



**Cambodia**



**Laos**



**Myanmar**



**Vietnam**



# CLMV Outlook

Q3 | 2020

Slower-than-expected recovery amid prolonged  
COVID-19 impacts and country-specific risks



# CLMV Outlook

## Q3 2020

With stringent lockdown measures, CLMV countries in 1H20 were able to contain the COVID-19 outbreak and ease their lockdown measures relatively faster than other regions. Nevertheless, both domestic and external demand are likely to remain depressed going forward as a result of higher unemployment, rising cases abroad, and extended border closures. EIC has therefore revised 2020 GDP growth forecasts downward for all four countries. The economic slowdown could also expose CLMV economies to longer-term issues and structural vulnerabilities, including deteriorating fiscal and external positions as well as financial institutions' asset quality, posing downside risks on sovereign credit ratings and outlooks. Country-specific risks remain issues to monitor, including the effects of partial EBA withdrawal for Cambodia, effective in August 2020, risks on credit rating downgrade and ability to service debt for Laos, the general election scheduled for November for Myanmar, and the resurgence of COVID-19 cases for Vietnam. Combined with prolonged impacts and high uncertainty from COVID-19, CLMV economic recovery is likely to be gradual and uneven across countries and sectors looking forward.



### Cambodia

With a prolonged slump in tourism and exports, EIC has revised Cambodia's 2020F GDP growth downward to a contraction of -3.0%. Recovery should be slow despite successful COVID-19 containment as both tourism (18% of GDP) and demand for garment exports, a key export product, remain bleak. The recently effective partial EBA withdrawal is another risk factor affecting Cambodia's exports (63% of GDP).

### Myanmar

EIC has revised Myanmar's 2020F GDP growth downward to 1.5% reflecting a broad-based slowdown in the economy. Key exports of natural gas and garments have been hit hard by lower demand. Weak domestic consumption is likely to continue due to extended partial lockdown measures, weak labor markets, and lower remittances. A key issue to watch is the upcoming general election in November, which could increase political and policy uncertainty.

### Laos

In addition to weak economic momentum, limited fiscal space and a concerning external position are likely to exacerbate COVID-19 impacts. EIC, thus, has downgraded Laos' 2020F GDP growth to 0.5%. Recovery going forward could be constrained by Laos' limited fiscal space, worsened by rising external debt and a fall in revenue collection. Downside risk on ability to service debt due to weakening Kip could also hinder external debt repayment in foreign currencies.

### Vietnam

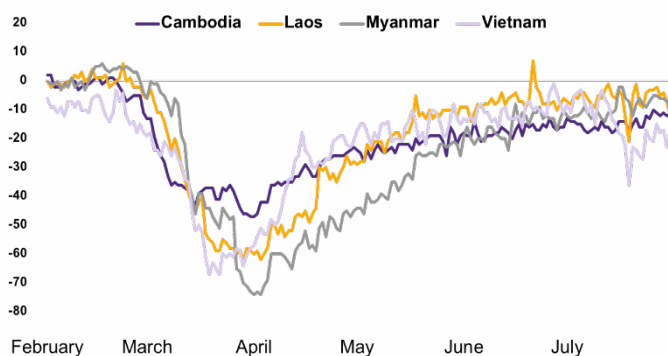
The recent resurgence in new COVID-19 cases is likely to further slowdown economic recovery. EIC, has thus trimmed 2020F Vietnam GDP growth to 2.3%. Tightening lockdown measures, recently announced in key cities, will likely slow down economic recovery in 2H20F. However, in the medium-term, the economy is poised to benefit from EVFTA went into effect in August 2020, and potential FDI diversion.

## Special Issue: Evaluating the Impacts of the CLMV Slowdowns on Thai Economy

**Despite bottoming out, recent CLMV mobility data showed signs of stalling recovery, especially in Vietnam.**

#### CLMV's Mobility Data (Retail and Recreation)

Unit: % change from baseline



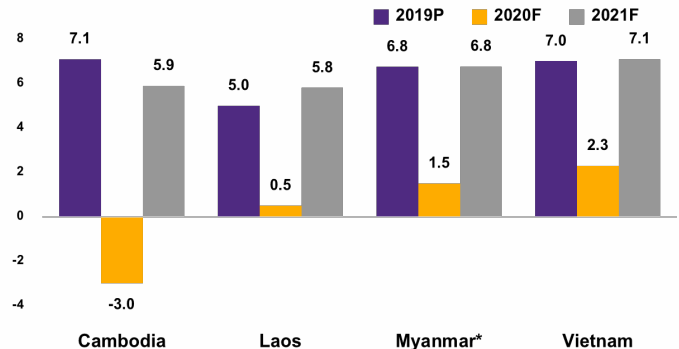
Source: EIC analysis based on data from Google

Note: Baseline period is the median value between January 3 – February 6, 2020

**With prolonged COVID-19 impacts and rising country-specific risks, EIC revises 2020F GDP downward even further.**

#### CLMV's Economic Growth 2019-2021F

Unit: %



Source: EIC analysis based on data from the IMF, WB, ADB, and CLMV Authorities

\*Note: 2020F for Myanmar refers to FY2019/20

# Evaluating the Impacts of the CLMV Slowdowns on the Thai Economy

In this issue, in addition to continuing to monitor the economic impacts of the COVID-19 pandemic on the CLMV economies, EIC will evaluate the economic effects of the CLMV economic slowdown on the Thai economy by evaluating four key interconnected economic channels: regional trade, regional tourism, Thai direct investment, and the employment of CLMV workers in Thailand.

## **Regional Trade: Signs of bottoming out, but recovery likely to be sluggish**

In 1Q20 a strong rebound in exports to Cambodia (led by fuel and agricultural industrial products) led Thailand's overall exports to the CLMV countries to bounce 2.7% YOY (vs -6.4% YOY in 2019). However, the COVID-19 pandemic resulted in demand slowdowns, production halts, and border closures. Exports to the CLMV nations in 2Q20 thus saw a broad-based contraction (-25.8% YoY). In early July, Phase 5 of Thailand's lock-down easing re-opened 14 border checkpoints with Laos, 8 with Myanmar, and 7 with Cambodia. Starting from July, these partial border re-openings could possibly bring back some portion of Thailand's border trade with Cambodia, Laos, and Myanmar.

On the import side, Thailand's overall imports from the CLMV countries also showed a decline from March onward and saw deeper contraction in 2Q20 (Table 2). The contraction was broad-based, with Cambodia displaying the largest contraction, mainly due to falling imports of gold and precious metals.

**Looking forward, despite the aforementioned partial border re-openings, the severe impacts of COVID-19 on the CLMV countries and Thailand will likely result in a sluggish recovery in trade activities in the region.**

**Table 1: 2Q20 Thailand's exports to CLMV fell sharply (-25.8% YoY).**

Thai Exports (%YoY)						
Country	1Q2020	2Q2020	Apr-20	May-20	Jun-20	YTD
Cambodia	21.60%	-31.70%	-37.30%	-33.70%	-23.40%	-6.20%
Laos	3.10%	-24.50%	-35.50%	-27.00%	-11.40%	-10.80%
Myanmar	3.90%	-30.90%	-36.30%	-34.10%	-21.90%	-13.10%
Vietnam	-8.10%	-20.80%	-24.20%	-22.60%	-15.10%	-14.40%
CLMV	2.7%	-25.8%	-31.0%	-28.0%	-17.8%	-11.6%
Total excl CLMV	-3.15%	-12.28%	10.21%	-20.10%	-23.67%	-7.66%

Source: EIC Analysis based on data from the Ministry of Commerce

**Table 2: 2Q20 Thailand's imports from the CLMV countries also saw a sharp decline (-23.8% YOY).**

Thai Imports (%YoY)						
Country	1Q2020	2Q2020	Apr-20	May-20	Jun-20	YTD
Cambodia	124.10%	-70.30%	-7.80%	-23.80%	-87.10%	10.80%
Laos	20.10%	-10.80%	-15.50%	-16.10%	-0.30%	3.70%
Myanmar	2.30%	-15.40%	-0.20%	-15.40%	-28.80%	-7.20%
Vietnam	8.60%	-21.80%	-7.60%	-42.80%	-13.10%	-6.60%
CLMV	20.4%	-23.8%	-7.3%	-28.7%	-32.8%	-2.8%
Total excl CLMV	-7.05%	-22.16%	-15.18%	-33.39%	-16.83%	-14.49%

Source: EIC Analysis based on data from the Ministry of Commerce

## Key findings from 2Q20 trade activities among Thailand and individual CLMV countries

### Cambodia: broad-based contraction in trade activities; recovery likely to be slow

- In 2Q2020, Thai exports to Cambodia showed broad-based contractions.
- Among top 3 Thai export products, fuel (22.9% share; -35.0% YOY), agricultural industrial products (17.7% share; -14.0% YOY), and cars and components (6.1% share; -54.8% YoY) saw sharp declines.
- On a monthly basis, Thai exports to Cambodia across all key products displayed signs of bottoming out, with a smaller contraction in June (-23.4% YoY vs -33.7% in May).
- Regarding imports, a surge in gold and precious metal imports from 2019 to 1Q2020, together accounting for an import share of 67.4% in 2019, drove overall import growth from Cambodia. However, both import products were completely halted in 2Q20. Other key products saw large contractions, including slings and cables along with clothes.
- On the bright side, fruit and vegetable products as well as aluminum and other metal products maintained their positive YOY growth.
- On a monthly basis, imports of aluminum and other metal products expanded (64.1% and 70.6% YoY in June vs 25.9% and 13.9% in May) whereas imports of fruit and vegetable products saw a major slowdown (8.6% YoY in June vs 65.4% in May). Imports of slings and cables as well as clothes saw smaller contractions, suggesting signs of bottoming out.
- EIC expects a recovery in trade activities to be slow given the bleak outlook for the Cambodian economy in 2020.

**Table 3: Key Thai exports and imports with Cambodia**

Thai Exports to Cambodia							Thai Imports from Cambodia						
%YOY (Share 2019)	1Q2020	2Q2020	Apr-20	May-20	Jun-20	YTD	%YOY (Share 2019)	1Q2020	2Q2020	Apr-20	May-20	Jun-20	YTD
Total (100)	21.6%	-31.7%	-37.3%	-33.7%	-23.4%	-6.2%	Total (100)	124.1%	-70.3%	-7.8%	-23.8%	-87.1%	10.8%
Total excl Gold (92.0)	19.1%	-24.6%	-23.3%	-27.0%	-23.4%	-3.6%	Gold (43.6)	938.6%	-100.0%	N/A	N/A	-100.0%	327.3%
Fuel (22.9)	23.8%	-35.0%	-44.1%	-41.6%	-17.8%	-9.2%	Precious Metals (23.8)	-100.0%	-100.0%	N/A	N/A	-100.0%	-100.0%
Agricultural Industrial Products (17.7)	21.8%	-14.0%	-12.5%	-14.9%	-14.4%	3.2%	Fruit and Vegetable Products (8.9)	45.0%	62.8%	108.5%	65.4%	8.6%	48.1%
Cars and Components (6.1)	14.3%	-54.8%	-74.4%	-45.4%	-47.8%	-22.0%	Slings and Cables (5.4)	-12.2%	-58.8%	-57.0%	-63.1%	-56.1%	-34.0%
Electrical Appliances (4.9)	6.0%	-25.2%	-14.3%	-32.6%	-26.5%	-9.9%	Other Metal Products (5.2)	35.3%	38.4%	35.6%	13.9%	70.6%	36.8%
Textiles (2.8)	12.2%	-30.0%	-12.3%	-45.9%	-29.0%	-8.5%	Clothes (4.6)	48.4%	-61.1%	-62.3%	-75.0%	-47.3%	-1.6%
							Aluminum Products (4.3)	55.3%	50.7%	69.9%	25.9%	64.1%	52.9%

Source: EIC Analysis based on data from the Ministry of Commerce





## Laos: Exports fell sharply, while imports saw a smaller decline cushioned by electricity imports

- In 2Q2020, Thai exports to Laos contracted across all key product sectors (-24.5% YoY)
- Among key products, refined oil (the largest sector with 18.9% share) and electronics (6.2% share) fell sharply (-52.6% and -61.0% YoY). Agricultural industrial products and livestock displayed smaller contractions (-8.7% and -3.9% YOY)
- On a monthly basis, overall Thai exports to Laos showed signs of bottoming out (-11.4% in June vs -27.0% YoY in May). Among key products, refined oil and electronics showed significant signs of recovery (-30.7% and +8.6% YoY in June vs -60.9% and -42.0% in May) whereas livestock exports plunged (-31.7% YoY in June vs 18.2% in May).
- Regarding imports, electricity, with a 55% import share, maintained positive growth throughout 2Q20 and largely drove the overall import trend.
- Among the next largest import products, copper, machinery, and appliance imports fell significantly. Meanwhile, fruit and vegetable imports (4% share) maintained their large positive growth.
- On a monthly basis, imports from Laos showed signs of bottoming out across most key product sectors, except for copper products.

**Table 4: Thailand's exports and imports with Laos**

Thai Exports to Laos							Thai Imports from Laos						
%YOY (Share 2019)	1Q2020	2Q2020	Apr-20	May-20	Jun-20	YTD	%YOY (Share 2019)	1Q2020	2Q2020	Apr-20	May-20	Jun-20	YTD
<b>Total (100)</b>	3.1%	-24.5%	-35.5%	-27.0%	-11.4%	-10.8%	<b>Total (100)</b>	20.1%	-10.8%	-15.5%	-16.1%	-0.3%	3.7%
Total excl Gold (99.8)	3.4%	-24.4%	-35.5%	-26.6%	-11.4%	-10.6%	Electricity (55.0)	24.7%	8.1%	5.3%	8.0%	11.1%	15.5%
Refined Oil (18.9)	-8.3%	-52.6%	-62.9%	-60.9%	-30.7%	-30.0%	Copper Products (16.0)	-7.4%	-60.4%	-63.5%	-57.5%	-60.0%	-39.7%
Agricultural Industl Products (14.0)	8.4%	-9.7%	-14.6%	-12.3%	-2.0%	-1.0%	Machineries and Components (9.3)	10.1%	-62.6%	-84.1%	-55.9%	-50.6%	-33.1%
Livestocks (7.5)	0.7%	-3.9%	10.1%	18.2%	-31.7%	-1.5%	Electrical Appliances (4.2)	-50.7%	-62.3%	-63.7%	-70.1%	-53.6%	-56.1%
Cars and Components (6.2)	-34.6%	-61.0%	-62.8%	-68.2%	-48.5%	-46.4%	Fruit and Vegetable Products (4.0)	112.5%	152.9%	229.7%	128.0%	86.8%	117.5%
Electronics (6.2)	-16.9%	-33.4%	-65.3%	-42.0%	8.6%	-25.4%							

Source: EIC Analysis based on data from the Ministry of Commerce

## Myanmar: falling trade activities in 2Q20; slow and uneven recovery is expected.

- In 2Q2020, Thai exports to Myanmar also contracted across all key products (-30.9% YoY).
- Among key products, refined oil, vehicles, and textiles declined sharply (-56.8%, -45.0%, and -53.4% YoY, respectively) whereas agricultural industrial products (the largest product group with 21.1% share) and appliances showed relatively smaller contractions (-14.1% and -25.3% YoY, respectively).
- On a monthly basis, Thai exports to Myanmar showed signs of bottoming out across most key products (with overall contraction of -21.9% in June vs -34.1% YoY in May). Among top export products, agricultural industrial products and appliances displayed strong rebounds from May to June (from -20.3% and -34.0% YoY to -3.1% and +2.4%, respectively) whereas deep contractions in vehicle exports (-32.1% YOY in June vs -39.5% in May) and refined oil (-55.0% YOY in June vs -53.5% in May) continued.

- As for Thai imports from Myanmar, imports of natural gas (75.7% share) saw a sharp decline throughout 2Q20 and drove the overall imports trend (-15.4% YOY). On the other hand, other key import products, including plant, copper, and other metal products maintained their positive growth in 2Q20, but mainly due to a strong rebound in May.
- On a monthly basis, a large contraction in imports of natural gas continued in June, reflecting significantly slower demand from Thailand. Moreover, imports of other key products plunged in June.

**Table 5: Thailand's exports and imports with Myanmar**

Thai Exports to Myanmar							Thai Imports from Myanmar						
%YOY (Share 2019)	1Q2020	2Q2020	Apr-20	May-20	Jun-20	YTD	%YOY (Share 2019)	1Q2020	2Q2020	Apr-20	May-20	Jun-20	YTD
<b>Total (100)</b>	3.9%	-30.9%	-36.3%	-34.1%	-21.9%	-13.1%	<b>Total (100)</b>	2.3%	-15.4%	-0.2%	-15.4%	-28.8%	-7.2%
Total excl Gold (98.7)	0.5%	-30.2%	-35.6%	-33.4%	-21.2%	-14.6%	Natural Gas (75.7)	-23.5%	-26.0%	-19.2%	-30.5%	-28.4%	-24.9%
Agricultural Industrial Products (21.1)	10.3%	-14.1%	-17.4%	-20.3%	-3.1%	-2.4%	Plant Products (5.3)	990.0%	44.7%	611.5%	79.9%	-49.3%	189.4%
Refined Oil (10.9)	-1.0%	-56.8%	-61.9%	-53.5%	-55.0%	-28.8%	Other Metal Products (4.9)	52.5%	14.7%	1.0%	39.5%	-3.0%	32.8%
Vehicles and Components (6.7)	-5.9%	-45.0%	-66.3%	-39.5%	-32.1%	-25.3%	Copper Products (4.1)	69.5%	46.0%	25.1%	75.6%	29.3%	57.8%
Textiles (6.5)	-6.2%	-53.4%	-72.0%	-56.2%	-35.9%	-28.7%	Meat Products (3.5)	18.4%	-4.6%	-6.5%	0.2%	-13.6%	9.1%
Electrical Appliances (5.0)	16.1%	-25.3%	-43.4%	-34.0%	2.4%	-5.0%							

Source: EIC Analysis based on data from the Ministry of Commerce

### **Vietnam: falling exports and imports in 2Q20; June exports, excluding cars and components, showed signs of bottoming out.**

- In 2Q2020, Thai exports to Vietnam displayed an overall contraction (-20.8% YoY).
- Among key products, exports of cars and components (products with the largest share at 15.3%) continued its sharp decline (-78.2% YoY vs -30.6% in 1Q20). Exports of appliances, fruit products, and plastic pellets also contracted (around the overall rate of -20% to -25% YoY). Meanwhile, agricultural industrial products maintained its large positive growth (48.2% YoY).
- On a monthly basis, Thai exports to Vietnam showed signs of overall bottoming out in May but the trend differed across products. Among key products, sharp declines in exports of cars and components continued (from -85.9% YoY in May to -72.3% in June). Agricultural industrial products and fruit products largely also declined in June despite a rebound in May. On the other hand, electrical appliances showed signs of a strong rebound (-27.3% YOY in May vs -5.3% in June).
- As for imports, electrical appliances and machinery (two of the largest product sectors with 19.1% and 10.3% shares) displayed sharp contractions (-55.6% and -33.4% YoY) and dragged the overall import trend downward (-21.8% YoY) in 2Q20.
- On a monthly basis, imports from Vietnam across all key products showed signs of bottoming out in May and recovery in June. Both appliances and machinery showed strong rebounds (from -65.7% and -54.7% YoY in May to -21.9% and -19.8% in June). Other smaller key import products, namely vehicles, clothing, and iron products also rebounded from May to June.



**Table 6: Thai exports and imports with Vietnam**

Thai Exports to Vietnam							Thai Imports from Vietnam						
%YOY (Share 2019)	1Q2020	2Q2020	Apr-20	May-20	Jun-20	YTD	%YOY (Share 2019)	1Q2020	2Q2020	Apr-20	May-20	Jun-20	YTD
<b>Total (100)</b>	-8.1%	-20.8%	-24.2%	-22.6%	-15.1%	-14.4%	<b>Total (100)</b>	8.6%	-21.8%	-7.6%	-42.8%	-13.1%	-6.6%
Total excl Gold (99.99)	-8.1%	-20.8%	-24.2%	-22.6%	-15.1%	-14.4%	Electrical Appliances (19.1)	-24.8%	-55.6%	-73.5%	-65.7%	-21.9%	-39.3%
Cars and Components (15.3)	-30.6%	-78.2%	-78.2%	-85.9%	-72.3%	-51.3%	Machineries and Components (10.3)	-17.9%	-33.4%	-19.3%	-54.7%	-19.8%	-26.2%
Electrical Appliances (12.9)	10.7%	-24.9%	-40.1%	-27.3%	-5.3%	-7.9%	Vehicles and Components (6.7)	41.2%	-18.9%	11.8%	-35.9%	-25.6%	9.9%
Agricultural Industrial Products (8.1)	18.0%	48.2%	87.0%	46.1%	22.6%	33.8%	Clothings (5.4)	12.2%	-35.9%	-22.6%	-57.3%	-25.0%	-12.2%
Fruit Products (6.9)	-67.8%	-24.7%	-52.2%	62.2%	-57.8%	-47.2%	Iron Products (5.1)	28.3%	-3.0%	62.1%	-41.1%	-17.5%	12.2%
Plastics Pellets (6.9)	-21.8%	-21.6%	-2.2%	-37.3%	-23.5%	-21.7%							

Source: EIC Analysis based on data from the Ministry of Commerce

**Border exports and imports between Thailand and CLM countries significantly declined in 2Q2020 (Table 7).** With border imports and exports accounting for at least 80% of Thailand's trade with Cambodia, Laos, and Myanmar the slowdown in border trade in 2Q20 accounted for a large portion of the declines in overall regional trade. In early July, Thailand's Phase 5 of lock-down easing re-opened 14 border check points with Laos, 8 with Myanmar, and 7 with Cambodia. **These partial border re-openings could possibly bring back significant portions of Thailand's border trade with CLM countries, starting from July. However, given slow economic recovery in the region as well as for the Thai economy in 2H20F, any border trade recovery is expected to be very gradual.**

**Table 7: Thailand's border trade with CLM countries plunged in 2Q20**

Thai Border Exports (%YoY)							
Country	2019	1Q2020	2Q2020	Apr-20	May-20	Jun-20	YTD
<b>Cambodia</b>	14.2%	14.2%	-11.4%	-2.9%	-17.1%	-13.0%	1.6%
<b>Laos</b>	-8.5%	-0.6%	-22.7%	-32.8%	-24.8%	-10.9%	-11.7%
<b>Myanmar</b>	-1.1%	-0.9%	-32.3%	-45.0%	-31.9%	-20.6%	-16.1%
<b>CLM</b>	1.5%	5.0%	-21.2%	-25.0%	-24.0%	-14.4%	-8.0%
Thai Border Imports (%YoY)							
Country	2019	1Q2020	2Q2020	Apr-20	May-20	Jun-20	YTD
<b>Cambodia</b>	-7.0%	18.7%	-14.6%	-5.4%	-23.7%	-13.7%	6.6%
<b>Laos</b>	-6.1%	15.1%	-13.6%	-18.6%	-14.4%	-7.6%	-0.1%
<b>Myanmar</b>	6.5%	-4.2%	-16.5%	1.0%	-16.9%	-31.2%	-10.9%
<b>CLM</b>	-0.5%	6.9%	-15.1%	-7.8%	-16.4%	-20.7%	-4.6%

Source: EIC Analysis based on data from the Ministry of Commerce

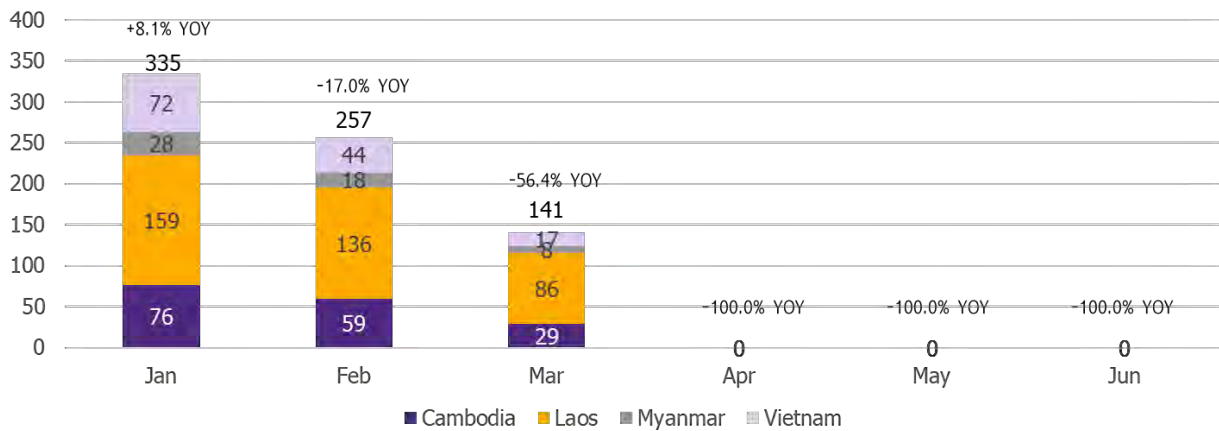
## Regional tourism on the halt

**As the COVID-19 pandemic developed in the region in 1Q20, CLMV tourist arrivals to Thailand started to significantly decline and remained completely stalled throughout 2020Q2 under travel restrictions in region.**

**Figure 1: CLMV tourism declined in 1Q20 and was on the halt in 2Q20 under travel restrictions**

#### CLMV Tourist Counts in 2020

Unit: Thousand Persons



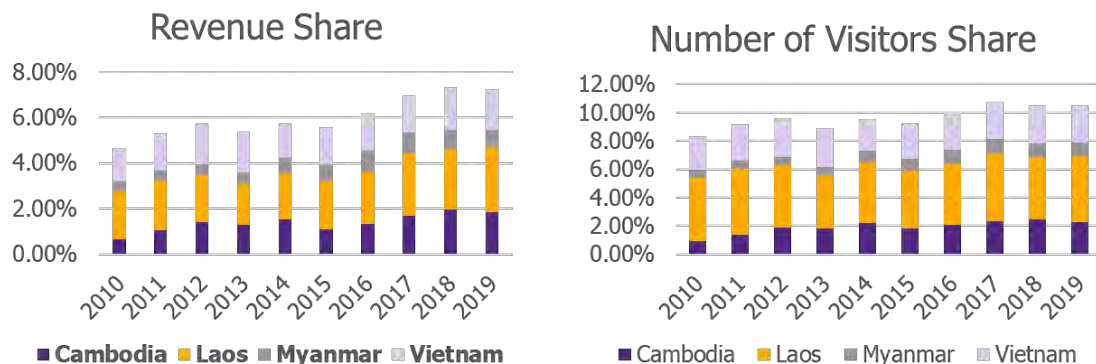
Source: EIC Analysis based on data from TAT Intelligence Center

Before the COVID-19 pandemic, tourism from CLMV countries had been increasing both in number and spending. Based on 2019 figures, CLMV tourism constituted 10.5% of Thailand's 39.8 million tourists and 7.3% of 1.9 trillion THB in overall tourism revenue. In the decade from 2010 to 2019, CLMV nations' tourism share, both in terms of revenue and number of visitors, had been continuously rising (Figure 2). The largest contribution to tourism growth came from Cambodia (from 0.7% to 1.9% as a revenue share and from 0.9% to 2.3% on a number of visitors share). Smaller contributions came from Laos, Myanmar, and Vietnam, respectively.

**Figure 2: CLMV countries' tourism share showed increasing importance from 2010-2019**

#### CLMV Tourism Share: 2010-2019

Unit: % of Total Tourism Revenue



Source: EIC Analysis based on data from TAT Intelligence Center

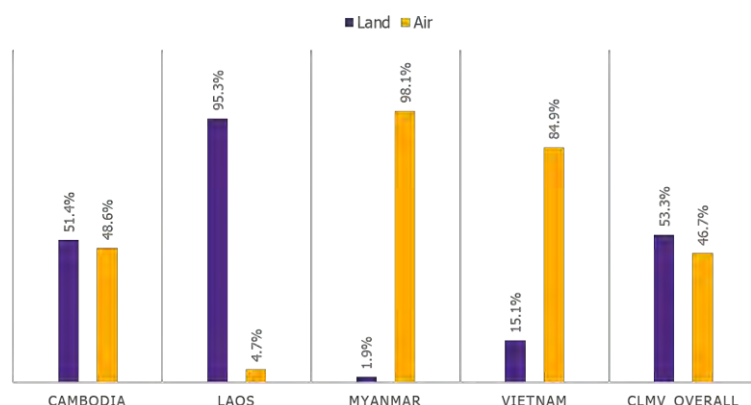
Suggested by the growing trends in CLMV tourism revenue, regional border re-openings for tourism targeted at CLMV visitors could potentially recover a decent portion of tourism revenue loss for Thailand. This is under the key assumption that demand for regional tourism will rebound. Such a scenario would be more likely if COVID-19 cases in Thailand as well as in CLMV countries remain contained, making regional tourism more appealing.



In 2019, Laotian tourists mostly entered Thailand via land, while tourists from Myanmar and Vietnam mostly entered Thailand via air. In the meantime, Cambodian tourists entered almost evenly from both channels (Figure 3). Looking forward, these patterns suggest that both airport and border re-openings would have equal importance in Thailand's economic recovery through CLMV tourism. The resumption of air travel could bring back tourists from Cambodia, Myanmar, and Vietnam to Bangkok and other major tourism hubs. On the other hand, a resumption of border travel could recover lost tourism in border provinces, particularly in Laotian and Cambodian border areas.

**Figure 3: Both land and air transportation channels are significant for CLMV tourism.**

CLMV Shares of Tourist Count by Mode of Transportation (2019)



Source: EIC Analysis based on data from TAT Intelligence Center

Note that under Thailand's current Phase 6 re-opening, foreign visitors can enter Thailand only under worker categories in construction, the food export industry, trade exhibition organizers, film production crews, and Thailand elite card members. **As most tourists from CLMV countries do not fall into these categories, the return of CLMV tourist arrivals needs to wait until the next phases of re-opening.**

### **Thailand's Direct Investment: Bouncing back but remaining slow; credit risks continue to be a key concern**

**After a sharp decline in April, Thailand direct investment in CLMV countries in May 2020 bounced back but remained slow. (Figure 4).** Net flow of direct investment from Thailand toward CLMV economies was expanding in 1Q2020 (+9.8% YOY) but growth came to a halt with the COVID-19 pandemic in April, with essentially zero net investment. Declines in net flow of direct investments from Cambodia, Laos, and Myanmar, reflected Thai investors pulling out their investments due to an aversion to economic uncertainty in the region.

In May 2020, Thailand's direct investment in the region resumed, but mainly due to a rebound in investment in Vietnam. Meanwhile, investment in Cambodia, Laos, and Myanmar remained stalled. According to Vietnam's Foreign Investment Agency, Thai investors' contributions to Vietnam's FDI in May 2020 ranked second among 93 countries investing in Vietnam, with Singapore ranking first and China ranking third. These investments largely went to manufacturing and electricity production industries.

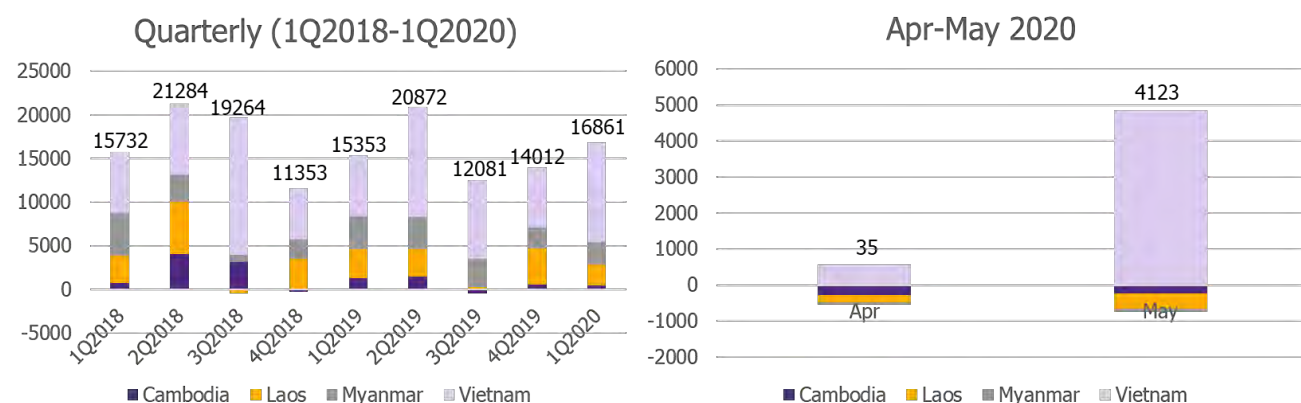
**Credit risks as a key concern.** As discussed in our previous CLMV outlook, given the severe impacts from COVID-19, combined with the high vulnerability of external and financial stability, credit risk is a key concern for Laos, followed by Cambodia and Vietnam. Note that there remains no assigned credit rating for Myanmar as of August 2020. In August 2020, Moody's recently downgraded Laos by 2 notches from B3 (highly speculative) to Caa2 (extremely speculative) with negative outlook. In May 2020, Fitch (B-) and TRIS (BBB) also downgraded credit rating outlooks for Laos from stable to negative.

For Vietnam, in December 2019 Moody's (Ba3) downgraded credit rating outlooks from stable to negative and in April 2020 Fitch (BB) downgraded rating outlooks from positive to stable. While Cambodia maintained credit ratings of B2 with stable outlook from Moody's, their recent weak growth outlook, resulting from COVID-19, a highly-leveraged household balance sheet, and effective partial EBA withdrawal from EU, remain a key concern about the nation's credit risk.

**Figure 4: Thailand's direct investment in the CLMV countries greatly recovered, with Vietnam as the main driver**

Thailand's Direct Investment in CLMV Countries (Net Flow)

Unit: mn THB



Source: Bank of Thailand

**Table 8: Latest updates on credit ratings for CLMV countries**

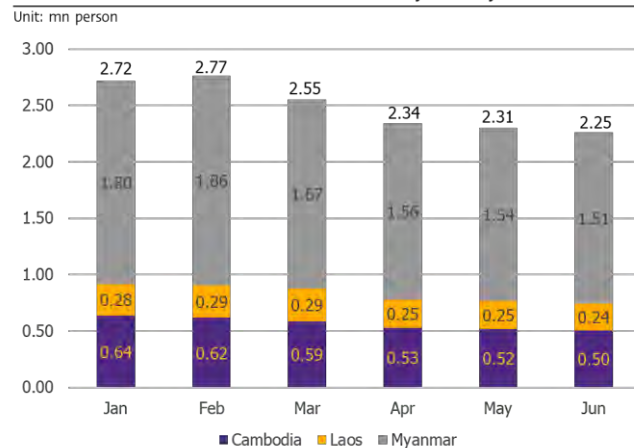
	Cambodia	Laos	Myanmar	Vietnam
Moody's	B2 / <i>Stable</i> (Since May 2007)	Caa2 / <i>Negative</i> (downgraded from B3 in August 2020)	Not Rated	Ba3 / <i>Negative</i> (Outlook downgraded from stable in December 2019)
S&P Global	Not Rated	Not Rated	Not Rated	BB / <i>Stable</i> (Rating upgraded from BB- in April 2019)
Fitch Ratings	Not Rated	B- / <i>Negative</i> (Outlook downgraded from stable in May 2020)	Not Rated	BB / <i>Stable</i> (Outlook downgraded from positive in April 2020)
TRIS Rating	Not Rated	BBB / <i>Negative</i> (Outlook downgraded from stable in May 2020)	Not Rated	Not Rated

## Foreign Employment: Declining Trend Likely to Continue

Since COVID-19 emerged in Thailand in late 1Q20, the number of foreign workers in Thailand from Cambodia, Laos, and Myanmar has been declining (Figure 5). Outflows of migrant workers returning home came as the result of the COVID-19 pandemic, regional lock-down policies, and job losses. Under current travel restrictions, the CLM workforce in Thailand would likely continue to decline as potential inflows of new workers remain blocked and outflows are ongoing. This reduction in the CLM workforce in Thailand will not only adversely affect those workers' spending in Thailand but also remittances to their home countries.

**Figure 5: The number of CLM workers had been decreasing since February**

Number of CLM Workers in Thailand in 2020: By Country

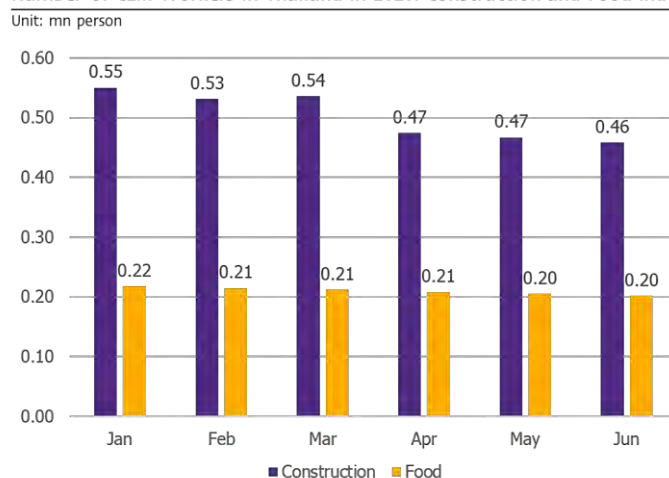


Source: EIC Analysis based on data from Foreign Workers Administration Office

**Thailand's Phase 6 Reopening allows the entry of foreign workers in both the construction and food industries.** As of June 2020, workers in these two industries accounted for 20% and 9% of total CLM workers, respectively, and also accounted for about 18% and 8% of the total workforce, respectively. According to the local press, the declining trends for CLM workers in these two industries (Figure 6) placed increasing demand on the employer side, which led them to push for the allowance of worker entries during this phase.

**Figure 6: CLM workers in the construction and food industries were among the declining trends**

Number of CLM Workers in Thailand in 2020: Construction and Food Industry



Source: EIC Analysis based on data from Foreign Workers Administration Office

**The return of CLM workers in the short-term, however, remains uncertain due to state quarantine requirements.** As of August 2020, any entering foreign workers must be quarantined for 14 days, with the cost of quarantine accommodation being paid by either the employer or the employee. This upfront quarantine cost, along with the loss of productivity for 14 days, could discourage the hiring of foreign workers. EIC, thus, expects inflows of CLM workers to remain slow in coming quarters.





# CAMBODIA

## OVERALL ECONOMY

### Facts and Figures

Population (2019)	16.49 million
Labor force (2019)	9.35 million
GDP (2019)	27.03 USD billion
GDP per capita (2019)	1,694 USD
GDP by sector (2018)	Agriculture: 22%, Industry: 32.3%, Services: 39.5%
Top exports (2019)	Textile 56%, Footwear 9%, Travel goods 7%

### What to watch in 2020



Partial EBA withdrawal from the EU effective August 12<sup>th</sup>, 2020



Economic slowdown from COVID-19 impacts and fiscal stimulus response

## Macroeconomic Update



### Economic Outlook

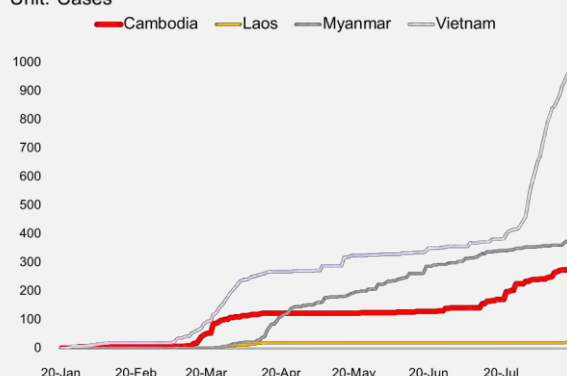
#### COVID-19 Situation Update

**Cambodia has contained the COVID-19 outbreak.** As of August 16<sup>th</sup>, the country registered a total of 273 confirmed cases, with no domestic transmission since May, and zero deaths. Of the cases, a total of 238 patients have recovered (Figure 1 LHS). Starting in March, the Cambodian government imposed partial lockdown measures to curb the spread of COVID-19, including the cancellation of the Cambodian New Year Holiday and a temporary cross-provincial travel ban, closures of schools and entertainment establishments, border controls, and a ban on large gatherings. With the situation stabilized, some measures have been eased, including border re-openings (Thailand has opened the Aranyaprathet checkpoint and other smaller checkpoints for limited trade), lifting of travel bans on some countries, and the reopening of some entertainment venues (Figure 1 RHS). Strict preventative measures remain in place to prevent a second wave outbreak, including a mandatory quarantine for foreigners traveling to Cambodia (along with a USD 2000 deposit) and social distancing measures for businesses that have reopened. **Despite the improving COVID-19 situation, Cambodia's economy is set to be significantly impacted as the country, which relies heavily on external demand, has been hit not only by the COVID-19 pandemic and a deep global recession, but also the partial withdrawal of Everything But Arms (EBA) tax preferences by the European Union (EU) which took effect on August 12<sup>th</sup>, 2020.**

**Figure 1: Cambodia has contained the outbreak and has eased lockdown measures**

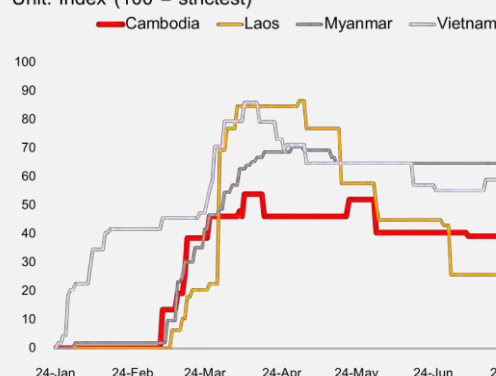
#### Confirmed COVID-19 Cases in CLMV Countries

Unit: Cases



#### CLMV's COVID-19 Government Response Stringency Index

Unit: Index (100 = strictest)



Source: EIC analysis based on data from the WHO and Oxford

## **2020F Outlook**

**With a deeper than expected global economic contraction and prolonged decline in global tourism, EIC has revised Cambodia's 2020 GDP growth forecast downward and now expects a -3.0%YOY contraction.** With major uncertainties surrounding the COVID-19 pandemic, the forecast is subject to further downside risks, particularly if there is a significant second wave outbreak domestically or internationally.

**The COVID-19 pandemic and global recession have significantly hurt Cambodia's key growth drivers:**

- **First, Cambodia's tourism sector (18.2% of GDP in 2019) has come to a sudden stop as travel bans, border closures, and lockdown measures bring global tourism to a standstill, as reflected by visitor arrivals falling -98%YOY in the second quarter.** In 2019, the Ministry of Tourism reported that Cambodia brought in USD 4.92 billion in tourism receipts, accounting for 18.2% of GDP. In comparison, Thailand's tourism receipts accounted for 11.5% of GDP in 2019. With global COVID-19 cases reaching new highs as of August 2020, tourism recovery is expected to be slow and unlikely to fully recover until a COVID-19 vaccine arrives. EIC thus expects a very slow recovery in foreign tourist arrivals in 2H20F. In addition, Cambodia's visitor arrivals already experienced weakening momentum leading up to the COVID-19 pandemic, with year-on-year growth contracting in November 2019 for the first time since 2014. This is likely due to Cambodia's on-line gambling ban, announced in August 2019 and effective January 2020, resulting in a reduction in Chinese travelers coming to Cambodia. One bright spot for Cambodia's tourism is a potential travel bubble with East Asian and neighboring countries, the majority of Cambodia's tourist arrivals, as infection rates have slowed down significantly in these regions. However, with a recent rise in COVID-19 cases in some of these countries, travel bubbles are likely to be formed very carefully and hence slowly.
- **Second, Cambodia's goods exports (54% of GDP in 2019) are expected to take a significant hit** as the country's export destinations and products are highly vulnerable to a recession. Cambodia's two largest export destinations, the US (26% share of total export value in 2019) and the EU (23% share), will likely see significant economic contraction this year owing to lockdown measures. Unemployment rates in both destinations have reached record highs, leading to a significant fall in discretionary spending, particularly for garments and footwear. US retail sales data for July showed that clothing store sales fell -37%YOY in the first seven months of the year. Since garments and footwear comprise 74% of Cambodia's total exports, exports are expected to suffer a prolonged slowdown. The latest available data for May shows that garment and footwear exports declined -30.7%YOY and -25.0%YOY respectively. Additionally, the partial EBA withdrawal, which took effect on August 12<sup>th</sup>, and supply chain disruptions could intensify the impacts of the global recession. Meanwhile, border closures have hindered border trade, although a potential gradual recovery is expected on this front as some lockdown measures have been eased.
- **Third, foreign direct investment (FDI) to Cambodia is expected to slow substantially amid the global recession.** China, Cambodia's largest foreign investor (44% share), experienced a GDP contraction of -1.6% in the first half of the year. With rising uncertainty and low investors' confidence, planned FDI could be postponed or canceled. In addition, a large portion of foreign direct investment is directed to garment manufacturing, tourism-related real estate, and construction, which could see sharp declines in demand this year. The World Bank reported that

Cambodia's approved FDI fell -52.2%YOY in the first two months of the year, while imports of steel – a key construction material – declined -40.4%YOY in the first five months of 2020. Moreover, the United Nations Conference on Trade and Development (UNCTAD) foresees a decline of up to 45% in FDI to developing economies in Asia.

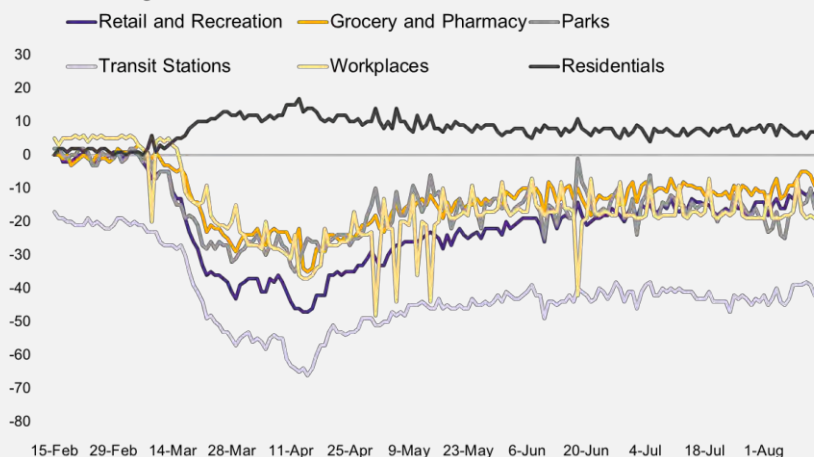
- **Lastly, with a substantial slowdown in tourism, manufacturing, and construction activities, many businesses have been forced to close temporarily or shut down altogether.** This is expected to place further strain on the economy, particularly on private consumption, through increased unemployment and non-performing loans. A joint statement released by the Garment Manufacturers Association of Cambodia (GMAC), Cambodia Footwear Association (CFA), and European Chamber of Commerce in Cambodia (EuroCham) reported that 400 garment and footwear factories have stopped production, resulting in 150,000 unemployed workers. According to a World Bank report, the tourism, garments and footwear, and construction sectors employ a combined 39.4% of total paid employment – suggesting that a prolonged slump in demand could have severe consequences on households' balance sheet, and hence resulting in further indebtedness to microfinance institutions. In addition, remittances are likely to fall this year, which would reduce another source of income for many Cambodians (remittances account for 5.8% of GDP in 2019 according to the World Bank).

**Cambodian high frequency data shows mobility and some economic activities bottoming out after lockdown measures started to ease in May but remained significantly lower than their pre-COVID-19 levels.** According to Google's COVID-19 community mobility reports as of August 14<sup>th</sup> (Figure 2), visits to most destinations started to decline in mid-March as infection cases started to soar. The hardest hit period was the beginning to mid-April, when the Cambodian government banned cross-provincial travel and canceled the Cambodian New Year Holiday. Since then, Google mobility data suggests that visits to most destinations have recovered on the back of a slowdown in new COVID-19 cases but remain significantly lower than their pre-COVID-19 levels. Note that mobility data could be used as a gauge for recovery but may not reflect actual economic activity.

**Figure 2: Cambodians visits to key destinations are bottoming out but remain below their pre-COVID-19 levels**

#### Cambodia's Community Mobility Reports

Unit: % change from baseline



Note: Baseline = Median value between January 3 – February 6, 2020

Source: EIC analysis based on data from Google

There are several insights that can be found from the data.

- **First, the data suggest that activities related to private consumption slowed down significantly.** Despite a gradual recovery from the bottom in April, visits to key destinations still remain below the baseline. Retail and recreation were the hardest hit as many restaurants and entertainment venues were forced to close temporarily, while consumers refrained from going out. A more worrying sign is the decline in consumption of essentials, as reflected by visits to grocery stores and pharmacies, which remained about -8% below the baseline. In comparison, among CLMV countries only Laos remained below the baseline (-4%) while other countries either recovered or grew from the baseline. This could imply that there is low confidence among Cambodian consumers, possibly due to decreased income and employment.
- **Second, the large fall in transit stations even before increases in domestic cases likely reflected the decline in tourist arrivals, which already experienced a sharp fall in February (-35.8%YOY).** This was further exacerbated by lockdown measures in March-April which prevented travel. Although visits to transit stations have recovered since then, it remains substantially below the baseline and shows that long-distance travel and commuting remain limited. Compared to other CLMV countries, Cambodia is the hardest hit and remains significantly below the second-worst hit country, Laos, which is at -21% below the baseline (apart from Vietnam which is facing a resurgence in cases).
- **Lastly, workplace visits have declined as companies adopt work from home policies while some workplaces have been forced to close down, such as factories.** Again, compared with CLMV countries, Cambodia is the hardest hit country. Since a large proportion of Cambodian workers are in industries that cannot shift to work from home, such as garments manufacturing and some tourism businesses, the data imply that Cambodia's labor market has recovered but still remains weak.

**To shore up growth and maintain stability, the Cambodian government has announced additional stimulus packages.** With low public debt at 28.1% of GDP (although almost all debts are external) and a fiscal surplus in 2019, Cambodia came into the year with a strong fiscal position. This has allowed the country to implement substantial economic packages to shore up the economy, as shown in Figure 3. Key additions include extending tax exemptions for aviation companies and the tourism sector (until September 2020) and a cash-transfer program. In total, these measures are expected to be worth about 8.3% of GDP, which would be the second largest stimulus package to GDP among CLMV countries, behind Vietnam (10.1% of GDP). The government also plans an additional stimulus worth USD 300 million to stimulate economic growth during and after the crisis. Although the stimulus size is comparatively large, the effectiveness of these measures may be hindered by Cambodia's large informal sector. In addition, the amount of the monthly cash-transfer programs (base amount of USD 20-30/household) is small compared to the monthly minimum wage (USD 190), which suggests that the amount may not be enough to stimulate consumption.



**Figure 3: Cambodia's fiscal and monetary policy responses**

Policy	Description
Fiscal	<b>Tax breaks:</b>
	1) Tax exemption for aviation companies and tourism sector in key cities (March – September)
	2) Exempting payment to National Social Security Fund for suspended tourism businesses
	3) Exemption of renewal fee for tourism licenses in 2021
	4) Reducing withholding tax for lenders by 5-10%
	5) 50% annual tax cut for factories with 20-39% of products affected by EBA withdrawal and 100% annual tax cut for factories with more than 40% of products affected
	<b>Loans:</b>
	1) Establishing a credit guarantee fund worth USD 200 million
	2) USD 50 million special financing plan through ARDB and cutting interest rates to 5% for working capital loans and 5.5% for investment capital loans
	3) USD 100 million special financing plan between SMEs and financial institutions
	<b>Income:</b>
	1) Laid off workers in garments and footwear sector will receive monthly payment of USD 70 (40 from government and 30 from employer), laid off workers in the tourism sector will receive monthly payment of USD 40 from the government (optional payment for employer)
	2) Implementing "cash-for-work" program with budget of USD 100 million
	3) USD 20 and US 30 monthly cash handout for poor rural and urban households until September, with additional payment for each family member and sick citizens
Monetary	1) Postponing the use of the Capital Conservation Buffer to next year
	2) Lowering the interest rate on the Liquidity-Providing Collateralized Operation up to 0.5%
	3) Lowering the interest rate on Negotiable Certificates of Deposits
	4) Cutting the reserve requirement to 7% for both Riel and foreign currencies deposits
	5) Encouraging financial institutions to restructure loans, especially for affected sectors

Source: EIC analysis based on data from the ADB, IMF, and local press

**Longer term efforts are focused on export market diversification and adopting online business platform.** With the EBA trade privileges partially withdrawn by the EU, Cambodia is in the process of negotiating free trade agreements with alternative markets such as China and South Korea. Talks have begun with both countries, and authorities expect that an agreement could be reached as early as this year. Furthermore, Cambodia has launched an on-line business registration platform in order to reduce bureaucracy and increase business efficiency. This is expected to significantly cut time and costs during the registration process.

**With lower revenues and rising expenditures, the fiscal balance is expected to deteriorate significantly this year.** The World Bank projects that the fiscal deficit could widen to as much as 9% of GDP in 2020, which would be the country's largest deficit since 2002 when the bank started to report that data. The government is expected to use accumulated savings to finance the deficit, which was worth about 20.2% of GDP in 2019 according to the World Bank. As of August 10<sup>th</sup>, Cambodia has also received foreign loans and grants from the World Bank, USAID, Japan, the EU, and the UN worth a total of USD 845 million to contain COVID-19, provide relief to affected citizens, and develop the country's labor force and infrastructure for future growth. This is expected to increase the public debt level over time but will remain substantially below other CLMV countries such as Laos and Vietnam. Most of Cambodia's debt is also concessional, which would reduce repayment issues. **However, since almost all of Cambodia's public debt is external, fluctuations in the Khmer Riel will likely be a key issue to watch given the expected widening in the current account deficit and declining foreign reserves this year.**

**The Cambodian government plans to reallocate 2020 and 2021 budgets to COVID-19 related stimulus packages.** According to the ADB, current and capital spending for 2020 is expected to be reduced by USD 30 million and USD 370 million respectively in order to reserve funding for COVID-19 containment and social programs. For the 2021 budget,

expenditures are expected to be cut by about 50% to just USD 4 billion compared to the USD 8.2 billion 2020 budget. All ministries are expected to see smaller budgets and are urged to minimize spending, such as by limiting new hires, posing a downside risk to employment recovery. Note that the 2021 budget has not been finalized, and any draft budget will need to be approved by the National Assembly before proceeding.



## Financial Markets

**Rising non-performing loans could pose a risk to financial stability, given Cambodia's continued rising credit growth (21.2%YOY in 2019).** Although loan-restructuring measures are in place and many debtors have requested grace periods, the shrinking economy is likely to result in rising NPLs in 2020 (from 2% NPLs for banks and 3.3% for microfinance institutions in 2019). According to the National Bank of Cambodia's Financial Stability Report 2019, the credit to GDP ratio reached over 100% and the credit gap (the difference between the credit to GDP ratio and its long-term trend, as defined by the Bank for International Settlements) was 19% (above the threshold of 10%) in the fourth quarter of 2019, which could suggest increased systemic risks.

On the household front, although household debt to GDP has been low at about 20% of GDP, it has steadily grown at about 39% per year over the past 5 years. Given falling incomes, household debt could increase further this year while debt repayment may slow. Business loans have also been growing rapidly, driven by loans for mortgages, trade, and real-estate. Since these sectors are expected to slow significantly this year, there could be a decline in credit quality. Nevertheless, Cambodian banks have adequate capital coming into the year, with the average capital adequacy ratio standing at 24% in 2019 (vs. 15% threshold) and liquidity coverage ratio at 155.7% compared to the 100% threshold.

**The current account deficit is expected to widen while foreign reserves decline.** The World Bank forecasts that the current account deficit could reach 14.2% of GDP this year from 8.8% in 2019 due to the following factors.

- First, given falling external demand, Cambodia is likely to experience an increase in the trade deficit this year as exports slow. In the first quarter, exports grew 10%YOY compared to an increase in imports of 14.5%YOY, resulting in a trade deficit of USD 1.7 billion.
- Second, the sudden slowdown in tourism will likely exacerbate the current account deficit with a sharp fall in foreign tourist revenue.
- Lastly, remittances are also expected to fall this year, given the declining employment of Cambodian workers in Thailand.

Moreover, in the past, Cambodia's balance of payments figure is usually financed by foreign direct investment; however, given global FDI contraction risks to the balance of payments may increase this year.

**A larger current account deficit and worsening balance of payment figure will likely add depreciation pressures to the Khmer Riel, which may lead to currency fluctuations.** It is also likely to reduce foreign reserves as foreign earnings decline. While recent Cambodian foreign reserves (amounting in 2019 to about 8 months of imports value) remain adequate and much higher than the suggested 3-month standard, Cambodia likely requires more than the 3-month standard given its managed float exchange rate regime, high dollarization, and very high proportion of external public debt.



## EIC's View

**With broad-based challenges in key economic drivers, the Cambodian economy in 2020F is likely to fall into contraction.** Cambodia's key growth drivers are expected to be hit hard by falling demand, particularly through reduced tourist arrivals, exports, FDI, and private consumption. Furthermore, Cambodia's economic structure, where exports are highly concentrated in both products (garment and footwear) and destinations (US and EU), are prone to be hit by the COVID-19 situation and ongoing global recession. Although high-frequency data suggests that the economy has bottomed out, recovery has been slow and lagging behind the nation's CLMV peers. Risks to the outlook are tilted to the downside as global COVID-19 infections are still rising and could suggest a prolonged slowdown in demand and tourism. In addition, the partial EBA withdrawal by the EU will likely dim Cambodia's medium-term economic outlook. While the government has announced export market diversification and the adoption of technology measures to support growth, these measures could take time to go into effect to shore up the economy.

**Financial stability should be a key risk to monitor this year.** Although Cambodia's financial institutions have broadly adequate reserves, a rise in NPLs could pressure banks' profitability. A key concern is the rapidly rising household debt, which is mainly used for consumption purposes. Credit to real estate and mortgages may also decline in quality this year. Given weak prospects for income and employment, financial institutions and governments have announced various measures to ease debt repayment. Looking forward, stronger financial regulations and supervisions will be the keys to achieving long-term sustainability.

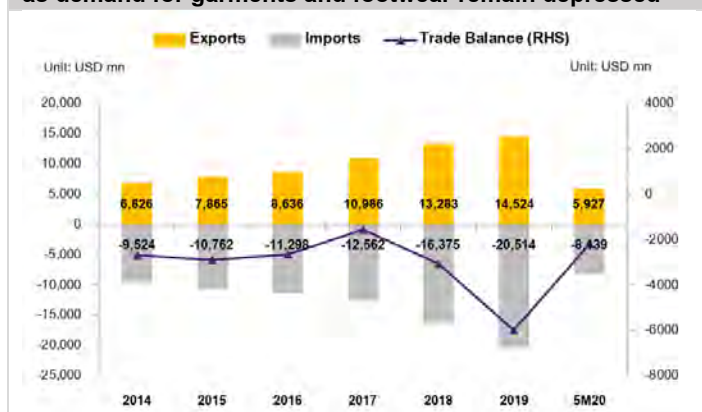
**Issues to monitor: Cambodia's risks of public debt distress.** The recent Cambodian stimulus package is comparatively large. While its low level of public debt and fiscal surplus in 2019 suggests that Cambodia has more room to use fiscal policy to support growth amid a bleak economic outlook without risking debt distress, almost all of Cambodia's public debt is external, which make it susceptible to currency fluctuations. On a positive front, most of Cambodia's public debt is concessional with low interest rates, longer maturity, and longer grace periods, which reduces repayment pressures. Moreover, Cambodia has received additional foreign loans and grants this year. Nevertheless, businesses and investors are still advised to keep an eye on the issue amid a bleak economic outlook.

# Cambodia's Key Indicators

Indicators	Unit	2015	2016	2017	2018	2019P	2020F	2021F
Real GDP	% YOY	7.0	7.0	7.0	7.5	7.1	-3.0	5.0
Consumer price index (average)	%	1.2	3.0	2.9	2.4	2.4	1.5	1.9
Current account balance	% of GDP	-8.7	-8.5	-7.9	-11.4	-12.5	-22.2	-17.6
Deposit Rate (end of period)	%	1.4	1.4	1.5	1.4	1.4	-	-

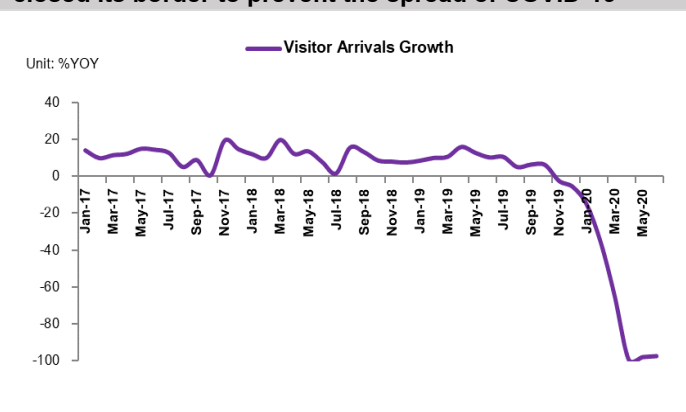
Sources: International Monetary Fund (IMF) and Cambodian Authorities, EIC Analysis

## Cambodian exports rebounded in May but could slow down as demand for garments and footwear remain depressed



Sources: National Bank of Cambodia

## Tourism came to a complete stop since April as Cambodia closed its border to prevent the spread of COVID-19



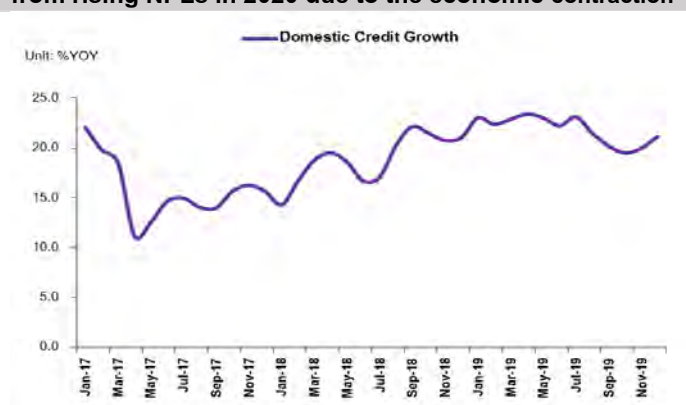
Sources: Ministry of Tourism

## Foreign direct investment to Cambodia continued to grow in 1Q20 but at a slower rate due to the COVID-19 pandemic



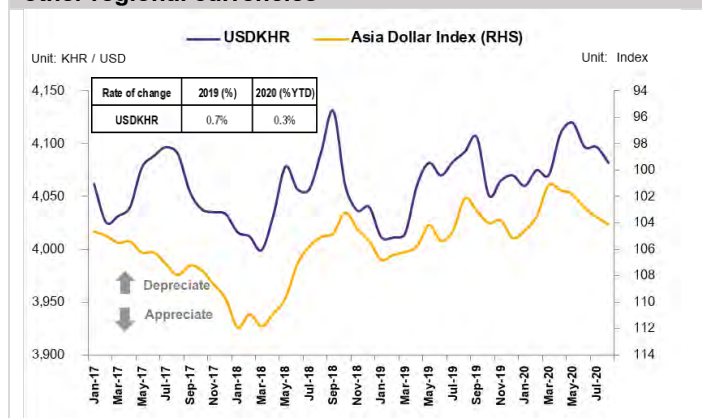
Sources: National Bank of Cambodia

## Credit growth was robust in 2019, but may face concerns from rising NPLs in 2020 due to the economic contraction



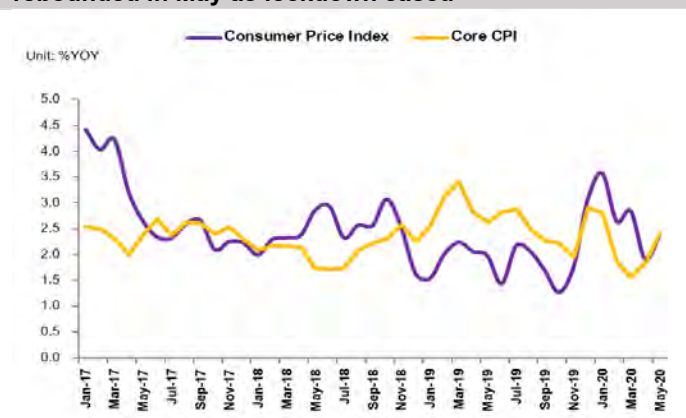
Sources: National Bank of Cambodia

## The Riel started to appreciate against the USD, in line with other regional currencies



Sources: Bloomberg

## CPI fell during the lockdown period as demand slows, but rebounded in May as lockdown eased

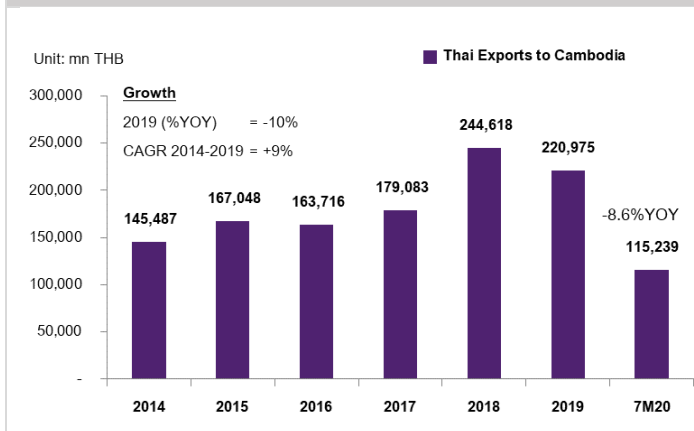


Sources: National Bank of Cambodia



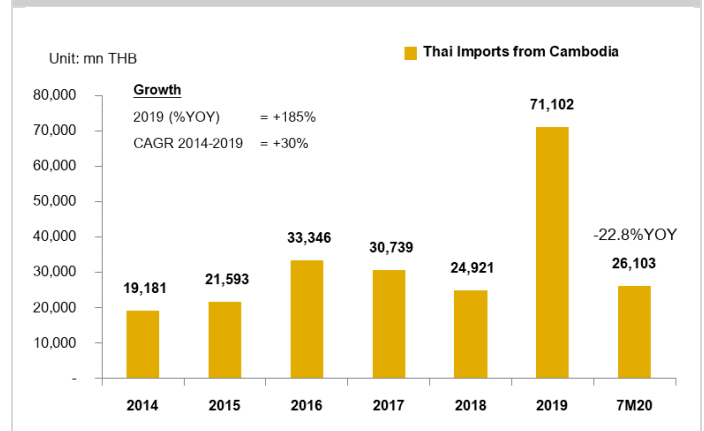
# Links with the Thai Economy

**Thai exports to Cambodia fell -8.6%YOY in the first seven months of 2020 due to a decline in exports of refined oil (-14.3%YOY) and cars and components (-25.6%YOY)**



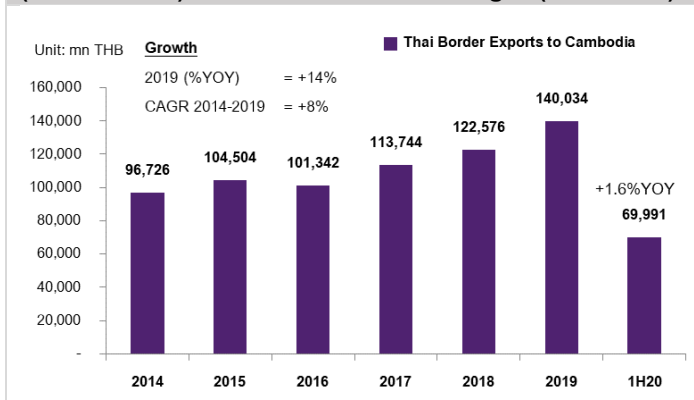
Sources: Thailand's Ministry of Commerce

**Thai imports from Cambodia fell -22.8%YOY in the first seven months of 2020 from a decline in imports of jewelry, gems, and silver and gold bullion (-46.3%YOY)**



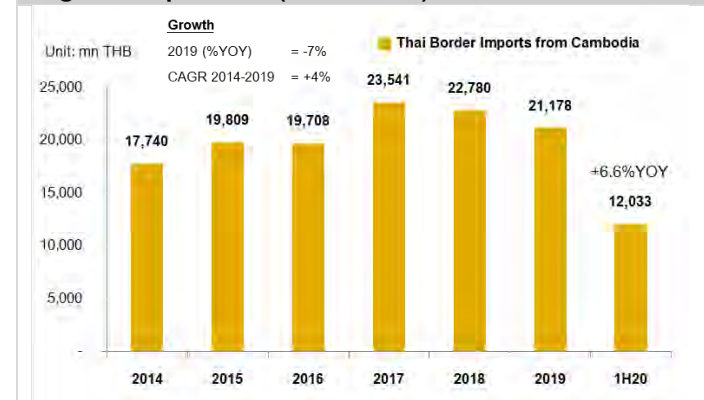
Sources: Thailand's Ministry of Commerce

**Border exports to Cambodia rose 1.6%YOY in the first half of 2020 from an increase in exports of livestock (+426.9%YOY) and non-alcoholic beverages (+4.4%YOY)**



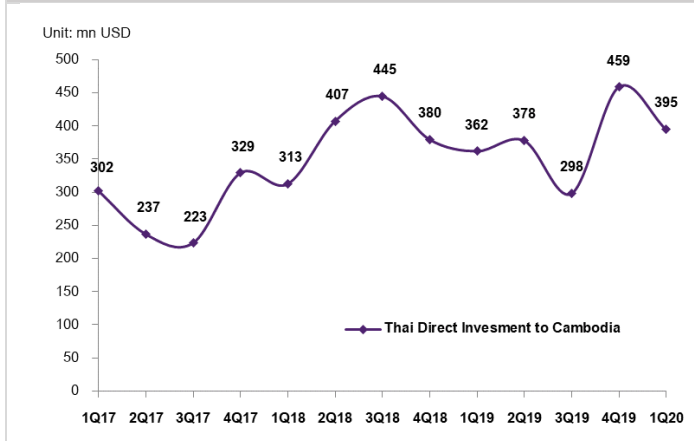
Sources: Thailand's Department of Foreign Trade

**Border imports from Cambodia grew 6.6%YOY in the first half of 2020 from a rise in imports of vegetables and vegetables products (+42.1%YOY)**



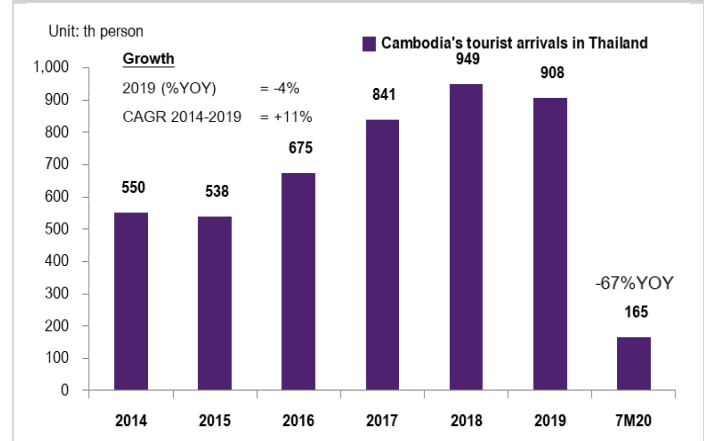
Sources: Thailand's Department of Foreign Trade

**TDI to Cambodia declined slightly in 1Q20**



Sources: Bank of Thailand

**Thailand received no tourists from Cambodia since April**



Sources: Thailand's Department of Tourism



# LAOS

## OVERALL ECONOMY

### Facts and Figures

Population (2019)	7.17 million
Labor force (2019)	3.81 million
GDP (2018)	18.13 USD billion
GDP per capita (2018)	2,567.5 USD
GDP by sector (2018)	Agriculture: 15.7%, Industry: 31.5%, Services: 41.6%
Top exports (2019)	Electricity 23%, Copper & Ores 19%

### What to watch in 2020



Effects from the COVID-19 pandemic and China's economic slowdown



Pressures on fiscal and external stability and credit rating downgrade

## Macroeconomic Update



Economic Outlook

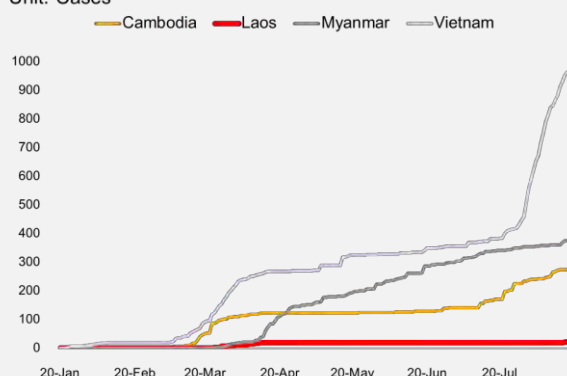
### COVID-19 Situation Update

**Laos has so-far successfully contained the COVID-19 outbreak.** As of August 18<sup>th</sup>, Laos registered just 22 cases, 19 of which recovered, and 0 deaths (Figure 1 LHS). The latest domestic case was confirmed on April 12<sup>th</sup>, marking four months with no local transmissions. **Nevertheless, Laos is not immune to the effects of the global recession and slumping domestic demand from lockdown measures.** Starting at the end of March, a few days after the first cases were confirmed, the Laotian government ordered a full lockdown of the country in order to contain the outbreak (Figure 1 RHS). Measures included a stay-at-home order except for necessary activities, closing factories and entertainment venues, banning gatherings of more than ten people, and border closures. These measures were in place through April but have gradually eased starting in May. As of mid-August, individuals are allowed to leave their houses, workplaces are allowed to open along with most businesses, and gatherings are now permitted, but preventative measures must still be exercised. **Borders with neighboring countries, including Thailand, remain closed except for limited trade at certain checkpoints, with arrivals subject to mandatory quarantine.**

**Figures 1: Laos has contained the outbreak and eased lockdown measures**

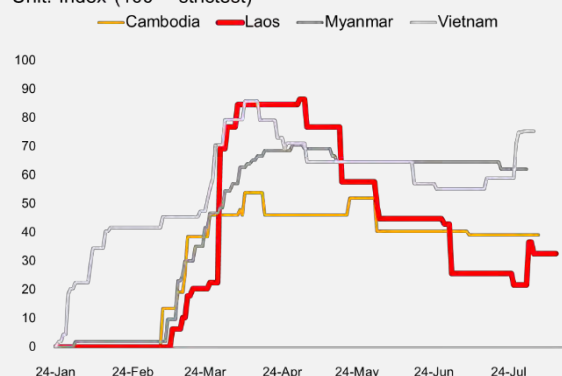
**Confirmed COVID-19 Cases in CLMV Countries**

Unit: Cases



**CLMV's COVID-19 Government Response Stringency Index**

Unit: Index (100 = strictest)



Source: EIC analysis based on data from the WHO and Oxford

## **2020F Outlook**

With already weakening economic growth in 2019, slowing down to 5.0% GDP growth (compared to 2014-2018 average GDP growth of about 7.0%) due to the impacts of natural disasters, the COVID-19 pandemic and a very deep global recession are expected to exacerbate already sluggish growth momentum through a broad-based economic slowdown in key sectors. The effects of the month-long full lockdown are expected to significantly depress domestic demand, while prolonged border closures and travel restrictions will likely affect the cross-border transactions which Laos relies on heavily.

**As a result, EIC has revised Laos' growth downward to just 0.5% in 2020, with further downside risks if there is a second outbreak wave in the region. The pandemic and economic recession will likely expose Laos to downside risk on ability to service debt given rising expenditures, lower revenues, and the country's already vulnerable fiscal position coming into the year. The recent credit rating downgrade by Moody's (from B3 to Caa2 with negative outlook) is likely to result in rising funding costs for Laos' government and corporates in coming quarters, posing another downside risk for economic recovery.**

**The COVID-19 pandemic and global recession are expected to affect Laos' key growth drivers through various channels:**

- **First, exports, accounting for about 34% of GDP, have been adversely affected by falling external demand and border restrictions.** Although Laos' main export of electricity (22.8% of total export value in 2019) has held up relatively well given that it is not affected by border closures and that demand is mainly based on pre-signed power purchasing agreements, other products are not as resilient. As about 85% of Laos' non-electricity exports go to the neighboring countries of Thailand, China, and Vietnam, checkpoint closures have significantly hindered trade. In addition, a large portion of Laos' exports consists of raw materials for manufacturing, such as copper and wood, which may see depressed demand this year from lower manufacturing production in partner countries. For example, Thailand, the largest market for Laos' refined copper and copper alloys, saw its manufacturing production index contracting -17.7%YOY in June. Conversely, Laos also faces supply chain disruption issues as it relies on raw material imports such as iron and steel from neighboring countries, which have affected industrial activities. Nevertheless, exports in the first quarter of 2020 grew 11.8%YOY as most countries did not implement lockdown measures until mid-March. Exports in the second quarter are expected to contract significantly due to lockdown measures, with early data showing non-electricity exports between April-May contracting -36.9%YOY, although there are signs of bottoming out as June non-electricity exports fell only -8.1%YOY.
- **Second, foreign direct investment may be stalled or postponed.** China, Laos' largest foreign investor, saw its economy contracting by -1.6%YOY in 1H20 and its recovery is likely to be gradual and domestic-led. With high uncertainty about the pandemic and gradual global economic recovery, future investment projects might be delayed or canceled. As Laos' medium-term growth prospects heavily rely on foreign investment in hydro-power projects and railway construction, this may hinder growth going forward. Recent FDI growth recovery is mainly due to the low base effect. Note that 1Q20 FDI stood at USD 239.2 million, an increase of 41.4%YOY from last year's low base but remained below average quarterly FDI between 2015-2018 of USD 313.7 million. On a positive front, progress with on-going China-Laos railway construction has remained on track, including the

construction of the Vientiane Station, despite earlier setbacks from the lockdown. Operations are expected to begin next year.

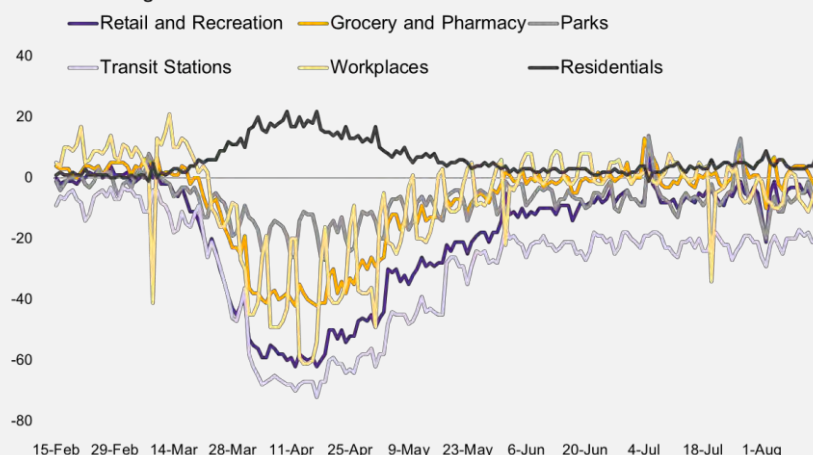
- **Third, tourist arrivals have come to a standstill as a result of travel restrictions.** Although tourist revenue is a small part of Laos' GDP (4%), the sector has been growing rapidly and employs about 11% of the labor force, according to data from the World Bank. With rapidly rising cases worldwide and second wave fears in many countries, international tourism is expected to be halted for a prolonged period of time. During the first quarter, tourist arrivals fell 17%YOY according to the World Bank and are expected to fall by almost 100%YOY in the second quarter.
- **Lastly, closed businesses and weakening labor markets will likely put more pressure on domestic demand.** With the aforementioned factors and the full lockdown imposed in April, many factories and businesses were shut down and workers were laid off, particularly in the services and garment manufacturing sectors. This is expected to put significant pressure on the economy through decreased private consumption and rising non-performing loans. Because Laos has a large informal sector, access to social benefits may be limited and could make recovery difficult. **The unemployment rate is forecast to be about 25% in May, according to a Ministry of Labour and Social Welfare report cited by the Vientiane Times.** In addition, many migrant workers have returned from Thailand, which could put more pressure on Laos' labor market. Lower remittances are also expected to be another drag on private consumption, accounting for about 1.5% of GDP in 2019 according to the World Bank.

**High frequency data suggests that Laos' economy bottomed in April during the full lockdown, and steadily recovered once measures were eased.** According to Google Mobility Report figures as of August 14<sup>th</sup> (Figure 2), overall mobility started to decline in mid-March and fell sharply in late-March as Laos confirmed its first cases of COVID-19. Mobility remained flat throughout early April as full lockdown measures were imposed but showed signs of bouncing back in late April as new cases of COVID-19 slowed. Once lockdown measures were eased in May, mobility rose sharply and has gradually recovered. However, recovery in key activities is uneven. Visits to grocery stores and pharmacies (reflecting consumption for necessities) and workplace mobility have recovered and hover around their baseline levels. However, retail and recreation mobility were about -10% from their baseline, with signs that recovery has stalled.

**Figure 2: Laos' mobility bottomed in April, followed by a gradual recovery**

#### Laos' Community Mobility Reports

Unit: % change from baseline



Note: Baseline = Median value between January 3 – February 6, 2020

Source: EIC analysis based on data from Google



The government plans to implement additional fiscal stimulus packages to shore-up growth and support unemployed workers but may face constraints due to its limited fiscal space. Most measures are focused on tax exemptions for businesses and employees that were affected by the outbreak. Further measures such as a cash-handout program for unemployed workers are under consideration, but the program is expected to be limited in coverage and targets only those under the social security program (about 170,000 participants in total (4.6% of the labor force). **Given the country's limited fiscal space, the total size of the fiscal response is the smallest among CLMV countries at only about 0.1% of GDP.** Figure 3 summarizes Laos' key fiscal and monetary policy responses.

**Figure 3: Laos' fiscal and monetary policy responses**

Policy	Description
<b>Fiscal</b>	<b>Tax breaks:</b> <ol style="list-style-type: none"> <li>1) Workers (both private and public sector) with income under LAK 5 million per month are exempted from taxation between April-June</li> <li>2) Businesses earning LAK 50 – 400 million are exempted from profit tax between April-June</li> <li>3) Tax deferral for the tourism sector for three months</li> <li>4) Deferring annual road tax payment to June 30</li> <li>5) Postponing mandatory contribution to social security by businesses for three months</li> <li>6) Extending deadline for businesses to submit annual financial report to April 30</li> <li>7) Exempting duty fee for imported goods that are used for the containment of COVID-19</li> <li>8) LAK 500,000 allowance for unemployed workers in the social security program</li> </ol>
<b>Monetary</b>	<ol style="list-style-type: none"> <li>1) Reducing reserve requirement to 8% for foreign currencies and 4% for the Kip</li> <li>2) Encouraging banks to restructure loans for affected businesses</li> <li>3) Policy rate cut by 1% each, the first cut since 2017</li> </ol> <p>(New rates: 3% for &lt;1-week loans, 4% for &gt;1-week loans, 9% for 2 weeks – 1-year loans)</p>

Source: EIC analysis based on data from the ADB, IMF and local press

**With government revenues set to decline amid rising expenditures, Laos' fiscal balance is expected to worsen.** In 2019, Laos had a fiscal deficit worth 5.1% of GDP, with public debt accounting for 60.6% of GDP according to the IMF. Both of these fiscal ratios are the highest among CLMV countries. In addition, more than 80% of public debt is external, exposing Laos to further risk of currency depreciation and depleting foreign reserves. Note that Chinese concessional loans account for almost half of Laos' external debt, with this ratio expected to increase over time as China should continue to be Laos' largest creditor through future investments in Belt and Road projects. With growth expected to slow for a prolonged period, the public debt to GDP ratio should remain elevated in the medium-term. The World Bank forecasts that public debt could rise to 65% of GDP in 2020, with the fiscal deficit widening to 7.5% of GDP.

**In addition, Laos' debt repayment and additional fund-raising capabilities have deteriorated considerably.**

- The World Bank reported that government revenue in the first two months of 2020 fell an estimated 30%YOY even before the COVID-19 outbreak appeared in Laos. With various tax exemptions and declining economic activities, domestic government revenue could shrink substantially, to below 10% of GDP this year (from an average of 14.4% of GDP between 2015-2019).
- Moreover, Laos' interest expenditures, particularly to non-residents, have accelerated, with average growth between 2015-2019 of about 25%YOY, according to data from the Ministry of Finance. In terms of a percentage of total expenditures, interest expenses grew from 6.6% of total expenditures in 2015 to 14.4% in 2019,

suggesting higher pressures on debt repayment. Note that these figures do not include principal payments on maturing loans.

- To reduce expenditures, Laos has tried to implement various measures, including cutting capital expenditures, restructuring state-owned enterprises, and postponing investments in new hydro-power projects, according to the World Bank.
- Nevertheless, the country will still need to rely on foreign financing as its main source of funding, which may become more difficult going forward given that **Laos' sovereign credit rating outlook has been downgraded to negative by TRIS Rating (with BBB rating) and Fitch (with B- rating), while Moody's has downgraded both the country's credit rating and outlook (from B3 to Caa2 with negative outlook).** Therefore, EIC believes that Laos' risks of debt distress should remain high going forward and is a key risk impeding economic growth in the future.

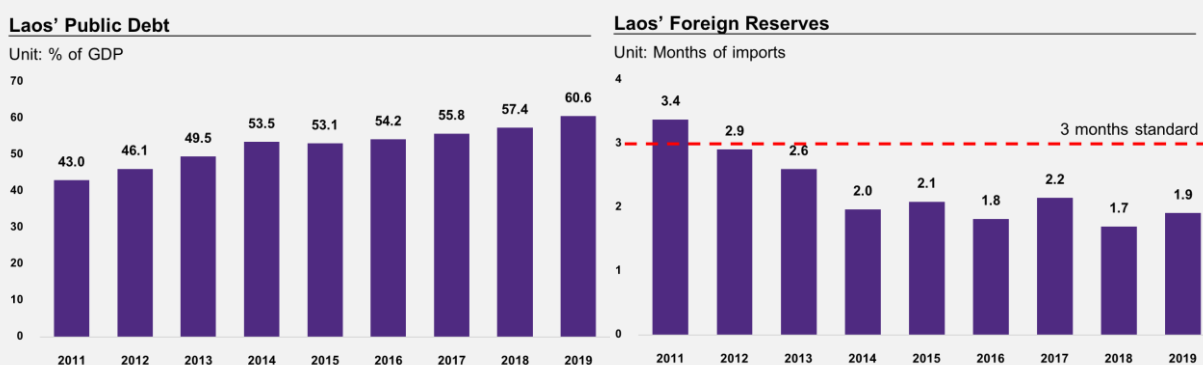


## Financial Markets

**Laos' credit rating and outlook were downgraded by Moody's to Caa2 with negative outlook (from B3 with positive outlook), while TRIS Ratings (BBB) and Fitch Ratings (B-) also downgraded Laos' outlook to negative.** Moody's cited Laos' persistent debt servicing pressures in the medium term, limited financing options with no definitive financing strategy, and constrained fiscal and external buffers as the reason for the downgrade (Figure 4 LHS). Moody's Caa2 rating "points to a material probability of default in the near term"<sup>1</sup> and is considered extremely speculative. Meanwhile, TRIS Ratings places Laos sovereign rating at BBB with negative outlook, while Fitch rates Laos at B- with negative outlook. Both rating agencies cited concerns for the country's external debt position, low foreign reserves, worsening fiscal position, difficulty in raising additional finances, and slower economic growth as their main reasons for the credit rating outlook downgrade. However, both rating agencies also stated that Laos' medium-term economic outlook remained solid compared to other countries within the same rating.

**In EIC's view, Laos' debt servicing capabilities and new financing options should remain limited in the medium-term, exacerbated by the global economic slowdown.** With worsening credit rating, Laos' may find it more costly to raise funding abroad and attract foreign investors, which may result in the country increasing its reliance on China as its main creditor. Additionally, accumulation of foreign reserves as a buffer to external debt servicing remains constrained by a likely slowdown in foreign direct investment (Figure 4 RHS) and continued depreciation of the Kip.

**Figure 4: Laos' fiscal and external buffers remain constrained and inadequate**



Source: EIC analysis based on data from the IMF

<sup>1</sup>

[https://www.moodys.com/research/Moodys-downgrades-Laos-rating-to-Caa2-outlook-changed-to-negative--PR\\_429248](https://www.moodys.com/research/Moodys-downgrades-Laos-rating-to-Caa2-outlook-changed-to-negative--PR_429248)

**With a widening current account surplus, worsening fiscal stance, and rising risks of downgrade, the Lao Kip is expected to depreciate further this year.** The World Bank projects Laos' current account deficit to be about 11% of GDP in 2020, widening from 8% in 2019 from an increasing trade deficit, lower tourism revenue, and lower remittances. This is expected to put further pressure on the Kip this year despite an expected weak US dollar in the second half of the year given low demand for the currency. Since Laos uses a crawl-like managed exchange rate regime, depreciation has been gradual but continuous. Furthermore, Laos' foreign exchange reserves are also expected to decline from lower foreign income because of falling tourism and FDI. As of the first quarter, Laos' foreign reserves covered 2.1 months of imports – rising from 1.6 months of imports in the last quarter of 2019 partly due to the FDI rebound. Nevertheless, it remains below the standard 3-months and could deteriorate further from weakening global conditions. This poses a risk to foreign debt repayment as the depreciation of the Kip will make external debt servicing more costly. Additionally, the central bank may not have adequate reserves to stabilize currency fluctuations and fully cover external debt repayment. In fact, the World Bank projects that Laos' foreign reserves may only cover 45% of public external debt service this year. Latest data for June shows foreign reserves in USD terms falling -8.7% MOM. Note that as of August 20<sup>th</sup>, Lao kip has depreciated by 2.6% against USD but appreciated 2.6% against THB.

**To curb the depreciation of the Kip, the Bank of the Lao PDR announced a new regulation to monitor currency exchange businesses.** As part of its goal to stabilize the value of the Kip against foreign currencies, the central bank is cracking down on exchange rate businesses in the parallel market. According to the World Bank, the spread between the official rates and parallel rates has widened more than usual owing to supply-demand mismatches. According to the new regulation, all currency exchange businesses must now obtain a license from the central bank. Foreign businesses may only operate currency exchanges if they are in the hospitality or tourism sectors. All currency exchange businesses must be transparent about their rates, which must be in line with the central bank's, otherwise they may be punishable by law.

**Financial stability is another key risk to monitor this year.** Given lower incomes and business closures, NPLs are expected to rise this year from 3.0% in the fourth quarter of 2019. Laotian banks in 2019 faced a decline in capital adequacy, with the regulatory capital to risk-weighted assets ratio (CAR) falling from 18.3% in the fourth quarter of 2018 to just 11.8% in the same period in 2019. Similarly, the regulatory tier-1 capital ratio to risk-weighted assets fell from 13.6% to 8.3% and the NPL net of provisions to capital rose from 10.2% to 12.7%. This could add pressure on banks' profitability this year, reversing the trend of rising returns on assets and return on equities since the first quarter of 2018.



## EIC's View

**Laos' economic slowdown in 2020F is likely to be substantial and broad-based across key economic engines.** Exports have been disrupted due to border closures, while supply chain disruptions have also impacted imports of manufacturing inputs. The full lockdown imposed in April depressed private consumption, which may have long lasting effects through rising unemployment and falling household income. New FDI projects from China may also slow given the high uncertainty regarding global economic recovery. Moreover, international tourism recovery is expected to be sluggish at least until a COVID-19 vaccine is discovered. Nevertheless, EIC expects the economy to gradually recover in the second half of the year as the outbreak is contained and lockdowns are eased. Risks remain tilted to the downside from the Laotian government's limited fiscal space and risks of a resurgence in COVID-19 cases in Laos or trading partners, which could result in further demand contraction and extended border controls. **The medium-term outlook for Laos' economy will depend on the progress of the China-Laos railway and new hydro-power projects, which are expected to boost the economy once operations begin.** However, some projects may be stalled as Laos may need to conserve its funding, particularly in hydro-power projects.

**A worsening fiscal position and external debt service, credit rating/outlook downgrade, and weakening Laotian Kip are key risks to monitor this year.** Even before the COVID-19 crisis, Laos' financial positions were already concerning due to high public debt and a persistent fiscal deficit. Amid a bleaker economic outlook this year, government revenue is expected to fall sharply, while expenditures on stimulus packages are on the rise, resulting in a worsening fiscal position and more limited fiscal space going forward. In addition, Laos will likely face increased stress over repayments as the Kip is expected to depreciate further, its foreign reserves are expected to decline, and its credit rating outlook has been downgraded by key credit rating agencies. Although the Bank of the Lao PDR has taken some steps to address these issues, including regulating currency exchange businesses, EIC believes that the Kip should continue to face depreciation pressures. With economic recovery likely to be gradual, the nation's public debt and fiscal deficit should remain elevated for a prolonged period. Investors and businesses should be cautious of aforementioned risk factors, along with other risks that may arise, including financial instability.



# Laos' Key Indicators

Domestic Demand	Unit	2015	2016	2017	2018	2019P	2020F	2021F
Real GDP	% YOY	7.3	7.0	6.9	6.3	5.0	0.5	4.5
Consumer price index (average)	%	1.3	1.8	0.7	2.0	3.3	6.5	4.9
Current account balance	% of GDP	-22.4	-11.0	-10.6	-12.0	-7.2	-10.9	-9.2
Policy rate (end of period)	%	4.5	4.3	4.0	4.0	4.0	-	-

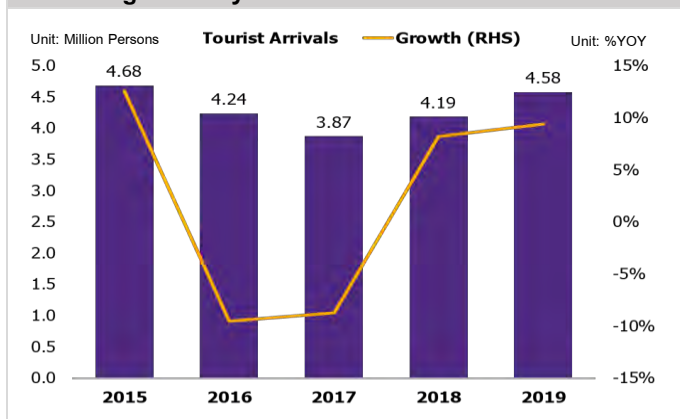
Sources: International Monetary Fund (IMF) and Lao Authorities, EIC Analysis

## Exports in the first quarter of 2020 remained robust as most countries did not implement lockdown until March



Sources: Bank of the Lao PDR

## Tourist arrivals continued to grow in 2019, but should shrink significantly in 2020



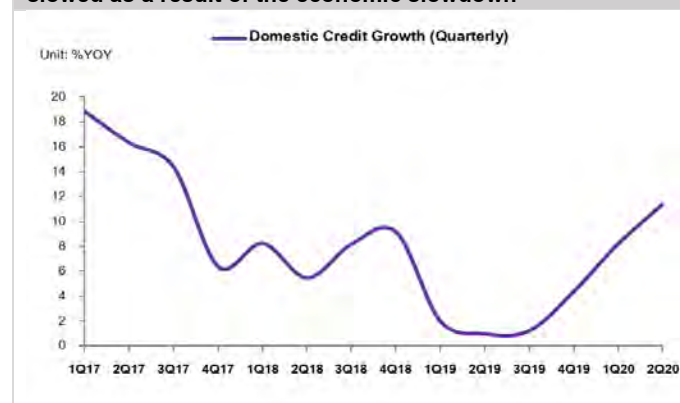
Sources: Ministry of Information, Culture, and Tourism

## Foreign direct investment to Laos in 1Q20 improved from a low base after falling substantially in 2019



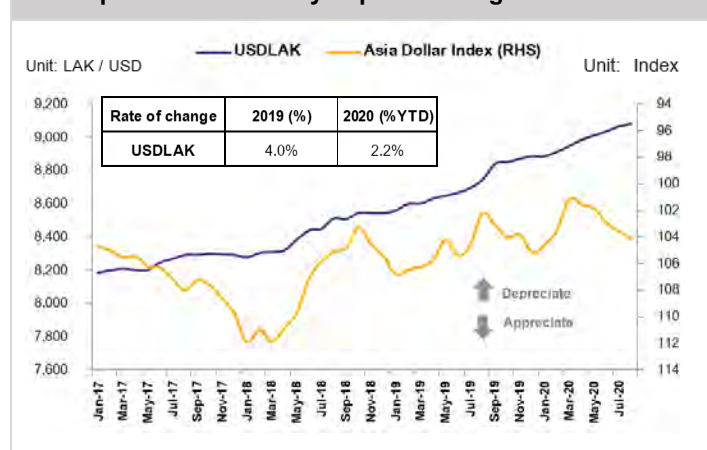
Sources: Bank of the Lao PDR

## Credit growth rebounded off last year's low base, which slowed as a result of the economic slowdown



Sources: Bank of the Lao PDR

## The Kip has continuously depreciated against the USD



Sources: Bloomberg

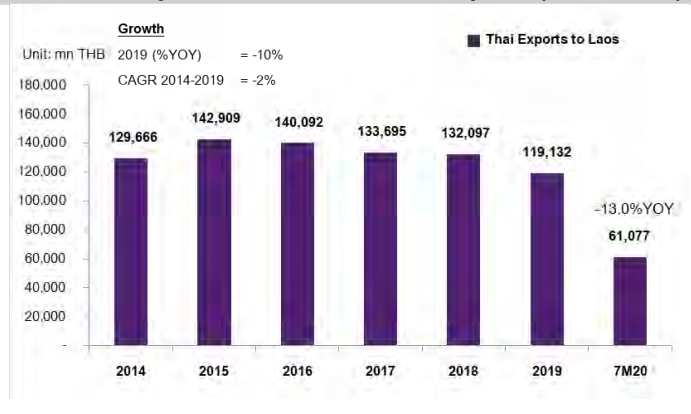
## CPI started to decline in line with slower demand



Sources: Lao Statistics Bureau

# Links with the Thai Economy

## Thai exports to Laos fell -13%YOY in the first seven months of 2020 led by a decline in refined oil exports (-30.8%YOY)



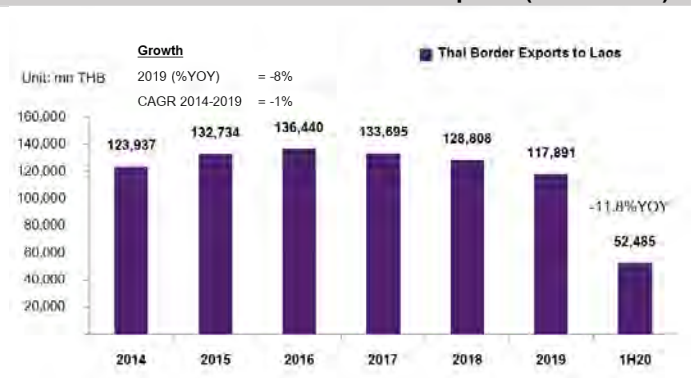
Sources: Thailand's Ministry of Commerce

## Thai imports from Laos rose 2.9%YOY in the first seven months of 2020 lifted by electricity imports (+13.5%YOY)



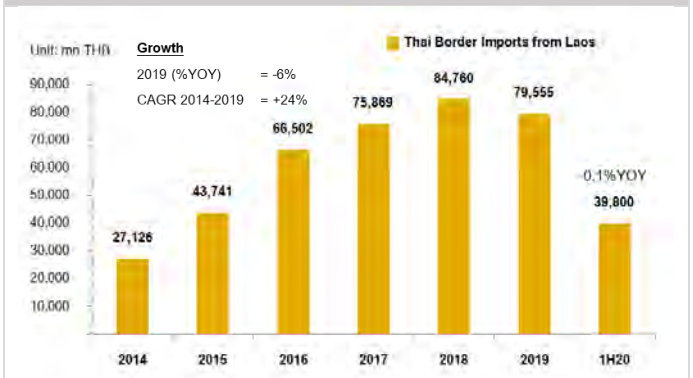
Sources: Thailand's Ministry of Commerce

## Border exports to Laos dropped -11.8%YOY in the first half of 2020 from a decline in diesel fuel exports (-34.8%YOY)



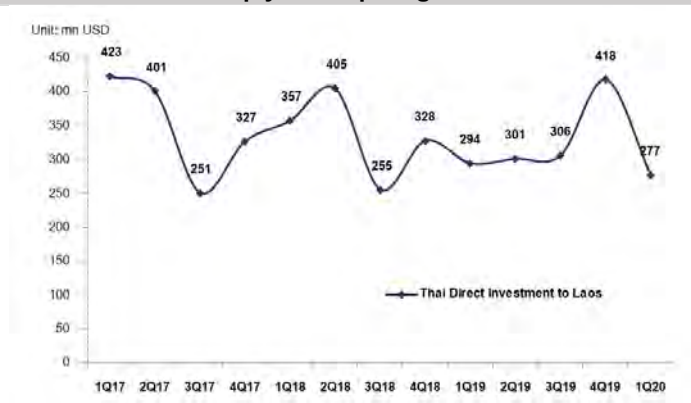
Sources: Thailand's Department of Foreign Trade

## Border imports from Laos dipped -0.1%YOY in the first half of 2020 from slowdowns in raw materials imports



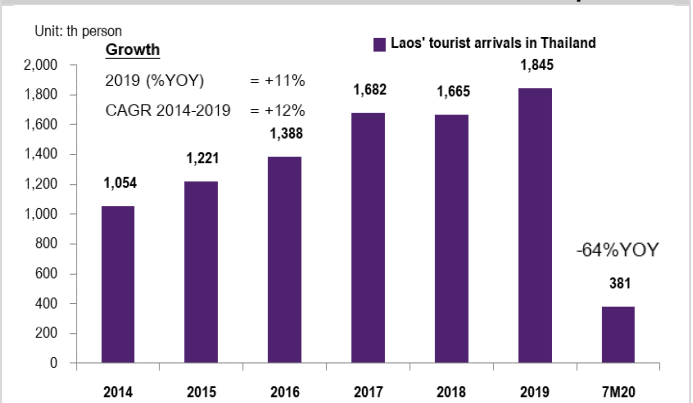
Sources: Thailand's Department of Foreign Trade

## TDI to Laos fell sharply after spiking in 4Q19



Sources: Bank of Thailand

## Thailand received no tourists from Laos since April



Sources: Thailand's Department of Tourism



## Facts and Figures

Population (2019)	54.05 million
Labor force (2019)	24.69 million
GDP (2019)	76.09 USD billion
GDP per capita (2019)	1,407.81 USD
GDP by sector (2019)	Agriculture: 21.4%, Industry: 38.0%, Services: 40.7%
Top exports (2019)	Textile 31%, Natural Gas 22%

## What to watch in 2020



Economic slowdown from COVID-19 and global recession



Myanmar 2020 election and implications for domestic reforms and policies

# Macroeconomic Update



## Economic Outlook

### COVID-19 Situation Update

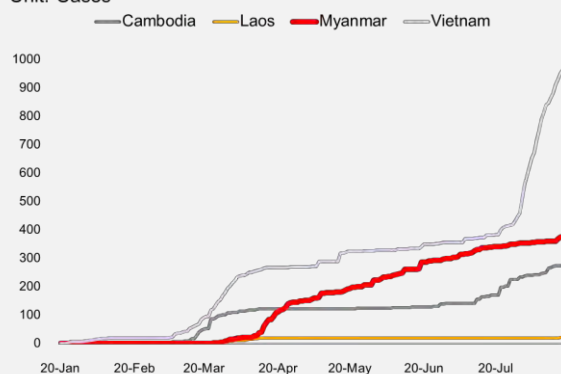
**Myanmar has successfully contained COVID-19, but local transmission is still present.**

As of August 18<sup>th</sup>, the country recorded 376 confirmed cases, with 331 recoveries and 6 deaths (Figure 1 LHS). Although total cases are still rising, most of these cases are imported, with the country only registering 12 new local transmission cases since May 8. To contain the outbreak, Myanmar imposed partial lockdown measures, including border controls, a ban on gatherings of more than 5 people, stay-at-home orders for certain townships, closures of some businesses, and a nighttime curfew (Figure 2 RHS). Some of these measures were eased starting in May, including the reopening of most businesses and allowing employees to return to work. Thailand has opened only a few border checkpoints to facilitate the trade of goods on a limited basis. Nevertheless, some measures are still in place, including a curfew in some cities, mandatory face mask usage, and a ban on gatherings of more than 30 people. Foreign arrivals that are allowed in the country are subject to a 3-week quarantine process. **Although the situation has improved, Myanmar's economy is still expected to slow substantially this year as a result of prolonged partial lockdown measures, which have impacted incomes and employment, and falling demand for key export products.**

**Figure 1: The COVID-19 outbreak has slowed, but partial lockdowns remain in place**

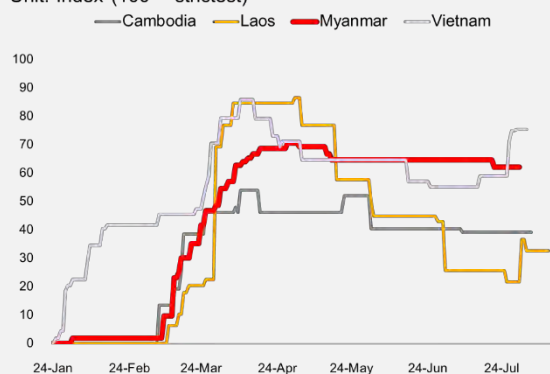
**Confirmed COVID-19 Cases in CLMV Countries**

Unit: Cases



**CLMV's COVID-19 Government Response Stringency Index**

Unit: Index (100 = strictest)



Source: EIC analysis based on data from the WHO and Oxford

## **2020F Outlook**

**With a prolonged partial lockdown and falling exports from a deep global recession, EIC has revised Myanmar's GDP growth for FY19/20 (October 2019 – September 2020) downward to 1.5%.** Risks are tilted to the downside given the uncertainty surrounding the length of the lockdown measures and risks of a second wave outbreak. In addition, the election scheduled for November 8 could potentially increase political and policy uncertainty, which may lead to lower investor confidence and FDI.

**The COVID-19 pandemic has severely impacted key growth drivers of Myanmar's economy through various channels:**

- **First, goods exports (accounting for 26.4% of GDP in 2019) have slowed down substantially amid falling external demand.** Myanmar's key exports of natural gas (21.9% of total export value in 2019) and garments (31.5% of total exports) have both been impacted by the deep global recession. Natural gas prices, in line with oil prices, have declined this year as demand slows due to lockdown measures and falling industrial activity, particularly in key trade partners such as Thailand and China. Although activity has started to recover in those countries, production levels have not yet fully recovered, and exports remain depressed.

For garments, demand by key trade partners such as the EU, Japan, and South Korea have slowed substantially from lockdown measures and declining discretionary incomes. In addition, garment factories were also affected by domestic lockdown measures and supply chain disruptions, with some having to shut down. The latest available data showed that exports in May-June<sup>1</sup> fell by 23.0%YOY and 22.4% respectively, with border trade declining substantially (-55.8%YOY in June) due to checkpoint closures with both Thailand and China, where only a limited number of shipments are allowed in per day. In addition, the Kyat has appreciated about 8.4% against the USD year-to-date (as of August 18<sup>th</sup>), further lowering export revenue in local currency.

- **Second, tourist arrivals (4.4% of GDP in 2019) have come to a standstill.** Although the sector contributes a small amount to GDP, Myanmar's tourism industry had been expanding rapidly in recent years – becoming a new growth driver for the economy. However, with a ban on international flights possibly until October 2020, tourism revenue is expected to remain low for the rest of the year and unlikely to recover fully until a vaccine is widely available. In addition, with concerns about a second-wave in Myanmar and many countries in the region, land borders are likely to be closed for an extended period of time, resulting in lower cross-border travels.
- **Third, foreign direct investment could slow down due to rising uncertainties regarding economic recovery and the general election in Nov 2020.** In the first three quarters of FY19/20, approved FDI reached USD 4.34 billion, improving from a low base of USD 4.16 billion in FY18/19. The increase was mainly due to a rise in approved FDI in the power sector, which accounts for 38.5% of all approved FDI in the current fiscal year. Nevertheless, actual FDI inflows and further investments going forward could be impacted by the global recession and uncertainty from COVID-19. Myanmar's manufacturing sector (the second-highest recipient of FDI) has already felt the pinch. The approved FDI value to the sector in the current fiscal year is only about 60% of the value in the previous fiscal year. In addition, FDI in

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<sup>1</sup>

Export data for June is calculated based on weekly data reported by the Ministry of Commerce, starting May 30th and ending July 3rd



the power sector is often concentrated in only a few enterprises, which could increase uncertainty regarding actual FDI inflows due to concentration risk.

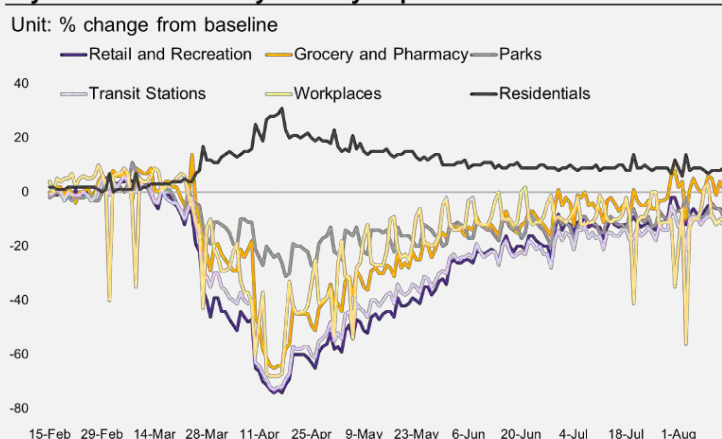
To encourage investment, Myanmar recently prepared its second Investment Policy Review in cooperation with the OECD to encourage investment. Furthermore, Myanmar has made investment promotion a key area of focus in its COVID-19 Economic Relief Plan (CERP), which will be discussed in more detail in the following sections. Nevertheless, with the general election scheduled for November 2020, investors may adopt a wait-and-see stance due to rising political and policy uncertainty.

- **Lastly, with some COVID-19 partial lockdown measures still in place, manufacturing and consumption activities should slow substantially this year.** Myanmar's seasonally-adjusted manufacturing PMI began to decline in February from the impacts of China's lockdown and reached a record low of 29.0 in April as Myanmar went into partial lockdown. Although the index has recovered, reaching 51.7 in July, recent stalling economic recovery in key trade partners, such as EU countries and Thailand, signals Myanmar economic recovery in coming months could also slow down. With external demand still low, especially for garment products, Myanmar's manufacturing recovery could be sluggish in the upcoming periods. Other industrial activities, such as construction, are also expected to slow down substantially owing to lockdown measures and the postponement of new projects. The aforementioned factors have led to some businesses shutting down, leading to a rise in unemployment and hence a decline in consumption. A survey conducted by McKinsey & Company showed that 79% of Myanmar consumers have reported reducing their expenses amid the pandemic. Moreover, Myanmar workers in Thailand have also returned to their country, adding further stress to the labor market and lowering remittances received, which in 2019 accounted for 3.7% of GDP.

**High frequency data suggests that Myanmar's mobility reached a deep trough in April. Although many activities bottomed out, recent recovery has stalled, and activities are lower than their pre-COVID-19 levels.** According to the Google Mobility Report as of August 14<sup>th</sup> (Figure 2), mobility in all categories fell sharply in late March as the first COVID-19 cases were confirmed. They remained subdued throughout April as the partial lockdown was imposed and steadily recovered as new domestic cases slowed and some lockdown measures were eased. Visits to both grocery stores and pharmacies (necessities) flipped to an expansion from the baseline, but retail and recreation (discretionary) remained below the baseline, suggesting a lower level of consumption and consumer confidence. Other types of visits also remained below the baseline as people avoid unnecessary commutes and are unlikely to increase substantially until further lockdown measures (curfews, bans on gatherings, etc.) are eased.

**Figure 2: Myanmar's mobility has recovered but remain below the baseline**

### Myanmar's Community Mobility Reports



Source: EIC analysis based on data from Google

Note: Baseline = Median value between January 3 – February 6, 2020

**To shore up the economy, Myanmar's government has announced a COVID-19 Economic Relief Plan (CERP)<sup>2</sup> to stimulate the economy.** The CERP is a broad stimulus package, targeting both immediate measures such as providing funding and liquidity in addition to longer-term projects such as encouraging investment and e-commerce. The full stimulus is expected to be worth 3% of GDP according to the World Bank, although some measures have not yet been implemented and are planned for later in the year. Current CERP fiscal measures that have been implemented are only worth about 0.2% of GDP. Note that CERP is not a fixed plan and could be revised further as the situation evolves. Figure 3 summarizes the key fiscal and monetary policy responses that have been implemented so far as of August 10<sup>th</sup>, 2020.

**Figure 3: Myanmar's key fiscal and monetary policy responses**

Policy	Description
<b>Fiscal</b>	<ol style="list-style-type: none"> <li>1) Establishing a MMK 200 billion loan fund to provide soft loans to those affected by COVID-19, with interest rate charged at 1% for a period of one year (first phase of MMK 100 billion was launched in April, second phase of additional MMK 100 billion was launched in July)</li> <li>2) Providing a special relief loan to farmers of MMK 50,000 per acre at 5% interest rate</li> <li>3) Reducing application fees for investment permission for both domestic and foreign investors by half</li> <li>4) Accelerating the approval of labor-intensive projects and health-care businesses</li> <li>5) Waiving the 2% tax on exported goods until the end of the fiscal year, and tax exemption on goods related to COVID-19 control</li> <li>6) Deferring tax payment for affected businesses to before the end of the fiscal year</li> <li>7) Electricity fee exemption of up to the first 150 units in April and May</li> <li>8) Renewal fee exemption for the hotel and tourism industry for one year</li> <li>9) Paying 40% of social security fees for insured workers that were temporarily out of jobs due to factory closures from COVID-19 inspections</li> </ol>
<b>Monetary</b>	<ol style="list-style-type: none"> <li>1) Cutting the policy rate by 1.5% to 8.5%, while the minimum bank deposit rate was lowered to 6.5% and the maximum bank lending rate was lowered to 11.5% for secured loans and 14.5% for unsecured loans</li> <li>2) Temporarily reducing banks' reserve requirement to 3.5% from 5.0%</li> <li>3) Temporarily revising liquidity ratio calculations by weighting treasury bonds with maturity of longer than one year at 90% from 50% previously</li> <li>4) Halting deposit auctions in an effort to maintain interbank liquidity</li> <li>5) Encouraging microfinance institutions and non-banks to allow deferral of repayments</li> <li>6) Postponing the deadline of compliance to some prudential regulations to August 2023</li> </ol>

Source: EIC's analysis based on data from the ADB, IMF, and local press

<sup>2</sup> For the full version of CERP, see: <https://www.moi.gov.mm/moi:eng/?q=news/28/04/2020/id-21511>

**The fall in government revenue coupled with a rise in expenditures will likely widen the fiscal deficit this year.** With economic activity set to slow substantially, overall government revenue collection will likely decline, especially in conjunction with various tax exemption measures. In addition, energy prices have also fallen, which is expected to be another drag on government revenue. On the other hand, expenditures will likely rise from an increasing number of stimulus packages. With further stimulus programs planned, the fiscal deficit could widen to 7-8% of GDP in 2020 according to the World Bank, from a deficit of 3.8% the previous fiscal year. As the FY19/20 budget plans a 5.9% fiscal deficit with 7% GDP growth rate (which is unlikely to be achieved), Myanmar will likely need to raise additional funding this year, mostly in the form of external debt. As of August 10<sup>th</sup>, Myanmar has received about USD 895 million from various international organizations according to the Asian Development Bank (ADB). Furthermore, the EU has allowed Myanmar to defer debt payment worth USD 98 million. Domestically, Myanmar plans to reallocate budgets from various ministries to support CERP. **While Myanmar's current public debt at 38% of GDP coming into the crisis is relatively low, CERP is likely to raise Myanmar's public debt level going forward.** As a result, Myanmar's public finance should be one of the key issues to watch.

**Myanmar will conduct its general election on November 8, 2020.** By the current timeline, newly elected members of parliaments are expected to convene in February 2021, when they will vote for a new President in March 2021. Then, the president will form a government and take office in April 2021 (making March 31, 2021 the last day of the previous administration). According to the constitution, 75% of Myanmar's House of Representatives and House of Nationalities come from elected members, while the rest are appointed by the military. Key issues that are likely to be at the forefront of the election are economic policies, particularly in light of the COVID-19 pandemic, economic liberalization and reforms, investment promotion in key sectors, ethnic tensions particularly in Rakhine state, and international relations especially in terms of sanctions from western countries. The election period could result in heightened political and policy uncertainty, which could lead to a slowdown in business investment and FDIs.



#### Financial Markets

**As of August 18<sup>th</sup>, YTD the Kyat has appreciated 8.4% against the USD, diverging from the regional trend due to a variety of factors.**

- First, foreign direct investment in the 2019 calendar year rebounded 77.5%YOY from a low base in 2018, resulting in increased demand for local currency.
- Second, the Central Bank of Myanmar has continuously promoted the use of the Kyat in order to reduce dollarization. This has led to increased demand for the Kyat, especially as many citizens withdrew their money to have cash on hand amid uncertainty regarding bank operations during the COVID-19 outbreak. In addition, demand for large-ticket items, which are often purchased in USD, has declined amid the slower economy.
- Third, in FY18/19 Myanmar's trade deficit shrank substantially from the previous year, resulting in a smaller current account deficit of about 2% of GDP compared to 4.2% previously (when calculated based on the calendar year, the current account stood at a surplus of 0.5% of GDP in 2019). The increase in the current account has resulted in appreciation pressures on the Kyat. However, the FY19/20 current account deficit could bounce back on recent falling exports, tourism, and remittance revenues. As a result, the current account's appreciating pressure on Kyat could slowdown, going forward.

- Lastly, the USD is expected to weaken over the second half of the year, which could lead to further appreciation of the Kyat.

The appreciation of the Kyat has had a negative effect on Myanmar's exports, particularly with depressed global demand. In addition, currency fluctuations may deter potential foreign direct investment, hindering economic recovery should the trend continue.

**Despite the appreciation of the Kyat, the current account deficit is expected to widen this year as a result of falling external demand.**

- In the first five months of 2019, exports declined 5.7%YOY while imports grew 12.4%YOY owing to strong import demand in the first three months. This led to a widening in the trade deficit, reversing the trend from last year. Consequently, the current account deficit is also expected to widen this year.
- Tourism revenues and remittances are also expected to slow substantially this year, which will contribute to a widening of the current account deficit.

The World Bank forecasts that the current account deficit could reach 4.5% of GDP in 2020, which might result in higher currency fluctuations and declining foreign reserves. Nevertheless, Kyat appreciation has allowed Myanmar to gradually increase its foreign reserves, which reached USD 5.73 billion in May 2020, or 3.6 months of imports (note that imports declined by 12.9%YOY in May).

**Myanmar's commercial banks may be pressured by the rise in non-performing loans this year.** Although the government has attempted to reform the country's banking sector over the years through liberalization, structural vulnerabilities remain. Although data on commercial bank NPLs is unavailable, according to a Union Auditor General report cited by the Myanmar Times, NPLs at Myanmar's three state-owned banks range from 6-9% of total loans between April-September 2018. In addition, bank profitability remains concerning as both return on assets and equity were negative while capital adequacy ratios have declined from their 2016-2018 average as of the second quarter in 2019, according to the Central Bank of Myanmar. With rising unemployment and falling incomes, an increase in NPLs could put further pressure on Myanmar's banks and declining public confidence in the banking system. To address this issue, the central bank continues to promote the adoption of prudential measures, and there are plans to form an asset management company to handle NPLs as part of the CERP.





## EIC's View

**Myanmar's economy is expected to slow substantially in FY19/20 owing to weak external demand and prolonged partial lock-down measures.** Exports have declined significantly as demand for natural gas and garments have been hampered by the global recession. In addition, the loss of jobs and income could contribute to lower private consumption, which comprises the majority of Myanmar's economy. Despite recovery from the bottom, high-frequency data on mobility and manufacturing PMI suggest that growth should remain below pre COVID-19 levels. Risks are tilted to the downside, especially if there is a significant second wave outbreak. Issues to monitor this year include 1) the upcoming election on November 8, which could raise political and policy uncertainty as well as reduce business investment and 2) the implementation of CERP and additional stimulus packages as well as their impact on public debt.

**Myanmar's financial sector vulnerabilities should be cause for caution this year.** With the banking sector already dealing with a high number of NPLs, the economic slowdown is likely to exacerbate this issue. This could add pressure on banks, which have faced a decline in both profitability and capital adequacy. In addition, it may erode public confidence in the banking sector.

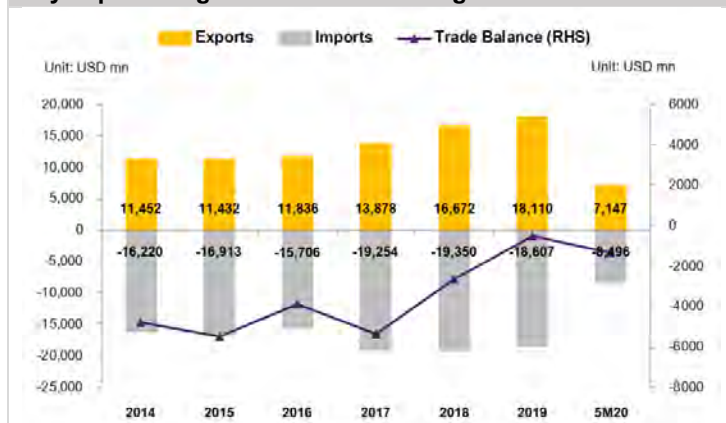
**Fiscal risks should be manageable.** With the public debt level at about 38% of GDP in 2019 and mostly domestic debt, Myanmar's risks of debt distress are low. However, additional external financing this year could increase both public debt and external debt levels. This may make Myanmar more susceptible to currency fluctuations, especially with an expected decline in the current account balance and foreign reserves this year. However, most of Myanmar's external financing this year is on concessional terms such as through the IMF's rapid credit facility (zero interest rate, 5.5 years grace period, and 10 years maturity) which will ease debt repayment pressure in the future.

# Myanmar's Key Indicators

Domestic Demand	Unit	2015	2016	2017	2018	2019P	2020F	2021F
Real GDP	% YOY	7.0	5.9	6.8	6.4	6.75	1.5	6.0
Consumer price index (average)	%	7.3	9.1	4.6	5.9	8.6	6.2	6.3
Current account balance	% of GDP	-3.4	-4.2	-6.5	-4.2	-2.0	-4.7	-3.9
Policy rate (end of period)	%	10	10	10	10	10	-	-

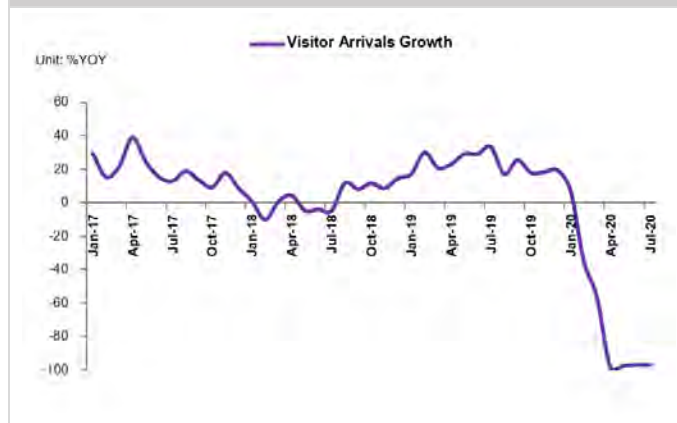
Sources: International Monetary Fund (IMF) and Myanmar Authorities, EIC Analysis (2020F = FY19/20, GDP is rebased to 2015/16 prices)

## Myanmar trade deficit widened during January-May 2020 as key exports of garments and natural gas slowed down



Sources: Ministry of Planning and Finance

## Tourism came to a complete stop since April due to border closures



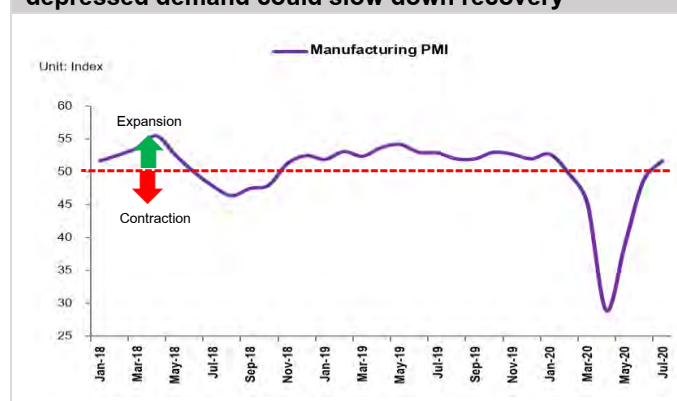
Sources: Ministry of Planning and Finance

## Foreign direct investment started to bottom out, but recovery remained slow



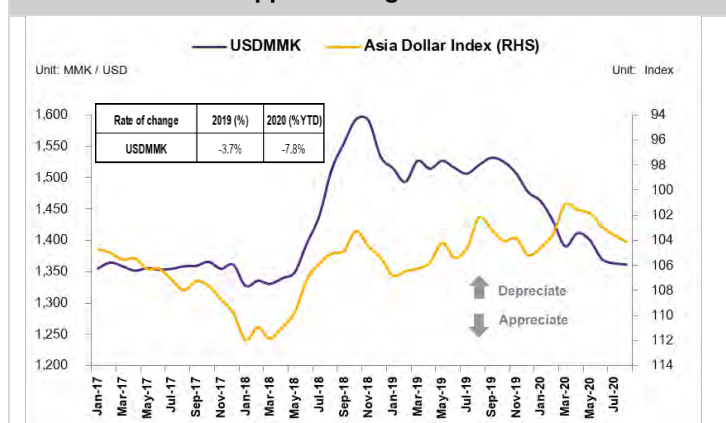
Sources: Directorate of Investment and Company Administration

## Manufacturing PMI rebounded after lockdown easing, but depressed demand could slow down recovery



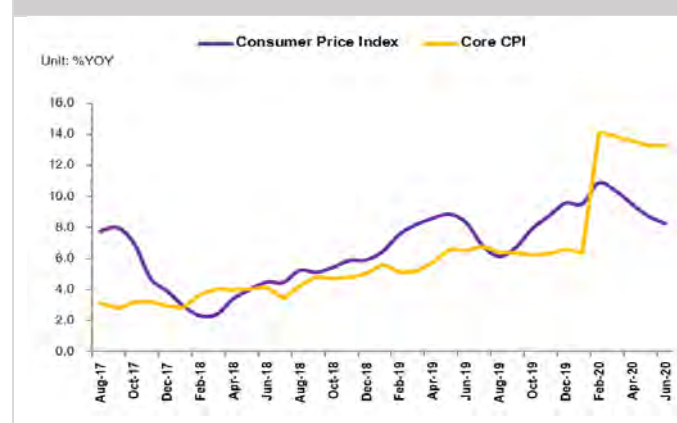
Sources: IHS Markit

## MMK continues to appreciate against the USD



Sources: Bloomberg

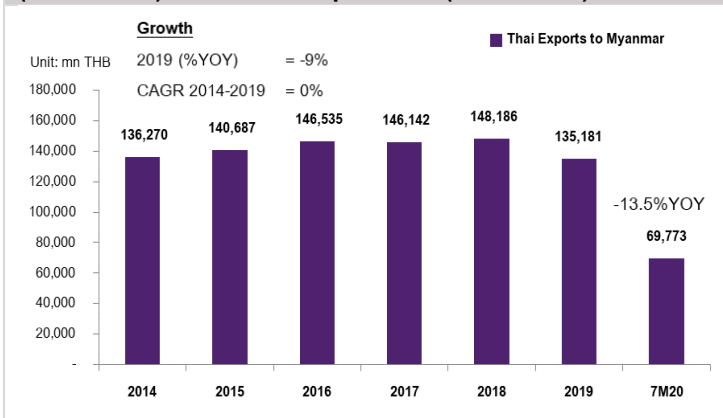
## CPI slowed down as consumer spending falls



Sources: Central Statistical Organization

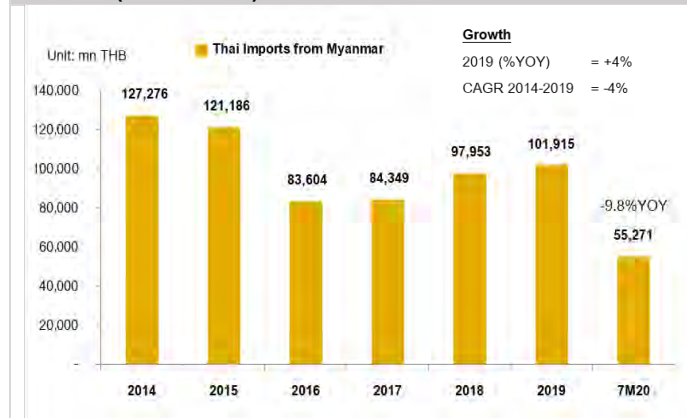
# Links with the Thai Economy

**Thai exports to Myanmar fell -13.5%YOY in the first seven months of 2020 led by a decline in refined oil exports (-31.7%YOY) and chemical products (-17.7%YOY)**



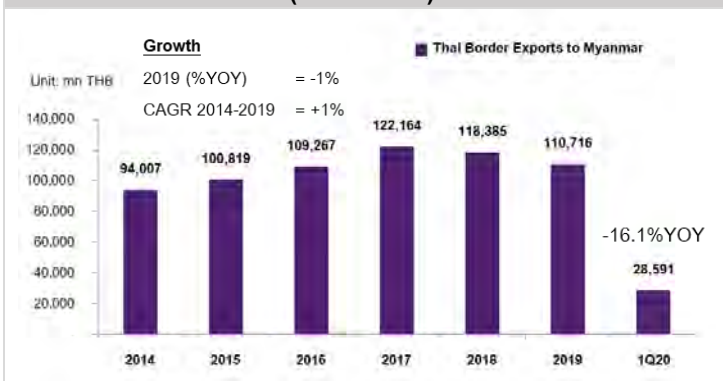
Sources: Thailand's Ministry of Commerce

**Thai imports from Myanmar declined -9.8%YOY in the first seven months of 2020 as demand for natural gas slowed (-24.8%YOY)**



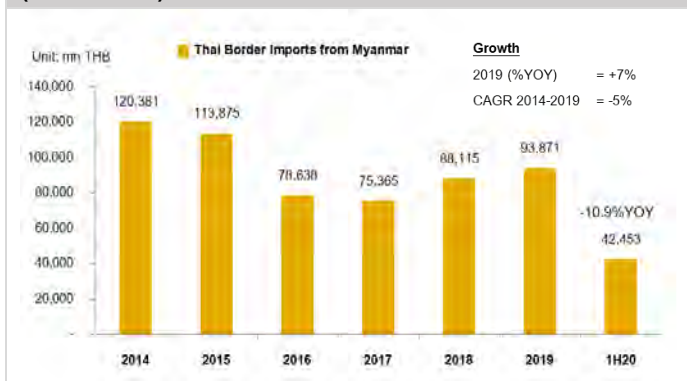
Sources: Thailand's Ministry of Commerce

**Border exports to Myanmar declined -16.1%YOY in the first half of 2020 led by falling exports of diesel fuel (-32.6%YOY) and fabric and threads (-30.1%YOY)**



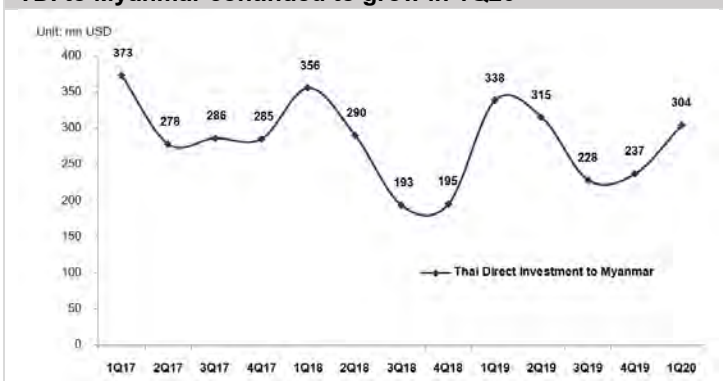
Sources: Thailand's Department of Foreign Trade

**Border imports from Myanmar dipped -10.9%YOY in the first half of 2020 due to slower demand for natural gas (-25.5%YOY)**



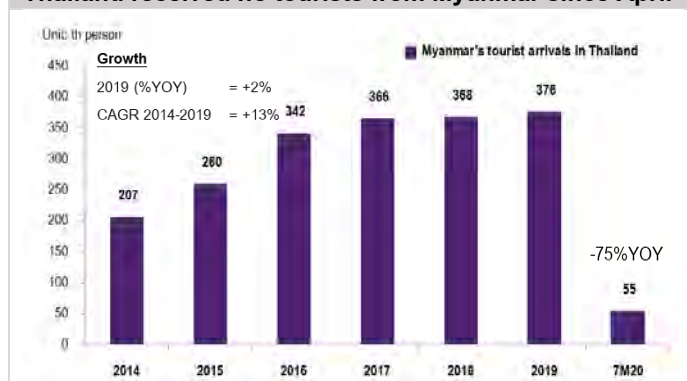
Sources: Thailand's Department of Foreign Trade

**TDI to Myanmar continued to grow in 1Q20**



Sources: Bank of Thailand

**Thailand received no tourists from Myanmar since April**



Sources: Thailand's Department of Tourism



# VIETNAM

## OVERALL ECONOMY

### Facts and Figures

Population (2019)	96.48 million
Labor force (2019)	55.8 million
GDP (2019)	261.92 USD billion
GDP per capita (2019)	2,714.74 USD
GDP by sector (2019)	Agriculture: 14%, Industry: 34%, Services: 43%
Top exports (2019)	Electronics and parts 34%, Garments and footwear 19%

### What to watch in 2020



Impacts from COVID-19, global recession, and China's slowdown on Vietnam's economy



EU-Vietnam Free Trade Agreement (EVFTA) effective on August 1<sup>st</sup>

## Macroeconomic Update



### Economic Outlook

#### COVID-19 Situation Update

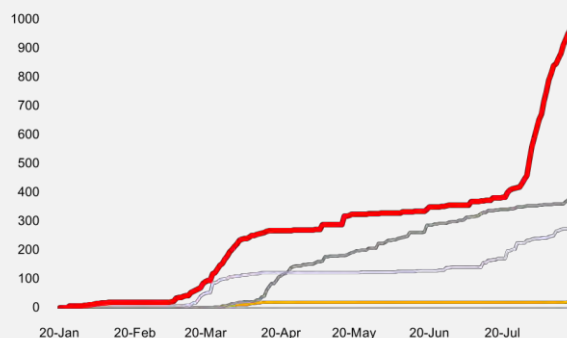
**As of August 18<sup>th</sup>, Vietnam faced a resurgence of locally-transmitted COVID-19 cases after more than three months with no local transmission.** Lockdown measures were re-imposed in key cities. The epicenter of the “third-wave” outbreak that started toward the end of July was in Da Nang (Vietnam’s largest city in the central region), but cases have also been found in other parts of the country including Hanoi and Ho Chi Minh City. As of August 18th, 2020, there were 989 confirmed cases of COVID-19, of which 520 had recovered and 25 had died (Figure 1 LHS). Da Nang was put under lockdown, with measures including a stay-at-home order except for cases of necessity, closures of non-essential businesses, a ban on gatherings of two or more people, and a stoppage of public transportation (Figure 1 RHS). Other cities such as Hanoi and Ho Chi Minh City have closed bars and nightclubs to curb the spread of COVID-19. **Nevertheless, authorities have stated that a nationwide lockdown is unlikely and selective lockdowns would be the method going forward** (Note: Vietnam went into a nationwide lockdown in April after the “second-wave outbreak” in March but most measures were lifted by May). Borders have been closed for most foreign visitors since March 22nd. **Despite Vietnam’s relatively few cases, the country’s economy is still expected to slow substantially this year owing to the lockdown measures and the deep global recession which has caused a slowdown in exports, FDI, and consumption.**

**Figure 1: In early August, Vietnam was facing a resurgence in cases and hence tightened lockdown measures**

**Confirmed COVID-19 Cases in CLMV Countries**

Unit: Cases

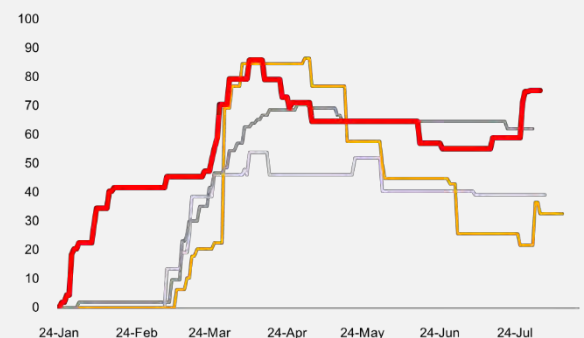
— Cambodia — Laos — Myanmar — Vietnam



**CLMV's COVID-19 Government Response Stringency Index**

Unit: Index (100 = strictest)

— Cambodia — Laos — Myanmar — Vietnam



Source: EIC analysis based on data from the WHO and Oxford



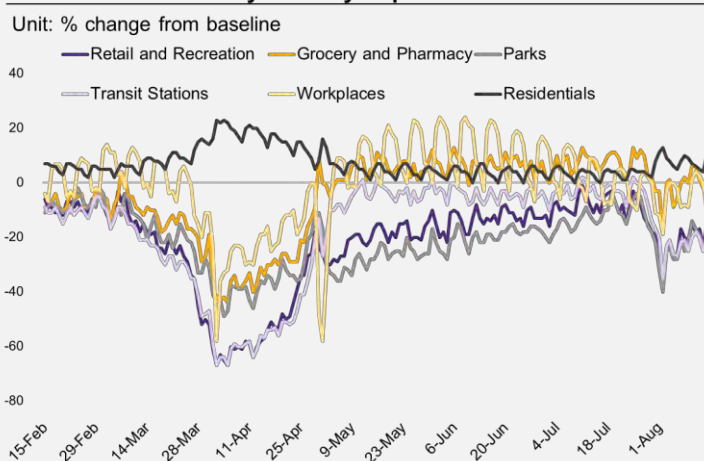
## 2020F Outlook

EIC has revised its 2020 Vietnam GDP growth forecast downward to 2.3% (from 3.0% previously) as the third wave outbreak and tightening lockdown measures could impede economic recovery. Despite a strong rebound in economic activity between June-July, recent activities in early August have showed signs of slowdown after new COVID-19 cases were discovered. While the Vietnamese economy is likely to hit bottom in 2Q20, a recovery in 2H20F is expected to be slower than previously anticipated due to the latest outbreak. Risks remain tilted to the downside, especially if the third-wave outbreak escalates further and additional lockdown measures need to be re-implemented. A rising number of cases abroad and a prolonged global recession are also key downside risks as weakening global demand will likely hurt exports and delay FDI.

Google mobility data (Figure 2) suggests that the new wave of outbreaks has disrupted economic recovery, with mobility declining significantly. Despite a strong recovery up until July, as evidenced by both mobility data and economic indicators, progress is likely to reverse significantly in August from re-imposed lockdown measures. Mobility data as of August 16<sup>th</sup> shows a significant decline in visits to all destinations. Da Nang, the epicenter of the outbreak, was the most affected, but declining mobility could be seen across the country, including Hanoi and Ho Chi Minh City. The data reveals that consumption is likely to take another hit as evidenced by visits to groceries and pharmacies plummeting back below/close to the baseline after a rebound during May-July. Visits to retail and recreational establishments also fell significantly. Note that recent average mobility has not yet fallen to the record low seen during the April lockdown as the recent lockdown measures are local not nation-wide and not as strict as the previous ones. However, downside risks remain high as the third-wave outbreak is still on-going as of mid-August.

**Figure 2: Vietnam's mobility data plummeted after new cases were found**

### Vietnam's Community Mobility Reports



Note: Baseline = Median value between January 3 – February 6, 2020

Source: EIC analysis based on data from Google

In the second quarter of 2020, GDP continued to slow down to 0.4%YOY (vs 3.7% YOY in 1Q20), as a result of the effects of lockdown measures in Vietnam and its key trade partners. Note that the continued economic slowdown brings GDP growth in 1H20 to 1.8%YOY, with the slowdown being broad-based across most sectors. In detail, the service sector was hit the hardest and contracted by -1.8%YOY (vs. +3.3% in 1Q20) particularly in accommodation & food service activities, transportation & storage, and real estate as most consumers refrained from going outside and making large purchases. The industrial

sector (+1.4%YOY vs. +5.0% in 1Q20) also saw a slowdown, particularly in the manufacturing sector which grew only 3.2% compared to 7.1% in the first quarter as demand for key products slowed significantly. Lastly, the agricultural sector was the least affected and recovered slightly from a poor first quarter (1.7%YOY vs. +0.04% in 1Q20) but was still down from 2Q19 (+2.0%). This was partly due to a ban on rice exports in April as the government assessed the country's domestic stockpile.

**On the external front, exports in June saw a rebound after sharp contractions in April-May.** However, recovery in 2H20 is expected to be gradual due to a resurgence in new COVID-19 cases both in Vietnam and its key trade partners. In the second quarter, exports (accounting for 99% of GDP) fell 6.9%YOY (bringing export growth for the first half of 2020 to 0.1%YOY), owing to lockdown measures and weaker external demand for key products. Among key products, exports of phones and parts (19.4% share of total exports in 2019) fell by 20.1%YOY while exports of textiles and garments (12.4% share) fell by 23.8%YOY as production was disrupted and global retail sales fell sharply over the lockdown period. Exports of computers and electrical products and spare parts (13.6% share in 2019) emerged as a bright spot, growing 22.5%YOY in 2Q20. On a monthly basis, exports rebounded sharply in June and grew 5.3%YOY owing to resilient demand for electronic products for work-from-home related goods. In addition, Vietnam benefited from a strong rebound in the Chinese economy, the country's second-largest export market (15.7% share), as evidenced by exports to China increasing 14.3%YOY for the quarter. Going forward, exports should continue their recovery as countries around the world gradually ease their lockdown measures. Nevertheless, growth should remain subdued compared to pre COVID-19 levels due to a resurgence in new COVID-19 cases both in Vietnam and its key trade partners. In addition, high unemployment rates in many trade partners will reduce demand for some export products, such as textiles, garments, and footwear. Vietnam may also face supply chain disruption issues with newly imposed lockdowns, although a bright spot for Vietnamese exports will be tariff-free exports to the EU via EVFTA (more details in the following section).

**FDI disbursement (6% of GDP) and registered capital over 7M20 contracted amid global economic uncertainty and low investors' confidence.** FDI disbursement in the first seven months of 2020 stood at USD 10.1 billion, declining 4.1%YOY. Similarly, FDI total registered capital (the sum of newly registered capital, additionally registered capital, and capital contribution) stood at USD 18.8 billion, down 6.9%YOY. Most of the decline in total registered capital came from a sharp decline in capital contribution and share purchases, which fell 45.6%YOY in the first seven months of the year. Meanwhile, newly and additionally registered capital continued to grow, suggesting long-term investor confidence in the economy remained robust. The manufacturing sector, typically Vietnam's highest recipient of registered capital and a key driver of the economy, saw a significant decline of -38%YOY for the first seven months of 2020 as many multinational enterprises postponed investment plans in response to uncertain global demand recovery. Nonetheless, the rate of FDI disbursement has gradually increased in line with economic recovery, with disbursements in June-July growing slightly on a year-on-year basis. Over the long term, EIC maintains its positive view of Vietnam's manufacturing sector.

**International tourism (12% of GDP) on the halt is likely to continue in 2H20F due to the third-wave outbreak and border closures.** Tourist arrivals to Vietnam started to decline in February after the outbreak of COVID-19 in China and fell almost completely by April as Vietnam closed its borders in late March following the global outbreak of COVID-19. With worldwide and local COVID-19 cases still on the rise, travel bubble plans are likely to be

postponed further. EIC thus expects any recovery in domestic and international tourism to remain sluggish. A gradual recovery should take place after a vaccine becomes widely available.

**On the domestic front, the unemployment rate has shot up as some businesses were forced to close down.** In the second quarter of 2020 the unemployment rate reached 2.7%, the highest level since 2011, when data first became available. Urban workers were the most vulnerable, seeing a 4.5% unemployment rate, as many service businesses are concentrated in major cities. The underemployment rate reflects a similar situation, increasing to 3.0% for the quarter as some workers were forced to take temporary part-time jobs. **Despite a gradual reopening of the economy during June to July, the recent outbreak of COVID-19 in August could delay recovery in Vietnam's labor market and pose a key downside risk on domestic demand recovery in 2H20F.**

**Retail sales before the third-wave outbreak rebounded strongly after lockdown measures were lifted.** In the second quarter total retail sales (goods and services) contracted 6.6%YOY after expanding 3.5%YOY in the first quarter. Overall, in the first seven months of the year retail sales fell by 0.1%YOY, mainly attributed to a decline in tourism and services consumption (-9.7%YOY) while goods consumption grew by 3.6%YOY. On a monthly basis, retail sales fell sharply during the lockdown period in March-April at -5.4%YOY and -23.5%YOY before gradually recovering and reaching 4.6%YOY growth in July. Meanwhile, sales of big-ticket items, such as vehicle sales, remained weak. Note that vehicle sales in 2Q20 contracted by -27.2%YOY. **Looking forward, a resurgence in COVID-19 cases combined with high unemployment could slow down a recovery in retail sales in coming months.**

**The industrial production index (IPI) also saw a rebound once lockdown measures were eased, but recovery is likely to slow down in coming months from the third-wave outbreak and weakening demand.** After contracting during April-May, IPI flipped to an expansion of 4.5%YOY and 2.5%YOY respectively in June-July driven by a broad-based rebound in most products. However, IPI growth should remain below 2019 average growth of 7.6% with demand likely to remain subdued throughout the year, especially for large purchases such as motor vehicles. With the resurgence in Covid-19 cases, recovery in coming months is expected to slow down as reflected by the Manufacturing PMI for July, which dipped into the contraction zone at 47.6 from 51.1 in June.

**Vietnam has continued implementing substantial monetary and fiscal policies to shore up economic growth and support recovery.** The package is expected to be worth about 10.1% of GDP according to the ADB, making it the largest stimulus package among CLMV countries. Key policies are described below, while a list of all announced policies is provided in Figure 3.

- On the monetary side, the State Bank of Vietnam has cut the benchmark refinancing rate by 150 bps this year (100 bps in March and another 50 bps in May), bringing the rate down to 4.5%. In addition, the SBV has also reduced the interest rate on banks' compulsory reserves to 0.5% (for local currency deposits held by commercial banks) and interest rates on non-compulsory reserves were cut to 0%. Furthermore, the SBV has reduced some deposit rates and announced that they were monitoring liquidity issues and exchange rate volatility and could intervene if necessary. In terms of loan support, the central bank, through the Vietnam Bank for Social Policies, is providing soft loans without the need for collateral at a 0% interest rate in order to support firms in paying their employees

with a VND 300 trillion credit package that has been prepared. **Looking forward, with the third-wave outbreak that could slowdown economic recovery in 2H20F, EIC expects SBV to remain accommodative. Further policy rate cuts cannot be ruled out.**

- On the fiscal side, the government has announced a 5-month deadline extension for tax cut measures on value-added tax, corporate income tax, personal income tax, and land rental payments. A cash transfer program was also announced for the April-June period, aimed at poor households or workers who lost their jobs and are unpaid. Other measures include fee and contribution reductions in various sectors.

**With a resurgence in new COVID-19 cases and adequate fiscal space, resulting from public debt consolidation over 2016-19, EIC expects the SBV and government to keep monetary and fiscal policies accommodative for the remainder of 2020.**

**Figure 3: Vietnam's fiscal and monetary policy responses**

Policy	Description
Fiscal	<ol style="list-style-type: none"> <li>1) Value-added tax, corporate income tax, personal income tax, and land rental payments deferred for a period of 5 months</li> <li>2) Deferral of contribution to pension and death benefit fund is permitted for up to 12 months for both firms and workers</li> <li>3) Exempting import duty for products related to the containment of COVID-19; preferential tariffs for businesses in key industries (incl. automobiles, textiles, footwear, and agriculture)</li> <li>4) Cash transfer program worth a total of VND 36 trillion for the period April-June targeting poor households and unemployed workers or workers without incomes</li> <li>5) Reducing corporate income tax by 30% in 2020 for businesses with revenue under VND 200 billion per year</li> <li>6) Reducing fees charged by banks, non-banks, and securities businesses by 50% until the end of the year</li> <li>7) Reducing fees for cars assembled domestically by 50%</li> <li>8) Reducing flight control fees for domestic airlines by 50% from March to September</li> <li>9) Government guarantee for loans provided to the aviation sector with outstanding loans at the end of 2019</li> <li>10) Reducing rent payment by 15% for those leased by the State/State Agencies</li> <li>11) Increasing tax deductions in family allowances for personal income tax to VND 4.4 million per month per dependent starting from July</li> <li>12) Fee reduction in various sectors, including business registration fees, electricity tariffs, telecom fees, and labor registration transaction fees</li> </ol>
Monetary	<ol style="list-style-type: none"> <li>1) The SBV has stated that they are prepared to provide liquidity support and intervene in the exchange rate market to maintain stability</li> <li>2) Reducing the refinancing rate to 4.5% (total cut of 150 bps this year) in addition to other benchmark policy rates</li> <li>3) Cutting short-term deposit rate caps by 25-30 bps and short-term lending caps for priority sectors by 50bps</li> <li>4) Reducing rate on VND compulsory reserves to 0.5% and 0% for non-compulsory reserves</li> <li>5) Encouraging credit institutions to restructure loans, reduce costs, reduce interest rates, and potentially suspending dividend payments</li> <li>6) Providing 0% interest rate loans with no collateral through the Vietnam Bank for Social Policies to support firms paying their workers</li> <li>7) Reducing the interest rate by 2% for loans to SMEs from the SME Development Fund</li> <li>8) Establishing a credit package worth VND 300 billion for debt restructuring and fee reductions</li> </ol>

Source: EIC analysis based on data from the ADB, IMF, and local press

**The nation's fiscal deficit is expected to reach 6% of GDP, its largest deficit to GDP ratio since 2013, owing to a decline in revenue collection coupled with a rise in fiscal spending.** Total government revenue for the year up to July 15<sup>th</sup> fell by 10.3%YOY, representing only about 46.1% of the annual (end-of-year) target according to the General Statistics Office (GSO). This was largely driven by a fall in tax revenue at -13.5%YOY for the first half of the year (note that tax revenue represents 72.5% of total government revenue in 2019). On the other hand, government expenditures have increased, with realized investment capital under the state budget expanding 27.2%YOY for the first seven



months of the year, according to the GSO. As a result, the World Bank projects Vietnam's fiscal deficit to widen to 6% of GDP this year from 4% in 2019.

**Rising public debt resulting from COVID-19 policy responses should be manageable.**

The World Bank estimates that Vietnam's cash reserves were USD 8 billion at the end of 2019, suggesting that the country could implement further stimulus packages. Consequently, the public debt level is predicted to rise modestly by 2% to 56.1% of GDP this year according to the World Bank. As of August 10<sup>th</sup>, Vietnam has received about USD 390 million in foreign loans and grants, a lower figure than other smaller economies in the CLMV, including Cambodia (USD 845 million) and Myanmar (USD 894 million), according to the ADB. Nevertheless, the public debt to GDP ratio should continue to be an issue to monitor as the current level is relatively high among CLMV countries, particularly with slow economic growth and potentially more stimulus packages to respond to the third-wave outbreak.

**The EU-Vietnam Free Trade Agreement (EVFTA) came into effect on August 1<sup>st</sup>.**

According to the European Commission, the EVFTA is the most comprehensive FTA ever signed with a developing country. Ninety-nine per cent of the EU's tariffs on imports from Vietnam will be eliminated within seven years, while 99% of all tariffs between both sides will be eliminated within 10 years. This is expected to provide a significant boost to the economy over the medium term through two channels: 1) a competitive advantage over competitors due to lower tariffs on exports to the EU and 2) increased FDI from EU investors as the agreement allows easier access to the Vietnamese economy for EU investors. Specifically, EU companies can now bid for public contracts with the government, state-owned agencies, or contracts in the city of Hanoi and Ho Chi Minh City and will receive the same treatment as local investors. EVFTA could also attract investors from other countries wishing to access the EU market tariff-free via Vietnam. Note that in 2019, Vietnam's exports to the EU (including the United Kingdom) accounted for 15.7% of total exports with a compounded annual growth rate of 7.7% between 2015-2019. The World Bank projects that the EVFTA could add 2.4% to Vietnam's GDP and 12% to exports by 2030, assuming full implementation. EVFTA is thus another growth driver for Vietnam's economic prospects if the agreements can be fully utilized.



**Financial  
Markets**

**A rise in NPLs is a key risk factor for Vietnam's banking sector in 2020.** Although official NPL data from the SBV for the first and second quarter of 2020 is not yet available, banks have reported an increase in NPLs during the period. For instance, the NPL ratio at Vietinbank, the country's second largest bank by assets, rose from 1.16% at the end of 2019 to 1.70% at the end of the second quarter, representing a slight decline from 1.83% at the end of the first quarter. The ratio of special mentioned loans, debts overdue for 10-90 days but not yet classified as non-performing, also rose slightly from 0.60% to 0.62% at the end of the second quarter (falling from 0.83% at the end of the first quarter). With some businesses closing down again as a result of resurgent cases, loan quality could see further deterioration, especially in vulnerable banks. The SBV reported that the capital adequacy ratio for state-owned banks<sup>1</sup> (42.2% of total assets in the system) at the end of the first quarter stood at 9.56%, above the 8% minimum threshold required by the SBV. Additionally, the SBV stated that about 23% of outstanding debt could see worsening quality as a result of the outbreak. Although loan restructuring programs are in place, a prolonged economic slowdown could continue to pressure bank profitability and capital

<sup>1</sup> EIC calculated average CAR from CAR data for banks applied circular 41/2016/TT-NHNN and circular 22/2019/TT-NHNN

adequacy. Note that the SBV has allowed banks to maintain debt classification per its pre COVID-19 (January 23, 2020) group.

**The VND could see rising depreciation pressures from a falling current account surplus.** With effectively no foreign tourism revenue (12% of GDP) since April and falling remittances (6.5% of GDP in 2019), the World Bank forecasts that Vietnam's current account surplus could fall to 0.1% of GDP this year despite relatively resilient exports. Nevertheless, foreign reserves have gradually increased both in dollar terms and months of imports terms (reaching 4.6 months of imports in May 2020), giving the SBV a buffer to maintain currency stability. As of August 19th, the USDVND was stable YTD.



## EIC's View

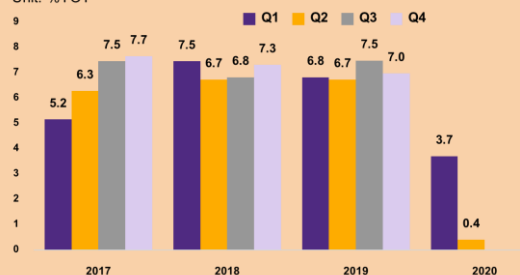
**Vietnam's post-lockdown rebound could be disrupted by a resurgence in COVID-19 cases.** The economy showed signs of recovery in June 2020 after effective COVID-19 containment, lockdown easing measures, and support from the government. However, the recent third-wave outbreak is proving to be a key risk for economic recovery in the second half of the year as the re-imposed lockdown measures could derail economic recovery. Google mobility data in early August suggest that mobility has already fallen significantly in response to the rise in the number of cases, but the decline has not been as severe since the government decided to impose local instead of nationwide lockdown measures. **Thus, EIC has revised Vietnam's GDP growth forecasts for 2020F downward to 2.3% reflecting an expected slower recovery in the second half of the year.** Downside risks remain high from 1) the third-wave outbreak in Vietnam and 2) slow global economic recovery. Nevertheless, EIC's view on Vietnam remains positive as the most resilient economy among the CLMV nations over the medium-term.

**Key risks to monitor this year include rising NPLs and public debt.** On the financial side, new lockdown measures and a prolonged slow economic recovery could constrain debt repayment ability, leading to a rise in NPLs and pressuring bank profitability. On the fiscal side, with successful fiscal consolidation leading into the crisis, Vietnam has built a substantial buffer to implement fiscal stimulus packages to shore up the economy. However, with a significant fall in revenues this year and slow economic recovery, the public debt level is expected to remain elevated going forward. Future fiscal consolidation plans are likely to be postponed in favor of additional stimulus programs to shore up the economy.

**In the medium term, EIC still sees strong potential in the Vietnam economy.** A large and young consumer base has resulted in strong domestic demand growth, which should continue after the COVID-19 pandemic resolves. Vietnam has also emerged as an attractive destination for foreign investors intending to diversify out of China or as a supplementary base for production in China, which could see rapid progress as multinational companies rethink supply chains due to the COVID-19 pandemic. Vietnam should also benefit from EVFTA, effective in August 2020, which will open up the country to tariff-free exports to the EU and EU investment. These reasons contribute to the resilience of the Vietnamese economy, which should continue in coming years.

**Vietnam's Quarterly Growth 2017-2020F**

Unit: %YOY



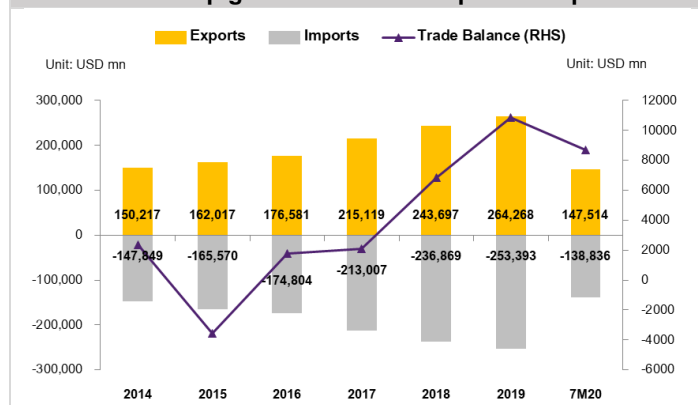
Source: EIC analysis based on data from General Statistics Office

# Vietnam's Key Indicators

Domestic Demand	Unit	2015	2016	2017	2018	2019P	2020F	2021F
Real GDP	% YOY	6.7	6.2	6.8	7.1	7.0	2.3	7.0
Consumer price index (average)	%	0.6	2.7	3.5	3.5	2.8	3.2	3.9
Current account balance	% of GDP	-0.9	0.2	-0.6	1.9	4.0	0.7	1.0
Policy rate (end of period)	%	6.5	6.5	6.25	6.25	6.0	-	-

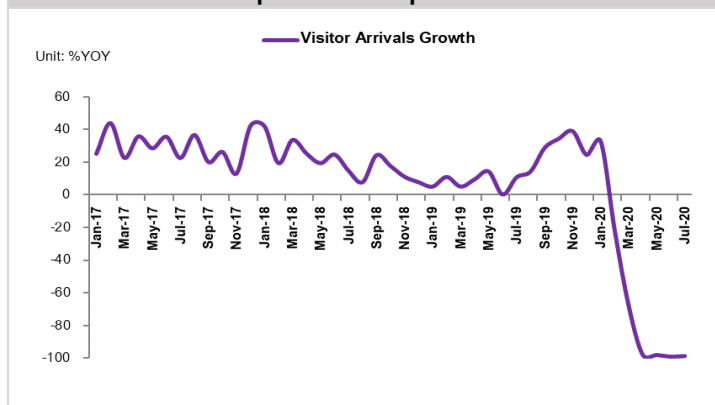
Sources: International Monetary Fund (IMF) and Vietnamese Authorities, EIC Analysis

## Vietnam trade surplus fell in the first seven months of 2020 as the deep global recession impacted exports



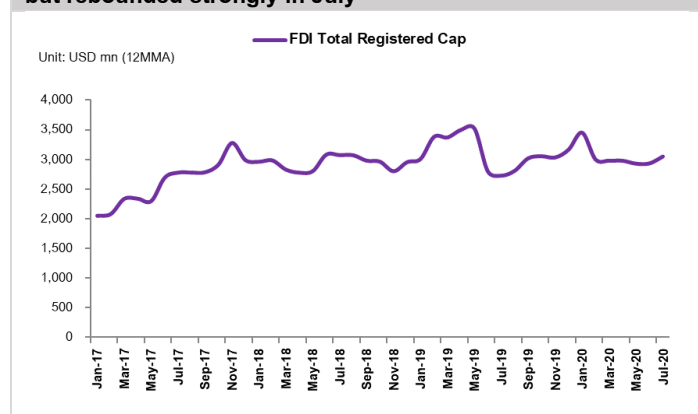
Sources: General Statistics Office

## Tourism came to a complete stop since April as Vietnam closed its border to prevent the spread of COVID-19



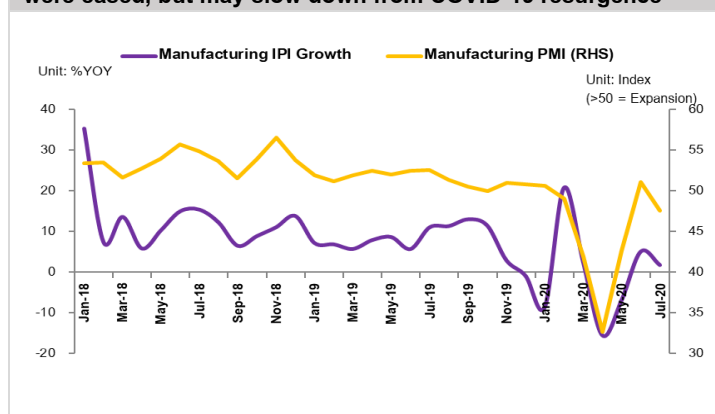
Sources: General Statistics Office

## FDI Total Registered Capital slowed down between May-June but rebounded strongly in July



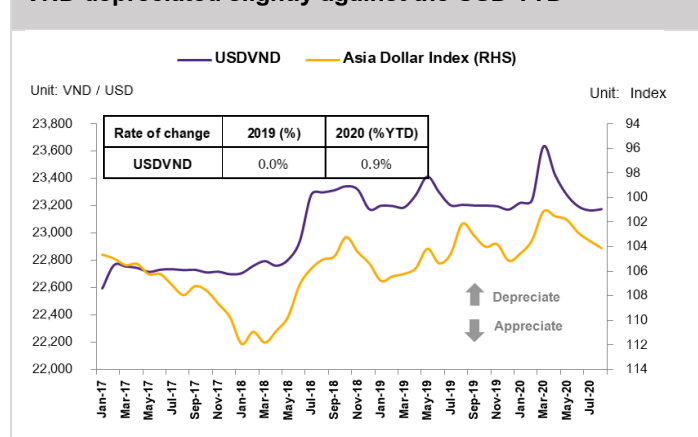
Sources: Foreign Investment Agency

## Manufacturing IPI and PMI rebounded after lockdown measures were eased, but may slow down from COVID-19 resurgence



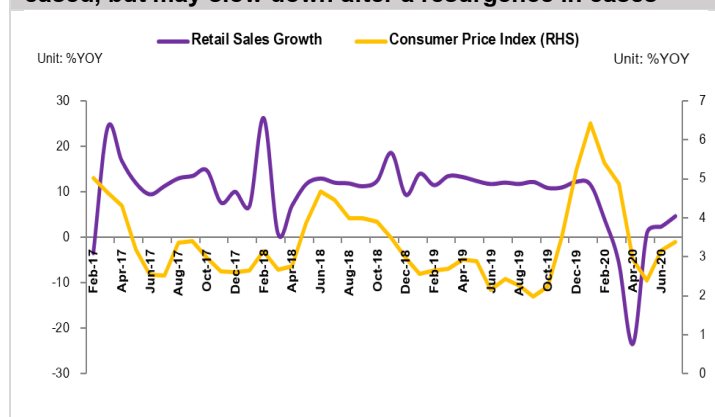
Sources: General Statistics Office and IHS Markit

## VND depreciated slightly against the USD YTD



Sources: Bloomberg

## Retail sales growth rebounded after lockdown measures eased, but may slow down after a resurgence in cases

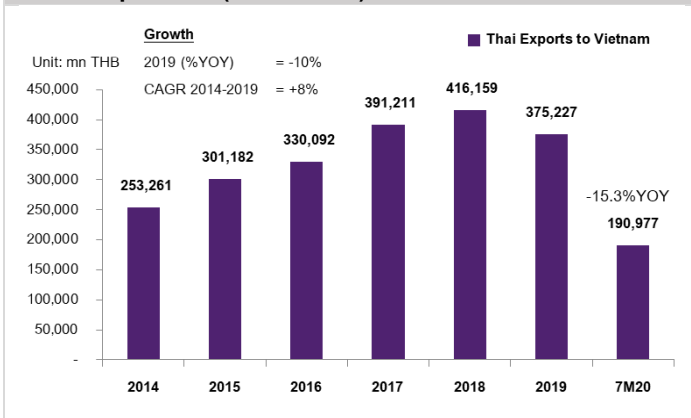


Sources: General Statistics Office



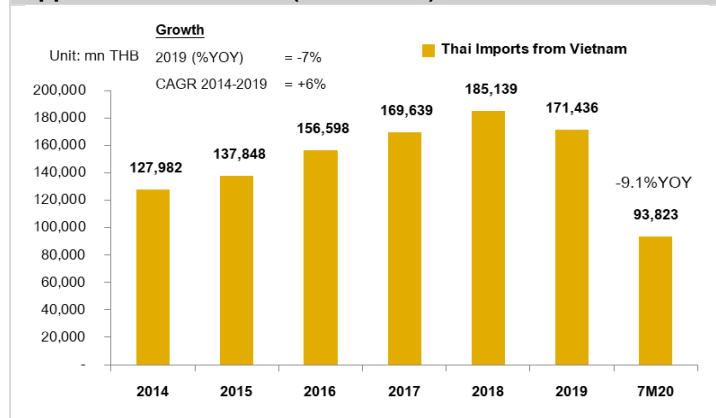
# Links with the Thai Economy

**Thai exports to Vietnam dropped -15.3%YOY in the first seven months of 2020 led by a decline in exports of cars and components (-50.5%YOY)**



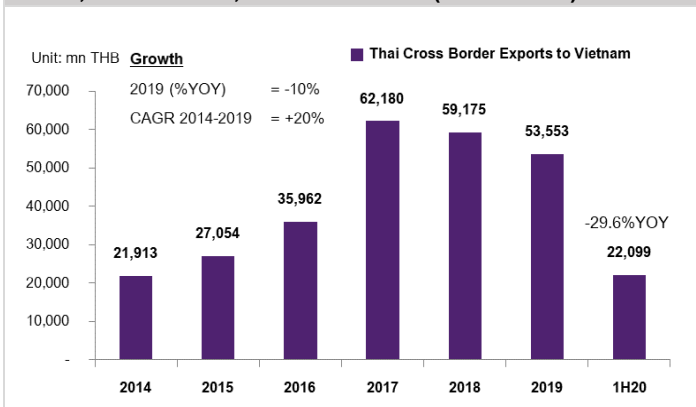
Sources: Thailand's Ministry of Commerce

**Thai imports from Vietnam fell -9.1%YOY in the first seven months of 2020 as demand for household electrical appliances contracted (-36.7%YOY)**



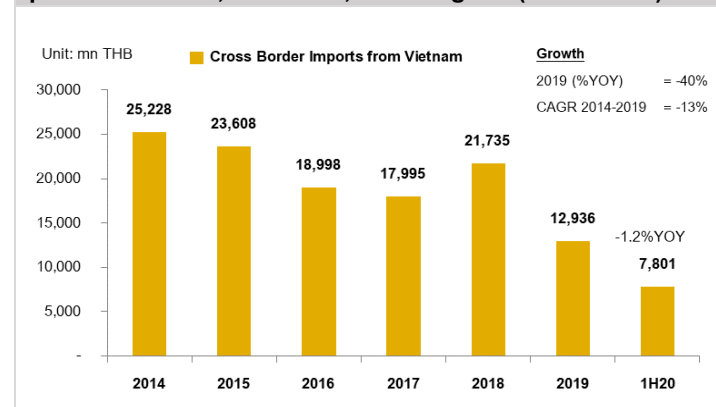
Sources: Thailand's Ministry of Commerce

**Cross border exports to Vietnam plummeted -29.6%YOY in the first half of 2020 from a slowdown in exports of fresh fruits, frozen fruits, and dried fruits (-21.2%YOY)**



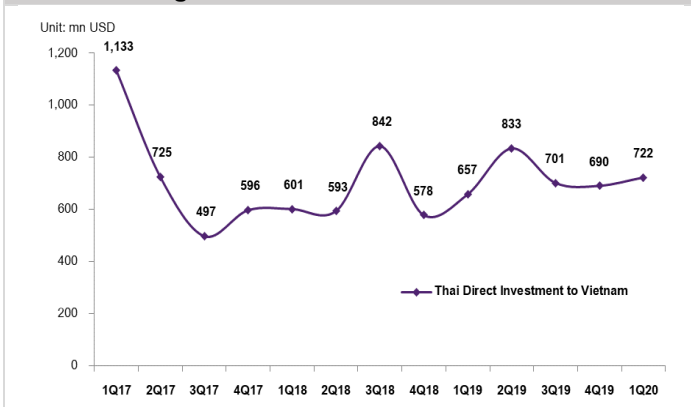
Sources: Thailand's Department of Foreign Trade

**Cross border imports from Vietnam dipped -1.2%YOY in the first half of 2020 due to declines in imports of radio and phone receivers, television, and telegram (-27.3%YOY)**



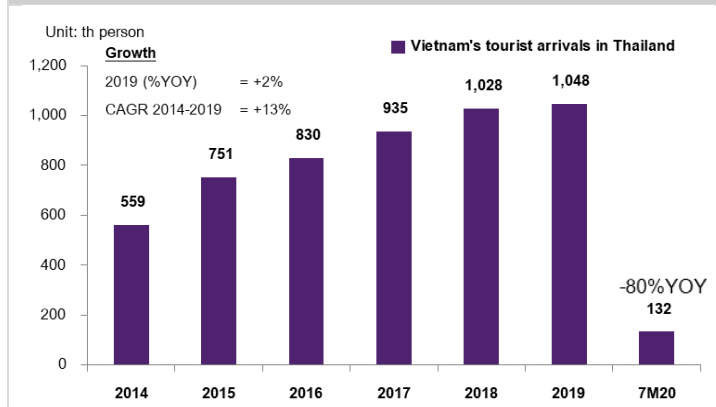
Sources: Thailand's Department of Foreign Trade

**TDI to Vietnam rose slightly in 1Q20 mainly into the manufacturing and financial and insurance sector**



Sources: Bank of Thailand

**Tourism from Vietnam came to a complete stop since April as Thailand closed its borders**



Sources: Thailand's Department of Tourism

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Kampon is the head of economic and financial market research team, analyzing Thailand, ASEAN, and major economies and financial markets. Prior to joining Siam Commercial Bank, Kampon was the head of economic team and an equity strategist in leading financial companies. He was also an Assistant Professor in the Economics Division at Nanyang Technological University in Singapore and held a position with Thailand's Ministry of Finance.

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