

krungsri
Research

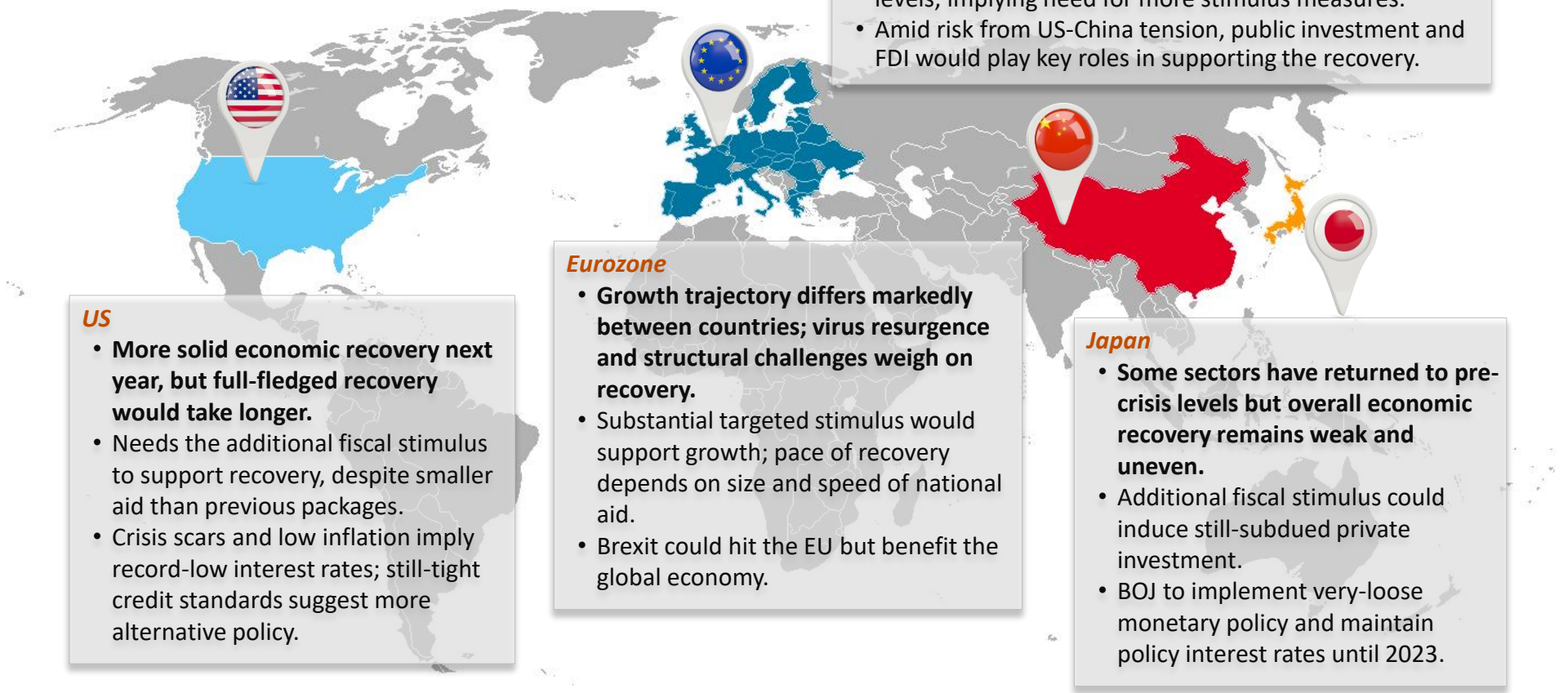
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ECONOMIC OUTLOOK 2021

November 2020

Krungsri Research

Global: Multi-speed recovery with crisis legacies



China

- **Effective policy response and successful fight against COVID-19 will keep recovery on track.**
- Demand-side recovery remains below pre-pandemic levels, implying need for more stimulus measures.
- Amid risk from US-China tension, public investment and FDI would play key roles in supporting the recovery.

US

- **More solid economic recovery next year, but full-fledged recovery would take longer.**
- Needs the additional fiscal stimulus to support recovery, despite smaller aid than previous packages.
- Crisis scars and low inflation imply record-low interest rates; still-tight credit standards suggest more alternative policy.

Eurozone

- **Growth trajectory differs markedly between countries; virus resurgence and structural challenges weigh on recovery.**
- Substantial targeted stimulus would support growth; pace of recovery depends on size and speed of national aid.
- Brexit could hit the EU but benefit the global economy.

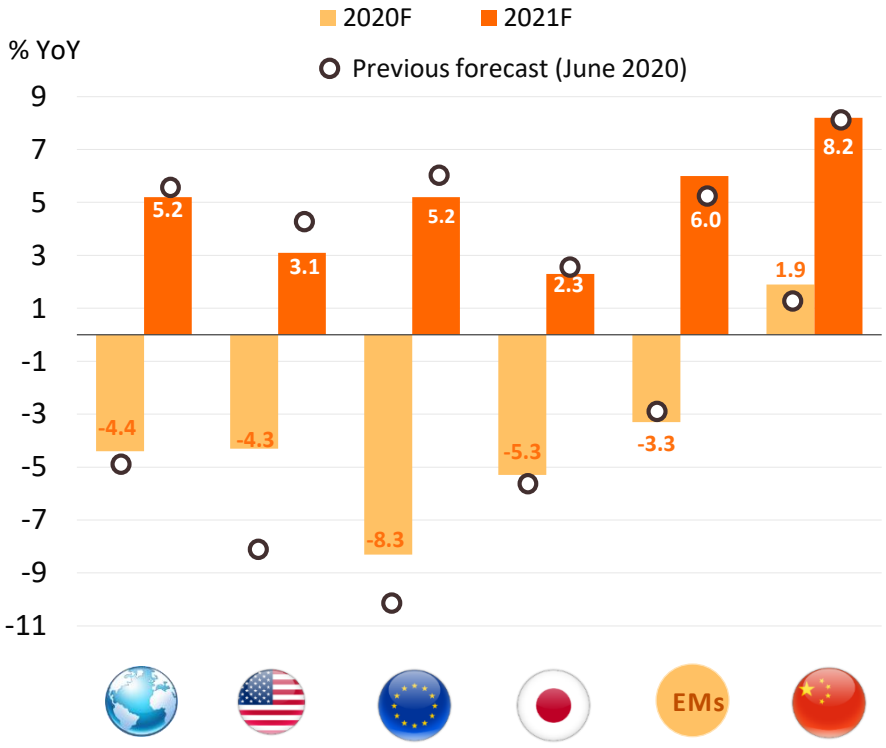
Japan

- **Some sectors have returned to pre-crisis levels but overall economic recovery remains weak and uneven.**
- Additional fiscal stimulus could induce still-subdued private investment.
- BOJ to implement very-loose monetary policy and maintain policy interest rates until 2023.

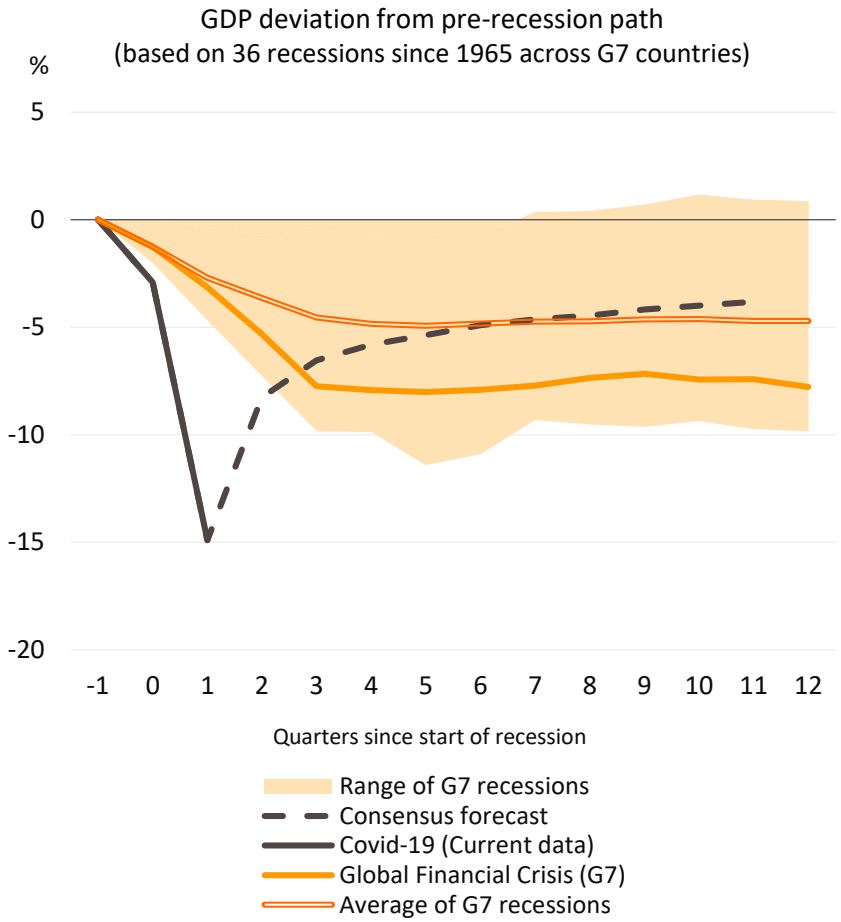
Global economy is on a gradual recovery path; COVID-19 crisis leaves permanent loss of supply potential

The IMF nudged up 2020 global growth forecast but revised down 2021 growth, citing *"A Long and Difficult Ascent"*. Historical data of G7 economies compiled by Bloomberg suggest that on average, a recession takes an economy 4.7% below its pre-downturn path and the gap persists for up to three years.

IMF Economic Growth Projection 2020-21



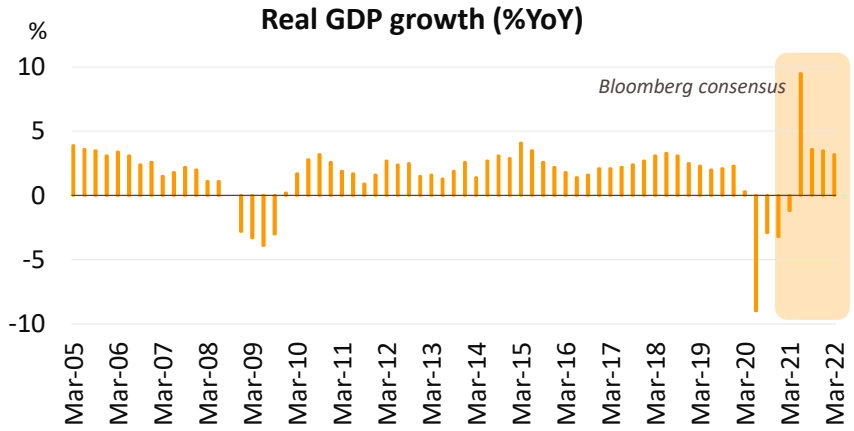
Recessions lead to permanent to GDP losses

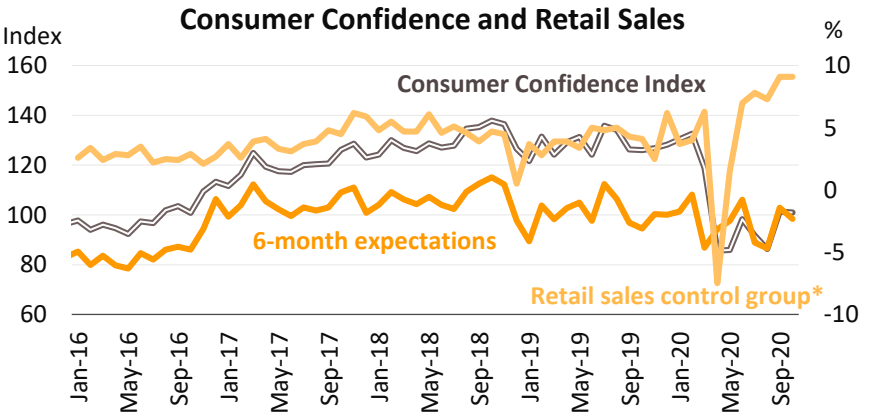


Source: IMF World Economic Outlook (October 2020), Bloomberg Economics, Krungsri Research

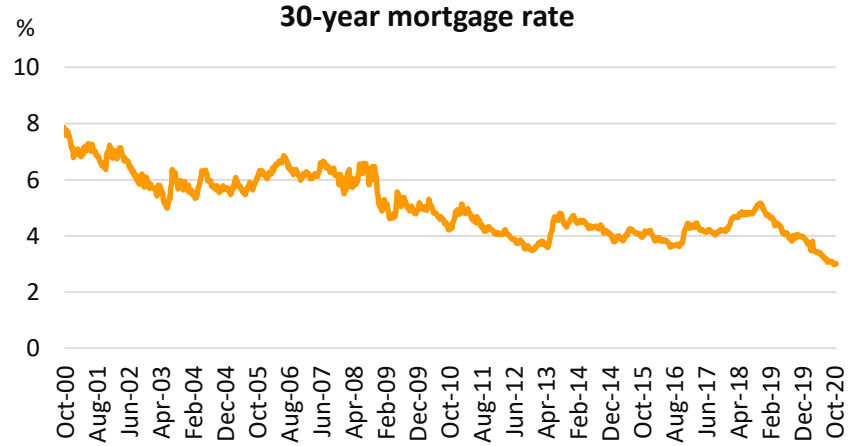
US: More solid economic recovery next year, but full-fledged recovery would take longer

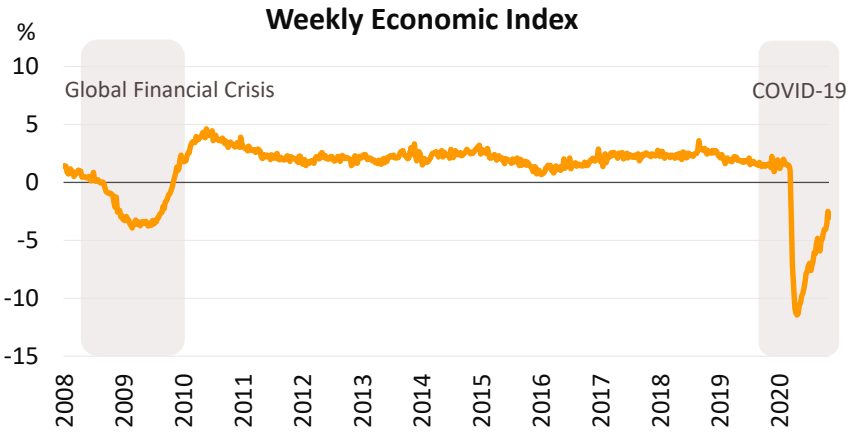
US Real GDP is projected to rebound strongly to 9.5% in 2H21 and return to potential growth of 3% in 2021. The massive stimulus would continue to help the economy to normalize gradually**. Consumption and housing sector would be the major growth drivers.** There are several positive signs, including a rebound in 6-month Consumer Expectation Index to pre-pandemic level. "Retail sales control group," an indicator of personal consumption expenditure, has also exceeded its pre-outbreak level. And, supported by monetary stimulus, current record-low mortgage rate (3.0%) would continue to support the housing market which is a bright spot in the economy. The Weekly Economic Index, an indicator of overall economic activity, continued to recover. However, this crisis created a bigger slump than the Global Financial Crisis, suggesting it would take longer to return to normal. **We expect the overall economy to recover at a more solid pace in 2021, but it could take two years to reach a full-fledged recovery due to elevated unemployment.**





*Retail sales control group (excluding automobiles, gasoline, building materials and food services) represents the total industry sales that are used to prepare the estimates of PCE for most goods.



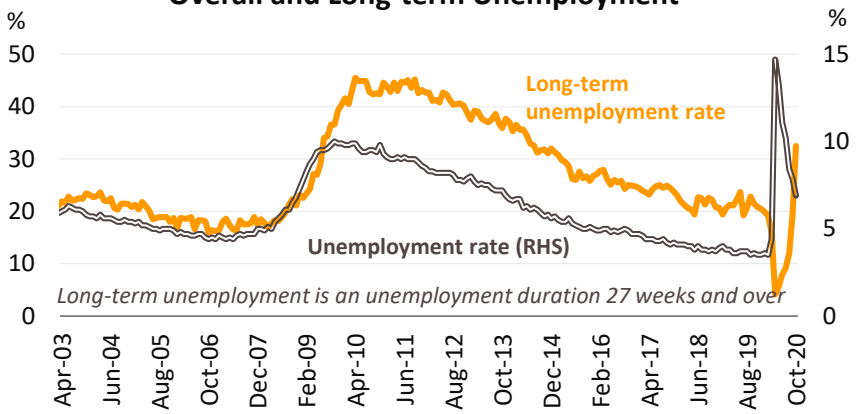


Source: Bureau of Economic Analysis (BEA), Federal Reserve Bank of New York, Conference Board, Mortgage Bankers Association, Bloomberg, Krungsri Research

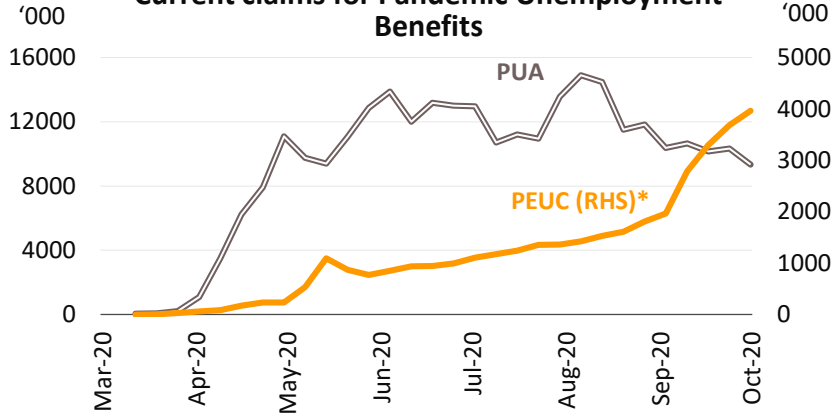
Extension of unemployment aid would support labor market and consumer spending

Although overall unemployment has gradually improved to 6.9%, long-term unemployment continued to rise to 32.5% in October 2020, indicating the crisis is leaving a scar on the labor market. Workers are currently receiving Pandemic Emergency Unemployment Compensation (PEUC) and Pandemic Unemployment Assistance (PUA) after the USD600 weekly payment ended in July. **These programs will also end this year but they unlikely to pose a major risk on the economy.** According to BEA estimates, the PEUC and PUA are worth USD175bn annualized in September or 1% of personal income, which is relatively low compared to USD900bn (4.5% of personal income) for the USD600 weekly benefits. **The expiration of these two programs would have a mild impact on the labor market but that can be offset by extending the programs in early 2021. The extension would support consumer spending, especially since it has improved significantly compared to during the peak of the outbreak.**

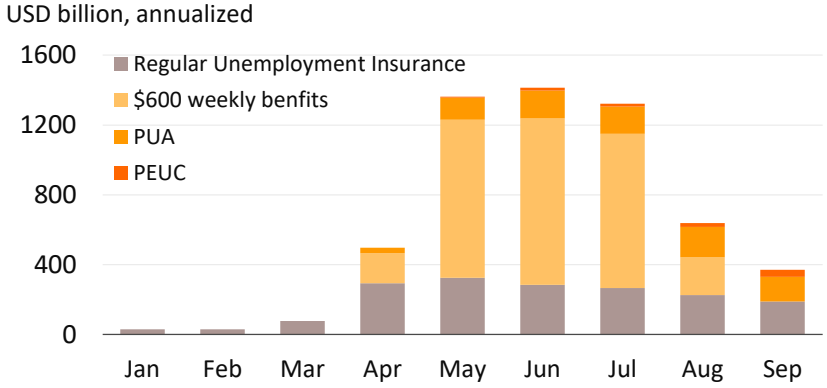
Overall and Long-term Unemployment



Current claims for Pandemic Unemployment Benefits

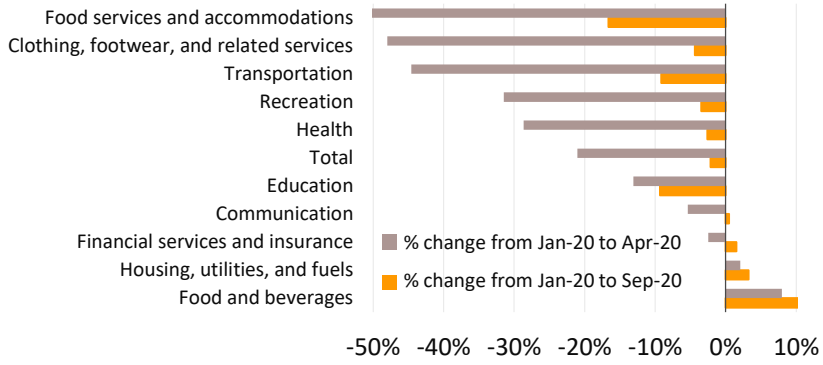


Unemployment insurance



Source: Bureau of Economic Analysis (BEA), Bureau of Labor Statistics (BLS), Krungsri Research

Consumer spending by products

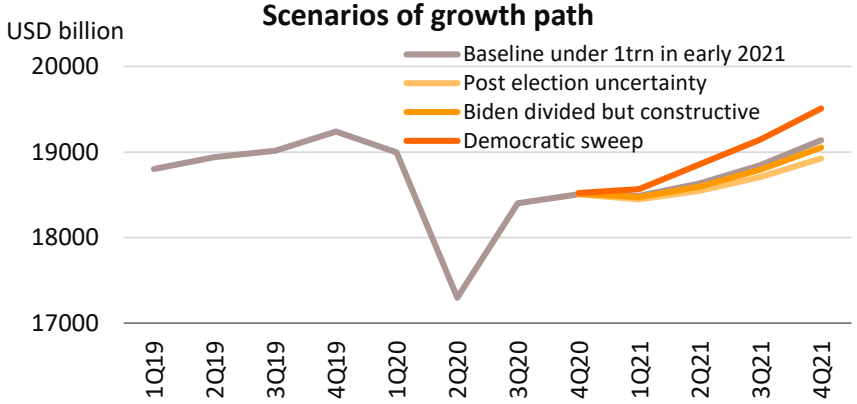


*PEUC provided extra 13 weeks of benefits to workers who had exhausted regular payments. PUA is the scheme expanded eligibility to include self-employed, part time and gig workers. When this is exhausted, there are no program to extend.

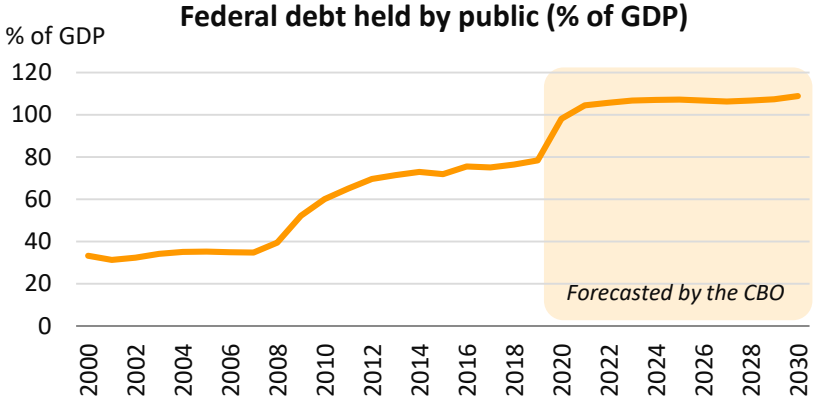
Additional fiscal stimulus would be sufficient to support recovery despite smaller aid than previous packages

Fiscal policy and additional bills are back in the spotlight following Biden's win with a split Congress. The split Congress might reduce the fiscal stimulus bill to USD 1trn from the proposed USD1.5-2trn as (i) the economy has rebounded strongly since 3Q20, leaving GDP at only 3.5% below pre-pandemic level, and (ii) public debt is expected to rise to 104% of GDP in 2021, which could limit policy room. Moreover, a Republican-majority Senate might hamper policy approval or new regulations. Then, Biden can partially implement his proposal to spend more infrastructure over 4 years, up to USD2trn (2.1% of GDP), due to concerns over higher tax rates during the nascent recovery. On trade policy, the US might return to the CPTPP rather than join RCEP, because of lingering US-China tension. Rejoining the trade agreement would benefit the US economy and lift GDP by 0.2-0.9% from baseline, and support growth of their trade partners' economies.

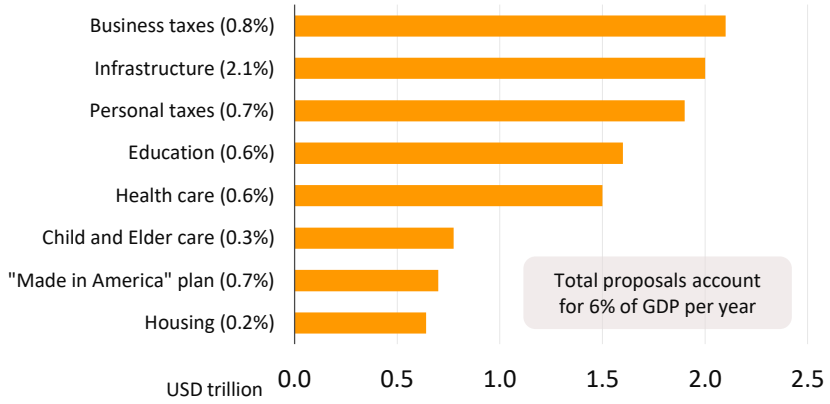
Scenarios of growth path



Federal debt held by public (% of GDP)



Biden-Harris policy proposals



Impact of trade agreement on GDP growth (by country)

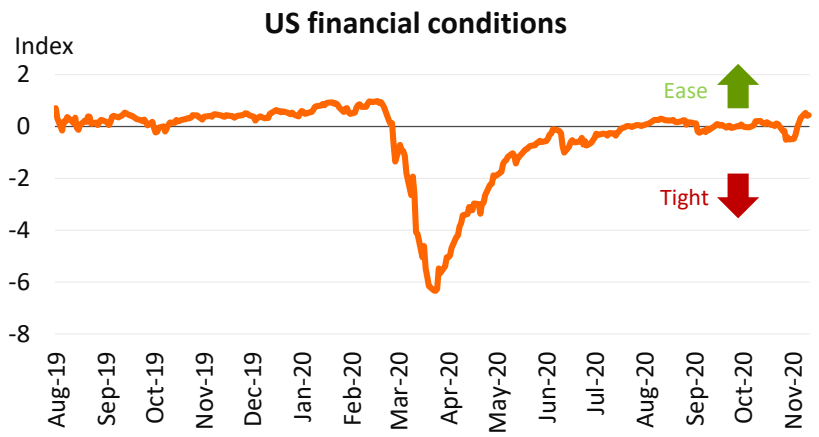
	US not in CPTPP		US joins CPTPP	
	RCEP succeeds	RCEP fails	RCEP succeeds	RCEP fails
Country	Baseline: GDP in 2030 (USD trn)	% deviation from baseline		
US	25.0	+0.2	+0.7	+0.9
China	24.6	-0.5	-0.5	+1.4
Japan	5.1	-1.3	+0.7	+2.1
Vietnam	0.5	-1.4	+6.0	+6.4

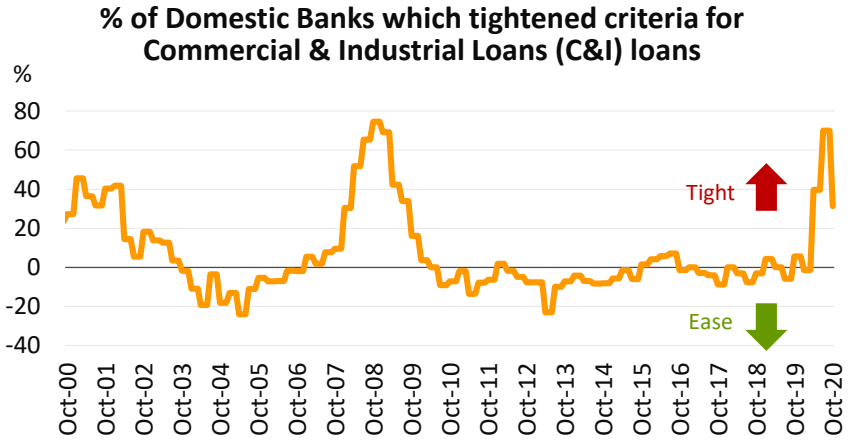
Source: Biden-Harris campaign, Federal Reserve Bank of St.Louis, Bloomberg, Krungsri Research

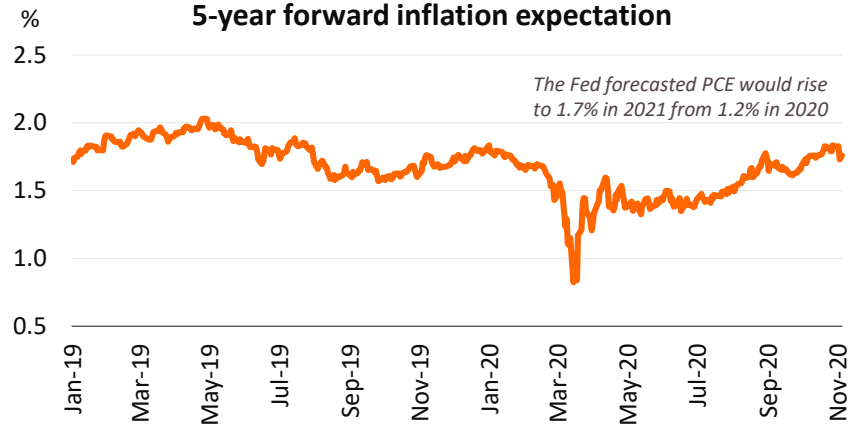
Bloomberg's analysis

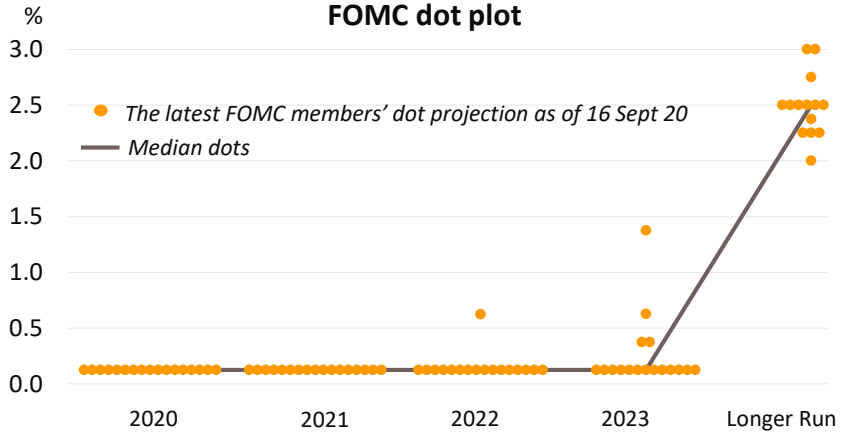
Crisis scars and low inflation imply record-low rates; still-tight credit standards suggest more alternative policy

Financial conditions have recovered since the sharpest tightening in 1Q20 and 2Q20, reflecting recent improvements in liquidity in financial markets. On credit standards, the net percentage of banks which have eased criteria for commercial and industrial loans has dropped from 70% in September to 31% in October. **However, conditions remain tighter-than normal, implying businesses are still facing difficulty accessing credit.** On price stability, we project inflation would converge towards the 2% target in 2H21 as a vaccine would unleash pent-up demand. However, the 5-year Forward Inflation Expectation suggests inflation would stay below the official target in 2021. Thus, the Federal Reserve would keep an accommodative policy and short-term borrowing rates anchored to 0%-0.25%. **The FOMC Dot Plot suggests only 4 of the 17 members anticipate interest rates need to be raised before the end of 2023.**









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

Unconventional policy to continue with a slightly more dovish stance

2021 FOMC spectrometer

Policy inclination

Board of Governors


Jerome Powell (-1)


Richard Clarida (-1)


Michelle Bowman (0)


Randal Quarles (0)


Lael Brainard (0)

Voting members: Federal Reserve Board


Charles Evans (-1)


Mary Daly (0)


John Williams (0)


Thomas Barkin (0)

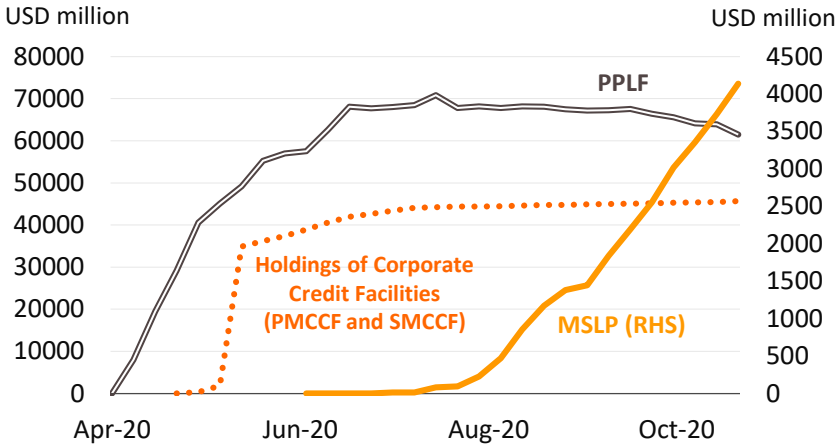

Raphael Bostic (0)


Dovish (-2)

Neutral (0)


Hawkish (+2)

Fed's key lending facilities



Lending facility	Program size	Details
Paycheck Protection Lending Facility (PPLF)	USD 660 bn	The Fed will lend to eligible depository institutions, taking Paycheck Protection Program (PPP) loans as collateral. The loans are forgivable if businesses use 75% of money to pay and maintain workers.
Main Street Lending Program (MSL)	USD 600 bn	This is meant to facilitate small and medium enterprises (up to 15,000 workers and USD 5 bn revenue per year) and non-profit organizations by purchasing up to 95% of loans. Minimum loan is set at USD100,000
Primary Market Corporate Credit Facility (PMCCF)	Combined : USD 750 bn	The program is funded by USD50bn from Treasury. This will make new loans to investment grade corporations.
Secondary Market Corporate Credit Facility (SMCCF)		The program will buy high grade bonds, recent fallen-angel issues maturing in under 5 years, and fixed income ETFs. This is funded by USD25bn from Treasury.

Source: Federal Reserve Board, Krungsri Research

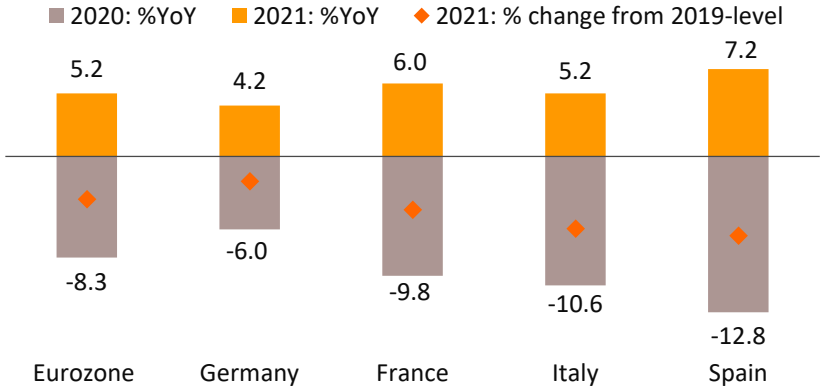
Krungsri Research's view

- In 2021, the **FOMC would be slightly more dovish** than 2020, as all the members have a dovish and neutral stance. This means **monetary policy would remain very accommodative to further ease financial conditions and support banks to provide lending during this crisis.**
- **The Fed would remain open to the possibility of further ramping up or changing the targets for asset purchases.** Apart from buying Treasuries and mortgage-backed securities, the Fed has provided several lending facilities, especially for small firms. The steady PMCCF and SMCCF usage ensured that large companies have access to capital even amid uncertainty, while small firms received benefits through the Paycheck Protection Lending Facility (PPLF), although that will be exhausted soon.
- By end 2020, the Fed would return unused funds meant to backstop emergency lending programs accounting for USD455bn to the Treasury Department. This include funds from the Main Street Lending Program (MSLP) of which only 0.7% has been utilized.
- However, returning funds will not mean they would end all support. The returned funds could shift from MSLP to PPLF because the latter has proved to be effective for small firms. Moreover, the Fed and the new government could negotiate to revive the backstops to keep businesses afloat in 2021.

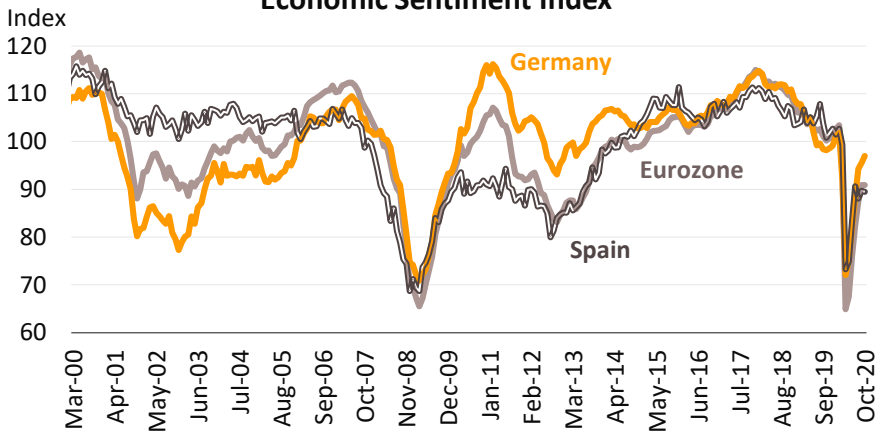
Europe: Growth trajectory differs markedly between countries; structural challenges weigh on recovery

Eurozone GDP is projected to grow by 5.2% in 2021 compared to -8.3% in 2020. This leaves 3.5% far below the pre-pandemic level. Although Spain would see the strongest growth in 2021, it remains 6.5% below 2019 level. In 2021, each country would have a different recovery trajectory depending on national relief measures, a recovery in domestic demand, and structural challenges. Germany would lead the recovery because of effective stimulus and containment measures that support the Economic Sentiment Index to surge to 97, exceeding 90.9 for Eurozone and 89.5 for Spain. Moreover, the German government's debt would rise only slightly to 70% of GDP in 2021 compared to more than 100% in several major countries. The current crisis could create long-term damage in this region's economies, especially Italy and France, suggesting a difficult road to recovery in 2021 and beyond.

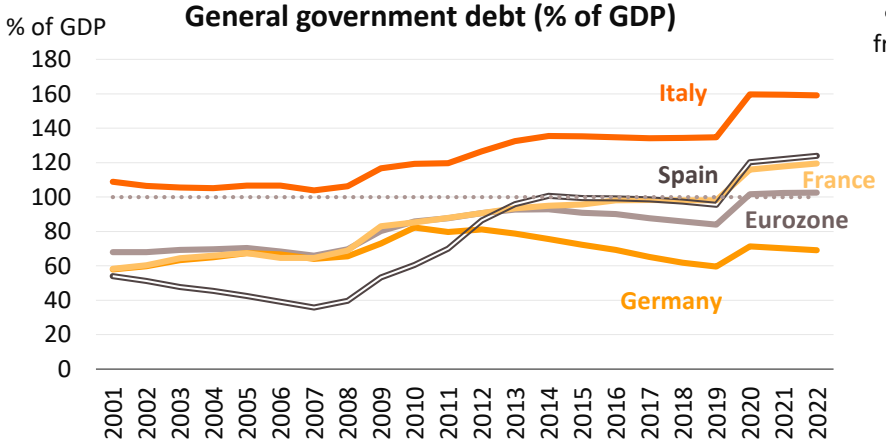
IMF's GDP growth projection (%YoY)



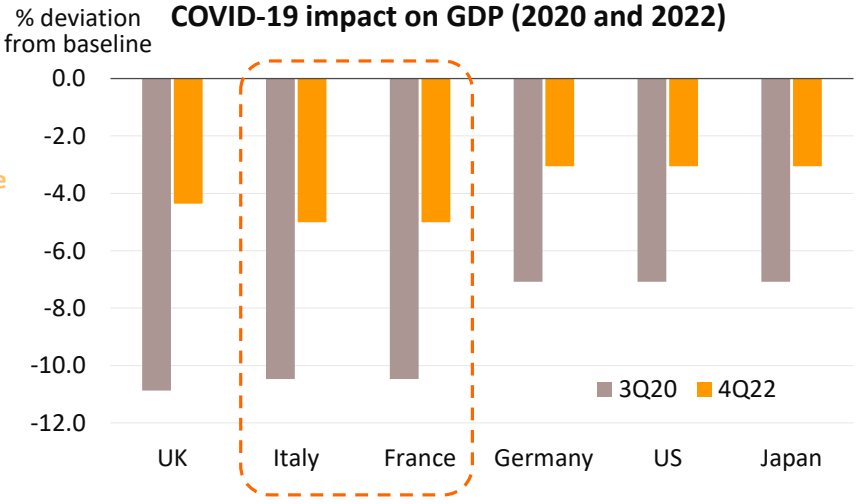
Economic Sentiment Index



General government debt (% of GDP)



COVID-19 impact on GDP (2020 and 2022)

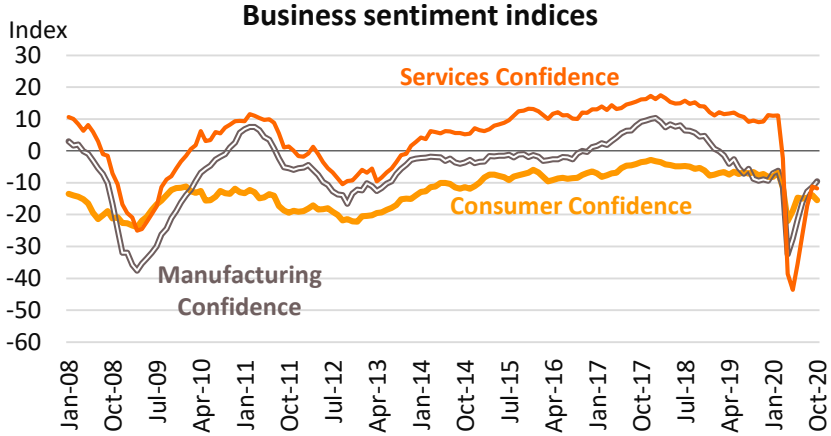


Source: Eurostat, European Commission, IMF, Bloomberg, Krungsri Research

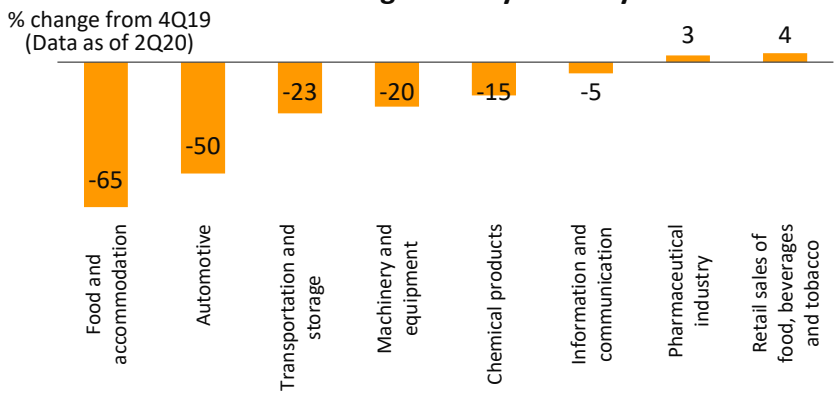
Second wave would delay recovery in the services sectors and slow down the labor market recovery

The second lockdown in Eurozone could affect the region's recovery in 2021 particularly the services sectors and labor market. The Business Sentiment Index indicates confidence in the services sector remains far below pre-pandemic level. Revenue growth by industry also reveal the largest impact on food and accommodation sector, which lost 65% of revenues, reflecting a deeper hole to climb out of relative to manufacturing sectors. In addition, major industries showed widespread negative-revenue growth in 2020. This will continue to pressure the labor market. Although the number of furloughed workers have started to drop, 11 million workers or 9% of the Eurozone's total workforce are still waiting to resume jobs. Besides, governments continue to struggle with the costs of extending this scheme. Eurozone unemployment rate could spike to 9.3% in 2021, led by Spain (17.9%), Italy (11.5%), France (10%) and Germany (6.3%).

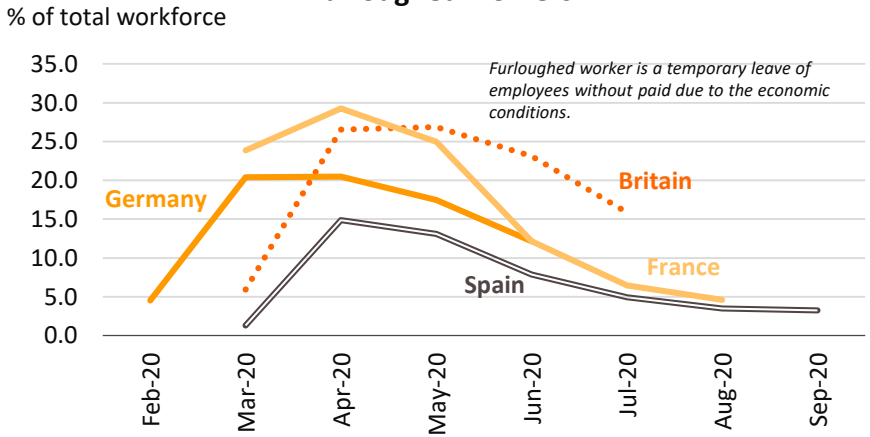
Business sentiment indices



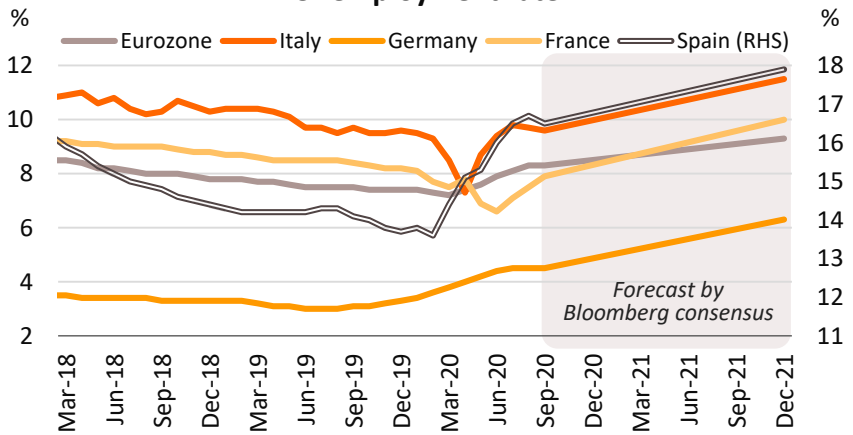
Revenue growth by industry



Furloughed workers



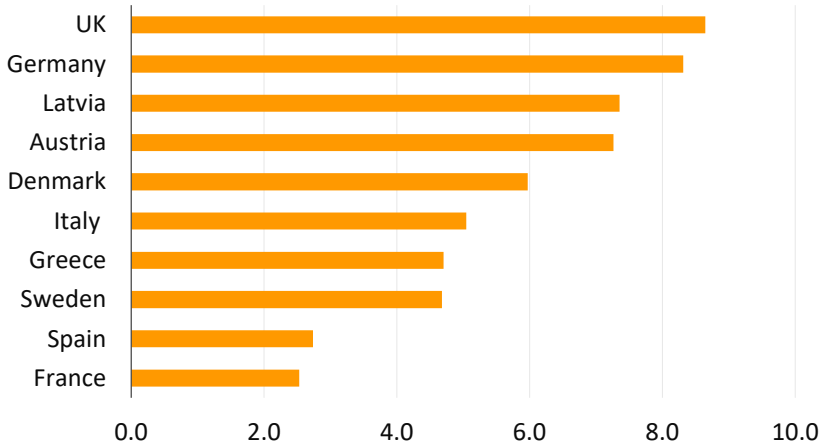
Unemployment rate



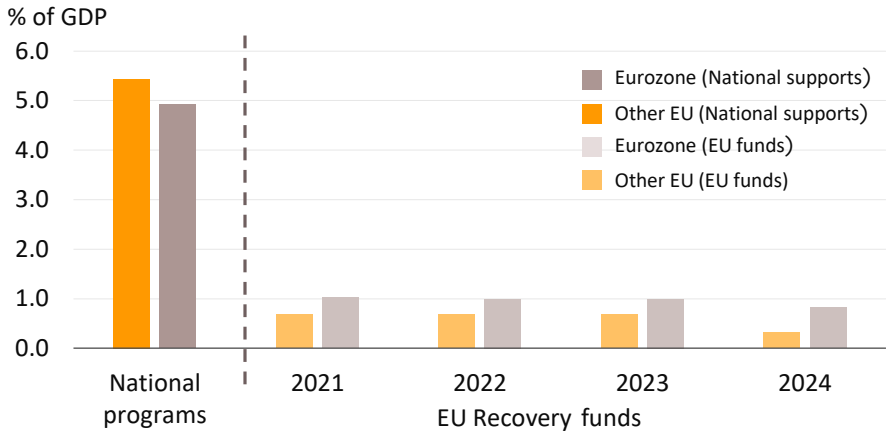
Source: Eurostat, ONS, Insee, INE , Bloomberg, Krungsri Research

Substantial targeted stimulus would support growth; recovery pace depends on size and speed of national aid

Fiscal Packages in 2020 (% of GDP)



National programs and EU recovery fund



Country's plan to spend share of EU Recovery Fund

Country	Total funds in reform plan	Details
Germany	EUR 130 bn	• Invest in infrastructure projects • Support Green and Digital economy
France	EUR 100 bn	• Generate more than 160k jobs in 2021 • Business competitiveness (€ 35bn) • Social and territorial cohesion (€ 35bn) • Ecological transition (€ 30bn)
Italy	EUR 209 bn	• Double GDP growth to 1.6% • Increase employment rate to 73% from 63% • Cut tax for middle-income earners
Spain	EUR 140 bn	• Create more than 800k jobs during 2021-2023

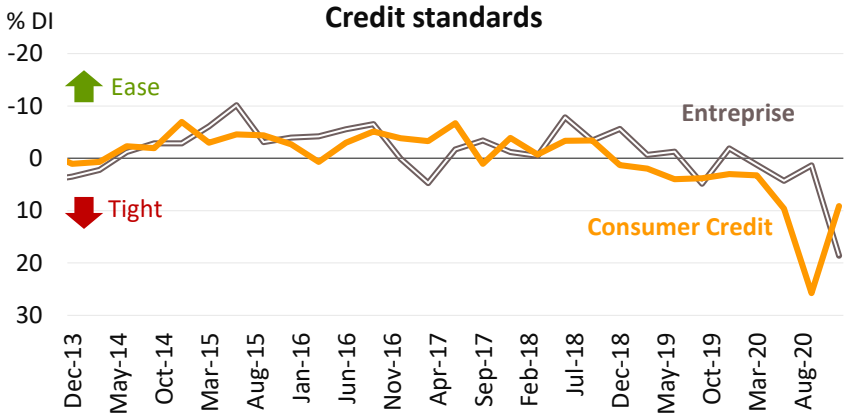
Source: IMF, National Authorities, Financial Times, Krungsri Research

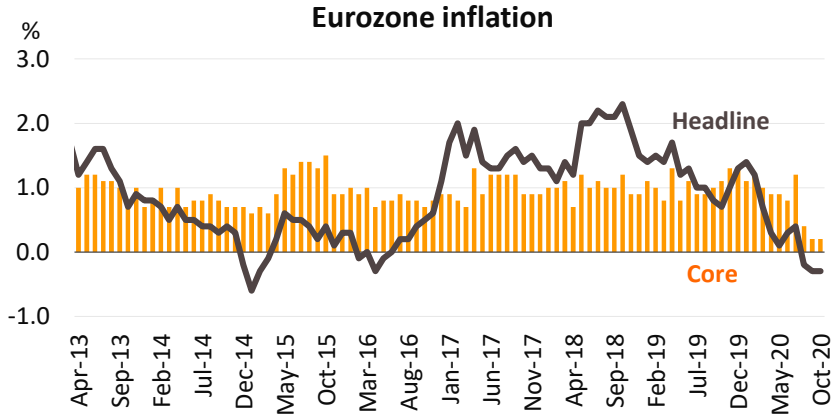
Krungsri Research's view

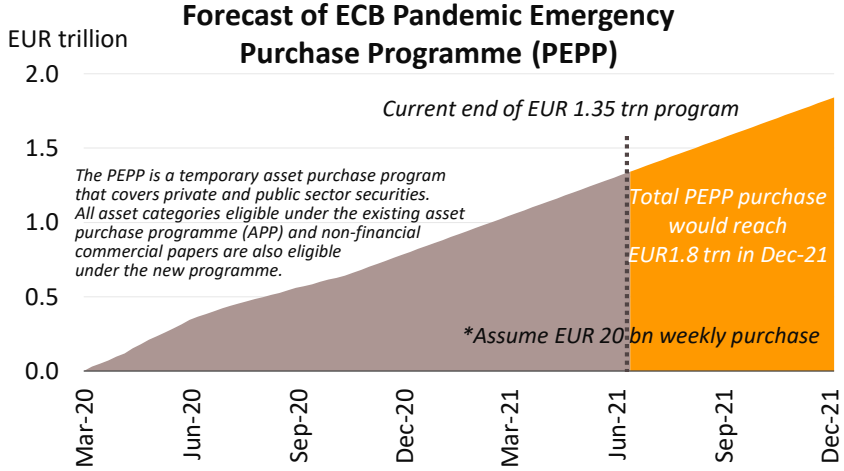
- Each government has provided huge stimulus to mitigate the impact of COVID-19 on the economy in the near-term. Major economies such as the UK and Germany had the largest support, accounting for 8.6% and 8.3% of GDP, respectively, compared to 5% average for the EU. This could lead to an uneven recovery as countries with smaller aid programs such as Italy, Spain and France could trail behind. In the medium-term, the EU has agreed on the *Next Generation EU* (EUR750bn with EUR390bn in grants) to give stimulus to countries to prevent scarring.
- **Each EU member is projected to receive 0.6% of GDP per year in grants over 2021-2023, and the funds can be spent during 2021-2024**. According to the 2021 reform plan, they would allocate the fund to (i) boost investment particularly in green and digital economy, (ii) create jobs by subsidizing the remaining workers in the furlough program to help them resume jobs, and (iii) finance current relief measures. **The pace of recovery would depend partly on how quickly the program is implemented. However, the magnitude of recovery would depend on the size of national programs rather than the common budget.**
- On repayment, this program has been negotiated alongside the Multiannual Financial Framework (MFF) for 2021-2027. **Hence, repayments to the EU budget would start in 2028. This could postpone the risk of a member country needing to issue additional debt in 2021.**

ECB stands ready to offer a mixed policy to empower the economy

The ECB's Bank Lending Survey in 3Q20 reveals tightening credit standards for both enterprises and consumers as banks see a worsening economic outlook and rising vulnerability. Eurozone 3-month reading for headline inflation was -0.3% YoY in October 2020. Looking ahead, **inflation would remain subdued at least through 1Q21, before picking up when demand and energy prices recover.** The subdued inflation and weak domestic demand might prompt the ECB to adjust its inflation target from *"below, but close to 2%"* to *"symmetric at 2%"* under 2021 policy review. The ECB could offer extra stimulus through various tools such as increase the ceiling of PEPP by at least EUR450bn by 1Q21 to EUR1.8trn and extend the purchase period to December 2021. **The ECB could also apply a mixed policy in 2021 that could include cutting TLTRO interest rates and ramping up Asset Purchase Programs (APP) to meet inflation target and ensure bond yields stay at ultra-low levels.**







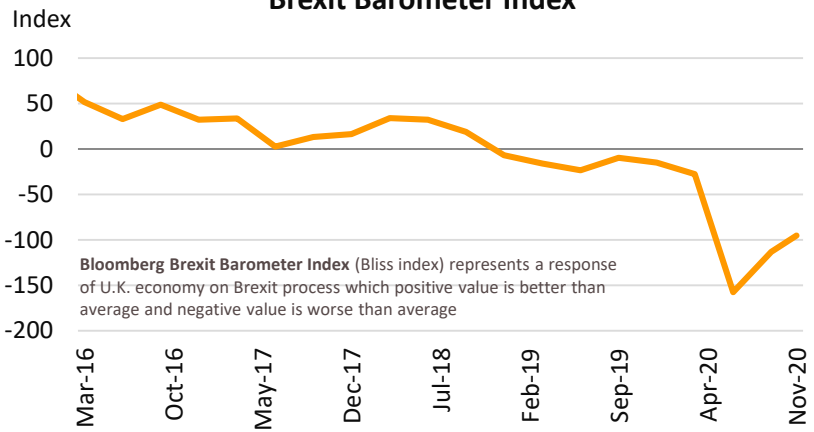
Measure	Expected additional ECB's policy
Interest rates	Maintain key rates at record lows: Main refinancing operation 0%, Deposit facility -0.5%, Marginal lending facility 0.25%
Asset Purchase Program (APP)	ECB could ramp up the purchase of APP in 2H21 to support economic recovery and mitigate low inflation problem
Targeted Longer-Term Refinancing Operations (TLTROs)	• ECB could cut ceiling rate (50 bp below refinancing rate) and minimum rate (50 bp less than deposit rate) for TLTROs • Extend TLTRO maturity to more than 3 years • Require banks to increase lending to benefit from low TLTRO rate • Allow more banks to borrow from the ECB

Source: ECB, Eurostat, Bloomberg, Krungsri Research

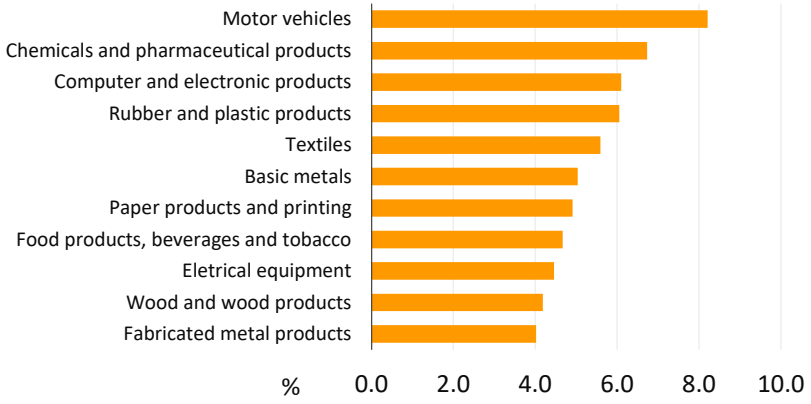
Brexit: UK's departure could hit the EU but benefit the global economy

The Brexit Barometer Index indicates a slightly better situation, but still worse than the average in the past few years as the EU and UK have yet to agree in many areas. The possible scenarios now are mixed, ranging from No-deal Brexit (worst-case, low-to-moderate probability) to a Narrow trade deal which could be the best solution for the UK currently. Regardless of the scenario, Brexit would have negative impact on EU trade, especially in the most exposed sectors such as motor vehicles and chemical & pharmaceutical products. On the other hand, the UK departure could benefit the global economy as the UK would be free to pursue bilateral and multi-lateral trade agreements with several trade partners, including the US, Australia and New Zealand.

Brexit Barometer Index



EU exposure to trade with the UK



Source: Government of the United Kingdom, OECD, Reuters, Bloomberg, Krungsri Research

Possible scenarios for Brexit

Scenario	Details
Narrow trade deal *(Low probability)*	Trade deal including zero-tariff and zero-quota, but does not guarantee long-term relationship such as national security and services integration.
Partial deal *(Moderate to high probability)*	Last-minute deal covering key areas that both sides can agree on. This would be temporarily applied without EU ratification and take both sides to extended negotiations in 2021.
No-deal Brexit *(Low to moderate probability)*	If the EU and UK do not sign any trade deal. The UK would default to trade with the EU on WTO terms, which include trade barriers.

Post-Brexit trade deal

Signed

UK-Japan Comprehensive Economic Partnership Agreement(CEPA)
- Electronic equipment and motor vehicle manufacturers could benefit from 99% tariff-free quota (effective 1 Jan 2021)

Canada-United Kingdom Trade Continuity Agreement (Effective 1 Jan 2021)

Ongoing

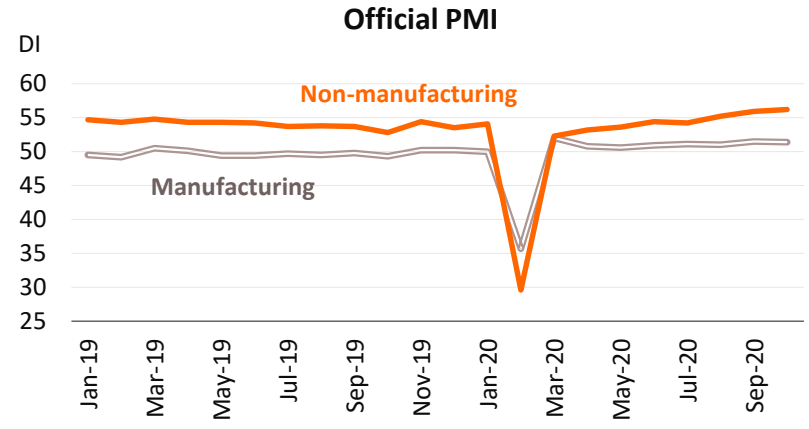
Biden's win could threaten negotiations as US would seek firmer relations with the EU rather than the isolated UK.

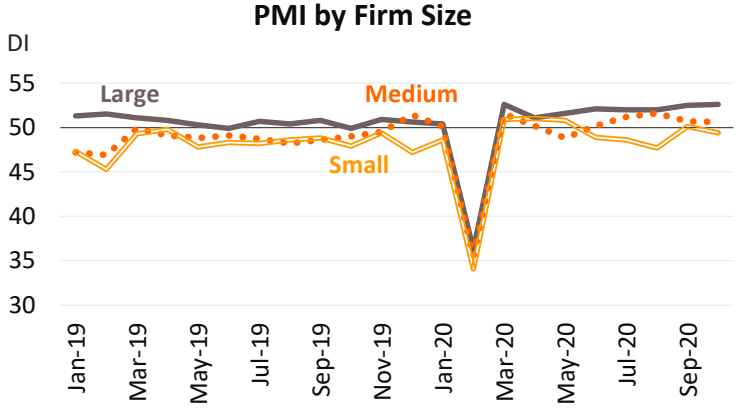
The UK is moving to the third round of UK-Australia FTA negotiations, covering competition and financial services.

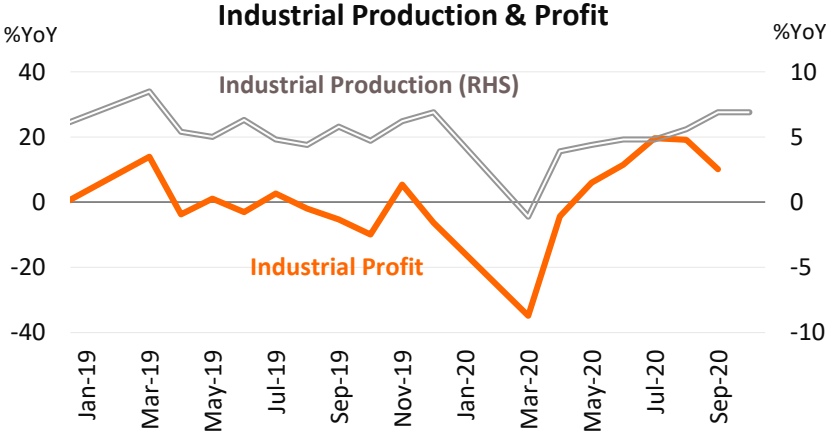
New Zealand is negotiating a free trade agreement with the UK.

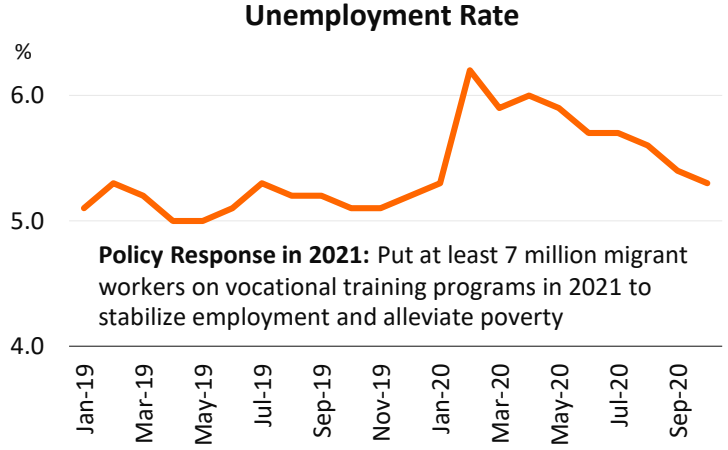
China: Effective policy responses and successful Covid-19 fight will keep recovery on track

The ability to contain the spread of COVID-19 coupled with effective policy response, China is ahead in the race towards a global recovery. Both Manufacturing and Non-Manufacturing PMI data have recovered past pre-pandemic levels. Looking at the resumption of economic activities by firm size, **recovery would be broader as PMI data for large firms have returned to levels prior to the outbreak**, and data for small and medium firms are close to pre-COVID levels. Industrial Production Index and industrial profits have risen gradually and has recently been growing faster before the pandemic. **The gradual improvement in production also helped to reduce unemployment**, which is also close to pre-pandemic level. The stronger recovery has been supported by prompt policy responses to contain infection, revitalize supply side, and boost domestic demand. However, there are several laggard sectors that remain weaker than pre-pandemic levels.





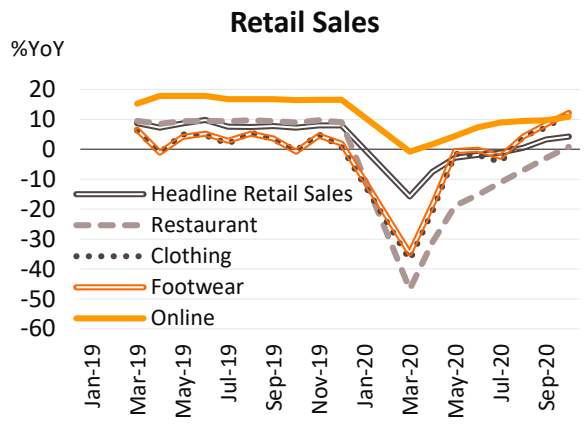


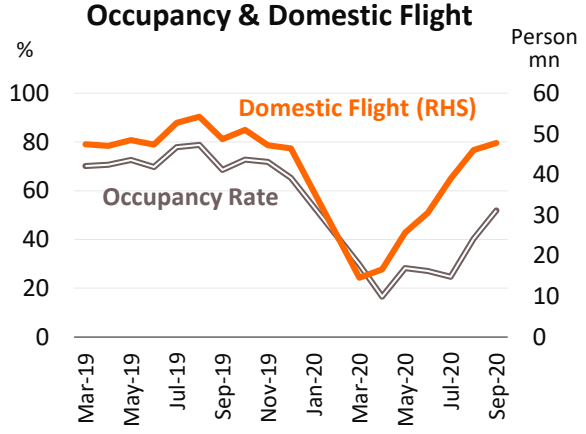


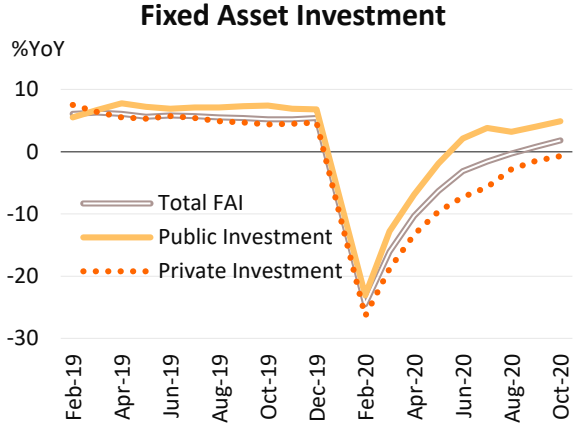
Source: National Bureau of Statistics, CEIC, Capital Economics, Bloomberg, PBOC, Xinhua, Reuters, Krungsri Research

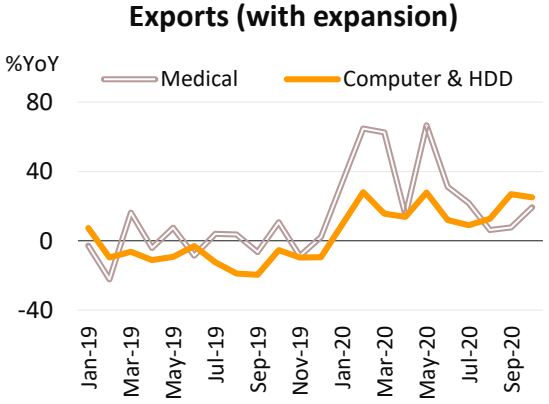
Demand-side recovery remains below pre-pandemic level, implying need for further stimulus measures

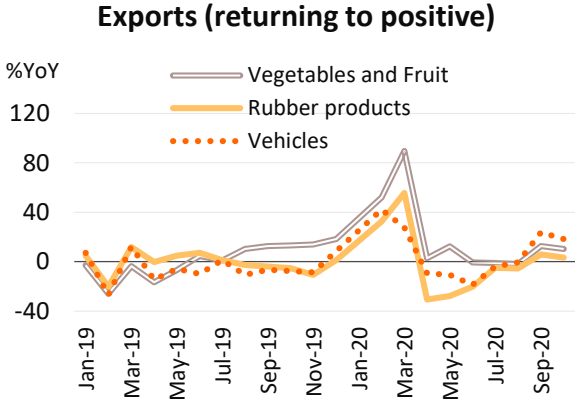
Despite the strong rebound in the supply-side, demand-side recovery has not returned to pre-pandemic level. Headline retail sales remained weak though sales of semi-durable goods such as clothing & footwear, are picking up, partly supported by discount vouchers and cash aid. Tourism incentives and residents replacing international travel with domestic trips helped to lift occupancy rates and air traffic, but the recovery in tourism-related activities remains below pre-pandemic levels. Most importantly, private investment is still sluggish and below pre-COVID level. On the external front, export demand for several products remain subdued although the pandemic helped to boost exports of medical products and computer & HDD products to support the pandemic-induced work-from-home policy. **Therefore, the overall economic recovery towards pre-pandemic levels would be limited and require further stimulus support.**

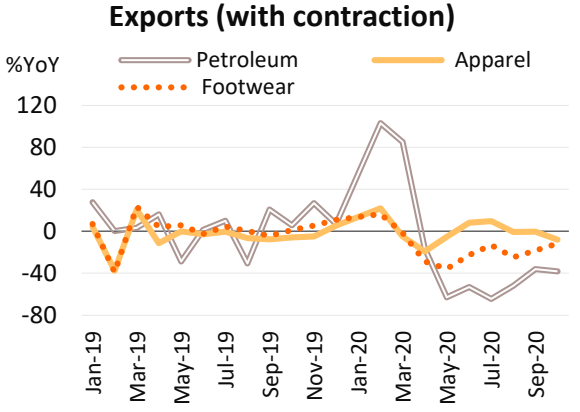








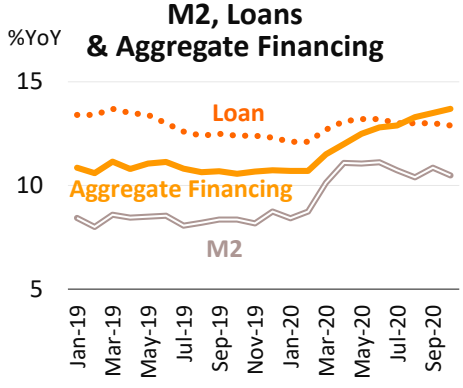


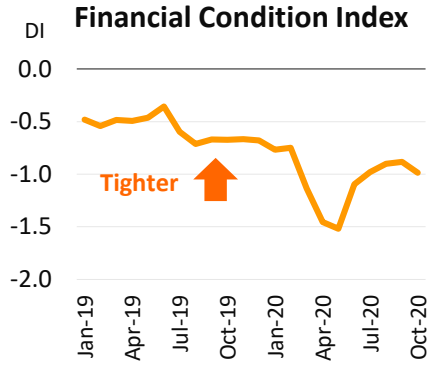


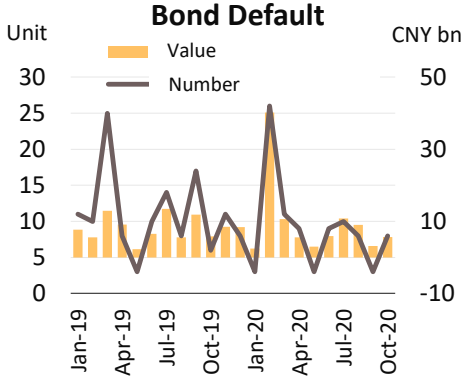
Source: National Bureau of Statistics, CEIC, Bloomberg, Capital Economics, Krungsri Research

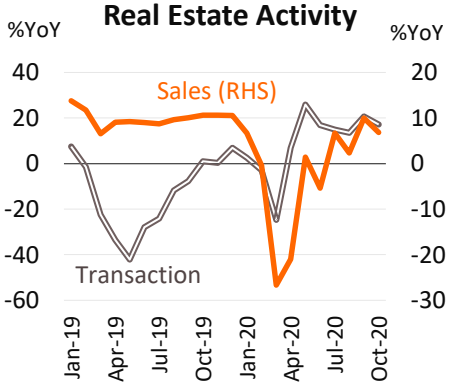
Despite tighter measures in some sectors, China still needs monetary easing

The economic recovery has been partly supported by quick policy responses and unprecedented stimulus measures. Bank loans and money supply have risen since the COVID-19 outbreak in 1Q20. Meanwhile, aggregate financing also increased, partly led by the issuance of bonds and equity to finance the fight against the crisis. Hence, financial conditions have been eased relative to pre-pandemic levels. **Recently, the People's Bank of China (PBOC) started to implement stricter supervision and regulations on sectors that are showing early signs of risks to financial stability.** The PBOC and Ministry of Housing recently announced they were drafting the "*Three Red Lines*" regulation, where real estate developers who want to refinance will be required to pass a financial soundness assessment. This will be launched on 1st January 2021. The announcement has caused property loans to drop and slowed down real estate activity, which could reduce bubble risk. In addition, although some Chinese state-owned enterprises have defaulted on their bonds, the size is still considerably small compared to the total market size (only 0.46% of total SOE bonds). **The PBOC is expected to implement targeted measures to curb specific risks. However, the central bank will keep interest rates unchanged and likely continue with monetary easing to support demand-side recovery.**









Source: CEIC, PBOC, Capital Economics, Xinhua, Bloomberg, Reuters, Nikkei Asia, Krungsri Research

Key Targeted Monetary Policy in 2021

Policy Responses	Measures
Easing financial conditions	Additional medium-term lending facility (MLF) to provide adequate liquidity
Strengthen business operations, provide liquidity and ease burden, especially for SMEs and local firms	Delay loan repayments, with the deadline extended to end-March 2021. PBOC also expanded re-lending and rediscounting facilities and extended the repayment of principal and interest for small business loans to June 2021

The Three Red Line Criteria

For developers who want to refinance, they will be assessed against the ***Three Red Lines*** **(thresholds)**:

- 70% ceiling on liabilities-to-assets ratio, excluding advanced proceeds from projects sold on contract;
- 100% cap on net debt to equity;
- Cash to short-term borrowing ratio of at least 1.0.

If all three limits are breached, the company will not be allowed to increase its debt in the following year.
If it passes all three, it can increase its debt by a maximum of 15% in the next year.

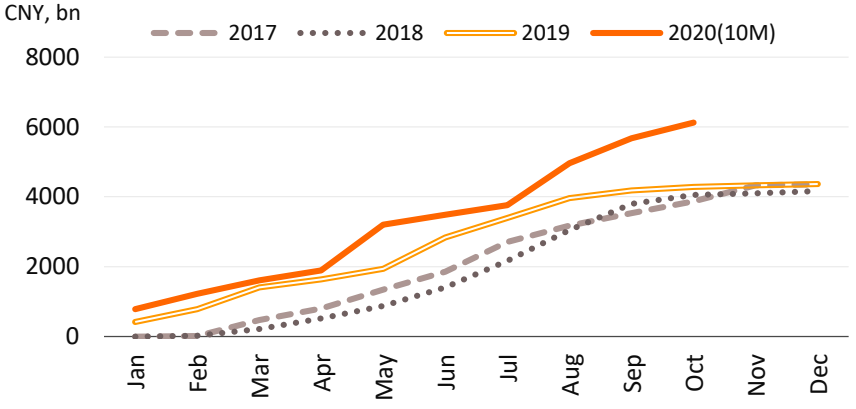
Amid risk from US-China tension, public investment and FDI should play key roles in supporting domestic recovery

Infrastructure investment continues to play a leading role in stimulating China's economy, given demand-side recovery remains below pre-pandemic level. Stimulus measures could strengthen the domestic economy and cushion the impact of external fluctuations, as indicated by the *Dual Circulation Policy*. This policy could also reduce the risk of US-China tension as president-elect Biden would push the the *Made In America* plan and improve multilateral relations with US allies to pressure China. **Moreover, infrastructure investment would help to compensate for slower property investment due to tighter measures for property loan.** The PBOC and the Ministry of Housing announced they will implement the *Three Red Lines* regulation, effective 1st January 2021. The infrastructure investment is aimed at developing capabilities in cutting-edge technology, especially 5G, artificial intelligence, big data, electric vehicle charging stations, and inter-city rail network. Rising foreign direct investment (FDI) would also support recovery of private investment ahead. **Looking ahead, further growth in both infrastructure and foreign direct investment in the next period would strengthen economic recovery and mitigate external risks.**

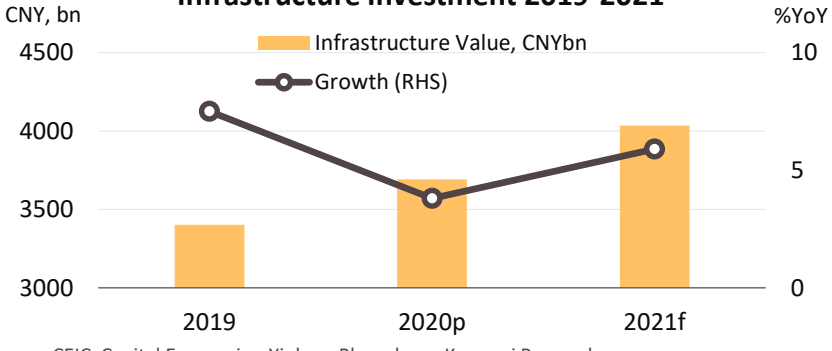
New Infrastructure Investment Projects, starting in 2021

China Policy Direction in 2021		
• Expanding domestic demand to cushion external fluctuation with **"Dual-circulation"** • Driving modernization through innovation with **"New Infrastructure"**		
Area	**Projects**	**Amount (CNY bn)**
UHV power transmission	Construct 16 routes	257.7
5G	Industrial internet network	650
Artificial intelligence	Construct AI infrastructure	100

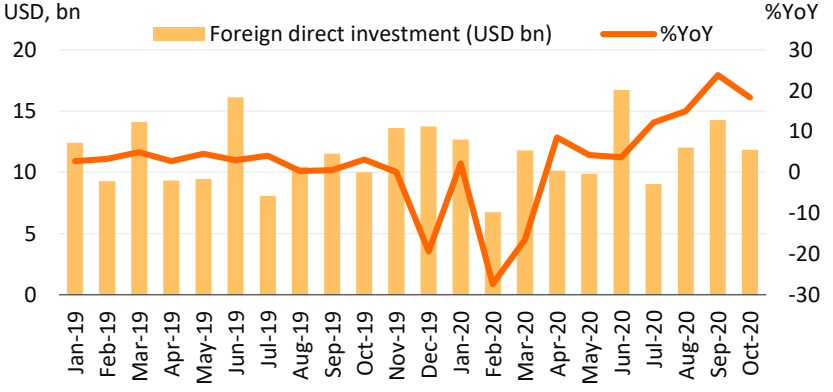
Local Government Bond Issuance (YTD)



Infrastructure Investment 2019-2021



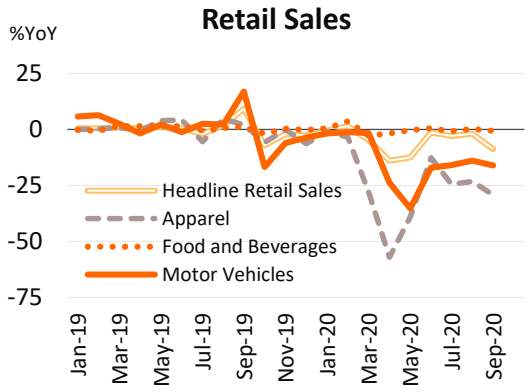
Inward FDI to China

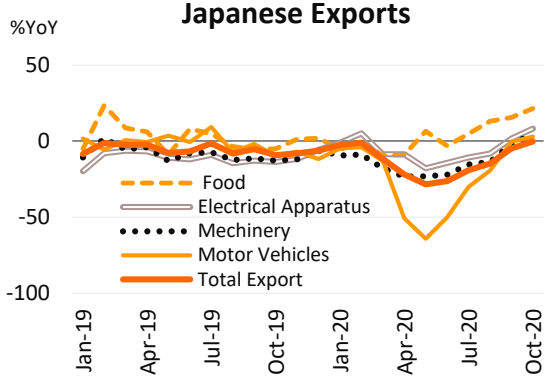


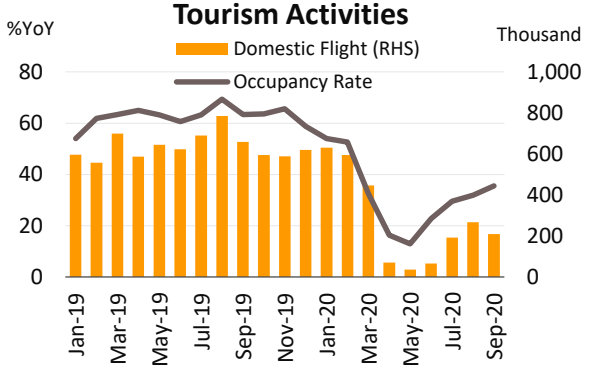
Source: CEIC, Capital Economics, Xinhua, Bloomberg, Krungsri Research

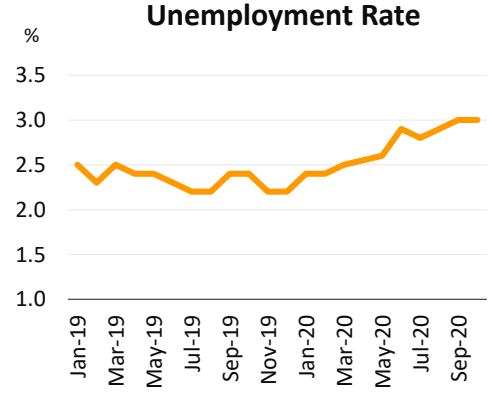
Japan: Some sectors are back to pre-pandemic levels but overall economic recovery remains weak and uneven

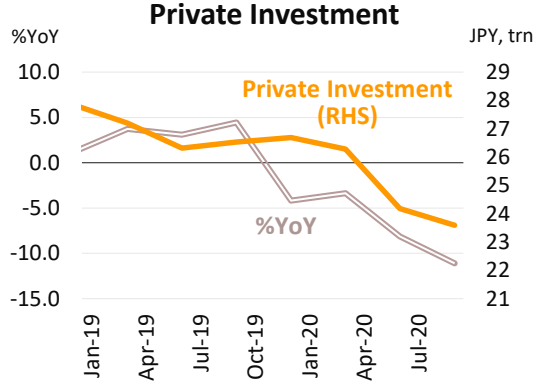
Economic stimulus measures helped to boost spending and supported the gradual economic recovery. Some economic indicators have returned to or exceeded pre-pandemic levels, including headline retail sales and total exports. However, looking at the sub-categories for retail sales and exports, several key items remain below pre-pandemic levels. Sales of apparel and motor vehicles remain in negative territory and exports of other major products, including vehicles and machinery, are still far below pre-pandemic levels. For tourism-related services, despite improvements driven by the "Go to Travel" and "Go to Eat" campaigns, domestic flights and occupancy rates are still far from normal. Unemployment rate has exceeded pre-pandemic levels and is rising. In addition, private investment remains weak and below pre-outbreak level. **Looking ahead, since some components of economic activities remain below pre-pandemic levels and the new wave of infections could depress the economy, the additional stimulus would boost recovery. Being host of the Olympic Games next year should also help to improve domestic spending ahead**.











Key Targeted Policy Responses in 2021

Demand stimulus

- Cash aid for households and small businesses (Not yet specified)

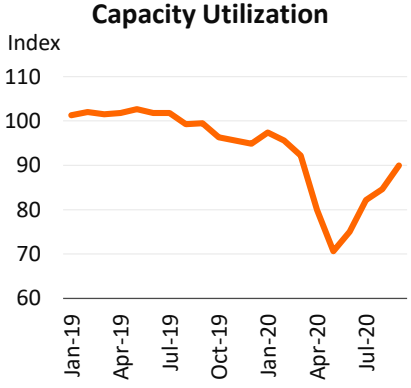
Boost spending in services sectors

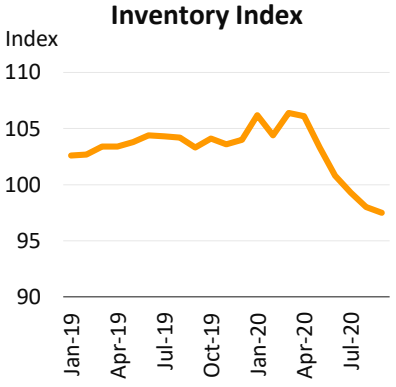
- "Go to Travel" campaign will subsidize half of qualifying domestic holiday expenses until end-January 2021. That could be extended to spring (May 2021)
- "Go to Eat" campaign to offer up-to-25% discount vouchers and point-based reward for online reservations until end-March 2021

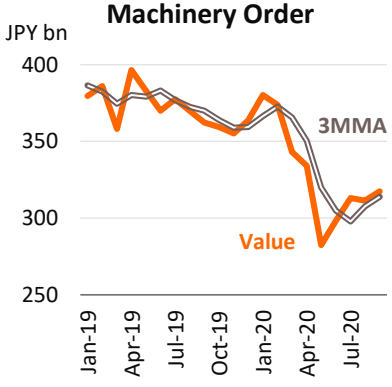
Source: CEIC, Bloomberg, Capital Economics, Nikkei Asia, The Japan Times, Kyodo News, Krungsri Research

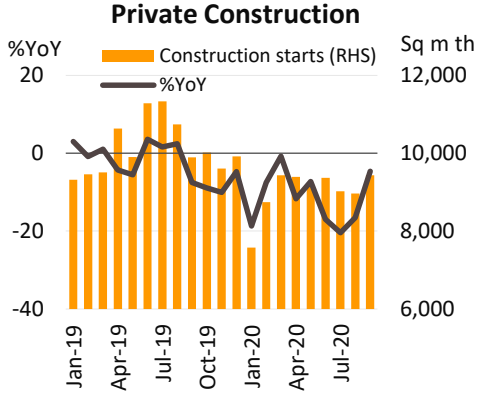
Additional fiscal stimulus could induce still-subdued private investment

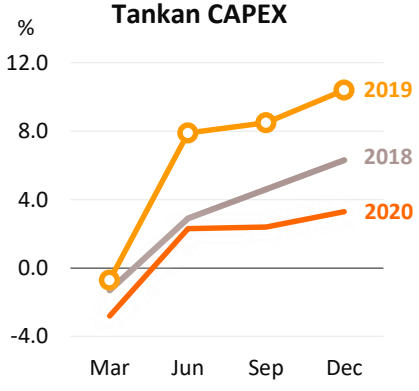
There were positive signs from several investment indicators, such as capacity utilization rate picking up and running down of inventory. But private investment is still far below pre-pandemic level, reflected by weak machinery orders and private construction data. The Tankan capital expenditure survey claims capital expenditure in fiscal year 2020 is also lower than in 2019 and the Tankan business survey reflects still-weak business conditions. **The lackluster improvement in private investment suggests a need for additional fiscal stimulus.** The Japanese government is preparing to launch the third supplementary budget that would include a fresh economic stimulus package to enhance economic recovery. The supplementary budget is also expected to promote investment projects to support digital transformation, strengthen supply chains, support migration from urban to rural areas, and improve the country's disaster preparedness. **Looking ahead, the gradual recovery of consumption and exports, as well as government stimulus to increase productivity, should boost private investment in the next period.**

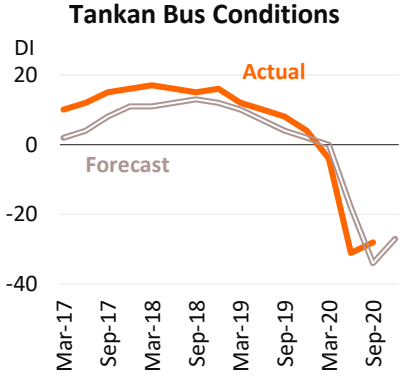












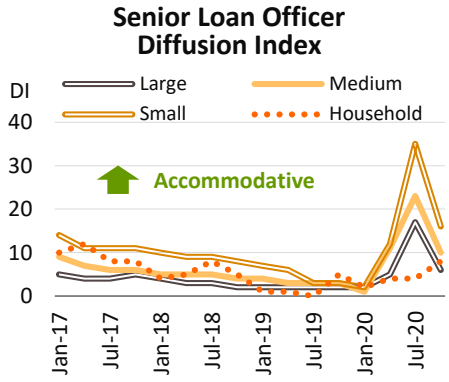
The Additional Fiscal Stimulus in 2021

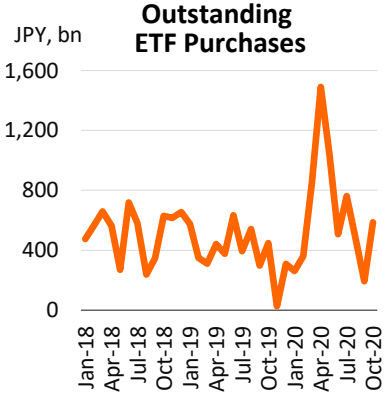
Policy Responses	Measures
Investment Spending to Promote Productivity	• Promote digital transformation, with a focus on local governments • Support digital applications at businesses and tele-working • Encourage migration from urban to rural area • Strengthen supply chain resilience to enhance the viability of industry
Expected size of budget	JPY11.5 trn (2.4% of GDP)

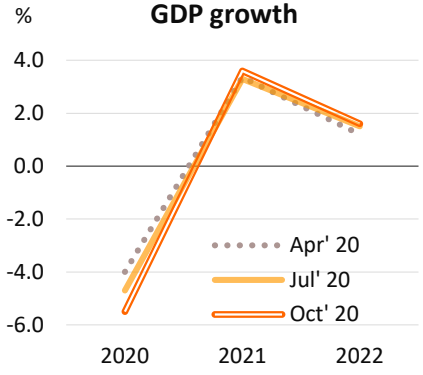
Source: CEIC, Bloomberg, Capital Economics, Asia Nikkei, Japantimes, Kyodonews, Krungsri Research

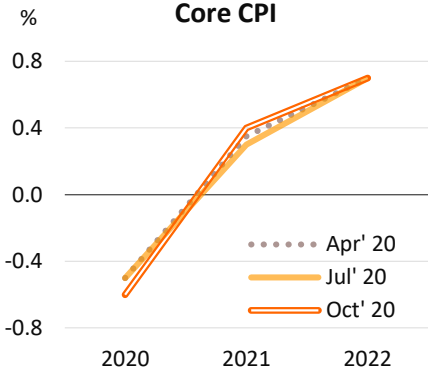
BOJ to implement very-loose monetary policy and maintain policy interest rates until 2023

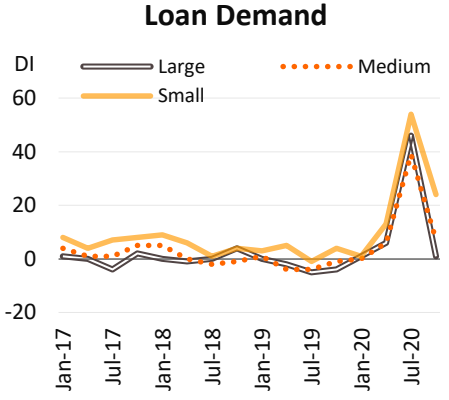
The implementation of huge monetary stimulus during the pandemic has improved liquidity in the economic system, as reflected by easing credit conditions (or more accommodative lending by senior loan officers), slower purchases of ETF, and recent slowdown in loan demand from firms of all sizes. However, **we expect the BOJ to continue to implement monetary stimulus measures,** premised on the following: (i) although the BOJ projects the economy would grow by 3.6% in 2021, that is insufficient to cover the 5.6% GDP contraction in 2020; (ii) the BOJ projects inflation at only 0.4% in 2021 and 0.7% in 2022, far below the official target of 2%; and (iii) the economy has yet to see a firm recovery amid the new wave of infections. Hence, the BOJ would continue to implement very-loose monetary policy, by maintaining negative interest rate until 2023 and implementing quantitative and qualitative monetary easing (QQE) with yield curve control, unlimited asset purchases, and interest-free lending facilities. **These measures should continue to improve liquidity in the financial system, along with fiscal stimulus to support further economic recovery.**











Key Monetary Policy Response in 2021

- Negative interest rate of minus 0.1%
- Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control
- No upper limit for 10-year Japanese government bond (JGB) purchases to keep JGB yields at zero percent
- Annual purchases of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) with upper limits of JPY12 trn and JPY180 trn
- Annual purchases of corporate bonds (upper limit of JPY 10.5 trn) and Commercial papers (upper limit of JPY9.5 trn)
- Special facility to provide interest-free, one-year loans equal to amount of private debt pledged as collateral

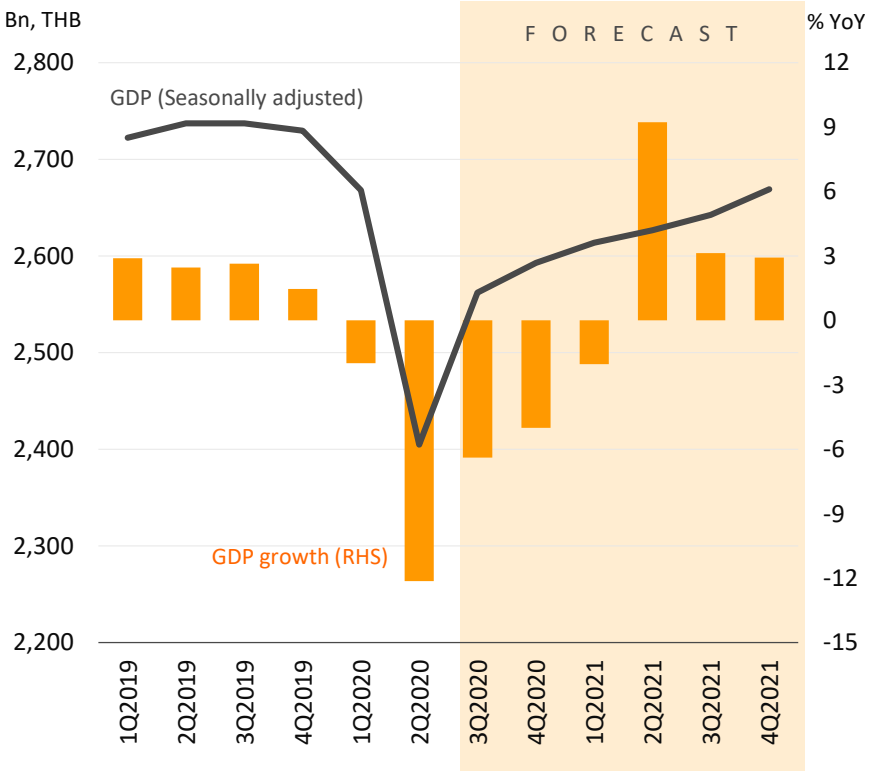
Source: CEIC,BOJ, reuters, Bloomberg, Asia Nikkei, Capital Economics, Krungsri Research



THAILAND ECONOMIC OUTLOOK 2021

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

Thai GDP Forecast (2020-2021)



2021: 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
- **Rising domestic political tension**
- **High-reliance on tourism sector** leaves substantial damage on domestic businesses, jobs and income
- Rising private and public debts
- Crisis legacies worsened by further travel restrictions
- Trade protectionism, US reducing GSP benefits
- Risk of drought

Source: Krungsri Research

Challenges and opportunities

Domestic challenges ahead

- **Tourism sector is trailing behind other economic growth drivers**, though mass vaccination could boost foreign tourist arrivals in 4Q 2021.
- Plenty of idle capacity implies slow growth in major services sectors. Thailand's high-reliance on tourism sector would leave permanent damage on domestic businesses, jobs and income.
- **Job losses continue to weigh on income and consumer spending.** Higher-income groups are likely to be the major driver of consumption.
- **Domestic political unrests** could undermine economic growth going forward and raise concerns over continuity of economic policies.
- **However, exports become a growth engine**, supported by gradual recovery of global manufacturing activities.
- **Private investment related to exports could improve** when manufacturing capacity utilization returns to pre-pandemic level.

Opportunities from shift towards regionalization

- **Regionalization becomes a medium-term support** for Thai exports and domestic production.
- ASEAN is expanding economic ties through new free trade deals. RCEP would have positive effects on ASEAN economy, fostered by harmonizing and liberalizing trade and investment
- Stronger regional trade ties support higher participation of ASEAN in the global value chain.
- The more different the position in the global value chain, the more opportunities to complement each other.

Source: Krungsri Research

Krungsri Research Forecast

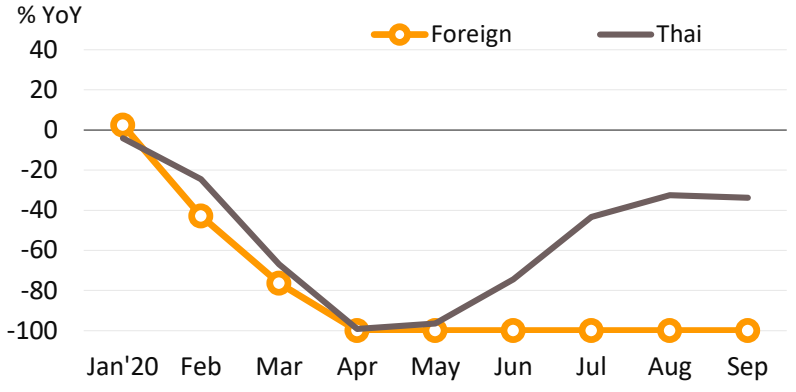
Krungsri Research Forecast		2019	2020F		2021F
			Previous	Latest	
GDP growth	YoY (%)	2.4	-10.3	-6.4	3.3
Private Consumption Expenditure	YoY (%)	4.5	-4.2	-1.1	2.5
Government Consumption Expenditure	YoY (%)	1.4	2.3	3.0	3.8
Private Investment	YoY (%)	2.8	-14.7	-11.0	3.2
Public Investment	YoY (%)	0.2	2.0	12.5	10.5
Nominal Exports in USD (f.o.b.)	YoY (%)	-3.3	-12.5	-7.5	4.5
Nominal Imports in USD (f.o.b.)	YoY (%)	-5.6	-17.5	-14.0	6.5
Current Account Balance	USD, bn	38.2	10.5	20.3	18.8
Tourist Arrivals	Mn, persons	39.8	6.7	6.7	4.0
Headline Inflation	YoY (%)	0.7	-1.1	-0.9	0.8
Exchange rate (end of period)	THB/USD	30.12	30.75	30.75	30.00
Policy Interest rate (end of period)	(%)	1.25	0.50	0.50	0.50
Dubai crude price (period average)	USD/bbl	63	44	42	48

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

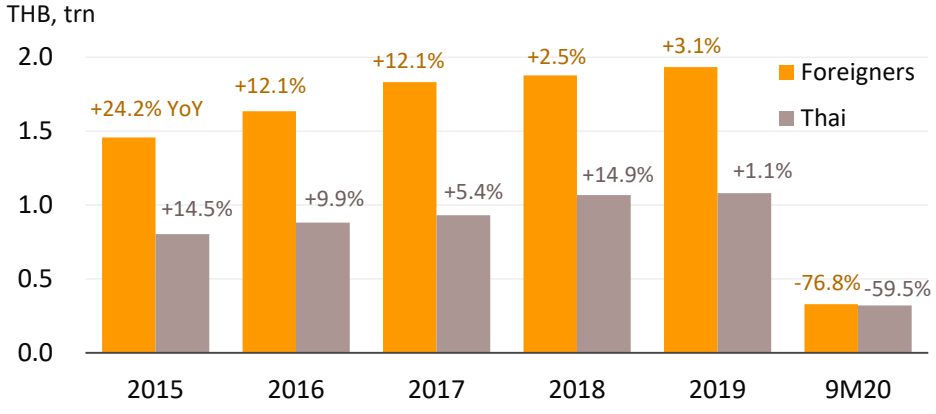
Tourism: Absence of foreign tourists hits overall economy because they are a major economic driver for Thailand

In 9M20, tourism receipts reached THB0.65mn (-70.6% YoY), of which THB0.33 mn (-76.8%) was generated by foreign tourists and THB0.32 mn (-59.5%) from Thai tourist. In 3Q20, there was no almost foreign tourist arrivals, like in 2Q20. In 4Q20, Thailand has reopened for selected foreign tourists under the Special Tourist Visa (STV) scheme, but that is expected to attract less than 1,000 tourists per month compared to 3.4mn per month in 4Q19. **We estimate full-year number for 2020 at 6.7 mn.** For domestic tourism, the number of Thai tourists have risen since June, supported by easing lockdown restrictions and the government's stimulus program, known as *'We travel together'* (effective July 2020-January 2021). **Despite this, the absence of foreign tourists hurt the broad economy, including employment, tourism-related businesses, and income, because foreign tourist receipts normally account for about 13% of GDP, more than in other Asian countries.**

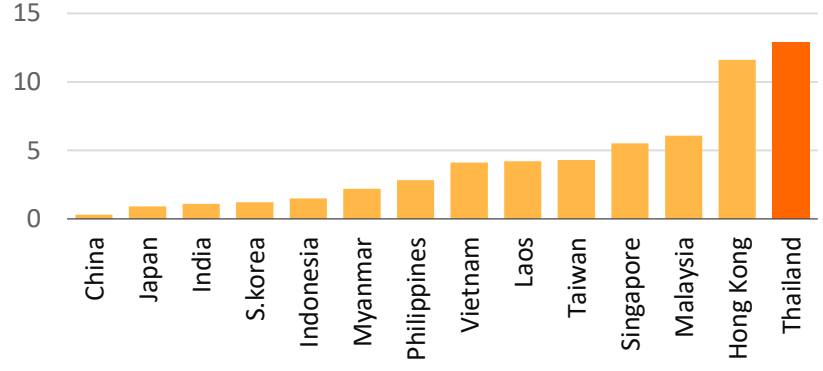
Foreign Tourist Arrivals in Thailand and Thai Tourists



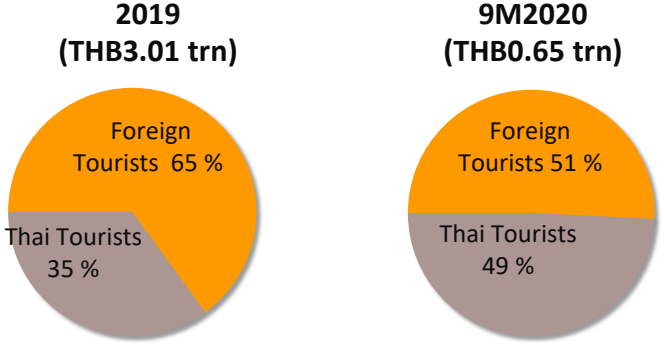
Tourism Receipts from Foreign and Thai Tourists



International Tourism Revenue in 2018 (% of GDP)



Tourism Receipts

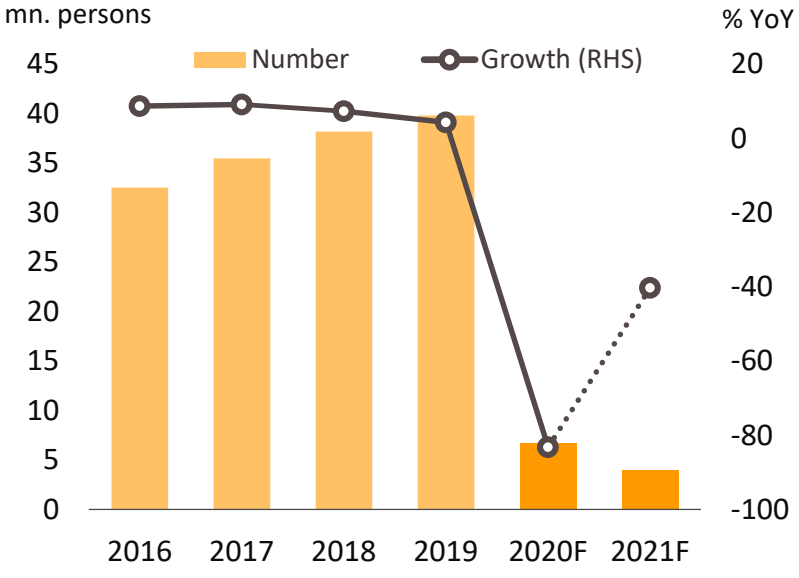


Source: World Tourism Organization, Ministry of Tourism & Sports (MOTS), Krungsri Research

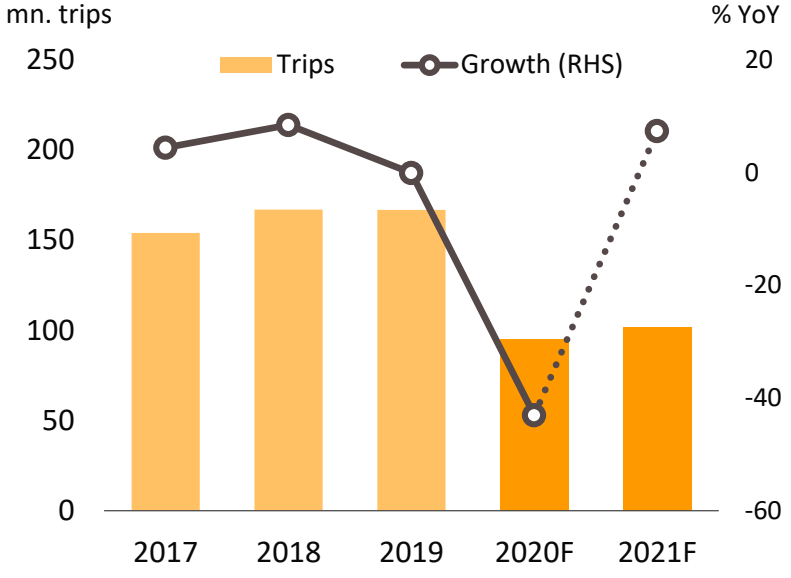
Mass vaccination may boost foreign tourism in 4Q21, but it could take at least 2-3 years to return to pre-crisis level

While Thailand has allowed selected tourists to enter the country, the global situation remains risky with several nations re-imposing lockdown measures due to a resurgence of infections. Looking ahead, further travel restrictions, concerns over infections, and weaker incomes since the crisis, would lead to a slow recovery in tourism. **It would take at least 2-3 years for foreign tourist arrivals to reach pre-pandemic level (39.8 mn in 2019). For 2021, Krungsri Research forecasts foreign tourist arrivals would reach 4 mn** premised on the availability of effective vaccines worldwide by the fourth quarter of 2021. Domestic tourism would be buoyed by government measures to boost spending by Thai tourists who are not allowed to travel abroad. **However, tourism receipts from Thai tourists is insufficient to offset lost revenues from foreign tourists (which accounted for 65% of total tourism receipts pre-Covid). The uncertainty in Thai politics could also be a risk factor that could dampen a recovery in tourism in the next period.**

Thailand's International Tourist Arrivals



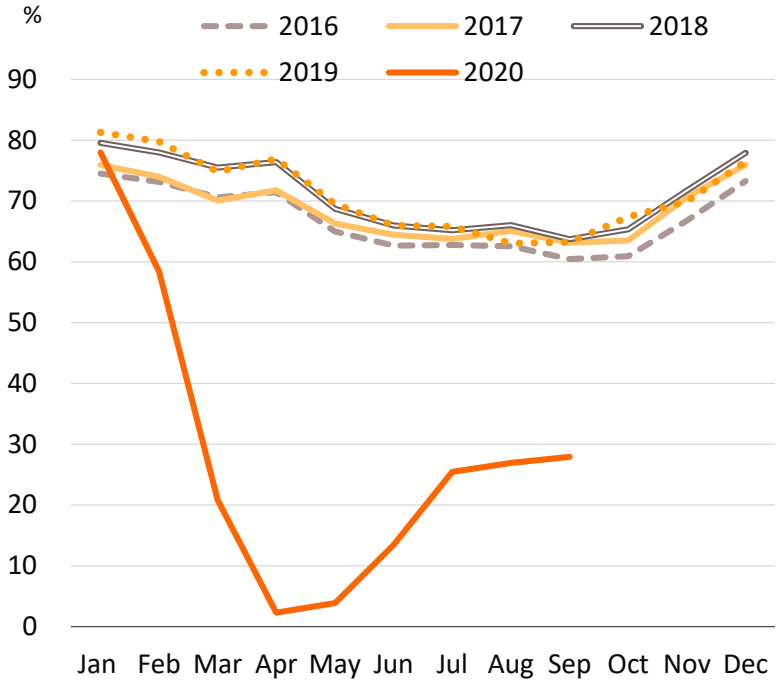
Thai Tourists



Source: MOTS, Forecast by Krungsri Research

Ample idle capacity implies slow growth in major services sectors

Accommodation Occupancy Rate: Nationwide Average



Service Production Index by Sector

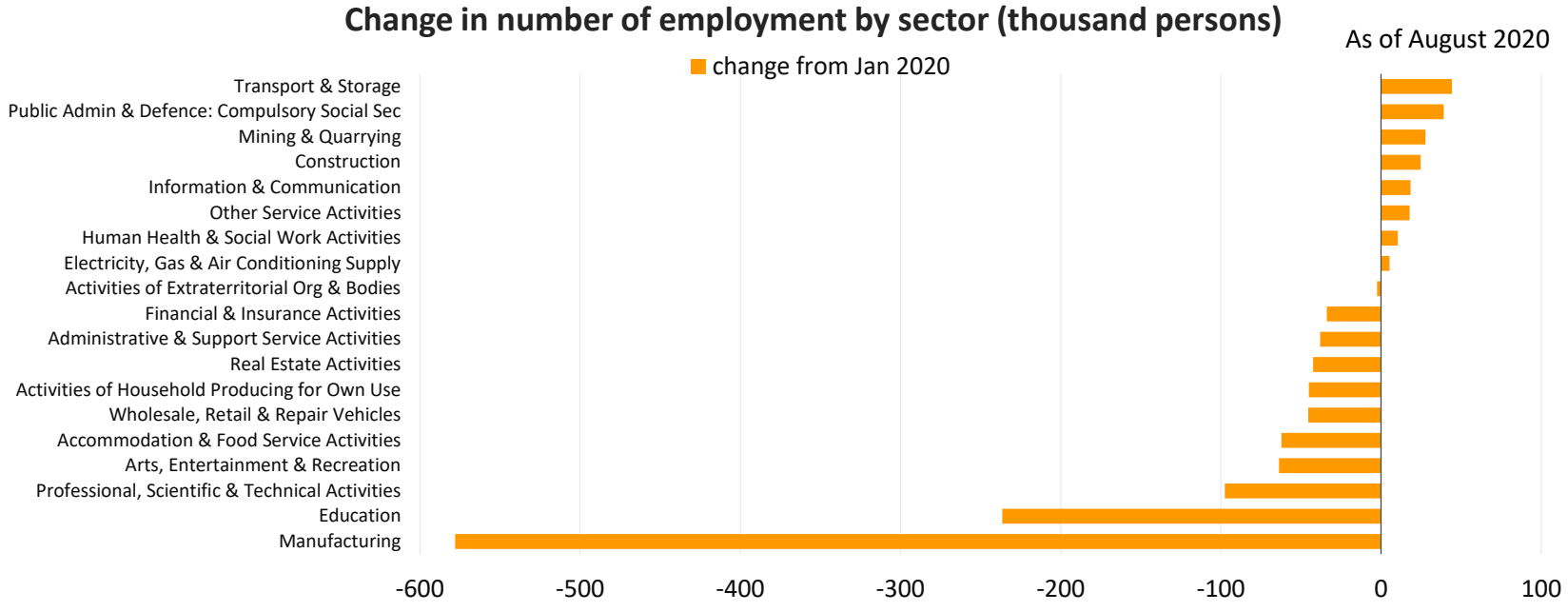
Service Production (% YoY)*	2019 J	A	S	O	N	D	2020 J	F	M	A	M	J	J	A	S
All sectors															
Wholesale & Retail Trade															
▼ Transportation and Storage															
▼ Accommodation and Food Service															
Information and Communication															
Financial and Insurance															
▼ Real Estate Activities															
Professional, Scientific and Technical															
▼ Administrative and Support Service															
Public Admin & Defence															

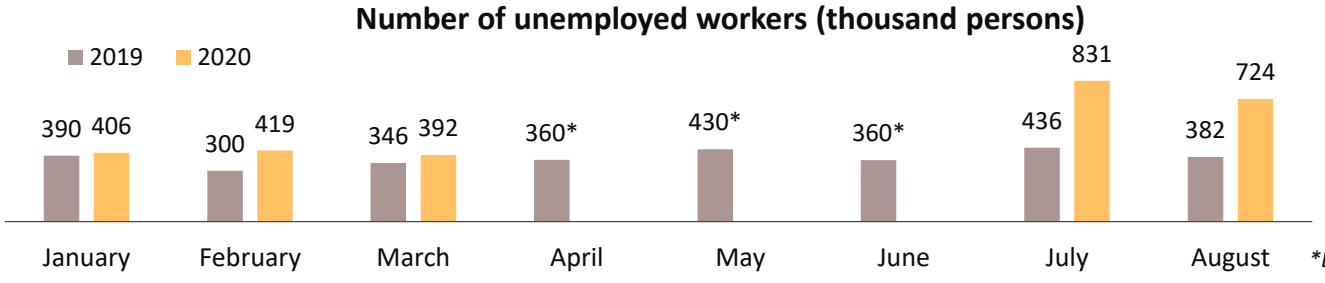
**Green > 0%, Red < 0% / Darker green (red) indicates stronger (weaker) momentum*

Source: MOTS, BOT, Krungsri Research

Private consumption: Job losses continue to weigh on income and consumer spending

The labor market was directly hit by the COVID-19 pandemic in 2020. Thai domestic workers have experienced reduced working hours or lost the job. The largest drop was seen in non-agricultural sectors, where more than 1 million jobs have been lost this year led by Manufacturing (578k job losses) and Education (236k). There were also job losses in the tourism-related sector such as Arts & Entertainment (63k), Accommodation and Food Services (62k). The number of unemployed has doubled to 724k in August from 382k a year ago. This suggests rising unemployment and income loss would continue to dampen the labor market and undermine household purchasing power ahead.





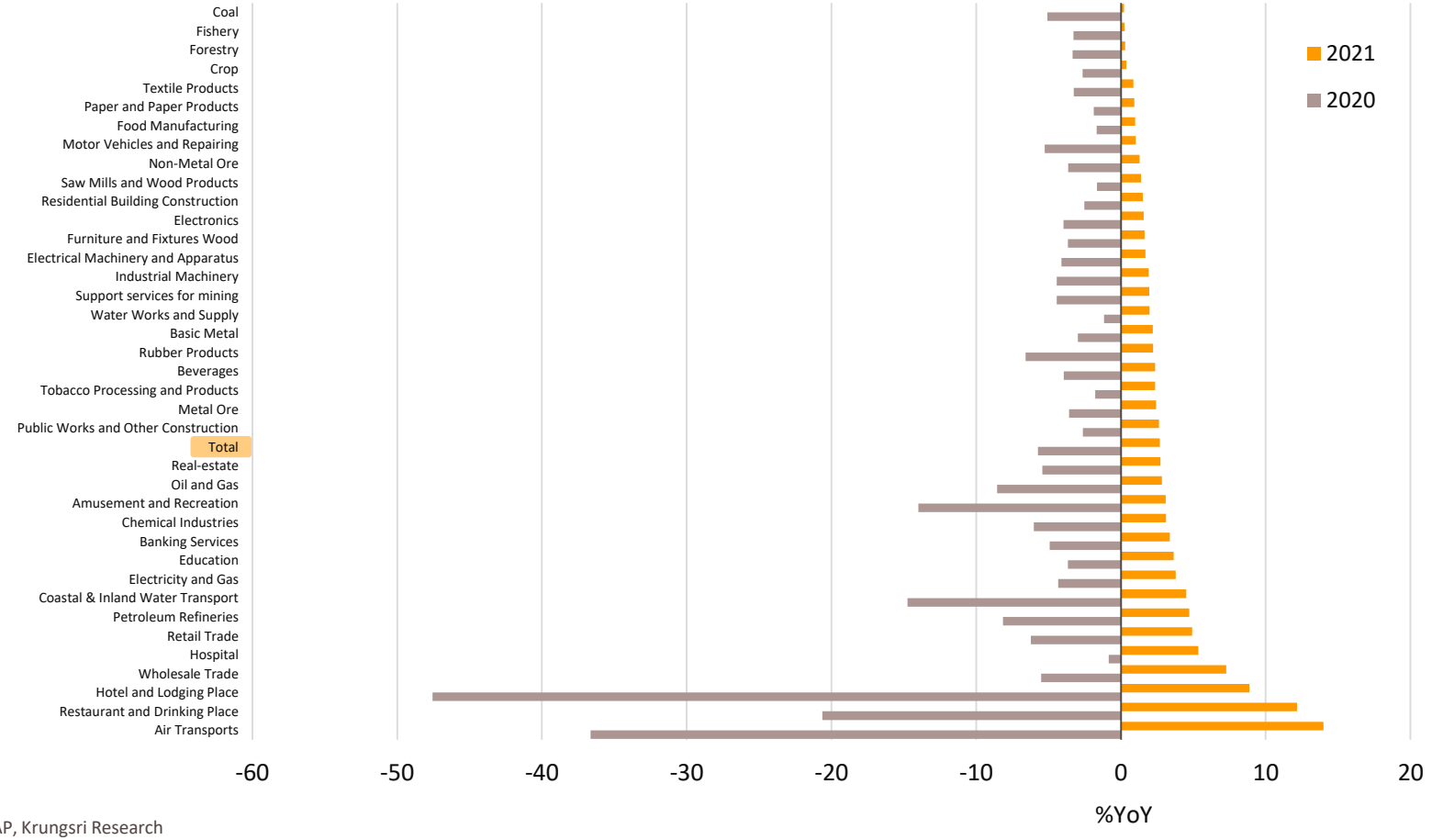
**Data is not reported during 2Q20*

Source: NSO, CEIC, Krungsri Research

Average wage would pick up by 2.7% in 2021 but remain weak because it has dropped dramatically in 2020

We estimate average wage would rise by 2.7% in 2021, compared to -5.7% in 2020 due to the COVID-19 impact. Tourism-related sectors would see the largest wage increases, such as Air Transport (+14.0% in 2021 vs -36.6% in 2020), Restaurants & Bars (+12.2% vs -20.6%), Hotel & Lodging (+8.9% vs -47.6%), reflecting a moderate recovery in economic activities. Wages in the Agricultural sector and Primary Manufacturing would see mild increases in 2021 after a small drop in 2020. However, overall wage increases would be limited by the persistent impact of COVID-19 on the Thai economy and rising number of infections worldwide.

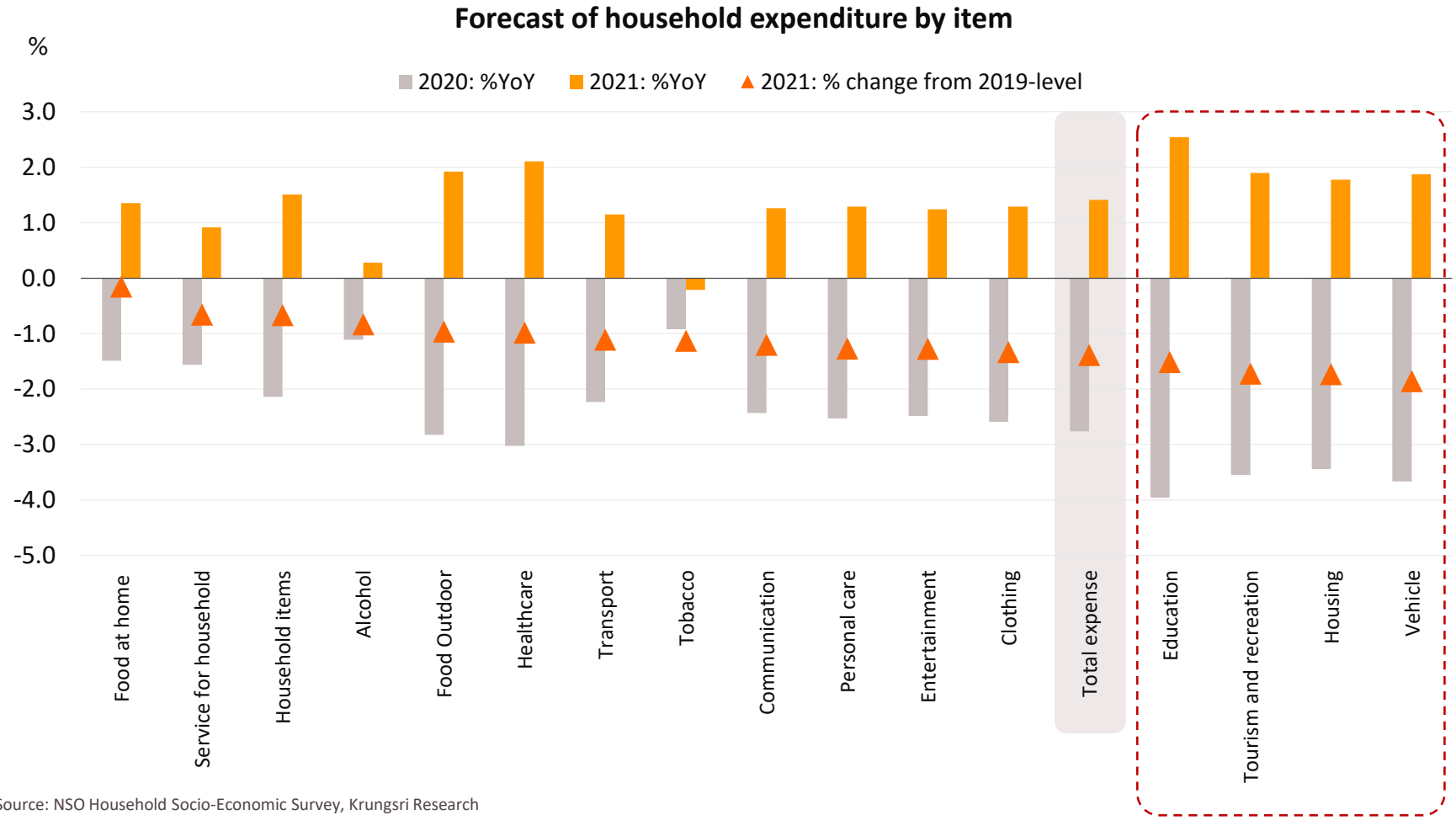
Forecast of wage changes in 2020 and 2021



Source: GTAP, Krungsri Research

Household expenditure would rebound moderately but spending on all items remains below pre-pandemic level

Consumers have responded to smaller incomes by reducing spending. In this crisis, they cut spending on education, tourism and housing when the pandemic started. The COVID-19 impact has reduced household expenditure by 2.8% YoY in 2020. **In 2021, expenditure on education, healthcare and outdoor food consumption would register the largest increases of 2.5%, 2.1% and 1.9%, respectively. Total household expenditure would rise by a moderate 1.4%**. Even so, consumption spending would remain far below pre-pandemic level, especially on vehicle, housing and tourism & recreation.

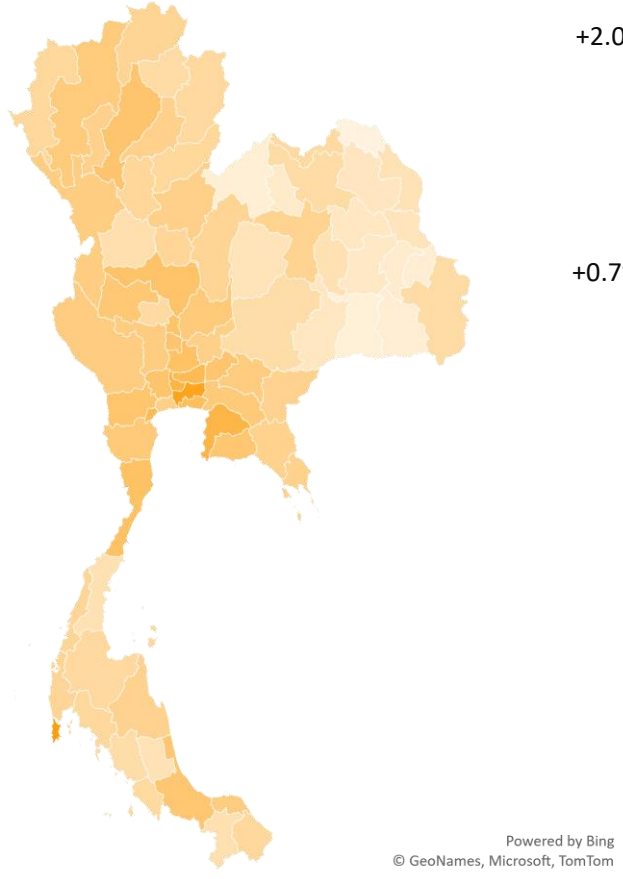


Source: NSO Household Socio-Economic Survey, Krungsri Research

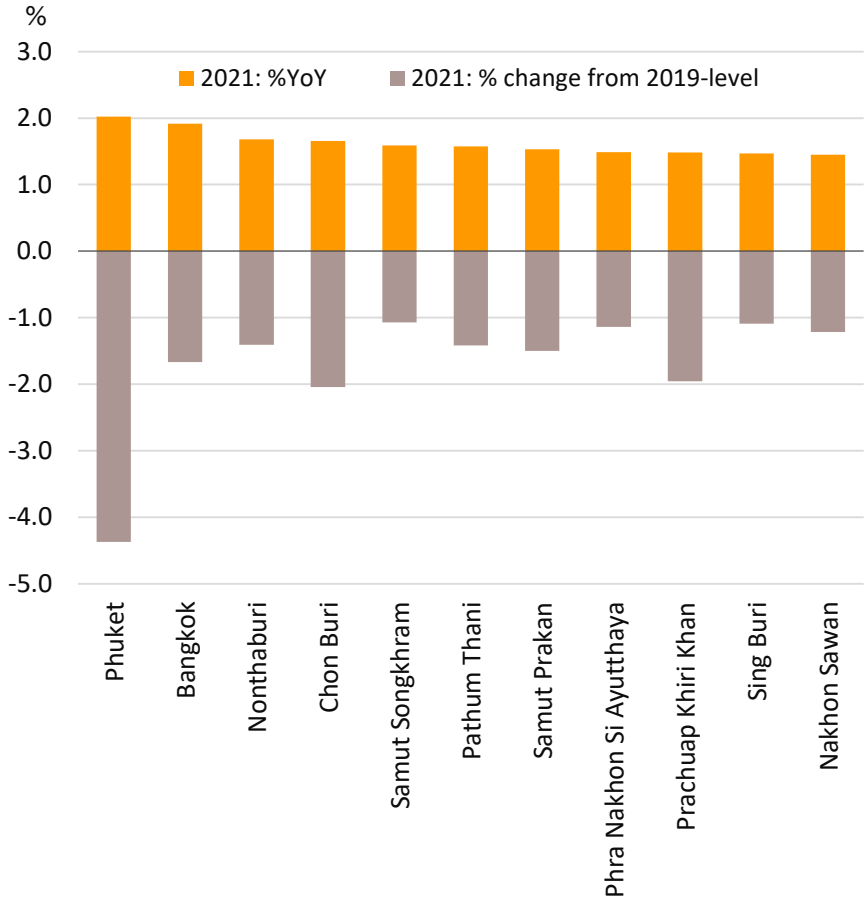
BMR shows largest rise in consumption; tourism-dependent provinces see nascent recovery

National consumption would increase moderately, led by Bangkok Metropolitan Region (+1.6% in 2021 vs -2.9% in 2020), followed by Western region (+1.4% vs -2.7%), Eastern (+1.4% vs -2.7%), Southern (+1.2% vs -2.7%) and Northern (+1.2% vs -2.4%). The northeastern region would see the smallest rise in consumption of only 0.9% in 2021 (vs -2.0% in 2020). Consumption in tourism-dependent provinces such as Phuket, Bangkok and Chon Buri should soar because of the low-base effect in 2020 due to travel restrictions. Despite the anticipated improvement in 2021, **consumption in major provinces would remain weak at 2-4% below pre-pandemic levels.**

Forecast of household consumption in 2021 by province



Forecast of consumption in 2021

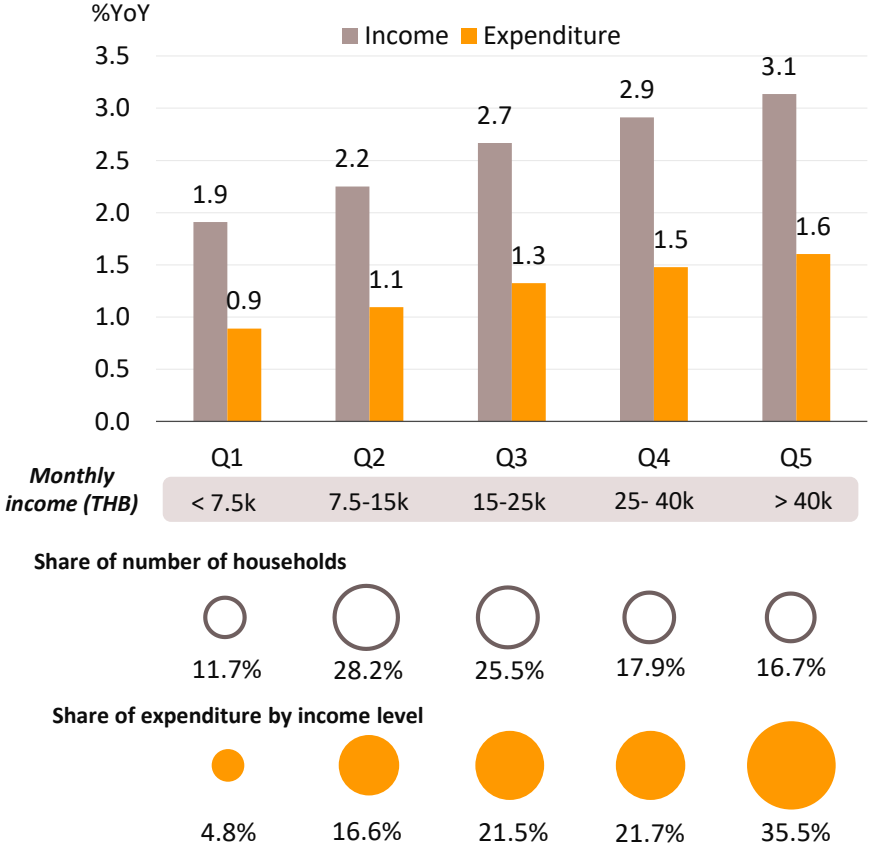


Source: NSO Household Socio-Economic Survey, Krungsri Research

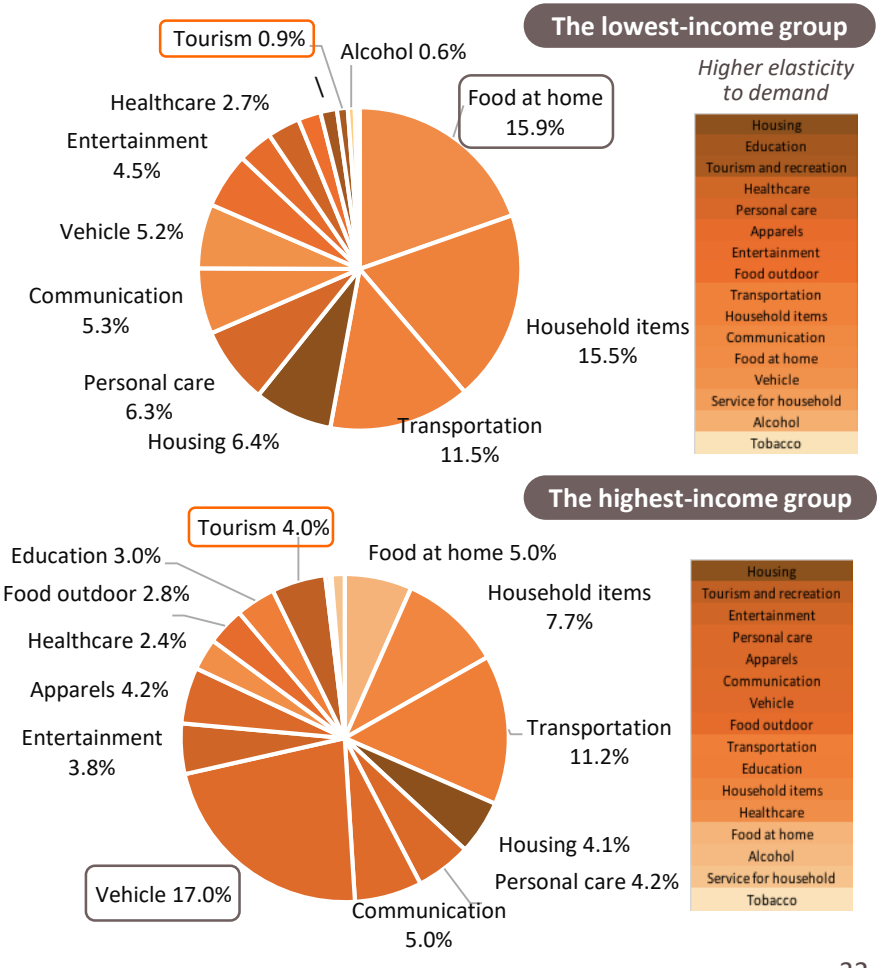
High-income group could be major growth driver of private consumption

We estimate expenditure in the low-income group would rise by only 0.9% in 2021, but **the high-income group (earn more than THB40,000 per month) would see a larger increase in expenditure of 1.6%, which would be the major growth driver of private consumption in the country.** Spending by the high-income group accounts for 35.5% of total household spending in the country. Considering the consumption basket, we expect businesses in the vehicle and transportation sectors would continue to recover in the coming period supported by recovering purchasing power in high-income households. In contrast, spending on tourism will remain weak because that is normally considered non-essential.

Forecast of income and expenditure in 2021 by income level



Consumption basket by income level



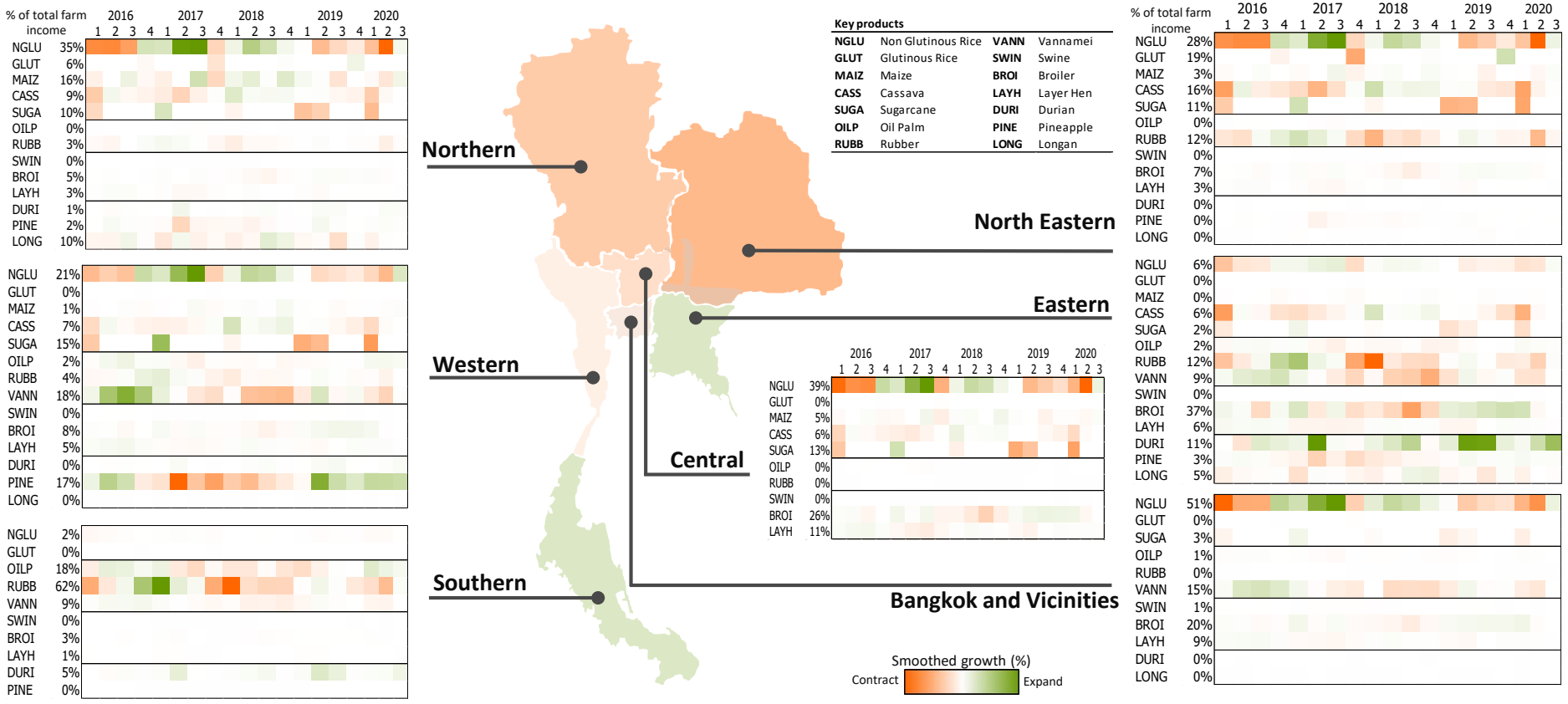
Source: NSO Household Socio-Economic Survey, Krungsri Research

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

Farm income growth (% YoY)

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

In the first 9 months of 2020, agricultural prices rose 4.5% YoY but output fell 7.5%, causing farm income to drop by 3.4%. However, farm income growth turned positive in 3Q20, at +6.2% YoY, the strongest rise in 2 years, led by a sharp increase in farm price index (+6.4%). Output was steady at -0.1%.



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

Farm income could rise moderately, backed by anticipated higher agricultural output and favorable farm prices

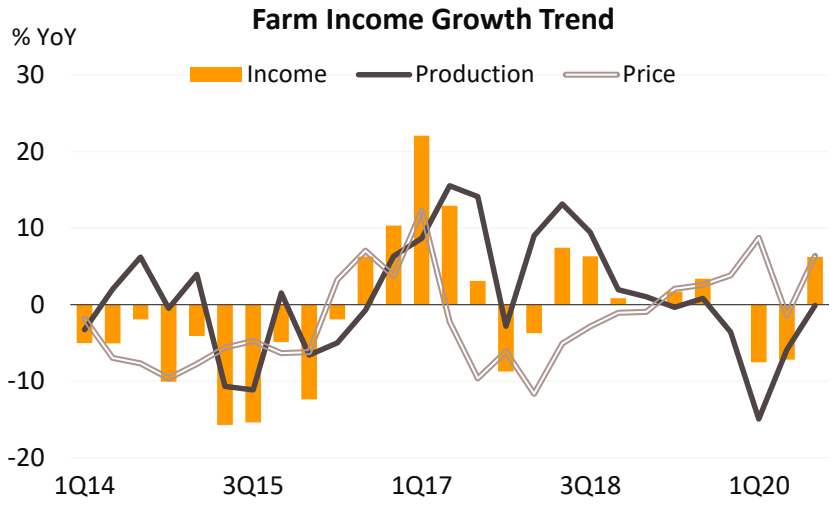
Agricultural output is expected to rise in 2021, bolstered by (i) more rain and higher water volume in dams; (ii) accelerating cultivation after some operations were abandoned; and (iii) higher crop yields. In addition, **agricultural prices could inch-up** led by (i) rising demand in a global economic recovery; (ii) measures to boost consumption; and (iii) measures to manage agricultural output and prices. Prices of major crops such as rubber, oil palm, sugarcane, and maize, are likely to rise while prices of some crops, especially paddy rice, could drop. Therefore, **farm income is expected to be higher in 2021 than in 2020.**

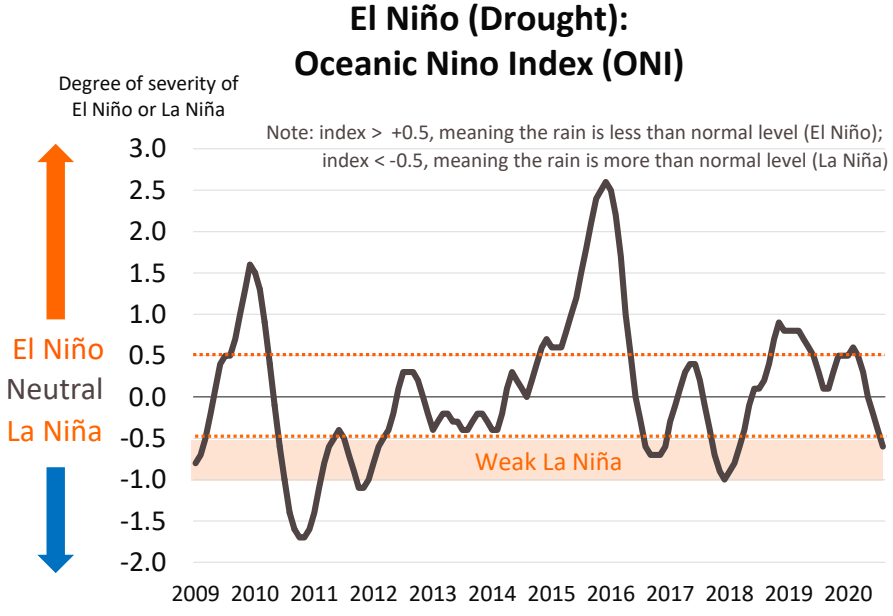
Tailwinds

- Rainfall and the available water in dams are expected to rise premised on La Nina conditions.
- Demand for agriculture output would recover along with the global and Thai economies.
- Measures to boost and stabilize agriculture output, especially income guarantee for farmers and crop price guarantee schemes, production planning, and soft loans for farmers to delay the sale of paddy rice.

Headwinds

- Natural disaster and pests could hurt yields (output per rai).
- Some crops could see rising stock due to oversupply, which could dampen domestic and export prices.
- International trade policies such as the US trade policy, policy to release stockpiles or reduce imports of Chinese products, the EU's Non-Tariffs Barriers





Source: MOC, OAE, Krungsri Research

Exports: Under Biden, US policy would have mild benefits for Thailand because trade protectionism will remain



Biden victory and policy on international trade and foreign relation

- Post-election strategy *("pivot to Asia"* strategy) would allow **the US to rejoin the 'multilateral' and 'regionalism' trade agreement** to find the allies and pressure on China.
- Biden proposed domestic policy to increase infrastructure spending (USD2trn for 4 years) and focus more on green energy.
- However, **a Biden win and a Republican Senate would have difficulty in implementing the proposed policy and stimulus plan.**

Thailand would benefit through regional supply chain linkages, but gains would be limited.

- The trade agreement would benefit exporters through the regional supply chain linkages.
- However, exports of gasoline cars would be affected by green energy policy in the future.
- Biden would prioritize America with the USD0.7trn, 4-year *"Made In America"* plan. This implies limited gains for exporter countries.

US suspension of Generalized System of Preference (GSP) for Thailand

- The President has declared the US would **suspend GSP benefits for 231 product categories valued at USD817mn (20% of 1,109 items eligible for GSP in 2019),** effective 30 December 2020.
- **This would increase tariff rates by 3-4%, amounting to USD19mn extra costs to Thai exporters.**

GSP suspension would have small impact on Thai exports

- Out of 231 product categories, only 147 items (worth USD600mn) will be affected. This accounts for 1.9% of Thai exports to the US or 0.2% of total Thai exports.

Phase two trade deal between the US and China is unlikely to occur

- Biden will not end US-China trade war nor open the door to a new trade deal.
- Also, he would find a way to decouple from China even it would take a long time.

US-China trade tension could escalate; Thai exports relating to China's supply chain would be affected.

- The remaining tariffs and the decoupling of China from US would continue to hit several Thai export items.

Thai Baht appreciation

According to "the pivot to Asia" strategy, we expect fund flows into Asian markets to cause the baht to appreciate. In addition, the Fed's ultra-loose monetary policy and Democrats' large stimulus will expand US deficit and hurt the dollar.

Fund flows into Asian markets will push up THB

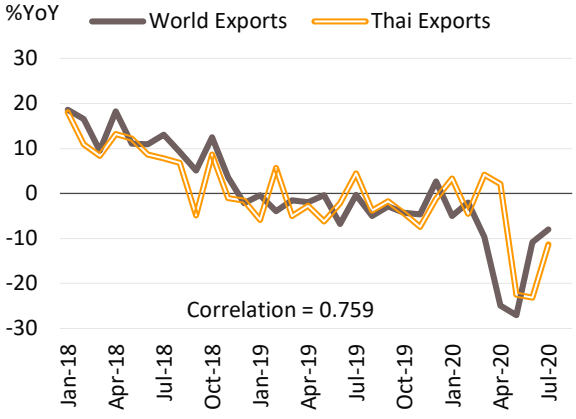
- The baht will continue to appreciate. However, upside would be limited by Thailand's weak economic recovery and domestic political uncertainty.

Source: Biden-Harris campaign, CNBC, Bloomberg, Krungsri Research

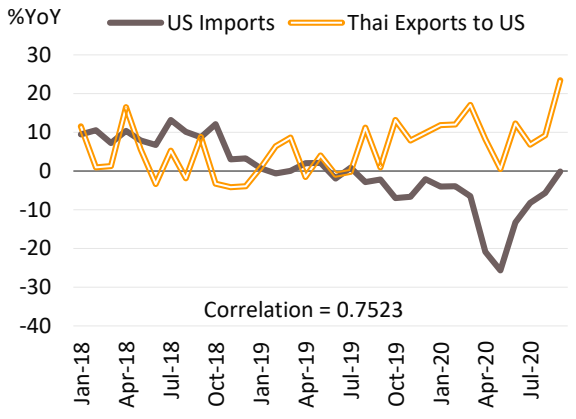
Gradual recovery of global manufacturing activities to trigger modest rebound in Thailand merchandise exports

Global exports have improved since bottoming-out in May though the year-on-year growth remained in negative territory. Thai exports are also recovering along with global exports. Recently, the WTO projected world merchandise exports would grow 7.2% YoY in 2021, after experiencing a sharp drop of 9.2% in 2020. In fact, Thai exports to major economies - the US, China, Japan and the EU - contributed 46.8% or half of total Thai exports. Imports by these countries are also improving and would boost demand for Thai export goods. Data show imports by major economies have strong positive correlation with Thai exports to these countries, specifically with Japan (correlation 0.86), EU (0.82), the US (0.75), and China (0.49). Therefore, **economic recovery in these countries and the anticipated pick-up in global trade would drive Thai exports to expand in 2021.**

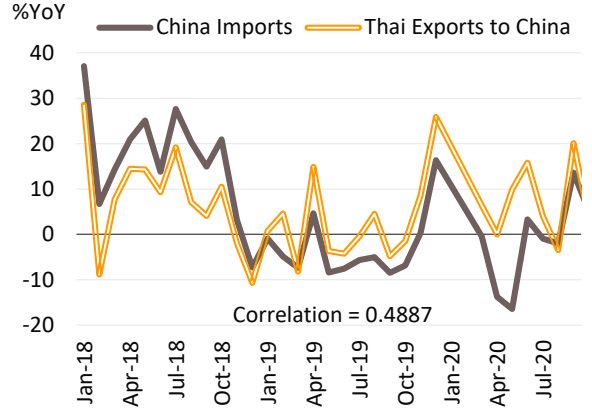
World Exports and Thai Exports



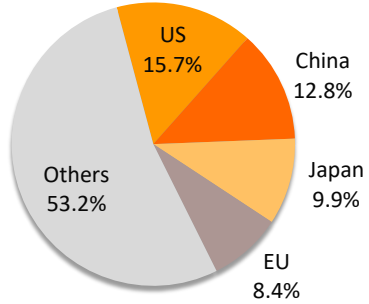
US Imports and Thai Exports



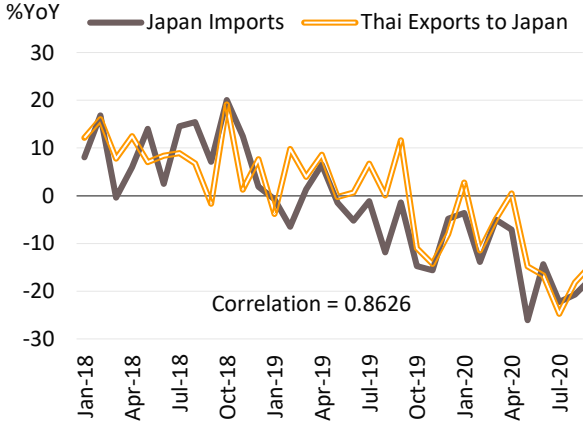
China Imports and Thai Exports



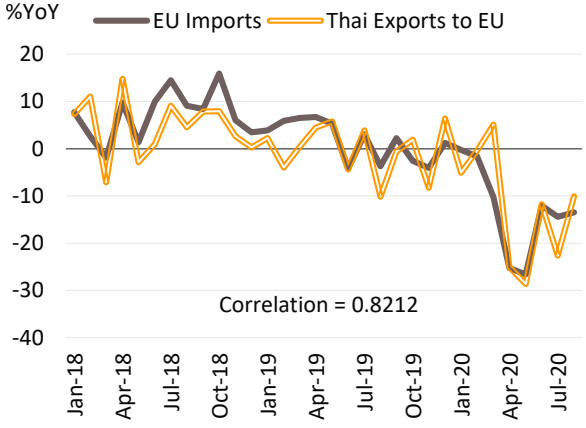
Structure of Thai Export Markets (as of Sep 2020)



Japan Imports and Thai Exports



EU Imports and Thai Exports

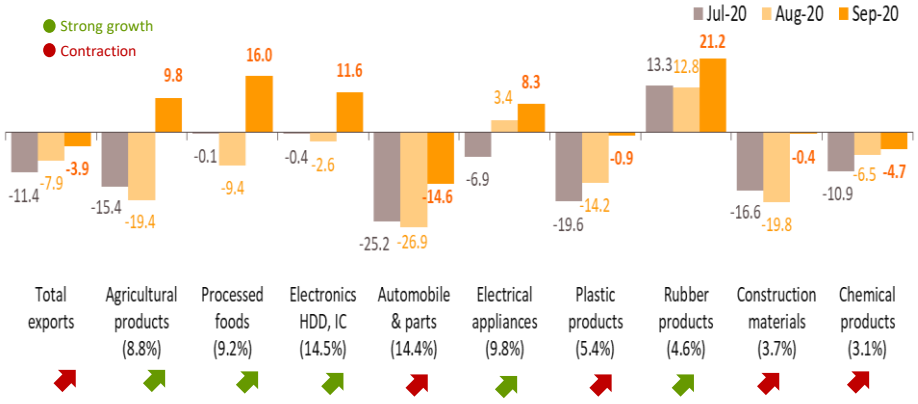


Note: Correlation calculated during 2020
Source: CEIC, MOC, Krungsri Research

Private investment in the export sector would rise

Parts of private investment are likely to expand following a rebound in exports. The strong correlation between exports and investment in plant & machinery suggests an export recovery would encourage investment in export-related items. In addition, several industries may expand investment after production capacity utilization rises substantially, particularly in automotive, chemicals & chemical products, IC & semiconductor, HDD and electrical & appliances sectors.

Export by major product (% YoY)

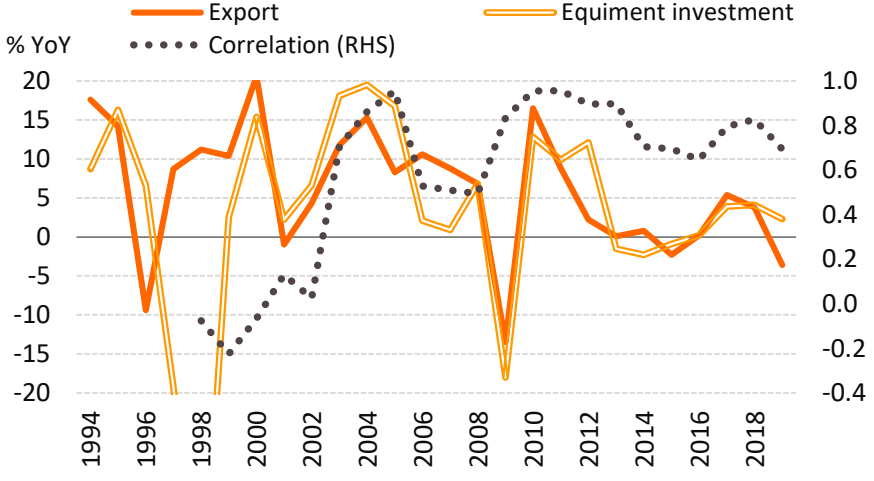


Manufacturing Production: Top 10 industries

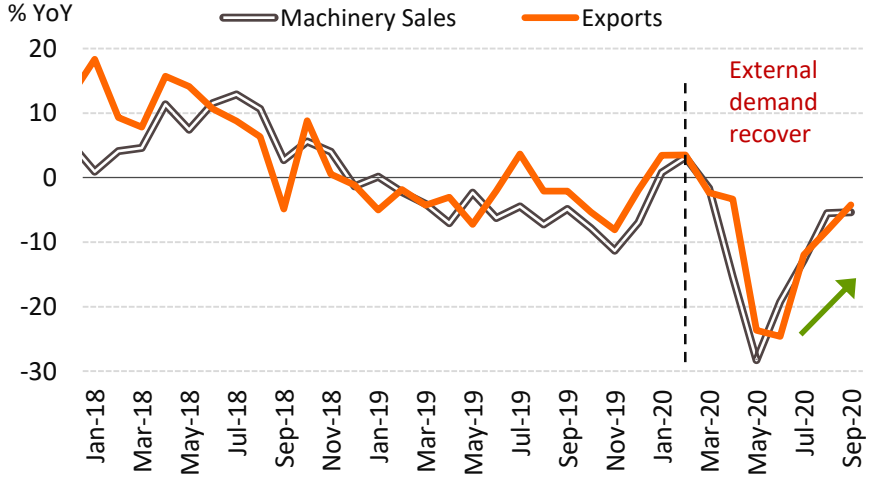
Manufacturing Production (% YoY)*	Weight	2019 J	A	S	O	N	D	2020 J	F	M	A	M	J	J	A	S
All industry	100.0%															
▲ Food & Beverages	19.9%															
Automotive	13.9%															
Petroleum	9.6%															
▲ Chemicals	9.2%															
▲ Rubbers & Plastics	8.9%															
Cement & Construction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

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

Correlation between annual exports and equipment investment



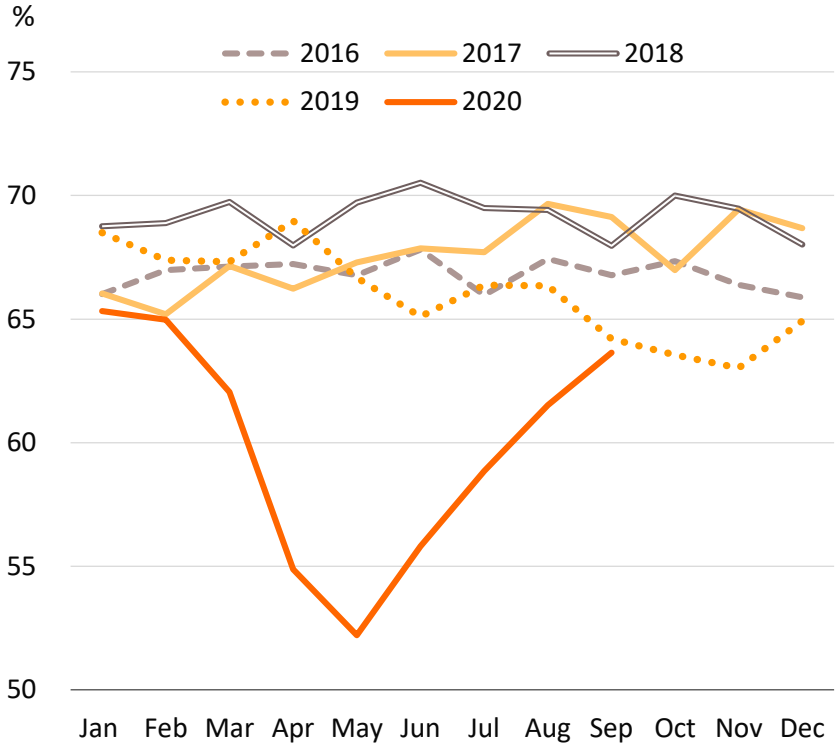
Recent developments in monthly exports and machinery sales



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

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

Capacity utilization of manufacturing production (sa)



Capacity utilization in key industries

	Capacity Utilization Rate (% sa)*	Weight	2019 J	F	M	A	M	J	J	A	S	O	N	D	2020 J	F	M	A	M	J	J	A	S
	All industry	100.0%																					
	Food & Beverages	19.9%																					
▲	Automotive	13.9%																					
	Petroleum	9.6%																					
▲	Chemicals	8.0%																					
	Rubbers & Plastics	8.9%																					
	Cement & Construction	5.5%																					
▲	IC & Semiconductors	5.5%																					
	Textiles & Apparels	3.5%																					
▲	HDD	3.4%																					
▲	Electrical Appliances	3.0%																					

*Green > 50%, Red < 50% / Darker green (red) indicates stronger (weaker) momentum

Source: BOT, OIE, Krungsri Research

Despite virus impact, there was net FDI inflow in 1H20, close to 1H19 level, led by Financial and Food sectors

Net Foreign Direct Investment (FDI) totaled USD4.4bn in 2019, down from USD8.5bn per year during 2015-2018. In 1H20, despite the global economic meltdown triggered by the COVID-19 pandemic, there were net FDI inflows of USD2.19bn, close to USD2.37bn in 1H19. FDI from most key countries still posted net inflows, led by Japan, China, and Singapore -- a financial hub in ASEAN region. FDI from Singapore was impressive, led by financial and insurance activities. FDI inflows also benefited several industries such as from Japan (food products), China (rubber and plastic products, motor vehicle industries), and the US (petroleum products).

Net FDI flow in Thailand by sector and country (USD, m)

	Share (%)	Total						Singapore						Japan						China						US					
		2019				2020		2019				2020		2019				2020		2019				2020		2019				2020	
		1Q	2Q	3Q	4Q	1Q	2Q	1Q	2Q	3Q	4Q	1Q	2Q	1Q	2Q	3Q	4Q	1Q	2Q	1Q	2Q	3Q	4Q	1Q	2Q	1Q	2Q	3Q	4Q	1Q	2Q
Total	**100**					**2789**	**-598**					**951**	**292**					**1152**	**-473**					**42**	**38**					**-200**	**152**
Agriculture, forestry and fishing	0.06					3	-0.2											1	-0.1					0.03						0.2	-0.03
Mining and quarrying	0.89					10	128					14	18					51	122					1	0.5					14	5
Manufacturing	42.89					303	-1511					-176	-35					382	-701					80	36					-665	8
Food products	2.28					593	138					-63	-23					553	84					0.3	-0.02					30	6
Beverages	1.62					-3	11					11	9					0	0					0.02	0.02					2	3
Paper and paper products	0.53					5	19					5	4					-7	12					0.03	0.03					4	-1
Coke and refined petroleum products	1.27					-342	13					-316	-6					-1	-11											0.4	37
Chemicals and chemical products	4.07					121	-22					15	0					136	36					1	-0.4					-241	36
Basic pharmaceutical products &	0.34					-29	9					-1	0					-6	3					-0.01						1	6
Rubber and plastics products	3.98					141	-91					-17	64					64	-70					38	9					-8	3
Computer, electronic and optical products	6.57					290	-356					54	-23					60	-12					2	-1					3	0
Electrical equipment	2.65					-45	-122					21	6					-66	20					2	-3					-2	-17
Machinery and equipment n.e.c.	3.29					-212	-38					36	21					-185	-55					-41	-1					-3	0
Motor vehicles, trailers and semi-trailers	9.36					-623	-650					98	-76					-363	-414					55	39					-470	-74
Furniture	0.04					13	-3					0.2	-0.3					0.5	-1					0.1	-0.1					0.2	-0.4
Electricity, gas, steam and air conditioning supply	0.97					16	27					3	22					8	2					-1	-1						
Construction	0.75					13	8					2	0.3					-3	4					0.01	3					0.01	0.1
Wholesale and retail trade; repair of motor vehic	7.60					613	44					106	8					346	238					-104	-7					248	-8
Transportation and storage	0.88					-10	24					1	2					-13	4					-0.2	1					-25	-0.2
Accommodation and food service activities	0.56					13	-44					17	-19					0.2	11					-0.4	-0.2					-6	-1
Financial and insurance activities	26.28					2111	635					884	186					318	-103					11	10					170	78
Real estate activities	9.68					361	295					41	36					7	14					11	12					48	54

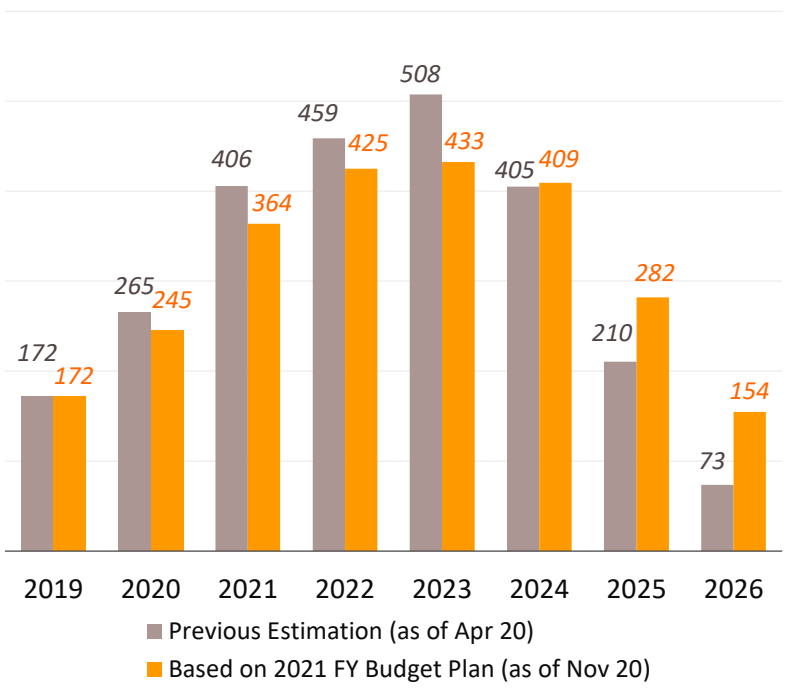
Note: Green>0, Red<0 / Darker green (red) indicates stronger (weaker) momentum

Source: BOT, Krungsri Research

Infrastructure investment would rise in 2021 despite a delay due to budget reallocation after COVID-19 crisis

The need for budget reallocation in response to COVID-19 impact caused some mega-infrastructure projects to start later than scheduled. The Dual-Track Railway project Phase 2 is now under PPP funding instead of solely by fiscal budget, and hence, it will start with only two new routes in 2021 (instead of 7 in 2020). The MRT West Orange Line (Thai Cultural Center – Bang Khun Non) project has been postponed by two years to start in 2022. Nonetheless, several mega-projects are expected to start in 2021, including MRT South Purple Line (Rat Burana), High Speed Airport Rail Link, and U-Tapao International Airport. The overall investment value of mega-infrastructure projects in 2021 would rise by 48.5% YoY, relative to 53.2% under the previous plan. Despite rising infrastructure investment, it would be slower than the original plan estimated in April. Domestic political uncertainty could also delay investments.

Investment value of mega infrastructure projects worth THB3.2 trn (plan for 2019-2026)



Note: The THB3.2 trn of mega-project based on Transportation Action Plan, except for two high-speed railways; (i) Bangkok-Hua Hin route, and (ii) Bangkok-Chiang Mai route

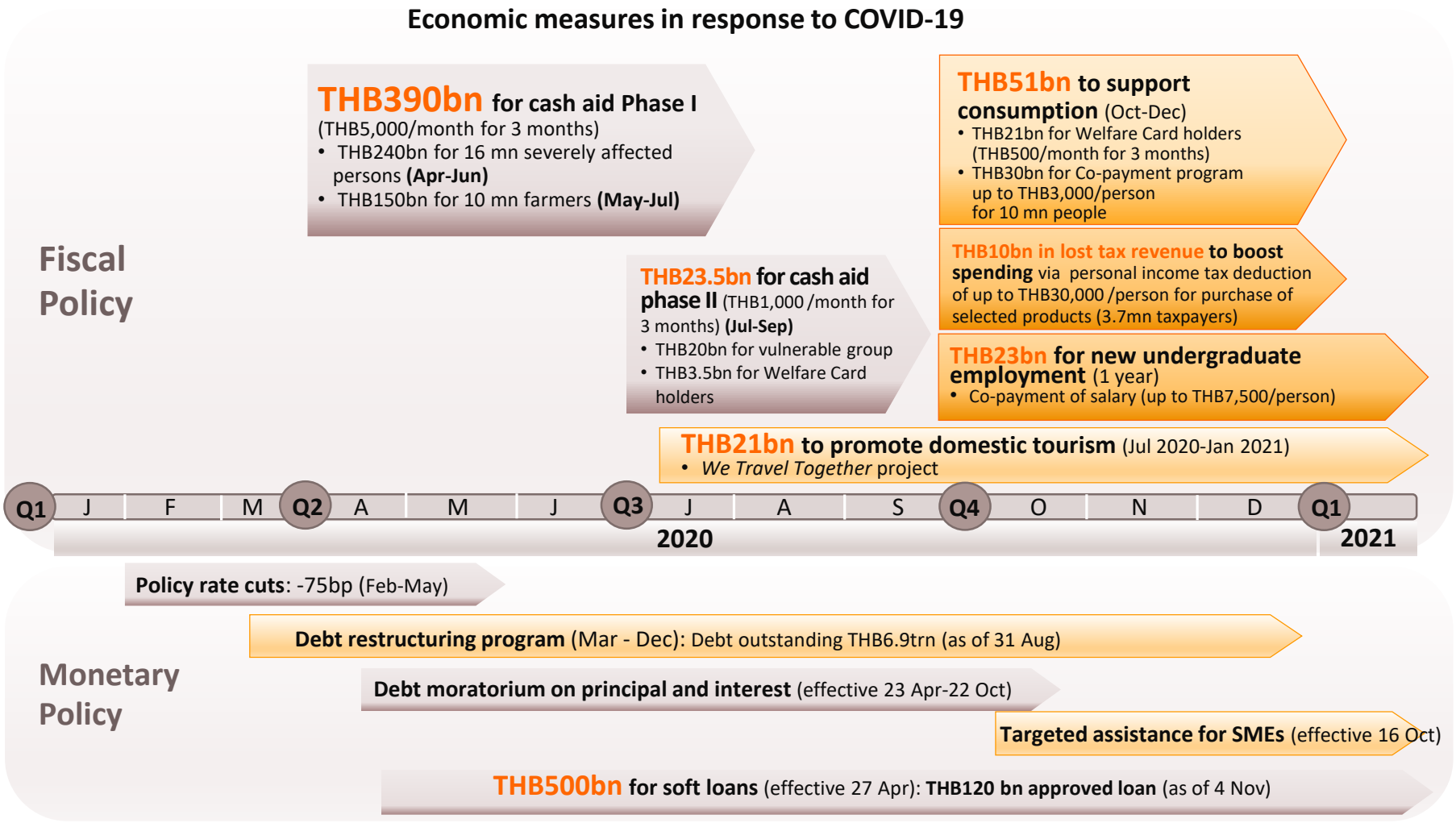
Source: Ministry of Transportation (MOT), Krungsri Research

Key ongoing and new mega-projects in 2021-2022

Project	Worth (THB, bn)	Completion Year	Status
On-going Projects			
Expressway (Rama 3–Dao Khanong)	29.2	2024	On Schedule
Motorway (Rama 2–Ban Paew)	40.1	2024	On Schedule
Suvarnabhumi Airport (Northern Terminal)	63.8	2025	On Schedule
New Projects, starting from 2021			
Dual-track Railways (Denchai – Chiang Khong)	85.3	2027	Delay
Dual-track Railways (Ban Phai – Nakhon Phanom)	68.0	2026	Delay
MRT: South Purple Line (Rat Burana)	101.1	2027	Delay
High Speed Airport Rail Link	224.5	2028	On Schedule
U-Tapao International Airport	215.0	2026	On Schedule
New Projects, expected to start in 2022			
Dual-track Railways (Khon Kaen – Nong Khai)	26.7	2027	Delay
SRT Suburb Rail (Salaya – Thammasat Uni Rangsit)	74.4	2027	Delay
MRT: West Orange Line (Thai Cultural Center – Bang Khun Non)	128.0	2028	Delay

Remarks: Most projects will be completed during 2027, later than the original plan that the majority of projects were expected to complete in 2026

Public spending: Focus is on short-term stimulus, especially to boost consumption by early 2021

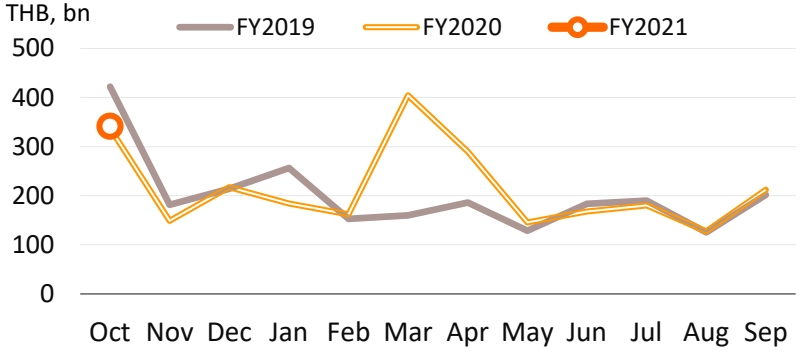


Source: BOT, NESDC, Krungsri Research

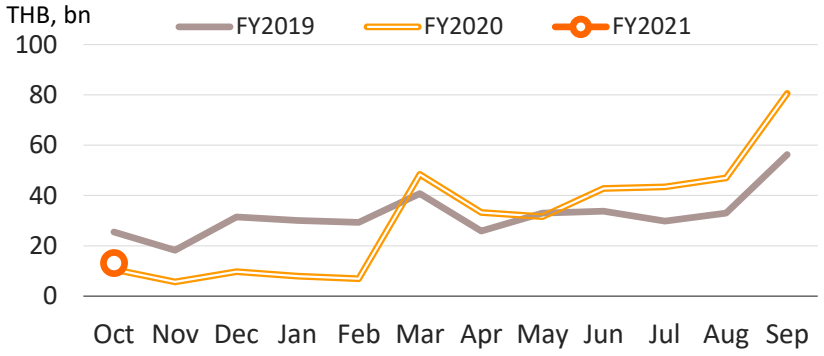
THB200bn extra-budget left for new stimulus in 2021; still lacks plan to generate multiplier effect in economy

The regular budget expenditure for fiscal year 2021 (Oct 2020-Sep2021) is almost THB3.3 trn (+3.1% YoY), including current budget of THB2.53 trn (+5.1%) and capital budget of THB0.67 trn (+4.7%). The delay in budget disbursement in FY2021 should be temporary as the 2021 Budget Act was published in the Royal Gazette on 7 October 2020. The government also plans to set up a committee to speed up budget disbursement in FY2021. In addition, under the THB400bn extra budget, THB200bn is kept for further stimulus, aimed at (i) revitalizing economic activity; (ii) supporting the recovery of local and community businesses; (iii) increasing household consumption and private investment; and (iv) developing infrastructure projects. However, most of the budget has been utilized via measures to stimulate consumption in the short-term. There are no firm measures to generate a multiplier effect in the economy, such as programs to support business expansion and employment.

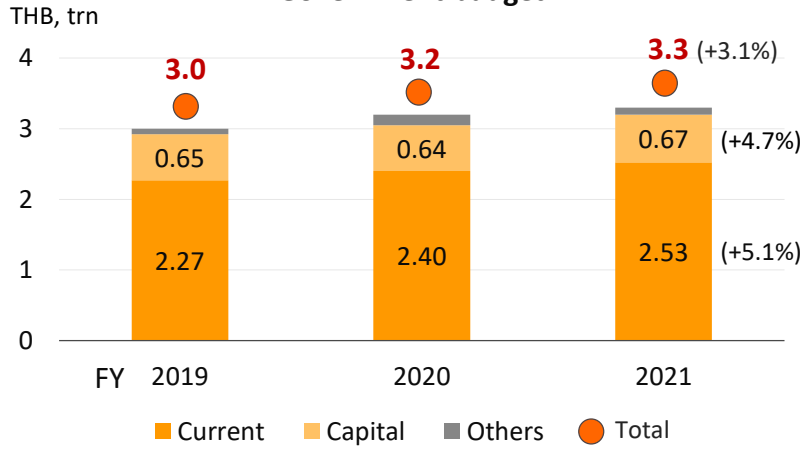
Current expenditure disbursement



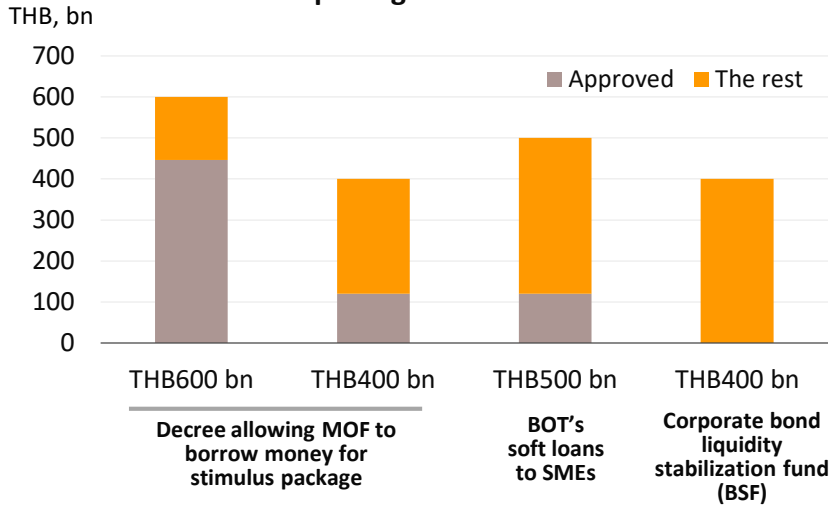
Capital expenditure disbursement



Government budget

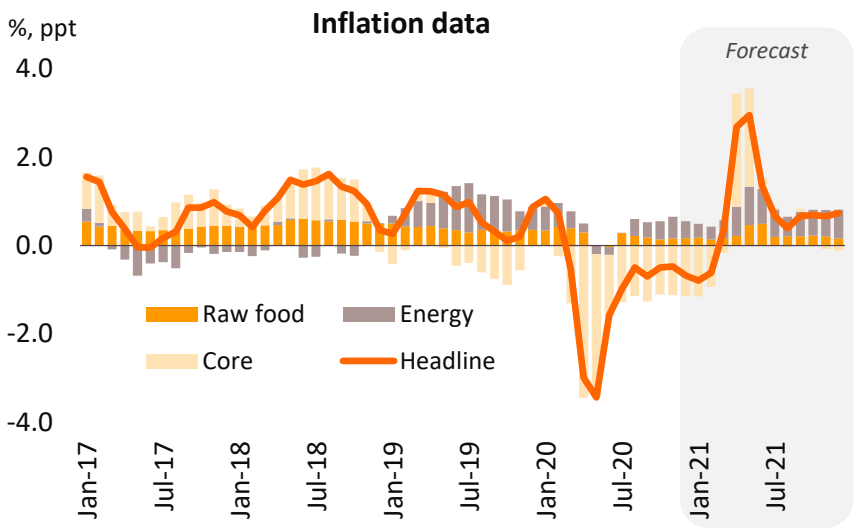


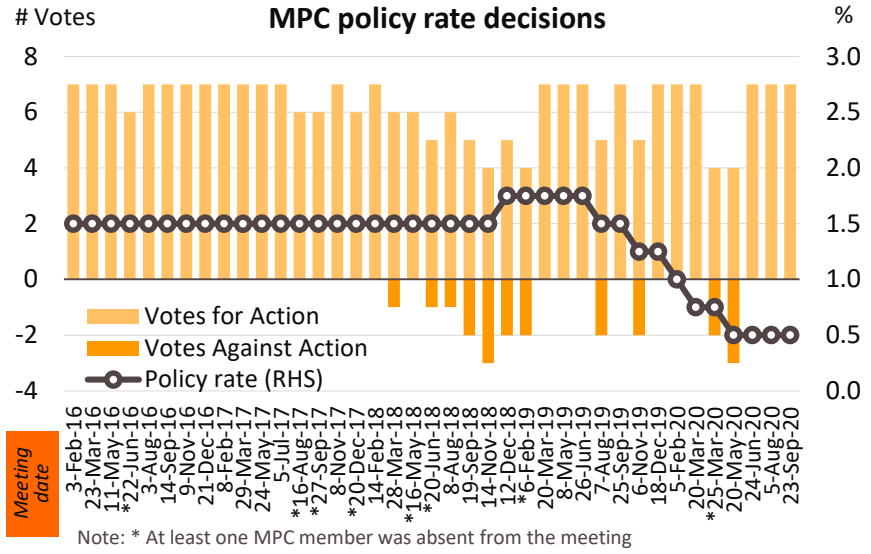
Stimulus packages worth THB1.9 trn



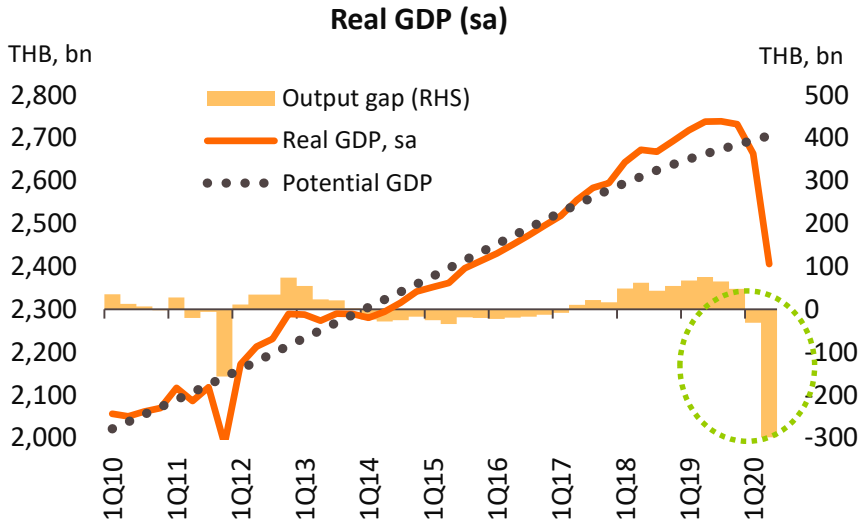
Source: MOF, NESDC, BOT, Krungsri Research

Monetary policy: MPC likely to keep rate at record low amid negative output gap and still-low inflation





Note: * At least one MPC member was absent from the meeting

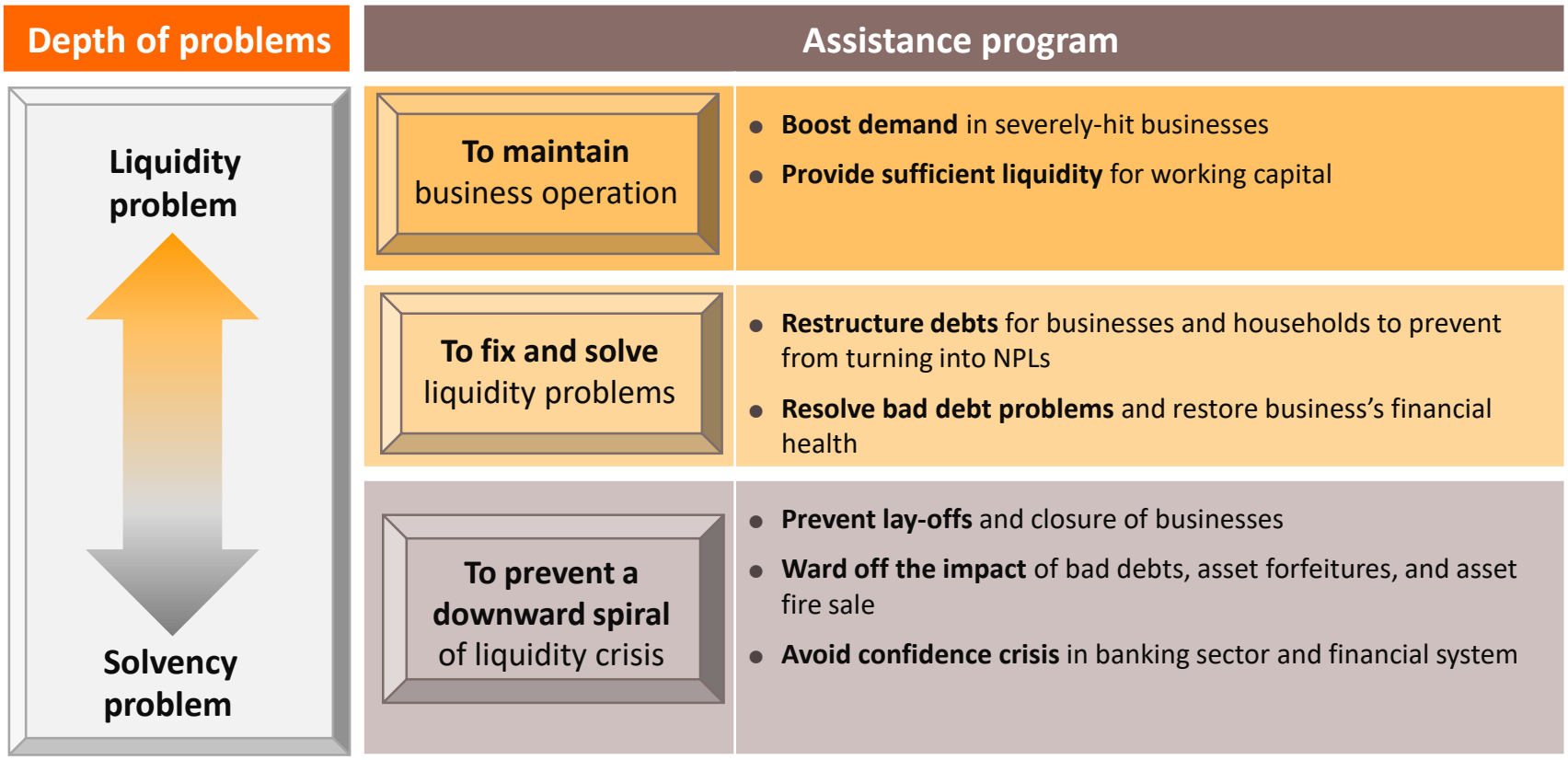


Source: MOC, NESDC, BOT, Krungsri Research

Krungsri Research's view

- We expect headline inflation rate to rise gradually to 0.8% in 2021 from -0.9% in 2020, as (i) oil prices would rise moderately along with stronger global demand, and (ii) economic activity would recover on the back of stimulus measures and recovering exports. However, large spare capacity would cap upward pressure on inflation.
- Although the low-base effect (due to the pandemic) might push up core inflation in 2Q21, weak demand amid high unemployment could cause full-year core inflation to be stable at 0.3% in 2021, same as 2020.
- Given still-low inflation and the negative output gap, the MPC might keep an accommodative stance by maintaining key policy rate at a record low of 0.50% in 2021. The uneven economic recovery sets the stage for more targeted monetary easing and other stimulus programs, such as programs to encourage new lending.

Aid programs should be immediate and appropriate, depending on depth of liquidity problems



Source: Krungsri Research

Most of the recent aid programs are inadequate, with few measures to encourage new lending

Risk aversion behavior amid concerns over rising bad debt and falling liquidity might lead to a lockdown in new lending for firms' working capital and business expansion. This could have spillover to the overall economy, postponing economic recovery and reducing potential growth. To avoid permanent negative impacts, such as job losses and business closures, there should be measures that are able to create collective action in the banking system, such as measures to encourage new lending and debt restructuring, to improve businesses' liquidity in order to maintain their operations, to solve their liquidity problems, and to prevent solvency.

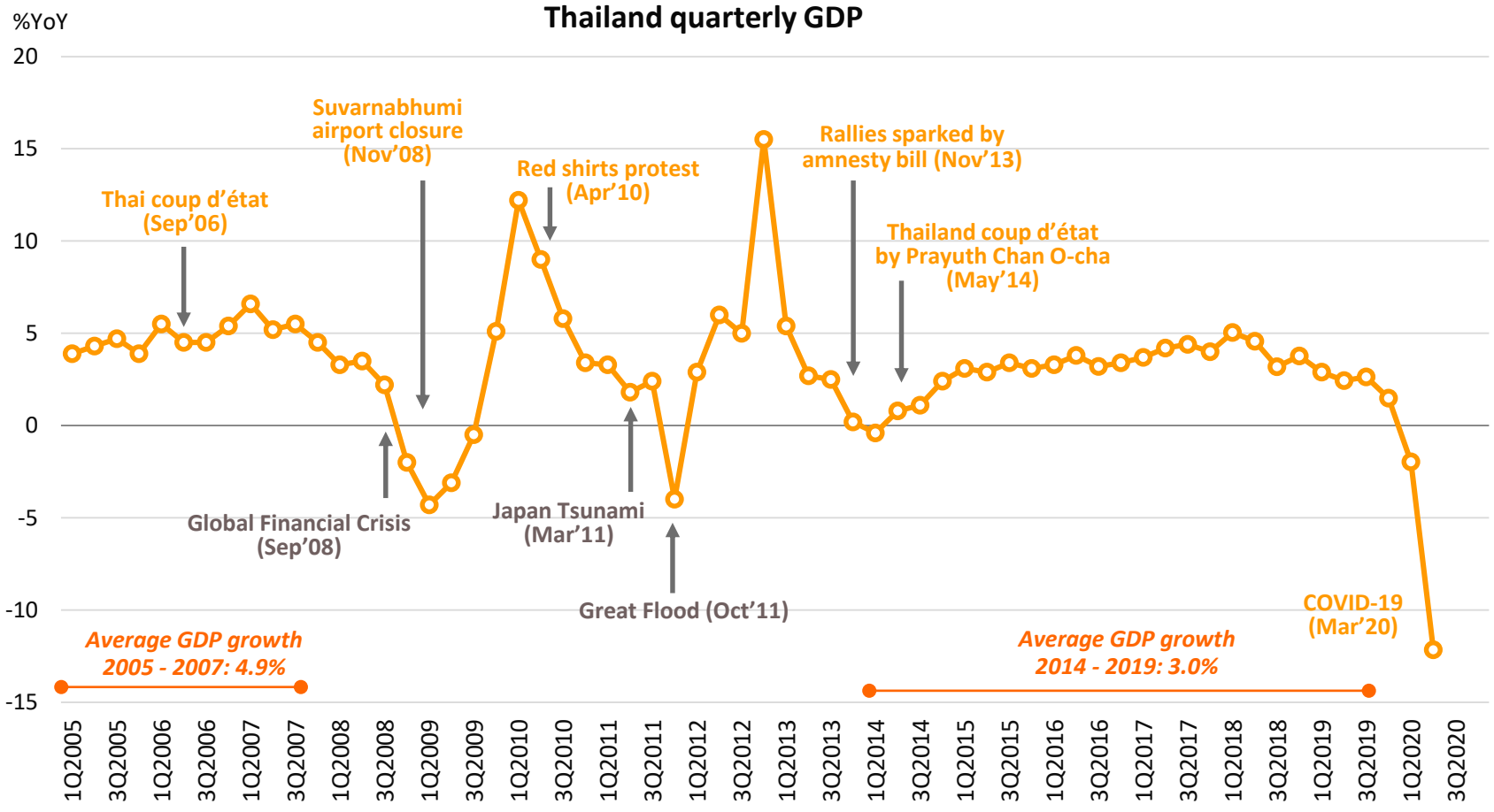
Depth of liquidity problems	Dimension of problems	Related measures	Latest assistance/development	Remark
To maintain business operation	Declining income	Boost domestic demand, especially in tourism-related businesses, to improve purchasing power of low-income earners and support domestic spending	• Cash aids during lockdown period, unemployment benefits, subsidy for new graduates	Sufficient
			• Measures to boost domestic tourism and spending (but insufficient to offset losses from foreign tourists)	Insufficient
			• No measure to boost foreign tourist arrivals	Lacking
	Ongoing expense	Provide loans for business liquidity and investment	• Insufficient direct loan (soft loan) injection to those in need due to unattractive conditions	Insufficient
			• No measure to encourage new lending in general	Lacking
	Ongoing debt burden	Assist debtors, such as loan payment holiday	• Ending of blanket debt moratorium and moving to targeted assistance (banks' consideration of assistance does not focusing on economic loss)	Insufficient
To fix and solve liquidity problems	Large debt burden, an obstacle for business operation	Debt restructuring	• Ongoing implementation with slow progress	Insufficient
		Debt Clinic project to assist borrowers saddled with NPLs	• Ongoing implementation	Sufficient
To prevent a downward spiral of liquidity crisis	Lay-offs	Job retention	• **No direct assistance;** current assistance only includes reducing rates for social security contributions and extending time to remit social security contributions.	Lacking
	Soaring bad debt and asset fire sales	Relaxation of liquid asset criteria	• Commercial banks have robust capital and loan loss provision levels	Sufficient
		Asset warehousing to offload banks' balance sheet	• BOT plans to set up asset warehousing but there are no details currently	Lacking

Source: Krungsri Research


MAJOR RISK
AND OPPORTUNITY

Domestic political risk: Economic growth was hurt in protest years and there are long-term effects

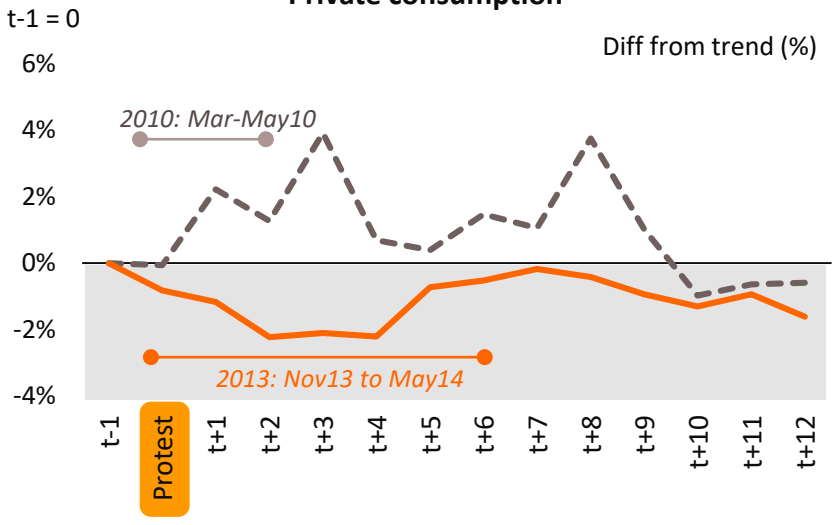
The impact of political protests is different depending on the duration, degree of violence, and overall economic conditions at that time. In 2010, the impacts were limited as the economy had registered impressive growth before protest started, and private consumption and investment fell for only 3 months. In 2013-2014, the political crisis had extended to about 7 months, and had gradually dampened investor and consumer confidence. **Tourism was directly affected by the protests and tourist arrivals fell immediately**. Extended period of protests could continue to dampen the tourism sector, and it took about one year to recover. **Overall GDP growth fell in that period and potential (long-term) growth was adversely affected by weaker investment growth.**



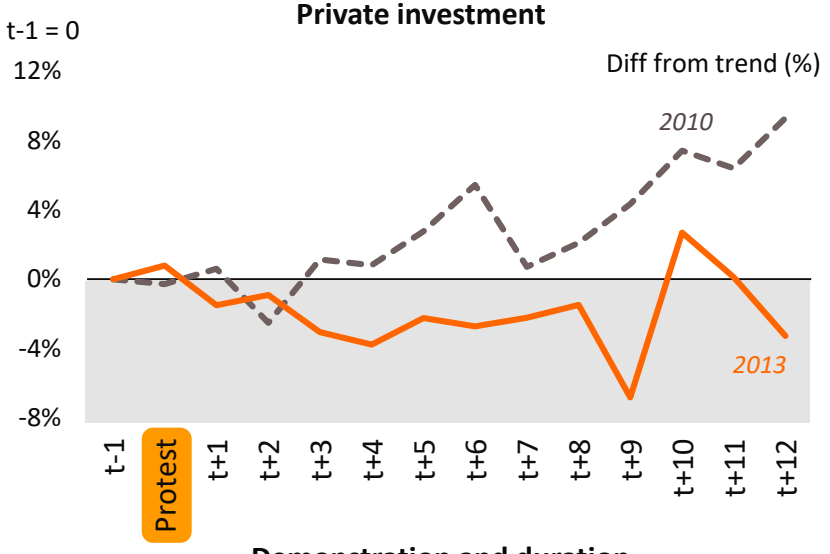
Source: NESDC, Krungsri Research

Impact depends on protest duration; tourism takes direct hit; there is long-term impact on investment

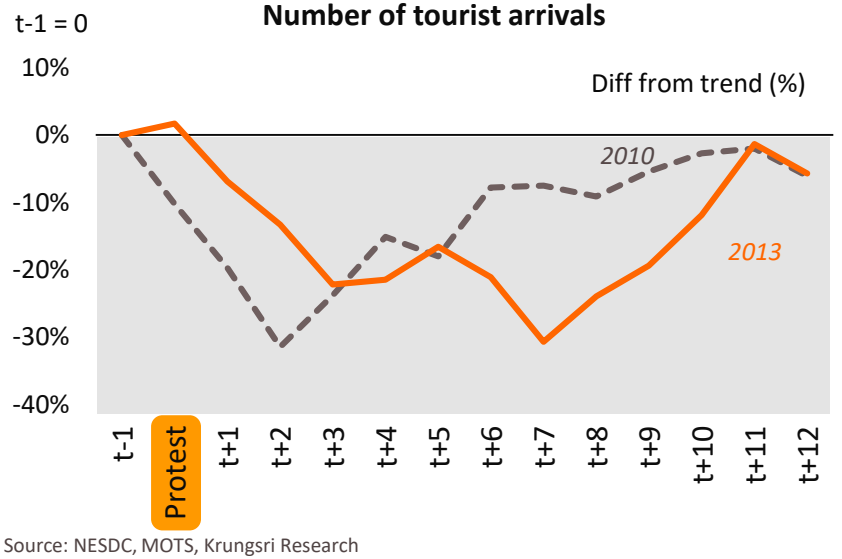
Private consumption



Private investment



Number of tourist arrivals



Demonstration and duration

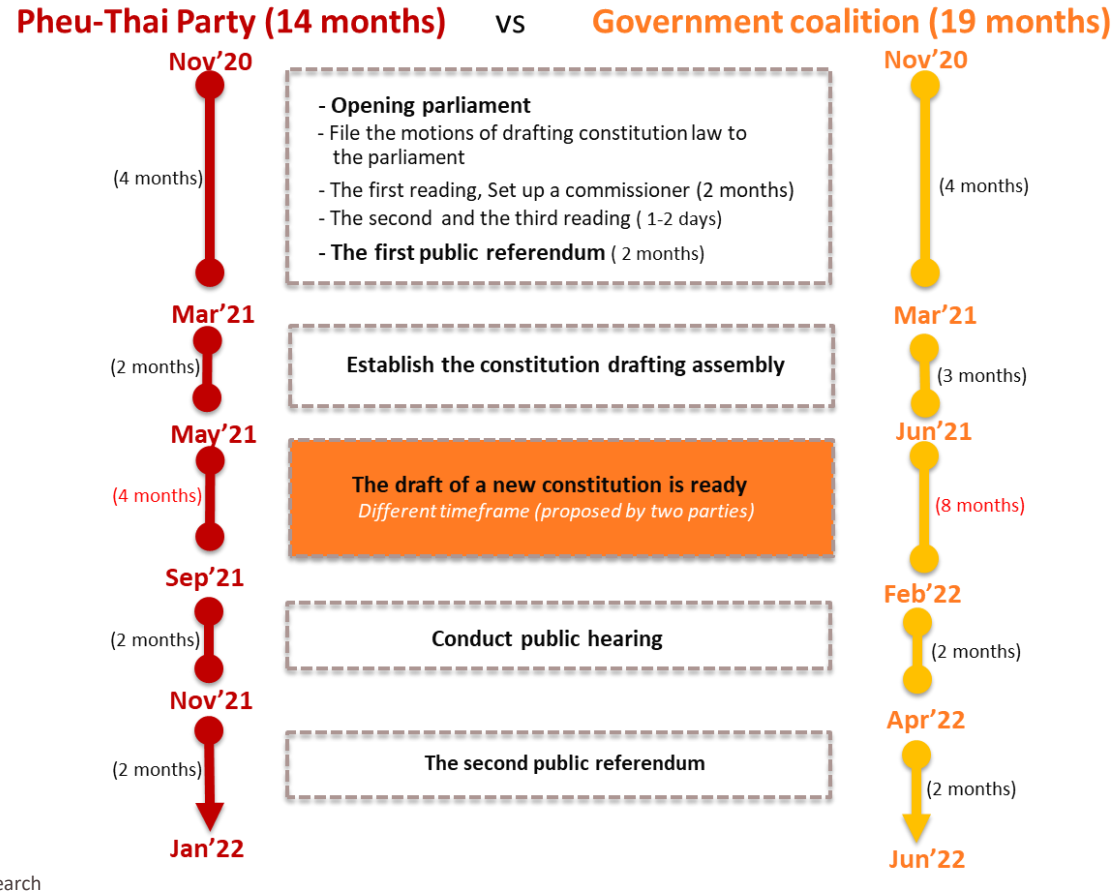
Demonstration	Duration
National United Front of Democracy Against Dictatorship (UDD)	March 2010 to May 2010 (3 months)
People's Committee for Absolute Democracy with the King as Head of State (PDRC)	November 2013 to May 2014 (7 months)

Source: NESDC, MOTS, Krungsri Research

Constitution amendment will take more than one year, implying political protests will continue

The process of amending the constitution proposed by the government coalition parties and opposition political parties is anticipated to take more than a year. There is a significant difference between the timelines proposed by both camps (Pheu-Thai: 120 days vs Government Coalition: 240 days). No matter which option is accepted, the political protests will persist.

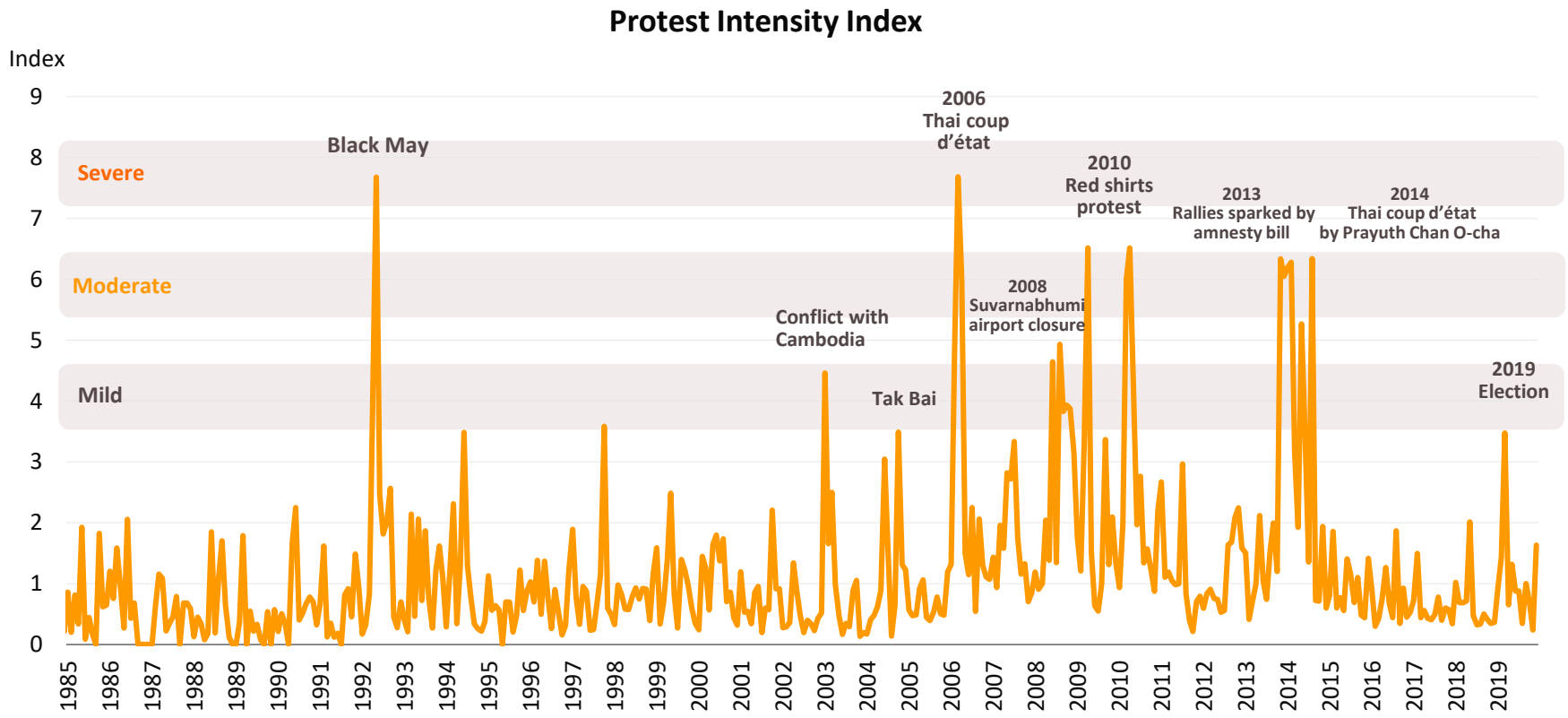
Timeline of Constitution amendment:
Difference between draft charters rewritten by



Source: Local press, Krungsri Research

Intensity of current protests seems close to previous periods of unrest

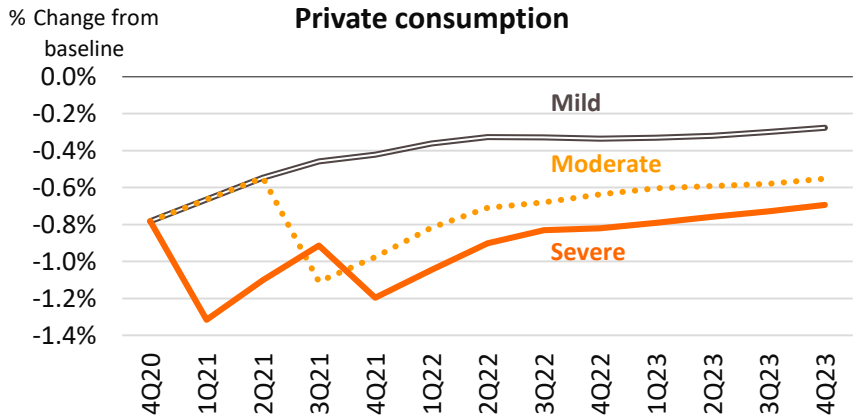
The Protest Intensity Index was constructed by collecting and tracking news about political uncertainty. This captured the political instability followed by mass civil protests. The highest intensity was 7.7 during Black May in 1992. The index for the past decade illustrate the intensity of major political events such as the Coup d'état in 2006 (7.6) and Red and Yellow shirts protests which marked 6.5 intensity. **Political uncertainty can hurt economic performance but the degree of impact is influenced by the intensity of protests.** Looking at periods of past political unrest, current intensity scenarios for mild and moderate cases would be similar to previous events (marking 4.0-6.0) but the worst case would be more severe than previous events (marking 8.0).

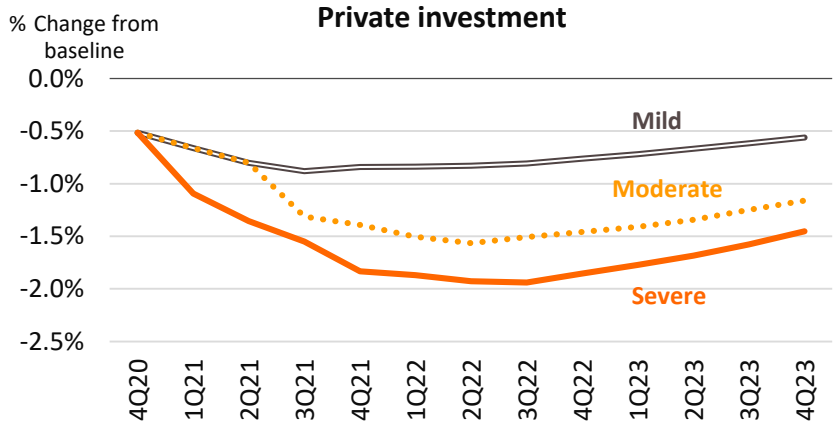


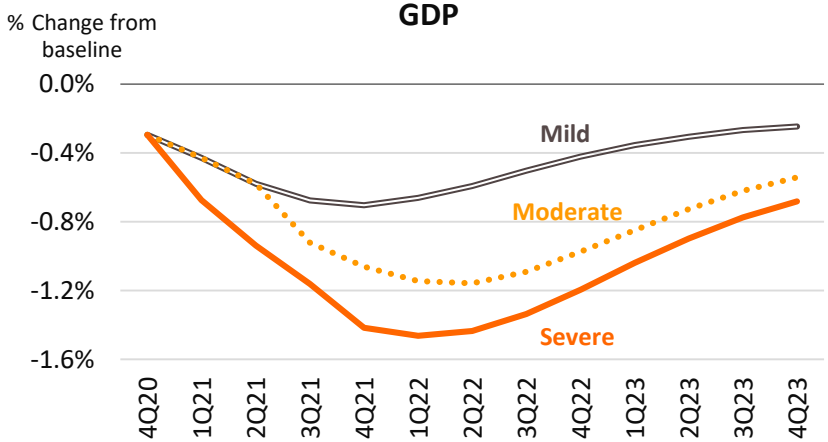
Source: Global Database of Events, Languages and Tones (GDELT), Krungsri Research

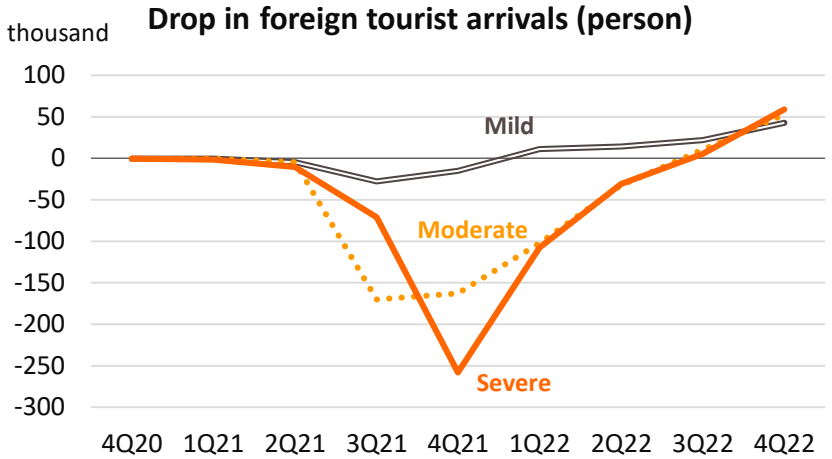
Economic impact: Political unrest would reduce GDP by 0.6% to 1.1% in 2021 and have long-term effects

This is based on our Mild, Moderate and Severe scenarios for protest intensity. **The political turmoil could drag 2021 Thai GDP by -0.6% from baseline under the Mild case, -0.8% in the Moderate case, and -1.1% in the Severe case.** Similarly, private investment could fall by -0.8% next year under Mild case and -1.5% under Severe case. This means investor confidence is damaged by domestic uncertainty. Consumption would drop sharply when protests start, but the impact is relatively small compared to other indicators. Foreign tourist arrivals could drop by 50k (from baseline) to 340k in 2021. **Overall, indicators would drop for more than two years, reflecting existing impact along the path to recovery.** Hence, we anticipate the current political protests could have negative short- and medium-term impact on Thailand's already-crippled economy.









Source: Krungsri Research

Opportunity: ASEAN is expanding economic ties through new free trade deals, shifting to greater regionalization

- In 2020, several countries in Southeast Asia reached new agreements – either Free Trade Agreements (FTA) and/or Comprehensive Economic Partnership Agreement (CEPA) – with their important trading partners. The agreements include both regional and bilateral ties.
- We anticipate the expansion of economic ties through FTAs would accelerate globally following uncertainties in recent years.
- Among these, one important agreement is **the Regional Comprehensive Economic Partnership (RCEP) signed on 15 November 2020.** This is an agreement between ASEAN and its five key trade partners – China, Japan, South Korea, Australia and New Zealand. India had participated in initial talks but withdrew from the deal in November 2019. **The participating members account for almost a third of the world's population and contribute up to a third of global GDP and global trade.**

Major Free Trade Agreements: newly effective and signed in 2020 (as of November 2020)

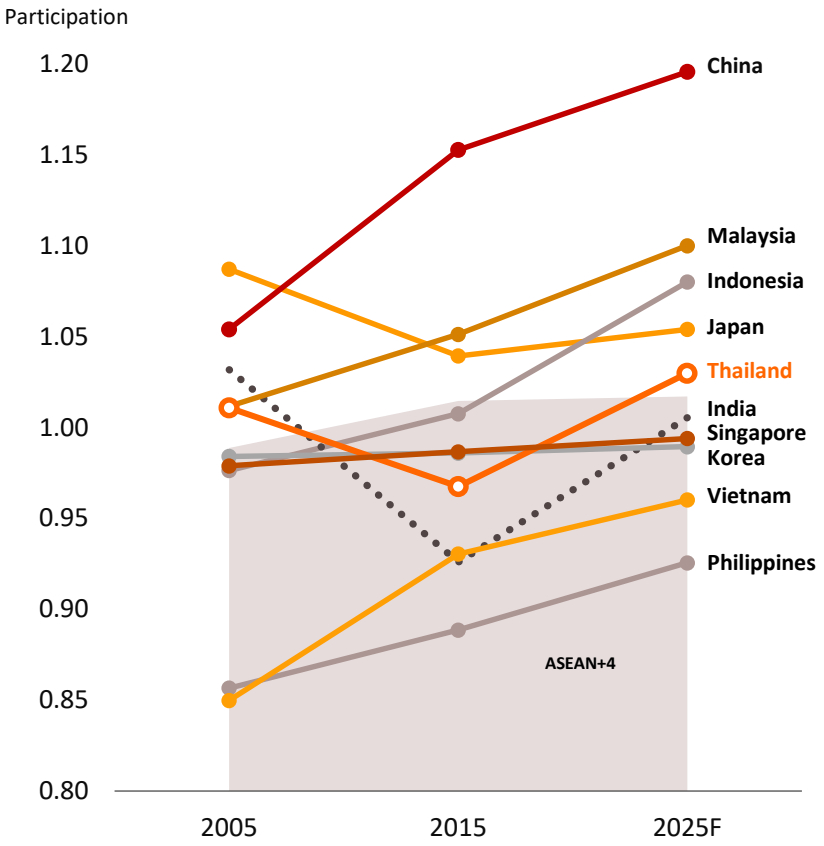
List of FTA	Member	Type	Status	GDP (% of global GDP)	Trade (% of global trade)	Population (% of world's population)
• The European Union-Vietnam FTA (EVFTA)	• 28 countries: Vietnam and EU27	• Bilateral	• Effective August 2020	18%	31%	8%
• Indonesia-Australia Comprehensive Economic Partnership Agreement (Indonesia-Australia CEPA)	• 2 countries: Indonesia, Australia	• Bilateral	• Effective July 2020	3%	2%	4%
• Cambodia-China FTA	• 2 countries: Cambodia, China	• Bilateral	• Signed but not yet effective	16%	12%	18%
• The Regional Comprehensive Economic Partnership (RCEP)	• 15 countries: ASEAN10, China, Japan, South Korea, Australia, and New Zealand	• Multilateral	• Signed but will not be effective* until it is ratified by at least 6 ASEAN members and 3 non-ASEAN countries	33%	29%	29%

Note: *It would take 1-2 years to ratify the agreement in each participating country.

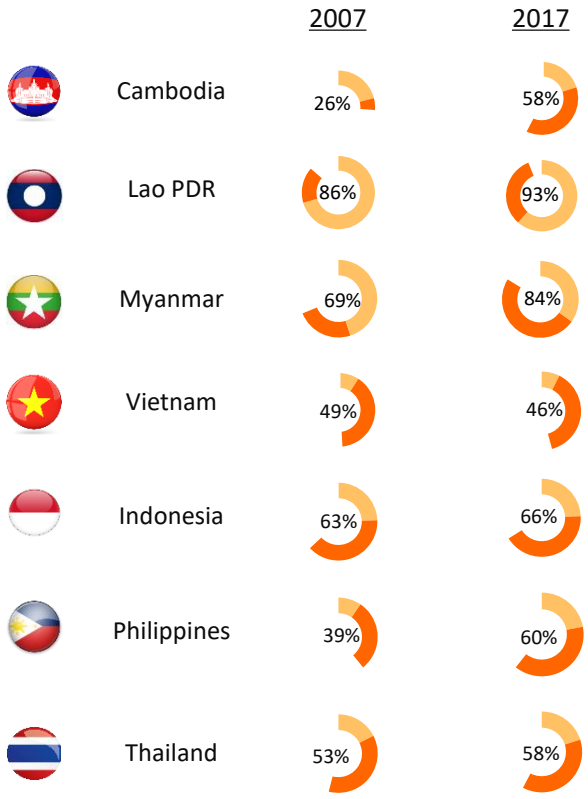
Source: IMF, Asia Regional Integration Center, CEIC, Krungsri Research

Stronger regional trade ties support higher participation of ASEAN in the global value chain

Global Value Chain participation



Share of CLMVIP's trade with ASEAN and six major trading partners*



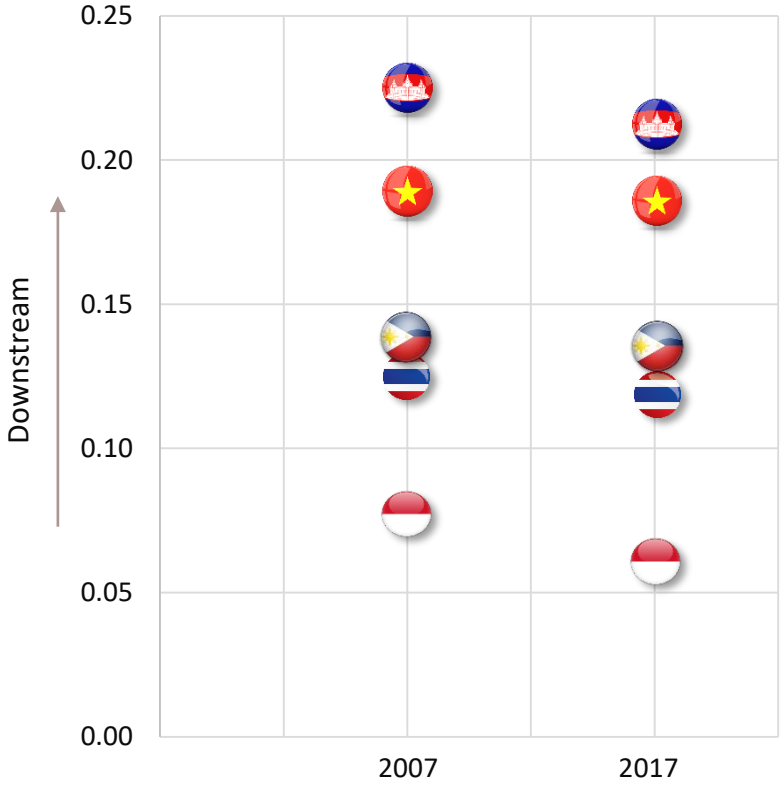
Note: * Six major trading partners include Australia, China, India, Japan, New Zealand, and South Korea.

Source: Trademap, OECD calculation by Krungsri Research

Most ASEAN countries have different positions in supply chains, representing more opportunities to complement each other

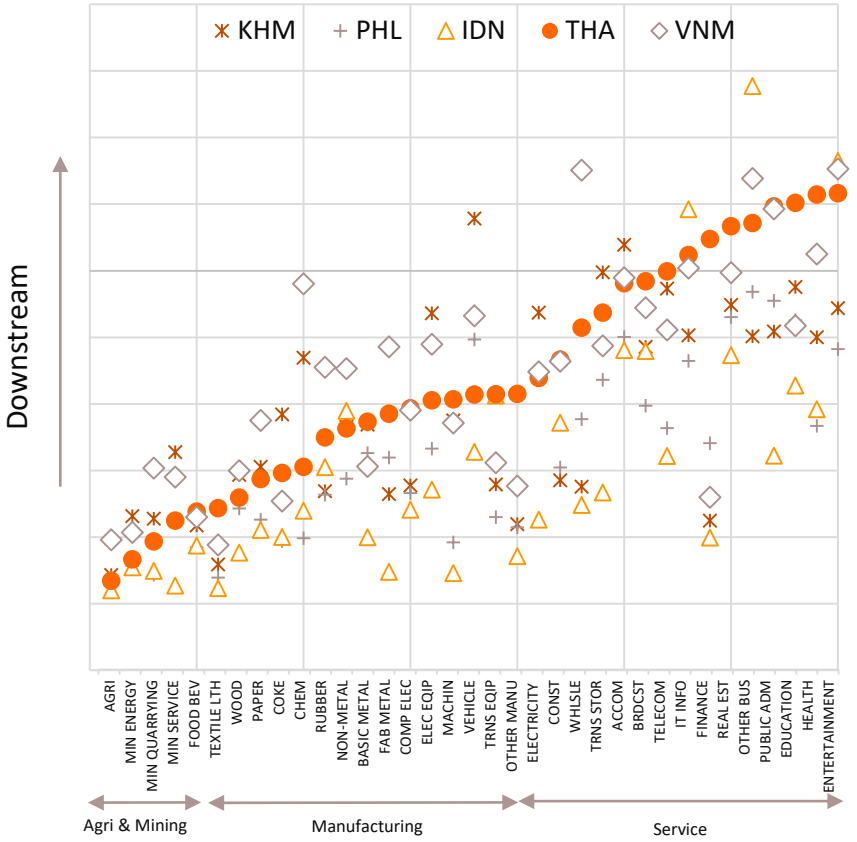
We observe three key points about positions in the Global Value Chain (GVC) of selected ASEAN countries, including Thailand, Cambodia, Vietnam, Indonesia and the Philippines. **First, in terms of relative positions, they rarely change.** Cambodia remains in relative downstream position while Indonesia is relatively in upstream. Cambodia focuses on labor-intensive manufacturing. In contract, Indonesia's production involved processing raw materials at the beginning of the process. **Second, in terms of products,** different products manufactured by each country are on different positions in the GVC and they reflect complementary opportunities among ASEAN countries**. Third, Thailand's relative position is in the middle of the GVC.** Most of our manufacturing products are in the middle of the GVC – which is generally considered intermediate inputs for final products. This would allow Thailand to connect with other ASEAN members in the regional supply chains.

Positions of Cambodia, Vietnam, Indonesia, Philippines and Thailand in GVC, by country on average



Source: Trademap, OECD calculation by Krungsri Research

Positions of Cambodia, Vietnam, Indonesia, Philippines and Thailand in GVC, by product



RCEP would benefit the ASEAN economy, fostered by harmonizing and liberalizing trade and investment

- The RCEP is expected to increase ASEAN's GDP, exports, and investment over the long-term, according to a study by Economic Research Institute for ASEAN and East Asia.
- The study concluded the following: (i) all participating countries would benefit from the RCEP but at different levels; (ii) freer-trade in goods and services, an expected improvement in logistics, and benefits from liberalizing investment would lift investments in RCEP member countries; and (iii) by country, in ASEAN, Thailand could be one of the key countries to benefit from higher real GDP, exports, and investment.

Economic impacts of the RCEP[1/]



Source: Itakura, K. (2015), 'Assessing the Economic Effects of the Regional Comprehensive Economic Partnership on ASEAN Member States', in Ing, L.Y. (ed.), East Asian Integration, Krungsri Research

Regional economy: The way forward through regionalization

Economic Outlook 2021

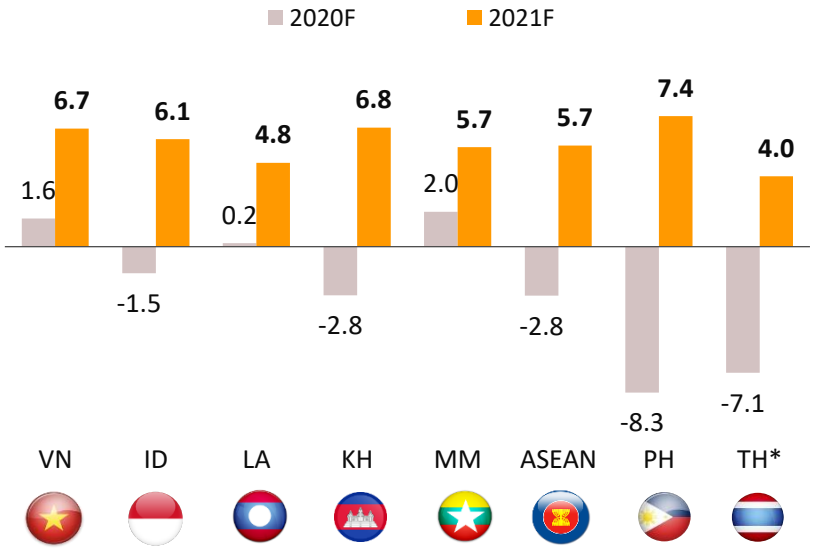
- ASEAN recovery would be relatively stronger than other regions, mainly driven by FDI and public investment.
- International tourism would remain subdued but progress in vaccines could support recovery.
- Exports would improve gradually; Vietnam would outpace peers driven by its competitive products and privileges.
- Investment would start to rise again in 2021, driven by public investment and new regional and bilateral FTAs.
- Private consumption would improve moderately; Vietnam would see the strongest rebound.
- Monetary policy would remain accommodative; Indonesia and Myanmar have room for more easing.

ASEAN recovery would be relatively stronger than other regions, mainly driven by FDI and public investment

- **In 2021, the ASEAN economy is expected to recover and register 5.8% average growth compared to -2.4% in 2020, stronger than global growth and in other regions**. **The outlook for ASEAN region is driven by an expected rise in foreign direct investment (FDI) inflows**. This is backed by major economic reforms in each country to promote more investment-friendly policies and improve competitiveness, along with recent developments in regionalization through several free trade agreements, including the Regional Comprehensive Economic Partnership (RCEP) and the European Union – Vietnam FTA (EVFTA). Rising infrastructure investment in most ASEAN countries would also boost domestic economic activities. In addition, the pace of economic recovery would be supported by a gradual improvement in domestic consumption – a major driver at 56% of ASEAN GDP – especially in several countries which have contained COVID-19 relatively well.
- **Vietnam's economy would see the strongest rebound within CLMVIPT, accelerated by both domestic and external demand – including exports, FDI inflows, and consumption. Philippines would see the highest growth within ASEAN in 2021, following a severe contraction in 2020, but 2021 GDP is likely to remain far below its pre-COVID level.**

IMF's growth projection (2020-2021, %YoY)



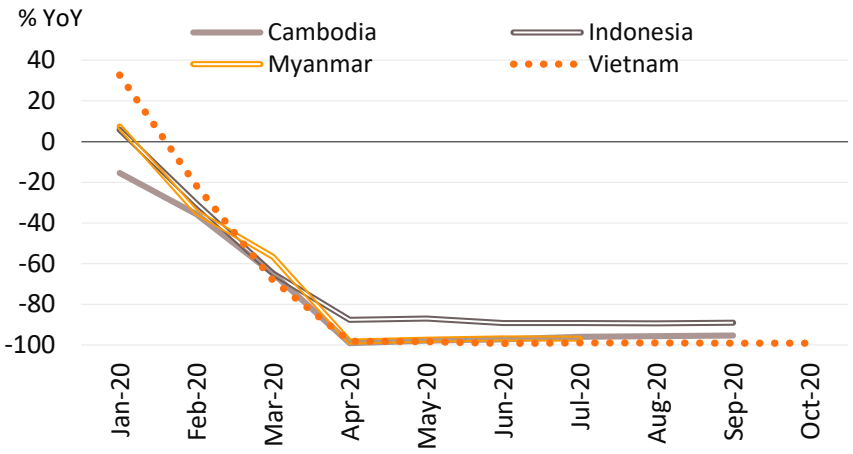


Note: *Krungsri Research expects Thailand's GDP growth at -6.4% in 2020 and 3.3% in 2021.

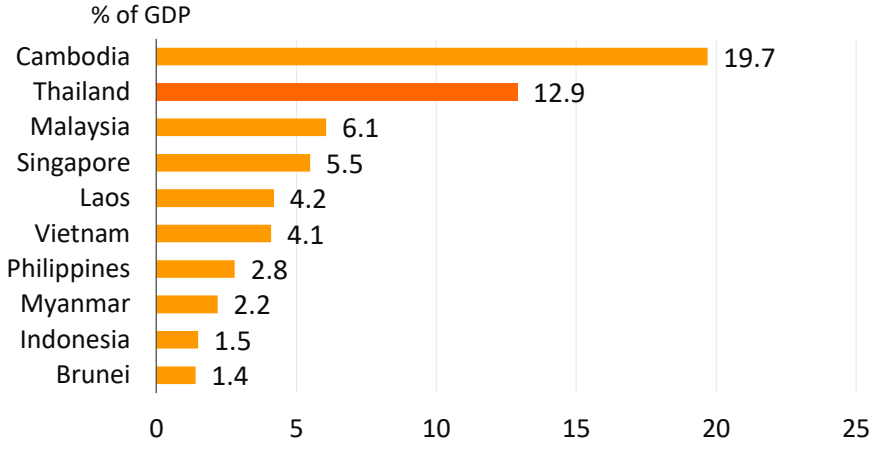
Source: IMF WEO (October 2020), CEIC, Krungsri Research

International tourism would remain subdued but progress in vaccines could support recovery

Tourist arrivals in selected ASEAN countries

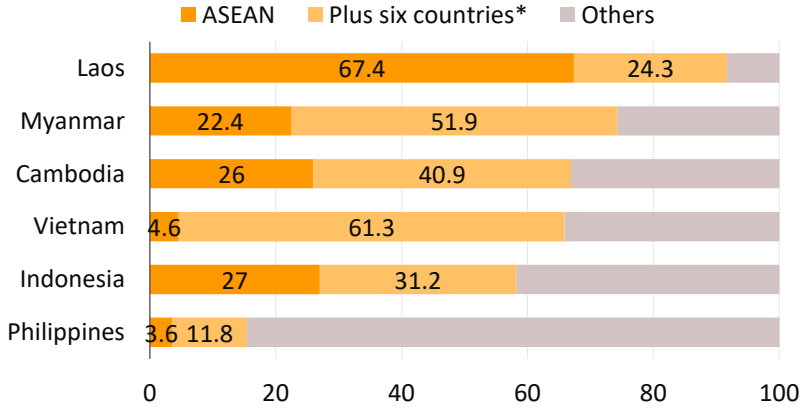


International tourism revenue in ASEAN, 2018



Source of foreign tourists in selected ASEAN countries

(% of each country's total foreign tourists)



Note: *include China, Japan, South Korea, Australia, New Zealand, and India.

Source: Governments' official tourism website, World Tourism Organization, CEIC, Krungsri Research

Krungsri Research's view

- **Prospects for international tourism in ASEAN in 2021 would depend on (i) access to sufficient vaccines, and (ii) effective virus containment measures.** We anticipate international tourism in the region would remain weak as vaccines are only expected to be commercially available from mid-2021. Until then, fears of contracting COVID-19 as well as a second/third wave in several countries could delay decisions on overseas travel.
- **We project a small improvement in tourist arrivals in 2021, at 15-20% of pre-pandemic level**. **Most ASEAN countries are working on reopening for international tourism via travel bubble schemes**. But the scheme would mostly focus on low-risk countries (i.e. virus is well-contained) and short- to medium- haul flights. **This means initial inbound tourism would be driven by intra-Asia countries** – which are major sources of international tourist arrivals for most ASEAN members, except Philippines. **Laos, Cambodia, and Vietnam may benefit from low number of cases in their countries.**
- **However, tourist arrivals would remain low.** Economies that rely on foreign tourists, such as Cambodia and Laos, would be further subdued. However, tourism sector in some countries – such as Vietnam where domestic tourists account for c.45% of total tourist receipts – would recover sooner than peers.

Exports would improve gradually; Vietnam would outpace peers driven by its competitive products and privileges

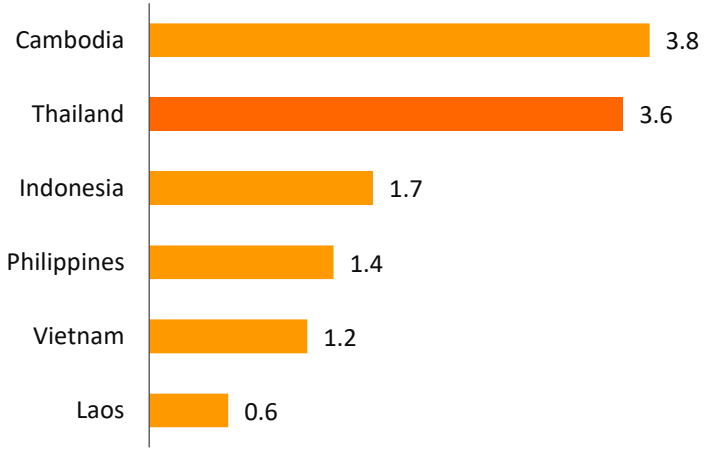
Jan-Jul 2020 export growth of CLMVIP, by major markets

(% YoY)

	Vietnam	Laos	Indonesia	Cambodia	Philippines	Myanmar
Total	1.4	-4.5	-6.7	-7.2	-7.2	-11.3
US	17.2	-46.5	-3.6	22.9	-9.6	10.2
EU	-8.0	16.0	-12.4	-13.5	-13.1	-13.2
China	19.9	-12.9	13.5	3.1	6.1	-30.2
Japan	-4.3	-17.0	-13.1	-2.7	-16.3	-4.4
South Korea	-0.1	9.3	-19.5	-3.2	-6.2	-15.1

Economic impact of the RCEP on exports, 2030*

(cumulative deviation from baseline, %)



Note: *Itakura, K. (2015), 'Assessing the Economic Effects of the Regional Comprehensive Economic Partnership on ASEAN Member States', in Ing, L.Y. (ed.), East Asian Integration.

Source: East Asian Integration, CEIC, news media, Krungsri Research

Key new FTAs in 2020

List of FTA	Member	Status
• European Union-Vietnam FTA (EVFTA)	• 28 countries: Vietnam and EU27	• Effective (August 2020)
• Indonesia-Australia Comprehensive Economic Partnership Agreement (Indonesia-Australia CEPA)	• 2 countries: Indonesia, Australia	• Effective (July 2020)
• Cambodia-China FTA	• 2 countries: Cambodia, China	• Signed but not yet in effect
• Regional Comprehensive Economic Partnership (RCEP)	• 15 countries: ASEAN10, China, Japan, South Korea, Australia, and New Zealand	• Signed but not yet in effect until the ratification by at least 6 ASEAN members and 3 non-ASEAN countries

Krungsri Research's view

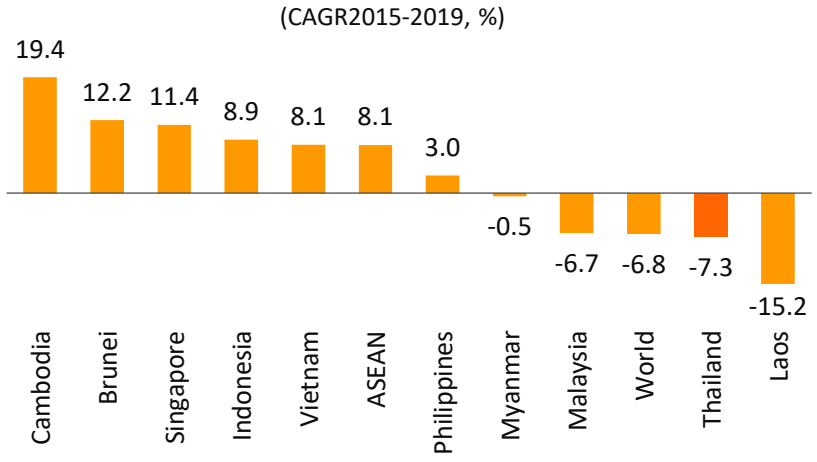
- **We anticipate total exports in the region would rise moderately in 2021, supported by a recovery in the global economy. The region would also benefit from several new FTAs - bilateral and regional. Notably, analysis shows the RCEP would support the member countries' export growth over the long term.**
- **Vietnam will outperform peers significantly. Major reasons include (i) relatively higher competitiveness in several specific products that are also benefiting from the work-from-home trend**. Computer and electronics products, which account for a third of its total exports, are among the top exports with promising growth. Its key competitiveness is backed by lower costs, wider local supply chains, and rising FDI from major importing countries like the US in recent years. **(ii) The country's potential will be driven by new FTAs with major leading economies (covering over 50 countries),** including the EVFTA and RCEP. The latter is expected to take effect in mid-2021.
- **In contrast, exports of countries with narrow market and product concentration – such as Cambodia and Laos – would improve only slightly.** We anticipate a recovery in China and US economies would support export growth for Cambodia and Laos given that these two markets account for a combined one third of their total exports. However, since **Cambodia**'s garment exports are dependent on the EU market (c.40% of total exports), it would also be hurt by the suspension of some privileges under the EU's Everything But Arm (EBA) program. **Laos**' exports would remain weak given a slow economic recovery in Thailand, which is its top export market, accounting for nearly half of its total exports.

Investment would start to rise again in 2021, geared by public investment and new regional & bilateral FTAs

Major public investment plans

Country	Details	% of GDP during the period
Indonesia	USD429.7bn during 2020-2024	6.1%
The Philippines	PHP1.5trn (USD31.1bn) during 2020-2022	9.1%
Vietnam	VND2.75qdrn (USD119.6bn) public investment budget for 2021-2025	48.8%

Growth of FDI inflows in ASEAN countries



Key FDI appeal factors

Country	Key factors
ASEAN members	• Signed the Regional Comprehensive Economic Partnership (RCEP) on 15 November 2020
Cambodia	• Signed the China-Cambodia Free Trade Area (FTA) on 12 October 2020 • Currently reviewing Investment Law
Vietnam	• Prioritizing investment in broad-base sectors, led by hi-tech and related sectors • The EU-Vietnam FTA came into effect on 1 August 2020
Myanmar	• Currently reviewing Investment Law • Establish new Special Economic Zone in Mon State, close to Thailand's border
Indonesia	• Launch omnibus Law on Job Creation to promote more investor-friendly policies • The Indonesia-Australia Comprehensive Economic Partnership Agreement (CEPA) came into effect in July 2020

Source: UNCTAD, local news media, CEIC, Krungsri Research

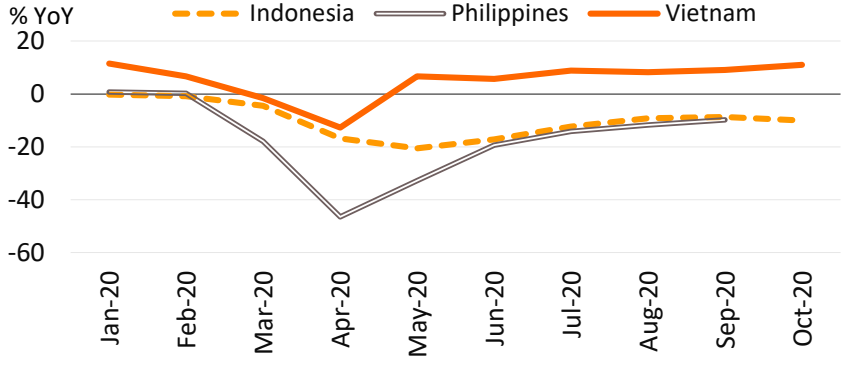
Krungsri Research's view

- **We anticipate investment would recover in the region in 2021. This would be supported by (i) ongoing public investment plans** – most ASEAN countries, led by Vietnam, Philippines, and Indonesia, focus on infrastructure projects; **(ii) the individual country's economic reforms; and (iii) positive impact from several newly-signed FTAs** – led by the RCEP – which promote opportunities to be involved in the global value chain through greater regional participation.
- **Governments would remain a major source of domestic investment**. Most are focusing on public infrastructure projects to boost economic activities in 2021, and to improve the country's competitiveness in the medium term (see table).
- **ASEAN has been one of the world's most attractive FDI destinations in recent years. Looking ahead, among CLMVIP, Vietnam would attract the most FDI**, supported by (i) key economic reforms; (ii) promising economic growth of around 7.0% p.a. over the next five years – leading peers in ASEAN; and (iii) new opportunities triggered by important FTAs – including the RCEP, CPTPP and EVFTA. **Myanmar and Cambodia would also appeal to foreign investors** given their ongoing economic reforms, a revision to investment laws, and newly-signed FTAs.

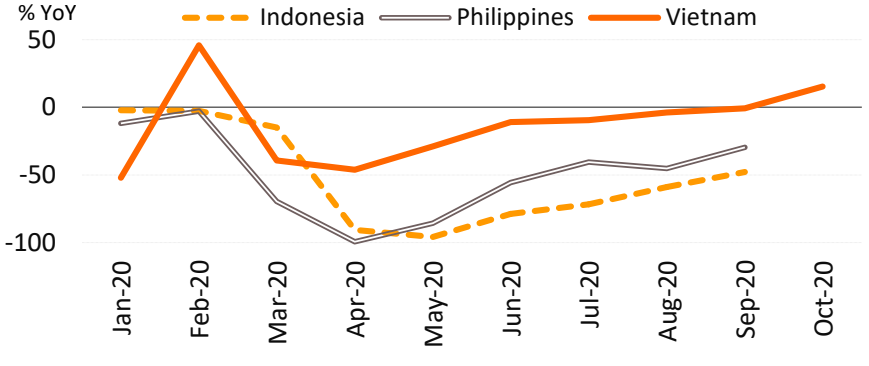
Private consumption would improve moderately; Vietnam would see strongest rebound

- We project a rebound in private consumption – a key economic driver in all ASEAN countries (56% of GDP on average) – but at different pace within CLMVIP. **We anticipate a recovery in exports and FDI would encourage economic activities and lift employment and purchasing power.**
- **Countries which have successfully contained COVID-19 – such as Vietnam – would bounce back faster than peers.** This is reflected in the strong improvement of retail sales and motor vehicle sales in Vietnam, along with relatively low unemployment rate compared to other ASEAN countries. Consumption would be further driven by promising exports and investment.
- **Consumption growth would be limited in countries with high COVID-19 cases or that are at-risk of seeing another outbreak**, including Philippines, Indonesia, and Myanmar. Specifically, **Philippines' consumption is expected to see slow improvement** because of the extended lockdown to contain the outbreak and the economic impact of a series of natural disasters.

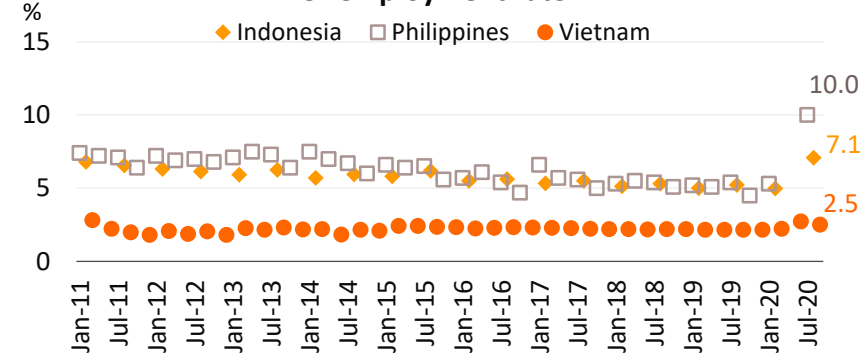
Retail sales in selected ASEAN countries



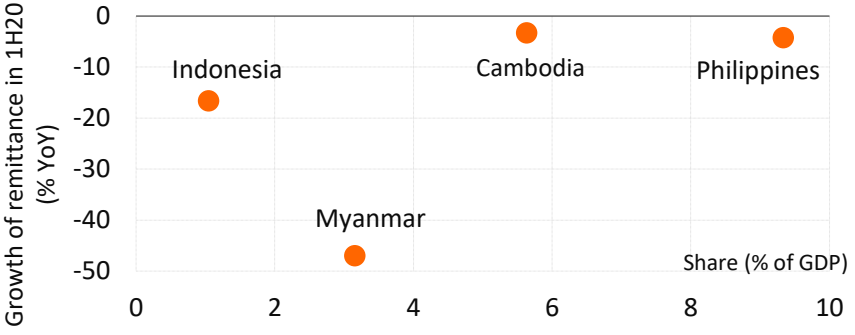
Motor vehicle sales in selected ASEAN countries



Unemployment rate



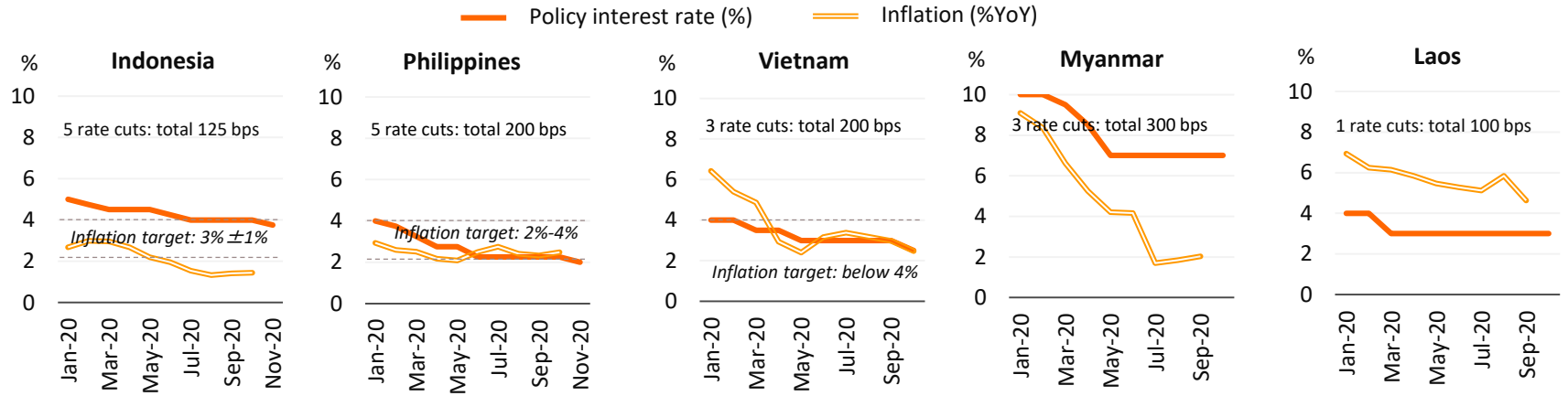
Growth in remittance by country



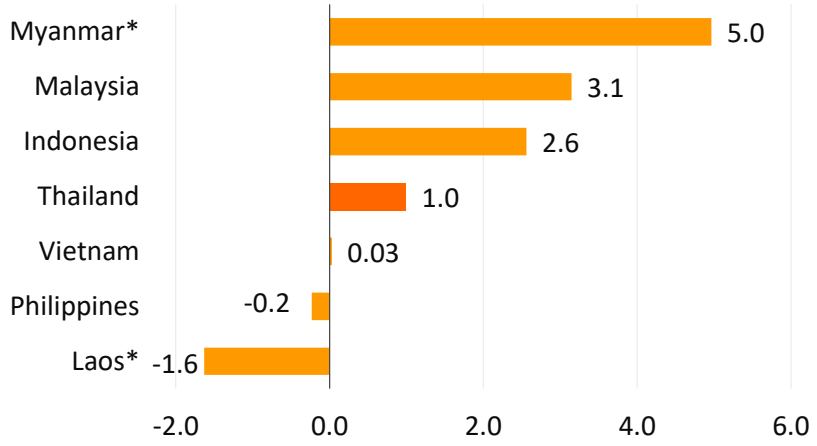
Source: UNCTAD, ASEAN countries' central bank and statistics office, CEIC, Krungsri Research

Monetary policy would remain accommodative; Indonesia and Myanmar have room for more easing

Policy interest rate and inflation



Real interest rate (as of Oct 2020)



Note: * as of September 2020.
Source: ASEAN countries' central bank, CEIC, Krungsri Research

Krungsri Research's view

- **We anticipate monetary policies across the region would remain accommodative given still-weak economic recovery**. Central banks in the region have cut policy interest rates and reserve requirement ratios (RRR) to increase liquidity, but several countries – including Indonesia and Philippines – would also extend unconventional measures including quantitative easing, debt purchasing, as well as debt-sharing with their respective government.
- **Some central banks still have room for additional rate cuts given still-positive real interest rates along with benign inflation. Indonesia may be able to cut rates by another 50 bps next year while keeping the currency stable.** It had cut rates by 125 bps so far this year (up to November). In addition, Bank Indonesia has committed to provide more liquidity by continuing to support the government through the debt-sharing mechanism and purchasing bonds. **Myanmar** also has large policy space to cut rates to stimulate growth.
- Some countries with negative real interest rate, such as Philippines, may have limited room for another rate cut after aggressively cutting rates by 200 bps in 2020 (up to November). **However, we anticipate the Philippines would ease monetary policy further in 2021, possibly cutting RRR and policy interest rate by up to 25 bps**, given expectations of a delayed recovery. The rate cut could also ease pressure from the strong peso.

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