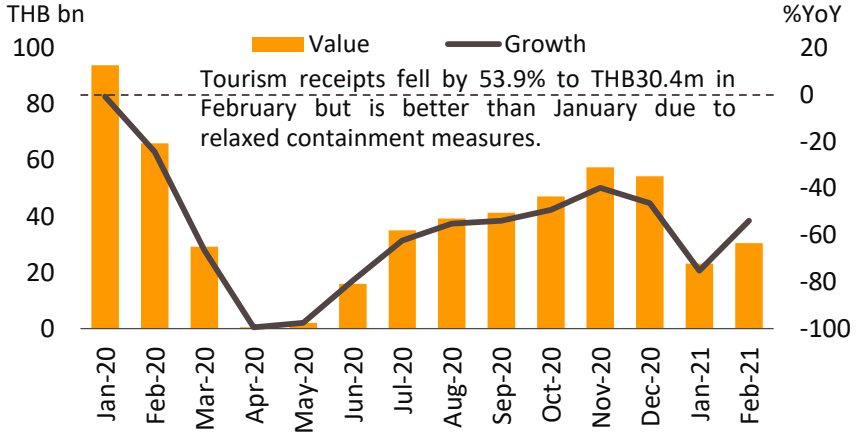
Slashed 2021 foreign tourist arrivals to 3 million despite expecting an improvement in 4Q

The latest outbreak in Thailand, rising cases in major countries, and slow progress in the domestic vaccination program, prompted us to revise down foreign tourist arrivals for 2021 to 3 million (from 4 million). To boost domestic tourism, the government has announced measures to boost the sector, including (i) phase III of '*We Travel Together*' program (THB5.5bn), and (ii) '*Tour Tiew Thai*' program (THB5bn) effective May to August. However, the latest wave of COVID-19 could derail these programs.

Foreign tourist arrivals and Thai tourists

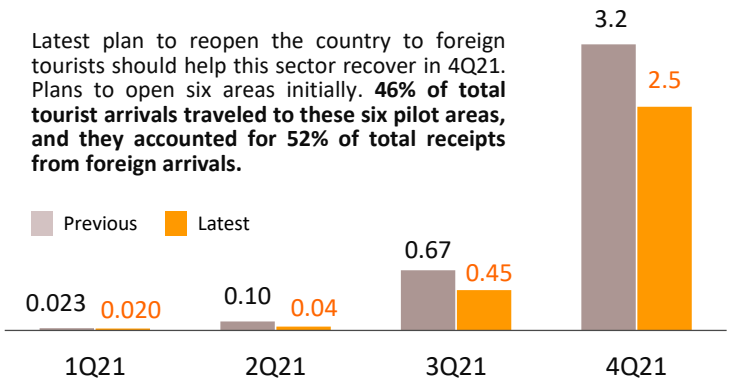


Tourism receipts from Thai tourists



Projected foreign tourist arrivals in 2021 (persons, mn)

Latest plan to reopen the country to foreign tourists should help this sector recover in 4Q21. Plans to open six areas initially. **46% of total tourist arrivals traveled to these six pilot areas, and they accounted for 52% of total receipts from foreign arrivals.**



Plan for reopening the country to foreign tourists

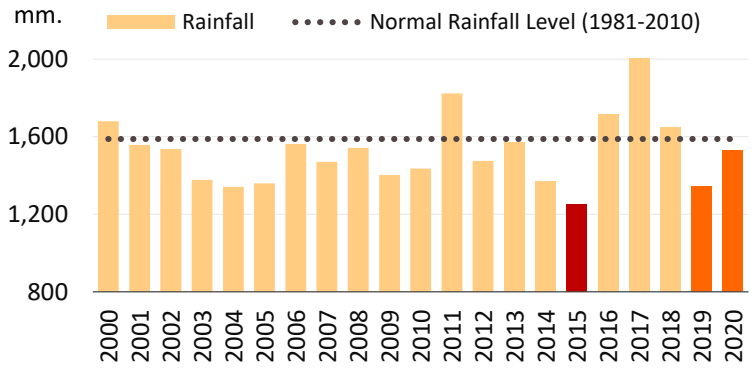
Start	Area	Condition
Apr 1, 2021	Phuket, Phang Nga, Krabi, Koh Samui, Pattaya, Chiang Mai	**Quarantine** 7 days in the hotel
Jul 1, 2021	Phuket sandbox	**No quarantine** Must stay in Phuket 7 days before traveling the other areas
Oct 1, 2021	Phuket, Phang Nga, Krabi, Koh Samui, Pattaya, Chiang Mai	**No quarantine** Must stay in these areas 7 days before traveling the other areas
Jan 1, 2022; Fully reopening		

Source: MOTS, Krungsri Research

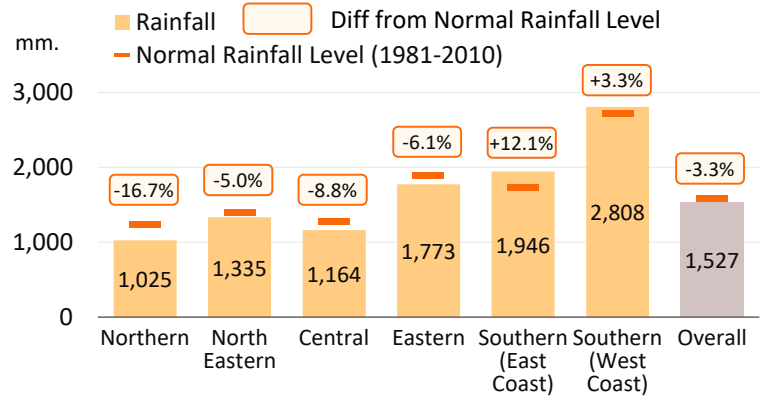
Drought: Indicators increasingly point to another drought in Thailand in 2021

This is premised on the following: (i) less rainfall than normal for two consecutive years (2019-2020); (ii) a large amount of rainfall in the country fell outside water catchment areas (reservoirs and dams) in 2020; (iii) water-holding capacity has been reduced due to the extended dry period; and (iv) more severe salt water intrusion. At the end of 2020, a total of 43,155 mn cubic meters of water was stored in reservoirs across the country. This represented 61% of storage capacity, close to the situation in 2019 with 44,281 mn cubic meters of water or 62% of capacity. **But the most important data is the volume of usable water in reservoirs. At end-2020, usable water supply was critically-low at only 19,613 mn cubic meters or 28% of capacity.**

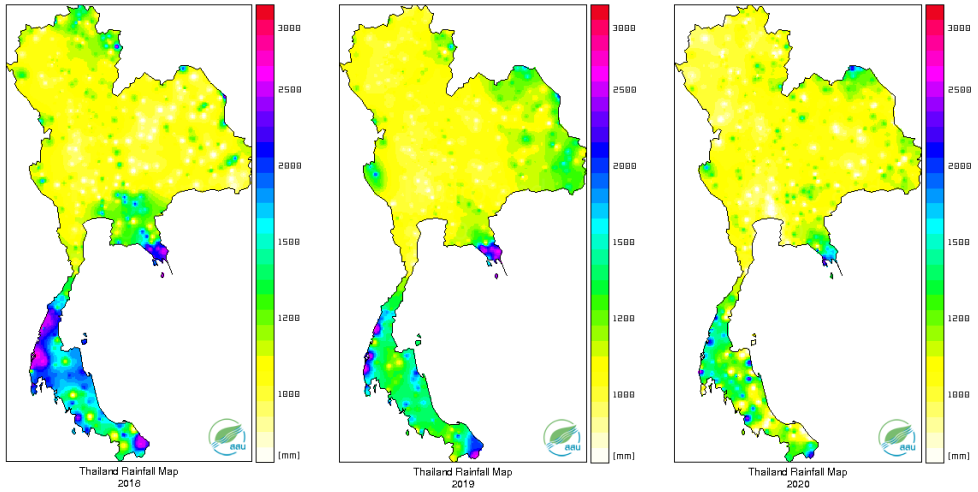
Thailand rainfall



Thailand rainfall 2020 by region



Thailand cumulative rainfall Map



Water quality situation Map (Salinity)

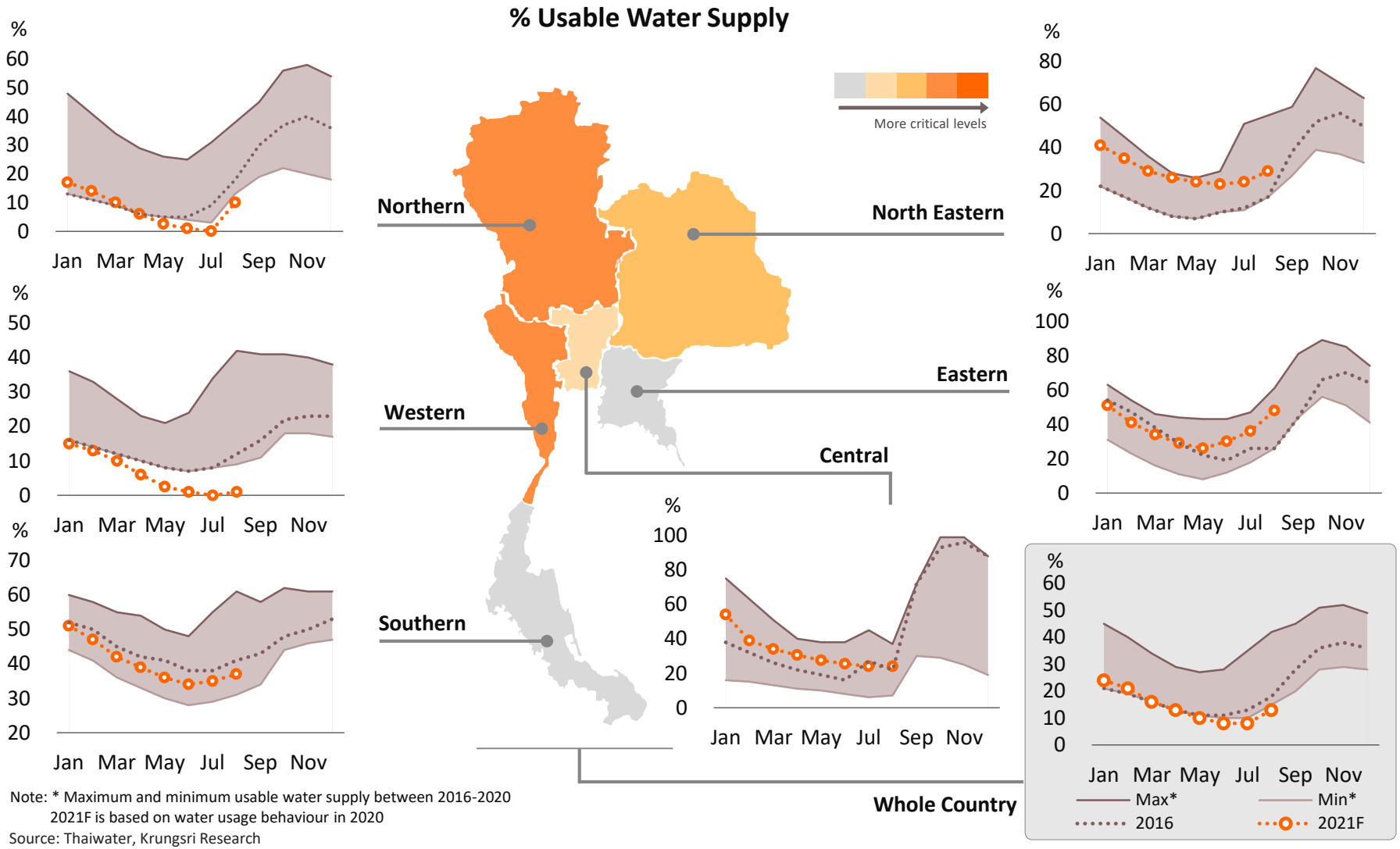
Color	Salinity (g/L)	Description
	>2	Exceeding the standard of water used for agriculture
	>0.5	Exceeded the water quality threshold for tap water production
	>0.25	Criteria for monitoring water quality for tap water production
	<0.25	Normal level



Source: ONWR, HII, Royal Irrigation Department, Thaiwater, Thailand Meteorological Department, Krungsri Research

Northern and Western regions to face severe drought

The impact will vary depending on region, but the most seriously affected areas are likely the northern and western regions because the supply of usable water may be exhausted by July. This would be followed by northeastern Thailand.



Note: * Maximum and minimum usable water supply between 2016-2020
2021F is based on water usage behaviour in 2020

Source: Thaiwater, Krungsri Research

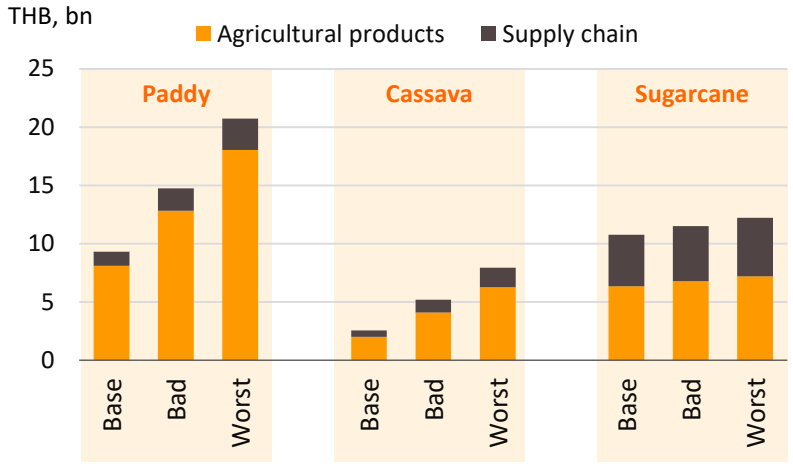
Drought is estimated to shave 0.15 ppt off GDP growth

Projection of Economic Loss due to Drought

Whole Supply Chain	Base Case		Bad Case		Worst Case	
	Share % GDP	Value Mn. Baht	Share % GDP	Value Mn. Baht	Share % GDP	Value Mn. Baht
Paddy	0.06	9,315	0.09	14,735	0.13	20,739
Cassava	0.02	2,538	0.03	5,191	0.05	7,939
Sugarcane	0.07	10,775	0.07	11,493	0.08	12,211

Scenario of Drought Duration	Base Case 5-month length	Bad Case 6-month length	Worst Case 7-month length
Economic loss (Million Baht)	22,627	31,419	40,890
As percent of GDP	0.15	0.20	0.26

Sector and Economic Loss

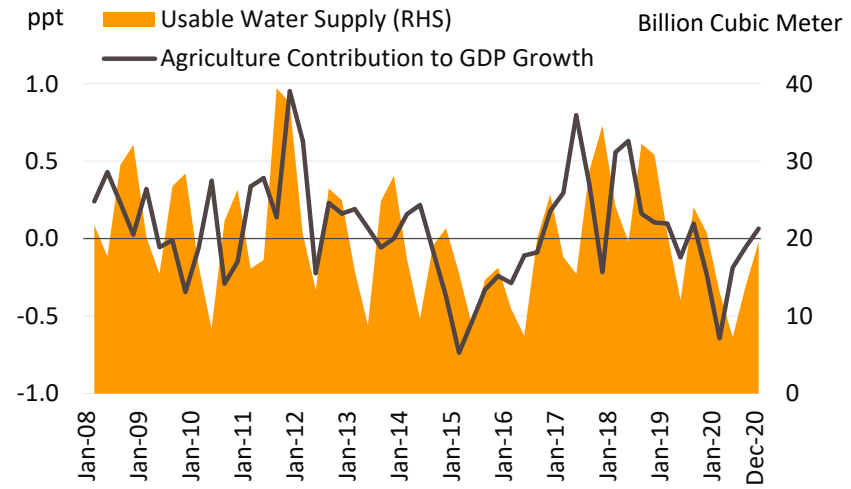


Macroeconomic impact

Krungsri Research modeled 3 scenarios to evaluate the financial consequences of drought-induced impact on economic activity.

- **Baseline scenario** (drought continues through to May): Total losses is estimated at THB22.6bn, or 0.15% of GDP.
- **Bad case scenario** (drought continues through to June): Total losses is estimated at THB31.4bn, or 0.20% of GDP.
- **Worst case scenario** (drought continues through to July): Total losses is estimated at THB40.9bn, or 0.26% of GDP.

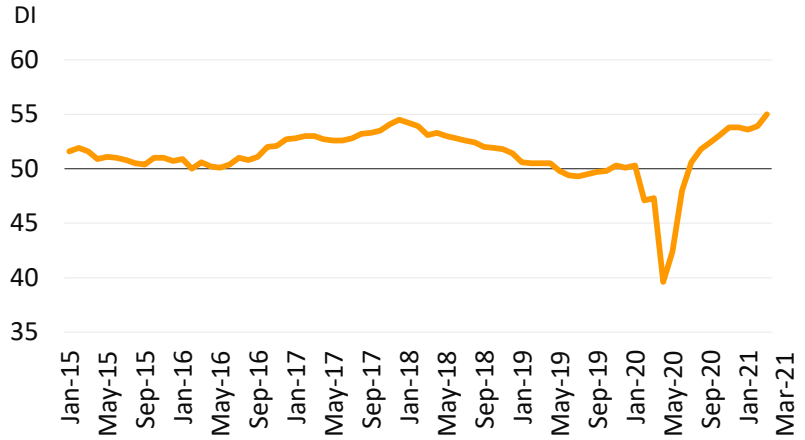
CTG and Usable Water Supply



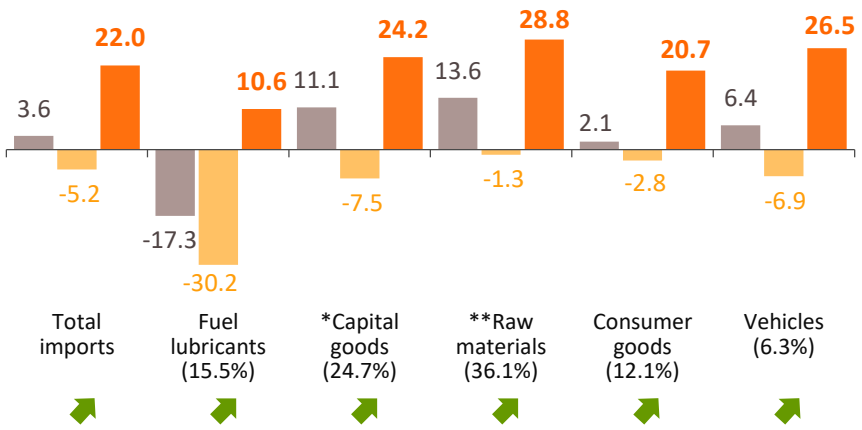
Source: OAE, NESDC, Thaiwater Krungsri Research

However, export growth forecast is revised up to reflect better outlook for global growth and manufacturing

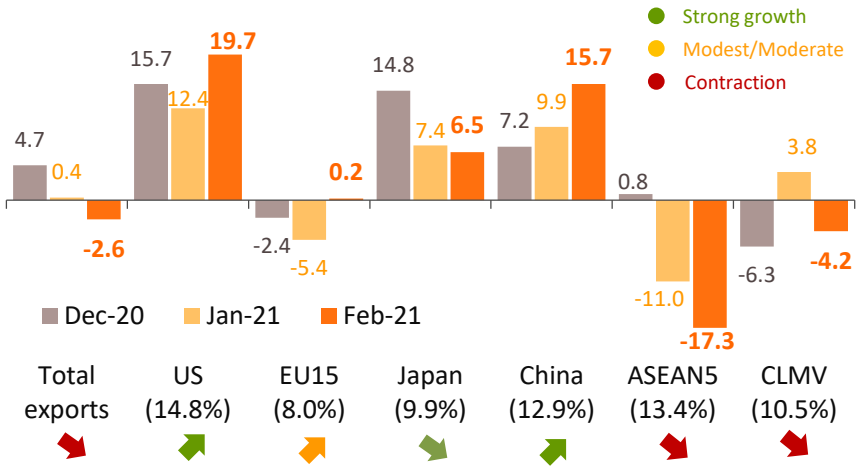
Global Manufacturing PMI



Imports by major product (% YoY)



Exports by major destination (%YoY)



Note: ( ) share in 2020
Source: MOC, Krungsri Research

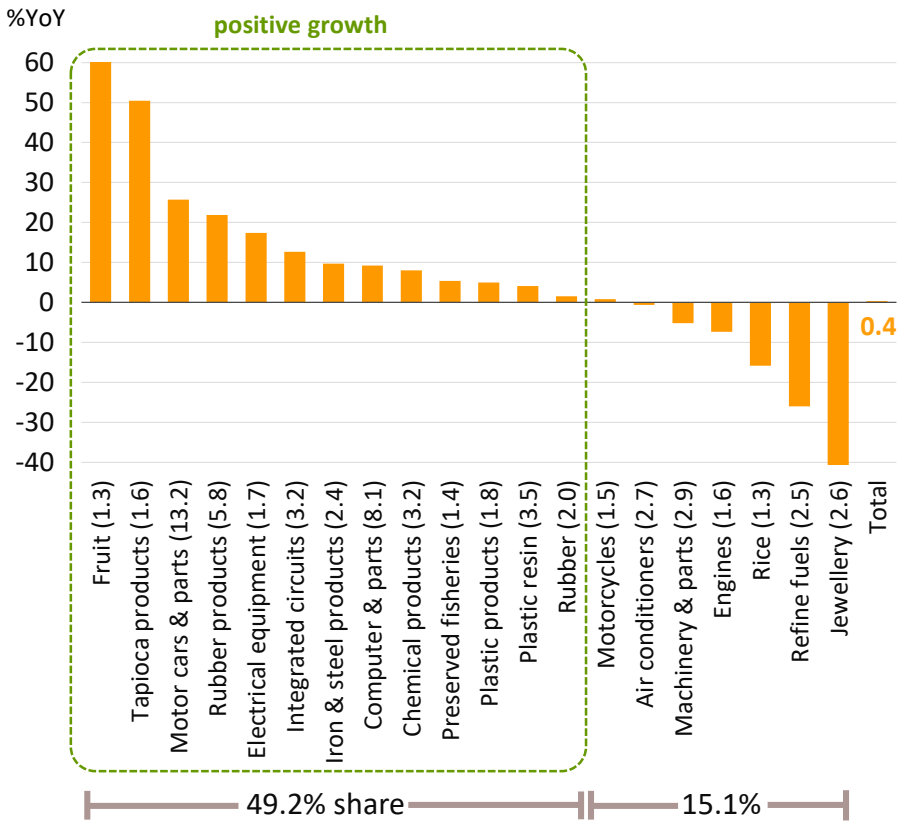
Krungsri Research's view

- **February merchandise exports turned to contract by 2.6% YoY** (vs +0.4% in January), but **excluding gold, exports grew for the third straight month, by 4.0% YoY** (vs +6.3%). Shipments of major export items accelerated, including plastics, rubber and agricultural products, and electrical appliances. By destination, exports to major markets grew, with the EU15 recording positive growth for the first time in 11 months. However, exports to ASEAN-5 and CLMV shrank as some countries grappled with a resurgence of COVID-19 cases and partial lockdowns.
- **Thai exports show positive signs of recovery** as reflected by imports of raw materials (excluding gold) which rose for 3 consecutive months. Global Manufacturing PMI reached a 10-year high in March with output and new orders sub-indices gathering pace. And, the IMF recently raised 2021 global economic growth forecast and projected world trade volume would grow by 8.4%. Given better-than-expected global growth outlook and an improving manufacturing sector, we raised our export growth forecast for this year (based on BOT data) to 6.0% from 3.8%.

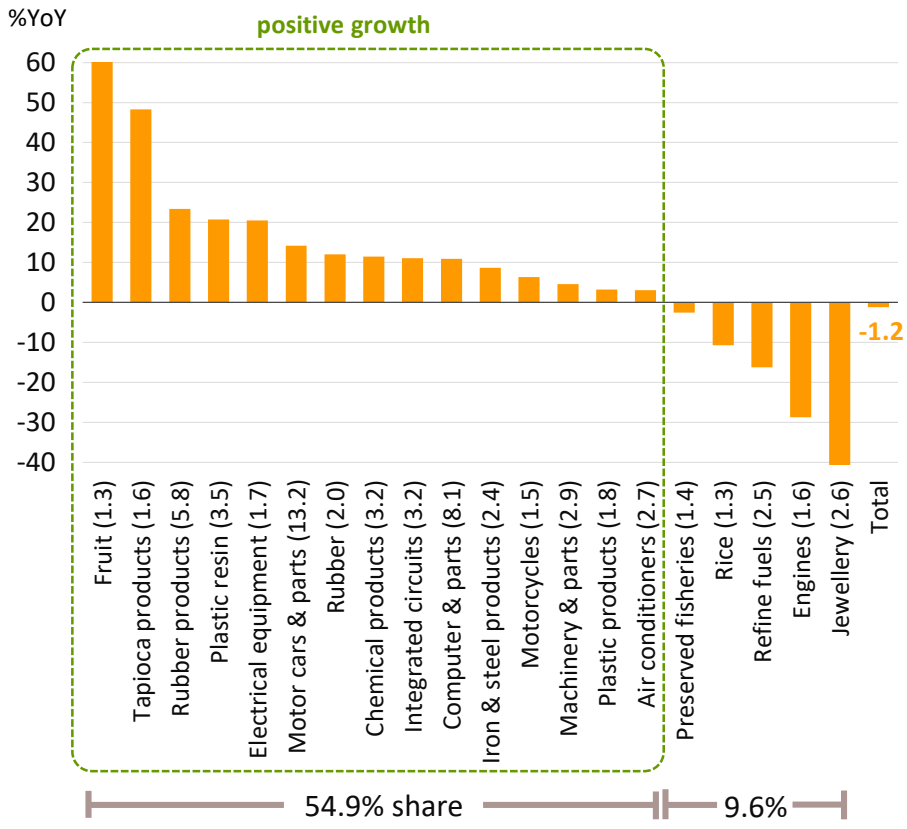
By sector, exports show more broad-based recovery

In the first 2 months of this year (January-February), 15 of the top 20 export items showed positive growth. The combined share of these items accounted for 55% of total exports, larger than 49% in January. This suggests a more broad-based recovery of exports.

Top 20 Thailand Exports in Jan 2021



Top 20 Thailand Exports in Jan-Feb 2021

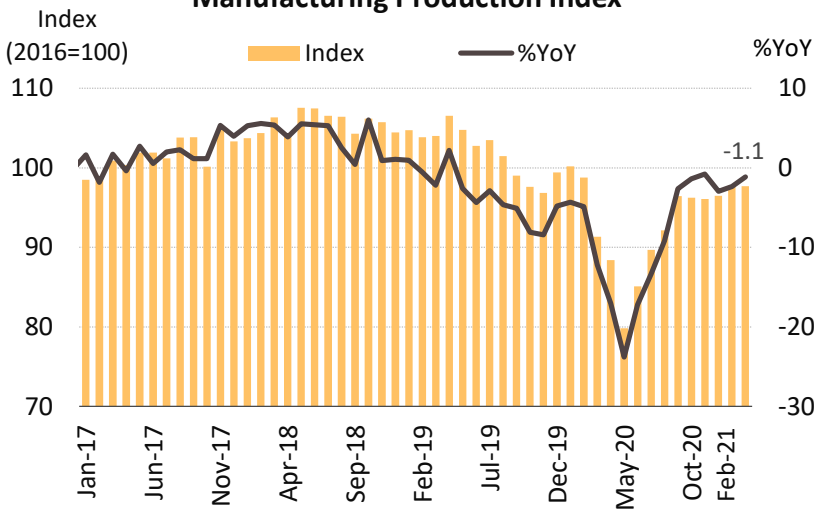


Note: ( ) = % share of total exports

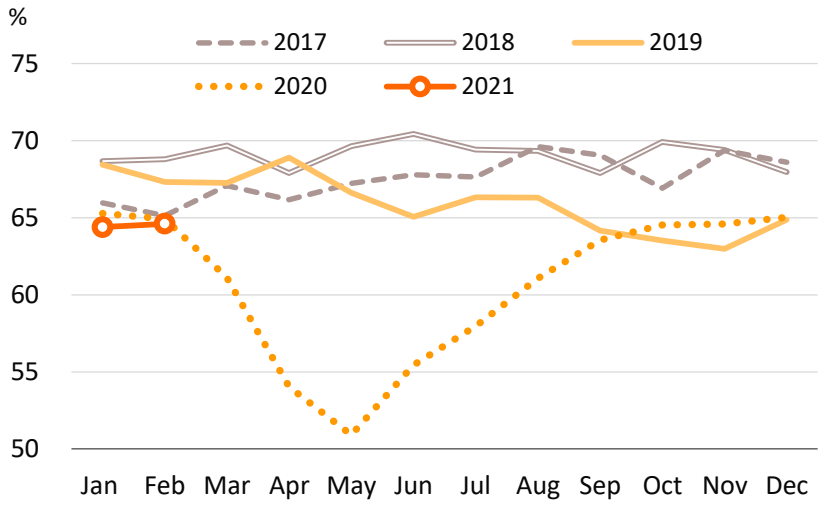
Source: MOC, Krungsri Research

Rising external demand is supporting manufacturing production though domestic demand remains weak

Manufacturing Production Index



Capacity utilization of manufacturing production (sa)



Manufacturing production by industry

Manufacturing Production (%YoY)*	Weight	2019												2020												2021	
		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
All industry	100.0%																										
Food & Beverages	20.3%																										
Automotive	13.8%																										
Petroleum	9.5%																										
Chemicals	9.1%																										
Rubbers & Plastics	8.8%																										
Cement & Construction	5.5%																										
IC & Semiconductors	5.5%																										
Electrical Appliances	3.8%																										
Textiles & Apparels	3.5%																										
HDD	3.4%																										

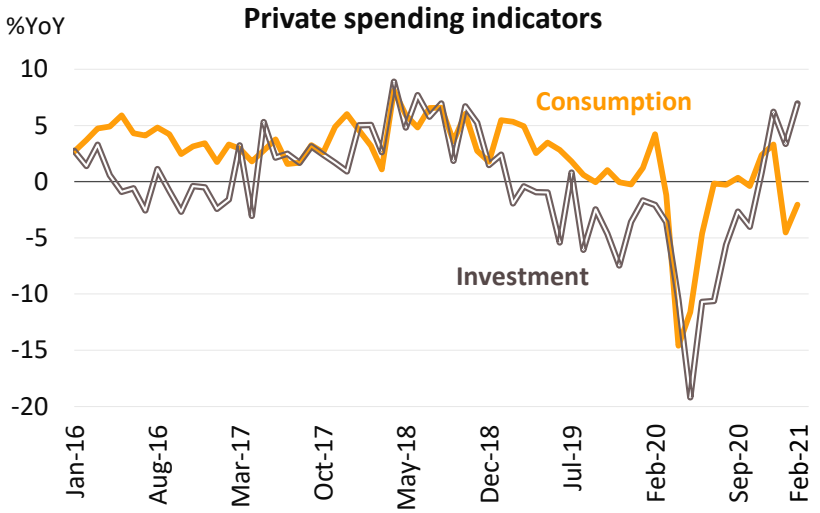
**Green > 0%, Red < 0% / Darker green (red) indicates stronger (weaker) momentum*

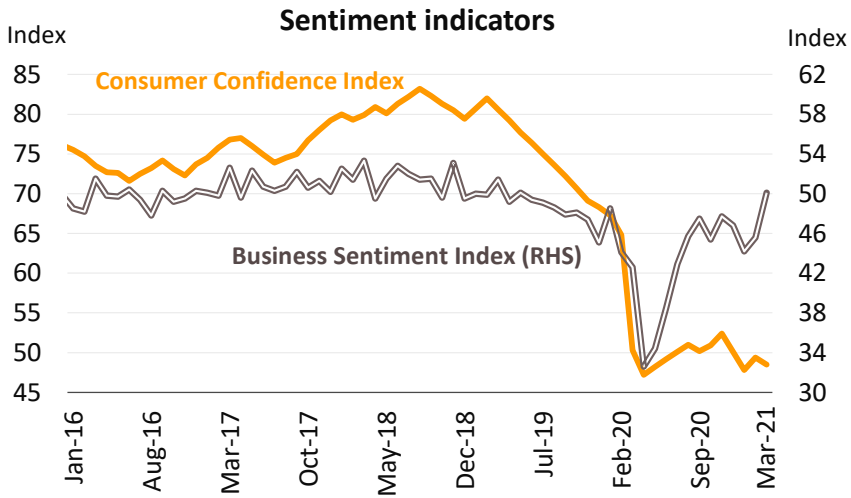
Krungsri Research's view

- **The Manufacturing Production Index contracted by a smaller momentum, at -1.1% YoY in February** (vs -2.4% YoY in January), driven by (i) improving production of IC, semiconductors & HDDs on rising external demand; (ii) expanding food and beverage production after containment measures were eased; and (iii) a recovery in automotive production.
- **Capacity Utilization gradually improved to 64.6% in February** from 64.4% in January, close to the pre-pandemic level (64.9% at end-2019). This could mean more investment in the manufacturing sector in the periods ahead.

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

Investment to rise along with exports, but consumption could remain weak given latest outbreak





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

Private spending by category

Private spending indicators %YoY*	2019 J	A	S	O	N	D	2020 J	F	M	A	M	J	J	A	S	O	N	D	2021 J	F
Private consumption																				
Non-durables																				
Semi-durables																				
Durables																				
Services																				
Non-residents expenditure																				
Private investment																				
Construction area permitted																				
Construction material sales																				
Imports of capital goods																				
Machinery sales																				
Newly registered vehicles																				

Green > 0%, Red < 0% / Darker green (red) indicates stronger (weaker) momentum

Krungsri Research's view

- **In February, Private Investment Index grew at a faster pace, by 7.0%** (vs +3.4%) following an expansion of investment in machinery & equipment. But construction spending continued to drop. **In addition, a rise in industrial production in major countries would bolster exports and investments in the next period**. The Business Sentiment Index continued to rise in March, to above-50 for the first time in 22 months.
- **Private Consumption Index contracted at a smaller pace of -2.1% YoY in February** (vs -4.5% in January), driven by a recovery in all spending, especially non-durable goods, easing containment measures, and government's financial aid for households**.** However, the Consumer Confidence Index dropped in March on concerns over the latest COVID-19 outbreak, although the survey was conducted before latest outbreak in early-April. **The third wave could dampen consumption in early 2Q21.**

Stimulus measures larger than we expected, mostly cash aid to boost private spending

The government's existing stimulus measures worth THB300bn is larger than our expectation of THB200bn. They comprise mostly cash aid to Thai citizens to boost domestic spending in the first half of this year. And, we expect the government to introduce more stimulus measures worth THB100bn to help cushion the impact of the third wave.

Economic measures in response to COVID-19

Fiscal Policy

THB300bn to support domestic spending (Jan-May 2021)
- THB53 bn for Co-payment program (added phase I- phase II) (THB3,500/person)
- THB210 bn for Rao Chana program (THB7,000/person)
- THB37 bn for Section 33 Rao Ruk Kun (THB 4,000/person)

THB21bn to promote domestic tourism (Jul 2020-Apr 2021)
- *We Travel Together* program (phase I-II)

THB10bn to promote domestic tourism (May - Aug 2021)
- THB5.7 bn for *We Travel Together* (Phase III)
- THB5 bn for *Tour Tiew Thai* program

2021 | Jan | Feb | Mar | Apr | May | Jun

Monetary Policy

THB500bn soft loan program (effective 27 April 2020 -9 April 2021):
Approved THB160bn loans (as of 29 Mar 2021)

THB350bn (funded by unutilized budget under soft loan program; starting 10 April 2021)
- THB250 bn for soft loan facility for businesses
- THB100 bn for Asset Warehousing with Buy-Back options

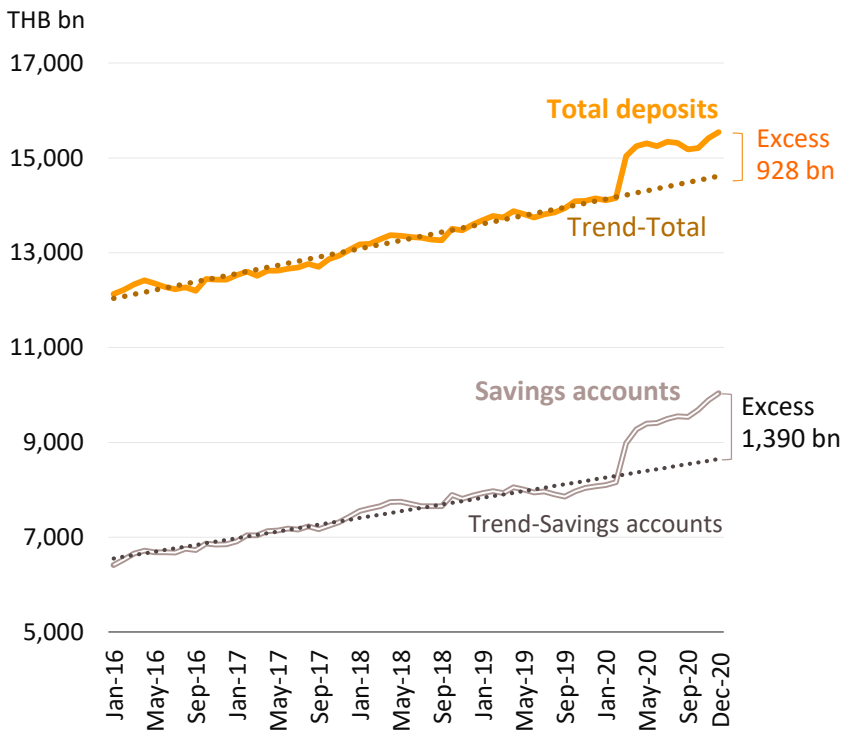
Debt Clinic Scheme (February-June 2021): help individual debtors

Source: BOT, MOF, Krungsri Research

Large excess savings mostly parked in savings accounts, reflecting readiness to spend when pandemic ends

Since the pandemic started, excess savings (defined as the differential between actual savings and its trend) has surged to THB928bn, accounting for almost 6% of GDP. By type of account (including demand deposits, savings deposits, and time deposits), savings accounts registered THB1,390bn excess savings, led by accounts with THB1-10mn each which accounted for 34% of total excess savings in savings account. This not only indicates precautionary savings but also reflects readiness to spend by the middle- and upper-income groups. **When the pandemic ends or there are stimulus measures for these groups, their large excess savings would drive domestic spending in the future.**

Total deposits at commercial banks



Excess savings (differential between actual deposits and trend)

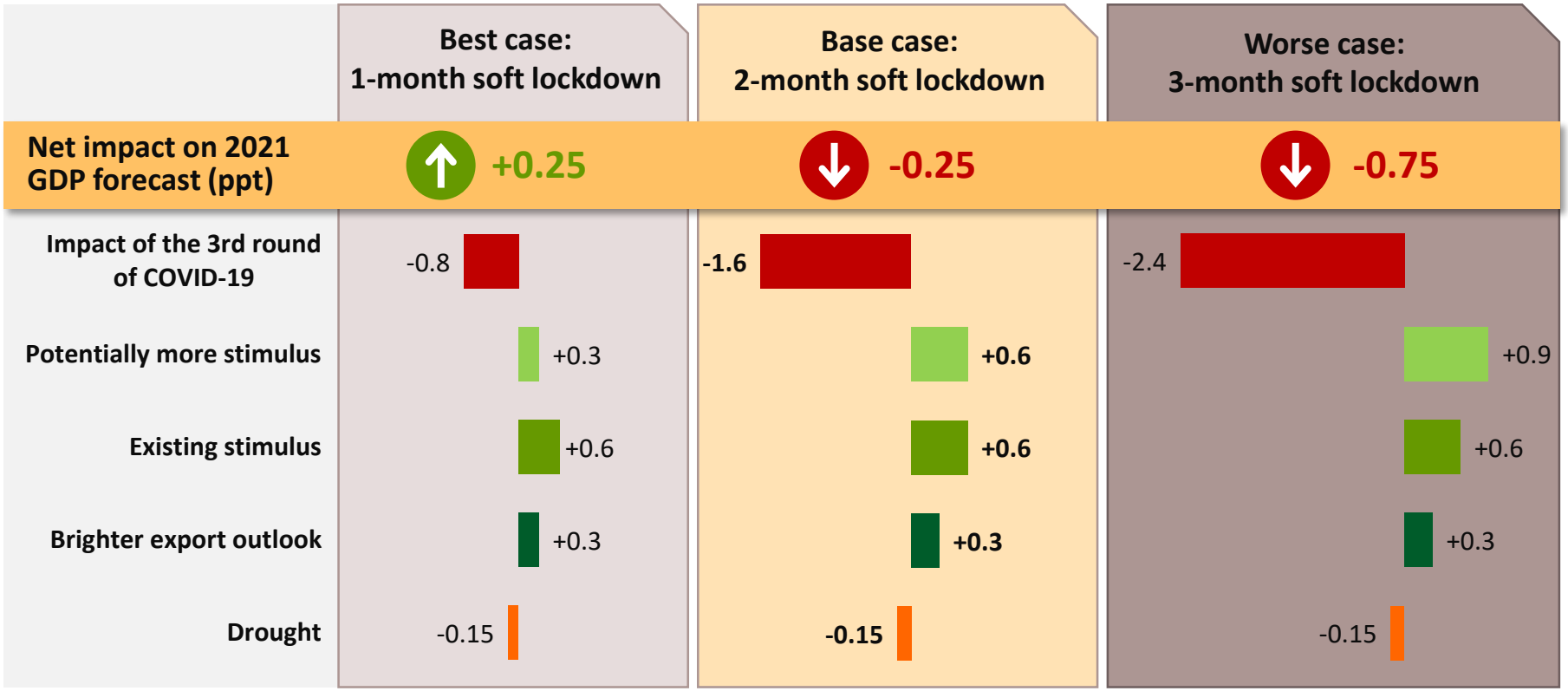
Deposits per account (Baht)	Total deposits		Savings deposits	
	Amount THB bn	% growth between actual deposits and trend	Amount THB bn	% growth between actual deposits and trend
<= 50,000	13.3	3.1	13.7	3.6
> 50,000-100,000	12.9	4.5	13.1	5.3
> 100,000-200,000	20.9	4.6	18.7	4.9
> 200,000-500,000	41.6	4.5	32.4	4.3
> 500,000-1,000,000	47.7	4.8	42.5	5.7
> 1-10 mn	368.4	10.1	471.7	21.2
> 10-25 mn	85.1	6.2	146.5	20.7
> 25-50 mn	52.0	5.3	83.0	16.8
> 50-100 mn	34.8	3.7	65.3	14.8
> 100-200 mn	21.3	2.4	49.4	11.9
> 200-500 mn	47.5	4.4	68.8	12.9
> 500 mn	182.1	6.9	384.7	28.8
Total	**927.6**	**6.3**	**1389.9**	**16.1**

Source: BOT, Krungsri Research

Our GDP forecast trimmed by 0.25ppt amid COVID-19 and drought; upbeat exports and stimulus limit the downside

The third wave will delay Thailand's economic recovery. **Our base-case scenario assumes new daily COVID-19 cases will peak in late-April to early-May and drop within two-months of a soft lockdown, and that would reduce Thai GDP growth by 1.6 ppt this year.** Moreover, the drought is estimated to shave 0.15 ppt off growth. Nonetheless, the better-than-expected export performance would lift GDP growth by 0.3 ppt. In addition, existing stimulus measures worth about THB300bn are larger than our previous expectation of THB200bn, which could add 0.6 ppt to GDP growth, and potentially more stimulus programs to help cushion the impact of the third wave, could lift GDP growth by another 0.6 ppt. **As a result, the net impact on GDP growth would be minus 0.25 ppt, taking 2021 full-year growth forecast to 2.2% vs 2.5% in the previous projection.**

Economic growth forecasts under three scenarios

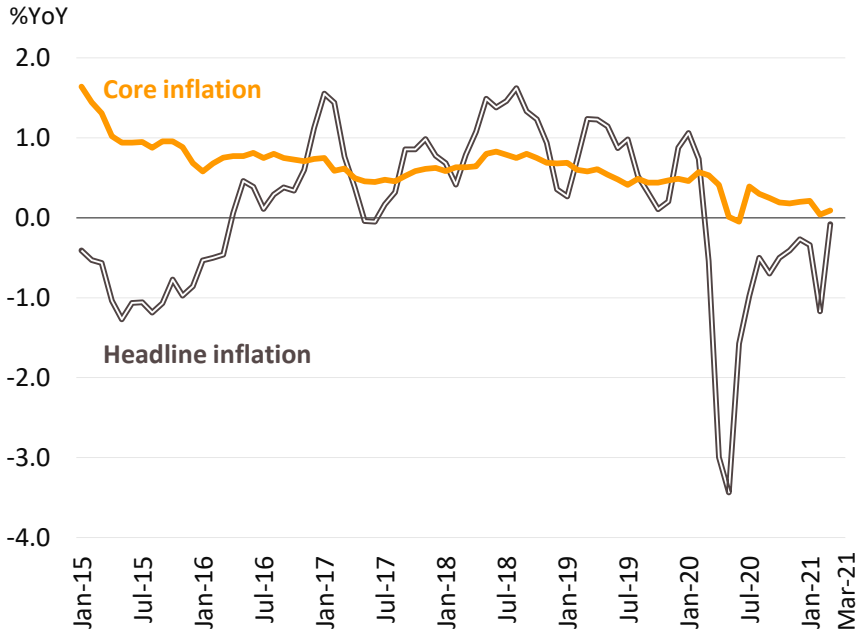


Source: Krungsri Research

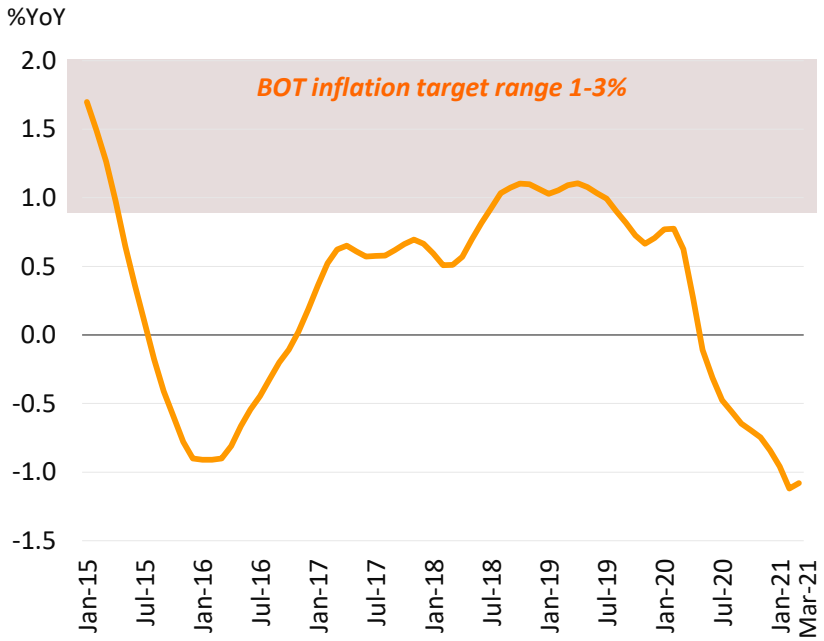
Inflation at near-positive territory due to higher fuel prices; full-year inflation is estimated at 1.1%

March headline inflation is the smallest negative rate in 13 months, at -0.08% YoY vs -1.17% in February. This was driven by higher energy prices, which turned positive for the first time in 14 months, in line with global crude oil prices. However, fresh food prices continued to drop. Also, electricity and water bills fell on due to government relief measures. **Core inflation (excluding volatile raw food and energy components) rose by 0.09% in March vs 0.04% in February,** led by the gradual recovery in domestic demand. In 1Q21, average headline and core inflation came in at -0.53% and 0.12%, respectively. Looking ahead, we project inflation would rise to positive territory from 2Q21, partly due to the low base effect since 2020 and the expiry of relief measures to reduce living costs (electricity and tab water bills). **We revised up 2021 average inflation to 1.1% from 0.8%, after revising assumption for full-year Dubai crude price to USD62/bbl from USD48 in the previous forecast.**

Inflation data



12-month moving average for headline inflation



Source: MOC, Krungsri Research

Despite rising cases, MPC is likely to hold rates and step up targeted measures to support recovery

BOT Forecasts		2021F		2022F	
		Previous	Latest	Previous	Latest
GDP growth	YoY (%)	3.2	3.0 ▼	4.8	4.7 ▼
Private Consumption Expenditure	YoY (%)	2.8	3.0 ▲	3.0	2.7 ▼
Government Consumption Expenditure	YoY (%)	5.1	5.2 ▲	1.0	-3.1 ▼
Private Investment	YoY (%)	4.9	6.0 ▲	5.0	5.5 ▲
Public Investment	YoY (%)	7.9	11.6 ▲	0.2	0.8 ▲
Nominal Exports in USD (f.o.b.)	YoY (%)	5.7	10.0 ▲	5.0	6.3 ▲
Nominal Imports in USD (f.o.b.)	YoY (%)	7.7	15.2 ▲	6.7	6.8 ▲
Current Account Balance	USD, bn	11.6	1.2 ▼	29.1	25.0 ▼
Tourist Arrivals	persons, mn	5.5	3.0 ▼	23.0	21.5 ▼
Headline Inflation	YoY (%)	1.0	1.2 ▲	1.0	1.0 =
Core Inflation	YoY (%)	0.3	0.3 =	0.4	0.4 =

Source: BOT

Krungsri Research's view

- **At the latest MPC meeting on March 24, the Committee had voted unanimously to maintain policy rate at 0.50%. The accompanying statement is less dovish despite downward revision of GDP growth forecasts, with three notable elements:** (i) the BOT expects the Thai economy to continue to recover; (ii) the BOT has a more positive outlook for domestic demand and goods exports, but this was before the third wave.
- **The third wave could delay Thailand's economic recovery, but we expect the MPC to maintain policy rates and step-up targeted measures.** Instead of employing interest rate policy with limited room to maneuver, the BOT is focusing on targeted measures given the uneven economic recovery. Recently, the authorities introduced a new soft loan facility for the business sector with more relaxed conditions than the previous program, expected to start in May. In addition, they introduced a new aid under the 'asset warehousing scheme', which is targeted at the hardest-hit industries. And, the BOT will help individual debtors under the Debt Clinic scheme.
- **We maintain that the MPC will keep policy rate unchanged until the overall economy fully recovers**, and the private sector is able to drive the economy without large stimulus measures. Before the third wave, the BOT governor had anticipated "*Thai GDP could return to the pre-pandemic level by 3Q22*". This indicates policy interest rates would remain at a record low next year.

Source: BOT, Krungsri Research

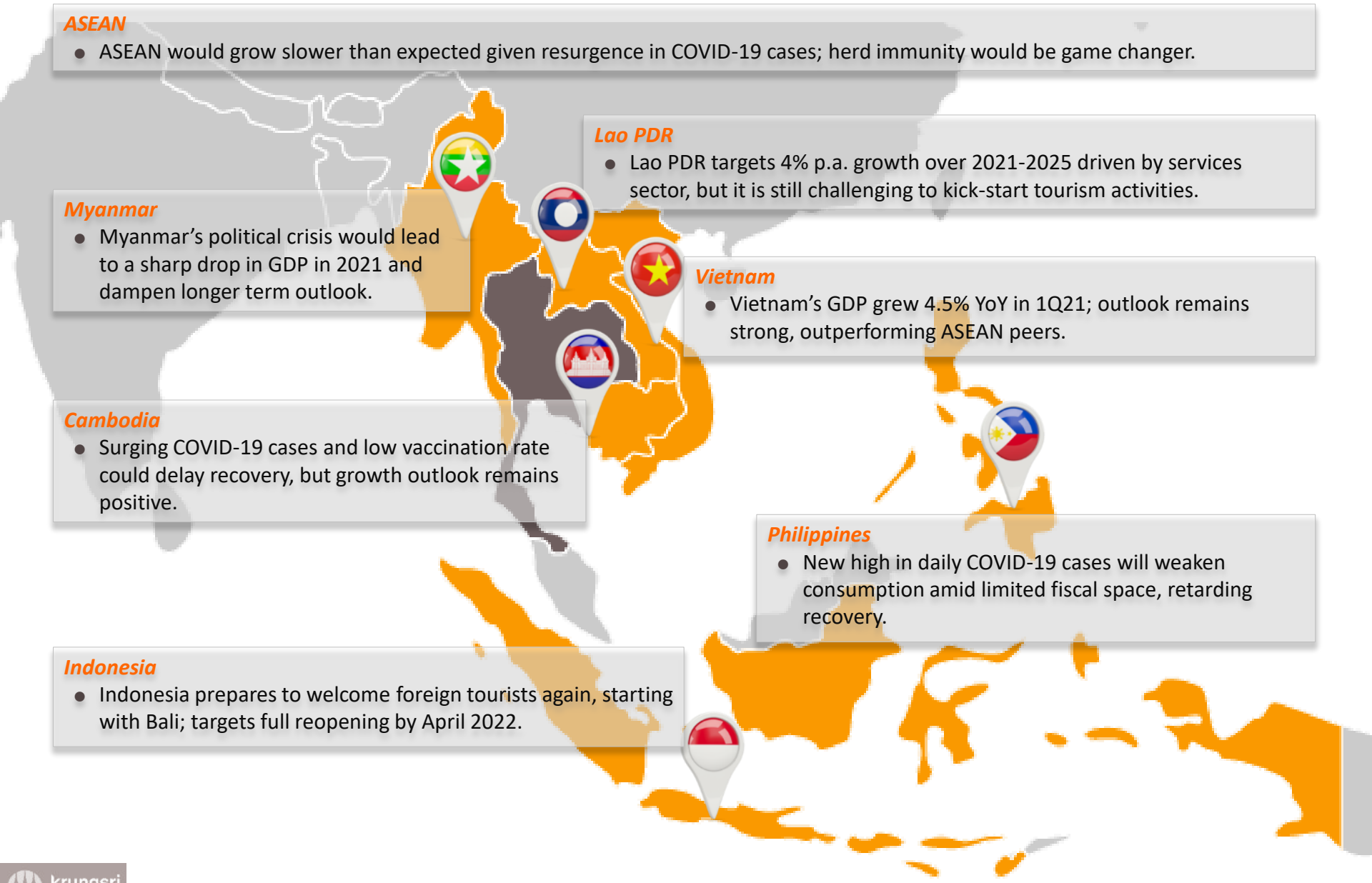
Authorities relax rules for soft loan program to help more businesses hit by pandemic impact

Last year, the BOT introduced a soft loan program worth up to THB500bn to help SMEs that are hurt by the pandemic impact. However, only THB132.8bn has been utilized up to 15 March because of strict conditions for eligibility. Recently, the cabinet approved new **Financial Rehabilitation Measures worth THB350bn** (funded by unutilized budget under soft loan program) to help pandemic-stricken businesses. They comprise two programs: (i) THB250bn Soft Loan Facility for Businesses, and (ii) THB100 bn Debt Restructuring program via Asset Warehousing with Buy-Back option. The latter program is scheduled to start in May and is expected to help tourism-related businesses.

	Existing Soft Loan Scheme	New Financial Rehabilitation Measures
Total credit line	**THB500 bn** • THB132.8bn, or 27% of the total amount has been approved (up to Mar 15, 2021)	**THB350 bn** • **THB250 bn Soft Loan Facility for Businesses** • **THB100 bn for Debt Restructuring via Asset Warehousing with Buy-Back option**
Credit limit per borrower	Existing borrower: **≤ 20%** of credit line as of Dec 31, 2019	**THB250bn of Soft Loan Facility** • Existing borrowers: **≤ 30%** of credit line as at Dec 31, 2019 or Feb 28, 2021, whichever is greater, but not exceeding THB150 mn • **New borrowers:** Up to THB20 mn
Lending period	**2** years	**5** years
Interest rate for borrower	**≤ 2**% p.a.	**≤ 2% p.a. in the first 2 years,** and not exceeding 5% p.a. average over 5 years. The government will subsidize interest expense for the first 6 months.
Loan guarantee	• Guarantee period: 2 years • Fee: Nil	• Guarantee period: 10 years • Fee: average at 1.75% p.a. (government will compensate 3.5% through government guarantee mechanism under Thai Credit Guarantee Corporation)

Source: BOT, Krungsri Research

Regional Economic and Policy Developments in April



ASEAN

- ASEAN would grow slower than expected given resurgence in COVID-19 cases; herd immunity would be game changer.

Lao PDR

- Lao PDR targets 4% p.a. growth over 2021-2025 driven by services sector, but it is still challenging to kick-start tourism activities.

Myanmar

- Myanmar's political crisis would lead to a sharp drop in GDP in 2021 and dampen longer term outlook.

Vietnam

- Vietnam's GDP grew 4.5% YoY in 1Q21; outlook remains strong, outperforming ASEAN peers.

Cambodia

- Surging COVID-19 cases and low vaccination rate could delay recovery, but growth outlook remains positive.

Philippines

- New high in daily COVID-19 cases will weaken consumption amid limited fiscal space, retarding recovery.

Indonesia

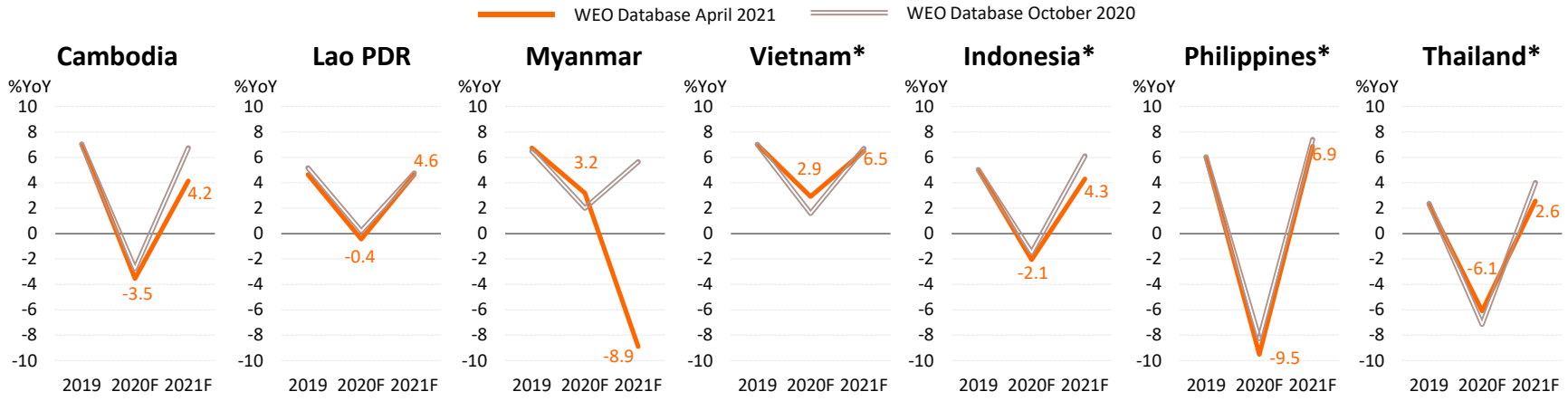
- Indonesia prepares to welcome foreign tourists again, starting with Bali; targets full reopening by April 2022.

ASEAN would grow slower than expected given resurgence in COVID-19 cases; herd immunity could be game changer

Krungsri Research's view

- ASEAN economy is expected to rebound. The IMF forecasts most countries would grow by more than 4% in 2021. However, the growth projection for each country is lower than its previous forecast (in October 2020).
- **Our forecast for most countries is in line with IMF's latest projection. Economic growth in the Philippines and Cambodia could be weaker than expected because of the latest COVID-19 outbreak** that included the discovery of mutant strains. Some countries could face vaccine shortages and delays, which would delay the full reopening of their borders. In addition, vaccine-resistant strains could be a risk as they would reduce the effectiveness of current vaccines and trigger another wave of infections. **Achieving herd immunity could be a game changer for these economies.**
- We expect **Vietnam** to continue to experience strong economic recovery after posting +2.9% GDP growth in 2020. They are not only benefitting from recovering global demand, but also resilient domestic demand. **Indonesia** could deliver outstanding growth because of good progress in the vaccination program. Domestic consumption is expected to improve gradually to support growth. Pinning hopes on herd immunity, the country plans to kick-start the tourism sector by reopening its largest tourist destination, Bali, to foreigners. **Cambodia**'s economy would also rebound driven by the improving external sector and investment, but at a slower pace than we previous expected due to the latest outbreak amid slow progress in its vaccination program. **The Philippines**' GDP would expand but only to close to the lower end of the government's target as the country has the highest number of new cases among ASEAN (77 per 1,000 population vs 36 for ASEAN). **Laos** would find it challenging to achieve its 4% official growth target given weak economic stability. **Myanmar** would register the deepest contraction in its history given the political unrest.

IMF's Real GDP growth projection (2019-2021)

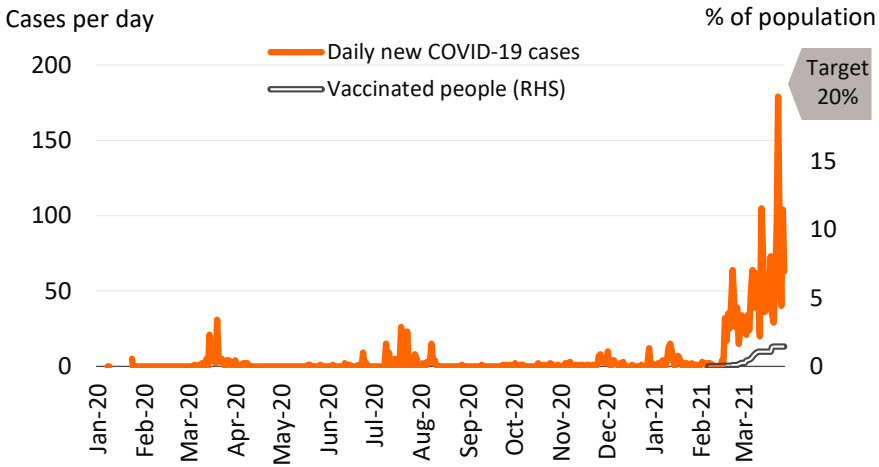


Note: F = Forecast, * April 2021 data for 2020 is actual.

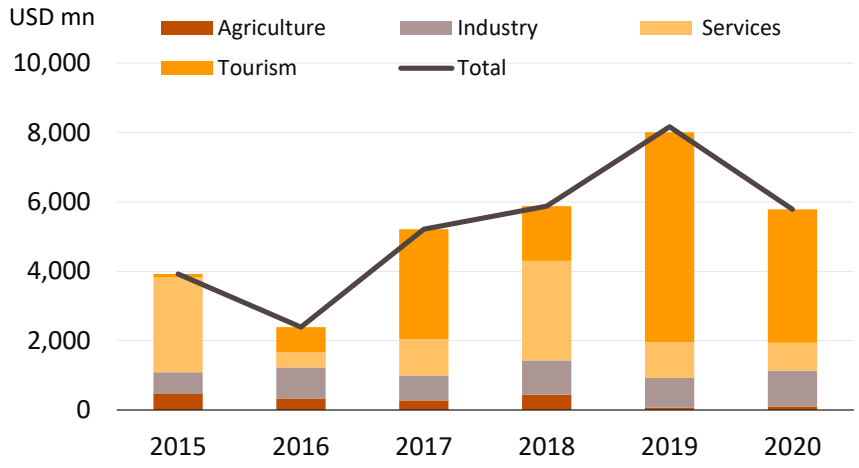
Source: IMF's World Economic Outlook (WEO) Database, Krungsri Research

Cambodia: Surging virus cases and slow vaccination could delay recovery, but growth outlook remains positive

Daily new COVID-19 cases and vaccinated people



Cambodia: FDI by sector



Source: WHO, Trademap, CEIC, Krungsri Research

Cambodia's exports by major product (% YoY)

Products	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
Total exports	25.5	22.7	-15.3	-0.5	24.9	40.4	50.2	11.5	29.3	13.1	-6.6	20.7
Garment	16.9	9.3	-13.3	-13.2	-26.2	-17.7	-7.8	-27.0	-15.9	-8.0	-20.0	0.5
Footwear	5.2	3.0	-1.9	-0.6	-2.5	-1.4	-0.3	-3.0	-1.8	-1.1	-3.6	-2.1
Electrical parts	0.8	1.3	0.8	-0.5	1.3	5.0	7.8	6.2	6.9	3.1	2.8	4.2
Vehicle parts	0.2	0.1	0.2	0.4	0.1	0.4	0.4	0.1	0.5	0.6	0.5	0.5
Bicycle	-0.4	1.3	0.1	1.4	1.6	1.4	1.0	-0.2	1.2	0.7	0.7	1.0

Cambodia's exports by major market (% YoY)

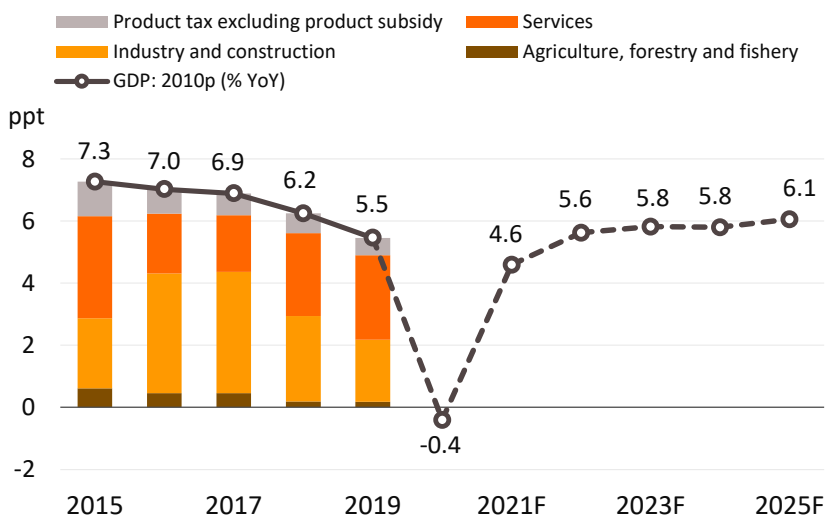
	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
US	40.9	58.8	34.1	16.7	-13.9	7.4	26.9	12.1	20.2	15.7	30.3	28.4
EU	-11.1	-19.3	-8.9	-26.2	-26.2	-10.1	-4.1	-7.8	-26.9	-36.4	-27.5	-10.4
China	49.9	84.3	23.3	-12.4	-33.8	-24.4	-24.3	-12.2	45.5	29.8	34.9	41.5
Japan	3.7	1.1	8.0	5.4	-31.9	4.8	-17.8	-36.5	-51.2	-58.0	-53.1	-36.4
Canada	-9.8	-13.0	-18.8	-22.2	-36.0	-27.4	-36.2	-5.8	4.9	6.8	32.9	4.8

Krungsri Research's view

- Cambodia is experiencing a surge in daily new COVID-19 cases, from an average of 30 cases in late-February to about 70 in early April. The country has started its vaccination program in February and plans to inoculate 20% of the population by end 2021.
- **We anticipate the economy to continue to grow, but slower than previous expectation. Given the recovery in the US and China – Cambodia's major export markets which account for combined 45% of total exports, we expect exports to continue to improve. Major products that could see growth include electrical parts, vehicle parts and bicycles. These would be supported by work-from-home trend.**
- **We also expect positive outlook for investment in Cambodia,** supported by (i) better infrastructure, (ii) revision to the investment law which is expected to take effect within months, as well as (iii) benefits from free trade agreements (FTAs) led by the Cambodia-China Free Trade Agreement (CCFTA), Cambodia-Korea Free Trade Agreement (CKFTA), and recently-signed Regional Comprehensive Economic Partnership (RCEP). In addition, the country is expected to gain as an alternative destination to meet relocation demand from investors in neighboring countries such as Myanmar. **Investment in manufacturing would increase and cover a broader range of sectors, and in logistics and other services to facilitate industrial activities.**

Lao PDR targets 4% p.a. growth over 2021-2025 driven by services sector, but tourism sector remains weak

Laos: Real GDP growth



Laos' target and priorities in 2021-2025

Growth targets	• GDP +4% p.a. • Agriculture +2.5% • Industrial and trade +4.1% • Services +6.0% • Customs and tax +5.8%
Graduation from Least Developed Countries (LDC) status	• By 2025 • 3 criteria and threshold include: - Gross National Income (GNI) per capita: USD1,242 (Laos: USD1,996) - Human Assets Index (HAI): 66 or above (Laos: 72.8) - Economic Vulnerability Index (EVI): 32 or below (Laos: 33.7)
Urgent issues	• Increase revenue and address chronic public debt level • Focus on economic recovery amid the Covid-19 pandemic and create more jobs • Address economic vulnerability, focusing on quality growth and reducing reliance on the ineffective extraction of natural resources • Address weaker Kip by boosting exports and reducing imports • Reduce development disparities between urban and rural areas • Focus on human resource development • Address social problems such as corruption, drug trafficking

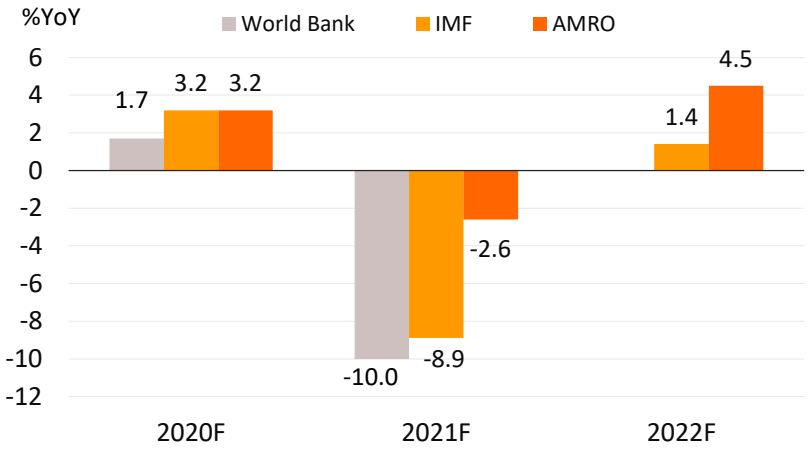
Krungsri Research's view

- The Laos' National Assembly recently approved the country's 5-year socio-economic development plan (2021-2025). The plan targets 4% annual growth over the next five years, driven by services, industrial and trade.
- Economic and financial developments in Laos have been worsening. GDP growth is projected to contract by 0.4% in 2020 vs +6.5% pre-COVID forecast, as services and industry sectors have been hurt badly. Given still-rising COVID-19 cases worldwide and the country's limited vaccination program (20% of total population in 2021), **the country would face major challenges to revive the economy which is driven by the services sectors – led by wholesales & retail and tourism – as planned for the next few years**. Meanwhile, growth of the industry sector is likely to be supported by construction activities – led by Chinese investment projects.
- **We welcome the urgent issues addressed by the officials, especially economic vulnerability and high debt levels, However, the country needs economic reforms and several years to meet the targets. In addition, its graduation from least-developed countries status could also reduce grants awarded to the country, which could cause the economy to struggle to seek revenues to meet expenditures.**

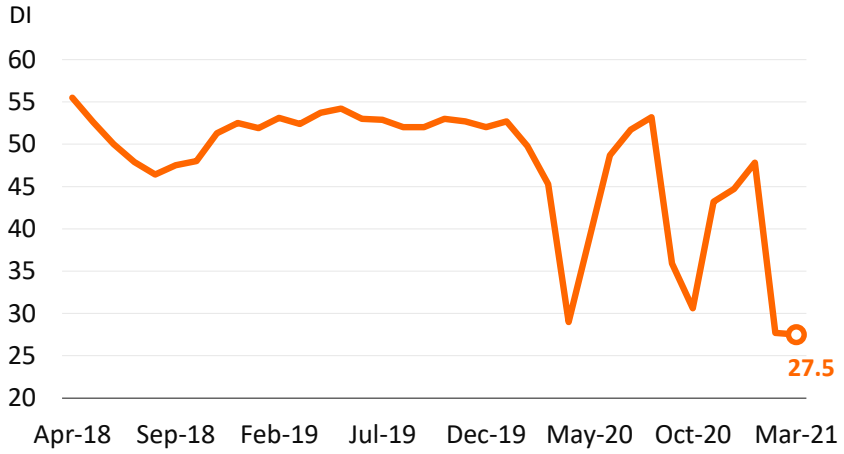
Source: IMF, news media, CEIC, Krungsri Research

Myanmar's political crisis would lead to a sharp drop in GDP in 2021 and dampen longer term outlook

Myanmar: GDP growth projections



Myanmar: IHS Markit Manufacturing PMI Index



Myanmar: Sanctions and business suspensions

Sanctions	• **US:** Treasury sanctions military-owned companies (Myanma Economic Holdings Public Company Limited (MEHL) and Myanmar Economic Corporation Limited (MEC); : Suspends trade deal with Myanmar until elected government returns • **EU:** Sanctions 11 people over the military coup and ensuing repression in Myanmar • **New Zealand:** Suspends ties with Myanmar, imposed travel ban on military leaders after coup • **Japan**: Suspends infrastructure support and new aid programs to Myanmar
Foreign businesses that are temporarily suspended	• Kirin (Japanese drink maker); • H&M (Swedish multinational clothing-retail company) • Amata (Thai industrial estate developer) • Petronas (Malaysia's oil & gas company)

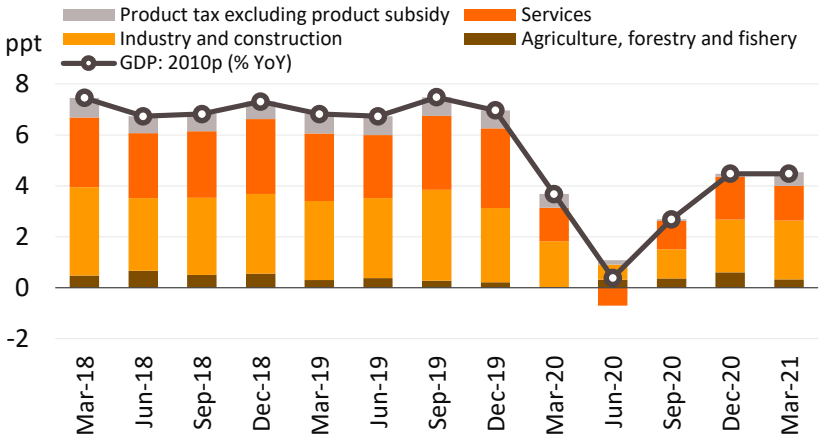
Source: World Bank, IMF, AMRO, IHS, news media, CEIC, Krungsri Research

Krungsri Research's view

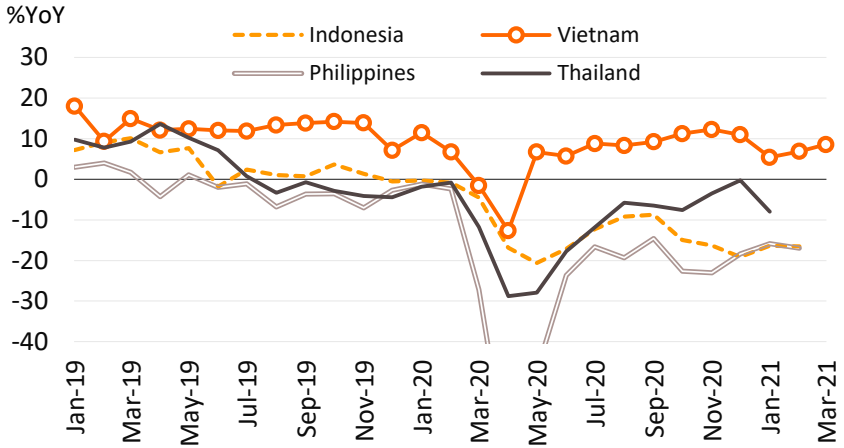
- International organizations have trimmed growth outlook for Myanmar. For 2021, the World Bank estimates GDP would contract by 10% -- the worst in its history (and vs previous estimate of +2%), IMF projects -8.9% (instead of +5.7%) and AMRO forecasts the economy would shrink by 2.6% (instead of +6.2%).
- **Myanmar's major economic drivers will be dragged by the political crisis. Recent developments have resulted in more severe sanctions, the suspension of several foreign investment projects, and a halt in export orders and production activities. Looking ahead, we anticipate the economy would suffer more than expected. Ten of Myanmar's major rebel groups have recently thrown their support behind the country's anti-coup movement, which had led to several attacks. This could turn into a broader conflict. Given that, the country would take longer time to resume reforms and development, especially to regain the trust of investors.**

Vietnam's GDP grew 4.5% YoY in 1Q21; outlook remains strong, outperforming ASEAN peers

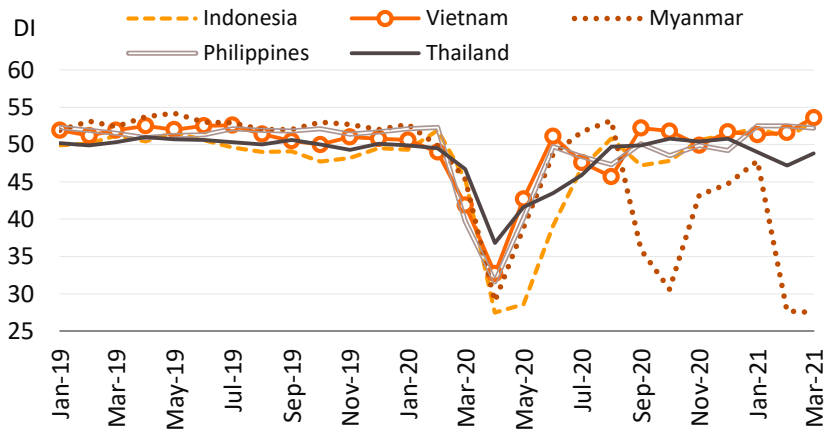
Vietnam: GDP growth



Growth of retail sales in selected ASEAN countries



IHS Manufacturing PMI Index in selected ASEAN countries



Note: * The European Union - Vietnam FTA (EVFTA), The UK-Vietnam FTA (UKVFTA), The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), The Regional Comprehensive Economic Partnership (RCEP)

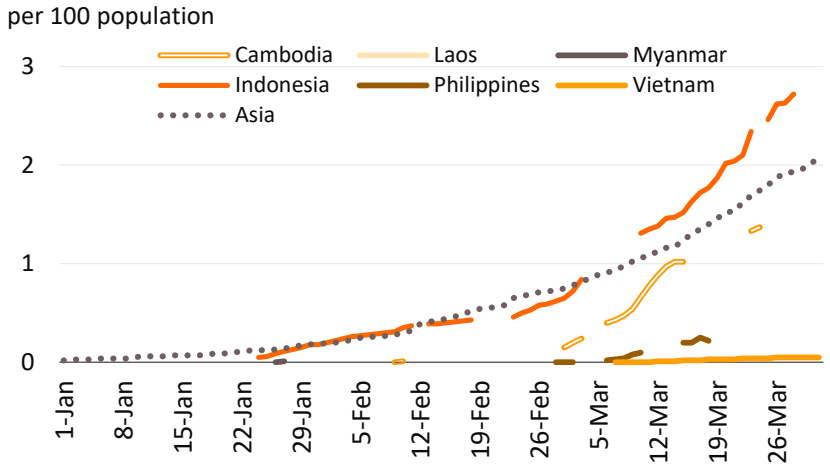
Source: General Statistics Office, IHS, CEIC, Krungsri Research

Krungsri Research's view

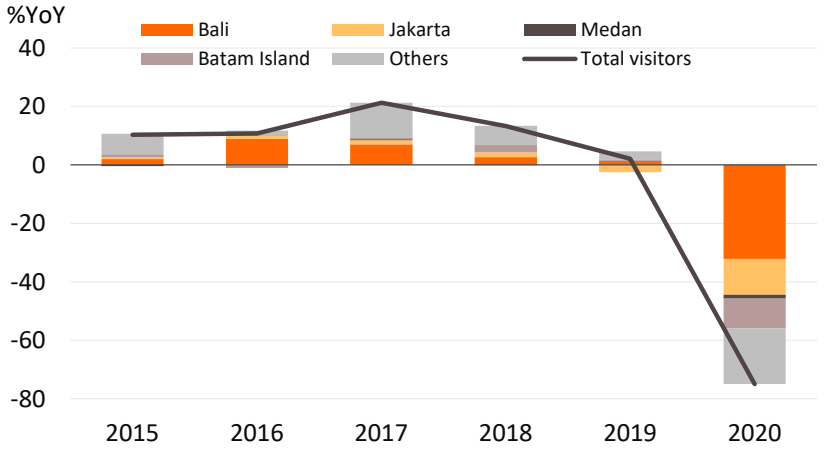
- Vietnam's economy grew 4.5% YoY in 1Q21 driven by strong exports and resilient retail sales. Looking ahead, we estimate 2021 GDP growth would be able to meet its +6% official target.
- **Vietnam's economic recovery should remain on track, supported by an expansion in both export and domestic demand. Recent developments in Vietnam's manufacturing data reveals the strongest recovery in production activities in ASEAN region.** This would be supported by (i) the improving global economy – especially US and China, (ii) several trade deals*, namely EVFTA, UKVFTA, CPTPP, and RCEP, and (iii) more diversified manufacturing products - led by hi-tech products – fueled by supportive government policies.
- **Domestic demand in Vietnam is also relatively more resilient than peers.** Most recent data show the country's retail sales have continued to improve, after a small drop in January partly due to the resurgence of COVID-19 cases. However, the situation is contained.

Indonesia prepares to welcome foreign tourists starting with Bali; targets full reopening by April 2022

Vaccinated people



Indonesia: Visitors by major destination



Note: *green zones: pilot areas where travelers can visit and stay, a part of "COVID-19 Safe Travel" strategy.

Source: Central Bureau of Statistics, news media, CEIC, Krungsri Research

Bali's green zones* and reopening plan

3 towns classified as "green zones" in Bali	Ubud, Sanur and Nusa Dua
Reopening plan	**Three phases** • **Phase 1**: **reopening the green zones which starts from March to June 2021** while the vaccine rollout is being distributed to tourism workers • **Phase 2**: To implement strict supervision to all locals moving in and out of the green zones between July to December 2021 • **Phase 3**: **To reopen the border to the select countries from January to March 2022** as a simulation program before **fully reopening the border to all international tourists in April 2022**

2020												2021			
Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
			Phase 1			Phase 2						Phase 3			

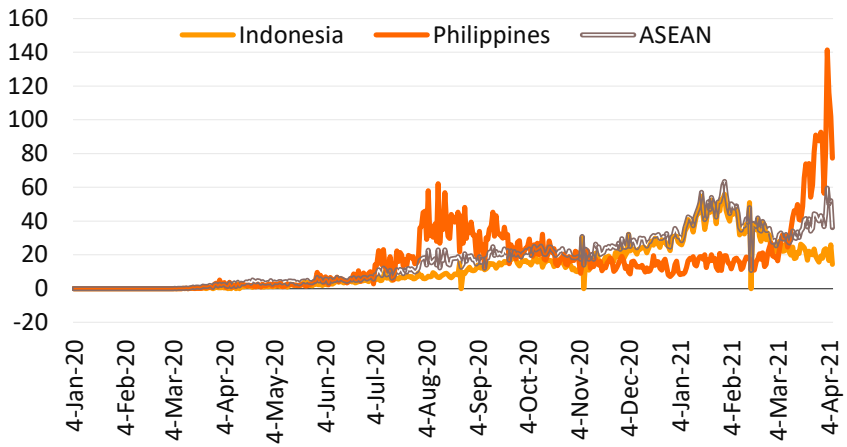
Krungsri Research's view

- Indonesia is planning to reopen Bali to foreign tourists in July, and plans to fully reopen Bali to foreign tourists by April 2022.
- **They plan to align with the country's vaccination program to vaccinate 79% of the population by April 2022. Indonesia has inoculated 3.3 people per 100 persons, the highest in the region. The country is working to reopen the economy by targeting sectors and zones, led by tourism.** That is the worst-hit sector, which accounted for up to 6.1% of GDP in 2019. The country saw a 75% decline in foreign tourists in 2020.
- We also welcome Bali's reopening plan as it is Indonesia's most popular tourist destination – attracting up to 40% of the country's tourist arrivals. To support the plan, the government aims to vaccinate at least 70% of Bali's 4.4 million residents in the coming months to build up international confidence. **Bali's reopening would also attract interest from major tourist groups, including from China, Malaysia, and Singapore.**

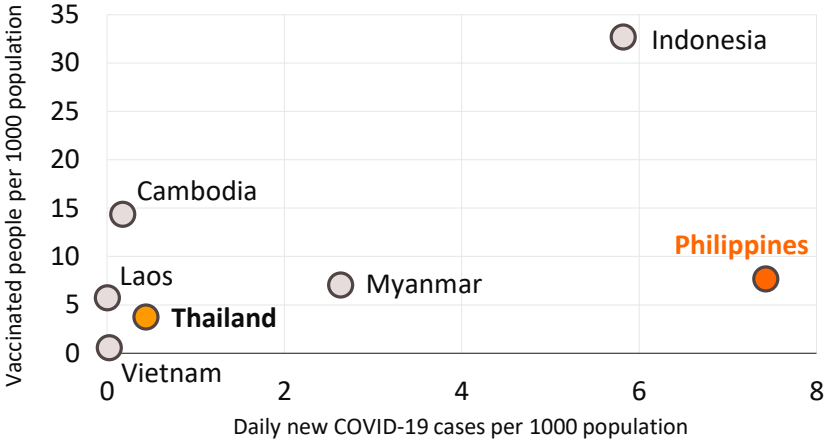
Philippines: New high in daily COVID-19 cases will dampen consumption amid limited fiscal space, disrupting recovery

Daily new COVID-19 cases

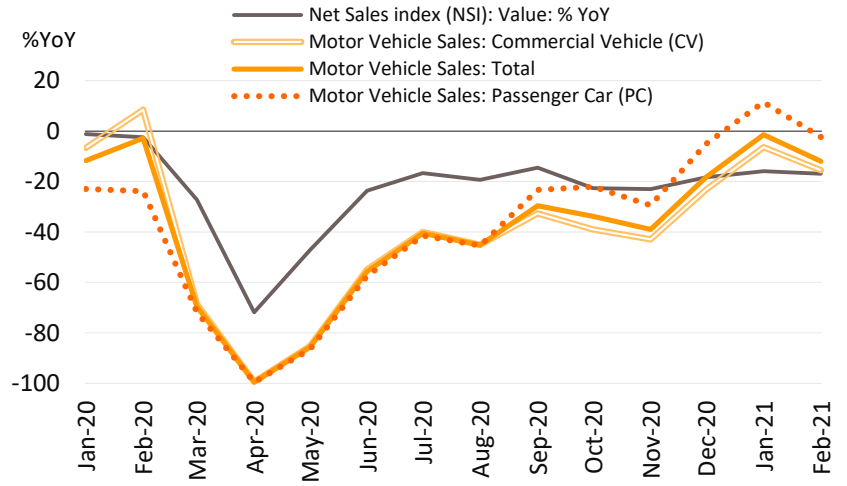
Cases per a million population



Daily new COVID-19 cases and vaccinated people



Philippines: Net Sales Index and Motor Vehicle Sales



Source: WHO, Philippine Statistics Authority, CEIC, Krungsri Research

Krungsri Research's view

- Philippines currently has the higher number of new COVID-19 cases within ASEAN, with 77 cases per million population vs 14 in Indonesia. (as at 6 April)
- **We expect the Philippines' economic recovery to be disrupted by the latest outbreak.** The pull factors include still-weak domestic demand as *Net Sale Index (NSI)* growth is still far below pre-pandemic level, relatively slow progress in the vaccination program, extended strict lockdown measures, limited new stimulus measures this year (0.6% of GDP under Bayanihan 2), and delayed disbursements as well as narrow monetary policy space. In addition, exports is slow (-2.3% in February) and is likely to remain weak as the stricter lockdown would disrupt production activities.
- Officials have recently revised the country's 2020 GDP contraction to 9.6%, from initial estimate of -9.5%. Given several headwinds, **we expect economic recovery to be slow pace and forecast 2021 GDP growth would be near the low-end of the official target of 6.5-7.5%.**

KRUNGSRI RESEARCH

Somprawin Manprasert, Ph.D.	**Head of Research Division and Chief Economist**
Phornphan Phoksuphat	Head of Macroeconomic and Industry Research

Macroeconomic Team

Sujit Chaivichayachat	Head of Macroeconomic Research
Chamadanai Marknual, Ph.D.	Senior Economist
Churailuk Pholsri	Senior Economist (Forecasting)
Soison Lohsuwannakul	Senior Economist (Regional Economy)
Sathit Talaengsatya	Senior Economist (Regional Economy)

Industry Team

Sarun Sunansathaporn	Head of Industry Research
Taned Mahattanalai	Senior Analyst (Digital)
Poonsuk Ninkitsaranont	Senior Analyst (Healthcare, Mobile Operators)
Piyanuch Sathapongpakdee	Senior Analyst (Transport & Logistics)
Narin Tunpaiboon	Senior Analyst (Power Generation, Modern Trade, Chemicals, Medical Devices)
Puttachard Lunkam	Analyst (Hotels, Construction Contractors, Construction Materials, Industrial Estate)
Patchara Klinchuanchun	Analyst (Real Estate)
Wanna Yongpisanphob	Analyst (Automobile, Electronics & Electrical Appliances, Food & Beverages)
Chaiwat Sowcharoensuk	Analyst (Agriculture)
Aphinya Khanunthong	Analyst (Energy, Petrochemicals)

Intelligence Team

Pimnara Hirankasi, Ph.D.	Head of Intelligence Team
Punjaphut Prasitdechsakul	Senior Analyst
Rachot Leingchan	Analyst
Arpakorn Nopparattayaporn	Analyst
Chutipha Klungjaturavet	Analyst

MIS and Reporting Team

Suratchanee Somprasong	Administrator
Thamon Sernsuksakul	Administrator
Chirdsak Srichaiton	MIS Officer
Wongsagon Keawuttung	MIS Officer

Subscribe Us

For research subscription, contact

krungsri.research@krungsri.com

Disclaimer

All material presented in this report, unless specifically indicated otherwise, is under copyright to Krungsri Research. None of the material, nor its content, nor any copy of it, may be altered in anyway, or copied to any other party, without the prior express written permission of Krungsri Research. This document is based on public information believed to be reliable. Nevertheless, Krungsri Research would not affirm the accuracy and completeness of this information. We accept no liability whatsoever for any direct or consequential loss arising from any use of this document or its content. Information, opinions and estimates contained in this report are our own, which are not necessarily the opinions of Bank of Ayudhya Public Company Limited and its affiliates. It reflects a judgment at its original date of publication by Krungsri Research and are subject to change without notice.