

krungsri Research

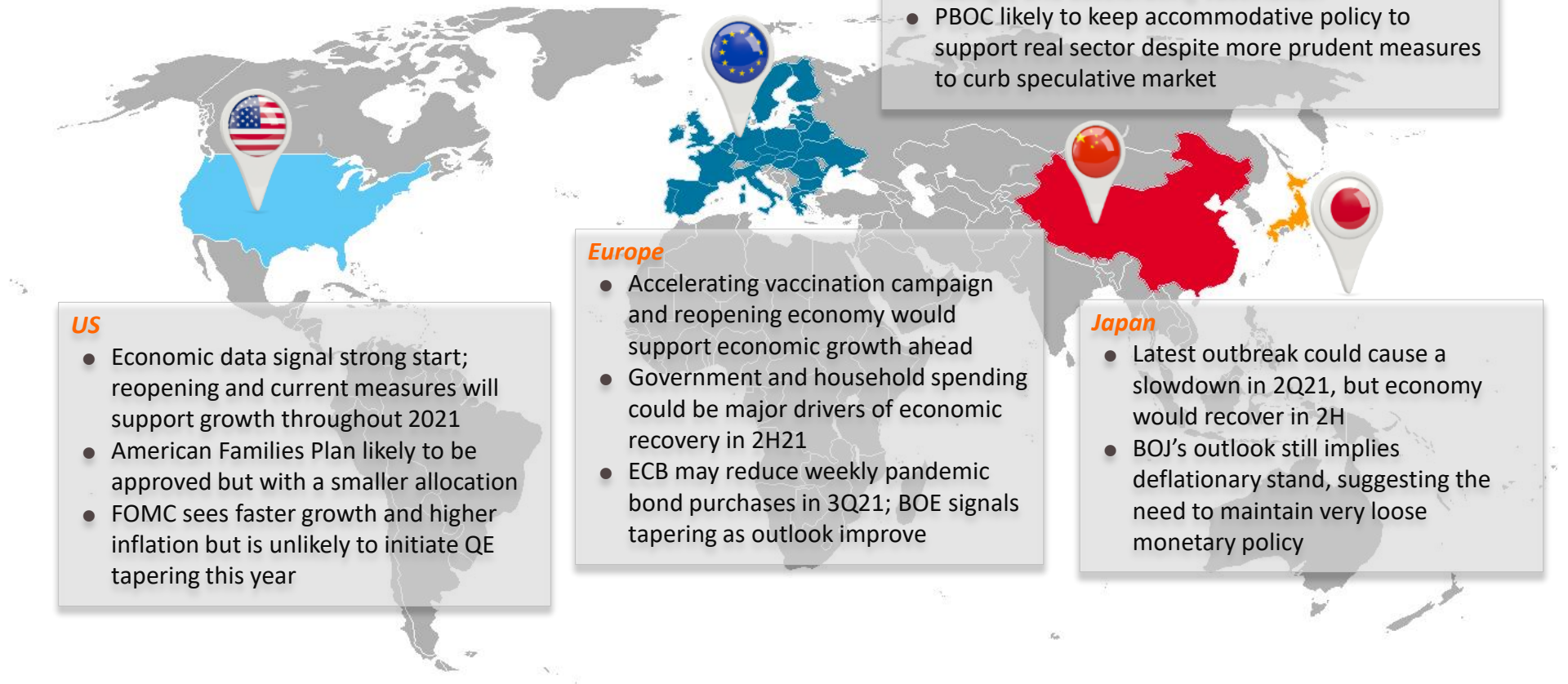
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MONTHLY ECONOMIC BULLETIN

May 2021

Krungsri Research

Global: Great expectations



China

- After a slowdown in 1Q, economy shows signs of stabilizing
- Private sector playing greater role in supporting growth, with global recovery, rising wages, excess savings, and accelerating vaccination
- PBOC likely to keep accommodative policy to support real sector despite more prudent measures to curb speculative market

US

- Economic data signal strong start; reopening and current measures will support growth throughout 2021
- American Families Plan likely to be approved but with a smaller allocation
- FOMC sees faster growth and higher inflation but is unlikely to initiate QE tapering this year

Europe

- Accelerating vaccination campaign and reopening economy would support economic growth ahead
- Government and household spending could be major drivers of economic recovery in 2H21
- ECB may reduce weekly pandemic bond purchases in 3Q21; BOE signals tapering as outlook improve

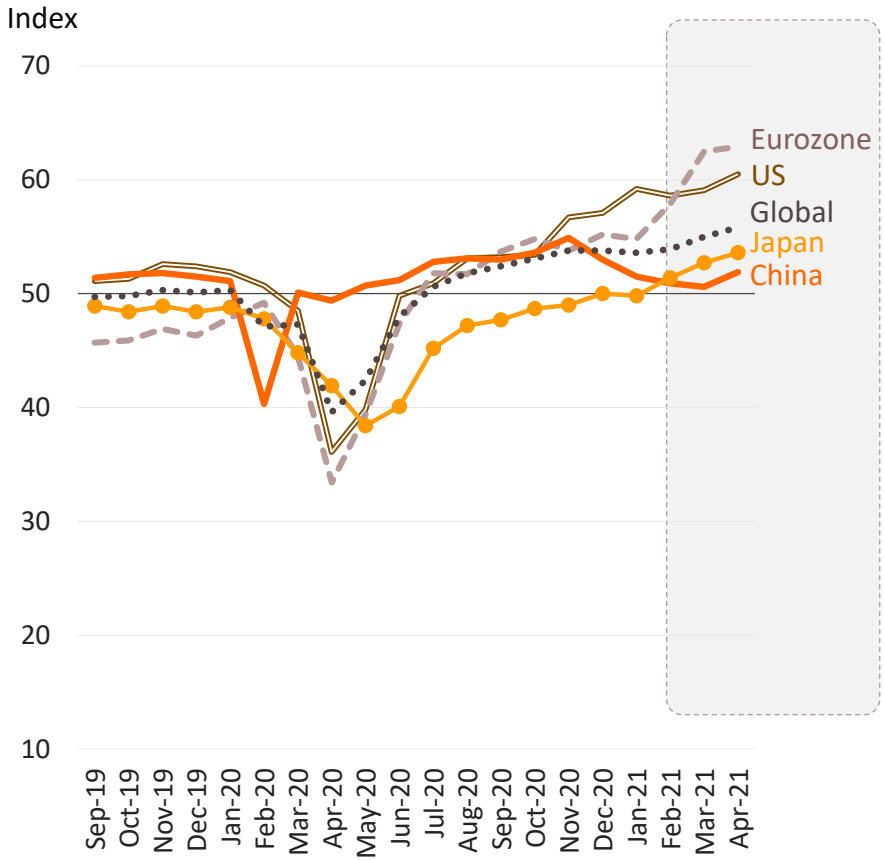
Japan

- Latest outbreak could cause a slowdown in 2Q21, but economy would recover in 2H
- BOJ's outlook still implies deflationary stand, suggesting the need to maintain very loose monetary policy

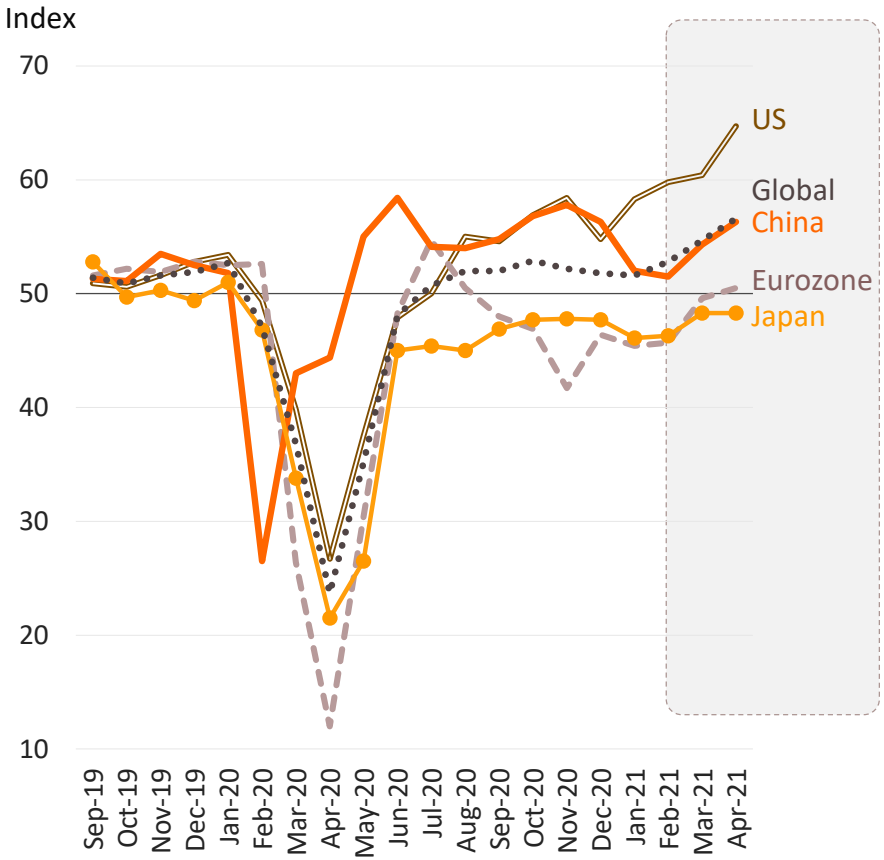
Global growth still supported by resilient manufacturing; services sector shows signs of imminent recovery

The gradual relaxation of COVID-19 containment measures in key countries is supporting an upturn in manufacturing activity and an early recovery in the services sector. In early 2Q21, Global Manufacturing PMI rose to its highest reading since April 2010, driven by firmer demand, supply shortage, and job creation. The major countries simultaneously experienced a rise in Manufacturing PMI data. April Global Services PMI also rose to the highest level since July 2007, led by stronger activity in the US, Eurozone, and China.

Global Manufacturing PMI



Global Services PMI

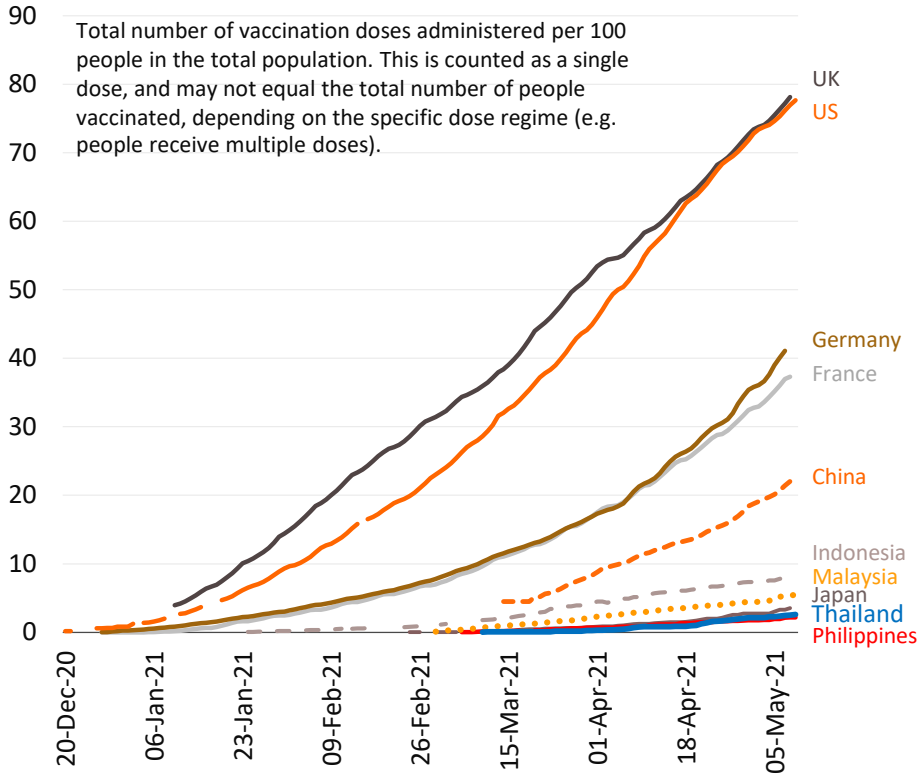


Source: Markit, Bloomberg, Krungsri Research

Pandemic remains a major risk but prospects over global growth and hiring are brightening with progress in mass vaccination

With progress in mass vaccination programs, company executives are turning more optimistic about the global economic outlook and expect headcounts in their respective companies to rise in the next 6 months.

COVID-19 vaccine doses administered per 100 people

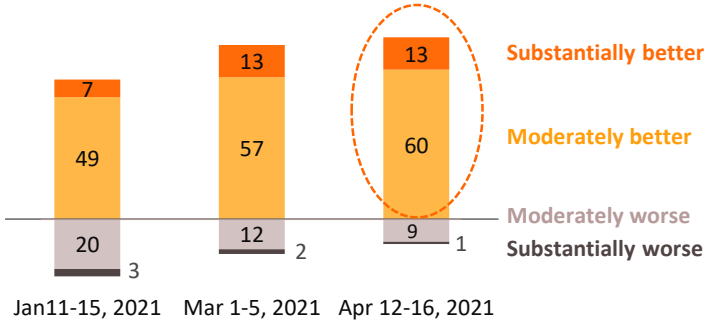


Note: Data as of 9 May 2021

Source: Our World in Data, McKinsey Survey, Krungsri Research

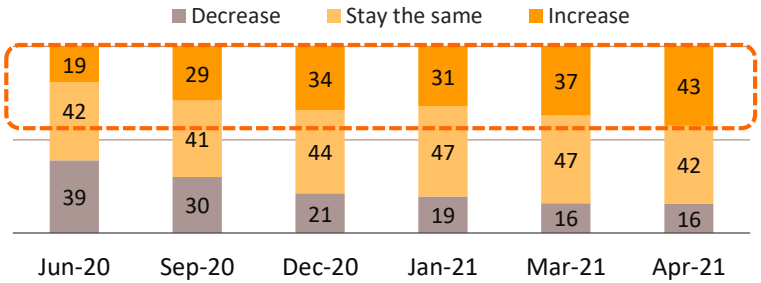
Expected conditions in global economy, next 6 months,[1]

% of respondents



Note: 1/ Respondents who answered "the same" are not shown, Jan-21, n= 1,025; Mar-21, n= 1,018; Apr-21, n= 1,199.

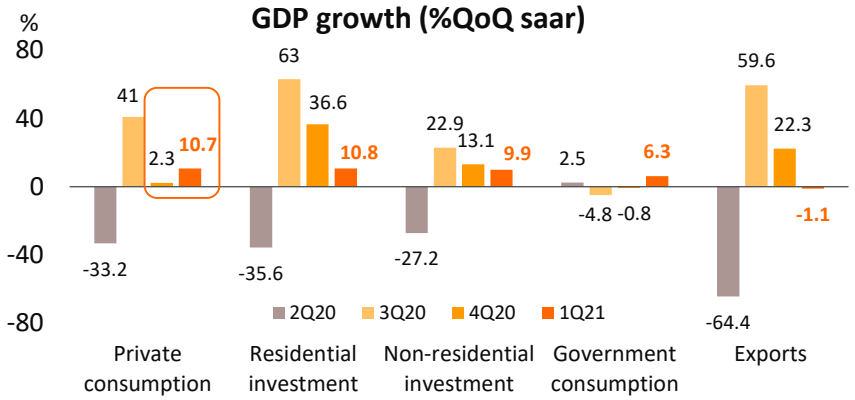
Expected changes in company's workforce or department size, next 6 months,[2] % of respondents

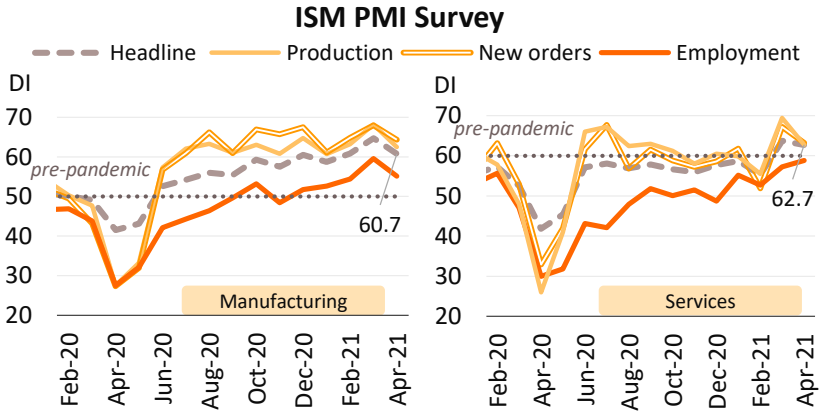


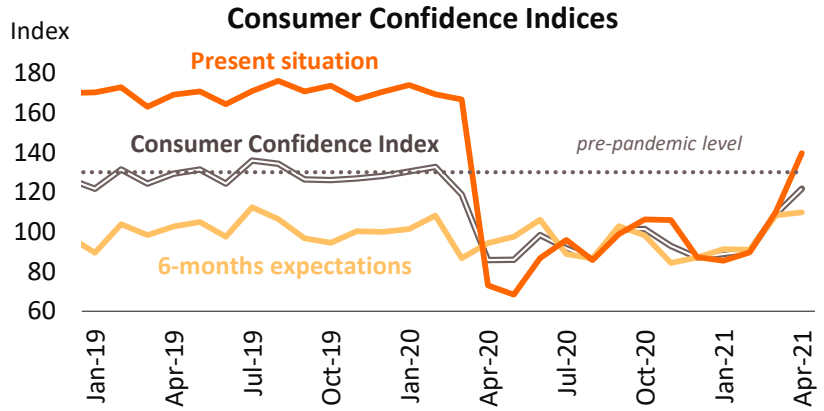
Note: 2/ Respondents who answered "don't know" are not shown. so figures may not sum to 100%, June-20, n=2,222; Sep-20, n= 1138; Dec-20, n= 1,382; Jan-21, n= 1,025; Mar-21, n= 1,018; Apr-21, n= 1,199.

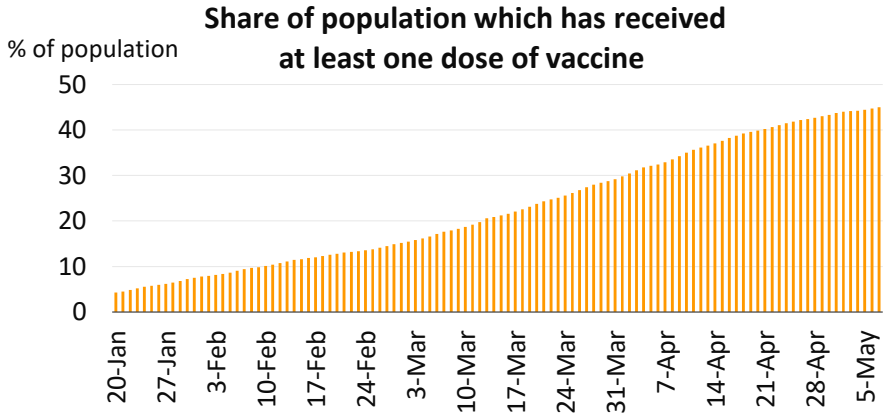
US: Economic data signal strong start; reopening and current measures will support growth throughout 2021

The US economy is off to a strong start. GDP expanded by 6.4% QoQ saar in 1Q21 led by personal consumption, domestic investment, and government spending. Latest data show the economy continued to gain momentum. Despite a blip, April Manufacturing and Services PMI data remained well above pre-crisis levels. Consumer Confidence Index soared to a 4-month high of 121.7 in April, while the expectations index ticked-up on economy reopening hopes and faster jobs growth. **Looking ahead, economic growth will accelerate in 2Q21 and remain robust in 2H driven by pent-up demand after lifting restrictions and reopening the services sector**. In addition, government responses - such as aid for the unemployed - would continue at least through 3Q21, while the new spending plan on jobs and childcare totaling USD4.1trn could see moderate progress and lift sentiment ahead. The vaccination program is progressing well, with **more than 40% of the population having received at least one dose of vaccine. The Biden administration is targeting for 70% of American adults to receive at least one dose by July 4, suggesting the US could reach herd immunity soon**. **Existing measures and positive developments would lift consumption and investment, and pave the way for solid growth the rest of the year.**









Source: Bureau of Economic Analysis (BEA), Institute for Supply Management (ISM), CEIC, Krungsri Research

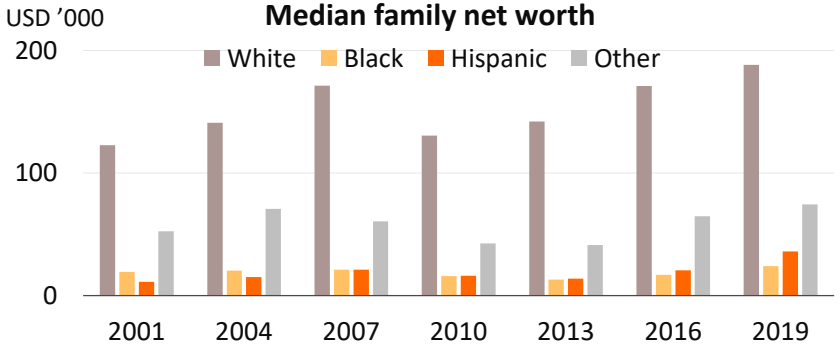
American Families Plan likely to be approved but with a smaller allocation

Apart from existing COVID-19 relief measures worth USD1.9trn and the proposed USD2.25trn infrastructure plan, the government has also proposed the USD1.8trn ***American Families Plan*** **to provide tuition-free college and pre-school, childcare subsidies, and paid family and healthcare for over a decade.** The tuition would reduce the yawning wealth gap between black and white Americans by improving educational opportunities and increasing employing rate in the black community. **To fund the program, Biden has proposed to increase individual tax rate for top earners to 39.6% from 37%, and raise capital-gains tax rate to 39.6% from 20%** for those earning more than USD1mn a year. Including state taxes and Obamacare tax, that would increase the combined tax rate to over 50% in California, D.C. and New York. **The higher capital-gains tax could be implemented in 2022, the quickest period to pass the Families plan. It would hurt the economy by reducing GDP by 0.1 ppt per year and trimming federal revenue by USD124bn (0.6% of GDP) over 10 years**. However, the package is meant to improve social equality rather than contribution to real economic growth, unlike the American Job Plan. **Then, we suspected the package could be passed as a separate bill with a smaller budget than proposed under regular process rather than under the budget reconciliation.** The government could apply the reconciliation process on the American Job Plan instead.

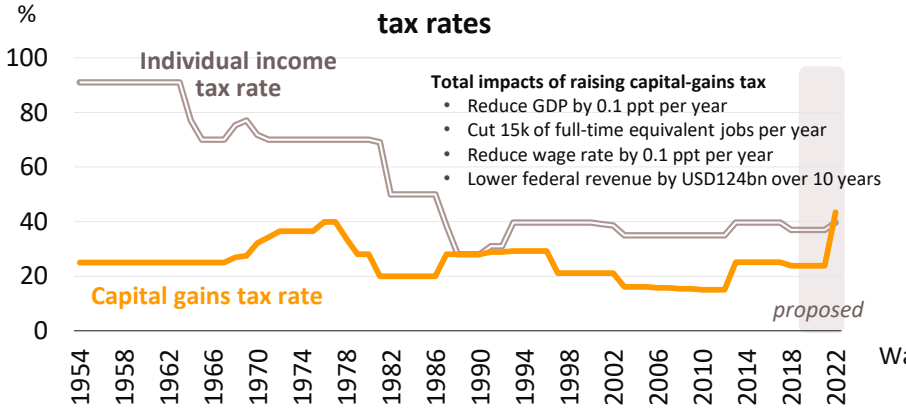
Major spending program under American Families Plan

Childcare expense	USD 225bn
National family and medical leave program	USD 225bn
Universal access to pre-kindergarten schooling	USD 200bn
Two free years of community college	USD 109bn
College tuition	USD 85bn

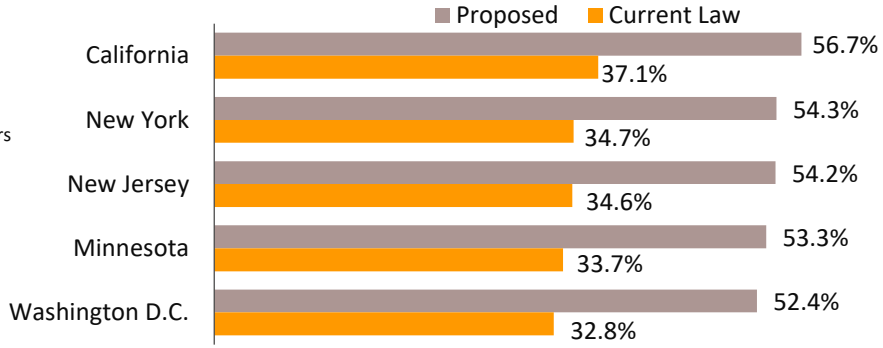
Median family net worth



Maximum capital gains and individual income tax rates



Capital gains tax rate*



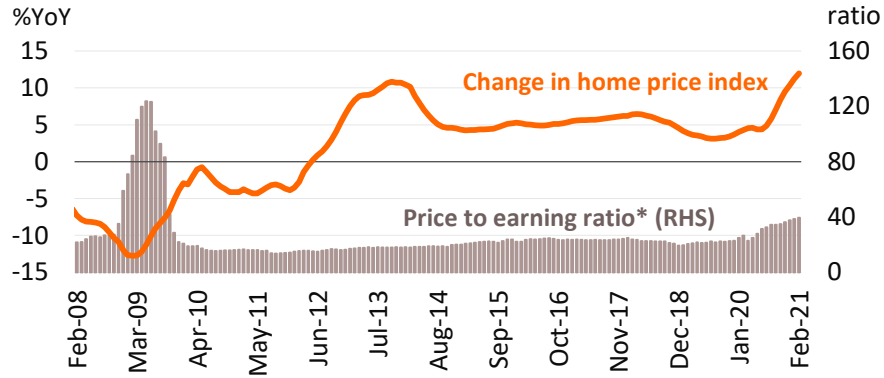
**% of profits from capital assets selling*

Source: Bureau of Economic Analysis (BEA), Bureau of Labor Statistics (BLS), Tax Foundation, The Office of Tax Policy, Bloomberg, Krungsri Research

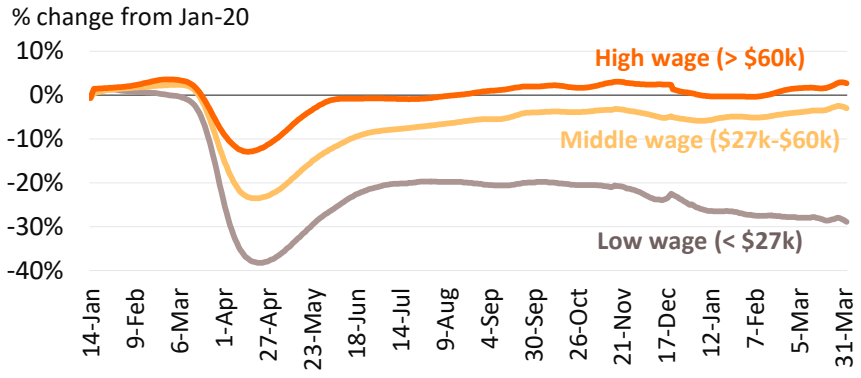
FOMC sees faster growth and higher inflation but is unlikely to initiate QE tapering this year

FOMC held interest rates and bond purchase volume at the latest policy meeting. At the press conference, Powell said the members have yet to discuss QE tapering but see faster growth and higher inflation. **Despite stellar growth, the Fed could start discussions in 4Q21 and tapering could happen in 1H22, when the services sector has fully reopened and unemployment rate falls to below 4.5%, close to pre-crisis level. The financial and housing markets are showing sign of overheating.** The National House Price Index rose 12% in February, the biggest jump since 2006, while price to earning ratio has surged to 40 from 22 in the same period last year. **However, the Fed would also consider performance of the real sector.** Latest employment data indicate an uneven recovery as employment within the low-income group remains 29% below pre-pandemic level. Consumption in the services sector is still below pre-crisis level. In addition, corporate earnings remain 20% below 2019-level, indicating still-weak business revenues. **The uneven economic recovery suggests the Fed needs to make a careful decision on tapering and wait until the data show substantial and sustainable progress. But when the tapering begins, the Fed might start with mortgage-back securities, followed by the Treasury, to control risks in targeted sectors.**

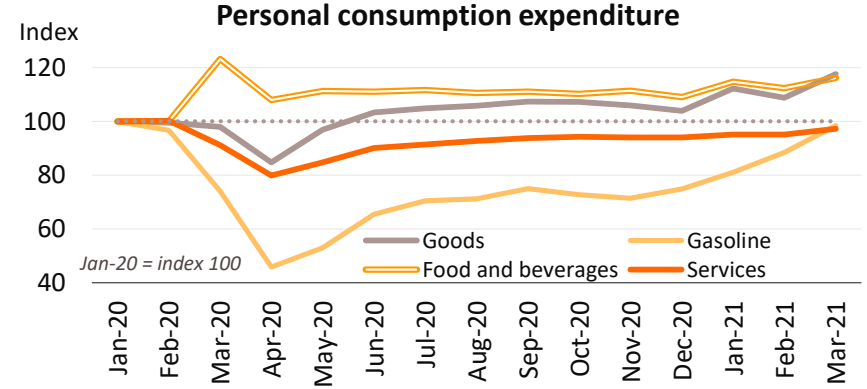
Change in Home Price Index and PE ratio*



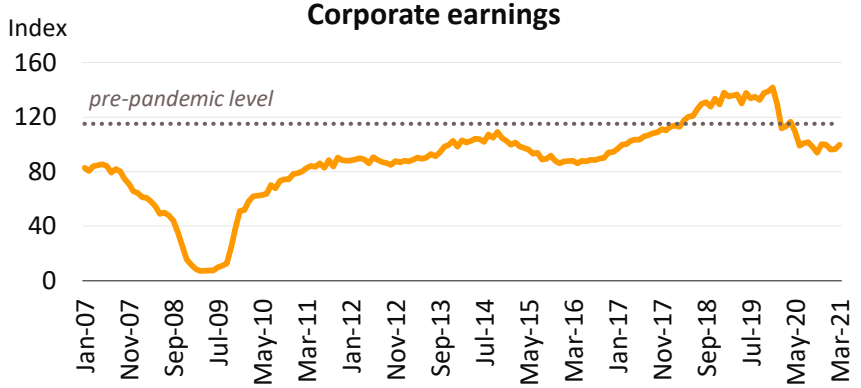
Percentage change in employment by wage



Personal consumption expenditure



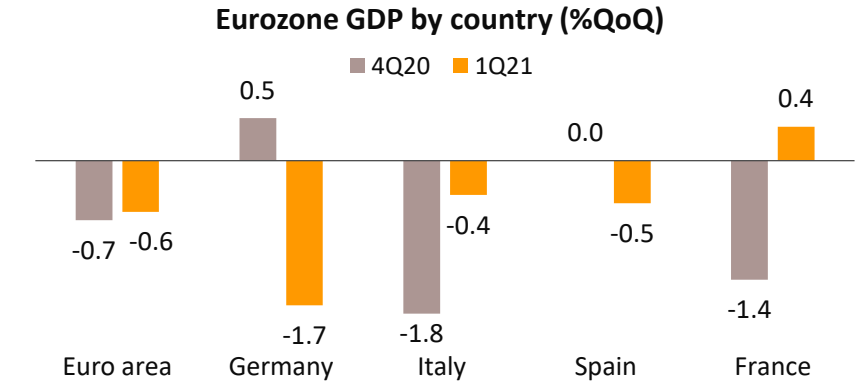
Corporate earnings

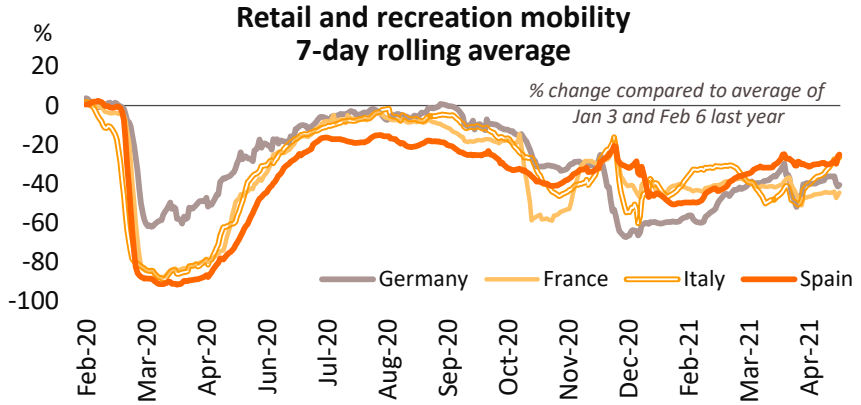


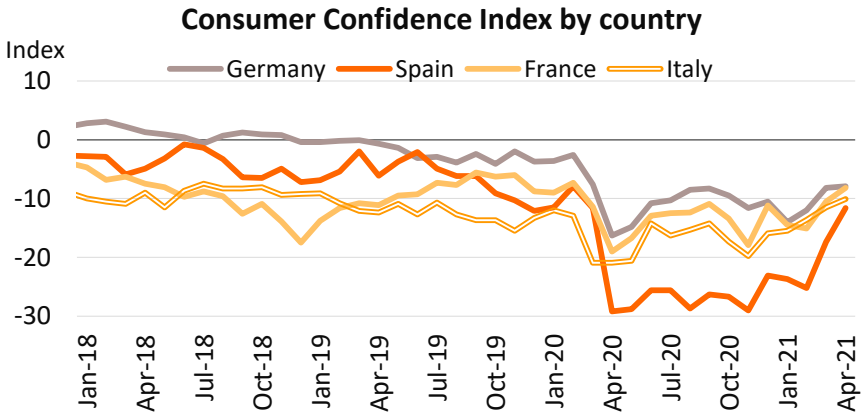
Source: Bureau of Labor Statistics (BLS), S&P Dow Jones Indices LLC, Opportunity Insights, CEIC, Bloomberg, Krungsri Research

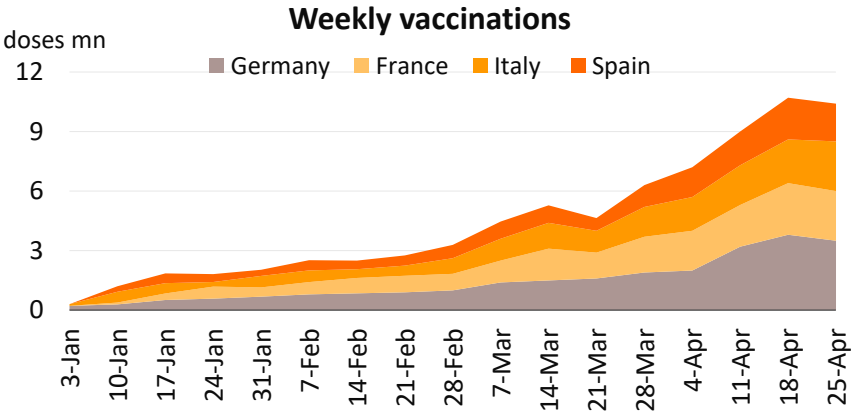
Europe: Accelerating vaccination campaign and reopening economy would support economic growth ahead

Nationwide lockdowns in 1Q21 took the eurozone economy into a double-dip recession, with GDP contracting by 0.6% QoQ. Germany registered the largest contraction among major countries at -1.7%, while France's economy unexpectedly expanded by 0.4% due to better household consumption and construction sector. The rising COVID-19 cases in April would have only a mild impact on business in 2Q21 because most businesses have adapted to the restrictions. **Looking ahead, the economy could improve in 2H21 driven by the reopening of the services sector, coupled with investments under the Recovery & Resilience Facility**. Retail and recreation mobility data show a pick-up in activities in Italy and Spain as restaurants were allowed to serve diners from late-April. Consumer confidence data also showed broad-based improvements but remained below pre-crisis level. **The region's vaccination program is accelerating** with weekly vaccinations at around 2.6 mn in each country in late April, compared to 1 mn in March. In addition, vaccine supply would rise to 400 mn doses in 2Q21 from 100 mn doses at the beginning of the year. **The accelerating vaccination program would pave the way to lift COVID-19 restrictions in the coming months and support healthier growth ahead.**







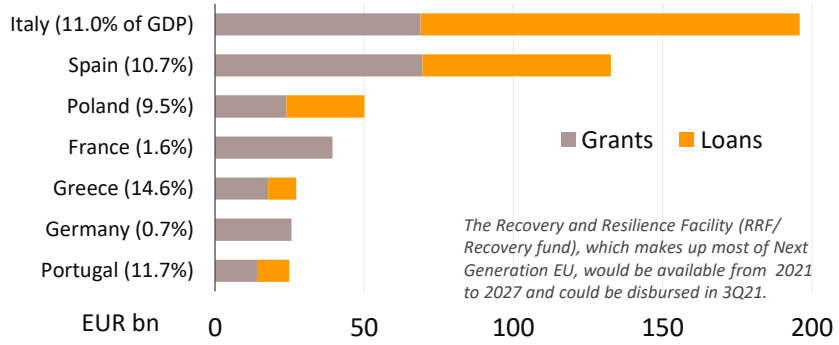


Source: National Authorities, Google Mobility Report, Eurostat, Bloomberg, Krungsri Research

Government and household spending could be major driver of economic recovery in 2H21

The Recovery & Resilience Facility worth EUR750bn will be available over the next six years and should be a major stimulus for the economy in 2H21. The allocation will support green & digital transformation efforts, improve social resilience, and mitigate the economic impacts. **The positive impact on GDP would be more visible in southern eurozone** such as Greece, Italy and Spain, due to the larger size of packages relative to GDP. **The European Commission estimates countries which receive larger grants would borrow less from financial markets, leading to smaller debt burden,** and debt-to-GDP ratio in Greece and Italy would drop by 2.5ppt in 2024. **However, we are concerned over debt and spending, including (i) existing high debt level** triggered by COVID-19 stimulus programs, **(ii) fiscal regulation** limiting debt level to 60% of GDP could return by 2023, and **(iii) cost of debt could increase** if the PEPP purchases are reduced. **Looking ahead, the private sector needs to play a greater role in driving economic growth once countries ease containment measures.** To boost Eurozone's GDP growth by 1.5 ppt, they would need to utilize EUR170bn of excess savings, which is possible given current savings in Germany and France. **The combined stimulus and private spending should push economic recovery to catch up with that in other developed countries.**

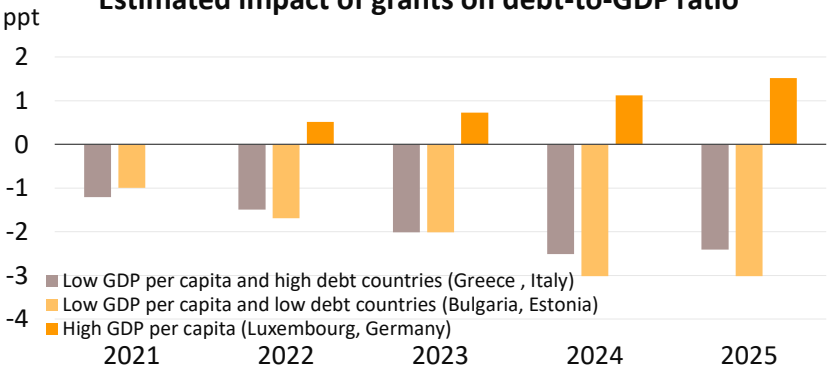
Allocation of the Recovery & Resilience Facility



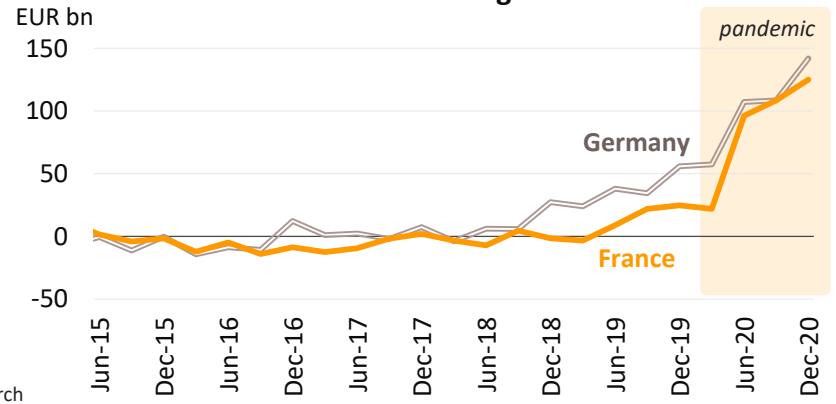
Requirements for national spending plans under RRF

National recovery and resilience plans	Proportion of fund used
Boost growth, job recreation and economic & social resilience	Depend on country's discretion (around 20%)
Support green transition	At least 37% of allocation
Foster digital transformation	At least 20% of allocation
Response on country-specific challenges	Depend on country's discretion (around 20%)

Estimated impact of grants on debt-to-GDP ratio



Excess savings



Source: European Commission (EC), Eurostat, European Central Bank (ECB), Bloomberg, Krungsri Research

ECB may reduce weekly pandemic bond purchases in 3Q21; BOE signals tapering as outlook improve

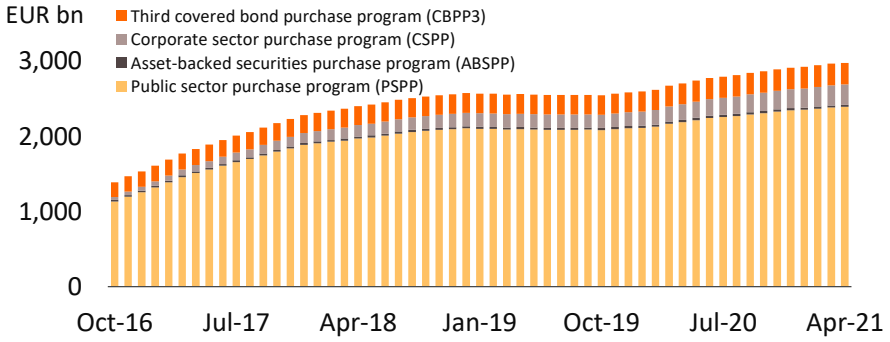
The ECB held interest rates and pandemic bond purchase volume at the latest meetings, but some members have hinted at reducing bond purchase volume possibly starting June. The ECB would continue to increase weekly bond purchases in 2Q21 due to the rising yields and lingering COVID-19 impact. **But in 3Q21, accelerating vaccination pace and reopening of the services sector could support economic recovery and prompt the ECB to consider reducing weekly bond purchase volume. Looking ahead, they would be unlikely to extend the PEPP program as it would reach the ceiling by March-May next year, but the reinvestments would continue**. After that, the ECB could use the older Asset Purchase Program to support an accommodative monetary policy and bolster recovery, along with TLTROs and forward guidance. The targeted APP monthly purchase volume might be doubled from EUR20bn since 2019 to at least EUR40bn in 2022. In the UK, aggregate credit & debit card spending has risen to close to pre-pandemic level and they could achieve herd immunity by the end of this year. Then, the central bank decided to reduce the pace of weekly bond buying to GBP3.2bn from GBP4.4bn, starting in May this year. Moreover, they could signal tapering its QE program in mid-year meeting as the economy is set to improve. This implies **the progress of vaccination programs and substantial economic developments could be the major factors prompting central banks to shift to lower gear.**

Prediction of ECB's actions

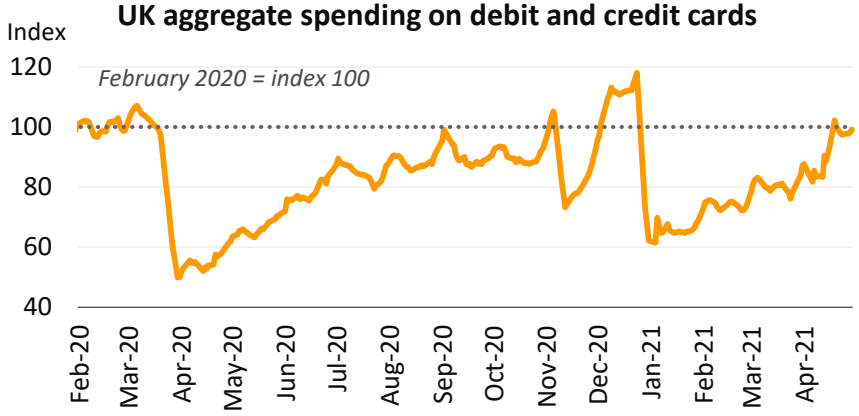
3Q21	ECB would reduce weekly PEPP purchase volume
4Q21	ECB would give three months' notice before slowing PEPP purchases
1Q22	ECB would end purchases under PEPP program
2022	ECB would keep interest rates unchanged and could increase purchase volume under Asset Purchase Program

*Bloomberg survey economists conducted mid-April

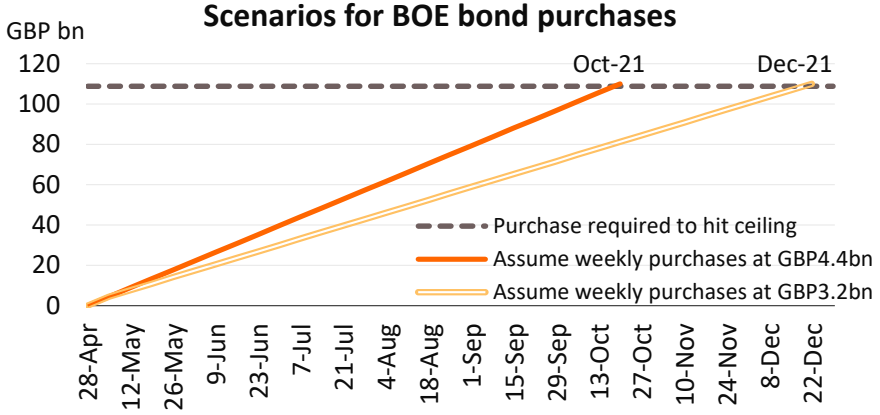
APP cumulative net purchases by program



UK aggregate spending on debit and credit cards



Scenarios for BOE bond purchases

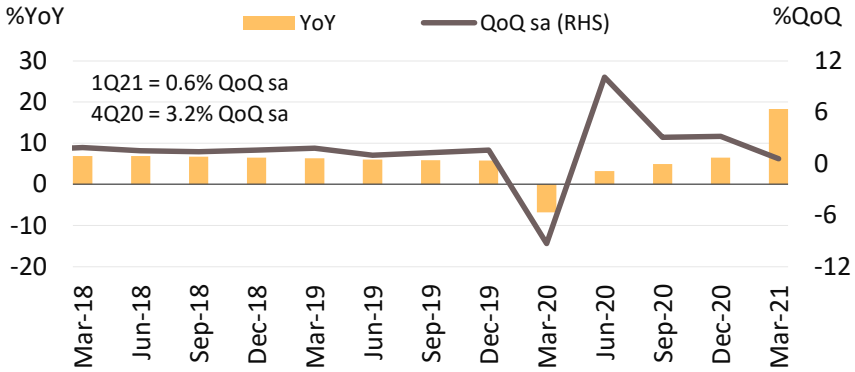


Source: European Central Bank (ECB), Office of National Statistics (ONS), Bank of England (BOE), Bloomberg, Krungsri Research

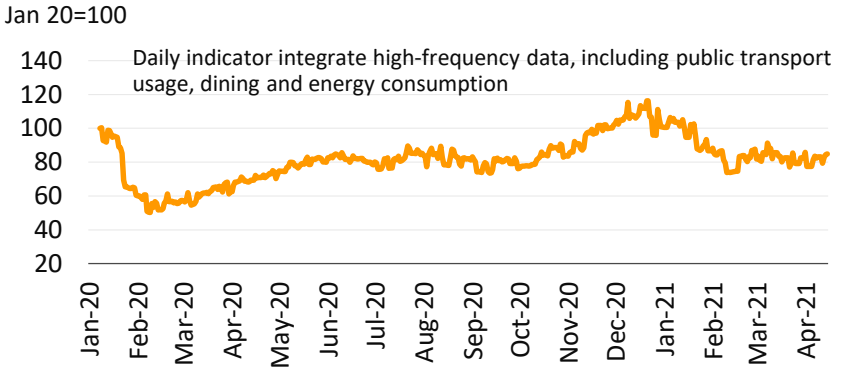
China: After a slowdown in 1Q, economy shows signs of stabilizing

China's economy slowed down in 1Q21 largely due to temporary factors, including the resurgence of COVID-19, Lunar New Year holidays, and a shortage of container shipping capacity. However, latest high-frequency data indicate economic activities are stabilizing. Official April PMI data remained in expansion territory (above-50), despite slowing down slightly. Caixin PMI data also improved for both Manufacturing and Non-manufacturing sectors, reflecting recovery in the SME sector because the Caixin survey is focused on small- and medium-size businesses. In addition, tourism-related services sectors also rebounded, reflected by recovering activities during the Labor Day holiday (1-5 May 2021) when the number of tourists surpassed pre-pandemic levels in 2019. **These positive factors signal continued improvement in economic activity with a broader-base recovery that includes small businesses.**

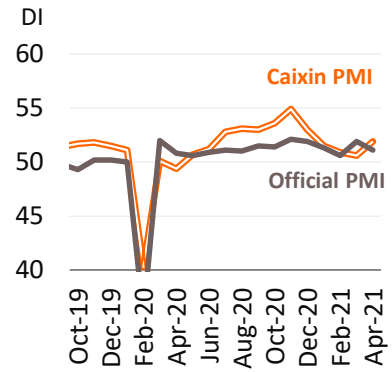
Real GDP growth



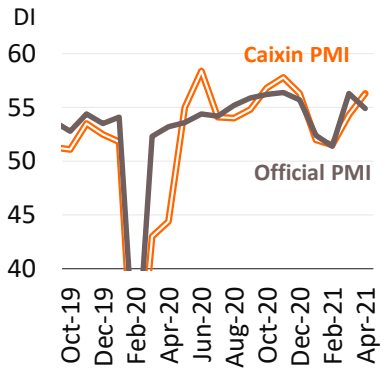
Daily Activity Indicator



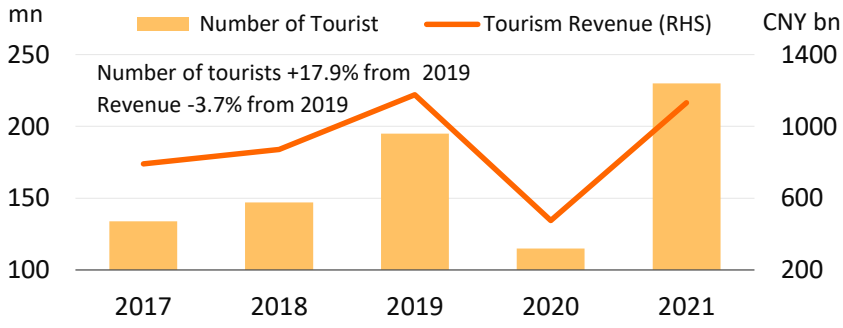
Manufacturing PMI



Non-Manufacturing PMI



Tourism activity during Labor Day holidays

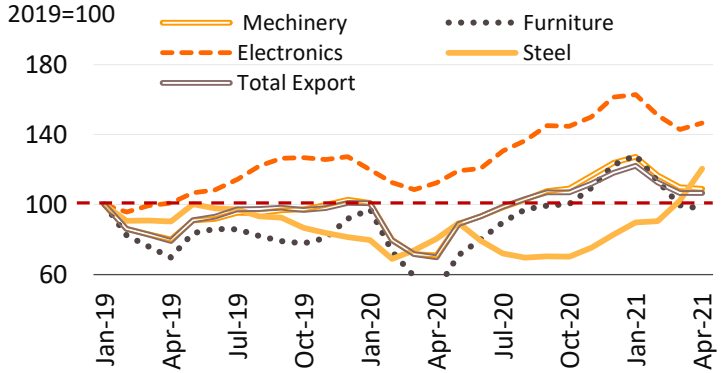


Source: National Statistics Office, Caixin-Markit, CEIC, Bloomberg, Krungsri Research

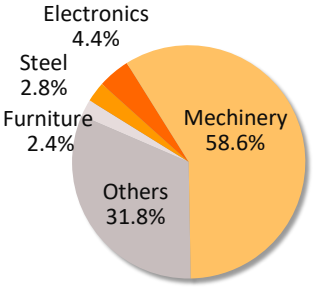
Private sector playing greater role in supporting growth, with global recovery, rising wages, excess savings, and accelerating vaccination

The economy is likely to expand at a steady pace this year. Amid the cyclical recovery of the global economy, China's major export items are expanding and remain above pre-pandemic levels in 2019. And, rising wages and income would gradually increase household purchasing power. Likewise, household excess savings has reached CNY 9.4trn or 9.3% of GDP in 1Q21, implying large room to increase consumption in the next period. The accelerating mass vaccination program would also support further improvements in services-related activities in 2H21 and allow China to reopen to international travelers next year. They target to inoculate 70% of the population to achieve herd immunity before Winter Olympics in February 2022. **Looking forward, China will continue to recover, driven by a gradual rebound in domestic demand and exports, and reopening effects.**

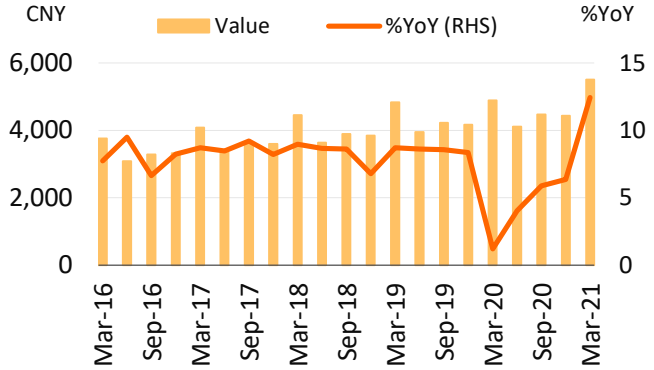
Export value of key products (3MMA)



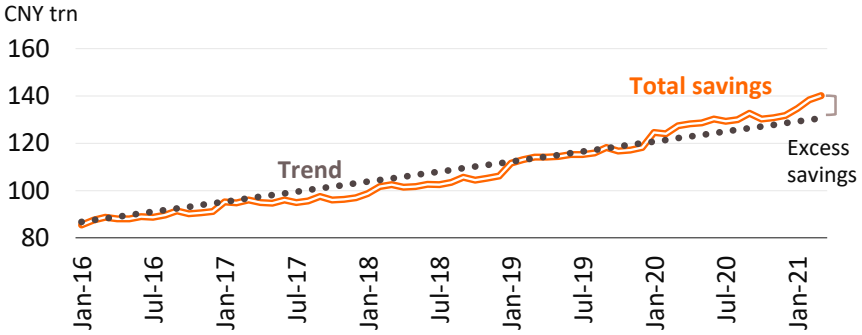
Share of major exports



Nominal wage income



Total household savings and excess savings



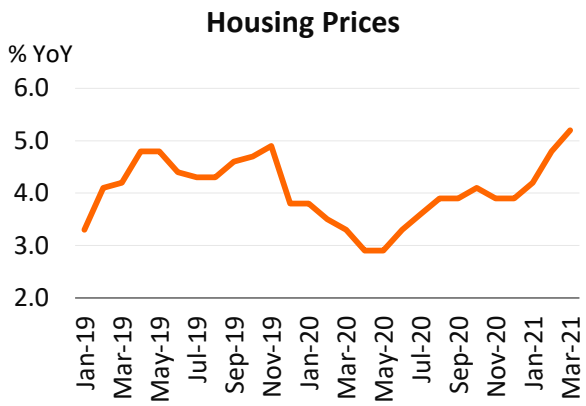
National Immunization Plan

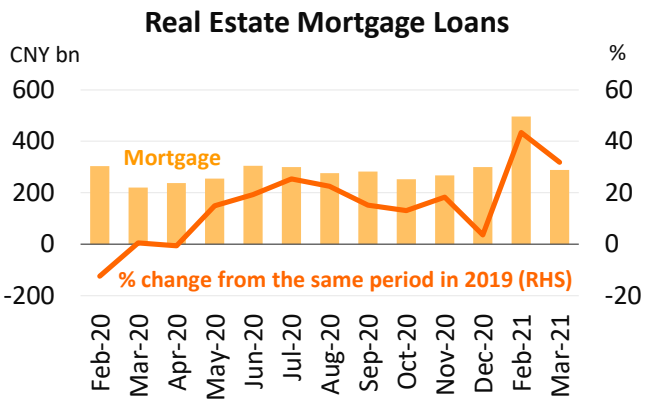
	Expected number of vaccinated residents	Schedule
Phase 1	560 mn (40% of population)	Jun 21
Phase 2	880 mn (64% of population)	Dec 21
Phase 3	1000 mn (70% of population)	Feb 22

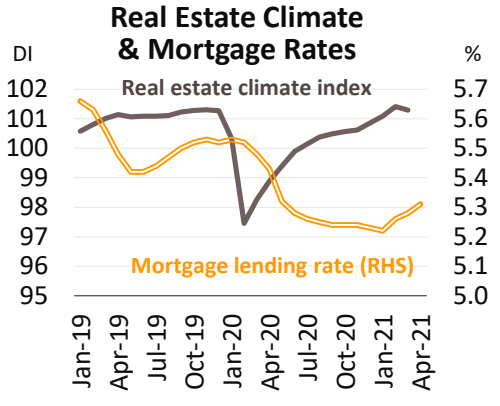
Source: National Statistics Office, CEIC, Capital Economics, Bloomberg, National Health Commission, Krungsri Research

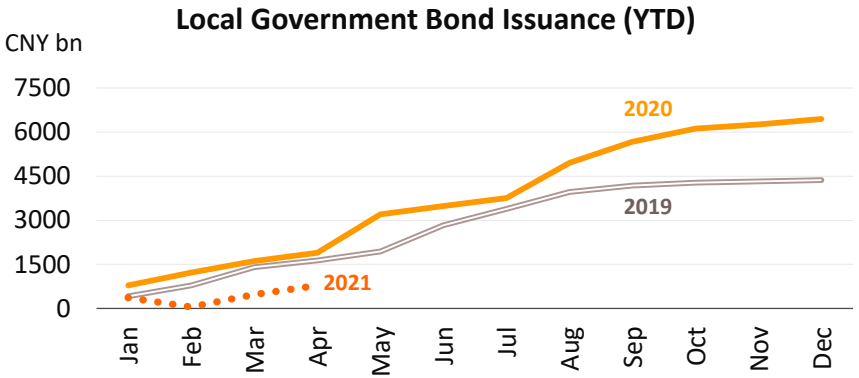
PBOC likely to keep accommodative policy to support real sector despite more prudent measures to curb speculative market

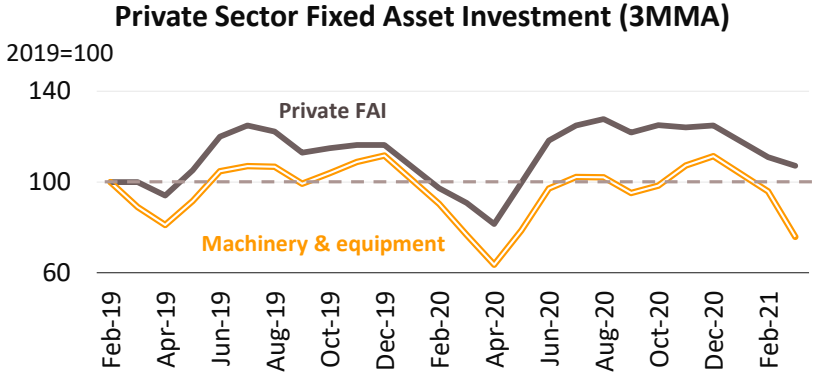
There are signs of a boom in China's housing market, with a continued increase in house prices and acceleration in real estate mortgage. That has prompted The People's Bank of China (PBOC) to supervise lending to some segments, reflected in higher mortgage lending rates. The PBOC had requested cooperation from major lenders in March to "*keep loan growth stable and reasonable*" the rest of this year, aiming to deleverage excessive credit. **However, the accommodative monetary policy is still necessary to sustain recovery in the real sector, due to the following:** (i) The government is playing a smaller role in stimulating public investment, indicated by slower local government bond issuances compared to last year. (ii) Private investment has not recovered well enough, with the average 1Q21 growth of only 1.7% over the past two years. Recently, private investment had slowed down compared to pre-pandemic levels, with investment in machinery & equipment still below 2019 levels, before the pandemic. **Looking ahead, amid curbs in speculative activity and slower public investment, we expect the PBOC to continue to implement monetary supports to strengthen growth of the private sector, while still adopting prudent measures to address risks in selected sectors.**









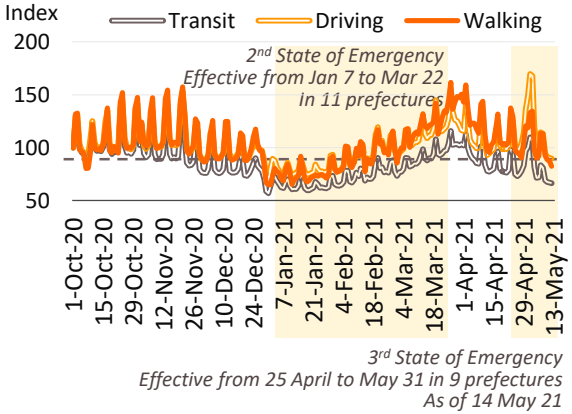


Source: The People's Bank of China (PBOC), CEIC, Bloomberg, Krungsri Research

Japan: Latest outbreak could cause a slowdown in 2Q21, but economy would recover in 2H

The fourth wave could slow down domestic economic activities, as reflected by Apple mobility data. But the impact would be less severe than before as the recent state of emergency covers fewer areas and travel was allowed during the Golden Week festival (29 April to 5 May). The latest outbreak could prompt authorities to ban spectators at the Olympic Games, which could cause economic losses amounting to 0.4% of GDP. **However, the economy would recover and improve in 2H21** supported by the following: (i) recent JPY 500bn additional stimulus to ease the impact of the outbreak on the services sector; (ii) improving exports with value exceeding pre-pandemic levels and reaching its highest since March 2018;. (iii) signs of recovery in the manufacturing sector as Manufacturing PMI hit a 3-year high in April and Tankan Sentiment Index is at its highest since Feb 2019; (iv) the labor market continues to recover with real wages rising for the second consecutive month in March; and (v) the national vaccination program is expected to accelerate in 2H21 to inoculate 75% of residents above 16 years of age by February 2022. These factors would support a gradual recovery that would be more visible in 2H21.

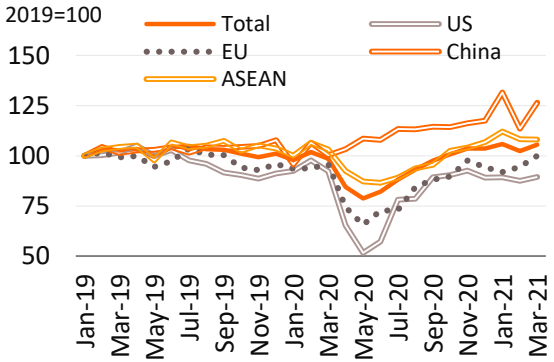
Apple Mobility Data



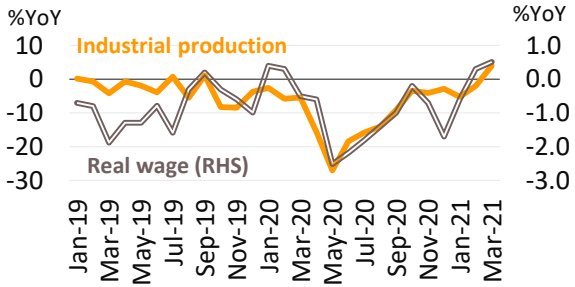
Estimated Spending by Olympic Audience

Scenario	Estimated spending (as % of GDP)
Full attendance	0.4
No foreign fans	0.3
50% domestic fans	0.1
No fans	0.003

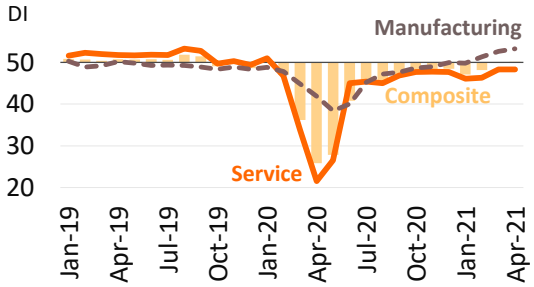
Real Exports by Destination sa



Industrial production & real wages



Jibun PMI



Japanese COVID-19 vaccination timeline

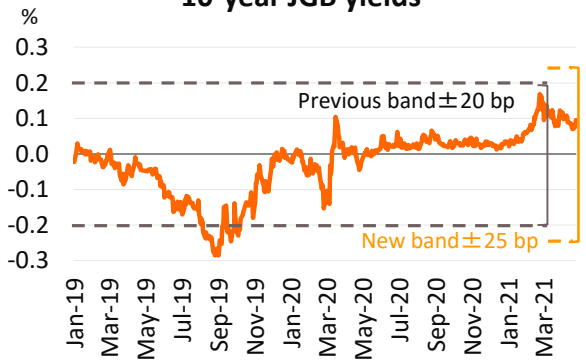
Schedule	Targeted Groups	Coverage
Feb 21	4.8 mn healthcare professionals & workers	3.8%
Apr 21	36 mn elders (age 65+)	28.5%
Jul 21	15.7 mn people with chronic illness & age 60-64	12.4%
Sep 21	General population	38.3%
Feb 22	Completing herd immunity	75.0%

Source: CEIC, Capital Economics, Bloomberg, Asia Nikkei, Kyodonews, Krungsri Research

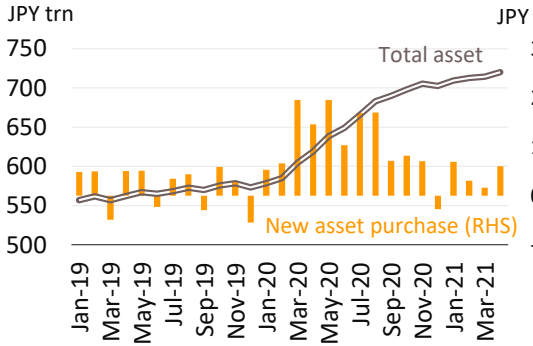
BOJ's latest outlook still implies deflationary stand, suggesting the need to maintain very loose monetary policy

The Bank of Japan (BOJ) recently tweaked monetary policy in response to gradual improvements in the Japanese economy but that has not affected financial conditions. (i) 10-year JGB yield is still within the BOJ's previous tolerance band (±20 bp), (ii) BOJ will continue with asset purchases and extend balance sheet, and (iii) still-growing bank loans, especially for hard-hit small businesses. These data suggest the BOJ is likely to maintain an accommodative policy stance. Looking at growth prospects, the BOJ has upgraded GDP growth projection to +4.0% for 2021 and +2.4% for 2022. **However, the projections do not include the impact of the fourth wave which could slow domestic economic activities and reduce gains from the Olympic Games.** In addition, the BOJ projected GDP growth would slow to only +1.3% in 2023. **Looking at inflation, the latest projections imply a "deflationary mindset" until 2023,** since (i) the BOJ has cut its forecast for core inflation this year to just 0.1%, while March core inflation was 0.3%, and (ii) core inflation is projected at 1% in 2023, far below the 2% inflation target. **Therefore, the BOJ would likely maintain a very-loose monetary policy, by keeping the negative interest rate policy and implementing quantitative and qualitative monetary easing (QQE) with yield curve control (YCC) longer than other major countries, to sustain economic recovery.**

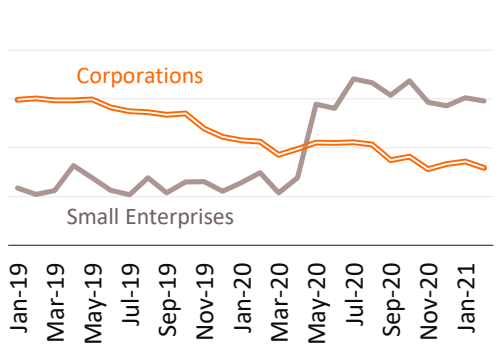
10-year JGB yields



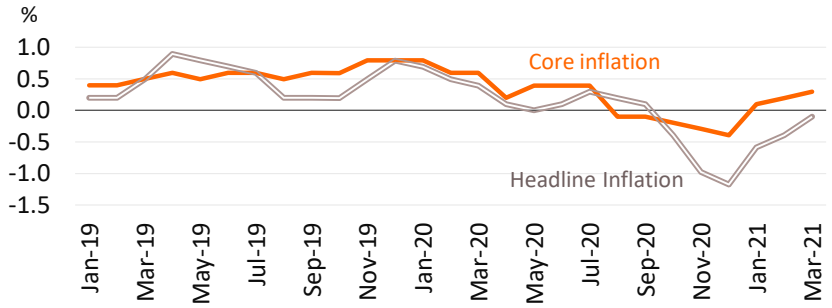
BOJ Asset Purchase Program



Outstanding Bank Loans



Core & Headline Inflation



Bank of Japan's economic outlook

	GDP growth		Core inflation	
	Projection as of			
	Apr	Jan	Apr	Jan
2021	↑ 4.0%	3.9%	↓ 0.1%	0.5%
2022	↑ 2.4%	1.8%	↑ 0.8%	0.7%
2023	1.3%	N/A	1.0%	N/A

Source: Bank of Japan, CEIC, Bloomberg, Capital Economics, Krungsri Research

Thailand: Recovery stumbles, not crumble

1Q21 GDP hit by second wave but contracted less than anticipated. Economic recovery stumbles as third wave has lasted longer than we expected.

- During the second wave, Thai GDP contracted for the fifth consecutive quarter in 1Q21 (-2.6% YoY vs -4.2% in 4Q20). But that was less severe than we expected, supported by recovering exports and investment, as well as stimulus measures. Sequential growth was positive for the third straight quarter.
- New COVID-19 clusters and still-high number of new cases will escalate pandemic risk in Thailand, especially in the BMR area. Our model (as of May 17) suggests new daily cases would drop below-100 in late-July to late-August (instead of early-July). That means the economy could contract again in 2Q.

Trimmed 2021F GDP to 2.0% from 2.2%. We slashed 2021F tourist arrivals to 330,000. Promising exports, domestic policy supports, and better-than-expected 1Q GDP data would limit downside to our growth outlook.

- Krungsri Research slashed 2021F foreign tourist arrivals to 330,000 from 3 million, premised on (i) the third wave in Thailand having a more severe impact than expected and discouraging arrivals; and (i) Thailand's major tourist source markets recovering at slower-than-expected pace. However, the larger-than-expected government stimulus packages would support consumer spending and domestic tourism after easing restrictions. Export sector remains a key growth driver. We upgraded 2021F export growth to 9%.
- We trimmed 2021F GDP growth to +2.0% from +2.2%. The economy would improve in 2H21 on the back of the global economic recovery, worldwide vaccination programs, possible relaxation of containment measures, and gradual reopening of the services sector. Nonetheless, there is downside risk from hiccups in vaccination programs and the sporadic resurgence of outbreaks.

Despite a more cautious outlook, MPC is likely to hold policy rates through to next year

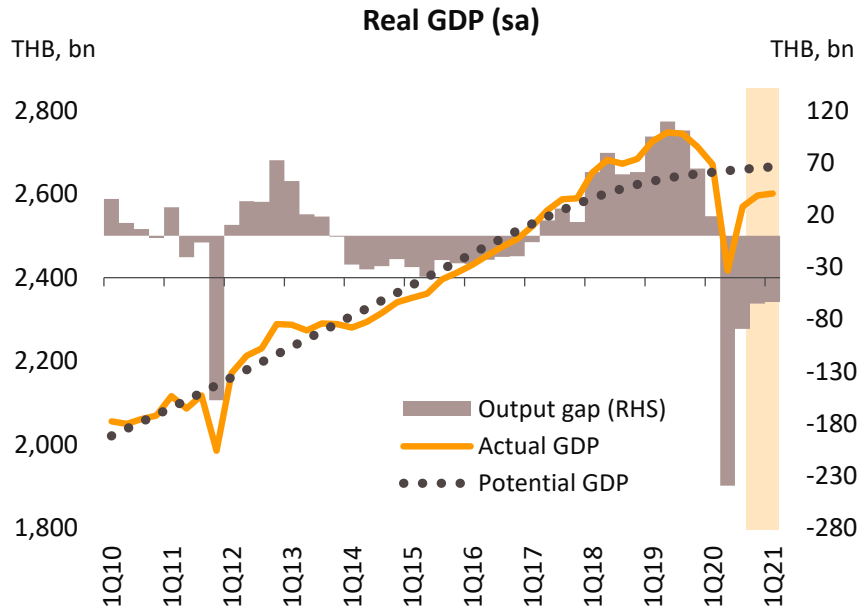
- The MPC is unlikely to cut policy rates as the Thai economy would see a gradual recovery in the second half of this year. The BOT is now focusing more on targeted monetary policy than interest rate policy, given the uneven economic recovery. We maintain that the MPC would keep policy rates at record lows through next year or until the overall economy fully recovers.

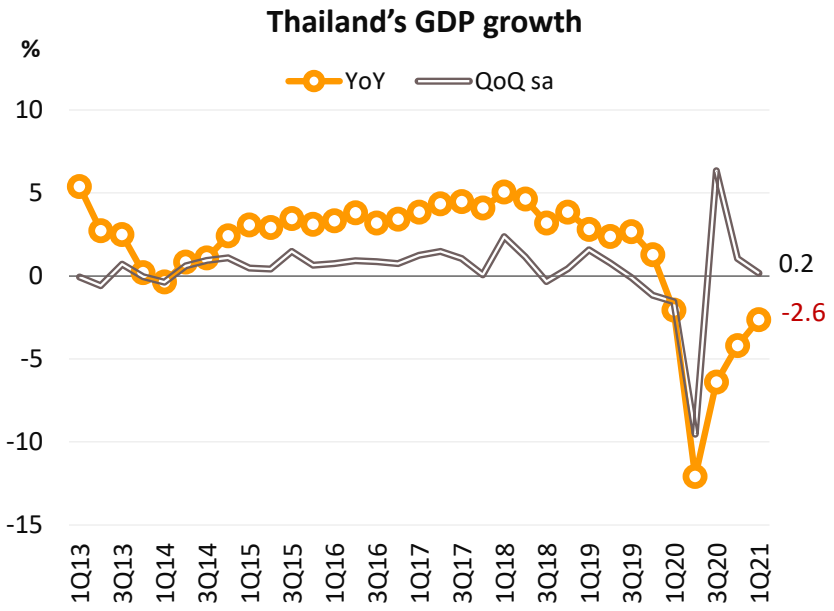
Thailand Economic Outlook 2021

Krungsri Research Forecast		2019	2020	2021F	
				Previous	Latest
GDP growth	YoY (%)	2.3	-6.1	2.2	2.0 ▼
Private Consumption Expenditure	YoY (%)	4.0	-1.0	2.0	1.8 ▼
Government Consumption Expenditure	YoY (%)	1.7	0.9	4.3	4.3 =
Private Investment	YoY (%)	2.7	-8.4	3.3	3.9 ▲
Public Investment	YoY (%)	0.1	5.7	7.8	8.4 ▲
Nominal Exports in USD (f.o.b.)	YoY (%)	-3.3	-6.6	6.0	9.5 ▲
Nominal Imports in USD (f.o.b.)	YoY (%)	-5.6	-13.5	12.5	16.0 ▲
Current Account Balance	USD, bn	38.2	16.5	8.8	2.0 ▼
Tourist Arrivals	Mn, persons	39.8	6.7	3.0	0.33 ▼
Headline Inflation	YoY (%)	0.7	-0.8	1.1	1.1 =
Exchange rate (end of period)	THB/USD	30.1	30.0	30.5	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

Second wave hit 1Q21 GDP but QoQ growth was positive, better than our and market expectations



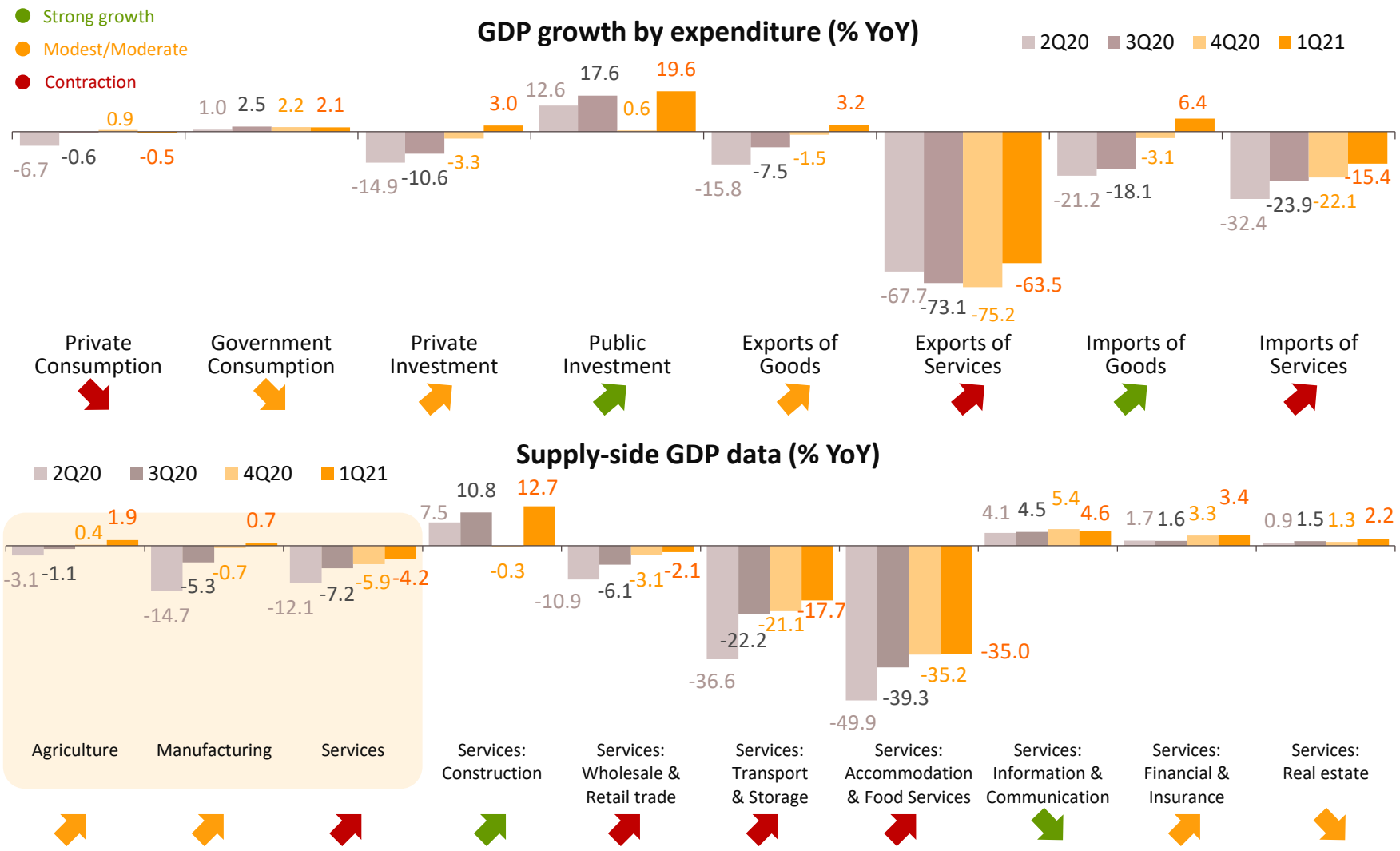


Krungsri Research's view

- **Due to the second wave that started in late-2020, Thai GDP contracted for the fifth consecutive quarter in 1Q21 (-2.6% YoY vs -4.2% in 4Q20).** That was less severe than our estimate (-3.3%) and consensus estimate (-3.6%). Sequential growth was positive for the third straight quarter at +0.2% QoQ sa. Output gap was negative for the fourth consecutive quarter.
- The supportive factors included a rebound in exports and private investment, improving public consumption, and accelerating public investment. However, the negative YoY growth was dragged by containment measures, weaker domestic tourism and falling consumption.
- **As the third wave would last longer than we expected, we trimmed 2021F GDP growth to 2.0% from 2.2%.** We slashed 2021F foreign tourist arrivals to 330,000 from 3 million but raised 2021F export growth to 9%. The promising export outlook, larger-than-expected domestic policy supports, and better-than-expected 1Q GDP data, should limit downside to our growth outlook.

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

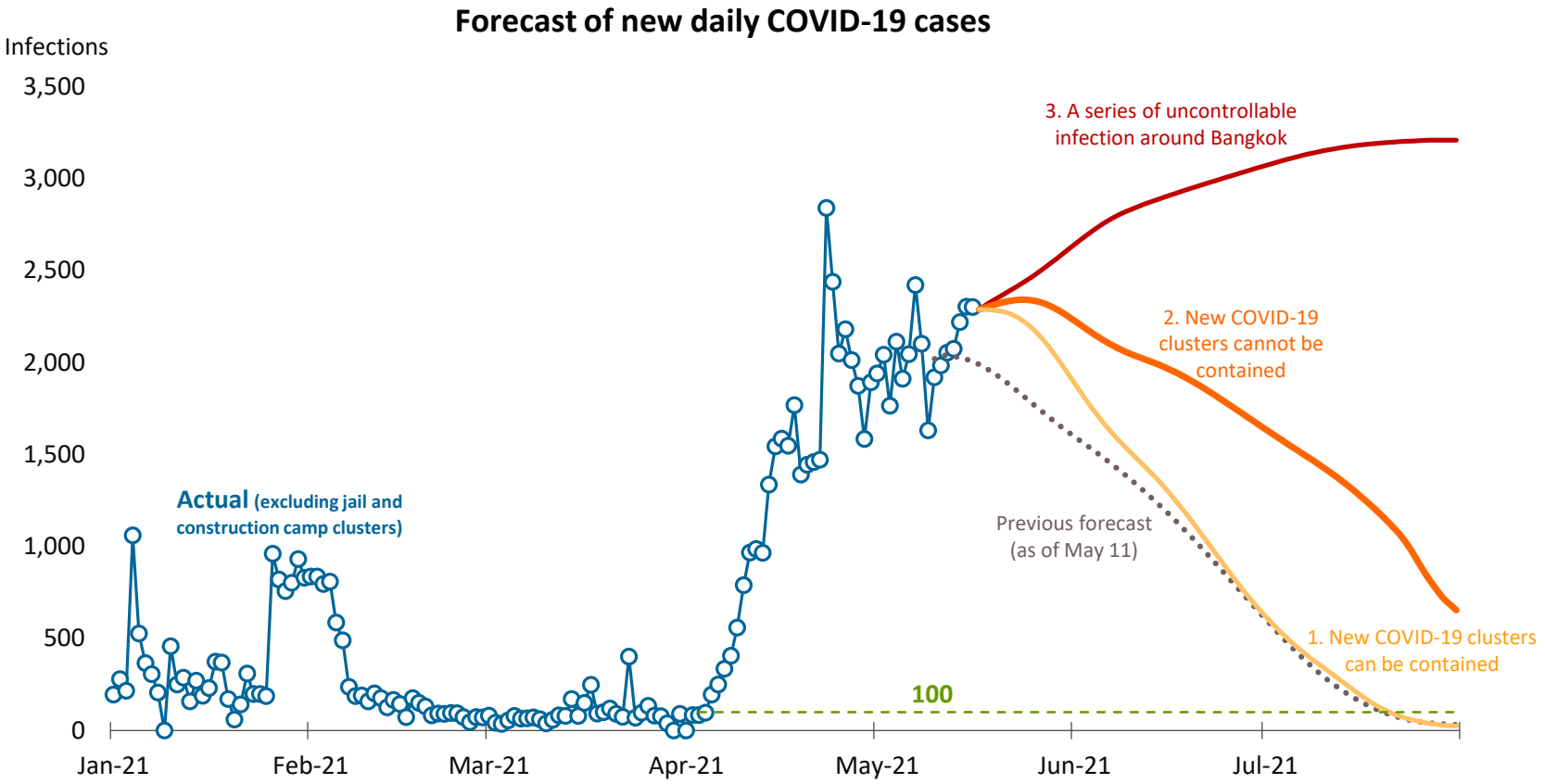
Consumption and tourism-related sectors hurt by COVID-19 but stimulus and external tailwinds limited losses



Source: NESDC, Krungsri Research

Third wave is more severe than expected

New COVID-19 clusters and still-high number of new cases would escalate pandemic risk in Thailand, especially in the BMR area. Our model (as of May 17) suggests three scenarios. Our base case assumes **new daily cases would drop below-100 between late-July and late-August (instead of early-July)**. **In the first scenario, new clusters including jail and construction camps would be contained (Yellow line).** Like our previous projection, the number of new daily cases would peak in May before falling below-100 in late-July. Total number of cases up to end-July would be around 176,000. **In the second scenario, new clusters cannot be contained (Orange line).** The number of new daily cases would peak in late-May but drop slower than expected. Thus, the number new daily cases would drop below-100 in late-August. Total number of cases up to end-July would reach 230,000. **In the third and worst-case scenario, a series of uncontrollable clusters would emerge around Bangkok (Red line).** The number of new daily cases would rise in the next few months. The cumulative number of positive cases up to end-July would reach 320,000.



Source: WHO, forecast by Krungsri Research

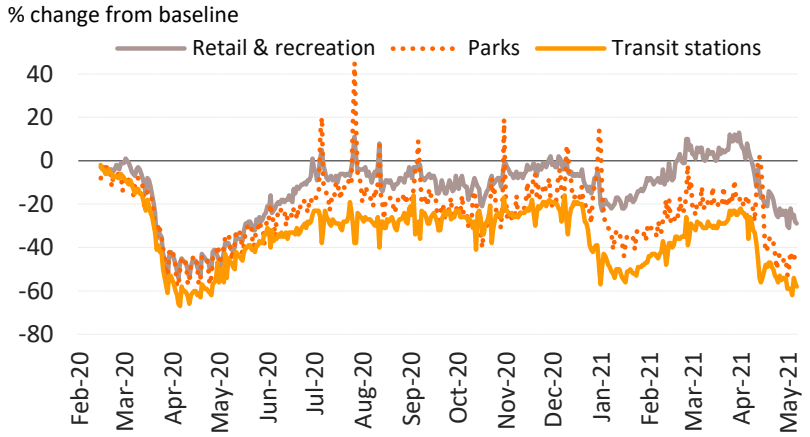
2Q economic activity lashed by stricter and longer containment measures

Since 1 May, the government has tightened restrictions in 6 provinces where new daily cases had exceeded 100 in the preceding 7 days, designating these *'dark red zones (maximum & strict control)'*. Another 45 provinces were designated *'red zones (high control)'* and the remaining 26 provinces are *'orange zones (control)'*. The government also extended quarantine period for inbound travelers back to 14 days after planning to reduce it to 7-10 days earlier. They also sought public and private sector cooperation to step up work-from-home measures. **Economic activities will be disrupted in May and possibly June, especially in the *'dark red zones'* where the 6 provinces contribute about 50% of Thai GDP.**

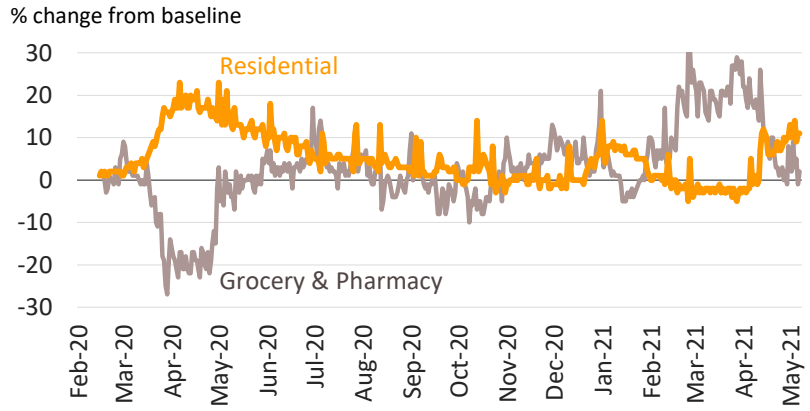
COVID-19 Control Zones

Zone	Started on 18 Apr	Started on 1 May
Maximum control	-	**6 provinces** (Bangkok, Nonthaburi, Samut Prakan, Pathum Thani, Chon Buri, Chiang Mai)
High-control	**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)	**45 provinces**
Control	**59 provinces** (the rest of Thailand)	**26 provinces**
High-surveillance	-	-
Surveillance	-	-

Daily activity indicator (as of 7 May 2021)



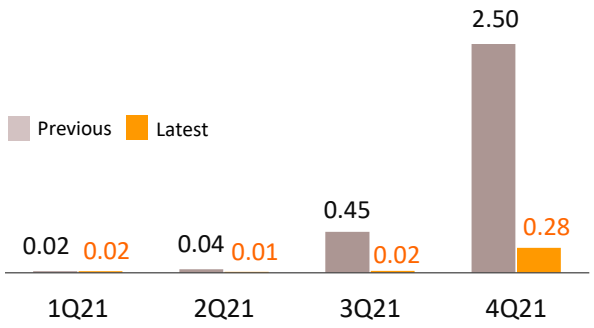
Daily activity indicators (as of 7 May 2021)



Source: MOICOVID, Google, CEIC, Krungsri Research

We now estimate tourist arrivals at 330,000 this year to reflect the worsening of domestic pandemic situation and risk of reopening being delayed

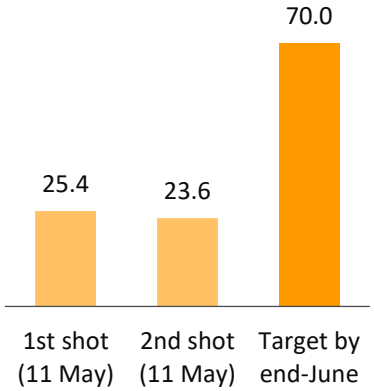
Projected foreign tourist arrivals in 2021
(persons, mn)



Reopening plan – for foreign tourists

Start	Area	Condition
Jul 1, 2021	Phuket Sandbox	**No quarantine** Must remain in Phuket for at least 7 days before traveling the other areas
Oct 1, 2021	Phuket, Phang Nga, Krabi, Koh Samui, Pattaya, Chiang Mai	**No quarantine** Must remain in these areas for at least 7 days before traveling to other areas
Anticipated full reopening by 1 Jan, 2022		

% of Phuket residents who have been vaccinated



Krungsri Research's view

- **Krungsri Research slashed forecast foreign tourist arrivals to 330,000 for 2021 (from 3 million), premised on the following:**

  (i) More-severe-than-expected impact from the third wave in Thailand will deter foreign tourist arrivals. We now expect daily cases to drop below-100 between late-July and late August (instead of early-July). That would also hurt plans to reopen selected tourist destinations to vaccinated tourists without quarantine, starting with the *Phuket Sandbox* scheme. As such, we now expect fewer foreign arrivals in 3Q21 and possibly 4Q21. This is despite the fact that we expect the Phuket Sandbox scheme to start on 1 July and another five pilot areas (Phang Nga, Krabi, Koh Samui, Pattaya, Chiang Mai) to reopen to foreign tourists in 4Q21, as planned. Pre-COVID-19, these six destinations had welcomed 46% of total tourist arrivals in the country and generated 52% of gross receipts from overseas arrivals.

  (ii) Thailand's key tourist markets would recover at a slower pace than projected. (i) According to a survey by the Thai-Chinese Intelligence Center, one-third of Chinese tourists would wait 6 months after COVID-19 ends before traveling, (ii) new daily cases have been skyrocketing in India and Malaysia, and (iii) vaccinations are extremely slow in Japan and South Korea.

- **We also trimmed forecast for domestic tourism to 66 million trips from 110 million trips, the worse-than-expected impact from the third wave would discourage travel activity, hurt sentiment, reduce purchasing power, and derail government programs to boost domestic tourism.** The government had earlier announced measures to boost the sector, including (i) Phase III of *'We Travel Together'* program (THB5.5bn), and (ii) *'Tour Tiew Thai'* program (THB5bn). **We now anticipate domestic tourism would only recover by late-August, when daily domestic cases is predicted to fall below-100.**

Source: Phuket Provincial Public Heath Office, Krungsri Research

Additional THB245bn fiscal support is larger than expected and will support domestic spending

The government approved a new relief package amid the third wave. The package is divided into two stages: **(i) Stage 1** - immediate measures worth THB105.5bn that includes aid under existing stimulus program (such as *Rao Chana* for selected groups of Thai citizens and *Rao Rakkan* for insured persons under Section 33), soft loan measure, and reducing water and electricity bills; and **(ii) Stage 2 –** measures worth THB140bn effective after the pandemic eases (starting July) which include lifting purchasing power of low-income earners and to boost spending by medium- and high-income earners. **The new relief package is larger than our estimate of THB100bn, and should support consumer spending and domestic tourism after easing containment measures.**

Immediate measures

THB85.5bn; Extension of existing stimulus measures

- Additional 2,000 baht through g-wallet under the Rao Chana scheme (THB67bn), spending until June 30, 2021
- Additional 2,000 baht through g-wallet under the Rao Rak Kan scheme for insured people under Section 33 (THB18.5 bn), spending until June 30, 2021

Financial measures

- **THB20bn** soft loans by special financial institutes (SFIs) for employees of private companies, the self-employed and farmer. The SFIs will offer 10,000 baht loan each 0.35% interest rate for up to three years
- Extend moratorium period for debtors of SFIs to the end of this year.

Relief for cost of living

- Reduce water and electricity bills for two months (May-June)

Pending measures (after pandemic eases)

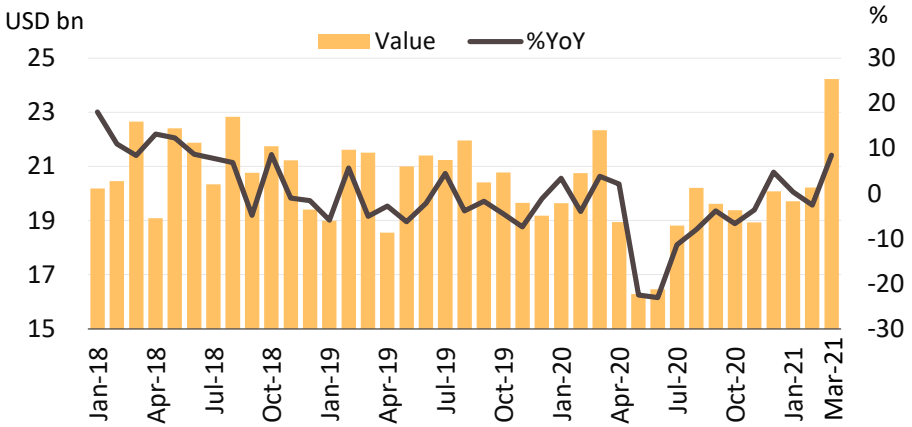
THB140bn; New economic stimulus measure (effective during Jul – Dec)

- **THB16.4bn;** 200 baht increase in monthly handout for holders of state-welfare cards, for six months
- **THB3bn;** 200 baht increase in monthly handout for 2.5 million vulnerable people who need special assistance, for six month
- **THB93bn;** 3,000 baht subsidy under Phase 3 Co-payment Khon La Khrueng scheme
- E-voucher of up to 7,000 baht/person for 4 million people to buy food and products through g-wallet, limited to 5,000 baht spending a day, under Ying Chai Ying Dai scheme.

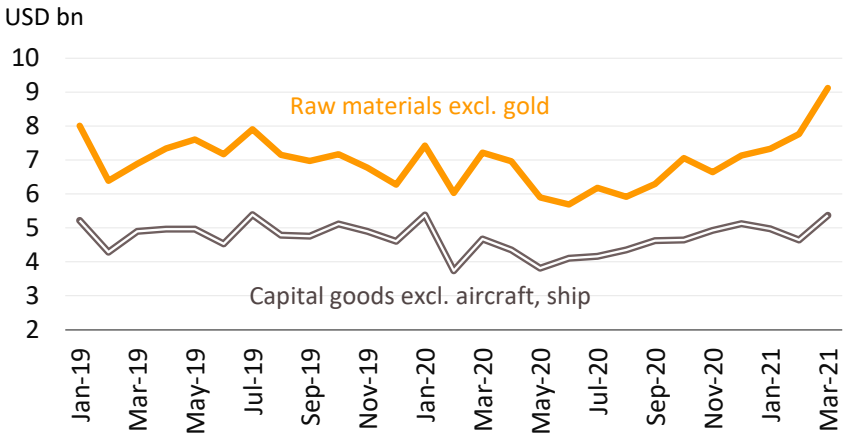
Source: The Cabinet, Krungsri Research

Exports could see double-digit growth in 2Q21; upgraded full-year growth to 9%

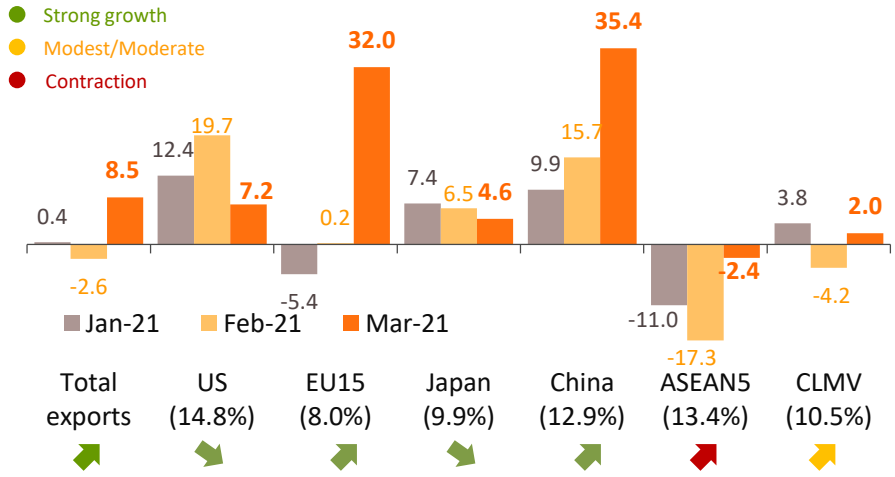
Total Exports



Imports of capital goods and raw materials



Exports by major destination (%YoY)



Note: ( ) share in 2020

Source: MOC, Krungsri Research

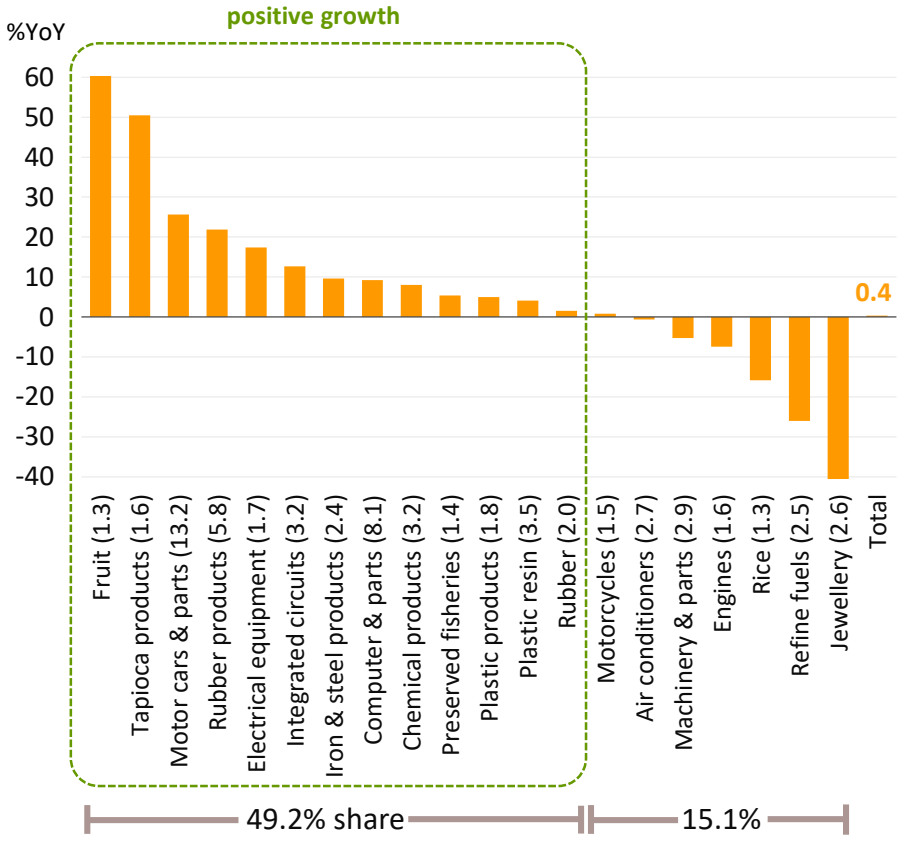
Krungsri Research's view

- **Merchandise exports surged 8.5% YoY, the strongest growth since November 2018, to a new high of USD24.2bn,** according to the Ministry of Commerce (MOC). Excluding oil & gold, exports grew strongly by +11.9%. Shipments of most of the major export items accelerated. By destination, exports to the EU and China grew at a faster pace while that to Japan and the US continued to expand.
- **We expect Thai exports to see double-digit growth in 2Q21 given the low base last year when full lockdown measures had hurt global trade.** As the base effect fades, Thai export growth is likely to moderate in 2H21. Although demand for COVID-related products could slow down, progress in vaccination programs in the second half of this year would strengthen the cyclical recovery in global demand. Given a positive global growth outlook, we upgraded 2021 export growth to 9.0% based on MOC data (and to 9.5% based on BOT data).

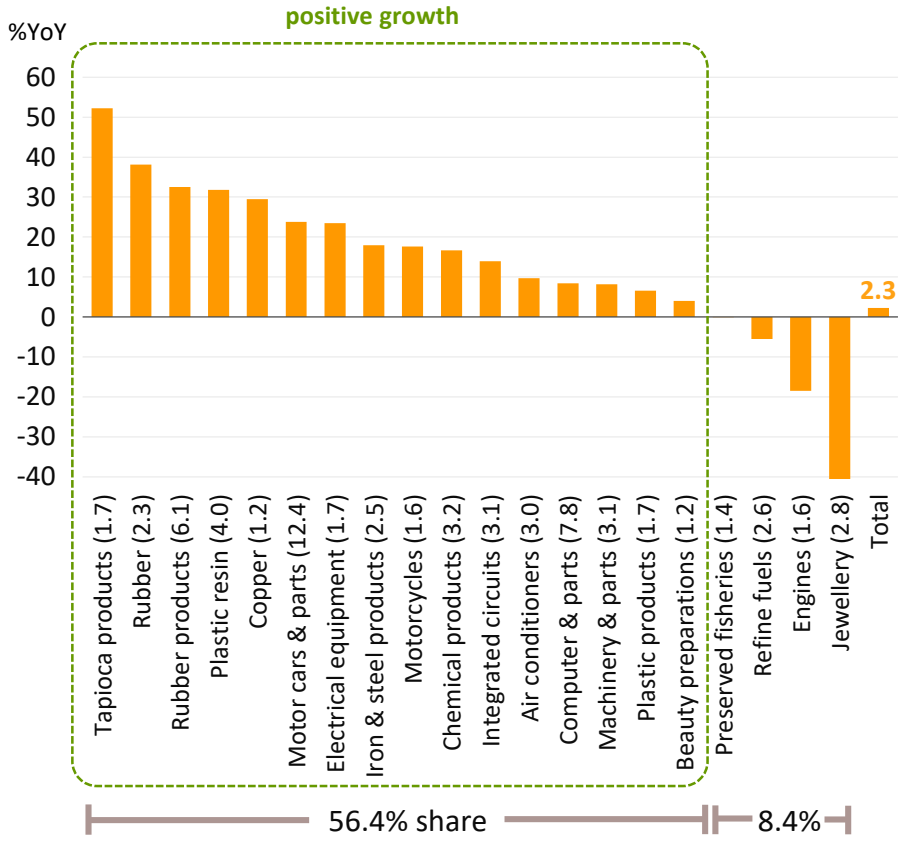
By sector, exports show more broad-based recovery

In the first quarter of this year (January-March), 16 of the top 20 export items showed positive growth. The combined share of these items accounted for 56% of total exports, larger than 49% in January. This suggests a more broad-based recovery in exports.

Top 20 Thailand Exports in Jan 2021

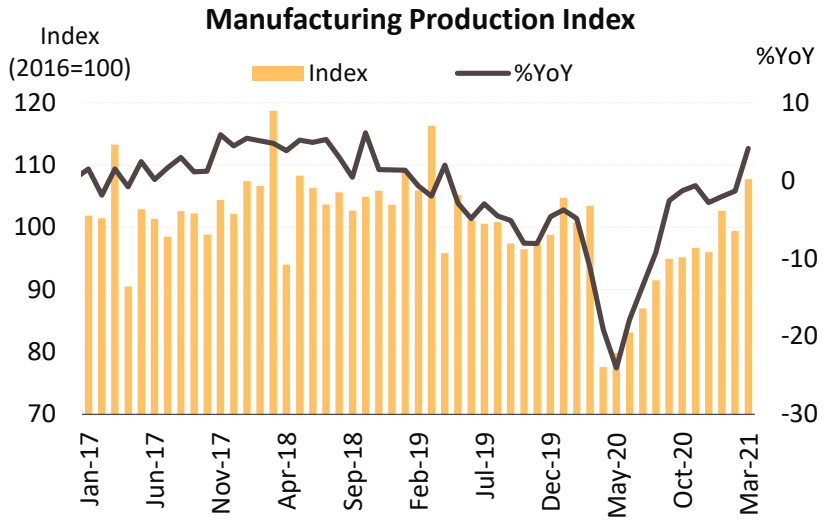


Top 20 Thailand Exports in Jan-Mar 2021



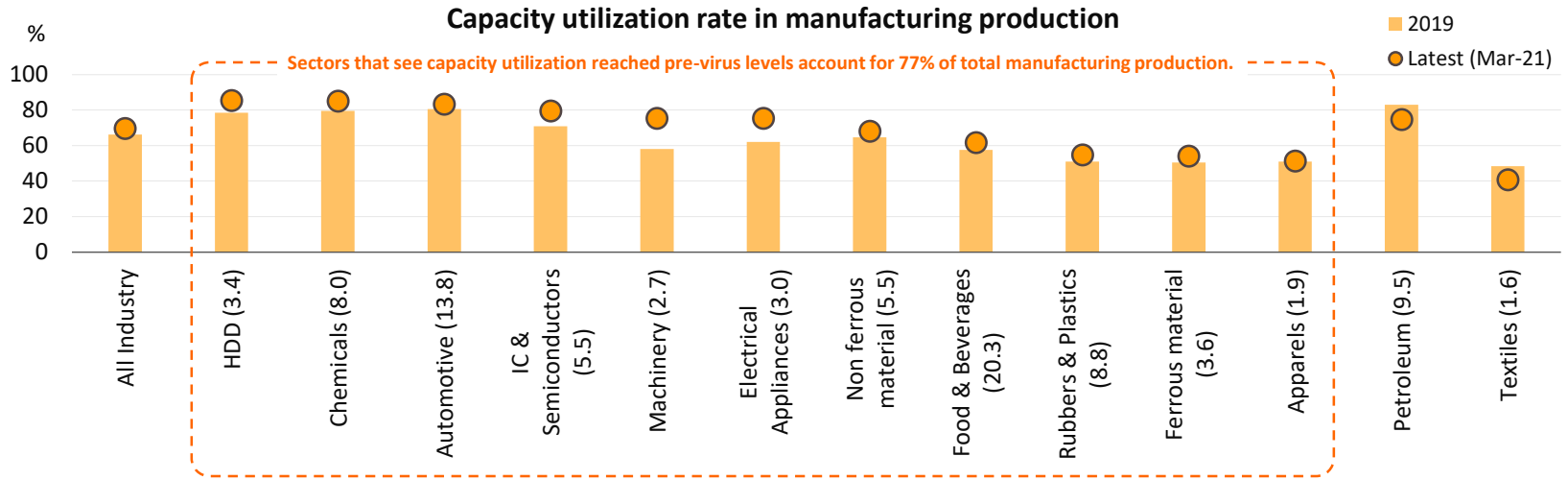
Note: ( ) = % share of total exports,
Source: MOC, Krungsri Research

External demand is supporting manufacturing growth; capacity utilization in key industries close to 2019 level



Krungsri Research's view

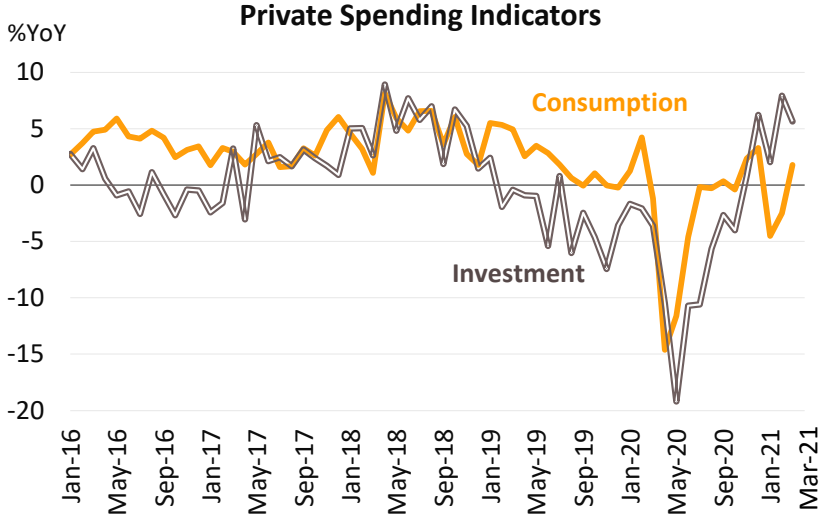
- **The Manufacturing Production Index expanded for the first time in almost two years to a 29-month high of 4.1% YoY in March** (vs -1.3% in February), in line with the continued expansion in industrial exports. The recovery in manufacturing is spread across several product groups led by food & beverage, continued recovery in automotive output, and rubbers & plastics on rising external demand.
- **Capacity utilization rate in manufacturing production increased to 69.6% in March** from 65.1% in February. Capacity utilization in many industries, especially export-related sectors, are higher than 2019 average, such as HDD, Chemical Products, and Automotive.



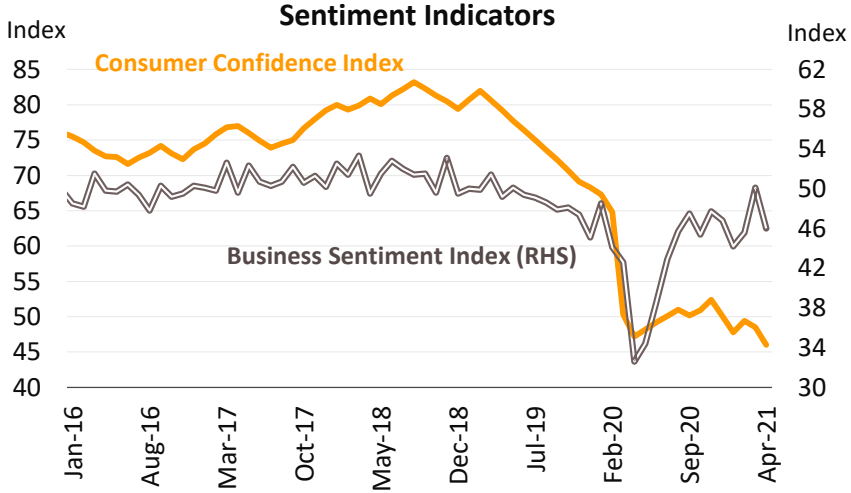
Note: ( ) % share in all industry
Source: Office of Industrial Economics (OIE), Krungsri Research

Private investment improved along with exports, but pandemic dragged consumer confidence and domestic demand

Private Spending Indicators

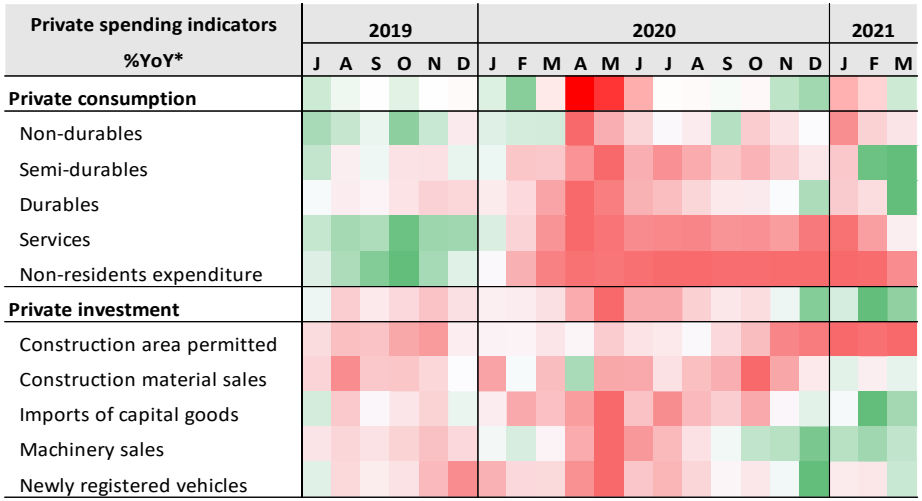


Sentiment Indicators



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

Private Spending by category



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

Krungsri Research's view

- **The domestic pandemic situation has dragged sentiment. The Consumer Confidence Index** hit a record low in April, the lowest since the survey started in October 1999. The Business Sentiment Index fell below-50 again.
- **In March, Private Investment Index grew for the fifth consecutive month by 5.7%** (vs +7.9% in February) following an expansion of investment in machinery & equipment in line with export direction. Construction spending fell. **The recovering global demand would also support rising investment.**
- **Private Consumption Index expanded by 1.8% YoY in March** (vs -2.5% in February) after the second wave eased in Thailand and because of support from government measures. **However, domestic demand is likely to weaken in 2Q as the third wave impact is more severe and longer than expected.**

Faster vaccination program would lift sentiment and facilitate gradual reopening, supporting growth in 2H21

The government has stepped up Thailand's vaccination program. They had earlier planned to dispense 63 million doses this year (or 50% of the population). Now, they are targeting 100 million doses this year, which would inoculate 50 million people or 70% of the population. They are aiming for herd community with the plan to dispense 10-15 million doses per month. Currently, they have secured 67 million doses and would need to purchase another 33 million doses to meet target. Details for the procurement and distribution of the additional vaccines are pending. On 12 May, the National Vaccine Committee (NVC) had approved plans to procure up to 150 million doses of vaccines by 2022 and expected to provide the first dose to as many residents as possible in 2021.

Previous vaccine procurement plan

Date	Vaccine	Million doses
24 Feb 21	AstraZeneca	0.12
28 Feb 21	Sinovac	0.2
20 Mar 21	Sinovac	0.8
10 Apr 21	Sinovac	1
24 Apr 21	Sinovac	0.5
6 May 21	Sinovac	1
14 May 21	Sinovac	0.5
30 May 21	Sinovac	2
Jun 21	AstraZeneca	6
Jul 21	AstraZeneca	10
Aug 21	AstraZeneca	10
Sep 21	AstraZeneca	10
Oct 21	AstraZeneca	10
Nov 21	AstraZeneca	10
Dec 21	AstraZeneca	5
Total		**67.1**

Estimate of additional vaccine procurement

Million doses
-
-
-
-
-
-
-
-
Pfizer ~ **10-20** Sputnix V ~ **20**
~10-40

Additional Vaccines

Supplied by government	• Pfizer • Sputnix V • Johnson & Johnson
Supplied by Private hospitals	• Moderna • Sinopharm

Latest targets

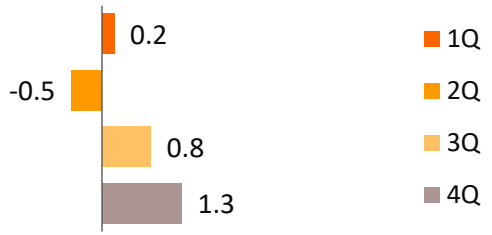
100 million doses in 2021

150 million doses in 2022

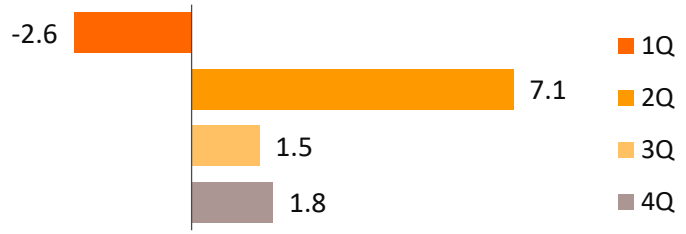
Source: The Local press, Krungsri Research

Thai economy in 2H21: Gains from a cyclical rebound in global economy and unwinding of domestic headwinds

Quarterly GDP Growth Forecast (2021):% QoQ



Quarterly GDP Growth Forecast (2021): %YoY



1H21: Recovery retarded by domestic headwinds

External Factors

- **Gradual recovery led by huge stimulus measures**
- **Regionalization** and ASEAN dynamism
- **Rising COVID-19 infections worldwide**
- Crisis legacies such as unemployment and debt

Domestic Factors

- **Domestic policy supports**
- Infrastructure investment
- **Resurgence of domestic pandemic in early 1Q and 2Q**
- **High-reliance on tourism sector** leaves substantial damage on domestic businesses, jobs and income
- **Domestic political uncertainty**
- High private and public debts
- Crisis legacies worsened by further travel restrictions
- Drought impact

2H21: Stronger external tailwinds and easing domestic headwinds

External Factors

- **Resilient global manufacturing, reopening of services sector**
- **Huge stimulus measures** led by the US and Eurozone
- **Regionalization** and ASEAN dynamism
- Concern over unwinding of monetary stimulus
- Uncertainty over vaccination and pandemic amid crisis legacies

Domestic Factors

- **Additional stimulus** to support spending and tourism
- Vaccination progress, easing restriction and reopening effect
- Plans to reopen pilot areas to foreign tourists
- Infrastructure investment
- **Domestic political uncertainty**
- **Risk of rising infections and delayed vaccination program, with high-reliance on tourism sector**
- High public and private debts
- Risk of volatile financial markets

Source: Krungsri Research

Trimmed 2021F GDP growth to 2.0% from 2.2%; third wave impact limited by more policy supports and export windfalls

Negative Factors

Worse-than-expected domestic pandemic situation
We now expect new daily cases to drop below-100 between late-July and late August (instead of early-July)

- **Longer-than-expected supply disruption, muted tourism sector, and negative income effects**
- **Slashed foreign tourist arrivals to 330,000 for 2021 (from 3 million)**
- **Trimmed forecast for domestic tourism to 66 million trips this year, from 110 million trips**

Positive Factors

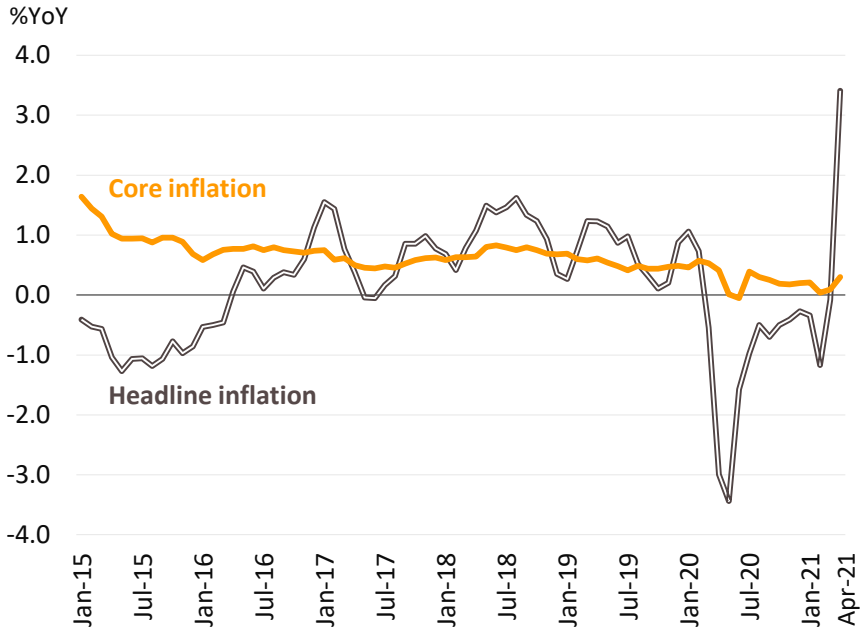
- **Promising export outlook**
  We raised 2021F export growth to 9%, which would support domestic manufacturing production and private investment.
- **Larger-than-expected domestic policy supports**
  Additional THB245bn fiscal support is larger than our expectation of THB100bn and will support domestic spending. Public investment in infrastructure projects is also accelerating.
- **Better-than-expected 1Q21 GDP data**

Source: Krungsri Research

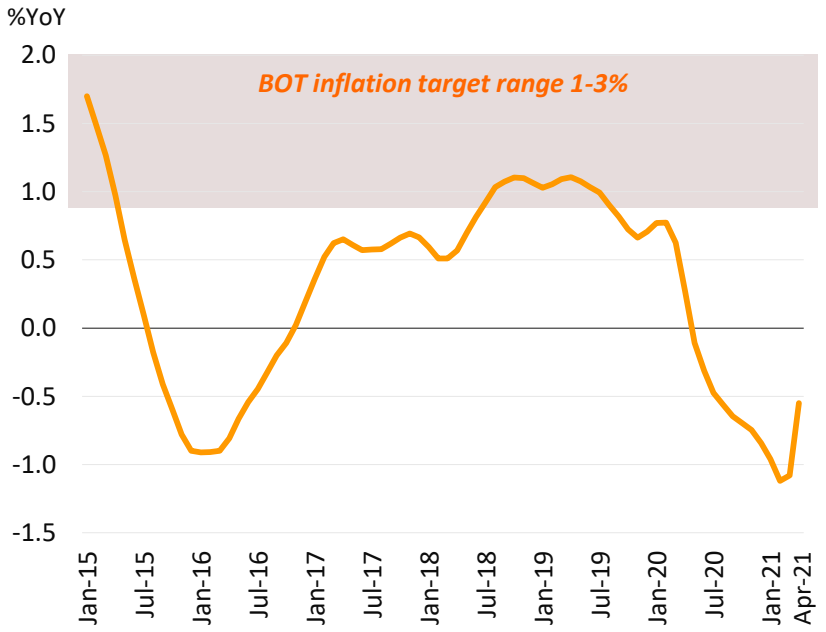
Inflation has been accelerating in 2Q due to temporary factors, could slow down markedly from 3Q

April headline inflation turned positive for the first time in 14 months and hit the highest level since January 2013, at 3.41% YoY (vs -0.08% in March). The increase was triggered by the end of relief for water & electricity bills and a 38.3% hike in fuel prices (compared to low base in 2020). In addition, prices of fresh vegetables & fruits also rose in line with lower output due to unfavorable weather. **Core inflation (excluding volatile raw food and energy components) rose 0.30% in April** (vs 0.90% in March) driven by government stimulus measures. For 4M21, average headline and core inflation came in at 0.43% and 0.16%, respectively. Looking ahead, the third wave impact would urge the government to launch measures to reduce water & electricity bills for consumers for 2 months (May-June). **Hence, inflation could ease in April and slow down markedly from 3Q onwards given fading temporary factors.**

Inflation data



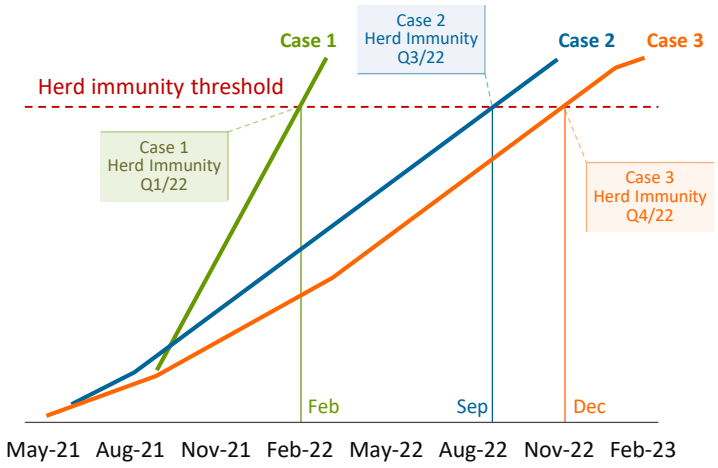
Headline Inflation - 12-month moving average



Source: MOC, Krungsri Research

MPC holds rates with more cautious outlook; we expect policy rates to be maintained through next year

Expected vaccination path and timeline to reach herd immunity



Source: BOT

BOT's economic forecasts

	Case 1		Case 2		Case 3	
	Additional vaccines procured and distributed (100 million doses in 2021)		Planned Procurement and Distribution of vaccines (64.6 million doses)		Delayed procurement and distribution of vaccines (below 64.6 million doses in 2021)	
Herd immunity attainment	Q1/22		Q3/22		Q4/22	
	2021	2022	2021	2022	2021	2022
GDP (%YoY)	2.0	4.7	1.5	2.8	1.0	1.1
Foreign tourist figures (millions)	1.2	15.0	1.0	12.0	0.8	8.0
Economic impact from delayed vaccination and herd immunity*	-		-3.0% of GDP (THB 460 bn)		-5.7% of GDP (THB 890 bn)	
Unemployment and underemployment at the end of 2022 (millions)	2.7		2.8		2.9	

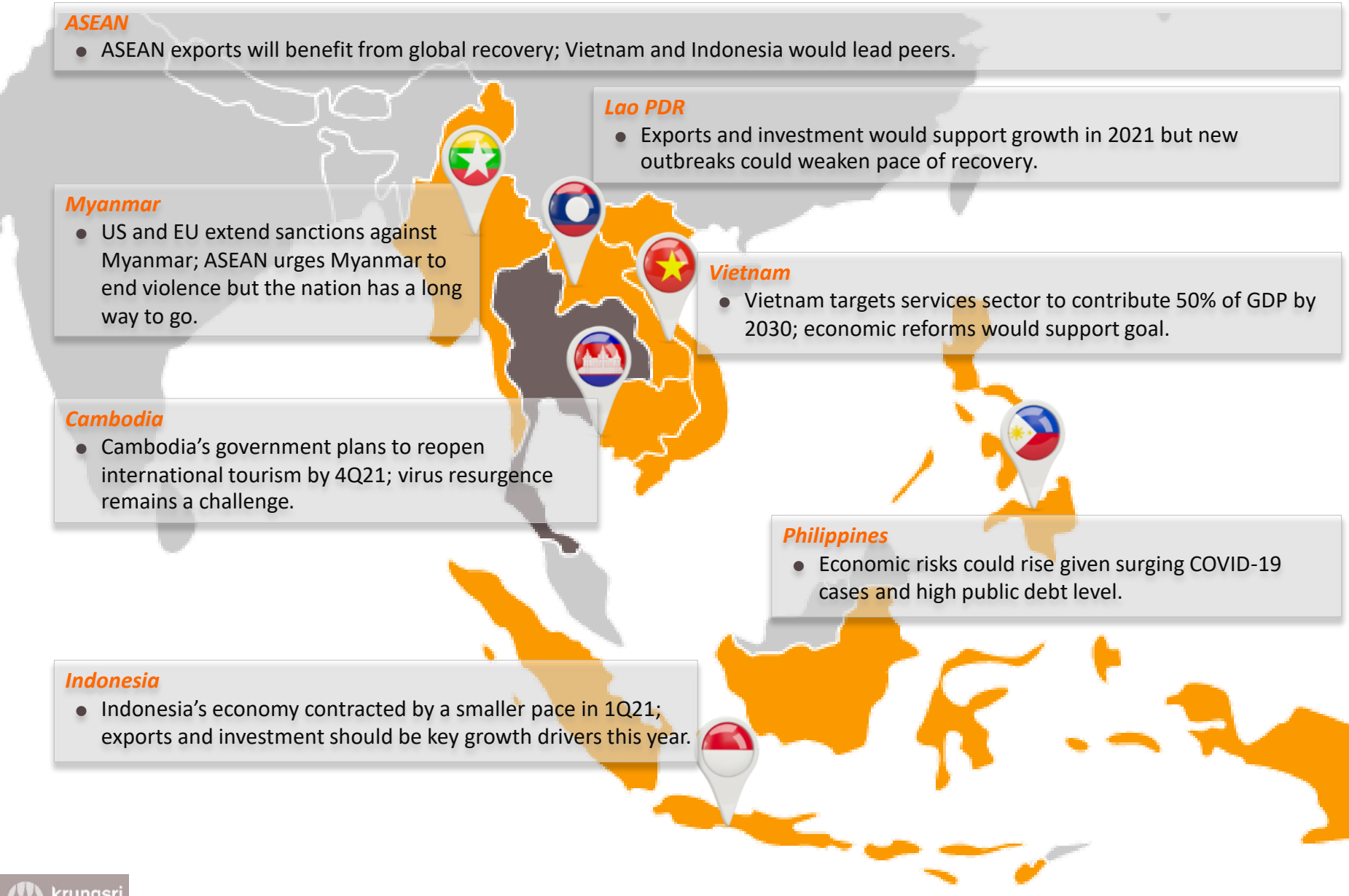
Note: * Differences in total economic value for the period 2021-2022 compared to Case1
The projection does not include potential additional government measures to offset the shock.

Krungsri Research's view

- **At the 5 May meeting, the MPC voted unanimously to maintain policy rate at a record low of 0.50%,** holding rates for the eighth consecutive meeting since May 2020.
- **The BOT expects Thai 2021 GDP growth to miss the previous projection, mainly because of impacts of the third wave and concern over delays in the procurement and distribution of vaccines.** The BOT's more cautious outlook is based on the speed of the vaccination program. However, its latest forecast have yet to take into account the latest relief measures approved by the cabinet on 5 May. Those measures are worth more than THB200bn. This implies 2021 GDP growth outlook could be better than the latest BOT projection.
- **Despite a more pessimistic outlook for economic growth, the MPC is likely to hold policy rates** as the Thai economy would only recover gradually in the second half of this year, encouraged by promising outlook for exports, additional fiscal supports, and the accelerating vaccination program. The BOT is now focusing more on targeted monetary policy than interest rate policy, given the uneven economic recovery. We maintain that the MPC would keep policy rates at a record low through next year or until the overall economy fully recovers. The BOT would want to preserve the limited room to maneuver interest rate policy for unexpected headwinds that would have broad-based impact on the Thai economy.

Source: BOT, Krungsri Research

Regional Economic and Policy Developments in May



ASEAN

- ASEAN exports will benefit from global recovery; Vietnam and Indonesia would lead peers.

Lao PDR

- Exports and investment would support growth in 2021 but new outbreaks could weaken pace of recovery.

Myanmar

- US and EU extend sanctions against Myanmar; ASEAN urges Myanmar to end violence but the nation has a long way to go.

Vietnam

- Vietnam targets services sector to contribute 50% of GDP by 2030; economic reforms would support goal.

Cambodia

- Cambodia's government plans to reopen international tourism by 4Q21; virus resurgence remains a challenge.

Philippines

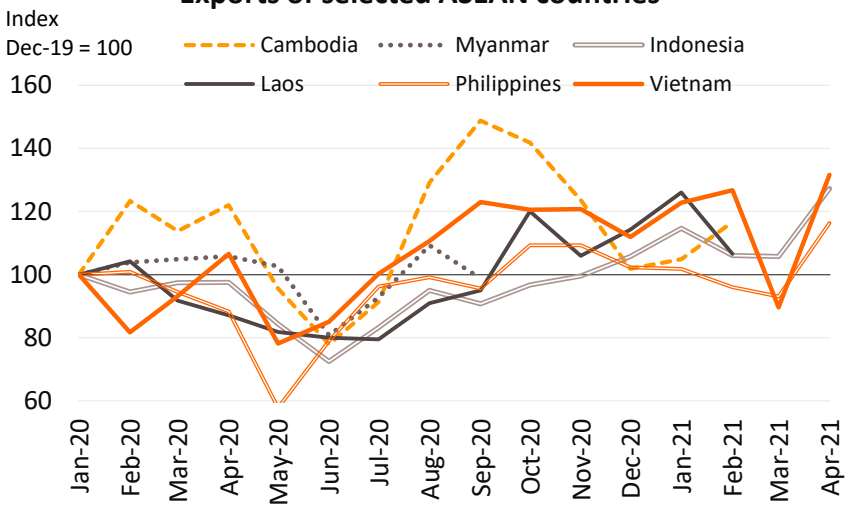
- Economic risks could rise given surging COVID-19 cases and high public debt level.

Indonesia

- Indonesia's economy contracted by a smaller pace in 1Q21; exports and investment should be key growth drivers this year.

ASEAN exports will benefit from global recovery; Vietnam and Indonesia would lead peers

Exports of selected ASEAN countries



Share of major economies in each CLMVIP's exports

Country	US	China	EU	Total
Cambodia	36.9	7.8	22.0	66.7
Vietnam	27.8	16.6	13.3	57.7
Myanmar	5.5	26.2	16.2	47.9
Philippines	16.1	15.1	10.2	41.4
Laos	1.6	32.6	5.3	39.5
Indonesia	11.0	18.6	7.9	37.5

CLMVIP's trade preferential benefits from major economies

Country	US	China	EU
Cambodia	GSP*	FTA China-ASEAN FTA China-Cambodia	EBA**
Vietnam	none	FTA China-ASEAN	EVFTA
Myanmar	GSP	FTA China-ASEAN	EBA
Philippines	GSP	FTA China-ASEAN	GSP
Laos	GSP	FTA China-ASEAN	EBA
Indonesia	GSP	FTA China-ASEAN	GSP

Note: *GSP refers to Generalised Scheme of Preferences; **EBA refers to *Everything But Arms
Source: IMF, CEIC, Krungsri Research

Krungsri Research's view

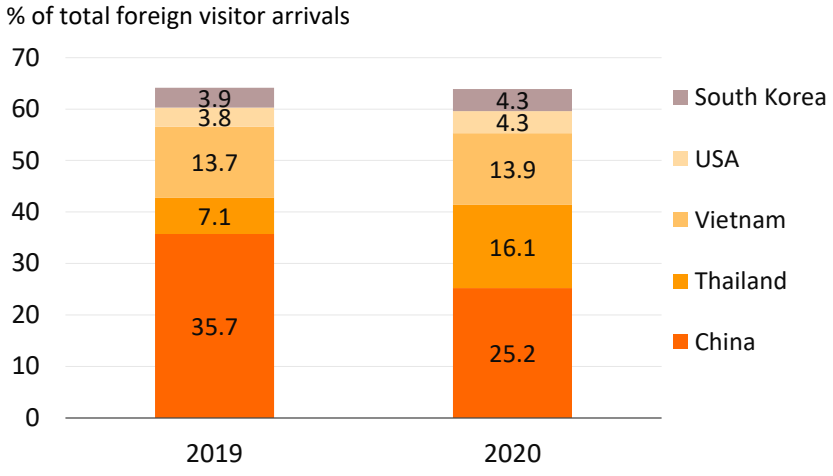
- Since early 2021, several ASEAN economies have been benefiting from a rebound in major economies, especially the US and China. **We expect Vietnam and Indonesia to see strong export growth in 2021.**
- **All ASEAN nations have gained from preferential trade designated by major economies and benefits under free trade agreements (FTAs). However, they have experienced benefits at different level and coverage.**
- All CLMVIP countries' exports rely on the US, China and EU, which combined account for at least 40% of exports, but not all will gain from the rebound in these major economies. **Vietnam** is expected to be the top gainer, supported by two reasons: they have diversified products and markets, and strong competitiveness with several FTAs. These would help to lift export revenues more than peers. **Indonesia** is also likely to see strong export growth given their dependence on commodities (palm and coal) - which prices have surged - and on exports to China.
- Other countries' exports are expected to gain less than Vietnam and Indonesia. Cambodia would see positive export growth given more diversified electronic parts to meet global megatrends. Philippines is likely to see slower export growth than peers due to low competitiveness in terms of cost of doing business. Laos and Myanmar would face country-specific challenges, including high concentration of export products & markets (Laos) and political issues (Myanmar).

Cambodia's government plans to reopen international tourism by 4Q21; virus resurgence remains a challenge

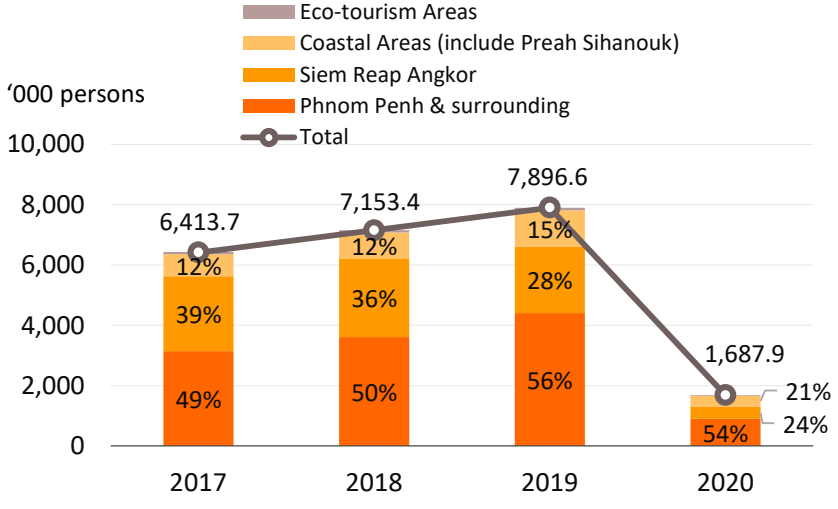
Cambodia's priority areas for vaccination program

Month, 2021	Expected doses	Priority areas
17 April	500,000	• Phnom Penh (Population: 1.7 mn) • Kandal (1.1 mn) • Preah Sihanouk (0.3 mn)
28 April	400,000	
May	1.5 million	
June	3 million	
July	2 million	
August	1 million	
Total	**8.4 million (25.5% of population)**	

Cambodia's top 5 foreign visitor arrivals



Cambodia: Tourist arrivals by province



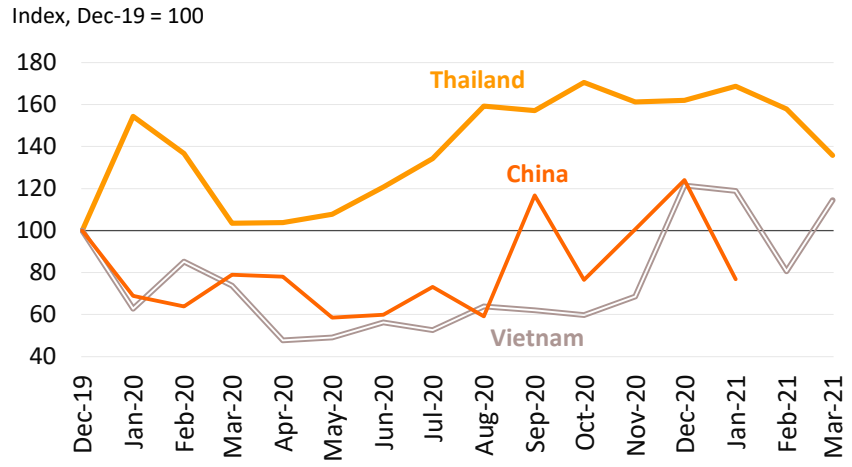
Source: Khmer Times, B2B CAMBODiA, CEIC, Krungsri Research

Krungsri Research's view

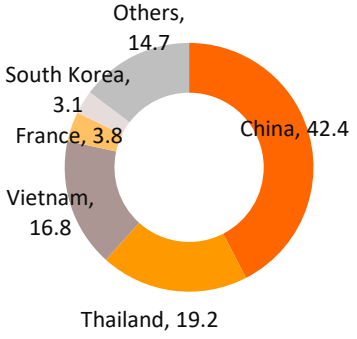
- To revive its hard-hit tourism sector – which accounts for one-fifth of GDP – Cambodia plans to allow vaccinated foreign tourists to visit the nation's major tourist sites by the fourth quarter of 2021.
- **The 4Q reopening timeline is possible, supported by progress in its vaccination program.** The nation has vaccinated 9.4% of its population, which is relatively high in this region. It targets to vaccinate up to 25.5% of the population by this August. **The reopening plan is also in line with its priority vaccination areas.** Currently, the key economic areas prioritized for vaccination include Phnom Penh, Kandal, and Preah Sihanouk. These are also major tourist destinations. Furthermore, the reopening timeline would capture its high season for tourism in 4Q and attract Chinese tourists – its largest group of inbound tourists – during China's Golden Week in early October each year. However, that would all depend on how well Cambodia manages to contain the latest wave of COVID-19 cases in the country.

Lao PDR: Exports and investment would support growth in 2021 but new outbreaks could weaken pace of recovery

Laos' exports



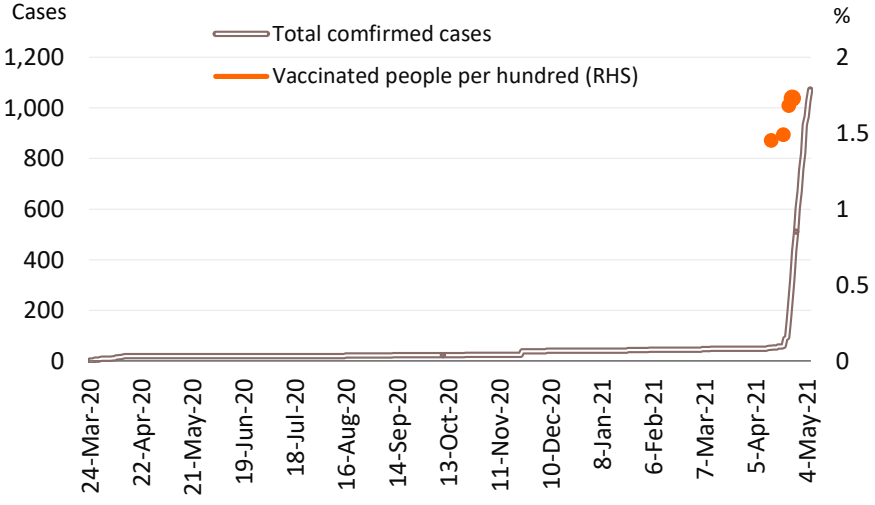
Laos' major sources of cumulative FDI 2000-2019



Key investment projects in Laos 2021

Project	Details
Power grid project	• Laos and China Southern Power Grid Company signed a shareholding agreement to launch Électricité du Laos Transmission Company Ltd. (EDLT) • EDLT will invest USD2bn to build, manage and control the Lao power grid for 25 years under a Build, Operate and Transfer concession.
Land development in Attapeu province	• Value: USD152mn • Land: 5,000 hectares • Plant trees with commercial value, like eucalyptus, durian, and jackfruit trees.

Laos: Total COVID-19 cases and vaccinated population



Source: IMF, WHO, news media, CEIC, Krungsri Research

Krungsri Research's view

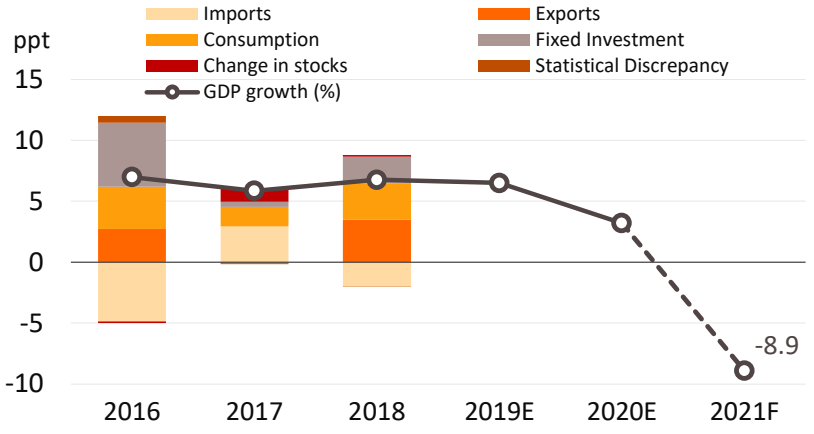
- **Exports and investment would support economic recovery in 2021 but Laos' economic growth could be slower than 4.6%** (IMF forecast) following the latest domestic outbreak amid fragile economic fundamentals.
- **Laos' exports to China and Vietnam – which account for almost 40% of total exports - are expected to grow, supported by recovering demand in both markets.** Exports to Thailand would improve slightly on expectations Thailand's economy would see a gradual recovery in 2H21. In addition, **FDI inflows**, led by China – Laos' largest source of FDI at over 42% of total cumulative FDI - **would remain positive this year given further expansion of Chinese investments in infrastructure and power projects in Laos**.
- **However, the surging domestic COVID-19 cases and extending national lockdown (from late-April to 20 May) would delay the country's reopening timeline for the economy.** Also, Laos is only targeting to vaccinate 20% of its population by end-2021. And, the country has limited policy space to support growth, given high fiscal deficit (6.5% of GDP in 2019), high public debt level (61.6% of GDP in 2019), and very small FX reserves (1.5 months of imports).

Myanmar: US and EU extend sanctions; ASEAN urges Myanmar end violence but it still has a long way to go

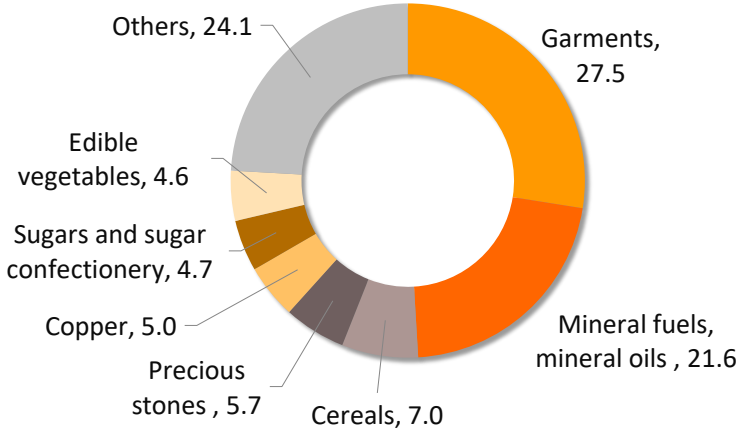
ASEAN's consensus on Myanmar

1) Immediate cessation of violence in Myanmar;
2) Constructive dialogue among all stakeholders to seek a peaceful solution in the interest of the people;
3) Mediation to be facilitated by an envoy of ASEAN's chair, with the assistance of the secretary-general;
4) Humanitarian assistance provided by ASEAN's AHA Centre; and
5) Visit by the special envoy and delegation to Myanmar to meet all parties concerned.

Myanmar: Contribution to real GDP growth



Myanmar's exports by product (% of total exports, 2018)



Source: IMF, news media, CEIC, Krungsri Research

Krungsri Research's view

- **Political crisis in Myanmar has created uncertainty for the next few months.** There are efforts to halt violence and seek a solution to Myanmar's political crisis, such as the recent ASEAN consensus in late-April (see table). Major Kaung Htet San, spokesman for the ruling military council, said "*...Myanmar would 'cooperate regarding that envoy' when a certain level of security and stability had been achieved",* according to Reuters. This implies the peace process would be complicated.
- **Expect large economic losses this year.** Several countries have imposed sanctions on state-own enterprises and military-linked businesses, including the US's latest sanctions on Myanma Pearl Enterprise (MPE) and Myanma Timber Enterprise (MTE) which produce and export Myanmar's major export products. These would lead to a sharp fall in export revenues, and ultimately, hamper domestic production and the labor market. That would, in turn, hurt domestic consumption. The EU has also recently extended sanctions until at least April 2022. These developments suggest Myanmar's economy will register deep contraction for more than a year. Although the government recently approved the USD2.5bn FDI-led LNG project, that would be insufficient to offset the overall negative economic impact.

Vietnam targets services sector to contribute 50% of GDP by 2030; economic reforms would support goal

Vietnam: Share of GDP

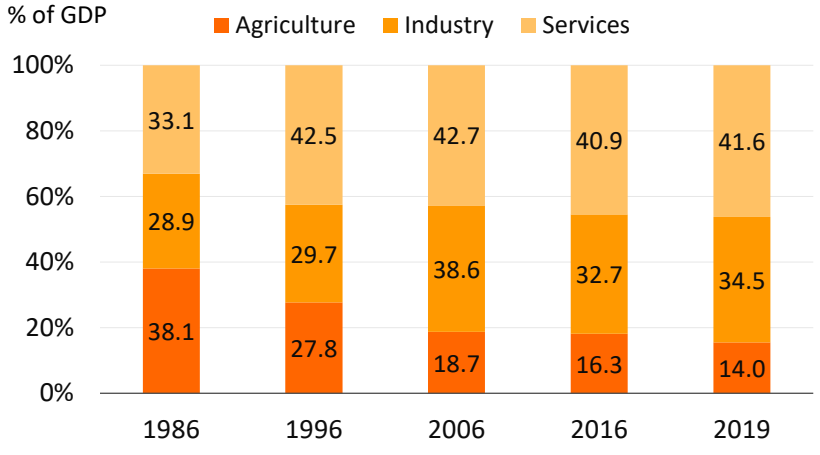


Table 1: Vietnam's strategy for the services sector over 2021-2030

Key targets	• 7-8% annual growth over 2021-2030 • Contribute up to 50% of GDP over 2021-30 • Prioritize state budget allocations for modernization and upgrading of key infrastructure - transportation, airports, seaports, telecommunications, tourism, finance, and banking. • Mobilize domestic and foreign economic components • Target sectors: - Delta region: manufacturing, business, healthcare, and social welfare - Hanoi, Hai Phong, Da Nang, Ho Chi Minh City, and Can Tho: trade, tourism, finance, and logistics - Mountainous regions: ecological and cultural tourism - Coastal and island areas: tourism, sea transportation, logistics, and services

Table 2: Vietnam has committed to open key services sectors under EVFTA and CPTPP

- Finance,
- Telecommunications,
- Transportation,
- Distributions,
- Container handling services,
- Customs Clearance/Customs Brokerage Services,
- Architectural Services,
- Higher Education Services

Note: EVFTA refers to The EU-Vietnam Free Trade Agreement; CPTPP refers to The Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

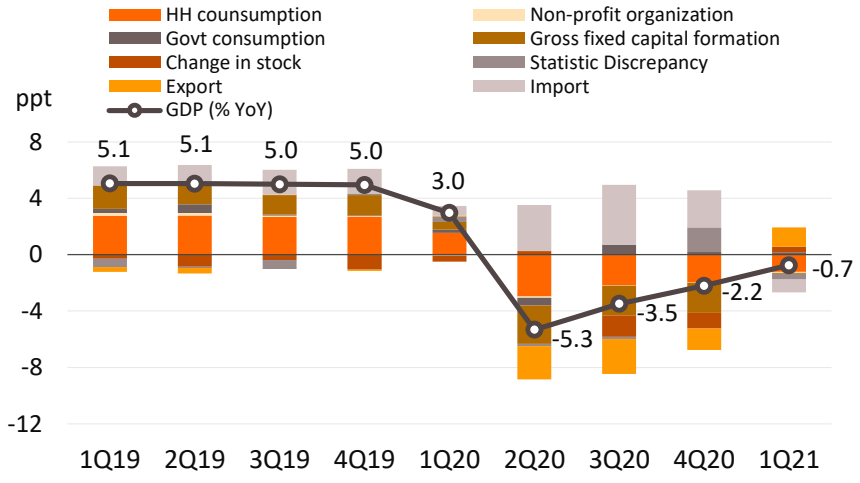
Source: World Bank, General Statistics Office, CEIC, Krungsri Research

Krungsri Research's view

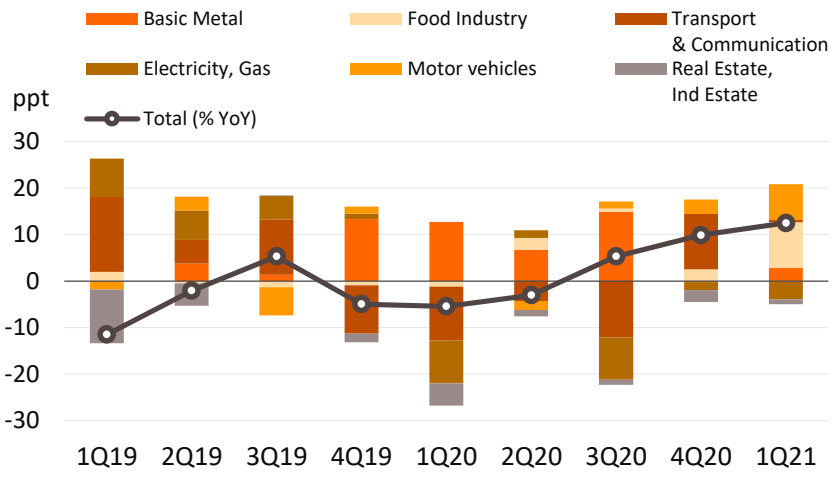
- Vietnam's government plans to increase services sector contribution to 50% of GDP under the strategy to develop the services sector over 2021-2030, with a vision up to 2050. This will be led by the tech sector.
- **We anticipate Vietnam's services sector would see a significant shift towards more technology-intense businesses**. Share of investment in science & technology and information & communication had increased from 1.9% of total FDI in 2013 to 3.3% in 2019, reflecting the rising role of the high-tech services sector.
- Vietnam also plans to increase its integration in the global economy. That means the services sector would need to be reformed, to become more efficient and competitive through greater use of technology. **We expect Vietnam's strategy to be in line with its commitments under the new-generation free-trade agreements (FTAs), which will allow more foreign investment in several specific services sectors, including finance, banking, insurance, healthcare, education, transport, logistics, trade and tourism.**

Indonesia's economy contracts by slower pace in 1Q21; exports and investment should be key growth drivers

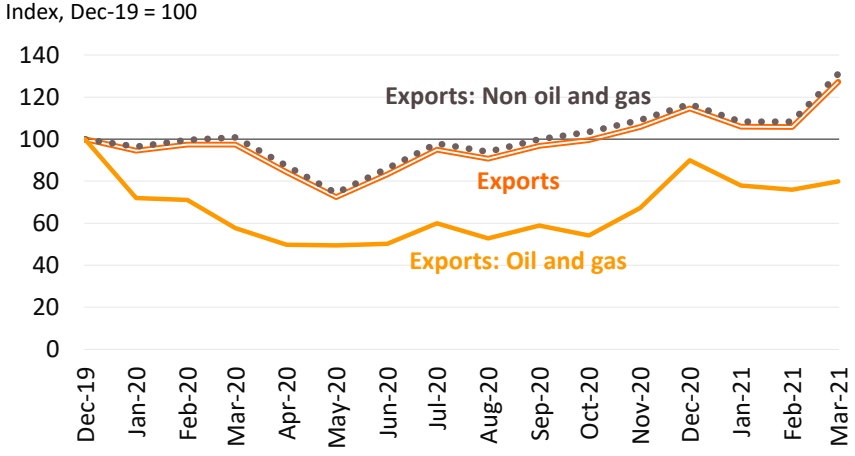
Indonesia: Contribution to GDP - Expenditure side



Indonesia: Realized FDI by major sector



Indonesia's exports



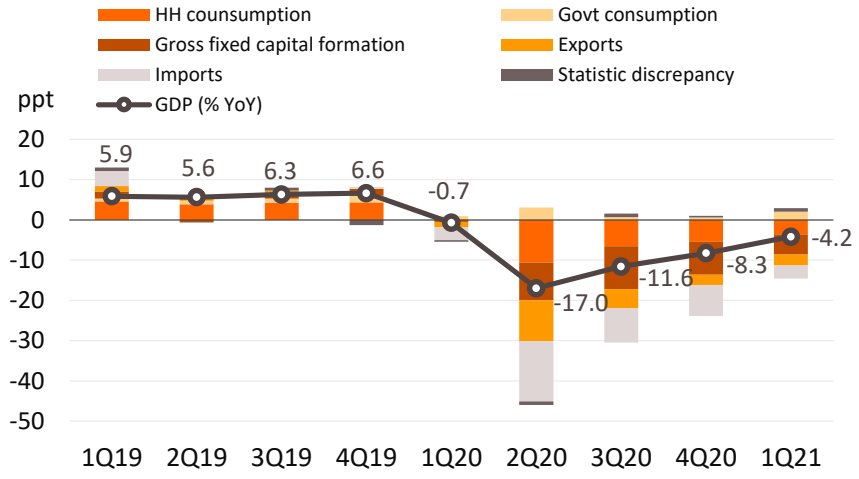
Source: Central Bureau of Statistics, news media, CEIC, Krungsri Research

Krungsri Research's view

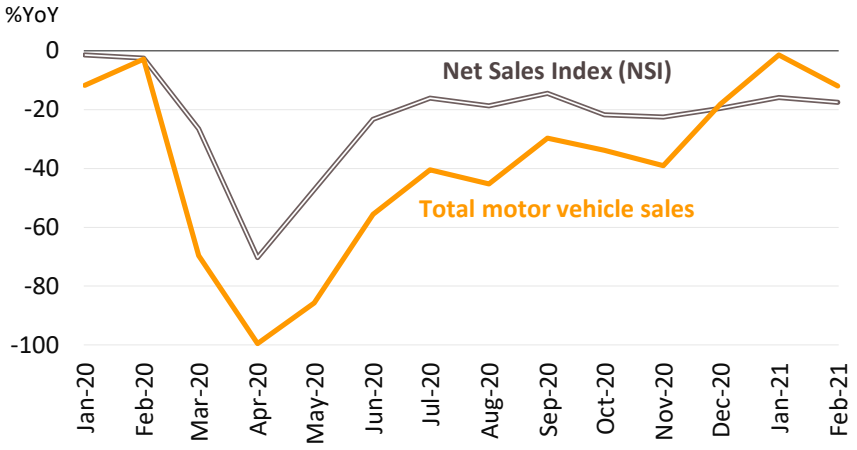
- Indonesia's GDP contracted by 0.7% YoY in 1Q21 -- less severe than the -2.2% YoY registered in 4Q20. Though it remained in negative territory, there were improvements in several components led by household consumption (-2.2% YoY in 1Q21 vs -3.6% YoY in 4Q20), exports (+6.7% YoY vs -7.2% YoY), and investment (-0.2% YoY vs -6.2% YoY).
- **Household consumption, which accounts for 54% of GDP, is likely to improve gradually supported by easing restrictions and IDR699trn government stimulus package (4.1% of GDP).** However, that would depend on how well the nation contains the looming pandemic risks given the high number of domestic cases and new virus variants.
- **Looking ahead, we anticipate Indonesia's economy would be driven by growing exports and more resilient investment.** Exports are expected to gain from both surging demand for commodity products and stronger growth in advanced economies - especially the US and China - their major export markets. In addition, FDI has risen for the third consecutive quarter in 1Q21, supported by the government's recent investment promotion policies to support the electric vehicle industry and value-added agri-businesses, including the food industry.

Philippines: Higher economic risks given surging COVID-19 cases and high public debt level

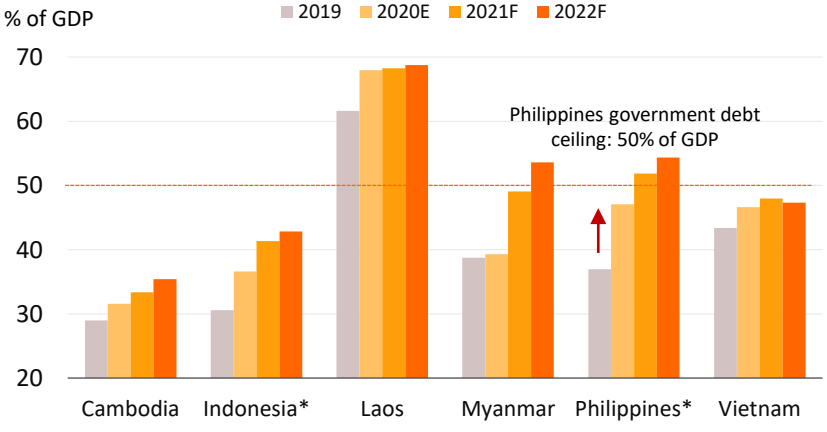
Philippines: Contribution to GDP - Expenditure side



Philippines: Net Sales Index and motor vehicle sales



Government debt in selected ASEAN countries



Note: * Data in 2020 is actual.

Source: Bureau of the Treasury, Philippine Statistics Authority, Chamber of Automotive Manufacturers of the Philippines, IMF, CEIC, Krungsri Research

Krungsri Research's view

- Philippines' GDP contracted by 4.2% YoY in 1Q21, worse than expected, extending the recession to five consecutive quarters. All GDP components continued to contract. Looking ahead, w**e expect the economy to register positive growth in 2021 but it would be close to the lower end of the 6.5-7.5% government target.**
- **Exports growth would improve only gradually.** Though rising external demand would support recovery, export growth will remain weak as the Philippines is less-integrated in the region's supply chains than peers, and stricter lockdown would disrupt manufacturing activities. Manufacturing production had tumbled by 74.2% YoY in March.
- **Household consumption will remain sluggish.** *Net Sale Index (NSI)* and motor vehicle sales would remain in negative territory in 2Q21, dragged by reimposition of strict lockdown measures from April to mid-May.
- **In addition, Philippines' public debt had surged from 37.0% of GDP in 2019 to 47.1% in 2020, the biggest jump in the region. That is expected to breach the official ceiling of 50% of GDP in 2021.**

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