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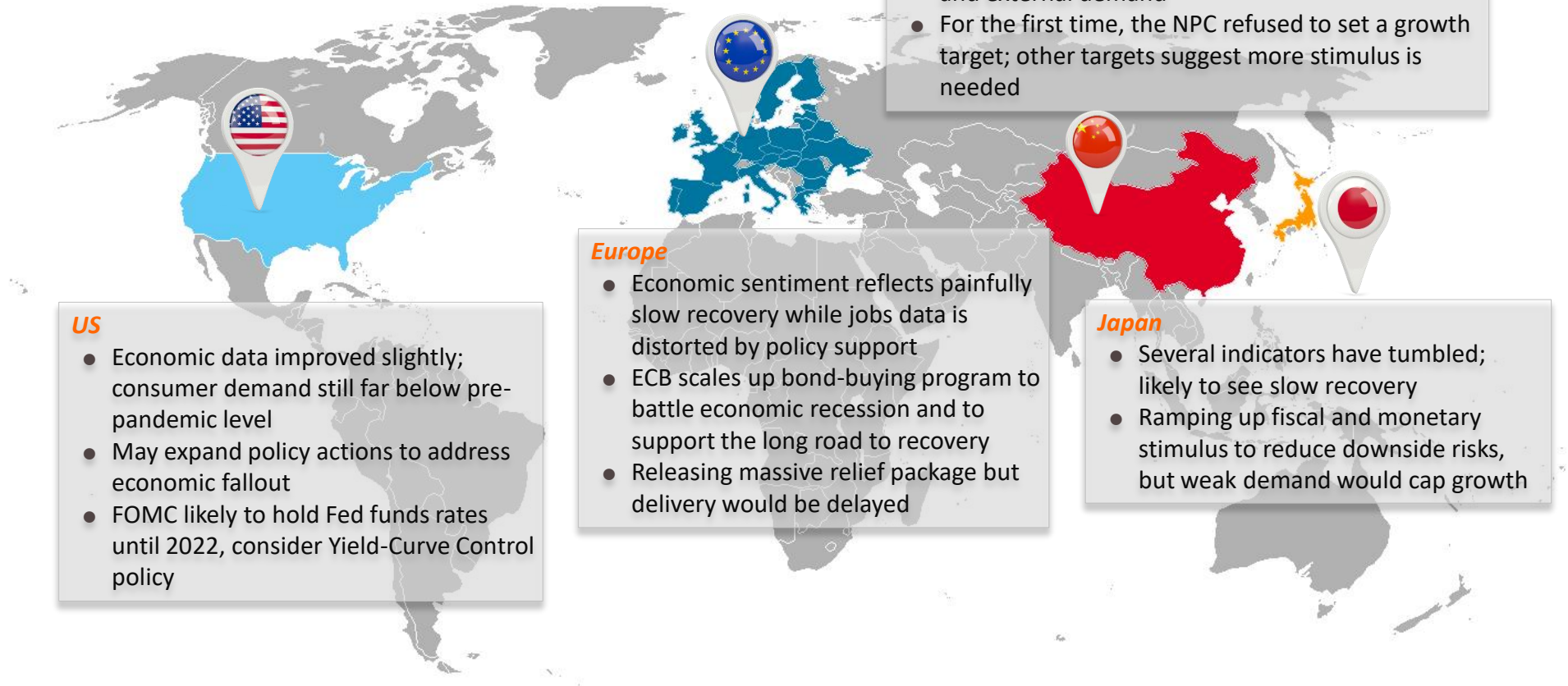
MONTHLY ECONOMIC BULLETIN

June 2020



Krungsri Research

Global: It's not how low you go but how long it lasts



China

- Economic activity has bottomed-out faster than other major countries, but recovery is uneven
- Pace of recovery is depressed by weak domestic and external demand
- For the first time, the NPC refused to set a growth target; other targets suggest more stimulus is needed

US

- Economic data improved slightly; consumer demand still far below pre-pandemic level
- May expand policy actions to address economic fallout
- FOMC likely to hold Fed funds rates until 2022, consider Yield-Curve Control policy

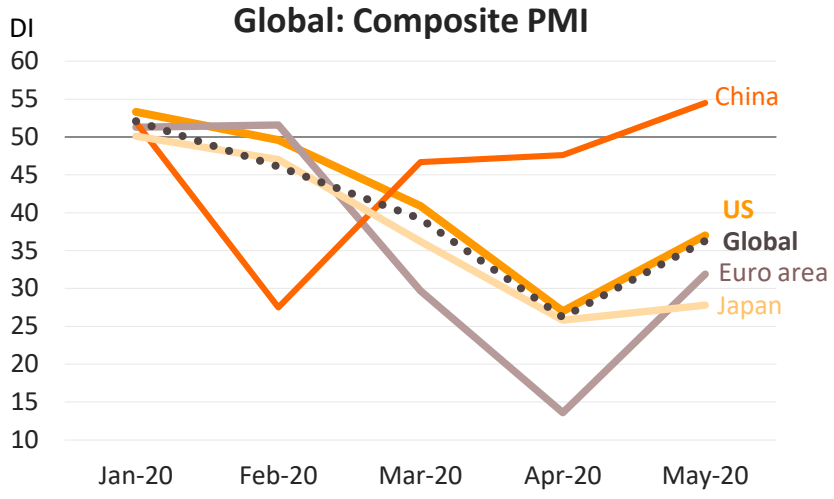
Europe

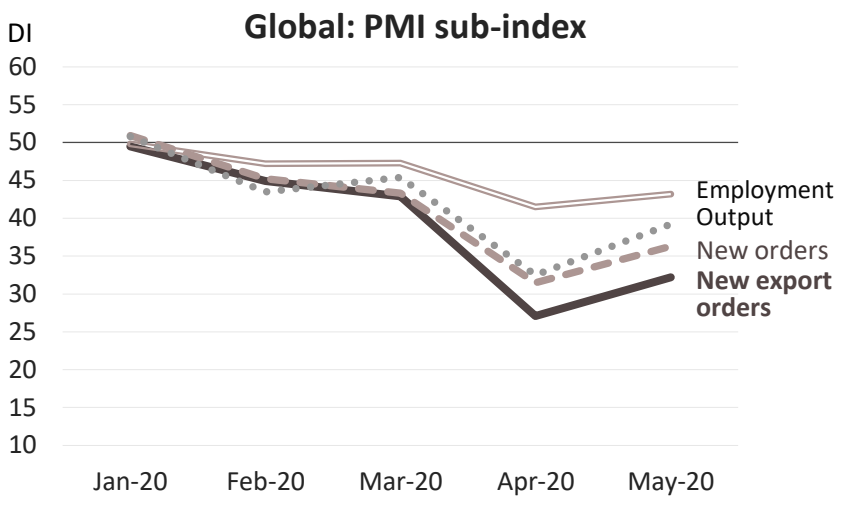
- Economic sentiment reflects painfully slow recovery while jobs data is distorted by policy support
- ECB scales up bond-buying program to battle economic recession and to support the long road to recovery
- Releasing massive relief package but delivery would be delayed

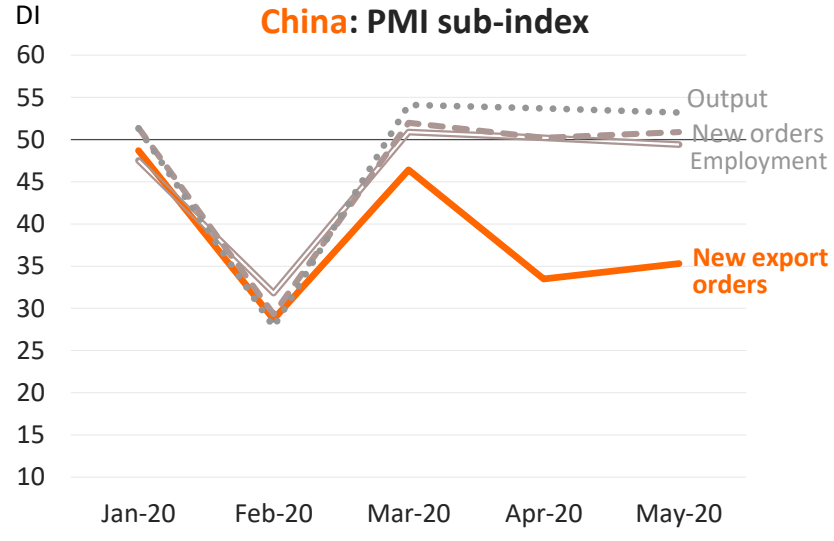
Japan

- Several indicators have tumbled; likely to see slow recovery
- Ramping up fiscal and monetary stimulus to reduce downside risks, but weak demand would cap growth

Supply chains are recovering but demand shock will continue, implying weak global trade lies ahead







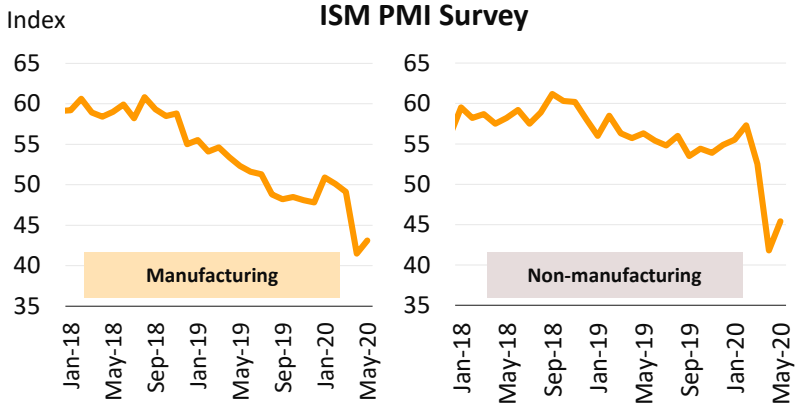
Source: Markit, CEIC, Krungsri Research

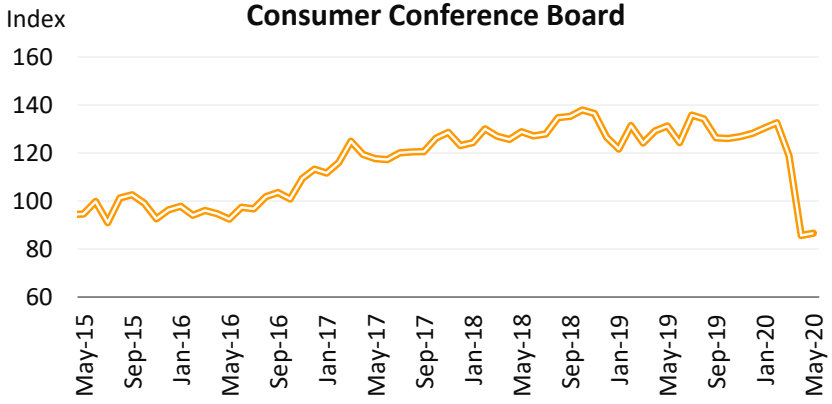
Krungsri Research's view

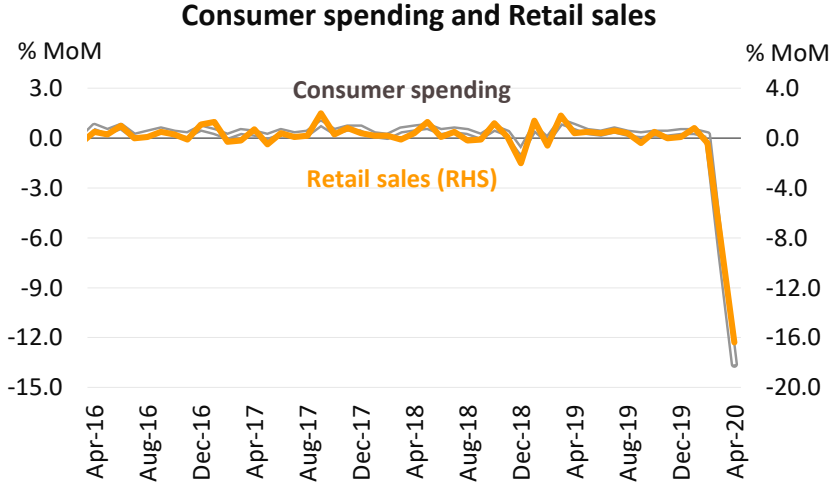
- **Economic activity worldwide has bottomed out as more countries register fewer new Covid-19 cases and start to ease lockdown measures.** The Global Composite PMI improved from a record low of 26.2 in April to 36.3 in May led by China. However, excluding April data, PMI indices for the US, Japan, Eurozone, and the world, remained at record lows. More importantly, the Global Composite PMI remained below 50.0, indicating a contraction in economic activities for the fourth consecutive month.
- **The recent improvement in economic activity was mostly driven by recovering production. Demand remains sluggish**, reflected by a sharp contraction in new export orders globally and in China. And, despite improvements in other sub-indices, the employment sub-index remained flat, meaning the job market has not improved and purchasing power remains weak. These suggest global demand and trade would remain sluggish for an extended period.

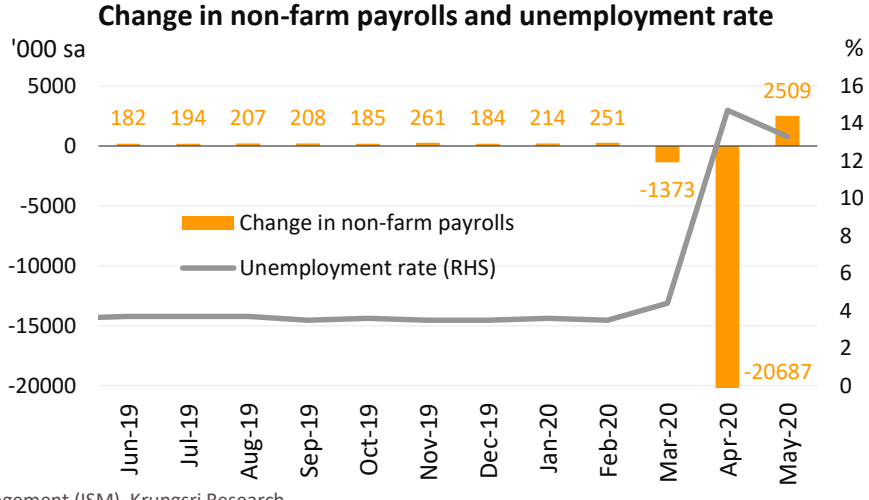
US: Economic data show improvement but consumer demand is still far below pre-pandemic level

US Composite PMI inched up in May after several states reopened for business. Specifically, Non-manufacturing Index jumped to 45.4 from 41.8 in April and Manufacturing PMI rose from 41.5 to 43.1, indicating a gradual recovery on the supply side. Consumer Confidence Index inched up to 86.6 in May, suggesting a mild improvement in consumer sentiment. But retail sales tumbled by a record 16.4% in April, mainly due to slower sales of clothing and electrical appliances. Consumer spending contracted by 13.6% MoM in April, indicating demand remained weak. Non-farm payrolls rose by 2.5 mn in May compared with median projection of 7.5 mn job losses. However, unemployment rate improved to 13.3% in May from 14.7% in April, reflecting better labor market conditions after businesses distributed funds under the *Paycheck Protection Program* to keep their workers. Nevertheless, these indicators are still far from pre-pandemic levels and the economy requires more stimulus to boost spending.



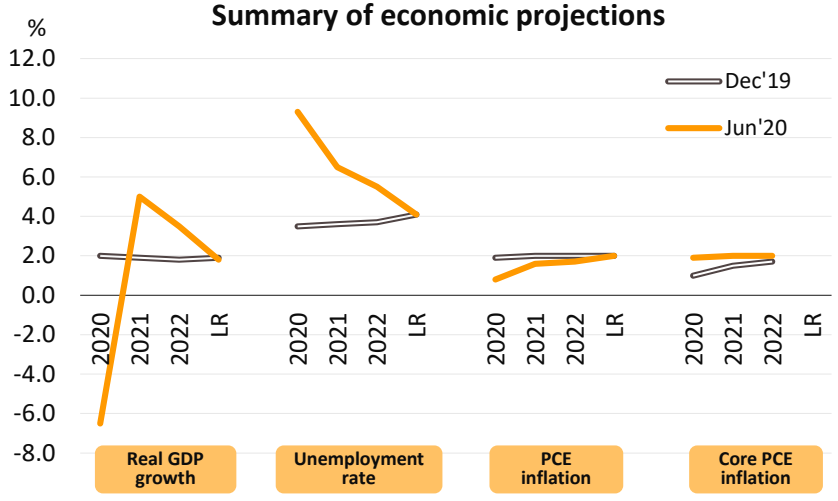


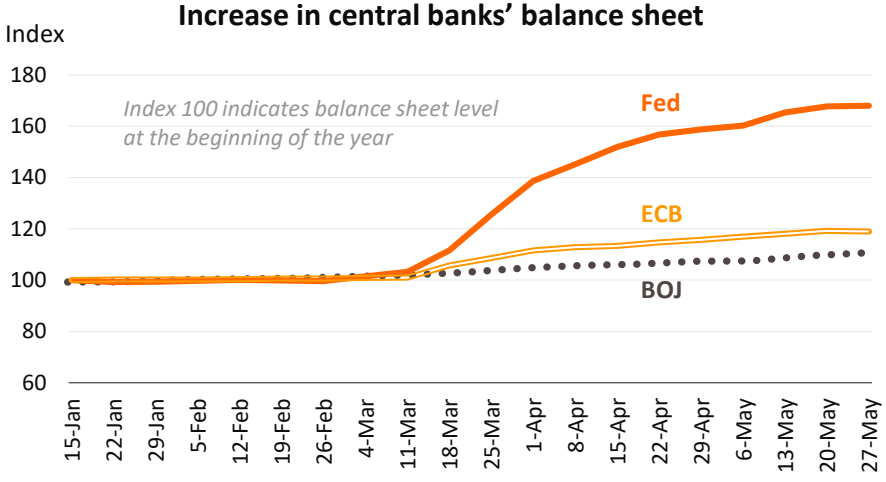




Source: Bureau of Labor Statistics (BLS), US Census Bureau, Conference Board, Institute for Supply Management (ISM), Krungsri Research

May expand monetary and fiscal policies to address the economic fallout





Measures	Details
Main Street Lending Facility	The Fed provides $600bn in loans through SPV in which Department of Treasury will contribute $75bn. This program targets SME business with less than 15,000 employees and $5bn annual revenue; This tool is divided into 3 types: (**i) Priority loans** for companies with high leverage, (**ii) New loans** ($250k minimum per borrower), and (**iii) Expanded loans** ($10mn minimum loan per borrower) with a 5 year term and principal repayments delayed for 2 years
Paycheck Protection Program (PPP)	Easing loan-forgiveness conditions including (i) extend length of time to use loans from 8 to 24 weeks, (ii) reduce share of funding to payroll cost from 75% to 60%
Additional fiscal bills for $3 trn	Congress will decide on the $3trn 'Final Covid Relief Bill' which comprises $1 trn in local government aid, another round of direct payment, and extension of unemployment insurance

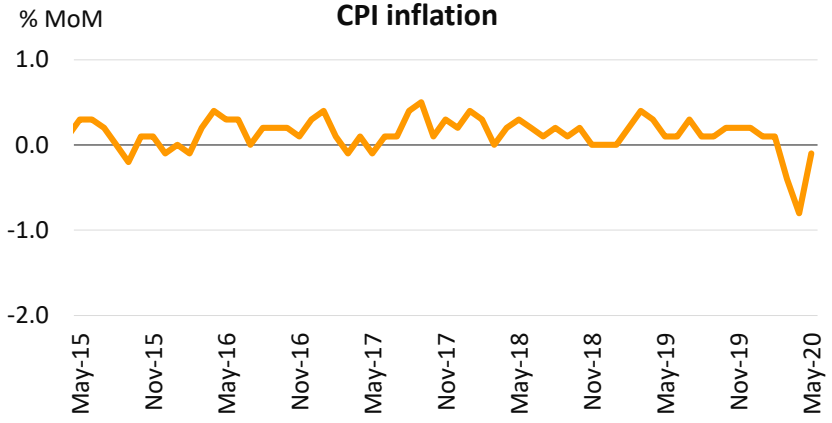
Source: Federal Reserve Board, European Central Bank, Bank of Japan, Bloomberg, Krungsri Research

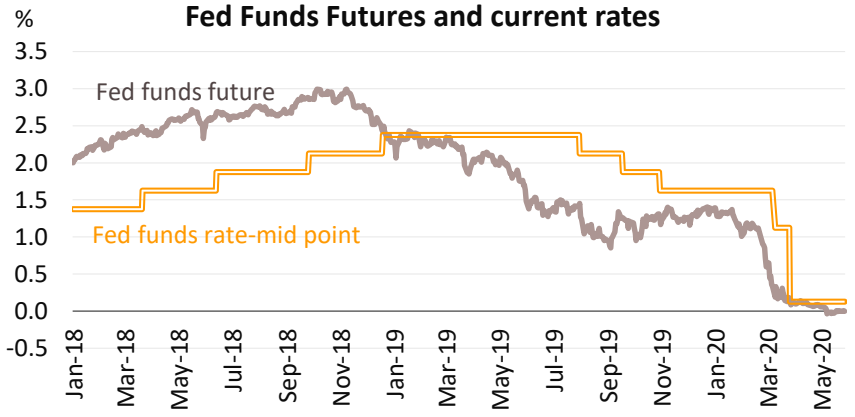
Krungsri Research's view

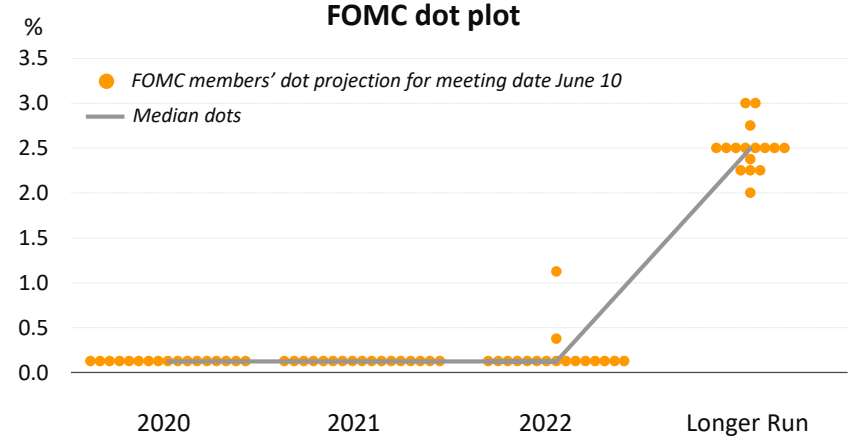
- The Fed's quarterly projection shows US GDP would contract by 6.5% this year and unemployment rate would rise to 9.3%. To address this, the Fed has supersized its balance sheet compared to the BOJ and ECB, and is keeping monthly treasury bill purchases at $80bn and MBS at $40bn. The Fed's balance sheet had expanded by over 67% in Jan-May.
- Upcoming *Main Street Lending Facility* and easing PPP regulations would continue to *'forcefully, proactively and aggressively'* release liquidity to SMEs and households as the Fed has committed to '*act as appropriate*' and use the *'full range*' of tools to support the economy, similar to Congress' move to consider a $3trn fiscal stimulus in late-July.
- **Despite the massive monetary and fiscal relief programs, the US economy requires more policy actions.** The Fed projects unemployment rate would remain high at 5.5% even at the end of 2022, above pre-pandemic level of 3.5%. Moreover, **concerns over a second outbreak, renewed US-China trade tensions and the George Floyd protests which has prompted several states to close their economies again, are also risks to the economy.** These, coupled with the uncertain outlook, could slow down the pace of economic recovery.

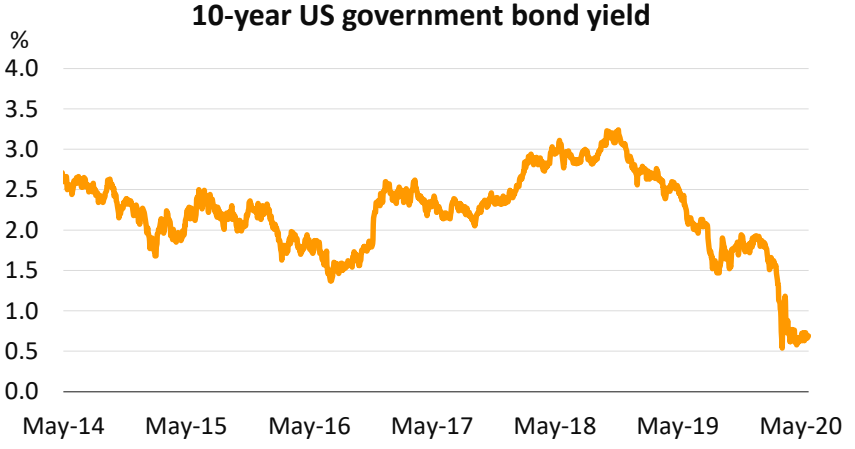
FOMC might hold rates until 2022, consider Yield-Curve Control policy

The FOMC kept Fed Funds Rate at 0.00-0.25% at the June meeting. CPI fell 0.1% in May, dropping for the third consecutive month, implying weak consumption which accounts for two-thirds of US GDP. **Though markets have priced-in expectations of the Fed introducing negative interest rates this year, the FOMC's dot plot suggests they would keep interest rates low but above zero through to 2022. The Fed might consider alternative action at the late-July meeting, such as setting target yields for treasury securities or Yield-Curve Control (YCC).** The Bank of Japan (BOJ) and the Reserve Bank of Australia (RBA) have adopted this tool to fight deflation. The YCC action could ensure low borrowing costs over the longer-term by allowing the Fed to buy the required securities to peg interest rates. The steepening bond yield curve is a major concern for the Fed. That could increase the probability of implementing YCC later this year as a strategic tool to support forward guidance for low benchmark rates in medium-term.







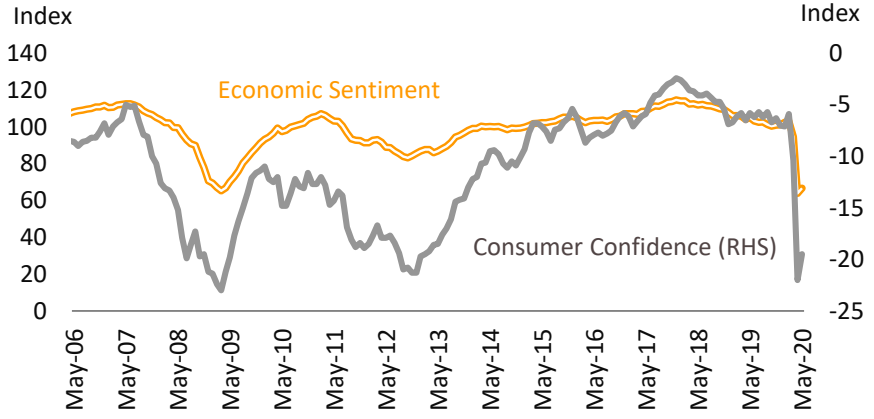


Source: Bureau of Economic analysis (BEA), Federal Reserve Board, Bloomberg, Krungsri Research

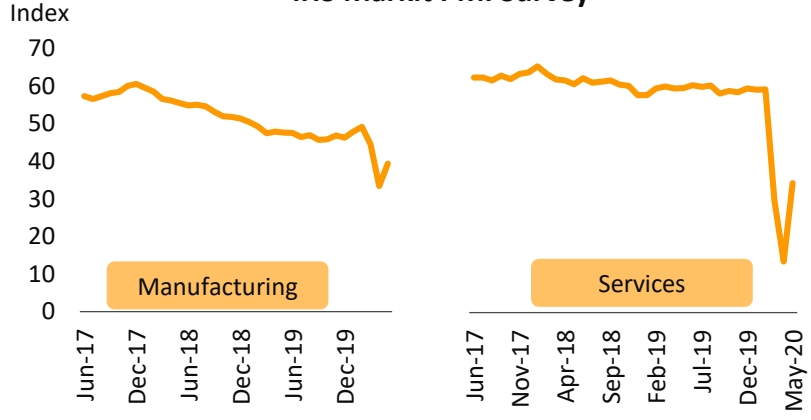
Europe: Economic Sentiment Index suggests slow recovery, while jobs data is distorted by policy support

EU Economic Sentiment Index improved slightly to 66.7 in May from 63.8 in April and Consumer Confidence Index rose to -19.5 from -22.0, following reopening optimism in major economies and slower rise in infections. However, these indicators remain weak at close to Global Financial Crisis levels. Markit PMI data suggest manufacturing and services sectors are crawling off their record lows but still posted a sharp contraction. In the labor market, unemployment rate across Eurozone rose only slightly to 7.3% in April, reflecting positive effects of short-term working schemes subsidized by governments in several countries. HICP inflation continued to decelerate to 0.1% due to lower energy prices and weaker demand. This could pressure the European Central Bank to implement a policy to boost inflation to return to its target of 2.0%.

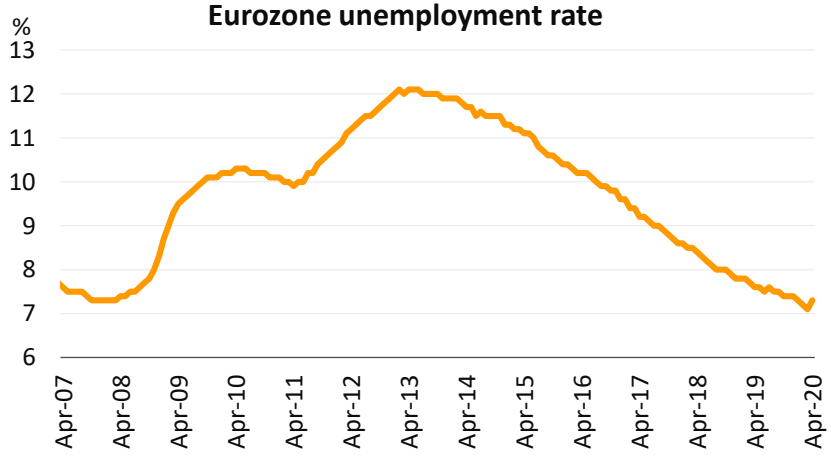
Economic sentiment and Consumer confidence



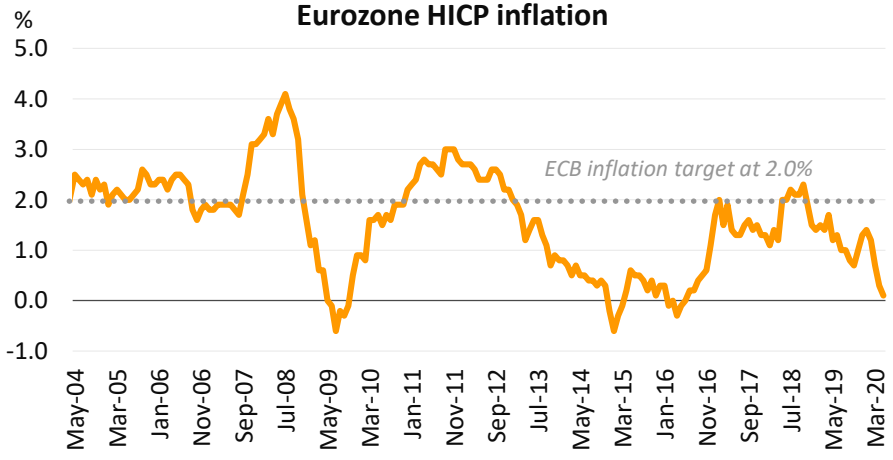
IHS Markit PMI Survey



Eurozone unemployment rate

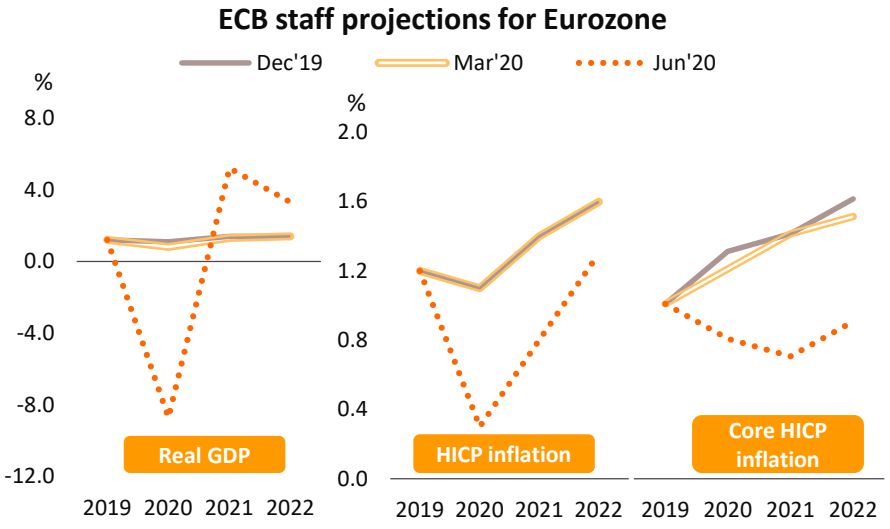


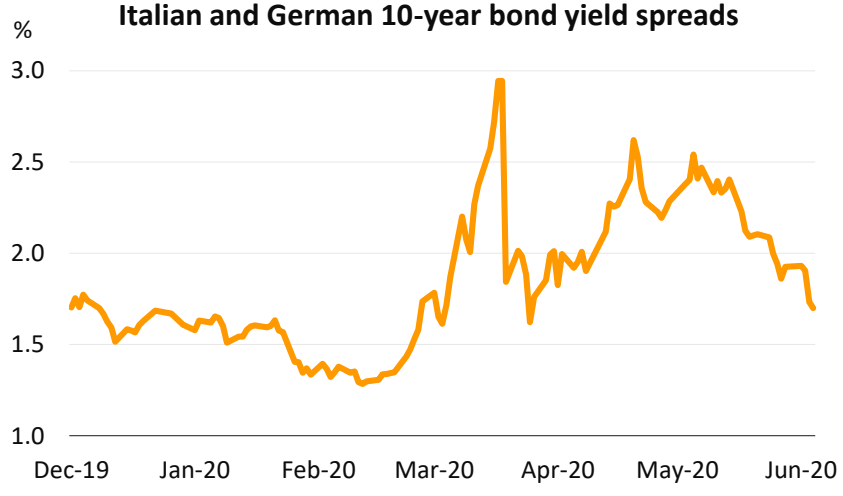
Eurozone HICP inflation



Source: Eurostat, European Commission, European Central Bank, IHS markit, Krungsri Research

ECB scales up bond-buying program to battle economic recession and to support the long road to recovery





Source: European Commission, European Central Bank, CEIC, Krungsri Research

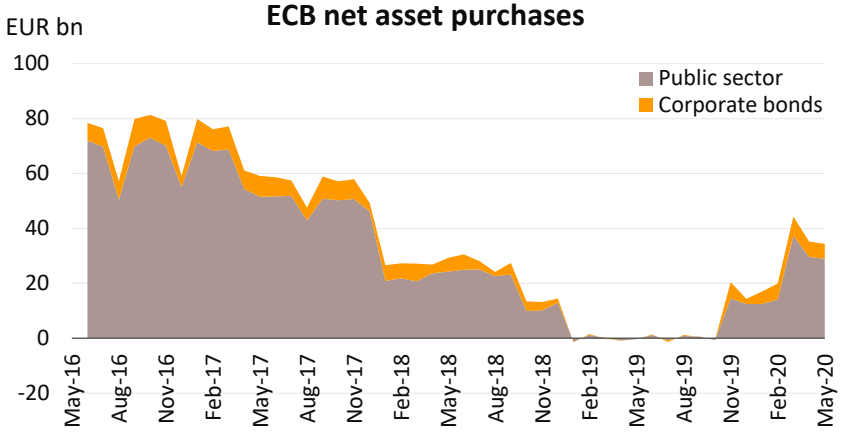
Krungsri Research's view

- Key notes from the Governing Council Meeting on 4 June included **expanding monetary stimulus** to support the reopening of the economy and ensure medium-term price stability by employing the following measures:
  - increase the Pandemic Emergency Purchase Program (PEPP) by €600bn to €1,350bn and maintain asset purchases at €26bn per week throughout this year
  - extend the program to at least June 2021
  - maintain low interest rates for the main refinancing, marginal lending and deposit facilities at 0.00%, 0.25% and -0.5%, respectively
  - affirmed that asset purchases would continue to be conducted in a flexible manner over time, across asset classes, and among jurisdictions.
- **We expect the firepower from the ECB to improve market sentiment**, reflected by the 30bps drop in spreads between Italy and German bond yields since the beginning of the month. This targeted and proportionate stimulus would limit the economy fallout and support a slow recovery in Eurozone.
- **However, large uncertainty and risk of a second outbreak could dampen the economic outlook and prompt the ECB to expand monetary easing.** The ECB said it stands ready to *"adjust all of its instruments, as appropriate, to ensure that inflation moves towards its aim in a sustained manner…"* and support the coordinated fiscal policies. The ECB projected real GDP would fall as much as 8.7% this year and HICP inflation would drop sharply to 0.3% in 2020. Even in 2022, inflation is projected at only 1.3%, still below the 2% target.

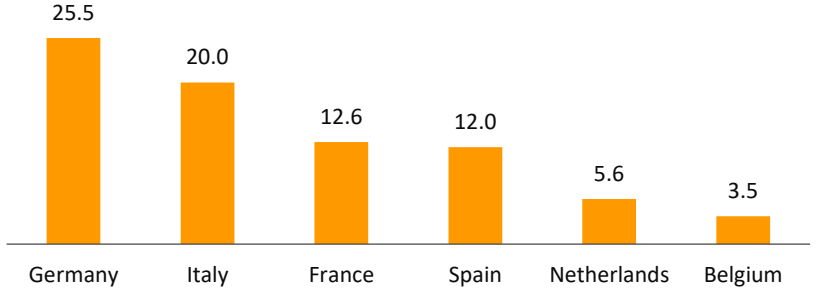
Releasing massive relief package but delivery would be delayed

The ECB's net asset purchases remain high although the pace slowed in May as countries eased restrictions and activities resumed. The largest purchases under the PEPP during the outbreak were German bonds, followed by bonds from Italy, France and Spain. This implies strong efforts to support both core and peripheral economies. In addition to monetary easing, the European Commission (EC) announced a €1.85 trn financial firepower with €750bn for Covid recovery (€250bn in loans and €500bn in grants) and €1.1 trn for the long-term budget. The EC's largest allocation is for Italy (€172bn), followed by Spain €140bn, France €38bn, and Germany €28bn. **However, they have yet to finalize the terms and conditions, funding form, and delivery dates, which could be opposed by the *Frugal Four*. Negotiations could take months. The EC expects the new multi-annual financial framework to be implemented in Jan 2021. This policy could affect the pace of recovery in the region.**

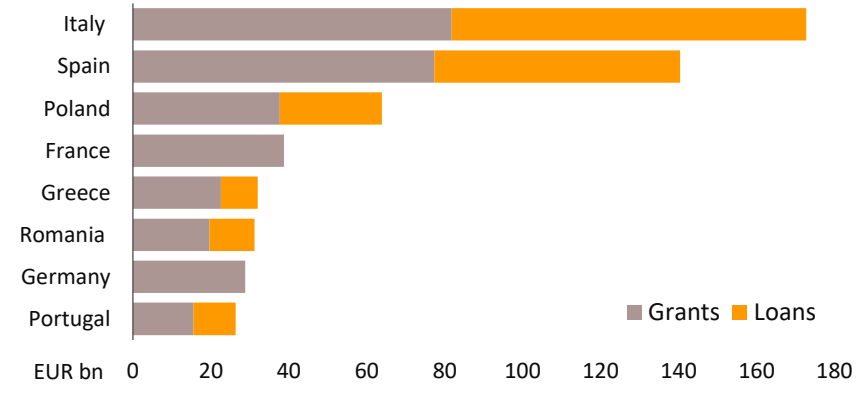
ECB net asset purchases



PEPP: Net purchases of government bonds during Mar-May (% of total purchases)



Allocation of EU stimulus plan



EU policy response	Details	Value and Period of implementation
SURE/ESM Pandemic Crisis support / EIB Guarantee Fund	Safety net for workers, businesses and sovereigns	**€540bn (23 Apr 2020)**
Next Generation EU	To boost budget with new financing and to invest in green, digital and resilient businesses in the EU	**€750bn (2021-2024)**
Multiannual Financial Framework	Long-term budget for the EU	**€1100bn (2021-2027)**

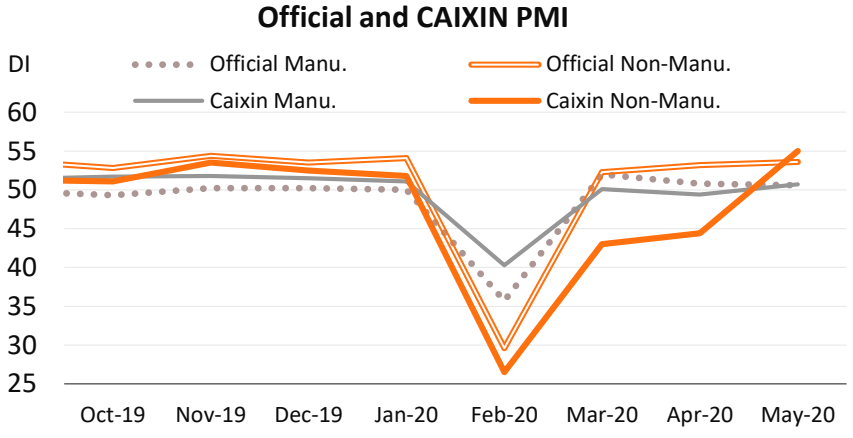
Source: European Commission, European Central Bank, Capital Economics, Krungsri Research

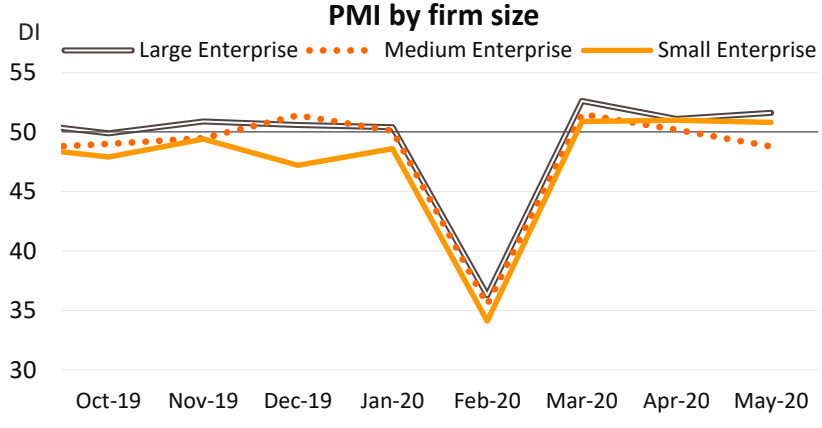
SURE: Support to mitigate unemployment risks in an emergency
ESM: European Stability Mechanism
EIB: European Investment Bank

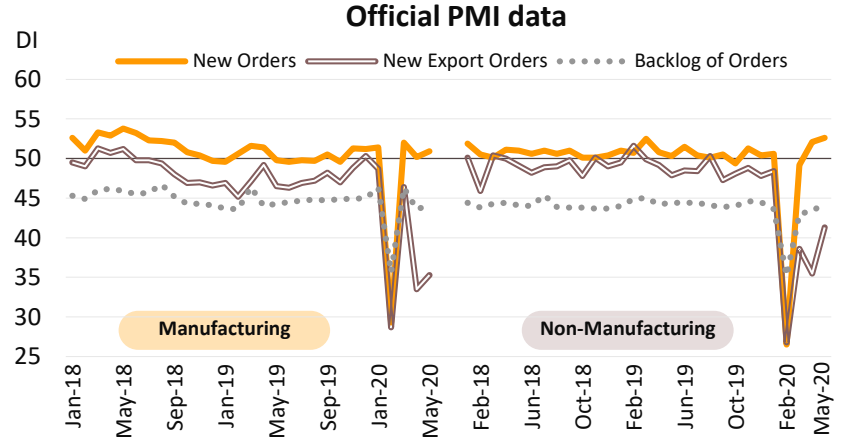
China: Economic activities have bottomed-out faster than other major countries, but recovery is uneven

China's economy continues to recover as workers resume work, reflected by a recovery in daily road and rail passenger traffic. Air travel remains muted. May Caixin PMI data for manufacturing and non-manufacturing sectors rose to 50.7 and 55.0, respectively. This implies output has started to expand. Official PMI for non-manufacturing inched up to 53.6 while that for manufacturing eased to 50.6. However, **the recovery is not broad-based because PMI data dropped for medium and small enterprises which are vulnerable to subdued demand. The sub-indices for new export orders and orders backlog continued to contract sharply amid the global economic slowdown. Looking forward, although China is recovering ahead of other countries, there is risk from declining new export orders.**





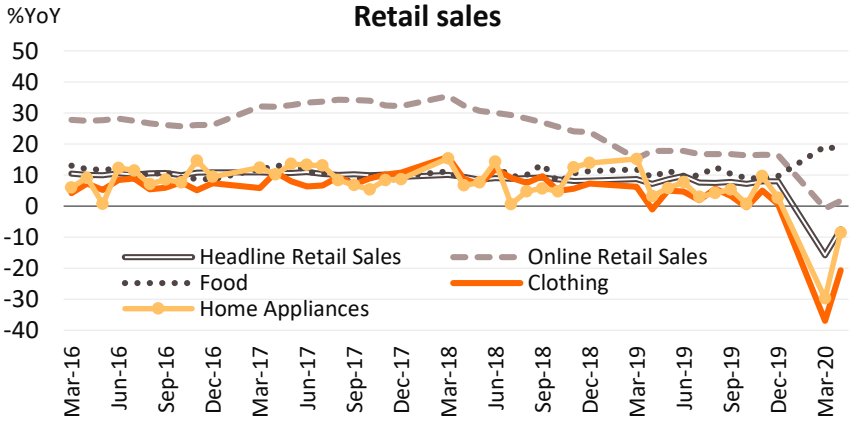


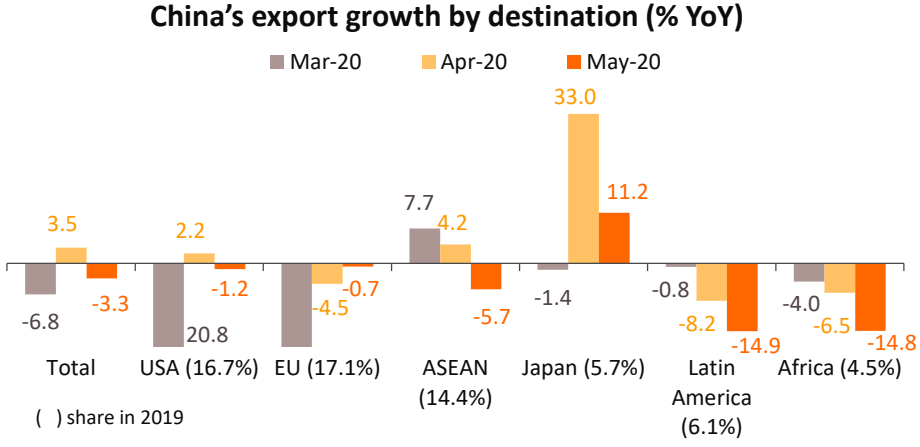


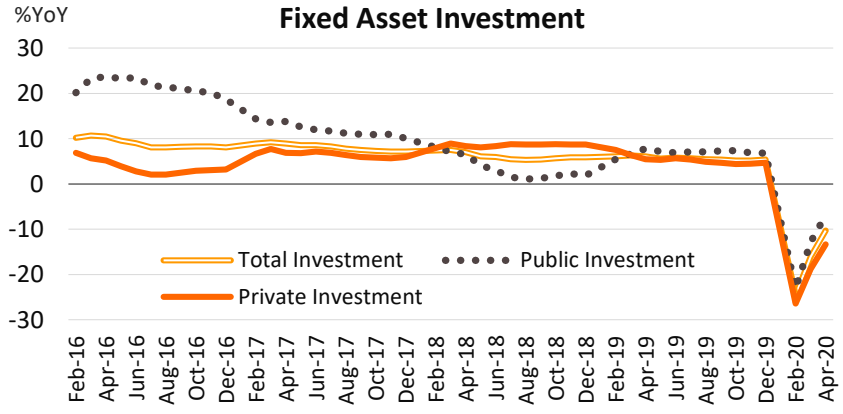
Source: National Bureau of Statistics (NBS), Caixin, Bloomberg, Krungsri Research

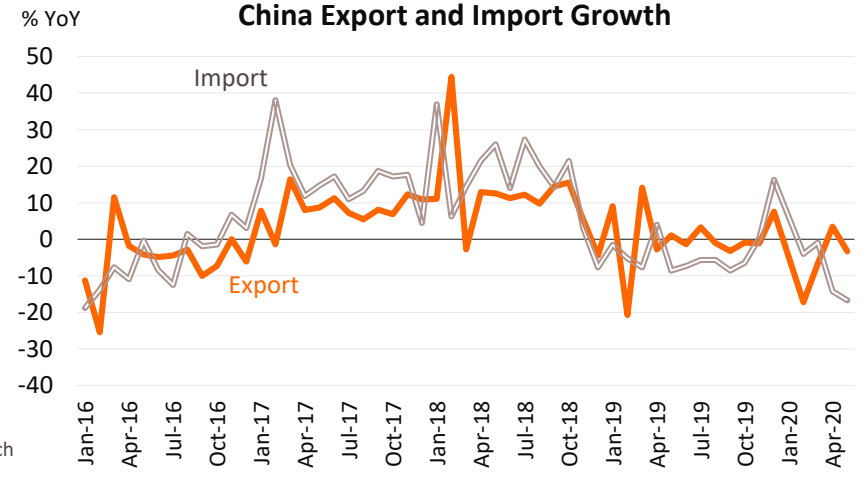
Pace of economic recovery capped by weak domestic and external demand

Although the supply-side continued to improve, both domestic and external demand remain lethargic. In April, retail sales contracted by 7.5% YoY, especially for clothing (-20.7%) and home appliances (-8.5%). Fixed asset investment also fell in April led by both private investment (-13.3%) and public investment (-6.9%). Imports also tumbled 16.7%. **The contraction in retail sales, fixed asset investment and imports, reflect subdued domestic demand. High unemployment (6% in April) would further undermine purchasing power.** Looking at external demand, Chinese exports fell 3.3% in May as Covid-19 continued to devastate global demand at most of its major export destinations, except Japan which saw demand for electronic products. **Looking forward, China domestic demand is likely still far below pre-pandemic level, while exports may be weaker due to a contraction in global trade and worsening US-China relations.**









Source: National Bureau of Statistics (NBS), Financial Times, Bloomberg, Reuters, CEIC, Krungsri Research

For the first time, the NPC refused to set a growth target; other targets suggest more stimulus is needed

Indicator	2017 Actual	2018 Target	2019 Target	2020 Target	Implications
GDP growth (% YoY)	6.5%	6.5%	6.0-6.5%	-	Abandons GDP target for the first time in 20 years, suggesting uncertainty over Covid-19 impact
Urban job creation (mn)	11.0	11.0	11.0	↓ 9.0	Retains target for employment but more conservative at 9 mn to absorb unemployed migrants
Fiscal deficit (% of GDP)	3.0%	2.6%	2.8%	↑ ≥3.6%	Budget deficit target is raised to above 3.6% to ensure adequate fiscal stimulus
Quota for special bond issuance (% of GDP)	1.0%	1.5%	2.2%	↑ 4.6%	Quota for special bond issuance is doubled to support infrastructure investment
M2 (% YoY)	12%	-	9.0-9.5%	↑ >9.0%	Target is greater than actual M2 growth in 2019 (8.4%), reflecting greater concerns over risks to growth than about financial risks
Shanty town flat starts (units mm)	6.0	5.8	2.9	-	
CPI (% YoY)	3.0%	3.0%	3.0%	↑ 3.5%	Raised target to 3.5% to create space for more monetary easing

Additional PBOC Monetary Stimulus Measures Targeted at Small Businesses

Plan to buy RMB400bn microloans from commercial banks

- Injecting RMB400 bn relending quota into Special Purpose Vehicle (SPV), which will buy commercial bank loans extended to Micro- and Small-sized Enterprise (MSEs)
- SPV will buy 40% of loans extended by banks, but it will not take any of the loan risks, while commercial banks will bear the credit risk and interest gained from the loans
- The fund will be repaid to the PBOC within a year
- The temporary loan purchase plan is aimed at encourage banks to lend up to RMB 1 trn to small businesses.

Refinancing for small banks to roll over loans for small businesses (RMB40 bn)

- Provide RMB40 bn of refinancing to small local banks to roll over loans for small businesses with less than RMB10 mn credit line
- Banks who extend loan repayment period can apply for an incentive equivalent to 1% of the principal through interest rate swaps with the Special Purpose Vehicle (SPV)
- For companies who borrow from local banks under this scheme, they must promise to keep employment "basically stable."

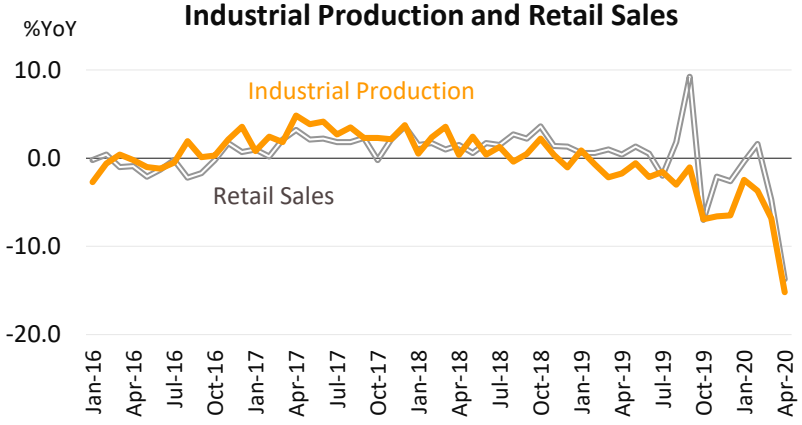
Krungsri Research's view

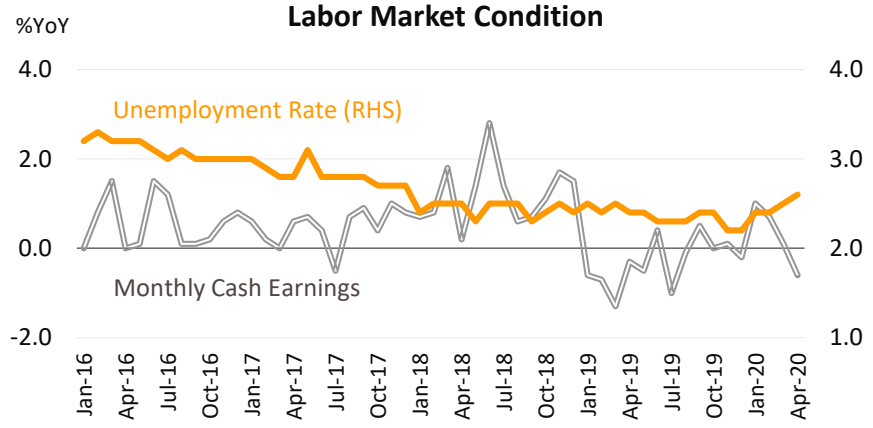
- China's government did not set a GDP growth target for 2020, but nominal GDP is embedded in the budget plan. If the planned deficit is RMB3.76trn and budget deficit target is 3.6% of GDP, nominal GDP would be RMB104.44trn. Given 3.5% target CPI growth, then **the implicit economic growth target is 2.0-4.0%, compared to only 1.2% forecast by the IMF. This implies the Chinese government and the PBOC are likely to expand fiscal and monetary stimulus to support economic growth**, including cutting policy interest rates, lowering reserve requirement ratio, and extending targeted monetary easing.

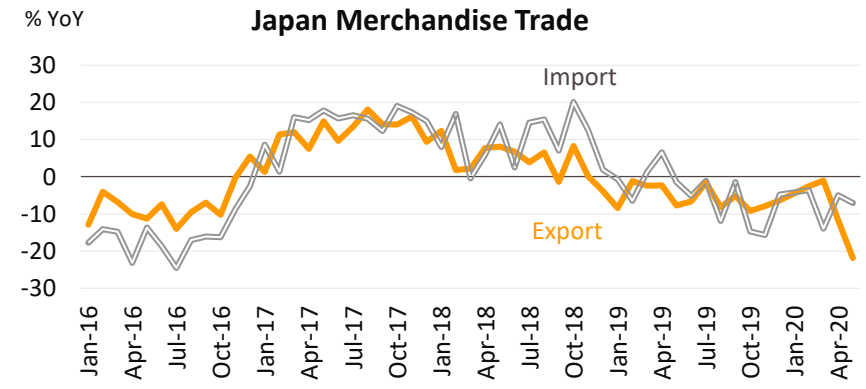
Source: National People's Congress (NPC), NBS, PBOC, IMF, Bloomberg, Reuters, Capital Economics, Krungsri Research

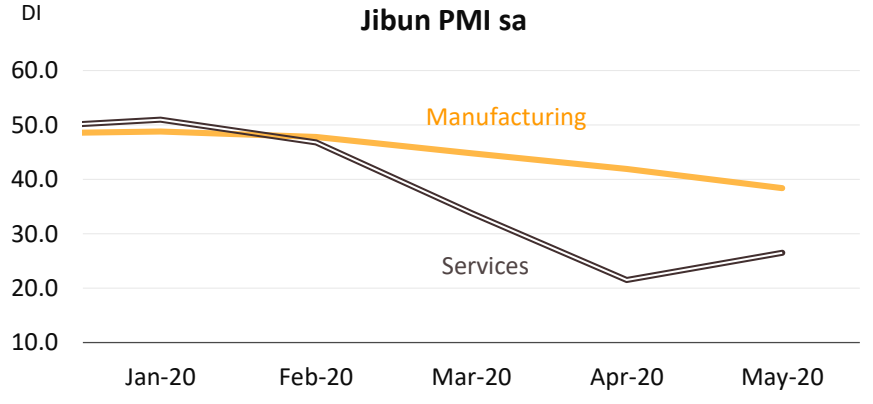
Japan: Several indicators tumble; recovery could be slow

Japan's industrial production index plunged 15.7% YoY in April, the worst drop since the global financial crisis in 2009. Manufacturing activities were halted under state emergency measures and the global lockdown disrupted supply chains. Retail sales also tumbled 13.7%, the most severe decline since 1998, as deteriorating income weighed on spending. Monthly cash earnings fell 0.6% due to an unprecedented decline in overtime income, while unemployment rate inched up to 2.6%, implying weaker domestic demand. Looking at external demand, exports tumbled 21.9% in April, the sharpest drop since 2009. And, May Manufacturing PMI slid to 38.4, specifically, the new export orders sub-index fell to 30.0, reflecting the impact of subdued global trade. Services PMI remained low at 26.5. More importantly, PMI indices and sub-indices are still far below 50.0, implying activities continue to contract. Capital Economics projects Japan's economy would worsen and contract by 14.1% YoY, compared to -2.2% YoY growth in 1Q20. **Looking ahead, production should improve gradually, especially after the government said it would remove the state of emergency, but external demand would remain subdued because of the global economic contraction.**









Source: Capital Economics, Bloomberg, CEIC, Krungsri Research

Ramping up fiscal and monetary stimulus to reduce downside risks, but weak demand will dampen growth

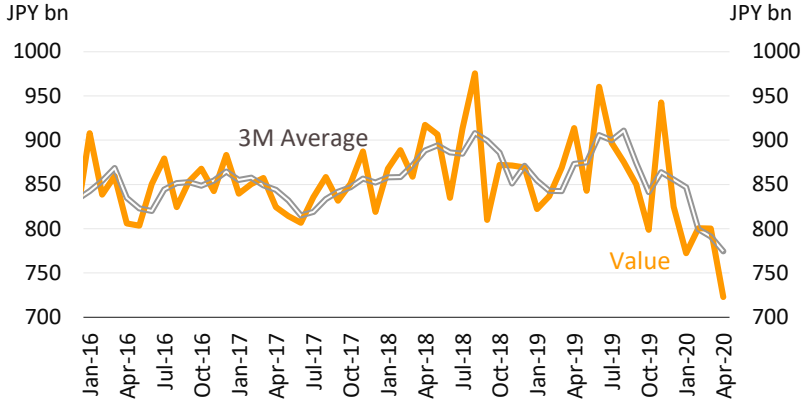
In May, Japan introduced additional fiscal packages to help SMEs retain workers. These measures will complement the earlier JPY117trn packages, and take total government support to JPY234trn, or 40% of GDP. **However, actual fiscal spending is at 10.4% of GDP and Bloomberg expects it would contribute only 0.7 ppt to 2020 GDP growth. Also this stimulus package would lift bond issuance to JPY212trn in FY2020, and take budget deficit to over 13% of GDP and raise public debt to 270% of GDP, the highest among any major economies.** Meanwhile, the Bank of Japan (BOJ) has ramped up massive stimulus measures to boost lending to small firms. The new lending facility will offer incentives to the banks, 0.1% interest on the amount they lend out. Since many firms are facing tight cash flows, there was a surge in demand for liquidity. Banking system loan growth improved from +1.9% in January to +4.8% in May, the highest since 2004. **This program could reduce downside risk. Nonetheless, Japan will continue to implement several lockdown measures, consumer spending is weak, business investment will slump (machinery orders have dropped), and external demand remains weak. All these will increase pressure on the Japanese government and the BOJ to introduce additional stimulus package.**

Japan: Additional stimulus measures to help SMEs

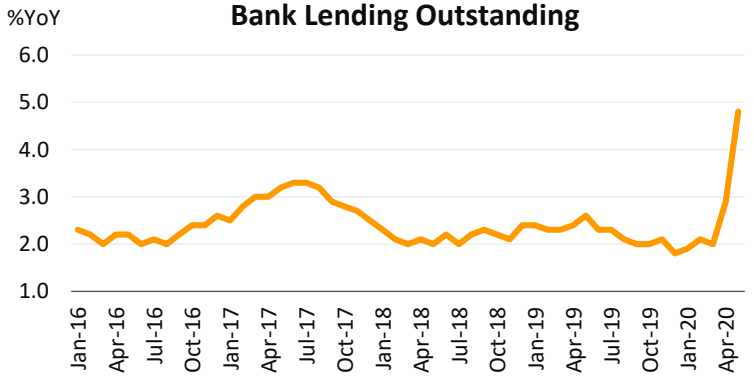
Fiscal stimulus package: preventing job losses and bankruptcy (Worth JPY117 trn)
Fund for Development Bank of Japan and Shoko Chukin Bank to offer cheap loans to struggling businesses
Government contribution to a worker's leave allowance through the employment adjustment subsidy scheme has been raised from JPY 8,330 to JPY15,000 a day
Government support to pay 80% of workers wages at SMEs which are unable to pay leave allowance (up to JPY 330,000 a month)
Government support to pay two-thirds of rental expenses for shops that experience a 50% annual drop in sales

Monetary stimulus: lending facility to support small businesses (Worth JPY45 trn)
New facility will lend up to JPY30trn to banks, interest-free for one year
Each bank is able to borrow up to JPY100bn
Twice the amount lent will be added to reserve balances that carry 0% interest rate rather than the policy rate of -0.1%, while additional reserves equivalent to the amount lent will carry interest rate of +0.1%

Core Machinery Orders



Bank Lending Outstanding



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

Covid-19 vulnerability dashboard: Uneven global recovery

The dashboard reveals the vulnerability of each country affected by the Covid-19 crisis and recovery prospects. Countries which managed to contain the outbreak faster, have more effective policy response, more fiscal space, and relies less on the tourism sector, would recover faster. South Korea, Japan, Germany, China, and Taiwan rank at the top. Brazil, South Africa, Turkey and Myanmar are the most vulnerable. The dashboard comprises four factors: (i) Covid-19 containment: the number of new cases remains high in many countries and regions (still higher than 20% of their peak levels) despite fewer new infections; (ii) government effectiveness: EMs are the most vulnerable, led by Myanmar, Laos, and Brazil; (iii) fiscal space: South Africa, Argentina, and Brazil have the smallest space for fiscal response; and (iv) reliance on the tourism sector: Thailand and Hong Kong are the worst hit, and would take longer to recover.

Indicator/Country		South Korea	Japan	Germany	China	Taiwan	Hong Kong	United States	France	Italy	Spain	Vietnam	Philippines	Indonesia	Malaysia	Singapore	India	Thailand	Laos	Argentina	Myanmar	Turkey	South Africa	Brazil
Summarized Score																								
(i) Covid-19 containment		21	29	47	33	43	25	***	***	65	60	66	***	***	***	***	***	46	30	***	***	***	***	***
(ii) Government Effectiveness		1.2	1.7	1.6	0.5	1.4	1.9	1.6	1.5	0.4	1.0	0.0	0.0	0.2	1.1	2.2	0.3	0.3	-0.7	0.0	-1.1	0.0	0.3	-0.4
Fiscal Space	(iii) Public Debt (% of GDP)	40	238	59	56	35	0.1	106	99	133	96	54	39	30	56	114	69	42	58	93	39	30	60	92
	(iv) 10Y Government Bond Yield	1.5	0.0	-0.3	2.8	-0.3	0.6	0.9	0.0	1.4	0.5	n/a	2.2	7.3	3.0	1.1	5.8	1.3	n/a	n/a	n/a	6.4	9.0	7.1
(v) Reliance on Tourism Sector		1.2	0.9	1.5	0.3	4.3	11.5	1.2	2.6	2.5	5.7	4.1	2.9	1.5	4.2	5.6	1.1	12.9	6.1	1.2	2.3	4.8	2.7	0.3

Less vulnerable — More vulnerable

Note:
(i) Number of days to contain the Covid-19 outbreak (from the date new cases peaked to when new cases are less than 20% of the peak level and that period is longer than 14 days).
*** Countries where new cases are more than 20% of the peak level
(ii) Government Effectiveness Index in 2018 (World Governance Indicators by World Bank): The index captures perceptions on the quality of public services and civil service, and degree of independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Estimates give the country's aggregate score in units of a standard normal distribution, i.e. ranging from approximately -2.5 to 2.5.
(iii) Latest data 2019 (World Development Indicators)
(iv) As of 9 June
(v) Tourism Revenue (% of GDP in 2018)

Source: Bloomberg, WHO, World Bank, UN, IMF, Trade Map, CEIC, Krungsri Reserch

Thailand: Covid-19 crisis and path of sectoral recovery

An improvement in the supply side has lifted market sentiment but demand remains weak

- COVID-19 pandemic has pushed the Thai economy into a recession since 1Q20.
- In April, there were no foreign tourist arrivals, exports contracted, consumption tumbled, and sentiment indices hit historical lows.
- Latest high-frequency data show that a recovery in the supply side of the economy has lifted market sentiment but domestic demand remains weak amid rising unemployment.
- Bleak economic outlook and deflation risk might force the MPC to relax monetary policy further, despite no rate cut.

Krungsri Research predicts a U-shaped recovery

- Looking ahead, it is difficult to predict when the Covid-19 impact would end, and there is still large downside risks. The economic direction in the coming months would depend on COVID-19 situation and effectiveness of policy responses.
- The global pandemic might have peaked in 2Q20, but there is lingering threat of a second outbreak. Krungsri Research is predicting a U-shaped recovery for Thailand based on assumptions the outbreak would be contained in Thailand by the end of 2Q20 and economic policy responses are moderately effective. However, there is still a chance of a deeper recession, or worse, a financial contagion leading to an L-shaped recovery and a second wave of severe outbreak.

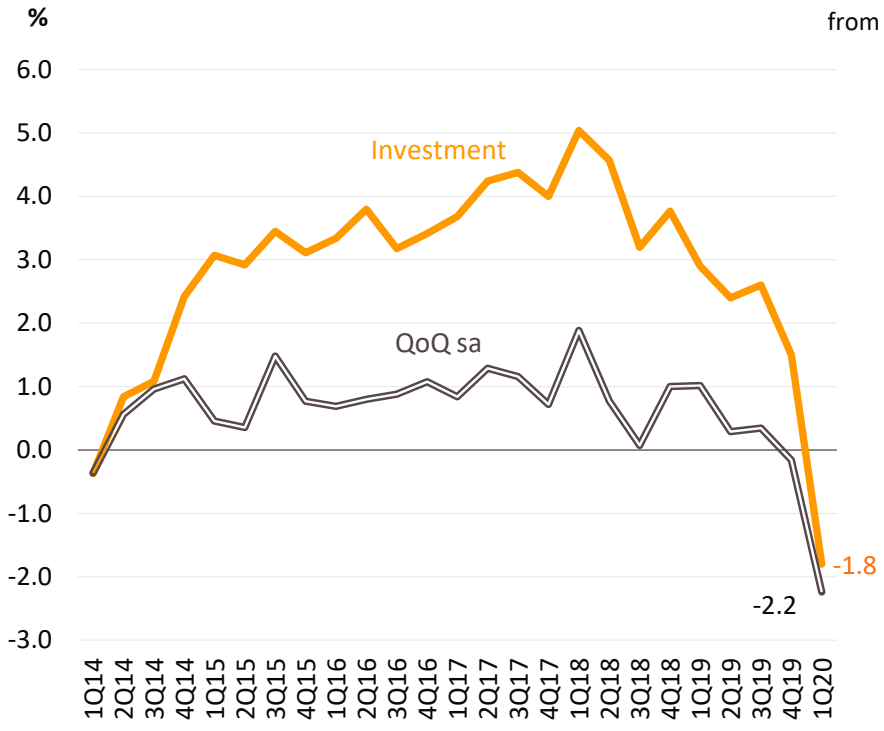
Most industries and business sectors are unlikely to return to pre-pandemic levels before 2022

- The pandemic has hit the economy through four channels: business closures under lockdown measures, a decline in overall demand, disruptions to global supply chains, and a shift in consumer behavior. Each business sector has responded to the economic recovery differently, and their response will determine their recovery trajectories.
- Our analysis of global production network data from the Global Trade Analysis Project (GTAP) suggests most industries/business sectors are unlikely to return to pre-pandemic levels before 2022. The only exceptions are hospital and food manufacturing sectors, which could return to pre-outbreak level in 2021. Air transportation, hotel, restaurant, and amusement & recreation centers will continue to suffer in 2021. Retail, wholesale, and electricity & gas industries have been severely affected but they might rebound faster than other sectors.

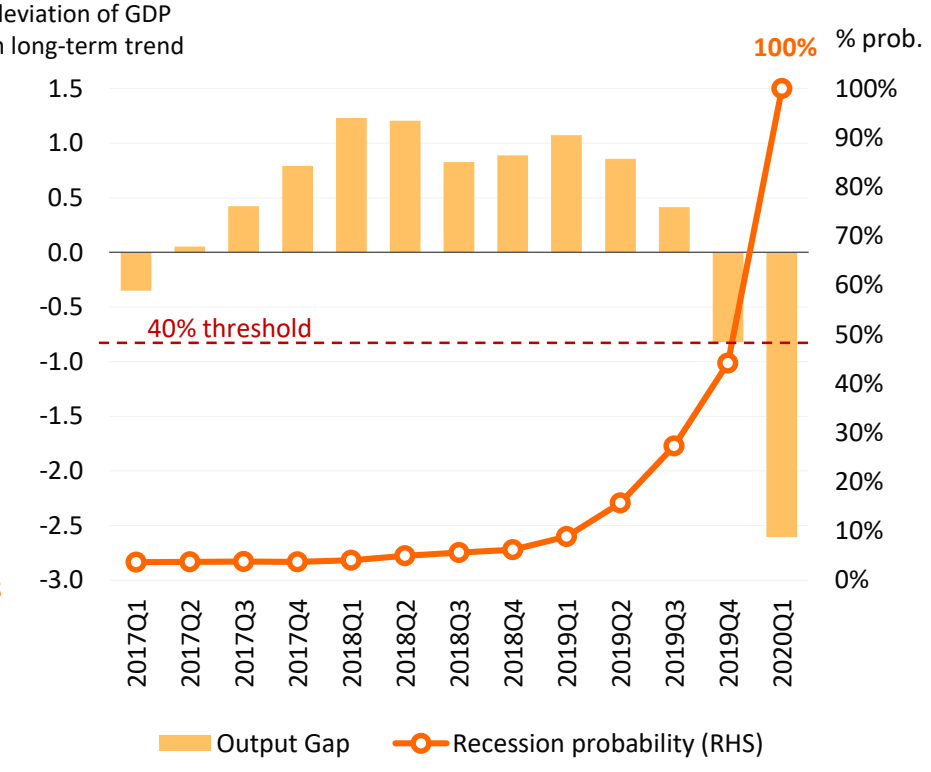
Recent development: Pandemic has pushed the Thai economy into a recession since 1Q20

Thailand registered the sharpest GDP contraction since the severe flooding in 4Q11, at -1.8% YoY vs +1.5% in 4Q19. Sequential growth dropped sharply to -2.2% QoQ sa from -0.2% in 4Q19. This means the output gap is negative for the second consecutive quarter, indicating Thailand is already in an economic recession. 1Q20 GDP growth was dragged by falling domestic investment (-6.5% YoY), weaker private consumption (+3.0% vs +4.1% in 4Q19), and a sharp drop in exports of services (-29.8%), mainly due to the Covid-19 impact.

Thailand GDP Growth

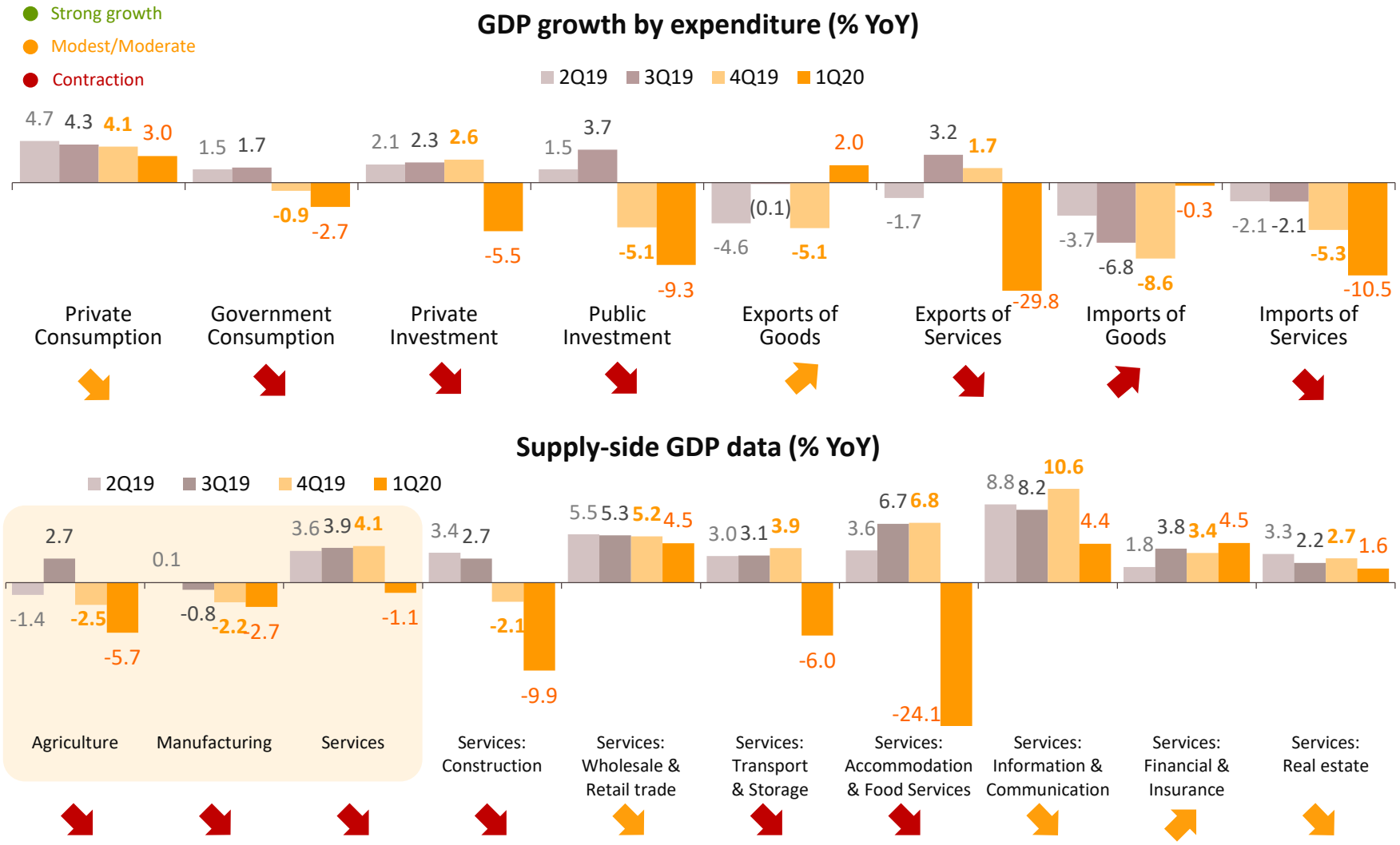


Probability of Recession



Source: NESDC, Krungsri Research

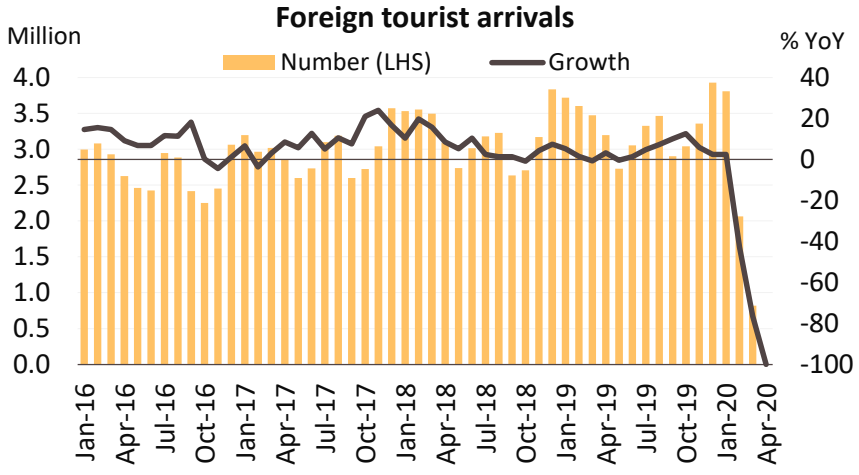
Temporary tailwinds for consumption and exports lifted 1Q GDP; supply-side hit by Covid-19 and drought

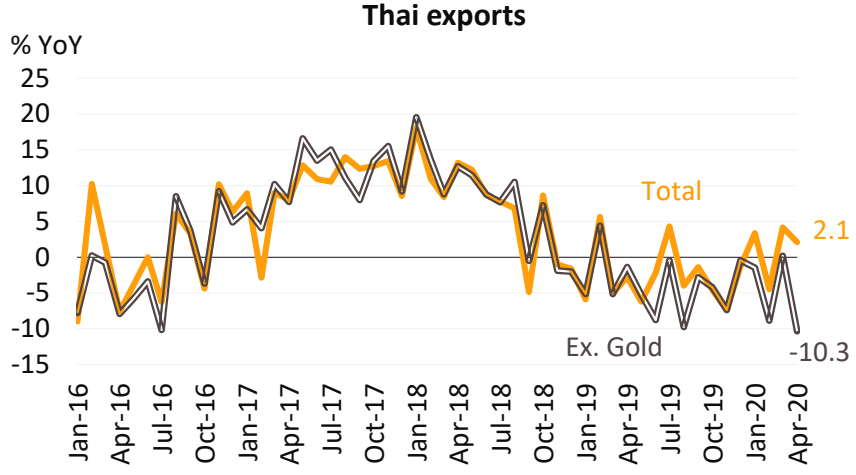


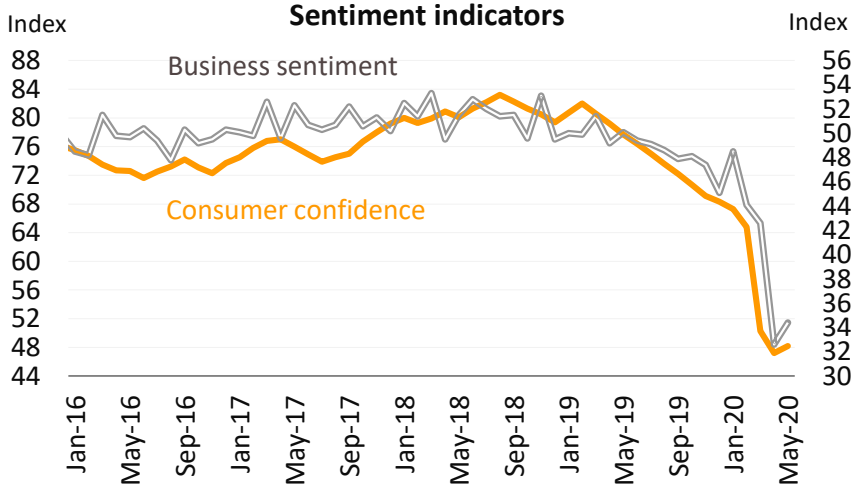
Source: NESDC, Krungsri Research

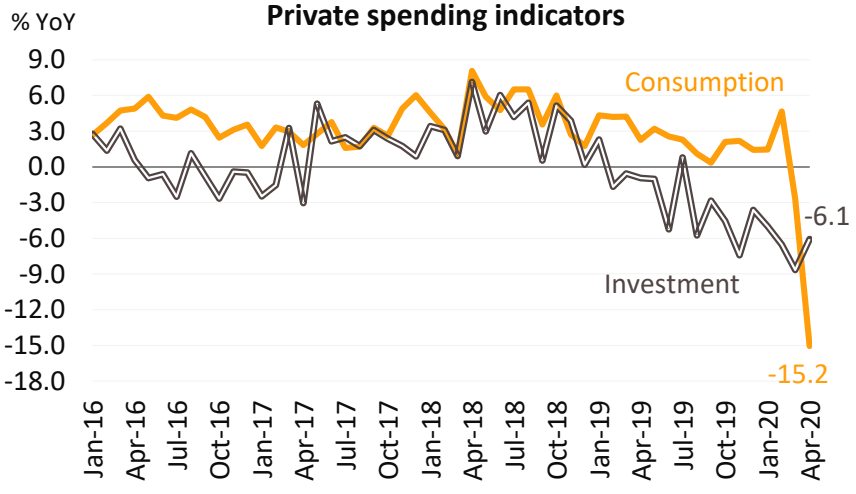
In April, zero foreign tourists, exports and consumption tumbled, and sentiment indices hit historical lows

Due to Covid-19 fears and travel restrictions, there were no foreign tourists in April. External demand weakened substantially, with April exports (excluding gold) falling 10.3% YoY, the lowest since August 2015. In April, business sentiment and consumer confidence also hit record lows. Private investment fell 6.1% and private consumption contracted by 15.2%.







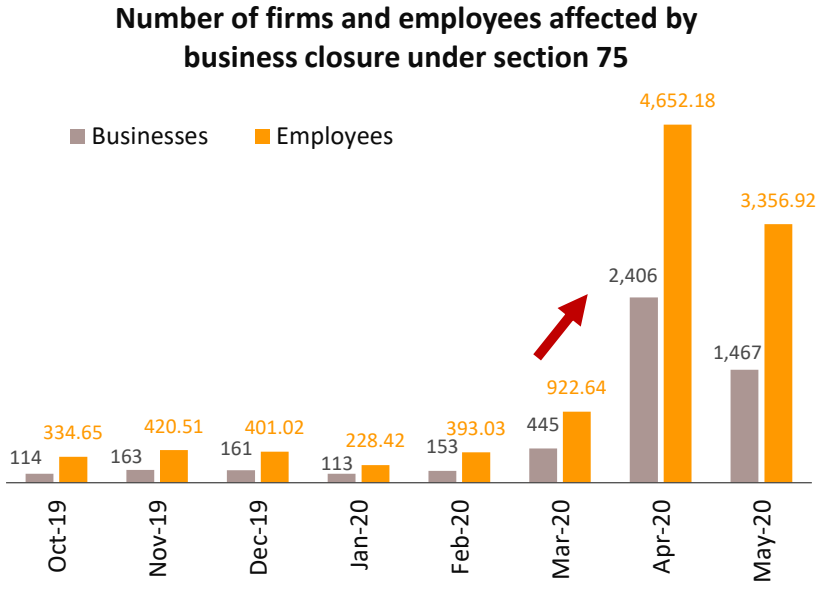


Source: MOC, MOTS, BOT, University of the Thai Chamber of Commerce (UTCC), Krungsri Research

Recovering supply-side of economy improves sentiment but demand remains weak amid rising unemployment

High-frequency data (6 March to 5 June 2020)

	6-Mar	13-Mar	20-Mar	27-Mar	3-Apr	10-Apr	17-Apr	24-Apr	1-May	8-May	15-May	22-May	29-May	5-Jun
COVID-19: No of new cases in Thailand (person)	7	28	247	814	739	598	227	154	106	40	25	12	39	26
Traffic in Bangkok (2019 average =98%)				37	37	38	39	46	50	62	56	60	67	
Passenger through Airport: Domestic (mn persons)		1.0200	0.8500	0.4000	0.1000	0.0033	0.0017	0.0018	0.0042	0.0082	0.0088	0.0099	0.0107	
Passenger through Airport: International (mn persons)		0.6300	0.4800	0.1900	0.0500	0.0015	0.0007	0.0008	0.0007	0.0008	0.0008	0.0009	0.0008	
SET Index	1,365	1,129	1,127	1,100	1,139	1,228	1,239	1,259	1,302	1,266	1,281	1,304	1,343	1,436
Foreign Exchange Rate: THB/USD	31.61	31.96	32.52	32.47	32.91	32.68	32.54	32.44	32.36	32.28	32.08	31.87	31.83	31.50
Mobility at retail and recreation (% chg from baseline)	-1.4	-5.4	-13.0	-35.7	-46.9	-48.3	-48.7	-46.9	-45.0	-41.4	-37.7	-30.4	-28.6	-22.1
Avg Spread: BBB 3 to 5 Y (basis points)	270	264	267	273	292	293	309	309	318	318	325	328	327	329

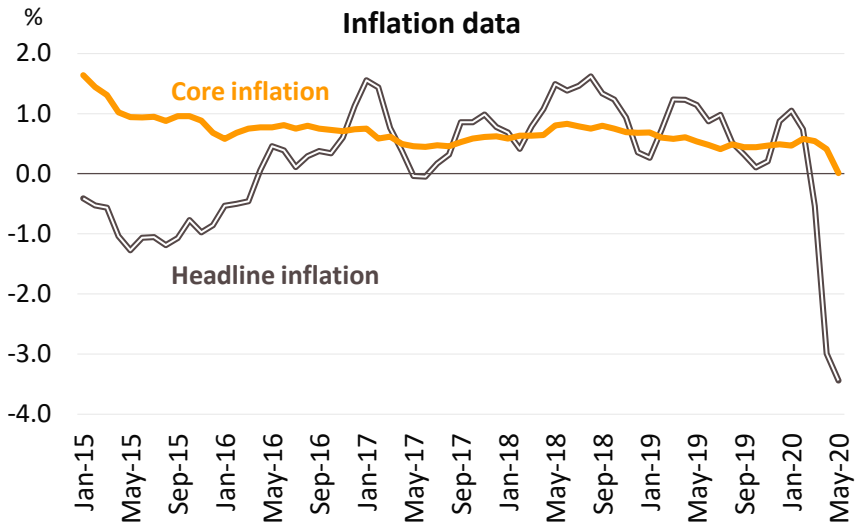


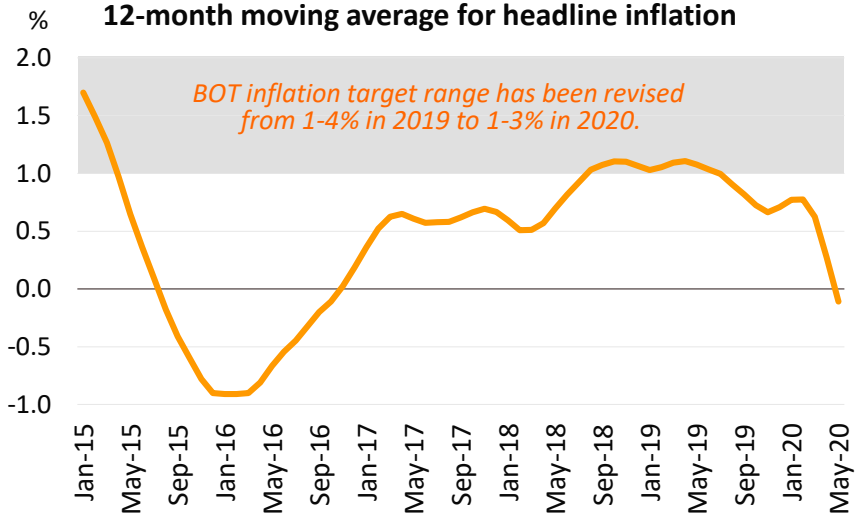
Source: BOT, CAAT, NESDC, Google (community mobility report), CEIC, Bloomberg, Krungsri Research

Krungsri Research's view

- **There is hope for an economic recovery as Thailand records zero new COVID-19 cases and lockdown measures are relaxed.** The Traffic Index in Bangkok has risen from April lows. The SET Index has returned to pre-pandemic levels.
- **However, social distancing and some lockdown measures continue to depress economic activities.** International passenger arrivals remain low and activity in retail and recreation sectors are still weak. There is also lingering risk in financial markets following larger spreads for corporate bond yields despite the recent policy rate cuts.
- **In addition, the NESDC expects 14.4mn workers to be at risk in 2Q and 3Q.** The pandemic could affect 2.5mn workers in the tourism sector (total 3.9mn), 1.5mn in the industrial sector (total 5.9mn), and 4.4mn in other parts of the services sector (total 10.3mn). The drought would also affect 6mn farmers. The NESDC expects unemployment to reach 2mn by end-2020 or 3-4% of the labor force compared to 1% currently. It would be the highest since the 1998 Asian financial crisis.

Bleak economic outlook and deflation risk might force the MPC to relax monetary policy further





Source: MOC, Krungsri Research

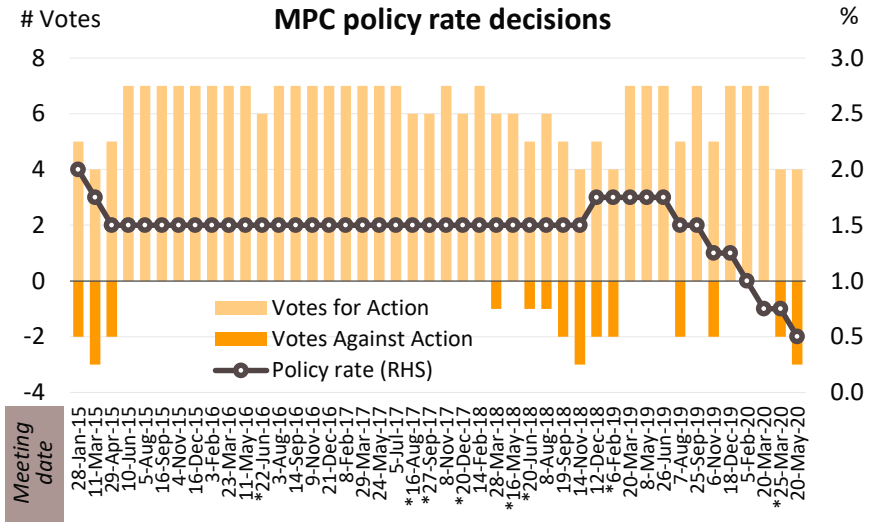
Consumer Price Index (% YoY)*	Weight	2018	2019											2020				
		O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M
Headline CPI	**100.00%**																				
Food & beverages	36.13%																				
Apparel & footwears	2.88%																				
Housing & furnishing	23.25%																				
Medical &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

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

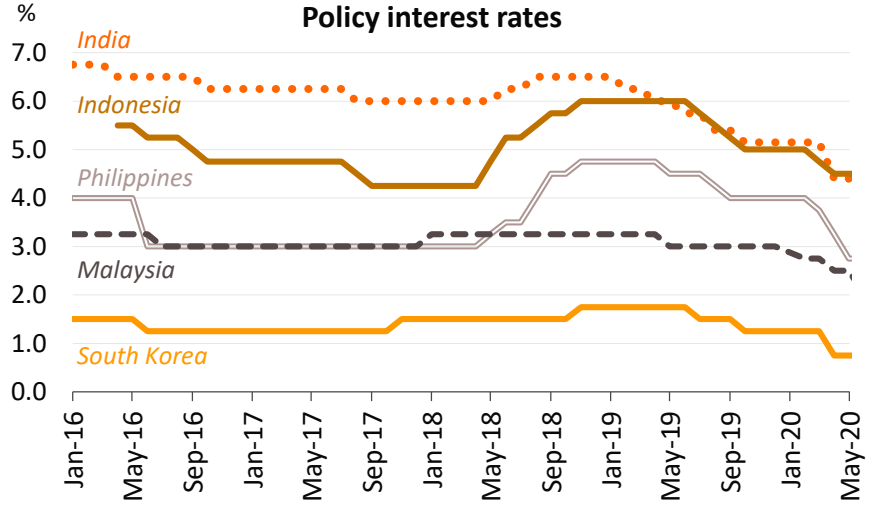
Krungsri Research's view

- **Inflation remained negative for the third straight month in May** with headline inflation dipping to -3.44% YoY, the lowest since August 2009, mainly due to lower energy prices (-28.0% YoY) and government measures to reduce cost of living. Core inflation decelerated to 0.01% in May from 0.41% in April. For 5M20, headline and core inflation averaged -1.04% and 0.40%, respectively.
- Despite a trend of less negative inflation going forward driven by improving economic activities after easing lockdown, full-year inflation is expected to be negative at -0.8% premised on still-weak domestic demand.
- **Deflation risk and bleak economic outlook could prompt the MPC to introduce more stimulus** via both general and targeted monetary policies. Additional monetary easing should improve the effectiveness of the recent policy rate cuts and stimulus measures, given that the economy still lacks tailwinds to boost private consumption and investment.

MPC cuts rate to new low of 0.50%, signaling end of rate cut cycle; but policy easing is underway



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



Source: BOT, Bloomberg, Krungsri Research

Krungsri Research's view

MPC cuts rate to a new low on 20 May

- The BOT's Monetary Policy Committee (MPC) voted 4:3 to cut policy rate by 25bps to a new low of 0.50%, citing (i) economic contraction would be *"more than the previous assessment"* and (ii) more monetary easing would *"alleviate the negative impacts"*.

MPC signals end to rate cut cycle

- Despite the MPC's greater concerns over risks to economic growth, the statement signals an end to the rate cut cycle for the following reasons: (i) three out of seven members voted to maintain the policy rate, noting the policy should focus on *"expediting the effectiveness of the announced financial and credit measures"*, and (ii) the latest statement removed the word "policy rate" on the MPC's forward guidance in deliberating monetary policy, noting that *"The Committee would stand ready to use additional appropriate monetary policy tools if necessary"*, compared to the previous statement at March 25 meeting which noted they were *"…ready to use additional policy tools in an appropriate and timely manner. Such tools included the policy rate and other monetary measures."*

More easing of monetary policy is underway given economic recession

- Even though the MPC has signaled an end to the rate cut cycle, we expect more easing ahead to address the adverse effects of the Covid-19 pandemic. The Thai economy has slipped into a recession with 1Q20 GDP falling below-potential for the second consecutive quarter. We expect 2Q20 GDP to contract by over 8%. And despite easing lockdown measures, 2H20 GDP would also contract year-on-year. This means households and the corporate sector would still need general and targeted monetary stimulus policies. The statement relating to targeted policy included these narratives:

  (i) *"it was deemed important that liquidity be distributed to businesses and households affected by COVID-19"*

  (ii) *"vulnerabilities to the stability of the commercial bank system in the period ahead, particularly defaults by businesses and households after the phase-out of liquidity support measures"*

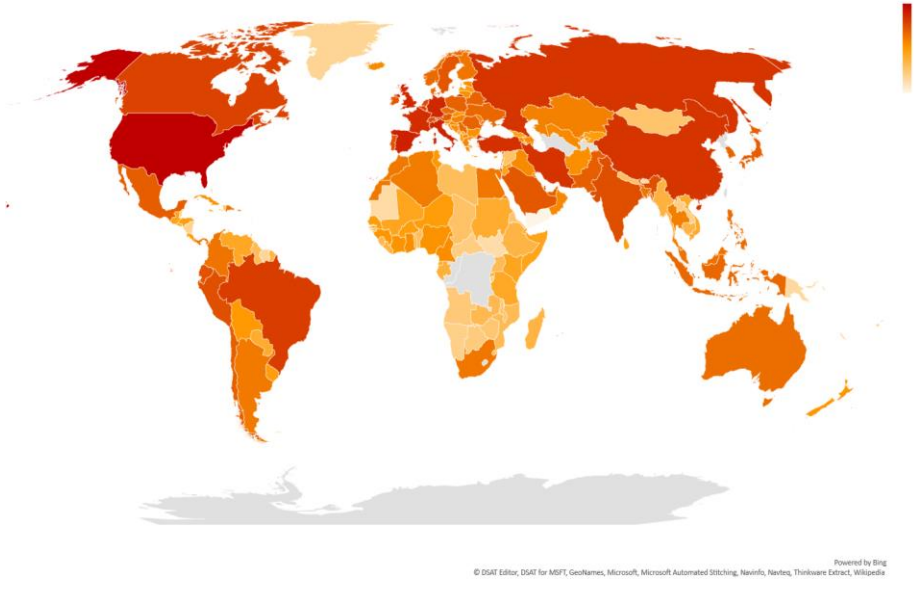
  (iii) *"lending under the previously announced measures should also be accelerated to address liquidity problems in a targeted and timely manner."*

  These imply the next policy moves might focus on widening the scope of liquidity distribution, reducing default risks, and increasing effectiveness of policy transmission.

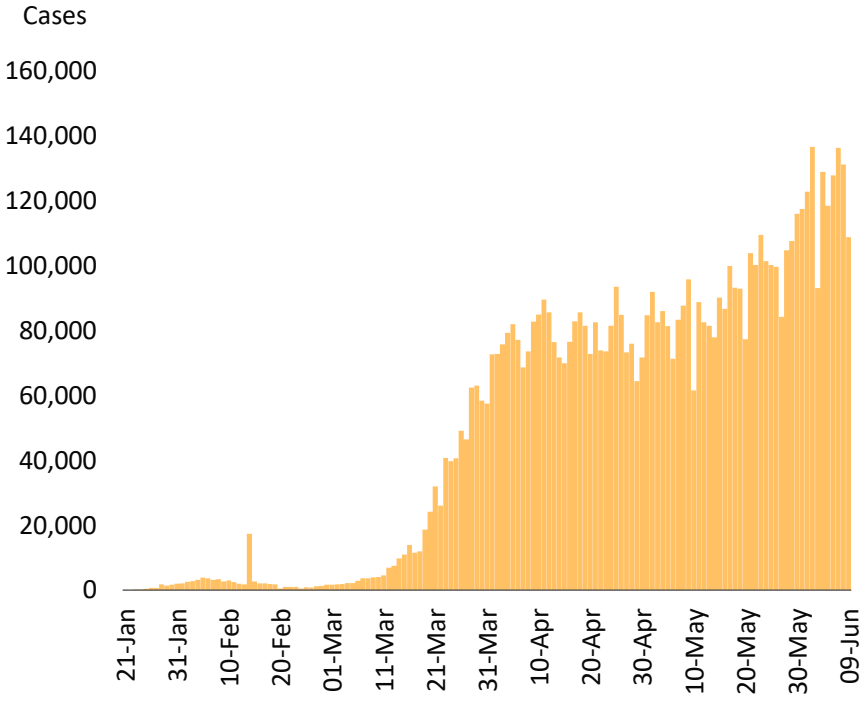
COVID-19 pandemic: Global cases exceed 7 million and continue to rise

Since news about the COVID-19 outbreak in December last year, it has spread to 213 countries and the number of reported cases has exceeded 7 million. The number of active cases are just over 3 million currently. This forced authorities to impose strict lockdown measures in several countries to contain the pandemic. This has hurt confidence and the global economy severely.

Global COVID-19 Infections



Number of New Infections

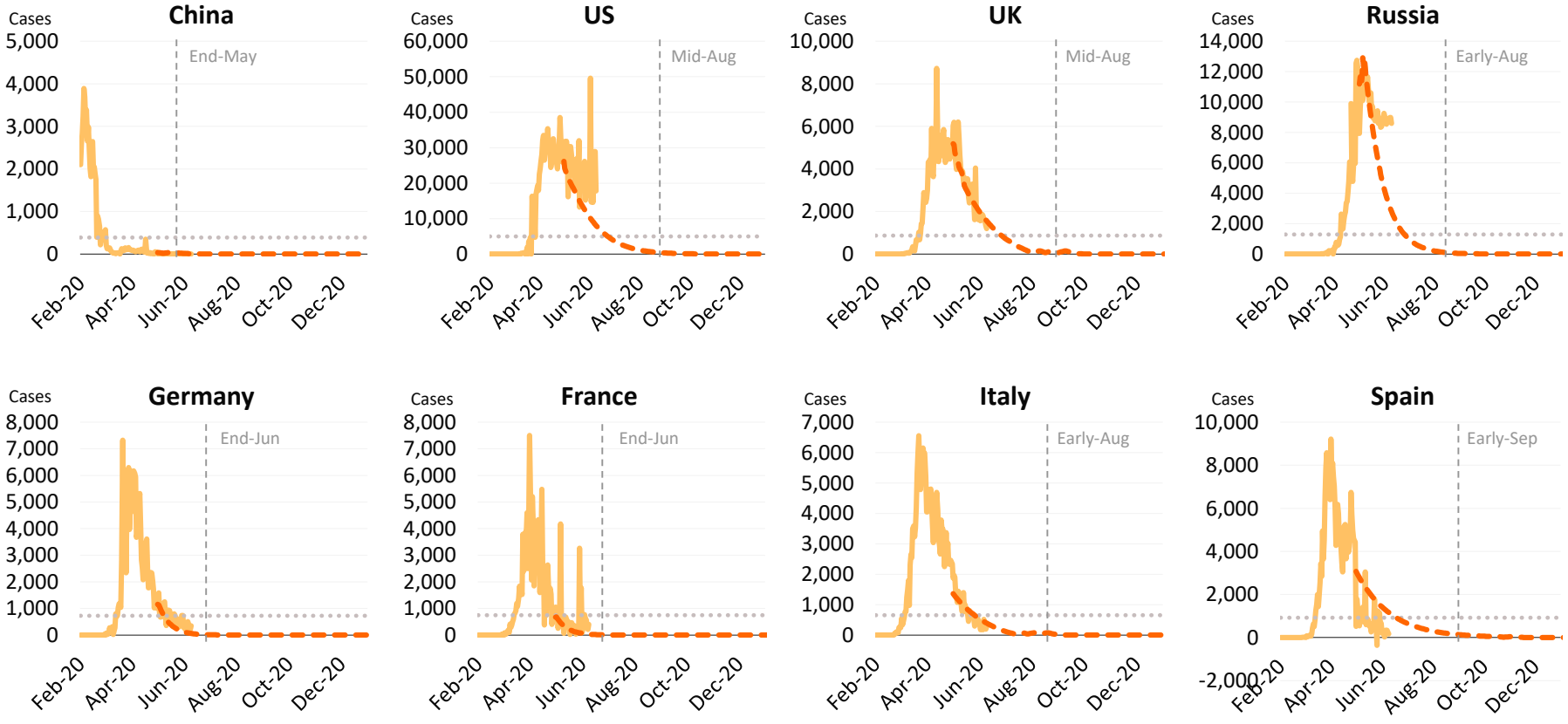


Source: WHO, Krungsri Research

Pandemic had peaked in 2Q20, but there is lingering threat of a second coronavirus outbreak

The number of new cases has reduced considerably in the second quarter of 2020, leading to expectations the lockdown restrictions would be lifted soon. However, the world would remain cautious until at least September, and would continue to impose social distancing and other restrictions to prevent a second outbreak. And given uncertainty over whether the colder weather (autumn and winter) would see a resurgence in infections, the restrictions could remain until the end of the year.

Number of New Infections

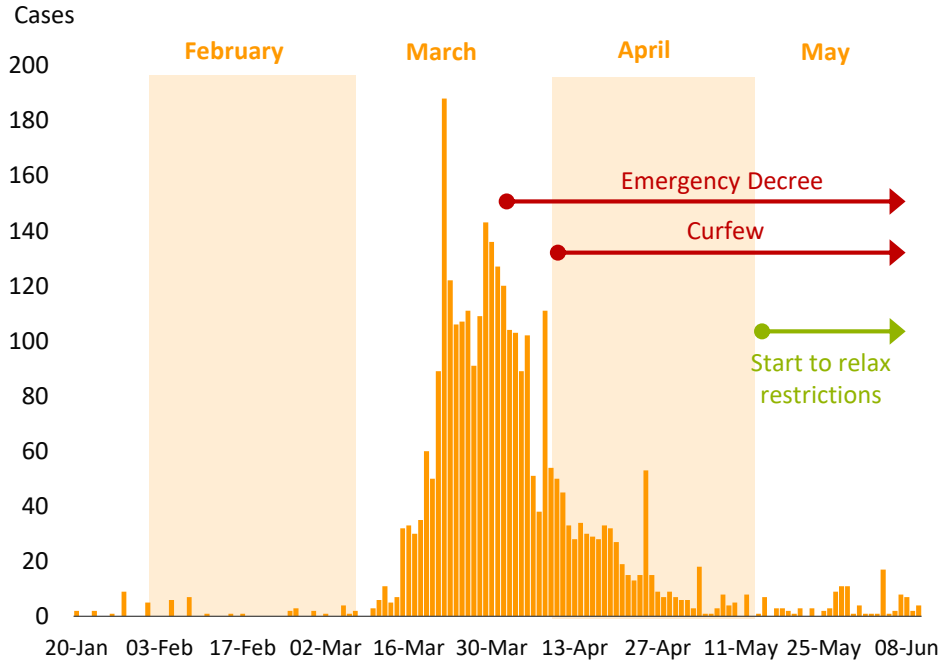


Source: WHO, forecast by Krungsri Research

In Thailand, sharp drop in new cases has led to gradual easing of lockdown measures

The number of new infections in Thailand has dropped substantially since early May, with total number cases at just over 3,000. This prompted the government to ease lockdown measures gradually. Small restaurants, barbers, and fresh markets are among places that are allowed to reopen for business. The situation will be assessed every 14 days to determine if further easing is viable. Meanwhile, the Emergency Decree could be extended at least until the end of June.

Number of new infections in Thailand



Steps of easing containment measures

I First stage of relaxation (May 3, 2020)

- Fresh, flea, floating and community markets; Restaurants outside shopping centers; Retail and wholesale businesses;
- Recreational and sports businesses; Barbers and hair salons (only for hair washing, cutting and styling); Pet shops

II Second stage of relaxation (May 17, 2020)

- The reduction of the night-time curfew from currently 22.00-04.00 to 23.00-04.00; The sales of food and drinks are allowed to resume in restaurants, food courts, cafeterias and eateries;
- Shopping malls, department stores and community malls can resume operations until 20.00; Indoor stadium, fitness, swimming pools

III Third stage of relaxation (June 1, 2020)

- The reduction of the night-time curfew from currently 23.00-04.00 to 23.00-03.00; Inter-provincial travel resuming, and hotels reopening;
- Department store can open until 21.00 (from 20.00);
- Beauty salons and clinics, tattoo shops, fitness center, educational institution, exhibition centers and convention halls, day care center, stadium, water sport, and zoo are allowed to open with some restrictions.

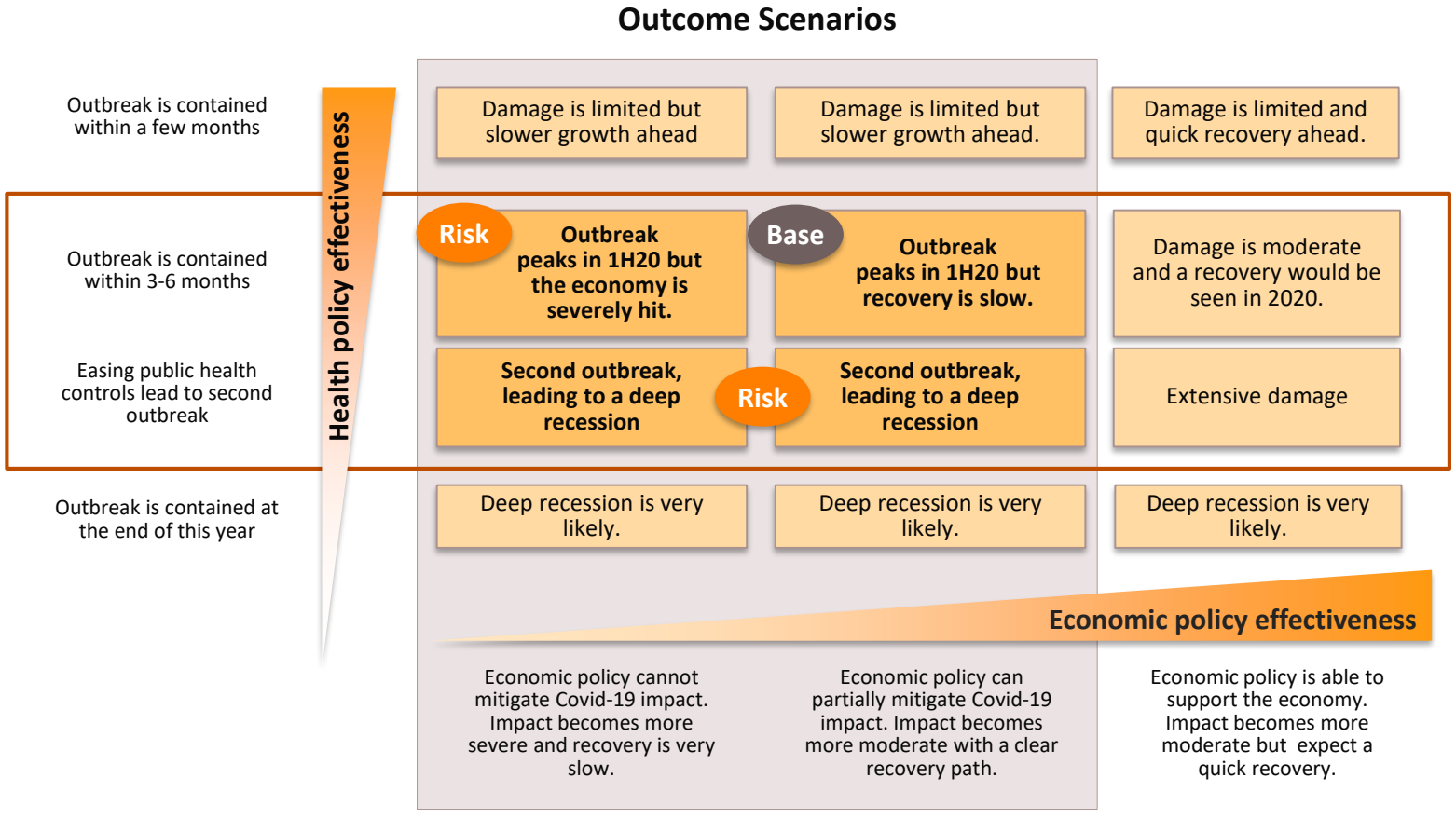
IV Fourth stage of relaxation (June 15, 2020)

- End of the night curfew but strict controls to be enforced on immigration
- Alcoholic beverages could be served at restaurants, food centres and hotels but pubs, bars, karaoke shops and entertainment venues remain closed.
- Reopening of international, cram and informal schools, as well as small formal schools; Daycare centres for young children and elderly people
- Exhibition, convention and event halls; Theatres, but with social distancing.
- Scientific centres; Film crews (up to 150 staff and up to 50 spectators).

Source: WHO, Thailand's Centre for Covid-19 Situation Administration (CCSA), Krungsri Research

Scenarios: Lingering downside risks due to unknown disease pattern and uncertainty over policy effectiveness

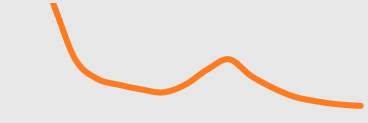
Looking ahead, there is lingering downside risk even though new cases have peaked in several areas. Firstly, there is fear of a second wave of severe outbreak. Given that the world expects an effective vaccine only in the second half of 2021, a second pandemic before then could drag the global economy into a long recession. Secondly, an economic recovery would depend on the effectiveness of policy response.



Source: Krungsri Research

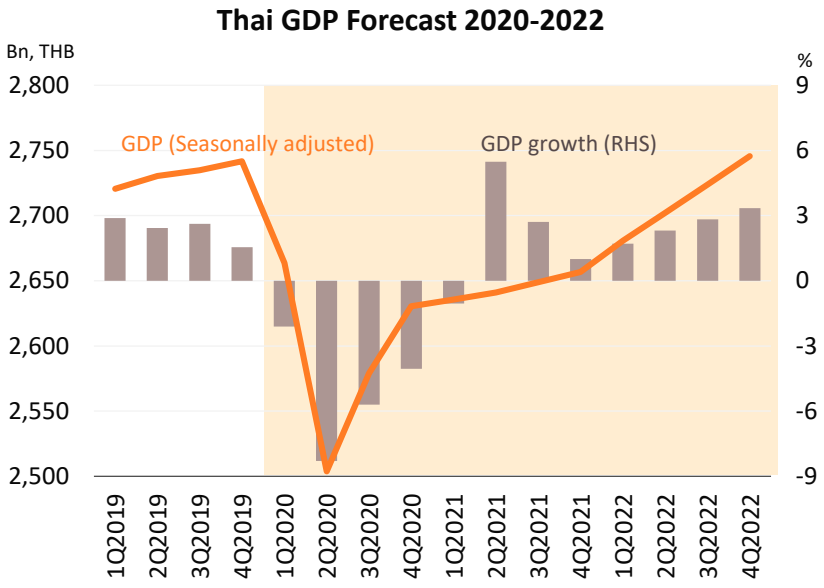
Our analysis suggests a U-shaped recovery ahead, but there is also risk of a deeper recession

Krungsri Research expects the number of new cases to peak in 1H20 and observes the economic policy responses have been moderately effective. This suggests a U-shaped economic recovery. However, the Thai economy will continue to face a challenging situation with some degree of lockdown in the country and globally. And there are still relatively high risks of a financial contagion leading to an L-shaped recovery, and a second pandemic.

Scenario	COVID-19 period	Transition period	Post-COVID period
Base: U-curve recovery Base 	Period: 20Q1 – 21Q1 COVID-19 cases peaks in 2Q20, coupled with two-month lockdown.	Period: 20Q1 – 21Q1 The economy recovers gradually in the second half of 2020.	Period: 20Q1 – 21Q1 Businesses have to adapt to new trends. That is expected to happen in 2021.
Financial contagion: L-shaped recovery Risk 	Period: 20Q1 – 21Q1 COVID-19 cases peak in 2Q20, coupled with two-month lockdown.	Period: 20Q1 – 21Q1 COVID-19 would have persistent impact on economy as both real and financial sectors are badly hit. Economic policy response is insufficient to support the economy. Recovery is very slow.	Period: 20Q1 – 21Q1 Businesses have to adapt to new trends. That is expected to happen in the second half of 2021.
Second outbreak: UL-shaped recovery Risk 	Period: 20Q1 – 21Q1 Covid-19 cases have peaked. But lax protective/health measures would lead to a second wave of infections. The pandemic would last the whole of 2020.	Period: 20Q1 – 21Q1 Recovery would be very slow.	Period: 20Q1 – 21Q1 The economy would continue to languish for the next few years.

Source: Krungsri Research

At baseline, economic activity would return to pre-pandemic level in 4Q 2022



Public health policy response has been moderately effective as the pandemic seems to be effectively contained in the first half of 2020, and there are no signs of a second outbreak. However, the pandemic has hurt the world economy severely and driven a major shift in daily behavior.

The global economy, including the US, China, Europe, and Japan, will hit bottom in 2Q20 but the negative consequences could last up to next year.

In **Thailand**, COVID-19 has hurt the tourism sector and lockdown measures have affected economic activities. Consequently, falling employment rate has reduced purchasing power.

Stimulus measures and **economic policy response** are slow to support the overall economy. This could extend the economic slowdown and delay the recovery.

Sectors which activities involve physical contact or public gatherings would see a relatively large impact over a longer period.

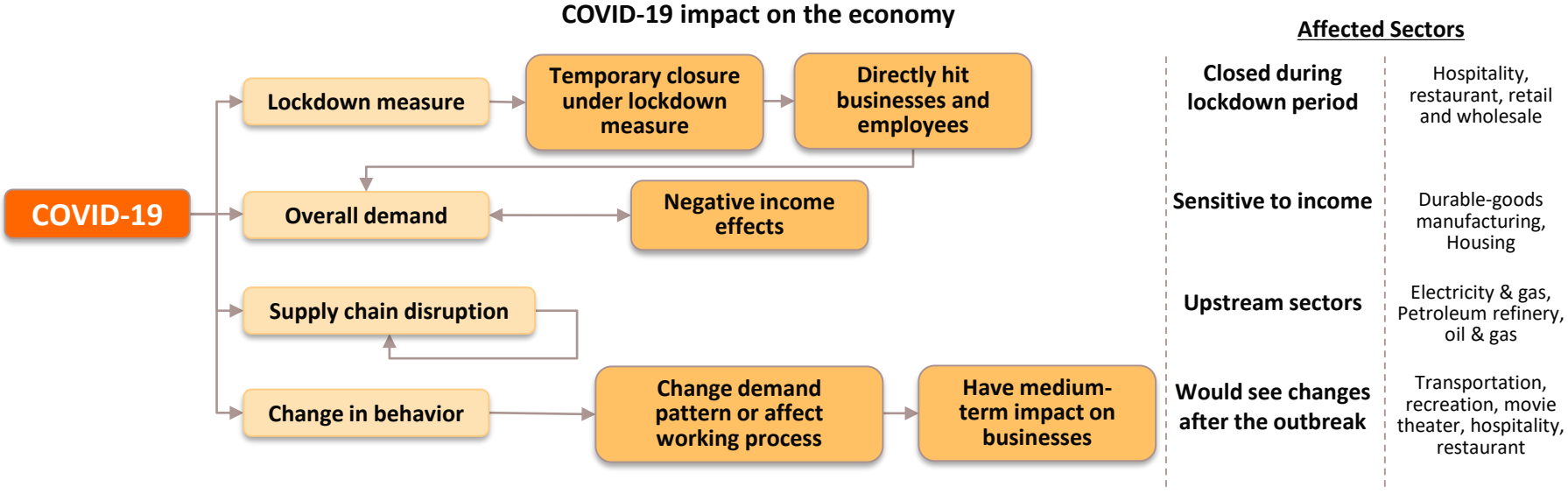
Tourism and related sectors are unlikely to recover to normal levels until at least the next year.

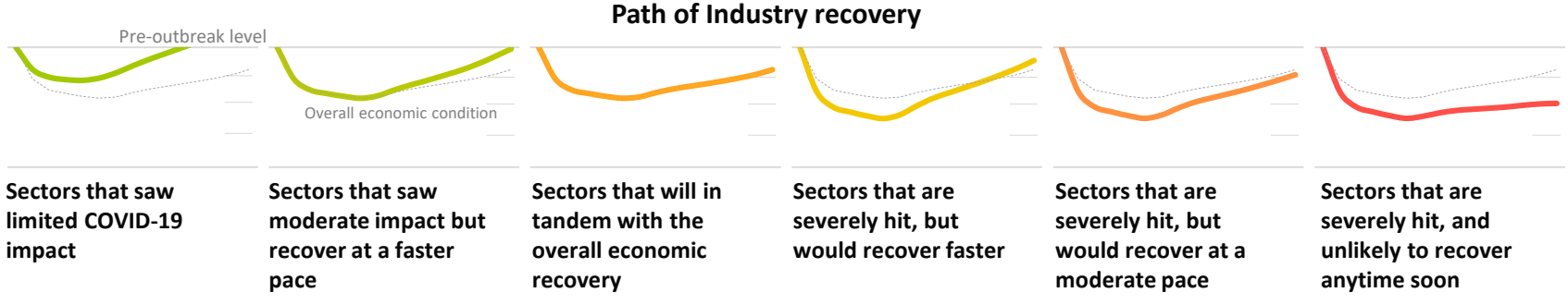
COVID (1Q2020-2Q2020)	**Outbreak peaks in 1H20** New cases had peaked in March and could drop significantly by the end of the second quarter. The pandemic itself and lockdown measures have hurt the economy severely. Labor costs have increased while productivity has dropped. Income effects, travel restrictions, and disruptions to both the global and domestic supply chains have affected the overall economy.
Transition (3Q2020-4Q2020)	**Lockdown measures have eased but there are still several hurdles on the path to recovery** However, there are still some safeguards and social distancing measures to comply with. Industries which activities involve regular, close physical contact will continue to face challenges. Nevertheless, overall demand remains weak and would continue to hurt all segments.
After-COVID (1Q2021 onwards)	**COVID-19 leaves scars on the economy** Besides the immediate impact, the pandemic has also left economic scars (such as high unemployment and rising debts) and changed some human behavior. Businesses have to adapt to a new environment and seek new opportunities.

Source: Krungsri Research

Different recovery trajectory for each sector: Recovery of mobility-related sectors to lag others due to behavior shift

COVID-19 has hit the economy through four channels: business closures under lockdown measures, a decline in overall demand, disruption to global supply chains, and changes in medium- to long-term behavior. These factor will determine the recovery trajectory for each sector. The sectors affected by lockdown measures, such as retail trade, would be severely affected but might recover faster than other sectors. However, sectors affected by a change in demand pattern, such as air transportation and hospitality, would take longer to recover.

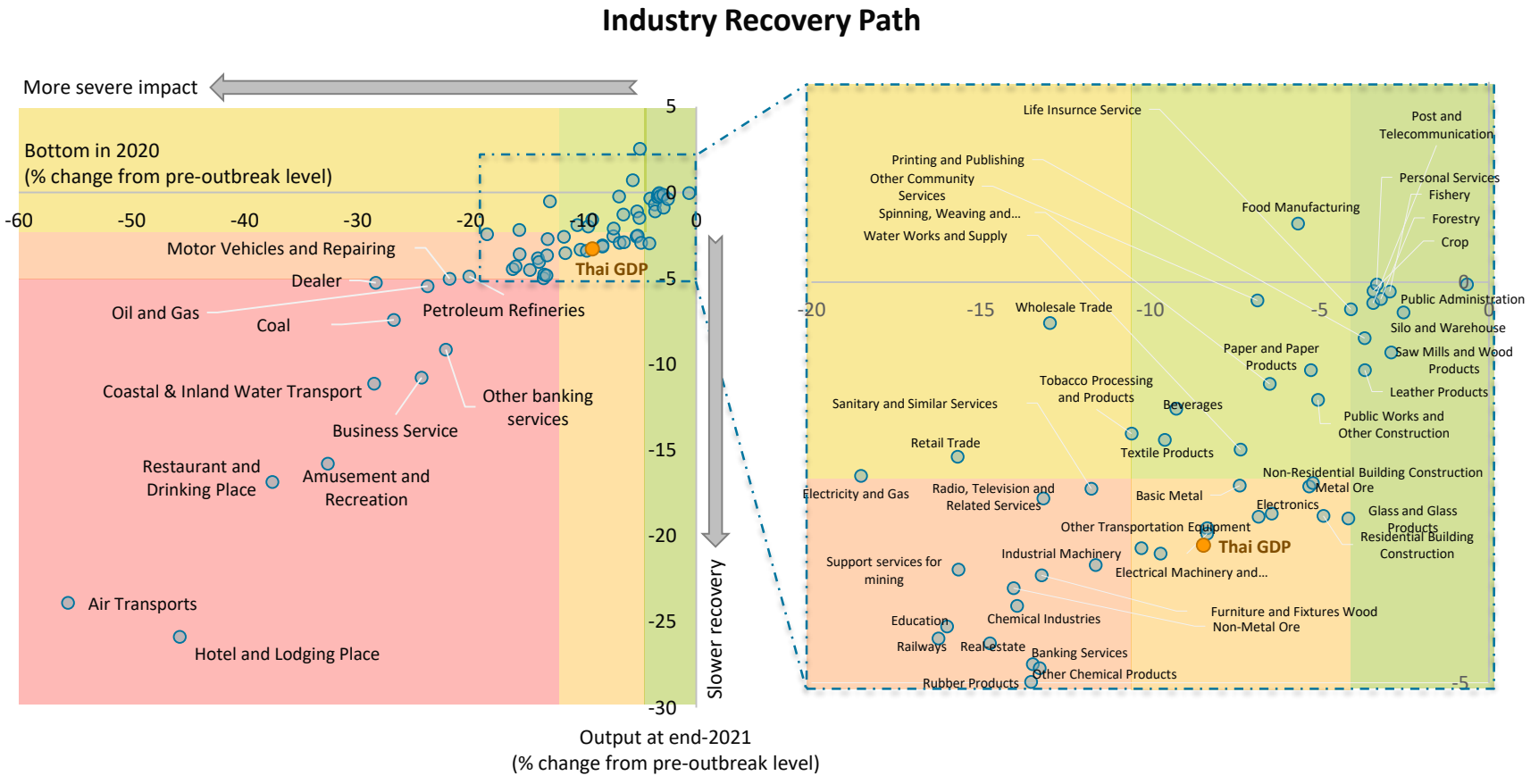




Source: Krungsri Research

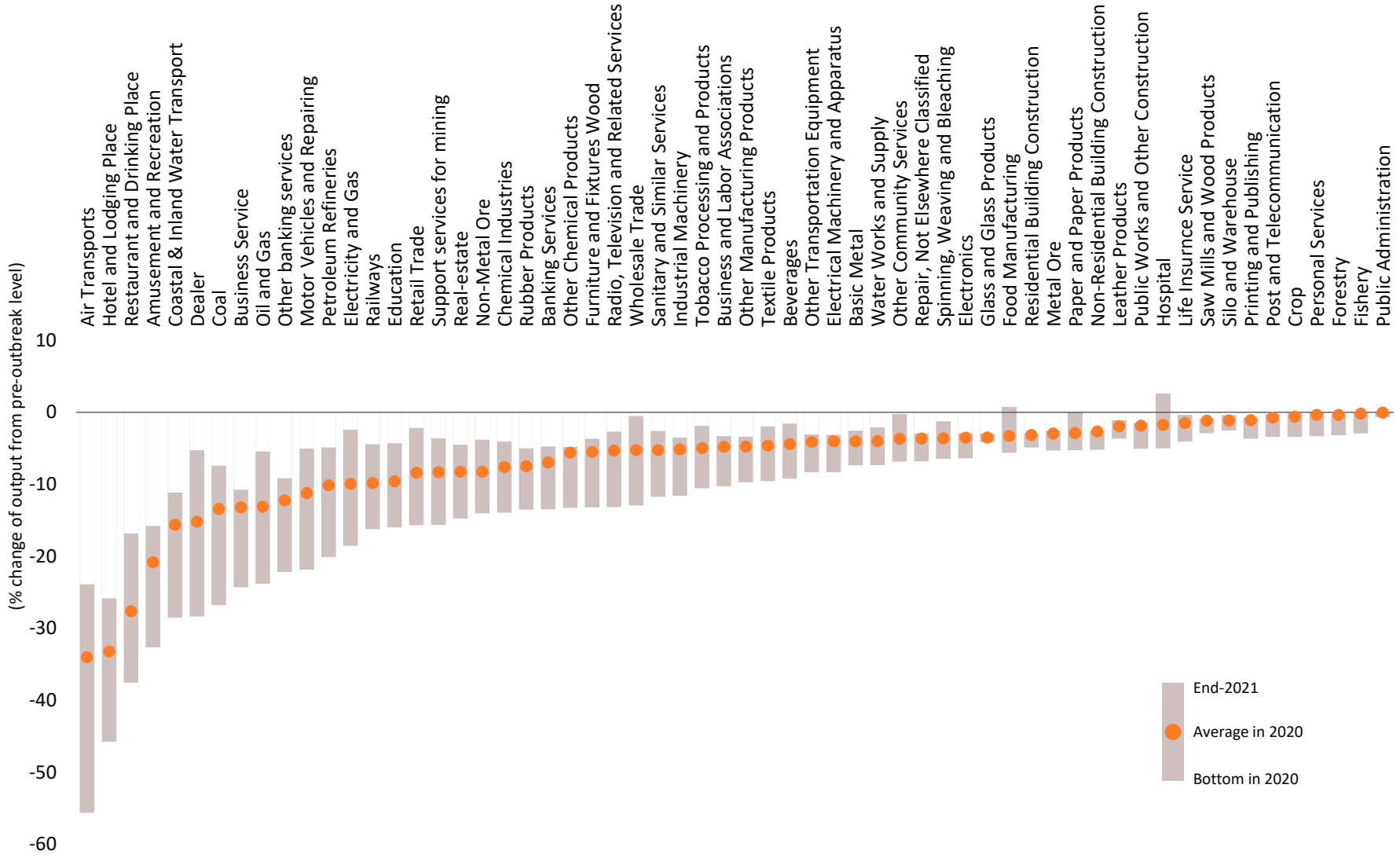
Most sectors are unlikely to recover to pre-pandemic levels before 2022; retail, wholesale and electricity & gas sectors are hit hard but would recover faster than others

Our analysis shows that only hospital and food manufacturing sectors would return to pre-pandemic level in 2021. Air transportation, hotel, restaurant, and amusement and recreation sectors would continue to suffer in 2021. Retail, wholesale, and electricity & gas sectors have been severely affected but they might rebound faster than other sectors.



Source: GTAP, NESDC, forecast by Krungsri Research

Impact on business sectors and recovery trajectories

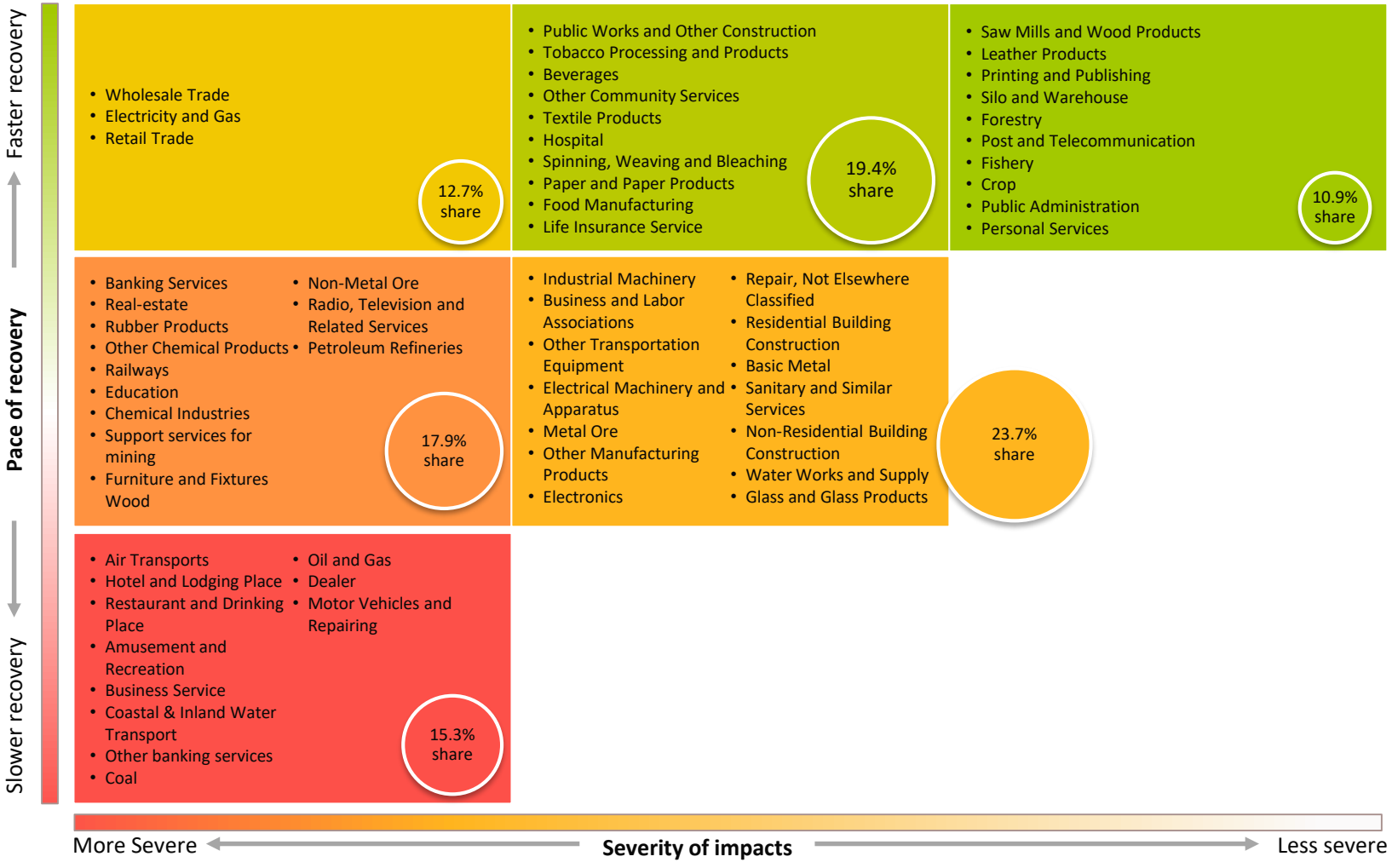


Source: GTAP, NESDC, forecast by Krungsri Research

Almost half of Thai industries are severely hit

Most industries in Thailand are badly affected by COVID-19. 26 of 60 sectors are severely affected. This accounts for 46.0% of total output, of which 11 sectors (or 15.3% of total output) would not recover to pre-pandemic levels before 2022. Another 24 sectors (43.1% of total output) are moderately affected. Only 10 sectors (10.9% of total output) were only mildly affected.

Covid-19 impacts on business sectors and their recovery



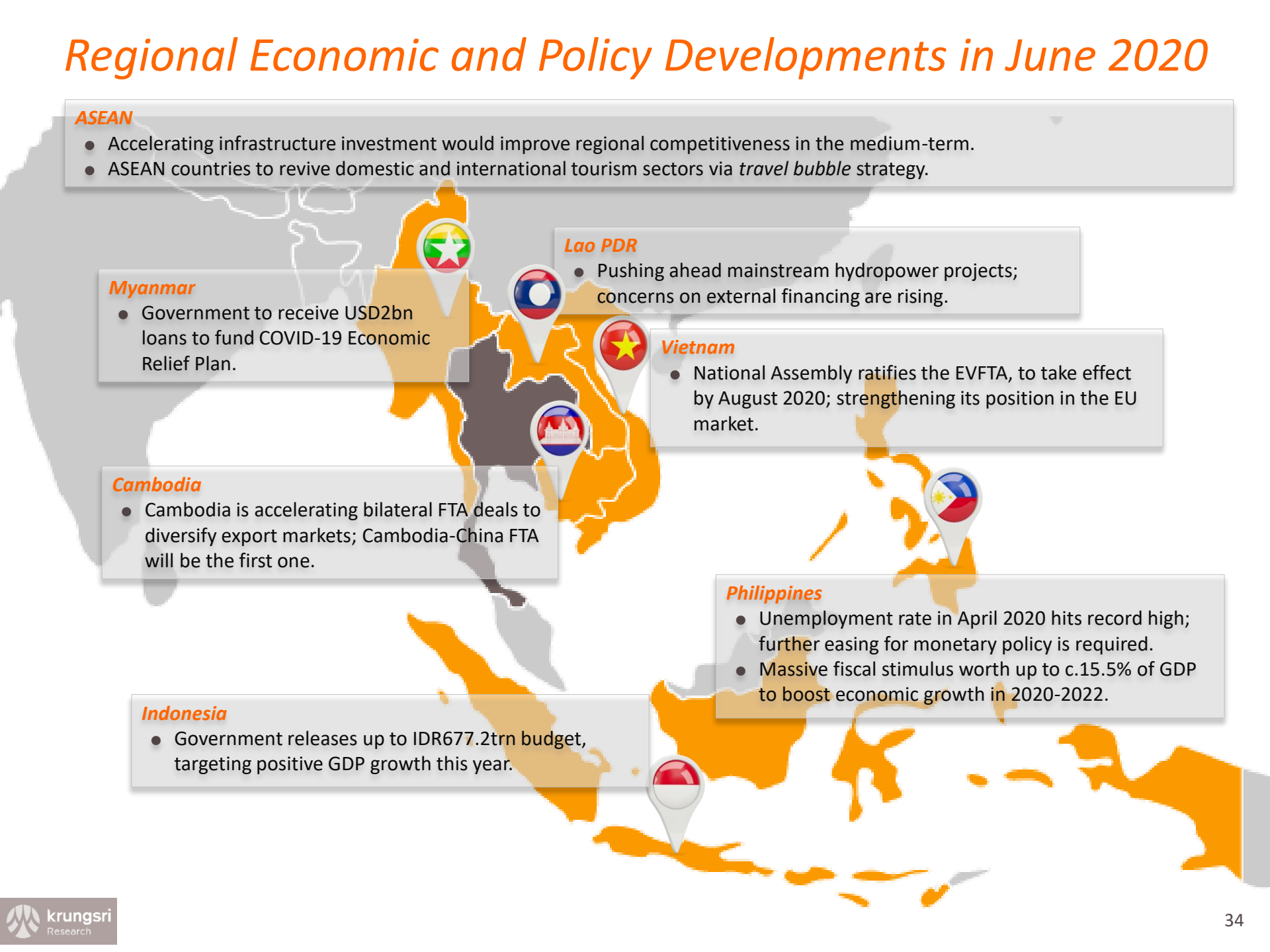
Source: GTAP, NESDC, forecast by Krungsri Research

Krungsri Research Forecast

Krungsri Research Forecast		2018	2019	2020F
GDP growth	YoY (%)	4.2	2.4	-5.0
Private Consumption Expenditure	YoY (%)	4.6	4.5	-1.1
Government Consumption Expenditure	YoY (%)	2.6	1.4	2.3
Private Investment	YoY (%)	4.1	2.8	-5.5
Public Investment	YoY (%)	2.9	0.2	2.0
Nominal Exports in USD (f.o.b.)	YoY (%)	7.5	-3.2	-10.0
Nominal Imports in USD (f.o.b.)	YoY (%)	13.7	-5.4	-16.0
Current Account Balance	USD, bn	28.5	37.3	18.4
Tourist Arrivals	Mn, persons	38.2	39.8	14.2
Headline Inflation	YoY (%)	1.1	0.7	-0.8
Core Inflation	YoY (%)	0.7	0.5	-0.1
Exchange rate (end of period)	THB/USD	32.42	30.12	32.00
Policy Interest rate (end of period)	(%)	1.75	1.25	0.50
Dubai crude price (period average)	USD/bbl	69.6	63.4	44.0

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

Regional Economic and Policy Developments in June 2020



ASEAN

- Accelerating infrastructure investment would improve regional competitiveness in the medium-term.
- ASEAN countries to revive domestic and international tourism sectors via *travel bubble* strategy.

Myanmar

- Government to receive USD2bn loans to fund COVID-19 Economic Relief Plan.

Lao PDR

- Pushing ahead mainstream hydropower projects; concerns on external financing are rising.

Vietnam

- National Assembly ratifies the EVFTA, to take effect by August 2020; strengthening its position in the EU market.

Cambodia

- Cambodia is accelerating bilateral FTA deals to diversify export markets; Cambodia-China FTA will be the first one.

Philippines

- Unemployment rate in April 2020 hits record high; further easing for monetary policy is required.
- Massive fiscal stimulus worth up to c.15.5% of GDP to boost economic growth in 2020-2022.

Indonesia

- Government releases up to IDR677.2trn budget, targeting positive GDP growth this year.

ASEAN: Accelerating infrastructure investment would improve regional competitiveness in the medium-term

- **ASEAN countries are accelerating public infrastructure investment spending to stimulate economic growth to address the COVID-19 impact**. **Vietnam** has recently announced it would hasten approval and disbursement of funds for infrastructure projects worth VND700trn (USD30bn, 11.5% of GDP) in 2020. In early June, **the Philippines** passed a bill to support a 3-year investment plan under the *Build-Build-Build* program worth PHP1.5 trillion (USD30bn, 9.1% of GDP), at PHP500bn per year over 2020-2022. In addition to the 223 national investment projects worth IDR4.2qdn, **Indonesian** has vowed to add 89 new infrastructure investment projects worth IDR1.422 quadrillion (USD110bn, 10.4% of GDP).
- These infrastructure investments cover various sectors, including transportation (road, rail, seaport, airport), dam and irrigation, energy, and border infrastructure. Specifically, the projects cover both urban and rural areas.
- **The primary aim is to stimulate economic growth, but we anticipate it would difficult to realize all the investments this year, which means 2020 economic growth would miss targets.** Given that most of the public infrastructure projects are huge and require a lengthy regulatory process, especially disbursement and land allocation, it would take some time before the funds would be injected into the economies.
- **Over the longer term, these projects would strengthen the SE Asian countries' competitiveness, especially Logistic Performance Index (LPI), and create a more attractive environment for investment in the region.** For example, Vietnam is currently ranked third in LPI and fourth in the LPI's Infrastructure Index among ASEAN countries, and accelerating several projects would push the country up the rankings and improve its competitiveness.

Major infrastructure projects

Vietnam	Indonesia	Philippines
Total: USD30bn in 2020	Total: USD110bn during 2020-2022	Total: USD30bn during 2020-2022
• The North-South Expressway (40% of total investment) • The My Thuan – Can Tho Highway • The Long Thanh International Airport • The expanded Tan Son Nhat (in HCMC) and Noi Bai (in Hanoi) airports	• 15 road and bridge projects • 13 dams and irrigation systems • 13 border infrastructure projects • 12 energy projects	• New Manila International Airport • The North-South Commuter Railway Extension • The Metro Manila Subway Project Phase-1 • Bataan-Cavite Interlink Bridge • Mindanao Rail Project Phase-1

2018 Ranking in Logistic Performance Index (LPI)



Ranking in LPI: Infrastructure Index



Source: World Bank, Governments' official websites, Krungsri Research

ASEAN countries to revive domestic and international tourism sectors via *travel bubble* strategy

- **In the early stage of reopening, ASEAN countries are gradually resuming domestic travel and tourism.** For example, Vietnam has introduced the *Vietnamese people travel Vietnam* campaign, and the Philippines recently allowed domestic flights with some restrictions to avoid a second outbreak. **In the next stage, several countries are eyeing international tourists by implementing *travel bubbles* to allow tourists/travelers from selected countries under bilateral schemes. This would start with countries within the region, especially Asia and Oceania countries which have contained the outbreak.**
- **Most ASEAN countries depend heavily on international tourists from Asian countries**. Specifically, more than 90% of tourist arrivals in Laos were from Asia during pre-COVID-19, while it was 74% for Myanmar & Vietnam, and 69% for Cambodia. **Asian tourists are among the top foreign visitors in ASEAN countries, but these countries are also the key destinations for outbound ASEAN tourists**. For example, about 15% of Chinese outbound tourists and 25% of Japanese outbound tourists visit SE Asian countries (source: news media, JTB Tourism Research & Consulting Co.).
- **The *travel bubble* strategy would help ASEAN countries to revive international tourism industry and revenues. However, the impact would be limited this year because of lingering uncertainties, including the following: (i) possibility of a second COVID-19 outbreak, (ii) some countries have not eased travel restrictions, and (iii) only a selected few countries might participate in the travel bubble strategy, which might not be sufficient to drive a material recovery of the tourism industry in the region.**

Top 10 tourist arrivals in SE Asian countries

(% of each country's total tourist arrivals)

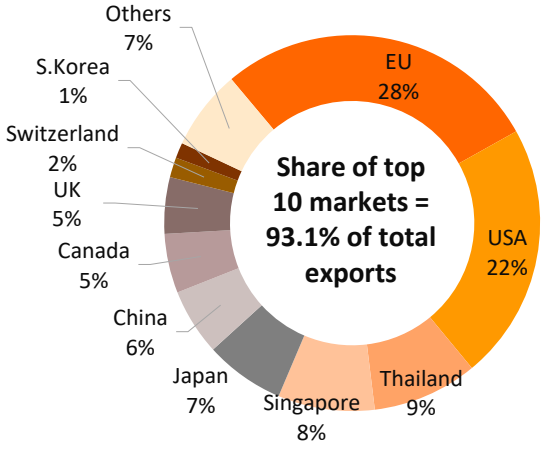
Asian countries

	Cambodia (2018)		Laos (2018)		Myanmar (2019)		Vietnam (2019)		Indonesia (2019)		Philippines (2019)		
1	China	32.6	Thailand	46.1	China	38.8	China	32.2	Malaysia	15.8	USA	12.9	1
2	Vietnam	12.9	Vietnam	20.7	Thailand	14.0	S.Korea	23.8	China	13.5	Japan	8.3	2
3	Laos	6.9	China	19.2	Japan	5.7	Japan	5.3	Singapore	11.2	Taiwan	4.0	3
4	Thailand	6.2	S.Korea	4.2	S.Korea	4.9	Taiwan	5.1	Australia	8.2	Australia	3.5	4
5	S.Korea	4.9	USA	1.2	USA	4.1	USA	4.1	India	3.8	Canada	2.9	5
6	USA	4.0	France	0.9	Singapore	3.7	Thailand	2.8	Japan	3.4	UK	2.5	6
7	Japan	3.4	Japan	0.9	Malaysia	2.6	UK	1.7	UK	2.5	Singapore	1.9	7
8	France	2.8	UK	0.6	India	2.5	France	1.6	USA	2.5	Malaysia	1.7	8
9	UK	2.6	Malaysia	0.6	France	2.1	Cambodia	1.3	S.Korea	2.3	Germany	1.1	9
10	Taiwan	2.2	Germany	0.5	Vietnam	2.1	Laos	0.5	France	1.8	Hong Kong	1.1	10
Sum of Asian Countries		**69.1**		**91.6**		**74.3**		**74.0**		**61.2**		**20.4**	

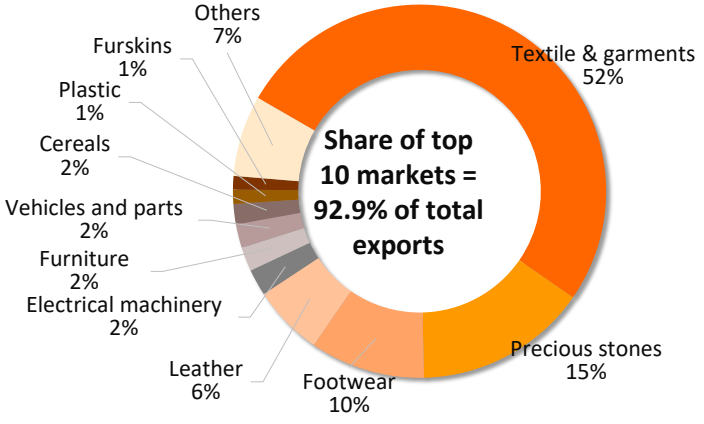
Source: Governments' official tourism website, CEIC, Krungsri Research

Cambodia is accelerating bilateral FTA deals to diversify export markets; Cambodia-China FTA will be the first one

Cambodia: Major export markets (2019)



Cambodia: Major export products (2019)



Cambodia: List of FTAs

FTAs in effect	Under negotiation
• ASEAN Free Trade Area (FTA)	• Cambodia-China FTA
• ASEAN-S.Korea Comprehensive Economic Cooperation Agreement (AKFTA)	• Cambodia-Eurasian Economic Union FTA
• ASEAN-Japan Comprehensive Economic Partnership (AJCEP)	• Cambodia-S.Korea FTA
• ASEAN-Australia and New Zealand FTA	• ASEAN-Eurasian Economic Union FTA
• ASEAN-China Comprehensive Economic Cooperation Agreement	• Comprehensive Economic Partnership for East Asia (CEPEA/ASEAN+6)
• ASEAN-India Comprehensive Economic Cooperation Agreement	• Regional Comprehensive Economic Partnership (RCEP)
• ASEAN- Hong Kong (China) FTA	

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

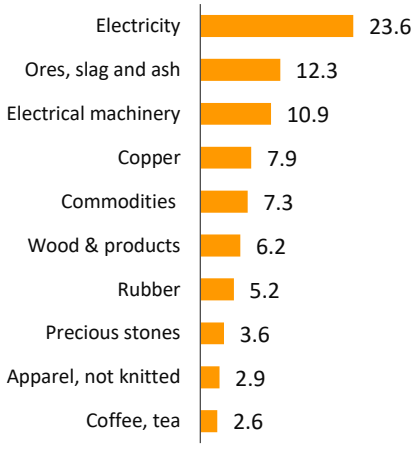
Krungsri Research's view

- **Cambodia is negotiating bilateral free trade agreements (FTA) with several countries, namely China, South Korea, UK, and the Eurasian Economic Union** (EAEU which includes Russia, Armenia, Belarus, Kyrgyzstan and Kazakhstan). **The aim is to diversify its export markets**, to reduce dependence on the EU (which accounts for 28% of total exports) and the US (22%).
- **Accelerating Cambodia-China FTA, the first bilateral FTA for Cambodia.** Talks started early this year and the third round of negotiations has recently been taken in early June. **The two countries plan to reach the deal by end-2020.**
- **The move to expand export markets through bilateral FTAs would create new opportunities and improve Cambodia's export competitiveness. The absence of a bilateral FTA had limited its access to other export markets, and kept the country dependent on developed countries like the EU and the US** which provide special export privileges under the Everything But Arms (EBA) and General Special Preference (GSP) scheme. **We also expect foreign investment in a larger range of industries given better competitive advantage through FTA deals, and subsequently, help Cambodia diversify its export products.** Currently, its major investment and export sector are textiles & garments which accounts for over half of total exports, as investors see opportunities to export to the EU and the US.

Lao PDR: Pushing ahead mainstream hydropower projects; concerns on external financing are rising

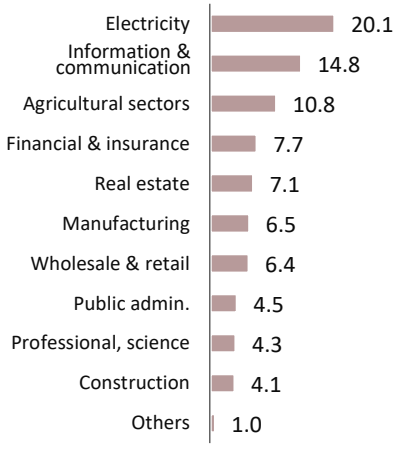
Top 10 export products (2018)

(% of total exports)

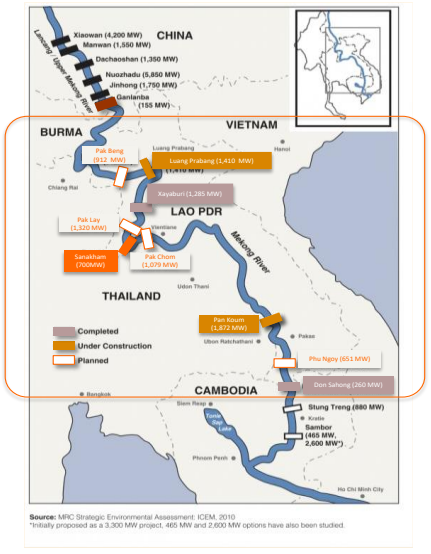


FDI destination by sector (2017)

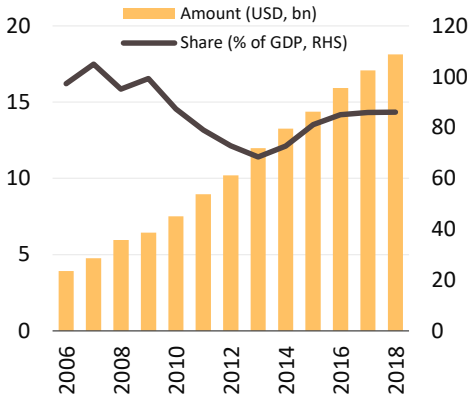
(% of total FDI)



Laos: Hydropower projects along Mekong mainstream



Laos: External debt



Krungsri Research's view

- Recently, the Lao government submitted another large dam project – the Sanakham hydropower project in Vientiane province – to the Mekong River Commission. This is Laos' sixth dam project on the Mekong mainstream, developed by a Chinese subsidiary company - Datang (Lao) Sanakham Hydropower Co., Ltd. It is estimated to cost around USD2.1bn. Total generation capacity is up to 684 MW and construction is scheduled to start in 2020 and complete in 2028.
- For decades**, Laos' economy has relied on the hydropower sector** - its key investment destination and export revenue driver. The hydropower sector accounts for 20% of total FDI and 23% of total export revenues. **The projects are mostly funded by external financing, which has led to a large external debt**, currently at USD15.6bn or 86% of GDP (2018) according to the World Bank. This year, the COVID-19 impact could reduce **Laos' nominal GDP, which would push up external debt-to-GDP ratio and could raise concerns about its high debt levels.**
- **We expect Laos to face more challenges in managing its debts as it is projected to see a drop in international reserves**, which currently covers slightly more than one month of imports - far below the internationally-accepted standard of three months. Furthermore, **Laos' debt repayments would be higher over the next few years.** According to Fitch Ratings, **Laos is due to repay USD900m of external debt this year, equivalent to around 100% of the country's foreign reserves**, and USD1bn each year from 2021 to 2023.

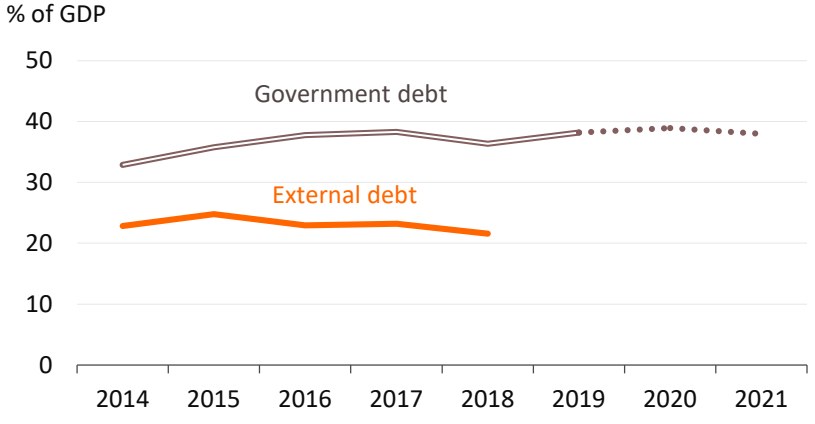
Source: Mekong River Commission, Nikkei Asian Review, Fitch Ratings, the World Bank, Krungsri Research

Myanmar to receive USD2bn loans to fund COVID-19 Economic Relief Plan

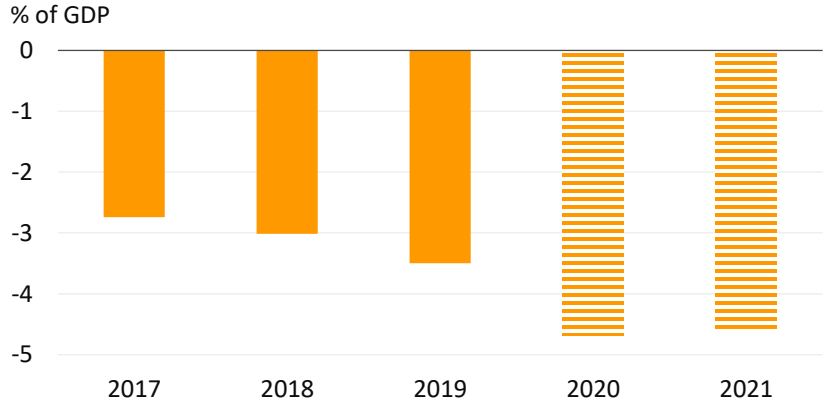
Myanmar: Major stimulus measures

	USD, m
• COVID-19 fund for local business (i.e. CMP businesses, hotel, tourism-related businesses)	71
• Fund for commercial banks to promote financing of trade	71
• Upgrade hospitals	50
• Food and agriculture development	200
• Economic policy development	278
• Assistance for SMEs	60

Myanmar: Government and external debt levels



Myanmar: Budget deficit



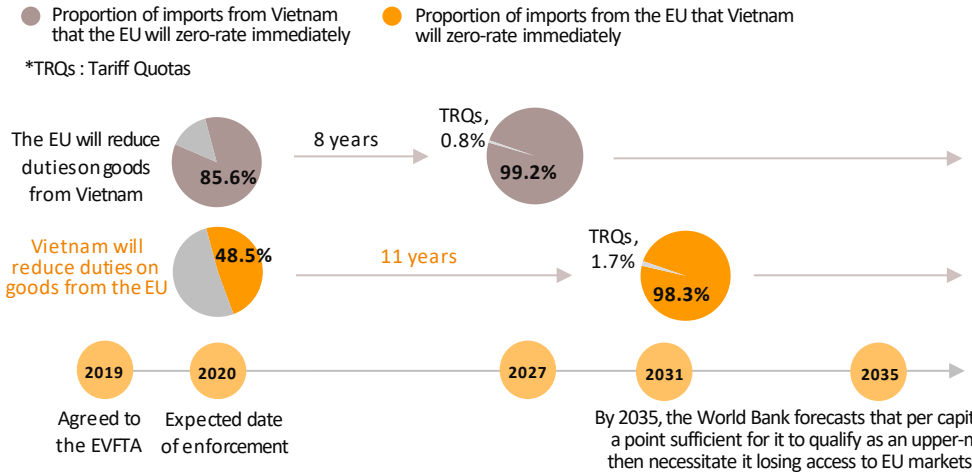
Krungsri Research's view

- **Myanmar is set to receive USD2bn concessional loans (3.6% of GDP) from international development organizations to fund its COVID-19 Economic Relief Plan (CERP).** The CERP will include measures to assist affected workers but most of it would be used to finance monetary stimulus measures to help local businesses suffering from the pandemic. In addition, Myanmar's authorities have moved to ease monetary policy, including (i) lowering bank deposit rates to a new low of 5% and lending rate ceiling to a record-low of 10%, (ii) cutting minimum reserve requirement ratio to 3.5% from 5%, and (iii) allowing the central bank to provide loans to finance the fiscal deficit.
- **We view that Myanmar's debt level is manageable**. Currently, the country's external debt-to-GDP ratio is less than 15% and concessional loans typically carry lower costs and longer repayment periods than other source of funding. Furthermore, government debt would remain low at around 38% of GDP, according to the IMF's projection for 2020. **However, the Myanmar government might find it more challenging in the coming years to seek revenues to compensate for the increase in expenditures and curb a widening budget deficit which is expected to average 4.7% of GDP in 2020-2021 from 3.4% in 2019.**

Source: IMF, the World Bank, local news media, CEIC, Krungsri Research

Vietnam: National Assembly ratifies the EVFTA, to take effect by August 2020; strengthening its position in the EU market

Timeline to reduce import duties under EVFTA



By 2035, the World Bank forecasts that per capita income in Vietnam will have risen to a point sufficient for it to qualify as an upper-middle income country, which would then necessitate it losing access to EU markets under the Standard GSP regulations.

Impact of the EVFTA on Vietnam and Thailand

(% change in value)

Indicators	Vietnam	Thailand
Export	+28.0	-0.005
Investment	+5.5	-0.052
GDP	+0.267	-0.00016

Krungsri Research's view

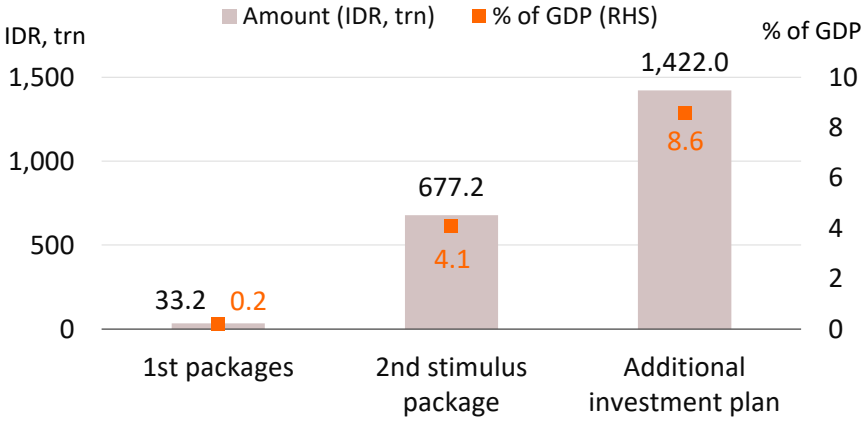
- On 8 June, Vietnam's National Assembly ratified the European Union - Vietnam Free Trade Agreement (EVFTA) and the EU-Vietnam Investment Protection Agreement (EVIPA), paving the way for it to take effect in July or August this year.
- The EVFTA marks another major step forward in the process of tying Vietnam to the world markets for trade and investment. Key elements of the pact include the following: **(i) The EVFTA liberalizes almost 100% of Vietnam-EU trade, and is the most comprehensive trade agreement that Vietnam has agreed to date; (ii) Vietnam is the second country in the ASEAN region to sign a FTA with the EU (the other is Singapore); and (iii) Vietnam is the first developing economy to agree to a standards-based FTA with the EU.**
- **This is an important factor to support Vietnam's economy amid weakening prospects due to COVID-19 impact. Although the EU economy is projected to fall into recession this year, Vietnam could be competitive with zero tariff for up to 85.6% of total import items.**
- **Furthermore, the EVFTA will have a positive long-term impact on the development of the Vietnamese economy, especially on exports and investment, and would accelerate economic growth**. Analysis using the GTAP model[1/] shows that exempting all Vietnamese imports to the EU from customs duties will have positive impact across the Vietnamese economy. It would lead to a 28.0% rise in the value of Vietnamese exports, a 5.5% increase in investment, and lift economic growth by 0.3 ppt. At the same time, the EVFTA would threaten exports and investment in competing countries, including Thailand.

Note: 1/ https://www.krungsri.com/bank/getmedia/6f2b416b-4cc1-4855-b1fe-190f2030874d/RI_EVFTA_200116_EN.aspx

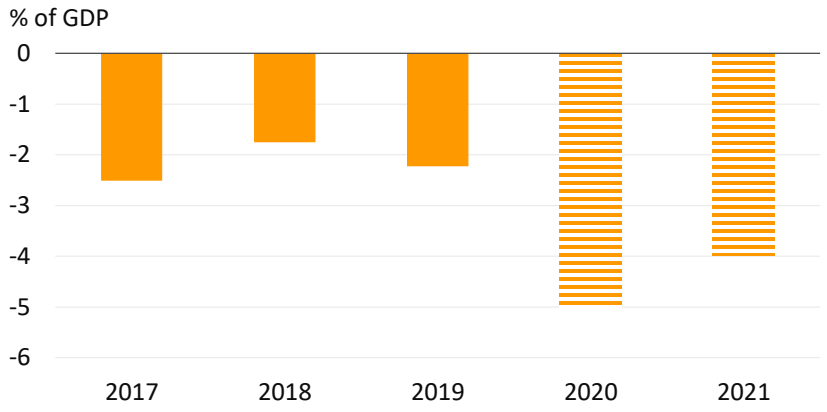
Source: European Commission, GTAP, Trademap, CEIC, Krungsri Research

Indonesia: Government releases up to IDR677.2trn budget, targeting positive GDP growth this year

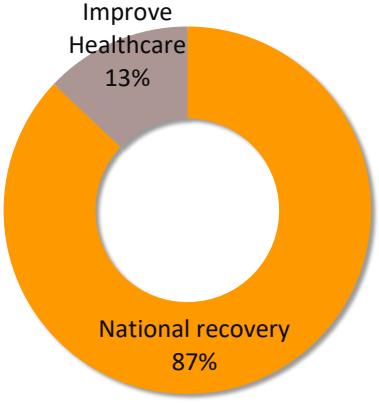
Indonesia: Stimulus packages



Indonesia: Budget deficit



Major expenditures under IDR677.2trn stimulus package



Sector	IDR, trn
• Healthcare	87.6
• Social safety net	203.9
• Incentives for MSMEs	123.5
• Tax incentives	120.6
• Ministries and regional admin.	97.1
• SOEs and labor-intensive businesses	44.6

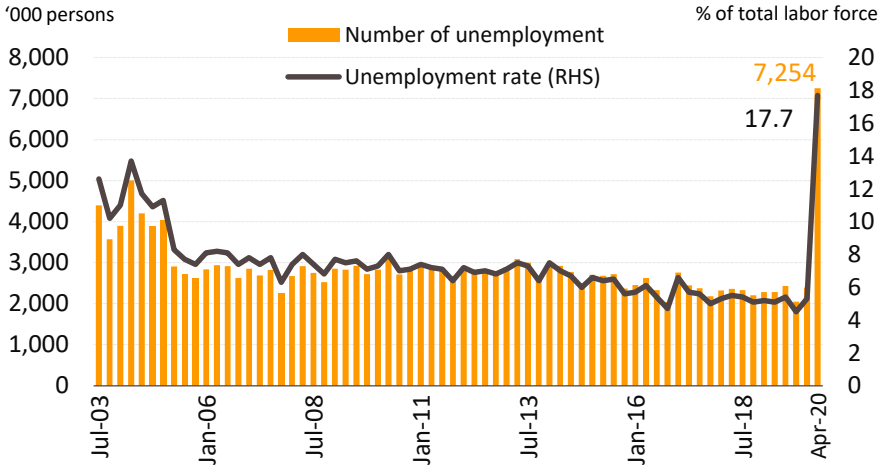
Source: Ministry of Finance, local news media, CEIC, Krungsri Research

Krungsri Research's view

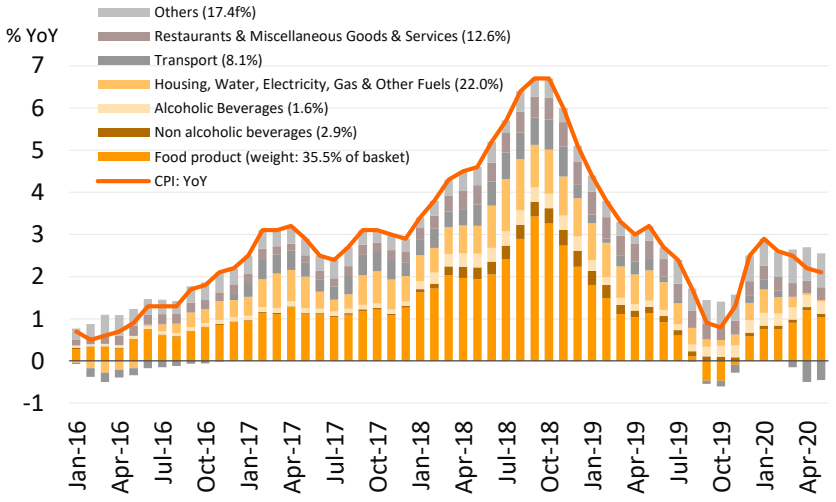
- **In early June, the government approved a IDR677.2trn (USD47.6bn) stimulus package** to help affected workers and stimulate domestic consumption. **The government also vowed to add 89 new public infrastructure projects with an investment value of IDR1.422qdn over the next 5 years (2020-2024)** to create 4 million jobs.
- **The government expanded the stimulus package because it now aims to lift 2020 GDP growth above 0%.** The government still expects 2020 economic growth to be slower than the previous forecast of 2.3%. In the worst-case scenario, it expects the economy to contract by 0.4%.
- **However, we expect it would be difficult to realize all the planned fiscal stimulus and investment targets in 2020.** Specifically, the budget disbursement and land acquisition processes are lengthy. Premised on this, **we anticipate Indonesia to register negative economic growth this year.**
- **In addition, there are rising concerns over the next 3-5 years because of: (i) a widening budget deficit** which the government estimates would reach 6.34% of GDP in 2020 (instead of 6.27%) and more-than-double its legal budget deficit ceiling of 3% of GDP**, and (ii) a sharp rise in general government debt and external debt.** The World Bank projects Indonesia's general government debt would increase from 29.8% of GDP in 2019 to 37% in 2020.

Philippines: Unemployment rate in April 2020 hits record high; further easing for monetary policy is required

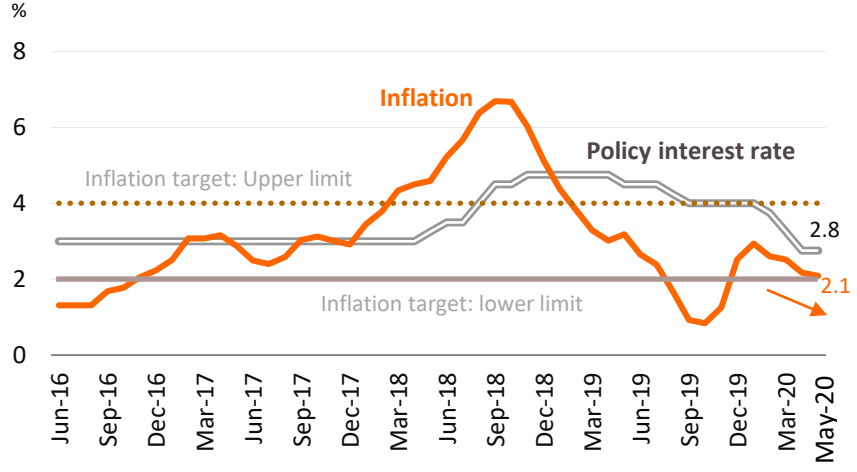
Philippines: Unemployment



Philippines: Headline inflation



Philippines: Inflation and policy interest rate



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

Krungsri Research's view

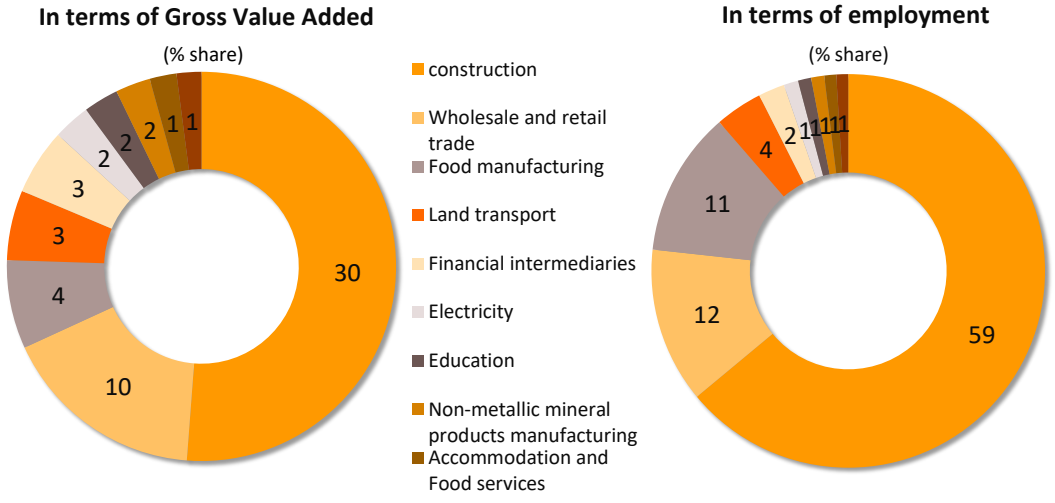
- **In April 2020, unemployment in the Philippines soared to a new high of 17.7%, or equivalent to 7.3 million jobless people.** The sharp deterioration in the labor market triggered by the COVID-19 pandemic, has worsened the outlook for domestic consumption which accounts for 74% of national GDP. Hence, the government projects the economy would shrink by 2.0%-3.4% this year.
- In addition, **Philippines' inflation has slowed for a fourth straight month to 2.1% in May, close to the lower limit of its inflation target (2%-4%). And, we expect inflationary pressure to remain subdued** supported by manageable food prices and still-low oil prices.
- Given that we expect economic growth this year to miss the official target and inflation to remain benign, **the Bangko Sentral ng Pilipinas (BSP) might ease monetary policy further. We anticipate it would reduce interest rates further and possibly lower reserve requirement ratio to boost liquidity in the market. This would work together with government stimulus measures and investment projects to create jobs and increase domestic spending.**

Massive fiscal stimulus worth up to c.15.5% of GDP to boost economic growth in 2020-2022

Philippines: Key stimulus packages

	"ARISE" Bill	"CURES" Bill
Amount (PHP trn)	1.3	1.5
(USD, m)	25.7	29.6
(% of GDP)	7.2	8.3
Period	2 years (2020-2021)	3 years (3 fiscal year)
Disbursement	• PHP688trn (53% of total) in 2020 • PHP612trn (47%) in 2021	PHP500bn (33% of total) each year
Objectives	• Assist affected workers • Create new jobs	Infrastructure projects including *Build Build Build* program

Top sectors to benefit from increased public infrastructure spending



Krungsri Research's view

- The House of Representatives in the Philippines has approved two bills: (i) *Accelerated Recovery and Investments Stimulus for the Economy (ARISE)* worth PHP1.3trn (7.2% of GDP) for 2 years (2020-2021), and (ii) *Covid-19 Unemployment Reduction Economic Stimulus (CURES) Act* worth PHP1.5trn (8.3% of GDP) for 2020-2022. In brief, the ARISE will focus on helping workers and businesses affected by the COVID-19 pandemic while the CURES would finance infrastructure projects in priority areas - including projects under the *Build Build Build* program and HEAL (Healthcare, Education, Agriculture, and Local road/ infrastructure and livelihood).
- A study by the Philippines' National Economic and Development Authority revealed public investment spending under the *Build Build Build* program would account for 4.1% of GDP, and contribute up to PHP1.3bn or 4.9 ppt of GDP by 2022 (the ending period). It is not only the construction sector that would see an increase in gross value-added (GVA) and employment, but several other sectors including wholesale & retail trade, food manufacturing, land transport, and financial intermediaries would also benefit as domestic consumption will improve along with stronger economic growth.
- **We anticipate the massive stimulus packages would help to mitigate the COVID-19 impact on Philippines' economy, and especially household consumption as they are aimed at creating jobs over the next three years. However, given that the bill was only recently approved (mid-2020) and the lengthy disbursement and and delivery process, the Philippines might see only a positive impact on the economy late this year.**

Source: National Economic and Development Authority, Philippine News Agency, CEIC, Krungsri Research

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