krungsri Research

A member of MUFG a global financial group

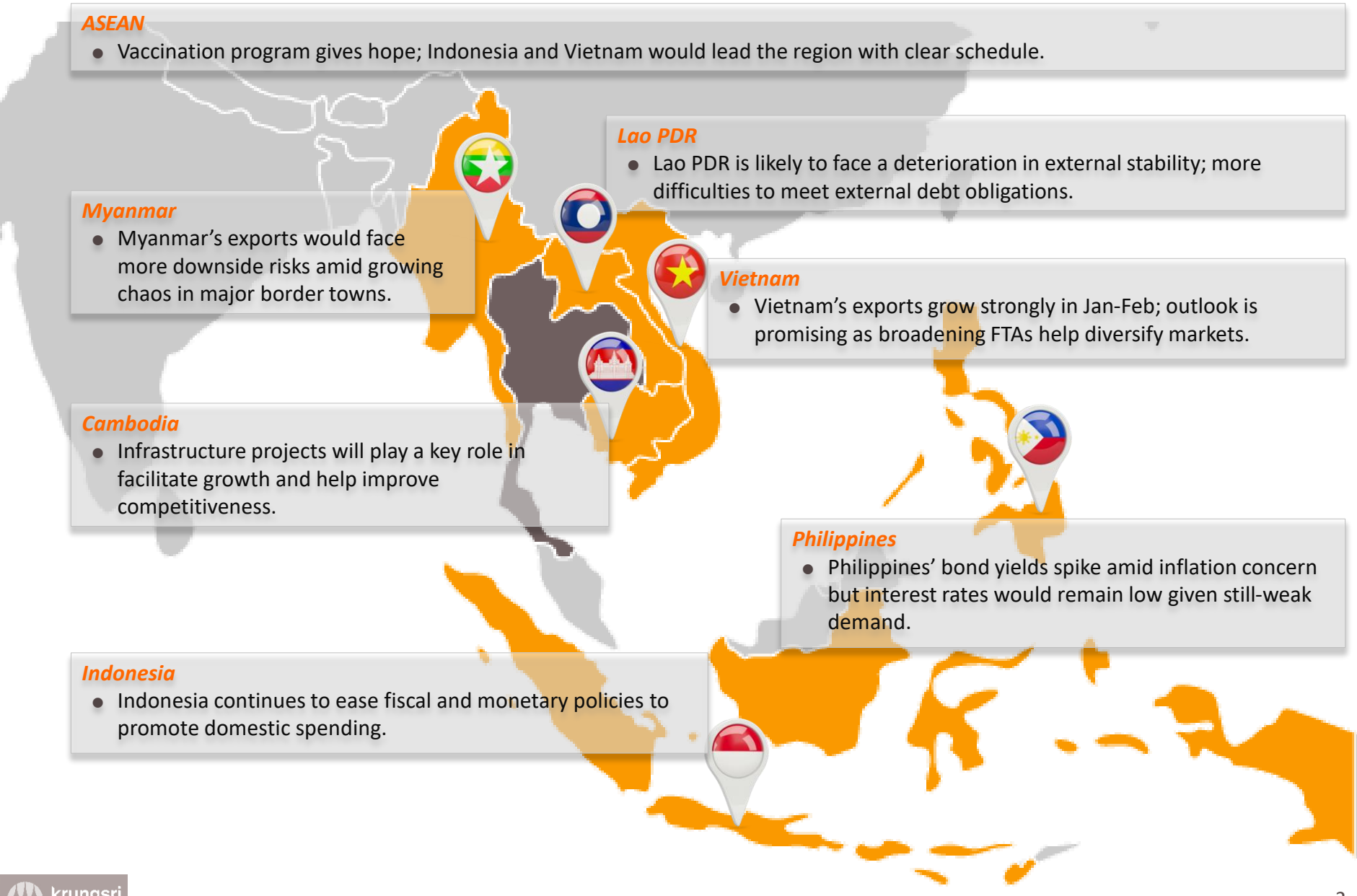
MONTHLY REGIONAL UPDATE

March 2021



Krungsri Research

Regional Economic and Policy Developments in March



ASEAN

- Vaccination program gives hope; Indonesia and Vietnam would lead the region with clear schedule.

Lao PDR

- Lao PDR is likely to face a deterioration in external stability; more difficulties to meet external debt obligations.

Myanmar

- Myanmar's exports would face more downside risks amid growing chaos in major border towns.

Vietnam

- Vietnam's exports grow strongly in Jan-Feb; outlook is promising as broadening FTAs help diversify markets.

Cambodia

- Infrastructure projects will play a key role in facilitate growth and help improve competitiveness.

Philippines

- Philippines' bond yields spike amid inflation concern but interest rates would remain low given still-weak demand.

Indonesia

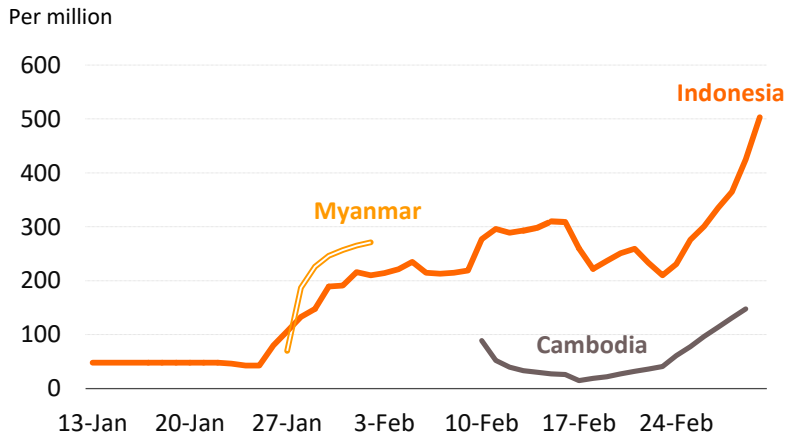
- Indonesia continues to ease fiscal and monetary policies to promote domestic spending.

ASEAN's vaccination program gives hope; Indonesia and Vietnam would lead the region with clear schedule

Krungsri Research's view

- All Southeast Asia nations have already received COVID-19 vaccines and most of them have started public rollout, led by Indonesia since 13 January 2021. Though the massive vaccination to create herd immunity is key factor of economic recovery that all countries aim, **there are uneven in progress and vaccination targets across the region**. The clearer and more progress in vaccination would support a stronger recovery this year.
- **According to each government's plans, vaccination sourcing, and latest progress, we view that Indonesia and Vietnam have the most impressive progress in vaccination program.** Not only being the first country in CLMVIP that started vaccine rollout, **Indonesia** also has actively and continuously vaccinated with clear plan to vaccinate monthly 16 million doses to meet target of 63% of total population by end-2021. Its government has increased budget by 20% for vaccines this year and also uses several tools to speed up vaccination, including allowing private companies to pay to independently inoculate their staff. **Vietnam** has been another country with high vaccinated target of 70% of total population this year. In addition, it is also set to receive vaccines from AstraZeneca for up to 30 million doses (c.16% of total population) in 1H21, and is developing vaccines locally – which are on progress of trials.
- **Philippines would be the next country who has progress with planned vaccination of 65% of population by this year.** However, the vaccination would be slower than the target because (i) a delay in sourcing, which leads to a laggard in delivery and (ii) low public confidence in vaccines.
- **Cambodia, Laos, and Myanmar are likely to see slow progress on vaccination program** because they have relatively limited budget to purchase vaccines and are highly depending on supports from China and COVAX. That leads to very low vaccination targets for these countries, i.e. Myanmar 40%, and Cambodia and Laos 20% by end-2021.

Daily COVID-19 vaccination



Vaccination program by country*

Country	Target (% of country's population)			Latest vaccinated (% of population)	Vaccine sourcing	
	2021	2022	2023		Government procurement	Supports
Indonesia	63%	79%	n.a.	0.8%	Sinovac, Sinopharm, AstraZeneca, Novavax, Pfizer	COVAX
Vietnam	70%	n.a.	n.a.	-	AstraZeneca, Moderna, Sputnik V	COVAX
Philippines	65%	n.a.	n.a.	-	(Under negotiation with Moderna, AstraZeneca)	Sinovac (donated by China), COVAX
Myanmar	40%	n.a.	n.a.	0.2%	n.a.	Sinopharm (donated by China), COVISHEILD (supported by India)
Cambodia	20%	n.a.	n.a.	0.2%	n.a.	Sinopharm (donated by China), COVAX
Laos	20%	n.a.	n.a.	-	n.a.	Sinopharm (donated by China), COVAX

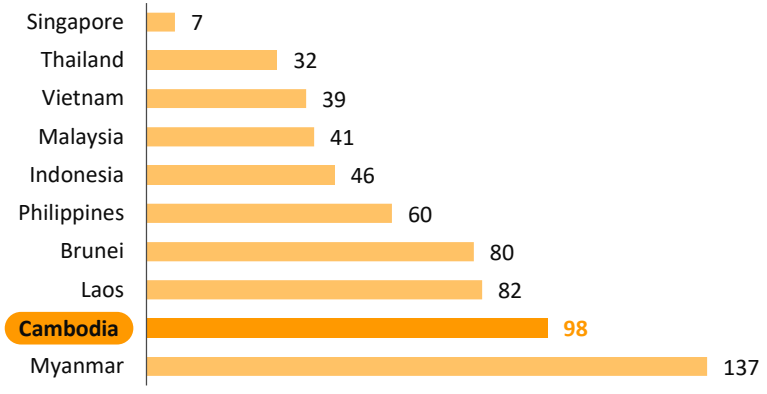
Note: * compiled by Krungsri Research, as of 3 March 2021.
Source: WHO, Our World in Data, CEIC, Krungsri Research

Cambodia: Infrastructure projects will play a key role in facilitate growth and help improve competitiveness

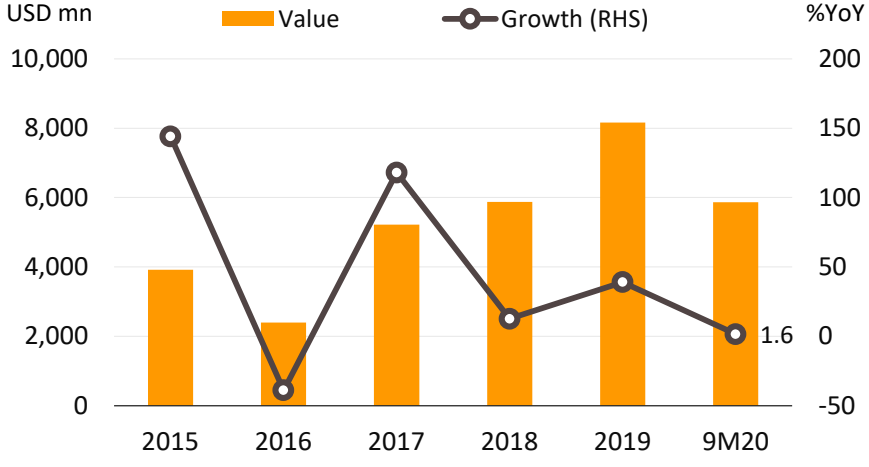
Cambodia's major infrastructure projects

Projects	Location	Investment (USD mn)	Expected completion	Progress
The Phnom Penh - Sihanoukville Expressway	Phnom Penh - Sihanoukville province	2,000	2022	32%
The new Phnom Penh International Airport	Kandal province	1,500	2023	n.a.
New Siem Reap Airport	Siem Reap province	900	2023	15%
The Cambodia-China Friendship Bridge	Linking Kampong Cham and Tboung Khmum provinces	57	Apr-21	96%

Rank of 2018 Logistics Performance Index (LPI)



Cambodia's approved fixed asset investment



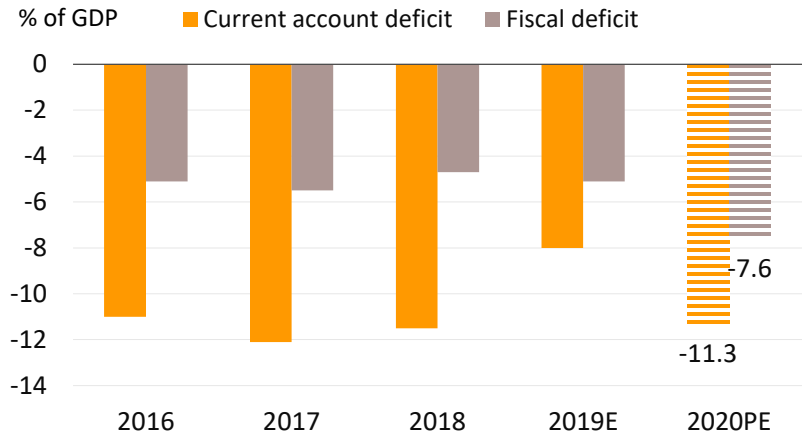
Krungsri Research's view

- The Cambodia officials have recently updated progress of the country's major mega-infrastructure projects worth a total of USD4.5bn, which account for 16.7% of GDP. (see table for key projects)
- We anticipate that **investment would be a key growth driver in Cambodia, led by infrastructure projects and foreign direct investment.** Given several key infrastructure projects planned to finish over the next few years, these would help improve the country's competitiveness, especially in terms of logistics, of which its Performance Index remains low among ASEAN. An expected improving infrastructure would consequently be a more positive factor in attracting new FDI into the countries.
- In addition, **we also expect that outlook of investment in Cambodia remains positive,** supported by (i) better improvement in infrastructure, (ii) the ongoing revised investment law which is expected to be effective in coming months, as well as (iii) advantages of several new bilateral and regional free trade agreements, including the Cambodia-China Free Trade Agreement (CCFTA), the Cambodia-Korea Free Trade Agreement (CKFTA), and the recently signed Regional Comprehensive Economic Partnership (RCEP).

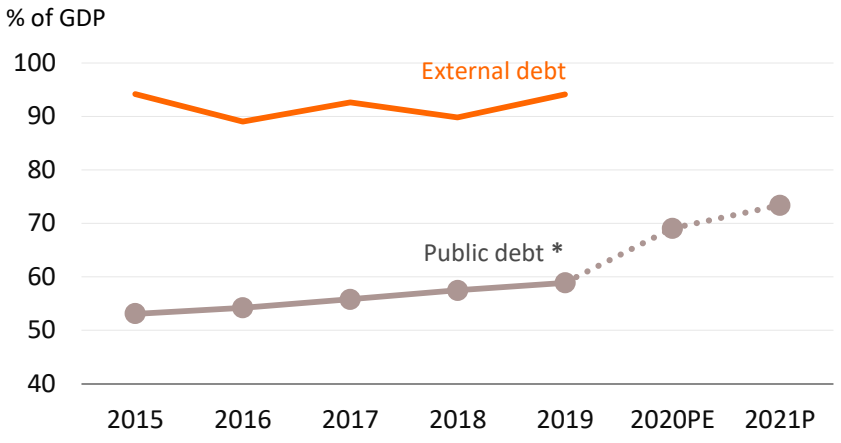
Source: The Council for the Development of Cambodia, World Bank, news media, CEIC, Krungsri Research

Lao PDR is likely to face a deterioration in external stability; more difficulties to meet external debt obligations

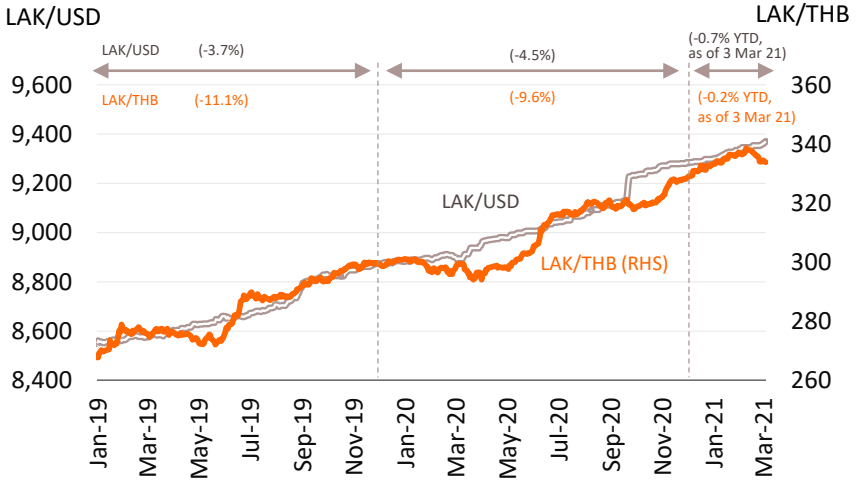
Laos' twin deficits



Laos' public debt and external debt



Laos's foreign exchange rate



Note: * Data from World Bank; PE: primary estimated by World Bank; P: projection

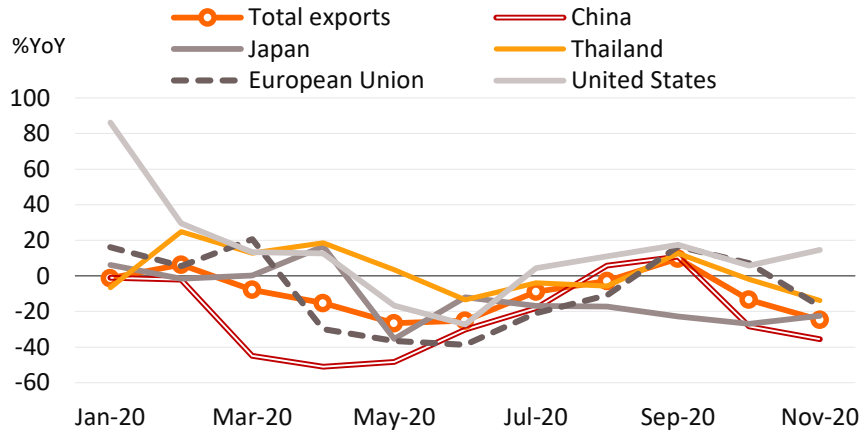
Source: IMF, World Bank, Euromoney, news media, CEIC, Krungsri Research

Krungsri Research's view

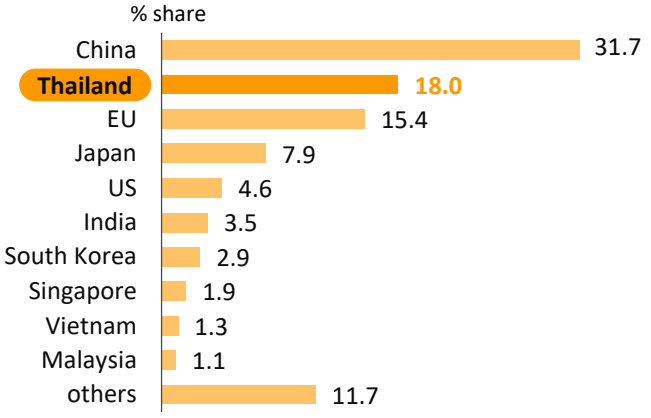
- Laos is expected to face further weakening external stability, which is dampened by the impact of COVID-19 on its major sources of revenues – mainly tourism (c.12% of GDP). Furthermore, it also has limited financing opportunities following sovereign rating downgrades by Moody's in August 2020 and by Fitch Ratings in September 2020. These would lead the country to face higher risks of debt servicing.
- **The country's current account deficit (CAD) is expected to widen in 2020 and would remain large in 2021**, driven by a sharp drop in tourist arrivals. This would hit FX reserves – currently around 2.5 months of imports which is less than 3 months international standard – putting more pressures on the LAK stability.
- **With still-low foreign exchange reserves, large twin deficits (CAD and fiscal deficit), and high public and external debts, the country is facing difficulties in meeting external debt obligations**. In 2021, Laos' total debt service payments are estimated USD1.1bn. Of which, about a half are held by the Electricité du Laos (EDL) – Laos' large state-own enterprise in electricity generation. It has been observed that the EDL has recently made requests to delay and change details of payments with Thai electricity exporters, including change to pay in terms of LAK currency instead of USD.

Myanmar's exports would face more downside risks amid growing chaos in major border towns

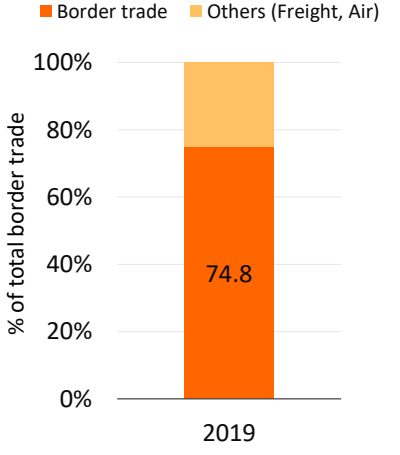
Myanmar's export growth



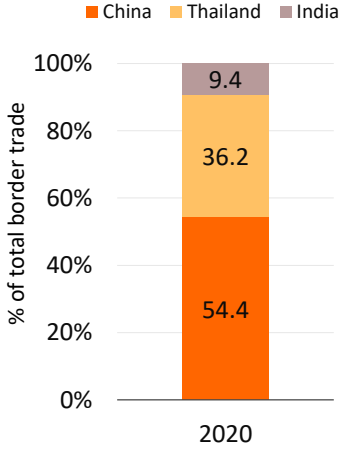
Myanmar's top 10 export markets



Myanmar's border trade



Myanmar's border trade by country



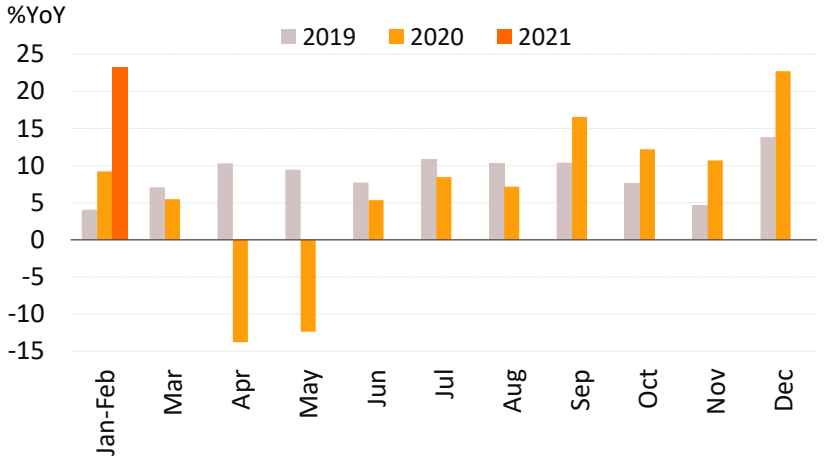
Source: Ministry of Commerce, IMF, CEIC, Krungsri Research

Krungsri Research's view

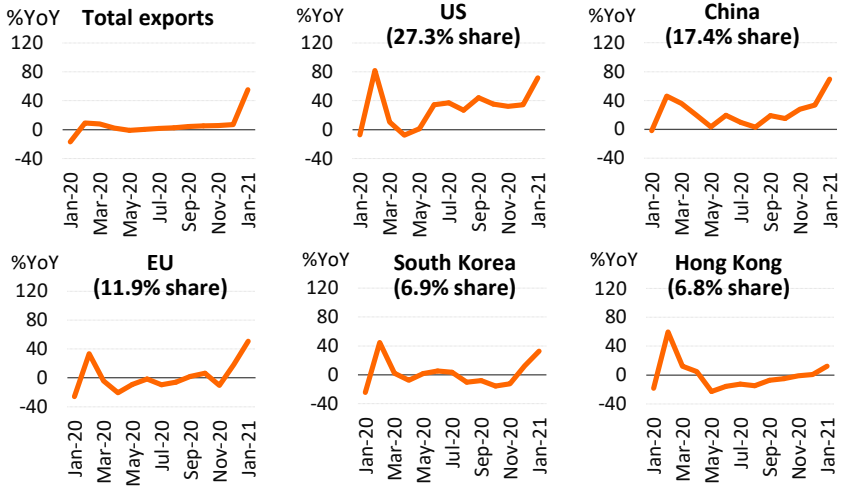
- Massive protests have continued across Myanmar, especially in major economic towns such as Yangon, Mandalay, and a number of its border economic areas. There were reported more than 50 deaths in early March 2021. An increasing and escalating violence could hurt Myanmar's exports, including via its border towns.
- **Myanmar' exports are expected to be hit**, supported by (i) a limited production activities due to a work suspension in several economic areas, (ii) the latest central bank's measures setting more limited amount of cash withdrawal for individuals and enterprises by a half of pre-coup level, and (iii) violence expanding to its major border economic areas.
- **In the short term, we anticipate Myanmar would continue to import necessary goods, especially consumer goods, to meet domestic demand as it has very limited domestic production. However, several potential risks (trade, investment, financial transactions, operation) are looming**. A prolonged and growing chaos across the country – including border areas – would cause international trade more vulnerable. Specifically, Myanmar has relied heavily on China, Thailand, and India (totally account for 54% of its total exports) and most (up to 75%) of Myanmar's total trade are made through border trade.

Vietnam's exports grow strongly in Jan-Feb; outlook is promising as broadening FTAs help diversify markets

Vietnam's exports growth



Growth of Vietnam's exports to top 5 destinations



Vietnam's major FTAs

FTAs	Members	Effective	Share of Vietnam's exports	Growth (% YoY)	
				2020	Jan-21
EU-Vietnam FTA (EVFTA)	28 countries: EU27, Vietnam	1 August 2020	11.9	-3.6	50.8
United Kingdom - Vietnam FTA (UKVFTA)	2 countries: UK, Vietnam	31 December 2020	1.8	-13.9	84.6
The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)	11 countries: Australia, Canada, Japan, Mexico, New Zealand, Singapore, Brunei Darussalam, Chile, Malaysia, Peru and Vietnam	30 December 2018	13.7	-1.7	29.1
The Regional Comprehensive Economic Partnership (RCEP)	15 countries: ASEAN 10 countries, China, Japan, South Korea, Australia, New Zealand	Expected by 2022	40.7	3.8	78.7

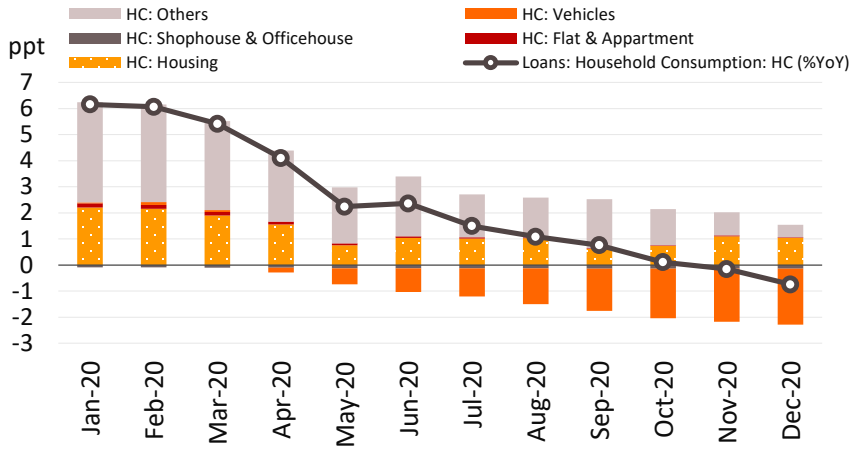
Krungsri Research's view

- Vietnam started the year with still-strong export growth of 23.2% YoY in the first two months of 2021, led by its top 5 export markets – US, China, EU, South Korea and Hong Kong.
- **We anticipate Vietnam's exports to continue expanding firmly in 2021.** Major supportive factors include (i) further recovery of global economy – especially US and China, (ii) a number of trade deals, namely EVFTA, UKVFTA, CPTPP and the awaiting effective RCEP. Vietnam's exports to these member countries account for 40% of its total exports. This would provide comparative advantages to the country's various export products in the more diversified markets under FTAs. In the meanwhile, given highly reliant on external trade, Vietnam is vulnerable to trade tensions, including that US has recently labeled Vietnam currency manipulator.
- In the longer term, we also view that **an ongoing investment relocation from regional countries – including China and expected from Myanmar following rising political instability – would also help promote Vietnam's participation in global supply chains with more diversified products, which would further support export growth**.

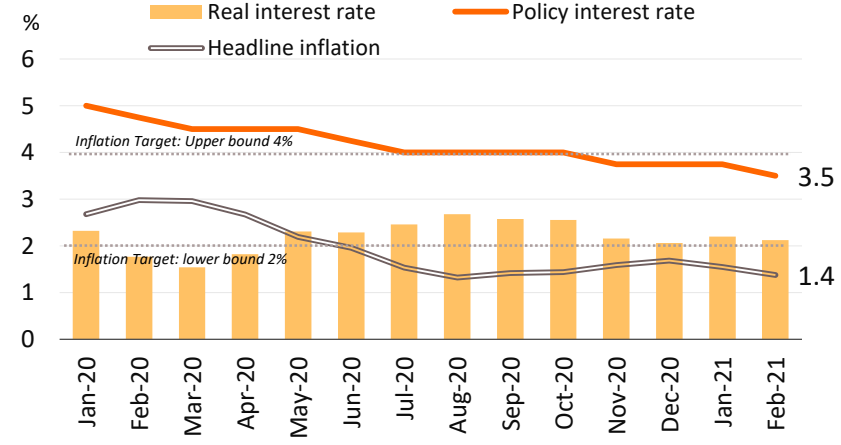
Source: IHS, General Statistics Office, CEIC, Krungsri Research

Indonesia continues to ease fiscal and monetary policies to promote domestic spending

Indonesia's loans for household consumption



Indonesia: Policy interest rate and inflation



Source: Bank Indonesia, CEIC, Krungsri Research

Indonesia: Monetary and fiscal policies on housing and automotive sectors

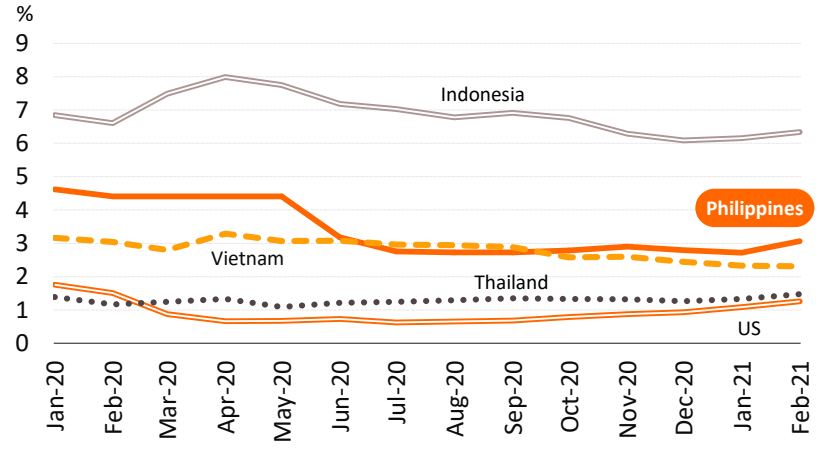
Monetary policy	Fiscal policy
• **Cut the down payment (DP)** requirement for purchases of property and automotive vehicles (cars and motorcycles) to zero percent. • **Relax the loan-to-value (LTV)** and financing-to-value (FTV) ratios to 100 percent, from the previous 85 to 95 percent depending on property type.	• **Waive VAT** on new landed houses and apartments priced below IDR2bn (USD140,300), while VAT will be reduced by half for properties costing IDR2bn to IDR5bn. The policy will be effective from March to August 2021.

Krungsri Research's view

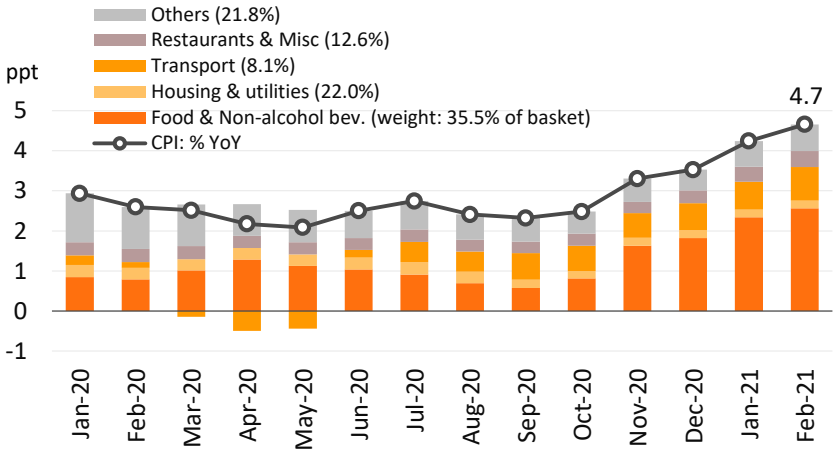
- Indonesian officials have continued to actively stimulate domestic spending to support economic recovery supportive measures for property and automotive sectors, effective from March 2021. (see table for details)
- Since March 2020, loan growth has dropped sharply, led by property and automotive loans, which totally account for roughly 40% of total household consumption loans. This reflects a still-weak consumption demand.
- **We welcome the recent moves of Indonesia officials. To stimulate the economy to meet the government's growth target of 4.5%-5.5% in 2021, it is seriously to quickly support growth of consumption, accounting for c.57% of GDP. We anticipate that the country's consumption would gradually improve, though remain weak,** supported by further relaxing lockdown measures following progress of vaccination program coupled with an extension of government stimulus measures. The latter has been scaled up to c.4.5% of GDP. In addition, **accommodative monetary policy would be seen including a possible rate cut by another 25bps in 1H21 after a cut of 25bps in February given still-benign inflation and more stabilized FX market.**

Philippines' bond yields spike amid inflation concern but interest rates would remain low given still-weak demand

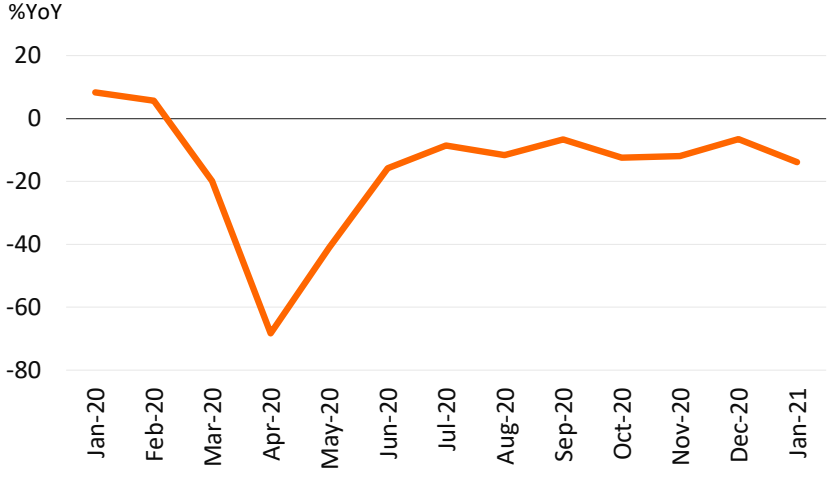
10-year government bond yields



Philippines: Headline inflation



Philippines' Net Sale Index (NSI)



Krungsri Research's view

- Philippines's bond yields spiked in February 2021, relatively faster than several countries. The bond yield hike in Philippines comes from 2 key reasons behind. First is a concern on increasing yields in major economies and second is a higher inflation expectation.
- **Philippines' inflation has continued to increase for the fifth straight month and is likely to increase further for months ahead due to temporary cost-push factors** as a result of natural disasters in late 2020 and a spread of African Swine Fever (ASF) that swiped out a third of the country's pig stocks. Meanwhile, **demand-pull inflation remains weak**, reflected by *Net Sale Index (NSI)* growth which is still far below pre-virus level.
- **Given that inflation is driven by temporary factors, we anticipate monetary policy would remain accommodative with still-low interest rates to support economic recovery** amid lack of additional fiscal stimulus measures. In the statement of Bangko Sentral ng Pilipinas (BSP), it expects the inflation would taper off in 2H21 and average inflation would remain within the BSP's inflation target of 2-4% in 2021.

Source: Bangko Sentral ng Pilipinas, Philippine Statistics Authority, Bloomberg, CEIC, Krungsri Research

KRUNGSRI RESEARCH

Somprawin Manprasert, Ph.D. — **Head of Research Division and Chief Economist**

Phornphan Phoksuphat — Head of Macroeconomic and Industry Research

Macroeconomic Team

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

Industry Team

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

Intelligence Team

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

MIS and Reporting Team

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

Subscribe Us

For research subscription, contact

krungsri.research@krungsri.com

Disclaimer

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